

IAOP Nordic Chapter Meeting, September 4th. 2013

**Outsourcing
v/ Per Lund Pedersen**

Deloitte Consulting A/S

Copenhagen, September 2013



Introduction: Per Lund Pedersen

Focus Areas:

- Sourcing Advisory predominantly in the areas of:
 - IT Infrastructure
 - Application Development
 - Application Maintenance
 - BPO
 - XaaS Offerings

Background:

- 7 years of operational Finance
- 7 years of outsourcing pursuit/delivery experience
- 10 years of sourcing advisory experience
- IT, Procurement and F&A

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Key Past Clients/Experience:

- | | |
|-----------------------------|----------------------|
| ■ Saab Aerospace | ■ NBIM |
| ■ German Armed Forces | ■ SEB |
| ■ Bombardier Transportation | ■ Swedbank |
| ■ Telia (M&A) | ■ Volvo Truck France |
| ■ AstraZenica | ■ Novo Nordisk |
| ■ SoftLab (BMW IT M&A) | ■ Nordea |
| ■ Statwerke Hannover | ■ IKEA |
| ■ Mobilcom | ■ Sandvik |
| ■ ABN AMRO | ■ Danske Bank |
| ■ ScandiHealth | ■ Maersk Group |
| ■ BAPV (Integration) | ■ DSB |
| ■ DB | ■ Lego |
| ■ Bol | ■ Ecco |
| ■ CLS | ■ Dansk SuperMarked |
| ■ Credit Suisse (Network) | ■ Nokia |
| ■ Novartis | ■ Arla Foods AMBA |
| ■ Unilever | ■ Nets |
| ■ BaneDanmark | ■ +++++ |

Agenda

Growth of Outsourcing

ITO Trend and Perspectives

FAO Trends and Perspectives

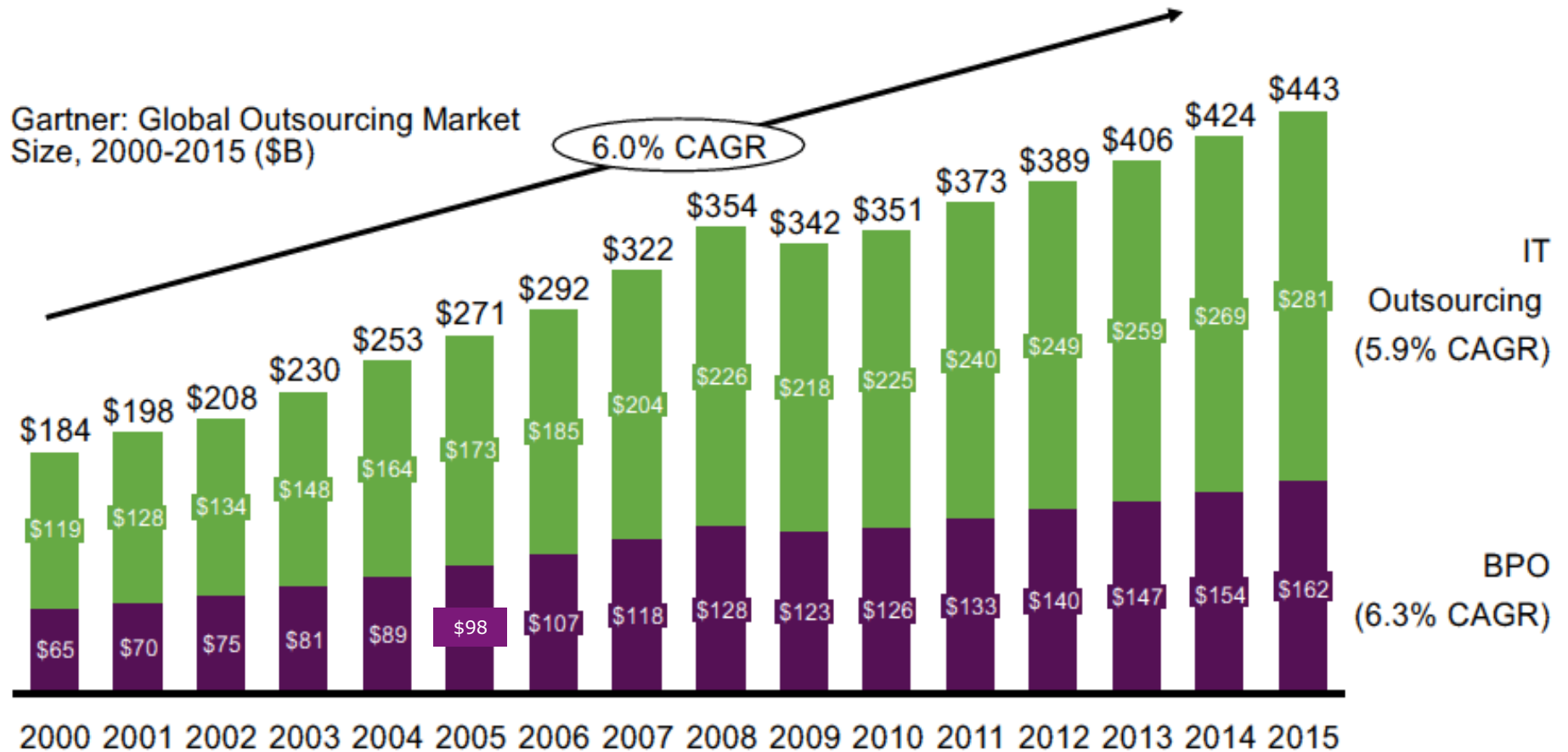
A bit of Both

Pricing Approaches

Proactive Supplier Management

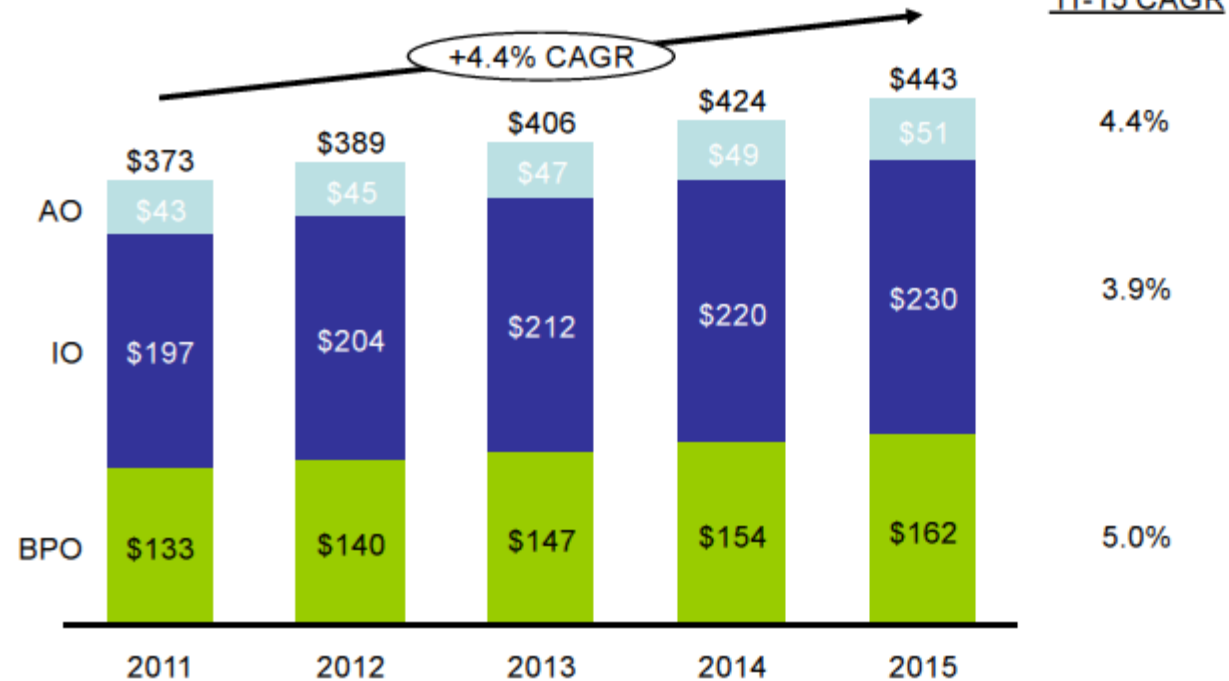
Wrap up

Outsourcing Market Perspective 1 of 2



Outsourcing Market Perspective 2 of 2

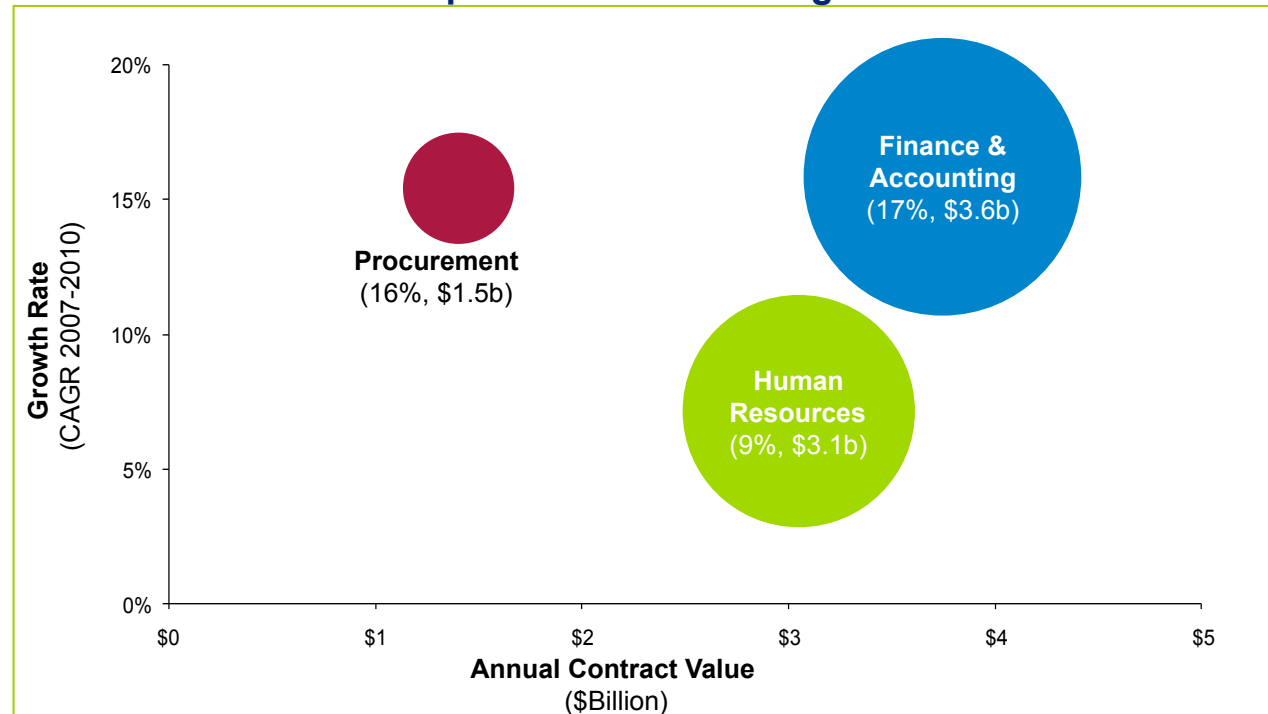
Gartner: Global Outsourcing Market Size, 2011-2015 (\$B)



- Outsourcing forecast shows a return to a positive growth in 2010 and beyond
- Growing client demand resulting from the changing ITO delivery model (cloud, consumerization, industrialization and so forth) will feed accelerating ITO growth rates
- The opportunities for innovation through ITO engagements potentially will lead to more enhancement or transformation initiatives, which will drive incremental spending
- More BPO deals getting completed as economic growth improves in the developed markets and the increase in transaction volume expected to carry over from 2010

Finance and Accounting Outsourcing (FAO) in the context of the broader BPO Market

BPO: Comparison of market segments



- The Business Process Outsourcing market across all areas continues to grow year on year. The main drivers for this are not only new deals but contract renewals, scope expansions and the opening of new markets
- Finance and Accounting Outsourcing (FAO) is both the largest and the fastest growing segment of the BPO market

Source: Deloitte Analysis, ERI, Gartner

Note: HR Growth Rate analysis completed from 2006-2009 in the absence of 2010 onwards data

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Trends ITO

■ Multi Vendor

- SIAM
- Upgrade of Vendor Mgmt. Function
- ITSM/Governance Tools

■ Functional Scope

- Carefully consider control functions

■ Service Provider Selection

- Competencies
- Flexibility
- Openness

■ Delivery models

- Full Service/Out-tasking
- Staff Augmentation
- Cloud
- Co-location

What is Co-location

- **Colocation** refers to the practice of housing your servers and devices in a professional datacenter in order to access economies of scale, advanced infrastructure, greater bandwidth, lower latency, specialist services and systems, constant security and a whole host of additional advantages.
- As technologies become more extensive and sophisticated, the option of constructing or adding on to a proprietary, private datacenter becomes commercially and practically absurd (except, perhaps, for the largest businesses).
- Modern datacenters are very large facilities. For instance, a new PEER 1 Hosting datacentre located in Portsmouth UK, has a floor area of 5,372m², delivering 11 MVA of power. And yet it consumes a minimal amount of power, thanks to a free air cooling system that would be beyond the means of any single enterprise.
- Greater resilience to disaster and to malicious attack, huge savings available in cost and time and the sheer convenience of an environment in which every conceivable service is immediately on hand — it all adds up to a logical argument for colocation as the best strategy for many businesses.

What Are Colocation Services?

- **Colocation services** are offered by datacenters equipped and configured to allow secure client access to private servers. Colocation services include leasing server cabinets and cages, connecting to the ISP's network and physical infrastructure, and monitoring server status. Each cabinet and cage is securely locked and inaccessible to other colocation clients. Hardware is administered by the client without any ISP involvement, except manual server restarts upon request. Some ISPs offer additional professional services as well.
- Colocation services let clients take advantage of superior datacenter infrastructure, while maintaining control over their servers. The benefits to colocation customers include:
 - Environmental control, such as constant temperature and humidity maintenance, and particulates filtration
 - Fire suppression systems
 - Redundant power sources and uninterruptible power supplies (UPS) backup
 - Large capacity of multi-homed quality bandwidth
 - Around-the-clock physical security such as card entry and video monitoring of the facilities
 - Monitoring and technical services such as central data storage, backups, firewall and DDoS attack mitigation.
 - Using colocation services is an effective way to obtain business continuity, scalability and minimal network latency at a fraction of the cost it takes to accomplish the same things in a private datacenter. Yet at the same time you can maintain complete control over the physical server, the operating system and the applications.

Technical and Commercial perspectives

- Both suppliers offer secure, highly available data center space with minimum services
- Important to properly spell out service level responsibilities and the proposed term enabling a proper performance risk assessment by clients
- Set up timelines (if not already in the market) for building out it data centres and cabling length for the redundant network connections
- While providing data center space is not that difficult, the services around making the space secure and usable needs more attention:
 - What is the actual floor space being contracted for? Client's estimate or the supplier's (it varies by 25% for no apparent reason)
 - What are their commitments for providing the proper cabling to the racks upon request?
 - What is the physical security provision? Is 7X24 staffing required or is remote monitoring acceptable?
 - How quickly do they provide access to the facility for support staff and e.g. following a major snowfall?
 - Who is responsible for cleaning the customer's portion of the data center? The common areas? Who takes care of trash removal, packing materials, etc.
 - Who packs and ships equipment being returned to lessor?
- How do we pay for these services SQM, Power (KWH), Space reservation fees

The market Place

	Equinix	Telehouse	CoreSite	Telx	Interxion	Telecity	Global Switch
Founded:	1998	1990	2001	2000	1998	1998	1998
Company type:	Public	Public	Private	Private	Private	Public	Private
Symbol/owner:	NASDAQ:EQIX	TYO:9433	Carlyle	GI Partners	Baker Capital	LON:TCY	Reuben Brothers
Revenue H1 2009:	\$508.9m				€82.9m	£82.2m	
EBITDA H1 2009:	\$226.2m				€29.8m	£29.4m	
Data centers:	79	47	10	15	26	23	9
Capacity (sq. f.):	6,100,000+	750,000+	2,000,000+	<i>Unknown</i>	590,000+	620,000+	2,790,000+
2009 New DC's:	8	6	1	1	4	3	0
2009 Expansions	3	0	1	5	4	1	0
Countries served:	10	11	1	1	11	7	7
Markets served:	34	24	7	11	13	8	7
- Europe:	8	2	0	0	13	8	5
- North America:	22	2	0	0	0	0	5
- Asia-Pacific:	4	18	0	0	0	0	2
- Africa:	0	2	0	0	0	0	0
<i>The data has been gathered from various sources, primarily corporate websites and Wikipedia, and its accuracy therefore can not be guaranteed.</i>							
<i>Equinix data are combined with S&D data and the Telehouse data are partly based on the entire KDDI Corporation.</i>							

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State of the FAO Market

State of the FAO market



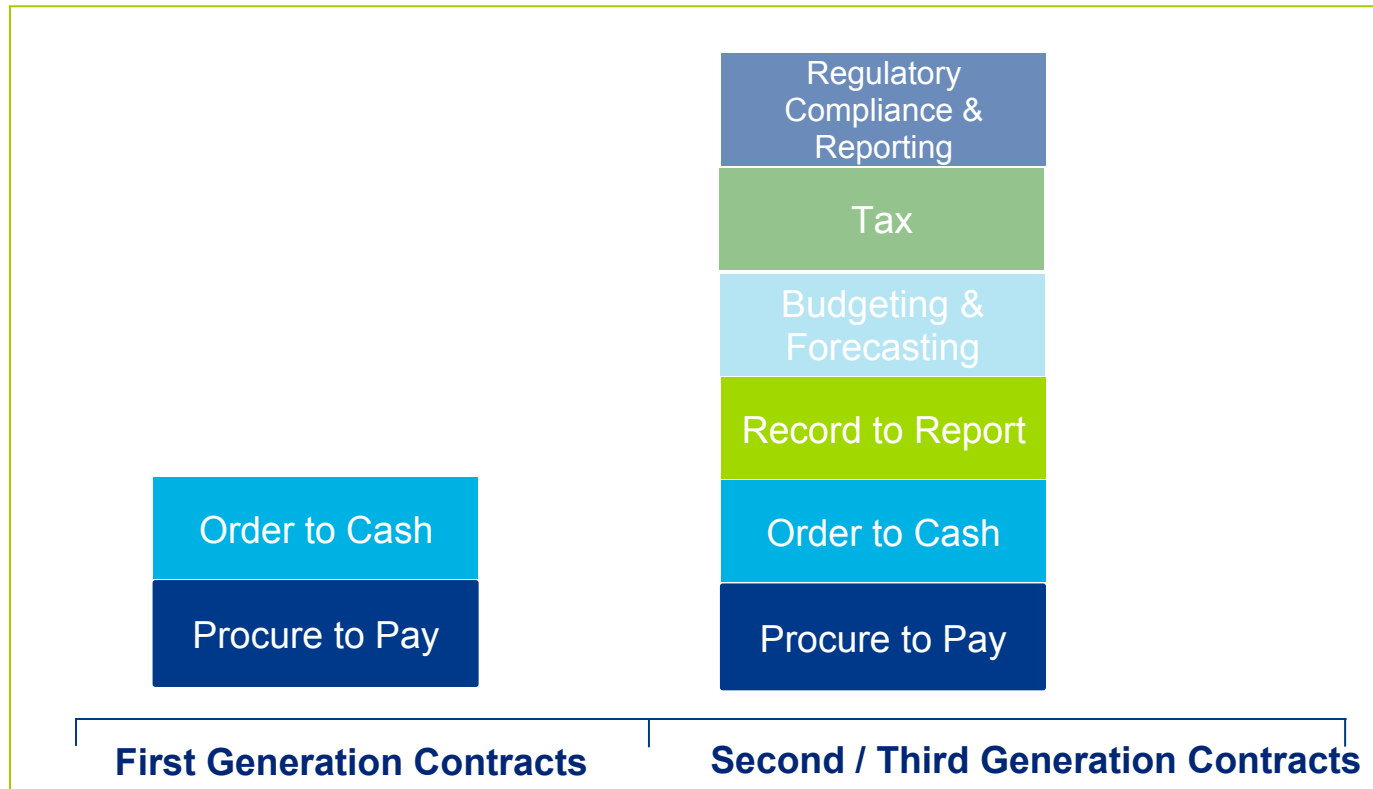
Illustrative FAO deals in 2011-12

Buyer	Supplier	Contract Value (\$m)	Geographic Scope	Industry	Deal Description
Western Australia Department of Health	Serco Group plc	\$3074	Australia	Government	Finance and Accounting, Procurement, Other BPO services such as IT, HR, Admin
Thomas Cook plc	Accenture plc	\$502	United Kingdom	Transportation	Finance and Accounting, Other BPO services such as IT Helpdesk, HR and Network Management
Cambridge-Shire & Peterborough NHS Foundation Trust	Serco Group plc	\$189	United Kingdom	Government	Finance and Accounting, Procurement, Other BPO services such as IT, HR
Grupo Algar	Capgemini, IBM Global Services	\$163	Brazil	Securities and Investment Services	Administration, Finance and Accounting, Human Resources, Procurement
Kimberly-Clark Corporation (K-C)	Genpact Limited	\$80	USA	Process Manufacturing	Finance and Accounting
Danfoss A.S.	Capgemini	\$20	Denmark	Construction	Finance and Accounting
Tata Teleservices Ltd. (TTSL)	Serco Group plc	\$8	India	Communication & Media	Customer Care, Finance and Accounting

- Finance and Accounting Outsourcing market continues to grow rapidly
- Also, driven by shorter deals and greater adoption by the mid market, FAO deals are becoming smaller on average

Source: Deloitte Analysis, HFS, ERI, IDC

Deepening of Adoption: Scope evolution – Process Inclusion

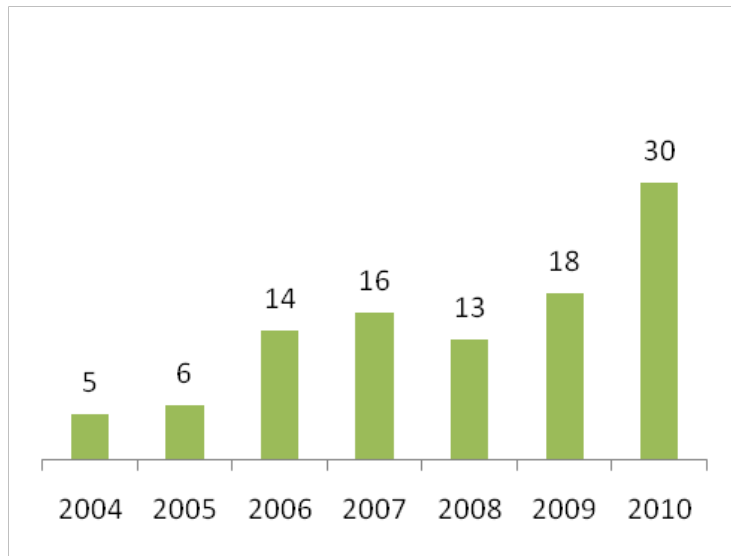


- Most first generation FAO contracts tend to be focussed on transactional processes such as Procure to Pay and Order to Cash
- In addition to the above transactional processes, second generation FAO contracts include a greater spread of finance processes such as Record to Report, Tax, Budgeting & Forecasting and Regulatory Compliance and Reporting

Source: Deloitte Analysis, ERI

Deepening of Adoption: Scope evolution – Procurement Bundling

FAO contracts bundled with Procurement
Number of contracts



Selection of deals bundling procurement and F&A scope to a single supplier

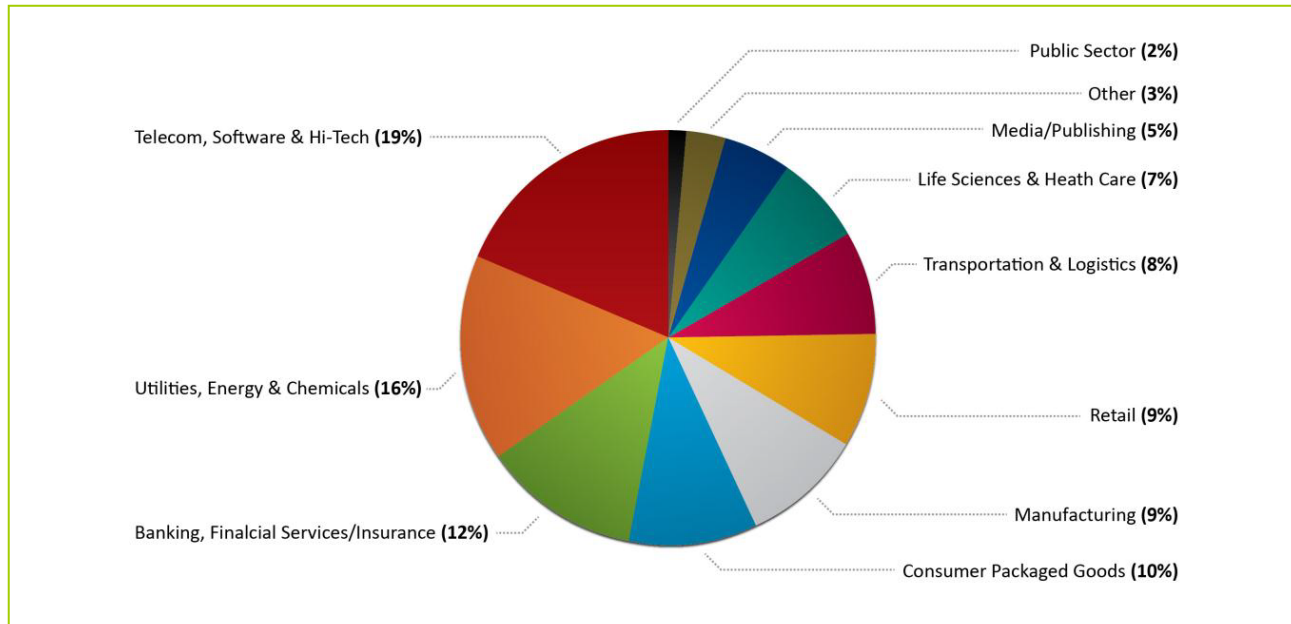
Company	Profile	TCV (\$m)
Syngenta (2010)	Extension of an existing agreement of F&A services with Capgemini to add procurement services, delivering to the worldwide Syngenta business unit portfolio in over 50 countries.	\$150
Sara Lee (2008)	Global Outsource to IBM. Full Scope F&A Includes Indirect Procurement Services (indirect procurement processes, strategic sourcing, category management, and transactional processes that are tightly integrated with AP)	Circa \$100m
Microsoft (2007)	Seven-year agreement with Accenture to outsource requisition-to-purchase-order processing, along full F&A scope. Spanning 92 countries, these services will be managed from five delivery centers on five continents.	\$185
Unilever (2006)	Agreement with IBM to support the transformation and ongoing management of procurement operations for Unilever Europe with an integrated procure-to-pay process.	Unknown
Deutsche Bank (2004)	Worldwide corporate purchasing and accounts payable services outsourced to Accenture.	Unknown
Dairy Farm (1999)	Dairy Farm, which set up a 50:50 joint venture with Cap Gemini in 1999 to provide F&A and procurement services. Dairy Farm then entered into a new 7-year partnership with Capgemini in 2003 for a full scope of Business Process Outsourcing (BPO) services including Finance & Accounting, HR Administration and Procurement services for Group companies.	Unknown

- Although most clients tend to split their multi tower scope (Procurement, HR, IT) across a number of providers, there is an increasing trend to bundle Procurement with F&A to improve the synergies in the procure to pay process.
- A number of key clients have adopted this approach in recent years with a varying range of providers.

Source: ERI, Deloitte Analysis

Broadening of Adoption: Increased industry spread

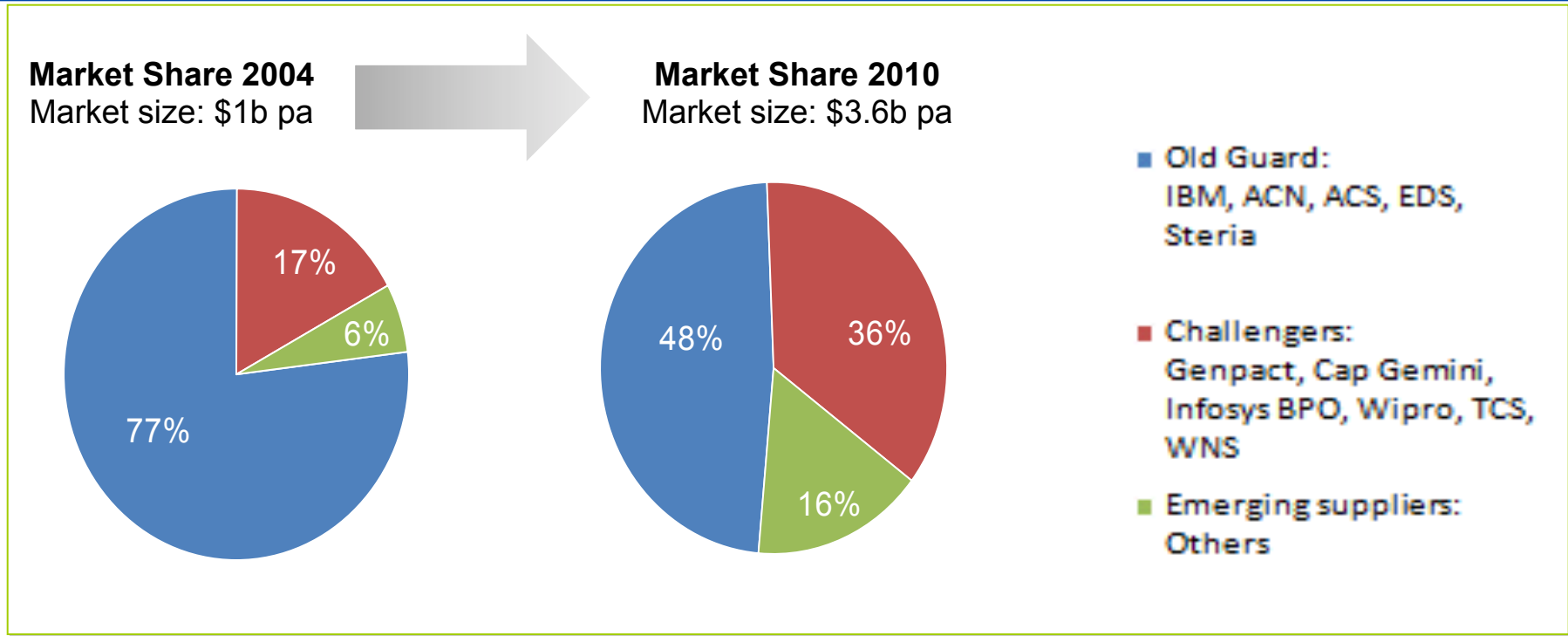
FAO Expenditure: Comparison of industries



- More industries are opening up to F&A outsourcing
- Industry sectors such hi-tech, telecom and financial services, which were earlier outsourcing only IT and customer operations processes, are dominating FAO expenditure market share (~50%)
- The main drivers for this are improved capability of service providers as well as changing mindset of industry leaders

Source: HFS, Deloitte Analysis

Maturing Supplier Market: Market Share



- A core group of established providers have traditionally had the bulk of the market share in the FAO space
- As the market competition has become more intense in recent years, a growing number of challengers has emerged. These providers are proving themselves to be credible, hungry and willing to invest in the marketplace and have taken away a significant market share from their established competitors

Source: ERI, Deloitte Analysis

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Typical pricing approaches

Approach	Examples	Description
Input based	<ul style="list-style-type: none"> ■ Cost plus ■ Time & materials ■ FTE Based 	<ul style="list-style-type: none"> ■ 'Open book' pricing (full transparency of underlying costs) ■ Client pays actual costs plus an agreed margin ■ Unit pricing agreed on inputs – typically a rate card for various resource types
Output based	<ul style="list-style-type: none"> ■ Fixed price ■ Unit pricing 	<ul style="list-style-type: none"> ■ Fixed price agreed for a given scope of work with a change management process for managing change ■ Price agreed for a 'menu' of outputs e.g. per invoice processes
Value based	<ul style="list-style-type: none"> ■ Gain sharing ■ Value incentivisation 	<ul style="list-style-type: none"> ■ Cost savings created by outsourcing shared between client and supplier in a pre-agreed ratio ■ Business value created by outsourcing shared between client and supplier

Proactive Supplier Management

Common Practice		Leading Practice
Large number of SLAs and KPIs in place		Focus on limited number of SLAs with other KPIs being reported as required <ul style="list-style-type: none">– SLAs and KPIs tailored to level of governance
Performance Reporting at end of the month		Real time reporting of performance <ul style="list-style-type: none">– Early identification of potential issues to ensure proactive resolution
Common to find SLAs green, but business unhappy		Focus on customer satisfaction as a major SLA <ul style="list-style-type: none">– Dynamic changes made to SLAs to focus on areas of high impact
Penalties for poor performance, though seldom applied		Penalties retained, but also supplemented with rewards to incentivise supplier performance <ul style="list-style-type: none">– Sometimes linked to business outcome

Source: Deloitte Analysis

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- Feedback?
- Questions?