SYNFINY
ADVISORS

LEADING PRACTICES PAPER

SHARED SERVICES
THE "AND" SOLUTION

SynFiny Advisors LLC

INTRODUCTION

This is the first in a series of papers that addresses how to get the most value out of implementing a Shared Services organization. This paper will address the key benefits Shared Services have to offer a company.

BACKGROUND

Shared Services are defined as "consolidating non-core (back office) support services, and delivering these from centralized locations to provide lower costs, higher quality/reliability, standardization and harmonization of processes, and a flexible services delivery platform from which to leverage growth or manage business constriction" (from the Shared Services & Outsourcing Network Organization).

Larger companies have been utilizing Shared Services structures since the 80's and 90'. However, there are still some companies who have not taken advantage of this development and continue to have the various back office activities carried out within each of the individual Business Units (BU's) in the company. Sometimes this is because there is a belief that it is important to keep these activities close to the line. Other times, it is because moving to a Shared Services structure requires a significant amount of time and resources, and if it is not handled correctly, it can be a big distraction for the organization. However, the benefits easily outweigh the costs. This paper will attempt to outline those benefits, hopefully in a way that will convince those remaining companies to implement their own Shared Services organization.

THE HIGH LEVEL BENEFITS OF SHARED SERVICES

I have titled this paper Shared Services: the "AND" Solution because Shared Services provide multiple benefits. At a very high level, implementing a Shared Services structure can allow a company to achieve the following:

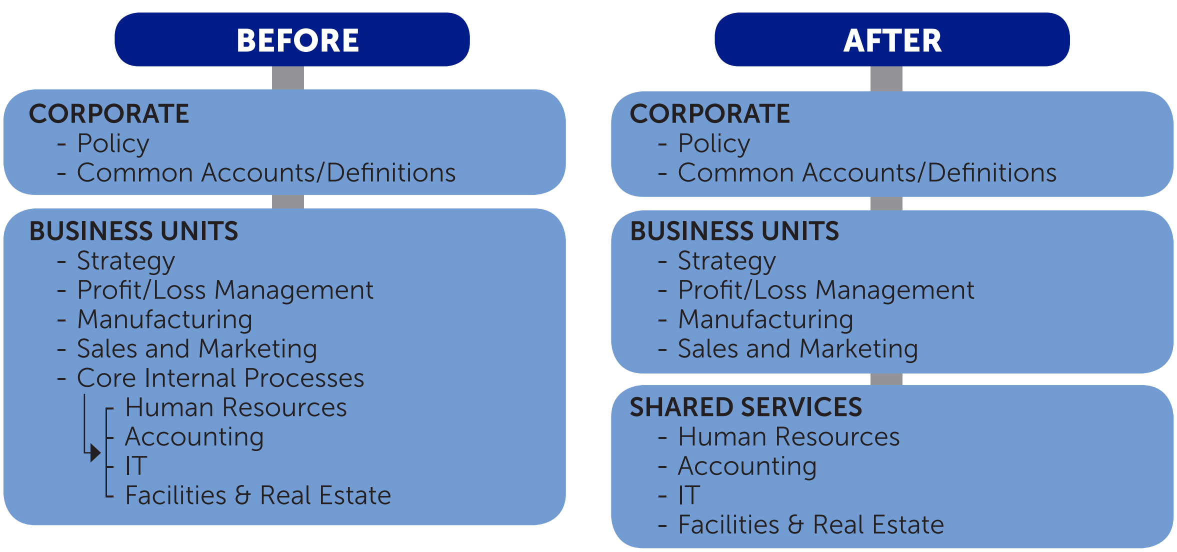
- Frees the BU's up to focus on delivering their business goals.
- Productivity improvement (+10% to +20%).
- Cost saving (-20% to -40%).
- More timely data (2X faster).
- More reliable, sustainable data accuracy.
- Centers of expertise that provide stronger governance since they are closer to the activities.

These are all additive benefits, i.e. a company can achieve the cost savings AND the quality improvements AND the improved timeliness AND the stewardship benefits. The combination of these can enable a step change improvement in a company's overall financial results. Particularly when a company realizes there are work processes across many functional areas that could benefit from a move to a Shared Services structure.

SHARED SERVICES "AND" EXPLAINED

In order to understand how that's all possible, let me first explain in a little more detail what a Shared Service is. Again, there are a lot of activities or work processes that can be considered back office or non-core because they aren't directly involved with selling product or making a profit. Rather, they are the internally focused activities that allow an organization to function. For example, payroll to ensure employees get paid accurately and on time, or general ledger to ensure the books are closed each month timely and accurately, or managing the office space where the employees are located.

As mentioned, in some organizations (particularly highly decentralized companies) these activities are carried out in the individual BU's. Moving to a Shared Services structure essentially centralizes these activities into one organization (in a later paper, I will recommend that the Shared Services organization be its own separate entity, because the organization oftentimes has a different mindset and goals than the individual business units, and also needs to remain objective about what is best for the company overall versus what might be best for an individual BU). Below is a very simple diagram of a company after it has implemented a Shared Service organization:



Now that we have established a common understanding of what a Shared Services organization is, how exactly does it deliver all these "AND" benefits?

1. By consolidating this work, it eliminates a significant number of redundancies and duplication occurring in the BU's, which reduces the number of people required to do the work.
2. Moving this work to a central group and out of the BU's allows the BU's to focus on those activities that are going to drive their business strategy, and ultimately improve the company's top and bottom line.
3. Consolidation can allow some of the work to be "phased" to better manager peak workloads. This is particularly true if there are multiple service centers around the world, as work can be passed from one service center to another, allowing progress to continue on a 24 hour basis.
4. Consolidation allows a company to better leverage its overall scale, particularly when negotiating with any external providers.
5. Consolidation of these services requires the implementation of globally standard work processes. Standard work processes help ensure consistent quality of the data and results. Over time, it also makes it possible to process data faster, making the data available to the BU's sooner.
6. If the company has done its pre-work properly, when it moves to a globally standard work process, it will use what has been identified as the current best approach throughout the company (where "current best approach" means delivering the best combination of cost, quality, speed and stewardship).
7. The pre-work in consolidating the different services can also identify which business processes are no longer needed and thus can be eliminated.
8. Global standardization also increases the return on investment (ROI) of any IT projects related to these services, as the development costs are lower (since only one solution needs to be developed), the benefits are achieved more broadly (globally vs. locally), and the improvements can be rolled out are faster.
9. Having service centers located around the world allows for 24 hour support to the BU's, improving turnaround time on end user requests.
10. Because most of the services can be done from anywhere in the world, it allows the work to be located in low cost locations or countries, enabling the company to benefit from wage arbitrage opportunities.
11. Standardizing and simplifying work processes makes it easier to outsource the service, which drives further savings, and oftentimes also results in improved resiliency, redundancy, flexibility and security (this is because the vendor is providing the service to multiple customers and thus is able to spread their investments over a much larger base, and they can also more easily flex up and down for changes in volume).
12. Consolidating the services makes it easier to quantify the total cost of the service, which in turn makes it easier to benchmark externally and identify savings opportunities.

13. Consolidation creates "centers of expertise" in each of the work processes. Because each of the services is managed globally, any improvements can be quickly rolled out to the entire company, realizing the benefits faster.
14. Sometimes creating a shared services organization enables a company to optimize its tax structure. This is particularly true if the Shared Services group is going to handle all intercompany transactions, as it will allow this group to ensure the company is meeting all of the local tax requirements.
15. If any of the services were being outsourced before, then consolidating helps to ensure that consistent governance is in place globally, and that the company is receiving the best overall value from the relationship.
16. Having a dedicated Shared Services organization helps to accelerate the integration of any acquisitions into the parent company's work processes, thus achieving synergies faster. And a Shared Services organization also enables divestitures to occur more quickly with less impact to the rest of the businesses.

SUMMARY

Shared Service structures came into being in the 80's, and were adopted by many companies in the 90's and 2000's. However, there are still some companies who have not taken the step to create a Shared Services organization, either because of other priorities, concerns, biases or constraints. However, the time has come where it's almost a necessity to have a Shared Service organization in order to remain competitive in the current marketplace.

This paper has attempted to create a basic understanding of what a Shared Service organization does, and then identify at a high level some of the benefits of moving to such a structure. While it's true that making such a move is time consuming (taking anywhere from 9 months to 2 years, depending on the scope and scale) and resource intensive, the benefits can be significant and additive, and in our opinion warrant the effort to undertake such a transformational change.

ABOUT SYNFINY ADVISORS

We value experience. Our advisors leverage decades of Fortune 50 experience in financial planning & analysis and shared services design and operations to deliver breakthrough solutions for our clients. Prior to joining SynFiny, our advisors have designed and operated global FP&A and Accounting work processes (forecasting, budgeting, analysis, reporting, etc.), created global organizations (both centralized and in shared service centers), and rolled out various FP&A and Accounting systems and tools. This collective experience has been distilled into a proprietary consulting methodology that enables our advisors to quickly apply their experience to the specific objectives of our clients, leading to faster and longer lasting value creation.

You can find out more about us at www.synfiny.com

ABOUT THE AUTHOR

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Rob previously spent 27 years at Procter & Gamble, 3 of those in the IT area and the last 24 in Finance. His Finance experience includes working in the Business Units, Treasury, and for the last 8 years working in P&G's Global Business Services group in a variety of roles, including 3 years in one of P&G's Service Centers in San Jose, Costa Rica.

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