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### About the author

As industry manager for Lexmark Enterprise Software, Matt Montgomery works closely with current customers and partners to help them maximize the value they derive from Lexmark accounting and finance solutions. Prior to his current position, he was global manager for procure-to-pay operations and North America sourcing for Lexmark International. In that role, he was responsible for creating, executing, implementing and managing the systems, practices and policies for Lexmark's global purchasing organization.

# Shared services and business transformation

Using financial operations and technology to play a larger role in the future of global organizations

## Introduction

Transformation is a strong term to use in any context, much less in reference to international companies with thousands of employees and billions in sales. But that is the only term to adequately describe the process that must be initiated to change the nature of a global business. To effect sweeping, institution-wide modifications to an enterprise business model, company management must establish and relentlessly pursue a strategy that fundamentally changes its investments in products, sales and marketing.

For these fundamental changes to succeed, top executives must also commit to creating truly global financial processes. Standardized worldwide operations can then serve as a control point for measuring profit and loss by country, by channel and by product, as well as provide a benchmark for ongoing improvement.

This executive brief covers the challenges faced by shared service executives as their operations mature, and cost reduction and efficiency gains begin to plateau. It also explores how implementing truly global business processes can change shared services from processing centers into key players in implementing corporate strategies.

Finally, the brief will highlight the results realized by other global entities in their pursuit of process excellence and improvement for their global shared services business model. Specifically, I'll outline the strategies and tactics used by Lexmark International in its shared services center to change from a manufacturing-centric provider of printer solutions to a provider of software and hardware to manage unstructured information.

## The challenge—shared services 2.0

Most shared services initiatives are undertaken initially to boost efficiency and reduce costs. In the first few years of operations, these goals are relatively easy to achieve for accounts payable, order processing and other transactional processes. The positive results are delivered through centralization and reduced labor costs.

Problems arise, however, if cost reduction is the only clearly defined goal. Shared service operations that focus solely on lowering costs will reach the point of diminishing returns in which further reductions in cost inevitably lead to deterioration in service delivery. It's an inward-looking strategy that doesn't take into account the needs of business units served and the overall direction of the enterprise.

The challenge is to maintain efficiency while shifting the focus to increasing strategic effectiveness. Executives can accomplish this by broadening the scope and value of shared services, and developing processes and implementing technology that support enterprise-wide goals of service quality and overall earnings per share.

The evidence is clear that this shift in focus has already begun. In a study conducted by PwC and HFS Research, *The Future of Global Business Services*<sup>1</sup>, over 80% of respondents rated driving process efficiency as a very important objective behind their organization's shared services strategy. But a substantial number (61% and 56% respectively) rated supporting global growth strategy and aligning support services with global corporate strategy as very important objectives.

A 2013 Global Shared Services Survey by Deloitte<sup>2</sup> uncovered similar findings, citing a trend for moving shared services from an execution model to a management-based role in internal controls for the entire organization. The study also found that higher quality has become an important reason for business units to opt in to shared services, signifying a shift from the focus on simply lowering costs

Where do organizations start the transformation for their shared service centers? And what role does information technology play in making that change?

### The drivers of transformation

With the investment already made in centralized functions, the next step is to go beyond "lift and shift" to optimize financial processes and align them with the strategic objectives of the organization. Because these are fundamental processes that touch nearly every business unit, optimization and alignment can be challenging goals and are often met with resistance at the business unit level. Thus, they require uncompromising commitment from both shared services and C-level executives. But, as many organizations have discovered, it is this fundamental nature that makes true, enterprise-wide transformation a reality.

For Lexmark International, the transformation had its roots in 2007, when executives recognized the need to diversify beyond manufacturing printers. Forty percent of the company's revenue was from inkjet printers for consumers and 60% from selling printers and multi-function printers (MFPs) to businesses. But the company, formed as a spin-out of IBM in 1991, was seeing shrinking profit margins and decreasing need for consumer printers.

The enterprise portion of the business was still attractive and was moving toward a services model—good news for Lexmark, as the company had already begun focusing on managing supplies, maintenance and repairs on the entire fleet of devices for large organizations.

But the challenges went beyond that.

"Even though customers thought being really good at managing the printing environment was very interesting, they made it clear it wasn't enough," said John Gamble, Lexmark's chief financial officer at the time. "What they needed was a way to manage all the processes related to the huge imaging fleet that we'd deployed throughout their organizations. They wanted to manage information and improve processes. And the area we heard this most often was in financial operations."

*“The transition from a product-oriented company to a service-oriented one requires a substantial change in finance and IT processes and in financial operations”*

Executive management at Lexmark began strategizing to move the company from being a provider of print solutions to becoming a provider of unstructured information solutions. In addition to exiting the inkjet business and adding software solution technology through acquisition, the team recognized the key role transactional processes would play in the transformation.

“The transition from a product-oriented company to a service-oriented one requires a substantial change in finance and IT processes and in financial operations,” said Gamble. “We were moving to a high intellectual property/low asset model-fewer facilities, less inventory and working capital. We had to be sure our cash flow model was robust, and we had to focus our resources on development, sales and services.”

Other organizations, while not facing the need to change the nature of their business model, have found that disparate processes in their shared services centers were causing a degree of inefficiency that could impose significant limitations on growth and their ability to adapt. We found this to be the case with one of our clients that is among the world’s largest engineering and electronics companies.

For this global giant, the case for optimizing invoice processing focused on bringing productivity and accuracy in its shared services centers up to corporate standards for excellence. Each business unit used a different technology to capture invoice data, requiring support for disparate systems, and only header data was being extracted. That information, along with the image of the invoice, was then sent to the shared services center for verification, additional data entry and posting in the ERP.

Differing business rules for individual units meant work teams in the shared service centers couldn’t be cross-functional, making staffing problematic during peak processing periods. The poor quality of the data as well as the lack of line item information resulted in enormous amounts of manual work and very low rates of automated posting. The sheer volume of invoices—three million annually—and inaccurate data meant unacceptable levels of rework and high per-invoice costs.

### Putting the focus on three key areas

Optimizing shared services operations and financial processes is an ongoing journey, not a destination. Specific steps taken along the way will vary according to an organization’s goals and the maturity of its shared service centers, as well as the timeframe for making changes.

In the case of Lexmark, there was a certain degree of urgency. It was clear that the demand for printers and the prevalence of paper-based processes would continue to decline. Shared services centers had been established, but sweeping changes were needed to establish the financial processes that would support the transition to a different business model.

*“It was difficult, but we chose to adopt a best practices approach and standardize all our processes. No exceptions.”*

Based on our experience with the Lexmark Shared Services Center, the global engineering firm cited previously and other Perceptive customers across industries and throughout the world, it's clear that three overall three general initiatives must be taken to harness financial operations and technology to support enterprise-wide goals:

- ▶ Unify the business strategy and develop a single, clear the vision of the role shared services will play
- ▶ Conform the technology strategy and employ a single instance system/ERP worldwide to increase visibility
- ▶ Standardize processes and data capture technology to provide control points and master data, enhancing predictability

### Implementation and results-Lexmark

Perhaps the best way to explain our point of view is from my own, direct experience with Lexmark Shared Services. I was involved from the inception of this project and, as noted previously, it was a sweeping, enterprise-wide initiative to change our business model.

In 2008, the decision made to consolidate our three operating systems into one: SAP. This single instance system was deployed worldwide in 2010. It made it easier for IT to update and maintain the system, but accommodating the business processes, regulatory and tax differences of 170+ countries was not an easy task.

As John Gamble, our CFO at the time, explained in a keynote at the 2014 IFO Fusion conference:

“We used our financial and IT operations to audit our processes worldwide and force them into a common system. Processing simply did not take place for anyone operating outside that system.”

“It was difficult, but we chose to adopt a best practices approach and standardize all our processes. No exceptions.”

While implementing the new processes, we also focused on the data required and the source of that data: How would the transactional data be captured? How would it be validated? How granular could it be?

Capturing the data manually would be very expensive. But even more important, validation would be difficult. We chose Perceptive Intelligent Capture to extract and validate the level of data needed. They also implemented Perceptive Content as a storage repository.

With this implementation, financial operations now controls where the data originates. The functionality of Perceptive Intelligent Capture allows accurate extraction and validation, opening up new opportunities for analysis. By standardizing processes and eliminating exceptions, we can drive the quality of the data as well.

For example, we ensure customer masters are correct through the claims process. When a product is sold through the channel, a claim is submitted for payment. Claims will not be paid unless the customer data is clean. With more accurate channel data, more meaningful sales analysis is possible, as well as more accurate forecasting.

As our team continues to globalize processes, the company has seen its goal of creating “customers for life” in a service-oriented business model become a reality.

*“When you’re selling a five-year relationship with a customer, you need to know what it costs to deliver services and consumable products to that customer.”*

“When you’re selling boxes, it’s pretty easy to know the profitability of a sale. But when you’re selling a five-year relationship with a customer, you need to know what it costs to deliver services and consumable products to that customer,” Gamble noted in his keynote address. “Tracking those things through a delivery channel can be extremely difficult.

“By standardizing processes and capturing data, we can now deliver lifetime customer profitability analytics to our business units, so we can make better investment decisions internally.”

#### **Implementation: Accounts payable automation**

- ▶ 8,000 active vendors in 79 countries
- ▶ 20,000 invoices per month in multiple languages and currencies
- ▶ Perceptive Intelligent Capture automatically classifies and indexes incoming documents
- ▶ Line-item data is extracted at up to 90% accuracy in any language, including Chinese, Japanese, Korean and Thai, without templates, key words or scripted rules
- ▶ Automatic reindexing and vendor updates are handled through Perceptive workflow
- ▶ Invoices and accompanying documentation are stored and indexed in Perceptive Content

#### **Results**

- ▶ 76% of invoice processing is automated with 11% going straight into SAP
- ▶ Data extraction is 89% automated
- ▶ Cycle time has been reduced by 80%
- ▶ Knowledge workers have increased analytical focus—recovering \$1.6M with in-house credit recovery team

#### **Implementation: Order automation**

- ▶ 20,000 active customers and 1.8 million purchase order lines annually
- ▶ Products shipped to 152 countries
- ▶ Purchase orders in 87 currencies and multiple languages
- ▶ One-half of purchase orders are received via email
- ▶ Perceptive Intelligent Capture “reads” the order requiring minimal data entry
- ▶ Source documents are stored and indexed in Perceptive Content

#### **Results**

- ▶ Order processing time decreased by 65%
- ▶ Order accuracy increased to over 99.6%
- ▶ Labor savings of 40%
- ▶ Reduced time for investigation or audit of order entry from hour or days to minutes
- ▶ Automated search/retrieval of data from SAP
- ▶ Increased visibility for the supply chain team
- ▶ More effective management of receivables and inventory

#### **Implementation: Travel expense processing**

- ▶ 4,000 active users of the travel expense approval (TEA) solution in SAP
- ▶ 5,000 travel receipts submitted each month
- ▶ Paper, mobile or email capture for receipts
- ▶ Documentation stored in trip folder in Perceptive Content

#### **Results**

- ▶ Approval time decreased by 24 hours
- ▶ Mobile receipt capture allows users to upload receipts as they get them
- ▶ Faster reimbursement and fewer late fees

#### **Implementation and results—global engineering and electronics firm**

For this client, the wide-ranging nature of services provided involved detailed invoices for complex projects and business rules that varied by business unit. The shared services team chose to focus on standardizing and dramatically improving data extraction. By doing so, the company could control the quality of the data as well as have the additional information necessary to automate the varying business rules. Standardizing capture would also reduce maintenance and support costs for the various systems used by the business units.

The firm chose Perceptive Intelligent Capture for its template-free extraction functionality, high accuracy rate and ability to read multiple languages and currencies. In addition, Intelligent Capture could span the nearly 50 instances of SAP the company's business units used.

#### **Implementation: Accounts payable automation**

- ▶ Three million invoices processed annually from 45,000 active vendors
- ▶ Paper invoices go through third-party scanning provider or direct PDF feed for invoices received via email
- ▶ Perceptive Intelligent Capture automatically sorts the invoices and appends the company code allowed the correct business rules to be applied
- ▶ Perceptive Intelligent Capture extracts data and forwards to SAP via EDI

#### **Results**

- ▶ Accurate capture of 935 of 50 invoice fields
- ▶ Automatic posting of over 60% of invoices 1 (depending on invoice quality)
- ▶ Exception and error reporting identifies sources of issues, so they can be proactively addressed with vendors and business units
- ▶ 50% reduction in maintenance costs in business units due to consolidated scanning operations
- ▶ Invoices for 50 SAP systems are processed by one shared team for increased flexibility in staffing
- ▶ Web verifier can be used by additional personnel anywhere throughout the organization during peak processing periods

## Lexmark's Cebu Shared Services Center named the "Best Global In-House Center of the Year" in the Philippines

Lexmark recently received the award from the Information Technology and Business Process Association of the Philippines at the 8th International Information and Communications Technology Awards held in Manila. The award recognizes the most outstanding global in-house center that provides services from the Philippines to offices outside the country. Criteria for the award include:

- ▶ Size, quality and diversity of company's clientele
- ▶ Depth and breadth of company's competencies
- ▶ Company management
- ▶ Company support of public good

### About Lexmark

Lexmark (NYSE: LXX) creates enterprise software, hardware and services that remove the inefficiencies of information silos and disconnected processes, connecting people to the information they need at the moment they need it. Open the possibilities at [www.Lexmark.com](http://www.Lexmark.com).

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### Summary

Although lower costs may have prompted the move to shared services, simply being cheaper is no longer enough. As business units are pushed to deliver more value, shared services center need to focus on developing and delivering truly global business processes to support their customers.

The following summarizes the best practices we used to start that transformation, based on firsthand experience in implementing Perceptive Intelligent Capture and AP automation solutions in the Lexmark shared service centers and for other customers:

- ▶ Standardize processes—one ERP to support, one version of the "truth"
  - ▶ Every process should support enterprise-wide goals to be more competitive and adaptable
  - ▶ Focus on the data you need, the source of that data and how it will be captured and validated
  - ▶ Analyze each process and sub-process and create designs that are best in class
- ▶ Align IT and financial operation strategies
  - ▶ Implement common global systems—SAAS or IAAS, if possible
  - ▶ Implement as designed—no customization
- ▶ Set the performance bar high
  - ▶ Improve processes, expand data capture and analytics and reduce costs
  - ▶ Financial operations role must continue to expand and get more challenging—if not you're failing