Finance Shared Services Benchmark Highlights

2016 ScottMadden Finance Shared Services Benchmarking Study
About the Survey

Survey Project and Timeline

- Identified gaps in Finance Shared Services performance benchmarks
- Engaged APQC to conduct custom study; ScottMadden designed questions
  - First cycle – spring/summer 2014
  - Second cycle – spring/summer 2015
  - Third cycle – summer/fall 2016
- Leveraged APQC’s benchmarking methodology and member network

Survey scope covers four major areas:

- Delivery Model
- Scope of Services
- Staffing
- Performance

16 Metrics
28 Qualitative Questions
ScottMadden’s 2016 Finance Shared Services survey attracted a diverse set of 108 participants

- Majority of this year’s participants are based in Europe. 35 are US companies, accounting for a third of the group
- More than 40% of participants come from large organizations with over $20 billion revenue
- Majority of this year’s participants come from mature shared service centers
  - 53% have been operating for 5-10 years and 19% for 10 or more years

**What is the total annual revenue of your shared service center’s immediate corporate parent?**

- $20 billion or greater: 42%
- Between $15 billion and $20 billion: 10%
- Between $10 billion and $15 billion: 14%
- Between $5 billion and $10 billion: 10%
- Between $1 billion and $5 billion: 18%
- Between $500 million and $1 billion: 5%
- Between $100 million and $500 million: 2%
- Less than $100 million: 0%

**How long has your shared services center been operating?**

- At least one but less than three years: 5%
- Less than one year: 0%
- Ten or more years: 19%
- At least three but less than five years: 23%
- At least five but less than ten years: 53%
Combined Cycle Demographics

Combining data from all three cycles of the study, we have 302 participants in total:

- More than half of the total participants are US or Canada based.
- Overall size of the participating organizations is relatively smaller than 2016 data.
- A higher level of service center maturity is reflected in the combined data compared to just 2016.

**Participating Organization Location**

- US & Canada: 53%
- Europe: 37%
- Asia-Pacific: 9%
- Central & South America: 1%

**What is the total annual revenue of your shared service center's immediate corporate parent?**

- $20 billion or greater: 22%
- Between $15 billion and $20 billion: 7%
- Between $10 billion and $15 billion: 13%
- Between $5 billion and $10 billion: 14%
- Between $1 billion and $5 billion: 22%
- Between $500 million and $1 billion: 14%
- Between $100 million and $500 million: 8%
- Less than $100 million: 0%

**How long has your shared services center been operating?**

- Ten or more years: 35%
- At least five but less than ten years: 30%
- At least three but less than five years: 26%
- Less than one year: 0%
- At least one but less than three years: 8%
Multi-Center, Multi-Country Models are Common

- 66% of total participants have more than one SSC, and 67% serve more than one country
  - We continue to see the declining trend of the “one-country” model, with the number of single-country SSCs decreasing from 50% in 2014 to 19% in 2016
- Among all participants, North America is the most popular location, followed by Europe
- Labor factors and tax considerations are the top location selection criteria

How many separate finance-related shared services centers do you have?

- 1 SSC: 34%
- 2 SSCs: 9%
- 3 SSCs: 18%
- 4 SSCs: 10%
- 5 SSCs: 8%
- More than 5 SSCs: 9%

How many countries receive services provided by your shared services center?

- Only one country: 32%
- 2 to 10 countries: 34%
- 10 to 40 countries: 30%
- At least 40 countries: 9%

SSC Locations

- North America: 65%
- Europe: 60%
- Asia Pacific: 43%
- Latin America: 14%
- Middle East/Africa: 15%

No. 1 Important Criteria in Determining SSC Location

- Labor: 39%
- Tax considerations: 20%
- Cost: 19%
- Infrastructure: 9%
- Logistics/convenience: 6%
- Leverage of existing sites: 4%
- Geopolitical: 2%
- Crime: 1%
Global Regional Model Dominates, GPO Role is on the Rise

- Global Business Services (GBS) models, defined as those with global management and integration, are most common
  - 42% have regional centers with global management and integration, and 27% have centralized into global hubs
- The global process owner role and service level agreements are the most leveraged process governance model
  - 68% report using global process owner; 61% report using SLAs
  - 75% of participants use multiple governance methods

### Global Process Governance Model

- **Global process owner**: 68%
- **Process council**: 31%
- **Service level agreements (SLAs)**: 61%
- **Shared services or GBS board of directors**: 32%

### Geographic Model

- **GBS**
  - Single global center physically located in one space
  - Regional centers with global management and integration
  - Site/country-specific centers with global management and integration
- **Regional centers run independently**
- **Site/country-specific centers run locally**
- **N/A - my organization does not have global operations**
- **Other**
Policy Differences Become the Primary Global Challenges

- Half of participants indicated policy differences as the most significant issue in implementing global services.
- SSCs rely most often on consulting firms to interpret foreign laws and regulations.

Which are your shared services center’s most significant challenges to implementing global services?

- Policy differences (49%)
- Regulatory/Control challenges (8%)
- Business case (9%)
- Quality/Service concerns (21%)
- Governance issues (3%)
- Technology challenges (21%)
- Change management (1%)
- Other (5%)

How does your shared services center maintain knowledge of foreign laws and regulations?

- Consulting firm advice (38%)
- Internal or external legal advice (31%)
- Local employee other than audit or legal team advice (25%)
- Internal audit advice (25%)
- Software applications (16%)
- Other (9%)
Technologies and Analytics are Increasingly Leveraged

- Over 90% of total participants indicated using a vendor portal to access payable information
- 89% report using data analytics, with two thirds of those who do indicating comprehensive or predictive-focused data analytics
- 67% of SSCs have already implemented or are thinking about using process robotics

**Use of Vendor Portal**
- 60% or more
- At least 30% but less than 60%
- More than 0% but less than 30%
- None

**Use of Process Robotics**
- Implemented
- Conducting pilot to validate utility
- Thinking about using
- Not using

**Use of Data Analytics**
- Not Using 11%
- Using 89%

**Nature of Data Analytics**

<table>
<thead>
<tr>
<th>Year</th>
<th>Metrics and reporting focus</th>
<th>Analysis focus</th>
<th>Predictive focus</th>
<th>Comprehensive focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>11%</td>
<td>23%</td>
<td>34%</td>
<td>35%</td>
</tr>
<tr>
<td>2015</td>
<td>4%</td>
<td>78%</td>
<td>32%</td>
<td>14%</td>
</tr>
<tr>
<td>2016</td>
<td>22%</td>
<td>20%</td>
<td>32%</td>
<td>18%</td>
</tr>
</tbody>
</table>
The majority of organizations are adopting E2E processes. Most SSCs observed cost savings as a result of the implementation of the E2E processes:

- 97% of total participants have at least one E2E process in scope
- 76% of participants achieved non-labor savings from implementing E2E processes and 53% achieved labor savings
- Of the SSCs who have observed non-labor savings, 96% reported a reduction in spending
- Estimated non-labor savings range from $208K to $788K per $1 billion revenue

**E2E Processes – Many Have, What’s the Impact?**

**# 1 Procure-to-Pay**

- In scope, 83%
- Not in scope, 17%

**# 2 Order-to-Cash**

- In scope, 64%
- Not in scope, 36%

**# 3 Record-to-Report**

- In scope, 50%
- Not in scope, 50%

**Which of the following types of cost savings has your SSC observed as a result of the implementation of the E2E processes?**

- Non-labor: 76%
- Labor: 53%
- No savings: 14%

**Typical Non-Labor Cost Savings Observed**

- Reduction in spending: 96%
- Increase in working capital: 52%
- Increase in dynamic discounting: 21%

**Non-Labor Savings per $1 Billion Revenue**

- Top Quartile: $788K
- Median: $417K
- Bottom Quartile: $208K
## Degree of Centralization

Traditional transactional processes are more centralized than higher value processes

<table>
<thead>
<tr>
<th>Process</th>
<th>Globally Centralized</th>
<th>Regionalized</th>
<th>Not Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process accounts payable</td>
<td>48%</td>
<td>33%</td>
<td>19%</td>
</tr>
<tr>
<td>Perform general accounting</td>
<td>48%</td>
<td>31%</td>
<td>21%</td>
</tr>
<tr>
<td>Process accounts receivable</td>
<td>45%</td>
<td>33%</td>
<td>22%</td>
</tr>
<tr>
<td>Process expense reimbursements</td>
<td>28%</td>
<td>38%</td>
<td>34%</td>
</tr>
<tr>
<td>Perform financial reporting</td>
<td>41%</td>
<td>21%</td>
<td>38%</td>
</tr>
<tr>
<td>Process taxes</td>
<td>27%</td>
<td>29%</td>
<td>44%</td>
</tr>
<tr>
<td>Perform planning/budgeting/forecasting</td>
<td>32%</td>
<td>20%</td>
<td>48%</td>
</tr>
</tbody>
</table>
Metric Highlights

- Combined cycle benchmark values are well aligned with APQC OSBC benchmarks for larger organizations
  - The aggregated APQC OSBC benchmarks generally align with small to medium size companies, and demonstrate lower performance than our combined cycle benchmark values

Replacing “Number of finance function FTEs per $1 billion revenue” with “Number of finance function FTEs across the entire organization per $1 billion revenue”

- Recalculated this metric for 2015 data using entire organization revenue instead of business entity revenue, to ultimately ensure the consistency with the 2014 data in terms of measurement.
Metric Highlights (Cont’d)

For high value functional areas, combined cycle benchmark values generally demonstrate more efficient staffing levels than aggregated APQC OSBC benchmarks.

**Number of FTEs that perform the process "Perform planning/budgeting/forecasting" per $1 billion revenue**

- **Top Performer**: 0.71
- **Median**: 1.60
- **Bottom Performer**: 6.06
- APQC OSBC Benchmark: 7.51

**Number of FTEs that perform the process group "manage internal controls" per $1 billion revenue**

- **Top Performer**: 1.28
- **Median**: 2.26
- **Bottom Performer**: 3.33
- APQC OSBC Benchmark: 5.01

**Number of FTEs that perform the process group "manage taxes" per $1 billion revenue**

- **Top Performer**: 1.18
- **Median**: 2.38
- **Bottom Performer**: 8.14
- APQC OSBC Benchmark: 5.00

**Number of FTEs that perform the process group "manage treasury operations" per $1 billion revenue**

- **Top Performer**: 0.46
- **Median**: 1.00
- **Bottom Performer**: 3.04
- APQC OSBC Benchmark: 5.00
Top Performer Analysis

Staffing Metrics Comparison

Top performing finance shared services have significantly better staffing ratios.

Number of finance function FTEs across the entire organization per $1 billion revenue

<table>
<thead>
<tr>
<th>Process</th>
<th>Top Performer Group</th>
<th>Comparison Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invoice customer</td>
<td>1.29</td>
<td>5.00</td>
</tr>
<tr>
<td>Perform general accounting</td>
<td>1.46</td>
<td>4.17</td>
</tr>
<tr>
<td>Perform planning/budgeting/forecasting</td>
<td>0.50</td>
<td>4.90</td>
</tr>
<tr>
<td>Process accounts payable (AP)</td>
<td>1.78</td>
<td>4.61</td>
</tr>
<tr>
<td>Process accounts receivable (AR)</td>
<td>1.55</td>
<td>3.41</td>
</tr>
<tr>
<td>Manage internal controls</td>
<td>0.91</td>
<td>5.71</td>
</tr>
<tr>
<td>Manage taxes</td>
<td>0.95</td>
<td>6.08</td>
</tr>
<tr>
<td>Manage treasury operations</td>
<td>0.40</td>
<td>3.16</td>
</tr>
</tbody>
</table>
Top Performer Analysis

Cost Metrics Comparison

Top performing SSCs show significantly lower overall finance cost and cost to operate the SSCs