

Global Medical Device Leader Engages Auxis to Define its Shared Services Strategy

Client Profile

One of the largest medical device corporations and a Fortune 500 company, with over \$15B in annual revenue. Client operates in more than 140 countries worldwide. Specifically in Latin America, the company has locations in all major markets.

Project Overview

In an effort to reduce indirect costs and build a scalable finance organization to support the growing business demands, Auxis was engaged to perform a thorough Strategic and Viability Analysis for standing up a Shared Services Center for the LatAm Operations. Business case proved a potential labor arbitrage up to 50%, with an IRR over 40% and a payback period of less than 3 years, in addition to numerous benefits in terms of standardization and efficiencies.

BUSINESS CHALLENGE

The company operates in Latin America using a combination of distributors and a direct to customer model. As their business continues to grow, there is an increased emphasis towards growing the direct model across the region. However, the migration towards a direct business model requires a more scalable and efficient operating platform to manage indirect costs and improve service levels to the field.

Some of the key challenges the organization was facing included:

- Aggressive corporate financial mandates to control indirect costs as a proportion of the revenue
- Cost reduction initiatives were critical to meet these challenges. However, countries continued to request additional headcount to support the incremental volume and complexity derived from the direct business:
 - Higher transaction volume (e.g., sales orders, invoices)
 - More customers to collect from
 - Higher excess and obsolete inventory exposure
 - Improved consignment inventory management
 - Increased cash management capabilities
 - Expanded customer service and emergency coverage
- High service levels to the field and a strong customer-facing presence needed to be maintained
- Current structure, processes and systems were not ready to meet the demands of the direct model



- Performance was being negatively impacted (e.g., high backorders and DSO levels)
 - Highly manual work / multiple process improvement and automation opportunities
 - Limited controls, segregation of duties and specialization
 - Available reports did not meet internal clients' needs
 - Limited KPI's and Service Level Agreements to measure and monitor performance of key areas
- Each country was operating as a decentralized region, with limited standard processes and controls
 - Finance Organization was primarily focused on transactional work, with limited availability for high value-added activities such as strategic support to the business and prospective analysis

THE SOLUTION

Auxis was engaged to perform a Strategic Visioning and Analysis Study for establishing a Shared Services Center (SSC) for Latin America, specifically, for the Finance Organization, including Customer Service and Supply Chain functions.

The key objectives of the project included:

- Determine the viability of setting up an SSC for Latin America
- Determine the costs and benefits of establishing an SSC
- Evaluate alternative country locations for establishing an SSC
- Develop an SSC operating vision which will succinctly layout how key processes will function within an SSC service environment
- Identify and document operating inefficiencies and improvement opportunities
- Develop a high level implementation roadmap





Based on previous successful SSC experiences, Auxis followed the following proven approach for success:

- Performed a detailed review and understanding of existing processes, systems and organization. Identified multiple process improvement and automation opportunities that could be implemented as part of the SSC implementation.
- Developed an employee web-based activity survey to quantify the time and amount of FTEs (full time equivalent) dedicated to the different processes and activities. 60% of the current FTEs were identified as candidates for an SSC, as most of their time was spent on transactional work. Transactional activities are routine, repetitive and process driven. Generally, these are lower value-add and easier to transition to an SSC without impacting the service levels to the field.
- Based on identified candidates for migration, Auxis defined a practical SSC Operating Model, including the design of a leveled, cost-effective organizational structure
- Performed a thorough location selection analysis, utilizing a uniform set of criteria to reach a methodically and qualified decision. Some of the evaluation factors included labor cost, talent availability, government incentives and how strategic was each location for the company's business. In conjunction with Management, 3 country finalists were identified for further consideration.
- Developed a Business Case based on a 10-year DCF model, to determine the financial viability and return of establishing the SSC. Business case incorporated comprehensive estimates of the labor arbitrage and investment costs, as well as specific client's hurdle rates and growth assumptions. Multiple scenarios were provided, including captive and outsourcing options.






THE RESULTS

The SSC Viability Analysis performed by Auxis allowed the organization to gain both a strategic and business perspective of the significant financial and operational benefit that establishing an SSC for LatAm could represent to the current business:

-  • Enhances specialization and operating synergies
-  • Facilitates process optimization and cross-market standardization efforts by being under a single operation
-  • Provides scalability and increases controls over the changing operating model
-  • Allows to comply with corporate cost reduction mandates

The following results were obtained from the Business Case for the top 3 location scenarios developed:

-  • Initial **labor arbitrage up to 50%**
-  • Projected **IRRs between 40% to 60%**
-  • **Payback period between 2 to 3 years**

As a result of the successful business case, Auxis is currently performing the detailed documentation of the as-is and to-be processes in preparation for the SSC implementation.

About Auxis

Auxis is a very different consulting and outsourcing firm comprised of former industry professionals who don't act like traditional consultants. Offering a customized, "real world," results-oriented approach, we become ingrained in our clients' culture and vision and truly dedicated to their success. Our depth of experience allows us to operate under a very different leverage model and maintain a focus on customization, flexibility and bottom-line results at a very competitive cost structure. Whether in Finance & Accounting, IT, Supply Chain or any back office operation, Auxis creates and implements strategies to streamline any area and improve efficiency, reduce costs and increase profitability.

