Three reasons for expanding shared services in the jobless recovery

"There is nothing new or strategic about shared services; we have had it for years," many CXOs may say. Yet as these leaders struggle through tough economic times, they overlook the potential of this strategic asset to better position them for future success. Even in an uncertain economy, expanding the use of shared services can yield material margin increases and position companies to achieve long-term strategic benefits.

With the economy still in flux, executives are being pulled in two opposite directions. Clearly, business prospects are improving, with many companies reporting increased demand. However, concerns about a double-dip recession continue to force leaders into cautious hiring decisions. Executives are thus struggling with the dilemma of how to meet increasing demand while still being conservative about hiring. Complicating the matter, investors are putting mounting pressure on companies to show significant returns after two years of disappointing results, a difficult task if one adds back cost too quickly.

These difficult circumstances, however, provide an opportunity for companies to leverage their shared services organizations (SSOs) to position them to either capitalize on continued growth or more effectively weather a double-dip recession. In particular, we have identified three compelling reasons why a company should consider expanding its use of shared services in these bleak times:

1. **Investors want better returns:** Improved margin performance
2. **Shared services can do more with less:** Efficient resource use and deployment
3. **Internal conditions are right:** Favorable internal political environment

1. Investors want better returns: Lower SG&A costs

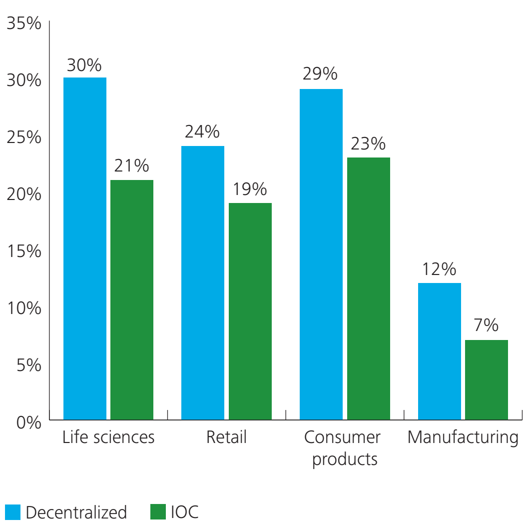
The operational efficiencies to be gained by increasing operational integration – which often involves the adoption or enhancement of shared services – may be recognized as a differentiator by the investment community. In fact, companies with integrated operating models tend to enjoy substantially lower SG&A costs as a percentage of revenue, with the difference ranging from 5 to 9 percent depending on the industry (see Figure 1). This is likely due at least in part to the widespread adoption of shared services among integrated operating companies.

SSOs can drive greater operational integration by promoting the adoption of the following practices:

- Greater enterprise-wide process standardization
- Greater information technology (IT) standardization, or the use of a common IT platform
- Increased standardization in G&A approaches at the business units

The advantages of these practices are not lost on the investment community, and adopting or expanding shared services can reflect favorably on a company's desire to be seen as an industry leader.

Figure 1. SG&A as a percentage of revenue



Companies with integrated operating models, which often include the use of shared services, benefit from more efficient cost structures when compared to their decentralized peers. (Source: Deloitte analysis of Compustat data on 124 Fortune 500 retail, consumer packaged goods, manufacturing, and life sciences companies, 2008.)

2. Shared services can do more with less: Efficient resource use and deployment

SSOs have proven to be an effective platform for both absorbing incremental demand and improving an organization's ability to deal with demand fluctuations. Because an SSO provides the same services to multiple business units, resources in the SSO can be easily shifted from one business unit to another if a particular business unit experiences a spike in demand. Migrating new work to an SSO to enable the strategic, centralized hiring of support employees is gaining favor over the haphazard approach to hiring typical of a post-recession rush to deal with a business upturn. Further, SSO resources specialize in one process area, which helps to build their skills and enables them to achieve higher throughput than can often be achieved by the business-unit "jack of all trades."

Recently, one company with more than 50 business units, all taking orders by telephone, consolidated the order-taking process in its SSO. At the business units, order-takers had struggled to answer the phones in a timely fashion during peak times. Once the work migrated to the SSO, however, the management team was able to employ workforce management tools and work shifts to manage incoming calls with far fewer employees. In addition, the wages for personnel at the SSO were lower than at many of the business units, further contributing to the cost savings.

3. Internal conditions are right: A favorable political environment

Many companies have already realized the benefits of shared services on a modest scale. However, at many companies, efforts to expand shared services beyond the obvious transactional finance processes, such as accounts payable, general accounting, and fixed assets, meet with stiff resistance. The cost play and low risk associated with shared services for transactional processes are obvious, but higher-value processes require more motivation to dislodge.

The current difficult economic conditions can provide the burning platform for change. Increasing the scope of shared services now may find more support among the business units, because it will displace fewer people than in good times when staff levels are inflated. Further, companies have been forced to delay hiring in all departments, and higher-value areas such as financial planning, credit analysis, tax, and treasury are no exceptions. Centralizing these activities in an SSO to deliver support to the business units may be a better solution than going without resources or overworking a company's current staff.

Why shared services now?

Business luminaries like Jack Welch have long held that companies that emerge the strongest from recessions are those that hone their tools, processes, and organizations when times are tough. The reasoning behind this view is that such companies are better positioned to gain market share when prospects improve. While this principle is often the motivation for a company to acquire a new and complementary business, it applies equally well to the adoption or expansion of shared services.

The advantages of shared services in an uncertain economy are more than theoretical. For instance, one industry-leading home builder, seeing the current situation as an opportunity to improve its operating model, recently implemented a finance SSO. Rather than locking down discretionary expenditures until conditions improved, senior finance management seized the opportunity to consolidate finance activities while business-unit leaders were less able to muster the political support to block it, as they had done when the housing market was booming. The rationale was that, although the move to shared services would not result in immediate high returns, it would lead to a competitive advantage when the market rebounded. The company expects to be able to use its SSO to improve processes and controls, efficiently integrate potential acquisitions, and limit the ramp-up of staff when the housing market rebounds.

Adopting or expanding the use of shared services can yield significant benefits for a business as a whole, and an economic downturn may actually increase the feasibility of migrating new, higher-value processes to an SSO. We believe that investing in shared services now is a smart move that will help companies to both weather current economic uncertainty and position themselves for long-term performance.

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