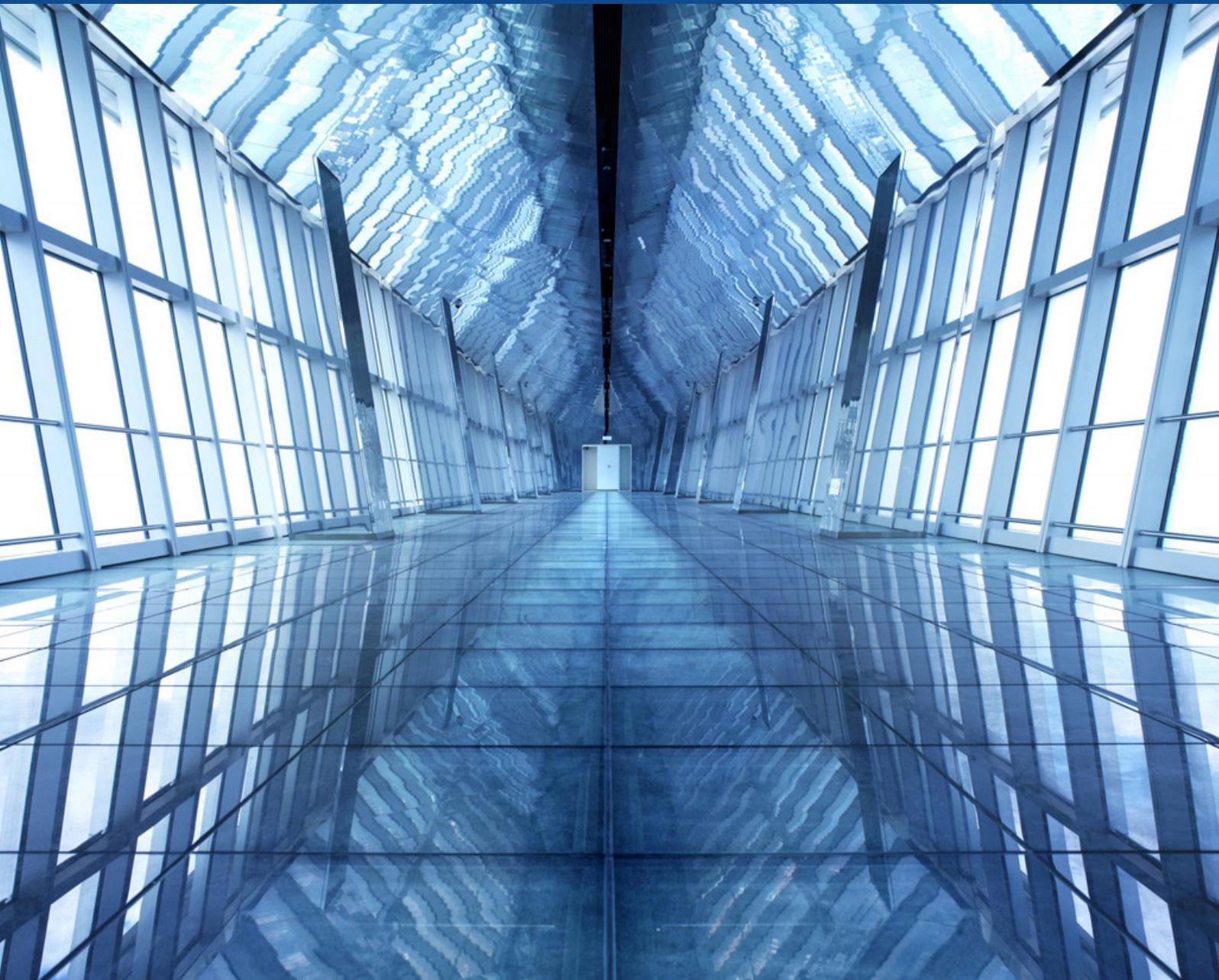




EMBEDDING STANDARDIZATION THROUGH MULTIFUNCTIONAL SHARED SERVICES

Understanding what drives and what limits planned efficiency gains

Case Study: Gerdau (Latin America and Spain)



Introduction

Gerdaud is the largest producer of long steel in America, with steel mills in the United States, Brazil, Argentina, Canada, Chile, Colombia, the Dominican Republic, Guatemala, India, Mexico, Peru, Venezuela and Spain. While traditionally each country housed and managed its own administrative (back office) functions through a decentralized model, management recognized that the benefits derived from implementing Shared Services – namely labor arbitrage and standardization – would propel the company into a more efficient and effective organization. This article highlights the steps taken during the 18-month “end-to-end” implementation phase that rolled out multifunctional Shared Services across the company’s 76 locations in Latin American and Spain (excluding Brazil).

In 2011, Gerdaud’s management made the decision to follow up on the successful implementation of Shared Services for its largest operating market (Brazil) with two additional implementations: one for Canada and the United States; and another for eight countries in Latin America, along with Spain. Each of these three areas was transferred into its own model, independently of each other, reflecting operating regions.



“In 2011, Gerdaud’s management made the decision to follow up on expanding its Shared Services model through the creation of a new Shared Service Center located in Mexico to provide services to 7 countries in Latin America and Spain. Given the broad scope of the project and the relative lack of first-hand Shared Services experience, we decided to engage an outside partner. Chazey Partners was recruited and joined the Latam SSO project team in October 2011 to offer support and guidance through the ensuing 18 months’ implementation. During this period, Chazey’s consultants worked closely with the project management team to develop a business case, present the benefits to country leaders, manage change communications, and guide the transition to fully operating Shared Services. Chazey’s practitioners were able to leverage their extensive experience, based on multiple global implementations, including Latin America. This gave the project team the confidence to successfully push ahead despite significant resistance and gain knowledge and methodology that we are still using to continue expanding the scope of our organization.”

Carlos Cayo
General Manager, Shared Services
Gerdaud Mexico (SSG Mexico)

Latin America & Spain

Corporate management had already settled on Mexico as a location for the new Shared Services Center for Latin America/Spain, but it was felt that, given the broad scope of the project and the relative lack of first hand Shared Services experience, it would be of benefit to engage an outside partner. Chazey Partners was recruited and joined the LatAm SSO project team in October 2011 to offer support and guidance through the ensuing 18 months' implementation. During this period, Chazey's consultants worked closely with the project management team to develop a business case, present the benefits to country leaders, manage change communications, and guide the transition to fully operating Shared Services.

ERP Supports Standardization

The Shared Services rollout was enabled and given a supportive boost through an IT infrastructure initiative called "Gerdau Template", which involved the enterprise-wide implementation of SAP as a platform from which to drive process standardization. Countries were brought onto SAP one by one, and Shared Services was subsequently rolled out across the new platform.

Implementing SAP first helped the company build a strong case for the new Shared Services model. However, the Shared Services rollouts were dependent on the transition to SAP on schedule, and as issues inevitably arose delaying SAP adoption, so the Shared Services also experienced delays. In addition, some technology configuration changes were required to support the Shared Services model.

Shared Services: a New Legal Entity

Gerdau decided to set up a new legal entity to run its Shared Services operations for Latin America & Spain, once business case was approved. Doing so, and transferring employees from the Business Units to the new organization, allowed the company to achieve tax benefits and also meant the SSO acted as a truly independent provider. As an independent entity, the Shared Services Organization had to focus on being service- and cost-competitive, acting like an external provider. This helped build a competitive mindset in terms of how it delivered services and managed costs; it also meant the SSO was accepted as a service provider by business units or operating entities which might not otherwise have collaborated so easily.

To be successful, the SSO needed to create the internal infrastructure to operate as a standalone business: It needed to market and sell its services; determine lifecycle costs; price services competitively; provide exceptional customer service; arrange billing and collecting for services rendered; as well as other basic operating functions.



Business Case: Labor Arbitrage and Efficiency Gains

The Shared Services business case that was developed for Gerdau’s Latin American/Spanish operations was based on expected efficiency gains of around 30%, resulting largely from labor arbitrage and efficiencies gained through standardization. A challenge encountered, however, and one common to many manufacturing firms, was that multiple locations (76 in this case) meant that some of the FTEs included in the initial “as is” headcount were performing jobs that covered multiple responsibilities. It was challenging, therefore, to extract FTEs on a 1:1 basis, and achieve the planned labor arbitrage efficiencies outlined in the business case.

6-Step Project Methodology Guides Implementation

While an implementation across different countries will always pose challenges, the large number of operating locations added an additional layer of stakeholders that needed to be brought on board. As is to be expected with any services transformation, early resistance was encountered from in-country managers and locational managers who were concerned about losing control over some of the functional support services. Chazey was able to bring a tried and tested Project Methodology to the project plan, however, based on six defined stages (Assessment/Visioning; Business Plan; Design; Build; Deploy; and Stabilization), which provided a visible roadmap for the transition (see Figure 1, below). While the Gerdau project team had strong process knowledge but little to no Shared Services experience, Chazey’s practitioners were able to leverage their extensive experience, based on multiple global implementations, including Latin America. This gave the project team the confidence to push ahead despite significant pushback and resistance from the businesses. It also provided the project team with an experienced partner, who could co-present to management and keep moving the project forwards.

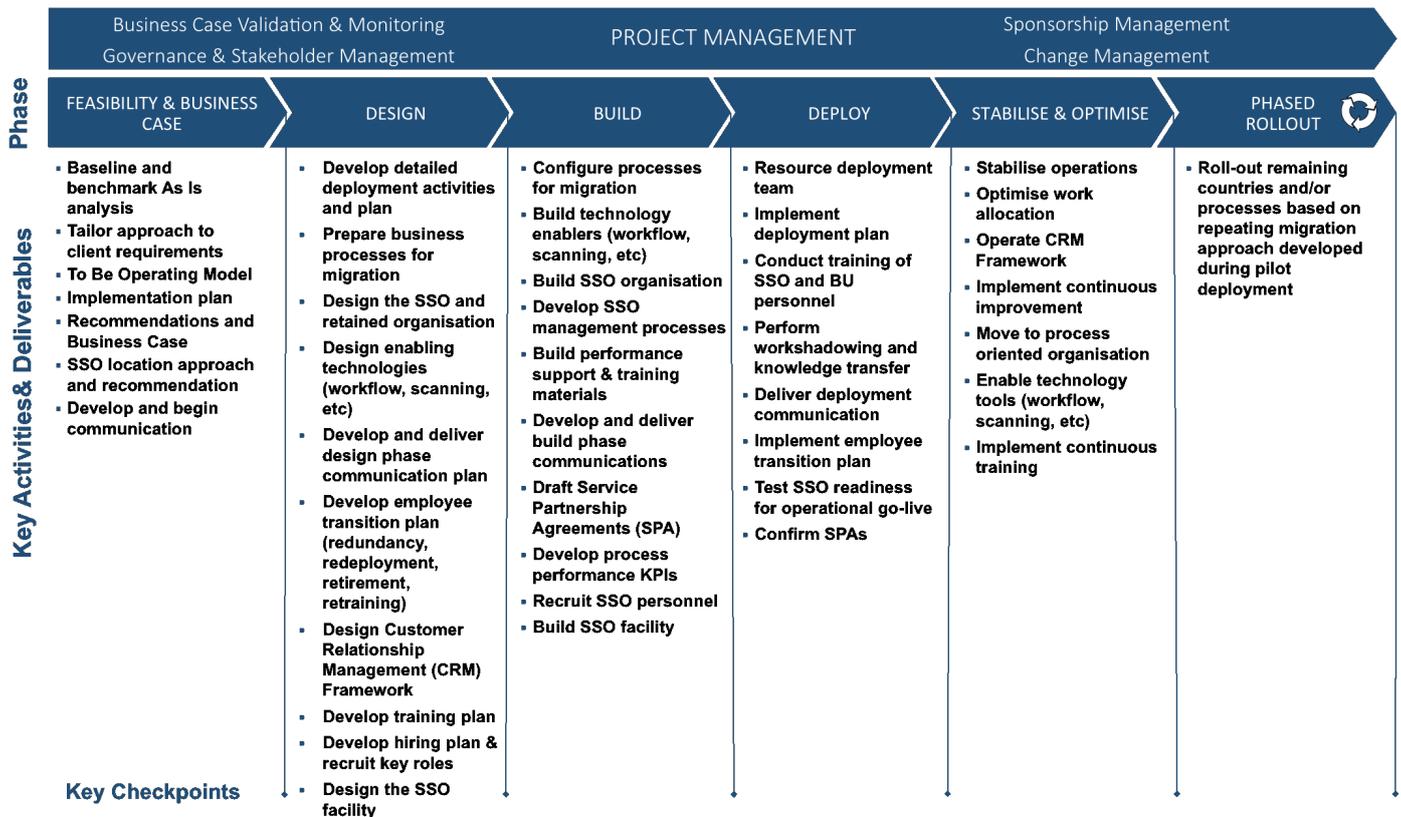


Figure 1: Project Methodology



Challenge: Gaining Buy-in Without a Mandate

A significant challenge involved gaining buy-in from the different in-country functional leaders, as corporate management had elected to go with a consensus approach across all countries impacted instead of mandating Shared Services. The importance of getting the first country to buy into the project wholeheartedly was therefore enormous. While the project group encountered significant resistance from in-country managers who were skeptical of the model, the change management strategies and communication forums that were introduced served to bring all stakeholders on board.

Once the first country piloted the model and the proof of concept was developed, other countries joined in more easily.

One key lesson learned from this stage was that early support from senior management is crucial, particularly where there is no mandate. It was also very important to invest time and effort in getting the first pilot country on board. Change management skills proved a particularly significant differentiator at this early stage, as well as throughout the project transition.

Another core learning was that cost alone is not enough to justify or convince business units to move to a Shared Services model. While the financial benefits were highlighted as a priority, it was not until the additional benefits of “control”, “standardization”, and “quality” were outlined, that all countries acquiesced and joined in.

How to Persuade the Business that “Value Add” is Real

While cost is a persuasive factor, a more influential factor turned out to be the additional benefits that would accrue as a result of the Shared Services, even though these might not be immediately apparent. The value of standardization became apparent to the businesses when they realized this would simplify the multiple, complex payment terms that existed for vendors and suppliers. In addition, there were many different ways of managing the same process across countries, which made it impossible to draw comparisons or leverage synergies. The benefits of transparency and metrics that would be realized as a result of Shared Services implementation also weighed heavily in favor of the SSO model. At the end of the day, along with the labor cost savings and standardization, additional access to reliable analytics and business insights were the most persuasive

Success Breeds Success

While the initial business case was fairly ambitious in its scope, it depended on a holistic adoption by all countries in scope. With SAP delays causing some early bottlenecks and thus delays, the expected savings were not immediately realized.

There was, of course, significant pressure to justify the investment, but it is important to remember that many of the impacts and benefits of Shared Services are long-term, and many will only be capitalized once Shared Services is embedded across the organization, which may take some years. Thus, while the complexity of allocating FTEs to existing processes, and job fragmentation, meant that real savings after a year were closer to 20% than the 30% estimated, additional efficiencies are being achieved as the SSO optimizes its processes, and as countries initially not in-scope are lining up to take part.



Lessons Learned

Some of the lessons learned as a result of this implementation include:

- Senior management support from an early stage will make an enormous difference to implementation
- Don't try to do everything at once; allow time for individual units to adjust to the new process, and tweak it where necessary
- Start with a limited process scope to prove the concept; then broaden out
- Try to focus on one pilot country/client to prove the concept; then leverage results
- Once you've gained business units' confidence as a result of the initial roll out, then you can expand to take up more clients
- If you push too hard at the start, you risk resistance and time delay, potentially derailing the project
- While a concurrent approach (ERP and Shared

Services implementation happening at the same time) represents a lot of benefits, not all organizations can adapt to such changes easily. There are multiple ways to align the ERP and Shared Services strategies – choose the one that better fits your organizational culture

In addition, it is worth highlighting two points specifically:

1. It is hard to get a real headcount of FTEs in a decentralized environment. Take into account, therefore, that labor arbitrage benefits may be slightly lower than planned. Do not aim too high for fear of disappointing, as it is harder to capitalize on Shared Services benefits in fragmented job environment.
2. If the Shared Services is not mandated you need to invest significantly in change management to get stakeholders on board.

Summary

While the upheavals associated with a Shared Services implementation are of course real, it may make sense to take advantage of rolling numerous functions into the model at the same time. However it is important to take into account related technology implementations or updates, which may take on a timeline of their own. Delays in these rollouts inevitably impact the business case expectations of Shared Services. It is important, therefore, to rigidly monitor and manage any technology implementations alongside the SSO rollout, and try to smooth the path for the former to ensure the success of the latter.

To get more information on Chazey's activities in Latin America, please get in touch with estebancarril@chazeypartners.com (Managing Director, Latin America, Chazey Partners)

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