

Shared Services and Outsourcing

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PART ONE

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Vendor Management in Shared Services and Outsourcing

In this turbulent economic environment, organisations globally are looking to cut costs, improve efficiency and focus on their core businesses. Over 90 percent of Fortune 500 companies have resorted to outsourcing and setting up shared services or captives to help meet these objectives. This trend continues to grow, with services delivered through shared services and outsourcing (SSO) models evolving, expanding and maturing at a rapid pace.

Outsourcing delivery models have evolved to take advantage of emerging technologies such as Cloud Computing and mobility, and this is creating greater economies of scale, enhancing performance times, and industrialising quality. Furthermore, the types of services delivered through SSO are expanding beyond transactional and repetitive tasks

to include parts of the core business activities that require judgment and decision-making activities. This is compounded by the volume of talent in popular SSO destinations such as China. This is all facilitating the transition of more knowledge activities such as analytics, design, animation, and research and development to offshore locations.

Consequently, the complexity of service agreements between business organisations and their vendors and/or internal shared services has increased in commercial terms. In particular, organisations should not underestimate the importance of clarity around governance, responsibilities and dependencies as they often span not only function and supplier boundaries, but also transcend geographies and jurisdictions.

Growing Importance of Vendor Management

Due to the continued expansion of SSO, organisations need to manage an increasingly complex portfolio of service delivery models and vendors.^[1] The days where SSO was limited to payroll and expense processing are over. Simple portfolios have been replaced by complex arrangements of retained, outsourced and centralised service providers with tiered, tailored and bundled services across functions.

To add to the complexity of managing modern SSO portfolios, regulations are becoming more stringent. Restrictions on cross-border data transfers and other industry specific regulations are some of the constraints that organisations need to contend with. Moreover, regulations typically apply to both Shared Services and Outsourcing as

^[1] The term 'vendor' includes internal shared services centres (e.g. Centres of Excellences and processing centres).

there is almost no difference between the two from a regulatory perspective. Indeed, services provided through both delivery models are considered to be outsourced from local operations and need to be managed as such. SSO setups must be carefully crafted to ensure regulatory compliance.

In a recent COO Forum hosted by KPMG China, one particular discussion focused on how current market conditions lower

revenue expectations and significant margin pressures are creating a 'new norm'. The consensus was that given this 'new norm', organisations need to reassess

how they are structured and operated. Put simply, organisations need to focus on minimising costs and delivering the best services in the most effective way. As COOs push this agenda forward, there will be an increased emphasis on services, including those delivered by vendors.

As such, vendor management has become an integral part of the business and its operating model.

Due to the increased complexity of SSO portfolios, stringent regulations and the 'new norm', the vendor management function is more important than ever. Vendor management has the potential to drive improved business performance and transform organisations. However, ineffective vendor management can lead to serious negative business implications such as loss of customers, non-compliance, higher costs, and an inability to operate.

As such, vendor management has become an integral part of the business and its operating model; it should no longer be viewed as just an administrative and contracting function. More sophisticated practices involve the formation of a vendor management office (VMO), which manages the use of

quantitative measures such as KPIs, and drives performance through process excellence across the sourcing lifecycle. In addition, soft skills that focus on communications, stakeholders and relationships have become essential.

KPMG – Leading the way in Shared Services and Outsourcing

As part of our commitment to the development of the SSO industry, we will be providing the 'Shared Services and Outsourcing Quarterly Business Update'. If you would like continue to receive these updates or have any questions regarding the information provided above, please contact:



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Keys to Effective Vendor Management

Effective vendor management must go beyond just the actual management of vendors to encompass the SSO strategy and organisational alignment. Without these elements, the overall value of the services provided may be sub-optimal, even if vendors are performing well when individually assessed.

An effective SSO strategy ensures that the SSO portfolio contains the right mix of services, vendors, and locations. To ensure full optimisation of these areas, organisations need to:

Right-shore

Choose the 'right' locations to provide the 'right' services. An organisation needs to consider many factors including education, available skill sets, demographics, time zone differences, operating costs, infrastructure, regulations, ability to deliver services to specific requirements, and particular vicinities where the majority of services are consumed.

Hedge bets

Understand and predict any potential issues and mitigate risks as appropriate. For example, 'India + 1' has emerged as a risk management strategy that ensures organisations are not overly dependent on a particular region, location or service delivery organisation.

Global business is inherently complex. They host a myriad of value chains comprising service providers and consumers spanning continents, functions and business units, and perhaps subsidiaries. Misalignment of any component can disrupt the entire value chain. The following points must

be addressed to ensure relevant preventative measures are in place:

Resistance to change

The human aspect of SSO must be deftly managed as this impacts both onshore and offshore locations. SSO can be sensitive as it can potentially lead to job changes, losses or migrations.

Process misalignment

Although SSO can yield economies of scale, this can typically come at the cost of customisation. Bespoke solutions are less common in SSO setups, and organisations need to carefully adjust their processes accordingly. If not, there is the risk of duplicating work, performing time consuming manual operations, and relying on requiring processes that add value no value.

Global integration

Cross-functional and global integration is one of the greatest challenges an organisation can face when dealing with SSO. Ensuring the global operating model is consistent and effective throughout the organisation can be difficult. In fact, in a recent KPMG survey 59 percent of service providers saw dysfunctional or fragmented operating models, designs and processes as the biggest challenge to SSO success.^[2] Cultural and organisational factors such as the level of Enterprise Resource Planning (ERP) adoption and standardisation are some of the key issues that need to be addressed.

Strategy and organisational alignment aside, the key component is obviously the actual management of vendors, which can be quite complex. A common issue is that organisations tend to focus more on the selection and set-up phases of the SSO lifecycle and less so on continuous improvement and how to operationalise contracts and agreements. This is unfortunate because in this highly competitive, global environment, the ability to respond quickly to changing conditions and ensuring continuous improvement are becoming inextricably linked to SSO success.

Stay tuned for Part 2 of this second issue of our Shared Services and Outsourcing Quarterly Business Update.



^[2] KPMG Sourcing Pulse Survey 1Q, 2012