shared-services centres

ONLY YOU CAN DECIDE ***WHETHER***
A SHARED-SERVICES SOLUTION IS RIGHT
FOR YOUR ORGANISATION.

AND ONLY YOU CAN DECIDE ***WHEN***.

BUT MAYBE WE CAN HELP YOU DECIDE ***WHERE***.

Tees Valley
Pioneering
a vibrant new future


shared-
servi

A new approach to the problem of cutting costs without reducing standards of service is quietly making headway in Britain's boardrooms.

It concentrates on the business services departments most companies maintain. These services – accounting, IT, facilities management, HR and other similar services – are essential to the smooth functioning of an enterprise, but usually make no contribution to its core business.

Yet they are often located in expensive head-office premises, or, worse, replicated from Division to Division or location to location, as part of each operating manager's portfolio. There, these essential business services become a drain on core-business resources of money, space and management time.

By stripping them out, consolidating them when they are replicated, and locating them in cheaper, dedicated – often remoted – shared-services centres, considerable cost savings are possible. And the concentrations of expertise in these dedicated centres often means a marked improvement in the service provided.

There are few published studies of the shared-services centre approach. Details of how it works in practice are scarce.

To fill the information gap, the Tees Valley Development Company has commissioned a high-level research study. The adoption of shared-service centres is a top-level decision, and the research was carried out among randomly selected Managing Directors, Financial Directors and senior financial managers of the UK's top 1,000 companies by turnover.

The outcome is a unique and trustworthy picture of a new organisational approach – as far as we know, no comparable study exists. The research findings below allow the senior managements of UK companies to see how their customers, suppliers – and competitors – are addressing the new practice.

What functions can be shared? How big are typical shared-services centres? How are they staffed? Where are they best located? What sort of accommodation is required? These and other questions are all covered by the findings.

If you are not already pursuing the shared services route, it may help to see the experiences of companies that are. And if you are already considering or committed to shared services, you will be interested to see the case for locating them in the Tees Valley.

ices
centres

Sharing services to cut costs

As economic conditions tighten, companies are increasingly concerned to cut out waste wherever possible.

One approach has been widely aired in the business and management media. It involves identifying non-core-business 'back-office' functions – pensions, say, or payroll administration, facilities management, purchasing or HR support – that may be replicated in various areas of the organisation, and consolidating them into dedicated units: shared-services centres.

Such replication is quite common in organisations with a number of more or less autonomous Divisions or business units, particularly when these units are geographically separate from one another. The reasons are usually historical – it is natural for a start-up unit (which may have a different focus from its mother company) to handle its own HR needs in the early days, or for an acquired company to come on board with its business support staff and systems already in place.

Clearly, there are potential savings in streamlining these functions. Streamlining can

- *avoid duplication of effort, not only in day-to-day functioning, but in recruitment, training and management;*
- *reduce the space and facilities needed;*
- *rationalise head-counts;*
- *allow non-customer-facing activities in particular to be located away from head or divisional offices, in areas with lower-cost staff and premises.*

Concentration or consolidation can also

- *improve the quality of service provided, as units concentrate on their own functions rather than hanging off the edge of the company's care business;*
- *allow the sharing of expertise in such areas as IT development;*
- *allow the company to concentrate on its core business rather than diverting senior management into looking after non-core support systems.*

The process is not without potential dangers.

Divisional managers are often very proprietorial about their service departments, and reluctant to believe that their needs will be understood by 'outsiders', or can be handled properly from remote locations.

And where services are remotely located, there may be worries about the willingness of trained staff to transfer, the availability of new staff, and the quality of a lower-cost environment.

Learning from call centres

Many of the fears about the consolidation and remoting of business services were felt in the early days of call centres. If anything, they were felt more strongly, since call centres are largely customer-facing, carrying out core-business functions, and the consequences of failure could be disastrous.

Yet call centres have been among the strongest success stories of the last decade. Often remoted to save cost, usually very demanding in terms of quality of staff required and the environment needed to retain such staff, they are now an integral part of business operation.

The Tees Valley, with its emphasis on sustainable call centre growth, has a record of exceptionally harmonious call centre expansion. In particular, it has avoided the problems other regions have encountered with the creation of staff 'dustbowls', caused by uncontrolled concentrations of units competing with each other for a finite resource of good people. Staff quality and costs, premises, environment and local support have all turned out to be major Tees Valley assets.

If shared services are the direction of the future, then we believe the Tees Valley is an ideal location for such units.

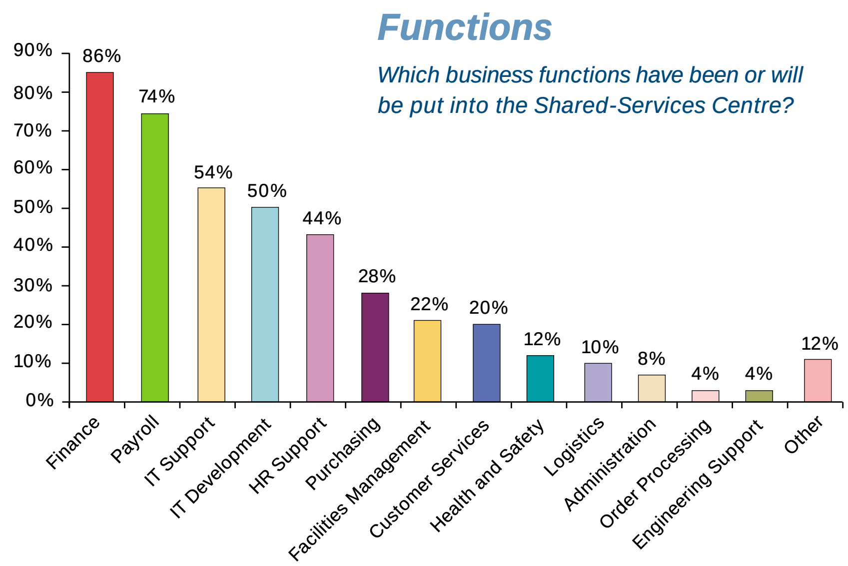
To establish whether shared services really are likely to play a major business role in the UK, and if so, what the drivers and the criteria for location would be, the Tees Valley Development Company has conducted the independent research on which this paper is based, using a sample drawn not from the Tees Valley but across the UK.

Research methodology

The figures that follow are based on telephone interviews with a large sample of MDs, FDs and senior financial managers in the UK's top 1,000 companies by turnover. For all charts except the last (chart 13 on page 10), the research sample is restricted to those organisations that have set up shared-services facilities, or are considering doing so. They embrace manufacturing, services, marketing, retail and public sector organisations, and the results fall within the normal margins of error for research of this type.

1 *What services do companies consolidate?*

Chart 1



A very wide range of functions are regarded as suitable for consolidation – respondents mentioned virtually all the functions to be found in a modern business that are company-facing, and not customer-facing.

Not surprisingly, financial functions and payroll get most mentions. Financial processes are so uniformly regulated and standardised as to be almost entirely independent of an organisation's core business processes, and are a natural subject for consolidation.

Today, the same applies to IT processes and development. The data processed and the uses made of it will vary hugely from organisation to organisation, but the architectures of the networks and devices involved are now, ideally, uniform across the entire enterprise.

All the functions mentioned in the chart, including the management of facilities – though not, of course, hands-on systems maintenance – can be performed anywhere, by anybody with the right skills.
They are undifferentiated, and not specific to any core business.

Why do companies consolidate services? 2

This chart shows the business drivers that move companies to set up shared services.

The perceived benefits are very clear. The main driver is naturally cost-saving. Nearly two thirds of all the correspondents who had implemented or were considering shared services identified it as 'extremely important'.

But it is followed very closely by the expectation of improved service – an outcome, as we know from anecdotal evidence, of focused function management, shared expertise, and freedom from distractions by core-business activities and people.

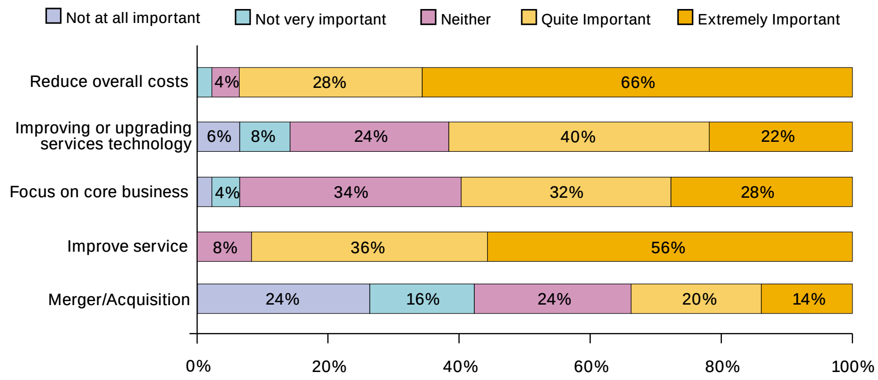
Over 90% of respondents see these benefits as quite or extremely important.

Next in line is the major benefit in the freedom that managers of the core business get to concentrate on that business when the administrative management is taken care of elsewhere.

Chart 2

Business Drivers

On a scale of 1-5, where 5 is extremely important and 1 not at all important, how important do you think the following business drivers are in relation to setting up Shared-Services Centres?



As technology increasingly underpins all company processes, it's perhaps not surprising that the opportunity to improve or upgrade technology rationally, and without on-the-spot special pleading, ranks next. Plenty of companies are still hampered by islands of different and incompatible IT systems and generations, preserved in individual divisions and departments. There is no incentive at a departmental level to change the system – and plenty of incentive not to undergo the disruption of doing so.

Finally in the top five drivers come the problems brought by mergers and acquisitions, when both (or several) parties bring their existing systems and services in their baggage. An independent department allows for objective rationalising, and cutting out replication.

Who decides? 3

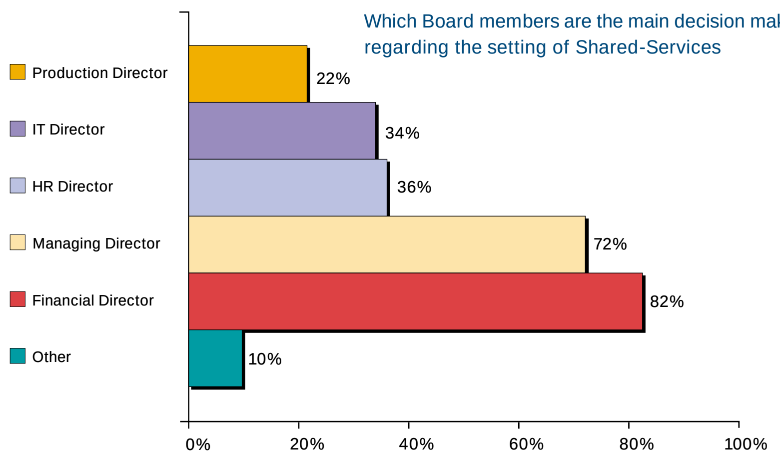
The predominance of MDs and FDs comes as no surprise.

The involvement of other function heads shows how far-reaching the decision to share services is regarded as being.

Chart 3

Decision Makers

Which Board members are the main decision makers regarding the setting of Shared-Services

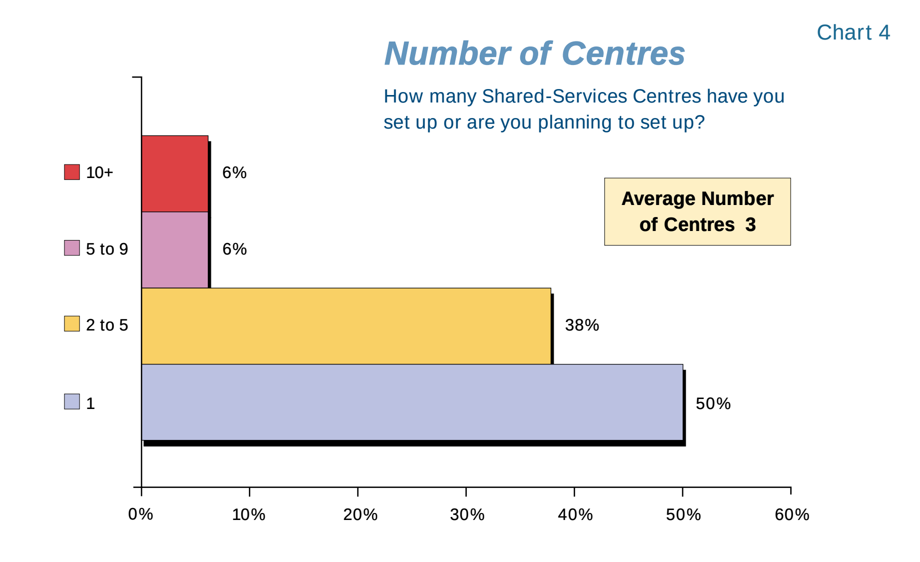


4 *How are they approaching it?*

There are naturally variations in the way different organisations have approached the setting up of shared-services centres, but in the charts that follow there are some clear patterns. Most – but not all – respondents have set up a single centre. Most – but not all – expect to keep the centres where they are now. Most – but not all – have set up substantial units with 100 or more staff. And so on.

How many centres?

Consolidation clearly doesn't necessarily mean taking all business services and locating them is a single shared-services facility.



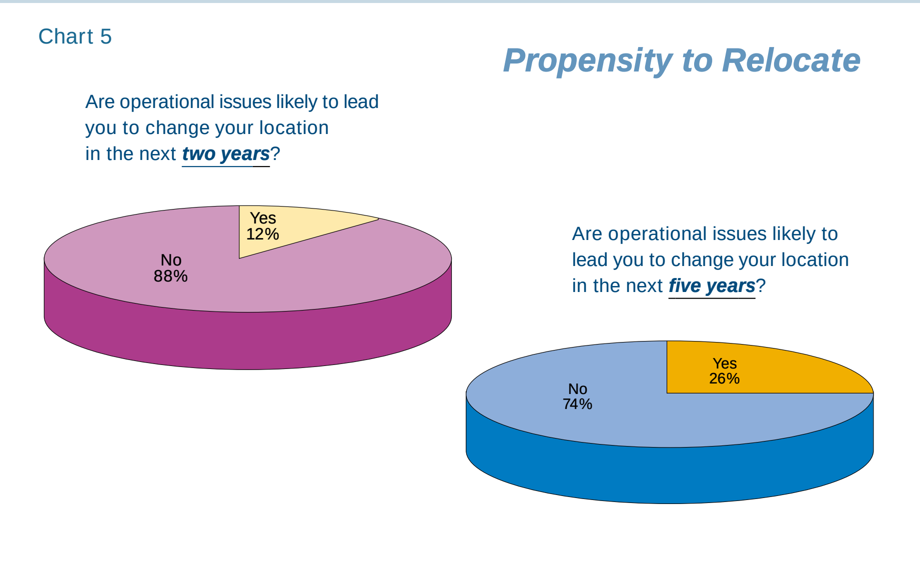
Though most respondents had done just that, others had established anything up to 10 or more centres. The reasons could be sheer volume of work, a desire to keep associated services (e.g. finance, pensions and payroll) together and separate (a sort of shared services within shared services), geography, local shortages of staff or skills, or a mix of these and other factors.

How likely are they to change location?

Most organisations have no intention of moving their centres in the near future.

This is no surprise. Setting up a shared-services centre is a substantial project. Detailed feasibility planning of both logistics and systems, 'selling' the proposal internally, location-finding, installing and testing new advanced hardware and software, recruiting ... the ramifications are very wide, and the level of investment high. As a result, companies will be uncomfortable at the thought of duplicating the effort.

But forecasting must always be treated with caution. Anyone familiar with the history of call centres will remember that many of them were set up initially in the nearest, cheapest buildings that would hold them. Experience, the introduction of specialist managers, and the growth in importance of call centres soon established that call centres functioned most effectively when sites and premises were optimised for them, and many moved on to such new locations within a year or two.

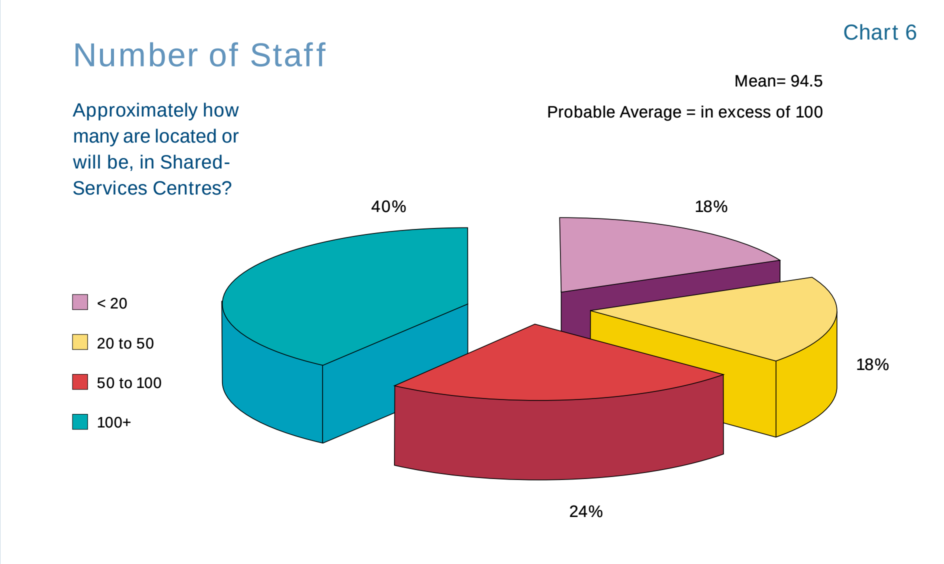


How are they approaching it? 4

How big are the centres?

Working up the scale, the research cut off at 100+ jobs per centre, giving an arithmetic mean of 94.5 jobs per centre. With 40% of companies claiming 100 or more employees per centre, the average is probably more than 100.

The sample was drawn from the UK's biggest companies. Given that fact and the general tendency, as we have seen, to set up only one centre, it is not surprising that the centres are rather large units. In some areas of the UK, housing and staffing units of this size is not easy.

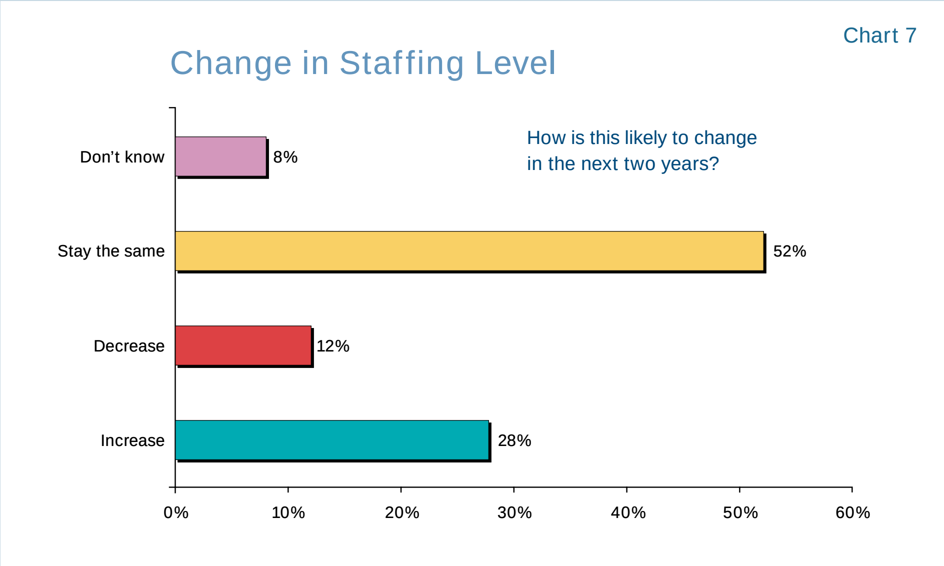


The average call centre houses only 60 operators, but the dustbowl effect (shortage of local staff, consequent high salaries, increasing accommodation costs) is already forcing call centre operators in some regions to locate abroad.

Though shared-services centres are even larger, they are somewhat easier to staff, since staff are not customer-facing and tend to have lower, more widely available, qualifications. Nevertheless, if shared-services centres are to reduce costs they must themselves cost as little as is consistent with a quality service. This will tend to mean remoting them, at least from prestige head-office locations.

Will they grow?

Most respondents believe (or perhaps hope) that the centres will not grow. A handful believe they will shrink. But over a quarter of respondents do believe their centres will grow – increasing, of course, demands for both staff and space.



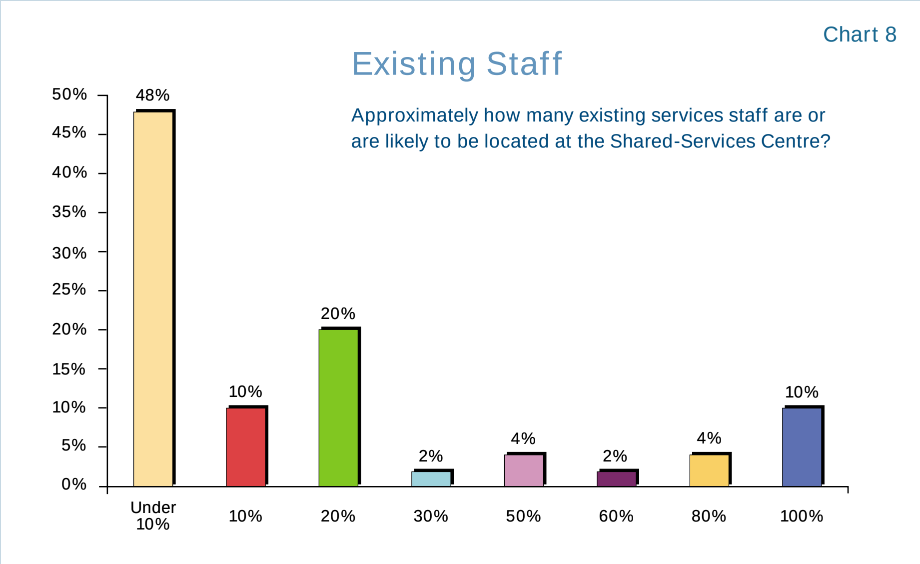
4 *How are they approaching it?*

Where will the staff come from?

Setting up a shared-services centre presumably displaces existing staff within a company's various Divisions and units. It might be expected that companies would try to staff the centres from these displaced staff.

In fact, most centres are largely staffed by new people. 78% of respondents have moved 20% or fewer of their existing staff into shared-services centres.

As a result, shared-services centres tend to create new jobs and will usually be welcomed into areas of high unemployment, provided there is an adequate supply of skills available (or core skills can be imported).

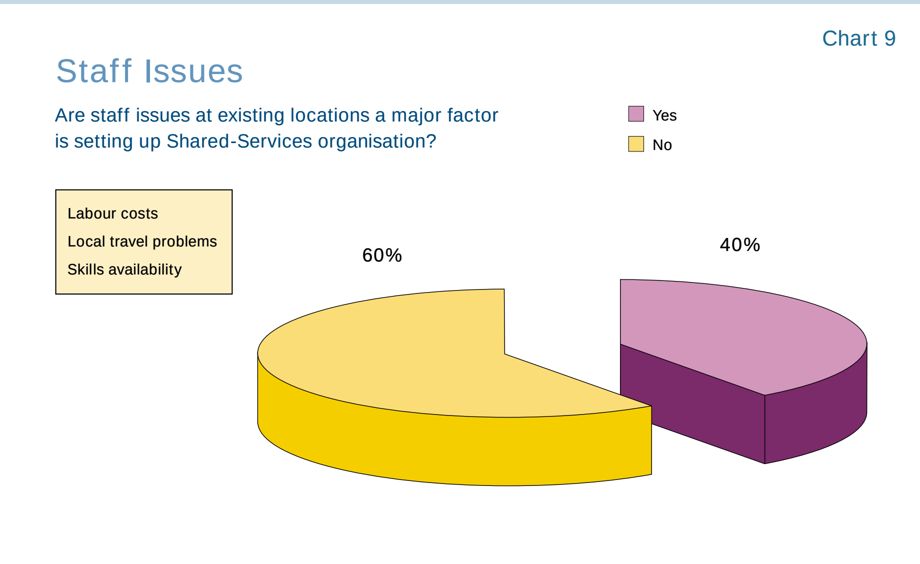


Relocation to resolve staff issues

Staff issues at existing locations loom large in the decision to set up separate shared-services centres. These issues fell into clusters, of which the three most important are identified within the chart.

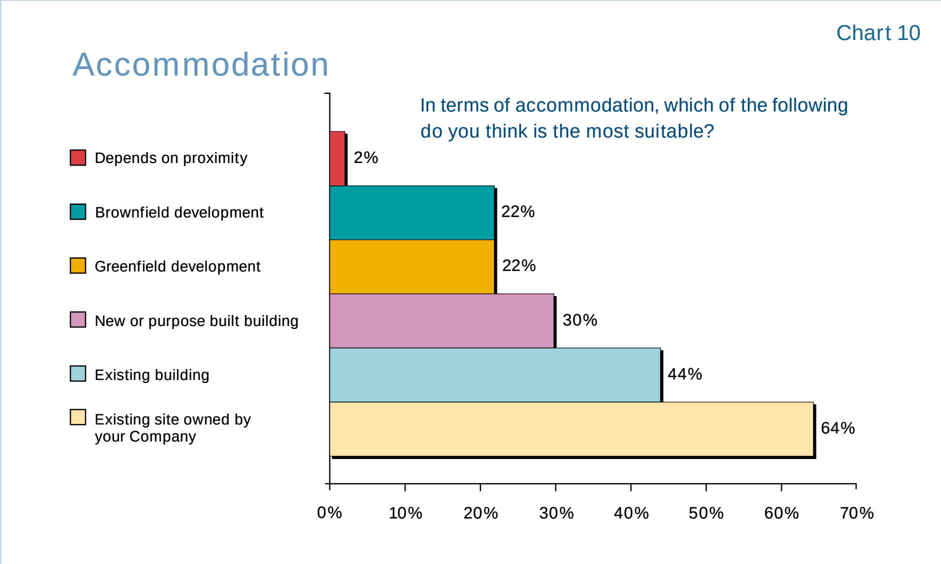
First, naturally, is the issue of staff costs. Remoting services often allows an organisation to tap sources of staff where competition has not distorted realistic wage structures.

Next is the issue of local transport, increasingly important in large conurbations – and possibly a function of interview bias towards the top 1,000 companies. By a careful choice of areas outside these conurbations, companies can enlarge their catchment areas for staff, while still easing the length and cost of their journeys to work.



The third issue is that of skills. Most areas that are seriously trying to encourage inward investment have recognised the need to develop a supply of people with the most usually demanded skills, and have invested in a range of local training initiatives. TVDC research has shown that it is often easier today to find qualified people outside the major commercial centres than it is inside them.

How are they approaching it? 4



What sites are suitable for shared-services centres?

The research constructs a sort of wish list for companies establishing shared-services centres.

Most desirable – because easiest to manage, though not necessarily cheapest in the long run – is naturally an existing site owned by the company or at least an existing building. And of course, any rational company is going to review its current resources before investing in more real estate.

Nevertheless, nearly a third of respondents would choose a new or purpose-built building. Again, this perhaps parallels the early development of call centres noted above, which began by accommodating themselves to any big enough buildings available, but soon realised that maximum efficiency meant locating a building that suited the specific needs of a call centre.

5 *Pulling it all together*

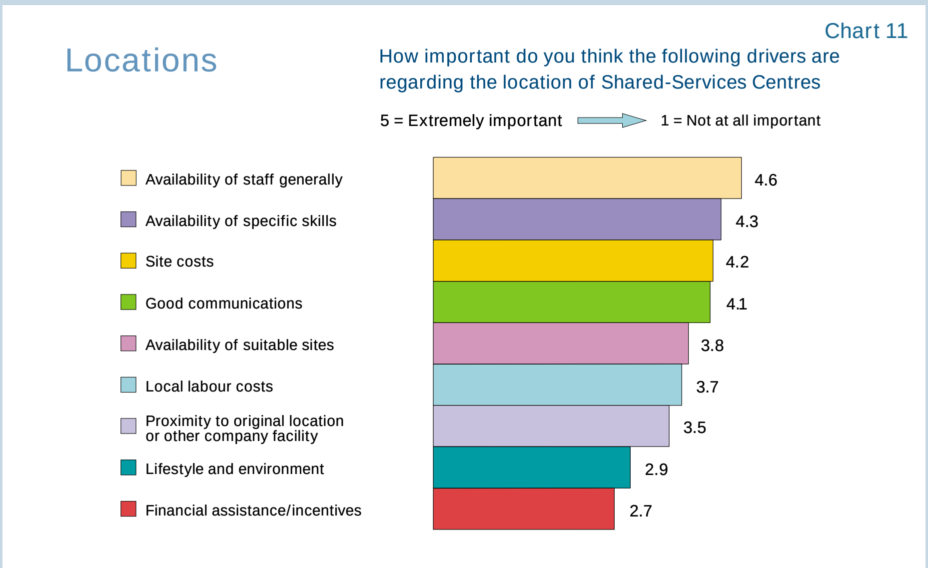
The ideal location

Respondents were asked to rate the various criteria for location that emerged during the research on a scale of 5 (Extremely important) to 1 (Not at all important).

Not surprisingly, staff availability, skills availability, site costs and good communications emerge as the front runners.

Close behind come the availability of suitable sites and local labour costs.

So a good location will be one where the staff with the necessary skills are easily available at comparatively low cost, and where there are suitable sites with good communications – again, at comparatively low cost.



All these things matter more than proximity to original location or other company facility (though this still receives a rating above 3), lifestyle, environment and financial help.

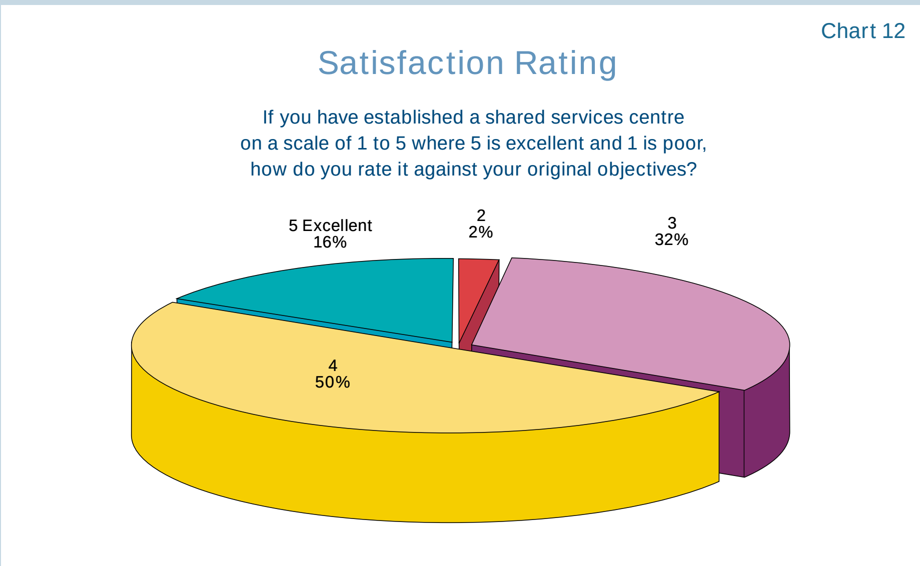
Given all these things ...

Do shared-services centres work?

On a scale of 1 to 5, where 5 is 'Excellent', two thirds of the sample rated their satisfaction level as 5 or 4. Almost a further third rated their centres as average in achieving the original objectives.

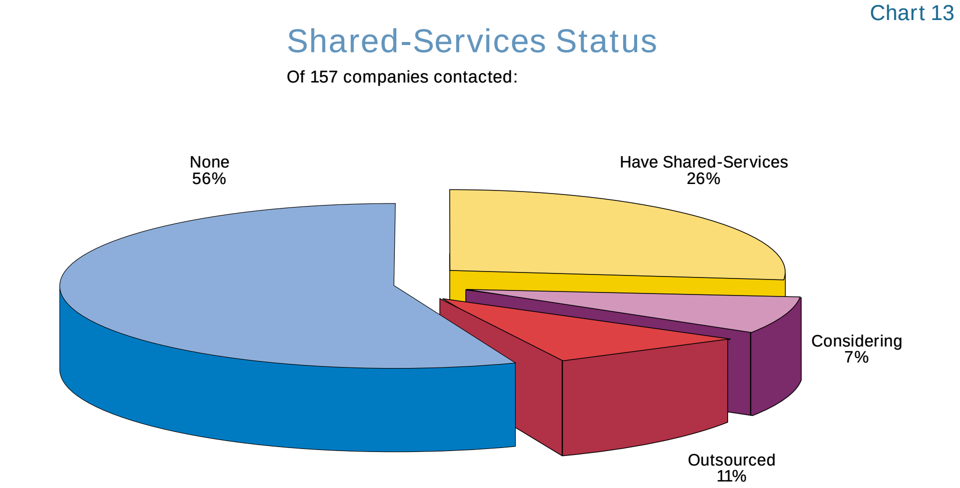
It looks as though shared-services centres are here to stay!

But if that is the case, and the advantages are so clear and the level of satisfaction so high, we might expect the solution to have been adopted almost universally. In fact, that is not the case ...



Pulling it all together 5

Chart 13



How deeply has the shared services approach penetrated?

For this final chart, respondents were not restricted to companies with shared services already in place or under consideration. The sample represents all companies.

A third of the sample are taking shared services very seriously. Over a quarter have already implemented the process and a further 7% are actively considering it.

11% have pursued an alternative approach and are outsourcing the provision of business services. (For some companies, this may well be the right approach, though other questions in the research identified worries about loss of control, and doubts about the cost.)

But though, as we have seen, 66% of the enterprises with shared-services centres are enthusiastic about them, 56% of all companies have still to implement them or even consider them.

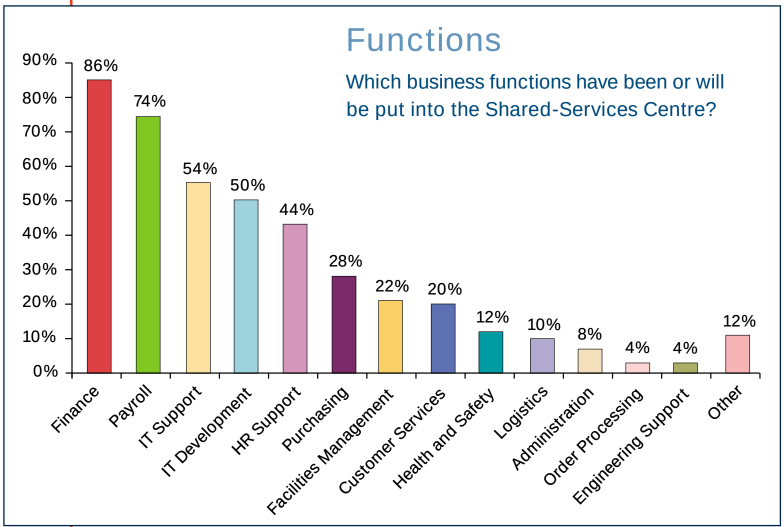
It is unlikely that this neglect of a possible competitive edge will continue. We can reasonably assume that the shared-services centre approach will continue to grow.

As with call centres, this will inevitably lead to competition for suitable staff (though the types of staff required are very different from those needed for call centres) and for premises. Late-comers may find their competitive edge eroded.

Research conducted by JSGL Partnership in association with Benchmark Research, January 2003.

How the Tees Valley matches the location criteria

We know what companies are looking for in the locations for shared-services centres.



How does the Tees Valley match up?

Staff and skills

The Tees Valley is a large area with a population bigger than that of some complete English counties, distributed rather unevenly across the five unitary authorities that make up the area.

By industry segment, they are distributed roughly in line with the national pattern, though there is some bias towards manufacturing and construction.

Unemployment continues at a rate above the average for Great Britain as a whole. In every unitary authority, there is a substantial pool of available work people – many of them trained, skilled and qualified.

In spite of the strength available in manufacturing and construction, the Tees Valley has much to offer in the service and IT sectors. It is indicative that well over 6,000 people are employed in call centres – for which, call centre and shared-services centre managers both assure us, the recruitment criteria are even more demanding than they are for shared-services centres.

There is strength in depth in the provision of further education – much of it in vocational subjects. The University of Durham (Stockton Campus) and the University of Teesside, supported by a number of other establishments, have substantial numbers of IT students.

The University of Teesside is one of only 8 UK universities to have an excellence accreditation in computing and mathematics.

Local graduates have an exceptionally high propensity to find work and stay in the area. The TVDC offers informed and practical assistance in reaching and recruiting graduates and other qualified staff – assistance that includes financial support, funded from a wide range of local, national and EU sources.

Sites and communications

The Tees Valley is a loose conurbation of five unitary authorities, each centred on a number of moderate-sized towns. The scale is very intimate and human. Each town forms a local catchment area, but each also supplies staff to work in the Tees Valley's other communities. Staff also enter the Tees Valley in substantial numbers from the surrounding areas of North Yorkshire, Durham and Northumberland.

Travel is very easy within and into the Tees Valley (Middlesbrough itself has the lowest congestion of all the urban areas in England), and work-people take in their stride the comparatively short journeys involved in getting to work.

As for sites, the Tees Valley has one of the largest and most varied selection of sites and premises to offer in the UK. Brownfield, greenfield, city centre, small estates, low-cost start-up, prestige development – all of them are readily available, and still at very reasonable prices. You can check out current sites and premises available on the Tees Valley Development Company website at www.tvdc.co.uk.

How to find out more

The Tees Valley Development Company exists to help organisations considering relocation or start-up within the Tees Valley. The TVDC has made it its business to research most of the special characteristics of the area, and to publish the results in individual documents (like this one).

To find out what is available, or with any other query you may have, simply contact:

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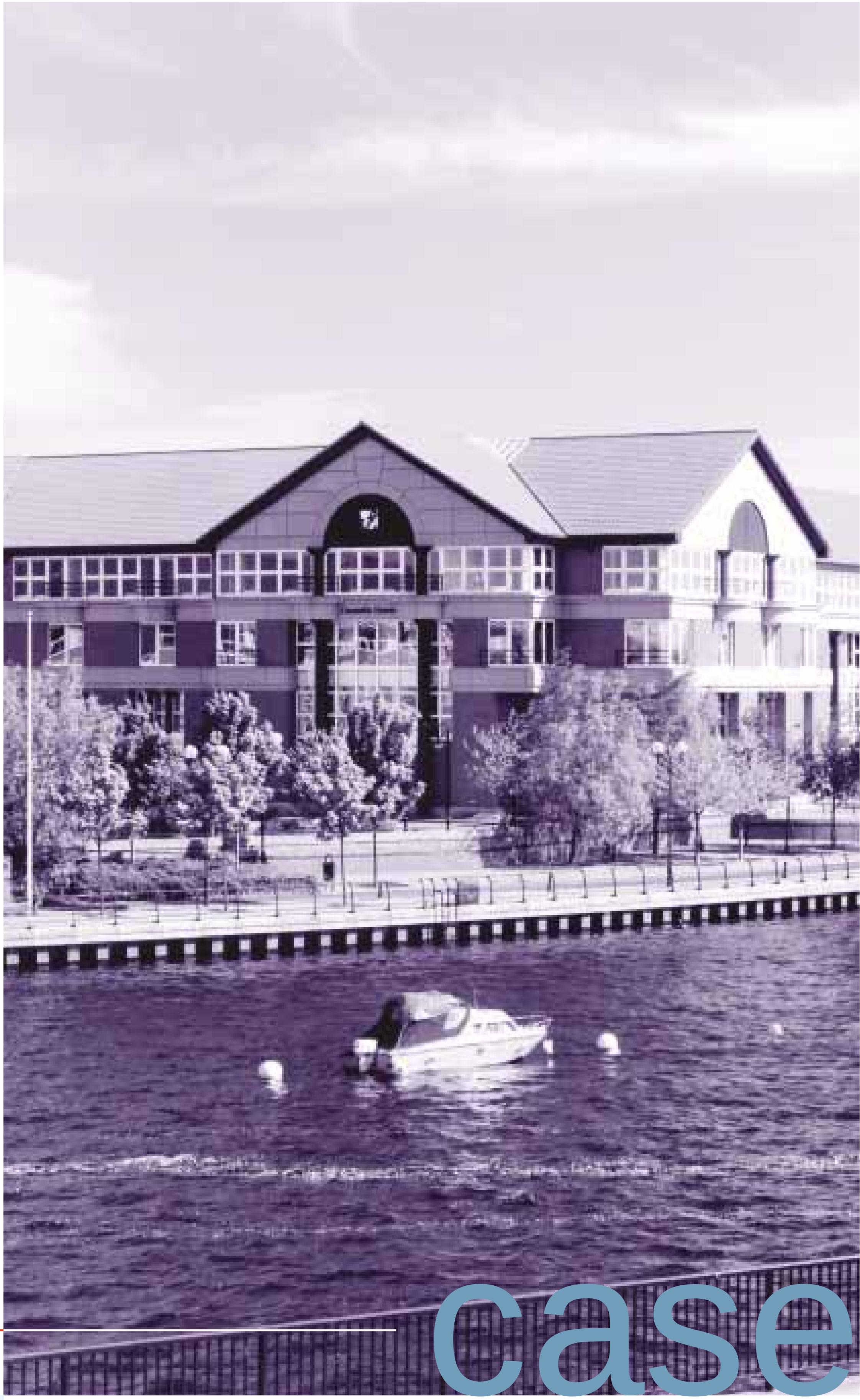


case

The importance of thorough planning

Cummins Business Services Europe

We are grateful to David Murtagh, Director of Cummins Business Services Europe (CBSE), for a summary of the factors affecting its recent decision to expand CBSE facilities at Stockton to handle shared business services for the Cummins Central Area (includes facilities in continental Europe, Asia and Africa).

As a support to the research and a help for any enterprise considering shared services, we have extracted some key points. Details are, of course, confidential to Cummins.

Background

Cummins Inc is a US-based company manufacturing diesel engines and related products, with an annual turnover of about $ 6 billion. It has a number of sites in the UK, including major manufacturing sites in Darlington, Daventry, Huddersfield, Stamford, Ramsgate and Hinckley.

Following a strategic business review in 1997, Cummins adopted a shared-services strategy to bring its administrative and overhead costs in line with its business plan. The strategy was intended to achieve cost-reduction by

- *consolidating transactional activities*
- *systems consolidation, since systems variety drives up costs*
- *improved responsiveness*
- *functional specialisation, so that processes like receivables or facilities management get the attention they deserve but might not get when locally distributed.*

A shared-services centre was set up in the US in 1998, to be followed by CBSE in 1999, providing finance, employee services, systems, indirect purchasing and facilities services to Cummins UK locations, and managing outsourced payroll. In 2002, the strategy development expanded to propose covering the transfer of these services to CBSE not only from UK locations, but from locations in continental Europe and Africa.

Since this would involve expanding CBSE, the questions of where and how to locate became crucial.

histories

Cummins Business Services Europe

Selecting the original location

In 1999, CBSE was set up in Dunedin House, Stockton-on-Tees, not too far from Cummins's existing facility in Darlington.

The location was chosen

- *to capitalise on a reservoir of Oracle skills already existing at Darlington (Oracle is Cummins's chosen enterprise platform);*
- *to give CBSE the new identity it would need to drive new processes (old practices were heavily entrenched at Darlington);*
- *to take advantage of suitable accommodation available at a reasonable price;*
- *to take advantage of a pool of high-quality local labour (CBSE employed 50 staff by September 2002);*
- *to take advantage of any local grants available.*

Stay? Or move?

CBSE had four realistic options.

1. It could expand at Stockton.
2. It could re-locate to very low-cost premises already occupied in the East Midlands by CIS (Cummins Information Systems, a sister shared-services centre established to look after IT hardware).
3. It could set up a separate International Shared Service Centre.
4. It could accept that business services would continue to be dispersed, and try to manage commonality from the UK.

The criteria

To choose, CBSE prepared very thorough and detailed SWOT analyses for each location. The criteria considered included, among others:

Employment protection and creation

Need for a number of skilled specialists ('richer' jobs than average call or shared- services centre)

Impact on local communities – including educational and charitable initiatives

Detailed requirements for each of the shared functions

Financial implications – e.g. site costs v. labour costs

Available expertise

Promotion of commonality

Organisational clarity

Travel costs

Availability of grants

National and international political factors

Performance at CBSE to date

Value or otherwise of co-locating services with hardware

Familiarity with local legal and other requirements

Complexity (and cost) added by proliferation

Expressed company policy (centralising)

Opportunities for local skills development

Economies or otherwise of scale

Loss or gain of expertise within company

Risk of systems divergence over time

The solution

The solution in the end was to stay in Stockton, and expand there. It was finely balanced, and ultimately hinged on the retention of expertise inherent in the Stockton site together with forecast labour costs in the Tees Valley. The detailed financial calculations and the SWOTs must of course remain confidential, but the drivers for establishing a shared-services centre, the international dimension, and the list of criteria are both real and very illuminating. Shared-services centres are still a young discipline, and there are few established models.

‘We are delighted with the quality of people who have come to work for us’

RMC UK Shared-Services Centre

The RMC Group plc is a leading international producer and supplier of materials, products and services used essentially in the construction industry. The Group is substantial in its commercial size and geographic spread, with over 30,000 employees operating in 26 countries. RMC pursues a policy of growth, chiefly around its core products of aggregates, ready mixed concrete and cement.

One of RMC’s key UK offices is its Shared-Services Centre, which is located in Thornaby, Stockton on Tees and was established in 2001 to consolidate and improve the efficiency of finance transaction processing for RMC’s UK operations. The Shared-Services Centre (SSC) is viewed as a key enabler for change and continuous improvement within the Group, and is facilitating the achievement of RMC UK’s strategic objectives.

Louise Scrivener is the SSC’s Human Resources Advisor and talks here about the people side of setting up a Shared Service Centre.

‘An important point to make is that many large organisations, both outside and within our industry are establishing shared services in order to drive inefficiencies out of their business, but they are distinct and separate from call centres.

‘Unlike a call centre, the SSC is not customer-facing, which means we do not need experts in concrete and aggregates – the skills we require are fairly standard, primarily accounting and financial. By the end of our first year we had recruited over 100 people and this number is expected to climb to around 150 in total. Whilst some staff transferred from other local RMC offices, the majority have been new to the company. It was always a fundamental requirement therefore, that the area selected for locating the SSC, should have a plentiful resource of suitably qualified people to fill our vacancies. So far this has certainly proved to be the case and we are delighted with the quality of people who have come to work for us.

‘We were also aware that the SSC needed to be competitive in terms of creating a comfortable office, in an accessible location with a pleasant working environment, if we were to attract the best people. We feel we have been very successful and our low staff turnover speaks for itself.

‘Whilst our first year and half has been challenging and sometimes difficult, we have not lost sight of our need to provide an excellent finance transaction processing service to our colleagues within the other RMC UK operations, which will ultimately be at a considerably lower cost than was previously possible.’

Workforce, premises, logistics and quality of life ...

Here's what the Tees Valley package contains …

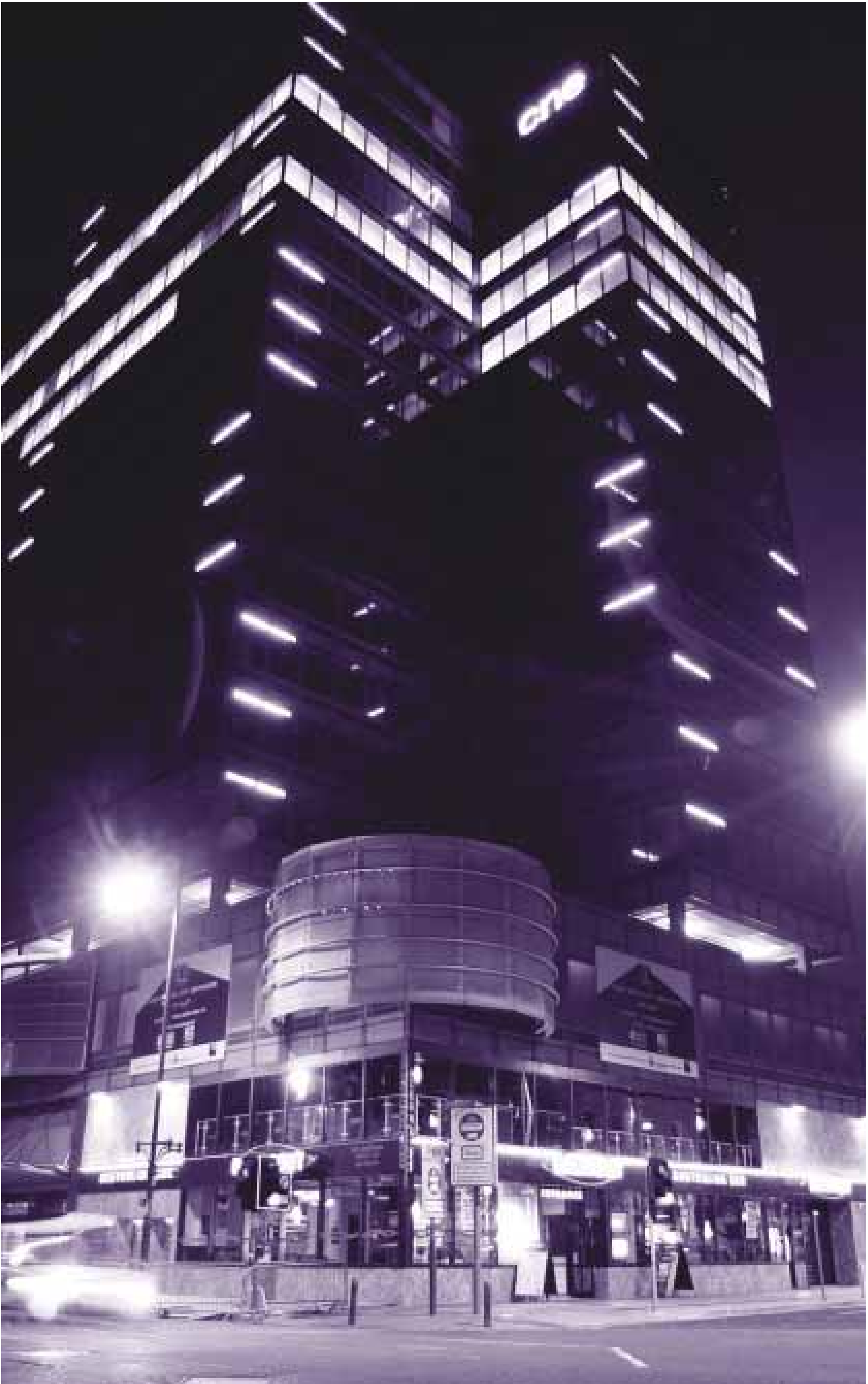
- A wide range of sites, many ready for immediate occupation and with services already in place. Among them are some of the largest in the UK.
- Plenty of industrial, office and residential premises of all types, and at very competitive prices.
- A well-trained, committed, stable and flexible workforce, realistic about wages, and fully available.
- An excellent, and constantly-improving, road, rail, air and sea infrastructure.
- Advanced logistics facilities, with added-value services and total supply-chain management.
- Some of the finest country and small urban environments in the world.
- A range of financial incentives among the most comprehensive anywhere.
- A track record of success in business, industry and the development of community and social amenities.

Plus all the help you'll ever need

At the Tees Valley Development Company, it's our job to make sure that organisations that could benefit from locating here – and their advisers – know what the area has to offer.

But it's also our job to facilitate their choice, help them move or set up, help them find staff, make sure they get any incentives for which they qualify, be on hand with advice and practical assistance at any time, and generally provide comprehensive support for a full two years after they get going.

To open the Tees Valley package, simply contact the Tees Valley Development Company Business Team. See address and contact details on page 11.



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