

Benchmarking*

(Y)our Story of Success



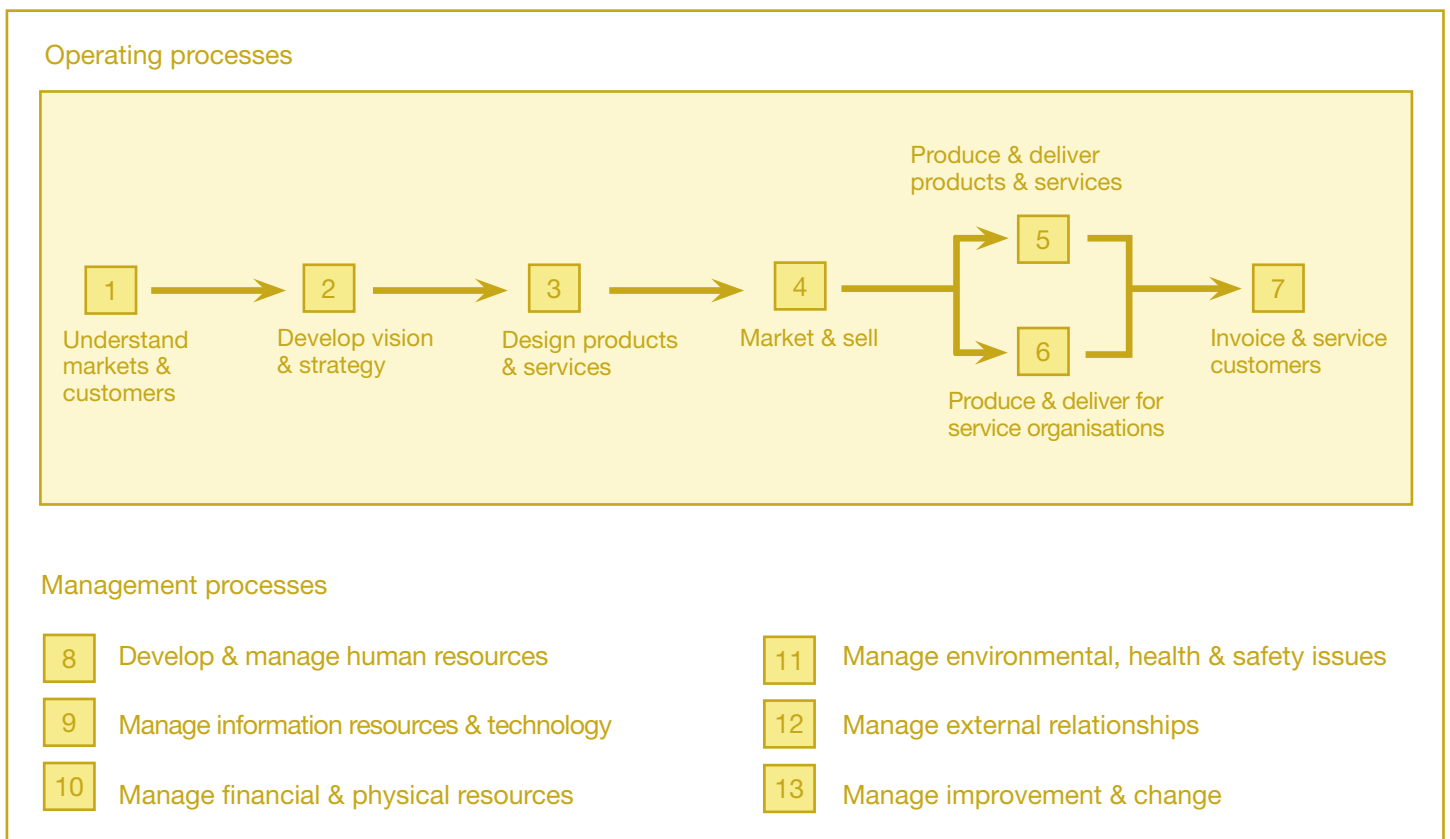
Success Story: Benchmarking

Best Practice

A European high-technology company (following “SuccessSharing Inc.”) not only has numerous subsidiaries throughout Europe and America but is also, first and foremost, a market leader ideally positioned for further growth. As a subsidiary of a larger high-tech group with various alliances and partnerships throughout the world, SuccessSharing Inc. utilises a central finance function at its company headquarters and local functions at its subsidiaries for finance, human resource and procurement operations. In order to find and realise all potential optimisation areas, PwC worked closely with the client on a Global Best Practices® Benchmarking in the finance, human resources and procurement functions.

The Success Process

The project was initially launched domestically but was later expanded to include SuccessSharing Inc.’s foreign subsidiaries. The benchmarking process was conducted interactively with the client. Goals and activities were based on the PwC framework (see graphic) and assured comparability with other benchmark results. In the first phase, the questionnaires filled out by the client were checked for plausibility by PwC. An analysis report and a summary of the most important issues were presented. Armed with these key facts, a follow-up workshop was able to determine concrete improvement potentials along with the necessary measures and timetables necessary for their successful realisation.



Laugh all the way to the bank

The PwC Global Best Practices® knowledge databank offers you the unique opportunity of profiting from the successful methods and insights of worldwide market leaders and adapting those methods in order to reach your top performance level.

In specific benchmarking cases, market-specific and market-spanning, quantitative comparisons are made against the median and top companies. If desired, we can also apply our Best Practices knowledge to qualitative process and risk evaluations.

PwC Global Best Practices® Benchmarking offers you:

- Quantitative benchmarking data from over 3,000 companies
- Over 20 benchmarking tools for the evaluation of over 700 quantitative measures
- Qualitative benchmarking tools for over 13 core and 100 sub processes
- Detailed knowledge of more than 150 standard processes
- More than 300 company profiles
- Over 1,000 examples of Best Practice process applications for worldwide leading companies
- 350 control guidelines including controls for the evaluation and minimisation of process risks

You can use the following Quick-Check to preliminarily evaluate your company according to the processes listed and determine possible improvement potentials. Please be sure to use the same process definitions for your answers, as those laid out in the process framework, as this will ensure a comparable result. For more detailed information on where your company lies on the road to Best Practice, please contact your local representative.

Industry-spanning Benchmarks	Median	Best-in class	Your company	Your potential
Total finance function costs over total revenue (percent)	0.8%	0.4%		
Finance personnel costs over total revenue (percent)	0.6%	0.2%		
Payroll staff over total employees (percent)	0.4%	0.2%		
Procurement function costs over total revenue (percent)	0.4%	0.2%		
Procurement department employees over total employees (percent)	1.5%	0.8%		
Suppliers that make up 80% of total supplied volume (percent)	7.6%	3.6%		
Absentee days (including medical leave)	8.0	3.4		
Number of training days per employee	2	4.7		
Total personnel department costs per company employee	725 EUR	236 EUR		

SuccessSharing Inc. intermediate results

- Days sales outstanding too high
- Inventory levels not fully under control and steadily rising
- Costs for various function too high (e.g.: Finance & accounting costs on group level 50% higher than the median and 100% higher than Best Practice)
- Financial budgeting and analysis require too much personnel and result in budget and actual variations that are too large
- Many small suppliers and not enough synergies are utilised, making supply volume bundling difficult and resulting in higher procurement costs
- Delivery times higher than the median while suppliers are paid much sooner than the benchmarking standard
- High training costs along with a high turnover rate
- No fully standardised payroll system in place

The Consequence

Due to these key results, several follow-up projects were started at SuccessSharing Inc. as a consequence of the above-mentioned benchmarking results. These projects included a working capital management project performed by a PwC expert team and included the following activities:

- Identification of short and mid-term working capital potential
- Establishment of detailed plans to realise the defined potentials
- Recommendations for process and organisational improvements

The recommendations

Accounts receivable

The emphasis lies on the implementation of an effective collection process, negotiating better payment terms including customer payments, and a qualitatively better billing process. Additionally, the possible implementation of alternative financing methods is also being closely investigated.

Inventory

A comprehensive integration of the operational departments along with the supply chain management is necessary. Additional guidelines for special purchases need to be set. The minimum inventory level requirements of the individual subsidiaries need to be organised and implemented into a group-wide inventory management system.

Accounts payable

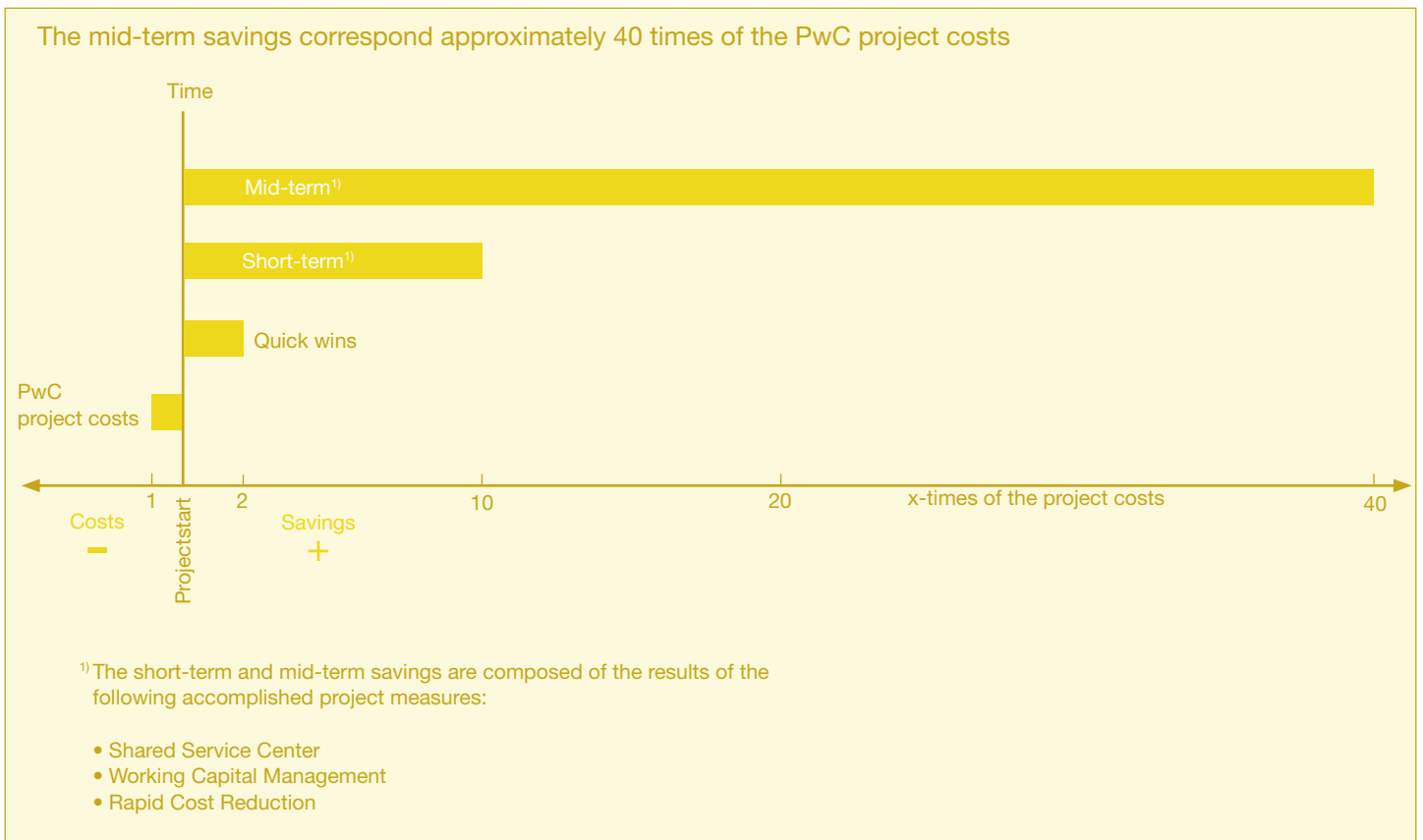
Focus lies on the extension of the payment periods, payments where discounts are not possible, and in procurement optimisation (volume bundling and supplier reduction).

Additionally

The strategic optimisation of procurement functions and the implementation of a Shared Service Center for finance functions were looked into for the separate functions. PwC experiences show that potential savings achieved through procurement optimisation result in five to fifteen percent of the purchase volume (ten percent, on average). The implementation of a Shared Service Center results in costs savings of 25% to 50% when compared to the original cost base.

Success Result

- Identification of a sustainable potential for substantially reducing the working capital of SuccessSharing Inc.
 - Quick wins: saved enough money to fund the project twice over
 - Short-term: reduction of net working capital of approx. 20%
 - Mid-term: reduction of net working capital of approx. 40%
- Available cash resources increased sevenfold from the beginning of the project
- ROI of the working capital management project will be 20 times higher than the cost of the PwC project
- Effects on cost basis and EBIT will be considerable and sustainable



Conclusion

The ROI from the working capital management project for SuccessSharing Inc. will be 20 times higher than the costs of the PwC project. The additional savings potentials brought about by procurement optimisation and the implementation of a Shared Service Center each result in an additional savings of ten times the cost of the project.

The quick wins amount to double the costs of the PwC project, while the intermediate savings amount to 40 times the costs of the project.

The results clearly highlight the benefits of participating in a benchmarking, discovering the resulting potential savings initiatives, and realising where on the road to Best Practice a company finds itself.

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