

# Estonia's Opportunities in Financial Shared Services

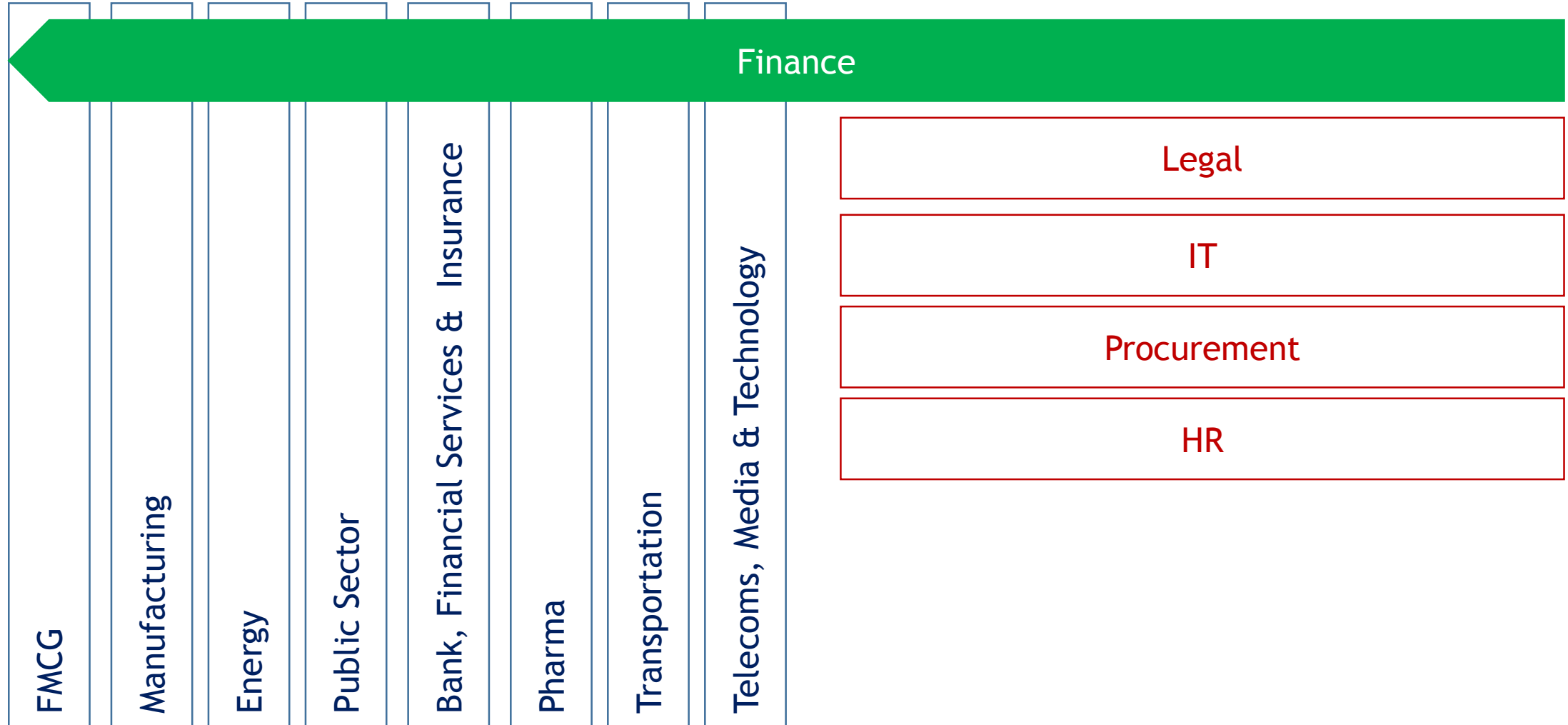




**MORE ENTERPRISES  
SHOULD ADOPT**

# Definition

We are taking about the Industry Horizontal, how finance is used across the Enterprise...



# Definition

And these specific tasks...

Transactional			Control	Transformation
Procure to Pay	Order to Cash	Record to Report		
Accounts payable	Accounts receivable (cash application)	Payroll	Intercompany accounting	Process consulting
Travel & Expense	Invoicing/Billing	Fixed asset accounting	Statutory accounting	Innovation
Credit management	Collections	Payroll	Management reporting	Change management
	Revenue accounting		General ledger	Business Intelligence
			Internal audit	
			Financial forecasting & analysis	
			Tax	
			Treasury (risk, capital, liquidity)	
			Regulatory	
Process based activities			Analytical focus	Consultancy style

# Why It Matters

Challenging conditions, especially for SME's...

1. Volatile economic conditions
2. Restricted access to finance
3. Leveraging economies of scale
4. Ability to achieve and sustain competitive advantage
5. Regulation
6. Speed and scale of change

Creates serious implications...

1. Pressure on bottom line
2. Pressure on cash flow
3. Unfair payment terms
4. Ability to attract talent
5. Long-term planning and investment
6. Management control

...Shared Services is the 'go to' model for cost and effectiveness improvement

# Opportunity Not Captured

Finance has the most tasks to place in model...

**Deloitte.**

93%

**AVASANT**

91%

 HfS

**accenture**

58%

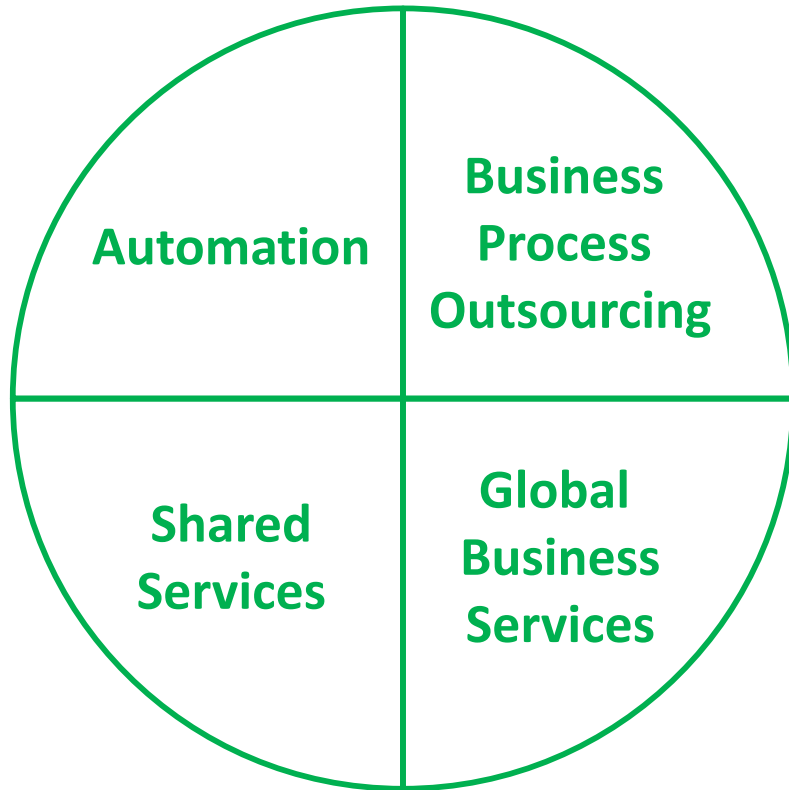
Adoption remains surprisingly low...

Although many organisations have some element of Shared Services overall utilisation is only 30—50% of that possible in W. Europe and the US, **30% in Nordic and just 10% among CEE**

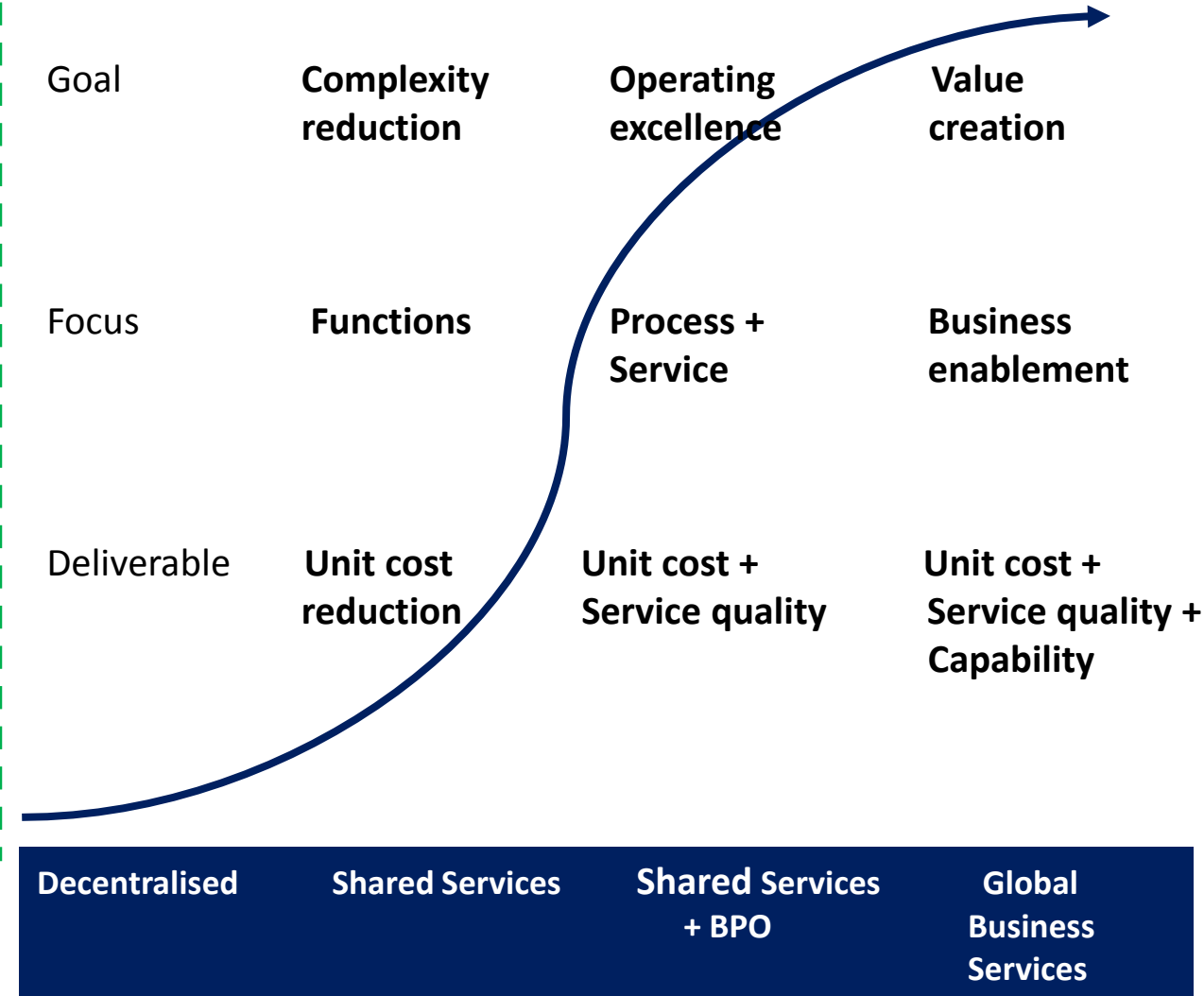
 HfS

# Possible Solutions

Various options within the toolkit...



But maturity and scale play a role...



# 1. Automation

What is it...

Automation of financial processes, preferably from end-to-end

Key functions to automate...

Accounts receivable  
Accounts payable  
Payments  
Cash flow forecasting

Key benefits...

Cost savings  
Time savings from process efficiency  
Better visibility on cash flow  
Better scalability  
Retain control

Key considerations...

Minimum size required  
Fit with existing systems  
Fit with customers and suppliers



# 2. Business Process Outsourcing

What is it...

Outsourcing of business processes to a 3<sup>rd</sup> party provider

Key functions to outsource...

Subject to strategy and risk appetite, all finance functions including treasury

Key benefits..

Cost savings

Capex optimisation (avoid or access best practise)

Access expertise (on process, rules, regulations)

Accelerate business expansion

Flexibility in sourcing model

Key considerations...

Counterparty risk of supplier

May not capture innovation

Long-term strategy?

# 3. Shared Services

What is it...

Centralising service delivery to internal and external clients via a centre owned and controlled by enterprise

Key functions to centralise...

In theory all support functions, but especially finance

Key benefits...

Cost savings (50-70%)  
Process efficiency (rationalise, standardise, optimise)  
Service level quality  
Improved governance and reporting  
Leverage investment and economies of scale

Key considerations...

Restructuring program required  
Investment required  
Interruption during change program  
Business risk  
Will operating businesses adopt?

# 4. Global Business Services

What is it...

When an enterprise creates a business unit which is responsible for global delivery of support functions

Key functions in GBS...

In theory all support functions, but especially finance

Key benefits...

Cost savings (10-35%)  
Cross-enterprise cohesion and effectiveness  
Scalable platform  
Improved governance and reporting  
Develop capabilities, leverage best practise

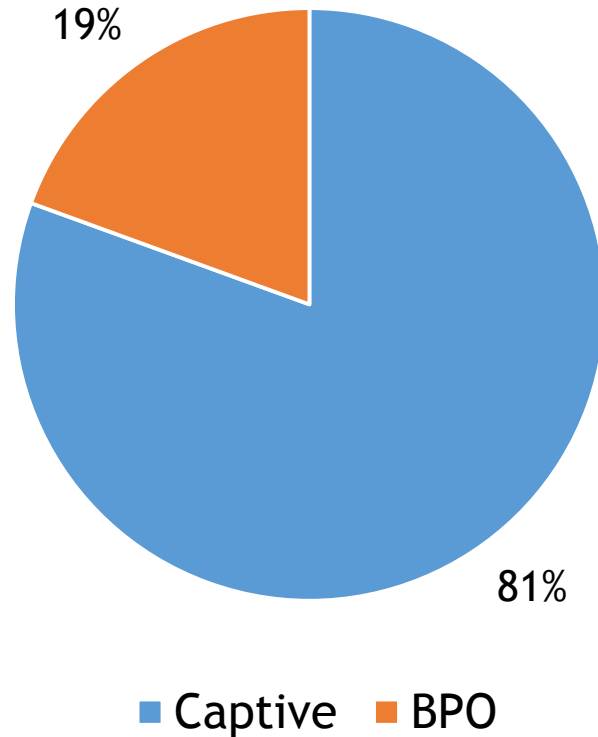
Key considerations...

Difficult solution design  
Business risk  
Operating businesses 'lose' control



**ESTONIA CAN  
ATTRACT MORE  
SHARED SERVICE  
BUSINESS**

# Existing Industry > Delivery Model



Global split is BPO 30:70 Captive



CEE split is BPO 38:62 Captive



New enquiries mostly relate to Captives

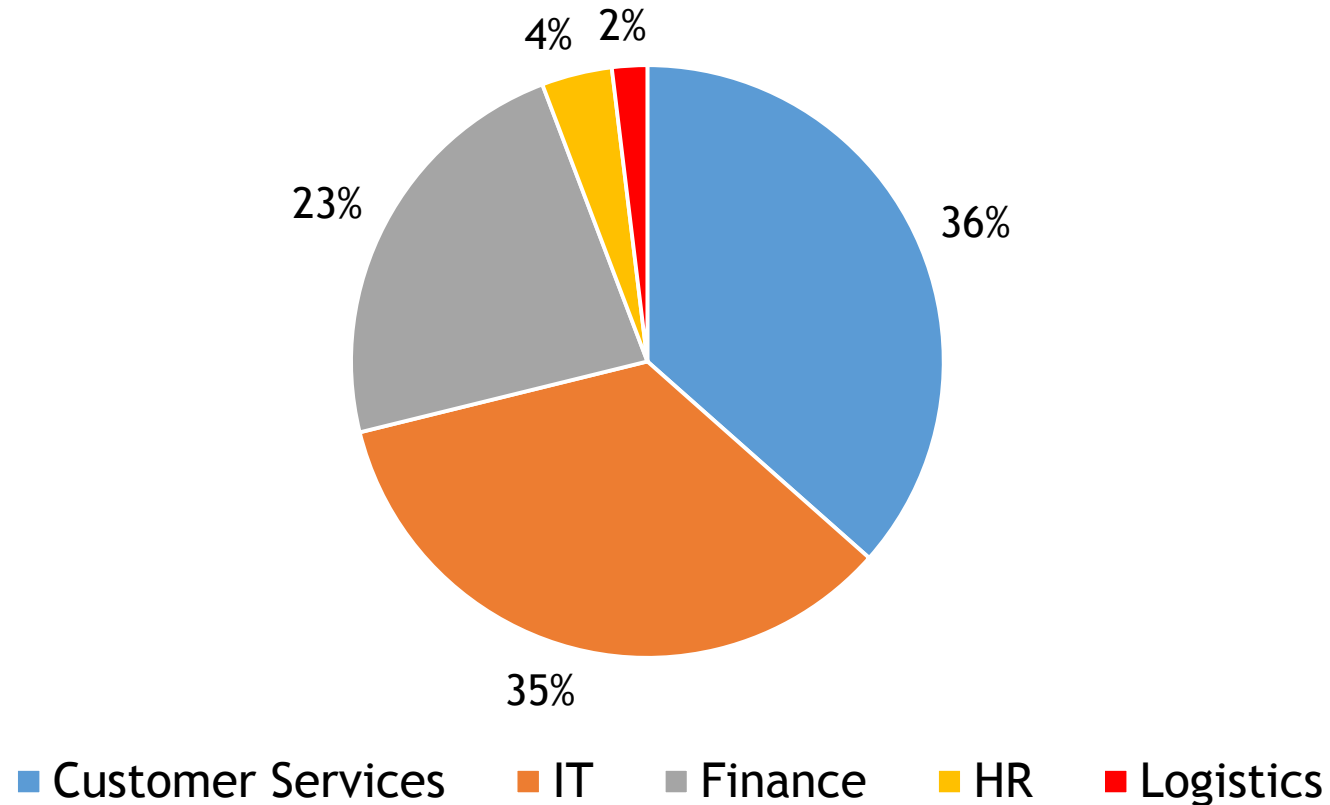


New BPO enquiries relate to ITO



1. Number of centres live or in implementation, 1st June (not G4S)
2. Database to be finalised pending agreed definitions

# Existing Industry > Function



New enquiries mostly relate to Finance and IT



Multi-functional centres emerge



Higher order tasks emerge, including centres of excellence

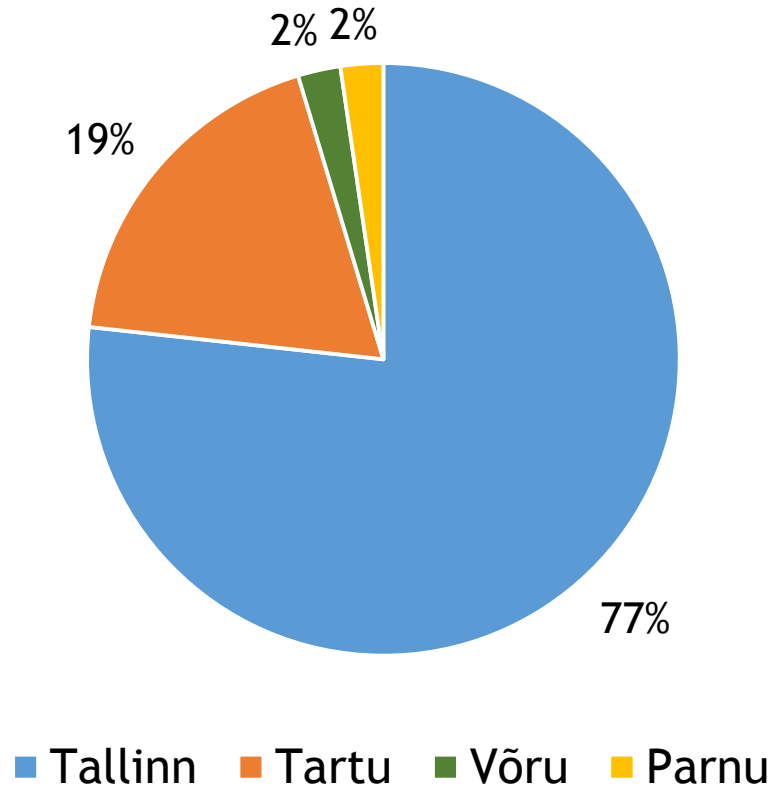


Nordic or European regional remit becomes norm



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# Existing Industry > Location



Regional locations emerge



Trend consistent with Lithuania and CEE

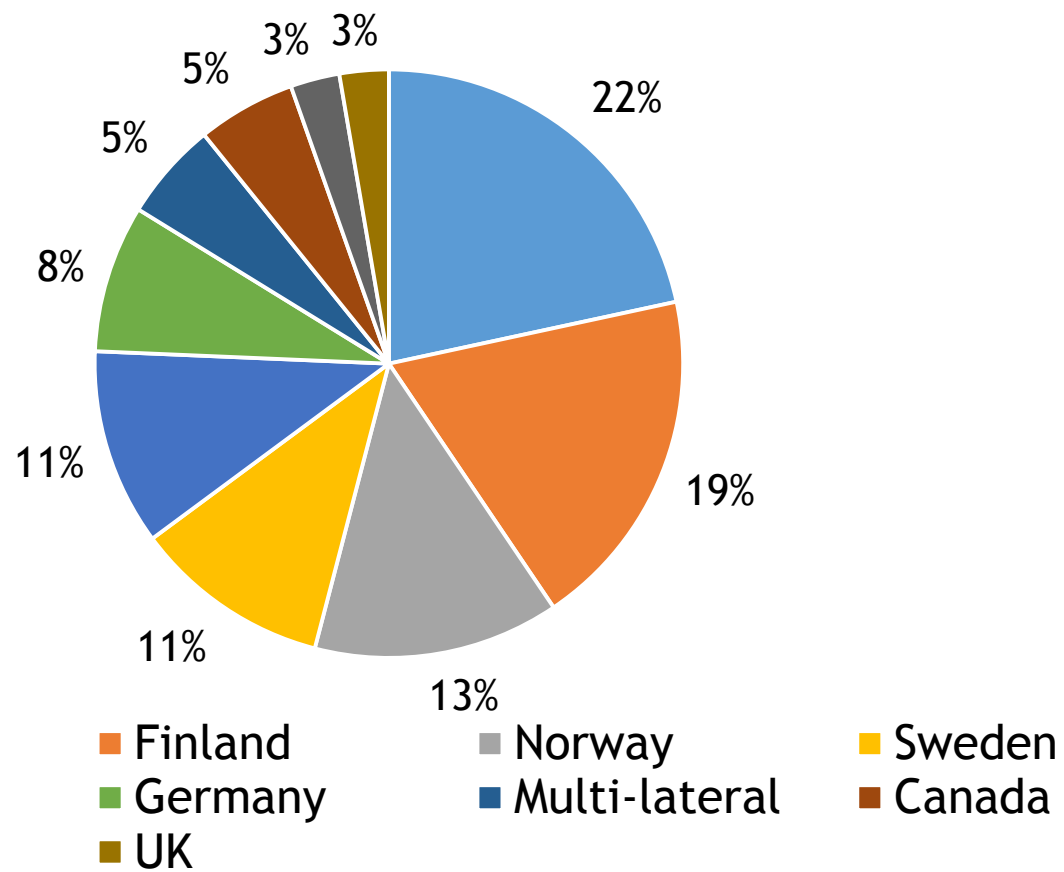


Cost differences exist, albeit less so for IT



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# Existing Industry > Source Country



Enquiries from diverse countries worldwide



Nordics and Germany most active



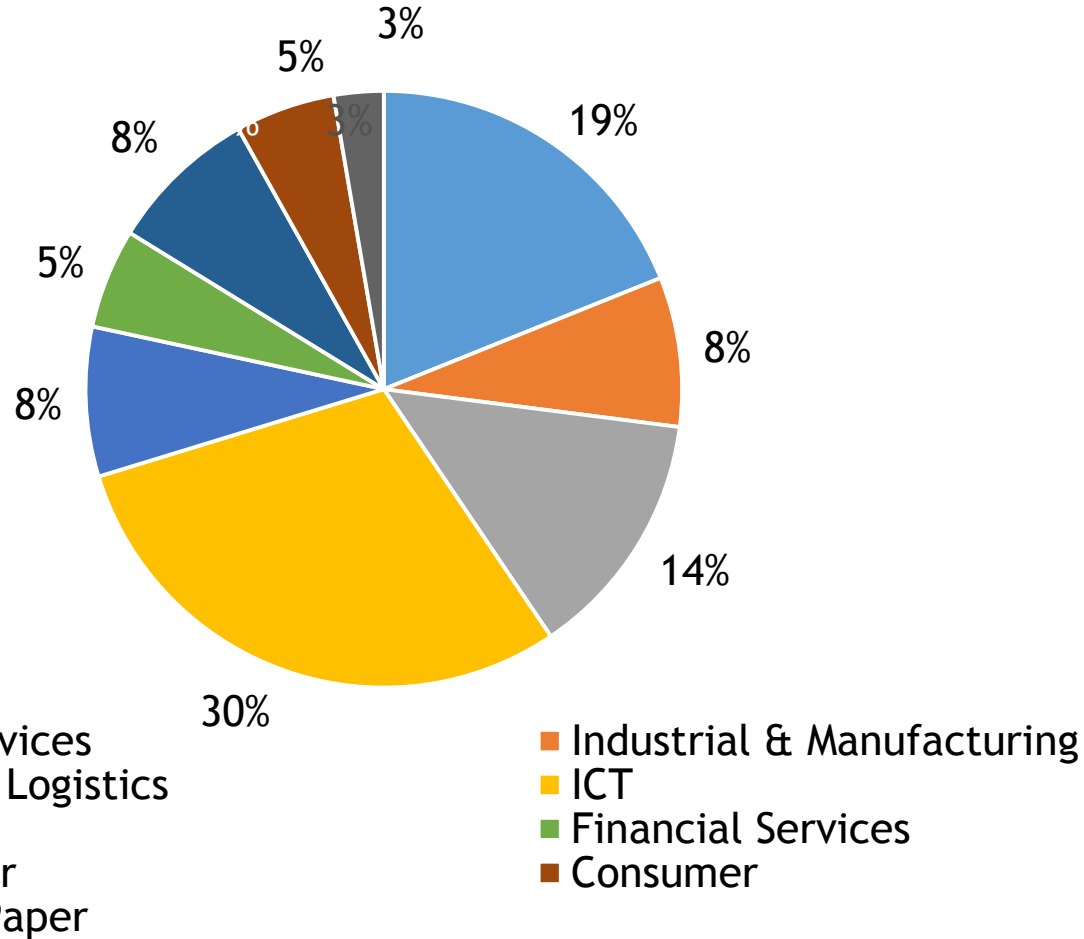
Cultural, Access and Span of Control always in location decision




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# Existing Industry > Industry Vertical



New enquiries mostly come from ICT and Business Services sectors 

Public Sector expected to become a larger user 

1. Number of centres live or in implementation, 1st June (not G4S)
2. Database to be finalised pending agreed definitions
3. BPO firms classed as Business Services

# Highly Ranked

## AT Kearney, Global Services Location, 2011

Country	Rank	Financial attractiveness	People skills & Availability	Business Environment	Overall Score
<b>Estonia</b>	<b>11</b>	<b>2.31</b>	<b>0.95</b>	<b>2.24</b>	<b>5.51</b>
Latvia	13	2.56	0.93	1.96	5.46
Lithuania	14	2.48	0.93	2.02	5.43
Poland	24	2.14	1.27	1.81	5.23

## Sourcing Line, Top Outsourcing Countries, 2013

Country	Rank	Cost competitiveness	Resources & skills	Business & economic environment	Overall Score
<b>Estonia</b>	<b>3</b>	<b>7.5</b>	<b>5.2</b>	<b>6.9</b>	<b>6.6</b>
Lithuania	9	7	3.9	6.5	5.9
Poland	16	6.8	3.6	5.5	5.6
Latvia	19	7	2.7	5.6	5.4

## Tholons Top Outsourcing Destinations

City	2014	2013	2012	2010
Krakov	9	10	11	11
Prague	16	17	20	22
Budapest	26	28	27	27
Brno	29	30	31	34
Warsaw	32	36	38	38
Bucharest	40	44	44	43
Sofia	52	50	51	51
<b>Tallinn</b>	<b>53</b>	<b>51</b>	<b>52</b>	<b>52</b>

...also well ranked in competitiveness surveys

# Well Regarded By Those Who Know

Existing centres add new tasks and functions...



Existing investors establish new centres



Enquiry levels are high, and growing

Region is highly favoured...

While India continues to hold the majority share (32%) of the overall Global In-house Center (GIC, also known as shared services center or captive center) market for business process functions, new GIC set-up activity has fallen drastically in the last three years. **On the other hand, other markets have increased activity – particularly Central and Eastern Europe (CEE), which held the top slot in recent years.**



**SSCs located in the CEE region achieved on average the highest savings on operating costs** followed by the Asia-Pacific region. The reason could be their optimal balance between labour cost arbitrage and efficient, streamlined processes. **Surveyed companies stated that CEE and Asia-Pacific will be the most preferred SSC locations in the future**



**Nordic companies can save 50-70% by nearshoring to the Baltics and 70-90% by offshoring, why take the risk“**



# So What Is The Problem?

Missing from much research

Disconnect between the expansion of existing investors and views of some potential investors

Often more expensive in financial model but don't get enough credit for qualitative factors

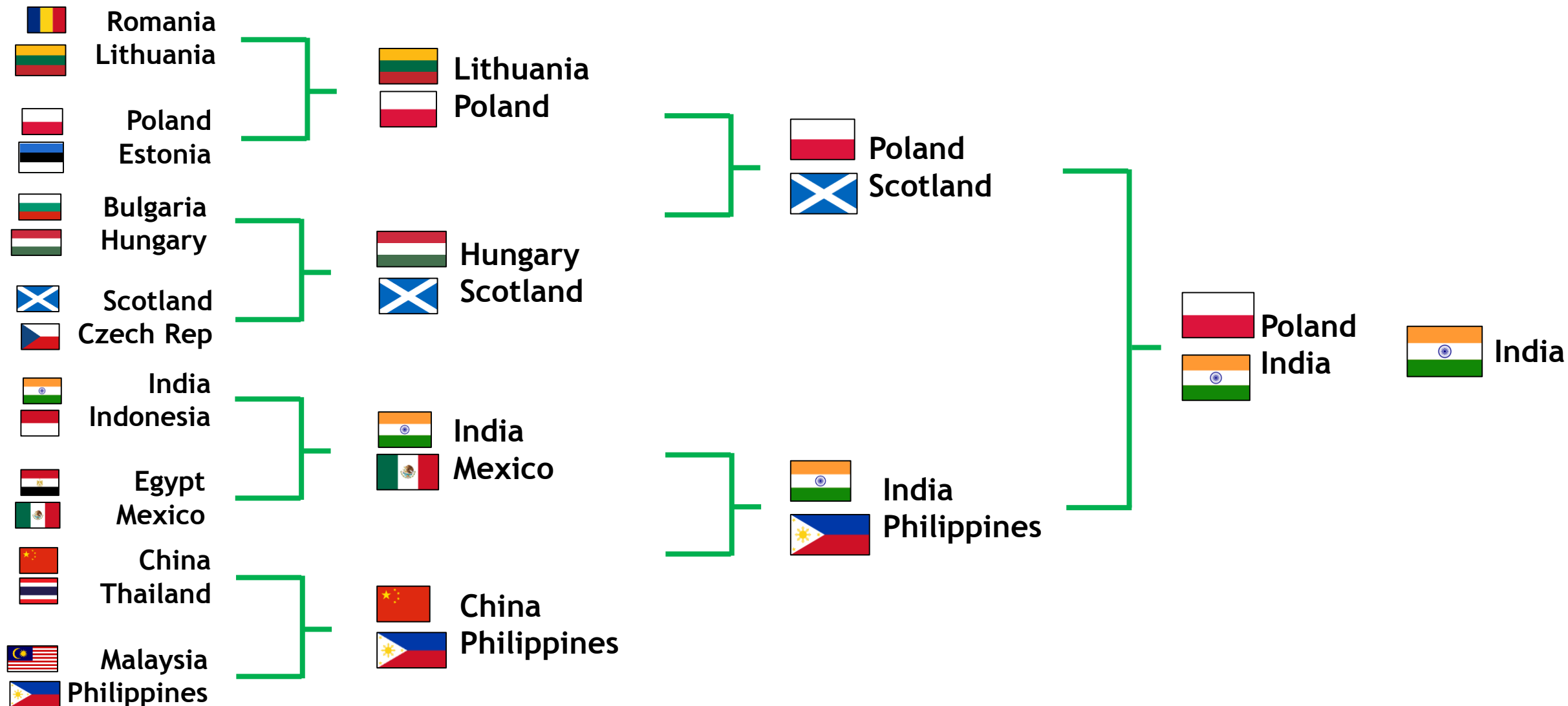
Grants & financial assistance

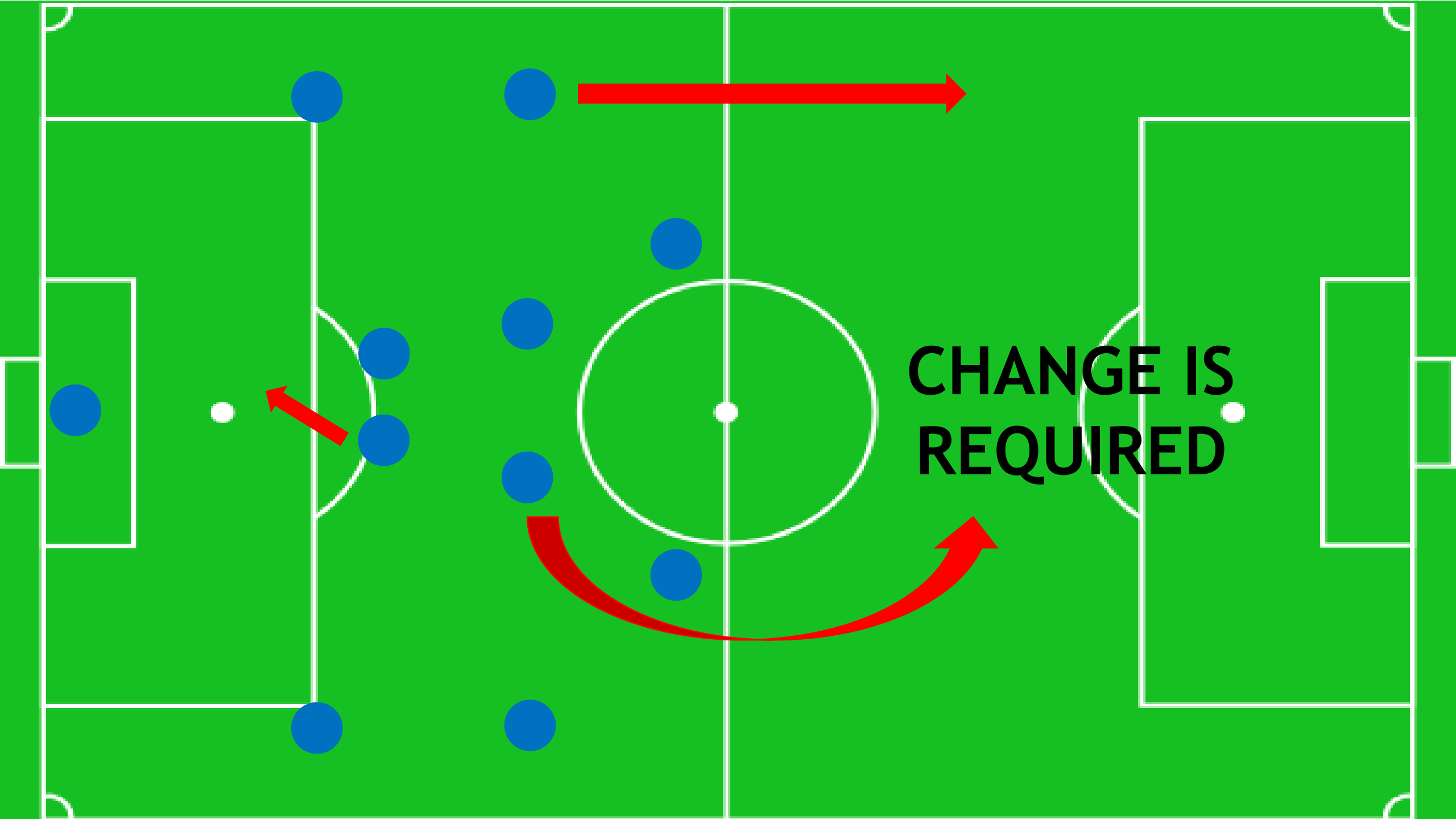
The labour pool conundrum

No country proposition



# Intense Global Competition





**CHANGE IS  
REQUIRED**

# 1. Focus On

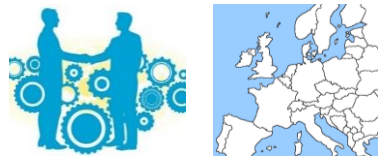
Aftercare - existing centres and investors offer greatest opportunity and path of least resistance

“Natural Buyers” of Estonia’s environment



Functions where skills offer sustainable competitive advantage - Finance and IT?

“Sticky & Value Added” jobs - knowledge based, regional or global remit, centres of excellence



Doable Deals - balancing need for critical mass with overheating

Less price sensitive buyers - Nordic companies can save 50-70% Nearshoring, last \$ doesn't matter so much, especially if business risk low

## 2. Messaging Clearly

A compelling & differentiated message

To the right people

In a consistent manner

Supported by case studies and rankings

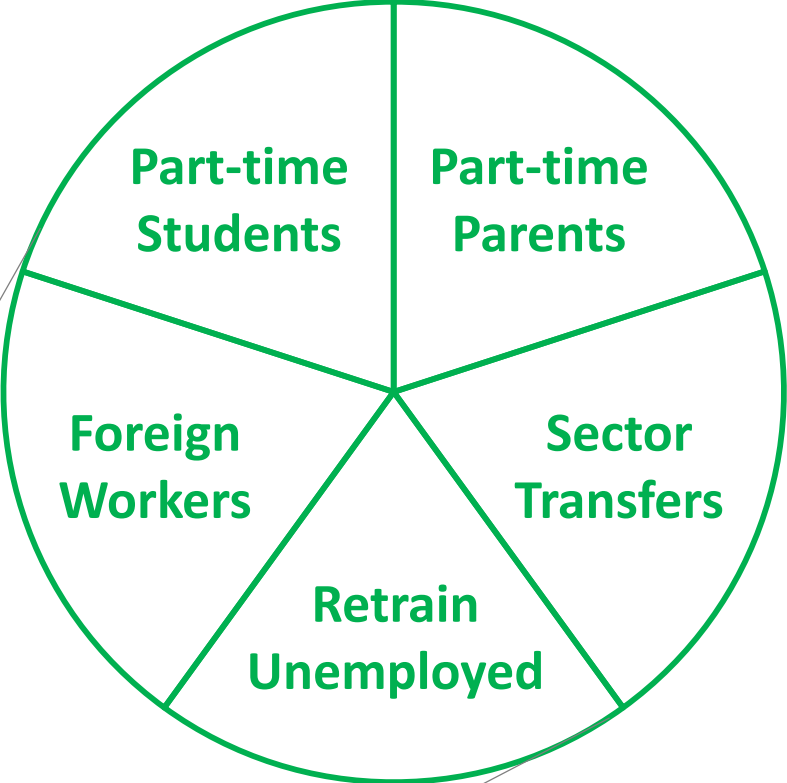
Smaller players like Estonia are seen to face competition from the region as well as other global locations...

*...effective identification of unique value propositions and selling points are needed*

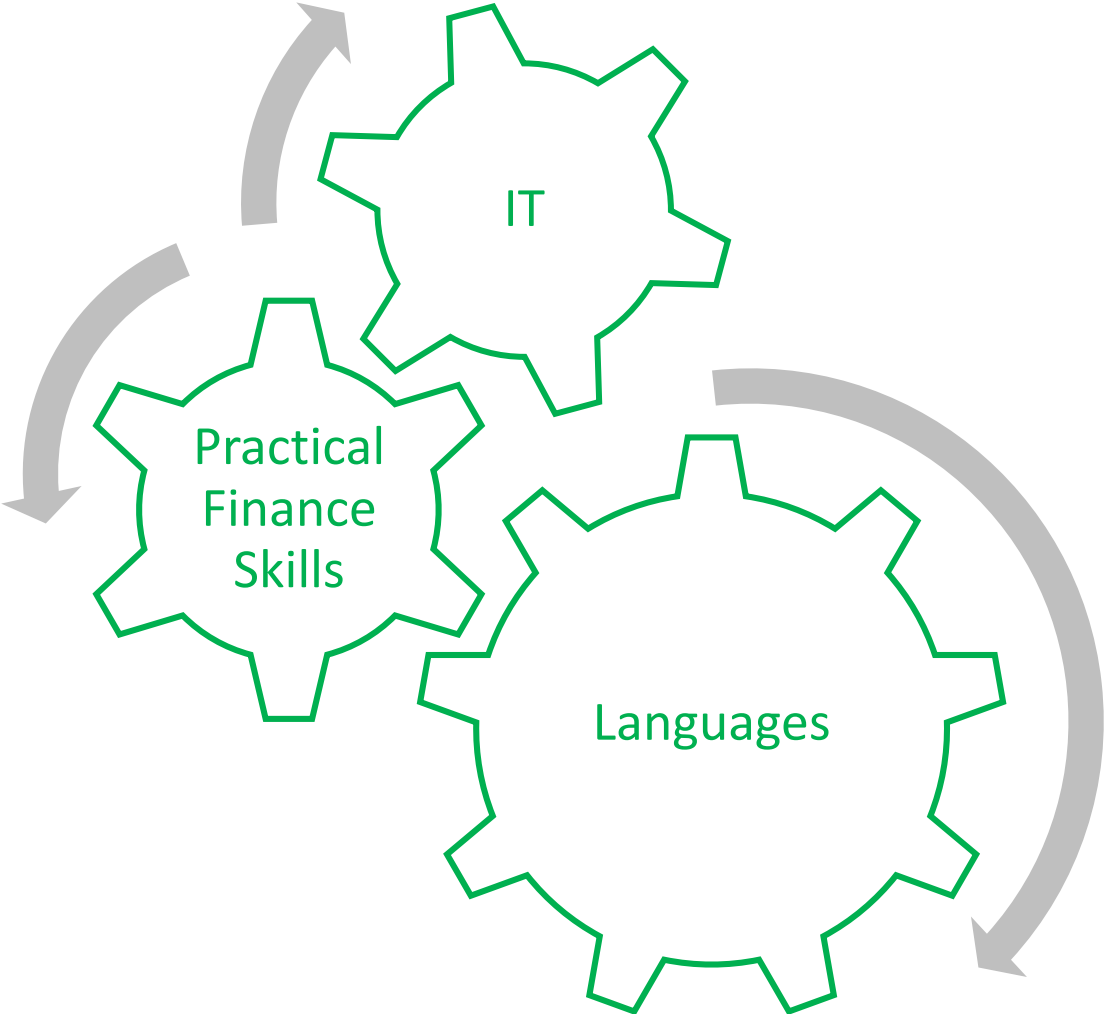


# 3. Labour Pool

Make the cake bigger...



With the correct skills profile...



## 4. Together

Size and Competition suggest collaboration

Market defined need has greatest legitimacy

Wisdom and Network of the crowd are superior

Industry expects a standard, smart approach



**WILL MORE INVESTMENT, EMPLOYMENT OR EXPORTS HURT?**



# IT Is Key Driver In Shared Services

## For BFSI Industry Vertical

Social, Mobile and Cloud create new ways to reach and service clients

Data drives BI and predictive analytics, changing how firms segment and sell

## For Large Enterprises

Reduces information silos and makes it easier to adopt regional and global solutions

Easier to add new tasks

Higher levels of productivity

## For agile SME's

Easier implementation of digital enterprise, in turn making it easier to align to customer

Makes it easier to integrate your solution with others

## For Outsourcers

Lowers entry barrier for firms to use BPO model

Process expertise and improvement is key selling point

# IT Is Driver Of Shared Services

## For Countries

IT will be the vital organ of business in coming decades

Move to Mobile, Cloud and Agile software development is favouring Nearshore locations like Estonia

Allows us to do more with less

Allows us to compete with a competitive advantage

**MANAGE THE GLOBAL ECONOMY IN A PROACTIVE, VALUE CREATING,  
FUTURE PROOF WAY?**