



China Shared Services Survey Results

Q3 2015

KPMG is capturing China shared service trends through this quarterly survey, gaining perspective from Clients and KPMG's own field advisors



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KPMG China SSOA Team



Who we are

Shared Services and Outsourcing Advisory brings a specialized **global team of more than 400 professionals** within KPMG's global network of independent member firms operating in 156 countries. Our professionals help clients design, build, and manage shared services for business processes & information technology (IT).

What we do

We help clients **align their business strategy, organization, and execution** to enable them to manage the entire business process and IT life cycle, improving business performance, and laying the groundwork for genuine business transformation. We help clients **set up shared service centers and improve** their existing centers.

How we do it

We apply focused research, automating tools, proprietary data, **clear business acumen, and a forward-thinking mind-set** to provide timely, objective, actionable advice and practical approaches for clients.

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KPMG has the ability to help clients transform enterprise services to help improve value, increase agility, and create sustainable business performance.



KPMG China is proud to present the results of our 3rd quarter 2015 China Shared Services Survey

Our survey has been created and sent to the following group of individuals / companies Quarterly:

- Companies
 - MNC / SOE / POE
- KPMG Advisors throughout China and Hong Kong

Results and key findings are represented here with KPMG's analysis and interpretation of the results

Key subject categories include:

- China growth and overall enablers
- Vision and usage of Shared Services
- Areas where Shared Services is being considered within organizations
- Expectations of the value Shared Services can bring to an organization

Included in the 2015 survey results

- KPMG's Global Quarterly Shared Services survey results
- Service Providers and KPMG Advisors provide their views / insights and vision
 - Robotic Process Automation (RPA) is defined and discussed her

Thank you for your participation in this survey!

Internal captive centers continue to be critical to companies; however, KPMG advisors are **seeing more acceptance of outsourcing** relationships. Both delivery models are still prominent in the market as both companies and KPMG see shared services as important.

Common Themes US / Global & China Survey




Salaries



Finding / Retaining Talent



Use of Technology

Our quarterly survey results consistently show that **companies are focusing on internally transforming** by doing a better job with **talent management / communication and cost reduction** efforts.

2015 Shared Services and Outsourcing Network Survey

- 1 Expanding scope
- 2 Retaining talent
- 3 Expense processing
- 4 HR SSC

Source: Shared Services and Outsourcing Network, 2015 Profiling Report (China)

Top 3 Issues Facing US Companies in China

- 1 Rising costs
- 2 HR constraints – talent management
- 3 Domestic competition

Source: AmCham Shanghai, China Business Report 2015

Keys to Success in 2015

- 1 Investment in technology
- 2 Innovative management
- 3 Talent management

Source: KPMG Global, Global Business Sourcing Advisory Survey 2015

Shared Services Survey

Highlights

KPMG Global



Macro trends

Economic growth levels remain weak in most major industrialized markets, yet **skills shortages and access to qualified talent** continues to grow. It is creating a new “war” for talent, driving global sourcing demand and starting to build momentum for further process automation to remove as much of the human element as possible from work activities.

Global Business Services (GBS), integrating on an end-to-end scale, onshore, near, and offshore shared services and outsourcing, has become the **predominant means through which organizations address management of global operations**.

Most organizations’ **GBS capabilities are still immature** in areas such as end-to-end process management, governance, talent management, integration of supporting IT systems and applications and the use of data and analytics.

Traditional generic and transactional outsourcing continues to commoditize. Cloud, client maturity and going forward process automation are major drivers for this, especially in IT. Buyers are seeking more platform solutions tailored to specific industry, geographic, and regulatory needs and that can drive business value beyond cost savings.

The **bifurcation between “leaders” and “laggards”** in the service provider market continues to grow based on industry and business process experience and diversity of services mix, including cloud and analytics. Automation capabilities will increasingly define leaders from laggards and introduce new competitors

Current market trends

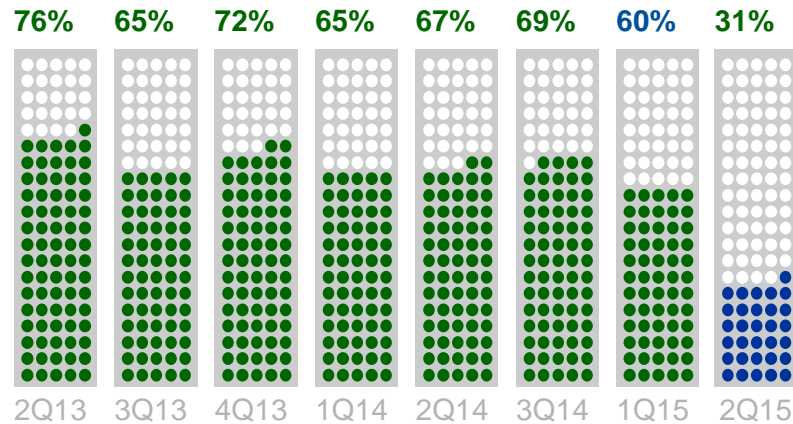
Driving cost savings from global business services remains a baseline requirement and goal, with greater emphasis being placed on improving global delivery capabilities, improving process performance, and supporting global growth efforts. Supporting and enabling organizational growth has emerged as a critical GBS value-add and strategic driver for investment and expansion.

Challenges to improving GBS capabilities remain formidable, but not necessarily new or different from past major change efforts. **Retained organization, transition and governance** challenges remain the perennial challenges, along with weak change management capabilities.

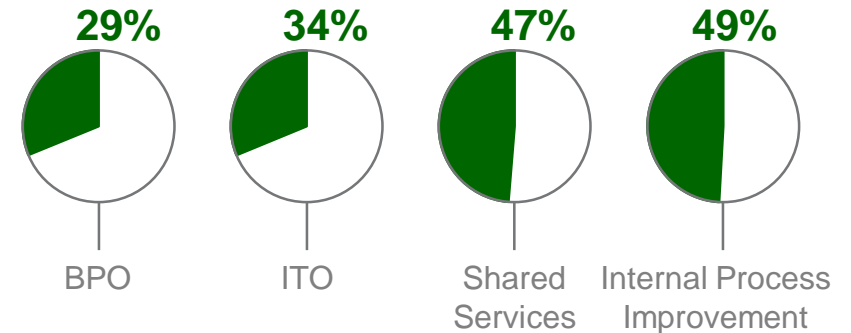
The use of **robotics process automation (RPA)** services and technologies is gaining momentum in the market, though not fast enough to keep pace with market hype. While some dimensions of RPA are far from new, advancements in cognitive capabilities is expanding the scope of where organizations can apply RPA.

RPA will enable user organizations to **achieve cost saving benefits traditionally delivered via labor arbitrage based outsourcing**, significantly impacting the outsourcing service provider market, though providers have great potential to leverage RPA to provide better and more consistent services at a lower cost. Some to many providers, however, will struggle to capitalize this opportunity.

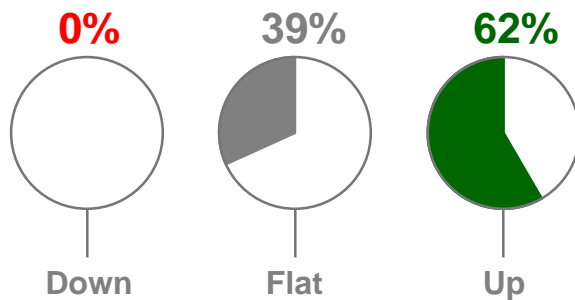
Service Providers: Pipeline Growth Last Quarter



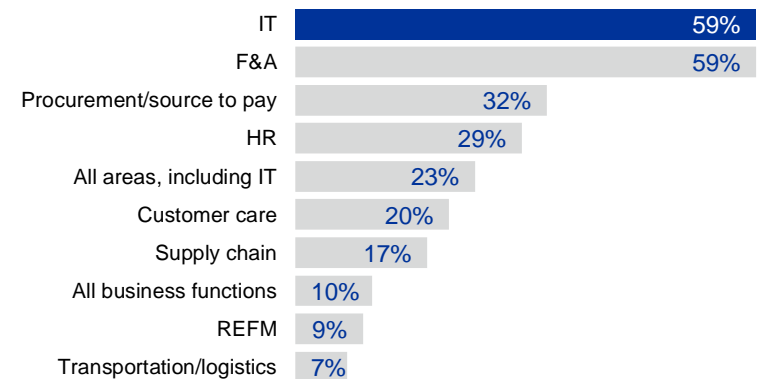
Advisors: Demand increase by Service Delivery Model Next 1–2 Quarters



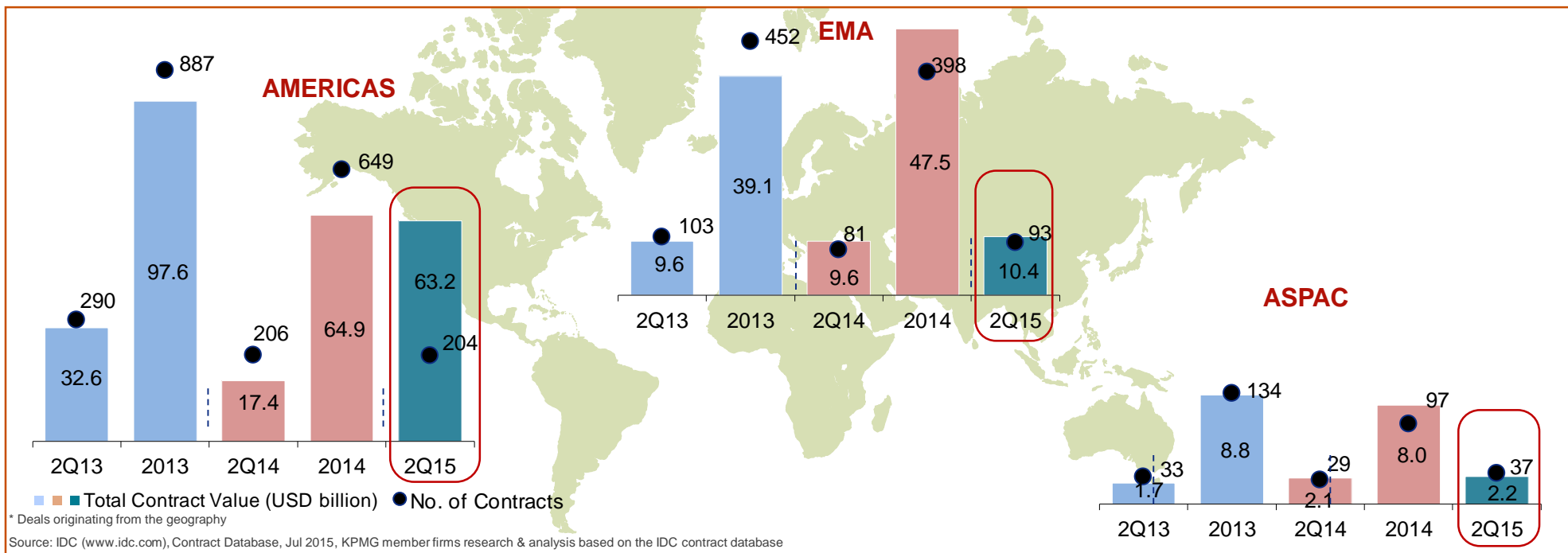
Service Providers: Demand Next 1–2 Quarters



Advisors: Top Functional Focus Areas for Service Delivery Improvement Efforts



Geography-wise break-out of deals*



- AMERICAS rose back to be the major outsourcing region contributing 83 percent of the total deal value in 2Q15, 89 percent of which is from Defense sector
- The outsourcing market in EMA and ASPAC continue to grow with an increase in total deal value of 8.2 percent and 6.6 percent respectively in 2Q15 as compared to 2Q14
- In terms of number of deals, AMERICAS contributed to 61 percent of the total number of deals signed in 2Q15, whereas EMA and ASPAC contributed 28 percent and 11 percent respectively.

“Robotic Process Automation” (RPA) is the continuum of technologies that organizations utilize to automate both IT and business processes operations. It ranges from basic automation of parts of a business process to the application of sophisticated technologies involving “cognitive machine processing” and elements of artificial intelligence.

The use of **robotics process automation (RPA)** services and technologies is gaining momentum in the market, though not fast enough to keep pace with market hype. While some dimensions of RPA are far from new, advancements in cognitive capabilities and related technology capabilities is expanding the scope of where organization can apply RPA.

While the **general immaturity or limited focus of existing automation technologies** is a gating factor to adoption, a bigger challenge longer term is the inconsistent means in which organizations conduct various IT and business process activities which complicates or makes not possible their automation. Change management challenges (e.g., how to reskill workers, what to do with redundant workers, what type of new worker skills are required) will also complicate and delay automation efforts.

RPA will impact, often negatively, existing third party outsourcing service provider delivery models. While providers that can co-opt RPA will deliver higher quality services at a lower cost, margins will suffer and change management of workforce reductions will prove challenging. RPA pure play providers will emerge as a new class of outsourcing service providers, though all today lack scale and most have limited business process and sector skills.

- **“Robotic Process Automation” (RPA)** is a comprehensive term used to define the continuum of technologies that organizations may use to automate both business processes and operations. It includes, at one end, the basic automation of parts of a business process (such as auto claim adjudication) and at the other end, the application of sophisticated technologies involving “cognitive machine processing” and elements of artificial intelligence. Simply, it is the use of technology and “bots” to automate work traditionally done by humans.

LABOR ARBITRAGE CHARACTERISTICS

15%-30%
cost take out

Model is scalable to the extent that you can scale labor

Custom/complex, **legacy**:
“Your mess for less”

Access to **low cost labor** necessary to provide continuous value

Revenue / profit correlated to people



LABOR AUTOMATION CHARACTERISTICS

40%-75%
cost take out for relevant functions

Model is scalable and **largely independent of labor growth**

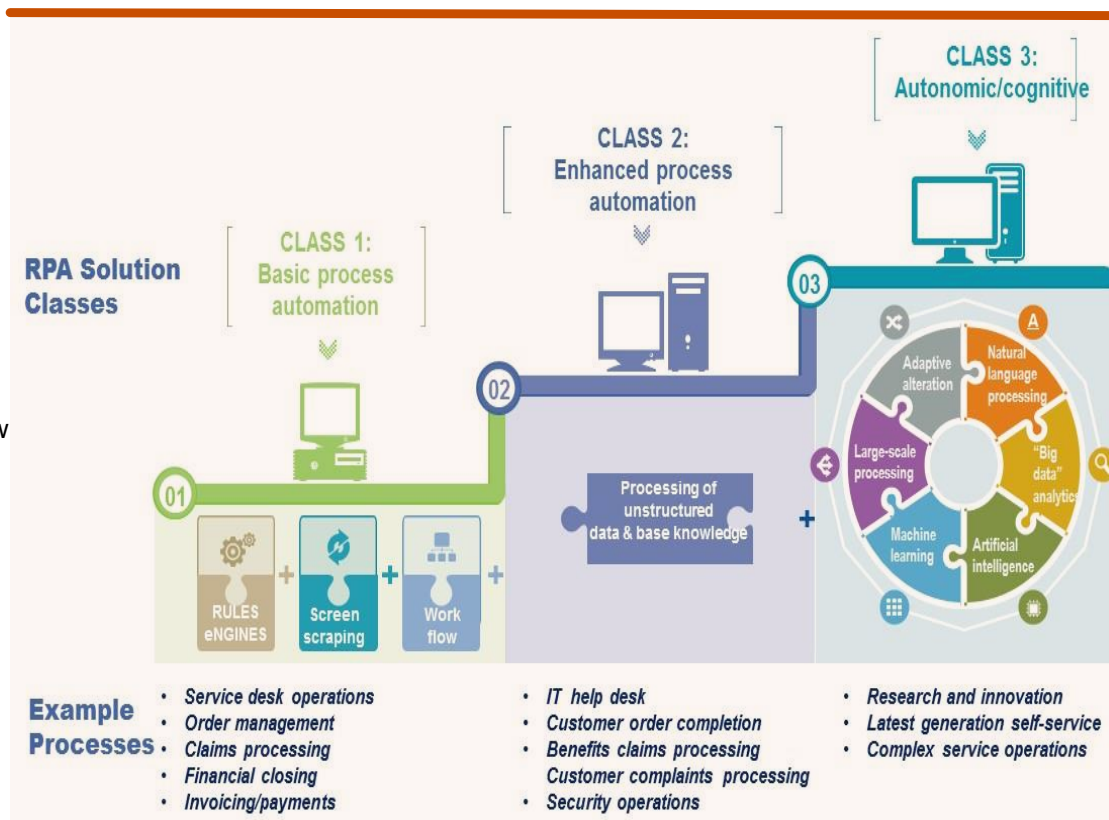
Transformative – new way of doing business

Access to “rocket scientists” who can codify manual processes

Revenue / profit **NOT** correlated to people



Stages of RPA utilization

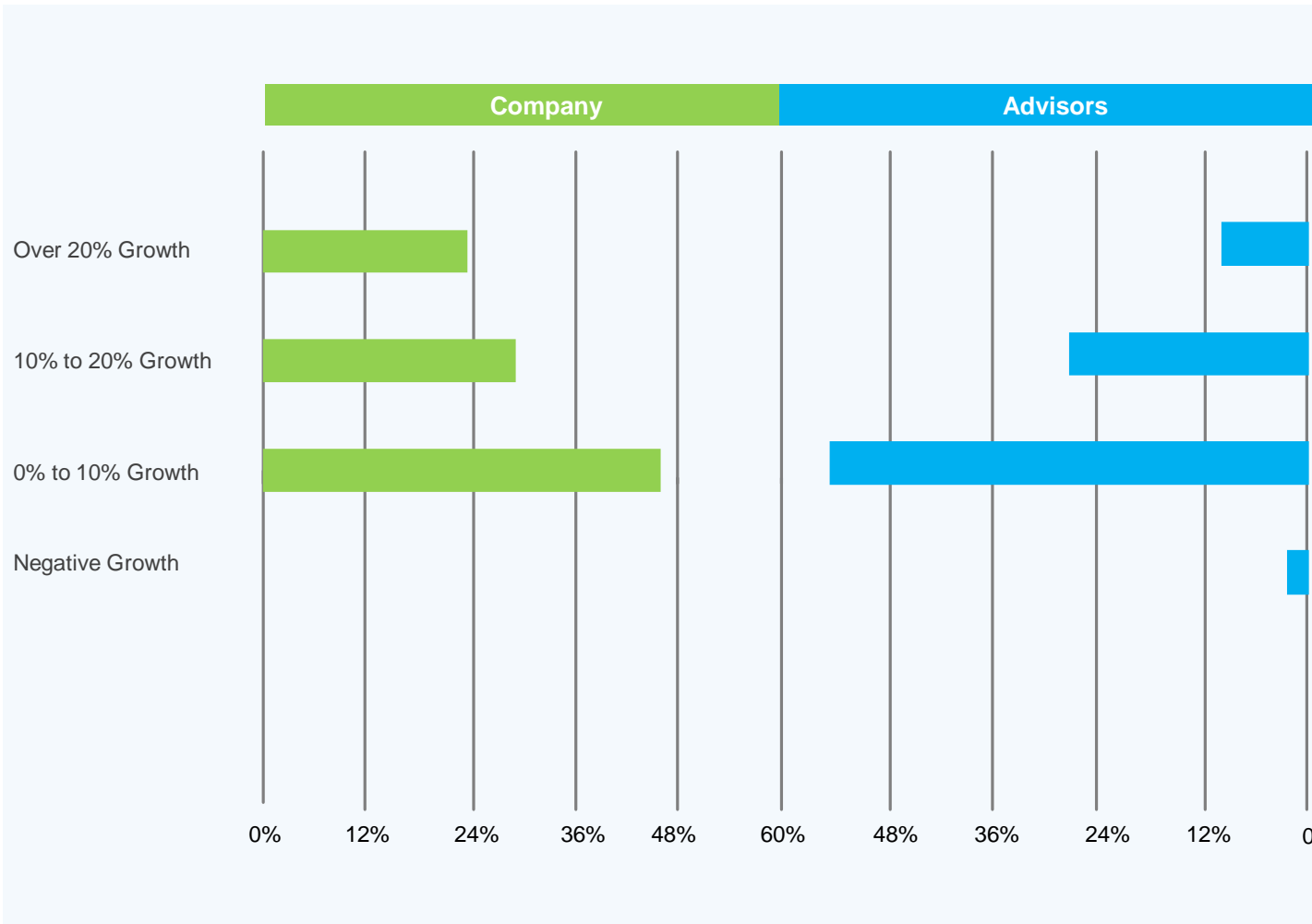


Client and KPMG Advisor

Comparison



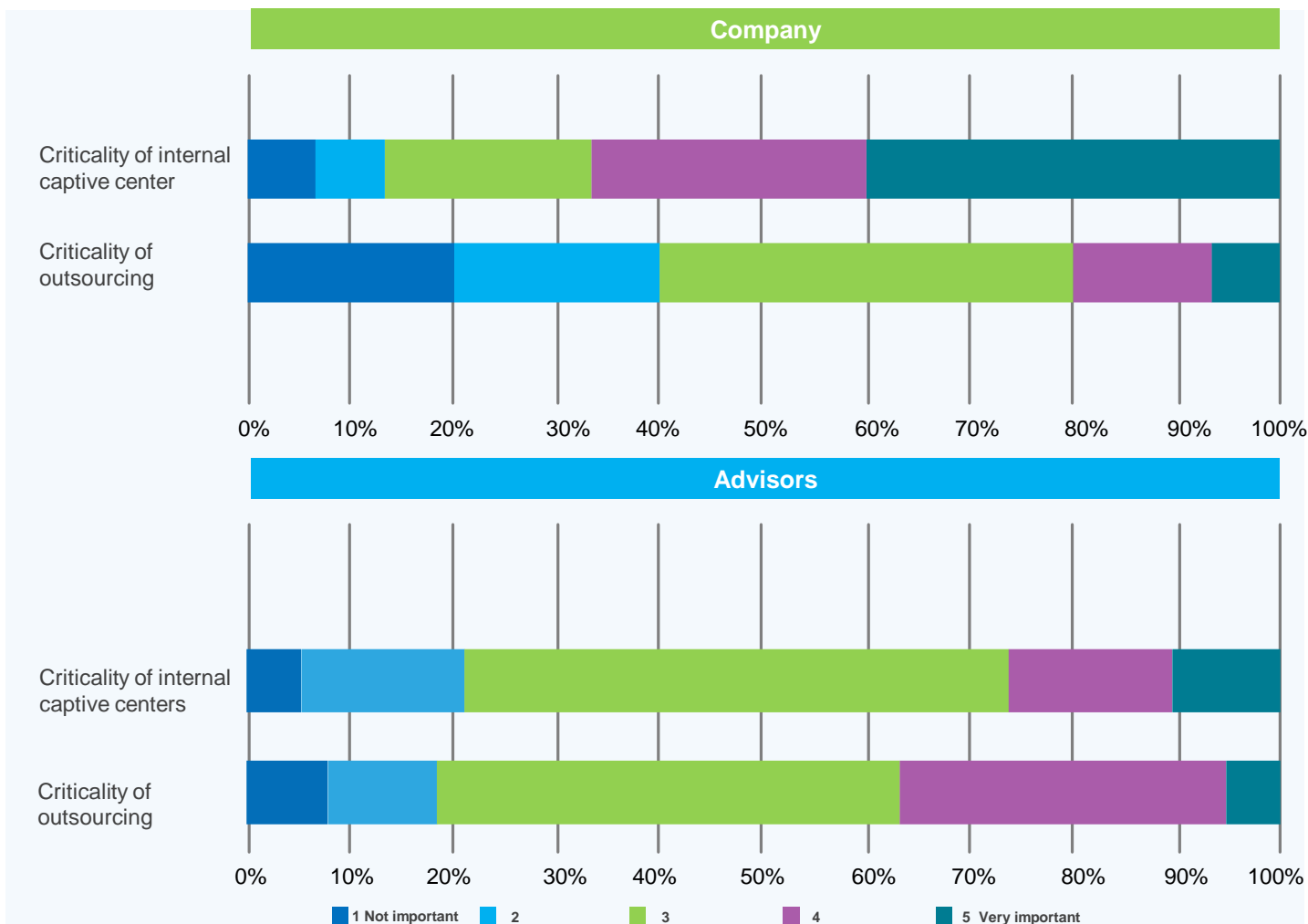
Q: What are your organization / your clients growth expectations within the next 1 - 2 years?



Findings

- Although companies responded favorably to increased revenues in the next few years, the expected level of growth has continued to be much more moderate. Just one year ago over 35% of our clients expected growth of over 20% – now that figure is down to less than 24%.
- Our advisors are also gathering feedback that growth is scaling back to a more realistic 0 to 10% growth.

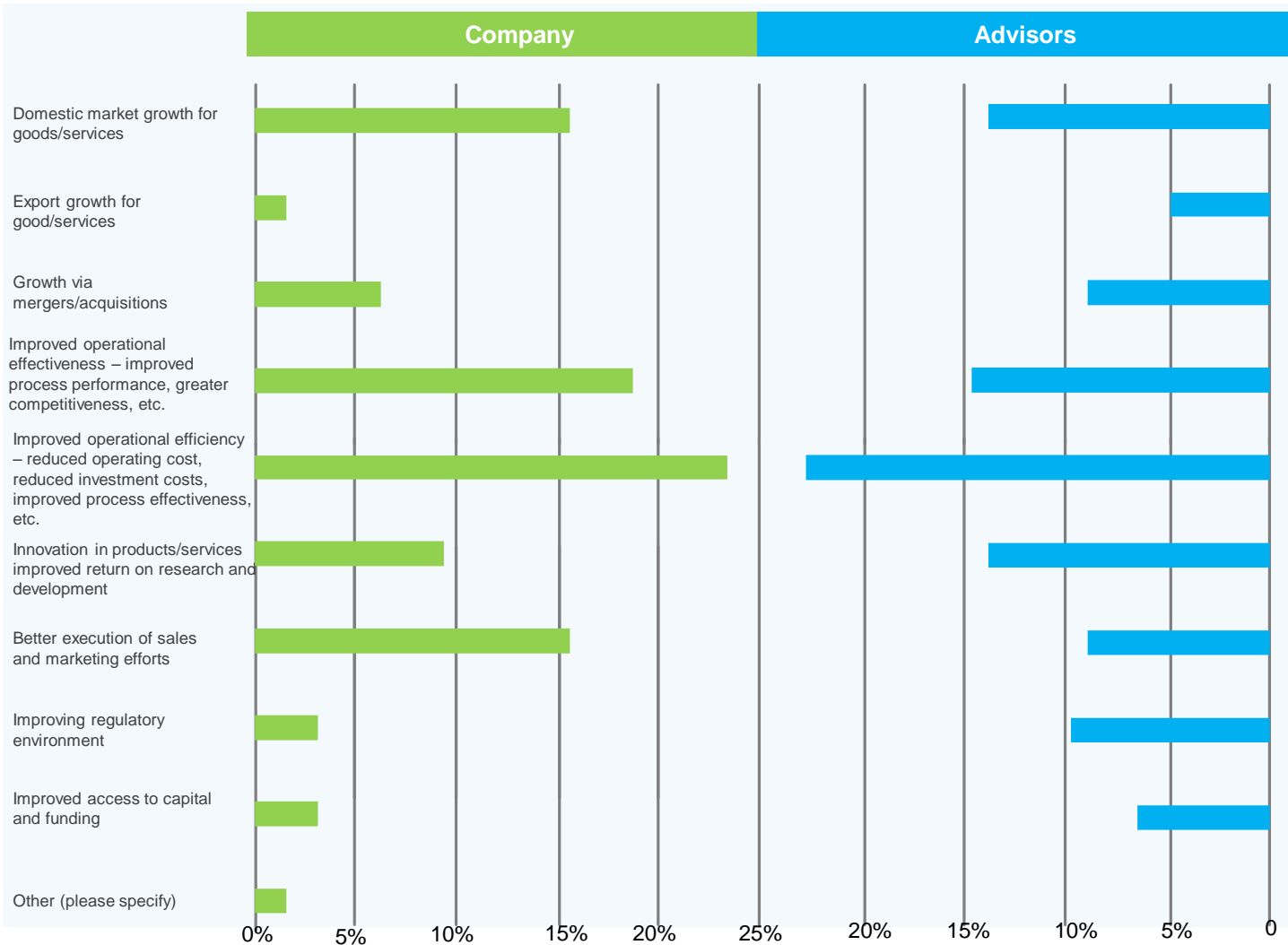
Q: How important and critical is the usage of shared services (internal captive center / outsourcing) to helping your organization / your clients achieve its goals and objectives over the next 2 years?



Findings

- “Criticality of shared services, specifically internal captive centers” continues to be very important to corporate agendas in China. As multi national companies stabilize Shared Services in other regions, they are now turning their focus to China and the Asia Pacific Region
- KPMG is continually discussing “where” to create an internal captive center and what makes sense regionally. Based on China prominence in the region, Chinese cities are typically considered to serve not just China but the region.

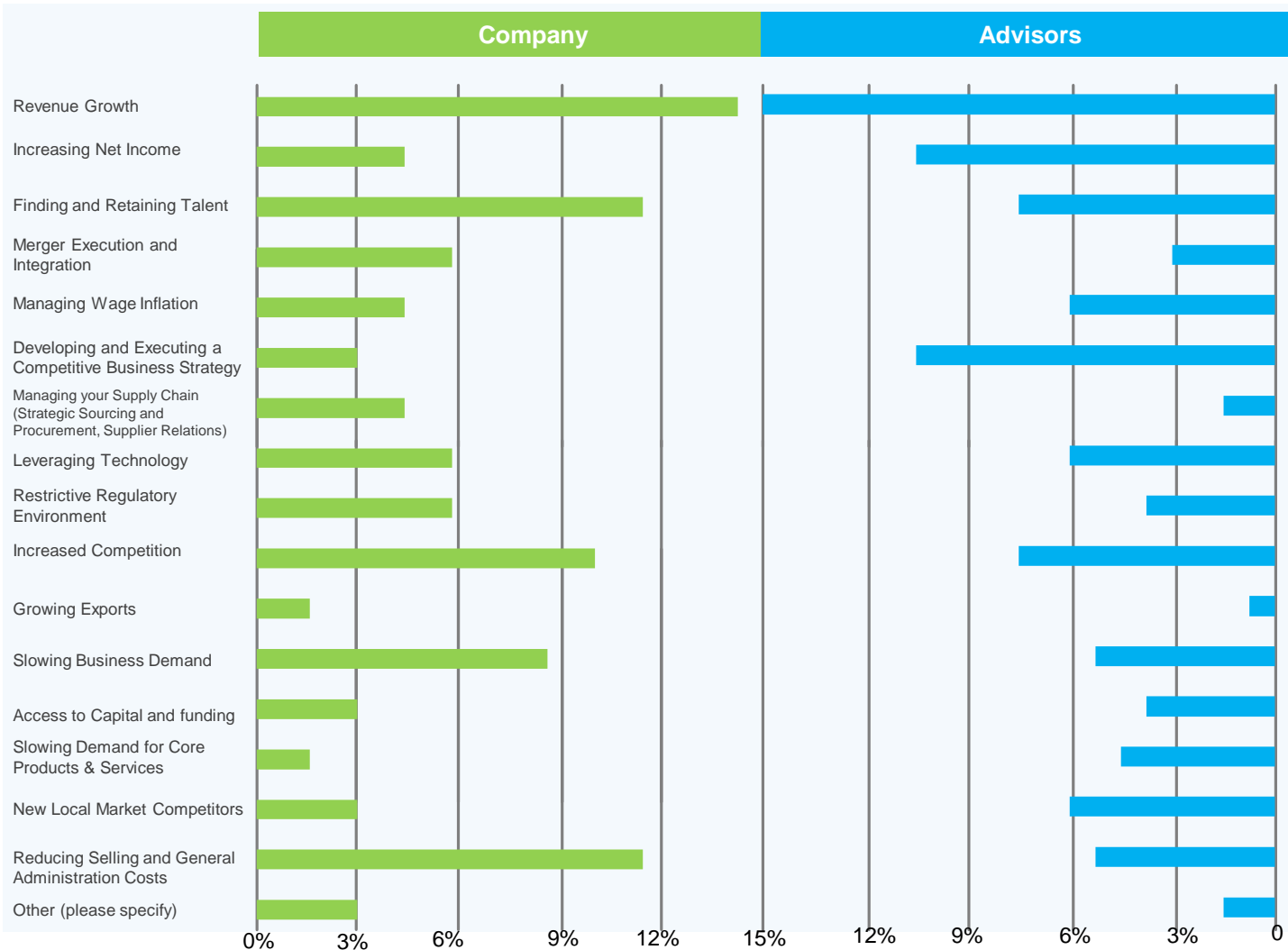
Q: What do you feel are the biggest enablers of growth for your organization / your clients over the next 1 to 2 years?



Findings

- “Efficiency improvements” has consistently been at the top of the list for enablers for growth. Chinese companies feel that reducing operating costs by being “smarter” with their processes is important for their overall business.
- Companies focus more on “domestic market growth” rather than export growth, placing more focus on trying to “tap into” local areas to significantly increase growth and help to reach revenue targets.

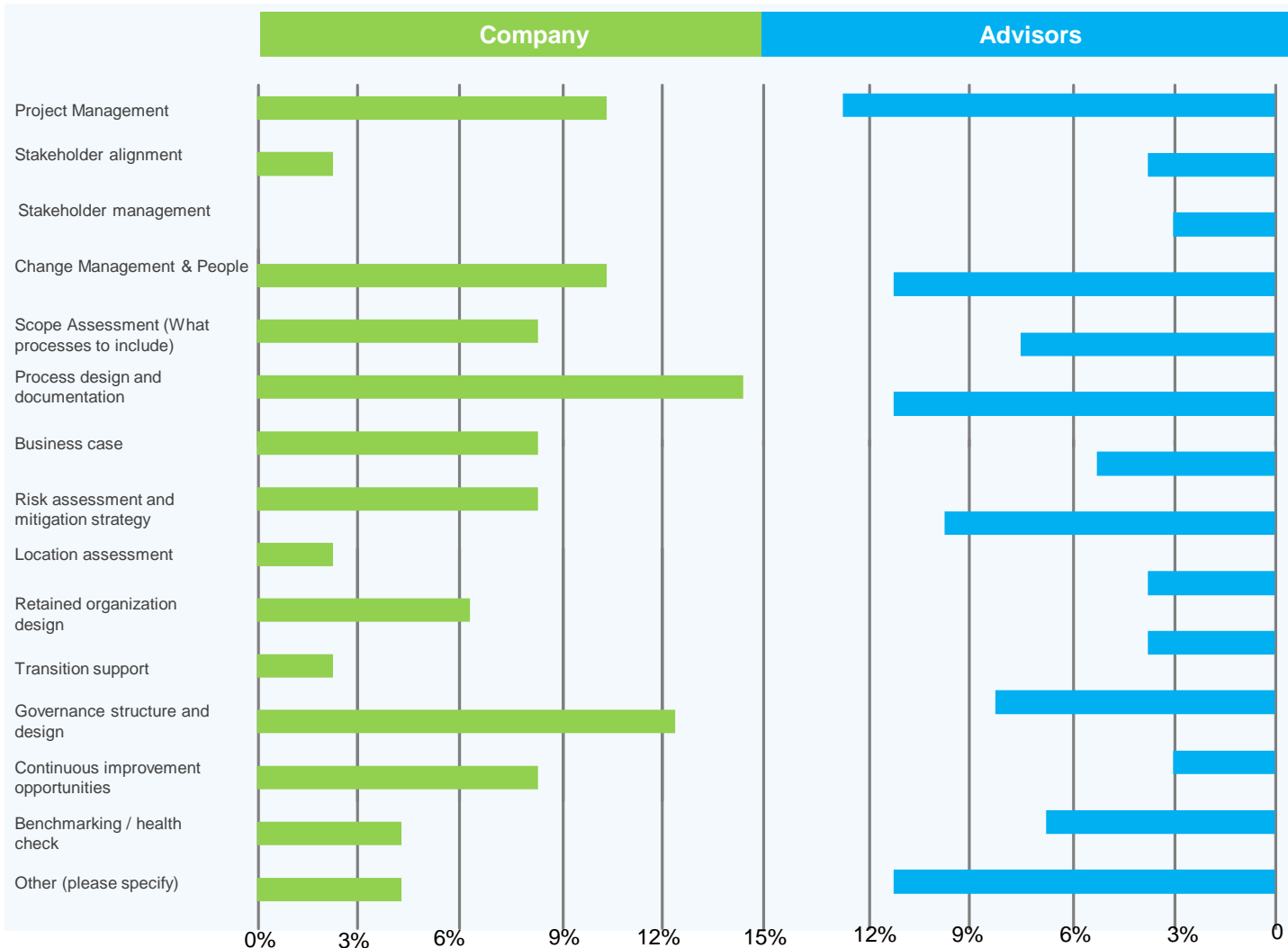
Q: What is the biggest challenge for your organization / your clients within the next 1 to 2 years?



Findings

- No surprise that “revenue growth” is seen as the biggest organizational challenge. Interestingly, this figure has doubled in importance from our last quarterly survey.
- “Talent, talent, talent” continues to rank highly on these survey’s since inception of tracking these results in 2014, companies locally and globally struggle with talent.
- Reducing SG&A costs is an interesting tie in to the answers around “enablers for growth” which focuses around improving efficiency and effectiveness; shared services output relates to both these areas.

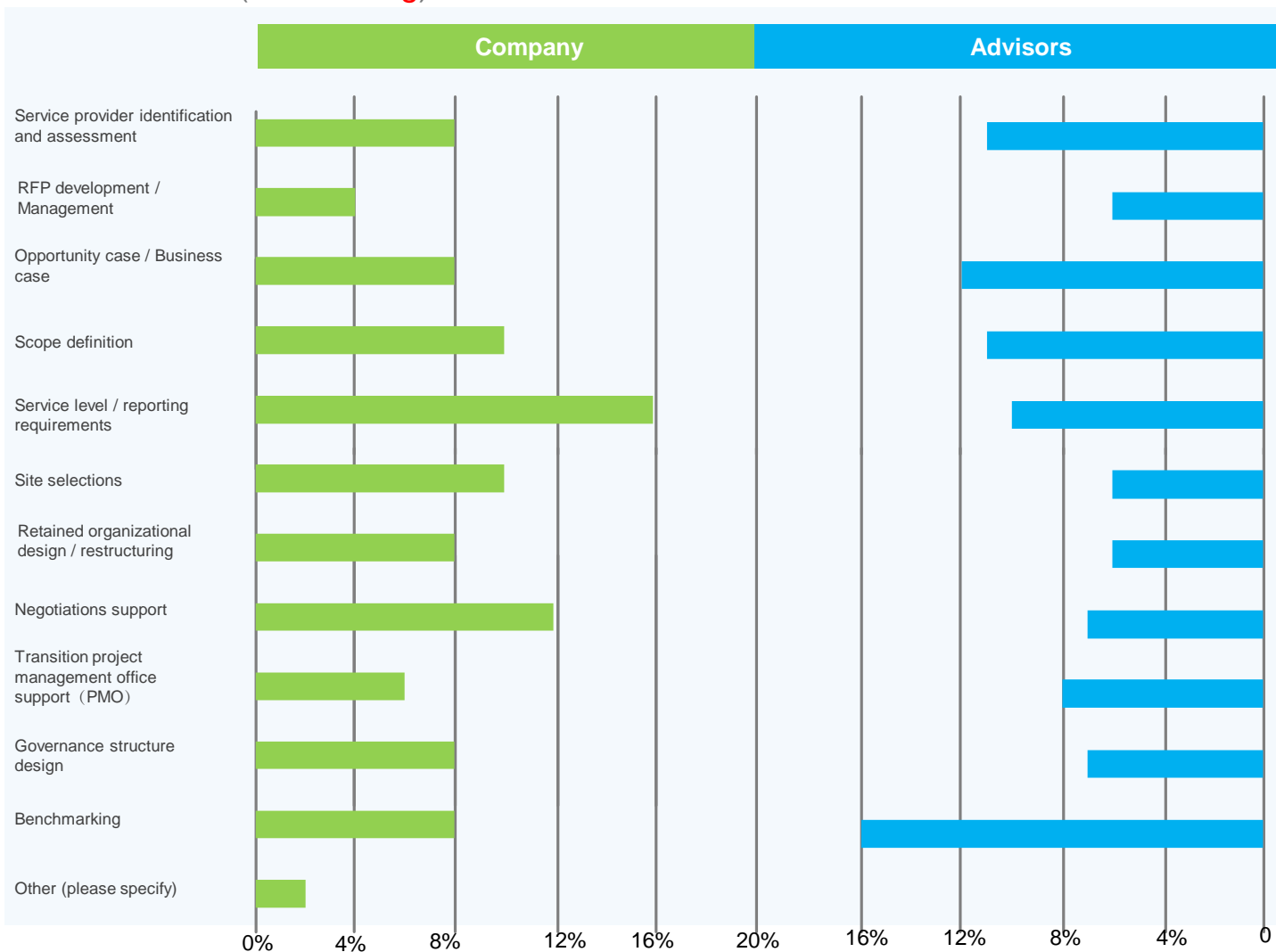
Q: In which of the following areas do you feel your organization / your clients would seek third party assistance regarding shared services (**internal captive center**)?



Findings

- Documenting business processes is key to understanding how to move forward with shared services more efficiently.
- Assistance with “Governance structure and design” highlights that an existing Shared Service centers are either experiencing pain or want to improve performance.
- “Change management” is still a strong area for support

Q: In which of the following areas do you feel you / your client would seek third party assistance regarding shared services (**outsourcing**)?



Findings

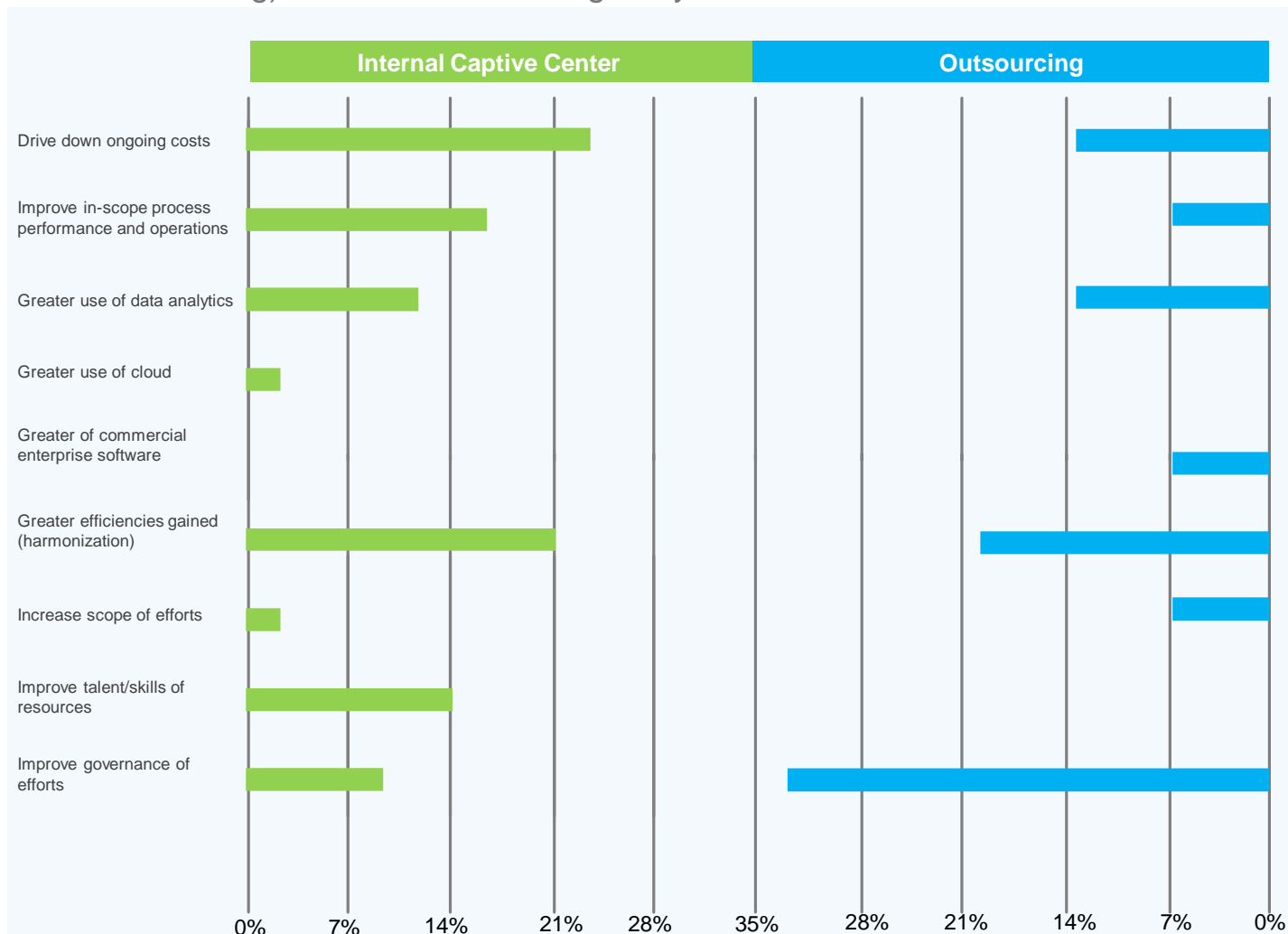
- KPMG has deep knowledge in working with clients to assist with existing or potential outsourcing relationships. Our results indicate that companies want the ability to benchmark current performance with their existing relationships.
- “Service levels / reporting” are a high priority. KPMG sees that companies are moving from service levels to more business outcome metrics which will impact business metrics positively i.e. DSO reduction.

**Internal Captive Center
&
Business Process Outsourcing

Side-by-Side Comparison**



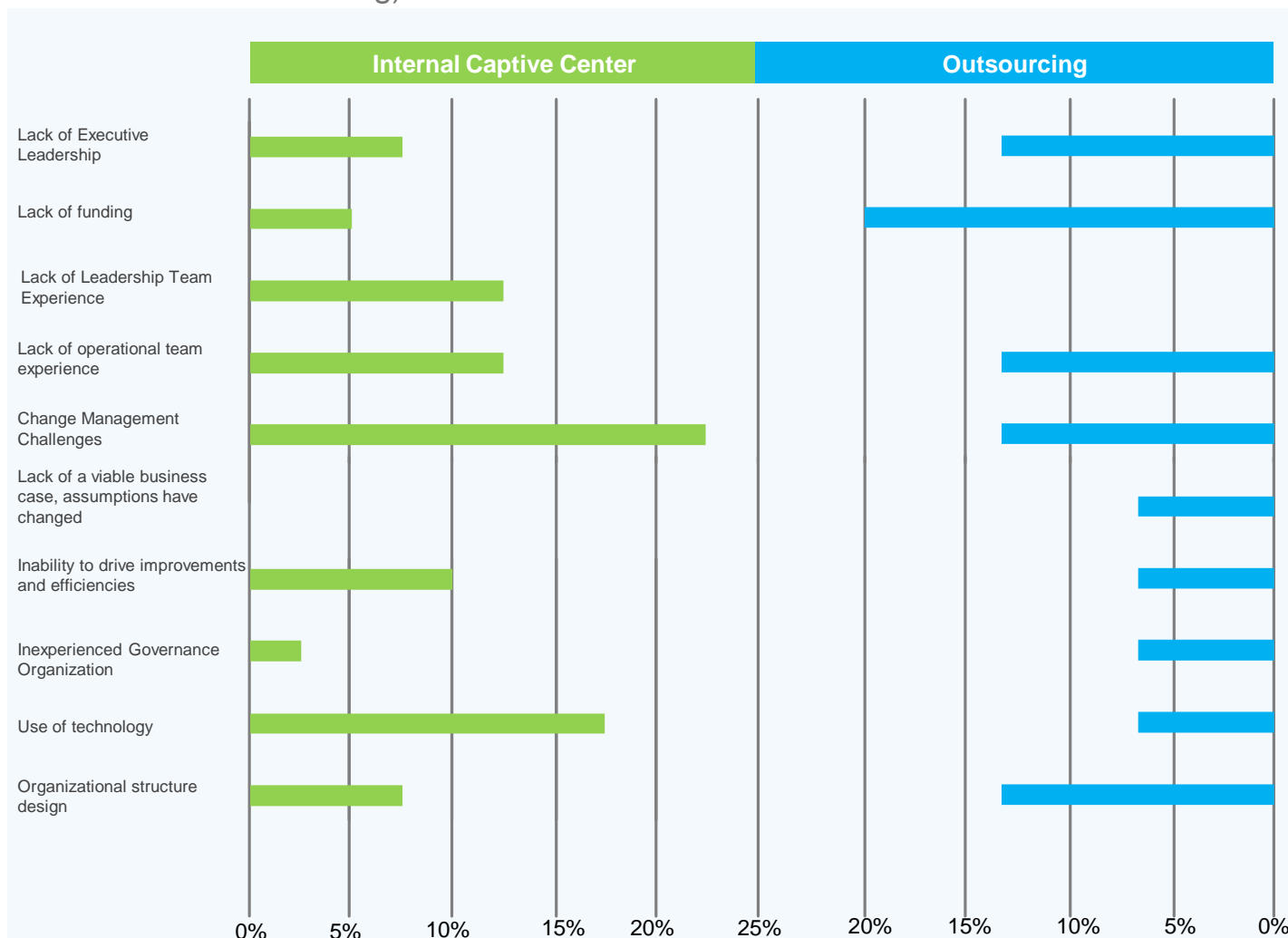
Q: What is top expectation from the executive management for your shared services (internal captive centers & outsourcing) efforts for the coming 2-3 years?



Findings

- Results indicate that getting better and better at what is done are the key management expectations regardless if your shared service center is internal or outsourced.
- Improving the Governance efforts ALWAYS has significant upside to creating a win / win situation. Shared services typically fail due to an improper governance structure with limited to no focus on nurturing the relationship.

Q: What are the top challenges your organization faces with your current shared service center (internal captive center / outsourcing)?



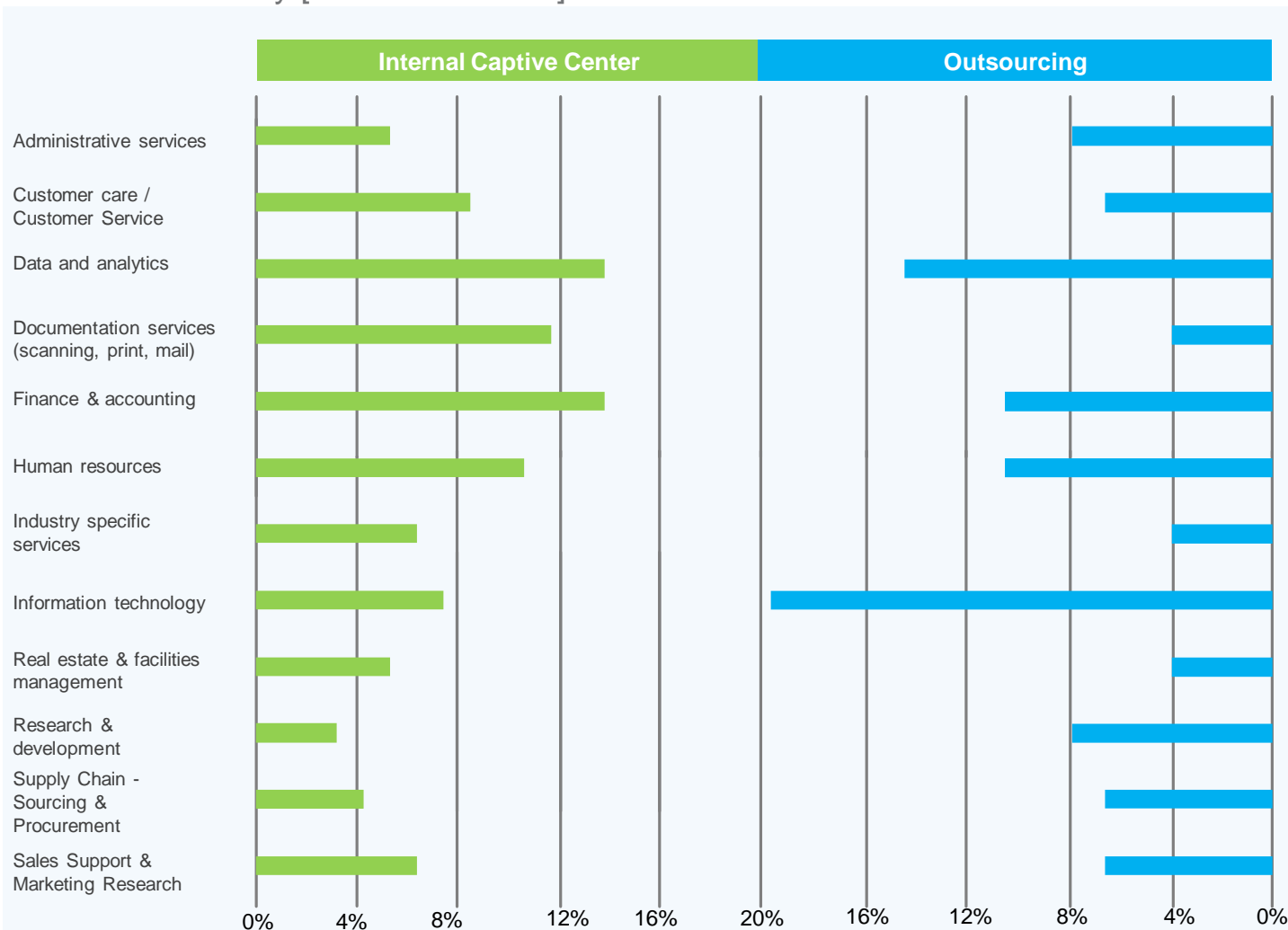
Findings

- “Use of technology” significantly increased (over 12%), to become a real focal point for most companies who participated in the survey.
- In this edition of our survey we provided global information around RPA, which relates directly to this challenge. Companies are starting to see the value of using technology to reach their efficiency and cost saving targets.
- Change management has continued to be a major concern for the past 2 years.

KPMG Advisor Viewpoint



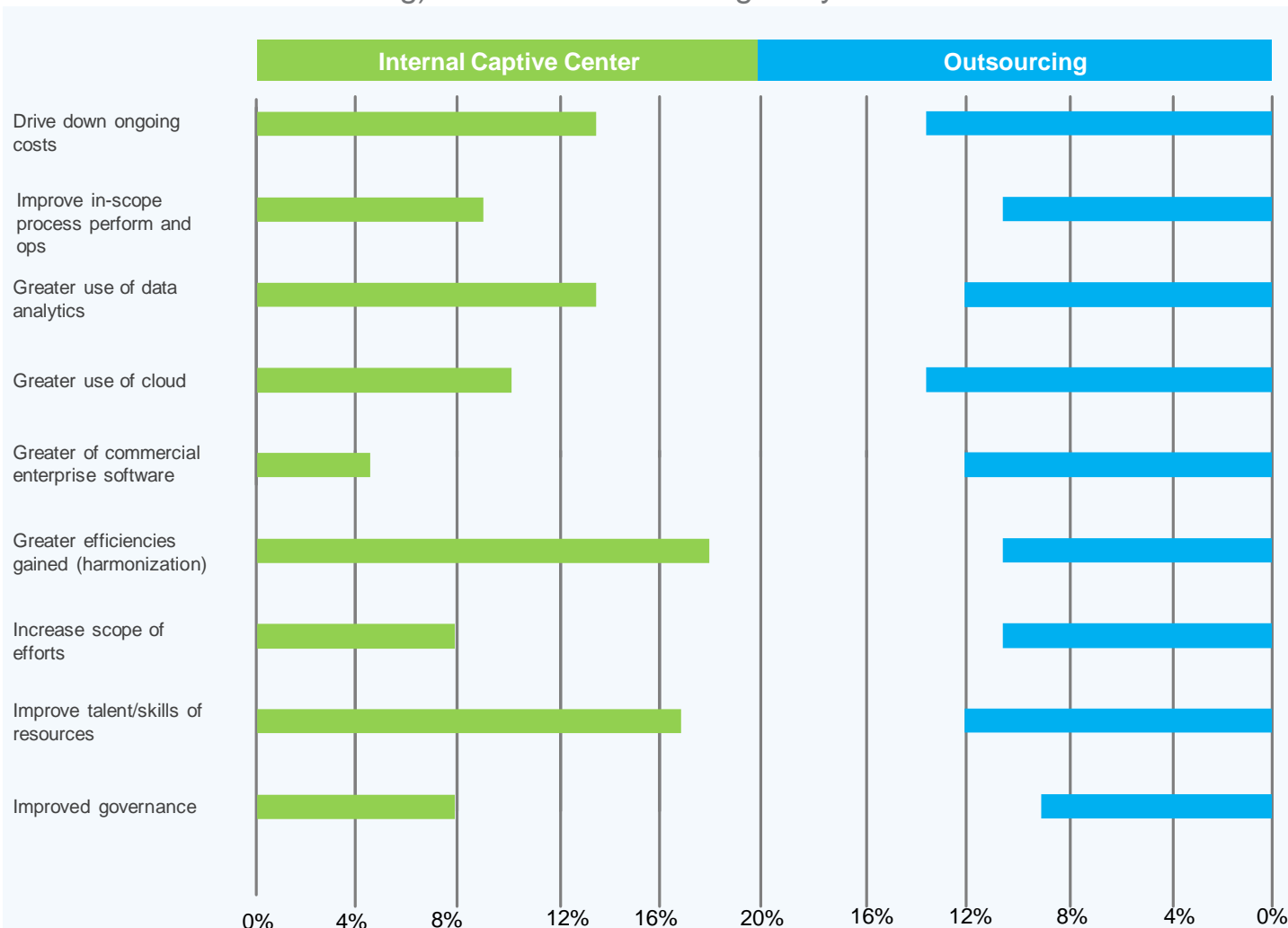
Q: What do you feel are the major demand areas for shared services (internal captive center or outsourcing) for your clients today [next 24 months?] ?



Findings

- Technology is running away with the demand areas for both internal captive centers and outsourcing. IT is a clear focus for outsourcing with “Data & Analytics” continuing to be much more relevant as this delivery area matures.
- Innovation has been a very hot topic amongst companies over the past several years and “data and analytics” can clearly help companies leverage this data to become a bit more creative. The outsourcing market is becoming more and more mature in this area as firms can invest significantly in this area.

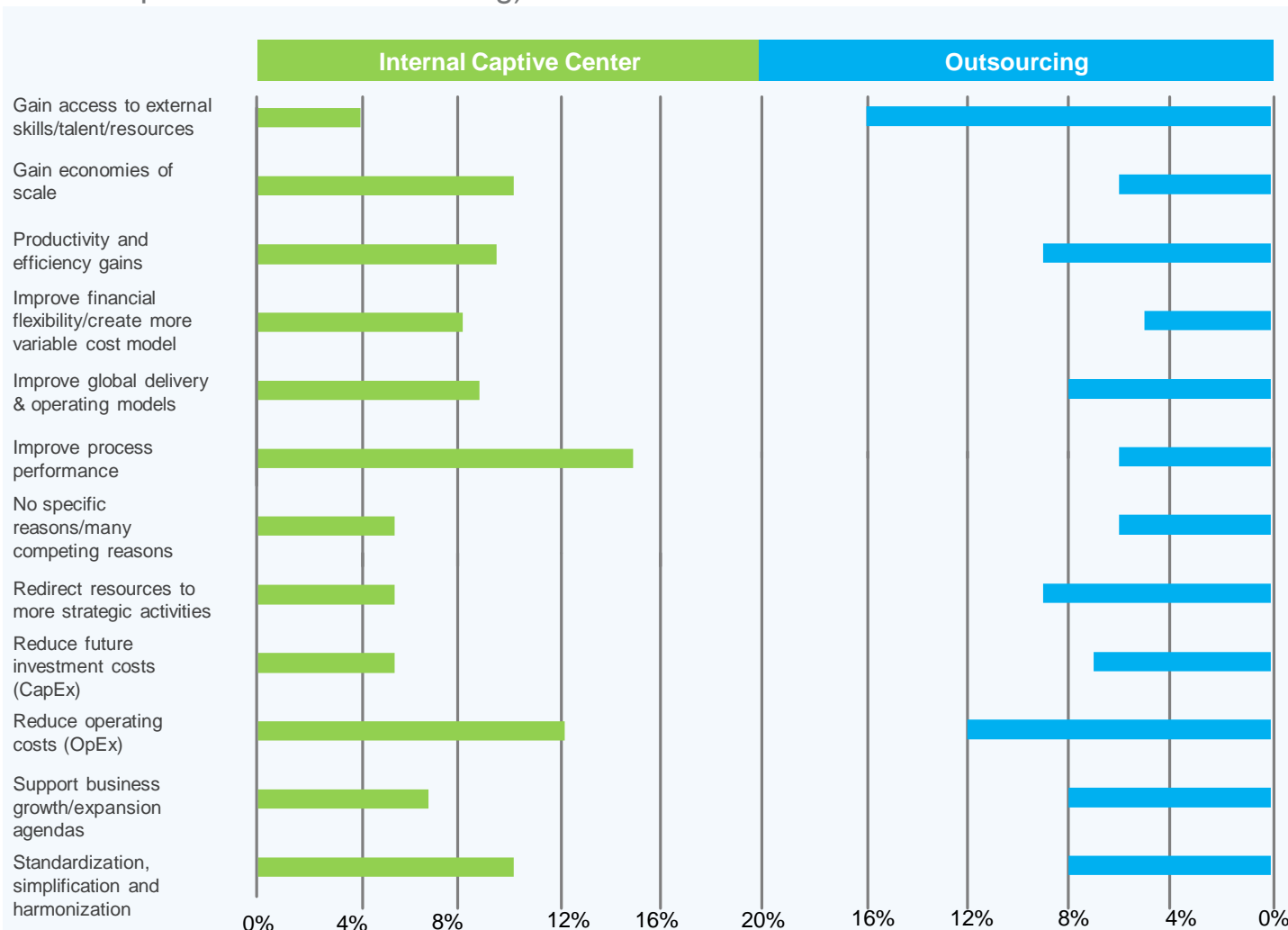
Q: What is top expectation from your clients executive management team for current shared services (internal captive center or outsourcing) efforts for the coming 2-3 years?



Findings

- Much like companies overall management expectations, there is a consistent theme to drive down costs and work to improve the overall talent. Shared services is built on specialization of tasks to focus and be efficient in what you do. The downside to this is staff can lose interest quickly and leave the organization causing leadership to manage talent and retention.
- Management needs to focus on designing processes that can accommodate changing resources.

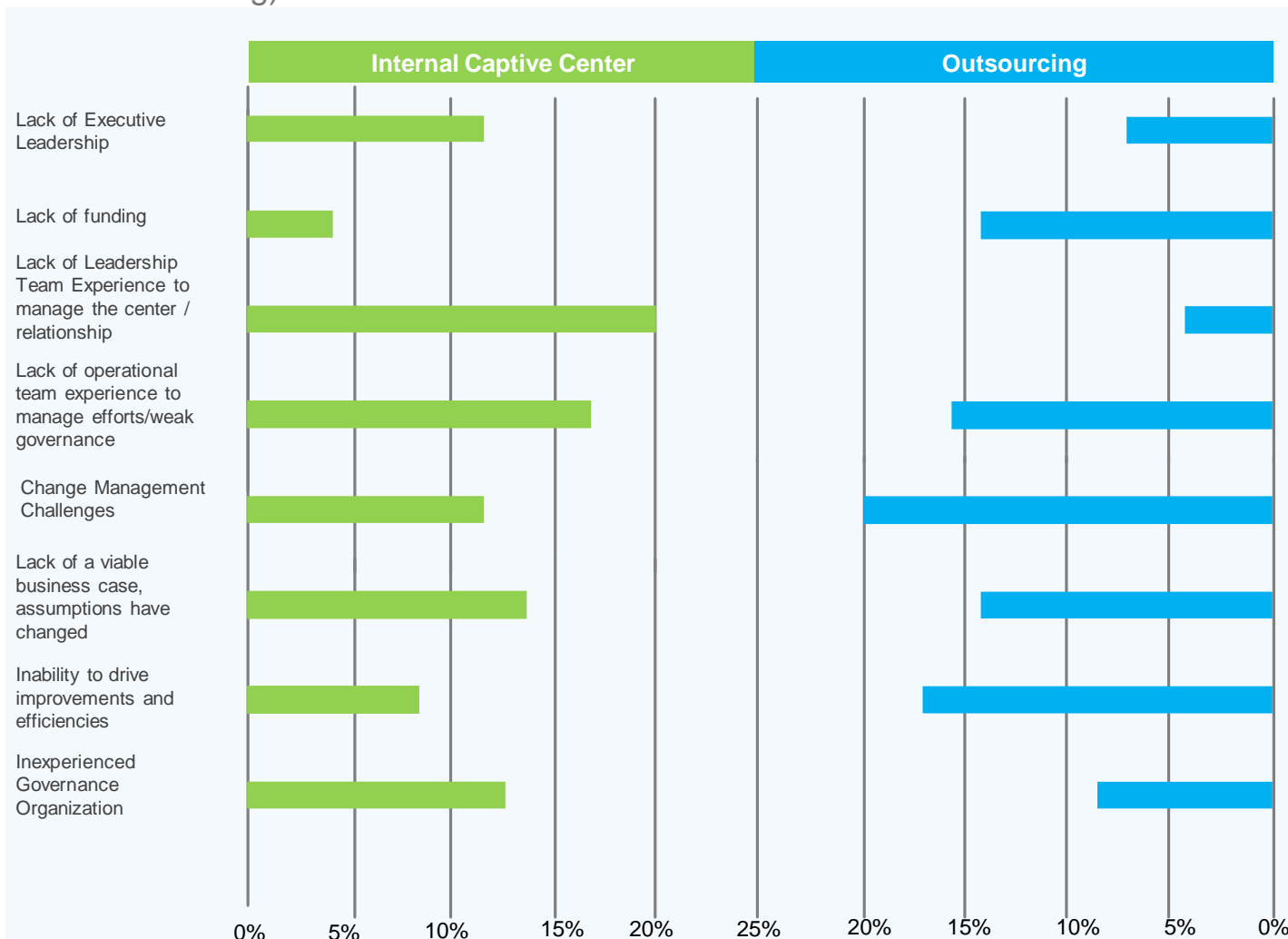
Q: What do you think are the most important drivers to your clients adoption or expansion of shared services (internal captive center / outsourcing)?



Findings

- As costs rise and talent becomes potentially harder to find, outsourcing will be a more viable delivery model for shared services. “Gaining access to external skills / talent” was reported as the main driver to outsourcing in this quarter’s survey
- Improving process performance aligns with everything that we’ve tracked in this survey. Once a shared service center is created, focus needs to adjust over to the Retained Organization and how to adjust their roles and responsibilities.

Q: What are the top challenges your clients may face with their current shared service (internal captive center or outsourcing) efforts?



Findings

- Major challenges are focused primarily on people and the ability to lead and communicate change. Outsourcing reflects a higher lever of change management required, which aligns with the importance of creating a governance structure.
- “Leadership and team experience” is very important at the Manager / Senior Manager levels since they have to manage junior level staff expectations.
- “An inexperienced governance organization” has increased 50% since our previous survey, showing the importance of this area.

KPMG is the Market Leader

Dedicated SSOA servicing the China market

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Dedicated SSOA Practice

44 SSOA professionals

- On-the-ground market research to stay connected with the China market:
 - These Quarterly shared service **surveys**
 - Open **Roundtable** discussions
 - Topical **whitepapers**
 - Frequent **Seminars**
- Continually ranked as one of the **World's Best Outsourcing Advisors** by IAOP for 6 years

China - Services - Advisory - Management Consulting - Shared Services and Outsourcing Advisory

Shared Services and Outsourcing Advisory

Shared Services and Outsourcing Advisory
Helping our clients to benefit through outsourcing

Driven by the desire to reduce costs, gain greater access to qualified talent, harmonize processes, control risk / compliance and focus more on core competencies, companies have turned to shared services and outsourcing as mean of gaining enhanced competitiveness.

The Shared services and outsourcing delivery model can enable organisations to compete more effectively by transforming their internal operations through:

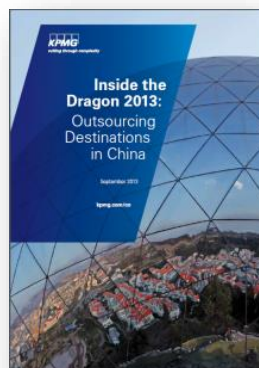
- Centralizing non-core functions to achieve economies of scale
- Harmonizing processes to create a standardized procedures
- Manage your talent more effectively to align skill sets
- Reduce internal ongoing operating costs
- Leverage technology investments

KPMG assists our clients in all stages and functional areas of shared services and outsourcing.



While shared services provides excellent business opportunities and advantages, it brings with it additional business risks. Our multidisciplinary team can help our clients sort through tax, regulatory, accounting, and technology risk management, as well as other issues within Shared Services.

KPMG China SSOA Dedicated Website



Thank You!

