

# Shared Services and Outsourcing as a Source of Strategic Value Creation

When organizations are confronted with a need to drive rapid, material and recurring cost reduction without impacting the capabilities of the organization, shared services and/or outsourcing (SS&O) are almost always on the very short list of viable recommendations. Successful organizations take an active approach; they typically don't wait for cost challenges to take advantage of the financial benefits of SS&O and they find additional, complementary benefits and capabilities. So how and when should organizations consider SS&O, and what does it take to go beyond cost reduction to long-term value creation?

As growing organizations reach revenue of \$200 million, the economics of implementing SS&O become very compelling. As you would expect, larger organizations can realize an even greater impact. The initial and rather obvious benefits of implementing SS&O are typically:

- Significantly **reduced G&A cost structure** (30% or more) via higher staff utilization, cross-training, lower labor rates and the deployment of intelligent automation. Based on our experience, payback on these initial SS&O initiatives is typically achieved in 1.5 years or less.
- **Improved talent acquisition and management** given the ability to access skilled resources in other geographies at scale. This advantage is particularly relevant for organizations facing a scarcity of talent in their existing locations.
- **Improved quality and pace of service delivery** via the employment of KPIs and service level agreements (SLAs). Effective governance and performance management aligns organizational objectives and typically drives an additional 5% or more reduction in the cost of delivery.



The most progressive organizations also recognize that SS&O is one of the most appropriate places in the organization to experiment with new skills, approaches and technologies to drive innovation in a controlled and measured manner. Those organizations which continue to evolve and mature their SS&O service delivery model are able to drive additional strategic and financial benefits. At a more detailed level these benefits include:

- Enhanced **scalability**, including the ability to flex activity volumes to meet the demands of the business seamlessly. SS&O can also be particularly advantageous during times of economic uncertainty when organizations find themselves needing to ramp levels of effort up or down rapidly. Properly staffed delivery centers and effective outsourcing contracts can support these volume changes at a minimal marginal cost.
- Increased **agility** in support of broader organizational initiatives, including merger, divestiture and acquisition activity allows the organization to integrate or carve-out operations more cost-effectively and rapidly. Some organizations even develop and employ playbooks to drive SS&O-related benefits around these events in a disciplined and predictable manner.
- Improved ability to generate real-time customer, partner and process delivery **insights** via a more comprehensive and detailed view of stakeholder interactions, improving end-to-end process execution and, when relevant, increasing customer value.



Based on our experience, organizations interested in building these very substantial SS&O capabilities and benefits should consider the following:

- **Optimize the scope and scale of your existing SS&O.** In our experience, more than 50% of back-office processes can be executed more efficiently and effectively from SS&O. While this percentage varies by function, areas such as Finance and Accounting, Human Resources and IT often deliver more than 60% of their processes from SS&O. Executing transactional activities via SS&O is a “no-brainer,” but most organizations will benefit significantly from expanding into certain judgment-based activities and analytics. Leadership should set annual and 3-year scope targets by function. Free up the business and funding for higher value activities and the sources of market differentiation.
- **Focus on improving the cross-enterprise interaction model between the business and the back-office.** In many organizations, the back-office is viewed as the root cause of many sub-standard processes and even some customer complaints. Back-office handoffs with the business are often poorly managed, response times are inconsistent and sometimes unacceptable, and high error rates often lead to the business doing re-work in order to meet end-customer requirements. The back-office must be actively measured on the downstream business impact of their performance. End-to-end process transparency and accountability are critical.
- **Evolve your approach and incentives around back-office process delivery transformation.** Too many organizations are content with 3-5% annual improvements in the cost of delivery. Many outsourcing contracts explicitly reference that target. Today, that level of incremental improvement is not enough. Leadership should mandate step-change and provide employees the enabling tools and skills. Hold process leadership accountable for 8-10% annual cost reductions until they become a first quartile performer. Take that savings to the bottom line or, more strategically, allow leadership to reinvest the incremental 5% savings into more process delivery innovation.
- **Leverage your SS&O for experimentation with innovative technologies and approaches.** Initially focus on disciplined experimentation on internal processes which will not impact the end customer. For example, pilots around GenAI, agentic AI, among other technologies can be rapidly deployed, tested, refined and assessed for broader enterprise roll-out once they are proven. We are seeing far too many organizations “fail” and abandon these types of initiatives, blaming the lack of maturity of the technology when the root cause lies elsewhere. Acquire or partner for the right skills, select the right processes and experiment. It will likely be messy and non-linear. Learn your lessons and methodically scale your successes. These capabilities will become a source of competitive advantage for you or your competitors in the very near future. Let’s ensure that it is you.



Organizations that dip their toe into shared services and outsourcing (SS&O) quickly realize the significant cost savings that alternative service delivery models provide. Some organizations are content to reap that relatively quick payback around select processes (e.g., transactional accounting, help desk) and stop there. But a more immersive approach can be well worth the extra effort. Organizations that take a broader, more strategic approach and make the decision to continue the maturation of their SS&O often find that not only were there unrealized, material benefits but the strategic benefits and options this move creates actually dwarf some of those early financial returns.



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