



cutting through complexity

KPMG 2014 Global Real Estate & Facilities Management (REFM) Outsourcing Pulse Survey

Trends in the real estate and facilities management (REFM) outsourcing market gleaned from buyer organizations undertaking REFM outsourcing, leading global REFM outsourcing service providers and third-party legal counsel and advisors.

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KPMG 2014 Global REFM Outsourcing Pulse Survey

KPMG LLP (KPMG) is pleased to release the findings from the 2014 edition of the global real estate and facilities management (REFM) outsourcing Pulse survey. The REFM outsourcing Pulse is a member of the [KPMG Pulse family of surveys](#) that provide insights into trends and projections in end-user organizations' usage of global business services ([GBS](#)), or shared services, outsourcing, and third-party business and information technology (IT) services.

This collective research program focuses on GBS market trends and examines related key topics such as cloud computing and human resources (HR) transformation and [vertical industry business trends](#). The findings from the REFM outsourcing Pulse are gleaned from end-user organizations that are actively exploring or undertaking REFM outsourcing efforts, leading REFM global business and IT service providers, and third-party legal counsel and sourcing advisors supporting clients' REFM outsourcing efforts.

Since their inception in 2004, the Pulse surveys have yielded insightful analyses of current and ongoing market trends in the use, deployment, and global delivery of business and IT services. They capture changes in demand, usage levels, future adoption plans, and related key market indicators. They highlight the changes, and direction of change, in the GBS and outsourcing markets as a whole. The surveys focus on where the market is going and how that direction is changing—or not—as compared to prior quarters and years.

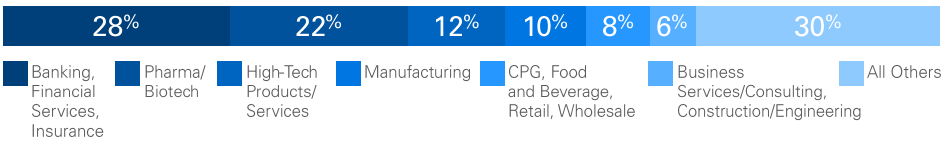
KPMG conducts the global REFM outsourcing Pulse survey on an annual basis. Topics explored in this edition of the REFM outsourcing Pulse include the following:

- Current REFM outsourcing market trends, conditions, and demand levels
- Top drivers and challenges for REFM process improvement and outsourcing efforts
- REFM market characteristics on topics such as top priorities, service delivery models, and space utilization plans
- Global REFM sourcing, governance, and management models
- REFM outsourcing deal attributes

Demographics

Two-hundred-seventeen respondents were surveyed for this market study. Thirty-eight percent of respondents were from end-user buyer organizations currently utilizing or in the active process of undertaking REFM outsourcing. Forty eight percent of respondents were from third-party providers of outsourcing and related REFM services, and the remainder were respondents from law and sourcing advisory firms advising end-user organizations on REFM outsourcing efforts. For the purposes of this paper, the responses from third-party service providers and advisors are combined (SPA). Approximately one-half of respondents polled are involved with REFM activities in the U.S. market, with 25 percent of total respondents operating or supporting global REFM efforts, and the balance operating in the Europe, Middle East, and Africa (EMEA) and Asia-Pacific regions. Figure 1 illustrates the geographic distribution of the total respondent base. All major REFM service providers are represented in the results, including CB Richard Ellis Group, Cushman & Wakefield, Johnson Controls, and Jones Lang LaSalle.

Respondents by industry



Respondents by geography

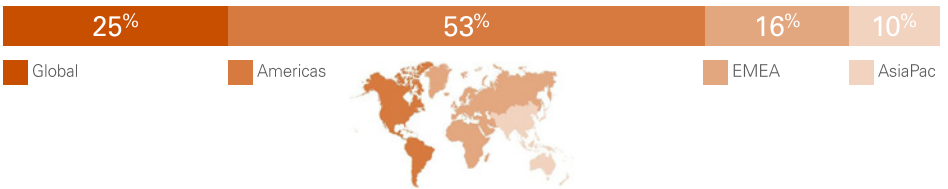


Figure 1 | Respondents by Geography and Industry
*Numbers might not add up to 100% due to rounding and multiple selections

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Table of Contents

I	Management Summary	6
---	--------------------	---

II	Highlights	10
----	------------	----

III	Market Conditions and Trends	14
-----	------------------------------	----

	REFM Service Providers and Advisors REFM Outsourcing DemandTrends	14
	Service Providers' REFM Outsourcing Demand by Process	15
	REFM Outsourcing Demand by Industry	17
	How to Improve the REFM Outsourcing Process	18
	Top REFM Outsourcing Drivers and Challenges	20
	REFM Outsourcing Deal Pricing Models and Deal Lengths	22
	Preferred REFM Service Delivery Models	23
	Additional REFM MarketTrending	24

IV	Update on Global Sourcing	26
----	---------------------------	----

V	Current Market Deal Characteristics	28
---	-------------------------------------	----

	Pricing Competitiveness	28
	Contract Profitability and Ability to Increase Scope	29

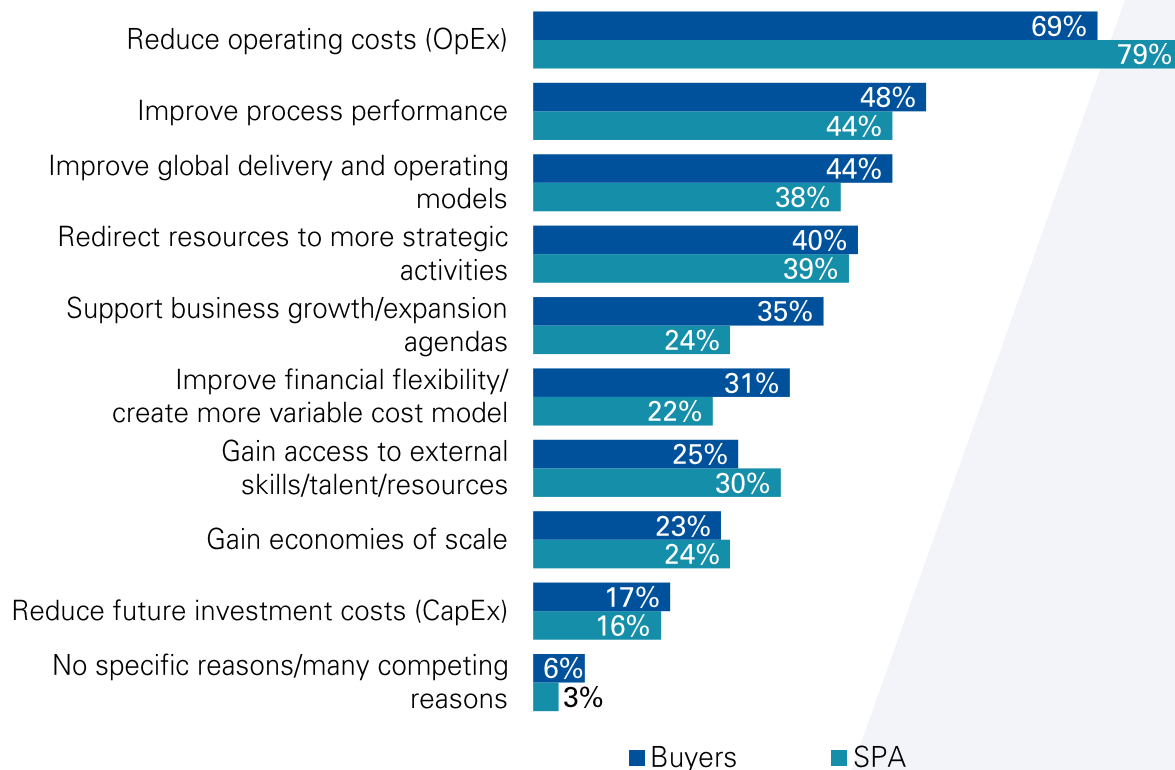
VI	Learn More	32
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Management Summary

The global real estate and facilities management (REFM) outsourcing market remains very healthy and continues to grow. Most end-user organizations today, especially larger firms in western markets, have undertaken some level of REFM outsourcing, even if it has been to outsource a few services (e.g., janitorial, cafeteria, and amenities services).

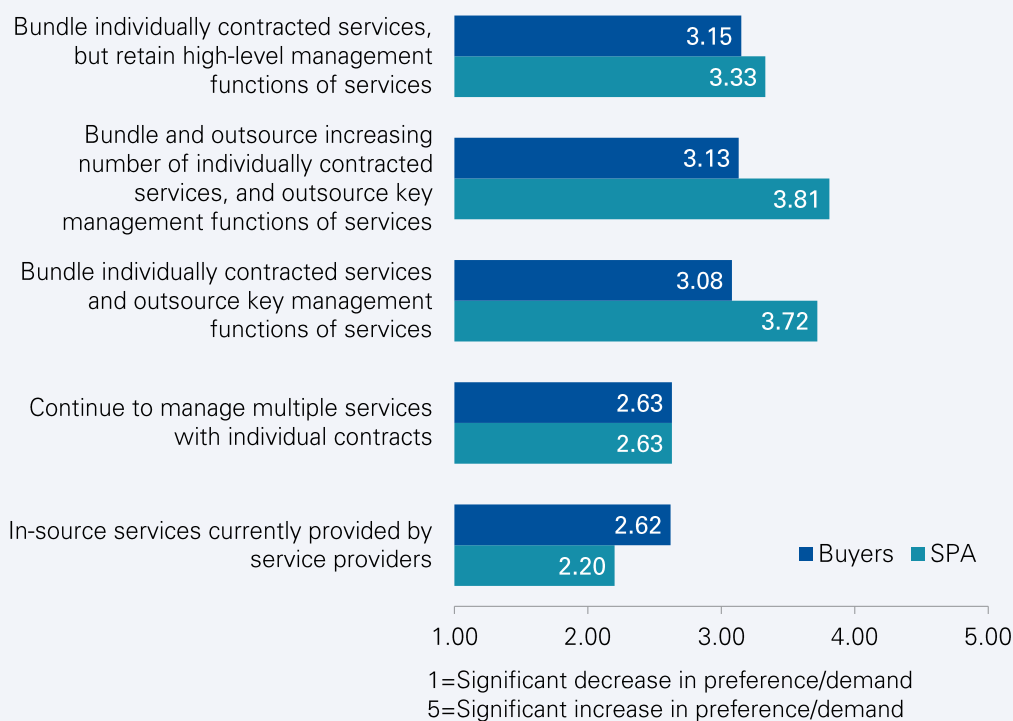
Self-performing REFM work remains more common in emerging markets where the capabilities of the marketplace may not be mature enough to outsource or at small offices in all markets where most of the services are provided by the landlord. Many firms prefer to **bundle their REFM services under the fewest number of service providers and operate under an integrated model to further reduce costs, drive consistency, and improve governance, controls, service level agreements, KPIs, and performance reporting.**



Top Drivers for REFM Change/Outsourcing Efforts
*Multiple selections permitted

Americas and EMEA remain as the most mature markets for an integrated REFM outsourcing model. However, the Asia Pacific market's capabilities and integrated outsourcing interests continue to grow. While outsourcing is common in all industry sectors, the largest increase in outsourcing is in the banking, financial services, insurance, healthcare, pharmaceutical, and biotech sectors.

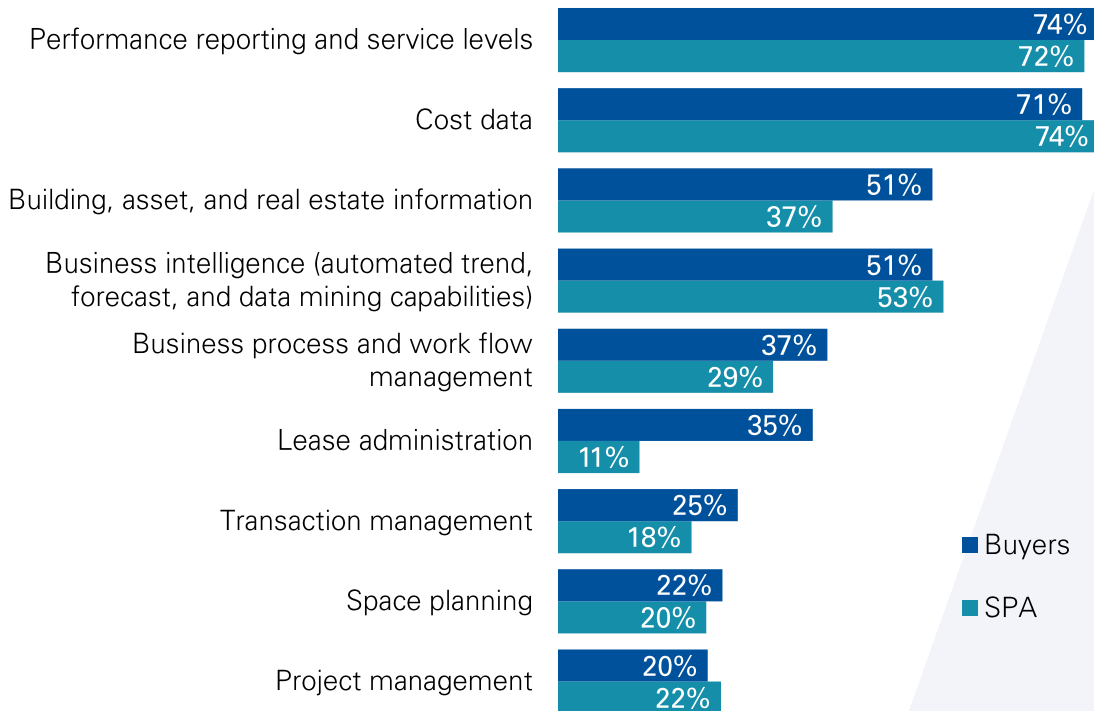
In addition to looking for opportunities to outsource more sites and services **many users of REFM outsourcing services are assessing options to consolidate what has been outsourced** already under fewer providers or to restructure the pricing of their current contracts to deliver additional savings. Tactical REFM services (e.g., workplace and facilities services, lease administration, facilities management) are the activities most commonly outsourced. A growing number of service providers, however, are demonstrating advanced capabilities enabling them to move up the value chain in terms of services offered into areas such as REFM strategy and planning and research and development support services. They are becoming better able to integrate into existing business operations to provide more high-value and strategic services (e.g. portfolio strategy planning).



Change to Preferred REFM Service Delivery Models

Reducing costs continues to be the most common reason why organizations outsource REFM services. While service providers' capabilities and service offerings continue to improve, most of the services outsourced are tactical as opposed to strategic. Some end-user organizations choose not to outsource because they are satisfied with their current service delivery model, activities are too strategic in nature or there is not a compelling business case to change. Energy costs for most end-user organizations is a large spend and often service providers are used to reduce energy demand.

Organizations are increasingly using a balanced scorecard approach to track and measure service provider performance against financial, customer satisfaction, and operational targets. Typical end-user organization's **expectations are that outsourcing will improve their operational model, introduce leading practices, and drive continuous improvement.** There are various means buyer organizations are employing to track and incentivize these improvements. To emphasize the importance of performance, buyers today are **more often putting a portion of service provider's management fee at risk** if the balanced scorecard targets are not hit, as well as using management fee incentives or shared savings if targets are surpassed. In addition to the use of balanced scorecards, a strong governance structure is required to monitor performance as is having good baseline and KPI data to track performance improvements.



REFM Reporting Systems Needs

*Multiple selections permitted

When it comes to renewing existing REFM outsourcing contracts, organizations are increasingly seeking bids for services and considering alternative providers rather than simply renewing the contract with existing providers. The goal is to test the waters of the market and understand what differentiated services alternative providers could potentially offer as well as ensure that buyers are getting the best price available for the services in scope and are best leveraging the current capabilities in the market. So many organizations in second and third generation deals are using different providers than originally contracted. As a result, most REFM outsourcing contracts are three to five years in length to provide buyers the flexibility to swap out providers. **The end-users that do it best do not merely select the low-cost provider** but also use a formal process to measure the service providers against different criteria to ensure the right service provider is chosen. While some firms choose to have a global service provider, most firms choose whom they believe is the right service provider for each region. Effective change management and appropriate executive sponsorship remain as key elements to successfully transition to an outsourcing model.

Organizations need to continually assess what is the optimal mix of outsourcing, shared services, and internal operations to support their REFM services needs. This requires a careful evaluation of the performance of their current operations, business needs and challenges, capabilities available in the market, and the benefits, risks, and costs of making a change. There is no right answer or single best-fit model but maintaining the status quo legacy model is not prudent. Leading organizations have evaluated their current REFM practices, benchmarked them, and identified ways to reduce costs and improve their service delivery quality. They have **leveraged the capabilities of the marketplace and have created a roadmap to achieve their desired end state.**

Leading end-user organizations have leveraged the capabilities of the marketplace and have created a roadmap to achieve their desired end state.

REFM Outsourcing Pulse Highlights: Buyer Organizations

Top REFM Processes Outsourced	<ol style="list-style-type: none">1. Workplace services2. Facilities services3. Transaction and brokerage services
Top Lease Administration Processes Outsourced	<ol style="list-style-type: none">1. Data entry and administration of lease documents2. Lease abstracting3. Lease auditing
Top Facilities Management Processes Outsourced	<ol style="list-style-type: none">1. Janitorial2. Pest control3. Landscaping
Future REFM Outsourcing Plans	<ul style="list-style-type: none">• Next 1-2 quarters: 36% plan to increase outsourcing• Next 3-4 quarters: 64% plan to increase outsourcing• 12+ months out: 75% plan to increase outsourcing
Top REFM Outsourcing Drivers	<ol style="list-style-type: none">1. Reduce operating costs2. Improve global delivery and operating models3. Improve process performance
Top REFM Outsourcing Challenges	<ol style="list-style-type: none">1. Retained organization, transition, and governance challenges2. Quality and fit of supporting service providers3. Prioritizing opportunities and different change programs
Top REFM Outsourcing Deal Pricing Models	<ol style="list-style-type: none">1. Performance-based contract2. Fixed price contract3. Cost-plus contract
Top REFM Focus Areas Next 12 Months	<ol style="list-style-type: none">1. Cost reduction2. Improving the workplace environment as a tool to attract and retain talent3. Partnering / supporting internal customers

Source: KPMG 2014 REFM Pulse Survey

REFM Outsourcing Pulse Highlights: Advisors/Third-Party Service Providers

Deal Pipeline	Fifty-seven percent of providers cite pipeline growth over last 1-2 quarters, 39 percent cite no change
Future REFM Outsourcing Demand	<ul style="list-style-type: none"> • Next 1-2 quarters: 28% cite demand growth • Next 3-4 quarters: 53% cite demand growth • 12+ months out: 61% cite demand growth
Top REFM Process Demand Growth Areas	<ol style="list-style-type: none"> 1. Facilities management 2. Space management 3. Facilities services
Top Lease Administration Processes Outsourcing Demand Growth Areas	<ol style="list-style-type: none"> 1. Portfolio analysis and performance reporting 2. Critical data reporting and tracking 3. Data entry and administration of lease documents
Top Facilities Management Processes Outsourcing Demand Growth Areas	<ol style="list-style-type: none"> 1. Energy and utility operations 2. Project management 3. Program management
Top Industries for Demand	<ol style="list-style-type: none"> 1. Banking, Financial Services, and Insurance 2. Healthcare 3. Pharmaceutical and Biotech
Top REFM Outsourcing Drivers	<ol style="list-style-type: none"> 1. Reduce operating costs 2. Improve process performance 3. Redirect resources to more strategic activities
Top REFM Outsourcing Challenges	<ol style="list-style-type: none"> 1. Inadequate change management capabilities 2. Inadequate executive and management support 3. Retained organization, transition, and governance challenges
Top REFM Outsourcing Deal Pricing Models	<ol style="list-style-type: none"> 1. Performance-based contract 2. Management fee incentives 3. Fixed price contract
Top REFM Focus Areas Next 12 Months	<ol style="list-style-type: none"> 1. Cost reduction 2. Energy management 3. Shift more risk to service providers

Source: KPMG 2014 REFM Pulse Survey

REFM Market Conditions and Trends

REFM Buyers' Current and Planned REFM Outsourcing Usage Trends

KPMG polled users of REFM outsourcing on what process areas they have already outsourced, plan to outsource, or have no plans to outsource in the foreseeable future (see Figure 2). It is important to note that this study surveyed organizations that have already undertaken or are actively planning to undertake REFM outsourcing, so the levels cited below are not representative of the market as a whole, but rather of organizations that are already actively engaged in REFM outsourcing.

- The most commonly outsourced REFM process area by firms that have undertaken REFM outsourcing is **workplace services**. This includes activities such as janitorial, cafeteria, and amenities services. Sixty-nine percent of respondent organizations have already fully outsourced workplace services, 27 percent have partially outsourced them, and just 2 percent have no plans to outsource this type of work.
- The second most frequently outsourced area of REFM services is **facilities services** (e.g., HVAC, electrical, mechanical, building repair). These activities are fully or partially outsourced by 86 percent of survey respondents with just 6 percent having no plans to outsource these activities.
- REFM **portfolio strategy and planning** is the activity least often outsourced, with just 32 percent of respondents having fully or partially outsourced this more strategic work. Service providers and advisors (see Figure 2), however, cite much higher demand for outsourcing of these types of strategic services

The top three categories outsourced in the 2014 edition of the REFM Pulse survey are the same as in the 2013, 2012, and 2011 studies.

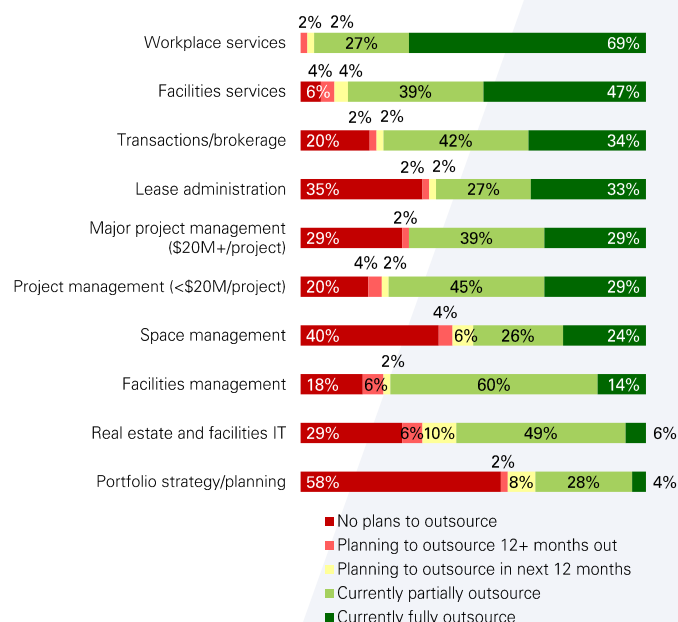


Figure 2 | Buyers: Current/Planned REFM Usage Levels

*Numbers might not add up to 100% due to rounding and multiple selections



REFM buyers were next asked about their current or planned usage of outsourcing to support lease administration and facilities management activities (see Figures 3 and 4).

- **Data entry and administration of lease documents** was the most commonly outsourced lease administration activity, identified by 68 percent of respondents, followed by **lease abstracting** at 66 percent and **lease auditing** at 61 percent of respondents. Lease abstracting outsourcing was first in the 2013 edition of the study.
- A broad range of facilities management activities has been outsourced by the typical user organization. **Janitorial** remains the most frequently outsourced task, identified by 92 percent of respondents, followed by **pest control** at 90 percent, and **landscaping** at 88 percent. **Research and development and lab services** is the REFM activity least often outsourced though results from service providers and advisors again cite greater levels of outsourcing activities in these process areas. Top categories were similar in the past three annual editions of the study.

Buyers were polled about their near-term plans for additional usage of REFM outsourcing (see Figure 5). Fifty-four percent of respondents plan to increase REFM outsourcing levels over the next one to two quarters, up from 46 percent in last year's poll, with just 7 percent planning to decrease usage, down 14 percent from 2012. Fifty-six percent of buyers plan to outsource more REFM services over the next three to four quarters, and 51 percent plan to outsource more than 12 months out, both levels up slightly from last year's poll. REFM service providers are less bullish on short-term market demand trends but somewhat more bullish longer-term.

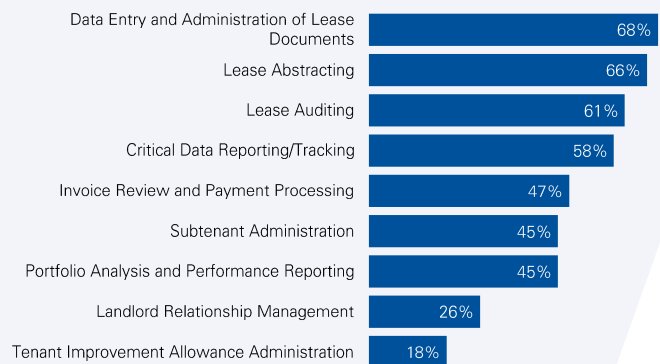


Figure 3 | Buyers: Lease Administration Outsourcing

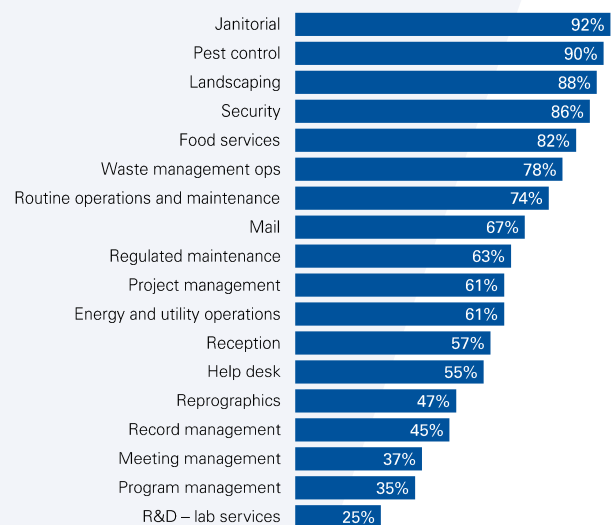


Figure 4 | Buyers: Facilities Management Outsourcing

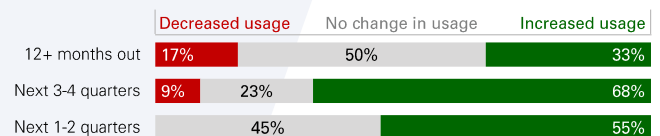


Figure 5 | Buyers: REFM Outsourcing Usage Expectations

REFM Service Providers' and Advisors' REFM Outsourcing Demand Trends

The other dimension of the KPMG REFM outsourcing Pulse survey is gathering input from the sell and advisory sides of REFM services on market demand and deal trends, characteristics, and future expectations. To do this, KPMG polled leading global REFM service providers on the current and expected growth levels in their pipelines for services deals and third-party advisors and legal counsel that support clients' REFM outsourcing efforts on demand levels they are seeing in their accounts. Service provider and advisor sentiment on REFM outsourcing demand remains unchanged from the 2013 edition of the REFM Pulse.

Fifty-seven percent of service providers cite pipeline growth over the past one to two quarters, while 4 percent of service providers polled indicate pipeline growth had contracted (see Figure 6). It is important to note that the Pulse surveys measure change in pipeline growth levels, not absolute pipeline size or revenue levels.

Third-party REFM advisors and service providers were next asked about their projections on buyer demand for REFM outsourcing over the next 12 months (see Figure 7). Twenty eight percent of respondents expect demand levels to increase over the next one to two quarters while just 5 percent expect demand levels to decrease. This is in contrast to more aggressive numbers cited above by buyers. Part of the difference is due to estimations of when new business will hit the market and go into service provider pipelines (the buyer projections) and when that business will actually consummate into new deals (service provider projections). Advisors and service providers are more optimistic about longer-term demand growth, with 53 percent expecting demand to increase in the next three to four quarters and 61 percent expecting growth 12+ months out, though 17 percent did project declines in demand in 12+ months.

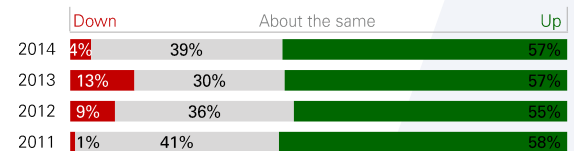


Figure 6 | Service Providers/Advisors Pipeline Growth

*Numbers might not add up to 100% due to rounding and multiple selections

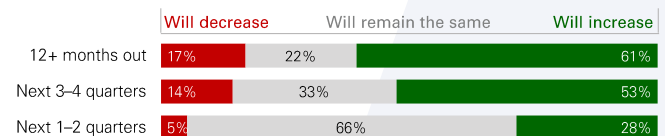


Figure 7 | Service Providers/Advisors REFM Outsourcing Demand Expectations

*Numbers might not add up to 100% due to rounding and multiple selections

Service Providers' REFM Outsourcing Demand by Process

Digging into the service provider and advisor expectations for increased REFM outsourcing demand going forward, providers and advisors were next polled on what they see are the REFM process areas where the demand for outsourcing is increasing (see Figure 8). This compares to buyer results which exhibit what REFM processes are currently outsourced.

- **Facilities management** (e.g., management of facilities services, workplace services, property management) and **space management** were the REFM process areas that service providers and advisors characterized as exhibiting the greatest increase in outsourcing demand levels. Seventy-four percent of providers and advisors polled expect demand to increase in this process area while just 4 percent and 3 percent respectively expect to see declines.
- Sixty-nine percent of providers and advisors cite increased demand for **facilities services** while 64 percent of those polled indicated demand for **portfolio strategy and planning services** are increasing. Facilities management was the top ranked category in the 2013 study at 71 percent while space management increased by 8 percent since 2013.
- The process area cited with the greatest potential for declines in demand, or at least the slowest growth, was for **major project management services**, defined as projects over \$20 million in service fees. This category also was ranked last in the 2012 poll. This is not surprising given the slow growth of major REFM projects by buyers in the market today given current economic conditions and uncertainties.

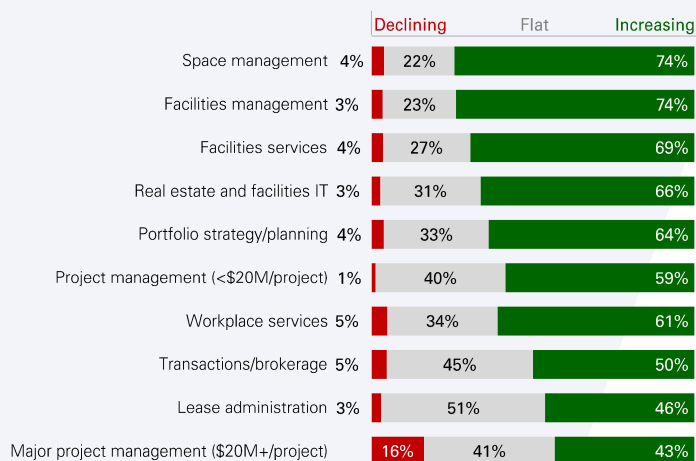


Figure 8 | Service Providers/Advisors: REFM Outsourcing Demand by Process Areas

*Numbers might not add up to 100% due to rounding and multiple selections

REFM service providers and advisors were polled on their clients' current or planned usage of outsourcing to support lease administration and facilities management activities (see Figures 9 and 10). In these two activity areas, there were again differences of opinion on demand and usage levels between service providers, advisors, and end-user organizations.

- Portfolio analysis and performance reporting is the least administration activity cited as having the greatest increase in outsourcing demand, identified by 78 percent of respondents, followed by critical data reporting and tracking identified as having increasing demand by 73 percent of respondents. The two categories ranked number one and two in the 2013 poll as well.
- In facilities management, energy and utilities operations is clearly identified, as the same in 2013, as the area exhibiting the greatest growth in outsourcing demand, selected by 76 percent of service provider and advisor respondents. Next is a cluster of other activities, including project and program management, regulated maintenance, help desk, and R&D lab services.

In general, providers and advisors cited greater levels of increased demand than did buyers for more strategic REFM activities such as planning. While demand for more strategic services is growing in certain market segments, in terms of total spend, the more traditionally outsourced and transactional focused REFM activities still dominate.

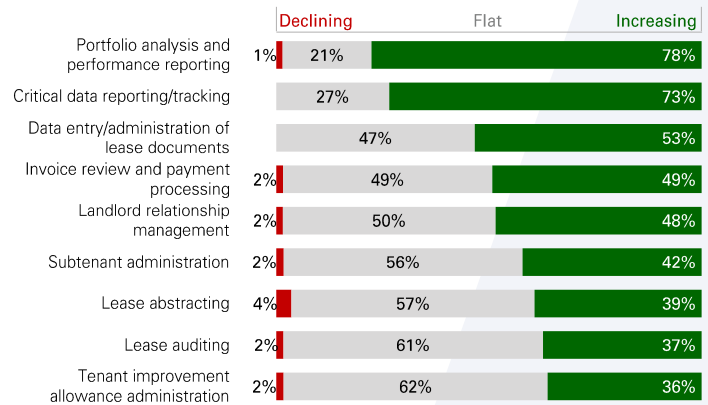


Figure 9 | Service Providers/Advisors Lease Administration Outsourcing

*Numbers might not add up to 100% due to rounding and multiple selections

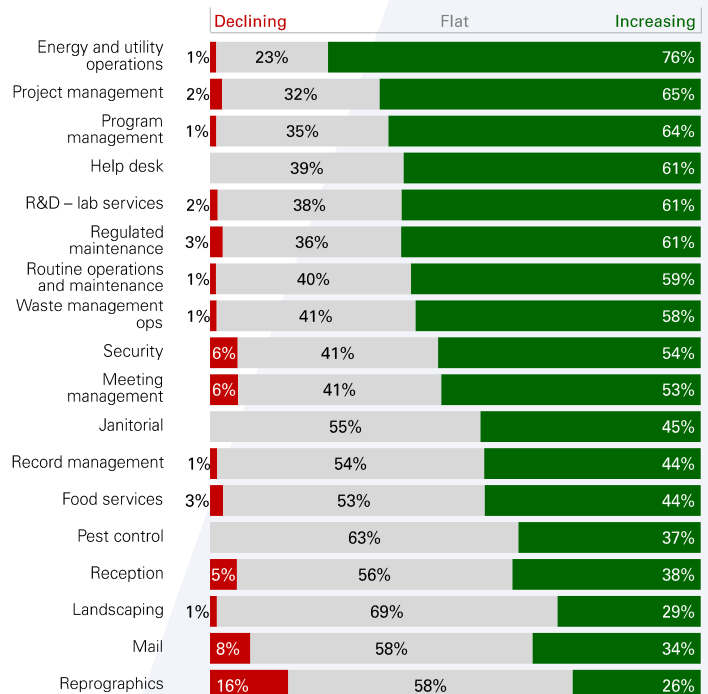


Figure 10 | Service Providers/Advisors Facilities Management Outsourcing

*Numbers might not add up to 100% due to rounding and multiple selections



REFM Outsourcing Demand by Industry

Service providers and third-party advisors were next polled on demand levels by vertical industry and industry group. *Banking, financial services, and insurance (BFSI)* is clearly the top industry group, cited by 49 percent of service providers and advisors (see Figure 11). *Healthcare* is next at 39 percent followed by *pharmaceutical and biotech* at 36 percent. These three sectors were also ranked at the top three since the 2011 REFM Pulse survey.

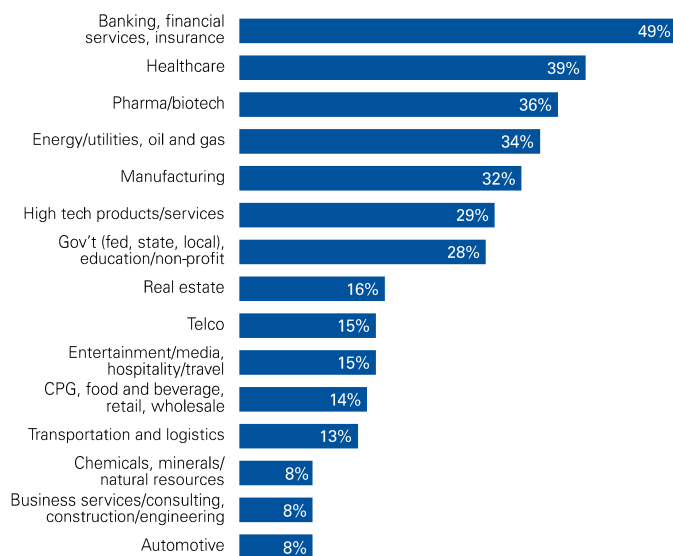


Figure 11 | Service Providers/Advisors: Demand by Industry

Why Not REFM Outsourcing? How to Improve the REFM Outsourcing Process.

Next the REFM Pulse examined reasons why buyer organizations have not outsourced certain REFM activities. Figure 12 illustrates these results and shows some interesting divergences in answers between the two groups of respondents. These differences are not unexpected given providers and advisors have less visibility into buyer decision-making around outsourcing for processes not up for consideration or active pursuit in the market. They also highlight some disconnects between buyer thinking on REFM outsourcing and provider and advisor interpretation of that thinking.

- The most commonly cited reason by buyers for not outsourcing certain REFM activities is *activities are too strategic in nature*, *costs would be higher* followed closely by *no compelling business case*, which was the highest ranked reason in last year's poll. The argument against outsourcing strategic work is an old one, but over the years, what is deemed "too strategic" has consistently been narrowing. The cost and business case arguments are very client and activity dependent and will vary depending on how aggressive buyers want to get with their outsourcing efforts in terms of scope, the degree of control ceded to the provider, and the underlying characteristics of the supporting IT platform. *Risks are too high* decreased in comparison to last year from a buyer's perspective.
- Service providers and advisors polled agree with buyers relative to the business case argument against outsourcing, but are much more likely to cite *satisfaction with current service delivery models* and *loyalty to staff* as reasons why buyers do not outsource certain REFM work.

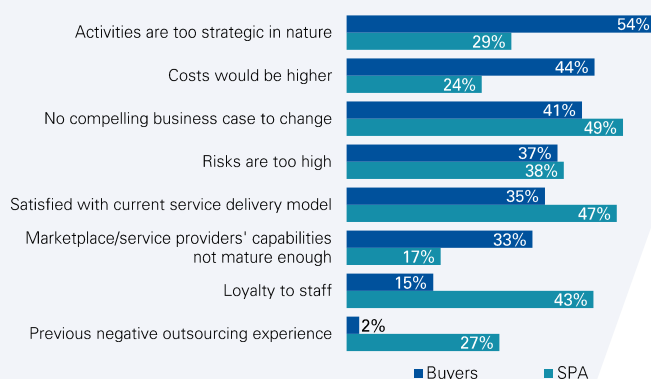


Figure 12 | Why REFM Processes Have Not Been Outsourced

Next, the study addressed what can be done to help buyer organizations do a better job of preparing for and subsequently managing their REFM outsourcing efforts. Here again there are some interesting differences registered between provider and advisor responses and those from end users (see Figure 13).

- The top item cited by 40 percent of buyers in this year's poll is *clarification of roles and responsibilities – in-scope out-of-scope plans* for REFM outsourcing efforts. What is implied here is the need to better identify and understand roles and responsibilities between the client, its retained organization, and the provider. Issues around clarification of roles both within the buyer organizations and between the buyer and service provider continue to grow as buyers expand outsourcing efforts and often use more providers across multiple, overlapping functional areas.
- More tactically, buyers also cited *improved service level agreements (SLAs)* and *better baseline costs*. Buyers in the Americas in particular highlighted the need for better SLAs. These points address concerns buyers often have that they are not getting what was committed to in their outsourcing efforts, have uncertainties over true improvements from base case, or they do not have access to enough performance and reporting analytics to know if they actually are or not. Greater transparency and more timely access to meaningful information, not just reams of data, is a critical need for most buyers in their outsourcing efforts.
- Advisors and providers also cited *better baseline costs* as well as *better-written RFPs*.

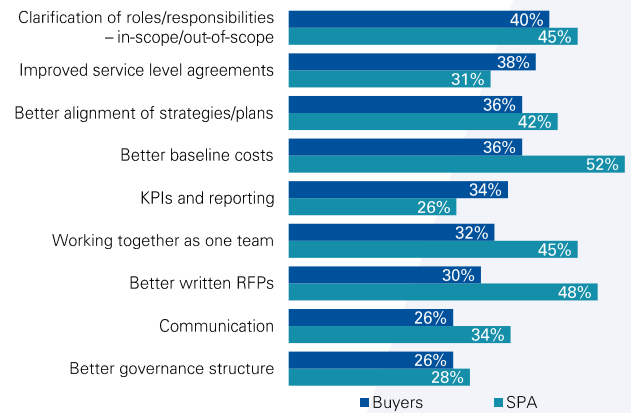


Figure 13 | Where/How to Better Prepare for REFM Outsourcing

Top REFM Outsourcing Drivers and Challenges

There are a variety of factors that drive organizations to undertake REFM outsourcing just as there are an increasingly broad array of benefits that organizations seek to gain from their efforts. While outsourcing has always been about reducing costs, this goal is not as monolithic as it is often perceived in the market. As outsourcing buyers become more sophisticated, so do the benefits they seek from outsourcing. Reducing costs is a base level goal for buyers and a base prerequisite deliverable for providers competing for the business, but the ultimate benefits from outsourcing and differentiators for service providers are the benefits derived or provided above and beyond cost reduction. The key for buyers defining outsourcing goals is to ensure that their scope and level are practical and achievable given the nature of the outsourcing effort and in the context of buyers' own outsourcing skills and capabilities.

KPMG polled service providers, advisors, and buyers on what they see as the top drivers for REFM outsourcing in the market today. While reducing operating costs is clearly the top driver, results highlight the broad mix of goals organizations have for their REFM outsourcing efforts. Both the drivers and challenges identified have remained fairly consistent except as noted over the past three years.

- All classes of respondents identify **reduce operating costs** as the top driver (see Figure 14). There was consensus among respondents across all major geographies on the prevalence of cost reduction as an outsourcing goal. Buyers in the Americas were the most likely to cite cost reduction as the top goal.
- Illustrating that buyers are seeking multiple benefits from their REFM outsourcing efforts, next they ranked four additional drivers in close order, three of which were closely tied to improving performance and not just reducing costs. Service providers and advisors scored each of these drivers lower and tended to emphasize a more monolithic focus on cost reduction. **Gain access to external skills, talent, and resources** scores much lower as a driver in the REFM outsourcing space than in other functional areas such as finance and accounting and information technology addressed in other KPMG market research efforts.

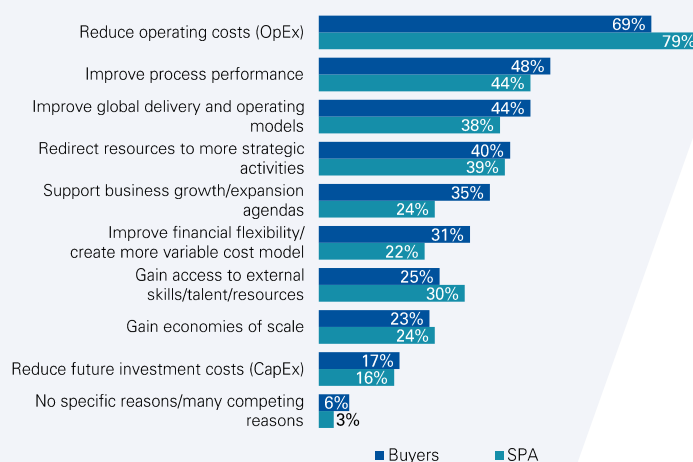


Figure 14 | Top Drivers for REFM Change/Outsourcing Efforts

The point that buyers are no longer just pursuing cost savings as a unilateral outsourcing goal is supported in the ongoing [GBS maturity](#) research KPMG has been conducting. This research has found reducing cost paramount, but rarely the sole driver for GBS efforts, especially among more sophisticated GBS organizations. Among these more mature organizations, there is an increased tangible interest in determining how best to use GBS efforts to bring more tangible value to the business and to better support strategic business initiatives.

The REFM Pulse next addressed top challenges to REFM process improvement and outsourcing efforts. A variety of factors can combine to complicate, slow and, in some cases, stop an organization's outsourcing efforts. Whether or not an organization can overcome these challenges depends on a variety of factors including their ability to identify and address them as early in the process as possible. As outsourcing efforts become more complex, far reaching, and global in nature, the challenges to deal consummation grow. The key point is for buyers to identify challenges early, and then work to address and overcome them if possible after determining they are legitimate impediments to going forward with a major change effort.

Figure 15 illustrates the current most common challenges to successful REFM outsourcing efforts. In past years, there are some differences of opinion between service providers/advisors and buyers.

- Retained organization, transition, and governance challenges replaced quality and fit of supporting service providers as the top challenge cited by 44 percent of buyer organization respondents. Advisors and especially service providers naturally scored this challenge much lower. This was followed closely by several other challenges, including prioritizing opportunities and different change programs.
- Service providers and advisors, as they did last year, exhibit different opinions on the most common challenges to REFM outsourcing. Forty-eight percent of providers and advisors, down slightly year over year, identified inadequate change management skills and resources for REFM outsourcing efforts as a top challenge. Providers and advisors were also much more likely than buyers to cite inadequate executive and management support as a challenge.

There are different approaches buyers can use to address the challenges associated with successfully improving GBS efforts and capabilities. The most important is to identify up front what challenges exist, and prioritize working through them. Many of these challenges are similar to those found with other major change efforts, such as ERP implementations, mergers and acquisitions, and major stand-alone shared services and outsourcing efforts. Most organizations likely have experience dealing with similar efforts elsewhere, though this does not necessarily imply expertise. Applying skilled and dedicated resources with the requisite skills (e.g., change management, project planning and management, technical integration), defining a clear business case with measurable goals, and ensuring active and intelligent executive support are all keys to making these efforts work. The list of ingredients is easier to define, though, than mixing them into a successful change effort.



Figure 15 | Top Challenges to REFM Outsourcing/Change Efforts

KPMG recently released additional research findings and thought leadership on this topic, including [leading practices for implementing new service delivery models](#) and [communication strategies and tactics for outsourcing efforts](#).

REFM Outsourcing Deal Pricing Models and Deal Lengths

To add additional insights into the characteristics of a typical REFM outsourcing deal, the survey first examined deal pricing models and the second deal tenure. First, participants were asked how common the usage of a range of pricing models is in the market today for REFM outsourcing efforts, ranking each model on a one-to-five scale where one represents very uncommon and five very common (see Figure 16). All models were ranked in a tight range and there was near consensus between buyers and third-party advisors and service providers.

- The most common model cited by buyers, advisors, and providers is *performance-based contract pricing*, scored just above the mid-point on the five-point scale. This was followed closely by *fixed-price contracts with guaranteed savings*, the often discussed but less often implemented model, scoring the lowest among buyers, albeit not much lower than the top ranked model.
- Related to deal tenure the consensus among all parties polled in the survey was that most deals are in the three to five-year range, though this would vary more across the many different type of REFM services being outsourced. There was also consensus among buyer organizations across all geographies. Deal lengths tend to be shorter in the REFM space compared to other functional areas of outsourcing. Shorter deals provide greater flexibility and more frequent renewals and renegotiations, and create additional work for buyers. Shorter deals are also more appropriate for more commoditized services and when organizations' outsourcing goals are purely focused on cost savings as opposed to more strategic efforts that require a more strategic and typically longer-term relationship with the supplier

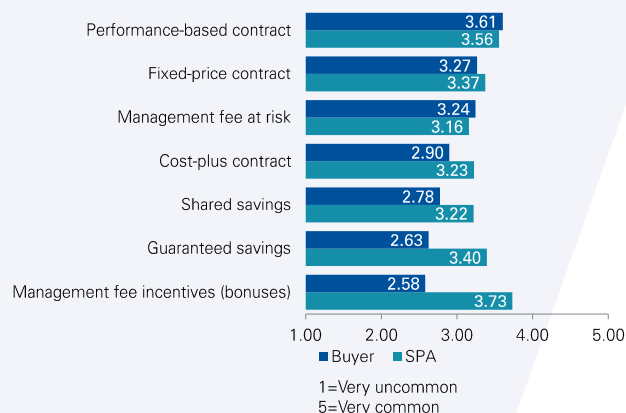


Figure 16 | REFM Outsourcing Deal Pricing Models

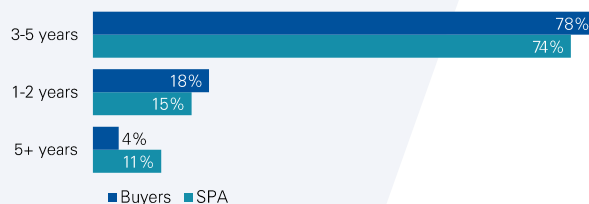


Figure 17 | REFM Outsourcing Typical Deal Lengths

Preferred REFM Service Delivery Models

The delivery and governance models employed by a user of REFM outsourcing strongly contributes to the success or lack thereof in achieving the benefits sought from the effort regardless of the structure of the contract or skills of the service provider employed. The models that worked best, or at least worked, when organizations' outsourcing efforts and ambitions were more modest and regional in nature, for example, will often invariably break down and prove inadequate as outsourcing efforts expand in terms of process and geographic scope. This is especially the case with REFM outsourcing.

KPMG polled REFM outsourcing buyers and providers on changes to demand and preferences for a range of outsourcing delivery and management model options. The emphasis was on to what degree were buyers moving towards a more holistic and integrated management model across the totality of their REFM outsourcing efforts. Ideally these more integrated models will also intersect with governance and management models employed for REFM shared services operations and efforts. The greater convergence of shared services and outsourcing efforts across functions and geographies is at the heart of the GBS concept and framework. The ultimate optimal degree of integration and convergence, however, is also highly dependent on the overall organizational and business models of the firm as a whole.

The supposition tested is that as buyers become more sophisticated and their outsourcing efforts more complex they will move towards a more portfolio-based approach to managing their outsourcing efforts. Respondents ranked changes in service delivery model preference on a one-to-five scale, where one represents *significant decrease in preference or demand* and five represents *significant increase in preference or demand* (see Figure 18).

There was general consensus between service providers, advisors, and buyers in demand or preference levels for each of the service delivery models defined.

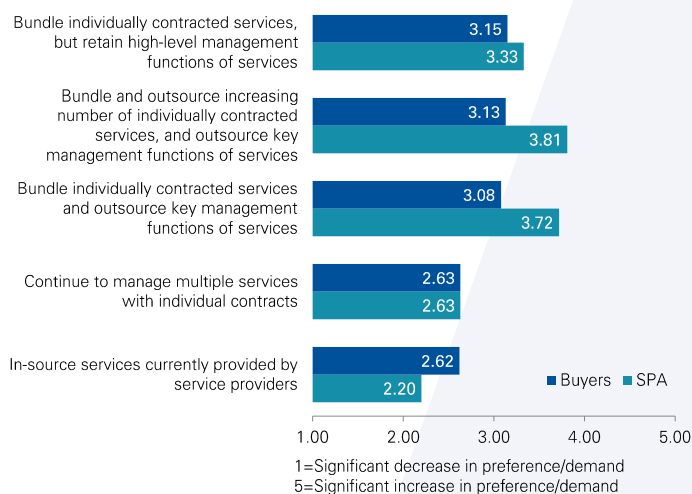


Figure 18 | Change to Preferred REFM Service Delivery Models

- Three models are scored highest and closely together by buyers polled just above the mid-point on the five-point scale. The first is *bundle individually contracted services, but retain high-level management functions of these services*, second is *bundle and outsource increasing number of individually contracted services, and outsource key management functions of these services*, and third is *bundle individually contracted services and outsource key management functions of these services*. Third-party advisors and service providers polled also scored each of these approaches the highest. These results support the trend towards more bundling of REFM deals as well as the growing acceptance among buyers to have service providers perform key management functions over those outsourced activities. This bundling was more often cited among buyers undertaking and supporting global REFM outsourcing efforts and least often among those in the Asia-Pacific region.
- Ranking on the lower end of the scale were trends of *continuing to manage multiple services with individual contracts*, the converse of the above findings, and reversing REFM outsourcing investments by *insourcing services currently provided by service providers*, a trend that while growing in some areas of outsourcing overall is overstated in the market in the totality of what has been outsourced.

Additional REFM Market Trending

The Pulse survey assessed market trends in several other areas of the REFM marketplace. The first is how buyers' interest levels or preferences towards six dimensions of REFM are expected to change over the coming year (see Figure 19). Responses are on a one-to-five scale, where one represents *significant decrease in preference or demand* and five represents *significant increase in preference or demand*. There was little change in scores year over year, though cost reduction and energy management flipped the top one and two spots as scored by buyers.

The top ranked theme in the 2014 Pulse according to buyers—the same as in the previous 2013, 2012 and 2011 polls—was *cost reduction*. This topic also received top ranking by REFM service providers. Overall there was consensus between buyers and service providers on rankings across most of the six topical areas.

The survey next assessed buyer organizations future plans relative to the expected use of office space in coming year. As in 2013, there is a marked difference of opinion between third party service providers and advisors and buyers on expected space usage plans (see Figure 20). Thirty four percent of buyers surveyed, up from 25 percent in 2013 but still down from 42 percent in 2012, indicated their organizations will increase space utilized over the coming year, compared to just 18 percent of service providers and advisors that expect their clients to expand space usage. Thirty-six percent of buyers and 49 percent of service providers/advisors expect decreases in space usage. This difference of opinion highlights the difficulty in projecting future business needs in the current business climate though overall findings show a clear downward trend in Buyers and service providers will need to be able to respond to the unexpected in a timely and responsible manner, whether it be footprint changes in floor density, or changes in service levels.

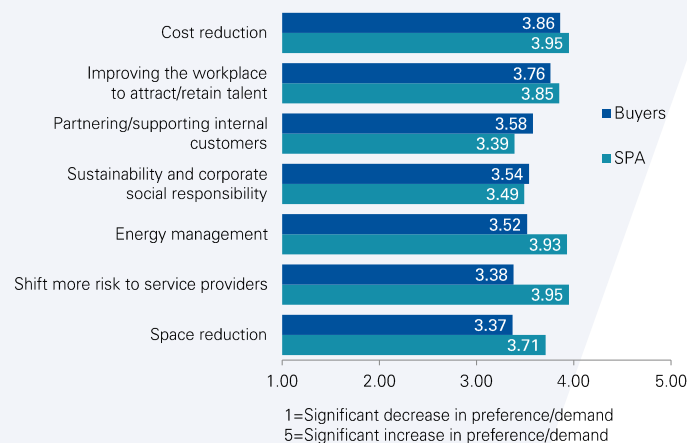


Figure 19 | Changes to Interest/Preference on Key REFM Topics

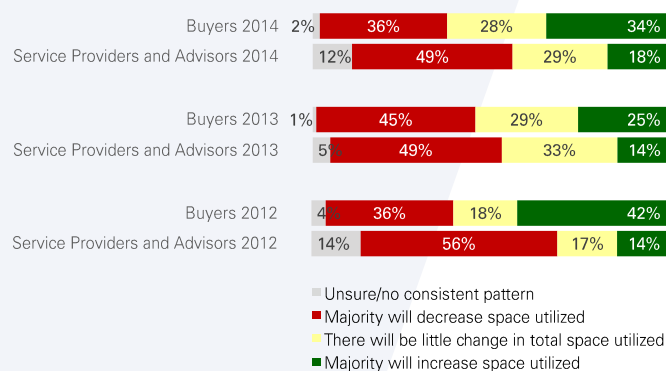


Figure 20 | Space Utilization Plans Next 12 Months



The next topic explored was an assessment of what buyer organizations' feel are the most critical needs in an REFM reporting system. A well-designed reporting system provides buyers and service providers with site information as well as cost and performance information, including service level data. Having accurate, timely, complete, and useful information is an important element of a successful REFM program. It ensures operational and performance data is appropriately reported and monitored. Buyer's data and systems prior to outsourcing REFM have not always been adequate, so service providers have not always inherited good data or well-managed systems. The key needs cited in these systems are in alignment with some of the key priorities identified relative to REFM and with the key drivers and benefits sought from REFM outsourcing (see Figure 21).

Performance reporting and service level data and information is the top cited need identified by over 74 percent of buyers and is ranked second at 72 percent for the third-party service providers and advisors polled. **Cost data** was ranked second by buyers while ranked number one by third-party service providers and advisors.

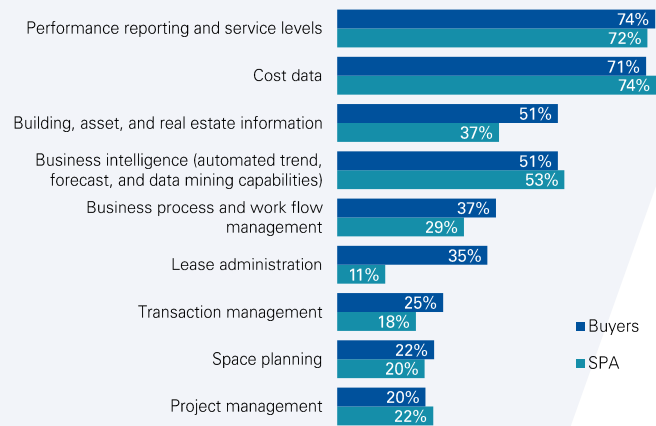


Figure 21 | REFM Reporting Systems Needs

Update on Global Sourcing

KPMG polled REFM outsourcing buyers and third-party service providers and advisors on how they or their clients are sourcing as well as managing and governing global REFM outsourcing efforts. While global or “offshore” outsourcing is a major dimension and occasionally controversial aspect of ITO and horizontal BPO, it is somewhat less a factor in REFM outsourcing given many REFM services in scope for outsourcing must be performed on-site at client locations as opposed to being delivered via the Internet from offshore locations. This being said, global sourcing is an important dimension of REFM outsourcing and enabling a more mature GBS model and framework, if on a less impactful scale than in other outsourcing categories.

Sourcing, Management, and Governance of Global REFM Outsourcing Efforts

More critical than where services are sourced from globally is the maturity level of buyer organizations to conduct global sourcing well regardless of location. Buyers undertaking global REFM sourcing efforts exert much focus on selecting which service provider to employ and from what locations to source services. This assessment process should include a clear and realistic assessment of a buyer’s own maturity and sophistication relative to sourcing and managing global sourcing efforts. A common root cause of problematic or underachieving offshore outsourcing efforts is a disconnect between what a buyer is trying to accomplish and the skills, experience, and resources it possesses to support these efforts. These skills involve selecting providers and locations, accounting for and managing risk, and governing a growing number of sourcing efforts spread across multiple providers and locations.

One means to improve global REFM sourcing capabilities is to take more of a portfolio approach to sourcing and managing global efforts, similar to taking a portfolio approach and bundling more REFM outsourcing deals overall. This is similar to the trending seen relative to overall REFM service delivery models. This need grows as global sourcing becomes more pervasive and accounts for more of an organization’s global services footprint.

However, tightly coordinating and managing sourcing efforts globally is still a goal to which most organizations aspire, though buyer responses in the Pulse indicate more of them are adopting the more sophisticated global sourcing and management models. Buyers were polled on both how they manage existing global REFM sourcing efforts as well as how they plan to manage new efforts going forward.

- Among buyers polled that are utilizing global sourcing as part of their REFM outsourcing effort, 43 percent are taking a portfolio approach to managing *existing* deals in the field (see Figure 22), with 20 percent employing an enterprise sourcing center of excellence (CoE, i.e., a tighter and more centralized means of global coordination), and 13 percent utilizing a less sophisticated enterprise sourcing council (i.e., loose/decentralized global coordination). Twenty percent manage efforts organized around geography, business unit, or functional area. Service providers and advisors most often cited the enterprise sourcing council model.
- When it comes to sourcing *new* REFM outsourcing efforts (see Figure 23), 43 percent of buyers indicate that efforts are sourced, managed, and coordinated globally. This level is up 12 percent from 2013, likely more the result of the participants' organizations in the survey than any reversal of general market trends. Service providers and advisors most often cited the efforts being sourced at the geographical, functional, or business unit level.

Historically, many buyers viewed global sourcing as a series of discrete options and capabilities (e.g., internal services, shared services, offshore captives, ITO, BPO) rather than a continuum of integrated service models. This is similar to the legacy perspective of viewing offshore outsourcing as a point-to-point initiative (for example, from the United States to India) instead of an integrated suite of global service delivery capabilities. REFM Pulse results illustrate this is changing

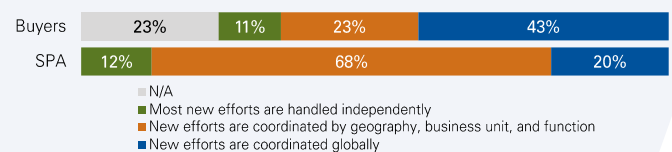


Figure 22 | Management and Governance of Existing Global REFM Outsourcing Efforts

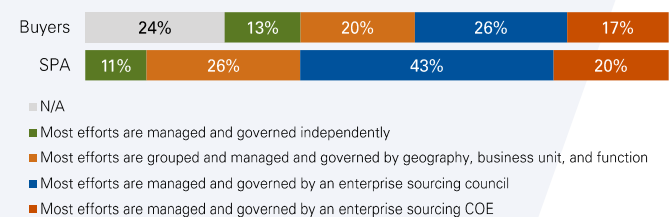


Figure 23 | Approach to Sourcing of New Global REFM Outsourcing Efforts

Organizations today are more frequently developing a holistic strategy and operational model to support the totality of their businesses and IT services operations. This includes how to source and manage these capabilities as well as how to continually improve their overall efficiency and effectiveness. Leading organizations have made progress, for example, in governing their outsourcing efforts as a portfolio via a portfolio model as cited in the above Pulse survey responses. For many firms, these efforts are still too disconnected from the management of internal retained operational systems and functions as well as the strategy and execution of sourcing new investments. In short, buyers' capabilities to source and manage a diverse services delivery portfolio still do not always keep up with their sourcing ambition's scale and scope, but the good news is this is a much more commonly recognized problem than it was five years ago and more firms are having success in addressing and overcoming it.

Current Market Deal Characteristics: Service Providers' Perspectives

The final section of the 2014 global REFM outsourcing Pulse survey assesses the characteristics of current REFM outsourcing deals in the market from the perspective of the REFM service providers and third-party advisors polled.

Pricing Competitiveness

Increased pricing competitiveness implies the buyer has the upper hand and is getting a better priced REFM outsourcing deal. As pricing is one element of determining profitability, the alternative of less competitive pricing generally is favorable to the service provider. REFM Pulse findings reflect the common market sentiment among service providers over the past several years that pricing pressure is increasing, though scores are in line with the last two years' studies. Fifty six percent of REFM service providers polled agreed with this sentiment and indicated that pricing pressure is increasing for new deals in the pipeline while just 6 percent felt that pricing pressure was lessening (see Figure 24).

While there is a strong desire among buyers today to get more aggressive with pricing, a number of factors ultimately can temper final pricing level demands. More experienced buyers generally recognize that the lowest price may not lead to the best deal. Buyers today also are averse to risky deals and deal failures that could occur from bad pricing levels.

Buyers can reduce overall spend—the ultimate goal—by lowering consumption levels, but still pay an equitable unit price for services that help ensure they get the provider's top resources, or consolidate more work with fewer buyers and through economies of scale, getting better pricing while the service provider can still earn a reasonable profit. The need to access quality skills via third-party providers can also temper low pricing demands if it means limiting access to top provider talent and resources. The increased use of cloud in delivering certain types of REFM services can also enable better pricing levels while still maintaining service provider profitability.

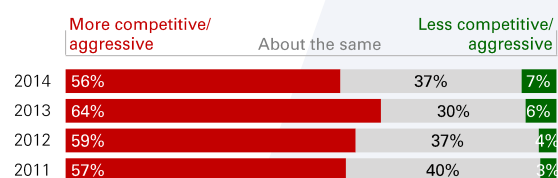


Figure 24 | Service Providers/Advisors: REFM Outsourcing Pricing Pressure

Contract Profitability and Ability to Increase Scope

A variety of factors affect service provider profitability including deal scope, transition costs and time frames, exchange rates, wage inflation, and buyer pricing sophistication. Service providers with a higher mix of remote/low-cost resources put pressure on the profitability of competitive peers with fewer lower-cost resources, though this differentiator is not as great in the REFM space as, for example, it is with IT outsourcing.

The biggest factors impacting contract profitability today are buyer pressure on pricing and aggressive competitiveness between providers, along with some buyer pull-back on more profitable discretionary services and an increased focus on cost cutting over process improvement work. REFM service providers are generally pessimistic on profitability trending on both new deals they are pursuing and existing deals in flight. This level of pessimism is greater in the REFM market segment than in the back-office BPO and ITO market as registered in other KPMG Pulse surveys.

- Just 13 percent of REFM service providers polled (see Figure 25) indicated that contract profitability is improving in new deals signed, the same from last year, while 37 percent, up 3 percent from 2013, indicated that profitability is declining in new contracts.
- Twenty one percent of service providers (see Figure 26) expect to improve contract profitability in existing deals in flight for more than one year, up from 3 percent last year, while 19 percent indicated existing deal profitability is declining, similar to last year (see Figure 27).

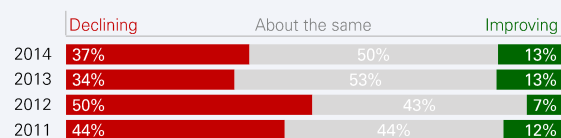


Figure 25 | Service Providers/Advisors: New Contract Profitability

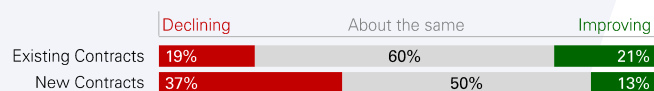


Figure 26 | Service Providers/Advisors: New/Existing Contract Profitability

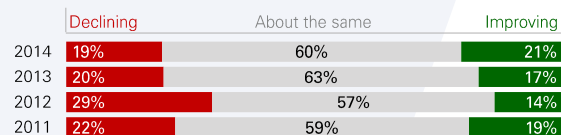


Figure 27 | Service Providers/Advisors: Existing Contract Profitability

Figure 28 illustrates REFM service provider expectations about their ability to increase scope, ideally in a profitable manner, in current accounts. Providers today are focused on growing business in existing accounts and consolidating work across multiple REFM processes not only because pursuit costs are lower than competing for new business but also because it protects their base as buyers rationalize suppliers and cut back on spend levels. Results were largely unchanged from the 2013 study with over 70 percent of providers polled expecting to increase scope in existing deals while just 5 percent expect contract scope to decline.

The positive opinion on the ability to increase scope in existing accounts indicates that while buyer demand for outsourcing remains strong, service providers need to push hard to expand business, particularly at a time when buyers are rationalizing and consolidating their service supplier base. Consolidation trends are tending to benefit larger and more established global REFM service providers.

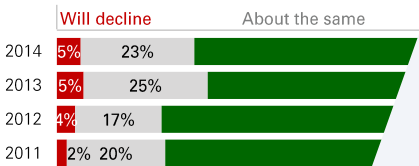


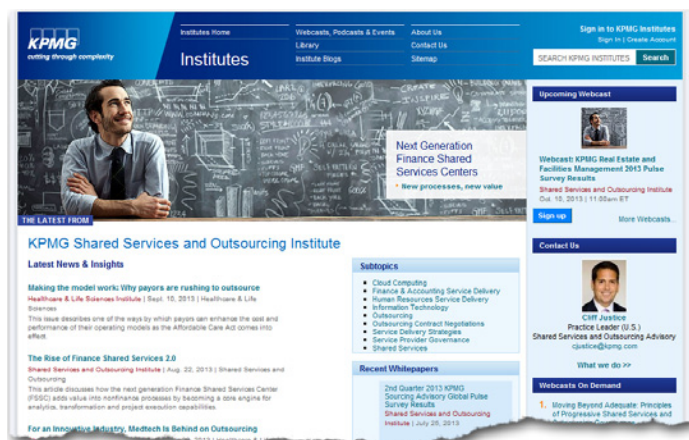
Figure 28 | Service Providers: Ability to Increase Deal Scope



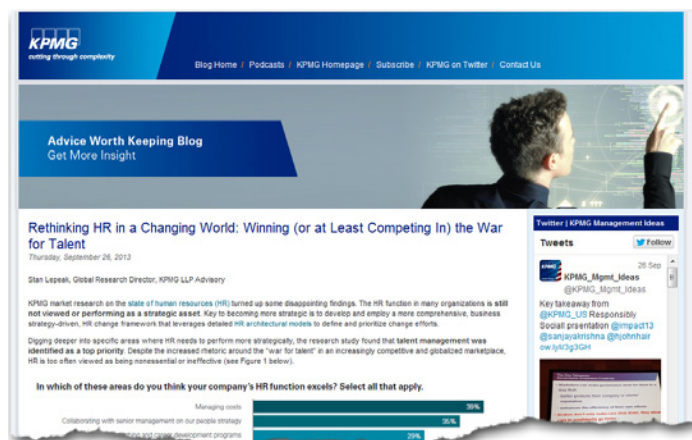
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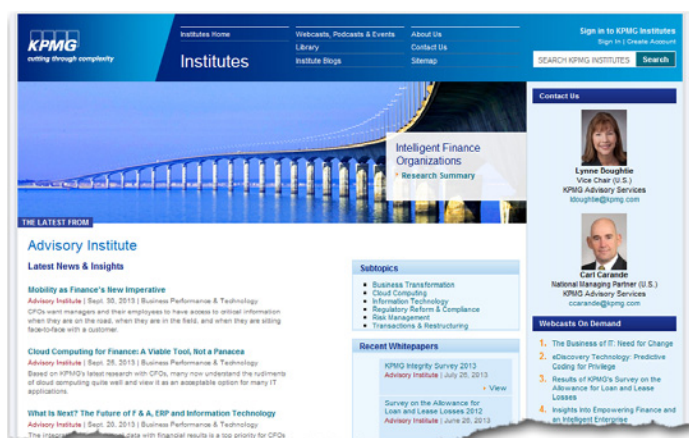
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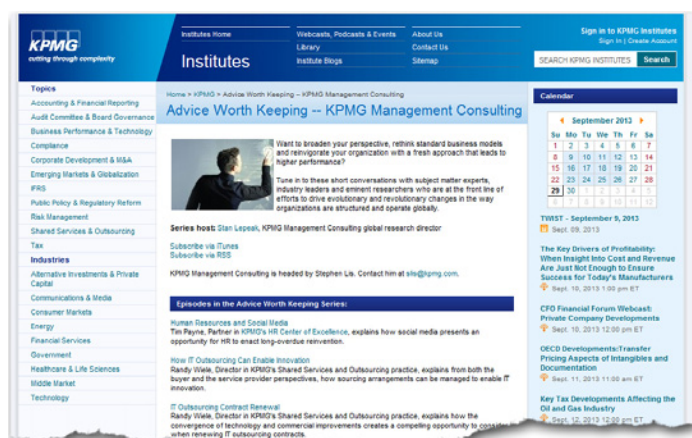
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