WHAT'S NEW AND NEXT FOR SHARED SERVICE CENTERS IN A POST-COVID WORLD?

"We live in the digital age. Humans and machines need to have a point of connect to create value that neither could create in isolation. Shared Service Centers (SSC's) create this connection."

Servo Sawhney, VP, Growth Initiatives, HighRadius

Digitization and the value of SSCs was the theme of a series of Citi webinars that brought together clients, partners and Citi experts, to discuss some of the latest trends, challenges and opportunities experienced by SSCs. Participants considered how the Covid-19 pandemic has impacted SSCs and how this may shape the future of SSCs in the long term.

The COVID-19 catalyst

COVID-19 has had a profound, but evolving impact on SSCs, particularly in increasing the speed of digital adoption. As John Murray, EMEA Industrial Sales Head, TTS, Citi notes, "One area where we saw rapid digital adoption at the start of the pandemic was in account opening. Corporates could no longer provide wet signatures and so digital tools were embraced and adopted quite quickly. In some instances, this involved clients embracing digital tools they would not have considered previously, or at least adopting them at a quicker pace due to necessity."

Duncan Cole, TTS Client Advisory, Citi expands on this, "From a corporate perspective, the first few weeks were focused on business continuity and the shift to working from home arrangements. Next, we saw a spotlight on corporate liquidity and the need for a better understanding of the evolving working capital needs of the commercial business. As companies then started to emerge from crisis response, automation and intelligent analytics projects were reprioritized to augment human decision-making and provide Treasury and SSCs a pathway to offer enhanced business value."

Prior to the pandemic, many SSCs were at various stages of their digital journey, what has become clear is that digitization will be key to their future evolution and supporting their expanding and increasingly strategic role. In one of the Citi webinar polls, **100% of participants indicated that digitization would be the number one issue for their SSC over the next year**, ahead of supply chain issues, operational or business model changes, or ESG goals.

Digital steps on the SSC journey

However, while there is universal agreement on the importance and value of digitization for SSCs, digital priorities differ between SSCs and the business functions they support. The shared services model is well-established, but every company is at a different stage in its journey towards centralization, automation and standardization of group functions. Rituraj Somani, Global Head, Procure to Pay, at British American Tobacco (BAT) outlined the company's SSC journey, "We started our Global Business Services (GBS) function in 2009, initially focused on consolidation of transactional work in a central location. Since then GBS has become core to the BAT group transformation, based on a single SAP platform. We operate as an integrated team globally, across Asia, Europe, Africa and the Americas, driving change and value across BAT's business."

Common to many corporations' SSC journey is the shift of emphasis over time from a transactional role to a strategic role such as supporting working capital optimization, digitization is fundamental to these ambitions. As Shehryar Butt, EMEA Cross-Border Payment Sales, TTS, Citi observes, "In general, no matter what the maturity of the SSC, clients are thinking about more and more processes that can be automated to free up more time for tasks that will drive greater value for their organizations."

Order-to-Cash: Measuring Outcomes

The O2C cycle has come under pressure as corporations have adapted their business models to the new environment. Some have engaged more in direct to consumer and eCommerce business, resulting in new cashflow dynamics and collection methods, while others have focused on maintaining and predicting customer and distributor flows at a time of disruption. However, whatever the immediate trigger, digitization of OTC processes to support working capital objectives is becoming a significant priority for SSCs.

As Terry Dennis, EMEA Cash Management Sales Head, TTS, Citi notes "With the application of new technology to areas such as O2C, the potential benefits are not just related to a reduction in manual processes but also to more strategic objectives including DSO (Days Sales Outstanding), working capital, risk mitigation and of course, data analytics which are critical to business performance."

One frequent challenge is that SSCs, and the businesses they support, tend to focus on key performance indicators (KPIs) that measure processes rather than outcomes, which can pose an obstacle to making the shift from transactional to strategic value. Paulo de Felice, Whirlpool, explained, "We are looking for digital processes, including robotics, to achieve best in class straight-through reconciliation rates, with associated cost savings. But KPIs need to be based on the consequences of the O2C cycle, rather than just the processes, such as speed of dispute resolution, that can have an impact on the P&L."

Procure to pay (P2P): reducing points of friction

End-to-end automation of P2P has been a longstanding ambition for many companies, but there can be obstacles, not least the touchpoints between systems, functions and counterparties.

Rituraj (Raj) Somani, Global Head, Procure to Pay, BAT outlined, "The aim is ideally to have a touchless payment process, but there can be points of friction given the size and scale of various countries where BAT operates. Our payment processes are very integrated and a large part of our payment processes operate smoothly given the end-to-end integration across systems and greater collaboration with banks."

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This is in part due to the wave of payments innovation that has taken place in recent years, which in Europe has included SEPA, PSD2 and most recently (in some markets) instant payments.

SSCs have responded and adapted to these new developments, as Laurens Tijdhof, Partner, Zanders explored, "In addition to centralized payment factories or hubs, many are now operating 'on behalf of' business models to standardize and rationalize their banking relationships, accounts and processes. APIs are the next step for many in their journey towards end-to-end transaction automation, but these are not yet fully standardized across banks, and use cases are not yet mature."

Despite increasing straight through processing rates, exceptions continue to create points of friction. Consequently, as well as focusing on automation, SSCs are also engaged in initiatives to reduce points of friction and accelerate issue resolution, as Declan Hourihan, EMEA Domestic Payments Head, TTS, Citi highlighted, "Although many corporations are achieving impressive straight through processing rates, dealing with exceptions, such as queries, rejections and handling proof of payments can be expensive and labour intensive. There are increasingly ways to help reduce the administrative burden, such as confirmation of payee, Citi Payment Insights for end-to-end, self-service payment tracking, and tracking capabilities through SWIFT gpi."

Trade digitization: shifting attitudes to remove obstacles

While many corporations have already achieved significant progress in automating O2C and P2P for domestic and open account transactions, international trade using trade finance instruments has traditionally proved more complex, given the variety of stakeholders, complex and disparate legal requirements in each market, and paper-based processes.

With significant disruption to supply chains during the early stages of the pandemic, and the shift to working from home, trade was forced to go digital, and supply chain partners quickly removed paper and 'wet' signatures from their interactions. Significantly, these efforts were supported in many cases by regulators seeking to minimize trade disruption. Carl Wegner, co-founder and CEO of Contour, a blockchain-based digital network for trade finance of which Citi was an early supporter, explained, "COVID-19 has proved a seminal event in digitization of trade, with corporations, banks and regulators quickly recognizing that digital strategies are no longer optional, but essential. They have to adapt their processes at pace."

The challenges to trade digitization remain substantial: modernizing and harmonizing legal frameworks globally, creating and adopting interoperable digital standards, and continuing the digital transformation that is underway. However, as the progress made during the pandemic illustrates, these obstacles are surmountable given the right degree of industry collaboration and willingness for change.

Cash flow forecasting: where processes meet decisions

While improving OTC, P2P and trade finance delivers savings and working capital benefits, these benefits are amplified when the data associated with these activities is brought together to improve decision-making. Cash flow forecasting has been a longstanding challenge for SSCs and corporate treasury functions.

Digital technologies that enable scenario analysis, stress testing and predictive analytics are vital enablers of success; however, just as important is the quality of the data that underpins these technologies. Nicolas Christiaen, CEO and Co-founder of Cashforce explained, "Although cash flow forecasting remains a challenge, technology has made the process more accessible in recent years, while new trends, such as real-time data and better data integration create new opportunities. However, data quality remains a barrier to entry for many corporations to professionalize their forecasting process, so this is a focus of many projects."

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This has been the experience at Corning, as Finance Manager for EMEA Treasury Operations, Robert Vida commented, "Like many corporations, COVID-19 has had a significant impact on our business, and this impact is felt in the SSC, particularly by the need to give stakeholders more information and more frequently, such as cash flow forecasts. Furthermore, with disruption in the supply chain increasing uncertainty, we need to provide more sophisticated analysis, such as evaluating different liquidity scenarios, to be able to effectively support decision making. As a result, we are now looking at in- and outflows more closely, combining data from across systems, and applying business intelligence to improve forecasting."

The shift to strategic service centers

Many organizations have expanded the scope of their SSCs in recent years, to include areas including risk management, technology and data. As digitization opens new horizons for SSCs, we can expect to see SSCs play a crucial role in improved use of data and metrics, providing greater value for their organization as well as becoming an integral partner to functions beyond finance.

By combining digitization and data, SSCs are increasingly well-positioned to fulfil this expanded role, ultimately helping firms become more competitive. For example environmental, social and governance (ESG) issues are becoming priorities for organizations across the globe.

As SSCs leverage digitization, data, and their rich skills base to further extend their value, using these same strengths to help their organizations meet their ESG goals is likely to be the next frontier. As Steve Elms, Global Trade Sales Head, TTS, Citi observes "Within the trade space we're seeing an increased focus on sustainability. Payment solutions such as dynamic discounting and supply chain finance, which traditionally have been used to provide a liquidity to suppliers, can be used to further ESG initiatives and undoubtedly going forward, SSCs will have a role to play"

The role and value of SSCs is no longer measured in terms of labour arbitrage and cost efficiency, but the value that they deliver. Michal Bielawski, Managing Partner of Adaptive Solutions & Advisory Group predicts that this trend will continue, "We are likely to see an expansion in SSCs, just as we saw after the global financial crisis in 2008-9. However, the industry is more mature, and SSCs have proved their credibility and value. Consequently, the next wave of expansion is likely to take the form of expanding the geographies they support and the range of activities they provide, including more complex, knowledge-based and more core business related activities and processes."

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