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MICHELLE PERRY LOOKS AT THE
CHANGING PERCEPTIONS OF
SHARED SERVICE CENTRES.

service

Treasurers are finally reaping the rewards long promised from shared service centres (SSCs). An arduous process to go through with benefits often later than expected, SSCs are however reducing research and analysis time for corporate treasurers in the long term.

Born of the need to cut costs, executives are increasingly looking to the finance function, viewed as a non-core business activity, as a way of reducing costs by avoiding duplication. SSCs are nothing new, but the reasoning behind the rise in popularity among multinationals has moved on. The growth in SSCs is now driven as much by the need to tighten and harmonise internal controls, as by the desire to reduce transactional costs. In recent years the process has speeded up because of advances in technology.

Architects of SSCs did not originally design the processing centres with benefits for treasurers at the forefront of their minds, but centralising processes have had many indirect advantages for the corporate treasurer. Technological developments are allowing companies with disparate operations to create a single financial hub that will serve the whole group, rather than having 10 or 20 finance departments dotted around the world.

"The technological space has also moved on so that it's much easier to put a Payment Factory or broader SSC in place with less pain to the organisation," says Tom Gunson, partner responsible for treasury and working capital management at PricewaterhouseCoopers. Ten years

Executive summary

- Shared service centres (SSCs) are an established trend within FTSE 100 companies and increasingly among the FTSE 250.
- Technology has advanced so that implementing an SSC should not prove too tortuous.
- Impact on treasurers include a single source of constant data and the ability to handle an array of banks through one point of contact.
- SSCs are maturing rapidly and treasurers should be able to benefit, provided they are involved in the process.

ago, when SSCs first appeared, they were the preserve of the largest companies with big enough volumes to justify the switch. But even then implementation was tortuous because of the clunky software. With cost-saving as the primary driver questions over quality and control soon surfaced.

Costs have now come down as the attractiveness of SSCs has risen with the results that medium-sized businesses with disparate

operations can now also benefit from a shift to a service centre.

In the FTSE 100, it is now more difficult to single out companies that do not have a service centre approach, whether this takes the form of an in-house, outsourced and/or offshored SSC. The trend is extending to the FTSE 350 now.

AstraZeneca, Europe's third largest pharmaceutical company, set up its service centre in Manchester in 1999 to provide financial transactions for 15 of its European markets. Diageo, the world's largest drinks manufacturer, opened the doors to its SSC three years ago.

MATURING WITH AGE As service centres have matured the benefits for both senior and junior treasurers are becoming clearer, say experts. Adrian Marsh, Head of Treasury at AstraZeneca, says: "It's a constantly evolving process. It has had a limited impact on treasurers. But it now gives us a single source of constant data. Our involvement was small but the benefit has been very considerable. It has made life a lot easier. For example, any data regarding working capital is now in one place rather than 15."

While Diageo's move came later it seems its expansion plans for its Budapest-based service centre are growing fast. The drinks company already has plans to expand the 300-strong SSC to take on an extra 200 employees over the coming year with plans afoot to integrate the UK back office treasury operations within the centre in Budapest. Charles Coase, Group Treasurer of Diageo, says: "There are two reasons; ensure efficiency by standardising processes and ensure reliable reporting.

"The impact on treasurers comes from having one point of contact. We can talk to one person and manage an array of banks through one person." Publisher Emap set up its UK-based SSC around three years ago. Melanie Duke, Emap Director of Treasury, says that "overall the experience has been pretty good" with cash management much more co-ordinated now, but the improvements have taken longer to finalise than initially thought.

Because an SSC is more procedural than commercially minded, sometimes change takes longer to effect, says Duke. But, she adds: "It's better to have things happen slowly than not at all."

On the people side, it also means that bosses are able to take away monotonous work from their finance staff. By getting IT systems in place to do the repetitive work, executives can put their employees to work on more analytical, value-added work, say experts.

"For finance it's around adding value to the business. If you have people tied up doing non-value activities it's better to use technology to reduce resources involved in those so you can focus your limited finance resources on more value add activities," explains Gunson. One of the downsides to SSCs however can be a high turnover because of the monotonous cycle of work, but as companies integrate more and more financial disciplines into their service centres the likelihood of staff leaving to pursue other opportunities diminishes as the corporate offers a broader career path, experts predict.

Marsh says: "We have a mixture of financial professionals. Everyone has at least two languages with the majority having a first degree and a financial qualification. Our turnover is relatively low. It's about 10% but lower among senior positions."

For junior treasurers this could be an even greater boon, opening up to them a broader view of the commercial world.

"One of the problems for some treasurers is having a career path for back office people because they are in a very different skills set. Putting them into an SSC means they have opportunities to learn other skills. This also allows the treasurer to focus his attention on

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those activities that generate the maximum value add for the business," explains Gunson. But Gunson warns that there are potential pitfall and control issues associated with integrating treasury activities into an existing SSC model. "A typical SSC conducts high volume, low value transactions. Treasury deals with low volume, high value transactions. If a mistake is made then the financial impact can be potentially significant for the organisation," says Gunson.

"If an organisation goes down this path then it needs to ensure a strong control and governance framework is in place," he urges.

Increased focus on the direction and controls of corporates is another reason that has heightened interest in and pushed development of SSCs. The Sarbanes-Oxley Act and plans to create similar legislation within the European Union (EU), has highlighted the need for corporates to harmonise systems and process. By creating an SSC, which often goes hand in hand with the implementation of a new IT platform, controls are centralised and therefore tighter, say experts.

BANKING ON A COST REDUCTION As for reduced costs, well most corporates that have gone down the path of a SSC have radically minimised the number of banks they have to deal with and therefore reduced transactional costs. Advisers say that companies are looking at cost savings of up to 40%, depending on the size of the company.

When AstraZeneca set up its SSC in 1999, the drugs company took the opportunity to look at its banking relationships, reducing the number of banks it dealt with to one. "Ninety five per cent of our work is with one bank now. It took a while to have the same bank for each country but we've achieved that," says Marsh.

Not only do you reduce the transaction costs, says Gunson, but by dealing with fewer banks you reduce the number of interfaces you have to set up and maintain. "If you ship all payments through an SSC and have an interface with one bank, or, for example, one bank for dollars, one for euros and one for sterling, then that's three you deal with instead of three in each country, which is a situation we have seen many times," he says. You also get more negotiating power, Gunson says. And if there are any disputes with a company's bank then you only have to unplug from one interface as opposed to disconnecting many more at a country level.

As with any large-scale procedural shake-up in a company the potential for failure is great, but with a clear vision, IT advances and a growing number of examples to learn from, SSCs are maturing rapidly and treasurers are benefiting. To really achieve improvements, treasurers must, however, make sure they are involved in the process and are clear about how an SSC can improve their lot.

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