Finance Transformation, Shared Services & Outsourcing

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The speaker

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Agenda

- Introduction
- The Context
- The CFO's contribution
- Transformation of the CFO and the Finance Function
- Transformation Enablers
- The path to performance
- BPO: definition and market trends
- Methodology
- Key success factors
- Conclusions

Finance Transformation - the context

- **Macro Economic Context**
  - Global economic crisis/downturn (2008) currently recovering (2011)
  - Post-crisis uncertainty remains
  - Inflation looming
  - Limited growth opportunities in developed countries, reinforces the "race" to develop new markets in developing countries - New growth, new services, new technologies
  - Strong growth in BRIC countries
- **Competitive Environment**
  - The Internet is everywhere ➡ « Flat World » where resources can relocate easily /quickly
  - Fierce competition for more / better services & goods at lower costs
  - Shortened Time Horizons: Shorter business cycle times + Customer bookings/orders shortened
  - Strong M&A activity
- **Corporate Context**
  - Drastic cost reduction programs (2008/2009) ➡ record results for some (2010)
  - Unstable balance between long term strategy and short term actions
  - Resources for Investment – Internal cash available

The CFO's contribution *

- EXECUTION
  - **Trusting the numbers**: ensuring business decisions are grounded in sound financial criteria
  - **Providing Insight** and analysis to support CEO and other senior managers
- ENABLEMENT
  - Getting your house in order: **leading key initiatives** in finance that support overall strategic goals
  - Funding organizational strategy: **funding**, enabling and executing strategy set by CEO
- DEVELOPMENT
  - Development of business strategy: **developing and defining the overall strategy** for your organization
  - Communication to the external marketplace: representing the organization's progress on strategic goals to **external stakeholders**

* Source Ernst & Young – The DNA of the CFO - 2010

Transformation of the CFO

Transformation of the CFO Profile

- **Technical Expert** in a more complex environment
- A **partner** to the Business and the CEO
- Operational but visionary
- **Project Manager** (ERP, BI tools, etc.)
- **Third Party Manager** (i.e. outsourcing suppliers)
- **People Manager** … to find, retain, motivate performance of the best talents
- **Skilled Communicator and influencer** (both internal and external) – banks, C- colleagues, shareholders/stakeholders, finance and other teams

- ## The new profile CFO …
  - Focuses much less on "Administration"
  - Relies on fast, timely and reliable information provided by efficient systems and organizations so as to make the best decisions and recommendations.
  - Transforms the Finance Function to enable him/her to fulfill new expectations and add more value

*"A majority of CFO's of companies of all sizes have initiated major **Finance Transformation Programs**."*

Jeff Henley, Chairman of the Board, Oracle

FEI Summit, March 2011, Phoenix

" Over the Past Twenty Years, My Mantra Hasn't Changed "

Better

- Compliance, Analysis, DSO, Inventory Turns
- Leverage, Partnership with the Business

Faster

- Close Times
- Access to Rich Information Across the Organization

Cheaper

- Lower Finance Costs as a % of Revenue
- More Self-service, Simplified Processes

Defining Finance Transformation

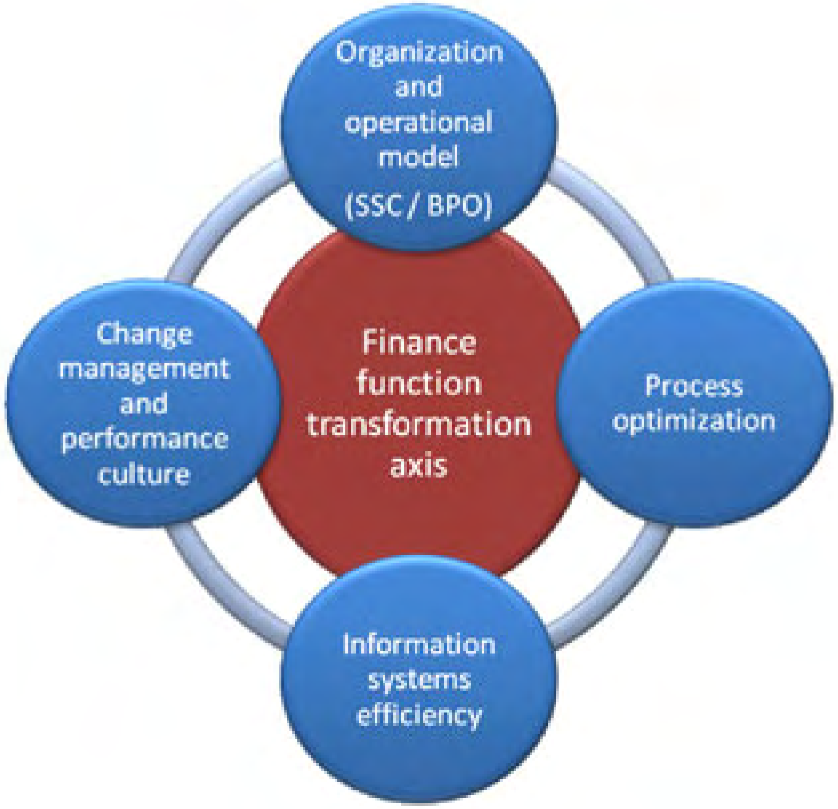
Finance transformation is <u>not</u> about...

- making incremental improvements to the day to day processes of a company's financial operations.
- doing more things better

Finance Transformation means ...

- Rethinking and putting in place an entirely new approach ... leveraging expertise and best practice to reconfigure the finance function
- Objectives : significantly improving business performance, operational effectiveness and efficiency
- Through :
  - Re-conceptualizing the Finance Function with a multi-year Finance Transformation Project
  - Putting in place structural changes that reduce costs and improve performance (SSC, BPO)
  - Change management initiatives involving new processes, systems/technology and people.

Finance Transformation Enablers



Finance Transformation Enablers

A function is based on 4 key pillars to ensure the achievement of the expected objectives :

- Processes
- Organization
- People
- Technology

Processes
End to end vision (PtoP, order to cash..)
Budgeting, Reporting, closing
Standardization, simplification
KPI / SLA's
Best practices

Organisation
Processes and entities
Front office & back office
SSC , Outsourcing
Optimization of locations
Economies of scale
Centralization

Oriented client & services
Monitoring of performance
Value added delivery

Technology
BI, single Database
Capitalize on ERP
Dematerialization
Automation, self service
Internet / Intranet
Data Center, common Network

People
Customer focus
More professional
Leadership
Training Skills management
Retention- Incentives
Value-adding tasks

Benefits of different kinds :

Strategic

- Facilitates the integration of new business : support growth
- Allows entities to focus on their operations
- Facilitates the standardization of processes and systems projects

Added value

- Gains of productivity on the optimization of processes and standardization
- Reducing structure costs
- Improvement of treatment cycles: closing, billing, payment,....

Quality

- Improves the quality of information, timeliness & transparency
- Increases the level of quality through the engagement process
- Improves the effectiveness of internal controls

Skills

- Professionalization of Finance and accounting service
- Allows specialization of skills and the development of expertise
- Career development

The Path to Efficient Processes

- Process optimization paths can be supplied through different levels of ambition :

Level of ambition 1 : Improved performance without IT / systematic reorganization of the process

Level of ambition 2 : Automation of the process, structuring of trade by workflow, redesign of all or part of the Organization and information system

Re-engineering-Lean

Objective : Rethink the sharing of the value chain and drive performance levels

Productivity gains : 5 to 15 %

Implementation :
- Processes reengineering through Lean supply
- Formalization of the perimeters of responsibility between the support service and the trades
- Setting up of service contracts between the various actors in the process

Shared service Center

Objective : Reduce the administrative charges to optimize time of reprocessing

Productivity gains : 15 to 40 %

Implementation :
- Restriction of breaks in charges via the integration of all necessary to process applications
- Implementation of a workflow
- Automation of certain stages of the proceedings
- Electronic document management
- Centralization of entities

Outsourcing

Objective : Streamline organizational and human resources

Productivity gains : 35 to 50%

Implementation :
- Standardization of processes
- Outsourcing of tasks

Finance Transformation Enablers

Organization and operational model (SSC / BPO)

Financial & Accounting Shared Service Centers

Centralize resources performing similar tasks, standardize their processes and tools to obtain an improved operational efficiency, generate economies of scales and support their growth strategy. Balance Local vs regional operations, within BU or transversal

Process optimization

Administrative, Accounting & Controlling processes optimization

Cost reduction projects for the administrative & Finance functions (P2P, order to cash, record to report, budget preparation and reporting, fast close): diagnostics, SWOT analysis, operational model design, economic model optimization, implementation planning, prioritization, best practices sharing, KPI's / SLA's

Information Systems efficiency

Information Systems efficiency

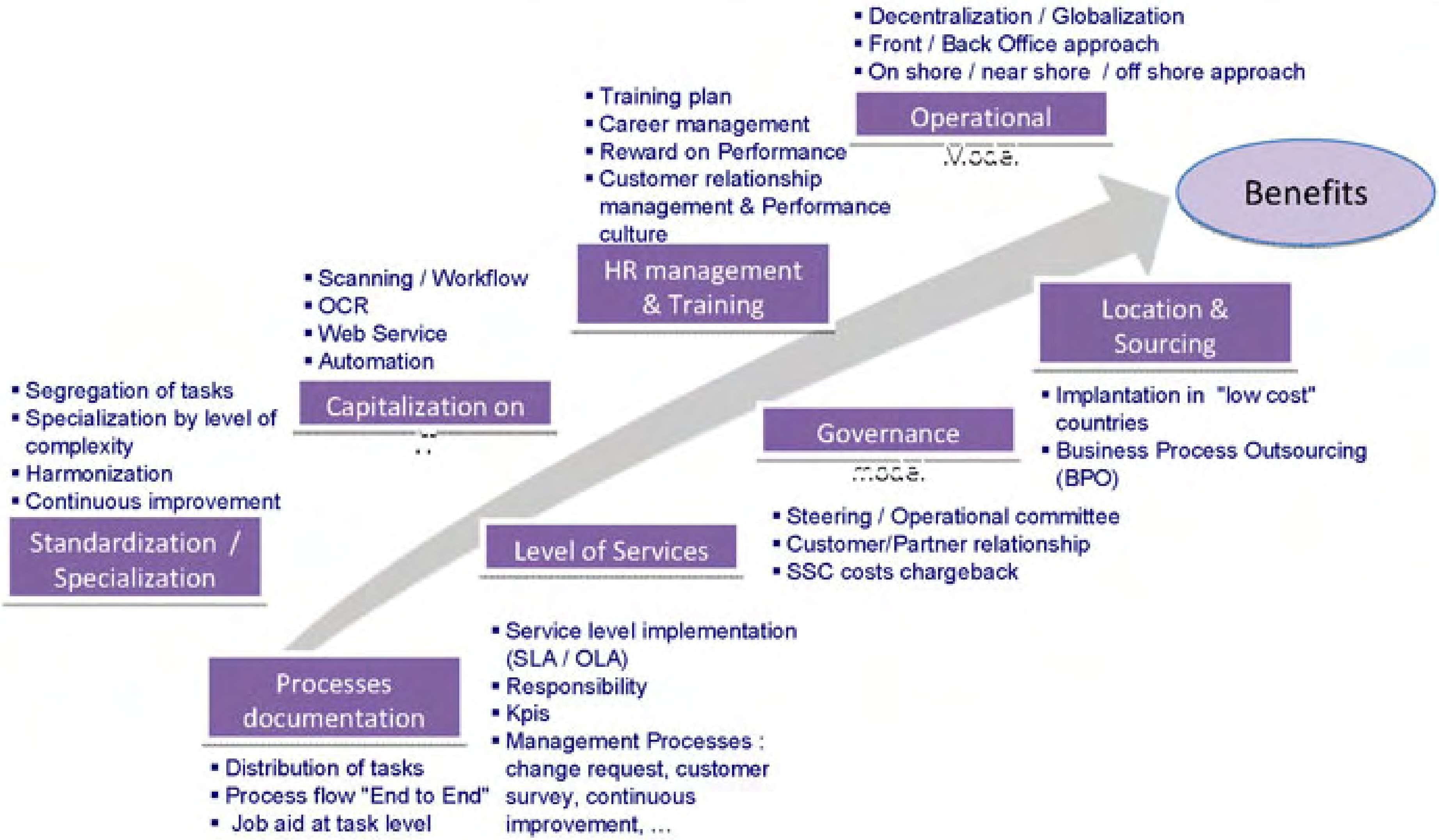
Alignment of Information Systems with evolving needs in parallel with the optimization of organization and processes: system selection, functional mapping analysis, technical specifications, functional specifications, project implementation, program management, BI,ERP, Automation tools, Web, self services, Data center, common network and applications

Change management and performance culture

Change management and development of a performance mindset

Deployment of a new organization model, processes or Information Systems for all users and employees. Development of a customer focused mindset and an employee value proposition to enable improved operational efficiencies. Training, Leadership skills, more professional

Optimization : How to reach the expected benefits ?



Business Process Outsourcing (BPO) - Definition

BPO is the delegation to an expert third party of all or part of a finance function

BPO services typically have the following characteristics:

- Multi-year contract (3 to 5 years)
- Dedicated staff
- Commitment on service quality (SLA / OLA & KPIs)
- Fixed price based on transaction volumes
- Client Information Systems
- Strong Governance
- Partnership approach

Business Process Outsourcing (BPO) - Trends

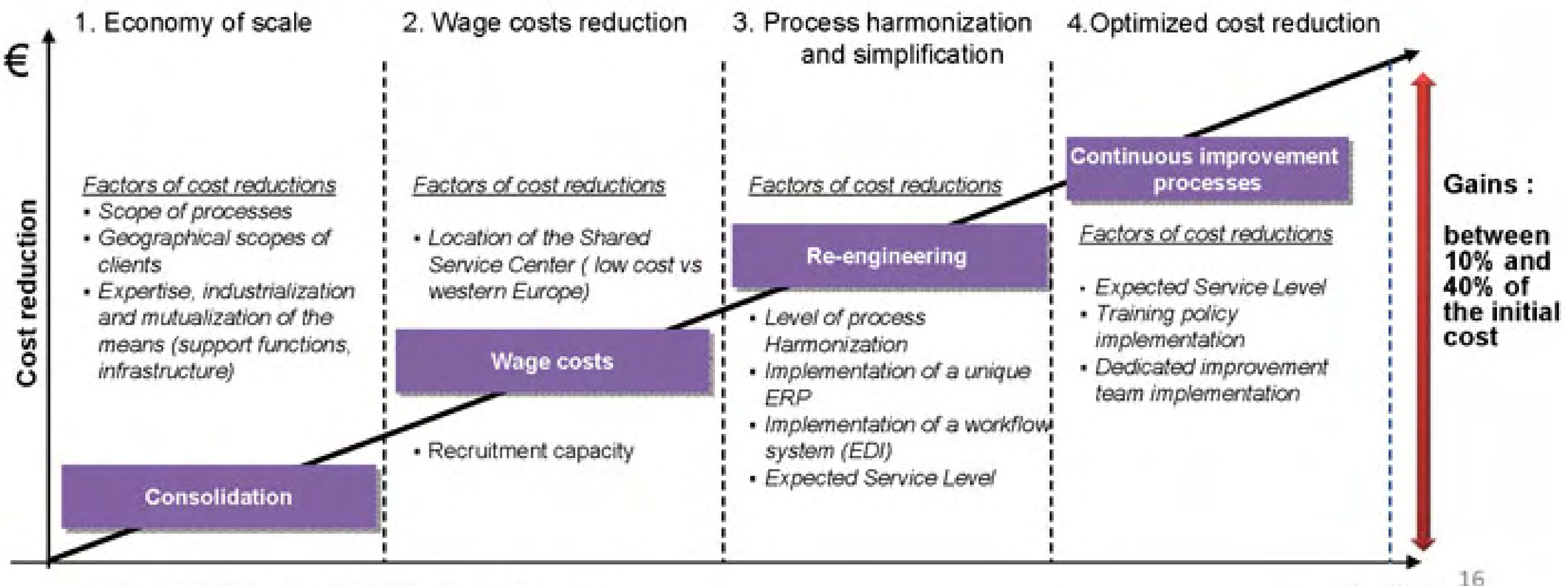
- Double-digit growth
- From USA / UK to Europe
- 25 % organizations are outsourcing some F&A
- Cost reductions not the only motivation but also compliance and quality through **Finance Transformation projects**
- "Think Global – Act Local"
- From Offshore to multi-shore / GDN / Global Sourcing
- Mix of internal SSC 's and Outsourcing
- Smaller size projects / niche
- Multi sourcing
- From ITO to BPO to KPO
- SME's and Public Organization growing interest
- Cloud computing

Shared Service Centers

Principles - Potential economic benefits

- The implementation of a shared service center can generate operating costs reductions, due to four levers (see below).
- The importance of cost reduction is highly linked to shared service centers strategic choices. It can also involve sourcing and IT development

Figure : Shared Service Center implementation – Cost reduction and factors of variation scheme



* Levers are not classified by chronology, nor importance

Methodology - Overview

Due Diligence / Diagnostic

- Diagnostic / Baseline
- Functional scope
- Best practices / *Quick wins*
- Target operating model
- Technologic needs
- Financial Business Case & roadmap

Design & Preparation of the Transition

- Detailed process and impacts
- Skills transition plan and training booklets
- Governance model and performance management
- Communication plan

Transition / Implementation

- Startup Check-list and cut over
- Resource mobility plan
- Piloting know-how transmission
- Performance management implementation

Optimization

- Process, organization and system diagnostic
- Improvement project
- Process re-design
- Implementation of governance, SLA/OLA & Kpis
- Process of management
- Change management

Internal Control (US GAAP / IFRS)

Chartered Accountancy

Human Resources

Information System

Transition Management– Resources

Methodology

Due Diligence / Diagnostic : Key questions & Steps

Functional scope

- Functional process concerned
- Activities and related headcounts

Target Operating Model

- Centers Location
- Sourcing : Insource Vs Outsource
- Processes and organization

ERP Integration & Convergence

- Systems approach
- Integration with ERP project

Social & People Management

- Works Council
- Legal & Fiscal Restrictions
- Risk Mitigation
- Knowledge Transfer Approach

Value & Road Map

- Implementation strategy and plan
- Business Case

1 Diagnostic

2 Target model

3 Planning & Financial Business Case

Methodology

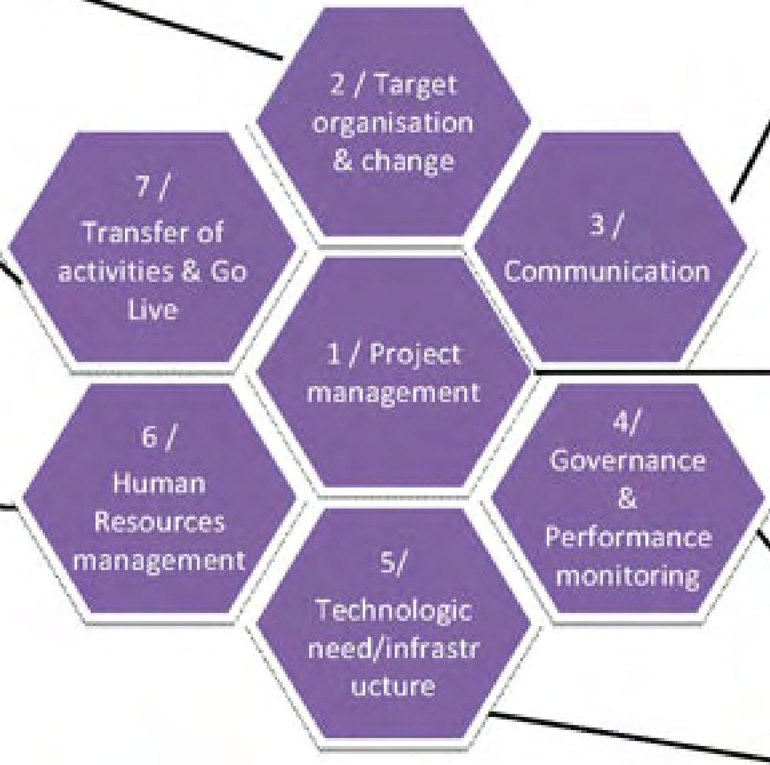
Transition / Implementation : A 7 component approach

Activities related to the design and the transition of activities are grouped into 7 steps which will be conducted in parallel until the transfer of operations

- Identification of impacts on the process: Change management of processes
- Complement of documentation on the process for transfer

- Recruitment
- Training & skills transfers
- Cut over & backlog management
- Start of activity & stabilization

- Preparation of the resource plan
- Social mitigation
- Retention plan
- Remaining team organization



- Communication plan (internal & external)
- Committee & instance of communication
- Q/A preparation

- Monitoring of the project
- Planning management
- Risk management
- Communication documents

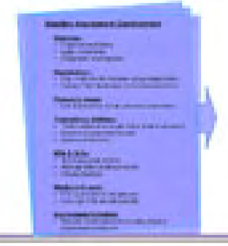
- Line of communication implementation between SSC & Client
- Governance & Steering committee
- Key Performance Indicators of the SSC & SLA / OLA

- Connectivity / Technologic infrastructure implementation
- offices preparation
- Computer tools

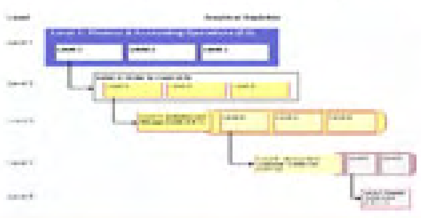
SSC & BPO Methodology – apply tools

Implement and monitor relevant tools

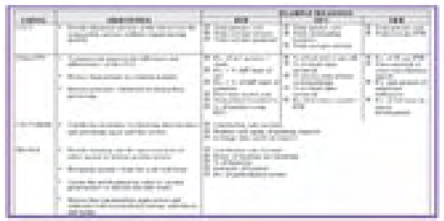
Data collection template



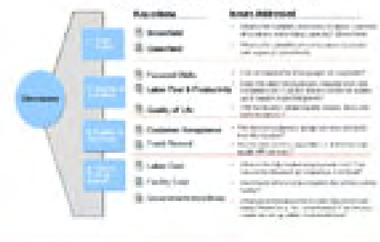
Detailed processes & Best practices



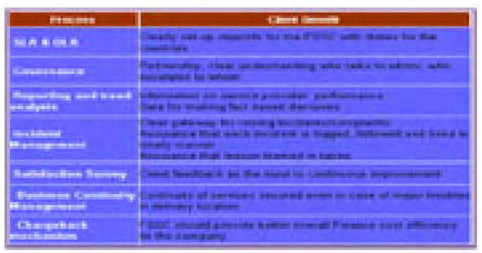
Kpis & SLA/OLA Template



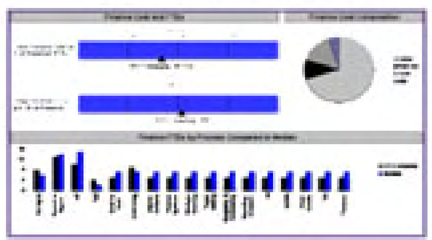
Site selection Tool



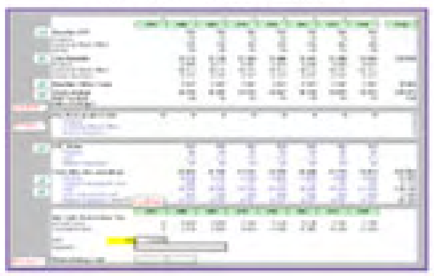
Governance framework / BSC



Productivity Benchmark



Business Case standard



Key Success Factors for SSC *

- Project Management & Sponsorship at the right level
- Quality of the operational management in the SSC
- Standardized processes
- Service scope provided by SSC
- Quality of staff in the SSC
- Vision & objectives expected from the SSC
- To promote over-communication
- Technology platform robust and scalable
- Change management and Transformation plan
- Resource management and training

*Source: Results of the Annual Shared Services Survey conducted by SSBPOA, 2007

More Key Success Factors for Outsourcing

- Governance
- Experience of supplier
- Fit with provider, Partnership attitude
- Balanced agreement
- Exit strategy in place
- It is about people
- Communication, communication