Deloitte.

CFO Insights
Shared services: Creating a working model for emerging markets

For decades, significant labor savings, process standardization, and improved controls have been achieved by centralizing transactional finance activities. And for the most part, locating shared services centers in developed markets has made sense both logistically and from a risk perspective.

With more and more business emanating from emerging markets, however, companies are increasingly asking if—and how—they can extend their shared services footprint further into Latin America, Eastern Europe, Asia, Africa, and the Middle East. Moreover, by doing so, can they gain greater transparency and controls in operational processes, such as order-to-cash, invoice-to-pay, and related compliance transactions—as well as extend the option to more value-added activities?

In this issue of *CFO Insights*, we will discuss how finance can support the growth of shared services in what traditionally have been considered risky markets, what the road map entails, and whether the benefits are worth the journey. In addition, we will ask if such standardization allows for enhanced capacity to respond to growth opportunities in those markets.

Three elements of success

The problems with launching shared services centers in emerging market are multifold. To start, the markets are incredibly diverse with a wide range of local business requirements, macroeconomic factors, governmental policies, cultures, labor characteristics, and other complexities. In addition, companies often do not have standard technology platforms in place, and thus lack the uniform processes, organization constructs, and roles and responsibilities to support a shared services environment.

Still, in the *2013 Deloitte Global Shared Services Survey*, the trend was clear: the dispersion of centers across the world is much greater than it was 10 years ago with newer centers opening across a greater array of countries.[1] The survey also found that Latin America and Eastern Europe have seen the most significant growth in shared services centers and show the greatest potential for new ones. In addition, labor factors continue to drive location selection—and cost remains a perennial factor.[2]

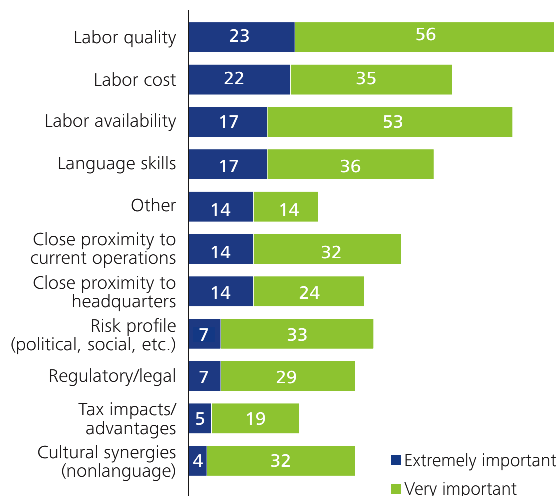
Deploying shared services in emerging markets, however, often requires a carefully orchestrated plan that leverages both corporate and local expertise. While some companies relocate an existing team to replicate their shared services center model and others engage a local team, such approaches lack a full view of shared services, corporate

structure, and local culture. By taking a hybrid approach, companies may stand a better chance of an efficient roll-out that avoids country-specific surprises. Still, whatever approach is adopted, the following factors are crucial:

Multi-sponsorship. Establishing shared services in emerging markets is not just a finance or an IT project. It is a challenge that has to be addressed from an overall business perspective, with shared services being one part of the solution. As such, it should involve the heads of finance in the emerging markets, as well as leaders from shared services, procurement, and human resources. In addition, the tax organization has to be engaged in decisions around locating new centers to avoid inadvertently creating tax risk.

Business case. Typically, shared services initiatives are focused on hard savings. With extremely low labor rates in some emerging markets, however, it may be difficult to identify labor arbitrage opportunities. However, leading CFOs are finding that shared services capabilities enhance compliance and mitigate significant financial exposure from associated risks. Making a business case for expansion into emerging markets should consider qualitative factors in addition to traditional quantitative ones.

Qualitative vs. quantitative: What factors are important in selecting a shared services center location



Source: 2013 Deloitte Global Shared Services Survey

Market customization. While standardization is the watchword for most shared services activities, success in the emerging markets widely depends on being able to cater to the nuances of local execution. Say, for example, a Costa Rican finance shared services center was established to support Latin American activities, including procure-to-pay processes in Brazil. The center would have to work closely with enterprise resource planning (ERP), tax, and local market colleagues in Brazil to tailor standard processes to support that highly complex and nuanced local regulatory environment.

Four burning questions

Once those elements are in place, CFOs have to ask the following questions of their finance teams:

1. **Where should the shared services centers be located?** Locally based communities can be useful for market knowledge, language, and time-zone support. But centers do not have to be established in every emerging market. Instead, regional hubs that establish geographic proximity and extend a company's reach into individual markets may make more sense. For example, establishing a center in Costa Rica, as previously mentioned, allows an organization to service markets throughout Latin America, while one in Warsaw can provide support throughout Eastern Europe. Deciding on where to locate your center is a design decision that shapes the level of support you can provide in the region. Critical factors include language capabilities, labor rates, education levels, and country risk.
2. **What work should transition to the shared services centers?** Shifting ownership from one location to another can create a myriad of issues and is typically the number one execution challenge. For example, finance managers will have to partner with shared services leadership to close the books on a monthly basis, creating a period of significant change for the organization. And while lower-risk, transactional activities are typically migrated, companies have to decide if higher level activities, such as basic variance analysis, should also be centralized. One solution is to start with a pilot to prove the operating model and then expand into other regions.

As used in this document, "Deloitte" means Deloitte Consulting LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

3. **What exceptions need to be made?** There is a lot of value in conducting transactional processing the same way around the world. But there are special circumstances that preclude certain activities from being centralized. Brazil's unique tax regime, for example, may require making different operating model choices to mitigate significant tax exposure. Greece's payment collection process is highly manual and does not lend itself to centralization. Identifying what these nuances are is difficult, and flexibility is key. Applying an inflexible model ruins credibility with your local market stakeholders and can create an inefficient process, or at worse, financial exposure.
4. **If this is a rollout, how will the sequencing work?** If you are opening multiple shared services centers, sequencing can be challenging. In what order should the centers be rolled out? Should they be conducted in parallel to an ERP extension? What will the investment costs entail? Both return on investment and level of risk come into play with sequencing decisions. For example, some markets might not have the most attractive business case, but because of their high level of risk, should be rolled out sooner.

Cost, risks, and rewards

There are obviously costs involved with extending a shared services footprint into emerging markets. A significant consideration is whether current ERP systems will enable work to be centralized. That is, does the existing ERP allow remote access? In some instances, leading clients are implementing a new ERP concurrently with a shared services center expansion. The associated costs of such an implementation can be significant, however, and should be considered prior to making expansion decisions. Other costs involve implementation labor, project travel and expense, severance costs, facility costs for the new centers, as well as any consulting costs that might be involved.

On the flip side, companies can expect to see significant reductions in local finance staff in our experience (up to 40% in some cases[3]) as they transition a lower-cost shared services center. In addition, once these processes are centralized, there are typically process efficiencies gained two years post-cutover (up to one-third[4]). Moreover, opportunities to leverage freed-up capacity to work on more value-added projects, such as decision support, business partnering, and analysis, are also gained.

In addition, by moving compliance to a centralized location, companies transition high-risk transaction processes out of places that likely have a history of poor controls and compliance. And by adopting the same degree of rigor used in the developed markets, they gain a level of transparency that may not have previously been achieved. For example, organizations have reported lower internal audit costs and external fees as a result of centralization, as well as positive feedback from audit groups on data quality and overall control environment.

Finally, by establishing shared services centers in emerging markets, companies enhance their capacity to respond to growth opportunities and M&A activity. Standard processes and a consistent global model enable shared services centers to quickly scale up or ramp down based on organic growth or acquisitions. In addition, a standard platform exists with a strong accounting and control framework.

Pulling the trigger

Executing reliable, well-controlled financial processes will always be table stakes for a high-performing finance organization no matter where it operates. As CFOs are increasingly asked to enable sustainable double-digit growth in the emerging markets, however, one weapon they have at their disposal is to establish regional shared services centers. Such centers can transform the way finance delivers at the local level and offer a more scalable, compliant solution to transaction processing. This model has been demonstrated to be successful at other leading companies and, given its potential to reduce costs, enhance controls, and enable growth, CFOs should carefully assess the benefits (as well as the risks) of expanding their shared services footprint into the emerging markets.

Endnotes

[1] *2013 Global Shared Services survey results*, February 2013, Deloitte Consulting LLP.

[2] *2013 Global Shared Services survey results*, February 2013, Deloitte Consulting LLP.

[3] Deloitte client experience, Deloitte Consulting LLP.

[4] Deloitte client experience, Deloitte Consulting LLP.

Primary contacts

Bradley Smith
Principal
Deloitte Consulting LLP
brasmith@deloitte.com

Caleb Longenberger
Senior Manager
Deloitte Consulting LLP
clongenberger@deloitte.com

Sterling Barnett
Manager
Deloitte Consulting LLP
sterbarnett@deloitte.com

Deloitte *CFO Insights* are developed with the guidance of Dr. Ajit Kambil, Global Research Director, CFO Program, Deloitte LLP; and Lori Calabro, Senior Manager, CFO Education & Events, Deloitte LLP

About Deloitte's CFO Program
The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The Program harnesses our organization's broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO's career – helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic shifts in the market.

For more information about Deloitte's CFO Program, visit our website at:
www.deloitte.com/us/thecfoprogram

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

Copyright© 2015 Deloitte Development LLC. All rights reserved.
Member of Deloitte Touche Tohmatsu Limited.