



Nordic Shared Services and Outsourcing Pulse Survey

2017

Key findings and market trends for the Nordic Shared services and Outsourcing market for 2017





Introduction

Welcome to the 2017 edition of the KPMG Nordic Shared Services and Outsourcing Pulse Survey. KPMG has for more than a decade been surveying our global pool of sourcing advisors, as well as the world's leading service providers in order to identify and report the latest trends in the market. This report zooms in on the Nordic market, and contrasts the Nordic development with what we see elsewhere in the world.

The recent geopolitical events, with trade protectionism and increased instability in some regions, will have an impact on organisations' willingness and ambitions in terms of building global delivery models. However, as we will see in this report, the Global Business Services (GBS) agenda is gaining momentum in many Nordic companies, and this development is set to continue in 2017. We forecast an increased adoption of captive shared services and third party outsourcing, as well as an even stronger interest in reaping the benefits from such delivery models by shifting focus from only looking at labour arbitrage to more value adding dimensions.

In this report, you will not only learn about the latest trends in the market. We are also providing deep dives into several key topics that have surfaced as critical to the GBS agenda of Nordic organisations:

Customer Care - GBS cannot only be used for servicing your organisation, but also to provide direct customer-facing activities. However, this is putting additional requirements on people, processes and supporting technology in order to deliver positive customer experience in a cost-efficient manner.

Change Management - GBS is all about change; not only in terms of moving activities from one location to another, but also continuous change through automation and other transformative initiatives. No matter how good analytics we have, or how many robots we deploy, GBS will fail if there is not enough focus on change management.

Robotics - This is a topic which has quickly shifted from a buzzword to reality, and any organisation not fully embracing Robotics in 2017 will be left behind. GBS is a perfect environment to deploy Robotics, but its application will also have an impact on how GBS is utilised and which skill sets are needed.

Business Intelligence - Organisations have been using Business Intelligence to drive GBS efficiency for some time. But the true value is when GBS can also deliver actionable insights to the rest of the organisation. This does not only require strong data analytics skills, but also - just like the name implies - a business understanding.

I do hope you find this report relevant and inspiring. Would you like to further discuss any of the topics, or your GBS agenda in general, please do not hesitate to reach out to one of the authors, or your local KPMG sourcing contact listed at the end of the report.

Happy sourcing!



Joakim Abeleen

The 5 key takeaways from this survey

2017 will be the year where Robotics is taken to scale as firms advance from Proof of Concepts to full mobilisations within their organisations and any company not fully embracing Robotics will be left behind.



Stronger adoption of captive shared services and third party outsourcing than ever before, while shifting focus from only looking at labour arbitrage to more value adding dimensions.

Change Management is still seen as a key challenge for service delivery transformations, and requires even more attention to ensure success, especially with the increased focus on redesigning core business processes.



To harness the power of Business Intelligence and Data and Analytics and support Global Business Services, the focus in 2017 will be on investments in the required analytical skills in terms of both tools and staff.



We see a move to start using Global Business Services in front line to cover the end-to-end process. It obligates the organisations to fully grasp what it takes to serve customers through a Global Business Service delivery model for this not to have a negative impact on Customer Experience.

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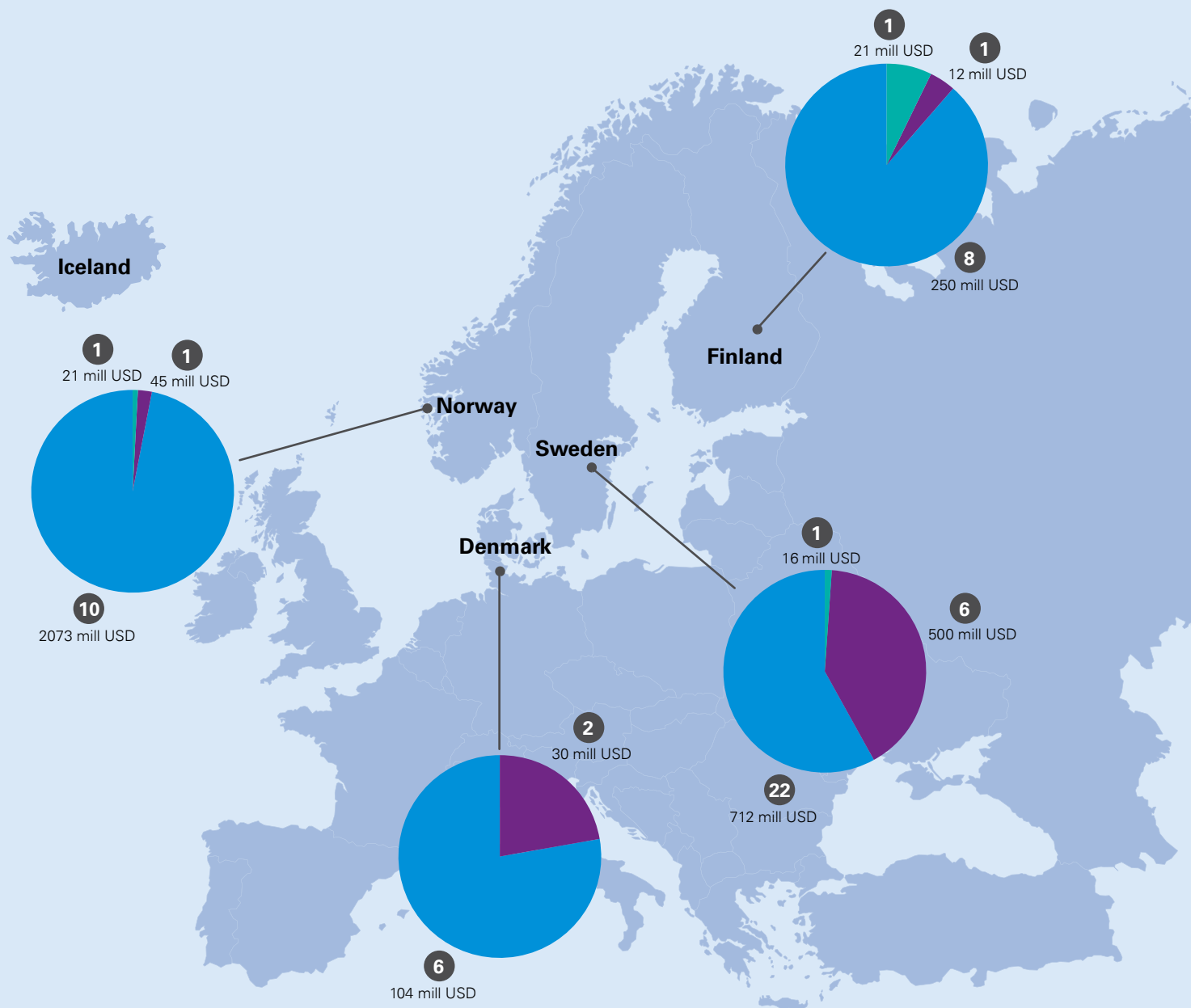
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Methodology
and service
providers

Deals in the Nordics 2016



Source: IDC www.idc.com, Contract Database, January 2017, KPMG member firms research and analysis based on the IDC contract database

Market Outlook

Despite the many uncertainties impacting decisions to build global delivery models, there is a unanimous view among both advisors and service providers that 2017 will not be a year of passivity. Companies across most sectors do need to react to tougher conditions by further optimising delivery models within both back and front office. We can thus expect a lot of traction in the Nordic sourcing market. This is also evidenced by several of the service providers making bigger investments in the Nordics.

Outsourcing demand increasing

One could have thought that the appetite for delivery model changes would gradually reduce, seeing that many organisations have undergone smaller or bigger transformations over the last couple of years.

However, results from both advisors and service providers are clearly telling a different story. This can be attributable to the fact that many organisations have either undergone successful GBS implementations, and are now looking at scope expansions, or are exploring opportunities to adjust delivery models, in many cases from captive to outsourced.

For the first time since the Nordic Pulse was launched, internal process improvement is no longer the most popular approach to service delivery transformation. In fact, it is the approach that advisors expect to increase the least. Instead, the demand for captive service centres, as well as outsourcing to third parties, have increased significantly. Service providers' pipeline projections are also very positive for the coming quarters. Despite the

increased demand, buyers can still relax as there seem to be sufficient supply of outsourcing services available in the market, and providers are projecting an even more aggressive pricing in 2017.

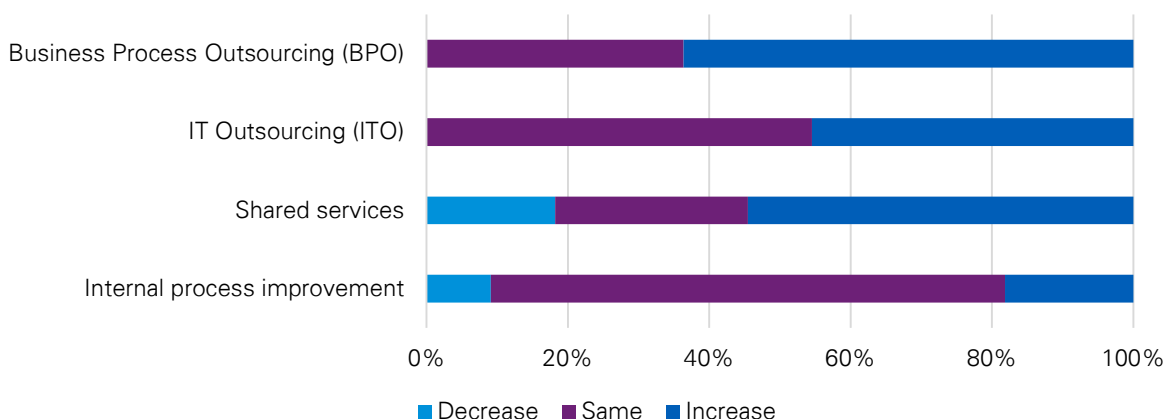
An interesting pricing aspect is that providers are seeing more deals including a value-based component as opposed to the more classical fixed fee or time-and-material constructions. This is something that will likely increase in popularity, as transaction costs is pushed down through labour arbitrage and automation, while many outsourcing deals reach higher levels of maturity.



73% of the service providers expect increased demand in 2017.

High demand for Outsourced and Captive Shared Services

For each type of services, how do you expect the demand level to change?



GBS appetite both in private and public sectors

As in previous years, there is a big GBS appetite within Banking, Financial Services, Insurance (BFSI) and manufacturing. These sectors frequently incorporate outsourcing as part of their delivery model, even though the reasons behind their delivery model design can differ a lot.

The GBS ambitions within BFSI are often driven by a desire to increase compliance while at the same time building a scalable setup, whereas manufacturing companies tend to use GBS primarily as a lever for cost savings as well as a vehicle for standardisation of processes and underlying systems. An area where the GBS focus is steadily increasing is the public sector. This can primarily be seen in the advisor results, as many public sector organisations use captive delivery centres.

Increased focus on front-end

In terms of functions, the usual suspects of IT and Finance & Accounting (F&A) are coming out strong, even though service providers see a reduced focus on F&A compared to previous years. Instead, there is an increased outsourcing appetite for vertical industry-specific services, something which can clearly be seen in the rapid development of these offerings in the BPO market.

Advisors are seeing a significant increase in customer care. This is not only the result of organisations who previously put back office transactions in GBS now wanting to enhance scope to customer-facing activities, but there are also a number of GBS initiatives where customer care is the main focus. The broadening of the functional spectra is putting higher requirements on both shared services leaders and outsourcing providers, and even more importantly, on the GBS conductor who has to orchestrate complex delivery models serving rather different functional stakeholders.

This is not made easier by the fact that GBS is often organised and managed by function, and that process owners tend to sit far away from GBS. The role of GBS leadership, and the governance around processes and delivery will need to evolve rapidly to keep pace with the increased requirements imposed on GBS.

The increased focus on new delivery models, combined with the inclusion of more functions in GBS, is not for free. Nordic organisations are expected to increase their investments within several GBS related areas over the coming year. This can be seen in the service provider and advisor predictions in the following sections, and is also evidenced by customer surveys. KPMG recently interviewed 22 bigger GBS organisations in the Nordics related to their current and aspirational maturity, and found that the two areas where companies see the biggest increase over a near future is Data and Analytics, and Change Management. These areas are also among the top three dimensions which companies focus upon globally. Leapfrogging to high levels of maturity will require significant focus and investment in these fields, and puts requirements on service providers and advisors to support clients along their journey by injecting best practice.

Dimensions with the largest impact on customer maturity levels.

Top 3 Nordic:



Data and Analytics



Change Management



Sourcing Strategy

Top 3 Global:



Data and Analytics



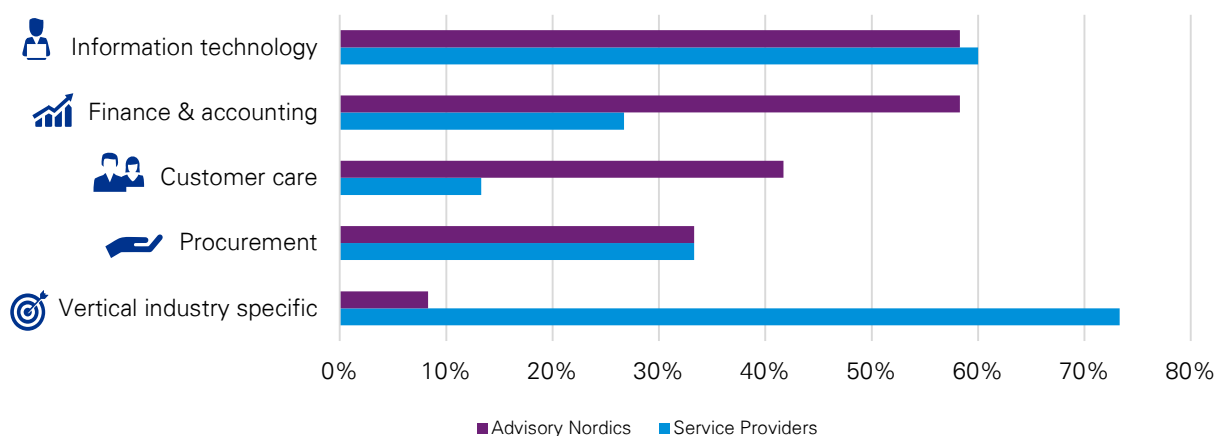
Talent Management



Change Management

New functions emerging

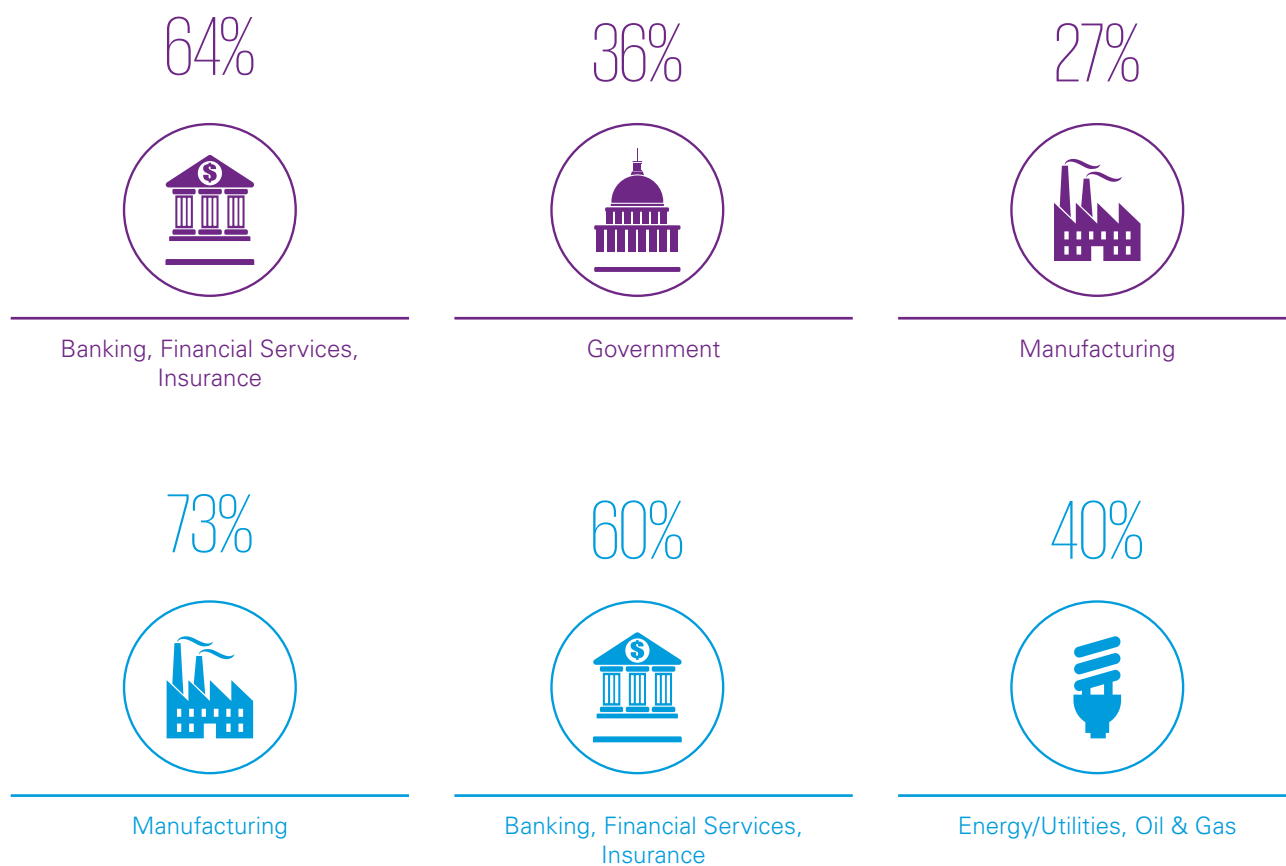
In what functional areas do you see the strongest demand for Shared services and Outsourcing?



Government is catching up with private sectors

There is an increased interest for GBS within the public sector, with a focus on captive delivery models combined with strong digitalization efforts

In which industries are you seeing the biggest demand?



■ Advisory Nordics
■ Service Providers

Customer Care is a top priority

Joakim Abeleen

Trends

While GBS is expected to maintain its popularity among back office functions, a significantly increased GBS interest can also be seen in the front line. Incorporation of customer-facing activities into GBS often happens as a result of scope expansions where back office processing is already in GBS, and customer interactions become the next natural step in order to cover processes end-to-end. But we also see GBS efforts taking an outset in customer interaction, often driven by an ambition to get in better control of customer experience in order to drive harmonisation and facilitate automation or migration to online channels.

The increase in Customer Care is less significant among the service providers which signals that most Nordic organisations are keeping these activities within the captive part of their GBS delivery models. However, with many service providers staffing up in their near- and onshore delivery centres, we will most likely see many of these activities moving to outsourced delivery in a near future.

The Customer Care focus in GBS is also supported by the strong interest in Data and Analytics which is a key value enabler when looking at Customer Care activities. Successful Customer Care delivery is not only about increased efficiency, but much more about using the GBS infrastructure to standardise, control, understand and improve the way customers are served; something which can only be achieved if having access to the right data and insights.



The Customer Care focus in GBS is also supported by the strong interest in Data and Analytics which is a key value enabler when looking at Customer Care activities.



42%

of the Nordic Advisors see Customer Care as one of the top functional focus areas

Our point of view

The focus on Customer Care puts new requirements on GBS as a model and the stakeholders involved. Governance professionals, shared service centre leaders and outsourcing service providers all need to understand what it takes to serve customers through a Global Business Services delivery model. There have been some practicing on serving internal customers through helpdesks within the GBS, but many of these attempts have been rather half-hearted. Now it is time to step up and take a much more professional approach to Customer Care. Critical components in this context are:



The focus on Customer Care puts new requirements on GBS as a model and the stakeholders involved.

Customer understanding



Global Customer Care processes must be designed by taking an outset in customer journeys, and drive efficiencies from a customer perspective. The good thing is that low customer effort almost always leads to internal process improvements as well. But doing it the other way around, and defining how the customer should interact based on your preferred internal processes will guarantee failure.

Right capabilities



People have different skill sets, and it is a mistake to assume that your employees who have handled back office activities suddenly can turn into Customer Care professionals overnight. Some people are good at Customer Care, some may learn it by investing in training, while others will never fit. No matter what, you need to assess required skills, identify gaps, and provide necessary training.

Service management



No matter how nice your Customer Care staff are, and whatever good intentions they may have, customers can never be served in a professional manner without a structured approach to service management, including clear service levels, supporting CRM and request handling tools and a robust operational governance.

In order to drive a successful front office GBS agenda, these areas need to become ingrained into the operating model. It is also critical to understand that Customer Care in GBS is very seldom the only interface an organisation has with its customers. It is thus important to take a holistic view of the end-to-end customer experience, and identify how GBS fits into the overall omni business architecture of the organisation. In order to achieve this, it is time for GBS to start collaborating closely with CMOs and CCOs.

Increased challenges in Change Management

Rune Bech

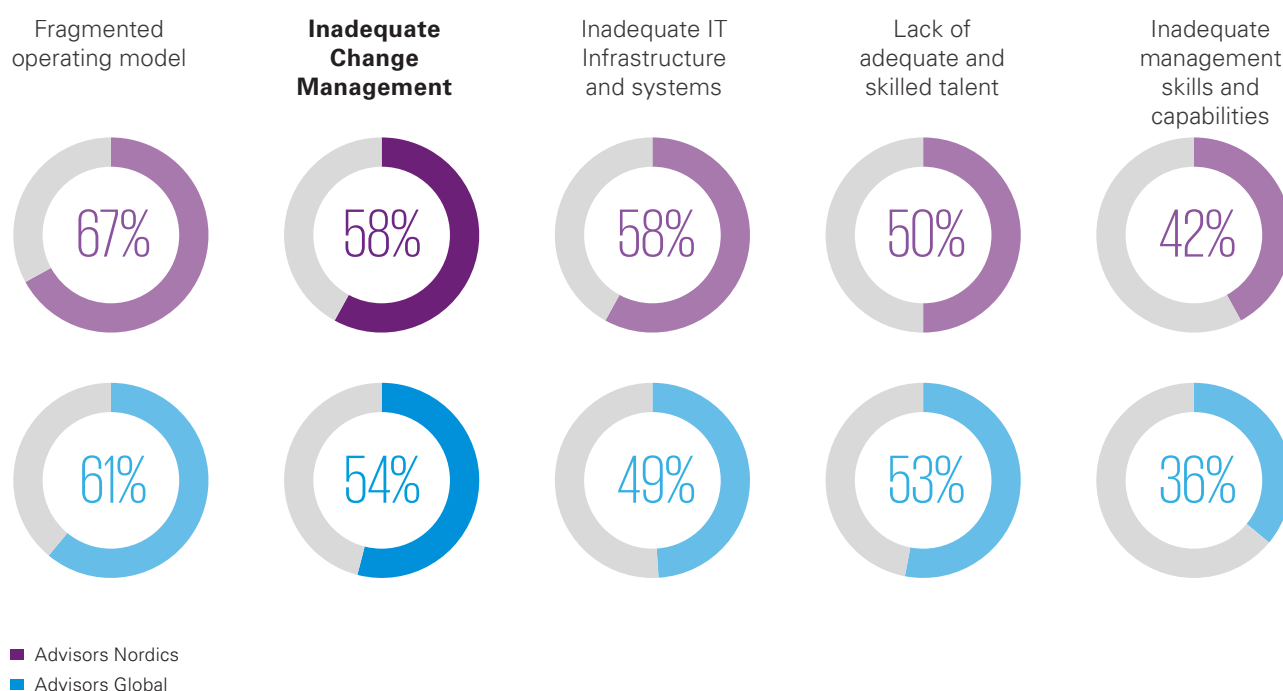
Trends

In today's fast-moving business world where new systems and processes are introduced at an accelerated pace, there is more than ever a need for a solid understanding of Change Management and why the topic should be prioritised. Employees should be involved at an early stage, as they know the business processes and will be affected by the change in their day-to-day operations.

The findings in this year's Pulse Survey indicates an acknowledgment of the increase in challenges for the Change Management agenda. This is a topic which has been high up on the challenge list for GBS leaders ever since the early days of shared services and outsourcing. However, with an accelerated pace of change, combined with increased focus in the Nordics for the need to redesign core business processes, it seems clear that mastering the art and science of Change Management is more relevant than ever before in 2017.

Inadequate Change Management remains a key challenge

What are the biggest challenges that organisations face in successfully undertaking their top initiatives in 2017?



Our point of view

It is our strong belief that successfully driving change processes rests upon embracing the needs of the employees involved and by acknowledging the views of people impacted by the changes. In other words, Change Management is about understanding and nurturing human behavioural psychology. The toolbox for making process steps happen should also include relevant methodologies for tackling all aspects of the transformation journey.

When considering a sourcing strategy there are some risks associated with Change Management that are important to address. KPMG increasingly sees greater discipline and focus on the 'harder' topics such as redesign of processes, identifying handover points and defining KPIs to monitor. This potentially leaves less time to focus on dealing with the 'softer' topics of people and Change Management, and knowing that people react to change in a variety of ways calls for an adequate approach to address these issues.

In our view, these are some of the main considerations that should be taken into account when executing a sourcing project:



Change Management is about understanding and nurturing human behavioural psychology.

Communication



When should you communicate to the teams and how much information should be shared?

How do you gain buy-in from key stakeholders and minimise the risk of key individuals negatively influencing or stopping the programme of change?

Culture



How do you drive cultural change and 'make' people behave according to the new ways of working?

How do you ensure that the new teams work effectively?

Talent Management



How do you ensure that employees of the organisation feel valued and will act as ambassadors of change?

In case of internal offshoring / nearshoring, considering how to attract, develop and retain talent in the new location is key.

Change Management in a shared services and outsourcing context may seem complex and somewhat daunting. However, it is important to keep in mind that many organisations have undergone similar changes before, albeit with varying levels of success. This means that lessons learned can be shared across industries and incorporated into future transformations. There is no need to reinvent the wheel.

Widespread use of Robotics

Bent Dalager

Trends

Robotic Process Automation (RPA) solutions have really come to the forefront of CIO and other C-level agendas over the past year, as most large firms have, as a minimum, conducted Proof of Concepts with the technology. The results from this year's Pulse Survey indicate that the technology's prominence will only keep rising, both globally and within the Nordics, as RPA is listed as the second highest IT investment priority for the year. Furthermore, we see widespread use of RPA across the organisation, as it has proven itself as a value-creating tool both in an IT and business context.



RPA can serve as a complement to outsourcing as key processes can be kept within the Nordics at a lower cost.

High Robotics investments in 2017

What are the top IT investment areas for your clients in 2017?



Enterprise
Resource
Planning



**Process
automation
- basic and
enhanced RPA**



Business
intelligence/
"big data"



**Cognitive
automation
including AI
& machine
learning**



Legacy systems
enhancement/
upgrades

Our point of view

These findings corroborate our experience from the market where we have seen high levels of interest in the technology from clients across all industries. Some of the most interesting trends that we have witnessed include the following:



We predict that 2017 will be the year where RPA is taken to scale, as firms advance from Proof of Concepts to full mobilisations within their organisations.

RPA finally comes of age



The fact that the investment appetite for RPA has risen dramatically over the past year indicates that companies are truly beginning to understand and realise the value that it provides them and view the technology as a long-term strategic investment. In fact, we predict that 2017 will be the year where RPA is taken to scale, as firms advance from Proof of Concepts to full mobilisations within their organisations, both implementing the technology across departments as well as developing internal operations and governance capabilities. This is especially true within the financial services sector which has been one of the pioneers in leveraging the technology.

RPA complements outsourcing



In this context, RPA can serve as a complement to outsourcing as key processes can be kept within the Nordics at a lower cost (with RPA), while less critical processes can be outsourced. Many companies have found this dual approach suitable for their GBS initiatives. For firms planning such initiatives, the technology could be a good place to start, as it will generate immediate value creation and at the same time drives process standardisation through the robotic configuration process.

BPO providers leverage RPA



Furthermore, BPO providers can leverage RPA strategically to automate processes within their own delivery centres, allowing them to provide even lower cost to their customers while increasing their scalability in terms of adapting quickly to rising and falling demand. This also means that firms can now derive the benefits of automation and RPA without having to invest in developing the capabilities internally. To build the capabilities required to deliver RPA for their customers, BPO providers will also need to add additional skill sets within their organisations – specifically RPA developer profiles with a strong technical understanding will be required to supplement the process expertise that should already be in place.

RPA is adding digital labour to the already existing mix of on-, near-, and offshore labour, and no matter what the exact delivery model will look like for an organisation, RPA will be a critical part of it across all industries and functions.

Strong appetite for Business Intelligence

Jacob Guldager-Løve

Trends

The investment appetite in Business Intelligence and big data remains high. It is not only the third highest IT investment area in 2017, but it is also seen as one of the most important capabilities required in order to succeed with planned business initiatives. This is an area where the Nordic region is very much in par with the rest of the world. Big data and Business Intelligence often transcend borders, while at the same time respecting local data privacy legislations, and it is not an option for individual regions to fall behind.

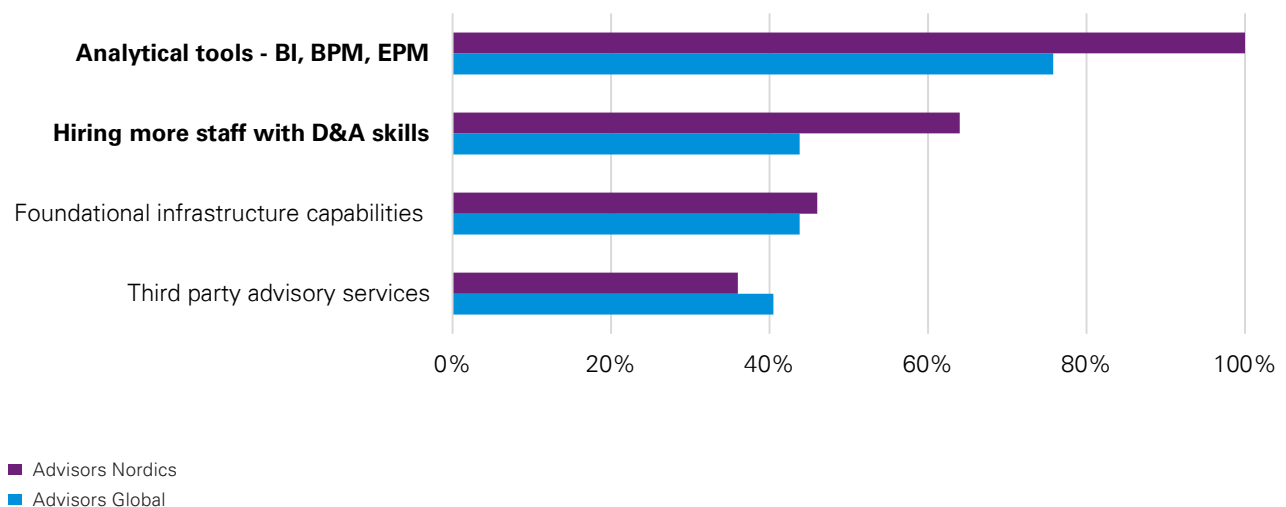
In terms of what companies are investing in, there is a good balance between tools and people. Business Intelligence software requires capable people to use them effectively, and Business Intelligence people need capable software to perform their job.



In a global environment defined by constant disruption, business leaders need to be confident in their decisions.

Clients investing in both tools and capabilities

Where will clients invest in Data and Analytics to support their Global Business Services/Shared services/ Outsourcing efforts?



Our point of view

In a global environment defined by constant disruption, business leaders need to be confident in their decisions. And that means being confident in their data, their algorithms and their analytics capabilities. Today, Data and Analytics underpin many important decisions that affect us as individuals, as business and as societies. What analytics and big data offer is an insight into behaviour – whether of individuals, processes, groups, machines or organisations. Understanding behaviour and its impact can be vital for businesses and thereby have a large effect on organisational decision-making.

Data and Analytics has the power to create great value. But increasingly, it requires a business-first perspective, helping solve complex business challenges using analytics that clients can trust. The result should be analytics solutions and services that business leaders can believe in to help increase revenue, reduce costs and manage risk throughout the enterprise.

Trusting the data



With so much riding on the output of Data and Analytics, significant questions are now also emerging about the trust placed in the data, the analytics and the controls that underwrite a new way of making decisions. How do we know a result is right or that automated decisions are doing the right thing? What does “right” really mean and to what extent does it matter? And who should be the judge? As analytics goes mainstream, questions surrounding trust will continue to evolve – not only across most sectors, but also for regulators, policymakers and those who safeguard consumer rights.

Turning data into insights



We are seeing many companies still struggling with the basics. While some of them have succeeded in getting from raw data to actual insights, quite a few organisations are still having difficulties getting from insights to real business value. The latter requires more than just data and brilliant data scientists. Rather it requires actual business and process transformation.

Building capabilities



There is no doubt that the future of big data and analytics is bright, and undoubtedly, big data and analytics undertakings can be very exciting, but they must pay off for organisations. To harness the power of analytics and support GBS, the focus in 2017 will be on investments in the required analytical skills in terms of both tools and staff. Organisations must invest in the development of employees’ analytical skills to perform well operationally, meet governance and process standards, and fulfil the promise of creating business value for the organisation. Getting the foundation in place is key to success within the area of Data and Analytics.

Business Intelligence is a domain which will continue evolving at a rapid pace. A critical success factor is to ensure that the organisations’ capabilities are evolving at the same pace in order not to be left behind. Just like with any other investment, it takes time to deploy tools and develop in-house capabilities, so this is an area where third party specialist support from service providers and advisors will remain a critical component for years to come.

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Joakim is a Director in KPMG Denmark. He works with shared services and outsourcing for both Danish and international clients, and focuses on designing and optimising delivery models across functions. Joakim has published a number of reports around the Danish and Nordics sourcing market, and regularly speaks to GBS leaders about their plans, ambitions and challenges.



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Jacob Guldager-Løve

Jacob is a Senior Manager in KPMG Denmark. He works with Business Intelligence, Business Analytics and Corporate Performance Management primarily with Danish clients, focusing on bringing data driven value and business insights to organisations.

Methodology and service providers

The Nordic Shared Services and Outsourcing Pulse Survey is a part of KPMG's global research programmes, and is based on input from KPMG's senior sourcing advisors, combined with executives from selected outsourcing service providers. The data published in this report is primarily based on KPMG surveys conducted during December 2016 and January 2017. The surveys have been conducted globally, as well as specifically for the Nordics, i.e. Denmark, Finland, Iceland, Norway and Sweden. For year-on-year comparison, data from the 2016 Nordic Pulse Survey has been used.

In addition to the Service Provider and Advisors surveys, KPMG has interviewed leaders for GBS organisations in 185 global companies, out of which 22 companies are in the Nordics. This data is used to contrast the trends seen by external sourcing executives with the companies' internal views.

Below is a list of the outsourcing service providers participating in the Nordic Pulse Survey:

Accenture	Infosys LTD
Capgemini	T-Systems Nordic
Cognizant	Tata consultancy services
Genpact	Wipro LTD
HCL Technologies	WNS Global Services

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You can find this report, together with lots of interesting research and articles around the sourcing market, at <http://www.kpmg-institutes.com/institutes/shared-services-outsourcing-institute.html>



kpmg.com/socialmedia

