Shared Services: Better Service at Lower Cost

The past 10 years have seen a substantial move by many of the Fortune 500 companies toward a shared services operating model to improve their competitive position. Our clients’ experiences prove the enormous potential for companies to employ shared services in response to competitive cost pressures while meeting the imperatives of business growth.

The most frequently cited benefit of shared services is dramatic cost savings in support and infrastructure services. While this is the primary justification for most successful shared services programs, an equally important benefit is repositioning support organizations as service providers. Repositioning, along with the resulting organizational, technology, and process changes, differentiates shared services from simple centralization. Repositioning is a foundational element for organizations striving to manage the complexities of rapid growth and globalization.

Historically, companies have replicated basic transaction processing capabilities in each of their business units, plants, and retail locations. Substantial redundancy and insufficient scale to achieve maximum efficiency have been the results. But, by taking advantage of ERP systems, e-enabled technologies and other advances, shared services can provide a range of solutions that offer responsive customer service without requiring physical proximity to the customer.

Early adopters of shared services proved the concept could reduce operating costs for basic financial processing services. In the early 1990s, North American organizations demonstrated that shared services could support an emerging mix of business processes across finance, human resources, and information services. Now there is a stronger trend toward shared services in several regions globally, particularly in Europe where it is well-established, and in Asia-Pacific where it is an emerging practice.

The Value Proposition

Efficiency is the primary driver for shared services. As global competition becomes a reality and more countries participate in the world economy, it becomes crucial to manage costs, especially in support functions. Shared services may reduce back-office costs by 25 to 50 percent; this improvement has been realized in both North American and pan-European corporations.

Typical Shared Services Cost Reductions

- General Accounting - 55 percent
- Payables - 45 percent
- Payroll - 35 percent
- PP&E Capital Budgeting - 35 percent
- Receivables and Credit - 25 percent

Source: Accenture Experience

Economies of Scale/Skill

Two primary sources of cost savings are reductions in clerical headcount and number of management levels. Consolidated functions and processes eliminate redundancies and minimize the cost of transaction processing. These savings can be increased if the shared services organization is created as a new organizational entity. This new entity may not only have access to reduced wage rates, but may also encourage innovative organizational structures and reward programs that can greatly enhance performance and productivity.

Companies can gain additional savings across the organization by leveraging specialty skills such as legal services, tax services, and environmental health and safety auditing. Moreover, the incremental benefits from creating a high-performance organization can increase the payoff over time by fostering a culture of continuous improvement.

Reducing Infrastructure Costs

In addition to labor savings, shared services initiatives contribute to reductions in infrastructure costs such as technology, facilities and services, and miscellaneous administrative overhead items (e.g., paper and handling). Savings opportunities can also be found in occupancy costs for a shared services center (SSC) in a new location. For example, our clients have recently realized facilities savings by setting up SSCs in Tennessee, New Jersey, Dublin, and Prague.

Standardization offers an opportunity to eliminate technologies that are not cost effective. One of the
biggest components of most information technology budgets is ongoing maintenance, which can be reduced substantially through standardization and consolidation.

The shared services model can also accelerate the adoption of new technologies such as imaging, workflow, and e-enabled applications. Newer versions of ERP systems increasingly integrate these technologies, allowing companies to move closer to their ideal process visions. The use of e-enabled tools has expanded the potential for self-service capabilities.

Supporting Growth Strategies
Changes in organizational structure are often necessitated by joint ventures, alliances, mergers and acquisitions, penetration of new markets, and support for global product lines. The cost of continuously adjusting and integrating new support organizations detracts from the value realized by shareholders and can impede a company’s ability to execute its strategies effectively. Shared services can provide new options to assimilate growth rapidly. By defining common business processes, data structures, and technologies, shared services can help companies provide necessary support services for new organizations without starting from scratch.

Focusing on Core Competencies
The need to focus on core competencies requires many companies to identify the key processes they need to succeed. Shared services can relieve business units from the burden of managing noncore activities. At the right time, the shared services organization can also manage any outsourcing opportunities for individual services.

Better Information
An expected outcome of shared services is improved accuracy and timeliness of source data. Benefits are realized as shared services begin to consolidate information across business units and geographic boundaries. As the focus changes from function to business process, the opportunity to achieve these potential benefits increases dramatically.

Selling Support Services Competitively
Some companies have leveraged shared services to provide business services externally. Besides the benefit of generating incremental revenue, shared services organizations that sell externally are compelled to maintain customer focus and to adopt continuous improvement.

Is Shared Services Right for You?
Shared services is not a one-size-fits-all strategy. Each organization should carefully evaluate its shared services strategy within the context of its own situation. What are the sources of business value? How much change is acceptable within the corporate culture? What critical skills and activities must remain decentralized? This checklist shows characteristics that are typical of organizations that can realize substantial value through implementing shared services.

Shared Services Checklist
Organizations that benefit from shared services usually share a number of characteristics:

- Operations in multiple geographic locations with independent support organizations
- Multiple business units operating with independent support organizations
- Above average processing costs for transaction processing capabilities
- Large volumes of transactions
- High management-to-staff ratio
- High proportion of employees located in high-cost areas
- Intent to grow through acquisitions, joint ventures, or alliances
- Significant investment required to enhance systems and processes associated with support services
- Specialized skills are scarce and/or duplicated unnecessarily
- Inconsistent delivery of satisfactory service levels across businesses/markets

Which Processes Should Be Shared?
Following are examples of shared services offered by Fortune 500 companies:

Human Resources

- Payroll processing
- Compensation
- Records management
- Benefits administration
- Training and education
- Relocation services
- Travel and expense
- Self-service

IMPLEMENTING SHARED SERVICES
Implementing shared services is no small task. While the journey is filled with challenges, the benefits are compelling for companies that stay on course. Shared services implementation is divided into three major phases: operating strategy (conceptual design), design, and implementation (build, test, and rollout).

The operating strategy phase results in a “blueprint” for shared services that documents the desired cultural, organizational, process and technological end-state. This phase determines the scope and structure of shared services. To begin, an assessment of the current state is conducted and opportunities for better service at lower costs are identified. This process is expedited through data gathering, comparison to relevant benchmarks and the application of best practices within the areas of organization, process, and technology. This phase will result in high-level process flows, technology and organizational impacts, a transition or change strategy, and an actionable business case and implementation plan.

The design phase produces the organizational, procedural, and technological designs needed to support the shared services operating strategy. During this phase, the plans for the workforce transition/reduction and rollout are developed. The service management design is completed. The project team selects the locations for the shared services centers and begins facility planning. Design activities provide the details needed to validate the business case and to plan a successful implementation.

The implementation phase encompasses activities that build, test, pilot, and roll out the solution specified in the design phase. During this phase, the shared service center build-out is completed and service center leaders focus on new business start-up activities such as recruiting and training. The service management design is adopted by the new leadership team and converted to actionable plans, processes, and measurements; the end result is an ultimate high-performing, customer service delivery culture that maximizes the potential of shared services.
Finance
- General ledger
- Accounts payable
- Accounts receivable
- Planning and budgeting
- Internal audit
- Tax compliance
- Cash management
- Foreign exchange

Information Services
- Standards
- Technology/development
- Desktop support
- Applications development
- Data center operations
- Application maintenance
- Telecommunications
- Hardware and software
- Acquisition

Logistics/Materials Management
- Strategic sourcing
- Procurement
- Warehousing
- Inventory management
- Transportation

Customer Service
- Call centers
- Returns processing
- Credit and collections
- Order management

Legal/Corporate Affairs
- Litigation support and coordination
- Communication services
- Environment, health/safety
- Insurance
- Regulatory compliance
- Media relations

A decision to provide shared services for a specific business process offers opportunities to design numerous solutions - from receivables management to the entire order-to-cash cycle. Finding the right answer requires a solid grasp of current costs and services as well as detailed understanding of what is achievable using new combinations of people, process, and technology.

Global Shared Services Challenges
The barriers to implementing shared services are lower throughout North America because technology, language, culture, and regulatory constraints are relatively uniform. While this standardization is absent elsewhere, international companies are nevertheless overcoming these challenges and moving to adopt shared services. The convergence of the European marketplace is bringing new entrants and increased mergers and acquisitions. This economic environment puts organizations under pressure to cut costs in order to preserve margins. Shared services is seen as a strategic response.

In Asia/Pacific existing labor and facility costs are often low, so the value of shared services lies in intangible benefits such as improved service levels and better information for decision-making through an enhanced service delivery model.

Organizing for Success
To achieve maximum benefits from shared services, a business integration approach needs to balance people, process, and technology issues as well as address sponsorship, communication, and program management. The strategy must be practical, workable, and incorporate best practices.

Sponsorship
Because it crosses organizational boundaries, shared services needs sponsorship at the highest levels – either the chief financial officer or other “C-level” executives can successfully fill this position. The sponsor must maintain momentum by cutting through the cross-organizational differences of opinion that inevitably occur. Top-down sponsorship is necessary but not sufficient to ensure that the entire organization embraces the new model. The most successful programs develop multiple levels of sponsors that cascade down the organization to all employees. Each sponsorship level is responsible for communicating with and educating the next level, so that rumors don’t overwhelm facts and employees understand the business case for change.

Communications
A well-planned communications program is crucial in sustaining enthusiasm and preventing confusion. Communication should start early and continue throughout implementation, sending the right message at the right time and supplying valid responses to common questions. Communications must also address a broad range of assumptions that are often unstated. By emphasizing facts on current costs, transaction volumes, IT, and skills, the company can lower the resistance to change and increase the likelihood of success.

Process vs. Function Perspective
Moving to a process-based perspective helps the organization to achieve more common and standardized processes. Ownership of an end-to-end process allows a broader scope of improvement, which then leads to bigger benefits.

Appropriate Scope
When considering the extent of shared services, the scope needs to be broad for the greatest benefit. Assign a high priority to initiatives that will produce quick wins, and then move on to longer-term initiatives that require greater effort.

Fact-Based Approach
A typical shared services initiative consists of projects working in parallel. As teams execute their plans, they may compete for resources, make conflicting decisions, and communicate ineffectively within the organization. To avoid confusion, cross-project functions (project planning, quality management, etc.), can be handled by one office given responsibility for cross-project decision-making.

A quantified benefits approach provides management with necessary facts for adjusting the program plan as roadblocks are encountered while ensuring that promised benefits are delivered. Seeing benefits early in a program builds momentum for consistent future successes.

Best Operating Practices
A shared services model must be performance-driven and customer-responsive. Service levels in the shared services environment must be as good as or better than the status quo. Successful companies provide service level agreements and governance boards that hold the service center accountable for delivering against its promises.