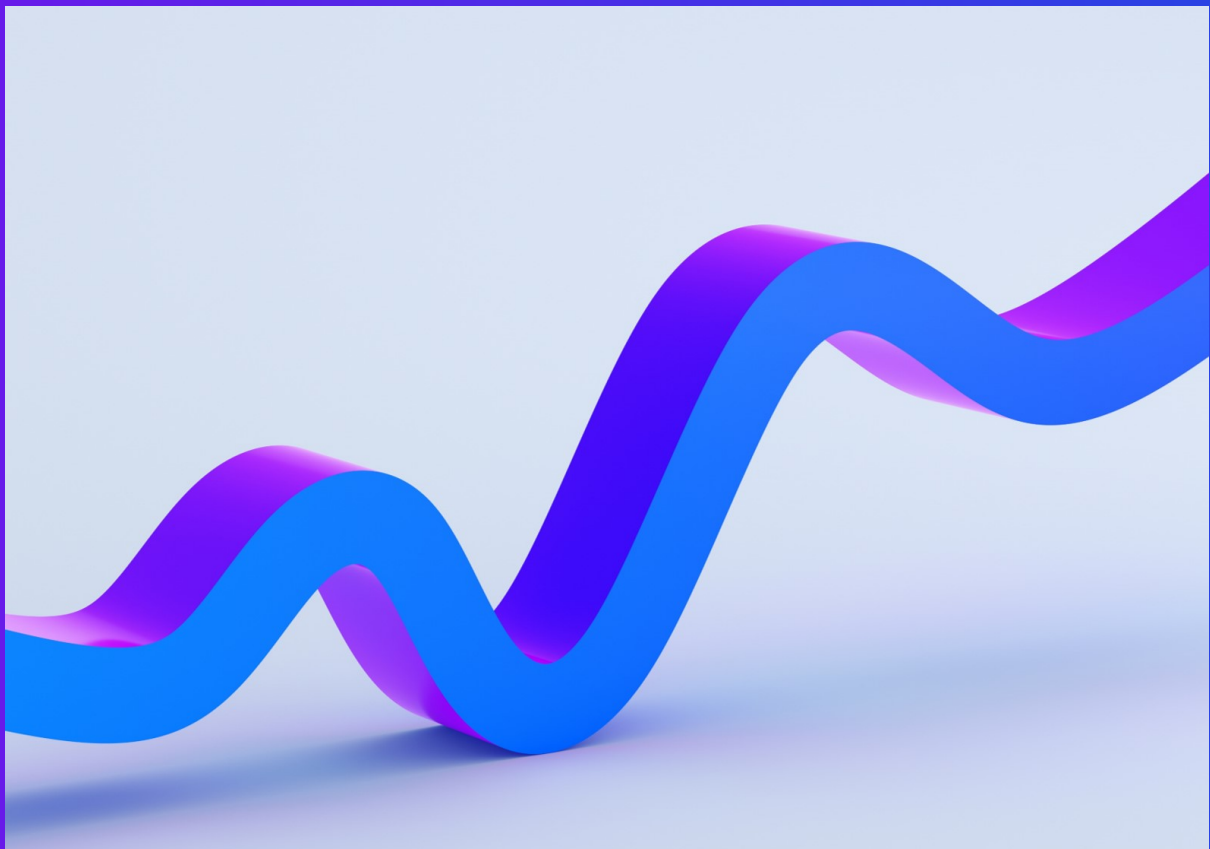




# Sourcing Trend Radar 2022

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



August 2022

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# Foreword

The KPMG Sourcing Trend Radar 2022 presents our Shared Services and Outsourcing Advisory view on the Sourcing marketplace. We have compiled this Trend Radar from first-hand field experience, working with clients and service providers around the globe. The trends are addressed from a Digital (IT) Sourcing and Business Process Sourcing perspective.

Over the last year, we have witnessed clients facing challenges in defining future-proof Sourcing operating models. On the one hand, these operating models have to cope with the post-pandemic and geopolitical challenges causing uncertainty within the global market, but on the other hand, they need to facilitate increased pace in digital transformation and partner thinking.

Recent developments have changed the way organizations need to collaborate with partners. Modern day Sourcing strategies need to cater for service resilience, innovation and digital transformation simultaneously. This is a call for action with regard to Partner and Ecosystem thinking.

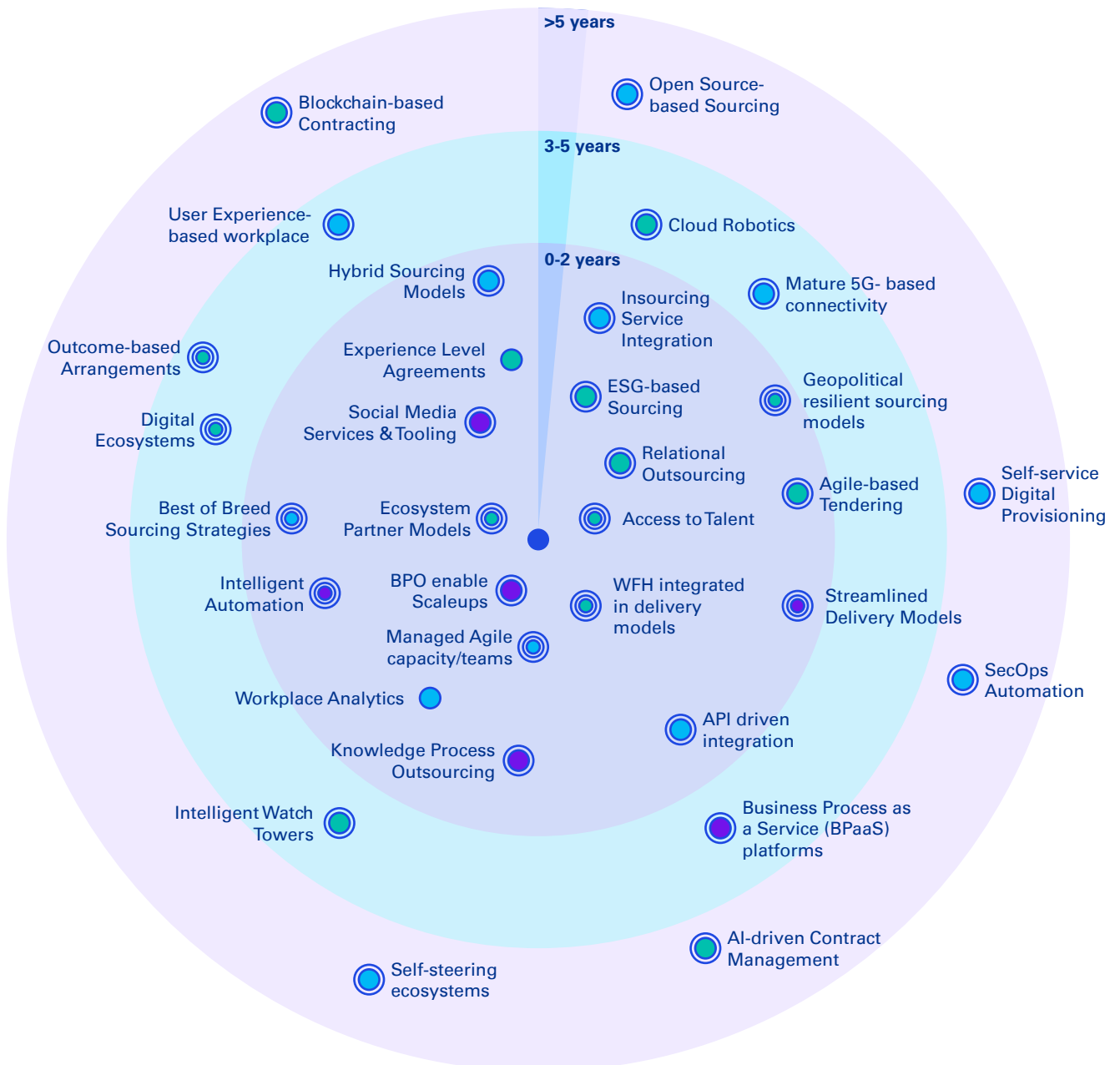
Another trend that is becoming dominant is related to Environmental, Social and Governance (ESG) factors. Many organizations are incorporating corporate ESG objectives, and are prioritizing initiatives based on the level of importance and impact. Frontrunners in Sourcing incorporate ESG thinking into their Sourcing operating models.

We hope our vision and point of view provides leaders with valuable insights to help them address sourcing challenges with confidence.

To discuss the trends in more detail, or to explore how KPMG can help your organization, we encourage you to contact any of our local Sourcing experts listed in this publication.

# KPMG Sourcing Trend Radar 2022

The Sourcing Trend Radar 2022 shows KPMG's Shared Services and Outsourcing Advisory view on the Sourcing marketplace. The trends relate to either Digital (IT) Sourcing, Business Process Sourcing or both. For each trend we have predicted the impact, ranging from major, moderate to minimal.



Domains: ● Digital (IT) Sourcing ● Business Process Sourcing ● General Sourcing Trend

Potential impact ○ Minimal ○ Moderate ○ Major

# KPMG Sourcing Trend Radar 2022

The most important short-term Digital (IT) Sourcing and Business Sourcing trends:

## Access to Talent

The turnover rates in the Outsourcing industry are increasing, causing a talent crisis worldwide. This increase is expected to be due to a surge in demand, after experiencing a slowdown in the onset of the pandemic and the impact of the global political instability. Clients and service providers need global access to talent to battle these challenges.

## Geopolitical resilient Sourcing models

Geopolitics can have a profound impact on Sourcing operating models. Governments of leading near-shore and off-shore destinations are focusing on improving their competitive advantage, whereas (global) political stability in a particular country or region can have a negative impact on the business continuity and foreign investment. This requires Sourcing strategies that provide resilient Sourcing options.

## ESG incorporated Sourcing

Many organizations are incorporating corporate Environmental, Social and Governance (ESG) objectives into their business strategy, which impacts the Sourcing operating model. In Europe, ESG regulations are being introduced, such as the 'EU Taxonomy', where conditions are introduced to qualify actions as 'sustainable' based objectives. Sourcing strategies and operating models need to incorporate ESG thinking.

## Relational Outsourcing

The market is shifting from a transaction-based outsourcing cooperation towards a relation-based outsourcing cooperation. Relation-based outsourcing emphasizes a better understanding of mutual dependencies and complementary capabilities. Organizations are 'differentiating' their type of relationship based on their needs.

## Increased focus on Ecosystem-based partner models

Overall, we recognize that the increasing digitalization of the client value chains results in a growing amount of (inter)dependencies between clients, digital solutions and respective service providers. Managing these (inter)dependencies in a fast-paced market is difficult to organize internally. We have already identified this trend in last year's edition of the Sourcing Trend Radar. This year, we are witnessing clients accelerating the creation of 'Partner Ecosystems' to facilitate more effective management of the abovementioned (inter)dependent and complementary capabilities.

# Sourcing Trends 2022

Domains: ● Digital (IT) Sourcing ● Business Process Sourcing ● General Sourcing Trend

## 0-2 years

### Access to talent

The attrition rate in the outsourcing industry is increasing and causing a talent crisis worldwide. Whereas the attrition rate has increased to approximately 20% globally, the rates in low(er) cost countries vary between 30% and 50%. This increase is expected to be due to a surge in demand, after experiencing a slowdown at the start of the pandemic. Both clients and providers will need to access talent worldwide to battle these challenges.

### Geopolitical resilient Sourcing models

Geopolitics can have a profound impact on Sourcing operating models. Governments of leading near-shore and off-shore destinations are focusing on improving their competitive advantage (e.g. stimulating educational programs), whereas (global) political stability in a particular country or region can have a negative impact on business continuity and foreign investment. This requires Sourcing strategies that provide resilient Sourcing options.

### ESG incorporated Sourcing

Many organizations are incorporating corporate Environmental, Social and Governance (ESG) objectives into their business strategy, which impacts the Sourcing operating model. In Europe, ESG regulations are being introduced, such as the 'EU Taxonomy', where conditions are introduced to qualify actions as 'sustainable' based objectives. Sourcing strategies and operating models need to incorporate ESG thinking.

### Best of Breed Sourcing Strategies

Organizations are moving towards Best of Breed sourcing strategies, aiming at enabling their business and IT departments to better accommodate the fast-moving developments. Organizations that are moving away from this 'all in one' solution package from a single vendor that attempts to cover the full spectrum of solutions need to adopt, integrate and/or migrate new IT solutions and digital services faster than ever before. For example, an organization may choose different vendors for functional platforms and allocate activities among the vendors based on the required skills and competencies.

# Sourcing Trends 2022

Domains: ● Digital (IT) Sourcing ● Business Process Sourcing ● General Sourcing Trend

## 0-2 years

### Ecosystem-based Partner models

The increasing digitalization of the client value chains results in a growing amount of (inter)dependencies between clients and digital solutions, and the respective service providers require ecosystem-based partner models. Managing the (inter)dependencies in a fast-paced market is difficult to organize internally. The creation of 'Partner Ecosystems' to facilitate more effective management of the abovementioned (inter)dependent and complementary capabilities is accelerated.

### Intelligent Automation

Intelligent Automation in the standard service portfolio of Business Process Outsourcing (BPO) suppliers. By leveraging third parties, major BPO providers are incorporating this type of automation into their services to clients. Clients can thereby benefit from more efficient, innovative and faster service delivery, while maintaining labor arbitrage. This also puts pressure on BPO suppliers, as clients can also implement Intelligent Automation in-house. When BPO suppliers are unable to provide mature automation technologies such as Robotic Process Automation (RPA), Artificial Intelligence (AI) and Machine Learning (ML), clients are considering insourcing these activities.

### Hybrid Sourcing Models

Managed IT services are increasingly being combined with cloud-based services, creating Hybrid Sourcing Models. While public and private As-a-Service delivery models clearly provide tangible benefits, the majority of organizations will require a mix of dedicated IT solutions and cloud-based services for the foreseeable future. Clients are rethinking their own position in these Hybrid Sourcing Models, including the level of E2E responsibility.

### Experience Level Agreements

Experience Level Agreements (XLA) are used to monitor the service delivery on this experience, in addition to traditional delivery metrics. The result is a stronger focus on the outcome of the services being provided, including the added value of the supplier itself. As relational outsourcing arrangements are becoming increasingly popular, Experience Level Agreements are also being implemented more frequently. Customers expect the 'Amazon experience' – services that are personalized, simplified, anticipated and automated. Improved analytics and better connection of middle, back and front office will support this.

# Sourcing Trends 2022

Domains: ● Digital (IT) Sourcing ● Business Process Sourcing ● General Sourcing Trend

## 0-2 years

### Relational Outsourcing

The market is moving away from transaction-based outsourcing relationships towards relation-based outsourcing. Organizations are 'differentiating' their type of relationship based on the nature of the service delivery, moving away from Statements of Work (SOWs) towards Statements of Outcome (SOOs). This requires a change of perspective. Relation-based outsourcing focusses on a better understanding of mutual dependencies and complementary capabilities. Relation-based outsourcing methods such as Vested can be valuable instruments to achieve those objectives.

### Insourcing Service Integration

The shift towards Best of Breed sourcing strategies, fast-paced changes in technology, the use of different cloud solutions, etc. has significantly increased the strategic value of service integration and service orchestration capabilities for an IT department. As such, client organizations are reconsidering outsourcing these capabilities and have initiated to develop these capabilities in-house.

### Knowledge Process Outsourcing

Type of outsourcing which deals with specialized knowledge and problem solving, usually involving an external organization or third party, often located in a different geographic region. Reasons for organizations to utilize KPO are the lack of specific skills in-house or in the regional market as cost saving opportunities. Typical services for KPO are: R&D, Finance consulting, Legal, Data analysis, etc.

### Managed Agile capacity/teams

As client organizations are more and more adopting agile ways of working, traditionally managed service types of delivery models are perceived to be 'outdated'. A growing trend is the contracting of Managed Agile capacity or teams, where an IT supplier is made responsible not solely for the deliverables of the team itself, but also for the quality of the team, members, team effectiveness and growth, to offer utmost value to the client.

# Sourcing Trends 2022

Domains: ● Digital (IT) Sourcing ● Business Process Sourcing ● General Sourcing Trend

## 0-2 years

### Agile-based Tendering

The Agile-based Tendering approach is characterized by short iterations, increased collaboration with supplier(s), and a strong emphasis on the fit between the buyer's needs and the supplier's standard solutions, with the ultimate goal to select promising supplier(s) earlier in the process. Traditional tendering can be a lengthy and costly process of 'requirements definition' and 'solutions development'. The increased level of interaction in this approach provides relevant insights into the cultural fit between parties.

### BPO enabled Scaleups

With the increased scarcity of talent worldwide as well as the limited budget to hire talent, startups can benefit from suppliers to become scaleups. By collaborating with suppliers, they can tap into the global talent market, labor market knowledge and the use of technology and innovation without significant investments. It is expected that startups will increasingly use Recruitment Process Outsourcing in the upcoming years, with potential to expand into other functions such as finance and procurement as they keep growing.

### API Driven Integration

API Driven Integration enables clients to democratize access to their existing assets and capabilities through a set of APIs. This trend results in an 'API ecosystem' which demands mature service integration, service orchestration, multi-supplier/contract management and sourcing management capabilities to effectively select, implement, manage and exit/re-transition services and tools that are part of the ecosystem.

### Streamlined delivery models

Organizations can have up to five suppliers while also having in-house captive centers, creating a complex and fragmented delivery footprint across the globe. In reshaping the delivery models, GBS and the operational leadership are aiming to simplify and streamline delivery models by harmonizing the delivery centers and increasing the operational efficiency.



# Sourcing Trends 2022

Domains: ● Digital (IT) Sourcing ● Business Process Sourcing ● General Sourcing Trend

## 0-2 years

### Social Media Services & Tooling

Service providers have been investing in tools and capabilities to offer a wide range of social media services. This is to build upon the increasing demand from organizations to use social media as an additional layer of communication towards their customers. These service offerings range from social media monitoring to business intelligence and to taking action in response to customer feedback. It is expected that service providers will invest more in establishing dedicated social media services teams that will work closely with customer service agents to improve lead times and, above all, the customer experience.

### Work From Home integrated in Delivery Model

Organizations were empowered to work from home during the COVID-19 pandemic and demonstrated the benefits of integrating WFH into the delivery model. In the most cost-competitive locations, such as India, WFH gives employees the opportunity to live closer to their families, thereby reducing costs such as commuting and rent. BPO & ITO suppliers need to find sustainable ways to provide their services due to the many new challenges this new way of working brings (e.g. higher attrition rates, reduced productivity). Another area of concern is the safeguarding of compliance at remote workstations, which may be higher on the priority list of organizations.

### Workplace Analytics

The COVID-19 pandemic has changed the way End User Computing (EUC) solutions are leveraged. Through Workplace Analytics, traditional End User Computing solutions are becoming more 'intelligent', providing data tools and metrics that allow organizations to combine various sources of End User Computing data and identify and implement improvements for productivity and workforce effectiveness (e.g. effectiveness of tooling usage and User Experience Index).

# Sourcing Trends 2022

Domains: ● Digital (IT) Sourcing ● Business Process Sourcing ● General Sourcing Trend

## 3-5 years

### Business Process as a Service (BPaaS) platforms

There is an emergence of BPaaS platforms being offered by suppliers. These platforms offer standardized processes based on leading practices and industry knowledge, while leveraging best-in-class technology and automation platforms. Automation is being incorporated to provide other benefits in addition to labor. These services are expected to become mainstream as entry costs become lower and transition times faster. Examples for Business Process as a Service platforms (BPaaS) are: Business process management, Web Analytics and Business-to-business integration.

### Intelligent Watch Towers

An Intelligent Watch Tower is a business capability that supports timely decision making by tapping into the application landscape and external sources to monitor both internal data and relevant changes in the market, technology, legislation. It can be used, for example, within the security management domain, as in real time security alerts. It provides tailor-made insights in a proactive manner, enabling an organization to anticipate issues and upcoming trends, changes and opportunities more quickly. Organizations source this capability both in-house and through external advisors.

### End User Experience based workplace

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

# Sourcing Trends 2022

Domains: ● Digital (IT) Sourcing ● Business Process Sourcing ● General Sourcing Trend

## 3-5 years

### Outcome-based Arrangements

For a decade, outcome-based models have been getting attention in the outsourcing industry. In reality, we see that the majority of commercial constructs are still based on transactions, with very few truly outcome-based drivers. Most firms have been experiencing a partnership with their suppliers during the pandemic, whereby suppliers proved their agility and value in times of crisis. This will boost the development towards a deeply integrated and mutually dependent relationship through shared risks and investments with suppliers.

### Cloud Robotics

Cloud Robotics platforms facilitate a higher level of human-robot interaction. Through Cloud technology, the basic capabilities of bots are leveraged through vast amounts of processing power and storage resources, offloading intensive computing tasks such as image recognition and downloading new skills and software updates. Cloud Robotics will become part of the service portfolio of suppliers and can thereby enable further digital transformations, providing end-to-end automation to their customers while also leveraging RPA and workflow suites.

### Mature 5G-based connectivity

Next-generation mobile internet connectivity offers faster speeds and more reliable connections. The low latency of the technology enables a never-before-seen connected and autonomous environment. Sourcing departments must closely monitor the development of this enabling infrastructure in order to anticipate new sourcing requirements resulting from new IT/digital solutions in a timely manner.

# Sourcing Trends 2022

Domains: ● Digital (IT) Sourcing ● Business Process Sourcing ● General Sourcing Trend

>5 years

## AI driven Contract Management

Artificial Intelligence (AI) in Contract Management is a new development in the sourcing domain and is rapidly maturing. Aimed at supporting the Service Management organization to track and control contractual commitments in an automated fashion (through Smart Contract Code and Digital Contract Management). This trend shows potential, but large-scale availability is currently limited to point solutions.

## Blockchain-based Contracting

A smarter way of contracting. We see developments that can result in traditional 'paper' agreements being replaced by digital artifacts shared via a blockchain database to securely view, revise and accept changes to contracts, all captured on a blockchain ledger (an incorruptible digital form). These contracts are stored electronically in one location accessible only to the parties with access, with versions and activities clearly recorded.

## Open Source- based Sourcing

Emerging scalable and more flexible point solutions managed with automated integration and orchestration tools offer clients more autonomy and flexibility. Lock-in effects and dependencies on closed source solution/suppliers can become a dissatisfier and lead to business (continuity) risks. The growing open source market provides more and more viable alternatives to source solutions to increase technical flexibility.

# Sourcing Trends 2022

Domains: ● Digital (IT) Sourcing ● Business Process Sourcing ● General Sourcing Trend

>5 years

## SecOps Automation

With a growing number of corporate mobile apps, embedded devices and IoT solutions, the impact of security breaches has greatly increased. Clients are evaluating the best-fit sourcing delivery option for (Dev)SecOps solutions that help organizations combine security and operations data for more accurate and actionable analysis, enabling them to identify blind spots and prioritize and fix the most critical flaws in any environment first.

## Self-service Digital Provisioning

Provisioning of infrastructure and platform services through self-service portals is becoming a mature capability. A foreseeable next step is self-service provisioning of end-to-end digital solutions. Enterprise service management systems, which offer strong integration capabilities (through standardized APIs orchestration and low/no-coding capabilities, etc.), enable organizations to source, implement and manage digital solutions far more autonomously, reducing time-to-market and improving innovation capabilities.

## Self-steering ecosystems

Self-steering ecosystems refers to the mechanism that copes with an increasing amount of (inter)dependencies between client, digital solutions and service providers in an autonomous way. In order to overcome these (inter)dependencies, strong collaboration between the different stakeholders is needed, to identify 'best practices' and integrate these learnings into a self-steering ecosystem that can be trusted and adds value to all the stakeholders within the ecosystem.

## KPMG Switzerland contacts

Please contact our local Sourcing experts below to further discuss the Sourcing Trend Radar.



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