

Shared Services & Outsourcing: the next step

Lisbon, October 2015



Building a better
working world

Agenda

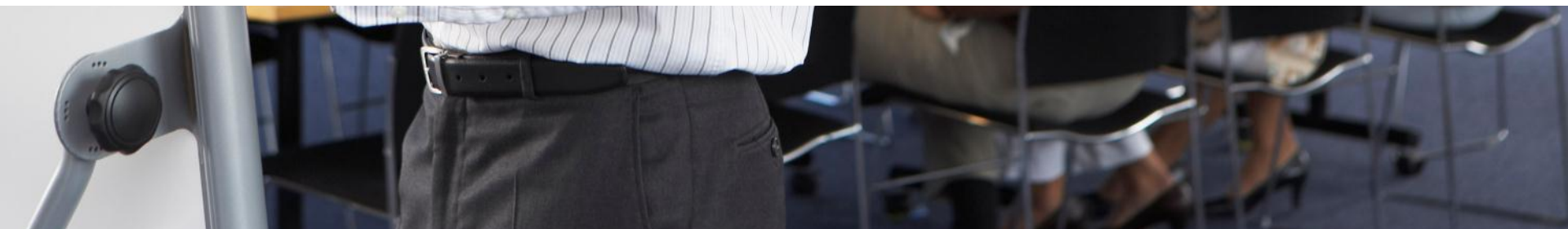
Content

1. Introduction
2. Market trends
3. Advantages and challenges
4. Case Studies
5. Aspects to consider building GBS



1.

Introduction



Global Compliance and Reporting (GCR)

Rui Guedes Henriques

- ▶ Partner leading Global Compliance & Reporting (GCR) services in Portugal and Angola

Professional Experience

- ▶ His wide experience covers areas of outsourcing accounting and tax consultancy services
- ▶ Coordination of implementation of Financial & Tax Reporting
- ▶ Coordination of SSC Implementation and several BPO projects
- ▶ Coordination of projects of implementing ERP software
- ▶ Coordination of advisory processes in Financial & Administrative reorganizations
- ▶ His experience as a consultant includes support for various M&A, due diligence and structuring of IPO transactions



Global Compliance and Reporting

Supporting your finance and tax R2R operations



A full-suite of services that enable companies to co-source all or part of their Record-to-Report (R2R) Accounting and Tax operations, whenever, wherever and for as long as needed.

- ▶ Plug-and-play capabilities
- ▶ Tested, proven and certified processes
- ▶ Process enabling technologies
- ▶ Temporary or permanent capacity

In theatre Accounting and Tax Operations Centres provide the infrastructure to support your requirements to:

- ▶ Increase shared services utilisation
- ▶ Leverage or deploy your global Earnings
- ▶ Produce data analytics and visualisations
- ▶ Support finance transformation programs

Positioning GCR

Business agendas and triggers



GCR services normally arise when more than one of the factors on the left come into play at the same time

EY GCR Tools

EY KeySpace™



Mouse over the tiles for more information on each

The modular nature of EYKeySpace™ means it can be tailored to the needs of each client, and to the individual needs of each user within a client.

EYKeySpace™ can be as sophisticated or as simple as required by your clients and their users. By combining modules together EYKeySpace™ gives access to the tools to create detailed workflows to track, collect, create, store and analyse tax and finance data.

Monitor	View tasks, actions and performance dashboards
Share	Document collaboration and storage of deliverables
Collect	Data collection, validation, analysis and reporting
Connect	Roles, responsibilities, contacts and messaging
Contract	Engagement details and project information
Report	Live reporting, visualizations and analytics
Learn	Tax and accounting knowledge resources
More	Access other key engagement tools and resources

What is EY KeySpace™

continued ...

Key **Analyze**

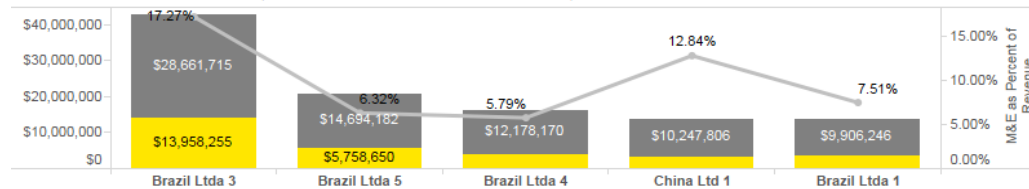
Example: Cash Tax Opportunities and Risks Analysis



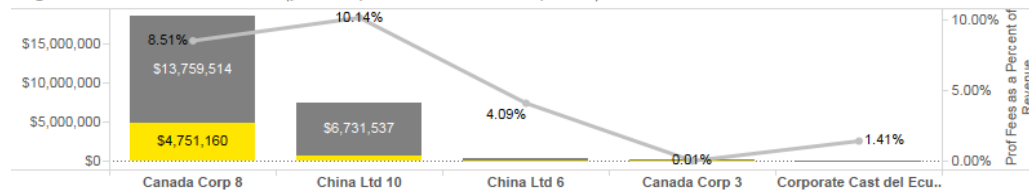
Global Tax Planning - 2012

Choose Tax Year
2012

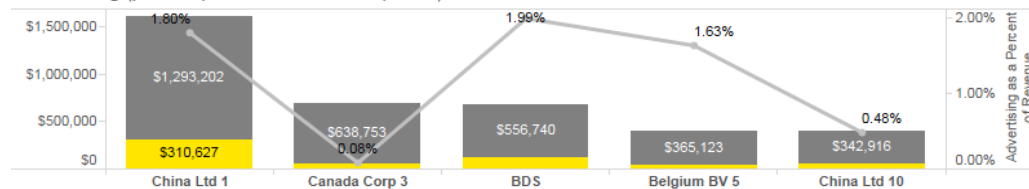
Meals and Entertainment (yellow represents nondeductible portion)



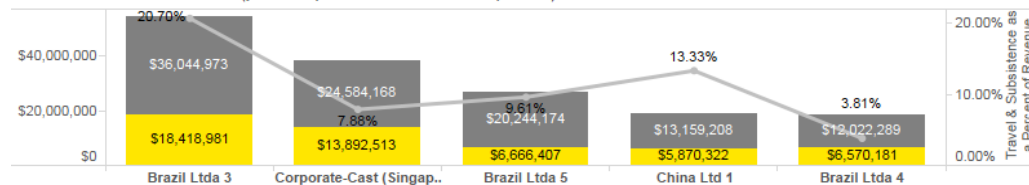
Legal and Professional Fees (yellow represents nondeductible portion)



Advertising (yellow represents nondeductible portion)



Travel and Subsistence (yellow represents nondeductible portion)



Research and Development

Entity	Country	Total R&D - General Ledger	R&D Statutory Financial Statement Disclosure	R&D Claimed per Tax Return
Brazil Ltda 2	Brazil	23,945,140	23,579,809	15,549,802
Sample ABC & GHH de España, SA	Spain	5,401,801	5,319,385	2,987,556
TAX GROUP	Spain	5,004,754	4,928,397	2,987,556
Sample ABC & GHH s.r.o.	Czech Republic	614,908	605,526	430,518

Repairs and Maintenance

Entity	Country	Repairs and Maintenance	Nondeductible Repairs and Maintenance	Deductible Repairs and Maintenance
Chile Sallyitad 3	Chile	\$1,432,701	\$618,354	\$814,347
Belgium BV 3	Belgium	\$1,358,068	\$336,258	\$1,021,810
Sample ABC & GHH inovati..	Slovenia	\$429,997	\$187,479	\$242,518
Belgium BV 1	Belgium	\$416,269	\$50,785	\$365,484
Canada Corp 5	Canada	\$397,869	\$192,529	\$205,340

Industry Levy Information

Country	Tax Levy	Related Industry	Summary detail
Finland	Real Estate tax	Multiple - own real estate	Real estate property situated in Finland is subject to real estate tax. The revenue goes to the local municipality. Land used in forestry or agriculture are exempted. The amount of real estate tax is based on the tax value of the real property. Tax rates vary in different municipalities between 0.60 percent and 1.35 percent of tax value. The rate for houses used for living is between 0.32 percent and 0.75 percent of the tax value.

Real Estate

Entity	Country	Real Estate
Aacifar	Portugal	False
Australita Ltd 1	Australia	False
BDS	Portugal	False
BDS Beteiligungs GmbH & Co. KG	Germany	True
BDS Danmark ApS	Denmark	True
BDS Finland Oy	Finland	False

Portugal positioning SSC Attractiveness



Portugal is one of the most attractive countries to locate SSC, in Europe

Portugal is one of the most competitive markets for IT and Outsourcing services



2.

Market trends



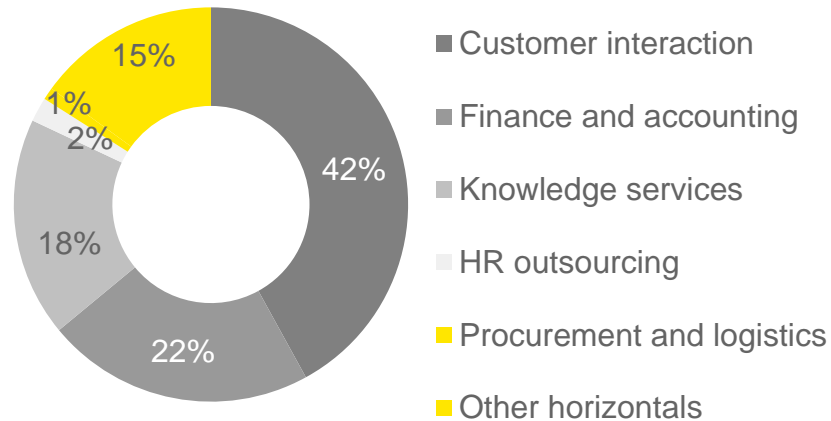
The next step:

Global Business Services – Multifunctional approach

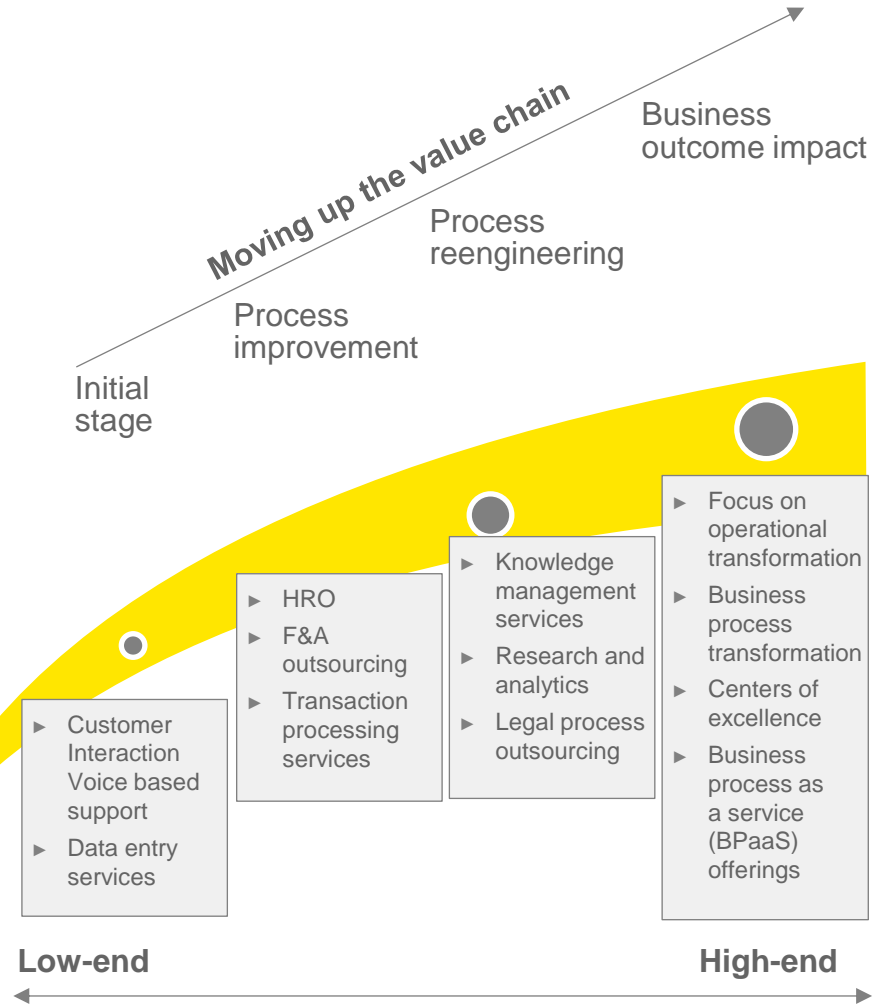
- ▶ Many organizations have begun to implement a multifunctional approach to shared services.
- ▶ This relates to handling non-core company activities, which are support in character, that do not add value for external clients.
- ▶ Tomorrow's global business services model is multifunctional, fully integrated, end-to-end process oriented and can transform your business.
- ▶ Typically, this is achieved through the creation of a unified global business services unit capable of managing end-to-end processes.
- ▶ From a back office function SSC become an important driver with significant influence in the organization and operational business.

Outsourcing Providers are increasingly shifting to offer value added services

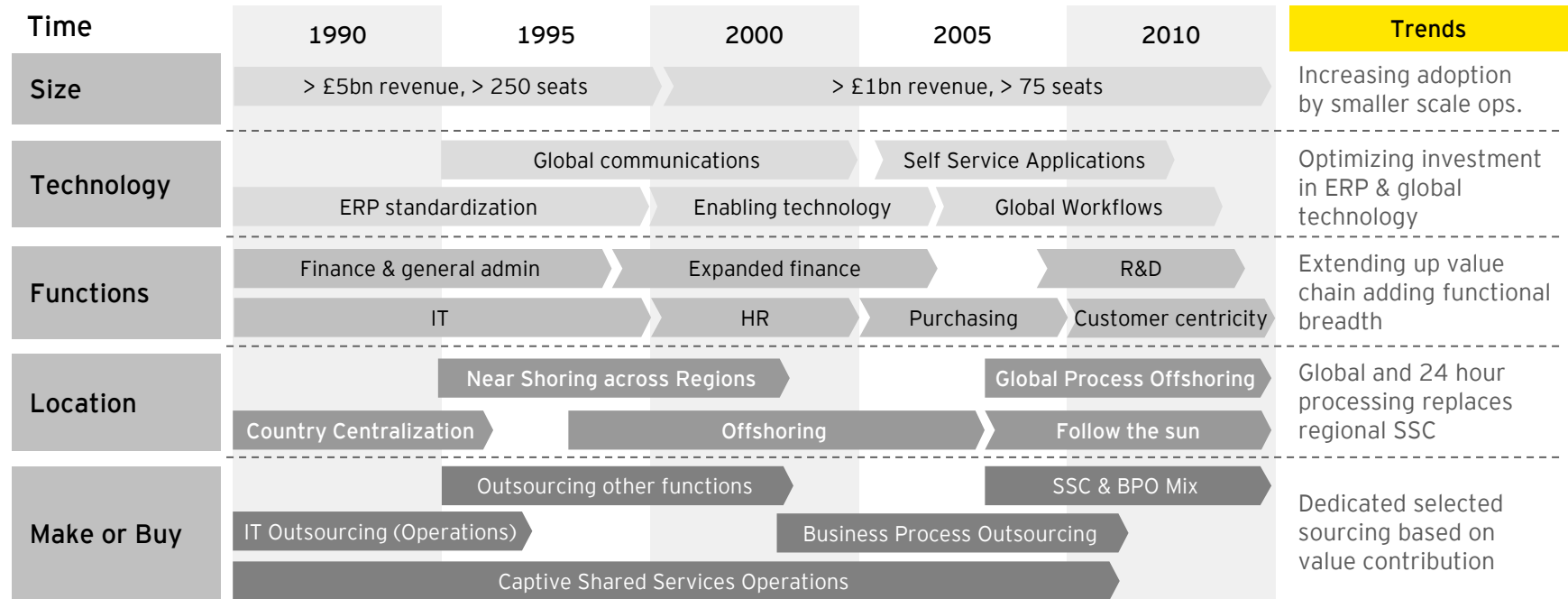
Outsourcing Provider exports by service line



- ▶ Customer interaction and finance and accounting which are at the lower end of the value chain together used to represent a significant percentage of the total Outsourcing Provider exports
- ▶ Commoditization of these services, resulting in price wars and hence lower margins have led Outsourcing Providers to increase share of more value added services – knowledge based services like research and analytics, process reengineering and business transformation in total portfolio of services



The evolution path heads towards a fully integrated global business services function



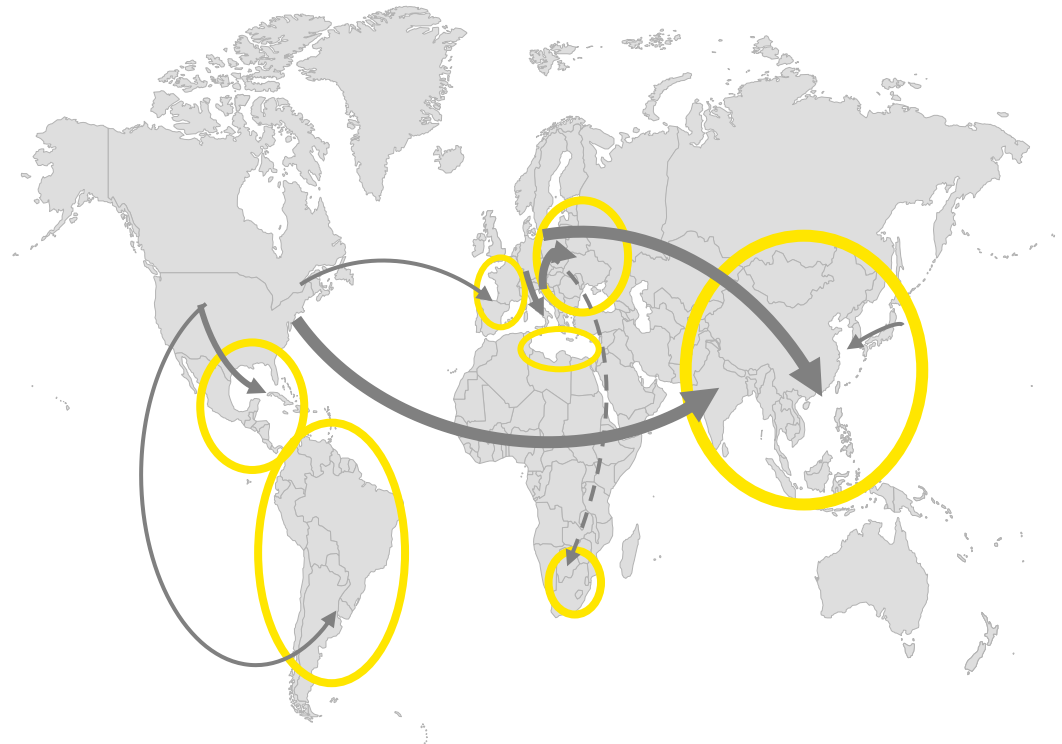
- ▶ SSCs started with functions for Finance & IT, followed by HR and Purchasing
- ▶ Increased prevalence and sophistication of outsourcing with more processes being offshored
- ▶ Today: Optimized mixture of centralization/co-sourcing and SSCs
- ▶ Focused on core activities, increased efficiency, shorter time to market and lower costs

A typical 2nd generation lever is the expansion of shared services into new regions

Major transitions are undertaken from North America to Asia and South America, while Central European companies still tend to move to Eastern Europe. But larger European companies have started to establish global back-offices in Asia.

Globalization trends

- ▶ Increase SSO scope - geography, functions and processes
- ▶ “End-to-End” governance and optimization
- ▶ Professional skills and languages are a “must”
- ▶ Global leverage of scale and labor arbitrage - “transactional back-offices”
- ▶ Increasing concentration in few global centers is pushing wage inflation
- ▶ Time-zone becomes less important
- ▶ Infrastructure and corporate footprint more often considered

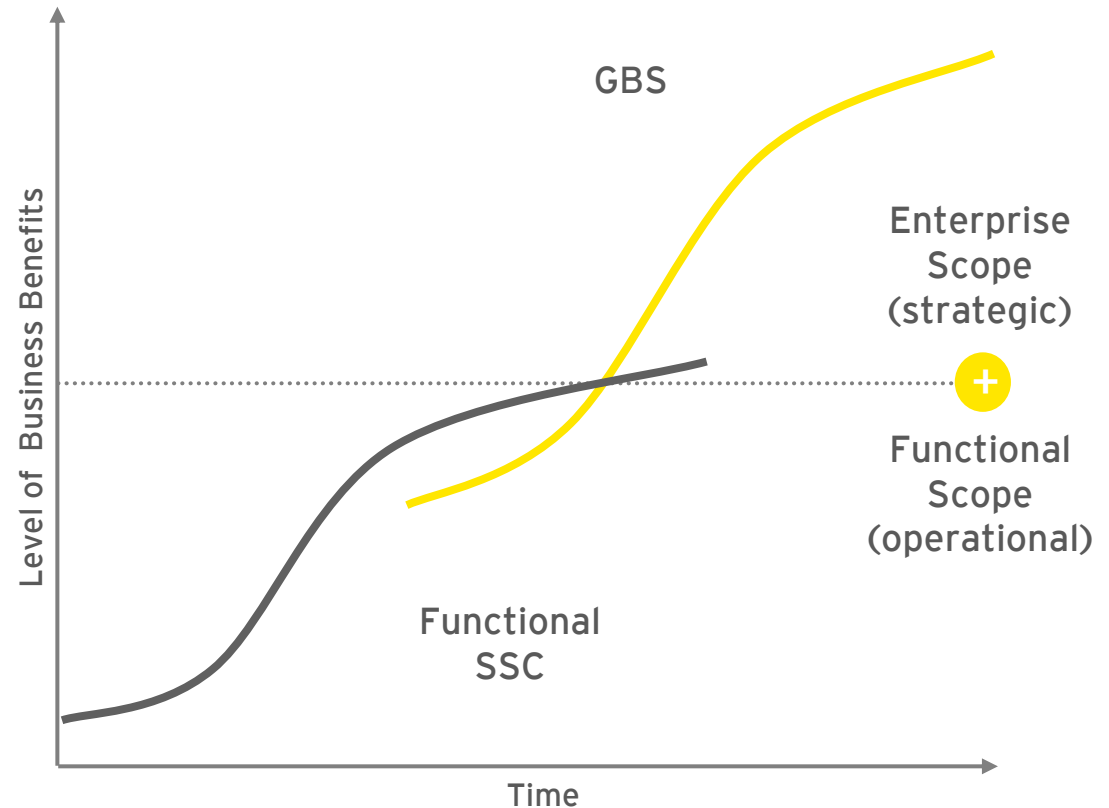


Through Global Business Services companies can leverage a wider range of additional benefits

Companies have set up 1st generation functional SSCs to better meet increasingly complex regulatory requirements as well as improve operational effectiveness and efficiency. Cost reductions have been realized mainly through near-/off-shoring as well as partly process standardization. Structured process ownership and service management has increased quality and reliability of individual functions and processes.

Through Global Business Services companies leverage additional benefits:

- ▶ Comprehensively support a global consistent corporate strategy
- ▶ Enhance the service focus (e-2-e)
- ▶ Provide innovations consistently
- ▶ Improve flexibility (i.e. volumes, scalability and M&A)
- ▶ Generate additional cross-functional synergies

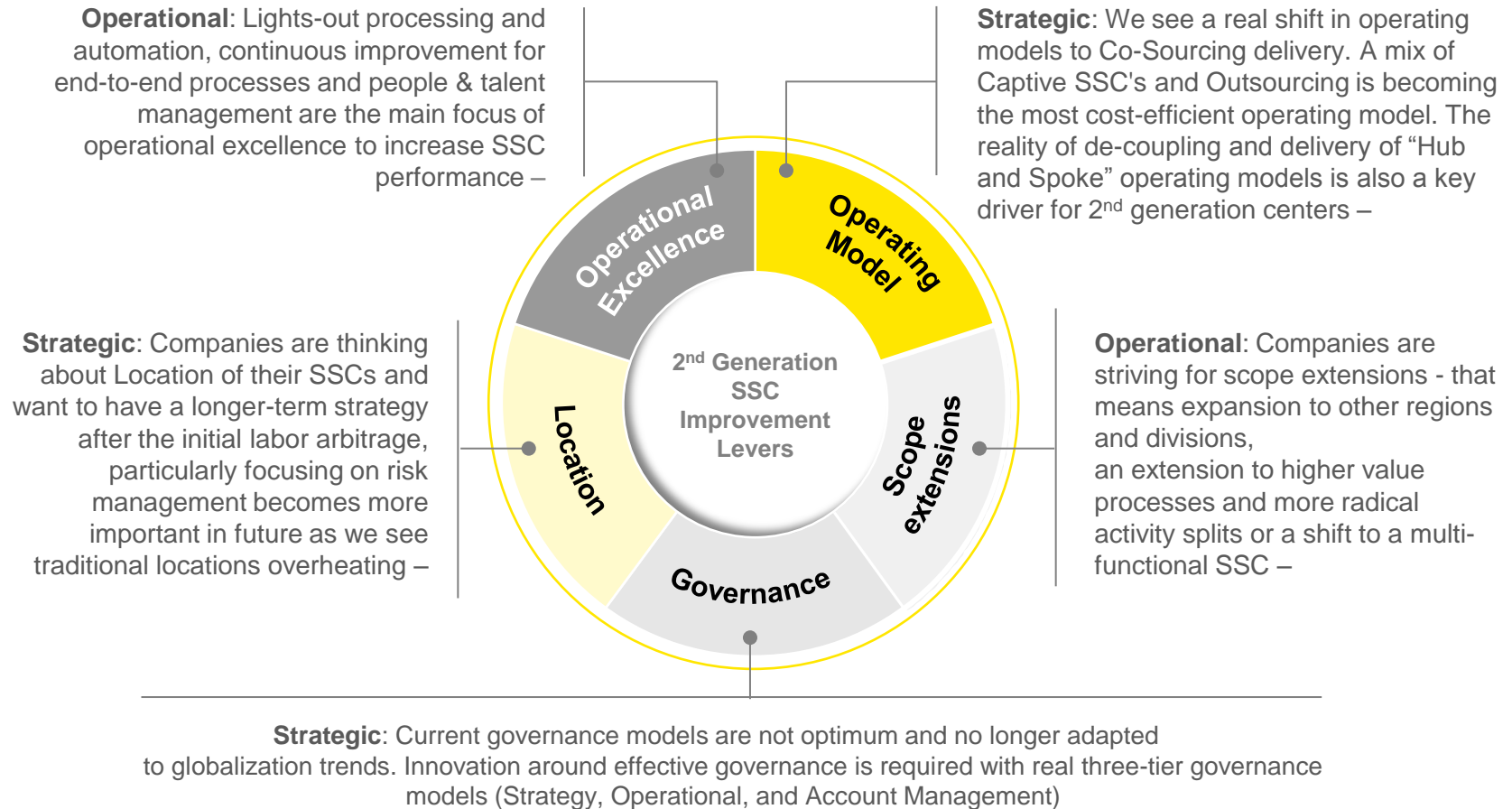


What do we see in the market

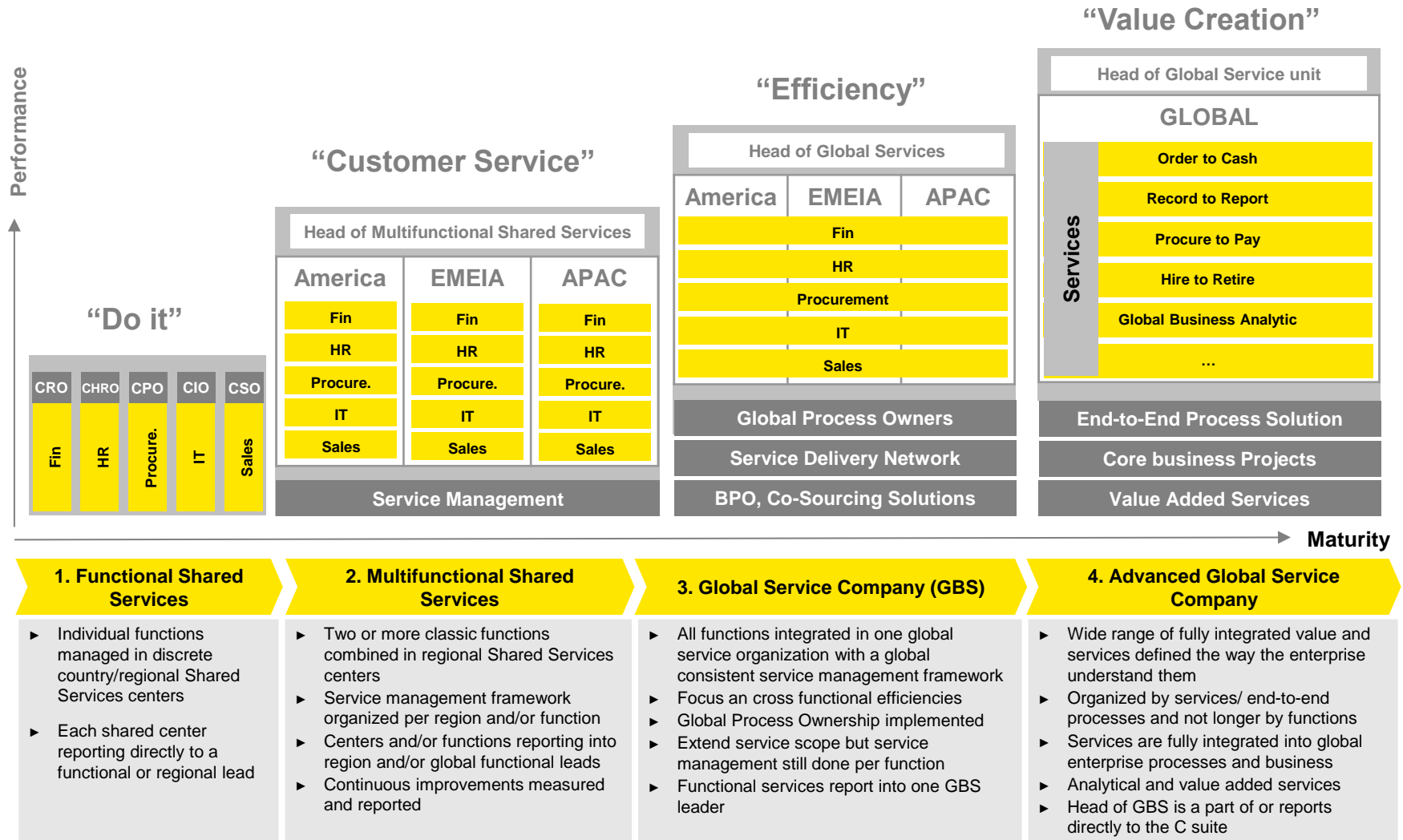
- ▶ Leading multinational companies are increasingly moving from single functional shared services to multi-functional “Global Business Service” concepts (captive, Co-Sourcing, outsourced, etc.), realizing significant additional benefits (e.g. P&G, Shell, BP, Merck, HP, Nestle, Henkel, Siemens, Reliance, etc.).
- ▶ Today, multifunctional Global Business Services (GBS) is the ultimate way to enhance functional scope to generate additional performance and savings potentials in G&A (as opposed to an independent functional SSC set-up).
- ▶ GBS does not only focus on additional benefits compared to individual functional set up, but also on their contributions to corporate objectives. GBS is closely tied to the corporate strategy.
- ▶ The 10 Megatrends in GBS for Global leading companies start from functional expansion with value-add activities, sophistication of new outsourced models (eg. BOT – Build Operate & Transfer) and define Global delivery center in emerging markets with highest labor arbitrage.
- ▶ Tomorrow’s global business services model is multifunctional, fully integrated, end-to-end process oriented and typically, this is achieved through the creation of a unified global business services unit.

The 2nd generation evolution focuses on the following five key improvement levers

The five levers fall either into Strategic Repositioning or Operational Improvement activities



Service Company Maturity Stages



With traditional SSCs as common practice, the movement towards GBS is picking up momentum

	Coverage rate		
	Low	Medium	High
Core back-office functions			
▶ Accounting			
▶ IT			
▶ HR			
▶ Procurement			
End-to-end extensions			
▶ Procure-to-pay			
▶ Order-to-cash			
▶ Record-to-report			
Infrastructure services			
▶ Real estate management			
▶ Facility management			
Value add / analytics			
▶ Controlling			
▶ Business analytics			
Center of Excellence functions			
▶ Legal, Patents, Treasury, etc.			

Key considerations:

Core back-office processes

- ▶ For the core back-office, one of the key GBS challenges is integrating functions with different maturity levels
- ▶ Even in typical captive set-ups, the IT function is often outsourced to global BPOs

End-to-end extensions

- ▶ Both new and mature GBS organizations often struggle to establish fully integrated business services across functions

Infrastructure services

- ▶ Initially bundled locally, in leading organizations real estate and facility management have become globally integrated

Value add / analytics

- ▶ Rule based controlling and other analytics services increasingly move into GBS

Center of Excellence functions

- ▶ CoEs are often hosted by the GBS entity and integrated organizationally



3.

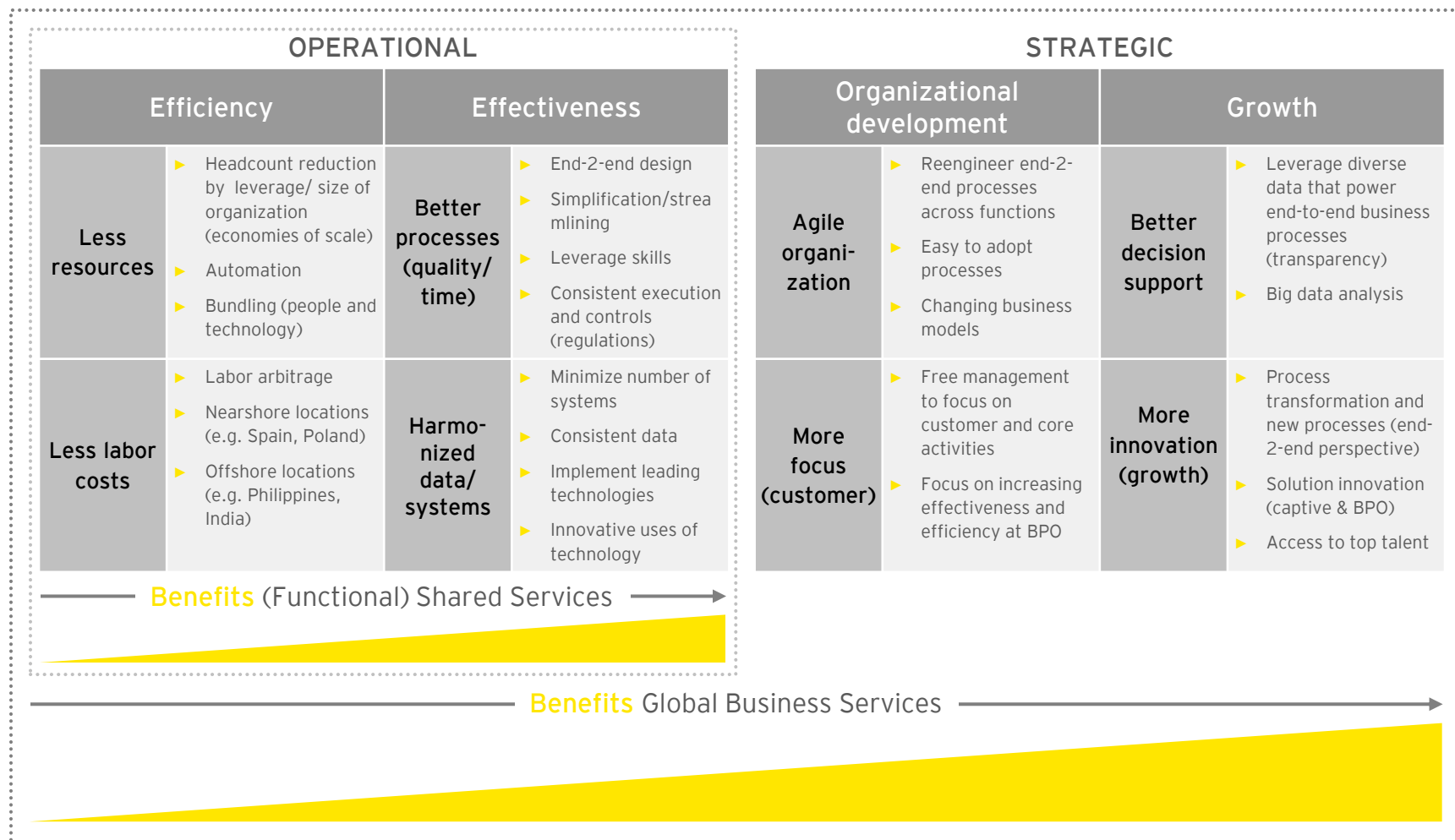
Advantages and Challenges



The evolution towards Global Business Services will have a positive impact on several areas

	(Functional) Shared Services	Global Business Services
Processes	<ul style="list-style-type: none"> ▶ Scope: Support processes (e.g. Finance, HR, IT) - often siloed ▶ Functional process perspective 	<ul style="list-style-type: none"> ▶ Scope: Support processes and business processes / value added functions - integrated and globally harmonized ▶ End-2-end process perspective
Service Delivery Model	<ul style="list-style-type: none"> ▶ Mostly single service delivery models (captive or outsourcing) ▶ Locations per function 	<ul style="list-style-type: none"> ▶ Co-Sourcing service delivery models (captive and outsourcing for performance and strategic reasons) ▶ Consolidated locations for the functions in scope
Governance	<ul style="list-style-type: none"> ▶ Multiple governance per function with non consistent service management across functions (e.g. SLAs) 	<ul style="list-style-type: none"> ▶ One global governance for one organization with one consistent service & performance management
Management	<ul style="list-style-type: none"> ▶ Run like a centralized function (focus on efficiency and effectiveness) ▶ Run by a functional head 	<ul style="list-style-type: none"> ▶ Run like a stand-alone customer service business unit, focusing on driving business value ▶ Run by an entrepreneur with steering group
Technology	<ul style="list-style-type: none"> ▶ Multiple ERPs and diverse enabling technology 	<ul style="list-style-type: none"> ▶ Simplified ERP, service oriented architecture and global consistent integrated enabling technology
People	<ul style="list-style-type: none"> ▶ Talent management per function with retention challenges 	<ul style="list-style-type: none"> ▶ Talent pool for the entire service unit / corporation with well developed career paths
	SILOED	INTEGRATED

Benefit comparison of single Shared Services and Global Business Services



Key strategic reasons to advance to the next shared services and outsourcing phase

Use a crisis to drive change

If markets are falling, clients want to pay lower prices. This puts more pressure on margins.

We must increase efficiency, focus on adding value and get transaction processing into a well-organized, globally consistent, shared services center.

Make flexibility your friend

Continuing economic volatility means businesses must abide growing and contracting faster than before, organically and through divestments, mergers and acquisitions. Multifunctional shared services provides much-needed flexibility to be able to scale up and down.

Tap technology

“IT is really driving this consolidation,” adds Uwe Mueller, EMEA Advisory Leader for the IT Function at EY. “Cloud computing has facets that link into the finance area, but also IT, the supply chain business and almost all functions.”

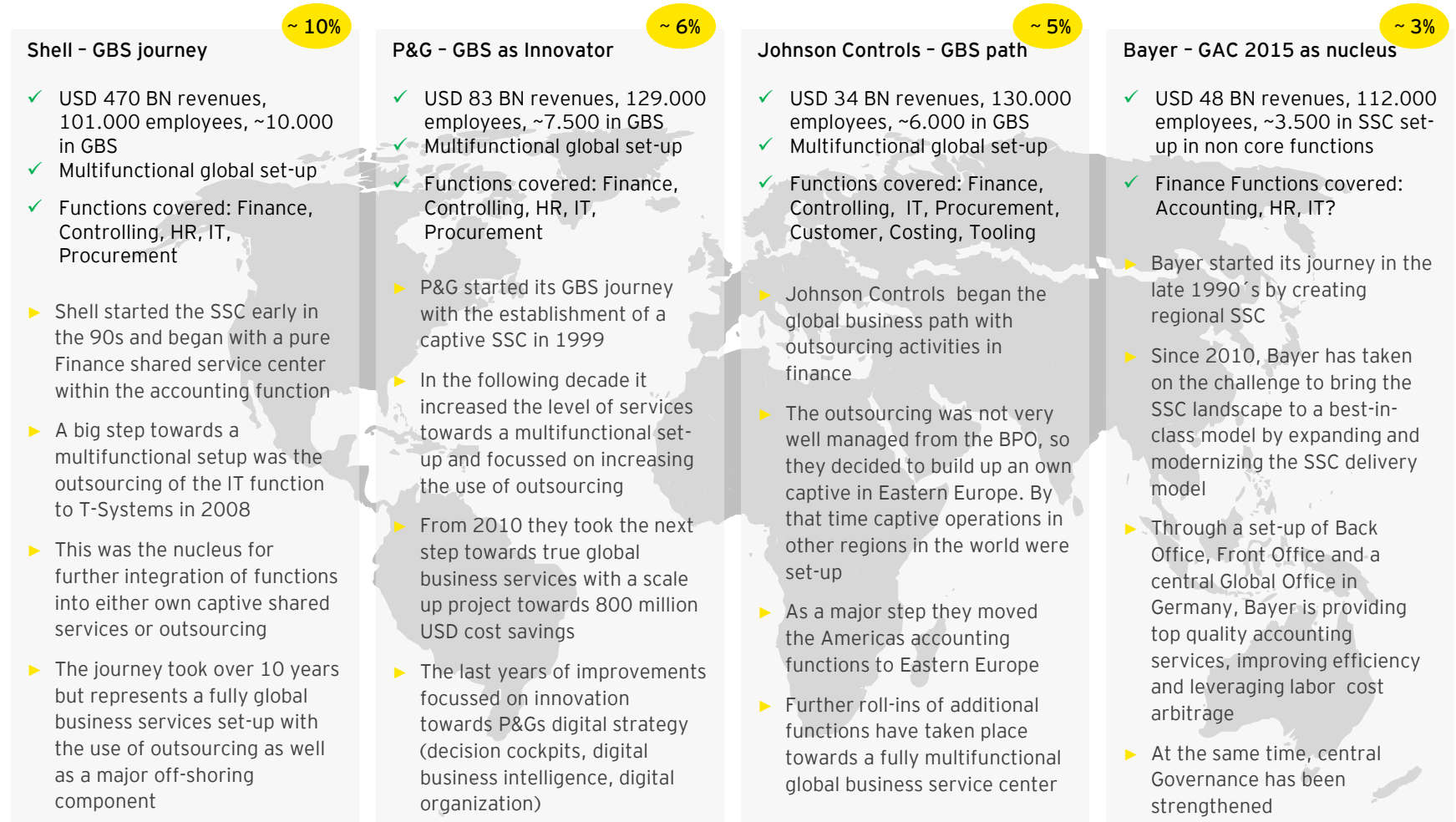


4.

Case Studies



Several companies have already extended their existing SSCs towards multifunctional GBS



x % Scale = FTE GBS/Total (without outsourcing)

The best reference is a satisfied client

EY has helped several leading global clients to successfully transform their GBS functions. References are available upon request.

Edgar Geyer
Head of Finance & Accounting Shared Services
Bayer Business Services

"EY supported us on our transformation journey towards a global shared services function. [...] What really differentiated EY from other companies was the seamless integration into our project team. Their hands on support and their innovative and highly effective approach to stakeholder change helped us to gain overall acceptance for the developed concept. We are now on a successful journey that will lead to major changes and substantial improvements for Bayer."

Geir Myklebust
Project leader GAIN
Senior Finance Director
Nycomed Pharma

"With the highly successful GAIN project ("G&A Improvement at Nycomed") we have implemented a new streamlined GBS operating platform for all back office functions for our European organization. [...] We were especially impressed how well the EY advisors blended in with our team and brought in a well proven methodology and tools to accelerate our transformation from design to implementation."

Chris Dern
Head of Financial Shared Services Implementation,
ADIDAS

"We highly appreciate EY's support throughout the whole life of the program. [...] EY showed a strong transformation and execution competence which was required during the implementation phase, and they provided constant benefit tracking and carefully planned communication."

Dr. Oliver Wolff
Head of METRO SERVICES,
METRO Group

"EY has proved themselves as a very valuable partner for our Finance Transformation program. They supported us from initial strategy considerations until well into the first transitions of our major countries. [...] With three Shared Services Centers up and running[...] we are now providing centralized services throughout the organization. This went along with significant cost reductions and an increase of operational effectiveness."

Berthold Ebner
Global Finance Transformation,
BASF

"EY and Young supported us in the development of a Global Finance Strategy, enabling us to move towards world class. [...] BASF and EY, jointly designed a BASF specific blueprint for end-to-end-process ownership, harmonized the operating model, aligned the governance structure and standardized performance reporting. This help enabled us [...] to become a truly Global Finance Function with a Global Shared Services organization in Finance."

Jussi Siitonen
Project Lead Global Finance Transformation,
STORA ENSO

"In our global Finance Transformation project EY supports us from the concept phase, during the BPO provider selection and within the ongoing transition to implement the Shared Services and outsourcing components [...]. Key is not to forget the overall objective during such a long transition, taking business units on board and further harmonize the finance function as a whole."

EY has established since 2007 SSC & GBS Leaders' Clubs fostering the exchange

Mareike Durst,
Head of Shared Services MAN:

"The Shared Services Leaders' Club from EY is a very valuable event, based on a trusted relationship and a relaxed exchange among colleagues and experts in Europe. It is an excellent opportunity to discuss and understand concrete solutions both for strategic and for operational issues."

**Regular roundtables between
SSC/GBS Leaders' Club members:**



Shared Service Center Leaders' Club

Background and concept

Founded in 2007 and in 2010 to develop a network focusing on operational and pragmatic issues, this concept has followed a successful formula, which has been implemented in other industries and functions before. Our 1st and 2nd SSC Leaders' Clubs connect European peers and specialists working in this area and facing same challenges and having similar questions. The roundtable offers its members exclusive access to knowledge sharing with peers beyond company boundaries. Today the club represents the renowned companies with a proven record of successful shared services implementations. Its members are Shared Services professionals from world's leading companies and a variety of industries like automotive, chemicals, consumer goods, pharmaceuticals and transportation.

How is the club organized?

- ▶ Periodic meeting on-site at participating SSC locations
- ▶ Discussing and sharing of similar issues
- ▶ Operationally focused - helping to resolve real issues and day-to-day problems

What are the benefits?

- ▶ Exclusive access to knowledge sharing with peers beyond company boundaries
- ▶ Hands-on insight into trends and developments in the SSC market
- ▶ Joint thought leadership initiatives between club members and EY
- ▶ Active collaboration with leading SSCs, e.g. joint "SSC Training Academy"



5.

How to get to a fully global integrated and multifunctional Global Business Services (GBS) organization



Given the importance of the GBS megatrends we intend to discuss following strategic aspects

Megatrends within GBS

1. Functional expansion
2. Functional integration
3. Value-add
4. Sophistication of outsourcing
5. Geographical change
6. Governance shift
7. Performance measurement
8. People management
9. Innovation
10. Emerging markets

Key questions for the Global Business Services discussion

How should the individual functional objectives be integrated into the overall Business Services strategy?

Can important strategic objectives and additional functions (eg. data analytics, real estate services, procurement, etc.) being integrated into the new GBS structure?

How can additional business value be tracked?

How to balance of functional autonomy vs. GBS integration, driving the maximum possible and the “digestible” out of the organization?

What are the design principles, KPI and priorities moving GBS forward?

Which potential steps should be taken and which Governance model would fit for GBS best - now and in future?

Can additional value be created through strategic outsourcing arrangements with the key vendors, what is the best balance?

How can additional synergies be derived between the functional service domains without losing the flexibility?

What will be the GBS geographical footprint? Which location(s) provide the best strategic fit for the various functions?

EY | Assurance | Tax | Transactions | Advisory

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