



Eurasia Financial
Series

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Shared Services and BPO – Market and future Trends



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Offshoring Institute

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Shared Services and BPO – Market and future Trends

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- ➔ Further automation & digitalization

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→ Selected Work Experience

Global Pharmaceutical and Chemical Corporation (former Employer 2007)
Analyzed and market-tested the Accounts Payable and Intercompany Accounting processes in the captive Shared Service Centers in Europe

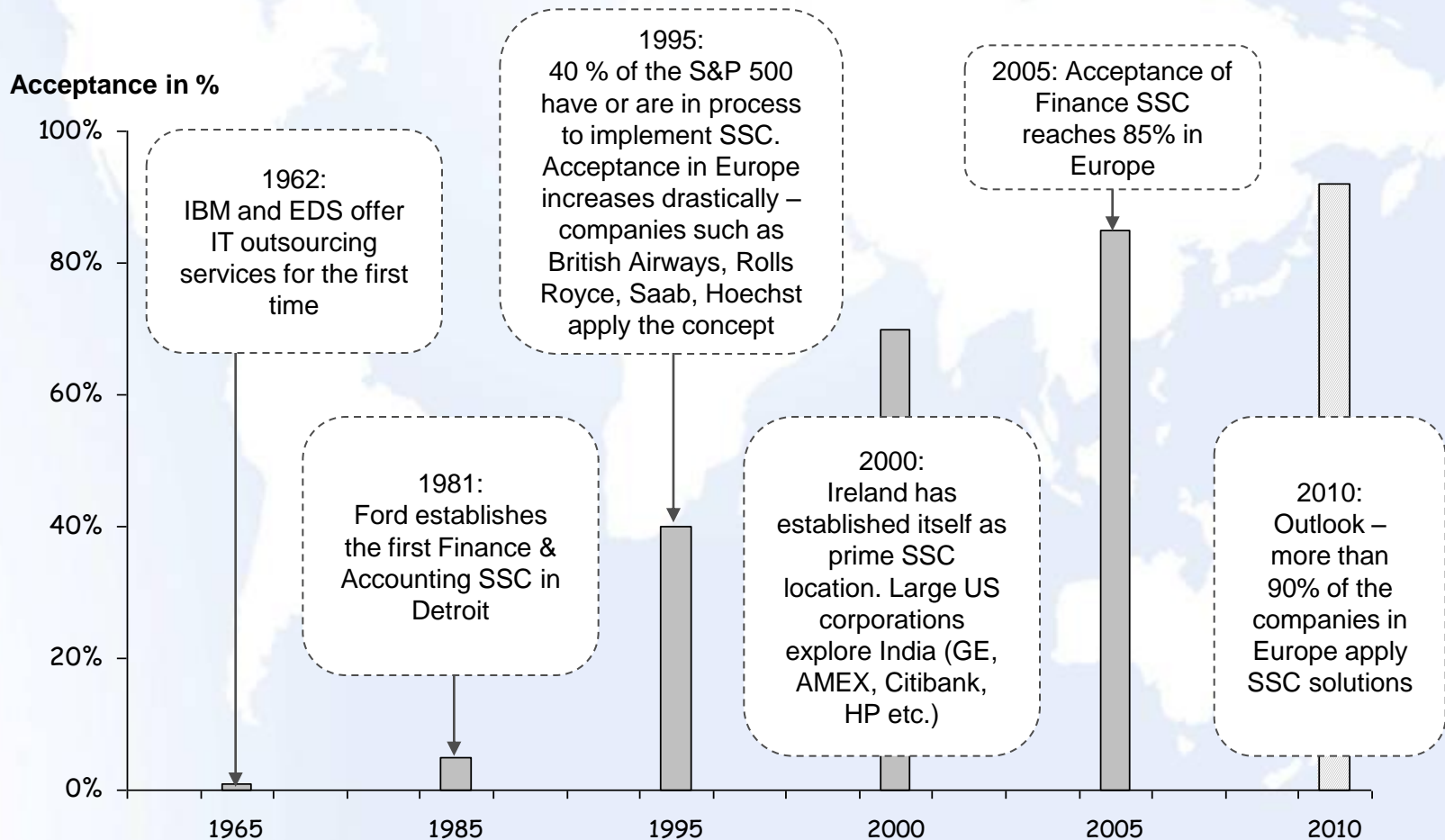
→ Selected Research Projects

Shared Services and Offshoring in the Top 80 German Companies
Researched Shared Services and Offshoring activities of selected large scale construction, pharmaceuticals and oil corporations in Germany including expert-interviews with senior executives

Shared Services and BPO – Market and future Trends

History

Historic Development of Shared Services



History

Shared Services – A widely applied concept among major corporations

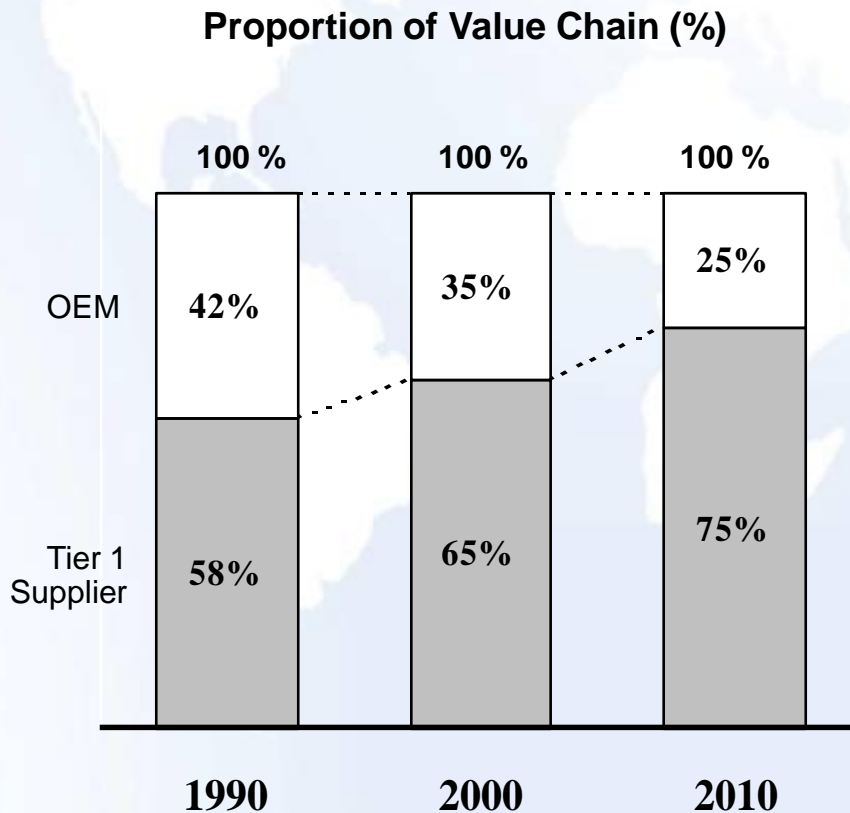
Examples

- BASF
- BAYER
- Boeing
- P&G
- Honeywell
- DuPont
- Dun & Bradstreet
- 3 Com
- Allied Domecq
- Allied Signal
- Anheuser Bush Inc
- Avis
- BAE Systems
- British American Tobacco
- Cadbury Schweppes
- Cargill
- Citigroup
- DOW Corning
- Ericsson Inc.
- Estee Lauder
- Fidelity
- Goodyear
- InBev
- Johnson & Johnson
- Kellogg's
- Lucent
- Lockheed Martin
- Marks & Spencer
- Mobile
- Nestlé
- Pfizer
- Philips Electronics
- Procter & Gamble
- CNA Insurance
- Siemens
- Sears
- Shell
- Smithkline Beecham
- Vivendi Universal
- Diageo
- Alcoa
- General Electric
- General Motors
- Kraft
- BP Amoco
- Prudential
- Bristol Myers-Squibb
- Monsanto
- Aetna Life and Casualty
- Deere and Company
- IBM
- Holiday Inn
- Honeywell
- Merck
- ITT
- Georgia Pacific
- Hewlett Packard
- Texas Instruments
- Reuters
- Rhone Poulenc
- Starbucks
- Sara Lee
- Tupperware
- Unilever
- Unisys

Value Chain and Support Processes

Decreasing Value Chain Proportion in modern OEM (Original Equipment Manufacturer)

Example

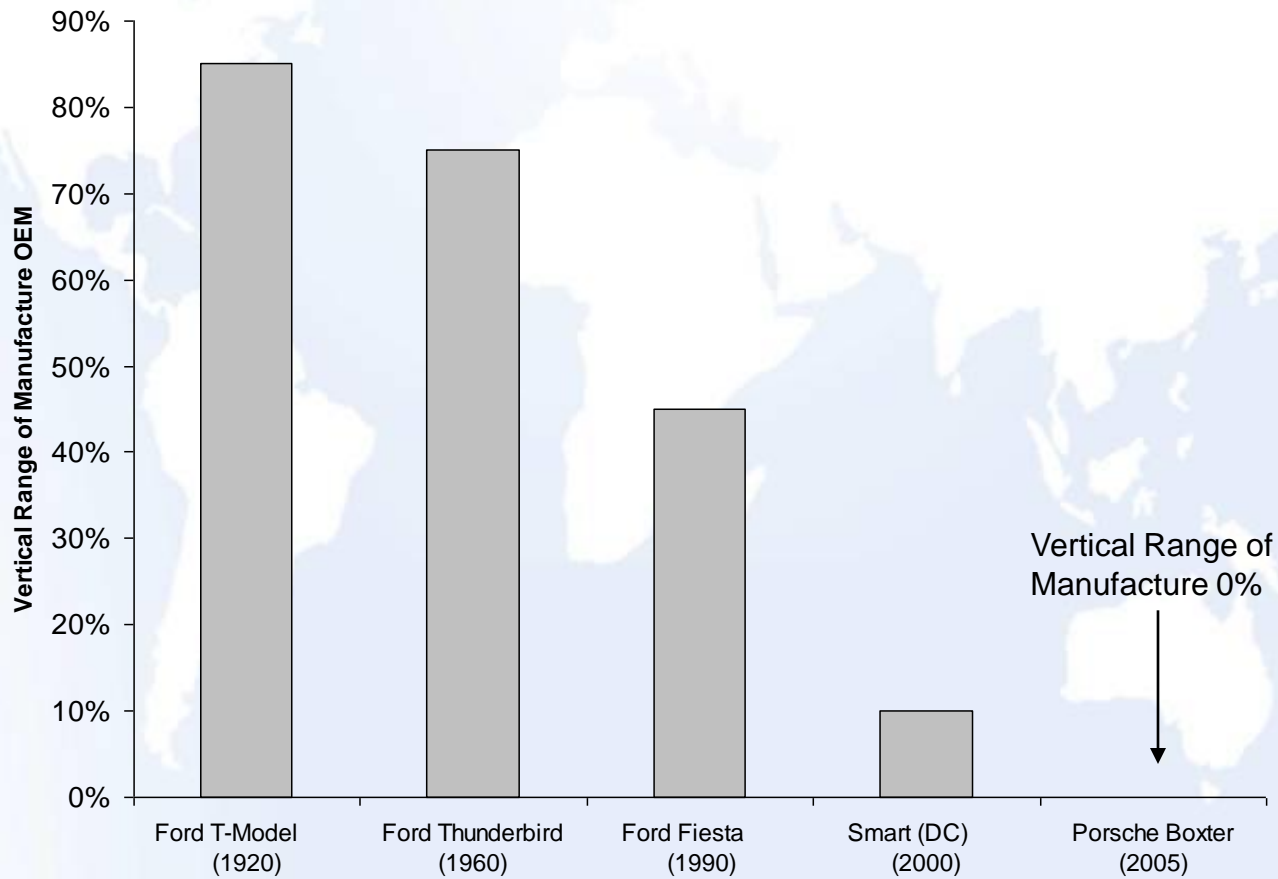


Situation
<ul style="list-style-type: none"> • In particular in the automotive and consumer goods industry vertical range of manufacture has been decreasing over the last two decades • Entire components and systems (in some cases even entire products) are produced and assembled by suppliers • The OEM just focus on core competencies such as Strategy, Marketing, Design, R&D, etc. • Operations and services processes outside the core are outsourced to specialized providers

Value Chain and Support Processes

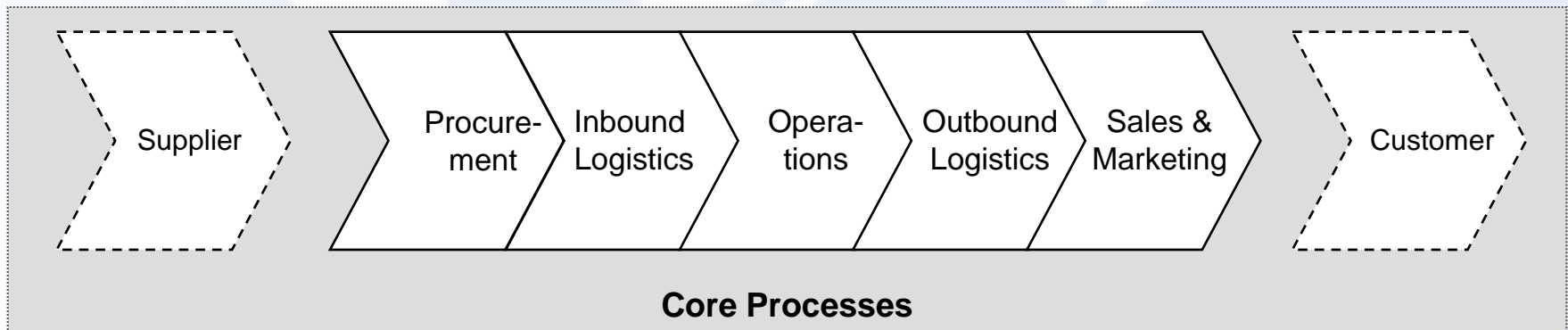
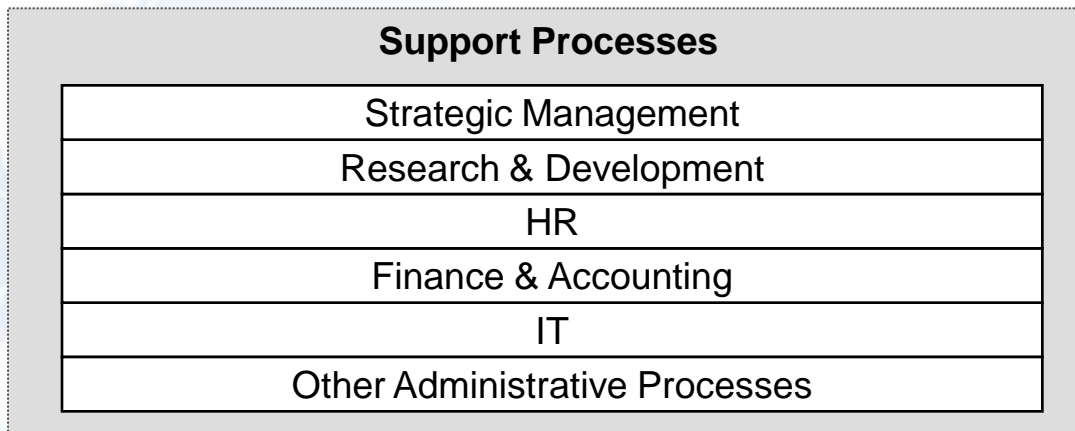
Vertical Range of Manufacture – in some cases close to zero

Example



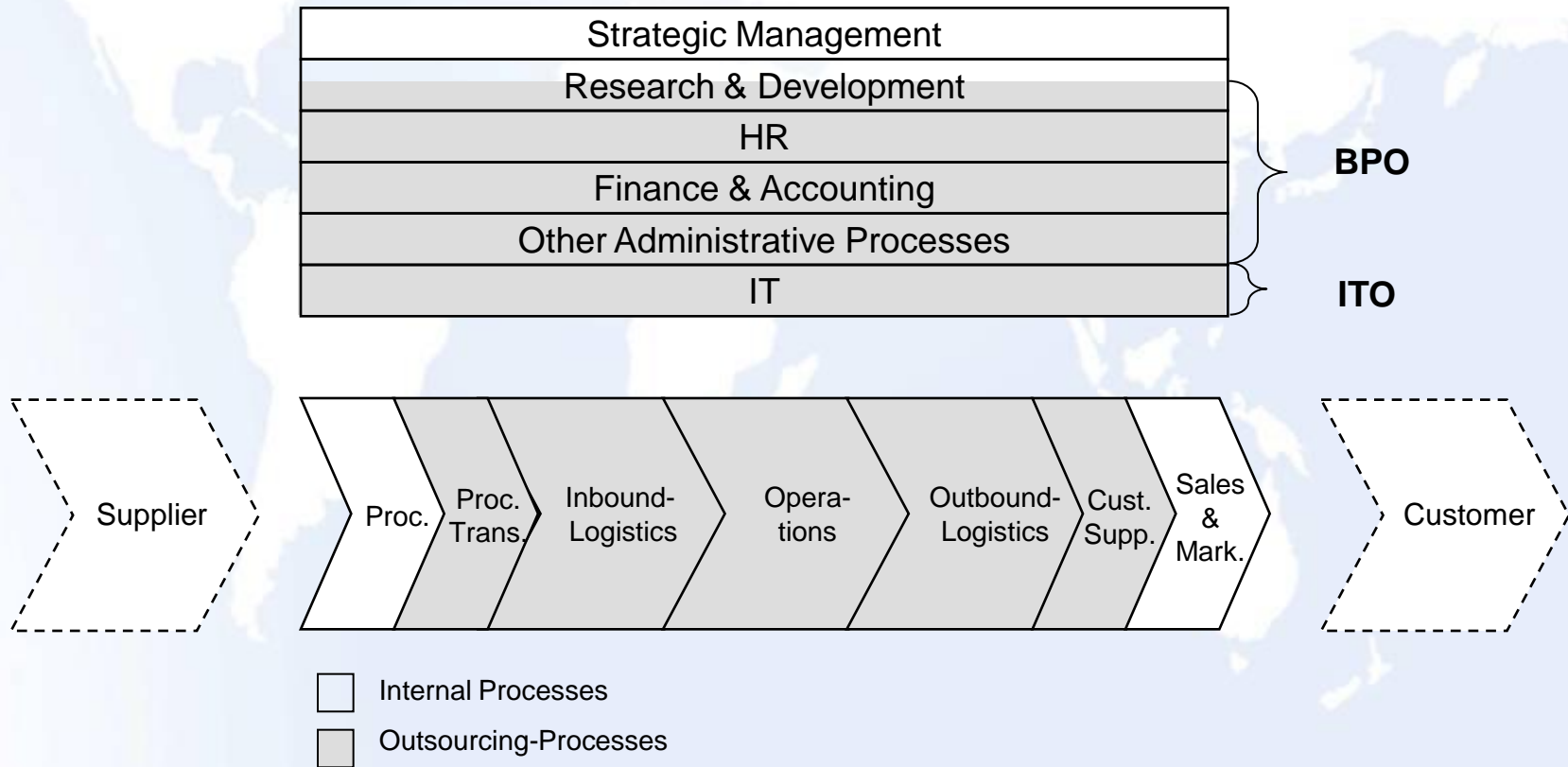
Value Chain and Support Processes

BPO now means Outsourcing of Support Processes



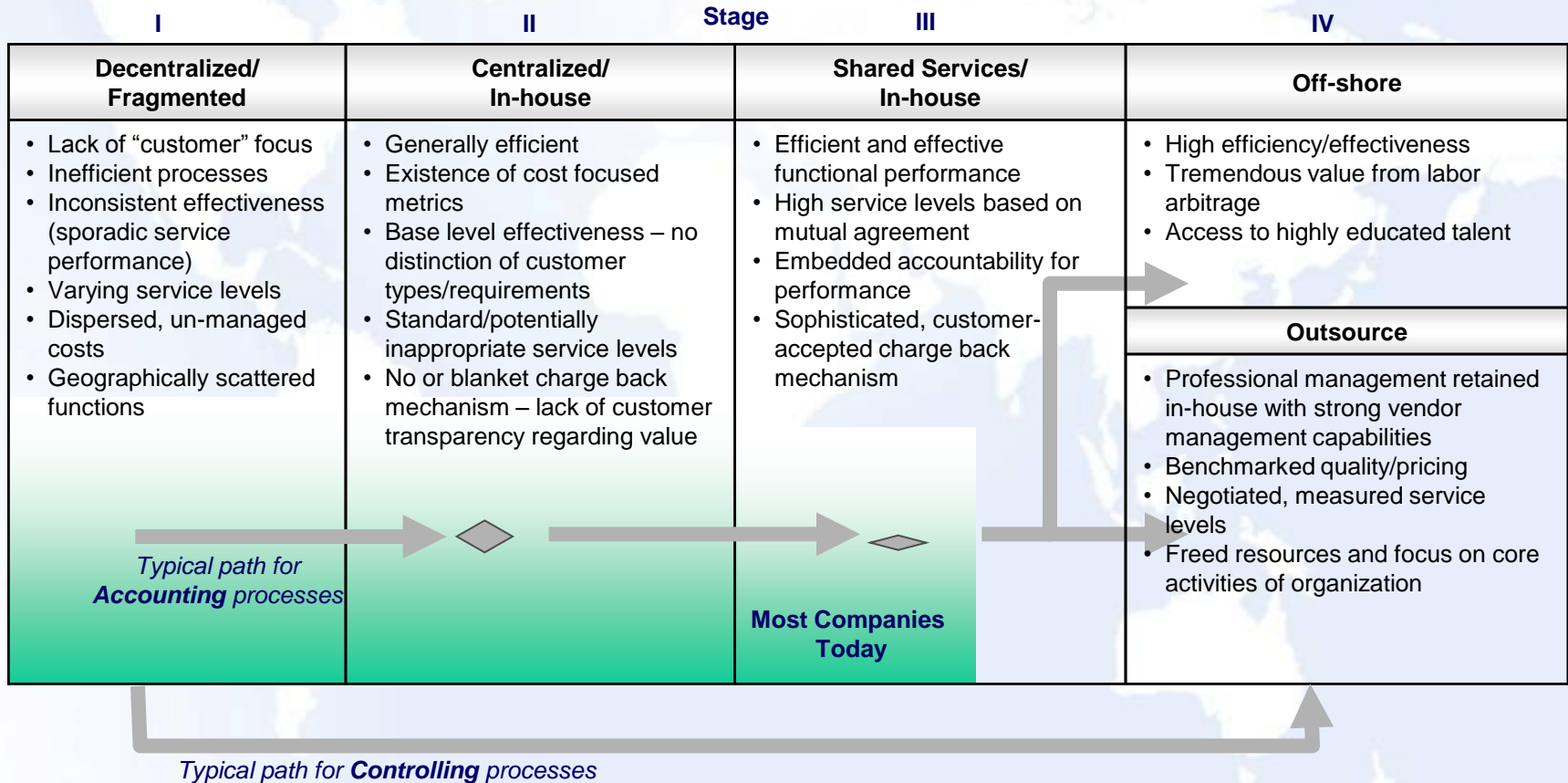
Value Chain and Support Processes

The complete Outsourcing Model (Theory)



The Path to intelligent Sourcing

The Evolutionary Path to BPO and Offshoring

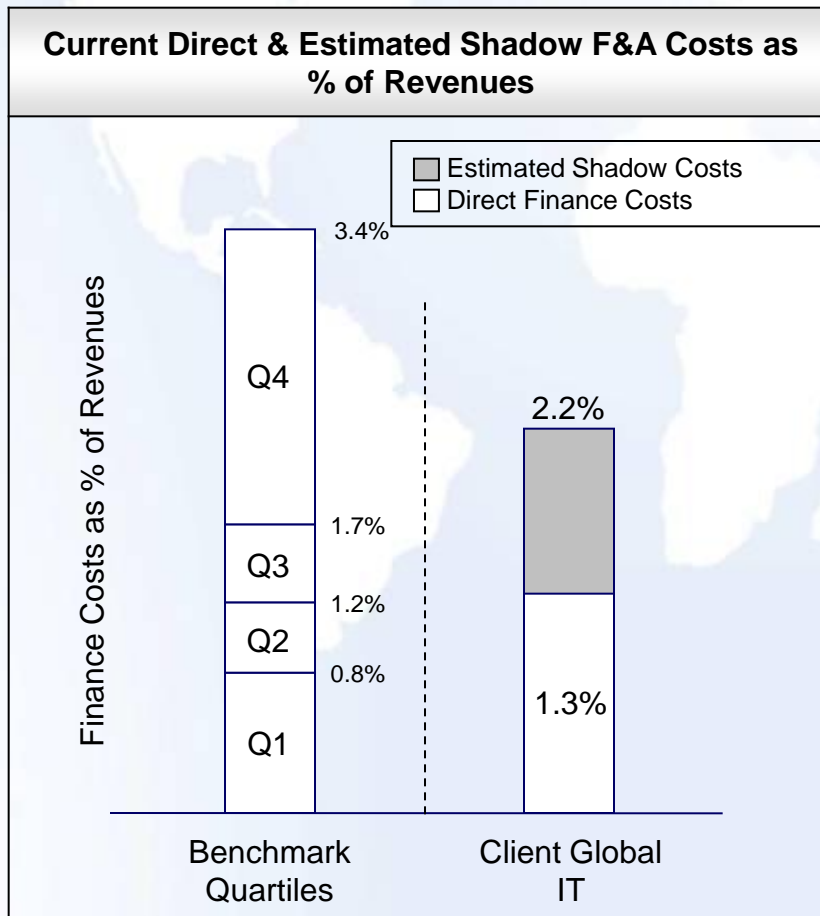


This transition is not necessarily linear — and a given company's path will vary according to its individual situation

The Economic Perspective

Urgent Need for Cost Reduction

Global IT Company



Situation

- Client needs to reduce F&A costs by \$50M globally in order to reach average benchmark performance
- Lack of common ERP platform and inconsistent processes contribute to high F&A costs
- Inefficient processes result from lack of standardization and coordination

Shadow F&A Costs

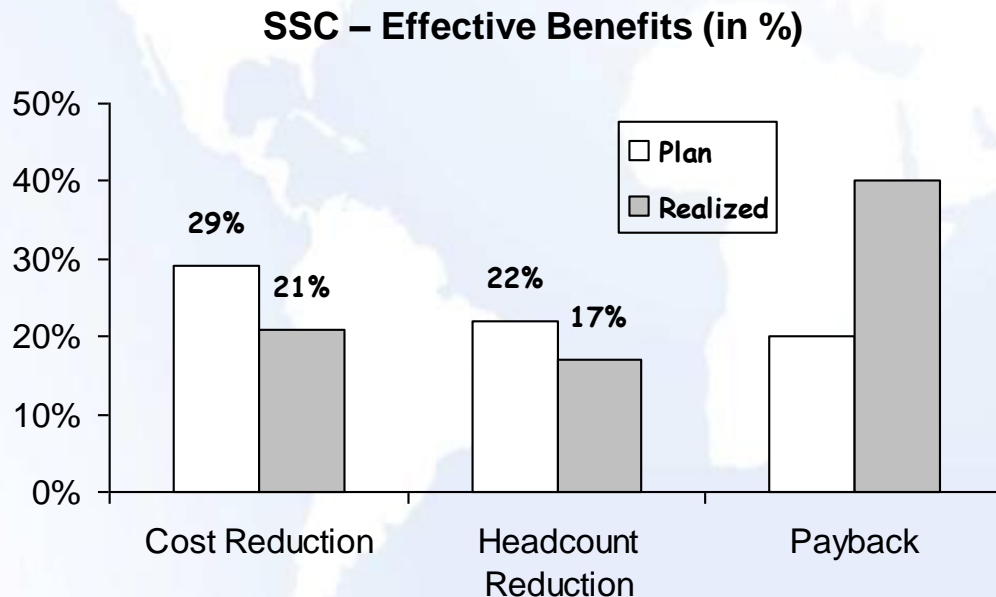
- Extent of Shadow activities clearly indicate a high level of additional administrative burden for the Sales and Operations
- Sales and Operations are distracted by having to perform non value add activities

The Economic Perspective

Realized Benefits and Organizational Integration

PA Consulting

Comments
<ul style="list-style-type: none"> PA Consulting's Benchmarking Study underlines that realized benefits fall substantially short of initial objectives – despite all the buzz around Shared Services successes However, in terms of Payback most companies realize a shorter implementation time span than initially planned

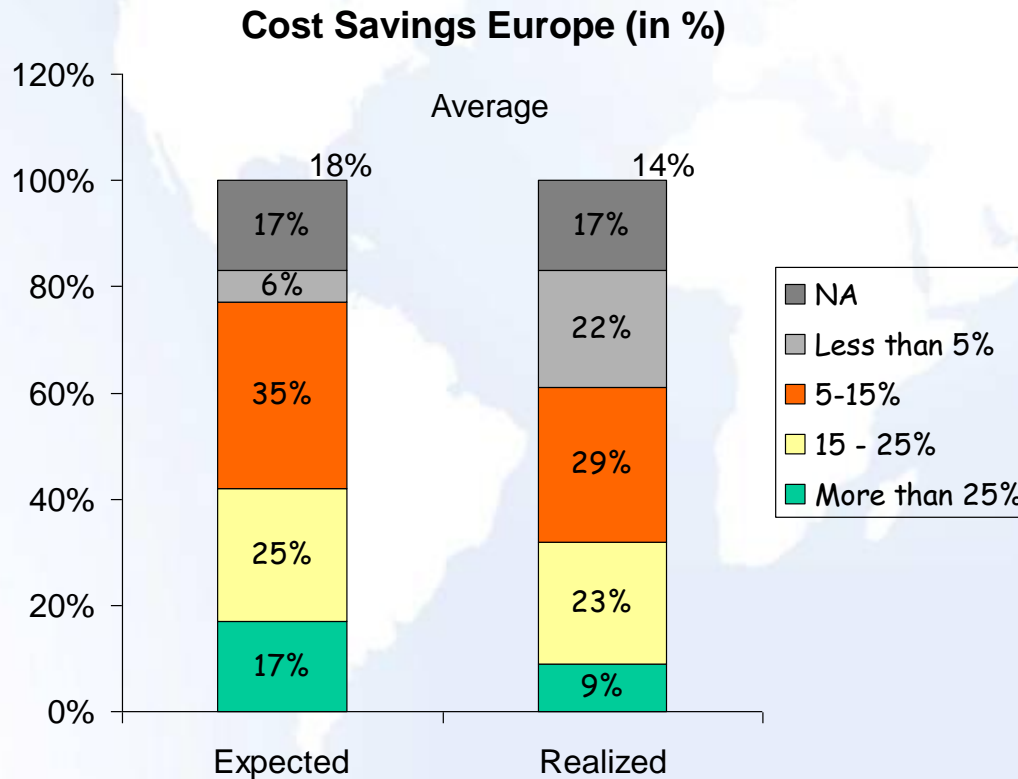


Source: Benchmarking shared service centres survey, PA Consulting Group, 2002

The Economic Perspective

Realized vs. planned Benefits

A.T. Kearney



Comments
<ul style="list-style-type: none"> A.T. Kearney confirms the shortfall in realized savings – of the initially planned 18% cost savings only 15% could be realized on average However, almost 2/3 of the analyzed companies report a minimum of 5% cost savings The majority of the companies still reports issues regarding trust in delivery capabilities and quality of Shared Service performance

Source: Success through Shared Services, A.T. Kearney Whitepaper 2004

The Economic Perspective

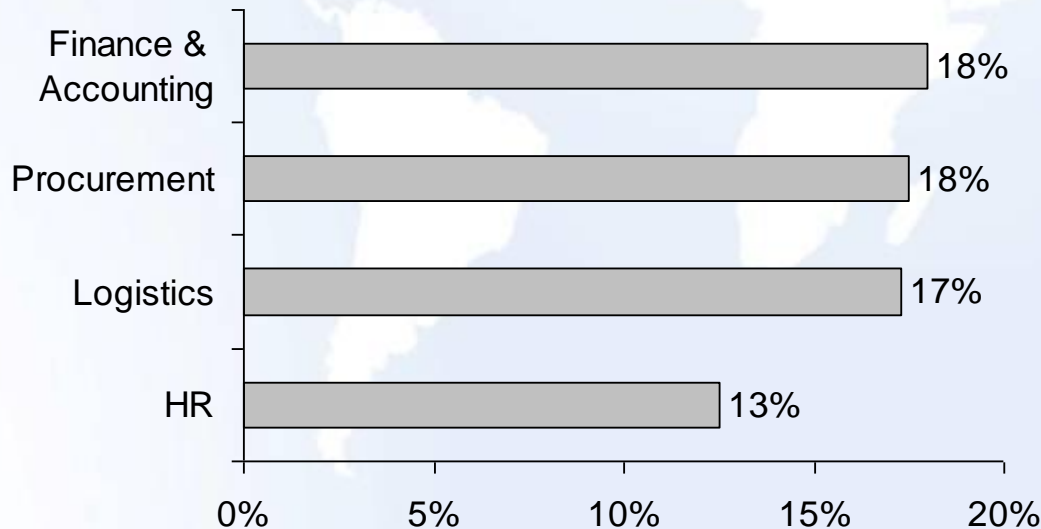
BPO Processes – Comparison of Acceptance Rates

DB Research

BPO Processes for Offshoring (570 Companies in GER, AT, CH)

Question:

“Which of the BPO processes are partly offshored or will be offshored in the near future?”



Comments
<ul style="list-style-type: none"> • Finance & Accounting is on top of the list of processes offshored • Generally, the acceptance rate for BPO is lower than for ITO. <p>Major reasons are:</p> <ul style="list-style-type: none"> - Missing trust - Uncertainty about service levels - Process complexity - Regulatory issues - Change Management

Source: Deutsche Bank Research, June 14, 2005, Nr. 52

The Economic Perspective

Acceptance Rate for SSC in Top German Companies

Offshoring Institute



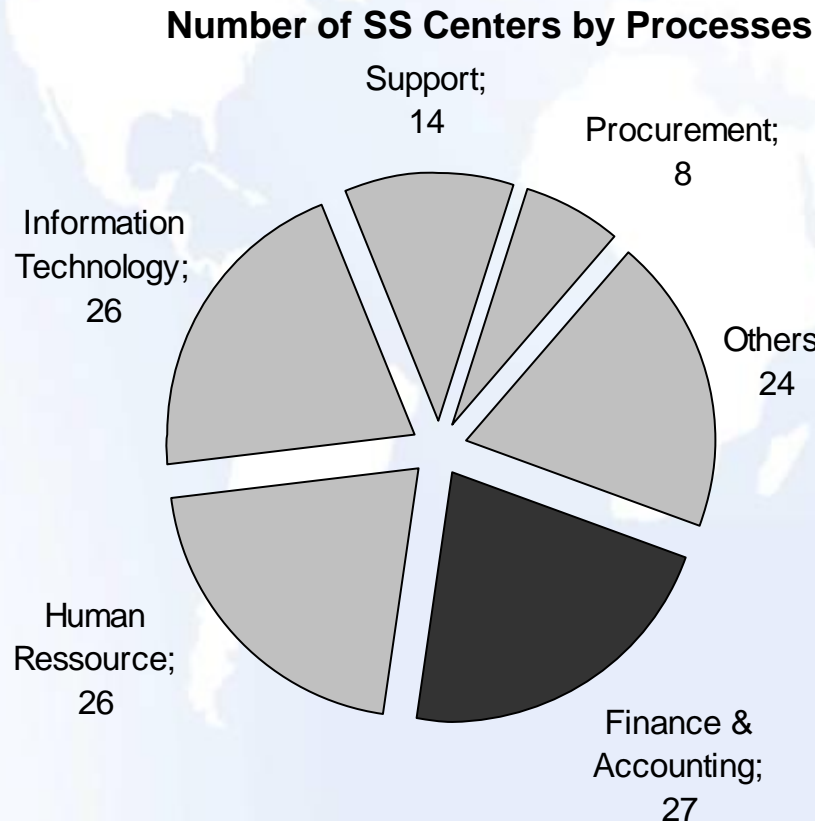
Source: www.offshoring-institute.org/research

Comments
<ul style="list-style-type: none"> • With 57 out of 79 companies reporting Shared Service activities the concept is well adapted among German large companies • Overall, the top 80 German companies operate 146 centers (125 centers, some with multiple locations) • Shared Service Centers cover a wide variety of back office services ranging from Finance & Accounting to HR and Procurement • Almost half the SSC (69) are still located in Germany and often just simple centralizations of back office operations with the firm's headquarter operation

The Economic Perspective

Typical SSC Functions

Offshoring Institute



Comments

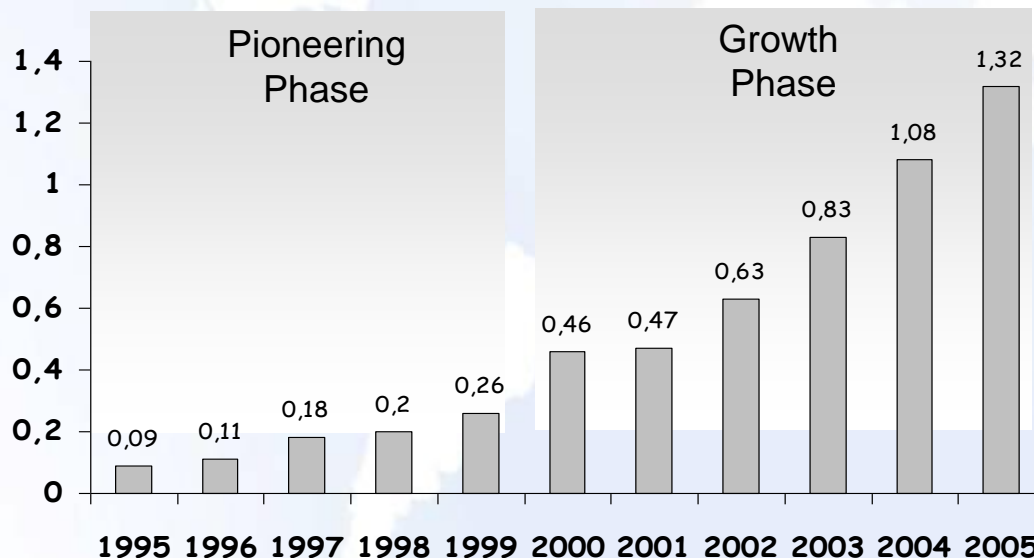
- The top German companies are running 27 Finance & Accounting Shared Services and Outsourcing Operations
- The top 3 processes (F&A, HR, IT) cover 79% of all Shared Services being established so far
- Therefore, large-scale companies need to find ways to arrange the governance structure in order to manage Shared Service and Outsourcing operations effectively

The F&A Outsourcing Market

Growth of the Finance & Accounting Outsourcing Market

Everest

Finance & Accounting Outsourcing Revenues per year (in billion \$)



Source: Finance Accounting Outsourcing Annual Report, Everest Research Institute, 2005; The Economist Briefing Paper Shared Services, Economist 2003

Comments

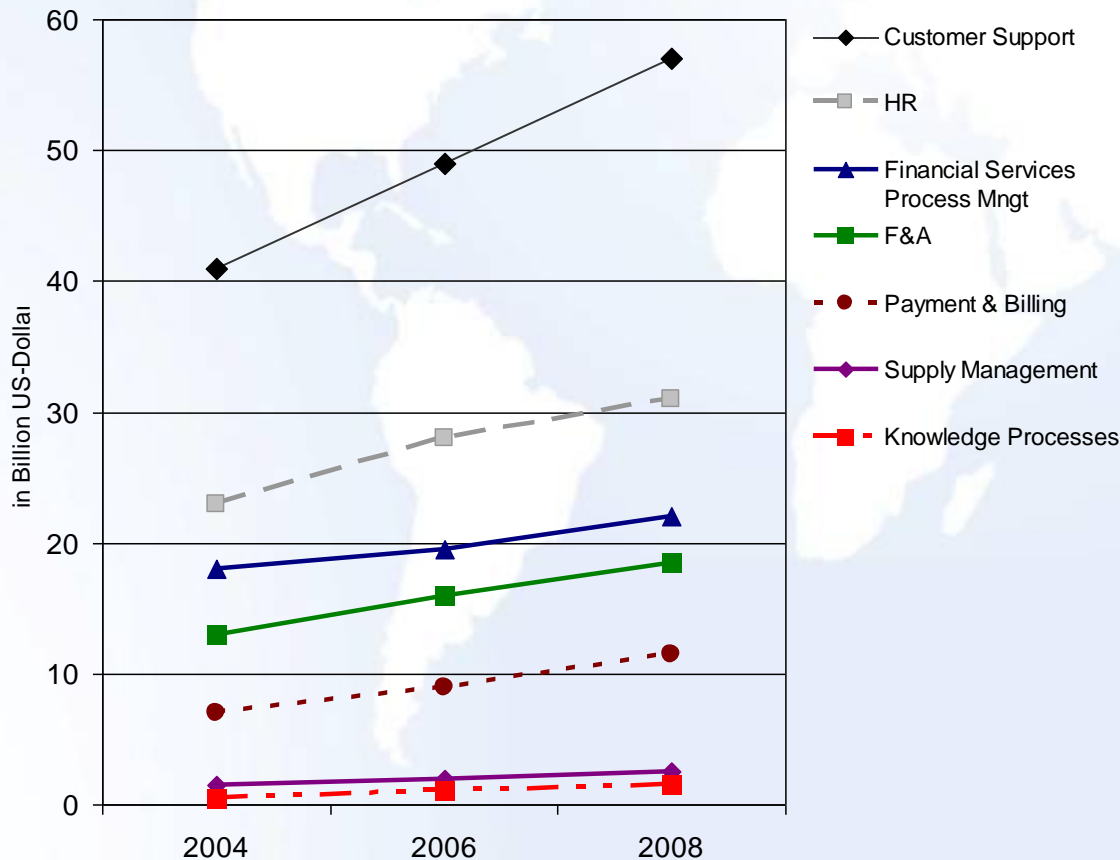
- Everest estimates the overall volume of Finance & Accounting Outsourcing to approximately \$1,3 billion in 2005
- The initial assessments of the BPO market of \$26 billion¹ highlights that the predominantly chosen option to set up transformed F&A operations are captive Shared Services
- East European locations are still the preferred locations of European companies because of cost advantages and multilingual skill availability although cost advantages are starting to erode

1) IDC, World-wide BPO Outsourcing Forecast and Analysis Report, 2002

The F&A Outsourcing Market

Market Size for BPO in \$ Billion

Business Insight



Source: Business Insight

Comments

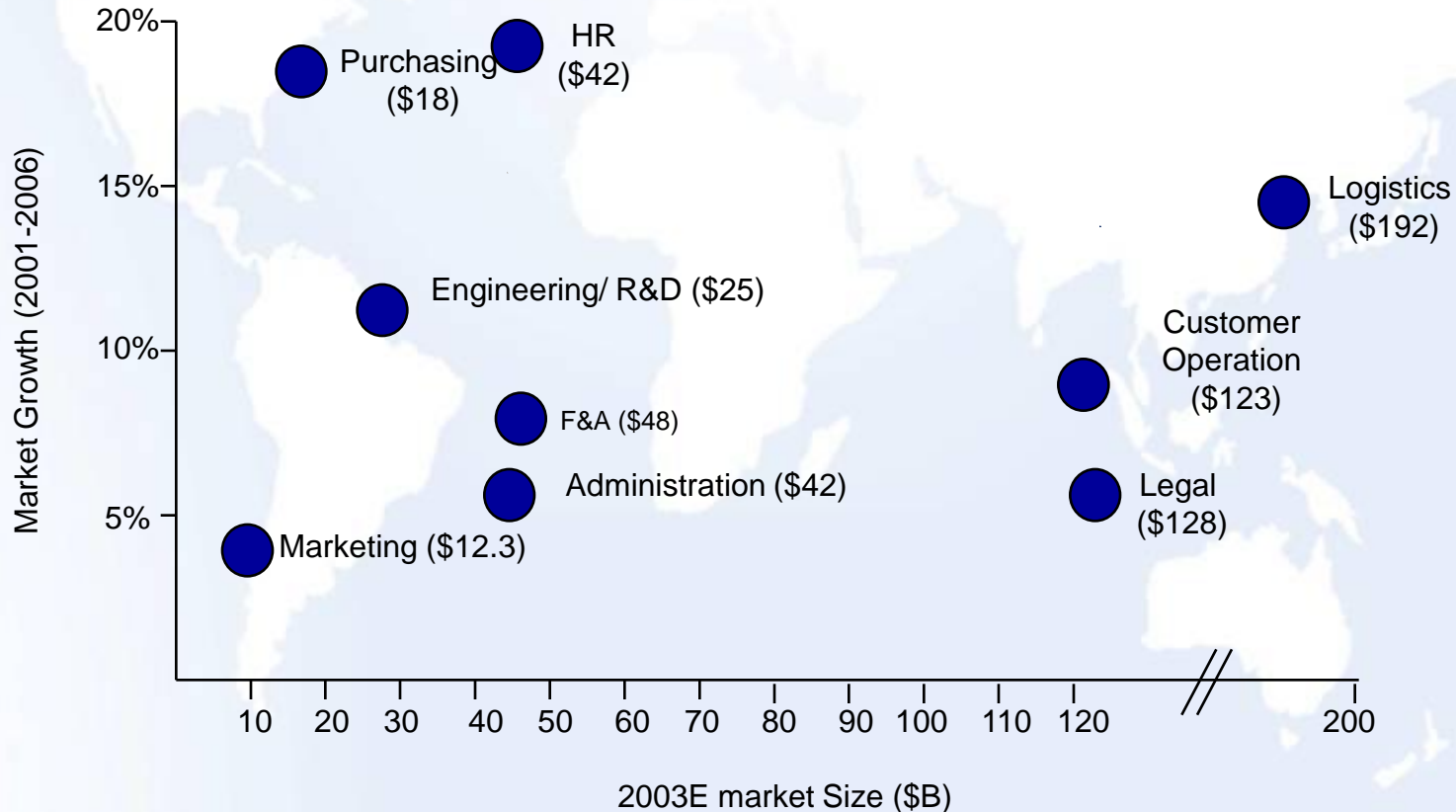
- Call Center activities are most often outsourced to specialized providers
- HR Outsourcing is very well established in North America with complex benefits processing conducted by providers
- Also, Payroll Outsourcing is driving high adoption rates for HR
- Transaction processing, e.g. for mortgages is a strong driver for Financial Services Outsourcing

The F&A Outsourcing Market

BPO Market Perspective

IDC

Worldwide BPO Spending by Function

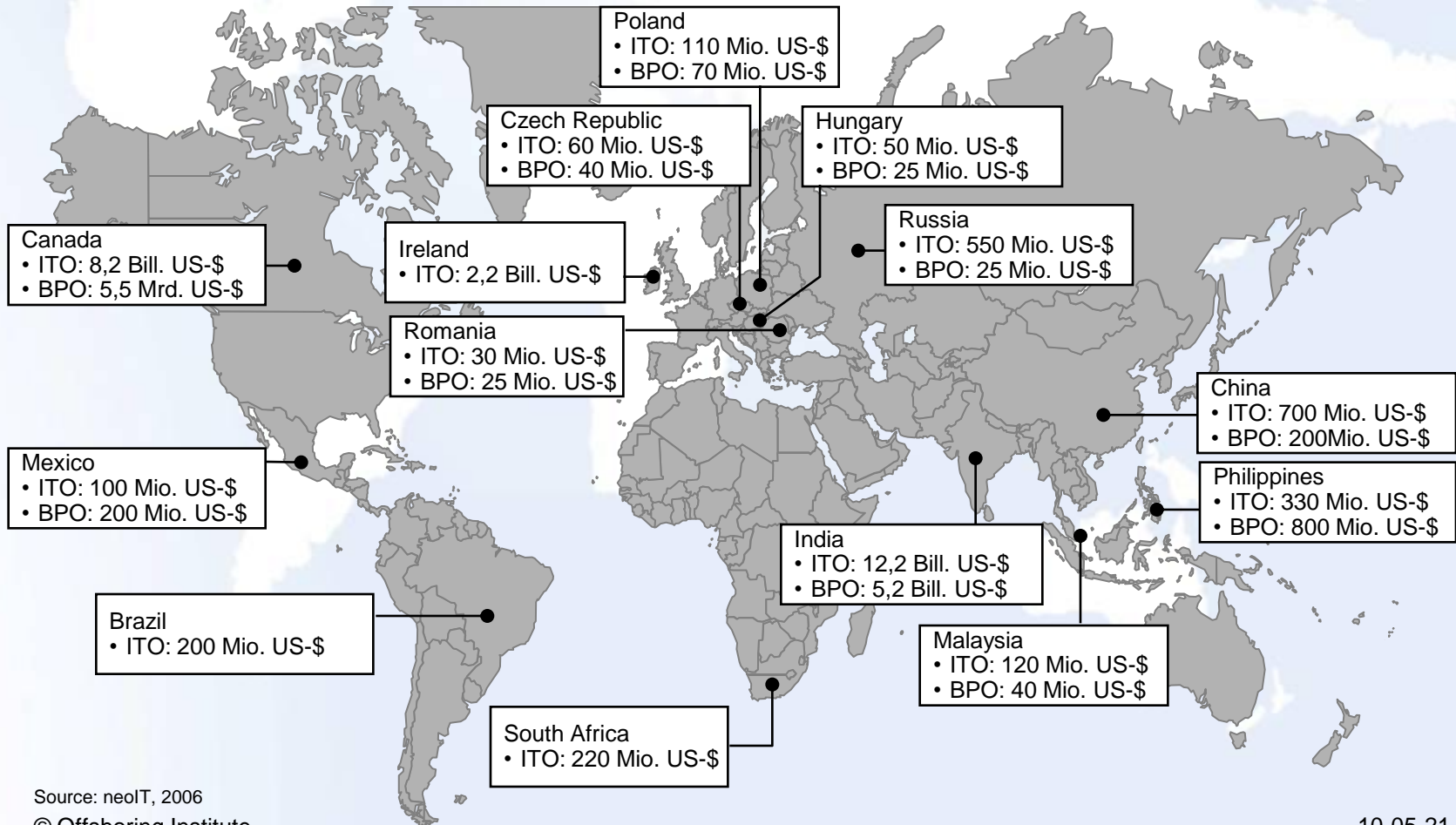


Source: IDC, World-wide BPO Outsourcing Forecast and Analysis Report, 2002, IDC Report 2002 – U.S. HR Management Services Forecast, 2002-2006

The F&A Outsourcing Market

ITO and BPO Exports

neolT



Source: neolT, 2006

Market Trends

Salaries are increasing drastically in Offshoring hotspots

Everest

Salary growth rates in an Application Development Center, India (Example)

Level	In % of employees	Salary growth rates
Project Manager	3 %	6 %
Project Leader	5 %	7 %
Team Leader	8 %	15 %
Senior Software Engineer	34 %	12 %
Software Engineer	50 %	11 %

Average 11.5%

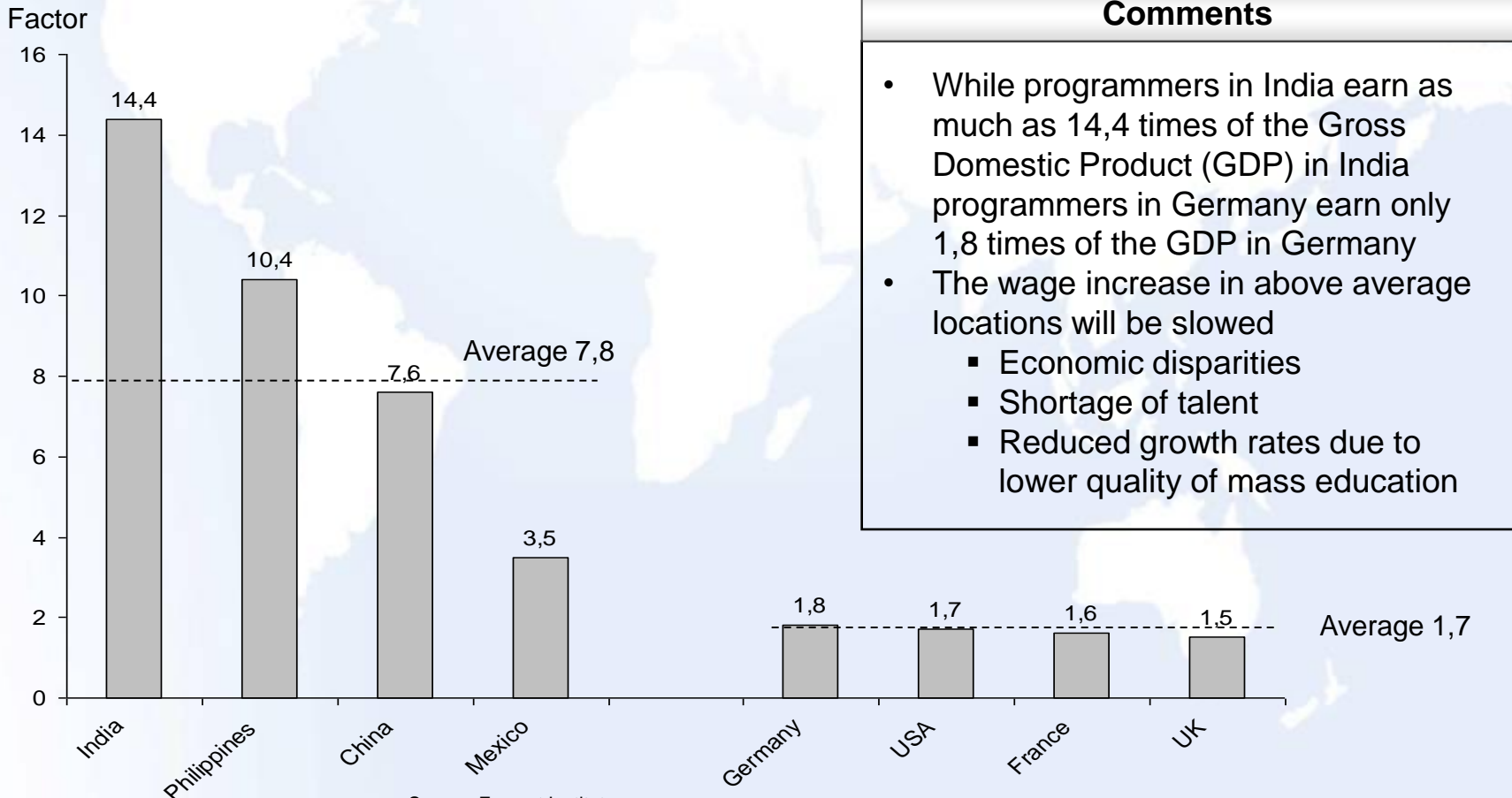
Situation
<ul style="list-style-type: none"> • Salary growth rates are significant in particular for experienced staff • High salary growth rates lead to attrition issues • How sustainable are these sharp increases ?

Source: Everest Institute

Market Trends

Economic disparities within low cost countries are slowing down the wage increases

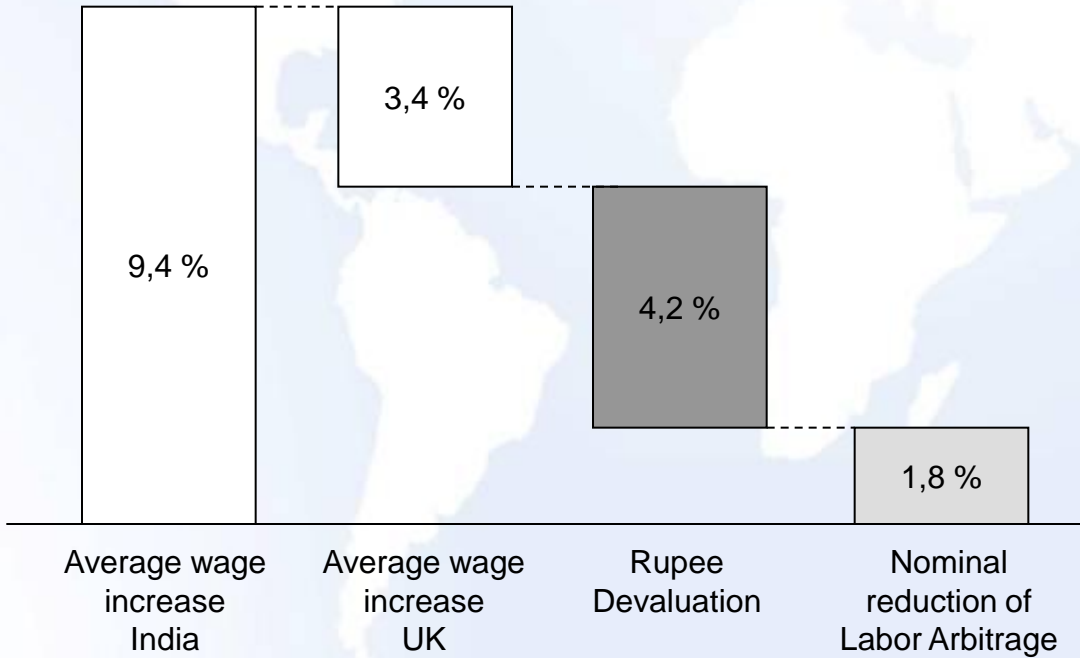
Everest



Market Trends

The Global Allocation of Work – Sustainability of Cost Advantages

Everest



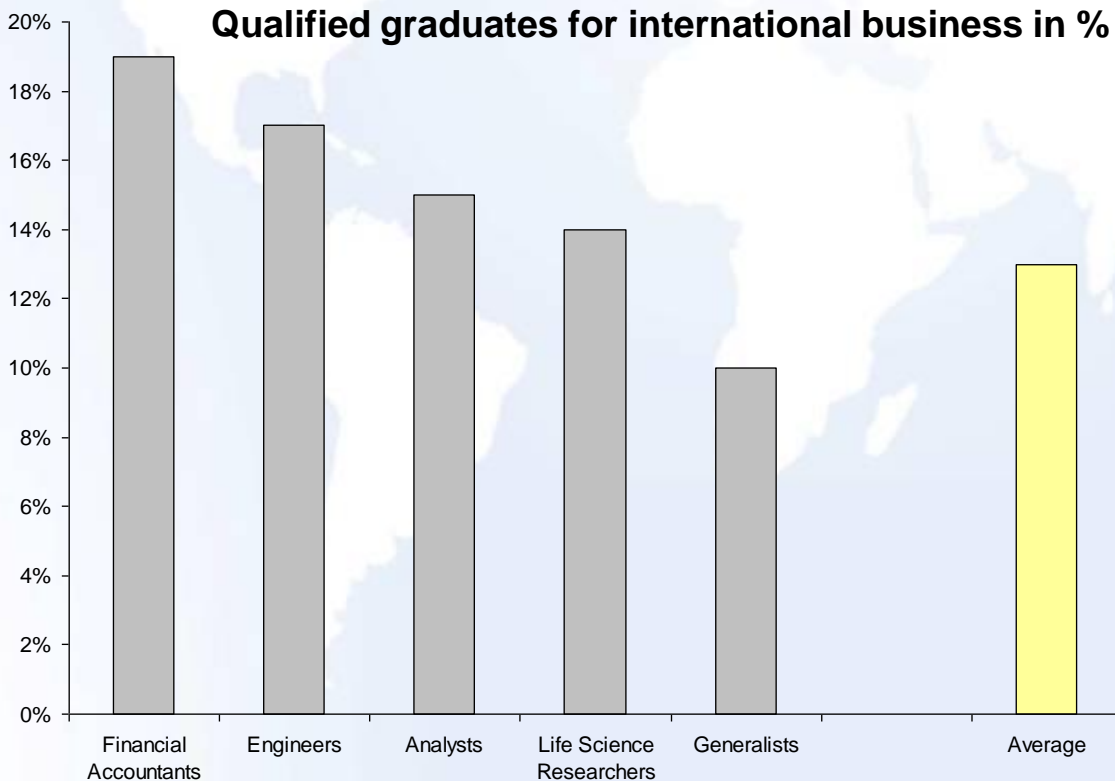
Comments
<ul style="list-style-type: none"> • Sustainability of labor cost advantages might be better than often thought • Currency devaluation effects of most low labor cost countries are slowing down the nominal wage increase in these locations • Even though some Nearshoring/Offshoring hot spots in Asia or Eastern Europe are currently experiencing wage increases in almost two digits the net effect is usually below 2%

Source: Everest Institute

Market Trends

Only few of the college graduates in low cost countries are qualified enough to support international business operations

Mc Kinsey



Situation

- Lack of suitability for international business because of various reasons
 - Language
 - Cultural background and adaptability
 - Quality of education
 - Lack of personal skills (e.g. teamwork, leadership)
 - Missing focus on international requirements (accounting standards, laws and regulations, etc.)
- Only few of the highly educated work force are willing to work in shifts

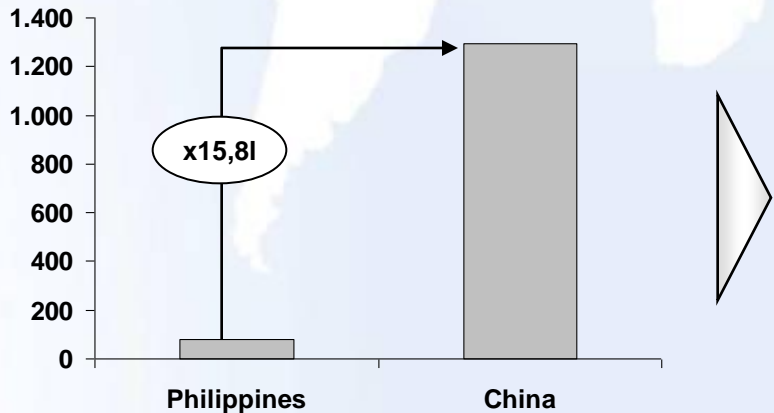
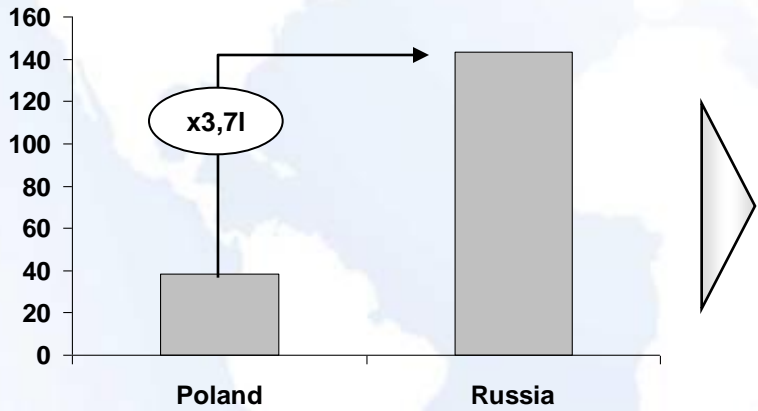
Source: McKinsey Global Institute

Market Trends

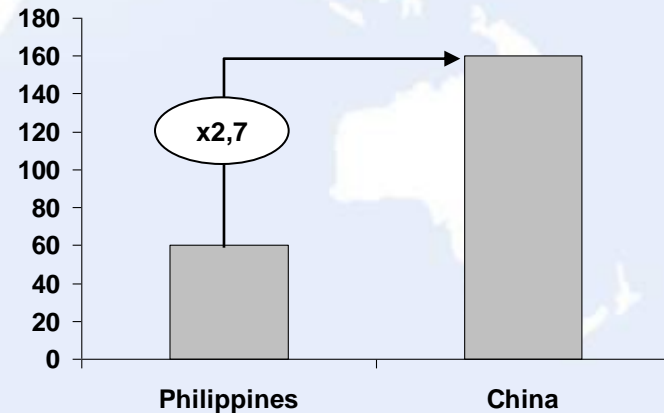
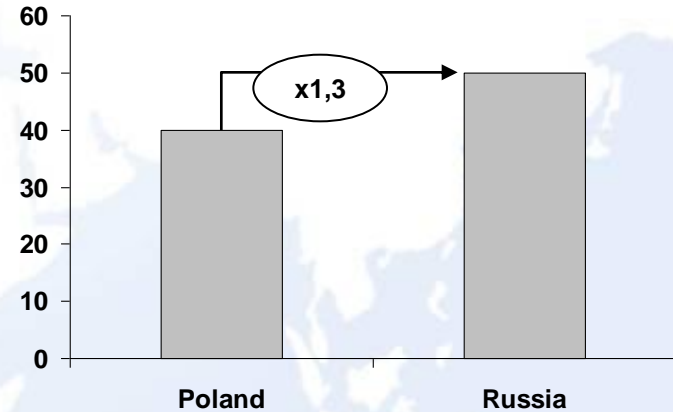
Size of the population can be misleading

Everest

Population in million



Engineers with less than 7 years business experience (in thousands)



Market Trends

Typical tenure profiles show often a longstanding accounting workforce

Illustrative



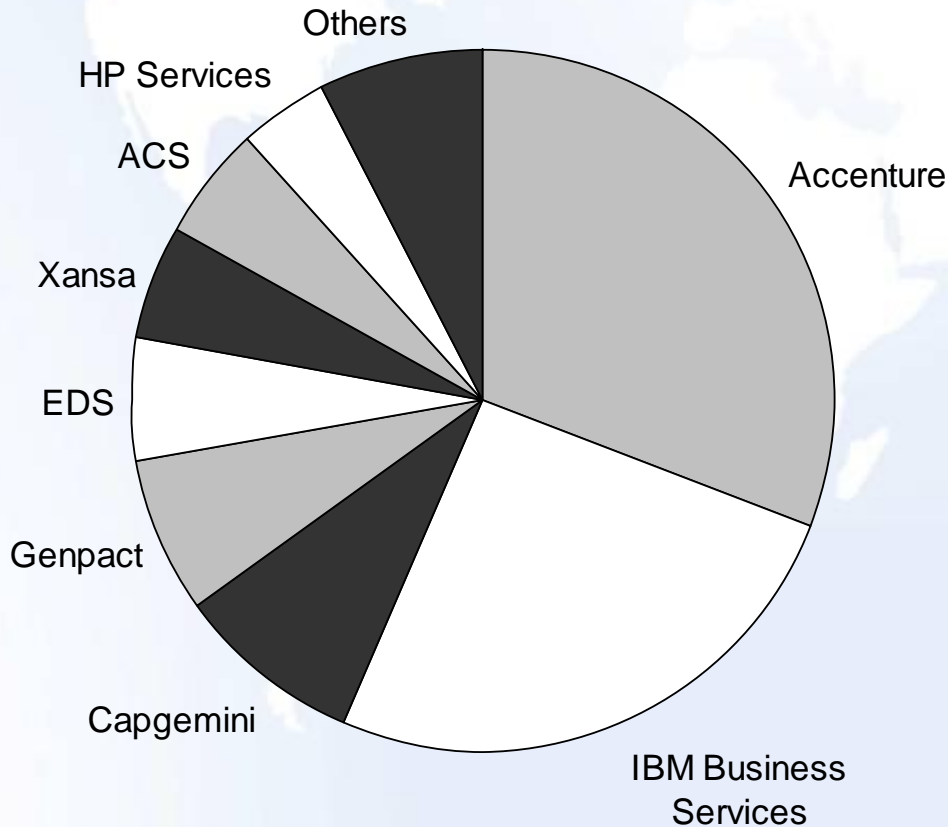
Situation

- Many accounting departments have a longstanding workforce due to significant transactional and manual workload in the past
- Employees in Continental Europe tend to be more loyal to the firm than in Anglo-America
- High levels of knowledge and experience
- However, often high severance payments have to be considered
- High levels of 'change resistance'

BPO Provider in Europe

Example – Finance BPO Player

Offshoring Institute



Situation

- Accenture is still the strongest finance BPO provider due to its heritage as Andersen Consulting and the strong finance consulting expertise
- IBM Business Services has combined the unique finance service capabilities from PwC with the IT capabilities and market penetration from IBM
- Capgemini, EDS and ACS are IT Outsourcing powerhouses which have emerged into the finance space
- Genpact used to be the former Finance Shared Service Center of GE Capital and is now positioned as stand-alone BPO Provider

Source: Offshoring Institute

BPO Provider in Europe

German BPO Provider

Example

BPO Provider	Country	Locations	Key Focus	Major Clients
Bosch	Germany	Magdeburg, Germany Timisoara, Romania	Call Center Services Small F&A BPO practice	Bosch Group (F&A)
New Source	Germany	Hannover, Germany Frankfurt, Germany	F&A BPO Former captive SSC Bahlsen	Lorenz Group
Rödl & Partner	Germany	Various (BPO locations not disclosed, i.e. Bucharest)	Audit & Tax firm with global footprint	
Deutsche Shared Services	Germany	Weingarten, Germany Bratislava, Slovakia	IT Outsourcing F&A BPO new business	T-Systems T-Com T-Mobile

BPO Provider in Europe

US-based BPO Providers with European Delivery Networks

Example

BPO Provider	Country	Locations Europe	Key Focus	Major Clients
Accenture	USA	Aberdeen, Bratislava, Prague, Piasenczo PL	BPO core business	Thomas Cook
ACS	USA	Barcelona, Toulouse, Krakov	IT Outsourcing Some F&A BPO	GM Office Depot
CSC	USA	World Sourcing Delivery Model	IT Outsourcing BPO side business	Swiss Re
EDS	USA	Budapest	IT Outsourcing Focus on captive SSC F&A	EDS (captive)
HP	USA	Barcelona, Wroclaw, Bucharest	Major F&A BPO focus Biggest provider in Germany	P&G Fraport
IBM	USA	Brno, Budapest, Vilnius, Krakov, Bratislava	BPO core business of Global Services BU	TBD
Mellon Source Net	USA	Frankfurt, Amsterdam, London	F&A BPO specialist Banking, Insurances	Mainly NA
OPI	USA	Sofia	F&A BPO focus Expert for middle market	Mirant Corporation

BPO Provider in Europe

European BPO Providers with European Delivery Networks

Example

BPO Provider	Country	Locations Europe	Key Focus	Major Clients
Cap Gemini	France	Warsaw, Krakov, Wroclav, Barcelona, Madrid, Murcia, Langreo-Asturias,	IT Outsourcing Strong footprint in F&A BPO	Syngenta Prudential
Xansa	UK	Bedford, Birmingham, Edinburgh, Leeds, London, Manchester, Northampton, Reeding	BPO, strong F&A practice	British Telecom
Xchanging	UK	Chatham, Frankfurt, France	BPO specialist	NA

BPO Provider in Europe

Indian BPO Providers with European Delivery Networks

Example

BPO Provider	Country	Locations Europe	Key Focus	Major Clients
Genpact	India	Budapest, Bucharest, Wroclav	F& A BPO	Linde GE
HCL Technology	India	Belfast	BPO	British Telecom
Infosys	India	Brno	ITO, emerging F&A BPO business	Philips
WNS	India	Bucharest	ITO focus Emerging F&A BPO player	NA

BPO Provider in Europe

Leading BPO Providers without European Delivery Networks

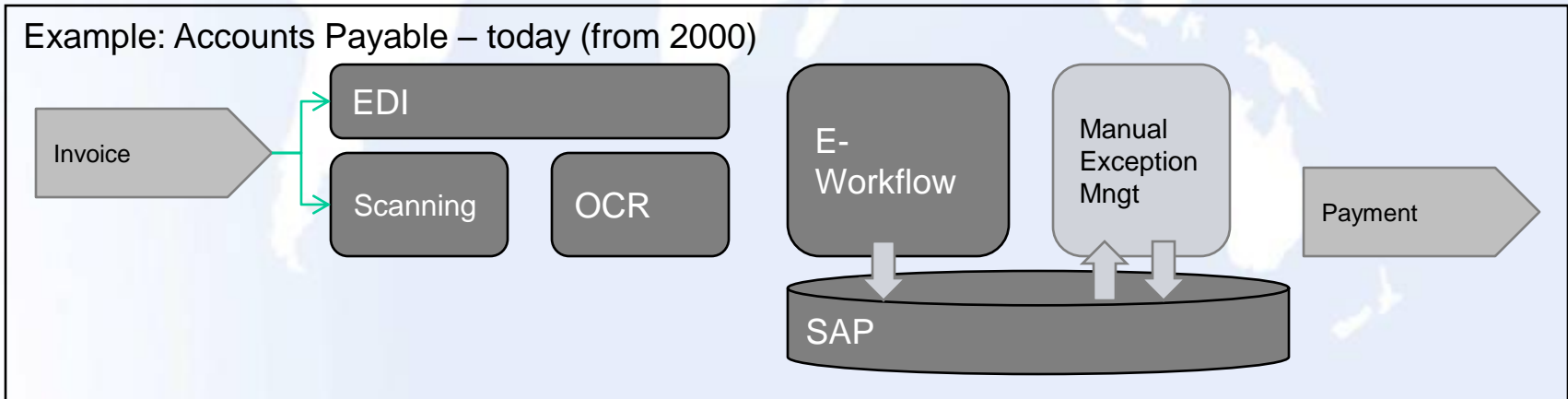
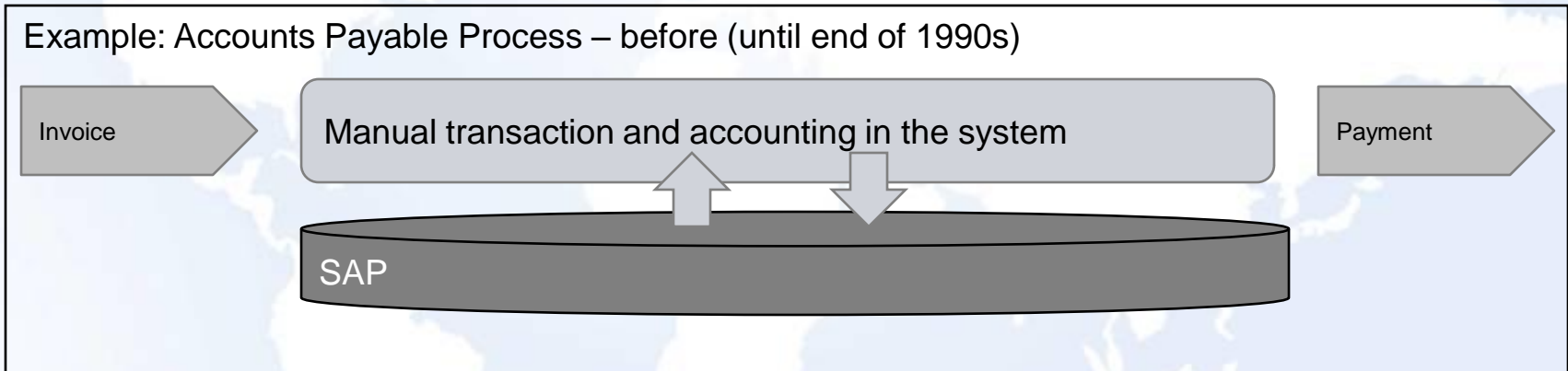
Example

BPO Provider	Country	Locations Europe	Key Focus	Major Clients
Caliber Point/ Hexaware	India	No delivery yet	F& A BPO Leader	Mainly NA
iGate	India	No delivery yet	ITO, strong F&A BPO technology	Mainly NA
Satyam	India	No delivery yet	ITO Some emerging F&A BPO	Mainly NA
Tata Consulting Services	India	No delivery yet	Major ITO player Strong in global BPO,	
Wipro	India	No delivery yet Some clients operations	ITO Wipro BPO BU	Mainly NA

Further automation & digitalization

The importance of human interaction is decreasing in many service processes – but can not be replaced at all

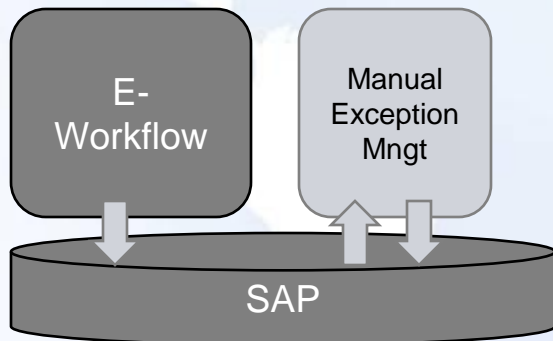
Example



Further automation & digitalization

The way SSC will operate is about to change –
Technology is replacing the human factor step-by-step

Example



Humans vs. Technology
<ul style="list-style-type: none"> • Development of transactional SSC to Center of Competence/ Center of Expertise • Transactional processes = rules-based and therefore to be captured with new technologies • New requirements towards capabilities and qualification of people • Increased importance in quality of the labor pool in location selection • Totally automatized service processes → since beginning of the 1990s foreseen but not near a reality today → a realistic option within the next 10 years?

Thank you for your attention

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