KPMG

IT OUTSOURCING

BeNeLux: The radical new world of outsourcing for technology-related services

KPMG IT Outsourcing Service Provider Performance & Satisfaction Study 2014/15

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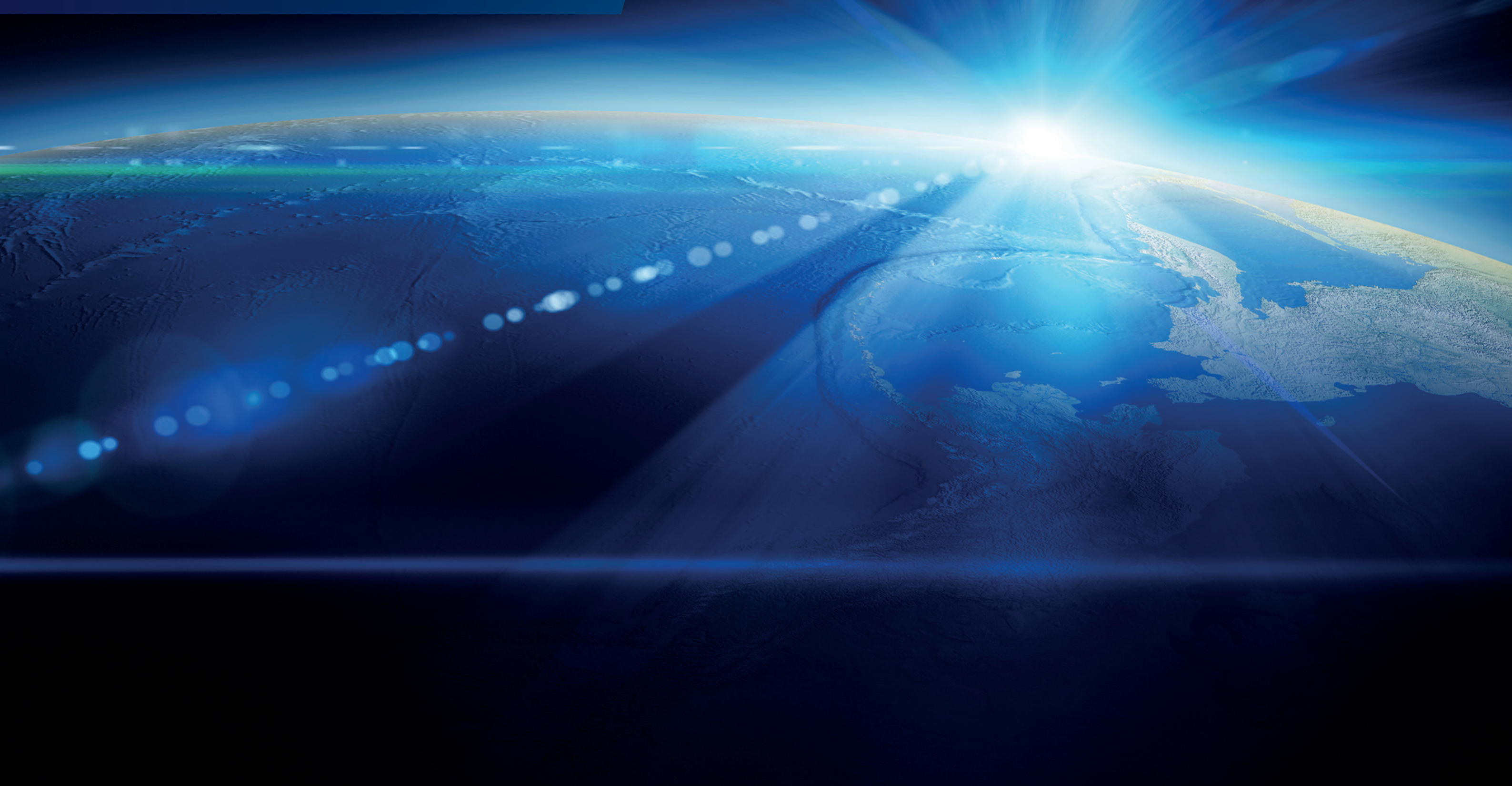

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"...20 years ago, few would have expected an "online retailer" like Amazon to appear as a service provider in a study like this."

Foreword

by Kees Stigter

How do you know you are working with the right service providers to help your business achieve its long-term strategic goals? How can you get better value from your existing vendors? And what does the evolving model of outsourcing mean for the way your organization manages its core business processes?

If you are a CIO, you will of course be familiar with questions like these, though you may be unsure of the answers. But, in my mind, technology has become such an integral part of business that these questions should be just as relevant to you whether you are a CEO, a COO, or a senior manager anywhere else in the organization. In this report, which builds on our established series of Information Technology (IT) Service Provider Performance and Satisfaction Studies, we aim to shed light on some of the answers. Not by simply presenting the data, but more by focusing on providing insight, expert opinion, and actionable advice based on the data.

This year's BeNeLux study investigates over 110 outsourcing contracts held by 65 clients of outsourcing service providers. The total annual value of the contracts included in this study is over 1.35 billion. All commercial sectors are represented in the study, as is the public sector, including both central and local government organizations.

The report is based on the global Service Provider Performance and Satisfaction Studies, released earlier this year, and now tailored to the BeNeLux market. This means purposefully taking a very forward-looking view with the extensive hands-on experience of our KPMG advisors from across our global network of member firms.

We have also drawn on our deep background knowledge of European and other regional markets, and our over eight years of researching on previous reports, to paint a picture of what the future of outsourcing might look like three to five years from now.

Our 2014/15 report gives you:

- A clear view of the market's direction– the evolving trends in IT outsourcing and what these mean for your business today and in the near future. The BeNeLux survey responses are also put in perspective and contrasted with the global results.
- A breakdown of service provider performance – who are the leaders and laggards among the traditional legacy providers and the evolving crop of specialist players? Which of these – or which combination of these – are best placed to support your business?

We believe that the IT services market is changing rapidly and is likely to be unrecognizable in just a few years' time. I am of the view that one of the principal drivers of this change is a shift in the mindset of business. More companies identify themselves first and foremost as technology businesses. Where a business would have once described itself as an e-commerce company, or as a telecommunications provider, today it might instead see its main business purely as technology. How it uses that technology to deliver a service or product depends on where there is opportunity for growth at that time.

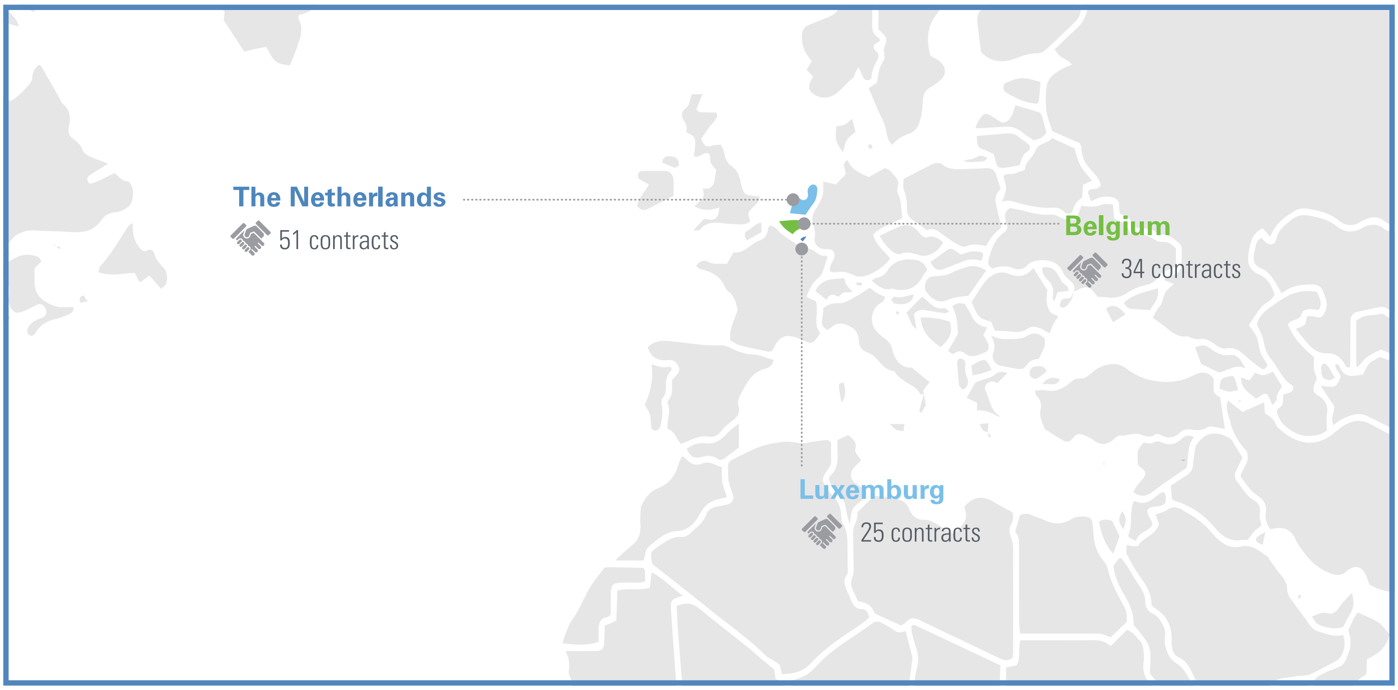
Because of this, we will see a new wave of service providers entering the market in the next few years. This will mean increasing choice and opportunity – as well as greater complexity – for organizations. KPMG, through its outsourcing advisory services, will play a new role in bridging the gap between business and technology for its clients. To make technology work effectively with business, you need someone who understands both the technology and the business processes it supports in order to "knit it together" – and that is where the advisor should be expected to add value in the future.

If you would like deeper insight into the research, we would be happy to talk to you and provide more detail.

I would also like to offer my sincere thanks to the senior IT executives and service providers who participated in the study and I hope they choose to participate again next year, when we will be in the exciting position of being able to compare and contrast data over time, detecting trends as they emerge in the BeNeLux market.

Introduction

How to approach the 2014/15 report



Overview of the research

Our 2014 survey covers 110 contracts held by 65 clients of outsourcing Service providers. The total annual value of these contracts is over 1.35 billion euros.

Our survey collated responses from client organizations across Belgium, The Netherlands, and Luxembourg, and covered all commercial sectors, including both central and local governments. It comprised senior buyers and key outsourcing decision makers, such as CXOs and their direct reports.

How you should read and interpret this study

As you read this report, you should bear the following factors in mind:

This is a forward-looking perception study.

- This study focuses on the perceived quality of relationships between clients and IT outsourcing service providers. It does not seek to establish anything as absolute fact, but to report on the perceptions of key decision-makers regarding the services supplied by service providers.
- KPMG conducts the market research, but the findings represent the opinions of the clients of the service providers, and the respondents from the service providers themselves.
- KPMG member firm advisors draw on the market research as well as their own experiences to compile the Market Insights section of the report. This section provides opinion on emerging themes and their implications for clients, but does not comment on the individual performance of service providers. Indeed, this study does not at any point represent the opinion of any KPMG member firms on the skills, capabilities or performance of any of the outsourcing service providers covered in the research.
- KPMG is responsible for defining the profile of the outsourcing contracts and the participating buyer organizations, as well as the classification of service providers that are evaluated in this research.

The rankings are only based on the opinions of outsourcing clients

The rankings are solely based on the feedback received from clients polled in the market study and not on any market metrics such as deals won, revenue, profitability or growth levels. Neither are they based on the opinions of any KPMG member firms, management, or consultants.

To ensure we get the most pertinent opinions on the market, we conduct the study with senior management or C-level executives with influence over corporate strategy and third-party services decisions. We believe all are responsible for their organization's outsourcing strategy. This means they decide on or greatly influence budgets, and are the influencers of decisions related to service provider choice.

The study has a representative sample size, although perceptions are – by their nature – subjective

The service providers analyzed in the study vary by size, service portfolio, and client portfolio.

As the market has changed significantly since our first research into this area, this year we have grouped service providers under a series of classifications that we believe best represent the market as it is constituted today.

Participants in the study are asked to rate their outsourcing service providers on a selection of key criteria. Crucially, they only rate service providers that are currently actively delivering services to their organizations.

Participation in the study is on the basis of strict confidentiality. In line with this, the absolute privacy of the respondents is guaranteed, and the research process ensures anonymous use of all aggregate data, information and comments. Performance ratings and rankings in this study are not related to the actual measurement of deliverables and/or services, but rather reflect the perception of the respondents on these achievements.

A minimum sample size of participant evaluations is required for a service provider to be included in the study and participants are required to be of a similar level of seniority.

Service providers 2014: classifications used in our study

Specialists
providers that focus on providing one particular service or product, or with a specific sector or regional focus.

Cloud
providers of Software as a Service (Saas), Infrastructure as a Service (IaaS) and Platform as a Service (PaaS).

Portfolio
legacy providers of traditional IT outsourcing who have a multi-category delivery capability. Note, this classification also comprises 'heritage Indian' players.

Networks & Telecoms (Telcos)
telecommunications providers whose role now extends beyond their traditional remit of infrastructure storage.

This study is aimed at the BeNeLux IT outsourcing market

The study focuses specifically on the BeNeLux market and draws from the global report that was launched earlier this year.

It is written with the needs, concerns and expectations of the global outsourcing market in mind.

The commentary throughout is largely written from the perspective of the client organization and provides direct advice to businesses around how they can find the right outsourcing solution and manage their service providers effectively.

Client organizations that participate in the survey can use the results as a tool to compare their own satisfaction to that of others using the same service providers. The results also give clients an opportunity to understand the perceived strengths and weaknesses of their service providers in comparison to the market at large.

At the same time, however, the results of the study may still be used by service providers to inform their "go-to-market" strategies, assess their perceived strengths and weaknesses, educate their staff, communicate to the wider market, and fine-tune their improvement and market positioning programs.

Management summary

The new world of technology outsourcing

In this section, we introduce some of the key findings from our research to show the "big picture" of IT outsourcing in today's market. We will outline where the market is heading and what its direction of travel means for the clients of outsourcing service providers.

What the data shows is a market in which technology plays an increasingly instrumental role in business. In this environment, to deliver the services that their internal clients need to realize strategic growth plans, IT departments are leveraging a proliferating mix of Specialist, Cloud, portfolio, and Telco service providers.

As the market responds to these drivers, our findings indicate that we are entering a radical new world of outsourcing – one defined by changing ambitions, new priorities and a different set of challenges.

In essence, CIOs should accept that a more complex, changeable yet ultimately more opportune market is quickly replacing the one they know and understand.

These changes are already visible, but we expect them to grow in momentum and have far-reaching consequences for clients within the next five years. We introduce the key themes below and explore their implications – discussing how clients should prepare to respond – in greater detail in the Market Insights section of this report.

New priorities in a time of growth

As the global economy picks up speed, companies are focused on growth and are preparing to invest the "war chests" they have been holding onto during recent years. Our view is that these investments will be made in business transformation with IT acting as a key enabler – whether delivered in-house or through outsourcing. This changes the value proposition for outsourcing, shifting the emphasis from cutting costs toward delivering value-adding services and innovations.

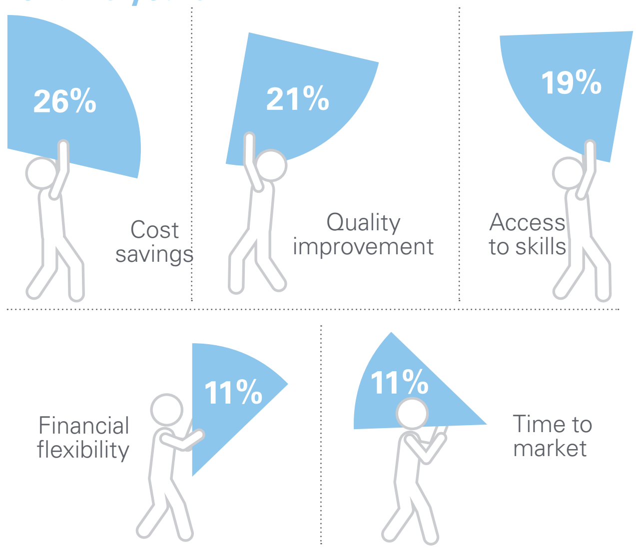
The data shows how this change is taking place across the global market. We are seeing a shift from cost being the biggest challenge for IT functions to:

- Improving quality (BeNeLux 14%, Global 21%)
- Access to knowledge and skills (BeNeLux 14%, Global 19%) and
- A shorter 'go-to-market' time for new services (BeNeLux 3%, Global 11%).
- Financial flexibility (BeNeLux 4%, Global 11%)

Other objectives that came out through the BeNeLux survey that have a significant and positive impact on IT Outsourcing are: Process Standardization (15%) and Service Flexibility (16%).

Whilst cost will always remain a 'hygiene factor' for outsourcing, clients are now looking to achieve more than just cost savings to enable them to better serve their business. The worldwide trend is that IT outsourcing is gaining in maturity, and in addition to cost savings is also about value creation. It is striking though that the BeNeLux market is still lagging behind.

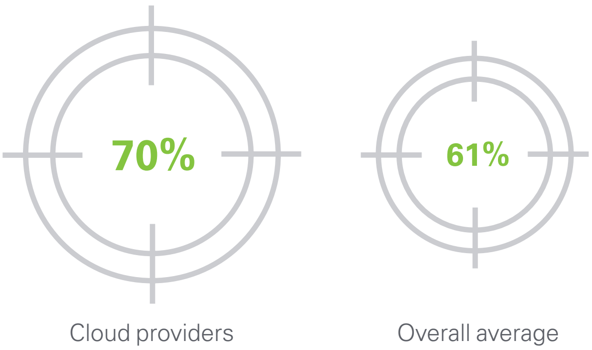
Rationale for IT outsourcing plans for next 2-3 years



Tough choices in a fluctuating market

Today's IT outsourcing industry is in a state of flux. We are seeing greater innovation, agility, and pace from newer Cloud and Specialist providers. As seen in the international study, Cloud providers' innovation score is significantly above the overall average:

Innovation score



As clients become used to the flexibility and adaptability of these firms, how will portfolio providers – which have traditionally offered bespoke software and systems integration – adapt their offerings to grow and maintain their customer base? At the same time, how should clients work with the Telco companies that are finding their feet in a market in which their ownership of the underlying infrastructure gives them a competitive advantage?

As clients seek the right mix of service providers for their business strategy, we believe they should ensure that the arrangement makes commercial sense for the service provider as well as for themselves. By focusing on creating strategic partnerships, and being candid about what level of support they will require during the course of the relationship, they will ultimately receive better value from the service provider.

The journey from centralization toward Global Business Services

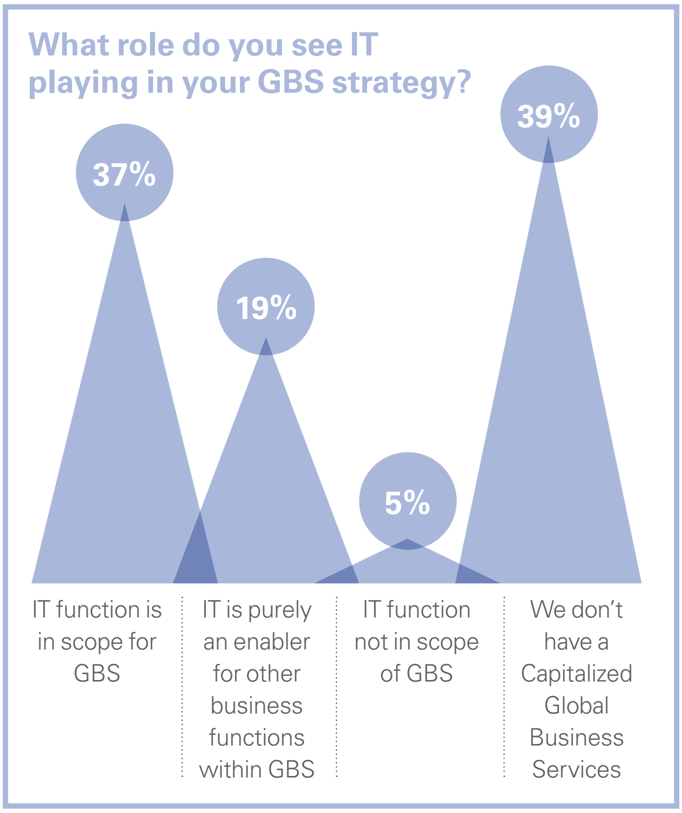
For many years, the priority for large businesses was to reduce cost and focus on centralizing their IT services until all IT functions were controlled by a single, central organization. And indeed, 65% of our respondents have a centralized global IT function. For the BeNeLux region however, this stands at a slightly lower 52%. Driven by the economic downturn and a focus on back-office optimization, the centralization agenda demonstrated that IT was often seen as an overhead rather than an investment in strategic business enablement.

Today, while many are still in the process of centralizing their IT operations, the most mature companies in our survey are moving to a Global Business Services (GBS) model (see call-out box) at 14% in the Americas and 8% in EMEA. It helps to show how IT is becoming instrumental in enabling an enterprise-wide business services organization that encompasses finance, HR, and sales, as well as the IT function itself. Over a third (BeNeLux 37%, Global 34%) of clients said that the IT function is in scope for GBS and more than a fifth (BeNeLux 20%, Global 22%) said that IT is an enabler for other business functions within GBS. In addition, 26% of clients in the BeNeLux said they are likely to increasingly operate IT as part of GBS within the next two to three years, which is in line with the global results, which was 24%.

Global Business Services

By introducing a Global Business Services (GBS) model, organizations attempt to transform back-office and some front-office processes into an efficient enterprise-wide delivery platform that drives business value. A GBS may include:

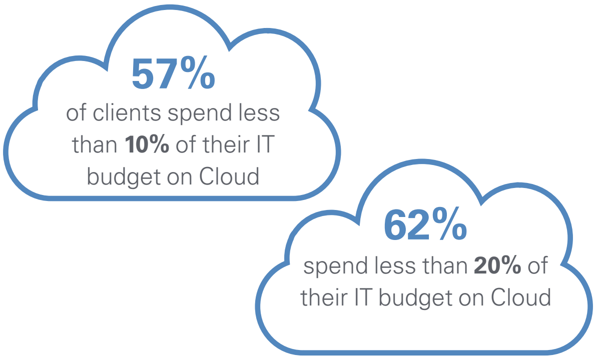
- Multi-functional business processes
- Common information technology
- Multi-channel service delivery – outsourced, shared services and centers of excellence
- Process ownership and management
- Enterprise-wide governance



As GBS models rely on a multi-vendor "ecosystem" of Service providers – incorporating Specialist, Cloud, and portfolio players as required by different business services – organizations' outsourcing requirements will shift. clients will need to think about restructuring their vendors – "reshuffling the deck" – to create the right mix of technology specialists and infrastructure providers. At the same time, we see businesses preparing to outsource less than service providers think.

The underutilized cloud

Cloud technologies – by which, in the context of this report, we mean Software as a Service (SaaS), Infrastructure as a Service (IaaS) and Platform as a Service (PaaS) – present a range of cost-saving opportunities for clients. Cloud will also play a critical role in the move towards GBS, and is an enabler of business change, so we would expect it to grow in popularity and consumption over time. In our survey, however, the majority of clients (57% BeNeLux, 60% Global) spend less than 10% of their IT spend on Cloud, and nearly three quarters (62% BeNeLux, 71% Global) spend less than 20% of their IT budget on Cloud, suggesting that adoption remains sluggish despite the benefits to be gained.



In our opinion, the main barriers to Cloud could be managed relatively easily through effective governance and a judicious approach to deciding what should and what should not be hosted on Cloud. While concern about the security risks surrounding new technology is understandable – and not helped by unfavorable media coverage – it may be disproportionate for Cloud solutions today. In and of itself, we believe Cloud technology is as safe as other outsourcing solutions.

Governance – the problem child

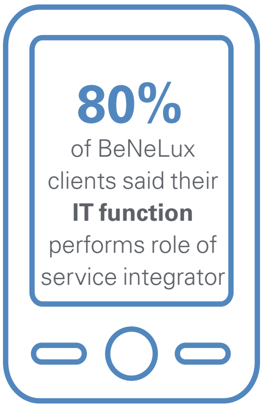
As IT forms an inseparable part of the wider business strategy, technology decisions are now rarely left to the CIO alone. This change is even more pronounced in the companies that have adopted Cloud technology. For example, in today's world, the CHRO will make the decision to buy a cloud solution like Workday, while the CMO will be the one to invest in cloud solutions such as Salesforce. The "power of choice" is an exciting development, but many companies have found themselves facing governance and integration challenges as a result.

> In our view, clients should dedicate a greater level of investment to governance than they have in the past.

A number of related issues also come to light as clients start working with multiple vendors. As they were used to working with a single service provider, or a limited number of vendors, in the past, they must now adapt to more complex arrangements. As they do so, the way they manage services, relationships and contracts becomes increasingly important.

Worryingly, however, our findings show inconsistencies in how businesses are approaching integration and governance. Within the BeNeLux, the majority (80%) said that their IT function currently performs the role of Service Integrator, which is higher than the global statistics (75%). In the BeNeLux, more than half of the respondents (63%) expect to make no change to the outsourcing of their Service Integration and Management (SIAM) in the future, and 22% of BeNeLux clients (33% Global) are either already starting the process of outsourcing SIAM or considering the feasibility of doing so.

In our view, clients should dedicate a greater level of investment to governance than they have in the past. As they move toward more complex delivery models, poor governance can impact their ability to provide quality end-to-end services, increasing risks around cost, service quality, and service delivery. At present, the firms that are most ineffective at governance are often those that underinvest in developing a competency that is equipped to deal with an increasingly complex sourcing environment and can develop good relationships with service providers. Part of this comes down to how clients approach Service Integration and Management (SIAM), including deciding which services to outsource and which to keep in-house.



Time to challenge what you thought you knew

We feel that clients should question their assumptions, conventions, and ways of operating, especially around their policies on Cloud technologies. They should reconsider what they should or should not outsource, and review who is best placed to deliver the services they need to realize their wider business strategy.

Below you'll find some information on the myths and realities of IT outsourcing and what it can mean for clients.

Myth	Reality	What this can mean for clients
The risk of an information breach outweighs the benefits of moving infrastructure to the Cloud.	From a technological standpoint, your data is as safe in the Cloud as on physical servers in your building.	Cloud should be seen as a viable option for some non-core data as it promises significant benefits.
The public sector should keep its IT services onshore to support the domestic economy.	Political sensitivities around outsourcing do not necessarily represent the best value for money for the taxpayer.	Public sector organizations should ask whether cost-cutting and access to world-class expertise outweigh the political pressure not to outsource.
India is a "spent force" in the IT outsourcing market and a better partner can be found elsewhere.	The prices may have gone up, but India still represents the best return on investment for clients today.	India remains the first place to look when considering offshore options.

Building a successful outsourcing relationship

For businesses in mature technology markets, such as that of the BeNeLux (and all of EMEA) and North America, the changes outlined here are already visible and have an impact on the companies' sourcing activity. For others, these changes will become more pronounced over the next three to five years.

The primary message to take from this study is that businesses should question all the assumptions they have made in the past about why, how, and what to outsource.

This will, of course, mean different things for different firms. There are, however, several key principles that, based on the results of the study, we would recommend businesses take on-board today:

Align IT to business need

Your IT function needs to be geared around realizing your business strategy. This means asking whether your business would benefit from adopting Cloud technologies to improve internal processes. Or alternatively, if it would benefit through the use of analytics to generate insight from customer data, and then realigning to meet these needs. If you used a legacy portfolio player to provide all of your IT outsourcing in the past, now may be the time to consider how new Specialist players can add value as part of a mix of smaller vendors.

Think long-term

Where appropriate, your organization needs to work with service providers strategic – rather than a transactional – footing. In doing so, you will receive better value from service providers that are themselves trying to adjust and remain profitable in a changing and unpredictable market.

This means thinking long-term about your business transformation and who is best equipped to provide the wide-ranging support you need. This decision should be based on industry and sector knowledge and capabilities from a business process and IT perspective.

Reshuffle and up-skill

If you are in the process of moving to GBS, you should consider "reshuffling the deck" of your service providers so that their areas of expertise are in alignment with what you need from a business process perspective. Reshuffling and aligning service providers to GBS and business processes also means that service and system integration can be simplified.

At the same time, you should also review the new skills you will need in-house relating to configuration and integration.

Master the governance challenge

A poor or underfunded approach to governance will undo all the many benefits of outsourcing. You need to decide what governance and integration you require as well as which governance you should keep in-house and what you should outsource.

Furthermore, as IT is increasingly seen as a business enabler, it is worth considering how effective governance of cost, performance, quality, and compliance of outsourced services translates directly into business performance, and could even provide a competitive advantage.

Market insights

New priorities in a time of growth

Despite ongoing uncertainty in several regions, the global economy is improving. For the first time since the outbreak of the financial crisis, the focus of the G20 summit was on driving and enabling growth rather than on seeking to fix the problems caused by economic volatility. In 2015, global growth – albeit relatively modest – is expected to hold[2].

In this climate, many companies are preparing to invest the "war chests" that they resisted spending during years of financial uncertainty. Much of this investment is expected to be substantial. According to Moody's Investment Services[3], US companies are holding US$1.64 trillion on their balance sheets. Inevitably, a significant proportion of this investment will be dedicated to business-enabling technology and to transformation activities that drive growth. In turn, this will put pressure on the CIO to play an ever more important role in helping to realize the wider business strategy.

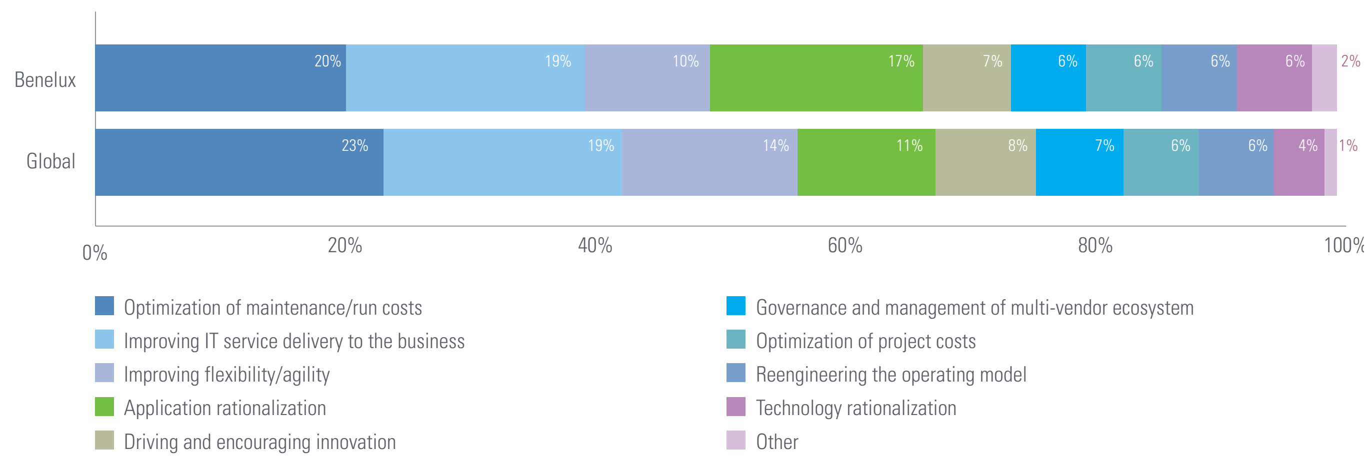
As the data generated by our survey shows, CIOs are increasingly using outsourcing as a way to improve service delivery and meet the business' growing expectations for more strategic IT support.

The service delivery mindset

One of the biggest indications of this change is a shift in mindset – away from seeing IT as a way to reduce costs, and towards seeing it as a way to improve service delivery. This is consistent with an outsourcing market that is evolving to offer greater choice and flexibility to clients.

While cost reduction was still considered important – with 20% (Global 23%) seeing it as a top challenge for IT functions today – 29% (Global 33%) saw enhancing service delivery or improving flexibility as the biggest challenges. At 17% (Global 11%), application rationalization is another big challenge in the BeNeLux area.

What are the top 3 challenges faced by your IT function today?

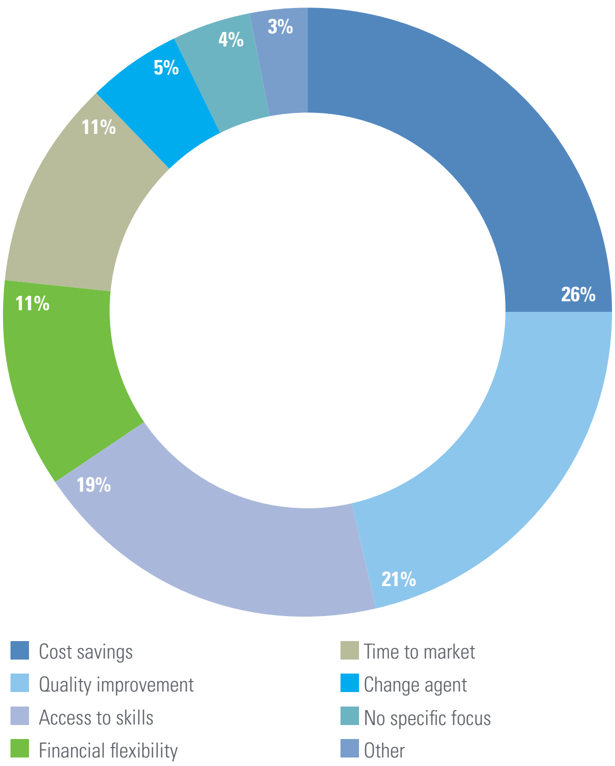


Source: KPMG International, February 2015

2 The Conference Board Global Economic Outlook 2015, http://www.conference-board.org/data/globaloutlook/
3 http://www.bloomberg.com/news/2014-03-31/apple-leads-u-s-companies-holding-record-1-64-trillion.html

Similarly, while cost remains the top rationale for IT outsourcing over the next two to three years, quality improvement and access to skills are becoming almost as significant.

Please explain the rationale for your organization's plans for outsourcing IT services for the next 2-3 years.



Source: KPMG International. February 2015

At the same time, it is clear that application rationalization, seen by 17% in the BeNelux as a top challenge, and innovation, seen by 8% in the BeNeLux as a top challenge, are starting to appear on the radars of IT functions. This is consistent with the drive for simplification and enablement that forms part of a business growth strategy.

These adoption trends of IT outsourcing are expected to grow in the next few years. In addition, the new mindset to help drive new integration challenges should also be anticipated. In the past, clients were often in a situation where they could leave technology orchestration to their one service provider. Now, as they work with multiple providers, the situation is more complex and clients will find it harder to bring all their services together.

Strategic relationships

More than a third (35%) of the organizations plan to not change the existing situation of their IT services. 48% said that they are probably going to outsource more or are certain to outsource more IT services for the next 2-3 years, and 23% responded to probably using offshore more in the next 2-3 years, while only 10% said they would use offshore less.

As the BeNeLux is a quite mature market, the logical next step for organizations in this market is to look for more strategic and more value-creating relationships with service providers.

What the worldwide survey indicated, however, is that there can be a mismatch in how clients and service providers see each other, with service providers not always being as strategic to the client as they think. In turn, service providers are not always clear about how they can drive revenue, as they cannot rely on their former "land and expand" approaches to building a relationship and can therefore set unrealistic price points. In KPMG member firms' view, clients could get a better deal from their service providers if they were fully open about where they stood in their growth plans from the outset.

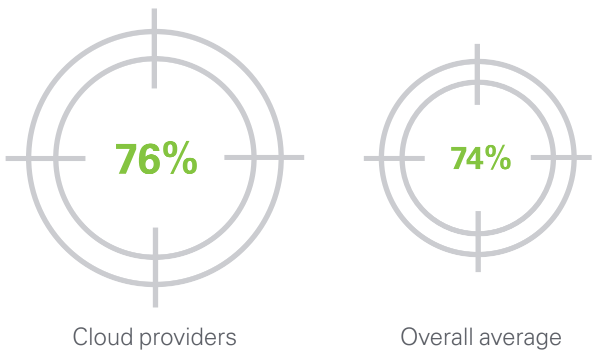
The right Service providers

As the next step in outsourcing is geared more around business delivery than cost cutting, it is telling that the service providers that are shifting their focus toward transformation and business change are the ones that are scoring some of the highest satisfaction scores. Meanwhile, the legacy portfolio players that remain focused on IT centralization and cost reduction are lagging behind.

> **73%** of public sector organizations use neither offshore or near-shore locations to deliver IT services.

Businesses' new focus on improving service to the delivery also comes through in the variety and growing number of service providers on the list. KPMG member firms are, for example, seeing a greater number of Cloud providers, which are rated well for overall satisfaction.

Satisfaction score



We are also seeing this trend in the BeNeLux, where overall satisfaction of cloud providers is at 76%, slightly higher than overall average of 74%.

How clients should respond

For all businesses, a positive change in the global economy should inevitably lead to an adjustment in strategy and a review of the new technologies and platforms that will enable the organization to realize its goals.

Companies that are still recalibrating their approach to market should make sure that their IT functions are set up to support commercial growth and are aligned with business needs. If they haven't already, they should also ensure that their outsourcing strategy reflects this approach.

As cost becomes more of a "hygiene factor" – and IT service delivery and quality take on a higher priority – clients should think of service providers as business enablers and strategic partners. This means focusing on longer-term value and ensuring that the spirit, as well as the letter, of the contract is delivered. To do so, clients need to be candid with service providers about their business goals, engaging them in a constructive discussion about how they can work together to deliver success.

It is also important that clients, as well as service providers, accept the need to "get their house in order". For service providers to be business enablers, the IT function itself must first be perceived as a strategic enabler by the business. To achieve this, the IT function needs an effective and informed workforce that is capable of acting as business partners as well as understanding how the business operates and how IT can support it.

Myth busting: the public sector and outsourcing do not mix

In the global survey, public sector organizations remained the least likely to have outsourced their IT services, with 73% neither offshoring nor near-shoring any services. It is arguable that the decision to keep IT operations in-house and on-shore is primarily driven by political pressure to create or maintain as many jobs as possible on-shore. Governments should, however, ask whether the trade-off – losing substantial cost-savings from labor arbitrage that could be reinvested elsewhere; being unable to appoint the world's most experienced and best qualified IT partners for certain specialist undertakings – ultimately represents the best value for the public. It is also worth noting that, of the public sector organizations that have outsourced, 64% said that they are satisfied or highly satisfied with the service they received – this is significantly higher than in the Enterprise sector, which is at 55%.

Tough choices in a fluctuating market

Today's IT outsourcing market is in flux, with a range of new technologies and specialist entrants disrupting the market. This presents challenges as well as opportunities for clients. While making the most of the additional choices on offer – in the form of a new wave of service providers – clients need to consider how they can get maximum value from the market's more established players.

The new wave of Service providers

In the market today, we are seeing specialist providers and Cloud players scoring higher satisfaction scores around meeting service levels and providing innovation. This is shaking up the market for established players and we would expect more Specialist and Cloud service providers to enter the market in the coming years.

As clients become used to the focus and tactical advantage afforded by such firms, how will the legacy portfolio providers – which have traditionally provided bespoke software and systems integration – respond to ensure their ongoing relevance? Companies do not, for example, need to appoint large legacy providers to configure Cloud solutions like Workday or Salesforce. The answer may be that portfolio players instead focus on offering the breadth of experience and technical understanding to calculate how these platforms will affect the client's legacy systems and business processes over time.

Another change to the market in recent years has been the growing influence of Telco companies, which have moved up the value chain as clients depend increasingly on connectivity and electronic data exchanges as part of their core business operations. This is providing the platform for these providers to expand into other complimentary services such as hosting, cloud orchestration, and even the application development and management space.

As such, Telco companies are finding their feet in a market that is new to them but in which – due to their ownership of the underlying infrastructure – they have an advantage over other providers. While some Telcos achieve lower satisfaction scores than their peers in other classifications, notably Cloud, we would expect their rankings to increase as they develop their business in the outsourcing market.

More detail about the "leaders and laggards" from each classification is available in the Buyer's Guide section of this report.

How the different geographies stack up

Despite regular commentary[4] that some of the newer emerging markets will soon overtake India, our survey demonstrates that the subcontinent remains the clear world leader in outsourcing. While rising costs and the benefits of near-shore Service providers have been given as the reasons for India's decline, it is clear that the true picture is far more complicated.

Myth busting: India is a "spent force" in the global IT outsourcing market

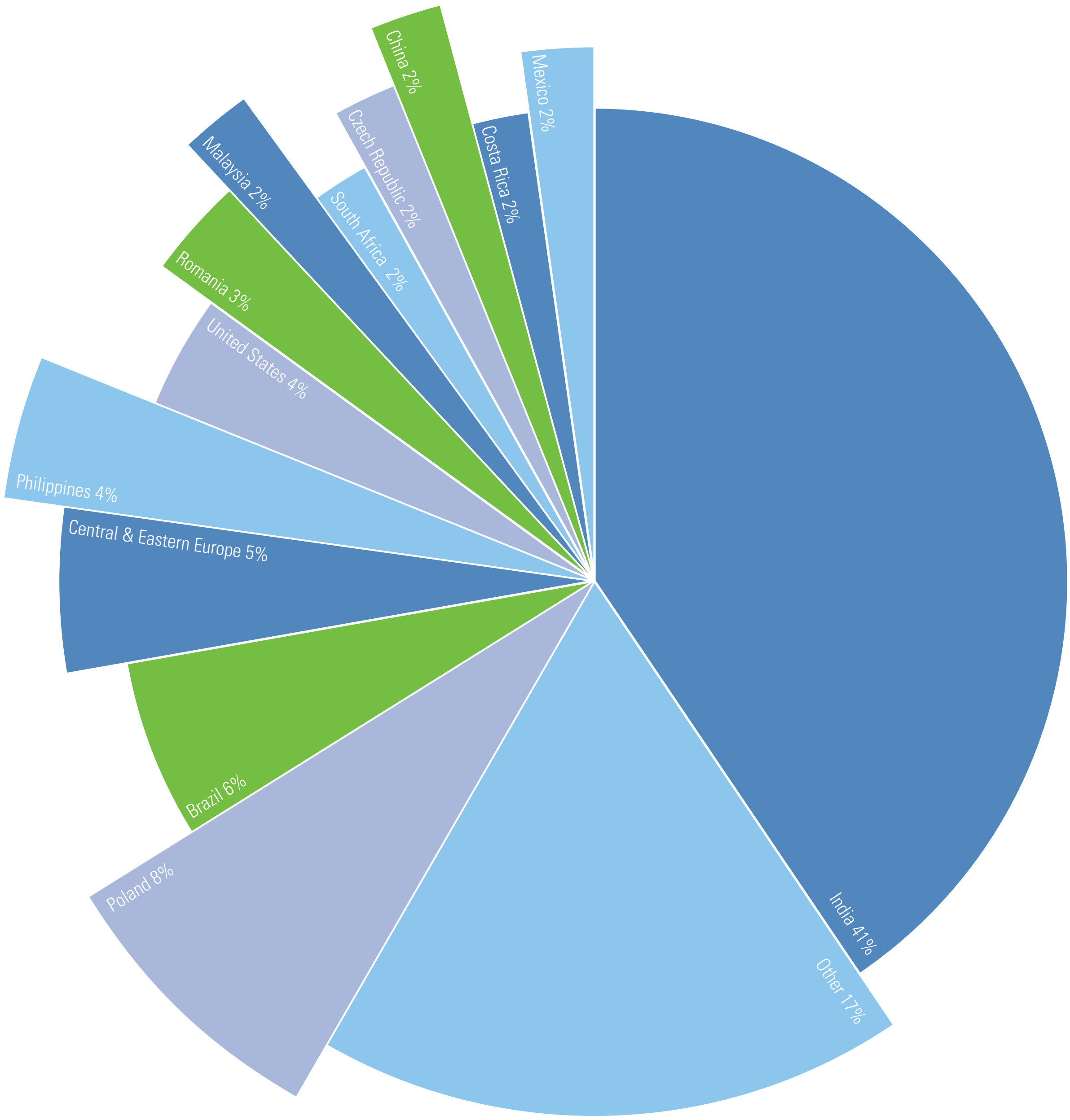
Across the market, we are seeing Indian providers winning deals from legacy European players. We believe this is because India continues to represent the best economic model, contrary to industry reports that its delivery centers are a "spent force". Labor costs may have risen in recent years, but India is still the most effective delivery location due to the country's level of investment in infrastructure and its development of a high IT skills/capability resource pool, giving employees both sector and IT knowledge. Over recent decades the country has also benefited from extensive educational investments and the development of affiliated universities in the US and UK. Rival geographies – whether in Eastern Europe or South America – cannot compete with India's level of competency and experience, which means that increasingly complex and higher value activities can be delivered effectively by off-shore teams.

Meanwhile, across KPIs, European service providers were shown to be less flexible and less successful than their Indian peers. South America and Eastern Europe are used for multi-services and language capabilities, with Poland representing the most mature market.

In our view, clients should look to reap the rewards from the massive investment made in India first, unless they have specific requirements (such as a closer time-zone or the need for regular physical contact) that can only be fulfilled by looking near- shore.

4 http://www.economist.com/news/special-report/21569571-india-no-longer-automatic-choice-it-services-and-back-office-work-turn

Which of these nearshore and / or offshore locations are currently being used for delivering IT services?



Source: KPMG International, February 2015

How clients should approach the new market

As clients try to find the right service provider, they need to think carefully how they can encourage – or incentivize – the service provider to invest in building the relationship. Only by doing so can they be sure they are receiving the best value.

In the past, when a greater number of outsourcing deals ran to hundreds of millions of dollars, service providers would invest significant amounts in building the account. While the potential for large deals in some categories in the next few years should be expected, clients today are more likely to be entering into modest-sized deals and cannot assume the same level of investment from their service providers. Clients are recommended to start building for change and introducing a new level of transparency, clearly setting out their requirements in their relationships with service providers.

It is interesting, for example, that a third (36%) of service providers think that poorly defined client requirements prevent them from winning new business. Through greater clarity, clients can identify strategic service providers in the portfolio, Cloud, and Specialist spaces and start implementing the governance and delivery models of the future.

Clients should also not overlook the value that the traditional portfolio players can provide. If clients are buying "chunks" of services or "off-the-shelf" Cloud technologies, they could still benefit from a service provider that can integrate it correctly with existing systems and make sure the client has the flexibility to adapt in the future. As mentioned above, the deep experience and expertise of a legacy portfolio provider would be valuable here. There is potentially also a greater requirement for in-depth support from advisors.

The journey toward GBS

Progression to GBS

	1990s Shared Services	2000s Multi-sourcing	since 2010s Integration (GBS)
background	• Creation of Shared Services • On-shore solutions • Emergence of outsourcing narrow capabilities	• Multifunctional • Outsourcing and offshoring becoming more mature, Indian multi-vendor	• Multifunctional integration "GBS" construct • Outsourcing and internal captive delivery centers • End-to-end process with multiple delivery channels • Enterprise Outsourcing centers of excellence
typical footprint	• Internally regional models • Transactional activities	• Right shoring, near-shore • Vendors delivering niche services • Multi-vendor deals • Centers of expertise solutions	• Integrated service delivery models combining nearshore, offshore, and outsourcing • On analytical, judgment, and expert services
focus	• Cost reduction • Initiatives not aligned to business needs	• Lack of internal alignment led to fragmentation, integration becomes an issue • Labor arbitrage	• Multifunctional, multi-channel GBS • Disruptive technologies • Talent management, global governance, global process ownership

In recent decades, businesses' principal ambitions for their IT services has been to centralize them, so that all IT functions come under the responsibility of a single IT director or CIO. Reversing the trend for distributed IT in the 1980s, centralization is driven by a desire to cut costs, improve efficiency and maintain control over new technology investments.

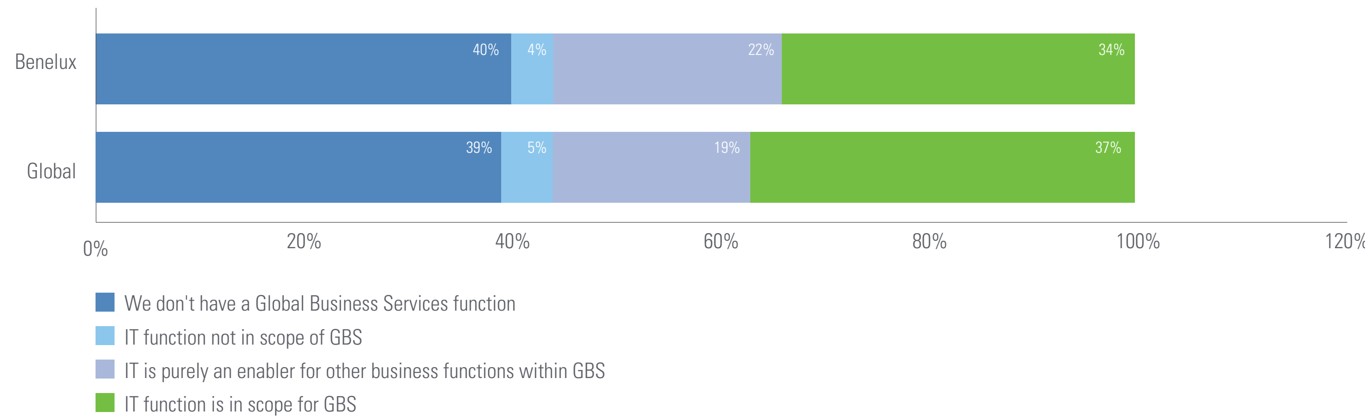
The next stage in the evolution of IT services, after centralization has been achieved, is to focus on business process enablement and alignment. The most common model for achieving this is the Global Business Services (GBS) model, which businesses implement to transform back-office and some front-office processes into an efficient enterprise-wide delivery platform that drives business value.

While IT is often managed as part of the model, the second stage of GBS is for IT to also enable the model and ensure that the business processes work cohesively. For clients, putting business processes and enabling technology together can create new challenges as the outputs for IT inevitably change to suit what the GBS model needs to operate effectively.

Accordingly, to provide the most flexible support for the stakeholders that form part of a GBS model – whether in HR, finance, or marketing – we expect GBS-enabled businesses to rely increasingly on a multi-vendor ecosystem of service providers that can fulfill a wide range of needs.

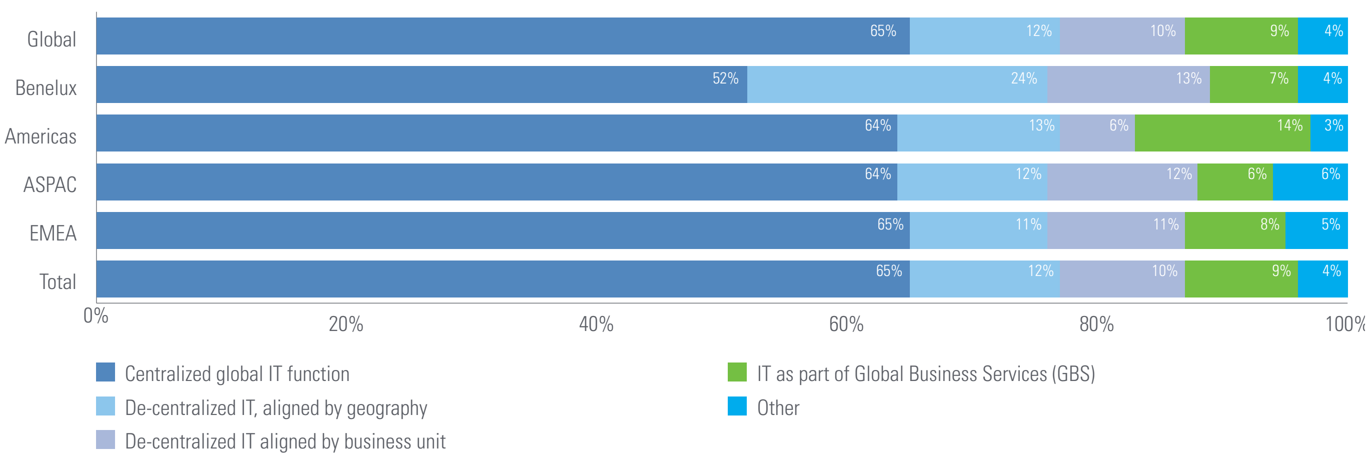
As expected, the worldwide survey demonstrated that the trend for GBS adoption is growing. Organizations in mature markets, such as EMEA and the Americas, are more likely to have successfully centralized their IT and are now moving towards implementing a GBS model. In the mature markets, sizable proportions have centralized their IT in some form or other – at 65% in EMEA (52% in the BeNeLux) and 64% in the Americas. In addition, a significant number – 14% in the Americas and 8% in EMEA (7% in the BeNeLux) – have moved to a GBS model. Across regions, while ASPAC is slightly behind, IT is increasingly being managed as part of GBS and as an enabler of GBS. Almost a quarter (24%) of all clients said they are likely to increasingly operate IT as part of GBS within the next two to three years.

What role do you see IT playing in your Global Business Services (GBS) strategy?



Source: KPMG International, February 2015

Which of the following service delivery models has your IT organization adopted?



Source: KPMG International, February 2015

Inevitably, as IT takes on an expanded role as part of GBS, there will be implications for businesses' outsourcing activities In particular, as organizations move towards GBS, we would expect them to work more with multiple vendors to provide the range of support they need. As they do so, they are also likely to review their ongoing requirements from existing providers.

What is your overall satisfaction level with your IT service providers?

	Highly Unsatisfied	Unsatisfied	Somewhat Unsatisfied	Somewhat Satisfied	Satisfied	Highly Satisfied
Americas	2%	4%	8%	18%	53%	15%
ASPAC	1%	2%	10%	21%	51%	15%
EMEA	1%	6%	12%	28%	44%	9%
Global average	1%	5%	11%	26%	47%	10%
Benelux	0%	4%	9%	29%	51%	7%

It is interesting to note the mixed satisfaction levels across regions from the survey. Clients in the more mature EMEA market seem more likely to be dissatisfied with their Service providers than those in the less mature markets.

While 68% of clients in the Americas (covering both North and South America), and 66% in ASPAC say that they are satisfied or highly satisfied with their service providers, this reduces to 53% in EMEA. This is in line with the BeNeLux results where 51% is satisfied and 7% is highly satisfied with their service providers.

This may be because they have higher expectations, and – having reaped the immediate cost savings from outsourcing – are now looking to receive more strategic benefits as part of a multi-vendor GBS model, which are inevitably harder to achieve.

Outsourcing in a GBS model

When GBS is in place, clients should consider how to align their sourcing services to support the new model. In KPMG member firms' view, this is likely to mean working with a multi-vendor ecosystem of service providers and shared services operations.

While clients usually select a single provider during the transformation process itself, once GBS is in place they should look to review their providers to get the optimal mix to support their long-term strategy. This means ensuring that specialist services are allocated to the most appropriate service provider.

If need be, clients should think about "reshuffling the deck" of vendors to create the right combination of technology specialists and infrastructure providers.

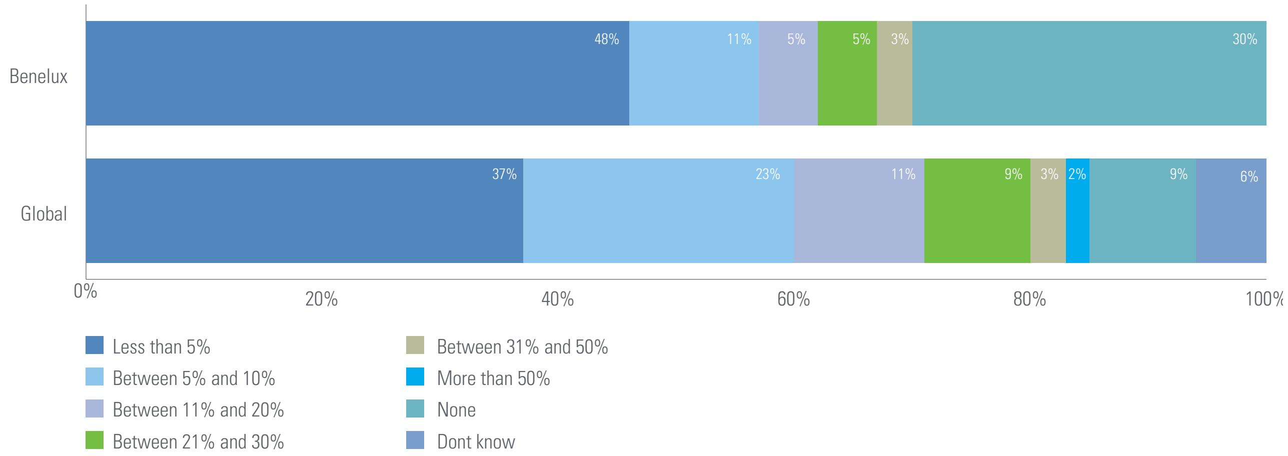
The underutilized Cloud

Cloud technologies – by which, in this report, we mean SaaS, IaaS, and PaaS – present a range of opportunities for clients.

As well as providing cost benefits, Cloud helps IT functions to enhance service delivery by improving demand management and providing access to the latest technologies. Giving individual function heads the opportunity to purchase – quickly and often relatively cheaply – the "out of a box" solutions used by the rest of the market, it can make a business' IT support more accessible. Indeed, the survey data shows that Cloud providers score highly in terms of meeting service levels.

And yet, in the survey, the signs were that adoption of Cloud remains relatively sluggish. Considering the range of technologies that fall under SaaS, IaaS, and PaaS, clients were not investing substantial proportions of their IT budgets on these technologies. In the BeNeLux, 46% spent less than 5% on Cloud, and globally 37% spent less than 5% of total IT spend on Cloud. Secondly 57% in the BeNeLux (60% Globally) spent less than 10% in total. In addition, only 2% said they were spending more than 50% of their IT spend on Cloud.

Approximately what proportion of total IT spend does your organization spend on Cloud services (including software platform and infrastructure services)?



Source: KPMG International, February 2015

> As well as providing cost benefits, Cloud helps IT functions to enhance service delivery by improving demand management and providing access to the latest technologies.

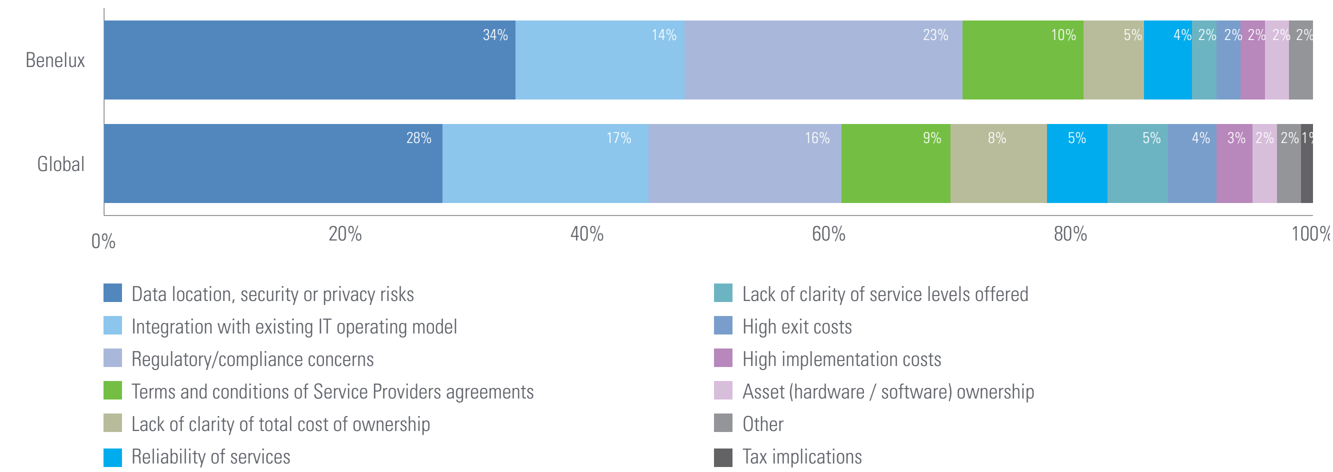
This is especially pronounced – as might be expected – in heavily regulated industries such as financial services and pharmaceuticals that have a legal obligation to keep certain data sets onshore. So why is cloud not being used more widely – and should businesses that have not embraced Cloud continue to avoid it?

The reason Cloud hasn't become a stronger force in the market is largely being driven by data security and integration fears that could, in our opinion, be managed relatively easily through effective governance. While concern about the security risks surrounding new technology is understandable – and not helped by unfavorable media coverage – it may be disproportionate in the context of Cloud. In and of itself, Cloud technology is as safe as other outsourcing solutions. Therefore the market should be expected to embrace Cloud more in the future as businesses' governance capabilities improve.

Managing security fears

According to the survey, the primary reason that a relatively low number of businesses have adopted Cloud-based applications is concern about data security. The single largest barrier to cloud adoption globally (28%) related to fears around data location, security, and privacy concerns. In the BeNeLux area, this is even amplified to a whopping 34%. Another important barrier in the BeNeLux is the regulatory/compliance concern at 22%. As discussed in our pullout box about Cloud security, however, the picture is not as straightforward as it may seem. It is also interesting that so many clients are dissuaded by Cloud for security reasons when, in the service provider satisfaction section of our survey, Cloud providers came out as the leaders when measured on security.

What do you consider to be the top 3 barriers to adoption of cloud services by organizations?



Source: KPMG International, February 2015

Better governance

The proliferation of different services and platforms creates new complexities for governance, especially as existing business processes must be made to "fit the product" while the user has little or no control over the update timeline. This is recognized by clients, 26% of whom see integration with traditional IT services as being the biggest challenge for the IT function in implementing and governing Cloud services.

KPMG member firms are also seeing growth in both supply and demand for cloud orchestration services.

This is where a service provider takes the responsibility for connecting the technological solutions and can also play a role in filling the outstanding "gaps" in supply. In hosting, for example, a number of portfolio Service providers are offering a hybrid of public hosting (such as Amazon Web Services or MS-Azure) and private hosting, such as through a dedicated, secure, and potentially on-premise data center. As such, service providers offer an integration and orchestration layer that allows the client to scale up resources in the fastest and most cost effective manner.

We come back to governance in more detail in the next section.

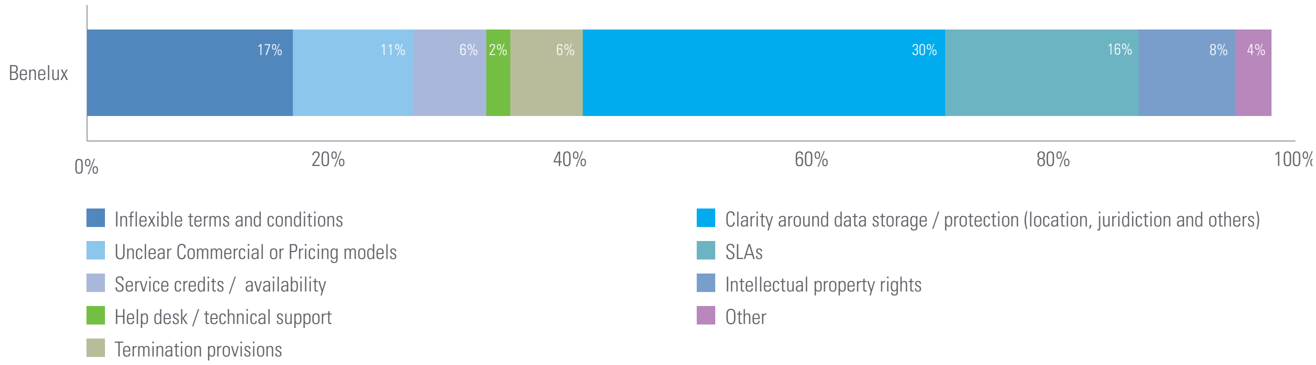
Myth busting: Cyber risk outweighs the benefits of Cloud

From a purely technological standpoint, with secure connections in place through virtual private networks (VPN), we would see no reason for a Cloud service to be any less safe for data storage than other multi-tenanted hosting services. It is telling, for example, that the US Central Intelligence Agency (CIA) is an extensive user of Amazon's Cloud infrastructure[5].

Despite this, clients remain distrustful of Cloud and consider it unsafe. This may be understandable, because Cloud providers typically do not give clients the opportunity to carry out due diligence on the technical architecture that would house their data, nor provide them access to the logs that would enable them to monitor the security of the Cloud service as an extension of their wider estate. A lack of certainty over which jurisdiction their data will exist in or be governed by is another key factor of concern, often with regulatory or legal implications as well as security risks. Inevitably, this lack of direct control makes many organizations feel uncomfortable. These issues are more about the commercial construct than the technical solution, but we must recognize that Cloud providers often need to be inflexible in their commercial terms in order to keep prices low.

The above is also reflected when we look at what our respondents indicatedon top three challenges while contracting with service providers for procuring Cloud services. We see that clarity around data storage and protection stands at 1, being 30%. Other import challenges are inflexible terms and conditions (17%), and SLA's (16%).

What are the top three challenges faced while contracting with service providers for procuring Cloud services?



Source: KPMG International, February 2015

5 http://www.ft.com/cms/s/0/10e229b8-fbbd-11e3-ad9b-00144feab7de.html#axzz3MTpgyd12

Client uncertainty will become more pronounced if the Cloud provider is a relatively young business that is unable to demonstrate its reliability by pointing to a flawless track record over a long timeframe. It is understandable that a FTSE 100 enterprise might feel uneasy about entrusting its most sensitive data to a technological start-up.

So, can businesses seize the opportunities presented by Cloud while satisfying their own concerns about lack of visibility?

In KPMG member firms' view, businesses should take a risk-managed approach to Cloud, just as they should across all aspects of security. They should consider moving low risk, non-core data to these platforms while keeping the most critical business data where it can be audited. They can then extend the scope to higher impact data if their trust in the service provider grows over the course of the contract.

Governance – the problem child

As we have seen, new technologies and specialist entrants are disrupting the market, which means that the way that businesses outsource IT is changing dramatically. As service providers are playing a more instrumental role in enabling new business activity, they are coming under increasing pressure to improve their quality of service and bring more measureable business value while still being held to account on cost. Inevitably, this drives governance up the agenda.

Governance has, however, become a great deal more complex in recent years. Previously, outsourcing IT services to a traditional heritage Indian or legacy portfolio provider would require relatively straightforward governance. Simply, clients would need to check that the terms of the contract were met and that the promised cost-reductions were delivered. To an extent, it was relatively easy for them because – in the old model – they would be more likely to work with a single service provider.

Today, increasingly complex sourcing models present new challenges for governance, making it the problem child in the new outsourcing environment. It is telling, for example, that on average worldwide, over a third of service providers (36%) consider poor governance on the part of their clients to be the biggest single factor impacting their ability to meet delivery obligations.

The multi-vendor environment

This complexity is heightened as businesses evolve how they manage IT, achieving centralization and then moving towards a GBS model. As a successful GBS model relies on a multi-vendor ecosystem – incorporating Cloud, Specialist, and Telco providers, as well as legacy portfolio players, to meet the needs of different business services – it becomes increasingly difficult to integrate the many processes, services, and providers involved.

The multi-vendor approach is now so prevalent that we would consider it to be the norm. Even organizations that still primarily use one portfolio service provider are increasingly likely to have invested in SaaS or another Cloud-based service. We find, for example, that senior managers in HR or marketing, who would not formerly have been involved in buying IT software, now frequently purchase Cloud-based solutions. This means that their organization must manage, to some level, the provider of that product alongside their existing portfolio service provider. If done badly, this can lead to an environment in which a number of new applications are being used in different parts of the business – all of which will inevitably have a knock-on effect on the company's legacy systems and processes.

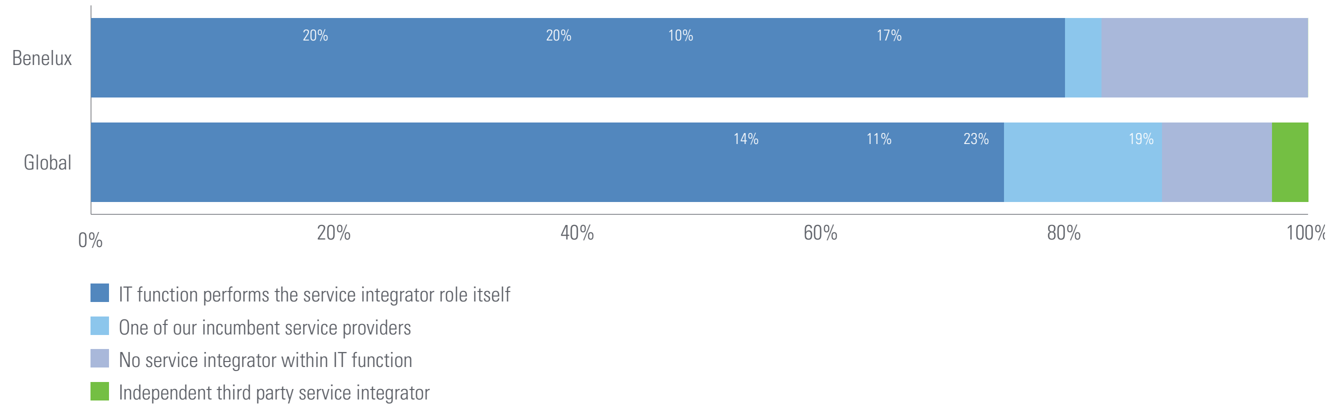
Growing complexity

In recent years, in response to this growing complexity, Service providers have started offering Service Integration and Management (SIAM) – a framework for managing multiple suppliers and integrating them to provide a single joined-up IT service to the business. In our view, although there has been debate in the market about the viability of this approach, adopting SIAM is an indication of outsourcing maturity.

We found that many businesses have not howeverÒ made a final decision as to whether or not to implement SIAM, with only 3% of respondents saying they are using a third-party provider to fulfill this service. The majority, 80% in the BeNeLux, (75% Globally) said that their preference is still to manage their integration and governance in-house. The worldwide average states that half expect to make no change to the outsourcing of their SIAM in the future. In the BeNeLux zone even 63% considers their SIAM too important to outsource. 10% in the BeNeLux (17% Globally) have already started the process of outsourcing and 12% in the BeNeLux (16% Globally) are considering the feasibility of doing so.

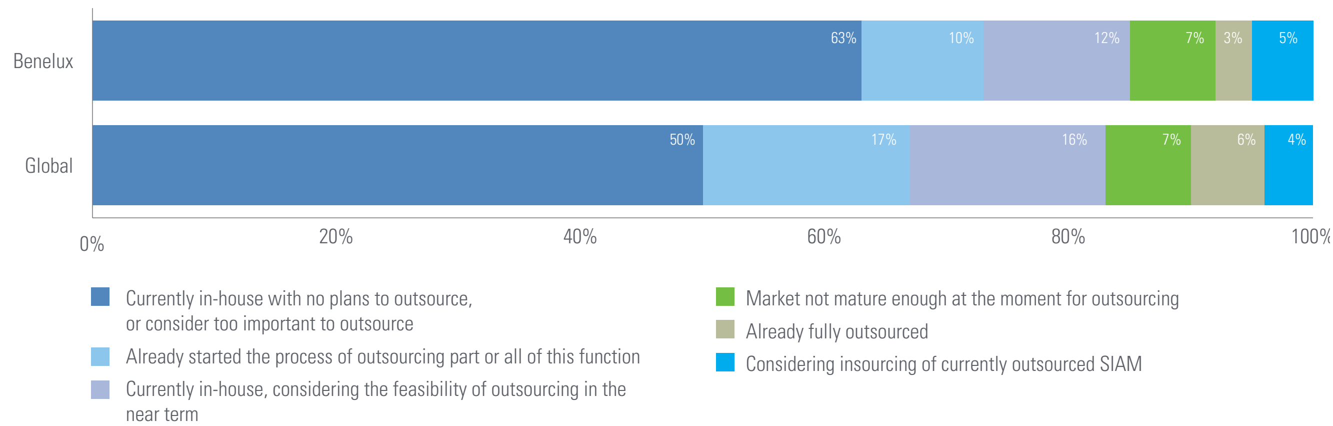
> Today, increasingly complex sourcing models present new challenges for governance, making it the problem child in the new outsourcing environment.

Who performs the role of Service Integrator?



Source: KPMG International, February 2015

Which of these statements best describes your view of outsourcing SIAM?

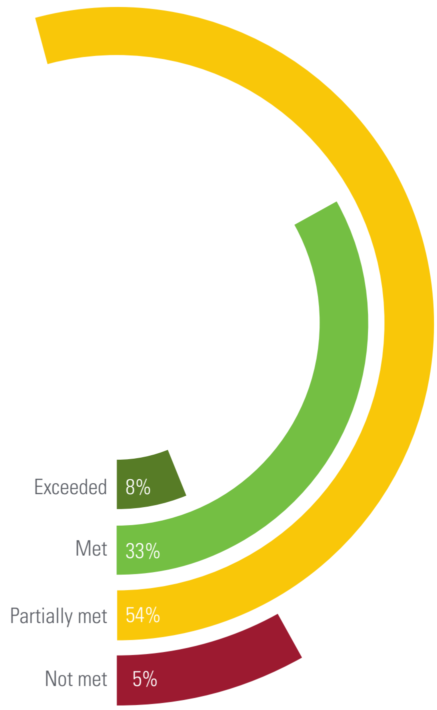


Source: KPMG International, February 2015

Mixed satisfaction with SIAM as a service

As might be expected for a relatively new offering, which service providers are continuing to develop, clients' perceptions of the value achieved by outsourcing SIAM are mixed. Of respondents worldwide, 41% said that the benefits they wanted from SIAM had been met or exceeded, while 54% said they had been partially met. This suggests that clients will need to carefully consider which service provider they use when looking to outsource SIAM.

To what extent have the anticipated benefits of SIAM been achieved?



Source: KPMG International, February 2015

Despite the mixed satisfaction levels, a significant percentage of clients are still considering outsourcing SIAM, as mentioned above. In our view, this indicates that there is a potential gap in the market for SIAM "specialist" service providers. In recent years, we have primarily seen portfolio service providers offering SIAM as a service, as they endeavour to get greater gains from delivering broader category "towers". These providers therefore face challenges from service providers that strive to partner/support both clients and service providers.

How clients should approach governance today

In our view, the best strategy is to adopt a hybrid approach. SIAM functions that should remain in-house are those that have a close proximity to the business, make decisions, define strategy, and own investment programs. Such functions typically include service strategy, service design, innovation, business analysis, supplier relationship management, and demand and portfolio management. However there are other elements that can be outsourced to positive effect, such as those ensuring inter-operability and end-to-end service levels. These may include service operations management, service desk, release management, project management, and continuous service improvement. Since good governance relies on good relationships, it is essential that all parties have full understanding upfront of what is expected and when.

On a general level, clients should invest more in governance than they typically have in the past. They need to understand the impact that good or bad governance will have on their ability to provide quality services. As they move into more complex delivery models, there will be risks around cost, service quality, and service delivery. In KPMG member firms' view, a large number of clients do not realize how bad the situation could be because governance on the whole was more straightforward in the past. If they are complacent and do not manage governance carefully, however, they risk losing all the benefits of moving to a multi-vendor environment.

> "Since good governance relies on good relationships, it is essential that all parties have full understanding upfront of what is expected and when."

Service Provider Performance

Satisfaction

How satisfaction was measured

Overall satisfaction

To measure overall satisfaction, we asked respondents, "What is your overall satisfaction level with your IT service provider(s)?" Respondents then indicated whether they were 'highly satisfied' through to 'highly dissatisfied' within a six-point scale. The scores were calculated and converted to percentages displayed in the table below.

Key to scores		
	Highly satisfied	100%
	Satisfied	80%
	Somewhat satisfied	60%
	Somewhat unsatisfied	40%
	Unsatisfied	20%
	Highly unsatisfied	0%

Satisfaction by service provider

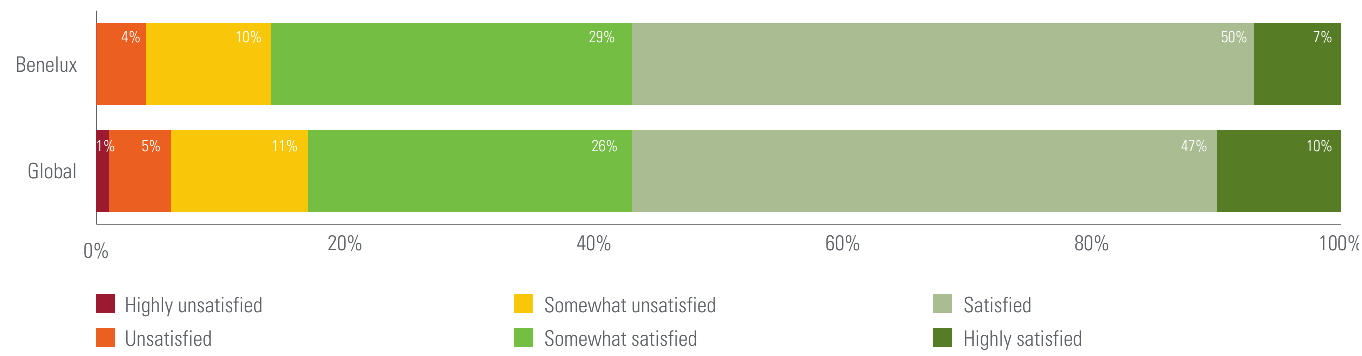
Additionally, we asked specifically about satisfaction with the services provided by the service providers. This was done in the same way, having the respondents rate their satisfaction on a six-point scale from 'highly satisfied' to 'highly dissatisfied'. This gives us an indication of the leaders and the laggards in the industry today.

All contracts were evaluated in an equal manner, and not weighted against the annual value of the deal or its level of complexity. The ranking of the service providers is based on the unrounded score. If more than one service provider received an equal unrounded score, each service provider was included and listed in alphabetical order.

Overall satisfaction

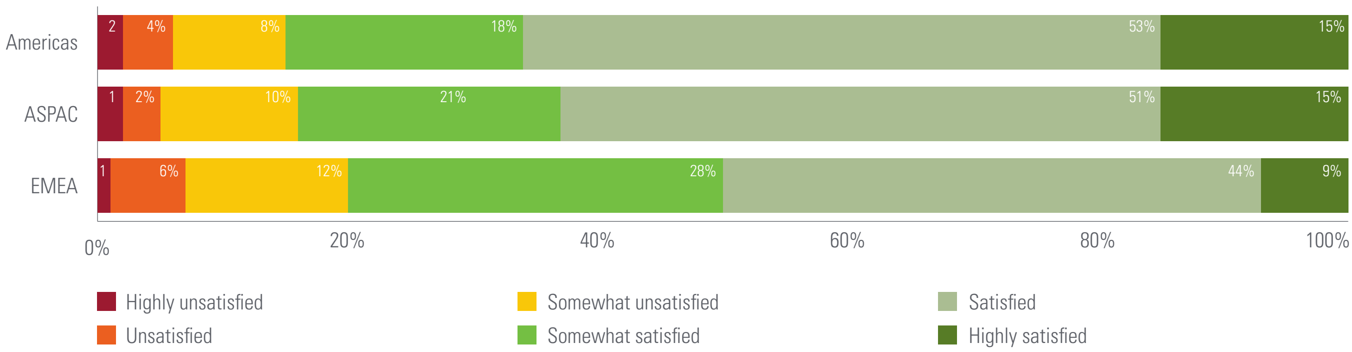
Overall, the majority of respondents were happy with the service they were receiving from service providers, with 58% in the BeNeLux (Global 57%) stating they were 'Satisfied' or 'Highly satisfied'. This demonstrates that outsourcing is seen as delivering significant value to the business. There are differences, however, by region, sector, category, and contract value.

Satisfaction by region



Source: KPMG International, February 2015

Satisfaction by region



Source: KPMG International, February 2015

Respondents in the EMEA region said they were less satisfied than respondents in ASPAC and the Americas. This could be because the EMEA market is more mature, and familiar with the varying levels of quality that can exist between providers operating in the same space, and its respondents therefore have higher expectations. It could also be because respondents from mature markets expect greater added value, in the form of innovation or enhanced service delivery, which are inherently more difficult to provide than cost savings alone.

Leading Service providers

In this section, we list the leading performers by satisfaction for each of our service provider classifications (Specialist, Cloud, portfolio, and Telco) across region. For this section, For this section, providers are included when they received four or more responses for each area. If more than one provider had the same score, they have been listed in alphabetical order in the rankings.

Top three Service providers by region, for each classification

	BeNeLux	Global - multiple region	EMEA
Specialist	1. Clearstream 2. Cisco 3. Getronics	1. Dell Services 2. Computacenter 3. Cisco	1. Dell Services, Getronics 2. Computacenter 3. Cisco
Cloud	1. Microsoft 2. Salesforce 3. Oracle	1. Amazon Web Services 2. Google 3. Salesforce	1. Amazon Web Services 2. Microsoft 3. Salesforce
Portfolio	1. TCS 2. Cognizant 3. Atos	1. Tieto 2. TCS 3. Cognizant	1. CapGemini 2. TCS 3. Cognizant, Infosys, SCC
Telco	1. Orange Business Services 2. Vodafone 3. Verizon Business	1. Colt 2. Vodafone 3. Verizon Business	1. BT, Colt, Vodafone 2. Verizon Business

Key performance indicators

Respondents were asked which IT processes their organizations had outsourced and which service provider(s) they were currently using to deliver this service. For each service provider they were currently using, they answered specific questions relating to their satisfaction with performance. To do so, they reviewed 10 "statement agreement" questions and indicated their level of agreement from "totally agree" to "totally disagree". The scores were converted to percentages, where 100 percent represented total agreement with the statement. As a result, we can start to build a picture of the leading service providers across the main measures of satisfaction.

Key to scores

Totally agree	100%
Agree	80%
Somewhat agree	60%
Somewhat disagree	40%
Disagree	20%
Totally disagree	0%

1

Quality

The service provider meets the service levels as set out in the service level agreement (SLA) and reports this in a transparent manner.

2

Price

The service provider is competitive in their pricing and manages commercial issues appropriately.

3

Flexibility

The service provider is flexible in bringing changes to the contract.

6

Service delivery

The service provider has implemented efficient processes for service delivery and continuous improvement.

7

Relationship management – strategic

The service provider does a good job actively managing the relationship at the strategic level.

8

IT Security

The service provider has a clear IT security policy and is successful in ensuring IT security.

> For each service provider they were currently using, they answered specific questions relating to their satisfaction with performance.

4 Risk
The service provider shoulders reasonable commercial risk and makes investments to reduce the risk.

5 Innovation
The service provider is active in bringing innovation or adapting their service offering.

9 Service Provider Governance
The service provider has an efficient and effective governance model.

10 Transition
The service provider has completed the transition successfully, to scope, on time and in budget.

Here we list the three top performing service providers in each classification in the BeNeLux according to our perception survey. Providers are included where there was a sample size of 4 or more.

KPI 1: Quality

The service provider meets the service levels as set out in the SLA and reports this in a transparent manner.

Top three service providers by classification in the BeNeLux			
Specialist	**Cloud**	**Portfolio**	**Networks & Telecoms**
1. Cisco	1. Salesforce	1. Atos	1. Orange Business Services
2. Getronics	2. Microsoft	2. Cognizant	2. Vodafone
3. Clearstream	3. Oracle	3. TCS	3. Colt

Quality is a broad term and can mean many things in the context of outsourcing. This study specifically focuses on quality as it relates to the ability of a service provider to meet the performance levels set out in SLAs as perceived by clients.

While SLAs provide the foundation from which the buyer can assess the health of the overall outsourcing relationship, buyers should keep in mind that SLAs are just one dimension of measuring service provider performance.

KPI 2: Price

The service provider is competitive in their pricing and manages commercial issues appropriately.

Top three service providers by classification			
Specialist	**Cloud**	**Portfolio**	**Networks & Telecoms**
1. Cisco	1. Microsoft	1. TCS, Cognizant	1. Orange Business Services, Vodafone
2. Clearstream	2. SAP, Salesforce	2. Atos	2. Colt
3. Getronics	3. Oracle	3. Wipro	3. Verizon Business

The KPI does not benchmark actual price, but is a perception measure around the market conformity of price as perceived by an organization well into the steady-state running of its contract. It reflects clients' confidence that the price is fair and that changes do not automatically result in an upward price movement. While this is an important measure, it does not account for whether client perceptions of market pricing are realistic. It is also important to keep in mind that the lowest price may not lead to the greatest cost savings if the buyer and service provider cannot execute a contract successfully.

KPI 3: Flexibility

The service provider is flexible in bringing changes to the contract.

Top three service providers by classification			
Specialist	**Cloud**	**Portfolio**	**Networks & Telecoms**
1. Cisco	1. Salesforce	1. Cognizant	1. Orange Business Services
2. Clearstream	2. SAP	2. Accenture	2. Vodafone
3. Getronics	3. Oracle	3. TCS	3. Verizon Business

As outsourcing arrangements are long-term relationships, there is only so much that buyers and service providers can do at the onset to predict and account for the future. As buyer needs, market conditions and service provider capabilities change, service providers should have the flexibility to adapt to those changes.

Flexibility, like innovation, has typically been a challenging KPI for service providers to score well against. This KPI tracks clients' perceptions as to whether their service provider is capable and willing to absorb contractual change through the life of the contract. Traditionally, we would expect portfolio players to be the leaders in this space as they create personalized solutions for clients by the nature of their offering. Conversely, Cloud and Telco providers are less able to provide flexibility.

KPI 4: Risk

The service provider shoulders reasonable commercial risk and makes investments to reduce the risk.

Top three service providers by classification			
Specialist	**Cloud**	**Portfolio**	**Networks & Telecoms**
1. Clearstream	1. Salesforce	1. Cognizant	1. Orange Business Services
2. Cisco	2. SAP	2. Accenture	2. Vodafone
3. Getronics	3. Oracle	3. TCS	3. Colt

Service providers' readiness to accept a reasonable share of risk is an important KPI. As outsourcing in the future is likely to involve closer relationships and ever-more complex sourcing environments, the ability to strike an equitable balance on risk will remain a key concern for Service providers as well as clients. In our view, clients should clearly define which risks the service provider must shoulder and "own" the critical aspects of risk assessment and risk management.

During the global financial crisis, risk assessment and management grew significantly in importance. As we enter a period of growth for the global economy, clients should review their appetite for risk and how this influences their key decisions around outsourcing.

KPI 5: Innovation

The service provider is active in bringing innovation or adapting their service offering.

Top three service providers by classification			
Specialist	**Cloud**	**Portfolio**	**Networks & Telecoms**
1. Clearstream	1. Salesforce	1. Cognizant	1. Orange Business Services
2. Cisco	2. Microsoft	2. Accenture	2. Vodafone, Colt
3. Getronics	3. SAP	3. TCS, Infosys	3. Verizon Business

Innovation is a broad KPI and very important in a long term outsourcing relationship. It has also increased in importance over the last few years as buyers look beyond cost savings as a reason to pursue or expand outsourcing efforts. Innovation should not be considered purely through the lens of business transformation, but should also play a role in enhancing existing business processes.

Innovation requires a good understanding of the client's business, which is largely why it can prove so challenging for service providers. Practically speaking, many clients struggle to innovate within their own businesses and are not always clear to service providers about what they are looking for. This was backed up by our research, in which service providers rated "confusion over the definition of innovation", on the part of their clients, as a leading challenge for them delivering innovation. As they look to outsource, clients should therefore make sure that the service provider fully understands what the client is trying to achieve and how this relates to wider business strategy.

KPI 6: Service delivery

The service provider has implemented efficient processes for service delivery and continuous improvement.

Top three service providers by classification			
Specialist	**Cloud**	**Portfolio**	**Networks & Telecoms**
1. Clearstream	1. Salesforce	1. TCS	1. Orange Business Services
2. Cisco	2. Microsoft	2. Wipro	2. Vodafone, Colt
3. Getronics	3. SAP	3. Atos	3. Verizon Business

Service Delivery focuses on the daily activities of the service provider in delivering on the contract to meet SLAs, and identifying opportunities for continuous improvement. If service providers can consistently improve service delivery, they will inevitably strengthen the performance of an outsourcing relationship to a certain extent. To establish a truly beneficial relationship in a time of technology-enabled growth, however, clients should ensure that they invest the time and resources to monitor the relationship and provide the ongoing briefing necessary for the service provider to understand how their work is contributing to the wider business strategy

KPI 7: Strategic relationship management

The service provider does a good job actively managing the relationship at a strategic level.

Top three service providers by classification			
Specialist	**Cloud**	**Portfolio**	**Networks & Telecoms**
1. Clearstream	1. Salesforce	1. Accenture	1. Orange Business Services
2. Cisco	2. Microsoft	2. Cognizant	2. Vodafone, Colt
3. Getronics	3. SAP, Oracle	3. Atos	3. Verizon Business

Strategic Relationship Management involves addressing the longer term needs and issues of an outsourcing relationship. It focuses on the "big picture" and ensures that the spirit, as well as the letter, of the contract is delivered. The ability of service providers to demonstrate strategic management of contracts is a key aspect of their service.

For service providers, it is increasingly important that they have adequate understanding of the client's key strategic business drivers, challenges, and opportunities – and how technology outsourcing is expected to make it happen. As such, clients need to be candid – where appropriate – about their strategy and the strategic role they expect the service provider to play beyond simply meeting SLAs.

KPI 8: IT Security

The service provider has a clear IT security policy and is successful in ensuring IT security.

Top three service providers by classification			
Specialist	**Cloud**	**Portfolio**	**Networks & Telecoms**
1. SAP	1. SAP	1. Atos	1. Orange Business Services
2. Microsoft	2. Microsoft	2. Wipro	2. Vodafone
3. Salesforce	3. Salesforce	3. Accenture	3. Verizon Business, Colt

The protection of IT systems and business data is vitally important, as this can be a valuable and sensitive asset containing critical information such as financial data and customer records. Loss of sensitive and confidential data and information can have serious consequences. Service providers therefore need a properly defined IT security policy in place as well as measures that can be monitored and managed.

KPI 9: Service Provider Governance
The service provider has an efficient and effective governance model.

Top three Service providers by classification			
Specialist	**Cloud**	**Portfolio**	**Networks & Telecoms**
1. Getronics	1. SAP, Salesforce	1. TCS	1. Vodafone, Orange Business Services
2. Cisco	2. Oracle	2. Atos	2. Colt
3. Clearstream	3. Microsoft	3. Accenture	3. Verizon Business

Service providers need a solid governance model to ensure its people, processes, policies, procedures, and software tools can perform its side of the outsourcing relationship. A strategic or complex outsourcing effort requires a more rigorous and robust governance model than a more straightforward and simplistic effort.

As client organizations move to a GBS model and work with multiple service providers, governance is becoming increasingly important. It is essential that clients have solid governance in place in order to get the best value from their vendors and to bring their disparate services into a coherent, manageable, and user-friendly IT support offering. If clients do not have this governance in place, they risk undoing all the benefits they can receive from a multi-vendor ecosystem.

KPI 10: Transition
The service provider has completed the transition successfully, to scope, on time and in budget.

Top three service providers by classification			
Specialist	**Cloud**	**Portfolio**	**Networks & Telecoms**
1. Getronics	1. Microsoft	1. TCS	1. Orange Business Services
2. Clearstream	2. Salesforce	2. Cognizant	2. Vodafone
3. Cisco	3. SAP	3. Accenture	3. Verizon Business

The transition phase is an extremely critical one in any outsourcing effort and requires particular skills and capabilities from both clients and service providers compared to those needed later in the relationship, such as outsourcing governance, and relationship management.

KPMG member firms' research and client experiences show that many outsourcing efforts undergo difficult transition efforts and that outsourcing engagements that start off on the "wrong foot" are much more likely to suffer chronic and long-term client dissatisfaction. Despite the importance of transition, it is often an area of underinvestment and inadequate planning – especially on the part of clients.

Issues may be caused by ineffective relationship and program governance during the transition stage, poor service provider understanding of the deal and its scope, and insufficient transition management by both parties. Addressing challenges means adequately involving relevant client business units in the transition, fully resourcing the transition project, and re-aligning the retained organization to meet its new requirements as a result of the outsourcing effort.

KPI Performance against BeNeLux averages by service provider

This heat chart takes the 20 service providers in the BeNeLux on whom our research yielded meaningful customer perception data in 2014. In order for the data to be meaningful, we decided that a minimum of 4 contracts per service provider was required. The service provider performances are compared to the market average scores for our KPIs and general satisfaction. The results are color-coded according to the variance around the mean, as follows:

Provider Name	General satisfaction	1. Quality	2. Price	3. Flexibility	4. Risk	5. Innovation
Orange Business Services	82,86%	86,67%	80,00%	73,33%	66,67%	73,33%
Vodafone	75,00%	80,00%	80,00%	40,00%	60,00%	60,00%
TCS	93,33%	73,33%	80,00%	60,00%	66,67%	53,33%
Cognizant	75,00%	76,00%	80,00%	80,00%	72,00%	68,00%
Accenture	71,76%	66,67%	53,33%	66,67%	68,00%	63,33%
Wipro	68,89%	70,00%	65,00%	50,00%	55,00%	60,00%
Infosys	60,00%	66,67%	53,33%	53,33%	66,67%	53,33%
Atos	74,44%	80,00%	75,56%	57,78%	64,44%	62,22%
Getronics	67,50%	65,00%	55,00%	65,00%	55,00%	60,00%
IBM	61,90%	62,22%	55,56%	51,11%	51,11%	53,33%
Clearstream	80,00%	65,00%	65,00%	50,00%	75,00%	70,00%
Cisco	76,67%	73,33%	66,67%	60,00%	60,00%	60,00%
HP	55,79%	62,50%	47,50%	47,50%	42,50%	47,50%
SAP	63,33%	60,00%	60,00%	50,00%	50,00%	50,00%
Salesforce	72,00%	70,00%	60,00%	55,00%	50,00%	65,00%
Verizon Business	52,00%	48,00%	36,00%	32,00%	36,00%	36,00%
Oracle	68,89%	60,00%	45,00%	40,00%	45,00%	40,00%
Microsoft	74,00%	62,86%	62,86%	34,29%	54,29%	54,29%
Capgemini	62,50%	60,00%	50,00%	50,00%	45,00%	45,00%
Colt	50,00%	60,00%	60,00%	0,00%	60,00%	60,00%
Average score for all SPs	69,29%	67,41%	61,54%	50,80%	57,17%	56,73%

10% or more greater than the mean	5%-9% greater than the mean	5%-9% lower than the mean	10% or more lower than the mean

Variance as % of the mean

6. Service Delivery	7. Strategic Relationship Mgmt	8. IT Security	9. Service Provider Governance	10. Transition	Recommendation Index
73,33%	73,33%	86,67%	80,00%	80,00%	80,00%
60,00%	60,00%	80,00%	80,00%	60,00%	73,33%
73,33%	66,67%	70,00%	73,33%	80,00%	86,67%
64,00%	72,00%	70,00%	68,00%	76,00%	71,43%
64,00%	76,67%	72,00%	70,00%	70,00%	62,86%
70,00%	70,00%	75,00%	65,00%	65,00%	64,00%
53,33%	60,00%	60,00%	66,67%	60,00%	60,00%
68,89%	71,11%	75,56%	71,11%	57,78%	68,00%
55,00%	65,00%	60,00%	65,00%	60,00%	52,00%
55,56%	66,67%	70,00%	64,44%	55,56%	62,22%
80,00%	60,00%	90,00%	60,00%	70,00%	75,00%
66,67%	60,00%	73,33%	60,00%	66,67%	65,00%
50,00%	45,00%	57,50%	45,71%	52,50%	47,50%
50,00%	50,00%	70,00%	60,00%	60,00%	53,33%
65,00%	55,00%	65,00%	60,00%	60,00%	70,00%
44,00%	36,00%	60,00%	44,00%	52,00%	43,33%
45,00%	50,00%	60,00%	55,00%	50,00%	56,00%
54,29%	54,29%	68,57%	54,29%	60,00%	62,86%
30,00%	50,00%	70,00%	60,00%	50,00%	50,00%
60,00%	60,00%	60,00%	60,00%	0,00%	50,00%
59,12%	60,09%	69,68%	63,13%	59,28%	62,68%

The ones that count

In our view, the three most important KPIs of an outsourcing relationship are:

- Governance
- Innovation
- Strategic Relationship Management

Taken together, these three elements can help ensure that you are getting the maximum value from your contract.

Successful **governance** ensures that issues are managed in an effective and efficient manner, and that the original objectives of the contract are met.

Delivering **innovation** and having an environment that nurtures and incentivizes innovation will lead to positive disruptive change which will benefit all parties.

In a **strategic relationship**, expectations on both sides are clear, with a good understanding of what the client and the service provider require to make the contract work.

Taking these three KPIs alone, the following service providers came out top for each classification (for those Service providers with 4 or more responses):

Specialist	Cloud	Portfolio	Networks & Telecoms
1. Clearstream	1. Salesforce	1. Accenture	1. Orange Business Services
2. Cisco	2. Microsoft	2. Cognizant	2. Vodafone, Colt
3. Getronics	3. SAP	3. TCS	3. Verizon Business

About KPMG's Shared Service and Outsourcing Advisory

KPMG member firms are leading providers of global sourcing advisory services, we have ability to help clients transform enterprise services to help improve value, increase agility, and create sustainable business performance.

Who we are: The Shared Services and Outsourcing Advisory practice brings specialized teams of more than 800 professionals from across KPMG's global network of independent member firms operating in 155 countries. Our professionals assist clients in the design, build, and management of information technology (IT) and business processes across the enterprise.

What we do: We help clients align their business strategy, organization, and execution to enable them to manage the entire IT and business process life-cycle, improving business performance, and laying the groundwork for genuine business transformation.

How we do it: We apply focused research, automating tools, proprietary data, clear business acumen, and a forward-thinking mind-set to provide timely, objective, actionable advice and practical approaches for clients.

Recent acknowledgements

- KPMG has been named as a top player in the "Winner's Circle" in the recently released **Governance Solution HfS Blueprint Report**[6]. This designation showcases KPMG's capabilities in Shared Services Outsourcing Governance solutions, and how various facets contribute to governance maturity and the accomplishment of their sourcing objectives.

  The Governance Solution HfS Blueprint Report is the first application of HfS Blueprint methodology to the Shared Services and Outsourcing Governance marketplace. The HfS Blueprint identifies relevant differences between service providers across numerous facets in two main categories: value/innovation and capability.

- KPMG LLP (UK) recently won a **National Outsourcing Association (NOA) award**[7] for **"Best Contribution to the Reputation of Outsourcing"**. The NOA awards recognise best practice in outsourcing projects, and reward buyers, suppliers, advisors and destinations.

6 www.hfsresearch.com
7 www.noa.co.uk/noaawards

Further reading

All of these research materials are available at KPMG's Shared Services & Outsourcing Institute: www.kpmg-institutes.com/institutes/shared-services-outsourcing-institute.html

- The story behind the numbers – Research on service centre trends in Central and Eastern Europe

- Research conducted by the Dutch KPMG Shared Services and Outsourcing Advisory practice on shared service centres (SSC, ITO and BPO) in the Central and Eastern European (CEE) region during Q2 and Q3 of 2014.

- Global Sourcing Advisory Pulse Surveys 2014

  This series of white papers describes trends in outsourcing, shared services, off-shoring and other Global Business Service initiatives by quarter from 2014.

- Nine Factors for Successful Governance

  Nine critical factors to keep in mind to help ensure outsourcing success.

- The State of Outsourcing – Sept 2014

  Gain insight from 1,079 enterprises, outsourcing service providers and industry consultants on where the services and outsourcing industry is heading in the near and long-term future.

- Strategic Visions on the Sourcing Market 2015

  Outsourcing market trends in Europe: a collection of thought leadership articles, client interviews and research from KPMG International.

- The Global Business Services Industry Study

  This extensive and data-rich study surveyed more than 400 enterprises across a cross-section of regions and industries about their GBS activities, priorities, drivers, constraints and plans.

- Global Business Services Innovation: Optimizing the Business Model for Competitiveness

- Drive to the Top: The Journey, Lessons, and Standards of Global Business Services

  Recent white papers from KPMG's research program on GBS maturity.

- Global IT-BPO Outsourcing Deals Analysis: July – September 2014

- Global IT-BPO Outsourcing Deals Analysis: 2013 Year in Review

  Global IT-BPO Deals Analysis is a quarterly analysis of IT-BPO outsourcing contracts signed across industries and geographies, with a total contract value of US$5 million+ per deal.

- Global Business Services Trends: 2014

  Cliff Justice highlights the primary challenges and opportunities of GBS for 2014, based on findings from KPMG's 4Q13 Pulse survey

- Managing Risk in Global Business Services Operations

  Anshul Varma explains risk from a three-dimensional view as it relates to GBS operations.

- Beyond Services: The Radical Shift to Global Business Services (GBS) Ascendency

  Cliff Justice explains how to adjust your focus, rethink your strategy and move up the GBS maturity curve.

- Nestlé Case Study: Leading Governance Practices for Global Business Services

  Nestlé Business Services leverages shared services and outsourcing toward its goal of offering the right service, at the right time, cost consciously.

Service Provider Directory

Those Service providers named in our study:

Accenture
www.accenture.com

Atos
www.atos.net

Capgemini
www.capgemini.com

Cisco
www.cisco.com

Clearstream
www.clearstream.com

Cognizant
www.cognizant.com

Colt
www.colt.net

Getronics
www.getronics.com

Google Cloud Platform
www.cloud.google.com

HP
www.hp.com

IBM
www.ibm.com

Infosys
www.infosys.com

Microsoft
www.microsoft.com

Oracle
www.oracle.com

Orange Business Services
www.orange-business.com

Salesforce
www.salesforce.com

SAP
www.sap.com

TCS – Tata Consultancy Services
www.tcs.com

Verizon Business
www.verizonenterprise.com

Vodafone
www.vodafone.com

Wipro
www.wipro.com

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