Improving Public Sector Organizations’ Performance through Shared Services and Outsourcing
Are you being asked to deliver the same or more services at less cost?

Do you even know the true, total cost of what it takes to deliver your services?

How do you stack up against peer organizations – better or worse?

Do you have a contract that is failing?

Are service levels deteriorating?

What is your plan to fix it?

Such questions are increasingly common among government and other public sector officials today. And there are no easy answers.
Never before has government and the public sector been faced with so many expectations while managing such enormous challenges and unprecedented complexity.

The effects of a wavering economy and the demands for more accountability and transparency have government and public sector organizations feeling the impact.

• Because of declining tax revenues and fees, federal, state and local governments are seeing their budgets pared back.

• State and local governments are being given new mandates without supplemental funding. At the same time, they are dealing with the critical implications of shifting demographics.

• Not-for-profits are receiving less grant monies. Further, they are having a harder time raising contributions.

• Institutions of higher education are experiencing lower endowment values, meaning less available allocation for operations. They are witnessing declining enrollments and/or they are taking on more students with greater financial need. In addition, they are experiencing greater competition from other, less costly competitors, including for-profit institutions.

• All of these organizations are being confronted with the effects of long overdue investments in infrastructure and technology.

With the odds against them, government and other public sector organizations are forced to look for new sources of revenue, opportunities to reduce their ongoing costs of operations, and the means to upgrade their infrastructure while avoiding capital outlays. They are essentially tasked with making what seems impossible…possible.

Upon realizing the behemoth task before them, the obvious questions government and public sector organizations must first ask are: How are we performing today?

What is the gap between current operations and our preferred, future state?

What is our desired end state?

Can we achieve it by doing what we are doing today?

What needs to change…and how? This is where KPMG comes in.

KPMG’s Public Sector Shared Services & Outsourcing Advisory (SSOA) practice is uniquely positioned to deliver highly tailored local guidance, based on key insights gained from our work with similar public and private sector organizations around the world. With broad experience across all government subsectors and other not-for-profit organizations—such as higher education, nongovernment organizations, and foundations/charities—KPMG’s mix of local specialists and leading industry best practices help us deliver valuable and sustainable strategies to our public sector clients.

Failure is not fatal, 

*but failure to change might be.*  
—John Wooden
Today, public sector organizations realize that alternative delivery models are a key means to not only cutting costs, but also fundamentally improving and transforming service delivery.

Over the past decade, KPMG has assisted scores of public sector clients in evaluating and implementing alternative service delivery and sourcing models to help them deliver information technology and other business support services—including human resources, finance, and procurement—in the most effective and efficient manner possible, while improving their focus and execution.

KPMG’s approach to assisting clients with their transformation journey

Service Delivery Model Definition
- KPMG recognizes that the right service delivery model for organizations may require elements of both centralized and decentralized services—there is no “one size fits all.”

Sourcing Model Definition
- KPMG is impartial. We neither advocate outsourcing or insourcing. In fact, often times the best sourcing model is a combination of both.

Technology Use Definition
- KPMG is agnostic with respect to the use of technology to achieve performance improvement.
- We recognize that there are advantages and disadvantages inherent in-house, owned and operated technology, outsourced, and cloud solutions.

Consulting Approach
- KPMG’s value comes from tools, methodology, leading practice knowledge, market experience, and the financial constructs.
- However, KPMG believes the process and the decisions are ultimately owned by the customer—our approach is based on collaboration with our clients.

Improvement Lifecycle
- KPMG is adept at strategy development, business planning, service delivery modeling, service center design and construction, provider selection/contacting following through to ongoing service governance.
- We can support you at any stage in your journey—from high-level exploration of options through to implementation.

We are DIFFERENT from other firms. We are neither a service provider nor a technology vendor. As such, we are objective advisors. Our key priority is to understand your needs and provide you guidance.
Transforming organizations’ business support functions – how KPMG adds value

Our advisors guide public sector organizations through the transformation of their business support functions—including information technology, human resources, finance and budgeting, procurement and logistics, facilities and fleet services—by working collaboratively to help assess those functions’ current operations, and clearly articulate opportunities data. We are agnostic in our view of a proposed recommendation. What might work for one client may not work for another. Our role is to help organizations identify and evaluate options and make the appropriate choice.

### Service Delivery and Sourcing Strategy Decision Process

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<td>Function</td>
<td>Distributed</td>
<td>Insourced</td>
<td>Geographic Considerations</td>
<td>Governance</td>
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<tr>
<td>Process</td>
<td>Centralized</td>
<td>Outsourced</td>
<td>“The cloud”</td>
<td>Organization</td>
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<td>Activity</td>
<td>Consolidated</td>
<td>Blended Sourcing</td>
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<td>Technology</td>
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<td>Task</td>
<td>Centers of Excellence</td>
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<td>Policy</td>
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<td>Shared Services</td>
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### Service delivery options analysis

Service delivery transformation can be overwhelming when presented with the multitude of models available—shared services, centralized services, distributed services, consolidated services...the list and combination of options goes on.

As part of KPMG’s methodology, selecting the right service delivery model happens up front. We work with clients to create a service delivery vision, assess current operating model activities, develop current-state business case models, and conduct market-based assessments. From there, we develop service delivery model scenarios and outline technology infrastructure and application implications for each. All of these inputs help drive the service delivery model selection and design.

KPMG removes the mystery, frustration, and chance from the equation and replaces it with fact-based conclusions.

### Sourcing options analysis

Organizations have many sourcing options to consider, including outsourced, insourced, or some blend of the two as well as multiple cloud computing options. And, depending on the process and/or service at hand, an organization can consider different types of sourcing: staff augmentation, services outsourcing, infrastructure outsourcing, applications outsourcing, and business process outsourcing, as well as multiple IT cloud computing options (e.g., Software as a Service (SaaS), Platform as a Service (PaaS), and Infrastructure as a Service (IaaS)).

Choosing the right sourcing model is critical to success. With so many options, just one misstep can waste valuable time and resources. KPMG helps clients understand their options and guides them through the pitfalls no matter where they are in the process.
KPMG’s service delivery lifecycle

KPMG provides a flexible, scalable methodology that covers the entire service delivery lifecycle.

STRATEGY
- Strategic Context & Align Business Model
- Identify Current Operating Model
- Develop Strategic Options
- Define Target Operating Model
- Provide Alignment & Roadmap

SOLUTION
- Strategic Context & Business Requirement Definition
- Market Scan & Service Provider Engagement
- Solution Design & Service Provider Selection
- Contracting & Roadmap

OPTIMIZATION
- Solution Design/Execution Assessment
- Market Assessment
- Service Portfolio Management
- Optimization Recommendations

IMPLEMENTATION
- Launch Readiness & Communication Plans
- Foundational People, Process & Procedures
- Process Go-Live, Stabilization & Execution
- Steady-State Benefits Realization & Tracking Framework

Underpinning these four phases is Governance. Governance allows KPMG to assist clients effectively, regardless of the stage in the lifecycle, with an objective view to the outcome.

KPMG believes strongly in governance, change management, and communications as they help improve the speed and efficiency of execution. Our advisors have long understood that the value derived from alternative service delivery models could be reduced, if not lost altogether, if there was insufficient attention and investment placed on governance. As a result, we have a strong governance competency within the firm’s SSOA practice.
**Base case development and benchmarking**

KPMG takes great care in establishing a credible baseline of our client organizations. We do this by:

- Benchmarking clients against other organizations of similar size, scope, and geographic footprint
- Utilizing the extensive data we have assembled and continually refresh
- Developing realistic business cases
- Crafting suitable metrics against which clients’ own performance as well as that of their service providers can be measured.

KPMG does not offer a typical one-size-fits-all benchmark. Rather, comparable data points and deals are selected based on specific attributes from our proprietary database. KPMG has conducted hundreds of shared services and outsourcing market assessments/benchmarks—each unique—that have aided our clients in determining whether their current contracts and/or cost structures are aligned to market pricing.

Through detailed analysis of a client’s services portfolio and a comparative assessment against other leading organizations, we offer clients insight on the specific change opportunities that can be of greatest value to their organizations.

**Contractual remediation**

Not only does KPMG provide full shared services and outsourcing lifecycle support and strategy, we also provide public sector organizations with remediation and restructuring support of failed provider relationships.

KPMG works with clients to realign existing outsourcing relationships using our pragmatic and tested methodologies and, where applicable, to build an outsourcing management capability to manage the ongoing relationship. KPMG’s remediation experience brings clients specialized industry knowledge, a flexible methodology, seasoned and skilled advisors with firsthand experience in shared services and outsourcing, and realistic timing and pricing expectations about what a service provider can and should do.

“We believe strongly in governance, change management, and communications as they help improve the speed and efficiency of execution.”
ABOUT KPMG’S PROPRIETARY DATABASE

A key principle of KPMG’s methodology is converting data into actionable strategy. Where does this data come from? KPMG’s Public Sector SSOA practice has developed a large, proprietary database that contains hundreds of recently signed shared services-related and outsourcing transaction data sources from service providers, with more than 20,000 data points across corporate functions (e.g., HR, Finance, IT, Procurement and Supply Chain). This provides our clients with one of the most relevant market databases that exists today.

KPMG’s data set is developed and maintained by the same financial architects that advise our clients on shared services and outsourcing engagements. This level of experience helps ensure the data set is normalized for comparison purposes. It also provides our advisors with real-time market pricing trends that they can share with clients.

BEYOND COST SAVINGS

At KPMG, we believe that shared services and outsourcing are enablers of higher performance, not just a transaction for cost-savings purposes.

As governments and not-for-profits consider alternative service delivery models—such as shared services or outsourcing—their goals typically are to put limited resources to better use in delivering critical services to their constituencies. While this is supremely valid, it is largely overlooked that the transformed business functions do not just support the business, they can advance it too. And, their ability to plan, implement, and improve their support infrastructure is as much a core competency as any other.

With the proper balance of shared, outsourced, and retained services—combined with a common service delivery framework, ongoing competition within the services supply chain, sophisticated governance, and standardized performance measures—public sector organizations can create business value well beyond the benefits achieved through cost economies alone. It can also increase agility and flexibility, tap new capabilities and innovations, and gain access to new markets should it so desire.
Experience working with all levels of government and not-for-profits

KPMG’s Public Sector SSOA practice has extensive experience working with virtually every arm of government and other public sector organizations. Our professionals work within individual departments and across jurisdictions to deliver informed perspectives, effective tools, and value-added results.

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<tr>
<th>Federal/Central</th>
<th>State and Provincial</th>
<th>Municipal, Local and City</th>
<th>Educational Institutions</th>
<th>Other Not-for-Profits</th>
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<tr>
<td>Ministries and Departments</td>
<td>Regulatory Bodies</td>
<td>Government Owned and Sponsored Enterprises</td>
<td>Commissions and Authorities</td>
<td>Regional and International Governing Bodies</td>
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KPMG has experience helping public sector organizations transform every major functional area, including:

| Information Technology (IT) | • 1000+ engagements  
|                           | • 100+ advisors (avg. 18 yrs. experience)  
|                           | • Supporting full ICT portfolio, e.g., I&O, ADM |

| Finance & Accounting (F&A) | • 100+ engagements  
|                           | • 30+ advisors (avg. 17 yrs. experience)  
|                           | • Supporting BPO full life cycle |

| Human Resources (HR) | • 100+ engagements  
|                      | • 50+ HR advisors (avg. 20 yrs. experience)  
|                      | • Award-winning advisors methodology |

| Procurement & Supply Chain | • 50+ engagements  
|                           | • 25+ advisors (avg. 20 yrs. experience)  
|                           | • Supporting source-to-pay solutions |

| Governance Advisory (GA) | • 100+ engagements  
|                        | • 16+ advisors (avg. 18 yrs. experience)  
|                        | • Support all stages of sourcing life cycle |

**Strength in numbers, experience, and accolades**

In 152 countries and almost every major city around the world, KPMG’s network of member firms combines a wealth of global experience with hands-on local insight to tailor unique solutions for our public sector clients. KPMG’s SSOA practice is the largest third-party sourcing advisory practice in the world, with over 400 professionals globally. The numbers speak for themselves:

**Operational in 152 countries**

More than 145,000 professionals globally

Over $20 Billion in annual revenues

More than 400 SSOA professionals globally

Over 187 SSOA professionals in the United States

Consistently ranked highly on Fortune’s “Best 100 Companies to Work For”

Over 360 SSOA engagements in the past 24 months

Provide services to 76% of companies listed on the FORTUNE Global 500 list and to all cabinet-level agencies
## Representative public sector clients

### A small sample of our government and not-for-profit clients

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<thead>
<tr>
<th>Federal</th>
<th>State</th>
<th>City/Local</th>
<th>Education</th>
<th>Other Not-for-Profits</th>
<th>Government-Owned or Sponsored Enterprises</th>
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<tr>
<td>Federal Bureau of Investigation</td>
<td>State of Alaska</td>
<td>City of Annapolis</td>
<td>Detroit Public Schools</td>
<td>Inter-American Development Bank</td>
<td>Freddie Mac</td>
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<td>Department of Energy</td>
<td>Commonwealth of Pennsylvania</td>
<td>City of Los Angeles</td>
<td>Los Angeles Unified School District</td>
<td>American Red Cross</td>
<td>Fannie Mae</td>
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<td>State of Utah</td>
<td>Cuyahoga County, Ohio</td>
<td>California State University</td>
<td>Center for Families &amp; Children</td>
<td>United States Postal Service</td>
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<td>Department of Homeland Security</td>
<td>Commonwealth of Virginia</td>
<td>City of Minneapolis</td>
<td>South Carolina State University</td>
<td>Municipal Securities Rolemaking Board</td>
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<td>Environmental Protection Agency</td>
<td>State of Florida</td>
<td>City of Austin</td>
<td>Pennsylvania State System of Higher Education</td>
<td>Planned Parenthood</td>
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<td>United States Army</td>
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<td>Broward County, Florida</td>
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<td>Federation of America</td>
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<td>United States Navy</td>
<td>State of California, Administrative Office of the Courts</td>
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<td>United States Air Force</td>
<td>District of Columbia</td>
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<td>Nuclear Regulatory Commission</td>
<td>Georgia Technology Authority</td>
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<td>Department of Housing &amp; Urban Development</td>
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<td>State of Texas’ Health &amp; Human Services Commission</td>
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<td>State of Indiana’s Public Retirement System</td>
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<td>State of New York</td>
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Recommended Reading

HR Optimization in the Public Sector

IT Optimization in the Public Sector

Evolution of HR Service Delivery in the Public Sector

Exploring the Cloud: A Global Study of Governments’ Adoption of Cloud
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To learn more, visit the Government Institute at:

Or the Shared Services and Outsourcing Institute at:

About the KPMG Government Institute
The KPMG Government Institute was established to serve as a strategic resource for government at all levels, and also for higher education and non-profit entities seeking to achieve high standards of accountability, transparency, and performance. The Institute is a forum for ideas, a place to share leading practices, and a source of thought leadership to help governments address difficult challenges, such as effective performance management, regulatory compliance, and fully leveraging technology.

For more information, visit us at:
www.kpmginstitutes.com/government-institute/

kpmg.com