



Done correctly, and for the right reasons, a shared service centre can bring significant benefits to organisations in both the public and private sector.

Basware Article: The Future of Shared Services

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Key Metric: Shared Service Usage Levels

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Your Shared Services Check List For 2011

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Key Metric: Shared Service Usage Levels

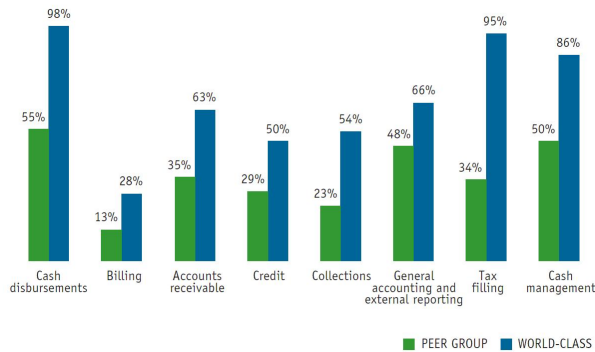
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Metric Definition

Finance’s level of use of shared services (Fig. 1) is a direct reflection of how many transactional FTEs have been centralized. It is also an indirect reflection of the levels of consolidation, standardization and automation that the finance function has been able to achieve. The metric is easy to derive – it is simply the percentage of transactional FTEs in a given finance process that are located in a shared services center, divided by the total number of transactional finance FTEs.

FIG. 1 Percent of finance process activity handled in a shared services environment, 2009

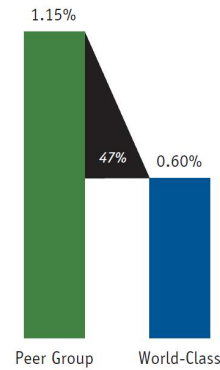


Source: The Hackett Group

Why This is Important

Optimizing shared services and service delivery is a critical phase in the journey to greater efficiency and lower costs in finance. As shared services have gone from a leading-edge practice to near-universal usage over the past decade, they have delivered on their efficiency and effectiveness promises. Notably, around two-thirds of SSOs have saved their companies 20% or more on annual operating costs. In fact, 21% of companies report saving more than 40%. It’s no coincidence that world-class companies have much higher shared services usage levels and much lower costs of finance (Fig. 2).

FIG. 2 Finance cost as a percent of revenue, 2009

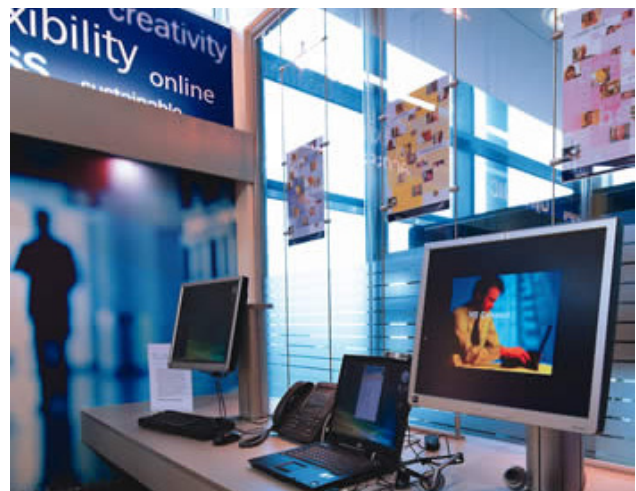


Source: The Hackett Group

But shared services do more than deliver cost reductions; they are a route to improved effectiveness. According to the most recent Hackett Shared Services Performance Study, the vast majority of companies using shared services report improvements of at least 10% in productivity, quality and customer service levels. For example, they have 43% fewer billing errors, require 25% less time to close the books, and report 28% more focus on proactive decision making.

Strategic Implications

As companies increase their adoption levels of shared services, finance functional leaders are able to spend more time developing strategy and supporting the business, and less time managing day-to-day processes. At the same time, shared services have become fully functional, standalone entities that are delivering services back to the business in a timely and efficient manner. Encouraged by their success, finance leaders have given SSOs much greater latitude to make the changes required to drive down costs and improve process efficiency and effectiveness.



Your Shared Services Check List For 2011

By: Susie West
shareserviceslink.com

I'm sure you've heard it countless times, but if you work in shared services, you're on a journey. And it's true, shared services has a life cycle: it has an obvious birth and, as many purists believe, it should result in some kind of death.

Leisure company TUI is an example of an operation that had a clear birth, middle bit and death when processes were finally automated, converted to electronic and outsourced. Once the shared services director had done his job, he was without a job.

So when we look at 2011, it's wise to stop, find some time to take a breather and ask yourself, where is this journey taking us? What does the final destination look like? As the focus for shared services moves towards adding value, does the journey only end when you shut shared services down?

Whether you consider it a tool to help you standardise and eliminate processes, or you see it as an enabler that turns finance into an instrument that helps the company grow, here is a check list of factors that will help your shared services deliver results in 2011.

We'll start with six items today. We'll share another six on www.shareserviceslink.com on the 21st December so be sure to come back then.

1) Involve procurement

Shared services is an enabler to help improve the performance of purchase to pay. Gone are the days when we treated accounts payable (AP) as an isolated function. Shared services leaders realise that the performance of their AP activities is highly dependent on the level of support they receive from procurement. AP key performance indicators (KPIs), like cost per invoice, payment on time, electronic-invoice volumes, can all be improved or damaged by procurement. This is why shared services professionals now refer to end-to-end processes, like purchase to pay or order to cash.

If you are still operating as a silo today, make this single change in 2011 and see your KPIs improve. Procurement tends to get involved quickly when it realises the huge gains it can make from working with finance, but you may have a sales challenge ahead of you to secure its buy in.

2) Consider outsourcing if you haven't already

There is usually an element of outsourcing in today's shared services. If you're not outsourcing, ask yourself

why. If you have the scale, and recognise that certain activities in the process add no value to your aims and you add no value to the processes, then evaluate the outsourcing option.

The horror stories of old have fallen by the way-side, and BPOs are more focused on service delivery than simply cost reduction. Increasingly, shared services automate and outsource as much as they can, and then hone their talent on becoming a centre of excellence. Perhaps this could be an option for you in 2011?

3) Measure

If you are not already measuring then do. How can you improve if you don't know where you are? Set targets and track progress towards them. One retailer I spoke to recently told me that these are the areas she measures:

1. Cost per invoice
2. First-time match rate
3. Percentage of payment to terms
4. Invoices per FTE per annum
5. Percentage of invoices via EDI
6. Percentage of goods for resale invoices matched to a purchase order number as well as a receipt
7. The number of invoices in query at period end and as a percentage of total invoices
8. Percentage of accounts-receivable debt that is overdue
9. Percentage of expense claims that do not have receipts
10. Percentage of expense claims outside policy.

I know of shared services that have over 130 KPIs and one SSC with just one. You don't necessarily have to report all of your statistics to your customer. Show them the breadth your KPIs cover and ask them to tell you which five or ten are key, then report on those every month.

Measurement for shared services is essential; you will always need data to prove your point. If customers claim that service levels have deteriorated since shared services got involved, you can compare the baseline data against current statistics to prove their information is incorrect.

4) Automate

The investment you make in your ERP is huge and you'll want to leverage it. One of the best ways is to look at your process and identify the areas that can be automated. It is a giant step towards touchless processing: the central aim of shared services.

Many of the transactional activities within the purchase-to-pay process lend themselves perfectly to automation. For example, matching line items on an invoice, reconciling bank statements and balance sheets, capturing invoice data that isn't electronic, and distributing invoices for approval around your company.

Vendors like Readsoft, Basware, Trintech and Brainware win deals every week because shared services leaders know that this is a priority. They have reference customers who can share the dos and don'ts with you, so the risk of adoption is much lower than it once was.

5) Electrify

Take automation one step further and convert to electronic. Join Caterpillar, Astra Zeneca, HP, Metso, Kelloggs, HSBC, TNT Express, Sara Lee, GSK, and Johnson & Johnson: get on the e-invoicing train!

There is, however, little point converting a broken process to electronic, but if you have more than 30,000 invoices per annum and your match rate is high, then ask your suppliers to join your e-invoicing programme.

The key players in Europe continue to be Basware, Ariba and OB10. If you haven't already introduced e-invoicing, start to think about the business case. Take a look at your invoice volumes, how many people work in AP and how many invoices match first time. If 80% of your invoices come from 20% of your suppliers, then your e-invoicing project should be straight forward. But remember the point made at the top of the check list– if procurement is not involved your project will fail.

Once you have e-invoicing at your shared services centre you are within striking distance of touchless processing. But don't forget, it takes time to get the project going, so if you want to be live at the end of 2011, then you really need to have selected your service provider by July 2011.

6) Increase activity scope

If shared services is proving successful in AP, then increase the scope to other process and even other functions. Shared services works because it standardises and automates transaction activities. You can apply this to any activity that fits the profile.

Increasingly, finance shared services organisations are encapsulating processes in HR, IT, procurement, real estate. The push towards business services is achieving momentum as organisations scrutinise their functions and divide them between those that are shared-services friendly and those that aren't. If shared services isn't already having an impact on functions beyond finance, perhaps 2011 is the year to make this happen?

And that's not all. I have another six items to add to this check list that will help your 2011 plans. Visit www.sharedserviceslink.com on 21st December (or why not use our RSS feeds?) to download the second part of this article.

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Why shared services?

There are many reasons why businesses should and do consider centralising processes into a shared service centre. For many private sector businesses, cost-cutting, increasing spend visibility and compliance are just some of the key drivers for adopting a shared service model; while for public sector organisations, initiatives such as HM Treasury's 2009 Operational Efficiency Programme (OEP) or the Coalition government's public sector spending cuts for 2010 and beyond have provided stimuli for taking a closer look at the way in which they work.

Nor is an interest in sharing services unwarranted. Done correctly, and for the right reasons, a shared service centre can bring significant benefits to organisations in both the public and private sector, including:

- Lower operating costs
- Improvements in service quality (to finance staff and business users)
- Access to staff with specialist skills
- Easier recruitment and retention of skilled/high calibre finance staff
- Improved investment and innovation opportunities
- Adoption of world-class/best practice approaches
- Ongoing performance improvement

With so many reasons to say yes, the real question mark over the widespread adoption of shared service models is now one of 'how', rather than 'if'.

Making it work

As with any business decision, there are a number of factors to consider before making any significant change to the status quo. There is no right or wrong model to choose; every organisation faces its own challenges – indeed, for some, sharing services may not necessarily even be the right choice – so there's no such thing as a one-size-fits-all solution. Some of the main (but not only) considerations include:

- Budgets – not just what you can afford to spend, but also what you expect to gain from the change. Pricing alone should not be the main factor behind decision-making. ROI, measured against agreed KPIs, is the best

long-term gauge of a system's effectiveness

- Reviewing existing systems – it's difficult to know what changes need to be made without first evaluating what's currently in place, where duplication exists and what needs to be done differently
- Integration – whether it's new technology to incorporate, different processes or changes within teams and departments, doing things differently will, predictably, be challenging at first
- Process standardisation – while there are sometimes valid reasons for different ways of working across different sections of the organisation, it's often this disparity that leads to loss of control and visibility. It's important to work out why these different needs exist and evaluate just how necessary they really are, before deciding whether to keep or do away with them
- Legal considerations – every organisation has its own compliance requirements and it's important that addressing these is built into the basic infrastructure of any new system
- Senior buy-in – without the backing of the leadership team, and a top-down approach to implementing change, new systems are likely to hit stumbling blocks at every level

Whichever of these are most relevant for your organisation, it's important that they are taken into account before any decisions are made, otherwise they risk becoming insurmountable barriers in the longer term. Most important of all is gauging the outcome that is expected from making any momentous change. Altering the way in which business functions operate has to feed into the wider organisational objectives, not simply be an exercise in jumping on the latest bandwagon.

What does the future hold?

With so many benefits to speak of, and the continued rise in popularity of the various models, it seems natural to consider what the long term implications are for the shared services industry.

Not just cost-cutting

Recently cost-cutting has risen to the top of most business agendas, but savvy leaders would probably have recognised it as the short-term fix that it is. For most businesses there is a point past which simple cost-cutting or price-slashing fails to deliver true economies of scale. Straightening out long-standing processes and ensuring visibility and control of every aspect of daily operations is a better catalyst for holistic and sustainable efficiency.

While cost-cutting is an essential ask of a shared service centre, the real benefit is the transformational power it holds and the way in which it can drive change across the way in which an organisation conducts processes and functions as a whole.

As Emmanuel Dowdall, Departmental Manager, Content Consumer and Business Services IDA Ireland (Industrial

Development Agency) and Shared Services Forum Ireland, says, "While cost-cutting is an important facet of business operations, it's not the sole dimension to be considered. Exercising creativity and re-thinking traditional processes are all important outputs of innovation that add value to the wider business."

Sandra Busby, Managing Director, South West and Welsh Shared Services Forum, agrees, "Cost is certainly one factor, but the real end goal should be world-class business practices, driven by measurable SLAs and KPIs."

More than just finance

Shared service centres were once primarily designed to streamline financial transaction process, but they are increasingly relevant for other back office functions such as HR, IT and Procurement. Finance may have been among the first departments where visibility and consolidation made not just monetary but also legal sense; however, there is always potential for bottlenecks in other areas of the organisation where information is collected.

Increasing transparency, mitigating risk and ensuring relevant compliance requirements are met are key priorities for any organisation and it is no longer up to just Finance teams to make them happen. As such, centralising other functions into a shared service centre can significantly ease the burden of control.

Says Emmanuel Dowdall, "From supply chain management to IP portfolio management and content delivery, there are a variety of business functions where shared service centres can reduce cost replications and increase efficiency."

Susie West, CEO, sharingserviceslink.com, describes some of the motivations for moving functions other than Finance into a SSC, "Within HR, Procurement, IT, Legal and even Marketing, there are activities which do not require face-time, and can be readily automated, off shored, standardised, centralised, and consolidated on a single system without it being detrimental to the business."

"With so much corporate legislation coming into effect in recent years, particularly dealing with financial processes and reporting, this is yet another area in which a centralised resource can provide input and value," agrees Marc Conway, Steering Group Member, North West Shared Services Forum.

Moving up the value chain

In its infancy the shared service centre was primarily designed to suit a tactical function within the business, focusing on streamlining transactional processing and cutting costs. However, there has been a subtle shift in this role; through the sheer volume of data it gathers through data input and processing, the shared services centre is a mine of valuable information that can be provided to the business to aid with decision making. Whether through input into budgets and

resource planning or implementing operational changes such as pricing structures, the SSC is increasingly able and expected to impact the top line strategy of the business.

Says Susie West, “Rather than just being about data input, shared services is now much more about providing information (of course based on the data that they input), and providing advice to the rest of the business to aid their decision making.”

That isn’t to say this upward mobility of the SSC function is either immediate or inevitable. It is only as the organisation matures further, and its motivations evolve, that cost becomes less of a standalone driver. Once that has been established, it is a logical leap for the data that a shared service centre processes, to join up various disparate pockets of information from across the business. ”

Jim Mason, International Senior Executive, Scottish Development International and Scottish Shared Services Forum concurs, “While there has definitely been evidence of some ‘lower value’ functions being moved offshore,” he explains, “It is definitely true that higher value functions such as Finance and IT are prime targets for remaining onshore, where they can provide input into the business.”

What has driven this transformation of the role of the SSC? In many cases, technology and automation have had a huge role to play, changing not only the existing processes but also offering a glimpse of future possibilities.

Says Marc Conway, “the rapid evolution of technology has significantly cut the cost of transactional processing, making more information readily available than ever before. With the current focus on doing more with less, it makes sense to take advantage of every additional resource that any investment yields.” But technology is not enough in itself.

Multi-skilling

The skill set within the shared service centre has a symbiotic relationship with the demands of the industry as a whole. As more specialised services are available, organisations can and do take advantage of the value these can add to their business. However, the increasing focus on specialising skills is, in itself, a reflection of the increased demand for shared services to move up the value chain.

“Consolidating business centres used to be only about costs but today, there is much more focus on accessing specialised skill sets that can deliver competitiveness and efficiency,” adds Emmanuel Dowdall.

Increased collaboration

Whether through outsourced models or joint initiatives, an increasing number of organisations – both private and public sector – are finding themselves working more closely together. It remains to be seen whether public and private sector organisations are likely to work together in a shared

service context, but it seems likely that there are definitely lessons for each to learn from one another. Private sector organisations may have joined the shared service revolution ahead of some of their public sector counterparts, but both still face many of the same challenges.

The very nature of service industries brings the need to communicate and collaborate effectively. Collaboration between organisations and sectors is an integral part of creating a stronger ‘whole’. On a more micro level, organisations across the UK are finding themselves increasingly reliant on the synergies gained from their partner, customer and supplier relationships. Shared service centres and the organisations they work with are no exception. However, what will be interesting to see is whether the distinction between in-house and outsourced shared service centres will blur over time. Or indeed, whether it will become a case of services that are currently outsourced coming back into the fold completely.

As Sandra Busby puts it, “the outsourced mode of shared service centre, although very popular at the moment, is likely to become less common once businesses feel ready to bring those functions back in-house. When, rather than if, that becomes the case, collaboration between teams is essential.”

Conclusion

Basware works with a number of organisations, across the public and private sectors, that have made the move to centralise their operations into a shared service centre. One of the key findings from our experience thus far has been that while shared service centres continue to gain momentum and popularity in the UK economy, many still remain close to the start of their metaphorical journey ; there are still many variables that influence where they will head next. Technological progress is a key factor; the movement and actions of national and global markets are another. Whatever the next step in the evolutionary process is, there can be no gainsaying the benefits these models currently provide.

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