



## The end-to-end mindset: An interview with **Priyan Fernando** of American Express

In 2009 many financial services firms were intensifying their focus on efficiency, stripping out unnecessary costs and streamlining operations – in essence, working to become more seaworthy in a turbulent environment. American Express, with payments-related operations in several countries, took a very structured approach, establishing a unit whose mandate would be to find cost savings, eliminate waste and tap synergies in all internal service functions.

The unit, Global Business Services (GBS), was to be led by Priyan Fernando, former President, Global Customer Group & COO of American Express Business Travel and a 30-year veteran of the company. Fernando set about transforming the way services such as financial operations (e.g., payroll, accounts receivable), supply management, global real estate and select payments operations were structured and delivered, with a rigorous approach that was part of a broader effort to eliminate \$500 million in costs in two years. GBS is now located in 25 different countries and, including third-party support, employs about 2,000 people. The majority of these employees are based in India, Phoenix and New York.

*McKinsey on Payments* spoke with Mr. Fernando in his Manhattan office about the ideas and environment that led to the formation of GBS, the impact to date and the nuts and bolts of how the program works. As a clear evangelist for the work his group does, he was generous with lessons learned and advice for others taking on a similar challenge.

**McKinsey:** What was the genesis of the GBS initiative?

**Fernando:** Coming out of the financial crisis, our CEO Ken Chenault asked us to look at the company very differently, and focus on the things we could control. He gave us three imperatives: to drive growth, efficiency and service across the company. And, importantly, to link everything we did to those imperatives. This led to the GBS concept.

The idea was based on the fact that the company is comprised of a series of processes that essentially cut across the enterprise. So to reap true improvements and efficiencies, we had to step out of our silos and get a cross-enterprise perspective.

**McKinsey:** What did you discover by looking at the company from this perspective?

**Fernando:** When you take an end-to-end process mindset, you look at the platforms and hand-offs that support processes. We found that one process could be fragmented with many platforms and organizations touching it. As a result there was a lot of rework and unnecessary customization, a lot of waste.

For example, our procurement function was fragmented. We would buy the same item from the same vendor at different prices because different parts of the organization had contracted with that same vendor. There was a huge amount of unnecessary customization. When you look at things centrally, you can standardize and manage demand. You can reduce costs, because you can negotiate with higher economies of scale; and also drive compliance, because everything is monitored centrally.

**McKinsey:** You mentioned procurement. What other processes fall under the GBS umbrella?

**Fernando:** GBS includes financial operations and human resources services. We also have global real estate and workplace enablement, which is not just about managing a portfolio of properties. We have created a very flexible workplace, a very open work environment, that enables work to be done anywhere and anytime. We've given our employees the tools to work from home. Because of that, many of our employees don't need a dedicated workspace. This has led to a gain of about 25 percent in real estate capacity and significant savings.

**McKinsey:** What does a typical migration of a process to GBS actually entail?

**Fernando:** First our migration experts come in and talk to the participants, get the lay of the land and prepare them for the steps of change management. Then we begin mapping the processes in detail and documenting everything that needs to get done. In this phase we look for things that could go wrong, things that need to be improved and then work out our service level agreements. Once we have identified all those activities, we bring in our resources to learn the work and sit beside people who are transferring the work. Then we migrate the work and run parallel for a couple of months before a complete transfer. We do a lot of measurement during this transition to keep our customers comfortable and confident.

**McKinsey:** Can you discuss some concrete ways that GBS has improved costs and efficiency at American Express?

**Fernando:** There are simple examples, such as detecting overpayments, float benefits, cost avoidance, reduction of rework. Simply eliminating waste has improved efficiencies in our financial processes by 12 to 15 percent.



There is the example of our new employee onboarding process. There were so many organizational silos involved in this process, ranging from real estate to human resources to technology, and these groups really did not talk to one other. When we applied a process mindset, these groups started to work together to identify those elements that were critical and those that constituted waste. As a result we cut the time it takes to onboard an employee in half.

Another example would be the financial operations function, which comprises a connected set of steps that reflect the end-to-end flow of a financial transaction, such as a charge on one of our cards. We capture the financial transaction, we balance it, we pay our merchants, bill card members, and then account for those transactions. Then we use that information to do our reporting, and finally to do the reconciliation at the back end of our financials. Before we created financial shared servicing a number of years ago, these steps would take place in 46 different locations around the world and now they take place in two hub locations with 24/7 coverage.

**McKinsey:** Apart from the more obvious eliminations of waste and inefficiency, how does this approach deliver value?

**Fernando:** If you do something in a consistent manner with the right measures for what you want to improve, good things can happen. When you centralize work you see inefficiencies, and you can eradicate inefficiencies. But beyond that, you also have all this information in one location, which tells us a lot more about ways to create value.

**McKinsey:** How do you create value through information?

**Fernando:** Because of the work that we have consolidated in GBS we now have all of the financial information of the company; all of the

spend information, because procurement is part of our organization; all the HR information; our location and fixed-asset information. Having this information in one place gives us a tremendous opportunity to add value in new ways.

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Here's an example: We are now matching our fixed-asset information in our financial systems with the maintenance records in our procurement systems, which helps us ensure that we are only getting charged maintenance for the assets that are stated in our books. This may sound simple, but we previously couldn't do it for the entire inventory of assets around the world, even though we had consolidated all our maintenance to a few vendors. We're also look-

ing at the whole process of capturing financial information and how you can optimize it.

Of course, leveraging this information requires new skills in data analytics and combining disparate sources of information.

**McKinsey:** How do you think about the size of the impact GBS delivers?

**Fernando:** From a high level, our analysis indicates that for many of our processes, about 20 percent of the cost is avoidable, because of what we call waste. But there are many ways in which you get better economics. There are the scale benefits of bringing like functions together. There is the value in improvements in speed and quality of processes and the value in the information you gather.

**McKinsey:** As you've consolidated functions and improved them, how has this changed the relationship with businesses and functions that you serve? How do you manage service levels, how do you manage cost to the businesses?

**Fernando:** At the end of the day, we have to demonstrate benefit to the business for the change, in terms of cost, quality and service, and we have to quantify that benefit. To do so, we need an infrastructure that is maniacal about measurement. We publish our service level agreements and we meet with our customers to ensure that those agreements are being met, and that we are partnering for continuous improvement.

**McKinsey:** A frequent criticism or concern regarding shared services groups is that the costs sometimes replicate in the businesses themselves. What are some of the things you've done to prevent that from happening?

**Fernando:** From the beginning, we had to present the case for change, and so we needed to have a very good sense of our point of departure, and our point of arrival. People are held accountable for this, and when work migrates, the costs are removed from the business forecast and put into our forecast. This enables both the sending and receiving teams to ensure that the point of departure leads to the point of arrival. We have to demonstrate that when people are redeployed to other activities, we don't create shadow organizations replicating the work that had been migrated. We were very clear about that.

It is also absolutely critical to demonstrate that we are providing our customers with competitive advantage. So we have a rigorous benchmarking process to ensure that we are doing so. We're also very attuned to the business outsourcing industry and other peripheral industries to ensure that we are in fact competitive on cost, quality and service.

**McKinsey:** Are there plans to extend the GBS to other functions? What drives those decisions?

**Fernando:** Our guiding principle is to do what places us in the best situation to compete. So where there are activities that can be centralized and standardized, we continue to create these types of utilities.

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However, this does not mean consolidating all work under GBS. We have a business transformation group that has expertise in process management and content expertise in certain disciplines. So we have been very involved in consolidating work in the marketing arena in areas like campaign management, compliance and risk. We are involved in areas across the company that do not necessarily report into GBS, but where process expertise can come in very handy when you want to consolidate work.

**McKinsey:** Turning to the human side of the equation: What kinds of people thrive in the GBS environment?

**Fernando:** The ability to consistently learn and improve is extremely important. To be effective, we needed experts who would be invited to the table, so to speak, rather than relegated to the periphery. We knew

that as a new organization seeking to drive change, we needed to create a culture where people felt empowered. Change is about leadership. In this case, leadership was not only about position, it was about the actions we were taking. Our people also need to be able to take an end-to-end process mindset. Getting people obsessed about process was very important, and required training. We need people who are quite zealous about this whole thing, which is not easy to find.

**McKinsey:** What advice might you have for other companies embarking on this kind of initiative?

**Fernando:** It is important to view this as more than a consolidation of work. It should really be a process transformation, and if you don't take a transformational approach, your chances of success are limited. And what I mean by that is transforming the way you look at a process, transforming the way you measure and what you measure, and transforming the culture of the people who are supporting this process. Internal service excellence could be a large driver of the

success of a company. It requires people who show the same passion as those who service our external customers in the front lines.

You need to communicate – over-communicate – in times of change. We were trying to change processes and change culture, and it was so important that people were on the front lines communicating. Leaders who are passionate about what they are doing, who communicate frequently and engage the energy of their teams are absolutely critical for driving transformation.

It was a huge benefit for us to have the business transformation group as part of GBS. This group had the independence to look beyond the GBS activities at different processes, and were trained in process, transformation, quality and change management. They come from different disciplines like engineering, consulting and business; but the key attribute in this group was a restlessness with the status quo. People who wanted to drive change and look for any opportunity to make a difference.

**McKinsey:** What led you to this role, personally?

**Fernando:** I feel I've been preparing for this job for 30 years. My training in finance, in operations, in the business – I was COO of the travel business – gave me a good sense of how support functions could help a business to succeed.

One of the things I really love about my job is that we have permission to look across the enterprise with an eye towards transformation. This is always interesting for me. For instance, it has been really exciting to look at the way our marketing processes work and to lead our process expertise to drive improvement.

**McKinsey:** What have you learned?

**Fernando:** I've learned that it is always better to go through big changes in a short time period than to prolong or extend them. Our

approach was to act fast by resourcing the initiatives well, being very clear about what we did, and investing in change management. Changing process is as much about changing culture, and if you want to change the culture, you have to do things that are symbolic of the new culture. It is important to have the right sponsorship, it is important to take time to explain the point of arrival and present the case for change, and it's also important to have the right resources and the right reinforcement to show that the change is happening.

**McKinsey:** Any specific pitfalls others might avoid?

**Fernando:** There are a couple of things to watch out for. The first is to ensure that you migrate processes and not jobs. It is possible to move broken processes into a central location, and what you end up with are broken processes processed at a lower price – a mess for less! It's absolutely critical to recognize that when you migrate a function you must standardize it and make it more efficient. It has to be about transformation, and transformation of people, process and technology. And again, do not underestimate the importance of change management.

**McKinsey:** Any final thoughts?

**Fernando:** Yes, a few. There is a false notion that driving process discipline hinders innovation, and can also impact quality and customization. Nothing is further from the truth. In fact, I believe that innovation also is a repeatable process. So having that mindset of planning, executing, measuring and using those measures to provide feedback to improve with every repetition is the key ingredient for success. When you look at successful companies, you need to study their processes. I would bet that their processes are continuously improving, and that's what makes them successful.

