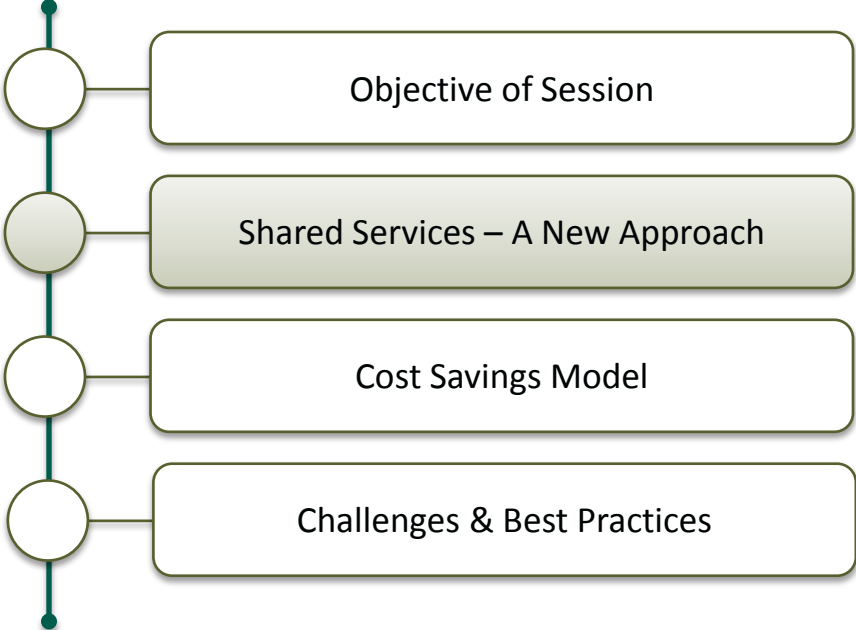


# Overview: Shared Services Outsourcing & Consolidated Centers of Excellence

March, 2010

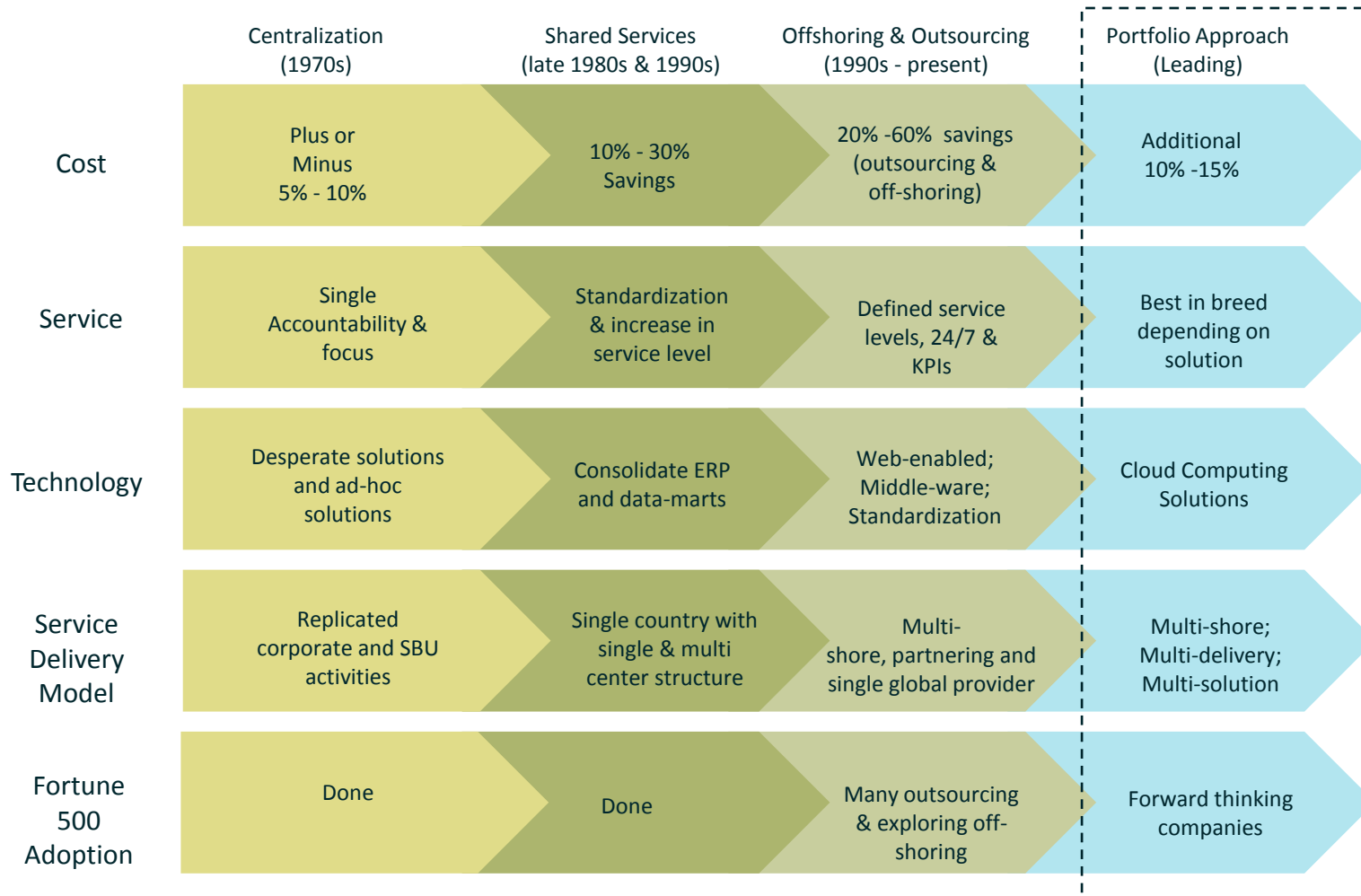


# Agenda



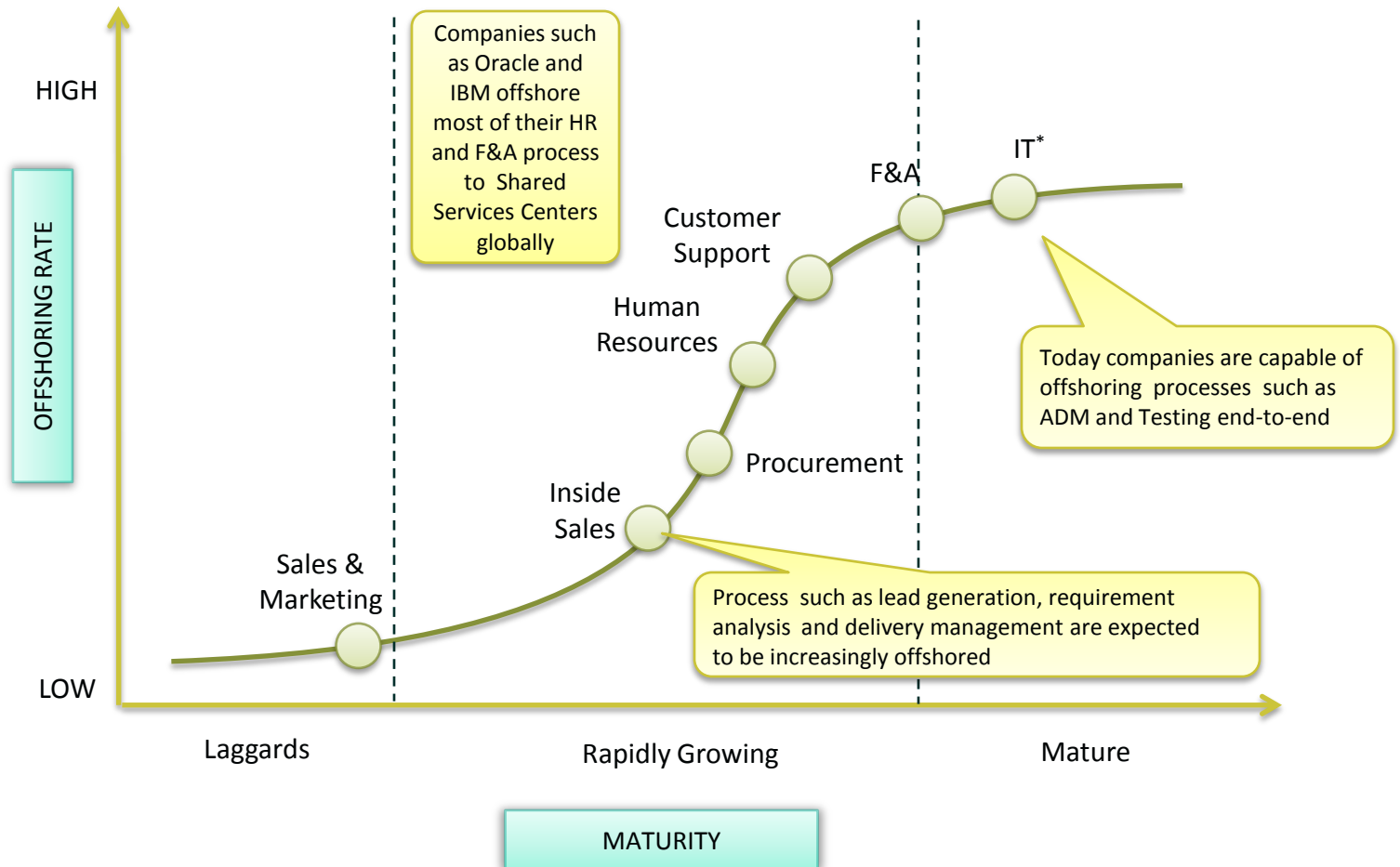
# The approach to shared services outsourcing and offshoring has evolved in the last decade

Research indicates that nearly 80% of Global 2000 companies have adopted a shared services model to deliver their back-office processes



Companies have been increasingly offshoring/outsourcing their support functions

### Offshoring Maturity of Support Functions



F&A services with varied complexity across the BPO value chain are currently being offshored/outsourced to low cost locations

Discussion – F&A

F&A Value Chain

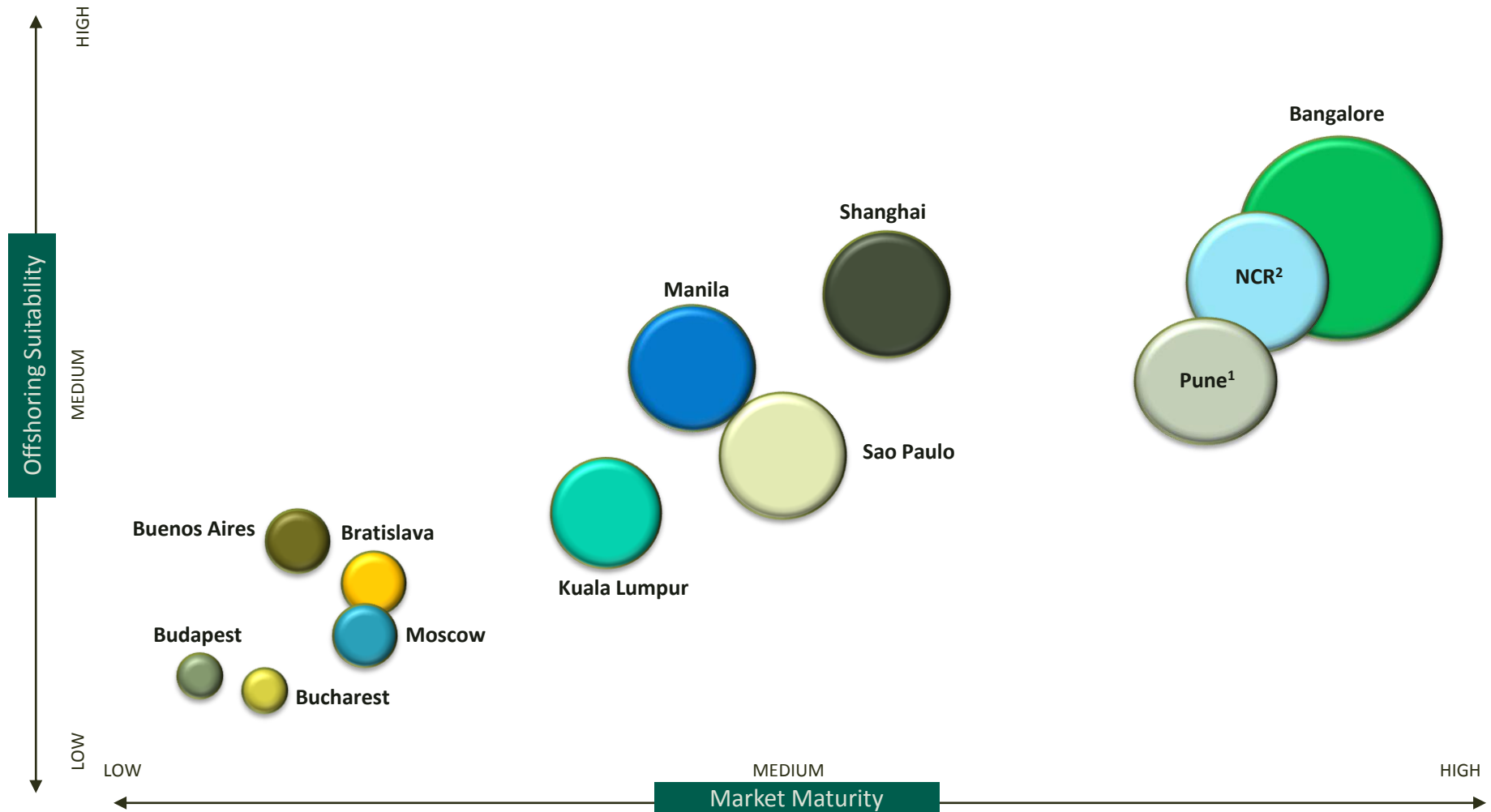
Procure to Pay	Order to Cash	General Accounting	Closing & Reporting	Treasury & Tax	Financial Planning/ Analysis	Compliance
Requisition Material	Credit & Order Management	Revenue, Expense Accruals	Close Management	Banking Operations	Planning and Support	Internal Audit
Purchasing / Procurement	Billing/Invoice Management	Fixed Assets Accounting	Statutory/GAAP Adjustments	Capital Planning & Allocation	Base Cost Reporting	SOX Project Management
T&E Accounting	Deduction/ Dispute Mgmt	Inventory Accounting	Consolidation	Accounting and Reporting	Cash Flow Analysis	Regulatory Compliance
Invoice Data Capture	Cash Appls. & Collections	Account Reconciliation	Trial Balance Analysis	Risk Management	Business/Sales Analysis	Control Self Assessment
Dispute Resolution	Reporting & Reconciliation	Inter Company Accounting	Internal Reporting	Tax Accounting	Budgeting Forecasting	Management Reporting and Analysis
Payment Processing	Portfolio Analysis	Accruals and Reserves	Financial Statements Analysis	Tax Returns	Finance and Accounting Strategy	
AP Helpdesk		Journal Entries	External Reporting	Transfer Pricing		
Account Reconciliation				Transaction Tax		
Vendor Management						

High Propensity to offshore
  Medium Propensity to offshore
  Low Propensity to offshore

# Indian cities score high on suitability ranking for F&A related work

Discussion – F&A

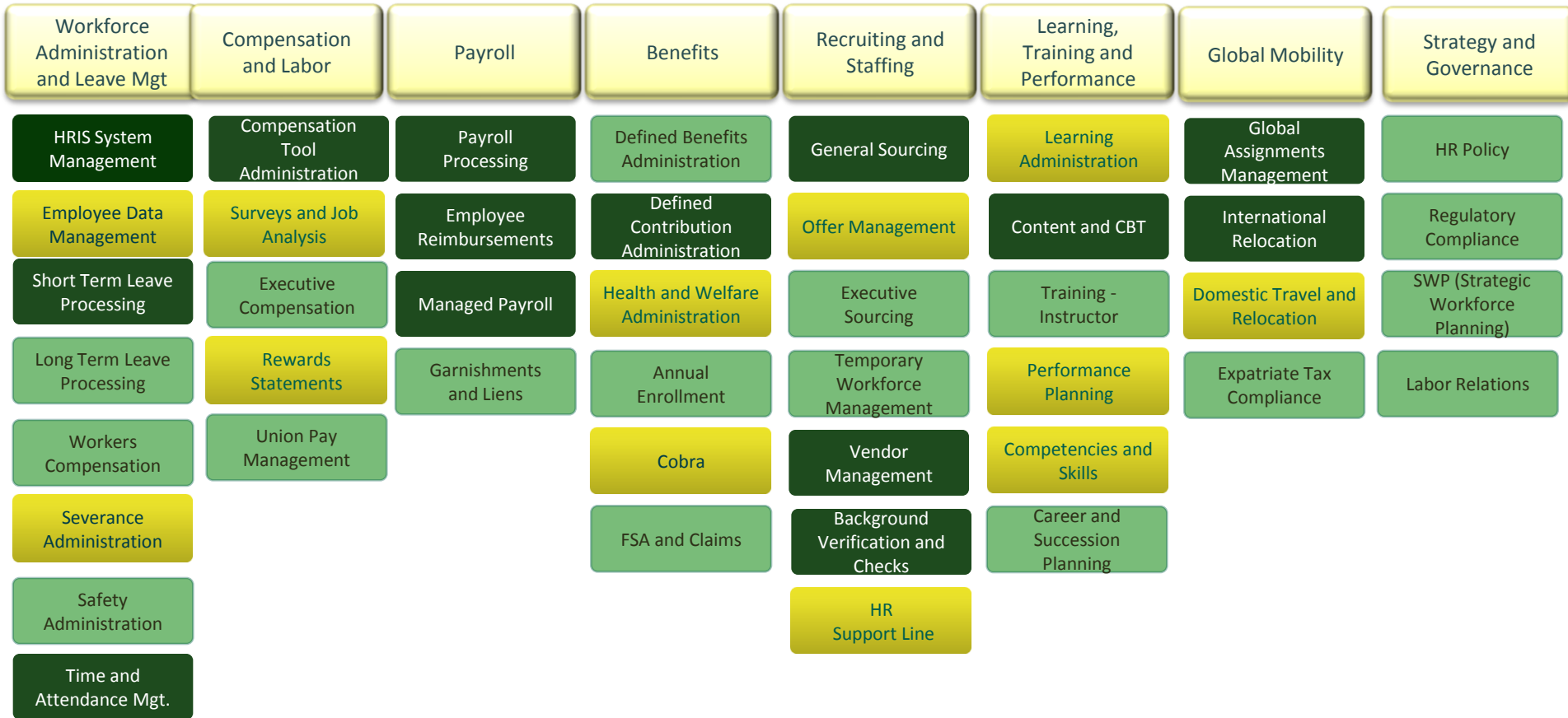
## Talent Attractiveness Vs Offshoring Suitability – F&A



Note : Size of bubble indicates availability of talent <sup>1</sup> Pune includes Mumbai; <sup>2</sup> NCR includes Delhi, Noida and Gurgaon

HRO has vastly matured over the years with most process being offshored/outsourced to multiple locations globally

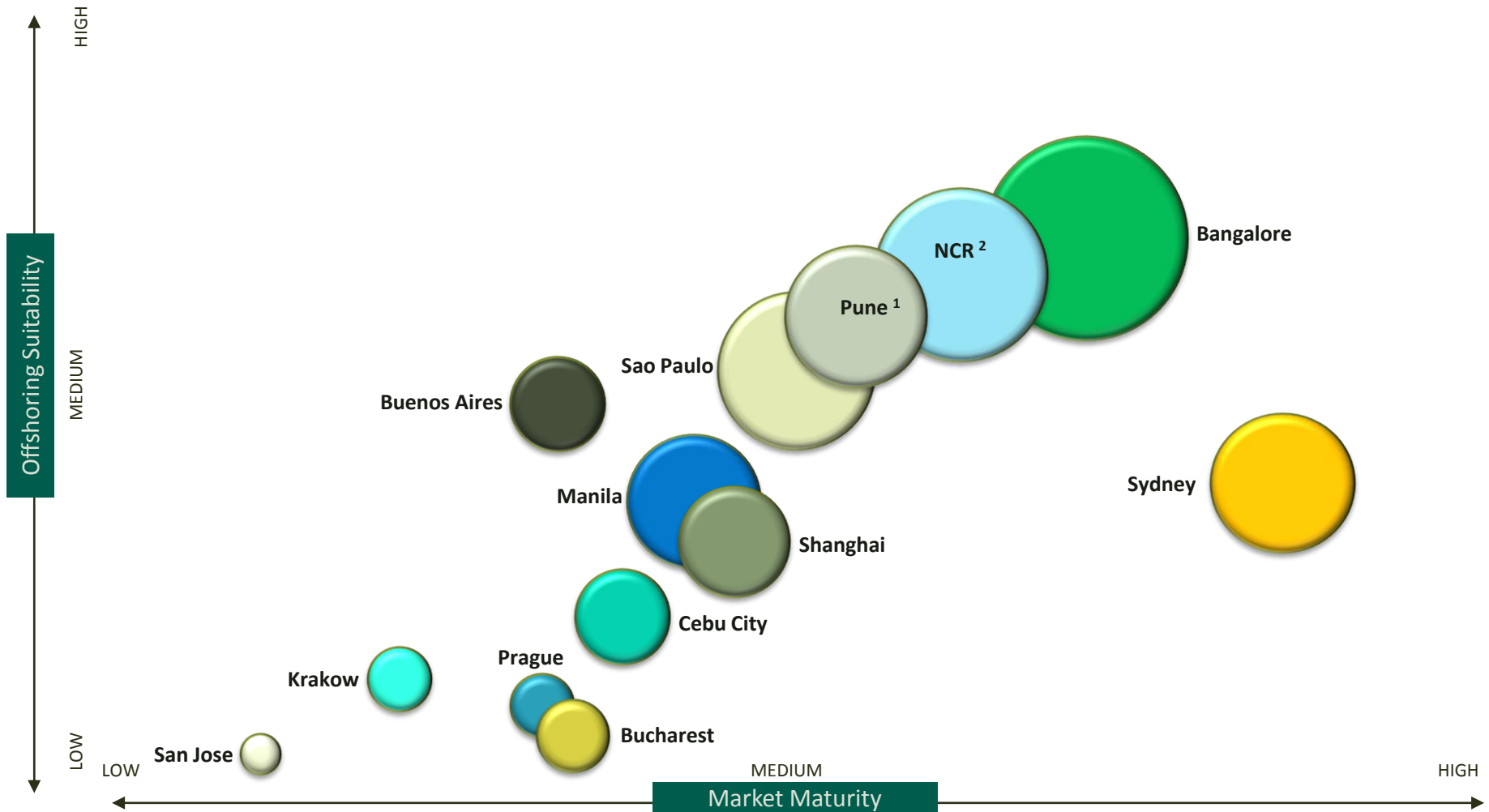
HR Value Chain



High Propensity to offshore
  Medium Propensity to offshore
  Low Propensity to offshore

Asian cities rank higher; Latin American locations are expected to mature quickly in the coming years

Talent Attractiveness Vs Offshoring Suitability - HRO



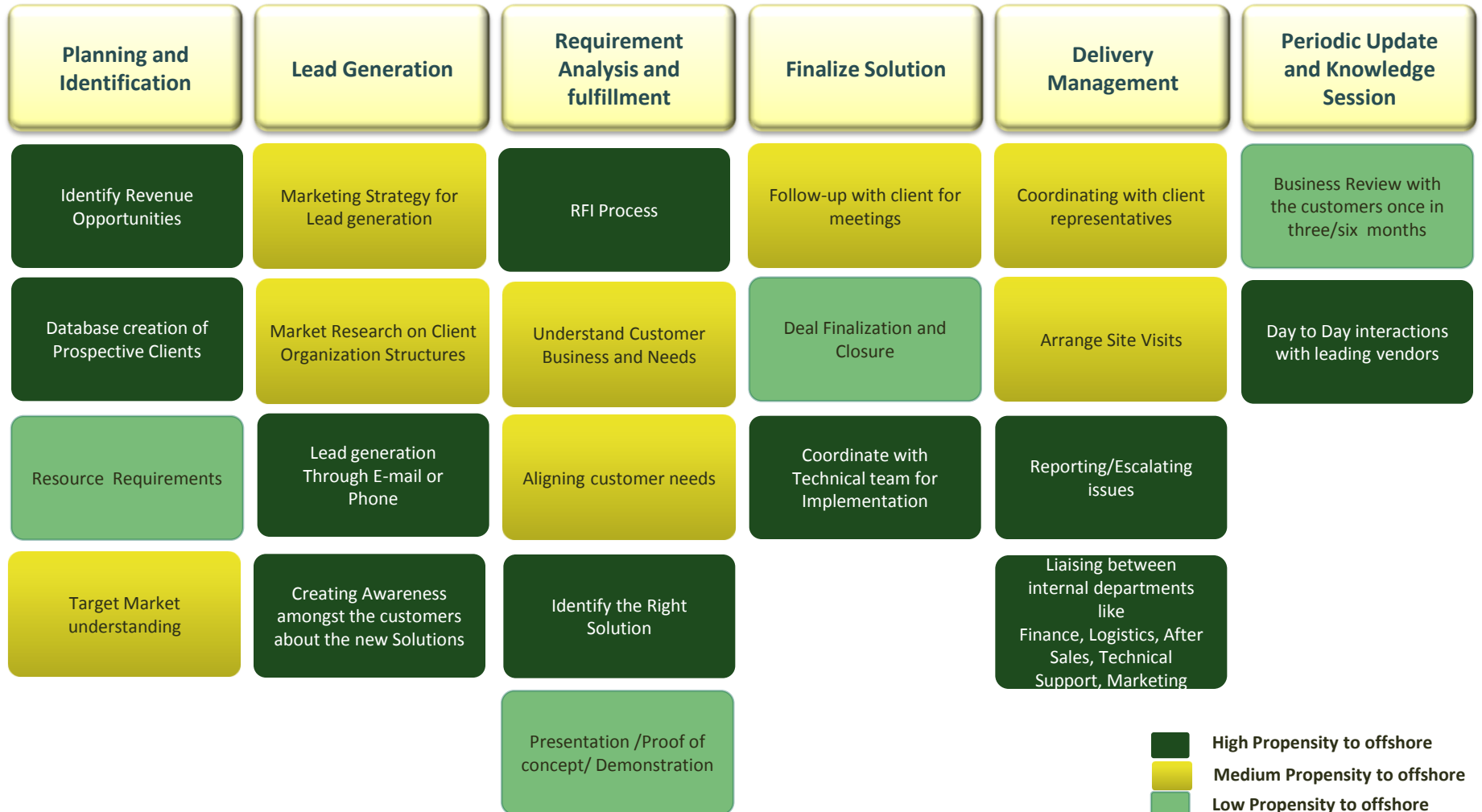
Note : Size of bubble indicates availability of talent <sup>1</sup> Pune includes Mumbai; <sup>2</sup> NCR includes Delhi, Noida and Gurgaon



# Within Inside Sales value chain lead Generation and Requirement Analysis sub-processes have higher propensity to be offshored

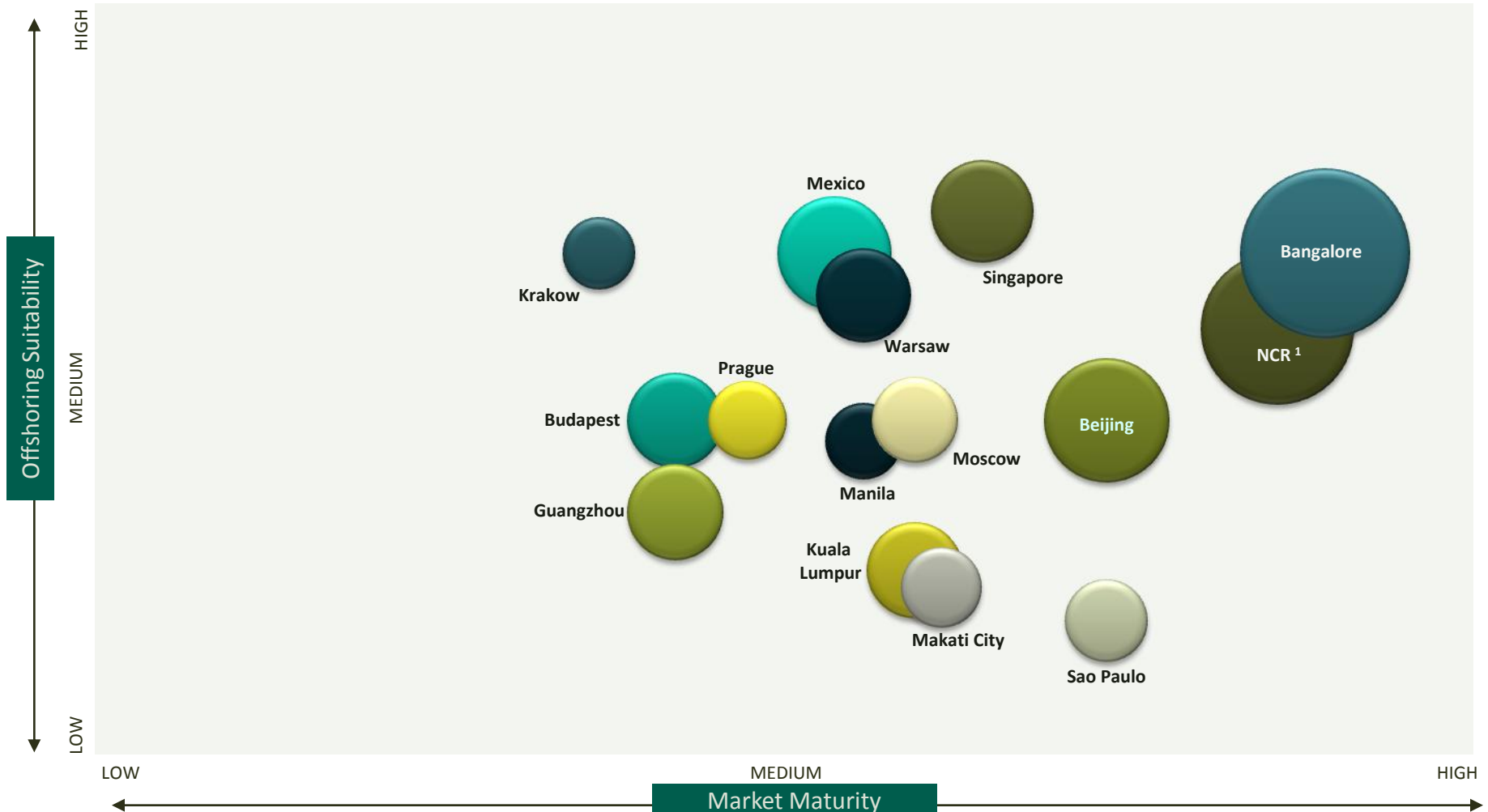
Discussion – Inside Sales

## Inside Sales Value Chain



Bangalore and NCR<sup>1</sup> are best suited for companies to undertake Inside Sales activities; locations in Eastern Europe and Latin America offer viable alternatives

Talent Attractiveness Vs Offshoring Suitability – Inside Sales



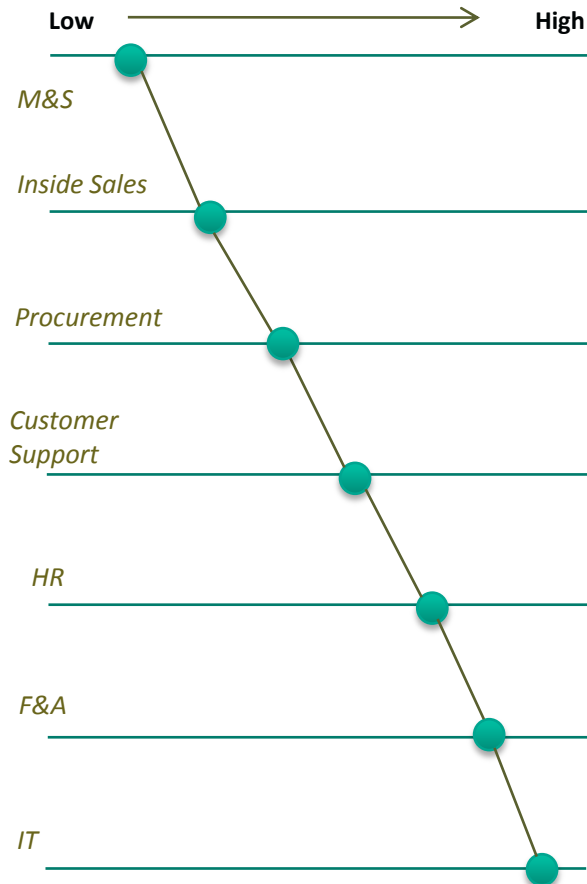
Note : Size of bubble indicates availability of talent pool

<sup>1</sup> NCR includes Delhi, Noida and Gurgaon

We are seeing an emerging trend where some functions such as finance, HR and IT are beginning to get combined

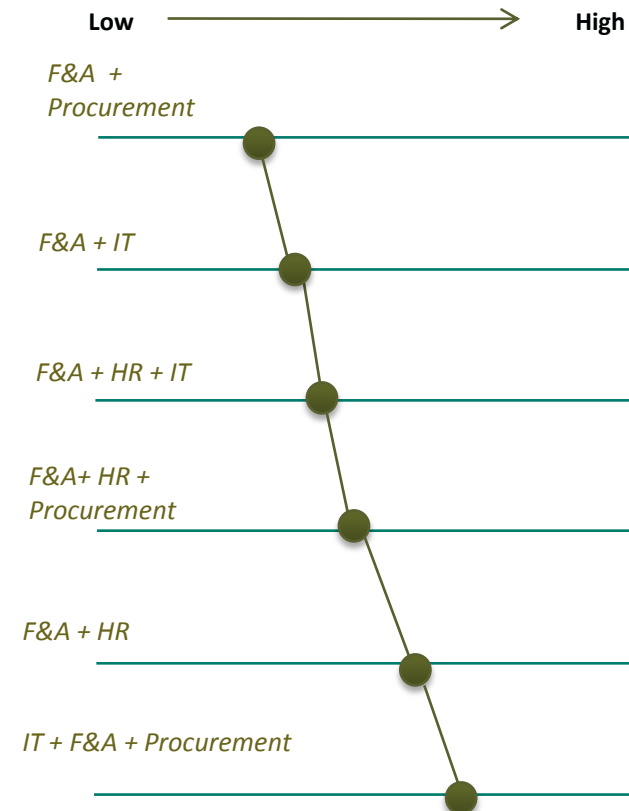
Preference of companies to outsource/offshore support functions

**Current Scenario:** in Single function centers



Preference of companies to outsource/offshore support functions

**Emerging Scenario:** in Multi Function centers



Improving service, standardization, and cost reduction are the top three reasons for setting up a multi function shared service centers

### Key Drivers for Establishing Shared Services

#### Impact Level

Improve Services & reduce costs



Standardization of services & processes



Reduce administration costs



Support corporate strategy



Group similar tasks and reduce redundant tasks



Enable flexible growth



Simplify roll-out of technology



Improve working capital



High

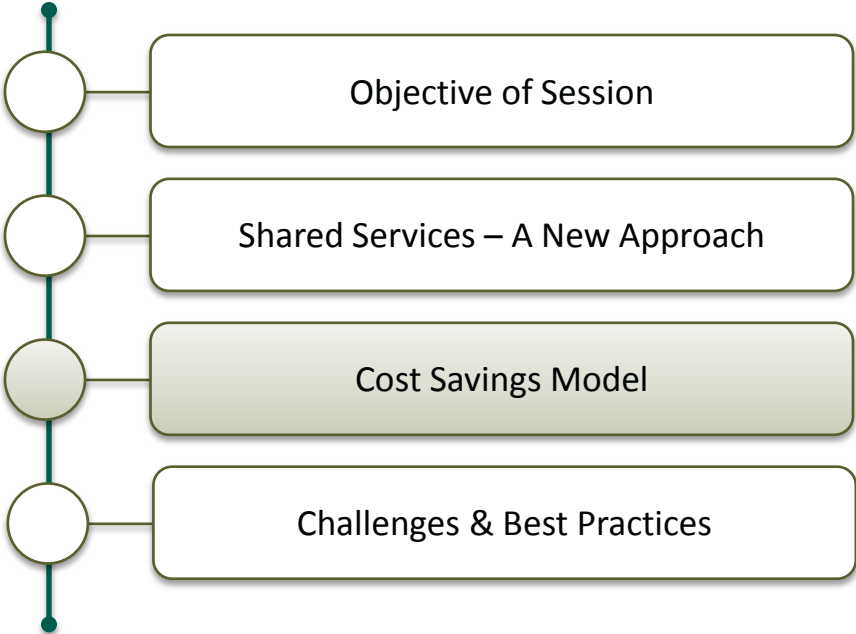
Low



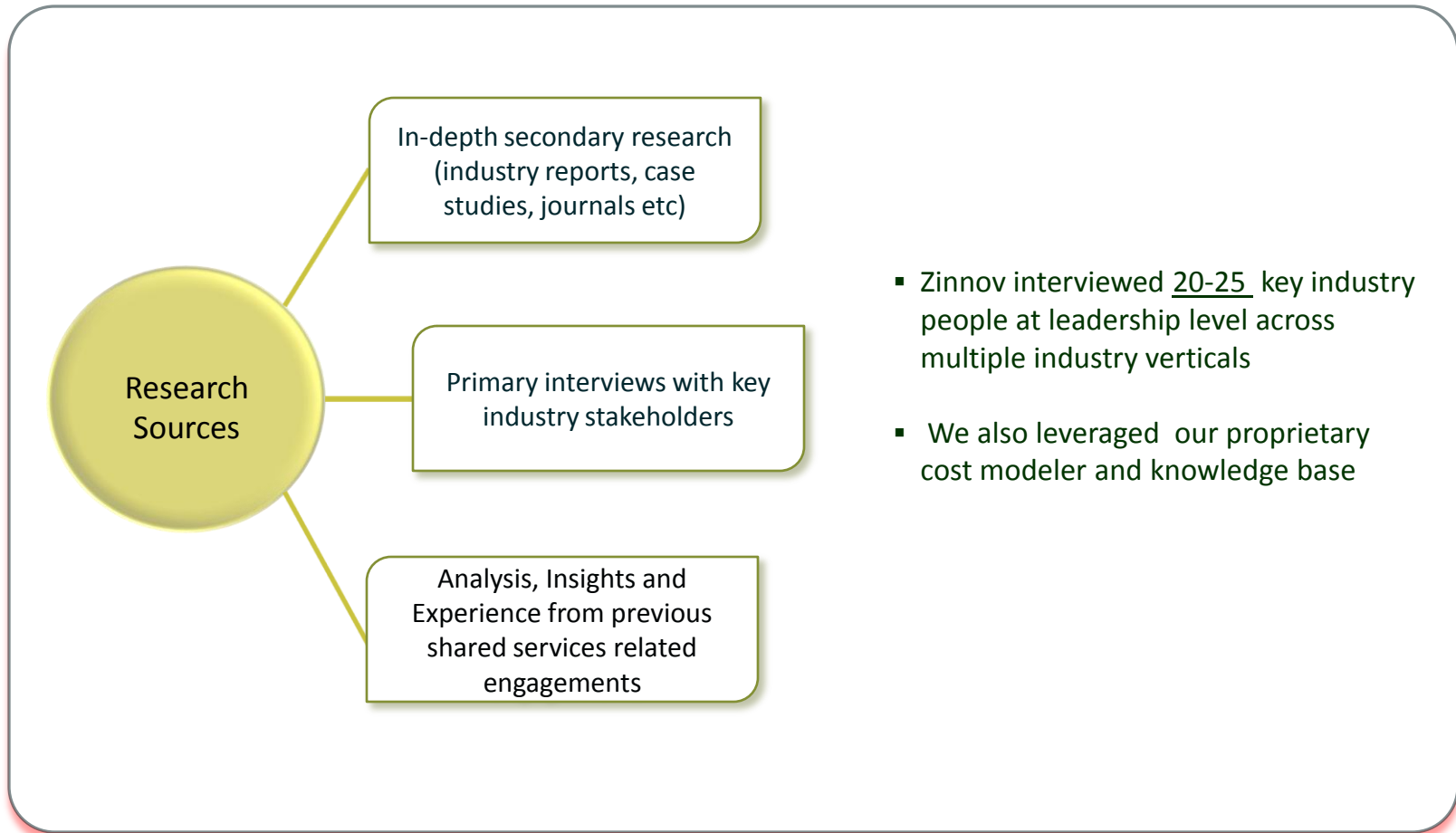
### Reasons for Changing Trends

- The obvious benefits of shared services are cost savings. However, the growing trends suggests the changing perception of Shared Services as strategic business units for service & operational excellence
- Create job enrichment & augment skills of internal support employees and customers of the service
- To meet the changing landscape of business, companies are expanding the use of shared services for processes in more complex and knowledge-oriented areas that have traditionally been closer to business i.e. R&D, Engineering, Sales & Marketing, Analytics etc

# Agenda

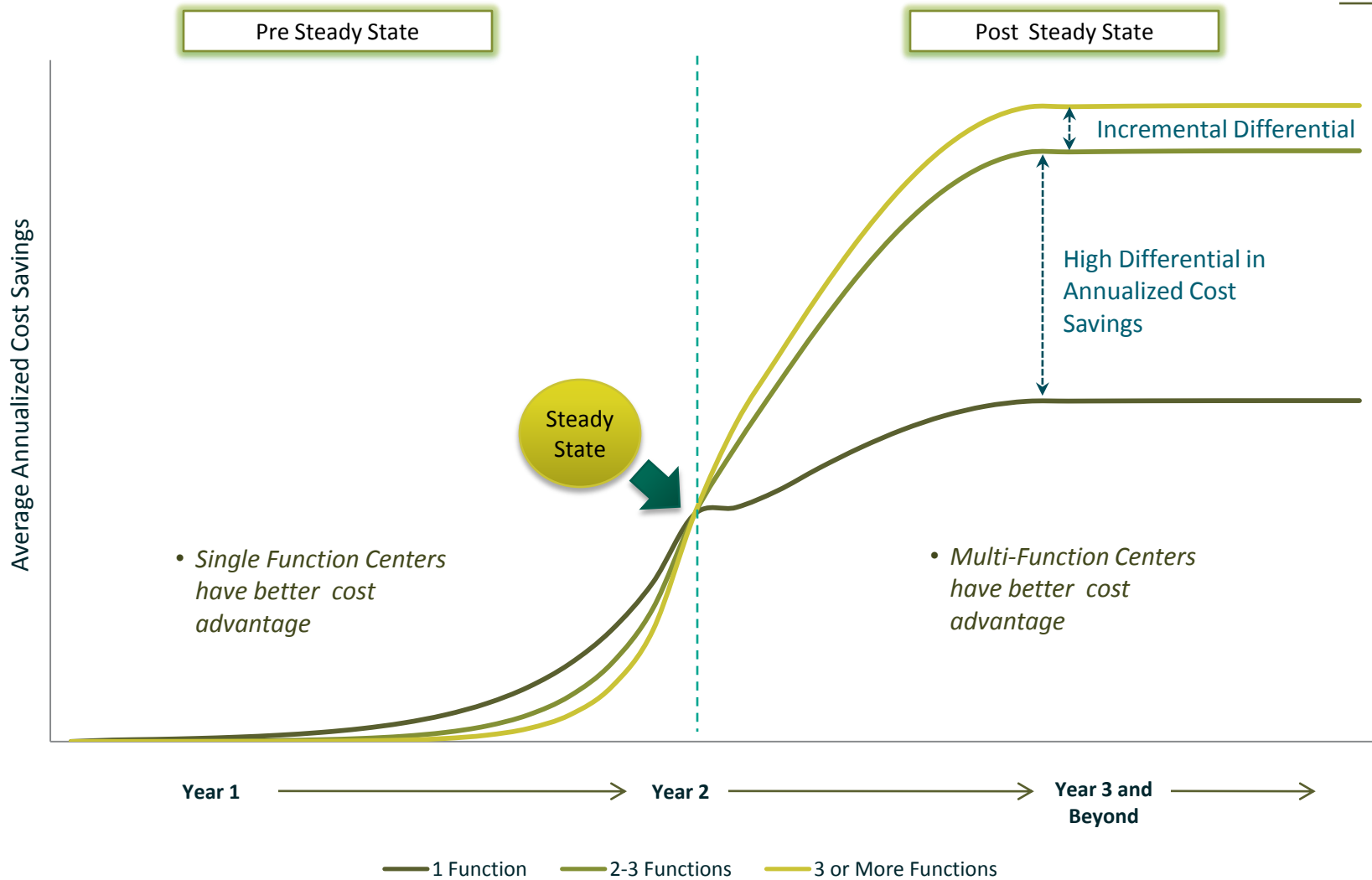


We gathered and validated data for cost analysis through in-depth secondary research and primary interviews



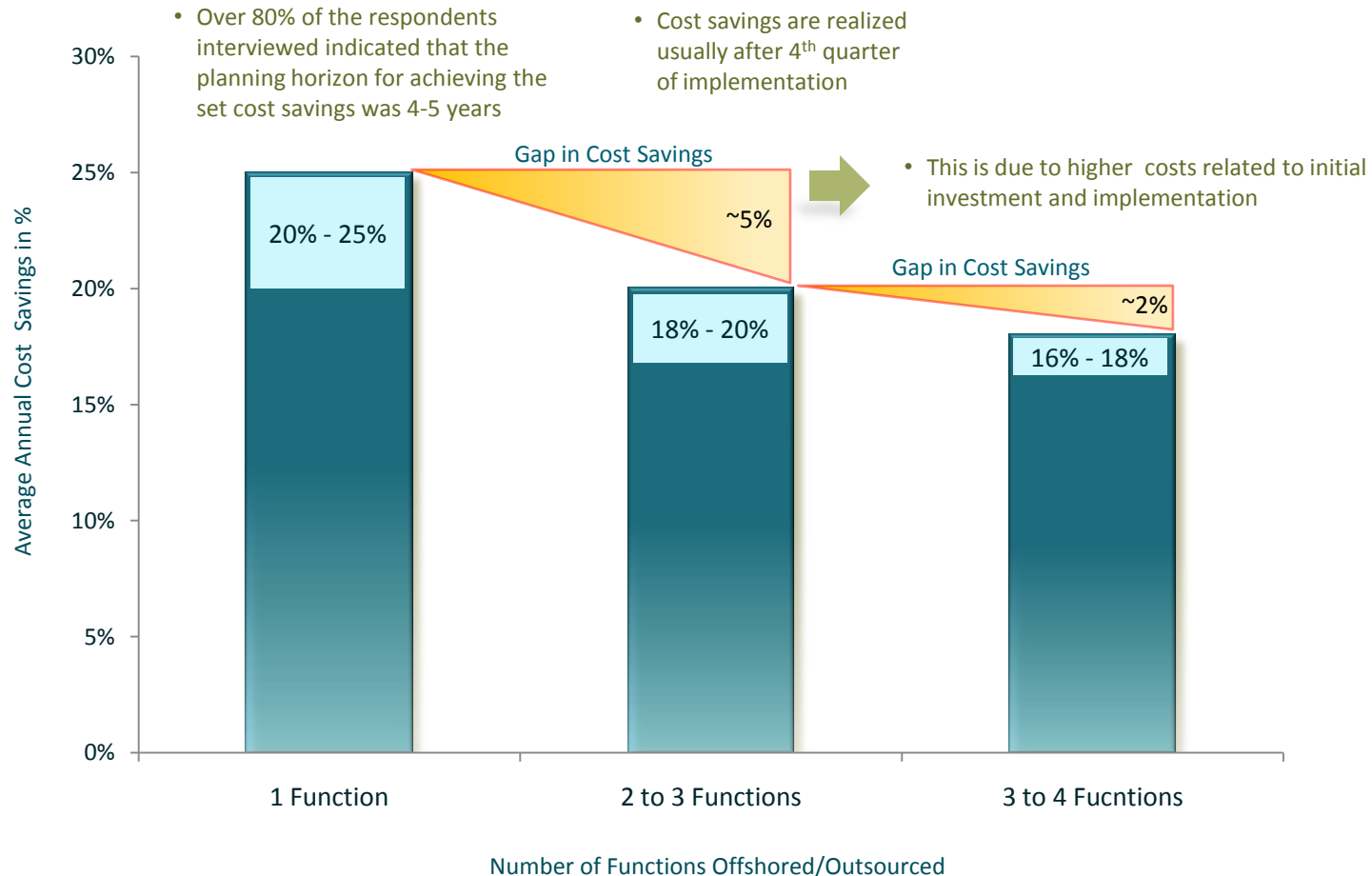
Though annualized cost saving in single function centers are lower initially, post steady state multi-function centers witness high cost savings

Illustrative



**Before steady state:** Annualized cost savings in multi-functional shared services centers are **about 5% lesser** than single function centers

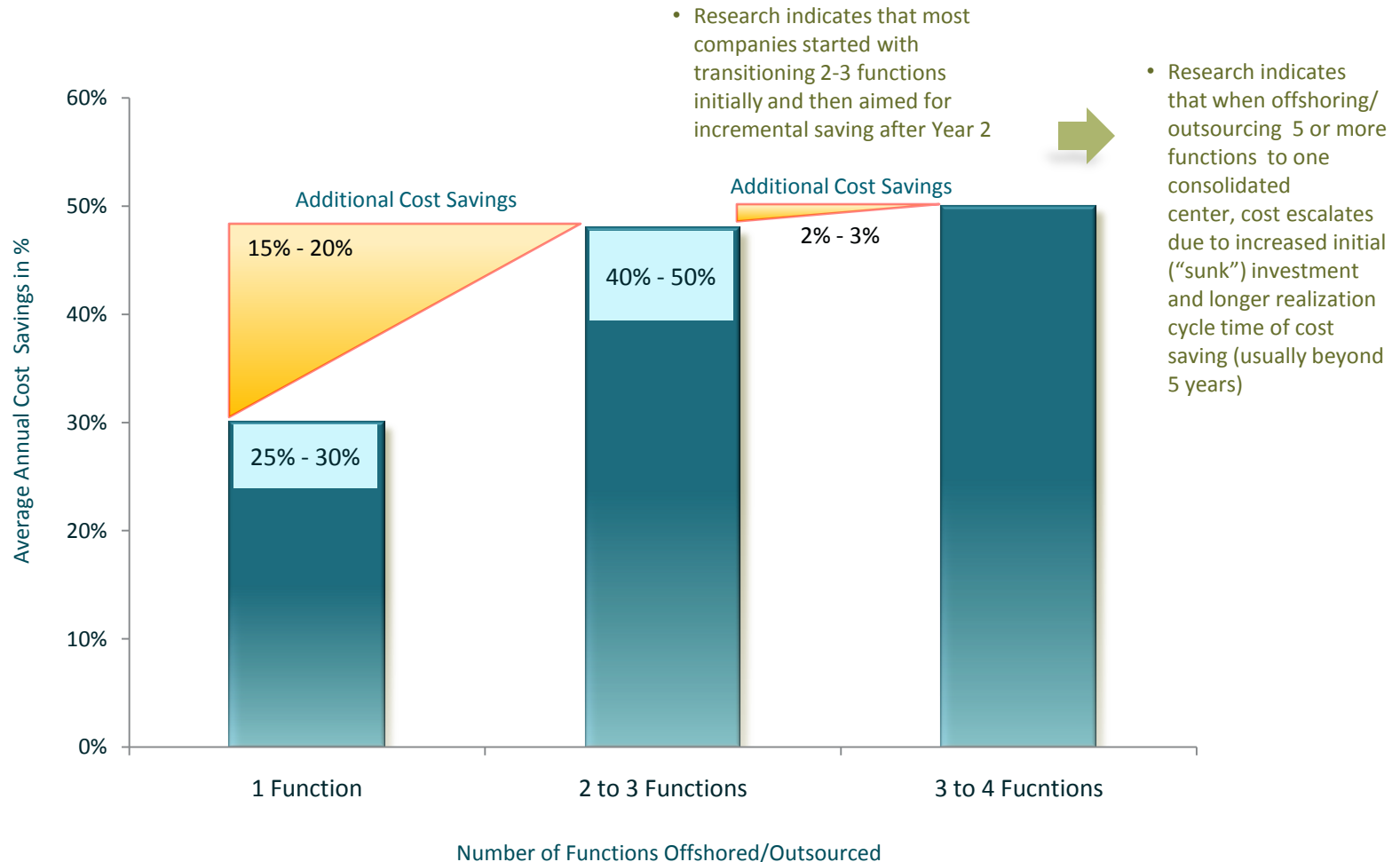
**Before Steady State : Annualized Average Cost Savings When Offshoring/Outsourcing Support Functions**





**Post Steady State:** There is an opportunity to realize an **additional 15% - 20%** annualized cost savings in multi-functional shared services centers

**Post Steady State:** Annualized Average Cost Savings When Offshoring/Outsourcing Support Functions



Our research indicates that there multiple key costs factors that contribute to an increase in cost savings in multi-function centers post steady state



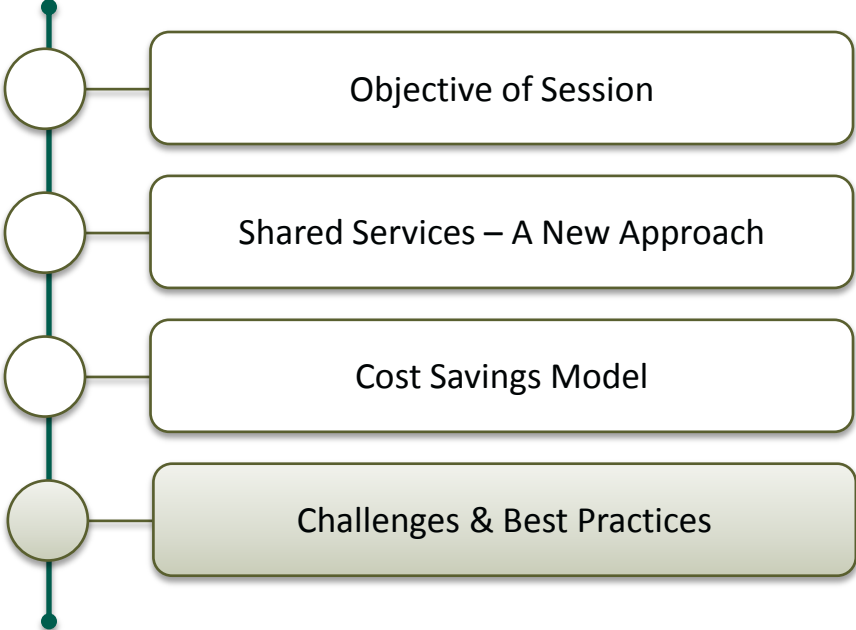
# Scale Benefits in multi-function SSO can be gained by leveraging system platforms and management structures, optimizing workforce utilization etc.

Annualized Cost Savings Breakup When Offshoring/  
Outsourcing 2-3 Functions

Cost Parameters	% Cost Change		Discussion
Management Overheads	8% - 10%	↓	Cost savings can be gained by optimization of management support at leadership levels
Recruitment & Training (including travel)	2% - 5%	↓	Recruitment and training needs can be better planned. Knowledge transfer can be optimized and well coordinated
Vendor Management	2% - 3%	↓	Since lesser number of vendors are engaged overhead costs can be reduced
Compliance and Contract	1% - 2%	↓	
Telecom & IT	1% - 2%	↑	Costs marginally increase due to need for enhanced IT support and infrastructure requirements
Other Costs	~3%	↓	Include costs related to occupancy levels, attrition, process improvement and business continuity etc.
<b>Total Cost Saving</b>	<b>15% - 20%</b>		

- Transition from one process Shared Service unit to multi-process center involves upfront cost in:
    - Process standardization & operational synergies which require higher skill base
    - Companies opt for strategic hiring during the migration phase i.e. hiring of transaction managers/program managers and function-specific heads. Research indicates that during this phase, companies follow a 70:30 rule for workforce optimization i.e. 30% external hiring and 70% in redeployment & re-skilling
  - Rise in revenue margins of about 5% - 8% is observed during transformation within a function i.e. in F&A, movement from high volume, low complexity AP/AR, payment processing to complex tax accounting works increases profit margin
- Risk**
- **Business Continuity Plan:** Use of multiple service providers, external as well as internal, allows companies to mitigate and spread risk. In case of multi-function SSO, BCP is impacted if the planning and implementation is not robustly built in and right matrix to SLA compliances is flawed. Even minute level of mistake in planning can impede the transformation process and escalate costs

# Agenda



## Improved efficiency and better talent management are the key benefits for companies opting for multi-function shared centers

### Improved Efficiency & Accuracy

- Support functions often need to interact with each other to deliver an end-to-end process. Placing those functions under single management in a multi-functional shared service organization (SSO) can enhance seamless process design and execution
- Organizations also have the advantage of deploying quality processes such as six sigma across multiple functions

### Improved Data Integrity

- Putting multiple functions in the same SSO can make it easier for a company to integrate multiple technology platforms allowing data to flow seamlessly
- It also allows the company to consolidate and work on single master data set

### Economies of Scale

- Companies can realize synergies and economies of scale on core shared functions and supporting facilities, site support and IT infrastructure requirements, and costs

### Easier Cross-functional Improvements

- Functional diversity can serve as a laboratory for innovation, readily facilitating the sharing and implementation of effective practices across functions

### Better Talent Management

- Multi-functional shared service organizations can give its employees a greater variety of work opportunities by allowing them to cross-train and rotate jobs among different functions
- Cross-staffing can also give the organization more flexibility to scale up and down in a particular function by allowing people to be redeployed to different functions if needed

## However change management and governance are some of the top challenges faced

### ***Organizational Challenges***

Resistance to change is the single biggest challenge which is aggravated by the unwillingness of functional leaders to relinquish control. Resistance to change also is reflected in resistance to new reporting relationships

- Influencing functional executives to look outside of their silos for synergies
- Defining and managing a common design/build project across functions
- Influencing functional executives to look outside of their silos for synergies



### ***Operational Challenges***

Initial problems associated with standardization of service delivery, management and governance



### ***HR Challenges***

One of the biggest challenges shared service organizations (SSO) face is providing career paths and development opportunities. Multifunctional SSO can provide adequate opportunities for job rotations



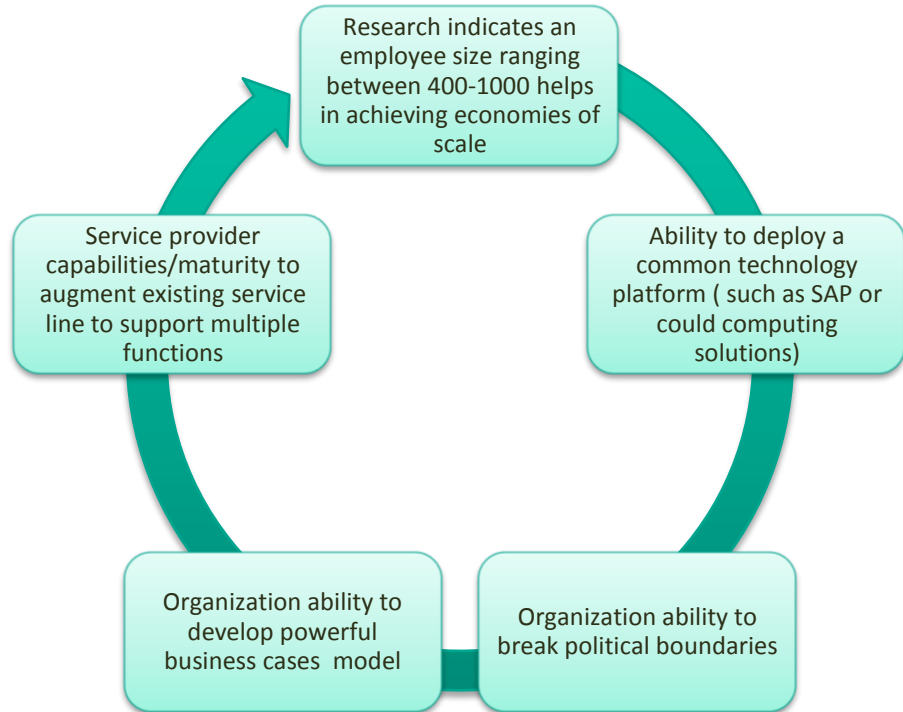
### ***Governance & Control***

A multi-functional SSO can also face challenges in balancing the demands of multiple functional stakeholders, and the delivery of end-to-end processes with multi-functional involvement can complicate the SSO's service chargeback model. For all these reasons, effective governance, control, and service delivery and chargeback management are a must for a multi-functional SSO to yield the desired benefits

# When establishing a multi tower BPO there are additional challenges that need to be addressed

There are multiple challenges in achieving an Optimal Tower BPO

The probability of success depends on..



# Zinnov's benchmarking services provides enhanced value realization and optimization of your globalization strategies

## About Zinnov's Benchmarking Services:

- Zinnov is launching a Benchmarking Service Initiative across **Global innovation, Growth markets and Shared Services**.
- Benchmarking initiative will assist you in understanding how your company stacks up against your peers in various metrics spanning process maturity levels, cost metrics, organization ratios, financial savings, attrition metrics, talent related metrics, diversity metrics etc.

Rapidly evolving globalization landscape



Optimization



Understanding industry best practices

## Why Zinnov?

1

Zinnov has done 150+ benchmarking engagements for companies across verticals including software, telecom & networking, semiconductors, industrial automation etc.

2

Zinnov has built an ecosystem of 600+ technology product companies across the US, India, China, Eastern Europe and Latin America

## Zinnov's Benchmarking Services

Zinnov will follow a robust methodology to gather data. Following are some of the key components of our research

Primary research – which includes interviews with stakeholders in leadership positions in companies, industry experts etc

Secondary research

Quantitative and Statistical modeling

Analysis to compare peer group operations in the industry

Incorporation of experience from over 150 globalization engagements



## About Zinnov

### **Zinnov helps organizations globalize their business and improve people strategy.**

*Our consulting solutions are based on rigorous research techniques, data analytics and communities*

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**For additional details on the topic, contact [info@zinnov.com](mailto:info@zinnov.com)**

# Thank You

THANK YOU



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