

insights

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Dear Shared Services Leader:

Many companies have endeavored to implement Shared Services; some very successfully, some not as well. While there is no discounting the importance of executive sponsorship, enterprise culture and nurtured values, in and of themselves, they will not, nor cannot, guarantee success with Shared Services. So, what exactly constitutes success, both initially and in the succeeding years? We decided to approach this question by seeking the input of recognized leaders of Shared Services organizations who, in one way or another, have been deemed to be among the best of the best. We think their insights will be helpful to all readers, regardless of where you are on the Shared Services journey.

The AGL Perspective section features Leland Forst discussing the problems we all encounter in our ongoing efforts to talk with one another about work. Because we tend to talk more about abstractions of work rather than work itself, we encounter all types of problems from not being able to effect the right Shared Services platform or desired results to problems with the outsourcers engaged. While simple in concept to do, rarely is it done or done well. This may help explain why we tend to talk past each other when discussing work rather than effecting a true meeting of the minds.

In addition, we have highlighted questions received since our last issue concerning outsourcing and the problems certain companies have experienced in this regard. While there is a definite role for and value to be derived from outsourcing, it is most certainly not a "slam dunk". Thus, we have devoted the entire Q&A to outsourcing.

Finally, if you are like most companies, you are either launching or pursuing your business planning efforts for the coming fiscal year. As you contemplate the possibilities, you may want to take advantage of the upcoming Conference Board Shared Services Conferences later this month in San Diego and next month in New York City. I look forward to seeing you there and discussing your ideas for future SSI topics. Should you not be able to attend, remember that you can reach me by telephone or e-mail.


Laurel A. Forst
Editor

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ROUNDTABLE DISCUSSION

AGL had the good fortune recently to interview executives from four major companies for a roundtable discussion of their Shared Services cost/benefits experience. Each brings impressive Shared Services credentials to the table, and the discussion revealed a variety of unique and, we hope, instructive insights.

The executives included: Emiko Banfield, vice president, Shared Services, Southern California Edison; Dan Henderson, vice president, general manager, AlliedSignal Business Services; Rick Hinsey, process sponsor, Finance Department, Tenneco Business Services; and Bernie Kocanda, director, Shared Services, Kraft Foods, Inc.

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ROUNDTABLE DISCUSSION CONTINUED

AGL: *When did you first implement Shared Services and what were the drivers?*

Hinsey (Tenneco): We began our Shared Services initiative in 1994, when Tenneco consisted of five operating companies. We conducted a preliminary assessment to identify which functions would be moved into Shared Services.

The core areas we found included financial services (purchase to payment, invoice processing, travel & reimbursement & payroll), general accounting, benefits administration, & non-strategic supplier development, that is, products not put into finished goods or services not delivered to our customer – rental cars, travel agencies, towels, shop floor rags, hand washing chemicals, etc. While we were doing that, we also looked at each of the operating companies to determine whether any of their systems was best in class and could be used as an operating platform.

As a result of the study, we found no single platform or enterprise software platform that could be called best in class and migrated into our other businesses. We also concluded that the financial functions I mentioned were prime candidates for Shared Services. We then presented a proposal to the Board of Directors indicating we believed we could generate savings of some \$15-20 million annually, net of any software costs related to developing the new systems. The Board approved the project. And we moved ahead.

Henderson (AlliedSignal): We installed Shared Services in 1994. In our original charter, we felt consolidating certain activities would capture economies of scale, and combined with process reengineering, would generate real cost savings for the company. Reducing costs was the primary driver, but there were others as well: process improvement, customer satisfaction improvement, and sharing a one-company approach.

Kocanda (Kraft): We began a reengineering study in 1993. At the time, Kraft was a consolidation of the old Kraft organization, General Foods, Oscar Mayer and

a series of other processes. We had more than twenty companies, each with its own financial system, human resource practices, policies and procedures. We wanted to reduce that to a single process, with a system for AP, T&E and HR (transaction processes from employment through termination, including all the transactions that occur, captured within our databases). We also wanted an 800 number for employees to get benefits information.

Once we defined what the processes were, we wanted to have control in a single place, and so decided on the Shared Services concept. We chose San Antonio as a greenfield site and opened the doors in July of 1994.

AGL: *What were your initial expectations or objectives for Shared Services?*

Henderson (AlliedSignal): We had both first year savings projections and an overall business case with estimates of long-term savings. We also have separate, individual estimates within each process, such as the consolidation of Accounts Payables, Payroll and the Data Center. These were separate estimates of the implementation cost of each major program, as well as

the benefits we anticipated. Generally, things panned out along those lines, although it was a little more expensive and took a little longer than we thought it would.

We achieved 75-100% of the savings projections in most of the programs. Some unrealized savings were due to people displacement costs – severance, outplacement

programs, and the like. There were also costs associated with hiring new people, acquiring new locations and systems changes. Securing office space and equipment for the new centralized office staff represents a big portion of the initial investment before you see payback. But now, what used to take 1,600 people to do is being done with about a thousand. We laid off or displaced 600 people, which cost money, but was part of the investment needed to make changes. It's part of the payback calculation.

Kocanda (Kraft): When we benchmarked in 1993,

“Once we defined what the processes were, we wanted to have control in a single place...”

we found that Kraft was mid-pack in terms of transaction costs. Our goal was to get to the first quartile in two years. We've since achieved that, and have now gone beyond, targeting annual improvement of six percent. We have reduced transaction costs by 30-50% since the inception of Shared Services almost five years ago. The amounts saved vary between the three functions: Payroll, T&E and AP.

Hinsey (Tenneco): We aimed for achieving first quartile performance in the benchmarks chosen for each process. In Purchase-to-Payment, the benchmark chosen was cost/invoice processed; for T&E, cost/expense report processed; in Payroll, cost/check; and in General Accounting, hours to complete closing.

AGL: *What have you achieved in terms of savings versus implementation costs?*

Banfield (SCE): The realignment of departments and organizations incurred no direct costs. The existing service organizations were already centrally aligned.

Three components were created: Shared Services, Strategic Business Units (the business lines within the company) and the Corporate Center.

We employed consultants to help in the creation of Shared Services as the third component of the overarching strategic restructuring of the corporation to create business units within Southern California Edison. The Strategic Business Unit consulting cost was approximately \$500K. The consulting cost associated with creating and establishing the internal service provider contracts with service level provisions was approximately \$350K.

The one-time permanent reduction of manpower (elimination of redundancies) and consolidation of assets was about 30%, cutting our annual budget from about \$228 million to the approximately \$160 million. That represents about \$68 million in savings. The annual (recurring) additive cost reductions since have averaged another 5% per year. The recurring cost reductions are done through continuous improvement initiatives, product & service innovation, and supply & demand pricing.

Bear in mind we were already centralized. If a compa-

ny is starting from a highly decentralized operation, the dollar savings could be a great deal more I would imagine.

Henderson (AlliedSignal): We estimate that the activity throughout the past 4 1/2 years has saved the company about \$150 million, an almost unbelievable figure. It includes consolidating benefits, process reengineering, buying consolidation, using leveraged purchasing power, reducing data center costs, software licenses, hardware, telecomm, centralized buying of travel – negotiation with airlines, rental car companies, etc.

Another big piece is the benefit of consolidating buying practices. It takes some time because you have to accumulate information on activities within your company before you can negotiate to support new activities.

We run Shared Services like a business; I'm the General Manager. Part of our business is that every operation has an annual goal of 6% productivity improvement over the previous year. We also target lowering absolute operating costs of our base operation by 5% or so annually. We constantly reengineer and renegotiate. We look at outsourcing and restructuring our organization in order to achieve ongoing efficiencies. For example, actual operating costs for our operation were \$200 million last year. This year the same operation has a budget of \$190 million, which means we must find \$10 million in costs somewhere in our operation. It will come from process improvement, purchasing and people costs, as well as restructuring efforts. Of course, it continually gets harder. We also go outside of our own Shared Services operation to other business units within the company to help them find an additional \$30 million in cost savings every year.

Hinsey (Tenneco): Our first-year savings were in the \$12-15 million range. We have gotten even better since, although we have still not quite reaped all the benefits we originally expected. A lot of what we expected were partial FTEs (a part of this body, a part of that body). It is difficult, in terms of headcount, to track whether people's jobs were redesigned and they were re-deployed elsewhere in Tenneco, or whether they actually left the organization.

Kocanda (Kraft): We generated a respectable rate of return on Shared Services almost immediately. While AP took awhile longer, we lowered transaction costs in T&E and Payroll to the first quartile in the first year. I think those are fairly dramatic results.

AGL: *What was your savings breakdown?*

Henderson (AlliedSignal): Phase one involved the consolidation of like-activities where we realized about a 10-15% benefit. The second phase was reengineering the consolidated processes, which rendered another 10-15%. The third phase (where we are at now) involves more policy and systems standardization processes, which takes longer but could yield another 10-15%. Once complete, we expect to realize 40-50% cost reductions over time. They don't all come at once; you must go through the various stages. Right now, we are at different stages of progress in various processes.

Hinsey (Tenneco): Headcount savings accounted for approximately 20-25%. About 40% came from interconnecting Benefits Administration with Payroll, which gave them a better grasp on eligibility so they could begin identifying and better controlling who should be included in the various plans. That generated big savings. Another 20-25% was related to supplier development contracts where we used our joint purchasing power to leverage temporary help costs, oils & chemicals, airfares, etc. The remaining 15% was from a variety of smaller sources.

We have a remaining goal to reap another 10% in headcount, so the savings there ultimately will increase and the total headcount savings will rise to about 40%, both through service center efforts and by restructuring jobs in the field. There are probably some areas in the field where people are still doing things the old way and not relying on new systems for support. It is taking a bit longer than we thought to get everyone on the same page but we're making ongoing progress.

Kocanda (Kraft): Most of the initial savings were from reduced headcount; it's where you really get the savings. The consolidation of people and span of control also generate savings.

Shared Services allows us to pick up many advantages in span of control. We do high team orientation. In Shared Services, it means running processes like a business – committing to targets, having service level

agreements and other elements not typically committed to in a centralized environment. There, in my experience, you try to hit annual budgets and that's it. In Shared Services, we strive to improve service and lower costs. It's the mindset of the leadership group in a Shared Services environment that makes the difference.

An example is the way we've defined teams. When a team member leaves, sometimes the other team members will

say "Let's not hire someone to fill that spot; we think we can do the job without a new hire". They understand their goals and since their compensation is tied to attaining those goals at a team level, they often realize they can do it without a particular position being filled. That's the mindset and culture Shared Services delivers. You don't get that in a centralized environment.

AGL: *How are you able to sustain the value proposition*

Hinsey (Tenneco): You must provide repeatable and predictable service levels. When you first start, there are quality issues and you must demonstrate capability quickly. You must also make services more accessible to the end user. You can go out and install these services but they are constantly evolving, and you must stay close to your customers, keeping everyone educated and involved in the changes.

We are now trying to get an intranet site up to make our customers more aware of where to get our services, and to provide information so they can use the processes in the most efficient manner. Some benefits have not been realized because of organizational turnover. We don't always get right out to the new people and train them on how to use the system. After the massive initial launch of Shared Services, there was great support. But new employees are not always made aware of it and there are some older employees who initially resisted Shared Services and who now require re-contact on how we create value while driving costs down and service levels up.

Banfield (SCE): To grow value requires movement towards market-based pricing rather than cost-based pricing; jointly seeking value propositions, managing positive tension to match business unit objectives with Shared Services product and service offerings, and the creation of a process improvement framework.

We are able to capture value at the products/services and organizational level. For example, last year we reduced total vehicle ownership costs for our fleet by 5%; we also have a target to reduce costs by 30% over the next three years. On an ongoing basis, we target 5% additional savings each year. To date, we have always met that target.

Henderson (AlliedSignal): An example is telecommunication costs. We manage that operation, but AT&T and other carriers we use bill our SBU's (business units) directly for telecom costs. We renegotiate with the carriers, and provide information on how to lower telecomm costs. That goes towards the \$30 million in annual cost savings we strive to find for our business units. Our strategic plan calls for another \$110 million in savings during the next three years for them.

We track it so we can continue to find savings. This creates credibility for Shared Services...that we go out and look for opportunities like these for our business units.

Another aspect of telecommunications savings is when we looked across the company as to how the process of issuing cell phones was managed. We gathered data on how many phones each organization had, who had them, usage patterns, acquisition costs, supplier negotiations, etc. We pulled all the data together and showed it to the various businesses, pointing out their total costs. They were amazed! They had no idea how much they had been spending because the data had never been gathered and presented to them before. We suggested they comb through the lists to determine if everyone who had a cell phone really needed it. We then set up a control process to negotiate rates.

After cell phones, we applied the same process to

paggers, credit cards and phone credit cards. We saved about \$3½ million annually across the company. It is an area that has become a Shared Services business – we have the data, so we have become experts on what the businesses should pay for cell phones and related communications devices. People out in the organization are not experts on this; they're running manufacturing plants, chemical operations, new product development, and the like.

Another example is when we looked at how much we were spending on overnight delivery of mail and packages with UPS, FedEx and others, which was between \$5 and \$6 million a year. The analysis showed that 80% were going out as priority mail for delivery by 10am the next day, whether necessary or not. That may not sound like a lot, but we think can save about \$400 thousand next year just in our Morristown, NJ headquarters. No doubt, there is much more savings to be had if applied across the company.

***AGL:** What are the keys to ongoing success in sustaining Shared Services value?*

Henderson (AlliedSignal): One thing that is critical to the long-term success of Shared Services is to continually document and present the real savings it produces. You can't simply assume you're saving. You need a process to capture the savings and present the data on how much you have saved to senior management. This is often a case of many little things that add up to big dollars, but you must have a rigorous process to capture the savings and make your Shared Services organization accountable for delivering the data to the appropriate management. This is what makes the savings real.

Two things must be in place. The budget must have a specific program on how the savings will be achieved. If you shut down an operation or reengineer a process, you should capture what that

event is worth and put it on a Savings Scorecard. For example, if we reengineer Accounts Payable, take out six people and reduce mail costs to achieve an aggregate savings of \$300 thousand, we put that on the scorecard. At the end of the year, we may have the top 23 things we did to generate \$10 million in total sav-

“Our strategic plan calls for another \$110 million in savings during the next three years...”

ings on the list. We apply the same procedure to the \$30 million we save for the business units.

The Savings Scorecard has become the natural way to do things around here. Whenever an opportunity is identified and change is made that saves money, we put it on the scorecard. That process produces a total annual figure so we can then describe specific actions we took during the year to help add value and save money for the business units. But the savings must be specific, documented and communicated.

We also do this looking forward in the our Annual Operating Plan. Each department head in Shared Services gets specific accountability for a portion of the total savings objectives. Each must go out and find areas to save the company money and their success is calculated into their evaluation, salary increase and bonus. All of this is done in addition to measuring ourselves on customer and employee satisfaction, process improvement, and so forth.

Banfield (SCE): One way is to become a profit center which fosters an environment where value creation for the benefit of the corporation is composed of both internal and external product & service offerings. This can be accomplished by leveraging assets, intellectual capital and business partner relationships.

Another key is establishing credible relationships at every level. So the vice president of the distribution business line and I talk regularly about the value proposition and how we can work together to improve it. We set joint goals at the executive level. Beneath that, the department heads that report to me talk to the vice presidents responsible in the business units and keep on the same page. The garage mechanics work directly with the linemen in the field district yards.

As service providers, we have to connect at every level and tell our story, rather than defaulting to whomever has the most recent experience creating the reality for the whole organization. We have adopted a communications standard that is boring and relentless (laugh). We focus on our key messages and repeat it

over and over.

These are the kinds of all-level communications strategies that help eliminate the complaining and finger-pointing inherent in human nature as well as business situations.

Hinsey (Tenneco): A major lesson we learned is the need for clear and consistent communications. Ours was primarily a finance-driven project. When it came out and we introduced some changes, it came as news to most operations people. We thought we had been stressing communications about the changes in processes that would impact the whole organization when they came out. When we spoke with our steering committee, which was made up of finance people,

“You must have strong sponsorship for Shared Services, both initially, in order to get access to the talent you need — and ongoing, to move forward.”

we thought they were taking the information back to their executive committees and explaining what was happening. But that communication was not occurring. We discovered, after we went live, that people still had questions which we assumed our steering committee had already answered. But there was a good deal of communication that had never gone past them. So we learned we had to gain better control of communications, which we did.

You must have strong sponsorship for Shared Services, both initially – in order to get access to the talent you need – and ongoing, to move forward. That sponsorship must come from across the breadth of the organization to ensure all the business leaders understand the project requires their support.

Next, everyone in the organization – not just Shared Services employees – must understand they need to make the service center work. Then, you must recruit people from the current organization with the respect of business leaders to participate in the design of Shared Services so they can be the champions of change and be recognized as change leaders. Finally, understand where your resistance will come from, so you don't get blindsided. Plan to attack it when it arrives.

Shared Services cannot be strictly a finance project. It must be sponsored and led by the operating people.

Finance people represent only 10% of any organization at most. It is the others: operations, manufacturing, marketing, purchasing, etc., who will drive it and make it successful.

The greatest resistance was to changing the control environment, that is, putting more responsibility on the supervisors and employees, making them accountable for their own behaviors. We had to do a lot of talking with operational heads to convince them that their people were capable of managing and being responsible for these areas. After all, they were being asked to give up some control and that's difficult to do.

For example, when we first started talking about procurement cards, the idea that someone on the shop

floor would have the opportunity to go out and buy a 50 cent towel with a credit card worried some people. They thought they might take the card and get a Mercedes or something (laugh). We had to show them we could provide better controls with the credit card than with the existing purchase orders because with a PO, the plant manager had no idea what a person was accumulating against a parts order or against budget. With the procurement card, the bank keeps track of daily expenditures and we just lock in a ceiling on the value of daily, weekly or monthly transactions. The bank controls it for us. But we had to empower supervisors to make them more accountable, give them more control, and not have intermediate financial people involved in every detail of every transaction. ■

OUR PERSPECTIVE ON...

DEFINING AND DISCUSSING WORK: THE GREAT CORPORATE COMMUNICATIONS CHASM

American business doesn't know how to talk about work. Executives know how to discuss organizational charts, locations, units/departments, people and positions, but they really don't know how to talk to each other about the work itself. As such, no matter how enlightened an organization's senior management may be, it frequently becomes its own worst enemy.

The omnipresent organizational chart contributes heavily to this problem by reinforcing outdated or unworkable concepts relating to positions and people. When productivity or cost reduction efforts are tied to fundamental changes in eliminating or redesigning work, the organizational chart – replete with depictions of formal and informal relationships between the executives and their direct reports – compromises most meaningful gains. This is a primary reason why major change initiatives fail to produce desired results.

Management, frustrated, moves on to the next change-management-of-the-month paradigm. But, unable to comprehend work at a substantive level, their focus reverts to people, organizational units, locations or position titles. Executives continue to

return to a reference point they understand about work, that is, the means by which work gets done, but not the work itself. They have little understanding of what work is being done, what is being produced from a process or task perspective, or what has to happen to produce something and get it to whomever in the organization needs it.

Until companies are able to “break-through” the organizational-chart impasse by disassembling traditional structures, management initiatives will be doomed to revolving around people, units, entities, geography, and functions.

And the great corporate communications chasm will remain in place among executive decision makers, for while they are earnest in their desires, they lack the patience to learn the language of work. ■

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SHARED SERVICES Q&A

Q. *About a year ago, our company chose to outsource a transactional process. The decision was based primarily on cost considerations, but the contractor we chose had significant experience and made a compelling argument that service levels would not deteriorate. The quality of service has suffered, however, and the anticipated cost savings have not materialized. Bringing the service back in-house would be an embarrassment and pointless as the cost issue has not been resolved. What can we do to help ensure another supplier will not similarly disappoint us?*

A. Unfortunately, your experience is not unique. Many companies have opted to outsource work without performing all the up-front work necessary for ensuring success. Instead, they assumed that the outsourcer possessed sufficient knowledge and experience about the best practices which could be attained and shared the same interest in reducing costs and passing those savings on to their client. While we might hope that this is the way outsourcing will work, it is more the exception than the rule. As a consequence, companies committed to making outsourcing a success will undertake:

- Candidate identification, against pre-defined criteria
- Management and user requirements determination, in terms of key operating, performance and service metrics/standards
- Relationship expectations definition, along the continuum from commodity vendor to long-term partner
- Outsourcer evaluation, from strategic, service, economic and risk perspectives
- Issue resolution, so that problems encountered are addressed in an agreed-upon manner
- Role and responsibility designation, overall and for specific positions within each party

While performing the above actions won't guarantee success, they will provide the framework in which desired results can be realized over time.

Q. *We hired an outsourcer, based on competitive bidding, to research environmental compliance issues for our firm. Shortly after being engaged, they notified us of significant additional costs necessitated by "unforeseen" service requirements. This is our first experience with outsourcing, and while we recognize it may be impossible to account for every contingency, we wonder whether these added costs are legitimate or part of a marketing ploy that minimizes the original estimate with the intention of recovering the lost revenue with "discoveries" later. Is there a way to avoid this dilemma?*

A. "The road to hell is paved with good intentions". No matter how well the contract was negotiated, there are always going to be issues that arise which neither party anticipated. This is why it is so important to document the process to be employed in resolving problems that arise. Typically it entails three stages.

- The reaction stage answers: "What can be done immediately to address the problem?"
- The analysis stage answers: "Is there something causing all the problems (Root Cause Analysis)?"
- The action stage answers: "What is the best solution for the parties involved?"

When constructed appropriately, the process: responds in accordance with the level of severity determined and/or sense of urgency felt by one or both of the parties; contains an escalation procedure to ensure the right resources are assigned to the problem in a timely manner; facilitates quick action; and, is perceived as fair.

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