



The future of outsourcing

Next-generation outsourcing deals move beyond cost-cutting and enable true business transformation.

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The future of outsourcing

Outsourcing is gaining new life by driving business transformation for enterprises.

Responding to market demands, service providers are delivering innovative solutions that have moved from the back office into the middle and front offices. With COVID-19 and other external factors leading clients to reassess their business models and strategies to get more value from providers, outsourcing is proving its merit and positioned for a strong future.

In its coming wave, outsourcing should not only bring excellent service but transform business processes and functions by delivering innovative and integrated solutions with speed and agility, while meeting (or exceeding) the experience expectations of clients.

Randy Wiele, managing director in the KPMG Procurement and Outsourcing Advisory practice, shares that this is the biggest disruption and most exciting period he's seen in the industry in the past 40 years. For

several years now, KPMG has been out front in its belief that outsourcing is alive and well as we have continued to say, "Long Live Outsourcing!"

"Outsourcing, as defined as the use of third-party services and capabilities to drive transformation, is as strong as it's ever been," says Wiele. "It's big-time transformation driven by functional and industry-specific solutions and not just cheap labor."

Looking at the current landscape raises pressing questions around imminent market disruptors, how service providers are responding, and what organizations should be doing to capitalize on this pivotal opportunity for transformational change.

The dynamic future of outsourcing is now! Let's explore some questions and share KPMG insights based on the latest research and expertise.

“
It's big-time transformation driven by functional and industry-specific solutions and not just cheap labor.
”

Randy Wiele
Managing Director,
KPMG Procurement and
Outsourcing Advisory

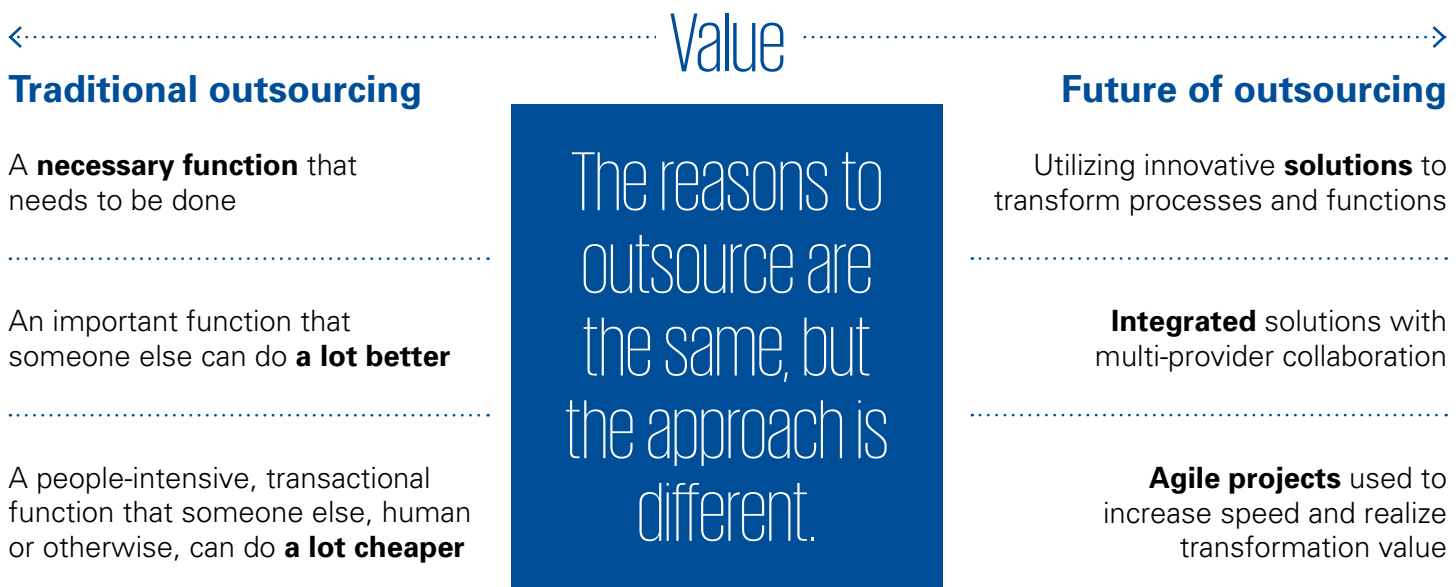
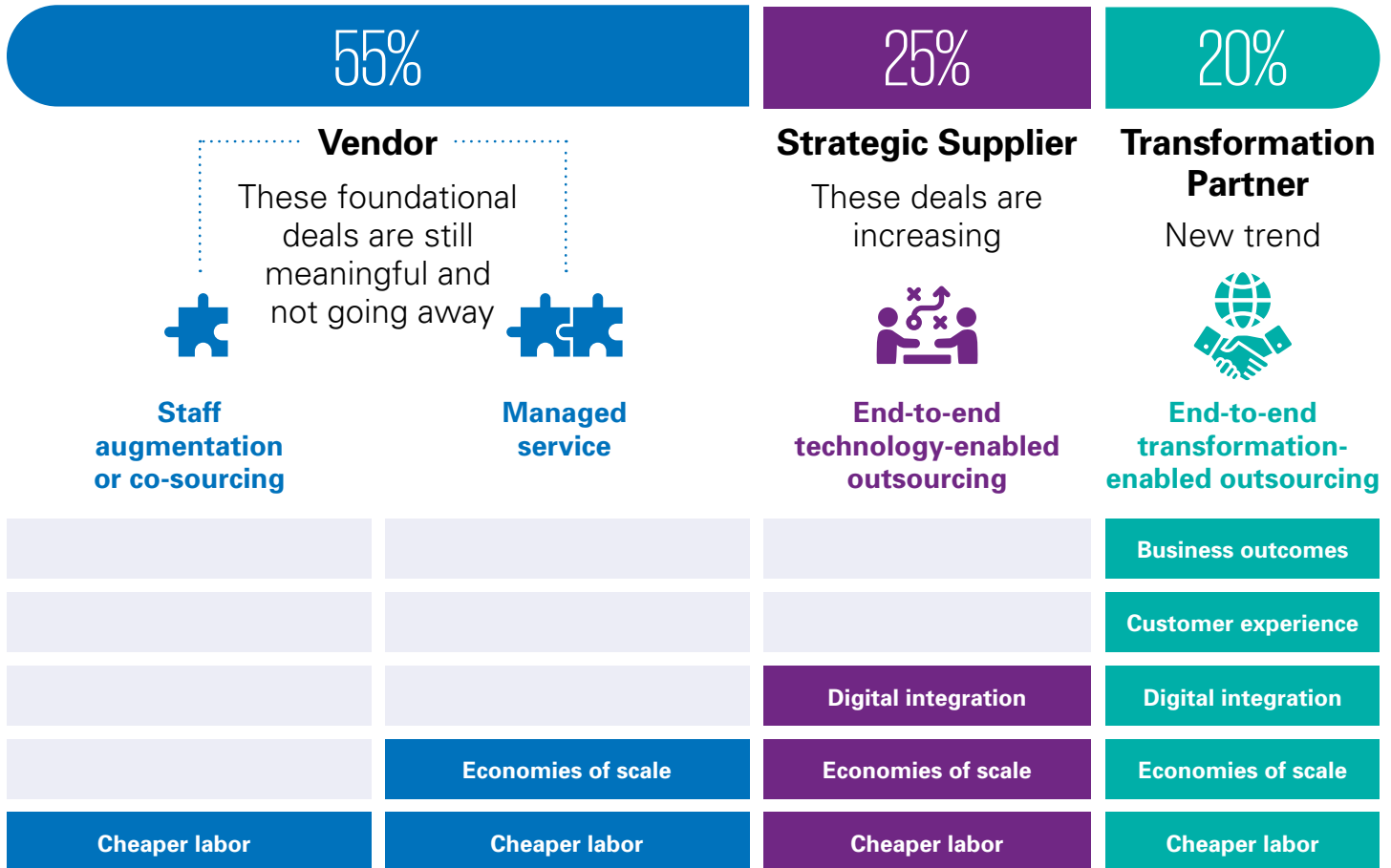
60% of clients are either considering or planning to assess their outsourcing strategies in the **next 12 months.**¹

¹ According to HFS Research on 2020 4th Quarter ITO and BPO Contract Analysis

A high-level shift in outsourcing

Trending toward transformation-enabled deals that bring more value

Percent of market share





Disruptors shaping the future

**We are operating in new times.
Organizations are facing unprecedented
change and disruption impacting their
markets, products, and services.**

Pressure to digitally transform and innovate are testing and redefining operating models, leading enterprises to focus on business outcomes and to seriously rethink their outsourcing and talent management strategies. Companies are meeting disruption with purpose and looking to use their outsourcing relationships as fuel to accelerate their business's responses to change.

Outsourcing areas impacted by disruption

Disruptors in the market such as COVID-19 and its global impacts have highlighted the need for a reassessment of outsourcing strategies.

Service delivery continuity assessment



Operating model resilience
Optimized service delivery models

Digital infusion
Solution-driven technology plan

Workforce shaping
Strategic workforce planning framework

Delivery footprint
Global workload distribution plan

Risk and compliance
Risk-adjusted commercial agreement

Examples

Contractual	Business continuity planning, disaster recovery, force majeure	Termination provisions	Data protection/privacy	Financial impacts	Step-in rights
Operations	Geographic concentration	Captive capabilities	Remote workforce capabilities	Critical processes	Performance impacts
Process / Technology	Automation opportunities	Integration	Remote working requirements	As a service solutions	Self-service adoption

Delivery continuity

COVID-19 has forced many enterprises to reassess their outsourcing strategies and look at the impacts outsourcing has had on contracts, operations, and the technologies that underpin them. What they have found has been positive for outsourcing.

The current environment has sparked new life into the use of outsourcing by demonstrating its effectiveness in fast-charging the adoption of digital technologies, driving innovation, reducing expenses, and adapting delivery for organizations as they endured and are now recovering from the pandemic.

In these times, businesses are required to think, perform, and now, contract with agility. More and more frequently, we see organizations utilize agile projects and methodology to increase their speed to deliver and to help realize transformation.

Enterprises are seeking to use data and technology to add value to the customer and end-user experience. This shift in mindset has helped organizations close the gap between the business and support functions, with an increased focus on business outcomes via automation.

On the technology front, today's climate is leading clients to explore

low-code automation opportunities, remote working requirements, adoption of self-service technology services, use of as-a-service solutions, and integration of providers.

With this heightened focus on end-user and customer experience, companies

on-demand and hybrid service delivery models and contracting structures, plus increased flexibility in pricing.

Based on their experiences during the pandemic, companies will be more deliberate with their disaster recovery and business continuity

planning, and seek to look more closely at including provisions such as force majeure, data protection and privacy, step-in rights and event-led termination provisions in their outsourcing agreements.

The pandemic also broke down organization's resistance to considering

Work from Home (WFH) and remote work arrangements, making outsourcing even more enticing and acceptable. But this also has raised a host of operational questions about the geographic concentration of talent, performance levels, critical processes concentration, productivity, attrition, capabilities of captive centers, and data security that will need to be addressed going forward.

...businesses will require more transparent and less rigid contracts that feature business-enabled outcomes.

are also focusing on aligning contract performance measurements and on ensuring the desired business outcome(s) accurately reflect the reality of end-user expectations.

As companies renegotiate and sign future contracts, businesses will require more transparent and less rigid contracts that feature business-enabled outcomes. Companies are seeking fair and sustainable agreements that offer

The future is flexible

The rigid, traditional approach to contracting will give way to more flexible, customizable agreements.



Sample traditional deal

Contract type	Staff augmentation
Commercial arrangement	Fixed pricing, \$10 million/yr
Deal term	10 years
Contract document provisions	
SOW	Do these ~1,000 activities...
SLA	Disconnected from business goals (the watermelon effect)
Change procedure:	Difficult and complex

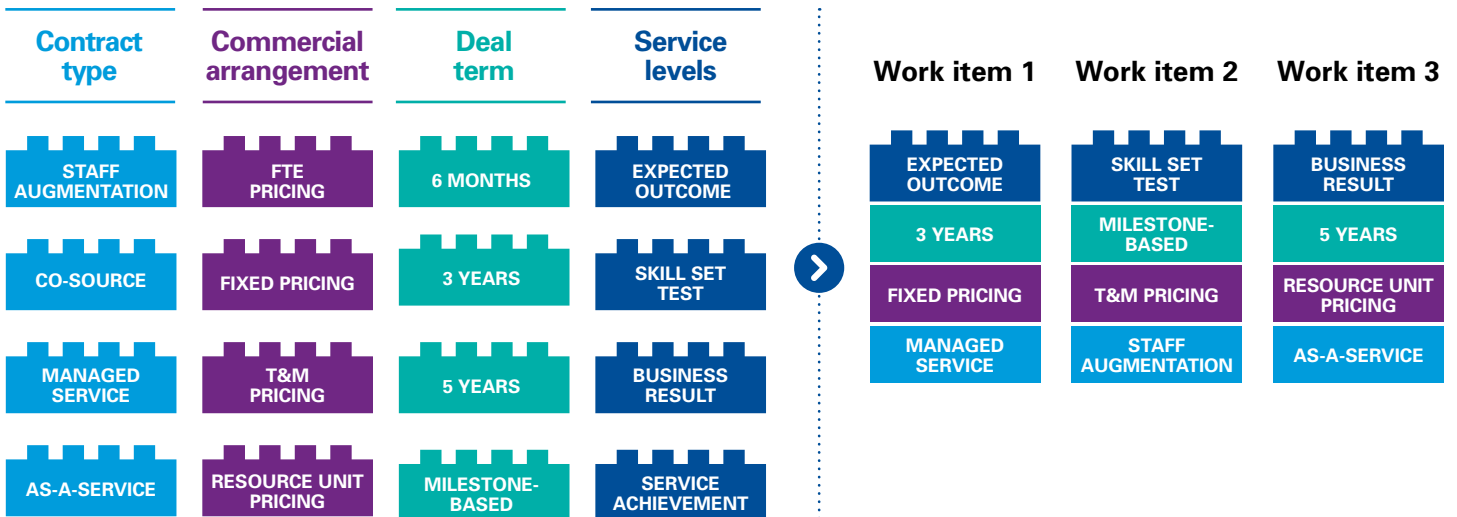
Trending toward



Flexible contracting

Build-your-own contracts

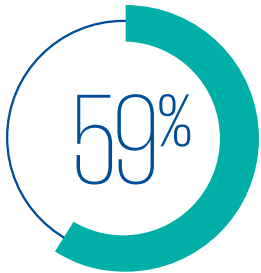
Choose the contract elements you want for the work you need.



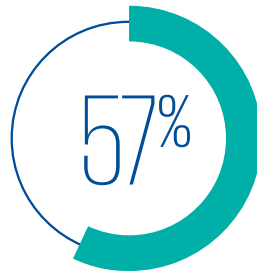
Service provider pressure

Pressure is mounting on the supplier side. Already responding to market changes before the pandemic, the demands on service providers have intensified and will continue. We expect service providers to continue to play essential roles going forward and to emerge as stronger partners in the coming era of outsourcing.

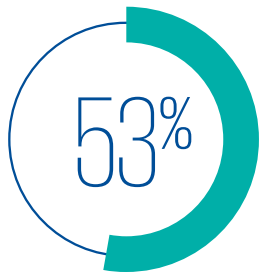
According to HFS Research on ITO and BPO contracts in the fourth quarter, providers believe the following:²



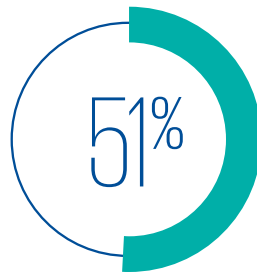
Enterprises will move away from concentrated delivery locations to a diversified footprint



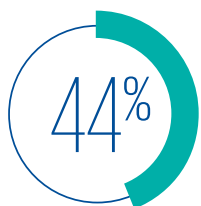
Captive carve-outs will increase to drive service delivery flexibility



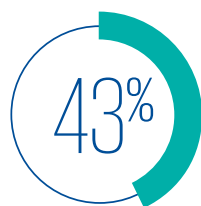
Business continuity planning and disaster recovery will become a differentiator



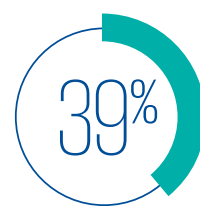
Undifferentiated service providers will very likely struggle to survive



More flexible and agile solutions are required



Offshoring attractiveness will reduce further as the labor arbitrage curve flattens with rising unemployment



Cultural resistance to WFH reduces dramatically as WFA becomes widely acceptable

² Source: HFS Research 2020. Q4 2020 - ITO and BPO Contract Analysis

What is transformation-enabled outsourcing?

Outsourcing has come a long way from its origins. The model has matured from its inception to achieve lower costs from an offshore location. In traditional outsourcing, the focus was predominantly based on “what” is outsourced and “where” products and services are delivered.

In the previous era of outsourcing, commonly called managed services, providers became proficient in delivering services for multiple clients using both nearshore and offshore locations, resulting in greater economies of scale. An increased reliance on automation has since fueled the pace for rapid change, positioning providers to leverage technology and automation to realize even greater savings with fewer errors across people-intensive, transactional processes. These traditional deals are still viable and represent a stable part of the market.

But we believe transformative outsourcing is the future and will be used as a key driver to cost savings, improved service,

and access to talent. Transformational outsourcing provides a distinctly new and improved approach, resulting in powerful change and outcomes.

Under the coming wave of outsourcing, proactive contract governance and demand management will require a partnership between procurement, business partners, and vendor management. The focus of contracts will increasingly move from measuring cost to realizing value. And procurement strategy will be integrated into governance models.

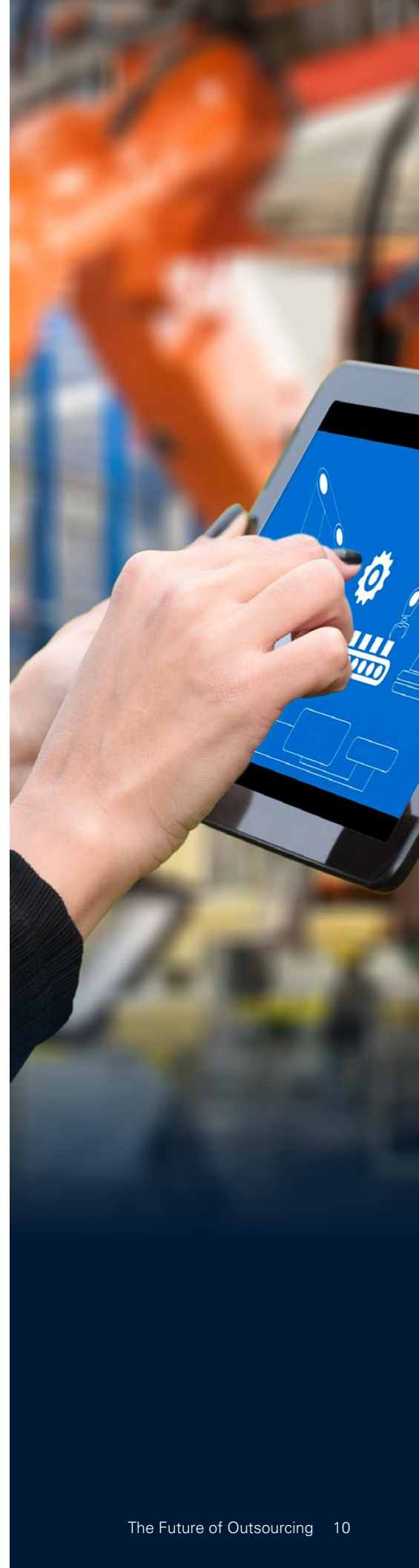
In our view, this new breed of outsourcing will be used to:

Deliver innovative products and solutions to transform processes and functions

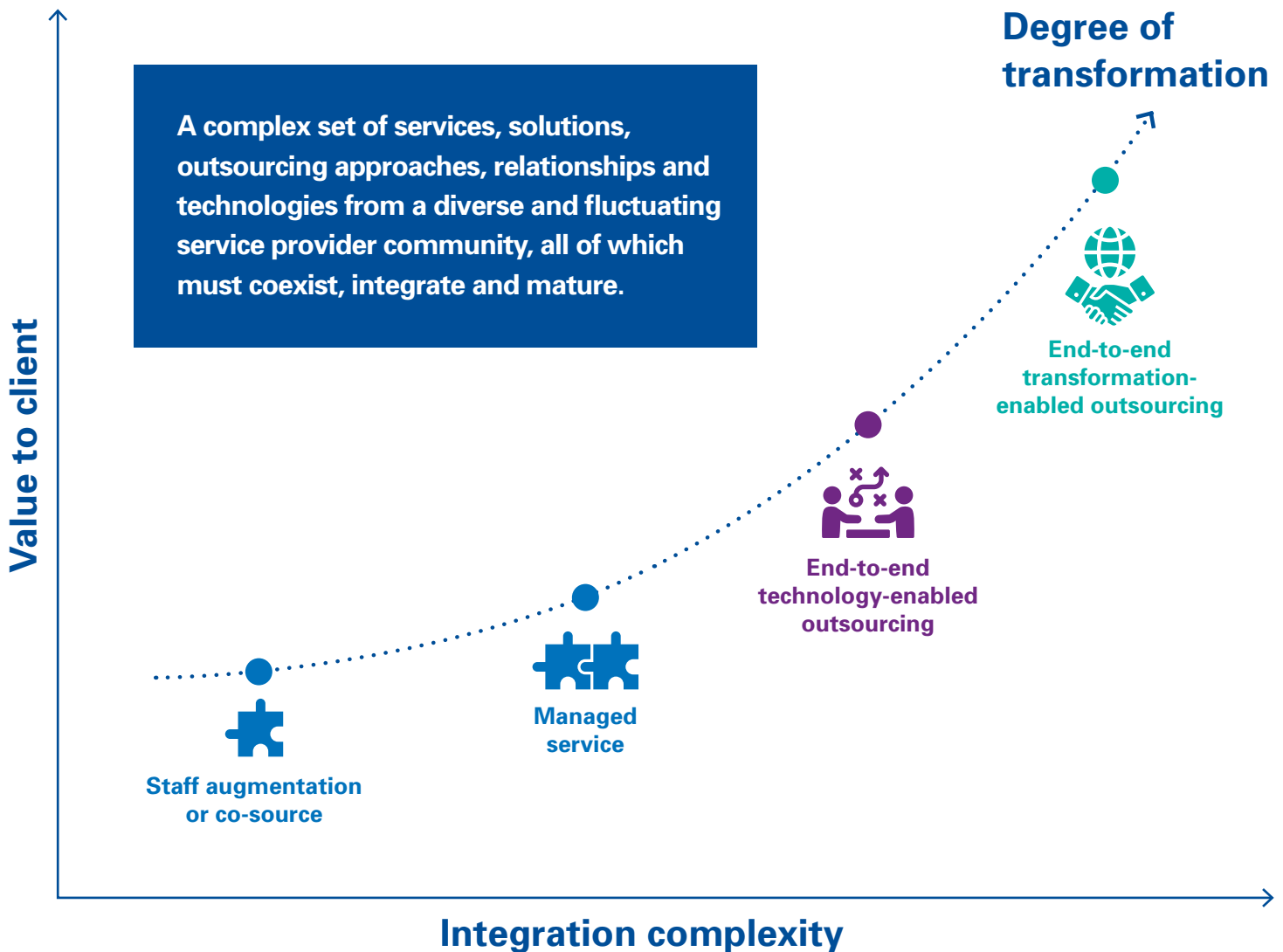
Bring integrated solutions to clients with increased provider collaboration

Increase speed to realize transformation value

Drive business outcomes throughout the back, middle and front office



Greater transformation value brings increased complexity



Integration complexity comes with challenges

Risk monitoring flags

Bringing the *right* parties to the table to discuss your company's strategic plan for outsourcing is critical to positioning your organization to best respond to risks when planning for transformation-enabled outsourcing. For example, service providers will

play a key role in the successful delivery of outcomes. This often requires collaboration between multiple service providers and internal delivery resources. Giving service provider leadership a seat at the table for key planning and

performance meetings will assist with enhancing collaboration, driving innovation, and put them one step closer to being a trusted partner in your organization's transformation.



Performance management

Difficulty balancing large volumes of service levels and associated credits with potential outcomes and expectations

Risk management

Challenges effectively monitoring and managing risk associated with supplier relationships

Vendor Management value

Lack of mechanism for demonstrating value of the Vendor Management function to the enterprise

Manual processes

Significant bandwidth consumed by manual processes, including invoice validation, contract change management and reporting

Value creation

Difficulty finding time for high-value activity such as relationship management with business units

Compliance

Challenges complying with Internal Audit and external regulatory requirements

Data overload

Difficulty in standardizing, rationalizing and analyzing large volumes of data streaming in from suppliers each month

Talent

Challenges finding and retaining supplier management talent to staff key positions

Business case realization

Lack of capability and tools to track business case realization causing value leakage

How is outsourcing enabling transformation?

Based on our analysis and what we are seeing from clients, we expect the following five trends to accelerate the future of outsourcing.

1

Outsourcing is moving from being transactional to quickly driving transformation deeper into the middle and front office.

While outsourcing started in the back office with administrative and support functions like procurement, IT, HR, and finance, it is now moving into the middle office and being used to transform core business operations of making, processing, or delivering products such as customer delivery, operations, and supply chain.

In this next stage, outsourcing will be used for front office services that involve interacting with customers, including sales, marketing, and customer service.

“As outsourcing goes from cheaper labor and economies

of scale to digital integration and customer experience and business outcomes, you get further and further into the business operations of a client,” says Wiele. “Outsourcing is not just transforming a function, it is transforming the end-user experience and the client experience, which positively impacts business outcomes and results in better margins, reduced costs, improved revenues, and enhanced customer experience. The further outsourcing gets from the back office to the middle and front office, the more it can transform.”

2

Service providers are introducing function- and industry-specific products and solutions, closing the innovation gap while delivering outcomes at the speed of business.

Providers are introducing new industry-specific products and solutions in such areas as healthcare, financial services, media and telecommunications, insurance, manufacturing, hospitality, chemicals, and the government.

In retail, for example, customer intelligence garnered through outsourced solutions is

improving the return on investment by up to 20 percent.³ The transportation industry is using a Contingency Fee Model to recover 1 to 1.5 percent of revenue of total sales made by travel agents.³ And financial services companies have devised ways to increase collections dollars by 5 percent using outsourcing solutions.³

3

Innovative solutions are likely to come from more than one service provider, increasing the need for service integration as a key part of the service delivery model.

With most clients having multiple external and internal providers, the future direction of the market requires successfully integrating services to enhance the end-user and client experience. KPMG predicts the service providers who achieve this goal will be

the winners long-term. In this new environment, providers will need joint governance processes, integrating and collaborating better than ever before to meet client delivery expectations.

³ Source: KPMG research conducted among suppliers in 2021



Market-ready technology enables transformation

Leveraging existing solutions equates to:



Lower cost



Faster speed of implementation



Quality of operation



**Ongoing innovation/
continuous improvement**

4

Automation and the emergence of disruptive technology will fuel innovation.

Enterprises today are faced with choosing from a complex set of services, solutions, outsourcing approaches, relationships, and technologies from a diverse and fluctuating service provider community, requiring buyers to be students of the market.

With the vast array of innovative solutions and platforms available, KPMG recommends selecting a market-ready implementation approach with minimal customization to best achieve

transformation. Through KPMG client and market experience, we have found that customized, one-off solutions become stagnant over time, require a larger

“There’s probably a solution that someone has already built and improved over time...”

investment, reduce quality and speed to market, and can lead to client dissatisfaction.

The standard solutions, that vendors are continuously

improving and providing to multiple clients, can deliver lower cost, increased revenue, faster speed-to-market, reduced cycle times, higher levels of actionable information, and increased provider satisfaction.

“There’s probably a solution that someone has already built and improved over time. If clients take advantage of the capabilities, they can dramatically improve the health of their enterprise, and do it more quickly,” Wiele says.

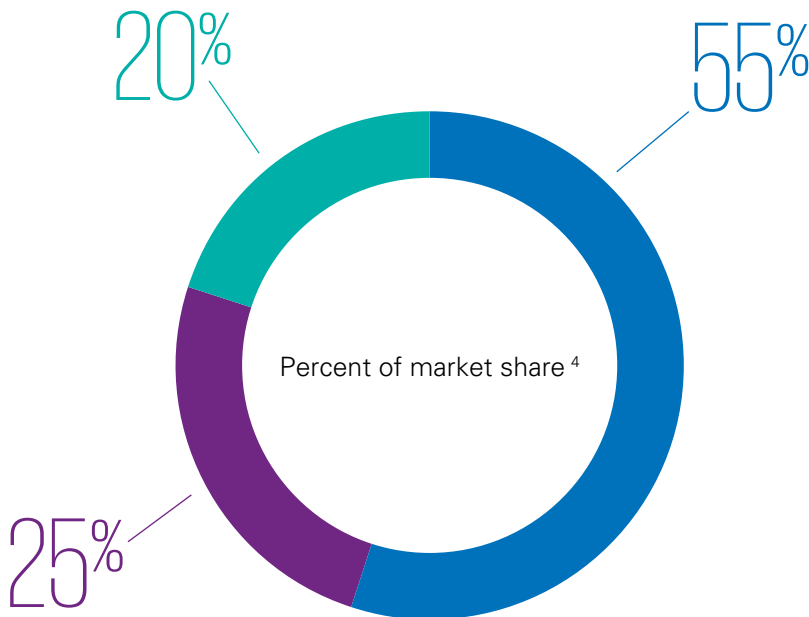
5

Service providers are becoming more strategic, shifting the way they are viewed from vendors to transformational partners.

Modern outsourcing lives in a hybrid model and aligns the service or solution to be outsourced with the optimal approach for each function in scope. Staff augmentation, crowdsourcing, co-sourcing, or managed service arrangements aimed at achieving cost reduction currently represent 55 percent of the market. The industry is moving to the next stages of strategic supplier relationships that make up a growing 25 percent of the

market. This type of end-to-end technology-enabled outsourcing leads to digital transformation as well as the traditional labor and economy of scale benefits.

Transformational outsourcing, which currently represents 20 percent of the market, is expected to comprise the fastest-growing segment of outsourcing, as it will capture all of the benefits of traditional outsourcing, plus improved business outcomes and customer service.



- **Vendor relationship**

Traditional outsourcing aimed at cost reduction

- **Strategic supplier relationship**

A growing segment of the market that leads to digital transformation

- **Transformational partner relationship**

Expected to comprise the fastest growing segment of outsourcing

Refer to page 3 for more information about the high-level shift in outsourcing provider relationships.

⁴ Source: HFS Research supported by KPMG, "State of Operations and Outsourcing" 2019; Sample: Global 2000 Enterprise Leaders = 355

What will outsourcing look like in the future?

Delivery model characteristics

Old way of outsourcing

Future of outsourcing



Commercial strategy

5-7 year deal terms

3-5 year deal terms

Rigid contract structure

Flexible, fair and sustainable commercial agreements

Mix of FTE vs. transactional-based pricing

Transactional, outcome-based pricing

Staff augmentation and co-source

Managed service and as-a-service offerings (holistic solution)



Operational approach

Long-term staff-based engagements

Short-term staff-based or outcome-based engagements

Super delivery centers offshore

Dispersed delivery centers leveraging WFH and crowdsourcing as new delivery mechanisms

Lack of innovation and automation

Commitments to automation and innovation

Customized process for client

Industry and functional solutions with standard process across clients

Mostly subjective service level; minimal outcome-based

Outcome-based service levels



Governance

Vendor management separate from operations management

Vendor management integrated with operations management and across service providers

Focus on financial management of the contract

Focus on value realization and move to partnership model

Procurement engaged for renewal/bid

Procurement strategy integrated into governance

The changing role of the outsourcing adviser

Clients have historically looked to outsourcing advisers to play a critical role in closing the expectation and experience gap between the client and the outsourcing provider and bringing specialized skills and experience to negotiate complex outsourcing contracts.

As service providers develop innovative solutions, KPMG advisers are also helping to align client priorities with provider capabilities by cataloging provider capabilities and solutions by industry, making industry teams aware of outcome based-solutions to support collaboration and identification of opportunities for clients, and utilizing its experience to integrate services and solutions across multiple providers.

We are seeing our client priorities shifting from managing performance using operational metrics to driving business outcomes. As a result, KPMG is developing new insights and services to respond to the ever-changing needs of enterprises, further strengthening its ability to provide support to the outsourcing industry – wherever it goes in the future.

What services do we offer?

KPMG outsourcing advisers can help you along this complex journey, with experience spanning the sourcing lifecycle, from strategy and assessment to detailed contract development, negotiations, and implementation or transition.

Offerings

Overview



Assessment and strategy development

Assessment of current state delivery and pain points, comparison to leading practice and defining future state vision and guiding principles



Outsourcing transaction support

Facilitate go-to-market approach including: implementation roadmap design, service provider selection, RFP development, inbound/outbound due diligence, service provider evaluation materials and contract document preparation



Contract and negotiation support

Support procurement in the negotiation process by: developing negotiation plan, facilitating negotiations with service providers and driving to completion the contracting schedules



Transition support

Assess service provider transition plan for readiness, establish transition program office, facilitate service provider and client transition, stabilization and monitoring



Vendor management, integration, collaboration and optimization

Design and implement governance processes and organization models; integrate service delivery models across a multi-vendor environment; relationship remediation and optimization



Business case and value realization support

Develop financial models to support the evaluation process during the transaction and models to track value realization post-execution

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