Capgemini Consulting

Shared Services: what global companies do

Key trends and perspectives

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Executive Summary

When it comes to optimizing support functions of large global companies, Shared Services stand out as an imperative to capitalize on size, leverage expertise, improve service quality and increase efficiency.

Our research on around 100 multinational companies shows strong achievements in establishing truly global delivery models. Four major trends emerge out of this research:

- In setting up such models, more than **50% of companies researched are using third party providers** for the delivery of Shared Services, either totally or partially, thus leveraging outsourcing to boost Shared Services.
- **Other companies have chosen to retain their Shared Services in-house and have developed regional and/or Global Centers** to serve the business functions, integrating them in a unified governance.
- The traditional functions silos are breaking, functional scope of Shared Services is increasing and **cross-functional integrated services are being developed to better serve the business**.
- **Analytics and big data services are rising as new value-added offerings of Shared Services** to support business decision making.

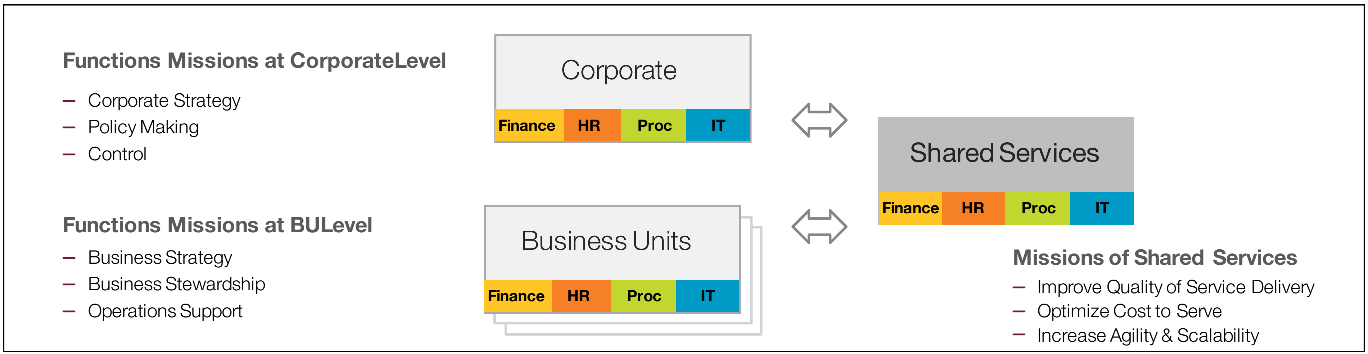
These trends are shaping what prefigures the Next Generation Shared Services, now increasingly called 'Global Business Services'. With cost synergies delivered, the new generation of Shared Services is built to focus more on business value while perpetuating the quest for efficiency.

Companies that have set up 'Global Business Services' have significantly boosted their support functions performance, optimizing the cost-quality trade off through efficiency improvements and a clear shift towards a strong and compelling value proposition to the business. With this major transformation, Next Generation Shared Services are well positioned to be considered full-fledged partners of business operations, and not just providers of services.

01 Shared Services An imperative to leverage the size of your company

Shared Services are organizational units handling some activities of support functions for Business Units and Corporate Headquarters with the aim to deliver the highest standards in terms of quality and efficiency, and in particular to leverage size. In large global companies, they have become well established in the organizational landscape.

EXHIBIT 1 | Shared Services vs Corporate and Business Units missions



Source: Capgemini Consulting Research

Traditional scope of Shared Services

Traditionally, the primary focus of Shared Services has been on delivering support activities in the Finance, HR, Procurement and IT functions. Within these functions, only activities that have a huge potential for efficiency improvements are transferred to Shared Services centers. Typically, shared activities across the organization are transactional, high volume and highly standardized (example: procure-to-pay and record-to-report processes). The rest are retained activities, which are maintained in local business units, either because they require more business proximity or non-replicable specific expertise.

EXHIBIT 2 | Functional processes are generally split into 'Shared' and 'Retained' buckets

ILLUSTRATION

	Finance and Accounting	HR	Payroll	Procurement	IT
Shared Services	▪ Accounts Payable ▪ Employee Travel and Expenses ▪ MDM ▪ Helpdesk ▪ Billing (Generic) ▪ Collection Accounting & Debtors reconciliation ▪ Fixed assets accounting ▪ Bank Reconciliations ▪ Taxation calculation, payments & related reconciliations ▪ General Ledger	▪ Recruitment admin ▪ Induction ▪ Learning & Development logistics and administration ▪ PMS data processing ▪ Payroll and benefit administration ▪ Exit Administration ▪ HR MIS and reporting	▪ Payroll processing and Accounting ▪ Employee reimbursements ▪ Full and final settlements ▪ PF ▪ Compliance ▪ Gratuity & Superannuation ▪ Employee Welfare ▪ Statutory Returns	▪ Supplier Master data management ▪ Catalogue management ▪ PO management ▪ Spot buy	▪ IT Helpdesk (local and central) ▪ Network & Telco management ▪ Data center management ▪ Mobility ▪ Security ▪ Infrastructure management ▪ Application sustaining
Retained	▪ Billing (Business specific) Audit Management ▪ Management & Financial Reporting ▪ Treasury ▪ Cost Audit, Inventory verification & valuation Insurance ▪ Merger & Acquisition, ▪ Budgeting / Capex approval ▪ Taxation specifics (e.g. Sales & Use Tax)	▪ HR strategy development ▪ Workforce planning ▪ Employee communication ▪ Employee relations ▪ Employee career planning and development ▪ Learning & Development	▪ Time sheet recording and validation	▪ Category management ▪ Strategic Sourcing ▪ Requisitioning ▪ Supplier Quality Reporting ▪ RFQ, RFP,RFI	▪ Application life - cycle management ▪ Application development ▪ IT strategy ▪ Information architecture ▪ IT internal audit

Source: Capgemini Consulting Research

Cost savings: what to expect?

The market standards on cost savings delivered by shared services range from **15% to up to 40%**, mainly depending on industrialization of processes, level of automation and location of centers.

Emergence of "core business" shared services

Core business activities centralized in Shared Services have existed for long in specific sectors such as:

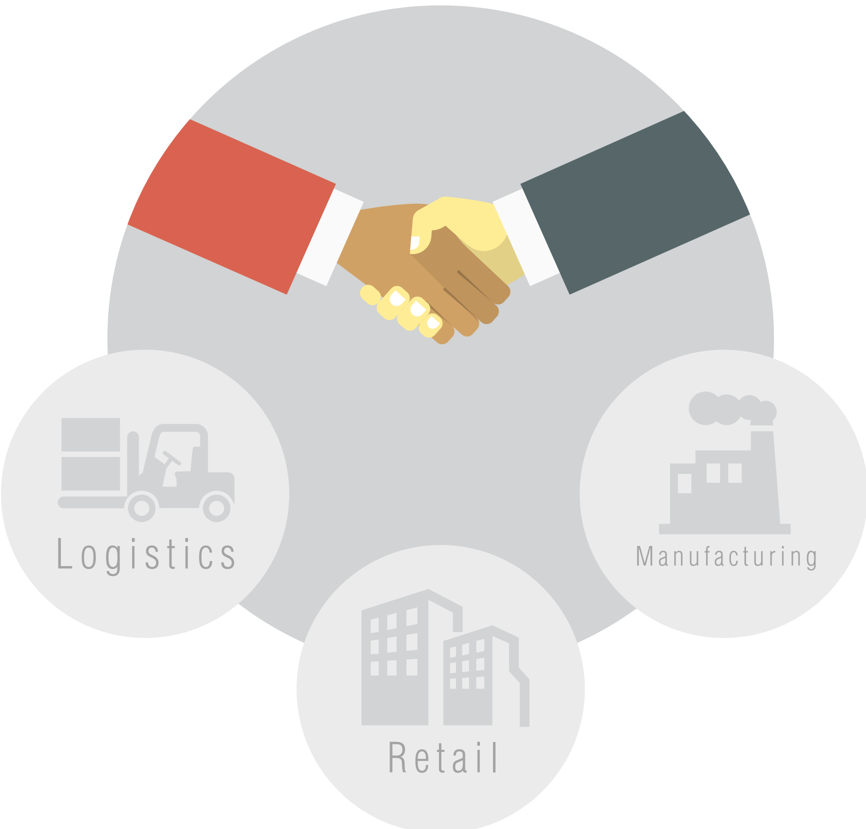
- Logistics (global supply chain hubs)
- Retail (global procurement centers)
- Manufacturing (global production/Final Assembly Lines bundling high end expertise)

However, a **new trend is emerging with the setup of Shared Services for core business high-value activities** which were traditionally retained locally.

Capgemini Consulting has supported a leading travel insurance and assistance company to centralize core business activities through the setup of global centers of excellence. After defining a global target operating model, a proof of concept was developed and a pilot regional hub was implemented in Europe, before the model was expanded to other geographies. The strategic move made by our client aimed at delivering utmost quality of service by bundling assistance expertise through regional hubs thus nurturing top line growth.

Key benefits of the new organization are:

- a reinforced expertise as required by expansion of customer travel destinations
- the ability to serve global and corporate clients with improved quality of service
- a better control of costs allowing to face increased price pressure from competition.



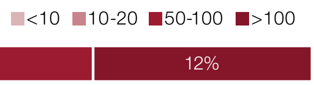
02 Key trends observed

We provide you with key trends in Shared Services based on research conducted by Capgemini Consulting on around 100 multinational companies in all sectors, mainly headquartered in the US and Europe.

EXHIBIT 3 | List of multinational companies included in the research

ABB	BHP	Citibank	Ericsson	Linde	Roche	Solvay
AB-InBev	Black & Decker	Coca-Cola	Europcar	Maersk Line	SABMiller	Sony Pictures
Alcatel Lucent	Bombardier Transportation	Daimler	FedEx	Michelin	Saint-Gobain	Statoil
Alstom Transport	Bosch	Danfoss	General Electric	Monsanto	Sandvik	Syngenta
Arcelor Mittal	BP	Dell	Groupe SEB	Motorola	Sanofi	Tetra Pak
Astra Zeneca	Bridgestone	Deutsche Telekom	GlaxoSmithKline	Nestlé	Scandinavian Airlines	Thomas Cook
Avis Budget	Bristol-Myers Squibb	DHL Exel	Henkel	Novartis	Schlumberger	TRW
Avon	British Airways	Diageo	Honeywell	Oracle	Schneider Electric	Unilever
AXA	British Telecom	DuPont	International Paper	P&G	Sears	United Biscuits
BASF	Bureau Veritas	E.ON	Johnson & Johnson	Pepsi Co	Shell	VALE
Bayer	Canon	Eaton	Kellog's	Philip Morris	Siemens	Vodafone
Beiersdorf	Caterpillar	Electrolux	Kimberley Clark	Publicis	SKF	Volvo Cars
Bertelsmann	Cemex	Eli Lilly	Lafarge	Renault	Société Générale	Warner Bros
Best Buy	Chevron	Engie	LG Philips	Rio Tinto	Sodexo	Whirlpool

2014 revenue ranges (in USD Bn) of companies represented



Source: Capgemini Consulting Research

Trend #1: Leveraging outsourcing to boost Shared Services

The use of third party providers in the delivery of Shared Services is significant:

More than 50% of companies researched are using third party providers to deliver shared services, either in regional or global outsourcing.

- This trend has been observed in 4 main functional domains:
- Starting with IT (e.g. Infrastructure, Application Maintenance)
- Extending to Payroll processing (e.g. Payroll Processing Systems)
- Reaching Finance transactions (e.g. Accounts Payable, General Ledger)
- Evolving to Procurement (e.g. Purchase Orders Processing).

Other functions have also been partially or totally outsourced. These include but are not limited to facilities management, logistics and fleet management.

EXHIBIT 4 | Companies using third party providers in Shared Services: an illustration

Partial Outsourcing *Limited to selective BUs / geographies / processes*			**Global Outsourcing** *Extended to several BUs / geographies / processes*		
Citibank	Eli Lilly	Statoil	LG Philips	Kimberley Clark	Coca-Cola
GlaxoSmithKline	Saint Gobain	British Telecom	Unilever	Novartis	Warner Bros
Henkel	Linde	Alstom Transport	Arcelor	Sandvik	FedEx
Procter & Gamble	Diageo	Canon	Alcatel Lucent	Honeywell	Thomas Cook
Rio Tinto	Bristol-Myers Squibb	General Electric	Syngenta	DHL	Tetra Pak
Michelin	Pepsi Co	Sanofi	Avon	SABMiller	Scandinavian Airlines
Astra Zeneca	Sears	Solvay	Danfoss	United Biscuits	Cemex
BP	Schlumberger	Société Générale	International Paper	SKF	Volvo Cars

Source: Capgemini Consulting Research

The increase in the use of third party providers stems from a more mature and competitive outsourcing market with:

- **An unmatched global footprint developed by outsourcers in both ITO (IT outsourcing) and BPO (Business Process Outsourcing)**, having clients benefit from a very large choice of worldwide locations, as determined by the company's strategy;
- **A global network of interoperable centers built by providers**, offering their clients the agility to shift activities from one center to another, as dictated by structural or internal business evolutions (acquisitions, divestitures, etc.);
- **A continuous quest for excellence in delivery and efficiency optimization**, through the possibility to transfer centers to locations that offer the best cost arbitrage-quality tradeoff.

Trend #2: Accelerating globalization of Shared Services in a unified governance

Companies that kept their shared services in-house developed Regional and/or Global Centers: a recent study[1] shows 76% of companies survey have adopted a regional model or a global business services model.

Shared Services centers are now set up and managed as autonomous business units, with increased levels of professionalization and a dedicated governance structure.

The rationale for setting up regional or global in-house shared services across the company is largely dependent on the industry and the nature of business activities.

Source 1 : State of the Shared Services Industry Report, 2014 SSON (Shared Services Organization Network) Annual Survey

Sharing support functions resources across countries is a lever for improving efficiency and ensuring effectiveness. Main reasons for this organizational move include:

- Building expertise
- Leveraging economies of scale
- Standardizing transactional processes
- Increasing professionalism
- Focusing countries on core business.

The drivers for setting up regional or global shared services centers will be different. Regional shared services will be preferred over global when:

- Business proximity is needed
- Language capabilities are constraining
- Activities are time zone dependent.

The push towards a global Shared Services center will be made when:

- Activities transferred are not time zone dependent
- Size of activities is enough to build large scale centers in highly competitive locations, thus offering the best cost-quality tradeoff.

EXHIBIT 5 | Selected examples of regional and global Shared Services Centers (captive)

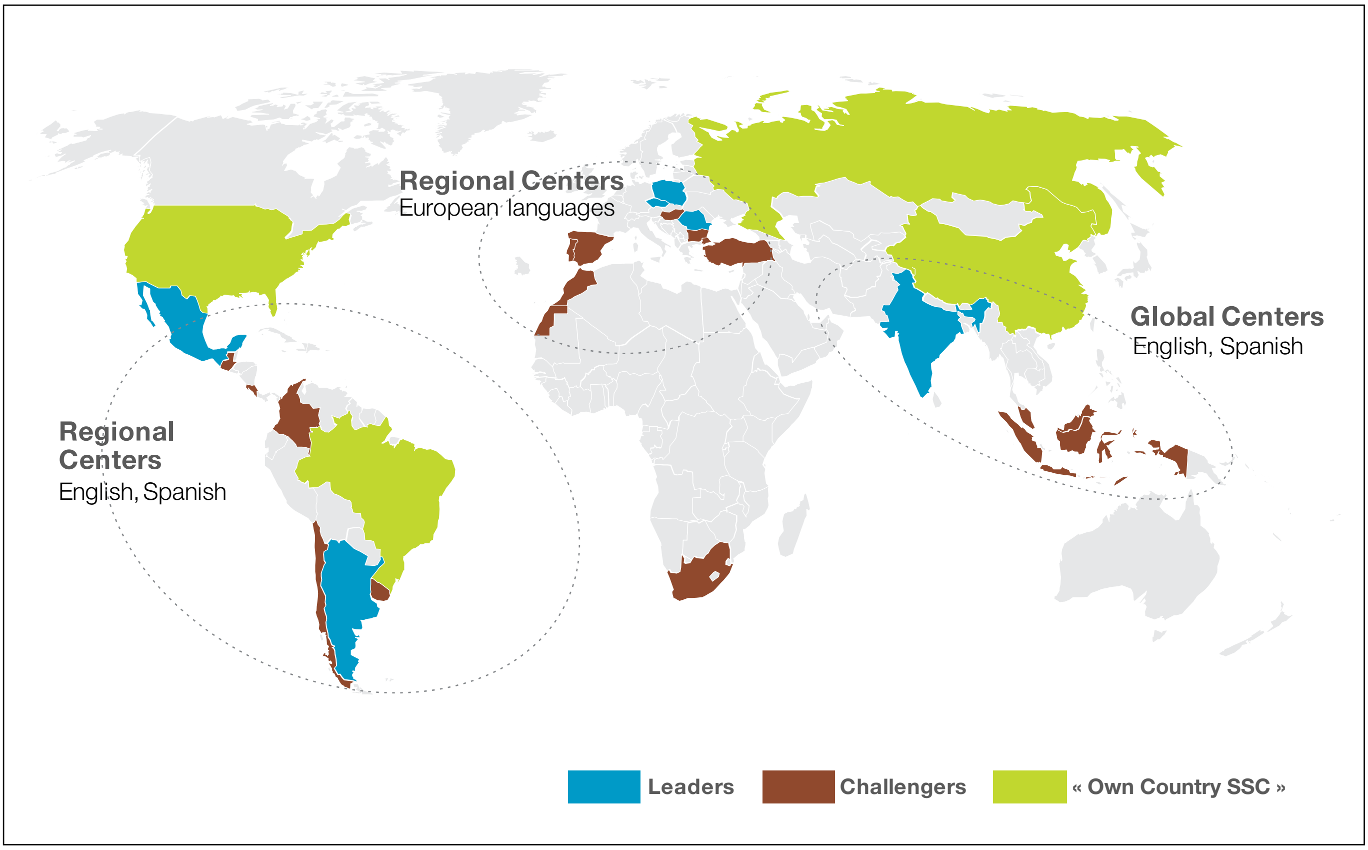
Company	Regional centers *(countries or processes served)*	Global centers
Industrial conglomerate	• Buenos Aires, Argentina *(Americas),* • Beijing, China *(China, Japan)* • Lisbon, Portugal *(South & Western Europe)* • Prague, Czech Republic *(Central & Eastern Europe)*	• Bangalore,India
Leader in the oil and gas industry	• Houston, USA *(North America for all Functions, Latin America Finance)* • Kuala Lumpur, Malaysia *(MEA, Asia for all Functions, Europe for Finance)* • Bogota, Colombia *(Latin America HR)* • Bucharest, Romania *(Procurement Europe)*	
Leader in the oil and gas industry	• Glasgow, Scotland (*Global Finance*) • Kuala Lumpur, Malaysia (*Multi-function SSC*) • Cape Town, South Africa (*Customer Services*) • Krakow, Poland	• Chennai, India • Manila, Philippines
Leader in the chemicals industry	• Berlin, Germany (*Europe*) • Sao Paulo, Argentina (*Latin America*) • Florham Park, USA (*North America*) • Kuala Lumpur, Malaysia (*Asia*) • Shanghai, China (*Asia Pacific Procurement*)	• Mumbai, India
Leader in the chemicals industry	• Lisbon, Portugal (*Europe*) • Curitiba, Brazil (*Americas*) • Bangkok, Thailand (*Asia*) • Brussels, Cranbury, Lyon, Paris, Sao Paulo, Shanghai, Singapore	
Leader in the Aerospace & Defense industry	• Bucharest, Romania (*Europe*) • Philippines (*Rest of the world*)	
Leader in the home appliances	• Dublin (*Europe & Americas*)	• Gurgaon, India
Leader in the computer technology industry	• Morocco	• Manila, Philippines • Mumbai, India

Source: Capgemini Consulting Research

Where are Shared Services located?

- Global Shared Services are mainly in India, The Philippines or South East Asia where they can benefit from large qualified resources pool, good English skills, and low labor costs.
- In Europe, countries like Poland, Romania and Portugal are highly attractive for language capabilities and competitive labor costs.
- In the Americas, Mexico, Argentina, Colombia and Guatemala are leading locations. They are dedicated to Spanish-speaking countries and the US.
- Some countries keep their Shared Services onshore due to market complexity (e.g. Brazil, Russia, China) or historical reasons (US).

EXHIBIT 6 | Location of Shared Services : a snapshot



Source: Capgemini Consulting Research

Trend #3: Breaking the silos of functions to offer integrated services

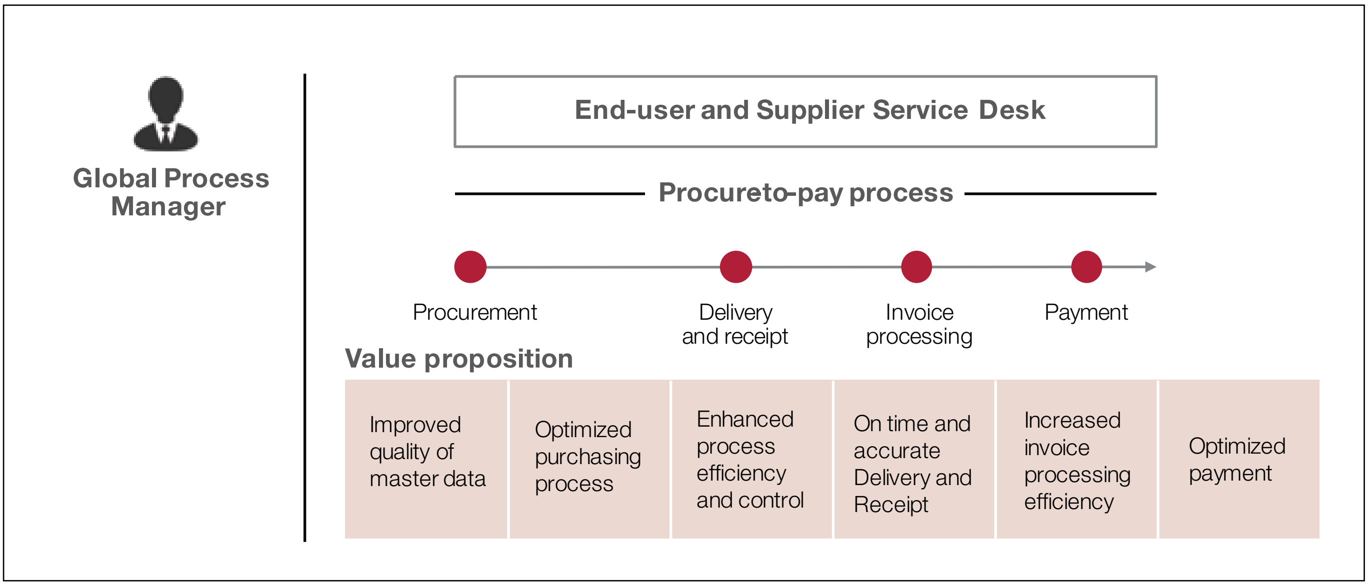
Time has now come to break the functions silos as business operations ask for more integrated services. It requires stronger coordination between functions, standardization and streamlining of end-to-end processes that span across functions and geographies.

Companies that have implemented this organizational model for back-office services have seen tremendous benefits including optimized performance, improved cost control and reduced complexity.

As this model becomes more and more mature, Shared Services ultimately become a transformation platform responding to scalability constraints, whether it is for rapid on-boarding of acquisitions or easy disposal of divestitures.

Impacts of such a model on the organization include setting ownership at the process level, rather than at the function level. A new role is established, the 'Global Process Manager'. For example, the Global Process Manager of the P2P (Procure to Pay, spanning across the Procurement, and Finance functions) process is ultimately accountable for the delivery of a standardized global end-to-end process with clear cost and service quality targets.

EXHIBIT 7 | Procure to Pay and the Global Process Manager role



Source: Capgemini Consulting Research

Trend #4: Offering Analytics services to support decision making

We increasingly see new value-added offerings which sets a turning point in the evolution of Shared Services Organizations. Tremendous opportunities have indeed been created by the emergence of big data and analytics to provide business intelligence and support decision making. With the huge volume of data that flows daily through the organization, Shared Services are able to mine, sort and analyze information to increase the enterprise performance through high-value business insights.

As Exhibit 8 shows, these new opportunities cover all major functions of the organization (Finance, Supply Chain, Marketing, HR).

EXHIBIT 8 | New offerings : Analytics example

CFO Analytics	SCM Analytics	Customer Analytics	Marketing Analytics	HR Analytics
▪ Revenue assurance ▪ Contract Compliance ▪ Spend Analysis ▪ Duplicate Payments ▪ Expense Analysis ▪ Gross Margin Analysis ▪ Working Capital Analysis (DSO & DPO) ▪ Cash Analysis ▪ Forecasting Models ▪ Financial Statement Analysis ▪ Financial Planning & Analysis ▪ Product Costing ▪ Control Analytics	▪ Demand Forecasting ▪ SKU Rationalization ▪ Inventory Optimization ▪ Spend Analysis ▪ Sourcing Optimization ▪ Commodity Analysis ▪ Supplier Risk Management ▪ Production Planning ▪ Asset Utilization ▪ Network Optimization ▪ Distribution Analysis ▪ Warehouse Analysis	▪ Customer Segmentation ▪ Cross Sell / Up Sell ▪ Affinity Analytics ▪ Customer Lifetime Value ▪ Customer Churn ▪ Propensity/ Response Models ▪ Customer Satisfaction ▪ Social Media Analytics	▪ Promotion Analytics ▪ Pricing Analytics ▪ Product Analytics ▪ Sales Force Effectiveness ▪ Channel Effectiveness	▪ Workforce Analysis ▪ Compensation Analysis ▪ Attrition Analysis ▪ Employee Satisfaction Analysis

Source: Capgemini Consulting Research

Some companies have already engaged in the development of an Analytics Services offer of their Shared Services organizations. As an example, a global leader in the Oil and Gas industry has set up a global analytics center to professionalize the delivery of standard reports and grow critical mass to build expertise, as shown in the illustration of Exhibit 9.

More broadly, while Finance, Human Resources, IS/IT and Procurement & Sourcing continue to represent the most shared functions across global organizations, a diversification of the functional scope is ongoing with new customer facing functions being added, such as Customer Services or Real Estate. The image of shared services centers industrializing invoice processing starts to fade out with the emergence of professional teams engaged in more core business operations. For example, a large global company operating in the energy sector, has centralized its global real estate expertise to design and set up operational sites worldwide with the highest quality standards, while improving both costs and delivery time.

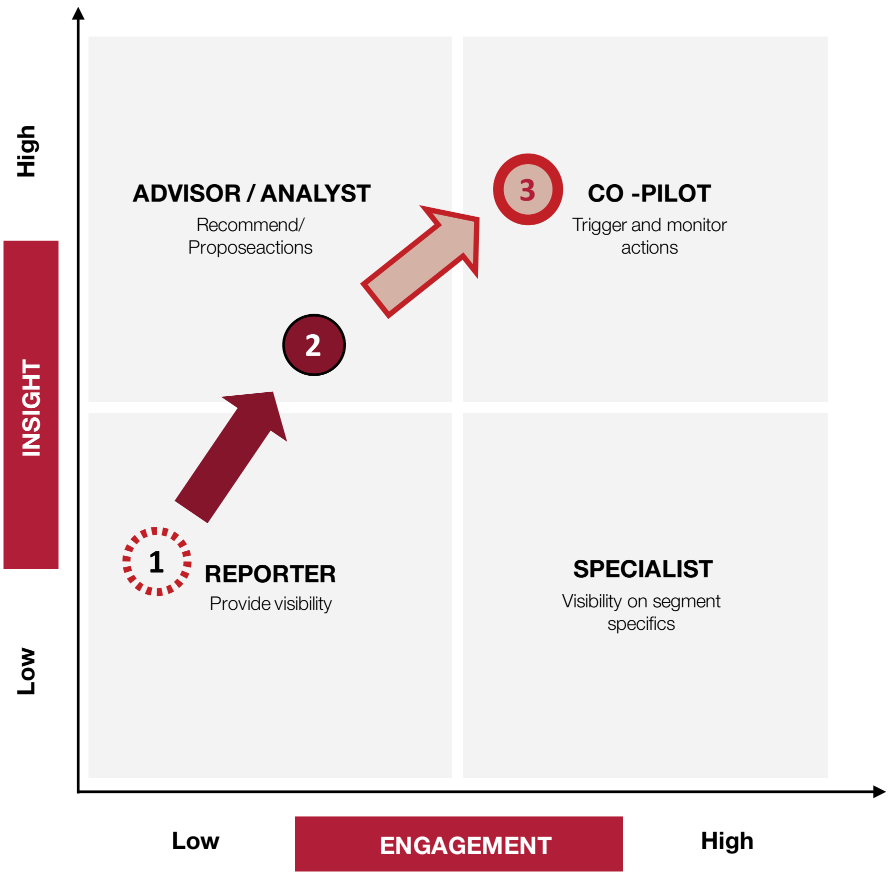
EXHIBIT 9 | Leveraging analytics to create business value: a client case illustration

The client context
A global leader in the Oil and Gas industry wants to leverage big data opportunities to enhance the value of information produced while improving the efficiency of the production process.

The starting situation
Multiple labor-intensive reports, not directly meeting business needs.

The solution

1. **Reinforcing reporting**: standardization, automation, drill down, visualization, control dashboards.
2. **Developing tools to support decision making**: scenario generation, margin variance analysis, bench-marking vs KPOs
3. Moving towards **predictive analysis** (next expected evolution)



Source: Capgemini Consulting Research

03 Next Generation Shared Services

Traditionally, clients have put the focus of Shared Services on cost savings - through labor cost arbitrage - and process efficiency. With the Shared Services concept now being well established in most large global companies, and related cost savings delivered, the journey towards Next Generation Shared Services has started in the more mature companies.

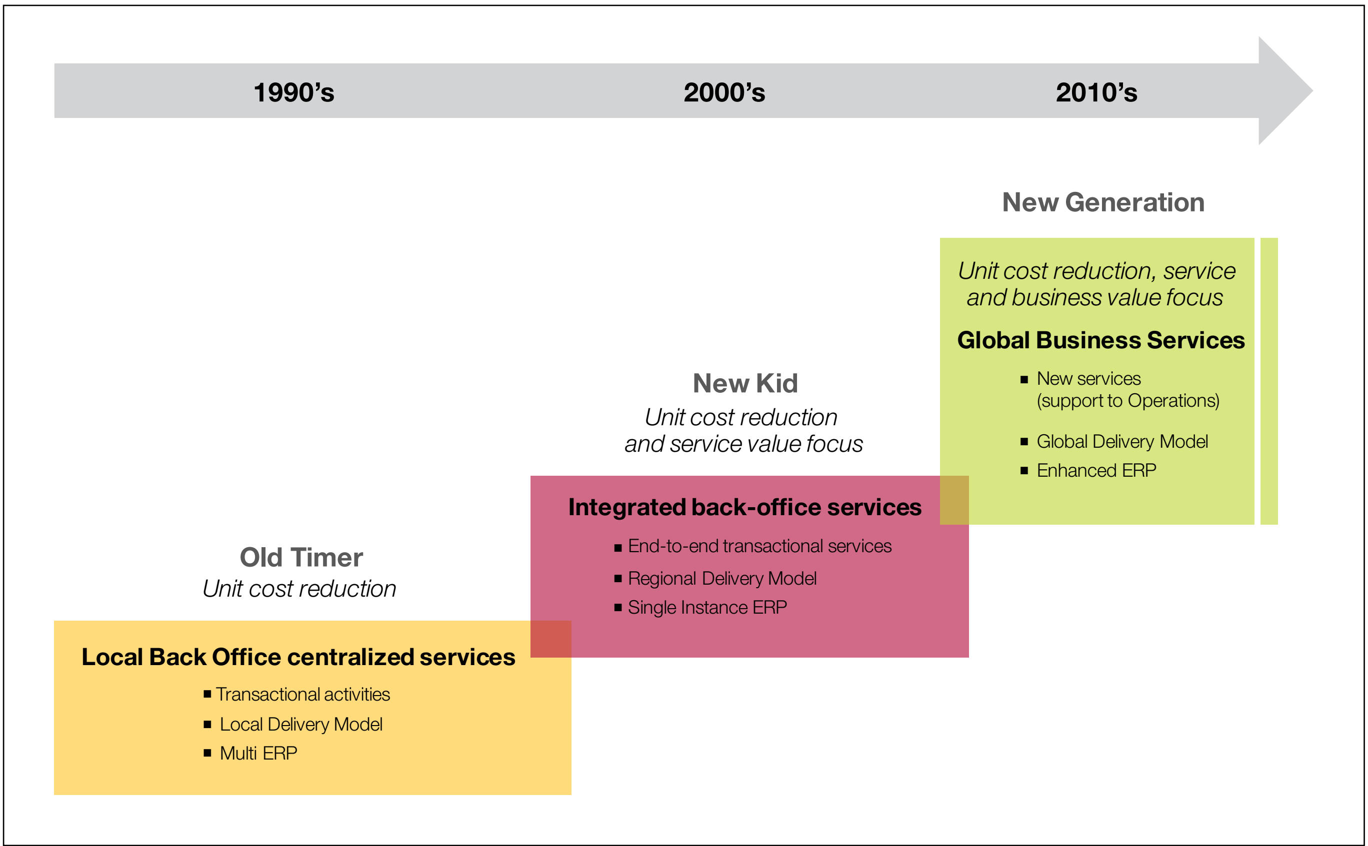
From Shared Services to 'Global Business Services'

Based on current trends, Next Generation Shared Services aim at setting up a global service delivery model while creating more business value through new business oriented offerings and improving performance beyond cost cutting. For that matter, and to reflect these directions, 'Shared Services' are now increasingly called 'Global Business Services'.

The successful implementation of Global Business Services involves important shifts in terms of talent management. With new high-value services being offered, new skill sets and expertise need to be developed through training and selected recruitment. Also, it requires tight coordination and integration that can only be managed through the development of a strong performance-based mindset. Performance and service quality need to be embedded in the core identity of Global Business Services. This is a prerequisite for delivering sustainable results. Performance must be regularly assessed, focusing on overall costs, process efficiency, service level and customer satisfaction.

> Shared Services have become the industry standard. They are now expected to play an increasingly strategic role in the company's performance, not only impacting the bottom line through more efficiency but also the top line with more value-added services supporting the business. This new model of Global Business is becoming the industry standard of the future.

EXHIBIT 10 | Shared Services maturity journey



Source: Capgemini Consulting Research

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