

Outsourcing is Dead, Long Live Outsourcing!

An HfS & KPMG Webinar, June 26, 2013

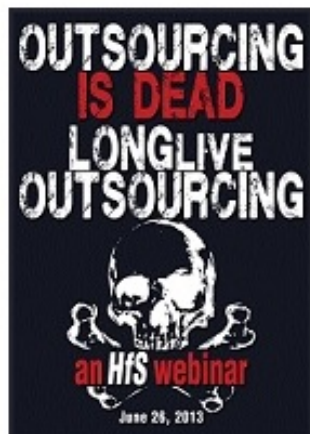
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Today's Panelists



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Do not miss the event of the year!



- The HfS Sourcing Executive Council has laid the Blueprint for sourcing success in recent years - setting out the future roadmap for the services and sourcing industry. However, we all know it's one thing to write about great ideas and talk about a perfect tomorrow, it's another to make them actually happen in practice.
- With half of the agenda dedicated to enterprise "buyers-only" sessions, the other half includes leading providers and advisors at the cusp of enterprise transformation. Yes, we're bringing together all the stakeholders who matter for an intimate, no-holds-barred collaboration, unlike anything else in the world of services.
- For more information, please visit <http://www.blueprintsessions.org>

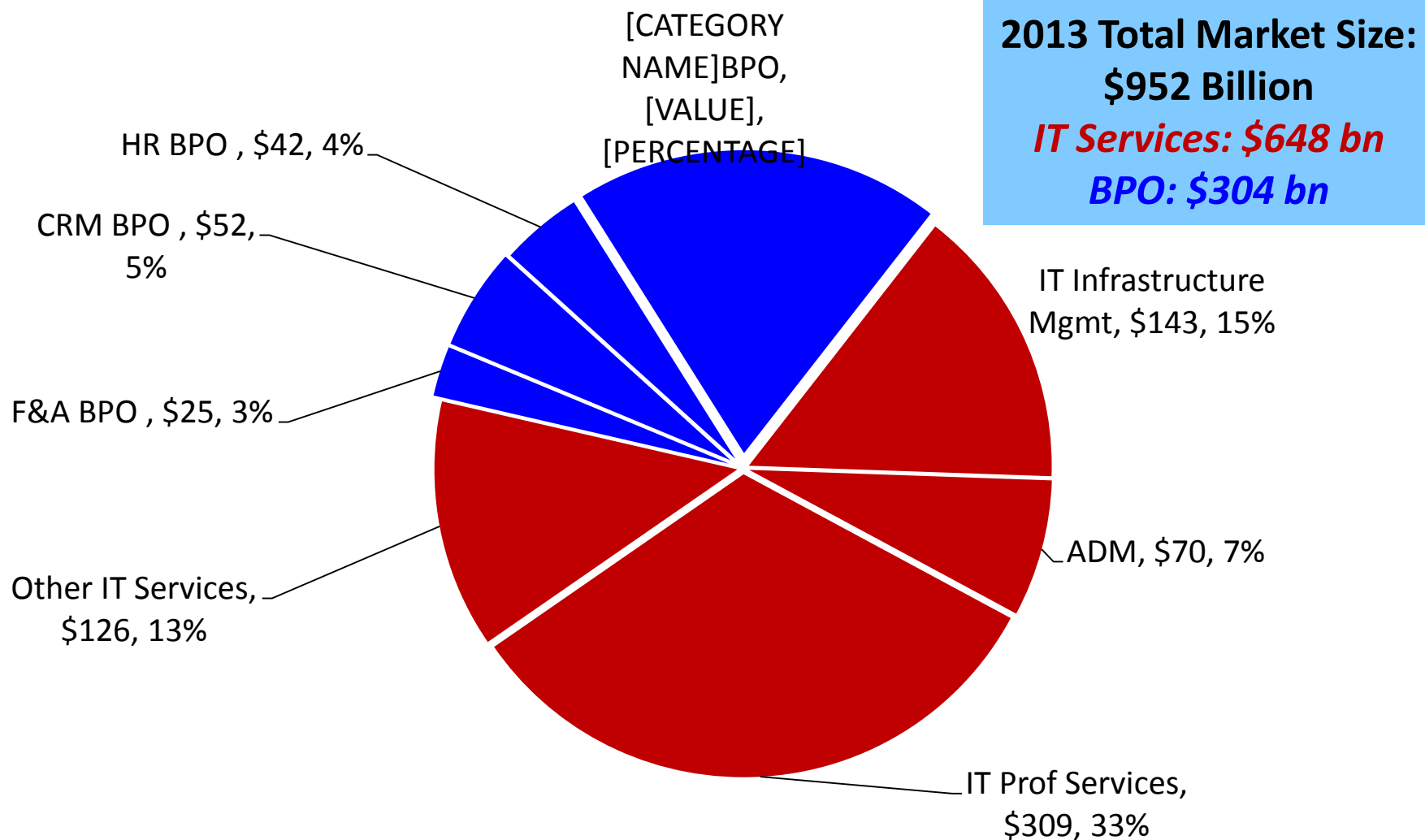
Agenda

Topic
Market size and forecasts for global Outsourcing expenditure
Regional and industry Outsourcing dynamics
Leading-edge approaches to IT strategy in a maturing IT outsourcing industry
Impact of Big Data and analytics on sourcing decision-making
The evolution of Global Business Services
Market Wrap
Q&A

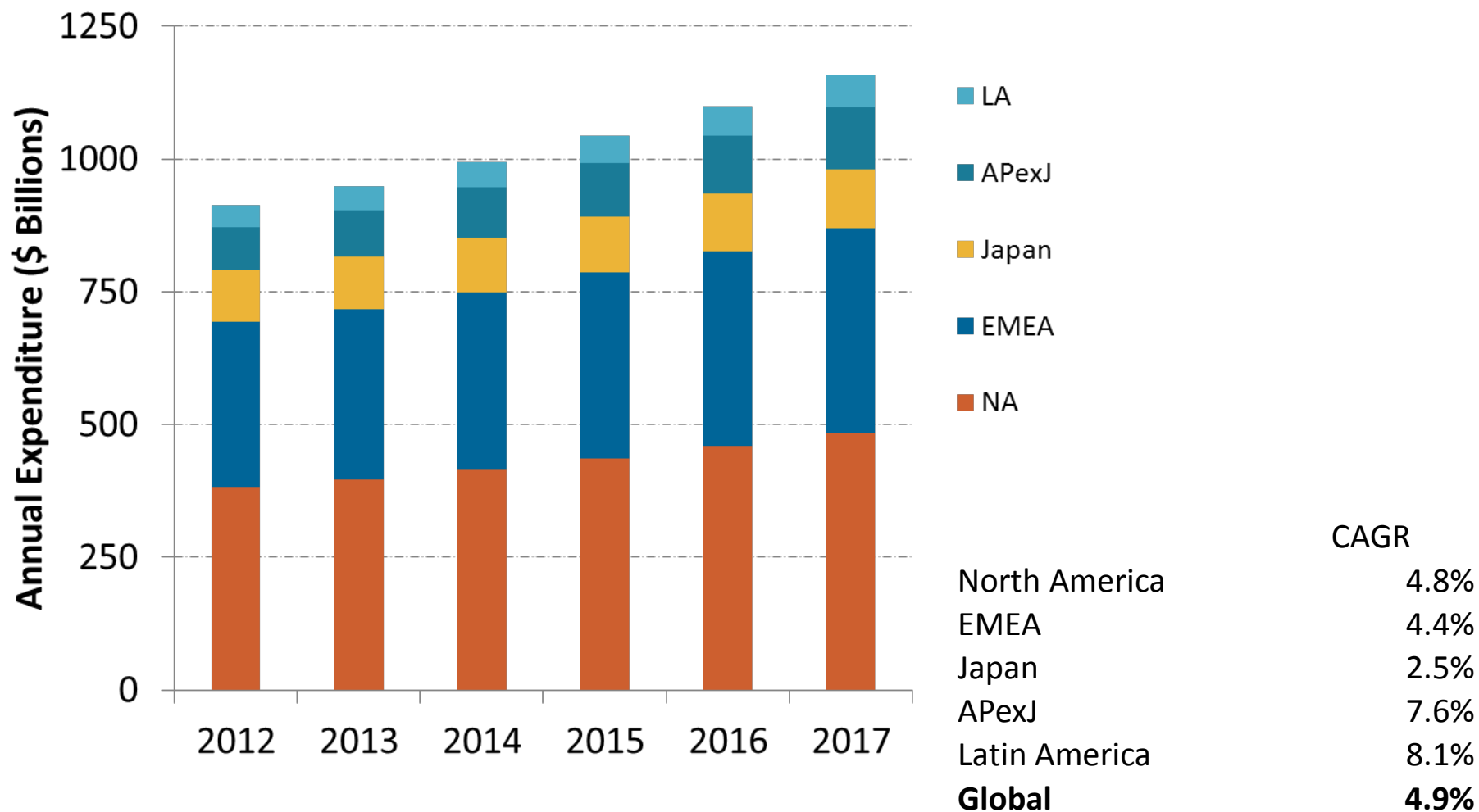
Market Size and Forecast



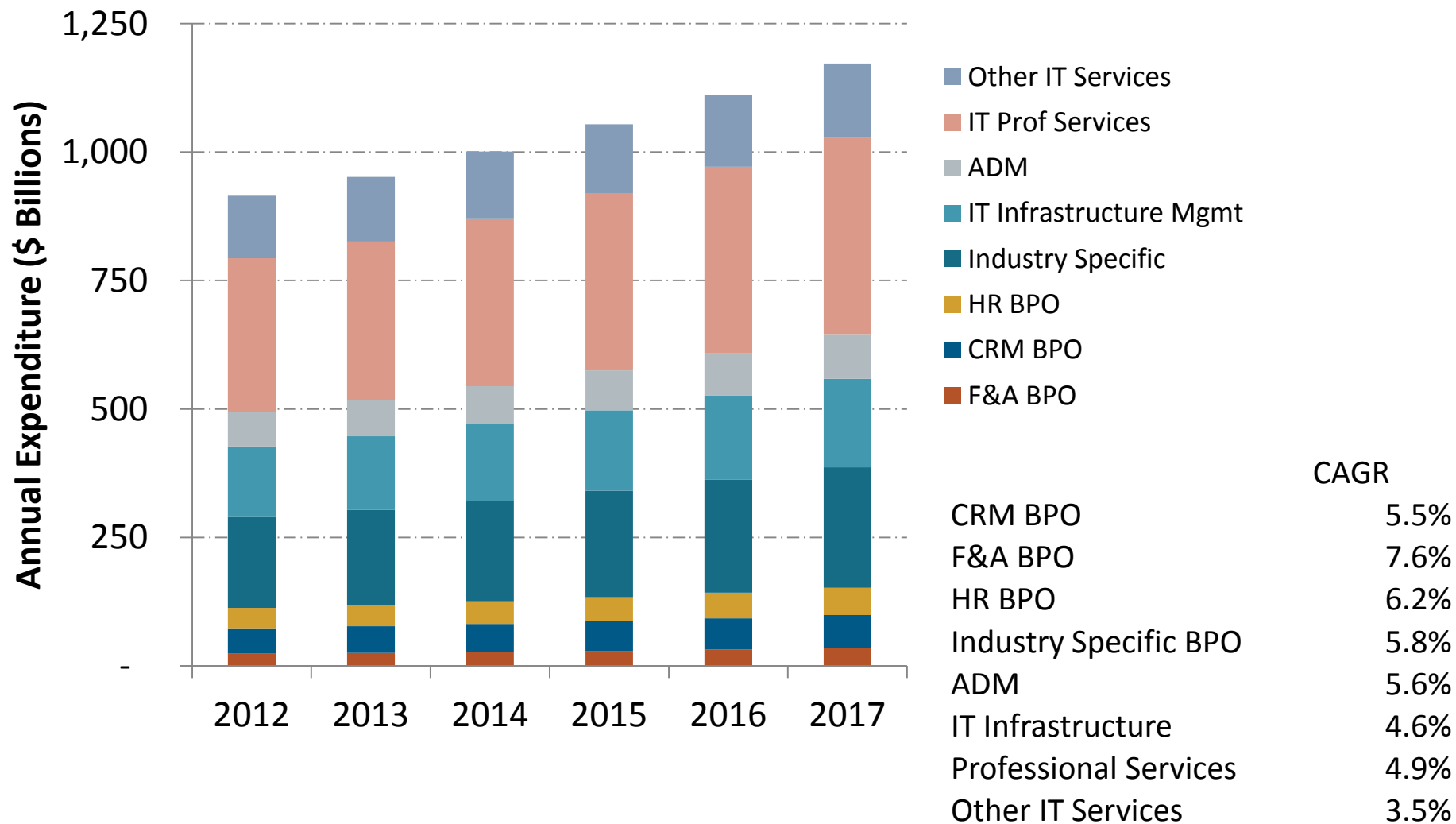
Global BPO and IT Services Market 2013 (\$b)



Global BPO and IT Services Market 2012 – 2017 (\$b)



Global BPO and IT Services Market 2012 – 2017 (\$b)



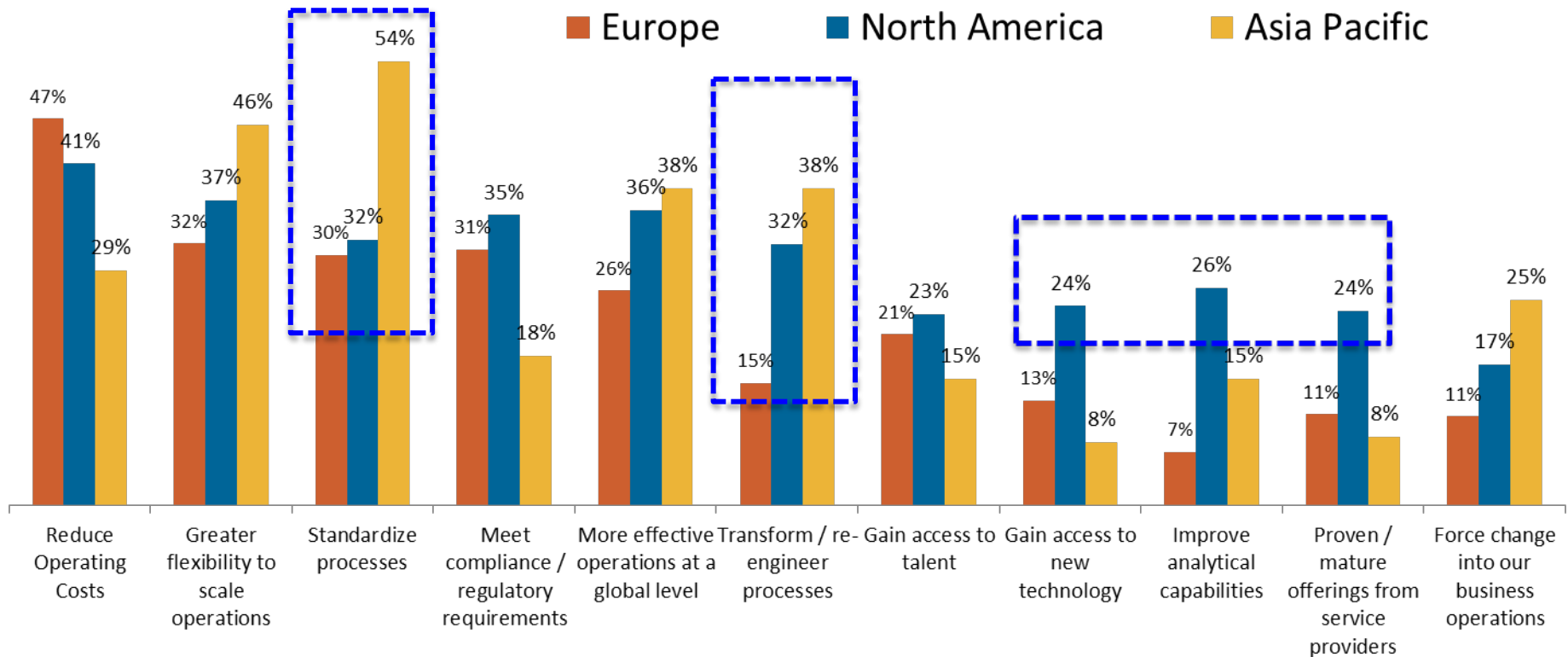
Source: HfS Research 2013

Regional and Industry Outsourcing Dynamics



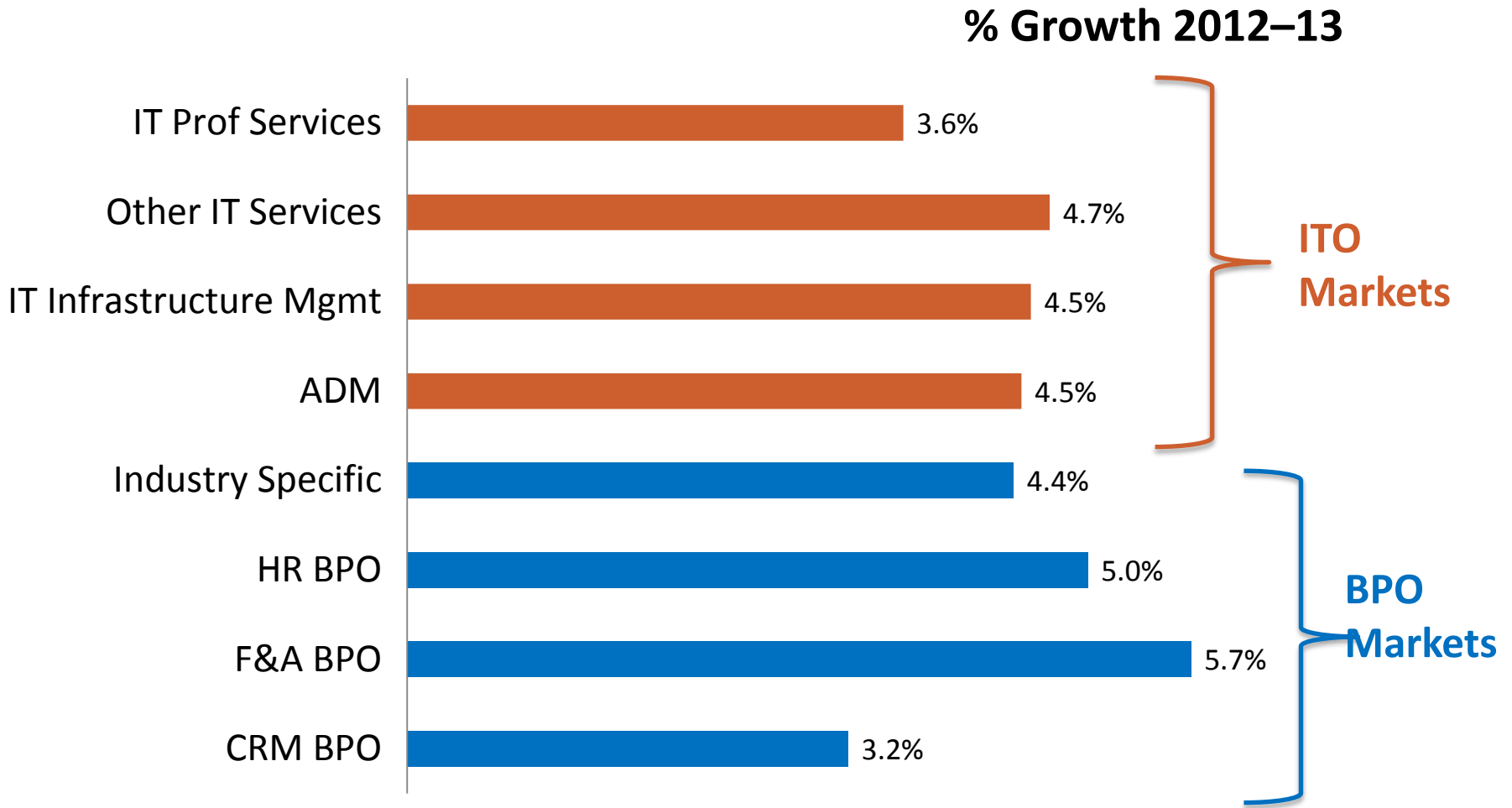
U.S. firms looking for higher-value capability from Outsourcing

Q. How important are the following business DRIVERS behind your company's IT outsourcing and BPO decision making in today's business environment? (Mission-critical only)



Source: HfS Research 2013
 "2013 State of Outsourcing" Study, n = 399 Buy-side Enterprises
 Conducted with the support of KPMG Shared Services & Outsourcing Advisory
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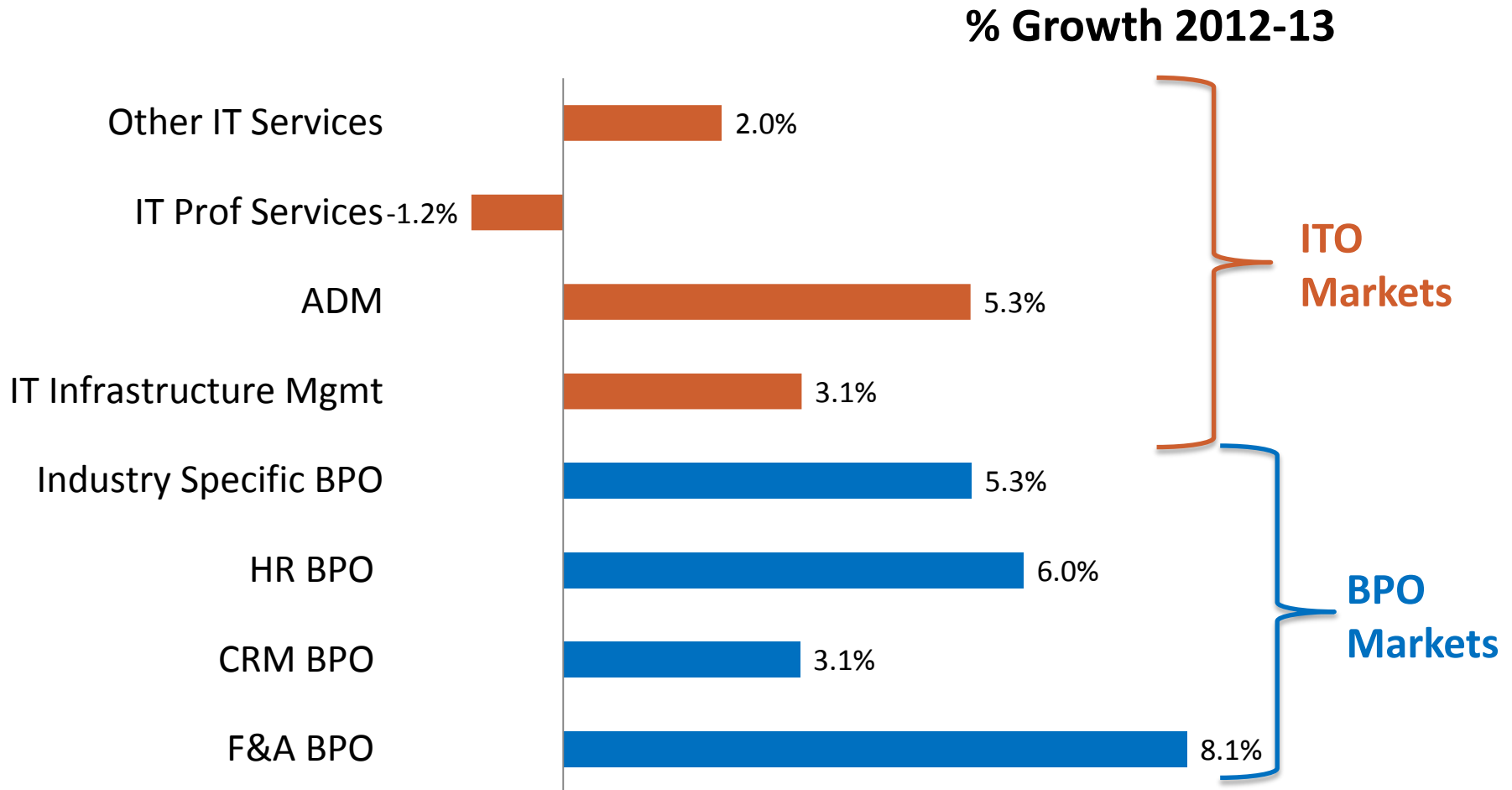
North American BPO and IT Services Market Growth in 2013



Source: HfS Research, 2013

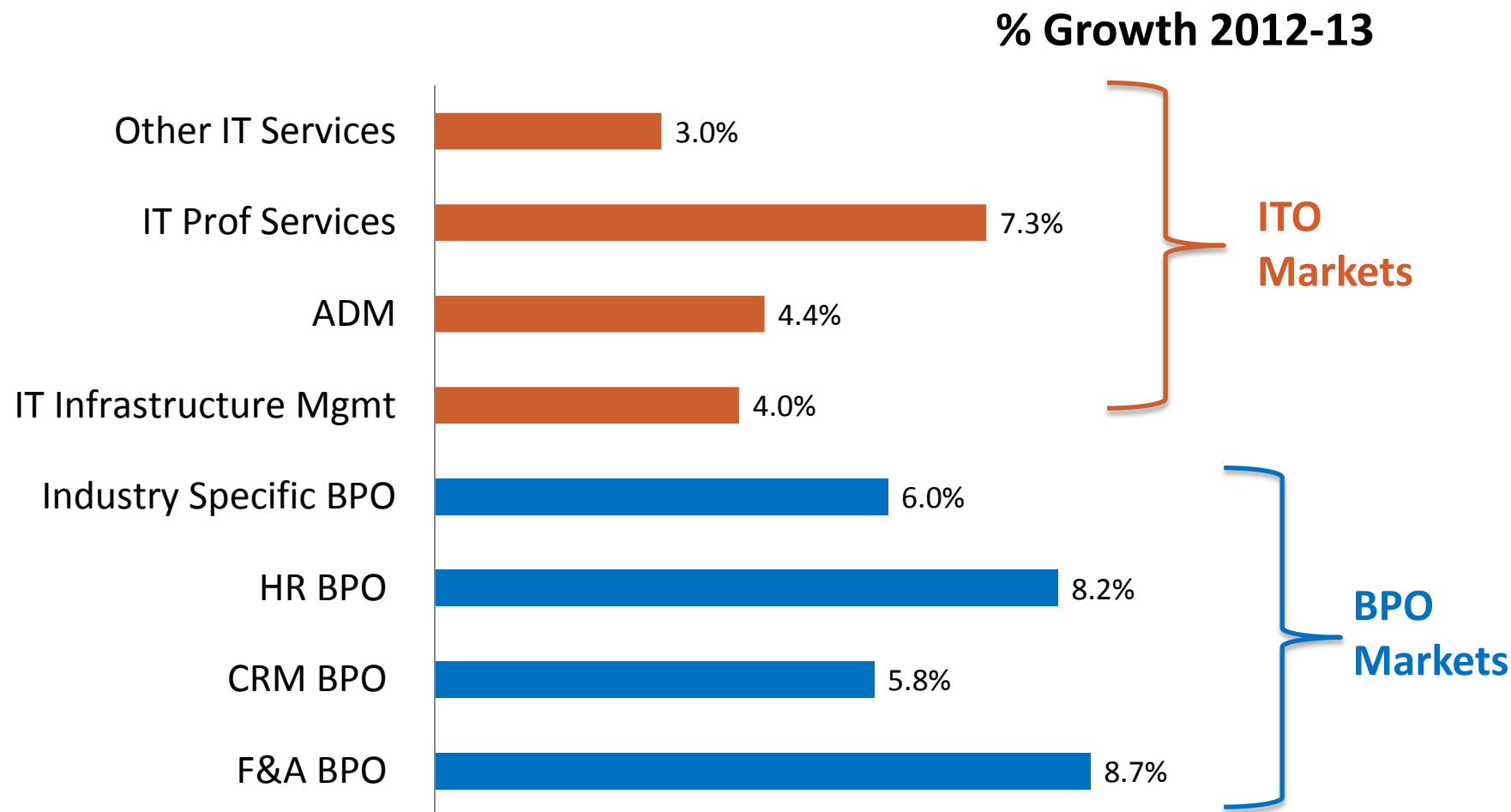
Source: HfS Research 2013

European BPO and IT Services Market Growth in 2013



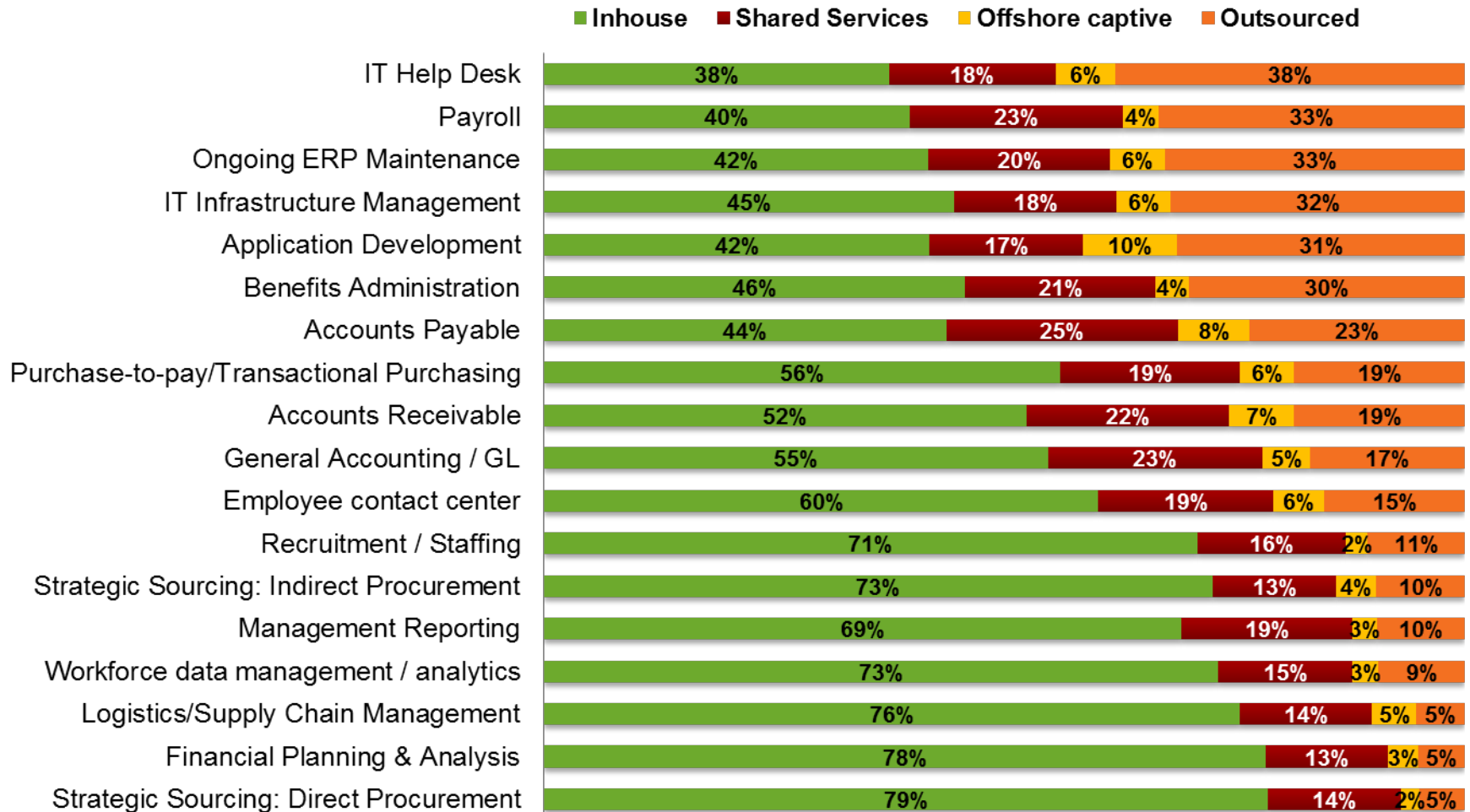
Source: HfS Research, 2013

Asia Pacific BPO and IT Services Market Growth in 2013



Outsourcing still has a long, long way go – especially for business processes

Q. Which delivery model do you predominantly use for managing the following processes?

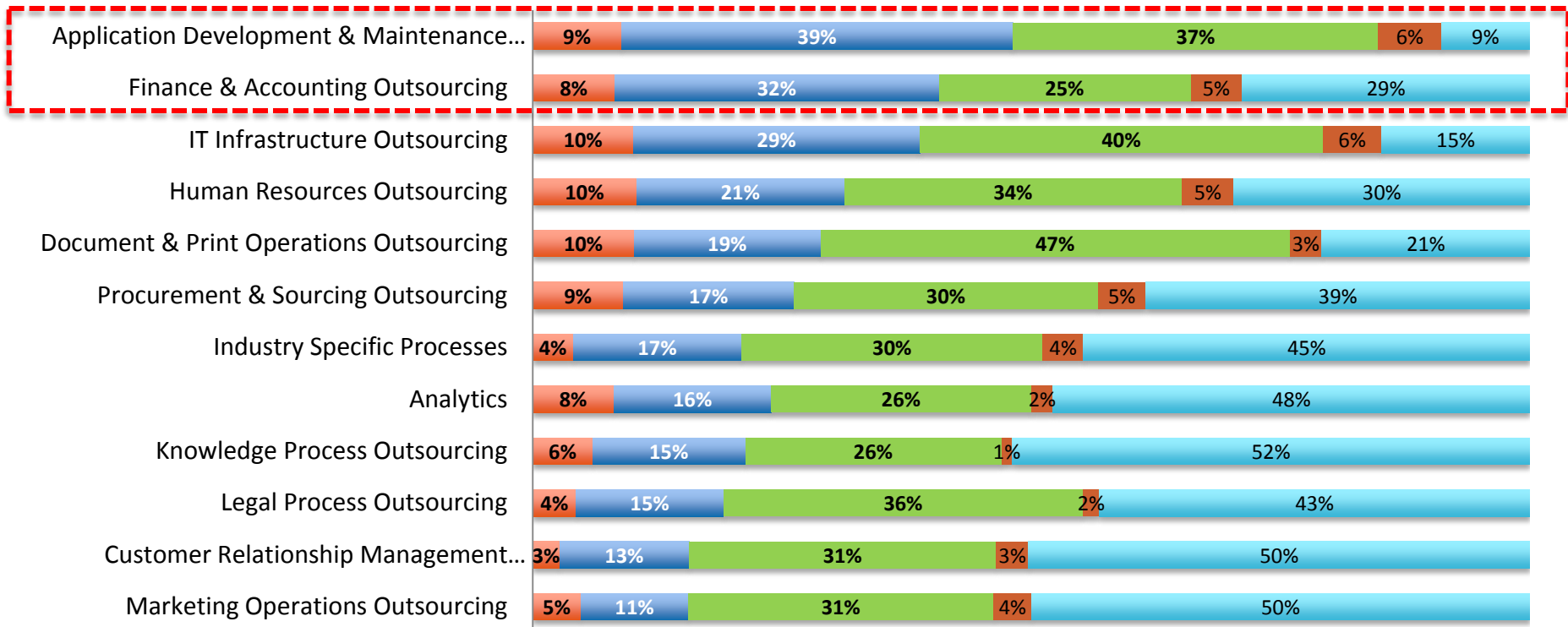


Source: HfS Research 2013, "2013 State of Outsourcing" Study, n = 399 Buy-side Enterprises
 Conducted with the support of KPMG Shared Services & Outsourcing Advisory

5 out of 10 Enterprises planning to start / expand ADM scope; 4 out of 10 F&A BPO in 2013

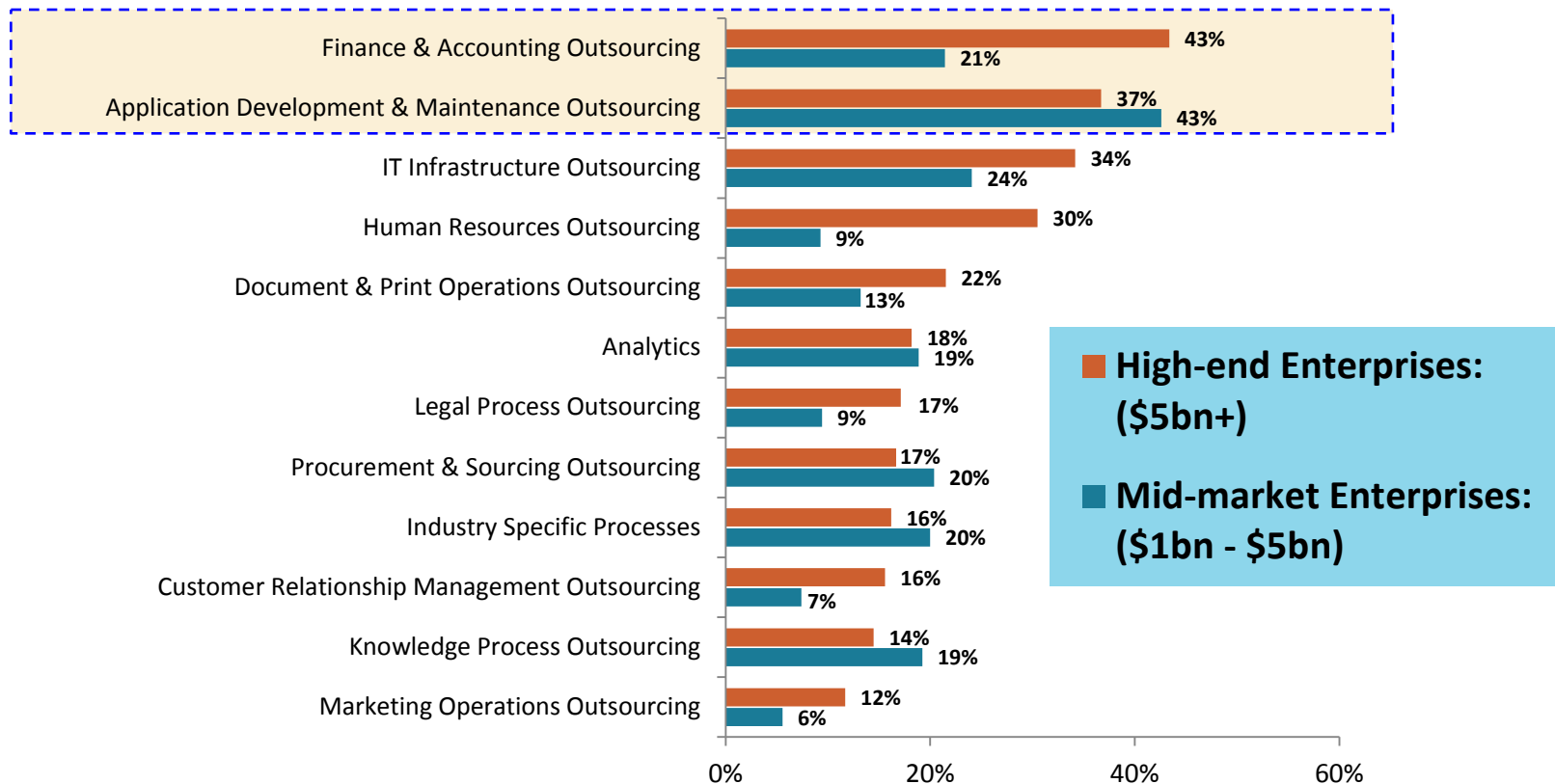
Q. Are you likely to increase or decrease your outsourcing activity across the following business operations areas in the next 12 months?

■ Will start outsourcing for the 1st time
 ■ Increase scope
 ■ Stay the same
 ■ Decrease scope
 ■ No plans



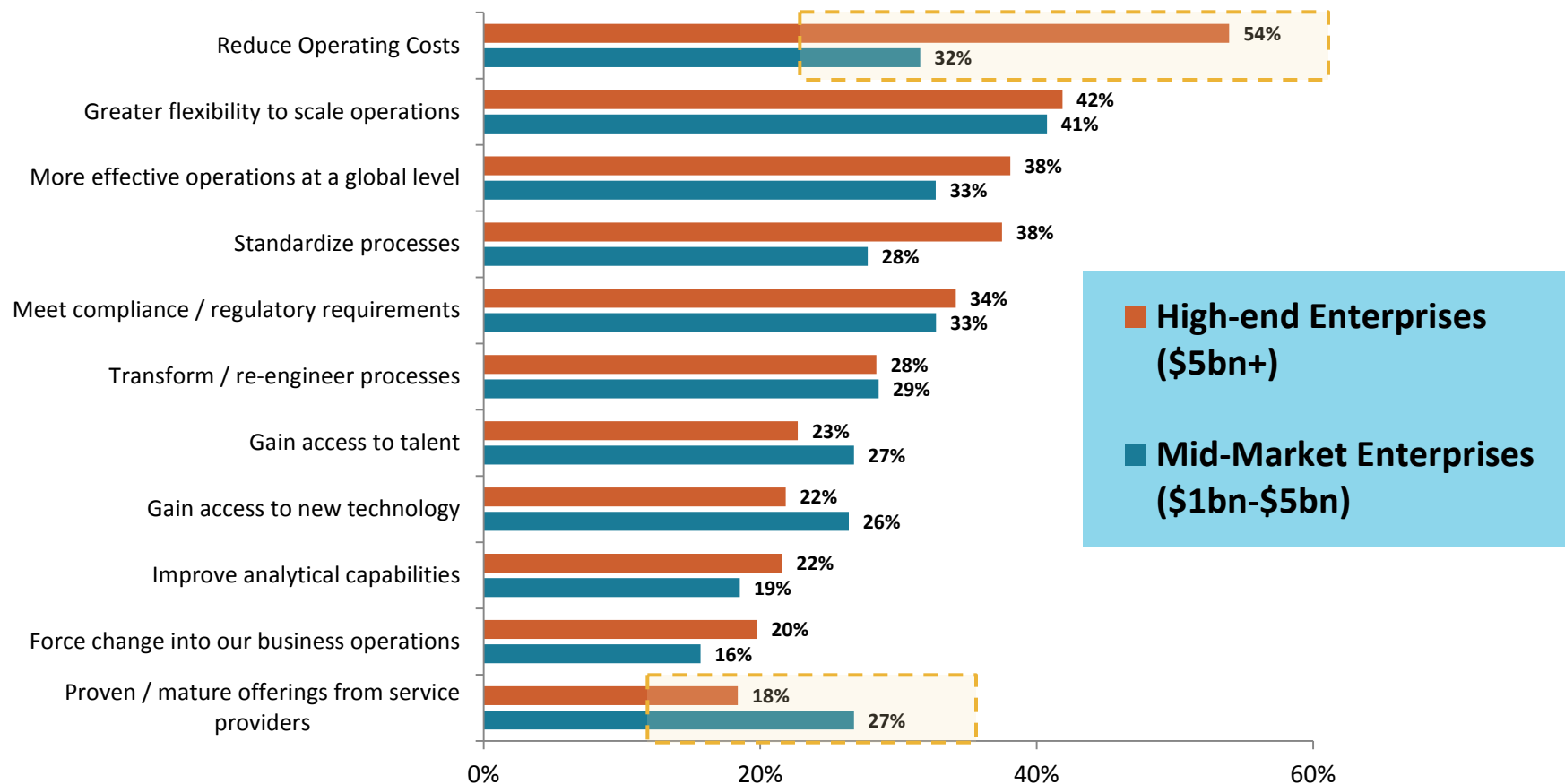
Plans to **increase** outsourcing scope in 2013: ADM and F&A dominate. Large firms also increasing IT infra and HR

Q. Are you likely to increase or decrease your outsourcing activity across the following business operations areas in the next 12 months? (Increase scope only)



High-end enterprises focused on cost, mid-market focused on provider solutions

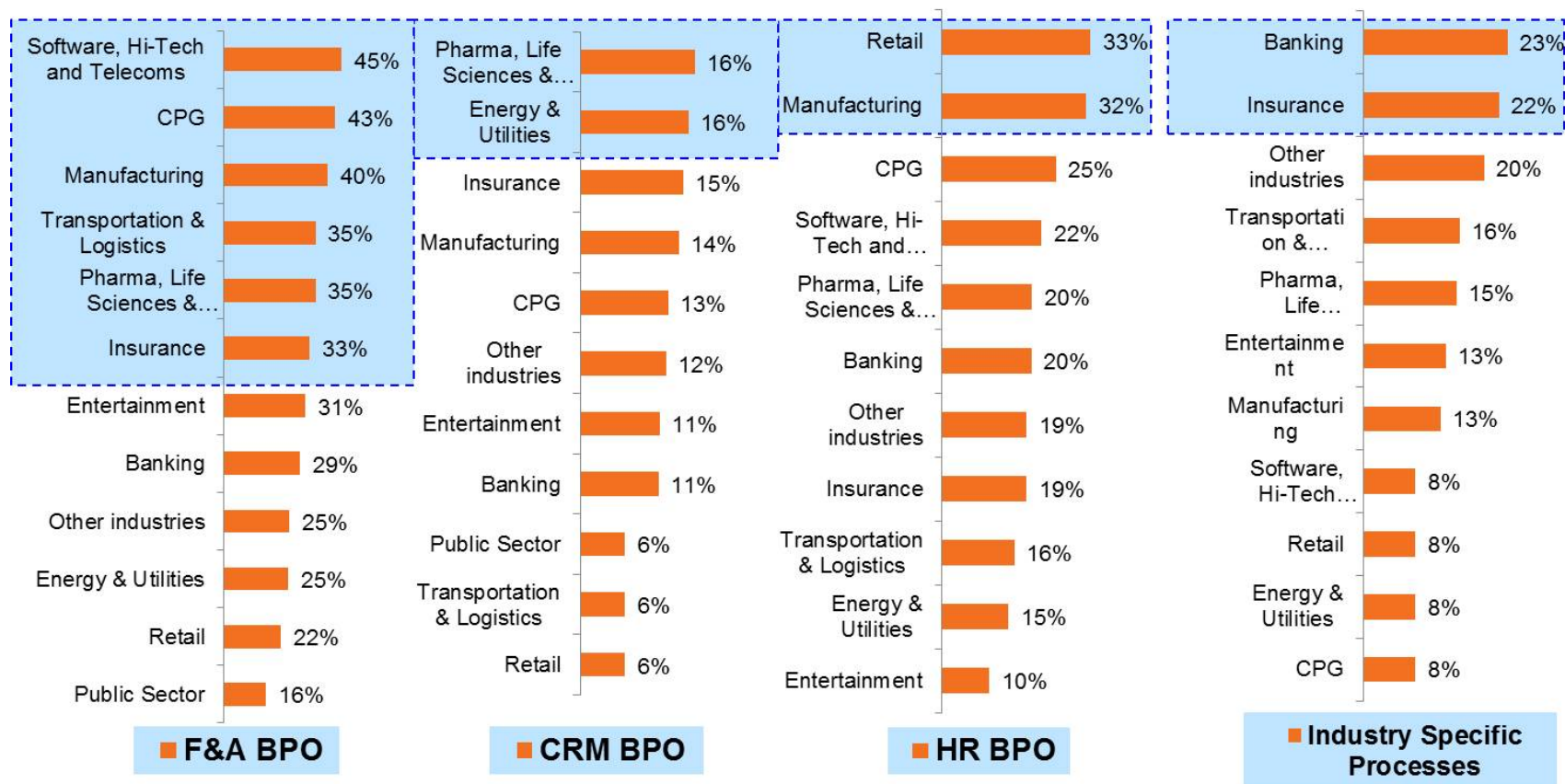
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Source: HfS Research 2013
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Plans to increase outsourcing in 2013 by industry

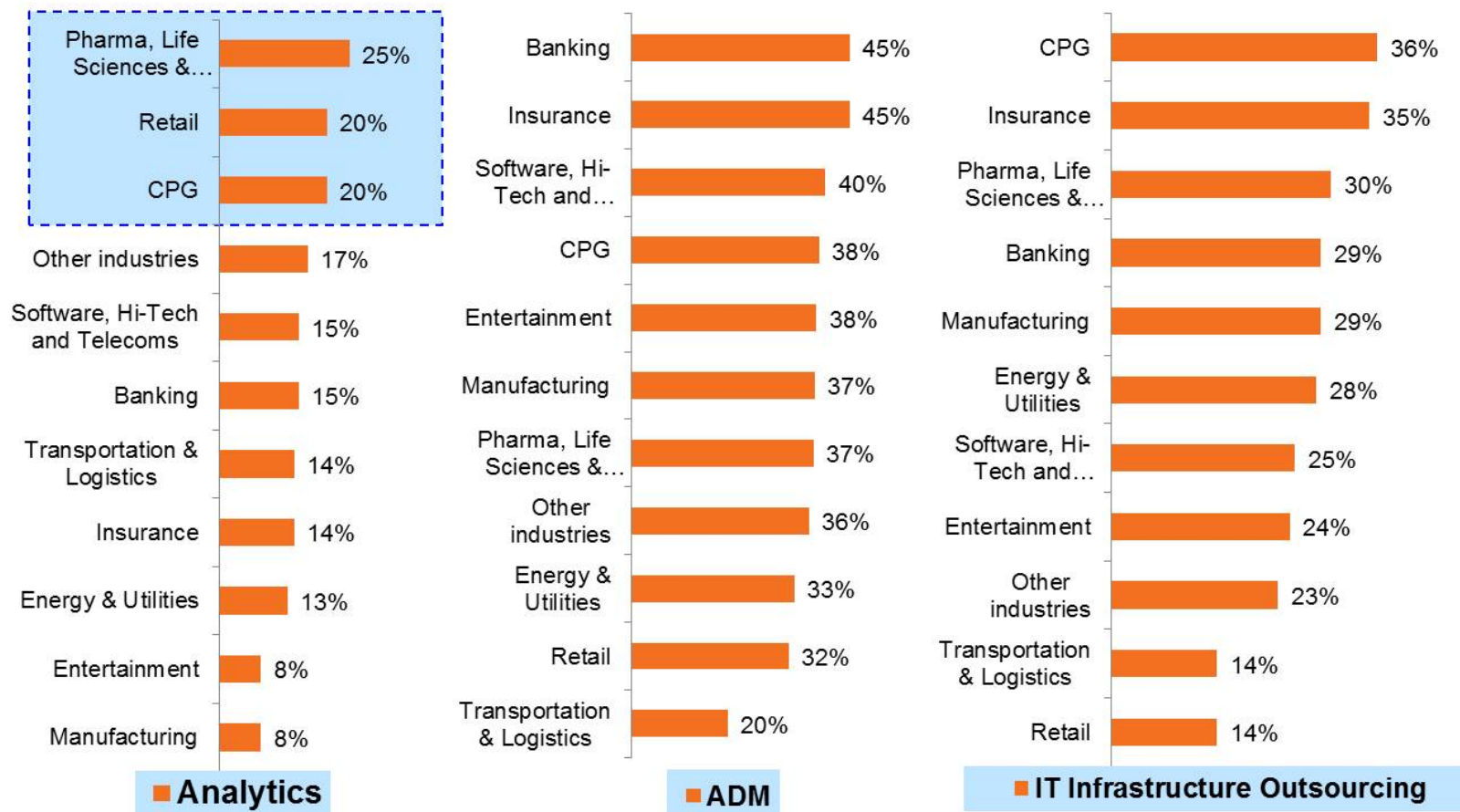
Q. Are you likely to increase or decrease your outsourcing activity across the following business operations areas in the next 12 months? (Increase scope only)



Source: HfS Research 2013
 "2013 State of Outsourcing" Study, n = 399 Buy-side Enterprises

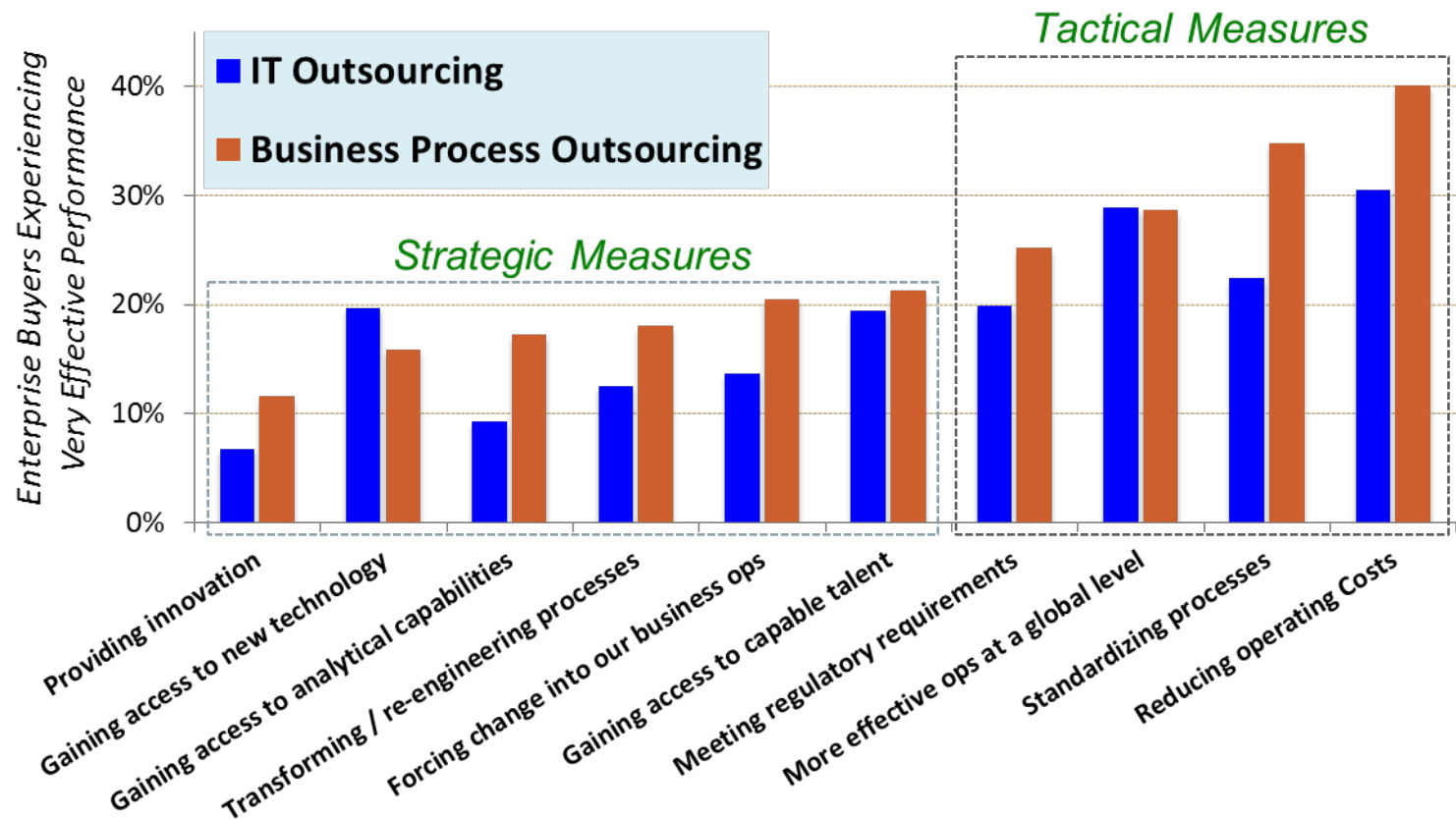
Plans to **increase** outsourcing in 2013 by industry

Q. Are you likely to increase or decrease your outsourcing activity across the following business operations areas in the next 12 months? (Increase scope only)



Where Outsourcing is Very Effective: IT Outsourcing vs. Business Process Outsourcing

Q. How effective have your current outsourcing initiatives been for achieving the following business benefits to date? (“Very Effective” responses only)



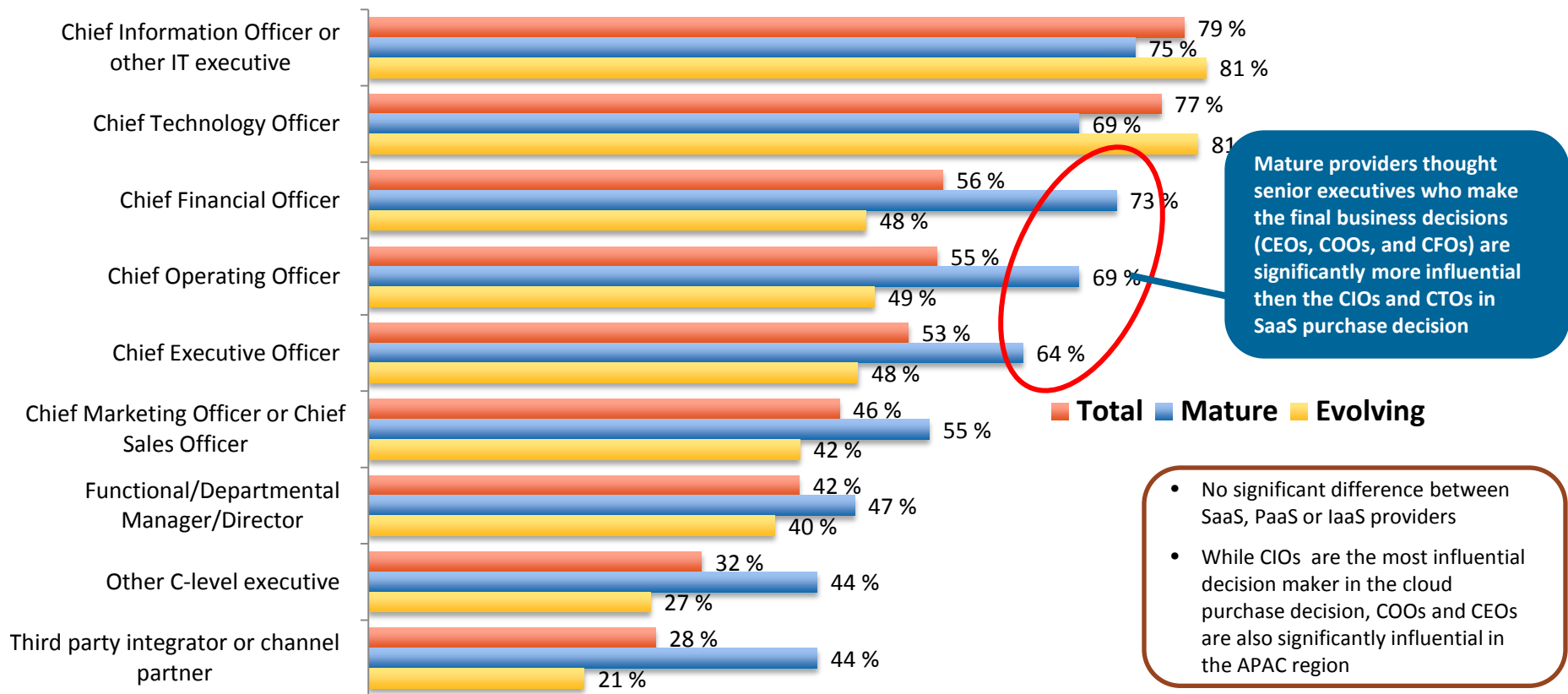
Source: HfS Research 2013, n = 399 Buy-side Enterprises
 “2013 State of Outsourcing” Study Conducted with KPMG

Leading-Edge Approaches to IT Strategy in a Maturing IT Outsourcing Industry



Chief Information Officers and Chief Technology Officers are most influential in the purchase decisions for all cloud products/services

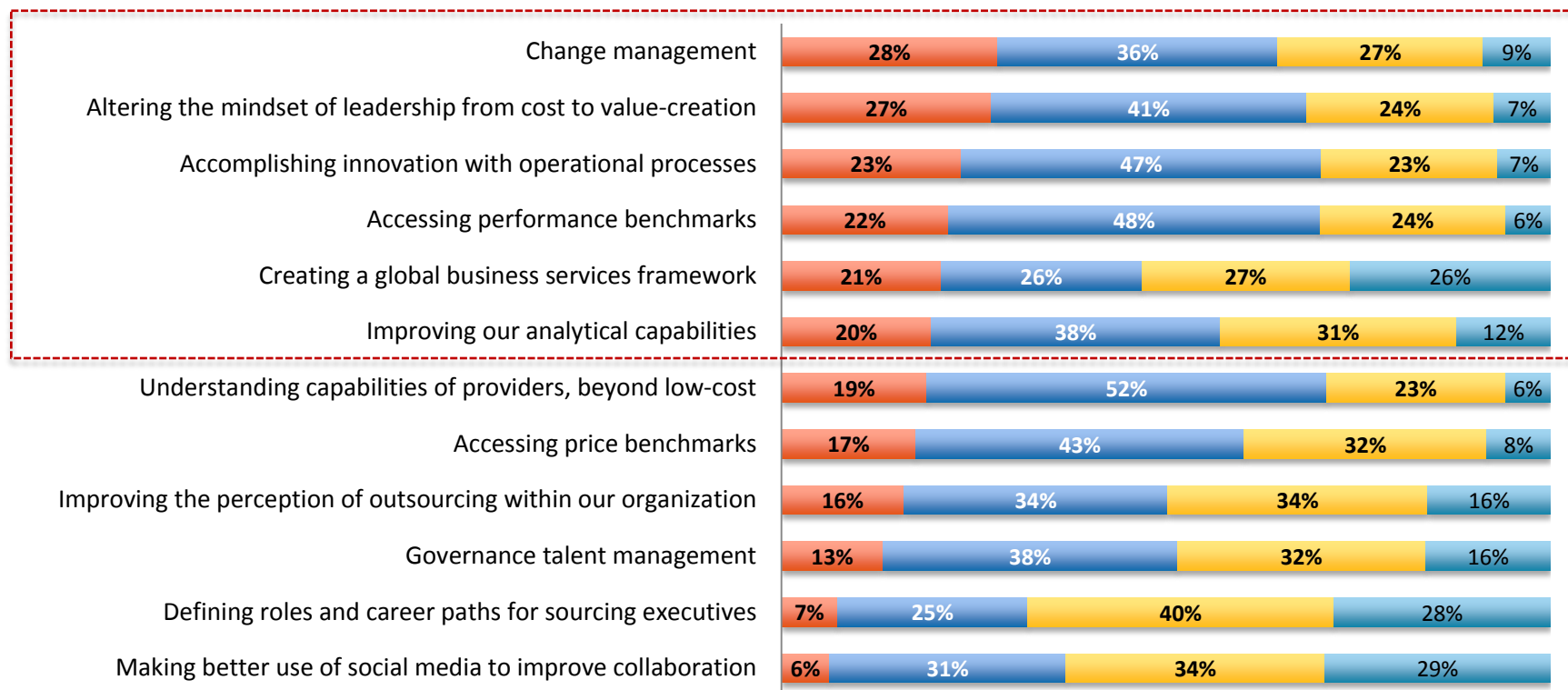
Q: How influential are each of the following executives in purchase decisions related to SaaS cloud computing services? Top 2 box only (Influential)



Paradigm shifts in people, technology and methods are required dominate the sourcing agenda in 2013

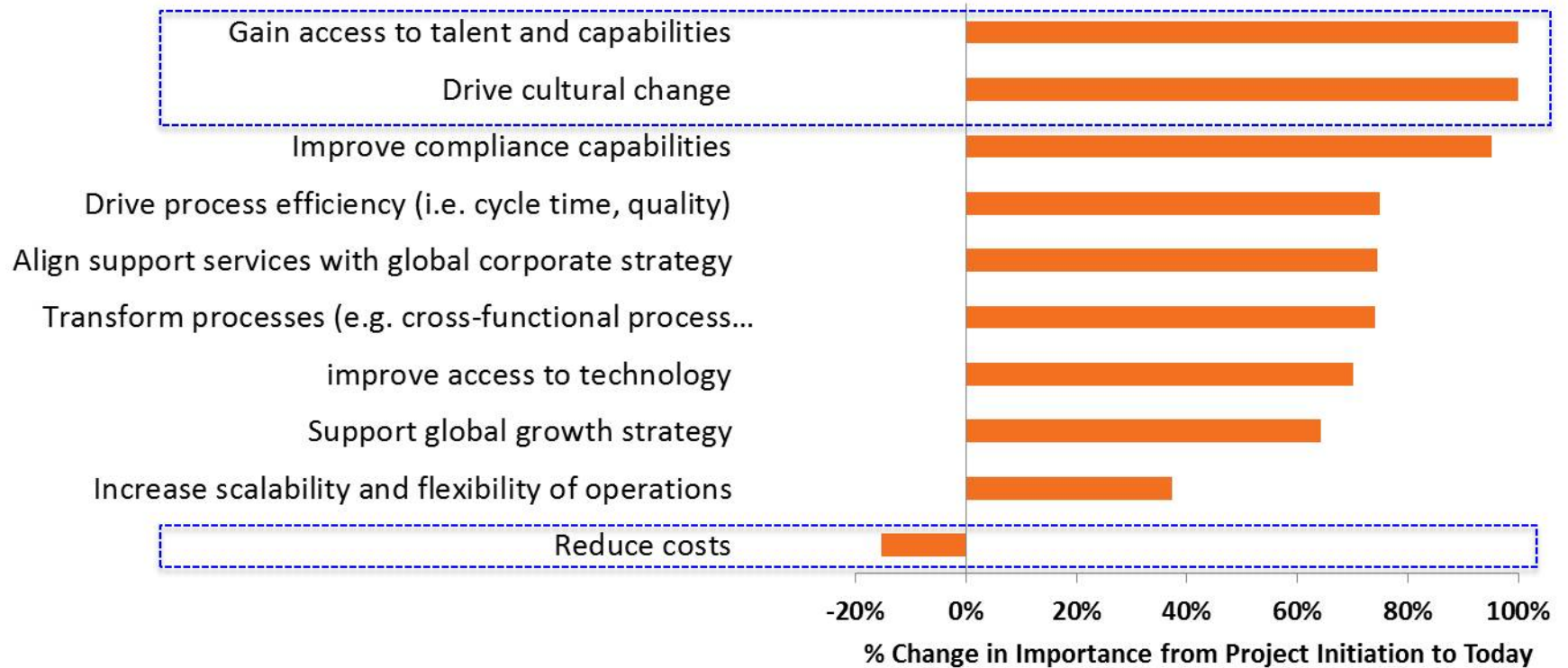
Q. How important are the following topics/issues to your organization's outsourcing strategy going into 2013?

■ Mission critical
 ■ Important, but not critical
 ■ Somewhat Important
 ■ Not Important at all



Corporate leadership objectives are shifting to talent and cultural change

How important were the following business objectives behind your company's shared services and outsourcing strategies...When you Initiated the Programs versus Today?



Source: HfS Research, 2012, N = 188 Respondents from enterprises with more than \$3B in revenue

IT and innovation trends

■ IT's reaction:

- Significant IT innovation will occur in next three to five years, and contracts must maintain flexibility to adopt new financial, operations, and process models.
- Business units will also encourage innovation of their processes and due to easier access to new technology outside of IT, IT must stay connected to these developments and create a comprehensive strategy for innovation.
- Top-level business processes and financial improvement should be priority and supported with innovation, which increases IT value.
- Technology innovation is likely to appear before processes, tools, and models to effectively manage the innovation

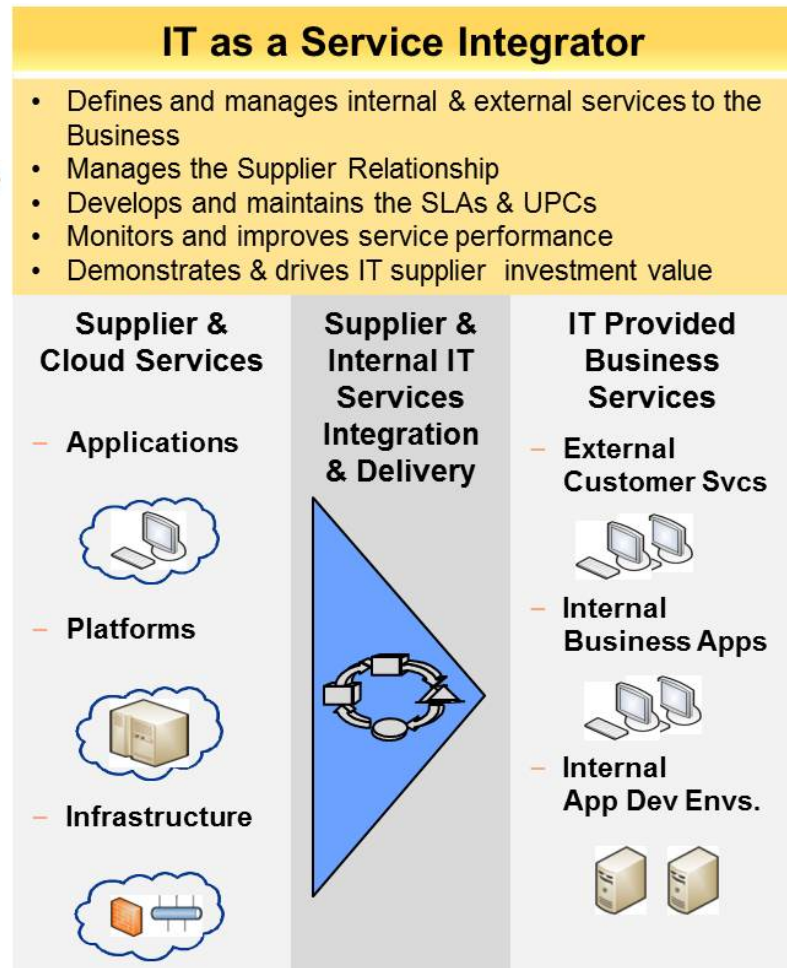
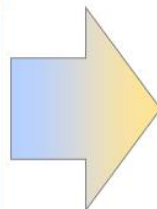
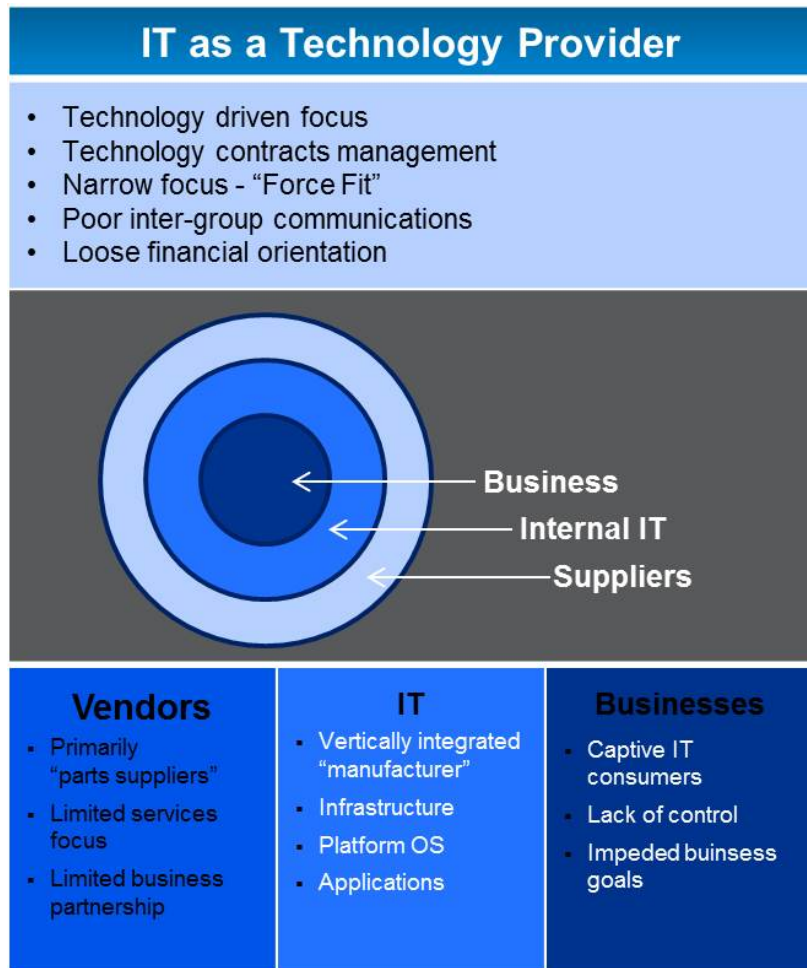
■ Why has innovation been illusive in ITO contracts?

- Operations focus of resources
- Focus on stability
- Emphasis on cost reduction

■ What are leading approaches to achieving innovation? Key word is “separate”.

- Separate teams, meetings, processes, contracts, providers
- Monitor, measure, and reward

IT Needs to Fundamentally Transform its Understanding and Delivery of Services, from an Internal Technology Provider Focus to that of a Services Integrator



Impact of Big Data and Analytics on Sourcing Decision-Making



Plans to start outsourcing by industry in 2013

Q. Are you likely to increase or decrease your outsourcing activity across the following business operations areas in the next 12 months? (Will look to start outsourcing for the first time only) Top 3 responses by industry

Insurance	Manufacturing	Banking	CPG
Document & Print Operations Outsourcing 17%	Analytics 15%	Document & Print Operations Outsourcing 10%	Application Development & Maintenance Outsourcing 13%
Analytics 8%	Human Resources Outsourcing 14%	IT Infrastructure Outsourcing 10%	IT Infrastructure Outsourcing 13%
Application Development & Maintenance Outsourcing 8%	Knowledge Process Outsourcing 8%	Finance & Accounting Outsourcing 7%	Finance & Accounting Outsourcing 11%
Energy & Utilities	Entertainment	Pharma, Life Sciences & Healthcare	Public Sector
Document & Print Operations Outsourcing 25%	IT Infrastructure Outsourcing 30%	Procurement & Sourcing Outsourcing 20%	Document & Print Operations Outsourcing 40%
IT Infrastructure Outsourcing 18%	Application Development & Maintenance Outsourcing 18%	Finance & Accounting Outsourcing 19%	Customer Relationship Management Outsourcing 20%
Marketing Operations Outsourcing 18%	Analytics 10%	Analytics 13%	Industry Specific Processes 20%
Retail	Software, Hi-Tech and Telecoms	Transportation & Logistics	Other industries
IT Infrastructure Outsourcing 25%	Human Resources Outsourcing 15%	Human Resources Outsourcing 44%	Analytics 24%
Application Development & Maintenance Outsourcing 13%	IT Infrastructure Outsourcing 14%	Procurement & Sourcing Outsourcing 38%	Finance & Accounting Outsourcing 18%
Document & Print Operations Outsourcing 11%	Application Development & Maintenance Outsourcing 13%	Finance & Accounting Outsourcing 25%	Knowledge Process Outsourcing 18%

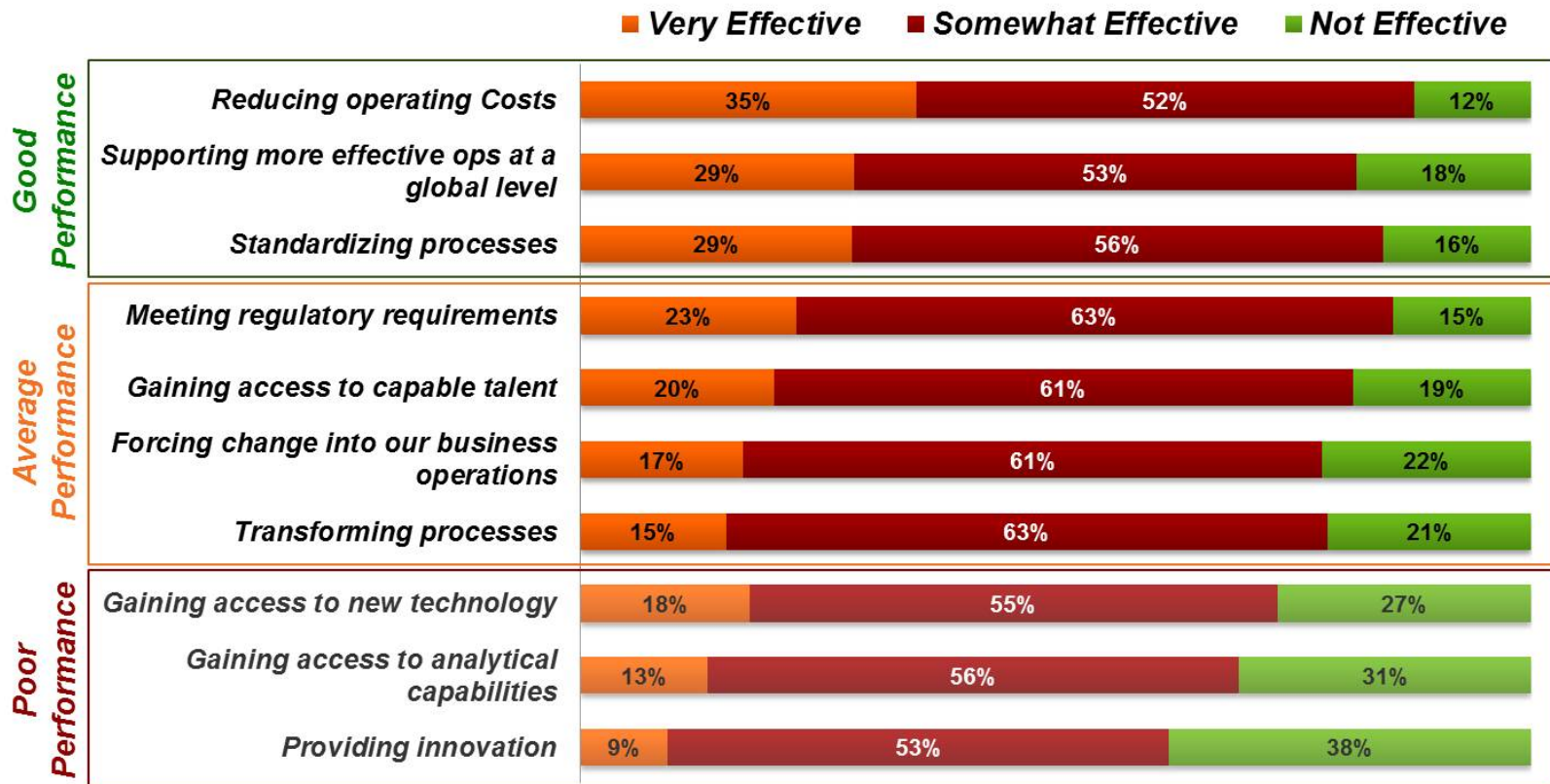
Strategic objectives are becoming much more important to enterprises after commencing their outsourcing initiatives

Q. How important are the following objectives to your team.... When you first started your outsourcing and/or shared services initiatives? And Today?



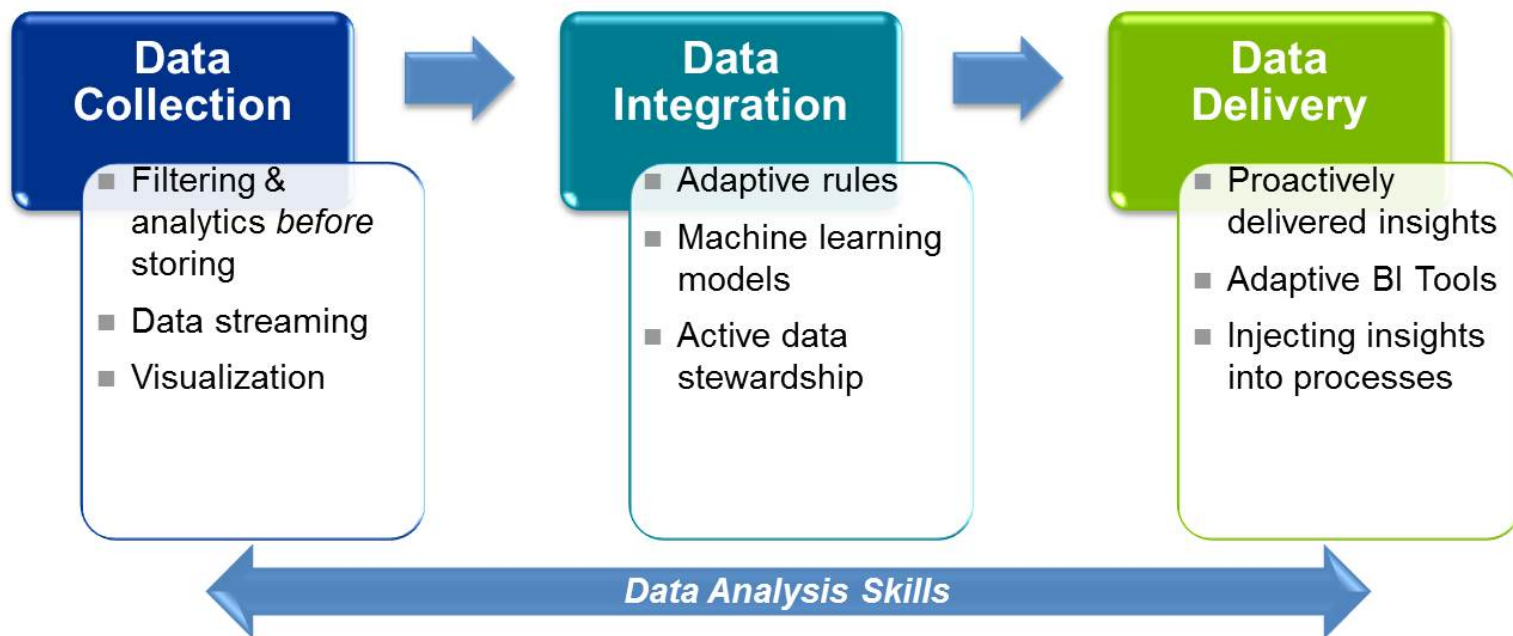
Enterprise Outsourcing Performance Meeting Table-stakes, but Falling Short in Strategic Areas

Q. How effective have your current BPO / IT outsourcing initiatives been for achieving the following business benefits to date?



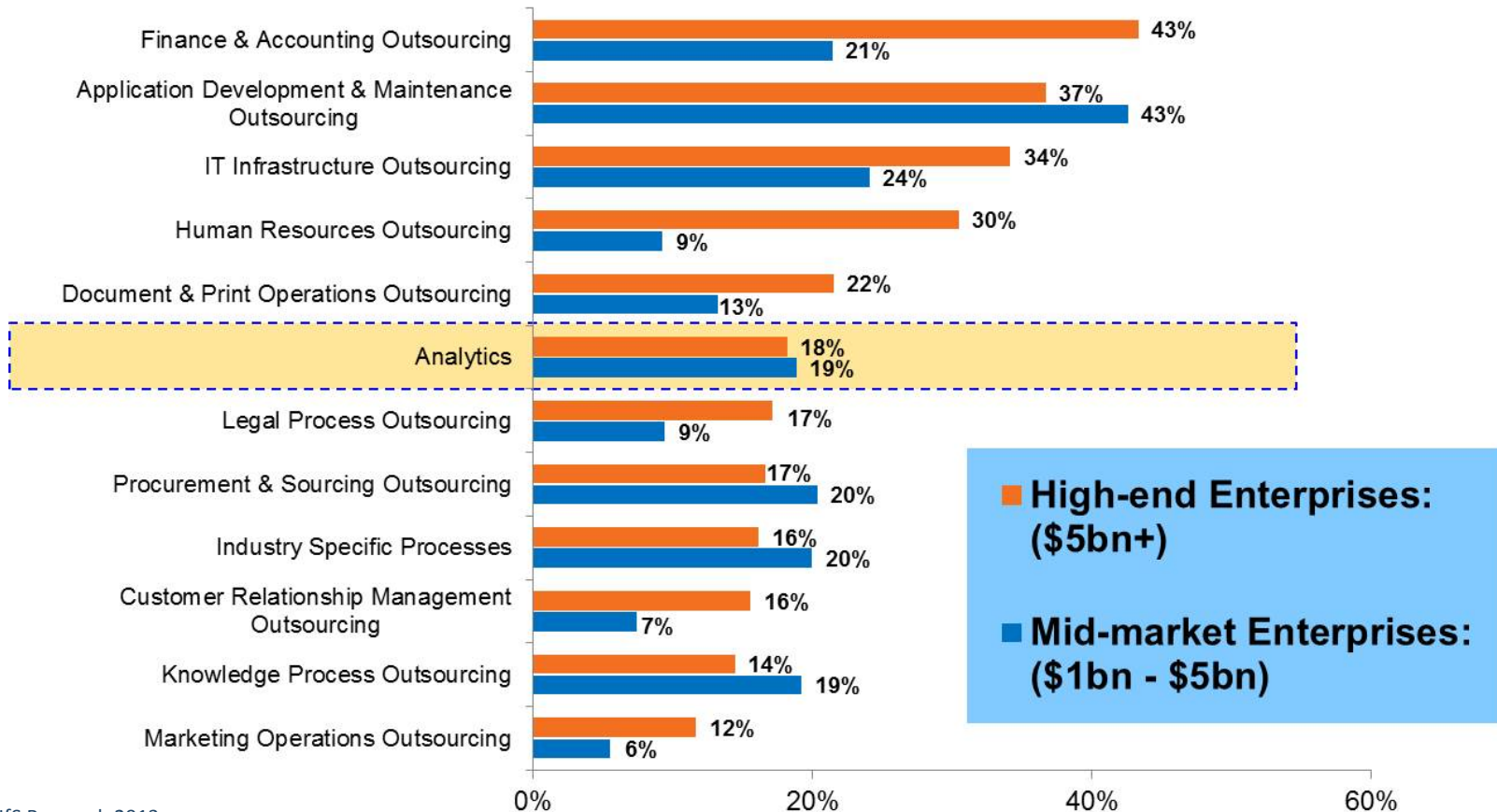
The Challenge of Finding Value in Data – Technology Perspective

- Paradigm shifts in people, technology and methods are required



One-in-five enterprises planning to increase analytics sourcing activities in 2013

Q. Are you likely to increase or decrease your outsourcing activity across the following business operations areas in the next 12 months? (Increase scope only)



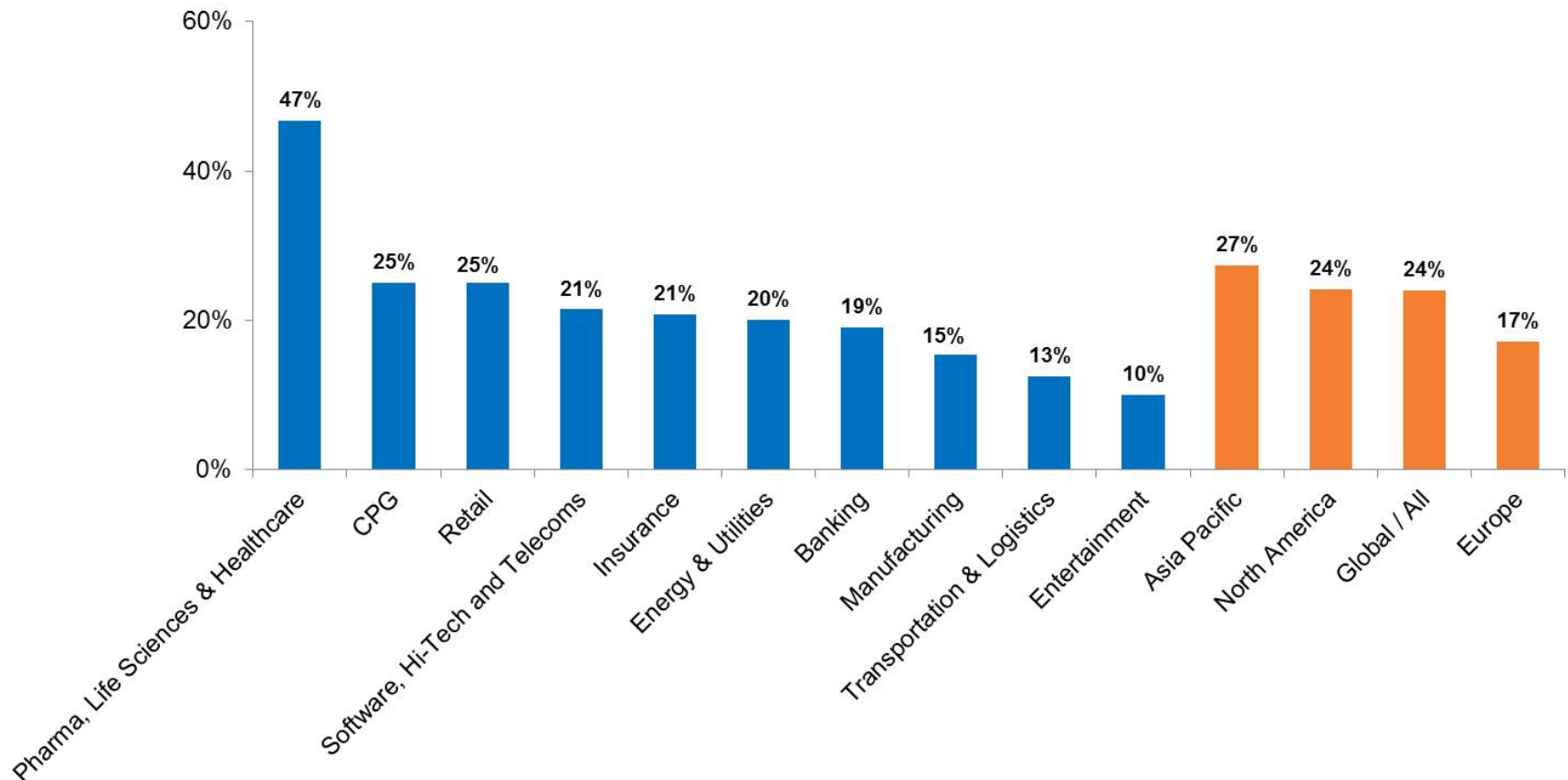
■ High-end Enterprises: (\$5bn+)
■ Mid-market Enterprises: (\$1bn - \$5bn)

Source: HfS Research 2013
 "2013 State of Outsourcing" Study, n = 399 Buy-side Enterprises
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Plans to increase analytics outsourcing by region and industry

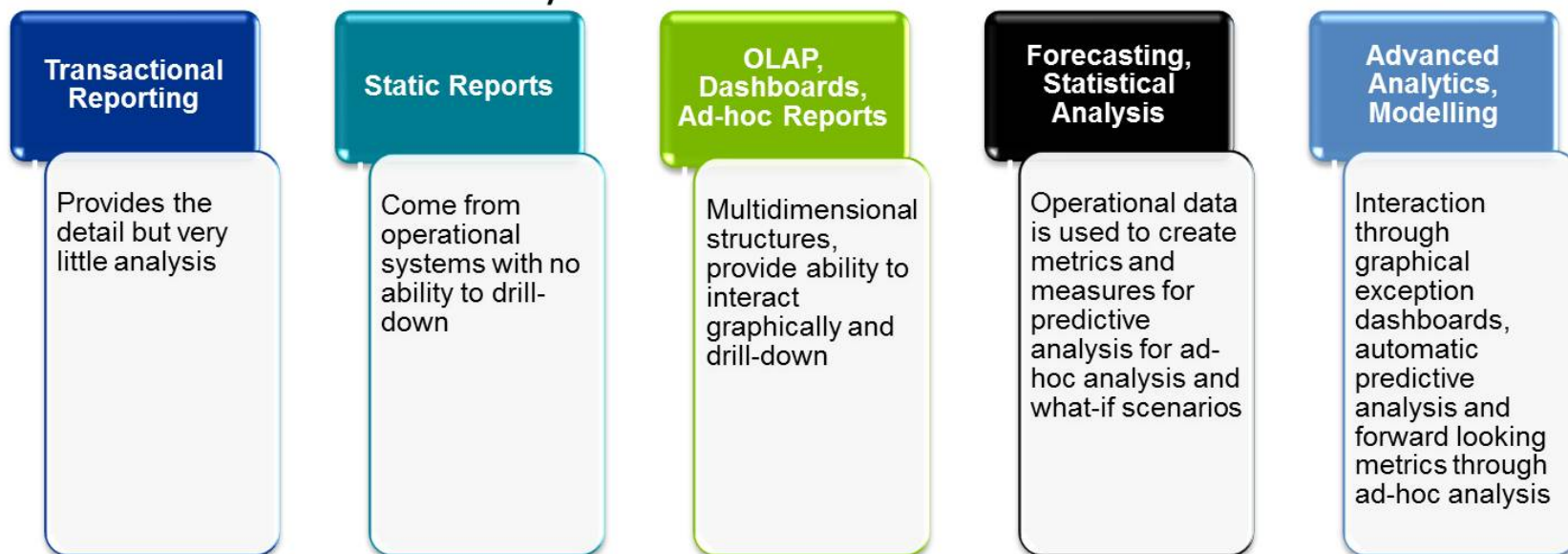
Q. Are you likely to increase or decrease your outsourcing activity across the following business operations areas in the next 12 months? (Analytics) (Increased scope / looking to outsource for the first time)



Leading Practice Business Applications for Analytics

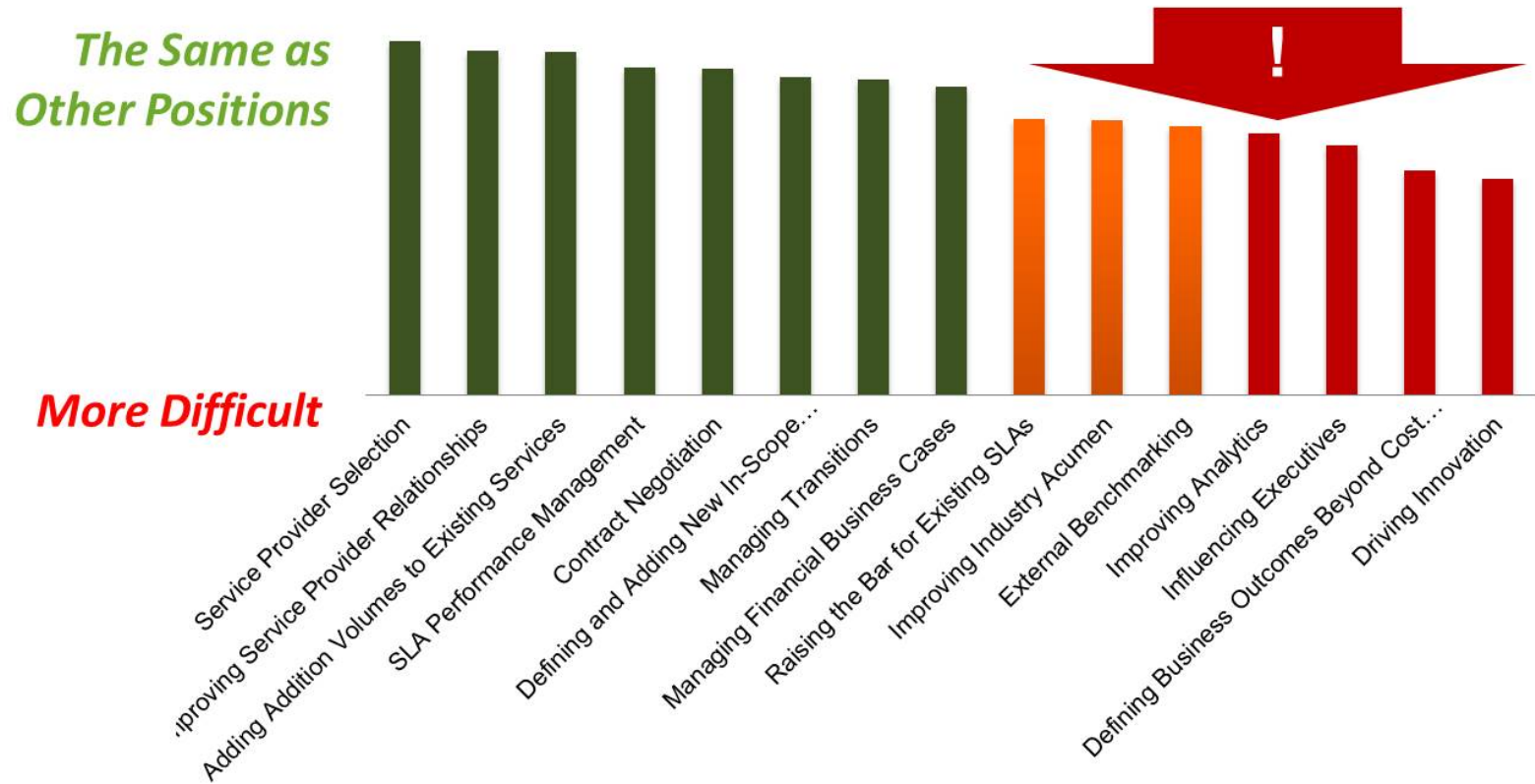
- Analytics is the process of obtaining an optimal decision based on existing data. This is through the transformation of raw data to an advanced level of intelligence such that insight can be gained.

- Transformation to Analytics



Operations struggle with leadership, not just delivery staff, to drive the future agenda

Q. How difficult or easy has it been to attract and source talent for your team to perform the following activities?



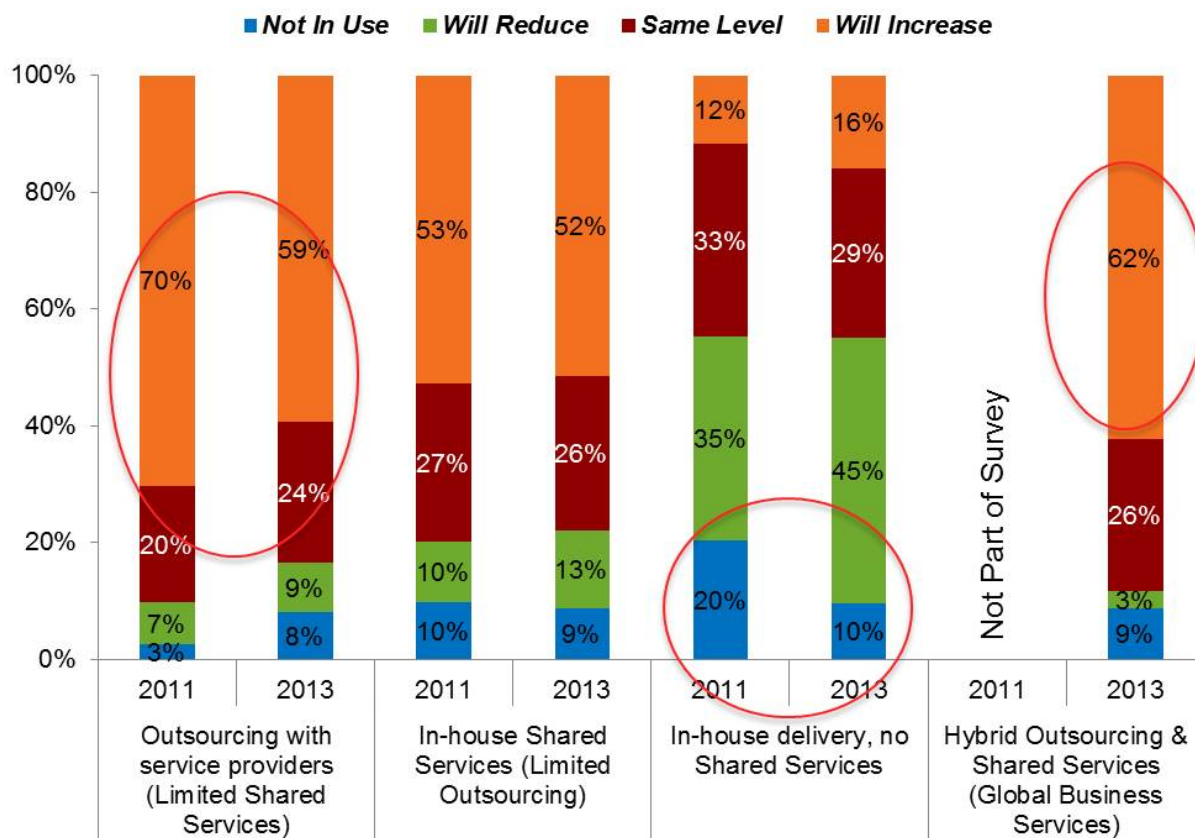
Source: HfS Research 2012, N = 192 Buy-side Executives and 155 Sell-side Executives

The Evolution of Global Business Services



Over the last two years, focus on outsourcing and in-house delivery have reduced.

Q: Will your company increase / reduce its reliance on the following operating models for your general and administrative functions over the next 3 years?



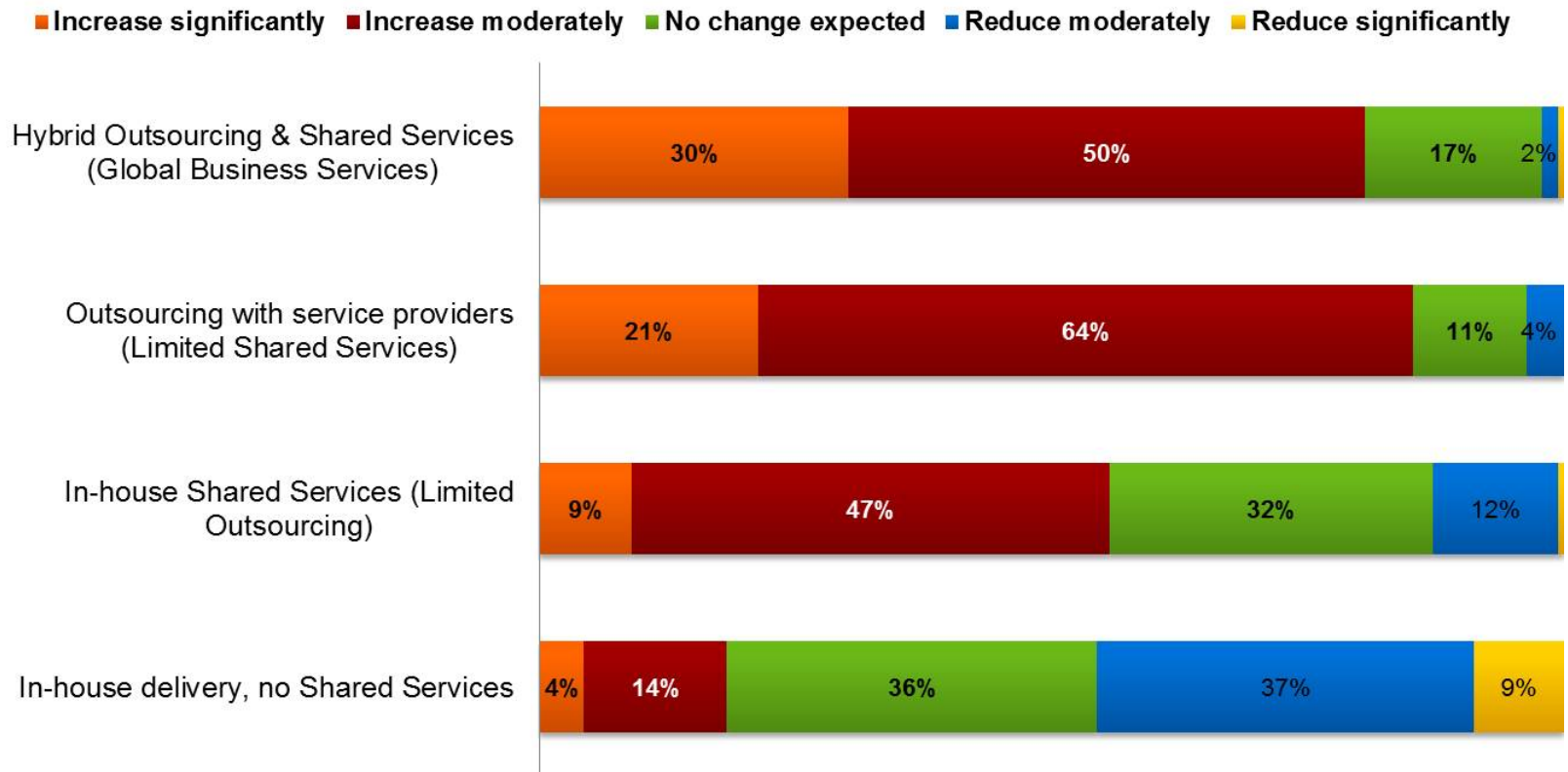
Observations

- While still popular, use of outsourcing as a primary operating model is significantly decreasing.
- Companies are overtly reducing in-house delivery (not shared services).
- Shared services and hybrid models, with unchanged adoption rates, have become a primary focus for organizations

Sources: "2013 State of Outsourcing" Study, n = 399 Buy-side Enterprises and "2011 State of Outsourcing" Study, n = 226 Buy-side Enterprises

Global Business Services becoming the dominant delivery model for high-end enterprises

Q. Based on your recent experiences, will your clients seek to increase / reduce their reliance on the following operating models for their general and administrative functions, over the next 2 years?



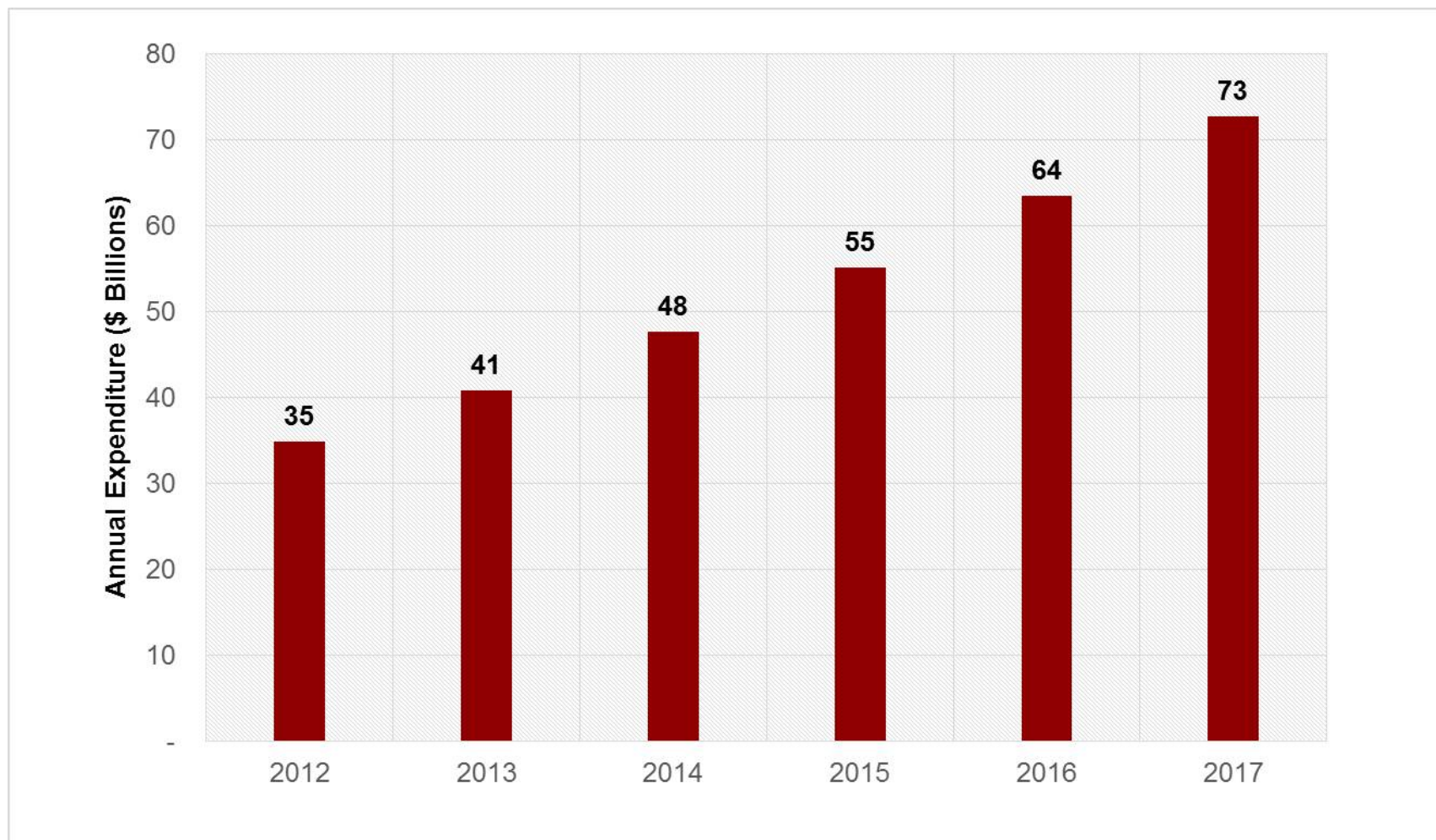
High-end Enterprises focused on GBS

Q. To help us with our research, how important are the following topics/issues to your organization's outsourcing strategy going into 2013? (Mission Critical only)



Source: HfS Research 2013
 "2013 State of Outsourcing" Study, n = 495 Service Provider Executives
 Conducted with the support of KPMG Shared Services & Outsourcing Advisory
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GBS Sourcing Market 2012 – 2017 (\$b)



Source: HfS Research 2013

Market Wrap



The shift from recession to growth is radically altering the future operating model

	Legacy Operating Model	Future Operating Model
Strategy	Siloed, fragmented back office with multiple locations and disparate operations; non-standard consumption of service offering across the businesses; multiple third party service providers	Predictable service delivery with primary focus on compliance and controllership; proactive customer management; lower cost sites; enterprise-wide focus
Business Processes	Product / function based processes; non-standard processes with manual workarounds; KPIs exist, but there are opportunities to enhance SLAs and SOWs	Global end-to-end process based standards and ownership; automation / optimization; active process monitoring and control
Technology	Multiple ERPs and tools; manual interfaces; poor integration of functional systems	Simplified technology landscape based on a core set of standard ERPs; fewer charts of accounts; integrated best of breed systems; service oriented architecture (SOA)
Operating Structure	Functional reporting; informal, limited governance and performance management at the business; businesses have fragmented service delivery and multiple points of contact	Global governance model; Global Business Services structure aligned to global growth organizations regional model; local execution, decision making; formal service definitions and service level agreements; GBS relationship managers; rationalized and centralized administration of third party service providers
People Programs	Back office career paths undefined; retention challenges; resourcing sub-optimized, "islands" of capacity	Structured career paths; GBS access to deep pool of talent; ongoing training and development

Summary of Key Dynamics

- IT and Finance & Accounting, Procurement and HR Dominate Outsourcing Plans
- Close to a third of high-end enterprises view Global Business Services as mission-critical
- Enterprises still very focused on achieving operational results when they outsource
- High-end enterprises focused on cost, mid-market focused on provider solutions
- Outsourcing performance meeting the table-stakes, but falling short in strategic areas
- ITO results are functionally effective, but light on innovation
- 90% of BPO initiatives highly effective at meeting operation targets; BPO outperforms ITO for cost reduction effectiveness and process standardization
- Large enterprises getting better performance from BPO than mid-sized enterprises
- Outsourcing adoption still very nascent for business processes
- Service Providers main goal is to shift enterprise focus away from cost and towards value
- Buyers don't expect innovation from suppliers, they want stability, industry understanding and delivery excellence

Any Questions?



Source: HfS Research 2013

Appendices



SSOA – World’s Most Comprehensive Enterprise Services Transformation Advisory Capability

- » KPMG acquired EquaTerra in February 2011, creating the world’s most comprehensive advisory firm for the sourcing, transformation and management of business services.
- » KPMG’s SSOA practice helps clients **transform enterprise services** to improve value, increase agility, and create sustainable business performance.



Who we are	What we do	How well we do it	
<p>We bring a specialized team of more than 430 professionals from member firms around the world who blend insight and operational talent to help our client design, build, and manage IT and business processes across the enterprise.</p>	<p>We help clients align business strategy, organization, and execution to manage the entire IT and business process life cycle, improving performance and laying the groundwork for genuine business transformation.</p>	<p>2009 World's Best <i>Outsourcing Advisors</i> IAOP</p> <p>2011 World's Best <i>Outsourcing Advisors</i> IAOP</p>	<p>2010 World's Best <i>Outsourcing Advisors</i> IAOP</p> <p>2012 World's Best <i>Outsourcing Advisors</i> IAOP</p>

**Please note KPMG refers to KPMG LLP (US), KPMG Holdings Limited (UK), and KPMG International. KPMG LLP (US), KPMG Holdings Limited (UK), and KPMG International have acquired the business of advisory firm Equaterra*

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- 20 dedicated analysts across US, Europe and Asia/Pac
- Industry leading focus on demand-side trends, market landscapes, competitive evaluations, pricing dynamics, market sizing and forecasting
- Educates and facilitates discussion among the world's largest knowledge community of services and operations executives, currently comprising 120,000 subscribers. *19,000 LinkedIn Group members; leading blog and research portal in the services industry*
- The largest web and social media presence in the sourcing industry
- A major following from the buy-side: *40% of readership comes from sourcing buyers*
- We leverage our vast community of sourcing professionals to deliver rapid insights on global sourcing industry trends & developments - *Surveyed over 15,000 organizations in 2011-12 on their sourcing intentions and dynamics*

About HfS Research

HfS Research (www.HfSResearch.com) is a leading independent global analyst authority and knowledge community for the business and IT services industry.

HfS is unique in the fact that it serves the research and strategy needs of business operations leaders across finance, supply chain, human resources, marketing, customer management, IT and core industry functions. In addition to researching business operations strategies, HfS educates and facilitates discussion among the world's largest knowledge community of enterprise services professionals, currently comprising 120,000 subscribers. HfS Research also facilitates the **HfS Sourcing Executive Council**, the acclaimed elite group of sourcing practitioners from leading organizations, which meets on a bi-annual basis to share the future direction of the global services industry and discuss the future enterprise operations framework.

Led by recognized industry expert Phil Fersht, HfS Research differentiates itself with its global team of expert services analysts with real industry experience, provocative and opinionated research, unrivalled market analytics, and a view of technology as an enabler for business process improvement. Its on-demand expertise relationship model helps clients leverage HfS knowledge and strategic insight in a rapid, responsive and engaging manner.

In 2010 & 2011, HfS was awarded Analyst of the Year by the International Institute of Analyst Relations (IIAR), the premier body of analyst-facing professionals, and achieved the distinctive award of being voted the research analyst industry's most Innovative Analyst Firm in 2012.

Now in its sixth year of publication, HfS Research's acclaimed blog **"Horses for Sources"** is widely recognized as the leading destination for unfettered collective insight, research and open debate of sourcing industry issues and developments.

To learn more about HfS Research, please email research@HfSResearch.com.

About KPMG's Shared Service and Outsourcing Advisory

KPMG is a leading provider of global sourcing advisory services, has the ability to help member firms' clients transform enterprise services to help improve value, increase agility, and create sustainable business performance.

Who we are: Shared Services and Outsourcing Advisory brings a specialized global team of more than 400 professionals within KPMG's global network of independent member firms operating in 152 countries.

What we do: We help clients align their business strategy, organization, and execution to enable them to manage the entire IT and business process life-cycle, improving business performance, and laying the groundwork for genuine business transformation..

How we do it: We apply focused research, automating tools, proprietary data, clear business acumen, and a forward-thinking mind-set to provide timely, objective, actionable advice and practical approaches for clients.



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