



# Creating value from shared services centres

## Considerations for global procurement models



Shared services are critical to operational efficiency and procurement excellence

### The evolving role of shared services

Shared service centres (SSCs) are vital to nearly every global business strategy. But traditional questions of *whether* a SSC should be implemented have evolved into *how* to best put this approach into practice.

SSCs have a long history of development. They evolved from providers of transactional, highly repetitive accounting activities into multifunctional organizations with a global focus and additional functions. Now, they are shifting towards a global business services (GBS) model, which involves the full integration of procurement and other enterprise activities into one consistent and independent shared service organization.

To align with this shift, SSCs are focusing on digitizing their processes to free up capacity currently tied to manual activities. For procurement SSCs, this capacity release is critical as they move beyond transactional work to include more sophisticated value-creating activities such as:

- Global category management and strategic sourcing
- Predictive analytics and market screening
- Supplier and supply chain risk management
- Business partner management

But making this transition can be challenging. To help organizations in their journeys, we explore some proven approaches to operating model design and implementation, including Our 3S (scope, services, structure) Procurement Model Framework.

Erratic cycles of growth, contraction and recovery are mixing with frequent disruptions to make supply chain management increasingly challenging. Creating a procurement organization capable of navigating this environment requires practical, data-driven planning and design.

# Challenges in establishing a procurement SSC

In our *Annual Shared Services Report*, just under half of those surveyed (44%) said they had successfully established procurement as a SSC, with many setting up offshore.

Despite this trend, procurement staff can be reluctant to adopt shared services. Their current approach to work revolves around firefighting and an important role of stepping in to save the day when things go wrong, especially when the required goods and services aren't delivered on time or in full. This approach drives a high level of day-to-day job satisfaction but is often a result of lack of communication from the requisitioner to the supplier. Although this is clearly not the right attitude, operational procurement often admits to this, using it as an excuse to not push for SSC concepts. In fact, a key risk of offshore and nearshore (operations located in a nearby country) SSCs is often a loss in proximity to the customer because they're inflexible and opaque.

Effectively establishing an SSC requires a structured approach to define each process step and the service-level agreements necessary for quality customer service. This is important as the ongoing success of the SSC is tied closely to the perception of procurement's customers and change management within the teams.

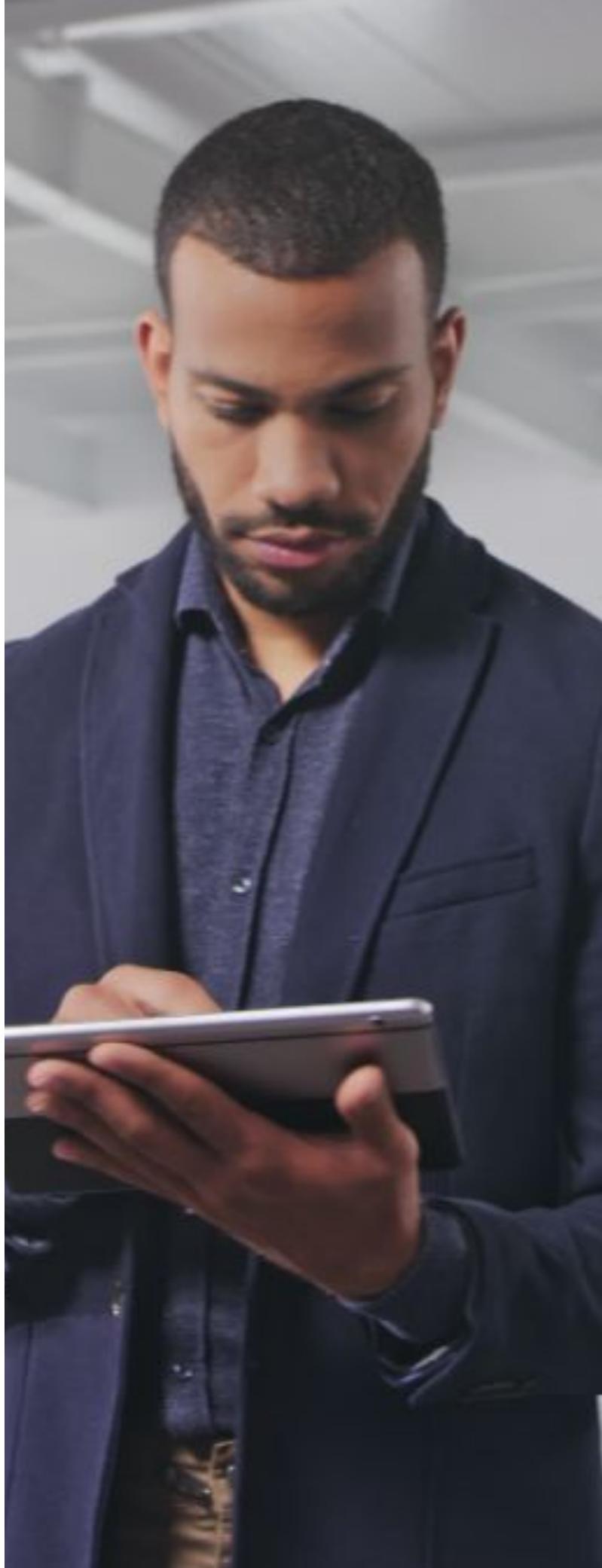
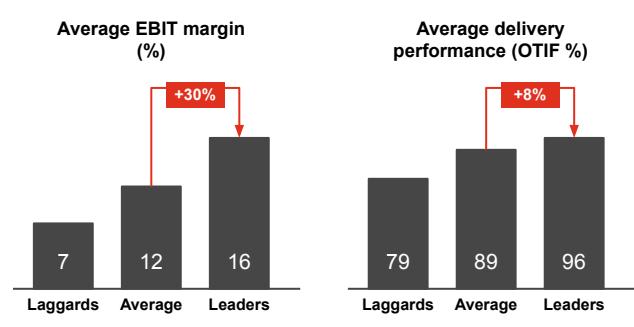
With those criteria met, the likelihood of losing contact with the business is mitigated and the SSC can move beyond firefighting to be successfully nearshored or offshored, delivering better value across the organization in a cost-efficient manner.

## Supply chain operating model structures and performance

Figure 1: Leaders manage strategic functions globally and execute functions regionally



Figure 2: Companies focused on improving supply chain performance consistently outperform their peers financially



# What's driving the transformation of procurement around the world?

Around the world, procurement is in the middle of a major transformation phase. While digitization and lean operations strive for greater efficiency, current market conditions and the pace of innovation require new procurement strategies. To meet these requirements, procurement SSCs are being put in place as a powerful tool for improving operational efficiency and procurement excellence.



## Operational efficiency

Technology-driven trends such as robotic process automation (RPA) and artificial intelligence (AI) are already transforming operations, making it easy to automate standardized and repetitive processes. Although the potential of these solutions is enormous, procurement has struggled to identify the right processes for automation. Using the lift-drop-change transition approach allows for administrative tasks to be bundled in a shared services centre. Through this approach, unique requirements can be analyzed holistically and a decision on whether a task is eligible for standardization can be made.



## Procurement excellence

In order to navigate today's complex procurement environment, teams must shift from a buyer-centric relationship to a collaborative approach that not only focuses on price but also on developing capabilities. As business partners, they help focus on the holistic value chain and define a common strategy for demands. With this shift, procurement becomes much more than a means for ensuring the supply of goods and services.



## Transforming their operating model

Modern procurement operating models bring both operational efficiency and procurement excellence covering a range of core services, administrative support, management of automated processes and centres of excellence. But most organizations are not ready for this transformation. Teams are stuck in operational tasks and firefighting.

Organizations that establish a centre of excellence (CoE) can help transform the entire function by incorporating highly skilled and experienced teams to handle complete categories or end-to-end processes. In a mature CoE, this may include strategic commodities or activities such as predictive analytics and global supplier risk management.

Depending on the corporate structure, services go through a robust classification of centralized, centre-led or local services to drive maximum value from sourcing and delivery efficiency.



## Changing skills and talent profiles

For decades, SSCs have focused on transactional tasks, driving efficiency and generating economies of scale. As shared services transition to higher-value activities, they need to adopt technologies like RPA and AI. These technologies enable repetitive, rule-based tasks to be performed with greater accuracy, compliance and efficiency at a lower cost, freeing up resources for higher-value services.

Through this transition, some roles will become obsolete. For example, the workforce will shift over time to RPA developers who automate tasks from accounts payable clerks. This transformation means organizations will need to identify skills in areas like RPA and AI that their procurement workforce of the future will require.

In this new environment, procurement teams will create additional value by evaluating the large amounts of data generated by advanced technologies to create real business insights. This will require them to have strong analytical skills.

Figure 3: Emerging technologies create innovative job profiles

Technologies	Business Value	Example Job Title
Cloud-based infrastructure	End-to-end process integration	→ Digital process manager
Robotic process automation	Process efficiency	→ RPA solution architect
... Process mining	Lean and streamlined processes	→ Process mining expert
Advanced data analytics	Better decision making	→ Data scientist/Data analyst
Artificial intelligence	Improved customer experience	→ AI Engineer/Developer



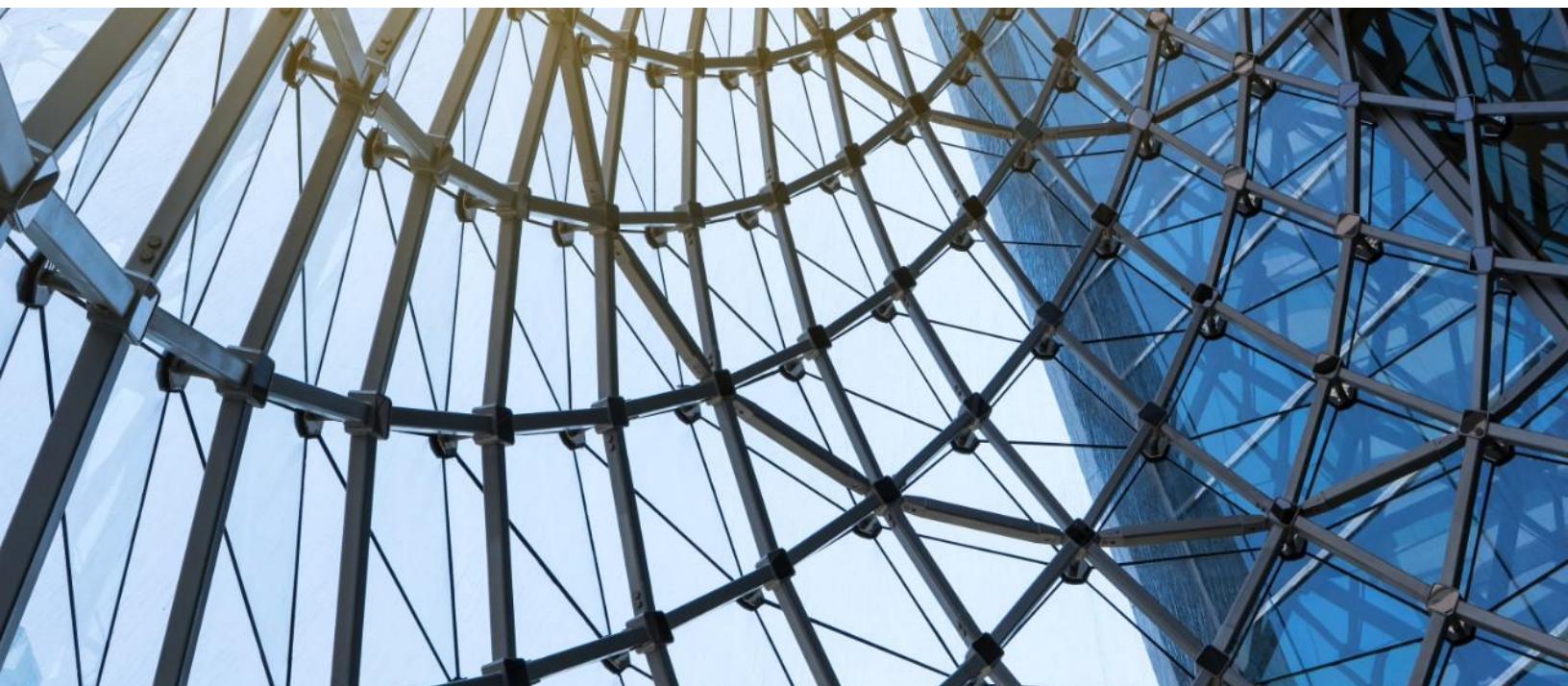
# Our 3S Procurement Model Framework provides a clear foundation for effective delivery model design

Every organization is unique and requires a structured approach to defining the individual scope, services and structure that will form the foundation of their shared services centre(s). To help organizations with this, we've created what we call our 3S Procurement Model Framework.

Through research and experience designing and transforming procurement organizations across the globe, we've found that the most critical design consideration is balancing system complexity with centralization. Without this balance, centralization efforts have diminishing or even negative returns as the system's complexity exceeds its benefits.

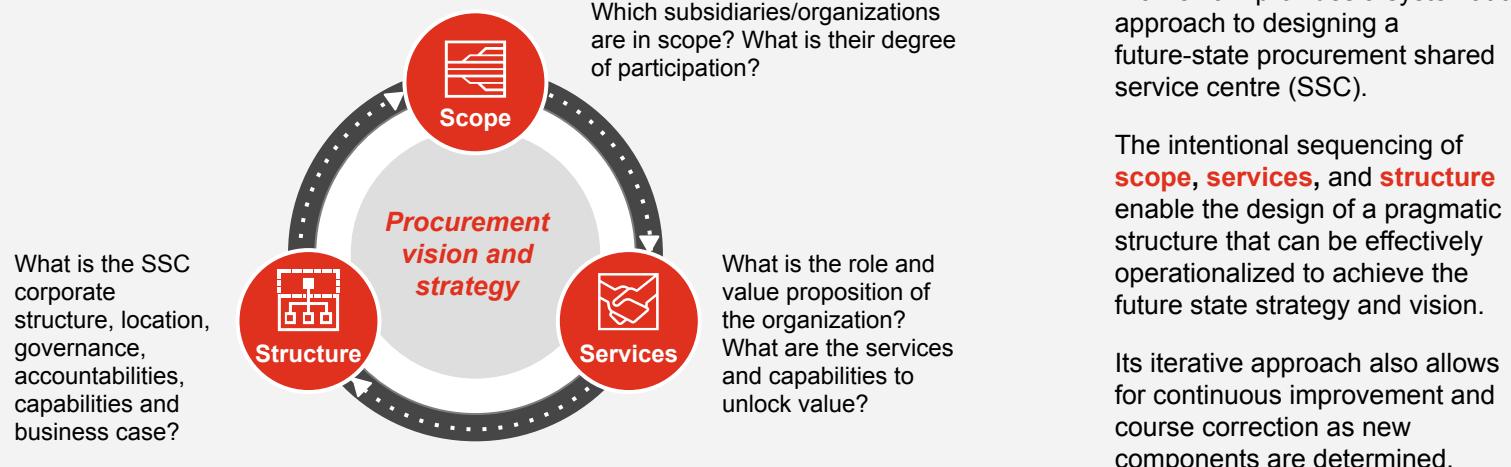
Our 3S Procurement Model Framework is a systematic approach developed through years of research and practice to create an organizational design that improves performance and delivers value. The framework, organized into three distinct groupings of decisions, helps you achieve your overall centralization objective while managing system complexity.

With a specific focus on enabling end-to-end processes, the 3S framework contemplates an SSC structure that goes beyond transactional tasks to include strategic, knowledge-intensive and highly sophisticated activities in order to create more value for the business.



## 3S Procurement Model Framework

Successful design is dependent on balancing centralization with complexity to mitigate diminishing returns



### Form follows function

The 3S Procurement Model Framework provides a systematic approach to designing a future-state procurement shared service centre (SSC).

The intentional sequencing of **scope**, **services**, and **structure** enable the design of a pragmatic structure that can be effectively operationalized to achieve the future state strategy and vision.

Its iterative approach also allows for continuous improvement and course correction as new components are determined.

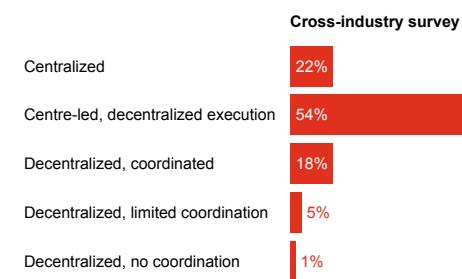
# Application of our 3S framework is based on the unique needs of the organization

## Shared services is not the same as centralization or outsourcing

Before exploring options for applying the 3S framework, it's critical to establish early on that shared services aren't necessarily a centralized or outsourced function. Most organizations can operate with a varying degree of centralization, but recent research has shown hybrids are an increasingly popular choice.

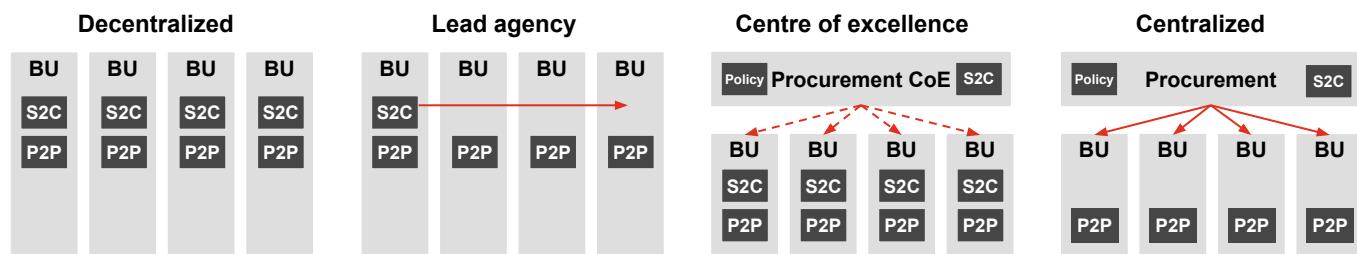
When designing a model, there are many alternatives for reporting, interactions and service delivery. In all cases, appropriate governance is crucial to delivering on procurement's value proposition and meeting the needs of the business. This is especially important for organizations that prefer a hands-off approach where central procurement may be a shared service led, funded and governed by the individual business units it serves. While the standard archetypes can help accelerate design, your final model should be unique to your organization developed through a robust design cycle.

Figure 4: Degrees of shared service centralization in organizations



Source: PwC Client Survey & Project Review

Figure 5: Example procurement model archetypes



	Decentralized	Lead agency	Centre of excellence	Centralized
<b>Description</b>	A majority of procurement functions are siloed and run individually by the business units (BUs) with little or no collaboration.	One BU has responsibility for leading sourcing and supplier management for a category on behalf of the group. Typically relates only to specific category.	A small central team coordinates deployment of best practice and key categories. Most procurement resources sit in and are owned by the BUs.	Procurement resources are grouped centrally reporting to the Head of Procurement. Services are provided to the BUs or companies.
<b>Scope</b>	No formal scope or standard procurement policy across the organization.	Scope limited to select category third-party spend, with mandated participation of relevant BUs.	Sourcing for select strategic enterprise categories and setting policy for BU owned procurements.	All organizational third-party spend in scope, with policy mandated collaboration from all BUs.
<b>Services</b>	BUs deliver and manage their end-to-end procurement independently, often inconsistently and with limited standardization.	End-to-end S2C execution for specific category embedded in one BU, with transactional P2P retained by relevant BUs. Typically provides some savings and resource efficiencies.	CoE role to provide strategic direction (advise/counsel) and manage enabling capabilities across the system leading to consistency of approach.	Centralized procurement is operationally involved to deliver S2C services on all categories, and also manages enabling capabilities for the organization drive consistency and savings.
<b>Structure</b>	No integrated governance structure; siloed direction setting, decision making and transactions.	Cross-BU governance limited to in-scope category and drives category direction setting and decisions.	Central oversight promotes consistency of standards and approach across categories and regions.	Top-down system governance with integrated direction setting, decision making and control across organization.

Legend: S2C: Source-to-Contract P2P: Purchase-to-Pay

Scope

Services

Structure

# Considerations for selecting the best SSC location

This year's survey includes over 160 SSCs from organizations with operations across the globe. Figure 48 shows the majority of participating SSCs are located in Europe, while the other half is spread across the Asia-Pacific and South and North America, with a small fraction in Africa.

Traditionally, organizations chose SSC locations to reduce costs, but our Annual Shared Services Report showed other key factors (access to a qualified workforce, labour costs and availability of support infrastructure) are now leading assessment criteria. In fact, 31% of global organizations selected their SCC location primarily based on the availability of a skilled workforce, with labour costs ranking as the second most important criteria.

These new drivers are increasingly evident in location selection with European shared services almost evenly split between countries with higher labour costs and required skill sets (44%) and those offering low-cost alternatives (56%). As SSCs move towards workforce automation and digitization of processes, the physical location of the SCC will become increasingly less important.

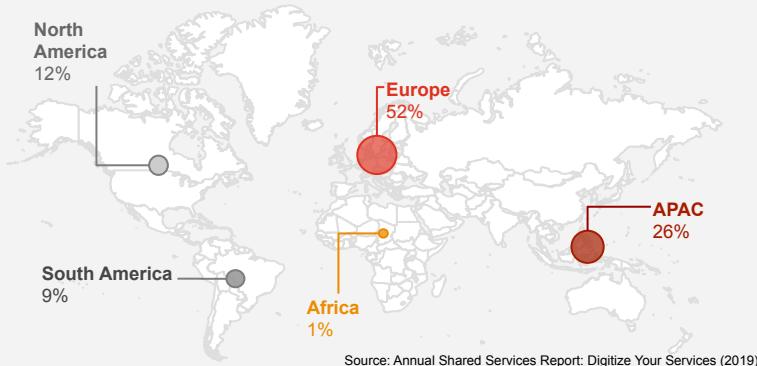
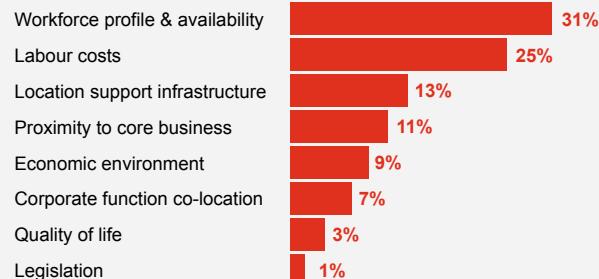


Figure 8: Key factors influencing the choice of SCC location



Source: PwC Hungary Shared Services Survey (2016)

## Trends in SSC locations

For 20 years, we have been researching and tracking the trends in shared services and offshoring, working with hundreds of executives each year to understand the criteria for selecting SSC locations. During this time, we've seen SSCs become an entrenched and evolving business strategy. With increasing automation and lower risk tolerances, talent and strategic alignment have become as important as financial benefits for the most mature SSC organizations, reflecting the changing role these centres play in their companies.

### Talent profile



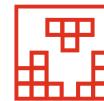
Carefully consider your current and future workforce needs and cultural fit when determining your SSC locations.

**Workforce profiles and availability:** The foundation of the SSC is availability of qualified staff. Well educated, multilingual resources with relevant experience have a significant impact on the performance and sustainability of the centre. Further, the competitiveness for talent in the market can also be an indicator of whether or not the location is right for the organization.

**Cultural alignment** or fit can assist in narrowing down offshore options or favour on- or near-shore options based on the organization's norms and behaviours, as well as the nature of the service being provided (e.g., customer-centric versus analytical services).

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A large global mining company, which favoured a vast talent network and minimal risks associated with cultural alignment and integration, selected the Netherlands as their procurement SSC location.

### Strategic alignment



For more sophisticated SSCs, strategic benefits such as risk reduction and business environment are as important as the financial considerations.

**Proximity to suppliers, potential acquisitions and market innovation** are key considerations for location as they can strengthen relationships and market influence, reduce potential supply chain risk and drive greater integration of acquisitions and suppliers.

Location time zones can be strategically leveraged to deliver around-the-clock operations, increasing efficiency by minimizing downtime. However, organizations needing consistency in experience and access should consider **time zone compatibility** and the impact on delivering services sustainably.

Companies need a clear understanding of **macroeconomic, political, cybersecurity and climate risks** to mitigate or reduce potential interruptions to business operations.

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A multinational pharmaceutical company centralized shared services in Europe to maintain proximity to suppliers and market innovation, increasing their overall market influence.

### Financial benefits



Financial benefits have been the traditional drivers for SSC location selection and are still a key criteria for location decisions.

Long-term projections for **operational and capital expenses** are required when assessing the feasibility of a location that is both cost-effective today and into the future.

**Labour cost** trends and their impacts on current operating costs play a role in determining what locations are viable and identifying potential arbitrage for key roles.

**Tax profile and transfer pricing** need to be considered in combination with both strategic benefits and talent profile to determine if the incentive is worthwhile. In some cases, tax incentives in higher-cost markets may offset any drawbacks of relatively expensive workforces or changes in service levels and vice versa.

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A global tourism company retained centralized corporate functions in North America (e.g., product development, marketing) for proximity to their customers while relocating core operations and oversight to Latin America and Asia to benefit from local knowledge, labour costs and tax incentives.

# Determining the right SSC transition strategy

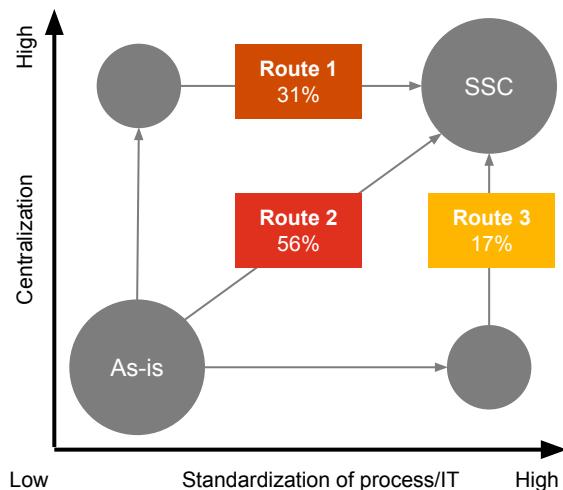
The transition strategy for establishing the SSC has a significant impact on transition time, with organizations using a centralize-drop-standardize approach (see below) to reduce transition periods. The length of the transition is also dependent on other factors, such as organizational size, complexity of services and required inputs or resources.

The speed of implementation is only one factor when determining the right strategy for your organization. You should also look at how to transition as this has a significant influence on the development of the future shared service organization.

In practice, organizations typically pick one of three transition strategies for their procurement shared services organization after weighing the advantages and disadvantages of each.

1. **Centralize-standardize-drop:** Processes are standardized and transferred into the SSC simultaneously.
2. **Centralize-drop-standardize:** Processes are first transferred into the SSC and then standardized.
3. **Standardize-lift-centralize:** Processes are first standardized at the old locations before being transferred to the SSC.

Figure 6: Preferred transition strategy for procurement

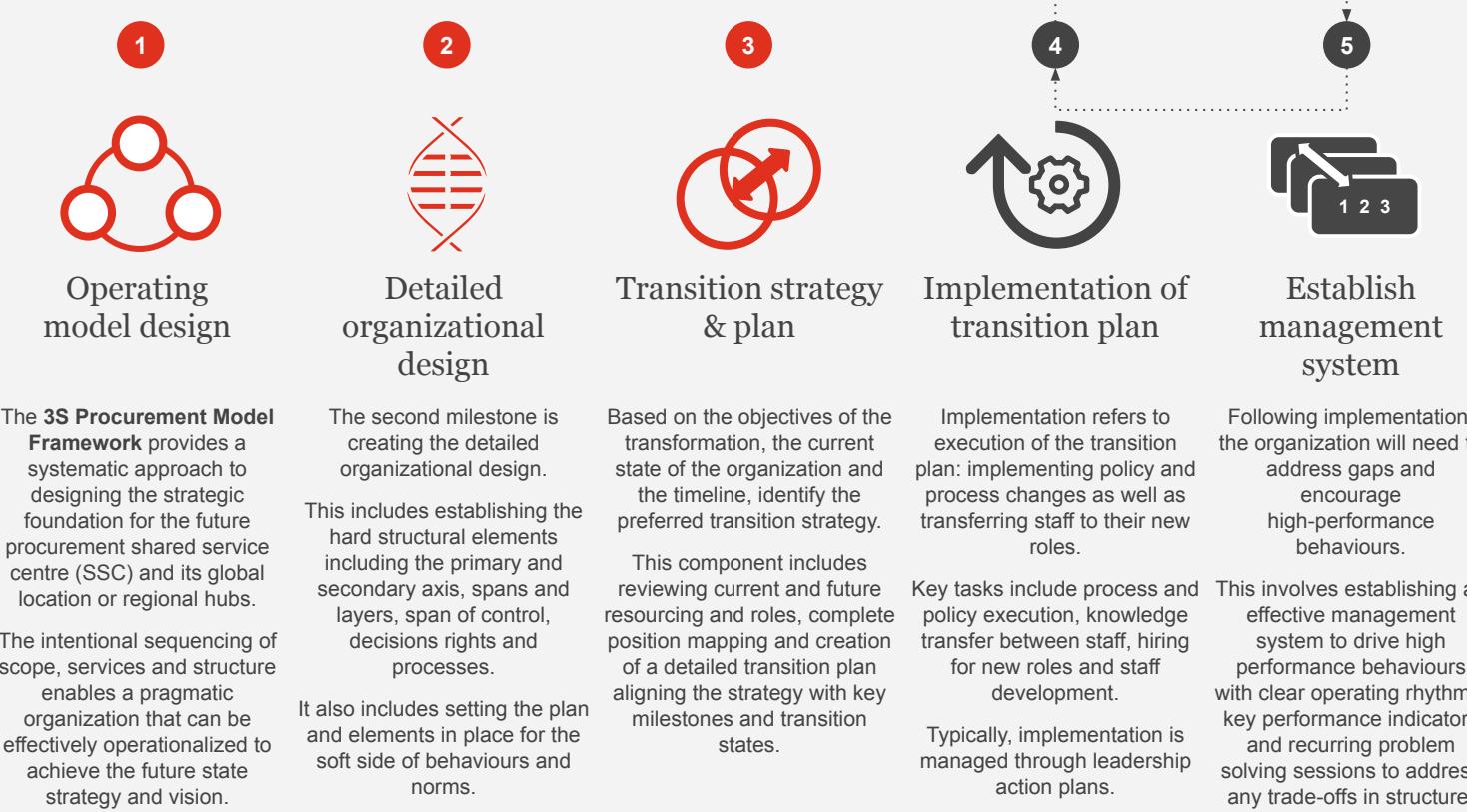


56% of transitions take less than four months, while 23% exceed six months

Source: PwC, Annual Shared Services Report: Digitize Your Services (2019)

## A proven approach to operating model design and implementation

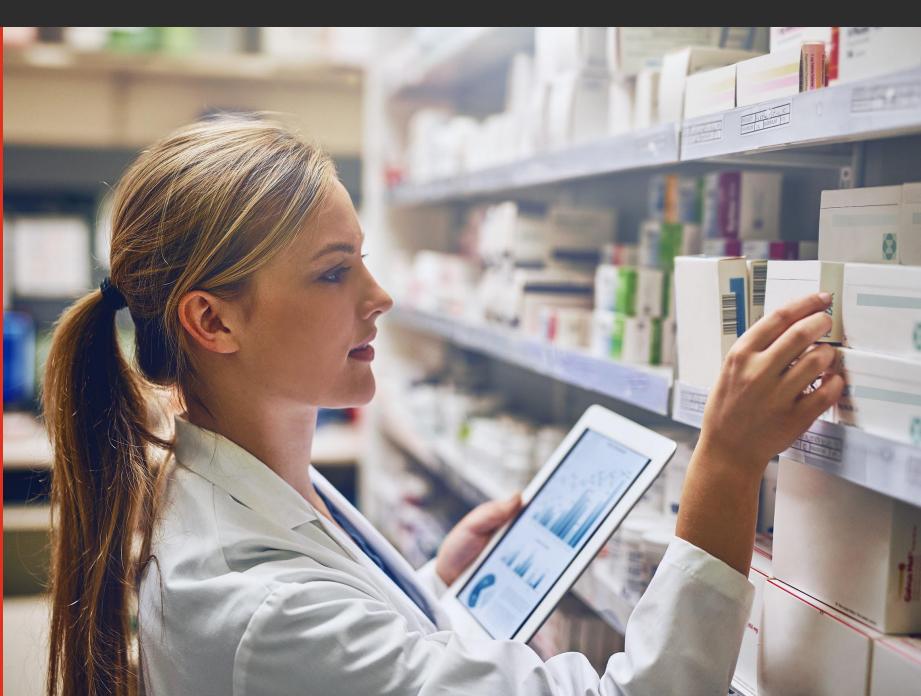
The full implementation of a new SSC has four key milestones, beginning with the operating model design and ending with an iterative implementation and formal continuous improvement cycle.



# Case study: Multinational pharmaceutical company

A multinational pharmaceutical company focused on research and development, manufacturing and marketing of pharmaceutical drugs wanted to maximize the benefits from coordinated sourcing, planning and scaling best practices for purchasing active pharmaceutical ingredients (APIs), excipients (such as binders and coatings) and packaging materials.

The company, which has 40 manufacturing facilities across the globe and has been active in multiple recent acquisitions, focused primarily on the prescription market. But it had also developed over-the-counter (OTC) medication, which brought additional challenges due to a complex mix of own and toll manufacturing.



## Scope: Client organizations in scope for centralized function

Which subsidiaries/organizations are in scope?  
All 40 manufacturing facilities across the globe, as well as toll manufacturers and trading offices for APIs and packaging materials.

What is their degree of participation?  
Robust classification of centralized versus centre-led categories to drive and maximize benefits of local versus regional sourcing. Business units participate in a coordinated purchasing budget for all direct materials to develop global demand plan and secure ongoing sustainability of critical supplies.

## Services: Service capabilities aligned to organization value proposition

What is the role and value proposition of the organization?  
A global centre of excellence to provide economies of scale for operations, consolidate supply base for better leverage and competition and offer best practice guidance to regional procurement teams.

What are the services and capabilities to unlock value?  
The global centre of excellence was provided key categories to develop an understanding of cost drivers and harmonize product specifications across sourcing locations to improve demand management and modelling. With overall leadership to develop sourcing strategies, provide supplier performance review guidelines and analyze the supplier landscape, the CoE is able to gain insights on alternative supply models for generic and OTC businesses and pursue alternative material quality/specification in order to identify savings.

## Structure: Centralized delivery organizations

What is the SSC operating model, corporate structure, location, governance, accountabilities and business case?  
The operating model uses a blend of regional and central approaches to maximize the benefits of local versus regional sourcing. A regional approach was used for categories that are specific to a particular region or location. A global approach was employed for categories where strategic interventions were required and regions supported seasonal or ad hoc sourcing needs.

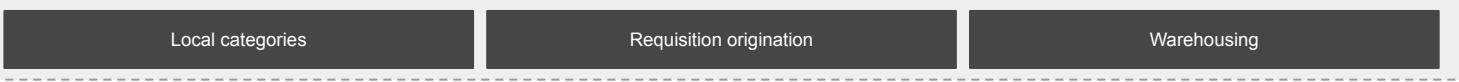
### Centre of excellence



### Centre-led activities



### Local activities



# Case study: Global gold and silver mining company

A top global gold and silver mining company wanted to transform their procurement department to address savings and compliance objectives.

Headquartered in Canada, they currently oversee a diverse portfolio of mines across the Americas, Africa and Russia.

They completed a review of their current operating model and designed a future state model optimizing and clarifying their global and regional SSCs and site responsibilities, validating the location of the eastern SSC and addressing savings and compliance requirements.



## Scope: Client organizations in scope for centralized function

Which subsidiaries/organizations are in scope?	Given a number of challenges in standardization, leverage and compliance, all corporate and mine sites were identified to be in scope for sourcing and purchasing functions, transitioning from decentralized site-based contracting.
What is their degree of participation?	Mandatory use of global and regional shared service centres for sourcing and purchasing activities, while inventory and materials management continued to be managed by the individual sites.

## Services: Service capabilities aligned to organization value proposition

What is the role and value proposition of the organization?	A highly centralized model to fully leverage technology, best practices and spend and provide strong risk management across the organization. It would handle all sourcing and purchasing to free up site teams to focus on mine operations.
What are the services and capabilities to unlock value?	The global centre of excellence was provided key global categories, as well as overall leadership of the procurement organization through direct accountability, policy and supporting platforms. The regional SSCs led regional categories and provided non-category-related sourcing and purchasing for their respective mine sites. This leveraged spend for savings but allowed for a focus on providing high levels of customer service while managing compliance across multiple regions and sites.

## Structure: Centralized delivery organizations

What is the SSC operating model, corporate structure, location, governance, accountabilities and business case?	The operating model uses a blend of structures, with a separate corporate structure for the Eastern Shared Services Centre established in Europe to maximize access to procurement and supply chain talent, time zones for responsiveness and tax structures. The regional SSCs reported into the Head of Procurement with clear separations between central procurement and decentralized supply chain to improve compliance, resource efficiencies and procurement savings.
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## Illustrative global operating model



# Let's have a deeper discussion

With increasing volatility and uncertainty, many organizations are looking for a trusted partner to help them navigate the challenges facing their procurement function: rebuilding revenue and reducing costs and risk all while improving the employee and consumer experience with new tools to digitize and simplify processes.

We bring you an experienced, end-to-end view of transformation, embedding leading practices, digital tools and a culture of continuous improvement. With over 950 shared services and outsourcing specialists in 50 countries and more than 300 procurement and sourcing specialists globally who have sourced more than US\$100 billion of spend globally, we can help you across all aspects of your journey—from planning to implementation to sustainable execution.

## Sample global procurement transformations

Organization	Global SSC site review	Operating model	Benefits
Canadian mining leader	✓	✓	7% in annual savings and additional resource efficiencies identified
Leading North American railway	✓	✓	6% in annual savings delivered and improved compliance
US global conglomerate	✓	✓	Saved 23% of cost base per year
Major manufacturer	✓	✓	Over US\$100 million per year cost reduction
World-leading agri-business	✓	✓	1,100 people transferred, millions saved

## Contact

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