Obscuring the real story

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Reality of a GBS executive today

– No clear insight into how the function contributes to the organization's overall business outcomes

– Shouldering an unfair share of missteps, which are largely irrelevant when reviewing business success

– Inordinate time considering how to engage key customers of the function, who may not want to hear from you

– Challenge of selling every new idea to each service customer

How often have you received the advice to "align your internal organization to maximize customer impact and business value"?
We presume the answer is "all the time," as industry thought leaders have been highlighting this issue for at least two decades. And the edict is fine insofar as it directs companies to focus on end-to-end processes that foster such business outcomes as increased revenue, lower costs, and reduced risks.

The problem is, it is missing a critical component—**actionable metrics on business outcomes**—that shed light on the effectiveness of your service delivery processes.

To be clear, organizations have not ignored metrics. On the contrary, they tend to have too many measures and spend significant amounts of time computing and reviewing them. Most of these metrics are related to transactional input and, perhaps, throughput, but have no clear defined relation to business outcomes.

As an example, procure-to-pay process metrics often comprise two standard measures: "time to process invoices" and "percentage of invoices paid within terms." These are valuable metrics at a transactional level, but without a clear link to a business-outcome-level metric, such as the CFO's agenda of working capital optimization, the value of these metrics (and people's attention to them) is limited.

How did we get here?
The shared services model has evolved over the past two decades from a single-function, transactional model to a GBS model spanning multiple functions, geographies, and such delivery channels as captive centers, outsourcing, and centers of expertise. For most organizations, the investment in evolving to the GBS model has been worthwhile, as it has fundamentally recalibrated the value proposition for back-office services and highlighted the need for stronger business focus and engagement.

This effort has provided a framework for delivering end-to-end processes across the organization, resulting in cost optimization, process efficiencies, a platform for process innovation, and a scalable backbone for the next level of corporate growth.

80 percent of service organizations believe they deliver super customer experiences, while only 8 percent of their customers agree.

KPMG

While the benefits have been considerable, the tangible results for key stakeholders and business leaders has been blurry. While the processes are structured to function as an end-to-end chain of activities, the link between the GBS function and business outcomes is not always clear. As a result, functions have continued to measure metrics within their own silos with no clear view into the end-to-end process.

For example, a leading FORTUNE 50 pharmaceutical company, in an effort to effectively manage its end customer's experience and ensure efficient order fulfillment, implemented the Perfect Order Fulfillment metric. The Perfect Order Fulfillment (Figure 1) is a combination of four key variables—(1) delivered in full, (2) on time and location, (3) right condition, and 4) documentation accuracy—all of which are influenced by multiple internal and external functions. All need to perform at the highest level to ensure a high Perfect Order Fulfillment score. What this means is that if each of the Tier 2 variables deliver 90 percent accuracy, then the actual Perfect Order Fulfillment metric score will only be 65 percent ($90\% \wedge 4$). That clearly represents below-desired performance, but this insight is obscured when reviewing each of the areas in isolation.

Figure 1 – Business outcome from an end-to-end order fulfillment process
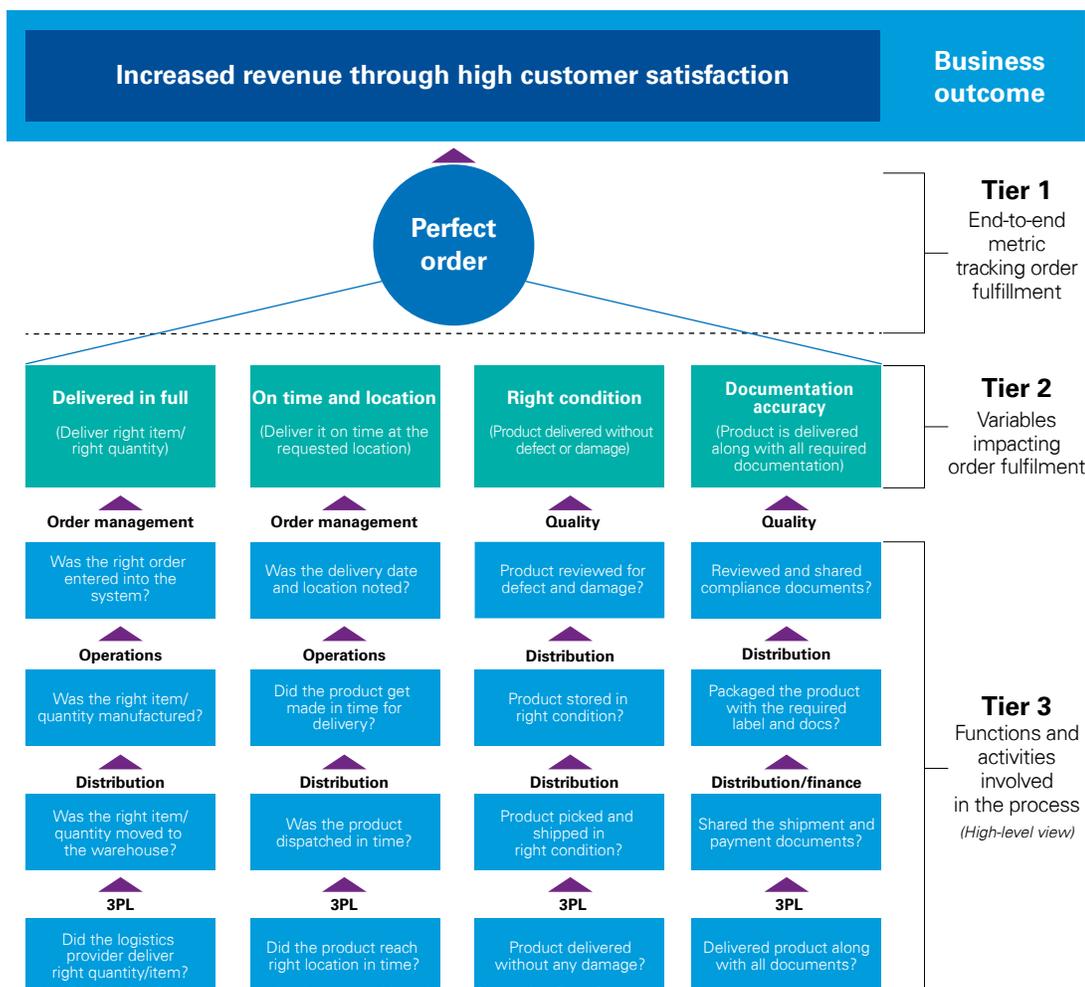
The irony is that, while GBS organizations started tracking performance with more metrics and meticulous effort, over time all metrics trended to green. However, there was no clear link to business outcomes. The relevance of the metrics measured and reported have limited value when they do not provide a complete picture from the end customer's perspective.
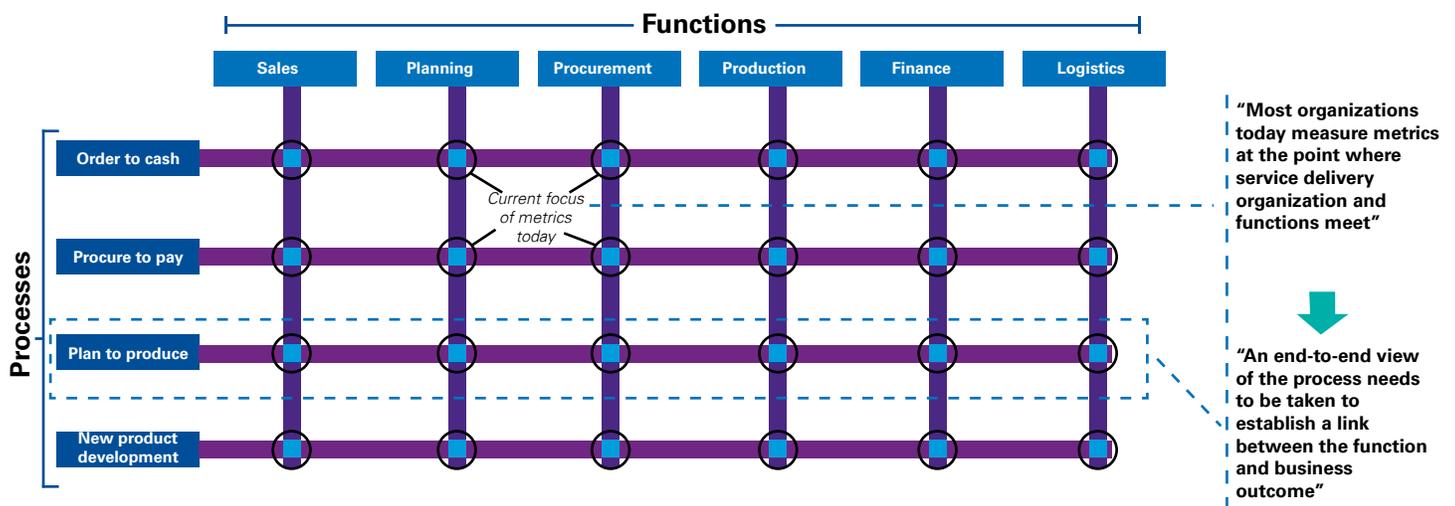
How do we gain relevance?

GBS organizations need to move from their established position of *efficient back-office process execution experts* to the place to go for relevant, innovative, and insightful

intelligence around the health and performance of the business processes, delivery partners, and platforms that are the engine room of the business.

Every functional area has a link with downstream and upstream processes. Without understanding those linkages and having a clear perspective on the overall impact to the business, true transformation is incomplete. Therefore, the focus needs to move to end-to-end solutions (regardless of which subparts are provided by GBS) and to a direct link between process performance and outcomes that are critical to the business.

Figure 2 – Required shift of focus from silo-based function/process view to an end-to-end view

Functions

| Sales | Planning | Procurement | Production | Finance | Logistics |

Processes:
- Order to cash
- Procure to pay
- Plan to produce
- New product development

Current focus of metrics today

"Most organizations today measure metrics at the point where service delivery organization and functions meet"

"An end-to-end view of the process needs to be taken to establish a link between the function and business outcome"

Metrics should enable conversations such as this:

CEO: Our sales are down. Why?

Head of Customer to Cash (CTC): New sales are up; we can see this from our new sales conversation rate. However, we have increasing customer churn.

CEO: What's causing our customer churn?

Head of CTC: Our perfect order metric is down to 80 percent from 90 percent; this is the key metric we use to measure transactional effectiveness for all our processes with customer touchpoints. By looking into the supporting metrics, I can see that

we have an increased number of customers who have been misbilled. This is supported by falling NPS (Net Promoter Score), customer service ticket trending, and the posts on our Twitter page. This has been caused by sales inputting incorrect customer details during customer setup.

CEO: What is being done to fix this?

Head of CTC: Sales training is being refreshed to ensure they input correct details, we're implementing new field validation on the customer setup form, and we're capturing and analyzing any identified misbilling for further root causes.

Four imperatives for successful business-outcome-focused metrics

While intuitively clear, the path from a silo-based function and process matrix to an end-to-end business-outcomes-focused view can be a demanding one for organizations. Leaders need to review current internal structures and processes and think through the following dimensions:

1. Metrics structure	2. Data sources	3. Data visualization	4. Process governance

1. **Metrics structure:** It is vital that, before corporate leaders look at any of the other dimensions and dive into functional metrics, they review the key business outcomes that matter most to the organization as a whole and align a Tier 1 metric to them. For example, for a company like Amazon that does not actually manufacture anything, logistics is one of the core competencies. Thus, flawless shopping experiences and order fulfilment are key to building long-term customer loyalty leading to revenue enhancement. Aligning a metric like Perfect Order Fulfillment allows Amazon to track the quality of orders fulfilled across all its key facets. As outlined in Figure 1, once the Tier 1 metric has been identified, the firm needs to outline the subsequent tiers, their relationship and, most important, the key functions composing this end-to-end process. This will allow a complete view and enable a root-cause analysis of an individual node during performance management review.

90 percent of all the data in the world today has been generated over the last two years and is expected to double every 1.2 years.

—SINTEF ICT

2. **Data sources:** This is a critical dimension and an area where we see GBS organizations go off the rails most frequently. Organizations work internally with a variety of systems, including enterprise resource planning systems, that inhibit an end-to-end view. The complexity is magnified by several trends:

- **Companies today are increasingly comfortable with inorganic growth levers.** For example, Google has acquired over 180 companies, some very large, including Motorola Mobility, Waze, and YouTube.

- **Companies are increasingly reliant on an ecosystem of partner networks.** For example, Apple products are *designed by Apple in California*, but the parts are sourced from best-of-breed companies around the world and assembled by Foxconn in China and Brazil. The products are then distributed by local third-party logistics (3PL) providers to retailers and end customers.

Inorganic growth and the reliance on partner networks are saddling companies with multiple, unlinked, and certainly unharmonized data sources, which makes it extremely difficult to get a comprehensive, end-to-end view of performance.

Based on the level of complexity, we have seen firms use a variety of solutions, including cloud, to help with such data needs. An effectively implemented cloud solution can allow for extraction and input of key data from disparate systems across the value chain and the network of partners to provide required end-to-end visibility.

Please refer to pages 8 and 9 to see how a leading global pharmaceutical company partnered with GT Nexus, a cloud supply chain platform provider, to achieve end-to-end visibility throughout its complex multichannel supply chain network.

3. **Data visualization:** With the metrics structure and data sources mapped out, it is important to get the right data visualization package to effectively tap into identified, internal and external source systems. This needs to be done in real time with zero to minimal manual intervention. Leadership will then gain a view into the performance against the business-outcome-linked metrics. For example, McAfee implemented a cloud-based data visualization package to decrease time and resources spent on aggregating reports across data sources and functions and achieve a *single source of truth* for data. This resulted in an estimated 30 percent reduction in required employee resources and time.

4. **Process governance:** Companies need to consider whether their GBS processes are operating in functional silos and if function owners are leading personal fiefdoms, providing limited visibility into activities and resources. If so, it is time to review this once-dominant, function-based governance structure, and align the organization for end-to-end process views, enabling clear linkage between work performed and business outcomes.

Only 10 percent of the multichannel retail stores have achieved a desired level of integration between their retail stores and direct to consumer fulfillment operations.
—RILA State of Retail Chain Report 2012

Key benefits of end-to-end process ownership

Promotes flexibility in adapting to change – A process organization with end-to-end ownership eliminates territorial barriers. This structure enables change that may be required to meet higher-level business objectives.

Allows improvements to be designed with the end in mind – A global process owner has the potential to decrease overall costs, increase quality, minimize the number of handoffs, and speed execution.

Makes efficient use of resources – Where functional owners may have duplicative or contradictory efforts underway, a global process owner can gain visibility into these inefficiencies and eliminate them.

Creates consistency in communications and alignment – Without visibility into the end-to-end picture, functional stakeholders and users of the process are typically unaware of issues or improvements that may have upstream or downstream consequences.

Client executive interview

KPMG recently sat down with the Vice President of Distribution and Logistics Services of a major pharmaceutical company to talk about the importance of end-to-end visibility across its supply chain network.

Company profile

The company is a $20 billion global pharmaceutical company with 26,000 employees worldwide. They manufacture more than 20 products that are sold in over 170 countries competing with other research-based pharmaceuticals and biotechnology companies that discover, manufacture, market, and sell proprietary pharmaceutical products and biologics.

Background

To help set the stage, what is your role within the company?

I am the Vice President of Distribution and Logistics Services.

Strategic goals

What are your key goals and vision for the overall Order Fulfillment process

Responding to a rapidly changing macroenvironment, we are trying to take a holistic end-to-end approach across manufacturing, supply chain, and quality functions.

Our focus is on operational efficiencies, and we have started the "Perfect Index" concept in manufacturing. To further strengthen the business case, we have aligned with IT Strategy. SAP harmonization and a cloud-based solution, GT Nexus, are our top priorities to realize cost benefits. Our aim is to eliminate business complexities in the Order to Cash process and to eliminate costly and error-prone manual interfaces.

Order management process data points

Approximately how many orders do you receive per month?

We have experienced a high volume of orders in recent years and the number is approximately 100,000 orders per month, globally.

Could you please describe the nature of these orders (e.g., type, end customer, time to fulfill, etc.)?

We receive a broad range of orders. The large percentage of these orders is driven by next-day order requirements, which amounts to greater than 50 percent globally. Our end customers include direct to pharmacy, direct to patient, and wholesalers; however, the wholesaler distribution contributes the highest amount of units. Considering the demand forecast we typically operate in a "make to stock environment," and it has been cost effective so far.

Looking back

What were your key problem areas with the overall order fulfillment process?

Our problems have been multifaceted. The key ones include:

– Standardization. We lack a standardized tool to report the data globally. It would be really nice to have a single ERP platform. In the past, we have also struggled to get everyone to look at data the same way (each market, warehouse, and 3PLs using the same tools).

– We have a significantly outsourced 3PL environment, and "governance" is a major area of concern there.

– I firmly believe that master data accuracy is very important. Until you have your master data right, you're wasting your time. I think greater transparency and a single source of inventory information will improve our ability to address complex customer needs more quickly and with fewer data errors.

– Complying with the heightened demands has increased internal costs to meet these requirements in a short time frame.

What metrics did you track earlier? What was your experience with it? Were there any gaps?

We have been tracking metrics around customer service and back orders. The key challenges we face with that are:

– These are mostly lagging indicators

– We want to move to real time and even predictive indicators

– We also want to find problems sooner and deal with issues sooner.

Perfect order

Since the time you implemented the Perfect Order program, have you seen any improvement in the overall performance of the order fulfillment process?

Data shows that our earlier metrics may have been overstating the customer satisfaction. Perhaps the biggest area of improvement is the opportunity to measure how a shipment arrives to a customer, as this was the bucket with the highest misses. We have also witnessed some correlations that are impacting service.

We have a global process in place addressing 3PLs by region, country, and even by brand. It is helping us to push 3PLs that are delivering in multiple areas.

In terms of data and technology aspects, GT Nexus has helped a lot to provide end-to-end visibility, which was critical in implementing the Perfect Order program.

What is the accomplishment you are most proud of?

We were successful in changing the culture of how our team thinks about service versus satisfaction. It has helped us to move focus from "transaction operations" to our core end client—"the patient."

Learnings

What has surprised you (caught you off guard) along the way?

The most surprising element has been the challenge and effort to get the systems integrated to provide this critical end-to-end view.

Additionally, we also faced challenges in terms of balancing priorities, identifying the right type of resources, and allocating sufficient bandwidth to the resources.

Looking forward

What is your advice to others that are embarking on the similar journey?

My advice is "Don't get too far ahead." You need to have a clear view on the desired targeted business outcome and then focus on master data and system integration. The rest is easy from there.

What's next on your to-be-tackled list?

To harmonize data across the Perfect Order delivery and Order to Cash processes parameters to provide an end-to-end view. Additional next "to-do" tasks include:

– Establish a Perfect Plan (manufacturing right product at the right time at the right location)

– Put in place "Cost to Serve" measurement in D&L.

Positive business outcomes are the ultimate prize

Bottom line – A focus on business outcomes is key to ongoing success. And with cross-functional views and service delivery credentials, GBS is in the prime seat to help drive that focus.

As discussed in the previous examples, innovative, high-growth companies are constantly striving to channel available resources to help drive business value. KPMG LLP's (KPMG) research and analysis point to the following conclusions about how to best drive value:

Key takeaways

ONLY business outcomes matter. Think, measure, and report in terms of them.

The mission of GBS is evolving. It needs to move from *executing transactions* to ***delivering business value.***

Successful business outcomes are dependent on the entire network. Internal functions and external partners must meet their submetrics.

Sharpening your focus on business value

Identify desired business outcomes. Can you define and align Tier 1 metrics to each?

Unlinked data sources can become major constraints. How can you use technology to aggregate and harmonize required data?

Disjointed governance can impede an end-to-end view. Are process activities divided by individual functions? Can you consider having global process owners and an executive sponsor?

Success or failure is binary, but there could be multiple, deep-rooted reasons. Does your metrics structure support quick and precise root-cause analysis?

About the authors

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How KPMG can help

KPMG recognizes that today's enterprise business services leaders face increasingly complex demands and challenges.

Globally integrated teams from our Shared Services and Outsourcing Advisory (SSOA) practice, in seamless partnership with professionals from KPMG International's broader set of member firm capabilities in risk, transactions, tax, and compliance, help our clients transform their business services to deliver improved value, increased agility, and sustainable business performance.

If your organization is seeking innovative ways to achieve genuine business services transformation, KPMG SSOA can help. For more information, there's no better place to start than by accessing our research and thought leadership on the KPMG Shared Services and Outsourcing Institute:
www.kpmg.com/us/sharedservices
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