

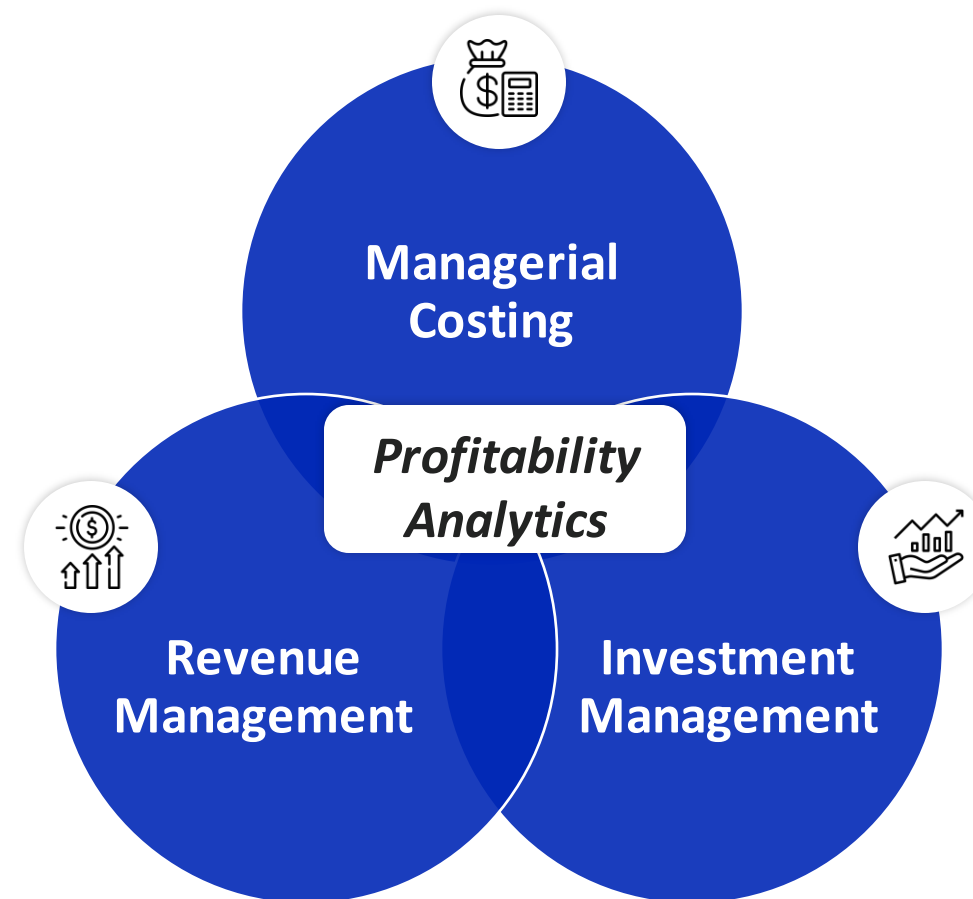
Building cost allocation models for shared service centers

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CEO and CFO of CostPerform

Profitability Analytics

The point where Revenue Management, Investment Management and Managerial Costing intersect



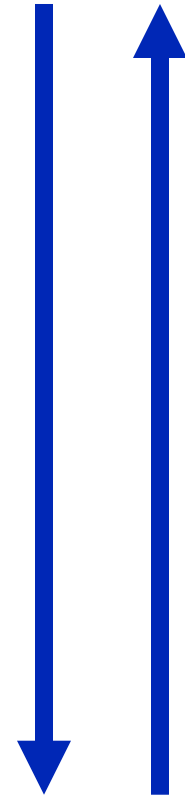
How much does it cost to grant a loan?



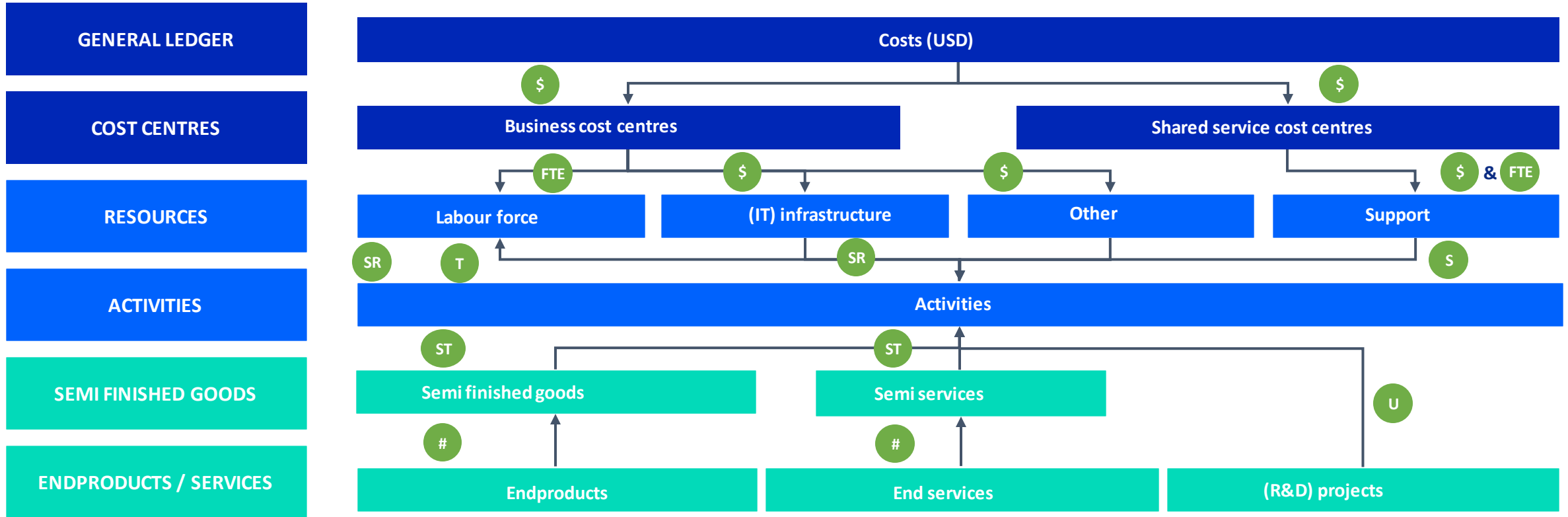
Shared service centers cost modelling

Small techniques, big impacts

The basic concept: ABC

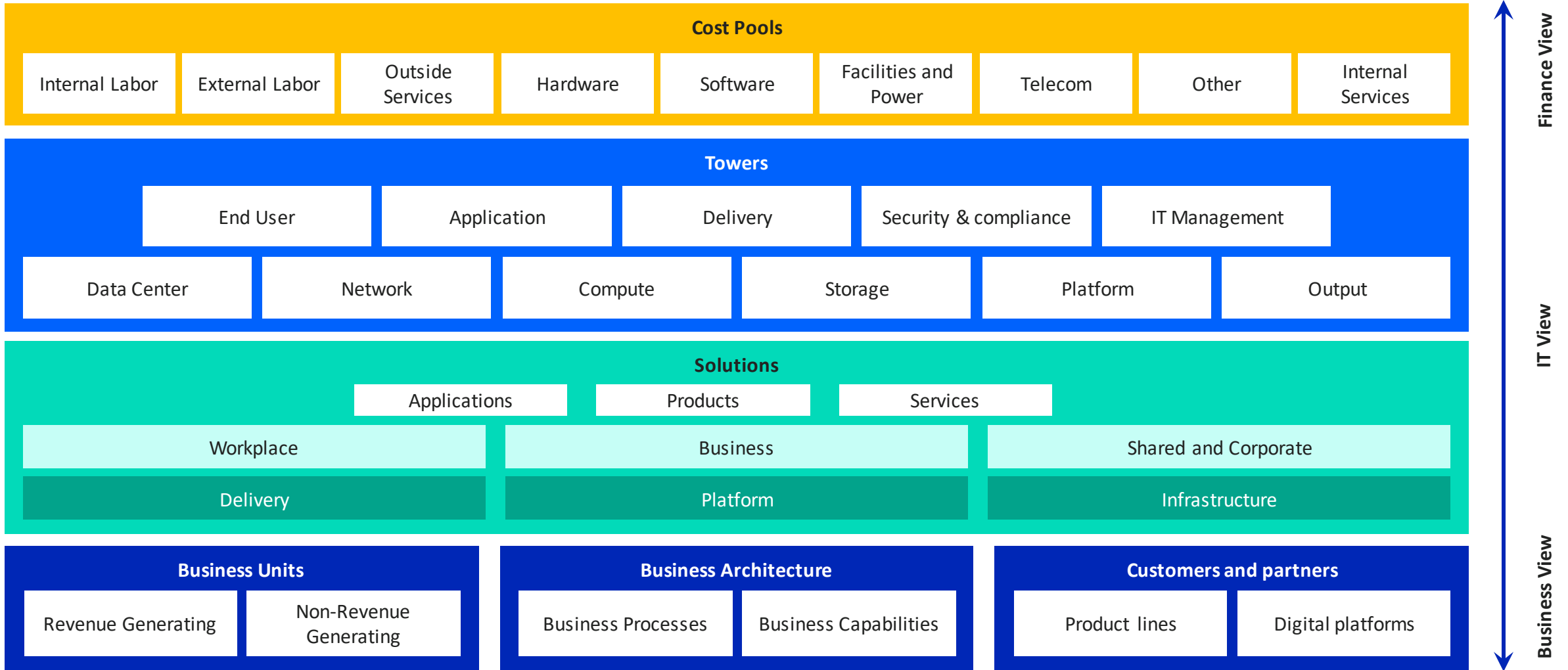


Important terms in relation to cost price modelling



LEGEND	\$	Actual costs	SR	Standard ratio	U	Project hours	FTE	FTE numbers
	S	Surcharge	ST	Standard time	#	Sales volume	T	Hourly rate

Shared Service Example: TBM Taxonomy



Example Exercise:

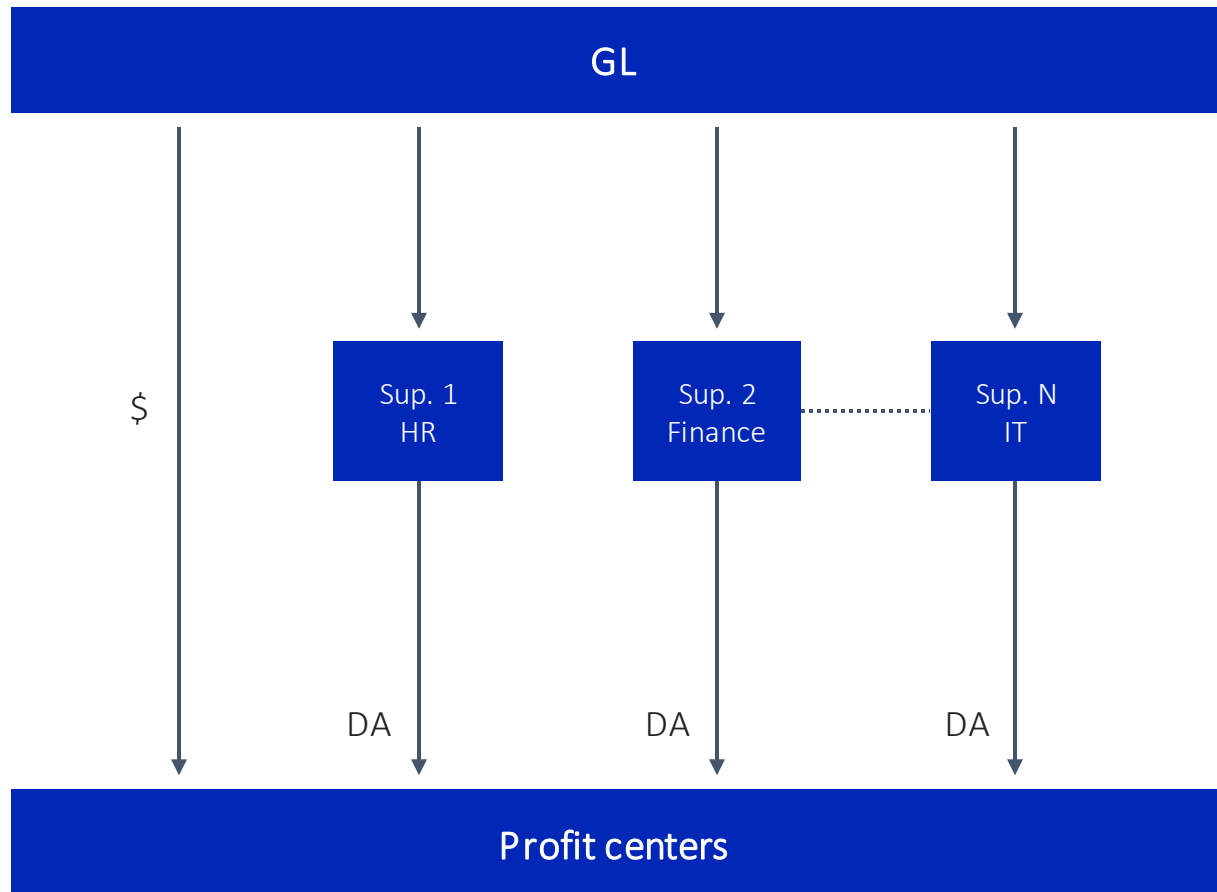


CALCULATE THE COST ALLOCATIONS, USING THE FOLLOWING INFO

IT \$1000	Driver: # IT requests 300 FTE 500 Invoices 200 IT requests	FINANCE \$2000	Driver: # Invoices 100 FTE 500 Invoices 300 IT requests	HR \$3000	Driver: # FTE 200 FTE 1000 Invoices 500 IT requests
FRONT OFFICE 1	2500 FTE 10k Invoices 600 IT requests	FRONT OFFICE 2	4000 FTE 3k Invoices 50 IT requests		

\$ = direct flow from GL to centers | DA = Direct attributable, driver based

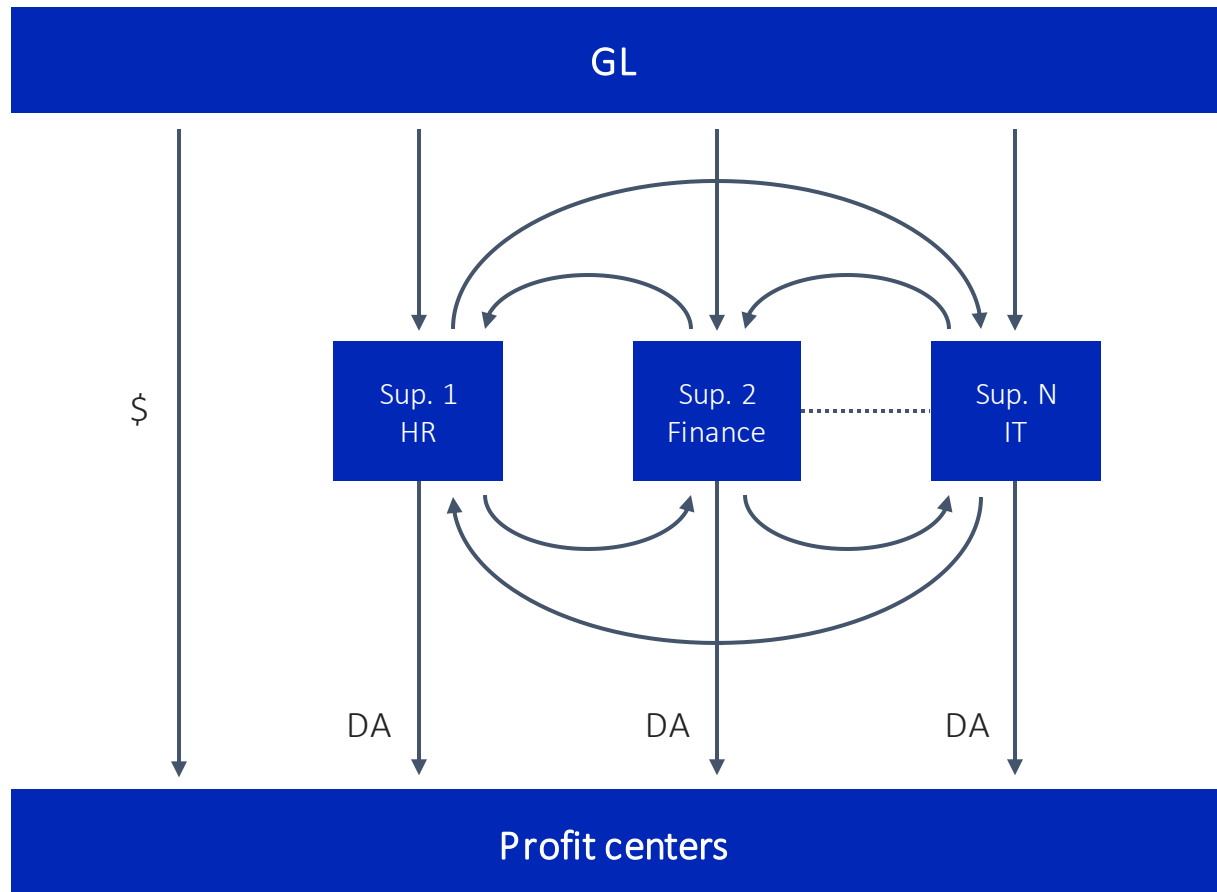
1. THE DIRECT ALLOCATIONS



DESCRIPTION	<ul style="list-style-type: none">All support departments will allocate directly to the profit centers. Services between support centers are ignored.
EXAMPLE	<ul style="list-style-type: none">IT , HR and Finance each provide services to profit centers. By allocating the cost of these services based upon a driver value the profit center get a fully loaded costs.
ADVANTAGE	<ul style="list-style-type: none">Very easyNo order neededEasy to explain
DISADVANTAGE	<ul style="list-style-type: none">Mostly not fairCan lead to discussions at the profit centers

\$ = direct flow from GL to centers | DA = Direct attributable, driver based

2. THE RECIPROCAL (LOOP) ALLOCATIONS



DESCRIPTION

- All support departments can allocate back and forth to each other. Circular references are mathematically solved

EXAMPLE

- IT provides services to HR which “loads” the HR services that are delivered to IT. This HR services “loads” the IT services, so extra cost will have to go to HR, etc., etc.

ADVANTAGE

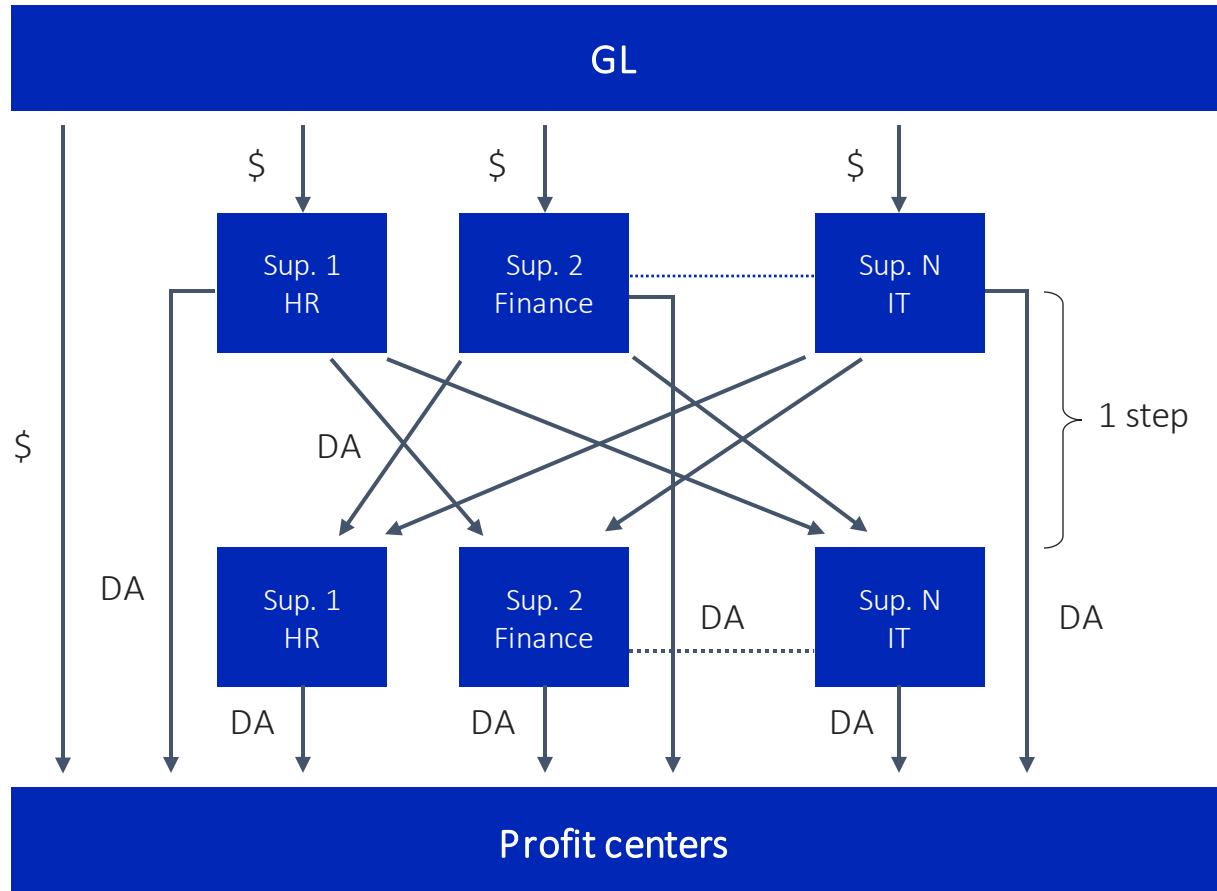
- Very accurate
- No order needed
- Relatively easy to set up

DISADVANTAGE

- Nontransparent in reporting
- Can lead to high calculation times due to mathematical complexity

\$ = direct flow from GL to centers | DA = Direct attributable, driver based

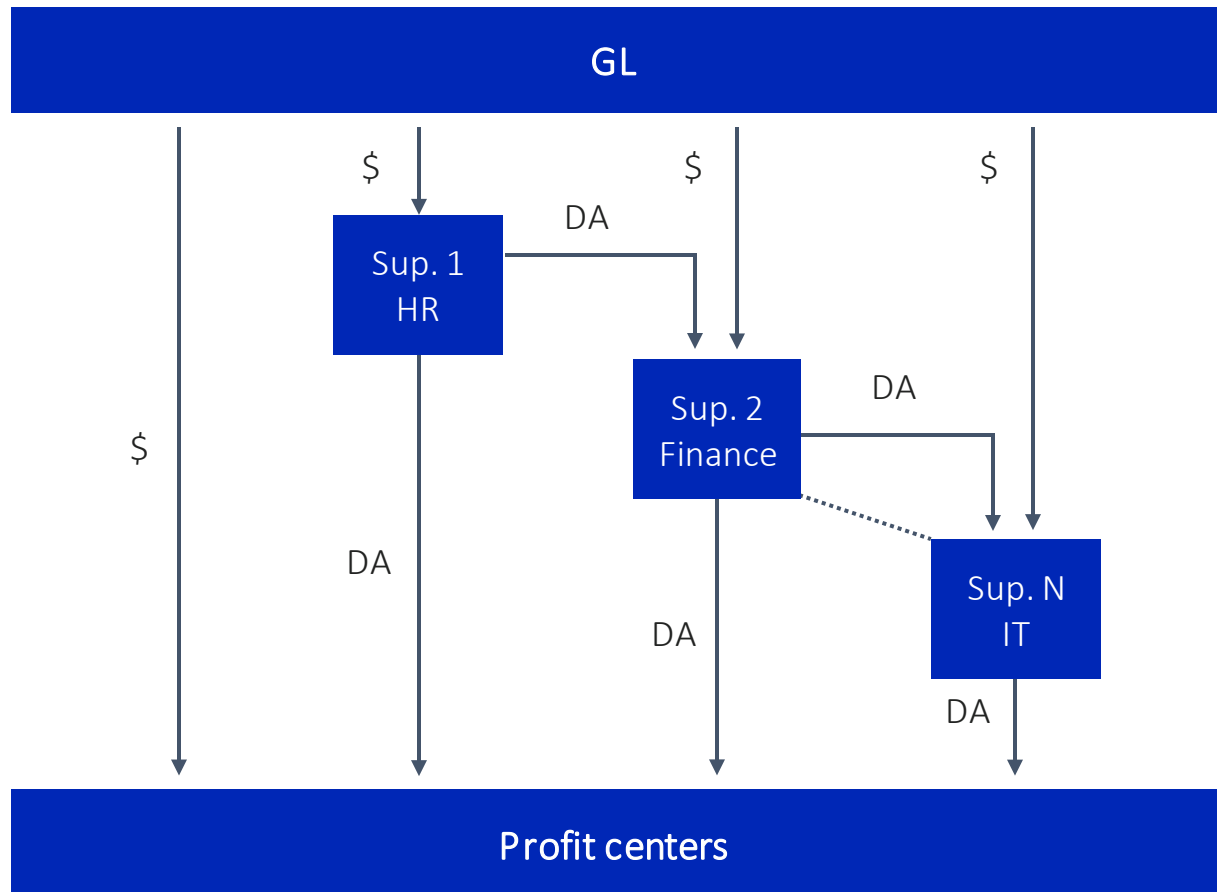
3. THE MULTI-STEP ALLOCATIONS



DESCRIPTION	<ul style="list-style-type: none"> Support can allocate to other support departments based upon drivers. This “loads” the support departments with support costs. This procedure can be done in multiple steps
EXAMPLE	<ul style="list-style-type: none"> IT receives cost from HR and HR receives cost from IT. Both IT and HR then allocate to profit centers. In a 2-step approach the support departments allocate once more to each other
ADVANTAGE	<ul style="list-style-type: none"> Increased transparency No order needed
DISADVANTAGE	<ul style="list-style-type: none"> Less steps means less accuracy Models get extra layers

\$ = direct flow from GL to centers | DA = Direct attributable, driver based

4. THE WATERFALL ALLOCATIONS



DESCRIPTION	<ul style="list-style-type: none"> Support allocates to other support in a specific order
EXAMPLE	<ul style="list-style-type: none"> HR first allocates to Finance and profit centers. Finance then allocates to the next support department and profit center, etc., etc.
ADVANTAGE	<ul style="list-style-type: none"> Very transparent Easy to set up
DISADVANTAGE	<ul style="list-style-type: none"> Not very accurate since only 1 to 1 within support Many layers

How much does it cost to produce a gallon of petrol?

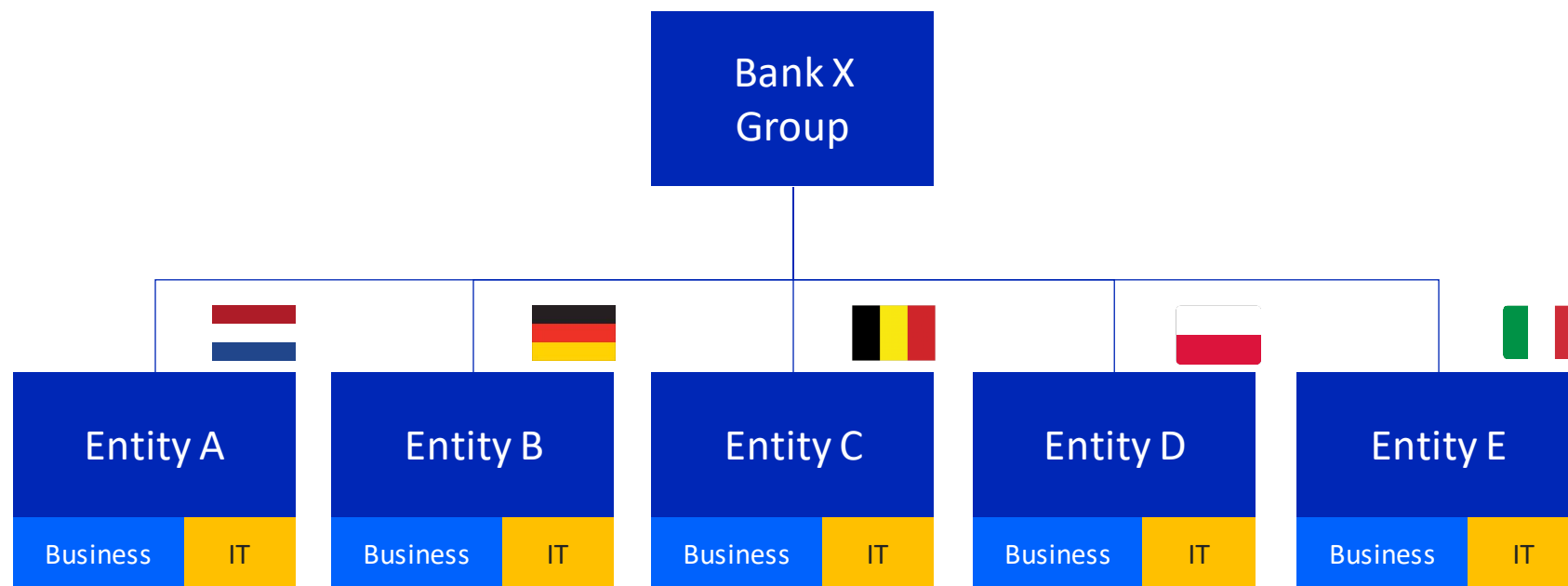


A real-life example

Case: A European bank is centralizing IT hubs

TRADITIONAL SITUATION:

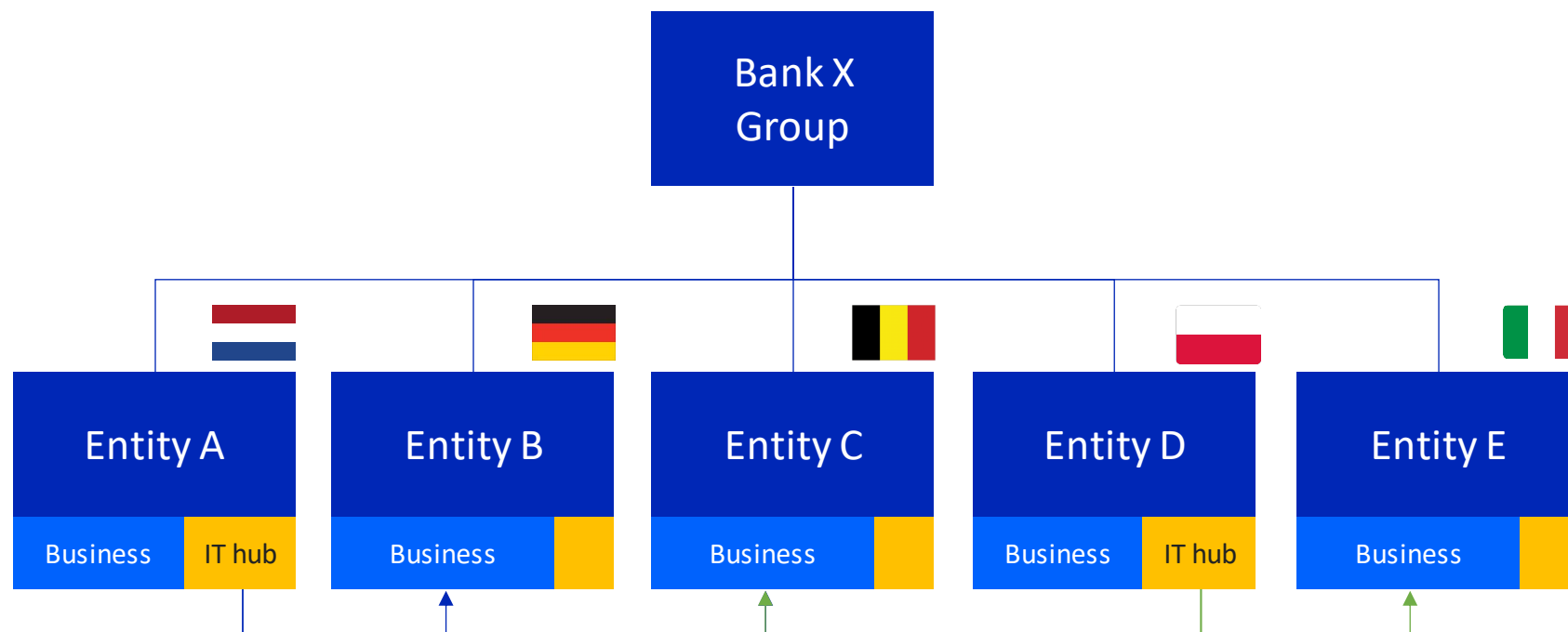
All entities are serviced by their own IT departments



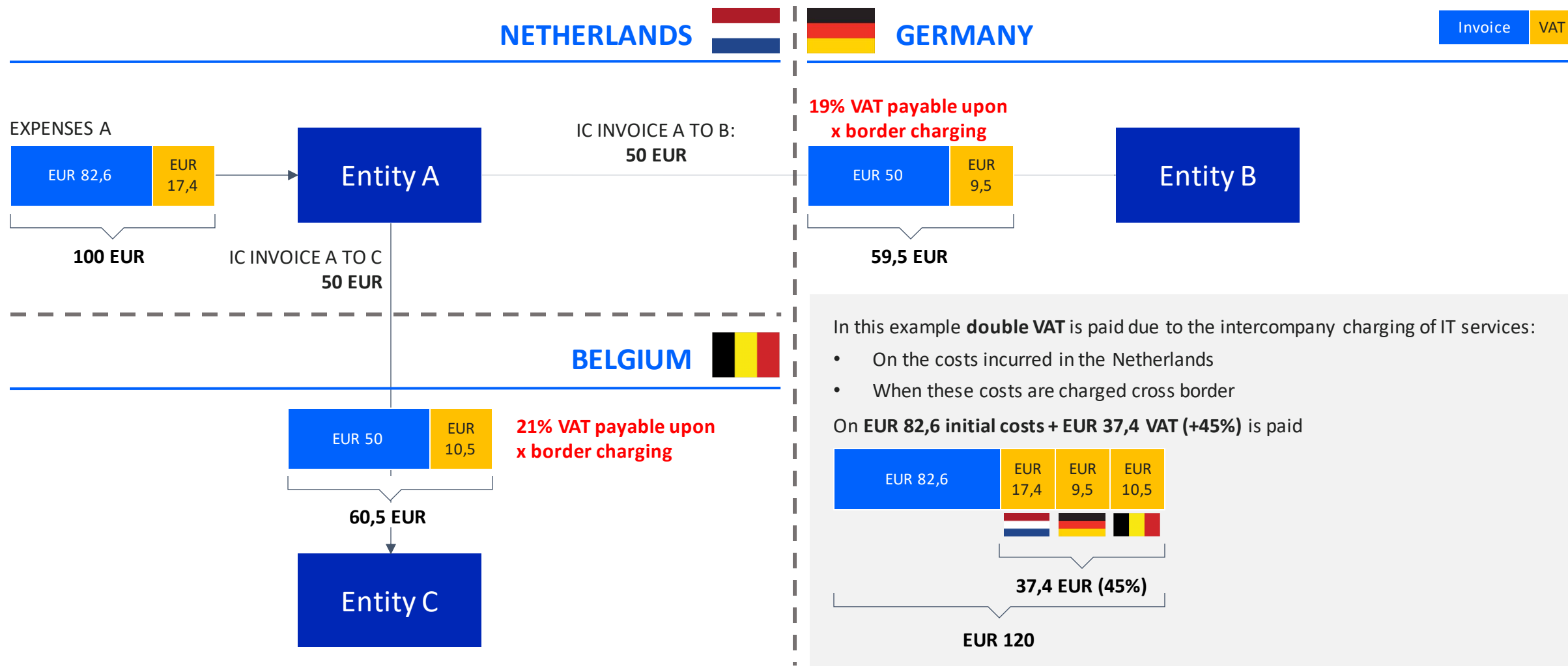
Case: A European bank is centralizing IT hubs

TRANSFORMATION FROM TO IT (SERVICE) HUBS HAS HUGE BENEFITS:

Use latest technology
Uniform use of technology
Economies of scale
Attract talent



Issue of double VAT in the European financial sector explained



Where do we see big negative impact resulting from double VAT?

WHERE DO WE SEE BIG NEGATIVE IMPACT?



Financial Services
Industry



In Europe



With x border
service centers



WHAT IS THE IMPACT?

- In the example: **+ 20% expenses**
- On a EUR 50m flow: **+ EUR 10m**
- Impact calculations should be **lowered** with **% non-VAT bearing costs** like wages

CAN THE DOUBLE VAT BE MITIGATED?

- Yes, it is not the intention of the legislator to create a situation of double taxation
- Therefore, multiple European countries have a 'reverse charge procedure' (in Dutch: 'verleggingsregeling')
- The essence of the procedure is that if a Financial Services company can **prove** that the **expenses** it is **incurring** are for **(IT) services to be charged to other countries**, the **initial VAT** on these expenses **can be recovered**. This way, the VAT is only paid in the countries where these services are utilized

BASIC Concept of the 'Reverse charge Procedure'



How much does it cost to maintain an oil rig?



Thank you!

How much does it cost to maintain an oil rig?



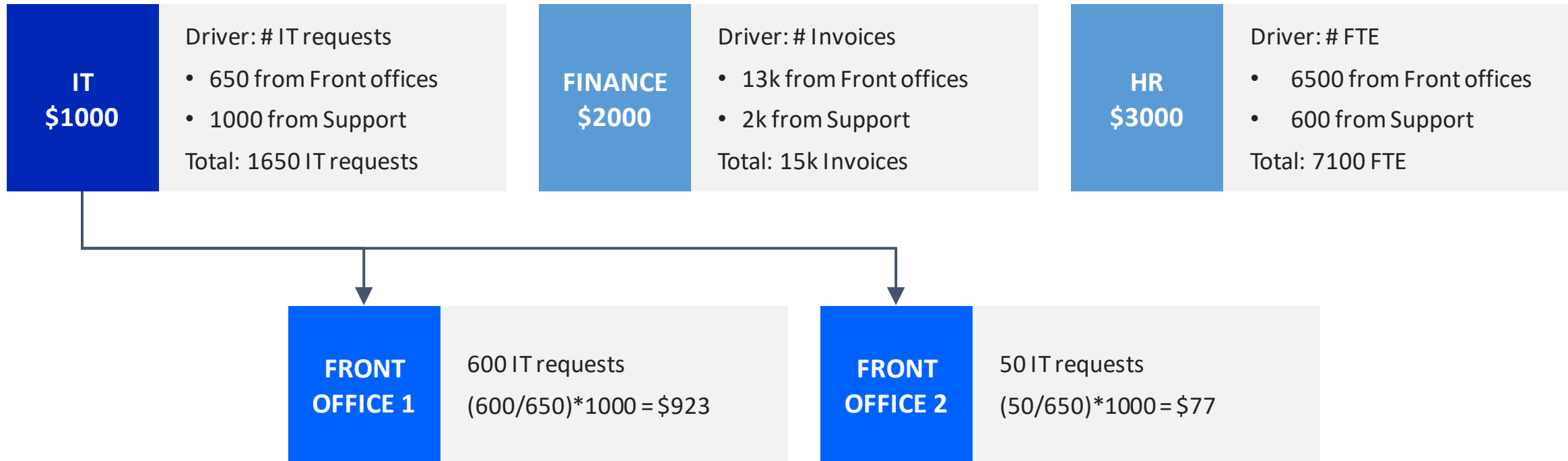
Appendix: Calculation examples

How much does it cost to produce a gallon of petrol?

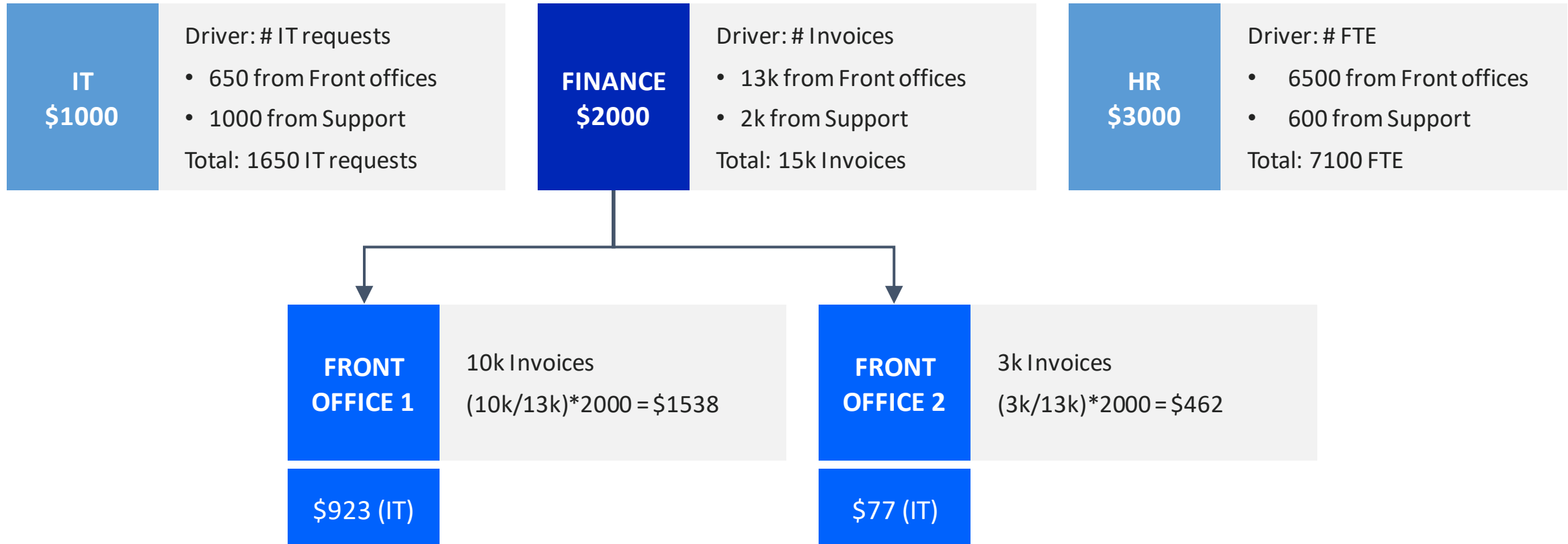


Direct allocation

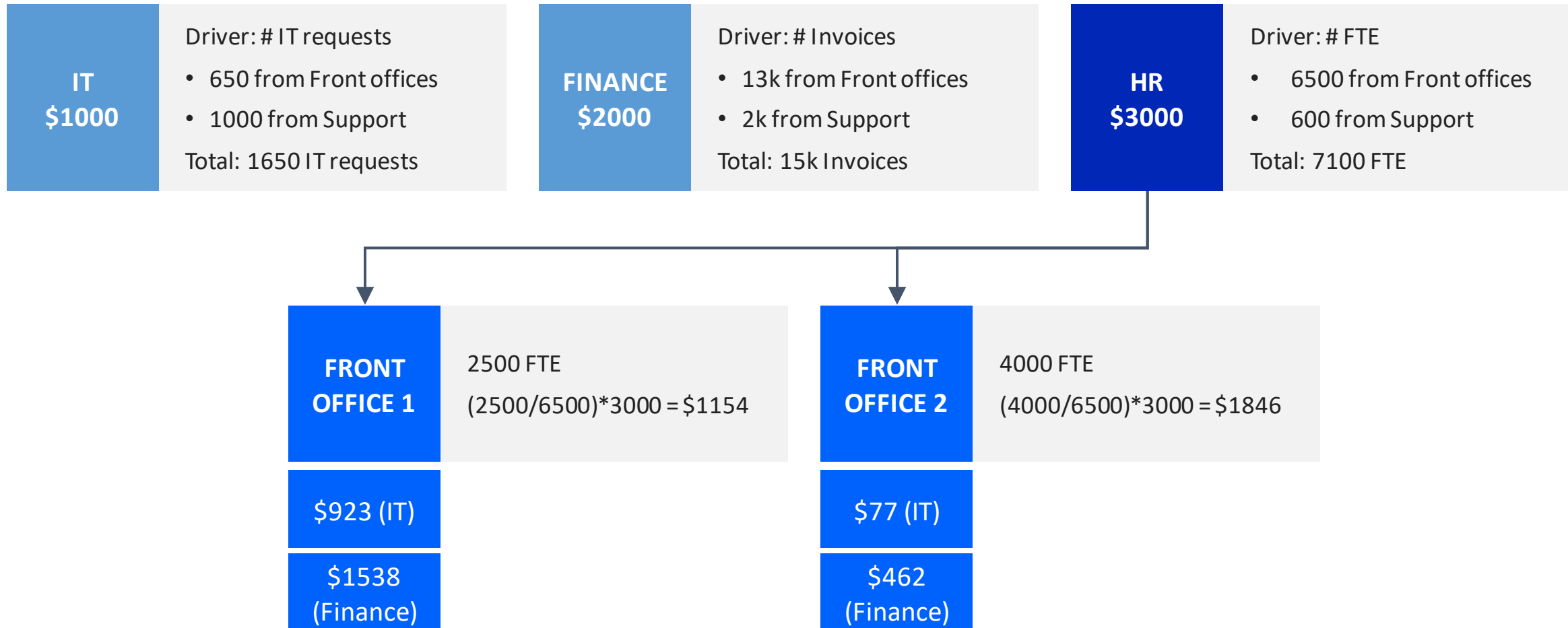
The direct allocations 1/4



The direct allocations 2/4



The direct allocations 3/4



The direct allocations 4/4

IT \$1000	Driver: # IT requests <ul style="list-style-type: none"> • 650 from Front offices • 1000 from Support Total: 1650 IT requests	FINANCE \$2000	Driver: # Invoices <ul style="list-style-type: none"> • 13k from Front offices • 2k from Support Total: 15k Invoices	HR \$3000	Driver: # FTE <ul style="list-style-type: none"> • 6500 from Front offices • 600 from Support Total: 7100 FTE
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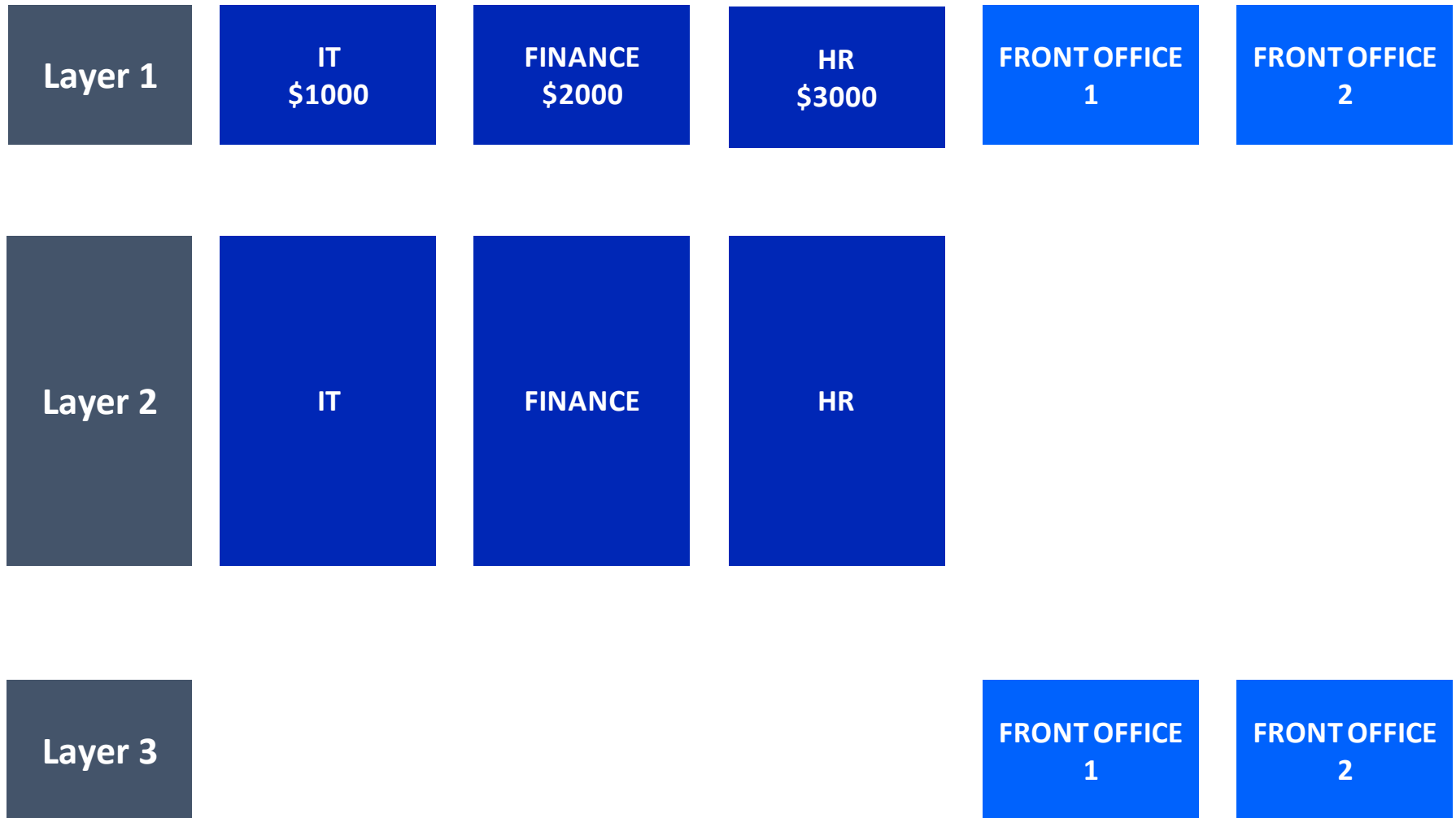
FRONT OFFICE 1	2500 FTE 10k Invoices 600 IT requests	FRONT OFFICE 2	4000 FTE 3k Invoices 50 IT requests
\$923 (IT)	Total: \$3615	\$77 (IT)	Total: \$2385
\$1538 (Finance)		\$462 (Finance)	
\$1154 (HR)		\$1846 (HR)	

How much does it cost to produce a gallon of petrol?



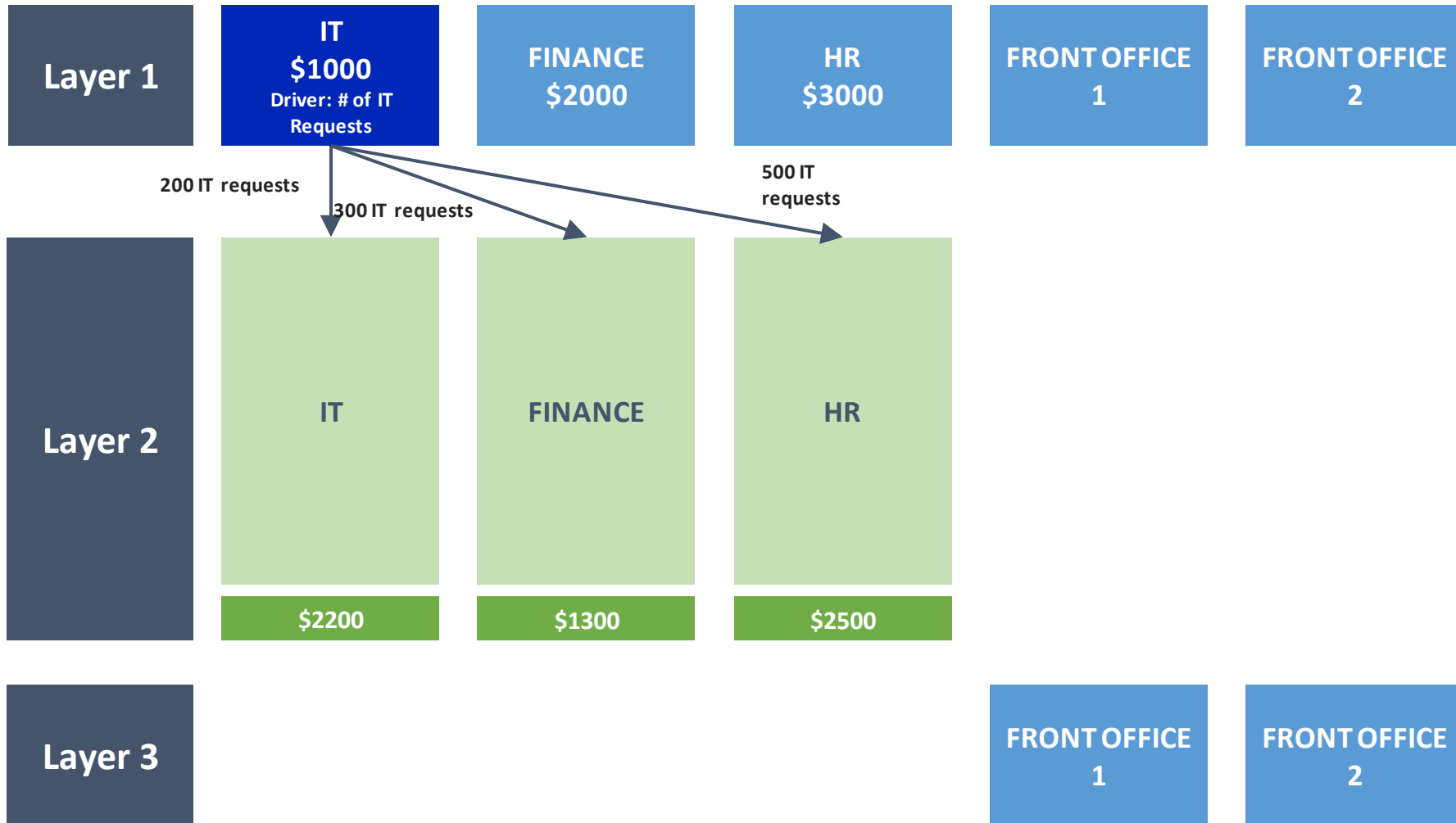
Step-down allocation

The step-down allocations 1/11



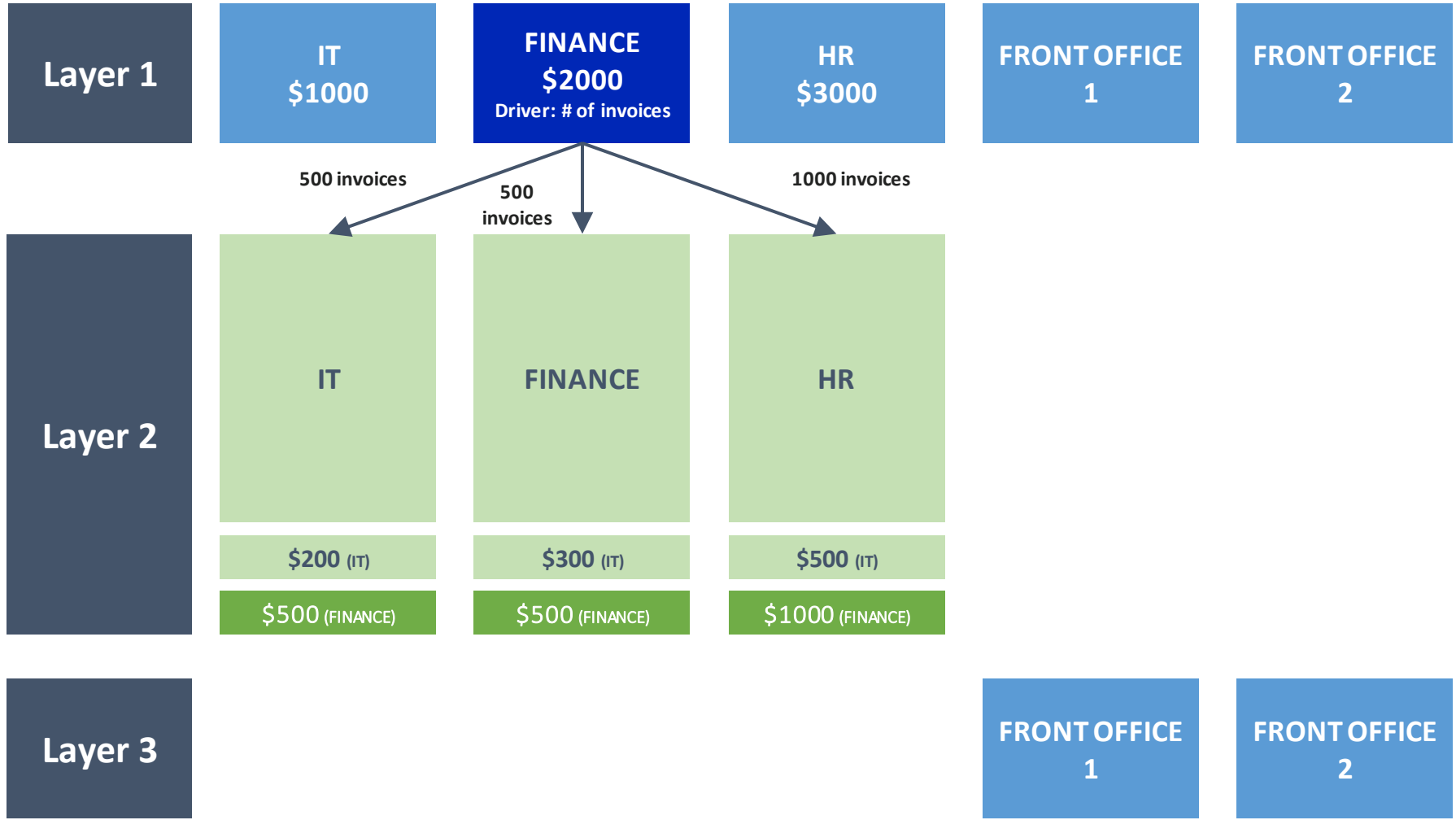
Set up layers in a way that allows Layer 1 to allocate to layer 2 (support to support)
 Then layer 2 to layer 3 (support redistributed to front office)

The step-down allocations 2/11



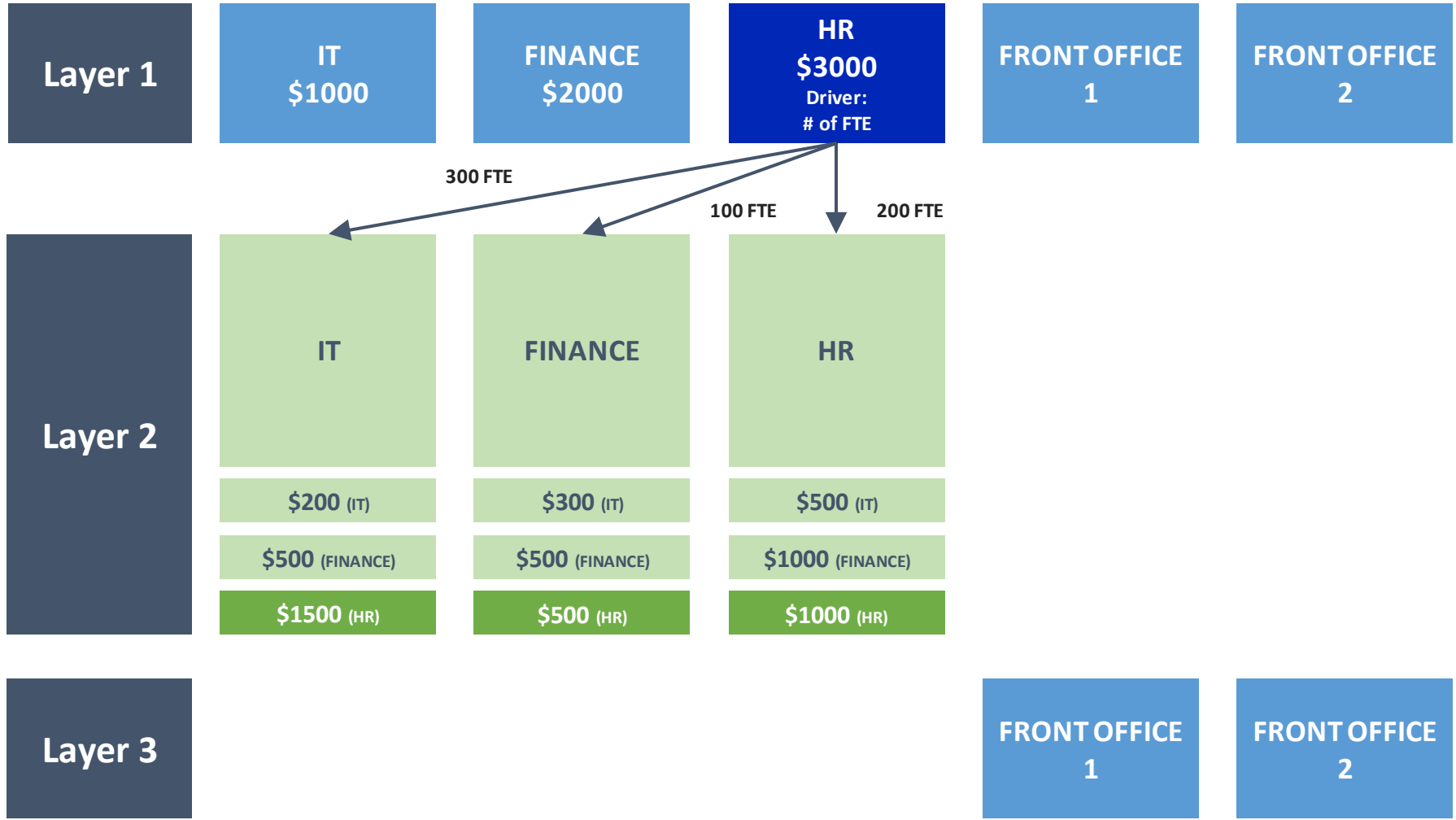
Allocate each support to other support including itself

The step-down allocations 3/11



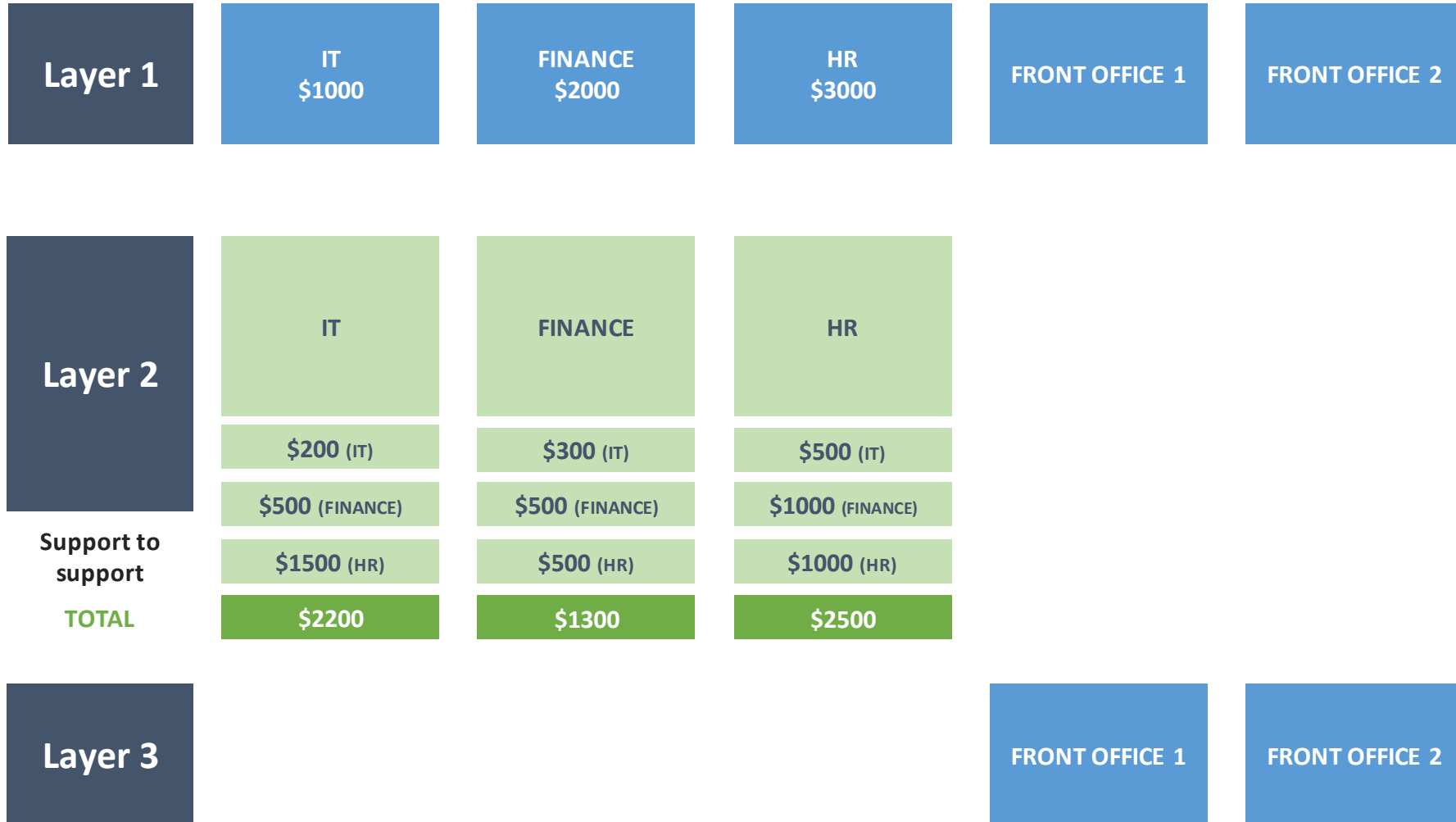
Allocate each support to other support including itself

The step-down allocations 4/11



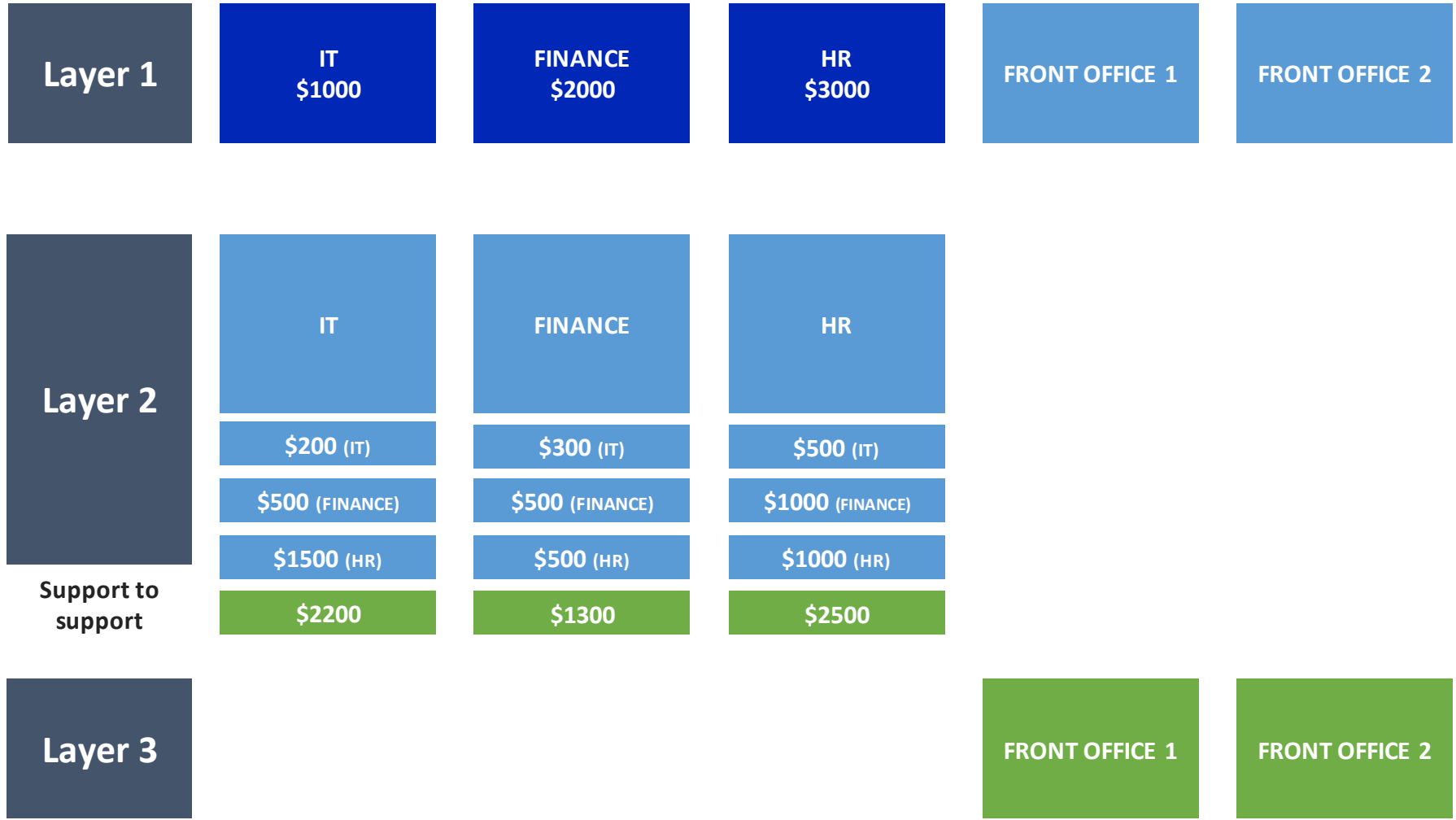
Allocate each support to other support including itself

The step-down allocations 5/11



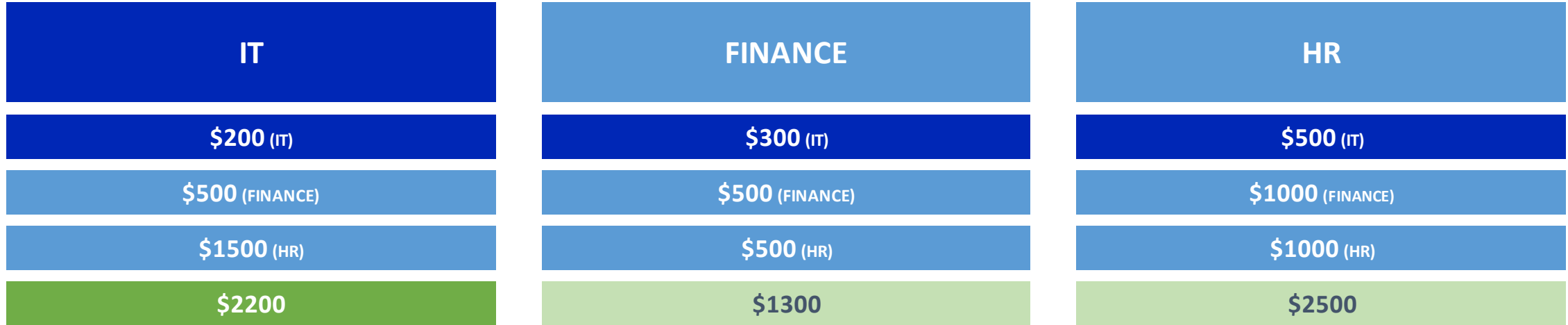
**Result is Layer 1 = Layer 2 but the support split is different.
e.g. IT in the GL was 1000 after absorbing other support it is 2200**

The step-down allocations 6/11



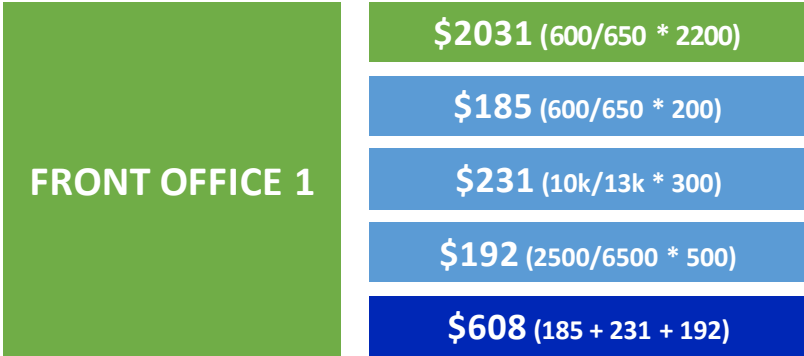
Allocate the layer 2 (redistributed support) to the Front office as per usual practice.

The step-down allocations 7/11



We can calculate the allocated costs from the IT department to front office 1, and the “pure” IT costs from IT itself, Finance and HR.

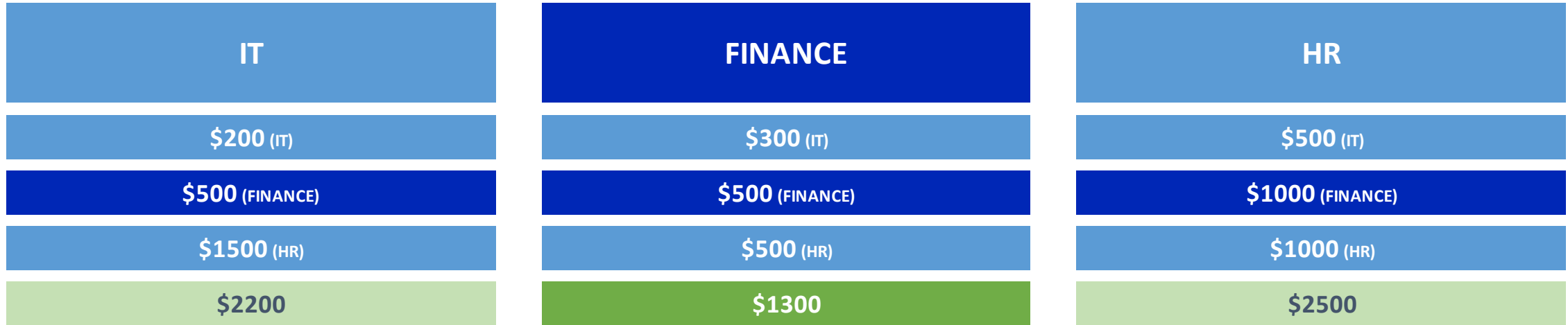
2500 FTE
10k Invoices
600 IT requests



Costs allocated from IT, including loop costs from all support departments

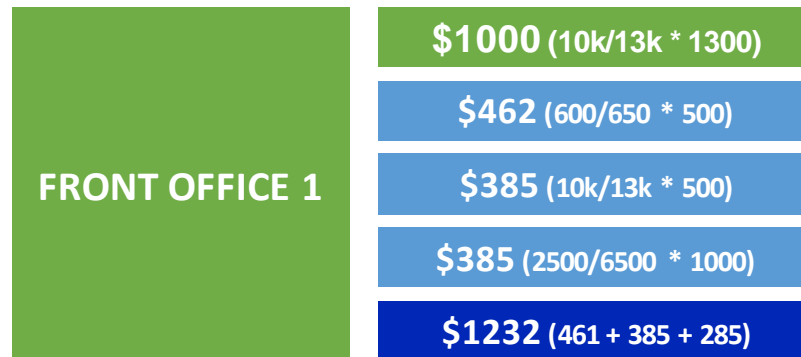
“Pure” IT costs

The step-down allocations 8/11



2500 FTE
10k Invoices
600 IT requests

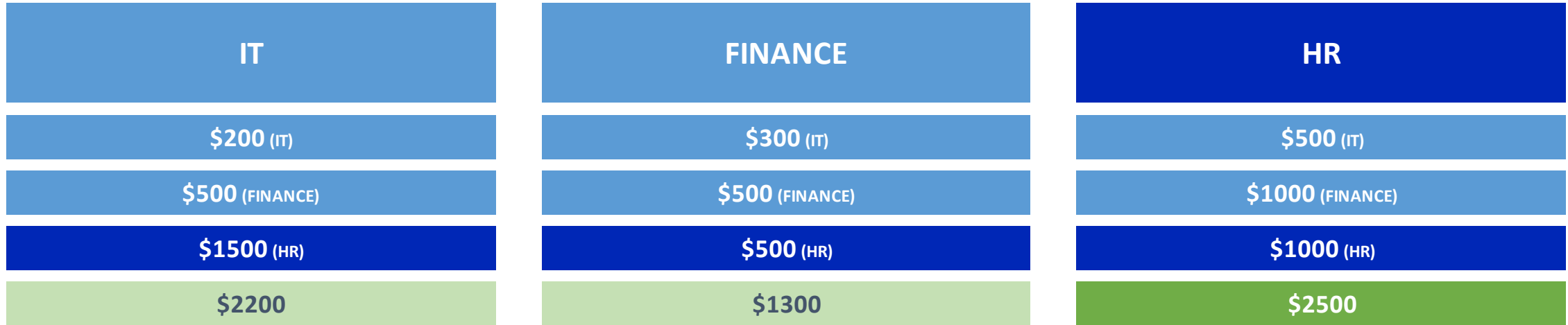
	Allocated	Pure
IT	\$2031	\$608



Costs allocated from IT, including loop costs from all support departments

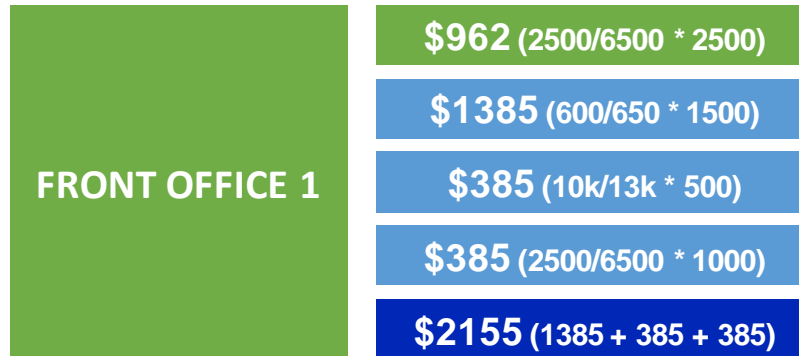
"Pure" IT costs

The step-down allocations 9/11



2500 FTE
10k Invoices
600 IT requests

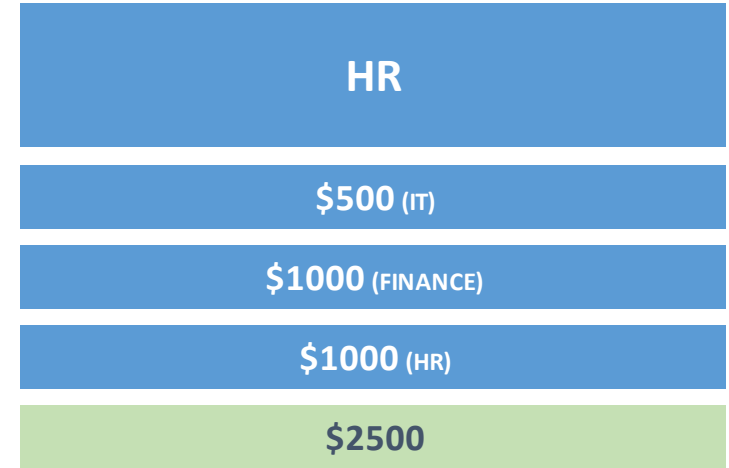
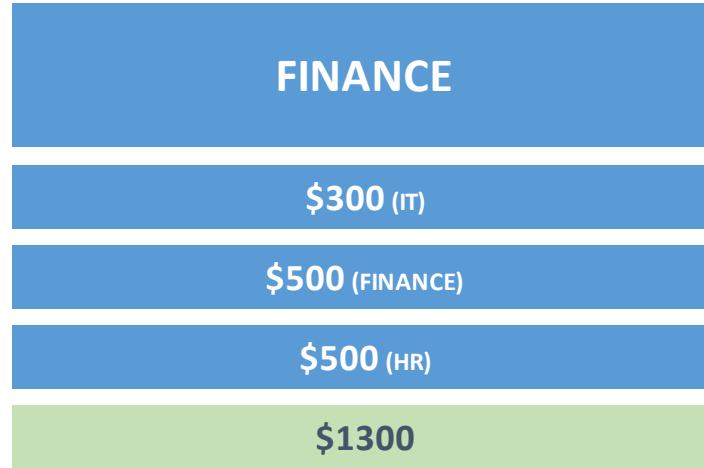
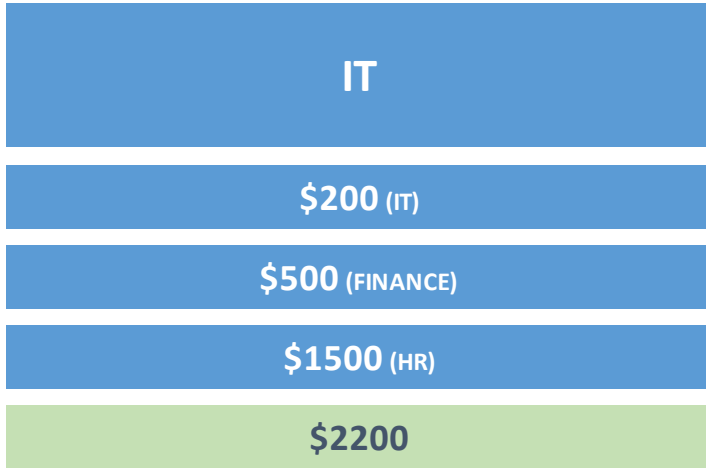
	Allocated	Pure
IT	\$2031	\$608
Finance	\$1000	\$1232



Costs allocated from IT, including loop costs from all support departments

"Pure" IT costs

The step-down allocations 10/11



	Allocated	Pure	
IT	\$2031	\$608	FRONT OFFICE 1 2500 FTE 10k Invoices 600 IT requests
Finance	\$1000	\$1232	
HR	\$962	\$2155	
	\$3993		

The step-down allocations 11/11

