Market Report | Market Vista™

Recalibrating for Resiliency – 2021 Key Issues in Global Sourcing

Enterprise Perspective

December 2020

EGR-2020-35-R-4168

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- **Market Vista™**
  Global services tracking across functions, sourcing models, locations, and service providers – industry tracking reports also available

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BPS | Banking & Financial Services	Human Resources
BPS | Healthcare & Life Sciences	ITS | Banking & Financial Services
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Custom research capabilities

- Benchmarking | Pricing, delivery model, skill portfolio
- Peer analysis | Scope, sourcing models, locations
- Locations | Cost, skills, sustainability, portfolio – plus a tracking tool
- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies, contract assessment

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Introduction and overview

Background, methodology, and scope of the research

Background of the research

While 2020 has been challenging on multiple fronts, many organizations have seen the positive side, taking on the challenge to recalibrate for resiliency, to thrive through the continuing pandemic and emerge better prepared for future crises. This report provides perspectives on how leading global enterprises are putting 2020 behind them and planning to develop resiliency in 2021 and beyond. The report highlights enterprises' growth sentiments, key priorities, challenges, and initiatives from a global sourcing perspective.

Methodology

Our global services market Key Issues research is based on annual surveys that capture the pulse of the market on key aspects of global sourcing industry. This report presents the results of a study we conducted in October and November of 2020 with senior stakeholders from global enterprises across multiple departments such as procurement, IT, and Global Business Services (GBS) to understand their thoughts as they undertook planning for 2021.

Report focus

- Financial performance in 2020 and sentiments for 2021
- Anticipated top business challenges and critical business model changes in 2021
- Digital capabilities priorities
- Talent-related challenges and hiring sentiments for 2021
- Anticipated changes to service provider portfolios and key service provider-related challenges and priorities
- Operating model changes
- Outlook for GBS

Scope of this report:

Geography
Global

Industry
Cross-industry

Services
IT and business process services

Summary of key messages

We made it – 2020 is coming to an end

Digital is moving from pilot to program

Talent focus is moving from quantity to quality

Sourcing momentum is accelerating

Operating models – everything is on the table

Leverage of GBS is increasing with growth expected in offshore and nearshore locations

02

Market sentiments

- Financial sentiments
- Key business challenges
- Anticipated business model challenges

We entered 2020 with UNcertainty…and we were right about that, but for the wrong reason

How it started

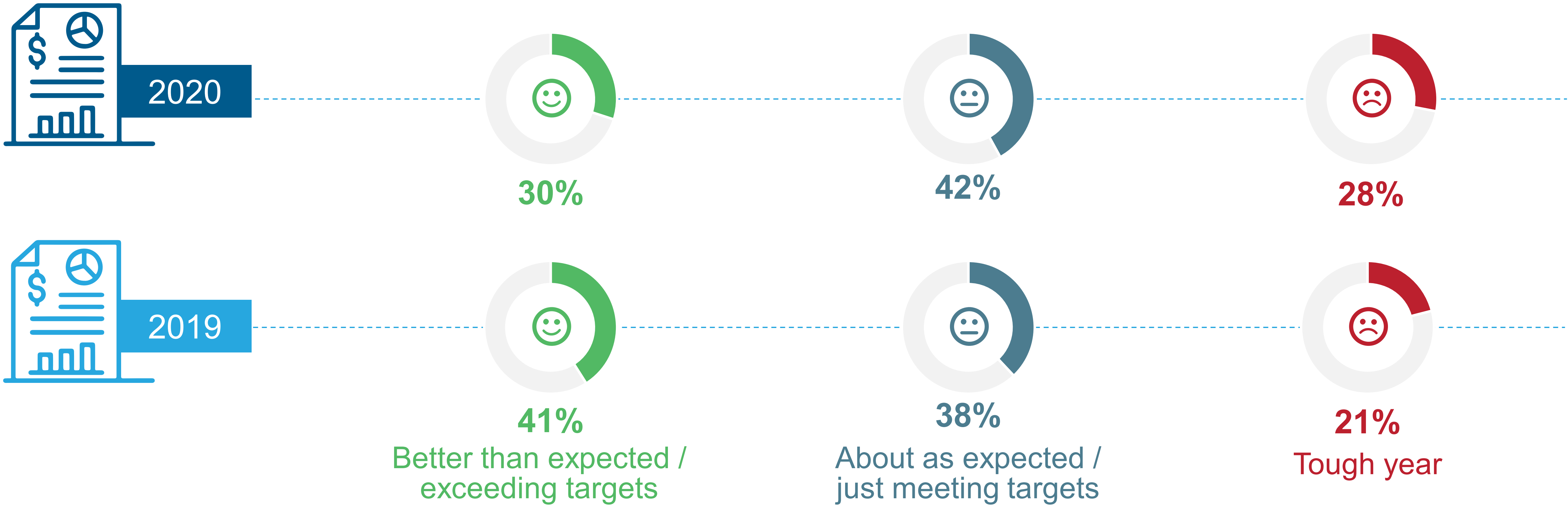
How it's going

Pent-up/op-timism: the sense that tension is building for a breakout 2021…

If 95% effective

Despite the pandemic, more than 70% of the industry remains optimistic about meeting or exceeding its 2020 targets…

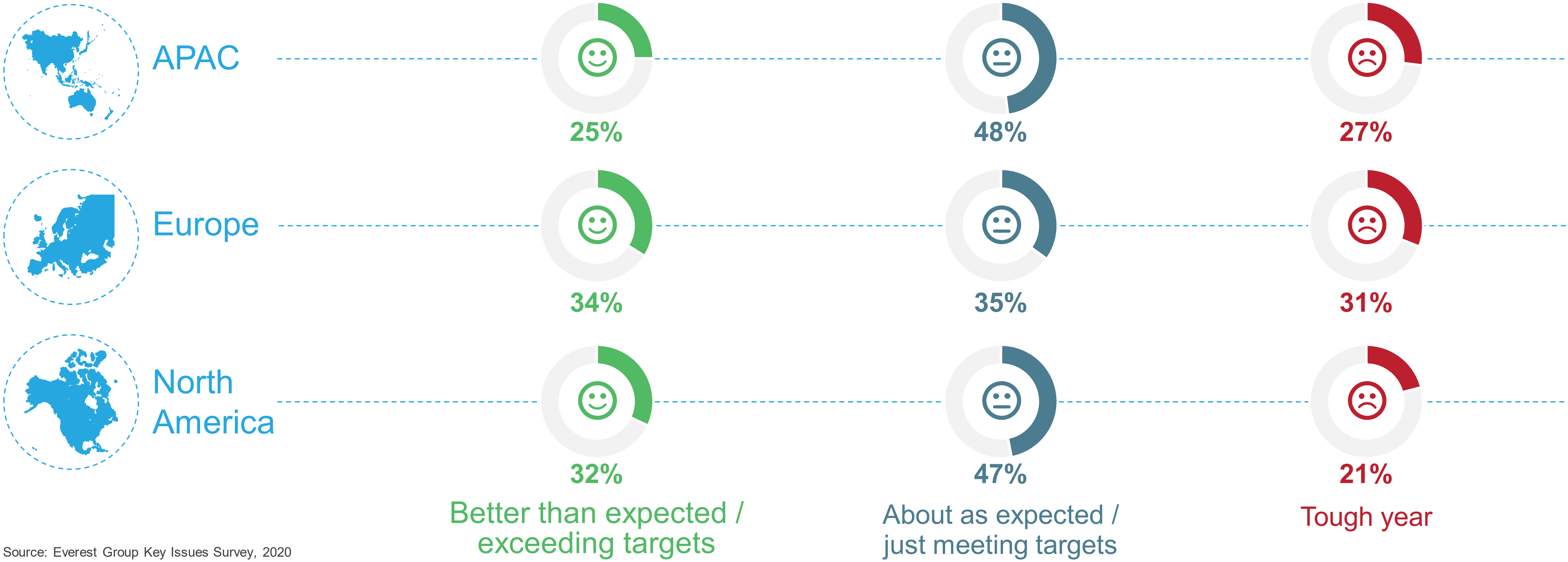
Sentiment about 2019 and 2020 financial performance – enterprises and service providers
Percentage of respondents



Source: Everest Group Key Issues Survey, 2020 and 2019, respectively

...and this trend is similar across geographies

Sentiment about 2020 financial performance, by region – enterprises and service providers
Percentage of respondents



Source: Everest Group Key Issues Survey, 2020

Adapting to new business models remains the top business challenge

Key business challenges – enterprises and service providers

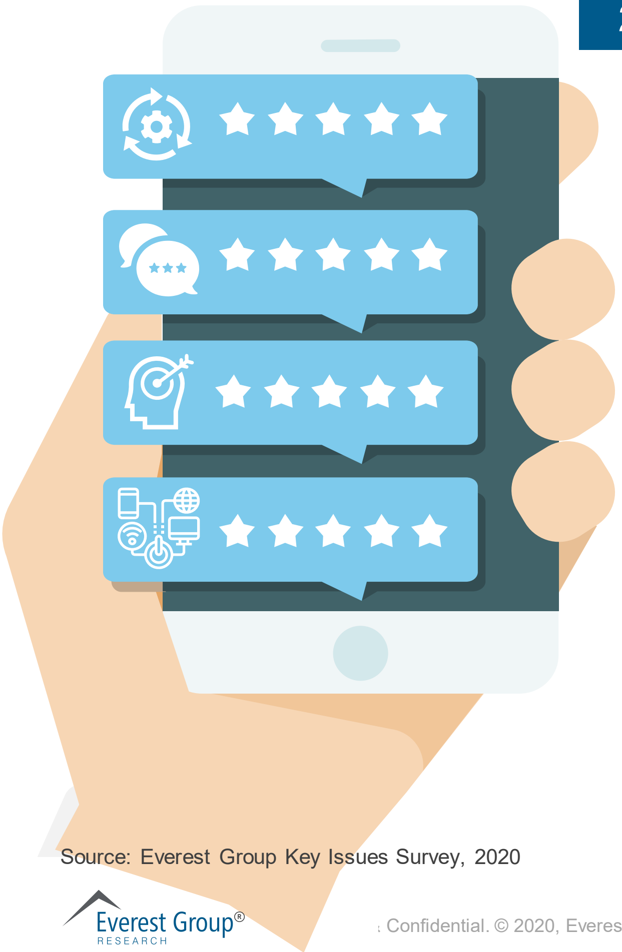
2021 rank	1	2	3	4	5
	Adapting to new business models	Slowdown in decision-making	Price/cost pressure	Recovery from the pandemic	Talent/skills shortage
2020 rank	1	4	2	NA	5

Note: In 2020, regulations in key markets was the #3 issue (think trade wars/tariffs)

Source: Everest Group Key Issues Survey, 2020

The industry is increasingly focused on operational efficiency and customer acquisition

Critical business model changes / areas of innovation for the next 1-2 years – enterprises and service providers
Based on percentage of respondents selecting as highly critical



2021 rank	1	2	3	4	5	6
	Operational efficiency	Customer experience	Driving customer acquisition	Implementing technology	Launching new products/ services	Revenue/ pricing of existing products/ services

Source: Everest Group Key Issues Survey, 2020

03

Digital capabilities

- Digital as a lever to improve resiliency
- Key digital priorities

Enterprises increasingly identify data availability, spending levels, and digitalization as key levers to increase business resiliency

Ranking based on percentage of respondents selecting as highly important – enterprises

Data availability/cleanliness/visibility

Spending/cost levels

Digitalization/automation

Risk planning and mitigation

Service level flexibility

Scalability of key outputs

Ability to move resources around the world

Geographic diversification of the workforce

Use of alternative talent models (e.g., gig/contingent)

Source: Everest Group Key Issues Survey, 2020

With increased digitalization – further accelerated by COVID – cloud and cybersecurity emerge as top digital/next-generation capability priorities

Top digital/next-generation capability priorities for the next 6-12 months – enterprises and service providers

1	2	3	4	5
Cloud solutions	Cybersecurity	Analytics	Advanced automation (AI, Cognitive)	Automation (RPA)

- Infrastructure security and scalability (1–2)
- Insights (3)
- Automation and process improvement (4–5)

Source: Everest Group Key Issues Survey, 2020

04

Talent

- Hiring sentiments
- Talent related challenges

Hiring for 2021 will be significantly muted across geographies

Sentiments about anticipated headcount growth – enterprises and service providers
Percentage of respondents

	2020	2021
Overall market average growth	**5.2%**	**2.7%**
APAC average growth	10.2%	4.7%
Europe/UK average growth	3.9%	2.0%
North America average growth	4.6%	2.1%

Source: Everest Group Key Issues Survey, 2019 and 2020, respectively

Hiring for 2021 will be significantly muted across functions, except GBS, which is anticipating substantial relative growth

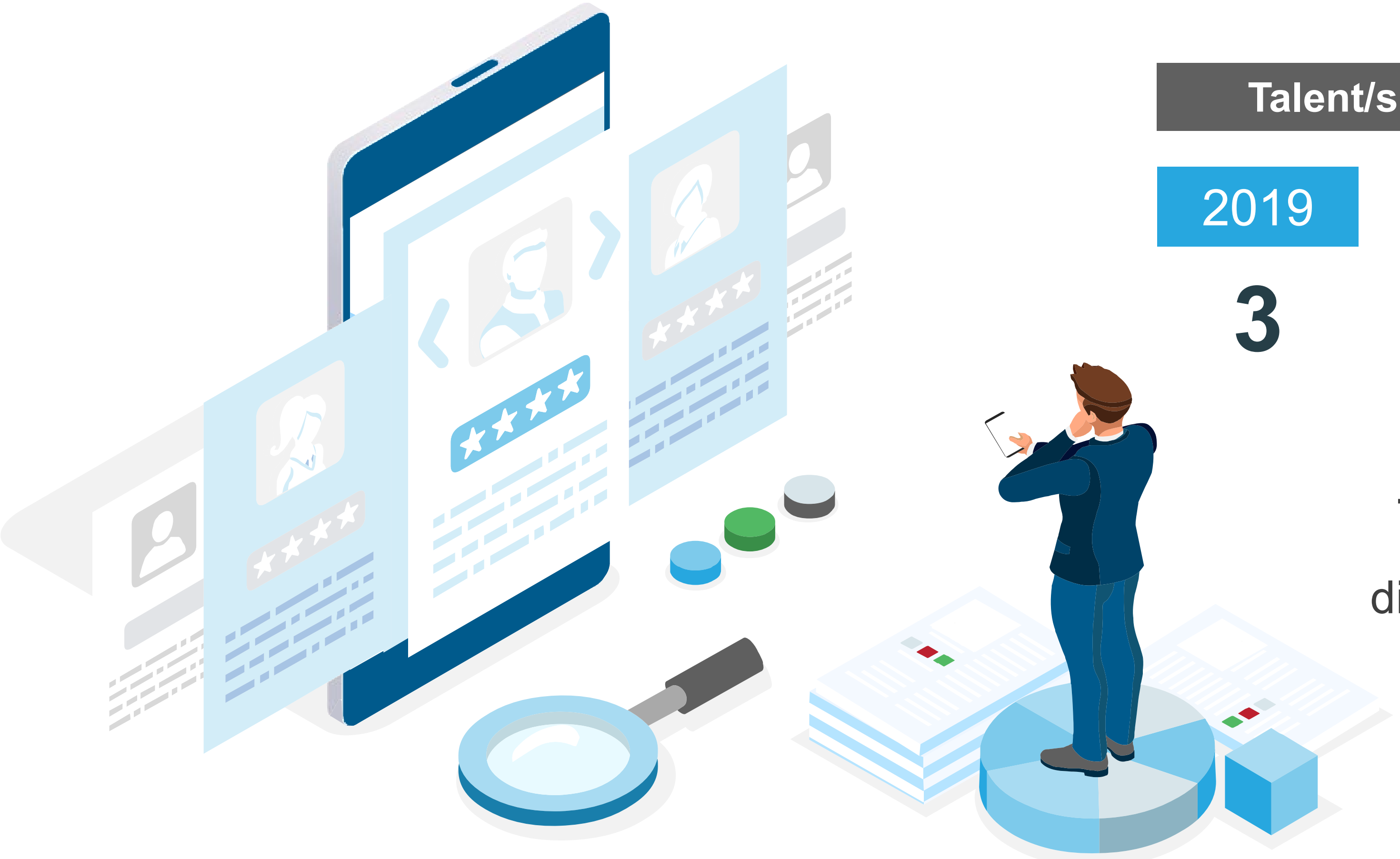
Sentiments about anticipated headcount growth, enterprise department view
Percentage of respondents

	2020	2021
Sourcing average growth	4.0%	1.6%
GBS average growth	**2.8%**	**6.2%**
IT average growth	3.8%	1.6%

Source: Everest Group Key Issues Survey, 2019 and 2020, respectively

However, enterprises are significantly less concerned about talent/skills shortages now than they were in 2018…

Ranking of talent/skills shortages as a key challenge, 2019-21 – enterprises



Talent/skills shortages as a key challenge: ranking

2019	2020	2021
3	5	8

…with the pandemic causing unemployment rates to soar, the amount of talent needed is diminished, but there is still a talent challenge

Source: Everest Group Key Issues Survey, 2019 and 2020, respectively

While talent is no longer a top-3 issue, it remains a challenge, but with a few new twists

Top talent-related challenges – enterprises
Percentage of respondents selecting as highly challenging

1. Shortage of next-generation skills
2. Talent retention / market competition
3. Talent quality
4. Employee engagement in a remote working environment
5. Lack of integrated supply-demand planning

Source: Everest Group Key Issues Survey, 2020

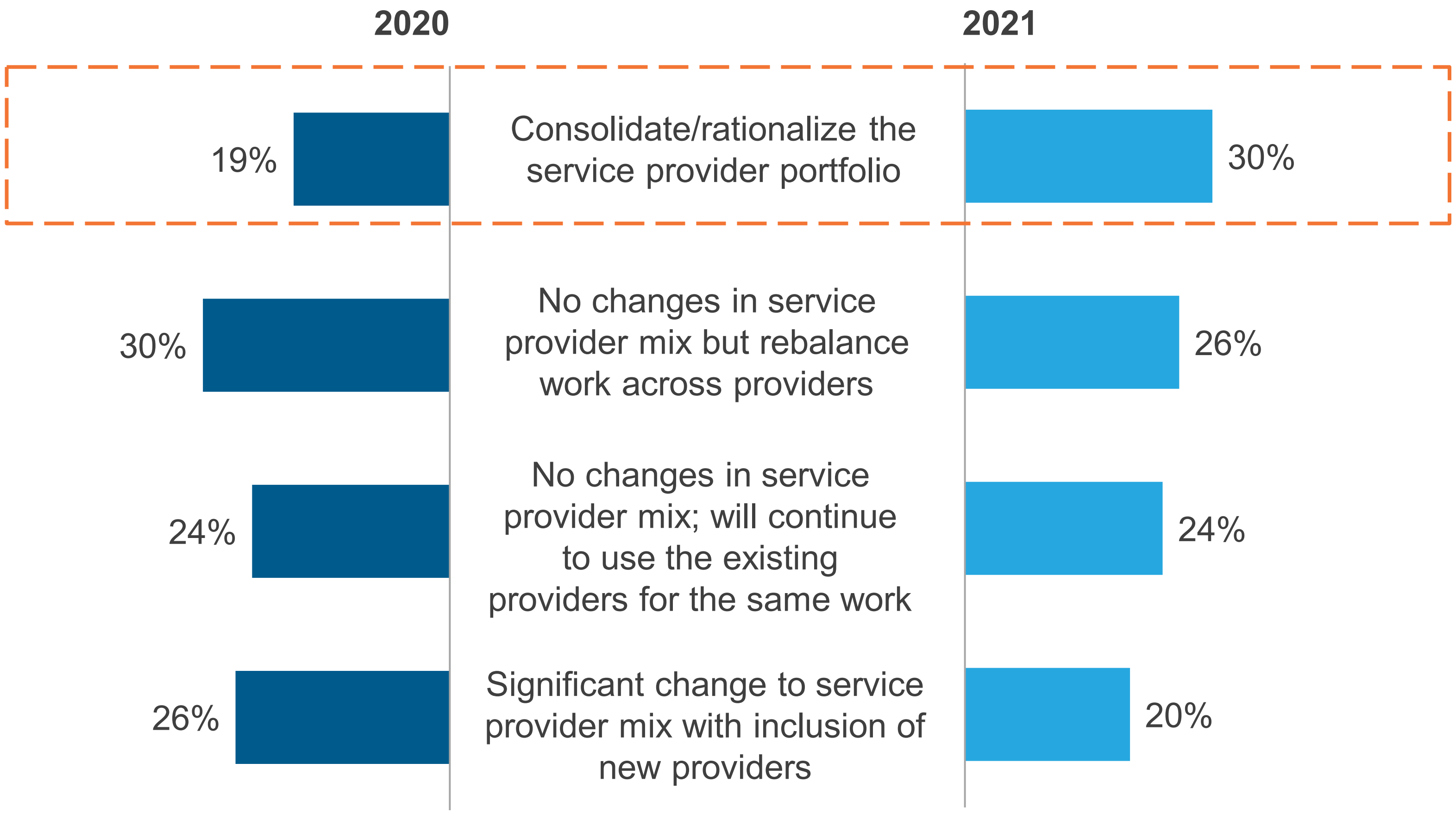
05

Sourcing strategy

- Anticipated changes to service provider portfolios
- Key service provider-related concerns in 2021
- Expectations from service providers in 2021
- Satisfaction with service provider performance during COVID-19

Procurement organizations largely anticipate consolidating/rationalizing their service provider portfolios

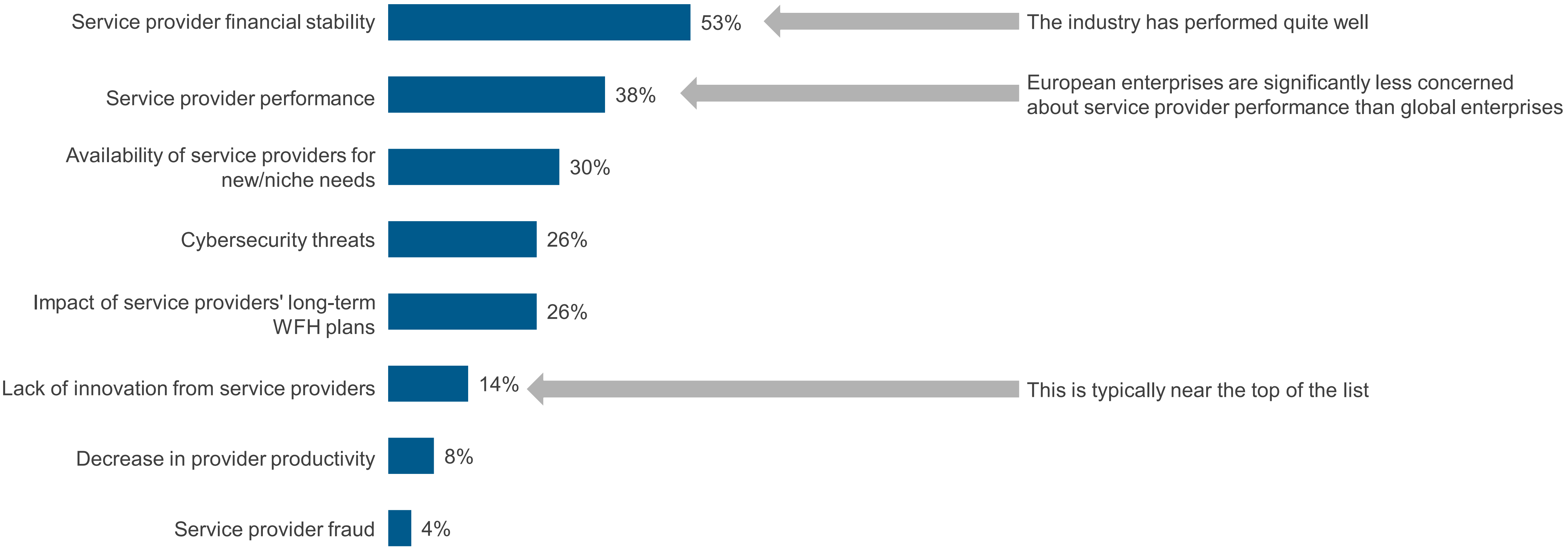
Percentage of respondents – enterprises



Source: Everest Group Key Issues Survey, 2018, 2019, and 2020, respectively

However, despite these changes, concerns remain, such as service provider financial stability and performance in 2021

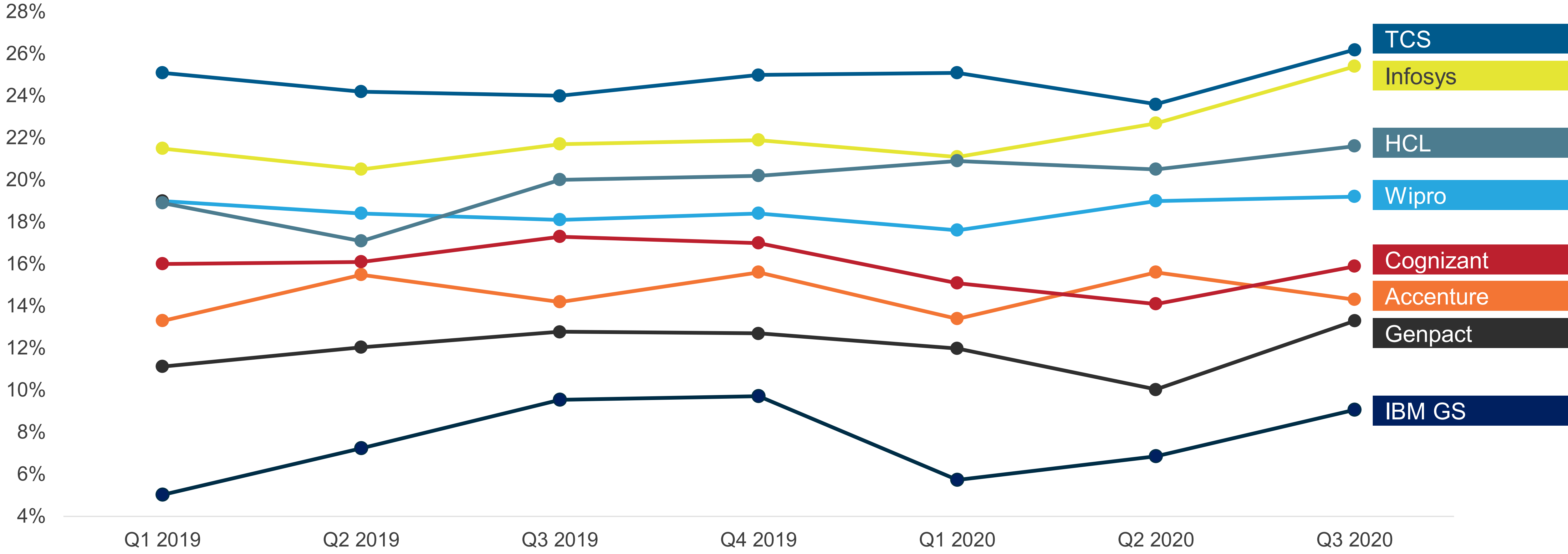
Percentage of respondents selecting as high concern – enterprises



Source: Everest Group Key Issues Survey, 2020

Despite concerns about financial stability, the industry has actually performed quite well

Operating margin by quarter



Source: Company financial reports

Top priorities enterprises expect from their service providers are productivity and service quality

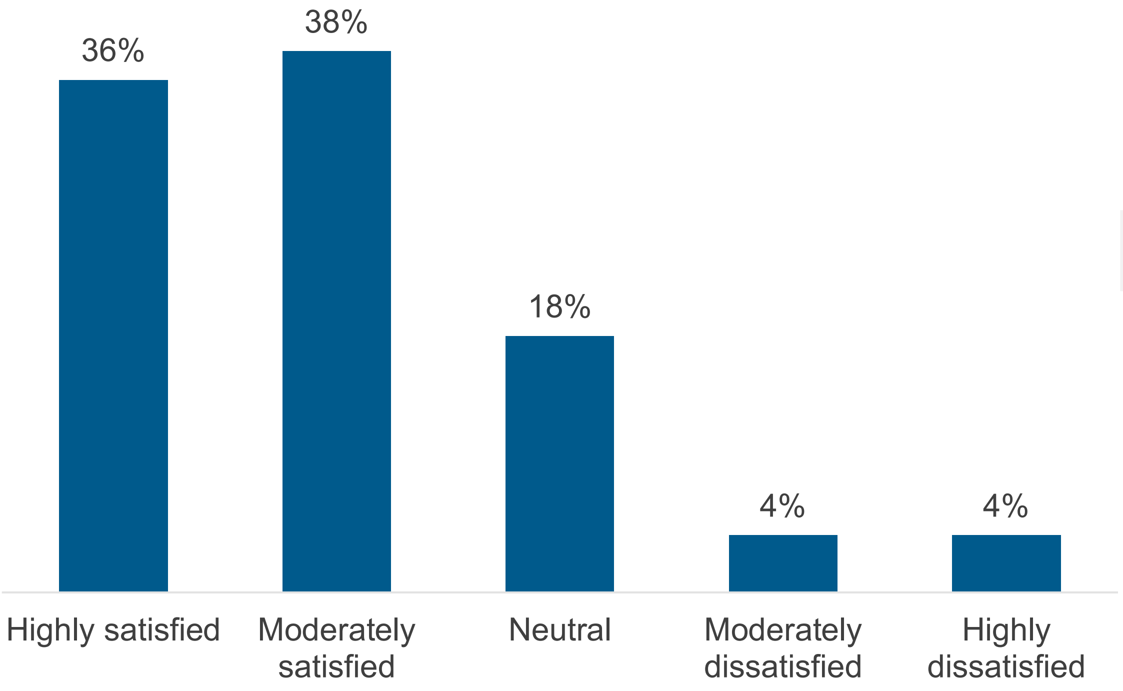
Key performance parameters enterprises expect from service providers

1. Productivity
2. Service quality
3. Flexibility
4. Ability to adapt to new business models
5. Ability to bring innovative ideas

Source: Everest Group Key Issues Survey, 2020

Enterprises remain largely satisfied with their service providers' performance, even during the COVID-19-induced shutdown

Average satisfaction with service providers during the COVID-19 shutdown
Percentage of respondents



Key value propositions driving satisfaction

1. Flexibility to react to change
2. Partnership mindset
3. No impact to performance levels
4. Strong communication

Source: Everest Group Key Issues Survey, 2020

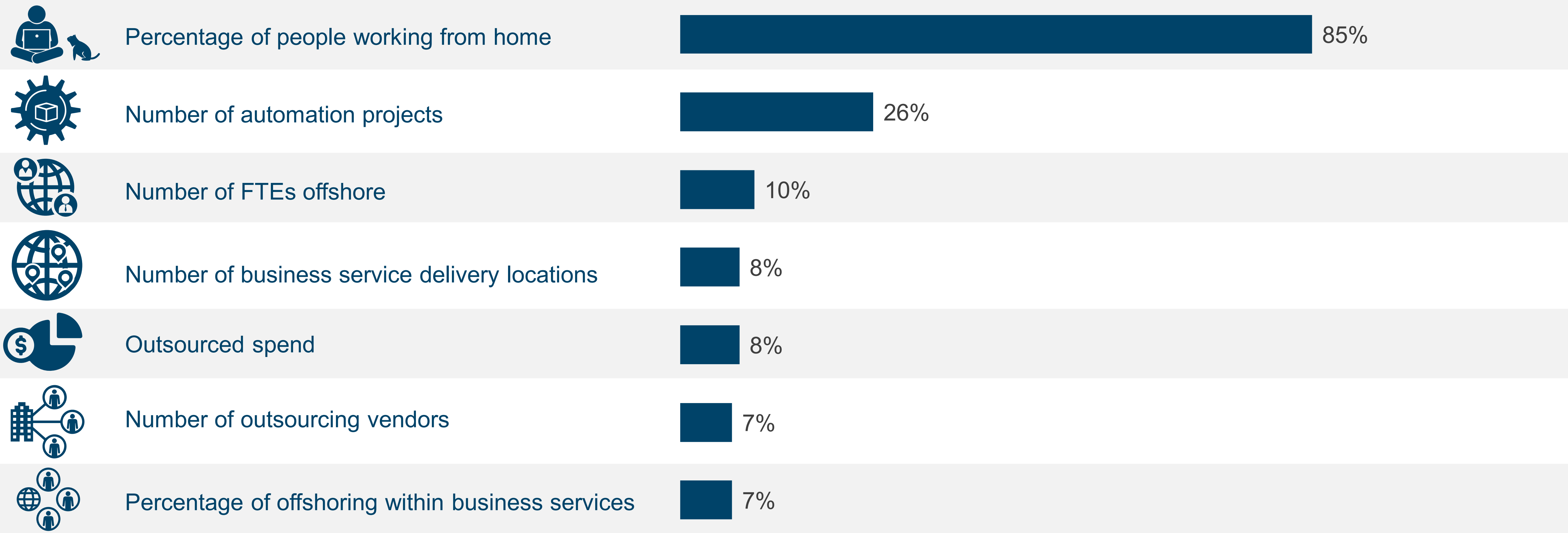
06

Operating models

- Key operating model changes driven by COVID-19
- Current leverage of Work From Home (WFH) and anticipated changes in 2021
- Expected changes to real estate needs in 2021

The percentage of the workforce working from home and the number of automation projects were significantly impacted by COVID

Key strategic indicators impacted by COVID – enterprises and service providers
Share of respondents seeing moderate to high impact



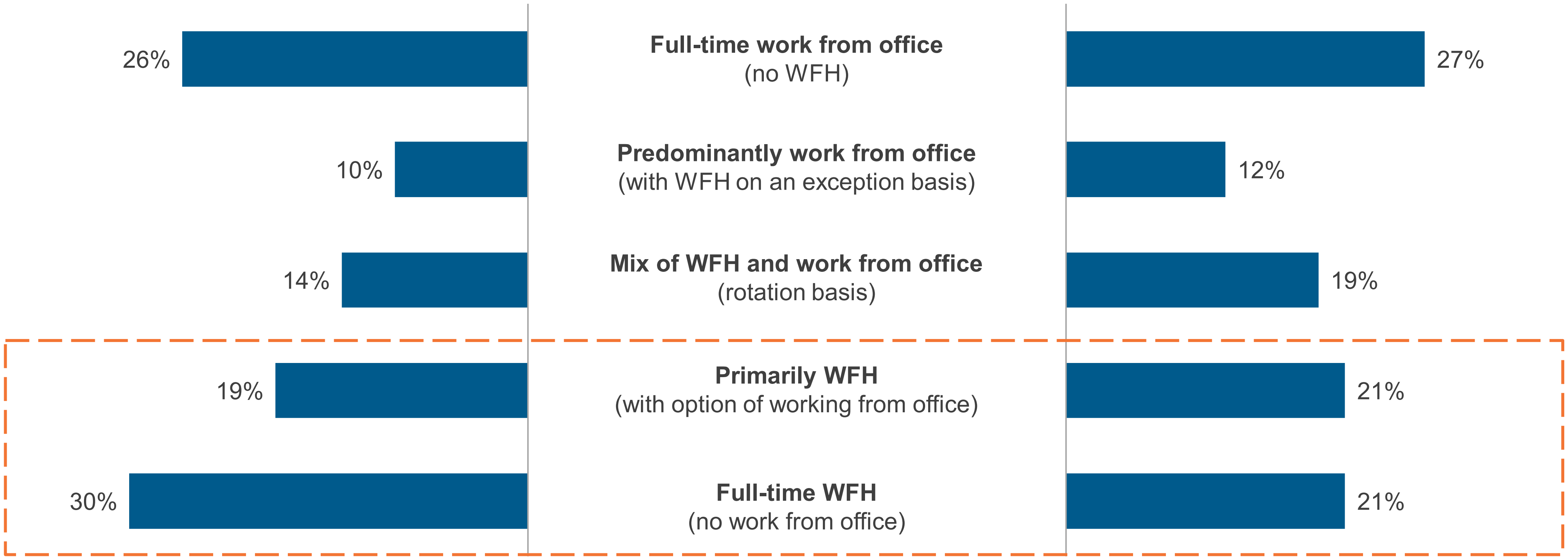
Source: Everest Group Key Issues Survey, 2020

WFH will continue in 2021, though at a relatively lower scale than in 2020

Percentage of respondents – enterprises

Current working model in 2020

Expected working model in 2021



Source: Everest Group Key Issues Survey, 2020

More than half of enterprises and service providers expect their real estate requirements to decrease in 2021

Expected change to real estate needs in 2021 compared to 2020
Percentage of respondents

Enterprise		Service providers
54%	Decrease	57%
31%	Remain consistent	36%
15%	Increase	7%

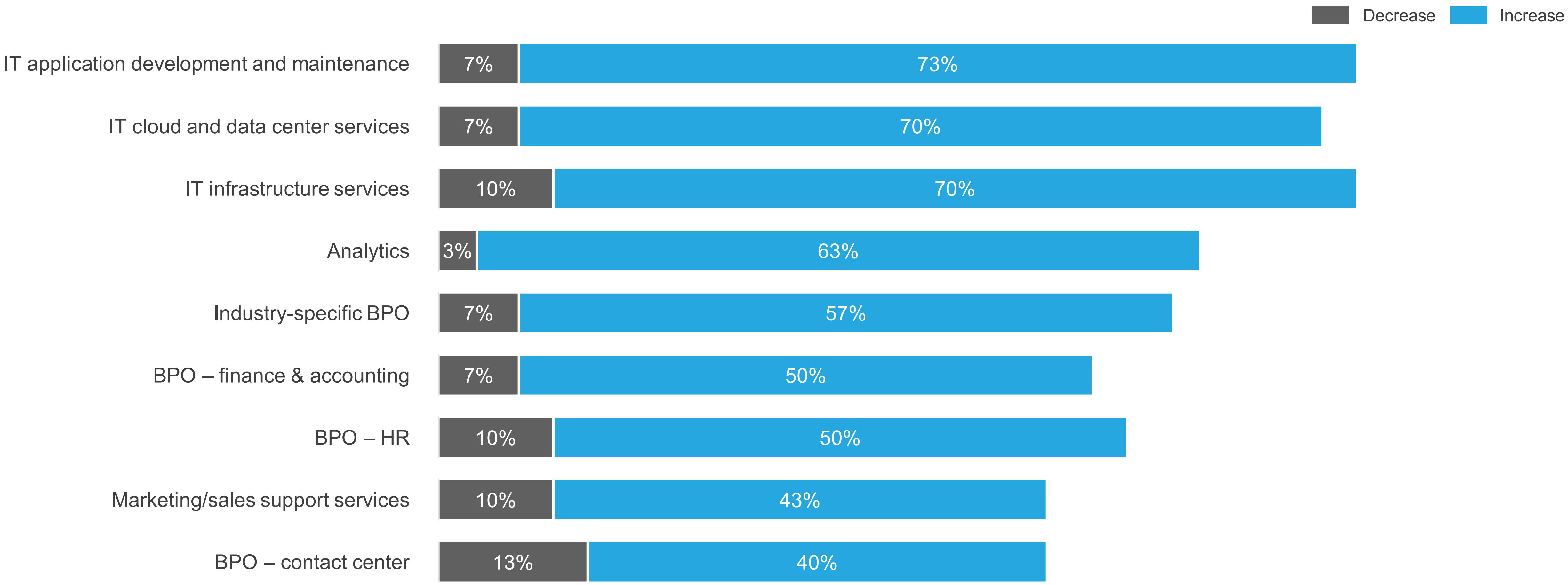
Source: Everest Group Key Issues Survey, 2020

07

Global Business Services (GBS)

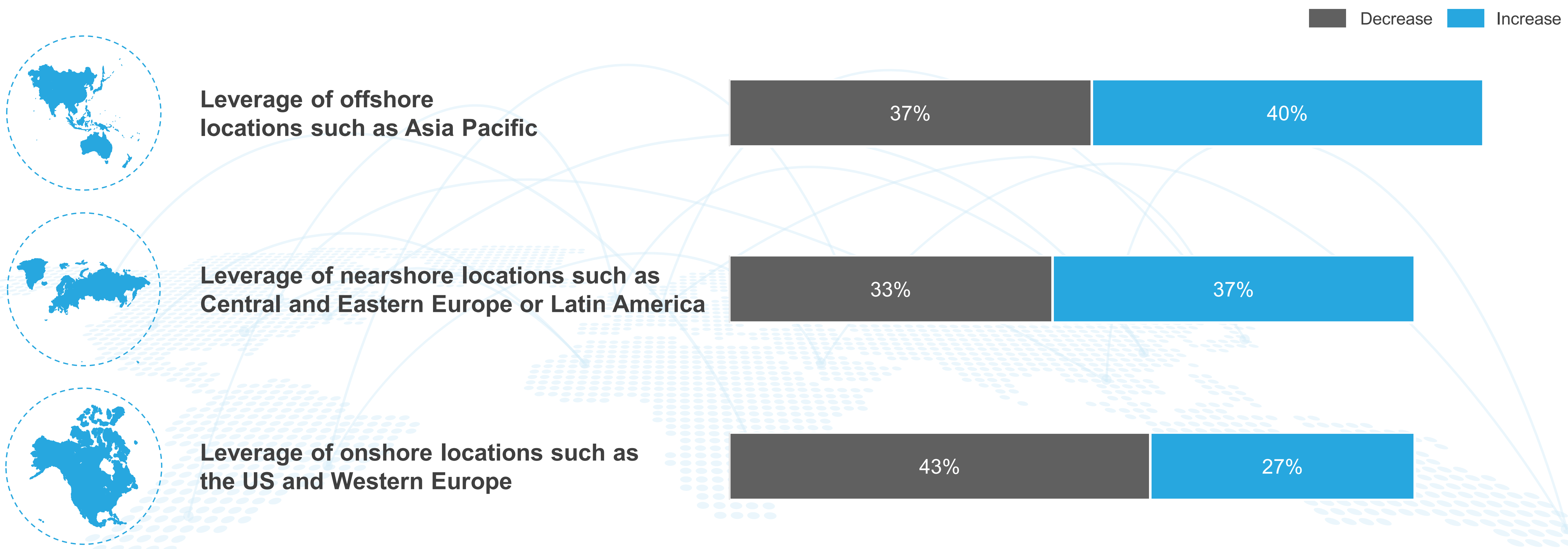
- Anticipated changes in GBS leverage by functions
- Outlook for GBS location strategy
- Expected changes to GBS operating model

GBS leverage is expected to grow across functions, though it will be more pronounced for IT and analytics than for BP



Note: Bars do not sum to 100% because they exclude the neutral respondents
Source: Everest Group Key Issues Survey, 2020

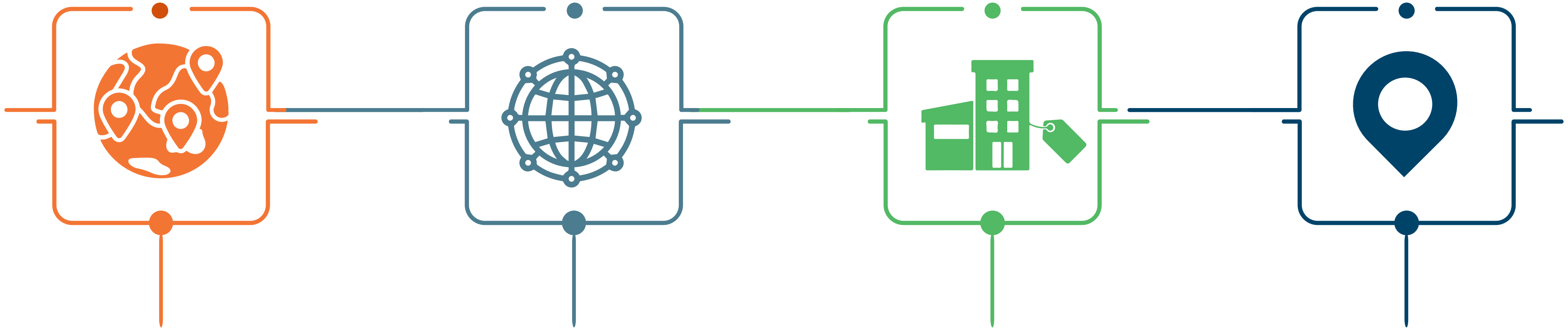
GBS organizations expect to increasingly leverage offshore and nearshore locations to drive growth



Note: Bars do not sum to 100% because they exclude the neutral respondents
Source: Everest Group Key Issues Survey, 2020

GBS organizations are examining many key elements of their operating models to manage both risk and future cost structures

Key changes expected in future GBS operating models



Percentage respondents expecting to increase	**40%**	**30%**	**23%**	**13%**
	Geographic diversification (more countries)	Adoption of small-scale/ satellite centers	Real estate footprint	Leverage of tier-2/3 locations
Percentage respondents expecting to decrease	20%	23%	43%	33%

Source: Everest Group Key Issues Survey, 2020

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Appendix

- Glossary
- Market Vista offerings
- Research calendar

Glossary of key terms used in this report

Buyer	A Buyer is the company/entity that purchases offshoring services from a service provider of such services
Digital services	These include Social & interactive, Mobility, Analytics, Cloud (SMAC), cybersecurity, Internet of Things (IoT), Automation, etc.
Enterprise	Parent organization or entity. Enterprises set up and manage captives/GBS centers and outsourcing/third-party relationships
FTE	Full-Time Equivalent. An effort equal to one employee working 100% of the time
Global Business Services (GBS)	Entity in an offshore/nearshore location that provide services exclusively to the parent
Global sourcing	Global Sourcing refers to a strategy wherein services are sourced from a country (or countries) different from the country (or countries) where the company receiving the services is located. It includes both offshoring and near shoring
Nearshore	A special case of "offshoring" in which the services are provided from a different country but one which is similarly situated as the country of the buyer. For example, major nearshoring locations for companies in the U.S. include Canada and Mexico
Offshore	The transferring activities or ownership of a complete business process to a different country that is significantly geographically separated from the country (or countries) where the company receiving the services is located (E.g., US-based enterprises offshoring to India). Companies may utilize offshore either through an outsourcing arrangement with a third-party or by establishing their own GBS presence in the offshore location
Onshore	When the services are provided in the same country in which the buyer (enterprise) is located
Service delivery center	The facilities/locations from where services are being provided. In the offshoring/outsourcing world, refers to captives/GBS and centers of third-part providers

Market Vista™ encompasses a suite of offerings

Multiple delivery formats allow global sourcing managers to access information in a way that supports the decision-making process

Market Vista™ offering	Description	Covered in annual membership
Quarterly and annual reports	• Quarterly report with in-depth coverage of transactions, locations, GBS, and service provider trends • Annual report covering summary of the quarterly reports along with forward-looking views for the upcoming year	✓
Global sourcing adoption report	Industry-specific reports covering details on global sourcing adoption in leading enterprises and markets (healthcare, life sciences, CPG, insurance, banking, capital markets, oil & gas)	✓
Key Issues in Global Sourcing report	Unique reports based on annual surveys that capture market sentiments across buyers and service providers on key aspects of the global sourcing industry	✓
Location database	Annually updated database of location statistics (e.g., cost, attrition, and inflation rates) for 25 major cities	✓
Blogs/viewpoints	Viewpoints and blogs on contemporary global services issues of interest to enterprises, SSCs/GBS centers, and service providers	✓
Exclusive webinars	Exclusive webinars with stakeholders in the subscriber organization on key market trends and developments highlighted in Market Vista™ research	✓
Analyst consultation	Analyst access for personalized insights and additional perspectives	✓

Research calendar

Market Vista™

Published | Planned | Current release

Flagship Market Vista reports	Release date
Market Vista™ : 2019 Year in Review and Outlook for 2020	March 2020
Market Vista™ : Q2 2020	April 2020
Market Vista™ : Q3 2020	August 2020
Market Vista™ : Q4 2020	November 2020
Market Vista™ : Q1 2021	Q1 2021
Market Vista™ : 2020 Year in Review and Outlook for 2021	Q1 2021
Market Vista™ : Q2 2021	Q2 2021

Thematic Market Vista reports	Release date
Market Vista™: Industry Insights – Healthcare	January 2020
Global Services Market Pressing Issues in 2020: Enterprises' Perspective	January 2020
Global Services Market Pressing Issues in 2020: Service Providers' Perspective	March 2020
Market Vista™: Industry Insights – Life Sciences	June 2020
Market Vista™: Industry Insights – Oil & Gas	October 2020
Recalibrating for Resiliency – 2021 Key Issues in Global Sourcing – Enterprise Perspective	**December 2020**
Recalibrating for Resiliency – 2021 Key Issues in Global Sourcing – European Enterprise Perspective	December 2020
Recalibrating for Resiliency – 2021 Key Issues in Global Sourcing – Service Provider Perspective	Q1 2021

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