

Seven levers for corporate- and business-function success: Consolidation (lever 2)

Improved customer quality and better coordinated expertise are just a few of the benefits of combining like workstreams and functions

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This article is part two of seven in our series on why and how companies can improve the effectiveness and efficiency of their business and corporate functions. The focus of this article—consolidation—is the second lever of the overall approach (exhibit). The remaining five parts will be published throughout the remainder of 2014¹.

Exhibit: Consolidating and centralizing support services is the second of seven key levers for high-performing support functions



SOURCE: McKinsey's Corporate and Business Function practice

In many large enterprises, as corporate and business functions grow to meet the increasing demands of the wider organization, activities become increasingly fragmented: a patchwork of conflicting systems and process standards arises across different businesses and regions. Mature enterprises often end up with dozens of specialized cells that are too small to achieve deep functional expertise. Procurement, for example, may have dozens of purchasing managers scattered throughout the organization, none of whom have been able to develop deep expertise in specific procurement categories.

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>). Search ‘seven levers’ to find remaining published parts

Yet business and geographic units often resist consolidation, arguing that it may leave functions too isolated from business realities. Often we find that the risks are actually smaller than feared and there is a greater opportunity from further consolidation including increased consistency, compliance, and service quality while reducing costs. Through a systematic examination of the trade-offs between scale and control on one side versus customization and customer proximity on the other, it is possible to identify a fairly substantial set of activities and assets that benefit from consolidation.

In some cases, the focus is on people, consolidating:

- **Repetitive transactions.** Predictable, high-volume transactional activities are usually best managed at a shared-services center, where economies of scale are greater, and more consistent coaching and performance management can improve operational discipline. While this type of consolidation by itself yields significant performance gains, thoughtful application of several of the other corporate and business function levers can increase the number of opportunities. For example, as more purchasing contracts are standardized², reviewing them becomes the type of repetitive, transactional work that lends itself more readily to this type of consolidation.
- **Coordination of expertise.** Functions that provide highly specialized expertise are better able to do so once they reach a minimum scale – often by concentrating the relevant experts into centers of expertise that serve the entire enterprise. For example, in the legal function, the complexities of operating in many jurisdictions often result in each office hiring its own generalist lawyers to cover everything the particular office needs. Only by viewing the aggregate workload at the enterprise level would the need for specialists in particular legal disciplines become apparent.

But economies of scale are hardly the only reason to encourage experts to work more closely. For complex work that requires several types of specialized expertise, the improvements in speed and accuracy that a co-located team produces can be especially dramatic. By bringing legal, appraisal, risk, environmental, and related experts together, a government agency providing financial services was able to cut the time needed to approve secured lending transactions by 60 percent.

In other instances, the emphasis is on bringing assets together—particularly intangible ones, such as customer, employee, and vendor data. Doing so can increase security and accessibility and create opportunities via enhanced analytics. Ways that organizations can consolidate here are through:

² See “Seven levers for corporate- and business-function success: Lean,” forthcoming.

- **Common information:** When employee, vendor, contract, customer, and pricing data are fragmented, different parts of the organization end up operating under different realities. For one electronic payments company, discussions of business unit performance were constantly bogged down in data disputes, with each unit relying on sources that it alone developed, maintained, and—most importantly—fully understood. Accountability for financial performance became all too easy to avoid. In contrast, consolidated, standardized data, paired with the development of unambiguous metrics, makes performance variances easier to identify and address.

Indeed, a “single source of truth” from shared data is often critical to transforming organizational performance, as a large US health-care payor found in building a shared-services organization for contract management. Without a common contract repository, the organization had no way to allocate the costs for the negotiation and administration of individual contracts to the business units it served—defeating the organization’s purpose.

- **Common vendor pools:** Different parts of the organization may find themselves working with the same vendors on similar purchasing categories. Consolidating points of contact and performance data can make vendor performance more transparent and maximize leverage when negotiating new work. For a legal function, comparative data on external counsel’s fees and billing patterns, together with satisfaction data from in-house counsel on the quality of the firms’ services, can unearth opportunities to shift, consolidate, and diversify spend as needed.
- **Standardized policies:** Consolidating policies governing support-function topics such as accounting, personnel, budgeting, real estate, and IT can drive consistency of decision making and compliance across an organization. One organization found that even simple steps, such as creating a standard look-and-feel for each of its office locations, reduced its real-estate costs by about four to seven percent per year. The savings came not just from reduced procurement cost for categories such as furniture and fixtures, but from standardizing maintenance schedules and reducing variability in labor requirements.
- **Standardized templates and guidelines:** Consolidation of templates, guidelines, and approaches on topics such as management reporting can help to align service levels and reduce variability in the way work is delivered, promoting more streamlined processes. One finance function found that almost 10 percent of its time—equivalent to more than 25 employees—was spent just on formatting reports for presentation. Adopting simple report templates allowed employees to rededicate most of that time toward data analysis and interpretation: the skills they were hired for.

Business and geographic units often resist consolidation, fearing that they will lose control over highly specific, hard-to-replace expertise. In our experience this control can be maintained via service level agreements, relationship manager roles and clear performance metrics. Furthermore consolidation can actually strengthen scarce expert capabilities by freeing higher-cost experts from lower-value tasks that are readily handled elsewhere. One global basic-materials company had long supported separate functions for external communications, which handled most of the government-affairs work, and community relations, which focused on the towns where the company's production facilities were located. It discovered that much of the work overlapped, and neither department was using resources as efficiently as it could. Consolidating much of the work in the corporate center allowed for better utilization of staff and tighter management of external contracts, such as with media consultancies. Meanwhile, a pared-down community affairs staff was able to spend much more of its time just on the most important issues in that area ■

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