



Outsourcing challenges and how to address them

Outsourcing Challenges

Outsourcing can be a complex endeavor, even for experienced companies with a number of outsourcing engagements under their belt. Depending on scope, organizations may spend six months to a year or more in the RFP process, homing in on the right providers and negotiating a contract that will stand for just a few years. Those years go by quickly, and before you know it, it is time to consider recontracting with the existing providers or going back to the marketplace. Technology and client demands have changed dramatically in that time, making it incumbent on business executives to seek new capabilities offering higher quality at lower costs. Meanwhile, the competition is closing in.

In this whitepaper, we address some of the challenges in existing - or during the development of - new outsourcing contracts, as well as the methodologies and tools KPMG can offer to tackle these challenges.

Common Challenges

Vendor Proactiveness

Service providers may not always proactively suggest innovative solutions or improvements. Encouraging vendors to stay innovative and up-to-date can be a challenge.

Communication & Governance

Effective communication and governance are vital for a successful outsourcing relationship.

Service Level Agreements (SLAs) / Quality and Performance Control

Crafting and monitoring SLAs that are both meaningful and achievable can be a challenge. SLAs should reflect the company's actual needs and be designed to ensure the desired outcomes.

Sourcing Strategy

Finding the healthy balance between outsourcing, insourcing, or in-house to control costs and remain vendor-independent.



Cost Control

Cost management and control can be challenging, as unexpected expenses can arise during the course of the outsourcing relationship. It's essential to have mechanisms in place for cost containment.

Defining Clear Objectives

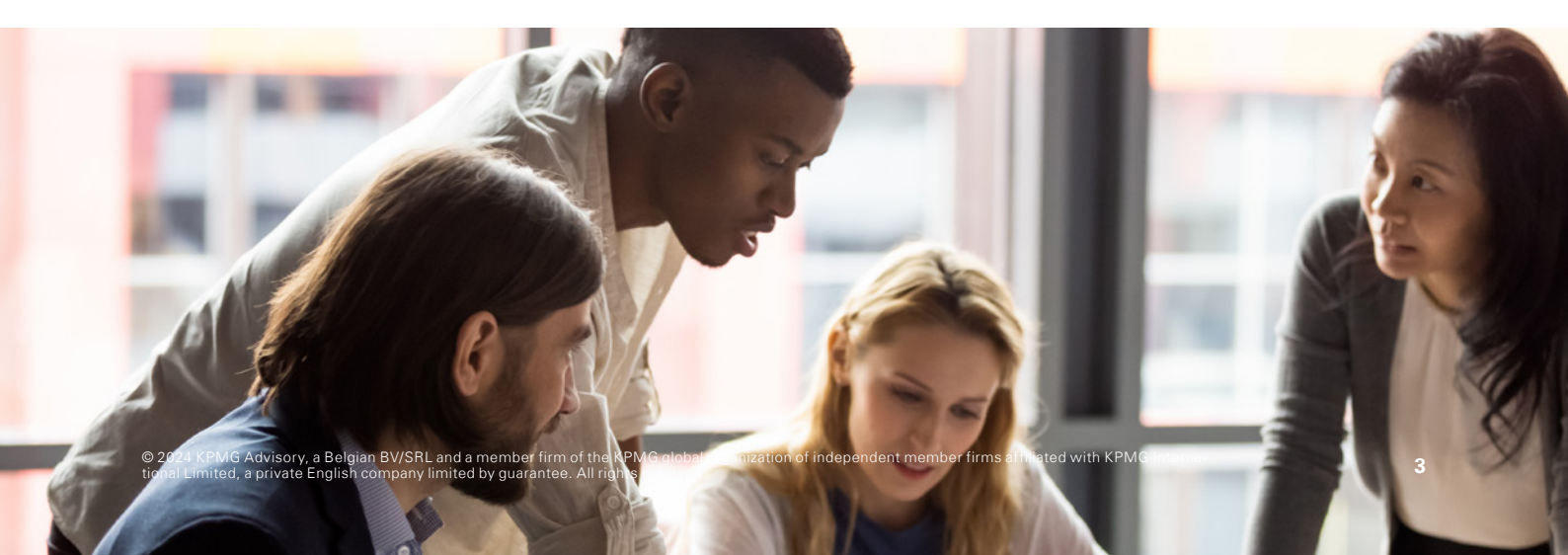
One of the most critical challenges is ensuring that both parties have a clear understanding of the objectives and expectations of the outsourcing arrangement. Misalignment in this area can lead to misunderstandings and disputes down the line.

Scalability and Flexibility

The ability to scale up or down and adapt to changing business needs can be difficult to achieve in some outsourcing contracts.

Long RFP Cycles

Long RFP cycles are Time and Resource Intensive and incur additional costs & lack of flexibility. Long RFP cycles may lack the flexibility needed to adapt to changing business needs or emerging opportunities.



Multi-vendor challenges

Until recently, many organizations leaned towards monolithic outsourcing models, where a single vendor provided a comprehensive set of services. This model offered simplicity and consistency, but often at the cost of flexibility and innovation. However, as the pace of technological advancement accelerates and with increasingly complex business needs, a shift towards multi-vendor outsourcing is emerging as a more adaptive solution. This reflects a broader trend towards agility and specialization in the business world, where companies are increasingly looking to leverage the best-in-class capabilities of various providers to stay competitive in a rapidly evolving market. This shift towards multi-vendor outsourcing introduced new challenges or emphasized existing ones.

01 Data Security and Confidentiality

The more vendors involved, the greater the risk of data breaches or confidentiality breaches. Coordinating and ensuring that all suppliers adhere to security and privacy standards is crucial.

02 Coordination & Integration

Coordinating activities and ensuring integration among multiple vendors with different technologies, processes, and timelines can be complex. This challenge can result in communication gaps and inefficiencies.

03 Source of truth for reporting/Data Silos

Multiple tools can lead to data silos where data is fragmented and not easily accessible across the organization. This can hinder data-driven decision-making and analysis.

04 Accountability & Responsibility

Determining accountability when issues arise can be difficult when multiple vendors are involved. Disputes may arise over who is responsible for addressing problems, potentially leading to finger-pointing.

05 Lack of Innovation

Vendors may be less motivated to innovate when working alongside other providers, as they may focus on their specific tasks rather than offering innovative solutions to improve the overall operation.

06 Quality Control

Maintaining consistent service quality across multiple vendors is challenging. Differences in quality standards, performance metrics, and methodologies may exist, making it challenging to ensure uniform quality.

07 Vendor Management

Managing relationships with multiple vendors is time-consuming and resource-intensive. Each vendor requires its own governance and management, which can strain the resources of the outsourcing company.

08 Tool Redundancy

Without proper oversight, multiple tools may lead to redundancy, where several tools offer similar functionalities. This can lead to wasted resources and data discrepancies.

09 Complex Contract Management

Managing contracts, SLAs, and legal agreements with multiple suppliers can be complex. Ensuring that all contracts align with the company's goals and are regularly reviewed for compliance is a challenge.

10 Cost and Pricing

Complex pricing structures and contracts can make it challenging to manage costs effectively. It can be difficult to determine the cost of an end-to-end service.

KPMG's response to these challenges

01

6P Outsourcing Value Assurance

The 6P Framework delivers a holistic review of the contract, service performance, expectations and level of partnership via a structured approach.

6P reviews and assesses the performance and effectiveness of the relationship and service delivery model (governance, processes, tools, people), and identifies optimization possibilities by focusing on Price, Perception, Process, People, Performance, and Potential.

02

Powered-based SIAM

Service Integration and Management (SIAM) is an approach to managing multiple suppliers of services and integrating them to provide a single, business-facing IT organization. It aims at seamlessly integrating interdependent services, processes, and tools from various internal and external service providers into end-to-end services to meet business requirements.

03

Agile Sourcing

Agile sourcing is an approach that promotes flexibility, collaboration, and adaptability in procurement and supplier management, with a strong focus on delivering customer value and embracing change as an opportunity for improvement. It's a response to the dynamic and fast-paced nature of many modern industries, where traditional, rigid procurement methods may be less effective and time consuming.

04

Sourcing Lifecycle

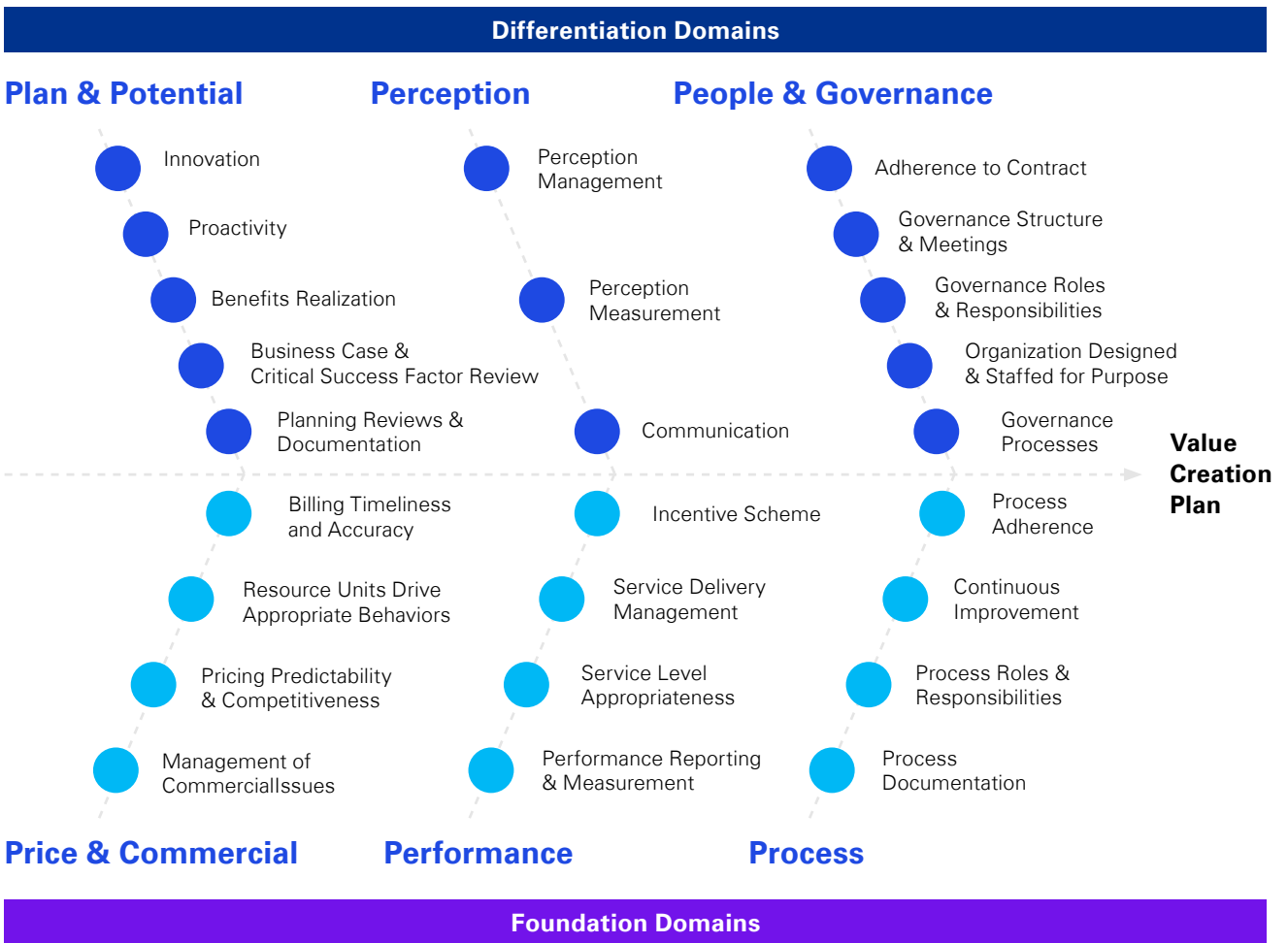
The KPMG sourcing lifecycle emphasizes a strategic and structured approach to sourcing, with a focus on long-term relationships and continuous improvement. It helps organizations navigate the complexities of sourcing services while maximizing value and mitigating risks throughout the sourcing lifecycle.



01 6P Value Assurance Methodology

Our 6P methodology takes a holistic view of value-enabled services by assessing 6 domains. It enables increased value in sourcing relationships by aligning service expectations, perceptions, and realities in long-term agreements to maximize value. This framework is used when reviewing an incumbent relationship as part of a sourcing strategy that may lead to re-negotiation or a competitive procurement process, instigated by a buyer or when reviewing a deal as part of a mid-contract activity to optimize the relationship, which can be instigated by either the buyer or provider of the service. The principles employed by our framework are as follows:

- Joint governance (and potentially payment) by service provider and buyer.
- Equal review of supply and demand.
- Engagement at all levels of the respective organizations, with joint agreement at the executive level on the exercise objectives.
- An iterative approach that seeks to highlight what is being done well versus what can be improved with both parties.



Differentiation

When these are in place and effective, they develop a cohesive partnership and put in place feedback loops to support constant improvement.

Foundation

Need to be in place to meet basic expectations of what an outsourcing relationship is there to provide and how it should operate. Often the cause of dissatisfaction if they are not there.

Powered-based SIAM

What is Powered?

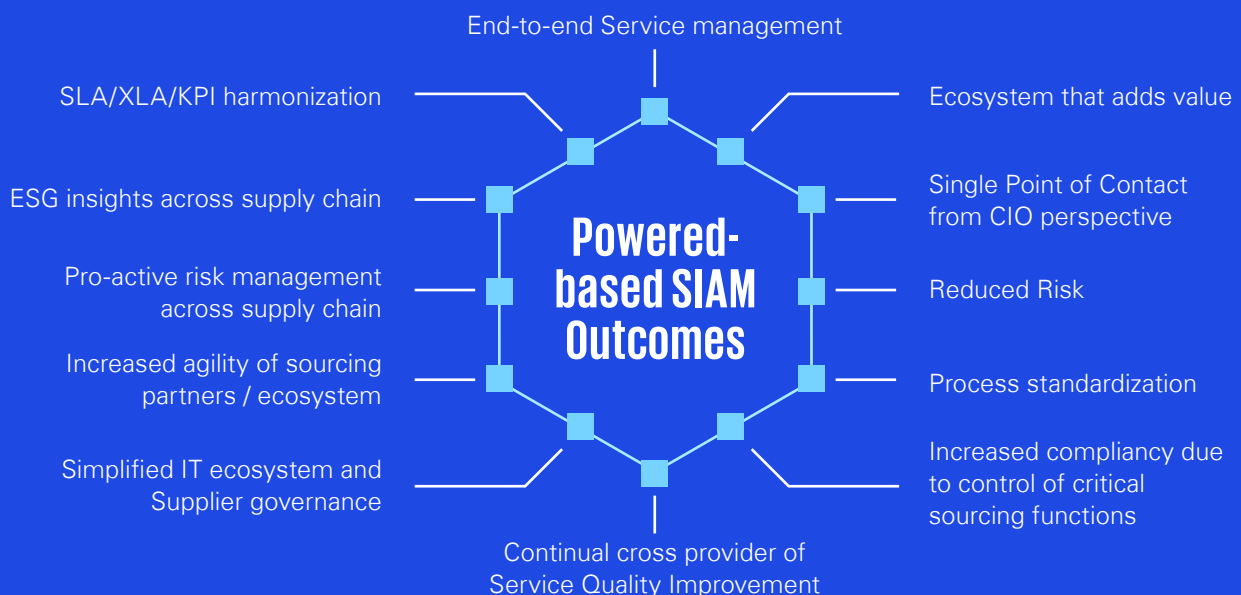
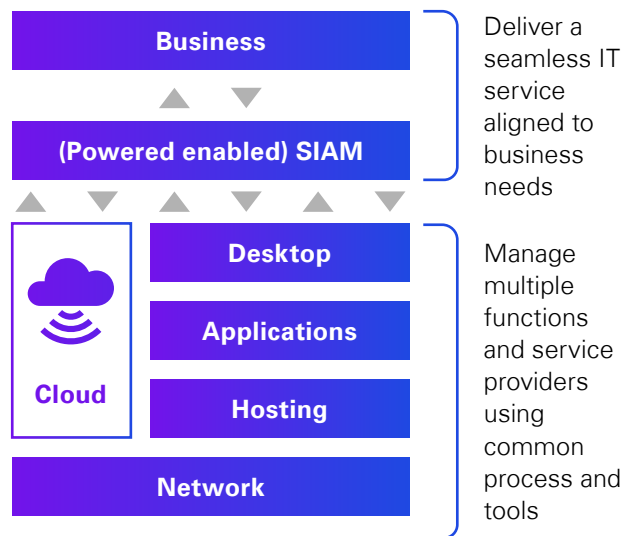
KPMG’s Powered Enterprise offers a vision, approach, and pre-defined set of leading functional practices, which enable organizations to more quickly transform and improve back-office performance and efficiency, while achieving a greater step-change in value.

What is SIAM?

Service Integration and Management (SIAM) is an enterprise-wide vision, approach, and solution to govern, manage, and deliver services, data, and technology within a business ecosystem in close collaboration with partners.

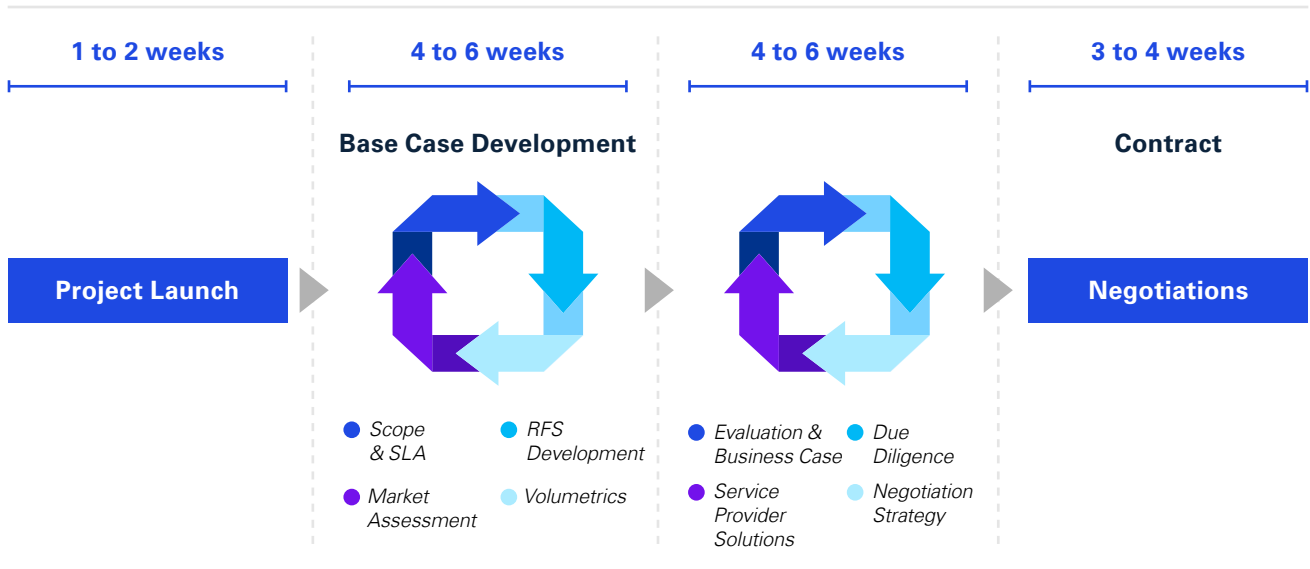
SIAM can be implemented to avoid or remediate multi-vendor introduced challenges as its intent is to ensure that all participants in the IT ecosystem comply with set standards, policies, and procedures, fostering a seamless and consistent delivery of services. It seeks to synchronize processes and tools among service providers, thereby easing the complexities of process management and data sources. The functions incorporated in this framework can cover operational governance, management, assurance, integration, and coordination, which are customized to fit the requirements of both customer organizations and service providers.

KPMG’s Powered facilitates and accelerates an effective, advanced, and agile SIAM Implementation.

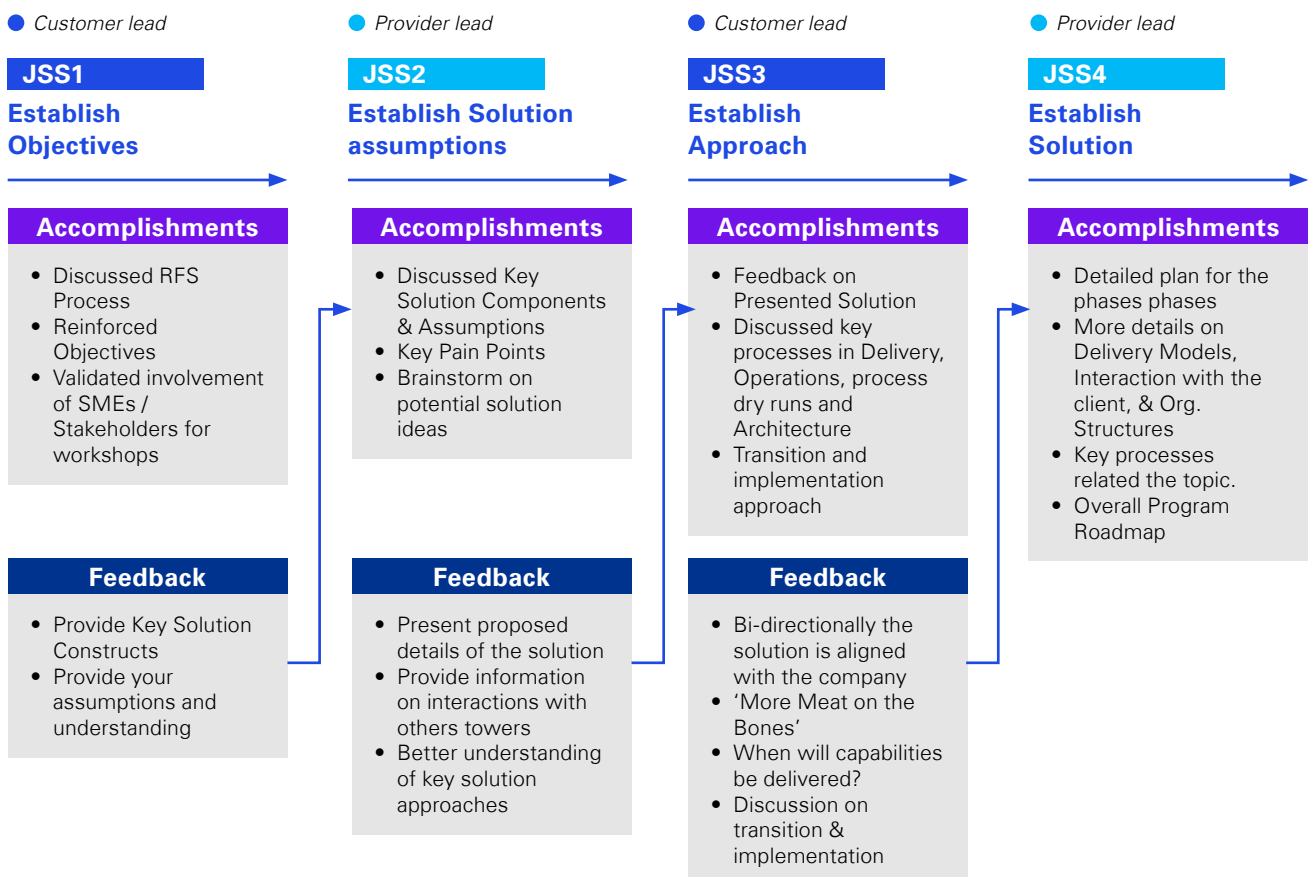


03 Agile Sourcing approach

Long RFP cycles can be avoided by agile sourcing. With a traditional approach, “the waterfall” does not engage Providers until much later in the process and is no longer meeting the needs of businesses on the market. The agile approach applies the concepts of “sprints” in Joint Solution Sessions as part of lightweight, repetitive framework, helping to substantially reduce the period from project launch to contract signing.



Within the agile outsourcing approach, the Joint Solution Sessions (JSS) as shown below offer an opportunity for Providers to validate assumptions and preview solution frameworks prior to a formal RFS response. It allows the client to question solution assumptions and provide course correction. Providers present the general benefits and price impacts of alternative solution options, and the client can provide guidance on preferred alternatives. It also allows for the identification of pending critical information that is preventing the Providers from finalizing a solution.



04 Sourcing Lifecycle

The Service Delivery Lifecycle is a complex journey that requires meticulous planning, solution definition, rigorous implementation control, and optimization to ensure full value realization. The KPMG Sourcing Lifecycle Framework offers a holistic approach to enhance organizational sourcing activities that includes all phases of a sourcing project.

The outsourcing principles are defined in the strategy phase. This emphasizes risk management by identifying and mitigating sourcing risks. Cost optimization is a key focus, aiming to streamline processes and reduce expenses.

The framework advocates for process efficiency through the standardization and automation of procedures. It also places importance on building strong supplier relationships, which are crucial for mutual benefit and success.

In addition, the framework ensures that sourcing activities adhere to legal and regulatory standards, providing governance and compliance. Performance measurement is integral, facilitating continuous evaluation and improvement of sourcing practices. The integration of technology plays a significant role in enhancing these processes.

Furthermore, the framework underscores the importance of sustainability and ethical practices in sourcing. Lastly, it addresses the challenges of change management, helping organizations adapt smoothly to new strategies and practices. Overall, this framework guides organizations to make their sourcing more strategic, cost-effective, and aligned with their broader business objectives.



Take the next step

In today's rapidly changing business environment, optimizing your outsourcing strategy is essential. This whitepaper provided a glance on some of the KPMG methodologies, designed to bring clarity and efficiency to your outsourcing landscape.

Consider this whitepaper as a first step. We offer a comprehensive suite of services tailored to your needs and will gladly partner with you throughout your outsourcing journey. Let's discuss how our methodologies can empower your business and achieve your outsourcing goals.

We invite you to discover our related Guides on the different aspects of the IT landscape:

- [Future of IT](#)
- [SIAM white paper](#)
- [Sourcing trend radar](#)

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