


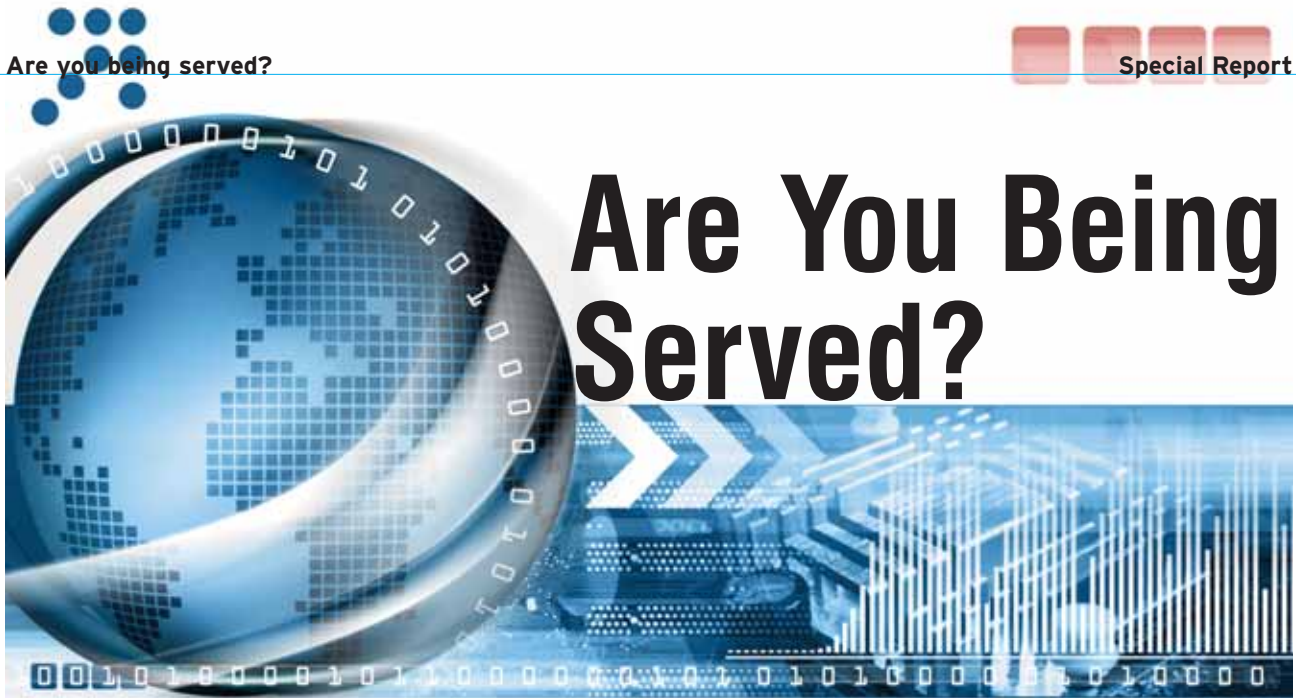
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**New rules for the services
organization**

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Are You Being Served?

The new rules for the services organization: consolidate and standardize delivery; balance internal, external, and virtual capabilities; and manage services like a portfolio.

By Ed Nair

If you are in global sourcing of services, talking with Cliff Justice is great investment in time, especially if the consultant's clock is not ticking. Cliff Justice is the National Leader, Shared Services and Outsourcing Advisory, KPMG. He has been advising companies on globalization, services delivery models, outsourcing, global sourcing and such for over 20 years. Cliff's work with NeoIT, TPI, Equaterra— all reputed sourcing advisory companies— where he either worked or managed partnerships, puts him as a leader in the sourcing advisory space. His insights are thorough and amazing; his ideas are path-breaking and impactful. Excerpts from a conversation with Cliff Justice on the new rules and models of services delivery:

GS: We are just out of the recession. What are your clients asking you to do today? How's it different from yesterday?

CJ: In the last two years, clients have been demanding more from their sourcing advisors in the area of value creation through optimization of several functions or their own internal services organization and seeking more value out of managing SG&A areas.

Whereas, ten years ago we were brought in as advisors to help them centralize shared services models or advise them on the structuring of outsourcing contracts and helping make deals.

Today it is much more around enterprise services, enterprise transformation, and aligning that transformation to drive competitive advantage to clients. More clients are asking— how do I get competitive advantage through handling SG&A, through partners, through the way I move services up the value chain, how do I access data and knowledge in a better way, how do I leverage the maturity of the services organization



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that has been in place to really drive better business value. In the last two years, these were the dominant conversations.

The other important conversation centered on managing risk. Back in the day of pure outsourcing contracts, the risk question was a side question. Now it is incorporated as part of the value preservation discussion.

GS: Sourcing advisory as a business has been in turmoil. What is threatening a change there? How has it evolved?

CJ: In the very early days, say from 1997 to 2003, it was really about identifying the right outsourcing vendors, scoping out the outsourcing contract, structuring the deal, putting in the governance mechanisms, and managing the deal. From 2003 to 2007, it was all about optimizing those relationships. From 2008 onwards, we started hitting the rocky shores, it was about how do we really optimize and create value and competitive advantage out of the investments that we made into shared services and outsourcing partnerships.

Some industries are approaching this for the first time and wondering how to leapfrog. For example, the pharma industry was late into the game, but they are now incorporating things like pharmacovigilance into a centralized shared services model, some enabled by external parties, some not. The line between them is getting blurrier. We are structuring them in a very similar way whether it is provisioned internally or externally, we are seeing lot more hybrids than what we ever had, and more mature companies are moving up the value

chain helping quantify value creation.

This requires going back to the business and is a lot more challenging; it requires lot more insight into the business— more than just doing a base case analysis and measuring savings of a transactional service. They are table stakes that have to be done.

GS: This is like more business consulting work.

CJ: We have always been doing that. There's always a component of busi-

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ness strategy that has to be aligned to sourcing strategy. It was being done even ten years ago, but it is more visible now. There were larger dollars attached to sourcing deals and a lot of perceived external and internal value in traditional sourcing advisory.

We have a developed a platform that is comprehensive and holistic. It helps a client look at a long-term roadmap, not just a tower or two, on how you provision the function.

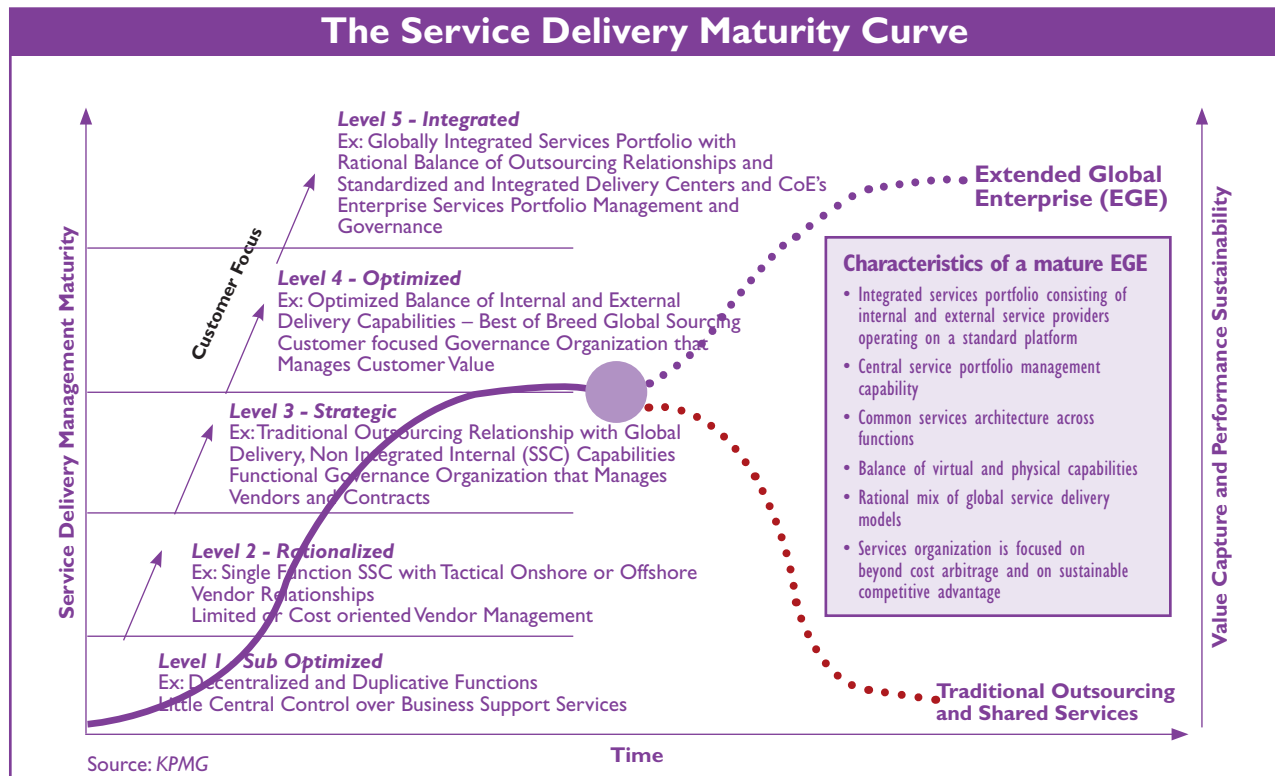
Sourcing advisory has to include people and change; process transformation in all functional areas like finance, HR, IT, supply chain; and enterprise risk management. Transactions services are fine; you have to have those best-in-class. But if clients really want the leverage, they have to think about service delivery more organizationally, integrate with business partners, and drive value back to businesses.

GS: You mentioned about SG&A. Is it time to rewrite Porter’s value chain? Are support functions getting to the core?

CJ: What we are seeing is that traditional support-oriented functions contain lot of data and knowledge. There’s lot of cost and expense to those functions and there’s lot of value that comes out of those functions. Organizations that can think in terms of virtualization, in terms of harnessing the capabilities that reside within the company and harness those well, as well as harnessing outsourcers and virtual platforms, SaaS, and cloud platforms, can create a much more dynamic model that can address new questions to the business, changes to the business faster than before. It is all support, but it is the new value that support can contribute.

The core is still the core, it is really about how your SG&A functions are treated and addressed that they can become a competitive advantage.

These are not necessarily revenue generators; some industries may hived them out and create a profit center. It is probably still not their core business, but it enables their core business to become more competitive.



GS: So what rules are you rewriting?
CJ: The rewriting of the rule is—whether you can take these and manage them to the lowest cost and operate them purely on efficiency; or do you put enterprise-wide strategic initiatives in place to drive innovations into those services. That’s what we are talking about.

Drive the innovation, add a reasonable cost, create a flexible model. The cloud discussion is bigger than tech; it is really a way of thinking about flexibility in business.

Create an extended global enterprise with internal, external and virtual capabilities, many of which can be provisioned quickly, as and when new businesses are introduced into the environment.

One of the key things that we talked about in the framework is how companies can take high value add services that may be best in class within a business unit and create a

services organization that serves more business units. These are centers of excellence for that service. For example, research centers combine massive knowledge and data or take shipping companies that carry lot of data on trends.

GS: Going back, you mentioned proper balance between internal and external capabilities. How does that work?

CJ: The desire for control over the services, the ability to control risk, the specificity of the function, understanding whether the service is something that third party providers have the maturity in providing—these are the questions to be asked. It is not about the price you are going to pay; lot of things can be moved out for a lower price, but productivity could get impacted. Hence, we are saying that companies should look at optimizing internal

balance and external balance by managing services as a portfolio. Looking at internal provisioning and comparing and benchmarking against the external market is important. That’s what leading companies do. More importantly, what we see is that services portfolio organization across the enterprise should have a broad view across the organization, cross the enterprise, helps the company realize the services strategy. Drive and quantify the synergies that are sometimes not obvious when you go to an end-to-end process. That’s for a lot of companies seeing true value. It is true for an end-to-end process like say procure-to-pay.

This is hard to do because you are breaking the traditional functional structure; it requires a lot of change in management. But there are some good examples of companies out there doing this.

4 Principles of Extended Global Enterprise Model

- It's blind to the organizational structure and therefore immune to any limitation that such a structure might impose. Driven by customer need and not organizational structure:
- One-size-fits-all service offerings have been replaced with a balanced portfolio of retained, outsourced and centralized service offerings with tiered, tailored and bundled services across functions.
- The “set and forget” approach or simple vendor management has been replaced by a more sophisticated Services Portfolio Management organization.
- Business transformation is all about business simplification. It's really a reduction in complexity – consolidating and standardizing services delivery and then simplifying those service delivery standards. Instead of a siloed and redundant approach with fragmented planning – one services delivery strategy for IT, another for HR, and so on – you'll have a single, common strategy within a common services delivery framework to achieve a common goal.

GS: For many, shared services have become unwieldy. Why make when you can buy? Are shared services on the decline?

CJ: No. Not at all. It's just the opposite. More companies are looking at shared services, but the blend in provisioning is changing.

In the past, shared services and outsourcing were two distinct service delivery models. That distinction is going away; they are becoming highly blended. A company provisions its services in a very centralized way and enables more or less through third party. Some companies don't even call it outsourcing. That is, provisioning of services through partners within shared services unit is certainly on the rise.

You can see this growth at the service provider's end. Even in a down market, they are growing, their pipelines are full.

The economy has caused slowdown in major transformation investment, but that's changing. Companies are looking at creating sustainable services organization as opposed to chasing labor arbitrage.

GS: What's this Extended Global

Enterprise model all about? Sounds like yet another consulting methodology.

CJ: Extended Global Enterprise is KPMG's philosophy, framework, methodology, point of view or whatever you call it; it's a holistic view on service delivery of enterprise services. It addresses companies that are both very new to services as well as those that are extremely mature in services. It is a comprehensive set of principles that we as a firm use to enable our partners, advisors, employees, to work with clients that leverage the practices that we believe will drive value into their services organization. It is a roadmap to creating a long-term services strategy and the framework helps clients design and implement a comprehensive services model that continues to evolve over time. It is agnostic to both outsourcing and shared services in that it doesn't recommend one over the other.

GS: How do you compare this with the other frameworks?

CJ: I am not aware of any that is similar. There are frameworks on

how to build a shared services organization, how to build an outsourcing deal, how to manage shared services, how to manage outsourcing contracts, and many others. EGE helps companies approach their services in the way they want. It gives them the enterprise capability that goes across functions and creates a common way to access services. There are different degrees to this like different levels in a maturity model. At the top is a completely integrated end-to-end services organization with complete service portfolio management (SPM). The SPM is a very simple interface to request and manage services. The goal is to create an organizational capability that can interface between a complex multi-tower service delivery organization and the business and its customers. SPM helps the adoption of services without worrying about different contracts, different pricing, different SLAs— the SPM handles all that and it constantly evolves and aligns all of the services to the services strategy. **GS**