



# Is Your Outsourcing Portfolio Ready for 2021?

June 2021

Live Tweeting #EGAnalyst

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# Introductions



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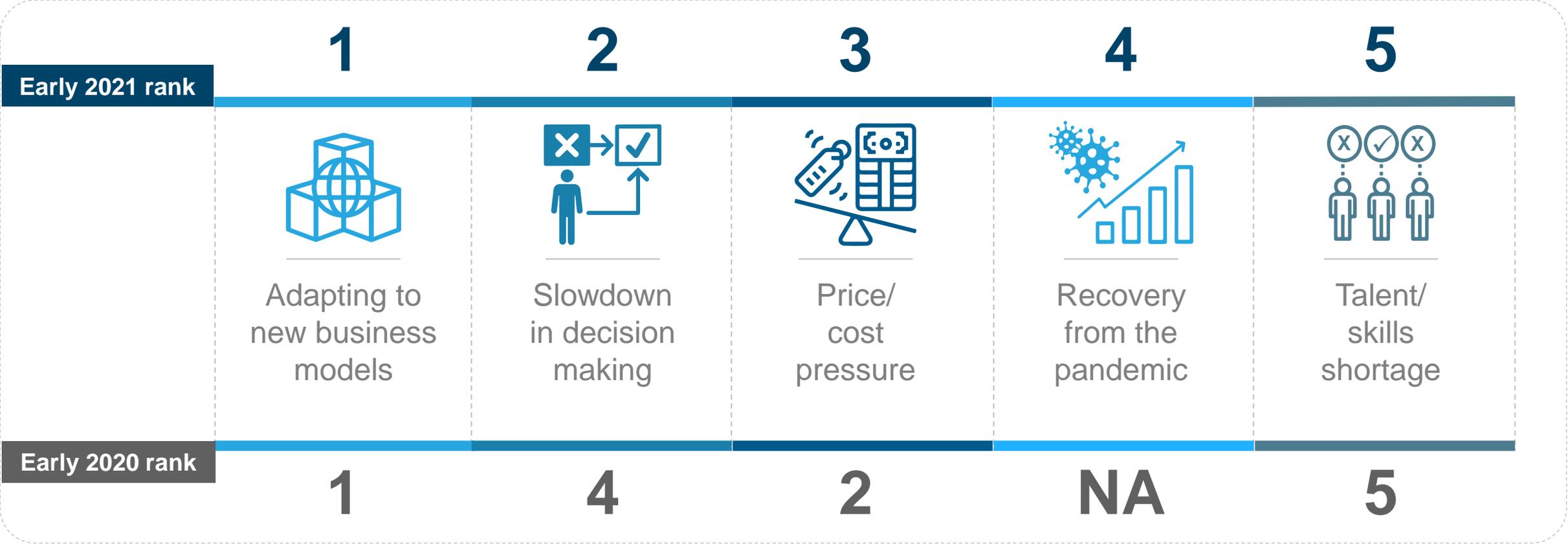
# Discussion points for today



- Emerging priorities
- Portfolio strategies – consolidate, redistribute, diversify

# COVID-19 put pressure on companies to reduce costs and build resilience while maintaining focus on stakeholder experience

Top business challenges today versus pre-COVID 19



Note: In 2020, regulations in key markets was the #3 issue (think trade wars/tariffs)  
 Source: Everest Group's Enterprise Key Issues Survey, 2021 and 2020, respectively

# All options are on the table as enterprises meet evolving business priorities

## Emerging enterprise priorities

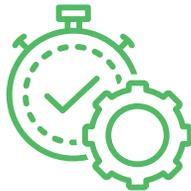
Dramatically  
reduce costs



Lower risk  
exposure



Increase  
productivity



More outsourcing

Less outsourcing



**22%** of organizations are partnering with outsourcing suppliers to gain exposure to market innovation<sup>1</sup>

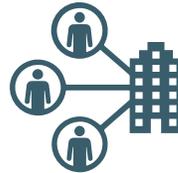


Portfolio consolidation

Portfolio expansion



**76%** of organizations we surveyed are planning to make changes to their portfolio mixes<sup>1</sup>



Repatriation onshore

More offshore



**63%** of organizations are planning to explore more geographies/countries for service delivery<sup>2</sup>



Office-based model

Remote delivery



**29%** of organizations are planning full-time work-from-home in 2021<sup>1</sup>

<sup>1</sup> Everest Group Enterprise 2021 Key Issues Survey

<sup>2</sup> Everest Group Quick Poll (April 2020)

# How do you anticipate your service provider mix changing in 2021?

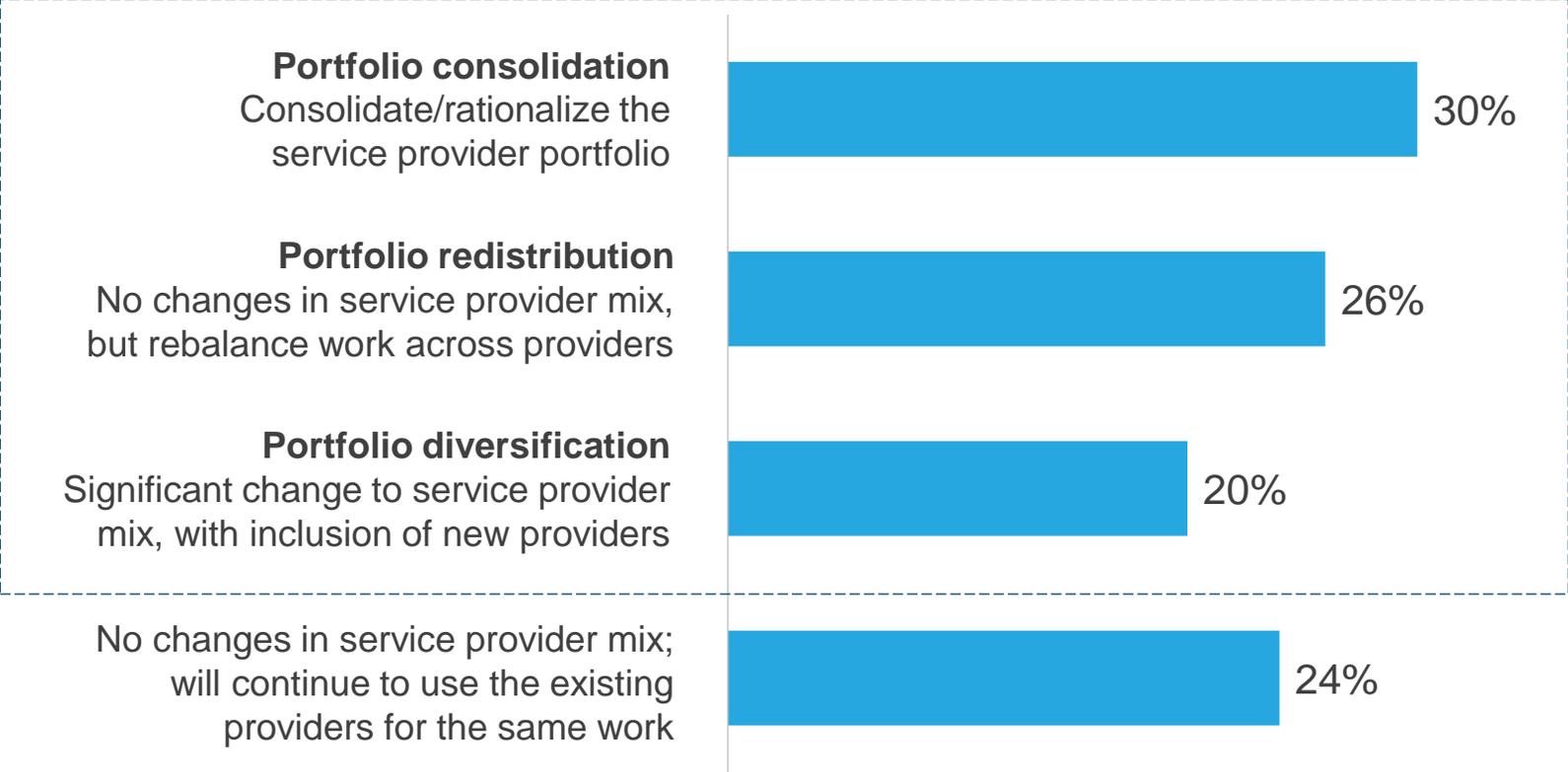
(select all that apply)

- Portfolio consolidation: will consolidate the service provider portfolio – **44%**
- Portfolio redistribution: will rebalance work across providers – **18%**
- Portfolio diversification: will significantly change the service provider mix, including adding new providers – **16%**
- No change: will continue to use the existing providers for the same work – **16%**
- Other – **6%**



# Most enterprises anticipate rationalizing their provider portfolios in 2021 through consolidation, redistribution, or diversification

How do you anticipate your service provider mix changing in the first half of 2021?  
Percentage of respondents



## Portfolio rationalization

**76%** of organizations are planning to make changes to their portfolio mixes

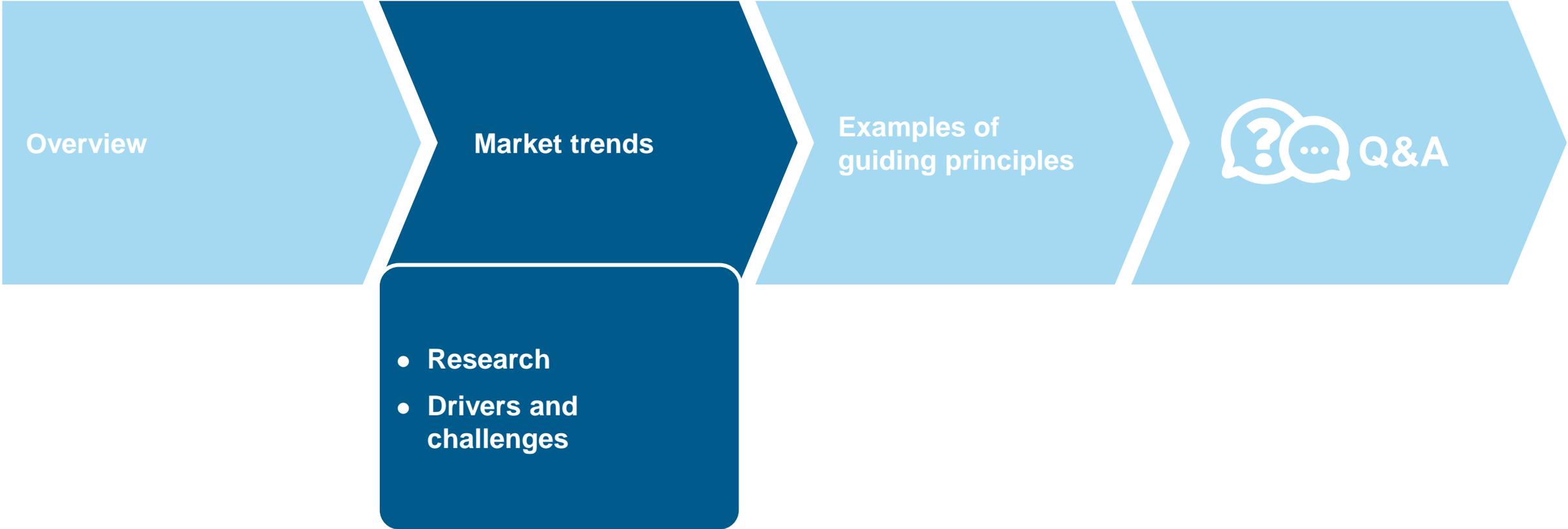
Source: Everest Group's Enterprise 2021 Key Issues Survey

# Portfolio strategy is not just about consolidating suppliers, its balancing cost, risk, talent, productivity, and other priorities to optimize the mix of service providers and locations

↑ Increase ↔ Constant ↓ Decrease

Strategies	Portfolio consolidation	Portfolio redistribution	Portfolio diversification
<b>Impact to supply base</b>	↓ Consolidation/rationalization of the supplier portfolio	↔ Rebalancing of work across suppliers	↑ Addition of suppliers to the current portfolio mix
<b>Value achieved</b>			
 <b>Cost</b>	May drive some savings through book of business discounts – organizations have achieved up to 28% savings along with administrative savings	May or may not have a cost impact; evidence of supplier performance improvement when best performing suppliers are selected	Increased need for assessment of new supplier pricing levels
 <b>Risk</b>	Reduced risk, especially in a WFH context, due to improved visibility of the supply base and reduced threats	Improved risk management if rebalancing involves right-shoring and geopolitical risk mitigation	Better balance of risk but with increased need for risk assessment and mitigation planning for new service providers
 <b>Productivity</b>	Increased productivity due to ease of supplier governance	Increased efficiencies through leverage of premium capabilities across the supplier portfolio	Increased efficiencies through addition of new capabilities (possibly premium) to provider mix; administrative burden may increase

# Discussion points for today



# Outsourcing service providers are often tiered based on their size and breadth of services

Supplier classification

Size-based segmentation

Tier 1	>\$5B in revenues
Tier 2	\$1-5B in revenues
Small	<\$1B in revenues

Capability-based segmentation

Generalist	Suppliers with a broad portfolio of services across IT Apps, Infra, & BPO
Specialists	Suppliers that deliver services focused on a narrow segment (e.g., industry, skills, IP)

For large companies that outsource IT and business processes heavily, most have a fairly low number of strategic service providers across significant spend

Spend and supply base



Outsourcing spend as a percentage of total revenue  
**3-5%**



Number of suppliers across IT/BPS categories  
**5-15**

# Most organizations are moderately satisfied with their current provider portfolios, with lowest satisfaction in risk distribution

## Satisfaction with the organization's current service provider portfolios

Low  High

Our organization has the right number of service providers for IT



Our organization has the right number of service providers for Business Process Services (BPS) and operational activities



Our risk is distributed appropriately among providers



Our business needs are covered by the providers we have in place



Our service providers are performing at the level our business needs



Our costs are optimized in the current provider distribution



Source: Portfolio Strategies in Outsourcing survey (2021); All data points in this section are from the Portfolio Strategies in Outsourcing survey (2021)

# Which factors determine how work is allocated across service providers?

(select all that apply)

- Existing relationship tenure - **49%**
- Service providers' global footprint - **35%**
- Offerings and solutions - **73%**
- Provider performance - **73%**
- Provider risk - **27%**
- Cost - **61%**
- Others - **0%**

# Service offerings, costs, and provider performance are critical factors to determine how work is allocated across service providers

Which factors determine how work is allocated across service providers?

Non-critical  Critical



Service offerings and solutions



Overall cost



Service providers' performance



Service providers' risk profiles



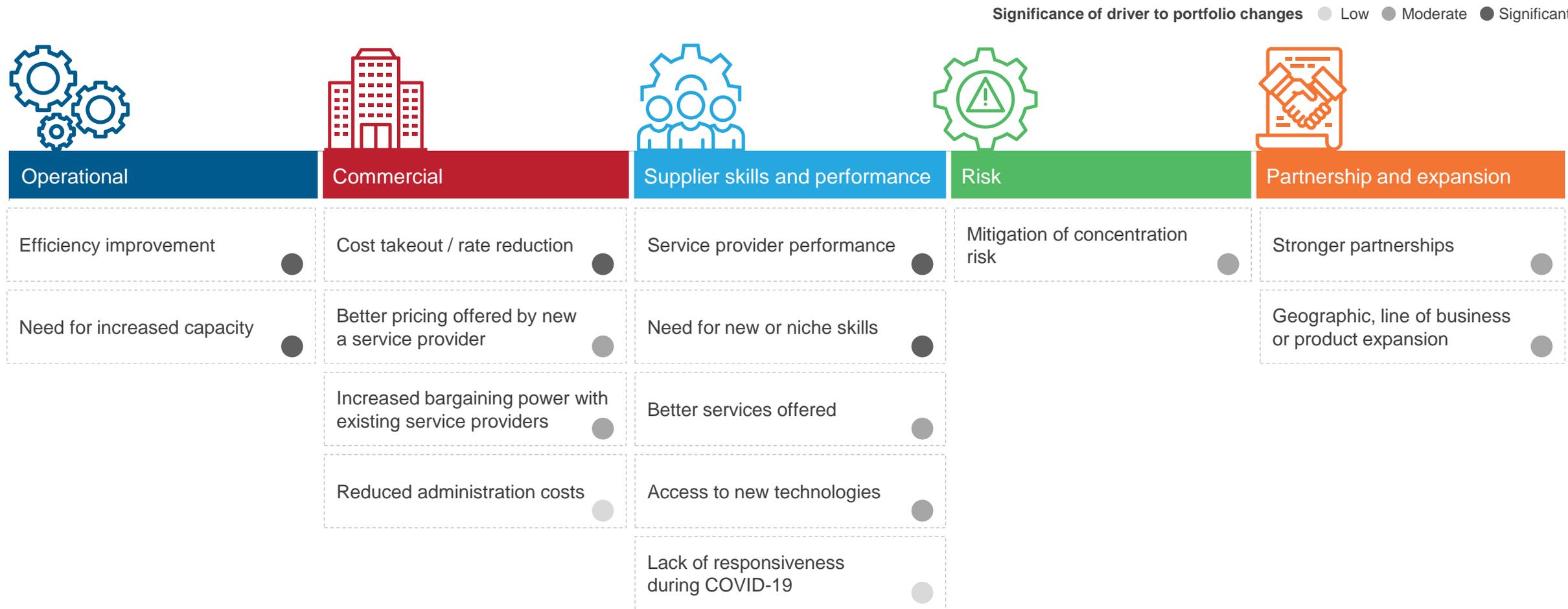
Existing relationship tenure with service providers



Service providers' global footprint



# Portfolio changes are often driven by efficiency improvement, need for niche skills, provider performance, and cost takeout



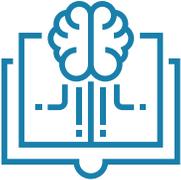
# Most enterprises face internal resistance, among other factors, when making portfolio changes



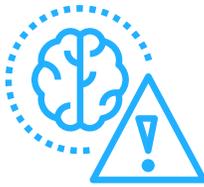
Internal resistance or misalignment of objectives with stakeholders



Productivity/ time loss due to transition and setup



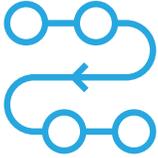
Loss of existing knowledge



Increase in concentration risk



Decline in responsiveness and/or performance



Loss of process standardization

## Impact level



# Example: transportation and logistics company has established a set of governing principles to guide IT portfolio strategy decisions



Access to new talent pools in alternative geographies to address the competitive IT environment



Diversified shoring model and locations to mitigate geopolitical risks, including nearshore offerings



Support in multiple time zones for the global IT customer base



Variety of provider types for cost structure flexibility, e.g., commodity, solution designers, thought leaders



Planned duplication in services scope to encourage competition and incentivize performance



No more than 70% of spend per service group with a single supplier to ensure diversification

Service providers' portfolio profiling and assessment

■ Inactive in domain/geography

Supplier	Region name	Supplier segmentation	Service 1 (e.g., application, data science, infrastructure, etc.)									Service 2								
			Onshore			Nearshore			Offshore			Onshore			Nearshore			Offshore		
			Location 1	Location 2	Location 3	Location 1	Location 2	Location 3	Location 1	Location 2	Location 3	Location 1	Location 2	Location 3	Location 1	Location 2	Location 3	Location 1	Location 2	Location 3
S1		Tier 1																		
S2		Tier 1																		
S3		Tier 2																		
S4		Tier 1 specialist																		
S5		Small																		

# Once the key components of a strategy are established, control ratios can set limits



**1** Confirm outsourcing posture – more, less, similar

Example of control ratios  
No more than **70%** of spend should be outsourced



**2** Revalidate supplier choices – retain, eliminate, add

Example of control ratios  
No more than **50%** of spend should be with a single provider



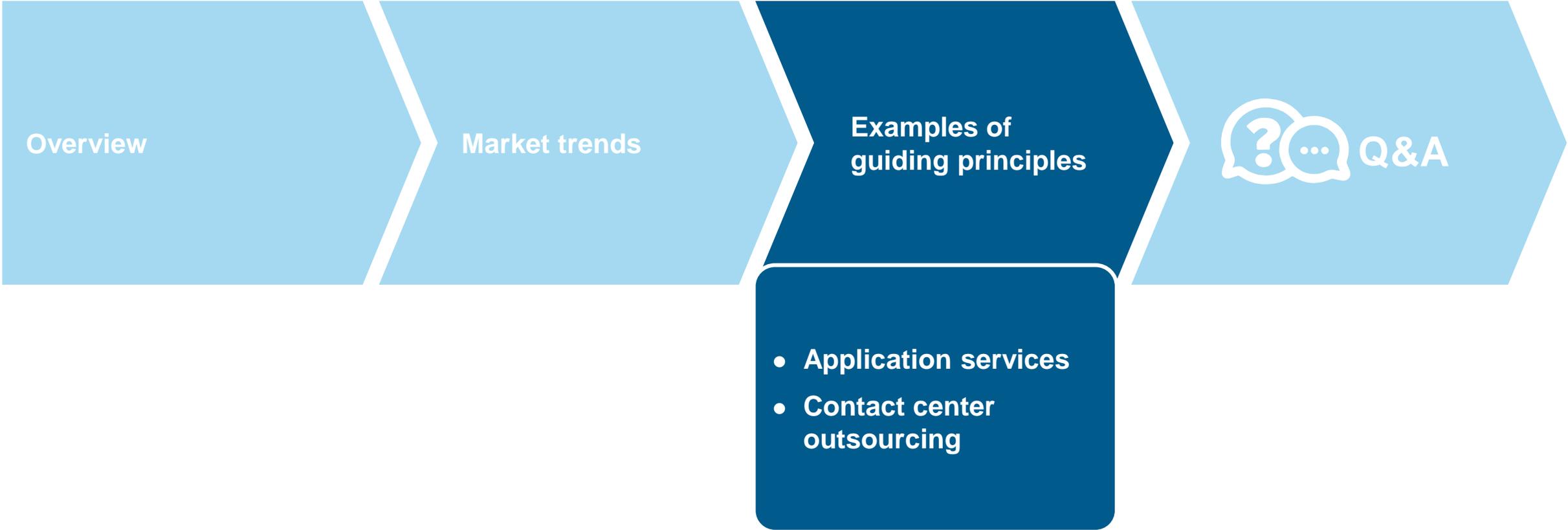
**3** Redesign the outsourcing portfolio – consolidate, redistribute, diversify

Example of control ratios  
No more than **70%** of spend should be in a single location

## Key decision-making considerations

Shoring mix	Supplier capabilities	Risk thresholds	Talent mix	Scope optimization	Cost structures	Supplier performance	CSR opportunities
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# Discussion points for today



# Application services

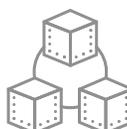
IT leaders are challenged to manage budget constraints and build the right IT workforce strategies

## Key challenges in IT today Share of respondents<sup>1</sup>

 **50%** managing budgetary constraints

 **42%** creating the right IT workforce strategy (locations, roles, skills)

## Emerging portfolio strategy changes and value achieved

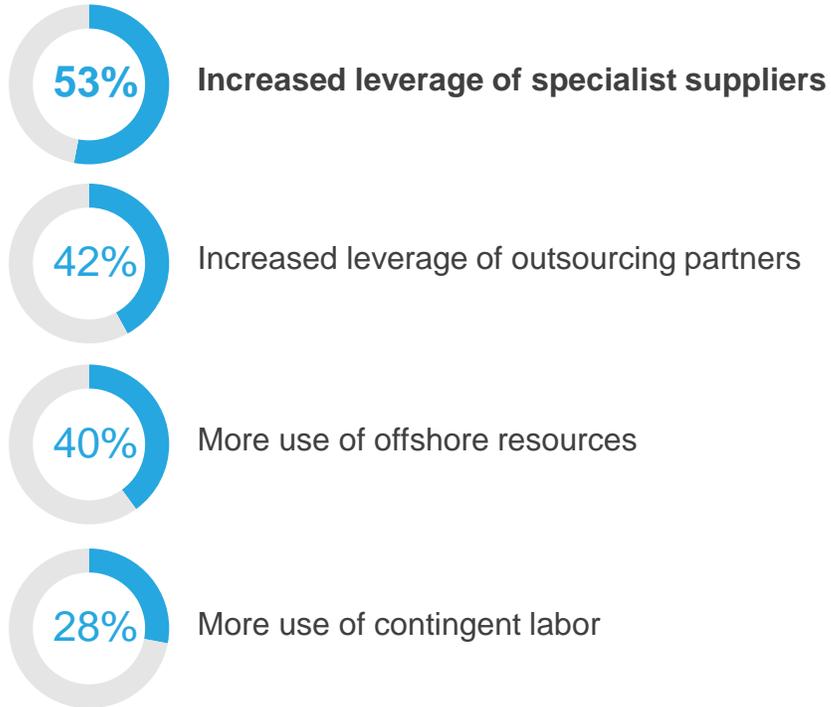
Strategy	Value achieved
<b>Portfolio consolidation/redistribution</b> 	<ul style="list-style-type: none"><li>● <b>Risk reduction</b><ul style="list-style-type: none"><li>– Mitigation of geopolitical risks</li><li>– Mitigation of company, contractual, and operating model risks</li></ul></li><li>● <b>Optimized costs</b><ul style="list-style-type: none"><li>– Created a mix of commodity players, solution designers, and thought leaders</li></ul></li><li>● <b>Operational efficiencies</b><ul style="list-style-type: none"><li>– Tool/platform consolidation</li><li>– FTE reduction savings</li><li>– Increased ease of governance and account management</li></ul></li></ul>
<b>Portfolio diversification</b> 	<ul style="list-style-type: none"><li>● Specialist skills</li><li>● Real IP/industry-centricity</li><li>● Right-shoring – support in tier-2 domestic cities / nearshoring</li></ul>

<sup>1</sup> Everest Group Enterprise 2021 Key Issues Survey

# Application services

IT outsourcing strategies are evolving to “strengthen the core and rationalize the tail” through selective specialization

## Enterprise pulse



## Guiding principles for the application services landscape

### Focused strategic suppliers

- Modernization and transformation
- Standardization

### Specialists

- Vertical/function-specific services

### Niche suppliers

- Strategy or next-gen consulting / organizational change management
- Niche platforms
- Localized or in-country operations

## Role of tier-1 specialist suppliers

Providers of niche skill sets

Providers of proprietary technologies

Perform routine activities

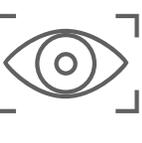
Price challengers

Decreasing relevance of factor

Source: Everest Group Enterprise 2021 Key Issues Survey; Portfolio Strategies in Outsourcing survey (2021); datapoints reflect views for the application services portfolio

# Application services

Example: a global CPG company conducted a calibration and refinement of its application operating model

		
Objectives	Benchmarking philosophy	Observations
<ul style="list-style-type: none"><li>• Rationalize application management supply base from 100 service providers to 3</li><li>• Transition from a capacity model to managed services</li><li>• Transform the retained organization</li></ul>	<ul style="list-style-type: none"><li>• Evaluate 15 comparable peers across CPG and adjacent industries</li><li>• Perform a detailed benchmarking for app dev, management, and DevOps</li></ul>	<ul style="list-style-type: none"><li>• Skewed cost profile toward apps run</li><li>• Ultra-fragmented supplier portfolio</li><li>• Subpar budgeting &amp; funding practices</li><li>• Suboptimal speed of innovation and execution (fostering shadow IT)</li></ul>

## Transformation roadmap considerations



Organization model  
(tackling siloes)



Supplier engagement models  
(beyond time & materials)



Visibility into existing  
skills inventory



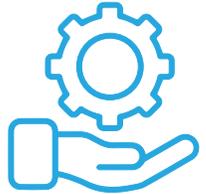
Investments for IT-led  
innovation

# Contact center outsourcing

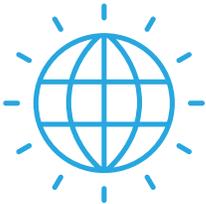
Organizations are open to exploring new models for their contact center portfolio strategies

## Market feedback from enterprises: “What will you do differently after the crisis has abated?”

Percentage of respondents



42% More service provider diversity



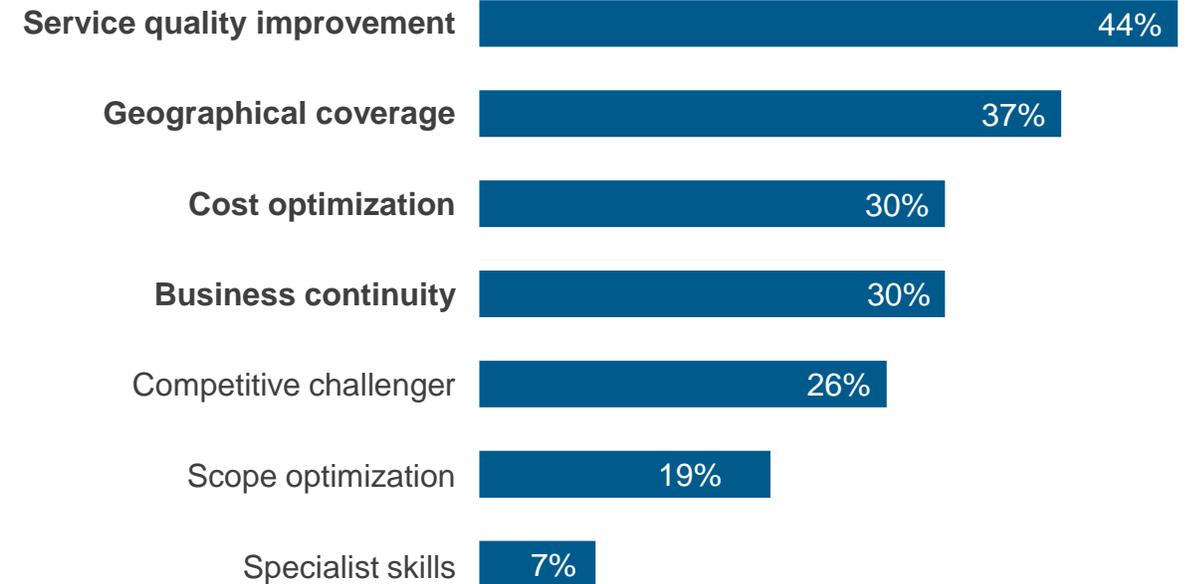
32% More geographic dispersion

### Notable trends in CCO service delivery models

- Evaluation of new service delivery models
- Review of service provider portfolios – single supplier vs. multi supplier
- Review of location strategies – remote vs. hybrid

## Driving factors when selecting a single supplier vs. multi-supplier strategy

Percentage of respondents



Source: Everest Group's CXM PEAK Matrix database (2021); Everest Group market study (April 2020); data points reflect views for the contact center portfolio

# Contact center outsourcing

A multi-supplier strategy is most common in CCO, with specific guiding principles across language considerations and control ratios

## Example of guiding principles used in a contact center portfolio strategy

### Language considerations

- No single language sites unless a niche language
- Global English volumes to gain greater efficiencies and consistency of delivery – English only used in a region to offset costs by leveraging economies of scale

### Site considerations

- Use of multi-lingual hubs especially for EMEA languages

### Control ratios

- No more than 50% of any large volume language in the same country
- No more than 30% of volumes with any supplier

### Number of service providers

- Organizations to work with 2 to 3 global providers for the bulk of the languages
- Minimum of two suppliers by language for larger volume languages

## Driving factors



**Business Continuity planning** at the heart of strategy



**WAHA%** in-line with business strategy for WAHA

# Contact center outsourcing

There are a few examples of single sourcing in contact center outsourcing

## Factors driving a single supplier strategy



### Increase ease of operations

Drive operational efficiencies in complex business models



### Reduce resource constraints

Reduce resource needs in lean organizations



### Improve supplier partnership

Drive success with a supplier by developing a partnership-driven approach



### Ensure cultural fit

Ensure supplier works in line with business needs

## Excerpts from customer experience leaders



“Our business is difficult and taking care of customers takes a lot of expertise. As long as one supplier can provide business continuity, we stick to that supplier.” – Leading tire manufacturing company



“Being a lean organization, using multiple suppliers would require more internal resources.” – Leading medical devices company



“We have a strong relationship with the supplier, working closely with not just operational managers but higher-level executives. The supplier has been able to flex with us and be agile in that way which has been fantastic.” – Leading retailer



“Current strategy is based on the supplier that best fits culture and aligns well with overall company objectives to drive to business and care for the people.” – Leading financial services firm

# Key success factors



## Success factors in setting portfolio strategies

### Set up effective governance

- Ensure ongoing engagement to control the addition of new suppliers
- Ensure detailed spend visibility and monitoring compliance
- Conduct regular engagement to discuss real or perceived issues with new suppliers and buying patterns

### Overcome stakeholder reluctance to change

- Encourage early stakeholder engagement to hear all perspectives
- Ensure top-down communication so the initiative is not perceived as a procurement project but as a strategic business initiative

### Ensure suppliers deliver upon expectations

- Develop clear ramp-up and run-the-business KPIs and SLAs which business units agree to
- Define supplier management processes and performance tracking
- Hold continuous improvement sessions with suppliers to encourage innovation and additional value

# Do you have the market intelligence you need? (for buyers of services)

Choose a topic and schedule time with our analyst team to review the data

## Option 1: insights on service providers

### Service Provider Snapshots

**HCL Technologies | overview**

**HCL Technologies | delivery footprint and headcount**  
HCL Technologies has presence in over 30 countries with more than 70 delivery centers

**HCL Technologies | key public info**

**HCL Technologies | ITS snapshot**  
Chart depicting relative composition of HCL Technologies IT services segments' as per their revenue size, growth, and number of FTEs

## Option 2: insights on locations

### Location Spotlights

**Mumbai | Risk profile** (page 1 of 2)  
Stable geopolitical and macroeconomic environment along with strong government support for developing suitable infrastructure for industries

**Mumbai | Talent and cost overview** (page 1 of 2)  
Significant availability and high quality of entry-level and experienced talent that can support depth of skills and complex work delivery for IT and BP services

**Mumbai | At a glance**

## Option 3: insights on markets

### State of the Market Reports

**Application services adoption by buyer size | key trends**  
Smaller enterprises are leading the momentum in AS engagements empowered by transformation agencies

**IT services industry' growth history and forecasts**  
IT services industry' base case forecast predicts some improvement in ITS growth towards end of the year

**Revitalized applications act as a strong foundation and enterprises should aim to move towards value-driven approach underpinned by business-centric technology agenda**

**Global ITS market | key service providers'**  
Accenture is among top five service providers across all three service types



Use the link in the chat to select a topic, and we'll reach out to schedule your complimentary analyst review of the MI

\*Offer available for buyers of services

# Discussion points for today





## To ask a question during the Q&A session

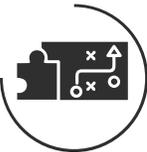
- Access the **Questions** panel within the Zoom console, which is typically located on the bottom of your Zoom window
- Type your question in the dialogue box, then select **Send** to submit the question to our session Organizers/Panelists
- Attendees will receive an email with instructions for accessing today's presentation
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# Everest Group assists procurement teams in capturing value from their services spend through memberships and focused projects

## Memberships

### Outsourcing Excellence

Best-in-class **market intelligence** to maximize value from technology and operations outsourcing



Sourcing strategy / provider portfolio



Solution design



Risk management

### Pricing as a Service

On-demand **price benchmarking** and performance analytics to maximize outsourced spend reduction



Pricing and cost

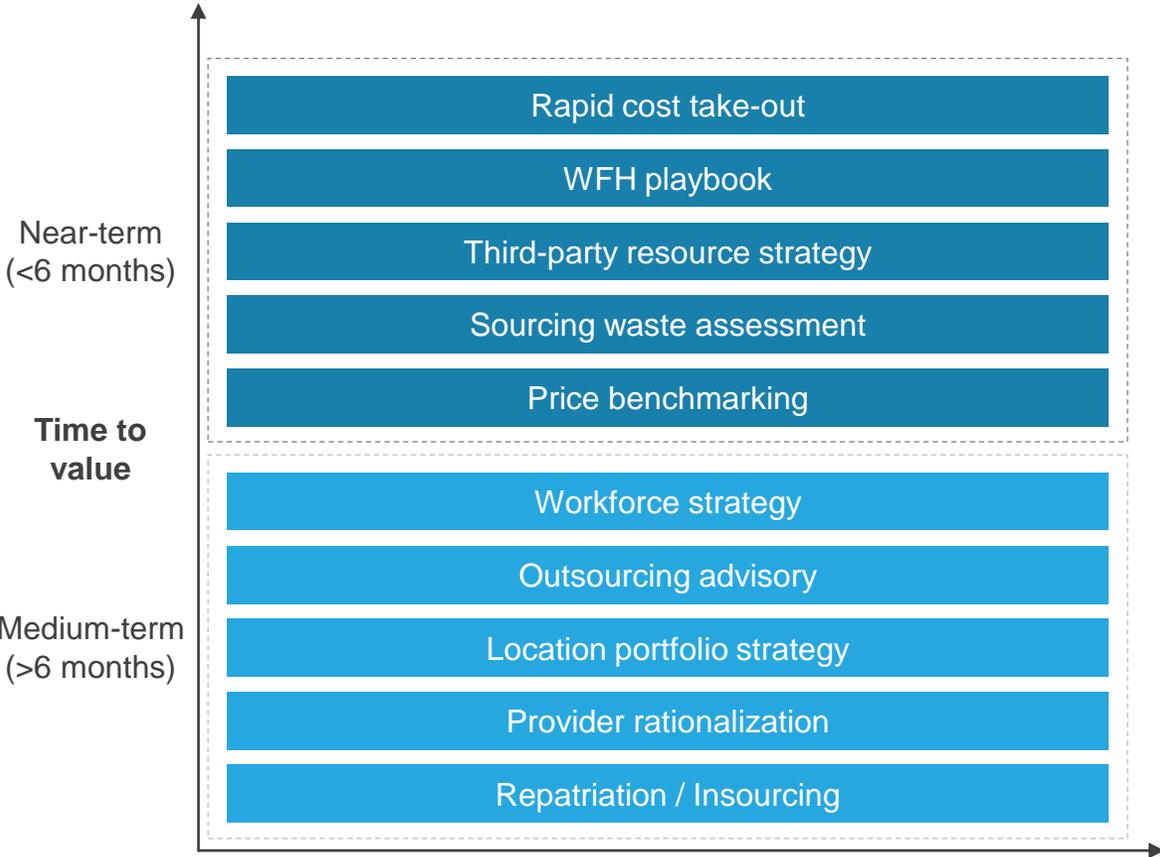


Performance management



Policy and contracting

## Projects



# Upcoming Webinars



**Digital for Good:  
Shape Your  
Sustainability Journey**

**JOIN US**  
Tuesday, June 22, 2021



**Sourcing for IT Specialist  
Capabilities —  
The What, Why, and How**

**JOIN US**  
Tuesday, July 6, 2021



Register for our upcoming events



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