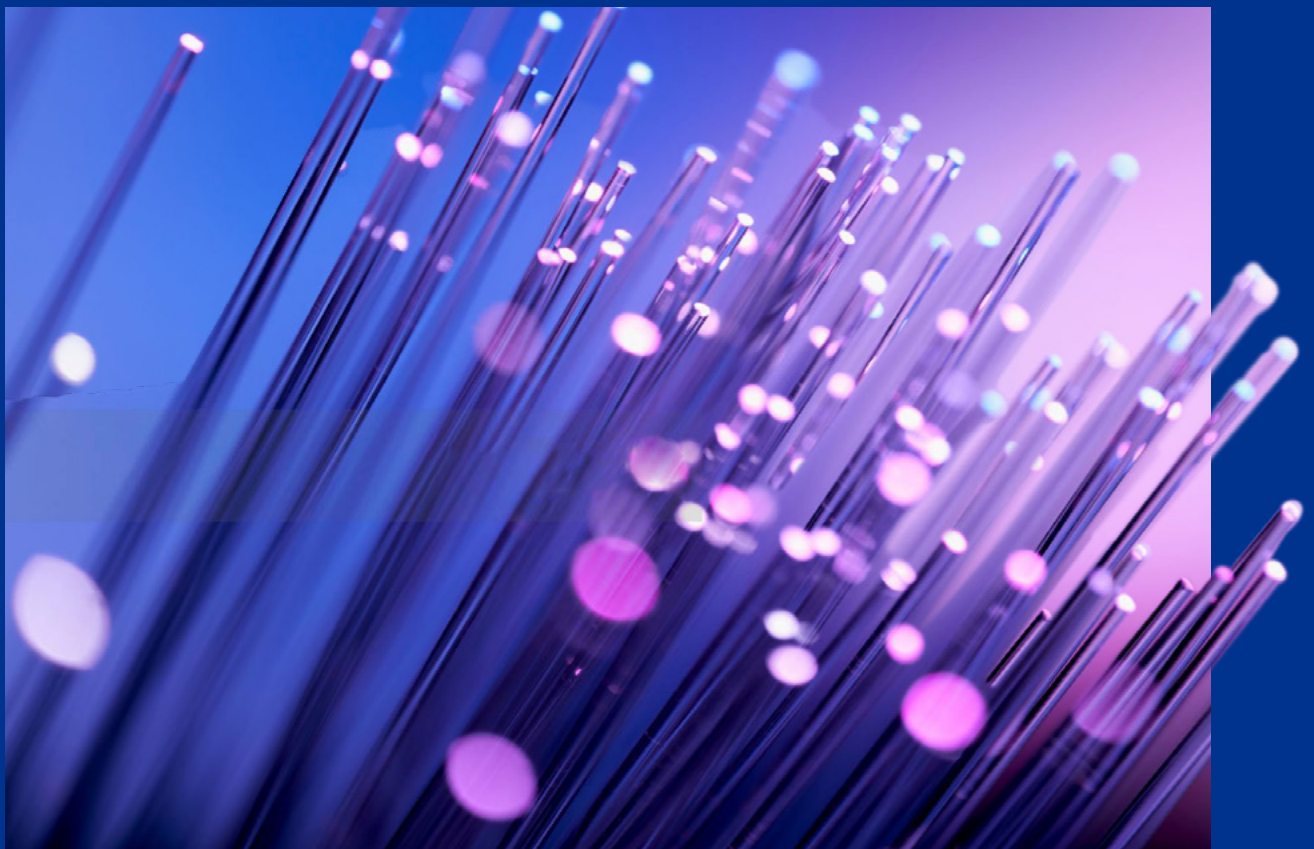




Sourcing Trend Radar 2022

KPMG's Shared Services and Outsourcing Advisory's view on the rapidly evolving sourcing marketplace.



August 2022
home.kpmg/be/

Foreword

The KPMG Sourcing Trend Radar 2022 presents our Shared Services and Outsourcing Advisory's view on the Sourcing marketplace. We have compiled this Trend Radar from first-hand field experience, working with clients and service providers around the globe. The trends are addressed from a Digital (IT) sourcing and Business Process sourcing perspective.

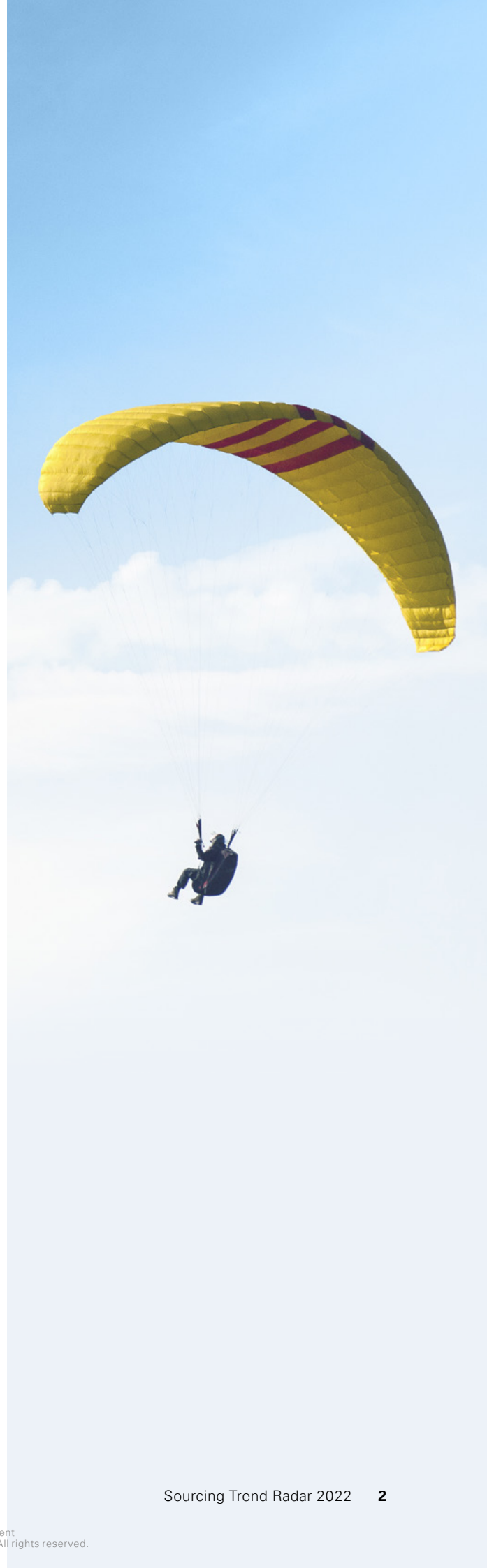
Over the last year, we have seen clients facing challenges in defining future-proof Sourcing operating models. On the one hand, these operating models have to cope with the post-pandemic and geopolitical challenges causing uncertainty within the global market, but on the other hand, they need to facilitate an increased pace in digital transformation and partner thinking.

Recent developments have changed the way organizations collaborate with partners. Modern day Sourcing strategies need to provide service resilience, innovation and digital transformation simultaneously. This is a call for action with regard to Partner and Ecosystem thinking.

Another trend that is becoming dominant concerns Environmental, Social and Governance (ESG). Many organizations are incorporating ESG objectives in their business plan and prioritizing initiatives based on the level of importance and impact of these objectives. Frontrunners in Sourcing integrate ESG thinking into their Sourcing operating models.

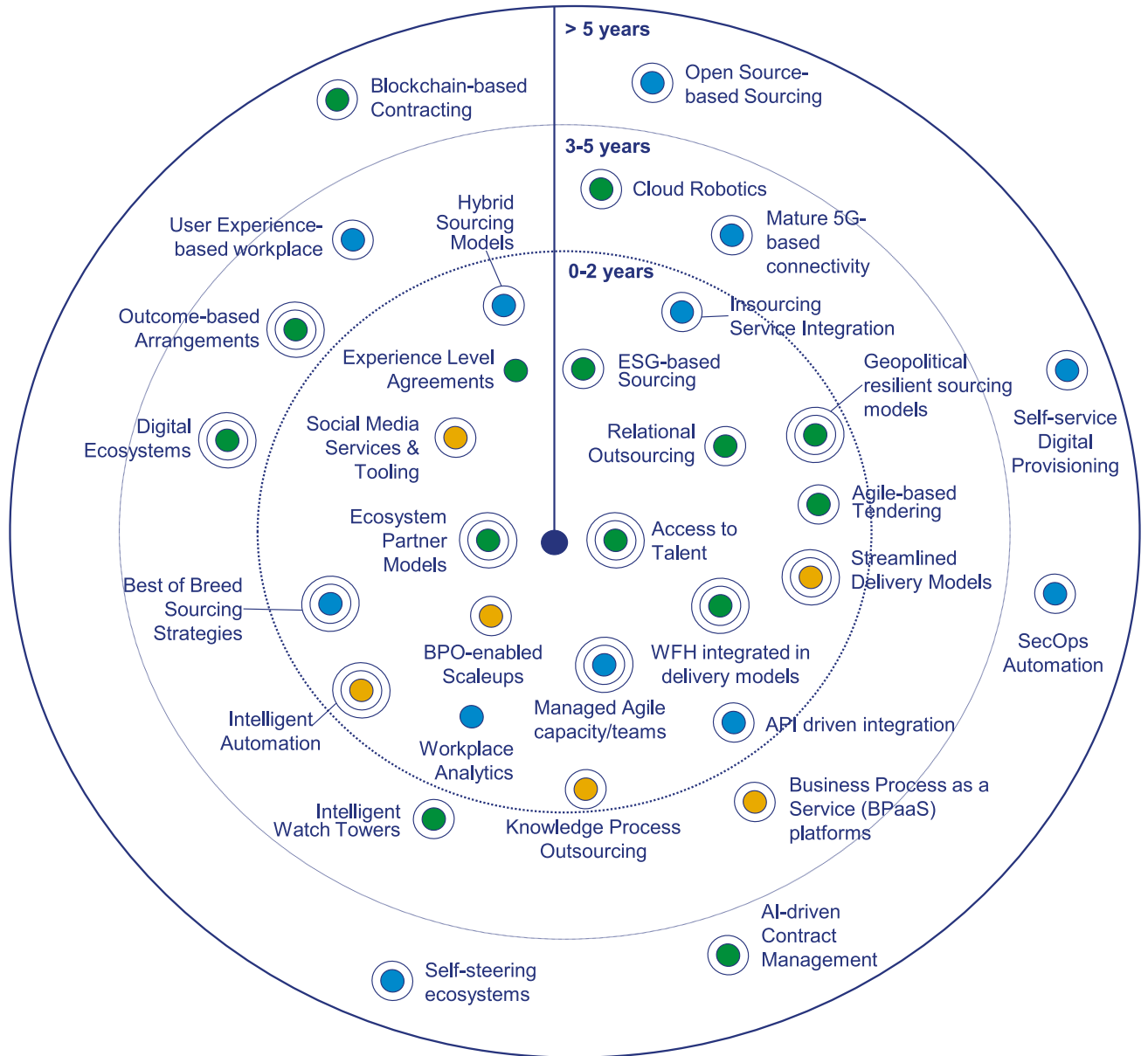
We hope our vision and point of view provides leaders with valuable insights in addressing sourcing challenges with confidence.

To discuss the trends in more detail, or to explore how KPMG can help your organization, we encourage you to contact any of our local Sourcing experts listed in this publication.



KPMG Sourcing Trend Radar 2022

The Sourcing Trend Radar 2022 shows KPMG’s Shared Services and Outsourcing Advisory’s view of the Sourcing marketplace. The trends relate to either Digital (IT) Sourcing, Business Process Sourcing or both. For each trend we have predicted the impact, ranging from major, moderate to minimal.



Domains | ● Digital (IT) Sourcing ● Business Process Sourcing ● General Sourcing Trend | **Potential impact** | ○ Major ○ Moderate ○ Minimal

KPMG Sourcing Trend Radar 2022

The most important short-term Digital (IT) Sourcing and Business Sourcing trends:



Access to Talent

The turnover rates in the Outsourcing industry are increasing, causing a talent crisis worldwide. This increase is expected due to a surge in demand, after experiencing a slowdown at the onset of the pandemic and the impact of the global political instability. Clients and service providers need global access to talent to overcome these challenges.



Geopolitical resilient Sourcing models

Geopolitics can have a profound impact on Sourcing operating models. Governments of leading near-shore and off-shore destinations are focusing on improving their competitive advantage, whereas political instability in a particular country or region can have a negative impact on business continuity and foreign investment. This requires Sourcing strategies that provide resilient Sourcing options.



ESG incorporated Sourcing

Many organizations are incorporating corporate Environmental, Social and Governance (ESG) objectives into their business strategy, which impacts the Sourcing operating model. In Europe, ESG regulations are being introduced, such as the EU Taxonomy, a classification system, establishing a list of environmentally sustainable economic activities. Businesses need to incorporate ESG thinking into their Sourcing strategies and operating models.



Relational Outsourcing

The market is shifting from transaction-based outsourcing cooperation to relation-based outsourcing cooperation. Relation-based outsourcing emphasizes better understanding of mutual dependencies and complementary capabilities. Organizations are adapting their types of relationship based on their needs.



Increased focus on Ecosystem-based partner models

Overall, we recognize that the increasing digitalization of the client value chains results in a growing amount of (inter)dependencies between clients, digital solutions and respective service providers. Managing these (inter)dependencies in a fast-paced market is difficult to organize internally. We had already identified this trend in last year's edition of the Sourcing Trend Radar. This year, we see clients accelerating the creation of "Partner Ecosystems" to facilitate more effective management of the above-mentioned (inter)dependent and complementary capabilities.

Sourcing Trends

0 – 2 years

Access to talent

The attrition rate in the outsourcing industry is increasing, causing a talent crisis worldwide. Whereas the attrition rate has increased to approximately 20% globally, the rates in low(er)-cost countries vary between 30% and 50%. This increase is thought to be the result of a surge in demand, after a slowdown at the start of the pandemic. Both clients and providers will need to spread the search worldwide to find talent in order to overcome these challenges.

Resilient Sourcing models

Geopolitics can have a profound impact on Sourcing operating models. Governments of leading near-shore and off-shore destinations are focusing on improving their competitive advantage (e.g. promoting educational programs), whereas (global) political instability in a particular country or region, can have a negative impact on business continuity and foreign investment. This requires strategies that provide resilient Sourcing options.

ESG incorporated Sourcing

Many organizations are incorporating corporate Environmental, Social and Governance (ESG) objectives into their business strategy, which impacts the Sourcing operating model. In Europe, ESG regulations are being introduced, such as the EU Taxonomy, a classification system of environmentally sustainable economic activities. Sourcing strategies and operating models need to include ESG into their thinking.

Best of Breed Sourcing Strategies

Organizations are moving towards Best of Breed sourcing strategies, enabling their business and IT departments to better accommodate the fast-moving developments. Businesses that turn away from an all encompassing solution package offered by a single vendor, need to adopt, integrate and/or migrate to new IT solutions and digital services faster than ever before. For example, an organization may choose different vendors for functional platforms and allocate activities among the vendors based on the required skills and competencies.

Sourcing Trends

0 – 2 years

Ecosystem-based Partner models

The increasing digitalization of the client value chains results in a growing amount of (inter)dependencies between clients and digital solutions, with the respective service providers requiring ecosystem-based partner models. Managing the (inter)dependencies in a fast-paced market is difficult to organize internally. This trend accelerates the creation of “Partner Ecosystems” to facilitate more effective management of the abovementioned (inter)dependent and complementary capabilities.

Intelligent Automation

Intelligent Automation in the standard service portfolio of Business Process Outsourcing (BPO) suppliers. By leveraging third parties, major BPO providers are incorporating this type of automation into their services to clients. Clients can thereby benefit from more efficient, innovative and faster service delivery, while maintaining labor arbitrage. This also puts pressure on BPO suppliers, as clients can also implement Intelligent Automation in-house. When BPO suppliers can't provide mature automation technologies, such as Robotic Process Automation (RPA), Artificial Intelligence (AI) and Machine Learning (ML), clients consider insourcing these activities.

Hybrid Sourcing Models

Managed IT services are increasingly being combined with cloud-based services, creating Hybrid Sourcing Models. While public and private As-a-Service delivery models clearly provide tangible benefits, the majority of organizations will require a mix of dedicated IT solutions and cloud-based services for the foreseeable future. Clients are rethinking their own position in these Hybrid Sourcing Models, including the level of E2E responsibility.

Experience Level Agreements

Experience Level Agreements (XLA) are used to monitor the service delivery, in addition to traditional delivery metrics. The result is a stronger focus on the outcome of the services being provided, including the added value of the supplier itself. As the popularity of relational outsourcing arrangements grows, Experience Level Agreements are also being implemented more frequently. Customers expect the “Amazon experience” – services that are personalized, simplified, anticipated and automated. Improved analytics and better interconnection of the middle, back and front offices will support this.

Sourcing Trends

0 – 2 years

Relational Outsourcing

The market is shifting from transaction-based outsourcing relationships to relation-based outsourcing. Organizations are differentiating their types of relationship based on the nature of the service delivery, moving away from Statements of Work (SOWs) towards Statements of Outcome (SOOs). This requires a change of perspective. Relation-based outsourcing focusses on a better understanding of mutual dependencies and complementary capabilities. Relation-based outsourcing frameworks, such as Vested, can be valuable instruments in achieving those objectives.

Insourcing Service Integration

The shift towards Best of Breed sourcing strategies, fast-paced changes in technology, the use of different cloud solutions, etc. has significantly increased the strategic value of service integration and service orchestration capabilities for an IT department. As such, client organizations are reconsidering outsourcing these capabilities and have taken steps to develop these capabilities in-house.

Knowledge Process Outsourcing

This type of outsourcing deals with specialized knowledge and problem solving, usually involving an external organization or third party, often located in a different geographic region. Organizations use KPO because they lack specific skills in-house and as a way to cut expenses. Typical services for KPO are: R&D, Finance consulting, Legal, Data analysis, etc.

Managed Agile capacity/teams

As client organizations further adopt agile ways of working, traditionally managed service types of delivery models are perceived to be outdated. A growing trend is the contracting of Managed Agile capacity or teams, where an IT supplier is made responsible, not solely for the deliverables of the team itself, but also for the quality of the team, its members and the team's effectiveness and development. The final objectives of this type of operation are that the clients get the utmost value and the business gains their trust and willingness to continue the relationship.

Sourcing Trends

0 – 2 years

Agile-based Tendering

The Agile-based Tendering approach is characterized by short iterations, increased collaboration with supplier(s) and a strong emphasis on the fit between the buyer's needs and the supplier's standard solutions, with the ultimate goal being, to select promising supplier(s) earlier in the process. Traditional tendering can be a lengthy and costly process of "requirement definition" and "solutions development." The increased level of interaction in this approach provides relevant insights into the cultural fit between the parties.

BPO enabled Scaleups

With the scarcity of talented manpower worldwide, as well as budget restraints on hiring, startups can become scaleups by collaborating with suppliers. In that way they can gain access to the global talent market, secure labor market knowledge and become more adapt in the use of technology and innovation, without having to make significant investments. Startups are expected to increasingly use Recruitment Process Outsourcing in the upcoming years, with the potential of expanding into other functions, such as finance and procurement, as they keep growing.

API Driven Integration

API (Application Programming Interface) Driven Integration enables clients to democratize access to their existing assets and capabilities through a set of APIs. This trend results in an "API ecosystem" which requires mature service integration, service orchestration, multi-supplier/contract management and sourcing management capabilities to effectively select, implement, manage and exit/re-transition services and tools that are part of the ecosystem.

Streamlined delivery models

Organizations can have up to five suppliers, while also having in-house captive centers, creating a complex and fragmented delivery footprint across the globe. In reshaping the delivery models, GBS (Global Business Services) and the operational leadership look to simplify and streamline delivery models by harmonizing the delivery centers and increasing operational efficiency.

Sourcing Trends

0 – 2 years

Social Media Services & Tooling

Service providers have been investing in tools and capabilities to offer a wide range of social media services. This is to build upon the increasing demand from organizations to use social media as an additional layer of communication with their customers. These service offerings include social media monitoring, business intelligence and taking action in response to customer feedback. Service providers are expected to invest more in establishing dedicated social media services teams that will work closely with customer service agents to improve lead times and, above all, the customer experience.

Work From Home integrated in Delivery Model

Organizations were forced to work from home during the COVID-19 pandemic and demonstrated the benefits of integrating WFH into the delivery model. In the most cost-competitive locations, such as India, WFH gives employees the opportunity to live closer to their families, thereby reducing the costs of commuting and rent. BPO & ITO suppliers need to find sustainable ways of providing their services due to the many new challenges this latest way of working brings (e.g. higher attrition rates, reduced productivity). Another area of concern is the safeguarding of compliance at remote workstations, which may be higher on the priority list of organizations.

Workplace Analytics

The COVID-19 pandemic has changed the way End User Computing (EUC) solutions are leveraged. Through Workplace Analytics, traditional End User Computing solutions are becoming more “intelligent,” providing data tools and metrics that allow organizations to combine various sources of End User Computing data and identify and implement improvements for productivity and workforce effectiveness (e.g. effectiveness of tooling usage and User Experience Index).

Sourcing Trends

3 – 5 years

Business Process as a Service (BPaaS) platforms

There is an emergence of BPaaS platforms being offered by suppliers. These platforms offer standardized processes based on leading practices and industry knowledge, while leveraging best-in-class technology and automation platforms. Automation is being incorporated to provide other benefits in addition to labor. These services are expected to become mainstream as entry costs become lower and transition times faster. Examples of Business BPaaS are: Business process management, Web Analytics and Business-to-business integration.

Intelligent Watch Towers

An Intelligent Watch Tower is a business capability that supports timely decision making by tapping into the application landscape and external sources to monitor both internal data and relevant changes in the market, technology, legislation, etc. It can be used, for example, within the security management domain, as in real time security alerts. It provides tailor-made insights in a proactive manner, enabling an organization to anticipate issues and upcoming trends, changes and opportunities more quickly. Organizations source this know-how both in-house and through external advisors.

End User Experience based workplace

Changing user requirements and expectations force organizations to adapt to emerging and changing workplace needs. In order to stay productive in a fast moving environment, there is a greater need for IT tools and support systems that enable the end user to remain effective. The workplace based on the end user's experience will be crucial to collaborating in a secure and productive manner in this new hybrid environment.

Outcome-based Arrangements

For a decade, the outsourcing industry has focused its attention on outcome-based models. In reality, we see that the majority of commercial constructs are still based on transactions, with very few truly outcome-based drivers. During the pandemic many firms established a working relationship, whereby suppliers proved their agility and value in times of crisis. This will boost the development of a deeply integrated and mutually beneficial alliance through shared risks and investments with suppliers.

Sourcing Trends

3 – 5 years

Cloud Robotics

Cloud Robotics platforms facilitate a higher level of human-robot interaction. Through Cloud technology, the basic capabilities of bots are leveraged through vast amounts of processing power and storage resources, offloading intensive computing tasks, such as image recognition and downloading new skills and software updates. Cloud Robotics will become part of the service portfolio of suppliers and can thereby enable further digital transformations, providing end-to-end automation to their customers while also using RPA and workflow suites.

Mature 5G-based connectivity

Next-generation mobile internet connectivity offers faster speeds and more reliable connections. The low latency of the technology enables a never-before-seen connected and autonomous environment. Sourcing departments must closely monitor the development of this enabling infrastructure in order to anticipate new sourcing requirements resulting from new IT/digital solutions.

Sourcing Trends

> 5 years

AI driven Contract Management

Artificial Intelligence (AI) in Contract Management is a new development in the sourcing domain and is rapidly maturing. Aimed at supporting the Service Management organization to track and control contractual commitments in an automated fashion (through Smart Contract Code and Digital Contract Management). This trend shows potential, but large-scale availability is currently limited to point solutions.

Blockchain-based Contracting

A smarter way of contracting. We see developments that can result in traditional 'paper' agreements being replaced by digital artifacts shared via a blockchain database to securely view, revise and accept changes to contracts, all captured on a blockchain ledger (an incorruptible digital form). These contracts are stored electronically in one location accessible only to the designated parties, with versions and activities clearly recorded.

Open Source-based Sourcing

Emerging, scalable and more flexible point solutions managed with automated integration and orchestration tools offer clients more autonomy and flexibility. Lock-in effects and dependencies on closed source solution/suppliers can lead to dissatisfaction and to business (continuity) risks. The growing open source market provides more and more viable alternatives to source solutions, so as to enhance technical flexibility.

SecOps Automation

With a growing number of corporate mobile apps, embedded devices and IoT solutions, the impact of security breaches has greatly increased. Clients are evaluating the best-fit sourcing delivery option for (Dev)SecOps solutions that help organizations combine security and operations data for more accurate and actionable analysis, enabling them to identify blind spots and prioritize and fix the most critical flaws in any environment first.

Sourcing Trends

> 5 years

Self-service Digital Provisioning

Provisioning of infrastructure and platform services through self-service portals is becoming a mature capability. A foreseeable next step is self-service provisioning of end-to-end digital solutions. Enterprise service management systems, which offer strong integration capabilities (through standardized APIs orchestration and low/no-coding capabilities, etc.), enable organizations to source, implement and manage digital solutions far more autonomously, reducing time-to-market and improving innovation capabilities.

Self-steering ecosystems

Self-steering ecosystems refers to the mechanism that deals with an increasing amount of (inter)dependencies between client, digital solutions and service providers in an autonomous way. In order to overcome these (inter)dependencies, strong collaboration among the different stakeholders is needed to identify best practices and integrate this knowledge into a self-steering ecosystem that can be trusted and adds value to all the stakeholders within the ecosystem.

KPMG Belgium contact persons:

Please contact our local Sourcing experts below to further discuss the Sourcing Trend Radar.



Anthony Van de Ven
Partner, KPMG Technology
KPMG Belgium
T +32 (0)3 821 18 59
E avandeven@kpmg.com



Paul Olieman
Executive Director Digital Enablement,
Technology Outsourcing advisory
KPMG Belgium
T +32 (0)471 59 90 56
E paulolieman@kpmg.com



Tom Verté
Director Digital Enablement,
Cloud & Modern Workplace
KPMG Belgium
T +32 (0)475 25 23 69
E tverte@kpmg.com

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

home.kpmg/be
home.kpmg/be/socialmedia



© 2022 KPMG Advisory, a Belgian BV/SRL and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.