Shared services and outsourcing
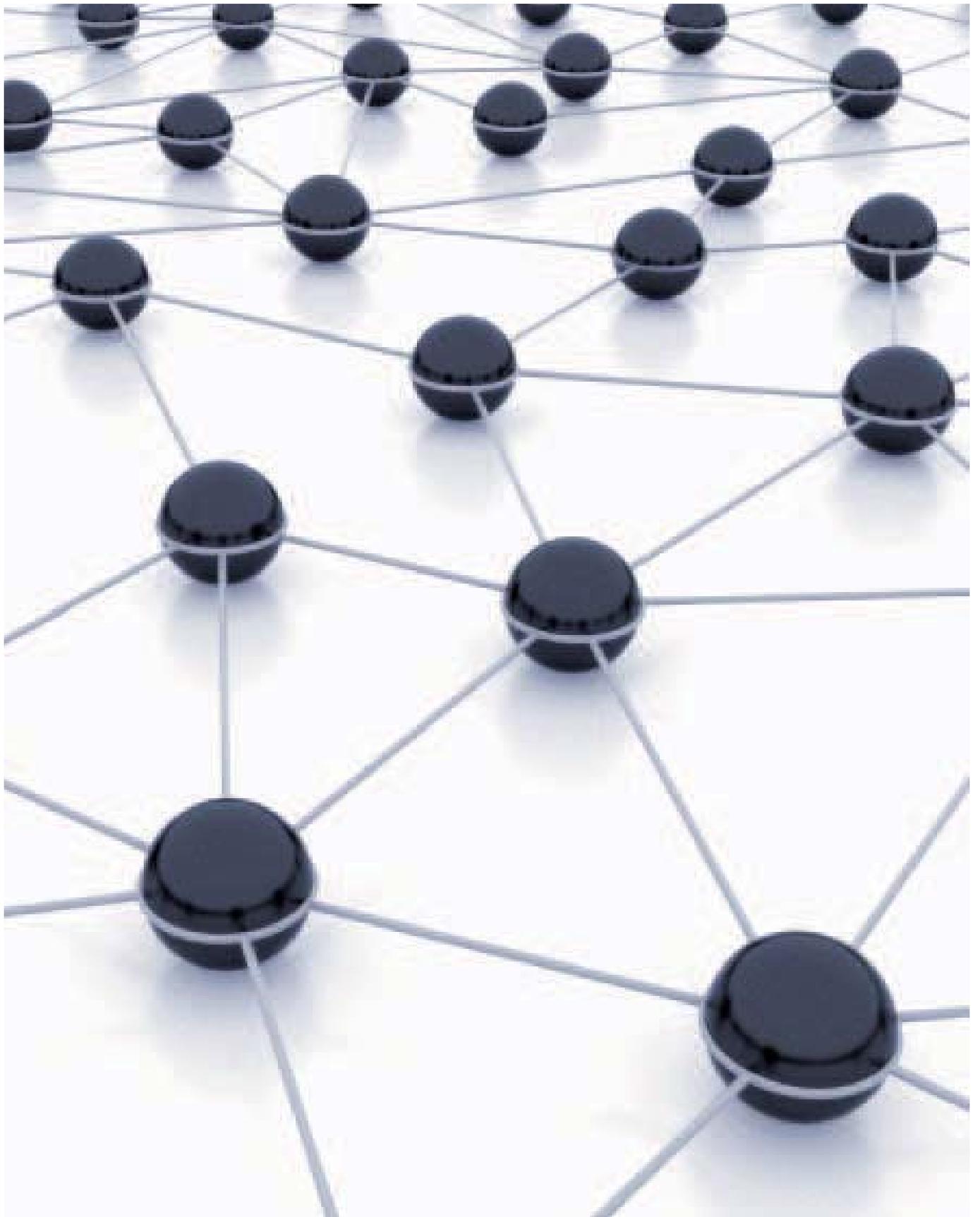
What we do

Collinson Grant

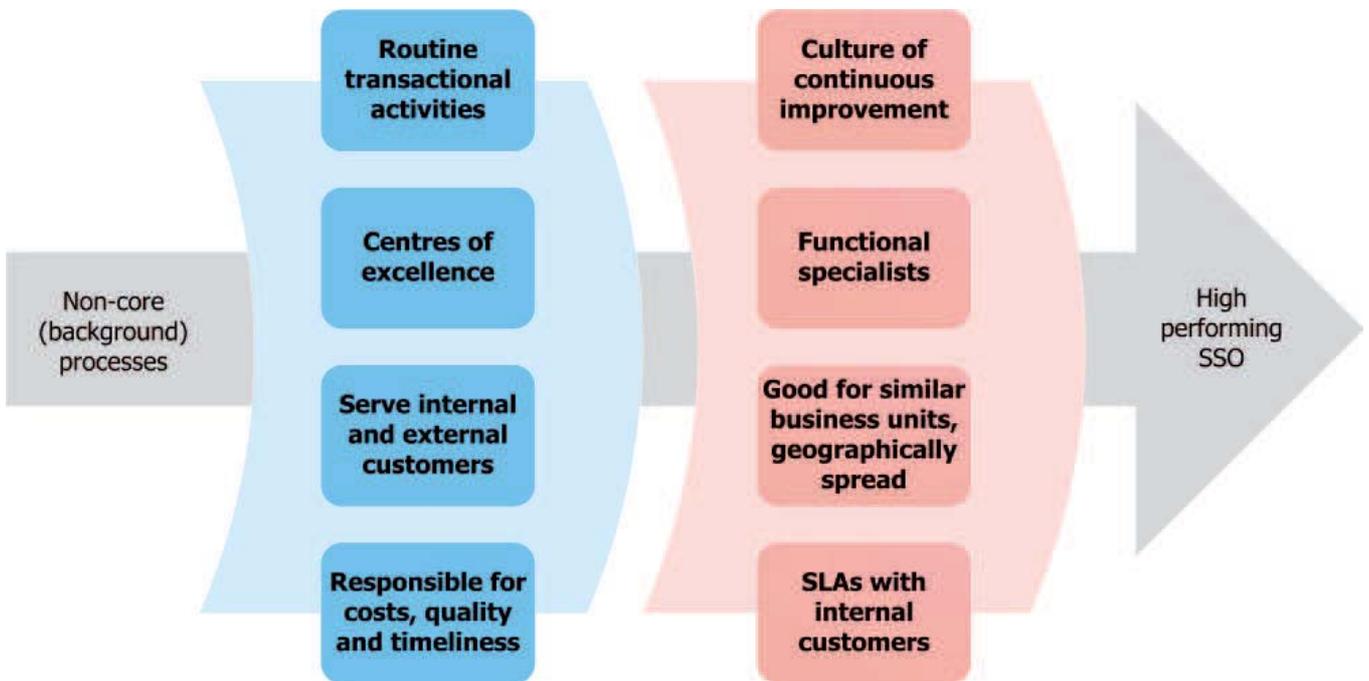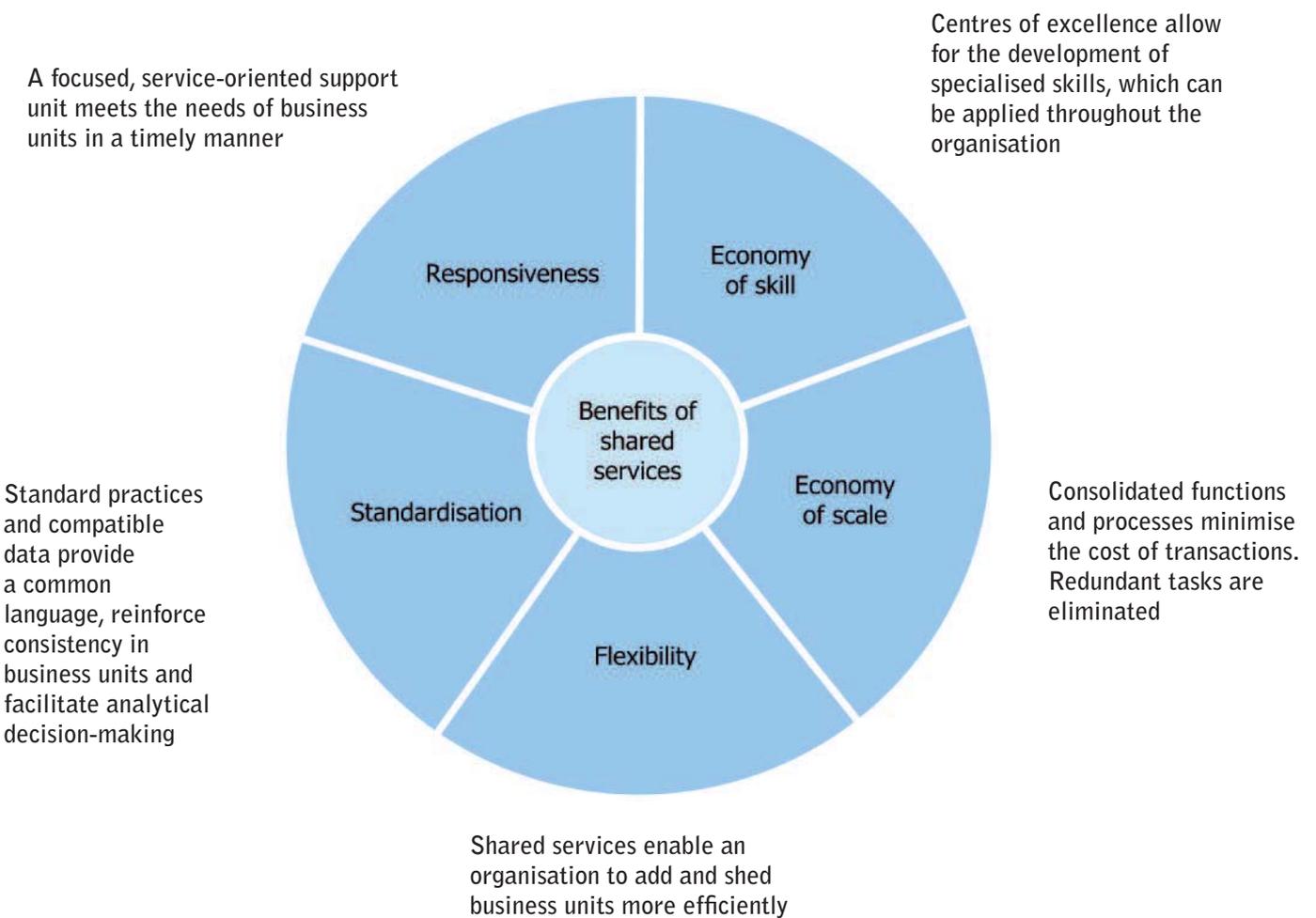# Contents

Shared services

Scope and typical characteristics

Business processes that are not a core component of a corporation's services are ideal for Shared Service Organisations (SSOs). Internal controls are reinforced by service level agreements (SLAs).
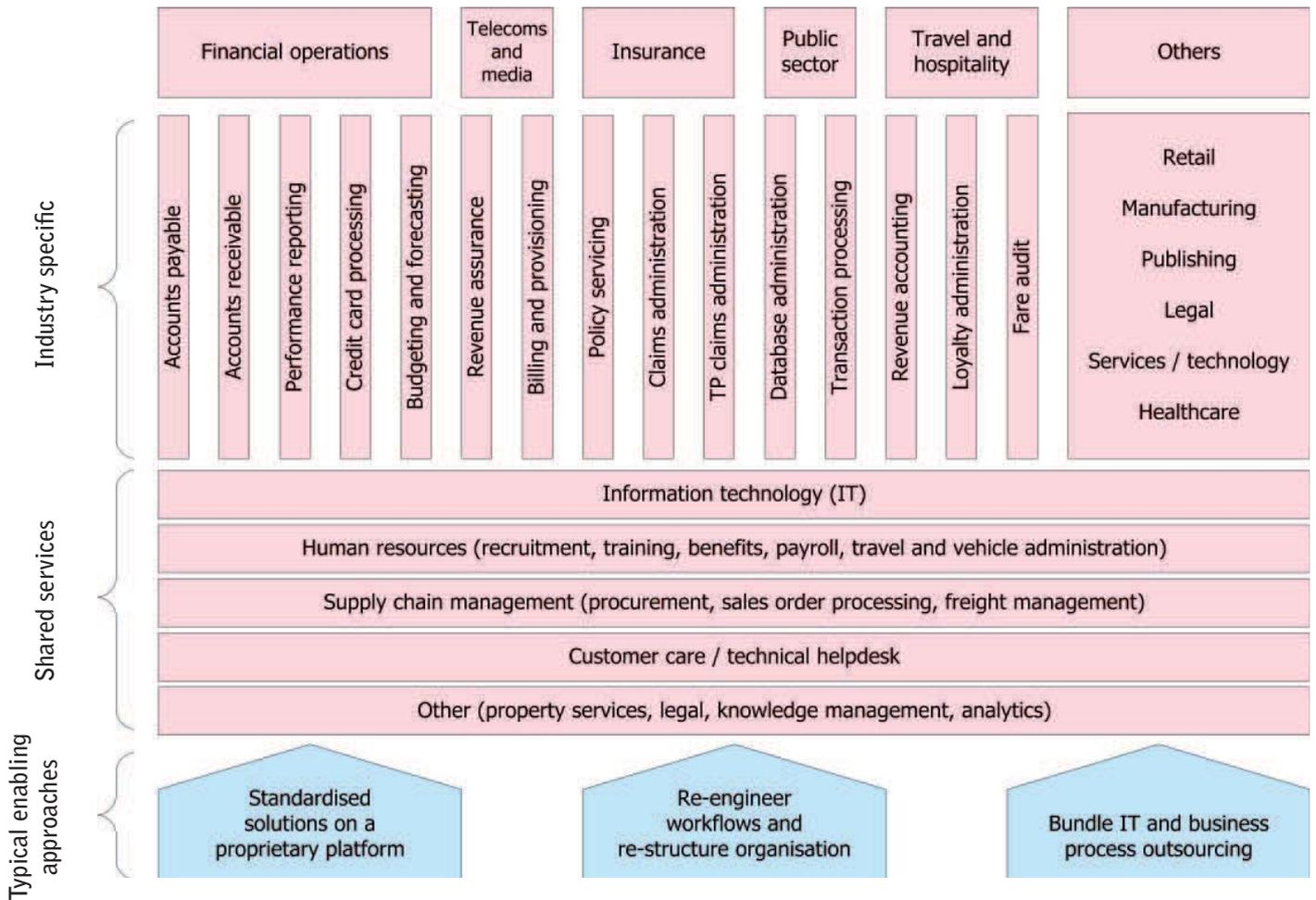
Benefits

Effective shared services offer lower costs and better quality than organisations that retain and manage the same functions in business units (BUs).

A focused, service-oriented support unit meets the needs of business units in a timely manner

Centres of excellence allow for the development of specialised skills, which can be applied throughout the organisation

Standard practices and compatible data provide a common language, reinforce consistency in business units and facilitate analytical decision-making

Consolidated functions and processes minimise the cost of transactions. Redundant tasks are eliminated

Shared services enable an organisation to add and shed business units more efficiently

Responsiveness

Economy of skill

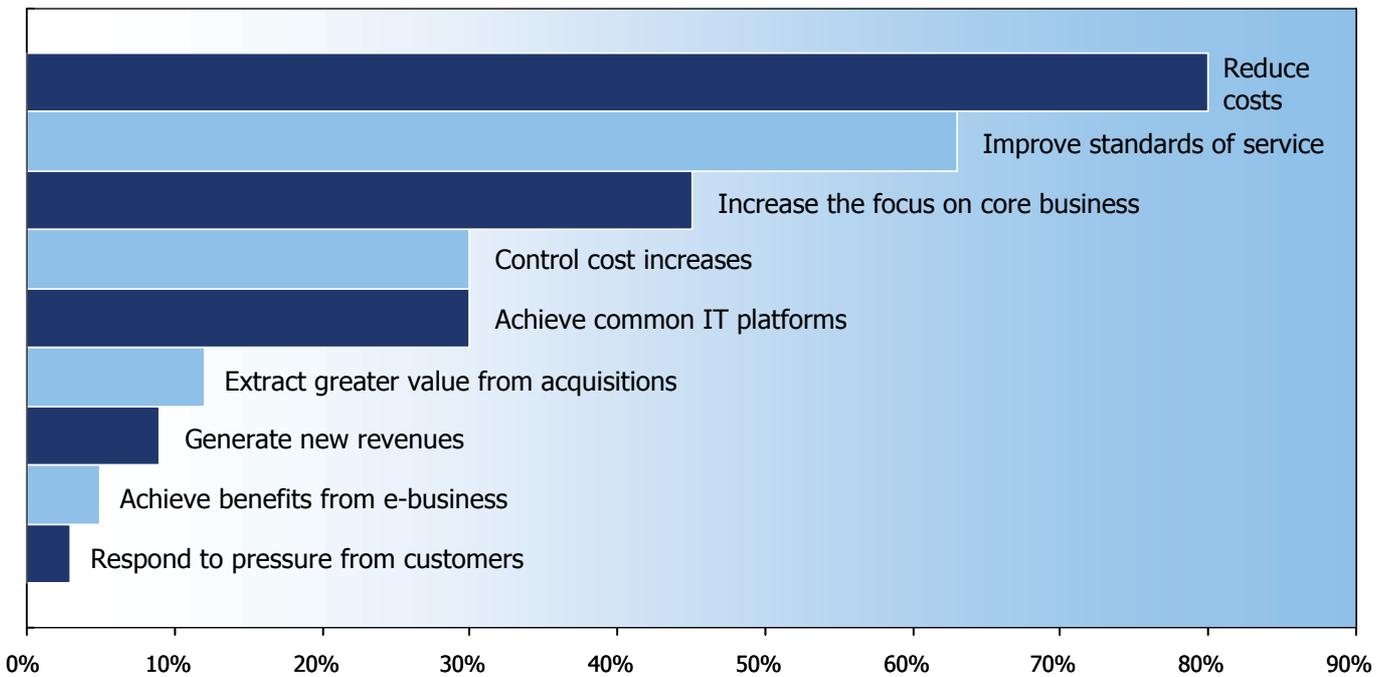Benefits of shared services

Standardisation

Economy of scale

Flexibility

What Shared Service organisations do

Shared service organisations can undertake a large number of business operations

	Financial operations					Telecoms and media		Insurance			Public sector		Travel and hospitality			Others
Industry specific	Accounts payable	Accounts receivable	Performance reporting	Credit card processing	Budgeting and forecasting	Revenue assurance	Billing and provisioning	Policy servicing	Claims administration	TP claims administration	Database administration	Transaction processing	Revenue accounting	Loyalty administration	Fare audit	Retail Manufacturing Publishing Legal Services / technology Healthcare

Shared services
Information technology (IT)
Human resources (recruitment, training, benefits, payroll, travel and vehicle administration)
Supply chain management (procurement, sales order processing, freight management)
Customer care / technical helpdesk
Other (property services, legal, knowledge management, analytics)

Typical enabling approaches

Standardised solutions on a proprietary platform	Re-engineer workflows and re-structure organisation	Bundle IT and business process outsourcing

Shared services: justification

Surveys indicate that reduced costs, improved service and a focus on the core business are the primary justifications for Shared Service Centres (SSCs).

Reduce costs

Improve standards of service

Increase the focus on core business

Control cost increases

Achieve common IT platforms

Extract greater value from acquisitions

Generate new revenues

Achieve benefits from e-business

Respond to pressure from customers

0%   10%   20%   30%   40%   50%   60%   70%   80%   90%

Source: Biwater survey

Shared services: benefits

There are a number of opportunities for savings:

Quantifiable

■ They allow BUs to benefit from economies of scale, especially in transaction-intensive, volume-oriented tasks

■ By consolidating services and data, an SSC can provide services at a lower cost than each separate unit, and can virtually eliminate duplication in labour and capital

■ Automation makes routine transactions more efficient

  ➢ shared services can justify large projects that single BUs cannot do alone

  ➢ they increase the options for a company to manage these large projects and processes

Harder to quantify

■ SSCs enhance service

  ➢ 24-hour availability becomes more affordable

■ They share expertise throughout the enterprise

  ➢ specialists previously focussed on one location or BU can serve the entire organisation

  ➢ experience gained by people at different sites is combined to develop best practice

■ Managers are freed from the distractions of administration

  ➢ allowing them to focus on higher-value activities, such as serving customers and developing new products

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Shared services centre: evolution and maturity

SSCs allow an evolutionary approach to raise performance and lower costs

|					
Multiple systems	**Remove complexity**	**+ standardise processes**	**+ implement common system**	**+ establish new organisation + centralise transaction processing**	**+ Implement e-enabled common system + virtual transaction processing**
Non-standard, complex processes	Multiple systems	Multiple systems	Common systems	Common systems	e.enabled system
Multiple locations	Non-standard, simple processes	Standard simple processes	Standard simple processes	Standard/simple processes	Standard/simple processes
	Multiple locations	Multiple locations	Multiple locations	Single/few locations	Virtual locations
Headcount 100%	Headcount 80%	Headcount 60%	Headcount 50%	Headcount 40%	Headcount 25%

Shared services: structures

However, there are many paths to and types of the right structure and potential benefits.
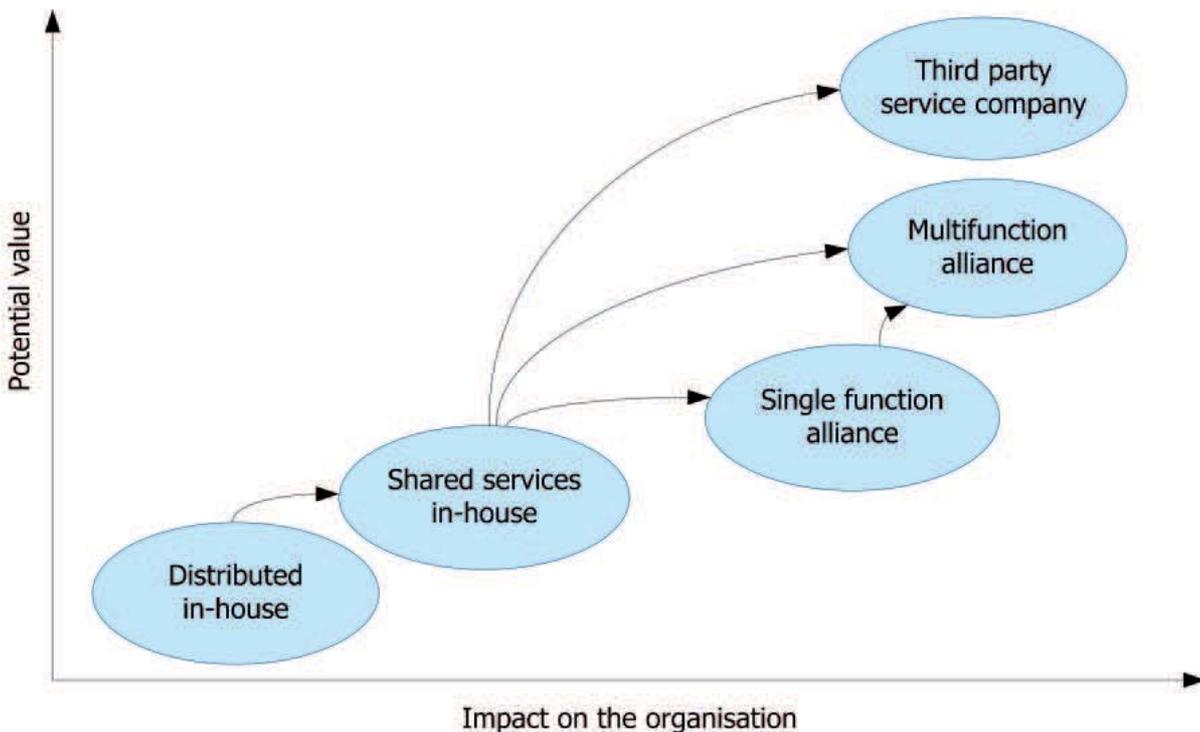
Optimum locations for shared service operations

Shared service organisations must select the 'right-shore' option that meets the needs of the business

- Moving operations into a shared service 'hot-spot' may reduce the cost base

- Optimising processes can reduce costs and can be done at any stage

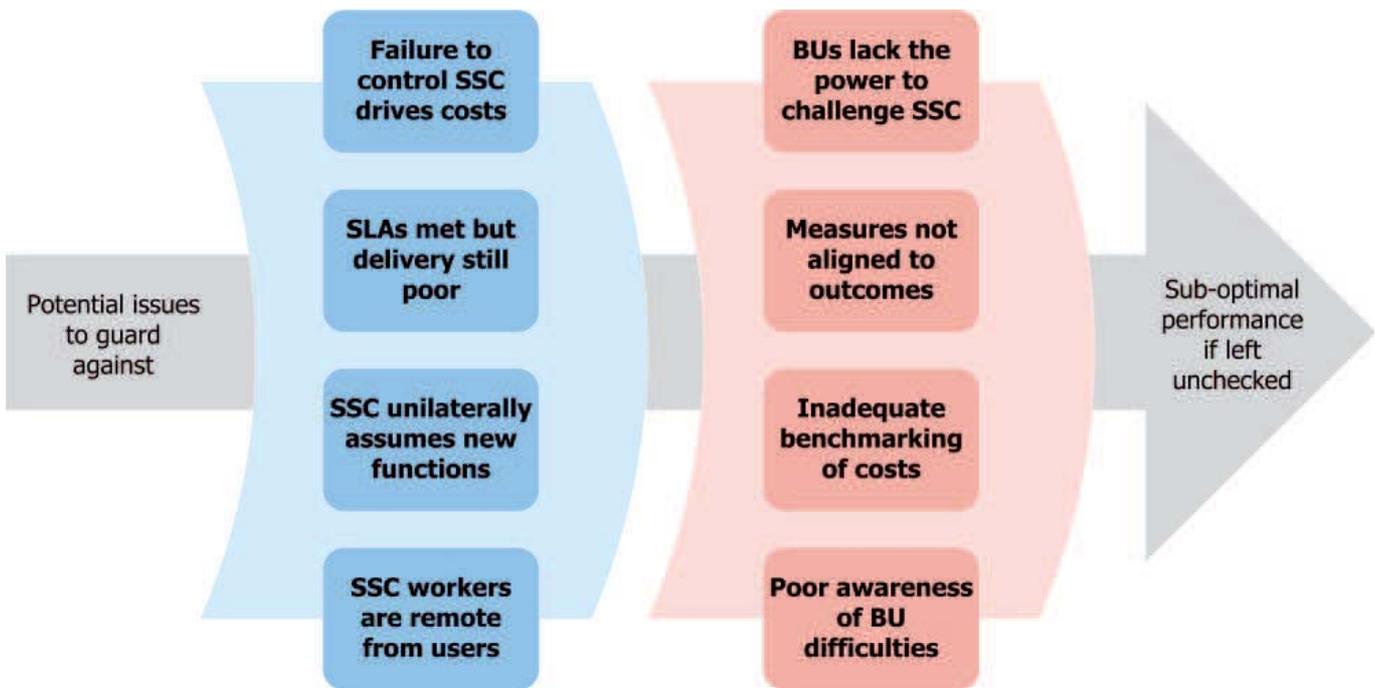- After that, to make more savings, you need to consider moving the site

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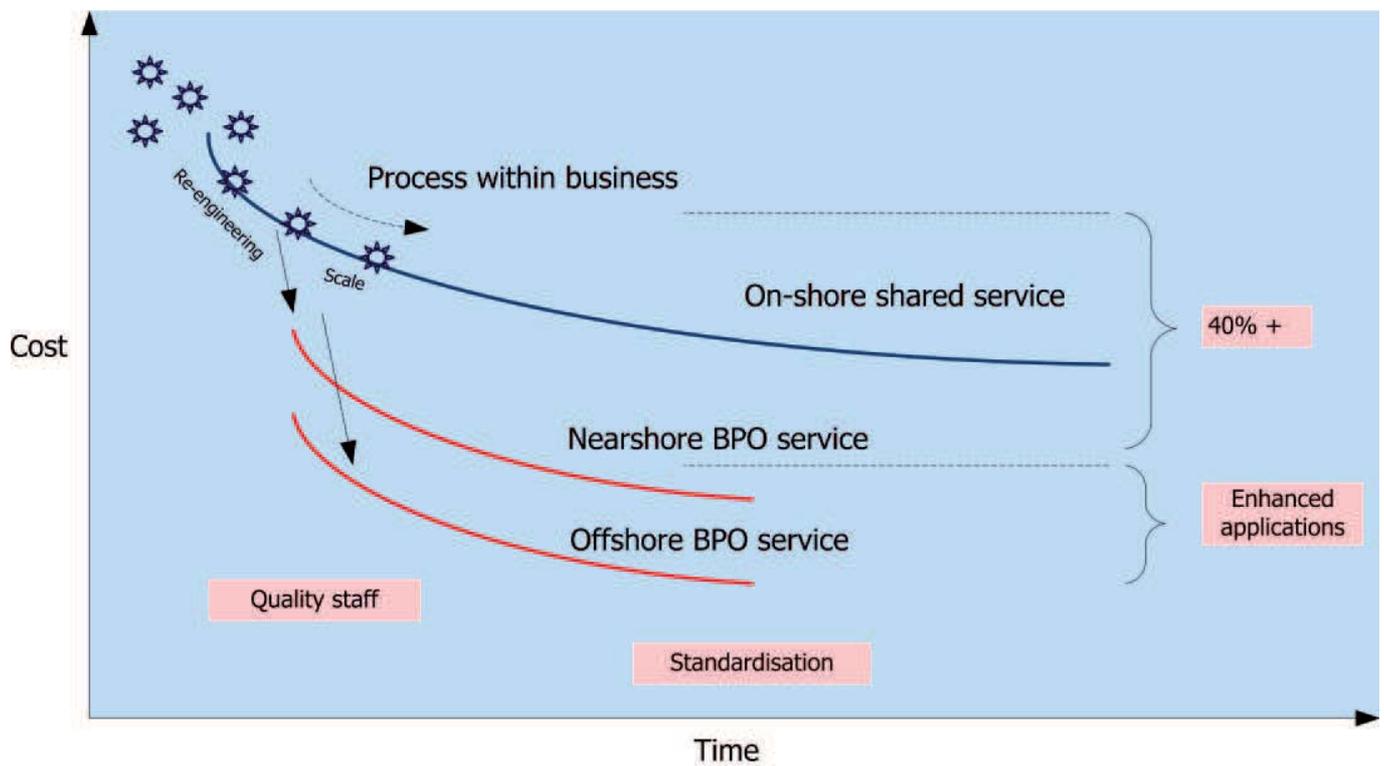
Offshoring: considerations

And you should only offshore stable and efficient organisations and processes
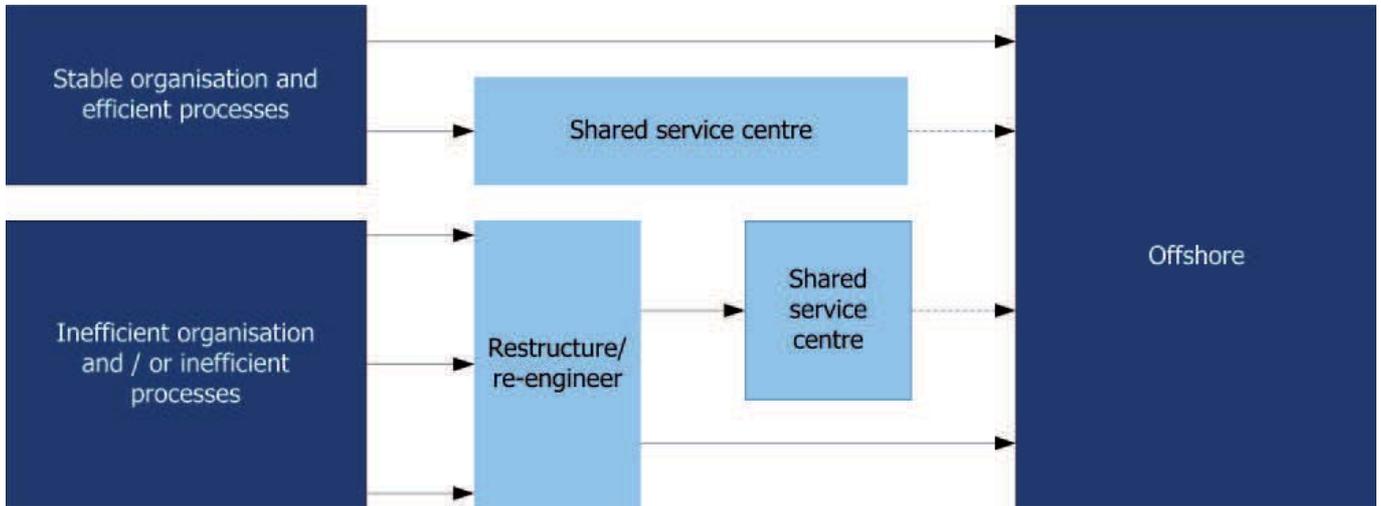
Why hesitate?

SSCs can become kernels of dysfunctional corporatism. They may encourage a centrist approach that discourages innovation and stifles initiative

Outsourcing

**Operations often become inefficient in time**

Many organisations struggle to break away from operational problems

Operational cost drivers

Processes are ineffective and not measured robustly

The management of costs is poor

Technology rationalisation could go further

Services are over specified

Structural weaknesses and gaps in skill

Complexity increases endlessly

Management of suppliers is weak

High and climbing costs; constant surprises

Declining quality of service

Weak future capabilities

'Transformational' outsourcing

Transforming the approach and focus of the organisation during outsourcing unlocks substantially more value than conventional outsourcing
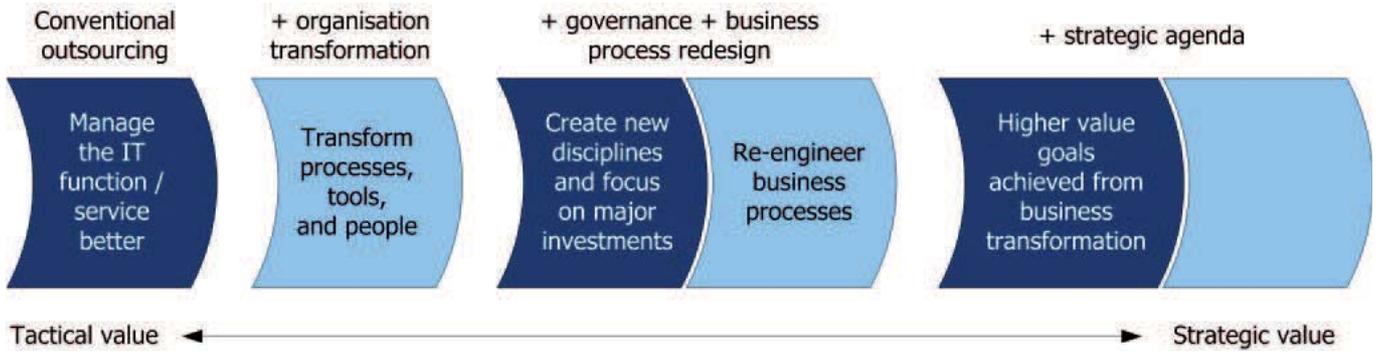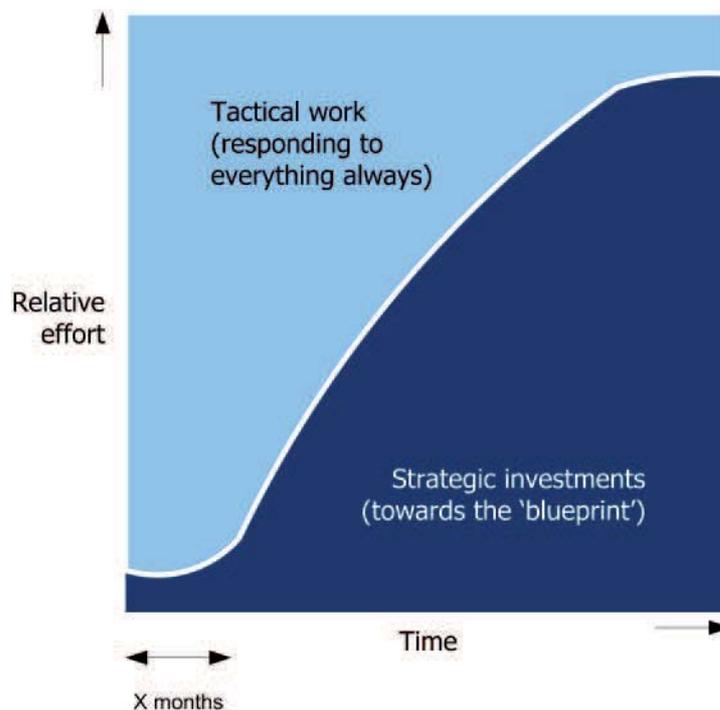

Shift in business value

The shift from tactical to strategic decision-making creates a new business discipline in how the function (such as IT) is used to generate business value
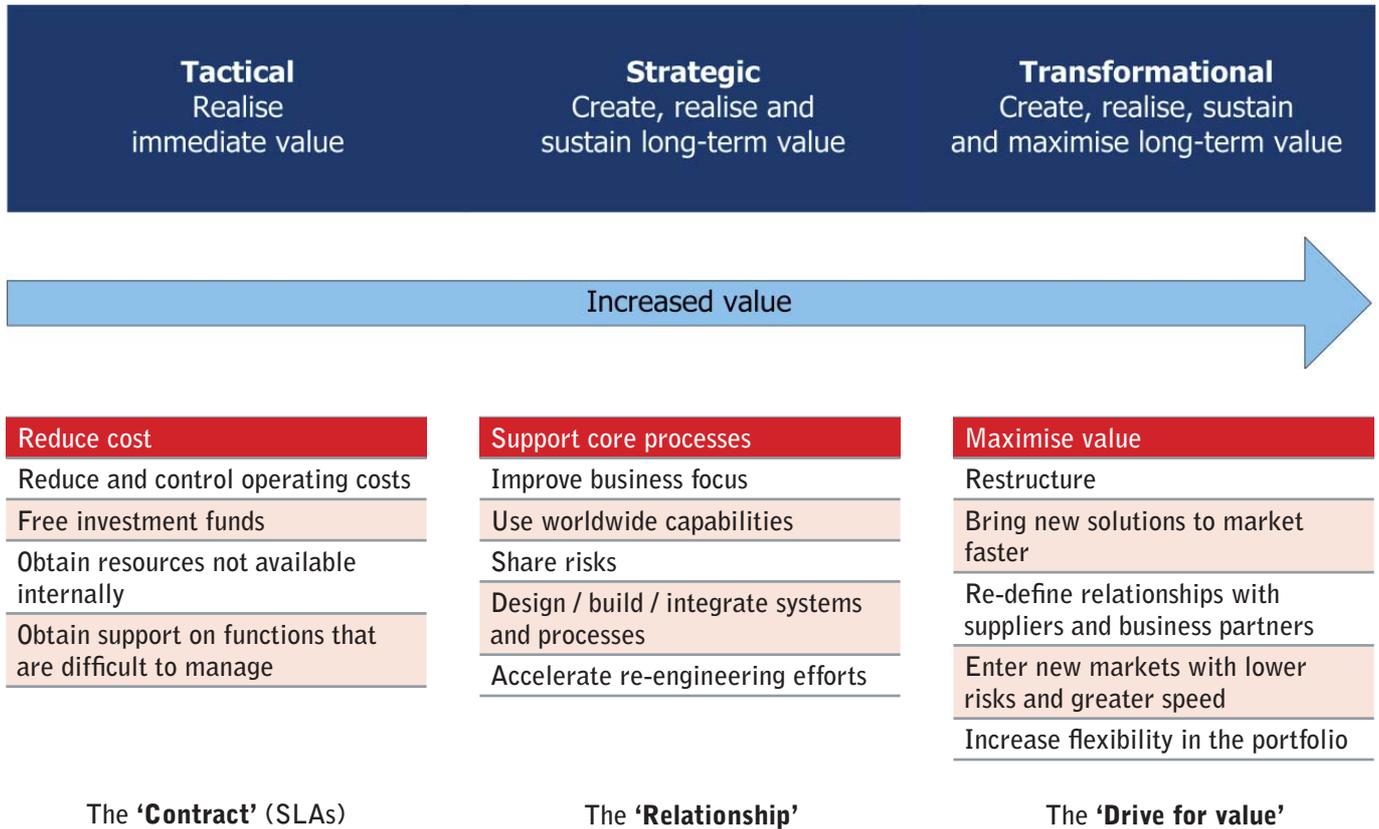
Key objectives for the governance of the the business

- Decide on the strategic investments required (such as to transform the business)

- Dramatically reduce tactical 'interruptions,' which are inhibiting forward-looking work

- Get on with it – make it actually happen

Sourcing models

For example, IT sourcing has moved to focus on the creation of long-term value

Tactical	Strategic	Transformational
Realise immediate value	Create, realise and sustain long-term value	Create, realise, sustain and maximise long-term value

Increased value

Reduce cost	Support core processes	Maximise value
Reduce and control operating costs	Improve business focus	Restructure
Free investment funds	Use worldwide capabilities	Bring new solutions to market faster
Obtain resources not available internally	Share risks	Re-define relationships with suppliers and business partners
Obtain support on functions that are difficult to manage	Design / build / integrate systems and processes	Enter new markets with lower risks and greater speed
	Accelerate re-engineering efforts	Increase flexibility in the portfolio

The **'Contract'** (SLAs)   The **'Relationship'**   The **'Drive for value'**

Our approach to implementation

Shared services programme

Most SSC programmes demand a lot of effort

Typical elements

Culture	A process-focused and service-oriented culture must be created from a back-office, functional organisation
Investment	Investment may be in the retention, re-training and relocation of employees, in software and hardware, in external contractors, and in the costs of greenfield sites
Resources	Internal and external professionals are involved in the design and implementation of a shared services organisation
Scope	A broad scope should be set, to cover as many regions and business units as is possible to maximize economies of scale
Systems	Current systems and interfaces can be harmonized or replaced by one common enterprise resource planning (ERP) system
Timing	The implementation of shared services and the financial payback are dictated by the breadth and speed of change and any costs of severance

Our approach

A comprehensive and rigorous approach is crucial to manage costs and reduce overall risk

Appraise	Select	Define	Execute	Operate
Project planning and mobilisation	Visioning (develop scenarios)	Detailed implementation plan	Transition/ implementation plan	Operations management
Data gathering – flows, cost, performance, metrics	Evaluate/model and prioritise options	Scoping and requirements / SLAs	Detailed operating model	Contract management
SWOT and issues	Business impacts other initiatives	Policies and processes	Partner contracting	Continuous improvement
Scope, process/ resources, capabilities	Mitigation of risks	Detailed impact and risk management	Transition management	
Growth projections/ business drivers	Business strategy	Organisation, structure and roles	Changes in structure and jobs	
Customers' synergies and requirements	Approach and plan (high level)	Selection/engagement of partners	Data mapping / systems integration	
Best practices/ benchmarks	Benefits case	Business case	Test, train and migrate – systems	
Programme and change management				
Phase 1 – Scoping and strategy	Phase 2 – Operating model	Phase 3 - Implementation	Manage operations	

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Developing the strategy: possible considerations

For example, possible considerations may include some or all of the following.

Aims could include	Common understanding	Realisable goals and enthusiastic people	Communicate!
Improve team-working: use multi-skilling to cut overtime and staff turnover and to boost job satisfaction	The processes for evaluation. Ensure the definition is supported by all business units	Define goals for the SSC. Keep metrics simple, tangible and acceptable	Choose 'high fliers' to manage SSCs. Install measures and rewards. Assess the needs of business units. Project manage for disaster. Create a sense of urgency
Improve production of management accounts or reduce cycle times for debt collection	The organisation's current costs and service levels. Agree on findings with business units	Understand what is achievable. Select a senior sponsor and an evangelical project leader	Obtain acceptance by internal customers. Set and achieve targets for improvement. Use transfer pricing to measure future efficiency of SSC
Reduce the number and cost of the managers and staff	Benchmark current processes internally and externally	SSCs work most effectively with consistent customers and products and with financial and operating cycles requiring comparable skills	

Case example – shared services (1)

Company overview

- Finning International Inc, is the world's largest distributor of Caterpillar civil engineering plant
- Based in Vancouver, it employs 12,800 people. The sales in 2007 were €3.8 billion
- It has two businesses in the UK. Finning (UK) is the sole distributor of Caterpillar equipment. Hewden Stuart is the largest equipment rental business in the UK

Management challenges

- Both businesses had grown significantly through acquisition. Those in Finning (UK) had been closely integrated. Those in Hewden Stuart had not. Seven legal trading entities were still in operation
- It was vital to secure the commitment of senior managers to consolidate the core functions of the businesses and achieve multi-million pound savings
- Collinson Grant (CG) was asked to investigate the opportunity to integrate the back-office functions of the two businesses. This was a high-risk project in a transaction-intensive environment

Approach

- We compared the performance of the two firms. This confirmed opportunities to improve profit, primarily by integrating back offices and sharing resources
- CG was appointed to programme manage the 'Business Support Project'
- Improved efficiency and effectiveness were expected in a number of functions. Work streams were established in Legal Entities; Commercial; Purchasing; Property; Organisation; and Business Systems
- A single legal entity and a unified set of financial processes were created at both accounting centres
- Financial ledgers were consolidated into a cleansed version of the bespoke financial ledger system
- Offices were re-furbished and IT infrastructures upgraded
- Employees were moved to other areas or made redundant
- A programme of continuous improvement was drawn up

Results

- Targeted savings were realised with minimal disruption to business operations and no adverse impact on service
- The project met its targets for time, cost and quality
- Recruitment and transition led to the creation of single functions on single sites, rather than duplicate functions on two sites

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Case example – shared services (2)

Company overview

- United Business Media is a leading global business media company that serves professional and commercial communities, from doctors to game developers, from journalists to jewellery traders, from farmers to pharmacists around the world
- A staff of 5,000 in more than 30 countries is organised into specialist teams that serve each group of customers

Management challenges

- Finance function spread across 17 sites in the UK and US
- The Group had 14 Chief Financial Officers, 11 Controllers, 23 Finance Managers/ Assistant Controllers
- There were 21 accounting systems, and multiple infrastructure platforms

Approach

- Current systems and staffing were assessed, by location
- Options for global, regional, and divisional SSCs were evaluated
- Costs, investment and savings were assessed and a high-level plan for implementation was drawn up
- The safest development path would be for consolidation to start regionally in the UK and divisionally in the US. A staging point for a single, global centre was set at two years hence, if the savings still looked attractive

Results

- A head of accounts processing was appointed to implement shared services, including systems, process improvements, organisation, and staffing
- Phase 1 resulted in a 15% reduction in costs

Collinson Grant

Collinson Grant is a management consultancy with a history of profitable growth. We help large organisations all over Europe and in the United States to restructure, merge acquisitions, cut costs, increase performance and profit, and manage people. By building long-term relationships, we have kept some clients for thirty years.

Our emphasis is on implementation, results and value-for-money. We expect to give a substantial return on the investment in us. So we do not recommend action unless we are sure that the outcome will be worth it. We are not afraid to give bad news, or to champion ideas that may not be welcome.

Most of our work is on three themes – organisation, costs and people. We use this simple framework to manage complex assignments - often with an international dimension - and to support managers on smaller, more focused projects. We help them:

- to restructure and integrate - following acquisitions or to improve profits

- to improve the supply chain. We examine every process and interface to improve efficiency and service

- to set up financial and managerial controls. We create robust systems to improve decision-making and reduce risks

- to refine business processes and introduce lean manufacturing. We analyse and improve how work is done, and use new ways to create change and make it stick

- to cut costs. We make systematic analyses of overheads, direct costs, and the profitability of customers and products. This helps managers to understand complexity, and to take firm steps to reduce it

- to manage people. We draw up pay schemes and put them into effect, guide managers on employee relations and employment law, get better performance from people, and manage redundancy.