

Has the window already closed on offshoring shared services?



Just in time – or a minute too late?

Taking their cue from others in their business for whom offshoring has paid considerable dividends, many companies have already offshored their shared services operations – and many others are giving it a close look. But with the growth of shared services offshoring, concerns are being raised about pressure on international labor markets and increased costs. So has the window already closed? Or can companies still expand offshore shared services operations and reap the benefits?

Here’s the debate:

	Point	Counterpoint
<p>The window has already closed on offshoring shared services.</p> <p><i>Thanks, but we’ll stick to our current model for shared services.</i></p>	<p>The long-term cost savings from offshoring are a fast-disappearing mirage.</p>	<p>Not so fast. Even in “hot” markets, there are still huge savings in labor costs. And the downturn has cooled things off everywhere, keeping cost increases in check.</p>
	<p>We have too many eggs in the shared services basket to expose them to the risks of offshoring. Terrorism. Geopolitical disruptions. Unstable labor markets. And more.</p>	<p>There’s a safe place for those eggs. It’s all about picking the right location that matches your risk tolerance. As always, contingency planning and backup resources are must-haves.</p>
	<p>We’ll end up outsourcing shared service to third parties any day now anyway. Why bother tackling this ourselves?</p>	<p>Outsourcing isn’t for everyone. And nobody does it all at once anyway. Start by creating shared services capabilities and consider offshoring. Outsourcing should be an option. But don’t leap to foregone conclusions.</p>
	<p>It’s too much work.</p>	<p>Setting up international operations is too hard? Tell that to the rest of your business. In most cases it’s still worth it.</p>

	Point	Counterpoint
<p>The payoff is too big to ignore.</p> <p><i>Done right, the rewards far outweigh the risks.</i></p>	<p>Global talent pools are really attractive today. Breaking down your business processes into manageable blocks can help maintain high work quality.</p>	<p>The quality of offshore labor is terrible compared to what we have in the US today. We don't want to be one of those companies that ends up moving offshore operations back to the US.</p>
	<p>You already have plenty of offshoring capabilities and experience. Time to put them to use. Draw on the experiences of others along the way.</p>	<p>It's one thing to run retail, manufacturing and service operations offshore. But offshoring a central backbone of our organization? No way.</p>
	<p>There are still huge potential cost savings to be seized from offshoring. And the time is still right. Move now.</p>	<p>With a wobbly economy, we have our hands full already. If we could take on another big initiative, we would. But it probably wouldn't be this one.</p>



My take

Mark Klender, Principal, Comprehensive Shared Services, Deloitte Consulting LLP

More frequently than ever, I hear from executives who have heard about the significant value that offshoring could bring to their shared services operations, but are debating whether they should move forward with it today. And even if they are ready to make the leap, they still have skeptical corporate and business leaders to convince. Over-tapped labor markets. Declining labor quality. Escalating costs. Even the risk of terrorism. These are all serious concerns that lead many to question the viability of offshoring shared services.

In nearly every case I've encountered, the benefits of offshoring shared services today remain too big to be ignored. It just takes the proper care in determining what should be offshored and where, with some careful planning and the right resources behind implementation. Plus, in their company's global operations they already have the building blocks that are required for a complex offshoring initiative. Shared services is no different, really. It's a vital part of nearly any international growth strategy. And it can generate enormous cost savings for years to come.

Here are some things to remember when guiding your move to offshore shared services:

- There's no such thing as a "right" location for all shared services centers. Make sure your company's unique needs and risk tolerance are accounted for.
- Kick the tires. There's no substitute for comprehensive, in-person due diligence -- Check in with other local employers, government officials, and facilities. Don't make any decisions before making the rounds in person.
- Learn from the lessons of others. A lot of great companies -- and maybe some of your competitors have already encountered the challenges ahead for you. Make sure you know what they are.
- Avoid surprises -- especially up the chain of command. Functional, business and corporate leadership should be involved from the start and throughout the process. It's just as important for them as it is for you.
- Be an employer of choice. Tailor your HR and operations strategy to local customs and workforce needs to become the top employer in your chosen location.
- Think beyond cost. While cost can be an important factor motivating the decision to offshore shared services, it's not the only one. Know how this fits as part of your organization's long-term business strategy.

A view from the CFO's office

Richard Sarkissian, Principal, Comprehensive Shared Services, Deloitte Consulting LLP

Decisions about offshoring shared services can have a uniquely personal impact on CFOs. Signing off on financial statements prepared in another country by people you've never even looked in the eye can seem like a stretch when you consider that jail time could hang in the balance for improper reporting. And even if you're not considering offshoring financial shared services operations, most shared services decisions filter through the CFO and can have a big impact on the finance organization, from risk exposure to cash flow.

The savings from offshoring can be substantial. But it's not just about saving money. CFOs are trained to avoid uncertainty, and the idea of outsourcing shared services can seem full of unknowns rising from global instability to rising labor costs -- and everything in between.

But the fact is that with good planning, for most companies there's a solid business case to be made for offshoring their shared services functions. It's often a matter of timing. For instance, many CFOs are standardizing on IFRS standards and making technology investments that are expected to eventually result in drastically reduced staffing needs in shared services -- and big savings. Why consider offshoring at all? Many CFOs are looking to offshoring to ease the eventual transition to a more concentrated staffing plan and begin realizing the significant cost benefits that come from labor cost arbitrage. Whatever environment you're facing, now is the time to give offshoring a serious look when it comes to shared services.

A view from the CHRO's office

Beth Thiebault, Principal, Human Capital, Deloitte Consulting LLP

For a lot of CHROs I talk to these days, offshoring shared services is only the second half of a tough two-part question. The first question they have to answer is this: what should I even be doing as shared services? From there, it's a lot easier to make the right decisions about what can be moved where -- to offshore shared services, on-shore shared services, or even total outsourcing of the operations identified. Because two keys to successful offshoring are knowing your core strengths and executing on them.

One obvious place to look is in the area of administration. Today's HR organizations are awash in administrative tasks, making this a prime target for slicing up and moving to an offshore shared services team. Of course, HR has been mired in administration so long that many HR teams view it as part of their value proposition. Once that's gone, what's left? If you don't have a good answer to that question, it might be time to go back to the drawing board.

When it comes to HR, offshoring shared services only works as part of a larger business strategy -- it's not just about near-term cost reduction. So if you're thinking about offshoring, start by taking a look at how your team is organized to deliver value to the organization. Draw a bright line around what you really need to be doing -- and what can be done elsewhere. With some hard work, the rest will follow. Just remember: it can be worth it. Done right, offshoring shared services can not only make your organization more lean and effective -- it can allow you to get free of old constraints and start adding value at a higher level. And isn't that what it's really all about?

The view from the CIO's office

Gerry Miller, Principal, Technology, Deloitte Consulting LLP

Offshoring shared services for any business function has an impact on the information technology organization, period. But the issue of offshoring IT shared services is the one that has a lot of CIOs scrambling for the right answers today. Sure, on paper it may make a lot of sense from a financial perspective. But scratch the surface and some tough questions come to the surface -- starting with "how can I even consider taking on the added complexity of offshoring IT resources when we have enough trouble today serving business customers in the same building as us?"

Service quality. Talent acquisition, development, and retention. Delivery risk. There's a long list of valid concerns about offshoring IT shared services, but in most cases today, the benefits of doing so remain very compelling.

An effective way to safely start down the road to offshoring is by reassessing which IT services really need to be delivered by the core IT organization rather than by shared services – regardless of where they are in the world. In going through this process, a lot of the companies I work with determine that by improving their fundamental model for shared services, they can also dramatically improve their ability to succeed when it comes to offshoring. And that makes sense no matter where the chips fall.

For more information, please visit: www.deloitte.com/us/Debates/Offshoring.

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