



From transaction processing to driving business results: GBS as a strategic partner

Industrial manufacturing companies are elevating the role of Global Business Services, adding more value across the enterprise

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Numerous objectives—cost reduction, process improvement, enhanced insights, modernization, to name a few—are accelerating the need for a mature Global Business Services (GBS) organization within industrial manufacturing (IM) companies, prompting many to investigate new ways to transform this traditionally back-office organization into a strategic business partner.



Executive summary

There was a time, not long ago, when the foundational “keep the lights on” work done every day by GBS was focused on delivering back-office processes at the lowest cost, rather than its contributions to the company’s strategic objectives.

Today, organizations large and small are witnessing sweeping technology-driven changes—geopolitical, economic and cultural—that will impact their operating models, the way they interact with customers, and the products and services they offer. These external forces—from the rise of intelligent automation to immigration and tax reform—are among the disruptors prompting many IM companies to reconsider the role of GBS within the context of corporate competitiveness.

Properly managed and aligned with business strategy, a mature GBS organization can become the strategic partner IM companies need to drive value in a rapidly changing environment. Data analysis and interviews with market leaders and shapers confirm a growing appetite to improve the maturity of the GBS organization and elevate its role.

In contrast to the traditional role of primarily delivering back-office services, the new vision for GBS is one of a strategic, collaborative contributor to the business, long-term value and sustainability. More and more, GBS organizations are expected to deliver differentiated, value-added services. The thinking is not only will this drive the company’s overarching strategic objectives but also propel numerous vital business objectives including business intelligence, talent retention and conversion, and even new-market entry.

This paper explores the growing movement to give GBS leaders a seat at the C-suite executive table. We are confident that this change will help IM companies drive new business opportunities; improve customer experience; reduce selling, general, and administrative (SG&A) expenses; and better manage risk. We also outline KPMG’s approach to progressing IM companies’ GBS maturity, on which the entire endeavor hinges.



The current environment: Overview of GBS in the IM sector

To better understand how GBS organizations within IM companies, KPMG conducted research to assess the current state of GBS maturity in select companies. We surveyed executives from 29 IM companies, collecting data on their current operating model, along with their current and aspirational GBS maturity. We also looked at a set of companies that have started their GBS journey and have publicly available financial data. We compiled five years of specific data on SG&A costs as a percentage of revenue. Our interviews included a number of senior executives. Finally, we summarized our research on the current state of GBS across four key areas:

- Key business drivers
- Scope and service delivery models
- Current maturity level
- Financial impact

Key business drivers

In speaking with the survey respondents, we identified five key drivers that motivated many IM companies to launch GBS organizations (see Figure 1). Of these five drivers, achieving increased internal customer satisfaction, efficiency savings and the ability to make use of a scalable back-office platform were the three most notable. In one of our interviews, the regional CFO of a global automotive parts supplier emphasized the importance of a scalable back-office platform by launching GBS to “enable growth without growing the back-office functions.”

Figure 1: GBS business drivers for IM companies



Scope and service delivery models

A deeper examination of the operating models for the IM companies we surveyed yielded four overarching operational findings related to their GBS organizations:

- 96 percent of survey respondents do not consider themselves a strategic business partner (see Figure 3 for characteristics of a Level 5 GBS), as their GBS strategic objectives aren't fully aligned with the business strategy.
- 85 percent have multifunctional shared services centers, with finance, IT and HR as the dominant functions.
- 68 percent have consolidated their operations into three or fewer delivery centers, with moderate usage of external third parties.
- 83 percent have instituted a process ownership framework to drive process standardization and enhancements.

Current maturity level

In addition, we surveyed a number of senior executives about their current GBS maturity, as well as the level of maturity they would like to achieve within the next three to five years. While there is no “silver bullet” for GBS maturity, we have identified 10 dimensions which, when addressed, positively affect an IM company’s advancement along the GBS maturity curve. Our survey focused on these factors in assessing and quantifying the maturity of these GBS organizations (see Figure 2).

Once we captured the maturity of the GBS organization across each dimension, we computed the average maturity score for all of the companies in the survey. As Figure 3 illustrates, it is evident that the overall level of GBS maturity among IM companies is near the middle of the maturity continuum (on a scale of 1 to 5) and lags other industries, such as consumer and retail (C&R). However, the survey also indicates that the majority of IM companies we spoke with aspire to enhance the maturity of their GBS organizations.

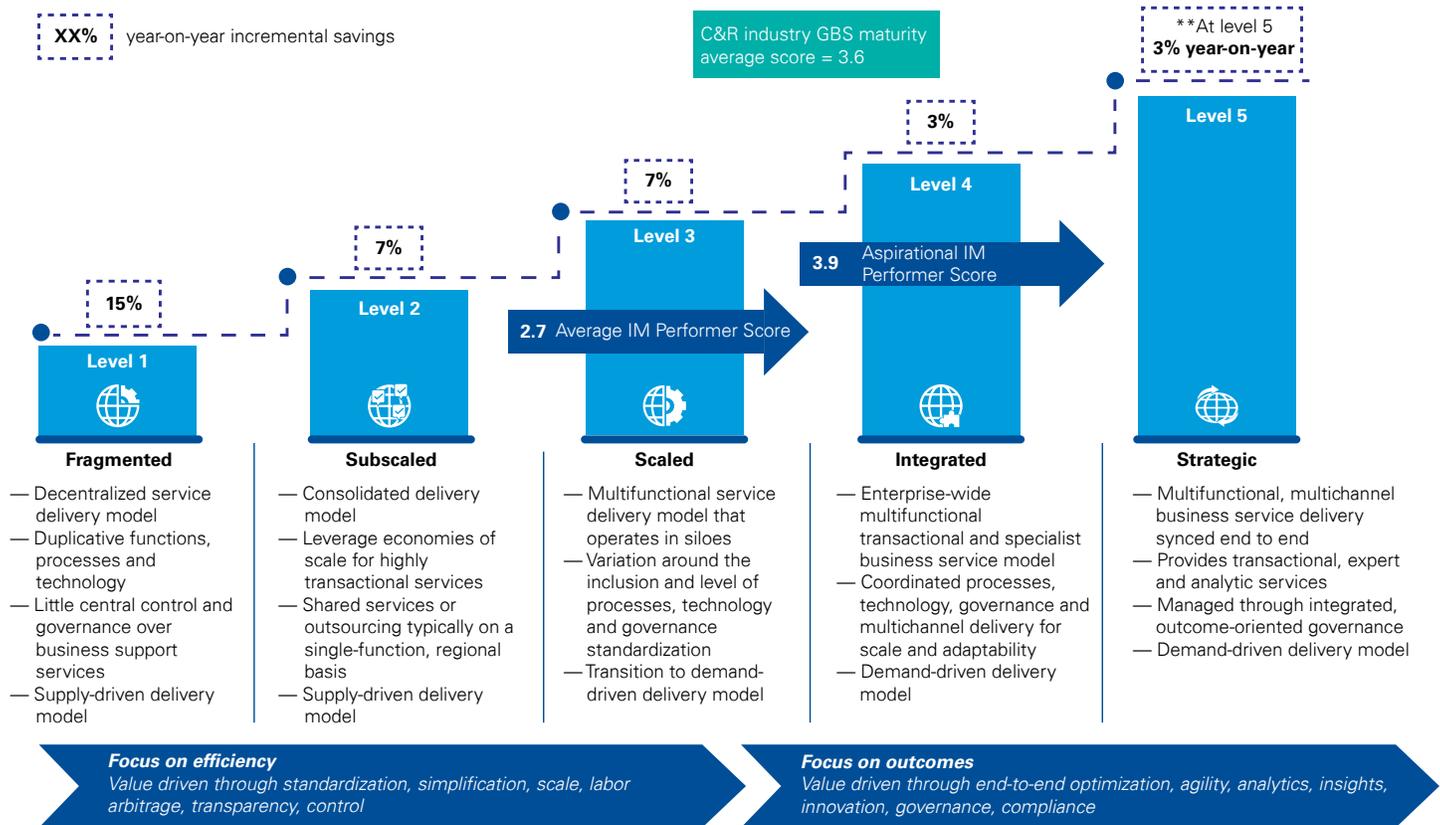
Figure 2: GBS maturity survey dimensions



Source: KPMG LLP, 2017.



Figure 3: IM GBS maturity assessment survey results



Aspirations notwithstanding, there remain a number of gaps for these companies to address. There are four major findings regarding the lack of GBS maturity among the IM companies in our survey:

- **Process excellence:** Most companies that were interviewed scored low on the question of whether they have instituted standard global end-to-end process models for finance, HR and other functional areas.
- **Data and analytics:** Few of them have leveraged the power of data and analytics capabilities in an effort to deliver valuable insights internally and to customers.
- **Enabling technologies:** Few of them have effectively leveraged the power of intelligent automation solutions—robotics process automation (RPA) and cognitive automation, for example—as they think about improving their GBS operations.
- **Talent management:** Most of them scored low in several key areas and lacked maturity in digital talent capabilities, employee career development and global workforce planning.

Based on these findings, it's clear that these IM organizations haven't matured in terms of their GBS function relative to other industries such as C&R. In our view, this is attributable to three key reasons:

- The majority of IM companies in the survey are conglomerates, operating in various industries (e.g., aerospace, consumer products, and engineering services) with many distinctive customer segments and requirements driving distinct customization levels.
- These companies have operations in many countries, demanding that they provide localized products and services.
- They also have legacies of both organic and inorganic (e.g., acquisition-based) growth, which has resulted in interconnected and complex back-office environments.

These factors add complexity to the quest for GBS maturity as they present challenges in:

- Standardizing the GBS operating models across business units and regions
- Consolidating disparate enabling technologies on a single platform
- Instituting end-to-end standardized process model globally.

As a result, real fundamental change has been slow, which has prolonged the GBS journey.

Financial impact

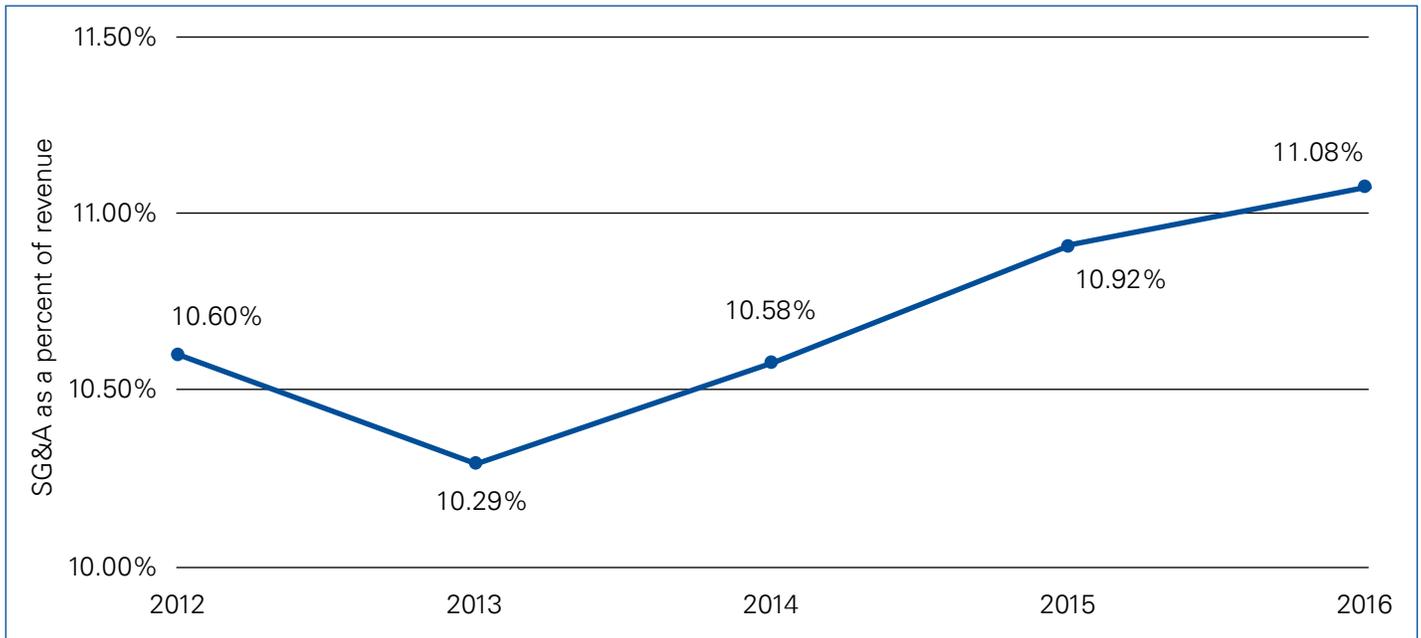
In an effort to explain the financial impact of the GBS organizations within these IM companies, we took a look at historical SG&A trends, reviewing SG&A costs as a percentage of revenue over the past five years, for 24 IM companies with GBS organizations.

Historically, as IM companies have increased their GBS maturity, they have been able to reduce their SG&A costs. Interestingly, the average SG&A expense trend has remained fairly steady over the study time frame (see Figure 4), which may imply that selected companies have not yet effectively leveraged all of the dimensions of a fully mature GBS organization. Why is this the case? Our research suggests a number of the selected IM companies with GBS organizations have not holistically deployed the

spectrum of GBS cost-saving levers: enabling technology, outsourcing, organizational alignment, process excellence and demand management.

Beyond not effectively deploying these cost-saving measures, IM companies whose SG&A expenses didn't consistently go down simply have not put in place sufficient GBS governance models. The majority of these companies have not positioned themselves with the necessary tools to monitor and prevent cost-creeping back into the organization, and have not instituted new ways of working or changed the culture to sustain the new cost structure. Finally, many of these companies have not invested adequately to enhance the effectiveness of their GBS operations (i.e., improving their talent strategy and enhancing the overall customer experience).

Figure 4: Five-year trendline of IM companies' SG&A costs (shown as percentage of revenue)



Sources: S&P Global Market Intelligence, Capital IQ: *Benchmarking Indirect Plus* (2018 March 22).



The path to moving forward

Based on our discussions with many GBS leaders across the IM sector, it appears the majority are focused on elevating GBS to be more of a strategic partner to the business. The tried-and-true GBS approaches of offshoring and striving toward global process and technology standardization will address part of the business needs. In the as-a-service economy—which is defined by on-demand, precisely targeted, plug-and-play services—GBS objectives must extend far beyond cost savings to include an enhanced customer experience, greater databased insights and increased agility and flexibility.

Looking to 2020 and beyond, many GBS leaders are focusing on a more technology-leveraged approach with high availability of data and as-a-service capability to deliver complex, value-add services to the business. For that reason, our research and GBS maturity assessment survey results point to five specific characteristics that each of the IM companies we reviewed need to focus on to become a strategic partner.

1. Delivery and sourcing strategy

To achieve GBS maturity, IM companies must foster close alignment between the business strategy and the GBS strategic objectives. This linkage is often overlooked and can potentially lead to value erosion of a GBS organization. Without appropriate alignment between the business units and the GBS organization on the GBS vision and strategy, GBS organizations will fail to deliver the services and insights required by the business.

For example, an IM company we worked with is currently expanding its market presence and product portfolio through frequent acquisitions. Because the GBS organization isn't set up to accommodate such changes, the enterprise is having difficulty integrating and servicing the newly acquired entities.

Initially, the organization assumed that increasing headcount to absorb the new business was a feasible strategy. Over time, however, the company has learned that increasing headcount is strictly a short-term approach, and the more enduring course of action to drive sustained improvement is to invest in capabilities like program and change management. Additionally, the company needs to develop a strategy to address the

disparate Enterprise Resource Planning (ERP) technologies, processes and facilities that were inherited through the acquisitions. As a result of these hard-learned insights, their current GBS organization has lost some of its intended value.

2. Data and analytics

Considering the acknowledged importance of organizing and capitalizing on cross-enterprise data, we expect IM companies to significantly increase efforts to take steps to improve data mining and analytical capabilities with respect to their GBS organizations.

It is a competitive necessity for firms to harness the large volume of finance, HR, sales, IT and procurement data within GBS, and develop insights that propel business strategy. Getting a handle on the vast amounts of structured and unstructured data residing across the organization could potentially deliver various analytics to optimize working capital, analyze expenses, improve financial forecasting, project talent needs, and analyze employee turnover.

In fact, the GBS vice president of one global IM firm told us he is currently using predictive analytics to help the finance organization improve its budgeting and forecasting accuracy.

3. Talent management

As the focus on GBS shifts from the traditional back-office structure to strategic partnership, the talent and skillset needed to support this new model must also be addressed. As GBS organizations move up the maturity curve and incorporate extreme automation, the size, structure and delivery model associated will change significantly.

Accordingly, GBS organizations must proactively realign their workforce skillsets and competencies, and institute a holistic strategic talent capability to attract, develop and retain the talent of the future.

Based on our research and experience, we anticipate three new skillset categories to emerge in GBS:

Data Utilization and Technology: Data modeling, analytics, and visualization, strategic trend analysis, and design thinking background

Behavioral: Strategic thinking, impactful storytelling, negotiation, navigation skills, and ambiguity and white space

Technical: Business modeling, core financial driver analysis, process design and navigation

In addition to changes in employee skillset, IM companies are instituting alternate career progression models in order to reduce attrition rates within GBS and make jobs more compelling. For example, one IM company's career progression program enables GBS employees to cross-shift with other business units by joining different functional areas. As a result, this company can better retain its trained GBS professionals.

4. Process excellence

With pools of engineering knowledge at hand, IM companies have an advantage over many other industries in employing techniques such as Lean Six Sigma, Business Process Management (BPM) and process mining to standardize and streamline processes.

Some IM companies are advancing the Lean Six Sigma and BPM techniques that encompass the all-important concept of customer centricity. In that way, business processes are considered from the perspective of the customer, who ultimately defines the value of these activities. Ideally, coupling the customer-centric view with the "lean" methods of eliminating non-value-added activities and the Six Sigma objectives of reducing variance can lead to significant cost efficiency, while improving customer satisfaction.

Increasing numbers of IM companies are also exploiting process mining to reduce inefficiencies, increase transparency and mitigate process-related risks. These firms use process mining engines powered by unstructured data to enable GBS and the relevant business partners to streamline operations.

The process mining effort typically comprises three stages:

- 1—Data extraction from applications and systems and processing of unstructured data for analysis
- 2—Data analysis, leveraging process mining engines, to identify root causes
- 3—Zeroing in on improvement opportunities, such as improved contractual agreements and better scalability of regional functions

As a real-world example, we applied process-mining techniques and algorithms on an IM client's procure-to-pay (P2P) process to uncover issues related to one-time vendor payments and payments with lost discounts. By identifying and extracting the right set of data, and focusing on the root causes of these challenges, we were able to address the value leakage, identifying approximately \$2 million in lost discounts.



5. Enabling technology

Some IM companies today are looking beyond ERP systems, BPM software and other add-on applications to achieve process efficiencies that translate to cost savings and a more scalable back office. However, to become a true strategic partner, GBS should fully embrace digital transformation. Specifically, GBS organizations should leverage a suite of leading modern methodologies—notably, intelligent automation, blockchain and cloud solutions.

According to the 2017 State of Business Operations survey, conducted by HfS Research in conjunction with KPMG, approximately 74 percent of respondents said they are likely to increase the adoption of intelligent automation solutions in their GBS organizations. For example, RPA is such an attractive potential solution today, primarily because of its ease of integration. RPA is already compatible with many ERPs and enabling technologies and is easily configured. Benefits of RPA include cost-efficiency gains, enhanced auditability, improved service quality and greater reliability.

Some of the most common automation processes that IM companies pursue are back-office finance functions, such as revenue recognition, procurement and accounts payable. Recently, an automotive company instituted RPA to help audit discrepancies on \$100 billion of material purchases. This deployment has helped double its audit rate and reduce unnecessary payments to suppliers.

Another IM company deployed RPA technology for self-provisioning of invoice processing and purchase order requests by vendors. This procedural upgrade has had positive results, reducing cycle time and allowing the company to increase its automated invoice processing from 0 percent to 53 percent in just 12 months.

Other companies at the forefront of this thinking have explored more advanced automation capabilities (i.e., cognitive platforms), which require human judgment and decision support analytics for processes such as cash-flow forecasting. Nevertheless, most companies are early in their automation journeys and have only begun to explore ad hoc proofs-of-concept and pilot programs. But the future of this disruptive digital technology is promising. Indeed, implementing the full capabilities of RPA alone can help IM companies achieve cost savings of 20 to 40 percent.

Commonly associated with the digital currency bitcoin, blockchain is being explored by a number of IM companies for use in their GBS operations. At a high level, this technology is essentially a secure common ledger shared between companies and business partners that records and stores all transactions across the network.

Currently, companies and suppliers use two different ledgers to record transactions/events. Today's construct allows for the recording of the transaction/event twice, in each party's ledger, which can result in competing interpretations of the historical record/transactions and duplication of effort.

To tighten these processes, some companies are testing with suppliers and customers the creation of a common digital ledger, where each entry is governed by a series of blocks that form an agreement between the company and its business partner. Each block in the series then becomes an indisputable historical record of the transaction that is encrypted and can't be changed.

Blockchain eliminates the duplication of entries and documents and removes process steps (like three-way match) and the use of paper. Other advantages include reduced transaction times, elimination of risk and fraud through encryption of each block, reduction of exception/dispute handling, and increased transparency.



Conclusion—The march towards GBS maturity

For the past several years, the IM space has been grasping for strategies aimed at streamlining their often complicated operating models. From restructurings and cost cutting to mergers and acquisitions, these companies have been on a quest for SG&A transformation. Increasing the maturity of GBS organizations and making them a strategic business partner will enable IM companies to unlock value beyond cost savings in significant ways, such as:

- Reducing overall SG&A costs as a percentage of revenue; our global GBS design and implementation experience suggests that these expenses can be cut in the range of 100 to 200 basis points, with savings across back-office functions (e.g., IT, finance, HR) ranging from 10 to 30 percent per functional area
- Achieving excellence and consistency in customer experience, including uniform methods and platforms to respond to customer requests
- Creating valuable business insights in real time by unlocking the power of GBS data and analytics
- Increasing effectiveness and ability to scale by leveraging advanced service delivery models to support business growth
- Establishing a consistent brand experience, thereby improving the GBS culture and increasing employee retention.



KPMG can help

A recognized leader in GBS initiatives, KPMG has the tools, knowledge, insights and data you need to achieve genuine business services transformation.

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- Our advisors have deep functional experience across many areas and support the entire lifecycle of shared services and outsourcing.
- Since 2009, we are a top Shared Services & Outsourcing Advisor in the IAOP Global Outsourcing 100.
- We help clients align a business services management model with an emphasis on common processes, technology and services on an enterprise delivery platform.
- We apply focused research, automation tools, proprietary data, clear business acumen and a mindset to move quickly to provide our clients with objective, actionable advice and practical answers.
- We are solution agnostic and apply our deep market knowledge in an effort to guide clients toward efficient, timely decisions.

Contact us to learn more about how KPMG's GBS advisors can help advance your organization's business services for today's complex, digital world.





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