



cutting through complexity

IT OUTSOURCING

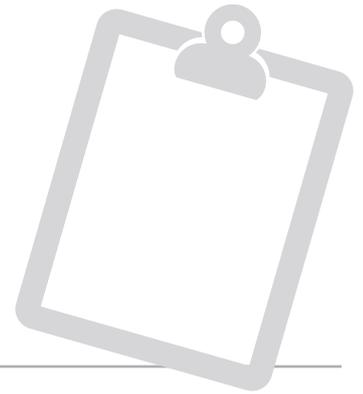
The radical new world of outsourcing for technology-related services

KPMG IT Outsourcing
Service Provider Performance
& Satisfaction Study 2014/15

kpmg.com/spps

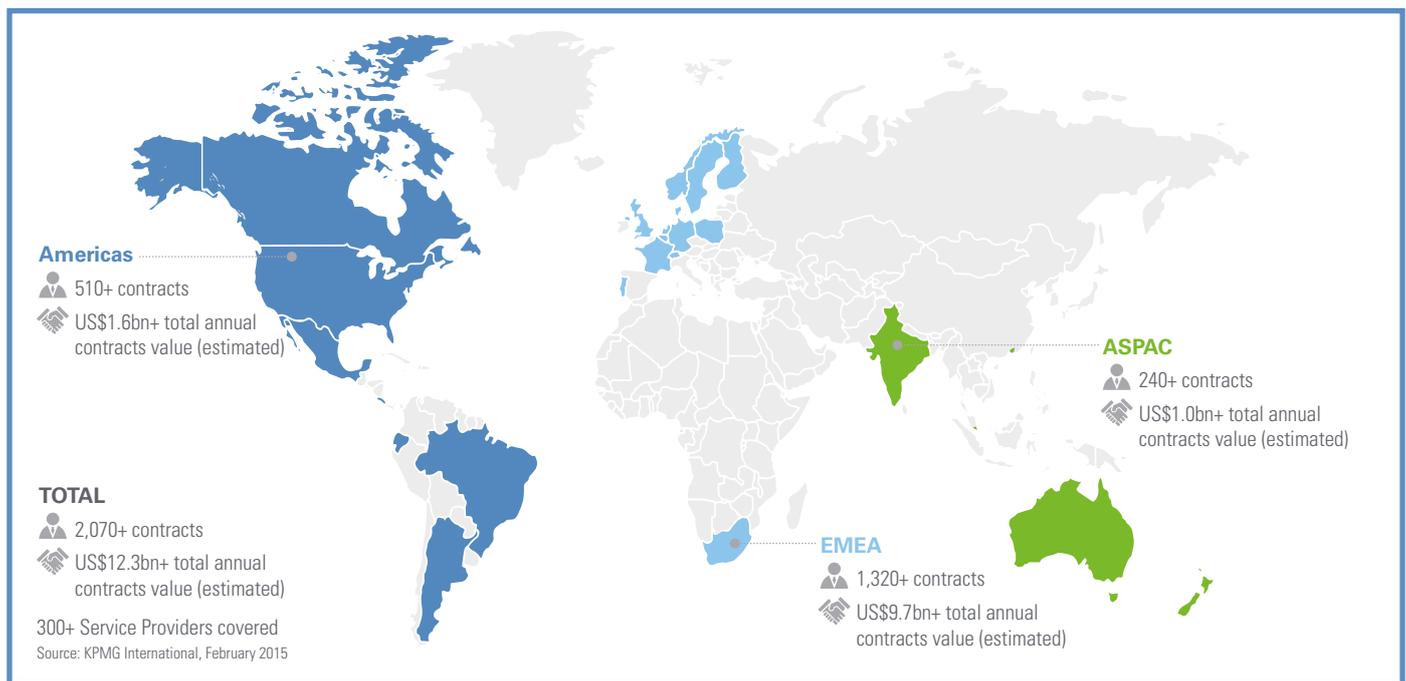






Introduction

How to approach the 2014/15 report



Overview of the research

Our 2014 survey covers close to 2,100 contracts held by over 450 Clients of outsourcing Service Providers. The total annual value of these contracts is over US\$12 billion.

Our survey collated responses from Client organizations across EMEA, ASPAC and the Americas regions, and covered all commercial sectors, including both central and local government. It comprised senior buyers and key outsourcing decision makers, such as CXOs and their direct reports.

For the evaluation section of the report, participants were asked to rate 66 named Service Providers. They were also given the option to specify and review other Service Providers not included on our list. For the first time, we also asked Service Providers to complete their own survey, with over 330 respondents giving their views on the market and future trends. This enables us to compare the views of both clients and providers, providing a more balanced view.

This report is aimed primarily at Clients. A separate report, intended for Service Providers, is also available – to order a copy, please email: spps@kpmg-research.com

How you should read and interpret this study

As you read this report, you should bear the following factors in mind:

This is a forward-looking perception study

- This study focuses on the perceived quality of relationships between Clients and IT outsourcing Service Providers. It does not seek to establish anything as absolute fact, but to report on the perceptions of key decision-makers regarding the services supplied by Service Providers.
- KPMG conducts the market research, but the findings represent the opinions of the Clients of the Service Providers, and the respondents from the Service Providers themselves.



- KPMG member firm advisors draw on the market research as well as their own experiences to compile the Market Insights section of the report. This section provides opinion on emerging themes and their implications for Clients, but does not comment on the individual performance of Service Providers. Indeed, this study does not at any point 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 is responsible for defining the profile of the outsourcing contracts and the participating buyer organizations, as well as the classification of Service Providers that are evaluated in this research.

The rankings are only based on the opinions of outsourcing Clients

The rankings are solely based on the feedback received from Clients polled in the market study and not on any market metrics such as deals won, revenue, profitability or growth levels. Neither are they based on the opinions of any KPMG member firms, management, or consultants.

To ensure we get the most pertinent opinions on the market, we conduct the study with senior management or C-level executives with influence over corporate strategy and third-party services decisions. We believe all are responsible for their organization's outsourcing strategy. This means they decide on or greatly influence budgets and are the influencers of decisions related to Service Provider choice.

The study has a representative sample size, although perceptions are – by their nature – subjective

The Service Providers analyzed in the study vary by size, service portfolio and Client portfolio.

As the market has changed significantly since our first research into this area, this year we have grouped Service Providers under a series of classifications that we believe best represent the market as it is constituted today.

Service Providers 2014: classifications used in our study



Specialists

providers that focus on providing one particular service or product, or with a specific sector or regional focus.



Cloud

providers of Software as a Service (SaaS), Infrastructure as a Service (IaaS) and Platform as a Service (PaaS).



Portfolio

legacy providers of traditional IT outsourcing who have a multi-category delivery capability. Note, this classification also comprises 'heritage Indian' players.



Networks & Telecoms (Telcos)

telecommunications providers whose role now extends beyond their traditional remit of infrastructure storage.

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 organizations.

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.

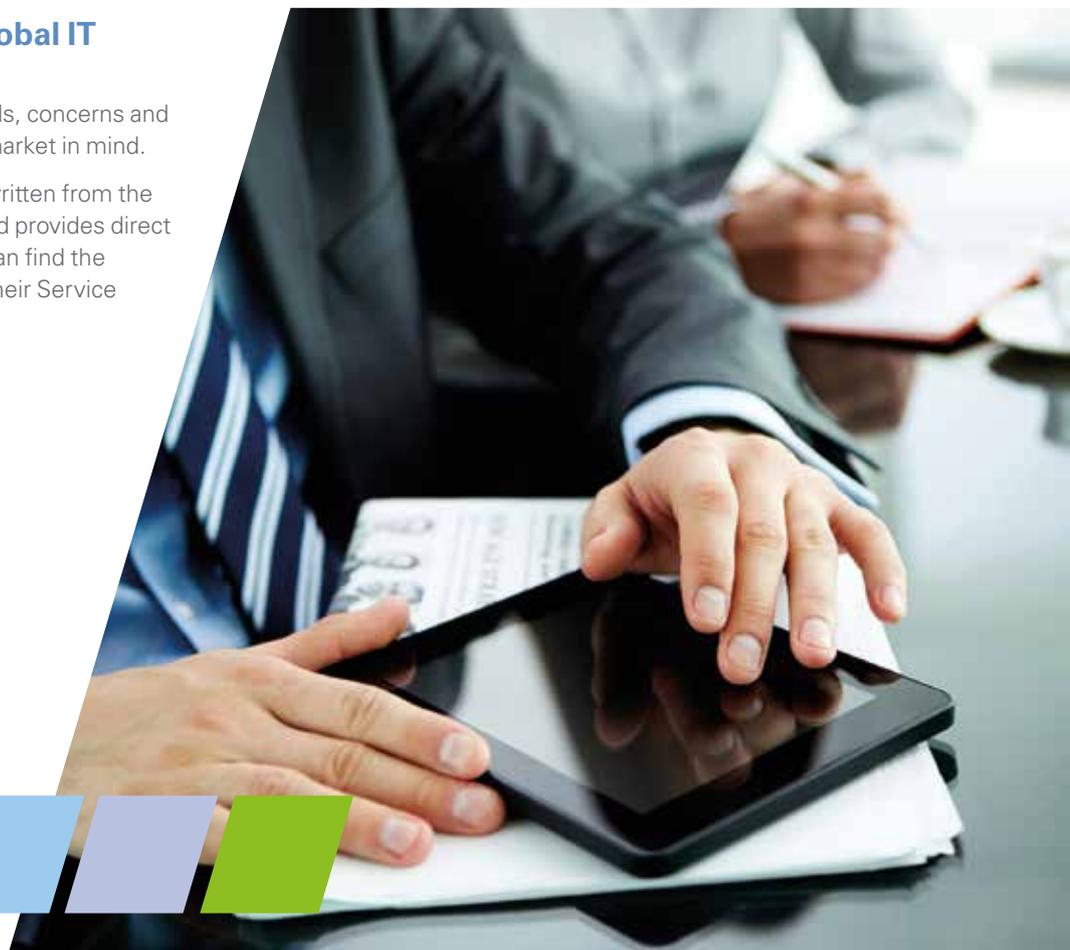
This study is aimed at the global IT outsourcing market

This year's study is written with the needs, concerns and expectations of the global outsourcing market in mind.

The commentary throughout is largely written from the perspective of the Client organization and provides direct advice to businesses around how they can find the right outsourcing solution and manage their Service Providers effectively.

Client organizations that participate in the survey can use the results as a tool to compare their own satisfaction to that of others using the same Service Providers. The results also give Clients an opportunity to understand the perceived strengths and weaknesses of their Service Providers in comparison to the market at large.

At the same time, however, the results of the study may still be 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 programs.





Management summary

The new world of technology outsourcing

In this section, we introduce some of the key findings from our research to show the “big picture” of IT outsourcing today – outlining where the market is heading and what its direction of travel means for the Clients of outsourcing Service Providers.

What the data is showing is a market in which technology plays an increasingly instrumental role in business. In this environment, to deliver the services that their internal clients need to realize strategic growth plans, IT departments are leveraging a proliferating mix of Specialist, Cloud, Portfolio and Telco Service Providers.

As the market responds to these drivers, our findings indicate that we are entering a radical new world of outsourcing – one defined by changing ambitions, new priorities and a different set of challenges.

In essence, CIOs should accept that a more complex, changeable yet ultimately more opportune market is quickly replacing the one they know and understand.

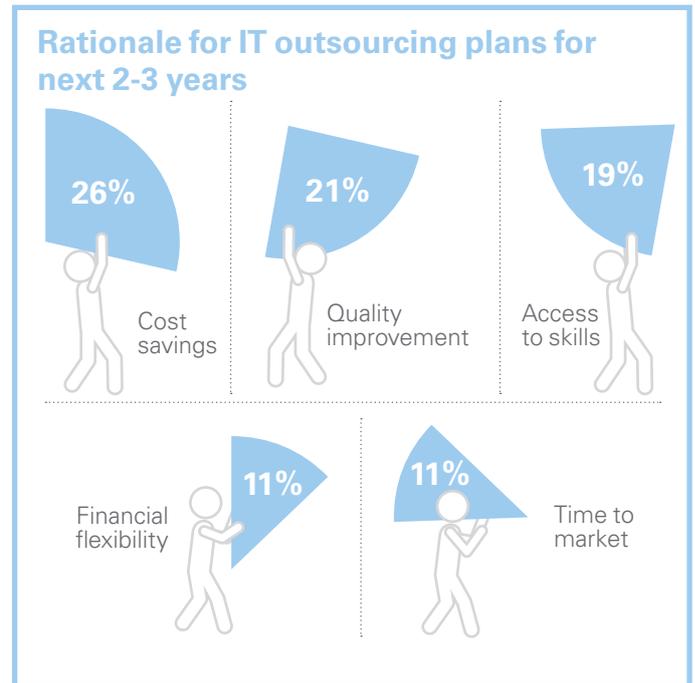
These changes are already visible, but we expect them to grow in momentum and have far-reaching consequences for Clients within the next five years. We introduce the key themes below and explore their implications – discussing how Clients should prepare to respond – in greater detail in the Market Insights section of this report.

New priorities in a time of growth

As the global economy picks up speed, companies are focused on growth and are preparing to invest the “war chests” they have been holding on to during recent years. Our view is that these investments will be made in business transformation with IT acting as a key enabler – whether delivered in-house or through outsourcing. This changes the value proposition for outsourcing, shifting the emphasis from cutting costs toward delivering value-adding services and innovations.

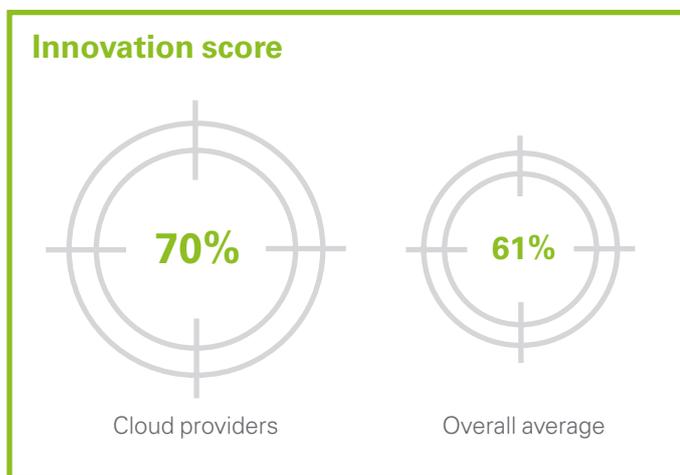
The data shows how this change is taking place across the global market. We are seeing a shift from cost being the biggest challenge for IT functions, which are seen more and more as an enabler for service delivery improvements and flexibility. 33% of Clients cited enhancing service delivery or improving flexibility as top challenges for their functions, with cost at 23%.

Whilst cost will always remain a ‘hygiene factor’ for outsourcing, Clients are now looking to achieve more than just cost savings to enable them to better serve their business. When asked to explain their rationale for outsourcing over the next two to three years, cost remained the most common response (26%) but was closely followed by quality improvement (21%) and access to skills (19%).



Tough choices in a fluctuating market

Today's IT outsourcing industry is in a state of flux. We are seeing greater innovation, agility and pace from newer Cloud and Specialist providers. As our KPI heat-map shows, Cloud providers' innovation score is significantly above the overall average¹:



As Clients become used to the flexibility and adaptability of these firms, how will Portfolio providers – which have traditionally offered bespoke software and systems integration – adapt their offerings to grow and maintain their customer base? At the same time, how should Clients work with the Telco companies that are finding their feet in a market in which their ownership of the underlying infrastructure gives them competitive advantage?

As Clients seek the right mix of Service Providers for their business strategy, we believe they should ensure that the arrangement makes commercial sense for the Service Provider as well as for themselves. By focusing on creating strategic partnerships, and being candid about what level of support they will require during the course of the relationship, they will ultimately receive better value from the Service Provider.

The journey from centralization toward Global Business Services

For many years, the priority for large businesses was to reduce cost and focus on centralizing their IT services until all IT functions were controlled by a single, central organization. Indeed, 65% of our respondents have a centralized global IT function. Driven by the economic downturn and a focus on back-office optimization, the centralization agenda demonstrated that IT was often seen as an overhead rather than an investment in strategic business enablement.

Today, while many are still in the process of centralizing their IT operations, the most mature companies in our survey are moving to a Global Business Services (GBS) model (see call-out box) at 14% in the Americas and 8% in EMEA. It helps to show how IT is becoming instrumental in enabling an enterprise-wide business services organization that encompasses finance, HR and sales, as well as the IT function itself. Over a third (34%) of Clients said that the IT function is in scope for GBS and more than a fifth (22%) said that IT is an enabler for other business functions within GBS. In addition, 24% of Clients said they are likely to increasingly operate IT as part of GBS within the next two to three years.



Global Business Services

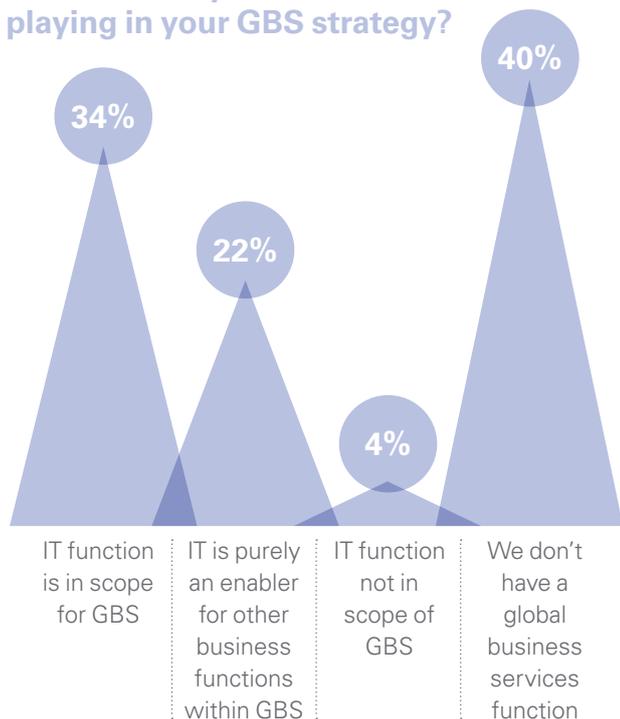
By introducing a Global Business Services (GBS) model, organizations attempt to transform back-office and some front-office processes into an efficient enterprise-wide delivery platform that drives business value. A GBS may include:

- Multi-functional business processes
- Common information technology
- Multi-channel service delivery – outsourced, shared services and centers of excellence
- Process ownership and management
- Enterprise-wide governance

¹ See KPI heatmap on page 40. Data relates to those Service Providers who received 8 or more responses.



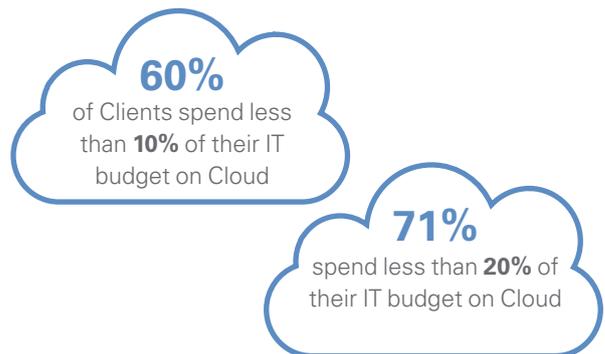
What role do you see IT playing in your GBS strategy?



As GBS models rely on a multi-vendor “ecosystem” of Service Providers – incorporating Specialist, Cloud and Portfolio players as required by different business services – organizations’ outsourcing requirements will shift. Clients will need to think about restructuring their vendors – “reshuffling the deck” – to create the right mix of technology specialists and infrastructure providers. At the same time, we see businesses preparing to outsource less than Service Providers think.

The underutilized cloud

Cloud technologies – by which, in the context of this report, we mean Software as a Service (SaaS), Infrastructure as a Service (IaaS) and Platform as a Service (PaaS) – present a range of cost-saving opportunities for Clients. Cloud will also play a critical role in the move towards GBS, and is an enabler of business change, so we would expect it to grow in popularity and consumption over time. In our survey, however, the majority of Clients (60%) spend less than 10% of their IT spend on Cloud, and nearly three quarters (71%) spend less than 20% of their IT budget on Cloud, suggesting that adoption remains sluggish despite the benefits to be gained.



In our opinion, the main barriers to Cloud could be managed relatively easily through effective governance and a judicious approach to deciding what should and what should not be hosted on Cloud. While concern about the security risks surrounding new technology is understandable – and not helped by unfavorable media coverage – it may be disproportionate for Cloud solutions today. In and of itself, we believe Cloud technology is as safe as other outsourcing solutions.

Governance – the problem child

As IT forms an inseparable part of the wider business strategy, technology decisions are now rarely left to the CIO alone – and this change is even more pronounced in the companies that have adopted Cloud technology. Today, the CHRO will make the decision to buy Workday, while the CMO will be the one to invest in Salesforce. The “power of choice” is an exciting development, but many companies have found themselves facing governance and integration challenges as a result.

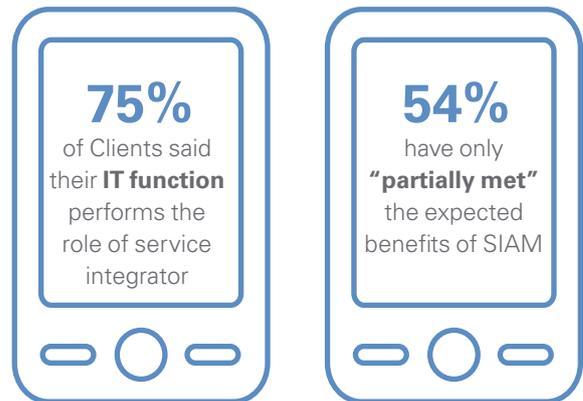
In our view, Clients should dedicate a greater level of investment to governance than they have in the past.

A number of related issues also come to light as Clients start working with multiple vendors. As they were used to working with a single Service Provider, or a limited number of vendors, in the past, they must now adapt to more complex arrangements. As they do so, the way they manage services, relationships and contracts becomes increasingly important.

In our view, Clients should dedicate a greater level of investment to governance than they have in the past. As they move toward more complex delivery models, poor governance can impact their ability to provide quality end-to-end services, increasing risks around cost, service quality and service delivery. At present, the firms that are most ineffective at governance are often those that underinvest in developing a competency that is equipped to deal with an increasingly complex sourcing environment and can develop good relationships with Service Providers. Part of this comes down to how Clients approach Service Integration and Management (SIAM), including deciding which services to outsource and which to keep in-house.

Worryingly, however, our findings show inconsistencies in how businesses are approaching integration and governance.

The majority (75%) said that their IT function currently performs the role of Service Integrator, and while half (50%) expect to make no change to the outsourcing of their SIAM in the future, a third (33%) are either already starting the process of outsourcing SIAM or considering the feasibility of doing so. Interestingly, the majority (54%) have only "partially met" the expected benefits of SIAM.



Time to challenge what you thought you knew

KPMG feels that clients should question their assumptions, conventions and ways of operating especially around their policies on Cloud technologies. They should reconsider what they should or shouldn't outsource, and review who is best placed to deliver the services they need to realize their wider business strategy.

Myth	Reality	What this can mean for Clients
The risk of an information breach outweighs the benefits of moving infrastructure to the Cloud.	From a technological standpoint, your data is as safe in the Cloud as on physical servers in your building.	Cloud should be seen as a viable option for some non-core data as it promises significant benefits.
The public sector should keep its IT services onshore to support the domestic economy.	Political sensitivities around outsourcing do not necessarily represent the best value for money for the taxpayer.	Public sector organizations should ask whether cost-cutting and access to world-class expertise outweigh the political pressure not to outsource.
India is a "spent force" in the IT outsourcing market and a better partner can be found elsewhere.	The prices may have gone up, but India still represents the best return on investment for Clients today.	India remains the first place to look when considering offshore options.

Building a successful outsourcing relationship

For businesses in mature technology markets, such as EMEA and North America, the changes outlined here are already visible and having an impact on their sourcing activity. For others, these changes will become more pronounced over the next three to five years.

The primary message to take from this is that businesses should question all the assumptions they have made in the past about why, how and what to outsource.

Necessarily, this will mean different things for different firms. There are, however, several key principles that we would recommend businesses take on-board today.

Align IT to business need

Your IT function needs to be geared around realizing the business strategy. This means asking whether your business would benefit from adopting Cloud technologies to improve internal processes, or through the use of analytics to generate insight from customer data, and then realigning to meet these needs. If you used a legacy Portfolio player to provide all of your IT outsourcing in the past, now may be the time to consider how new Specialist players can add value as part of a mix of smaller vendors.

Think long-term

Where appropriate, you need to work with Service Providers on a strategic – rather than a transactional – footing. In so doing, you will receive better value from Service Providers that are themselves trying to adjust and remain profitable in a changing and unpredictable market.

First of all, this means thinking long-term about your business transformation and who is best equipped to provide the wide-ranging support you need. This decision should be based on industry and sector knowledge and capabilities from a business process and IT perspective.

Reshuffle and up-skill

If you are in the process of moving to GBS, you should consider “reshuffling the deck” of your Service Providers so that their areas of expertise are in alignment with what you need from a business process perspective. Reshuffling and aligning Service Providers to GBS and business processes also means that service and system integration can be simplified.

At the same time, you should also review the new skills you will need in-house relating to configuration and integration.

Master the governance challenge

A poor or underfunded approach to governance will undo all the many benefits of outsourcing. You need to decide what governance and integration you require as well as which governance you should keep in-house and what you should outsource.

Furthermore, as IT is increasingly seen as a business enabler, it is worth considering how effective governance of cost, performance, quality and compliance of outsourced services translates directly into business performance, and could even provide competitive advantage.

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