Creating New Value through Shared Services

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Leveraging shared service centres (SSCs) for centralising and optimising financial activities such as payments processing is a well-established means of enhancing efficiency, control and transparency and reducing costs. Once initial cost savings and efficiency improvements have been made, the challenge for finance and SSC managers is how to continue driving value and contributing to the operational and strategic objectives of the company. Recent surveys reveal that around one third of SSCs have consistently been able to deliver 10% year-on-year savings over an extended period, suggesting that there is a substantial number of SSCs that need to adapt and seek opportunities in order to find new ways of delivering continued value.

Centralise, standardise, automate
The mantra amongst finance managers for organisations of all sizes and business segments is to centralise, standardise and automate financial processes. While enhancing efficiency is an obvious objective, this must also be commensurate to the business requirements. For example, while a company may seek to achieve optimal levels of efficiency, the level of investment required may be disproportionate to the value that a company gains by doing so. Consequently, every company’s approach to centralisation, and the degree of standardisation and automation that they achieve, may be different. At Citi, we support over 1,000 SSCs globally, giving us a unique insight into a wide diversity of approaches to centralisation, and a depth of...
experience to share pragmatic ideas and best practices derived from working with many of the world’s most respected organisations.

Whatever each company’s centralisation objectives, and the path they follow to achieve them, a universal issue is that there is always more to do! The focus on ‘doing more with less’ is particularly important during the current period of ongoing economic uncertainty and changing regulation, where cost, efficiency and risk management continue to be priorities. There are a variety of ways in which SSC and finance managers are achieving this (figure 1).

Technology is playing an increasingly important role in driving additional value. For example, eBAM (electronic bank account management) automates bank account maintenance, including the exchange of messages for opening, closing or changing signatories on accounts with banking partners. XML-based ISO 20022 standards, on which SEPA payment messages are based, enable formats for payments and account information to be standardised across banks, regions and currencies. Standardisation is key to increasing automation, whether accounts payable or receivable, human resources or employee services, finance or accounting. In many cases, leading SSCs have a specific function dedicated to process optimisation to continue streamlining processes and deliver cost reductions.

By leveraging efficient and cost effective processes, delivering demonstrable value through regular reporting of key performance indicators (KPIs) and achieving economies of scale, SSCs are becoming more prominent within the organisation. Consequently, they are in a better position to serve new geographies in line with the company’s expansion plans, whether through organic growth or M&A. For example, a number of our customers are expanding the reach of their SSC into regions such as Africa and the Middle East. Additionally, they are broadening the range of business functions that they support. While accounts payable and liquidity management were often amongst the first activities to be centralised through a financial SSC, the benefits of centralisation are now being recognised in functions such as travel & entertainment (T&E) and expenses management, trade finance and human resources.

Organisational developments are also prompting expansion in the range of activities in which SSCs are engaged. SSCs’ ongoing process of evolution and enhancement is resulting in a shift in its place within the organisation. SSCs have evolved from low-cost, high volume processing hubs to centres of excellence or managed service providers. As a result of their wider role, reporting lines are also changing. While a financial SSC may have reported to the treasurer or CFO in the past, increasingly they are shifting to the CIO or CDO’s sphere of responsibility. These may have different objectives from those of the CFO or treasurer, which is further fuelling an expansion in responsibility, such as procurement. Not only does centralisation of procurement enable greater purchasing power and economies of scale, but there are considerable advantages in building synergies between procurement and finance. For example, risk can be managed more effectively using trade finance instruments, and there are working capital and supply chain benefits by using techniques such as supply chain financing.

**Addressing challenges**

There are undoubtedly new challenges that SSCs need to consider as their scale and remit increase. In particular, it is essential to remain connected to internal customers in order to ensure that the SSC’s services continue to meet the changing needs of the business. This was often easier in the past when the SSC and business units’ finance functions shared the same reporting lines. SSCs therefore need to be focused on establishing an ongoing dialogue with local finance managers to understand their business requirements, and provide regular reporting of service levels and key performance indicators. Furthermore, SSCs can leverage their central view of...
data to bring new customer and supplier intelligence to the business, in order to drive improved customer service and better-informed negotiation. Similarly, by improving processes such as automated reconciliation, cash application can be accelerated, improving days sales outstanding (DSO) and releasing customer credit lines more quickly, therefore contributing directly to business units’ sales objectives.

**Successful banking partnerships**

Shared service centres’ change in scope and responsibility also results in new demands from their banking partners. Firstly, although pursuing regional or global centralisation objectives is not new, SSCs are able to achieve higher targets through enhanced technology and greater support internally for centralised processes. Consequently, they need banking partners that fulfil a range of criteria, including:

- Geographic reach and in-country support to manage their local, regional and global cash management needs.
- Proven expertise to understand their centralisation objectives and ability to advise on best practices.
- Pragmatic, integrated solutions that span business processes such as supplier management, accounts payable and procurement.
- Access to clearing systems worldwide to facilitate new payment and collection methods. For example, while local sales teams may have received payments and chased up late collections in the past, a centralised approach to collections may require customers to provide additional remittance details in order to facilitate automated reconciliation, which also creates new banking demands.

At Citi, we have established a heritage of supporting SSCs across our geographic footprint, with access to clearing systems in more than 100 countries. We invest heavily in integrated technology and cohesive solutions that facilitate SSCs’ regional and global objectives, while providing local, on-the-ground service delivery and expertise to fulfil local requirements and provide confidence to SSCs’ internal customers.

By working closely with customers globally, we continue to evolve and refine our solutions and services to respond to, and anticipate the changing needs of SSCs. This includes facilitating an active SSC Forum in which we bring together senior management from SSCs around the world to share experiences and priorities. In addition, we engage at an industry level to create an improved environment for our SSCs. For example, we recognise that standardisation initiatives such as XML formats are imperative for our SSC customers to achieve the level of regional and global cohesion that they require, so we have taken a leadership position in XML introduction through the Common Global Implementation (CGI) group, and we now have XML messaging in live operation in 90 countries. We are also taking a lead in introducing new payment and receivables capabilities, including mobile payments, to enable SSCs to support new business demands to facilitate greater convenience for suppliers and customers.

2013: A catalyst for SSCs

Looking ahead, SEPA (Single Euro Payments Area) migration will dominate many financial SSCs’ agenda in the coming year. As Citi was a market leader in SEPA compliance, many of our customers were amongst the early adopters of SEPA payment and collection instruments, but there is still progress to be made before organisations become fully SEPA compliant. In addition, those that have already migrated are now seeking our support in leveraging the benefits of a standardised payments environment in the Eurozone. SEPA is also proving a catalyst for many multinational corporations to centralise business activities such as payroll. This has been difficult to achieve in the past, with different payment methods in each country and potentially heavy cross-border fees. Under SEPA, however, there is far greater potential for centralisation and standardisation.

In addition to pursuing SEPA-related activities, we are likely to see a continuation of the current trend to centralise procurement in order to achieve tangible cost savings and working capital benefits through greater economies of scale and better alignment between procurement and finance. Furthermore, this will continue to facilitate supply chain finance programmes to enhance working capital and increase financial supply chain resilience.

As constrained economic conditions continue, SSCs will play an increasingly important role within the organisation, evolving from processing hubs to Global Business Service divisions, providing multiple business functions to the group. By doing so, they will increase their role in supporting risk management, working capital and liquidity objectives, in addition to driving ongoing cost savings and efficiency and control improvements.

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Karin manages the Payments & Receivables product suite for Citi in Citi Transaction Services. With capabilities in over 50 countries, Karin and her team are designing efficient and automated payment and collection solutions that will allow corporations to optimise their working capital across multiple countries, thus creating operational efficiencies.

Karin has been with Citi for 18 years and has held a variety of roles in three EMEA markets – Germany, UK and Czech Republic. Prior to her current role, Karin had responsibility for leading the cash management business across Central Europe, as well as heading CTS in Czech Republic and Slovakia.

Before moving to Czech Republic, Karin was based in the regional EMEA office in London as the Liquidity & Investment Head for EMEA. She joined Citi Frankfurt in 1994 as a management associate.

Karin graduated in Business Administration and holds a bachelor degree from the Ecole Supérieure de Commerce in Reims, France as well as Fachhochschule fuer Wirtschaft und Technik in Reutlingen, Germany. She currently serves on the Board of SWIFT UK Ltd and is a member of the CitiWomen Steering Committee at Citibank N.A. London.