

## Atos Consulting reports

### Update on Shared Services Locations 2007

Our experience in 2007 to date indicates that the location decision is becoming even more significant as a result of some interesting trends in Shared Services requirements and capabilities.

The choice of location if well made results in a high performing Shared Services organisation that has a plentiful supply of the right people with the right skills at lower cost, good infrastructure and maybe even the incentives and grants to make it even more attractive financially. The wrong decision creates difficulties in providing basic services and an inability to support the business to the standards required. In the worst case scenario a number of organisations make the same decision in the same year resulting in a job market suffering job-hopping, high levels of staff turnover and rising wage rates, due to overheating of demand.

Our European Shared Services Location Review for 2007 indicates that the location factors i.e. people, economic and environmental all continue to remain important in the location decision. However we have also noticed several new developing trends that are making the location decision a little more interesting, changing the weights assigned to each factor, making the possibilities greater and the pace of change more rapid

Shared Services traditionally have been better known for hosting transaction processing services such as financial accounting, accounts payable and accounts receivable. However increasingly this model is changing for two key reasons:

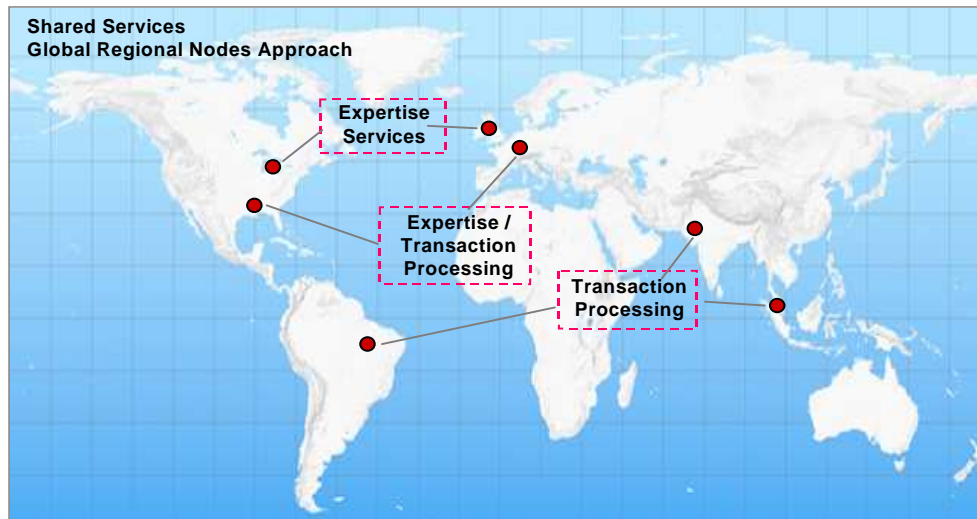
1. **Extension of Shared Services process scope.** The Shared Services concept is now being extended to include other support and expertise processes such as sales order processing, purchasing and HR. Here there is a greater need for language capability, and understanding of the local market in order to build and maintain the business relationships that are critical to business success. The degree to which language can be removed from the process is also determined by the state of maturity of business processes and systems. In these areas the systems may be less mature than Finance, which are more easily standardised and simplified. This means that the scope for the Shared Services organisation has broadened creating new and different requirements affecting the location decision.
2. **Movement of Shared Services up the value chain.** For Shared Services organisations that have started with efficient transaction processing as their remit, as that has been achieved, many are looking at ways of moving up the value chain. For example, the area of management information used to be wholly a local business unit responsibility due to the perceived need to be close to the management of the local operations. However as Shared Services organisations have matured, they have discovered that there is a wealth of data which is readily accessible to them which can be mined to provide highly valuable management information. One example involves a manufacturer who was supplying various retailers who typically each had multiple sites. There was a high level of product returns and shipping note claims however it was observed that different sites for the same retailer had different levels of claims for the same

product delivered. The Shared Services structure enabled the company to be aware of these variations, measure the significance and provide management information that could be used commercially to improve profitability.

We see the impact of the greater scope of Shared Services and its' moving up the value chain significantly affecting the location evaluation in three ways:

- 1. Higher need for customer service and native language skills.** Expertise based services require a different philosophy in the Shared Services organisation's culture and approach. Our experience is that within a pure transaction processing environment, especially if highly automated, the need for language skills can be managed through effective team design, language elimination and language training. However in an environment where customer contact is high, it is really important that the language capability is of the right level and the customer service culture appropriate. The Shared Services organisation also needs to consider the full range of functional skills required. Staff for transactional processing can frequently be trained to deliver the work required so that the need for specific experts tends to be smaller, residing primarily in supervisors and leaders. For expertise services, it is difficult to achieve the level of training internally within the timescales of a Shared Services centre's start up, for example, procurement expertise where managing purchasing categories and sourcing skills is developed over long periods of time. Such skills typically need to be bought in.
- 2. More detailed analysis of process requirements.** Consequently, the company needs to consider far more strategically what its needs are and be more conscious of the different demands of transaction processing and expert services. Because the full functional scope for each company's Shared Services organisation is likely to be different the requirements will differ company by company. For one, the transactional element may be very large, for another, the mix may be balanced, for another, the mix may yet be more complicated due to a broader number of functional areas involved. The location decision is therefore more bespoke and it is no longer enough to look at league tables and go where everybody is going.
- 3. Movement to global and regional nodes.** As a result of companies locating their Shared Services centres in all parts of the world, it has become much clearer how locations vary in their profile in their ability to service different aspects of Shared Services. For example, India has a reputation for a plentiful supply of low cost labour but generally english language skills. The skills and culture suit transaction processing and continuous improvement driven by techniques which are data and analytics rich such as Six Sigma. Certain Western European locations are perceived as high quality but also high cost. However many Western European cities have a high number of immigrants – native language speakers that can provide the language and cultural requirements for expertise services. Eastern Europe is a hybrid with mid-level cost, a mix of process skills, some language capabilities and service orientation although these can vary significantly country by country and even city by city. Due to these factors, we are also seeing that it is difficult to source one location that satisfies all the requirements of the expanded Shared Services organisation. Indeed it would be wrong to do so, not least because technology can enable process activities to be split on an end to end basis between locations. For organisations that have sufficient scale, we are now seeing a Shared Services model which is based on a combination of global and regional nodes. The location decision is no longer about one place, it is a combination of two

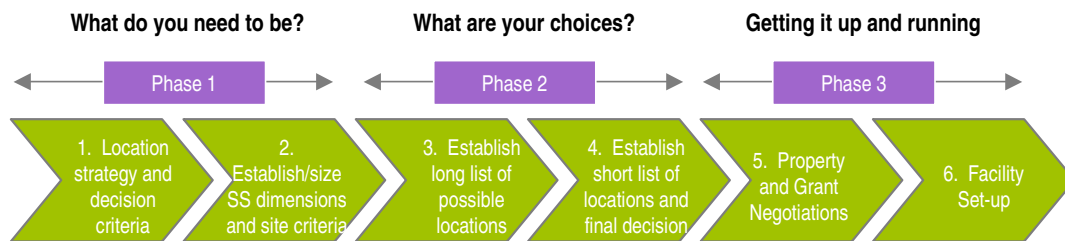
locations or more to exploit the benefits that different locations can provide. For example, some transactional processing may be located in India, some in lower cost Eastern Europe while expertise services are located in a Western European location rich in language fluency such as Amsterdam, Manchester or Vienna.



Given these factors, our advice to those who are considering the location decision is:

1. **Think before you leap.** We have always stressed strategy before tactics but today organisations need to spend even more time upfront understanding and weighting the requirements and critical success factors for their Shared Services location. The standard location factors of people, economic costs and environment are still relevant however there will be more business specific factors such as impact on customers and the precise nature and quantity of the language skills that need to be considered and balanced with cost considerations. This information needs to be at a relatively detailed level to provide the granularity that is required when assessing locations.
2. **Buyer beware.** Use information from league tables and inward investment agencies but be wary of general perceptions that are often given due to the summarised nature of such data. For example, Eastern Europe gives the impression that language skills can be obtained but dig deeper and variations develop. In Bratislava, Slovakia, language skills in English and German are available but if you need Spanish or French, this could be problematic. There is also a very high demand for scarce skills from many new Shared Services entrants to the market. Wage inflation is 5-6% at best which will soon erode the “labour arbitrage”. In the UK, the country has long had a reputation for its population’s inability to speak foreign languages other than the mother tongue. However in areas such as London and other University towns and cities (for example Manchester and several in the East Midlands), there are surprisingly large numbers of native language skills arising from student and migrant communities. Cardiff in Wales has encouraged its Shared Services clients to recruit language skills elsewhere in Europe. These locations also typically possess staff with the required functional expertise for the more sophisticated requirements of “Next Generation” Shared Services. Do your due diligence.

3. **Horses for courses.** Consider the situation and scale of your Shared Services operations. If the organisation is large with suitable technology for global access and there is significant scale (300 staff upwards) for Shared Services, the world is literally your oyster and there are many options to play with. If on the other hand, the scope is much smaller, it may be better to stay within the same region to reduce the management complexities and risks involved. Certainly for the public sector or government, the location decision is normally biased to the home country however different results can still be generated based on which location is selected. For those in between, the decision can be a little more difficult particularly where savings can often be significant if off-shoring is adopted but there is limited access to such facilities. An option here may be to initially set up a captive Shared Services organisation and then to look for a BPO partner for the transactional elements once the benefits of centralisation, standardisation and an understanding of process requirements have been gained.
  
4. **Stick to your guns.** Adopt a structured approach in arriving at the location decision. It is a frequently heard tale that location decisions are arrived by where the CXO lives, or has a favourite hotel or restaurant. Certainly in our experience, the rational decision can be overturned by one that is based more on management nose. This may well be the right approach as no rational decision making process can accommodate fully the grey areas that management experience and knowledge of the business can fill intuitively. Nonetheless, a structured approach will clarify expectations, flush out the more obvious critical factors and improve the decision making process. At Atos Consulting we adopt



a location methodology which follows the following steps:

Many companies make the mistake of moving straight to step 3 as this is the most obvious way of progressing the decision (and human nature is to get on with it after all). Our experience however is that time spent in steps 1 and 2 in understanding the strategic mission and requirements of the Shared Services organisation is the most critical as it will underpin the location decision and ultimately the future capability and effectiveness of Shared Services.

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