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Getting the Most Out of Finance Shared Services

It Starts with Using ERP to Consolidate and Automate

The appeal of shared services is widely recognized, and most companies have moved, or are moving, parts of their business toward a shared services model. Those who have already established shared services are facing the ongoing challenge of finding ways to decrease costs and improve quality in their financial business processes. Those who are currently evaluating shared services are struggling to find the best place to start.

Many finance processes, such as payables and receivables management, expense processing, and payroll, are natural candidates for service centralization for several reasons:

- **They are highly labor-intensive.** Functions that make the best candidates for shared services are characterized by high repetition rates, skills specialization, and labor-intensiveness.
- **They have standardized workflows.** Tasks can be segregated along the business process, and have repeating points when data must be synchronized.
- **They present an opportunity to benefit from large economies of scale.** A recent Americas' SAP Users' Group (ASUG) and SAP benchmarking study identified that companies with shared services can run certain finance functions at *one-third the cost* of their peers.¹

Transitioning a business function to a shared services center, however, requires careful planning – and it does *not* mean that finance should simply overhaul all of its processes.

Companies often come from a diverse landscape of business processes, all a reflection of their internal systems and technology. When evaluating a move to

shared services, a company needs to identify a set of processes that, once streamlined, can add value to the business. These processes must be nonintrusive to the organization and business function itself – that way, shared services can be the route to process excellence without transforming the whole company.

Start with an ERP Foundation for Shared Services Implementations

ERP systems are the transactional backbone for finance processes such as accounts payable (AP), accounts receivable (AR), and general accounting. Financial management systems have helped streamline transactional finance business processes through greater automation. In addition, extensions and enhancements to core financial ERP systems have enabled them to move beyond traditional back-office functions and deliver improved workflow and collaboration capabilities. So as organizations look for ways to further reduce finance operating costs, ERP systems will play a larger role.

Shared services implementations involve the provision of a service, usually in a central location and separate from the parts of the organization it serves. This imposes requirements on the transaction systems not usually found in traditional enterprise software implementations. The maximum benefit of shared services can be achieved when one single ERP instance serves the whole company.

This single instance also implies standardizing process definitions, business rules, and data structures – something often difficult to achieve in the short term due to the heterogeneity of systems and processes across company units. But heterogeneous IT landscapes should not inhibit the transition to a shared services operation. For an interim period, the shared services center will have to use existing systems while its single instance platform is implemented.



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¹ See "Driving Finance Performance: How Top Organizations Excel" by Katharina Müllers-Patel, ASUG/SAP Benchmarking Study (2006).

Success Lies Not Just in Consolidating Services, But Automating Them

A key success factor for a shared services implementation is *business process automation*. This isn't a new concept, but advances in software technology – such as more scalable ERP systems, workflows, scanning technologies, electronic data sharing technologies, and standardized connectivity – are now helping business units automate manual tasks and improve efficiency. The economics of process automation software are much more compelling, however, when implemented once in a shared services center as opposed to having multiple instances serving broader user bases in diverse organizations.

This is especially true with financials. Consider the manual entry of invoices into accounting systems; it's not only labor-intensive but risky. Input errors detected at a late stage of the business transaction – after the payment has already been initiated, for example – create cost in complete disproportion to the original cost of handling the invoice. An invoice not paid to the right addressee or paid incorrectly will cause questions from the supplier back to the person who ordered the goods or services, and will ultimately lead to internal customer and supplier dissatisfaction. Depending on the process, human errors may even have consequences for compliance. Implementing integrated, automated processes in a shared services center is the way out.

Automation has been greatly beneficial for British Waterways, which operates a nationwide leisure property and infrastructure operation with \$1.8 billion in annual revenues. “We’ve managed to reduce the cost of some finance operations by as much as 30%,” says Mick Crowder, British Waterway’s Head of Shared Services. “As we look to the future, we see further automation potential ahead in the areas of receivables, cash management, and customer service.”

Financial Shared Services in Action – Which Processes Stand to Benefit Most?

What follows are three examples of processes with a high potential to be migrated to shared services.

Example #1: Receivables Management

One of the most commonly cited opportunities for aligning business processes in shared services centers is receivables management. AR functions are often operated out of regional centers that inhibit process standardization for what is typically a

labor-intensive, manual, paper-based function. By consolidating the AR management function in a centralized shared services center, it becomes much easier to standardize processes and achieve economies of scale. Advanced software solutions can automate most exceptions – such as billing disputes or late payments – based on the same rules by which the shared services center staff would operate.

Within AR management, dispute and collections management is a financial business process well suited to employ a shared services approach. For most, it is often performed as an afterthought. Overdue items are dunned when detected, and information about clients’ payment behavior is neither tracked nor used in a manner that helps solve the problem. This results in slow cash collection, or worse, the risk of writing off the due amount entirely.

Companies that move dispute and collections management to a shared services model can take advantage of SAP Financial Supply Chain Management (SAP FSCM) applications, namely SAP Collections Management, SAP Dispute Management, and SAP Biller Direct, in combination with SAP ERP to automate follow-ups and related communication, and to steer agent attention to the most risky overdue accounts. This results in shorter time-to-cash receipt and reduced risk of bad debt write-offs. In conjunction with SAP Credit Management, the intelligence gained during the collections process can be leveraged to make more precise credit-line decisions.²

Example #2: Accounts Payable

Shared services have high potential for streamlining complex processes, such as AP. This process is usually managed using a distributed model that is inconsistent and nontransparent – and when it breaks down, it can result in a flood of calls from angry suppliers to the purchasers of the goods or services.

One frequent approach to streamlining accounts payable is to move it to a shared services center, automating the company’s invoice-to-pay process. Electronic invoices sent by business partners are scanned, then digitized through an optical character recognition (OCR) engine. They are verified against purchase orders or goods receipts, archived in the SAP ERP system, automatically posted to the ledgers,

² To learn more about SAP FSCM applications, see “Finance Departments Are Rethinking Costly, Labor-Intensive Processes” by Jim D’Addario in this January-March 2008 issue of *SAP Insider* (www.SAPinsideronline.com).

SAP ERP Financials is engineered to support the unique demands of shared services implementations, and many global corporations rely on SAP as their key business partner in delivering critical enterprise finance processes in a shared services environment.

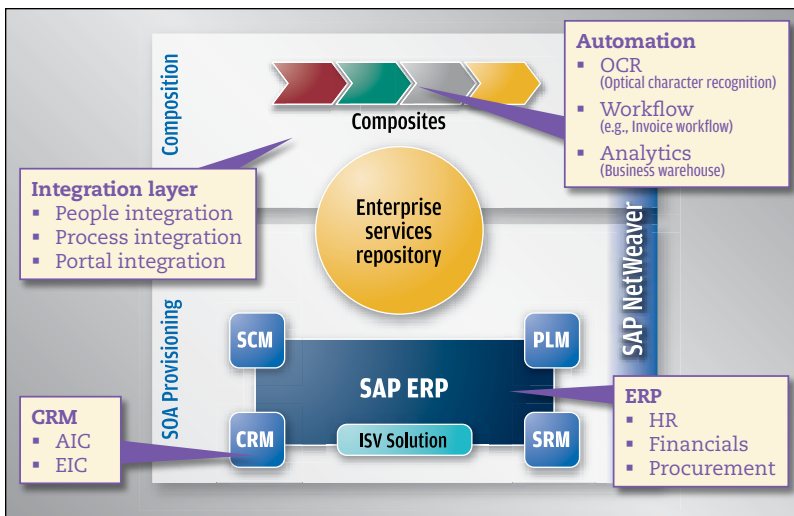


FIGURE 1 ▲ SAP's automation platform for shared services

and subsequently queued up for a payment run. Using SAP's CRM-Interaction Center platform (see **Figure 1**), the shared services center combines its call center capabilities with an advanced ticket system, providing customers and suppliers with an easy way to inquire about invoice and payment status.

Within a shared services environment, staff only “touches” an invoice by exception. When no purchase order exists, for example, automatic workflows send an email to the approver, who reviews the exception for payment. The majority of invoices – 85% in this example – pass through the invoice-to-pay platform without ever requiring attention.

Example #3: Procurement

Shared services centers operating their own ERP service delivery platform can deliver significant benefits beyond just performing the same processes better or cheaper. By aggregating data around a particular function, such as procurement, shared services centers can provide insights that enable the enterprise to change the way procurement is performed.

Within a shared services environment, a particular supplier can be viewed from the perspective of an entire company rather than a region or division. By consolidating procurement, it is easier to view suppliers from a perspective of total spend, increasing a company's leverage in negotiating prices. Furthermore, within a global context, the insight into supplier performance in one country can be reused to select the best-performing suppliers in another country.

The Future of Finance Shared Services

The question of which processes can be moved to a shared services model is a question of a company's

understanding of the relative strategic importance of its processes. Just a few years ago, many client-facing processes would have been deemed impossible to move to shared services, yet today it is not unusual to sell even complex services through outbound call centers. The same was true for collections management, which in the past was believed too crucial for customer relationships to be performed through a shared services center.

Finance shared services organizations have the potential to become a center of excellence operating close to the company headquarters. Using the latest technology innovations, the future shared services center will continually drive standardization, automation, and business processes excellence. The wealth of information gathered in the shared services center from the millions of business transactions processed every year can provide value-added decision support information and services to the enterprise.

Finance shared services centers will become experts in automating repetitive transactions and transactional processes. While implementing shared services centers is largely a business decision, the key to successfully delivering shared services on an enterprise level is a robust and flexible technology platform. Such a platform must support the high transaction volumes that characterize global businesses. In addition, it must provide scalability, reliability, and security while retaining the flexibility to adapt to changing business environments.

SAP ERP Financials is engineered to support the unique demands of shared services implementations, and many global corporations rely on SAP as their key business partner in delivering critical enterprise finance processes in a shared services environment. For more information, please visit www.sap.com/solutions/business-suite/erp/pdf/BWP_WP_Shared_Services.pdf. ■

Additional Resources...

...from **SAP insider**



- The **Financials 2008** conference in Orlando, March 10-13, 2008, for tips, tricks, and best practices for setting up finance shared service centers (www.sapfinancials2008.com)
- *Discover SAP Financials* by Manish Patel (SAP PRESS, www.sap-press.com)