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AvantGard Insights

Collaborative
Financial
Management

**Shared Services:
Making the Move from Cost Leader
to Value Generator**

Introduction

Shared services mean many things to many people. Most often shared services are equated with cost reductions. But cost effectiveness is just the tip of a much larger value proposition.

This paper focuses on back-office shared services relating specifically to finance and accounting shared services including receivables, treasury and payments management. A critical area for any company—and not just for the cash flow implications—these key focus areas have intertwining relationships with numerous profit drivers.

For example, if you want to measure the quality of your customer service, you can start by assessing the health of your accounts receivables. In order to have full visibility of cash and risk, it is important for the treasury function to be interacting with receivables and payments processes. And if you want to improve the quality of both back-office processes and certain front-line functions, then finding the right approach to overall liquidity management is an excellent place to begin as it touches all cash coming in and out of the organization.

Companies embraced shared services originally for the cost savings benefits, which can be substantial as shared services eliminate the costly duplication of transaction-processing efforts across an enterprise. This has been followed by a shift towards leveraging shared services to provide additional value added capabilities that will improve management visibility and control (particularly in light of Sarbanes-Oxley), enhance process quality and increase overall business performance. However, the realization of these strategic benefits—which are immensely more valuable than mere cost reductions—has proven elusive for many organizations. But it doesn't have to be this way.

Impediments to achieving true strategic value from shared service initiatives are being overcome by new technologies that automate best practices, raise visibility into operations, and help drive continual process improvements. This paper discusses how to leverage enabling technologies for liquidity management in a shared services model in order to dramatically elevate visibility, control and business performance enterprise-wide in a sustainable and cost-effective fashion.

The New Fundamentals of Shared Services

Adding value through best practices

The vision of a Shared Service Center is to form an organization and operation in which a company's support processes are supplied to multiple business units from the center with decentralized coverage, either nationally or internationally. An effective SSC will be dispersed with flexibility for localized methods and yet operate as a whole; a single entity with a standardized vision and a global plan. The end objective is to serve multiple locations, business units, and localized methods using a single, shared resource center.

Establishing an SSC using this concept allows you to leverage central technology and local expertise to deliver services at significantly reduced costs while addressing the complexity of issues in each location (potentially in different countries). This will enable rapid, multi-country deployment and the outcome will be lower operating and transaction processing costs, more effective resource allocation, standardized processes and policies to ensure compliance and improved customer relations.

Value Beyond Cost Savings

There is no doubt that shared service functions have been instrumental in reducing transactional costs, but there is a new and greater game being played out today. Cutting the costs of transactions is a tactical and opportunistic endeavor. The new focus of shared services, which can result in much larger dividends, is on driving sustained strategic benefits such as improved business performance, ensured regulatory compliance and enduring competitive advantage. There is also no doubt that this too is achievable, but it takes more planning and effort.

To be successful on a strategic level, shared services functions must be capable of adding value through best practices. This is a far cry from what was possible during the first attempts at implementing shared services functions. But shared services have kept pace with available technologies, and expanded in scope because of them. We've progressed from co-located services handling routine tasks such as payroll and T&E to the advent of shared service centers of excellence handling value-adding services in such strategic areas as customer management on a global basis. Advances in broadband and wireless communications, data integration, analytics, automated business rules and workflow software and other technologies have all helped drive this evolution.

Key corporate functions that are ripe for best practices-based shared services include the management of cash in-flows and out-flows. This relates to the transactional processes that span numerous operational areas, from sales to customer service to collections to payments processing. And the effectiveness of cash management is reflected in numerous corporate performance metrics, from days sales outstanding (DSO) to revenue recognition to customer satisfaction. Even a slight process improvement in this arena—say, a more consistent application of deductions policies for disputed invoices or the ability to aggregate payment flows—resonates across an organization and can have a positive impact on the corporate balance sheet.

Improving Controls, Visibility & Performance

The Order-to-Cash cycle encompasses credit management, order quality assurance, dispute prevention, inventory transaction reconciliation, deductions management, invoice presentment, collections management, cash application / auto-cash processing and cash forecasting. Breakdowns in any of these processes can cause revenue leakage, delayed payments, write-offs, material weaknesses and lost business through angry customers. Hence it is an area that provides ample scope for the application of technologies that can add value, and not just cut costs, in a best practices-based shared services environment. This added value plays out in three main areas:

- Strengthened controls
- Heightened visibility
- Enhanced business performance

Strengthening controls

Consistent controls and auditable processes have always made good business sense, particularly across such key areas as accounts receivable, collections and inventory. And if good business sense isn't reason enough, Sarbanes-Oxley now mandates that public companies possess these things. Yet how do you achieve consistency and auditability when the corporate landscape is populated with disjointed and disparate ERP and other enterprise applications and systems?

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. This can include automated workflow technologies and the automatic application of business rules to enforce enterprise policies and procedures and raise employee productivity. For example, business rules can be employed to automatically validate chargebacks, deductions and invoices that meet pre-determined parameters while flagging those that don't, thus leading to reduced revenue leakage.

By the same token, centralizing information across all relevant systems and departments is essential to enabling financial data and decisions to be documented and auditable. Once the information is centralized, in a real or virtual manner, metadata (i.e.: data about data) and other technologies can be leveraged to show exactly who has touched what data, when and why.

There is also an issue of flexibility, particularly as it pertains to internal customers. No matter how strong controls are, they can be detrimental if they are resistant to business change or if they can't be customized for specific departmental needs. Shared services provides an ideal opportunity to implement a flexible technology platform for enterprise-wide liquidity management. With a common technology platform, changes can be made once and then propagated automatically across all business units, departments, and pertinent processes. Yet the formal controls can also be modified and customized to the specific requirements of each business unit.

Raising visibility

Achieving ongoing visibility across disparate systems and processes can be a significant challenge. By concentrating reliable and timely information in a single spot, shared services provides a single standard source for accurate business pulse checks and for the application of consistent and common metrics. For example, comprehensive management dashboard views can be leveraged to aggregate and present easily digested data on all transactions, projects, budgets, charges and expenses in real time. Corporate scorecarding can be used to measure progress against objectives. And online reporting can accelerate and simplify the dissemination of critical information. Moreover, exception- or threshold-driven alerts (web, wireless, etc) can be employed to direct the attention of decision makers to developing issues and help galvanize action.

Shared services also have a cumulative effect on business visibility. When an enterprise adopts a shared services model, there are inherent economies of scale. Suddenly the company can justify investing in advanced technologies that it perhaps could not justify on per business unit basis—technologies that can enable much greater and deeper visibility such as technologies for error root cause analytics, customer behavioral metrics, internal efficiency metrics and the like. And the more internal customers that are able to take advantage of these technologies, the greater the aggregate visibility into the business.

Powering performance

In terms of increased performance benefits, the tip of the iceberg is reduced operational and transaction costs. It's a given that technologies and best practices can help streamline processes, thus allowing companies to do more with fewer resources in less time. But it's equally true that process automation coupled with strengthened controls lead to substantially fewer errors and exceptions, higher quality results and improved overall performance.

The ability to leverage enterprise data in real time for improved decision making also has a galvanizing effect on performance. Management can see clearly where processes are breaking down, which customers are experiencing difficulties with invoices and payments, and so on. Analytics can then be leveraged to objectively uncover the root causes of these breakdowns and problems. Finally, the resulting knowledge can be fed back into the business to drive continuous process improvements and further performance increases.

Fostering Enterprise-wide Collaboration

The SSC approach optimizes business support processes and consolidates these into either a central location or regional centers. These functions are often transaction or information intensive and occur in most business units of a company. Business processes that are not a core component of business services are ideal candidates for a Shared Services operation. An SSC brings these business processes together in a single location, supporting multiple business entities.

The quality of the SSC depends on the quality of its resources. A well-educated, multicultural workforce, excellent Internet based support system, established and embedded policies and an international approach with a global plan, provides companies with the key ingredients for success.

An increase in data transmission speeds the flow of information between corporate divisions, subsidiaries and partners, allowing companies to respond quickly and monitor activities with greater efficiency. By embracing this technology you can transform a finance function by freeing management from the routine production of information, allowing them to add real value through analysis and interpretation of financial data.

Key Components of a Finance Shared Service Center:

- Establish global policy; engage local expertise
- Central repository for worldwide data
- Access to all vital information online, via the Internet
- Embedded strategies facilitates workflow & collaboration
- Flexible and configurable to meet local demands
- Easy deployment; scalable solution

A SSC can take advantage of online collaboration tools to minimize costs, improve customer relations and improve relationships between colleagues; it is new in the explosion of information management and communications technology, offering a faster and more effective use of information and expertise. For an SSC, this translates to better flow of data, improved Localized service for the customers and a central repository of information for detailed reporting and analysis.

Whereas processes of old have been somewhat stagnant and lacking, online collaboration provides support in sound decision-making and execution affecting all levels by co-operating in the provision of data, information, consultation and other services.

Once the solution is in place, all areas of the organization will be working together on a global level to improve processes and procedures throughout the organization. The outcome will be lower operating and transaction processing costs, more effective resource allocation and improved customer relations.

Reduced Total Cost of Ownership

Leveraging technology investments across multiple business units

A shared services model can amplify the benefits outlined above by leveraging a liquidity management investment across multiple business units. A shared services center, where the consolidation of these functions take place, is in effect a stand-alone business dedicated to serving internal customers across the enterprise. Such a center creates opportunities for focus and for building and sustaining an enterprise center of excellence. Of course, implementing a shared services center is not without its challenges. Different internal customers have different embedded cultures, systems and processes that have evolved over time. Hence the fundamental challenge is determining how and where to standardize in order to leverage commonalities, achieve economies of scale and drive maximum value.

Tactical advantages of a shared services center

A shared services center enables a company to implement a platform approach to liquidity management that is leverageable across the enterprise. The platform integrates existing transaction systems, eliminates silos of information and reduces redundancy of efforts—both vertically within each business unit and horizontally across all business units. Processing tasks and workloads can be balanced across business units and staff and other resources can be added as needed and shared across all internal customers. There's more than just cost savings here. There's also the ability to achieve world-class quality in liquidity management.

Strategic advantages of a shared services center

On a strategic level, a shared services center promotes consistency, common discipline and best practices across a business, no matter how far-flung and diverse its operations. A shared services center also enables companies to invest in world-class technologies for visibility and reporting *and ensure their optimal use enterprise wide*. Having this capability is not only an essential requirement for cost-effective compliance with Sarbanes-Oxley and other regulatory mandates, but also for meeting shareholders' expectations for ever-higher levels of corporate performance. In this regard, a shared services center can act as a dispassionate audit system, feeding objective views back into the business in order to drive continually improving performance.

So what's standing in the way of greater shared services success?

Given these considerable benefits, why is it that so many shared services initiatives are achieving only simple cost savings? There are a number of traditional roadblocks including:

- **Too much focus on cost reductions at the expense of service quality.** With the mantra of “centralize, centralize” 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 organizations.
- **Limitations in scope.** Often, there are key linkages within the organization that need to be leveraged by the shared services model, but which are either not recognized or not leveraged fully.
- **Over-rationalization.** Many companies fail to hold on to key specialists as they centralize 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 realizing its objectives—particularly if those objectives extend into the strategic realm of improved visibility, control and performance. They might even contribute to failure of the initiative altogether, or cause the initiative to have a detrimental effect on corporate performance.

The new drivers of shared services success

Leveraging a shared services liquidity management platform

Companies that have been successful in their shared services endeavors tend to follow a common course that helps them navigate through potential obstacles while helping to drive ongoing success. Success drivers include:

Running the shared services center as a business *with improved quality being the product.* The business of a shared service center is to provide service and improved quality is a key metric of success. The focus should be on improving process quality in order to improve overall business performance. It should not just be on trimming costs. If need be, let reduced transaction and operational costs be the enticement that gets internal customers in the door, but never stop “selling” and providing the additional strategic benefits.

Raising visibility to get the business to react positively. This means raising visibility of what the shared services center can do for the enterprise by marketing your successes. And it also means raising the business’s visibility into its own business processes so it can see what is possible to improve and how to improve it through shared services-delivered best practices.

Leveraging a technology platform. If ever there was a cross-functional business process that can leverage technology to drive striking enterprise performance increases, it is liquidity management. It’s a process that spans the entire cycle of cash in-flows, cash management and cash out-flows. Piecemeal automation and point solutions cannot address the holistic needs of the organization. Hence a platform solution for revenue and receivables management is an imperative. A platform lets you start with a small portion of the order-to-cash cycle if desired, such as automating collections management or dispute prevention. And it allows you expand your scope to encompass other portions of the cycle, including cash management, treasury and payments processing.

Getting further up into the organization. Don’t regard what you’re doing as merely streamlining the management of liquidity, or some portion of it like payments processing or collections. What you are really going to be doing is breaking down silos of information and barriers to control, visibility and performance. You’re going to be allowing functions from sales to collections to treasury to become more collaborative and hence more effective. You’re going to be ferreting out sore spots in the order-to-cash cycle before they become rabid problems. And you’re going to be funneling all that knowledge back into the business to drive continuous quality improvements.

What should I look for in my technology platform?

The ideal platform for shared services receivables, treasury and payments management supports the above success drivers through a combination of capabilities:

- **Integration of operational and historical data** across the enterprise, in both batch and real time
- **Collaborative workflows** across departments and functions to integrate them into a common business process, improve productivity and streamline problem resolution
- **Integrated business rules** capability to enforce policies and employ business intelligence techniques to proactively identify errors and exceptions
- **Ad hoc querying and dynamic reporting** in order to dig into relevant information, view key quality metrics, pinpoint problem areas and uncover root causes
- **Comprehensive auditing** capabilities to support quality assurance initiatives and compliance mandates

Beyond all this, a shared services revenue and receivables management platform can provide high-level strategic and value guidance enterprise-wide, through its ability capture, consolidate, categorize and present actionable information. Visibility into customer behavior patterns can be leveraged not only for improved DSO but also for strengthened customer relations. Visibility into customer profitability can be leveraged for strategic sales and product planning. Visibility into disputes and returns can be leveraged for improved product quality, and visibility into cash flows and risk, can improve management of investments and debt.

Make the move from cost leader to value generator

Businesses relate easily to the cost reduction aspects of shared services. They always have, which is why shared services exist in the first place. The opportunity now is to deliver added value to internal customers—i.e.: the day-to-day funders of shared services initiatives. Implementing a platform for liquidity management in a shared services environment enables multiple internal customers to improve their performance and thus the performance to the entire enterprise.

To rest on shared services' cost reduction laurels is to waste even greater opportunities to positively impact the bottom line—opportunities such as unlocking significant amounts working capital, eliminating process inconsistencies and errors, avoiding counter-productive customer disputes, elevating employee efficiency to entirely new levels, continually enhancing products and services. A shared services approach to liquidity management, resting on a solid technology and best practices platform, can spread these benefits across every business unit in a company to drive compliance, competitive advantage and shareholder value over the long term.

About AvantGard

SunGard's AvantGard provides real-time visibility into cash flows and increased operational controls around treasury, receivables, and payments management.

Customers turn to AvantGard to help them improve management of working capital, mitigate risk, and strengthen internal controls for regulatory compliance.

The AvantGard solution aggregates data for a single view of cash, drives productivity through automation, fosters enterprise wide collaboration, and facilitates connectivity between the ecosystem of suppliers, buyers, banks, trading partners, and customers.

Offering Best Practices and Subject Matter Expertise

Drawing on the experience and best practices gained from supporting over 20,000 users worldwide, AvantGard offers more than just technology. AvantGard offers ongoing support services and process consulting from Subject Matter Experts to help maximize return on investment of time, capital, and resources.

AvantGard customers have demonstrated significant bottom line results such as improved management of cash, reduced risk, increased cash flow, and lower operating costs.

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