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Life Sciences | the way we see it

Shared Service Centres in Pharma

Pharma companies can learn from other industries' successes and failures.

For some years pharmaceutical companies have been outsourcing key components of their businesses like elements of R&D to Clinical Research Organisations, manufacture of products to third party manufacturers and latterly sales of drugs through Contract Sales Organisations (CSOs). So it is rather surprising that the industry has lagged behind the curve in the area of shared service organisations and outsourcing of back office processes.

In the past there was a lack of a "burning platform" in a pharma industry that was single-mindedly focused on speed to market for new drugs. However, the last three years have seen an increasing need for cost reduction and optimisation, which is strengthening the case for shared service centres (SSCs)[1].

This article looks at the state of play in SSC development, and at lessons pharma can learn from experience in other industries.

Progress in other sectors

The SSC - a concept first established in the 1980s by the U.S. automotive industry - is now a well established and mature delivery model, with success stories from a range of sectors.

Finance led the way, with a move from separate finance departments for business units and/or geographies into consolidated shared service centres. The work transferred to SSCs mostly consisted of high-volume, low-value, rules-based transaction processing activities such as accounts payable. The retained organisation continued to carry out elements of these processes, such as approving purchasing requests, and receipting goods in to the organisation. The SSC focused on non-core activities such as processing and paying invoices.

Alongside finance, many other areas such as HR, procurement, internal audit, marketing, communications and real estate management are now considered candidates for SSC treatment. In addition, industries that were the early adopters of SSCs such as retail (Whirlpool, Proctor & Gamble) and oil and gas (Shell, BP) are now looking at moving further up the value chain of SSC delivery. They are evolving models and initiatives that include:

- Selecting lower cost offshore locations for SSCs, such as China, India, Malaysia, the Philippines
- Outsourcing back office processes to a third-party specialist
- Combining sourcing models: for example, delivering some back office activities through the in-house SSC and others through outsourcing
- Building capability to the point where they can deliver services to customers outside the organisation, so that the SSC becomes a revenue generator
- Considering new candidates for sharing (including some tax and treasury services)
- Creating shared business service centres: multi-functional one-stop shops for all support services, instead of separate SSCs for each function. Proctor & Gamble delivers HR, Finance and IT out of a single "business layer")
- Increasing automation and self service to remove headcount requirements at the centre
- Centralising master data to ensure transparency and consistency: British American Tobacco has moved master data management to a Bucharest-based SSC

As part of the process of developing and assessing the business case for the various options, we recommend visiting existing SSCs (both in-house and outsourced) and talking to the people managing and using them, to get a feel for how they run, and the advantages and disadvantages of different approaches.

Benefits that are being realised, particularly by multi-country or multi-region businesses, include:

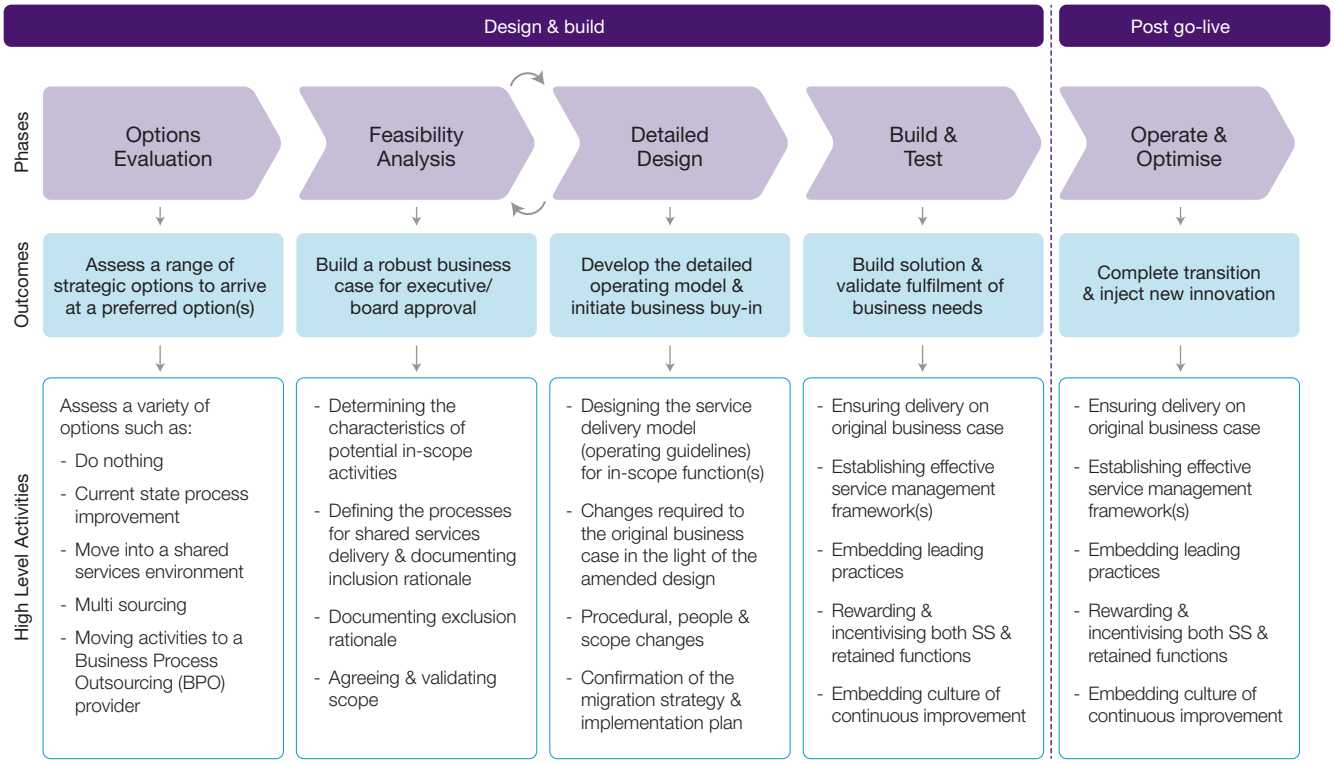
- Reduced costs through economies of scale (including increased span of management control and economies of experience)
- Greater speed both in transaction and overall process cycle times, with consistent processes that are easier to manage and deliver
- Increased service levels in terms of coverage (with 24x7 service where needed) and customer experience
- More consistent service, with Service Level Agreements used as a proxy contract to define all aspects of the service including roles and responsibilities, issue escalation processes and turnaround times
- Better management information in areas like customer and product profitability

Obviously these benefits are highly desirable to pharma companies. How can they set about achieving them?

Decide whether an SSC is right for your business

The starting point should be a review of the available strategic options for service provision, and careful selection of the best one for your business. In our experience this initial stage is missed, or not done thoroughly enough, by most businesses. Failure to assess the business case for the SSC, and the alternatives, properly can lead to problems in aligning stakeholders around the need for change, and answering their challenges to the proposed solution.

The options initially considered might include staying as-is, optimising current processes, implementing an in-house SSC, outsourcing the processes, or adopting a mixed sourcing solution. Certain of these options will be chosen for further



consideration and for each of them, a high-level business case should be produced. On the basis of the high-level business cases, between one and three options should be selected, and a detailed business case for them developed as a basis for deciding which way to go.

It should be emphasised that SSCs will not always be a viable option. While the exact numbers and rates of return required will differ for each business, a minimum size (or number of seats) is generally needed to justify the investment and scale of change required by SSC development. The business case should also include an assessment of non-financial criteria such as fit with corporate culture and scalability. Non-financial criteria can be as critical to success as the financial ones, and an SSC may just not be the right solution for your organisation.

If the high-level business case for an SSC does not meet internal requirements then companies can look at other options such as simple process improvement or targeting specific problem areas (perhaps three-way invoice matching or vendor master data). Outsourcing may also be worth considering.

Typical issues in SSC implementation

If, after evaluating all your options, you decide to go ahead with an SSC, there are several issues to address along the way.

Process standardisation. While it is possible to move current processes to lower cost locations without standardising them, the resulting SSC will probably be inefficient and cumbersome to run. For example, it will require different resource levels to provide the same service to different internal customers. If you standardise, on the other hand, you have just one process which can be continuously improved to increase efficiency.

But, especially where you are operating in many countries, local business practices may limit standardisation. That is one of the main reasons Europe presented a much greater challenge for SSC development than America in the 1990s. For example, in Italy invoices must be received and stamped in-country, so they cannot be directly transferred to, say, an Indian back office. In France, companies have to report against a specific chart of accounts.

The trick is to achieve standardisation where feasible, whilst remaining flexible enough to accommodate local exceptions when there are genuine business or legal reasons. This means identifying core process elements that can remain constant across countries and designing efficient hand-offs between countries and the centre so that the exceptions can be processed locally.

The final point about process standardisation is concerned with sequence. Do you standardise the process first and then move it to the SSC, or move all processes in scope to the SSC and then standardise them? It can be done either way, and it's also possible to do both at the same time to

By providing a systematic approach to diagnosing decision parameters, this model allows decision makers to explore the right options for their own particular circumstances

Scope Assessment	Vendor Evaluation	Option Development	Assessment: Non-financial	Assessment: Financial	Recommend
Establish outsource/ SSC scope based on a comprehensive set of criteria	Assess global vendors who would meet the outsourcing scope	Develop outsourcing options to be considered	Evaluate the options against a set of non-financial drivers	Carry out a financial evaluation to build the business case	Summarise financial & non-financial analysis to build recommendations
- Identify processes suitable for centralisation or outsourcing - Ensure clear definition of boundaries & impact on other business processes - Understand how these processes link to other business processes - Identify "conventional" (i.e. standard) activities - Identify "specialised" (i.e. client-specific) activites	- Numerous global vendors to consider for outsourcing - Only a few offer cross functional expertise across finance, HR & IT - Evaluation based on a number of parameters including: size & growth in revenue, employees, centres & countries served; depth & breadth of competencies & management capabilities	Typical options to consider at this stage are: - Ownership: in-house or outsource - Location: onshore, nearshore or offshore - Contract management: light management or tight management - Operating model: setting out governance, self service, retained organisation structure etc.	Typical criteria: - Scope & scalability - Vendor availability & experience - Staff competency & domain expertise - Value for money - Technology - Change impact - Delivery of service - Governance - Maturity of market - Language skills - Locations available	- Typically 5-year financial evaluation conducted - Operating vs. outsource headcount assessed - Typical assumptions assessed: time to implement, procurement costs, implementation costs, service provision charge etc. - Evaluated using NPV, payback, ROI for each option	- Recommendations made based on review of original requirements & findings from each step - Also based on detailed data collection, interviews with key stakeholders & assessment of the global environment - Includes distillation of research reports from outsourcing analysts & consultation with Capgemini Global BPO team

Case study: Improving charging mechanisms

We worked with Siemens Diagnostics to change an established charging structure from cost plus to one based on usage which was a fairer appropriation of costs. A problem with cost plus is that it gives no incentive for the SSC to become more efficient as any costs incurred are passed on and a mark-up is achieved on them.

increase the speed of benefit delivery. This question should be tackled as part of the detailed business case, and the sequence should be chosen in the light of benefit and risk.

Smaller countries. Another common issue is how to deal with smaller countries for whom the benefits are less clear. The answer is to ensure that the cross-charging mechanism is fair: if it is based on usage then bigger countries with higher volumes should be paying the vast majority. In addition, the smaller countries must be involved in the design of the centre. This prevents them feeling railroaded into a solution that has been designed for larger countries, with a bias towards their processes.

Change management. This is the common thread running through all successful implementations. Without it, any SSC initiative will fail. The core of change management is about answering not only the questions that the organisation asks, but those that it doesn't. There are strategic questions, like *Why are we doing this? Did we consider any other options?* or *What is the case for change?* There are also the more personal questions: *What will my role be? How will it be different? Who do I get my finance information from now? How do I access reports on-line? Will I still have a job? Do you expect me to move to the SSC?*

The test of successful change management is whether, on day one, both the SSC and the retained function understand what is required of them. In the case of finance, they both need to understand what they must do to achieve a smooth timetable for month end - otherwise there will be no month end.

Common mistakes in SSC implementation

There are a number of pitfalls in SSC implementation, but most are easy to avoid if you are aware of them.

The first and most common mistake is that the **business case is not done properly and benefits are not tracked.** Before the project starts, performance needs to be base-lined so that you can collect concrete evidence of improvements delivered by the SSC. Otherwise, customers will be heard talking about how wonderful service was in the old days.

Another common mistake is that the **strategic options review is skipped** and the organisation is led down one solution path which is incorrect for its needs: for example, an SSC is built when the organisation's scale does not justify it.

Equally common is an **absence of robust change management**. In particular the organisation may not be good at managing difficult situations such as retaining people to help design and build a solution that may not have a job for them in the future. Transitioning the relevant skills, business acumen and client relationships when processes are moved to the centre is another challenging area. Designing the correct change management "wrapper" for the solution is crucial to realising its benefits.

Typically, **data cleanse activities are started too late or are not effective.** If the SSC delivers services based on incorrect data, not only can there be problems around invoice matching (to take a financial example) but the competency of the SSC is devalued in the eyes of the customers. To prevent this situation, it is crucial to ensure that the data is fit for purpose: business and SSC should both sign

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off the data migration before the centre goes live.

What if you're struggling to see results from an SSC programme?

For those companies that have recently started an SSC programme and are struggling to realise the value, asking the following questions can identify areas for remedial action.

- Is there a business case for the SSC? Has it been agreed and signed off?
- Have you chosen the correct strategy and approach for your business?
- Is there consensus across senior management that your desired option is the agreed way forward? Is this consensus being cascaded to lower levels within the business?
- Is the sourcing strategy correct? Is there a case for going to business process outsourcing (BPO) straight away, perhaps to speed things up?
- Should you standardise processes then move to the SSC, or do both at the same time to reduce change effort ;and investment?
- Is there commonality of policy across internal customers to ensure that processes can be standardised as far as possible?
- Have decisions involved all relevant stakeholder groups? Is the outcome being sponsored by the correct individuals?
- Do you have the capabilities required to deliver the change?

If an SSC is already in place, but is not delivering the desired value, then an optimisation initiative should be launched to:

- Review the scope of service offerings. Have we bitten off more than we can chew? Alternatively, could we extend the scope and deliver more value to the business?
- Review process standardisation. Are processes as efficient as they can be, or are you unnecessarily providing different services to different customers?
- Review SLAs. Are they relevant and challenging? How frequently are they updated?
- Review the charging mechanism. Is it fair and effective?
- Do you need a partner or service provider to help you drive out further efficiencies, or set up in a low-cost location?

Conclusion

The move to efficient and effective sourcing and delivery of back office processes is a natural part of managing pharma businesses. In fact, it is becoming an inevitable part as pressure grows to control costs better.

Other industries that have blazed the trail now provide an invaluable source of information on how to approach SSC and related initiatives. Of the many lessons they can teach our industry, the most valuable is that one size does not fit all: the right solution for your business depends on culture, investment appetite, execution capability, fit with strategy and the overall financial case.

Successful implementations show that time put in upfront on identifying the right solution for the business is time well spent. Choosing the right strategy after thorough investigation gives you clarity of purpose and alignment of the solution with the business, and helps you to avoid some well-worn pitfalls. Doing it right is more important than doing it quickly. But if, on the other hand, you've started and something has gone wrong, there are ways to pull the implementation, or the centre, back on track.

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[1] For further discussion of this idea see "Vision and Reality, 8th edition. Life Sciences: performing in the downturn and beyond", downloadable from Capgemini's website www.capgemini.com

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