

Update on Cost Excellence Initiative

Informal Consultation

21 September 2015

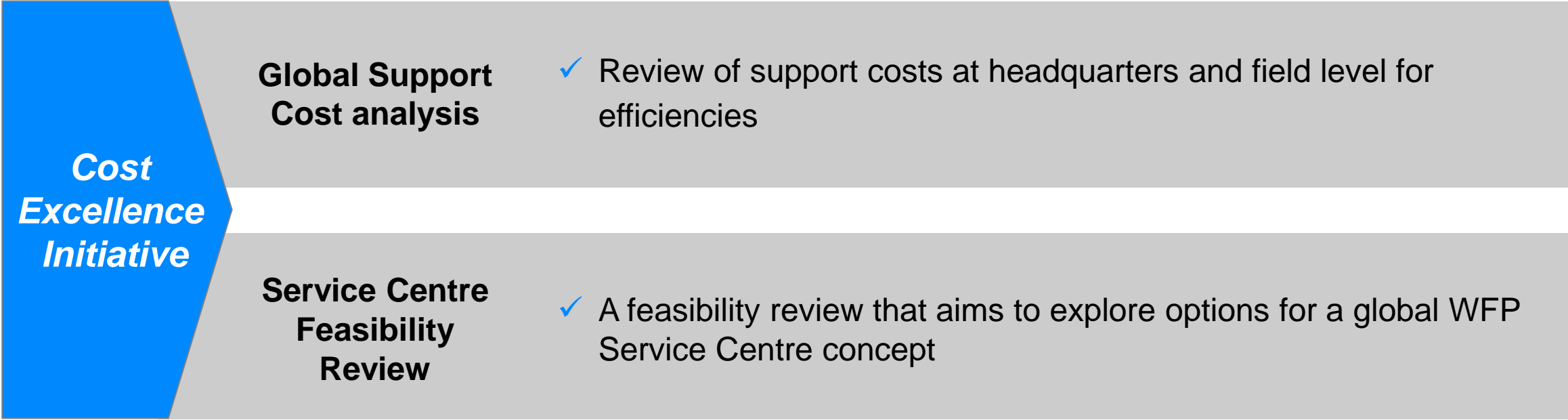


World Food Programme

Recap of the latest Informal Consultation on Cost Excellence

- In the current version of the Management Plan, WFP is seeking the EB's approval to **use up to USD 7 million from the PSAEA for implementation of a service centre starting in 2016**
- During the July 10th **Informal Consultation** and the last session **on September 2nd**, members **asked several questions** regarding the overall concept and business plan for a service centre
- Ahead of this Informal Consultation, **WFP has shared a second background paper to provide answers to members**
- The **aim of today's** consultation is to **continue hearing the views of members and clarify any additional questions**

Cost Excellence initiative was launched in July 2014 with two main areas of work



During the last Informal Consultation (on Sept 2nd), questions were asked based on the overall concept and business plan for a service centre

We categorized all the questions under four main areas that we will cover today:

- 1 Scoping analysis**
 - How units/processes for a **potential Service Centre** were identified
 - **Overview of units and processes** in preliminary scope
 - Number of **staff in preliminary scope** (incl. percentage of divisions' staff)
- 2 Economics and benefits**
 - Sister Agencies' offshoring and financial benefits overview (**UN salary differences**)
 - Service Centre implementation recap: **annual savings and investments details**
 - **Process re-engineering / consolidation** approach and update
- 3 Location analysis**
 - Description of **location analysis process and criteria utilized**
 - Explanation of **criteria's weights** used to define location shortlist
- 4 Implementation and timeline**
 - Comparison between **offshoring and outsourcing**: pros and cons analysis
 - High level **preliminary timeline for service centre transition**

Agenda



1 Scoping analysis

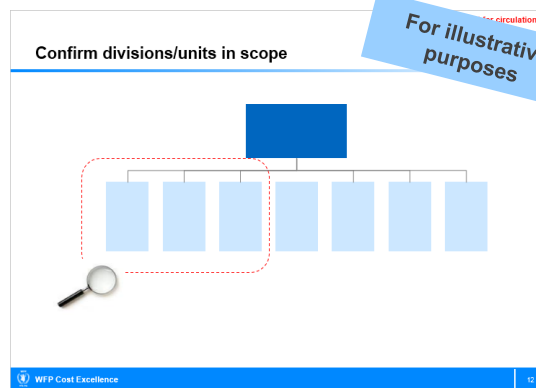
2 Economics and benefit

3 Location analysis

4 Implementation and timeline

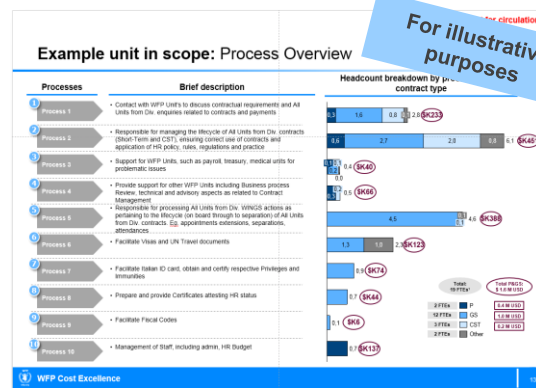
Process analysis approach: initial scope narrowed down to selected units and processes to be offshored

Confirm divisions/ units in scope



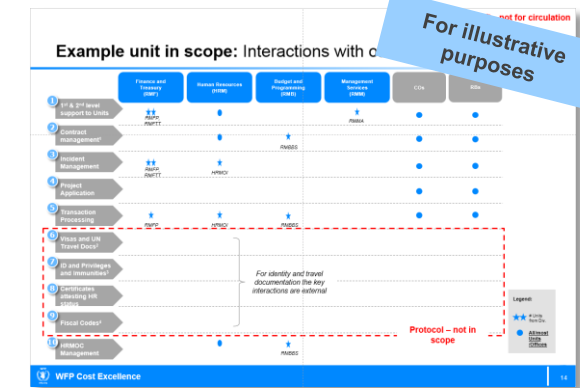
- Identify high level scoping with AEDs/Division Directors
- Verify structure and staffing numbers and assign unallocated units

Confirm processes in scope: overview of # staff/ process



- Identify processes in potential scope with process experts/ Division Directors
- Determine # of staff per process

Review level of interaction with other units/COs/RBs



- Review level of interaction of different processes with various other entities in the organization considering
 - Transactional nature
 - Non-Location dependency

4 divisions in Wave 1 with 19 units under detailed process review, 220 positions in scope (65P, 75GS, 80 CST), currently finalizing wave 2 up to 200 positions

Units or Units' portions in scope

Human Resources	Finance	Management Services	Information Technology	Common Logistics Service ¹	Supply Chain ¹
AskHR and Records	Accounts Payable	Administration and Travel	Information technology	<i>Pending finalization of analysis</i>	
Contracts and Protocol	Contributions and Project Account	Facility management	Transformation centre		
Field support	Corporate payroll		IT app. maintenance & business relations		
HR Global Services			IT emergency telecoms cluster		
Information Systems Support and Reporting			IT operations & services		
			Beneficiary IT solutions service		
			IT management support		
			IT architecture policy & Strategy		
			RMTSec		
P / GS [19 / 39] =58 ~40% of HRM resources ²	P / GS [10 / 17] =27 ~50% of RMF resources ²	P / GS [6 / 4] =10 ~15% of RMM resources ²	P / GS [30 / 15] = 45 ~65% of RMT resources ²	Wave 2 Σ = 150 (plus 50 CST) Total: 200	
Wave 1 Σ = 140 (plus 80 CST) Total: 220				Total Total: 420 Σ = 290 (plus 130 CST)	

Legend:
Units or Units' portions in scope

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1 Scoping analysis

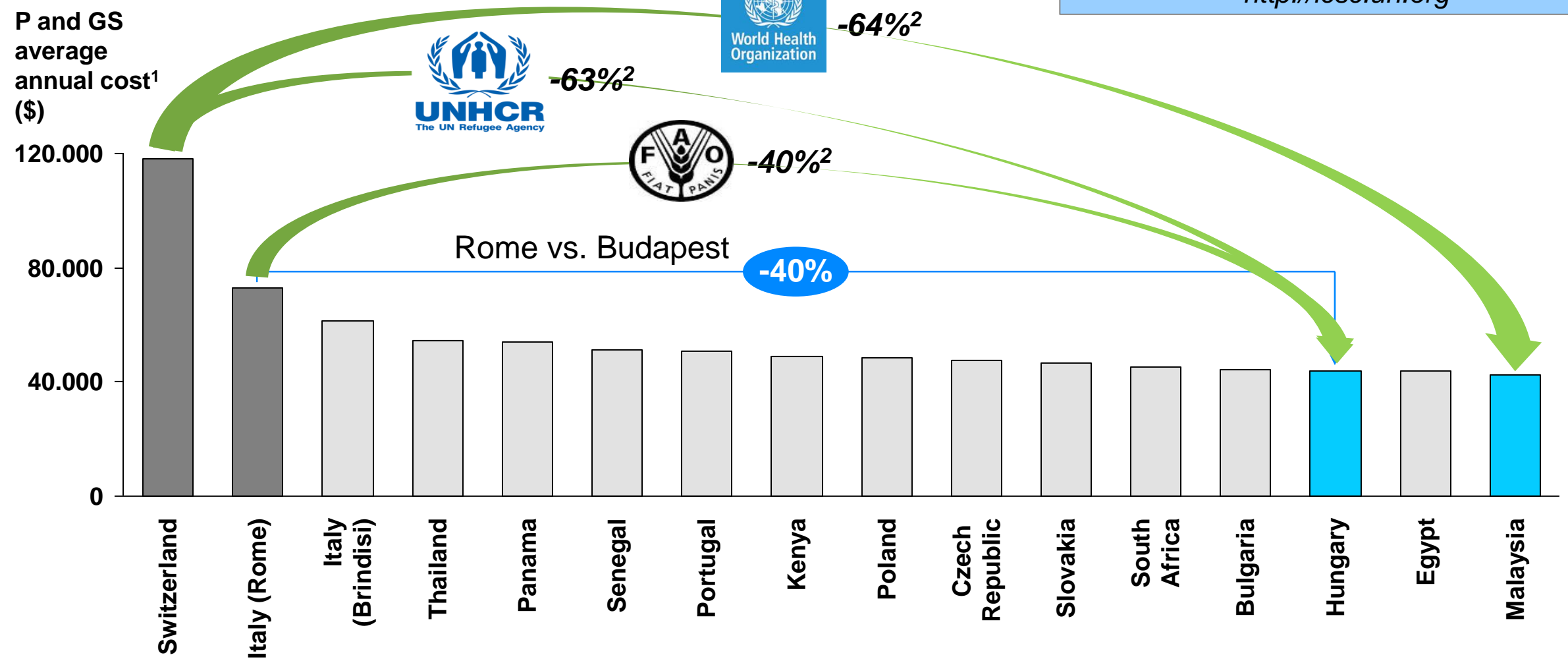
2 Economics and benefit

3 Location analysis

4 Implementation and timeline

Other UN agencies with service centres already in place have achieved financial benefits through cost differentials between HQ and service centre location

Based on ICSC UN staff payroll rates
<http://icsc.un.org>

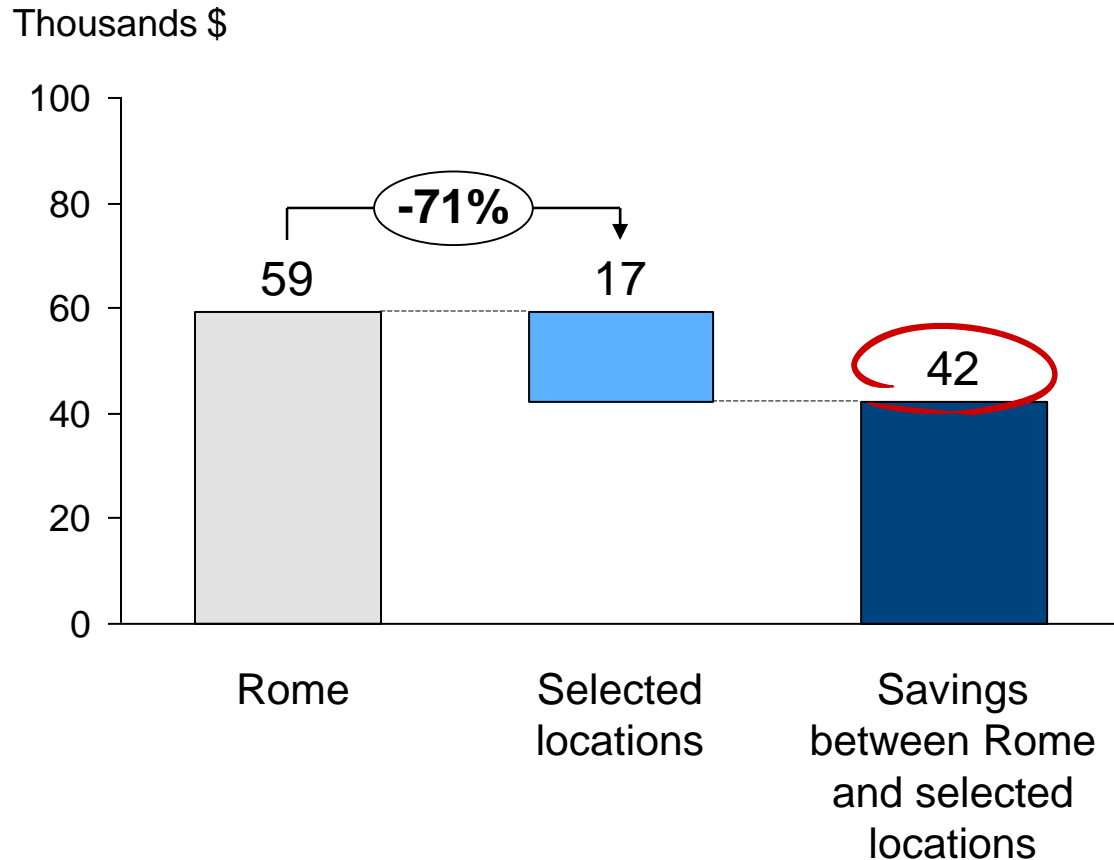


Using selected locations as example - salary advantage compared to Rome is -\$42K on G4 and -\$9K on P3

Example

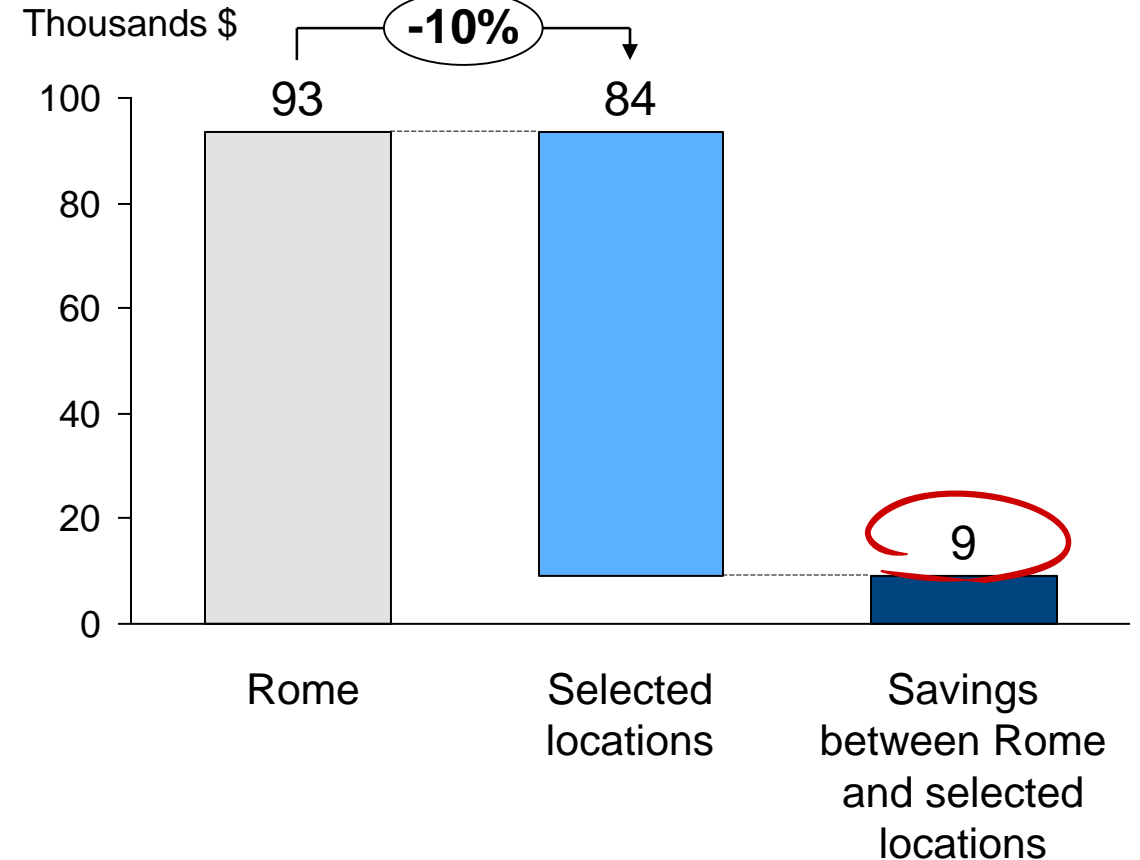
G4¹ average annual staff salary²

Source: <http://icsc.un.org> & UN Treasury website



P3³ average annual staff salary²

Source: <http://icsc.un.org>



Service Centre installation recap: \$8.5-10.5M annual savings with \$26.5-30.0M investments and ~3 years simple payback

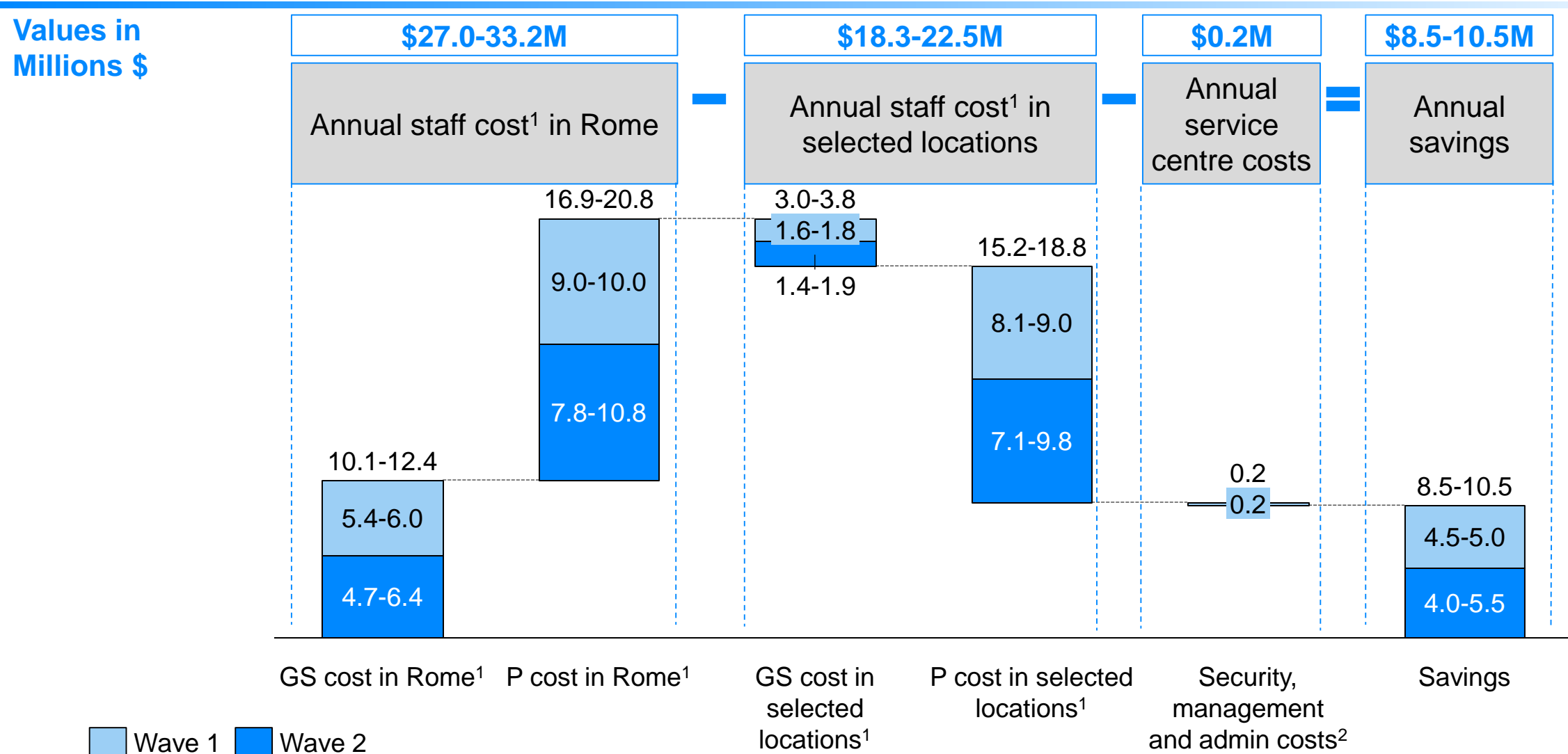
Preliminary

Exchange rate assumption: July 2015 (rolling 3 months), EUR:USD 1.112

	Description	Wave 1 (\$M)	Wave 2 (\$M)	Total (\$M)
Estimated Savings	P Savings ¹	0.8 - 0.9	0.7 - 1.0	1.6 - 1.9
	GS Savings ¹	3.7 - 4.1	3.3 - 4.5	6.9 - 8.6
	Total Savings¹	4.5 - 5.0	4.0 - 5.5	8.5 - 10.5
Estimated Investments	Staff mitigation measures	2.5 - 2.6	3.3 - 4.0	5.8 - 6.6
	Relocation fees	3.5 - 3.9	3.0 - 3.4	6.5 - 7.3
	Process re-engineering/ consolidation	2.7 - 2.9	0 ²	2.7 - 2.9
	Workshadow, Backfill & Training	2.9 - 3.3	3.3 - 3.8	6.2 - 7.1
	Other Investments	2.4 - 2.8	2.9 - 3.3	5.3 - 6.1
	Total investments	14.0 - 15.5	12.5 - 14.5	26.5 - 30.0
Payback	Payback	3.1	3.1 - 2.6	3.1 - 2.9

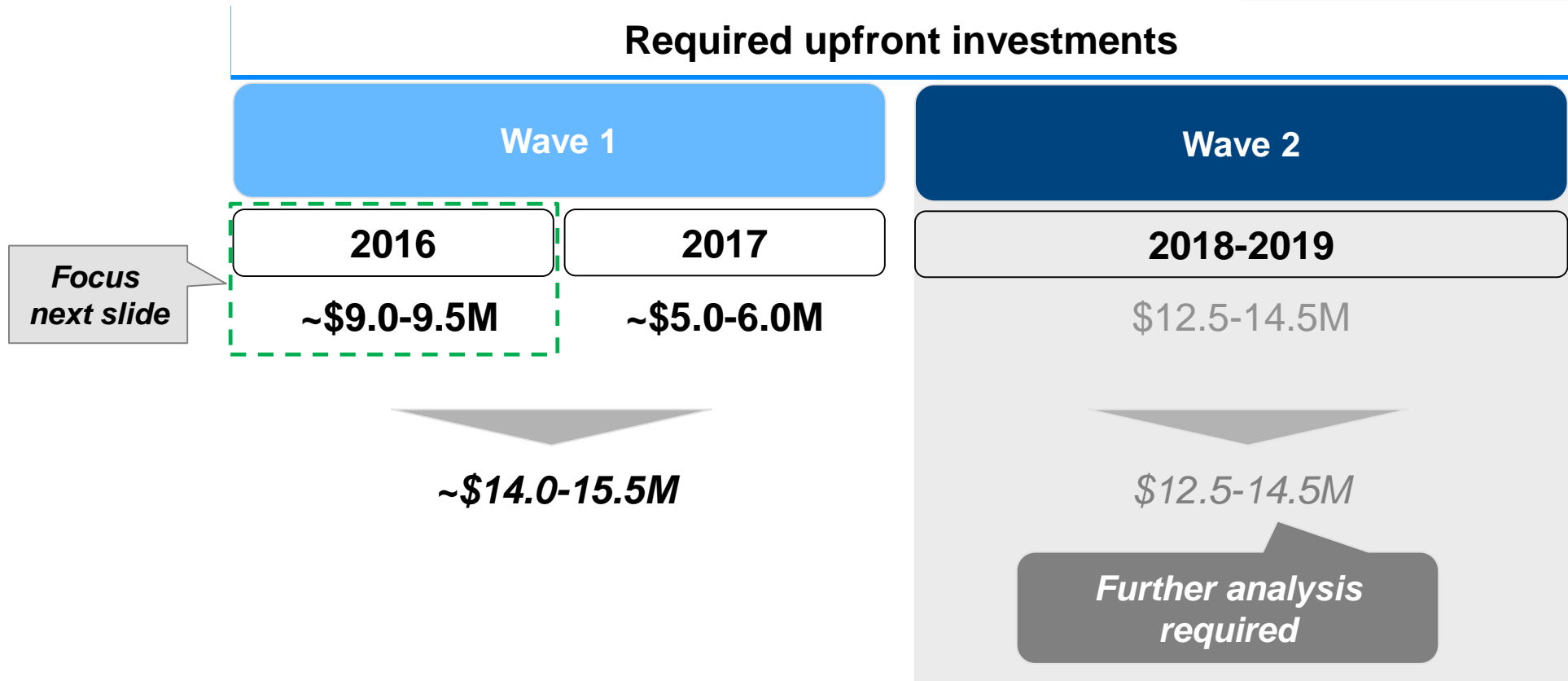
1. Net of recurring costs 2. Supply Chain re-design already initiated with separate funds

\$8.5-10.5M savings calculation: staff cost in Rome minus staff cost in selected locations minus recurring service centre costs



“Wave 1” requires an investment of ~\$9.0-9.5M in 2016 and of ~\$5.0-6.0M in 2017 to create a Service Centre, “Wave 2” still under analysis and validation

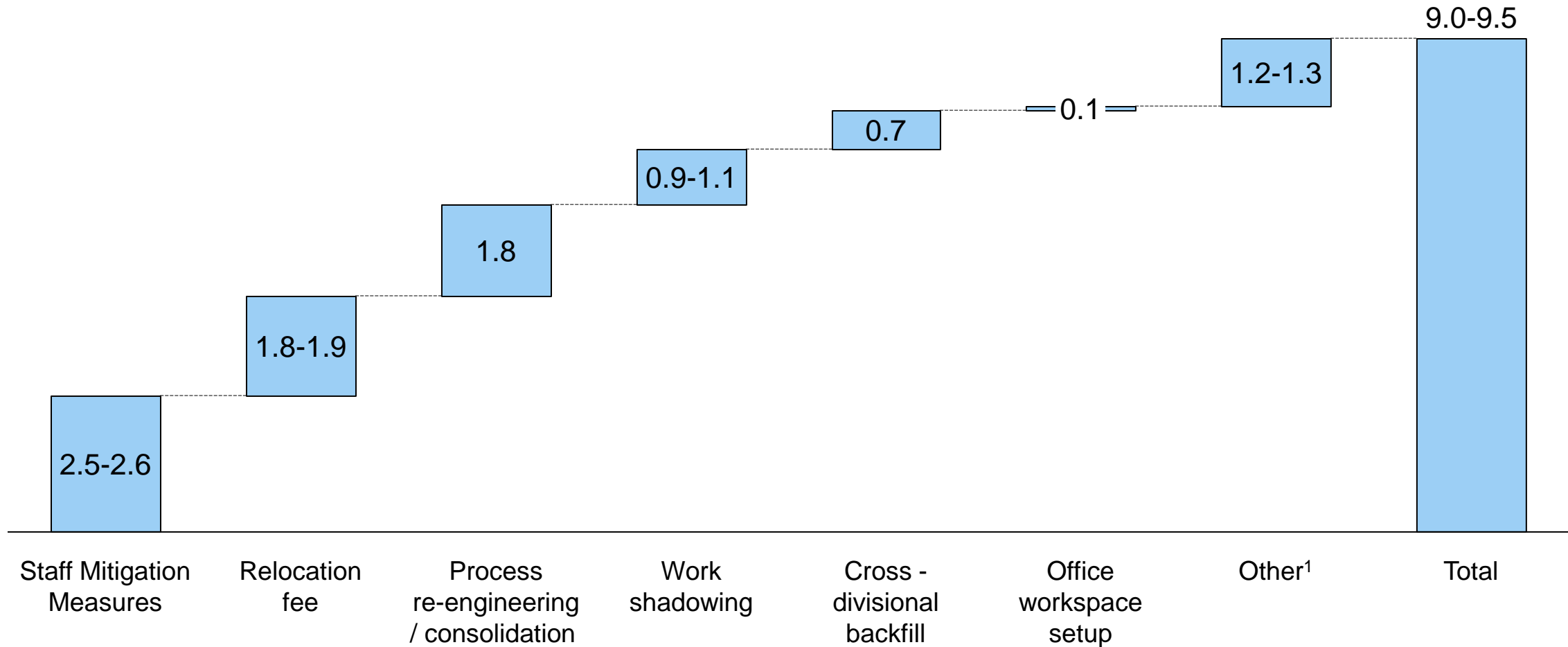
Preliminary figures to be refined



Main cost assumptions include staff impact mitigation measures, staff relocation costs, process re-engineering / consolidation efforts and also additional resources due to added workload during service centre set-up period

\$9.0-9.5M of investments required for wave 1 in 2016

Values in Millions \$



Process re-engineering / consolidation efforts assessing potential efficiency gains and field support improvement from a service centre

Approach to process review

- **Interview process experts /owners** to identify key process to review and consider for changes
- **Develop detailed mapping of key processes** with unit interactions vs. Field and within HQ
- **Complete prioritization of processes** to be re-engineered /consolidated
- **Identify bottlenecks in the existing process flow**
- **Propose re-engineering & standardization process solutions**
- **Assess potential efficiency gains and free-up Field staff time** for greater focus on strategic areas

Current actions

Divisions in scope Wave 1:

Finance Consolidation opportunities identified (i.e., payment factory)

Human Resources
Mgmt Services Process re-engineering review and planning ongoing

IT Initial process overview complete

Divisions in scope Wave 2:

Common Logistics Service
Supply Chain Divisions currently undergoing process re-engineering and optimization

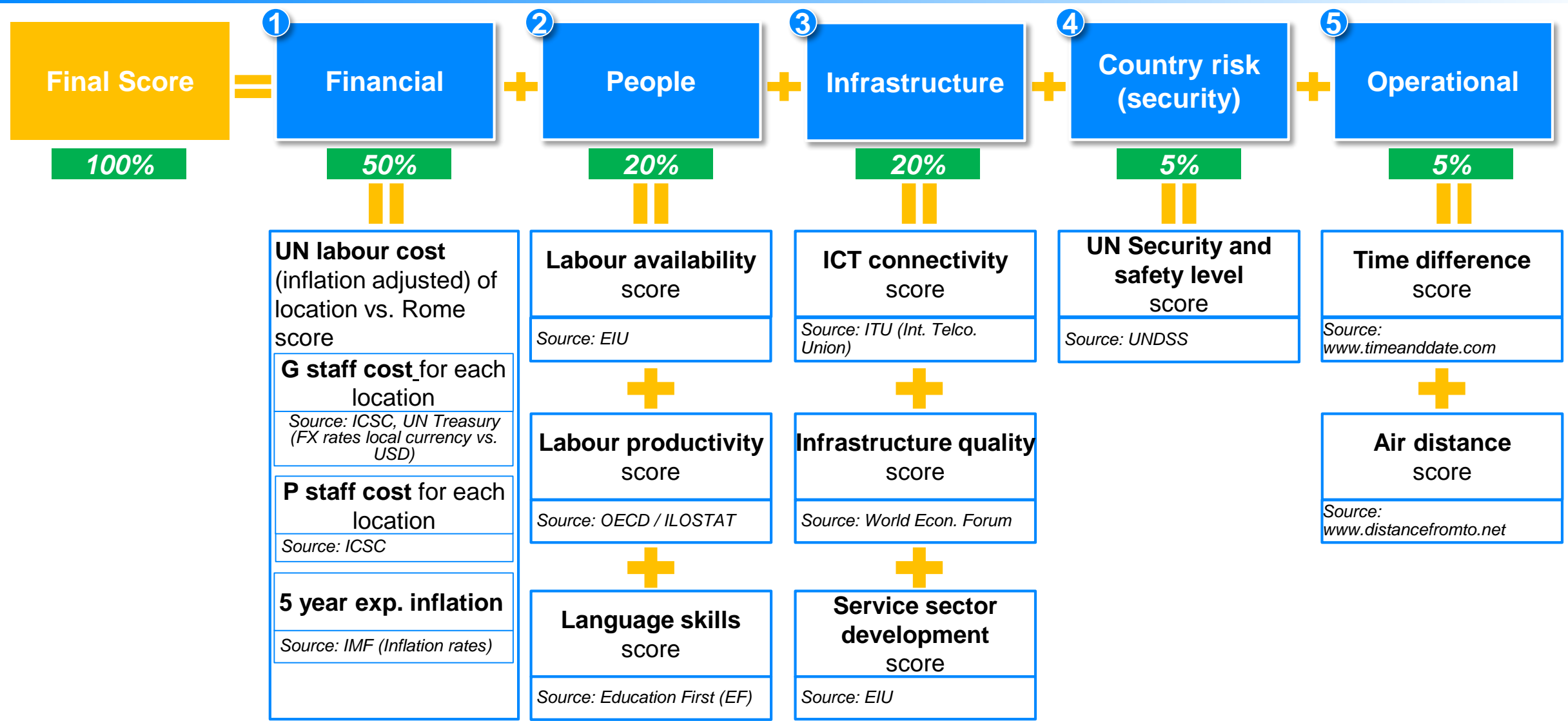
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Location analysis process: 193 countries narrowed down to 182 to be evaluated against 5 criteria

	Description	Numbers of countries
Baseline	All UN Member States included in the location analysis	193 Countries
UN sanction filter	11 countries have been removed from the list due to UN sanctions	182 Countries
Countries Ranking	182 selected countries have been ranked according to 5 criteria: <ol style="list-style-type: none"> 1. Financial 2. People 3. Infrastructure 4. Country risk (security) 5. Operational 	182 Countries
Shortlist	Top ranked countries, WFP 6 RBs, and Italy included in the shortlist	

Scoring determined through an algorithm which weights the 5 dimensions identified



Additional parameters to be considered during location selection process

Single vs. multiple service centre locations

- Single location can leverage **economies of scale** and reduce **operational complexity**
- Single location can promote interaction between **service centre processes** and **provide a single point of contact** for global users
- Multiple locations can **assist with time zone coverage** and provide local language support
- Multiple locations can **support local economic** and **capacity development**

Consolidation of existing service centres

- Current proposal does not include **consolidation of existing service centres**
- Eventual consolidation to be considered in context of **potential benefits and strategic function** given current locations

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Important to evaluate options of both outsourcing and offshoring

OFFSHORE

Movement to another location with internal resources



PROs

- **Labour cost savings**
- Increase **economies of scale**
- Ability to **redirect savings to WFP mission**
- **Full value captured** from processes reengineering and consolidation
- **Total control** – no contractual obligations



CONs

- Initial **start-up and investment costs** until smooth operation
- No benefits from **process innovations done for other organizations**
- **Initial quality and turnaround time**

OUTSOURCE

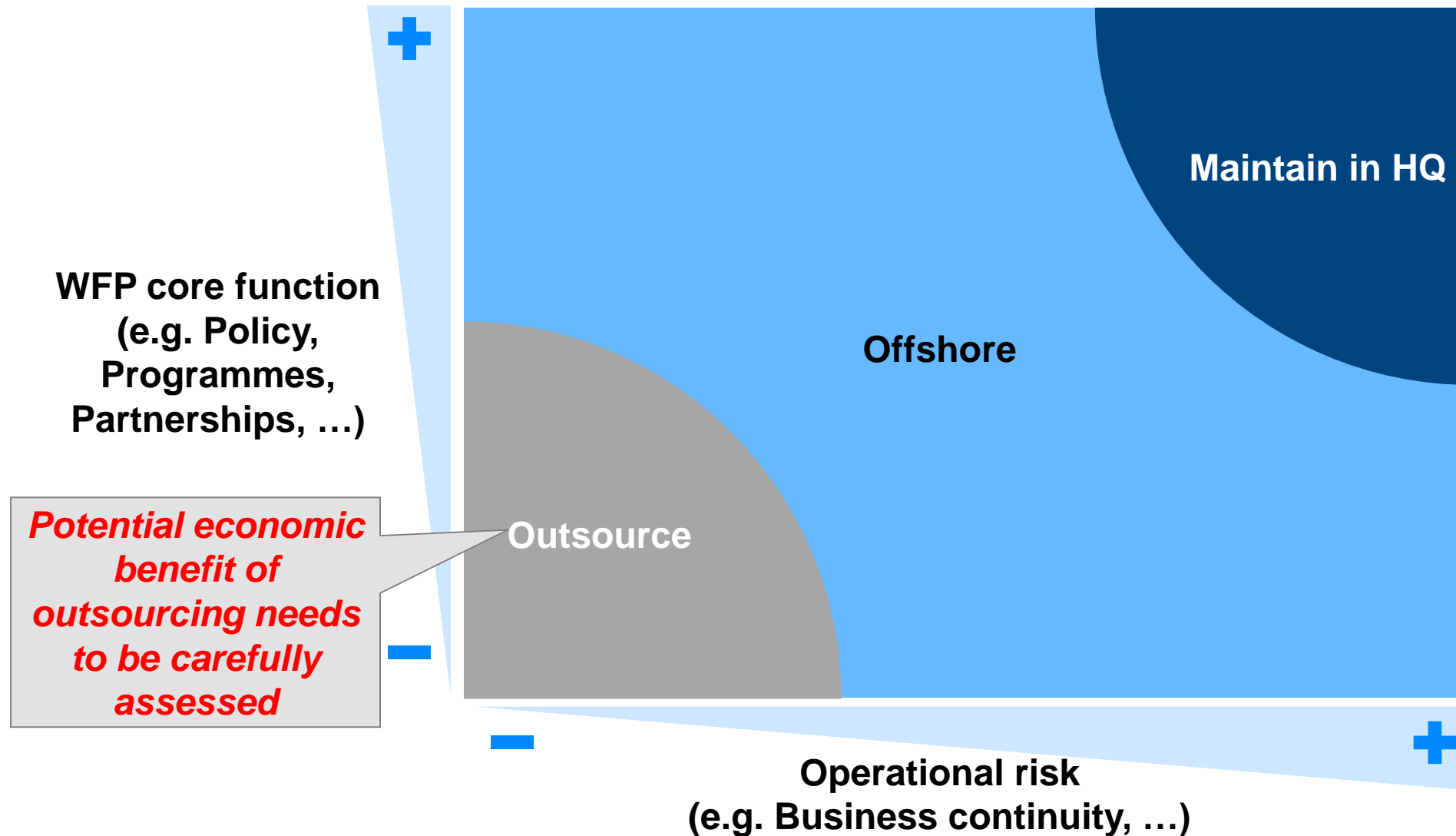
Perform part of the work with external resources

- Advantage of access to **specialized skills**
- Increase **labour availability and ease to scale up** when required
- Potential **Labour cost savings**

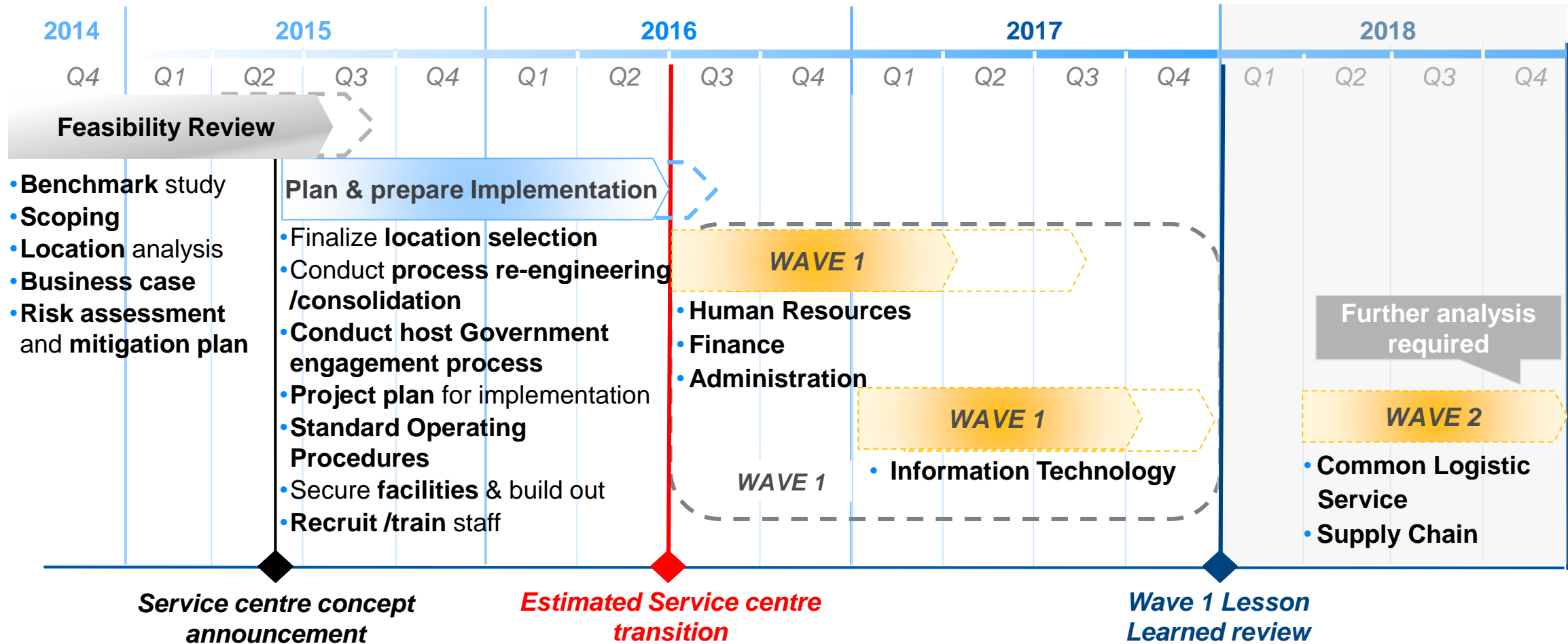
- Potential **loss of control** over key processes
- **Reduce operational flexibility**
- **Misaligned interests** of clients and vendors
- **Lack of in-house knowledge** of critical processes

WFP is currently contacting other UN agencies to assess the outsourcing potential and appetite from sister agencies

2 dimensions to be analyzed to assess processes benefit from offshoring vs. outsourcing – considering the economic impact as a threshold



A phased approach would be used for transition to a service centre: first wave expected to start in 2nd half of 2016



Timeline will need to be assessed in light of ongoing consultation and decision making process