

Independent Perspective White Paper

The Impact on Customers and Processes of Line of Business Back Office Operations and Shared Services

Key Statement: For a medium to large enterprise the complexity of product and customer needs has led to segmentation of back office operations to support different product offerings. This segmentation comes at a cost and by identifying and measuring these costs management can optimise customer experience and bottom line efficiency.

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Introduction

This paper is the fourth of a series prepared by or for Independent Perspective Australia to raise and examine issues of relevance to our friends and customers. Each of the papers is intended to put a view on a particular topic to create discussion and awareness.

This paper will focus on strategic issues created by the segmentation of back office operations to support products and customer segments. It is particularly relevant to larger multi-product enterprises.

For a medium to large enterprise the complexity of product and customer needs has led to the segmentation of back office operations to support different product offerings. This segmentation comes at a cost, and by identifying and measuring these costs management can optimise customer experience and bottom line efficiency.

Organisations benefit in many ways through segmentation but it can also create systemic issues and inefficiency. It can create a loss of confidence in the enterprise as a whole as the ability to deal with a single customer over multiple needs and therefore multiple products becomes confusing or even impossible. Many of these issues have profound implications on back office operations as they do on delivery and distribution.

Segmentation as a Business Strategy

Henry Ford who built the Model T said “nothing is particularly hard if you divide it into small jobs.” Really that has been the mantra of worldwide production of goods and services ever since. John Reed, ex CEO of Citibank said, “Segment, segment and when you have done segmenting, segment some more!”

The theory underpinning segmenting processes is to be able to reduce a process to uniformity of tasks relating to each process with no options and no deviations. The search here is for standardization and predictability of times, quality and output per resource unit and lower cost per unit and lower error rates.

Studying a complex process such as lending money is instructive. An interesting case study is KundenKreditBank (KKB) of Germany (The name means Customer Credit Bank). It was founded in 1926 and by the 1970's was one of Germany's larger and more profitable financial institutions. The KKB as it was fondly known only had one product which was a revolving credit account. Typically when you were a West German child your parents established an account for you, complete with the KKB Bunny story books. As you needed money as a young adult your manager would authorise an overdraft for the same account, and if you saved money you just paid down your overdraft or deposited money into the same account and earned interest. Although the product set for KKB was simple it was backed by a highly sophisticated view of the customer which was enabled by long term association. In essence they had a single product (although since that product was money it fulfilled many complex customer needs) with a single back office. It produced above average returns for many years.

History shows that the original owners of KKB grew older and sold it to an international bank. At that point it began the development of a wider and more segmented product range. In its original form as the ultimate in simplicity of process, KKB was able to focus its energy away from building technology platforms and towards building customer loyalty and distribution and delivery capabilities, but during the 1980's the KKB brand and operations were used to launch an array of products into various

About Our White Papers

Independent Perspective has been providing consulting services for operational improvement to large companies for over 20 years. We hope that you enjoy this white paper and find it professionally rewarding. We would welcome any feedback from you that would allow us to develop it even further. Please contact us if we can assist you in development of your operational effectiveness

customer segments. As a consequence of the additional operations needed to support these products and the impact of the additional products causing confusion on the customer view, financial returns returned to industry average.

Today's larger companies support a much broader and more complex array of products and processes yet simplification is still the only way to manage effective operations across these responsibilities. In this simplification process the first attempts were made by dividing processes by product and later by customer segment. Most large businesses have a combination of these types of segmentation today.

The Operational Impact of Segmentation

The **benefits** are clear and there to be taken:

- More easily controllable outcomes

The simpler the process the easier it is to control. By this we don't mean that the product is simple we simply mean that the steps in the production process are known and sequential. Referring to that Henry Ford quote above: "Nothing is particularly hard if you divide it into small jobs." If you know the steps in the process and they are predictable then you can continue to build your capability to manage and eliminate exceptions. This is after all the fundamental basis of quality management and process improvement doctrines such as Six Sigma.

- More predictable demand

If you target a product towards a particular segment of user you are in a position to know more about that user and their requirements and demands. This flows through to back office processing as well. Knowing about the issues of the product users allows management to predict requirements more accurately. This has important implications for recruitment and staffing.

- Easier documentation and skilling

No large companies of our acquaintance (and we deal with many) have a fully documented set of processes. The benefits of having such documentation are clear, but little thought is given as to why it doesn't exist. After all there are major software applications that are supposed to be able to produce such documentation quickly, accurately and cheaply. The major reason this documentation is not complete relates to the cost of doing it caused by the complexity of the process. The more these processes can be simplified and standardized, the higher the likelihood of accurate documentation and presumably better understanding and control and thus better service and quality.

- Lower costs

There is a maxim that "practice makes perfect". As you match resources to a particular process they should, all other things being equal, get better at it. By this we mean that the time for process completion should be reduced and the mistakes and errors made should be lower in number. All of this should have a positive impact on costs.

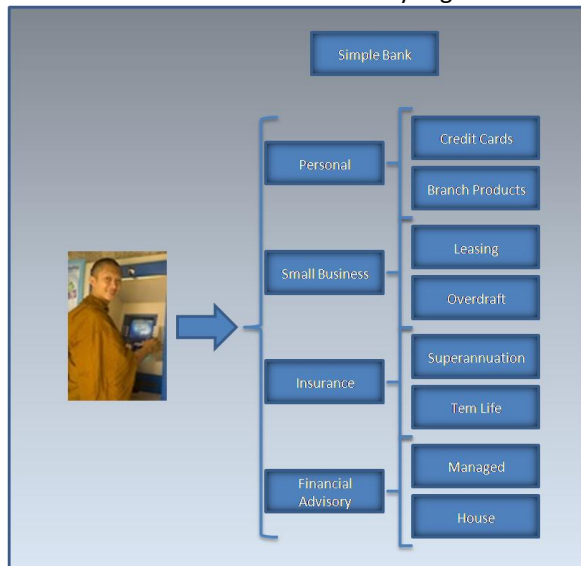
The **risks** of segmentation should also be clearly understood in order to be fully resolved:

Segmentation as a concept is generally seen to be of benefit to the company as demonstrated above. One source states: "The purpose for segmenting a market is to allow your marketing/sales program to

focus on the subset of prospects that are “most likely” to purchase your offering. If done properly this will help to insure the highest return for your marketing/sales expenditures. “

- Customer perspective

A key drawback with segmentation is that customers very rarely see your company as a collection of segmented businesses. The image below reveals the vast difference between the customer’s view of his bank and how the bank is actually organised.



Behind the ATM that this customer is using there is an absolute maze of segmented product divisions and their related back offices. The same customer will be treated in a highly differentiated manner by each of these operations with obvious implications on the eventual loyalty of the customer. The point is that the customer sees the ATM as the bank, the bank sees the ATM as an access point for a particular product and the particular aspect of the customer needs they wish to satisfy.

- The Cost of Duplication:

Creating multiple segments leads to the creation of multiple “back offices” and this creates the likelihood of duplication of effort.

As a result there is a move towards a “shared services” model across industry and government in Australia. This is driven by the cost of resource duplication. People are noting that many functions do not relate directly to the customer and that they are essentially the same such as IT, payroll and Legal etc. Business segmentation has in the past meant that ownership and control of the customer segment should be supported by dedicated processing and delivery resources. Here economies of scale become important.

Shared services can be achieved across a wide range of process steps and corporate functions. Common HR and Accounting functions are easy options, but it is also possible to include common customer contact centres, if they are supported by well documented processes built into customer common front end applications.

- Loss of Control

A segmented business structure is often referred to as a “silo”. A silo is a self contained structure for storage but, as the term is used in business, it implies a separate and discreet operation and a vertical structure for that operation. This is essentially a description of how many businesses are structured today. This form of structure impedes free flow of information and resources between like structures and without straining the metaphor too far, we can see that it is possible that a common culture and governance might be impeded by those very silos.

- Different KPI's

Service Level Agreements (SLA's) and Key Performance Indicators (KPI's) reflect a combination of history, technological sophistication, competitive pressures and many other factors. All of these

ultimately have an impact on the way the segmented operation deals with a customer. Most organisations have demonstrated a poor ability to standardise KPI's and SLA's across segments. If an organisation deals with few products and only with other large businesses there is a level of understanding, but if the organisation delivers multiple products to consumers then they will be treating the same customer in different ways according to the product.

- Governance

Governance has rightly become a key issue for corporations. It has become a key issue partly due to the complexity of modern corporate structures. Segmentation has clearly been a contributory factor. IPA carried out an assignment for a very large legal organisation that had organised itself geographically. Although we were commissioned by the Managing Partner of the firm we were told not to approach one of the divisions overseas. It appeared that the manager of that segment had convinced senior management that "head office" interference would be harmful. It was not coincidental that it was discovered shortly after that an extremely large fraud had been perpetrated by that manager.

It is clearly an issue for segmentation that the same governance standards are required for each segment but as the segmentation becomes "purer" control passes from central authority to the segment authority. This makes it extremely difficult to implement adequate and standard governance.

Addressing the Issues:

- Customer Perspective

Nothing can make a large company with many and complex processes into an agile small company. Much can be done however to ensure that the customer is treated as if they are dealing with one company instead of a collection of smaller ones.

In all segmented businesses there are back office processes to a greater or lesser extent related to each segment. While the efficiency dividend for this was clear in the past, technology advances now allow us to ask whether it continues to be appropriate. Increasing automation and use of technology such as workflow and work measurement applications should allow exceptions in a process to be handled within the one back office. There remain skill issues, but these can be handled as exceptions to process, and managed within overall process procedures.

If it is not possible or practical to implement single processes, then standardised KPI's and SLA's, as well as uniform governance, should be implemented. In other words, if I as a consumer deal with you for product "A", I should be entitled to expect the same customer experience from your back office when dealing with you for products "B, C and E".

Corporations should work to identify customer touch points for each product, for example: customer communication, complaints and collections as well as quality and service levels. When these are identified, work should be carried out to ensure that they are uniform across segments.

A good example of how to achieve this is the auto industry. Carmakers have long realised that they have different customers with different needs from their cars. Most of the large carmakers offer cars across a wide spectrum. They work really hard to achieve common platforms and common interfaces with customers, and it is reasonably clear that when they fail, their sustainability of customer demand and focus also suffers.

- Use an Effective Measurement Application

An enterprise wide performance measurement application will support common KPI's, which will mean that standards are common throughout the company and all segments. The better and more accurate the application, the better will be the control and standardization of the customer face of the organisation. A quality work measurement application such as Nuqleus 3D (www.xtag.com) will also allow management of work processes and quality, as well as KPI's for multiple products and processes.

Again it is no accident that the leading, particularly European, automakers invest heavily in measurement capabilities.

- Single Customer View

This is the “golden chalice” of business, but it really isn't that hard to do. Most organisations have seen the need to create a master database of customer details and transactions or a single customer application for all customer interface but it can be as simple as creating a single user front end for the entry and retrieval of customer information that links to core customer applications. There are also applications available today that enables unified customer contact management. The customer doesn't want to know about which application processes their business, they just want your company to view them as one customer and treat them in a consistent manner.

There have been many iterations of computer applications delivering a single customer platform, but it's fair to say that these attempts at a single application have almost always been overcome by the complexity of combining the embedded rules. A more common and more recent approach is to build a “single customer view” front end application. When this is combined with common processes at the back end, much can be achieved.

- Common Standards

Multi-product companies need to carry out a major housekeeping exercise to identify all those areas where they are dealing with, and making promises to, their customers. Having done this they need to set common standards for how those interactions will happen. Today, if I deal with the Business Banking division of a major bank or the business team of a Telco, I am likely to have a completely different experience than if I approach them as a consumer, and yet I am the same person and may control both accounts. The companies who get this right in the future will have a major competitive advantage.

In Summary:

Large companies are organised in complex ways. This has come about for a variety of reasons and this type of complex and segmented organisation has delivered many benefits both to customers and shareholders. We believe that the winning strategy of the future will be to simplify and unify the interface of your company with your customers. While each individual product on your menu will continue to have features and benefits that relate to individual customers and their needs, your company's core values need to be known and delivered as well.

In order to do this, it will be necessary to look at ways to retain these product benefits, but within the umbrella of a shared manufacturing and delivery process. In other words, use technology that is now available to create a shared process, while keeping track of, and valuing, individual product benefits.