Consumer packaged goods
Enhancing performance through business process outsourcing
“To be able to focus on core competencies, CPG companies must outsource support functions that add little or no competitive advantage. This frees up management time and energy as well as capital to invest in areas that add competitive advantage.”

Yankee Group, Outsourcing Can Help Increase CPG Business Value, November 18, 2004
Business process outsourcing—helping CPG companies enhance business performance

Consumer packaged goods (CPG) companies face an increasingly challenging and complex environment, driven by macro-economic, consumer, and competitive trends. With CPG companies facing pressures involving both growth and profitability, their focus needs to be on strengthening core capabilities—product development, marketing, and channel management—while ensuring that non-core activities are performed in the most cost-effective and scalable manner. Business process outsourcing (BPO) of activities that are not strategic can directly achieve this goal and help alleviate some of the pressure that CPG companies face.

The environment in which CPG companies operate is characterized by:

- Stagnant demand in developed markets due to slowing population growth and global economic slowdown
- Consumer buying behavior and macro-economic trends leading to growing price-consciousness at one end and niche micro-segments at the other
- Increased retailer bargaining power, driven by retailer consolidation, growth of private label products, and a shift towards price-led retail formats
- Stringent regulatory requirements regarding product safety and rapidly emerging technologies such as radio frequency identification (RFID)
- Globalization of both CPG companies and retailers, with accompanying competitive pressures and challenges

These trends create pressure on both growth and profitability, with various CPG companies battling for a greater piece of a shrinking pie. Among the initiatives that CPG business leaders are driving, global outsourcing of products, raw materials, and IT and business processes offers one of the most critical and powerful opportunities. Outsourcing those activities that are not strategically critical to a CPG company—parts of the finance and accounting, human resources, procurement, order fulfillment, and the sales and marketing value chain—can deliver significant gains, including:

- Direct and immediate operating cost reduction due to service providers who can take advantage of labor arbitrage, world-class IT systems, process efficiencies, and greater scale
- Improved productivity and quality of support processes, enabling better support for the core business and scalable expansion into new geographies and product lines
- Freed-up capital and management bandwidth that can be focused on core activities

We estimate that full-fledged adoption of BPO could improve an average CPG company’s operating margin by 0.5–1% of revenues, in addition to the other qualitative benefits outlined above. BPO is a “here-and-now” opportunity requiring CPG companies to move quickly, because:

- CPG industry return on capital has been declining since 1998, and savings from manufacturing, purchasing, and logistics have already been pocketed, requiring CPG companies to venture into the next wave of cost reduction
- CPG experience in accessing low-cost locations for global sourcing and IT outsourcing can be extended to BPO, with synergies in vendor selection, infrastructure, and management oversight
- Industry leaders such as Procter & Gamble have adopted BPO, and slow-movers risk being left behind
- Credible vendors, such as HP, have emerged with world-class processes and global delivery capabilities

Taking advantage of the BPO opportunity is rapidly becoming an imperative, rather than an option, for CPG companies that want to stay competitive.
CPG BPO—enormous potential across the entire value chain

CPG companies can outsource a range of transactional processes—from product development to sales and marketing—across the entire value chain. We have systematically mapped the CPG value chain to identify some of the key BPO opportunities. These opportunities cover processes that can be both outsourced and performed remotely, going beyond the areas that are locally outsourced, such as warehousing, logistics, and training.

Five significant areas of BPO opportunity emerge for a typical CPG company:

1. **Finance and accounting**—accounts payable, accounts receivable, time and expense administration, fixed assets management, general ledger, reporting, intra-corporate accounting, revenue accounting, recognition
2. **Human resources**—payroll processing, benefits administration, leave administration
3. **Procurement**—supplier administration, PO processing, P-card administration, invoice processing, PO matching, credit returns, end-to-end sourcing for indirect procurement, and logistics support
4. **Order fulfillment**—order processing, supply chain processing (monitoring and tracking), credit analysis and approval, billing and invoicing, revenue collections, claims and returns handling, dispute resolution, retailer communication
5. **Customer and supply chain analytics**—spend data analysis, inventory optimization, customer analytics, profitability analytics, point-of-sale (POS) data analytics, third-party data analytics, brand/ad-spend analytics

Companies can outsource any or all of the above processes, much like Procter & Gamble (P&G) as shown on the following page.
Procter and Gamble (P&G)—pioneer in BPO adoption among CPG companies

<table>
<thead>
<tr>
<th>Area</th>
<th>P&amp;G outsourcing scope</th>
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<tr>
<td>Information technology (IT)</td>
<td>Management of data centers and IT infrastructure, desktop and end-user support, and network management</td>
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<tr>
<td>Finance and accounting</td>
<td>Corporate-wide transactional accounts payable operations (processes 4 million invoices annually)</td>
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<tr>
<td>Human resources</td>
<td>Payroll processing, benefits administration, compensation planning, travel and expense (T&amp;E) management, and HR data management</td>
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<tr>
<td>CRM</td>
<td>Customer service and global fulfillment of product information mailings, coupons, and other items</td>
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<tr>
<td>Facilities management</td>
<td>Corporate facilities management and project management services for owned and leased corporate real estate</td>
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Why HP is the right partner for your BPO journey

HP is uniquely positioned to assess your specific BPO requirements, develop tailored solutions, and seamlessly deliver those solutions to generate cost savings and process improvements. Our own experience as a consumer goods company, with a world-class processing architecture and a marquee client base consisting of CPG leaders such as P&G, allows us to put ourselves in your shoes and deliver what is best for you. With our global delivery infrastructure, process improvement capabilities, rigorous risk mitigation and controls, and customer-centric culture, we deliver the most effective solutions at the lowest cost possible.

We’ve been through the journey ourselves. HP has a unique blend of experience both as a large CPG company and as a provider of BPO services. With the high-tech industry’s largest supply chain, locations in 160 countries, and more than $30 billion in annual revenue from consumer sales, we have an intimate understanding of the challenges that CPG companies face. Over the last 15 years, we have transformed our own shared services operations through regional and global consolidation, digitization, and commercialization. We’re prepared to help you leverage our experience, best practices, and change management experience to execute your transformation faster, more efficiently, and with lower risk.

We practice what we preach. We manage HP’s own back-office operations using the same delivery and process capabilities that we offer to external customers. Our best practices, process improvements, and technology-enabled process automation are tested and proven on the HP account. HP’s shared services have been consistently rated among the best in the world by independent agencies on cost and performance metrics. Unlike other vendors who only preach, we have a proven track record of execution for our parent organization.
We have a leadership position in partnering with CPG companies on their BPO journey.

Procter & Gamble (P&G), one of the leading CPG companies in the world, has chosen HP as its partner on its BPO journey. P&G’s internal shared service operations have consistently been recognized as some of the world’s finest. Outsourcing these to HP is both a testimony to our expertise and our customer-centric approach and commitment. P&G delivery is ongoing, with a highly successful migration that has been executed right on budget and within the planned timelines.

We offer a complete set of BPO service offerings for CPG clients.

With CPG being one of our key focus verticals, HP offers a complete set of service lines across finance and accounting, human resources, procurement, and order fulfillment. And we can address all the outsourcing needs of a CPG company, enabling economies of scale and scope. We also understand broader CPG industry issues through our CPG and retail solutions (e.g., RFID, product lifecycle management [PLM], collaborative business and integration). At HP Labs, we also have a cutting-edge R&D arm that is a thought-leader in areas such as RFID, data analytics, and next-generation scanning solutions. HP can act as a thought-partner to CPG companies, offering relevant domain expertise in addition to world-class transaction processing.

Our global delivery capabilities and process excellence are unmatched.

HP has a global delivery footprint, with more than 5000 employees in centers across India, Costa Rica, Mexico, Spain, Eastern Europe, China, and Singapore. Our trained staff can support over 30 languages and processed more than 130 million transactions last year alone. Further, HP’s operations have been externally benchmarked to be world-class and offer platform-independent technology enhancements in the form of workflow tools, scanning solutions, and Web enablement. We are also experienced in very large-scale employee transition and takeover. This worldwide standardization and automation, coupled with process and transition expertise, allows us to seamlessly migrate processing to the location that offers the best economics based on labor arbitrage.

1 Refer to case study of the HP–P&G outsourcing relationship at the end of this brochure.
Getting started—HP can help you take the first step

We are confident that we can help you optimize your business operations and derive significant value with minimal risk. We also recognize that each company is unique and requires customized BPO solutions developed in a close partnership between HP and the company. To this end, we offer a strategic assessment solution that can help develop your BPO strategy in the context of your current state, your business objectives, and the pace and magnitude of change that is acceptable.

During the assessment, we systematically evaluate your current state (headcount, costs, process flows), benchmark vis-à-vis industry standards, develop BPO solution alternatives, and create a business case for your preferred alternative. As a result of the assessment, you will be able to make an informed go/no-go decision—and to establish a clear understanding of whether “make” or “buy” is the appropriate choice for your requirements. After the assessment, we can provide implementation support and potentially be your outsourcing partner for ongoing delivery, as required. Naturally, if you have already developed your outsourcing strategy, HP can directly offer global processing services in line with your strategy.

If you are interested in learning more about HP’s strategic assessment and outsourcing services, please e-mail bpo_info@hp.com. For more information about HP’s Business Process Outsourcing and Services, please visit www.hp.com/hps/process/
Case study of the HP–Procter & Gamble finance and accounting outsourcing relationship

Outsourcing scope

Following back-office consolidation, P&G looked to outsource global transactional accounts payable (TAP) to focus on its core business and realize further operational efficiency gains. HP was entrusted as a partner to operate P&G’s TAP operations across Costa Rica; Newcastle, UK; Manila, the Philippines; and China. The process scope spanned receipt of AP documents, verification, sorting, forwarding/returning, pre-posting verification, and archiving, in addition to call center operations. HP’s first-phase solution involved acquiring and re-badging P&G Costa Rica employees, shifting scanning to Costa Rica and Barcelona (for Americas and EMEA, respectively), and delivering transaction processing and call center support from Bangalore and Costa Rica.

HP initiatives to deliver world-class services to P&G

HP adopted a phased migration to balance financial gains with risk mitigation and maintain a strong performance improvement focus and partnership approach. Key elements are highlighted in a table on page 10.

P&G benefits

HP’s migration of P&G’s TAP processes was completed on time and at the estimated budget. To date, HP’s ongoing operations have significantly improved P&G’s process parameters. Accuracy has improved to 97.5%, exceeding the 96% target. Turnaround time has also improved, from 97% to 99.5% for APAC and from 84% to 95% for EMEA.

“HP has exhibited a deep understanding of our business, culture, and values. We are confident that HP can effectively leverage its own experience to help P&G further down the path of becoming an Adaptive Enterprise.”

Filippo Passerini,
Chief Information and Global Services Officer,
Procter & Gamble
# Key elements of HP’s migration and ongoing operations for Procter & Gamble

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<thead>
<tr>
<th>HP initiative</th>
<th>Description</th>
<th>Benefits to P&amp;G</th>
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<tbody>
<tr>
<td><strong>Phased approach</strong></td>
<td>Phased migration (APAC followed by EMEA)</td>
<td>Balanced financial savings with risk mitigation</td>
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<td><strong>Two-level governance</strong></td>
<td>Governance structure at both the Program Level (global) and the Regional level (EMEA, Americas, and Asia/China)</td>
<td>Managed global scale/scope without losing focus on the “details”</td>
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<td><strong>12 key solution towers</strong></td>
<td>Established 12 key solution towers (Program Management, Governance, Transition, Finance, Process, HR, Communication, IT, Facilities/Physical Security, Third-Party Transition, Operations, Quality and Business Controls)</td>
<td>Modularized complex migration and assigned dedicated tower-level ownership</td>
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<td><strong>Integrated transition plan</strong></td>
<td>Built a comprehensive, detailed, deliverables-oriented working document—Integrated Transition Plan (ITP)</td>
<td>Integrated view and ability to cascade ITP across regions, towers, and work-streams</td>
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<td><strong>Single-point responsibility</strong></td>
<td>Identified a Client Executive as single point of contact with overall responsibility for the relationship</td>
<td>Timely issue resolution; single point accountability; efficient client communication</td>
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<td><strong>Two-in-a-box approach</strong></td>
<td>Paired HP manager to a P&amp;G counterpart in each of the respective solution towers</td>
<td>Worked “joined at the hip” with the client and in partnership mode to resolve all issues</td>
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<td><strong>Stringent reviews and control plan</strong></td>
<td>Established stringent weekly review mechanisms at all levels, using a Control Plan (driven off ITP) to reflect progress against each deliverable with dependencies</td>
<td>Tightly monitored execution against plan; gained visibility into activity status and areas that required senior management attention</td>
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<td><strong>Comprehensive process documentation</strong></td>
<td>Built comprehensive process manuals for the transactional accounts payable (TAP) processes (scope, organization structure, roles and responsibilities, service level agreements [SLAs], suppliers/input/process/output/customers [SIPOC], and process maps)</td>
<td>Better load-balancing through clearly defined tasks; better handling of peak loads; easier training and improved accuracy levels</td>
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<td><strong>Train-the-trainer approach</strong></td>
<td>20 experienced finance and accounting personnel sent to P&amp;G site to be trained on processes and train the rest of the team</td>
<td>Balanced training cost with training effectiveness</td>
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<td><strong>Experienced team</strong></td>
<td>Deployed resources with significant experience in the procure-to-pay cycle to manage P&amp;G’s operations</td>
<td>Quicker learning curve on processes; easier best-practice sharing between HP and P&amp;G</td>
</tr>
<tr>
<td><strong>E-learning program</strong></td>
<td>HP created an e-learning program using online tools, learning communities, experts, and mentors</td>
<td>Reduced deployment time from 112 to 60 hours; delivered consistent, flexible, real-time training</td>
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<td><strong>Cross-training</strong></td>
<td>Delivered cross-training to a batch of processors across regions (EMEA and APAC)</td>
<td>Improved resource utilization, capacity planning, and best-practice transfer</td>
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<td><strong>Cultural alignment</strong></td>
<td>P&amp;G delivery areas in HP facilities were made to look and feel like P&amp;G offices</td>
<td>Significant cultural alignment between HP and P&amp;G, reinforcing partnership approach</td>
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<td><strong>Factory environment</strong></td>
<td>Implemented a “factory environment” (daily production planning exercises, tip sheets), leveraging manufacturing best practices</td>
<td>Productivity gains and financial savings (e.g., increased accuracy, reduced processing time)</td>
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<tr>
<td><strong>Value-adds</strong></td>
<td>HP volunteered to clear invoice backlog for P&amp;G in one of its centers (beyond contract scope)</td>
<td>Reduced invoice backlog by 50%</td>
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