



cutting through complexity

A STUDY BY KPMG

UK ICT Outsourcing Service Provider Performance and Satisfaction (SPPS) Study: 2013

A study of the UK Information
and Communication Technology
(ICT) Outsourcing Market and its
Service Providers

kpmg.com/uk/spps



Introduction

Each year, KPMG undertakes a study into organisations' satisfaction with their Information and Communication Technology (ICT) Outsourcing Service Providers. The research results are recognised by many as one of the most extensive and representative 'perception studies' on the issues of ICT sourcing in the marketplace today. This broad-ranging research study is conducted in a number of European countries using a common format to enable analysis and conclusions across a number of countries. If you would like information on the other European studies, please contact Jason Sahota (contact details are enclosed at the back of this summary).

This year's UK study investigates over 490 outsourcing contracts held by over 210 ICT spending participants in the UK. It includes UK, European or global contracts that are originated in the UK or have a significant commercial relationship with the UK. The total annual value of the contracts included in this study is estimated to be over £10 billion out of a total ICT spend of over £29 billion*, highlighting the significance of the proportion of ICT budgets spent on outsourced ICT services. All commercial sectors are represented in the study, as is the public sector, including both central and local government organisations. Twenty two Service Providers were evaluated in 2013 by study participants – senior buyers and key outsourcing decision makers – CXOs and their direct reports.

How you should read and interpret this study

In reading this report you should bear the following factors in mind:

1. This is a perception study

- This study focuses on the perceived quality of relationships between clients and Information and Communication Technology (ICT) Outsourcing Service Providers.
- This study does not represent the opinion of any KPMG member firms on the skills, capabilities or performance of any of the outsourcing Service Providers covered in the research.
- KPMG conducts the market research, but the findings represent the opinions of the clients of the Service Providers.
- KPMG is responsible for defining the profile of the outsourcing contracts and the buyer organisations that participate and the Service Providers that are evaluated in this research.

The study does not seek to establish anything as absolute fact (as perceptions are by definition subjective), but to report on the perceptions of key decision-makers regarding the services supplied by some of the market's most important ICT outsourcing Service Providers. At the most basic level, the ranking of these organisations provides them with a valuable insight into the market perception of their service offerings.

*£29 billion is the total of all the ICT spend figures reported in this study.

The rankings are solely based on the feedback received in the market study from the clients polled. They are not based on any market metrics such as deals won, revenue, profitability or growth levels. The rankings are not based on the opinion of any KPMG member firms, management, or consultants.

This study is conducted with senior management or C-level executives with influence over corporate strategy and third party services decisions. We believe that all participants in the study are responsible for the outsourcing strategy within their organisation. They also decide on or greatly influence budgets and are the influencers of decisions related to Service Provider choice. Satisfaction is not only based on actual delivery, but also on how these individuals perceive the value they get from their Service Providers.

2. Perception is never balanced or fair, but the study always has a representative sample size

Service Providers rated in the study vary by size, service portfolio and client portfolio. The different Service Providers all have a slightly different focus on each of the Categories. Service Providers are featured in overall, general rankings. Category rankings are also shown to provide more specific scores for each of the respective Service Providers.

Participants in the study are asked to rate their outsourcing Service Providers on a selection of key criteria. Crucially, they only rate Service Providers that are currently actively delivering services to their organisation. Participation in the study is on the basis of strict confidentiality. In line with this, the absolute privacy of the respondents is guaranteed, and the research process ensures anonymous use of all aggregate data, information and comments. Performance ratings and rankings in this study are not related to the actual measurement of deliverables and/or services, but rather reflect the perception of the respondents on these achievements.

A minimum sample size of participant evaluations is required for a Service Provider to be included in the study and participants are required to be of a similar level of seniority.

3. This study is for both buyers and Service Providers

The results of the study are often used by Service Providers to inform their 'go to market' strategies, assess their perceived strengths and weaknesses, educate their staff, communicate to the wider market, and fine-tune their improvement and market positioning programmes. End-user organisations which participate, use the results as a tool to compare their own satisfaction to that of others using the same Service Providers, as well as providing them with an opportunity to understand the perceived strengths and weaknesses of their Service Providers in comparison to the market at large.

4. This study is focused on Information and Communication Technology (ICT) Outsourcing Service Providers, not Business Process Outsourcing (BPO)

The Service Providers in this study are only evaluated on their ICT contracts and not on their BPO contracts.

Management summary

As in previous years, the 2013 study provides deep insights into the changing dynamics of the UK outsourcing market, for both clients and providers.

1. Client satisfaction scores under pressure

This year's study respondents continued to express a relatively high level of satisfaction with the service they are receiving from Service Providers. Seventy nine percent stated that they are satisfied (responding either 'somewhat satisfied', 'satisfied' or 'very satisfied').

However, this represents a fall of eight percent from last year's study and the majority of Service Providers evaluated experienced single-digit falls in 'general satisfaction' scores. Less than a quarter of Service Providers saw an improvement. Small falls in levels of satisfaction were also seen for the majority of the performance indicators evaluated. The broad trend of small falls in levels of satisfaction for the majority of Service Providers remains regardless of deal size or the category outsourced.

While not being an immediate cause for concern, this trend of lower satisfaction levels across numerous metrics does correlate with changes being experienced by managers of organisations' ICT services, particularly in terms of the outsourcing of Infrastructure Management and Managed Network Services – categories showing more significant falls in perceived levels of general satisfaction in the study. This may be caused by the higher levels of technology disruption being experienced in these categories. As a result, buyers who are otherwise confident managers of Service Providers (as well as Service Providers themselves), are having to adapt to technological change and convergence, driven by the growth of the likes of Cloud computing and 'bring your own device', which is causing these areas to become ever-more complex. Finally, this is against a backdrop of 47 percent of the contracts reviewed this year having less than two years to expiry. A fact no doubt driving the sourcing debate within these organisations about possible changes to their sourcing model - and considering if initial objectives have been met.

2. Rebalancing of ICT outsourcing market top performers

There has been a rebalancing of the market with the larger traditional multi-portfolio outsourcing Service Providers gaining ground over other Service Providers. The study findings show these Service Providers are closing the gap by focusing on stronger governance and greater flexibility underpinned by stronger relationships.

For example, for the Applications category, three of the top six ranked were traditional outsourcing Service Providers, compared to one last year. The declines may be as a result of the fact that these organisations are now widening their portfolio of services and the associated challenges and added complexity may be making it harder to maintain customer satisfaction levels.

However, as these Service Providers' portfolios of service offerings mature and they start to demonstrate scale and credibility more options open-up to buyers. This broader choice is leading to fierce competition which could result in a greater number of deals changing hands over the coming years.

3. Outsourcing addressing increasingly strategic client ambitions

ICT outsourcing has moved beyond being solely a cost reduction exercise. Unsurprisingly 'cost savings' is still cited most highly by study participants as the reason for considering increased levels of outsourcing, but the drivers associated with other strategic objectives, such as 'access to skills' and 'quality improvement' continue to grow in importance. Buyers are under continued pressure to source partners for the future to deal with ever-more complex transformations that drive real business value in a controlled manner, driving the need to consider these other factors. The need to address specific challenges is also motivating engagement with the Service Provider community, in order to take advantage of particular skills, such as systems integration or to harness new technologies such as Cloud computing.

4. Client demands for financial flexibility increase, as Cloud adoption grows

Cloud adoption is now a well established trend and features strongly in this year's study. Sixty four percent of participants stated that they have either 'adopted Cloud technologies already' or are 'planning to in the next twelve months'. This is driving a number of related trends such as the growing importance of financial flexibility as a driver of outsourcing. In this year's study, financial flexibility has grown in importance by eight percent compared to last year. Disruptive technologies such as Software as a Service (SaaS) and Cloud computing have raised the bar in terms of offering customers financial flexibility and the ability to buy services on demand. As buyers become more confident and mature, they are therefore starting to both expect and demand this greater flexibility from Service Providers. The desire to reduce exposure to financial risk is also likely to be a lesson learned following the challenging economic conditions of recent years.

5. Customers are redrawing the boundary between their retained, outsourced and offshore functions

In terms of outsourcing strategy, this year's study showed little change as chief information officers (CIOs) are typically continuing to follow current plans for further outsourcing and offshoring. However, it is becoming increasingly common for major organisations to examine and re-draw the boundary between their outsourced and retained functions and services. This is particularly the case where major multinationals are concerned as difficult lessons have been learned from past initiatives and there is now a growing recognition of the importance of a strong retained function and the role of governance in managing and optimising today's complex ICT ecosystems.

6. Customers' ability to manage and govern Service Providers has decreased

The market study asked respondents to assess their own ability to manage and govern their Service Providers in existing contractual relationships. Last year's small improvement has been halted – 57 percent of organisations now rate their management skills as excellent or good (66 percent in 2012). The need for strong skills and capabilities in this area are self evident and long recognised by buyers. However, the decline seen this year is perhaps a function of some of the broader changes taking place in the market. For example, increasing ICT complexity, the growth of multi-sourcing as a strategy plus the consequences of new, disruptive technologies are all impacting buyer's established governance models.

7. Notable relationship between general satisfaction and single category deals

The trend continues from last year's report for single category deals to be associated with higher levels of customer satisfaction than multi-category deals. This year, single category deals had an average 'general satisfaction' score of 74 percent, compared to 67 percent for multi category.

Single category deals place an even greater emphasis on the role of service integration and governance to ensure each of the constituent parts of the end-to-end service operate seamlessly across a multi Service Provider ecosystem. It is interesting therefore that the study found that 83 percent of respondents are not using a Service Integrator, preferring instead to keep this function in-house and additionally that customers own rating of their ability to manage and govern Service Providers has decreased since last year.

To address this challenge, customers will need to focus on developing and enhancing their internal service integration and governance capability in the years ahead.

8. Managed Network Services Providers below par

Service Providers associated with offering Managed Network Services are falling short of client expectations and dominate the bottom of the general satisfaction rankings. Satisfaction scores for Managed Network Services, when viewed in isolation, have also declined from 65 percent in 2012 to 58 percent this year.

This may be, in part, the result of many Managed Network Services Providers, often traditional telecommunications firms, offering a broader range of services and making it harder to achieve higher rankings. In addition, it should be acknowledged that network services are now treated like a utility – we neither expect, nor tolerate, a failure of a network than a failure of electricity supplies. As a result, disruptions to service delivery have a significant impact on levels of satisfaction.

9. Praise for addressing security concerns

Study findings highlighted that all Service Providers evaluated performed well in terms of how their clients perceived the effectiveness of their IT security – and the average score for this KPI was the joint top ranked of all KPIs. The market appears to have responded well to the concerns of buyers about security issues in recent years, particularly in relation to Cloud computing. It's reassuring to see such a robust response to a critical challenge being acknowledged by Service Providers.

10. Innovation and Risk expectations are not being met by Service Providers

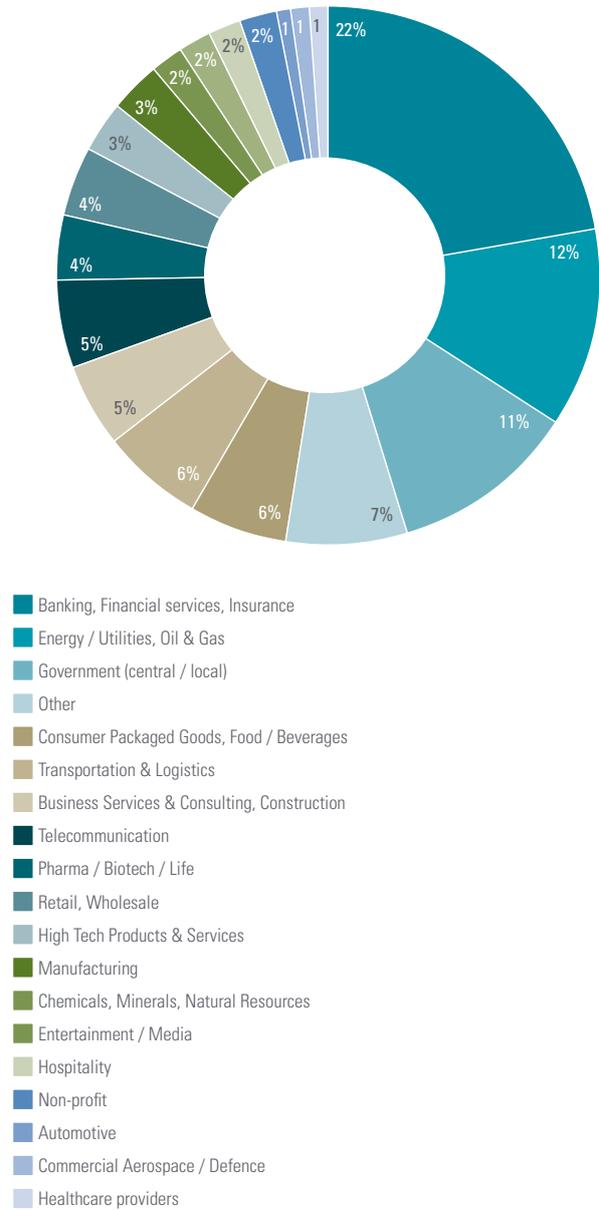
The Key Performance Indicators (KPIs) for Innovation and (shouldering) Risk are the only KPIs that have a score of below 60 percent – the same scenario as last year. Innovation has long been an area where Service Providers have struggled to meet client expectations and this KPI remains one of the most difficult for Service Providers to deliver and score well against. There is a range of potential reasons for this, including the different views as to what constitutes innovation in the first place between buyers and Service Providers and the mechanism by which innovation is incorporated into the contract between both parties. What is clear, is that there is still considerable room for improvement in this area.

Profile of Service Providers and respondents group

Service Provider profile

Service Providers included in this study

- Accenture
- AT&T
- Atos
- BT
- Capgemini
- CGI
- Cognizant
- Computacenter
- CSC
- Fujitsu
- HCL
- HP Enterprise Services
- IBM
- Infosys
- Orange Business Systems
- SCC
- TCS
- Tech Mahindra
- T-Systems
- Verizon Business
- Vodafone
- Wipro



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