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Telefónica

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Safe harbour

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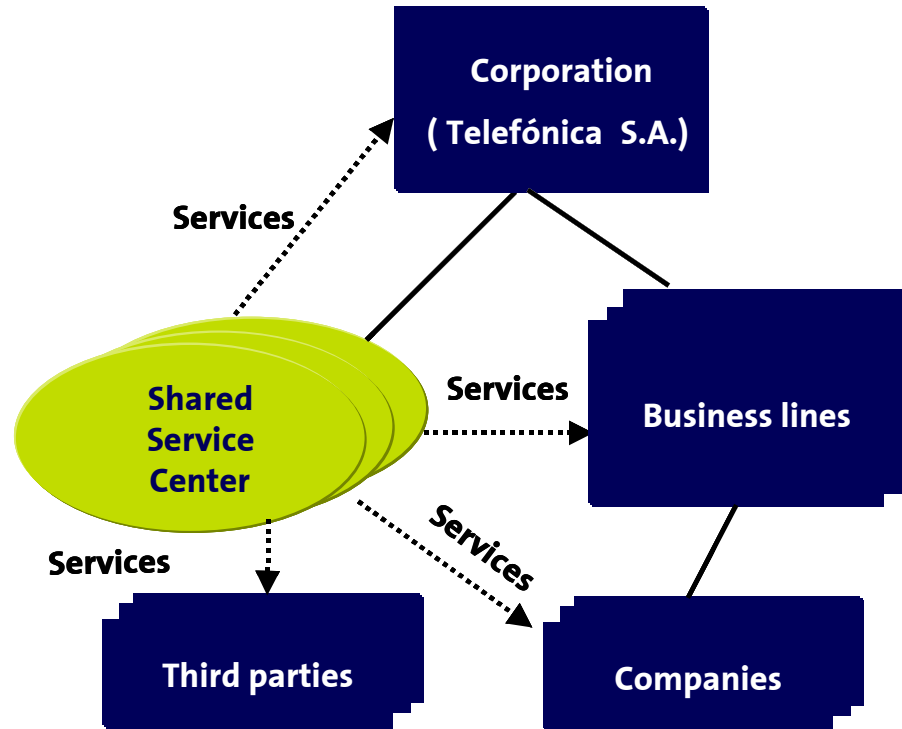
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Shared Services Centers (SSCs): Achieving Operational Excellence in Support Activities

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.

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Iniciative with a clear strategic fit in Telefónica Group...

Corporation (Telefónica S.A.)

Services

Shared Service Center

Services → **Business lines**

Services

Services

Third parties

Companies

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***).

...to cope with management challenges

Challenges

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

Verónica: Change catalyst

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.

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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 standarization 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**

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...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
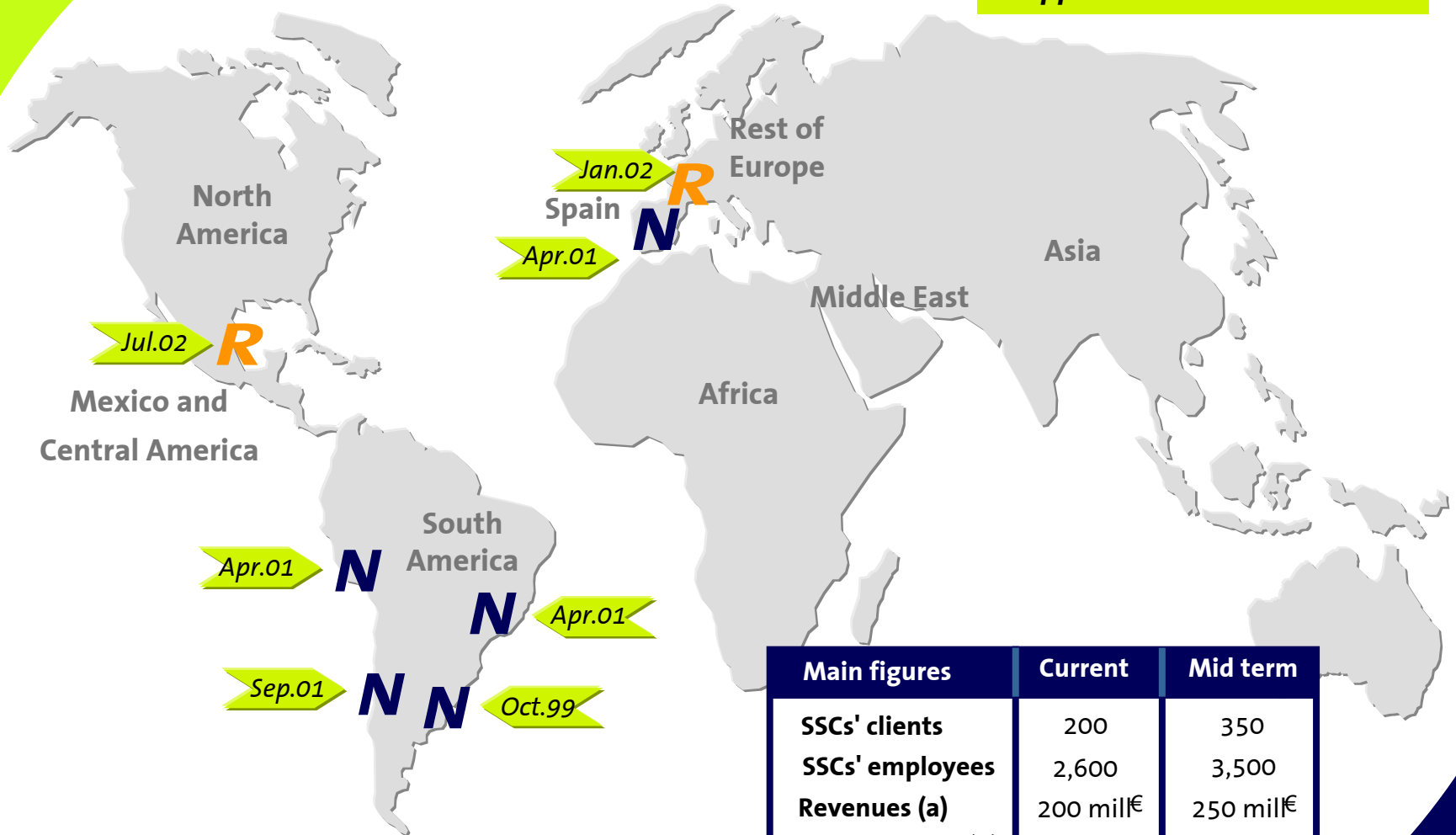
Logistic Services

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.

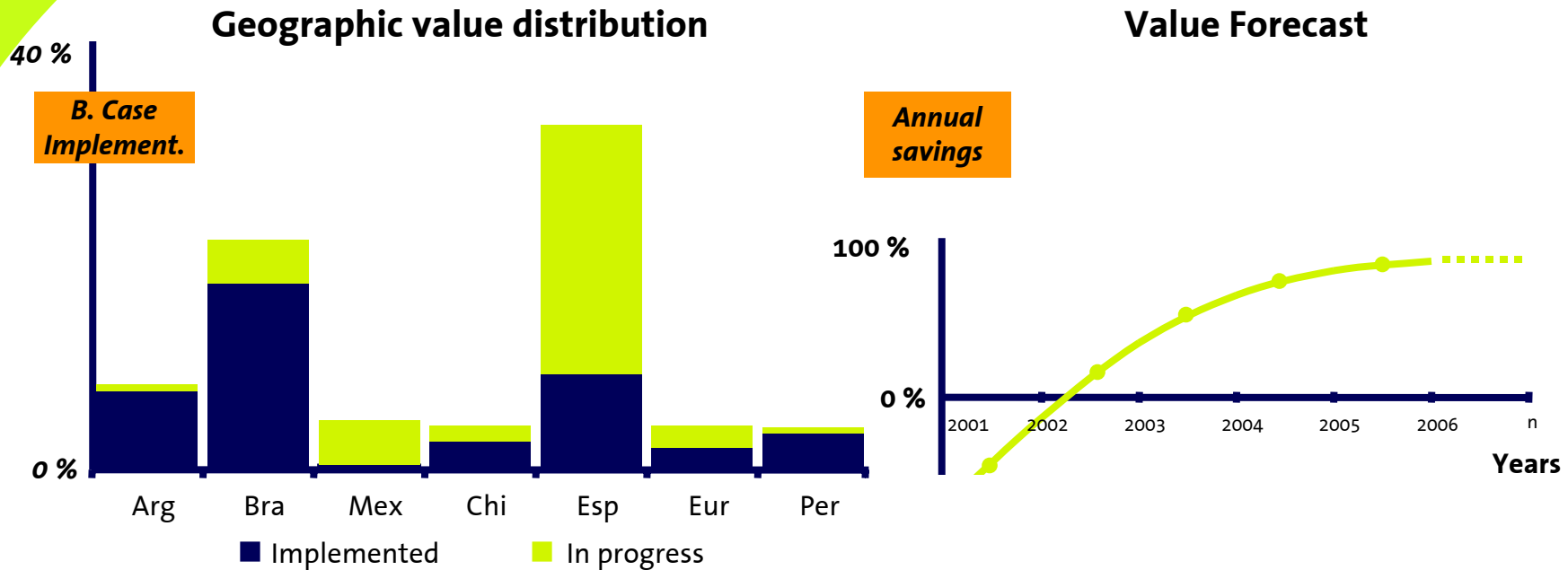*Telefonica*

... becoming a reality in different geographies

North America

Rest of Europe

Jan.02

Spain

Apr.01

R

N

Asia

Middle East

Jul.02 R

Mexico and Central America

Africa

South America

Apr.01 N

N Apr.01

Sep.01 N

N Oct.99

Main figures	Current	Mid term
SSCs' clients	200	350
SSCs' employees	2,600	3,500
Revenues (a)	200 mill€	250 mill€
Invoices proc. (a)	40 mill.	60 mill.
Payroll proc. (m)	70,000	150,000

N National (Local) **R** Regional with national's satellites

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Business Case with strong forecasted impact...

Geographic value distribution

B. Case Implement.

40 %

0 %

Arg   Bra   Mex   Chi   Esp   Eur   Per

■ Implemented   ■ In progress

Value Forecast

Annual savings

100 %

0 %

2001   2002   2003   2004   2005   2006   n

Years

➡ 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.

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...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

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The Brasilian Case: Quick implementation with achievements

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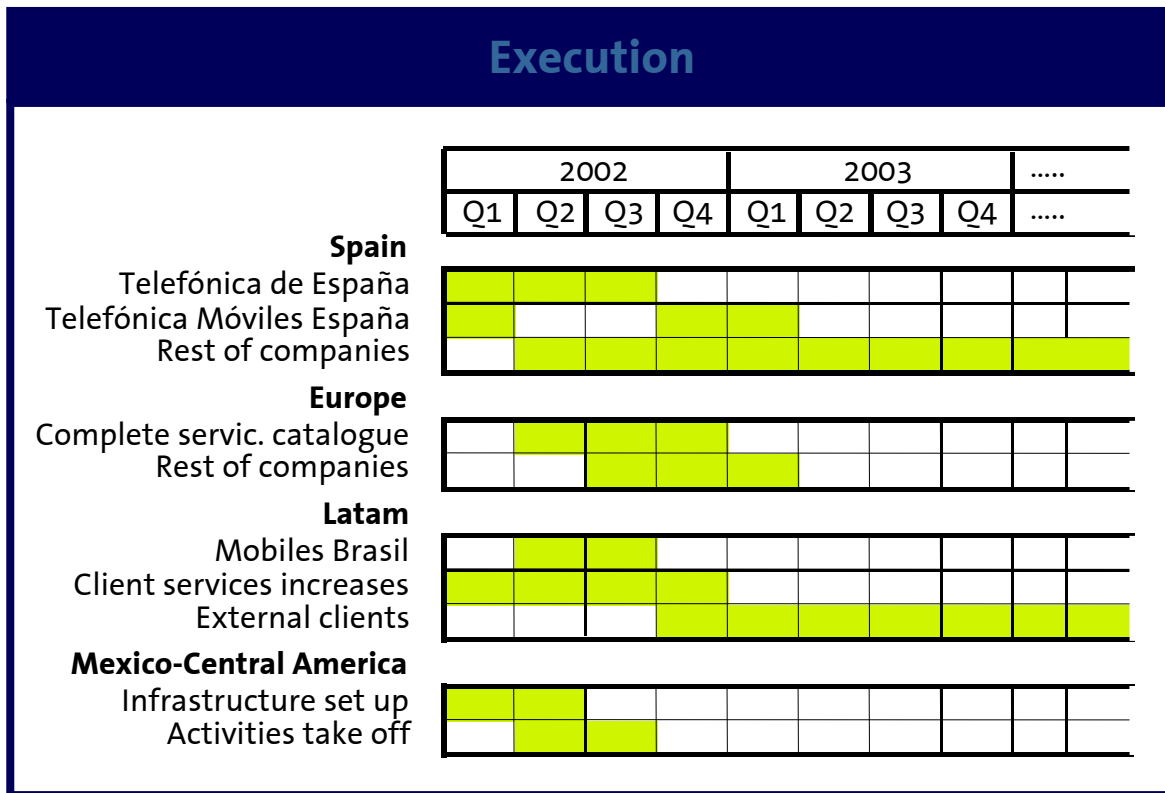
Main achievements

- **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

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Some objectives for the future...

Execution

	2002				2003				.....
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	.....

Spain
- Telefónica de España
- Telefónica Móviles España
- Rest of companies

Europe
- Complete servic. catalogue
- Rest of companies

Latam
- Mobiles Brasil
- Client services increases
- External clients

Mexico-Central America
- Infrastructure set up
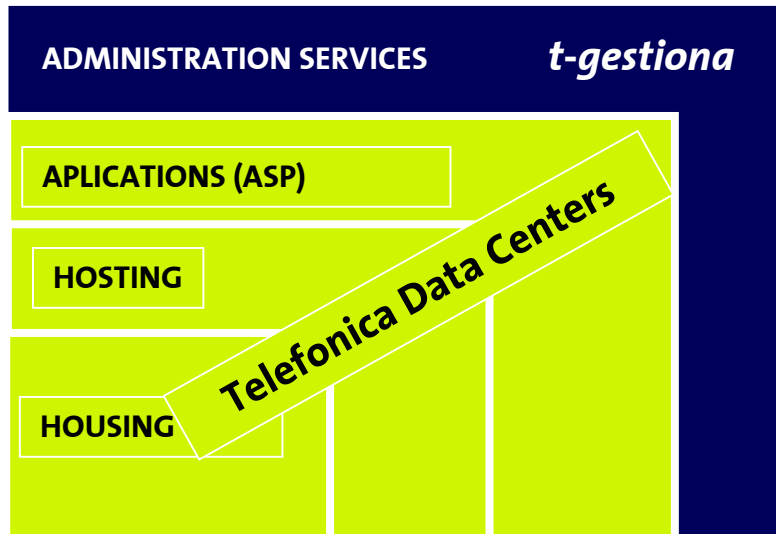- Activities take off

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.

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...and additional business opportunities

- **Complementary** to other Telefónica´s businesses: "Services to Enterprises".

| ADMINISTRATION SERVICES | *t-gestiona* |

- APLICATIONS (ASP)
- HOSTING
- HOUSING

Telefonica Data Centers

- **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.

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