

*Administration vs. Company  
Management*

# Experience Report: F&A Outsourcing for an International Logistics Service Vendor

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A photograph of an airport tarmac. In the foreground, a red scissor lift is positioned next to an aircraft. A ground crew member in a yellow safety vest is standing on the lift. Another ground crew member is visible on the tarmac below. The aircraft's tail and wings are visible in the background. A red vertical pole is also present in the scene.

**Cost** reduction, process design, financial information to make strategic decisions, observance of the compliance requirements, and last but not least the shortage of professionals represent future topics that are currently being ascribed great importance by finance departments and corporate management.

However, many companies lack the necessary freedom to meet strategic control assignments. The competitive economic environment forces financial departments into an intensifying battle against time and cost pressures while pressing for increased efficiency.

The expense associated with administrative assignments, such as invoice processing in compliance with legal and internal regulations, regular bookkeeping, preparation of statutory statistics and reporting, as well as accounting changes due to statutory amendments, devours much of the available capacities.

As a result, it is not unusual that important information regarding corporate strategies and management is oftentimes neglected. What can be done to manage the act of finding the right balance between the administration and company's management of finance and accounting departments?

The objective is to reduce the expenditure for administrative processes in order to make room for strategic tasks. Exploiting service partnerships to optimize existing financial processes is gaining influence.

## The Presentation

Michael Teich, General Manager of ICS adminservice GmbH, demonstrates different solutions to the problem. A consequent segregation of administration

and strategic tasks plays a key role in the process. The strategic and operational assignments are often neglected when priority has to be given to administrative tasks. It is therefore vital to review which administrative assignments are "dispensable", and whether the available systems are fully utilized.

Any "watering down" of tasks must be avoided by providing clear descriptions of assignments to be segregated into administrative, operational and strategic tasks while clearly providing for absence management.

In addition to automation, process optimization, and centralization, Michael Teich presents F&A outsourcing as a successful concept for the excellent management of capacities.

It is not unusual that financial accounting departments, in particular, end up tying down valuable personnel and financial resources through prolonged processing times or obsolete processes. An outsourcing solution may, in the long run, help companies reduce capacities and costs.

## Knowledge and Experience Gained in the Market

According to recent research (September 2014) titled "Outsourcing of Processes in Financial Departments: An Opportunity or Risk for the CFO?," published by Pierre Audoin Consultants, the realization of cost reduction potentials and demand for qualified professionals is the prime driver for more than the half of the interviewed financial decision-makers with respect to outsourcing financial processes.

In German companies, more flexibility and demand for professionals are the main driving forces behind why outsourcing should be considered.

On the contrary, the loss of know-how and control, as well as potential risks to security, is considered the greatest obstacle to the outsourcing of financial processes. Those companies that have already had experience with the F&A BPO concept generally assess the related risks as minor.



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As far back as 2001, a large logistics service company with headquarters in Bavaria recognized the potential success of the F&A BPO concept.

Founded as a courier, express, and package delivering company, the company is today part of an international corporate logistics group and transports more than 50,000 mailings every day. In both Europe and Germany, the company ranks among the key market players.

### It had to overcome the following challenges:

- » competitiveness had to be preserved by concentrating on core tasks,
- » costs had to become more flexible,
- » administrative tasks had to be reduced,
- » and more freedom to make strategic decisions had to be created.

The solution was to outsource the entire bookkeeping, including payment transactions and monthly

and annual financial statements. The same went for the technical system support of SAP R/3® (FI/CO), filing of paper documents, and digital filing of SAP® files.

**The client has reached its goal:**

- » more room was created for strategic assignments to support the corporate strategy;
- » administration bottlenecks were avoided;
- » and long-term competence, exploitation of technical options, reduction, and variability of “pay-per-use” costs were achieved.

The service provider ICS is regarded as part (a department) of the company, not as an “external service provider.”

## Opportunities and Risks of the Business Process Outsourcing Concept

It is not always the case that the entire bookkeeping is assigned to a service provider. In many cases it also makes sense to accomplish a partial outsourcing. Various services such as those associated with accounts payable, assets accounting, obligations to produce proof for factoring, or the project and investment

controlling services can be rendered by an outsourcing service provider.

For instance, it has been observed that routine processes of the accounts payable department have been outsourced while bookkeepers dealing up to that point with current accounts dedicated their efforts to more superior assignments such as credit control, for example.

The service costs can be guided by negotiating Service Level Agreements (SLA) or calculated by the document volumes to be processed.

Fixed costs are transformed into demand-oriented variable costs, and the service provider's specialization and utilization of the external standardized IT-structure process yield potential benefits arising from the positive economies of scale.

Outsourcing models that don't only focus on the cost side of the issue are in great demand by finance and accounting. In the course of an outsourcing project, it is more important to analyze the existing processes together with the service provider and adjust the process complexity to the actual requirements of the company.

Everyone knows how expensive and sometimes even difficult it may be to simplify established processes. They must be realized in cooperation with an outsourcing service provider based on contractual negotiations. The outsourcing approach may thus actively foster the process optimization or standardization.

Further, external service providers usually provide a top-quality IT service.

Any concerns regarding data protection or security are understandable but ultimately unjustified. Every reputable service provider is certified and will make room for a client audit, if necessary.

Moreover, it is possible to make use of modern high-performance data centers. Such centers have exceptionally efficient fail-safe infrastructures and qualified professionals at their disposal and accommodate all the essential equipment to meet the requirements of IT and building security. In addition, they are regularly subject to certification procedures. As a result, this secures the highest security standard, which cannot be afforded by most companies on their own.

In terms of the BPO concept, the costs and responsibility in the case of ongoing operations with respect to the accounting systems are assumed by the service provider. If nothing else, the service provider is ultimately liable for the integrity of its actions, maintaining confidentiality and data protection.

The inspection of workplaces and technology as well as security facilities before signing a contract is recommended, in order to remove any doubts with regard to data protection and security.

For the outsourcing to be successful it is important that any expectations posed towards the service provider are clearly defined. A joint analysis of processes and definition of assignments are a prerequisite for establishing a clear, realizable agreement by both sides at a later point.

Our experience shows that standard procedures that are inaccurate or too tight are out of place in such cases.

It is not enough just to outline rights and obligations as this often leaves behind feelings of uncertainty and thus hinders the progress towards the required process effectiveness.

A demand is there for Service Level Agreements (SLA) that are precisely articulated without being excessively complex. When formulated explicitly and clearly, while structured in an easily understandable and clear manner, the agreement is the first security instrument in the cooperation between a service provider and a company.

There are surely many more important points to mention that contribute to the success of the outsourcing concept. The fact is that it is inevitable to bring in, in time, the professionals to join a project group while making them ready for this paradigm shift. This procedure is crucial, particularly with regard to the implementation, in order to be able to assess costs and expenses for process adjustments.

While acting as a principal it is additionally necessary to be aware of the fact that know-how is being transferred. This is exactly why the fluctuation ratio affecting the service provider should be scrutinized in more detail. It must be made sure that the outsourcing service provider has enough qualified personnel and failure strategies available—not only on the part of its personnel.

The most important thing is, however, transparency and

communication on both sides. Therefore, from the beginning onwards, it is necessary to avoid shadow accounting, avoid inflating residual management units without due reason, and define fixed contact partners and supervisory duties.

## Conclusion

Companies will gain significant advantages by having outsourced their partial processes or the entire finance to an external service provider. In addition to the process efficiency already mentioned, the companies that outsource will also benefit from the efficiency of the service provider's personnel. There is orderly absence cover, personnel reserves maintained in one's own company are no longer required, and available capacities can be managed efficiently. The professional quality, which is subject to permanent adjustments to meet changing needs, is also of great significance. Changes in law are implemented in time, and cost intensive training of one's own professional departments can be eliminated. The outsourcing concept could also be a solution to the shortage in professional manpower on route to market success.

*This article is a summary of Mr. Teich's presentation during the 2nd ITO&BPO Germany Forum 2015 in April in Berlin.*



**The Author:** Michael Teich is CEO of ICS adminservice GmbH. With currently 86 employees at locations in Berlin, Leuna and Rostock, the ICS offers BPO solutions in the areas of Payroll, Travel Cost and Finance & Accounting for medium and large companies for more than 20 years. ICS is part of itelligence AG, an international IT company. Prior to joining ICS in 2010, Michael Teich was Managing Director within the Argo Group, a nationwide operating service provider. Previously, he was head of HR at Softmatic AG, an international software company with locations across Europe and the United States. In addition, he was responsible for several consulting projects in Germany and Switzerland and founded the HR consulting company ANTES international GmbH in Hamburg. His main focus in the past 15 years has been the founding and restructuring of companies or business units as well as the turnaround management.

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