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MORE is better than less.

Dear Friends:

The concept of "shared services" has been around for a couple of decades now. Initially, it was designed to address the challenges imposed by corporate decentralization, which had its heyday in the late 1980s. Today, more and more companies are embracing shared services in order to deliver better customer service, lower their operational costs, and simplify procedures and processes. Organizations that have done so successfully have anticipated the challenges, employed best practices, and tailored their shared services centers to best meet their specific needs. In this issue's feature article, we discuss the challenges and best practices that can help any organization reap the rewards of a well-planned and well-instituted shared services center.

We look forward to the MFM/BCCA 58th annual conference, "Media Finance Focus 2018," May 20-23, at the Hyatt Regency Crystal City in Arlington, VA. Szabo is pleased to sponsor the opening night party at the National Press Club.

Best wishes for a wonderful spring,

Robin Szabo, President
Szabo Associates, Inc.

Shared Services . . .
How's It Working?

Media corporations are widely embracing the concept of "shared services," particularly in the area of finance. A good definition of shared services comes from the Gartner Group IT Glossary: "Shared services or a shared services center (SSC) refers to a dedicated unit, (including people, processes, and technologies) that is structured as a centralized point of service and is focused on defined business functions." Its common operational discipline can be utilized and leveraged across an entire organization.

Shared services entered the corporate vocabulary in the 1990s, as big decentralized companies sought to consolidate basic transactional processes such as payroll, purchasing, and accounts payable. The "Shared Services Center" could then sell back those services to individual business units.

The Benefits.

Inefficient information systems, which result in redundant and repetitive manual processes, are leading companies to investigate ways to attack these problems internally and increase working capital. By leveraging technology and new SSC models, many are succeeding.

The benefits of shared services can be considerable and generally increase as the operation matures. A well-developed and well-run SSC can improve customer service, lower operating costs, eliminate redundancies, streamline procedures and processes, and deliver better analytics to enable continuous improvement. Service levels are tailored to the actual needs of the business units, and services that fail to add value are eliminated. Operating budgets are often determined on the basis of customer demand, which leads to significant cost savings.

Additionally, the organization gains the flexibility to add new business units, acquire new properties, and expand geographically more rapidly. Since its purpose is to support other business units, the SSC frees those units to focus on their core businesses and pursue other opportunities. Today's SSC is expected to provide real value; otherwise, the business units it serves may have the corporate nod to look elsewhere for its services.

Each organization must discover its own route to an efficient shared services model. Shared services is particularly well-suited for back-office operations, although expansion to other functions is on the rise. Generally, the SSC begins with a single function such as order to cash (accounts receivable, credit, dispute/deductions management, cash application). Once that function is successfully running, additional operations such as accounts payable, general ledger, payroll, purchasing, and IT may be included.

The Challenges.

Creating and implementing an SSC is no easy feat. If your organization is contemplating shared services, know that there will be pain. Some business unit managers may worry about accountability of the SSC and argue that cost reductions will be achieved at the expense of

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quality. Economic factors, which drive the need to implement shared services, at the same time place constraints on doing so. The considerable physical logistics can negatively affect employee morale and headcount. Installation of a common IT system and staff changes can take a hefty toll.

Understanding the need for a period of adjustment among business units, many companies allow their SSCs a year or two to come up to speed. After this time, business units that believe their needs would be better served by outsourcing may present their findings to upper management for review.

Even with these substantial challenges, most companies with shared services would agree that it was a worthwhile investment in today's competitive environment.

Best Practices.
Whether your organization plans to consolidate its cash applications, credit, and collections, or your organization already has an SSC in place, best practices must be at the heart of any discussion. The shared services center must be capable of competing successfully on a price and service level with outside vendors. Likewise, business units, also under pressure to perform well in the marketplace, must be free to seek support services that meet the same standards. Without best practices, neither can be accomplished.

In their article, "Strategy& Shared Services: Management Fad or Real Value?," authors DeAnne Aguirre, Vinay Couto, and Gary Neilson, senior partners with Strategy&, state that "proprietary standards and corporate culture are out. Best practices are in, if the business units are to gain competitive advantage." Because internal customers (business units) can specify their service needs, the SSC must meet those requirements and can expect to have its performance evaluated using measurable criteria.

Principles. Aguirre, Couto, and Neilson argue that, when executed properly, the shared services approach combines the advantages of both centralization and decentralization. Through their experience with hundreds of organizations, they have identified six principles for the establishment of a shared services structure in any company.

The first princple is, "Determine which services to share." The primary objective should be to achieve the lowest cost while maintaining high quality standards.

The second principle is, "Develop a service-level agreement." The agreement should specify services to be delivered, specific requirements and parameters, unit and total costs, method of charging costs, and time frame for service delivery. Additionally, it should state the customer's business objectives, how the services are expected to support these objectives, and how achievement will be measured. The authors stress that the agreement does not need to be overly formal or legalistic, and that rigid specifications can be an obstacle to success. The goal of the SSC must be, "No one does it as well, for less."

The third principle is, "Choose leaders and staff carefully." Leaders of transaction-based services should have the proven ability to manage large numbers of staff and motivate personnel. All staff members must learn new behaviors. A focus on customers and attention to market standards of costs, service levels, and best practices must be paramount.

The fourth principle is, "Benchmark the shared services organization against outside vendors." In the shared services model, key performance indicators are identified, tracked, and communicated. Shared services conducts periodic outsourcing reviews and provides vendor management assurance. Business lines compete for internal resources, ensuring that resources go where they generate the most value.

The fifth principle is, "Establish a governance board composed of business unit executives." The board provides strategic leadership and direction and ensures that shared services are being consistently managed in accordance with internal customer requirements. It also sets policy, decides whether and how to permit outsourcing, approves expenses and capital budgets, and resolves significant conflicts over such issues as complying with agreements and determining degrees of standardization.

The sixth principle is, "Select an implementation approach." Some companies choose to create an SSC first, moving services from headquarters and business units into it, then redesigning these services based on internal customer needs. Other companies whose senior management may have been initially skeptical about the idea have redesigned the services themselves to find out which were being performed and by whom, who the customers are, and how much the services cost. After building the business case this way, commitment to the new model followed.

Communication. The most common approach to establishing an SSC is to create a new in-house organizational entity with its own mission and mandate to provide services to the business units. Generally, this involves a new location, staff, and IT. One of the biggest challenges that organizations encounter in transitioning to an SSC environment can be convincing each business unit that the off-site SSC can handle their financial needs. This is where communication best practices are essential. "Buy-in" must exist among management and staff at all levels of finance and sales—corporate, business unit, and shared services.

Make sure that everyone on the shared services team understands that each property is its client; therefore, it should take a customer-focused approach. The team should be staffed with relationship-driven multi-taskers who are able to communicate effectively with peers, finance managers, sales teams, corporate, and customers, and who focus on providing high quality service.

Everyone on the SSC team should have knowledge of the individual markets and their customers. A true personal relationship with sales personnel, with a designated individual assigned to each market, will go a long way to create an "I'm in your corner" rather than an adversarial approach to credit and collections.

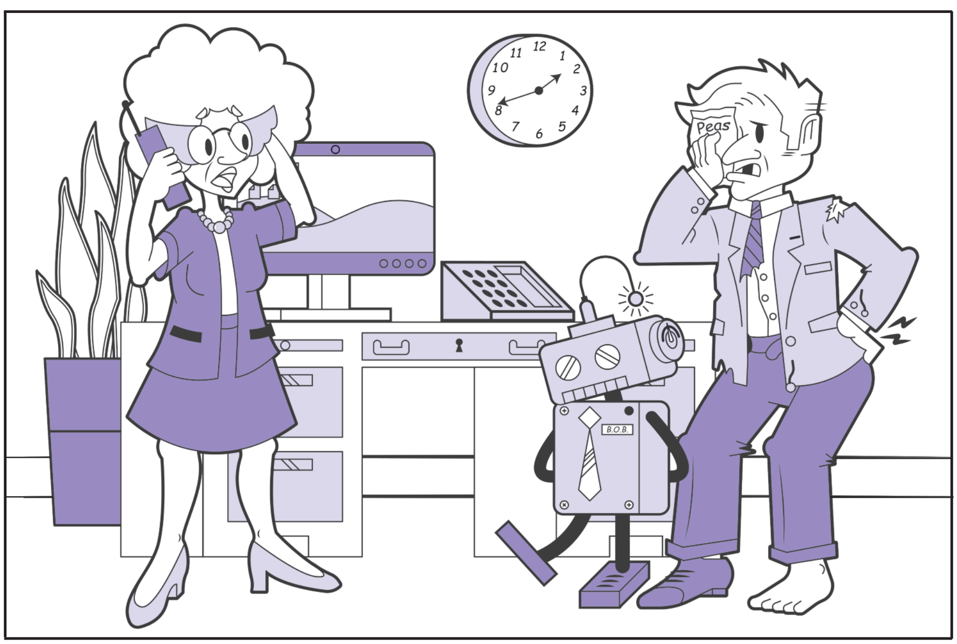
Another way to partner with sales is to adopt a reasonable "get-out-of-their-way" policy. One media company's solution was to automatically grant a $1500 line of credit to any commercial account. If more was required, the prospect had to complete a credit application, which the SSC promised to turn around within 24 hours. As a result, credibility with the business units was established, DSOs improved, and bad debt write-offs decreased.

Performance should be assessed on an ongoing basis, using performance metrics for the quality and costs of services as well as benchmarking. The SSC should provide regular detailed reports on performance, which help ensure that goals and expectations are in sync.

Everyone needs to be clear about the division of responsibilities between the SSC and the individual business units. All accounts receivable processes are often handled in the SSC, including billing and all payment applications (cash, credit cards and ACH payments) as well as adjustment postings. In some organizations, each business unit has the authority to make the ultimate decision regarding credit extension, but the SSC carries out credit investigations and provides recommendations to the business unit. The SSC may also handle collections, working with the business unit and, if necessary, a third-party collector.

Credit policy and procedures. If the SSC is responsible for credit investigation and recommendations, it needs to understand the philosophy of the organization. Does it put greater emphasis on tight credit requirements and less on collection efforts or the other way around? Economic conditions and sales conditions can change, and there should be a sensitivity to those factors. Fairness, consistency, and accuracy should be the hallmarks of any findings. The SSC should also be expected to submit its findings and recommendations regarding credit in a timely manner to avoid conflicts with sales.

Cash application procedures. Among the most critical aspects of effective collections in an SSC environment are accuracy and timeliness of information.



"It seems, Boss, that Sales and his Robot Assistant Bob had a little kerfuffle over priorities. Bob only lost one nut and bolt, but Sales lost three teeth and has a broken rib."

A method should exist for the initial recording of cash-in-advance payments, whether short-term (one month) or long-term (one year). When an invoice is produced, any payments or credits should be immediately posted and reconciled.

Collections procedures. You must be able to see a customer's full portfolio on all systems of record prior to any contact with the customer. How much is collectable today, in 30 days, in 60 days? Are there any disputed amounts? Do any payment workout plans exist? What is the customer's credit line and how much has been used?

Every 30-day cycle, the SSC should contact any customer with a receivable balance. The contacts should be prioritized. New customers should take first priority, riskier customers second, high stakes third, and slow pays fourth. Routine tasks and reminders should be automated.

The SSC should be capable of tracking changing payment behaviors. Broken promises, late-pays, short-pays, unearned discounts, percentage amounts of disputed invoices, and percentage of receivable portfolios being disputed should all raise electronic red flags that are visible to collections staff, management, and sales. Dispute management and resolution processes should be in place to quickly identify, analyze, and resolve the issue efficiently. Ideally, root-cause analytics reduce the incidence of disputes and facilitate process improvement.

Next.

Since 1999, the multi-national professional services network Deloitte has conducted biennial surveys of a wide range of industries to understand how shared services organizations are capitalizing on leading practices and trends to address their business challenges and better meet their customers' needs. Its 2017 survey showed that while transactional processes remain predominant at SSCs, adoption of more complex, knowledge-based processes has risen considerably and functional scope continues to grow.

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The survey also identified robotic process automation as a rapidly emerging technology that will fundamentally change how SSCs operate, slashing the effort for routine tasks and enabling advanced cognitive applications that augment or replace human judgment in knowledge-based processes.

In their article, "How Shared-Services Organizations Can Prepare for a Digital Future," Puneet Chandok, Hiren Chheda, and Alexander Edlich of McKinsey & Co. state that companies should consider ways to digitize back-office functions and optimize company performance. "By incorporating automation, virtualization, advanced analytics, and other digital technologies into their operations, shared services organizations may be able to streamline processes," they said. McKinsey research suggests that companies, by digitizing their shared services organizations, can achieve significant savings in both time and money.

While the authors recognize the many challenges that companies face in digitizing functions, they believe that by partnering with the business units and phasing in elements of the digital transformation based on the company's near-term and long-term objectives, the SSC can overcome many of these challenges. They also believe that digitized shared services organizations can introduce valuable capabilities into the parent organization, such as using analytic models to assist in business planning. "From their back-office perch, shared services organizations are uniquely positioned to help companies realize their digital strategies, improve front-end customer interactions, and increase internal productivity," they conclude.

Aguirre, Couto, and Neilson of Strategy& conclude that the further we get from the old notion of command-and-control management, the closer we get to a world in which the market is the test of every aspect of corporate life. The winners, they project, will be those that mobilize capabilities in support of market objectives. "Support services are one more capability, even if the customers are internal," they state. "Shared services is a significant step in this process."

For Now.
All of us who have witnessed and been part of media's transition to a digital world understand that change itself is the one big thing we can continue to count on. As organizations change to succeed in the Internet of Things environment, they also must change to maintain efficiency and control of processes. For many media companies, this involves centralizing some operations, adding areas of expertise, and putting technologies in place that facilitate flexibility now and in the future. While acknowledging the difficult change management involved in implementing shared services, these companies also are recognizing the value of a well-planned solution. Advice from all would be, "At all stages in the process, from conception to implementation, communicate, communicate, communicate!" ♦