

Transformation Execution StrategiesSM

Insights to empower you to transform enterprise performance

Levers Of Your Current Spend, Future Reductions

Publication Category: Research Update
Publication Title: Levers Of Your Current Spend, Future Reductions
Publication ID: US-SGA-TES-2006-009
Domain: All Domains
Topic: Execution Strategies
Released: June 13, 2006

Context:

Traditionally, spend in SG&A Domains like IT, F&A, HR, SCM in your enterprise were largely driven by factors that were directly under your control, and primarily within the boundaries of your enterprise. This usually meant funding all aspects of staffing, facilities, technology and other capabilities required in your business.

During the past decade, we have seen a shift in this area and it has been possible for you to extend your impact on your spending through factors that you could influence, often beyond the boundaries of your enterprise. Some of them were made possible by componentization of technology, standardization of processes within your extended enterprise and the ability to off-load some overhead on third parties.

Now, we are seeing it evolve to another level, driven primarily by globalization. We see that you are now able to once again extend your impact on your spending additionally through factors that you can leverage globally. Global leverage offers both an opportunity for reward and risk.

As enterprise leaders, your ability to guide performance transformation can be enhanced by understanding and effective use of, these levers.

Analysis:

First Kernel research shows that enterprises can transform their performance in areas such as IT, F&A, HR, Supply Chain, Product Development and Customer Care by continually optimizing their spend via the following levers:

1. In-house transformation maturity
2. Standardization of processes
3. Labor arbitrage
4. Scale economies
5. Funding structure
6. Externalization

In-house transformation maturity:

The more mature your in-house transformational capabilities are, the lower your variable spend is likely to be. The enterprise Transformation Maturity Model (eTMM) developed by First Kernel and the 2020 Enterprise Transformation Center at the University of Texas at Dallas (UTD) in 2005,

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and currently being used in enterprises, is an elegant way to increase in-house maturity and maximize leverage. The eTMM framework has been discussed in detail in our earlier weekly updates.

Standardization of processes:

Information Technology went through a decade of componentization and standardization. Now, business functions are experiencing the same phenomenon. In HR, processes like Recruitment are now rapidly becoming componentized and standardized, supported by a growing group of RPO (Recruitment Process Outsourcing) providers. The use of Professional Employer Organizations (PEOs) is furthering this trend. The point is, the more standardized your processes become, the less they cost.

Labor arbitrage:

The source of labor cost arbitrage has moved beyond local, regional and national boundaries and now is global. The arbitrage around pure offshore labor has diminished from as high as 40% a few years ago to as low as 10%. Certain models like BOT (Build, Operate and Transfer) and Captive Offshore Centers are still attractive, but require caution and know-how to derive attractive savings.

Scale economies:

The extent to which you can leverage this depends on how differentiated your staff skills, technology and processes are. If these are readily interchangeable with those utilized by third party providers, you are positioned to benefit, regardless of the size of your enterprise spend. On the other hand, if you are a large enterprise, you can achieve the same result by leveraging scale across your extended enterprise.

Funding structure:

This refers to your ability to make choices on whether you fund the capabilities needed in your business through Capital dollars or Operating dollars. Here again, a decision to use a third party (example: Outsourcer) or a hosted solution (example: Salesforce automation) can make a difference on how many dollars flow to Earnings Per Share (EPS).

Externalization:

Some processes and workflows in an enterprise are architected to be mostly local, while others can span intra-enterprise. Some can be extended beyond the boundaries of your business, and into the ecosystem (i.e., externalized). The greater the degree of externalization, the more you are able to leverage your spend in this regard since costs associated with customization, integration are likely to be lower.

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Take Away:

Enterprises are constantly exploring innovative business structures to enable them to dominate their business ecosystem. Performance Transformation initiatives drive the creation of such business structures. A clear set of economic goals ensure superior Performance Transformation.

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Mentioned in this Research Update:

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Websites:	None
Publications:	enterprise Transformation Maturity Model (eTMM)

About First Kernel Research

First Kernel Research is a unit of First Kernel Consulting, Inc. We are experts in Enterprise Performance Transformation. We help enterprises develop and execute exceptional performance transformation strategies and initiatives to continually align costs, service quality and capabilities with the overall strategy and imperative of the enterprise.

Our Clients leverage the integration of our expertise, intellectual property, tools and guidance to achieve or surpass their SG&A performance targets. First Kernel has developed the industry's first *Enterprise Performance Transformation System*TM, currently pending a United States patent.

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