

A CFO's Guidelines for Streamlining Shared Service Center Operations

April 2010

Is Your Indirect Spend Out of Control?
Building Blocks for an SSC Business Case:
A special report for CFOs

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Our previous white paper "How to Best Automate Invoice Processing" (October 2009) demonstrated how purchase to pay automation offers a rock-solid business case for today's Finance departments.

The paper showed how a Financial Shared Service Center (FSSC or simply SSC) using an effective invoice automation solution can increase control over the flurry of incoming invoices throughout a corporation and greatly reduce the slow, costly and error-prone process of handling and paying invoices manually.

You can download the white paper from <http://www.basware.com/resources>

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1 Executive Summary

The global recession taught companies the importance of spend management, and ensured that cost-saving strategies will stay on management's agenda for years to come.

One considerable expense category that is often ignored is the indirect spend, including costs for items like maintenance, repair, operations, travel and marketing. Giving a Shared Service Center (SSC) control over the indirect spend can deliver significant long-term savings, in a more sustainable way than relying on short-term, reactive cost cutting.

The full benefit of automated purchase to pay cannot be realized until indirect procurement is also brought under control. This white paper highlights the clear business benefits of an automated solution for capturing the indirect spend within a Shared Service Center (SSC).

2 Three Reasons Why You Must Capture Your Indirect Spend

Procurement departments have traditionally focused on streamlining their direct purchasing, which is dominated by fluctuating prices for raw materials and a carefully selected supplier base. Especially in manufacturing industry, the indirect spend has often been neglected.

In most organizations, the bulk of the indirect spend flows from the costs of maintenance, repair and operations (MRO), travel and other services such as marketing and consulting services.

Analysts see the indirect purchasing an attractive area to target for cost reduction because of its size – which can be between 10% and 40% of the company's revenue. For service organizations the indirect purchasing generates actually the majority of the company's purchasing costs.

The off-contract (a.k.a. maverick) spend is typical for the indirect purchasing where it is easier to bypass the procurement department's contracts and buyers.

Even though the leading independent research analysts claim that the share of the off-contract spend represents in fact more than a third of the company's total spend, the different set of processes for indirect purchasing and a large number of suppliers make it difficult for Finance to step in and gain control over the indirect spend.

However, the recession clearly showed that control over direct purchasing does not provide the entire potential for savings. In fact, a successful project to control the indirect spend will have a quick payback and an immediate positive impact on the bottom line.

Organizations can no longer afford the traditional loose buying processes that prevail in many departments. The high number of informal transactions by email, phone, fax and credit card open the door to uncontrolled buying. Today's organizations need much better visibility into the flow of purchase orders and invoices, the supplier base and any negotiated discounts. Most can also benefit from streamlining slow, paper-bound processes in Procurement and A/P as well as from optimizing the supplier base.

Here are three key reasons why most organizations need to gain better control of indirect purchasing.

1. Ensure 100% adoption of corporate spend strategies and eliminate any maverick buying.

2. Plan and budget based on more accurate spend information.

3. Gain bottom-line benefits; reducing purchasing spend by 3% can generate profits 10 times that size.

3 Making a Business Case for a Shared Service Center to Control the Indirect Spend

With such significant benefits to be gained, why are so many companies reluctant to drive for Procurement process standardization and contract adherence?

Some claim their indirect purchasing processes are so fragmented and decentralized that it is just too difficult to adopt a centralized model with stricter controls.

Some end up including only transactional procurement in their financial shared services model. For instance, they may begin to match invoices against purchase orders in A/P, and not push any deeper into the process.

The reason for these failed attempts is most often the lack of a corporate-wide vision of purchase to pay that brings together Procurement and Finance. The traditional gap between these two functions is driven by possible conflicts of interests, lack of co-operation and different processes, tasks and tools. All this makes it difficult to develop a common vision.

What's more, Procurement and Finance are usually missing a single accessible tool to provide spend management, forecasting and reporting over the entire purchase-to-pay chain.

Clearly there is a need for a high-level corporate sponsor who can support both Procurement and Finance, and promote the interests of the entire organization.

Today's Shared Service Center (SSC) is better positioned than IT to partner with both Finance and Procurement and help the organization reach an end-to-end purchase-to-pay vision. In fact, by implementing shared and integrated tools for these two key functions, an SSC can quickly deliver both strategic and operational benefits.

Eventually it all comes down to justifying any new SSC with a business case that is compelling to all key stakeholders, including top management, Finance and Procurement.

By implementing shared tools for Procurement and Finance, and enabling controlled self-service for routine A/P and Procurement tasks, an SSC can quickly deliver both strategic and operational benefits.

3.1 Strategic benefits too great for a CFO to ignore

The lack of real-time visibility into the purchase-to-pay process means Finance gets only fragmented, unreliable data for the critical tasks of budgeting, cash management and working capital management. Unfortunately, unreliable source data yields fuzzy forecasts.

To make a real strategic contribution, the gathering and analysis of financial data should be a cross-functional exercise. This can more easily be achieved by an SSC, which by definition has broken free from traditional silo thinking.

Having Procurement work closely with an SSC makes for a powerful combination. Even where the SSC is outsourced and Procurement remains in-house, the best-in-class automation solutions can support either centralized or decentralized organizations.

Although there are challenges to overcome, no CFO can afford to overlook the strategic benefits of having an SSC supporting Procurement. Disseminating best practices in purchase to pay across a diverse organization will help guarantee more accurate and uniform financial data and more insightful analysis.

For instance, if similar purchase categories can be applied across all business units and divisions, forecasting and budgeting will be based on tangible facts, instead of guesswork. And with defined processes reaching the entire organization through a single touch point, executing any savings program is much more straightforward.

Consider a simple example, such as disallowing acquisitions of new mobile handsets. This could be easily implemented through an SSC policy that forbids covering any such expenses. Without an SSC, a certain number of these purchases could easily slip through.

In this way, an SSC can become one of top management's most important strategic tools to help ensure the implementation of any cost saving strategy.

*For a CFO, one key benefit of purchase-to-pay
automation run by an SSC is
more complete, more reliable financial data,
yielding more precise analysis
and better forecasting.*

3.2 Creating shared service excellence

Every manager today faces the challenge of employee retention and motivation. This applies to any SSC as well.

The work is volume-oriented and repetitive and rarely requires specific skills. Training new employees is a major cost for an SSC, measured as lost productivity during the training period.

Therefore, SSC managers are constantly looking for new ways to motivate their staff. Allowing people to move from one position to another can keep them interested. A manager may pick the most interested employees and focus on building up their skill set for different key positions within the SSC.

Supporting a casual and fun working atmosphere can be another effective strategy.

By centralizing more than just Finance in the SSC, the opportunities to motivate staff become more diverse. Including Procurement brings a different group of people into the mix. The Procurement team will have different skill sets from Finance people. If HR is added as well, the SSC takes on the feel of a true corporate function, rather than a low-cost, outsourced operation.

The other advantages of this consolidation are cost savings. For instance, a corporate-wide purchase-to-pay operation will save IT costs and relieve any transaction overload from both Procurement and Finance professionals.

An SSC is like any other business. For the majority of organizations, centralization seems to be by far the best business model, which helps deliver more uniform service across the organization. SSC managers need to think creatively, innovate with performance improvements and achieve economies of scale in everything from facilities and IT to HR.

Consolidating Finance, Procurement and even HR

within a Shared Services Center

helps motivate and retain employees,

deliver more uniform service

and save costs.

3.3 Finance, Procurement and the SSC - A triangle of success

What better way to budget than to base all future estimates on the actual spend per category in the past? What better bargaining chips for negotiating with key suppliers than knowing precisely the previous spend with each supplier? And what frees up more cash than having corporate-wide co-operation to take early-payment discounts and eliminate late-payment penalties?

All this can be achieved when an SSC forms the missing strategic link between Finance and Procurement.

At first, both departments may fear that their insights and involvement will be compromised in a centralized scenario. However, our clients have experienced the exact opposite.

In fact, buying channels become tightly controlled and monitored via a single point of entry, which greatly improves compliance. The increased level of process automation ensures more complete visibility and better reporting. Communication is enhanced across all levels of the organization and all players in the Procurement process, including management, purchasing strategists, A/P and suppliers.

Many organizations have different business units that maintain relationships with suppliers; some even have multiple contracts with the same supplier. With Procurement's and Finance's support, an SSC can help consolidate purchasing into a formal process, capture any discounts negotiated with suppliers and eliminate late-payment penalties and the off-contract purchases.

And high-level buyers in the Procurement department will be freed up to focus on more proactive sourcing and strategic supplier development.

Finally, an SSC can leverage technology more effectively than other corporate units. Instead of competing against an SSC to increase process automation, Procurement and Finance should take advantage of the fact that an SSC can often justify and leverage the acquisition of leading-edge technology, such as e-procurement tools. In all these ways, an SSC can be a valuable partner to these other departments, instead of their rival.

"Strategies set by Finance are now being adopted and enforced group-wide. The eventual vision is to make procurement and finance processes both global and integrated, delivering these worldwide via a single solution."

Alpesh Sanghavi, Director of Operations at the Group Shared Service Centre at Crown Worldwide Holdings

4. Conclusions

This white paper has shown the many business benefits of controlling your indirect spend within a Shared Service Center (SSC). Among these benefits are:

- More consistent application of corporate strategies for containing costs
- More complete and uniform financial data yielding better analysis and more precise forecasting
- More effective negotiations with suppliers, knowing the past and current spend with each
- Increased discounts from early payments, fewer penalties from late payments
- More uniform service by consolidating Finance, Procurement and even HR
- Better motivation and retention of Finance and Procurement employees
- Better justification for advanced IT solutions than traditional silos
- Overall cost savings from capturing and controlling the indirect spend.

To find out more about how your organization can build a strong business case for a Shared Service Center to control your indirect spend, collect more building blocks at www.basware.com/resources and learn what our customers have done and achieved.

About Basware

Since the mid-90s, Basware has been building tools specifically for SSCs and assisting clients around the world to evolve towards a completely automated workflow covering the entire purchase-to-pay (P2P) process.

An advanced invoice-processing solution is the cornerstone for today's SSCs with high numbers of transactions.

For Basware customers, P2P extends from sourcing and contract lifecycle management through purchasing and invoice processing to archiving. All Basware products support multi-company, multi-currency and multi-language requirements.

With Basware's help, almost 200 organizations have created successful Financial Shared Service Centers (FSSCs). Among these are both public and private organizations running local, regional, continental and global FSSCs.

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