



KPMG Sourcing Trendradar 2024

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

Foreword

The KPMG Sourcing Trend Radar 2024 presents our Shared Services and Outsourcing Advisory 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. It reflects the combination of our views and their insights. The trends are addressed from a Digital (IT) sourcing and Business Process Sourcing perspective.

Over the last year, we have witnessed several prominent trends shaping the industry. Geopolitical Resilient Sourcing Models are gaining significance as geopolitical factors increasingly impact sourcing operations. Governments in near-shore and off-shore destinations try to enhance their competitiveness in terms of for example knowledge levels and quality. While at the same time, regional political stability can disrupt business continuity, necessitating sourcing resilience.

Second, there's a growing emphasis on incorporating Environmental, Social, and Governance (ESG) principles into sourcing strategies. The impending implementation of the Corporate Sustainability Reporting Directive (CSRD) in 2024 mandates ESG reporting, significantly impacting sourcing arrangements and requiring the full integration of ESG thinking into sourcing strategies and models.

Lastly, the demand for sustainable and resilient Partner Ecosystems is expanding. Businesses are exploring to improve their digital value chains through ecosystem partners providing more innovative integrated digital solution and services. These partnerships are crucial in addressing the growing sustainability and resilience demands while navigating complex interdependencies between ecosystem partners and prioritizing shared goals. Such demands are also founded in the domain of compliancy with for instance the Digital Operations Resilience Act (DORA) or the Network and Information Security (NIS2) directives. Making ecosystem-based partnerships a growing topic of interest to achieve Environmental, Social, Compliancy, and Governance objectives while safeguarding business continuity.

In conclusion, we trust that our insights and perspectives in this year's Trend Radar will empower leaders to navigate sourcing challenges with confidence. To delve deeper into these trends or explore how KPMG can assist your organization, please don't hesitate to reach out to any of our local Sourcing experts listed in this publication. We look forward to help support you in your journey to successfully navigate the evolving sourcing landscape.

KPMG Sourcing Trend Radar 2024

The Sourcing Trend Radar 2024 shows KPMG's Shared Services and Outsourcing Advisory view on 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 minimal, moderate to major.



Domains: ● Digital (IT) sourcing ● Business process sourcing ● General sourcing trend

Potential impact: Minimal Moderate Major

KPMG sourcing Trend Radar 2024

The most important short-term Digital (IT) sourcing and business process sourcing trends:

Geopolitical resilient sourcing models

Geopolitics can have a profound impact on sourcing operating models. Without geopolitical resilience, organizations risk service disruptions, data loss, compliance issues, and other challenges that can negatively impact their business continuity. By prioritizing geopolitical resilience in their sourcing operating model, organizations can ensure that they are prepared to manage risks and capitalize on opportunities.

ESG incorporated sourcing

Organizations are increasingly prioritizing ESG elements in sourcing arrangements, focusing on robust risk management and ongoing monitoring in supply chains. With the CSRD reporting mandate, there's a shift towards considering ESG compliance in supplier selection, moving beyond individual organization-focused reporting to a more collaborative and comprehensive approach between clients and suppliers.

Compliance driven sourcing

Supervisors in various industries introduce regulations, frameworks and directives like DORA or NIS2 to reduce outsourcing risks and increase resilience. An increased collaborative approach between companies and their suppliers is required to adhere to these compliance standards.

User experience driven sourcing models

IT sourcing models have traditionally emphasized criteria like cost and functionality, but an increase in importance of the user experience is changing these models. This shift recognizes that the success of IT initiatives hinges on technology that not only meets technical requirements but also aligns with user preferences. This impacts sourcing initiatives as the collaboration and service levels will be focused on user experience instead of solely being component-based.

'AI as a service' delivery models

The importance of AI in Business Process and IT Outsourcing is rapidly increasing. AI features support service delivery while improving their quality. As a result, utilizing AI is becoming increasingly critical, leading BPO providers to develop and implement the 'AI as a service' delivery model to support routine oriented business processes as well as customized AI products and services, ultimately meeting the specific needs and tasks of each client optimally.

Pathfinding for sustainable, resilient and AI enabled Partner Ecosystems

Overall, the necessity for sustainable and resilient sourcing solutions and ecosystems has become more apparent. Last year, we've identified an increased focus on ecosystem-based partner models to manage the interdependencies. This year, there is an evident trend towards implementing ecosystem-based partner models to achieve ambitions related to ESG goals and comply with regulations, with the overarching goal of ensuring business continuity enabled by AI.

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0-2 years



Best of breed sourcing strategies

Organizations are moving towards Best of Breed sourcing strategies, aiming at enabling their business and IT departments to better accommodate the 'new normal'. They need to adopt, integrate and/or migrate new IT solutions and digital services faster than ever before. The Best of Breed sourcing strategy offers a more granular approach to choose the right balance in sourcing new, upcoming and proven IT solutions, services and delivery models.



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 initiated to develop these capabilities in-house.



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 fitting sourcing delivery option for (Dev)SecOps and Cyber solutions that help organizations combine security and operations data for more accurate and actionable analysis, enabling them to identify blind spots and (automatically) fix the most critical flaws immediately in any environment.



End user experience based workplace

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



Focus on more digitally-driven industries

As consumer activity is 'cooling down' due to high inflation and rising interest rates, interactions between end-users and enterprises seem to reduce. In order to overcome this reduction in BPO activity, more focus will be put on the fast-growing sectors that have a high propensity to out course regardless of the economic climate. Digitally-driven sectors such as e-commerce, digital enterprises, gaming and Fintech fall in this category.



Managed service initiatives

Managed Service Outsourcing is moving up the value ladder, partially due to the effect of automation and digitalization. We see our client increasingly opting to outsource repetitive transactional processes and also more knowledge intensive processes to third-party providers. In doing so, focusing more and more on their core activities and key differentiators, while leveraging the expertise of managed service providers.

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0-2 years

Geopolitical resilient sourcing models

Geopolitics 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 stability in a particular country or region and investors with relationships towards those regions can have a negative impact on business continuity. This requires sourcing strategies that provide resilient sourcing options.

Ecosystem based partner models

Our clients are looking for more effective ways to manage and govern their value chains. Specifically the challenges resulting from many (inter)dependencies between a multitude of providers and solutions, that are bounded by transactional-based contracts. To manage these (inter)dependencies more effectively our clients embrace ecosystem-based partner models and arrangements. With the aim to more effectively share risks between partners and facilitate proactive collaboration to manage these (inter)dependencies. We see a growing importance to develop the capabilities to build and cultivate effective ecosystems.

Access to talent

The growing demand for and increasing capabilities of IT/Digital solutions skyrockets the need for talent in the IT/Digital field. We see high attrition rates approximating 20% globally, with the highest attrition rates in near- and offshore countries. Having access to talent remains of key strategic importance for both clients as well as the service providers to effectively cope with the volatilities in the market.

Outcome-based arrangements

For a decade, outcome-based models have been getting attention in the outsourcing industry. In reality, we see that the majority of commercial models remain transaction-based, with limited outcome-based drivers. Many of our clients have been experiencing a partnership with their suppliers during the pandemic, whereby suppliers proved their agility and value in times of crisis. This will boost the development towards a deeply integrated and mutually dependent relationship through shared risks and investments with suppliers.

Smaller deal size and shorter contract term

With the fast pace of developments in the field of IT/Digital, lessons learned from Covid period, the geopolitical uncertainties and potential paradigm shifts with regards to AI, agility in sourcing arrangement are paramount. We see a shift in the average duration of contract terms. Our client choose more often for smaller contract with more agile arrangements (both from the perspective of scope and financials). Enabling client organization to adapt more quickly to changing business needs. These more flexible IT sourcing strategies do need to cope with the effect of more recurring service transfers and Even though this does have embracing the resulting

Shifting client – supplier balance

Traditionally, client organizations would have a beneficial position towards potential service providers. This would result in customization in solutions and unbalanced negotiations. Recently, the relationship has become more balanced. Both client organizations and service providers recognize the need for collaborative effort to be successful. Service providers are qualifying opportunities increasingly for their own interest and have more to choose from in the current market. As such, the relationship needs to be attractive for both client and vendor.

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0-2 years

ESG incorporated sourcing

The importance to embed Environmental, Social, Governance (ESG) into the strategies of organizations is becoming increasingly important. In part due to organizations own intrinsic motivations, as well as clients demanding from their suppliers to become more sustainable, and also for another part driven by the implementation of the Corporate Sustainability Reporting Directive (CSRD), organizations are required to report on ESG per 2024. This highly impacts sourcing arrangements, as organizations need to report on their 'sustainable' footprint throughout the entire value chain. Sourcing strategies and operating models therefore need to incorporate ESG thinking.

Economic pressure on sourcing solutions

Inflation levels and interest rates have fluctuated drastically in the past years causing ripple effects in supply chains, increasing both financial and sourcing risks of clients and suppliers alike. Many of these fluctuations are part of the far-reaching consequences of geopolitical influences. Given the current global landscape, we foresee no changes in these fluctuation for the coming years. Monitoring these fluctuation and taking mitigating measures (e.g. monitor supplier behaviors, cultivate client/supplier relations, agree fixed pricing arrangements, improve forecasting capabilities, reduce lock-ins by diversifying supplier portfolio) is vital to effectively anticipate and absorb these fluctuations.

Relational outsourcing

We see our clients moving from transaction-based / cost-driven arrangements towards more relation-based / value-driven arrangements. Organizations are 'differentiating' their contractual arrangements on the basis of the nature of the services being outsourced, moving from Statements of Work (SOWs) to Statements of Outcome (SOOs). Such relation-based outsourcing arrangements stipulate the need for transparency and data to understand (shared) business objectives, risk, dependencies and complementary capabilities, and to be able to monitor and report on the business value being offered. Relation-based outsourcing methods such as Vested can be valuable instruments to achieve these arrangements.

Agile based tendering

An agile-based tendering approach is a selection process that is increasingly being used to contract non 'high risk/complex' services. The tender approach follows a planning of sprints with many touchpoints between the parties with clear deliverables. The approach is aimed to receive earlier in tender process proposals/sub-deliverables from vendors. And obtain insights into the cultural fit between the parties. Both the deliverables and the "fit" is evaluated on the basis of predefined requirements and respective selection criteria. In doing so a client can funnel and select the most promising vendor(s) earlier in the process. Hence, reducing lead time compared to traditional tender processes and reducing the need for pre-defined lengthy tender documents.

Streamlined delivery models

We see many clients struggle with governing their complex sourcing landscape; business processes being provided by a multitude of service suppliers and in-house captive service centers collaborating using different sources of data and IT solutions scattered over multiple departments and systems spanning different geographies. We see many initiatives to fully transform such landscape and streamline delivery models by consolidating and harmonize their global business processes by leveraging end-to-end IT systems and solutions and industry better practices.

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3-5 years



GenAi

Generative Artificial Intelligence (GenAi) has been widely applied over the last year. However, secure and responsible usage in the IT sourcing domain has not yet emerged. We anticipate its emergence in the near future. As GenAi progresses toward General Intelligence, there is potential for its utilization in the sourcing process. This could involve generating solutions, automating decision-making, and improving efficiency in supplier selection, negotiations, and market analysis.



'Open source' based sourcing:

Lock-in effects and dependencies of closed source solutions can become a dissatisfier and lead to business (continuity) risks. The growing open source market provides more and more viable alternatives solutions to closed source solutions. The scalable and flexible point solutions, integrated and managed through (automated) service orchestration tools offer clients increase autonomy and flexibility. Albeit introducing challenges to acquire and source the required talent to effectively implement and operate open-source products, some of which can be less mature.



Self-steering ecosystems

Self-steering ecosystems emerge as dynamic autonomous mechanisms adept at handling growing interdependencies between client, digital solutions and service provider by autonomously managing the increasing complexity of interdependencies. The overarching objective is to enable a dynamic and self-sufficient system that can efficiently navigate and respond to changing circumstances, ultimately fostering innovation, collaboration, and improved performance within the interconnected network of stakeholders.



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 leveraging RPA and workflow suites.



Outsourcing Lowcode to LowAi

The next major platform shift in technology is underway, with Artificial Intelligence (AI) rapidly transforming the software landscape. Where we first saw pictures mainly created by Dall-E, followed by text processing from ChatGPT it showed us just the first tip of the iceberg of the fast AI potential. Our clients are analysing, researching and integrating AI solutions into their value chain improving and speeding up processes (e.g. code-delivery, code quality, analysing customer behavior and satisfaction). AI is demonstrating its potential, introducing a paradigm shift into new ways of working. It is expected that this will further progress to designing simple workflows, process descriptions as well as coming up with more complex operations such as designing database queries and excel modeling, and more. As a consequence suppliers might reduce the amount of employees required to perform the operations. Some industries are heavily exposed to this development and job losses are rising as a result of the implantation of automatization practices.

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3-5 years



Business process as a service (BPaaS) platforms

The emergence of BPaaS platforms from service suppliers offering 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. We see these services become mainstream as entry costs become lower, transition times faster, with lower lock-in risks. Examples for Business Process as a Service platforms (BPaaS) are: Service (integration) management, Enterprise Service Management, Back-office processes (HR, Finance, Procurement), Business-to-business integration processes).

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>5 years

○ Self-service digital provisioning

Provisioning and management of (public and private) infrastructure and platform services through self-service is becoming a more 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.

○ Ai driven (blockchain-based) 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 currently limited to point solutions. Possibly aided with Blockchain technology 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 (i.e. incorruptible digital form). These contracts are stored electronically in one location accessible only to the parties with access, with versions and activities clearly recorded.

◎ Data foundations for eco-system enabled Ai

Artificial Intelligence (AI) solutions will only act intelligent when fed with a solid data foundation to deliver on the promise of business-driven insights. Organizations within an ecosystem will be increasingly working together to create such a shared data foundation for AI, allowing them to exchange knowledge seamlessly and collaborate effectively. This shared data foundation forms the basis for ecosystem-wide AI initiatives.

○ Augmented service provider Interactions

With all big tech corporations pushing virtual and augmented-meetings, we anticipate the adoption of this technology in client/supplier relations. Initiatives such as Google Project Starline and the Apple Vision Pro bring new opportunities for more seamless interaction to the table. These technologies will help leverage the maturity of Service Integrations and Ecosystems and help improve alignment in Governance and Orchestration of services. It will break through physical barriers and borders, and help deepen relationship between clients and service suppliers especially those near/off-shored.

○ Intelligent watch towers

An Intelligent Watch Tower is a business capability that supports timely decision-making by using information out of the application landscape and external sources to monitor both internal data and relevant changes in the market, technology, legislation. 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. We expect, in combination with AI solutions, that client-organizations will further adopt this capability and more predominantly source it more external service providers/advisors.

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