The new era of Service Portfolio Management

Four critical traits that signal success in global sourcing

Ask the managers of dynamic investment funds how they create value for clients, and the response will usually be that they closely manage the portfolio, execute the strategy, and effectively manage risk. They don’t ‘set and forget.’ They are on constant vigil, making the right investments work hard for their clients.

The same holds true for leading organizations with extensive global services portfolios. As global sourcing becomes more complex, the traditional approach to vendor management, such as monitoring service levels, managing change orders, and keeping the relationship amicable, is no longer enough.

Today, as companies transform their support services to drive competitive advantage, they’re integrating various capabilities—whether they’re retained, outsourced, shared, or distributed around the world—into a portfolio of services that is aligned with business objectives. Management of that portfolio requires a sophisticated, holistic approach focused on creating value and managing risk.

The question then becomes, “How do you transform your governance organization from transactional vendor managers to value-adding portfolio managers?”

Shifting priorities

Many companies are transforming their back office by developing global networks of internal and external service providers with a view that goes far beyond cost reduction. They are building momentum and competitive advantage directly through their global business services with a keen focus on change.

- **Economy.** Economic uncertainty, talent shortages, and diminished savings from labor arbitrage are influencing how and where services are delivered.

- **Supply side.** Service providers have built new capabilities that are aligned with C-level business objectives. These capabilities are designed for specific industries and focused on strategic value.

- **Buy side.** Companies are expecting more from internal and external providers. They’re looking for strategic partnership in growth, agility, analytics, talent acquisition, and other business strategies.

In this environment, service delivery has become more complex, as organizations unite capabilities all over the world in a strategic portfolio of services—which we call the “extended global enterprise.” The portfolio may include outsourcing relationships, shared services, as-a-service delivery models, and end-to-end processes that reach across functions.
From order to business

The answer lies in service portfolio management (SPM), a critical competency among leading organizations. These companies are using SPM to transform their services value chains from order takers to business enablers.

Developing and incubating the SPM competency is not a simple task. It requires visionary leadership. It requires objectives by design rather than by happenstance. It also requires the discipline to continuously adjust the portfolio based on changing market conditions and business needs.

Organizations that have embraced the SPM competency typically exhibit these common characteristics:

1. A governance model as the foundation. In developing the governance model, successful organizations first determine what level of centralization is appropriate across the company’s support services—at the country, regional, and global levels. Then they implement the four core elements of effective governance: an appropriate organizational model to facilitate decision-making; a set of processes to enable consistency; reporting and analytics to provide improved decision making, visibility, and transparency; and a technology suite to drive efficiency.

2. A portfolio specifically designed to drive competitive advantage. With a solid governance model as a foundation, an organization is ready to design a global services portfolio that drives competitive advantage.

   For example, if a consumer products company is expanding in emerging markets, its global services portfolio would probably be overly weighted on internal and external delivery capabilities in regions such as China, India, and Brazil to support business in those areas.

Meanwhile, many financial services companies, still recovering from the downturn, are driving a dual mandate to grow globally while keeping a laser focus on security, speed, and efficiency. These global service portfolios are likely to include IT infrastructure in developed markets such as Dubai and Singapore, as well as middle office and trading support functions in Mumbai and Manila.

Of course, each company will have specific portfolio drivers based on how their industry behaves during economic cycles, how their company emerged from the Great Recession and, for that matter, how the CEO is executing direction from the board. Nonetheless, a common theme remains: progressive organizations design their global services portfolios to advance their strategic objectives.

3. An effective mechanism to continuously monitor dynamic market conditions. Designing the global services portfolio—rather than leaving it to evolution—is a critical element of the SPM competency. However, effective SPM does not end with portfolio design. Leading organizations recognize that in order to manage the portfolio effectively, they need the discipline of continuous monitoring and adjustment. That’s especially true in today’s fast-paced global business environment, where companies face the impact of regulatory, geopolitical, tax, environmental, social, and technological changes. Proactively monitoring the services portfolio for both risk and opportunity is a mandatory function for any governance organization in our current highly dynamic environment.

4. A methodology that aligns the portfolio to changing business and market needs. Continuous monitoring of market conditions creates valuable decision-making inputs. But for portfolio management to be effective, the governance organization must have a methodology that uses those inputs and other internal factors to adjust the portfolio. This is perhaps the most critical and most difficult to get right. Any change to part of the portfolio has a ripple effect on others, so the methodology must be comprehensive enough to anticipate and accommodate change in an agile manner. Understanding the relationships among the portfolios can help the company maximize value and manage emerging risks.

   For example, has the company’s strategy changed? Has the risk appetite changed? How is the current services portfolio performing? What are competitors doing? Are there new considerations for delivery locations?

   The governance organization needs to have a structured approach for knowing when and how to ask these questions, coming up with solid answers, and then rebalancing the portfolio appropriately.
Change isn’t only constant

The speed of change is always increasing too. Ultimately, changes in the market will affect sourcing, which will then drive important changes in governance. After all, when companies are integrating internal and external service providers across oceans and time zones, and harnessing those capabilities to create competitive advantage, a linear, custodial approach to service provider management simply does not work. Of course, it is still important to manage factors like financials, provider performance, and consumption of services, but the focus has shifted from managing individual contracts to managing a dynamic, sophisticated portfolio of services.

That shift in complexity has given rise to SPM as a key competency in and of itself. It is no wonder that the companies with the most effective global service portfolios also have world-class governance organizations and are led by executives who have become innovators in managing the global business service portfolio with a keen eye on the business and a firm belief in serving the organization. Armed with the right organizational model, governance processes, visibility, and technology, these organizations are using SPM principles to transform their support services from a tactical necessity to a strategic advantage.

Learn more
Where is your organization in the journey to global business SPM? Find out by visiting the KPMG Shared Services and Outsourcing Institute at http://www.kpmginstitutes.com/shared-services-outsourcing-institute/.

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