IBM Institute for Business Value

IBM benchmarks demonstrate the effectiveness of Service Delivery Models for Finance and Operations functions

Benchmark data quantifies the value of shared services and outsourcing

Overview

The IBM Institute for Business Value provides a business process benchmarking service that helps clients measure their current state and compare their performance against peers. These benchmarking services can be provided as part of a Finance transformation initiative or similar engagement.

An analysis of data from over 350 benchmarking study participants quantifies the benefits an organization can gain through the use of service delivery models (SDMs). Benchmarking data shows that Finance organizations that have adopted SDMs – defined as shared services, outsourcing or some hybrid combination – experienced material improvements of as much as 100 percent in efficiency, and reduction of 50 percent or more in costs associated with performing finance and accounting operations.

The basis for increasing performance

Organizations operating in today's increasingly volatile and uncertain global business climate are more dependent than ever on effectively partnering with the Finance organization to successfully navigate this complex environment. Over the years, Finance organizations have played an increasing role in developing enterprise strategy and helping achieve tactical objectives to improve operational performance, drive cost reduction, identify new revenue opportunities and forecast future performance. Increasing demands for this type of support have necessitated that Finance transform itself to become more efficient, and in so doing, free up resources from traditional accounting transaction activities in order to provide more resources dedicated to decision support.

Findings from the IBM 2010 Global CFO Study, with over 1,900 participating senior Finance executives, support the notion that adopting Service Delivery Models (SDMs) drives better value, scalability, efficiency and controls.[1] The CFO Study found that a main driver of Finance function efficiency, particularly in accounting transaction processing and operations, is the adoption of common process and data standards. The study found that this can be achieved by addressing three key change enablers:

1. A flexible SDM, in the form of shared services, outsourcing or a hybrid combination
2. Global process ownership, which is an essential prerequisite for transformation to common processes and data
3. A common financial system that enables and sustains common processes and data.

Methodology

The analysis of Finance function performance was done across Finance and Operations processes, as defined within the APQC Process Classification Framework (PCF). The findings are based on analysis of responses from over 350 participants in the Open Standards Benchmarking finance surveys.[2] These measure the effectiveness and efficiency of processes through key performance indicators such as cost, transaction volumes, FTEs, cycle times and quality metrics.

The data collected and analyzed was divided into two peer groups: participants that have implemented Shared Services or Outsourcing (SDM Peer Group) and those that have not (non-SDM Peer Group). The comparisons are based on median performance of each group.

SDMs are an important component of this holistic solution needed to enable higher performance.

Service delivery models reduce costs and drive efficiency

An analysis of data collected by the IBM Institute for Business Value Benchmarking Program provides empirical evidence of the cost and efficiency improvements inherent in moving to SDMs for transaction processing activities. Specifically, the use of SDMs can be directly associated with lower process costs and higher transaction volumes across General Accounting and Reporting, and Finance Operations.

The approach taken for this analysis was, by design, conservative. We examined the ***median*** performance of two Peer Groups, participants that have implemented shared services or outsourcing (SDM Peer Group) and those that have not (non-SDM Peer Group). Not every enterprise can or necessarily needs to be "World Class" across the board.[3] Our objective was to demonstrate, by comparison of median results within a large set of Finance- and Operations-specific process areas, that tangible benefits are applicable to a broad population of companies that may not yet have considered changes in their SDMs. For those that do aspire to World Class performance, when we examined the top quintile performers in these Peer Groups we found that companies that have implemented a SDM are 200 percent more likely to achieve World Class performance, versus companies without a shared services or outsourcing model.

General Accounting and Reporting

Across General Accounting and Reporting, our analysis revealed that companies using SDMs have median costs that are as much as 60 percent lower and efficiency improvements that are more than 40 percent higher. These improvements are further substantiated and explained when performance is examined in more detail, within specific Finance and Operations process areas.

- *General Accounting:* Across General Accounting, the SDM Peer Group demonstrated an overall 63 percent decrease in personnel costs (see Figure 1). This suggests that the broader benefits from standard processes and procedures, data and operating model do generate tangible efficiency improvements, specifically lower resource costs to perform the function.

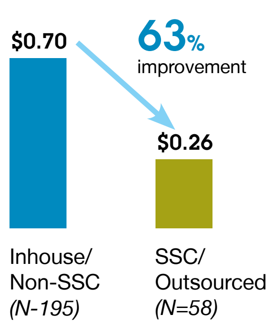

Figure 1: **General accounting: Personnel cost per US$1,000 revenue.**

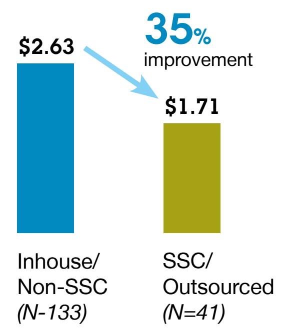

Figure 2: **Manage policies and procedures: Systems cost per US$100,000 cost of continuing operations.**

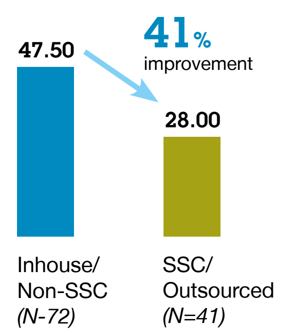

Figure 3: **Days from initial trial balance until earnings release after completion of annual consolidated financial statements.**

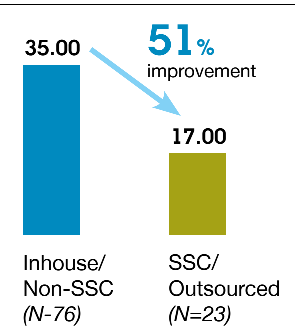

Figure 4: **Days from annual consolidated financial statements until earnings release.**

For governance and management of accounting policies and procedures, companies that use SDMs have 35 percent lower median total system costs (see Figure 2), which could be explained by the fact that most companies running SDMs have also taken steps to consolidate systems to fewer platforms, which in turn can help enforce standard processes and data. This consequently could drive improvements across General Accounting, since fewer systems, common procedures and data standards enable better accuracy and less time spent reconciling results.

- *Accounting close cycle:* The full accounting close cycle was examined, from production of the initial trial balance to the release of earnings. A long-standing objective for many Finance organizations is to reduce the overall accounting period close cycle. Tactical steps to accelerate the close include addressing materiality thresholds for journal entries, automating feeds from sub-ledger systems, and simplifying the chart of accounts, to name a few.

  All else being equal across peer groups examined, moving personnel and close functions into an SDM contributes to speeding up the annual close by 41 percent, or over 19 days (see Figure 3). Examining the median overall cycle time from starting the annual close to earnings release, the SDM peer group runs about 28 days, whereas the non-SDM peer group has a cycle time of 47.5 days. This improvement can primarily be attributed to moving work steps physically and virtually closer together with the support of common processes, data and systems – effectively institutionalizing the close acceleration tactics exemplified above under one delivery organization with a common calendar and consistent "cadence" for the close across the enterprise.

- *Financial reporting and analysis:* There are several reasons an enterprise may choose to accelerate its financial close cycle, with two being cited most frequently. One is to increase the time spent on financial review, performance analysis, and preparation of management discussion and analysis for the earnings release. A second reason, for companies that find it desirable, is to release earnings "ahead of the pack."

  Examining the median overall cycle time from starting the annual close to earnings release, the SDM peer group runs about 28 days, whereas the non-SDM peer group has a cycle time of 47.5 days. Breaking this down by stages of the close cycle, it becomes evident that the SDM peer group not only closes faster overall, but time spent on the transaction side of the close is less, and time spent on reporting, analysis and preparation for the earnings release is proportionately higher (see Figure 4).

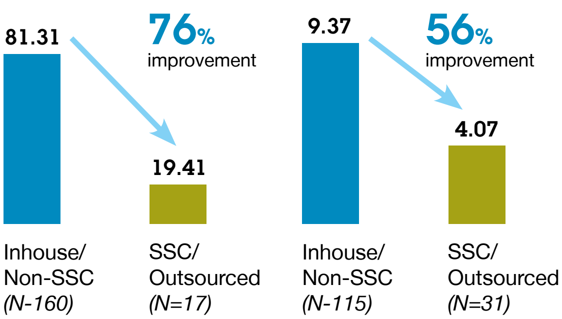

Figure 5: **Number of FTEs to manage sales orders (left) and number of FTEs to manage and process collections (right), per US$1 billion cost of continuing operations.**

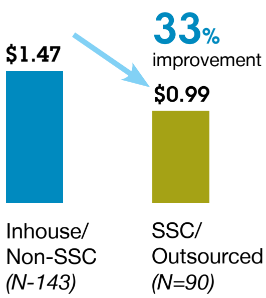

Figure 6: **Total accounts payable cost per US$1,000 cost of continuing operations.**

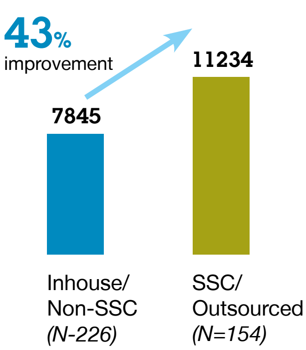

Figure 7: **Number of invoices processed per accounts payable FTE.**

Finance operations

The scope of Finance operations includes a broad range of operational accounting activities supporting sales, revenue recognition, cash receipts and cash application (Order to Cash), procurement support and accounts payable (Procure to Pay), payroll services, employee expense reimbursement, and associated controls and reconciliation of the financial transactions related to these sub-ledger activities.

- *Revenue accounting:* Revenue accounting was examined across two key stages of the cycle; *managing sales orders*, and *managing and processing collections*. For the process *managing sales orders*, the SDM group has 76 percent fewer FTEs. For the process managing and processing collections, the SDM group similarly outperforms the non-SDM group, with 56 percent fewer FTEs (see Figure 5).
- *Accounts payable processing:* Analysis of accounts payable, defined as processing payments to vendors, provided similar results. On cost measures, the SDM peer group's median total cost of accounts payable is 33 percent lower than the non-SDM peer group (see Figure 6). Concurrently, the SDM peer group shows a 43 percent improvement in transaction processing efficiency, as measured by the number of invoices processed per FTE (see Figure 7). One likely contributing factor is the percentage of invoice line items received through EDI, which for the participants with SDMs was more than double those without SDMs. This suggests that the combination of process standards and technology enablers contributes to achieving better performance – it's not just about implementing a new organization for service delivery, but process standardization and technology enablers as well.
- *Expense reimbursement processing:* Defined as processing reimbursements to employees for out of pocket expenses, comparing the two peer groups reveals similar improvements across most measures. The SDM group shows significant median performance improvements across cost, headcount and efficiency measures. For example, they have a 61 percent lower total cost overall (see Figure 8), and 39 percent lower cost per item processed.

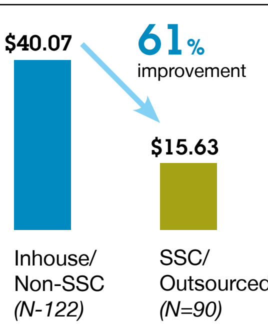

Figure 8: **Total cost of expense reimbursement process per US$1,000 of T&E expenditures.**

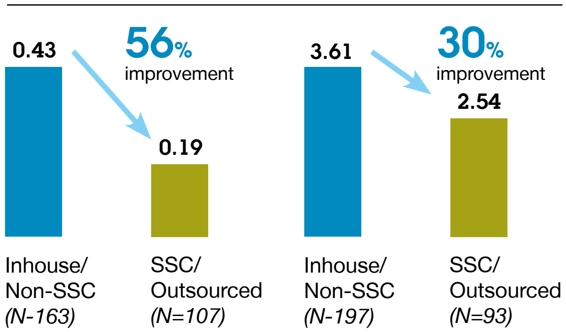

Figure 9: **Expense reimbursement: Number of FTEs per US$1 million of T&E expenditures (left) and number of FTEs per $1 billion cost of continuing operations (right).**

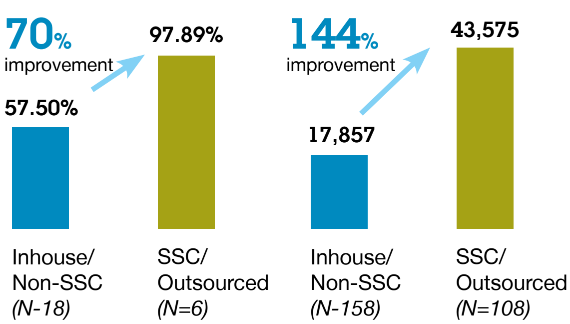

Figure 10: **Percentage of expense line items submitted electronically (left) and number of expense line items processed per FTE (right).**

FTE count for the SDM group is up to 56 percent better, measured per US$1 million in T&E expenditure and 30 percent better as measured per US$1 billion cost of continuing operations (see Figure 9). Electronic expense report submission is at least partially responsible for the improvements, as the SDM group's percentage of expense report line items submitted electronically is 70 percent higher, driving a 144 percent improvement in the number of expense report line items processed annually per FTE (see Figure 10).

- *Payroll processing:* Payroll processing was examined across three distinct tasks: *report time*, *manage pay* and *process payroll taxes*. The SDM group shows a 45 percent improvement overall, as measured by the ratio of payroll FTEs to the number of employees paid, and is 100 percent more efficient as measured by number of payroll disbursements processed per FTE (see Figure 11).

The individual processes within the payroll function reveal where specific benefits are derived. For *report time*, the SDM group's total process costs are 29 percent lower, and personnel costs are 84 percent lower (see Figure 12). For *manage pay*, the total process costs are 43 percent lower, and the personnel cost component is 38 percent lower. For *process payroll taxes*, the SDM peer group's personnel costs are 48 percent lower, largely explained by the 40 percent improvement in the number of FTEs required. On the quality side, the SDM group has a 47 percent lower occurrence of the number of voided payments.

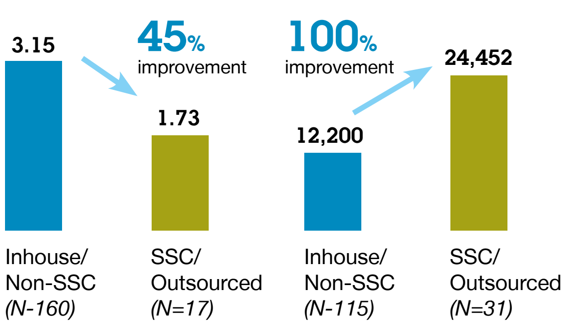

Figure 11: **Number of payroll FTEs per 1,000 employees paid (left) and number of payroll disbursements processed per payroll FTE (right).**

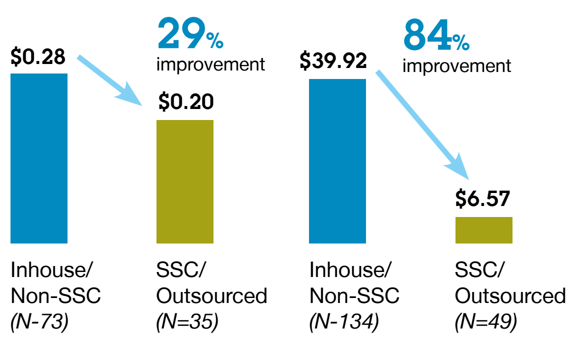

Figure 12: **Total report time cost per US$1,000 cost of continuing operations (left) and personnel cost per employee paid (right).**

A Service Delivery Model by itself is not the whole solution

While the IBM benchmarking data clearly shows an improvement in cost effectiveness and efficiency for SDMs in the Finance function, especially in areas with significant transactional processing, the use of shared services centers or outsourcing is not by itself the whole solution. SDMs are optimized when deployed in conjunction with several other "enablers." Specifically, at least two foundational elements should be in place to achieve the greatest benefits from the SDM.

1. **Culture and discipline.** Process and data standards, enabled by a global process owner, serve as "gatekeepers" to maintain common processes. The SDM design and implementation should be a compelling value proposition to encourage enterprise adoption of the service model, process standards and underlying technology platform.
2. **Common technology.** Enabling common technology across Finance and Operations, such as a common accounting and transaction processing application environment, is another key foundational element.

These findings provide quantitative validation supporting the value of deploying SDMs across most General Accounting and Finance Operations functions. In aggregate across all of Finance, these examples demonstrate significant savings.

The transformation potential based on cost and FTE headcount can provide a rich source of savings to invest in other Finance transformation initiatives, such as those focused on analytics and enterprise support that can make Finance a better, stronger business partner. The improvement in proportion of time the SDM peer group spent on analysis and decision support versus transaction processing suggests that the delivery model is an important lever to pull in order to help improve and increase support and partnering with the business to drive better business insight.

For more detail on Finance function challenges, trends, future insights and new business models, please reference "The New Value Integrator: Insights from the Chief Financial Officer Study" at www.ibm.com/cfostudy and its companion study "Journey to a Value Integrator" at http://bit.ly/olyVMl.

To learn more about the IBM Institute for Value Benchmarking Program, visit **ibm.com**/iibv.

Key Contacts

To learn more about IBM's financial management solutions, contact one of our executive financial management leaders in your local geography:

Global and Americas
William Fuessler
william.fuessler@us.ibm.com

Spencer Lin
spencer.lin@us.ibm.com

Northern Europe
Ian McMillan
ian.mcmillan@uk.ibm.com

Alexander Vocelka
vocelka@de.ibm.com

Southern Europe
Philippe Bellavoine
philippe.bellavoine@fr.ibm.com

Central and Eastern Europe, Middle East and Africa
Mark Ramsey
mark.ramsey@cz.ibm.com

Asia Pacific and Latin America
Grace Chopard
grace.chopard@au1.ibm.com

Japan
Mie Matsuo
miematsu@jp.ibm.com

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About the authors

Annette LaPrade manages financial management benchmarking for IBM Global Business Services. The IBM business process benchmarking team can be reached at *annette.laprade@us.ibm.com* or *global.benchmarking@us.ibm.com*.

Carl Nordman serves as the global financial management research team leader for the IBM Institute for Business Value. In this role, he is responsible for research, thought leadership, global strategies and market insights for the CFO and Finance Audience. Carl can be reached at *carl.nordman@us.ibm.com*.

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IBM Global Services
Route 100
Somers, NY 10589
U.S.A.

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References

1 IBM Institute for Business Value. "The New Value Integrator: Insights from the Global Chief Financial Officer Study." March 2010. www.ibm.com/cfostudy

2 "Open Standards Benchmarking Assessments." APQC. http://www.apqc.org/open-standards-benchmarking-assessments

3 "World Class" represents the top quintile performance (80th percentile) in the distribution of survey respondents.

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