operations SHARED SERVICE CENTRES

SHARED SERVICE CENTRES OFFER A WIDE RANGE OF BENEFITS TO CORPORATE TREASURY OPERATIONS. **JENNIFER KETELAAR-MODUGNO** AND **PIERRE DE MONTESSUS** EXAMINE THE CHOICES AVAILABLE WHEN SETTING THEM UP AND HOW THIS RAPID GROWTH INDUSTRY IS CHANGING.

GETTING A FAIR SHARE

While Shared Service Centres (SSCs) are hardly a new concept, they nevertheless remain one of the fastest growing and evolving areas of treasury influence. This dynamism is reflected in the recent Shared Services and Business Process Association (SBPOA) survey, in which 45% of respondents stated that their SSC programmes were less than two years old. At the same time, SSCs are clearly seen as an area of corporate competitive advantage. Two thirds of the survey's respondents also stated that they had expanded the size or scope of their SSCs since establishing them.

REVISITING PREVIOUS ASSUMPTIONS. At present, Europe is very much part of this fluid environment, with many companies revisiting their existing European SSC structures and pondering their next step forward. Does the current structure offer the best fit with (and support of) the corporation's core business? Are there additional processes that could be moved from business units to the SSC? Is there a cost benefit case for moving or merging existing SSCs to lower cost locations?

Another popular theme in these deliberations is Business Process Outsourcing (BPO). A recent Gartner report predicted that the European BPO market would grow by 4.5% in 2004 to €25bn. The usual BPO drivers (cost reductions, customer service improvement) still apply, but the range of processes corporations are considering for BPO are also expanding.

Those such as payroll have historically been favoured, but others such as accounting, human resources and procurement are now also being outsourced. The general tendency is still for customer-facing processes, such as accounts receivable, to be retained in-house, but some companies are already considering the outsourcing of even this type of activity.

In order to support decisions over whether to move/combine SSCs or whether to outsource processes, treasuries are trying to define suitable metrics. These can be purely volume-related, such as whether the number of invoices per full-time equivalent employee (FTE) exceed a certain threshold. That said, there is obviously still a strong qualitative element to these decisions. For example, invoicing volume may justify 'off-shoring' to India, but a particular corporation's invoicing process might involve specific complexities that render that ill-advised.

LOCATION, LOCATION, LOCATION. While such decisions will always be something of a balancing act, some clear trends are emerging as regards favoured SSC sites in Europe. 'First wave' SSC locations, such as Eire, the Netherlands and Belgium appear to be waning in popularity. They are gradually being supplanted by East European counties such as Hungary and Czechoslovakia. Ironically some other East European locations, such as Warsaw, are now often regarded as too expensive. Existing European SSCs (or at least some of their functions) are of course also being shunted outside Europe altogether to locations such as India, either in SSCs or as part of BPO agreements.

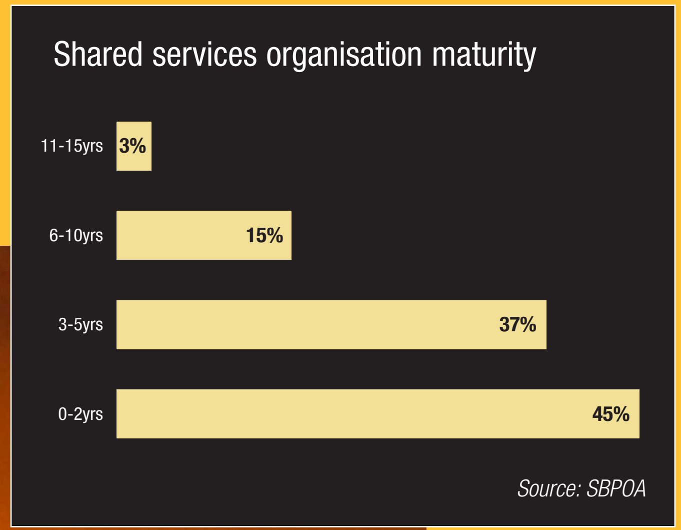
This is perhaps understandable, given the relative costs involved. *The Economist's 2003* survey on SSCs cited total costs per annum, per SSC employee of €50,000 in Dublin, €23,000 in Budapest, €21,000 in Prague and €12,000 in Bangalore.

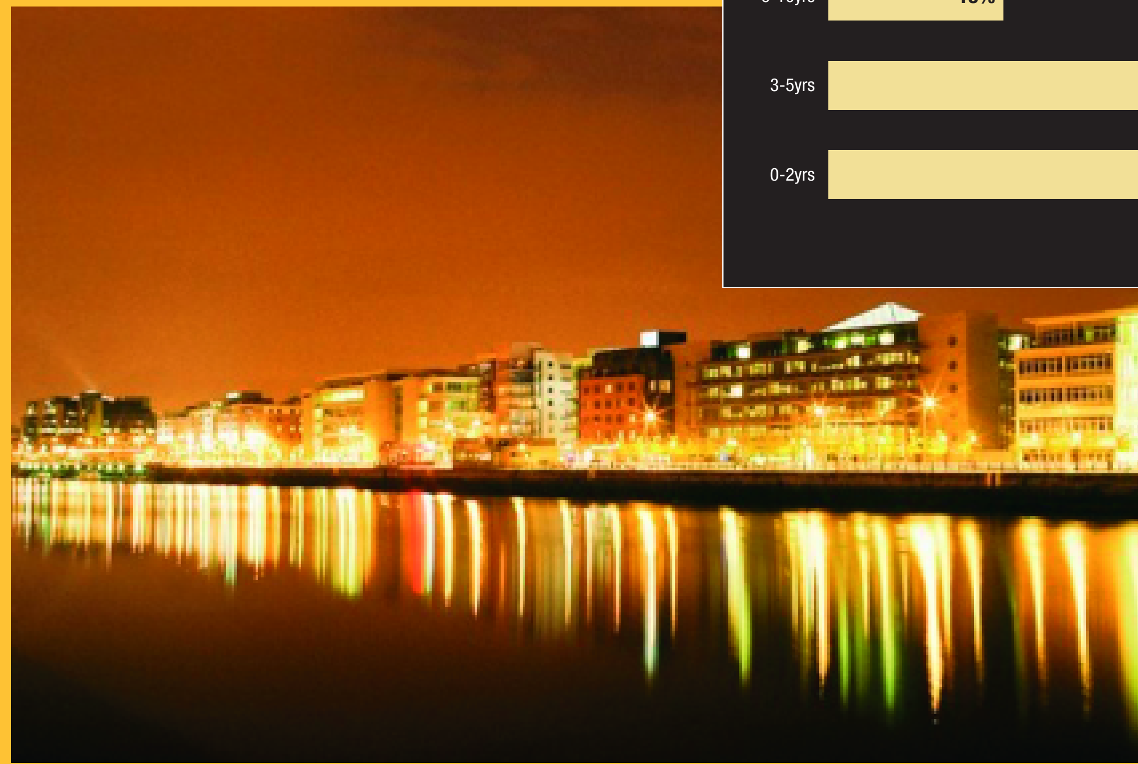
Another location factor that has been a surprise for some treasuries and SSC managers (particularly when an SSC services a large geographical area) has been language. If an SSC is providing cross-border services, good linguistic skills are clearly essential – especially for customer-facing roles. While languages such as English and German do not pose much of a problem in popular SSC locations, others – particularly Scandinavian languages – can be a real stumbling block, even in major population centres. Some European SSC managers have found themselves having to pay a 10-20% salary premium to secure personnel with business standard expertise in these languages.

The emphasis is very much on 'business standard' – a point that also links into the issue of staff retention. If SSC personnel are dealing with customers, their language skills should really be approaching degree level or beyond, but some understanding of business practices in the customer's country is also invaluable. This implies a need for high-calibre recruits, but they are soon likely to tire of the repetitive nature of 'shopfloor' SSC work.

This combination of circumstances can quickly lead to frequent job-hopping and the rapid escalation of salaries in formerly low-cost locations. This has been near endemic at times in cities such as Dublin – a fact that some feel accounts for its declining popularity as an SSC location.

Taxation is obviously a factor in the location of European SSCs, though it is difficult to make much in the way of meaningful generalised observations about its influence, as company-specific factors such as country of incorporation inevitably distort the picture. It is also a rather volatile area – for example, from 2003-2004, a number of European countries made radical cuts in corporate taxation, with Poland and Slovakia reducing their corporate tax rates to 19% (from 27% and 25% respectively), while Portugal cut from 33% to 27.5%.





The IFSC in Dublin was set up in the mid-1980s to take advantage of Ireland's developing financial services industry.

CONTROL. For certain corporations one of the hottest topics for their European SSC over the past year or two has been control. The most immediate impact has been on US companies and non-US companies with a US listing that have to comply with Sarbanes-Oxley. However, companies outside these two groups have also started to respond, as they anticipate similar corporate governance legislation in their own countries.

This need to improve controls plays to the strengths of centralisation and standardisation of process in a successful SSC, and has, therefore, been an important driver behind increasing European SSC activity. It has also intensified the push towards raising straight-through processing (STP) rates, as manual processing is seen as a potential control flaw.

It is interesting to note that this emphasis on control is so strong that in some cases it overrides other European SSC drivers, such as cost. A recent example of this is where a US multinational decided to shut down its SSC in a low-cost location in Southern Europe and relocate its functions to the relatively high-cost environment of Belgium, because it felt more comfortable with this from a control standpoint.

REDUCING WORKING CAPITAL. While the drive to reduce working capital is commonplace in the world of corporate treasury, SSCs introduce a few specific challenges of their own. A popular focal point at present for those looking to hone working capital processes in their SSC is dispute management. This is potentially something of a black hole for SSCs because once the collection process is physically detached from the sales process (which often remains in one country) communication failures between the two over customer invoice disputes can quickly impact working capital. Disputed invoices remain in limbo as each group of personnel assumes that the other is resolving the issues with the customer.

As a result, many treasuries have been working hard to define a rigorous dispute management process that incorporates the best possible communication between the local sales team and the SSC. This does not automatically require a huge technology investment

'GIVEN THE FLUIDITY OF SO MANY OF THE FACTORS THAT INFLUENCE SSCS, CORPORATIONS ARE ALWAYS TRACKING A MOVING TARGET AS THEY STRIVE TO REMAIN COMPETITIVE'

– in some cases the necessary shared/distributed functionality is already available via the corporation's enterprise resource planning (ERP) system. Under those circumstances, all that is needed is a clear policy delineation of individual responsibilities and a procedure for ensuring that those responsibilities are actually fulfilled in practice. Even where the necessary supporting functionality is not immediately available from existing resources, it can usually be quickly assembled from standard database technology.

But that is only the first step. A key theme for a 'dispute management process' among European SSCs is standardisation. Having defined a 'best practice process solution', the next priority is to roll it out on an enterprise-wide basis. The local business entity and the European SSC will then follow the same process and interact in the same way, whether the local entity is in Warsaw or Barcelona.

STRAIGHT-THROUGH PROCESSING. As in other regions, boosting STP levels is a major priority for SSCs in Europe. As SSC transaction volumes increase, it becomes increasingly critical that no manual intervention is required. This is essentially a team effort – for both payables and receivables. Success in this space depends upon effective collaboration between a corporation, its bank(s) and its customers/vendors.

Much of the potential difficulty here lies in the mismatch of electronic and paper methods, and the character field size limitation of some clearing systems. This causes particular problems for those corporations whose customers want to send electronic remittance information with their payments, as this information will be truncated and lost in transit through the clearing system.

Solutions to this are emerging. For example, RosettaNet (see *Will TWIST set the standard?*, page 64) has an initiative that allows payment and remittance advice to be sent separately. The basis of this is a Unique Remittance Identifier (URI) that allows the payment and remittance advice to be cross-referenced. However, this sort of solution is not universally available, so the European SSC dealing with smaller customers is usually left with three choices – to accept paper-based remittance advice from customers, to offer some customer-accessible electronic alternative, or a mixture of the two.

The first course of action appears to fly in the face of all STP logic, but by using bank lockbox or in-house document-imaging technology it is now possible to convert the paper information into an electronic format relatively painlessly. Some corporations are also enhancing their success rate with this model by persuading customers to use their standard remittance advice template.

Customer-accessible electronic alternatives are also in sight. Some corporates are investigating the use of customer portals that include embedded payment functionality managed by their partner bank. Customers enter payment instructions and remittance details via a secure web page and the bank manages the automated flow of payment and remittance data back to the SSC for automated reconciliation.

END-TO-END STP. Strictly speaking, SSCs in Europe and elsewhere are striving for more than just STP – they want end-to-end STP. This may seem an artificial distinction, but in the context of an operation handling thousands of transactions per day there is a real difference. The distinction arises because some banks have historically tended to think of STP from their own, rather than their clients', perspective. Their assumption has been that if a transaction goes straight through from the moment it hits the bank to the moment it leaves it – then that's STP.

This definition ignores some deficient possibilities. As part of its STP the bank may be blithely passing on truncated and worthless remittance information to its client – there is therefore no straight-through process from the client perspective, because a manual repair will be required.

In a highly automated and competitive environment, SSCs will no longer accept this. They expect banks to look at STP from their perspective – from the moment the customer decides to initiate a payment to the moment it hits the corporation's general ledger as an automatically reconciled transaction.

As a result, European SSCs are increasingly looking to their banks to assist in customer segmentation exercises based on payment behaviour. How does a particular customer group in a particular country pay? What instruments do they use – paper, electronic transfer, direct debit? How will the country's clearing system handle that? What instruments can the customers be guided to use that will facilitate end-to-end STP? How can this be achieved across all customer segments and instruments?

A GLIMPSE OF THE FUTURE. Given the fluidity of so many of the factors that influence SSCs, corporations are always tracking a moving target as they strive to remain competitive. New EU accessions, the shifting demographics of the potential workforce, fluctuating tax rates, and advances in technology are just a few of the factors they must juggle.

A handful of companies have taken the view that the logical response to this is to push the SSC concept to its logical limit with a global shared service centre. These are still comparatively rare beasts, and as yet do not handle all possible processes for a corporation globally, but it is increasingly common to find areas such as Human Resources conducted on a truly global basis from one of these centres.

Other companies seem to be taking the view that such globalisation does not have to be physical. Their perception is that maintaining a regional (or even sub-regional) European SSC presence enhances the customer relationship. They also see the potential cost savings of physical centralisation as secondary to those achieved through global re-engineering and standardisation of business processes. Furthermore, those advances can be sustained through a consistent global ERP model. Therefore for these companies, moving from a European towards a global SSC is a reality – but it is a virtual one.

Pierre De Montessus is Senior Vice President, Global Treasury Management Sales at Bank of America.
pierre.de_montessus@bankofamerica.com

Jennifer Ketelaar-Modugno is Vice President, Global Treasury Management Sales at Bank of America.
jennifer.ketelaar-modugno@bankofamerica.com

www.bankofamerica.com