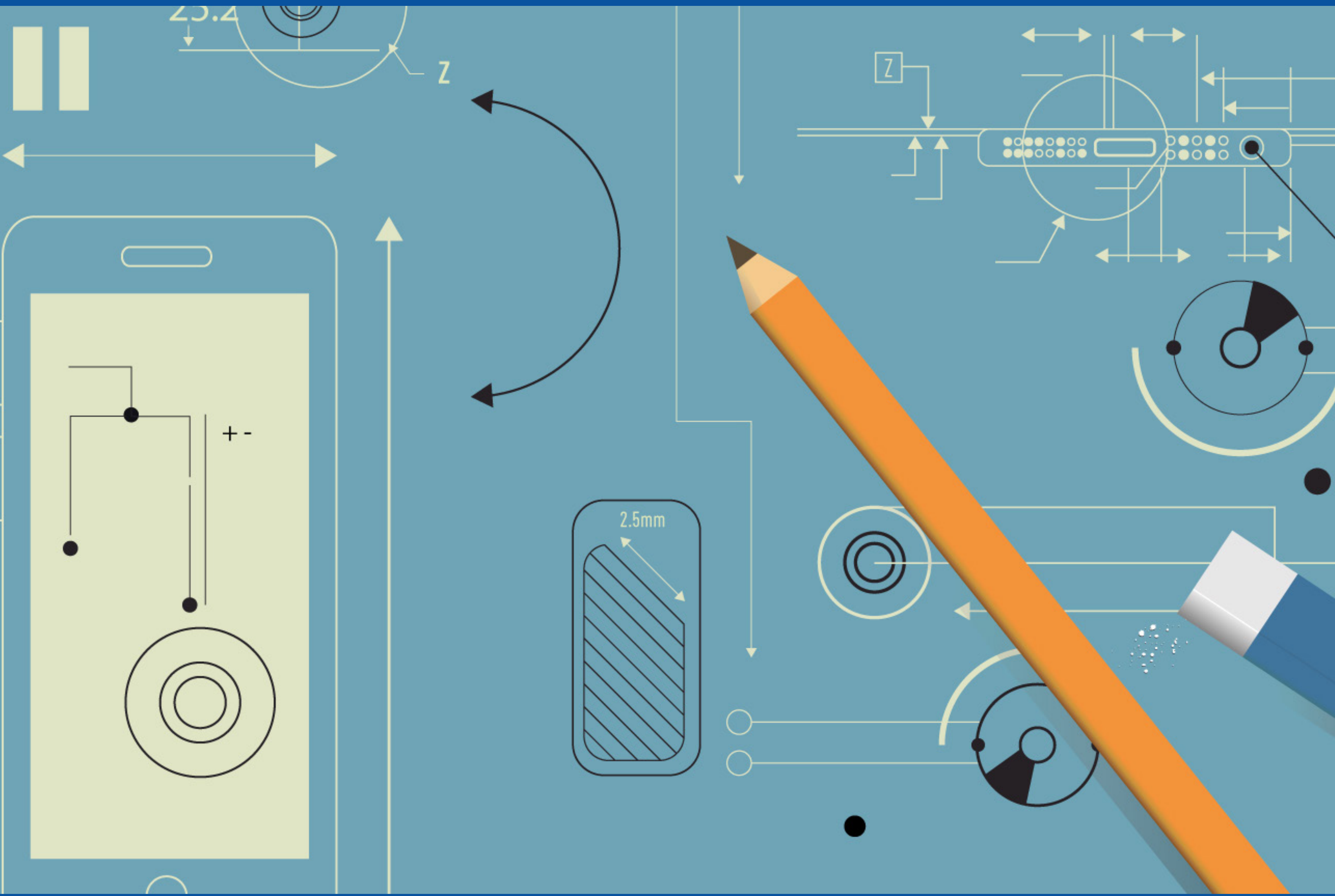
Case Study Series

Chazey Partners

HOW TO RUN A FEASIBILITY STUDY AND PLAN A MIGRATION FOR A NEW SHARED SERVICES CENTRE



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Introduction

If you don't plan properly, your project stands on weak legs. That goes for pretty much anything but especially for Shared Services, where migrating business processes out of business units and into a new centre causes plenty of anxiety for both parties. To minimise the negative impact, you need to start with a strong feasibility study, which clearly states the business case and benefits to all stakeholders; and you need to choose the appropriate migration strategy (and there are always multiple options, so beware) based on your organisation's preferred results. This case study highlights how a well thought out feasibility study, and clear objectives helped this company choose the best migration strategy given its preferred outcome (cost savings)..

Background

This company is a leading global automotive supplier with operations across Europe. It was struggling with **fragmented Finance processes, a high degree of manual intervention, and lack of standardisation** – as well as the expense of maintaining a high percentage of staff in relatively high cost European locations (e.g. Germany). It was believed that a Shared Services model would offer improved data harmonisation and cost levels more aligned with global best practices. To implement the plan, the company engaged Chazey Partners to develop a business case and help launch a European Shared Services Centre.

Chazey was subsequently retained to provide implementation support and guide the end-to-end rollout (see Part 2, next month).

Feasibility Study – Identifying Issues and Opportunities for Shared Services

This automotive company requested a 3-month study to assess the business case for centralising Finance services across Europe into one Shared Services Centre in a location to be decided. Chazey Partners ran the stakeholder interviews, activity analytics, process workshops, and location analysis to present the case for a new Finance SSC (for this project, in scope processes included procure to pay, order to cash, and record to report).

The countries impacted were Germany, France, Italy, Poland, and the Czech Republic.

The initial activity analysis clearly identified the company's finance ***costs*** and ***efficiency levels*** as below those of median best practice levels, and showed that **resourced were spending more than 80% of their time on transactional processing and GL reporting compared to a median benchmark of 50%.** These two benchmarks provided a starting point for the business case.

Some of the obstacles identified in the activity analysis stage included **multiple systems, manual processes, fragmented work environment, and lack of data organisation.** As a result, the company suffered from higher process costs, inflexible processes, complex internal reporting hampering progress, higher cost of controls, and an inability to consolidate information without a lot of manual work.

At the same time some of the opportunities that were identified included:

- standardised processes
- customer relationship management framework
- invoice scanning and AP workflows
- electronic invoice receipt
- Web based T&E processing
- consolidating bank accounts, automating processes, online access
- Accounts Receivable technology
- self-service technology

Additional opportunities outside the direct remit of finance included data warehousing and centralised MRO purchasing.

One of the concerns raised was that the current headcounts and salary cost of European finance transactional staff was high. In both cases, Germany accounted for the lion's share [nearly 50% of FTEs and more than 60% of salaries]. Chazey identified significant opportunities for improved headcount costs by moving to a SSC.

With staff costs a key driver for the business case, headcount was initially swapped on a one-to-one basis (shifting from high cost of FTE to lower cost of FTE), with a 10% productivity improvement assumed by the end of year one. For the purpose of these calculations, local employment firms supplied labor costs, and the European HR group provided severance costs.

Choosing an Optimum Location

The key driver for choosing locations is people. Typically, 80% of an organisation's running costs consist of salaries and employee related expenses. That, and the fact that the quality of the workforce is a critical success factor for Shared Services, made "access to talent" a top priority. In addition, we were conscious that our client would face stiff competition for resource in the more popular Tier 1 cities so we decided to focus on Tier 2 locations.

The initial evaluation focused on the Czech Republic and Poland, and included a dozen possible locations. Chazey helped evaluate these locations according to several crucial success factors for Shared Services, and compiled a business case for the four shortlisted locations. The final selection was made in favor of Bielsko-Biala in Poland.

The following table highlights some of the key criteria in evaluating location along with the weighting each was given for the final evaluation.

Location Decision - Criteria Comparison

Criteria	Brno Rank	Ostrava Rank	Bielsko Rank	Lodz Rank
People Cost 20%	3	3	2	1
Avail. Langauges 20%	3	4	4	2
Exisiting Fin Team 15%	10	10	1	10
Available Skills 10%	4	7	9	3
SS Competitors 10%	5	3	2	5
Unemployment % 5%	3	1	5	2
SS Experience 5%	3	5	8	5
Property Cost 5%	7	6	1	7
Site Accessibility 5%	4	5	5	6
Gov. Incentive 5%	3	3	10	10
Ranking	**3**	**4**	**1**	**2**

Rankings are 1 through 10 with the lowest score the most favorable.
Rankings provided by Chazey Partners based on research of each location

Migration Options

The key objective of the migration strategy was to transition the five countries' processes as quickly as possible while minimising risk in order to deliver cost savings.

Three possible scenarios were evaluated, based on: maximizing cost savings; the existing ERP rollout plan; and a proposed ERP rollout plan. The company opted for the migration that would deliver the highest cost savings, which were predominantly driven by the shift of work out of Germany, which was prioritised. The ERP platform supported the subsequent migration of the other countries. A key feature of migration planning was the requirement to migrate activities under 3 different scenarios:

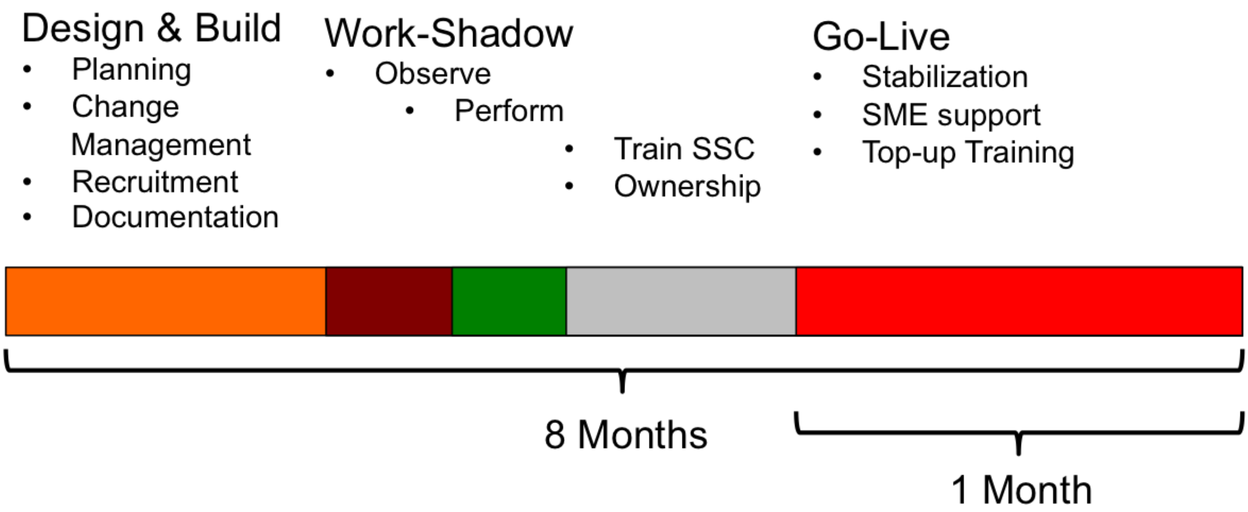
1. migrate to shared services after ERP implementation
2. migrate to shared services followed by ERP implementation
3. do a parallel migration to shared services and ERP implementation

It is unusual to manage all three approaches in the lifecycle of a project of this kind – but that's what we did.

The migration plan followed the standard "design, plan, build" process. Within each country, a formal work shadowing approach (knowledge transfer followed by training within the new SSC) was followed immediately by go live and stabilisation to ensure the highest quality transfer of skills. During the first month after go live, the transition resource provided extra support to ensure smooth delivery.

At each stage of the migration process, checkpoints tracked progress and presented a "gate" to the next stage.

The timetable followed is illustrated below:



Transition team

The success of the migration was heavily dependent on the support of the transition team composed of a location element (local location sponsor, local HR representation, and local employees); a project team [manager and process analysts, transition manager, and transition team members]; and the Shared Services team [manager, process leads, process experts].

The company was concerned about minimising the need for external recruitment, and instead chose to rely on existing professional staff.

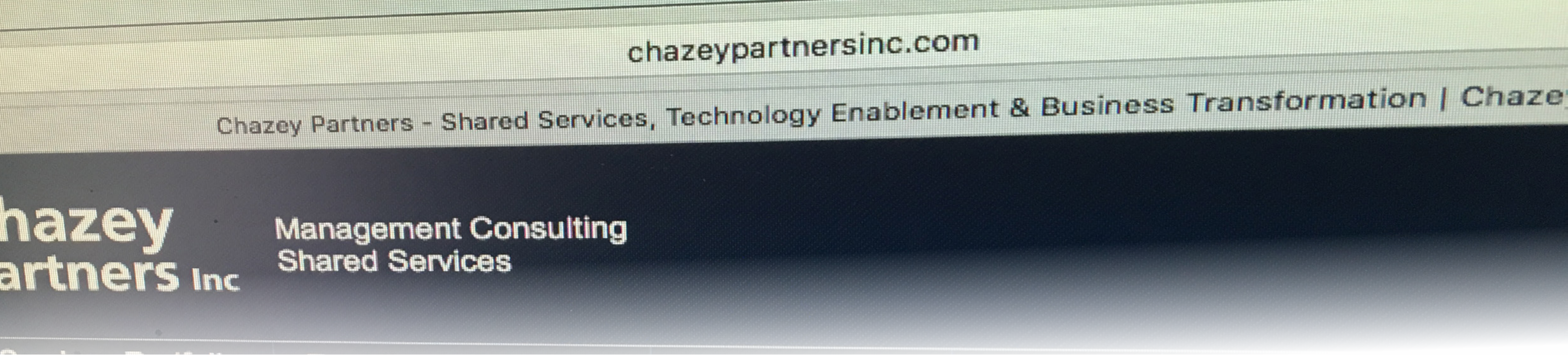
Summary

The Shared Services business case was built on a financial projection that showed net savings of more than €15 million over five years. Other benefits included process and system standardisation, best practice implementation, benefits integration, and quicker productivity improvements.

To lock down the cost savings, the Shared Services launched with many "as is" processes, while planning to follow up with standardisation and optimisation.

The company understood that this would require a significant commitment to change management.

Next Month: How to Implement a Shared Services Centre by following a tried and tested methodology.



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