

A model for new world efficiency

Multinational corporations face new challenges every day and the need for flexibility is already well reflected in the diversity of structures and processes housed within large corporates' shared service centres (SSCs). But the unprecedented scale of change driven by the economic downturn and increased global competition will result in a real shift in the role of the SSC, says Swati Mitra and Manish Jain at Citi. **WRITER** *Heather McKenzie*



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Shared Service Centres (SSCs) are now well established as a mechanism for imposing control and efficiency across common processes, and they will continue to take cost out of the corporate structure. But their ability to transform operations will increasingly be used to unlock liquidity and capital from within the organisation. With external sources of liquidity increasingly scarce, many companies are using their SSCs' centralised information flows and streamlined processes to re-engineer funding and cash requirements at the business level. "A major factor driving the establishment of SSCs was the realisation that the decentralised management of increasingly intricate supply chains was inefficient," says Swati Mitra. "It is difficult to tackle the bottlenecks in cash flow and to understand how cash is paid to suppliers or collected from customers when processes are localised and there is no way of measuring end-to-end performance."

Whether managed in-house or outsourced, structured regionally or globally, dedicated to a few services or many, today's SSCs are being shaped by many competing and rapidly changing forces.

The range of different organisational structures deployed by companies is the clearest outward sign of the pace of innovation and change. Some companies are developing country-specific SSCs to handle the demands of large emerging markets such as China, India and Russia. Others are locating more treasury processes – FX management, in-house banking, payment factories – within the SSC structure to free staff to support expansion into new markets.

Cost is still a significant factor in the location and structure of SSCs, but changes in regulatory incentives, business model and other operational imperatives,

such as proximity to key markets, risk mitigation and contingency planning, can be just as important.

EXTENDING THE BOUNDARIES

New technologies offer the opportunity for more integrated management of the company's processes at SSC level beyond treasury to procurement, receivables, trade and operations management.

With payments as the starting point for the migration of cash and treasury processes from in-country execution and procurement increasingly managed through dedicated global or regional hubs, effective systems integration can enable consolidated payments data to be shared across these structures to improve process efficiency, optimise the use of cash and reduce payment terms. Rationalised payment files generated at the SSC level can also support vendor finance programs with strategic suppliers. The use of consolidated payment data enables invoices for discounting to be identified and processed via automated, web-based platforms that give transaction visibility to the multinational and its suppliers.

Although receivables will always be subject to local factors, companies are realising efficiency gains through the centralised management of orders and invoicing, and initiatives to minimise days sales outstanding (DSO). The automation of these key processes not only minimises low-value manual administration but improves accuracy and enhances productivity. In many cases, the adoption of a more integrated view of the processes supported by commercial and treasury flows can remove blockages and companies are then able to implement factoring solutions that leverage streamlined bank account structures managed from SSCs and integrate these programmes with

liquidity structures that have been established with their banking partners.

PERFORMANCE THROUGH INNOVATION

From more effective management of the financial supply chain to greater automation of banking processes in order to enhance visibility of global cash, innovative technology-led bank services are a key factor in ensuring that SSCs rise to these new challenges.

■ Interoperability through standards

Multinationals typically use both local providers and core relationship banks, and process efficiency is compromised by multiple proprietary protocols and interfaces. A greater degree of bank-to-bank collaboration is supporting simplification, visibility and automation of key banking processes as well as interoperable connectivity. “In the last three to four years, companies have been looking to extend their enterprise resource planning (ERP) systems along the financial supply chain, integrating them with their banking partners’ electronic platforms,” says Manish Jain. “Connectivity is a key theme and there are two significant developments in this space: the use of SWIFT and the adoption of the ISO XML standard by many companies. Both of these standards emerged to address the cost of servicing clients in a multi connection environment,” says Mr Jain. “If a corporate has fewer integration points with its banks, it can make savings in the cost of maintenance, disaster recovery and risk management.”

Banks have an important role to play in encouraging and expanding the use of standards by their corporate clients. “By establishing a single connection to SWIFT, companies have the ability to communicate with all of their SWIFT member banks, but while connectivity rationalisation makes good business sense in some instances, for the majority of our clients, a more justifiable business case is one that results in full straight-through-processing (STP) across the range of treasury operations that provide much needed visibility to manage cash more efficiently,” says Mr Jain.

The real value in standards such as ISO XML is in making banks’ applications and services more ‘pluggable’ into companies’ enterprise resource planning (ERP) systems. The objective of standards is to enable applications to be connected in a simple way without companies having to worry about reconciling data communi-

cated in different formats. At a time when discretionary spend on technology projects is under pressure, companies are looking for low-cost options to achieve STP. “A company wants to connect its ERP system to its banks but does not want to invest in the cost of additional programming,” says Mr Jain. “Citi is developing a capability that will enable companies to ‘plug in’ their bank and integrate with their ERP system much more seamlessly than in the past.”

■ From Straight-Through-Processing to Straight-Through-Reconciliation

Treasurers today are starting to apply STP to the reconciliation, rejects and returns processes. They are embracing Straight-Through-Reconciliation (STR) to reduce manpower costs and further improve throughput and efficiency. STR eliminates the manual handling of the reconciliation of statements confirming payments made, and the manual handling of payment rejects and returns. The more timely reconciliation of receivables unlocks customer credit lines thereby reducing the utilisation of working capital. “To achieve the tangible cost saves from STP and STR, you must embrace and re-engineer key processes, end-to-end, and bring together the expertise required to reorganise workflow across banks, vendors and the SSC,” says Mr Jain.

■ Facilitating new workflows

Digital identity management and electronic bank account management (eBAM) services will enable companies to effectively rationalise and streamline their account management and documentation management requirements, and this is core to supporting their process re-engineering efforts. By establishing the legal, technical and workflow requirements for using digitised documents and digital signatures that are authenticated by a third party, companies can significantly reduce paper-based delays to account opening, maintenance and payment authorisation

across banks, as well as facilitating new workflows that allow firms more flexibility and control across SSCs.

MEASUREMENT BEYOND PERFORMANCE

Key performance indicators (KPIs) and management information systems (MIS) have long been critical to the ability of firms to optimise process efficiencies from SSCs. However, data capture and analysis to support effective decision making requires both streamlined, automated information flows and tools designed to interpret the data to multiple user requirements.


■ Beyond analysis

“It is difficult to measure the success of a SSC if you cannot analyse the data. Delivering improved data analytics to corporate clients is an important role for banks,” says Ms Mitra. To this end, Citi has developed a web-based performance dashboard that provides priority metrics on volumes, values, returns, rejects, amends, etc. on transactions processed, reconciliation rates, query resolution, investigations, account opening and closures, system availability; and predictive capabilities to pinpoint and resolve errors and performance problems in near time, hence minimise operating costs.

■ Peer benchmarking

Until recently, SSC efficiency has been measured in the dark with little meaningful comparison with peers. Citi supports over 500 SSCs worldwide and are working with clients to develop reporting and analysis capabilities that not only integrate financial data from Citi and multiple banking partners, but also offer scope for analysing and sharing data collected by Citi on the performance of SSC clients across industry sectors. Subject to data privacy restrictions, this aggregate data will help companies obtain a more robust view of their own performance and areas for future improvement and investment.

COLLABORATIVE INNOVATION

Citi is continuing to improve its own business practices and technology deployment, and is strongly committed to work in partnership with its clients to find new ways of unlocking value and optimising efficiency. “To optimise performance, our clients want their SSCs to be regarded as business enablers rather than cost centres. SSCs can add more value to the entire organization than their traditional role as back office processing factories,” says Ms Mitra. 

“SHARED SERVICE CENTRES (ARE) BUSINESS ENABLERS RATHER THAN COST CENTRES”