Turning the back office into an accelerator

Paul Rogers, Herman Saenz and Nick Greenspan are convinced that support services have a critical impact on the success of an organization.

When top executives plot how to get a jump on the competition, they often focus on launching new products, finding new segments to serve, acquiring competitors. General and administrative (G&A) functions - the back-office departments and processes regarded in many companies as overhead - seem anything but strategic.

But that view leaves money on the table. Support services can act as a brake or an accelerator on the growth of the entire organization, and thus can have a critical impact on the performance of the business.

Just as important, support services can be efficient or inefficient; and, if inefficient, they can leave a company with a severe cost disadvantage compared to its competitors. To winning companies such as Kyobo Life and ACCO Brands Corp., back-office services like finance, human resources, and information technology are strategic assets, and G&A process excellence is a competitive advantage. Their rivals, by contrast, often suffer from costly and cumbersome back-office procedures that accumulate like barnacles and drag down results from below the waterline. Indeed, the true hidden cost of support functions that create demands on the business is the negative impact they have on day-to-day operations. Companies often must add new costs to counteract this drag and waste precious time adjusting.

To find out how companies implement and capitalize on back-office innovation, we studied 37 leading-edge organizations in Europe, the Americas and Asia. These companies - in industries as diverse as consumer products, financial services and energy - had all taken steps to improve their back-office operations and had already begun to reap the rewards.

When back-office costs spiral and services fail to deliver, the reflex is
If inefficient, support services can leave a company with a severe cost disadvantage compared to its competitors.

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Avis Europe began asking such questions several years ago. At the
time, the company had experienced
strong sales growth across the
Continent and the UK. But earnings
growth had stagnated, and top
managers were looking to improve
performance. One reason was that
overhead expenses, at 19 per cent of
revenues, were above industry
benchmarks. The company was also
top-heavy, with more headquarters
employees than their competitors.

But Avis wasn’t content just to hit
away at costs. Instead it began
looking at how the support services
could be made more effective. Top
managers collected detailed
“responsibilities” data, showing
exactly which parts of each function
were being performed in various
parts of the company. They then
evaluated that data with an open
mind as to what should be done
where, or indeed whether it should
be done at all. Activities such as
fleet planning and legal affairs, they
determined, would benefit from the
scale and expertise offered by
centralization. But local units had to
remain responsible for their own
planning and their own profits and
losses; that would encourage local
management to maintain its
top-heavy, entrepreneurial edge. The corporate
centre gave up control over certain
marketing partnerships, figuring
local markets had a better feel for those
efforts.

Avis then took steps to improve
the focus of the shared-services
organization by consolidating call
centres and moving certain generic
finance functions to this unit.
The company outsourced where
appropriate and spent judiciously on
building up its Web presence to
automate more service functions and
improve efficiency for customers.
The result of this effort was a
significant increase in performance.

Overhead costs as a percentage of
revenues dropped two percentage
points in the first year - a huge gain
in the rental-car industry, where
margins are razor-thin. Just as
important, Avis became a more
focused, responsive company with a
service infrastructure that would
enable more growth, not hold back
the company.

Eliminating bottlenecks
Ineffective support services can create
bottlenecks that thwart growth. Consider the experience of one
international opera company:
acclaim from critics and fans had
set the stage for expansion, but
poorly designed back-office
processes created bottlenecks that
prevented the company from
capitalizing on the opportunity.

In the past, the company had
grown rapidly from a single-show
outfit to a global producer of
multiple events. Now it was hoping
to go from launching one new
production every two years to two
new productions each year. But the
company found that its costs were
rising faster than its revenues. So,
adding more shows threatened to
flatten margins instead of generating
the profits that might be expected
from spreading costs across more
output.
The problem turned out to be
twofold. First, the company had a
tangle of back-office services like
finance and HR that were duplicated
for each show. In effect, a mini-back
office hit the road with the
performers for every show. The back
office provided services, but the
incremental cost was debilitating.
Second, many crucial support
services, from costume making to
casting, were world-class and were
treated as such - quality always
came first. This was hardly
surprising: the company’s core asset
was its ability to put on unique,
high-quality events that drew rave
reviews and commanded a premium
ticket price. But nobody was paying
attention to the effectiveness of the
back-office systems.

Creating a back-office structure
more amenable to profitable,
sustainable growth meant reworking
much of what was already in place.
As a creative enterprise, however,
the company had to examine closely
which processes could be redesigned
without disrupting the core artistic
mission. It also had to respect what
needed to remain inviolate - costly
but essential parts of the high-quality
production process such as expensive
props or staging installations.

Some of the solutions were
obvious, such as centralizing and
streamlining the finance and HR
functions. Despite the distributed
nature of the finance function,
transactions for as little as $20 had
to be signed off centrally.
Simply processing the transaction
could cost more than the amount
being processed. Instead, the
company provided its staff with
credit cards for small purchases.
Other solutions were less obvious.
HR, for instance, had invested
heavily in creating a database of
candidates for the most skilled and
versatile positions in its shows. It
spent an equal amount of time
collecting names of less-skilled
players. When the company looked
more closely at absentee rates,
however, it realized that the greatest
need for replacements due to injuries
or illness was among the rank and
file, not the most-skilled roles. That
meant there was room to pull back
on recruiting for understudies for the
starring players. HR could focus
more on where it was needed, while
spending less.

Costume making was another
area of opportunity. At first, the

While reducing costs is essential, the biggest gains come from
making support activities effective as well as efficient.
Kyobo was an early adopter of the Internet sales channel in Korea. It began selling automobile insurance policies on the Web in 1999. It also made heavy use of a home-shopping channel to sell home insurance and life insurance products. Since neither of these were face-to-face sales channels, Kyobo was able to eliminate many selling expenses and commissions. As a result, it was able to slash G&A expenses by one-third – a key competitive advantage.

But Kyobo also operated branch offices in which it was critical that a salesperson have direct contact with a customer. There, bringing a higher level of efficiency and effectiveness required more finesse. Each branch had 30 to 50 sales agents advising clients on investment options and insurance products. But the same agents were also responsible for customer service, and the company’s incentives actually encouraged them to divide their time between sales and service. When Kyobo studied the situation, it discovered that the average agent spent 60 per cent of his or her time on service functions and only 40 per cent on selling.

To resolve the situation, the company proposed separating the sales and service functions and clustering the new service reps in their own call centre. Agents on the front line, however, dug in their heels. Management was asking them to hand over their client lists – the bread and butter of any sales agent – to a group of off-site administrators who would coordinate the service activities. Sales agents might get more time to sell, but they feared losing long-term, profitable customer relationships.

One way out of this box was to change the incentive system, so that sales agents earned more for selling than for customer support. But Kyobo managers also spotted a second opportunity to make selling efforts more effective. The key: changing the scope of the call centre to include outbound cold calling. Call-centre staff would now both service customers and generate leads, and they would pass the leads along to the sales agents, splitting the commissions. The solution cost more at first because it required a significant amount of training for the call-centre staff. But the plan energized the sales force and made it more productive. Indeed, the sales team became the biggest evangelists for the plan, smoothing the path to implementation.

Supporting strategic change
Inflexible back-office functions can impose one-size-fits-all procedures on a company’s production and marketing activities, even when that isn’t what a company needs. Consider the case of the office products company ACCO Brands, which is probably best known for its Swingline staplers.

Faced with fierce competition from overseas suppliers and big-box stores hawking private-label goods, ACCO knew it needed to improve its performance in order to grow. Part of the answer lay in cutting costs dramatically to allow for more competitive pricing. So the company centralized support functions, eliminating what had been a high level of duplication across its business units.

But while lowering costs was essential in order to drive efficiency, ACCO also saw a big opportunity to improve its performance through more effective marketing and R&D. In certain product categories, ACCO knew it had to slash support spending to compete with ultra-low-cost private-label goods. But with powerful brands like Swingline, that strategy wouldn’t work. In these high-value categories, ACCO had to keep investing in innovation and marketing to improve the product.

In most cost-cutting campaigns, R&D and marketing would be in the
crosshairs. But for ACCO that would have been a mistake. By unbundling its product lines it was able to cut costs judiciously, which resulted in an overall boost in productivity and sales in its core product lines. That led to an improved cost structure and some of the strongest economics in the industry, which in turn set the stage for ACCO to merge with its largest competitor, General Binding Corporation (GBC), in 2005.

Keeping the heat on
What’s clear from these examples and many others we have encountered is that the job of back-office process improvement is never really over. At many companies, improvements come in bursts only when it becomes painfully obvious that inadequate processes are holding the company back. But the best companies take a page from Toyota's gospel of continuous improvement and try to anticipate trouble before it arrives. They know that growth inevitably leads to process sclerosis and that staying on top of it is the secret to sustaining good results.

One CEO we worked with, for instance, managed one of the most profitable steelmaking companies in the industry, whose results routinely placed it in the top quartile or better. It had strong assets and a good strategic position, yet the CEO felt the company was lulled into a state of “acceptable underperformance”. He felt its processes weren’t state of the art, weren’t as lean or as fast as they could be. His mantra became, “Let’s find out if we can do a lot better.” Needless to say, some of his managers, who were rightly proud of their results, needed convincing. But healthy companies like this one force themselves to pause at regular intervals and analyse where support services are slowing the enterprise and can be improved.

Companies that focus on support services generate results, and they come in three flavours: higher revenues, more effective service and reduced costs. When companies follow this approach, it’s like taking off the parking brake and stepping on the accelerator.

Six ways to build value in the back office
Every company with world-class support services recognizes the importance of lowering G&A costs and keeping them low. A company’s operating structure has to be aligned with the gross margins of the business to achieve its performance targets. Similarly, a company that improves its cost position relative to competitors has a significant advantage. Instilling a cost-conscious culture helps to keep a company lean, focused, and efficient.

In our research, we found six ways to make G&A more efficient and effective (chart). Reduction accounted for about 25 per cent of overall savings, redesign about 35 per cent, and restructuring about 40 per cent. •

Look at internal services from the outside in and consider how each support activity adds value for customers.

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