
Shared Service Centers — time for a change?

Learn how outsourcing can supplement or replace your shared service solution.

A shared service center, where companies place outlying finance and administrative operations under one roof, is intended to consolidate back-office functions into one seamless operation. Unlike simple centralization, a shared service center typically operates as a stand-alone business, treating individual business units as actual customers. The move toward using shared services arrangements to streamline non-core functions such as accounts payable (AP) began in the mid-1990s and has been accelerating ever since.

Many major corporations have invested substantial time, effort and money into developing shared service centers and leveraging them to drive costs out of their organizations.

A decade later, the lure of setting up a shared service center is still there. However, more and more organizations are finding that, to achieve the full benefits of greater efficiency in backroom operations at a lower cost, outsourcing some or all of their shared service functions may be a better option.

The Birth of Shared Service Centers

The emergence of the Enterprise Resource Planning (ERP) system (i.e., Oracle, SAP, PeopleSoft, etc.) and the widespread use of the decentralized client-server technology on which ERPs are deployed, made it possible for companies to centralize transaction processing while still offering their various locations access to the associated data. Thus, the concept of a “shared service center” took root. Organizations made up of diverse companies and business units could use their databases to enable all of their entities to process on the same platform. At the same time, these organizations found that they could reduce the number of support departments needed to serve those entities from several locations down to one primary location. The high level of investment required to purchase, install and maintain an ERP platform was a strong driver to consolidate as much administration as possible.

Shared Services Headaches

It all sounded like good news; fewer support departments with no redundancy. Standard processes. Lower costs. Better sharing of important business information. However, as many companies implemented their shared service center solutions, they found out the hard way that this was not always the case.

Take for example, an instance where a financial controller watches as his organization tries to set up a shared service center. The move seems to make sense. The company's growing operations are divided among multiple regional facilities, each with its own finance and administrative operations, and different facilities with different procedural standards. Further, work is often duplicated and the finance budget is getting out of hand.

A shared service center seems like the ideal answer.

The controller finds that the challenge is in the shared services details. Despite the fact that the initiative has the full backing of senior management, it does not take long before things start to unravel. An accounts payable system that worked perfectly when run by individual operating units breaks down when the processes are combined. Failure to reengineer existing processes leads to magnified slow, cumbersome, bureaucratic and inefficient processing in the shared services environment. Worse, a lack of planning and failure to adopt standard best practices leads to numerous exception items and poor service quality.

Ultimately, the company scraps the entire shared services experiment and pushes its financial processes back to the individual business units.

Outsourcing as a Supplement or Replacement for Shared Services

Outsourcing allows companies to better reduce costs and improve efficiency than a shared service center can do alone, as outsourcing providers are usually more skilled and focused on providing the specific service.

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SourceNet Solutions AP Outsourcing Insights

Outsourcing also allows companies to improve their businesses by allowing them to focus more on their core competencies and to avoid investment in non-critical functions and technology.

Even after companies have streamlined their processes within a shared services environment, outsourcing often becomes the next logical step. In fact, in a 2002 survey conducted by the Montgomery Research Institute on The Future of Shared Services, roughly 50 percent of organizations operating shared service centers indicated that they planned to start outsourcing some activities.

The Benefits of Outsourcing AP

AP is one of the most expensive — and often the most outdated — administrative processes performed at many companies. Because of this, it is often the target of a shared service or outsourcing solution. Outsourcing has many advantages. By outsourcing their AP to a specialist, companies can gain access to a highly specialized process that targets the centralized receipt of invoices without the lag time and risk associated with implementing a new, shared service center internally. Moreover, an AP specialist can assist companies in their efforts to operate more efficiently by handling or automating many of the labor-intensive, manual functions associated with their AP processing.

The benefits of such a precise, layered approach to AP processing allows companies to enjoy:

- increased focus — through access to state-of-the-art technologies that enable them to focus their resources on their core business;
- increased operational efficiency and better customer service — because paper invoices are converted to electronics, enabling their employees to promptly act on information, resolve inquiries more efficiently and provide higher and more accurate levels of customer service;
- improved controls and audit points — since they can electronically manage, track and audit critical information; and
- competitive advantage — via the flexibility and control they need to do business faster and more accurately.

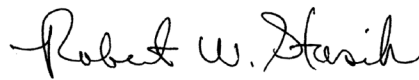
Selecting a Provider

In order to complement existing client ERP platforms and create an environment that results in increased efficiency, quality and visibility, look for a provider that utilizes best-in-class processes and procedures coupled with the latest technology solutions, including imaging and automated workflow. These tools will help you to logically distribute your AP process workload for approvals, invoice account coding, audits, exception management, inquiries and reporting across your company. In addition, you'll be able to access and download an extensive suite of reports that provide the cash forecasting, AP performance and operational metrics you need to identify potential improvements to your AP processes.

What does it all mean for your company?

Although implementing a shared services model within your organization may enable you to reduce costs and improve efficiencies, it is critical to note that few companies often achieve their anticipated objectives. By instituting an outsourcing arrangement, companies can realize significant cost saving opportunities above and beyond those realized through a shared services arrangement alone.

If you would like to discuss AP outsourcing in more detail, I invite you to contact Dan Reiff, senior vice president of Business Development for Mellon's finance and accounting services arm — SourceNet Solutions, at (979) 691-7700. Dan will explain how SourceNet has consistently demonstrated the ability to help companies reduce their direct operating costs by as much as 40 percent while simultaneously achieving continuous process improvement.



Robert W. Stasik
Executive Vice President
Mellon Financial Corporation



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