

Shared Service Centres: The Next Generation

by Helen Sanders, Editor



I recently read somewhere that an article with a Star Trek-related title will attract people's interest more than almost any other topic – after sex, of course, but I wouldn't want to spoil your lunch. I'm vaguely suspicious (and frankly concerned) about this, but how else will I encourage any interest in the topic of 'Shared Service Centres'? Why, you might ask, is an article on shared service centres (which to avoid repetitive strain injury, I will refer to as SSCs) appearing in a treasury publication? Well, in fact, that's really my point. Treasurers are paying too little attention to their company's SSCs and ignoring the fact that there are often shared objectives and advantages to working together. Furthermore, centralised treasury departments are themselves examples of shared services and by leveraging the technology which can be obtained quite easily, there are increasingly opportunities to increase the breadth of services which treasury offers to the wider business.

Vintage SSCs

Shared service centres are nothing new for many large organisations. During the 1990s, US multinationals were pioneers (a word that has yet to appear in a Star Trek title, but surely overdue) of the SSC concept. The centralisation of business processes such as Accounting, HR and some extent, Accounts Payable went hand in hand with system consolidation and rise of the ERPs; in many respects, one trend has driven the other. Many SSCs have achieved dramatic cost savings by reducing headcount and IT costs, creating economies of scale with their banks and other third party providers. A large proportion of readers will have SSCs already established in their organisations, so is that the end of the story? According to Shahrokh Moinian, Head of Corporate Cash Management Sales Team, Western Europe, Global Transaction Banking, Deutsche Bank,

"We are still at the tip of the iceberg in terms of SSC activity – there is still a great deal of potential for

expansion both in the number of companies which set up SSCs and the range of processes which they cover."

SSCs move out

Many banks have reported that the profile of companies setting up SSCs is expanding, as Aidene Walsh, Head of Western Europe Transaction Banking at ABN AMRO reports,

"SSCs used to be the preserve of large multinationals; now the model is tried and tested, SMEs are now aiming to gain some of the efficiencies that larger organisations have achieved and are looking at shared service centres for certain processes, such as Accounts Payable and Receivable."

The location of new SSCs is also changing. Early SSCs were often located in high-cost countries such as Singapore, Hong Kong, UK, Ireland, Netherlands, Belgium and the United States. The next generation of SSCs then witnessed the 'offshoring' effect, with many companies choosing to locate their SSCs on the Indian sub-continent and China. However, many SSCs are now 'nearshoring' (none of these terms are mine, I promise) setting up in regions such as Eastern Europe where the cost structure is quite favourable, language skills and education levels are high and tax incentives exist. Often these can be linked to production sites which companies have already set up in the region.

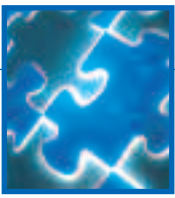
In Asia, although new locations are developing for SSCs, the English language hubs, such as Singapore, Hong Kong and Manila continue to be popular even though the cost base is higher than alternatives. For example, Singapore continues to be a popular location for SSCs and regional treasury centres, with 40% of SSCs in Asia based there. This trend may seem counter-intuitive, but although these regions do not have the cheapest cost base, they have the necessary



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Aidene Walsh, ABN AMRO



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Shahrokh Moinian, Deutsche Bank

infrastructure and skills to support SSC operations. China and India are also proving important locations both from a cost and strategy perspective. Many companies, including the banks themselves, such as Citi, are setting up SSCs in China and India as a way of training new personnel, developing new skills and an awareness of company culture, who can then take on different roles in the organisation.

Some companies are also splitting larger SSCs across several locations, with a regional SSC in Singapore, for example, and distributed operations in China etc. Conversely, there is a limited trend towards

setting up global SSCs, as Shahrokh Moinian, Deutsche Bank explains,

"There have been some experiments in global SSCs but these have not yet taken off, with most companies preferring to remain with regional SSCs, not least due to language, cultural and timezone issues. There are some exceptions to this, but global is not the rule."

Even where global SSCs do exist, they are often split by function, such as Accounts Payable and Accounts Receivable located in different regions which can provide back-up to the other.

New generation SSCs

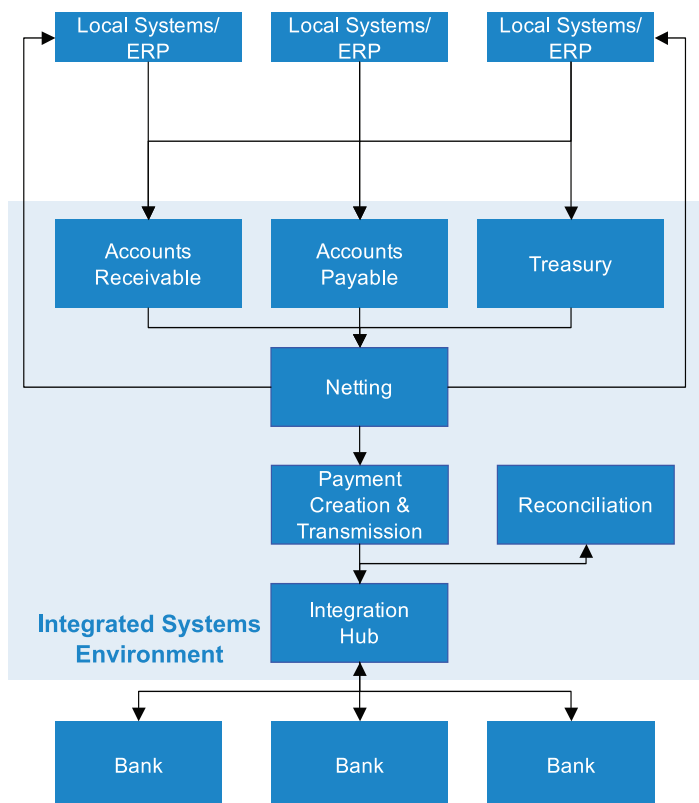
While cost reduction was an initial driver for many SSCs, the objectives of an SSC have expanded to include strengthening compliance, managing risk in the (physical and) financial supply chain and competitive risk management. With SOX, JSOX and evolving regulatory standards worldwide, establishing SSCs with consistent, transparent control mechanism can help significantly in achieving compliance the regulations to which a company is subject and is an important factor in obtaining management support for a SSC objective. Furthermore, as Ken Dummitt, President, Corporate & Banking Segments, SunGard explains,



"Companies originally embraced shared services for the cost savings, which can be substantial as shared services eliminate the duplication of transaction-processing efforts across an enterprise. In recent years, there has been a shift towards leveraging shared services to provide additional value-added capabilities to improve management visibility and control (particularly in light of Sarbanes-Oxley), enhance process quality and increase overall business performance."

This is emphasised in the Monster case study (fig 1) which has achieved substantial advantages beyond operational benefits through its shared services infra-

Fig 1: Integrated systems environment



Source: © Asymmetric Solutions Ltd

structure. These successes are not always universal, however, and many SSCs have struggled to achieve benefits beyond cost savings. As Ken Dummitt continues,

"There are a number of traditional roadblocks including:

Too much focus on cost reductions at the expense of service quality. With the mantra of 'centralise, centralise in mind, it can be easy to lose sight of what is required to deliver high quality services and maintain business effectiveness.

Failing to understand and redesign underlying processes before consolidating functions. This is a wonderful way to amplify existing inefficiencies.

Underestimating the planning and effort required to overcome cultural and other barriers. Implementing change across embedded cultures and managing the transition to shared services is a formidable task in many organisations.

Limitations in scope. Often, there are key linkages within the organisation that need to be leveraged by the shared services model, but which are either not recognised or not leveraged fully.

Over-rationalisation. Many companies fail to hold on to key specialists as they centralise operations into a shared services model.

Any one of these sticking points can blunt the effectiveness of a

shared services initiative and keep it from realising its objectives."

Technology provided by the banks for cash visibility and the outsourcing of some processes such as eInvoicing, and third party software for internal management, plus a gradual shift in business culture, mean that companies are in a better position to gain a wider range of benefits beyond cost savings from their SSCs. Payables and receivables are two of the key growth areas amongst SSCs which can have a direct and tangible contribution to the business. Maria Mandler, Managing Director and Regional Head of Shared Service Centers and Receivables, Asia Pacific, Global Transaction Services, Citi explains how Citi helps its customers in this respect,

"Payments are still core to most SSCs and are often the starting point when they are first set up. Strategically, receivables are becoming more important in Asia and around the world. Traditionally, receivables management has been left to business units, where Sales and Marketing have responsibility for customer relationships. Now, however, there is focus on improving collections by setting up a centre of excellence, for more timely reconciliation, for better end-customer service, improved dispute management and greater transparency. As a result, our clients note improvement in payer behaviour, while better understanding of payer behaviour can enhance cash flow forecasting."



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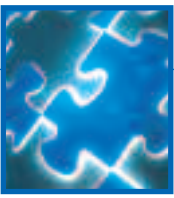
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Shared Service Center at Monster Worldwide Inc.

Dave Griehl, Vice President Finance – Shared Services

“One key mistake of many SSC implementations is to focus purely on cost reduction. This does not necessarily create the right behaviors and can often lead to considerable dissent and disruption amongst business units. We implemented four areas in the SSC to start with: payroll (including travel & entertainment (T&E)), General Accounting, Collections and Accounts Payable. Historically we had some limitations in our financial controls which we targeted as specific objectives in the SSC. SOX compliance, process documentation, and clean financial audits became a major focus and significant hallmark of our success.

Accounts Payable

We worked with our bank, Bank of America, to structure the most effective way of making payments. This has resulted in the use of credit cards for payment wherever possible. Our research indicated a best in class benchmark of 18% of payments using cards; at Monster we have achieved a sustained world class benchmark of 30–32% of payments using cards. As the amounts involved are considerable, so too are the rebates from the credit card company to the extent that the rebate covers all of our fixed costs, with the exception of payroll. We would not have been in a position to create these economies of scale except in a shared services environment. As part of the process of centralisation, we took the opportunity to implement expenditure controls and procedures, including a formal procurement process and invoice imaging.

Accounts Receivable

We have focused on increasing the accountability of the Accounts Receivable operation to the business, implementing SunGard's AvantGard Receivables to deliver excellence in business processes, provide metrics back to the business and ensure that the collections process remains integral to our focus on customer service. We also have close connections with the sales teams and include them in dispute processes at an early stage to ensure that customer relationships are managed effectively. We can also log disputes and create reports by reason and time to resolve the dispute and add notes to each customer account. This has helped us improve collaboration with the customer service departments and collect on outstanding invoices more quickly whilst ensuring that customer relationships remain a central focus.

Technology

We have implemented a majority of the Oracle modules as the basis for our SSC operations. We decided to implement AvantGard Receivables for Accounts Receivable and we are now implementing BasWare for invoice imaging, Trintech for reconciliation and Business Objects for reporting. We have found that the integration between Oracle and ancillary applications has been very effective.

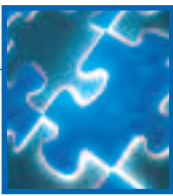
Outcomes

The SSC has been able to deliver significant benefits to both employees and business unit finance functions by improving the visibility and efficiency of processes, implementing controls and delivering tangible benefits such as the credit card rebates and improved collections. Important metrics we use include dispute resolution time and cycle times for the completion of processes; for example, some of the tangible improvements we saw from 2005–6 included:

- Improved our dispute resolution time by 59% together with reporting back to customer services;
- Collected past due cash an average of 3 days earlier
- 75% reduction in our “advanced” accounts receivable past due aging, delivering cost savings of more than \$300K in bad debt expense across the year despite >30% revenue growth.

As a rapidly growing business, with >35% growth per year, we use headcount as a metric to demonstrate value to the business. Typically, we see headcount increases of > 10% in many parts of the business; in the SSC, however, we have maintained a steady headcount despite the increasing size of the business, customer base, and scope of services. As we acquire new businesses, we can incorporate the financial operations of the acquired company very quickly without adding to our existing headcount, therefore giving an immediate payback. ■

Extract from “Shared Services, Shared Values, Shared Benefits at Monster Worldwide Inc.” by David Griehl, Monster Worldwide Inc. TMI USA 6, September 2007



There are two important points here which relate to treasury:

1) Enhanced technology to improve decision making

Treasury can improve its strategic decision making by using cash flow data and intelligence on trends and customer behaviour from SSCs, such as cashflow forecasting, debt re payment structuring, liquidity and investment management. Indeed, treasurers often cite their inability to perform cashflow forecasting etc. because they lack this information. In some cases, there is a file transfer between the SSC's systems and those of treasury but rarely do these discussions go further. This lack of communication would appear to be a major flaw in the integration of information and insight about customer behaviour and cash flow dynamics within the business. There would seem to be two reasons for this: firstly, the inadequate use of technology in some SSCs and secondly, the lack of data integration with treasury. As

Ken Dummitt emphasises:

"Impediments to achieving true strategic value from shared service initiatives are now being overcome by new technologies that automate best practices, increase visibility into operations, and help drive continual process improvements."

One way in which some companies are addressing this is for treasury to manage the overall systems environment for payables and receivables as well as treasury. This is becoming an increasingly logical



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Ken Dummitt, SunGard

solution as some TMS vendors, such as WSS, have integrated payment hub tools with their treasury solutions, and SunGard, which has become a provider of working capital solutions. This gives treasury a comprehensive picture over the cash flow dynamics of the business, to enable strategic decision-making, without taking day-to-day responsibility payables and receivables. Gartner's Industry Research entitled Corporate Treasury requires more than Transactional Cash Management, 16 August 2005, explains,

"Treasury must expand its role beyond the back office management of financial risk and liquidity positions that concentrate on the 'cash' and 'pay' endpoints and become more actively involved with systems integration and financial facilitation across these processes"

2) Treasuries as centres of excellence

Another way of addressing this dilemma, which the second, related trend is that treasuries themselves are becoming the 'centres of excellence' for payables and increasingly receivables, by developing payment and/or receivables hubs, also known as payment/receivable factories.

As Hans Cobben, Chief Operating Officer, AvantGard Payments, SunGard explains,

"Many corporations manage payables processes, payments, and banking relationships at the subsidiary or business unit level."

"While this method offers flexibility, it can also result in increased transaction costs, poor visibility, higher cost of ownership, increased fraud, and the lack of standardisation as each locality supports a fragmented view of cash. Driven by tighter regulations and the need for better cash management, corporations are more focused on expanding insight into their cash positions and forecasts. Payment Factories allow organisations to realise company-wide centralisation of payment processing connectivity with local subsidiaries; allowing payment capture and processing, account statement retrieval, and reconciliation within a single centralised solution."

At first, it may seem counter-intuitive for treasury to take responsibility for payables and receivables. After all, treasury is focused on high value activities, with relatively low volumes, risk management and other strategic activities. Shared services, on the other hand, typically focus on the efficient processing of low value, high volume activities, which would seem to be a more logical 'home' for payables and receivables. Centralised treasuries have already taken on some important processing tasks, such as in-house banking and intercompany netting which often includes providing technology to business units or SSCs. Every company is different, however, according to the business drivers, organisation, geographic scope and culture.

Financial supply chain management is becoming a more significant activity and consequently, it may often make sense for treasury to take on these functions by providing an oversight across all the cash flow related elements of the business in order to improve decision-making.

As treasury typically 'owns' the banking relationships and bank

connectivity, there can be good reason for taking responsibility for payments and in an increasing number of cases, collections. What is increasingly clear to many organisations, wherever these functions are managed, is firstly the value of centralising these functions (see the most recent series of features on working capital optimisation in TMI USA).

Secondly, Treasury, Accounts Payable and Accounts Receivable are interconnected parts of the financial supply chain and as such, decisions over banking relationships and solutions need to embrace all three areas. These synergies can also be extended to banking connectivity, by routing banking communications through a central channel, such as SWIFT, as

Building a Payment Hub at PGGM

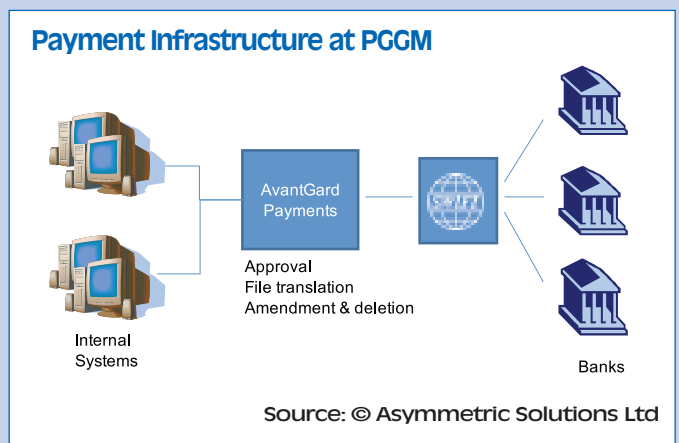
Roelof van der Struik, Team Manager, Settlements and Payments, PGGM

PGGM is one of the largest pension schemes in Europe and the second largest in the Netherlands, with around €70 billion under management and 2 million members. The scheme provides benefits to former and current employees in the healthcare and social work sector. In 2005, PGGM took the decision to set up a payment hub together with direct SWIFT connectivity.

We made the decision to connect to SWIFT connectivity at PGGM as there was a sound business case and a good payback period. Up until then, we had been maintaining a large number of interfaces between proprietary systems at a cost of €30-€40,000 per year. As well as the cost of this, we wanted to achieve greater bank independence, allowing us to decide on our banking relationships based on the quality of service rather than simply the links that were in place. By using SWIFT, we could rationalise the number of proprietary systems and make decisions more strategically.

Setting up a payment hub, through with the payments would be directed, was a fundamental change in the way that PGGM operated. In the past, we sent a payment file through to the banking systems, and payments were authorised at that stage. By moving to SWIFT, authorisation needed to take place in our internal systems instead. This was going to be major issue, as we have a large number of systems in different departments which produce payment files, all of which have different file formats, business processes and security frameworks. Consequently, we decided that we needed to introduce a uniform way for processing payment files, authorising payments and translating the files into a common format, which could then be sent through to SWIFT.

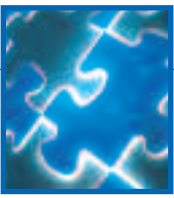
We decided to focus first on our pension payments, for which we use ING. To manage these payments, we implemented Trax, now SunGard's AvantGard Payments, which forms the centre of our payment hub. This implementation



took around six months to complete and has been very successful. We have around 225,000 payments a month passing through AvantGard (AG) Payments. All approvals are conducted in this system and files are translated into a common format. We receive payments a week in advance of the settlement date, but there can be changes to these payments between receiving the payment information initially and the actual payment. We check the files and delete payments as necessary in AG-Payments.

The payment hub model has been highly advantageous. Not only are we no longer reliant on individual banking systems, with the associated costs, but we also have a robust solution for authorisation, payment amendment and a standardised, rationalised approach to bank connectivity. By creating economies of scale, we have also been able to negotiate better pricing arrangements with our bank. In the future, we anticipate extending the payment hub to other types of payments, such as those originating from a newly-introduced portfolio management system.

Source: © Asymmetric Solutions Ltd



the PGGM case study in this article emphasises. Having implemented an integrated systems environment, additional tools such as liquidity management, forecasting and management reporting tools can then be used more successfully.

Systems infrastructure is one vital element of ensuring that the individual functions, and the sharing of information between treasury and the SSCs is coordinated; a cohesive approach to banking relationships is another. For example, some of the important requirements that your banks will need to satisfy in a shared services environment include:

- The need to provide support in the countries in which you do business, irrespective of the location of your treasury or SSC;
- Bank statements should be available with standardised messaging for all regions and all bank accounts which can be integrated with your internal systems, to avoid the need to develop multiple interfaces with one bank;
- Some organisations will need their banks to provide additional services to help them with functions that they consider to be outside their core competencies, but which are still valuable as shared services, such as eInvoicing and reconciliation;
- While it is relatively easy to standardise electronic payments for different regions, centralising payments becomes more difficult when local payment methods, such as cheques are used. Banks

need to be able to support country-specific requirements as well as support for the more standardised products.

Maintaining expertise in the local markets remains important but is more difficult to do in a centralised environment and without working with local banks. As Maria Mandler, Citigroup explains,

“When finance and accounting functions are moved out of country operating units to a regional or global shared service centre, local experience and expertise can be lost. In these situations, companies turn to their banks for assistance. At Citi, we recognise the need to assist our clients’ Shared Service Units, so have developed centralised service units, as well as training and documentation support. We created an operations manual specifically for SSC personnel, which covers banking procedures, transaction initiation and processing and other critical information by country. This information has proved valuable for those personnel new to banking practices, or new to specific processing and/or a local market.”

Conclusion

Continued centralisation, the availability of technology solutions which span the financial supply chain, new opportunities for rationalising banking connectivity and a strategic focus on working capital optimisation have meant that the objectives and activities of a

company’s SSCs and Treasury are converging. There are potentially issues with this in some organisations as the boundaries blur, but there are limited functions where the responsibilities of a SSC and treasury overlap. In these areas, notably AP and AR, treasury has the opportunity to drive company strategy by taking an early lead in payables and receivables initiatives or can influence these at a strategic level. This can include conducting banking relationships on behalf of the group, acting as the technology and banking connectivity hub and helping the business with credit terms in order to optimise working capital. □



Driven by tighter regulations and the need for better cash management, corporations are more focused on expanding insight into their cash positions and forecasts.



Hans Cobben, SunGard

We would like to thank the following for their help in preparing this article:

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