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STATE OF THE SHARED SERVICES AND OUTSOURCING INDUSTRY

Australia & New Zealand Market Report 2018

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The Future: Redefining What's Possible

Technology has been driving the evolution of Shared Services since its inception more than three decades ago. And yet, never before have we experienced such extraordinary shifts in scope, value, and capability as over the past 18 months. This shift has been driven by nothing less than a fourth iteration of the industrial revolution based on robotic automation, but now, moving from manufacturing into services.

While the leading edge of developments is still predominantly to be found in the North American and European markets, the commitment among Australian and New Zealand based Shared Services is unequivocal: six out of 10 confirm they are planning to adding Intelligent Automation (IA) solutions to their agendas, if not already implemented. This shift is simultaneously impacting the type of work Shared Services will be doing in future. The majority confirm they plan to rethink their operations as a direct consequence of the digital workforce releasing employees for more valuable, knowledge-based, activities. Combined with the insights derived from data analytics, Shared Services are finding their modus operandi not just redefined, but their role within enterprise decision-making significantly enhanced.

There has never been a more exciting time to work in Shared Services, to lead Shared Services' evolution, or to take a seat at the executive table – at least for those who understand how to grasp the opportunities.

SSON's annual APAC state-of-the-industry report highlights the trends underpinning current shifts, identifies the 'new, improved' profile of the modern Shared Services team, and points to how SSOs are delivering more value by moving towards knowledge-based work.

Ahead of the **21st Shared Services and Outsourcing Week Australia 2018**, this report provides insight to how these trends are playing out in Australia and New Zealand. We hope it will guide you to improved decisions as you move your operations forward.



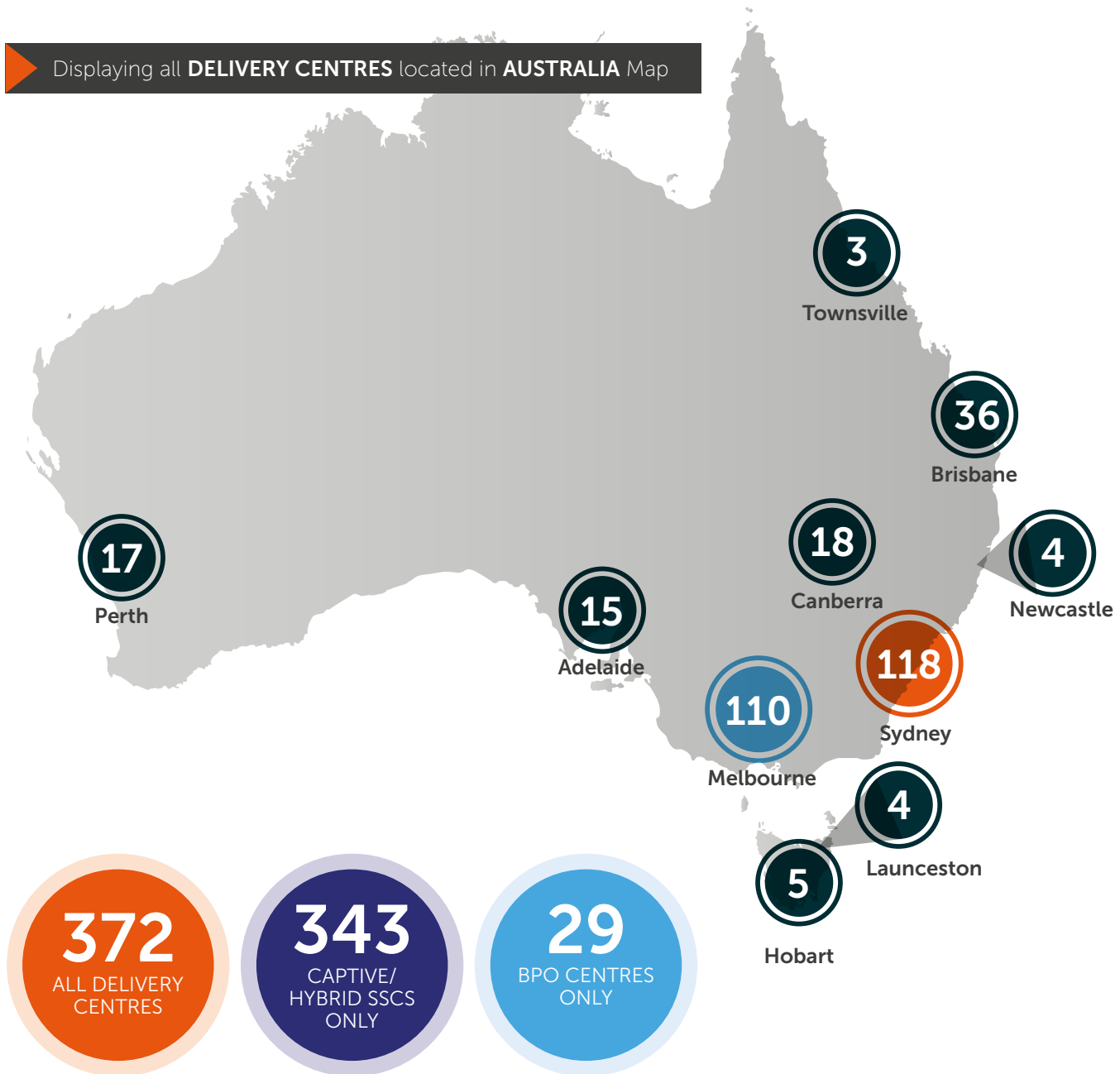
Barbara Hodge
Global Editor
Shared Services and Outsourcing Network [SSON]
barbara.hodge@ssonetwork.com

Every year, the SSON surveys its global membership to identify trends, initiatives, methodologies and tools that are driving performance forward. This report analyses the responses from Australia and New Zealand specifically. © SSON 2018



Australia and New Zealand: A Snapshot

According to **SSON Analytics'** data, there are currently 372 Shared Services Centres (SSCs) in Australia and 55 in New Zealand. Sydney is the leading city for Finance Shared Services, across the region; Melbourne for HR Services; and Auckland the leading city in New Zealand across all services. Most of the Australian centres are based in New South Wales or Victoria, and Government is the top 'industry' represented in four of the seven Australian states (20 in **Melbourne** alone). Despite its higher cost base, **Sydney** plays host to 15 centres for the banking and financial services industry. There is plenty of scope for labour arbitrage across the country, with **Brisbane** consistently offering the lowest minimum salary for most job titles.



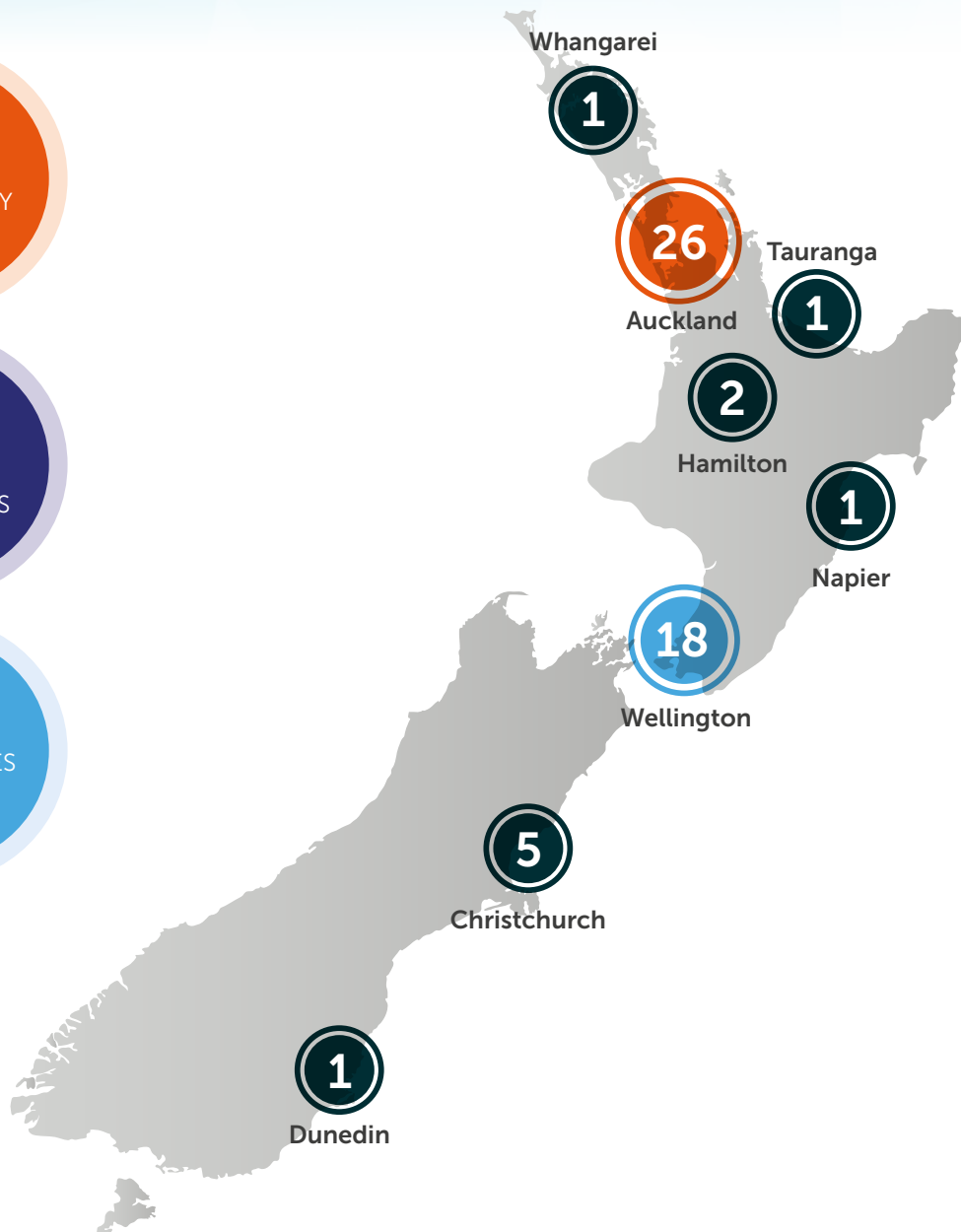
Source: SSON Analytics

Displaying all **DELIVERY CENTRES** located in **NEW ZEALAND** Map

55
ALL DELIVERY
CENTRES

53
CAPTIVE/
HYBRID SSCS
ONLY

29
BPO CENTRES
ONLY



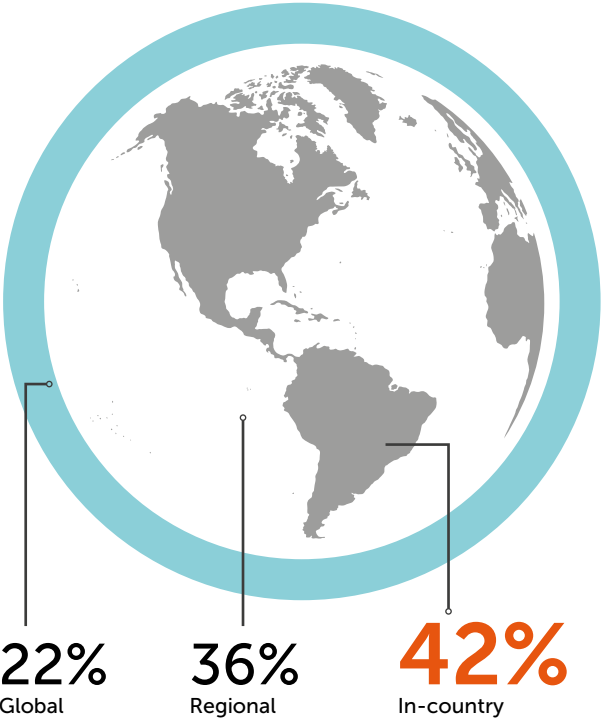
Source: SSON Analytics

In-country and Multifunctional: No Change

In contrast to Asia, where 'global' service delivery predominates, in Australia and New Zealand the in-country delivery model is by far the most common, according to SSON's **2018 Global Shared Services & Outsourcing survey**. Less than a quarter of respondents currently provide global services (and those not necessarily via a GBS model), and although there is a move to implement GBS, more than half say they have no plans for GBS at all, citing other competing priorities and insufficient appetite (the large representation of Government SSOs across Australia and New Zealand certainly weighs into this). [Figure1] [Figure 2].

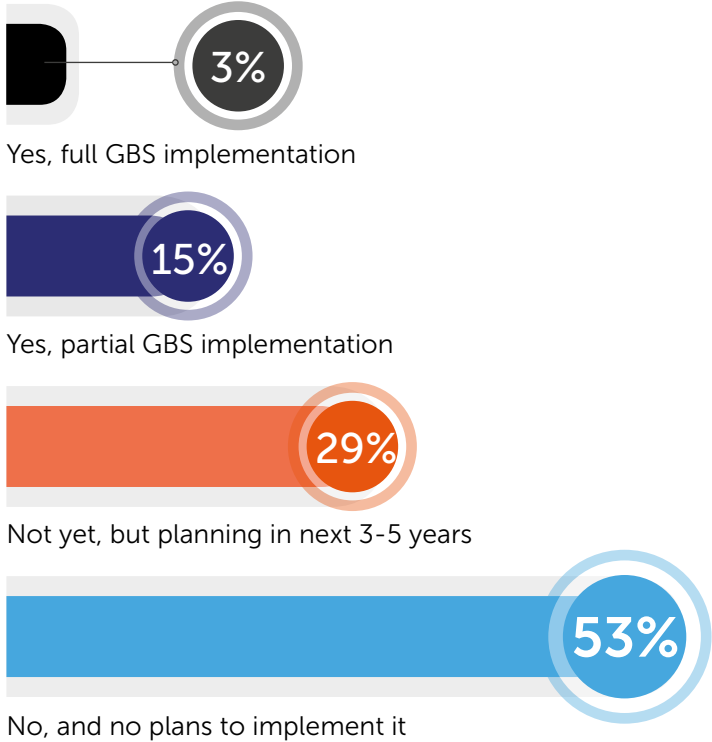
▶ **Figure 1**

Which geographies does your center, i.e. your location, serve?



▶ **Figure 2**

Are you considering/have you already implemented GBS?



Shared Services across the region fall predominantly into the 4+ years maturity sector, but the largest single segment of respondents is at the new launch stage, according to the survey. In this, Australia tracks fairly well to the Asian trend, with the key difference being that Asia has more activity at the prelaunch stage.[Figure 3].

The high ratio of maturity is a positive indicator of the sector’s ability to leverage some of the new technical solutions that are significantly enhancing Shared Services’ performance capabilities, given the standardized processes established, improvement fixes applied, and more experienced employees.

Different strategies emerge when we analyse the data on the basis of centre maturity. Planned launches or relatively new setups, for example, show a higher propensity to provide globalized services then do most of the already established centres. These are primarily driven by the need for risk management and the desire to expand into non-traditional services, as well as to better leverage [scarce] human resources.

▶ **Figure 3**

Maturity of Australia and NZ Shared Services Organisations:



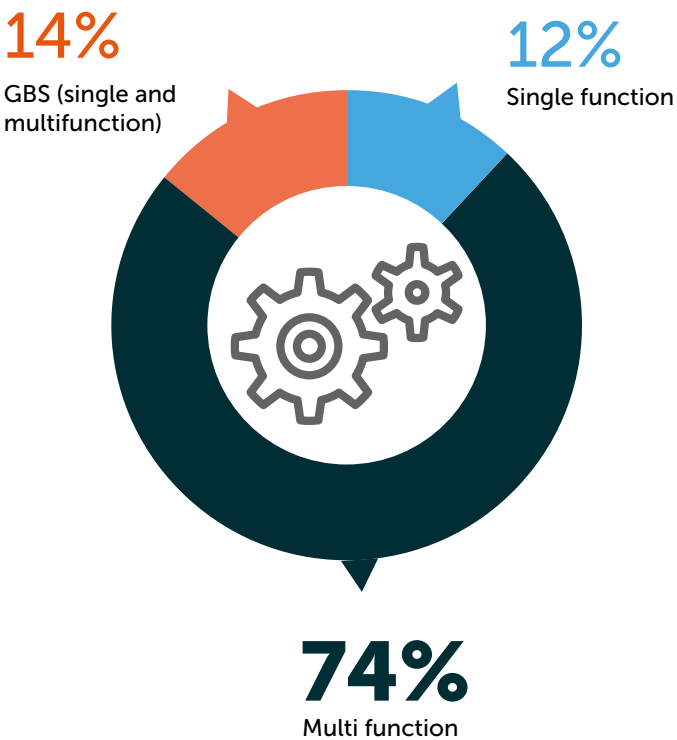
Maturity of Asian Shared Services Organisations:



The multifunctional operating model dominates in Australia and New Zealand, as globally, with three quarters of respondents aligning themselves with this model. Combined with the predominantly in-country delivery model, it highlights 'Australia-for-Australia' as the dominant business services support trend. [Figure 4]. Shared Services in this region are also characterized by a relatively high ratio of hybrid to in-house captive resources. Compared with Asia, for example, where the captive model predominates, Australia and New Zealand makes plenty of use of BPO partners. The talent shortage referenced by respondents (see below) may be one of the reasons for this reliance on outsourcing partners. [Figure 5]

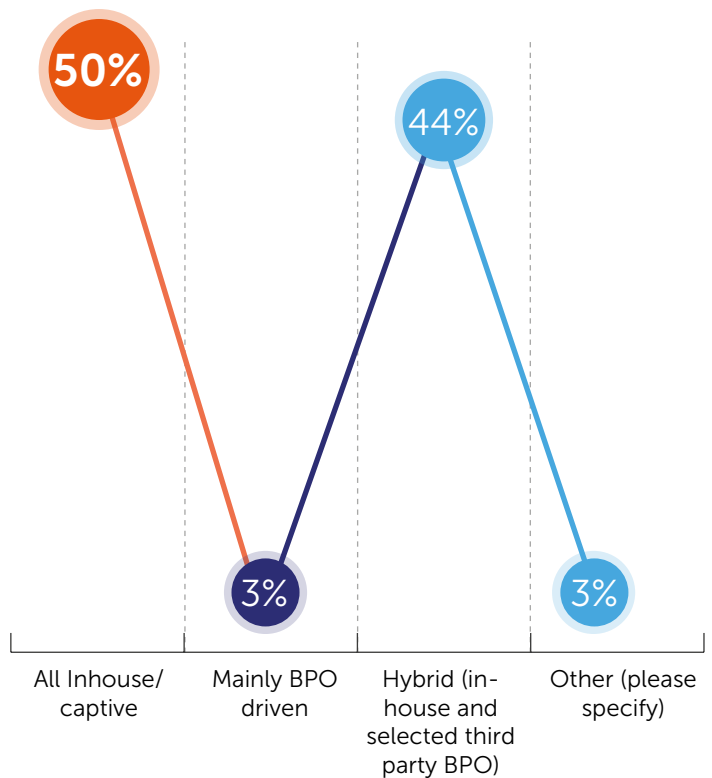
▶ Figure 4

What is your SSO's operating model?



▶ Figure 5

How is your SSO model resourced?



'Front office support' – a Rising Star?

The most significant shift we noticed this year, with regards to services in scope, is the emergence of front office support alongside data analytics as service delivery lines. As the Shared Services model matures, its expertise is increasingly being leveraged to support revenue generating activities (sales, marketing, front office) as opposed to traditional 'back office' work – a trend that is emerging worldwide. The improved analytics derived from Shared Services, which provide business insights and intelligence to support specific activities like front office, may further support the development of Shared Services outside traditional back office work. [Figure 6].

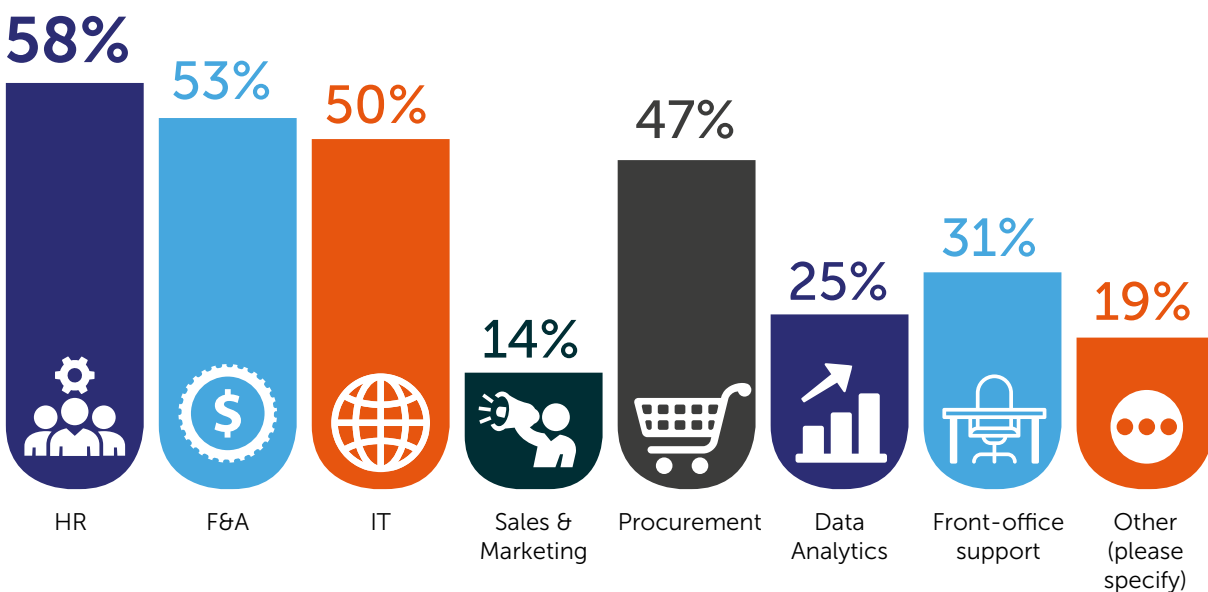
While the wins derived from data analytics in terms of business insights are in themselves significant, the growing appetite for Intelligent Automation is focusing attention on the availability and access to the data needed to 'feed the automation engine.' Data is thus being both 'pushed' and 'pulled' by emerging IA solutions, which depend on it in order to perform. The demand for data is also driven by the interest in machine learning and cognitive capabilities, both of which 'learn' by having massive amounts of data to analyse. Although these solutions are still far from having established a foothold in most Shared Services, they are nevertheless attracting attention. [Figure 7].

So, alongside business intelligence, data is fuelling further developments in Intelligent Automation and its cognitive iterations – and although Australia lags Asia in this area, everything points to the growth continuing.

In order to support this shift towards data-driven technological advances, Australia and New Zealand-based SSCs are already preparing by actively identifying critical corporate data assets, developing data functionality, and training employees in data analytics.

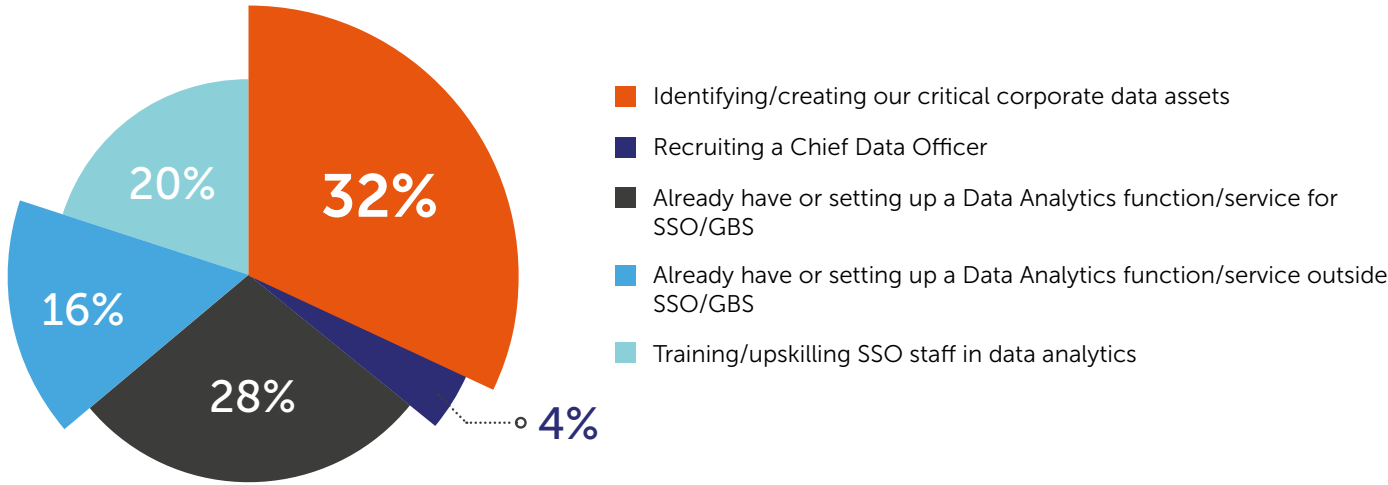
▶ Figure 6

Which functions does your center provide (services in scope)? (More than one option can apply)



▶ Figure 7

What is your current Data Analytics strategy?



Intelligent Automation Driving 'Disruption'

Many organisations are currently experiencing an Uber moment, as enormous disruption rocks their industries. The displacement of labour addresses only one side of the progressive coin, however. The other reflects the ability of organisations to focus their employees on the truly differentiating, value adding activities that drive success through brand new organisational models.

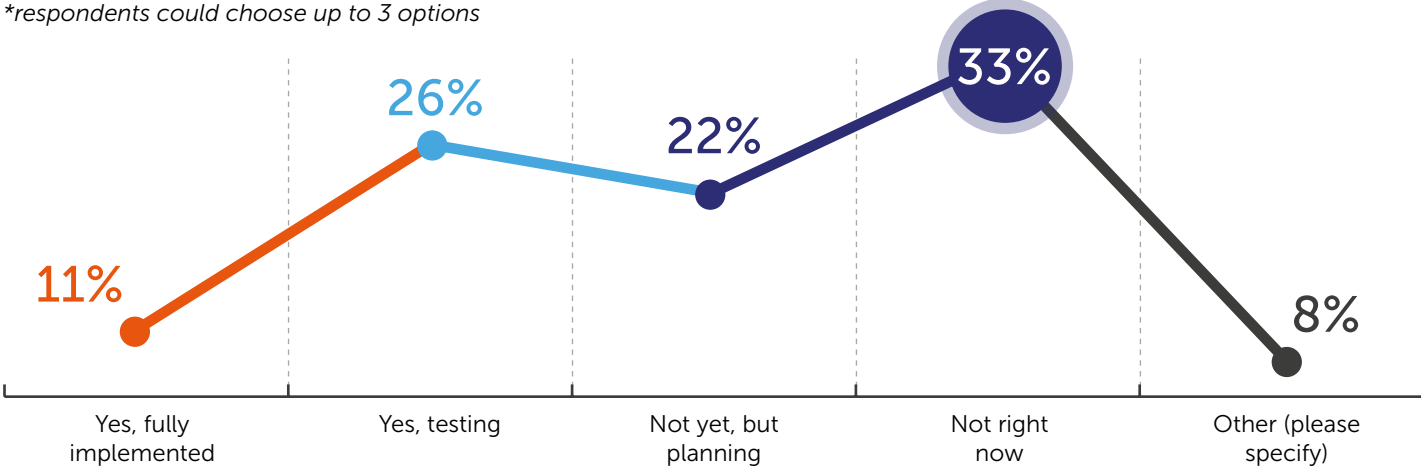
Intelligent automation has a role to play in this evolution. It is the fastest growing technology with the greatest power for disruption. At its most basic, it eliminates mundane, repetitive tasks. At the other extreme, it will begin to replace higher-level cognitive human abilities with a far greater capacity for volume, analysis, and consistency than can currently be performed by humans.

With a few notable exceptions, full-scale IA implementations are still rare across Australia and New Zealand. Yet, six out of ten respondents are committed, either because they have already implemented IA, are in the testing phase, or are planning its implementation. (Similarly, Artificial Intelligence is creating a lot of excitement at the moment, and although still ahead of its time, most regional centres have AI on their radars.) Half of the respondents also indicated that they are actively recruiting the technology and automation skills needed to develop IA capabilities. [Figure 8] [Figure 9]

▶ Figure 8

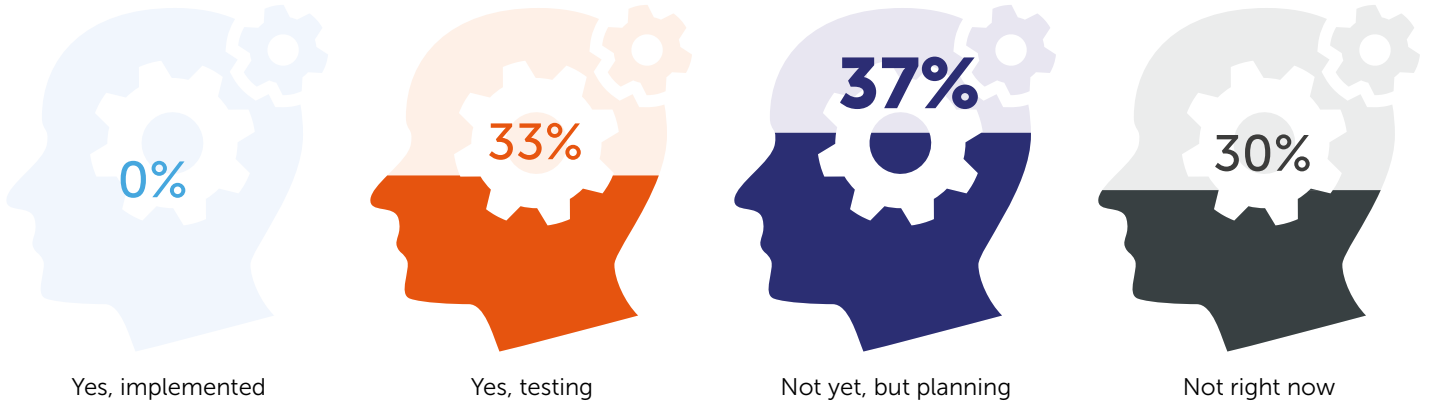
Is Intelligent Automation (an umbrella term that includes RPA) part of your operations?

**respondents could choose up to 3 options*



▶ **Figure 9**

Is Artificial Intelligence on your agenda?



Where IA is gaining traction is in its application to well-defined parts of an end-to-end process. This 'piecemeal' application of robotics is manageable, and drives quick wins. Around the world, we have seen this to be the preferred strategy for numerous new implementations.

However, as both solutions and markets mature and the implications of Intelligent Automation become more evident, platform-based robotics solutions are becoming more popular, for their scalability and transformational impact. While scalability is the key attraction, the wide-reaching impact [upheaval] on the organisation and the need for strategic, senior-level support, are significant hurdles. [Figure 10]

The digital disruption that is spreading across global markets is equally making itself felt in Australia and New Zealand. Shared Services are notably prioritizing cultural change to ensure that they are prepping for the capabilities that will inevitably come their way. Without a new culture, the new mind-set cannot and will not take hold. Cultural change means creating a 'safe' environment within which employees are encouraged to experiment and think outside the box. The new learning solutions that take automated processing one step further (think cognizant or machine learning) will require a brand-new way of thinking. Operations that are stuck in the past will not capitalise on, nor be able to optimise, these new opportunities.

Compared with responses from Asia-based centres, Australia and New Zealand are notably lagging in taking a more proactive stance to leveraging digital experience, setting investment priorities, or promoting digital platforms, however. [Figure 11].

▶ **Figure 10**

How are you leveraging Intelligent Automation (which includes Robotic processing)?

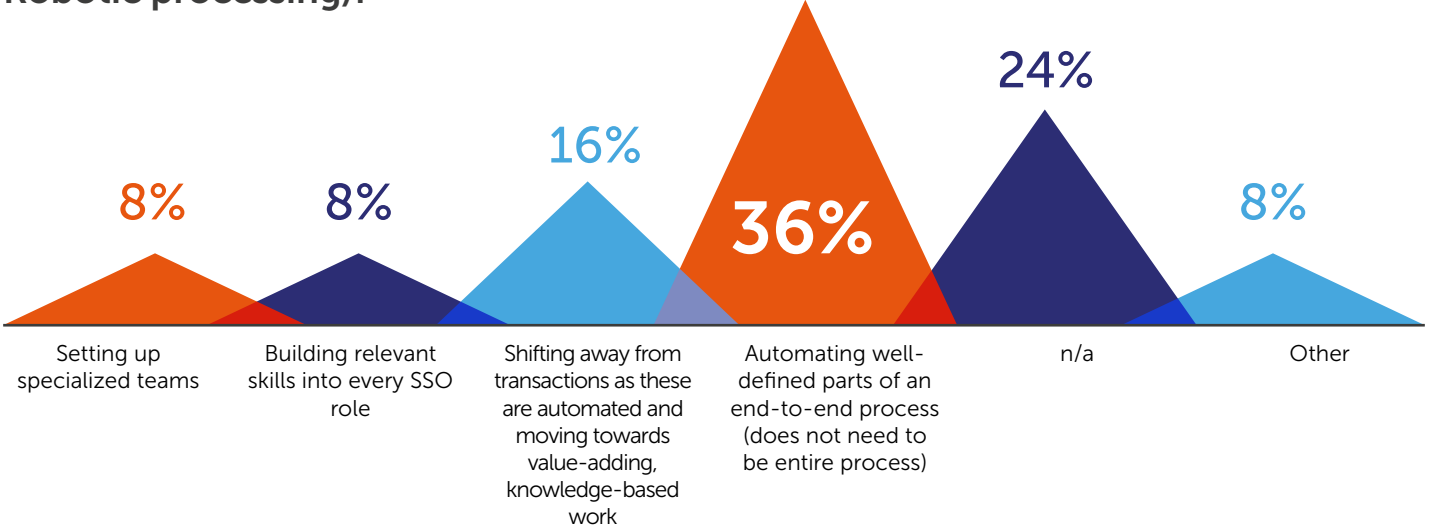
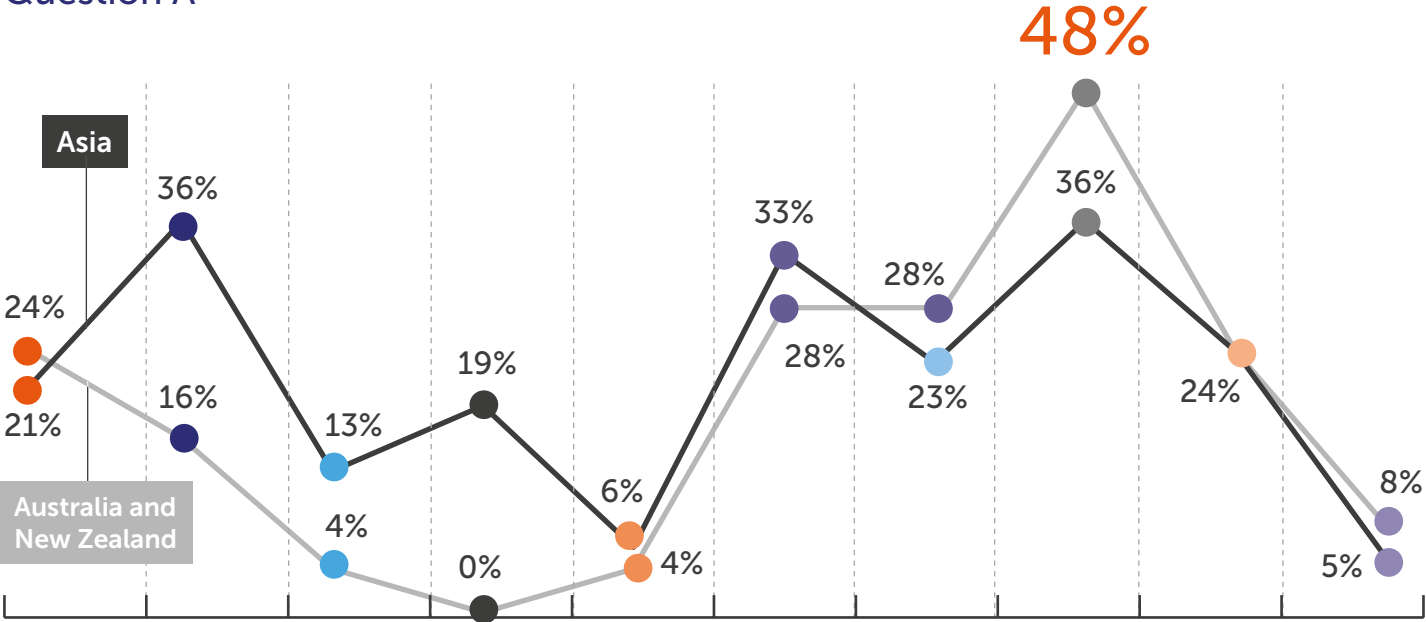


Figure 11

How are you embracing Digital Disruption? (Choose 3 answers)

Question A

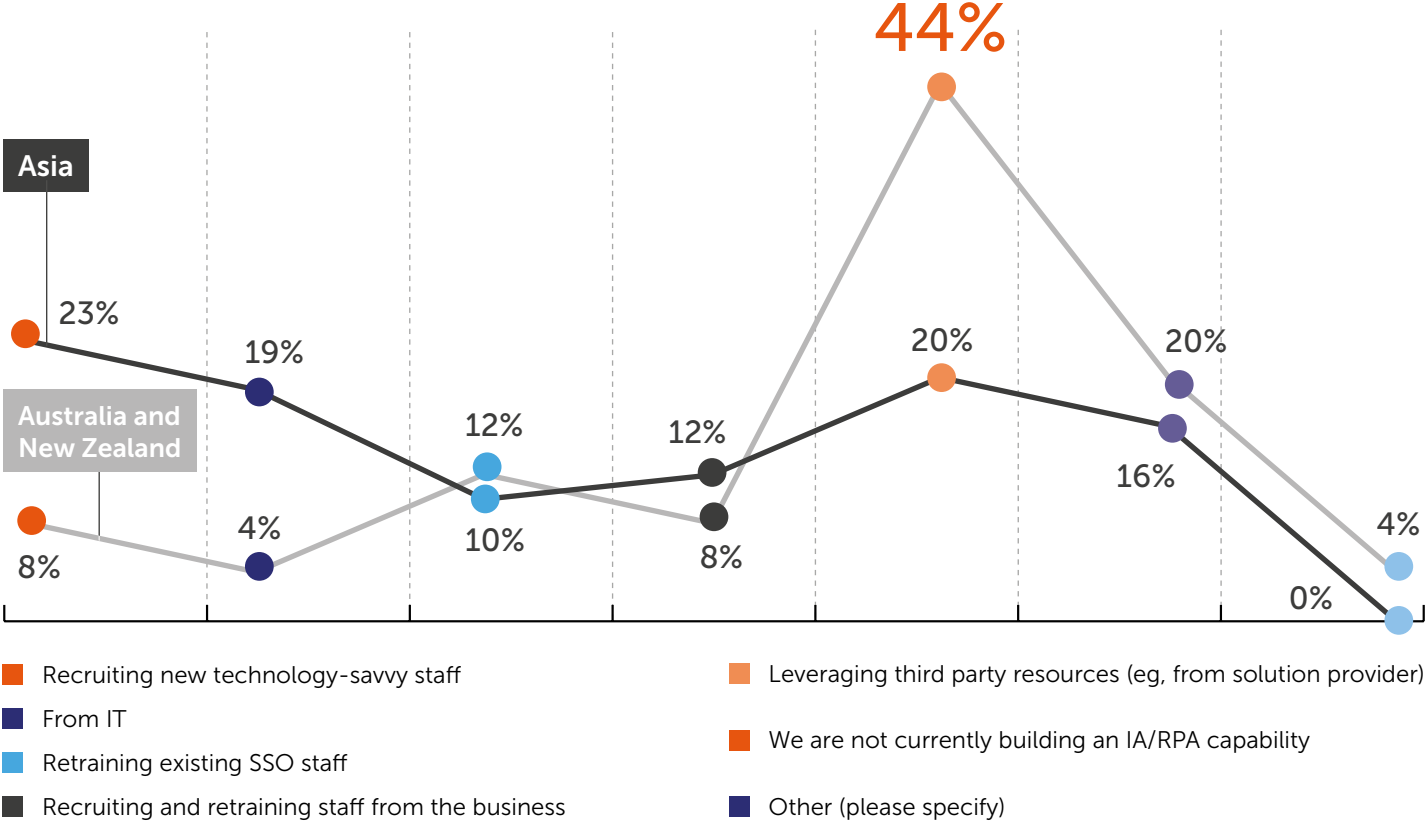


- With a focus on customer digital experience eg: Amazon Prime
- With digital tools to rapidly create new products and services eg: New mobile apps
- With digital platforms that can be exploited by competitors eg: AWS, Apple SDK
- With digital consumer engagement and lead generation eg: Salesforce, Sharpsring
- With investment funds ring-fenced for digital disruption projects
- Designing processes that will be able to leverage Artificial Intelligence
- With a "fail fast, learn fast" speed to market approach eg: Lean, Agile, Honest culture
- By driving cultural change
- We don't have a clear strategy at present
- I don't know

One challenge for Australia and New Zealand operations keen to embrace automation is the current lack of experience or relevant skills, both internally as well as in the market. Given the relative newness of these capabilities that is no surprise. According to the survey, most Shared Services are plugging this gap by using third-party resources, for example from solution providers. In this, Australia and New Zealand sets itself apart from the trend in Asia, and also bucks global trends by rating the recruitment of new, technology savvy staff as a low priority. [Figure 12].

Figure 12

If you are building your own Intelligent Automation (which includes RPA) capability, where are you sourcing the talent?

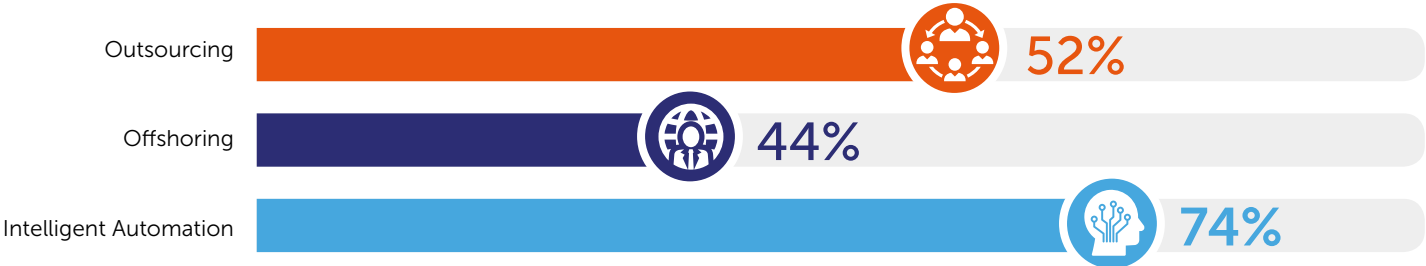


IA is recognized as a key driver of performance, today ranking ahead of outsourcing or offshoring, according to the majority of respondents from Australia and New Zealand. Practitioners cited the ability to adapt to customer needs/ market trends; its support of self service; lower rates of failure; and the avoidance of privacy breach risks from offshore operations...as all weighing in its favour. [For government institutions offshore is generally not an option.]

Outsourcing, ranking just behind IA, outweighs 'offshore' as a performance driver partly because the latter is an unpopular solution for Australian and New Zealand enterprises (especially government); but also because the knowledge expertise and value-add of outsourcing partners is recognised as a more significant performance driver than the labour arbitrage achieved by offshoring.

Figure 13

How do you rank the below in terms of performance drivers?



Knowledge-based Services are the New Shared Services Frontier

While many organisations are still structured according to Industrial Age control models, which do not leverage knowledge, forward-looking enterprises recognise that knowledge workers will form the basis of their competitive advantage. This manifests itself particularly in Shared Services, where the advancement of automated solutions is taking transactional work out of employees' hands, thus freeing them up to deliver more valuable work – for example, by leveraging analytics or business insights to support decision making. Desirable skill sets are tilting firmly in a new direction, away from processing expertise and towards adding value. Evolving Shared Services are thus differentiating themselves by their ability to support the enterprise in meeting its targets, in contrast to the conventional, process-focused approach where the main metric was transactional excellence and time-per-activity.

The shift to knowledge-based services is driven, almost entirely, by the advancement of automation solutions into Shared Services' workplaces. This trend is well underway in Australia and New Zealand with six out of 10 centres confirming their strategy as shifting towards knowledge-driven services, driven by more use of Intelligent Automation.

To date, however, most practitioners still find themselves in a roughly 75:25 ratio of transactional-to-knowledge work. What's encouraging, however, is the section that defines its work as 50% knowledge-based already. The significance for the Shared Services model cannot be overstated. With the history of Shared Services' evolution firmly rooted in efficient and effective service delivery, automated transactions guaranteeing fewer errors and faster cycle times take care of much of the traditional workload. What remains, therefore, is more insightful, strategic type of knowledge management that truly differentiates business services support. It presents a significant step towards a more strategic voice in the enterprise. [Figure, 14,15,16].

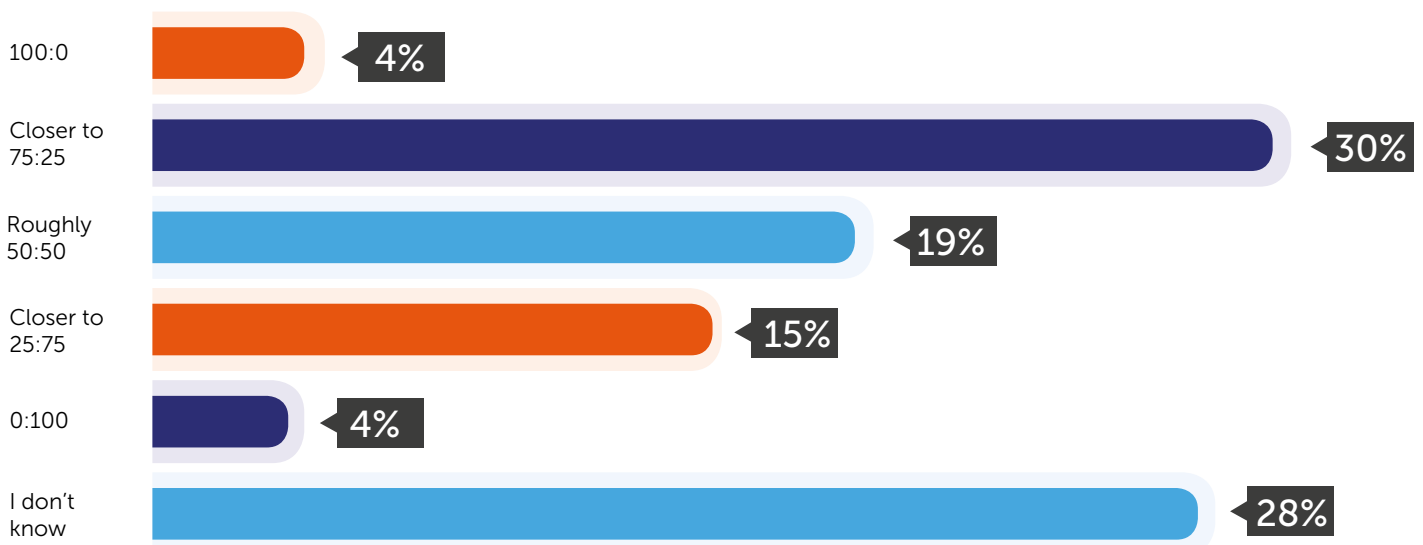
The days of 'back office' may be truly behind us.

Some of the specific services that respondents cite as "knowledge" work include:

- ▶ advice around legislation, government reporting requirements, financial requirements
- ▶ strategic procurement
- ▶ subject matter expertise and analytics
- ▶ tax advice
- ▶ automation for marketing
- ▶ legal advice
- ▶ business improvement and process redesign

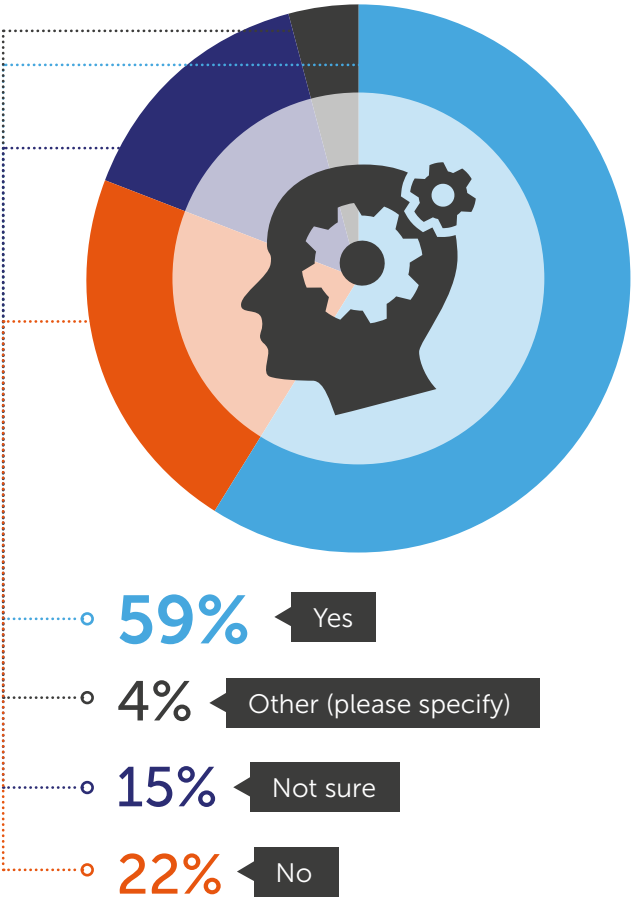
Figure 14

How would you estimate the Transactional/Knowledge work ratio in your SSC?



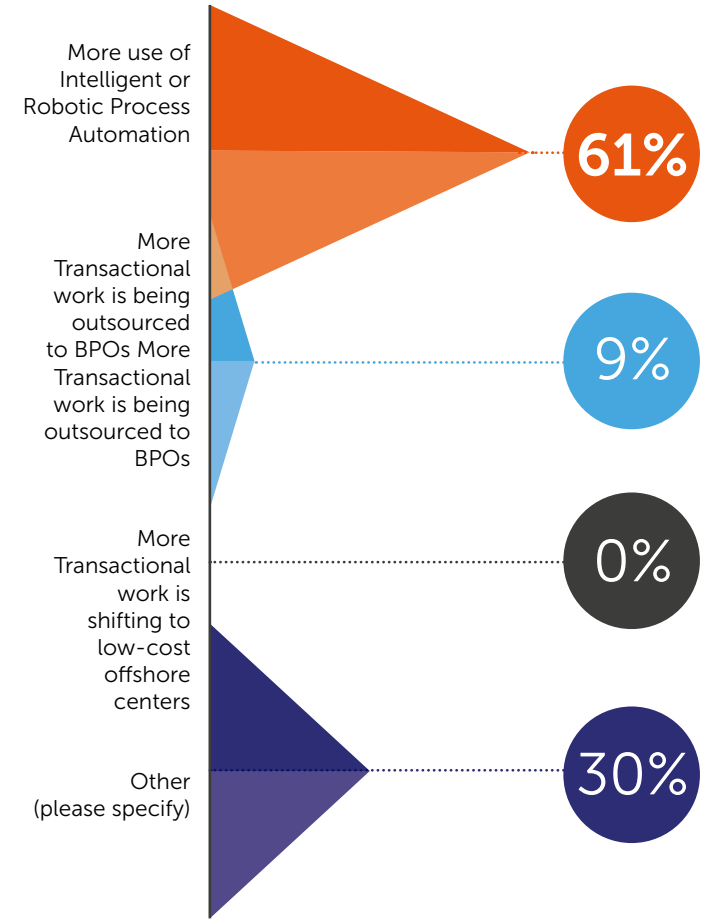
▶ Figure 15

Is your strategy shifting from Transactional towards Knowledge work?



▶ Figure 16

If you are shifting away from Transactional work, what is driving this?



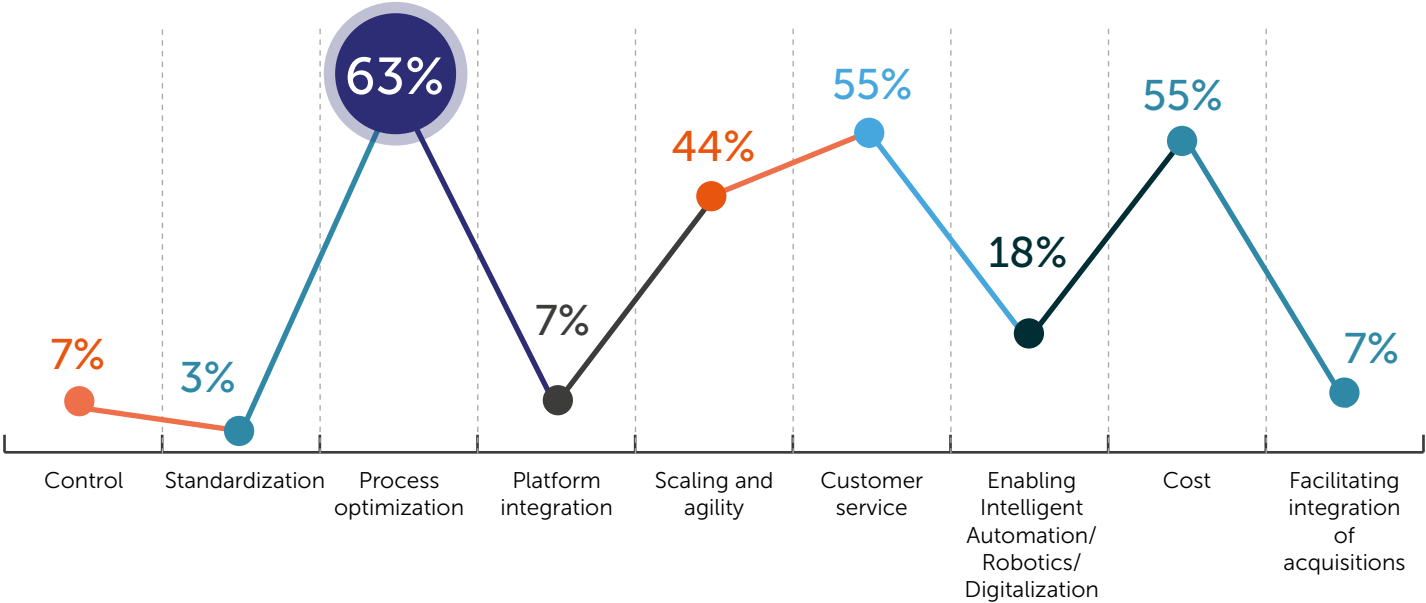
How Are Modern Shared Services Supporting the Enterprise?

Shared services are still predominantly recognised for their positive impact on process optimisation of business services. (We see this trend reflected in the most common measures of success connected to cost, quality, and customer satisfaction.) While cost is still listed as a key measure for Shared Services success, it's interesting to note that on the list of most important benefits of Shared Services, cost comes in behind process optimization and customer service.

What's also notable is the recognition of the model's ability to drive scale and provide much-needed agility to the enterprise – both of which have become key objectives in the face of uncertain external market forces and corporations' growth strategies. The ability to ramp services up, or down, as required, is a tremendous enabler of enterprise expansion, be it product, business unit, or market. [Figure 17].

▶ Figure 17

What are the 3 most important benefits of Shared Services to your enterprise? (Choose up to 3 options)



New Skills Under the Microscope

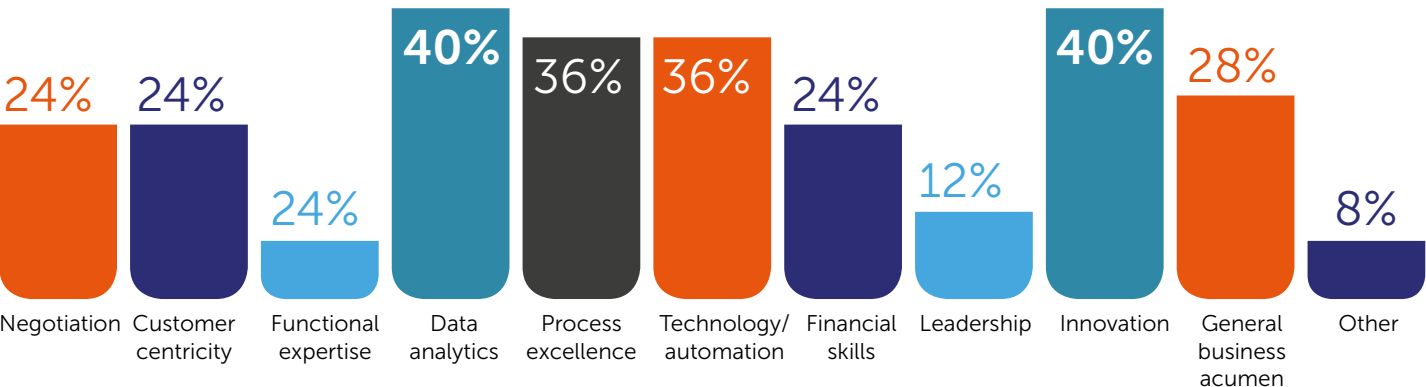
One of the biggest challenges to Australia and New Zealand’s Shared Services operations is ensuring they have the requisite skills for the modern, technology driven services that are increasingly in demand. In fact, quality talent seems in short supply overall – 80% of Australian and New Zealand respondents say they are facing challenges in this regard, across the region. The biggest skills deficits practitioners shared are in data analytics and innovation, automation, and process excellence.

Reflecting the rapid speed of change in today’s SSCs, Shared Services leaders are looking for innovative individuals who can think outside the box to source non-traditional solutions. ‘Innovation’ came out on top, as one of the key skills deficits within existing teams. The survey data also backs up much of what we are hearing anecdotally from practitioners in-country, namely that there is a dearth of data analytics and technology automation skills. Recruiting strategies are adapting to this gap, increasingly targeting precisely these capabilities alongside some of the more traditional skills.

However, Shared Services is, ultimately, still about providing excellent service to customers. Despite the distraction of emerging technologies, Australian and New Zealand leaders still prioritize customer centric skills in recruitment, ahead of data and technology. [Figure 18] [Figure 19]

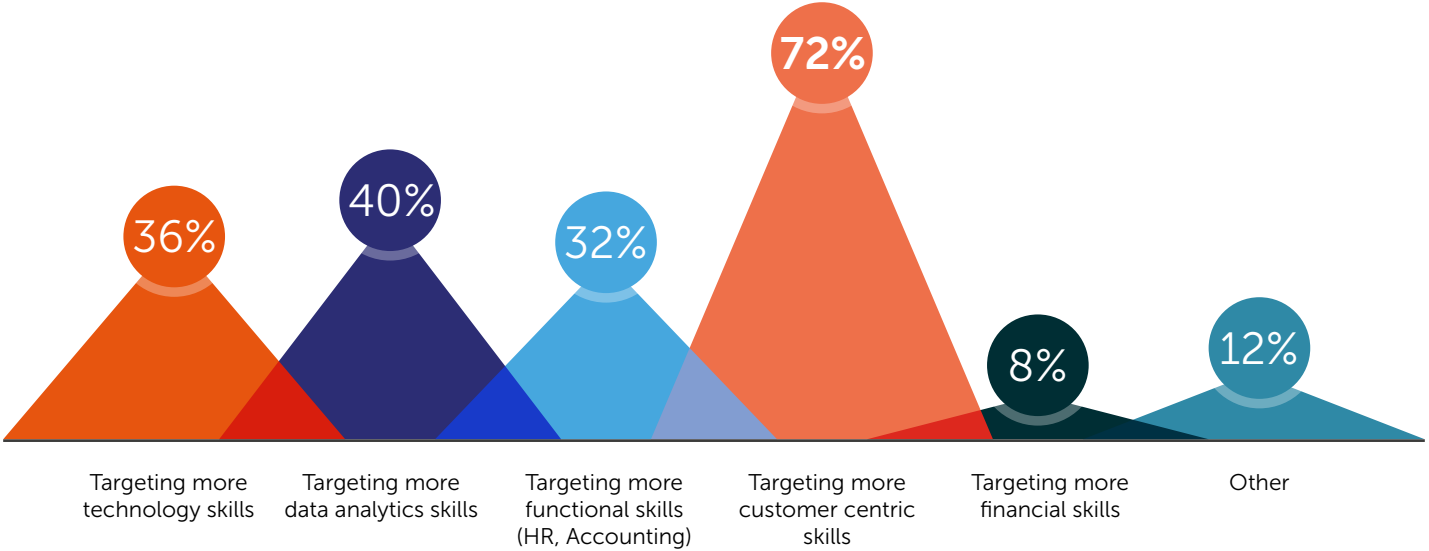
▶ Figure 18

What are the 3 biggest skills deficits within your existing staff? (Choose up to 3 options)



▶ Figure 19

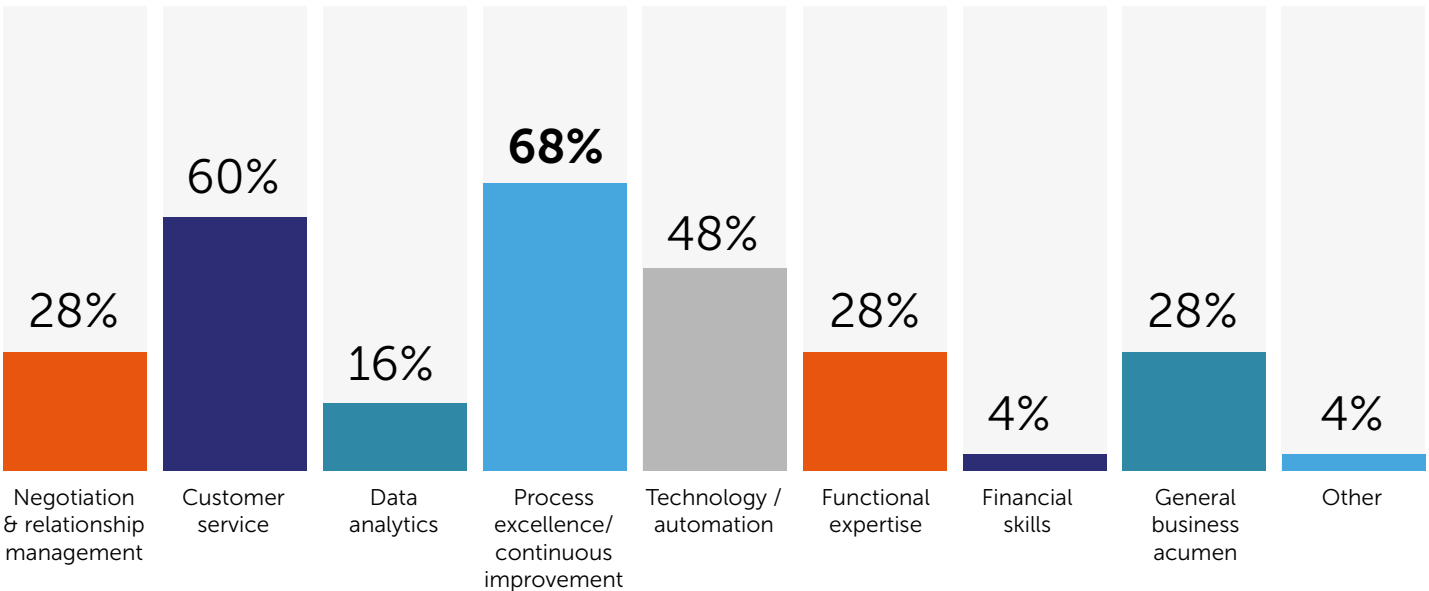
How has your SSO recruiting strategy changed? (Choose up to 3 options)



And yet, the areas that are currently being prioritized do not necessarily match the identified skill gaps. [Figure 20].

▶ Figure 20

Which skills are you prioritizing in your SSC?



One thing is for sure – while labour arbitrage is not dead, its days are numbered. Talent strategies are no longer driven primarily by labour arbitrage. Instead, effectiveness is driving human resource decisions. This is helped, to a large extent, by the fact that Millennials are the most represented demographic within today’s teams, and are seen as a big value-add, leading the way in ‘new ways of working and issue resolution’. They are also recognized as naturally taking a lead in problem solving, certainly to a greater extent than did previous generations. [Figure 21] [Figure 22].

Figure 21

Is your talent strategy driven by:

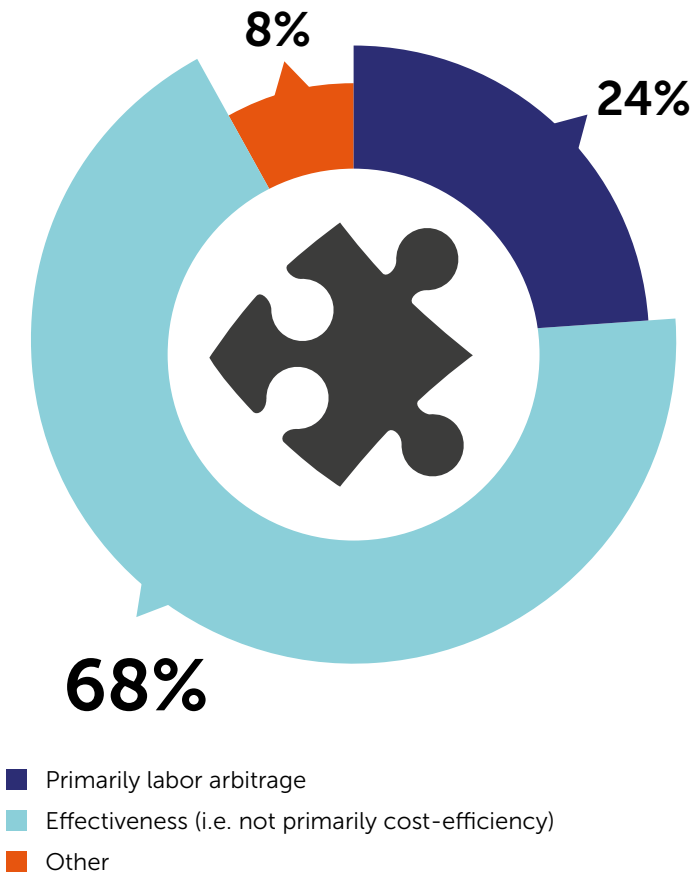
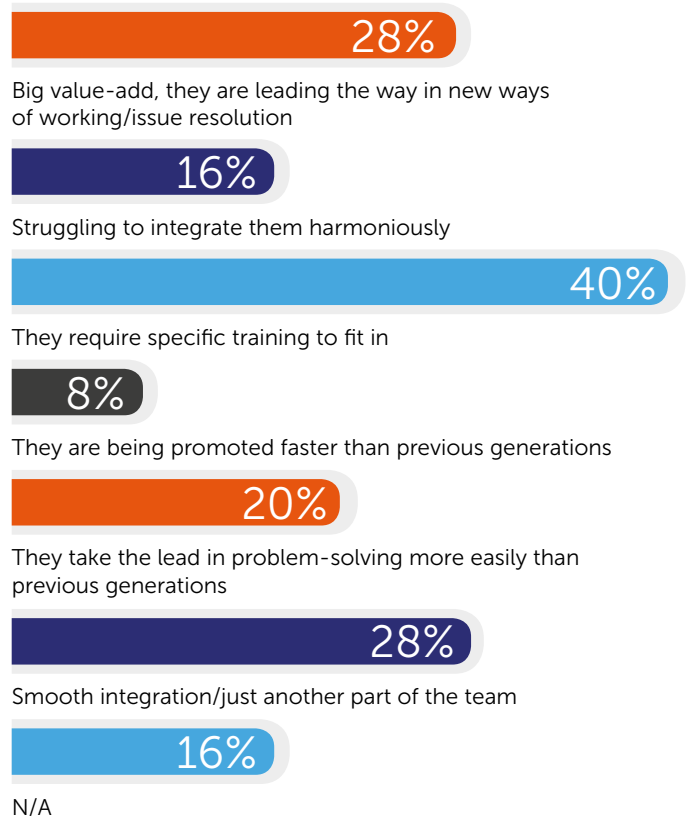


Figure 22

What is your experience with Millennials/younger generations at work? (Choose up to 3 options)



Conclusion

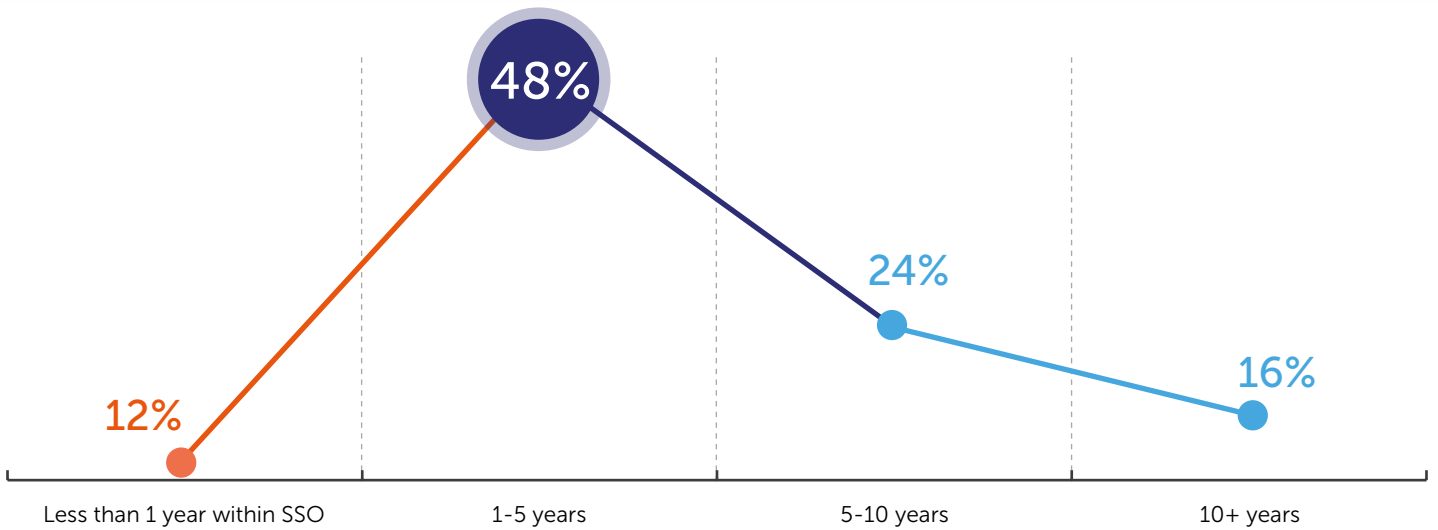
Australia and New Zealand’s sweet spot will continue to be, for the near future, the strong foundation it has established in its Shared Services industry. While Intelligent Automation solutions are still in their very early stages, the writing is clearly on the wall: knowledge-based services that deliver true value-add will differentiate tomorrow’s SSO from that of yesterday.

Now is the moment to develop true expertise in emerging capabilities. Data and robotics are only two options, with many more likely to come. Those leaders that recognize the potential of developing Centres of Excellence to support their customers will continue to see their operations both valued and validated.

One advantage in this region is the relatively high level of tenure. While the majority of employees fall into the 1-to-5-year bucket, the demographics for five years plus are extremely strong – and present a formidable advantage to leaders intent on building up a strong pipeline of experienced managers and successors. [Figure 23].

Figure 23

Please rank the % staff in your SSC according to their tenure in the SSC



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- **Outsourcing** - incorporating RPA, AI and hybrid models into your outsourcing agreements
- **Automation** - identifying which aspects of your shared service lend themselves to automation, and what you should do with the resources the automation frees up
- **Single Source of Truth** - leveraging all of the data at your disposal to generate insight and provide additional value to your internal customers
- **Leadership and Change Management** - supporting your people through the significant change that SSOs are faced with



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