Collinson Grant

Shared services and outsourcing

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Scope and typical characteristics

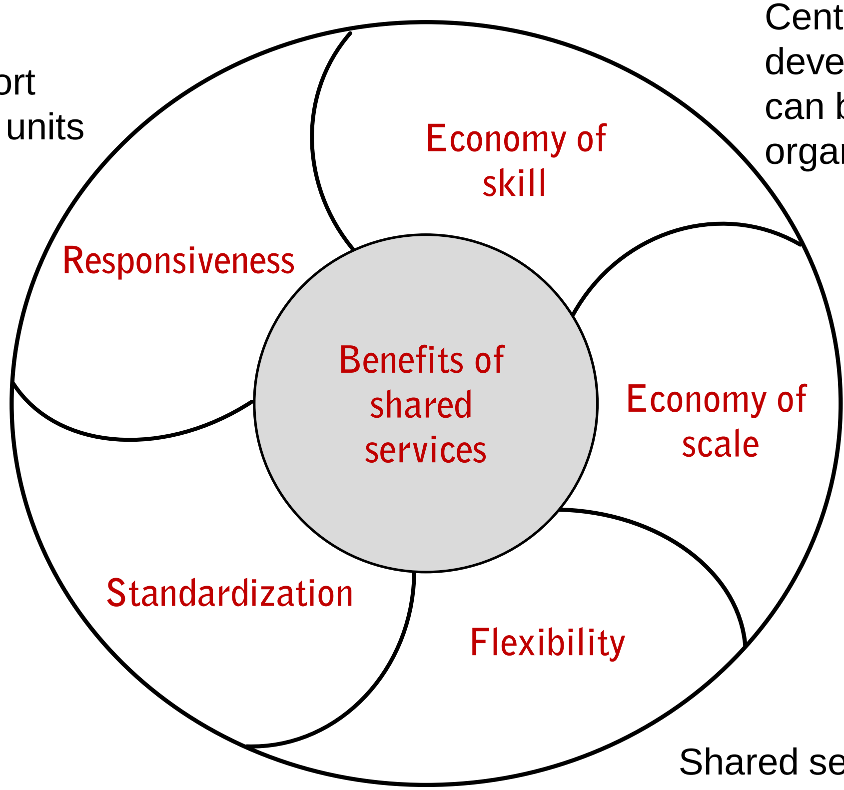
- Business processes that are not a core component of a corporation’s services are ideal for Shared Service Organisations (SSOs).

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



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

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

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

What SSOs do

- SSOs can undertake a wide variety of business operations

Industry specific

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

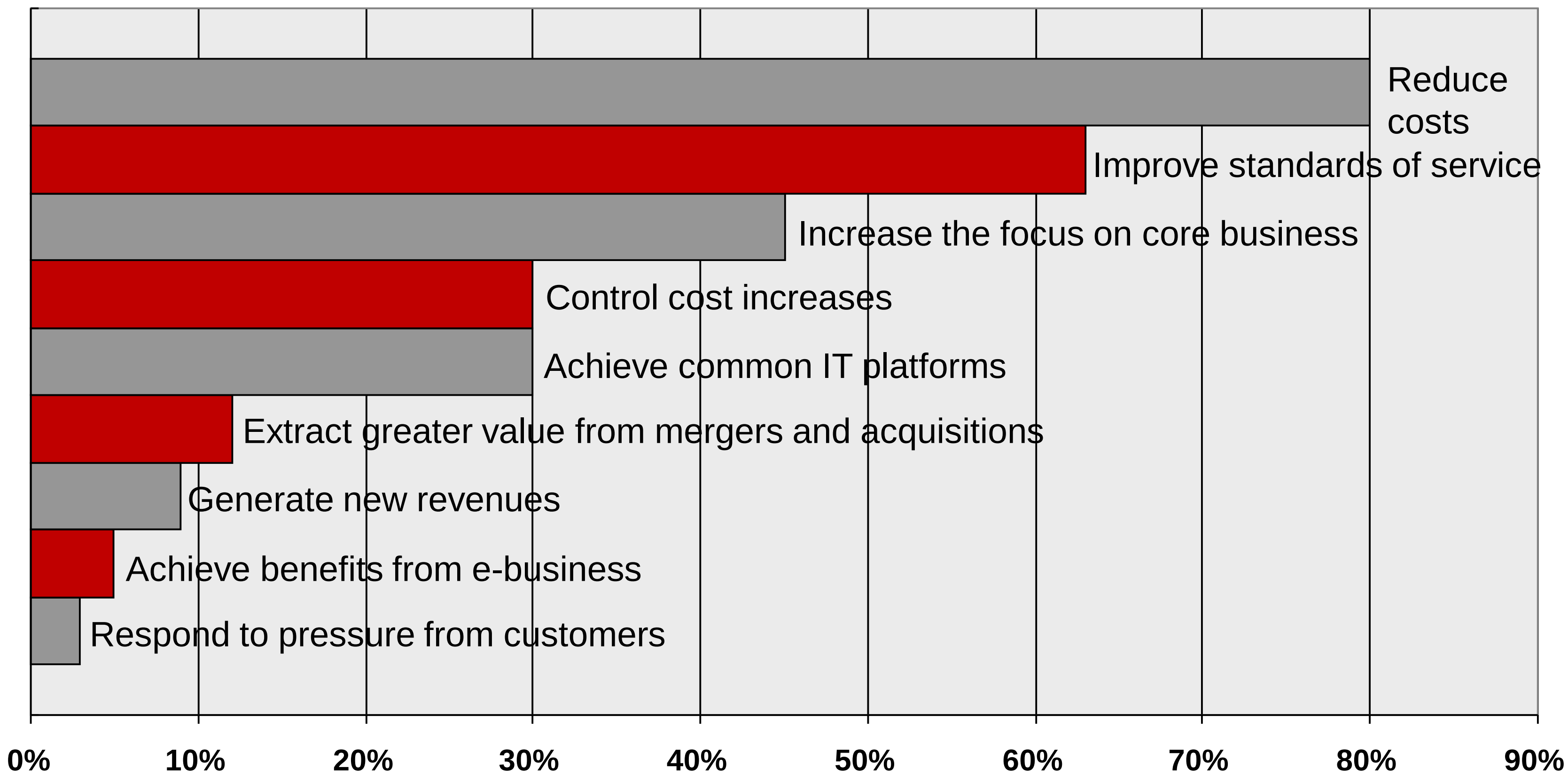
Shared services

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

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

Justification

- Surveys indicate that reduced costs, improved service and a focus on the core business are the primary justifications for shared service centres (SSCs)



Source: Biwater survey

Benefits

- There are a number of opportunities for savings:

Quantifiable

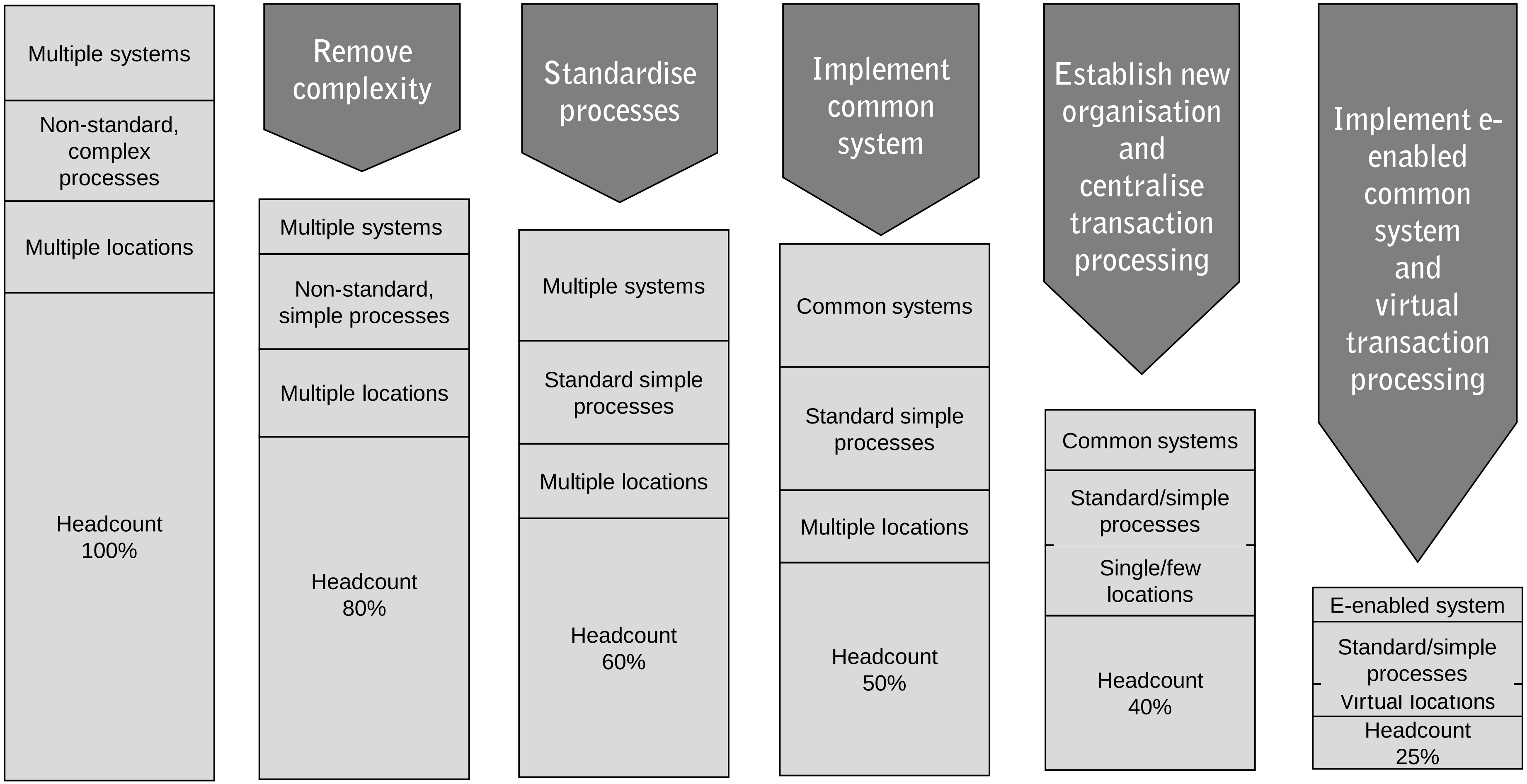
- They allow Bus to benefit from economies of scale, especially in transaction-intensive, volume-oriented tasks
- By consolidating services and data, an SSC can provide services at a lower cost than each separate unit, and can virtually eliminate duplication in labour and capital
- Automation makes routine 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 based at one location or BU can serve the entire organisation
  - experience gained by people at different sites is combined to develop best practice
- They free managers from the distractions of administration
  - allowing them to focus on higher-value activities, such as serving customers and developing new products

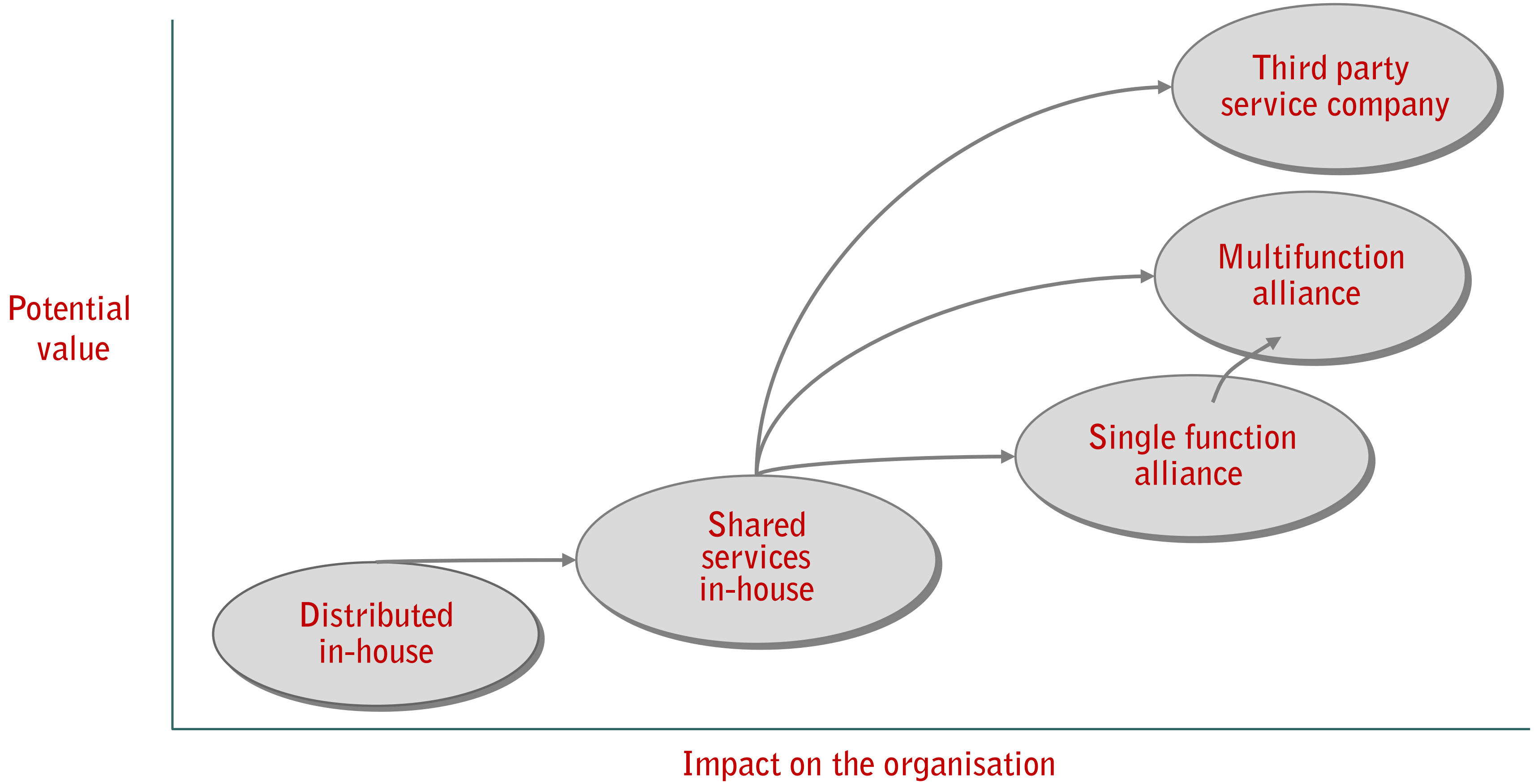
SSC: evolution and maturity

- SSCs allow an evolutionary approach to raise performance and lower costs



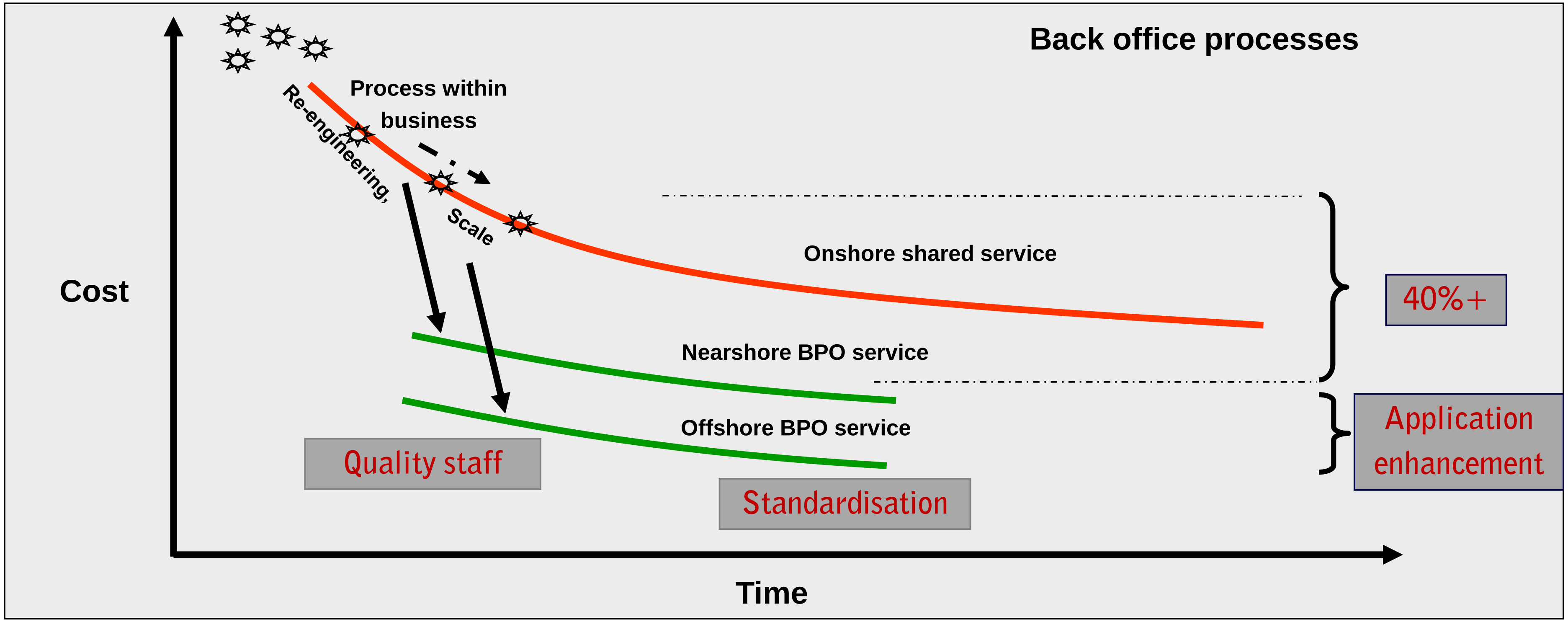
Structures

- 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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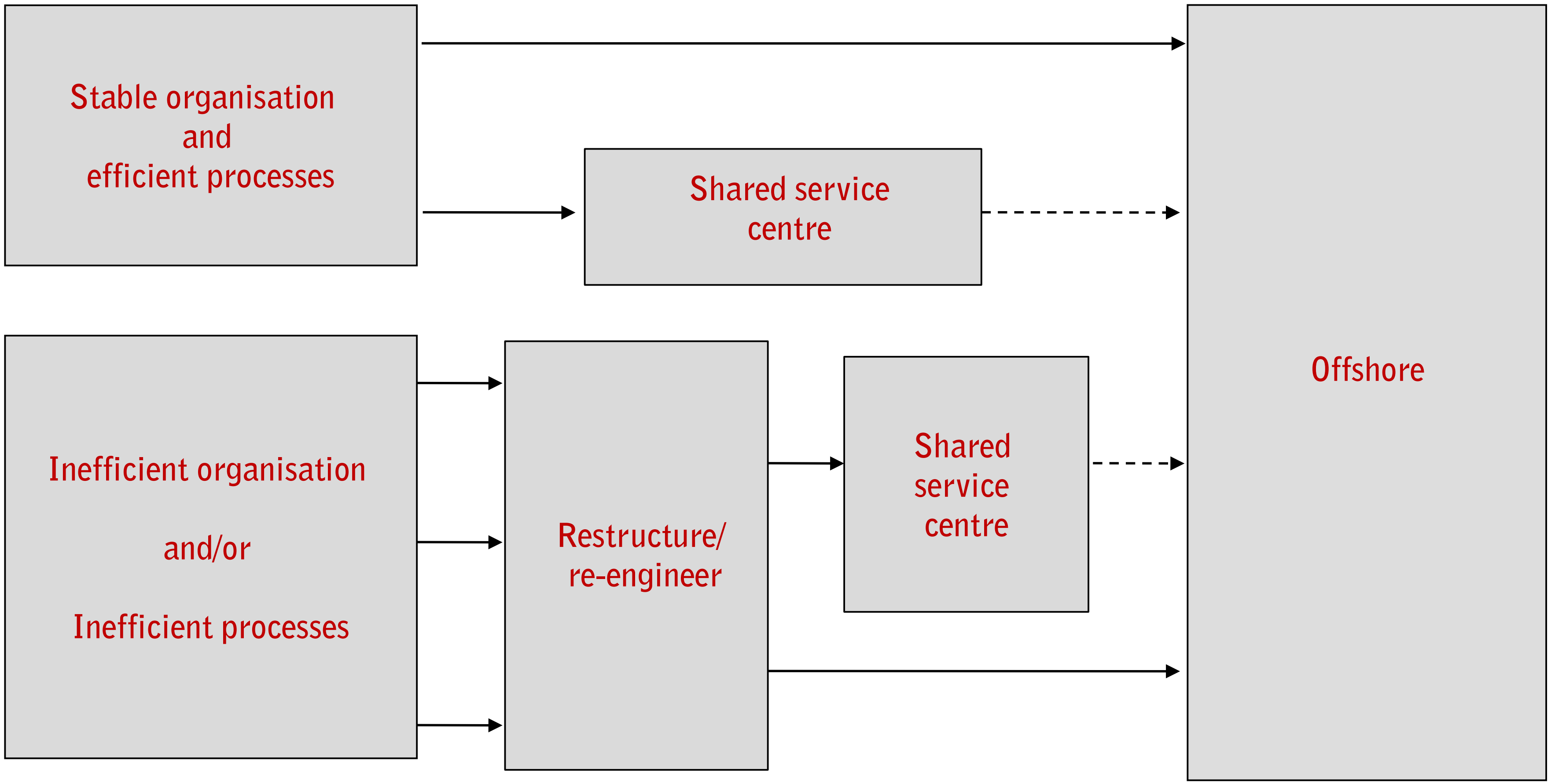
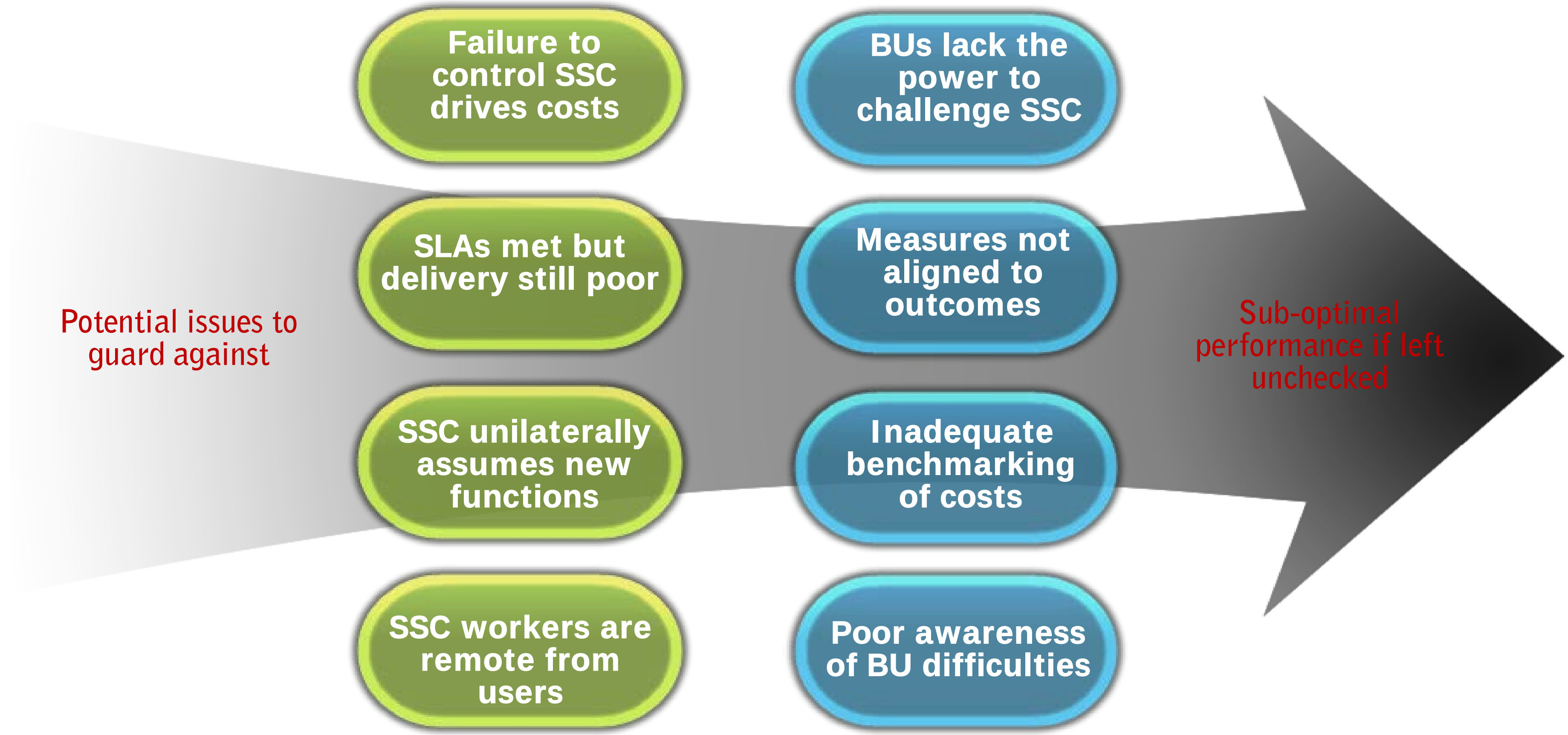
Offshoring: considerations

- 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



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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

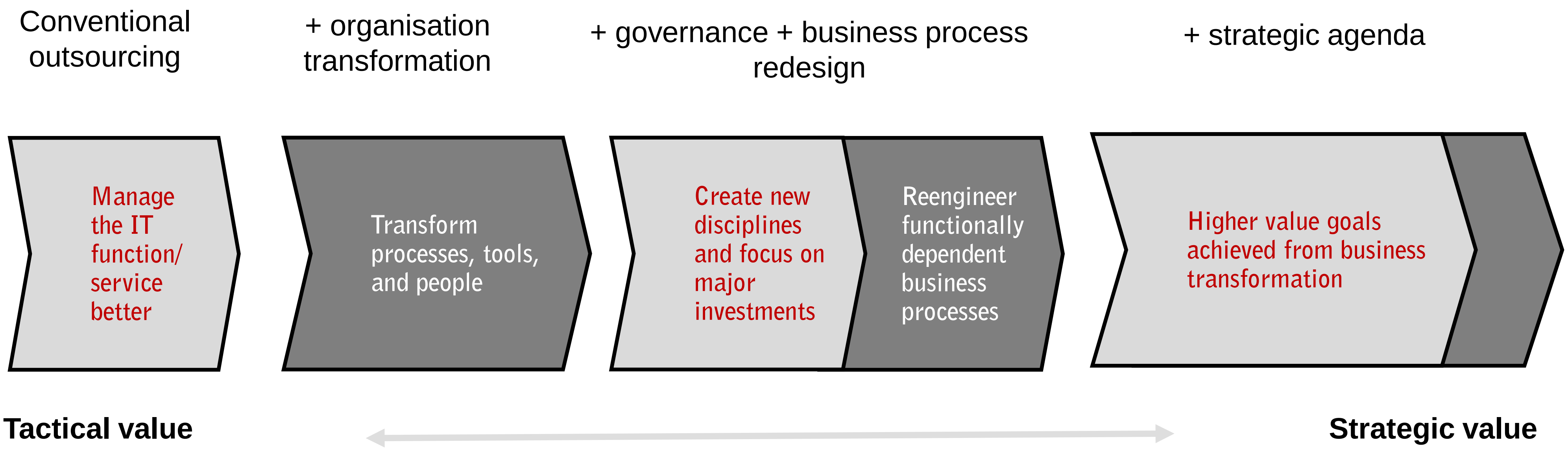
High and climbing costs; constant surprises

Declining quality of service

Weak future capabilities

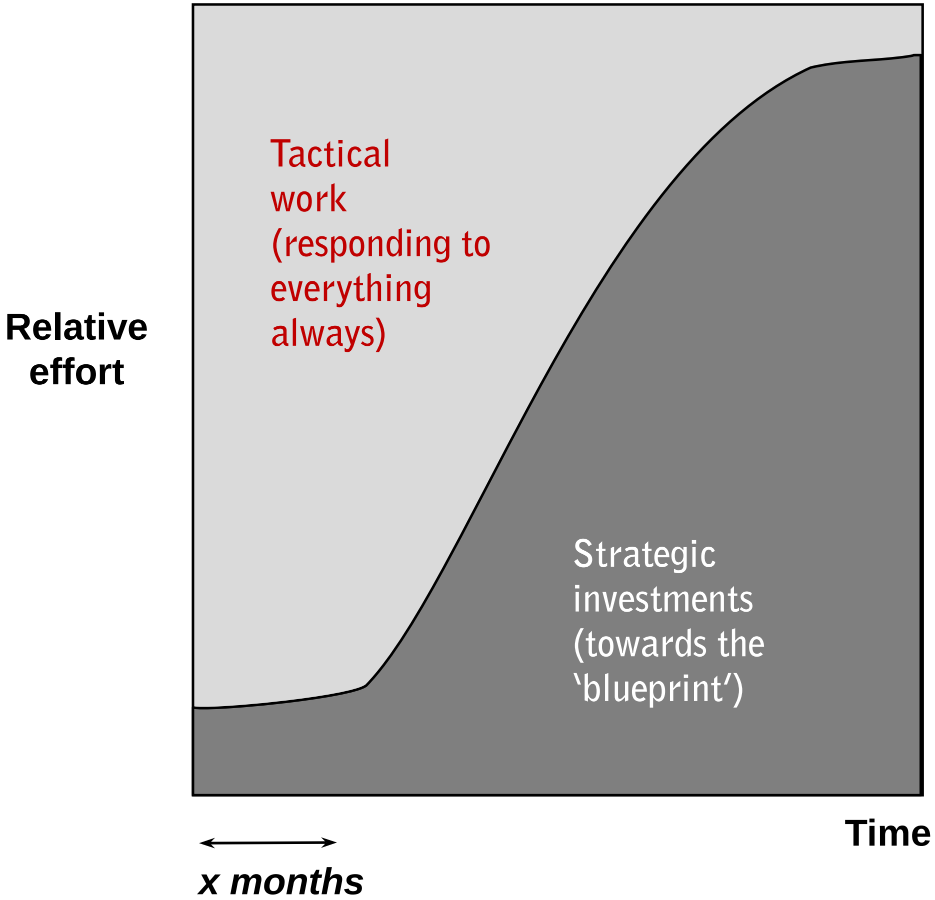
'Transformational' outsourcing

- 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 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 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 maximize long-term value

Increased value

Reduce cost	Support core processes	Maximise value
• Reduce and control operating costs • Free investment funds • Obtain resources not available internally • Obtain support on functions that are difficult to manage	• Improve business focus • Use worldwide capabilities • Share risks • Design/build/integrate systems and processes • Accelerate reengineering efforts	• Re-structure • Bring new solutions to market faster • Redefine relationships with suppliers and business partners • Enter new markets with lower risks and greater speed • Increase flexibility in the portfolio
The 'Contract' (SLAs)	The 'Relationship'	The 'Drive for value creation'

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Shared services programme

- Most SSC programmes require the investment of 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 (to develop hypotheses/scenarios)	Detailed implementation plan	Transition/implementation plan	Operations management
Data gathering – flows, cost, performance, metrics	Evaluation to model and prioritise scenarios	Scoping and requirements/SLA's	Detailed operating model	Contract management
SWOT and issues	Business impacts/other initiatives	Policies and processes	Partner contracting	Continuous improvement
Process/resource capabilities	Risk mitigation	Detailed impact and risk management	Transition management	
Growth projections/ business drivers	Business strategy	Organisational structure and roles	Organisation and role changes	
Business/customer reqs and synergies	Implementation plan (high level)	Partner engagement and selection	Data mapping/systems integration	
Best practices/benchmarks	Benefits case	Business case	Testing, training and migrating – systems	

Programme and change management 2

1 Planning, communication, reporting, functional impacts/responses, business risks/mitigations, skills

Phase 1 – Network design | Phase 2 – Operating model | Phase 3 - Implementation

Developing the strategy: possible considerations

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

Aims could include

- Improve team-working: use multi-skilling to cut overtime and staff turnover and to boost job satisfaction
- Improve production of management accounts or reduce cycle times for debt collection
- Reduce the number and cost of the managers and staff

Common Understanding

- The processes for evaluation. Ensure the definition is supported by all business units
- The organisation's current costs and service levels. Agree on findings with business units
- Benchmark current processes internally and externally

Realisable goals and enthusiastic people

- Define goals for the SSC. Keep metrics simple, tangible and acceptable
- Understand what is achievable. Select a senior sponsor and an evangelical project leader
- SSCs work most effectively with consistent customers and products and with financial and operating cycles requiring comparable skills

Communicate

- 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
- Obtain acceptance by internal customers. Set and achieve targets for improvement. Use transfer pricing to measure future efficiency of SSC

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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
- 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

- CG compared the performance of the two firms. This confirmed opportunities to improve profit, primarily by integrating back offices and sharing resources
- CG was appointed programme manager of 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

Case example – shared services (2)

United Business Media

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
- 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 service, including systems, process improvements, organisation, and staffing
- Phase 1 resulted in a 15% reduction in costs

Case example – shared services (3)

Rolls-Royce

Company overview

- Rolls-Royce is a £6.4 billion business with five business segments and thirty business subsidiaries. Most business is concentrated in the US, UK and Germany
- A decision was made to establish two Finance Shared Service Centres (FSC) on the back of a large-scale implementation of Enterprise Resource Planning (ERP) software - SAP. The locations chosen were Derby and Indianapolis

Management challenges

- Significant time and effort were required to define service level agreements (SLAs) with internal customers. Plans to improve service were then created, with deadlines
- Selecting the location for the FSC was an emotive issue, handled as fairly as possible; alternative locations were scored on a variety of criteria and the results were discussed openly with the staff

Approach

- An external manager with shared service experience was recruited to establish and run the Derby FSC. A full-time programme controller was recruited internally with a handpicked project team to manage the change
- An implementation framework (not a rigid plan) was created and a process of consolidation, simplification and standardisation on best practice begun immediately. Significant savings were realised before the new system (SAP) was implemented

Results

- The cost of the UK Finance function reduced in its first two years from £7.9 million to £6.1 million. The savings achieved by introducing the FSC were given back to the businesses
- The investment costs for the FSC were only £750,000, because the implementation of SAP had already been justified separately. SAP was implemented one year after the FSC

Collinson Grant

Ryecroft Aviary Road Worsley Manchester M28 2WF United Kingdom Telephone +44 161 703 5600 Facsimile +44 161 790 9177

33 St James's Square London SW1Y 4JS United Kingdom Telephone +44 20 7661 9382 Facsimile +44 20 7661 9400

Fort Business Centre Mriehel Bypass Birkirkara BKR 3000 Malta Telephone +356 2776 1710

Mainzer Landstraße 50 60325 Frankfurt am Main Germany Telephone +49 498 088 3356

12 place Saint Hubert 59000 Lille France Telephone +33 66 88 09 75

Web www.collinsongrant.com

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