

Concurrent Session

**Generating Value Through Shared
Services and Outsourcing**

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*May 7, 2007
10:45 a.m. – 12:00 p.m.*

Generating Value Through Shared Services and Outsourcing

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May 7, 2007
Washington, DC

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Agenda

- Introduction to ScottMadden, Inc. (ScottMadden)
- Introduction to Shared Services
- The ScottMadden Approach to Shared Services Implementation
 - Strategy Alignment and Project Planning
 - Current State Assessment
 - Model Design and Business Case Development
 - Implementation Planning
 - Implementation and Transition
- Beyond Implementation – The Outsourcing Process
- ScottMadden's Shared Services Experience

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Introduction to ScottMadden

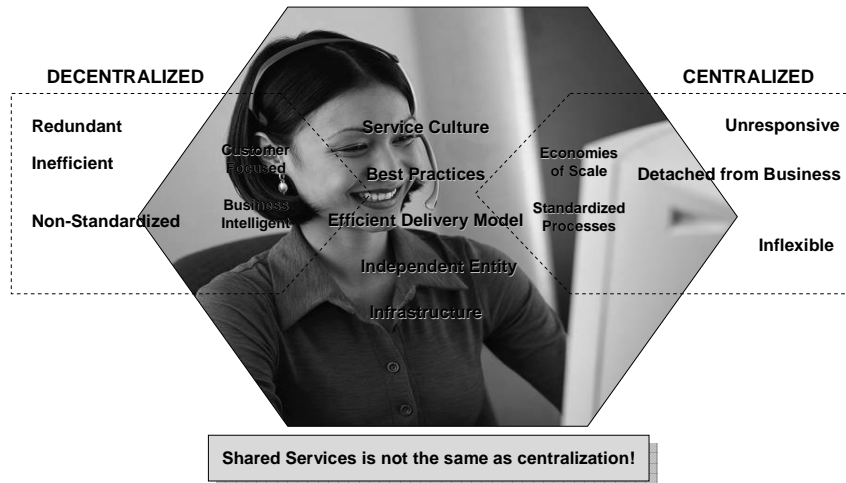
- Who We Are
 - ScottMadden is a general management consulting firm founded in 1983
 - We started with a focus in energy and now have three primary practice areas
 - Shared services
 - » Finance and accounting
 - » Human resources
 - » Information technology
 - » Supply chain
 - » Multi-function
 - Outsourcing advisory services
 - Energy – gas/electric utilities
 - We have provided skilled, experienced consulting support to hundreds of clients worldwide

Shared Services Overview

What is Shared Services?

- Operating units 'outsource' support functions to a centralized organization
- Information technology
 - Human resources
 - Finance
- Shared services is externally focused on their corporate customers
 - Balance the requirements of the business units with the most efficient and effective delivery of services

Shared Services Overview (Cont'd)

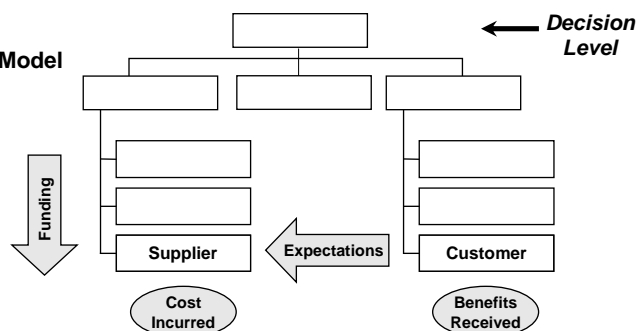


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Shared Services Overview (Cont'd)

The Traditional Internal Services Model



Results:

- High Costs
 - No constraints on demand from users
- Higher budgets supported by customer "requirements"
- Frustration
 - Senior management frustrated over increasing costs
 - Business units frustrated by rationing of services
 - Shared services frustrated by "no win" situation

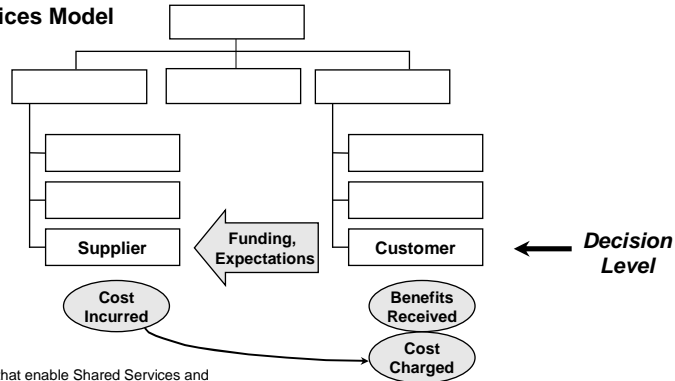
Decisions must be made at the level that oversees both functions

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Shared Services Overview (Cont'd)

The Shared Services Model



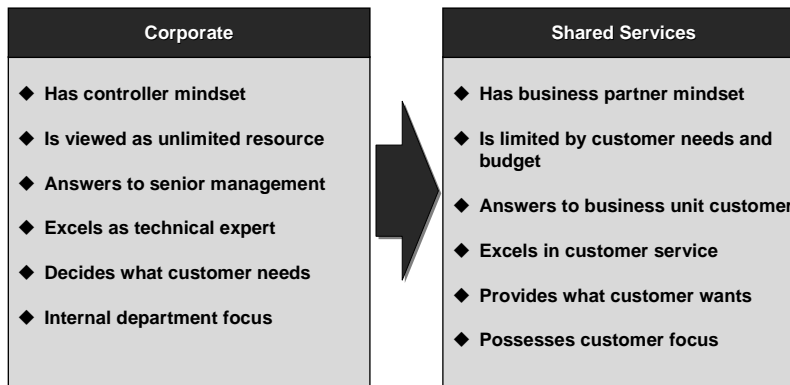
Requirements:

- Management processes that enable Shared Services and business units coordinate plans and budgets
- Transfer pricing mechanisms that are more robust than traditional corporate overhead allocations

Decisions can be made at the working level considering costs and benefits of alternatives

Shared Services Overview (Cont'd)

Key Differences in Culture



Potential Shared Services Offerings

Human Resources

- Payroll
- Compensation
- Records management
- Benefits administration
- Training and development
- Relocation services
- Travel and expense
- Policies and procedures

Finance

- General ledger
- Accounts payable/receivable
- Planning and budgeting
- Tax cash management

Information Services

- Technology planning and development
- Desktop support
- Applications development
- Data center operations
- Application maintenance
- Telecommunications
- Acquisition

Logistics/Materials Management

- Strategic sourcing
- Procurement
- Warehousing
- Inventory management
- Transportation

Customer Service

- Call centers
- Returns processing
- Credit and collections
- Order management

Legal/Corporate Affairs/Administrative Services

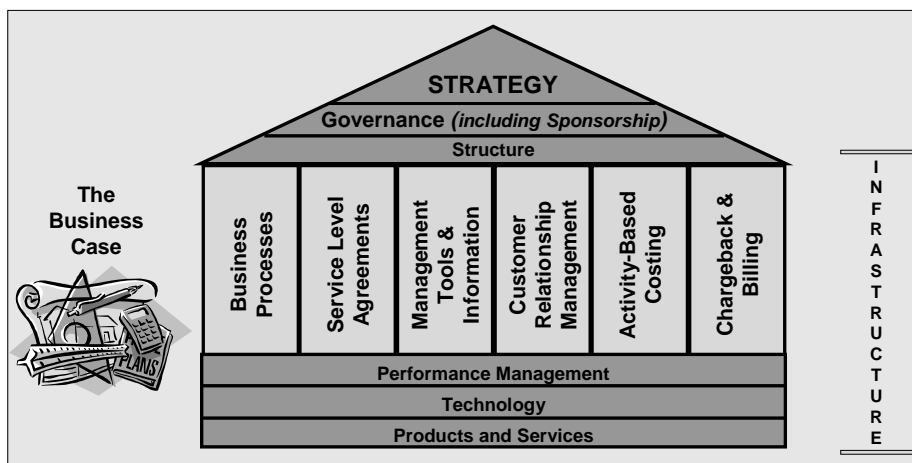
- Litigation support and coordination
- Communication services
- Environmental, health and safety
- Insurance
- Regulatory compliance
- Security
- Travel
- Facilities
- Fleet management

Source: "Shared Services: Better Service at Lower Cost" Chris Rutledge;
www.sharedxpertise.org; ScottMadden

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Shared Services - Key Elements



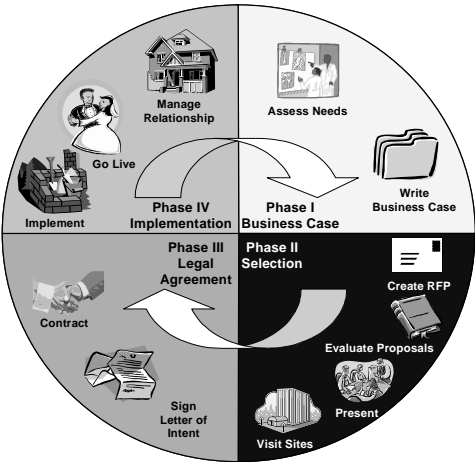
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Is Outsourcing Right for You?

- 1 Is the process strategically critical?
- 2 Are there clear opportunities for cost reduction?
- 3 Are there clear opportunities for enhanced quality of service?
- 4 Is the process viewed as “out of control” or generally problematic?
- 5 Is the process easily dimensioned and extracted (e.g., clear start/end points, dedicated FTEs, dedicated technology)?
- 6 Does the process interface directly with customers on a day to day basis?
- 7 Are skill requirements and/or technology capabilities advancing rapidly?
Is Company having a difficult time keeping pace with best practices?
- 8 Would you view outsourcing as extremely risky (i.e., would a failed outsourcing have a material adverse impact)?
- 9 Are competitors outsourcing similar products/services?
- 10 Is outsourcing counter to corporate culture?

Outsourcing



Guiding Principles

- Goals
- Corporate Sponsorship
- HR Planning
- Professional Support
- Scope and Baseline
- Assets
- Bid Strategy
- Tax Review
- Consents
- Timeline

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Negotiating the Relationship — Eight Critical Analyses

- Definition of in-scope services
- Changes to be effected to in-scope services by vendor
- Definition of out-of-scope services with dependencies
- Identification of performance standards and attendant penalties
- Projection of costs and financial engineering opportunities
- List of tangible assets, software licenses, and maintenance agreements
- Arrangements for effected human resources
- Determination of transition activities

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Major Problems with Outsourcing Deals

- Customers' business objectives are not clear; deal structured does not match the objectives
- Unrealistic expectations of the customer; vendors oversell
- Customers spend inadequate time managing the deal
- Vendor is unwilling to adequately define scope or service levels
- Inadequate attention to processes and procedures
- Most deals do not reflect changing market pricing
- Lack of skilled resources committed to deal
- Vendors are not as proactive as expected
- No one is left who understands the contract terms and conditions
- Unanticipated changes in technology or business

Source: Gartner Group survey of 1,400 CIO's worldwide as presented in a May 1997 seminar.

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Appendix

Outsourcing Tips

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Tip #1 - Goals

Define the key goals of your outsourcing project, as well as a transaction mission statement and guiding principles. These are essential tools you can use to maintain focus and provide the baseline against which to evaluate vendors and measure progress

- Mission Statement: The Project should provide measurable benefits to customer on enumerated objectives
- Goal Definition: Operational efficiency, cost reduction, function management, technology step-up, process improvement
- Guiding Principles: Relationship management, customer expectations, transaction timing

Tip #2 – Corporate Sponsorship

Establish internal support and sponsorship for the project at the executive level

- Sponsorship: Executive Officers, Board of Directors, Support Functions
- Team Participation: Finance, Procurement, IT, Legal, User Groups, Internal Audit

Tip #3 – HR Planning

Assume that affected employees will hear about any potential outsourcing even before executive management does. Establish an employee communications plan. Identify key employees and consider retention plans.

- Communication Plan: Objectives, Strategy, Timing, Staffing, Transition, Retention
- Retention Plans: Stay Bonuses, Conditional Severance Packages, Reset
- Notice Requirements: Severance Plans, WARN Act, State Tin Parachute Acts
- Project Management: Stay vs. Go Decisions

Tip #4 – Professional Support

Identify and engage consultants and other professional support. Consultants provide structure, support and industry experience that will be invaluable as you prepare for outsourcing.

- Consultant's Role: Subject Matter Experts, Project Management, Financial, Transaction Content, Vendor Qualifications
- Legal Role: Set-up Transaction Management, Negotiation, Documentation Consultation, Post-Transaction Support, Subject-Matter Expertise
- Investment Banker: Large-Scale Asset Moves

Tip #5 – Scope and Baselines

Establish what business operations are in scope. Research and document your existing cost and service delivery and performance baselines. Use the existing baselines to establish your requirements for cost and service performance under the outsourcing arrangement

- In-Scope Operations
- Out-of-Scope Operations
- Pricing Model Baseline
- Service Levels
- Service Level Agreements
- Statutory Requirements
- Software/Technology Platform

Tip #6 – Assets

Identify all assets that are in-scope. Begin a review of all in-scope software license agreements, paying close attention to any restrictions or other limitations.

- Software:
 - Owned/Licensed
 - Transferred/Assigned/Shared
- Hardware:
 - Owned/Leased
 - Transferred/Assigned/Shared
- Real Estate
- Lien Clearance
- Consent, Clearance
- Accounting Considerations

Tip #7 – Bid Strategy

Consider various bid strategies (RFP, etc.) to determine which strategy is most advantageous for your organization. Perform due diligence on potential vendors. Establish negotiating teams and parameters

- Competitive Bid Strategy
- Go/No Go Approach
- Vendor Qualification

Tip #8 – Tax Review

Begin a federal and state tax analysis of the transaction. Determine the impact of potential tax liability on costs and pricing requirements

- State Tax Considerations
 - Service Taxes
 - Sales Taxes
 - Possible Bifurcation Requirements
- Federal Tax: Transactional Structure Considerations

Tip #9 – Consents

Determine whether any approvals will be necessary to close the transaction. Consider the employee base as well as board and shareholder consents

- Board and Shareholder
- Software Licenses
- Local Regulatory Boards
- International
- Privacy Considerations

Tip #10 – Timeline

Establish realistic timelines for negotiation and completion of the outsourcing project. Outsourcing deals are complex transactions that require careful and deliberate consideration in order to achieve the goals of the organization

- Diligence Phase
- Pre-Negotiation Commitments
- Pricing
- Negotiation
- Documentation
- Closing
- Transition
- Post Closing Support

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