

4 Smart Options to Overcome the Lonely Journey to  
**Captive Shared Services**

As major companies struggle to remain competitive in an increasingly globalized world, the allure of back-office consolidation as a means to reduce costs becomes ever more compelling. Many global organizations turn to Business Process Management (BPM), often to Offshore Service Providers (OSP) located in India and elsewhere, to rapidly leverage their cost-efficiencies, world-class processes and rich talent pools.

However, not every organization wants to outsource. This may be for political or philosophical reasons, or due to perceived risks around intellectual property or customer perceptions. For those organizations, consolidation of back-office functions into Captive Shared Service Centers (SSC), or Global In-house Centers (GIC) is often the chosen path.

One of the great challenges of implementing Global Shared Services is complexity. This complexity shows itself in many forms: organizational, functional, political... the list goes on. With great complexity comes increased risk of failure. As the 20th-century American author Eric Hoffer wrote, *"There is no loneliness greater than the loneliness of a failure"*. The reputation and career risk faced by business executives has never been greater.

Faced with such risk, executives assigned the complex task of consolidating back-office functions such as Finance, HR, Procurement or Analytics seek trusted partners, with proven experience to help guide them through the maze of decisions that all such businesses are faced with. Without the benefit of experienced

support, the organization can become paralyzed with indecision, delaying the anticipated benefits and potentially falling further behind aggressive competitors, vying for market share.

Organizations that choose to outsource back-office functions to a third-party OSP often seek the support of their OSP to advise them on the route to a successful outsourced service. However, those who choose to establish their own captive SSC / GIC often seek to hire resources from the market, or from established consulting firms, which can often provide skilled and experienced staff to advise on key issues such as new operating models, organizational change, business adoption, site selection, tax implications, availability of skills and so on.

What is often overlooked by executives setting up captive centers is the depth of experience that exists within OSPs, who may have implemented dozens of delivery centers all over the world for multiple clients, completing dozens or even hundreds of successful process transitions. This depth of experience can be leveraged in a number of ways listed below, depending on an organization's appetite to engage.

1. Consultancy
2. Implementation Partnership
3. Establishing a Hybrid Center
4. Build-Operate-Transfer (BOT)

An overview of these engagement models is given in *Figure 1*.

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	CONSULTANCY	IMPLEMENTATION PARTNERSHIP	HYBRID	BOT
Features	 <ul style="list-style-type: none"> <li>OSP consults with client to help identify activities to be migrated offshore</li> <li>OSP resources will provide solution, documentation and transition support to client</li> </ul>	 <ul style="list-style-type: none"> <li>Assist client in setting up center</li> <li>OSP deploys support team of operations leads, Process SMEs, quality and training managers to assist client's captive center in managing SLAs, KPI reporting and overall Governance</li> <li>Engagement period of ~12 months or such period as agreed between client and OSP</li> </ul>	 <ul style="list-style-type: none"> <li>OSP will set up and operate infrastructure</li> <li>Key senior management and managerial staff, SMEs deputed by the client at the outsourced location for an agreed period</li> <li>Creates an extended organization with access to talent and best practices</li> <li>Leverages all benefits of outsourcing coupled with control and visibility of captive center</li> </ul>	 <ul style="list-style-type: none"> <li>OSP will set up and operate a pre-defined agreed period before transferring ownership to the client</li> <li>OSP liable to manage end-to-end operations for client prior to transfer</li> <li>OSP will provide resources, facilities, and will own the client operations for the period of the contract</li> <li>OSP will be responsible for all risks and mitigation</li> </ul>
Pros	<ul style="list-style-type: none"> <li>Leverage OSP expertise in captive setup best practices</li> <li>Full control of captive remains with client</li> </ul>	<ul style="list-style-type: none"> <li>OSP expertise to stabilize operations</li> <li>Lower risk start-up</li> <li>Quick implementation, go-live and stabilization</li> </ul>	<ul style="list-style-type: none"> <li>OSP mitigates risk related to performance creating greater visibility</li> <li>Low / no Capex requirements for the client</li> <li>Quick implementation and scaling up</li> </ul>	<ul style="list-style-type: none"> <li>OSP assumes operating and financial risk</li> <li>Fully variablized cost of seats.</li> <li>Low initial investment</li> <li>Quick implementation and scale up</li> </ul>
Cons	<ul style="list-style-type: none"> <li>Requires capital investment</li> <li>Client assumes operating and financial risks</li> <li>Staffing / retention onus on client</li> </ul>	<ul style="list-style-type: none"> <li>Requires capital investment</li> <li>Responsibility to manage captive and staffing / retention without OSP's support after transfer</li> <li>Client assumes operating and financial risks</li> </ul>	<ul style="list-style-type: none"> <li>Staffing / retention onus on client</li> <li>Career growth path may be difficult to realize</li> <li>Cost saving may not be large</li> <li>Need for strong governance</li> </ul>	<ul style="list-style-type: none"> <li>Limited direct control during build and operate phase</li> <li>Need for strong governance</li> </ul>

Figure 1 – Overview of OSP engagement models when setting up a new captive center

# Consultancy

In the Consultancy model, the OSP places experienced staff with the client to assist with the program. Some OSP staff may be flown from offshore locations to work on the client's site, while others remain offshore (at lower cost), providing support to the onshore staff.

The OSP's staff can work alongside the client's incumbent consulting firm, providing complementary services in a highly cost-effective manner (see Figure 2)

Typical deliverables from such an engagement are shown in Figure 3.

Some of the key issues faced by organizations establishing captive centers in unfamiliar geographies are as follows:

- Location – picking the right sustainable site for the center with the telecom, power and transportation infrastructure
- Cost – both short and longer term
- Labor pool sustainability
- Competition for talent
- Economic outlook (example, inflation)
- Tax and other economic incentives

CLIENT	Comms. Planning	Recruitment	
	Stakeholder Management	Customer and Vendor Liaison	Stakeholder Management
CONSULTANT	Target Operating Model Implementation Plan	MDM	Business Change and Adoption
	Location Study	Program Management	Benefits Realisation and Tracking
OSP	Physical and Technical Infrastructure	Knowledge Transfer	Transition Support
	Process Documentation	Process Transformation	
	<b>PLAN</b>	<b>BUILD</b>	<b>OPERATE</b>

Figure 2 - Your OSP and incumbent consulting firm can work together with you to provide a complete and cost-efficient service, to help you build and operate your SSC / GIC.

All of these issues will already have been faced and dealt with by any multinational OSP that has established its own delivery operation in the target geography/ies, so they will be an excellent source of first-hand knowledge and experience on these issues.



Figure 3 - Typical deliverables from a consulting engagement with an OSP assisting the client with a captive setup program

## Implementation Partnership

In this model, the OSP deploys an experienced support team of Operations Leads, Process SMEs, technical experts, quality and training managers to assist the client's captive center in establishing and managing SLAs, KPIs, reporting and overall governance. This is usually done over a fixed period such as 12 months, agreed at the outset. As in the Consultancy Model, the OSP can work with the client and its incumbent consultancy to provide a complete solution in a cost-efficient manner. Often, the OSP can bring experience with proprietary and third-party technology to the table, which can significantly boost the efficiency of the new operation.

## Hybrid Center

Sometimes the political challenges that drive organizations to create a captive center rather than outsource to an OSP can be accommodated while still leveraging the benefits of outsourcing (speed to savings, rapid ramp-up, reduce / eliminate capex). In this model, an OSP may provide the premises, IT infrastructure and many of the operational staff for the center, while the client retains management control, providing all or many of the senior management for the center, who may be based onsite. Thus the benefits of outsourcing can be realized, while the organization is able to demonstrate the level of management control and visibility demanded by the company's executives.

## Build-Operate-Transfer (BOT)

The BOT can be a rapid and effective way to leverage the broad experience of the OSP to create a new center, stabilize the operation and, after a predetermined period of time, transfer the center back to the organization for a pre-agreed fee.

Using this approach, the costs of setting up the center can potentially be completely amortized into the initial period of operation, prior to the center being transferred back to the parent organization from the OSP, freeing up capital for use in other, more strategic, initiatives.

## Case Study

### Build-Operate-Transfer for a large U.K. grocery retailer

#### Client Challenge

The client, a UK-based multinational retailer with approximately 2,000 stores in the UK, Ireland, Hungary, Poland, and the Czech Republic, decided that it wanted to establish an India-based captive center to handle 154 processes encompassing Accounts Payable, Commercial Payables, and Payroll and Benefits for approximately 240,000 employees. With no center ready, the client turned to WNS for help.

#### WNS Solution

While the client's center was under construction in India, WNS quickly allocated space in its Pune center in India to host the operation. With 300 staff needed, WNS set about hiring agents with knowledge of UK retail industry back-office functions, to minimize the time taken to establish and stabilize the operation.

One of the key challenges of the engagement was the sheer scale involved: processing Payroll and Benefits for almost 240,000 employees, handling over USD 40 Bn of payables annually with an invoice reconciliation process of 20 steps covering 300 scenarios and a need to perform knowledge transfer to ensure proficiency in all 154 in-scope processes in a short span of time.

#### Benefits Delivered

Working closely with the client at all times, the operation was successfully established and at the same time, multiple improvements were introduced and business benefits realized:

- USD 15 Mn deductions increase per annum
- USD 6 Mn leakage reduction
- USD 5 Mn cash recovery achieved through a duplicate investigation project
- Timeliness of supplier payments improved and queries reduced from 18 percent to 7 percent
- Exceptions reduced from 15 percent to 10 percent
- Learning curve for new staff reduced from a typical 36-48 weeks to 24 weeks
- Bespoke technology introduced, which significantly increased process validation and accuracy

Once the construction of the new Indian SSC was completed, the operation was transferred under the management of the client, as per the original agreement.



## Conclusion

The perilous journey to consolidating back-office functions into a captive SSC / GIC need not be so lonely. Risk can be mitigated by leveraging the deep experience of an OSP to assist with the setup and potentially with the ongoing operation of your captive. The OSP may even be willing to work alongside your incumbent consulting firm to provide a highly cost-effective solution to support you in your journey.

Eventually, once the center is built, stabilized and fully operational, the OSP will be there to support you with outsourcing, when your CFO inevitably asks you the dreaded question: "What's next?"

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## About WNS

WNS (Holdings) Limited (NYSE: WNS) is a leading global Business Process Management (BPM) company. WNS offers business value to 200+ global clients by combining operational excellence with deep domain expertise in key industry verticals, including Banking and Financial Services, Healthcare, Insurance, Manufacturing, Media and Entertainment, Professional Services, Retail & Consumer Packaged Goods, Telecom and Diversified Businesses, Shipping and Logistics, Travel and Leisure and Utilities. WNS delivers an entire spectrum of business process management services such as customer care, finance and accounting, human resource solutions, research and analytics, technology solutions, and industry-specific back-office and front-office processes. WNS has delivery centers world-wide, including China, Costa Rica, India, the Philippines, Poland, Romania, South Africa, Sri Lanka, UK and US.

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