

Show Me the Money
Reduce the Costs of Running ERP

An apprentice white paper

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Published: January 2010
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Show Me the Money

Reduce the Costs of Running ERP

Reducing costs is the major strategic focus for most companies. An often-overlooked cost is the general operation of financial operations. This paper details a methodology for calculating the costs of running financial modules in ERP systems. The costs are compared against both internal and external benchmarks. After calculating the costs, the paper shows how to reduce costs in two ways: first, by eliminating work that is duplicated across different business units or divisions, and second by determining which operations that are currently distributed across the organization can be consolidated into a shared services center. Together these changes, both to the organization and the ERP system, can generate significant cost savings. The paper discusses how a \$4 billion company using Oracle E-Business Suite (EBS) consolidated its distributed accounting departments, one for each European country, into a shared services organization supporting all European operations. The cost savings realized and the streamlining of operations prepared for the organization for a major ERP software upgrade.

Calculating the Cost of Operations

The cost of operations is calculated by breaking down how much time is spent on an activity during the year by each person doing that activity, how many items were processed, and then calculating the cost using a baseline cost of FTE. As an example, for AP, each department would calculate the number of hours in a year spent on each of the following tasks or activities:

- Maintain policies and procedures
- Enter, code, match, and correct payment documents
- Prepare and issue automated checks
- Certify checks
- Process manual checks and special payment requests
- Respond to vendor and internal inquiries
- Perform Reconciliations
- Perform corporate and government reporting
- Create Corporate Chargebacks
- Other A/P Activities

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The hours would be translated to a number of Full-Time Equivalents (FTEs) by dividing the hours by 2080 (the number of hours for a person working full time per year). A baseline average burdened (including benefits and expenses) salary is then multiplied by the number of FTEs to calculate the annual cost of that activity. To obtain the cost of an operation, multiply the number of items processed (i.e. number of checks) by the cost of the activity. For each of the finance areas, costs are calculated to measure the performance of each activity. For example, General Accounting would calculate the number of journal entries processed per FTE per year and compare those to an internal benchmark. Travel and Entertainment would calculate the number of expense reports processed per FTE per year. Fixed Assets would calculate the number of unique fixed assets or line items per FTE per year. Accounts Receivable would calculate the number of bills issued per FTE per year.

In other words, each area would develop its own internal key performance metric and a way to calculate that metric against FTEs contributing to the process. In aggregate these calculations may uncover significant additional cost savings that could be realized quickly and relatively painlessly by migrating from a distributed services model to a shared services model.

Example Cost Calculation

In the following example (actual data from a \$4 billion company), the company had one set of books for each European country in which they were operating. The example looks at costs for six of those sets of books. The company had been on Oracle EBS for 4 years prior to the adoption of the Euro, so a different set of books was established for each currency. All examples have been translated to USD. The General Manager had responsibilities for all the financial activities with Directors from each country reporting to her. The organization looked like this:

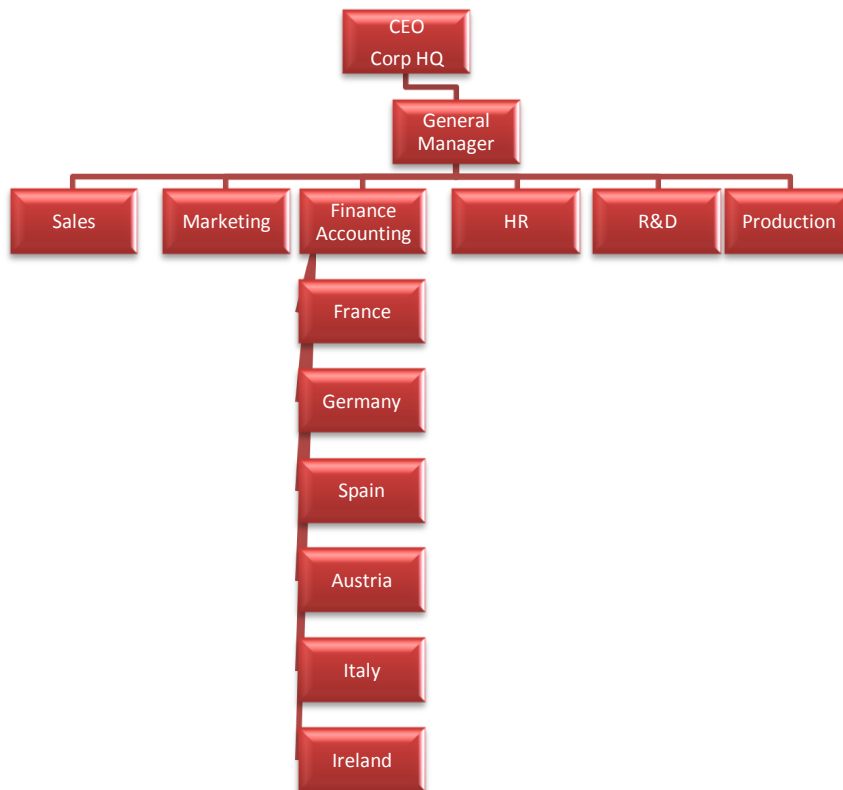


Figure 1: Organization Chart of \$4 Billion Company

The costs were calculated as follows:

	France	Italy	Germany	Austria	Ireland	Spain	Summary/Average
General Accounting (GL) FTEs							
Average Burdened Cost per FTE	\$ 111,200	\$ 54,631	\$ 56,061	\$ 56,870	\$ 82,500	\$ 68,603	\$ 71,644
Maintain GA policy and procedures, and Chart of Accounts	0.1	1.2	0.25	0.2	0.36	0.25	2.36
Perform closing and reporting	0.25	4.2	5.45	1.35	1.33	4	16.58
Prepare/ setup recurring and automated JEs.	0.05	1	1.4	0.1	0.2	0.1	2.85
Prepare and enter manual JEs	0.1	3.7	4	0.4	0.73	0.5	9.43
Perform account and other detailed reconciliations	0.2	3.1	9.25	1	0.38	1.65	15.58
Intercompany accounting and reconciliation	0.1	0.6	3	0.5	0.6	2.5	7.3
Respond to requests and restatements	0.2	0.5	5.55	0.4	1	1	8.65
Other GA activities	0	2.7	4.1	1.8	7	1.25	16.85
Total FTE	1	17	33	5.75	11.6	11.25	79.6
General Accounting (GL) Volumes							
Number of accounts (prime + subaccounts)	10,000	16,000	104,925	1,000	1,957	3,699	137,581
Number of manual closing entries	120	0	1	400	8,508	0	9,029
Number of recurring / repetitive/allocation journal entries	120	2,424	2,676	55	5,448	2,448	13,171
Number of JEs posted via automated subsystem interfaces	12,000	650	15,600	4,200	448	312	33,210
Number of manual journal entries	600	10,450	10,500	400	19,044	5,600	46,594
Number of intercompany JE transactions	120	1,200	1,644	300	12	2,000	5,276
General Accounting (GL) Costs							
							Averages
Maintenance per account	\$ 1.11	\$ 4.10	\$ 0.13	\$ 11.37	\$ 15.18	\$ 4.64	\$ 6.09
Cost of closing and reporting	\$ 231.67	NA	\$ 305,532.45	\$ 191.94	\$ 12.90	NA	\$ 50,994.82
Cost per recurring / repetitive/allocation journal entry	\$ 46.33	\$ 22.54	\$ 29.33	\$ 103.40	\$ 3.03	\$ 2.80	\$ 34.57
Cost per reconciliation with subsystems	\$ 1.85	\$ 260.55	\$ 33.24	\$ 13.54	\$ 69.98	\$ 362.80	\$ 123.66
Cost of manual transactions, requests, restatements	\$ 55.60	\$ 21.96	\$ 50.99	\$ 113.74	\$ 7.49	\$ 18.38	\$ 44.69
Cost of intercompany transactions	\$ 92.67	\$ 27.32	\$ 102.30	\$ 94.78	\$ 4,125.00	\$ 85.75	\$ 754.64

Figure 2: General Accounting Cost Calculation

	France	Italy	Germany	Austria	Ireland	Spain	Summary/Average
Accounts Payable (AP) FTEs							
Average Burdened Cost per FTE	\$47,500	\$84,015	\$42,714	\$68,256	\$59,748	\$68,603	\$61,806
Enter, code, match and correct invoices	1.5	18.5	1.75	19.62	0.75	7.5	49.62
Prepare and issue automated checks	0.25	3.3	1.35	1.2	2.5	1.8	10.4
Certify checks	0	0	0	0.05	0	0.1	0.15
Process manual checks and special payment requests	0.2	1.5	1.4	4.85	1.2	0.75	9.9
Perform Reconciliations	0.2	3.1	2.25	2.75	0.3	1.2	9.8
Perform corporate and government reporting	0.1	0.1	0.2	1.6	0	0.3	2.3
Corporate Chargebacks	0.1	0.15	0	0	0	0	0.25
Respond to vendor and internal inquiries	0.4	2.5	1.75	1.81	0.3	1.25	8.01
Total FTE	2.75	29.15	8.7	31.88	5.05	12.9	90.43
Accounts Payable (AP) Volumes							
Number of invoices processed	50,000	1,305,000	59,000	1,225,000	25,000	430,000	3,094,000
Number of automated checks printed	10,400	214,500	45,000	80,000	114,173	92,000	556,073
Number of checks corrected, voided, manual	700	13,500	4,000	32,315	5,430	2,500	58,445
Number of intercompany transactions/chargebacks	750	1,560	0	521	0	75	2,906
Number of vendor inquiries	1,000	8,100	3,400	4,450	1,050	2,000	20,000
Accounts Payable (AP) Costs							
							Averages
Cost per invoice	\$1.62	\$1.39	\$2.90	\$1.25	\$2.51	\$1.39	\$1.84
Cost per automated check	\$1.14	\$1.29	\$1.28	\$1.07	\$1.31	\$1.42	\$1.25
Cost per manual check	\$13.57	\$9.34	\$14.95	\$10.24	\$13.20	\$20.58	\$13.65
cost for corporate chargebacks and intercompany	\$6.33	\$8.08	NA	NA	NA	NA	7.21
Cost per Vendor Inquiry	\$19.00	\$25.93	\$21.99	\$27.76	\$17.07	\$42.88	\$25.77

Figure 3: Accounts Payable Cost Calculation

	France	Italy	Germany	Austria	Ireland	Spain	Summary/Average
Accounts Receivable (AR) FTEs							
Average Burdened Cost per FTE	\$ 76,872	\$ 36,111	\$ 63,245	\$ 103,052	\$ 34,235	\$ 57,487	\$ 61,834
Prepare and send customer statements/invoices	0.1	0	1	2	1.31	10	14.41
Record and account for transactions	0.1	0	0.2	0	0.29	11	11.59
Process credit memos and refund checks	0	0	0.2	0	0.43	0.2	0.83
Maintain pricing information	0	0	0.1	0	0	0	0.1
Perform reconciliations, investigate discrepancies and correction of posting	0.2	0.1	1	2.5	2.68	2.15	8.63
Maintain customer account records, respond to customer inquiries	0.1	0	0.6	1.7	1.91	1.85	6.16
Post cash to customer accounts, deposit checks in bank, reconcile bank statements	0.3	0.1	1.05	1.75	1.21	0.8	5.21
Provide credit and collection support, other cash and collections activity	0.1	0	2.6	12.5	1.93	0.9	18.03
Total FTE	0.9	0.2	6.75	20.45	9.76	26.9	64.96
Accounts Receivable (AR) Volumes							
Number of payments received	600,000	480	15,000	103,740	8,931	43,200	771,351
Number of invoices, bills, statements	650	636	70,584	50,232	31,109	30,600	183,811
Number of credit memos, refund checks	50	0	2,000	7,632	5,725	520	15,927
Number of active customers	450	29	800	16,000	493	900	18,672
Days sales outstanding at end of period	45	5	55	17	9	53	184
Accounts Receivable (AR) Costs							
							Averages
Cost per statement/invoice	\$ 0.01	NA	\$ 4.22	\$ 1.99	\$ 5.02	\$ 13.31	\$ 4.91
Cost per credit memo/refund check	NA	NA	\$ 6.32	NA	\$ 2.57	\$ 22.11	\$ 10.34
Cost per transaction	\$ 0.04	\$ 7.52	\$ 5.06	\$ 2.48	\$ 11.38	\$ 17.50	\$ 7.33
Cost per customer	\$ 17.08	NA	\$ 47.43	\$ 10.95	\$ 132.63	\$ 118.17	\$ 65.25
Cost of Collections	\$ 170.83	NA	\$ 2,989.76	\$ 75,773.53	\$ 7,341.51	\$ 976.19	\$ 17,450.36
Cost of posting cash, bank reconciliation, other banking activities	\$ 23,061.60	\$ 3,611.10	\$ 66,407.25	\$180,341.00	\$41,424.35	\$45,989.60	\$ 60,139.15

Figure 4: Accounts Receivable Cost Calculation

	France	Italy	Germany	Austria	Ireland	Spain	Summary/Average
Expense Processing FTE							
Average Burdened Cost per FTE	\$ 65,500	\$ 122,284	\$ 144,117	\$ 33,333	\$ 40,000	\$ 25,966	\$ 71,867
Process purchase requisitions/purchase orders/ and RFI/RFQ quotations	1	3	3	0	0	0	7
Process and file time sheets	0.5	0	0	36	0	1.16	37.66
Audit expense reports and receipts	0.25	6	0	7.5	0	0.25	14
Maintain vendor relations/maintain vendor list. Reconcile vendor billing reports/ endure quality levels	45.3	45.2	47.25	45	45	45	272.75
Other PO activities	0.6	3.5	5.35	0	0.4	4.15	14
Total FTE	47.65	57.7	55.6	88.5	45.4	50.56	345.41
Expense Processing Volumes							
Number of requisitions/purchase orders	3,763,250	16,000	11,000	0	0	16,000	3,806,250
Number of hourly and salaried timesheets	1,156	0	0	0	0	940	2,096
Number of expense reports processed	1,000	0	0	0	0	1,212	2,212
Number of Active Vendors	460	5,245	3,172	0	0	3,250	12,127
Expense Processing Costs							
Cost per purchase requisition/order	\$ 0.02	\$ 22.93	\$ 39.30	NA	NA	NA	\$ 20.75
Cost for processing timesheets	\$ 28.33	NA	NA	NA	NA	\$ 32.04	\$ 30.19
Cost per expense report	\$ 16.38	NA	NA	NA	NA	\$ 5.36	10.87
Cost per active vendor	\$ 6,450.33	\$ 1,053.81	\$ 2,146.76	NA	NA	\$ 359.53	\$ 2,502.61

Figure 5: Purchasing Cost Calculation

A similar organizational structure might exist for any organization with different operating divisions or different lines of business. A technology company, for example, that sells both products and services and is organized along those two different lines of business may have different sets of books for each, one that takes into account revenue recognition rules around warranties or software maintenance licenses for the products it sells and licenses, and another that handles billing for projects or other services provided on a time and materials basis.

But this organizational structure by design, although set up to be effective and efficient for a particular country or division, is grossly inefficient overall. All of the work performed by the teams supporting each division is replicated in each other division by a dedicated team with its own set of policies and procedures. When it comes to consolidating information from the various systems for period end reports, the consolidation takes place off line in countless spreadsheets that are prone to unintended errors or omissions. And when it comes to training staff, each unique system will require its own training protocols, each separately documented, which only puts further strain on already meager training budgets. Furthermore, the sheer number of finance and accounting functions, as shown in Figure 6, requires a significant investment in human resources. In addition to the work performed as shown in Figure 6, each organization will also be responsible for maintaining policies and procedures, ensuring that these are appropriately reflected in the ERP system and preparing reports for either internal or external use by various regulatory bodies. Replicating the work effort in each division simply because the ERP systems are set up that way, rather than consolidating the function into a

shared service organization, generates significant additional costs that are absolutely necessary but otherwise do not add any additional value to the organization.

General Accounting		
<ul style="list-style-type: none"> • Maintain Chart of Accounts • Perform closing and reporting 	<ul style="list-style-type: none"> • Prepare/ setup recurring and automated Journal Entries • Prepare and enter manual Journal Entries • Intercompany accounting and reconciliation 	<ul style="list-style-type: none"> • Perform account and other detailed reconciliations • Respond to requests and restatements
Accounts Payable		
<ul style="list-style-type: none"> • Enter, code, match and correct payment documents • Prepare and issue automated checks • Certify checks 	<ul style="list-style-type: none"> • Process manual checks and special payment requests • Respond to vendor and internal inquiries • Perform Reconciliations 	<ul style="list-style-type: none"> • Perform corporate and government reporting • Corporate chargebacks
Travel and Entertainment Accounting		
<ul style="list-style-type: none"> • Approve and disburse cash advances 	<ul style="list-style-type: none"> • Audit internal expense reports 	<ul style="list-style-type: none"> • Reconcile service vendor billing reports
Fixed Assets Accounting		
<ul style="list-style-type: none"> • Classify, capitalize, and record fixed asset items for book and tax purposes 	<ul style="list-style-type: none"> • Calculate and record book and tax depreciation • Reconcile FA accounts and associated ledgers 	<ul style="list-style-type: none"> • Maintain work-in-progress accounts
Accounts Receivable		
<ul style="list-style-type: none"> • Prepare and send customer bills/invoices • Maintain pricing information • Respond to customer inquiries 	<ul style="list-style-type: none"> • Record and account for transactions • Perform reconciliation • Prepare securities filings 	<ul style="list-style-type: none"> • Process credit memos and refund checks • Maintain customer account records
AR/Cash Applications		
<ul style="list-style-type: none"> • Post cash to customer accounts • Respond to inquiries 	<ul style="list-style-type: none"> • Deposit checks in bank • Forecast cash flow and maintain lock boxes 	<ul style="list-style-type: none"> • Investigate discrepancies and correction of posting errors • Perform reconciliations
AR/Cash Applications/Credit and Collections		
<ul style="list-style-type: none"> • Provide credit and collection support 	<ul style="list-style-type: none"> • Monitor, maintain customer history • Manage relationships with collection agencies 	<ul style="list-style-type: none"> • Address problem customers
Project Accounting		
<ul style="list-style-type: none"> • Generate client statement 	<ul style="list-style-type: none"> • Respond to inquiries re: client statements 	<ul style="list-style-type: none"> • Create and distribute custom reports
Other Accounting and Finance Activities		
<ul style="list-style-type: none"> • Analyzing Financial Statements • Vendor Accounting • Franchise Accounting 	<ul style="list-style-type: none"> • Activity Based Costing • Budgeting/ Forecasting • Sales Accounting 	<ul style="list-style-type: none"> • Revenue Accounting • Reconciliations • Order Entry

Figure 6: Basic Finance Activities

Reducing Costs Across the Enterprise

Once a company realizes the costs of an activity, there are several ways to reduce cost. The first method uses the lowest cost as the desired cost of performing the activity. In order to calculate the savings, the outlier costs for each activity should be removed and then the lowest cost identified as the **Best Cost**. To calculate the **Current Expenditure** for the activity, multiply the average cost times the volume of objects processed in that activity. To calculate the **New Cost**, multiply the lowest processing cost for the activity by the volume of objects. To calculate the potential **Annual Savings**, subtract the **New Cost** from the **Current Expenditure**. Figure 7: Calculating Savings eliminates the outliers in red, and uses the Best Cost in green for the calculation of the best cost. With this example, the company could recognize over \$61 million dollars in **Annual Savings**.

Other savings can be recognized by streamlining the processes. Operating a Shared Services Center centralizes the processing for an entire organization into a central location. Since France, Italy, Germany, Austria, Ireland and Spain now all use the Euro as a functional currency, there is no need to have separate sets of books or a separate chart of accounts. As Figure 2 shows, the average cost in the example company for maintaining a single account value is \$6.09 per year¹. With many companies who have been live on EBS for many years, the number of code combinations often tops 500,000 per chart of accounts. Adopting a single global chart of accounts will translate into hundreds of thousands of dollars, if not millions in maintenance cost savings. An analysis of the burdened FTE costs for each activity shows that there are huge variances in the cost of labor. Operating a centralized Shared Services Center can leverage the inexpensive labor costs in many parts of the world. However, if EBS is set up with separate sets of books, then many of the efficiencies of consolidating operations will not be recognized. With separate sets of books, there would need to be separate teams or, at a minimum, separate training for each set of books because the processing instructions would be different. Consolidating to a single set of books with a single global chart of accounts reduces costs in the following ways:

- No logging into and out of each set of books
- A shared chart of accounts eliminates the costly maintenance of separate charts of accounts and the separate training required to provide posting instructions for each data entry person
- The processing can be done by a single team of people
- A well-designed chart of accounts eliminates much of the maintenance of cross-validation rules, security rules, auto-accounting rules, and reports
- Information is shared across the enterprise allowing for consistent reporting, reduced reconciliation, standard terms for suppliers, standard credit limits for customers, better (and less expensive) customer service, and standard processing across the organization.

¹ This is not the code combination, and does not reflect the cost of maintaining cross-validation and security rules, rollup groups, or the values in the other segments of the accounting flexfield.

	France	Italy	Germany	Austria	Ireland	Spain	Summary/ Average	Total Volume used in Cost	Current Expenditure (Ave Cost * Volume)	Best Cost (Outliers removed)	New Cost (Volume*Lowest Cost)	Annual Savings
										Outliers		
										Best Cost		
General Accounting (GL) Costs												
Maintenance per account	\$ 1.11	\$ 4.10	\$ 0.13	\$ 11.37	\$ 15.18	\$ 4.64	\$ 5.53	137,581	\$ 761,161.11	\$ 4.10	\$ 563,714.07	\$ 197,447.04
Cost of closing and reporting	\$ 231.67	NA	\$305,532.45	\$ 191.94	\$ 12.90	NA	\$ 109.12	9,029	\$ 985,288.73	\$ 12.90	\$ 116,444.17	\$ 868,844.55
Cost per recurring / repetitive/allocation journal entry	\$46.33	\$ 22.54	\$ 29.33	\$ 103.40	\$ 3.03	\$ 2.80	\$ 20.81	13,171	\$ 274,039.23	\$ 2.80	\$ 36,910.54	\$ 237,128.68
Cost per reconciliation with subsystems	\$ 1.85	\$ 260.55	\$ 33.24	\$ 13.54	\$ 69.98	\$ 362.80	\$ 75.83	33,210	\$ 2,518,384.92	\$ 1.85	\$ 61,549.20	\$ 2,456,835.72
Cost of manual transactions, requests, restatements	\$ 55.60	\$ 21.96	\$ 50.99	\$ 113.74	\$ 7.49	\$ 18.38	\$ 30.88	46,594	\$ 1,438,972.39	\$ 7.49	\$ 349,198.10	\$ 1,089,774.29
Cost of intercompany transactions	\$ 92.67	\$ 27.32	\$ 102.30	\$ 94.78	\$ 4,125.00	\$ 85.75	\$ 80.56	5,276	\$ 425,056.03	\$ 27.32	\$ 144,116.58	\$ 280,939.45
Accounts Payable (AP) Costs												
Cost per invoice	\$ 1.62	\$ 1.39	\$ 2.90	\$ 1.25	\$ 2.51	\$ 1.39	\$ 1.84	3,094,000	\$ 5,695,706.36	\$ 1.25	\$3,856,479.60	\$ 1,839,226.75
Cost per automated check	\$ 1.14	\$ 1.29	\$ 1.28	\$ 1.07	\$ 1.31	\$ 1.42	\$ 1.25	556,073	\$ 695,773.76	\$ 1.07	\$ 593,051.85	\$ 102,721.91
Cost per manual check	\$ 13.57	\$ 9.34	\$ 14.95	\$ 10.24	\$ 13.20	\$ 20.58	\$ 13.65	58,445	\$ 797,632.18	\$ 9.34	\$545,584.08	\$252,048.11
Cost for corporate chargebacks and intercompany	\$ 6.33	\$ 8.08	NA	NA	NA	NA	\$ 7.21	2,906	\$20,940.20	\$6.33	\$18,404.67	\$2,535.53
Cost per Vendor Inquiry	\$19.00	\$ 25.93	\$ 21.99	\$ 27.76	\$ 17.07	\$ 42.88	\$ 22.35	20,000	\$446,996.45	\$17.07	\$341,417.14	\$ 105,579.31
Cost per statement/invoice	\$ 0.01	NA	\$ 4.22	\$ 1.99	\$ 5.02	\$ 13.31	\$ 2.34	183,811	\$ 430,187.67	\$ 1.99	\$ 365,783.89	\$ 64,403.78
Cost per credit memo/refund check	NA	NA	6.32	NA	\$ 2.57	\$ 22.11	\$ 4.45	15,927	\$ 70,842.20	\$ 2.57	\$ 40,954.09	\$ 29,888.11
Cost per transaction	\$ 0.04	\$ 7.52	\$ 5.06	\$ 2.48	\$ 11.38	\$ 17.50	\$ 6.61	771,351	\$ 5,100,747.24	\$ 2.48	\$1,912,950.48	\$ 3,187,796.76
Cost per customer	\$ 17.08	NA	\$ 47.43	\$ 10.95	\$ 132.63	\$118.17	\$ 60.89	18,672	\$ 1,137,026.08	\$ 17.08	\$ 318,917.76	\$ 818,108.32
Cost of Collections	\$ 170.83	NA	\$ 2,989.76	\$75,773.53	\$ 7,341.51	\$ 976.19	\$5,165.63	184	\$ 950,476.77	\$ 976.19	\$ 179,618.96	\$ 770,857.81
Expense Processing Costs												
Cost per purchase requisition/order	\$ 0.02	\$ 22.93	\$ 39.30	NA	NA	NA	\$ 31.12	3,806,250	\$118,436,961.86	\$ 22.93	\$87,277,312.50	\$ 31,159,649.36
Cost for processing timesheets	\$ 28.33	NA	NA	NA	NA	\$ 32.04	\$ 30.19	2,096	\$ 63,271.53	\$ 28.33	\$ 59,380.62	\$ 3,890.91
Cost per expense report	\$ 16.38	NA	NA	NA	NA	\$ 5.36	10.87	2,212	\$24,034.51	\$ 5.36	\$ 11,847.52	\$ 12,186.99
Cost per active vendor	\$ 6,450.33	\$1,053.81	\$ 2,146.76	NA	NA	\$ 359.53	\$2,502.61	12,127	\$30,349,114.18	\$1,053.81	\$ 12,779,561.62	\$ 17,569,552.56
Total Savings												\$61,049,415.94

Figure 7: Calculating Savings

From Distributed Operations to Shared Services

To further illustrate the potential cost savings in establishing a shared services financial organization we will look into the cost of the General Accounting function. Logic dictates that if the processes used are automated, the cost will be lower than if the processes are manual; but the question is just how much less costly will the process be, and what should be included in the cost/benefit assessment.

	Business Unit 1	Business Unit 2	Business Unit 3	Business Unit 4	Business Unit 5	Business Unit 6	Summary /Average
FTE / Cost Data							
# of FTE's that contribute to GA	0.6	9.4	13.8	1.8	7.3	1.3	34.2
Annual Labor cost for GA	44,000	500,000	1,175,000	101,000	688,000	106,000	2,614,000
Annual system cost for GA		0	45,000	0	0	0	45,000
All other annual costs for GA	3,000	47,000	69,000	9,000	37,000	15,000	180,000
Total Cost for GA (Labor + System + Other)	47,000	547,000	1,289,000	110,000	725,000	121,000	2,839,000
Average Labor Cost	73,333	53,191	85,145	56,111	94,247	81,538	76,433
Average Other Cost	5,000	5,000	5,000	5,000	5,068	11,538	5,263
Key Metrics							
# of manual journal entries	108	235	3,200	60	975	1,080	5,658
# of automated journal entries	0	40	600	45	25	168	878
Total # journal entries	108	275	3,800	105	1,000	1,248	6,536
Cost of Creating Journal Entries							
Total number of journal entries per FTE	180	29	275	58	137	960	191
Benchmarks / Improvement Opportunities							
Internal Benchmark: journal entries per FTE	960	960	960	960	960	960	960
# of FTE's to reduce by	0	9	10	2	6	0	27
Labor cost savings, annual	35,750	484,763	837,968	94,863	589,826	NA	2,043,170

Figure 8: General Accounting Costs and Improvement Opportunities

First, organizations should assess the extent to which the systems used for General Accounting are automated. If the answer to all of the questions in Figure 9 is 'High', then the system is automated and functioning efficiently. On the other hand, if the interface between GL and its feeder systems is missing or if it turns out that journal entries and reconciliations are manual, or if the answer to the questions are more often than not 'low' or even 'not at all', then there may be room for improvement.

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Assessing General Accounting Automation

1. To what extent is the interface between the general ledger and its feeder systems automated?
 2. To what extent is a common chart of accounts used?
 3. To what extent do all feeder systems/subledgers close on the same day (e.g., last day of the month)?
 4. To what extent is a different department/process responsible for the quality of information entered into the G/L?
 5. To what extent does your system allow for the electronic transmission of remote site data?
 6. To what extent are soft closes utilized?
 7. To what extent are account reconciliations automated?
 8. To what extent are the controls/clerical functions automated?
 9. To what extent are recurring journal entries automated?
 10. To what extent are distribution sets defined?
 11. To what extent are materiality levels set for reconciliation tolerance?
 12. To what extent are the financial and operational databases integrated?
 13. To what extent are the accounting processes integrated (e.g., data captured at the source)?
 14. To what extent are corporate overhead charges allocated to Business Units?
-

Figure 9: Assess Degree of Automation

Wherever potential inefficiencies occur, the next step is to quantify the cost of the manual work that is being performed. For GA the question to ask is how many total journal entries are made, how many of those are automated, how many are manual, and what are all of the costs, labor and otherwise, that contribute to the cost of entering. This calculation will provide a key metric: cost per journal entry.

The cost per journal entry can then be compared to an internal or external benchmark. If the cost is higher than the benchmark then the next step is determining the cost of improving the system to automate the process against the cost of operating with the system as is.

The labor costs should include salaries and benefits of all FTE's contributing to the process. The goal is to find the total costs from labor, systems, and overhead, including the cost of the facility which can be computed in terms of average cost per square foot. Facilities management, IT, and HR should be able to provide targets or estimates, if not actual numbers.

The number of journal entries in Oracle EBS can be found by doing a count on the GL_JE_LINES table and filtering by operating unit. Those posting manual journal entries should be able to come up with their totals for this category. Once the values for these items are determined, calculating the total number of journal entries per FTE is a simple division problem.

One multinational organization learned that it would be able to save over \$2 million in annual labor costs after it performed the FTE journal entry analysis. Updating the systems to accommodate the changes then became a much easier decision, and once senior leadership was aware of the cost savings, establishing a shared services organization for the finance team became a realistic goal.

Preparation for an ERP Software Upgrade

After streamlining the operation to cut costs significantly, the company realized that it would be able to take advantage of new functionality available in the new release of their ERP Software, Oracle EBS R12. First, and most importantly, the cost savings alone justified the upgrade and allowed for a quicker ROI. Second, the process of consolidating the sets of books, implementing a global Chart of Accounts, and merging unneeded operating units allowed usage of Oracle's Multi Organization Access Control (MOAC) to run a shared services center efficiently without logging into and out of multiple ledgers. Create Accounting rules was used to implement reporting and tax ledgers to facilitate compliance with multiple statutory and regulatory requirements without having to re-enter the same information over and over. Finally, interfaces, data warehouse queries, and reports were much easier to create and maintain because there was a single source of truth, better access to critical financial information, enterprise standards, and an easier, more cost-effective way to manage overall operations.

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