



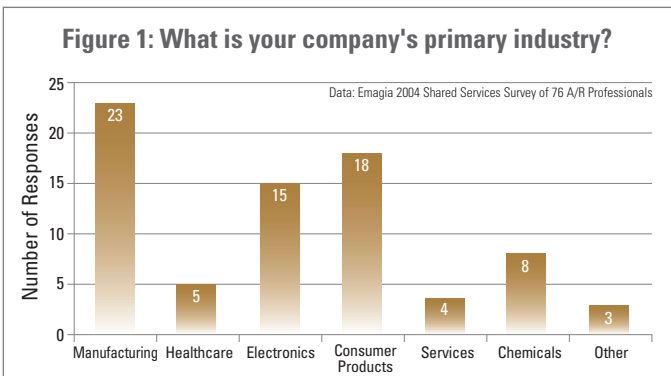
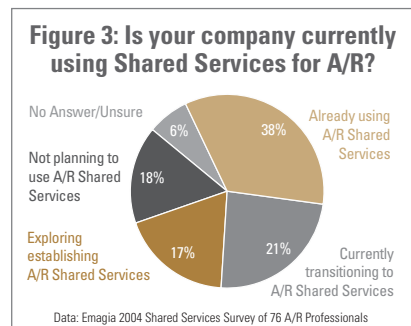
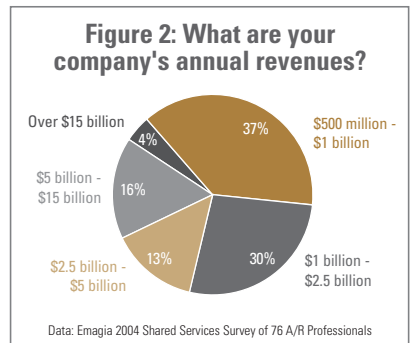
A Whole New World: Shared Services for Receivables Management

A current trend that is highly visible among corporations is to consolidate many finance functions such as Accounts Receivable under smaller and specialized teams known as Shared Services Centers. In the past, many corporations have had different receivables departments which were dedicated to specific business units or geographical regions. Shared Services is a concept which signifies a remarkably different approach to organizing administrative finance functions. The foundation of this approach is that a centralized team will be able to deliver significant operational efficiencies while effectively servicing multiple business units within the company. Typical functions addressed by A/R Shared Services extend from credit and collections to invoicing and cash management activities.

After compiling and analyzing the results of the Emagia 2004 Shared Services Survey, we have derived some insightful findings about how companies have gone about changing the way they conduct business. This survey was conducted by polling 76 A/R professionals working in different industries ranging from manufacturing, healthcare and consumer products to service companies about their companies' plans for establishing Shared Services teams. Figures 1 and 2 give the breakdown of the com-

panies surveyed by industry segment and operating revenues.

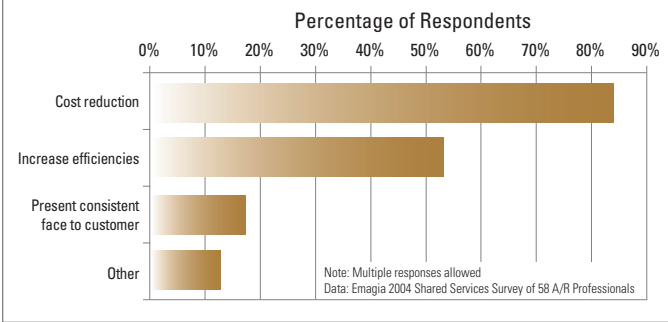
One of the initial questions was directed to determine how pervasive the idea of Shared Services for A/R was across all industries. The findings point to a significant number of companies that were either already utilizing Shared Service Centers (SSCs) for receivables management or were seriously considering establishing them in the near future, as can be seen in Figure 3. Of all of the respondents, roughly 76 percent (58 companies) were either engaged in or were exploring Shared Services initiatives.



The Promise of Shared Services Centers

What the survey results show is that companies have moved towards establishing Shared Services Centers (SSCs) around Accounts Receivable for many reasons. As can be seen in Figure 4, the primary reason is to reduce costs across global operations. The last few years of slow economic growth have made corporations much more focused on reducing expenses and maintaining profitability. As a result, a great deal of consolidation across business functions has taken place, forcing many companies to service more business units with less personnel.

Figure 4: What were your company's reasons for establishing A/R Shared Services?



This centralization of business functions is geared towards removing redundancies in the organizations with respect to managing receivables and cash flow. Similarly, many of the companies surveyed stated that they have established Shared Service centers in low-cost regions around the country as well as across the globe where operating expenses are significantly lower.

The second driving factor for SSCs is that companies are also looking for ways to become more efficient than in the past. With consolidation of business processes, companies can hope to streamline the way they do business. Since many of the companies surveyed had a global presence, a key objective was to bring consistency in Accounts Receivable across all regions and business segments. Some of these companies had grown through acquisitions of competitors and related businesses, and have inherited disconnected processes and back-end financial systems. A key opportunity for these corporations was to bring best practices in receivables management and automation of collections activities to their widespread business units.

Finally, the last factor that drove companies towards SSCs was the need to present a consistent face to their global customers. A constant theme heard from the survey participants was that an increasing portion of revenues was coming from international markets. This revenue growth also presents its own unique challenges with respect to handling unique local terms of trade and customer requirements while still adhering to global corporate objectives. For example, trade practices conducted with an Asian division of a customer may

have been radically different than practices conducted with a North American division of that same customer. Companies surveyed stated a pressing need to have a consistent approach to dealing with these different regional customers, thereby spurring the centralization of A/R functions.

Form, Storm and Norm: Today's Challenges With Shared Services

Based on our analysis of the survey findings, Shared Services initiatives can be classified under the same paradigm as is sometimes applied to group dynamics: Form, Storm and Norm. The Form phase is the initial establishment of a SSC where receivables teams and processes from multiple regions and business units may be coming together. This is usually followed by a dynamic Storm period where processes are not yet perfected and inefficiencies may be temporarily increased. Subsequently, as processes undergo streamlining, the SSC enters the steady state or Norm phase. This is where the SSC is performing at an optimal level and driving corporate-wide efficiency.

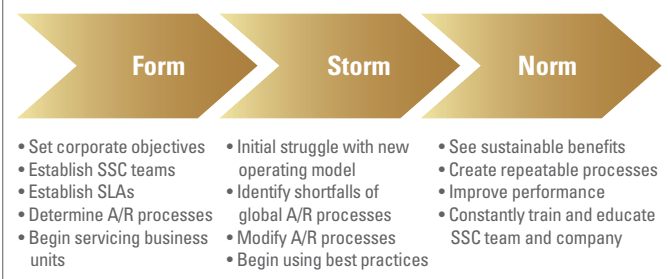
Of the 58 companies surveyed that were either engaged in or exploring Shared Services initiatives, their responses indicated that their Shared Services personnel were highly leveraged with respect to servicing global operations. Based on the initial data about the formation of SSCs, each team member has to shoulder the burden of managing a large revenue and receivables balance along with catering to an extensive number of customers and internal business units. Average responsibilities of Shared Services team member can be seen in Figure 5. As can be seen, the process of transitioning to an operating environment where companies demand superior results from a smaller number of personnel is rife with inherent challenges.

Figure 5. Current levels of responsibility for Shared Services teams

Average number of Business Units serviced by Shared Services	12
Average Revenue per SSC team member	\$125 million
Average Customers per SSC team member	350
Average A/R per SSC team member	\$17 million

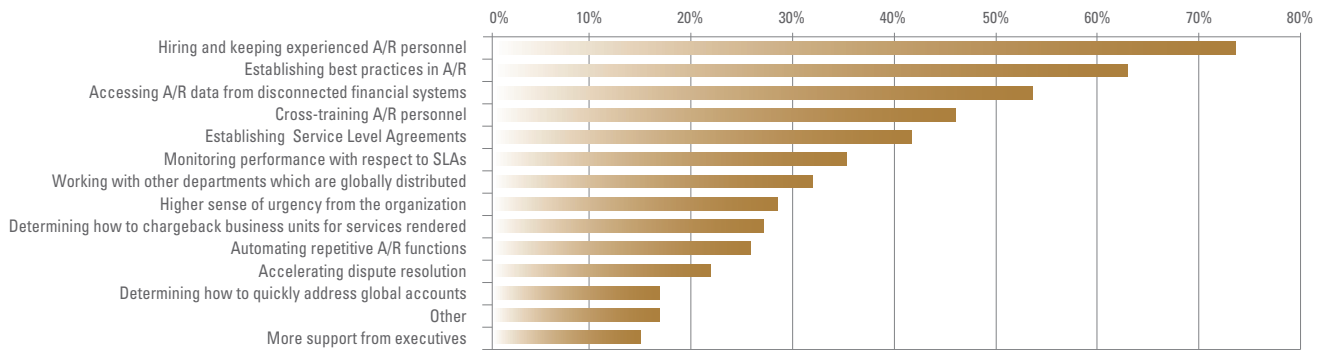
NOTE: These figures are averages calculated from the 58 responses.

The Natural Progression of Shared Services



The companies embarking on Shared Services initiatives cited numerous areas where they expect to invest time and resources in order to effectively run their businesses. We refer to this as the Storm period where opportunities to modify and improve business processes within the SSCs present themselves. As can be seen from Figure 6, some of these are the result of quickly bringing about organizational change in large global corporations. First and foremost, was the difficulty in hiring and keeping experienced A/R professionals who would also operate out of the new SSC locations. Another key issue dealt with the challenge of

Figure 6: What are the key challenges within your company's Shared Services Centers?



Note: Multiple responses allowed
Data: Emagia 2004 Shared Services Survey of 58 A/R Professionals

accessing real-time financial information from different ERP and back-end systems. Due to the myriad of systems from previously acquired companies, the task of managing a consolidated receivables portfolio can be daunting. Shared Services teams found it difficult to gain global visibility into receivables and understand exposure by different customer segments and business lines. One of the problems was with gaining access to timely and accurate data due to the high level of effort required to generate reports from these multiple systems.

Establishing consistency across worldwide operations was also a concern among the respondents. The second most popular objective of SSCs to increase efficiencies with standardization was often not being met in many companies. These challenges ranged from not being able to easily communicate with other globally distributed departments such as sales and customer service, to not having automation of manual collections processes. Typical receivables activities, such as retrieving and faxing invoice copies to customers, were still being handled manually, leading to wasted time and administrative expense. Since the SSCs were often staffed with fewer people, this inefficiency was much more costly to the business units and company in the new operating model.

Finally, another common concern was the need to have benchmarking and best practices around setting Service Level Agreements and charge back guidelines to business units. The first issue with SLAs was due to the fact that the newly formed SSCs did not have any historical information to guide the establishment of acceptable performance goals. Many of the SSCs simply maintained the Key Performance Indicators that they had been using in the old decentralized operating model such as DSO and collections efficiency. While these metrics

still hold true in the new world of SSCs, there was clearly a need to have additional metrics which measured the ability to effectively serve a much larger number of business units.

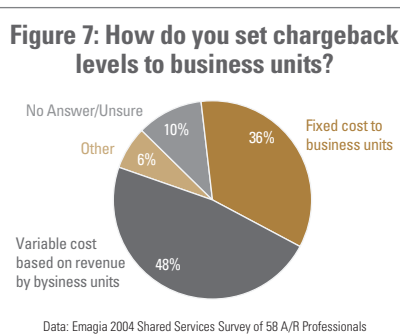
Additionally, companies did not have a clear method of charging the business units for services rendered. Again, this was due to many of the newly formed teams and business units not having experience with centralized receivables functions. The companies surveyed that were involved with SSCs chose to either implement a chargeback system by which business units incurred a fixed cost, or a variable cost which was based on the revenue volume managed by the SSC for that unit. Figure 7 provides the breakdown of chargeback models currently in use by the survey respondents.

How Technology Can Help Shared Services Improve Operations

Increasingly, companies that are struggling with driving efficiencies are leveraging new cash flow management technologies to strengthen their Shared Services Centers. Leading technologies can help companies quickly streamline and automate receivables management and drive down DSO, reduce bad debt and improve operational efficiencies. Oftentimes, these companies implement cash flow management technologies in conjunction with rolling out their Shared Services organization.

Cash flow management solutions offer significant benefits to Accounts Receivable teams including the ability to manage global receivables portfolios, automate collections activities, accelerate dispute resolution and strategically manage customer accounts. In addition, higher level functions such as cash forecasting are easily available to finance executives.

The inclusion of best practices around receivables management in the cash flow technology is also a boon for companies in the process of establishing Shared Services. Flexible rule-based strategies can offer companies the ability to manage different types of customers in ways which are aligned with corporate objectives. For example, collections tasks such as prioritizing customer calls, resolving disputes, managing promises-to-pay and general customer interaction can be standardized across Shared Services teams. Similarly,



directing the Shared Services team toward high-impact collections activities and customers can also be automatically done at critical financial periods such as end of quarter.

Many of the issues cited by survey participants can also be addressed by utilizing cash flow technologies. Measuring SSC performance with respect to agreed upon SLAs and determining chargeback levels to business units can be easily enabled. Once all requisite data is fed into the cash flow management platform, the function of closely monitoring and analyzing receivables processes becomes routine. In this way, accurate chargeback levels to business units can also be derived and processed.

One major company that was able to bolster its Shared Services initiative with cash flow management technology was Solectron Corporation, a \$12 billion global electronics contract manufacturer. Solectron had multiple ERP systems from the various operating concerns it had acquired over the previous years. Gaining global visibility and enhancing cash forecasting was a prime corporate directive aimed at enabling its Shared Services team to manage worldwide cash flow. The utilization of cash flow technology came in handy at a time when Solectron was focused on centralization of receivables functions. "Our cash flow management system presents critical data from the different ERP systems in a consistent layout and structure, giving collectors and managers access to real-time information on receivables, customers, aging, cash forecasts and more—all in one place," said Val Plotkin, Solectron Accounts Receivable Manager.

This initiative brought significant quantifiable benefits to Solectron after deploying the solution along with Shared Services teams spanning across three continents and over 20 different sites. The results were an astounding \$14 million in interest savings and \$1 million in direct expense reduction. "By accelerating the velocity at which cash flows into the organization, Solectron could reduce borrowing expenses, minimize foreign currency exposure and bad debt write-offs and collect interest on the extra cash on hand," stated Perry Hayes, Solectron's Vice President and Treasurer.

The Road Ahead for A/R Shared Services

The results of the survey indicate that the Norm stage of Shared Services is still to come for many corporations. Companies which have undergone the transformation are clearly still in process of attaining the goals that they have set for themselves. In most cases, companies have seen tremendous gains in this direction by utilizing a combination of seasoned and experienced A/R personnel along with the application of best practices and technology.

Like any other corporate initiative, the final ingredient to ensure success is a company-wide focus on instituting lasting and effective change. This philosophy should be ingrained into a Shared Services initiative from the very beginning. Following are some best practices with respect to enabling change in an organization that will help companies quickly transition from the Form and Storm phases to the Norm phase within their Shared Services teams.

1. **Gain the commitment of executive leadership**—Successful Shared Services deployments begin with a firm commitment from the management team. This ensures that the right level of attention and resources are placed on the project.
2. **Create a sense of urgency**—Since receivables is a key component of financial performance, companies initiating Shared Services should be able to build a compelling business case to execute effectively.
3. **Empower the Shared Services team members**—No initiative can be successful without properly training and supporting personnel with regards to processes, tools and best practices.
4. **Divide and conquer**—A successful Shared Services initiative is typically rolled out in phases across the corporation. Pilot programs will enable companies to quickly learn what works well so as to define a repeatable process that can be rolled out to other business units or geographic regions.
5. **Measure the benefits**—As the SSC is established, it is important to measure its performance against Key Performance Indicators and SLAs. In addition, the cash flow benefits should be quantified and measured against initial goals of the initiative. This will in turn help maintain focus on squeezing the highest returns from SSCs.
6. **Focus on continuous improvement**—By constantly monitoring and modifying receivables activities within the SSC, companies can keep abreast of changes in business conditions and internal policies. As the market continues to change, companies that have established best practices in their receivables processes will be able to quickly react and still achieve their stated financial objectives around cost containment and cash flow management.

Veena Gundavelli is Chairperson and CEO of Emagia Corporation, the leading provider of cash flow management software solutions. Lou Mobanty is Director of Marketing at Emagia Corporation. Additional information can be found at www.emagia.com.