

The new inflection point for service delivery:

Managed services meets the middle office

By David Brown



As little as two decades ago, outsourcing back-office services, such as accounts payable and cash forecasting, seemed unthinkable. “Trust a vendor with our back-office work?” The question seems downright quaint today, but represented a historic inflection point in business thinking, one that sparked the revolution in outsourced business processes. Now the question is “Trust a vendor with our knowledge-intensive middle office functions?” Leading CFOs are answering yes.

When outsourcing became part of the operational conversation, CFOs watched back office outsourcing evolve through all the usual stages of maturation to become settled commercial practice. Now, at this advanced stage, the easiest pickings of cost-efficiencies in back office outsourcing have already been taken, leaving only diminishing returns for incremental efforts.

Enter middle-office managed services partnerships, which offer CFOs unexplored territory for significant value capture. It’s the new inflection point, today’s equivalent of the cost-efficiency opportunity delivered by process outsourcing 20 years ago. Until recently, the complexities of using external providers for knowledge-intensive functions have been an operational hurdle. So has organizational pride—these functions typically represent a significant investment in talent and knowledge management. Legacy thinking at the level of those around the CFO whispers that there are reservoirs of mission-critical, tacit knowledge that no external provider could duplicate, let alone improve. Our marketplace observation suggests that such thinking can become a self-fulfilling trap.

Early indicators of a new trends

We see early indications of an emerging trend—CFO readiness to use managed services delivery models for both middle-office functions, such as transaction processing and monitoring, regulatory reporting, and risk and fraud management. Structured in multiyear subscription arrangements, the best-in-class models offer “digestible” access to specialized middle-office expertise, critical skill sets, and a range of near shore/onshore/offshore options. In some circumstances, they offer CFOs a means to quickly level the competitive playing field

against faster-to-market or better resourced competitors. For those CFOs who’ve embraced it, the benefits can include:

- **Low up-front CapEx investment.** In return for low up-front investment with fixed monthly pricing, cloud-enabled service platforms offer finance organizations cost predictability without putting a strain on the finite discretionary investment capital.
- **Next-gen technologies.** By leveraging the advanced technology of third-party providers, finance organizations gain immediate, step-change access to rapidly evolving cloud computing, data and analytics, intelligent automation, AI, and other advanced technologies.
- **Access to critical talent.** By partnering with providers with significant pools of difficult-to-recruit talent, CFOs short-circuit the middle-office talent war and give in-house resources the complementary strengths they need to unleash their full potential.
- **Time zone flexibility.** Through the global delivery networks of their external providers, CFOs can achieve true 24-7 operational capability.
- **Embedded capacities to absorb innovation.** Leading middle-office managed services providers act as anticipatory guides to evolving domain and technology developments, using organizational change management savvy to help in-house teams absorb successive waves of enhancements, while helping them maintain the security of their environments.
- **Stronger Risk and Control Frameworks.** As risk factors change and evolve, managed services offerings that incorporate deep domain knowledge—for example, leading-practice risk and control frameworks—can provide CFOs with greater confidence that their environments will keep pace with rapid change.

Taking the leap

In our marketplace conversations, CFOs ready to apply their back-office service delivery playbook to the middle office tell us they have no shortage of tactical options. What they need are appropriate strategic partners. The key words are “appropriate” and “strategic.” Not all providers of outsourced services will be able to deliver the added value of specialized domain (functional and industry) knowledge on top of table-stakes deliverables of process automation and resource flexibility. Even fewer will be able to craft bespoke configurations of talent, technology, and geographic delivery options to the specific needs of each company. Here’s what to look for:

- **Investment track record.** The business stakes of turning over knowledge-intensive middle-office functions to an external provider are higher than back-office functions; CFOs should look for providers with consistent and demonstrated investment in the functional areas they are looking to augment—enabling technologies, specialized talent, and delivery flexibility.
- **Multidisciplinary approach.** Middle-office transformation is always much more than a technology play. Ally your organization with providers who consider the ripple effects between technology, processes, and people.
- **Sensitivity to cultural implications.** While the automation and workforce flexibility of intelligent automation are real, concerns among in-house professionals about wholesale displacement are also very real. Choose an external partner that is sensitive to the impacts of broad change, and supports opportunities to upskill in-house talent and introduce new roles.
- **Established track record.** Look for providers that have a track record of working with organizations comparable to yours. Can they demonstrate a history of integrating domain knowledge, processes, enabling technologies and people with a minimally invasive migration experience?
- **Best-of-breed platforms.** These cloud-based platforms are built to work with any level of organizational maturity and are suited to keep pace across a changing landscape for finance, data, software, and cybersecurity.
- **Implementation ease.** Look for partners that have preconfigured components, tested road maps, and accelerators, such as preconfigured processes, reports, test scripts, and connectors. Some also feature prebuilt data governance frameworks that provide a “single version of the truth” with dashboard-enabled reporting and visibility.

Protecting core functionality—and augmenting it.

The conversation about middle-office managed services partnerships is, ultimately, a reconsidered conversation about “core” functionality—what the business does best and what it needs to focus on for sustained competitiveness. CFOs will inevitably come up against siloed thinking, “made here” pride, and competing stakeholder agendas. For the CFO, middle-office managed services must be helping deliver continued value to the business, in any market scenario, and towards any strategic priorities. Overcoming legacy mindsets will take C-suite sponsorship and commitment.

Once they decide to take the leap, what most CFOs don’t have is time or the luxury of extended or exploratory transformation journeys. They want to benefit from the lessons learned by recognized managed service pioneers, leapfrog generic implementation hurdles, and get to defined outcomes quickly. And they know the regulatory and technology landscape will keep changing. CFOs are looking for providers willing and able to meet them where they are now, deliver measurable results quickly, and then go the distance with them as the frontiers of best practice and technology evolve.

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