



Setting the Table for Growth: Global Sourcing and Transformation in the Restaurant Industry

Executive Summary

With the worst of the recession behind us and consumer spending showing signs of life, it's time for the restaurant business to look beyond cost-cutting and seek growth through process innovation.

Restaurants and hotels began many years ago to outsource their IT operations as a path to greater efficiency. Now, for the first time, they are looking to globally source processes – also known as business process outsourcing (BPO), or managed business services – as a way to achieve cost efficiencies while setting their tables for core business growth.

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Taking advantage of managed business services is a way for restaurants to contain the volume and diversity of cost center-related operations and data. This is important, as the restaurant industry has a much higher number of process stakeholders, including vendors, hourly employees and contractors, compared with companies of similar size.

Finance and accounting (F&A) processes make a particularly good place to begin the managed business services journey, especially for companies that prefer to take a risk-averse approach to function-based BPO. With restaurants' higher number of vendors, accounts payable (A/P) is a top cost center, and the large volume of hourly and part-time employees similarly pushes efficient payroll operations to a high point on the priority list.

As multi-unit restaurant chains begin to see the benefits of managed business services, they become more willing to venture into functional areas such as restaurant operations support, restaurant accounting, treasury, payroll, franchise support, fixed assets, project accounting, lease accounting and gift-card accounting. As such, they seek an integrated global sourcing approach. Outsourcing A/P to a cost-effective managed business services provider that can leverage scalable horizontal-function efficiencies across customers can be a quick and easy way to reduce costs, while preserving the human and technical infrastructure that will serve internally as a platform for revenue growth. Managed business services can offer the agility necessary for a restaurant chain to globalize its operations – shrinking and growing as dictated by new markets and acquisitions.

Industry-Focused Services

The tough economy of the past two years has altered the restaurant and hospitality landscape. Consumer confidence is slowly returning, but pre-recessionary growth levels will be harder to achieve as unemployment continues to affect discretionary incomes. Expectations are being reset quite dramatically in the restaurant industry, as they are elsewhere in the economy, to reflect changed circumstances. Companies that thrive in this new environment will optimize costs while

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nurturing growth. To get there, restaurant companies can build a platform of efficiency that will generate cash immediately and position businesses to leap ahead of competitors as the economy continues to recover.

Interest in managed business services is high and continues to grow because it offers solutions that don't require compromise. Restaurants can achieve greater flexibility and scalability without

having to choose between cost reduction and process improvements. Through managed business services, restaurants can generate the cash needed to invest in an efficiency platform that will support future growth, be it organic or through acquisition.

Global Sourcing of F&A Processes: Quick Cost Savings

Most companies begin their F&A global sourcing journey with either or both of the following processes:

- 1. Accounts payable:** Once the invoice is submitted to the payment system, processing occurs. Globally sourcing this aspect of A/P offers a cost advantage because the services provider can process greater volume than any individual company.
- 2. Payroll:** Time and attendance is submitted to the system at each restaurant location and later processed remotely by the services provider. Globally sourcing this process reduces the cost of performing this repeatable process, in addition to exception-based items, such as off-cycle checks, missing checks and garnishments.

The client benefits from continual improvement, as the provider hones its processes for clientele in the same industry. For example, managed business services providers in the restaurant

industry understand nuances such as "restaurant accounting," which involves tracking the cost of a menu item based on the aggregate cost of each ingredient in that item. To make one plate of salad, for instance, might require purchasing lettuce, vegetables, croutons and dressing from 10 or 15 different vendors. A managed business services provider understands how to track the plate cost of menu items appropriately, thus providing essential information for price setting. The provider can then share best practices across clients.

Companies that globally source their F&A processes retain key personnel – managers and subject matter experts. BPO frees these individuals from their day-to-day responsibilities so they can spend more time improving processes, analyzing costs and providing best-in-class hospitality by driving initiatives that exceed customer expectations.

Beyond F&A

F&A is indeed a good starting point for restaurants interested in managed business services. The upfront investment is low, and start-up is usually straightforward due in large part to the availability of well-documented procedures. However, restaurant companies that stop at F&A will leave many benefits and cost savings on the table. Beyond F&A, general ledger, restaurant operations support, restaurant accounting, treasury, payroll and franchise support are all fruitful areas for managed business services. For example, franchise companies can offer their franchisees the option of paying one monthly fee to the parent for such functions as payroll, accounting and store operations support. Today, franchisees tend to be small to medium-sized businesses without access to sophisticated IT systems and thus often accomplish these functions on their own. With ad hoc processes and arcane systems, franchisees typically have little ability to invest in technology.

A large franchise company can engage a managed business services provider to create a standardized set of business processes and systems for their franchisees. Otherwise, it would be difficult for a franchisee to identify and leverage established best practices. Propagating best practices throughout the system will reduce per-restaurant and per-employee costs, enabling franchisees to avoid the need to maintain their own back-end systems. At the same time, the parent company benefits from the reduced cost of processing due to the increased volume of consolidating multiple franchisees on one platform.

Franchisees also benefit greatly from day-to-day operational support. For example, if a customer's coupon will not scan in the system, the cashier can invoke operational support for help in solving everything from menu ingredients, to promotions, to store technology.

These services can be implemented for home-grown systems or through commercial-off-the-shelf (COTS) products like ERP packages or enterprise point-of-sale (POS) systems. Corporate and back-office operations can include master data maintenance, menu and restaurant lifecycle maintenance, menu price updates, above-store reports maintenance and treasury operations. Some operations might need more interaction and a longer ramp-up to achieve a steady state of support due to the specifics and complexity of restaurant business operations; however, efficiency, cost savings and process throughput increases. Other areas that would benefit from managed business services include:

- Restaurant operations support/help desk
- Franchise operations and administration
- Inventory/supply chain
- Marketing and promotions
- Risk, audits and compliance

The Business Case for Managed Services

Globally sourcing IT is common in the restaurant and hospitality industry. Managed business services, however, is in its earliest stages of adoption. We have worked with the leader of casual dining in the U.S., but we believe only two or three major U.S. restaurant companies have begun to leverage F&A managed business services. Most are still evaluating the situation, although with every passing day, the risk of doing nothing grows.

In most cases, the services provider operates the restaurant's financial systems remotely, as in the classic outsourcing model, rather than "renting" the application to the client and running it off-premises, as in a "cloud" model. Some restaurant companies do have interest in globally sourcing all of their IT operations so they won't have to own any hardware and software. In our experience, however, most major restaurants do not currently feel comfortable with cloud computing. The data that resides on their systems can be sensitive, and they are not yet ready to surrender control of their data, and with managed business services, that is not necessary.

Case Study: A Profitable Engagement for F&A Global Sourcing

Beginning in 2008, we helped a leading U.S. casual dining company achieve benefits with managed business services. This company began outsourcing its IT operations a decade ago and became interested in F&A managed business services just recently. Although corporate management was averse to taking on much risk, the downturn forced the company to look more closely at costs.

This company pays out a high percentage of its revenues in overhead expenses – more than a quarter of its annual expenditures. Its A/P department, therefore, was a major cost center. Senior management was convinced F&A managed business services could help the company reduce A/P costs significantly as a starting point. With that phase complete, it planned to globally source several other F&A processes, including payroll management and restaurant accounting, for an expected total annual cost savings of 38%, resulting in millions of dollars in savings, productivity improvements of 5% per year and accuracy rates of 98% or higher.

The strategy: By entrusting us to manage end-to-end back-office operations to achieve cost efficiencies, more than 100,000 employees would be free to concentrate on core processes. The managed business services work was to be carried out by a joint team consisting of 100 internal employees handling front-office operations and nearly 100 of our employees located both on and off the client's premises.

Phase 1 included managed business services for the following 12 A/P and Fixed Assets processes:

- Invoice processing
- Payment approval process
- Item/recipe maintenance
- Electronic invoice processing
- In-house transfer processing
- Petty cash invoice processing
- Reconciliations
- Procurement administration
- Capital project set up and tracking
- Asset capitalization and depreciation
- Quarterly and annual audit schedules
- Capitalization policy compliance support

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Nearly 50 full-time employees were required to run the in-house A/P department. Globally sourcing these processes would allow the restaurant chain to immediately reduce headcount.

Two years into the multi-year engagement, the restaurant chain is tracking well toward its objective to achieve 30% to 40% savings in the delivery of accounting services to the organization.

Our support of the restaurant company goes beyond F&A. As a trusted industry-based managed business services partner, we helped our client implement solutions and process improvements to address industry-specific challenges, including gift-card loyalty management, back-of-house (BOH) applications, labor-scheduling systems, online ordering and food usage variance reports (especially for high-cost inventory items).

In subsequent phases, based on increased knowledge and performance achievements, the restaurant company globally sourced these additional processes:

- Restaurant accounting
- Payroll processing
- Lease property accounting
- Treasury reconciliation
- Account receivables
- Gift card accounting
- Financial system support and consulting

To smooth the communication between the teams, we created a workflow interface that helps information flow seamlessly between the two teams and the client's other third-party partners. Another of our teams was already in place providing IT global sourcing services, and the IT-managed business services synergy aided the transition and processes.

Two years into the multi-year engagement, the restaurant chain is tracking well toward its objective to achieve 30% to 40% savings in the delivery of accounting services to the organization. The accounting group has seen higher levels of job satisfaction from retained employees as they are now able to work on more strategic initiatives and job functions.

In addition, the company has achieved its secondary objective of installing a more scalable and flexible model to meet its staffing needs. For instance, when it recently sold off two restaurant chains, our arrangement made it easier to

right-size the staff while providing reliable back-office accounting services during the transition.

The vice president of accounting for the restaurant company feels the engagement has been a major success. The company has retained control and accountability for its F&A processes while working synergistically with the off-site team. "We are one, integrated team," he says.

Exploring Other Global Sourcing Options

The restaurant industry is now moving toward enterprise COTS product-based operations to reduce operational complexities and gradually sunset its maintenance-cost-intensive legacy systems. These COTS products, encompassing restaurant industry best practices and legacy IT maintenance operations, can be entrusted to managed business services providers. The following are at the top of global sourcing lists:

- Enterprise POS systems
 - Restaurant lifecycle maintenance
 - Field employee lifecycle and roles maintenance
 - Restaurant-to-field employee alignment
 - Menu and condiment item lifecycle configuration maintenance
 - Menu item pricing updates
 - Inventory item lifecycle configuration maintenance
 - Data file movements between distribution center and enterprise POS system
 - Recipe management
 - Implementation of corporate master data into the enterprise POS system
 - Labor scheduling
- Business intelligence and above-store reporting
- Restaurant help desk

For the last couple of years, some leading U.S. quick-service restaurants (QSR) and casual restaurant organizations have undertaken major initiatives to manage corporate operations (including overseas operations) through global sourcing. We have gained credentials in enterprise POS systems configuration maintenance operations through our work with a leading global QSR brand based in the U.S.

Picking the Right Provider

Managed business services providers are proliferating as the benefits become clear. Though it

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may be tempting, it can be risky to engage the lowest cost provider, as providers that solely focus on cost reductions are often not able to bring industry-based best practices to bear. In the long run, this level of provider cannot offer the advantage of process improvements and reduced risk by applying best practices tailored to the restaurant and hospitality industry.

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The major differentiator for restaurant managed business services is that these services require much more specific knowledge that calls for expertise in industry-standard best practices, deep knowledge of restaurant-specific operations and adeptness in handling related IT systems and processes.

Service providers with the process and knowledge maturity to transcend from horizontal-function-oriented legacy managed business services, to new-age vertical industry practice-based BPaaS (business process as a service) would be the right choice. They are the best contenders in encompassing optimization of process, technology and people for a specific industry sector. Providers in this category not only have the flexibility of traditional managed business services, but they can also employ indus-

try experience and domain expertise for specific customers, thereby reducing their own operational risks, as shown in Figure 1.

Restaurant organizations beginning their managed business services journey are advised to partner with a mature service provider. This partner should start with legacy managed services for departmental functions and then help the organization gradually transition to an integrated, standardized, configurable and vertical managed business service. This approach best enables the organization to be cost efficient in a desired payback period and quickly synchronize with industry best practices.

Restaurant companies typically run on legacy fragmented enterprise applications, often with suboptimal performance. By contrast, industry-based managed business services providers focused on restaurants are better suited at modernizing legacy applications, thereby reducing operational costs in a predictable timeframe.

Key considerations for service provider selection are capabilities, track record, approach, price, value and the quality of the client experience. Make sure that consulting is part of the package and not an expensive add-on, and that it is pragmatically suited to these post-recessionary times. It also pays to work with a service provider that can blend vertical managed business services with IT in a single, coordinated approach. The fewer hand-offs, the better.

Questions to ask your potential industry-based managed business services provider include:

Case Study's Risk Priority Number (RPN) Before and After Control Implementation

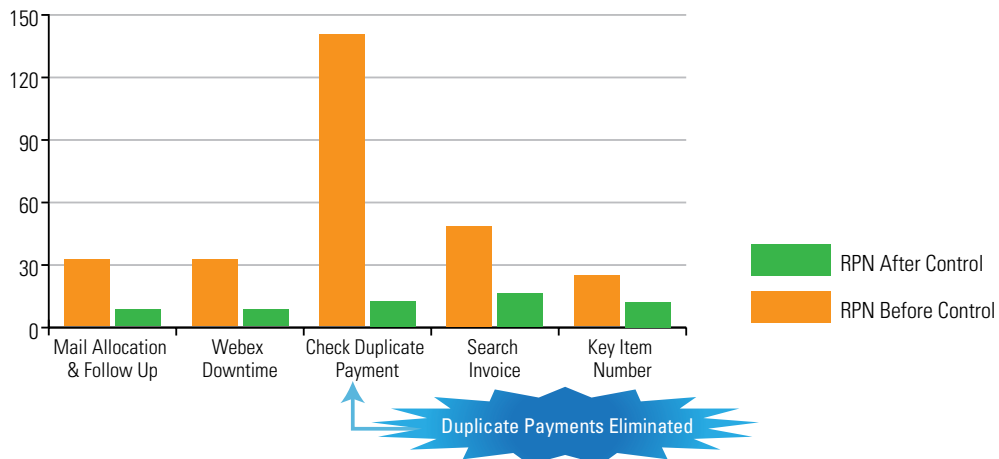


Figure 1

1. How can you help my business grow? What business advantage can I obtain by entrusting this process to you?
2. When there are issues, are you organized to resolve problems quickly? What is your track record for doing so?
3. What can you offer me in terms of geographic expansion and innovative deal structuring?
4. Can you take over my captive data center or buy it from me?
5. Are you willing to commit to a price that's locked in?
6. How agile is your organization to support my changing requirements?
7. What are your data security processes? Do your network systems meet our criteria for standards and performance?
8. What processes would you put in place to optimize our total cost of ownership (TCO)?
9. What is your performance track record of adhering to service level agreements (SLAs)?
10. What are your lead times for introducing new capabilities?

With more efficient processes, restaurant companies are not only scalable enough to take on more work at less cost and to flex with demand, but they are also positioned to capitalize on growth when conditions improve.

We have already established ourselves as a successful and mature industry-based managed business services provider to the restaurant sector. We are gradually adopting business traits of the emerging BPaaS model. Industry-based managed services providers have a clear advantage over traditional SaaS providers, as they can employ customer-centric offshore delivery systems while not compromising on customer data and processes and leveraging industry best practices.

Restaurant-focused managed business services providers can yield both the cash and human resources needed for future-looking initiatives. Reducing back-end costs frees resources to be devoted to the all-important customer-facing front end. Once the initial concept has been proved, the real advantages lie ahead. Vertical managed business services can position your company to take advantage of the upswing by letting you reallocate your best people to revenue-generating projects.

About the Authors

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About Cognizant

Cognizant (NASDAQ: CTSH) is a leading provider of information technology, consulting, and business process outsourcing services. Cognizant's single-minded passion is to dedicate our global technology and innovation know-how, our industry expertise and worldwide resources to working together with clients to make their businesses stronger. With over 50 global delivery centers and more than 100,000 employees as of as of December 1, 2010, we combine a unique global delivery model infused with a distinct culture of customer satisfaction. A member of the NASDAQ-100 Index and S&P 500 Index, Cognizant is a Forbes Global 2000 company and a member of the Fortune 1000 and is ranked among the top information technology companies in BusinessWeek's Hot Growth and Top 50 Performers listings.

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