

Recalibrating for Resiliency – 2021 Key Issues in Global Sourcing

Sourcing and Vendor Management Perspective

January 2021



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01

Introduction and overview

- Background, methodology, and scope of research
- Summary of key messages

Background, methodology, and scope of the research

Background of the research

While 2020 has been challenging on multiple fronts, many organizations have seen the positive side, taking on the challenge to recalibrate for resiliency, to thrive through the continuing pandemic and emerge better prepared for future crises. This report provides perspectives on how leading global enterprises are putting 2020 behind them and planning to develop resiliency in 2021 and beyond. The report highlights enterprises’ growth sentiments, key priorities, challenges, and initiatives from a global sourcing perspective, with a deep dive into Sourcing and Vendor Management stakeholder groups.

Methodology

Our global services market Key Issues research is based on annual surveys that capture the pulse of the market on key aspects of global sourcing industry. This report presents the results of a study we conducted in October and November of 2020 with senior stakeholders from global enterprises across multiple departments such as procurement, IT, and Global Business Services (GBS) to understand their thoughts as they undertook planning for 2021, with a focus on Sourcing and Vendor Management stakeholder groups.

Report focus

- Financial performance in 2020 and sentiments for 2021
- Anticipated top business challenges and critical business model changes in 2021
- Digital capabilities priorities
- Talent-related challenges and hiring sentiments for 2021
- Top procurement challenges and high impact cost management approaches
- Anticipated changes to service provider portfolios and key service provider-related challenges and priorities
- Operating model changes

Scope of this report:



Geography
Global

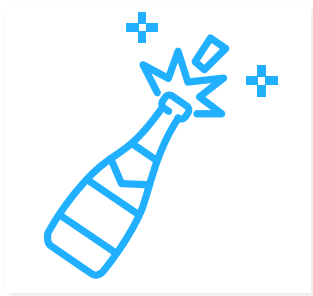


Industry
Cross-industry



Services
IT and business process services

Summary of key messages



**We made it –
2020 is coming
to an end**



**Digital is moving from pilot
to program**



**Talent focus is moving
from quantity to quality**



**Sourcing momentum
is accelerating**



**Operating models
– everything is on the
table**

02

Market sentiments


- Financial sentiments
- Key business challenges
- Anticipated business model challenges

We entered 2020 with UNcertainty...and we were right about that, but for the wrong reason

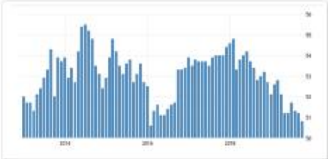
How it started

But the external noise is deafening and creating UNcertainty


Policy via Twitter




Weakening manufacturing growth





US/Europe elections




Geopolitical issues – Brexit, NATO, global trade, US/China trade









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How it's going



Pent-up/op-timism: the sense that tension is building for a breakout 2021...

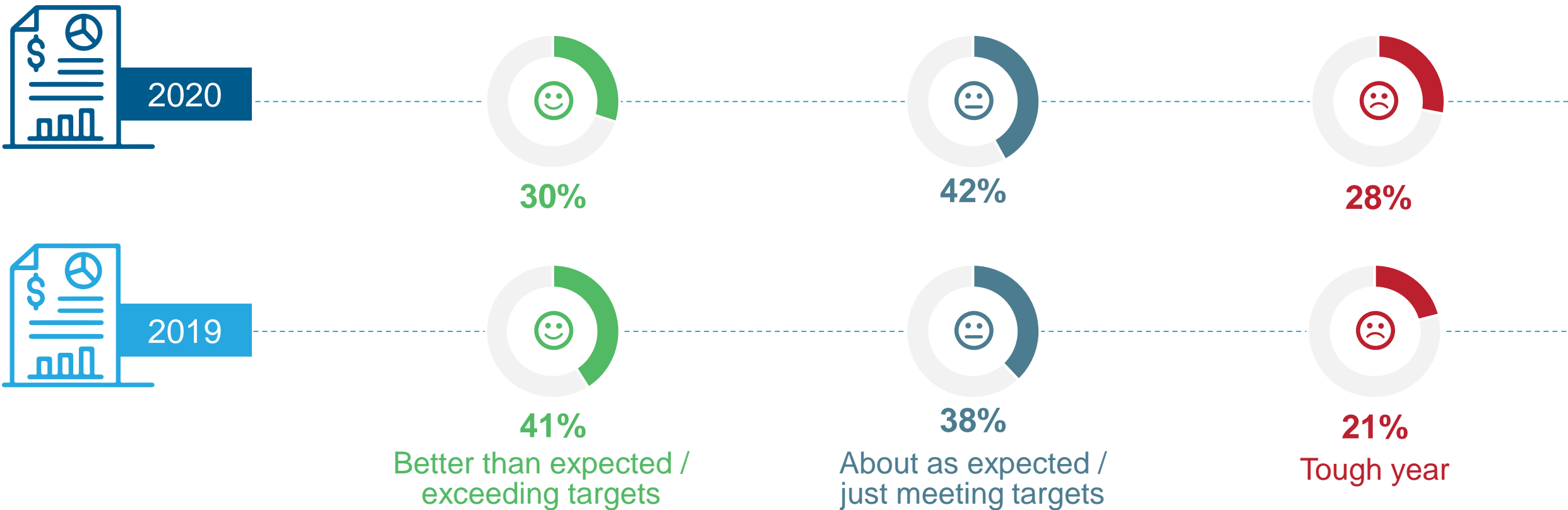


If 95% effective



Despite the pandemic, more than 70% of the industry was optimistic about meeting or exceeding its 2020 targets...

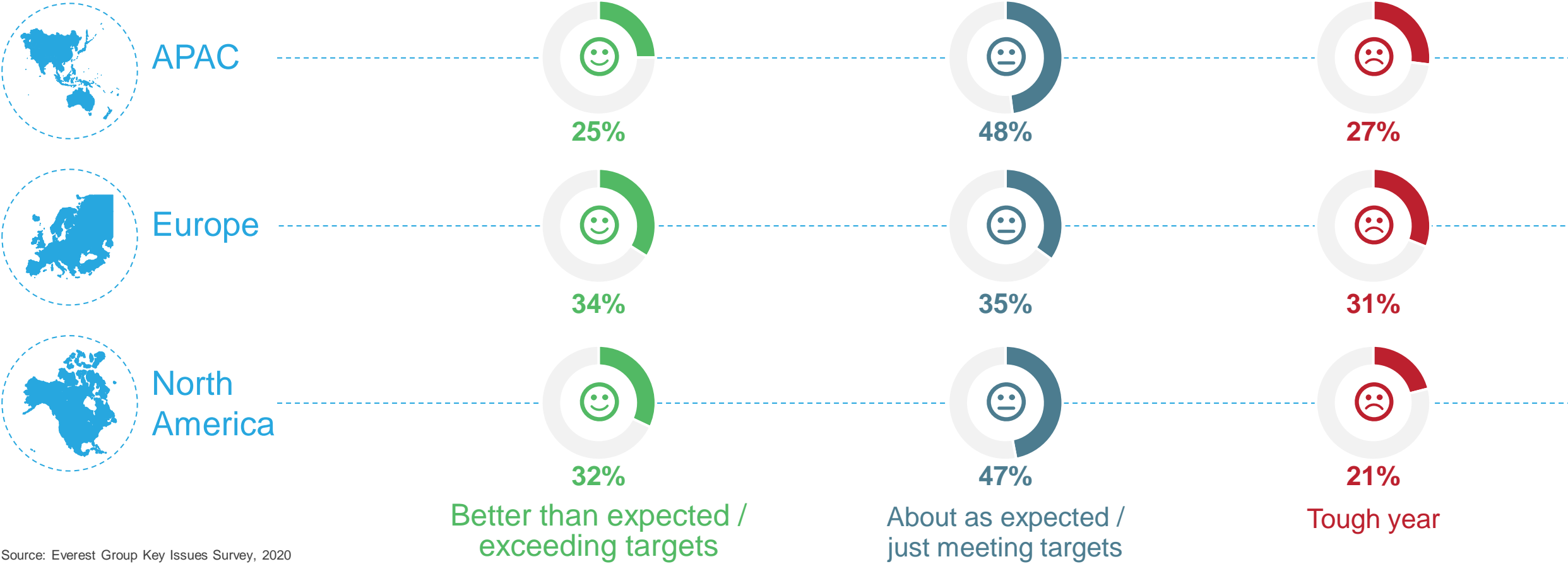
Sentiment about 2019 and 2020 financial performance – enterprises and service providers
Percentage of respondents



Source: Everest Group Key Issues Survey, 2020 and 2019, respectively

...and this trend is similar across geographies

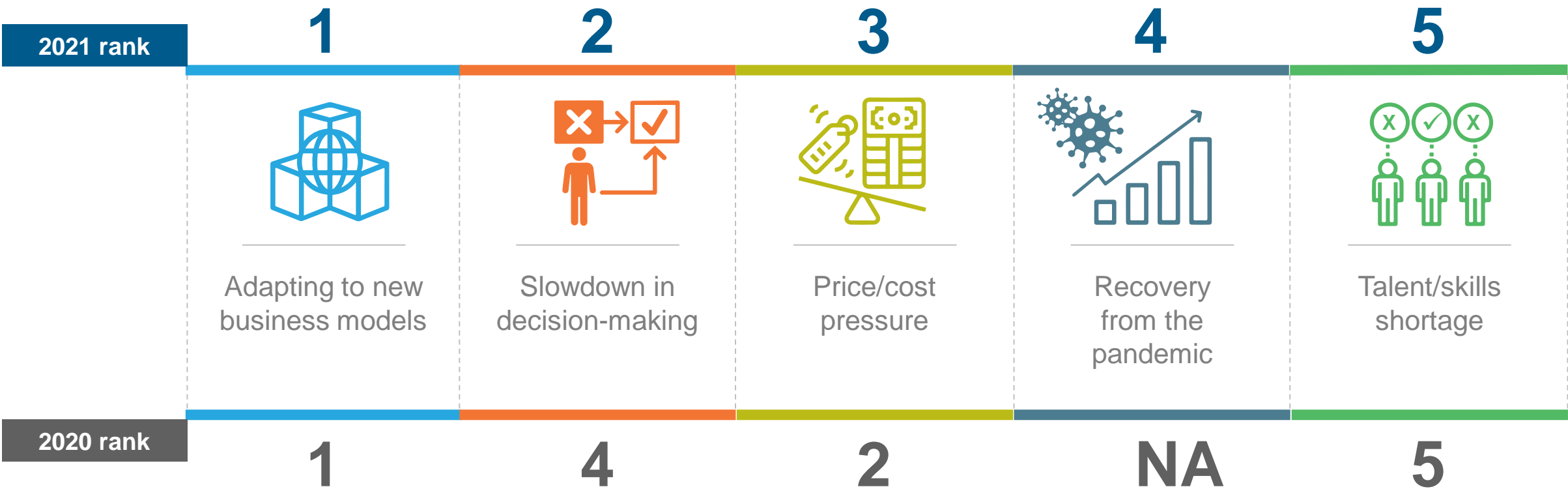
Sentiment about 2020 financial performance, by region – enterprises and service providers
Percentage of respondents



Source: Everest Group Key Issues Survey, 2020

Adapting to new business models remains the top business challenge

Key business challenges – enterprises and service providers

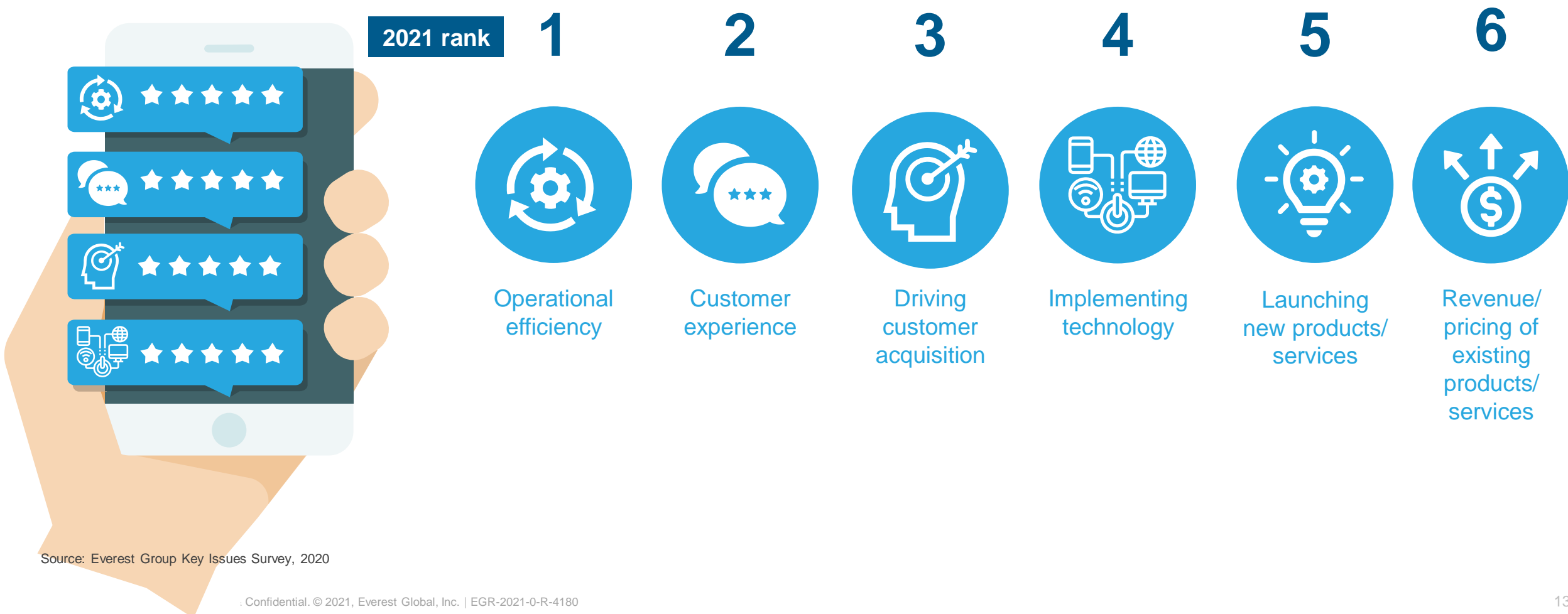


Note: In 2020, regulations in key markets was the #3 issue (think trade wars/tariffs)

Source: Everest Group Key Issues Survey, 2020 and 2019, respectively

Enterprises are increasing their focus on technology implementation and customer acquisition

Critical business model changes / areas of innovation for the next 1-2 years – enterprises and service providers
Based on percentage of respondents selecting as highly critical



Source: Everest Group Key Issues Survey, 2020

03

Enterprise digital capabilities

- Digital as a lever to improve resiliency
- Key digital priorities

Enterprises increasingly identify data availability, spending levels, and digitalization as key levers to increase business resiliency

Ranking based on percentage of respondents selecting as highly important – enterprises

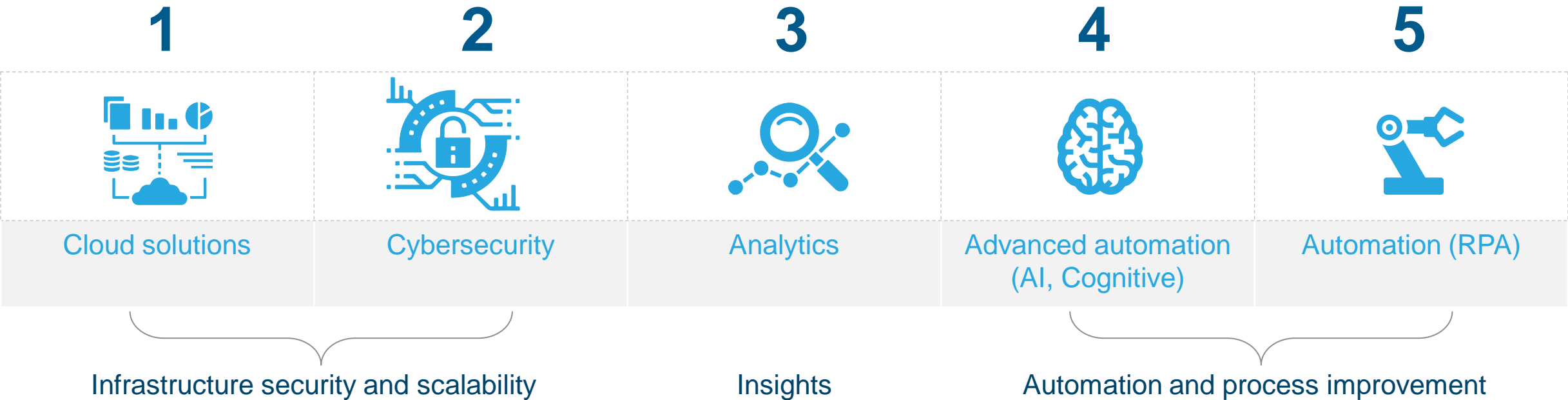
Data availability/cleanliness/visibility
Spending/cost levels
Digitalization/automation
Risk planning and mitigation
Service level flexibility
Scalability of key outputs
Ability to move resources around the world

Geographic diversification of the workforce

Use of alternative talent models (e.g., gig/contingent)

With increased digitalization – further accelerated by COVID – cloud and cybersecurity emerge as top digital/next-generation capability priorities

Top digital/next-generation capability priorities for the next 6-12 months – enterprises and service providers



Source: Everest Group Key Issues Survey, 2020

04

Enterprise talent

- Hiring sentiments
- Talent related challenges

Hiring for 2021 will be significantly muted across geographies

Sentiments about anticipated headcount growth – enterprises and service providers

Percentage of respondents

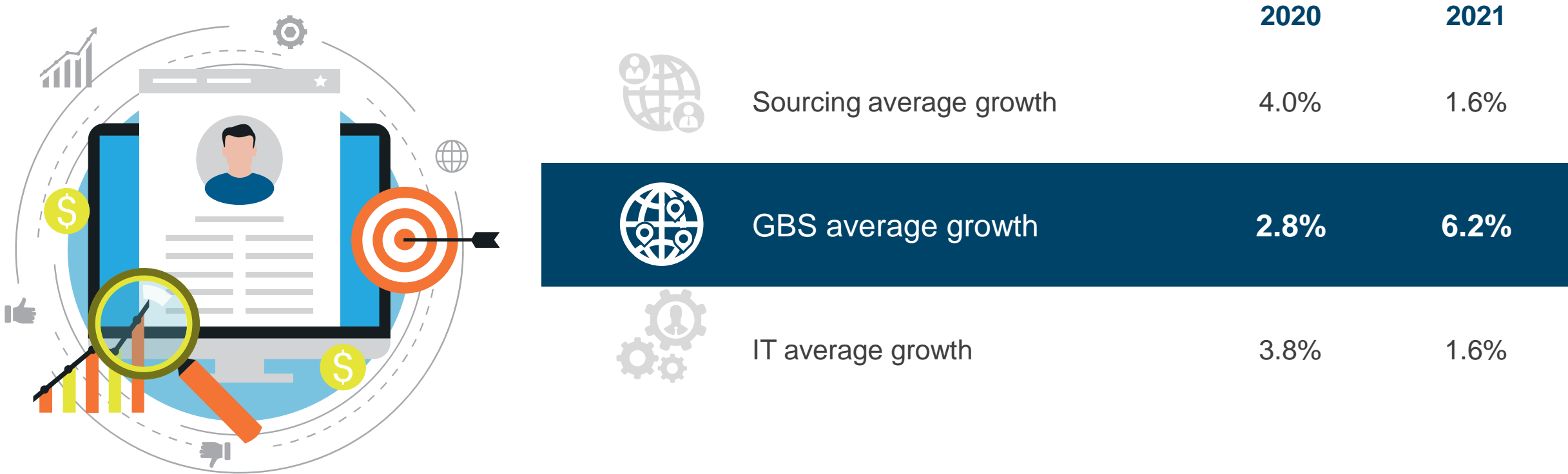


	2020	2021
Overall market average growth	5.2%	2.7%
 APAC average growth	10.2%	4.7%
 Europe/UK average growth	3.9%	2.0%
 North America average growth	4.6%	2.1%

Source: Everest Group Key Issues Survey, 2019 and 2020, respectively

Hiring for 2021 will be significantly muted across functions, except GBS, which is anticipating substantial relative growth

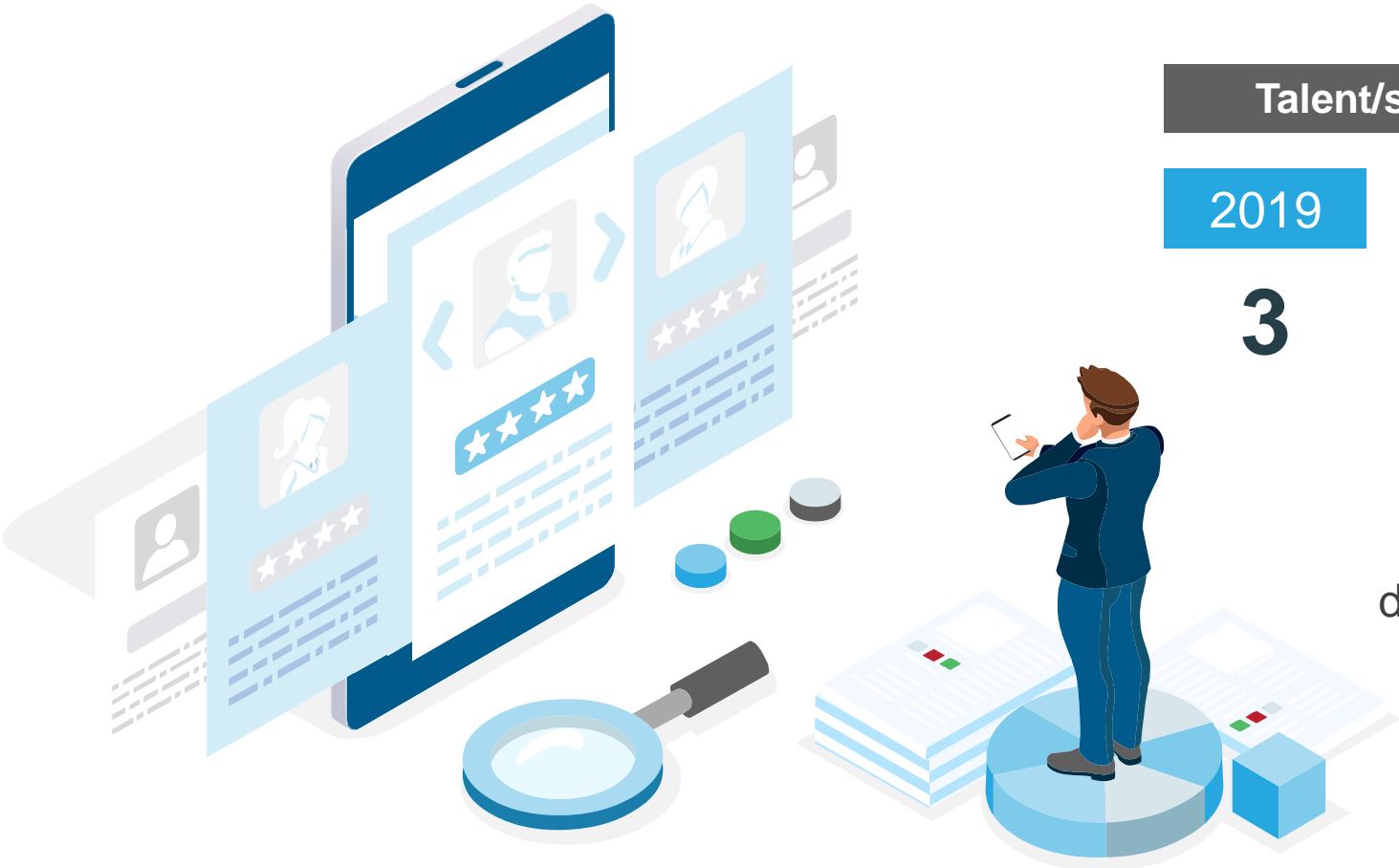
Sentiments about anticipated headcount growth, enterprise department view
Percentage of respondents



Source: Everest Group Key Issues Survey, 2019 and 2020, respectively

However, enterprises are significantly less concerned about talent/skills shortages now than they were in 2018...

Ranking of talent/skills shortages as a key challenge, 2019-21 – enterprises



Talent/skills shortages as a key challenge: ranking		
2019	2020	2021
3	5	8

...with the pandemic causing unemployment rates to soar, the amount of talent needed is diminished, but there is still a talent challenge

Source: Everest Group Key Issues Survey, 2019 and 2020, respectively

While talent is no longer a top-3 issue, it remains a challenge, but with a few new twists

Top talent-related challenges – enterprises
Percentage of respondents selecting as highly challenging



Source: Everest Group Key Issues Survey, 2020

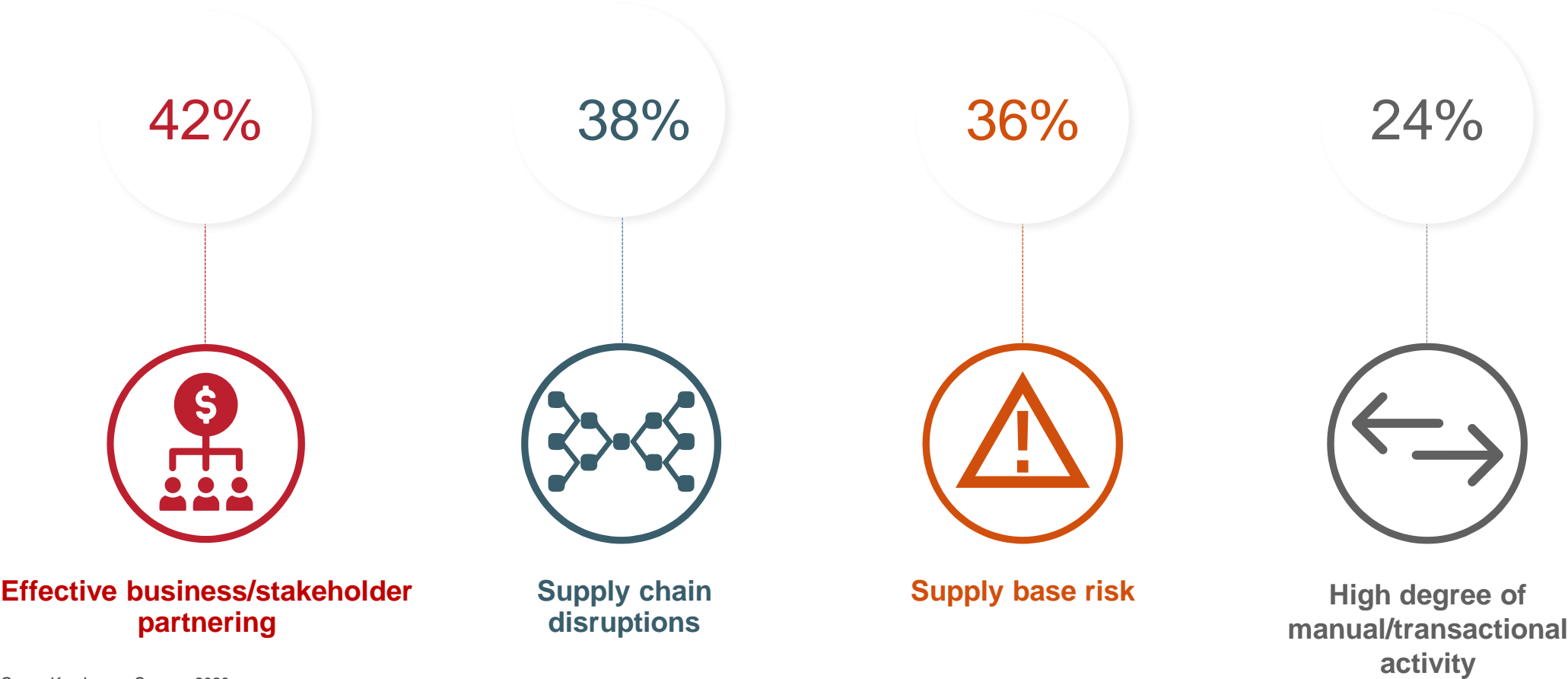
05

Sourcing strategy

- Top procurement challenges
- High impact cost management approaches
- Anticipated changes to service provider portfolio
- Key service provider related concerns in 2021
- Service provider stability
- Expectations from service providers in 2021
- Satisfaction level with service provider performance during COVID-19

Effective stakeholder partnering and supply chain disruptions are key business challenges for procurement teams

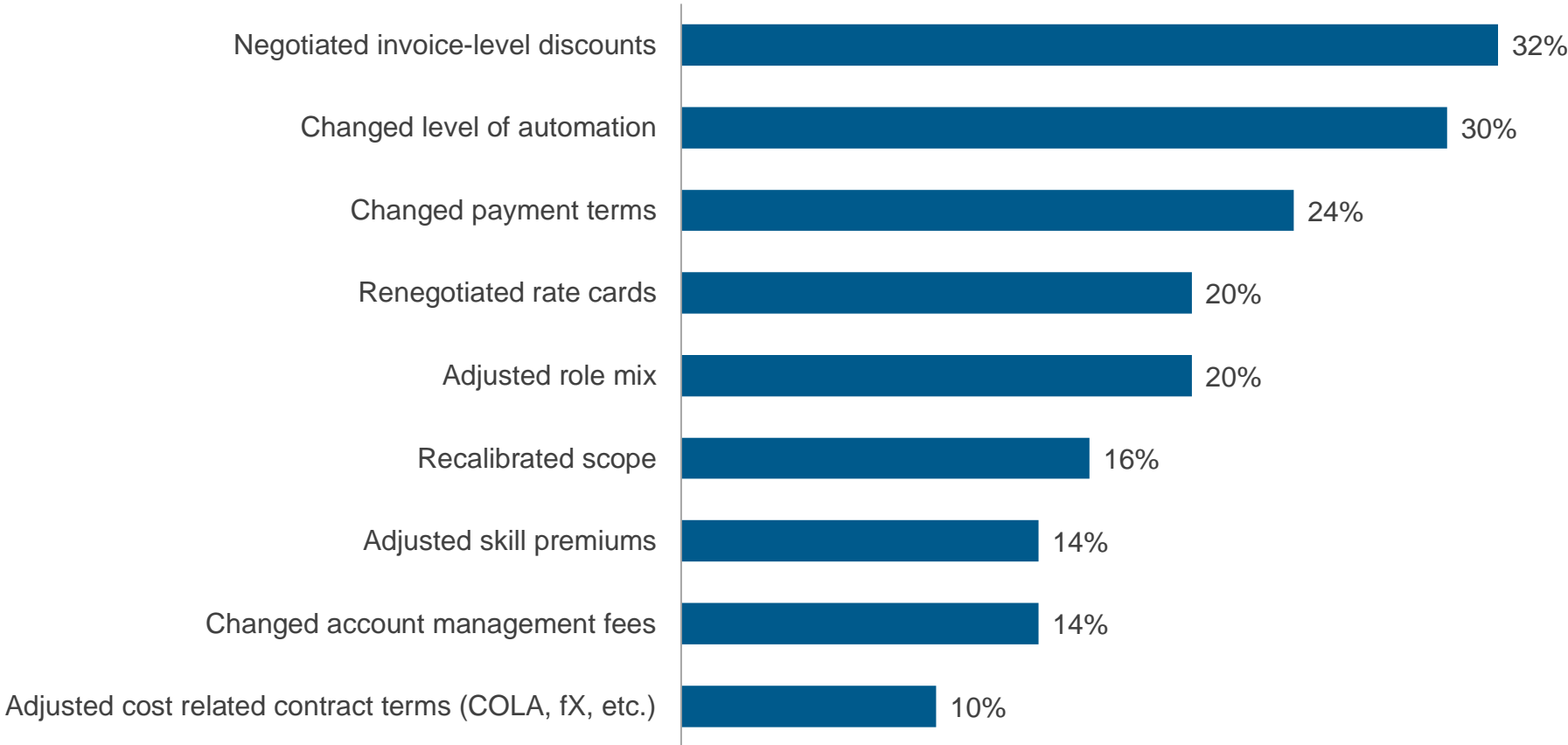
Key business challenges for procurement
Percentage of respondents selecting as highly challenging



Source: Everest Group Key Issues Survey, 2020

To combat pandemic challenges, procurement teams took targeted approaches to cost improvements with their outsourced service providers

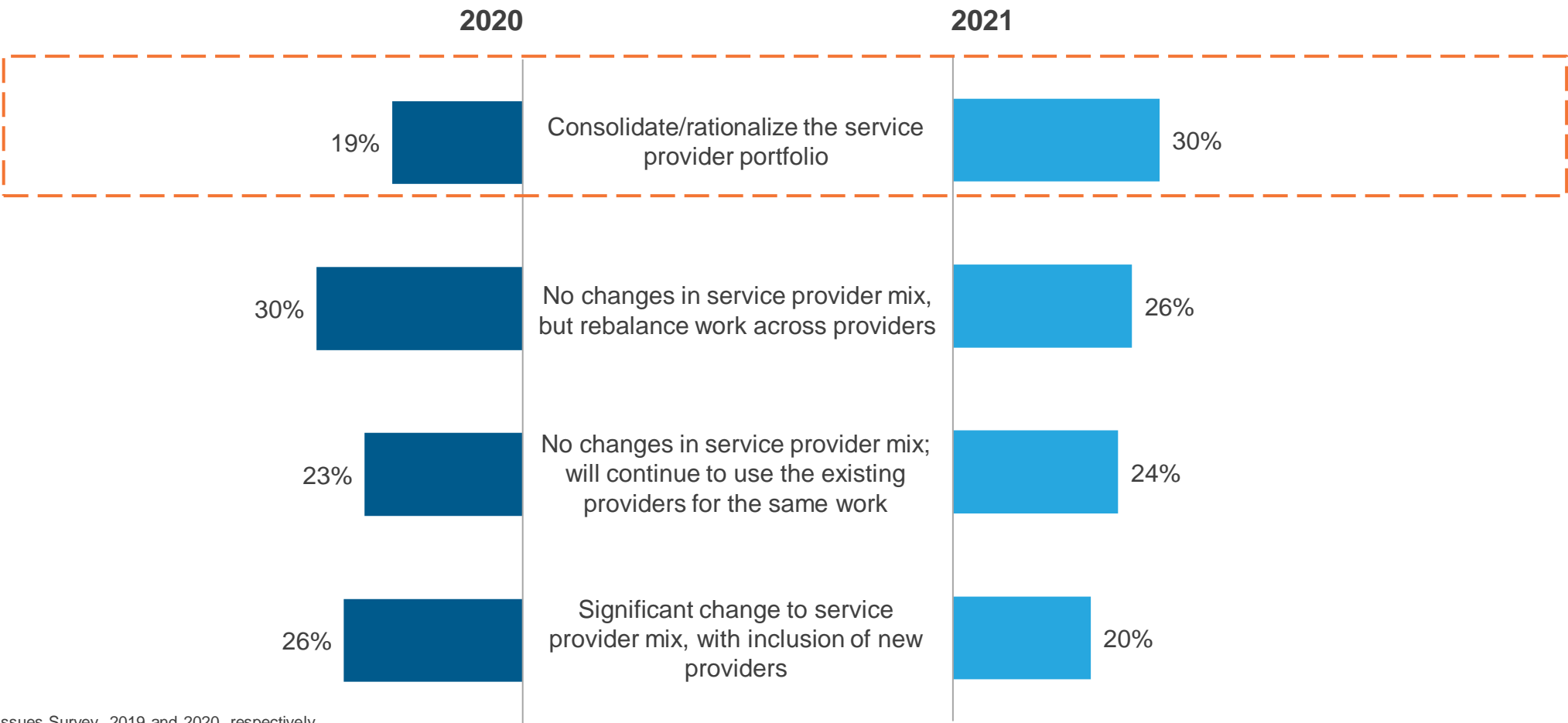
Percentage of procurement respondents selecting as high impact



Source: Everest Group Key Issues Survey, 2020

Procurement organizations largely anticipate consolidating / rationalizing their service provider portfolios

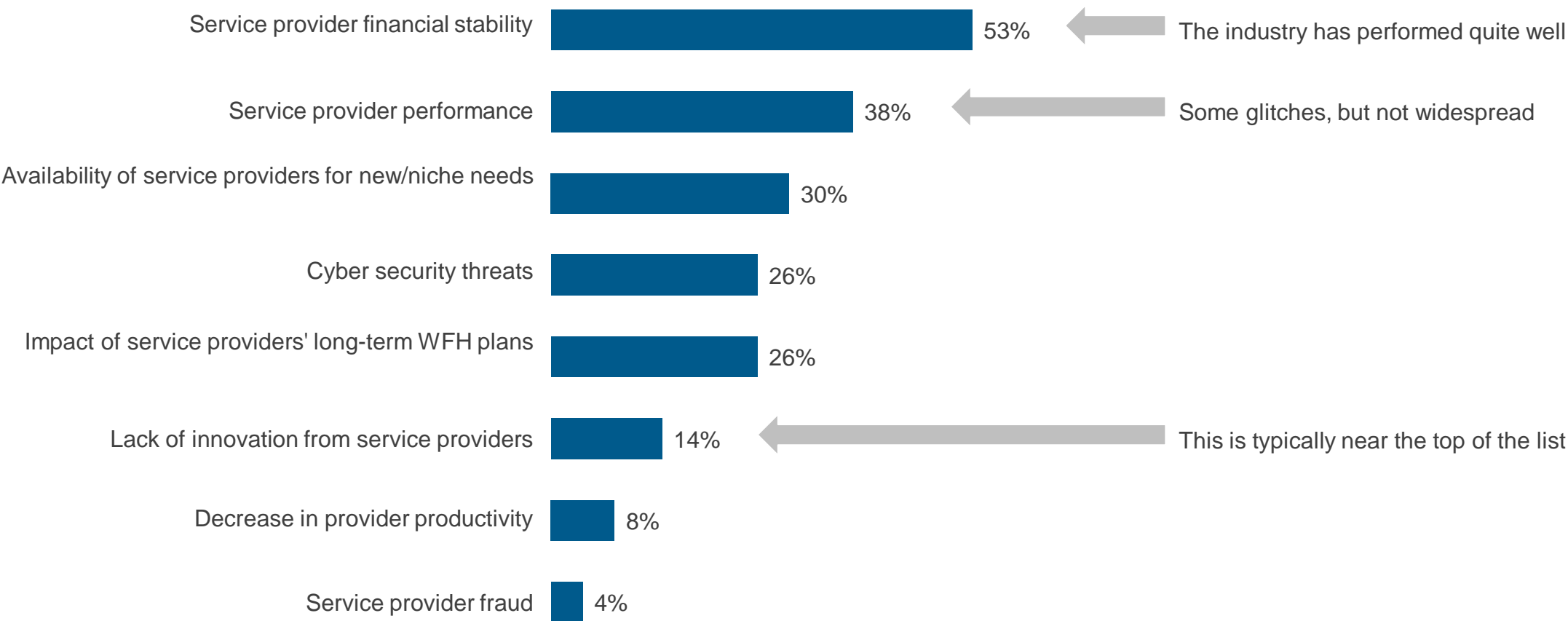
Percentage of respondents – enterprises



Source: Everest Group Key Issues Survey, 2019 and 2020, respectively

However, despite these changes, there remain concerns such as service provider financial stability and performance in 2021

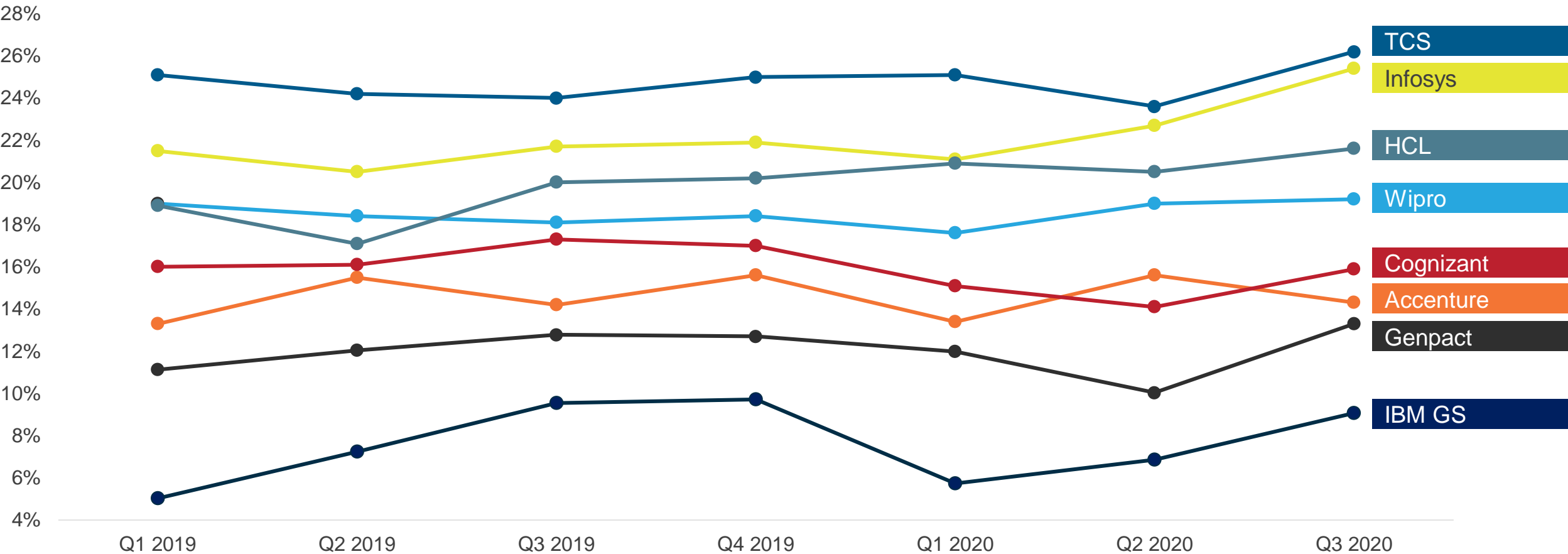
Percentage of respondents selecting as high concern – enterprises



Source: Everest Group Key Issues Survey, 2020

Despite concerns about financial stability, the industry has actually performed quite well

Operating margin by quarter



Source: Company financial reports

Top priorities enterprises expect from their service providers are productivity and service quality

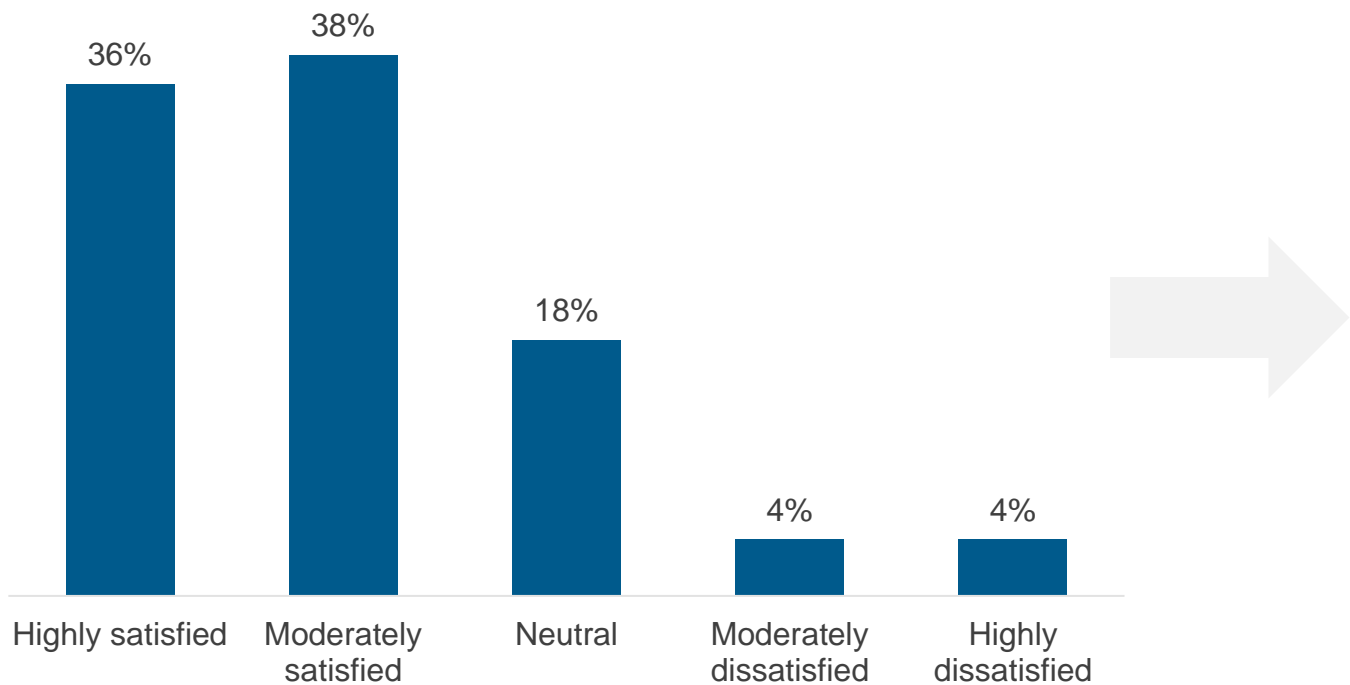
Key performance parameters enterprises expect from service providers



Source: Everest Group Key Issues Survey, 2020

Enterprises remain largely satisfied with their service providers’ performance, even during the COVID-19-induced shutdown

Average satisfaction with service providers during the COVID-19 shutdown
Percentage of respondents



- ### Key value propositions driving satisfaction
- 1 Flexibility to react to change
 - 2 Partnership mindset
 - 3 No impact to performance levels
 - 4 Strong communication

Source: Everest Group Key Issues Survey, 2020

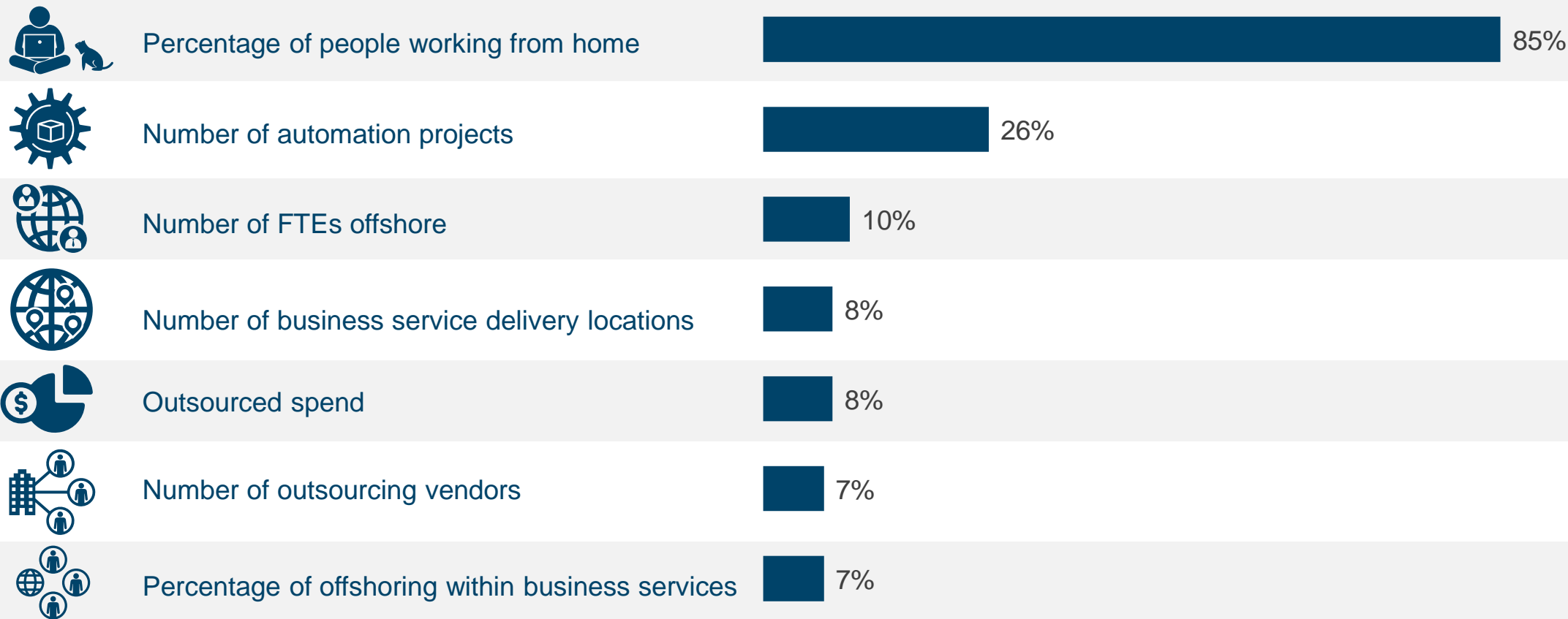
06

Enterprise Operating models

- Key operating model changes driven by COVID-19
- Current leverage of Work From Home (WFH) and anticipated changes in 2021
- Expected changes to real-estate needs in 2021

The percentage of the workforce working from home and the number of automation projects were significantly impacted by COVID

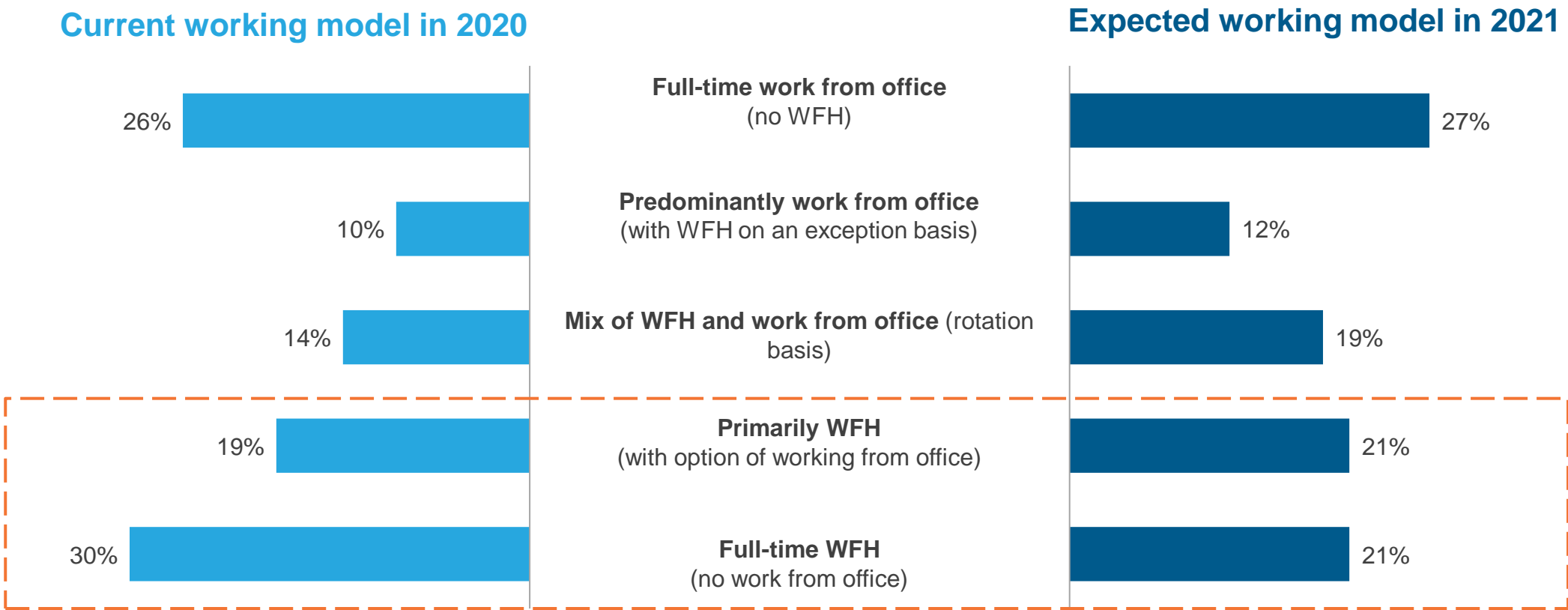
Key strategic indicators impacted by COVID – enterprises and service providers
Share of respondents seeing moderate to high impact



Source: Everest Group Key Issues Survey, 2020

WFH will continue in 2021, though at a relatively lower scale than in 2020

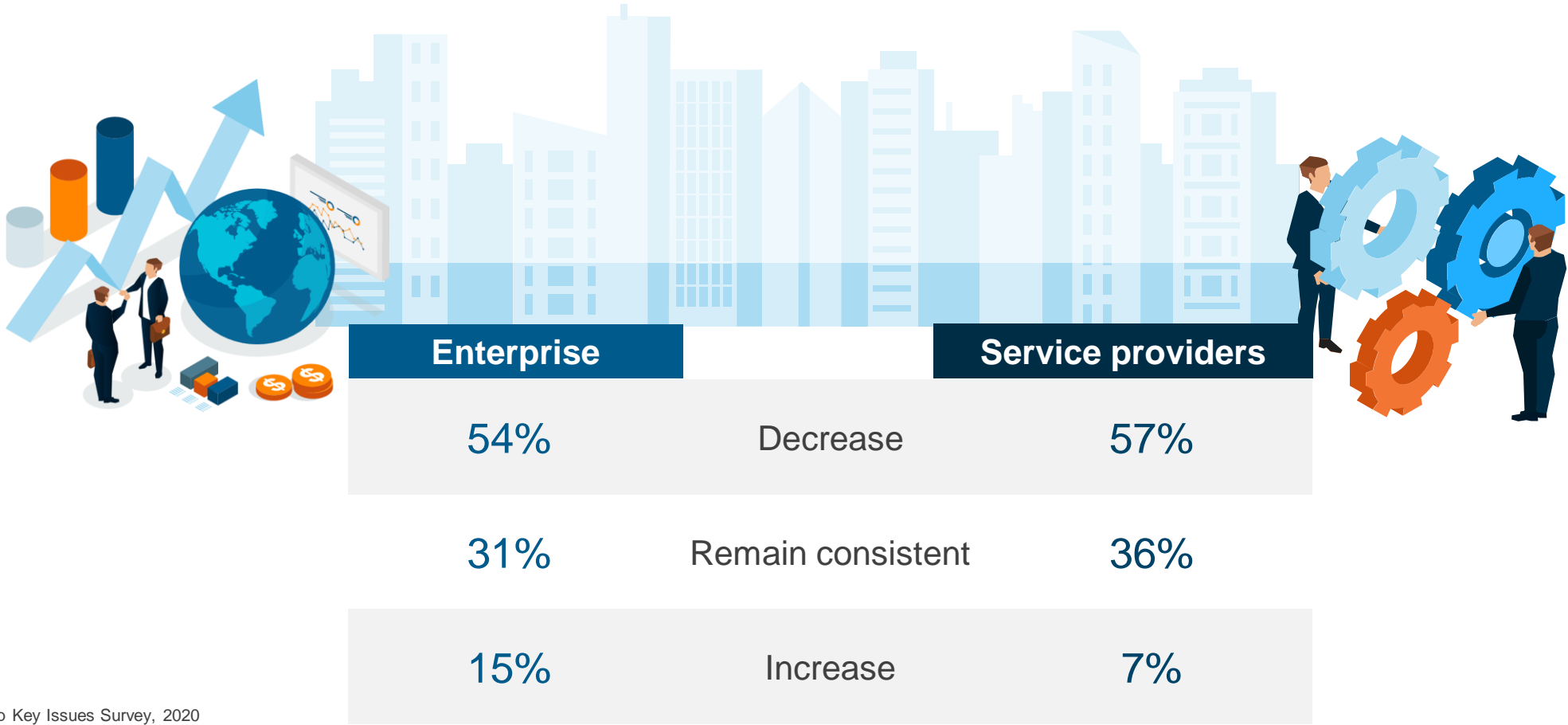
Percentage of respondents – enterprises



Source: Everest Group Key Issues Survey, 2020

More than half of enterprises and service providers expect their real estate requirements to decrease in 2021

Expected change to real estate needs in 2021 compared to 2020
Percentage of respondents



Source: Everest Group Key Issues Survey, 2020

07

Appendix

Glossary

Glossary of key terms used in this report

Buyer	A Buyer is the company/entity that purchases offshoring services from a service provider of such services
Digital services	These include Social & interactive, Mobility, Analytics, Cloud (SMAC), cybersecurity, Internet of Things (IoT), Automation, etc.
Enterprise	Parent organization or entity. Enterprises set up and manage captives/GBS centers and outsourcing/third-party relationships
FTE	Full-Time Equivalent. An effort equal to one employee working 100% of the time
Global Business Services (GBS)	Entity in an offshore/nearshore location that provide services exclusively to the parent
Global sourcing	Global Sourcing refers to a strategy wherein services are sourced from a country (or countries) different from the country (or countries) where the company receiving the services is located. It includes both offshoring and near shoring
Nearshore	A special case of “offshoring” in which the services are provided from a different country but one which is similarly situated as the country of the buyer. For example, major nearshoring locations for companies in the U.S. include Canada and Mexico
Offshore	The transferring activities or ownership of a complete business process to a different country that is significantly geographically separated from the country (or countries) where the company receiving the services is located (E.g., US-based enterprises offshoring to India). Companies may utilize offshore either through an outsourcing arrangement with a third-party or by establishing their own GBS presence in the offshore location
Onshore	When the services are provided in the same country in which the buyer (enterprise) is located
Service delivery center	The facilities/locations from where services are being provided. In the offshoring/outsourcing world, refers to captives/GBS and centers of third-part providers



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