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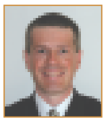

IF SHARING HALVES A PROBLEM, ALL THE EVIDENCE SHOWS THAT THE MANTRA EXTENDS INTO CASH MANAGEMENT, SAYS **DIETER STYNEN**.

Best practice in cash management is still a core aim of many corporate treasurers despite the economic difficulties of the past 18 months. And the shared service centre (SSC) remains a key component at the heart of many initiatives to improve corporate treasury performance. Indeed, many corporates have found that centralising and consolidating treasury processes have left them better able to cope with the demands placed on liquidity and working capital throughout the financial crisis.

As the SSC model gains in popularity, so its scope is also broadening to include a greater range of financial and non-financial business functions. But considerable debate remains among treasurers and transaction banking practitioners on issues such as the ideal locations for SSCs, and what the limits of their remit should be.

There are several key drivers behind the growth of SSCs.

Executive summary

As the shared service centre model continues to grow in popularity, it is evolving to offer more than simply cost savings. Increased visibility, greater opportunities for standardisation and speedy response will attract corporates, but those who take it up need to choose their banking partner and location with care.

Rapid advances in IT and communications have enabled much greater levels of centralisation and automation and brought these technologies – once the preserve of the largest multinationals – within the reach of smaller corporates. These changes, coupled with financial harmonisation in regions such as the EU and a growing regulatory burden, have multiplied the benefits of bringing processes together in an SSC environment. Such progress has been particularly pronounced for financial and treasury functions such as accounts payable/receivable and supply chain management.

INCREASED BENEFITS While the potential for cost savings – for instance, through eliminating the duplication of processes across markets and/or regions – may motivate many corporates to consider the SSC model, process centralisation will yield opportunities to standardise, automate and consolidate across a range of areas (see Figure 1).

Greater visibility of funds and payments flows produces more streamlined and efficient liquidity management, strengthens control, and eases the burden of many aspects of regulatory compliance. SSCs can also assist in leveraging additional value from enterprise resource planning (ERP) systems, which often represent a large sunk cost.

A trend towards greater regulation and more onerous compliance measures was already apparent for some time before the recent crisis struck, thanks partly to high-profile corporate scandals in the US and growing concern over money laundering and organised crime. And while SSCs can reduce some of the costs associated with compliance, they can also permit a more nimble response to new regulatory strictures – of particular value in some emerging markets where changes can come frequently and at short notice.

Some corporates that have already adopted the SSC model report that it has allowed them to react more quickly to the rapidly changing conditions experienced throughout the financial crisis. During the period when many corporates found that their short-term borrowing arrangements were becoming restrictively expensive, SSCs became key to

ensuring that cash and payments were managed as efficiently as possible.

AN EVOLVING CONCEPT Despite the compelling advantages, projects of this magnitude should always be approached with caution. Implementing changes of this type will often cut across areas of corporate responsibility and embedded cultures may need to be overcome. A rigorous analysis of the processes to be consolidated – as well as all other underlying issues – should be undertaken, as failure to understand fully the changes could be disastrous.

However, regardless of the difficulties, SSCs are now reaching a level of maturity where considerable lessons have been learned from past initiatives. As a result the choice of transaction banking partner will be key to the success of the project. Indeed, specialists such as Deutsche Bank will be able to advise on a range of issues, as well as provide assistance in navigating any potential pitfalls throughout the structuring and implementation of the project.

One fundamental decision is where to locate the SSC facility. There is still considerable debate on the merits of various markets and regions. While this decision has often been primarily taken on the basis of cost – with SSCs sited in countries such as India – other factors are now coming into consideration. Corporates with the bulk of their operations in the EU are increasingly looking at central and eastern Europe as potential locations, as these markets can still be attractive from a cost perspective, while also offering benefits in terms of lower language and cultural barriers, as well as proximity to production facilities and key markets.

ENSURING SUCCESS The changing regulatory landscape and developments in IT that have driven the SSC model are set to continue for some time. For example, the next stage in the roll-out of the Single Euro Payments Area (SEPA) – the SEPA Direct Debit (SDD) – should greatly increase the scope for further consolidation, especially in helping to manage collections across the euro zone.

Financial processes and procedures certainly lend themselves to centralisation. Yet SEPA has considerably multiplied the benefits available, leading to a rapid growth in related initiatives such as payment and collection factories and in-house banks. These facilities follow a similar approach to SSCs in that they aim to achieve cost savings and efficiencies by reducing duplications while increasing the visibility and manageability of processes and payment flows.

However, regardless of the scope of the project, SSCs and related initiatives will always have responsibilities that extend across markets – and even regions – and thus the choice of banking partner will be key to dealing with the problems presented by working with multiple legal jurisdictions and/or payment systems.

Deutsche Bank, for example, offers a global platform with a wide range of connectivity options for making and receiving payments. And local knowledge and expertise in the markets served by an SSC will also be crucial to successfully structuring and implementing such a solution, as well as realising the considerable benefits created by centralising and consolidating financial processes in this way.

Dieter Stynen is head of treasury solutions, Europe, Global Transaction Banking, at Deutsche Bank.
dieter.stynen@db.com
www.db.com/gtb

Figure 1: Corporate market trends towards centralisation and rationalisation