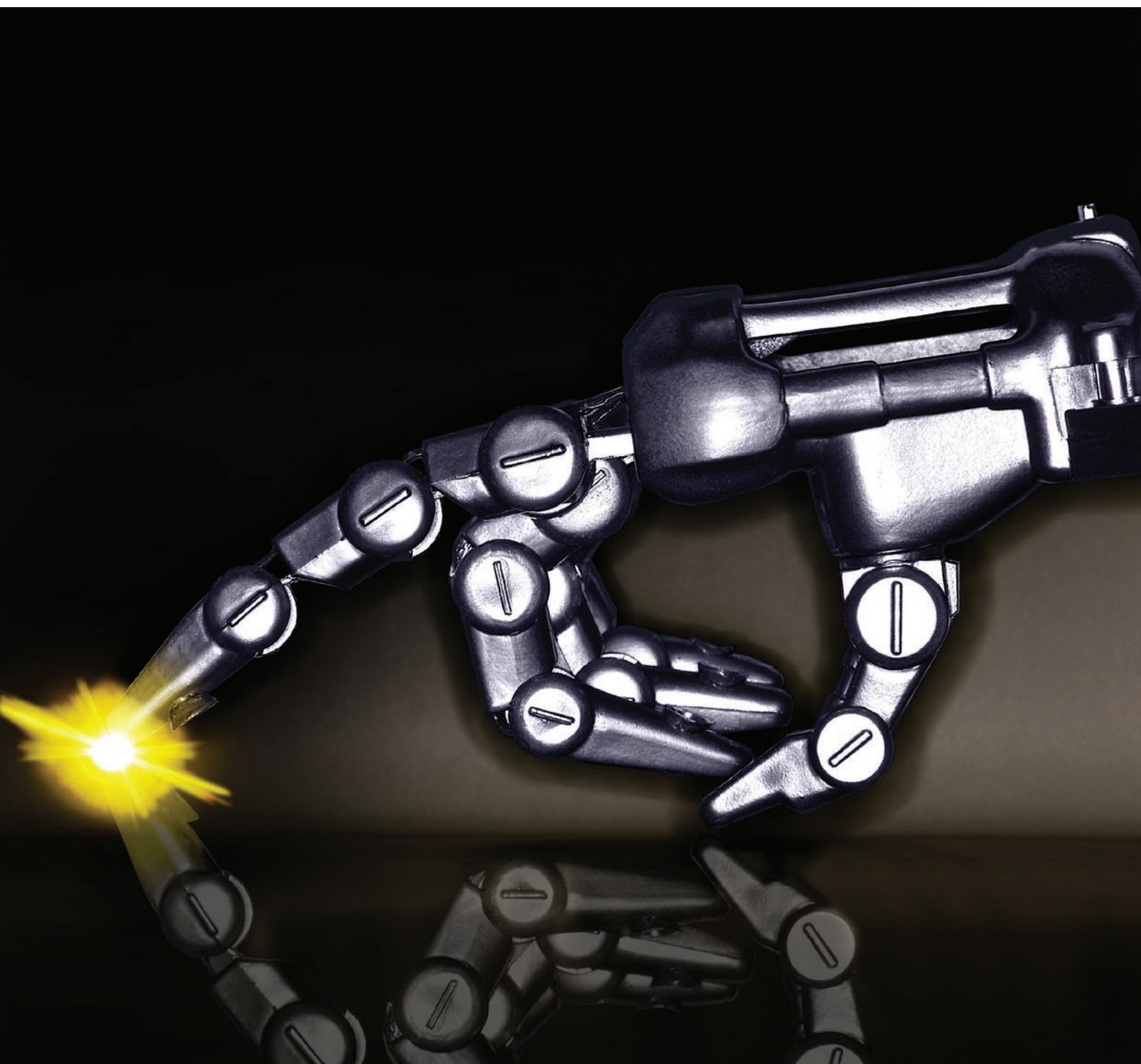


Whitepaper

Building 'world class'
Shared Service Centres



R e l e a s i n g y o u r p o t e n t i a l



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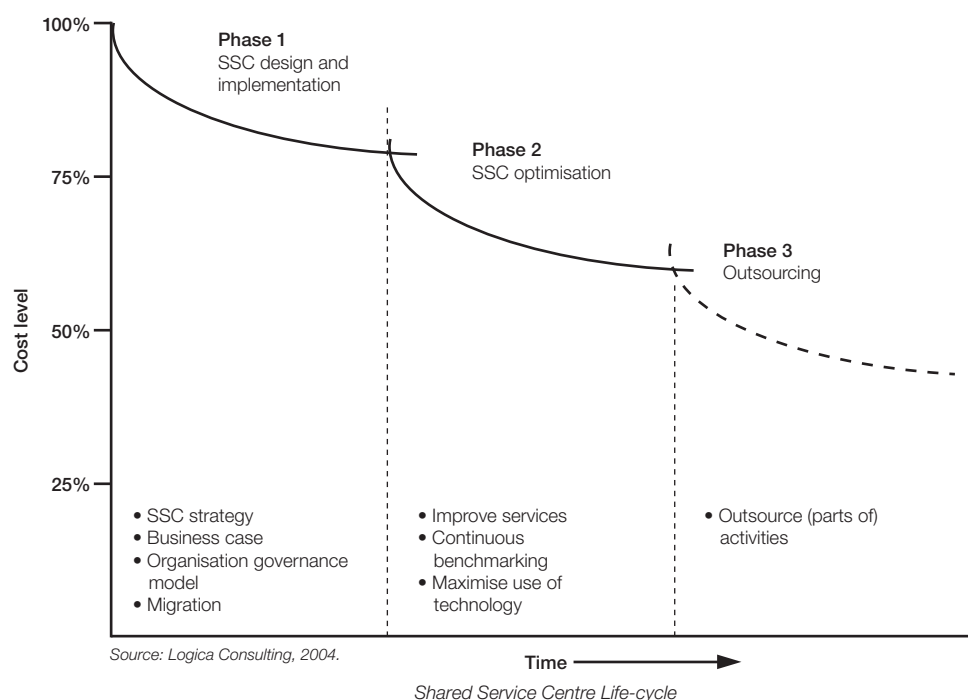
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Building 'world class' Shared Service Centres

Background

Shared Service Centres (SSCs) have been with us for a number of years. The idea of taking repetitive transactional activities that are distributed and replicated throughout an organisation and concentrating them in a single place to gain 'economy-of-scale' efficiencies and productivity gains is well established. As well as cost reductions, process efficiencies and enhanced control, a SSC can deliver significant improvements in the quality of service it offers to its customers (whether internal or external).

Organisations with well-established SSCs are looking to build on their successes and go to the next stage of the Shared Service Centre life-cycle (diagram below). For many SSCs today's focus is on how to optimise 'mature' operations to gain additional cost and service benefits ('phase 2' in the SSC life-cycle). Beyond this, SSCs may move to 'phase 3' seeking to improve cost/service ratios further by outsourcing certain activities.¹



The road to world class performance

SSCs seeking to optimise their operations will concentrate on three areas:

- Improving customer service
- Benchmarking and implementing 'best practice'
- Maximising use of automation technologies

¹ For more on the methods used to assess and select between process optimisation and outsourcing see "Finance Shared Services, a permanent fashion item" CFO magazine, February 2005 (Singh, Van Delft Westerhof).

Improving customer service

Typically, when a SSC is first implemented (Phase 1), a limited number of business processes are selected to be centralised. As a rule, these are the processes that are expected to benefit most from efficiency and productivity improvements. For a Finance Shared Service Centre, prime candidates are accounts payable, expenses, accounts receivable and standard reporting. During Phase 2 of the SSC life-cycle enterprises look to a combination of:

- **Increasing the range and complexity of services offered** – bringing additional business processes into the SSC portfolio to develop a more complete service offering.
- **Improving the quality of services delivered** – using recurring client satisfaction surveys as a tool to direct service improvement efforts. Survey results allow areas for improvement in the service portfolio to be clearly identified and action plans to be established. The execution of action plans should be monitored continuously with the results used as inputs in the next round of customer surveys in order to measure whether the actions implemented have increased customer satisfaction.
- **Reducing the cost of service provision** – benchmarking operations against progressively stringent performance metrics documented in Service Level Agreements (SLAs) between the SSC and its customers. The cost savings which result should be passed on to customers, for example by reducing service rates. In this way, the SSC will not only improve its own operations but also delight its customers with higher levels of service and lower rates.

Benchmarking and implementing “best practice”

Benchmarking is a vital component of any on-going improvement programme. Regular benchmarking of processes acts as an audit of performance and, when used in the context of other organisations, allows a SSC to evaluate how it stands in relation to “the wider picture” i.e. relative to the best performing operations. Benchmarking is not just a useful tool to assess current performance, importantly, benchmarking can be used to set the goal for future performance levels through the establishment of objective and measurable targets.

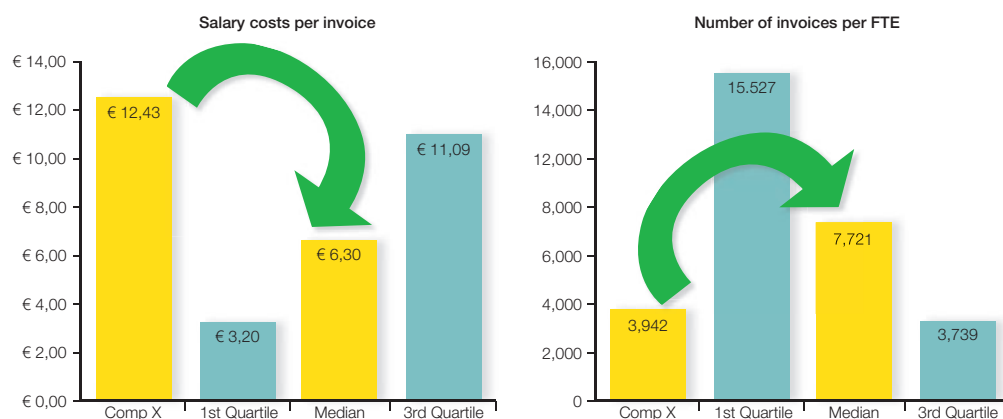
Example

Company X wants to improve its Accounts Payable (AP) process. The two most common metrics for measuring AP performance are ‘cost per invoice processed’ (efficiency benchmark) and ‘number of invoices processed per full time member of staff’ (productivity benchmark).

Looking at industry figures Company X finds it falls into the bottom quartile of companies in terms of invoice processing costs. It currently costs Company X €12.43 to process an invoice, yet 75% of SSCs are processing invoices for €11.09 each or less (with the top 25% processing invoices at €3.20 and below).

The story is not much better for invoices processed per staff member. The best 25% of SSCs process 15,527 invoices, or more, per AP employee every year. Company X’s staff, by contrast, process just 3,942 invoices each per annum.

Company X has decided that improvements can clearly be made and has set itself, in the first instance, the target of being in the top half (performance wise) of SSCs when it comes to invoice processing. The graphs on the right summarise the example, the green arrow indicating Company X’s ambitions for accounts payable invoice processing.



Current performance and target for Company X's SSC accounts payable process

With these targets in mind, Company X decides to seek out and implement 'best practice' in accounts payable through a combination of applied technology and business processes, learning from methods used by organisations recognised as "best-in-class".

Accordingly, Company X commences a programme to drive changes in four separate areas of its operations:

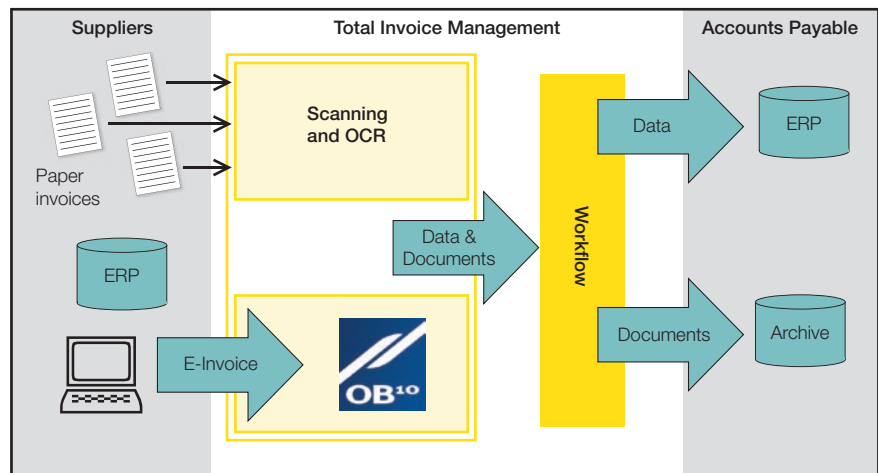
- **People and culture:** developing functional profiles for AP staff, assessing where competence levels for employees are falling short of desired levels, drafting action plans for each employee to bridge that gap and offering job rotation programmes to promote staff development.
- **Processes and procedures:** standardising AP processes across the organisation, publishing processes, procedures and methodologies on the company intranet, appointing a process owner to monitor progress and to take corrective action (across departments if necessary) and implementing an AP performance measuring system, owned by the process owner.
- **Information systems:** standardising the ERP platform and deploying technology innovations to enhance efficiency and productivity (see 'Adopting automation technologies').
- **Organisational structure:** implementing a planning and control regime that clearly delineates tasks, authorisations and responsibilities for each process, while providing a single point of contact (account managers) for customers.

Maximising use of automation technologies

Many useful efficiency and productivity improvements can be achieved by training and coaching SCC staff, optimising processes and structuring the organisation to be more nimble and responsive. But when combined with appropriate technology the potential gains increase by an order of magnitude.

In accounts payable, for example, technologies exist to improve invoice processing rates. For example, networks that link buyers' and suppliers' accounting systems for the exchange of electronic invoice data are flourishing. Similarly, scanning and OCR services can convert paper to electronic data and image files for swifter processing. Company X provides an example of how technology and best practice can be deployed to optimise the SSC's accounts payable processes.

The organisation first analyses the volume of paper invoices it receives in a given year. This enables it to see the number of invoices arriving from each supplier and how complex those invoices are to process. For instance, some invoices may not be backed by purchase orders or may be multi-lined, requiring sophisticated matching and approval procedures.



Following this analysis Company X decides to implement a 'Total Invoice Management' solution that will handle *all* incoming invoices electronically regardless of their original format i.e. paper or electronic (see diagram).

'Total Invoice Management (TIM)' – consolidating invoice flows into a single data stream.

Paper invoice processing

It is likely that the majority of suppliers will initially continue to send paper invoices. In this case:

- Invoices are scanned for conversion into electronic data before processing.
- Invoice images are stored in an archive for future reference.
- Data needed to approve and pay the invoice is extracted from the image via a combination of Optical Character Recognition (OCR) and Intelligent Character Recognition (ICR).
- Invoice data is verified against reference data and checked for errors.
- If no direct '3-way match'² can be made invoice data (often with an accompanying image) is forwarded electronically to the correct approver(s) via a workflow system.

Electronic invoice processing

E-invoicing network providers (such as OB¹⁰) enable invoices to be automatically translated from the format used by supplier's accounting systems into the format used by their customers, transmitting that data electronically via a secured internet connection.

- The supplier creates an invoice within their own accounting application, or for smaller suppliers an invoice can be created on-line using a standard web-interface.
- This e-invoice is uploaded to the service provider's processing hub.

² A '3-way match' is a method whereby price and quantity of the purchase order, the invoice and the goods/services receipt are compared. If there are no significant differences (within defined matching ranges), the invoice is forwarded for payment approval. If there is an area of doubt, a workflow-driven 'exception' process is initiated where the invoice is examined by the relevant member of AP.

- The invoice is translated from the format provided by the supplier's system into one that is acceptable by Company X's ERP system and forwarded electronically.
- The supplier is notified that their invoice has been received or if it has been rejected because mandatory data for example, the purchase order is missing.
- If no direct '3-way match' can be made invoice data (often with an accompanying image) is forwarded electronically to the correct approver(s) via a workflow system.
- Approved invoices are imported into the ERP for payment processing.

Company X can quite easily implement the acceptance of paper invoices without impacting on its suppliers (they still send paper invoices as they always have). Getting suppliers to submit electronic invoices takes more effort, requiring both Company X and its suppliers to become members of an e-invoicing service. However, the effort is worth it. Eliminating paper altogether significantly reduces errors and the processing cost-per-invoice significantly.

In the real world of course, a combination of 'pure' electronic invoicing and scanning/OCR technologies is needed. Not all suppliers are able or willing to sign-up to the e-invoice service provider chosen by their customer. But whatever the mix of paper invoices and electronic ones, Company X receives a single consolidated flow of invoice data into its ERP system.

The advantages of deploying technology

Implementing technology such as TIM does require some organisational change, but the rewards are compelling:

- Cost reductions via the reduction of labour-intensive, repetitive manual tasks such as data entry, invoice registration and manual exception handling.
- Improved data quality as a result of reduced human errors in the data entry and error checking process.
- Up to a 90% increase in productivity (speed) of the invoice processing.

Preparation is key

Before making the decision to invest in a SSC optimisation programme, it is vital to build a business case to evaluate the quantitative and qualitative benefits. The business case should utilise benchmarking to determine the potential for cost savings in different target scenarios and assess whether return on investment can be achieved within a reasonable timeframe.

Achieving world class performance

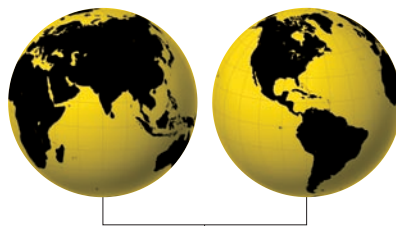
The main advantage of a business case is that it facilitates a structured process for assessing an investment strategy. Moreover, it is a powerful communication tool to justify the investment decision taken within the organisation.

To conclude, mature SSCs have three main routes in the journey towards 'world class performance':

1. Improving the level of service to customers.
2. Ongoing benchmarking and implementing best practices.
3. Maximising use of automation technologies.

The result is a more optimised SSC operation – building on the heritage of process improvements that lay at the very heart of the SSC concept, and taking them to the next level. While all three scenarios can be executed in parallel, it is strongly recommended that a business case is built first, determining which route will most quickly and efficiently help the SSC achieve 'world class' performance.

Based on the original article, "A roadmap towards 'world class performing' Shared Services" by Kuldip Singh, Logica, published in Controllers Magazine, May 2005.



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