



Sourcing risk management

ADVISORY

The controversial trend towards business process outsourcing and shared services is here to stay. With the right approach, effective outsourcing or shared services can significantly reduce direct and indirect operating expenses, as well as potentially enhance business process efficiency.

Cost-saving is inevitably the focus of many corporate agendas; but too many make the leap from a cost-cutting agenda to outsourcing, without necessarily taking the time to thoroughly address wider issues, from revised corporate structures through to locations and actual operational implications. Cost saving as the primary objective is often attractive, but savings are usually overestimated.

Sourcing projects are often complicated and involve a high level of risk that may not be immediately obvious. This is true whether you are planning to outsource a single function or establish a shared service centre for a significant portion of your operations.

Success brings many benefits, but the cost of failure is often high and usually far greater than the direct cost of the initiative.

KPMG in China and Hong Kong SAR has advised large and medium sized organisations on managing these risks

and realising value from the investment in sourcing projects. Our experience covers a wide range of projects from shared services centres for call handling to complex Business Process Outsourcing (BPO) projects.

Deceptively complex, inherently risky, but usually rewarding

Most sourcing projects, are inherently complicated. Even for experienced business managers, the planning and execution can be overwhelming and extremely time consuming.

Without the benefit of prior sourcing experience and a well defined approach, it is easy to miss opportunities and fail to realise the benefits you are trying to achieve. This is where KPMG professionals can help you, by bringing sourcing advisors with industry experience to guide you through your sourcing initiative, alerting you to the risks and difficulties of sourcing, and helping you to achieve the desired benefits.

Real problems, real issues

Recent sourcing studies by KPMG member firms, both in Asia and globally, have revealed that sourcing, while beneficial, does not always achieve the desired benefits.¹

Many respondents are happy with their sourcing arrangements, but are unable to gauge the full value and benefits of their own outsourcing deals. For example:

- Forty-two percent of outsourcing arrangements are not supported by a value measurement framework.
- Seventy-two percent of customer organisations do not have a published list of criteria that defines success or failure.

While many organisations look to outsource their internal processes to reduce costs and increase efficiencies, often the process of identifying the outsourcer is protracted, costly and does not yield tangible benefits either through increased value for money or lower risk.

- Seventy-nine percent of customers could not accurately quantify the internal financial cost of the selection process.

- Fifty percent of customer organisations took longer than six months to complete the selection process (longer than the time recommended by KPMG).
- Only 41 percent of respondents appeared to use the request for proposal (RFP) for its intended purpose – to better understand the potential service providers' solutions and capabilities.

People are integral to the success of bringing about the level of change resulting from outsourcing.

- Customer organisations report that people-related issues make up 60 percent of sourcing problems, 59 percent of service providers agree with this view.
- Technology-related issues are responsible for only 12 percent of customer problems.

Organisations are looking at the best approach to optimising the value they can acquire from their sourcing contracts.

The continued evolution of current measurement, selection and people processes is critical to the continued success of sourcing as a key strategic tool.

¹ Asian Outsourcing: The Next Wave, published by KPMG International and the Economist Intelligence Unit, November 2006



How can we help?

KPMG member firms can offer a clear, structured approach. Our methodology has been developed, tested and refined over more than 20 years of sourcing worldwide.

Strategy

Knowing what is possible and where the returns on investment will come from is the foundation of successful sourcing. Our professionals help:

- determine what may be achieved through sourcing
- identify the business benefits
- set improvement targets
- identify the key risks
- develop the initial business case based on feasibility studies and benefit analysis.

Scope and plan

Before moving to the “how to” stage, it is essential to complete planning and perform detailed cost benefit analysis to validate that the expected benefits are realistic and feasible.

KPMG professionals can help analyse current operations to identify issues, opportunities and additional business requirements and define a conceptual structure for the organisation after sourcing is complete. This information

can be used to develop current state and future state cost models to be used in the cost benefit analysis, refining the business case and developing a financial model.

Design and select

Having completed the detailed planning, and approved the business case, the organisation needs to start the detailed work on defining which functions and processes will be sourced, and how sourcing will operate. We can help to analyse current processes and design streamlined, efficient and cost effective processes that meet business requirements and objectives.

KPMG professionals can also help to identify potential outsourcing vendors and negotiate a contract that ensures management have the necessary level of control in place.

Transition

The transfer of operations to an outsourcing organisation needs to occur without disruption to existing business operations. KPMG professionals may help you navigate this delicate process to make sure that the transition is well planned and executed.

In addition, we can help you define and implement steps to effectively monitor and manage the outsourced operations.



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Delivery

Having transitioned to business as usual with the outsourced services in place, it is important to measure the success of the sourcing initiative and to gauge results, both financial and operationally. We can help to identify the metrics necessary to monitor and assess the effectiveness of the sourcing arrangement, the performance in relation to target service levels, the satisfaction of the sourcing service's customers and compliance with regulatory requirements.

Evolution

Business is continually evolving and sourcing arrangements must adapt to changing market and economic trends. Our professionals help determine the impact of revised business strategies on the sourcing arrangements and identify where further changes are required and where further efficiency and cost reduction opportunities exist. KPMG's teams bring together skills from many markets and disciplines, with particular focus on key risks and sector expertise, to support outsourcing efforts in any location or industry.

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Insights from leading finance functions



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