



Capitalising on a new class of managed services

**Moving from back-office
to mission-critical**

KPMG and HFS Managed
Services Outlook 2022



Foreword

The key to sustained business transformation

Much is expected from today's business leaders. You're asked to meet financial targets, keep pace with technology change, attract and retain talent in a tight labour market and sustain business resilience - all as many foundational assumptions have crumbled in recent years.

Against this backdrop, accelerated business transformation is the surest path to sustained advantage, whether you're moving systems to the cloud or centering innovation around the customer. But few can undertake that scale of change by relying solely on internal resources. Most need the help of trusted external partners who bring advanced technologies, domain expertise and strong risk and control frameworks.

For some, though, that's still a leap of faith. You may see outsourcing as mainly a back-office exercise, for the likes of payroll or accounts payable, and you may be loath to write off your homegrown talent, knowledge and simple institutional pride.

A growing appetite

But today, as providers invest in new technology and deep subject matter expertise, managed services are moving into the middle office and beyond. Complementing your in-house capabilities, these services handle knowledge-intensive processes from regulatory reporting and compliance to risk and fraud management. And providers are now working as strategic transformation partners, helping you achieve goals while sharing risks and rewards.

As a result, the appetite for managed services is increasing. That's according to research we commissioned in the fourth quarter of 2021, and we're pleased to present the enclosed findings.

As visionary C-suite leaders seek every opportunity to spend wisely, compete effectively for talent and move more quickly, this study finds they are increasingly ready to house more functions outside the walls of the enterprise. We believe it presents an excellent window into what your peers are doing - and an opportunity to gauge your place on the transformation journey.

Managed services: a definition

Managed services is a combination of human capabilities, technologies, insights, leading practices and strategic alliances with software providers - all packaged as a multi-year subscription offer with predictable costs.

These services, usually delivered remotely, take over a process or sub-process, and they go beyond back-office activities to deliver strategic outcomes in knowledge-intensive areas throughout the business. These range from information technology (IT) to finance and accounting (F&A), risk and regulatory, data and analytics, procurement and more.

About the study

In October 2021, KPMG commissioned a study from HFS Research to understand the market's current and planned use of managed services as part of business transformation, along with common hurdles and the expected return.

The enclosed findings are based on conversations with 800 executives around the world, including CIOs, CFOs, COOs, functional heads and shared services leaders. They represent companies with \$1.5 billion or more in revenue across various sectors: government, financial services, life science, retail, travel and healthcare.



Key findings



01

Managed services is the most effective delivery model for the type of work that providers offer.

Nearly 9 in 10 executives agree.



02

Most companies plan to boost spending on managed services over the next two years.

75% of respondents said so, and the projected increase is often by significant margins.



03

Those using managed services see substantial operational and financial rewards.

97% anticipate that using managed services at scale will **boost profits**. Nearly three-quarters expect improved **employee and customer satisfaction**.



04

Managed services already has traction in knowledge-intensive activities.

Over 40% of respondents say managed services are used for **more than half of their organisation's activities** in IT, cybersecurity, risk, compliance and business performance*.



05

The top goals for using managed services are cost savings, innovation and speed.

86% of respondents cite savings and innovation; 83% cite accelerated outcomes.



06

IT and cybersecurity are big areas of need, with more focus areas emerging.

Nearly 60% of respondents see their use of managed services going up more than 10% in IT, cybersecurity, and risk.

*The business performance category includes functions and activities such as finance and accounting (F&A); data insights and analytics; tax; legal; human resources; and transparency and reporting for environmental, sustainability and governance (ESG)

IT, cybersecurity and beyond

Organisations plan greater use of managed services - and greater rewards

When it comes to perceived value through managed services, IT leads the way, followed by cybersecurity and F&A. Accordingly, about 80 percent of survey respondents expect their use of managed services for IT and cybersecurity to increase over the next two years, and more than 70 percent foresee higher use related to F&A and other business performance activities.

But in the future, managed services for IT and F&A will diminish in importance, as only 24 percent of respondents say managed services will continue delivering high value in these areas.

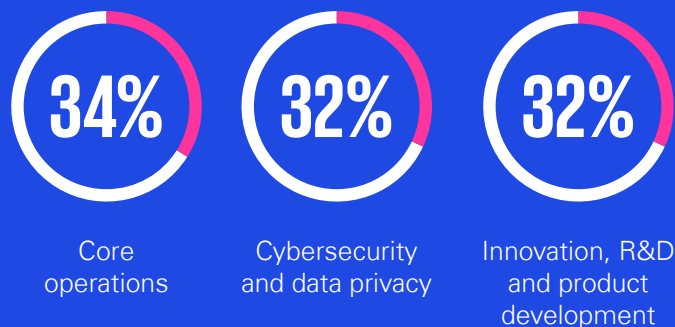
Instead, companies believe managed services will provide the greatest value in core operations, including those middle-office processes that are specific to a company or industry, such as mortgage banking in financial services or pharmacovigilance in life sciences. High value is also expected from managed services in cybersecurity, innovation, research & development and product development.

Today and tomorrow: value from managed services

Where do executives say managed services deliver the most value today?



Where will managed services deliver the most value in the next two years?



Growing ESG responsibilities

As companies face more demand to weave environmental, sustainability and governance (ESG) issues into corporate strategy, 62 percent of respondents expect at least a moderate increase in managed services for ESG reporting and transparency in the next two years. That includes 16 percent who anticipate a large increase.



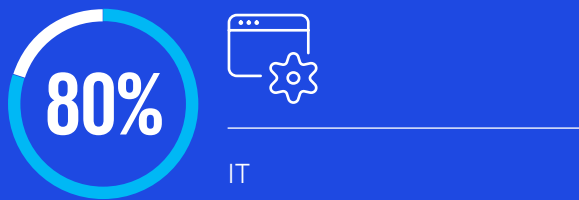
Succeeding in the competition for talent

The tight labour market, exacerbated by the Great Resignation, may also drive a bigger appetite for managed services, as demand for workers in a wide range of fields continues to outstrip supply. In fact, about 80 percent of executives rate the availability of talent outside the company as a key reason for considering managed services.

Talent is another factor that's driving today's uptake of managed services for cybersecurity. More than 75 percent of respondents said a shortage of qualified cybersecurity experts has intensified the workload on their existing staff and led to human errors, has made it hard to investigate or prioritise security alerts in a timely manner, and has relegated staff to clearing operations backlogs rather than focusing on improvements.

Use of managed services is going up

The percentage of respondents who expect higher uptake over the next two years:



Seizing a significant return

The study indicates that companies who take advantage of managed services are poised for substantial rewards. Nearly all respondents expect managed services to improve profits, including 37 percent who expect improvement in excess of 10 percent. Notable majorities of respondents also expect improvements in:



Customer experience or satisfaction



Compliance



Efficiency of supply chain



Efficiency of finance and accounting



Employee experience

Tracking the right outcomes from managed services

Clearly, outsourcing isn't just for the back office anymore. Innovative leaders are now looking to managed services for mission-critical work, from regulatory compliance to fraud management to functional transformation.

At this level, managed services providers become strategic partners and problem solvers, not mere vehicles for transactional execution. Best-in-class providers

offer specialised expertise, insights and critical skill sets; they also guide clients on evolving domain and technology developments, while offering delivery models like intelligent automation as-a-service.

However, many buyers of managed services continue to use base metrics like cost and reliability rather than progress toward strategic goals. They more commonly cite metrics like quality of service (64 percent),

reliability (56 percent), and cost (50 percent).

These findings point to an opportunity to change the way you look at managed services, focusing on strategic outcomes instead of speeds and feeds. Going far beyond the back-office mindset of "your mess for less", look for modern managed services to deliver on priorities like growth, operational agility and resilience, and stakeholder trust.

Only 14%

of respondents say their organisation evaluates service provider performance by outcomes achieved versus planned.

Are you taking full advantage of managed services?

Easing reticence on the road to strategic partnership

Despite the great potential for managed services, most companies today are using them in a fragmented way. For example, even though the study shows managed services as well represented at a categorical level across IT, cybersecurity, compliance and other areas, respondents indicate less uptake on more than two dozen specific processes, from IT infrastructure management to Sarbanes-Oxley Act compliance to contract management.

This fragmented use is due in part to two closely related concerns:



Responsibility

Sixty percent of respondents say their organisation's use of managed services is predicated on the idea that providers own 100 percent of the responsibility for their contracted work. But 43 percent say that, in practice, their organisation retains most or all of the responsibility for outcomes, and another 43 percent share responsibility 50/50.



Strategic control

In those instances when providers do not have sufficient responsibility for service delivery, 57 percent of respondents say their organisation needs to retain strategic control. Concerns include cost (55 percent), immature operations or insufficient understanding of the business (50 percent), capability gaps (42 percent), and legal (20 percent).

Providers are upping their game

Despite concerns, a material percentage of companies are ready to view managed services providers as strategic partners - and to incentivise them accordingly:



say a long-term risk/reward partnership is now their preferred model for working with providers.



say their organisation prefers an outcome-based model.



favor a gain-share model.

Top selection criteria

Respondents cited these as the top two factors to consider in choosing a managed services provider:



Technology platforms and capabilities



Subject matter expertise

Companies are also looking to managed services providers to offer a more integrated suite of capabilities, and best-in-class suppliers are rising to the task:



say providers must have both run and build capability.



agree that the traditional "people, process and technology" model of managed services must expand to include data and change management.



say IT, business and consulting services are converging.



A new value proposition for managed services

In the past two years of the COVID-19 pandemic, companies have proved the viability of moving critical, knowledge-intensive activities offsite, laying to rest concerns about giving up on-premises control.

Still, some organisations are reluctant to outsource - and rightfully so if a service provider is merely lifting and shifting disjointed processes, without bringing additional value.

The best managed services providers, on the other hand, do not take over a process and keep it the same. They bring advanced technology and knowledge to create additional value such as employee satisfaction and retention, faster decision making, improved customer experience,

better demand forecasting, lower inventory costs or accelerated innovation. This is an entirely different value proposition that merits attention.

What if you have substantial legacy costs in existing shared services centers, often in locales chosen for low labour costs? Keep in mind that wages in many offshore jurisdictions have risen markedly over the past two decades, narrowing the cost advantage from labour arbitrage.

With a capable managed services provider, you can comparably reduce capital expenditures while accessing highly sought-after talent. In addition to filling critical roles, this access can help you gain increased strategic value from your highly skilled managers by

redeploying them into other areas. Even more, by taking advantage of service providers' knowledgeable people and advanced technology, you can reduce the amount of talent you need.

Perhaps another obstacle to broader adoption of managed services lies in a misalignment between what's desired and what's measured. While 25 percent of respondents favor an outcome-based model when working with managed services providers, only 11 percent use an outcome-based metric. This mismatch could obscure the true value.



A forethought, not an afterthought

Most executives know that business transformation is not a fixed destination, because by the time you get there, “there” has already moved on. Instead, transformation is a journey, often into uncharted waters, and forward-looking leaders are deploying managed services in their approach.

But in this environment, companies can no longer approach managed services as an afterthought, or the tactical “run” phase that follows the more substantive redesigning and rebuilding of operations. Rather, managed services should be a forethought, introduced in the strategic shaping of target operating models from the outset.

Advanced technology is just the beginning

The managed services of the future must support strategic, high-value activities. And while advanced technologies - from cloud-based process automation to artificial intelligence - are critical, true transformation doesn't stop with technology.

The best managed services providers also offer strong expertise, training and credentialing across functions and sectors, leading practices and tools that accelerate the speed to value, and operational excellence that helps ensure predictable costs.

Look for service providers who offer access to leading global technology platforms and are also committed to the following:

Specialised knowledge and skills



In a world where demand for talent exceeds supply, leading providers complement your internal staff capabilities, plan for cyclical surges in workflow, and achieve effective parity - or beat it - in the ongoing wrestle for talent. Providers should have centers of excellence in key functions and strong sector-specific expertise.

Strategic outcomes



To drive results like growth, resilience, and stakeholder trust, choose providers who use key performance indicators related to your organisation's priorities, going beyond cost and traditional service level agreements.

Change management savvy



Leading service providers help you navigate the behavioral and cultural challenges in shifting workloads to a managed services environment, along with the introduction of new technologies and process changes. These softer dimensions of change can often be the difference between success and failure.

The opportunity in managed services has never been greater. Those that boldly seize it, with the right providers, can turn their transformational vision into exciting operating models, leapfrog slower-moving competitors and continue to evolve as technology and markets change.

Will your organisation be among them?

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