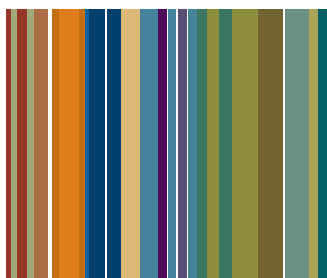




AVANTGARD INSIGHTS



THE NEXT GENERATION
SHARED SERVICE CENTER –
WHAT HAVE WE LEARNED?

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INTRODUCTION

Shared service centers for finance and accounting functions such as collections and payments execution were traditionally known for their cost-savings benefits. However, in recent years, there has been a shift by corporations towards leveraging shared service centers to institute best practices and provide additional value-added capabilities to improve overall effectiveness, management visibility and control, and to enhance process quality in operations.

In an effort to gain more insight into this shift, SunGard conducted a global study to look at how companies are now viewing and operating their shared service centers. The study consisted of 120 respondents across 14 primary industries and 12 regional classifications, grouped as 50% Europe, Middle East & Africa; 30% Asia Pacific; and 20% North America. A broad range of company sizes are represented in the study; with 26% at \$5B or greater and 54% at \$1B or greater.

The following study looks at the primary drivers and perceived challenges among corporations migrating to a shared service center model, as well as the overall satisfaction among companies currently operating in this type of environment. The focus of this study is on benefits beyond cost savings coupled with an identification of success factors.

KEY FINDINGS

Of the 75% of respondents from a global organization, 89% are currently using or plan to migrate to a shared service center. In fact, only 11% of those polled who are doing business globally state no plans to migrate to this model.

Among those organizations currently using a shared service center model or with plans to migrate, the top driver (55% of the respondents) was to reduce costs through productivity gains, but at the same time, it is worth noting that 45% identified a top driver outside of pure cost savings.

36% of respondents stated reduced costs as the primary measure of their satisfaction with the model, however, the majority (64%) identified other factors including improved performance, increased visibility and enhanced customer service as primary benefits.

Of the 16% that do not have a shared service center in place, and no plans to migrate, an overwhelming 81% indicated cultural issues and internal resistance, including lack of management buy-in, as the main obstacle.

Hybrid model adoption using multiple regional shared service centers (versus a single centralized location) is now the norm, with 80% reporting the use of two or more regional centers. This highlights the fact that there may be benefit to regional shared service centers as opposed to centralized ones. Typically a regional center would be introduced as a way to support cultural differences or even time zone differences, etc.

Of the respondents whose companies utilize a shared service center or have plans to migrate, 80% are currently or plan to manage more than one of these functions in this model (such as accounts receivable and accounts payable).

VALUE OF SHARED SERVICE CENTERS

Shared service center model adoption has increased over the past decade, particularly as organizations looked to reduce operational costs and improve productivity by centralizing back-office functions with predominantly a transactional focus. Functions such as accounts receivable and accounts payable were often targeted for these initiatives. However, as more companies migrated to this model, many found that there were additional benefits, such as improved effectiveness, as standards were put into place and best practices were instituted across the organization.

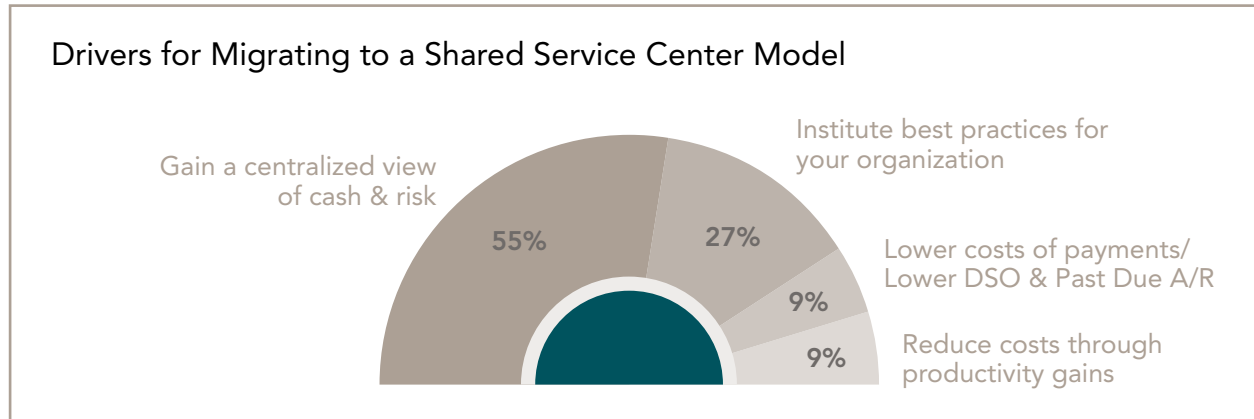
Those that have been operating in a shared service center environment often will state that the single biggest obstacle to overcome when establishing shared service centers revolves around cultural barriers; often impacting true enterprise adoption. This can include reluctance by business units to relinquish control or requirements to maintain some level of local expertise, or it may be centered around language differences, or simply varied regional business practices or approaches. For this reason, many companies started to implement a hybrid model over the past five to eight years whereby they would identify two, three or even four regional areas in which to create a shared service center; each operating on a single platform and set of practices with regional nuances and staffing contemplated.

This model allows for both standardization across the enterprise and the ability to manage regional adjustments, such as language differences and time zone requirements. The hybrid model focuses on improved efficiencies and effectiveness within the framework of each region. However, even in this model success very much hinges on an ability to effectively communicate and collaborate between the business units, customers, vendors and the shared service center organization.

Without communication and collaboration at the core of the migration strategy, many organizations find that there is a breakdown in processes, poor response time and decreased satisfaction both internally and externally amongst suppliers and customers alike.

TRENDS IN SHARED SERVICE CENTER ADOPTION

Among those organizations currently using a shared service center model or with plans to migrate, the top driver (55% of the respondents) was to reduce costs through productivity gains, however, it is worth noting that 45% identified a top driver outside of pure cost savings.



There is no doubt that shared service functions have been instrumental in reducing transactional costs. However, it is important to note that cutting the costs of transactions is both a tactical and opportunistic endeavor. What many companies are now realizing is that by introducing best practices and standards throughout the organization, shared service centers can bring greater value in terms of financial performance and global visibility, helping to: reduce days sales outstanding (DSO), decrease dispute resolution time and reduce past due accounts receivable (A/R).

The new focus of shared service centers, which can result in much larger dividends over the long-term, is on driving sustained strategic benefits, such as: improved business performance, ensured regulatory compliance and enduring competitive advantage. There is no doubt that these initiatives are achievable, but it takes more planning and effort.

FUNCTIONS MANAGED

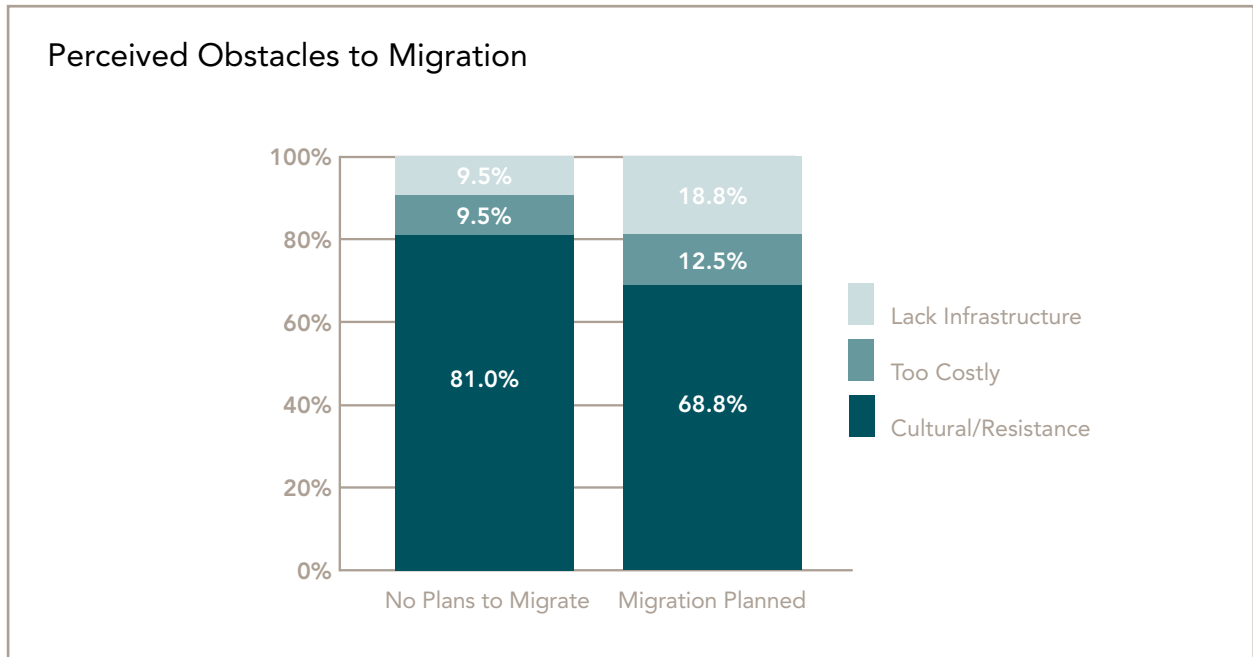
Of the respondents with a shared service center in place or with plans to migrate, the accounts payable and accounts receivable functions are the most commonly managed by this business model. This paper looks to understand the benefits and success metrics employed by companies engaged with finance and accounting shared service centers.

Shared service centers are typically associated with transaction-based activities that involve repeatable processes, such as paying invoices or executing payments. These transaction based activities can often benefit from a consolidated view that offers the ability to employ automation and workflow to drive productivity gain, yet also demonstrate improvements to cash visibility and control. However, it is worth noting that 20% report that there has been a centralization of treasury functions beyond transaction processing.

Of the respondents whose companies utilize a shared service center or have plans to migrate, 80% currently or plan to manage more than one of these functions in this model.

PERCEIVED OBSTACLES TO MIGRATION

Of the 16% that do not have a shared service center in place, and no plans to migrate, an overwhelming 81% of the respondents indicated cultural issues and internal resistance, including lack of management buy-in, as the main obstacle. Similarly, cultural issues and internal resistance are the chief obstacles among organizations that do not currently have a shared services center, but are planning to migrate to one.



To overcome these challenges and perceptions, corporations need to fully understand the shared service center migration process and how to properly prepare for it. For example, underestimating the planning and effort required to overcome cultural and other barriers is a typical oversight for companies. As such, organizations need to find ways of fostering better collaboration and communication among various business units to ensure that all departments involved are aligned. Going through this exercise can help each stakeholder to fully understand and take advantage of the value that a shared service center model can provide.

Deploying web-based applications for process automation can enhance the success of shared service centers by embedding strategies that can facilitate workflow and ease of access to data worldwide, including passing information back to the businesses. These applications can speed the flow of information between corporate divisions, subsidiaries and partners, allowing companies to respond quickly and monitor activities with greater efficiency. Important to note is that prior to deploying technology, corporations should take the opportunity to reexamine and revamp existing business processes as needed, to ensure that flawed processes are not automated and set as a standard.

For example, items such as disputes occurring in accounts receivable indicate a break-down in operations along the line, and therefore companies need to have a direct way of monitoring the process from start to finish. A shared services environment can help to ensure this process runs smoothly. Even slight process improvements in this arena, for example, a more consistent application of deductions policies for disputed invoices or the ability to aggregate payment flows, can affect an organization at large and can have a positive impact on the corporate balance sheet.

SATISFACTION WITH SHARED SERVICE CENTER MODEL

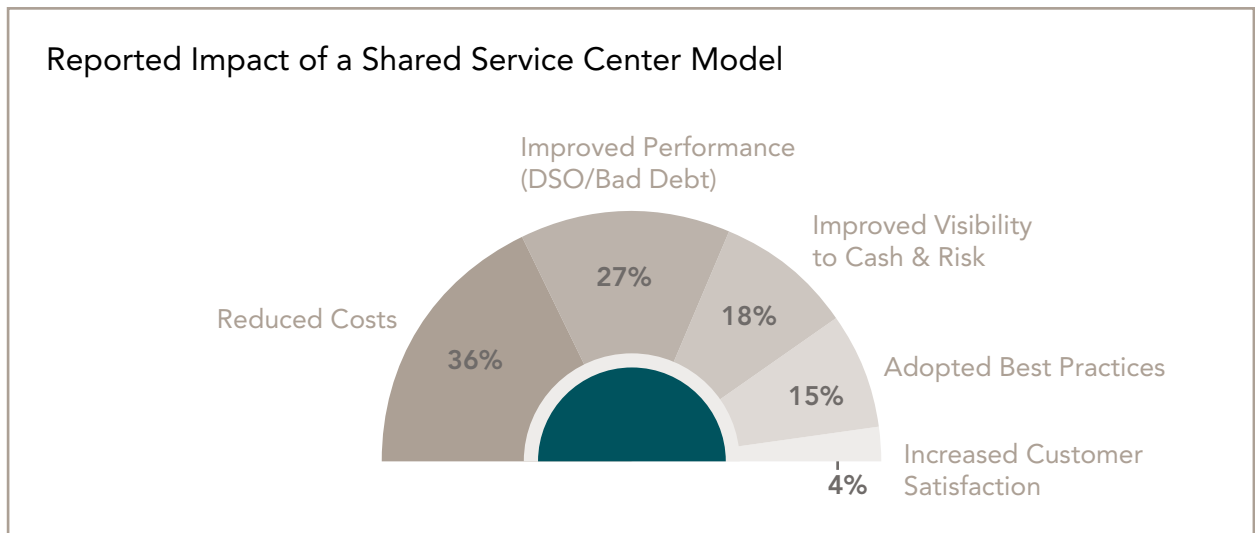
Of those respondents with a shared service center in place, 83% are satisfied with the outcome, while 17% are just somewhat satisfied or disappointed. The fact that the majority of organizations are content with the results they are achieving underscores the proven value of this model.

A shared service center should be run as a business with improved quality being the product. The business of a shared service center is to provide service and improved quality should be the key metric of success. The focus on improving process quality in order to improve overall business performance is a key variable in this success. When looking to trim costs alone, many companies will ultimately find that the business units are not satisfied. However, if planned for correctly, a company's outcomes with a shared service center model, including better customer service and centralized processes and data, should be predictable and felt quickly.

REASONS FOR SATISFACTION

Shared service centers have historically been known for their cost saving benefits, it is therefore not surprising to find that 36% of respondents with shared service centers stated reduced costs as a measure of their satisfaction with the model. However, further analysis of the results indicate that corporations today are leveraging shared service centers for more than just these cost saving benefits with 64% identifying factors such as improved performance, increased visibility and enhanced customer service as primary benefits. A substantial amount of respondents also indicated that adoption of best practices, improved management visibility and control, enhanced process quality and increased overall business performance are also high on the list.

In fact, the two categories trailing costs savings are performance related with 27% of respondents stating increased effectiveness and 18% indicating improved transparency and cash and risk as their chief measures of satisfaction with their shared service center model. These statistics demonstrate a major shift that is happening in the industry, characterized by an emphasis away from short-term and immediate cost cutting, and towards better planned and streamlined processes that can drive bigger profits over the long-term.



REASONS FOR DISSATISFACTION

When asked to express reasons for dissatisfaction, the large majority (77%) stated “Culture” as their primary difficulty, while a dramatically lesser number (15%) expressed challenges related to business mergers and 8% stating that they simply adapt to the processes.

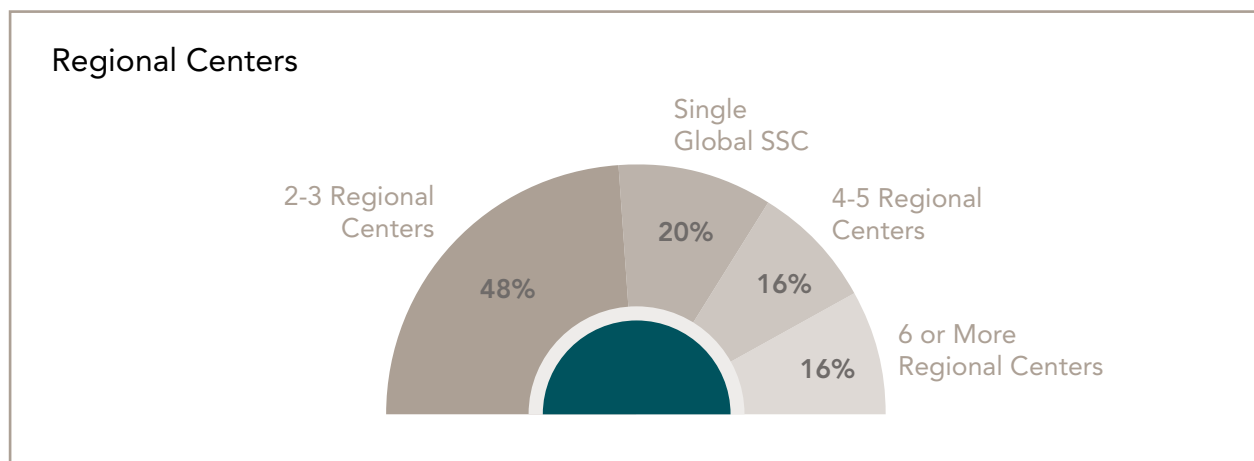
Of those that indicated being dissatisfied, this could be due to a variety of factors and not necessarily indicative of a flaw in the model. For instance, some companies may rush a deployment without stepping back to evaluate processes to see if they need revamping. This can lead to processes that were already inconsistent being carried over and negatively impacting a given shared service center’s success. Additionally, when centralizing globally, such factors need to be taken into account as putting into place multinational functionality that will be able to assimilate and unify information stemming from a company’s subsidiaries in various regions. To avoid negative outcomes, companies should not hurry the process, but rather take the time to collaborate and ensure that things such as cultural challenges are met and processes are redesigned before they are centralized into a shared services model.

The quality of a shared service center depends on the quality of its resources. A well-versed, multicultural workforce, excellent web-based system, established and embedded policies and an international approach with a global plan, provides companies with the key ingredients for success.

REGIONAL DEPLOYMENT OF SHARED SERVICE CENTERS

A large challenge related to the shared service center concept is that typically there is great internal push back because culturally it does not feel right, or the business units anticipate that they will lose control. For these reasons, many companies have found success with a regional model or even a hybrid where there remains some level of interaction and control at the business unit level for regional variations, but the bulk of the back-office transactional work is taking place in the shared service center.

Of those respondents with a shared service center, 80% are operating with two or more regional centers. This highlights the fact that there may be a shift to regional shared service centers as opposed to a single, centralized location. Typically a regional center would be introduced as a way to support cultural differences or even time zone differences, etc, but would adopt a specific set of global practices and technology thereby offering both a centralized and regional view.



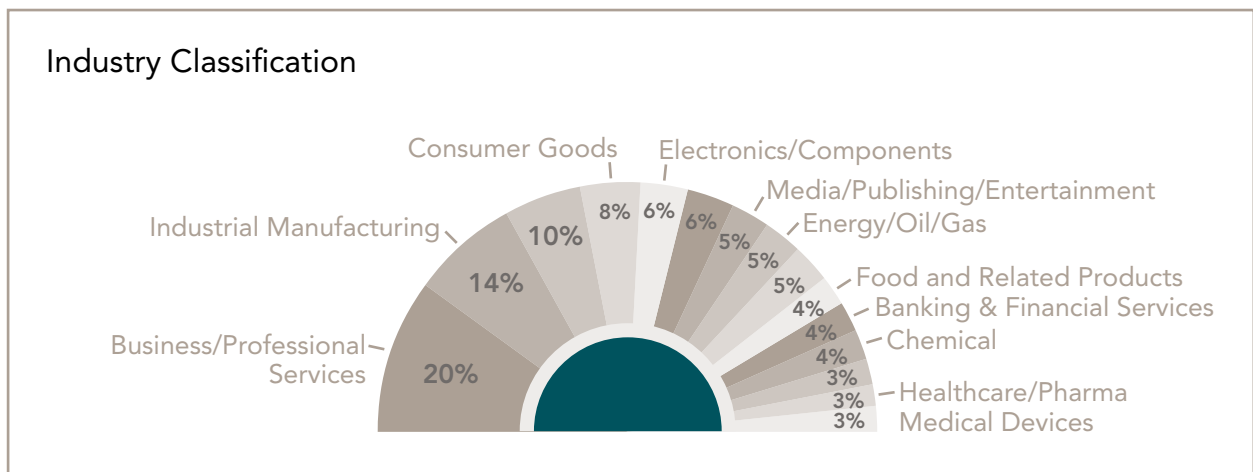
CONCLUSION

As evident in the study findings, a shared service center model holds value beyond merely cost-savings. Results have pointed to additional benefits such as improved performance and effectiveness, increased visibility and control, and enhanced process quality. To be successful when deploying this model, it is crucial that companies plan accordingly by such actions as reexamining business processes, planning for cultural obstacles and collaborating internally. Furthermore, by introducing automation into shared service centers that can drive strategic workflow and automate routine tasks, companies can optimize their success rates. Once all of the preliminary steps and preparations have been accomplished, companies can begin enjoying the numerous short- and long-term benefits that a shared service center will certainly bring.

STUDY SCOPE

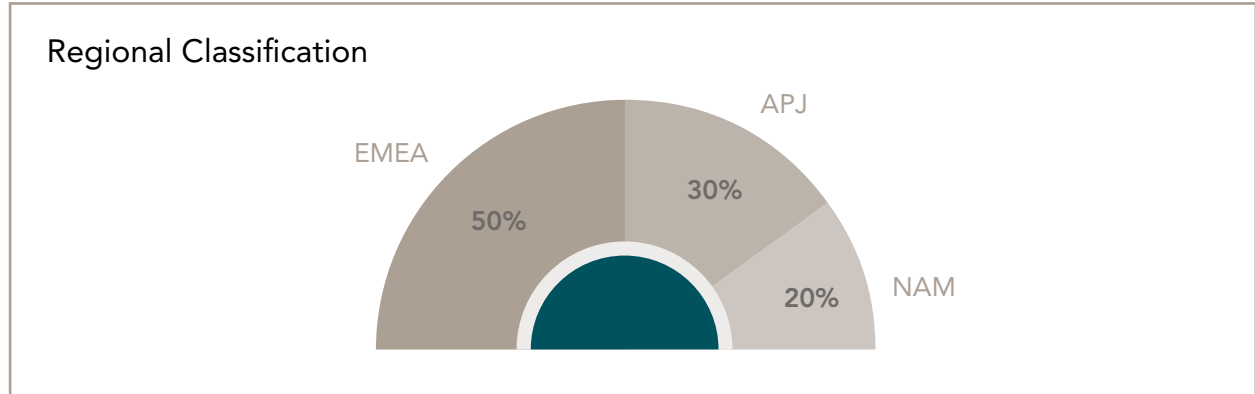
Industry Classification

The following represents a breakdown of the 120 respondents by industry classification. While a full range of industries are represented, it is worth noting that 20% represent "Business/Professional Services," 14% "Industrial Manufacturing," and 8% "Consumer Goods." The "Other" category is comprised of over 8 different industries.



Regional Classification

The following chart demonstrates a breakdown of the 120 respondents by regional classification. Those polled represent a truly global demographic with considerable representation from a diverse set of regions, including: 50% in Europe, the Middle East or Africa; 30% in Asia-Pacific; and 20% in North America.



Shared Service Center Status by Global Presence

Of the 75% of respondents from a global organization, 89% are currently using or plan to migrate to a shared service center. In fact, only 11% of those polled who are doing business globally state no plans to migrate to this model.

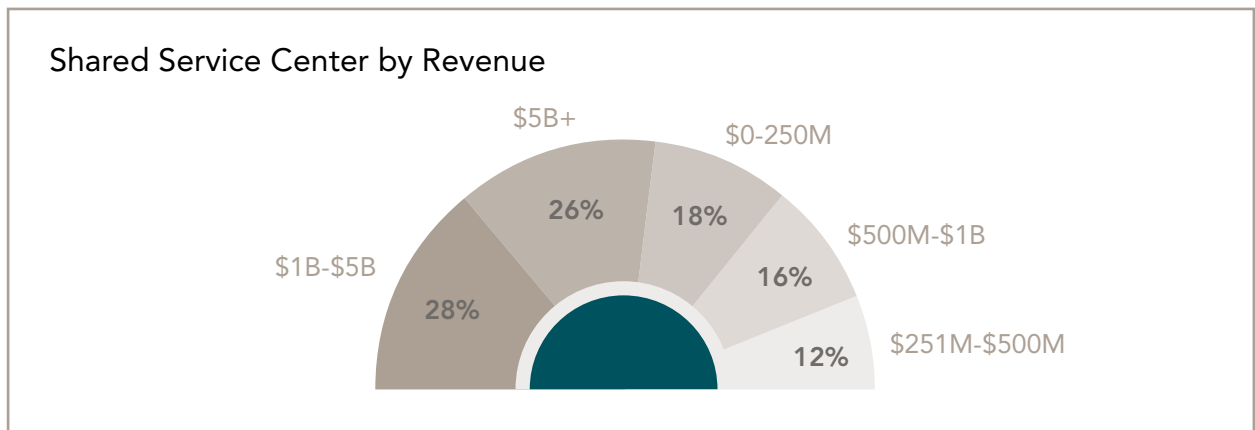
Global organizations are likely drawn to shared service centers for a few different reasons. Firstly, businesses that operate on a global level are typically dealing with large business volumes and, as such, shared service centers can eliminate the costly duplication of transaction-processing efforts across the enterprise. A shared service center environment can also provide these global companies with a means of introducing standardized global policies, as well as a centralized way of viewing information from different subsidiaries throughout the world.

Furthermore, by incorporating technology into a shared service center, global organizations can automate transactional functions for even faster and more accurate output. When processes are centralized under a shared services umbrella, technologies can be applied to ensure consistent controls and practices enterprise wide, based on common data, rules and assumptions.

Shared Service Center by Revenue

As indicated above, 89% of respondents stated they are either in a shared service center model or plan to migrate. The below chart drills down further by segmenting these companies by annual revenue.

Results demonstrate that the majority of companies polled (54%) gross \$1 billion or more in annual revenue. This trend is likely due to the fact that the larger the size of an organization, the greater the possibility exists that it is operating with disparate systems or non-standardized processes, particularly in departments such as accounts receivable and accounts payable. Therefore, the value of a shared service center lies in its innate ability to not only offer support for large volumes, but importantly to reduce redundant functional structures and institute consistent controls across such key areas of the business. Large-sized corporations frequently have many different operating locations scattered throughout the world, and shared service centers can help to provide a centralized view of cash and liquidity, as well as offer better transparency of data. By concentrating reliable and timely information in one location, a shared services model provides a single standard source for accurate business pulse checks and for the application of consistent and common metrics.



As depicted above, 60% of the companies polled without shared service centers and with no plans to migrate to one are under \$250M in revenue. However, it is important to note that typically there is little advantage to small-sized companies establishing a shared service center. Benefits for smaller-sized companies that would potentially migrate to this model are minimal considering that they typically do not handle large volumes of business transactions. Therefore, workload is already manageable and aligned with resources.

About AvantGard

SunGard's AvantGard is a leading liquidity management solution for corporations, insurance companies and the public sector. AvantGard provides chief financial officers and treasurers with real-time visibility into cash flows and increased operational controls around receivables, treasury and payments. AvantGard helps companies drive free cash flow and reduce inefficiencies across the EcoSystem of suppliers, buyers, banks and other trading partners. For more information, visit www.sungard.com/avantgard.

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