

Achieving Real Dollar Savings by Implementing Shared Services



The outcomes of a business case can mean a make-or-break decision for moving forward with shared services. It is critical that you create a business case to understand your costs and savings opportunities and be able to demonstrate the benefits of this significant change to your organization. Additionally, the business case creates the baseline from which to measure your progress once you go live with the new model.

ScottMadden recently updated our analysis of shared services business cases we helped develop for our clients in the areas of finance and accounting (F&A), human resources (HR), and multifunction shared services. These business cases spanned a wide range of industries, including:

- Communications/entertainment
- Energy
- Healthcare
- Life sciences/pharmaceuticals
- Manufacturing
- Public sector (government, non-profit, education)
- Security/aerospace/defense

We looked for typical returns and staff reductions, as well as ranges for implementation costs and significant savings opportunities. The latest results of this analysis are presented in this report.

Typical Business Case Metrics

Business cases typically have several financial metrics which are used for comparison to other cases or internal projects, as well as performance “take-aways” for the business. We focus primarily on internal rate of return and payback period in this summary, as comparing net present value across organizations can be more challenging (see figure 1).

Overall Results

Across shared services business cases, we find that the median internal rate of return is 37% and the median payback period is just above three years. Our data indicate that companies in the top quartile are able to achieve higher returns of 65% or more and pay off investments in 20 months or less. However, even the bottom quartile results show positive outcomes for the business.

annual savings per employee served with a shared services model. In public sector, the average percentage of labor costs saved relative to full-time equivalent (FTE) reduction is much lower. This may be caused by the fact that many eliminated positions in this sector are lower-cost positions performing administrative or transactional work. When looking at FTE reductions, the life sciences and pharmaceutical industry also shows vast potential.

Biggest Savings Opportunities

In our experience, labor savings almost always exceeds non-labor savings and represents the biggest opportunity for return when moving to a shared services model. We look at labor savings in terms of both the percent of FTE reduced, as well as the percent of labor costs saved (see figure 2).

- Typical FTE reductions are around 22%, while some companies see reductions of 32% or more
- In terms of labor costs savings, the median percent saved is 17%, while top-quartile companies saved 34%
- A lower savings percentage for labor costs versus FTE is understandable given that many of the positions that are eliminated with the move to a shared services model are lower-cost positions performing administrative or transactional work

Implementation Cost Findings

We examined various categories of implementation costs across the business cases to determine typical ranges and understand the most significant costs. These categories included technology, facilities, severance, and implementation support. Implementation support and severance represented the largest component of implementation costs, followed by technology and facilities. Implementation support includes costs for internal and external resources supporting the implementation, including fully or partially dedicated headcount, consulting support, and other vendor support.

Across the categories analyzed, the ranges shown between first and third quartiles indicate high variability in these elements. The ranges in implementation costs suggest a difference in focus across the companies which can be driven by company strategy, availability of resources (including funding), presence of existing technologies, and other constraints and priorities.

A variety of additional implementation costs existed for some of the business cases, including retention, recruiting, outplacement or relocation, and marketing and communications.

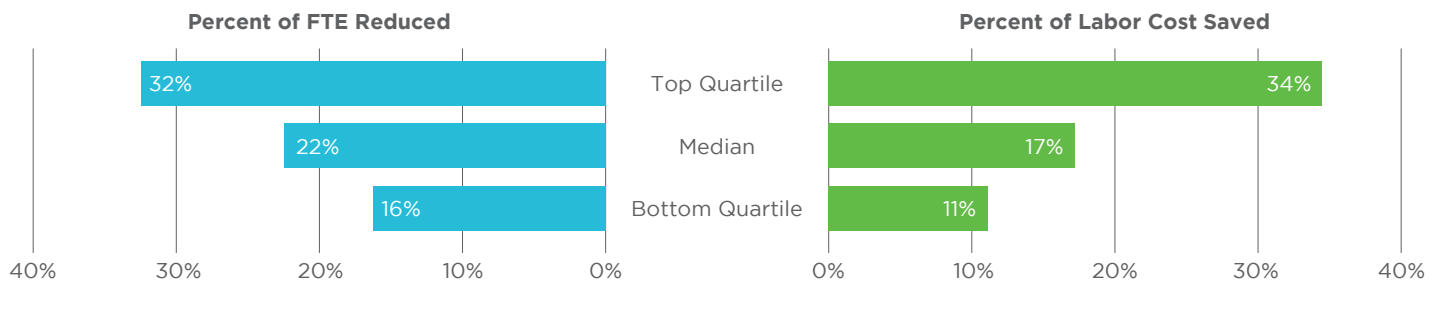
The average percentage of labor costs saved relative to full-time equivalent (FTE) reduction is much lower.

We conducted further analysis by industry and discovered that the industries showing the most potential for cost reduction with a shared services model include the public sector (government, non-profit, education), manufacturing, and healthcare. Business cases developed for clients in these industries resulted in a higher average

Figure 1: Business Case Metrics

Metric	Guidance/Definition	Impacted By
Internal Rate of Return	Annual rate (percentage) which is returned by investing in the initiative; essentially provides the yield for the investment	<ul style="list-style-type: none"> • Time horizon of business case • Speed of implementation
Payback Period	Time it takes for the cumulative benefits to equal the cumulative investments	<ul style="list-style-type: none"> • Speed of implementation • Size of investment (and benefit)
Net Present Value	Dollar value of the initiative for the organization - how much the organization will make on this initiative, accounting for time	<ul style="list-style-type: none"> • Time horizon of business case • Speed of implementation • Size of investment (and benefit) • Discount rate

Figure 2: Savings Breakdown



Differences Between HR And F&A Business Cases

To determine differences in savings opportunities across functional areas, we examined shared services business case metrics for HR compared to F&A. These two functions represented the most common areas in the business case analysis. Overall, we see little difference in the business case results between HR and F&A functions, indicating a shared services model can provide similar benefits regardless of the functional scope.

The HR business cases show a slightly higher median IRR and shorter payback period, while F&A cases show a slightly higher median percent of FTE reduced as well as higher median percent of labor costs saved.

Tips For Successful Business Cases

If you are developing a business case for shared services, keeping in mind a few lessons can help ensure it is successful.

1. Don't skip the business case

- Understanding that someone will ask for, or require, a business case eventually should encourage the organization to complete the analysis

2. Think backward by preparing for the business case during current state

- Collecting the right metrics during current state can support and speed up benchmark comparisons during future state and business case development

3. Develop a solid understanding of the implementation process to build a better business case

- Understanding the details of implementing shared services will ensure that you account for all the variables that can impact cost, making the business case as realistic as possible

4. Costs are important, but make sure to spend time on the benefits, too

- Using benchmarks enables an unbiased, transparent approach to developing labor benefits
- Focusing on savings beyond labor, including technology and facilities, can make the case more realistic and provide for greater benefits

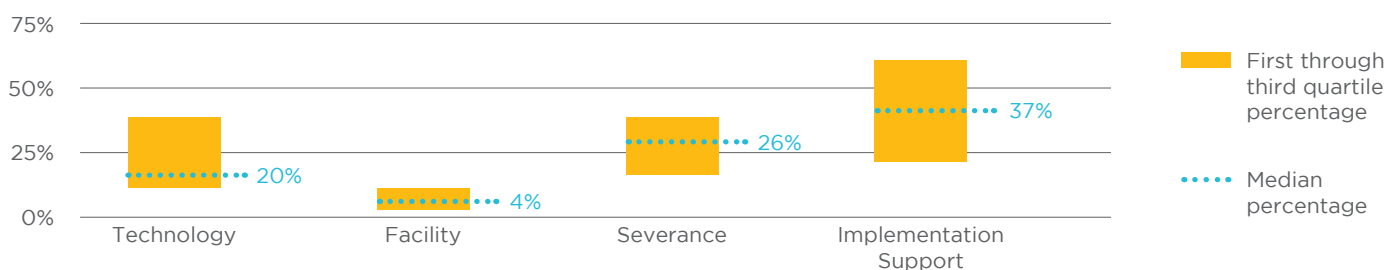
5. Build in more flexibility than you believe you need

- Including a range of variables will support analyses to satisfy multiple constituents and requests
- Clearly defining all variables will also be important
- Linking common variables can force the business to understand and evaluate the key drivers of cost, and benefit, in the initiative

Conclusion

In summary, the returns available through a shared services model represent a significant cost-savings opportunity for companies. Labor savings resulting from the new model show the most significant cost-savings opportunity. These savings are typically achieved through better alignment of staff resources to work performed and increased leverage of technology to automate processes. Implementation costs vary across organizations but typically include technology, facilities, implementation support, and severance. Conducting a thorough business case analysis is critical for gaining support for a shared services model and ultimately impacts the success of the organization.

Figure 3: Implementation Cost Categories as a Percent of Total One-Time Costs



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scottmadden
MANAGEMENT CONSULTANTS

LOCATIONS

ATLANTA

3495 Piedmont Road, NE
Building 10, Suite 805
Atlanta, GA 30305
404.814.0020

RALEIGH

2626 Glenwood Avenue
Suite 480
Raleigh, NC 27608
919.781.4191

WESTBOROUGH

1900 West Park Drive
Suite 250
Westborough, MA 01581
508.202.7918