

EY Norwegian IT Outsourcing Survey 2019

Status and trends in the Norwegian
IT outsourcing market

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Executive summary

Welcome to the EY Norwegian IT Outsourcing Survey 2019 report, the first in-depth EY survey focused on IT outsourcing in Norway.

Key findings:

- ▶ The business drivers for IT outsourcing in Norway are changing. The survey shows that focus on core business is the main driver for considering and implementing IT outsourcing initiatives in Norway, with 76% of the respondents listing it as the main reason. Access to specific knowledge, experts and tools is considered more important than traditional business drivers usually associated with IT outsourcing initiatives, such as cost reduction, improvement of service quality and improvement of business scalability.
- ▶ Although cost is still a strong argument for IT outsourcing, increased flexibility or scalability together, and improved IT operational efficiency are reported as the most significant benefits of realizing IT outsourcing initiatives in Norway.
- ▶ Loss of knowledge and dependency on external service providers are reported as the main risks associated with IT outsourcing for Norwegian organizations.
- ▶ Most organizations seem unwilling to outsource activities that require more unique or specialized skills. This is reflected in the survey responses where commodity services, such as basic infrastructure operations and data centers, are significantly more outsourced than application development and maintenance services.
- ▶ The survey results also show that while innovation is an area of importance to most client organizations – prompted by new technologies and customer behaviors – few service providers are getting it right. About half of the respondents report lack of innovation as one of the main issues encountered with their current service provider(s).
- ▶ The documentation of the existing IT landscape is considered the main challenge, both during the vendor selection and transition process, while lack of innovation or improvement over time is reported as the main challenge after the transition process.
- ▶ The respondents report that “Dedicate more time on establishing an IT operating model that supports outsourcing” is the most important learning point from their IT outsourcing experiences.
- ▶ The survey results also show that about half of the respondents plan to increase the level of IT outsourcing in the coming years, while a third of the respondents plan to retain the current level of IT outsourcing.
- ▶ The respondents also report plans for a decrease in offshore-based service deliveries.
- ▶ Finally, the survey responses show that the IT outsourcing delivery model is moving more toward managed services, with approximately 60% of the respondents seeking to increase their managed services delivery model.

Much of the content of this report is directly relevant to the EY role of helping clients face challenges related to IT outsourcing on a daily basis. We are pleased that, in compiling this report, we were able to draw on the views of the Chief Information Officer's (CIO) in the largest enterprises, both in the public and private sector in Norway, representing every major industry across Norway.

We plan to build on this survey by developing annual surveys to address the wide-ranging topics related to IT outsourcing in the Norwegian marketplace. We believe that you will find this report as useful as we have.

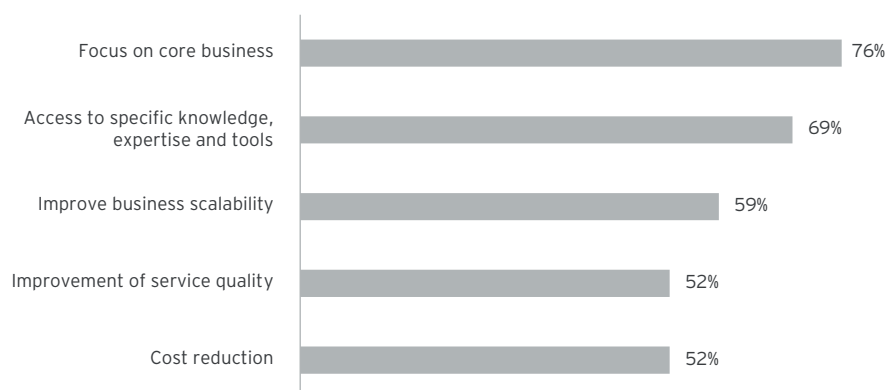
01

Business drivers, benefits and risks associated with IT outsourcing



Top five business drivers for IT outsourcing

Percentage of respondents reporting the business driver

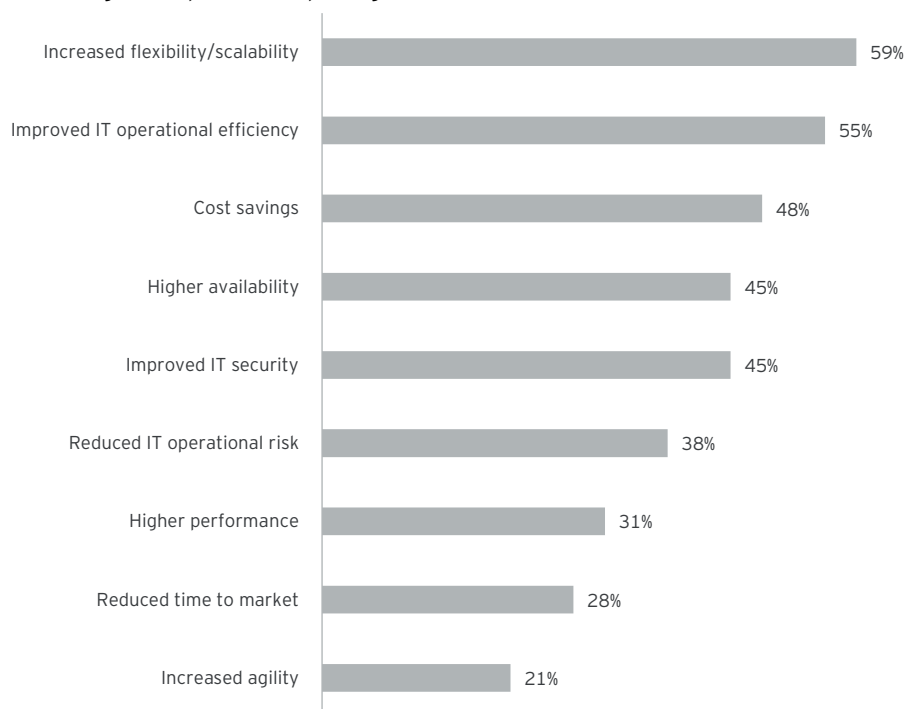


This survey highlights that focus on core business is the main driver for considering and implementing IT outsourcing initiatives in Norway, with 76% of the respondents listing it as the main reason for IT outsourcing. It is also interesting to note that access to specific knowledge, experts and tools is reported as the second-most important business driver and considered more important than traditional business drivers usually associated with IT outsourcing initiatives, such as cost reduction, improvement of service quality and improvement of business scalability.

Based on the responses, our take is that the business drivers for IT outsourcing in Norway are changing. This is in line with EY's experience from IT outsourcing projects in Norway, where cost reduction is no longer considered the main business driver for IT outsourcing. However, cost reduction is often one of multiple business drivers for IT outsourcing initiatives.

Benefits of IT outsourcing initiatives

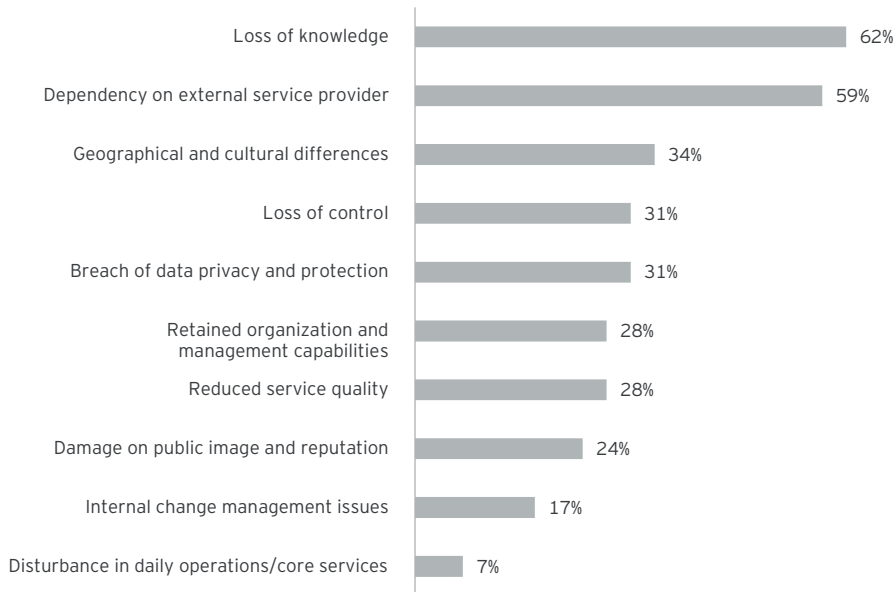
Percentage of respondents reporting the benefit



Cost savings have often been the most frequently cited benefit of IT outsourcing initiatives. However, the survey results show that other benefits of IT outsourcing initiatives exist. Although cost is still a strong argument for IT outsourcing, increased flexibility or scalability is reported as the most significant benefit of implementing IT outsourcing initiatives in Norway. Improved IT operational efficiency is also reported as one of the main benefits of IT outsourcing initiatives. At the other end of the scale, increased agility and reduced time to market is among the least reported benefits of IT outsourcing initiatives.

Main risks associated with IT outsourcing

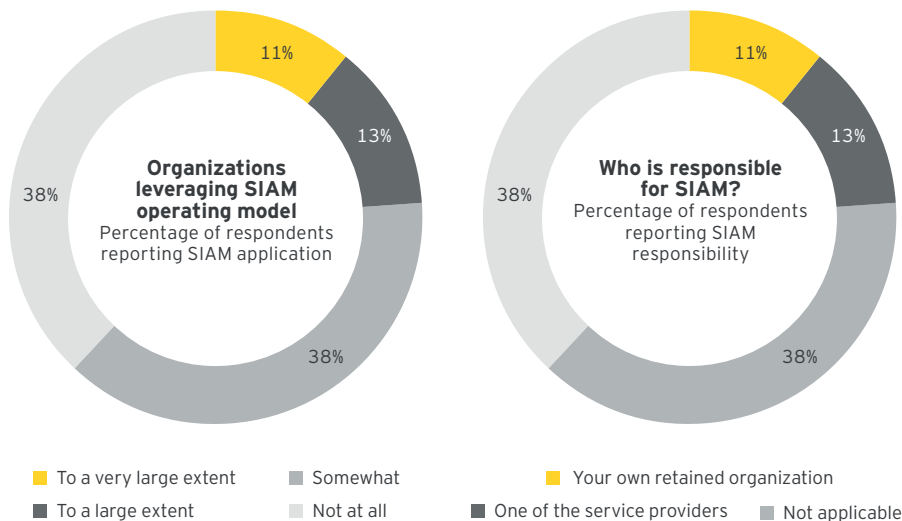
Percentage of respondents reporting the risk



Loss of knowledge and dependency on external service provider(s) are often seen as important risks associated with IT outsourcing by the Norwegian organizations. Based on EYs experience, only a small number of organizations implement mitigating activities to reduce the risks related to loss of knowledge and dependency on the service provider(s).

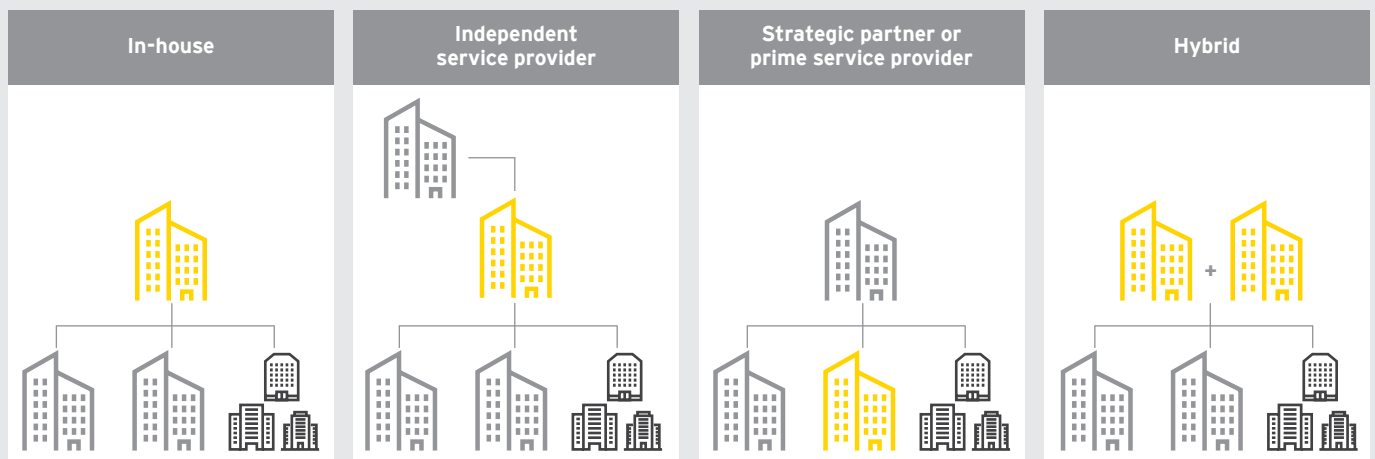
Breach of data privacy and protection is also reported as one of the main risks associated with IT outsourcing. According to the EY Global Information Security Survey 2018-19, Nordic organizations are spending less of their overall IT budget in cybersecurity compared with global entities. The survey also shows that most of the global organizations outsource their vendor risk management function, while Nordic organizations have a stronger tendency to perform security functions in-house.





Many companies mitigate the risk of being dependent on a single provider by using more than one provider (multi-sourcing). On the other hand, using multiple providers can make outsourcing more difficult by adding increased complexity with regard to distribution of responsibilities and vendor management capabilities. EY teams recommend to apply a Service Integration and Management (SIAM) operating model to ensure service integration with multiple contracts and service providers in a multi-sourcing context. Approximately two-thirds (62%) of the respondents report that they apply a SIAM operating model to some degree and those who apply SIAM, leverage their own retained organization to a large extent (66%).

Alternative Service Integration and Management (SIAM) operating models



The SIAM operating model framework outlines four alternatives for service integration:

- ▶ The SIAM control function is retained in-house and the organization itself remains accountable for service delivery in a multi-sourcing context.
- ▶ The control and management of SIAM is outsourced to an independent service provider who does not provide other services to the organization.
- ▶ SIAM is provided by the strategic partner or prime service provider who also provides one or more services to the organization.
- ▶ The SIAM control function is shared between own retained organization and an external service provider (independent or prime service provider).

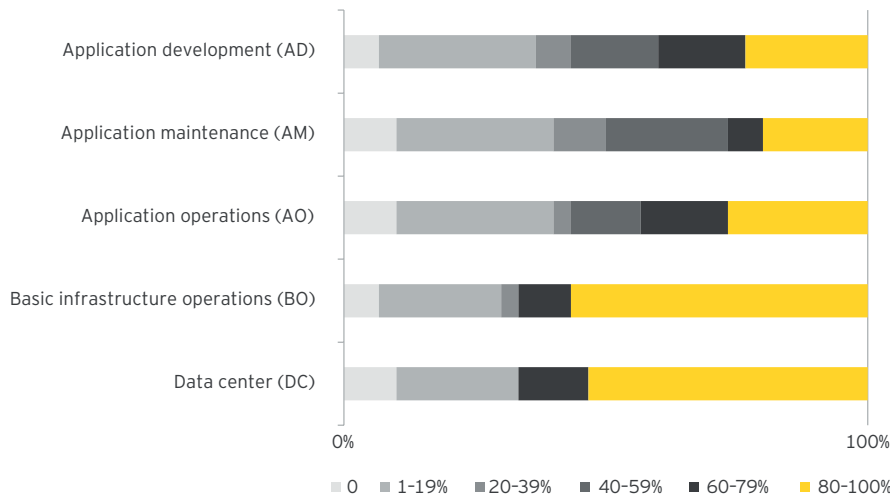


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Current IT outsourcing
status in Norway

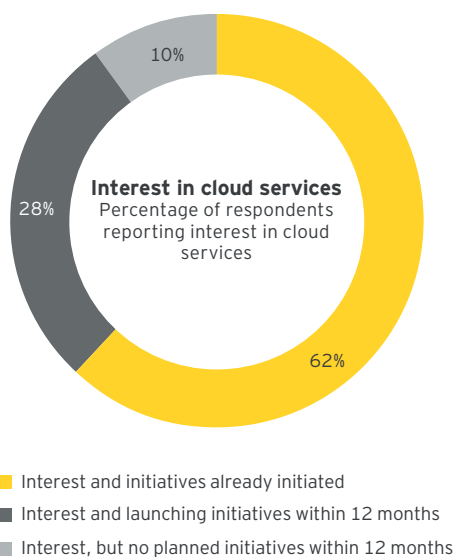
IT services being outsourced

Percentage of responses within each range split on outsourced IT services



Based upon EYs experience, organizations typically outsource repeatable or routine IT services, such as help desk, on-site technical support, security and testing. Most organizations seem less willing to outsource the activities that require more unique or specialized skills. This is also reflected in this survey where commodity services, such as basic infrastructure operations and data centers, are significantly more outsourced than application development and maintenance services.

Another interesting observation is that approximately one-third of the respondents have outsourced less than a fifth of their IT services, indicating a potential for more outsourcing of IT services in the Norwegian marketplace. It seems like there is still an opportunity for service providers to drive market expansion by targeting the Norwegian enterprises with low degree of IT outsourcing.

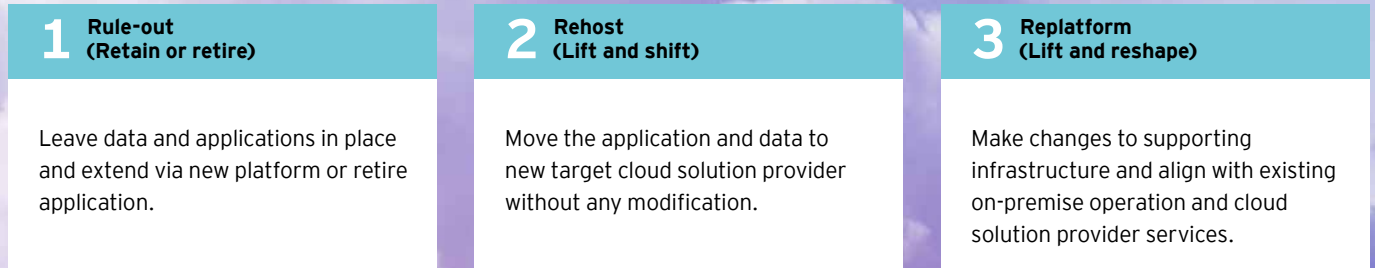


According to the EY Norwegian Cloud Maturity Survey 2018, the largest Norwegian organizations are planning to significantly increase the usage of cloud-based services in the upcoming years. This is in line with the results from this survey, where 90% of the respondents report that they already have launched or are planning to launch cloud initiatives within the next 12 months. Based on these responses and the extensive dialogue with EY clients, we believe that cloud services will continue to impact the outsourcing of IT services in Norway in the near future.

We believe that Microsoft's recent announcement of establishing two data centers on Norwegian soil, will spur increased interest in cloud transformations, particularly in the public sector.

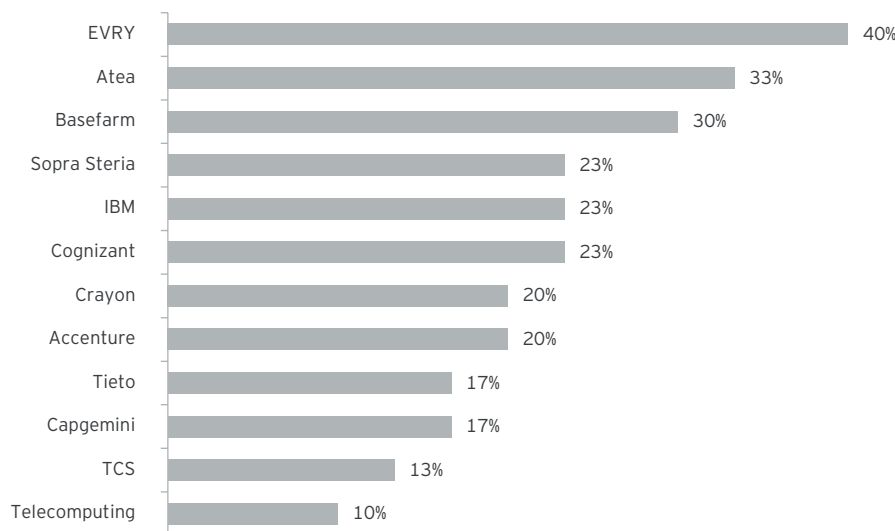
Cloud transformation strategies

As the current outsourcing agreements expire and new outsourcing arrangements need to be made, we believe companies should seek this opportunity to explore cloud transformations. Such a cloud transformation can typically be done in a combination of the following strategies:



Top IT service providers used in Norway

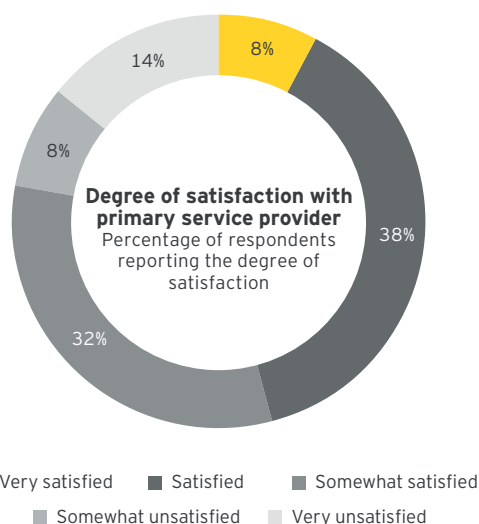
Percentage of respondents using the service provider*



* This does not reflect the market share in the Norwegian market – as to what extent the service provider has a presence among the survey respondents.

The participants in the survey were asked to report which service providers deliver IT services to their organization at present. It is interesting to note that the top three service providers in the Norwegian marketplace are of Norwegian origin. EVRY delivers IT services to 40% of the respondents, Atea to 33% of the respondents, and Basefarm to 30% of the respondents.

The IT service providers originated from India ends up quite far down the list. Some of the largest IT service providers from India did not make it to the top list, i.e., they are present at less than 10% of the respondents' organizations. This can probably be attributed to the average size of the outsourcing contracts in the Norwegian market being quite small and the Indian providers typically prioritizing the larger deals.



The survey results show that approximately 80% of the respondents are satisfied with their current primary service provider. This is encouraging, but as we come across the issues encountered with the service provider(s), we understand that the situation is not that glamorous.

4 Refactor (Lift and optimize)

Decouple the applications; may include code change to take advantage of native cloud solution provider services.

5 Rebuild (Modernized app)

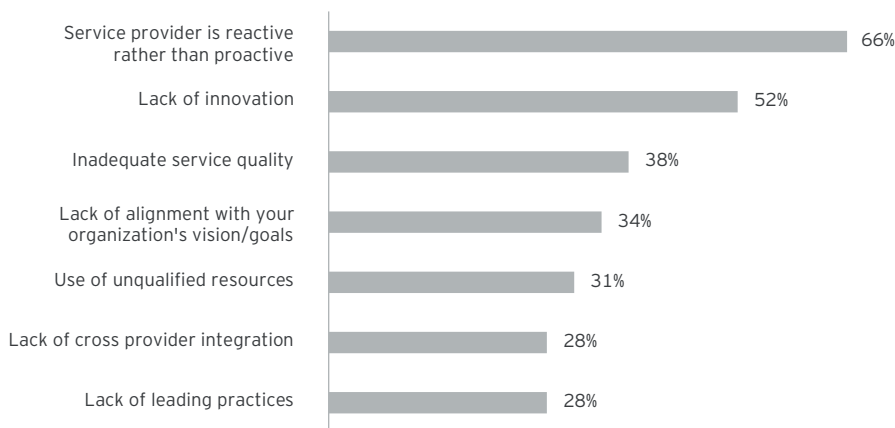
Implement cloud-native application modernization (e.g., leverage microservices architecture, serverless event driven architecture).

6 Replace (SaaS)

Replace with different cloud-application(s) or Software-as-a-Service (SaaS) solution.

Issues encountered with service provider(s)

Percentage of respondents reporting the issue

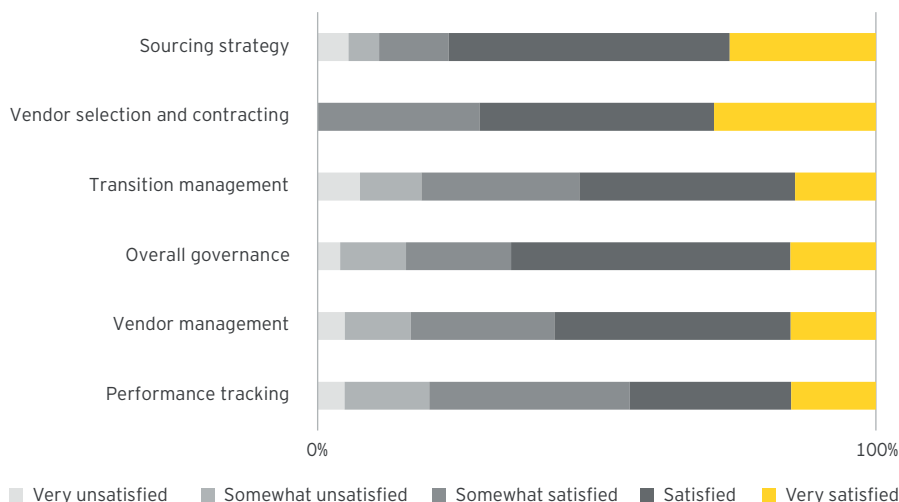


The survey results show that while innovation is an area which is important to most client organizations – prompted by new technologies and customer behavior – few service providers are getting it right. About half of the respondents report lack of innovation as one of the main issues encountered with their current service provider(s).

What we have seen is that larger service providers often lack the capacity or necessary internal capabilities to enable more disruptive innovations and to do so at scale. The service providers can improve their proactiveness and ability to provide innovation for their clients.

Satisfaction with IT outsourcing capabilities

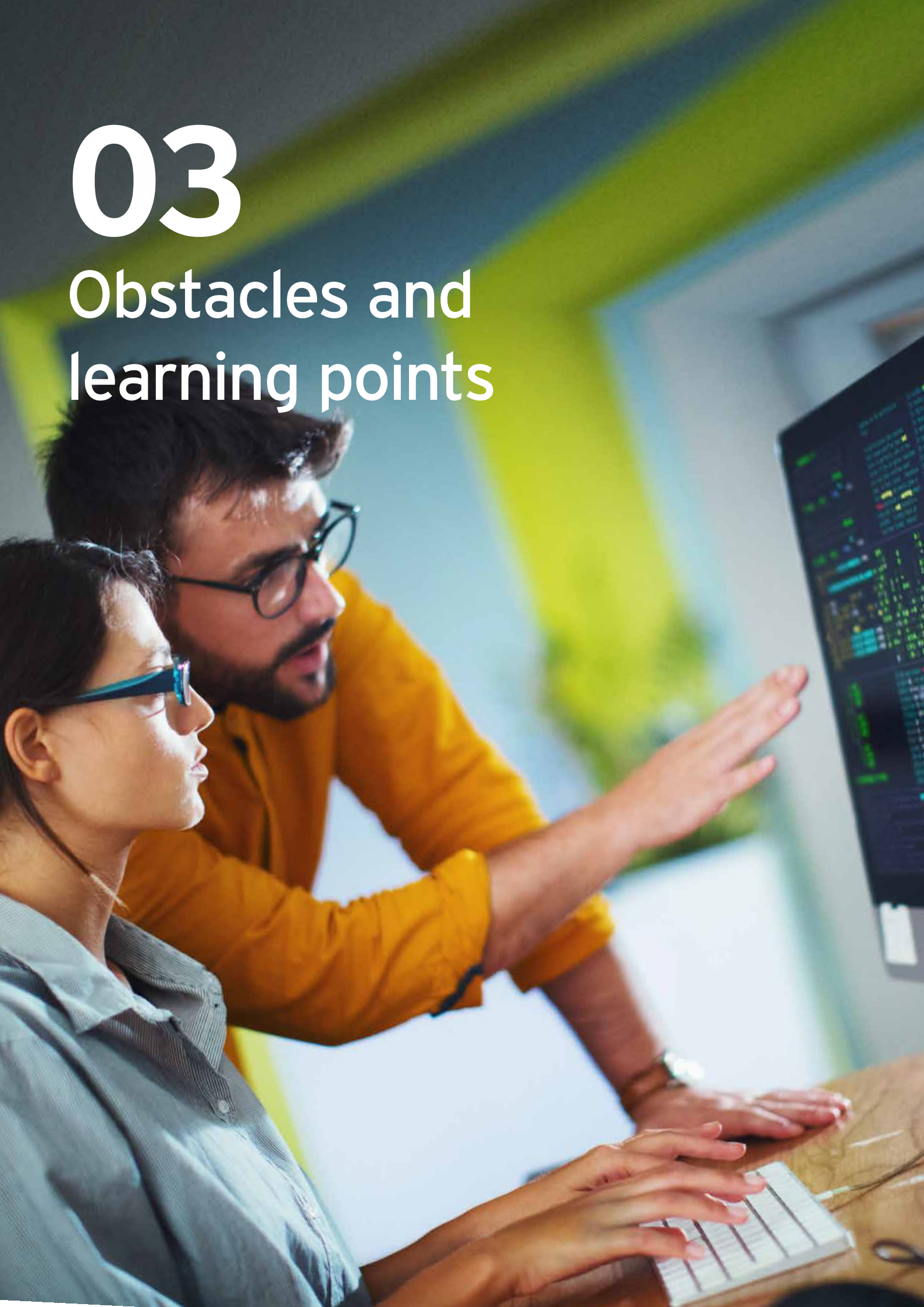
Percentage of responses within each range split on the satisfaction with IT outsourcing capabilities



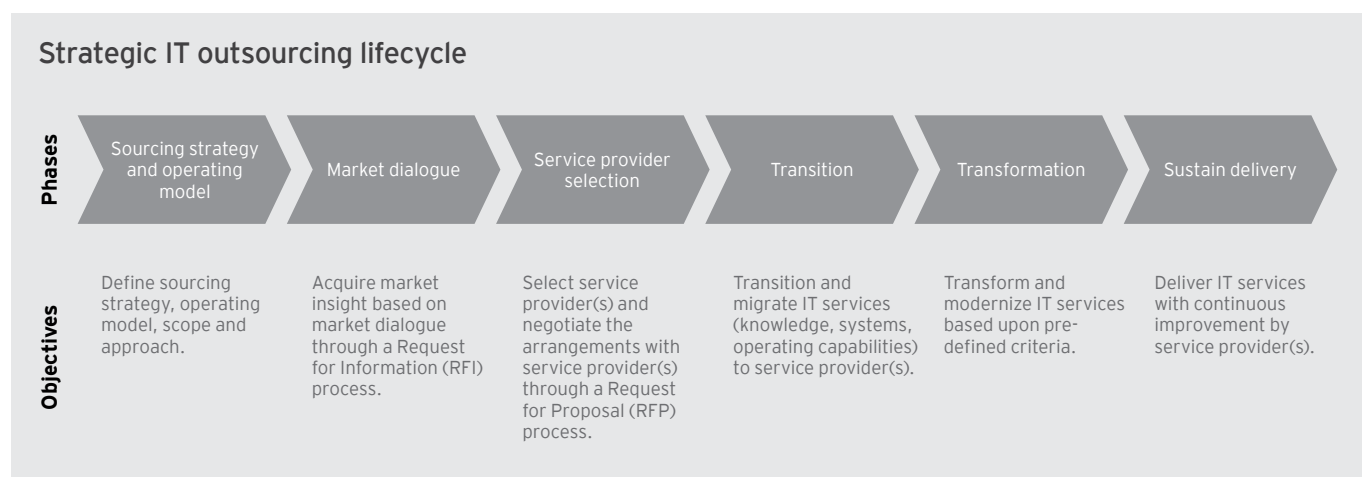
Overall, respondents are satisfied with their IT outsourcing capabilities, especially with respect to sourcing strategy, vendor selection and contracting. However, the respondents are less satisfied with their performance tracking and transition management capabilities. This indicates higher maturity in the earlier stages of the IT outsourcing lifecycle than in the later stages of the lifecycle.

03

Obstacles and learning points

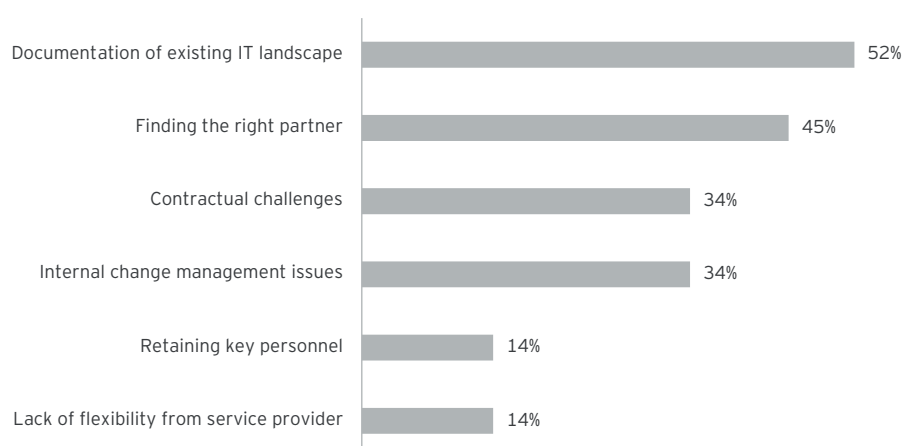


The strategic IT outsourcing lifecycle consists of multiple stages. Each stage of the sourcing lifecycle poses unique challenges and the success of the overall sourcing initiative is dependent on a number of critical success factors. In this survey, the respondents were asked about the challenges they encountered during the vendor selection process, transition process, and after the transition process.



Challenges encountered during the vendor selection process

Percentage of respondents reporting the challenge



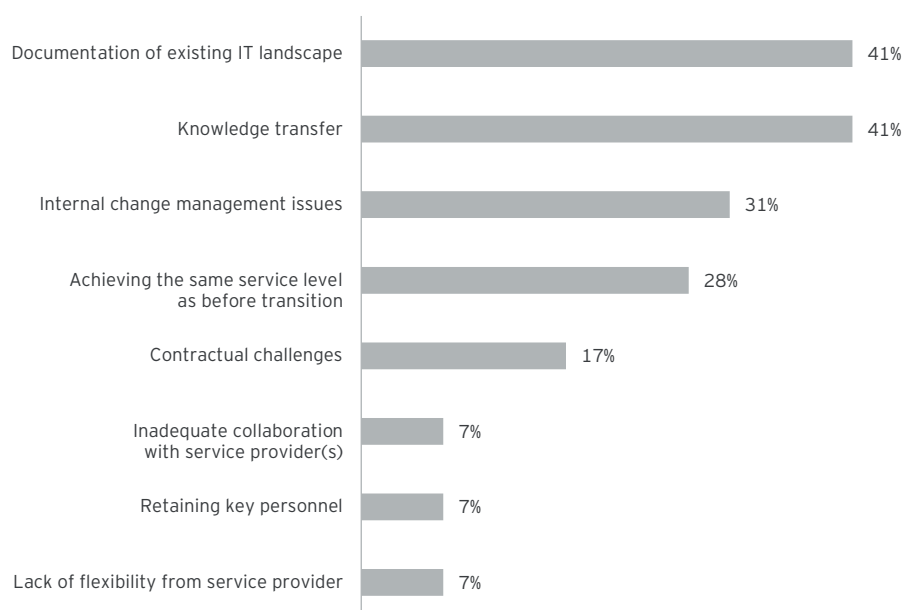
As expected and in accordance with EYs experience, the documentation of the existing IT landscape is considered the main challenge during the vendor selection process. The second highest reported challenge relates to finding the right outsourcing partner. The business risks associated with selecting the wrong partner are more important than ever in today's economic climate. This is especially important in a single-sourcing context where the strategic partner is expected to deliver a full-stack of IT services.

Lack of flexibility from service providers is the least reported challenge during the vendor selection process, supporting the perception that the service providers are willing to go far in accommodating the potential customers' needs and requirements.



Challenges encountered during the transition process

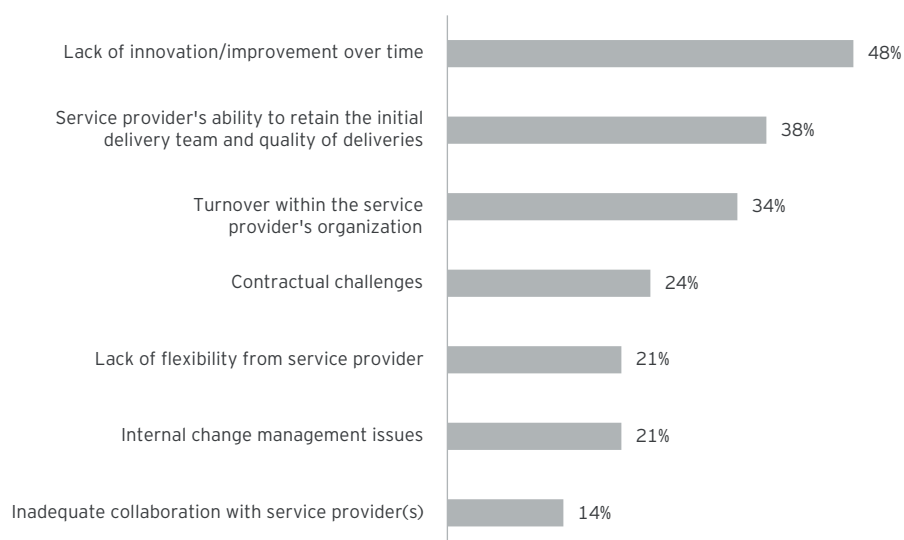
Percentage of respondents reporting the challenge



Documentation of the existing IT landscape is reported as the main challenge during the transition process, supporting EY's recommendation of focusing on documentation early in the outsourcing process. Lack of documentation of the existing IT landscape is also related to the reported challenge related to knowledge transfer. Based upon EY's experience, sufficient documentation of the existing IT landscape is key to a successful outsourcing transition.

Challenges encountered after the transition process

Percentage of respondents reporting the challenge



Lack of innovation or improvement over time is reported as the main challenge after the transition process, in line with EY client work experience. According to EY experience, enabling innovation is a big challenge for both client organizations and service providers. In general, organizations are struggling with the term innovation – what is continuous improvement and what is innovation. Client organizations want to see more specific and relevant examples of innovation and continuous improvement from their service provider(s).

Service provider's ability to retain the initial delivery team and turnover within the service provider's organization are considered another major challenge after the transition process, indicating that IT service delivery is still highly dependent on key personnel.




Key questions to ask

The following questions are critical for business and IT leaders to consider when initiating the IT outsourcing processes:

- ▶ Why do we want to outsource our IT services?
- ▶ What services should be outsourced?
- ▶ How does the business case look like?
- ▶ What are the risks associated with outsourcing our IT services and how do we plan to mitigate them?
- ▶ How should our retained organization look like?
- ▶ Do we have any preference for service delivery locations?
- ▶ How will we maintain control over the processes that have been outsourced?
- ▶ How will we integrate the services from multiple service providers?
- ▶ How will we ensure shared data is protected and securely handled by the service provider(s)?
- ▶ How will we manage data quality?
- ▶ Will there be cultural and geographical differences and communication issues that could impact the outsourcing relationship? How do we plan to handle these?
- ▶ What should be included in the outsourcing contract? How will performance be measured? How will conflicts and disputes be settled? What are our exit clauses?

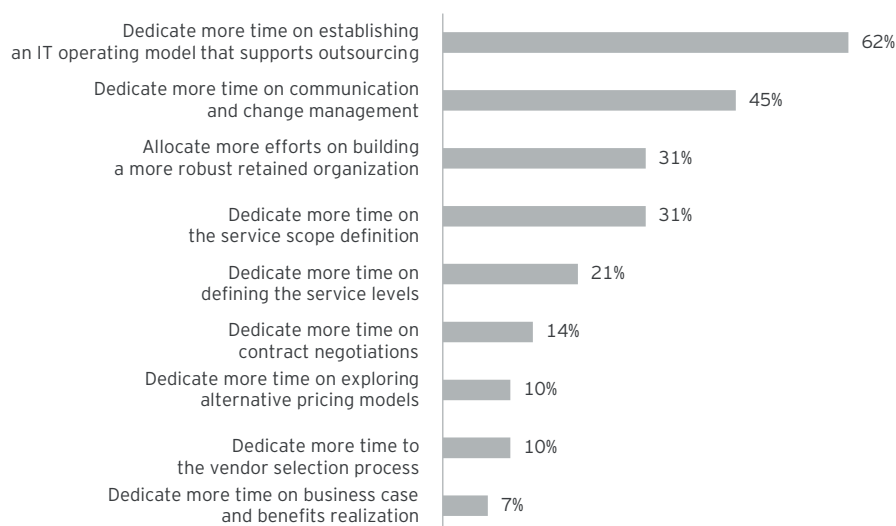
What capabilities are required in a retained organization?

Once you outsource a service, you have to build a retained organization that manages it and ensures that you get the service you need. EY teams recommend building the following capabilities in the retained organization when contracting IT services from an external service provider (outsourcing).

 IT strategy	 Project and program management	 Strategic vendor management
<ul style="list-style-type: none"> ▶ Strategic direction ▶ Link to business goals and objectives ▶ Sourcing strategy 	<ul style="list-style-type: none"> ▶ Project and program management methodology and tools ▶ Implementation of purchased systems 	<ul style="list-style-type: none"> ▶ Business relationship management ▶ Operational follow-up ▶ Contract management ▶ SLA monitoring ▶ Change management ▶ Financial management

Key learning points

Percentage of respondents reporting the learning point



The respondents report that “Dedicate more time on establishing an IT operating model that supports outsourcing” is the most important learning point from their IT outsourcing experiences. Based upon EYs experience from IT outsourcing engagements in the Nordics, organizations often tend to overlook the requirements related to their retained organization. EY teams recommend to define and establish both an IT operating model and a retained organization early in the outsourcing process. The retained organization consists of the competencies, resources, skills and capabilities that are required internally when outsourcing IT services.

The survey results also show that it is important to dedicate more time on communication and change management. The top three key learning points are all related to organizational change management.

An interesting observation is that “Dedicate more time to the vendor selection process” is among the least reported learning points, while finding the right partner is reported as one of the main challenges during the vendor selection process.



Architecture, technology and design

- ▶ Ensure that purchased services meet the business long-term needs and requirements
- ▶ Architecture governance



Risk management and compliance

- ▶ Information security
- ▶ Cybersecurity
- ▶ GDPR
- ▶ Other compliance elements



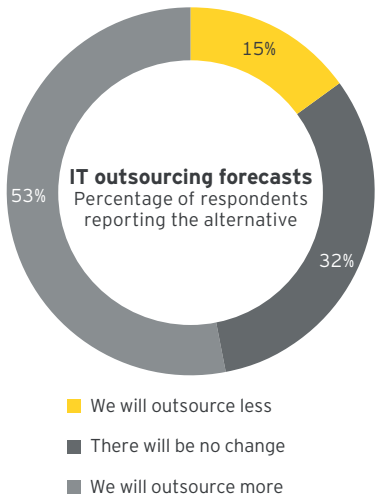
Business analysis

- ▶ Engage subject matter experts (SMEs) from the business domains
- ▶ Analyze the business challenges and opportunities
- ▶ Develop business requirements for IT deliveries



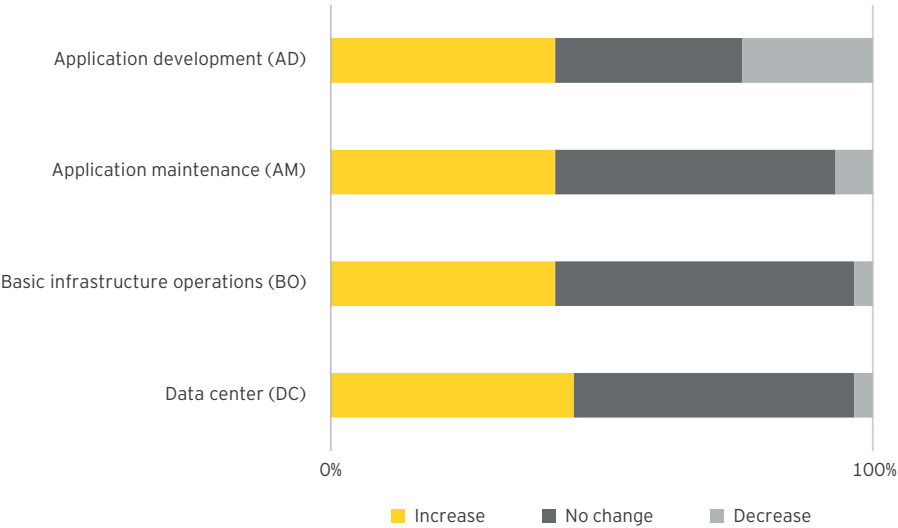
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Future sourcing strategy
and plans

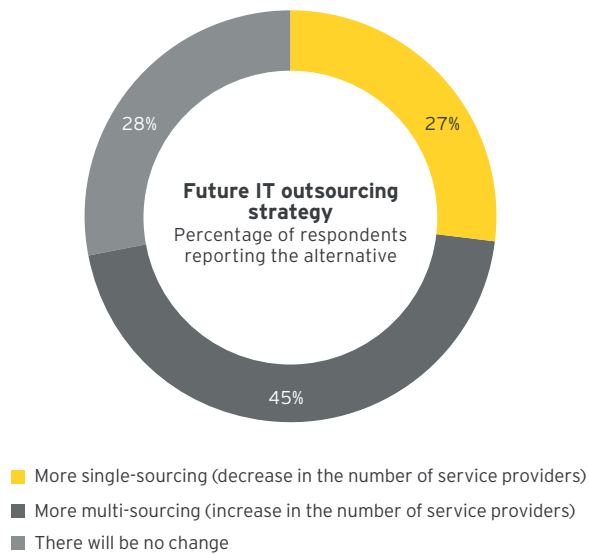


Changes in outsourcing of IT services

Percentage of responses within each range split on the respondent's change in outsourcing of IT services



The survey results show that about a half (53%) of the respondents plan to increase the level of IT outsourcing in the coming years, while a third of the respondents plan to retain the current level of IT outsourcing. The respondents also report that they seek to increase outsourcing across the whole service stack from data centers to application development.



The survey results show that 45% of the respondents seek to leverage more multi-sourcing. Multi-sourcing means that an organization utilize multiple service providers for delivering various types of services. The main reason for leveraging multi-sourcing is often that the organization seeks service providers who have expertise within specific domains, "one size does not fit all." Multi-sourcing sets high requirements for vendor management capabilities internally (retained organization), and will require a SIAM operating model.

On the other hand, 27% of the respondents are planning to move more towards single-sourcing. Single-sourcing means that an organization only utilize one service provider to execute the various types of services. Based upon EY's experience, single-sourcing is often leveraged in a strategic partnership model.



The survey responses point to an increased focus on leveraging onshore and nearshore service delivery locations. The respondents indicate a significant decrease in offshore-based service deliveries. This is in line with EY's experience from the Norwegian market, where offshore-based delivery models often result in geographical, cultural and communication challenges.

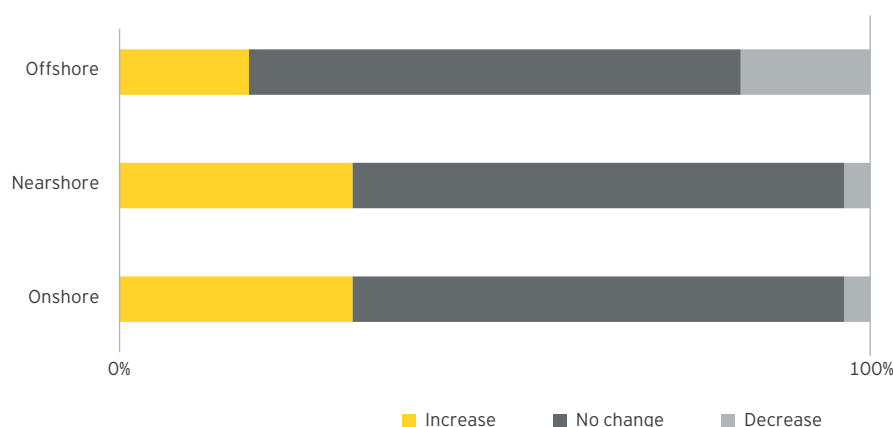
Geographical and cultural differences are also reported by 34% of the respondents as one of the main risks associated with IT outsourcing.

Technical problems can usually be solved with more resources and budget. This approach does not work for cultural and geographical differences. To close the

gap and develop a successful business relationship with an organization that is abroad, requires an acceptance that there will be differences and there must be an investment in knowledge of each other's culture. Open and honest communication is of vital importance, making clear agreements concerning common targets, milestones and sanctions at the onset can help prevent communication mistakes and lead to mutually realistic expectations.

Changes in IT outsourcing location

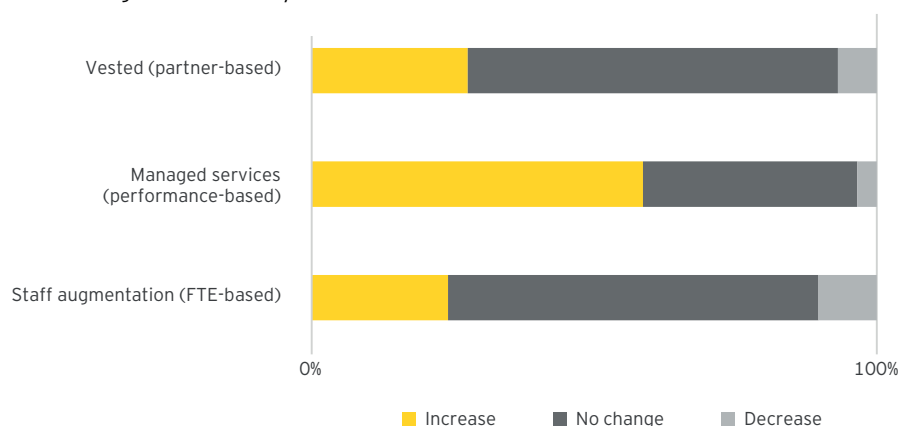
Percentage of responses within each range split on the respondent's change in outsourcing location



Another interesting point is that Norway is considered a highly attractive country for data centers and the Norwegian Government has outlined their vision of Norway becoming a data center nation in the future. Several major IT service providers are planning to establish delivery centers in Norway and provide Data Center services. For instance, Microsoft has announced two new data center facilities in Norway by the end of 2019. This boost in local data centers in conjunction with the client organization's public cloud transformation initiatives will probably result in a reduction in offshore-based service deliveries in the upcoming years.

Changes in IT outsourcing service delivery model

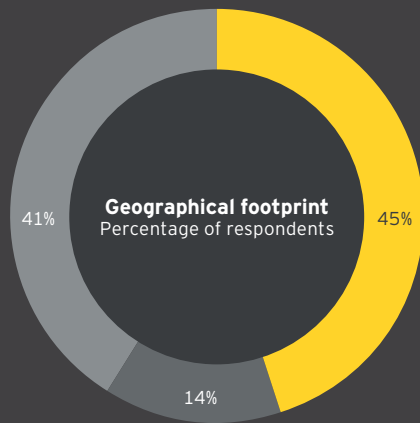
Percentage of responses within each range split on the respondent's change in IT outsourcing service delivery model



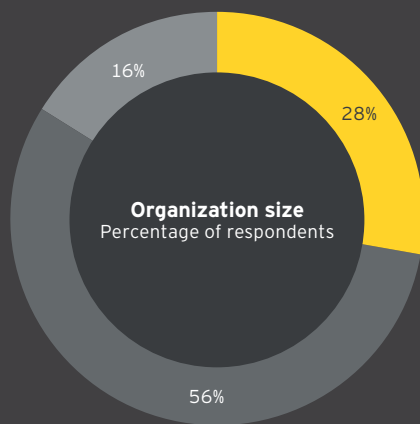
EY's experience from the Norwegian market is that many outsourcing contracts are still based on staff augmentation (FTE-based). However, the survey results show that the IT outsourcing delivery model is moving more toward managed services, with approximately 60% of the respondents seeking to increase the managed services share of the delivery model. Another interesting observation is that vested (partnership-based) delivery models seems to gain traction. It will be exciting to see how this delivery model will evolve in the Norwegian marketplace.

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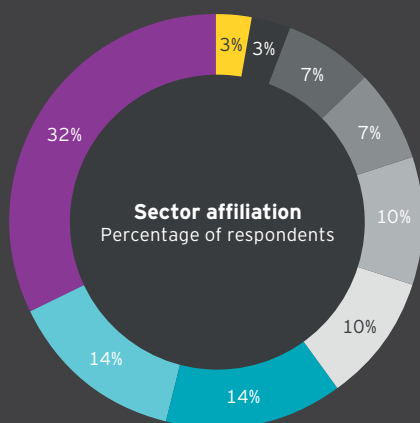
About the survey



■ Norway ■ Nordics ■ EU or Global



■ Below 1000 employees ■ 1000-9999 employees
■ 10000+ employees



■ Construction ■ Government and public sector
■ Technology, media and entertainment telecommunications ■ Consumer products and retail
■ Health and life sciences ■ Transportation and logistics
■ Industrial products ■ Oil and gas
■ Financial services and insurance

The survey was conducted during September to October 2018, and distributed to 146 of the largest organizations in Norway.

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