# The Road to Financial Shared Services

Q1 2013

*Featuring Insights on ...*

Benefits of Shared Services

Shared Services Challenges

Structure of Shared Services

AP and Shared Services

Implementing Shared Services

Underwritten in part by

# Table of Contents

Executive Summary ........ 1
The Case for Shared Services ........ 2
Shared Service Center Challenges ........ 7
Trouble in Paradise ........ 8
Shared Service Structure ........ 11
Accounts Payable and Shared Service ........ 12
ReadSoft ........ 14
Implementing Shared Services ........ 18
Conclusion ........ 20
Methodology ........ 20
About PayStream Advisors ........ 20

# Executive Summary

The term shared services has evolved over the past two decades and today goes well beyond simply centralization and standardization. Progressive companies have evolved from centralized operations into true shared service models, to reap the benefits of cost savings, efficiencies and overall better service, that shared service models have heralded.

By definition, shared services are the consolidation of business operations that are used or "shared" by multiple parts of the same organization. Shared services are cost-efficient because they work to centralize back-office operations that are used by multiple divisions of the same company and eliminate redundancy. The most common uses for a shared services model is finance, human resource management and information technology. For the purpose of this report, finance shared service models will be discussed.

The economic downturn and subsequent economic recovery has created a number of strategic imperatives for finance managers. Key among these initiatives is a drive for permanent cost reduction in transactional finance areas. While many Fortune 100 companies have adopted shared service centers (SSC), many Fortune 1000 companies have not. PayStream's Finance Operations Survey reveals SSC penetration of only 32 percent for companies over $1 billion in revenues. This combination has combined to create one of the most exciting business environments for transformation in many years, including outsourcing non-value-add processes solutions. Finance executives are actively seeking to identify opportunities to improve performance and create added value.

This report examines new service strategies around automating core finance functions for billing, collections, procurement, accounts payable and disbursement and should serve as a guide for finance managers considering a SSC.

For more information on this and other research reports available from PayStream Advisors, visit **www.paystreamadvisors.com**

# The Case for Shared Services

Accomplishing more with fewer resources in accounts payable and accounts receivable is at the forefront of every companies agenda. Companies are continually looking for ways to decrease costs while increasing quality, efficiency and visibility. One proven method to accomplish this goal is through the implementation of a SSC. The optimization of administrative and back-office functions in AP and AR through the creation of a SSC is an effective tool that works to increase quality, efficiency, regulatory compliance and visibility. Many finance processes, such as payables and receivables management, expense reporting and payroll are natural candidates for SSC implementation for several reasons:

» They are highly labor-intensive. Functions that make good candidates for SSC implementation are characterized by high repetition rates, skills specialization, and labor intensiveness.

» They have standardized workflows and tasks that can be segregated along the business process. They also have repeating points when data must be synchronized.

» They have the opportunity to benefit from large economies of scale and can operate more cost effectively.

While consolidating back-office processes is an important first step in the creation of a successful shared service model, it is certainly not the only step. A true shared services model shares responsibility for process excellence, service excellence, best practices, and provides additional value-added capabilities to improve overall effectiveness, management visibility and control and enhance overall process quality in operations. That's a big definition to swallow, but when implemented successfully, a true shared service center can work to unlock tremendous potential in both AP and AR. The overall goal of a SSC is to leverage the resources of a company to create optimal value for customers and other key stakeholders.

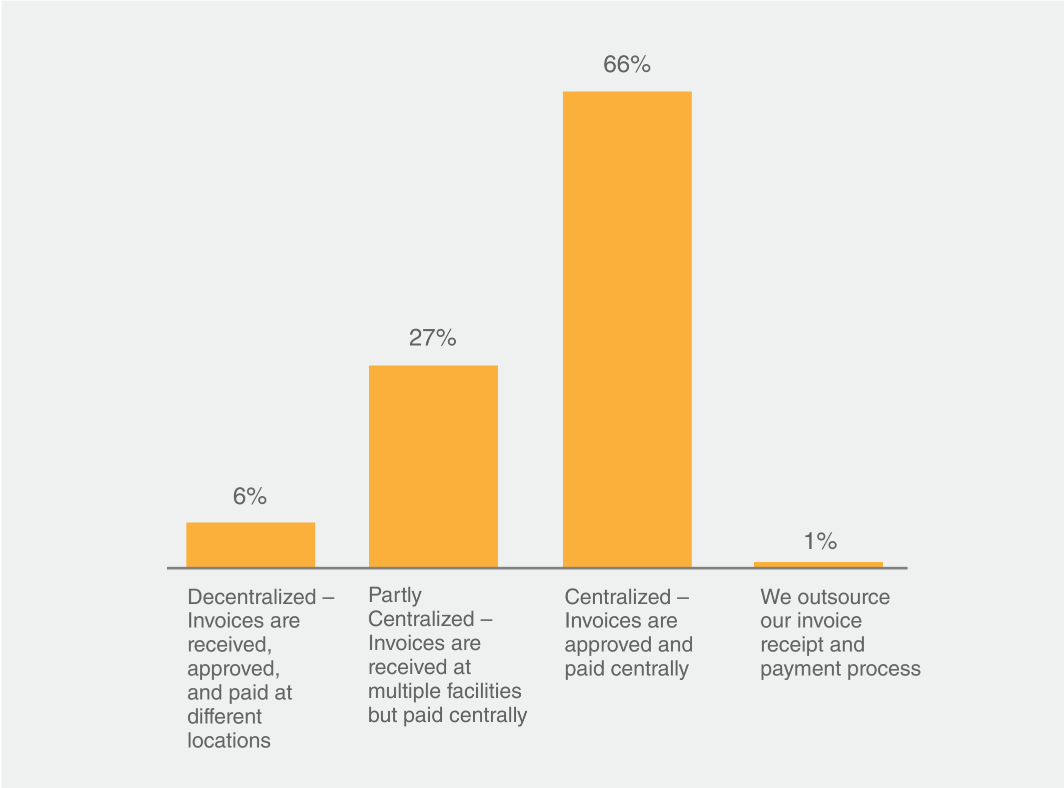
While the majority (66 percent) of PayStream survey respondents report that their AP departments are centralized, 33 percent report they are only partly centralized or decentralized, see Figure 1. One third of survey respondents don't have the foundation necessary to implement a shared service center, the foundation being consolidating and standardizing processes. Decentralized AP processes where invoices are received, approved and paid at different locations rather than centrally is not only the opposite of a shared service foundation, but it is inefficient and prone to errors and discrepancies.

Financial process success lies not in simply consolidating AP and/or AR services, but automating them. Shared services implementation is business process automation. This is certainly not a new concept; however, advances in financial automation technology such as more scalable ERP systems, workflows, scanning technologies, electronic data sharing technologies, and software-as-a-service

Figure 1

Nature of AP Departments

One-third of survey respondents do not have a centralized AP department.




models are now helping companies automate manual, time consuming tasks and improve overall efficiency. The economics behind financial process automation are much more compelling and impactful when implemented only once in a shared services environment, as opposed to having multiple instances serving broader user bases in diverse organizations.

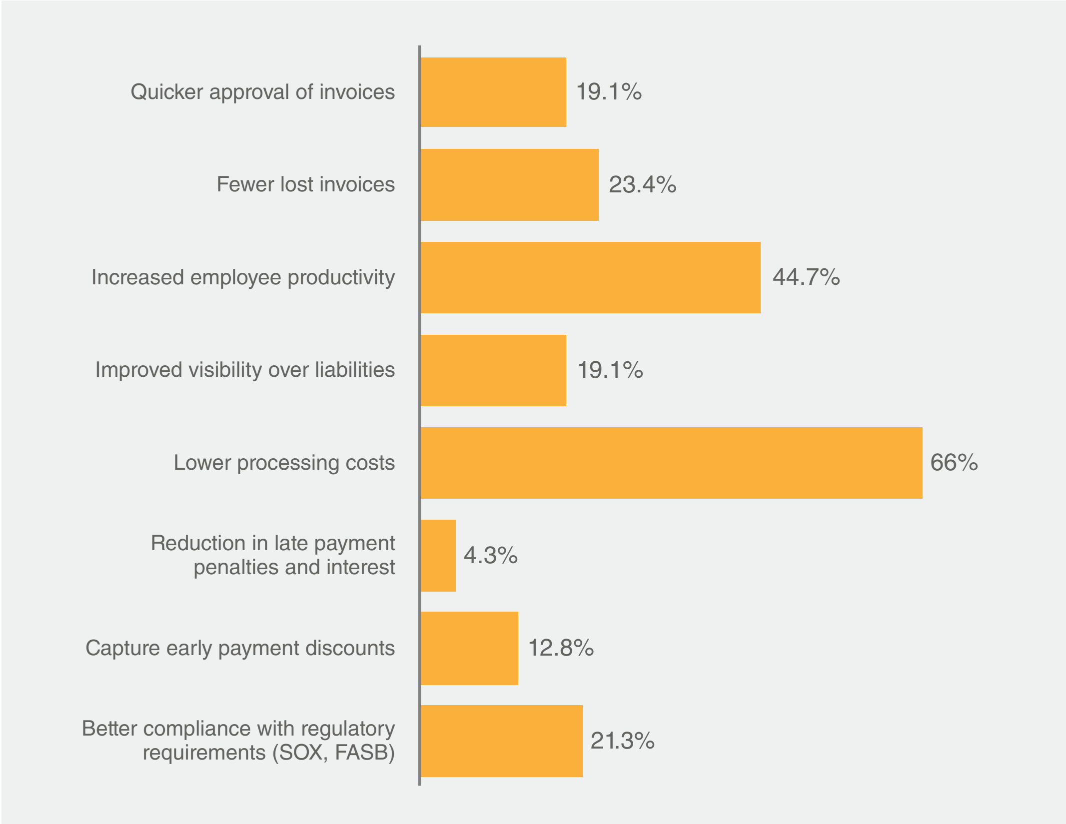
Companies that have been operating in a shared service center environment taut numerous advantages. Historically, SSC have been known for their cost saving benefits, so it comes as no surprise that lower processing costs ranked as the top SSC benefit (66 percent). Survey analysis shows that companies are operating a SSC to achieve additional benefits such as employee productivity (44 percent) and fewer lost invoices (23 percent). A substantial number of survey respondents also reported improved visibility (19 percent) and quicker approval of invoices (19 percent) as benefits, see Figure 2.

While shared service center adoption has increased, survey results reveal that there's still a long way to go. Fifty-three percent of respondents reported that they have a shared service center, while 26 percent reported they do not have a SSC and have no plans to have one. The remaining 21 percent report they are planning to implement a shared service center in the future, see Figure 3. Of those planning to have a shared service center, 20 percent report they plan to have a SSC in one to six months and the majority (80 percent) report they plan to implement a SSC in six to 12 months.

*Figure 2*

*Benefits Achieved by a Shared Service Center*

*Lower processing costs ranked first at 66 percent.*



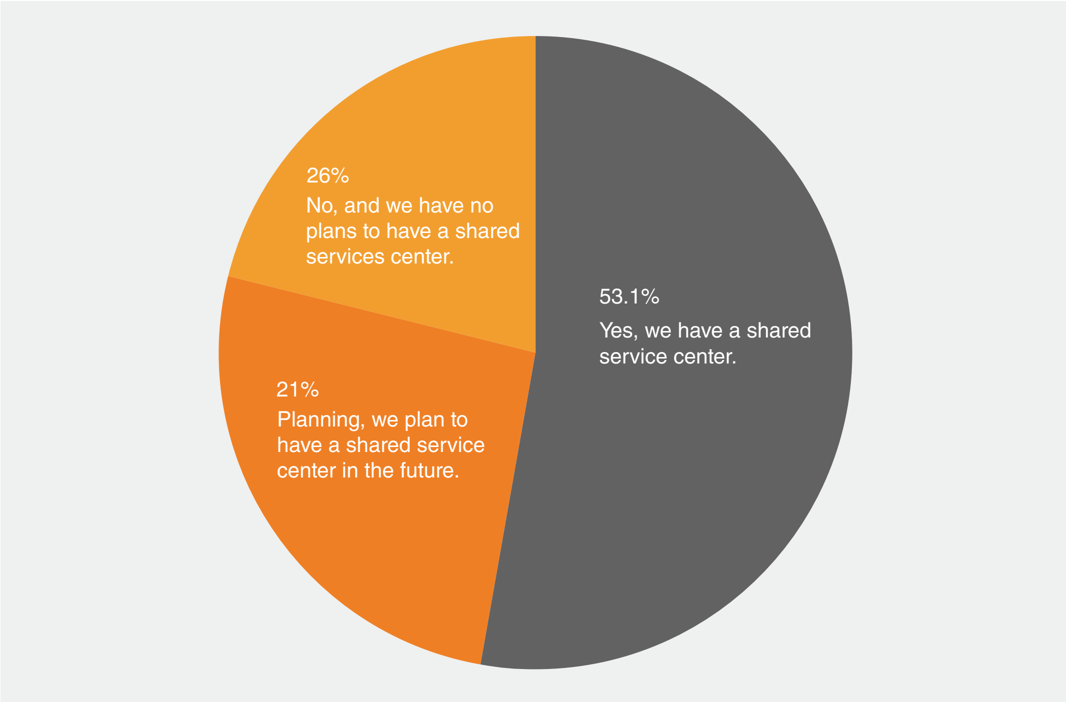

Aside from the benefits listed in Figure 2, additional SSC benefits include:

» Align accounting services with business strategy
» Improved supplier relationships due to on-time payments
» Leverage state-of-the-art technology
» Eliminate non-value added activities
» Improve/re-design back office process
» Centralize routine transaction processing
» Standardize processes across operating cities, states, and countries
» Obtain consistent information and increase visibility across sites
» Free up capital for core business operations
» Accelerate and renew processes such as cash collection
» Facilitated ERP optimization
» Free staff to focus on strategic objectives

Figure 3

*Shared Services Center Penetration*

*Nearly a quarter of survey respondents report they are planning to have a shared service center in the future.*

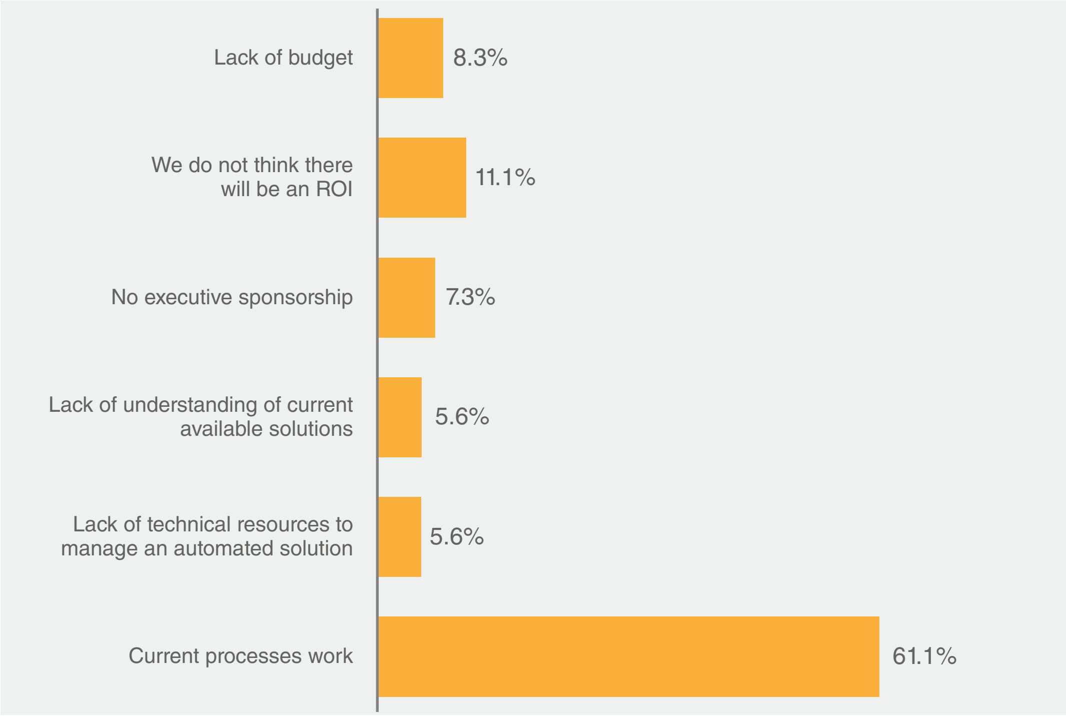



The belief that current processes work (61 percent) ranks as the primary reason why 26 percent of survey respondents have no plans to implement a SSC. A small percentage (11 percent) report they do not think there will be an ROI and an even smaller (8 percent) have no plans to implement a SSC due to lack of budget, see Figure 4.

Figure 4

*Reason Your Organization has No Plans to Implement a Shared Service Center*

*The belief that current processes work ranks as the primary reason 26 percent of survey respondents have no plans to implement a SSC.*

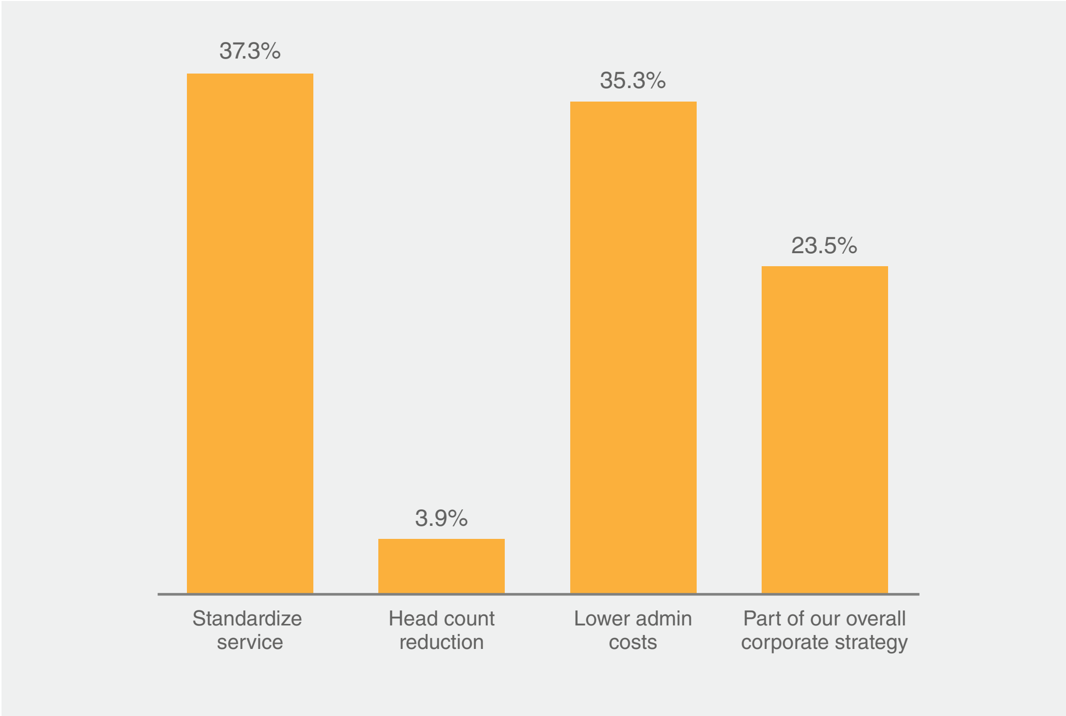


Of the 21 percent of respondents planning to have a SSC over the next year, the number one goal in doing so is standardized service (37 percent). Lower administration costs came in a close second at 35 percent. Surprisingly, 23 percent of respondents reported their number one goal in establishing a SSC is that it's part of their overall corporate strategy. This demonstrates a shift in what is happening in the SSC industry – companies are now witnessing both the short term cost cutting benefits, as well as the long term benefits of SSC. These long-term benefits contribute to a company's overall strategic objective such as improved, streamlined processes that can drive bigger profits over the long-term.

*Figure 5*

*Number one Goal in Establishing a Shared Service Center*

*Standardized service ranks as the number one goal.*



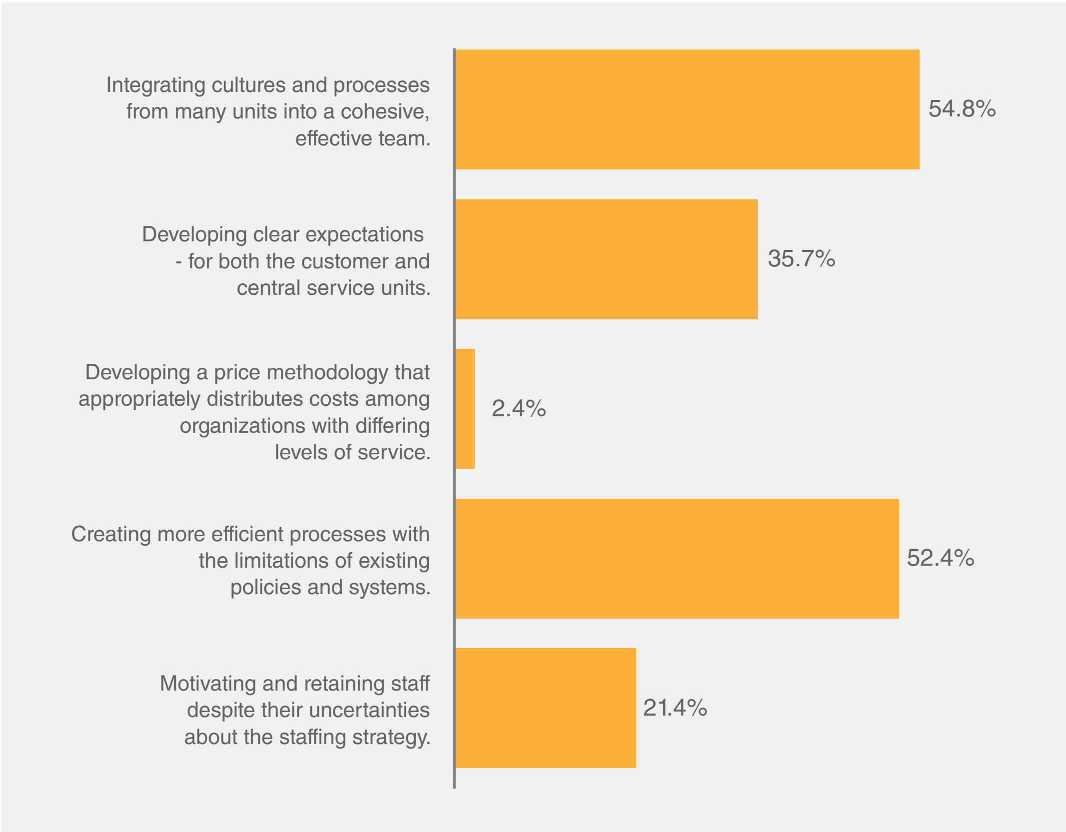
# Shared Service Center Challenges

Integrating cultures and processes from many units into a cohesive, effective team ranks as the top challenge (54 percent) that organizations face in the shared service center process, see Figure 6. To effectively overcome this number one challenge, companies need to fully understand the SSC migration process and how to properly prepare the company for it. An environment of collaboration and communication among all involved business units is critical. Each and every stakeholder needs to have a clear understanding and take full advantage of the value that a SSC can provide.

The availability and affordability of Software-as-a-Service (SaaS) applications for process automation can greatly enhance the success of a SSC through the creation of strategies that can facilitate workflow and provide quick and easy access to data worldwide. Automation applications create visibility between company divisions, subsidiaries and partners, allowing companies to immediately respond to and monitor vital activities with ease and efficiency.

*Figure 6*

*Challenges Faced in the Shared Service Center Process*



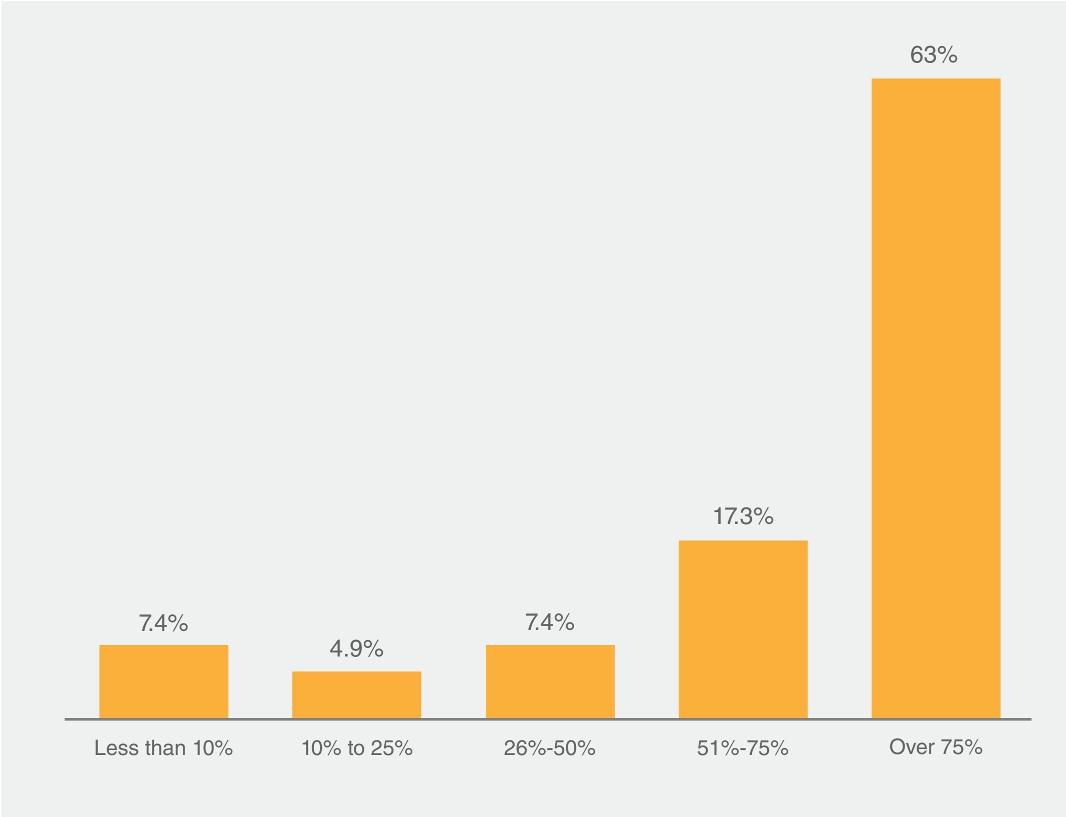
# Trouble in Paradise

Let's take a closer look at the whopping 61 percent of survey respondents that reported they have no plans to implement a SSC because current processes work. Exactly how well do current processes work? Sixty-three percent of survey respondents report that over 75 percent of their invoices are paid on-time. The remaining 37 percent of invoices are often paid late, see Figure 7. The number one reason for invoices being paid late is internal organization barriers (66 percent), see Figure 8.

*Figure 7*

*Percent of Invoices Paid On-Time*

*While the majority of invoices are paid on-time, many invoices are paid late.*




Further analysis of survey responses revealed that very few invoices are being processed with Straight Through or Touchless Processing, see Figure 9. Straight Through Processing (STP) allows automated posting without AP staff intervention, allowing AP departments to focus their energies on analytical tasks. With such a low number of invoices processed straight through, AP personnel are tasked with time consuming exceptions that require manual intervention.

Survey respondents were asked to rank on a scale of 1 – 5, where 5 is very important, how important is eliminating or decreasing exceptions a priority in your company? The rating average was 4.61 – revealing that eliminating and/or decreasing exceptions is a big priority in AP departments across the U.S. STP eliminates the manual effort associated with reviewing invoices line by line, resulting in increased productivity and cost savings. It allows the AP department to focus on core issues and tasks.

Figure 8

*Primary Reasons Invoices are Not Paid On-Time*

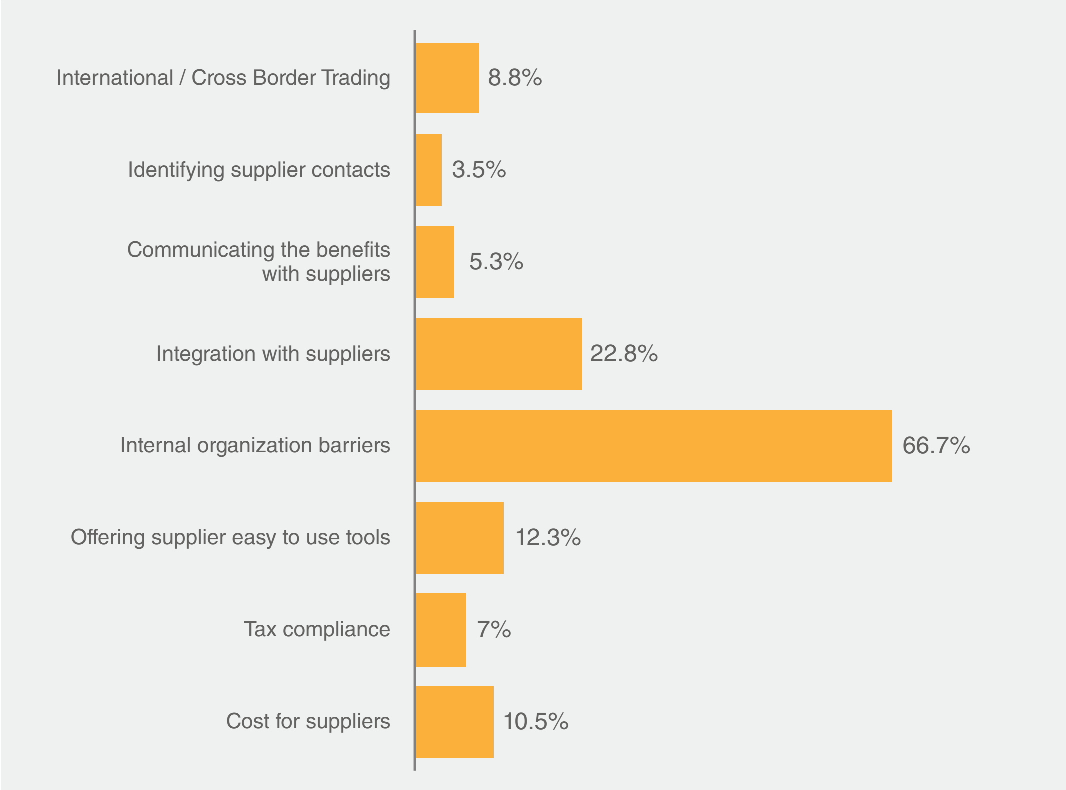
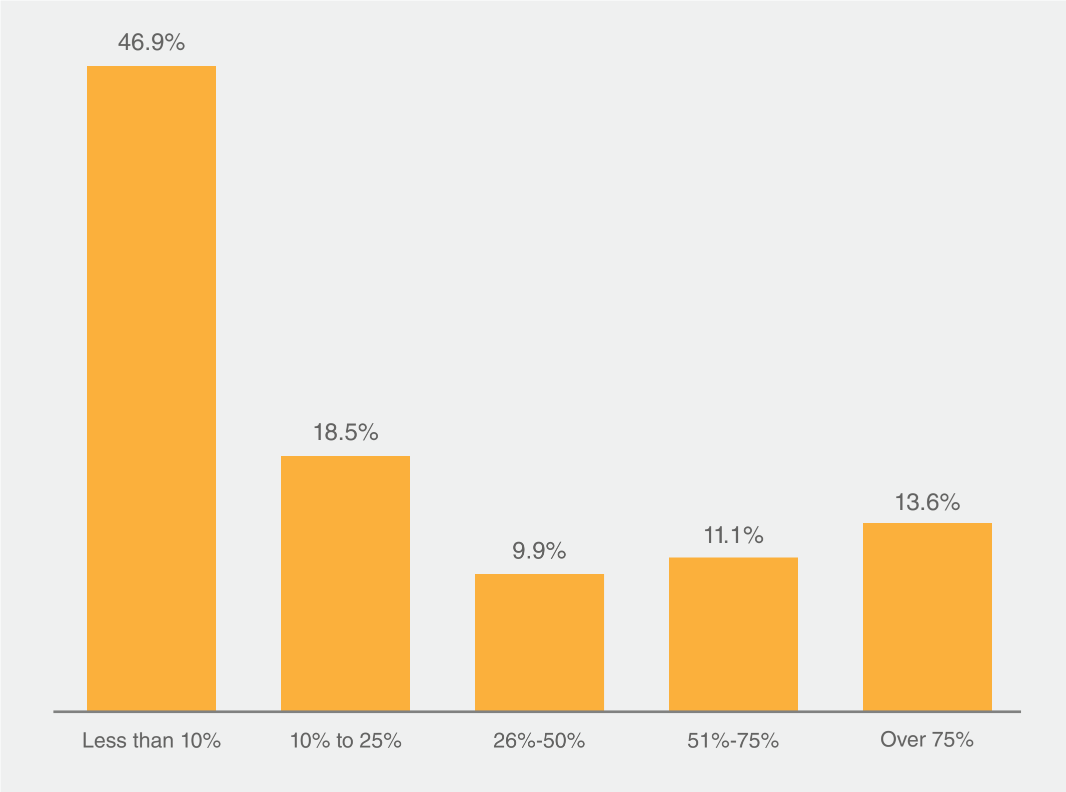



Figure 9

*Percentage of Touchless Invoices*

*Few invoices are processed straight through.*



While the majority of companies not interested in SSC implementation believe that their current processes work, this belief is debunked when analyzing survey results. By implementing a SSC, invoices would be paid on-time, more invoices would be processed straight through and more discounts would be captured.

PAYSTREAM ADVISORS

# Shared Service Structure

Shared services acts as the pilot driving the technology, people and process improvements that add value to the core business, see Figure 10.

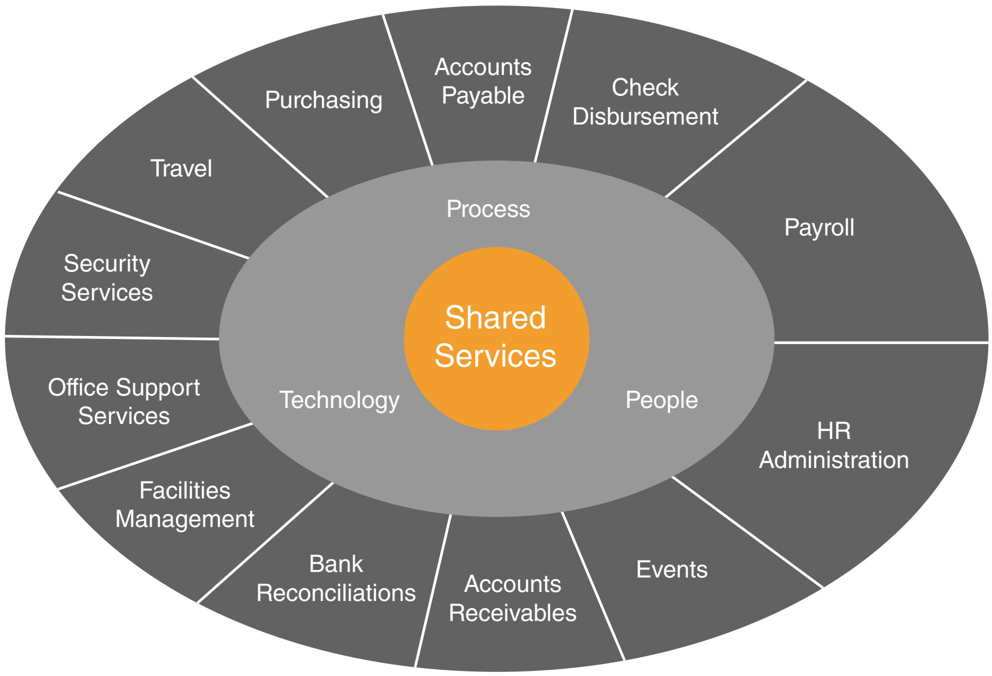



*Figure 10*

*Shared Service Structure*

The shared services model works to consolidate multiple systems, multiple processes, multiple locations and multiple organizations into one centralized location that works to optimize efficiency and cost savings, see Figure 11.

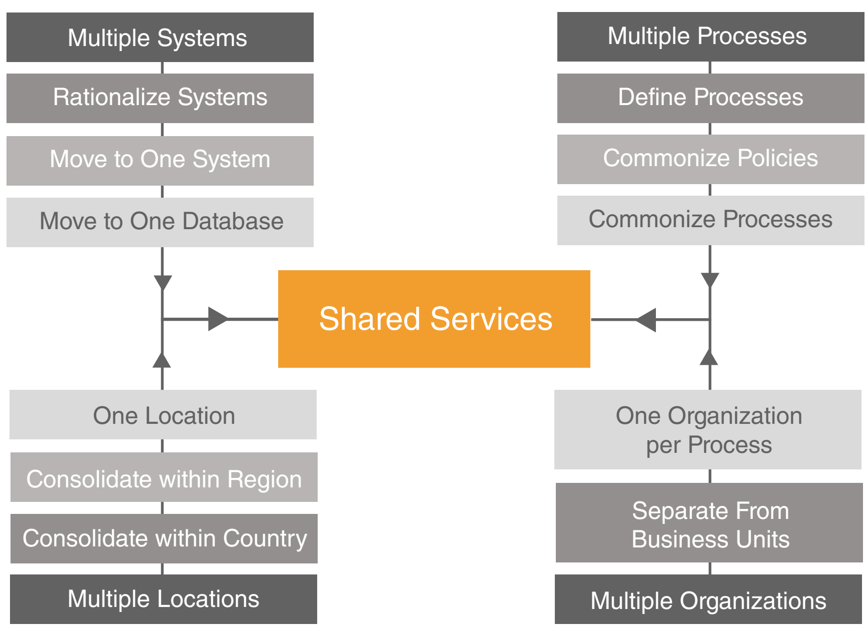



*Figure 11*

*SSC works to consolidate multiple systems, multiple processes, multiple locations and multiple organizations.*

# Accounts Payable and Shared Service

In an effort to do more with less in accounts payable, early shared service adopters were companies primarily interested in standardization and centralization of processes, but equally important was the use and availability of automation technology such as scanning, OCR, workflow, portals and electronic payments. Throughout the next phase, AP began working with procurement to further drive efficiency and greater control. Then the concept of Purchase-to-Pay (P2P) was introduced and the two departments discovered that collaborating on more integrated processes provided benefits for both parties, which resulted in end-to-end P2P processing. Since the adoption of end-to-end P2P processing, AP has started migrating away from simply being a cost center and has transformed into being a value-added operation. This AP transformation is visible in many companies today, with AP now supporting the optimization of cash flow and working in close partnership with the treasury department.

Companies interested in shared service adoption cannot make this change based on cost savings alone. The big picture of shared services is to continually evolve the core processes to:

» Achieve productivity gains each and every year.

» Create increasingly mature service capabilities that help internal customers do their jobs even better.

Today's savvy accounts payable departments have numerous opportunities to drill down on costs, optimize efficiency and successfully achieve short and long term process goals. Whether AP is set up to report directly to the finance director or the CEO, there are technology and processes readily available to foster an integrated P2P environment.

Another shared service opportunity for AP is working closely with the treasury department to attain a better cash flow forecast. In today's business environment, cash is more important than profit, and companies need to have the ability to forecast cash flow correctly to lower business risk. If AP works closely with the treasury department they are able to take a firm position in cash flow and show true shareholder value.

AP can take ownership of cash flow forecasting through payables supply chain finance (SCF). By allowing suppliers to be paid early in exchange for a discount, companies are able to improve their cash management needs. Through effective AP automation, companies are able to drastically reduce their invoice approval cycle times in an effort to capture more supplier discounts. For companies that do not have cash flow, financing can be provided by the bank. This is called an "off balance sheet facility," which requires the buying organization to pay a fee for the facility based on utilization. However, this fee will be covered by the discounts offered by suppliers for early payment. Roughly speaking, the current experience in the market is that for every $100 million of spend, a company can generate $1 million of benefits through SCF models. That's a substantial amount that a company can gain.

A number of companies have taken this even a step further by providing both AP and AR with these types of tools by merging the two departments in to one "working capital" department. While the team is split into two halves, with the first half focusing on exception management and the other half focused on working capital or cash flow. By having this one team and the right tools the cash flow forecasting is met every month as the department can manage the variables between in and outbound cash, in exchange for either more profit or less profit depending on that month's cash position. This allows accounts payable to become not only a truly integrated part of Finance, but also of the business itself.

# ReadSoft

With over 8,500+ customers internationally, ReadSoft has extensive experience implementing automation solutions at shared service centers worldwide. More than a billion pages are processed every year at multinational companies using ReadSoft solutions in shared service environments. No matter what format documents arrive in, where they are scanned (locally, centrally, outsourced), and what ERP system is used, ReadSoft can help build the right solution.

Specifically, the ReadSoft product suite enables companies to automate document processes across shared service environments including accounts payable processing, document capture, document sorting, purchase to pay and order to cash. ReadSoft's first-to-market invoice automation technology is certified with many ERP systems, including SAP, Oracle and Microsoft and resides inside SAP and Oracle E-Business suite for seamless integration. For other ERP's, the solution resides outside of the ERP system.

| **Website** | **www.readsoft.com** |
|---|---|
| **Founded** | 1991 |
| **Headquarters** | Helsingborg, Sweden – International<br>New Orleans – North America |
| **Other Locations** | Amsterdam, Bern, Copenhagen, Frankfurt, Helsingborg, Helsinki, Kuala Lumpur, London, Madrid, Oslo, Paris, Santiago, Sao Paolo, Stockholm, Sydney, Wroclaw – International<br>New Orleans, Raleigh – North America |
| **Employees** | Nearly 600 worldwide |
| **Number of Customers** | 8,500+ |
| **Key Accounts** | Lockheed Martin, Sony, Time Warner Cable |
| **Transactions Processed Annually** | 2 billion invoices |
| **Awards / Recognitions** | ERP Executive's Best of SAP SAPPHIRE® NOW award for Best Green Initiative, ECM Connection's ACE Award Winner in compliance |
| **Solution Name** | DOCUMENTS (Document Capture Automation)<br>PROCESS DIRECTOR (Financial Process Automation Platform for SAP)<br>PROCESSIT (Invoice Automation for Oracle E-Business Suite) ReadSoft Online (Cloud-based Invoice Automation) |

### *Solution Overview*

ReadSoft's solutions are sold via a license or as a hosted service depending on modules required. ReadSoft provides a single process platform for both frequent and occasional users that, because of its tight integration, enables clients the choice of setting up workflow in ERP Systems (such as SAP or Oracle) or ReadSoft.

ReadSoft's DOCUMENTS solution automates the tedious work of capturing, sorting and indexing documents, such as insurance claims, invoices, order forms, loan applications and more. The solution incorporates multiple security features, including an integrated single sign-on using Microsoft's Active Directory.

ReadSoft's invoice automation solution, PROCESSIT, enables automated invoice processing within Oracle E-Business Suite. The solution is a control center that jumpstarts automated workflows for invoice processing throughout the Oracle E-Business Suite environment.

ReadSoft also offers a comprehensive financial process automation platform for enterprises operating shared services within SAP called PROCESS DIRECTOR. The SAP-certified platform is designed to automate essential purchase to pay and order to cash processes, such as invoices, sales orders, delivery note handling, journal entry correction and more.

The standard out-of-the-box solution functionality is a best practice for companies implementing or improving a shared service center environment. Updates are delivered every 18 months, with the current version of both SAP and Oracle-specific solutions being 7.1.

ReadSoft's software-as-a-service (SaaS) offering, ReadSoft Online, widens the application of the company's software in invoice processing. As a cloud-based service that automatically captures data from financial documents through any computer with an Internet connection, the solution allows all businesses, including those without a solid IT infrastructure and those with highly decentralized accounts payable processes, to significantly improve process efficiency and achieve considerable cost-savings.

### *Pricing and Implementation*

For on-premise solutions, the typical implementation time is 1-2 weeks for capture-only solutions and 3-12 months for full capture and workflow, with an average time frame of 4 to 5 months. The most often requested features and predefined workflows are easily configured and implemented. Six months after implementation, companies can re-evaluate initial requirements and decide how to proceed for optimum configuration. Fees are based on the number of annual transactions processed in the system and can be purchased on perpetual or on a subscription basis. ReadSoft and its partners offer a full cadre of support and training for the entire implementation time period as well as long term.

ReadSoft's software-as-a-service (SaaS) application, ReadSoft Online, is built on Microsoft's Azure cloud platform. The solution is secure, quick to implement and offers users a low cost of ownership since it lacks hardware to buy and maintain and software to install and upgrade.

ReadSoft provides dedicated support services to keep shared service centers running efficiently and effectively. Dedicated support services include committed response times, local support, certified throughput and uninterrupted attention.

### *Invoice Receipt*

DOCUMENTS is the entry point for all documents and feeds into an organization, accepting invoices and other transaction-related documents via paper, email, fax, HTML, PDF, Word or Excel. Depending on the implementation parameters, clients have the flexibility to use a 3rd party scanning application if they don't have that capability in house. DOCUMENTS uses the COLLECTOR module to monitor and classify emailed invoices as they arrive. Faxed invoices go through DIM (DOCUMENT IMPORT MANAGER) for validation and further processing. Web input is handled through PROCESS DIRECTOR (for companies using SAP) or PROCESSIT (for companies using Oracle E-Business Suite) or via a web portal module. Electronic inputs are fed directly into the ERP system. An organization's business rules can be used for validations and the solution allows for price checks, quantity checks, and exception handling among other things.

### *Approval Workflow*

The integrated workflow component is highly configurable and easy to setup. User functions and access levels provide security – if it isn't assigned to a specific end user, then that person can't access it. The solution is flexible, so existing approval and routing hierarchies may be used as well as manual routing and rules-based processing. This flexibility enables users who are new to automation the ability to tweak their processes as they become more familiar with the solution. Notifications are done via email with escalations contingent upon organizational hierarchies already in place. PROCESS DIRECTOR and PROCESSIT also allow for manager/employee or role-based hierarchies in Oracle or SAP that are used and defined in the unique, ERP environment. ReadSoft solutions are ERP-certified and use approved posting functions for ERP transactional creation.

### *Payment, Discounting and Remittance Details*

The ReadSoft processing solution provides for prioritization and tracking of invoices for meeting payment deadlines and achieving early payment discounts. Working capital management is addressed through analytics such as cash flow, paid invoices, discounts gained or lost, and more. All this data can be selected on any supplier or time frame.

### *Vendor Portal Functionality*

A vendor portal hosted inside the customer's solution allows suppliers to make inquiries regarding the status, visibility, and receipt of POs, as well as update their master data profile. Invoice validations allow for price and quantity checks and other exception handling. Valid PO's can be flipped into an invoice that includes all validations applied prior to submission. Business rules for validations are configurable to any customer-specific request. Because ReadSoft sees continued supplier migration to portals and e-invoicing applications, they will continue to build complimentary tools to facilitate these interfaces.

### *Content Management*

PROCESS DIRECTOR & PROCESSIT convert both paper and electronic invoices into a common format regardless of the input mechanism. However, ReadSoft solutions were not designed to be content and storage management tools, but were designed to be able to work with all ECM products rather than being tied to one proprietary solution. Standard ERP functions for image storage and retrieval are utilized. For ERP integration, the images are associated with the transactional data and can be viewed as normal inquiry functions from the ERP system. For SAP, this is via an Object Services function.

### *Reporting and Analysis*

REPORTER is ReadSoft's robust reporting tool. It provides detailed analysis of the entire AP process. High-level visibility is achieved through detailed reports on status, cash flow analysis, payment details, discount analysis, accuracy statistics, workflow processing, audit trail data, and cycle times. ReadSoft also provides extraction tools for both SAP and Oracle so the respective ERP report generating modules can be used.

PayStream Advisors

# Implementing Shared Services

Implementing a successful shared service center is no small task and takes careful planning. Below, PayStream has outlined key steps that should be followed to help increase the SSC success rate.

### 1. Assess Shared Service Center Opportunities

This step involves taking a step back to see the big SSC picture. Assess all potential SSC applications and the potential for cost and performance improvements of these applications. Determine the proper scope of the SSC implementation by identifying the choice of services to be shared. A company needs to identify a set of processes that once streamlined, can add value to the business. These processes must be non-core processes, or non-intrusive to the company and business function itself.

The assessment phase should include a detailed development of the vision and direction you want the SSC to take, in addition to the business case for needed change. These assessment steps will provide the framework needed to assess and choose a SSC provider. In other words, it's key to be clear about what you're trying to achieve with shared services and communicate that to the organization in order to manage expectations.

### 2. Determine the Scope of the Shared Services Center

Once your company has determined the choice of services to be shared, attention turns to determining the scope of the SSC. Scoping analysis typically consists of three specific dimensions:

1. **Geography –** This is regarding the overall reach of the SSC. Is the SSC initiative going to be applied globally or limited to a specific geographical area?

2. **Business Units –** The company needs to decide which business units to include in the SSC effort, e.g., billing, collections, procurement, accounts payable and disbursement. Deciding which processes to include in the SSC effort requires the company to assess the degree to which the process is critical to the overall business strategy success, as well as how common the requirements for the service are across the organization. If the business process is strategic in nature, it is most likely not a good candidate for SSC implementation. SSC initiatives are best applied to functions that are not critical to a company's core business. Transaction-based activities that involve repeatable processes such as paying invoices or executing payment are good candidates for SSC implementation, since they provide the most potential for cost reductions, as redundancy is removed and efficiency is gained.

3. **Finding the Right Shared Service Provider** – Many factors come into play when deciding what SSC provider to partner with. First and foremost, develop an evaluation mechanism with which you can evaluate each service provider. Key items to consider include:

- **Establish Service Level Agreements (SLAs) –** A SLA is a formal contract between the shared service provider and its customers. SLA provides a well-defined understanding by both the provider and the user of the SSC regarding the services to be provided and the costs that will be charged for these services. An effective SLA goes beyond the billing agreement and should include anticipated volumes, billing rates, quality and/or service expectations and guidelines, and methods for dispute resolution.
- **Establish and Continuously Measure Key Performance Indicators (KPIs) –** "What gets measured gets done," is an old adage, which is still applicable to any business, or for that matter any task. Measurement is a critical aspect of any system that targets behavioral and performance improvements. The continuous measurement of KPI's will ensure the service delivered consistently meets or exceeds SLAs.
- **Establish a Joint Governance Board –** The creation of a well-defined governance structure is an important element in the SSC design and is responsible for establishing SSC policy, resolving billing and SLA disputes, adding or removing services from the operation, and setting performance goals. The board should be comprised of both customers and service providers to manage the delivery of existing services and the introduction of new services.

### *Shared Service Center Pitfalls to Avoid*

Like any change effort, the implementation of a SSC is prone to problems. Some of the reasons why the implementation of shared services fails include:

- Lack of executive buy in;
- Not measuring costs or service levels before moving to shared services;
- Believing that a centralized process is the same as shared services;
- Centralizing functions without operating like an independent business;
- Poorly tracking benefits achieved from the SSC;
- Missing the big picture and not staying focused on continuous improvement;
- Failing to establish and/or define performance measures and SLAs.

# Conclusion

As companies continue to discover ways to refocus their resources into value-added activities and reduce non-value added costs and efforts, the drive for shared services will continue to grow. Research shows that a SSC can lead to superior performance that provides optimal benefits with minimal risk. While many companies currently operate a centralized business model, taking the necessary steps to transition from a centralized to a true shared services organization for end-to-end process performance can produce significant organizational benefits. The metrics and tools outlined in this report will help companies implement shared services and take companies one step closer to achieving shared services success.

# Methodology

The findings in this report are based on the results of PayStream Advisors Q4 2012 Shared Services survey. Participants in the survey included more than 300 finance professionals. Based on PayStream's experience and the number of survey respondents, the survey has a confidence level of +/-5 percent.

# About PayStream Advisors

PayStream Advisors is a technology research and consulting firm that improves the way companies plan, evaluate, and select emerging technologies to achieve their business objectives. PayStream Advisors assists clients in sorting through the growing complexities of IT applications related to business process automation with the goal of making objective, analytical, and actionable recommendations. Wherever business process automation technology is an issue, PayStream Advisors is there to help. For more information, call (704) 523-7357 or visit us on the web at www.paystreamadvisors.com.