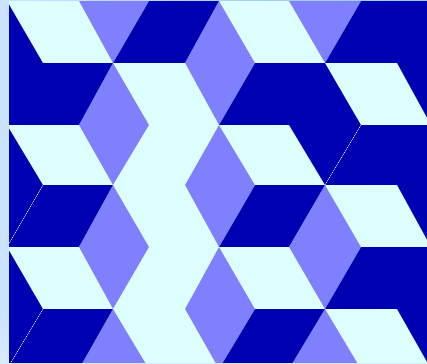


Shared Services Centers



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Introduction to Shared Services

- ✍ Starting in the late 1980's, large, decentralized companies consolidated basic transactional processes - payroll, accounts payable, purchasing - and charged business units at cost
- ✍ Enabled by evolution of networking technologies to link remote businesses to central location
- ✍ Driven by packaged software which forced standardization of processes and example set by tax/currency driven financial consolidations
- ✍ Reengineering movement was in full swing

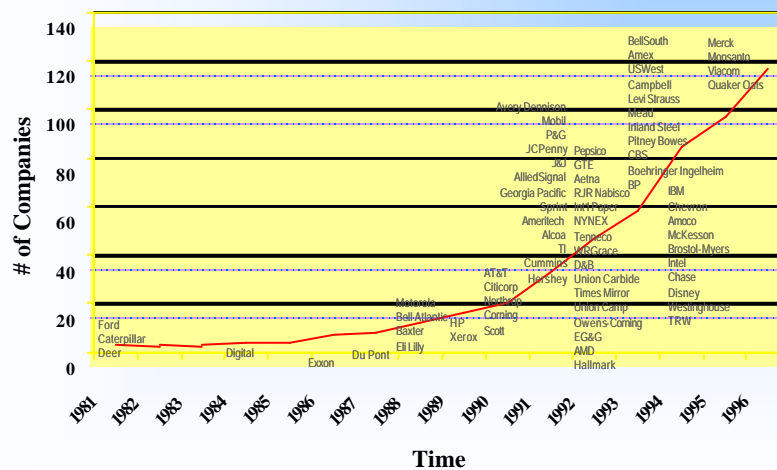
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A Star is Born

- “Shared Services” coined by Bob Gunn and Greg Hackett while working for A.T. Kearney
- Ten-client study found pooling accounting resources could double efficiencies
- Gunn wrote an article using the term in 1993
- Early SSC's
 - Ford Europe (1981)
 - General Electric (1984)
 - Digital Equipment (1985)
 - Others include DuPont, Hewlett-Packard, Johnson & Johnson, Xerox, Exxon, Baxter, Shell

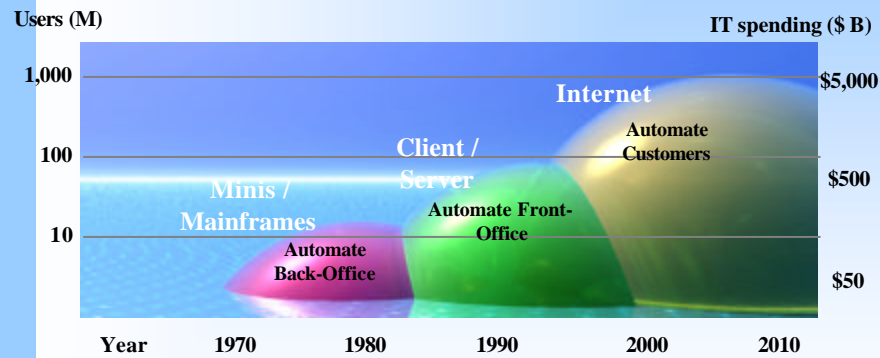
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The First Wave



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The Internet Impact



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Business Implications

✂ Technological advances, process efficiency opportunities and the drive for improved customer service will move the concept of Shared Services from a physical model to more of a virtual organization.

- ✂ Enterprise-wide web-enabled applications
- ✂ Electronic commerce
- ✂ Employee and manager self service
- ✂ Front-end controls

✂ Current market conditions may be a beneficial driver

- ✂ Shareholder value
- ✂ Expense reduction

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Functional Alternatives

✂ Traditional outsourcers

- ✂ Payroll, benefits, freight, and other specialty services
- ✂ Cash operations - lock box, check printing, cash posting, etc.

✂ Business Process Outsourcing (BPO)

- ✂ Back Office Transaction Service Providers
- ✂ Customer Service Providers

✂ Application System Providers (ASP)

- ✂ Web Site Hosts
- ✂ Application hosting and maintenance (could grow into MSP - Managed Services)

✂ IT Hosts / Internet Service Providers ISP's

- ✂ Secure Hardware Sites
- ✂ Global Technical Infrastructure Network and Support



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Trends

✂ Current functions as aggregator will evolve to sourcing management

✂ Surviving operations will be organized to deliver ...

- ✂ world class customer, process, organization, technology leverage and knowledge characteristics

✂ Service failure will be the prime reason that companies disassemble shared services

✂ Contact centers will emerge to serve multiple industries / companies

✂ Companies will include sourcing decisions within core business strategy

- ✂ If activity is not core competency then sell or partner

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Trends Continued

- ✍ **Collaboration between suppliers and business partners will provide new services models**
 - ✍ Collaborative commerce evolves to include settlement and transactions solutions
- ✍ **New ventures and processes will continue to drive demand**
 - ✍ Software development will remain strong candidate for outsourcing
- ✍ **Facilities and real estate strategy outsourcing will increase to address the emergence of virtual organizations**

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Implications

- ✍ **Slowed revenue growth ... has challenged the decentralized autonomy of large global organizations**
- ✍ **Mergers and acquisitions ... seldom produce anticipated synergistic cost savings**
- ✍ **ERP implementationshave not delivered the expected productivity gains**
- ✍ **New technology solutions, e.g., e-business ... require a fundamental rethinking of business processes**
- ✍ **Effective utilization of professional staff ... has become key retention issue in today's labor market**

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Mission

Provide continually improving high-quality transaction and expertise-based services to internal and external operating businesses to improve profitability and performance.



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Guiding Principles

- ✍ Provide superior customer service
- ✍ Be cost effective
- ✍ Identify and deploy appropriate best practices
- ✍ Establish and maintain effective internal controls
- ✍ Leverage technology investments
- ✍ Operate as a business
- ✍ Proactively provide services within constantly reconfigured corporate organizations
- ✍ Embrace e-Commerce opportunities consistent with overall strategy
- ✍ Enhance capabilities to become internal consultants on process improvement
- ✍ Redeploy resources

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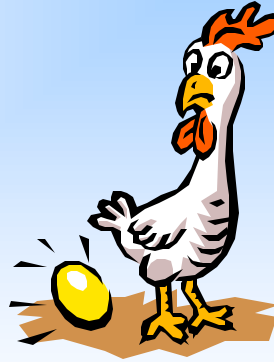
“Who Goes First”

Quantitative

- Transaction Volumes
- Financial Control
- Performance Metrics

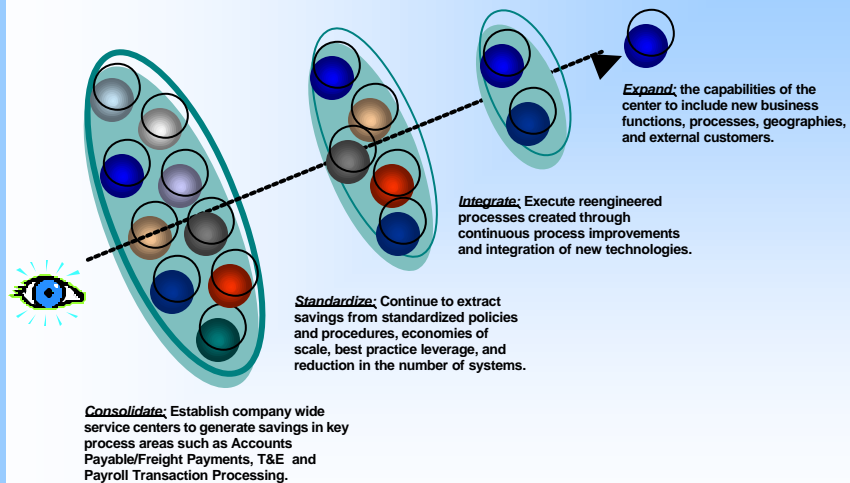
Qualitative

- Market Area complexity
- Change Readiness
- Minimal customization
- Representative processes
- Union Contract Complexity
- Regulatory Considerations



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Vision



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Diagnostic



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Critical Success Factors

- ✍ **Organizational skill set – mastering the management of numerous and diverse external relationships**
- ✍ **Common, e-enabled and best practice-based business processes (very little to no application customization)**
- ✍ **Embrace technology yet recognize limitations**
- ✍ **Establish formal risk mitigation and management programs**
- ✍ **Financial viability of partners**
- ✍ **Establish contract management as a core competency within the services organization**

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Practical Issues

- ✗ Regulatory, Tax and Legal Issues
- ✗ Technological Requirements
- ✗ Change Management
- ✗ Resource Management Issues
- ✗ Speed of Implementation and Time Line Planning
- ✗ Choice of Location
- ✗ Perception of Service Quality
- ✗ Cultural Differences
- ✗ Language Differences
- ✗ Customer Impact
- ✗ Regulatory Resistance
- ✗ Resource Management Issues Underestimated

Site Evaluation Criteria

- ✗ **Quantitative**
 - ✗ One-time costs
 - ✗ Ongoing operating costs
 - ✗ Additional savings/incentives
 - ✗ Time to acquire & prepare facility
- ✗ **Qualitative**
 - ✗ Workforce demographics
 - ✗ Education
 - ✗ Workforce availability
 - ✗ Retired population
 - ✗ College population
 - ✗ Second wage earner profile
- ✗ **Qualitative**
 - ✗ Regional wage structure
 - ✗ Facility availability
 - ✗ Location accessibility
 - ✗ Telecommunications availability and quality
 - ✗ Government relationships
 - ✗ Overall business environment
 - ✗ Previous history of the location, if any
 - ✗ Corporate center
 - ✗ Business affiliation

Best Practices Comparison

<i>Activity</i>	<i>Best Practices</i>	<i>Company Practices</i>
Requisition creation	<ul style="list-style-type: none"> ✍ On-line input by requester 	<ul style="list-style-type: none"> ✍ Manual forms, memos and phone calls to Purchasing
P.O. Creation	<ul style="list-style-type: none"> ✍ On-line input by Purchasing ✍ Electronic transmission to supplier 	<ul style="list-style-type: none"> ✍ Moderate use of on-line systems ✍ Minimal use of EDI to transmit P.O.'s
Sundries (Non-P.O. Items)	<ul style="list-style-type: none"> ✍ Reported through Travel & Expense 	<ul style="list-style-type: none"> ✍ Extensive use of manual checks and cash advances
Scheduled services P.O.'s	<ul style="list-style-type: none"> ✍ On-line setup of recurring services 	<ul style="list-style-type: none"> ✍ Recurring services treated the same as non-recurring purchases -- manual input all fields each time
Approvals	<ul style="list-style-type: none"> ✍ P.O. items -- obtained electronically at time P.O. is out ✍ Non P.O. items -- obtained electronically at time invoice is received 	<ul style="list-style-type: none"> ✍ Manual approvals required for requisitions, P.O. issuance, and invoice receipt ✍ Extensive use of 3-way and 4-way matches
Invoice Entry	<ul style="list-style-type: none"> • P.O. items -- no invoice required; P.O. automatically linked to A/P ✍ Non-P.O. items -- invoices received and input by shared service unit 	<ul style="list-style-type: none"> ✍ Moderate use of automatic links to A/P from Purchasing ✍ Most transactions re-entered when invoice is received
Supplier Payment	<ul style="list-style-type: none"> ✍ P.O. items paid on receipt acknowledgement -- no invoices ✍ No manual checks ✍ supplier paid through EFT 	<ul style="list-style-type: none"> ✍ Local sites enter most invoices ✍ Minimal use of pay-on-receipt ✍ Extensive use of manual checks ✍ Minimal use of EFT/ACH payments
Problem Resolution	<ul style="list-style-type: none"> ✍ Purchasing responds to supplier inquiries regarding price, quantity, terms, returns 	<ul style="list-style-type: none"> ✍ A/P staff fields majority of supplier calls ✍ Higher degrees of confusion on responsibility for correcting errors

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Performance Metrics

✍ **Multilateral netting:**

- ✍ Number of transactions eliminated x USD 5.00
- ✍ 5 pips on total value of fx netted

✍ **Notional pooling:**

- ✍ gross spread between non pooling bid rate and the market midpoint

✍ **Cash forecasting:**

- ✍ 0.5 day acceleration of turnover at average deposit rate

✍ **Export sales:**

- ✍ Expedited collections of export sales through information management equal to 2 days at average deposit rate

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