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Shared Service Centres Remain at the Heart of Performance Improvements

The Shared Service Centre (SSC) model continues to grow in popularity despite unprecedented market conditions.

Best practice in cash management is still a core aim of many corporate treasurers despite the economic difficulties of the past 18 months. And the SSC remains a key component of many initiatives to improve corporate treasury performance. Indeed, many corporates have found that centralising and consolidating treasury processes has made them more able to cope with demands placed on liquidity and working capital.

As the SSC model grows in popularity across a wide range of industry sectors, its scope is broadening to include a greater range of financial and non-financial business functions. Considerable debate among treasurers and transaction banking practitioners has emerged regarding issues such as the ideal locations for these facilities and what their remit limits should be.

Several key drivers are behind the growth in this model of organising corporate treasury. Rapid advances in information and communications technology have made much greater levels of centralisation and automation possible, as well as bringing technologies that were once the preserve of the largest multinationals within the reach of smaller corporates. These changes, coupled with financial harmonisation in regions such as the European Union and a growing regulatory burden, have multiplied the benefits of bringing together processes in an SSC environment. Progress has been particularly pronounced with respect to accounts payable/receivable and supply chain management functions.

Increased Benefits
Many corporates are motivated to consider the SSC model by the possibility of cost savings — for instance, through eliminating the duplications of processes across markets and/or regions. But centralising processes also will often yield opportunities to standardise, automate and consolidate across a range of areas.

By increasing the visibility of funds and payments flows, the SSC model makes more streamlined and efficient liquidity management possible, strengthens control and eases the burden of regulatory compliance. SSCs often also can assist in leveraging additional value from enterprise resource planning (ERP) systems that represent a large sunk cost for many corporates.

Even before the recent crisis struck, regulatory oversight was ratcheting up, and that pattern is likely to continue. SSCs can reduce some of the costs associated with compliance and also permit a more nimble response to new regulatory strictures — which can prove invaluable in some emerging markets where changes can arise frequently and on short notice.

Some corporates report that SSCs allowed them to react more quickly to rapidly changing conditions throughout the financial crisis. With short-term borrowing arrangements becoming restrictively expensive, SSCs became key to ensuring that cash and payments were managed as efficiently as possible.

An Evolving Concept

Despite the compelling SSC advantages, projects of this magnitude should always be approached with caution. Implementing changes of this type will often cut across several areas of corporate responsibility, requiring extra work to overcome embedded cultures. Additionally, financial managers need to undertake a rigorous analysis of the processes to be consolidated — as well as all other underlying issues — as any failure to adequately understand what is being changed could be disastrous.

The choice of transaction banking partner will also be a key to project success. Indeed, specialists such as Deutsche Bank will be able to advise on a range of issues, as well as provide assistance in navigating any potential pitfalls throughout the project's structuring and implementation.

Another fundamental decision will be where to locate the SSC facility. While traditionally this decision has been based on cost — leading to SSCs being sited in traditionally low-cost countries such as India — other factors now often come into consideration. For example, corporates with the bulk of their operation in the European Union are increasingly looking at Central and Eastern Europe as potential SSC locations. These markets can still be attractive from a cost perspective while also offering lower language and cultural barriers, as well as proximity to production facilities and key markets.

Ensuring Success

There are several changes on the horizon that should affect the development of SSCs. For example, the next stage of the Single Euro Payments Area (SEPA) rollout — the SEPA Direct Debit — should greatly increase the rationale for further consolidation, especially with respect to managing collections across the eurozone.

SEPA has considerably multiplied the available benefits, leading to a rapid growth in related initiatives such as payment and collection factories and in-house banks. These facilities follow a similar approach to SSCs in that they aim to achieve cost savings and efficiencies by reducing duplications while increasing the visibility and manageability of processes and payment flows.

SSCs and related initiatives will always have responsibilities that extend across markets — and even regions — and thus the choice of banking partner will be key to dealing with the problems presented by working with multiple legal jurisdictions and/or payment systems. Local knowledge and expertise in the markets served by an SSC will also be crucial to successfully structuring and implementing such a solution, and realising the considerable benefits available through centralising and consolidating financial processes in this way.