WHITE PAPER

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Shared Services Center Optimization: From Cost Reduction to Strategic Partnership

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Re-engineering

Early shared services centers were set up with a clear objective: efficiency and centralization in pursuit of cost reduction. Many firms have successfully trimmed costs in this fashion, and the ability of SSCs to generate impressive one-time savings is indisputable. Consequently, a majority of the Fortune 500 now operates shared services in one or multiple functions .

The next step, however, is more complex. Businesses around the globe are finding it challenging to take their SSCs to the next level. Across the board, few shared services centers have delivered the full value envisioned by CFOs and finance directors: that of a strategic enabler sustaining high levels of continuous improvement. Research by the Everest Group confirms that only a very small number of companies consider their shared services to be mature .

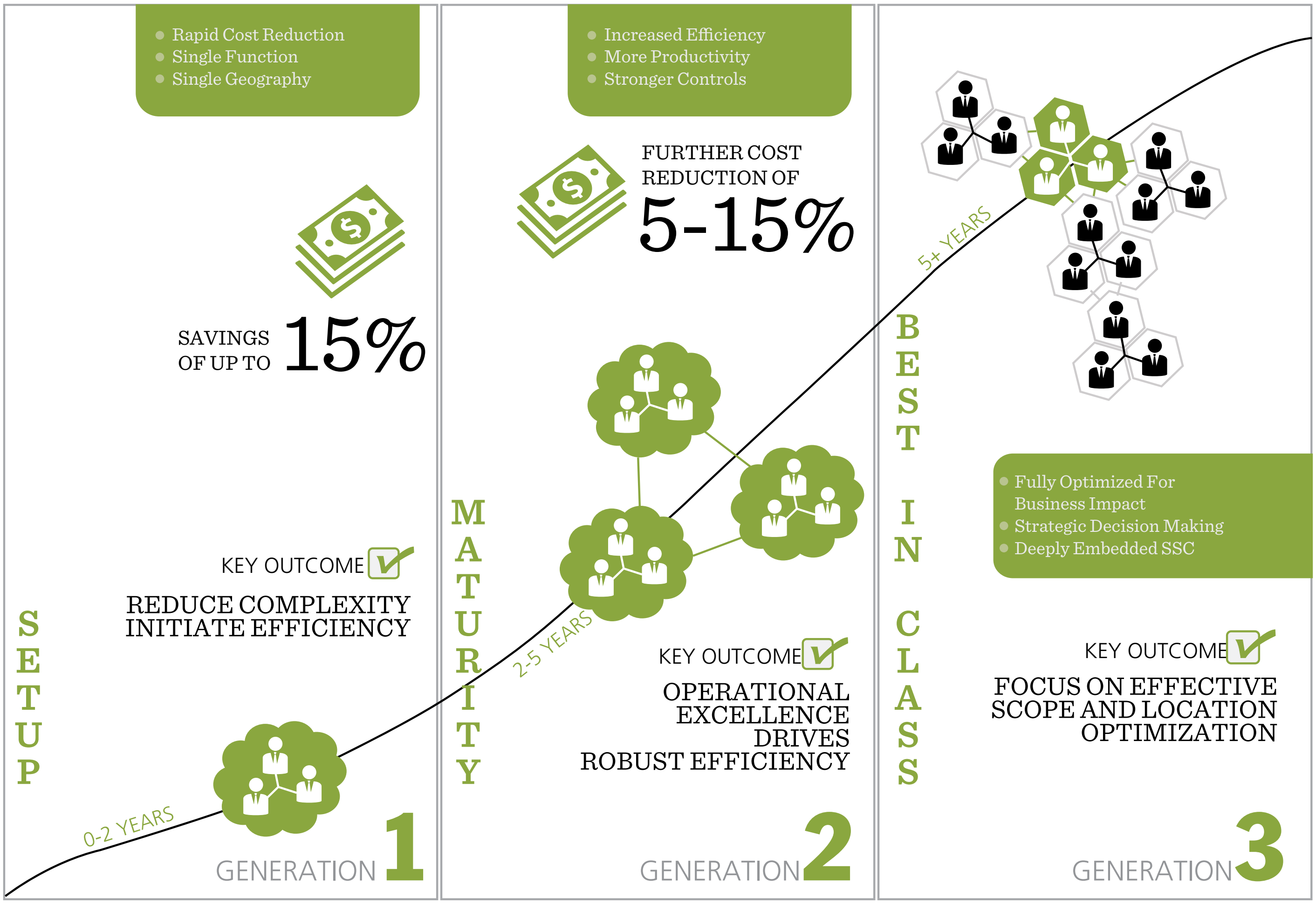
Three generations of shared services

In our view, enterprises that wish to extract the greatest possible value from their SSCs and drive a step change in levels of continuous improvement should begin by assessing the maturity of their operations. Broadly speaking, shared services centers can be categorized into three generations based on process scope, functional scope, geographic scope, and business impact and innovation.

Generation One: Rapid cost reduction First-generation shared services typically focus on initiating and stabilizing operations with their sights firmly set on delivering savings. Unsurprisingly, they are tasked with transactional processes within a single function; and frequently within a single region as well. Often the journey begins in a small way in response to changes within an organization. The exact SSC model adopted varies depending on industry, geography and other factors; scope is sometimes expanded once the model is proven.

Done right, a first-generation SSC may deliver savings of up to 15%, largely based on labor arbitrage. Consider the case of a leading global brewery that was able to reduce general and administrative (G&A) expenses an impressive 35% by creating a finance SSC in Kraków, Poland with Genpact’s assistance. The joint team designed and implemented an organization from scratch, made up of more

THREE GENERATIONS OF SHARED SERVICES



than 500 full-time equivalents (FTEs) leveraging Genpact's site setup, hiring, transition and internal staff development expertise.

Nor does the transition to a shared service center need to be disruptive to daily operations. Genpact met all the engagement principles for a leading global healthcare company through careful planning and change management, which included leading the solution identification work stream, including signoffs from country process leads, ensuring seamless and on-time delivery across all Asia Pacific locations. There was no impact on ongoing operations in the global hub during team deployment due to careful knowledge transfer, training, and preparation of all team members, deployment of Standard Operating Procedures (SOPs), and prior validation of all work processes and metrics.

Generation Two: Robust controls and process efficiency As labor arbitrage-driven savings taper off, and CFOs press for further gains, first-generation SSCs evolve further. While process scope may remain transactional, a second-generation SSC is characterized by a focus on increasing efficiency, productivity and stronger controls alongside cost reduction. Multiple functions may leverage shared services, albeit in silos. SSCs may also expand their geographic footprint as location-specific costs are wrung out of the system. In Genpact's experience, a further 5-15% cost reduction can be achieved by setting up a systematic process-focused organization rather than a country-based one, in a two-step progression. In the first step, companies can consolidate transactional and supervisory roles across a sub-process (for instance, payment activities in a global procure-to-pay process). In a second step, firms can move to a global process view to drive a clear focus on processes (with local nuances) rather than geographies. A process-focused organization and view calls for an intense review of IT systems and controls, which become a natural focal point for second-generation initiatives.

A pharmaceutical major operating in over 100 countries has embarked on a second-generation finance SSC program with the goal of having a "best in class" finance function within its industry. The program aims to improve working capital, reduce cost to serve and strengthen controllership and customer satisfaction across the company's global footprint, building on an existing SSC developed with Genpact that already delivers an annual business impact of over $12 million. With its SSC blueprint firmly established, the company is moving ahead with its global transformation in association with Genpact. This ambitious second-generation SSC spans more than 50 projects across finance and accounting (F&A) processes. The client and Genpact are driving cost reduction and standardization across the client's global business by:

- Consolidating transactional processes into shared services centers in developed markets
- Enabling expansion in high growth markets using Genpact's end-to-end ownership of processes
- Enhancing the financial controls framework implemented in all geographies
- Standardizing processes and raising the visibility of process metrics across all F&A processes
- Achieving minimal surprises with supplier risk reports monitoring suppliers' financial and business status

Generation Three: Strategic business partner As valuable as cost reduction and process efficiency are, farsighted CFOs know that SSCs can deliver even greater value. Leading shared services centers are fully optimized for effectiveness and business impact, going beyond operational excellence to allow senior management to focus on strategic decision making. The key to making the jump is embedding the SSC deep in an organization: through end-to-end process scope, cross-functional range, global charter and a focus on business outcomes rather than intermediate performance indicators.

Doing so can produce arresting results. Consider the case of a major Australian financial services company that undertook an SSC optimization program with Genpact's assistance. First, the joint team undertook a root cause analysis that threw up process gaps that were leading to poor utilization of resources. Then, the client leveraged Genpact's deep, granular process expertise and hands-on experience in running operations to design and implement a program of change. This included reengineering 18 processes, creating "to be" process maps, and defining roles and accountabilities with well-defined metrics and service-level agreements (SLAs). The result: a 30% transactional productivity improvement, Lean Six Sigma capabilities built into the client organization and greater executive "bandwidth" for controllership and advice.

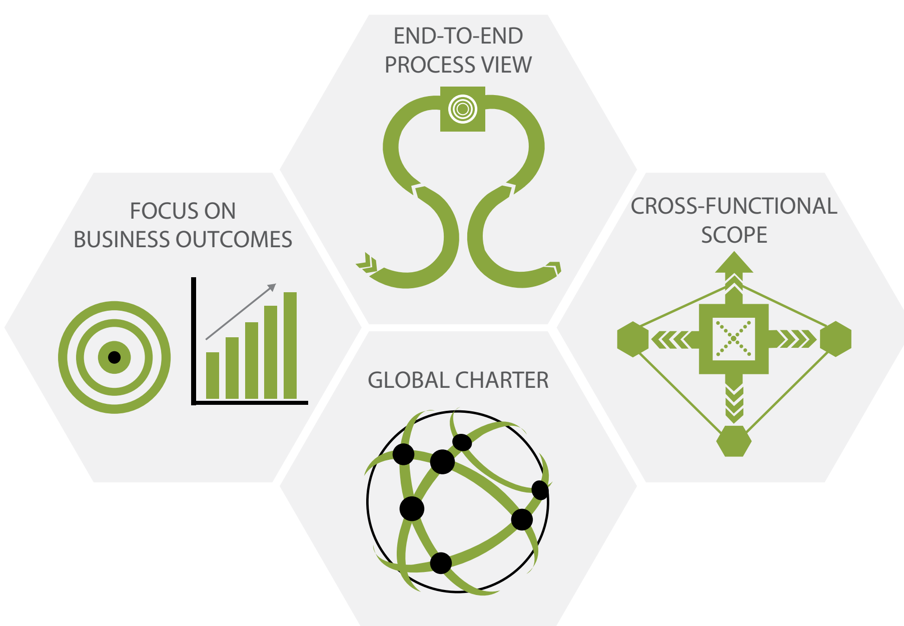
End-to-end process view

To begin with, high-performance SSCs often take an end-to-end view of processes, including analytical and customer-facing facets. A specialty glass and ceramics major has taken a novel approach in combining a shared services and retained model to reap the advantages of a holistic process perspective. For key processes such as order to cash, critical sub-processes like managing collections and evaluating creditworthiness are handled by the SSC. Other sub-processes such as establishing terms are run jointly by the business and the SSC. By making processes more effective in an unbounded way, Genpact has enabled the client to process a larger number of transactions while rationalizing headcount, reinforcing process discipline and improving control.

Cross-functional scope

Second, optimized SSCs are also cross-functional in nature to maximize the benefits of the shared services model. A global sanitation company found itself in urgent need of cost reduction with operating margins at an all-time low of 4%, and selling, general and administrative expenses at 65% of revenue. By accelerating its plans to institute a cross-functional SSC in collaboration with Genpact, the company was able to generate an additional $4 million in profit, far more than a single-function SSC or multiple standalone SSCs could have released.
Key to speeding up time to value was Genpact's transition methodology, based on extensive operational experience. It underpinned a smooth pilot and adept change management. With a Lean Six Sigma-based continuous improvement program in place, the company is well placed to raise the bar still higher .

NATURE OF A MATURE SSC



Global charter

Third, optimized shared services offer support on a global rather than regional basis. A fast-growing infrastructure enterprise with assets and projects in India, Turkey, South Africa, Indonesia, Singapore and the Maldives approached Genpact to set up and run a global shared services center made up of 300 full-time equivalents (FTEs). The resultant organization is a potent enabler of the company's corporate strategy, with capabilities for integrating future acquisitions and project companies, and identifying and supporting new areas for growth.

Focus on business outcomes

Finally, a third-generation SSC goes to the heart of a firm's strategy. It seeks to support business outcomes such as working capital improvement; and delivers innovative capabilities to help the company outperform its competitors. A consumer goods major that's showing the way has built a 7000-person cross-functional shared services organization over more than a decade. Today its SSC is known for innovative solutions that influence consumer and customer interactions; and product development , living up to its promise of being a strategic business partner.

The road ahead

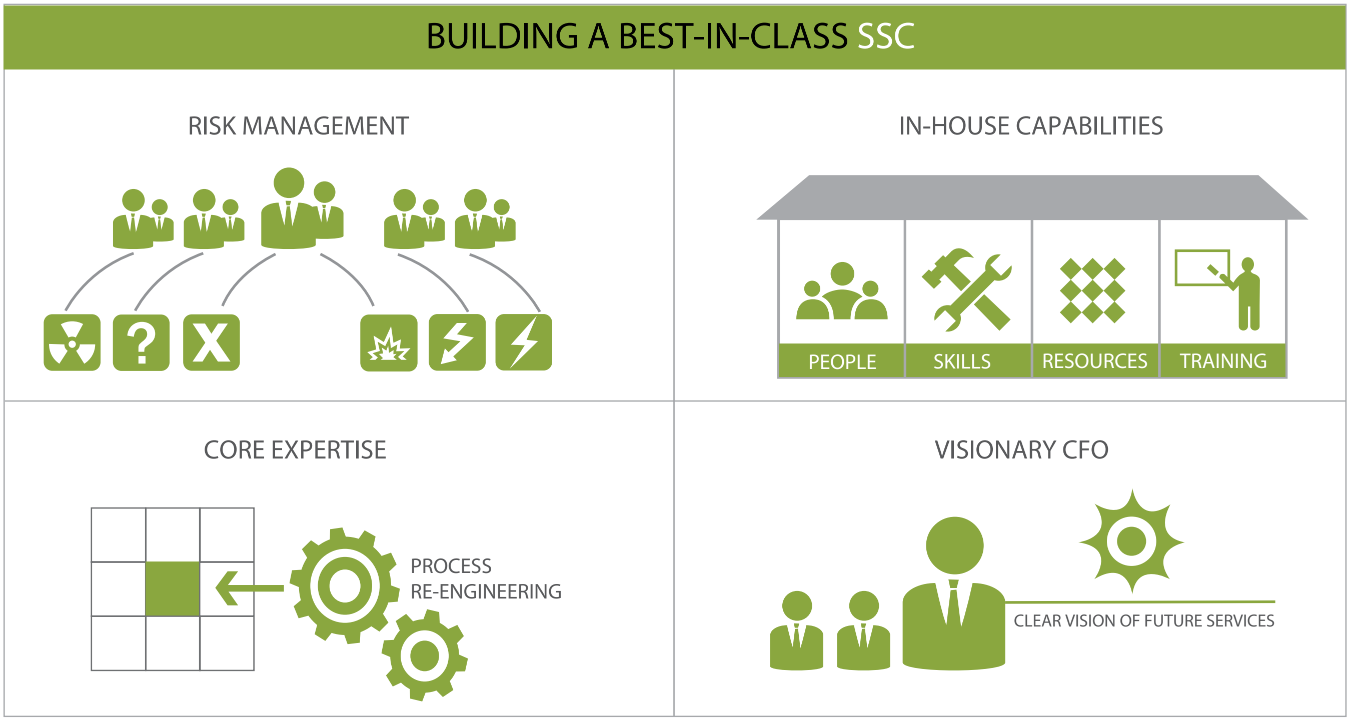
The three generations of SSC outlined in this paper are a powerful framework for executives to recognize where they stand and envision the future. However, there is no "cookie cutter" solution to achieve optimization. Different approaches must be chosen for individual firms based on their culture, business needs and strategy.

For instance, Genpact is helping clients such as Diageo adopt hybrid models that combine SSCs with retained organizations or outsourced operations for the best fit. According to Gregorio Gutierrez, Commercial Director of Diageo, "By bringing Genpact with us to develop this shared services center model, we will be able to...focus on our core business (and) more effectively serve our internal and external clients."

While the potential of SSC optimization is significant, companies will also need to surmount challenges around risk management (for instance with respect to sales impact), retention of control and talent management to realize targeted value. They must therefore ensure they have the necessary in-house capabilities or trusted partners with deep operational experience, a proven track record of running operations for comparable organizations and core expertise in areas such as process re-engineering.

Further, they must ensure they have a clear vision of future services with the requisite leadership commitment to see the initiative through. Without this, SSC optimization initiatives may lose traction once initial savings are achieved. CFOs have a key role to play here. Patrick Speek, EMEA CFO of A. Schulman, a leading plastic resins and plastic compounds business, concurs. Mr. Speek confirms that "the explicit sponsorship and backing of senior finance executives is necessary to sustain momentum in shared services center

	Setup	Mature SSC	Best in Class SSC
Key Strategic Challenges	• Consolidate internal buy-in • Seamless process transition • Stabilize operations (people, process, technology), SLA • Reach business case run rate fast • Avoid maintaining broken processes • Avoid CAPEX overrrun • In-country SSC setup for a specific product/service • Cost neutral locations for in-country SSC	• Process optimization in terms of efficiency • Increment scope • Initiate hybrid model discussions • Review authorizations and improve control across processes • Continental SSC model with low degree of FO/BO organization • Initiate end-to-end review of process • Cost-effective locations for SSC within the continent	• Push standardization and advanced technology • Drive effectiveness and become true business partners • Radical expansion of scope (functional, geographic) • Clarify new business case and implement decoupling • Implement hybrid models driving optimal cost-effective locations
Key Outcome	0-2 years Reduce complexity initiate efficiency	2-5 years Operational excellence drives robust efficiency	5+ years Focus on effective scope and location optimization



optimization, especially when process reengineering or Lean Six Sigma initiatives necessitate wide-ranging change. My experience suggests the effort is worth it, because a quantum jump in continuous improvement can be achieved with the right support."

Unfortunately, many companies and service providers continue to view shared services purely through the lens of the second generation SSC. For CFOs and finance directors who seek a strategic partner that excels at continuous improvement, this is no longer enough. Intelligent enterprises are already leveraging the full power of SSC optimization to enable business outcomes and attain breakthrough levels of performance.

About Genpact

Genpact is a global leader in business process and technology management services, leveraging the power of smarter processes, analytics and technology to help its clients drive intelligence across the enterprise. Genpact provides a portfolio of process-driven services strengthened by its industry vertical domain expertise, analytical insights, and intelligent technology solutions for better business outcomes.

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About the Author

KP Santosh is a senior leader in the Genpact consulting team, leading the European re-engineering practice. He has worked with several Fortune 500 corporations on designing and implementing large global transformation programs. In Europe, he has advised clients on strategy, set up and optimization of their global business services strategy. He is a certified Six Sigma Master Black Belt with 18 years of cross functional experience.

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