A RESEARCH REPORT BY KPMG

Nordic Service Provider Performance and Satisfaction (SPPS): 2013

An Assessment of the Nordic Information and Communication Technology Outsourcing Market and its Service Providers

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Introduction

Each year, KPMG* undertakes an investigation into organisations’ satisfaction with their outsourcing service providers. The research results are recognised as one of the most extensive and representative ‘perception studies’ on the issues of Information and Communication Technology (ICT) sourcing in the marketplace today. This broad-ranging research study is conducted in a number of European countries using a common format to enable Europe-wide analysis and conclusions.

This year’s Nordic study investigates more than 450 outsourcing contracts held by almost 150 of the top ICT spending organisations in the region. Around 350 contracts were with Service Providers who had more than eight contracts with an Annual Contract Value of more than €1 million – the threshold for inclusion in the Service Provider rankings. The remaining contracts fall into the “other Service Provider category.” The total annual value of the contracts included in this study is estimated at around €5 billion. All commercial sectors are represented in the study, as is the public sector, including both central and local government organisations.

The fieldwork was conducted between February and April 2013. As such, it does not include some large outsourcing contracts signed after that date. These contracts will be included in our next survey.

Defining the research model: How you should read and interpret this research report and its findings

In reading this report you should bear the following factors in mind:

1. This is a perception study

   - This study focuses on the perceived quality of relationships between clients and outsourcing service providers of large business-critical contracts.
   - This study does not represent the opinion of KPMG member firms on the skills, capabilities or performance of any of the outsourcing service providers covered in the research. Rather, the study is based on clients’ perceptions and is unbiased of any relations between KPMG and the included service providers.
   - KPMG conducts the market research, but the findings represent the opinions of the clients of the service providers.
   - KPMG is responsible for defining the profile of the outsourcing contracts and the buyer organisations that participate and the service providers that are evaluated in this research.

The study does not seek to establish anything as absolute fact (as perceptions are by definition subjective), but to report upon the feelings and broader perceptions of key decision-makers regarding the services supplied by some of the market’s most important outsourcing service providers. At the most basic level, the ranking of these organisations provides them with a valuable warning about any gaps between the market perception of their organisation and its service offerings, and the resultant feeling within their customer base. In the most extreme cases, the results highlight key issues for that provider or the industry to tackle as a matter of urgency. The rankings are solely based on the feedback received in the market study from the clients polled. They are not based on any market metrics such as deals won, revenue, profitability or growth levels. The rankings are not based on the opinion of KPMG member firms, management, or consultants.

* KPMG LLP (US), KPMG Holdings Limited (UK) and KPMG International have acquired the business and subsidiaries of advisory firm EquaTerra Inc. Since 2002, EquaTerra’s research team has been conducting this unique market study that explores, assesses and interprets buyer satisfaction with the performance of their outsourcing service providers in a number of European countries. KPMG Advisory Research Group continues to conduct the Service Provider Performance and Satisfaction studies.

To learn more about research on outsourcing/global business services, please visit KPMG’s Shared Services and Outsourcing Institute: http://www.kpmginstitutes.com/shared-services-outsourcing-institute

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This study is conducted with senior management or C-level executives with influence over corporate strategy and third party services decisions. All participants in the study are responsible for the outsourcing strategy within their organisation. They also decide on or greatly influence budgets and are the influencers of decisions related to provider choice. Satisfaction is not only based on actual delivery, but also on how these individuals perceive the value they get from their providers.

2. Perception is never balanced or fair, but the study always has a representative sample size

Service providers rated in the study vary by size, service portfolio and client portfolio. The different providers all have a (slightly) different focus on Application, Infrastructure, Managed Network Services and/or End-User and Service Management, making it not only difficult but even impossible to compare ‘apples with apples’.

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

The minimum number of eight contract evaluations required for each service provider to be included in the study guarantees that the service provider scores reflect the opinion of a representative client group and not the opinions of individuals. The scores for each provider also represent similar seniority across many contracts, so that no contract or relationship can unfairly impact the score.

3. This study is for both buyers and service providers

The results of the study are used by all leading global and regional 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 programmes. The End-User organisations that participate use the results as a tool to benchmark their own satisfaction compared to that of others using the same service providers, as well as providing them with an opportunity to understand the perceived strengths and weaknesses of their providers in comparison to the market at large.

4. This study is focused on Information Technology Outsourcing (ITO), not Business Process Outsourcing (BPO)

The providers in this study are only evaluated on their ITO contracts and not on their BPO contracts.
Management summary

As in previous years, the 2013 study provides deep insights into the changing dynamics of the Nordic IT outsourcing market, as well as highlighting some powerful warning signs for both clients and providers. The first four points below focus on general trends in the market and will be dealt with in Section A of this report. The latter two points deal with findings from Section B, which covers the perceived performance quality of the service providers in depth.

Trends in the marketplace

1. The economic climate is creating some uncertainty over future outsourcing plans in the Nordic countries

Following years of growth, the results from this year’s study reflect a slight decline in levels of IT outsourcing, compared to 2012, and greater uncertainty around future plans. This is perhaps not surprising, given the prevailing economic climate in Europe and constraints on discretionary spending for new projects, as well as high pressure on driving additional savings out of existing contracts. Seventy-five percent of all respondents involved in the study confirmed that they will continue to outsource at the same rate or more, down from 83 percent in 2012. The number of respondents who say they will ‘probably’ outsource more fell from 37 percent last year to 26 percent. Moreover, 11 percent say they will outsource less, compared to just six percent in 2012.

2. Cost reduction continues to be the dominant driver for future outsourcing decisions but time to market is seen as increasingly important

Cost saving remains the primary rationale behind organisations’ decisions to outsource. Seventy-one percent of all organisations say they base future outsourcing decisions around the desire to achieve further cost savings. The second most influential factor – access to skills – was cited by 44 percent of respondents though this was eight percent down on last year. Time to market is seen as being increasingly important, with 27 percent of respondents citing this as a primary driver, compared to 18 percent in 2012. Not only continuous improvements of the services themselves but also the Service Providers’ ability to execute on agreed transition/transformation plans is expected to become more important.

3. Global sourcing remains a significant element in organisations’ sourcing strategies

Global or offshore sourcing is a significant element in Nordic organisations’ sourcing strategies with 65 percent of the organisations using offshoring or nearshoring. This shows little change on last year’s figure. A further seven percent say they are considering either offshoring or nearshoring in the future, so we are likely to see even higher levels of offshoring/nearshoring in the coming years.

4. The perceived quality of customers’ abilities to manage and govern service providers declined slightly on last year, suggesting there is room for improvement

The survey asks respondents to assess their own abilities to manage and govern their service providers in existing contractual relationships. The results for 2013 show a slight decline on last year: Forty-eight percent of respondents rate their management skills as ‘excellent’ or ‘good’, compared to 55 percent in 2012. More than four in ten respondents see some room for improvement in this area, rating their skills as ‘average’, while almost one in ten rate their skills as ‘weak’.

To secure success, customers need to be able to carefully structure, contract and manage their outsourcing projects. The need for strong skills and capabilities in this area are self-evident and long recognised by buyers, yet the actual quantity and quality of investments and resources deployed to manage and govern ITO efforts have often historically lacked what was required to perform these activities well.

5. The level of general satisfaction with outsourcing contracts is lower than last year.

This year, the average figure for general satisfaction fell slightly: 48 percent of respondents are either very satisfied or satisfied with their outsourcing provider, compared to 51 percent last year. Satisfaction levels tend to be higher for Managed Network Services and Application Management than for Infrastructure Management and End-User Services Management.

6. Innovation and Risk expectations are not being met by service providers

The Key Performance Indicators for Innovation and (shouldering) Risk are the only KPIs that have a score of below 60 percent, showing that for many expectations are not being met. Both KPIs are important in, and associated with, a longer term outsourcing relationship and both are likely to increase in importance in the next few years as buyers look beyond cost savings alone as a driver for outsourcing.
Profile of service providers and respondents group

Service Provider profile
Providers included in this study
- Accenture
- Atea
- Atos
- Capgemini
- CGI Logica
- Cognizant
- CSC
- Evry
- Fujitsu
- HCL
- HP Enterprise Services
- IBM
- TCS
- TDC
- Telenor
- TeliaSonera
- Tieto
- T-Systems
- Verizon Business
- Volvo IT

Respondents profile
Sectors
- Banking, Financial services, Insurance: 17%
- Retail, Wholesale: 14%
- Manufacturing: 13%
- Government (central / local): 7%
- Energy / Utilities, Oil & Gas: 6%
- Consumer Packaged Goods, Food/Beverages: 6%
- High Tech Products & Services: 5%
- Telecommunication: 4%
- Transportation & Logistics: 4%
- Other: 4%
- Business Services & Consulting, Construction: 3%
- Pharma/Biotech/Life: 3%
- Chemicals, Minerals, Natural Resources: 3%
- Entertainment / Media: 3%
- Real Estate: 3%
- Engineering: 2%
- Automotive: 2%
- Healthcare Providers: 1%
- Education: 1%
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