SYLVAN ADVISORY

Shared Services Center

When experience makes all the difference in the World

Key Considerations

To be successful today, organizations must excel at managing complexities and leveraging economies of scale. Many global companies have adopted Shared Services as a critical business strategy for delivering efficiency gains, and reducing operating costs. While running a Shared Services Center has proven to yield measurable results, it is not without risk, and not all organizations recognize the full benefits of consolidating similar business processes into a single location.

Key Considerations

While considering the formation of a Shared Services Center, you must understand how to deliver economies of scale, provide transaction-based costing, who the internal clients are, and the physical location of the Center. With these key consideration in mind, you have the ability to establish, manage, and optimize a highly effective Shared Services Center that has the potential to decrease costs while actually improving the quality of work at the same time.

Economies of Scale

The driving force behind an effective Shared Services Center is the ability of the Center to process a volume of transactions that encourages an economy of scale. Depending on the types of transactions being processed, each Center will determine its own natural level of peak productivity. When transaction volumes fall below this threshold, the Center will incur a diseconomy of scale. When transaction volumes rise above this threshold, the Center will reap the benefits associated with high performance.

It is difficult to know where this threshold is, until the Shared Services Center actually attains its peak performance, but today there are a number of analogs that can serve as reasonable indicators for these natural thresholds.

Transaction-based Costs

It is critical that the Shared Services Center has the ability to provide services by charging a set amount per transaction, at a given level of volume. By applying transaction-based costing metrics, the Client is afforded full transparency into the costing model, as well as an appreciation for the benefits associated with running increased volumes of transaction through a Shared Services Center.

While the concept of transaction-based costing appears to be easy enough to implement, it does require a rigorous knowledge of the actual business process, as well as the application of activity-based costing techniques. By thoroughly understanding all the components that add value and cost to the process, you can appreciate where the natural economies of scales reside.

The Client

The End-User of the Shared Service must be viewed as a Client, and treated with the same level of respect and reverence as the organization treats its external clients.

As part of the relationship between the Shared Services Center and its Clients, it is recommended that stringent and measurable Service Level Agreements (SLAs) should be established, along with penalties for underperformance.

The End-User must be treated as a highly-valued Client, who has a choice of whether or not to continue using the services that are being provided. The Client must be provided with metrics that prove that the quality of service has increased, while the associated costs have decreased. Along with these measurable benefits, the Client must also experience an increased level of control over their processes, by gaining the ability to variablize the cost structure to directly align with the volumes of the business.

Location, Location, Location

Systemic to developing a Shared Service Center is the determination of the Center's geographical location and coverage requirements. Should there be one global Center, several regional Centers, or a local Center.

The decision about how to organize the Centers, and the choice of physical locations can be a very complex analysis. You must consider the required hours of operation, the needed language skills, the necessity to understand local laws and customs for each internal Client that is being served, and the benefit of using resources located in low-cost geographies.

Benefits

The Internal Client can expect to receive enhanced quality of service, at least a 20% reduction in cost, and the ability to directly align their cost structure with the volume of work being performed, all while contributing to the overall profitability of the company, and enhancing shareholder value.

The Company will experience an over reduction in headcount, the enhanced ability to add more business processes to the Shared Services Center, and the potential to monetize the Center by commercializing it as business conditions become conducive.

www.SylvanAdvisory.com | Paul C. Pinto | Managing Partner | +1.678.644.6170 | ppinto@SylvanAdvisory.com