State of the outsourcing, shared services, and operations industry 2018

Introduction

2018 State of Operations and Outsourcing Market Study

The following are the results from the 2018 edition of an annual, global market research study conducted jointly by KPMG and HfS Research on the state of the operations and business and IT services markets.

The research effort surveyed and interviewed over 375 executives globally from firms with revenues in excess of $1 billion annually globally across all major industries (see Appendix for full survey respondent demographics).

KPMG's global Shared Services & Outsourcing Advisory (SSOA) practice is the executive sponsor practice for the HfS Research global market research relationship and for this annual global market study.

Sections

Key findings and observations

Near term expectations are high for returns from *advanced data and analytics* and *intelligent automation* investments.

Cure-all/panacea solution and enabler for a broad range of organizational strategic and tactical needs and demands?

Expectations are unrealistic given *relative lack of organizational maturity* in pursuing advanced D&A and IA investments, particularly around skills, talent, investment levels, and the current state of data integration.

Operations *strategy is increasingly at odds with reality*, particularly balancing cost savings and strategic investment priorities.

Cost savings tactics, transformational strategic ambitions

Struggles continue over to understand how to implement *organization-wide automation.*

Expecting bots to solve all issues within the next year or two is unrealistic.

Traditional outsourcing continues to lose favor; next-generation outsourcing leveraging advanced D&A and IA is the hot topic today.

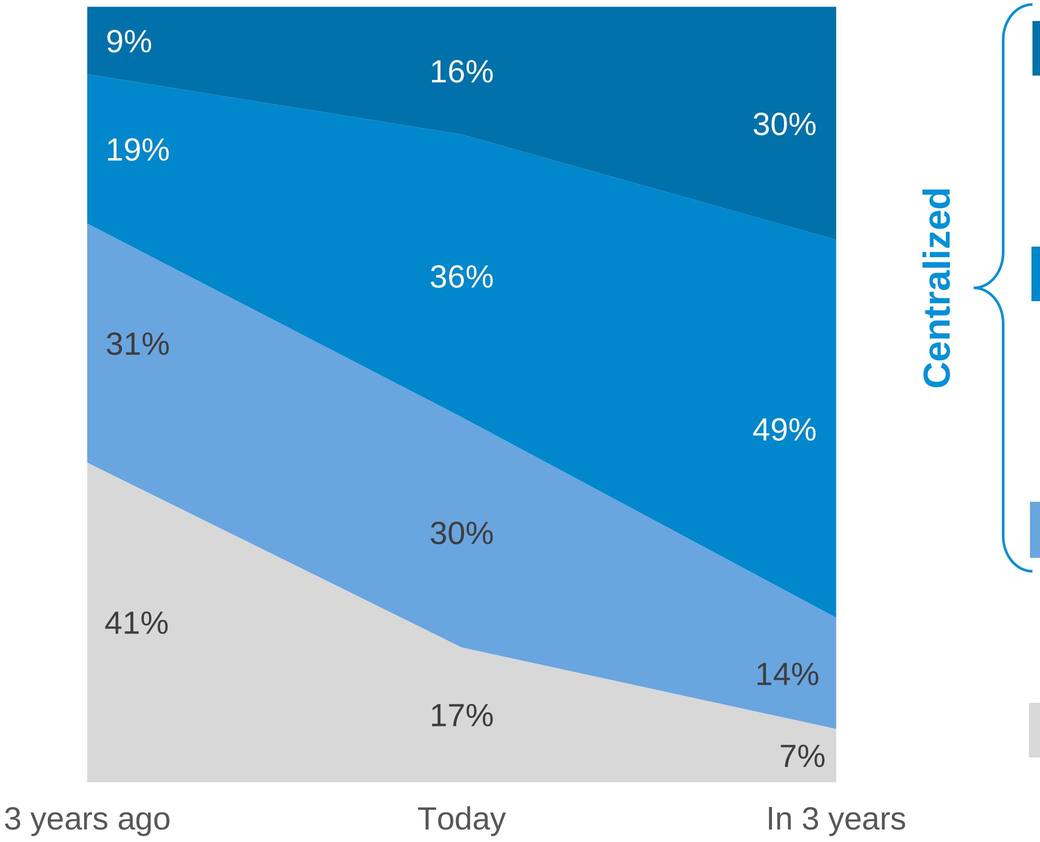
Global business services must *evolve* from its internal service delivery focus with an emphasis to a *more external focus with an emphasis on strategic value-add* and back-, middle- and front-office integration.

GBS opportunity to assume a new role as the *organization-wide broker* and enabler of advanced D&A and IA while the historical transactional heart of GBS shifts from *people to automated process.*

All IA efforts and ambitions will continue to *suffer from talent and skills shortages* and uncertainty over how to deal with *leftover talent* from process automation efforts.

Current- and future-state service delivery operating models

Operating models in use continue to shift towards centralization



Global business services: Business services organizationally consolidated in a multifunctional unit with a service management structure and inclusive of transactional and expertise services

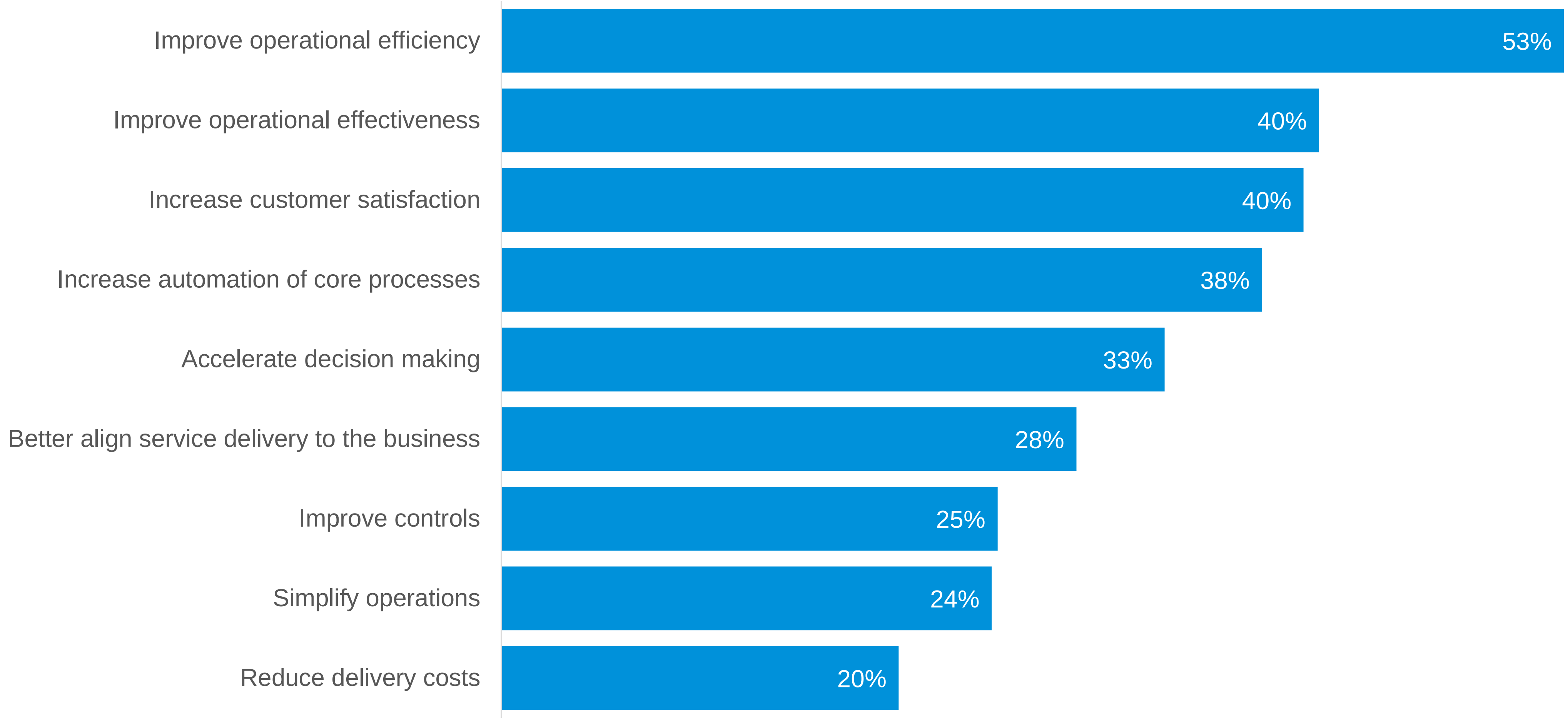
Functional shared services: Business services organizationally consolidated by function with a service management structure and largely transactional

Centralized operations: Business services organizationally consolidated, but without a service management structure

Decentralized operations: Business services distributed to individual business units

Source: HfS Research in Conjunction with KPMG, "State of Operations and Outsourcing 2018, March, 2018
Sample: Enterprise Buyers = 381

Main drivers for operating model changes; how to balance efficiency and effectiveness goals



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GBS is increasingly seen as platform for services and a hub for automation efforts

1 GBS is a platform of services (e.g. process delivery, data and analytics, and service delivery) that are delivered in an integrated way with a single governance structure

2 GBS takes a lead role in integrating and coordinating intelligent automation efforts in support of business functions and corporate initiatives

3 GBS takes a lead role in integrating knowledge and data in managing end-user customer interactions

4 GBS, as an organization, has its own ability to absorb and codify new services without the input of functional areas

5 GBS governance extends across the entire value chain from front-office to back-office services

6 GBS is composed of a discrete set of services with no single governance structure

➢ ***GBS as organization-wide IA broker – evolve or fade away?***

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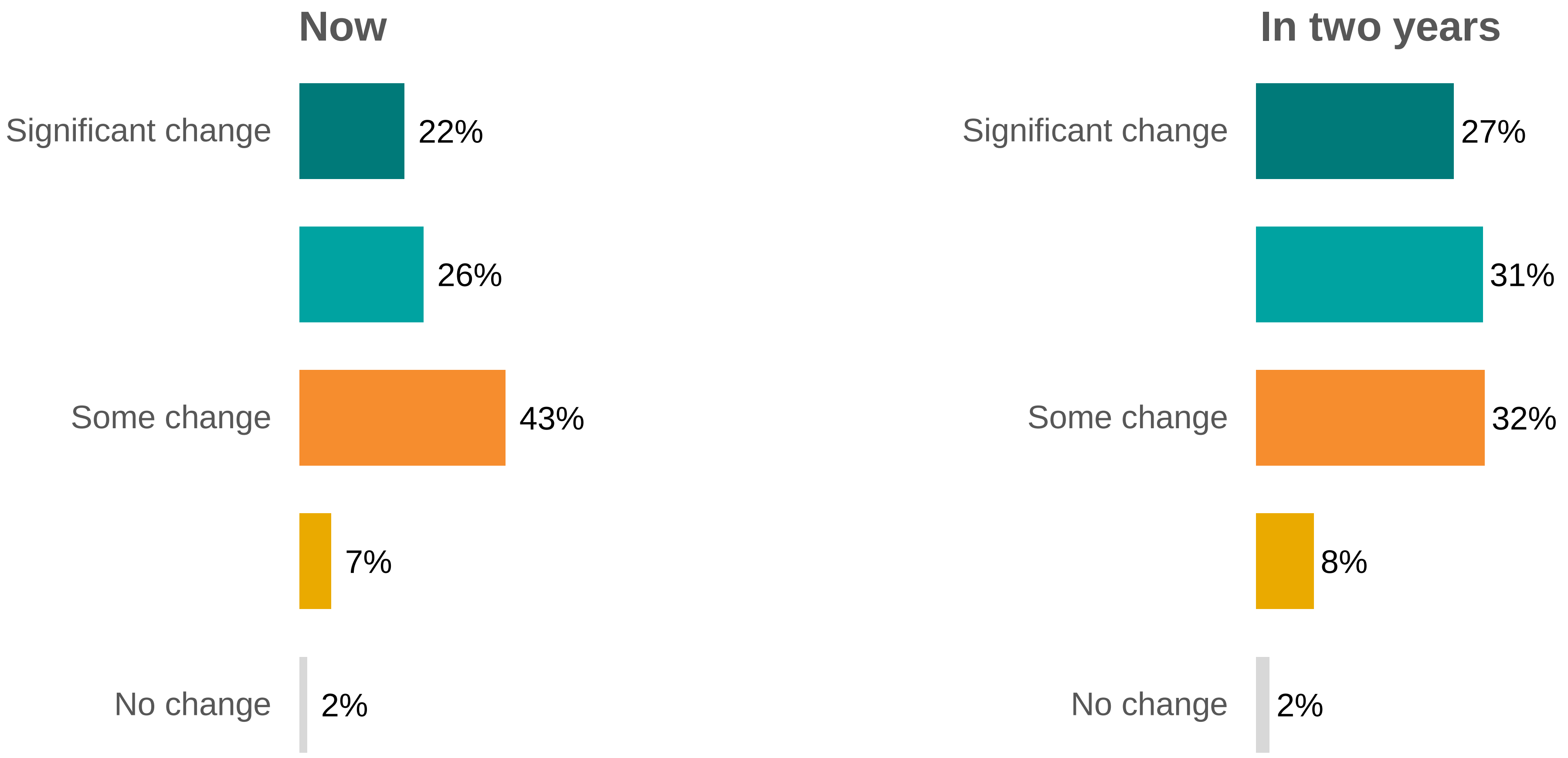
Expected operating model changes: growth of digital is driving change



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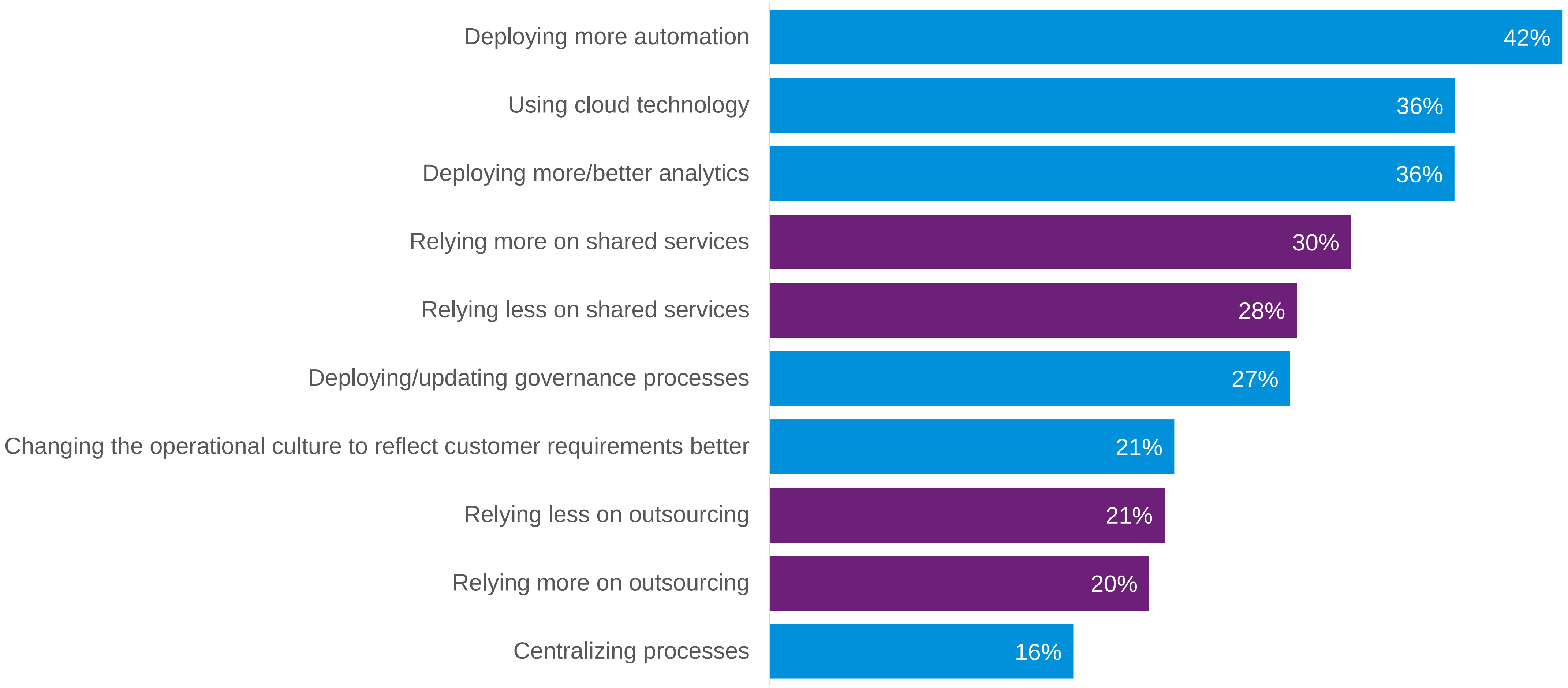
Enabling digital disruption and operating model changes



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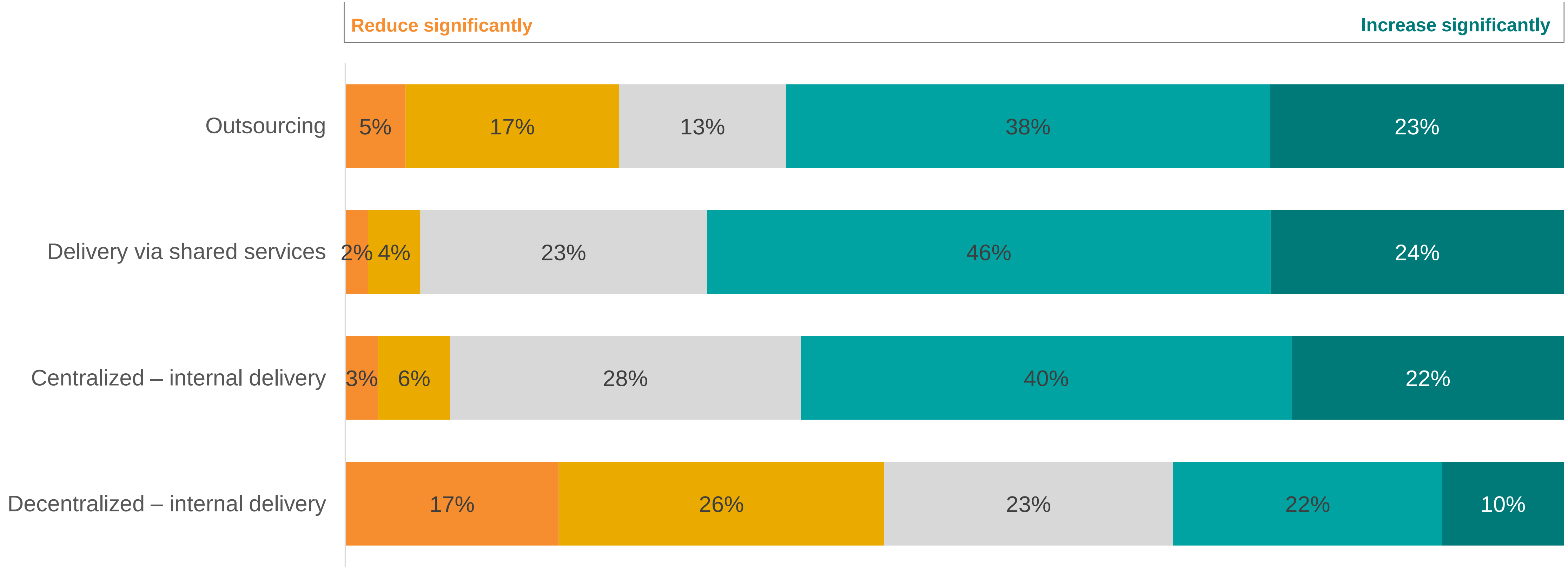
Shared services and outsourcing futures

Change in service delivery models: moderate growth in outsourcing, shared services, and centralized models



➢ ***Key is defining what type of outsourcing: traditional or next generation?***

Source: HfS Research in Conjunction with KPMG, "State of Operations and Outsourcing 2018, March, 2018
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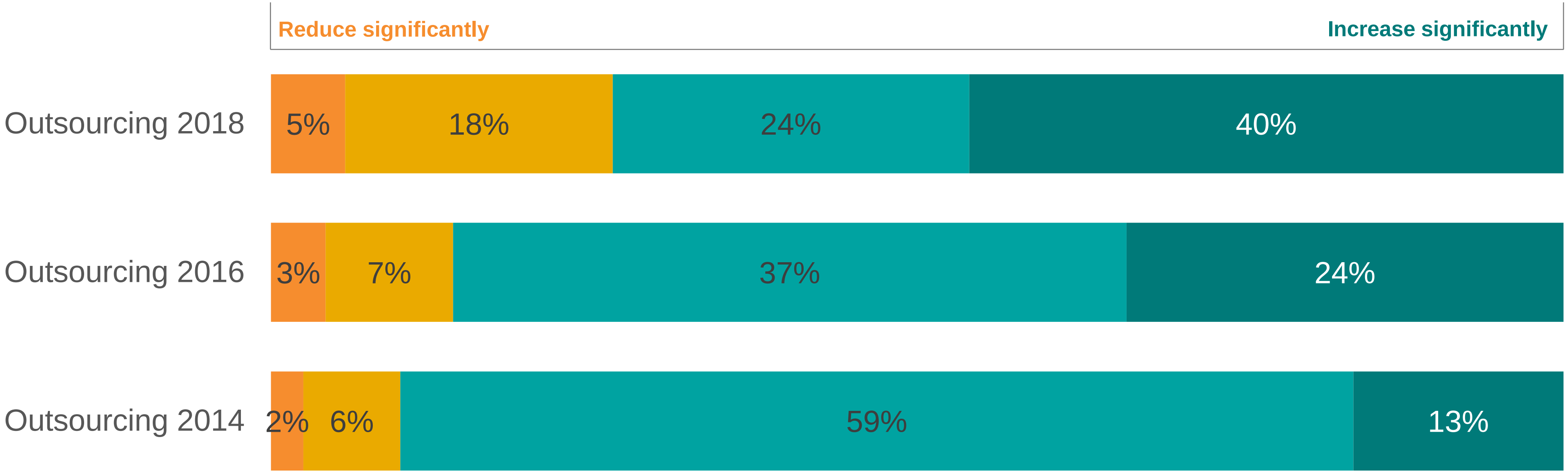
Change in service delivery models: Outsourcing plans more likely than two years ago to see a reduction in usage



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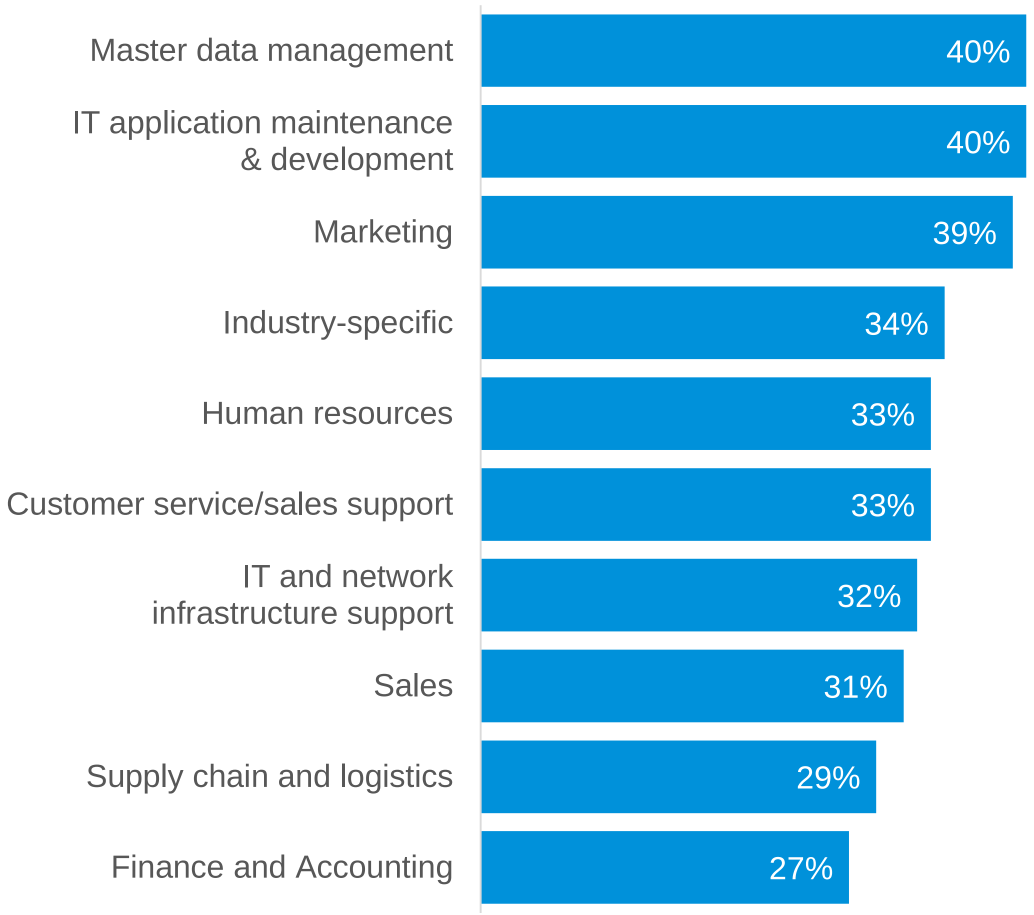
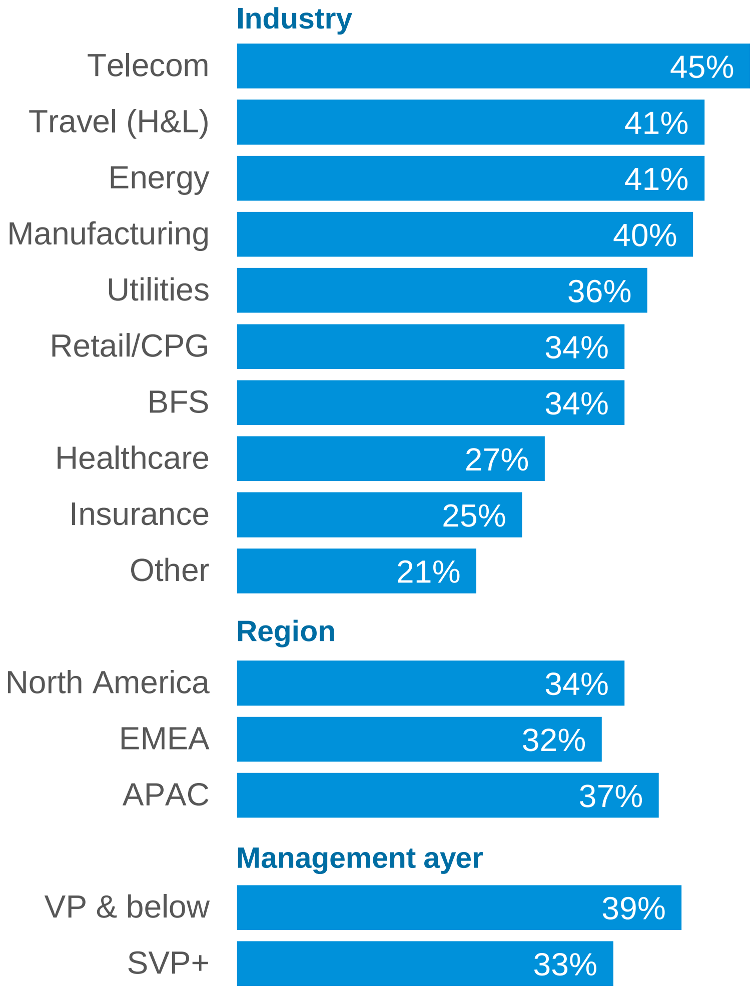
Outsourcing and managed services usage plans by function: users changing provider or insourcing





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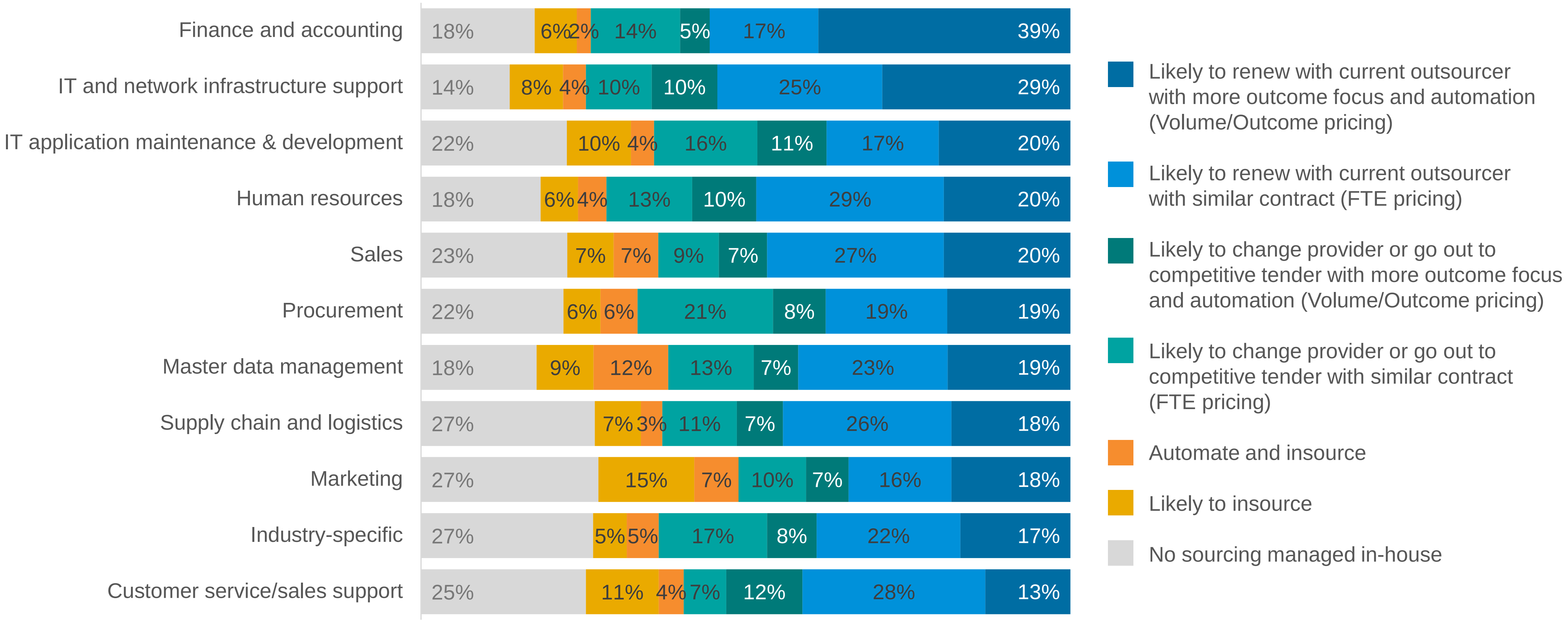
Future outsourcing and managed services usage plans by function



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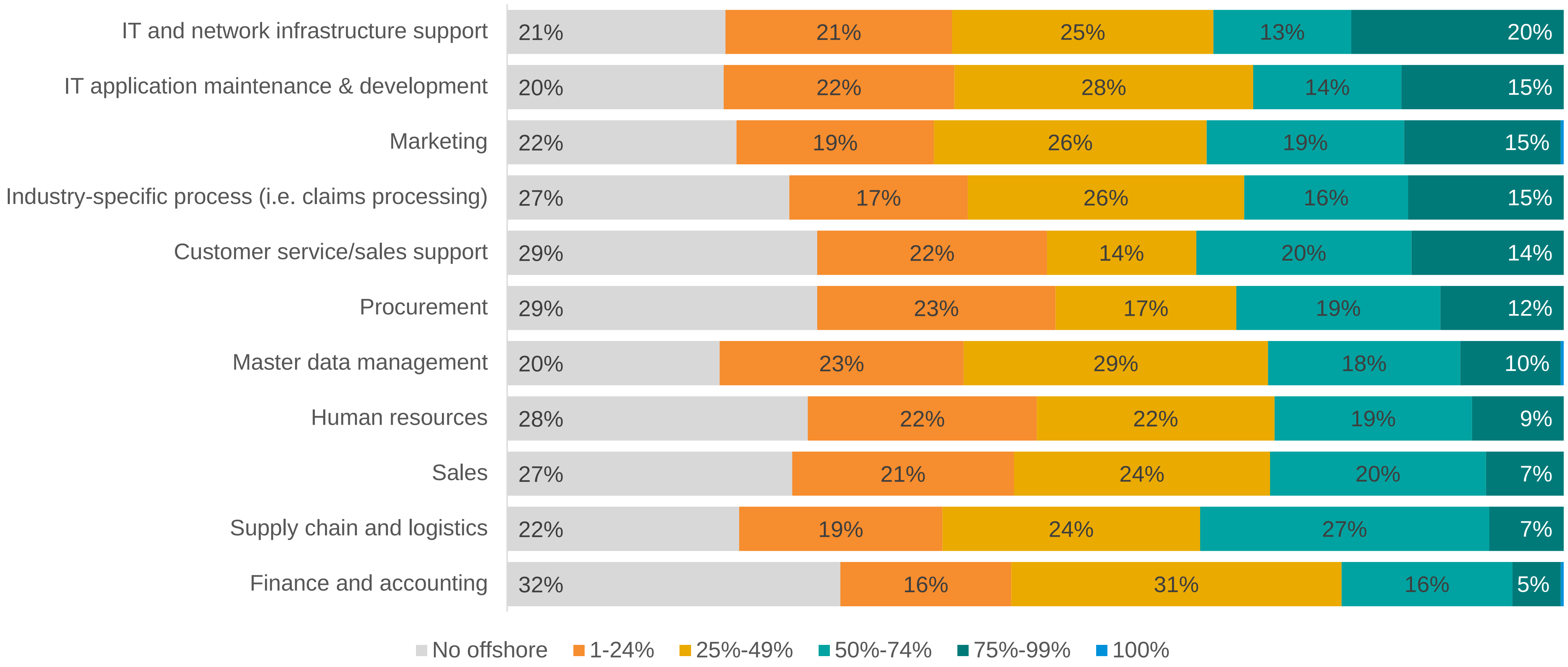
Current offshore usage by function



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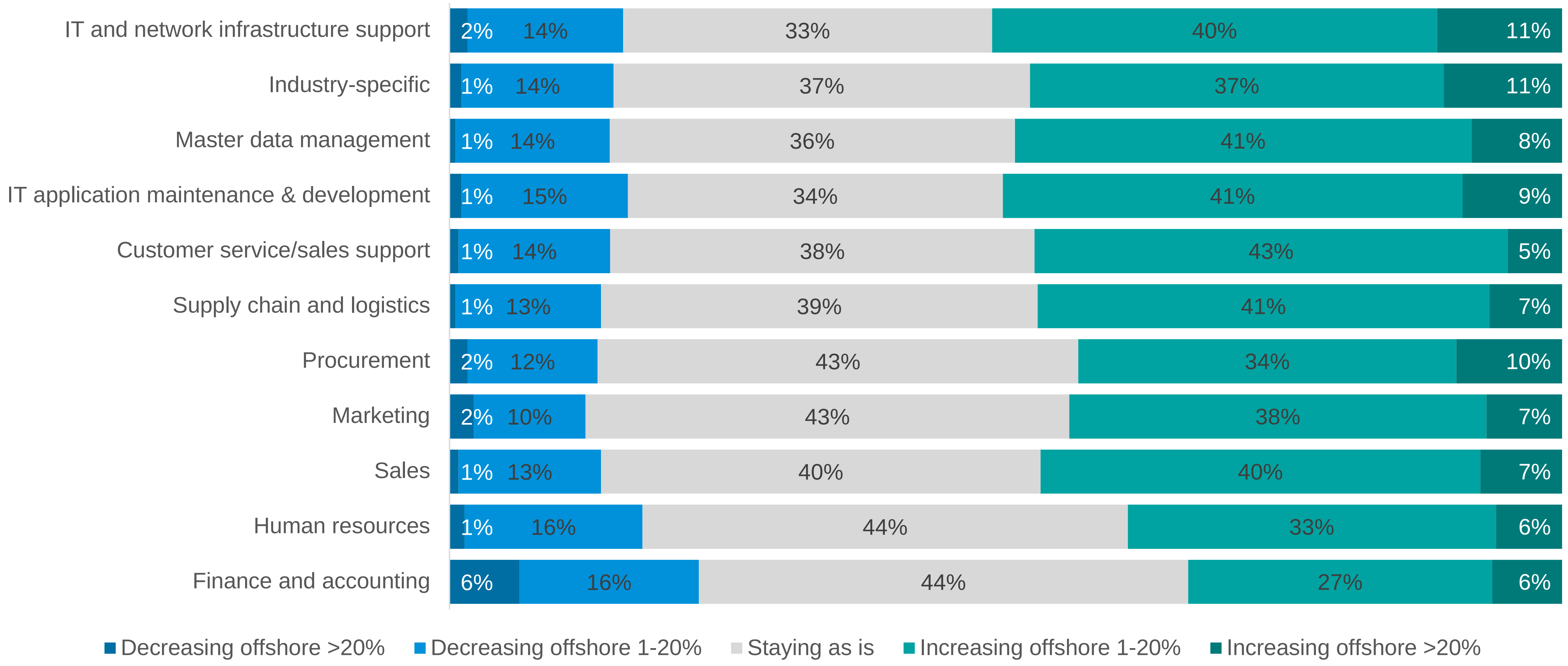
Expected change in use of offshore/nearshore over the next two years



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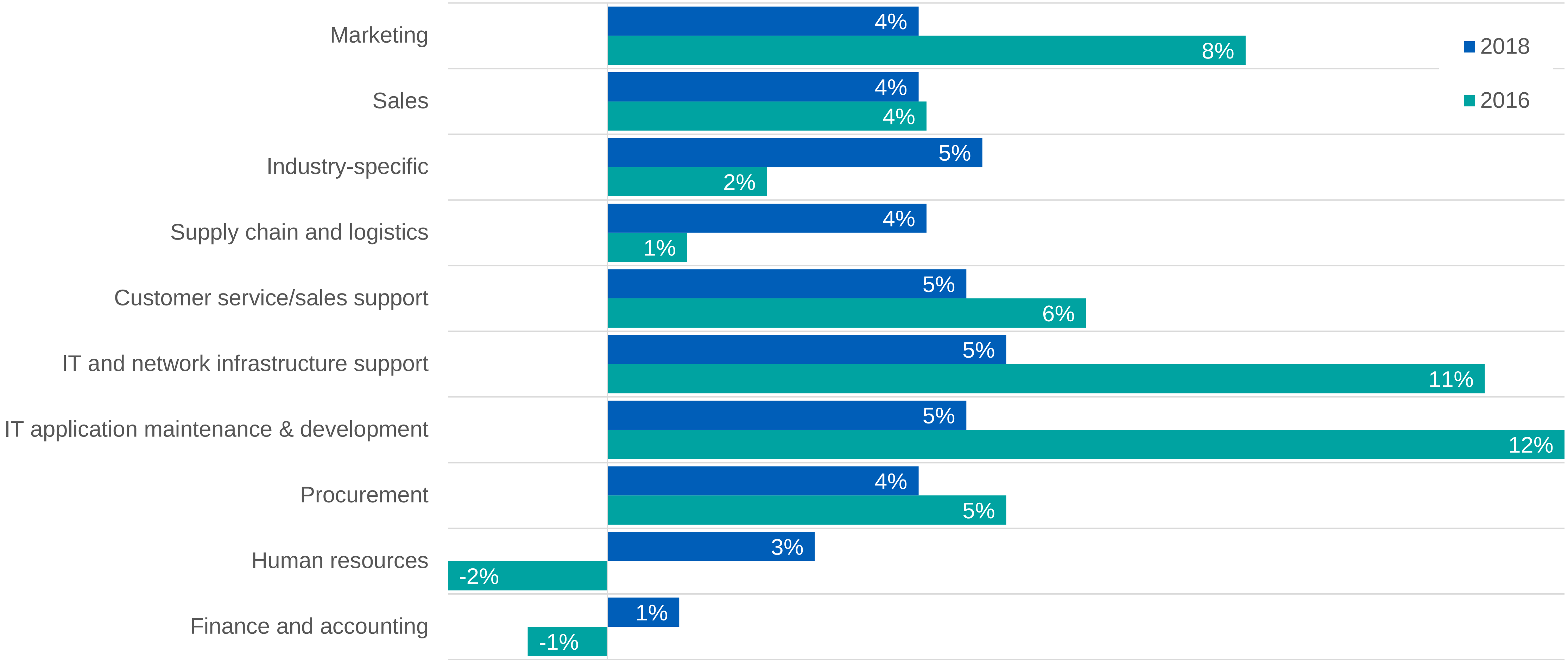
Expected change of offshore usage by function



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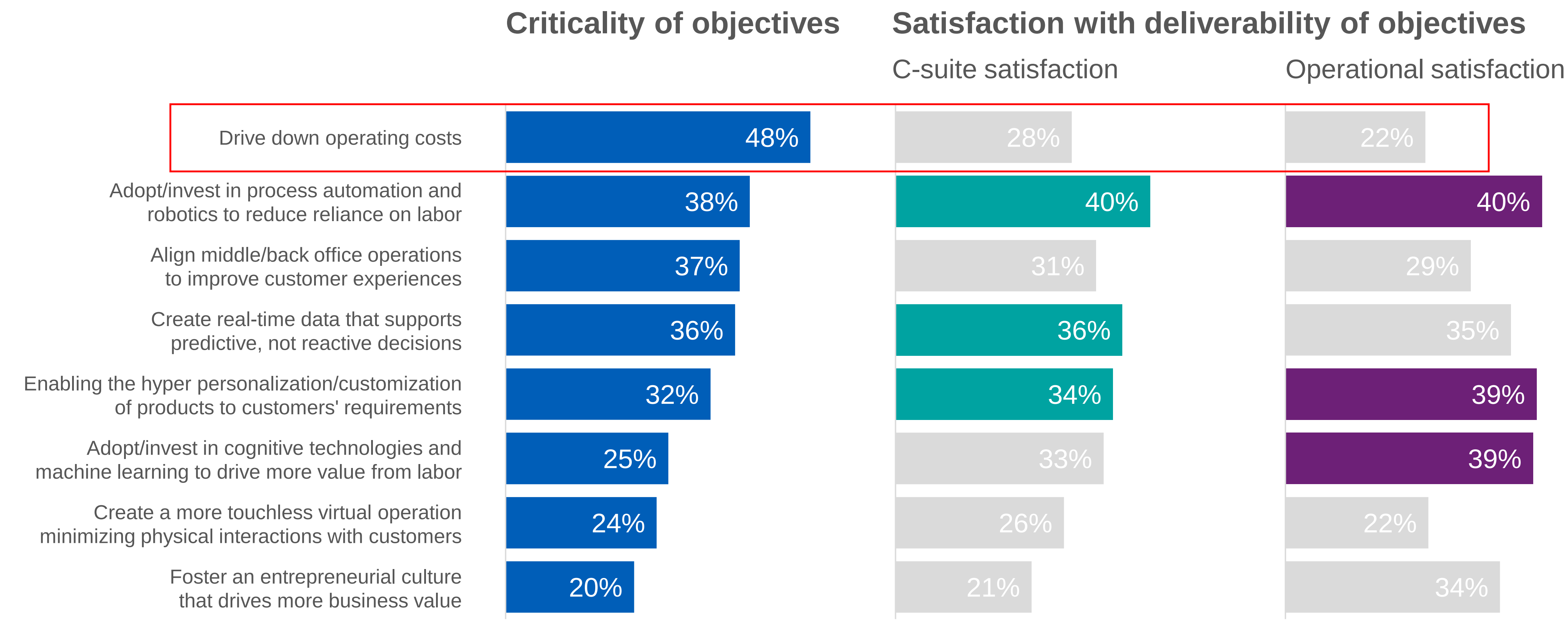
C-suite imperatives and digital disruption

Critical objectives dichotomy: driver for operational change not cost, but cost is the most mission-critical directive



- ***Never enough cost savings?***
- ***Legacy ways of cutting costs may not be working; new methods are required to extend cost savings opportunities***

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Sample: Enterprise Buyers = 381

C-suite and operations perspective on achievement of directives

Satisfaction of C-suite

1. **Adopt/invest in process automation and robotics to reduce reliance on labor**
2. **Create real-time data that supports predictive, not reactive decisions**
3. **Enabling the hyper personalization/ customization of products to customers' requirements**

4. **Adopt/invest in cognitive technologies and machine learning to drive more value from labor**
5. Align middle-/back-office operations to improve customer experiences
6. Drive down operating costs
7. Create a more touchless virtual operation minimizing physical interactions with customers
8. Foster an entrepreneurial culture that drives more business value

Satisfaction of operations manager

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3. **Adopt/invest in process automation and robotics to reduce reliance on labor**

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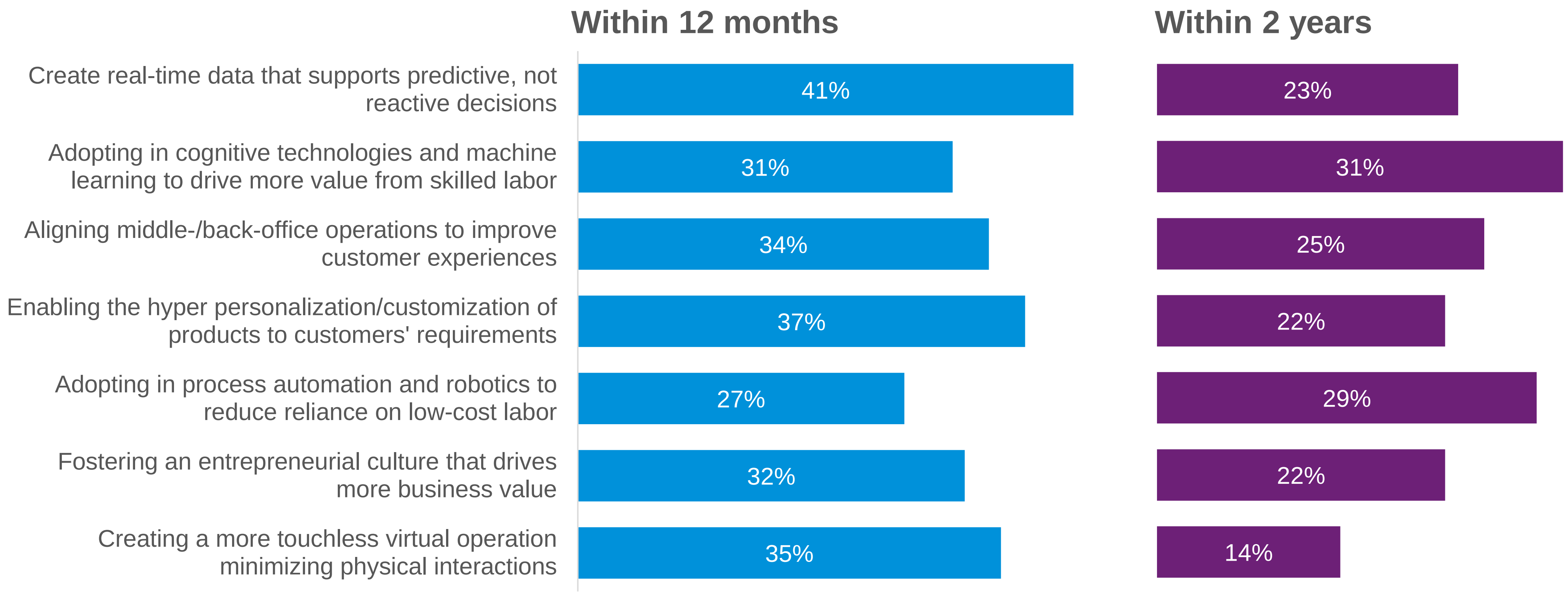
Time frame for achieving key C-suite directives



Source: HfS Research in Conjunction with KPMG, "State of Operations and Outsourcing 2018, March, 2018
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Top investment/focus areas to enable achievement of operational cost saving goals

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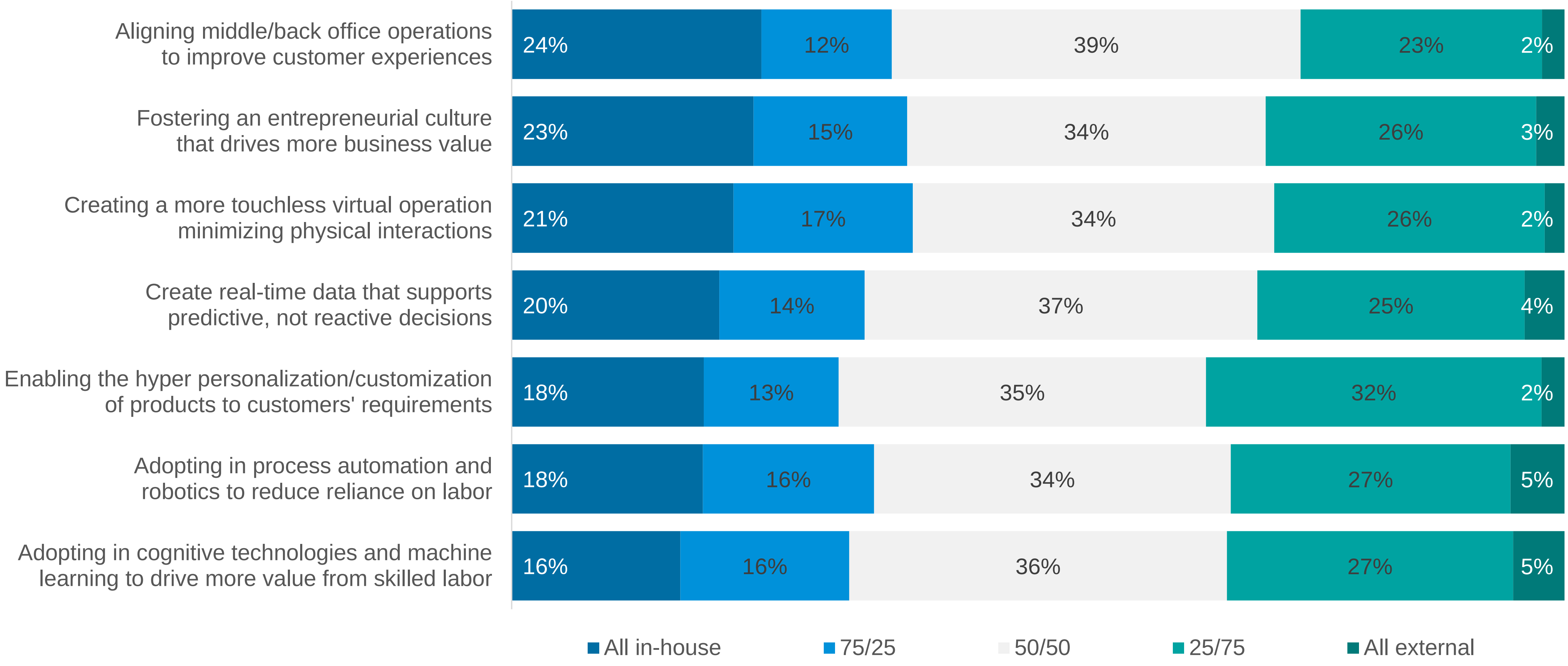
Reliance on internal and external partners to achieve C-suite directives



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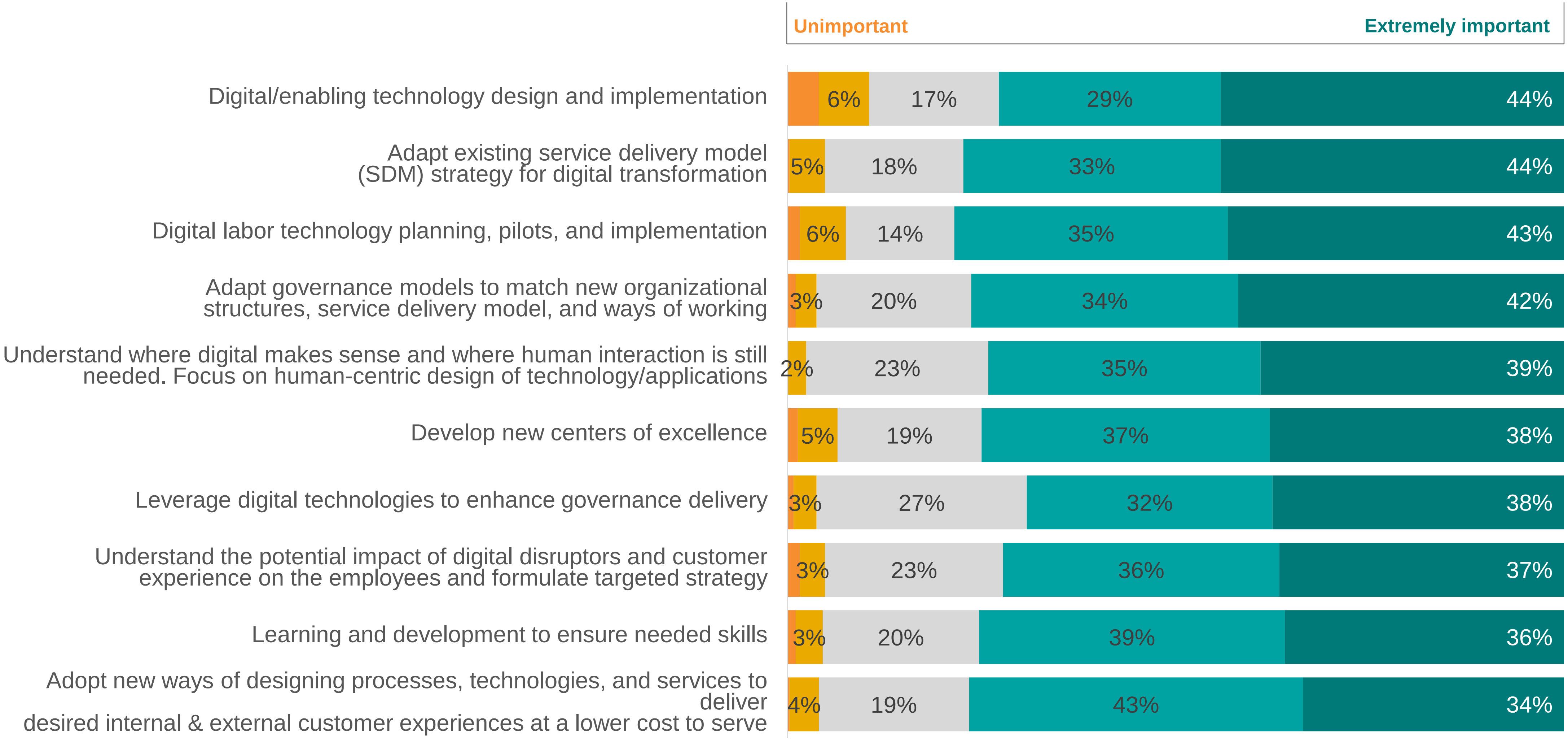
Top means to drive a digital delivery operating model



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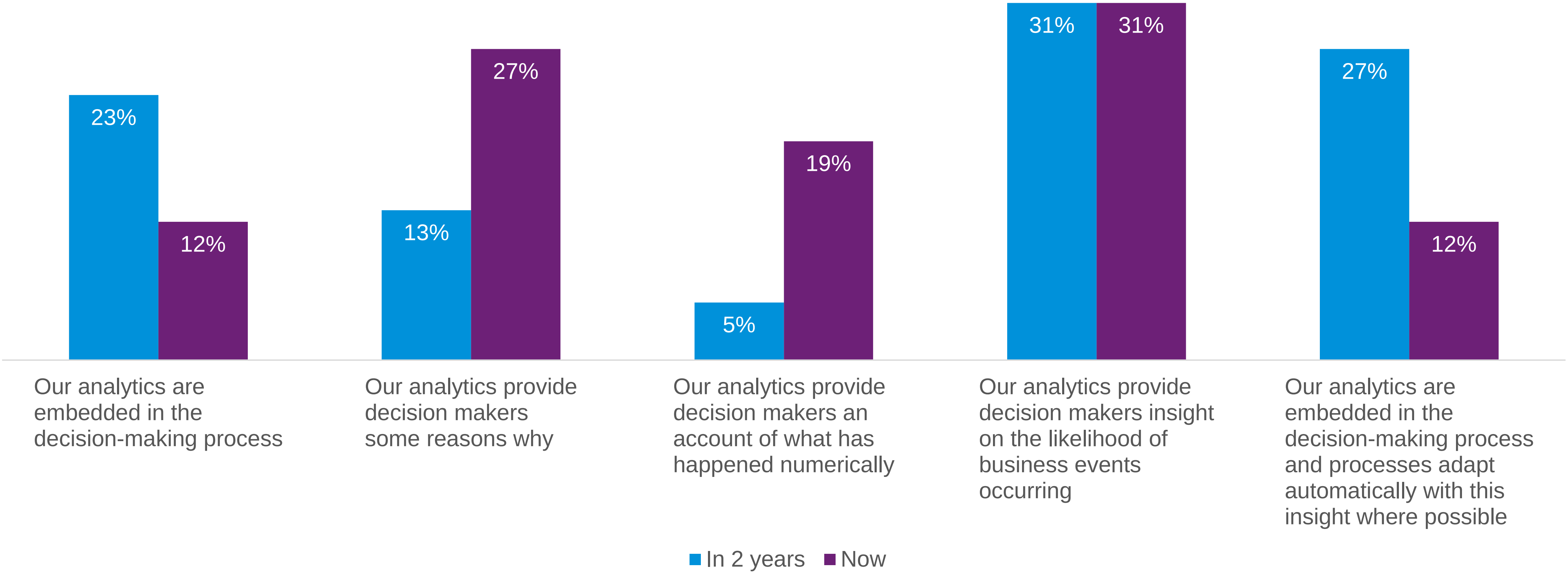
Focus on using data and analytics shift to improving decision making capabilities



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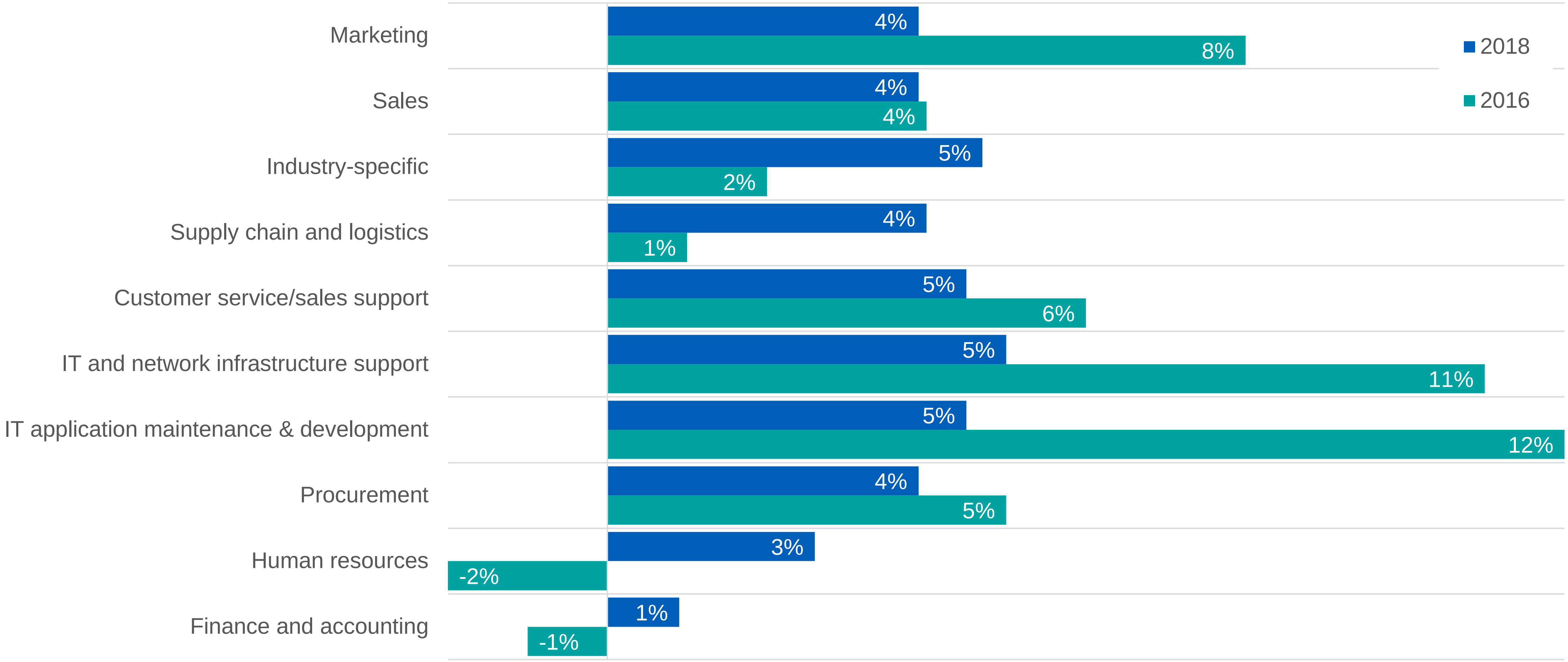
Expected change of offshore usage by function



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The impact of intelligent automation

Intelligent automation defined

Intelligent automation (IA)

is an umbrella term for software solutions in the form of robotic process automation, cognitive computing, machine learning, and artificial intelligence that are designed to transform business processes, customer interactions, and overall competitive edge.

Robotic process automation (RPA)

is the application of technology that allows configuring computer software or a "robot" to capture and interpret existing applications for processing a transaction, manipulating data, triggering responses, and communicating with other digital systems.

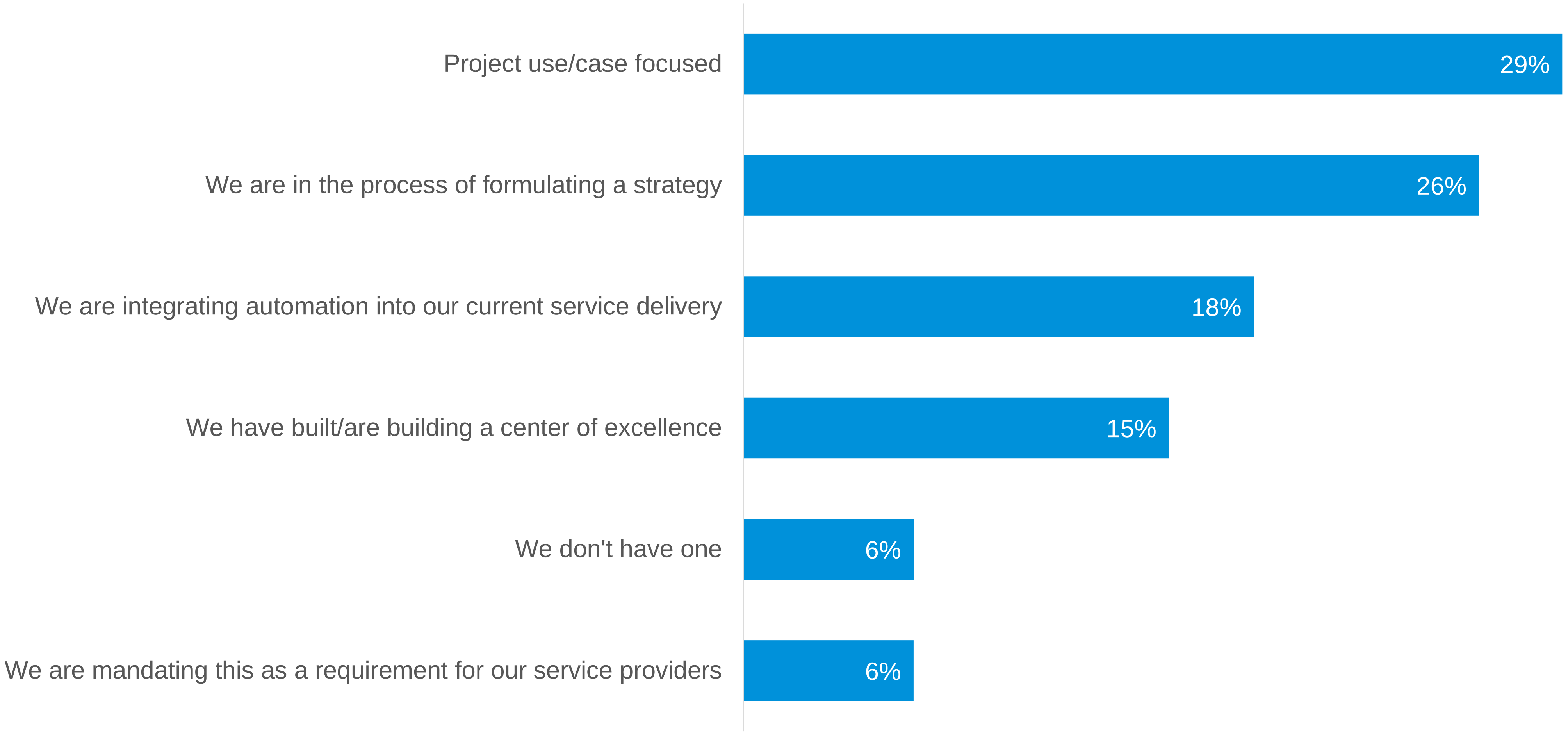
Cognitive computing (CC)

is the simulation of human thought processes in a computerized model. CC involves self-learning systems that use data mining, pattern recognition, and natural language processing to mimic the way the human brain works.

Machine learning (ML) and artificial intelligence (AI)

Analogous to cognitive computing is ML and AI that are the capabilities of a machine to imitate intelligent human behavior.

Organizations current automation strategy



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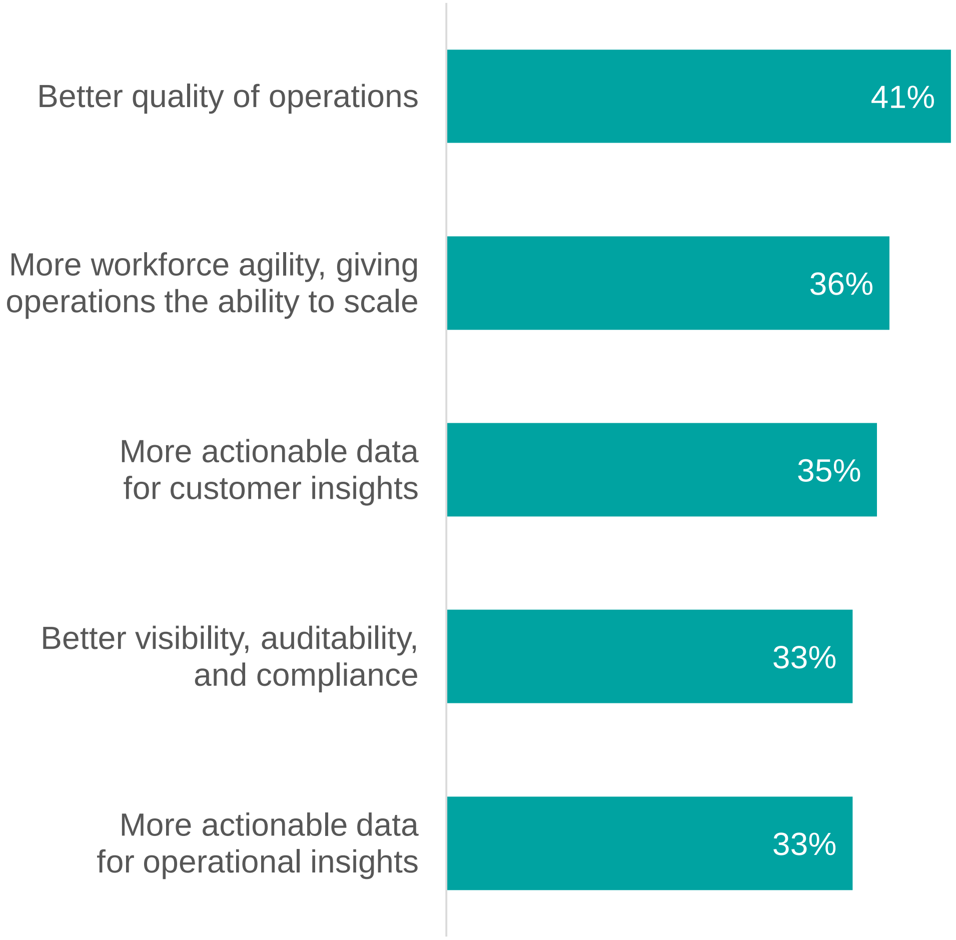
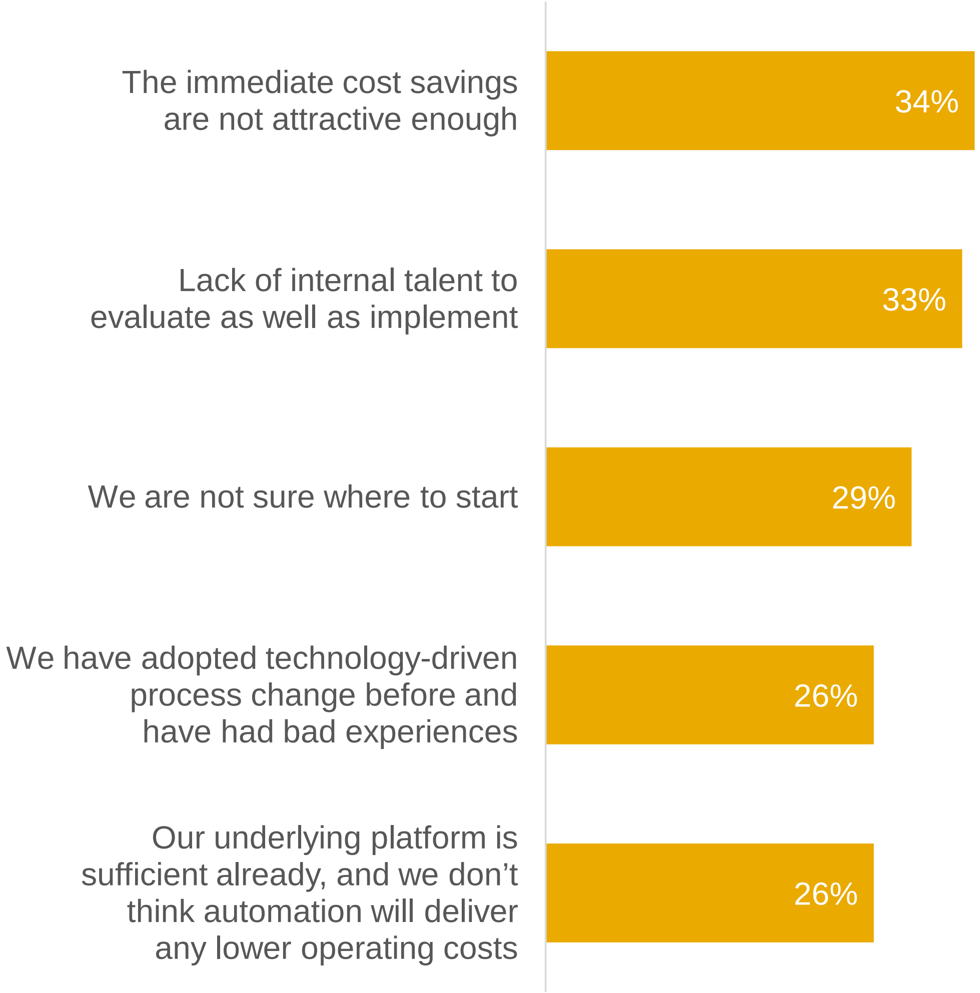
Drivers and inhibitors for the adoption of automation

Drivers



Inhibitors



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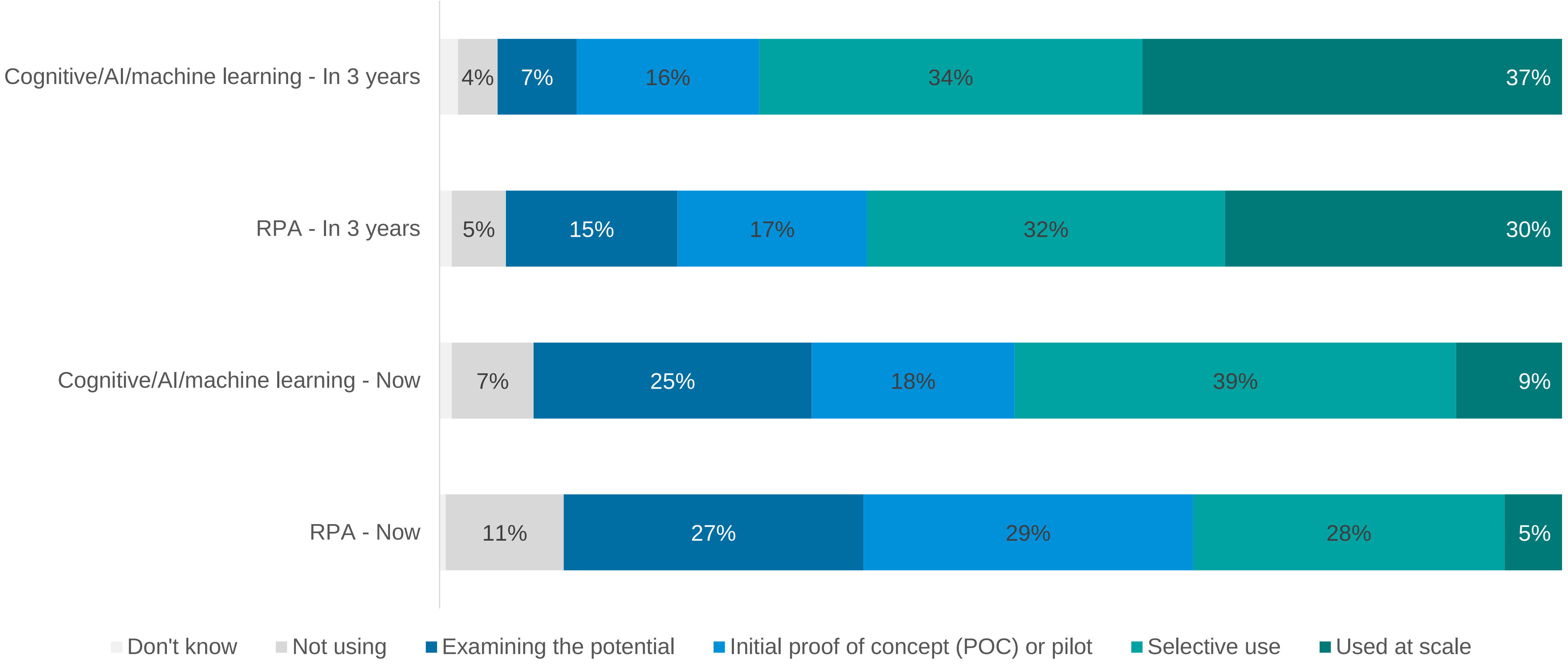
RPA and Cognitive/AI/ML usage plans: now and in three years



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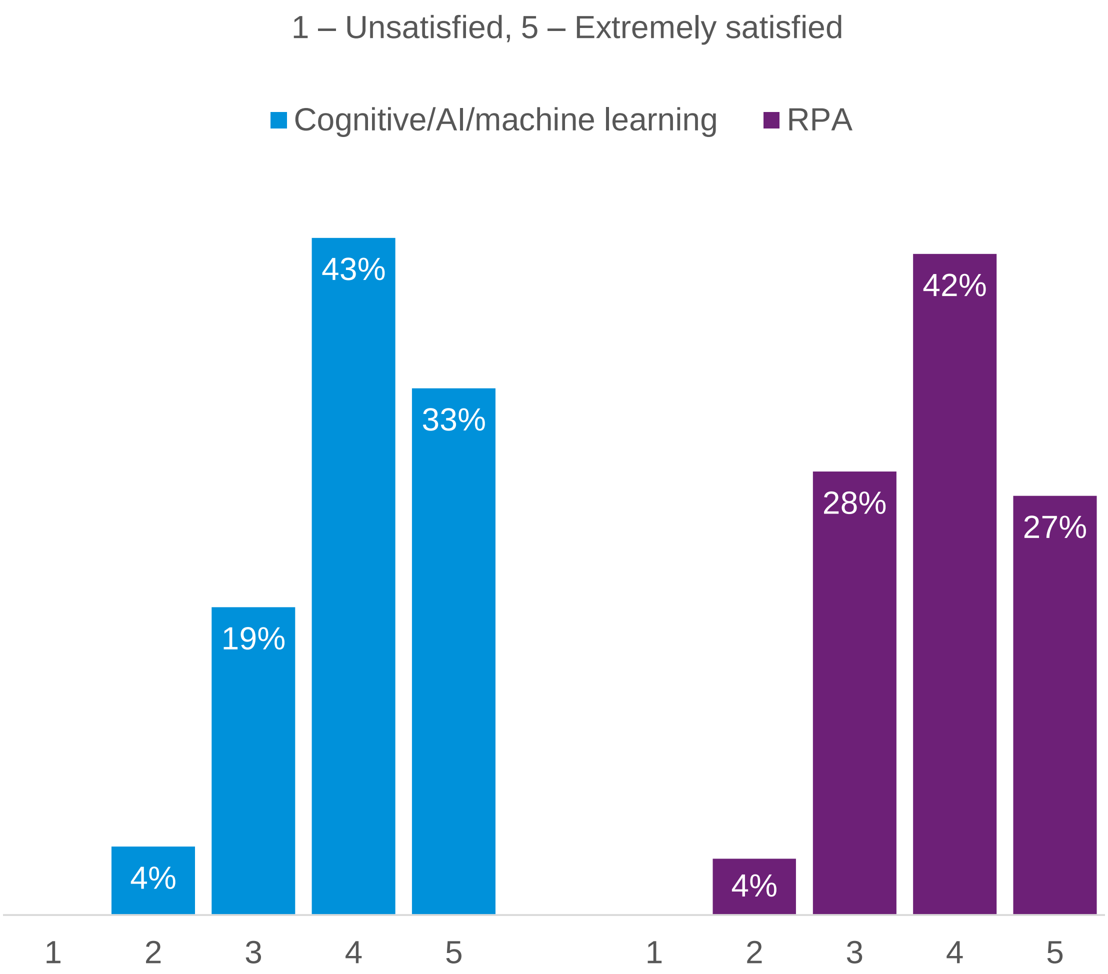
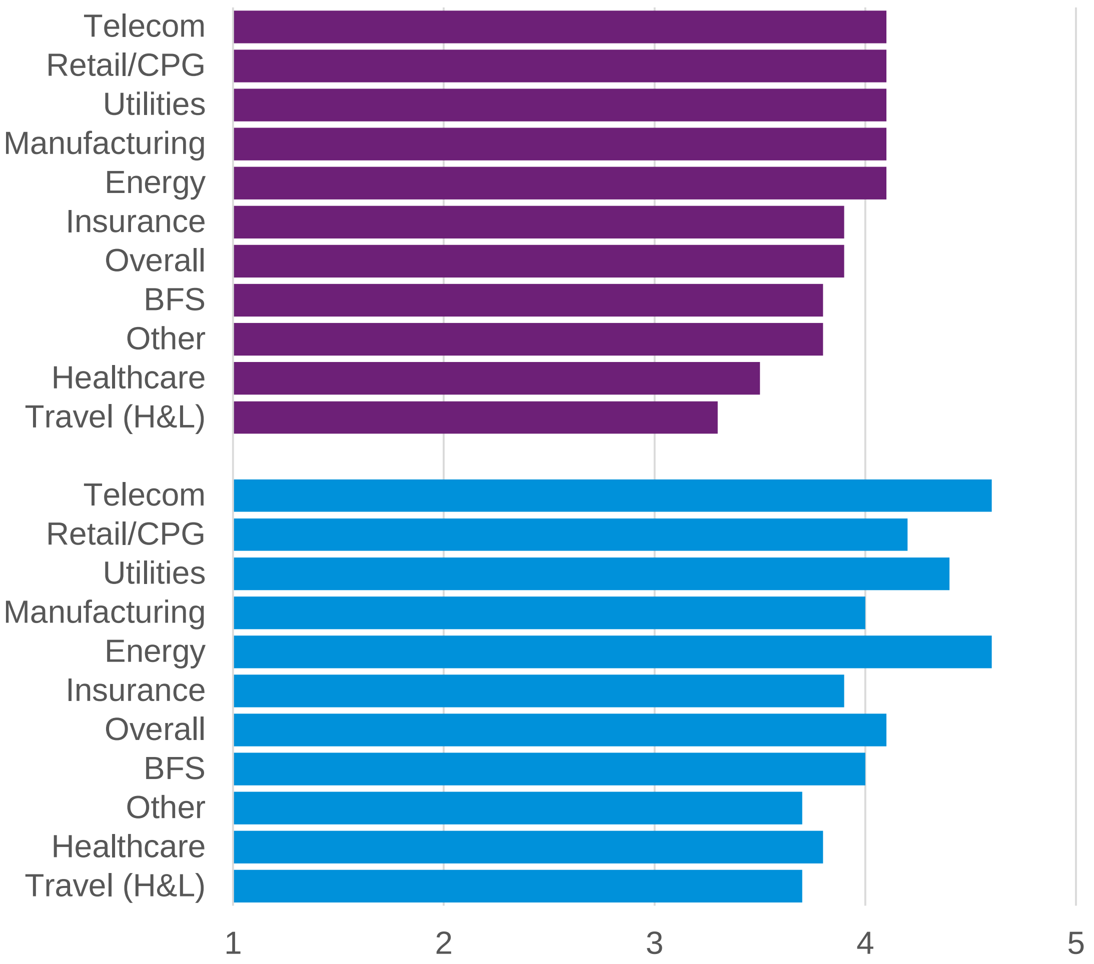
RPA and Cognitive/AI/ML satisfaction levels overall and by industry





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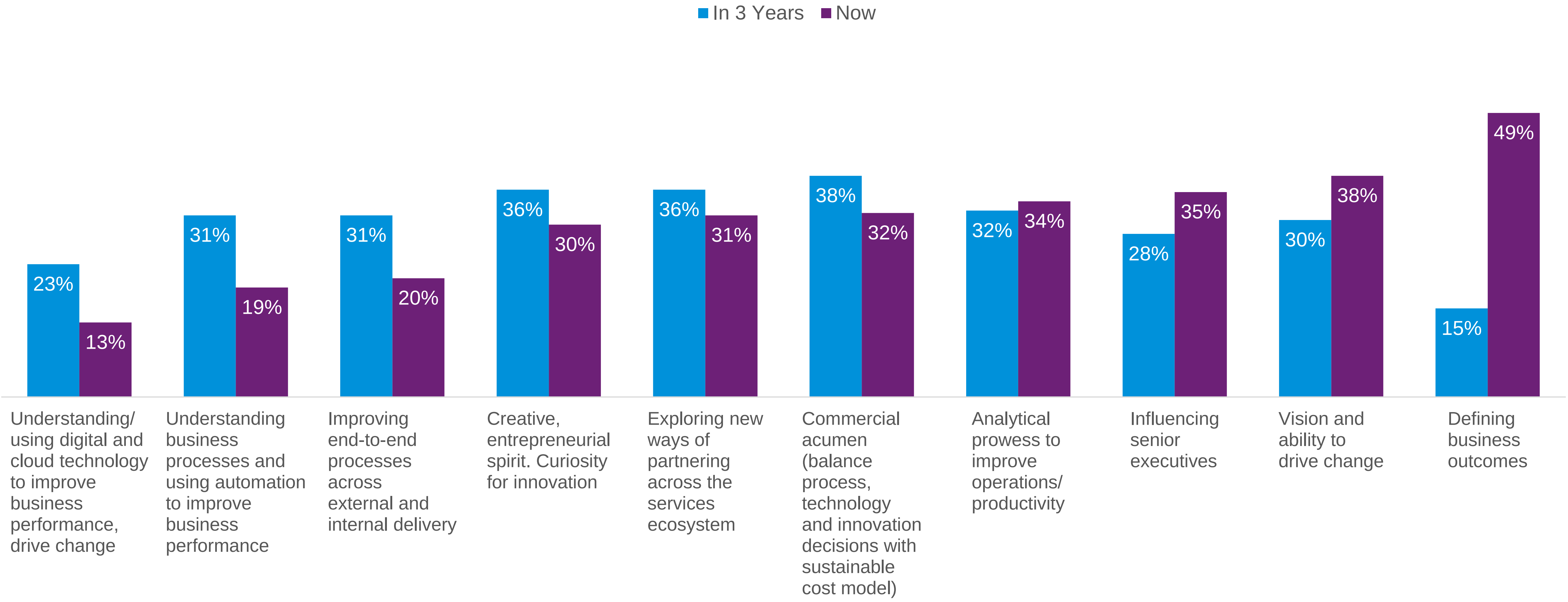
Workforce requirements now and in three years: greater focus on strategic capabilities



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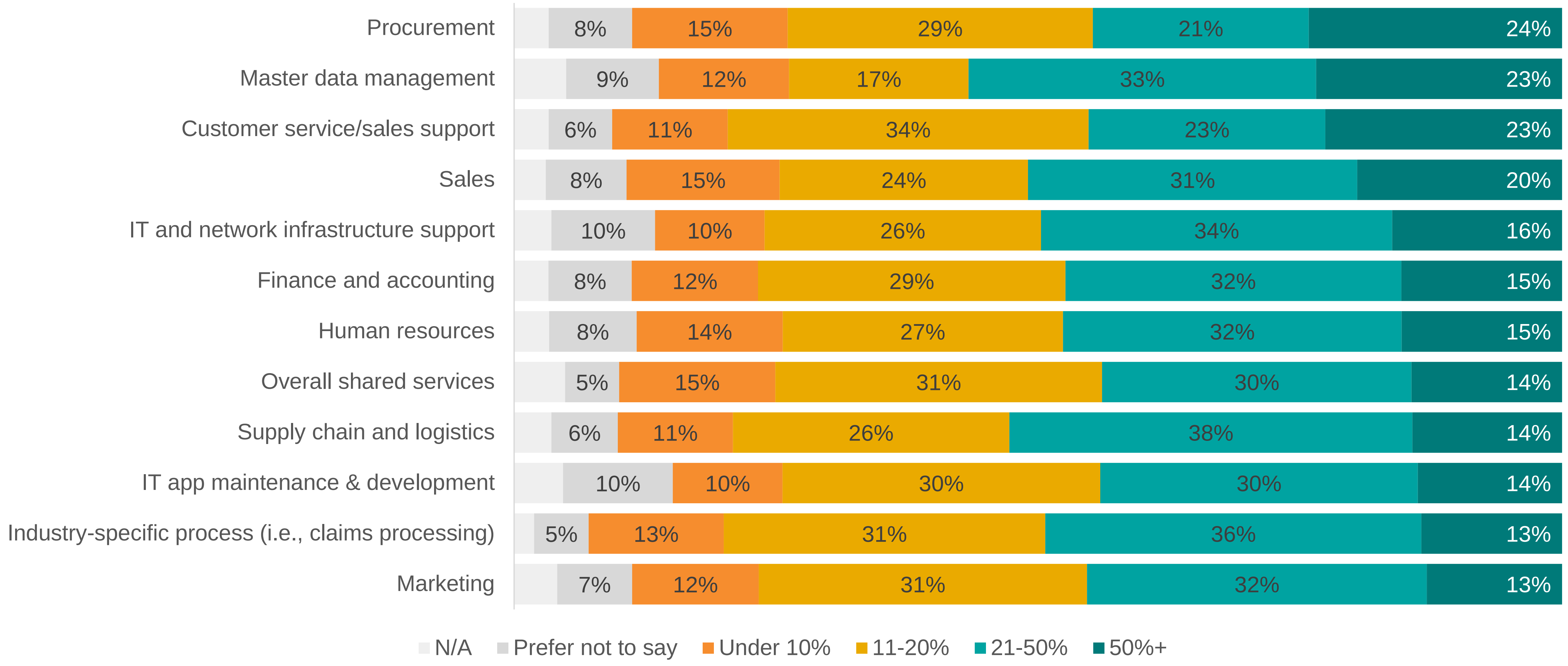
Transactional internal roles “significantly” impacted by automation in the next 2 years by function



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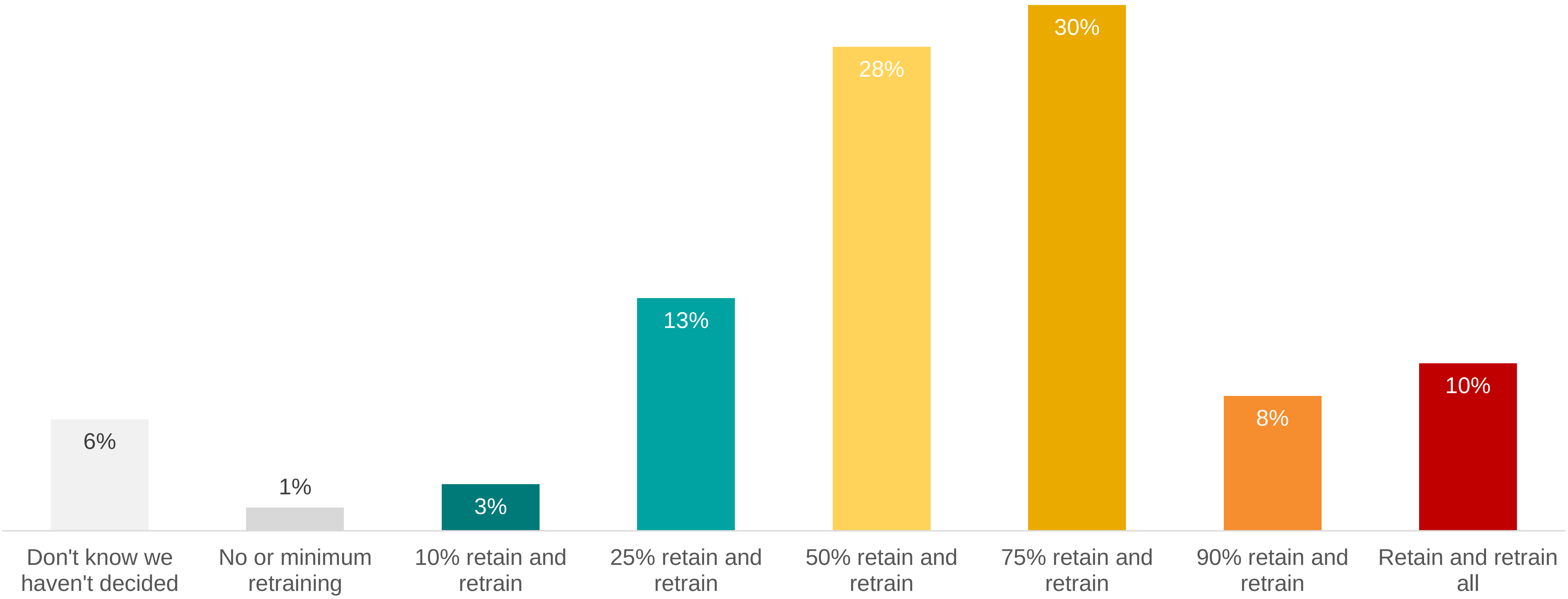
Retain and retrain plans for staff affected by automation



➢ ***Realistic goals or wishful thinking?***

Source: HfS Research in Conjunction with KPMG, "State of Operations and Outsourcing 2018, March, 2018
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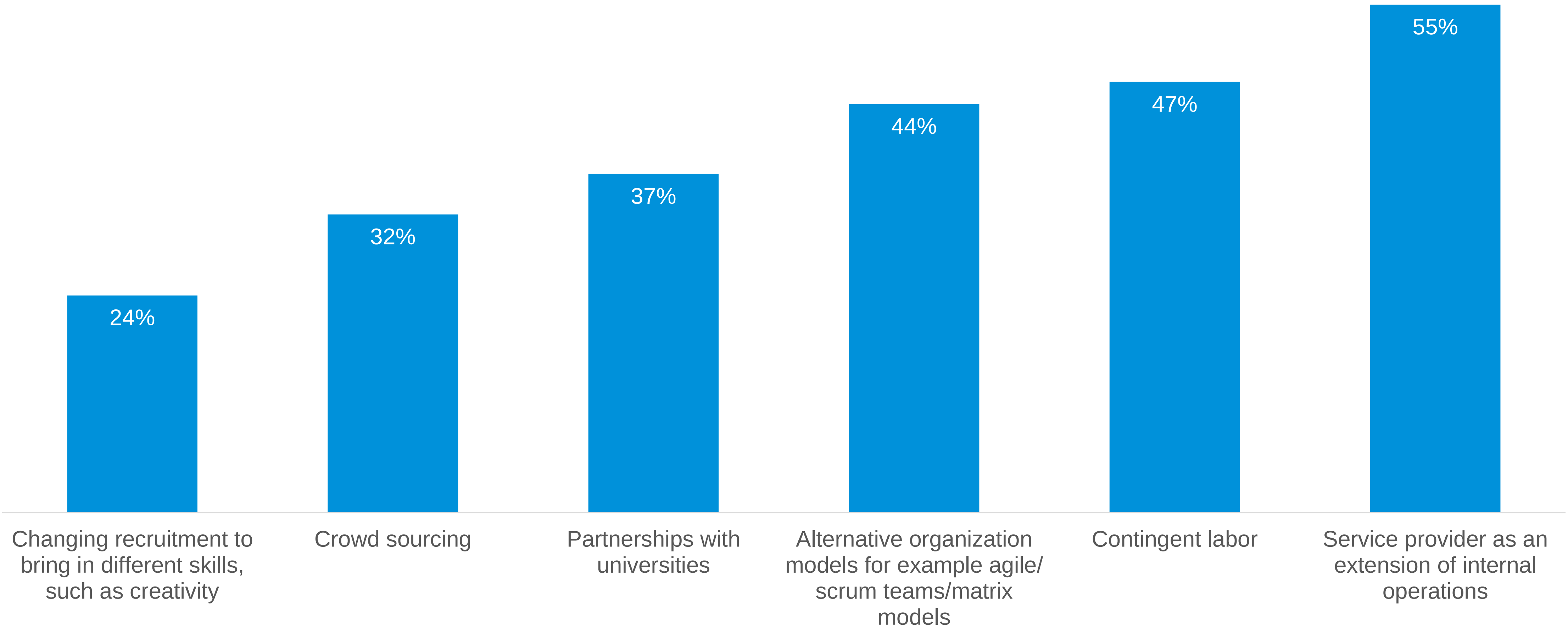
Approaches to augment internal talent pools; emphasis on external resources



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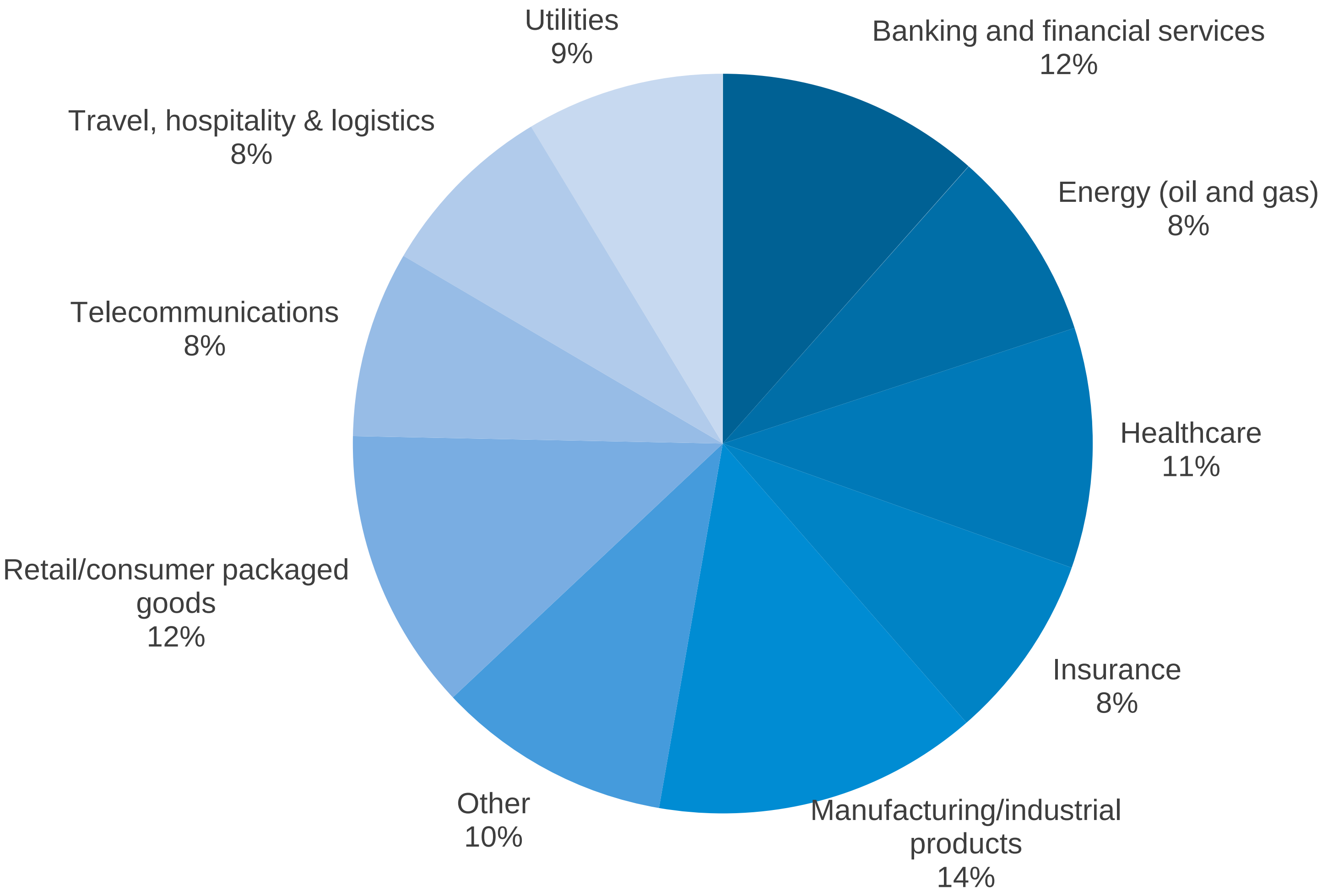
Appendix - about the survey

Survey respondents by industry



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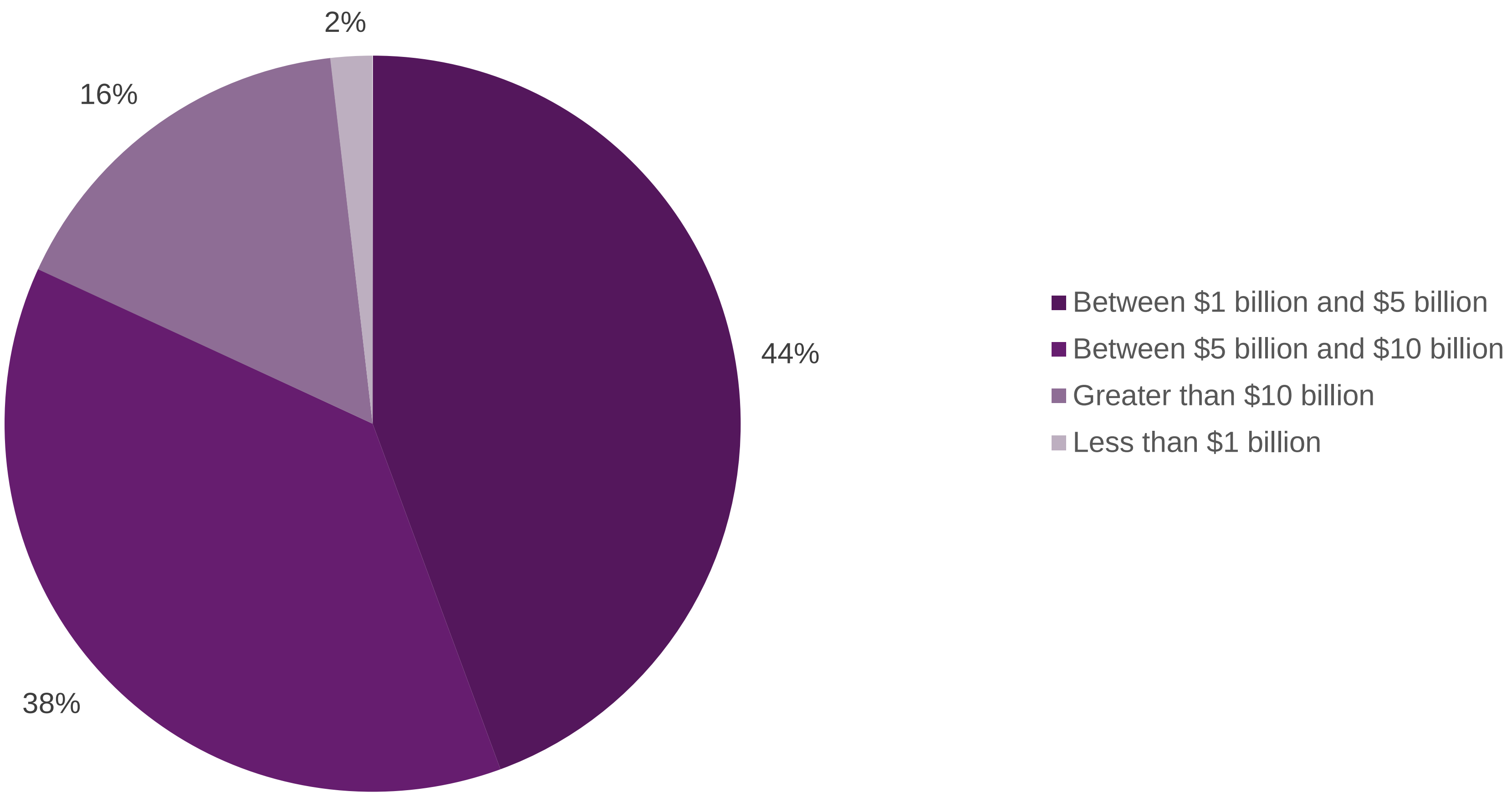
Survey respondents by company size



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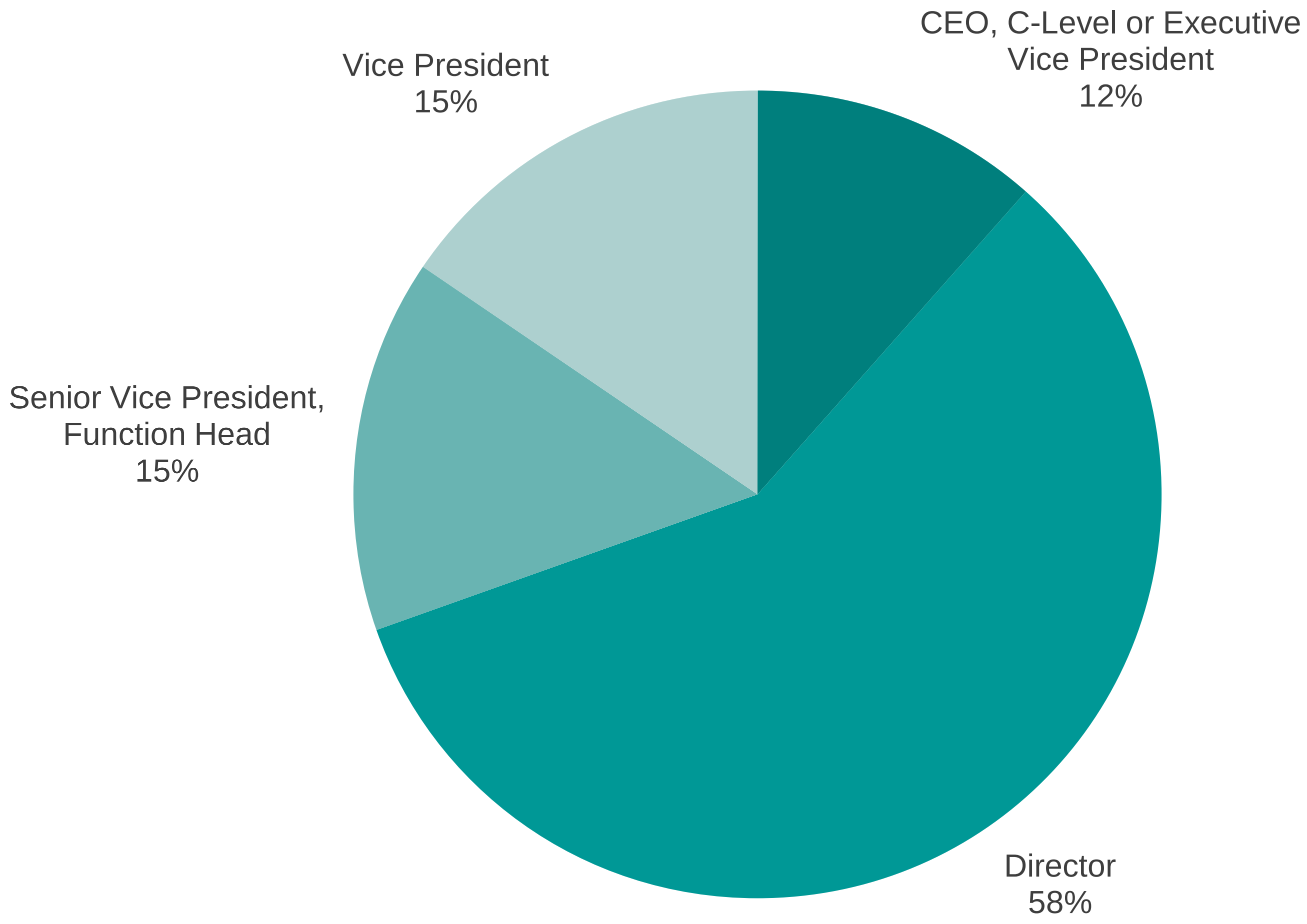
Sample: Enterprise Buyers = 381

Survey respondents by job title



Source: HfS Research in Conjunction with KPMG, "State of Operations and Outsourcing 2018, March, 2018
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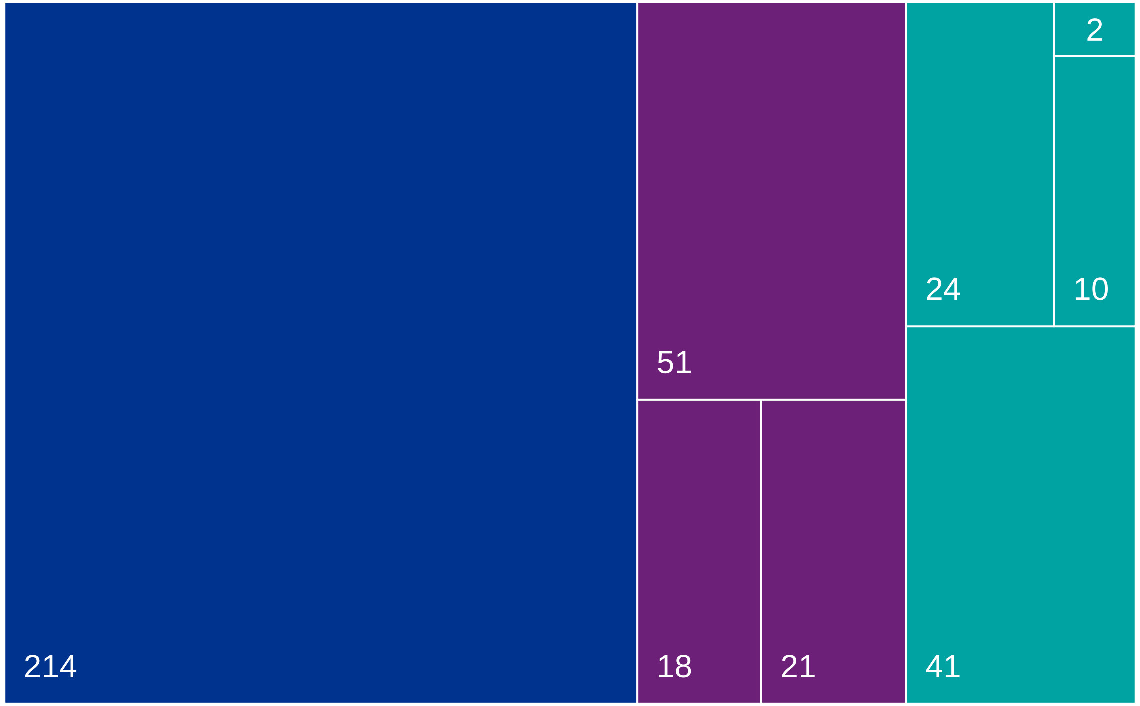
Survey respondents by region

381 total respondents

North America/Latin America	**214**
APAC	**90**
Asia	51
Australia, New Zealand, or Pacific Islands	21
India	18
EMEA	**77**
Africa	10
Eastern Europe	2
United Kingdom	41
Western Europe (excluding UK)	24



Source: HfS Research in Conjunction with KPMG, "State of Operations and Outsourcing 2018, March, 2018
Sample: Enterprise Buyers = 381

David Brown

David Brown
Global Head,
Shared Services &
Outsourcing Advisory and
Principal, KPMG in the
U.S.

1 314-803-5369
djbrown@kpmg.com

Dave is the global head of KPMG's Shared Services & Outsourcing Advisory practice. In this role, he provides shared service and outsourcing advice to many of the larger, complex deal structures. He has more than two decades of experience in IT and business process outsourcing; shared services design/build/implement and sourcing management; contract renegotiations; and finance budgeting, planning, and analysis. He also delivers hands-on services as a client executive and has led many multinational deals and provided leadership support on several large and complex deals for both IT and business processes.

In addition to advising clients, Dave engages senior members of outsourcing service providers' financial and IT delivery teams to establish and implement industry-accepted processes and structures related to outsourcing transactions.

Before joining KPMG in the U.S. through the acquisition of EquaTerra—where he held various senior leadership positions, including one through which he established the Financial Architect and Benchmarking practices, and was a client executive leading large multinational, multifunctional shared service and outsourcing engagements—Dave was a senior advisor at TPI. In that role, he assisted clients with the evaluation, negotiation, implementation and management of IT and business process sourcing initiatives.

Earlier in his career, Dave held various financial and IT positions in the telecom industry, at organizations including Southwestern Bell Information Services, Southwestern Bell Directory Operations, Ameritech Advertising Services, and Bell Canada.

Representative experience

— Led a large pharmaceutical company through a global IT outsourcing transition involving transitions with total contract value in excess of $1 billion

— Led a global finance and accounting outsourcing transaction and global shared service design/build and implementation for a global pharmaceutical company

— Provided financial and negotiation support for Unilever's finance and accounting outsourcing deal (Europe and North America)

— Led an assessment of Brazilian telecom's IT operations, outsourcing, and joint venture options. Led negotiations with third-party provider

— Led a large U.S. oil and gas company through a finance and accounting outsourcing transaction, providing overall leadership and financial support

KPMG Shared Services & Outsourcing Advisory

Who we are

KPMG helps clients **transform business services** to improve value, increase agility and create sustainable performance.

We bring a specialized global team of **more than 1,100 professionals** who blend insight and operational talent to help our client design, build and manage multi-functional business processes.

1,100+ professionals

We **focus on strategies** that you can implement.

We put the strategy **within the context** of practical execution.

As a leading firm in transformative service delivery model strategy,

KPMG helps clients leverage alternative delivery models to **improve value, increase agility,** and **create sustainable performance.**

What we do

We help clients align a business services model with an **emphasis** on common processes, technology and services on an **ENTERPRISE DELIVERY PLATFORM.**

Alternative service delivery models can represent a **transformational journey** in business services. While there are common design principles, there is no “one-size-fits-all” model and must be designed to align and enable company specific priorities.

KPMG Shared Services & Outsourcing Advisory

How we do it

We have a **Tested methodology** that covers various angles of the service delivery model life cycle including **Change Management IT, Governance, Risk & Compliance.**

- **Transition** strategy
- **Location** analysis
- Governance **organization** design
- **Service delivery** model guide
- **Target** operating model framework
- Process **maturity assessment**

We apply **focused research, automation tools, proprietary data, clear business acumen,** and a **mind set to get quickly to what matters** in providing objective, actionable and practical answers to clients.

Why KPMG

Independence:

Solution agnostic, we apply market knowledge and unbiased objective advice to help clients

Tested track record:

In our increasingly complex world, firms find that taking a **holistic view** across their internal support functions can **yield the greatest return.**

Transforming these functions requires the **precision and expertise** of a marketplace leader.

Trusted advisor:

For over 100 years, organizations around the world have **trusted KPMG for our business advice.**

Research-based methodology:

R&D

KPMG continues its **ongoing relationship with HfS Research,** a leading research organization in the field of digital labor.

The combination of two leading digital labor firms covers the spectrum of robotic process automation through **ground-breaking cognitive automation.**

KPMG

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Some or all of the services described herein may not be permissible for audit clients and their affiliates