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Executive Director of Telefónica Gestión de Servicios Compartidos
Safe harbour

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Shared Services Centers (SSCs): Achieving Operational Excellence in Support Activities
Key messages

- The SSC initiative is part of the Telefónica Group strategy to reduce costs and investments through concentration of support activities, integration and standardization of processes and systems applying e-business.

- On track to achieve expected savings and meet our $850 million NPV goal.

- During the year 2001, operations have been launched in Argentina, Brasil, Chile, Peru, Spain and the rest of Europe. Today, a wide array of services are offered to near 200 companies with 2,600 employees working in SSCs.

- Progress is being made to provide our entire catalog of services to all the Group’s companies and expand SSC operations to Mexico - Central America.

- Achievements in improving our quality and value added of the services through the implementation of best practices and strict cost control.
Iniciative with a clear strategic fit in Telefónica Group...

SSCs are established as operating tools for the Business Units working in a specific geographical area, independent of the businesses, to which they offer services in market conditions; creating legal entities “Telefónica Gestión de Servicios Compartidos” (t-gestiona).
Challenges

- Business with geographical dispersion
- Businesses in different development stages
- Process and systems diversity
- Delegation of support activities by business lines managers

Objectives

- Reduce costs and investments
- Swap fixed costs to variable in the companies
- Optimize management time
- Enable launching of new companies
- Professionalize support activities
- Objective contractual relationship: SLAs
- Provide the Group common control tools, applying corporate policies

**SSCs Mission statement:** Provide support services to the business lines within one geographical area, obtaining synergies and efficiency increases by applying e-business processes, common systems and best practices.
Key strategic decisions taken allowed...

Some key success factors

• Sponsorship at the highest level: Executive Chairman, COO, CFO,…
• Steering Committees in every SSC, and a Global one with corporate areas and business units
• Being a complex process (HR, systems, cultural change, etc.) requires leadership in client companies

Implementation alternatives

Criteria to value alternatives

• Minimize time to market and operating costs
• Impact on employees
• Processes and systems standardization level
• Legal constraints and fiscal costs
• Scalability, flexibility, expansion capacity, …

Legal and labour

• Using Group employees vs external hiring
• Voluntary transfer vs compulsory
• Virtual segregation vs independent companies vs outsourcing

Economical and organizational

• Local vs regional vs global
• Incorporation by companies vs by processes
• Incorporation “as-is” vs with reengineering
...to manage a complete portfolio of Support services with clear contract and SLAs...

**Services portfolio**

Financial Services  
- Accounting and Fixed Assets  
- Taxes  
- Accounts payable and receivable  
- Insurance Management  
- Treasury (back office)

HR Services  
- Payroll management and admin.  
- Recruiting  
- Training

General Services

Security Services

Logistic Services

Real State Services

**Market contractual relationship**

- General framework agreement with standarised terms for every country and company.
- Service quality measured by key performance indicators (KPI) fulfilment; failure to achieve them involves monetary penalties.
- Transitory period for prices and KPI setting.
- Benchmarking and market evolution guaranteed.
... becoming a reality in different geographies

Main figures

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<th>Current</th>
<th>Mid term</th>
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<tbody>
<tr>
<td>SSCs' clients</td>
<td>200</td>
<td>350</td>
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<td>SSCs' employees</td>
<td>2,600</td>
<td>3,500</td>
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<td>Revenues (a)</td>
<td>200 mill€</td>
<td>250 mill€</td>
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<td>Invoices proc. (a)</td>
<td>40 mill.</td>
<td>60 mill.</td>
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<td>Payroll proc. (m)</td>
<td>70,000</td>
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Savings differentials in cost and investments for the Group (Business Case) due to SSCs implementation were valued at $850 million NPV by an international consultancy firm.

Even discounting investments and redundancies treatment, the first five years concentrate more than 35% of the value, achieving important savings from the second year onwards.

The investments are already below those previously forecasted; from the third year only for maintenance.

The savings achieved by the SSCs and in the companies will be measured using an internally audited methodology.
...while achievements started to be realized in 2001

- Service already launched and reaching critical mass in the LATAM’s SSCs.
- Cross-company teams, with know-how and best practices transfer.
- Changing mindset of employees towards a services culture.
- Real cost base identification (“hidden cost” transparency).
- Group’s multi-business standard SAP with unified treasury management.
- Improvements in financial information for standard criteria/definitions usage.
- Spain is offering services to 70 companies including all corporate holdings.
- Argentina audited its first year joint savings\(^(*)\) totaling $42 million.
- Peru rationalized real estate and systems use with savings of $9 and $4 million respectively.
- Chile generated savings totaling $24 million, and anticipated headcount reduct. in 2003.
- EuroCorpoSAP is generating savings of $4 million in capex and $5 million in expenses.

\(^{(*)}\) Note: All savings on NPV basis for recurrent items.
The Brasilian Case: Quick implementation with achievements

Initial situation: Great volume of operations with businesses in geographical dispersion and non coordinated Support.

Main achievements

• Company launch with 900 employees
• Services provided to 22 companies into homogeneous processes and systems: Telesp, Telef. Empresas, Emergia, Atento, TPI, B2B, ...
• Emergia is an example of a “virtual” company
• Account compensation to reduce taxes
• Significant increase in payments automation
• Aiming for a target of $190 NPV. Initiatives (*) :
  – HR administration savings $15 million.
  – Financial processes savings $19 million.
  – Office space optimisation $26 million.
  – Logistic process reengineering $2million.
  – Fiscal planning with initial savings of $3 million.
  – Assets recovery program $15 million.

Next steps

• Increase of services to TPI and Terra in 2002 Q1
• Incorporation of the five mobile companies in 2002 Q2
• Services to external market in 2002 Q4

Note: All savings on NPV basis for recurrent items
Some objectives for the future...

### Quality
- KPI measuring and monitoring.
- Client’s surveys and follow up.
- New value added services.
- Quality certification ISO 9001.

### Costs
- Benchmark analysis.
- Activity Based Costing for SSCs.
- ABC/ABM services for clients.
- Savings follow up methodology.

### Execution

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**Notes:**
- Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4…..
- 2002 2003
- Execution
  - Benchmark analysis.
  - Activity Based Costing for SSCs.
  - ABC/ABM services for clients.
  - Savings follow up methodology.
...and additional business opportunities

• **Complementary** to other Telefónica’s businesses: “Services to Enterprises”.

• **Quick implementation** tool of corporate standards.

• Evolution to **e-business** means additional telecom business and greater efficiency.

• The future is in **integrated services** outsourcing with strong technological support and consulting.

• Take advantage of the scale and technological base for providing **services to third parties** decreasing internal costs and allowing benchmarking.
Telefonica