

Seven levers for corporate- and business-function success: Demand management (lever 1)

Understanding where the demands are for business and support functions is the first step to making sure they are providing value to the organization

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This article is part one of seven in our series on why and how companies can improve the effectiveness and efficiency of their business and corporate functions¹. The remaining six parts will be published throughout the remainder of 2014.

For organizations long used to viewing support functions primarily as costs, the idea that they actually can be sources of value often meets with skepticism. If that perception is to change, what support functions actually do must generate real worth to the rest of the organization.

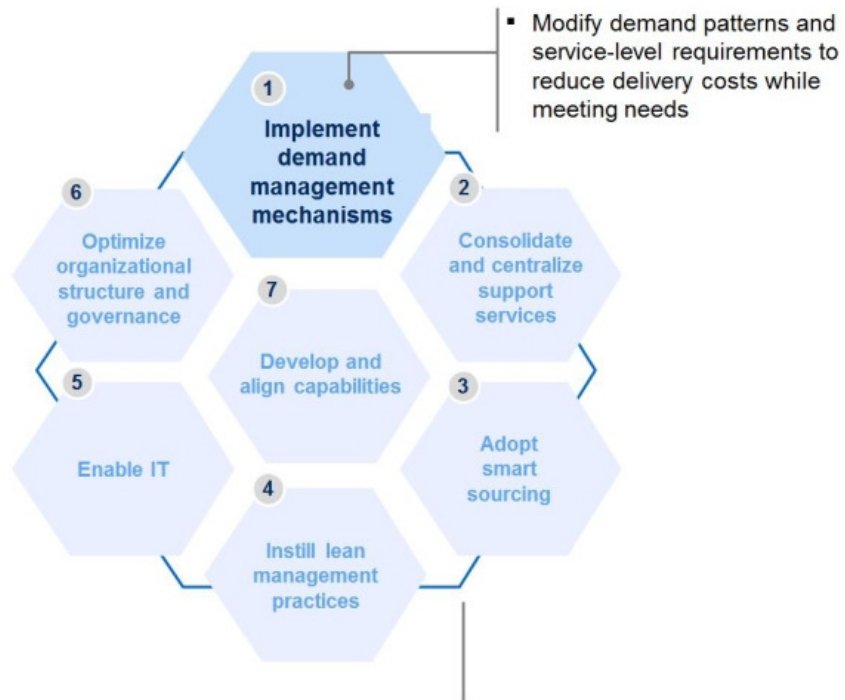
Too often, that isn't the case. Instead, gaps arise over time between what the function's "customers" want (for example, relationship managers seeking legal opinions, business units demanding new IT applications, and so forth), what the function itself can provide, and what the organization as a whole actually needs.

The consequences can be costly, with functions unwittingly providing too much, too little, or simply the wrong kind of support. At many organizations, for example, finance professionals spend much of their time producing reports that barely get read. Conversely, the HR function at one large company was having serious trouble keeping up with hiring demand. In effect, it had become part of the problem: inadequately screened candidates turned out to be a bad "fit" with the organization, left quickly, and created even more vacancies for HR to try to fill.

Filling the gaps starts with a better understanding and management of demand. Examining its real sources—and, most especially, the reason they arise—typically reveals opportunities to reduce or redirect demand in ways that compound benefits across the organization (exhibit 1).

¹ For the introduction to this series, see "Seven levers for corporate- and business-function success: Introduction," June 2013, on the Operations Extranet (<http://operations-extranet.mckinsey.com>)

Exhibit 1: Understanding where demand is and how to manage it appropriately is the first of seven levers for high-performing support functions



SOURCE: McKinsey's Corporate and Business Function practice

Four steps to corral demand

- **Setting boundaries.** The first step involves both financial and structural limits. Gathering data across the organization allows the leadership team to assess resource consumption and the resulting output; when available, external benchmarks provide further validation. At one multinational, comparing even simple variables such as the number of finance specialists per \$100 million in revenues revealed major discrepancies, allowing leaders to set new organizational norms and eliminate sources of unnecessary variability.
- **Improving transparency.** Providing rigorous analysis of cost and usage data enables the leaders of support functions and their customers—whether in the businesses or in other functions—to understand the drivers of cost and volume.

Even more valuable, however, is greater transparency about the behaviors that drive these figures. For an organization reviewing its procure-to-payment cycle, a major reason for added cost and delay turned out to be that similar deals included slightly different contractual terms—each requiring separate legal review. Standardized contract language meant that legal review was required only for a subset of unusually complex deals.

- **Adjusting service levels to meet—not exceed—requirements.** The organization must properly understand what the business customers actually need from a support function to effectively run their business—and the constraints those businesses are facing. Only then can the function and business work together to identify the cost and service trade-offs that maximize value to the business customer without building in unnecessary expense.

A good example is the typical corporate real estate function, whose business customers must balance their space needs in a given location against limited budgets. Careful discussion and evaluation of the businesses' real workspace requirements and utilization patterns can lead to a better configuration of meeting rooms and desk space, thereby reducing square footage requirements while more closely matching the way people actually work.

- **Fostering accountability.** Business customers must have incentives to revisit the volume and nature of the services they receive from support functions. One common tactic is to institute chargeback mechanisms that users can readily understand and exercise control over.

To rationalize spending on external communications and free up specialized capacity, one professional-services firm adopted a menu of standard prices for editorial output, and imposed partial fees for projects that users abandoned without completing. Periodic reviews allowed business units to re-prioritize and reallocate their spending as needed, such as from published articles in traditional media to online content ■

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