Financial Best Practices in Shared Services Technology: Part II 2015-2018

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Abstract

Thirty-six months does not seem like a very long time, but in ***'technology-years'****, a lot can change.*

Unfortunately for many, their order-to-cash tools today ***(out of necessity)*** *are still spreadsheets and Pivot-Tables****...something the folks in this finance department were really excited about moving to!***

Three years ago, the Credit Research Foundation and Cforia collaborated on a Webinar discussing how global enterprises were improving order-to-cash (OTC) and taking advantage of new Shared Services Organizations (SSO) and Financial Shared Services Center (FSSC) approaches. We also talked about new OTC disciplines and analytics, new business processes and new technologies. There has been a great deal of progress made in all of these areas. That is the subject of this article and the latest webinar co-sponsored with the Credit Research Foundation on February 28, 2018.

CRF is constantly looking to discover what industry leading companies are doing within finance operations to improve OTC processes, trying to figure out "if" and "how" those Business Best Practices might be applicable for more CRF members.

To that end, if your company is considering moving to a Shared Service model (*or already did and you are looking for ways to improve it*), or if you are looking at the alternatives of Shared Services Outsourcing or Shared Services Insourcing (*yes, Insourcing is a growing trend)*, or you just want to gain knowledge from leading industry practitioners' experiences…there is a great resource available to you.

Visit the CRF website (www.crfonline.org) and click on "*Publications"*. There you will find an exceptional CRF Research Document, which came out at the end of 2017, titled "***Financial Shared Services: Focus on Credit and Accounts Receivable Management, Insights from Leading Practitioners***" authored by:

Michael Bevilacqua, Senior Director Credit and Finance, PepsiCo
Ronald Borcky, Director Global Credit Operations, International Paper
Steven Isberg, Ph.D., Associate Professor of Finance, University of Baltimore, Merrick School of Business and Senior Research Fellow, CRF
Martin Scaminaci, VP Global Business Services, Bemis Company, Inc.
Matthew W. Skudera, Vice President of Research, Credit Research Foundation
Dean Unrue, Global Process Leader OTC, Delphi

In doing some back-up research for this article, I happened to be reading "***The 2017 CFO/Hackett Group Working Capital Scorecard***" and found this performance table…*clearly PepsiCo has some GREAT finance leaders:*

Best in Industry
Worst in Industry

	CCC			DSO			DIO			DPO		
Beverages	2016	1-yr. % change	2015	2016	1-yr. % change	2015	2016	1-yr. % change	2015	2016	1-yr. % change	2015
Molson Coors Brewing	-47	-73%	-27	50	15%	43	83	116%	38	179	65%	109
PepsiCo	-15	-97%	-8	33	4%	32	38	1%	38	87	12%	78
Coca-Cola Bottling	17	25%	14	39	15%	34	29	16%	25	50	13%	45

Within the CRF "***Financial Shared Services" publication***, Bill Balduino, CFR President, provides a Forward that points out the CRF research publication is not a roadmap or how-to guide, but:

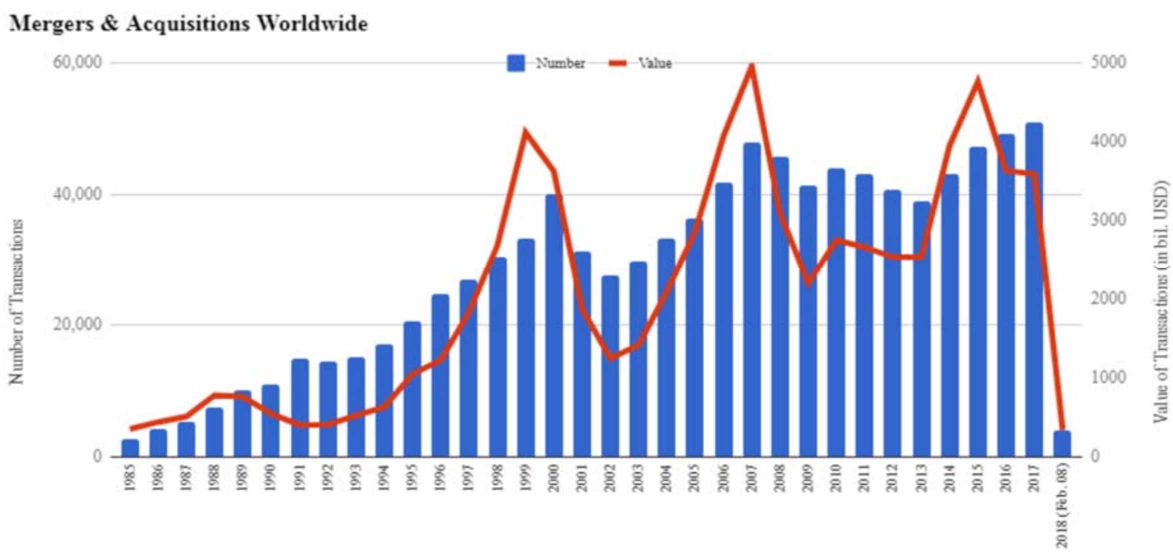
"What is does represent is the highly valued learnings from several senior members of your foundation. It reflects their experiences and thoughts across a number of common and significant business issues associated with a Shared Services environment and/or the establishment of such a structure."

Bill's point is really what CRF is all about. Learning from each other about what works well and what things we might consider avoiding.

In the "Brief trip back in time" intro, the authors hit the nail on the head. In the 80's there was a great deal of "heavily leveraged mergers" and the consensus logic from folks like Accenture, KPMG, BoozAllenHammilton and PwC, at the time, was to reduce traditional centralized finance and accounting staffs, to make them nimbler and get "closer to global customers" so that they could improve direct relationships and increase Client Satisfaction and market-share.

Well, history does have a habit of repeating itself, and mergers and acquisitions (M&A) are once again at an all-time high. 2018 is expected to continue the M&A trend.

Here is a graphic history of global M&A from the Institute of Mergers, Acquisitions and Alliances (IMAA) from Feb. 8, 2018 (imaa-institute.org). Their research shows that: "In 2017, companies announced over 50,600 (*M&A*) transactions with a total value of more than $3.5 trillion."



From the Statista Statistical Portal (www.statista.com): "In 2017, the value of global M&A deals amounted to 4.74 trillion U.S. dollars". Using either measurement – *M&A is here to stay*.

Now…the trick is making all these acquisitions and mergers generate accretive value to investors, employees and the Clients we serve…*oh yeah, and Finance figuring out how and with what technology tools they are going to support this new global entity.*

For Finance teams responsible for maintaining and improving Customer Experiences on the billing and collections side of the house, M&A activity brings up a big laundry list of "How do we…" questions. After all, Finance is a critical element in the success of a new entity, especially if the acquisition was "highly leveraged" and the availability of working capital to fund the acquisition and service the debt is paramount.

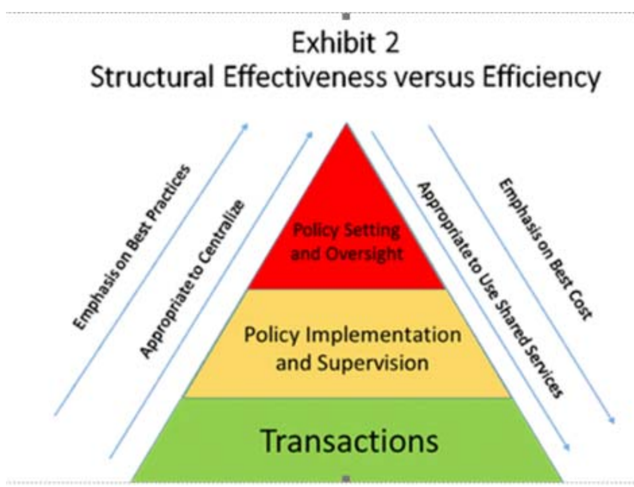
This is where your technology will either help or hinder your efforts. Over the last sixteen years we have seen many companies throw out legacy OTC point-products, even entire ERP systems of record, after spending tens of millions, even billions if you consider all the labor and consulting costs associated with changing ERPs - all with the purpose of trying to produce better financial outcomes using their available information technology. M&As only make information matters harder, as the acquired is 99.999% of the time not going to be on your exact system(s) of record version(s).

Not surprisingly, many of the same "information" questions come up when looking at setting up an effective Financial Shared Services operation for any distributed organization, especially if that SSO or FSSC is being set up as a result of inorganic M&A growth.

I really like a recurring theme in the CRF "*Financial Shared Services" publication,* which is to "Communicate, communicate and communicate" – This is so true, and it is very hard to get it right with a great deal of available technology today, particularly when language, culture, leadership, business environments, operational practices, Customer approaches and supporting information (transaction data) for everything is so very different from company to company and system to system.

The authors created a graph in the "*Shared Service Centers: The Latest Evolutionary Stage*" section that offers up a brilliant set of insights.

"The tricky part from a credit and A/R management perspective is how to structure and manage the relationships required to maximize and control policy effectiveness at the top of the pyramid, while at the same time maximizing efficiency and minimizing cost per transaction at the base of the pyramid. This illustrates the importance of the middle of the pyramid: the process of policy implementation and supervision."



I agree completely. Transactions are operational and *"…the primary goal in credit and A/R management with regard to transactions is to maximize efficiency and minimize cost of processing on a per transaction basis."*

You have heard me discuss Zero-Touch Order to Cash Lifecycle Automation many times, and "Zero-Touch" is a great example and why Customer Self Service Portal technology is so valuable – especially with your 'high-volume, lower-value' transaction Clients.

Q: What is one of the lowest value (highest cost) transactions your A/R collector can engage in with a Client on the phone?

A: "I did not get that $50 invoice; can you email me a copy."

In order to "*maximize and control policy effectiveness*" you need control over transactions, and in particular FTEEs (*Full Time Employee Events = their daily transactions).* This takes data, and often that data is in multiple places and takes an 'Act of Congress' to extract that Customer Master Data from the system of record fortress.

Here are common tactical OTC questions, which for some inexplicable reason continue to give most ERP and billing systems of record a very hard time. These need to be addressed if you hope to deliver more effective and continually improving working capital outcomes. This is especially true if you are looking to get the most out of an SSO or FSSC:

1. Do our *multiple operating companies* sell to common Customers globally?
2. Can we generate a near real-time aged trial balance, across a common Customer, including parent/child hierarchy, balanced for variable terms and currency, from these systems?
3. How will we manage variable terms, multiple bill-tos and multiple languages, with different treatments and segmentations, from each of these back-end systems?
4. Do we have access to the shared Customer's transaction history, credit exposure or payment behavior across these systems? What about critical notes from secondary systems like Service or Sales?
5. Will we be sending out payment reminders and dunning notices with multiple logos, in multiple formats, languages and currencies?
6. When and where is the Finance data generated and stored today in these systems? Do we have instant access to them from a single productivity platform?
7. How many Collectors are calling this customer today?
8. Who is going to make the Tier 1 Collections first calls to common Customers? Can they cover the workload? Do we know what their workload across parent/child is or might be?
9. Who do I call? How many contacts can I keep and where do I keep them? How do I share those Contacts with others in finance locally, regionally and globally? Where are the Notes and how do we share them?
10. How will we delegate/assign/prioritize Collections follow-up across SSO, FSSC teams?
11. When the Customer disputes or deducts, who is responsible for adjudication for those Tier 2 Dispute Resolutions? How do we get resolution help from Sales or Customer Support?
12. How will the finance team know what is "Clean" and past due A/R, versus what is "Dirty"? (*e.g. Credit Memos, Returns, Promises to Pay, Disputes, Deductions, Payments in Process, Payment Workouts,…etc.)*

Many of these are pain points…even if you are not looking at adding the complexity of an SSO, FSSC or M&A integration.

One of the biggest challenges for Finance is obtaining answers to these and many other information (technology) related questions intended to broaden inter-department dialogue - things which need to be discussed. If your current technology does not give you the ability to address these questions, it might be time to review what leading technology providers can offer in today's market.

Information Technology (IT) departments within most companies have struggled to help resolve these challenges, in part because monolithic enterprise requirements planning (ERP) software (e.g. SAP, Oracle, Microsoft, PeopleSoft JDE,…etc.) have a very hard time providing Finance with a "Clean", up-to-date, complete picture of the underlying and constantly changing data. As such, these remain recurring issues. We all know that this list is just the tip of the information (data) iceberg, especially when related to M&A and Financial Shared Services questions.

So, what changed after the 80s? During the following decade and reflected by the CRF *"Financial Shared Services"* authors, one of the ways companies tried to deal with streamlining F&A processes within complex organizations was the movement toward Business Process Reengineering (BPR).

Once again, the CRF authors are right on the money, *literally*, by pointing out that "Best Cost" does not always result in "Best Practice" and that "Structural Effectiveness" does not necessarily mean you are going to achieve "Efficiency" within a Shared Service Organization, especially if you are outsourcing.

The BPR movement and the subsequent Business Process Management (BPM) technology tools, which evolved to support it, were intended to push companies toward scalable, replicable and more predictable outcomes.

In addition to technology tools, companies were leveraging concepts like 'Lean' and 'Six Sigma' for Finance and Accounting (F&A) and trying to get their information systems to help support it. The challenge many times came down to "*can our current systems support this*". The answer too often was, "*No, but we can help you write a Macro in a Pivot Table or we can create an Access database*." It is true - these are way better than brute-force and spreadsheets, but they can't touch intuitive, powerful and flexible workflow attached to complete and accurate data, ideally manageable by the Finance Department versus vendors of IT.

Consolidating F&A operations into SSOs and FSSCs really became the genesis of Business Process Outsourcing or BPO. One of the most striking BPO examples was the 1997 decision by the CEO of General Electric, John Francis "Jack" Welch Jr. His idea was to reduce GE's F&A costs by off-shoring (outsourcing) some of GE Capital's back-office administrative services operations. Initially the concept was to focus on the highly repetitive mortgage and insurance forms processing work. He started with a team of 20 people for the job, based out of Gurgaon, India.

The CRF *"Financial Shared Services"* authors once again were spot on with their description of what kind of activity might be suited to Outsourcing:

> "*Outsourced and offshore could be very good at handling repetitive transactions and dealing with specific, scripted solutions to certain customer problems*".

That is precisely what Jack Welsh did. He was CEO of GE from 1981 to 2001. When he retired in 2001, he received a severance payment worth $417M, the largest CEO retirement package to that point. Today he has a personal net worth of over $720M. During his tenure, GE's value rose 4,000%. On 02/21/2018 NYSE:GE had a Market Cap of $127.83B.

And what happened to his BPO 'experiment'? As of December 31, 2017, that 20-employee 1997 Jack Welsh 'brain-child' generated over $2.7B in top-line revenue and had 75,000+ employees: *Genpact Limited (NYSE:G).*

I absolutely agree, BPO is not suitable for a lot of situations, but it worked out pretty well for the guy who turned it into a billable service offering for other companies, also seeking to reduce operational costs, while outsourcing his back-office F&A to…himself. GE still does $500M+ per year with Genpact.

As you would expect, where there is big money there is big movement, and India's nearly $200B BPO industry is under rapidly increasing pressure from not only China and Eastern Europe, but a host of smaller countries like the Philippines, Indonesia, Vietnam, Sri Lanka and many others who want to get in on the action.

One of our clients recently opened a 300+ person Financial Shared Service operation in Costa Rica. They join a host of well known companies doing the same thing. Why Costa Rica? Their GDP, hovering around $60B, has had an average annual growth rate of 4.49% since 1992: stable and growing; near-shore and in the US Central Time-Zone; highly educated population; the only country in LATAM to actually reverse deforestation; and one of the biggest Eco-Tourism destinations. Knowledge-worker based business services is a dynamic segment in all growing economies.

What does an SSO give a company besides lower cost labor? In general, 'Shared Services' can be any operational business model which enables resources in a common operational discipline, to be utilized or leveraged across an entire global organization. SSOs are particularly well suited to back-office operations, like the example of GE Capital's forms processing function.

SSO and FSSC benefits are not isolated to any one industry. The top industries utilizing SSO operations are no surprise: Manufacturing, Technology & Telecom, Financial Services, Consumer Packaged Goods and Life Sciences. Also, it's no surprise that over 70% of the companies utilizing SSOs report increasing productivity gains. We would expect to see this in any operational area where 'specialization' and 'process improvement', specifically Lean and Six Sigma business practices, are employed.

Successful SSO examples are any outcome resulting in overall operational cost savings, improved Customer Satisfaction, more efficient allocation of FTE (full time employee) resources to mission critical activity, higher value focus of in-house FTE resources and continuous improvements in overall service delivery from the SSO to the Business Units and Customers.

Do SSOs, FSSCs and BPOs always succeed? No. "What is the biggest challenge?"

In the August 2017 issue of CIO magazine there is an article titled: "*Why IT projects still fail*". In it CIO sites results from the latest PwC Digital IQ Survey:

> "*PwC's 2017 Global Digital IQ Survey polled 2,216 business and IT leaders from 53 countries and asked them what hinders digital transformation. Some 64% of respondents said lack of collaboration between IT and business is to blame…*"

Wow!

Two-thirds of the business and IT respondents still say "lack of collaboration between IT and business". That is a very big number. The CRF "Financial Shared Services" authors pointed out the need for "communications" – clearly we still have a long way to go.

But, in that same PwC Digital IQ survey they point out that "…technology has become a CEO-level concern (68% say their CEO is a champion for digital (transformation), up from just 33% in 2007.)"

There is hope!

As a *hopefully healthy* exercise, here are some good intra-department discussion questions, whether you are looking at SSO, FSSC or BPO (*especially if your company is using or considering BPO*).

If you find yourself challenged with being able to find readily available answers to these questions…you are absolutely not alone. In fact, most companies are in your shoes and they are trying to solve the same OTC problems today with their information technology and related processes:

1. Can I see, in an instant, my total global exposure across a multi-division Parent/Child hierarchy?
2. Do my systems balance recommended activity with their capacity. Can I see how many touches an overdue $500 invoice versus a $50,000 invoice has had for any client?
3. Does my billing system separate "Clean" from "Dirty" receivables? Meaning any portion of the full invoice amount, which is not due: *Credits, returns, disputes, deductions, payment-workouts, promises, payments in process…etc.*
4. What percentage of the time does my SSC or BPO send invoices back to me or the issuing division for dispute reconciliation?
5. Does my Outsourcer handle Tier 1 as well as Tier 2 Collections? What is their error rate?

6. How long does it take to adjudicate disputes today, internally and with my BPO?
7. How has my identification and recovery rate on unearned discounts changed in the past 12 months?
8. Does it take less or more time to prepare for and complete Audits today?
9. How many spreadsheets have we eliminated in the past 6 months?
10. Where is my team posting Promises to Pay today? Do I have to follow-up on each of them?
11. Does my team have the capacity to do pre-chasing of large/material invoices today?
12. Can we track root-causes of chronic disputes today? What Analytics do we have?
13. What percentages of our current deductions are discretionary versus preventable?
14. Does my Customer Self-Service Portal provide me 'Zero-Touch' OTC capability?

Today's marketplace is highly demanding and being driven by both internal and external pressure on all aspects of the credit discipline. Those credit organizations that are leading the process charge are implementing solution sets that resolve the above points of reference and enable them to navigate the required demands of today's credit professional.

Chris Caparon is the COO of Cforia Software and has over 20 years of enterprise software experience. Chris is a frequent industry speaker for CRF, ICTF and the Hackett Group, on the subjects of improving working capital outcomes in Credit, Collections, Disputes and OTC Workflow Automation. Chris Caparon has led the implementations of over 200 Order-to-Cash (OTC) Improvement Projects globally, integrating real-time data across multiple billing systems to create a single productivity platform for improving the focus and effectivity of regional and global financial shared service operations and personnel.

Chris has double engineering degrees from the University of Michigan in both Electrical Engineering and Computer Engineering