Nordic IT sourcing & cloud survey 2020

Status and trends in the Nordic IT sourcing market

EY
Building a better working world

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02 Executive Summary

Key findings:

- Focusing on core business, improving flexibility and scalability are the overall key business drivers for IT outsourcing in the Nordics. Access to specific knowledge, expertise and tools are the most important drivers for application development/maintenance services.
- The survey results indicate that outsourcing will increase in the future in all service towers. This confirms the trend towards more outsourcing from last year's Norwegian IT outsourcing survey. Some organizations do, however indicate reduced outsourcing of their Application Development and Maintenance services.
- The survey results also show that while proactivity, innovation and continuous improvements are important expectations of the service providers, few service providers are delivering on this value proposition. This could pave the way for new performance measurements in the outsourcing agreements and more partner-led outsourcing, i.e. vested sourcing.

Key EY Insights:

- Focus on drivers and benefits realization: Clearly define your purpose with outsourcing and the desired benefits (drivers) for your sourcing process. Focus on realizing benefits throughout your sourcing process (from strategy, through procurement and negotiations, to implementation and steady state).
- Consider the impact of key trends within the different service towers on your organization: Consider cloud computing for your infrastructure services. Think personalization and user-centricity for your Digital Workplace services. Evaluate data-driven, automated Service Desk solutions.
- Define a pace-layered model for your application portfolio: Use different models for your "run", "differentiate" and "innovate" applications. Use managed services, where appropriate.
- Don't underestimate the need to clearly articulate and possibly strengthen your retained organization: To a large extent, success from outsourcing will depend on your own (retained) capabilities.

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Introduction

Definitions

The purpose of this report is to identify and analyze trends in the Nordic IT outsourcing market, and is based on a survey distributed to 500 IT executives in large-scale private and public Nordic organizations. The survey addresses four main service towers, namely IT infrastructure, Digital Workplace, Service Desk and Application Development and Maintenance. The report also addresses cloud services in conjunction with IT infrastructure services. Below you will find corresponding definitions for each respective service tower, as used in the survey.

IT Infrastructure:
All services necessary to host applications, including data center, hardware and server software (virtualization, operating systems, middleware and runtime). IT infrastructure can comprise traditional on premise hosting, private and public cloud.

Digital workplace:
Services used to deploy, manage and secure devices, applications and data that workers require to perform their jobs. It is often also referred to as end-user services.

Service Desk:
A service desk is a help desk that is equipped with the resources for resolving incidents, problems and service requests. It gives the customer service representative or end user the ability to efficiently diagnose, troubleshoot and correct technical-support problems, rather than being a "pass through".

Application Development and Maintenance:
Application Development comprises all services that are necessary to create, change or remove functionality. Application Maintenance comprises all services that are necessary to ensure the quality of the application is maintained over time and is in accordance with the agreed service levels.

The degree of IT outsourcing

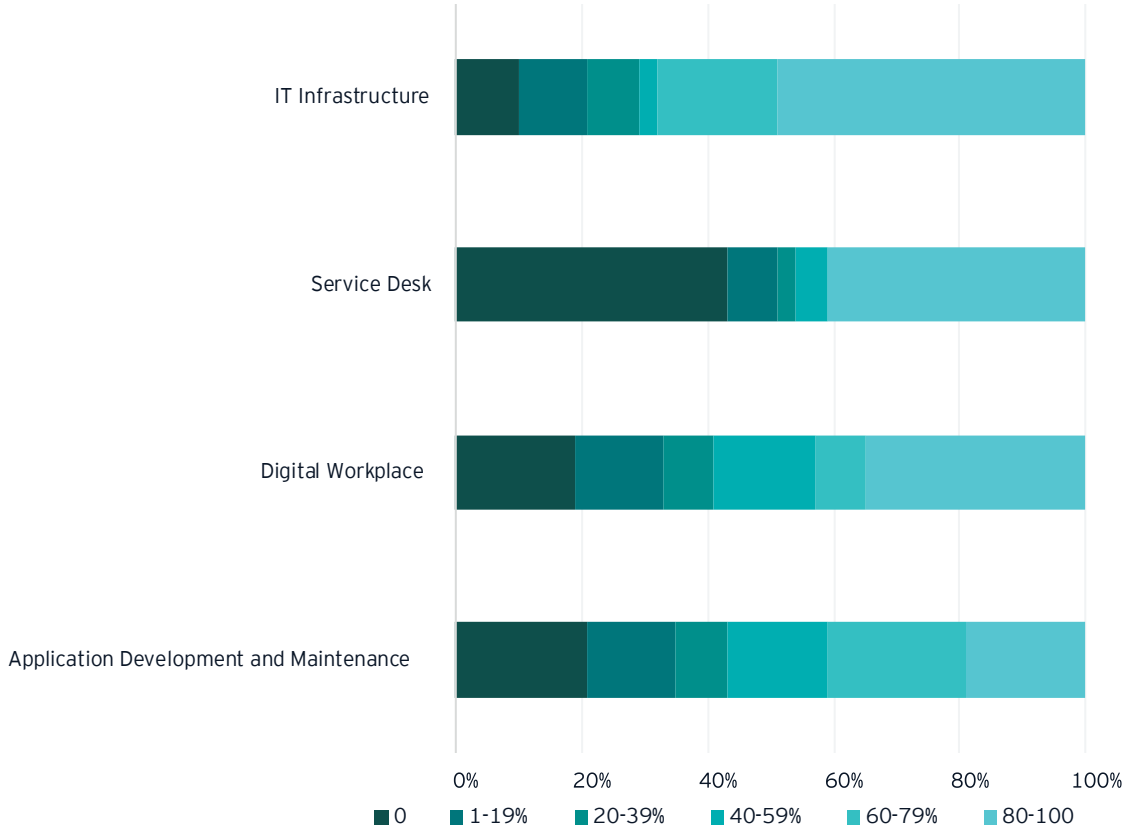
IT Infrastructure services have evolved to become a commodity, which most organizations have outsourced. Most of the respondents have either outsourced or let their Service Desk remain inhouse; very few have partially outsourced this service. For the rest of the Services Towers, the picture is mixed.

In general, the degree of outsourcing is quite high for all service towers. Across all service towers, at least two-fifths of the respondents report that 60% or more of their services are outsourced.

IT Infrastructure is the most outsourced service tower, with nearly half of the respondents reporting that 80%-100% of their infrastructure is outsourced.

Service Desk stands out, as two-fifths of the respondents report that their Service Desk is fully retained inhouse. Partial outsourcing is less common for Service Desk services than for the other service towers.

Application Development and Maintenance outsourcing have the most even distribution. One reason could be the number of different applications where commodity applications are easier to outsource than business-critical or sector-specific applications.



The key business drivers for IT outsourcing

The business drivers for "Infrastructure and Operational Services" are mostly similar, while there is a significant difference compared to Application Development and Maintenance services. "Focus on core business", "Improve scalability" and "Improve flexibility" are reported as key business drivers for all service towers. "Cost reduction" and "Access to specific knowledge and expertise" are becoming increasingly prominent.

"Focus on Core business", is among the top three drivers for all the "**Infrastructure and Operation Services**"[1]. These are fundamental services supporting the business but does not drive the business.

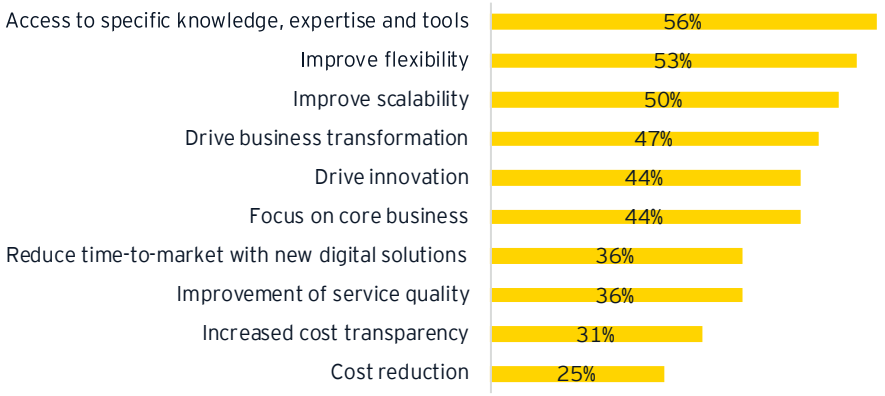
"Improve flexibility" and "Improve scalability" are important for all service towers, mostly for IT Infrastructure, but all service towers include them in the top five business drivers for outsourcing. It's worth noting that compared to the 2019 EY Norwegian IT Outsourcing survey there is a notable increase in reported importance for "Improve scalability". Scalability is fundamental in cloud services, which indicates that IT Infrastructure outsourcing is moving to IaaS (Infrastructure-as-a-Service), and Application Development and Maintenance outsourcing is moving to PaaS (Platform-as-a-Service) and Software-as-a-Service (SaaS).

"Cost reduction" and "Cost transparency" are important drivers for all service towers, but most important for infrastructure services with almost two-thirds of the respondents highlighting these drivers.

The respondents reported that, in general, "Drive business transformation" and "Drive Innovation" are among the least important drivers for IT outsourcing.

Application Development and Maintenance

Percentage (%) of respondents reporting the business driver



[1] *Consist of IT Infrastructure, Service Desk and Digital Workplace*

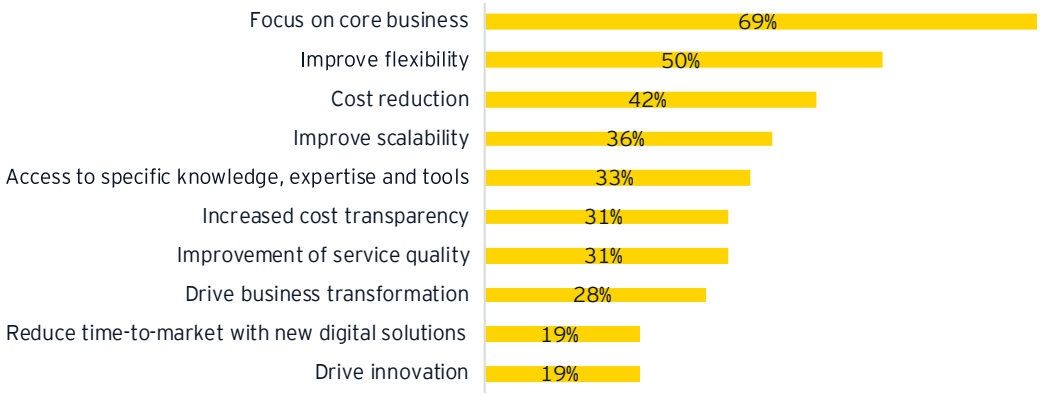
Introduction

The key business drivers for IT outsourcing

Infrastructure and Operation Services

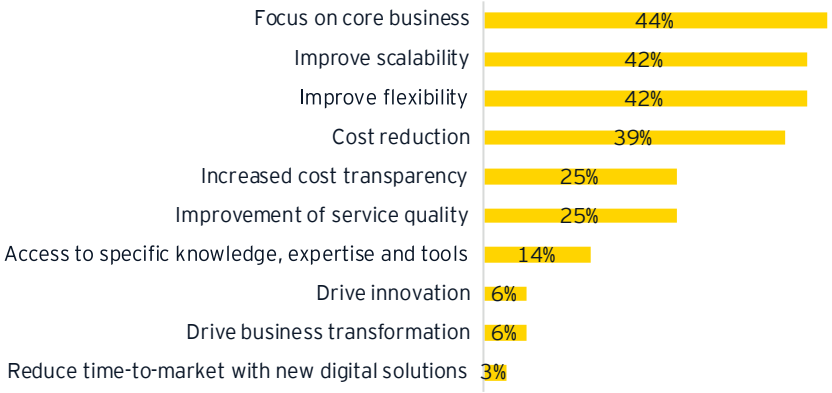
Digital workplace

Percentage (%) of respondents reporting the business driver



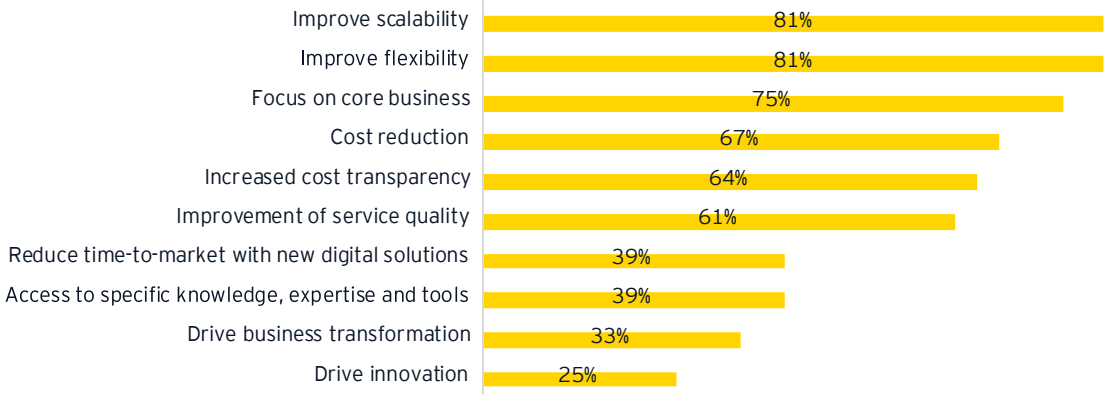
Service desk

Percentage (%) of respondents reporting the business driver



IT Infrastructure

Percentage (%) of respondents reporting the business driver



03

Status per service tower

IT infrastructure, Digital Workplace, Service Desk and Application Development

IT Infrastructure services summary and considerations

IT Infrastructure services are heavily outsourced, and all respondents are using cloud services to some degree. Public cloud is gaining traction and is reported as more commonly used than private cloud. IT Infrastructure outsourcing is driven by need for scalability, flexibility and focus on core business which supports the transition into cloud services.

IT Infrastructure outsourcing provides benefits across the board, on all surveyed parameters and the respondents are mostly satisfied with their primary IT Infrastructure service providers.

EY Insights:

Some considerations when outsourcing IT Infrastructure services

Focus on drivers and benefits realization

Clearly define the desired benefits (drivers) for your sourcing process and focus on realizing these benefits throughout your sourcing process (from strategy, through procurement and negotiations, to implementation and steady state). Create a business case to guide decisions.

Consider cloud computing

Cloud-based delivery models must be considered as part of any sourcing process for IT Infrastructure services. We highly recommend conducting a cloud-readiness assessment of your IT Infrastructure and application portfolio. The assessment should focus on both business value, technical feasibility and risk. The cloud-readiness assessment will provide a solid information basis for determining your cloud strategy, optimal future delivery model, and for developing a transition and transformation plan. Keep in mind that a simple "lift-and-shift" approach does not necessarily unlock all the benefits of cloud computing. The cloud-readiness assessment should group applications according to the most beneficial migration pattern (6R analysis). Furthermore, a transition to cloud takes time – plan for ensuring stable and cost-effective operations during the transition and apply traditional IT operational risk reduction principles for ensuring business continuity.

Think bi-modal

Think bi-modal and bridge the gap between traditional IT and Development Operations (DevOps) by establishing a holistic IT Infrastructure operating model covering both the models. We recommend establishing a cloud center of excellence combining cloud competencies (e.g., from DevOps teams) and traditional infrastructure competencies. Both sets of competencies are crucial in cloud transformations as well as in steady state. Furthermore, consider which tasks you want to handle yourself and which ones you want to use external providers for. Include traditional IT operational risk reduction approach and business continuity into your IT operating model, cloud center of excellence setup and transition and transformation plan.

Status and drivers for IT Infrastructure outsourcing

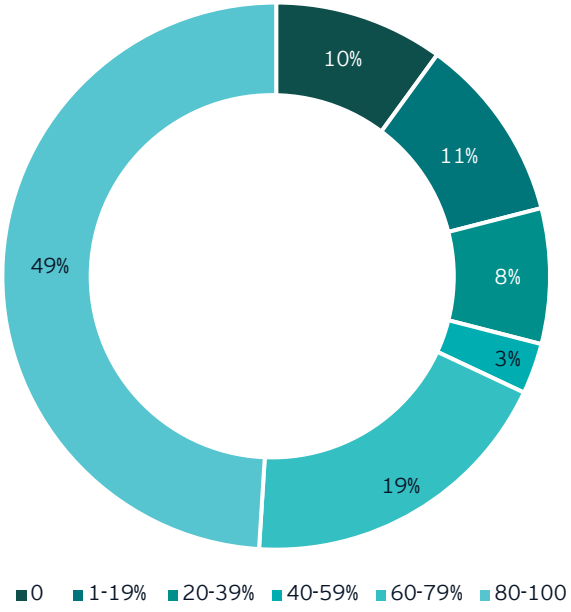
IT Infrastructure services are heavily outsourced and all respondents are using cloud services to some degree. Public cloud is gaining traction and is reported as more commonly used than private cloud.

With two-thirds of the respondents reporting that 60-100% of their infrastructure is outsourced, it indicates that IT Infrastructure services have evolved to become a commodity. Compared to the 2019 EY Norwegian IT Outsourcing survey, the average outsourcing level has increased.

The survey also shows that all respondents are utilizing cloud to some degree, as none report 100% use of on-premise infrastructure. The survey shows that SaaS is the most popular cloud-based delivery model.

Degree of IT Infrastructure outsourcing

Percentage (%) of respondents within each range



IT Infrastructure

Status and drivers for IT Infrastructure outsourcing

IT Infrastructure outsourcing is driven by need for scalability, flexibility and focus on the core business. This also supports the transition to cloud-based services.

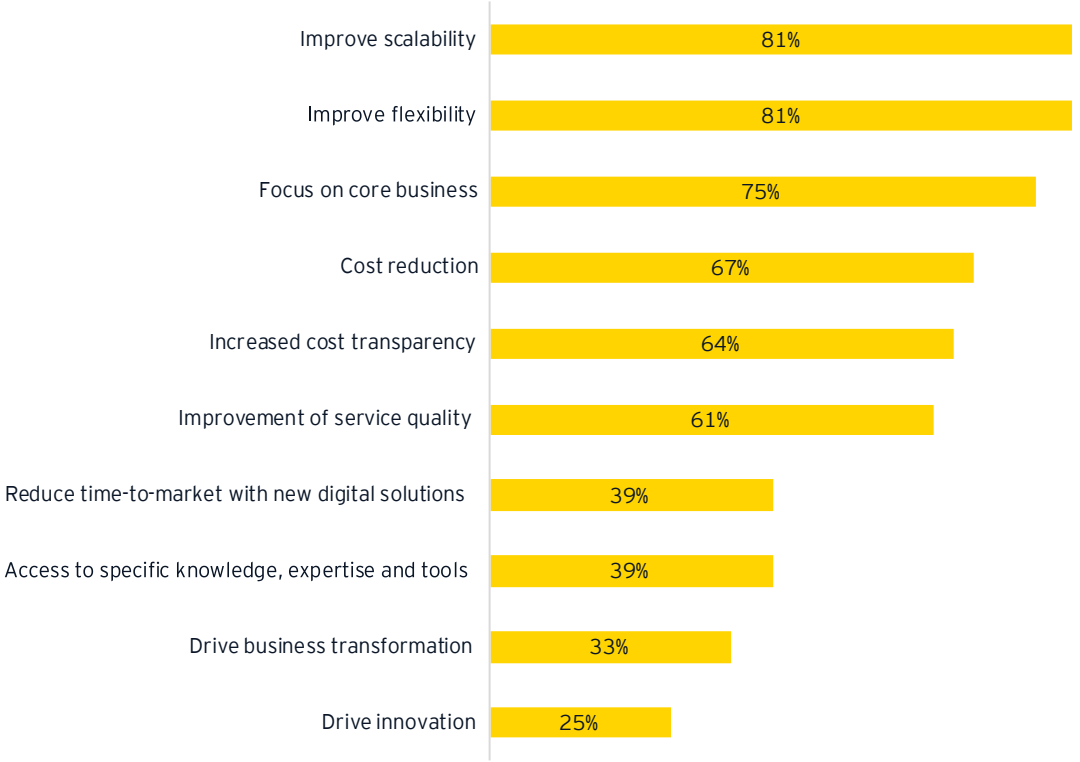
"Improve scalability" and "Improve flexibility" are the most important business drivers for outsourcing of IT Infrastructure services. These drivers coincide well with the expected benefits of cloud computing. As expected, this indicates that the respondents are looking towards the cloud for their IT Infrastructure services. It is, however, worth noticing that, contrary to the promises of many cloud providers, the respondents do not expect outsourcing of IT Infrastructure services to drive innovation or business transformation, as both are ranked as the two least important drivers.

Cost reduction is still an important driver for outsourcing IT Infrastructure services. Approximately, two-thirds of the respondents have pointed out "Cost reduction" and "Increased cost transparency" as important drivers for outsourcing their IT infrastructure services.

Compared to the 2019 EY Norwegian IT Outsourcing survey, the business drivers "Improve scalability" and "Improve flexibility" have increased significantly. "Focus on core business" continues to be an important business driver for outsourcing IT Infrastructure services. This underlines the potential impact of cloud computing in the market for IT infrastructure services.

Top business drivers for IT Infrastructure Services

Percentage (%) of respondents reporting the business driver



Benefits and service provider satisfaction

Outsourcing IT Infrastructure services provides benefits across the board. IT Infrastructure services are mature, and the risks of outsourcing IT Infrastructure services is relatively low versus the benefits.

The survey shows that most of the respondents have achieved positive results across most parameters as a result of their current outsourcing agreement for IT Infrastructure services. The two exceptions are "Business transformation" and "Innovation", where the majority report no change. This is as expected, since these parameters are also reported as the two least important business drivers.

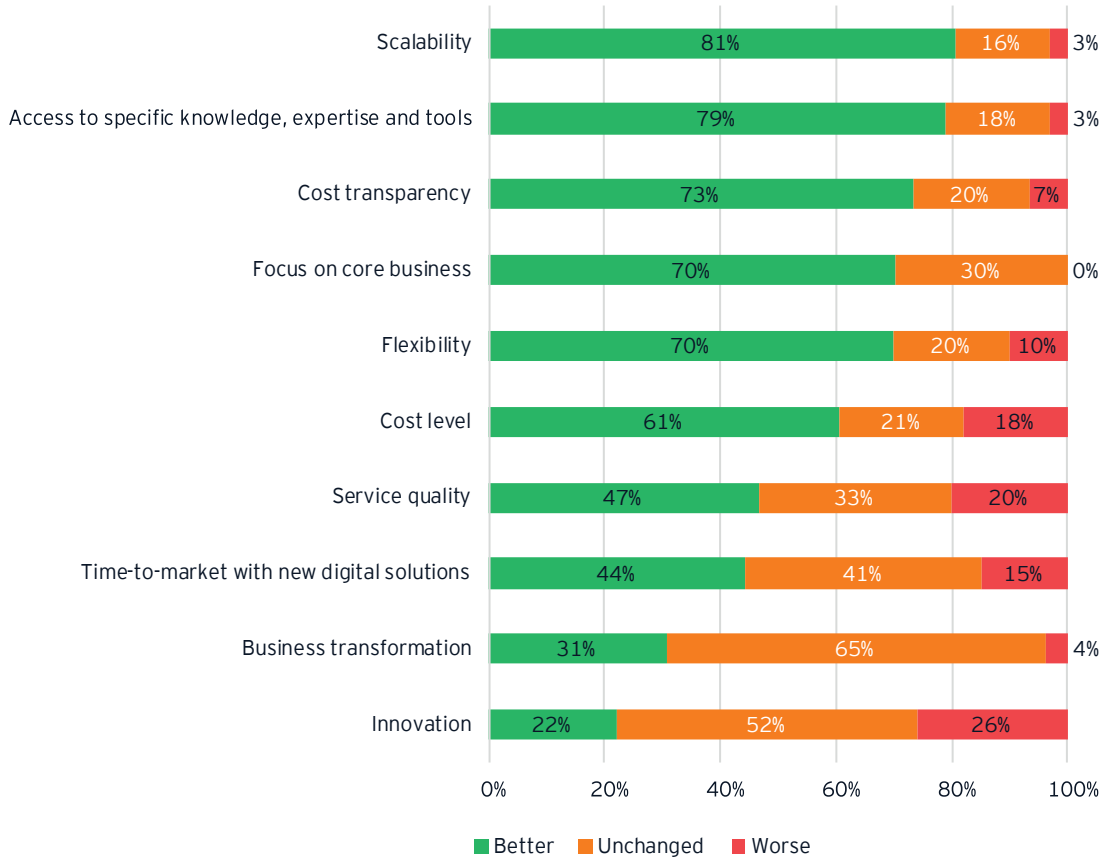
The effect on the top three business drivers "Scalability", "Flexibility" and "Focus on core business" has been very positive across the board. This shows that majority of the respondents have achieved their most important goals for their IT Infrastructure outsourcing initiatives.

The findings suggest that regardless of the emergence of new delivery models and rapid technological evolution, IT Infrastructure services are very mature and that outsourcing can be expected to yield significant benefits.

Very few respondents report negative effects from outsourcing IT Infrastructure services and the positive experiences outweigh the 'negative on all parameters' responses. This indicates that the risk of outsourcing IT Infrastructure services is relatively low versus the benefits.

Benefits of outsourcing IT Infrastructure Services

Percentage (%) of respondents within each range split on outcome



IT Infrastructure

Benefits and service provider satisfaction

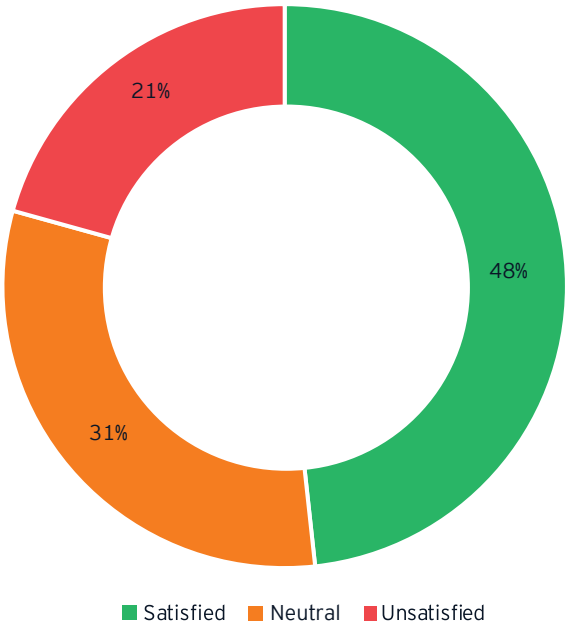
The respondents are mostly satisfied with their primary IT Infrastructure service providers.

Almost half of the respondents report that they are satisfied with their primary IT Infrastructure service provider. Approximately one-fifth report that they are unsatisfied.

A higher number of respondents report that they are unsatisfied with their service provider, compared to those reporting a negative effects on the most important drivers for outsourcing IT Infrastructure services. This indicates that the satisfaction with one's service provider can be low, even though the expected benefits are achieved.

Degree of satisfaction with primary service provider for IT Infrastructure Services

Percentage (%) of respondents reporting the degree of satisfaction



Service Desk services summary and considerations

Partial outsourcing is less common for Service Desk services than for the other service towers. Service Desk services have the highest degree of in-house delivery among all service towers, with more than two-fifths reporting that their Service Desk is fully retained in-house.

By outsourcing their Service Desk services, the respondents mainly aim for scalable and flexible services at a low cost to allow them to focus more on their core business. Overall, the respondents report positive or unchanged effects on most parameters from outsourcing their Service Desk services. Outsourcing Service Desk services has resulted in scalable and flexible services with high quality at a lower cost.

Most respondents are satisfied with their Service Desk service providers and the satisfaction rate is the highest of all service towers.

EY Insights:

Some considerations when outsourcing Service Desk services

Start with a holistic view of the Service Desk services:

- The Service Desk should be the single point of contact (SPOC) for all IT-related inquiries. The Service Desk manages the interaction between the users, internal resources and external parties.
- The service desk should:
  - Articulate a target state with clear interfaces between the user and internal and external service providers
  - Focus on standardization and streamlining both the user experience and processes
  - Create a business case to guide decisions

Consider the impact of key trends within the Service Desk area on your organization:

- Personalized self-service solutions on different platforms: Use of artificial intelligence (AI), chatbots, etc.
- Insight/business intelligence/big data: Deeper insight into the performance of your service desk and fact-based decision making.
- Cognitive automation: More effective case handling and incident resolution.
- Proactive identification and solution for incidents: Automatic monitoring and reporting of incidents with connected sensors (Internet of Things (IoT)).

Other important elements to consider when deciding on a future Service Desk setup:

- Multi-channel and digital experience: Use more channels such as phone, email, chat and self-service.
- Digital hubs/dashboards: For full overview over all IT services.
- Proactivity and knowledge databases: Good overview of all reported incidents and problems and relevant Service Level Agreements (SLAs) to facilitate proactivity and knowledge databases to facilitate self-service.

Service Desk

Service Desk services summary and considerations

Service Desk services have the highest degree of in-house delivery among all service towers with more than 40% reporting that their Service Desks are fully retained in-house.

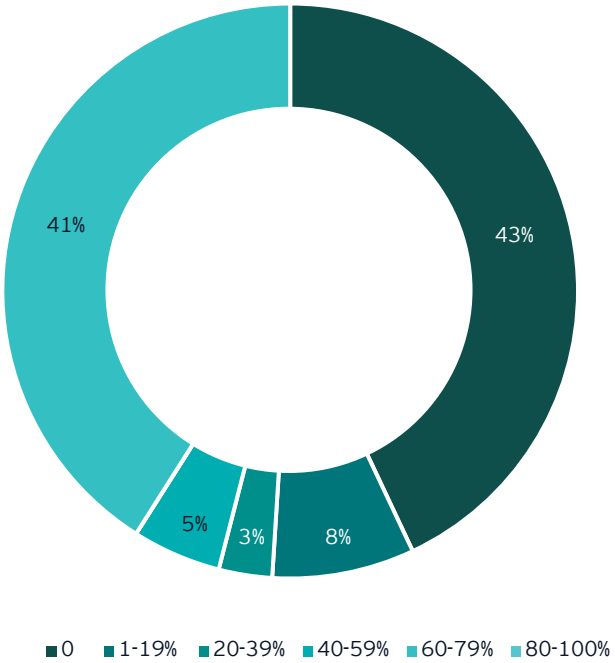
Partial outsourcing is less common for Service Desk than for other service towers. This could stem from the IT team's inclination to retain control of the end-user interface by handling user support themselves.

On the other hand, more than two-fifths of the respondents report that most (>80%) of their Service Desk services are outsourced.

Note that less than one-fifth report outsourcing degree between 1%-79%, indicating that partial outsourcing is much less common for Service Desk services than for the other service towers.

Degree of Service Desk outsourcing

Percentage (%) of respondents within each range



Service Desk

Service Desk services summary and considerations

By outsourcing their Service Desk services, the respondents mainly aim for scalable and flexible services at a low cost to allow them to focus more on their core business.

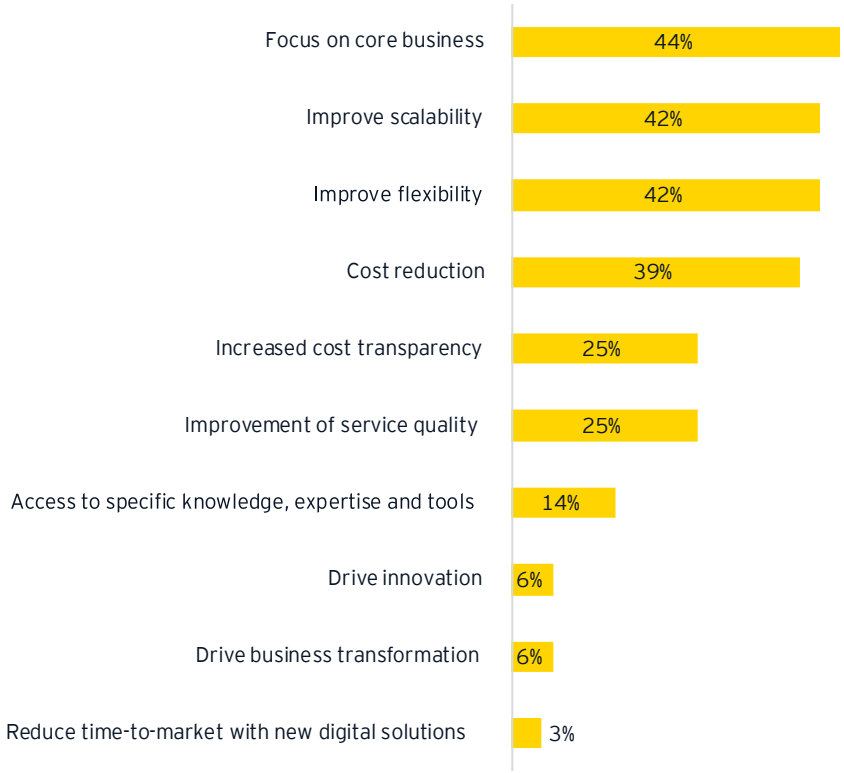
The main business drivers for outsourcing Service Desk services are to "Focus on core business" , "Improve scalability" and "Improve flexibility", closely followed by "Cost reduction".

For global organizations, outsourcing the Service Desk seems to be a solution for supporting different countries in different time zones. For smaller and local organizations, it is a solution to support the demand for 365x24x7 support.

The least reported reasons for outsourcing Service Desk services are "Reduce time-to-market with new digital solutions", "Drive business transformation" and "Innovation", something that is to be expected.

Top business drivers for outsourcing Service Desk Services

Percentage (%) of respondents reporting the business driver



Benefits and service provider satisfaction

Overall, the respondents report positive or unchanged effects on most parameters from outsourcing their Service Desk services. Outsourcing Service Desk services have resulted in a scalable and flexible Service Desk service with high quality, at a lower cost.

Nearly nine out of ten report a positive effect on "Scalability", which refers to the ability of the service provider to adjust the volume up and down.

More than 60% of the respondents report that outsourcing their Service Desk services have affected "Cost level" and "Cost transparency" in a positive way. Furthermore, most of the respondents report similar or improved service quality, indicating that the reduced cost has not had a negative effect on the service quality.

More than two-thirds of respondents report no change on "Business transformation, "Time to market with new digital solutions" and "Innovation", which is to be expected based on the reported drivers.

The only exception is "Innovation" where even though the majority report no change, there is significantly more respondents reporting worse results than better.

Benefits of outsourcing Service Desk Services

Percentage (%) of respondents within each range split on outcome

Service Desk

Benefits and service provider satisfaction

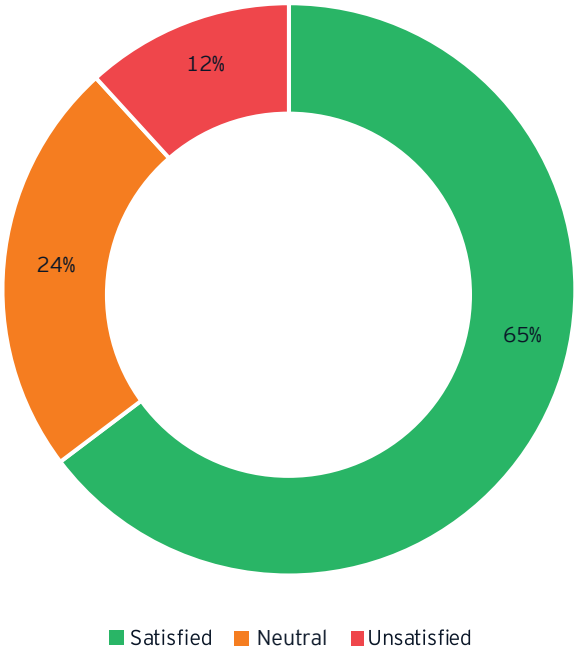
Most respondents are satisfied with their Service Desk service providers and the satisfaction rate is the highest among all service towers.

Around two-thirds of the respondents are satisfied with their service provider for Service Desk services, while the majority of the remaining one-third are neutral.

Around one-tenth of the respondents who have outsourced their Service Desk are unsatisfied, which indicates the highest service provider satisfaction among all service towers.

Degree of satisfaction with primary service provider for Service Desk Services

Percentage (%) of respondents reporting the degree of satisfaction



Digital Workplace services summary and considerations

Digital Workplace services are quite heavily outsourced with two-fifths of the respondents reporting that more than 60% of their Digital Workplace services are outsourced. Digital Workplace outsourcing is driven by focus on core business, and providing flexibility and scalability at a reasonable cost level. In general, the respondents report positive or unchanged results from outsourcing their Digital Workplace services. Most prominently, it has allowed them to focus on their core business and provided more scalable service deliveries. The respondents are also mostly satisfied with their Digital Workplace service providers.

EY Insights:

Some considerations when outsourcing Digital Workplace services

Start with a user-centric focus:

- Articulate a clear target state with a user-centric focus (utilize user stories/ use cases). Clearly define the interface between hardware vendors, internal/ external service providers, IT and the end user, and focus on standardization and streamlining to enhance the user experience. Also, clearly define user support processes and interfaces. Create a business case to guide decisions.

Consider the impact of key trends within Digital Workplace on your organization:

- Bring your own device (BYOD)/Choose your own device (CYOD): Rapidly increasing employee expectations based on their experience from consumer electronics (employees want easy access to work applications and resources on all devices, anywhere, anytime).
- Personalized and user-centric support: Proactive support based on employees' personal needs and work context.
- Digital hub: Digital Workplace that works as a seamless hub where the user finds all their applications and services by the use of cloud-based solutions.
- Automation: Implementation and automation of setup, configuration and management, and possibilities for no-hands setup and pre-configuration using tools such as Autopilot and Intune.

Other important elements to consider when deciding on a future Digital Workplace setup:

- Client-as-a-Service (CaaS) or end-to-end device management: The service provider takes full life cycle responsibility for managing all devices used in the organization.
- Standardization: Standardized devices, operating systems (OS) and applications make automation, streamlining and "shift-left" easier.
- Legacy systems: Clearly define how legacy hardware and software will be handled and supported. Consider use of virtualization.
- Rapid technological development within device management (management solutions delivered as SaaS): Ensure that your vendor is contractually obligated to follow market development and innovate their services. Also, focus on benefits realization.
- User satisfaction – a key KPI: Consider including it as a SLA parameter in the contract with the service provider.

Status and drivers for Digital Workplace outsourcing

Digital Workplace is quite heavily outsourced, but many organizations choose to outsource only parts of the Digital Workplace services.

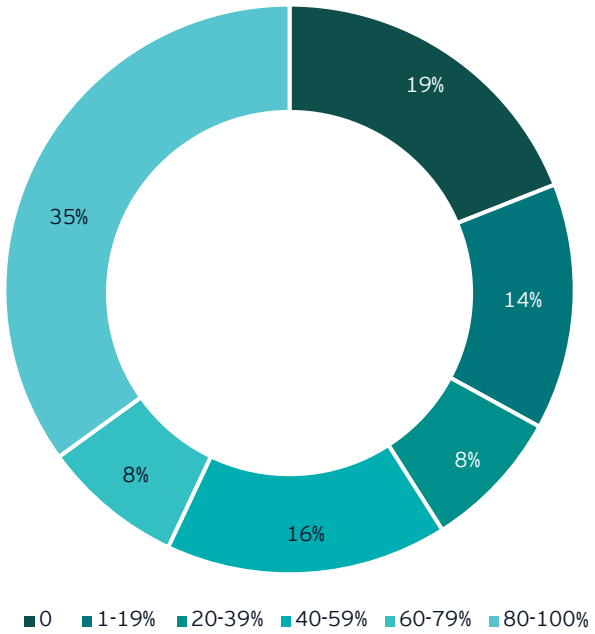
Two-fifths of the respondents report that more than 60% of their Digital Workplace services are outsourced.

Surprisingly, almost one-fifth of the respondents still have all Digital Workplace services inhouse. The spread in the degree of outsourcing shows that some choose to outsource parts of the digital workplace services, such as:

- Mobile devices, i.e. smartphones and tablets
- Workstations and laptop equipment
- Cloud services for office applications and video conferencing

Degree of Digital Workplace outsourcing

Percentage (%) of respondents within each range



Digital Workplace

Status and drivers for Digital Workplace outsourcing

Digital Workplace outsourcing is driven by focus on the core business and providing flexibility and scalability at a reasonable cost level.

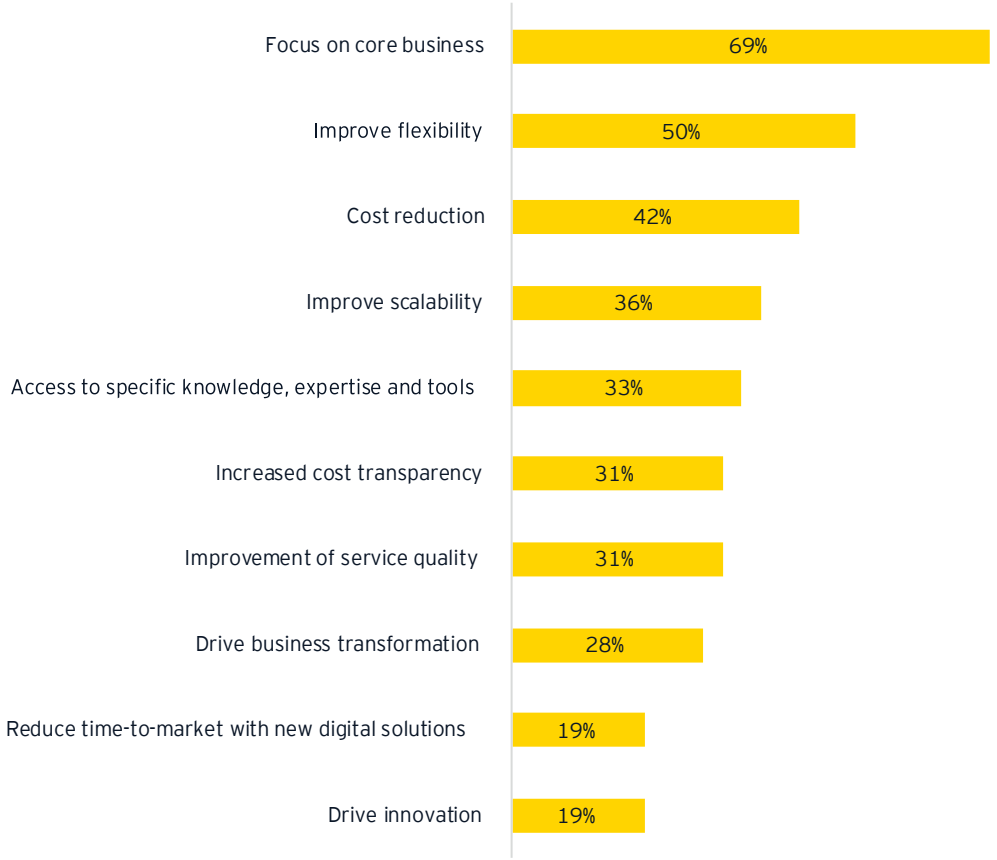
"Focus on core business" is by far the most commonly reported business driver for outsourcing Digital Workplace services. "Improve flexibility" and "Improve scalability", together with "Cost reduction", are also among the top four business drivers for outsourcing Digital Workplace services.

Digital Workplace services encompass services used to deploy, manage and secure the devices, applications and data that employees require to perform their jobs. Thus, this service is aimed at the internal workforce rather than external customers. Therefore, it is natural that

"Reduced time to market with new digital solutions" and "Drive innovation" are rated as less important business drivers.

Top business drivers for Digital Workplace Services

Percentage (%) of respondents reporting the business driver



Benefits and service provider satisfaction

In general, the respondents report positive or unchanged results from outsourcing their Digital Workplace services. Most prominently, it has allowed them to focus on their core business and provided a more scalable service delivery.

Generally, respondents report that IT outsourcing initiatives for Digital Workplace services have largely contributed to positive benefits. "Focus on core business" and "Scalability" are reported as the parameters which have been most positively influenced by outsourcing Digital Workplace services.

Benefits and service provider satisfaction

Furthermore, the majority of the respondents also report positive effects on both "Service quality", "Flexibility" and "Access to specific knowledge, expertise and tools".

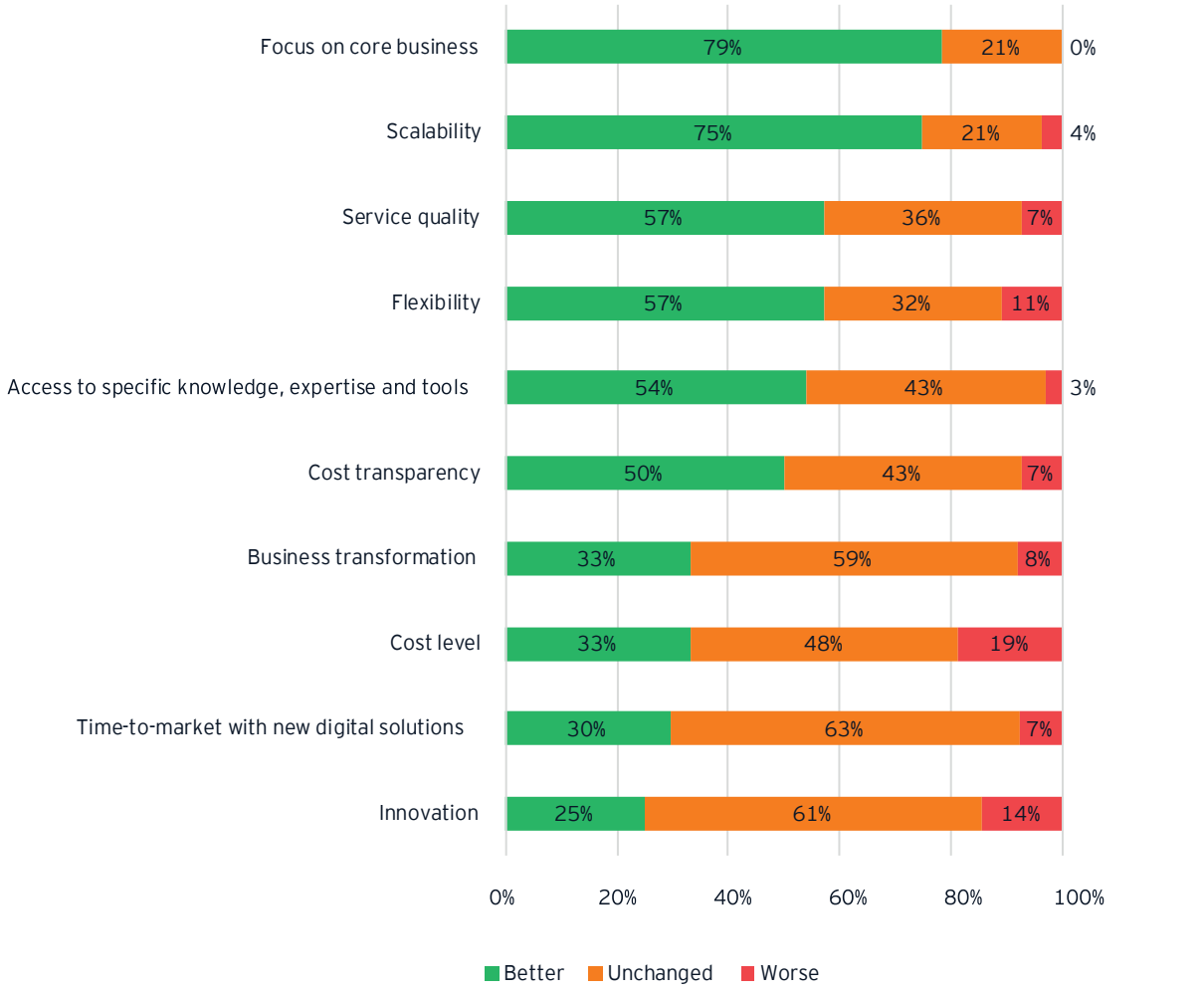
On the other hand, outsourcing Digital Workplace services has had a low impact on several other parameters. For instance, around 60% report no change on "Business transformation", "Time-to-market with new digital solutions" and "Innovation". This is however very much as expected, as these were reported as the three least important drivers for outsourcing Digital workplace services.

An interesting observation is that while cost reduction was reported as the third most important driver, nearly half report no change, indicating that their expectations for this parameter have not been met.

Very few respondent report negative effects from outsourcing Digital Workplace services, and the positive experiences outweigh the negative on all parameters. This indicates that the risk of outsourcing Digital Workplace services is relatively low and that benefits can be expected.

Benefits of outsourcing Digital Workplace Services

Percentage (%) of respondents within each range split on outcome



Digital Workplace

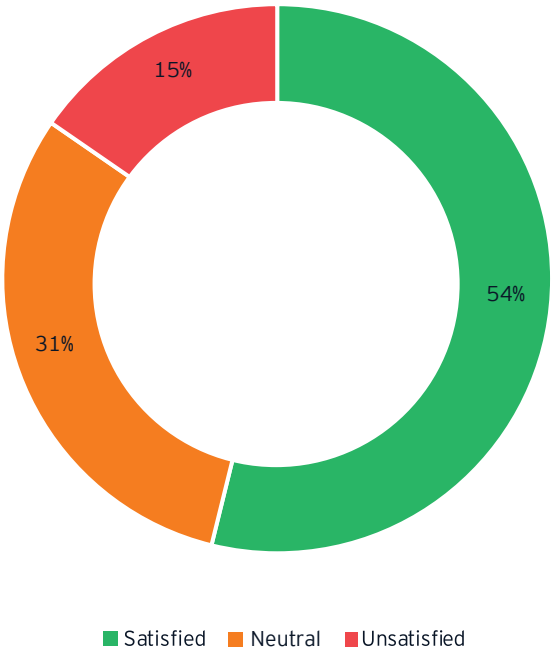
Benefits and service provider satisfaction

The respondents are mostly satisfied with their Digital Workplace service providers.

More than half of the respondents are satisfied with their service providers for Digital Workplace services.

Degree of satisfaction with primary service provider for Digital Workplace Services

Percentage (%) of respondents reporting the degree of satisfaction



Application Development and Maintenance services summary and considerations

"Access to specific knowledge, expertise and tools" is the main business driver for outsourcing Application Development and Maintenance services. On the other hand "Cost reduction" has the lowest rank. To meet the business demand for "Access to specific knowledge, expertise and tools", outsourcing is a strong alternative to in-house resources. Many respondents are moving to cloud services, like SaaS, to meet the business needs for scalability and flexibility. This is more predominant for standard office and other commodity applications. Most companies have a mix of in-house and outsourced applications, depending on how unique and business critical the applications are.

EY Insights:

Some considerations when outsourcing Application Development and Maintenance services.

Define a pace-layered model for your application portfolio:

Use different models for different applications. Handle "run", "differentiate" and "innovate" applications differently. Use managed services, where appropriate.

Invest in ensuring innovation:

Focus on conducting innovation workshops using vendors, innovation centers, networks etc. Consider allocating funding specifically for innovation in the agreements with your Application Development and Maintenance suppliers. Invest time (and money) in ecosystems. Consider using crowd sourcing to create competition between vendors and get input from a broader range of suppliers.

Consider the use of managed services and ensure that the following benefits of managed services are communicated and understood throughout your organization:

- Enables you to free up resources – by letting external suppliers taking over the application delivery of non-critical solutions; thereby, internal resources are given the opportunity to focus on new and more value-adding capabilities.
- Increases speed – with internal resources being able to focus less on managing resources and more on managing deliveries and innovation, new technology can be brought faster to market.
- Provides access to ecosystem – with the immense amount of technologies available on the market and shrinking solution life cycles, it is important that your IT organization becomes better at operating ecosystem to continuously deliver value to the business.
- Leverages suppliers better – managed services are the preferred delivery model for many suppliers. By understanding the suppliers' business model and by being able to plan and commit to a certain volume of the delivered output, supplier relationships and agreements can be improved.
- Enables outcome-based agreements – improved relationships with external suppliers also enables more advanced agreements where opportunity and risk are shared. Outcome-based agreements can, therefore, support the transition from managing resources to governing deliveries.

Status and drivers for Application Development and Maintenance outsourcing

Most respondents have outsourced parts of their application portfolio. Many organizations are using cloud services, most of all SaaS, but still most of the application portfolio is based on the traditional on-premise model.

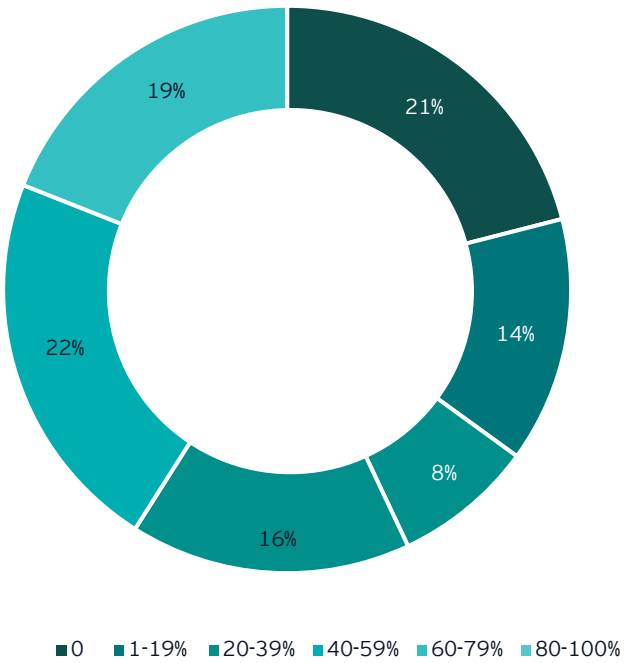
Regarding outsourcing of Application Development and Maintenance services, we notice that the responses are quite evenly distributed between various levels of outsourcing.

There are slightly more organizations retaining Application Development and Maintenance inhouse than those who fully outsource it. Most respondents report a partial outsourcing of Application Development and Maintenance. This is natural since application portfolios typically consist of a high number of different applications, and some applications are more difficult to outsource and/or are too critical for the core business to be a candidate for outsourcing.

Compared to the ***EY Norwegian IT Outsourcing survey 2019***, the average Application Development and Maintenance outsourcing level has increased.

Degree of Application Development and Maintenance outsourcing

Percentage (%) of respondents within each range



Application Development and Maintenance

Status and drivers for Application Development and Maintenance outsourcing

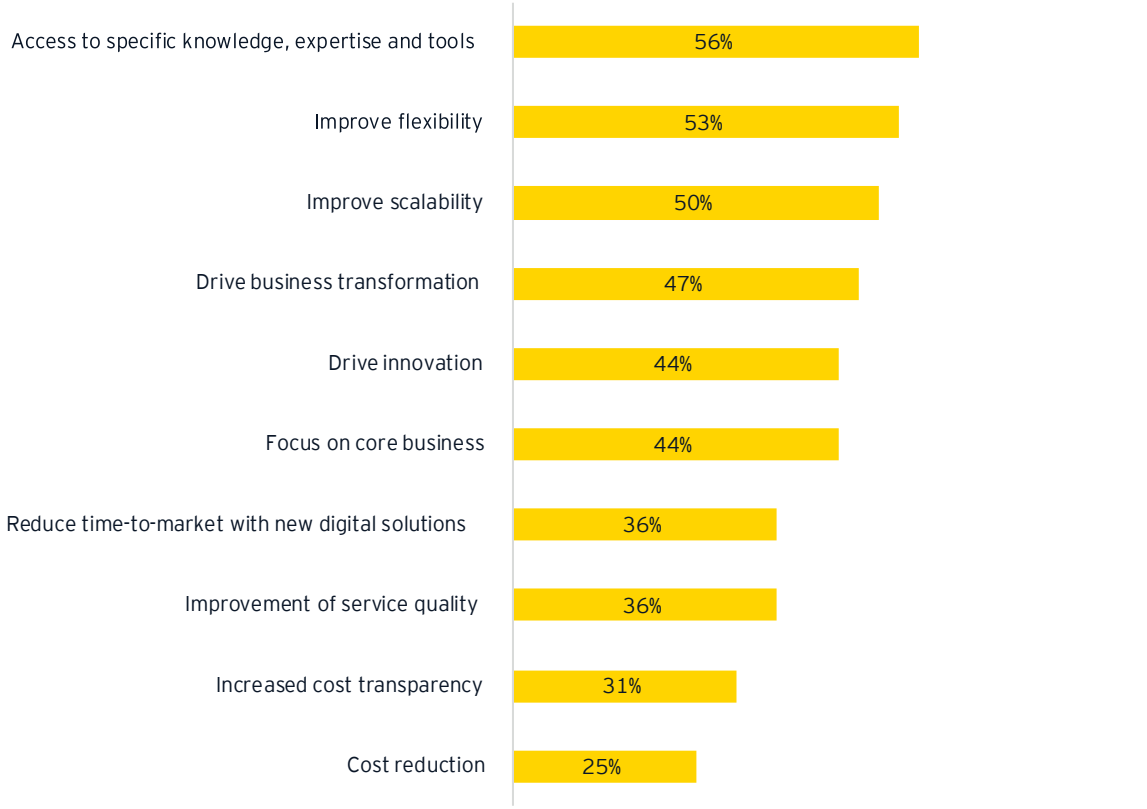
The business drivers for outsourcing Application Development and Maintenance are more focused on ensuring access to specific knowledge, expertise and tools than reduced cost and increased cost transparency. Business demand for improved flexibility and scalability will drive the transformation to cloud services.

The top three reported drivers for outsourcing Application Development and Maintenance services are "Access to specific knowledge, expertise and tools", "Improve flexibility" and "Improve scalability" with over half of the respondents reporting these as their business drivers. It's also worth noting that scalability is one of the fundamentals in cloud services, which support the change from on-premise to cloud services.

The top five business drivers can all be considered as agile and knowledge oriented. It seems that the rationale behind outsourcing Application Development and Maintenance services is mainly driven by needs of the business side. This is in strong contrast to the other three service towers, which are perceived more as commodities.

Top business drivers for Application Development and Maintenance Services

Percentage (%) of respondents reporting the business driver



Benefits and service provider satisfaction

The top three business drivers for outsourcing Application Development and Maintenance services are also reported as the top three benefits, indicating that the desired benefits have largely been achieved. The effect on innovation has been less than expected, and organizations should take action to ensure innovation through their Application Development and Maintenance outsourcing initiatives.

The key reported benefit from outsourcing Application Development and Maintenance is "Access to specific knowledge, expertise and tools". The effects on "Scalability" and "Flexibility" are also reported as better by most of the respondents. These factors are identified as the main business drivers for outsourcing Application Development and Maintenance services, indicating that the expectations are met.

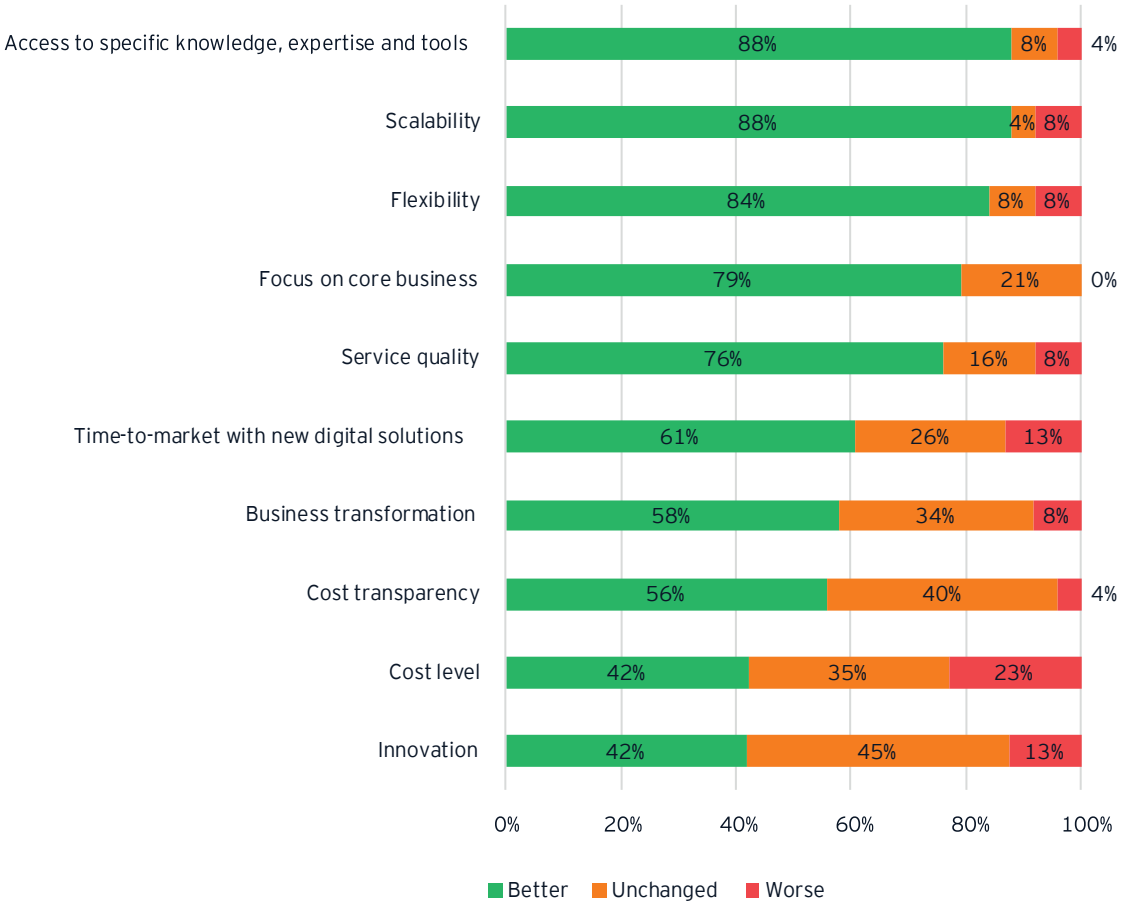
"Cost transparency" is perceived as better or unchanged from outsourcing Application Development and Maintenance services. This is also ranked as the least important business driver.

The impact on "Cost level" has been relatively low and is identified as the most negatively affected parameter by the respondents. There is, however, still a significant overweight of respondents reporting better or unchanged performance on the parameter.

The fact that the effect on "Innovation" is relatively low, indicates that the Application Development and Maintenance service providers have failed to meet the demand from their customers to drive innovation.

Benefits of outsourcing Application Development and Maintenance Services

Percentage (%) of respondents within each range split on outcome



Application Development and Maintenance

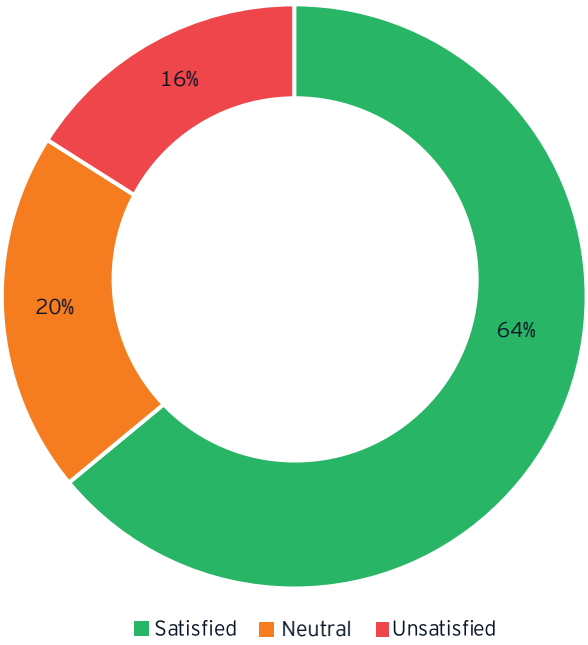
Benefits and service provider satisfaction

Most respondent are satisfied with their primary Application Development and Maintenance service provider.

The respondents are generally satisfied with their primary Application Development and Maintenance service provider. This is one of the highest satisfaction scores among all service towers.

Degree of satisfaction with primary service provider for Application Development and Maintenance Services

Percentage (%) of respondents reporting the degree of satisfaction



04
Looking ahead

Future plans

The responses indicate that the degree of outsourcing will increase for all service towers. This is most clear for IT Infrastructure services, while for Application Development and Maintenance services the picture is more mixed.

Organizations will continue to outsource their IT Infrastructure services and move an increasing share of their existing inhouse and outsourced IT Infrastructure services to the cloud (IaaS and PaaS). Commodity applications will be replaced by SaaS alternatives.

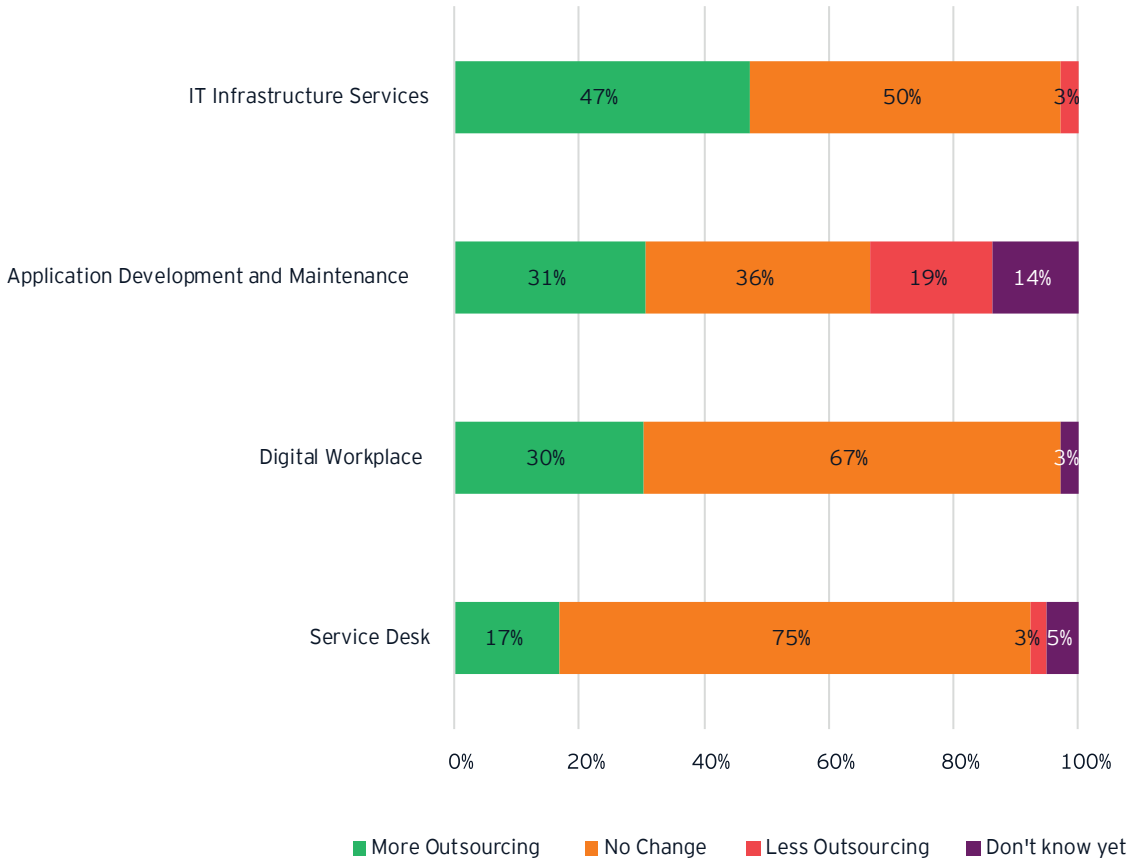
The results indicate we can see an overall increase in outsourcing of Digital Workplace services. Many have already outsourced these services and will continue to do so in the future. No respondents report that they plan to reduce their degree of outsourcing these services. This can be explained by increased standardization and maturity of these services in the market.

Outsourcing of Application Development and Maintenance are depending on how business-critical and unique the application portfolio is. The results are more varied than for the other service towers, but the majority of the respondents still report an increase and/or unchanged degree of outsourcing of these services. However, one-fifth of the respondents report that they plan to decrease their level of outsourcing of these services. This can be explained by the move towards inhouse DevOps models for the more differentiating and innovative business applications.

Most of the respondents will keep the current level of outsourcing of their Service Desk services. There are significantly more organizations who plan to increase their degree of outsourcing than those who plan to reduce it. Similar as for Digital Workplace, these services are highly standardized and commoditized.

Future state of IT outsourcing

Percentage (%) of respondents within each range split on future state



Main risks

When establishing an outsourcing contract, pay special attention on how to keep governance over knowledge and quality; so you don't become too dependent on your service provider. You must have the power to influence, or in the worst case, terminate the contract.

"Dependency on external service provider" is reported as the biggest risk related to IT outsourcing. The dependency could be related to knowledge and quality, and "Loss of knowledge" and "Reduced service quality" are also among the top three risks.

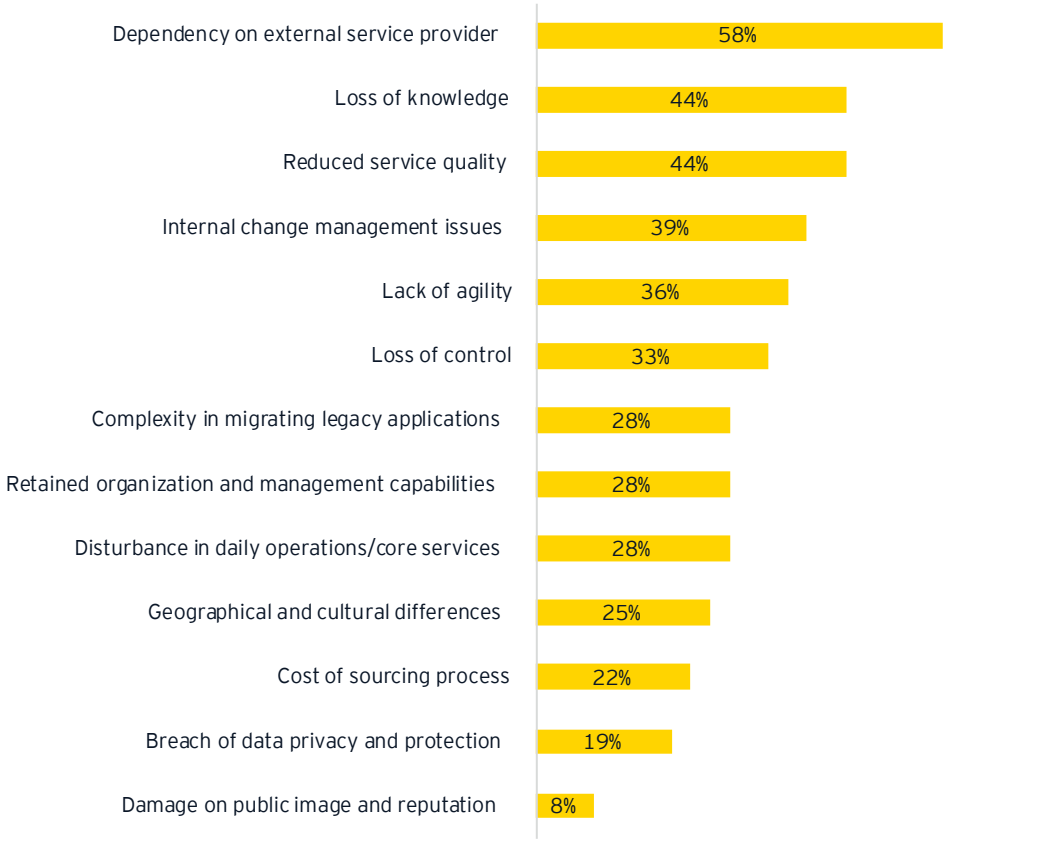
"Loss of knowledge" is being reported as the second biggest risk by the respondents. Simultaneously, "Access to knowledge, expertise and tools" is reported as an important business driver. This underlines the importance of finding the right balance between outsourcing and the capabilities retained in your own organization.

"Breach of data privacy and protection" is ranked very low. This is surprising, given the trend to move infrastructure and applications to the cloud, and the fact that "Implement improved security in our digital development lifecycle" is ranked as the most important cloud initiative in the future.

Similar to the ***EY Norwegian IT Outsourcing survey 2019***, "Dependency on external service provider" and "Loss of knowledge" are still the top two reported risks. "Reduced service quality" is a much higher risk and "Geographical and cultural difference" are a significantly lower risk.

Main risks associated with IT outsourcing

Percentage (%) of respondents reporting the risk



EY Insights:

When defining your sourcing strategy and approach, you also need to consider existing risks and mitigation

Service Transition Risks

- Institute a clearly articulated transition methodology
- Develop a key staff retention plan
- Gain commitment from senior management early in the process
- Build redundancy and run processes in parallel
- Define processes to manage relationships with offshore vendors

People-related Risks

- Develop an internal and external PR and communication strategy
- Initiate measures to improve work atmosphere in retained organization
- Carefully handle transfer of roles to service providers

Business Strategy Risks

- Track the detailed micro-economics of offshore market to ensure sustainable cost advantage
- Evaluate vendors on contract terms, domain knowledge, infrastructure, quality processes, risk and delivery management and financial stability
- Develop an effective contract termination approach

Business Continuity Risks

- Articulate business continuity requirements and conduct periodic drills to simulate disasters/ emergency situations to stress-test plans
- Consider retaining redundancy with a selected proportion of operations in a separate geography or onshore

Infrastructure Risks

- Be mindful of potential single-point-of-failure when selecting infrastructure service provider.
- Consider a multi-vendor/-site approach to minimize infrastructure risks.

Data/Intellectual Property (IP) Rights Risk

- Ensure clarity with vendor on IP rights to software sourced/ used or developed during re-engineering process
- Agree about treatment of IP and knowledge on return of processes to alternative sourcing models

Service Quality Risks

- Establish key performance indicators, governance framework and define SLAs on critical performance parameters e.g., response time, service availability and problem resolution
- Conduct periodic audit and review customer feedback on SLA performance and standards

Regulatory Risks

- Ensure that your vendors have a thorough understanding of regulations, license or certification requirements, etc.
- Conduct regular audits of compliance with regulatory requirements
- Consider onshore redundancy strategy

Issues encountered with service provider

The service providers are not meeting their customers' needs for proactivity, innovation, continuous service improvement and delivery of the resources equipped with the right knowledge and tools.

Lack of proactivity from service providers and "Lack of continuous service improvement" is reported among the top three issues for all service towers.

"Use of unqualified resources" is reported as one of the top three issues for Application Development and Maintenance services. This is interesting in the light of "Access to knowledge, expertise and tools" being reported as the most important business driver for outsourcing Application Development and Maintenance service. This indicates that the service providers are not meeting their customers' need for access to highly qualified resources equipped with the right knowledge and tools.

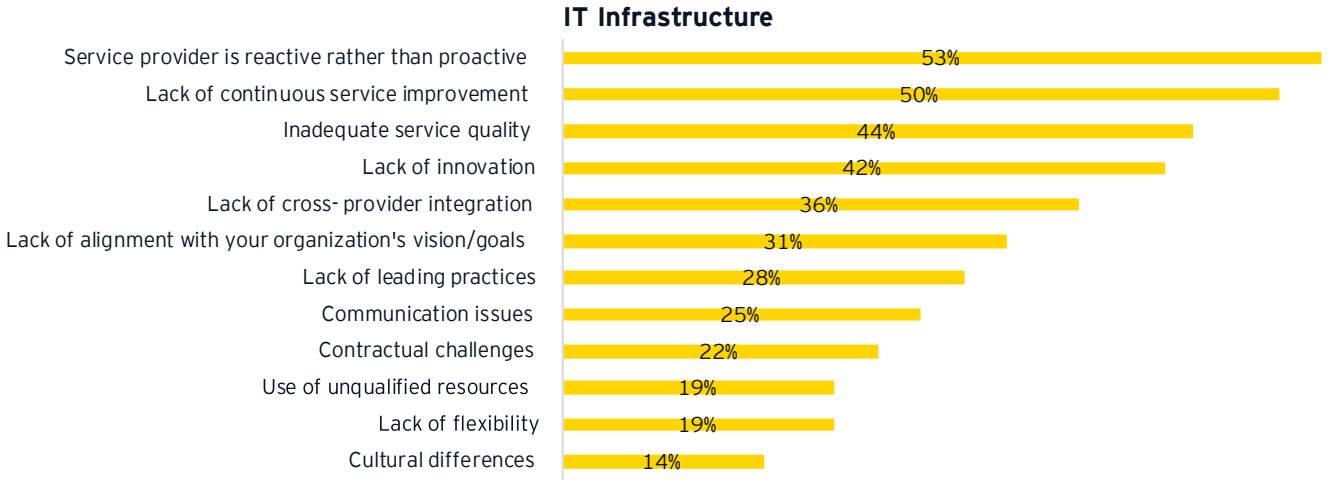
According to earlier findings, innovation is an important business driver for outsourcing Application Development and Maintenance services. On the other hand, "Lack of innovation" is ranked high on issue with existing service provider for all service towers, including Application Development and Maintenance services. Again, it seems like the service providers are not meeting their customers' needs (in this case, for innovation).

This could open up opportunity for new performance measurement in the outsourcing agreements and more partner-led outsourcing, i.e. vested sourcing.

The overall findings are in line with the ***EY Norwegian IT Outsourcing survey 2019*** where "Service provider is reactive rather than proactive " and "Lack of innovation" were the top two issues.

Issues encountered with IT Infrastructure service providers

Percentage (%) of respondents reporting the issue

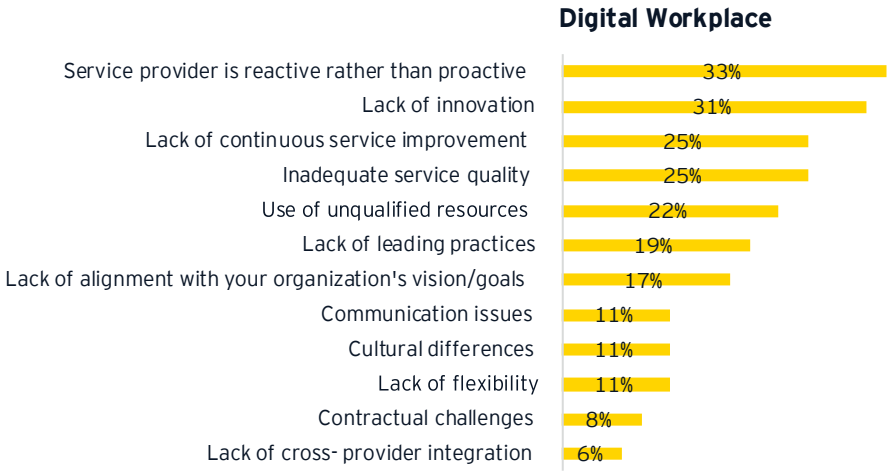


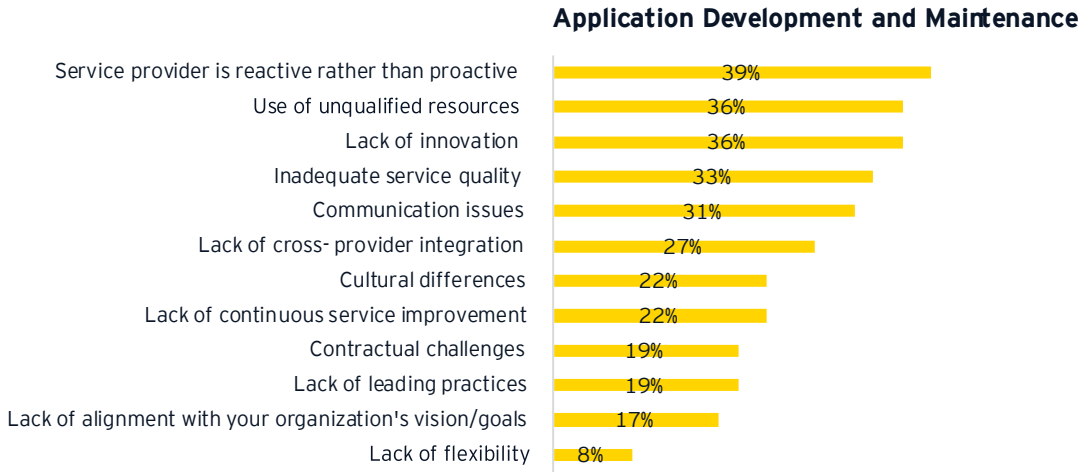
Looking ahead

Issues encountered with service provider(s)

Issues encountered with IT Infrastructure service providers

Percentage (%) of respondents reporting the issue





EY Insights:

Six critical questions when updating and enhancing your IT sourcing Strategy.

1
Is the organization happy with the currentservice providers?

2
Does the organization have the right competencies and skills to manage the contract and service providers?

3
Re-evaluating the business case – did you get the expected benefits?

4
Does the current service providers fit into the company strategy?

5
Is there sufficient connection between the current contract and the latest developments in the market?

6
Is there a well-thought-out, long-term plan for the organization?

The relationship with the service providers should encourage innovation and proactivity in order to meet new technologies and other changes in the market

Looking back

Looking ahead

Satisfaction with own IT organization's capabilities

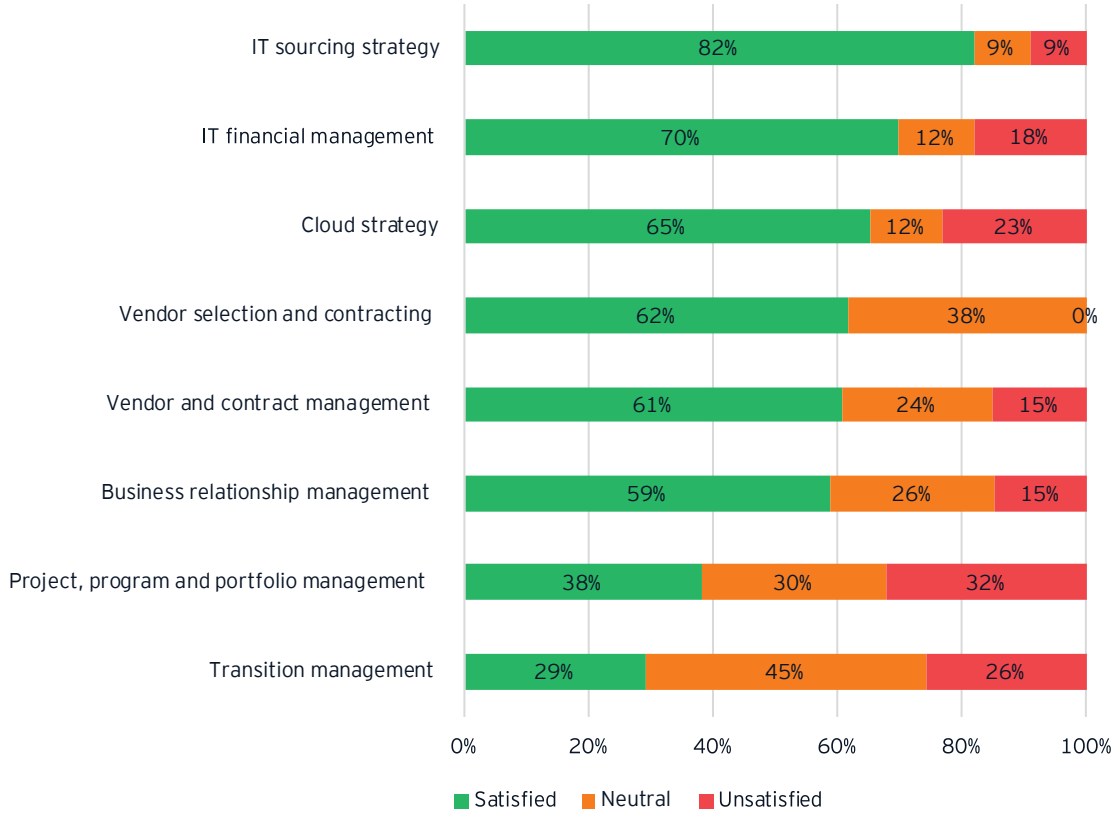
The respondents are overall satisfied with their IT organization's capabilities. They are especially satisfied with their strategic capabilities, but less satisfied with their ability to execute.

The respondents are overall satisfied with their own IT organization's capabilities. The responses might indicate that organizations overestimates their own capabilities.
Our experience is that the retained organization plays a crucial role for the success of outsourcing initiatives, and that organizations tend to underestimate the need for enhancing their retained capabilities.

The respondents reported the highest satisfaction with their "IT sourcing strategy", "IT financial management" and "Cloud strategy", but around one-tenth are unsatisfied withtheir capabilities within these areas. None are unsatisfied with "Vendor selection and contracting". The respondents are least satisfied with "Transition management" and "Project, program and portfolio management". This indicates that the respondents are satisfied with their strategic abilities, but less satisfied with their ability to execute.

Satisfaction with own IT organizations capabilities

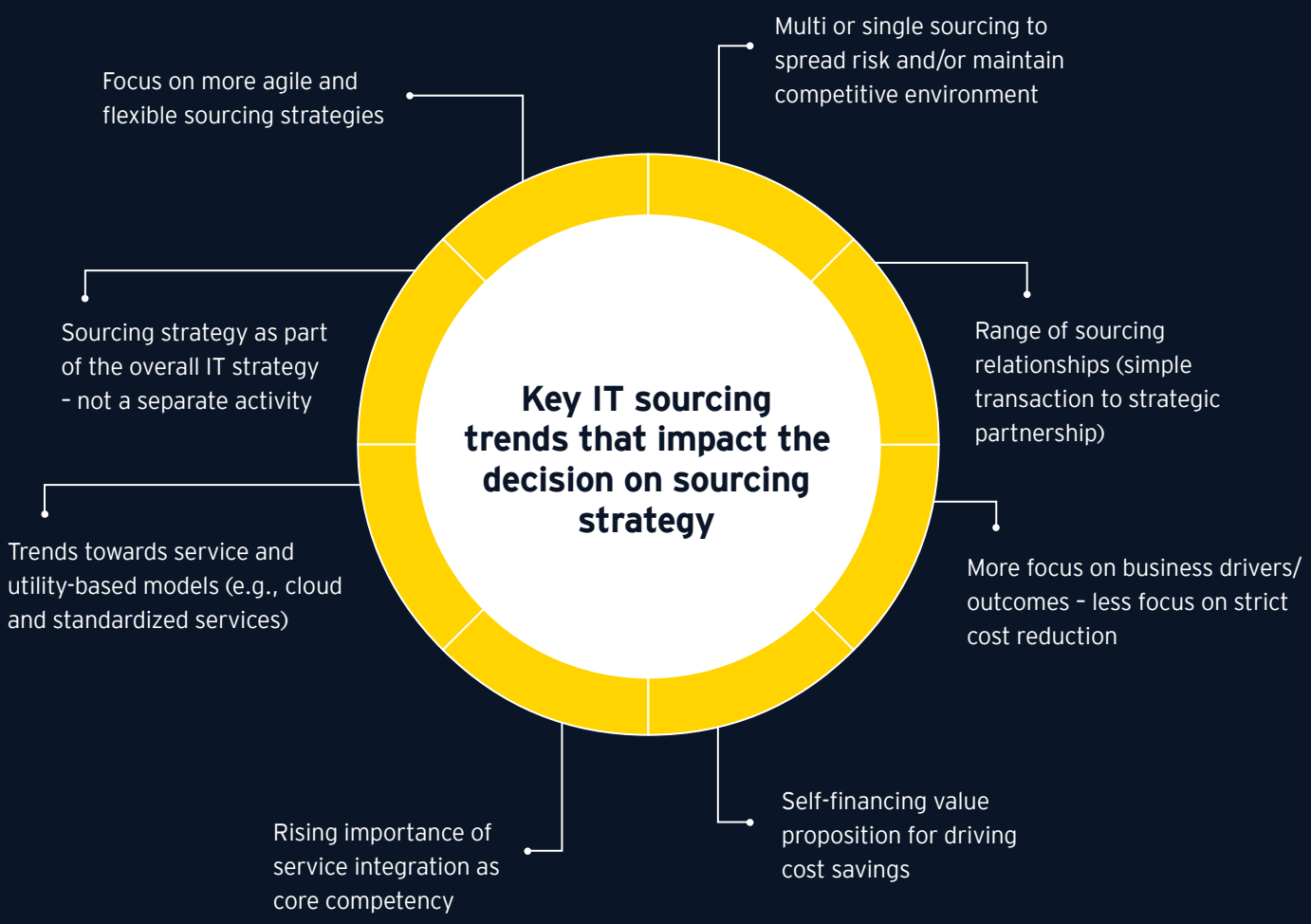
Percentage (%) of responses within each range split on degree of satisfaction

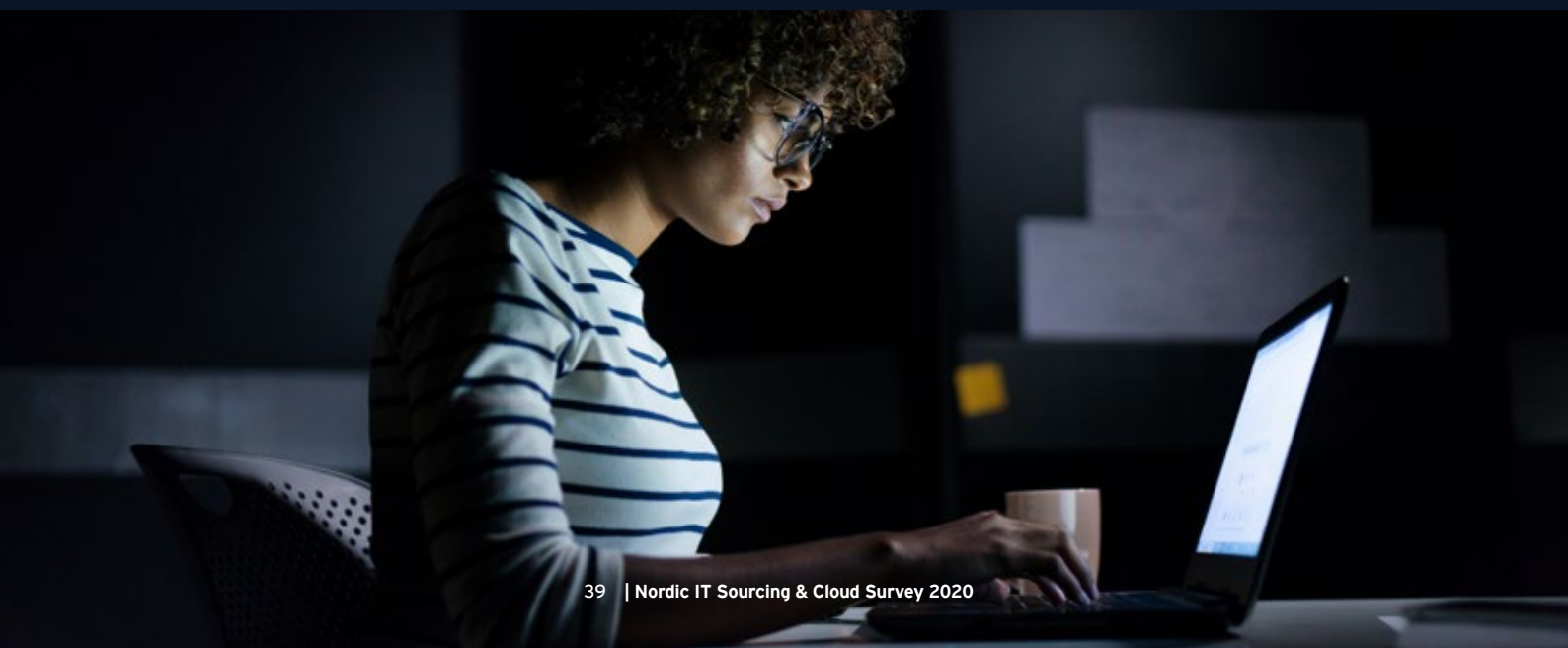


EY Insights:

The IT sourcing strategy should focus on agile and flexible sourcing strategies as part of the overall IT strategy.

Key IT sourcing trends that impact the decision on sourcing strategy





COVID-19 considerations

Going forward, EY teams expect an increased focus on risk analysis of current outsourcing agreements and delivery models to mitigate potential risks related to future global crisis such as COVID-19. Moreover, we expect that the impact of such a global catastrophe might (and should) increase the focus on resiliency and disaster recovery solutions for both existing and new service providers.

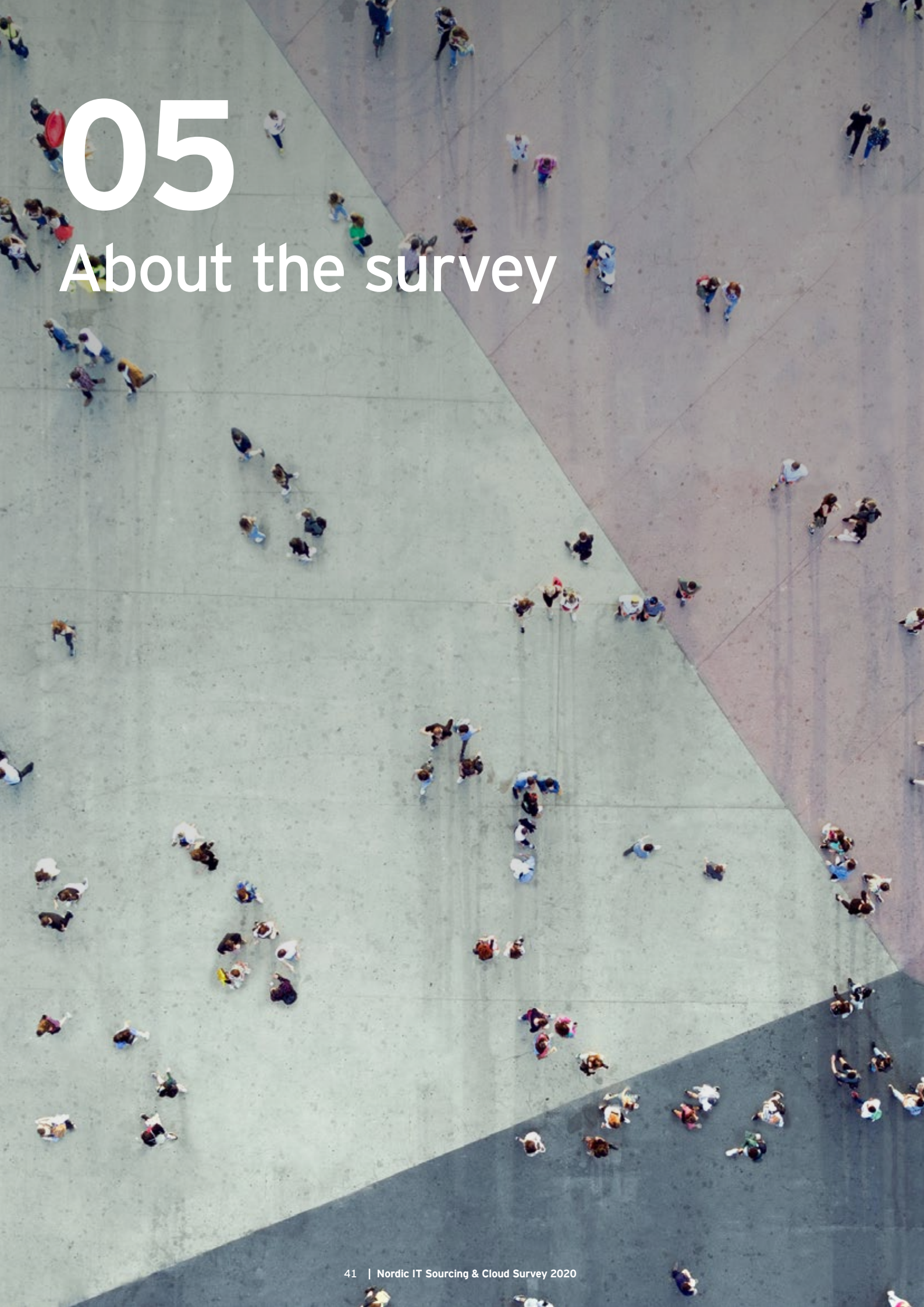
IT Infrastructure:
The global pandemic substantiated the need for scalable and flexible infrastructure that can handle the move from office-based to work-from-home situations. Thus, the event will most likely accelerate with organizations to move from on-premise to cloud-based infrastructure.

Digital Workplace:
The crisis has highlighted the need for scalable, secure and reliable digital workplace services that enable a rapid transition to home-office setup for employees, without negatively impacting their productivity. Therefore, one can expect to see more organizations migrate to cloud-based offerings for end-user software and desktop management.

Service Desk:
This global crisis exposed the need for larger and more complex remote service desk offerings to handle service requirements from home-office set-ups. The need for a more robust professional remote service offering is thus expected to increase in the future, which in turn will most likely lead to increased costs. Innovative offerings will be key to keep cost levels at a manageable level. The need for more complex and costly IT service management solutions might also drive the organizations to outsource more.

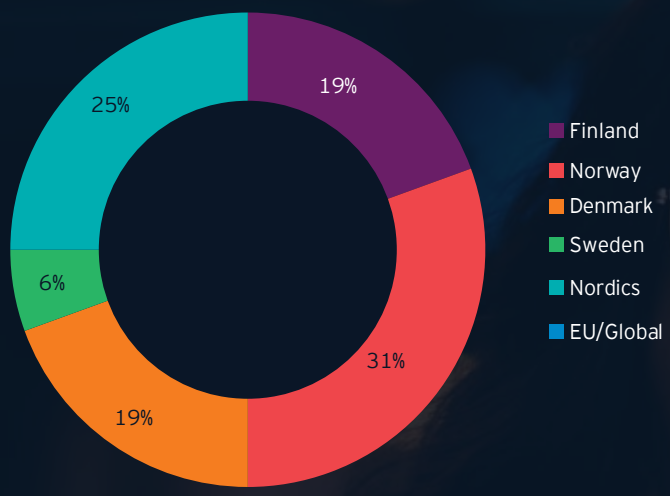
Application Development and Maintenance:
To mitigate risks related to home-office security flaws or due to regulatory security requirements, organizations might opt (or be forced to opt) close-to-home or on-shore delivery models for their Application Development and Maintenance operations. Therefore, the global COVID-19 crisis might be the key catalyst for a paradigm shift in future sourcing locations for Nordic organizations, trending towards less offshore and more nearshore/onshore.

05
About the survey



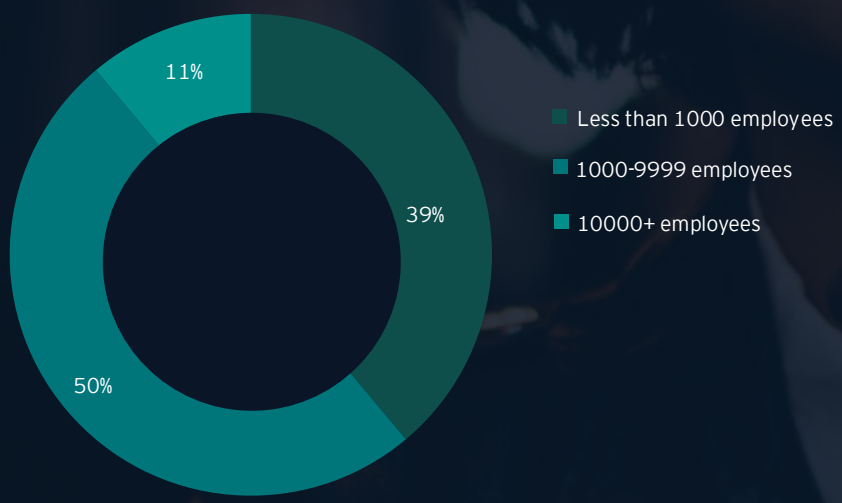
Geographical footprint

Percentage (%) of respondents



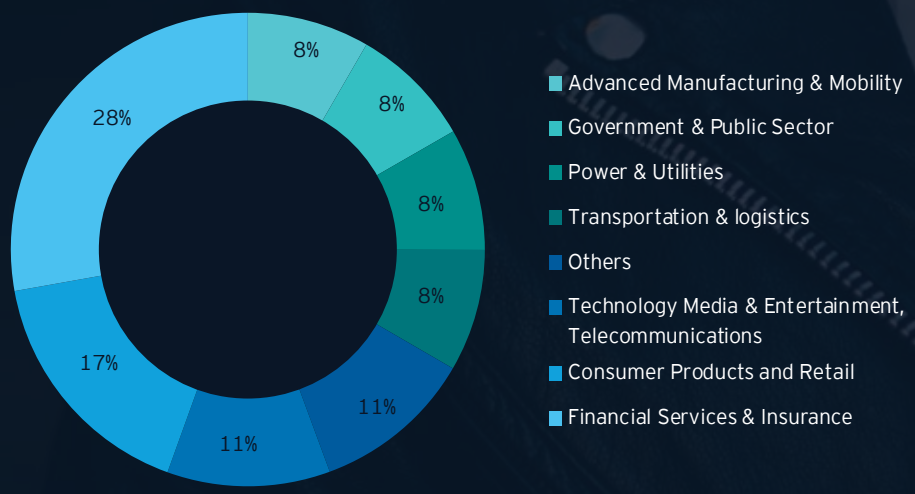
Organizational size

Percentage (%) of respondents



Sector affiliation

Percentage (%) of respondents



The survey was conducted during October to December 2019 and distributed to around 500 IT executive in large Nordic private and public organizations.

EY | Assurance | Tax | Strategy and Transactions | Consulting

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EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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