Readying for the Next Normal: 6 Key Considerations to Future-Proof Your Outsourcing Portfolio

July 2020

Live Tweeting #EGAnalyst

Introductions

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Discussion points for today

The context for the Next Normal → **Provocations** → **Tale of two categories** → Q&A

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External forces are driving a re-evaluation of most aspects of service delivery
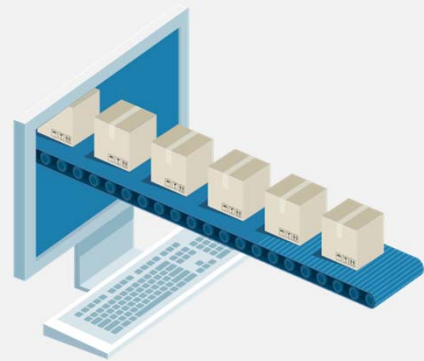
Pressure on cost structure

71% reigning in operational costs[1]
62% cutting external spend[1]

Concern over having the right partners for future needs

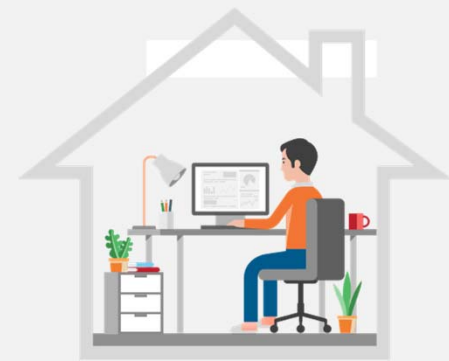42% say they will look for more service provider diversity in the future[1]

Increasing urgency for automation

48% implementing new technologies for automation and analytics[1]

Imperative for cross location resilience

32% plan to consolidate sites
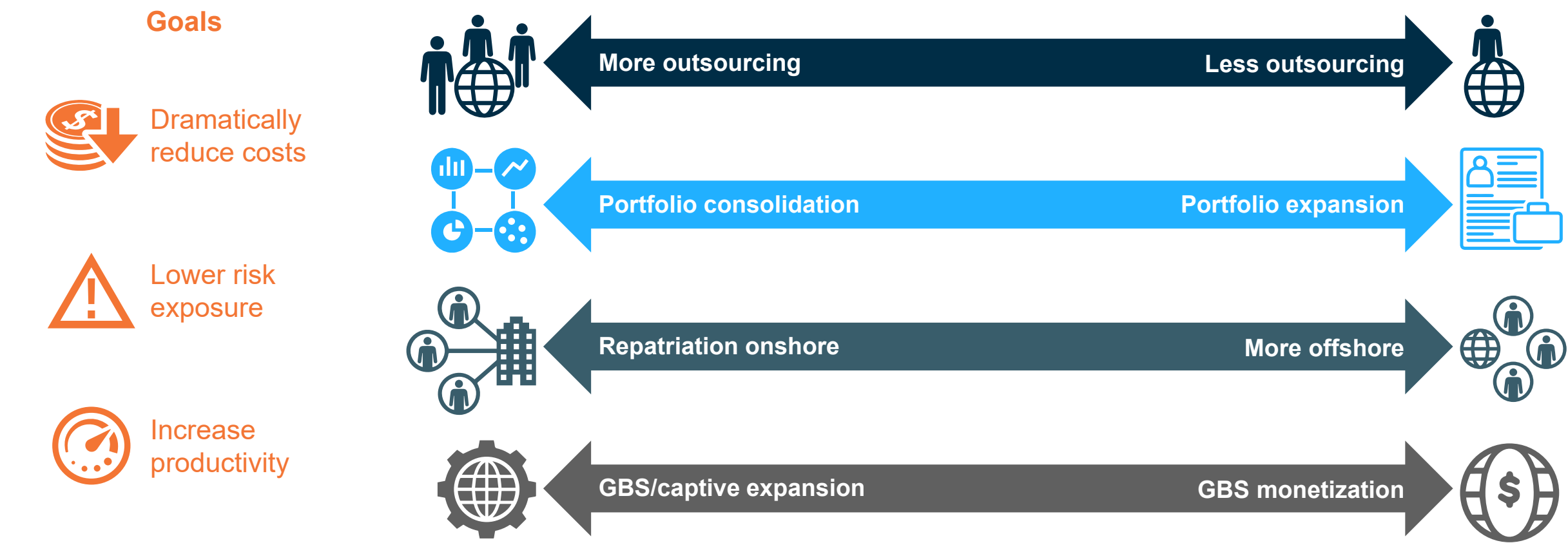53% will close sites or exit countries[2]

Service providers long term increase in work from home

At least three large service providers have announced a shift to 50-75% WFH

1   Everest Group, April 2020
2   Everest Group Work From Home (WFH) for Outsourcing and Business Services Survey, July 2020

All options are on the table as enterprises prepare for the next normal

Goals

Dramatically reduce costs

Lower risk exposure

Increase productivity

More outsourcing	Less outsourcing

Portfolio consolidation	Portfolio expansion

Repatriation onshore	More offshore

GBS/captive expansion	GBS monetization

Decision areas to address when planning for the next normal in outsourced services

Sourcing strategy & provider portfolio
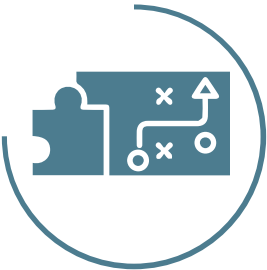
Solution design

Pricing and cost

Performance management

Policy and contracting

Risk management

Discussion points for today

The context for the Next Normal	Provocations	Tale of two categories	Q&A

Provocation #1

It's not the rates, stupid!
Look beyond immediate savings levers to create structural win-win outcomes

Buyers and service providers must look to "win-win" cost levers to create sustainable cost savings

Direct "negotiated" cost impact levers

- Rate card reduction
- Technology skill premium reduction
- COLA impact waiver
- Account management fee waiver

Indirect "win-win" cost impact levers
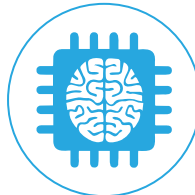
- Calibrated service credit regime
- Improved productivity
- Preferred spend portfolio access
- Higher offshore leverage
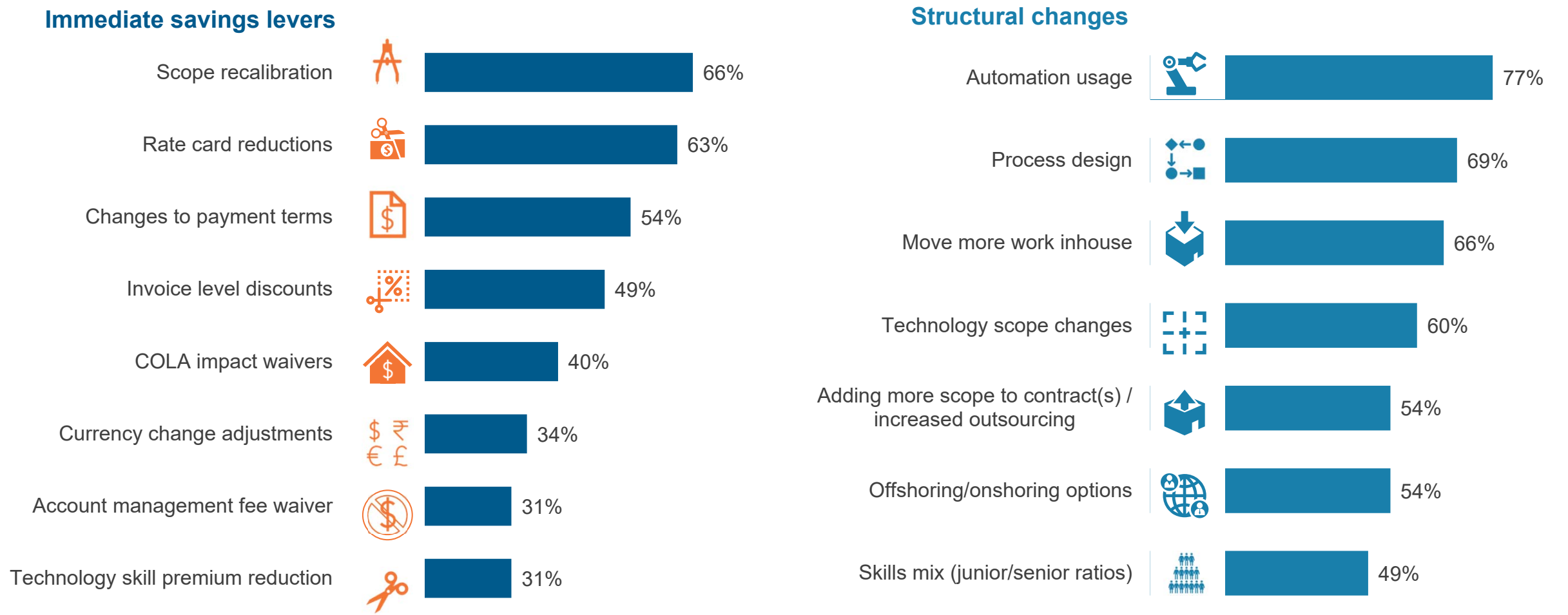- Higher levels of automation
- Shared resource delivery model

View our recent webinar, "Outsourcing Pricing: Key Opportunities to Improve Costs Now"

Services buyers are embracing an assortment of these tactics to improve cost structure in the near and long term

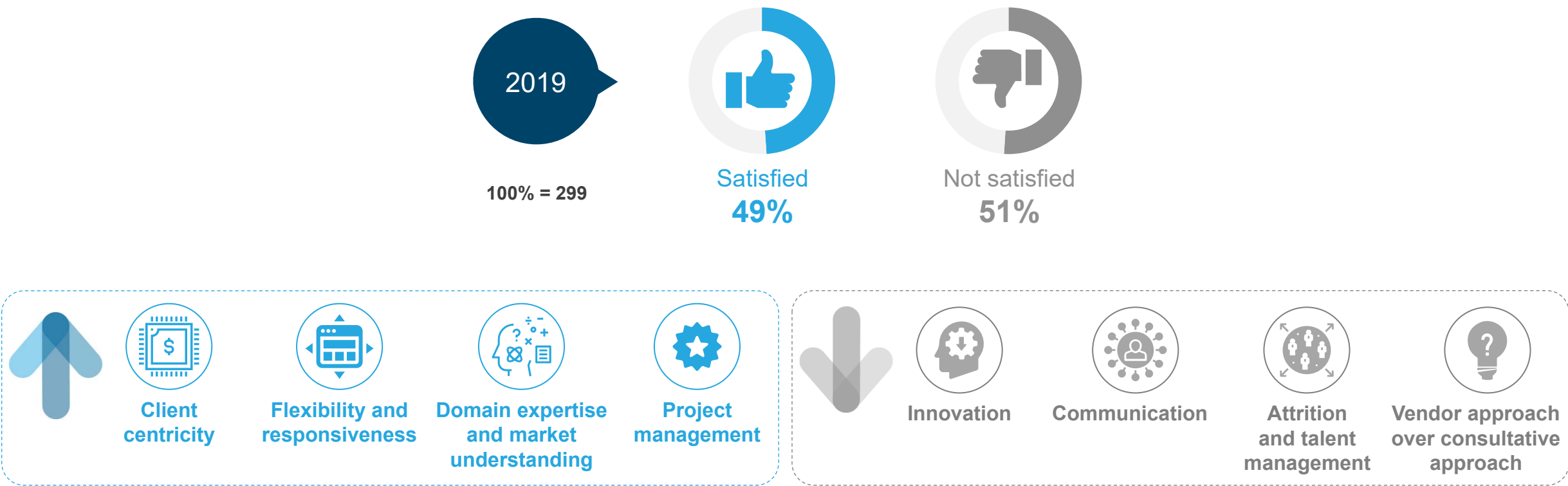**What savings levers are buyers employing / asking of their service providers?**

Immediate savings levers

Lever	Percentage
Scope recalibration	66%
Rate card reductions	63%
Changes to payment terms	54%
Invoice level discounts	49%
COLA impact waivers	40%
Currency change adjustments	34%
Account management fee waiver	31%
Technology skill premium reduction	31%

Structural changes

Change	Percentage
Automation usage	77%
Process design	69%
Move more work inhouse	66%
Technology scope changes	60%
Adding more scope to contract(s) / increased outsourcing	54%
Offshoring/onshoring options	54%
Skills mix (junior/senior ratios)	49%

Everest Group, May 2020

Provocation #2

Renew your vows (or don't?)
Act now to future-proof your sourcing portfolio

With digital adoption gaining scale, there has been a change in goalposts that determine customer satisfaction, leading to a further drop in overall satisfaction

Enterprises' overall satisfaction with service providers[1]
Percentage of total

2019

100% = 299

Satisfied
49%

Not satisfied
51%

Client centricity

Flexibility and responsiveness

Domain expertise and market understanding

Project management

Innovation

Communication

Attrition and talent management

Vendor approach over consultative approach

1   Satisfied: Satisfaction rating of eight or above, Not satisfied: Satisfaction rating below eight (out of 10)
Source: Everest Group (2020)

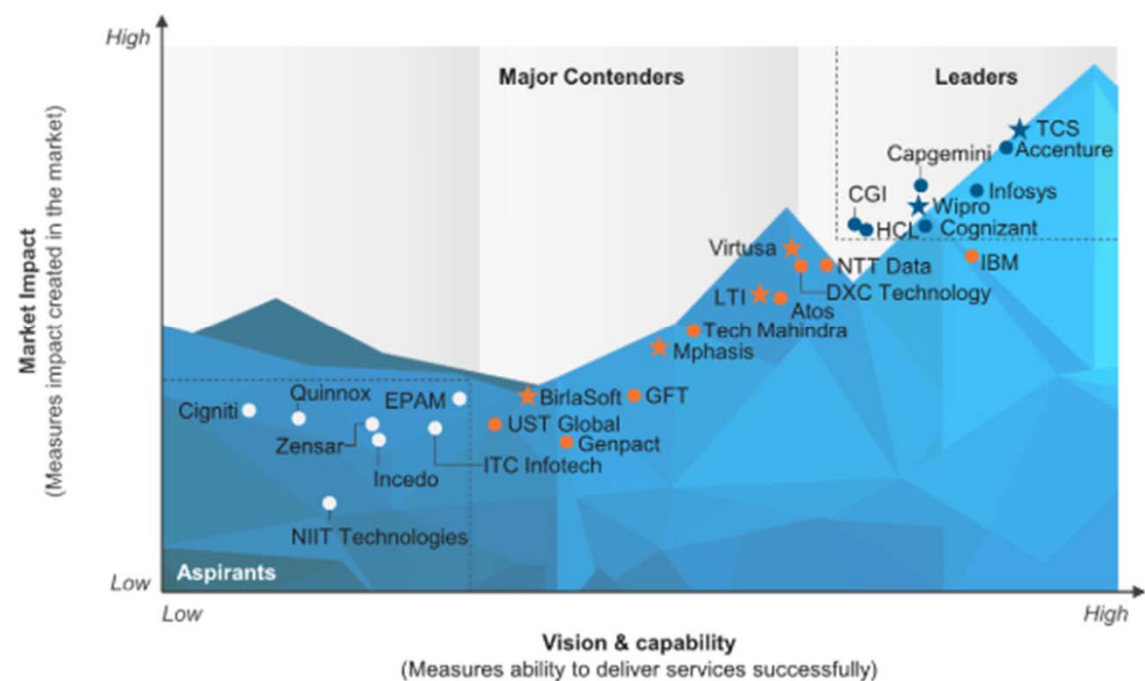# The landscape of service providers has changed significantly since the last recession

2011

Everest Performance | Experience | Ability | Knowledge (PEAK) Matrix for large banking AO relationships[1]
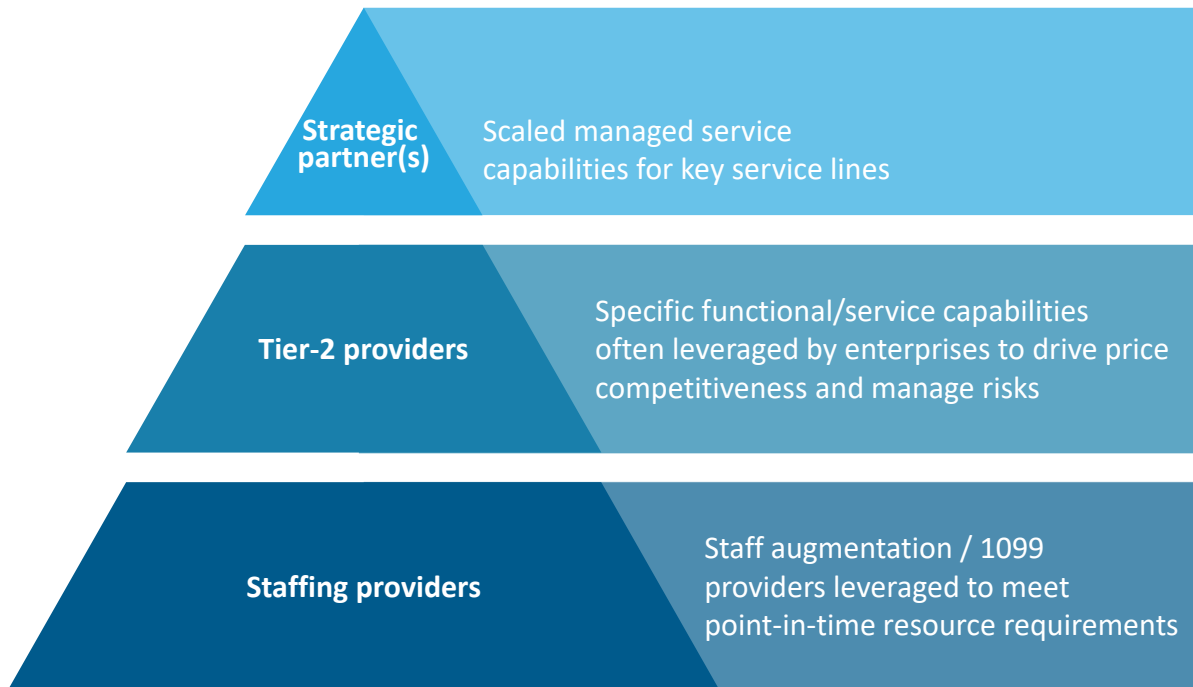
Legend:
- Leader
- Major Contender
- Emerging Player
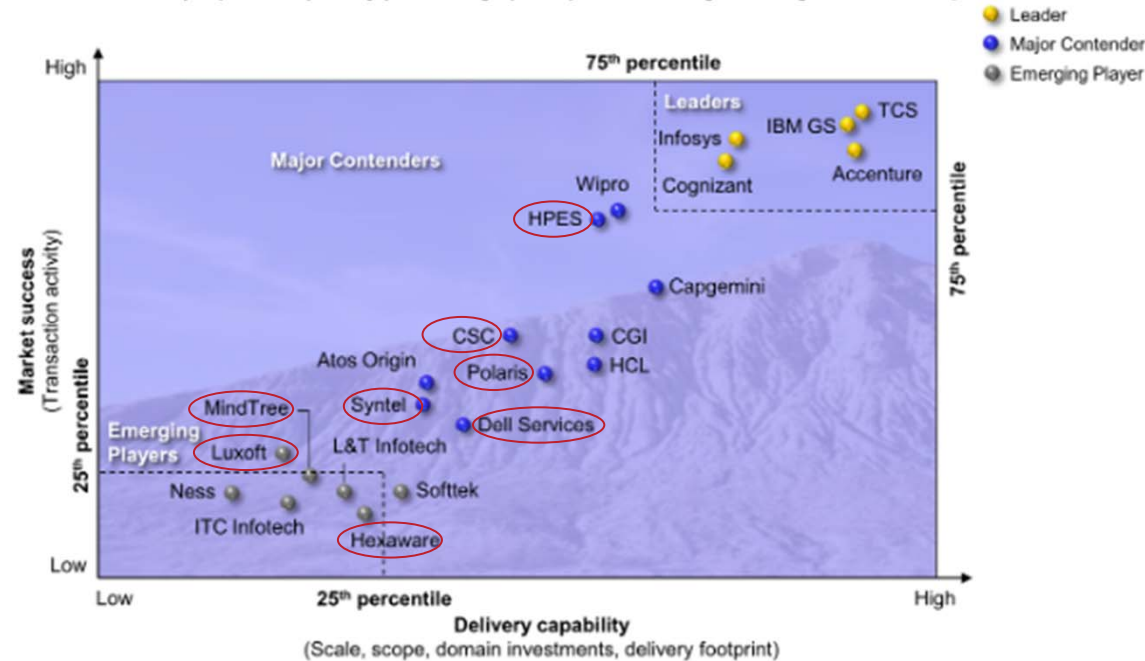
2020

Application and Digital Services in Banking – Services PEAK Matrix™ Assessment 2020

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Enterprises are relooking at their sourcing model to deliver more business impact beyond cost savings

Traditional sourcing model for global enterprises:

Strategic partner(s) — Scaled managed service capabilities for key service lines

Tier-2 providers — Specific functional/service capabilities often leveraged by enterprises to drive price competitiveness and manage risks

Staffing providers — Staff augmentation / 1099 providers leveraged to meet point-in-time resource requirements

- Provider segmentation by scale rather than by strategic intent
- Portfolio effectiveness measured by traditional, cost-centric metrics
- Limited provider view into overall enterprise business strategies
- Providers engaged within enterprise siloes limiting business impact

Introducing the SLOTS framework for strategic sourcing:

- **S**taffing
- **S**pecialists
- Legacy aggregator
- **O**rchestrators
- **T**ransformation partner
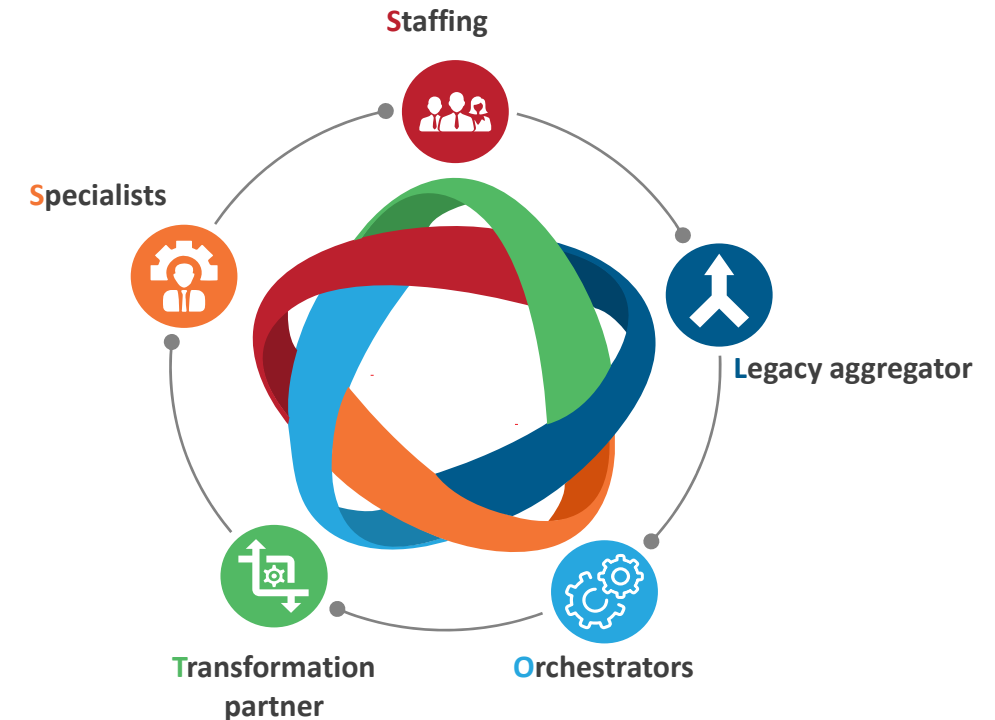
- Designed to make IT more efficient and effective for the business
- Geared towards services efficiency, resilience, and agility
- Business value and growth is the objective function
- Well laid-out provider roles and expected outcomes

What changes are you considering making to your service provider portfolio?

- Consolidate providers
- Add providers with specialty capabilities
- Drop lower performing providers
- Shift geographic footprint
- None of the above / Not applicable

Provocation #3

95-5 is the new 80-20
Challenge your organization's assumptions on the need for onsite/onshore resources

As organizations re-think their future location strategies, multiple forces will come into play

80% offshore **20% onshore**

95% offshore **5% onshore**

Key factors driving future location strategy

Rising cost pressures	Rising unemployment and protectionist sentiments	Accelerated automation adoption,	Greater demand for complex skills	Higher adoption of flexible working models
	(visa policies)	especially for low complexity and voluminous services	(digital, next-gen IT)	(WFH, contingent workforce)

Long-term outlook (2-3 years)

Economic rules are more powerful than legislative actions

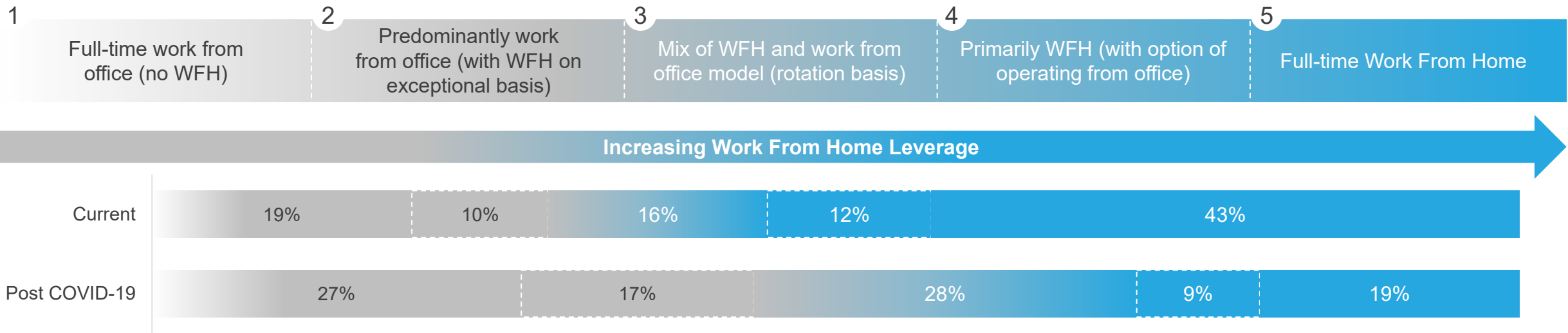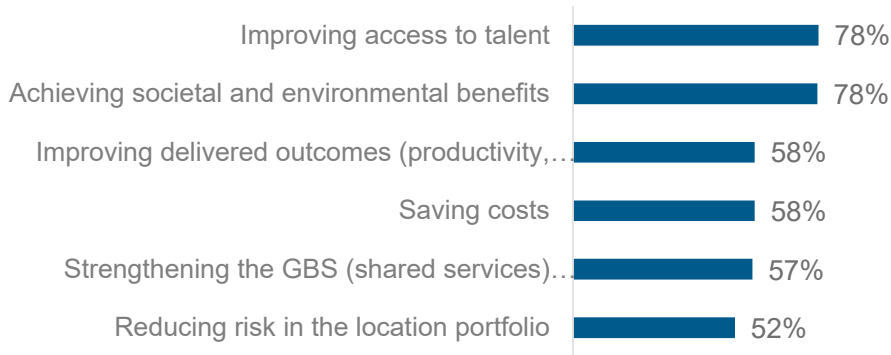Work from home will lessen the importance of location decisions

Provocation #4

The stories of the death of the ODC are highly exaggerated
WFH is real but the journey will not be all kittens and rainbows

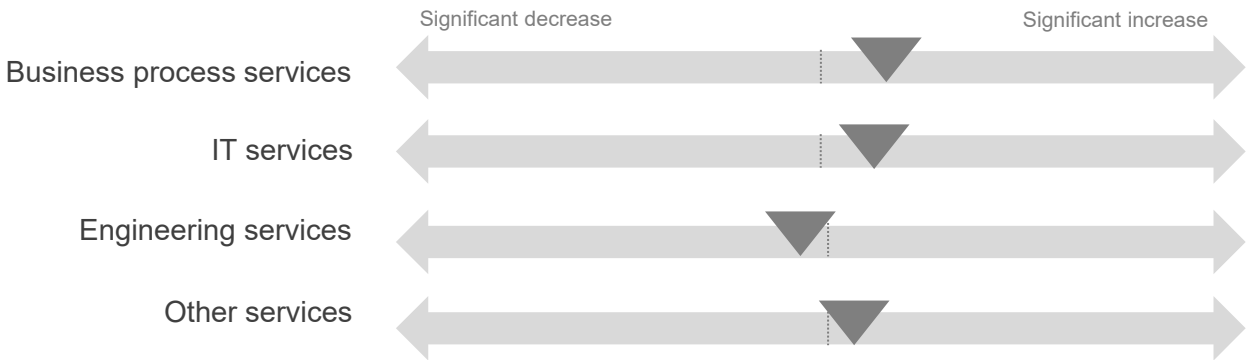# While some roles will return to the office after COVID-19 risks subside, many are expected to remain remote

What portion of your <u>outsourced</u> workforce will be work from home (WFH)?

1	2	3	4	5
Full-time work from office (no WFH)	Predominantly work from office (with WFH on exceptional basis)	Mix of WFH and work from office model (rotation basis)	Primarily WFH (with option of operating from office)	Full-time Work From Home

Increasing Work From Home Leverage

Current	19%	10%	16%	12%	43%
Post COVID-19	27%	17%	28%	9%	19%

Most prevalent reasons for service providers' move to WFH

Improving access to talent	78%
Achieving societal and environmental benefits	78%
Improving delivered outcomes (productivity,…	58%
Saving costs	58%
Strengthening the GBS (shared services)…	57%
Reducing risk in the location portfolio	52%

An increase in WFH is not expected to significantly impact outsourcing decisions

Significant decrease — Significant increase

- Business process services
- IT services
- Engineering services
- Other services

While buyers need to consider multiple factors to carefully assess what to allow to be delivered remotely, the vast majority of global services can be delivered through a WFH model

Everest Group framework for identifying and prioritizing work-types for remote delivery

Information and data security

Delivery location-specific risks and control requirements

Home-/source location-specific risks and control requirements

Acceptance of risk associated with remote delivery

High

Zone of resistance
Work-types that companies are unwilling to entertain for WFH delivery due to risk, data, and information security considerations

Zone of acceptance / sweet spot
Work-types that do not require physical proximity and are already delivered via WFH / remote delivery

Zone of rejection / least suited for WFH
Work-types that are require physical presence or have a high-risk perception vis-à-vis remote delivery

Zone of reluctant acceptance
Work-types that companies typically prefer are delivered through dedicated secure centers but are selectively relaxing requirements (through policy changes) to ensure service continuity

Low

Low **Feasibility (ease of remote delivery)** High

Degree of collaboration needed

Extent of process standardization

Technology infrastructure needs

GBS and parent comfort level

This framework helps identify work-types that are currently better suited for the WFH model and those for which organizations need to address specific challenges to improve feasibility and reduce the risk associated with WFH

There are multiple concerns to manage when allowing WFH

What productivity and security issues are you worried about in the WFH model?

75%	71%	66%	65%	50%	53%	49%
Data security	Compliance	Employee burnout from overwork	Difficulty in team collaboration	Inability to effectively measure outputs	Lost output due to distractions	Employees/contractors will do the minimal required work

Top tactics to manage data security
- Strengthening policies (e.g., requirements for workforce to sign NDAs, codes of conduct, privacy guidelines)
- Encryption protocols (data masking, automation-based sensitive data processing, VOIP, etc.)
- Network risk monitoring
- Additional training on at home security practices
- Workforce authentication protocols (biometric, multi-factor authentication, etc.)
- Background checks of new employee

Tactics for talent management
- Virtual training and development
- Virtual new employee orientation
- Remote employee engagement practices (e.g., virtual gatherings and recognition programs)

Top tactics to manage productivity
- Trusting employees
- Defined output metrics
- Check-in calls / status reports

Additional concerns with WFH				
Employee wellbeing	Ergonomics, health and safety issues	Loss of employees to other WFH opportunities	Resilience risk	Governance issues

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Request our latest executive brief with "next normal" checklist and a consult to future-proof your outsourcing portfolio

Sourcing strategy & provider portfolio
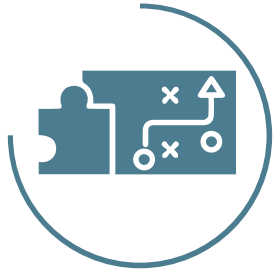
Solution design
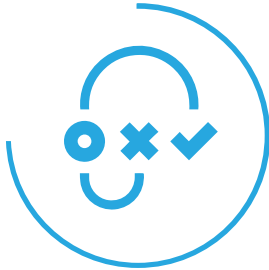
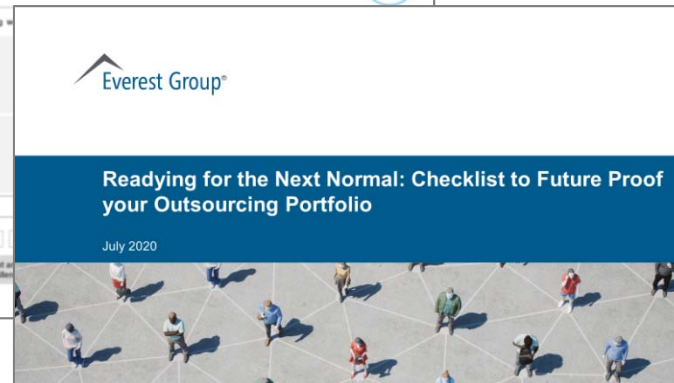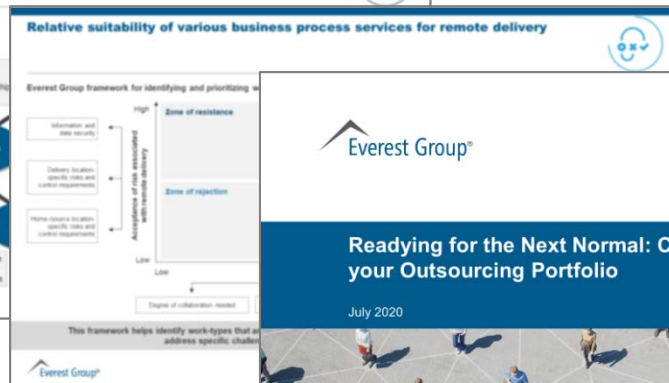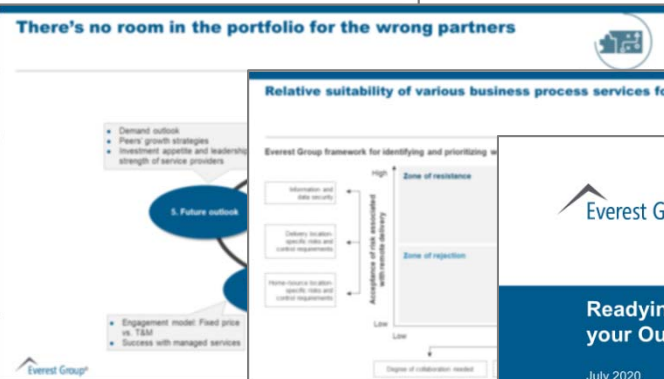**Pricing and cost**

Performance management

Policy and contracting

Risk management

Select "Yes" in the quick poll to request our latest executive brief with "next normal" checklist and related consultation. Discussion topics may include:

- Portfolio balancing
- Solution design strategy session
- Workplace services modernization
- (Related topic of your choice)

Provocation #5

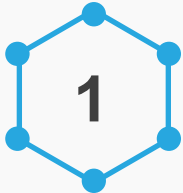*This is, perhaps, the beginning of the end of T&M*
The desire for more accountability in a lower oversight model will raise the tide for "managed" models

There are 5 primary contracting models that are used for outsourcing contracts, each suitable for various stages of maturity

Most commonly used pricing models

Time & material / capped T&M
Staff augmentation, timeline/cost overrun risk, delivery risk primarily with client

1

Fixed capacity / Agile pod
Packaged team (Agile pod) defined and billed per sprint; some commitment for minimum target velocity and team

2

Target price
Target price agreed up front with risk of cost overruns shared by both parties

3

Fixed bid
Fixed fee, but **not** a pure fixed scope to allow for some flexibility (Agile is about embracing change)

4

Output-based
Managed service delivery, purchased by unit/widget such as story point developed; delivery risk with provider

5

Low/negligible — **Risk borne by provider** — High

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Pre-requisites for a managed service model to be successful

1

Homogeneous output units

The units of delivery should be discrete and measurable with the same standard. High degrees of variation make the transaction-based pricing unsuitable

2
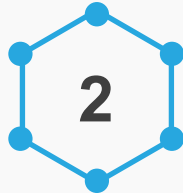
Predictable volume fluctuation

Volume fluctuations are fine, as long as they are predictable and/or within limit. Major swings lead to too much risk or constant re-baselining

3
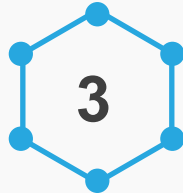
Repeatable, high volume transactions

Judgement-based services are not suitable. The services in scope should be repeatable so that they can be impacted by tech-driven productivity improvements

4

Historical baseline data availability

One cannot improve what one cannot measure. A strong sense of transaction volumes and associated effort is <u>critical</u> to ensure an equitable price

5
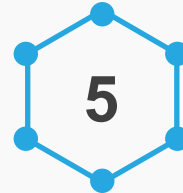
Buyer's willingness to cede some control

The buyer should be comfortable with ceding control over # of resources or how much margin the provider makes

Disruption potential if not considered

High

Low

What percent of your outsourcing contracts are based on time and materials?

- Less than 25%
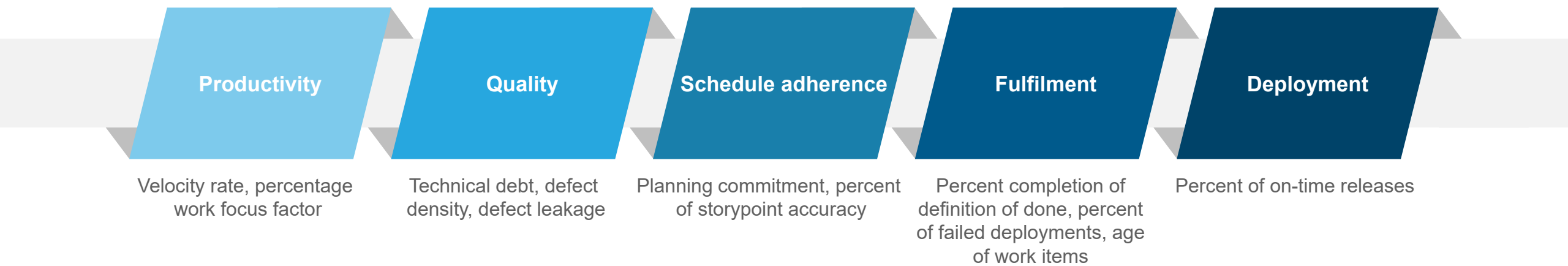- 26-50%
- 51-75%
- 75-100%
- Unsure / Not applicable

Provocation #6

Measure what matters… what you measure, matters
Traditional SLAs are not set up to create desired business impact

As speed becomes the objective function in IT applications services, Agile requires a new set of measures and KPIs

Productivity	Quality	Schedule adherence	Fulfilment	Deployment
Velocity rate, percentage work focus factor	Technical debt, defect density, defect leakage	Planning commitment, percent of storypoint accuracy	Percent completion of definition of done, percent of failed deployments, age of work items	Percent of on-time releases

Evolution of KPIs

KPI/SLA	Description	Benchmark range		
		Lenient	Typical	Stringent
Velocity rate (burndown)	Number of story points delivered by seven-member team in a three-week sprint	18	22	28
Accuracy of commitment	(Accepted story points / committed story points) X 100%	80%	85%	90%
Work focus factor	(Velocity/capacity)*100	70%	77%	84%
Planning commitment	Percentage of plan delivered	XX	XX	XX
Load factor	Index (actual effort / allocated effort)	XX	XX	XX

Discussion points for today

The context for the Next Normal

Provocations
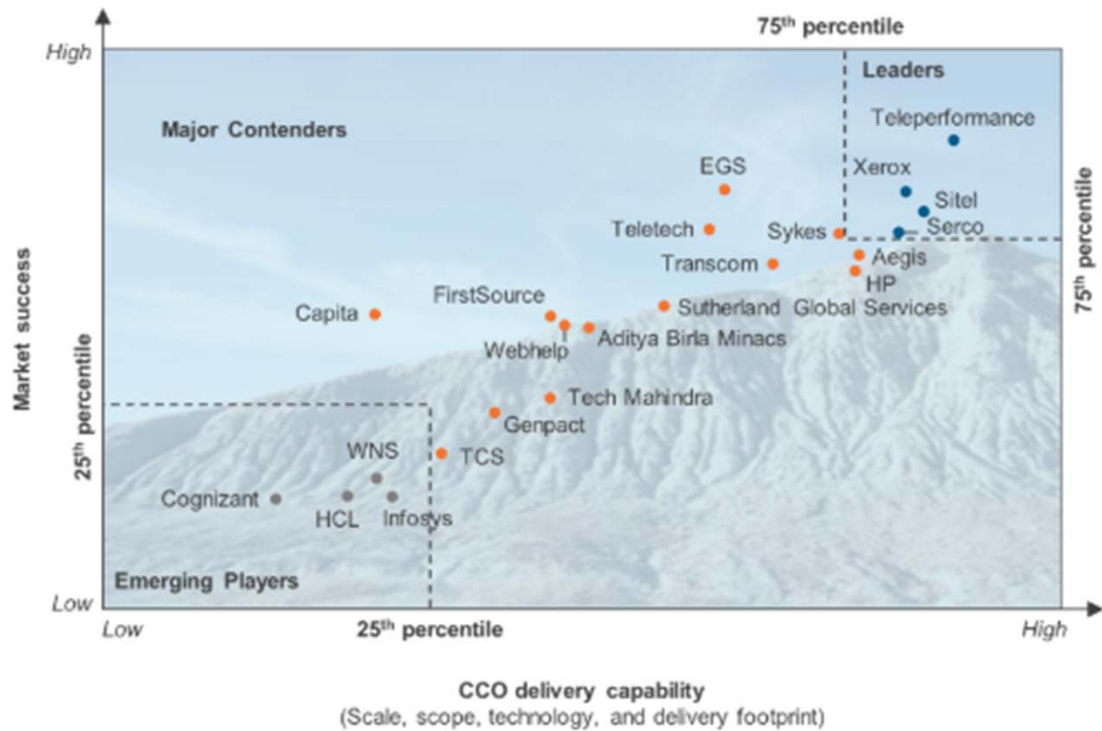
Tale of two categories
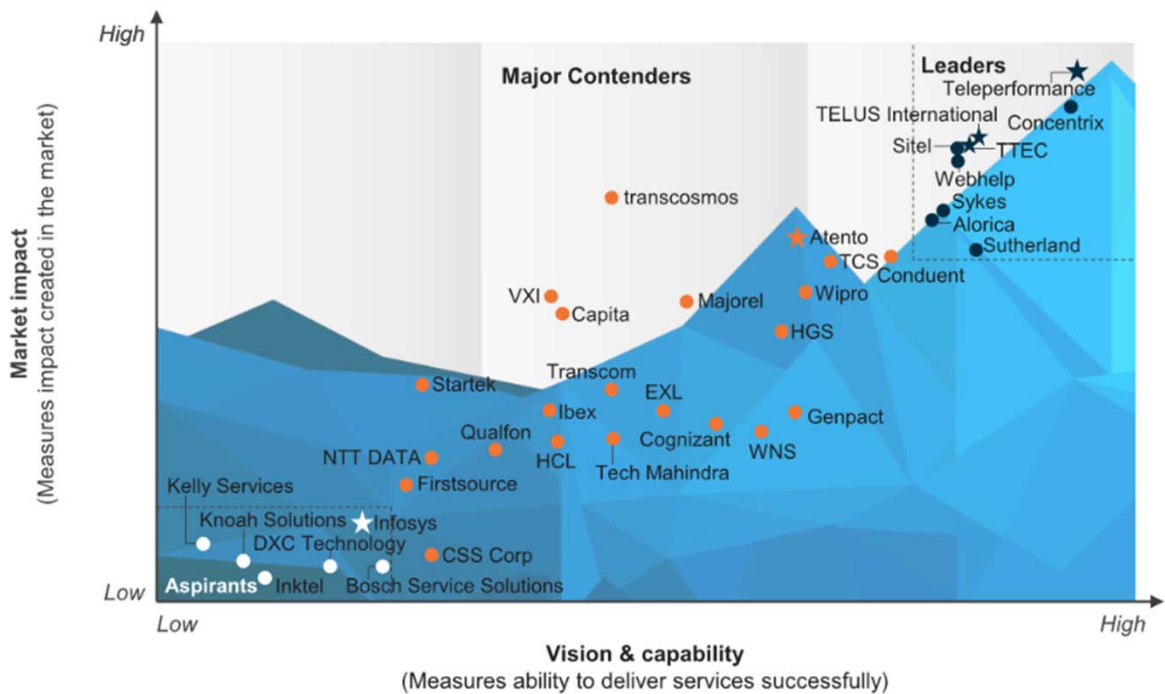
Q&A

Customer Experience Management
The landscape of service providers in the contact center market has evolved significantly

Services scope: Customer Experience Management (CXM) encompasses digital contact centers, contact center outsourcing (CCO), and evolving issues related to interactions with customers.
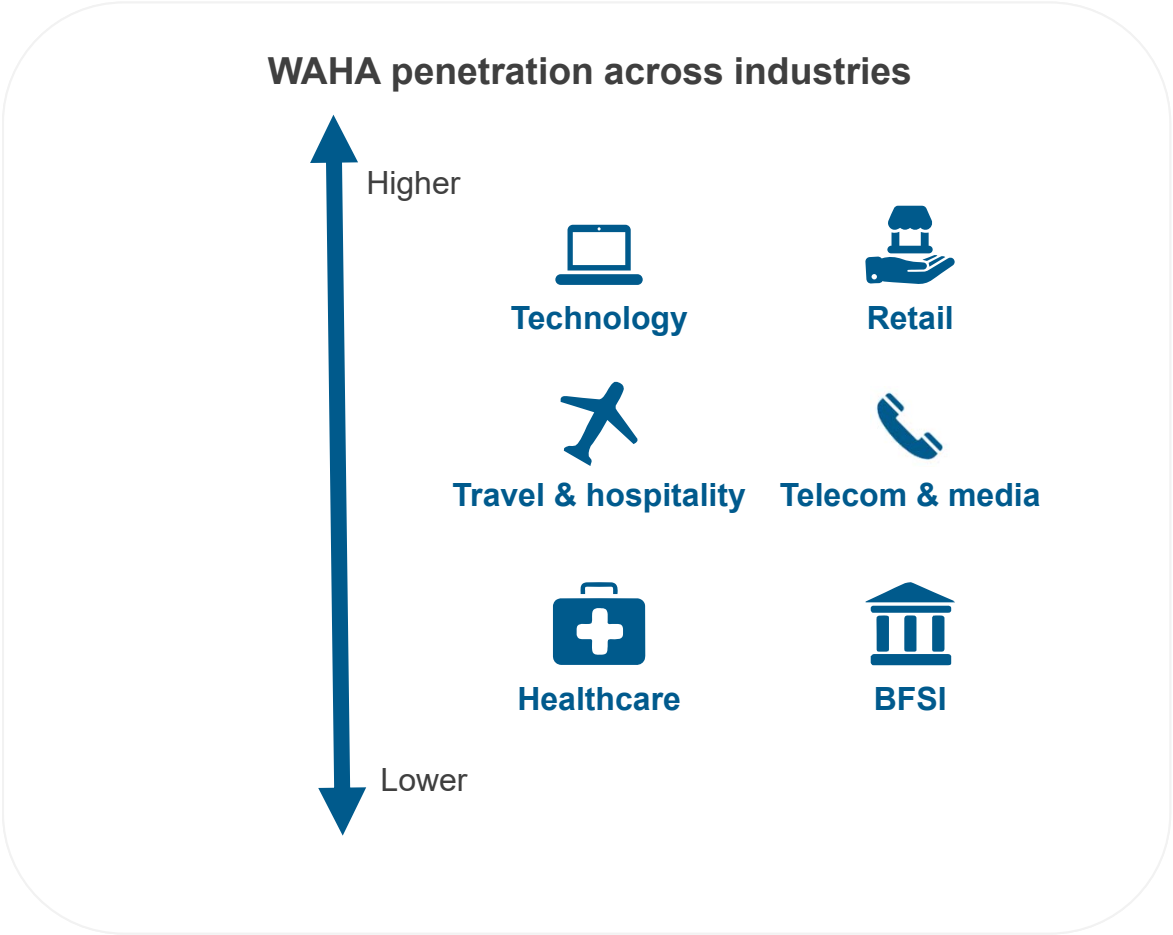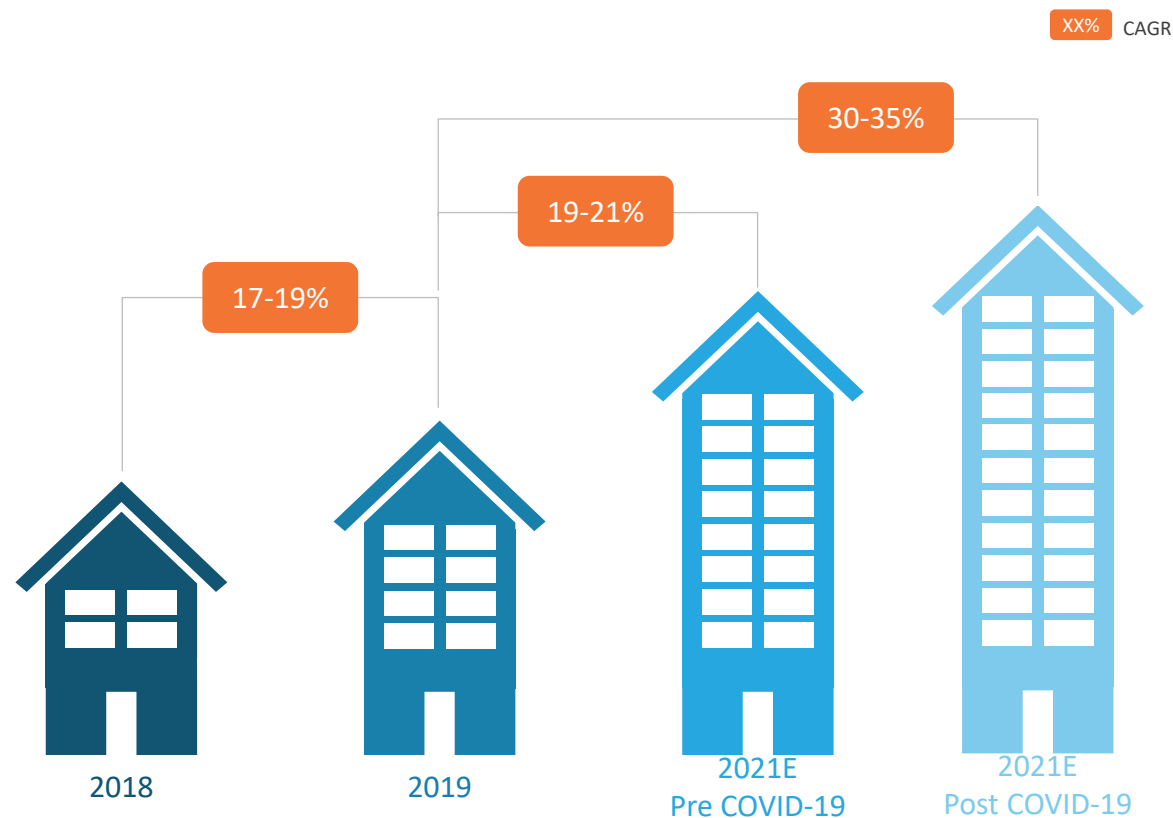
Customer Experience Management
WAHA delivery model has witnessed high growth as it offers flexibility and access to specialized talent, while lowering operational costs

Growth of CCO WAHA FTEs

XX% CAGR

30-35%

19-21%

17-19%

2018

2019

2021E
Pre COVID-19

2021E
Post COVID-19

WAHA penetration across industries

Higher

Technology

Retail

Travel & hospitality

Telecom & media

Healthcare

BFSI

Lower

The Importance of First Call Resolution in Call Center Effectiveness

While Net Promoter Score (NPS) is the preferred KPI in the call center industry, organizations should benchmark First Call Resolution (FCR), as it directly impacts NPS. A matrix that combines FCR with Average Handle Time (AHT) benchmarks provides better insight into the maturity of call handling in call center operations.

Our research shows that an increase in FCR by **5%** in absolute terms **reduces ACV by $160K** for a 250 FTE voice contact center operation in the Philippines

FOUR SCENARIOS

First Call Resolution	Average Handle Time	Net Promoter Score	State
Low	Low	Low	Inefficient call handling for simple processes *Recommendation: Invest in quality hiring and agent training*
Low	High	Low	Inefficient call handling, likely caused by inefficient technology stack (ACD/IVR, speech analytics, etc.) *Recommendation: use speech analytics to identify the root cause of the low FCR, upgrade ACD/IVR, use process redesign to simplify processes*
High	High	Medium	Complex/detailed process *Recommendation: use a combination of process redesign and intelligent automation to reduce AHT*
High	Low	High	Efficient call handling resulting in a good NPS

Digital Workplace Services
A true digital workplace assumes end-user experience (not unit cost reduction) as the primary objective

Services scope: Workplace Services encompasses end user support services, service decks, communications, asset management, mobile and desktop management in a commercial workplace

Workplace for the enterprise

- Minimize unit cost
- Designed for the enterprise
- Resolve faster
- Improve IT metrics
- Reactive
- Ticket-driven
- Subjective; observational
- High-touch; impersonal

**User experience becoming the objective function**

Workplace for the user

- Maximize employee experience
- Designed for the individual
- Zero resolution
- Improve business metrics
- Proactive
- Individual context-driven
- Objective; data-driven
- High-touch; personalized

Digital Workplace Services
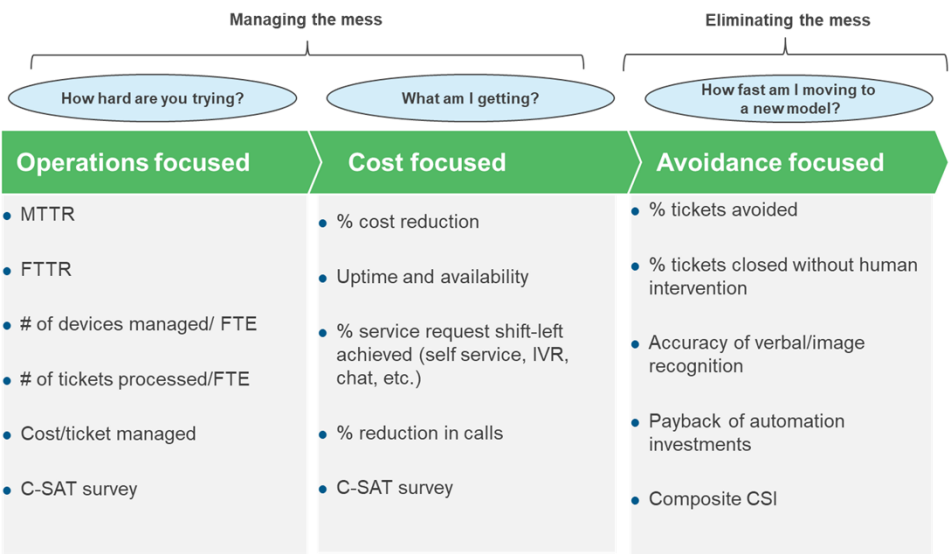## The supplier landscape for digital workplace services has changed significantly in the last five years
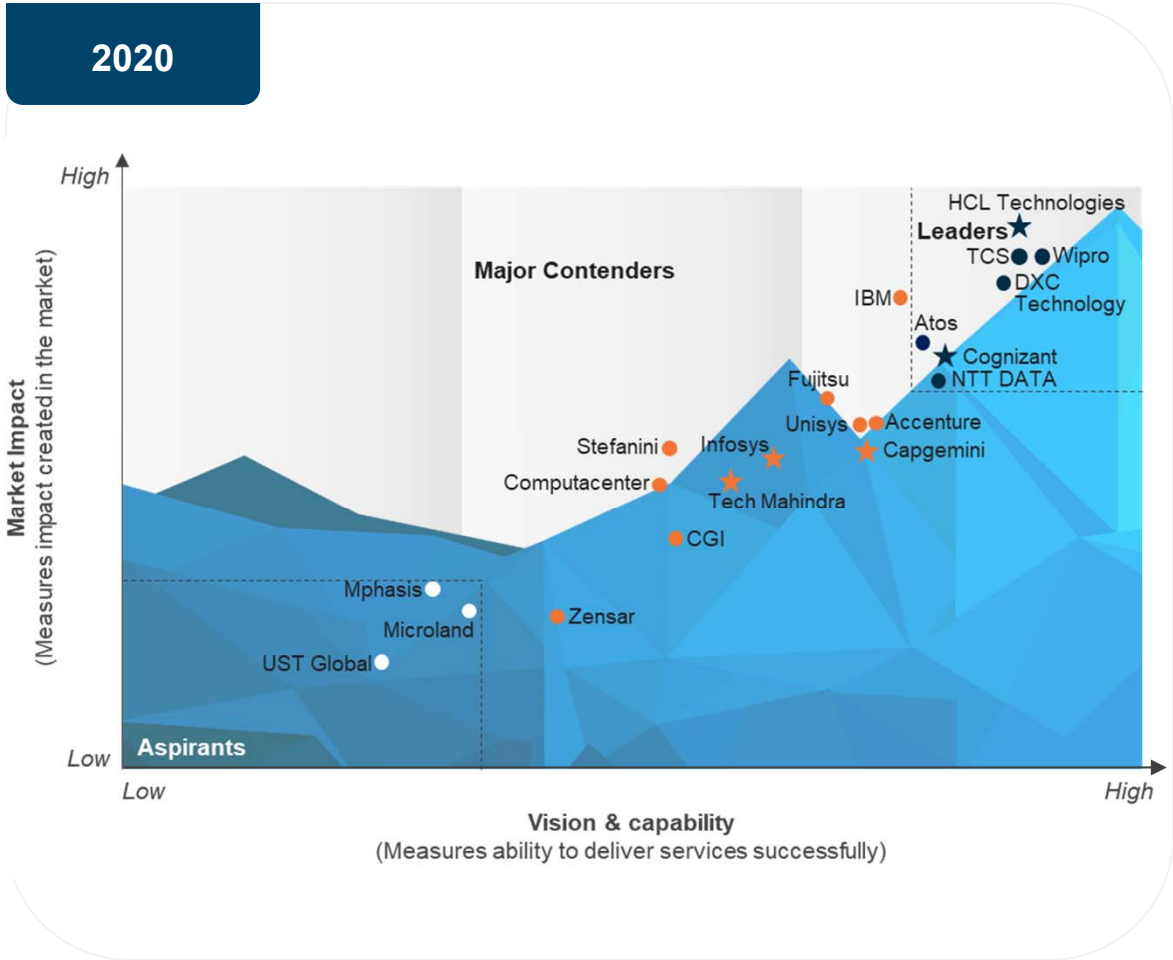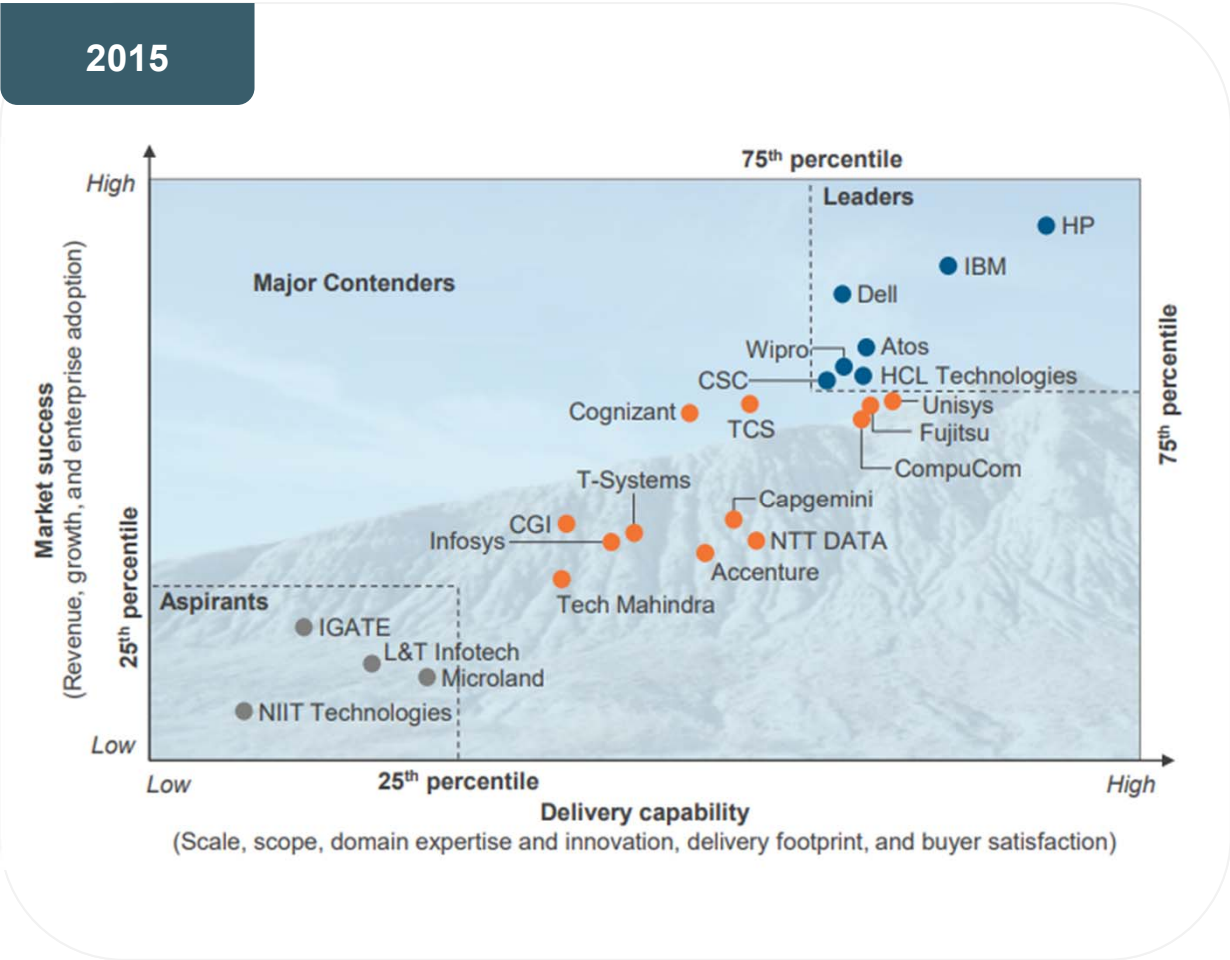
XLA measurement framework delivers ongoing value and builds performance improvements into the contract

Service Level Agreements (SLAs) → **Experience Level Agreements (XLAs)**

- "Technical lens" to performance
- Hard, technical metrics
- Point-in-time view of UX
- Siloed view/accountability of operations

- "UX lens" to performance
- Aggregated value-aligned metrics
- Progressive view of UX journey
- Accountability distributed across functions

Focus on keeping the lights green

Focus on user satisfaction and delight

Managing the mess | Eliminating the mess

How hard are you trying? | What am I getting? | How fast am I moving to a new model?

Operations focused	Cost focused	Avoidance focused
• MTTR	• % cost reduction	• % tickets avoided
• FTTR	• Uptime and availability	• % tickets closed without human intervention
• # of devices managed/ FTE	• % service request shift-left achieved (self service, IVR, chat, etc.)	• Accuracy of verbal/image recognition
• # of tickets processed/FTE		
• Cost/ticket managed	• % reduction in calls	• Payback of automation investments
• C-SAT survey	• C-SAT survey	• Composite CSI

XLA scorecard – service desk metrics and benchmarks

Influencer	Enabler	Supporting KPIs	Target Range
Service desk Quality	QoE Framework, CSAT	Service desk Quality Score	XX
		Service Now CSAT Scores	XX
Self Service Strategy	Semantic Search, Gamification, Virtual Assistance, Service Catalog	% Accuracy of knowledgebase search	XX
		% Issues resolved through self help	XX
		% Reduction in Service desk volumes	XX
		% resolution through Peer to Peer Collaboration	XX
		% of Requests orchestrated	XX
Connect Model	Skype-based solution, speech recognition	% of dropped calls	XX
		% Reduction in Phone based contacts	XX
		Time to reach Service desk through the IVR	XX
Persona Centric Support	Computer Telephony Integration	% Reduction in Average Handle Time	XX
		% Accuracy of data at Service desk	XX
		% personas ported to CTI versus personas available	XX
Speed to Resolve	MTTR, FCR, ASA	% Reduction in MTTR	XX
		% Increase in First Call Resolution	XX
		% Improvement in ASA	XX
Cultural Fitment	Location Strategy, Cultural Sensitization	Number of end user escalations	XX
Business Knowledge	Business SLAs	% of critical business processes measured	XX

Next steps in readying for the Next Normal

- Identify the opportunities for structural savings

- Reevaluate your service provider portfolio

- Confirm your future offshore/onshore mix

- Fine tune a WFH strategy with service providers

- Plan the shift from T&M to more mature model

- Begin updating SLAs to capture real value

Everest Group assists sourcing organizations in capturing value from their services spend through memberships and focused projects

Ongoing retained support

Accelerated project-based support

Strategic Outsourcing and Vendor Management membership
Best-in-class research-based market insights to maximize value from technology and operations services categories
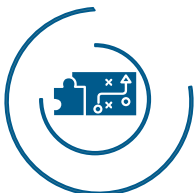
Sourcing strategy / provider portfolio

Solution design

Performance management

Risk management

Sourcing advisory services
Project based support to accelerate execution and journey support for end-to-end sourcing and vendor management activities

Pricing-as-a-Service
On-demand price and performance analytics to maximize outsourced spend reduction

Pricing and cost
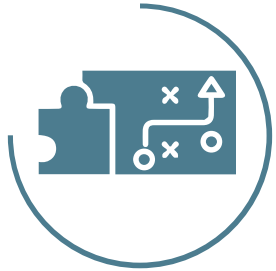
Policy and contracting
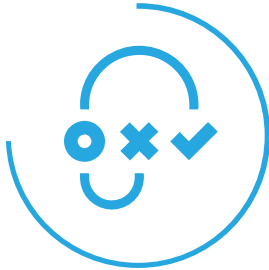
Strategic Proposal Review
Project based reviews to create market aligned contracts that maximize value and minimize risks

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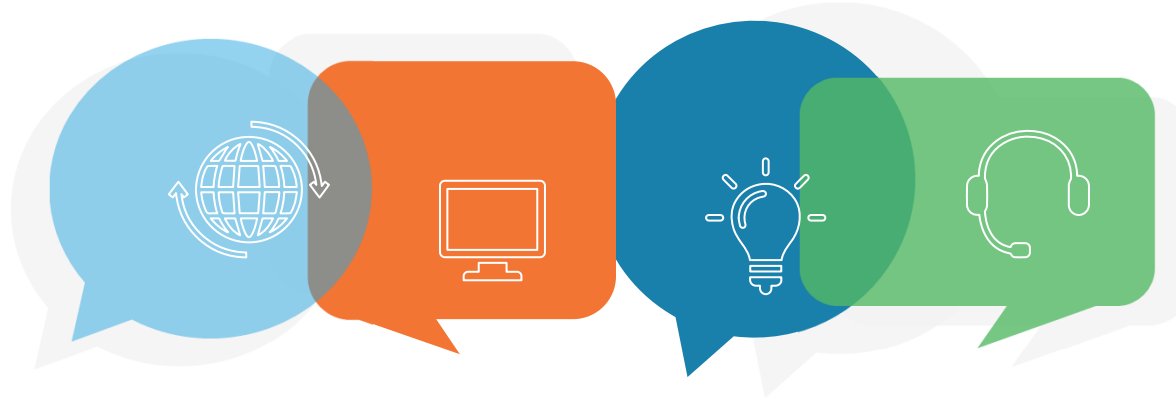- (Related topic of your choice)

Discussion points for today

The context for the Next Normal | Provocations | Tale of two categories | Q&A

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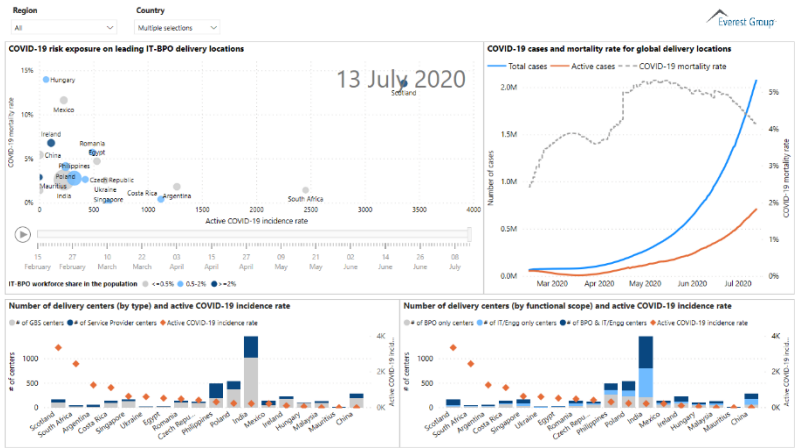
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