Integrated Business Services (IBS)
Taking Shared Services to the next Level of Peak Performance
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Editorial

Ever since Deloitte first began to design and realize shared services models at our global clients over two decades ago, our trait and objective has been to research and develop latest shared services trends and act as a pioneer in the sector of enterprise transformations. Deloitte’s breadth and depth of knowledge is unique and makes us the market leader in this area.

Leading shared services organizations are increasingly on their way to leave the traditional shared services paradigm behind to push towards Integrated Business Services (IBS) – shifting the operational and organizational set-up of shared services beyond function-based and process driven service delivery philosophy. However, there is still much confusion and mixed terminology around IBS.

Traditionally, SSCs were established with a cost focus in mind. Individual functions were managed in discrete SSCs with little sharing and only a regional delivery footprint at most. Charging was based on FTE and only limited use was made of governance, Service Level Agreements (SLAs) or continuous improvement.

Many companies have followed the SSC development over the years and are now on the journey to Integrated Business Services (IBS). IBS organizations are sophisticated service companies that offer enormous benefits because of their multifunctional and global service-line orientation.

Since the last decade, more and more multifunctional SSCs have been set up by global enterprises. In this organizational form two or more business functions are regionally concentrated and controlled by a regional SSC Head. This set up allows for an increased functional and geographical footprint into value added SSC and outsourcing activities. Furthermore, companies put an increased focus on automation as well as a use of cross-functional technology. Multifunctional SSCs usually have cross-functional governance, increasingly share assets and practice true customer satisfaction. They measure their performance and quality levels by negotiated Service Level Agreements (SLAs).

A move to IBS requires much more than simply asking shared services centres to cooperate. It represents a fundamental shift in how businesses think about and manage shared services and outsourcing. Those that get it right can achieve enormous improvements in performance and due to the good experiences with implemented SSCs companies are now approaching services that have been out of scope up to now, such like Mergers & Acquisitions and Analytics Services.

Thus, with this publication, we aim to give a comprehensive overview of Integrated Business Services and what it is really all about. We will focus on the evolution of shared services organizations over the last years and why IBS – nowadays - is the superior model to strive for. Also, we will provide you with interesting insights into the hot topics currently driving IBS set-ups and optimizations in companies all around the globe. Lastly, we will draw from long-standing expertise and share with you some of our best practice examples on methodology and state-of-the-art tools to implement IBS organizations.

Enjoy the read.

Frank Schäfer
Partner
German Human Resources Transformation Service Line Lead
Drivers for Integrated Business Services

Mature users of shared services and outsourcing often report that different functions, business units, and regions have implemented their solutions in different ways, resulting in a confusing array of contracts, agreements, arrangements, practices, and processes. It is not unusual to find situations in large organizations where HR has its own dedicated shared services centers, while finance has shared services centers in some regions and outsourcing arrangements in others. Equally, we have seen organizations where IT has its own collection of disparate outsourcing arrangements, including several helpdesks, while marketing, sales and customer service use entirely different suppliers and systems. In some cases, different departments in a single company are using the same providers — but with different contract terms — with little or no coordination across organizational silos. Leaders of these organizations want to bring order to this chaos. They want to know where they'll find the next tranche of incremental value. They are concerned about managing their exposure to global locations and providers. They want to improve controls.

Less experienced organizations may have implemented shared services or outsourcing for only one or two business units or functions. And while the journey might not have been easy, the results are likely proving to be worth the effort. These organizations are eager to leverage their current successes to drive value in other parts of the business. They want to ensure that lessons learnt are used to reduce risk as they strive for even more efficiencies. They want to share infrastructure to drive faster speed-to-value and avoid reinventing the wheel.

Even organizations that have not used shared services or outsourcing in the past are now actively considering Integrated Business Services as a way to benefit from the experiences of others and overleap the learning curve.

Our market research1 and client experience have especially highlighted three key trends currently driving the shift to an Integrated Business Services approach:

**Increased global operations**
- As solutions are available to address prior concerns such as language skills, time zone coverage, and regulatory requirements, geographic barriers are decreasing.
- A strategic choice is being made to balance cost optimization and proximity when starting up operations. This suggests either greater comfort with enhanced connectivity or an increase in scope of higher value-add activities, which companies prefer to locate closer to existing operations.

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1 Deloitte Shared Services Survey 2015
Leverage lessons learned
- Organizations are skipping the single-function concept and pursuing multifunction SSCs at the start of their shared services journey based on lessons learned from more mature SSCs.
- Organizations are adopting hybrid shared services models and are customizing service delivery models by function.

Focus on continuous improvement
- IBS is becoming a true enabler of the end-to-end process view and is driving significant end-to-end process improvements.
- Organizations are leveraging service level agreements (SLA/SLAs) conversations and scorecards to focus time and energy on continuous improvement.

Matthias Thalmann
Partner
Human Capital Advisory Services
Essential Characteristics and Differentiators of IBS

The term Integrated Business Services is often used as a synonym for multifunctional shared services that are globally oriented. This definition misses out fundamental characteristics of IBS.

Some organizations view Integrated Business Services simply as having cooperation among all their functional shared services centers, perhaps with some common forums to share learning. In these situations, the only thing binding the centers together is a loose global leadership structure that may not even have direct support from corporate executive leadership. Other organizations — those practicing true Integrated Business Services — view the opportunity as a fundamentally different way of thinking about all support services throughout the organization, with a common leadership and governance structure tied to overall organizational objectives.

While there are many flavors of Integrated Business Services in the market, we have identified five essential characteristics and behaviors that are necessary to drive the sustainable performance improvements most organizations seek.

**Multifunction**

An organization may have started its journey with a single function or business process, but true Integrated Business Services organizations are multifunctional in scope — and have significant integration across those functions. Common functions

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**Fig. 1 – Business Service Type Maturity**

<table>
<thead>
<tr>
<th>Individual functions</th>
<th>Multiple functions</th>
<th>Multiple functions</th>
<th>Global Service Management</th>
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<td>SSC</td>
<td>Multi-Function SSC</td>
<td>Multiple functions</td>
<td>Global Business Services (GBS)</td>
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<tr>
<td>Integrated Business Services (IBS)</td>
<td>Service and product lines Integrated Service Management Global service owners Integrated network</td>
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include Finance, HR, IT, Customer Service, Procurement, and Operations (e.g. Logistics, Supply Chain) — as well as those that are specific to an industry, such as claims processing in insurance.

**True service concept**

IBS organizations see themselves less as an „extended workbench“ of business functions rather than as a service provider that achieves to create true value add to the corporate success. The clients - either internal functions such as HR and Finance or external customers - and their demand of services are centric to the strategic and tactical orientation of IBS. Enhancing customer experience is the guiding principle and philosophy of an internal service provider. The goal is to operate beyond cost-cutting potentials. The general change towards a service-oriented culture goes hand in hand with value-adding and knowledge-based service offerings.

**Global orientation**

IBS organizations achieve maximum flexibility through a mix of globally positioned integrated service teams as

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**Fig. 2 – Hub & Spoke Model**

[Diagram of Hub & Spoke Model]
well as external partners. The service is provided locally, regionally or globally. The access to global talent pools enables companies to respond dynamically to fluctuations in the service needs of single business units. Other features include new and adapted hard and software components (enabling technologies) as well as HR Cloud solutions. The combination of the previously mentioned trends makes it possible for companies to execute especially expansions or mergers and acquisitions in an effective and efficient manner as the degree of standardization allows for newly acquired companies to be integrated much easier into the organization.

Involvement of external service providers
As IBS is operating as an independent service providing unit, it is responsible for involving external service providers for example in the payroll area. In practice, this means that IBS can –based on volume and costs- decide independently, if a service should be provided internally or through an external service provider - as long as the initial level of service quality is maintained. A prerequisite is a standardization of processes, systems and services on a global level to the extent that a relatively large volume can be given to a provider. This often results in much better conditions that can be passed on to the client. High service quality at a relatively low level of costs is the resulting benefit.

Service Excellence
Due to language barriers, strong fluctuations as well as low quality standards, some companies are currently assessing the reintegration of their SSCs into the retained organization. Often the lack of service culture is being named as the main reason. Service culture is key to an excellent service.

Mature IBS organizations do no longer speak of Process Excellence in this context, but rather of Service Excellence. It is about leaving the process level and taking on the client’s point of view. For this purpose, it is necessary to establish a service culture amongst IBS staff, which constitutes a huge challenge for a company’s Change Management department. While processes and systems can be modified rather quickly, the change in people’s mindset is a lengthy process, which might never be fully achieved.

It also implies that the skill set of IBS employees will need to change radically from a transactional to an advisory focus. Hence, IBS talent management needs to be seen in the light of the changing (technical) environment and talent attraction, development and retention become increasingly important.
The topic of Service Excellence can be further supported by the following measures:

- The aim is the development of the highest level of service standard from a client perspective. Thus, service-based products should be established and function-based services should be avoided.
- Service simplification: The client shall receive the desired product as simple as possible and without any efforts on their side. It should be easier for the client than before.
- Clear point of contact: Cumbersome searches in organizations and single functions should be avoided.

Reduction of contact channels such as Employee Self-Services (ESS), portals, chats, mail, telephone. Depending on the customer segment, one to two channels are often sufficient.

Anika Ahrenhold
Senior Consultant
Human Capital Advisory Services
Many companies do not exhaust the full potential of an IBS transformation. Initially, centralizations and standardizations bear significant benefits. However, often a lack of shared responsibility to continuously improve services slowly sets. This is accompanied by increasing costs due to shadow processes. Missing acceptance and trust in SSCs lead employees in the company to use individual databases and Excel sheets. The services of the SSC are, hence, requested only pro forma. The real process, however, is executed alongside. For this reason, companies should prioritize Service Management during their IBS journey. A fully pronounced Service Management policy that regulates the operative and organizational relationship between the IBS organization and their internal and external partners is recommended. It is essential to develop or to enhance the service management framework early in the journey towards IBS. There are four elementary parts to every Service Management Framework: Governance, Service Level Agreements (SLA), Management Processes and Customer Management.

The IBS Governance defines a structure to provide strategic guidance to the IBS organization within the overall enterprise organization. Governance includes formal processes of interaction and decision-making among the stakeholders involved in IBS that lead to the creation and reinforcement of SSC norms and directions. One key component objective is the integration of IBS into the overall organization including the hierarchical structure and reporting lines. Furthermore the formal setting of IBS governance bodies comprising of steering committee, advisory board and user committee remains essential for a comprehensive governance structure. The governance bodies to foster a strong relationship between the shared services organization and the operating units. Furthermore governance bodies might be implemented from the organizational perspective but also need the operational legitimation to act efficiently. Therefore a matter of course is the need of defining responsibilities, the definition of IBS governance meetings and consultation cycles in combination with strategic directions and escalation processes with formal decision points.

IBS Service Level Agreements (SLA) include a formal definition of terms and conditions for service delivery, volume, measurement, charging, reporting and maintenance. Furthermore it is a formal definition and internal contract for services and responsibilities description, which is universally valid for all involved parties, stakeholders and customers. As IBS’ main differentiator is the service orientation, the service or product definition is the key component for SLA. It comprises of the scope of services and products to be delivered by IBS as well as service elements, process flows and splits including enabling technology and Enterprise Resource Planning (ERP). This comes along with the definition of roles and responsibilities out of the governance
component, because IBS depends on the definition of process related parties within the service delivery flow. The next SLA component is the design of performance metrics. It includes the definition and measurement of performance standards for each service product. Therefore a cascading Key Performance Index (KPI) model on organizational, process and individual level is the tool for measure service delivery performance. On top of these three SLA components a comprehensive charging mechanism regulates the billing and pricing. It is fundamental especially in the fields of internal cost reduction/cutting, cost allocation and tax optimization purposes.

The Management Processes component within the Service Management Framework has a wide range of sub-components that focus on the definition all service related supporting topics and processes within the IBS delivery environment. Furthermore it includes formalization of approaches, behaviors and operational pre-conditions and procedures to ensure a smooth and regulated service delivery mode with at least seven component objectives:

**Demand Management**
- Periodic demand for services from business
- Plan for IBS resource requirements

**Change Management and Communication**
- Internal and external communication procedures to all relevant IBS stakeholders
- Change Management concept to ensure trouble-free modifications within the organization

**Vendor Management**
- Formal description of interaction with 3rd parties, suppliers and outsourced organizations
- Tracking, monitoring and reporting on vendor performance for periodic review and contract negotiations

**Performance Management**
- Tracking, monitoring and reporting of performance at individual, team, process and organizational level with KPI structure and Operational Level Agreements (OLA)
- Formal definition of performance review to assure performance improvement activities

**People Development**
- Alignment of individual and team performance with IBS performance targets objectives and compensation & benefits
- Management of competencies, skills, job descriptions and career opportunities as well as learning needs analysis and trainings for SSC staff

**Knowledge Management (KM)**
- Capturing, developing, sharing, and effectively using organizational and enterprise knowledge
- Enabler for organizational learning, improved performance, competitive advantage, innovation, the sharing of lessons learned, integration and continuous improvement

**Service Excellence (SE)**
- Progressional optimization activities for speed, cost and service quality enhancements
- Identification, assessment, improvement and measurement of service improvements
Full IBS focus lies on the product and the service. Therefore the fourth SMF component Customer Management is very essential for delivering high performance services. It comprises of two elements: Customer Relationship Management (CRM) and Customer Contact Management (CCM).

Within CRM we build the formal customer relationship strategy and program with contact points, the overall CRM goals and specific objectives. In addition IBS leading organizations define within CRM the customer satisfaction measurement with feedback activities (e.g. questionnaires, surveys) to derive necessary improvement action items and report on progress.

To that effect CCM is the formal definition on the bi-directional contact communication channels and procedures between IBS and the customers, internal & external partners. Furthermore CCM comprises of definition of ticket and service request capturing, routing, monitoring, resolution and reporting in alignment of customer contact channels with the overall ERP/ cloud / enabling technology framework and strategy.

**Fig. 3 - Service Management Framework Model**

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<tr>
<td>Service Level Agreements (SLA)</td>
<td>Management Processes</td>
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<td>1. Demand Management</td>
</tr>
<tr>
<td>Definition</td>
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<tr>
<td>2. Roles and Responsibilities</td>
<td>2. Change Management and</td>
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<td></td>
<td>Communication</td>
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<td></td>
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<td></td>
<td>5. People Development</td>
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<td></td>
<td>6. Knowledge Management</td>
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<td></td>
<td>7. Service Excellence</td>
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**Customers and Internal & External Partners**

- Business Units | Geographies
- Business Functions
- Employees
- Corporate Customers
- Vendors and Suppliers

Sascha Brockmann
Manager
Human Capital Advisory Services
Although big data is not a new idea anymore, the concept of enhanced reporting and analytics for improved business insights in an IBS context continues to gain momentum. What does it really offer, and how should you be thinking about it?

If they have not done so already, many businesses will be making significant investments in data integration (i.e. master data & reporting) and analytics designed to improve their knowledge of customers; re-position products in the market; drive more profitable sales; better manage resources; and ultimately deliver better financial performance. At present, however, these investments typically are driven at function/business unit level — rather than in a holistic, enterprise-wide fashion.

At the same time, many IBS organizations are seeking out opportunities to provide higher-order services of strategic value to support business growth. Frontrunner in data integration and analytics are often realizing significant value from aligning these two trends. These new capabilities help the organization and each of its business units (BUs) in outperforming its competitors. Just as IBS have often managed to centralize the non-core activities from Finance, IT, Sales, Marketing and HR, there is considerable potential value to be realized for units providing master data, reporting and analytics capabilities as a one-stop service within the IBS organization. Numerous companies have been seeking to get the most out of data integration and analytics, but not all succeeded. There is a set of critical success factors which needs to be addressed – and IBS has a tremendous impact on those.

**Critical Success Factor 1: Building consistency in data structures**

- Even with a strong corporate governance structure, an enterprise can face a higher risk of data quality issues when functions and BUs develop their own master data. Additional complexity arises when different BUs have control over how they use and report on information. At the same time, corporate decision-makers often struggle with disparate presentations that entail drawing entirely different conclusions (e.g. BUs presenting data that reflects upon themselves in the most favorable manner).

**How IBS can help**

- Establishing data integration and analytics as a service within the IBS organization means that there is a single owner for governance and data management across the enterprise, which is an essential stepping stone on the way towards “one version of the truth.” Transferring control of data to IBS has the potential to establish a much-needed independent authority for data standards. IBS is designed to take responsibility for maintaining data consistency across the organization.
- The IBS concept not only helps to promote consistency in data structures, but also to centralize quality management. Thus eliminating the
proliferation of ad hoc reports and/or significant rework by the functions and BUs. As a result, the data can all be viewed in the same way. The richness of common, shared reports with key measures from multiple functions brings exponential business value as it drives improved decision making.

- An additional bonus is that data can now officially be “watermarked” (i.e., a semi-transparent image that sits behind the text of the report) and certified, since IBS functions act as independent authority.

**Critical Success Factor 2: Meeting the evolving analytical needs of the business**

- In today’s fast-paced environment, businesses benefit from the ability to move quickly into new territories or new segments to stay ahead of their competition. At other times, they find themselves dealing with an increasingly volatile marketplace. Time is of essence when making business decisions in these situations, and if the data/reporting structures are not in place, the enterprise will miss out on opportunities.

**How IBS can help**

- IBS is, by nature, customer-focused. By transferring ownership of the master data, reporting and analytics capabilities to IBS, the enterprise is able to tap into the structural support needed to easily scale, modify, and improve the services to meet the changing needs of the business.
- The combination of governance, consistent data structures across entities and a dedicated team whose skills range from transactional data management to higher-order analysis means that IBS provides the timely information and insights that the business requires. This enables leadership to make decisions that keep the organization ahead of the competition and out of harm’s way.

**Critical Success Factor 3: Developing cross-functional, data-driven insight**

- When it comes to data-driven insights, the whole is truly greater than the sum of its parts. Although functions and BUs can realize initial success in developing their own master data, reporting and analytics capabilities, true insights often created through the ability to quickly, easily and confidently link the data and the input from multiple functions/BUs (e.g., from Finance and Sales).
- Additional insights and value can be generated if the organization can adeptly layer in and manage third party data sources as well.

**How IBS can help**

- A fundamental driver for a successful shared comprehensive data management capability is a single entity with both ownership and access to consistent data from functions and BUs. This entity can become the cornerstone of progress as it provides the organization with the ability to derive genuine insight and take action on it. Thereby consistent data is used to generate reports focused on key functional measures, but can also be combined with third-party information (such as macro-economic forecasts) to increase the value of all the information exponentially.
- Example: A leading consumer products company used multi-function analytics across Finance, Sales, Marketing and Supply Chain to conclude that an anticipated poor crop season in one sales region would drive down demand for migrant workers and with it the demand for particular products. Due to this macro-economic predictive business analytics capability, the company was able to anticipate the decreased sales, adjust inventory, and make corresponding marketing decisions to boost sales in other regions.
Critical Success Factor 4: Career paths for data & analytics resources

- The skill sets within any proper data management capability can run the gamut—from transactional data management to basic reporting and at the far end of the value spectrum, predicative analytic skills that may require a PhD. A delicate balance between hiring enough resources with the proper skills to meet business needs and maintaining a sustainable payroll cost structure needs to be found. It is difficult, expensive and, in some cases, unrealistic to duplicate this capability across multiple functions/BUs.

How IBS can help

- One of the major constructs of IBS, regardless of function, is the ability to provide relevant training and career progression possibilities through a variety of roles—including management positions. For individuals who have historically worked exclusively within a function or BU data management team the typically more rigorous IBS talent management process can be a welcome change. There are more personal development opportunities as they frequently gain exposure to multiple areas of the business. New internal opportunities may arise to take a leadership role, either specific to data management within the larger IBS hierarchy; or within another BU/corporate.

- The benefit to the business can be substantial, as building a capability team designed to service the organization in its entirety, allows for new sourcing strategies to be considered. For example reporting functions of low sensitivity and low complexity may be appropriate to move to lower-cost locations, while more advanced capabilities might be sourced in a differentiated fashion.

Critical Success Factor 5: Maximizing data integration & analytics investments

- When functions and BUs make autonomous decisions to invest in their own master data, reporting and analytics capabilities, the investments cannot achieve maximum return. Individual entities tend to develop their own methods for analyzing data and structuring reports. Thus significant rework is required before consolidation, in addition to both quality and accuracy of the data being called into question. Precious decision-making time can be lost during iterations and what starts out as smart investments may ultimately turn into a costly way for the enterprise to run its business as a whole.

How IBS can help

- Building high performance in analytics and reporting generally involves investment in both technology applications and infrastructure. By bringing management of these investments under the purview of the IBS organization, the company as a whole can benefit from smarter, big-picture investments designed to promote a consistent architecture built to meet end-to-end business requirements. The approach is typically more cost-efficient and the resulting capabilities better.
When companies are discussing the implementation of a SSC they should take the chance to also think of optimizing their entire business model and have additionally tax effects in mind. In this evolving economic environment, it is always a good time to review your global business model and ask the question, “How can you create value by pursuing new market share, developing new markets, and gaining greater economies of scale?” Some of the ways to create value in an organization include:

- Undertaking operational initiatives to pursue revenue and margin growth
- Evaluating rationalization of the supply chain
- Harmonizing and standardizing the business, processes and systems along the supply chain
- Integrating acquisitions with existing structures
- Centralizing management and the intellectual property (IP)
- Centralizing management, regionally or globally

Fig. 4 – Business Model Optimization

What are companies looking for today?

- Platform for growth
- Achieving sustainable earnings improvement
- Simplification of the business model
- Harmonizing and standardising of business processes
- Reducing supply chain and overhead costs
- Globalizing and/or regionalizing their businesses
- Centralizing management in one location

The answer is Business model optimization
As you evaluate these and other types of ideas to transform your business, it is important to assess if you are considering all the relevant factors that may help to build value within your organization, such as the opportunities and effect of tax on important business initiatives. Deloitte brings a fresh perspective with BMO – Business model optimization.

**BMO at glance – What can be improved?**
BMO looks at a company’s value chain to optimize the primary value creating activities in R&D, procurement, planning & manufacturing, sales & distribution and after sales service, where the IBS is focusing on the Services and Support functions.

BMO involves the development of a new operating model which has business and tax benefits

- BMO is primarily about developing operating models that are commercially driven and that provide operational benefits
- Secondly, it is about developing a tax and legal structure that aligns with and supports the operating model to ensure that these benefits are captured

**Fig. 5 – BMO at a glance**
BMO has a long and well established track record and much more than “creative accounting” is required for companies to maximize the financial benefits and justify their new operating structures. BMO helps to standardize the business, processes and IT systems along the value chain functions.

The typical starting point is a suboptimal, decentralized operating model. Many multinational companies have grown organically or through acquisition, with emphasis on local country operations or multiple stand alone business units within a region, which drives inefficient operational, tax and legal structures. Consequence of a suboptimal structure are in most cases:

- Duplication of functions and processes in operating companies or across divisions and business units
- Proliferation of legal entities, customer management and invoicing centers leading to complication, high transaction costs and poor customer service
- Operational underperformance due to silo functions, functional organizations and few cross functional performance metrics
- Average customer service, high supply chain costs and underutilization of resources due to lack of regional or global supply chain management, planning and control
- Underuse of intellectual property including dilution of value (e.g. inconsistent brand positioning), missed opportunities (e.g. failure to leverage local IP) and tax inefficient management
- Lack of standardization of processes, roles and systems
- Indirect tax inefficiencies and costs
- Volatile and unpredictable taxable profits by division, country and period

BMO removes the sub-optimization and unlocks various operational and financial improvements through the move to a more centralized structure.

Fig. 6 – Decentralized versus centralized operating model

Decentralized (country based)

- Point-to-point planning
- Diverging policies and service levels
- Different processes per location
- Different performance measures
- Inconsistent organizational structure
- Roles, structure and locations often result of ‘history’

Centralized (regional or global)

- Single point of accountability for most critical business processes
- One operating model
- Central planning, strategy and policy setting
- Single set of KPIs for performance management
- Consistent and harmonized processes
- Logical location of roles and functions
BMO involves the transfer of functions, assets and risks to a centralised regional company

Fig. 7 – Degrees of centralization

There are different degrees of centralization: the more that is centralized, the greater could be the business and tax benefits and the BEPS risk

As an example, fast moving consumer goods companies have adopted a range of operating models over time with varying degrees of centralization and standardization.

- Differing operating models have led to a range of options for tax models.
- There is a spectrum of operating models relating to aspects of the full supply chain ranging from a full Principal Company to the centralization of brand management only with a Supply Chain Principal being somewhere between these two options.

- Supply chains evolve and the tax alignment of the supply chain can evolve with the business strategy rather than trying and changing everything in a 'big bang' approach.
The BMO approach

Business Model Optimization (BMO) is a suite of experience-based protocols for developing solutions to a wide range of tax issues and opportunities based on the Deloitte value pyramid. Consisting of proven methodologies and “SMART” technology, and based on the combined experience of Deloitte’s knowledgeable professionals, it enables Deloitte to provide optimal levels of assurance and transparency in addressing the full range of your global tax and business needs.

Deloitte’s BMO service offering focuses on helping multinational companies integrate their operational and tax planning in a scalable and sustainable way to help business along the value chain.

Already during the initial assessment experts from Consulting (HR, IT, Strategy, Process), Tax and Legal are working together in order to get the full picture of a company’s potential.

- Developing a BMO structure involves consideration of the specific elements of the tax design
- This iterative process balances the tax requirements with the business requirements to find the proper arrangements
- An integral part of the process is identifying the risks to achieving the tax and business objectives and developing strategies to address them effectively and in harmony

Future Changes and challenges

Currently companies have to be aware of the fact that the OECD is changing the tax landscape (BEPS regulations). Especially companies who have already implemented a centralized structure have to rethink their business model in order to save their ETR. The Deloitte BMO specialist have invested in the upcoming new legal requirements and developed the necessary Business model changes which might speed up the transformation and minimize risk.

The business strategy forms the framework for the development of the operating model and identification of tax opportunities

The operating model and tax structure form an integral part of future planning developments

The tax analysis impacts the development of the operating model

Fig. 8 – Operating model and tax considerations
Integrated Business Services (IBS) | Taking Shared Services to the next Level of Peak Performance

Tax Considerations for Integrated Business Services Organizations

Tax can contribute cost savings to an IBS project or can create new costs from IBS to an organization. The following overview summarizes common tax matters and tax issues to be addressed to reduce tax costs and to avoid creating new tax risks from IBS.

**Ongoing tax matters related to processes**
Failing to obtain tax deductions can easily eat into the cost savings from IBS, which should be addressed by good governance, in particular relevant and correct documentation.

**Stable, portable and well-documented accounting processes**
If possible, process standardization and process documentation should be undertaken before accounting processes are transferred to IBS. This will involve drafting Desktop Procedures (DTPs) summarizing and illustrating all tax-sensitive steps to be performed by IBS.

**Definition of data quality, controls and Key Performance Indicators (KPIs)**
Tax tends to be the largest consumer of finance data. Unlike finance, tax cannot apply ‘materiality’ when preparing tax returns. Tax must therefore define the data quality levels for IBS and must agree the controls and KPIs for measuring IBS data quality and process compliance.

**Choice of technology and level of automation**
It is imperative that best-in-class technology is in place for the SSC to provide good quality data to support tax decisions and calculations. Furthermore, significant cash savings can often be achieved by enhancing data quality. Tax should also be consulted on the level of automation to reduce IBS error rates.

**Record retention, storage of paper originals, and data access**
Tax law requires long record retention pertaining to all accounting entries and accounting records supporting tax returns. Local rules may require local storage of all paper originals, which can often be addressed via scanning. The IBS organization must also ensure data access during future tax audits.

**One-time tax issues when setting up IBS**
While process deficiencies generally do not jeopardize the success of an IBS project, there are a few one-time tax issues that may put the entire project or major IBS benefits at risk.

**Tax authority notifications or consents**
Some countries require tax authority notification or consent when relocating tax-relevant accounting process (in full or in part) to an IBS organization. Failure to undertake such notification or to obtain such consent prior to the relocation may trigger fines and penalties or may even require relocation back to the transferring country.
### Accounting records on foreign servers
Many countries require tax authority notification or consent when a taxpayer relocates his accounting ledger with tax-relevant data to a foreign server. Failure to notify or obtain consent before relocation may trigger fines and penalties or may even require a relocation of the server and/or the ledger back to the transferring country.

### Location choice and withholding tax
Tax should be involved in the choice of the location, which can often be tax-optimized (e.g. by choosing a low-cost IBS location that is also low-tax or offers a tax holiday). A major tax issue to review is withholding tax on payments for IBS services. At this point, the job of tax is to avoid or minimize the related costs.

### Transfer pricing
The tax authorities in the IBS location generally require cost-plus compensation with an arm’s-length mark-up, which may be fully or partially non-deductible to some service recipients. Early discussions provide an incentive for the tax authorities in the IBS location to negotiate as they want businesses to set up operations in their jurisdiction.

### Ongoing tax matters related to processes
Failing to obtain tax deductions can easily eat into the cost savings from IBS, which should be addressed by good governance, in particular relevant and correct documentation:
1. Stable, portable and well-documented accounting processes;
2. Definition of data quality, controls and Key Performance Indicators (KPIs);
3. Choice of technology and level of automation; and
4. Record retention, storage of paper originals, and data access.

### One-time tax issues when setting up a SSC
While process deficiencies generally do not jeopardize the success of an IBS project, there are a few one-time tax issues that may put the entire project or major IBS benefits at risk. These one-time tax issues are outlined on the left-hand side and should be proactively addressed.

### Conclusion
An IBS project can be used to accelerate automation, standardize processes and transform the use of technology. As many examples from publiclyquoted and private companies in Europe show, none of the tax process matters and none of the one-time tax issues are insurmountable or prohibitively complex to overcome. For the tax department, being actively involved an IBS project allows to contribute value to the organization in the form of tax benefits and a higher level of quality from migrating finance processes to a well-run and well-founded IBS.

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**Fig. 9 – Deloitte Tax Methodology for IBS**

<table>
<thead>
<tr>
<th>Deloitte Tax Methodology for IBS Projects</th>
<th>Ongoing tax matters related to processes</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBS Processes &amp; IBS Introduction</td>
<td>Failing to obtain tax deductions can easily eat into the cost savings from IBS, which should be addressed by good governance, in particular relevant and correct documentation:</td>
</tr>
<tr>
<td></td>
<td>1. Stable, portable and well-documented accounting processes;</td>
</tr>
<tr>
<td></td>
<td>2. Definition of data quality, controls and Key Performance Indicators (KPIs);</td>
</tr>
<tr>
<td></td>
<td>3. Choice of technology and level of automation; and</td>
</tr>
<tr>
<td></td>
<td>4. Record retention, storage of paper originals, and data access.</td>
</tr>
<tr>
<td>Tax authority notifications/consents</td>
<td><strong>One-time tax issues when setting up a SSC</strong></td>
</tr>
<tr>
<td>Tax data on foreign servers</td>
<td>While process deficiencies generally do not jeopardize the success of an IBS project, there are a few one-time tax issues that may put the entire project or major IBS benefits at risk. These one-time tax issues are outlined on the left-hand side and should be proactively addressed.</td>
</tr>
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<td>Location choice</td>
<td><strong>Conclusion</strong></td>
</tr>
<tr>
<td>Withholding tax</td>
<td>An IBS project can be used to accelerate automation, standardize processes and transform the use of technology. As many examples from publicly quoted and private companies in Europe show, none of the tax process matters and none of the one-time tax issues are insurmountable or prohibitively complex to overcome. For the tax department, being actively involved an IBS project allows to contribute value to the organization in the form of tax benefits and a higher level of quality from migrating finance processes to a well-run and well-founded IBS.</td>
</tr>
<tr>
<td>Transfer pricing</td>
<td></td>
</tr>
</tbody>
</table>

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**Andreas Kowallik**
Partner
Tax Management Consulting
Several general delivery models exist for IBS: a captive (in-house) model and an outsourced model, next to hybrid derivatives. Over the past years, a sustained momentum towards outsourced delivery models can be observed across the IBS customer base. In line the outsourcing market continues to develop its capabilities. Today next to the traditional outsourcing providers, a number of medium sized focused service providers exist. While initially only low-value tasks have been considered for an outsourced delivery model, increasingly more tactical and complex activities are being proposed and successfully implemented as part of an integrated business service delivery model.

**Typical value drivers for an “in-house” delivery model**

*Maintaining critical competencies/know-how*

Retaining critical end-to-end processes as well as functional expertise and knowledge are major arguments in favour of an “in-house” delivery model. This is especially the case for sensitive market conditions or business critical operations.

*Direct control aligned with overall risk priorities*

Keeping the direct control of operations is at the heart of several firms that consider an “in-house” model. A key reason to opt for an in-house model is also to avoid a lock-in scenario. Strong internal controls aligned with internal governance and risk priorities are being mentioned.

*Maintaining proximity to stakeholders and business overall*

Proximity to key stakeholders is a key argument for a captive delivery model. Driving compliance, monitoring business developments, sensing the business, can often be realized better in a captive format.

**Typical value drivers for an “outsourced” delivery model**

*Use service providers efficiencies and expertise*

Service providers often have a scale of operations and existing technology set-up that allow greater process efficiencies and productivity levels. The usage of proficient IT systems and standardized process models provide access to leading practice technology solutions.

*De-prioritizing non-strategic activities*

Non-critical and lower value tasks are often graded non-core. Here the cost/value equation for captive resources is often difficult to sustain. Often the strategic argument is brought up that management can better focus on core and strategic activities once non-strategic activities have been outsourced.

*Speed to benefits realization and service flexibility*

One common argument for an outsourced delivery model is the speed of implementation through the use of existing infrastructure. Service providers can often leverage their significant experience, best-practices in transferring and optimizing similar operations and often have a higher flexibility to up- or downscale the operations.

A diligent and fact-based evaluation is an important prerequisite for the development and implementation of a proficient delivery model decision. Next to the general strategic rationals, a thorough financial analysis and cultural/risk related discussions are a key foundation for the decision. Often, hybrid models paired with on-, near- and off-shore scenarios need to be modelled evaluated and tested to consider all factors that could impact the delivery model choices (please see section on Visual Decision Xaccelerator™ within this document).

**Delivery Model Considerations for Integrated Business Services (IBS)**
Aiming for service excellence instead of sole process excellence means a shift of weight from a more technocratical point of view to a client centered organization. Keeping this in mind, the IBS need to adhere to three guiding principles:

Deliver Value through people – which include provision of the right tools in order to enable IBS staff to deliver excellent services based on timely provision of accurate data and input needed to accomplish high-quality delivery of services

Providing Self Services to clients in a modern and stylish way to attract them and ensuring use of those services instead of provoking tier skipping. Even “sexy” tools can loose traction the moment data and services are not provided in time or are inaccurate. Therefore, the technologies used need to be seamlessly integrated with as much data sources and tools as possible and based on efficiency.

In order to support the IBS Organization, one usually sees a set of tools and technologies enabling the service delivery model along the tiered services structure. Besides ticket tools and enterprise portals, which are crucial for an efficient SSC, we usually see tools for content and document management as well as telephony. The maturity of these technologies is based on sizing, the technical progress of the IBS organization and can differ across countries, industries and functions.

The latest and greatest in the area of Enabling Technologies
Besides the above-mentioned state of the art technology, there are some new trends and technologies arising on the horizon:

Fig. 10 – Definition of Robotic Process Automation (RPA)
Cloud solutions are starting to grow together with on premise solutions – thus enabling organizations to profit from both types of technologies. In addition, new CRM tools (e.g. salesforce.com, c*link or Access Edge) begin to be used more frequently allowing for a new approach to employee portal by providing well structured and user friendly intuitive tier 0 platforms. Integrating ticket self services, employee and manager self services as well as mobile services and apps for travel, expenses and leave requests/approvals.

Based on Deloitte’s 2015 Shared Service Survey, 69% of the interviewed companies aim for improved productivity of center operations. Robotic Process Automation (RPA) could be one tool supporting organizations to achieve their aspired target. While we have seen lots of improvement in the Finance area, robots are now coming also to HR Shared Services. First companies already started implementing robots in their Shared Services to support their human agents in a faster fashion while ensuring high quality processes and delivery.

A last trend to be mentioned is the move into the cloud. As the number of DACH companies using cloud based solutions is increasing – we are now witnessing next generation cloud solutions such as SAP HANA Cloud Portal & SAP C4C, Infor Cloud Suite or Neocase HR Power emerging and being adopted in numerous European companies. Whilst some of these applications origin from on-premise solutions, they are now utilizing the cloud. Thus, the state of the art services are combined with the benefits of cloud based solutions such as faster implementation, lower maintenance costs and centralized rollout of updates across the whole technology. In the long term, these and other services and solutions will help moving HR into the cloud while bridging the gap on a midterm perspective.

In summary, it can be stated that companies are moving into the cloud and other new technologies (like robotics) to some extent. As seen with core HR services e.g. talent or learning there are some pioneers which are already a leap ahead. However, the majority of companies is still implementing single cloud modules and observing the pioneers’ approach while focusing on hybrid solutions and architectures first. Based on the global sourcing trend, we will see a more dynamic move into modern solutions within the next years.
Fig. 11 – Overview IBS Enabling Technology

Fig. 12 – Technology spending (Deloitte Shared Services Survey 2015)

What is your SSC technology platform?
- Multiple ERP and non-ERP systems (not integrated) 20%
- Multiple ERP and non-ERP systems (integrated) 8%
- Multiple ERP systems 14%
- Single instance of single ERP system 17%
- Multiple instances of single ERP system 20%

How are you allocating spend on technology for your SSCs?
- Enhancing analytic capabilities 18%
- Improve interaction/service with customers 6%
- Improve productivity of center operation 69%

Technology spend
- SSCs are operating with a variety of technology strategies with over 40% operating with multiple ERP systems
- A majority of the respondents indicated that they are investing their technology related spend to improve productivity of their centers

Source: Deloitte, Shared Services Survey 2015
Is it right for your organization?

Adopting an Integrated Business Services model can produce significant benefits – but making it work is easier said than done. Here are some practical tips for implementing Integrated Business Services that might help you decide whether it is right for your organization:

**Decide how far to go**
There are three primary stages of Integrated Business Services: Sharing between support services operations without co-location, sharing with co-location, and sharing with co-location and enterprise-wide Integrated Business Services governance.

**Establish sponsorship at the highest executive levels**
Although an Integrated Business Services initiative might be rooted in a single silo, it requires enterprise-level sponsorship from the board, CEO or COO.

**Define an effective leadership structure**
Many Integrated Business Services leaders report to someone in the C-Suite, which is likely to ensure appropriate senior executive sponsorship.

**Choose an organization structure that promotes global integration**
Different companies use different organizational structures for support services, often based on the extent to which they employ Integrated Business Services.

**Establish ongoing process leadership**
A key enabler for Integrated Business Services effectiveness is having process owners who control how a process is run throughout the organization.

**Aggressively manage change**
It is important to develop a structured change and communications plan well in advance that can help deliver clear and consistent messages to all functions and stakeholders involved in the process.

**Is it right for your organization?**

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**Fig. 13 – IBS Integration Framework**

<table>
<thead>
<tr>
<th>Geographical scope</th>
<th>Local/regional</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of value-add</td>
<td>Transactional</td>
<td>Process improvement &amp; advisory</td>
</tr>
<tr>
<td>Functional scope</td>
<td>One function</td>
<td>Multi-function</td>
</tr>
<tr>
<td>Governance</td>
<td>By/in function</td>
<td>Single over-arching governance with one IBS Lead, often C-level</td>
</tr>
<tr>
<td>Continuous improvement</td>
<td>Specific to function/ business unit</td>
<td>Enterprise-wide with common budget &amp; tools</td>
</tr>
<tr>
<td>Process ownership</td>
<td>Informal process networks</td>
<td>End-to-end Global Process Owners</td>
</tr>
<tr>
<td>Customer interaction</td>
<td>Myriad of customer interaction tool</td>
<td>Universal customer interface supported by standard toolsset</td>
</tr>
<tr>
<td>Systems &amp; master data</td>
<td>Multiple systems and decentralized master data</td>
<td>One integrated platform, centralized master data management</td>
</tr>
<tr>
<td>Sourcing</td>
<td>In-house and outsourcing not aligned</td>
<td>Managed services blending captive and outsourcing solutions</td>
</tr>
<tr>
<td>People development</td>
<td>Specific to center and/or function</td>
<td>IBS competency model and training curriculum</td>
</tr>
<tr>
<td>Location</td>
<td>Separate functional centers</td>
<td>Co-location into multi-functional centers</td>
</tr>
</tbody>
</table>

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Ute Gottschling
Manager
Human Capital Advisory Services
Visual Analytics for more effective IBS Decision making with Visual Decision Xccelerator™

In today’s increasingly complex world, having the confidence to commit to a significant business change often means organizations must evaluate and re-evaluate multiple scenarios to consider all factors which could impact the long term benefits. Typically there are multiple perspectives on any one dimension so gaining consensus can take months, if not years. For example, off-shoring work to a low cost market may expose a company to higher wage inflation and erode or erase labor arbitrage savings. Or shifting activities across jurisdictions could create tax impacts that could unintentionally drive up an organization’s effective tax rate and offset any estimated benefits. Or transitioning a workforce may trigger severance payments, retention bonuses, recruitment costs, training costs, etc.

For most organizations, massive spreadsheet models and graphics are used to assess one to three scenarios. But running sensitivity analysis requires models to be rerun and then reviewed. Often this can trigger additional questions and more analysis. At times it can feel like each iteration moves organizations further away from a decision to act.

But what if you could instantly evaluate any scenario and run sensitivity analysis in real time to help address and eliminate concerns as they are raised? What if you could accomplish in hours what used to take weeks? It’s possible. Through decades of experience working with many organizations, we have developed a game-changing proprietary tool, the Service Delivery Transformation Visual Decision

Fig. 14 – Workshop Example for Visual Decision Xccelerator™
Xcelerator™ or VDX™ (pronounced “V-Dex”). Using market-leading analytics combined with Deloitte’s propriety market data and selected data about your current footprint, touch screen changes deliver real-time visual results. This enables teams to gain better insights and to confidently make informed decisions, fast.

SDT VDX™ converts your organization’s current state data into a visual format for multiple functions across a global footprint. We work with you to identify and collect your data, typically including process taxonomy, headcount, compensation, and location information, among other elements. Deloitte maintains detailed cost parameter assumptions spanning several categories, including: facilities, locations, wages, severance, retention, tax, and technology. Whether you are just starting to think about how to enhance your organization’s existing service delivery model or are ready to start developing the business case for future state service delivery scenarios, our differentiated approach can provide an accelerated path from issues to action.

Tina Junge
Senior Consultant
Human Capital Advisory Services
Integrated Business Services (IBS) | Taking Shared Services to the next Level of Peak Performance

Events/Publications

**Publications on request**

**HR goes global – Erfolgsfaktoren für die Implementierung von Global Business Services**
This article explains the key characteristics and highlights the success factors for implementing Global Business Services. Link

**Global Business Services – Better Together**
For more than two decades, organisations around the world have been using shared services and outsourcing to improve service delivery and reduce costs within defined parts of their businesses. Now leading organisations are taking the next step. Instead of operating numerous shared service centres and managing outsourcing vendors independently, they are implementing Global Business Services (GBS).

**The value of global process owners in global business services Part 1 & 2**
This two-part article series examines the crucial role a global process owner can play in global business services. What are global process owners? How can organizations help GPOs create enterprise-wide value?

**Deloitte’s 2015 Global Shared Services Survey Results**
Key findings of Deloitte’s 2015 shared services survey, which had representation from more than 300 organizations around the globe and provides data for more than 1,000 shared services centers globally.

**Shared Services handbook: Hit the road**
A practical guide to implementing shared services.

**Technology-Enabled Shared Services Centers – The vital role of strategic planning**

**Optimize your Shared Services Organization**
A maturity model with an objective diagnostic methodology and quantitative opportunity assessment

**Events**

**Annual Shared Services & Business Process Outsourcing Conference**
Attracting over 500 visitors from across Europe, this is a must attend event for Shared Services, Finance, HR and IT leaders either just starting out or running mature Shared Service centers. Link

**Annual Shared Services & Outsourcing Woche**
Gathering of the German speaking Shared Services Community to discuss trends and to shape the future of the industry.
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