Contents

01/ Introduction 04
02/ Key takeaways 07
03/ Market outlook – The year of disruption 08
04/ Operating model 12
05/ Talent management 15
06/ The future is in the cloud 18
07/ Co-existence of automation and outsourcing 22
08/ Authors 26
09/ Methodology and service providers 27
10/ Contact us 28
01/ Introduction

Happy Sourcing!
Welcome to the 2018 edition of the KPMG Nordic Shared Services and Outsourcing Pulse Survey that zooms in on the Nordic global business services and outsourcing market. In order to identify and report the latest trends in the market, KPMG has for almost 15 years now surveyed our global pool of sourcing advisors, as well as executives of the world’s leading service providers. This report provides insight into Nordic trends, and contrasts the Nordic development with what we see elsewhere in the world.

2018 will be unique. Our results show that it will be a year of change, as investments will continue to rise in the shared services and outsourcing space. We will continue to see instabilities in the geopolitical environment, combined with increased regulatory compliance (e.g. GDPR), and rapid development of new technologies, all significantly affecting how organisations can best deliver its IT and business services to stay competitive moving forward.

Traditional delivery models are quickly becoming obsolete as customer behaviour and speed to market are becoming increasingly vital. Organisations are looking for more agile ways of launching, improving, and decommissioning services. Outsourcing contracts of 5-7 years, which provided certainty, stability and cost savings, are now seen as a hindrance for development and competitive advantage. However, this does not mean it is the end for shared services and outsourcing as business critical components for future delivery models. It means that the delivery models will transform, and the way activities are consolidated and outsourced will change.

For this to happen, organisations need to invest and focus on the key capabilities required for transforming into agile and competitive delivery models. Based on our data and analysis, we predict that to succeed in 2018 organisations need to:

**Attract and retain talent**
While we often hear that new technologies, like Robotics Process Automation (RPA), are making employees redundant, the truth is that talent is a scarce resource globally. To compensate,
organisations have for the last decade or so leveraged shared services and outsourcing to tap into talent pools in low-cost-high-talent locations. Now as the talent pools are global, competition for talent is fierce, and with the rapid entrance of new technologies, the capability requirements are changing, and organisations need to speedily attract and retrain.

**Apply automation in combination with outsourcing**

In 2017 organisations moved from just talking about automation to deploying it. RPA, as well as more advanced cognitive technologies, have become an integral part of many processes and delivery models. This has triggered discussions as to whether traditional shared services or outsourcing delivery models are still relevant. The answer is that the models will definitely remain relevant, if you remove the word “traditional”. Shared services and outsourcing will no longer be about hunting labour arbitrage and gradually improving processes through standardisation and optimisation. It will be about leveraging the right capabilities to drive automation across both back- and front-end activities.

**Leveraging hybrid cloud delivery models**

Cloud is the “new normal” as it is now an integrated part of the delivery models and often the preferred technology platform within the organisations. However, our data and insights show that we cannot transform 100% into cloud in the short-term. Some of the main reasons are legacy systems, regulatory requirements and skill shortage. Hence, revisiting and defining a clear sourcing strategy and delivery model design that supports hybrid models is necessary.

**Design and build agile operating models**

To succeed in the challenging and changing environment and quickly adapt deliveries to include automation, cloud services, modified outsourcing contracts and rebalanced delivery locations, it is critical to have an operating model that supports flexibility – different speeds of development – while still connecting the various components together. To achieve this, the operating model must have clear roles and processes supported by an effective governance structure, and effectively integrate activities from external partners. Otherwise, organisations risk to fall apart, because silos and sub-optimised operating models are created. The strong focus on automation also requires a stronger collaboration between IT and business than ever before. Rigid and slow waterfall-based development and change processes need to be replaced by agile and collaborative ways of working.

These four predictions are closely interlinked, and in order to succeed in 2018, your organisation must carefully consider how you will approach these topics to ensure your operating model remains collaborative, integrative, effective and efficient. We hope this report gives you some insight and inspiration as to how to address these topics, and would you like to discuss any of these further, please do not hesitate to reach out to one of the authors, or your local KPMG contact listed at the back of the report.

Happy sourcing!
Which of the following do you think will have the biggest positive impact on organisations’ operations in 2018?

- Positive impact of intelligent automation
- Improving consumer demand
- Maturation of innovative technologies
- The ability to tap into skilled global talent pools
- Rebounding global economic conditions
- Expanding emerging market opportunities for selling goods and services
- Continued trade liberalism
- More business friendly governments and administrations
- Improving Eurozone conditions and stability

Cloud is the “new normal” as it is now an integrated part of the delivery models and often the preferred technology platform within the organisations.
02/ Key takeaways

The biggest challenge to succeed in 2018 is attracting and retaining talent.

2 out of 3 expect organisations to increase their cloud investments for the coming year.

We expect outsourcing demand to stabilise, and service providers’ profitability to continue to be under pressure.

High focus on designing agile operating models that foster speed, digitalisation and innovation while still connecting the components together.

Automation continues to be a top priority.
The shared services and outsourcing market has evolved rapidly over the last decade and demand for both captive solutions, as well as outsourcing to third parties have steadily been increasing. 2018 will however look differently. Technological disruption makes organisations rethink their delivery models. The underlying reasons for making alterations to delivery models remain the same: driving down operating cost, while at the same time harmonising processes and output, and increasing quality. This can be done in different ways, and the Pulse Survey clearly indicates shifts in preferred delivery structure.

Outsourcing demand is stabilising

For the first time since the Nordic Pulse Survey was launched, the majority of service providers have a pipeline which is not increasing. The expectations for 2018 also remain modest. Seeing that organisations are still aggressively pursuing optimisation opportunities, this clearly indicates that new delivery models are making an entry. These models often leverage on automation, something which does not necessarily require third party involvement. It will be critical for service providers to adapt their offerings to the new environment, and deliver digital services in an agile and competitive manner, in order to remain relevant.
It is interesting to note that despite the slow-down in new opportunities for service providers, the pricing aggressiveness is not expected to accelerate compared to previous years, and neither will the contract profitability be squeezed. This is most likely attributable to the fact that service providers are also making use of automation in their delivery models, and can remain profitable despite the less heated outsourcing market.

In terms of existing deals, service providers are still seeing an increase in scope during 2018. This indicates that most clients are satisfied with their outsourcing delivery models. There are discussions around some outsourced processes being brought back in-house, but this is normally a rather complex and cumbersome activity and is not expected to become a general trend, unless specific service providers fail to adapt their delivery models.

<table>
<thead>
<tr>
<th>Expected demand for outsourcing services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016</strong></td>
</tr>
<tr>
<td>75% Customer demand will increase</td>
</tr>
<tr>
<td>25% Customer demand will remain the same</td>
</tr>
<tr>
<td><strong>2017</strong></td>
</tr>
<tr>
<td>73% Customer demand will increase</td>
</tr>
<tr>
<td>27% Customer demand will remain the same</td>
</tr>
<tr>
<td><strong>2018</strong></td>
</tr>
<tr>
<td>38% Customer demand will increase</td>
</tr>
<tr>
<td>62% Customer demand will remain the same</td>
</tr>
</tbody>
</table>

How do the service providers characterise their existing business and IT services contracts profitability?

- Contract profitability is improving
- Contract profitability is about the same
- Contract profitability is declining

<table>
<thead>
<tr>
<th>How do the service providers characterise their new business and IT services contracts profitability?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016</strong></td>
</tr>
<tr>
<td>13% Contract profitability is improving</td>
</tr>
<tr>
<td>40% Contract profitability is about the same</td>
</tr>
<tr>
<td><strong>2017</strong></td>
</tr>
<tr>
<td>13% Contract profitability is improving</td>
</tr>
<tr>
<td>27% Contract profitability is about the same</td>
</tr>
<tr>
<td><strong>2018</strong></td>
</tr>
<tr>
<td>8% Contract profitability is improving</td>
</tr>
<tr>
<td>17% Contract profitability is about the same</td>
</tr>
</tbody>
</table>
New functions and industries emerging

Demand for outsourcing is spread across a number of functions and industries. Like in previous years, financial services and manufacturing are the biggest industries, but an increased demand within the automotive industry can also be seen. In terms of functions, many of the traditional back-office processes still have a high demand, but there is also an increase in customer care. Front-end activities have within the Nordics often remained in captive contact centres, so it is interesting to see indications of a gradual shift towards further outsourcing of customer contact. There is also an even stronger focus on bundled deals, which is also evidenced by the recent outsourcing deals which have hit the Nordic market. This sends a positive signal that organisations are increasing their cooperation across functions when concluding and expanding sourcing arrangements, and start to move away from historically rather common suboptimal silo-based setups.

In which industries do you see the highest demand?

- Banking, Financial Services, Insurance: 77%
- Manufacturing: 77%
- CPG, Food & Beverage, Retail, Wholesale: 46%
- Automotive: 31%
- Energy/Utilities, Oil & Gas: 23%

Demand for outsourcing spreads across a number of functions and industries. Like in previous years, financial services and manufacturing are the biggest industries, but an increased demand within the automotive industry can also be seen.
Lack of talent is negatively affecting momentum

Both service providers and advisors see the lack of access to the right talent as the biggest challenge for organisations in 2018. The rapid shift in delivery models, and entrance of new technologies, poses requirements on new types of capabilities, which are currently not in abundance. The organisations that succeed will be the ones who manage to tap into talent pools without paying an over-price.

Biggest challenges to succeed with planned initiatives?

1. Lack of skilled talent
2. Dysfunctional operating models
3. Inadequate change management and governance capabilities

All in all, the sourcing market is changing across multiple dimensions at the same time. Just like with any bigger disruptions, this can create big opportunities for service providers and clients who are willing to change and invest in the right capabilities, while it will certainly mean trouble for organisations who resist change.
Dysfunctional operating models is the biggest threat to succeed with planned initiatives. Digital disruption is here to stay and it is changing the way organisations think about technology, services and customer behaviour. It affects not only their business models, but also how they operate. Their operating model cannot meet the new expectations from business by “scaling the traditional model”. New ways of working, including stronger collaboration and faster speed to market, are needed to succeed in the (new) digital world.

Using a shared services and outsourcing lens, this implies that organisations need to assess and potentially re-design their current operating models, including their external service providers’ deliveries, as the operating model accounts for capabilities and deliveries from all resources.

In this year’s Pulse survey, we found that the lack of talent was viewed as the biggest challenge to succeed with the organisation’s investments for 2018. The shortage of agile and digital talents, in particular, is affecting the operating model and the way organisations need to source services. Organisations should not presume that their global service providers have their specific capabilities at hand without any lead-time. Furthermore, how to engage the market should be thought through; should one consider a broker, rather than contracting with tactical service providers directly for the specific deliveries in question?

The survey also revealed that both the Nordic advisors and service provider executives see that organisations will continue to focus on driving down operating costs in 2018. 58% answered that it is a top three initiative. This is fully aligned with our global results, which scored some points higher at 64%. They also responded that lack of adequate and skilled talent, dysfunctional and/or fragmented operating model and inadequate change management and governance capabilities were the top three challenges to succeed with planned initiatives. These top three challenges are all key components of the operating model, and needs to be addressed when designing and developing their new agile operating model for the digital world.
Given this situation, how should your organisation approach the re-design of the operating model – to ensure agility, cross-functional integration and collaboration?

Based on our experience working with large organisations; we advise organisations to:

- Have a holistic view on the operations and how it supports the strategic drivers – if it is not clear, start by clarifying the strategic drivers.

- Re-designing the whole operating model, rather than tweaking the current. Tweaking can give some short-term positive effects, but has the risk of being interim, and one often fall back into old ways of working. When re-designing, start by defining what is the key principles and objectives the operating model should realise.

- Clearly define what must be delivered by internal resources versus what should be sourced. The key is to take a strategic look at what the “musts” are, given the nature of business, and then leverage the market, i.e. service providers, to deliver value and gain access to talent pools.

- Focus on how you should approach agility. Agility in “pockets” will not work over time. Therefore we advise to take a value-driven approach, see figure below.

- Do not “strangle” waterfall methods completely; use them consciously when it provides value to the customers. It means that it should be good reasons for why. We often talk about “at the speed of business” when we discuss this with our clients.

- Use Centre of Excellences (CoEs) and digital acceleration teams to leverage the scarce resources across the organisation and to promote education and alignment of best practices and tools within focus areas. Example is a CoE for automation that goes across technology and process competencies.

- The management of service providers should be centralised to ensure that one has a joint view the relationships – the eco-system – and a clear split between what is operational versus what is tactical and strategical. A recommendation is to have one VMO that owns the relationship and contracts. Service managers in the different lines of business will follow-up on the day-to-day deliveries and have a direct link back to the VMO.

Potential approaches to agility based on observed practices

1. Big bang vs. Incremental
2. Top-down vs. Bottom up
3. Value driven vs. One-size fits all
4. Change vs. Greenfields
5. Functional vs. Value streams
Percentage of advisors that found dysfunctional operating models as a key challenge for organisations to succeed with their planned initiatives in 2018

Nordics: 71%
Global: 65%

Top 7 initiatives for 2018

- Continue to drive down operating cost: Nordics 59%, Global 64%, Nordics service providers 58%
- Invest more in robotics process automations: Nordics 59%, Global 45%, Nordics service providers 67%
- Deliver innovative products and services into the market: Nordics 47%, Global 26%, Nordics service providers 17%
- Invest in new emerging information technology: Nordics 41%, Global 49%, Nordics service providers 42%
- Optimize processes and functions to best exploit process automation efforts: Nordics 41%, Global 40%, Nordics service providers 67%
- Find, attract and retain talent globally: Nordics 35%, Global 25%, Nordics service providers 17%
- Redesign core business processes: Nordics 35%, Global 36%, Nordics service providers 25%
05/ Talent management – critical to reach business goals

Shortage of talents
Talent management is not only about picking up the best talents fresh out of school, but also retaining the capabilities and business knowledge in your existing organisation. Not only by identifying and securing in-house talents, but also to train your employees to new capabilities a part of your talent management strategy.

The survey shows that 65% of the respondents consider change management a challenge to their 2018 initiatives, which is slightly above the 2017 numbers. The shortage of talents capable of driving a digital transformation is the key challenge our advisors see from working with our clients. The lack of talent will further add to the burden of turning their organisations into digital capabilities.

65% of the respondents see talent management as a key to achieve business targets for 2018, an increase of 50% from 2016. Respondents also acknowledge that it is one of their biggest challenges. In this regard, talent management goes hand-in-hand with change management.

While attracting and developing talents in the retained organisation is vital, outsourcing also requires the vendors to make their talents available to meet business goals. Clients and advisors see a strong correlation between a strong and mandated representation in all governance levels enabling clients to get the best resources when needed. While outsourcing providers may have tens of thousands of employees, vendor representatives must be able to allocate the exact talents that can help you meet your goals.

Top 10 challenges to 2018 Initiatives

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Nordics</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of adequate and skilled talent</td>
<td></td>
<td>57%</td>
</tr>
<tr>
<td>Dysfunctional operating models and processes</td>
<td>65%</td>
<td>65%</td>
</tr>
<tr>
<td>Inadequate change management and governance capabilities</td>
<td>46%</td>
<td>53%</td>
</tr>
<tr>
<td>Inadequate management/board skills and capabilities</td>
<td>42%</td>
<td>60%</td>
</tr>
<tr>
<td>Inadequate IT infrastructure and systems</td>
<td>31%</td>
<td>41%</td>
</tr>
<tr>
<td>Cybersecurity challenges and threats</td>
<td>35%</td>
<td>41%</td>
</tr>
<tr>
<td>Inability to innovate</td>
<td>29%</td>
<td>35%</td>
</tr>
<tr>
<td>Inadequate digital global business services capabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitive pressures from emerging market competitors</td>
<td>12%</td>
<td>24%</td>
</tr>
<tr>
<td>Inadequate technology suppliers in emerging areas</td>
<td>18%</td>
<td>16%</td>
</tr>
</tbody>
</table>
Talents will find digital front-runners attractive

Our experience across clients and industries is that change management has been, and will be, key to succeed in digital transformation and in particular in outsourcing projects. Our clients are familiar with shortage of skilled resources, but building the right teams that combines in-depth business knowledge with digital transformation and technology perspectives is more difficult than ever. The benefits of innovation, technology and business opportunities requires a thorough review of the operating model, and in particular in IT. The operating model must take into account the need to leverage new technology, automation and time-to-market critical applications in combination with existing legacy systems. We also see that talents will find digital front-runners attractive, and enable your business to tap into talent pools previously out of reach.

Further, a strong governance spanning internal and service providers organisations is a prerequisite to meet business objectives according to almost 30% of the respondents in the survey. Clients are reporting that success or failure in making innovation and talents available from the service provider’s side depends on whether a strong governance is implemented – or not. Having the right representatives – with mandate and control over the resources your business need will be the differentiator between success or worst case – failure.

Attracting and retaining talents, changing organisations and operating models to support the digital transformation and creating a strong governance is nothing new, and companies struggle with this challenge every day. It is not a question of whether to do it or not, but when to make it a business priority to handle it. KPMG has a broad experience in these domains and can help you in bringing your business ahead.

Key questions your organisation need to ask itself:

**Talent management**
- Q. While talent management is key to achieving business goals, is it a part of your business strategy?
- Q. What is your strategy to attract and retain talent in your organisation?

**Operating model**
- Q. Is your operating model capable of connecting the needs for legacy architecture control and fast-moving digital innovation?

**Governance**
- Q. Do you mandate the governance representatives to drive changes and allocate the best talents to your key business initiatives?
- Q. Do you require service provider representative mandates to be able to support your business initiatives too?
### Change in investment appetite from last year

<table>
<thead>
<tr>
<th>Category</th>
<th>Invest less</th>
<th>Invest the same</th>
<th>Invest more</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cyber security products, services and resources</td>
<td>6%</td>
<td>6%</td>
<td>88%</td>
</tr>
<tr>
<td>Data and analytics staff and resources</td>
<td>13%</td>
<td>6%</td>
<td>81%</td>
</tr>
<tr>
<td>Data and analytics software and services</td>
<td>37%</td>
<td>37%</td>
<td>63%</td>
</tr>
<tr>
<td>Cloud computing</td>
<td>6%</td>
<td>31%</td>
<td>63%</td>
</tr>
<tr>
<td>Process automation - basic and enhanced RPA</td>
<td>37%</td>
<td>31%</td>
<td>63%</td>
</tr>
<tr>
<td>New talent to support emerging business needs</td>
<td>6%</td>
<td>44%</td>
<td>50%</td>
</tr>
<tr>
<td>Cognitive automation including AI &amp; machine learning</td>
<td>6%</td>
<td>50%</td>
<td>44%</td>
</tr>
<tr>
<td>Enterprise-wide governance, risk and compliance</td>
<td>12%</td>
<td>44%</td>
<td>44%</td>
</tr>
<tr>
<td>Change management capabilities and resources</td>
<td>6%</td>
<td>56%</td>
<td>38%</td>
</tr>
<tr>
<td>Third party advisory and services</td>
<td>18%</td>
<td>44%</td>
<td>38%</td>
</tr>
<tr>
<td>Third party outsourcing services</td>
<td>31%</td>
<td>31%</td>
<td>38%</td>
</tr>
<tr>
<td>Mobility</td>
<td>13%</td>
<td>56%</td>
<td>31%</td>
</tr>
<tr>
<td>Digital Global Business Services (GBS)</td>
<td>13%</td>
<td>56%</td>
<td>31%</td>
</tr>
<tr>
<td>Non-cloud IT enterprise software</td>
<td>13%</td>
<td>56%</td>
<td>31%</td>
</tr>
</tbody>
</table>
The future is in the cloud

The new normal
Cloud technology and cloud services has been with us for a long time. As identified by KPMG and other industry specialist, the importance of cloud computing and service offerings in the cloud has steadily increased over the years. Today, cloud services are a productive delivery model. This is reflected in this year’s Pulse Survey, where the cloud permeates most of the challenges and priorities identified.

Looking at the investment priorities, we see that 55% of service providers and 63% of Nordic advisors expect an increase in investment in cloud services, now a diverse and feature-rich eco-system of providers and solutions. At the same time, it is expected a respectively 51% and 63% decrease in investments related to traditional on-premise solutions. This sends an important signal that every organisation must now take the new normal into account when designing their services of tomorrow.
Challenges with cloud adoption

The transition to cloud is not without friction. In an interconnected and complex world, there is a strong need to strengthen the security measures to protect your increasingly valuable data and operations. We see strong expectations of increased investments in cyber security (59% expects an increase). New regulations with regards to personal data protection (GDPR), national security concerns and the threat by hacktivism, advanced persistent threats and incidents like Wannacry all point in the direction that cyber security will be an integral part of the move to, or use of, the cloud.

Cloud services is the new normal, but not yet the new “best-practice” – its adaptation is not straight forward. The last three Pulse Surveys have identified operating model, legacy IT-solutions, skill shortages and governance as the key challenges to succeed with the organisations’ initiatives. These challenges are most likely connected with cloud adoption and capitalising on the opportunities that is enabled by this transition. How do you manage and govern this new addition? Who has the skillset to enable and design cloud solution? What technologies and services can replace our legacy systems? Where must my data be located and how can this be controlled? These are all questions that must be ironed out and clarified before a new best practise is developed.

Will organisations invest more in cloud computing in 2018?

Advisors: 63%
Service providers: 55%
A hybrid interim solution

The Economist compared the opportunities of new cloud services and platforms to the Cambrian explosion (Economist; A Cambrian moment). There is a plethora of organisations that are born in and by the cloud that challenge all incumbents with their legacy systems and vested interest. And there is the FAMGA (Facebook, Apple, Microsoft, Google, Amazon) who challenge many organisations with their massive resources and digital disruption.

To continue their adaption to a future where the cloud is the new normal and meet the challenges by the new cloud born organisations and giants, KPMG recommends that all organisations should develop a coherent strategy for cloud migration, a realistic plan for cloud adoption and executing the necessary steps in realising this plan. For the foreseeable future, this involves an hybrid solution with multiple technologies, providers and operations. KPMG has developed a cloud decision framework that increases the likelihood of achieving success.

KPMG Cloud decision framework

How to enable the business strategy, lower cost, increase agility and transaction growth

How to organise our facilities, technology selection, data and applications to be responsive, flexible, stable and operationally efficient?

Capacity and economics

What capacity is needed to meet future demand (across production, development and DR)? How to maximise return on investment of time and money?

Risk, legal and compliance

What are the risks and how to we mitigate and manage them? How do we know we are compliant with all laws, regulations and contractual obligations?

People impact

What new skills do our people need and what is the impact on staffing and organisation?

Security

Is our information safe and protected from unauthorised access?

Who would we partner with?
KPMG are working with clients to enable them to think about all aspects of their cloud sourcing strategy. Not just the service providers and technical offerings but the entire way in which they approach cloud, covering contracting, supplier selection and organisational design. The key to a successful hybrid model is finding outsourcing partners that are tightly aligned with your core values and goals, and who will work to match those goals with the best combination of resources. This robust approach to supplier selection combined with designing a flexible and adaptable IT organisation, will allow organisations to successfully operate hybrid cloud sourcing models.

### Top 5 challenges in 2018

- **Operating model**: 65%
- **Legacy systems**: 60%
- **Lack of skill**: 57%
- **Governance capabilities**: 46%
- **Management capabilities**: 42%

### KPMG Cloud decision framework

- **Non-cloud IT enterprise software**: 64%, 11%
- **Cloud computing**: 51%, 3%
- **Cyber security**: 59%, 3%

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07/ Co-existence of automation and outsourcing

Automation continues to be top priority
In last year’s Pulse Survey, we predicted that 2017 would be the year where Robotics Process Automation (RPA) moved from proof of concepts to full mobilisations across the organisations. This prediction appears to be true, as RPA now is a natural part of delivery – it has moved beyond the hype. Automation will remain the number one most important initiative for delivery model improvements in 2018; both our senior advisors and service provider executives expect automation to be the top investment priority. However, the focus on automation has also raised questions on how to optimise the delivery model. This can be seen both through indications from service providers and advisors that some processes are brought back in-house, and by providers’ pipeline projections being lower than previous years.
Does outsourcing service providers still have a role to play, even with the entrance of process automation?

Our point of view: outsourcing is here to stay, but its delivery model will change. Outsourcing will be an important component for most organisations’ delivery models also in the future, given that the delivery models are adapting to the new digital and technological environment.

Service providers who believe that labour arbitrage is the key to success, will most likely disappear even though they might still have time to evaluate and correct their miscalculation. While service providers that have embraced automation and believe that they can add value to their clients by helping them to transform, will have a bright future. In fact, the outsourcing delivery model will most likely get much more acceptance by the wider public, when focus is shifted from moving jobs off-shore, to utilising the latest technology.

What are the key reasons for why outsourcing will remain relevant in an “automated world”?

- **Investment and capability needs**
  Automation requires focused efforts, and investment in capabilities. Some organisations have the bandwidth to drive this internally, while others will benefit from having an external partner executing and automating processes. Even if there is a clear mandate and intention to automate internally, it can be challenging to maintain focus and balancing multiple priorities in today’s rapid business environment. Having a service provider focusing on your behalf can be very helpful.
  
  **Advice:** To achieve this, it is critical to have an outsourcing relationship, governance and contract which puts strong emphasis on the use of automation.

- **Changing technology**
  The automation technologies available in the market today might not be here tomorrow. Hence, there will be new capabilities required to handle emerging technologies. Many organisations do not have sufficient scale and capacity to continuously stay on top of the latest and greatest, and to build capabilities at the required speed. Accordingly, using a service provider can be a good solution.
  
  **Advice:** It is critical to select a provider who is agile, and have deep understanding of the technology landscape, as you otherwise will run the risk of being stuck with old proprietary technology, which is obsolete already before you start using it.

- **Latest practices – learn from others**
  It is not sufficient to be on top of technology and capabilities; there needs to be a continuous drive for identifying new processes to automate, and to do it in the best possible way. Outsourcing providers are working with similar processes across a number of different clients, and can continuously learn and replicate latest practices and ideas. In addition, they can help you kick-start automation in new process areas, by utilising their “automation libraries”.
  
  **Advice:** This requires a delivery model including governance on the provider side, where silos are torn down, and automation is relentlessly driven across client teams and industries. It also requires relationship, governance and a contract that incentivises continuous and radical transformation on both sides.
Leveraging providers to drive automation required delivery model to transform

Leveraging outsourcing service providers to drive automation will require different collaboration models than the classical labour offshoring. This includes adjusting commercial regimes, incentive models, performance reporting, and governance frameworks. It will neither excuse the clients from ignoring automation nor believing that the provider will take care of it completely.

Automation in different forms and shapes – from basic RPA to more advanced cognitive solutions – is rapidly spreading, and will soon permeate all organisations’ business models, and cannot be isolated to individual processes or functions handled by a third party. So investing in automation is a must; no matter whether done independently or together with an outsourcing service provider.

Is the market trend a hype or reality?

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<th>Nordics</th>
<th>Global</th>
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<tbody>
<tr>
<td>Functional blockchain initiatives - beyond financial services</td>
<td>1.9</td>
<td>1.8</td>
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<tr>
<td>AI as a service</td>
<td>1.9</td>
<td>2.1</td>
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<tr>
<td>Functional AI initiatives</td>
<td>2.3</td>
<td>2.3</td>
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<tr>
<td>Use of AI to radically change core activities</td>
<td>2.4</td>
<td>2.1</td>
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<tr>
<td>Functional blockchain initiatives - financial services specific</td>
<td>2.4</td>
<td>2.3</td>
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<tr>
<td>Clear understanding of the market impact of automation</td>
<td>2.7</td>
<td>2.6</td>
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<tr>
<td>Appropriate contingency plans in event of major disruptive event</td>
<td>3.0</td>
<td>2.8</td>
</tr>
<tr>
<td>BPO and ITO services being brought back in-house</td>
<td>3.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Updated talent management strategy</td>
<td>3.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Offshore BPO and ITO services being brought back onshore</td>
<td>3.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Solid cybersecurity strategy and operational plans</td>
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<td>Functional RPA initiatives</td>
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<tr>
<td>Data and analytics delivers meaningful business value</td>
<td>3.6</td>
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<tr>
<td>Realistic plans to exploit e-commerce activities</td>
<td>4.0</td>
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</tbody>
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Please note:
1=Significant hype (more talk than action)
3=Hype moving to reality
5=It’s for real today (more action than talk)

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Automation in different forms and shapes – from basic RPA to more advanced cognitive solutions – is rapidly spreading, and will soon permeate all organisations’ business models, and cannot be isolated to individual processes or functions handled by a third party.
08/ Authors

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Geir Alexander is Director in KPMG Digital in Norway, and is responsible for the shared services and outsourcing offerings. He is working with organisations on strategic sourcing and target operating model transformation initiatives. Geir Alexander has in-depth insights into the sourcing and service provider market through hands-on experience from working with many of the large service providers.

Christian Lie
Christian Lie is a part of the Digital Transformation team in KPMG Digital in Norway providing client services within sourcing, governance, vendor and contract management. Prior to joining KPMG, he worked with strategic and global sourcing projects, vendor and contract management within ITO and BPO services. Christian has operational experience from IT operations management mainly in different telecom companies.

Joakim Abeleen
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 Nordic sourcing market, and regularly speaks to GBS leaders about their plans, ambitions and challenges.

Morten H. Svendsen
Morten is a member of the Digital Transformation team in KPMG Digital in Norway. With a background as a certified project manager, he has through the last 18 years led numerous large IT services development projects, ERP, migration, and sourcing projects. He is currently leading a sourcing project at one of Norway’s largest financial institutions.
09/ Methodology and service providers

The Nordic Shared Services and Outsourcing Pulse Survey is a part of KPMG’s global research programme, 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 2017 and January 2018.

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 and 2017 Nordic Pulse Survey has been used.

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