



Achieving the next level of agility and efficiency

**The Global Business Services (GBS) imperative for
Technology, Media & Telecom (TMT) companies**

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The GBS imperative for TMT companies

Enhancing agility and maximizing value for Technology, Media and Telecommunications companies amidst rapid industry change

At a time when technological innovation is creating massive disruptions across nearly every business sector, the activity tracker—that ubiquitous step counter-heart rate monitor-notification center—has become the perfect metaphor for this unprecedented change. Are you moving *enough*? At sufficient speed? How do your numbers compare to those of your peers? And what correlation do the numbers play to actual fitness?

It's this fitness-first paradigm that aligns well with today's corporate focus on business fitness or more precisely *agility*—the ability to change or pivot rapidly to remain competitive and create long-term, corporate value. And the need today is greater than ever before.

We surveyed nearly 1,300 CEOs from many of the world's leading companies, and 41-percent responded that they expect to be running “significantly transformed companies” in the next three years, up more than 40-percent from last year's study. At the same time, 82 percent of respondents expressed concern about whether their company's current products or services will even be *relevant* to their customers three years from now.

It's little wonder.

Who could have predicted just a handful of years ago that the world's largest taxi company (Uber) would own no taxis. Or that the provider of the most overnight stays (Airbnb) would own not a single hotel. Or that the company that would screen the most movies every day (Netflix) would own—you guessed it—no movie theaters.

There's a revolution going on. Massive change sparked by innovation that has challenged traditional models of business success. While touching on nearly every industry, the change and ensuing disruptions are particularly acute for Technology, Media and Telecommunications TMT companies, whose industry

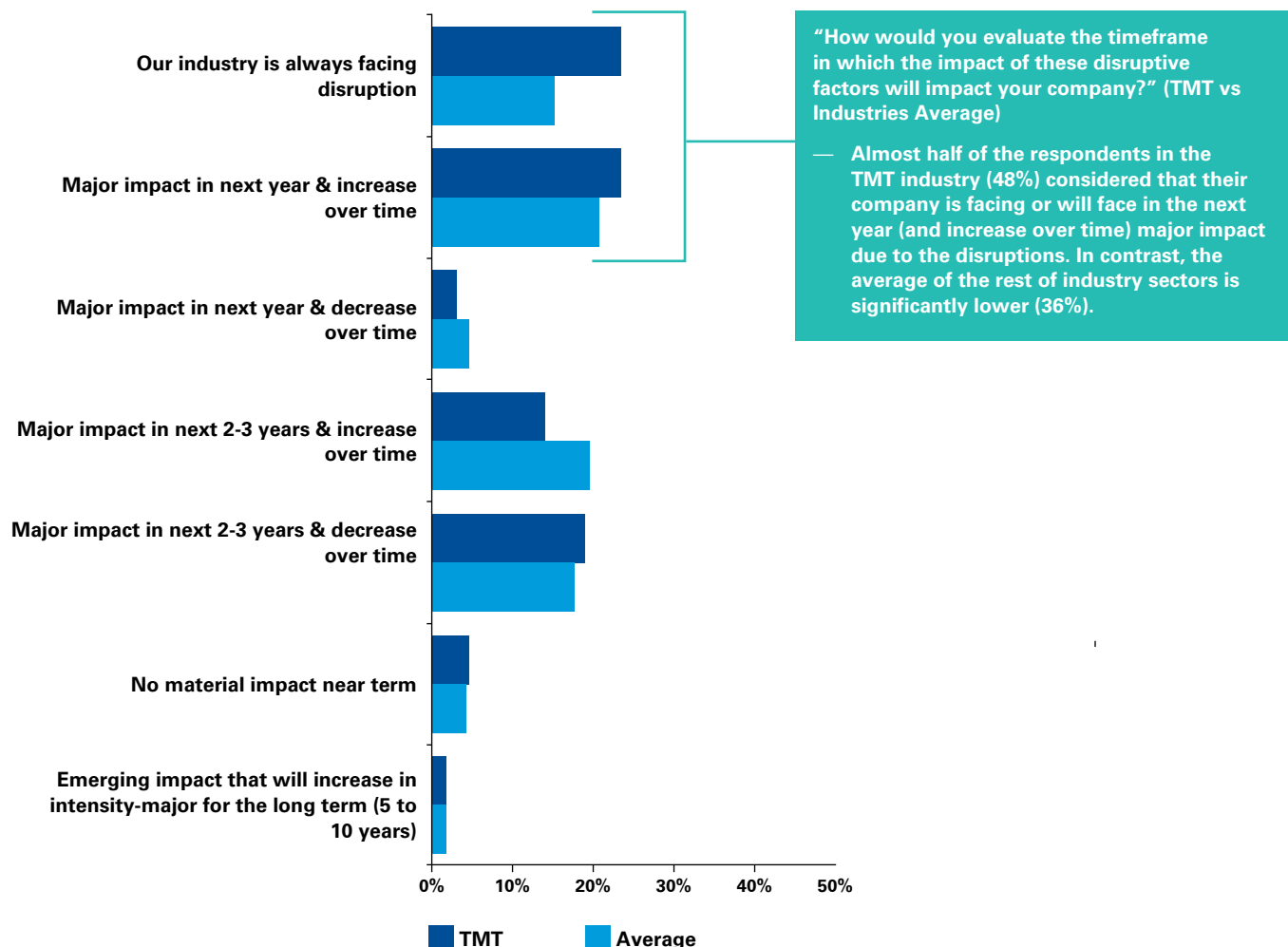
is marked by hyper-competitiveness, and where failure to adapt and change is met with, quite simply, *failure*. To wit: Blockbuster. Myspace.

But it's not just products and services that failed to keep pace (or move ahead) of the competition that caused a deterioration of market share. Even those with successful business franchises that sought synergies through merger or acquisition—Microsoft-Nokia, HP-COMPAQ, Facebook-WhatsApp, Amazon-Zappos—did not always achieve their pre-integration goals because of cultural and business model realities. Others—AT&T-DirectTV, Dell-EMC, Verizon-AOL—are still searching for efficiencies that may drive growth. Verizon's latest goal to merge Yahoo with AOL to form a single organization that can compete with digital media giants like Google and Facebook increases the importance of a smooth business services integration to achieve the expected efficiencies and synergies. As for those who sought a more robust bottom-line by divesting themselves of divisions that seemed better suited for operating independently—Hewlett Packard / HPI, HPE—the performance of newly separated entities often falls far short of boardroom expectations. The lists go on.

Disruption is inevitable in the near term for TMT companies

Disruptive factors are creating a disproportionate urgency to act for the TMT industry. In our survey of TMT industry executives, nearly half (48%) revealed that their company is facing or will face disruptions within the next 12 months, compared to 36% for the rest of industry sectors.

Disruption is inevitable in the near term for TMT companies



Source: KPMG Disruptive Forces Study, 2015

It's not that organizations are unaware of the need to transform their businesses and operating models in order to address these challenges. Indeed, our CEO survey uncovered the top areas of investment over the next three years, and all speak to transformation: increasing data analysis capabilities (25%); new product development (24%); and cyber security solutions (22%).

Top five areas of investment over the next 3 years



Source: 2016 Global CEO Outlook, KPMG International

Yet despite their recognition of where they need to be, many will fail to get there. Some will invest in piecemeal solutions that collectively lack the proper efficiencies to promote significant change. Still others will focus on trimming costs if they are unable (or unwilling) to transform themselves, a generic tactic that may create short-term gains at the expense of long-term performance.

There's a better solution.

A Global Business Services (GBS) model addresses these and other challenges, enhancing the agility of the TMT firm while positioning it for maximum growth. Becoming more customer centric. Making decisions and deploying solutions faster. Incorporating evolving technologies more seamlessly.

A TMT company that successfully adopts a GBS model will realize these and other benefits, acquiring the requisite agility to respond quickly to the industry's rapid pace of innovation and disruption.

Let's take a closer look.

Model for success

A Global Business Services model offers both operational and organizational processes for enterprises, including nearly all back- and front-end business processes, such as HR, finance, IT, marketing and customer care (for internal stakeholders as well as customers).

Often applied on a global scale (a reference to enterprise-wide saturation, not geography), GBS leverages multiple service delivery models, including outsourcing,

shared services and, increasingly, cloud-based solutions. These third-party resources drive efficiencies while enabling the TMT entity to draw on processes quickly and easily as it evolves and its needs change.

It's a holistic, cross-functional approach that integrates resources and systems throughout the enterprise, in turn creating a more agile company that achieves operational efficiencies in nearly every facet of operations.

GBS benefits

While GBS may not be the only solution to facilitate growth, it optimizes the transformation process, allowing the TMT company to gain a firm, competitive advantage with benefits that include:

- **Faster implementation of corporate events:**

The TMT space is dominated by change. Mergers. Acquisitions. Divestitures. Necessary additions and subtractions that fuel a company's growth objectives. GBS can prepare a company operationally for the possibility of a major merger or divestiture, shortening its time-to-market and the timeframe for which it accrues the post-integration/divestiture benefit.

When one of our major telecom company clients was experiencing rapid growth and global expansion marked by frequent acquisitions, GBS provided them with more seamless, post-integration transitions. "When you acquire a company, you need to decide whether or not you take their services," its CEO remarked. "One of our recent acquisitions had centers in India, Chennai and Bangalore. We decided to include their services in GBS. It helped optimize the cost of operations while incorporating activities between our two entities."

- **Lower costs:** Mature GBS organizations reduce SG&A growth as a percentage of revenue by roughly 1.8% per year, a sustained cost savings that endures long after other cost cutting measures have been exhausted. **For a \$10B company, this equates to a ~\$180M annual savings, assuming its SG&A costs are at 30% of revenue and it continues in**

the same proportion. This is based on a KPMG proprietary financial analyses of ~100 organizations with GBS operations.

- **Enterprise-wide reach:** By implementing services across the enterprise into a GBS model, TMT companies can better realize economies of scale, especially important as they cross cultural boundaries. For instance, rapidly expanding tech firms must find a way to standardize their processes as they expand into territories with disparate languages and cultures. GBS helps them accomplish this with fewer operational disruptions.
- **Agility and flexibility:** As we noted, the TMT landscape is marked by mergers, acquisitions and divestitures. Commensurate with this activity has come a need for a flexible and adaptable platform, especially for the back- and middle-office. GBS helps companies scale quickly to meet growing business needs and challenges, positioning the company to be more responsive to business needs on a global scale rather than one that is regionally focused and structured in standalone silos of shared services.
- **Stronger compliance:** The business headlines are replete with instances of TMT companies whose conduct that, while fully compliant in one culture, meets resistance in another. It's no surprise. Standards continue to evolve in the TMT space, a rapid pace of evolution that requires companies to standardize their structures and processes in order to better comply with regulators (as well as to establish processes that are more easily auditable).

Getting started with GBS

Once a TMT company makes the decision to adopt a GBS model, it must decide on an operating model that allows for the adoption of a new organizational structure and processes.

Many firms struggle with the transformation, trying to accomplish too many things too quickly. Indeed, in our recent CEO survey, 37% of respondents said that the greatest execution barrier they face in transforming their company as it charts a growth path is underestimating the impact that the changes will have on their organization's operating model.

The impact can be profound and affect the speed to integration, talent management, disparate (and often conflicting) technologies and RPA. For instance, there is often resistance from internal stakeholders as their responsibilities are modified. As a result, effectively managing the TMT company's transformation to a GBS model is essential for realizing its full range of benefits.

To maximize opportunities for success and achieving true GBS maturity, we recommend the following systematic approach:

Choose an operating model

As a first step, the TMT company must decide what type of operating model it will pursue. There are two primary options:

A **global platform focus** incorporates a holistic approach that includes the global management of the delivery infrastructure, technology platforms and process standards. Such a model requires complete alignment of all stakeholders, with C-suite executives agreeing on the global approach and governance model. Furthermore, the model must align with the company's overall regional management construct.

A **functional diversification focus** incorporates end-to-end process ownership across the enterprise's functional silos. To be successful with this model, there must be complete C-suite alignment and cross-functional governance/service management.

There is no universal approach; either model can be pursued to achieve the requisite agility for the TMT company to succeed.



Paths to excellence

Companies have taken alternative paths (sometimes varying by service) in their journey towards GBS maturity:

A Global platform focus

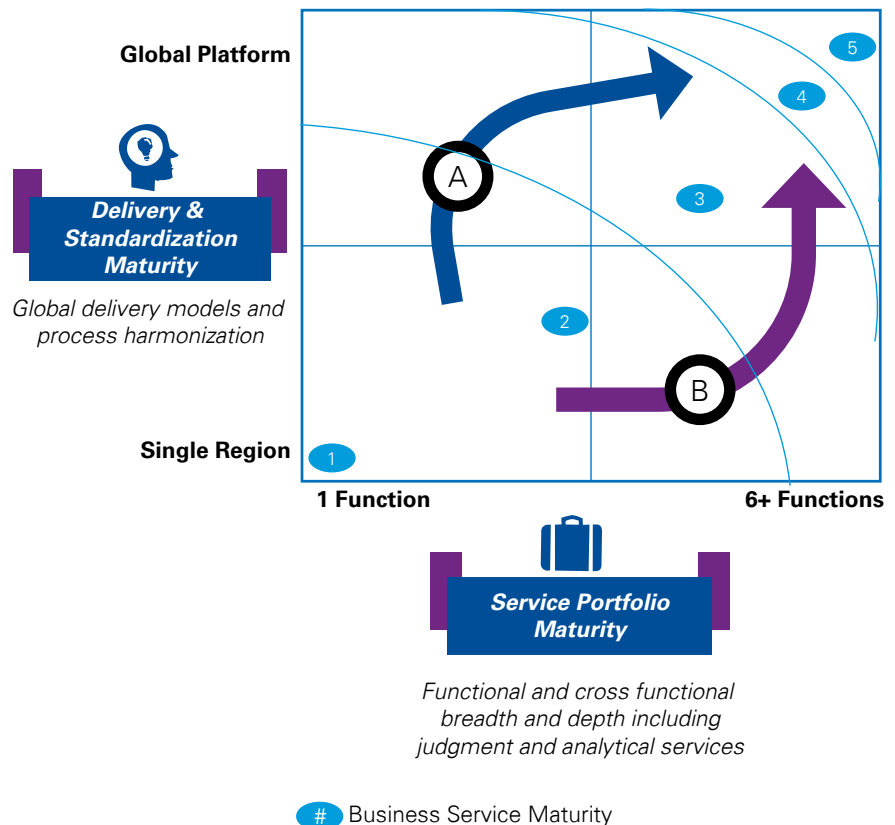
Success factors:

- C-Suite alignment on global approach and governance model
- Alignment of GBS model to overall regional management construct
- Global management of delivery infrastructure, technology platforms & process standards

B Functional diversification focus

Success factors:

- C-Suite alignment on multifunctional approach
- Cross functional governance/service management
- End-to-end process ownership across functional silos

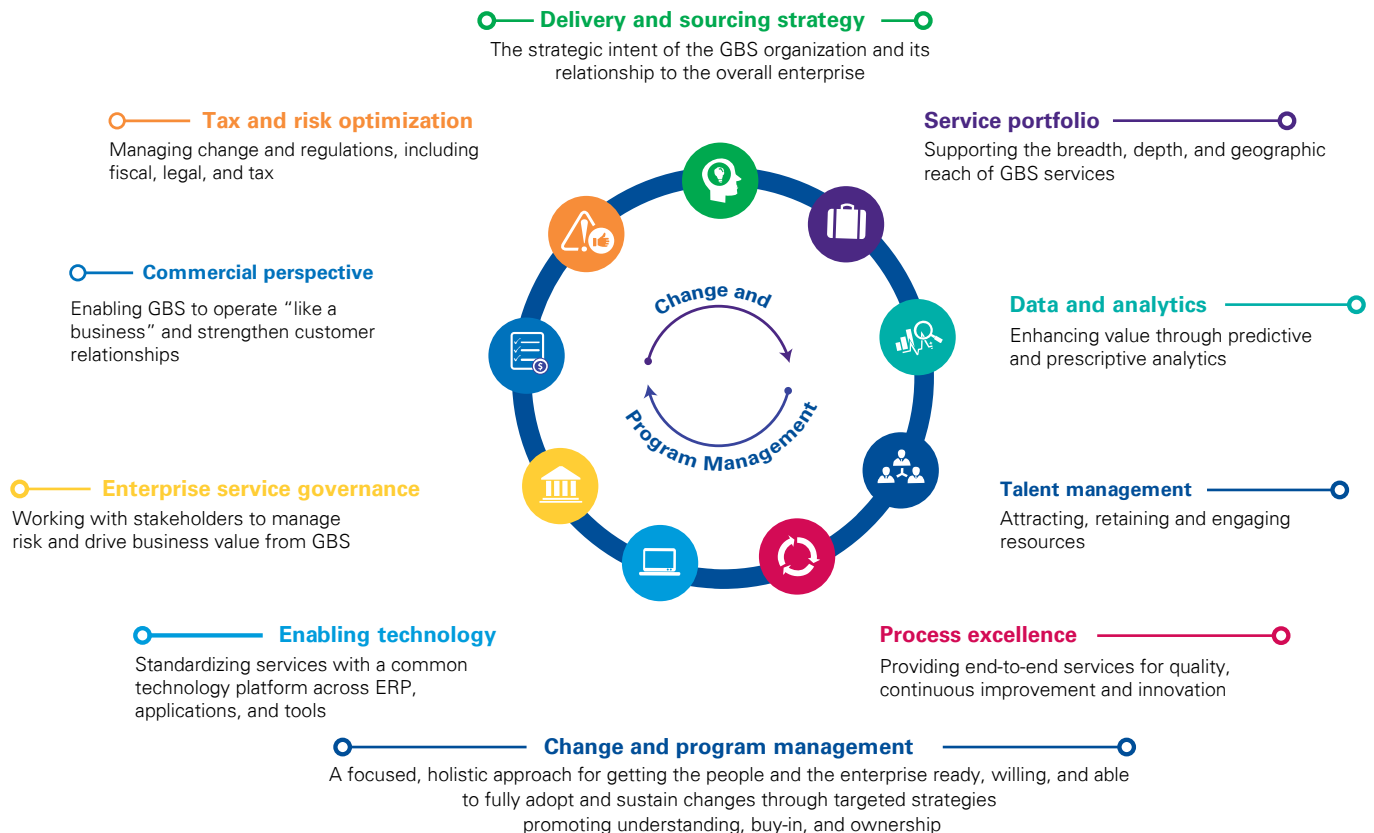


The road to maturity

Companies assume a progression of maturity as they integrate GBS throughout their organization. The process begins with an independent assessment of 10 critical dimensions across its operating model. The dimensions include:

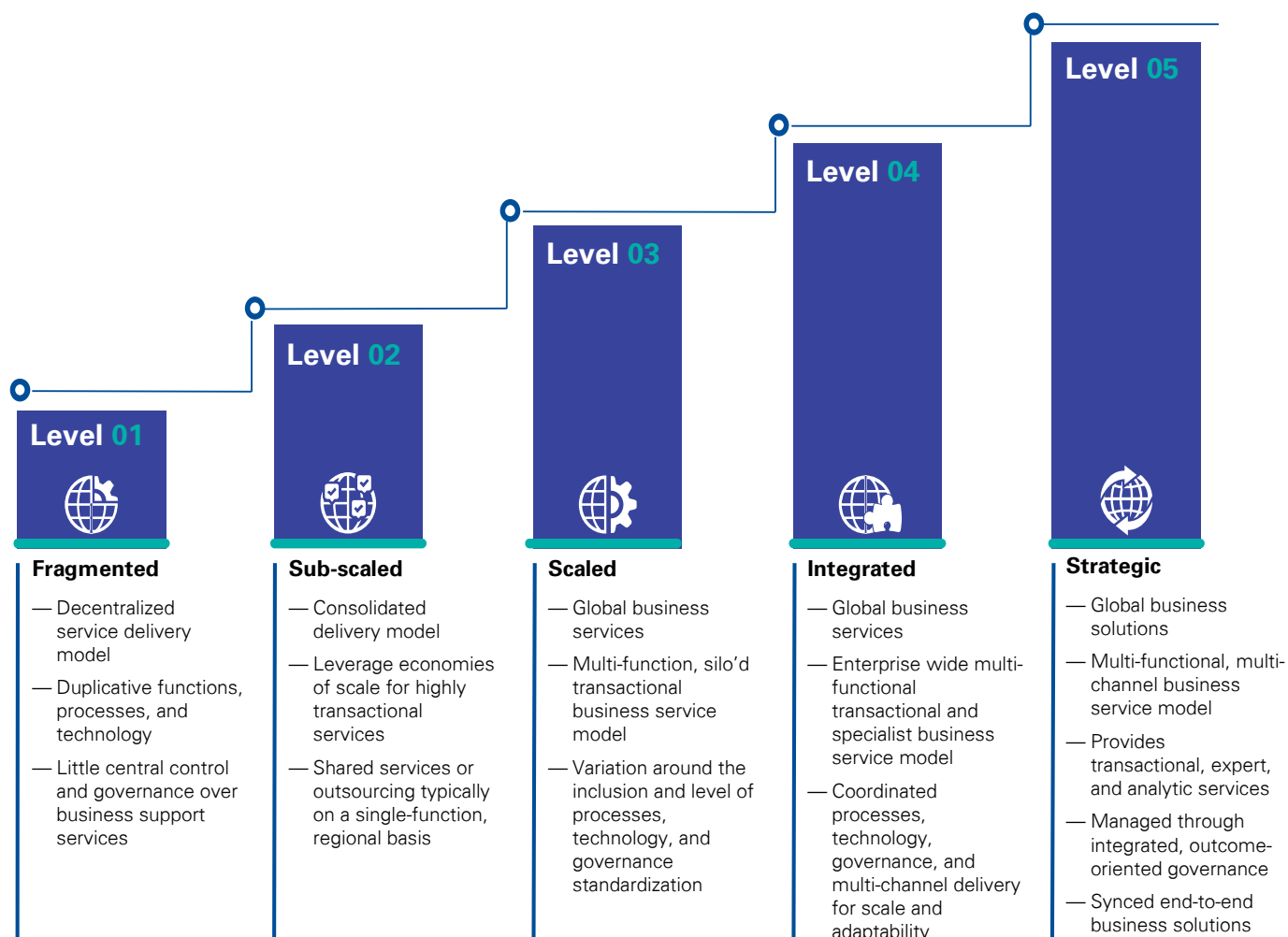
1. **Delivery and sourcing strategy:** The business service organization's strategy and relationship to the overall enterprise.
2. **Service portfolio:** The functional breadth, depth and geographical reach of business services in the company. This includes finance, internal audit, HR and compliance.
3. **Data and analytics:** The company's capability to analyze large amounts of data, financial and otherwise, for the purpose of business decision making.
4. **Talent management:** The ability of the company's HR department to attract, retain and nurture the skills of the workforce.
5. **Process excellence:** The deployment of end-to-end business services throughout an enterprise's global operations with a focus on continuous improvement, quality and innovation.
6. **Enabling technology:** A technology platform for enterprise resource planning, applications and tools to enable the deployment of standardized services.
7. **Enterprise service governance:** A systematic approach to working with stakeholders to manage risk and drive the value derived from business services.
8. **Commercial perspective:** The way in which business services engage with internal customers, based on a customer relationship model.
9. **Tax and risk optimization:** A company's capability to monitor and manage its tax, legal and risk exposures around the world.
10. **Change and program management:** A focused, holistic approach to ensure enterprise-wide readiness to adopt transformation within the enterprise.

Key KPMG Capabilities by GBS Dimension



Once the assessment is made and the TMT company deploys its GBS strategy, it progresses across five levels of maturity :

Five levels of GBS maturity



(Level 1) **Fragmented:** Service delivery is decentralized and processes, functions and technology are duplicated. There is little central control and services are 'pushed' to the internal clients rather than driven by demand.

(Level 2) **Sub-scaled:** The delivery of services is consolidated to achieve economies of scale in the provision of highly transactional services. Some services are shared and outsourced, usually for single functions and regions.

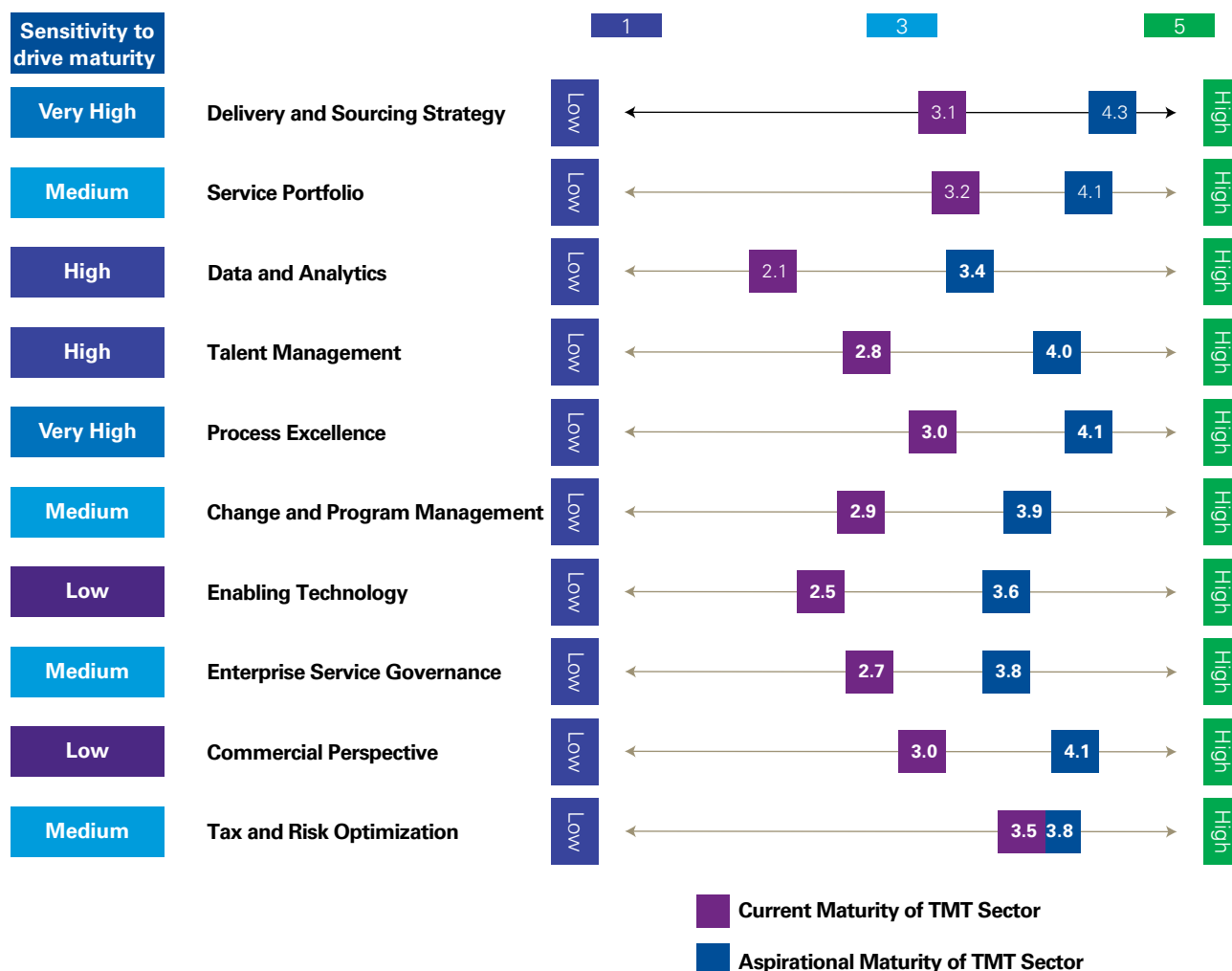
(Level 3) **Scaled:** Services are delivered across multiple functions but the silos remain in place. Processes, technology and governance of business services are not fully standardized.

(Level 4) **Integrated:** Multi-functional services are delivered seamlessly from one end of the enterprise to the other across several channels that are managed through an integrated, outcome-oriented governance structure. At this stage, GBS is able to provide analytic services to the enterprise, as well as expert advice on a range of important business issues, such as compliance, innovation and agility.

(Level 5) **Strategic:** Multi-functional services are delivered across the enterprise. Processes, technology and governance are supplied across several channels. Internal capabilities support the delivery of services via a single contact point.

It's important to note that while Level 5 indicates the most mature GBS model, the classification is more aspirational than actual, with the majority of firms—even those enjoying strong benefits from their GBS model—falling well short of that number.

Maturity Survey Results: TMT Sector



Through our GBS Maturity Survey of TMT companies over the last two years, we have found that most fall into level 3 today, with aspirations to progress to the integrated category. The reason for this less-than-maximum performance is that most companies take a highly siloed approach to shared services delivery. Across all dimensions, TMT firms struggle with data and analytics penetration and technology platform maturity while they perform on-par with other industries when it comes to service portfolio and process delivery.

Even for those companies whose GBS model is objectively mature in these 10 dimensions, the journey is ongoing, with increasingly greater cost savings within reach.

For instance, by incorporating cognitive automation, a TMT company can transform its labor-intensive processes while fine-tuning its enterprise-wide procurement system. The results? Labor costs that drop more than 75% depending on the process, which is roughly double the savings achieved when moving operations to cheaper labor markets. This is a critical value proposition for the TMT company, which is continually competing against firms that tap overseas labor for its customer-facing processes.

One of our major telecom clients maintains a complex, global supply chain, where manufacturing and distribution involve contributions from more than a dozen countries. Cognitive automation provided it with real-time supply chain monitoring, minimizing its risk of disruption while ensuring ongoing compliance with standards and regulations that continue to change.

Stay ahead of the competition

Faster implementation of corporate transactions. Lower operating costs. Stronger returns.

A GBS model helps the TMT company realize these and other benefits, creating a more agile company that is better able to respond to the ongoing disruptions that are the trademark of its industry.

For those following along with the fitness tracker, the day's multi-colored activity rings are now complete, and the TMT company's VO2 max – *whatever that means* – is at a personal best. And while the work expectation repeats itself tomorrow, with its fitness level improved, the organization is up for the challenge and well positioned for still greater performance numbers.

Transform your TMT company, achieve optimum agility, and maximize your opportunities for success. With GBS.

Get started with GBS

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

The KPMG TMT practice is dedicated to assisting businesses of all sizes to identify opportunities and take advantage of industry developments.

Our TMT professionals work with all top global Technology companies, the top Media companies, and Telecommunication firms. They also stay in front of current trends and issues, providing relevant insights and advice to help organizations address their specific business challenges.

KPMG member firms help clients around the world to increase the efficiency of their business and operating models through enhanced professional project management, cost-efficient organizational structures and streamlined reporting and approval processes.

Globally integrated teams from our Advisory practice with the combination of TMT and financial expertise, 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.

To learn more about GBS and the most effective ways it can help you maximize success for your post-integration entity, contact Ron Walker or Phil Wong.

Learn more about KPMG's services at www.kpmg.com/us/GBS.

Stay up-to-date on the latest thought leadership from KPMG on Global Business Services at www.kpmg.com/us/goGBS.

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