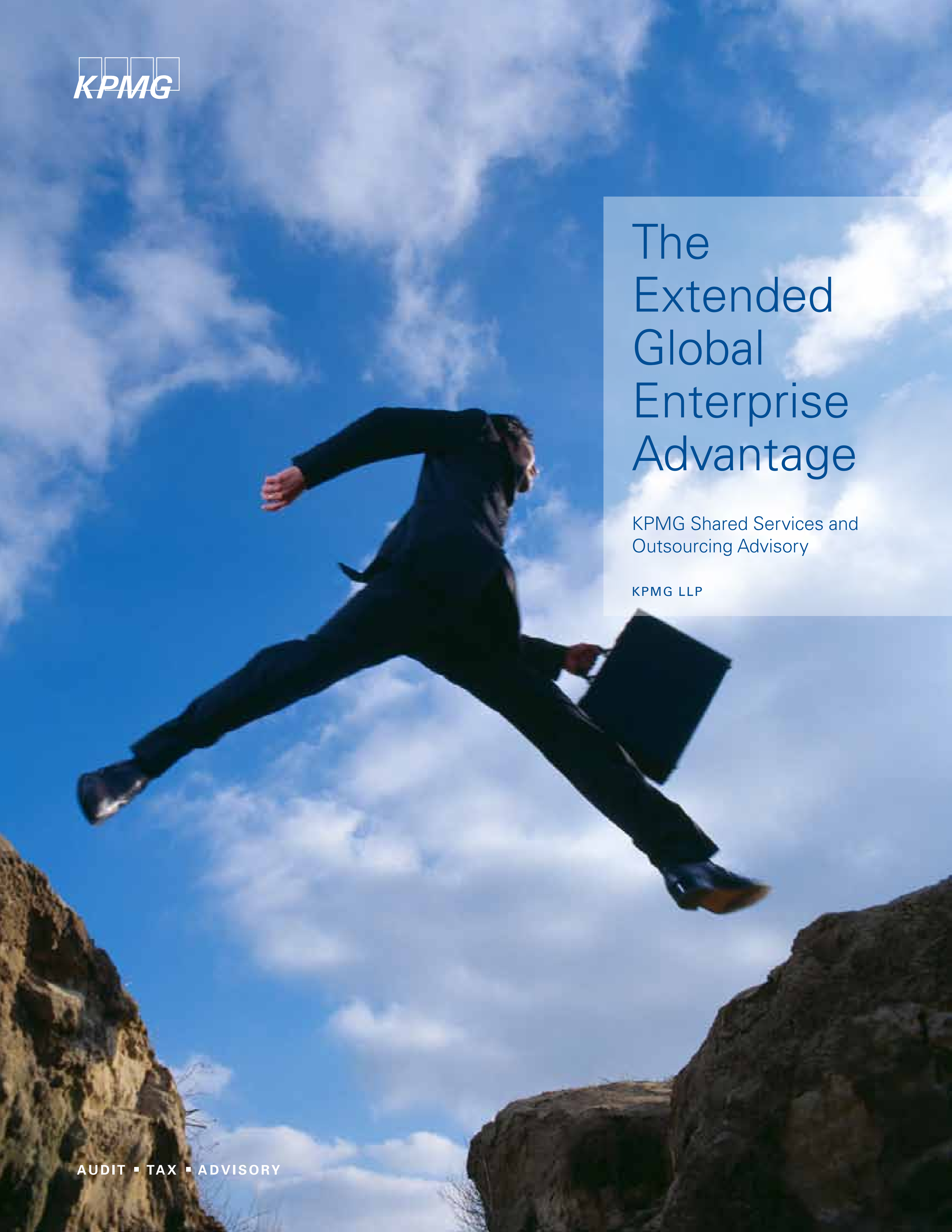


# The Extended Global Enterprise Advantage

KPMG Shared Services and Outsourcing Advisory

KPMG LLP

AUDIT ▪ TAX ▪ ADVISORY

# Introduction

Let's face it. The G&A functions that support the enterprise – HR, IT, facilities, purchasing, accounting, even customer support and manufacturing – have never been the most glamorous parts of the business. After all, when Atlas was tasked with supporting all the heavens, it was a punishment, not a promotion.

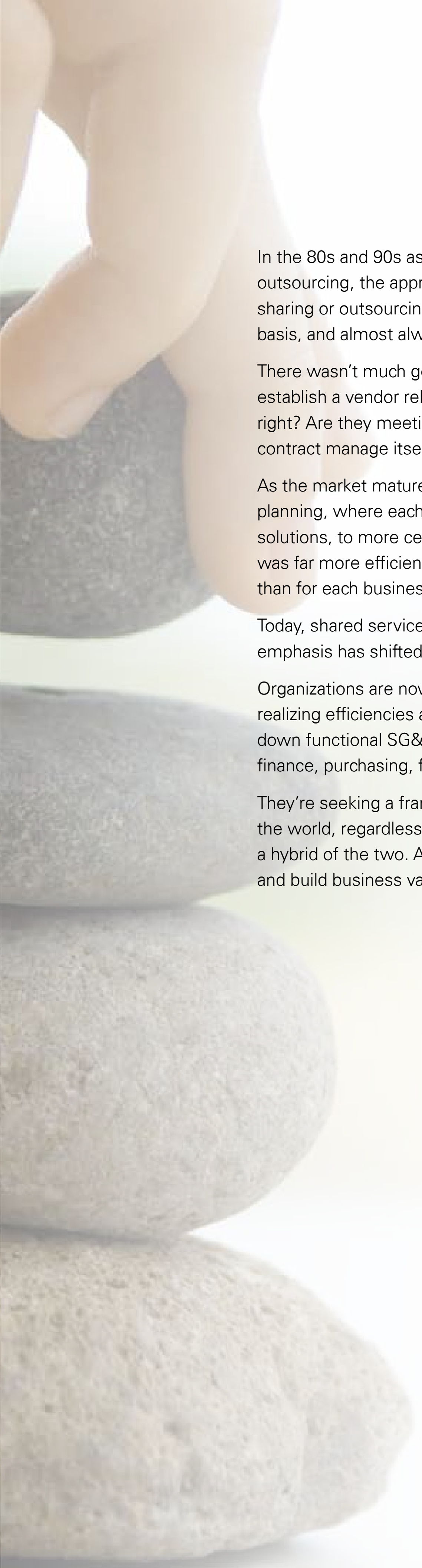
Unfortunately for Atlas, the trend toward consolidating and outsourcing support services took a couple thousand years or so to develop. The goal out in front of this trend is clear: optimize working capital and focus resources on the core competencies of the business that generate revenue. And the key driver behind it has been to reduce costs – by eliminating redundancies, building economies of scale, and taking advantage of tax benefits and labor arbitrage.

But even as organizations have embraced the practice, two things are often overlooked:

1. These functions don't just support the business; they can advance it, too.
2. The ability of an organization to plan, implement and improve its support infrastructure is as much a core competency as any other.

With the proper balance of shared, outsourced and retained services, with a common service delivery framework, with ongoing competition within the services supply chain, and with sophisticated governance and standardized performance measures, you can create business value well beyond the benefits achieved through cost economies alone. You can increase agility and flexibility, tap new capabilities and innovations, and gain access to new markets.

So ask yourself this: Are your services a cost center or a competitive advantage? A tactical necessity or a strategic weapon? Do they adjust to change or are they optimized to take advantage of it?



# A Shift in Emphasis

In the 80s and 90s as companies took their first steps toward shared services and outsourcing, the approach was purely tactical. More often than not, opportunities for sharing or outsourcing services were evaluated and implemented on a case-by-case basis, and almost always motivated by cost savings alone.

There wasn't much governance beyond the basics. Individual business units would establish a vendor relationship and put a few checkpoints along the way – Is the invoice right? Are they meeting the terms of the contract? – but in essence, they'd let the contract manage itself.

As the market matured, organizations began moving away from fragmented services planning, where each business unit implemented its own services or outsourcing solutions, to more centralized and coordinated planning. They recognized early on that it was far more efficient to share HR or IT capabilities across business units, for example, than for each business unit to develop its own.

Today, shared services and outsourcing are the norm, but the market is evolving still. The emphasis has shifted. And the approach is much more strategic.

Organizations are now demanding more from their services. It goes far beyond simply realizing efficiencies across business units. Today, organizations are seeking to break down functional SG&A silos and capture synergies across multiple functional areas – finance, purchasing, facilities, HR, IT, etc.

They're seeking a framework that lets them leverage the most appropriate capabilities in the world, regardless of whether they come from internal or external sources – or even a hybrid of the two. And the goal is not only to reduce costs, but also to increase agility and build business value.

# The Extended Global Enterprise

We call this framework the **Extended Global Enterprise (EGE).**

The EGE is a paradigm shift for services delivery in the same way that just-in-time (JIT) revolutionized manufacturing or that cloud computing is transforming IT. As with both JIT and cloud computing, the EGE is changing the way technology and services are purchased, priced and delivered.

In fact, the EGE shares the business principle underlying both JIT and cloud computing: that in order to build value and drive sustainable quality improvements and cost reductions, you must reach beyond the four walls of the enterprise to access a global network of capabilities and a pool of configurable resources that can be rapidly provisioned and released on demand to meet ever-changing market conditions and evolving business objectives.

**There are 4 key differences between the EGE framework and the traditional approach to outsourcing and shared services delivery:**

## 1. The EGE is driven by customer need rather than dictated by traditional structure.

As organizations demand value beyond labor arbitrage for simple transactional services, delivery models are blending and becoming more sophisticated. This makes organizational and geographical boundaries lose their relevance, and collaboration becomes essential.

The EGE depends on the ability to dynamically assemble a variety of capabilities – regardless of where those capabilities reside – into a seamless end-to-end process that's focused on a specific business outcome. It's blind to the organizational structure and therefore immune to any limitation that such a structure might impose. It balances the *demand* side of services, the way the service is *consumed*, with the supply lever, all driven by customer need instead of organizational expedience.

Take, for example, the process of employee on-boarding. Each new employee needs an employment contract, a badge, a desk, a phone, a computer, an email account, access to appropriate systems, business cards, training, payroll, direct deposit, and more – steps that involve multiple functional areas. In order to make the process seamless, from applicant to productive employee, there must be an integrated structure that connects disparate systems, owners and processes.

It's not limited to internal services, either. Customers, too, demand similarly seamless experiences, even as those experiences involve multiple functions provided by a mix of shared, outsourced and retained services that can span continents, let alone business units.

This requires not just the technological or operational ability to assemble these services, but also the managerial and cultural ability. It requires you to develop a culture of cooperation throughout the organization – including internal functions, suppliers, partners and contractors – and weave collaboration into the very fabric of your business.

And if you succeed, the result is not just a one-time cost reduction, but sustainable value creation.

## 2. In the EGE, 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 options for addressing service needs have expanded greatly over the last few years and the EGE is optimized to take advantage of them.

Where India was once seen as the primary supply market, the market has now expanded based on language, time zones and skill sets. And your outsourcing and shared services delivery model should compensate for these changes and new opportunities.

Where offshoring was once deemed acceptable only for transactional work or discrete projects, geographic boundaries are now disappearing and the global services model is becoming the norm for a wider range of functions. Today, there are many more opportunities for knowledge process outsourcing (KPO), where work requiring greater levels of skill is performed.

Centers of excellence (CoE) – a rarity just a few years ago – are rapidly becoming critical parts of the business. They provide a framework for bringing together subject matter experts, systems and processes from disparate functional areas. They allow organizations to access new ideas, to compete better and to continually improve revenue and cost models.

And technologies and standards such as virtualization, Software as a Service (SaaS), Service Oriented Architecture (SOA) and single instance ERP have emerged, expanding the universe of opportunities even further. They facilitate integration of disparate systems, making it fast and easy to add new capabilities. They make the physical location of systems and the organizational boundaries between individuals completely irrelevant. And they can allow capabilities and capacity to expand or contract on-demand.

By leveraging the full breadth of service delivery options, you can reduce costs. You can also extend your capabilities, broaden your service offerings and reach new markets.

But to be effective, all these expanded services offerings must be carefully selected, balanced and integrated into the overall portfolio. And to continually improve results and deliver value to the organization, you must continuously evolve the service delivery model and manage the portfolio well.

## 3. The "set and forget" approach or simple vendor management has been replaced by a more sophisticated Services Portfolio Management organization.

In the EGE, your competency shifts from managing individual functions to managing a portfolio of service offerings. This requires the creation of a highly-capable, centralized, end-to-end Services Portfolio Management (SPM) organization. The SPM organization seeks to:

**Establish superior governance** – SPM requires comprehensive, cohesive and consistent oversight of services with greater visibility into service costs and performance. It relies on Key Performance Indicators (KPIs), which cover a broader range of monitors and measures, including things such as customer satisfaction.

**Facilitate collaboration** – SPM places greater emphasis on relationship building to facilitate and secure collaboration, with greater stakeholder involvement to ensure that the right people are communicating, and that objectives and expectations are clear and shared.

**Foster competition** – SPM seeks to blur the distinction between internal service providers and external (outsourced) providers, with greater accountability for internal providers, and more cooperation, communication and partnership for external providers, with the aim of increasing competition throughout the services supply chain.

**Reduce risk** – SPM requires the ability to identify, assess and prioritize service delivery risks to reduce, monitor and control the probability or impact of events that can negatively impact the organization – everything from downtime or data loss to intellectual property theft to geopolitical instability. It requires the ability to manage and mitigate these risks, both at the micro level by directly addressing specific issues with individual providers and at the macro level by properly balancing the portfolio.

**Optimize return** – SPM seeks to maintain alignment between the services portfolio and larger business objectives and optimize business value.

In many respects, Services Portfolio Management is similar to Financial Portfolio Management. Consider the parallels:

Your investment portfolio needs constant management to adjust individual holdings as market conditions change and as companies within the portfolio grow or decline. Over time, the broader mix of financial instruments may be adjusted, too – moving from stocks to fixed investments as retirement nears, for example.

With financial services, access to information and visibility into performance is critical, and so robust and reliable systems have been established to provide these. Effective communication between you and your portfolio manager is essential. There's a clear set of goals established that differs for each individual according to their unique circumstances. These goals are constantly re-evaluated, too, and adjustments to the portfolio made to ensure that it's aligned with those goals. And of course, risk management is a primary consideration in every decision.

By taking this same approach with your services portfolio, you can help to align services delivery with business objectives. You can better manage risk, increase agility, gain faster access to innovations, increase efficiency and productivity, and ultimately build sustainable business value.

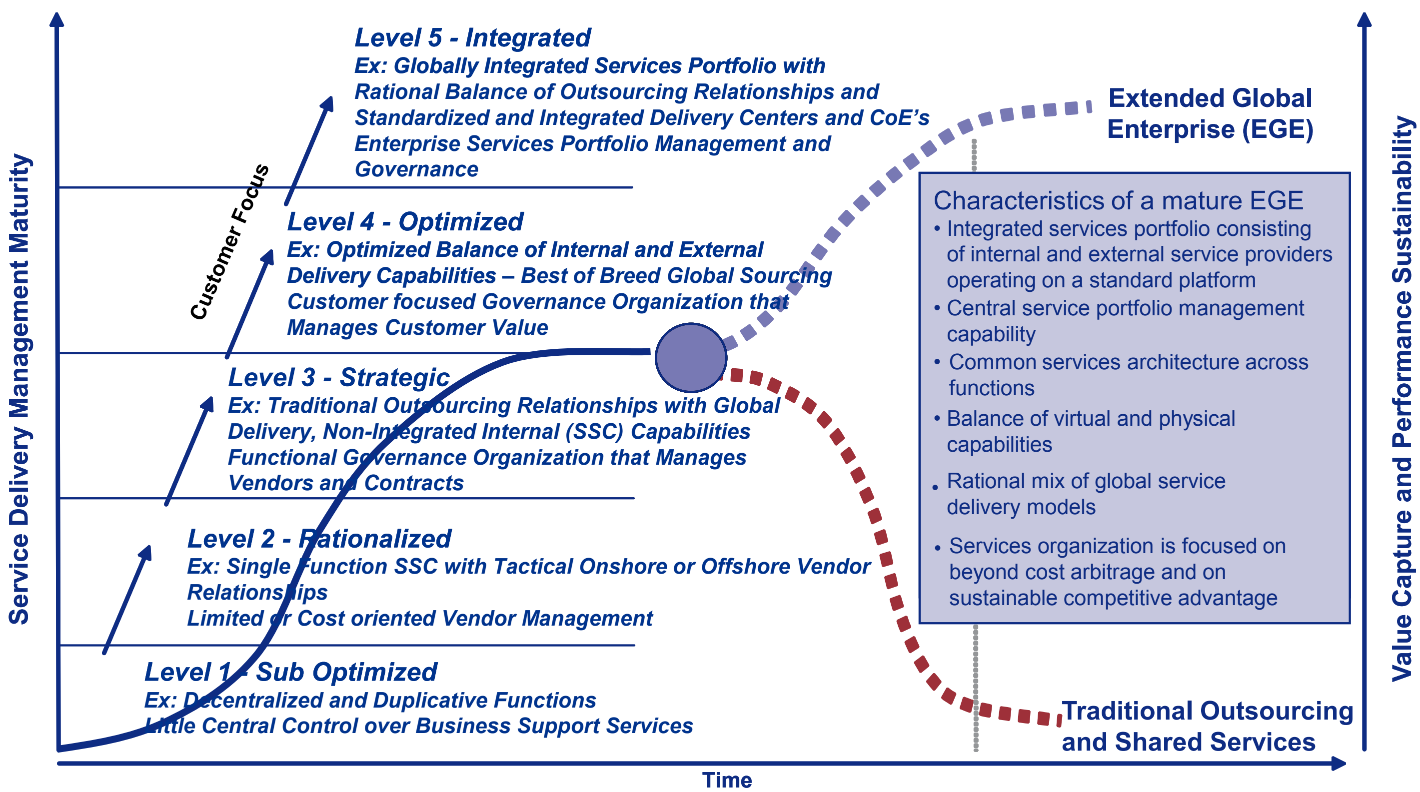
## 4. The goal of the EGE is more about increasing agility and competitive advantage than decreasing costs alone.

But saving money hasn't taken a back seat. By moving to the EGE framework, with continual optimization, governance and performance improvements, and process and technology enhancements, organizations may realize additional significant cost savings, even 15 to 20%, depending on the entity's cost framework prior to implementing EGE.

# A Failure to Transform

While many organizations aspire to the aims of the EGE framework, all too many have stalled in their efforts to make the necessary transformation. As their services delivery model loses alignment with ever-changing business strategy, they reach a point of inflection where they begin to see declining value across the services supply chain, with stagnant relationships, a lack of innovation and even rising costs.

### The Services Delivery (EGE) Maturity Curve




It's all the more frustrating when compared to the ease with which these organizations achieved initial success. Through outsourcing and shared services, managers within organizational and functional silos might reduce support costs by up to 30% – and, justifiably, look like rock stars.

After such success, there's a tendency to stop – to check the box 'done,' cross it off the list and walk away a winner. So it's not surprising that there's inertia when, in order to move to a centralized and collaborative EGE model, managers are being asked to revisit issues they thought were resolved, and in some cases, to redo or even undo much of the work that lead to their success.

You're also asking managers to give up some control. Asking a LOB manager to give up control of G&A support functions is easy. But how do you ask a CIO to cede control of IT's agenda? How do you ask an HR manager to let go of budget?

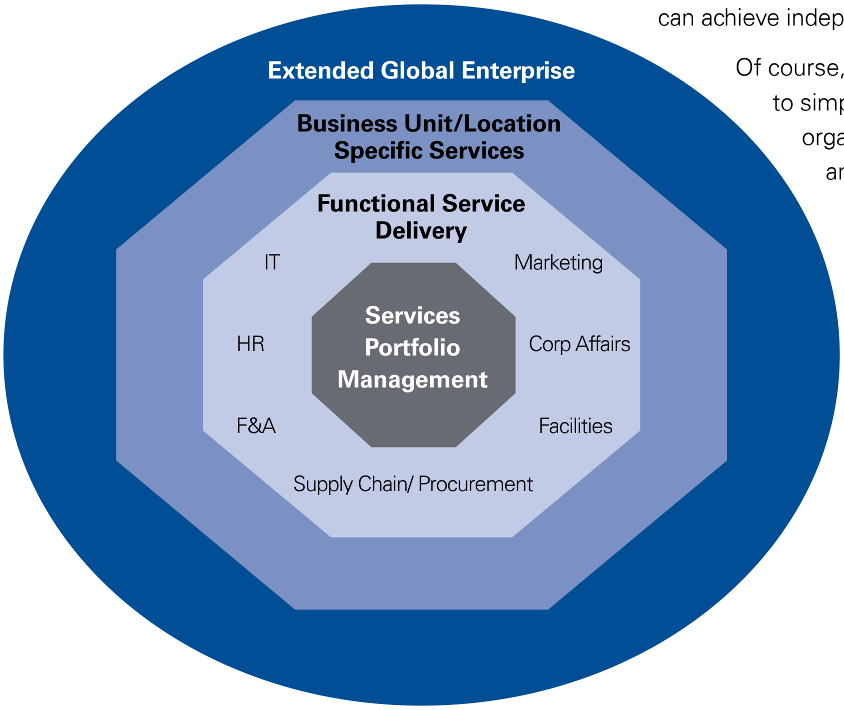
And while you're motivated to continue to reduce costs, on the other side of equation, your support vendors, of course, have a competing agenda to increase billings over time.

With everyone pulling in different directions, it takes a significant effort and complete commitment from the top to bring about the necessary change.

# Business Simplification

The buzzword most often associated with this movement has been "business transformation." But perhaps a more apt term is "business simplification" since – done right – 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. This unified approach provides the payoff that helps stakeholders buy in and cede some control of their existing "turf" – greater organizational visibility and value, and easier attainment of their business objectives at an even lower cost than they can achieve independently.




Of course, in any large organization, the effort required to simplify can't be underestimated. As with any organizational change, it can't be done overnight. It's an ongoing process, requiring special skills, broad expertise, and a roadmap to build capabilities and add sophistication over time.

# The KPMG EGE Advantage

For over 100 years, organizations around the world have relied on KPMG for accuracy in financial reporting and trust in our business advice.

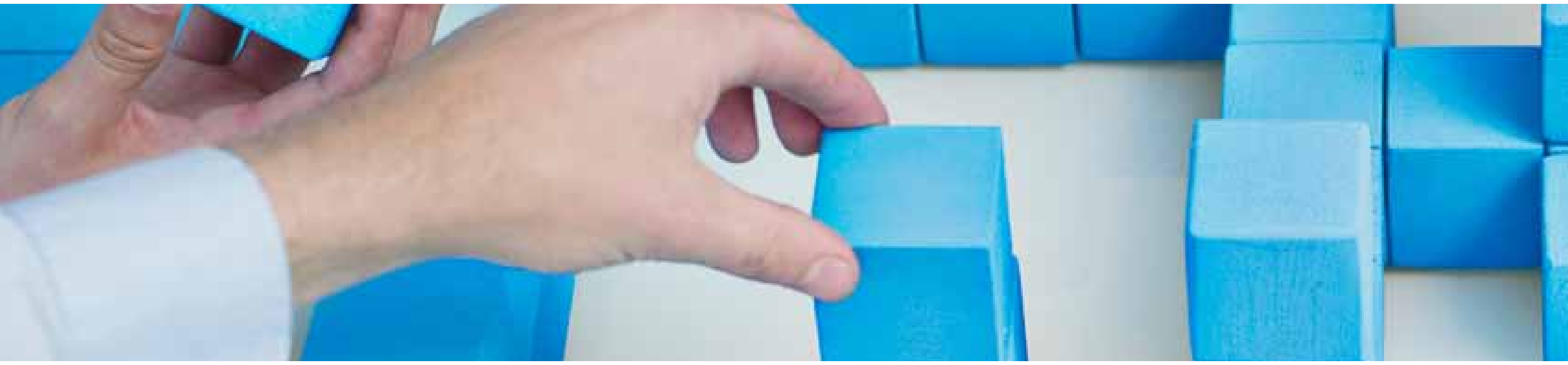
We're one of the world's leading Advisory firms with a global presence of more than 330 shared services and outsourcing professionals. We've consistently been named one of the World's Best Outsourcing Advisors by the IAOP. We help Global 1000 companies realize the potential of the Extended Global Enterprise and achieve real, measurable success – the KPMG EGE Advantage.

We offer broad business perspective with deep functional and process skills—in finance, operations, technology, HR, change management, risk management, and controls—to understand and address your challenges.

As a Big Four accounting firm, we can access a broader set of competencies and experience in accounting, tax, regulatory issues, transaction services, forensics, compliance, and financial risk. Our collaborative and team-oriented approach helps you maintain the appropriate involvement and promotes transfer of knowledge back to your organization's personnel.

And we're truly global. With KPMG International member firms in 144 countries, we have global breadth and local-market knowledge of business conditions, and legal and regulatory requirements.

# The KPMG Approach



We offer a broad range of services that can help you **design**, **enable** and **manage** your Extended Global Enterprise:

## Design

No two organizations are alike, and so there's no one-size-fits-all EGE framework. Our strategic services can help you design the right EGE framework for you. We can help assess the alignment between your corporate strategy and your services delivery strategy and help you determine areas ripe for optimization. We can help you determine how deep or how broad to extend the portfolio of services, and design a high-level operating model, including org charts, processes, decision rights and roles. And we can help you develop a migration plan – a complete roadmap of your path to EGE success.

## Enable

When you're ready to pull the trigger, we can help you get things done. We start with a clear definition of requirements. We can help you with design – addressing how each service should be delivered or customized to meet your requirements and how they should be integrated with the rest of the organization. We can help you determine how to measure service success, including KPIs and financial, chargeback and tax models.

We can help you design and execute the process to identify and select qualified service providers, with an eye to forming sustainable business partnerships. We can help you and your legal counsel prepare for negotiations with service providers and help ensure that the contract accurately expresses the desired business intent. And we help you transition from your current service delivery model to the new one, helping to avoid disruptions in service, unnecessary risks or undesired attrition of key talent during the transition, and provide training and support to address concerns and gain acceptance.

## Manage

A successful EGE depends on successful Services Portfolio Management (SPM) and so we focus on the pillars that form the foundation of an effective and sustainable SPM organization.

We can help you determine the overall framework and structure to best manage your EGE. We can help you determine what roles and skill sets are required. We can help you determine the key processes that are required to provide sound governance. We can help you determine which tools will better empower management and facilitate collaboration.

We can help you develop detailed operating procedures or "playbooks," design and implement governance scorecards, provide change management and communications support, training and coaching, and technology assessment and implementation support.

Finally, we can help you assess SPM maturity and analyze gaps in performance, providing recommendations to optimize your SPM organization.

# Who We Serve

KPMG's Advisory services professionals in the U.S. advise the top companies and organizations in numerous industry segments,* including:

- 10 of the top 20 energy companies
- 7 of the top 10 electronics, software and services firms
- 8 of the top 10 utilities
- 9 of the top 10 banking and finance firms
- 7 of the top 10 securities firms
- 8 of the top 10 pharmaceutical firms
- 8 of the top 10 aerospace and defense firms
- 8 of the top 10 food consumer product companies
- U.S. government departments and agencies that have responsibilities for such issues as national security, health, budget and revenue, science and technology, and the environment.

**As per the 2009 FORTUNE 500 list*

**Let us show you how the KPMG EGE Advantage can help you realize the potential of your Extended Global Enterprise. Contact your local KPMG partner or Cliff Justice, Service Network Lead, Shared Services and Outsourcing Advisory at 713-319-2781 or at cjustice@kpmg.com.**

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