Shared Services and Outsourcing

Quarterly Business Update

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CONSULTING

PART TWO

Constructing your Service Agreement

What to do Next?

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Vendor Management in Shared Services and Outsourcing

To recap, in Part 1 of our second Shared Services and Outsourcing Quarterly Business Update, we talked about the turbulent economic conditions that are driving organisations globally to cut costs, improve efficiency and focus on their core businesses. As a result, over 90 percent of Fortune 500 companies have resorted to outsourcing and setting up shared services or captives to help meet these conditions. In Part Two we highlight how vendor management is evolving and explain how KPMG breaks vendor management in to functional areas that can be reviewed and monitored.

Constructing your Service Agreement

Outsourcing agreements created ten, five, or even three years ago are now being renegotiated because they were essentially conceived in another era. In the shared services world, the construction of internal service agreements has evolved with the advent and adoption of new delivery models that are often global in nature. These global business and technology service agreements are inherently complex in nature, difficult to set up and should be managed with the assistance of specialist skills. As a result, outsourcing agreements created during the last decade are now being renegotiated to reflect these new changes.

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One particular difference between modern agreements and legacy ones is the tools used to manage and respond to change while maintaining alignment between the contracted parties. These change management tools, which support a much more effective and formalised governance function, allow both the client and service provider (external or internal), to respond to each small change trigger appropriately as it arises and reposition the relationship and the contractual documents to reflect a modified solution.

A key objective of any negotiation or renegotiation is to create a structure that integrates both the necessary tools and governance reforms to ensure their effectiveness so that in the future, a major conflict resolution process is not required.

KPMG
cutting through complexity

What to do Next?

Although cost-saving was typically the main driver for SSO, this is now changing. It follows that a more pragmatic and comprehensive understanding of value is required in order to maximise benefits and minimise risks of SSO operations.

To have a better grasp of what is working and areas for improvement, organisations should assess their vendor relationships against a broader set of measures – such as the ones provided in KPMG's '6Ps' framework. KPMG's SSO practice has analysed the value of SSO to organisations and what should be considered outside of the traditional focus areas. As a result, the '6Ps' framework reflects a holistic view of vendor management covering strategy and operations, as well as quantitative and qualitative characteristics. The key components of the framework are:

Price and commercials

Securing the right price is essential. Charges for services that are provided, either by vendors or internal departments, need to be clearly specified, predictable, measurable, and flexible to allow prices to accurately reflect changes in the consumption of services.

Performance

Defined performance levels should be met, but the wider business should also actively engage in performance management and show that it will intervene where appropriate to keep service delivery on track.

Process

Regular monitoring and updating of processes, as and when necessary, must be done to ensure continuous improvement within an evolving business environment. Processes need to be clearly defined, documented and adhered to, and must be efficient and effective in order to support best practices and corporate standards.

Plan and potential

There needs to be a clear understanding of performance in relation to the hard and soft targets that are set as critical success factors and original business case. The ability to meet anticipated future requirements is also an important aspect.

Perception

Proper alignment between perception and actual performance needs to be actively managed across all levels of the organisation. It is quite common to have a disconnect between the two, but this needs to be addressed in order to achieve success.

People and governance

There needs to be efficient and effective governance structures in place that manage and control the delivery of the services and reflect governance arrangements. Decisionmaking should also be supported by timely and accurate management information based on regular reporting. The general consensus is that SSO governance is an area in which organisations can most effectively improve their performance. Indeed, the latest KPMG Sourcing Pulse survey found that 67 percent of advisors cited improved governance processes and capabilities as the most common approach undertaken to improve service delivery capabilities.[1]

Protection - the 7th P

This is perhaps the most important 'P'. If the services provided by SSO are not adequately secured or are constantly unavailable, all other measures may be irrelevant. Inadequate security or availability will raise questions about the actual use of SSO.

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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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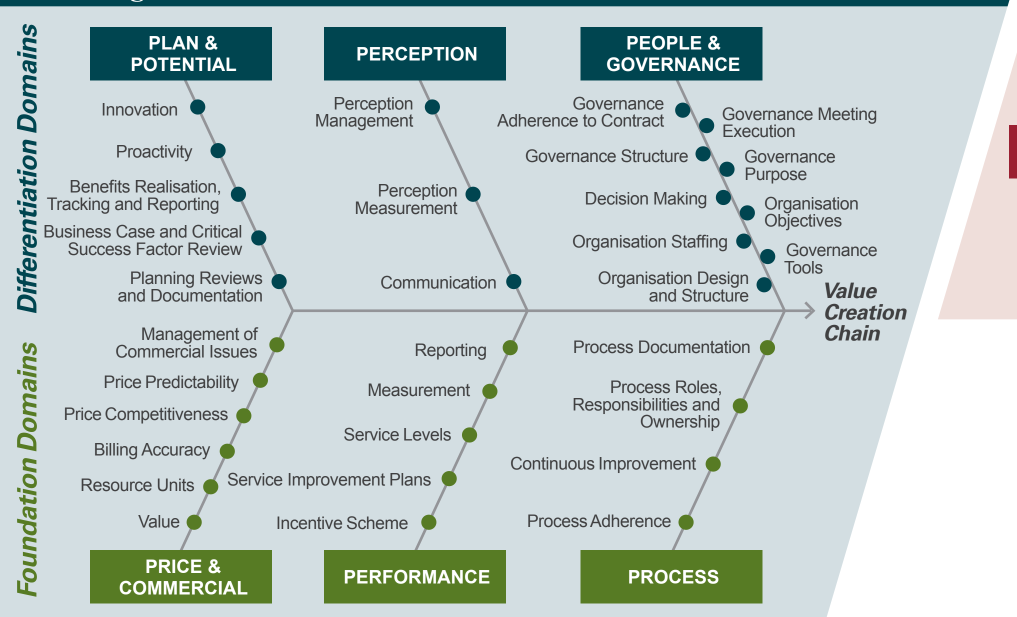
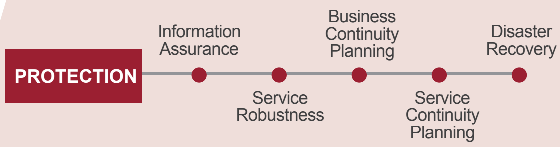
Original 6P Domains



7th P Domain - Protection



[1] KPMG Sourcing Pulse Survey 1Q, 2012

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