

Shared Service Centers

Capturing the Potential

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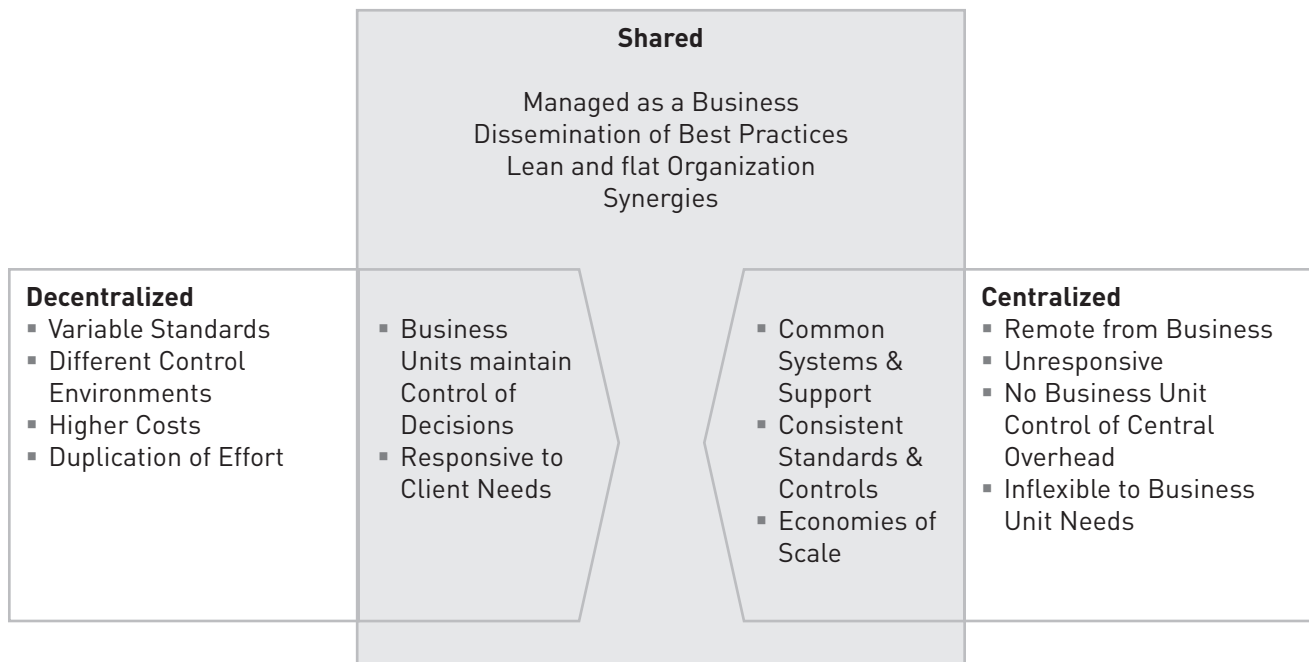
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A mature Business Concept Ready for the next Stage

During the past ten years Shared Service Centers (SSCs) have emerged as the dominant business trend for the provision of cost-effective support functions. It proved to be a myth that Shared Services are only relevant for finance operations. The concept applies to all business functions with significant overhead costs. Today, 80% of all Fortune 500 companies have implemented SSCs.

Shared Services are different from Outsourcing where an external third party is paid to provide a service that was previously internal to the buying organization. In this regard, Shared Services combine the benefits of centralized and decentralized operations while keeping control of the operations.



In a competitive environment companies must excel in using the centralization of services as a strategic cost lever to match restructuring efforts of competitors

Next Generation Shared Service Centers

Cost reduction, process optimization and reduced headcount have historically been a major driver for implementing a Shared Services strategy. While many companies have implemented shared service delivery or outsourcing models in recent years in order to reduce costs and improve performance, they realize that more needs to be done – introduce new services, expand the operations to higher value activities, and apply new technology to match the performance of leading edge competitors.

Global companies are able to become more competitive by the joint use of Shared Services, Outsourcing and Offshoring concepts:

- New technologies like next-generation ERP systems, networking, computing, Software as a Service (SaaS), virtualization, process integration, and electronic marketplaces reduce the cost of coordination between geographically dispersed business units and allow to combine cost reduction and differentiation of business processes.
- Process engineering, ITIL, CMMI and TQM provide opportunities to streamline processes, achieve cost savings and improve service levels, process speed and process quality. Furthermore, modern ERP systems make it possible to unbundle processes and to link these seamlessly with outside partners.
- A new pool of qualified resources is available in low-cost locations on a global basis, enabling a redirection of routine work with limited potential for differentiation to these locations and a benefit from labor arbitrage.
- The next wave of global sourcing focuses on multi-provider management, on alternative delivery and acquisition collaboration models (ADAMs), on the combination of different processes of the value chain in one SSC and on farming out knowledge-based services.

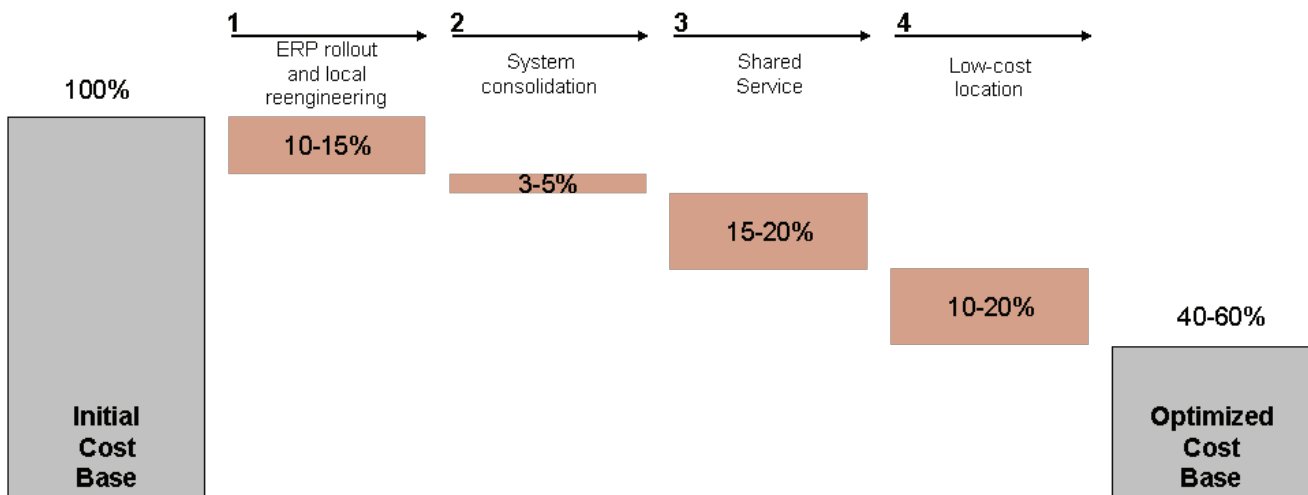
Reap the Benefits

Regardless of where you are in the SSC life cycle, your challenge is to gain benefits of Shared Services.

Lodestone works with many global companies to achieve compelling results. Many choose Lodestone because they realize significant benefits like these:

Cost savings

Concentrating business functions in a Shared Service Center reduces costs by typically 20–50%, depending on pre-implementation inefficiencies. Documented savings potential to be realized range from 20-40% of the cost base in IT and procurement up to 30-50% in Finance and HR.



More flexible cost structure

By changing a fixed cost into a variable cost based on consumption of these services business units can adapt more rapidly to market changes and adjust their business model. Service cost, service level and quality can be benchmarked with outside suppliers.

Standardization and harmonization

Reorganization of fragmented, inconsistent processes with global best practices and industrialization of the service process.

Better service levels and capabilities

Services improve due to process redesign, better IT support, specialized central staff/skills and more balanced workload of the service center.

**Higher quality and better compliance**

The right staff with the right technology and reengineered processes make process results more reliable and predictable. Compliance with regulations and auditability of processes improve.

Client-oriented service delivery

As best of breed companies run Shared Service Centers like a separate business, sense of ownership, client focus, and responsiveness to internal and external clients change, making employees and clients more satisfied.

Flexibility, agility and innovation

New ERP technology and centralized process delivery make it easier to redesign processes to provide new products/services and to adjust faster to new business requirements.

Best practices and state-of-the art services

Continuous improvement in one dedicated Shared Service Center facilitate a constant upgrade to changes in technology and business concepts.

Lodestone uses a life cycle model to assess status and maturity of organizations interested in the shared service approach as well as those that already use shared services and need further improvements or wish to extend the concept of shared services. Whether you intend to establish a transaction processing centre that delivers commodity services or you plan to redesign or upgrade your existing SSC to deliver end-to-end value chain services or knowledge based services, Lodestone can support you in defining the starting point and destination of your ongoing shared services journey. Based on the current position, further savings and efficiency gains and extended business potentials can be assessed

Shared Services: An integral Part of your Sourcing Model

By means of implementing a Shared Service Center, corporations need a strategy that supports the creation of a new customer service oriented organization, effective processes and enabling technologies to drive efficiency and service quality.

Establishing the SSC Strategy

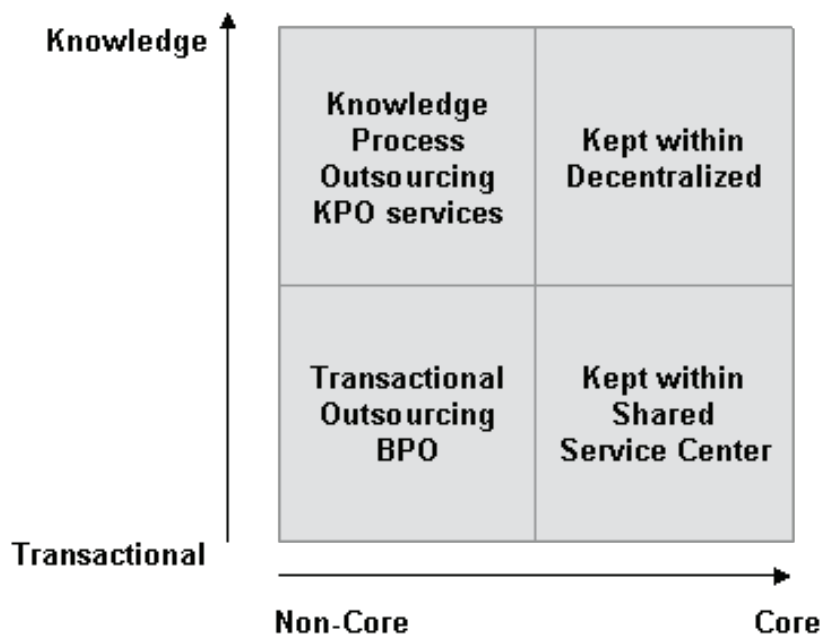
Before embarking onto the SSC journey, an organization’s management must ensure to have convincing answers to the following questions:

- Is there a clear vision of the final goal of the SSC and has the journey towards it been clearly communicated to all participants, so that they can support the shared services initiative?
- Is the SSC business case realistic and up to date, covering sensitivity and scenario analysis, as several factors can change fast? Does the initiative and the business case have full top management support?
- Have clear roles and responsibilities for the set-up been established in order to avoid confusion? Are accountabilities for milestones and interim success clear?
- Has the right team with a strong leader been chosen for the start-up? Is there a strong focus on service quality and responsiveness, as this is what business units are usually most concerned about? A good shared services model is extremely efficient, therefore cost reduction is rarely a problem. So, in order to alleviate these concerns make service delivery a top priority.

Establishing the Sourcing Model

Based on the nature of the affected processes and services a solution should be selected that combines both the cost saving aspects and the quality expectations of the internal and external service customers and retains valuable process knowledge as well as management control.

Further key elements of the Sourcing Model are strategic decisions taken towards the two dimensions ‘ownership’ and ‘location’. Lodestone experience and expertise help clients to take all relevant aspects into account when planning, defining and realizing a SSC in order to achieve the envisioned benefits.



Ownership

There are a wide range of possible ownership structures for a SSC, ranging from a Captive Centre to a complete Business Process Outsourcing solution.

The Captive Centre usually is a fully own entity set up in a new location. It is either set up in-house from the outset or formed through acquiring an existing operation formed together with a partner providing expertise on a consulting basis (Assisted Built Out).

The Captive centre is contrasted to the Business Process Outsourcing solution, where activities are outsourced to a third-party provider that provides certain activities on an arm’s length basis through service and operating level agreements.

In between these poles we also find ‘collaborative’ and ‘joint venture’ set-ups. In a ‘collaborative’ setting collaboration with a local provider forms the starting point to set-up the shared service centre usually combined with an option to take over activities at a later point in time. This approach leverages the expertise of local partners and opens the opportunity to transfer the business of the SSC to a fully owned subsidiary at later date in a build-operate-transfer (BOT) scheme.



In the 'joint venture' scenario the SSC operations are jointly owned between two or more partner where each partner contributes assets and shares risks within the framework of various potential legal structures.

Complex organizations may use different sourcing models based on the type of process or function considered and the nature and strategic importance of the affected processes.

Companies should avoid moving to BPO solutions due to attractive pricing schemes, but are well advised to carefully assess all options and select the model best suited.

Criteria	Description
Process Maturity	Mature processes and highly standardized industry processes are more suitable for BPO whereas individual and immature processes can be better served in captive solutions.
Control and Security	Requirements for monitored execution and regular interventions as well as security, privacy and intellectual property considerations favour captive solutions.
Degree of Customization	Significant amounts of customization / specific processes favour captive. BPO providers will provide this, but the cost may be prohibitive.
Confidence to deliver Services	If the level of experience by external provider with the execution of the specific processes is high, the more likely benefits can be achieved with BPO, also if provider can leverage to other clients.
IT Landscape	If an in-house IT infrastructure is required to support specific processes, outsource potentials may be limited.
Scope of outsourced Activities	The larger and the more standardized the scope of activities to be outsourced, the more interested BPO providers will be – but – with a larger scope economies of scale can be achieved in-house as well.
Speed to build	If significant amounts of transformation and benefit delivery are required in short time, then BPO may be favourable if processes and people can be transferred quickly.
Upfront Cash-out	If upfront cash-out investments should be limited, BPO or Collaborative deals help to define appropriate financing models (specifically also on PL and BS impacts).

Lodestone has developed an assessment framework to guide such key decisions.

Location

The 'location' element of the Sourcing Model deals with the assessment and the selection of the site for the shared service center up to the point where the facility is set up and running.

Lodestone experience has revealed that using simple and commonly used scoring list do not lead to ideal results but the criteria should be assessed in a reward and risk context. Therefore Lodestone developed a model based on risk/reward profiling that can be tailored to reflect client specific situations. In its initial configuration the model covers financial, people and environmental aspects to deliver a risk/reward profile:

- Financial
 - Wages
 - Real Estate Prices
 - Office Availability
 - Infrastructure
 - Tax
- People
 - Labor force size and experience
 - Employment rigidity
 - Education and language skills
 - Cultural adaptability
- Environment
 - Stability and corruption
 - Economic macro data
 - Infrastructure maturity
 - Regulations

In a risk-benefit consideration new candidate locations for the set-up of operation centers emerge beside the traditional near-shore or low-cost far-shore locations. Especially in the context of diversification a tipping point can be seen, after which diseconomies emerge based on the size of the available talent pool and the need to fill more seats with more scarce and therefore more expensive talent.

Decision concept

Sourcing model, ownership and location considerations can be combined to provide a more diverse set of options for centralization of services.

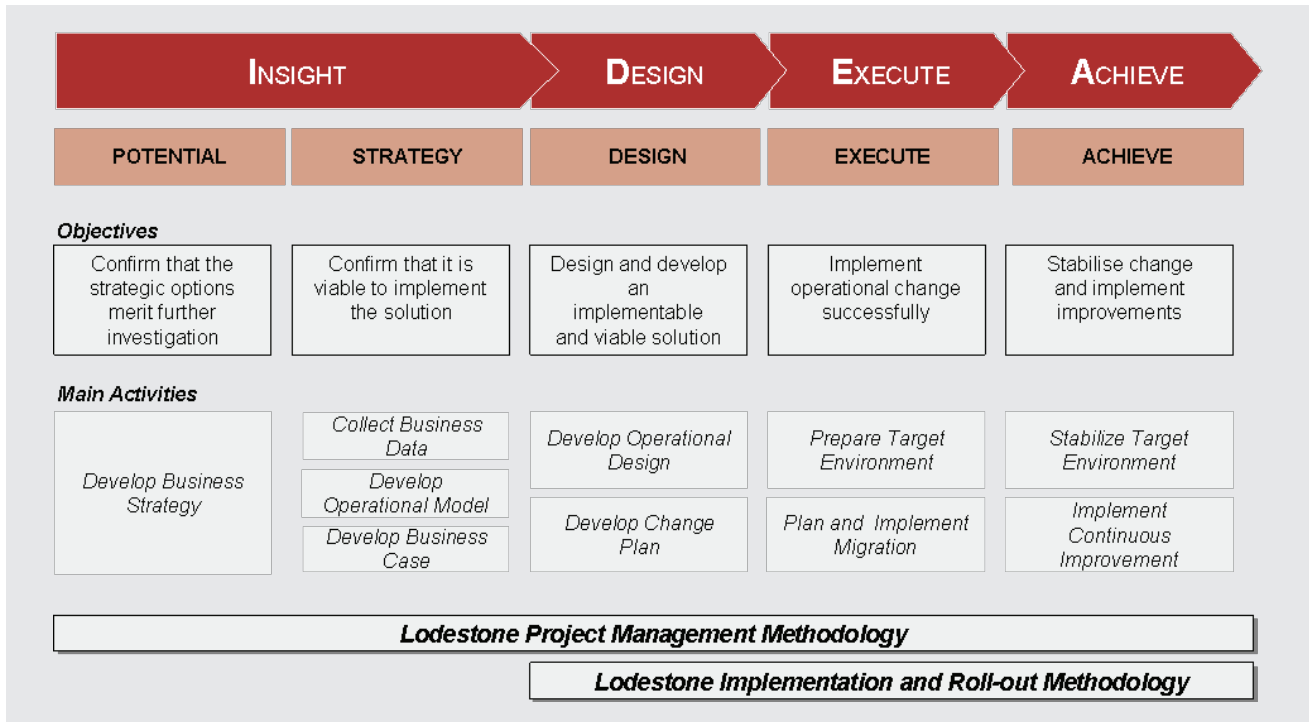
The decision can be based on a set of criteria Lodestone regularly uses to determine the form of service delivery, location and ownership. These criteria validate if target processes are

- Essential for compliance or corporate governance
- A basis for competitive advantage or if
- Based on contextual knowledge or require face-to-face interactions
- Candidates for standardization and a basis for economies of scale
- Prone to privacy and security risks
- Candidates to benefit from near- or far-shoring settings

Our Shared Services Approach

Lodestone shared services professionals offer a comprehensive suite of tailored solutions for planning, building, and implementing a Shared Service Center. We assist our clients in defining their SSC strategy, redesigning their organization and processes and implementing appropriate applications.

The proven proprietary methodology IDEA is applied to consult in all aspects of the Shared Service Center set-up, relaunch and improvement. We are able to cover end-to-end all phases of the journey towards a more efficient, agile, and competitive corporate organization.



Cornerstones of the Shared Service Center set-up are:

Process Design and Implementation

This is concerned with the definition of the process maps for the SSC operations including an activity split between shared service center and serviced companies. In the final stage the detailed processes and procedures for SSC and for processes in serviced companies are designed.

So far, the process scope of SSC have been around processes which are either standardized and/or can be carried out across entities.

In essence most processes are eligible to be combined in a SSC that are well defined and well documented, that have measurable inputs and outputs, and are stable, high-volume processes.

According to our experience it proved helpful to define and structure the eligibility criteria for the processes around scoring. Key criteria and questions to ask can be structured along the following 'must-have' and 'should-have' criteria:

Must-have criteria

- Process maturity
- Regulatory approvals
- Mission critical
- Physical proximity
- Technology feasibility

Should-have criteria

- Client facing
- Complexity
- Timeliness
- Process metrics



Finally a selection of processes to be combined in SSC must have enough critical mass to merit the effort and prove that significant savings in terms of money and headcount can be achieved. This must be a key part of the SSC feasibility work.

Organizational Design

The organizational structure of the shared service center as well as the links to the impacted business units are designed and tasks, roles and responsibilities for staff in the SSC and the business units defined. Finally ramp-up plans and transition plans (incl. knowledge transfer) are developed and the hiring process initiated.

Implementation of 'Fit for Purpose' Technology

An IT design for the shared service center and for the connections to the SSC has to be developed and implemented. This refers to core SSC applications such as ERP solutions as well as to any supporting applications. In parallel to the set-up of technical infrastructure, enabling technologies (workflow, communication, etc.) are to be implemented.

Regulatory and Legal Considerations


Legal and regulatory requirements need to be clarified and audit and compliance procedures (e.g., financial audit, system audit, corporate standards) need to be defined.

Service Management

Service Management ensures that the services to be provided are duly defined and that contracts (e.g., SLAs) between the service provider (SSC) and customers are defined.

Lodestone experience and expertise help clients to deliver the promise and take all relevant aspects into account when planning, defining and realizing a SSC in order to achieve the envisioned benefits.

What our Clients say about Us



“The implementation of Allianz Business Services is a big step forward for the entire Allianz Group. It’s the group’s first shared service center focusing on accounting, controlling, and reporting and is a role model not only within Allianz but for the entire financial services industry. The implementation was very successful and delivered the results we were expecting. Lodestone played a key role in the success of the project delivering not only SAP technical expertise but very deep industry and process knowledge. The ability of Lodestone to speak our language was quite unique and was the reason for our fruitful long-term relationship”

Marcin Halbersztadt, CEO, Allianz Business Services

“Lodestone brought in useful templates for the required deliverables and very good expertise of the approaches in similar situations. A major success factor in addition was the knowledge of the involved legal entities of the Group and a well established network through a couple of other projects Lodestone was involved during the last years.”



Managing Director and responsible Client Project Head



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Lodestone is a global management consultancy, committed to designing and delivering solutions that enable international companies to thrive in today's complex business environment. We help our clients to define the measurable business benefits that we will achieve together, using our teams of client-focused consultants, who combine a passion for excellence with strong process and SAP skills and deep experience of transformational change in their industry.

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