



2016 Global Outsourcing Survey

Outsourcing accelerates forward

Deloitte Consulting LLP
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Executive summary

Deloitte’s Global Outsourcing Surveys have taken the pulse of global outsourcing and insourcing by polling executives from leading organizations on their observations, expectations, and experiences.

Our 2012 survey signaled a shift in customer sentiment toward insourcing, which was partly due to the expiration of contracts reinstated in the last generation of such renewals. Interestingly, in 2014, survey results went in a different direction, signaling concerns about the impact of regulatory and legislative changes on outsourcing. That year’s survey also captured a pivotal moment in the history of outsourcing, indicating that such emerging technologies as big data, as-a-service, and bring your own device (BYOD) – along with advancements affecting the nature and complexity of service delivery – were shaping new and important outsourcing opportunities and challenges. Just as these technologies and advancements have evolved over time, so too has the overall value proposition of managed service providers.

To track the ongoing journey of global outsourcing, we once again reached

out to industry leaders to gain a better understanding of what has changed and what lies ahead.

We surveyed leaders from organizations of all sizes and operational footprints in the Americas, Europe, and Asia. (Figures 1 and 2) The executives surveyed in 2016 represent various legacy functions—including IT, finance, and human resources—from more than 25 different sectors.

Three key trends emerged from this year’s survey.

1.) Companies are broadening their approach to outsourcing as they begin to view it as more than a simple cost-cutting play.

With more respondents viewing service providers as key business enablers, service providers are becoming purveyors of

innovation and enabling transformation rather than just providing a source of price arbitrage. Additionally, respondents say that innovation is a key component of the value derived from an outsourcing relationship.

2.) Organizations are redefining the ways they enter into outsourcing relationships and manage the ensuing risks.

Many say that they are actively tracking the incorporation of innovation into their outsourcing agreements. However, survey results indicate that the majority of respondents still struggle to define, track, and motivate innovation from their service providers, or that they are unsure how to do this formally within a contract. Additionally, we found that legislative and cyber security risks are a priority for

respondents. Outsourcing has shown itself to be a counterweight since respondents believe that service providers offer a path to mitigate these risks.

3.) Organizations are changing the way they are managing their relationships with outsourcing providers to maximize the value of those relationships.

The state of the art continues to mature as learnings are incorporated into new agreements through enhanced service-level agreements (SLAs) and governance structures. And while there has been improved perceptions of the value of vendor management organizations (VMOs), survey findings indicate that there is a strong business case for investing even more in this function. ➔

Figure 1. Annual revenues of surveyed organizations

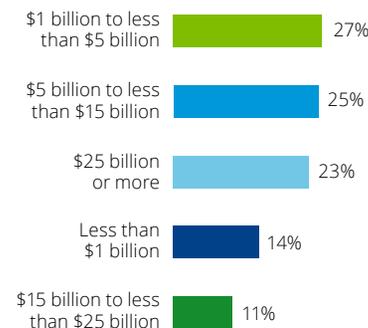
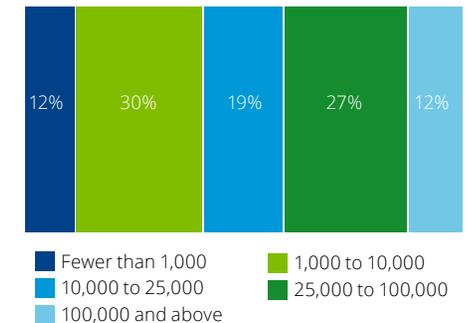


Figure 2. Total employee population of surveyed organizations



Key findings

Responses to this year's survey reflect the growth of outsourcing across mature functions, including IT, human resources, and finance, during the two years since our last survey. Findings also indicate outsourcing's accelerated growth into additional functions, like real estate, facilities management, and procurement. Respondents increasingly view outsourcing as more than a cost play and, accordingly, expect more from their vendors.

This "more" they seek comes in the form of the transformational benefits that managed service providers can offer through robotic and cognitive process automation, operational flexibility and scalability, merger and acquisition enablement, and risk mitigation—all leading to an increase in service innovation as the result of rapidly changing technology.

Innovation (and modules) enable business functions.

Responses indicate that the market is looking to evolve the outsourcing process so that it yields benefits beyond the narrow scope of the agreement. The central focus of value is how innovation can act as an

enabler of the business function. This has become a pervasive ambition, but is often elusive in its realization as the market continues to struggle to define what innovation is.

The real innovation taking place is outsourcing's enablement of organizations to buy a "module" of service that can be effectively procured, integrated, used for a period of time, then safely removed from the environment when its useful life has expired. It is this process—not just the reduction in costs (though this is also critical)—that outsourcing-done-right can provide in order to help organizations maintain and improve competitive advantage.

The foundation for authentic partnerships is built early on.

Realizing the benefits of outsourcing begins early in the outsourcing lifecycle, even before vendors are engaged. As the emphasis on extended benefits, including innovation, ease of management, and improved strategic flexibility, increases in magnitude, so too does the importance of starting relationships off on the right foot.

Making thoughtful decisions on whether or not to outsource—including what elements of the enterprise should be retained or included in the initiative—and setting expectations with clear requirements can set the stage for the duration of the relationship. This includes defining the terms of the relationship as strategic, value-based or transactional, and incorporating the appropriate value measures into vendor selection criteria and SLAs.

It also includes evaluating service delivery models and locations, agreeing upon audit rights, and determining how to manage risks, including those around regulations, legislation, cyber security, and data privacy. Interestingly, Deloitte observations in the market signal that cyber risk is no more a concern with vendor relationships than it would be internally. In fact, outsourcing >



may help mitigate these concerns because of the customer protections and risk sharing such agreements establish. In a departure from the 2014 survey, this year's survey indicates that the market largely has dispelled concerns about prospective legislation and regulation on outsourcing decisions.

Effective vendor management drives ongoing value.

Once service providers have been engaged, the attention turns to transitioning services and then to governing and managing the vendor relationship. The survey results demonstrate that desired outcomes can be achieved more effectively when organizations spend more time on competitive vendor selection and transition, and constructing better SLAs.

Similar to our 2014 findings, vendor management continues to be an underused enabler of value creation. Investments in VMOs tend to be relatively low. Nonetheless, survey respondents perceive vendor management to be effective in driving value, particularly through contractual and financial management, as well as in governance.

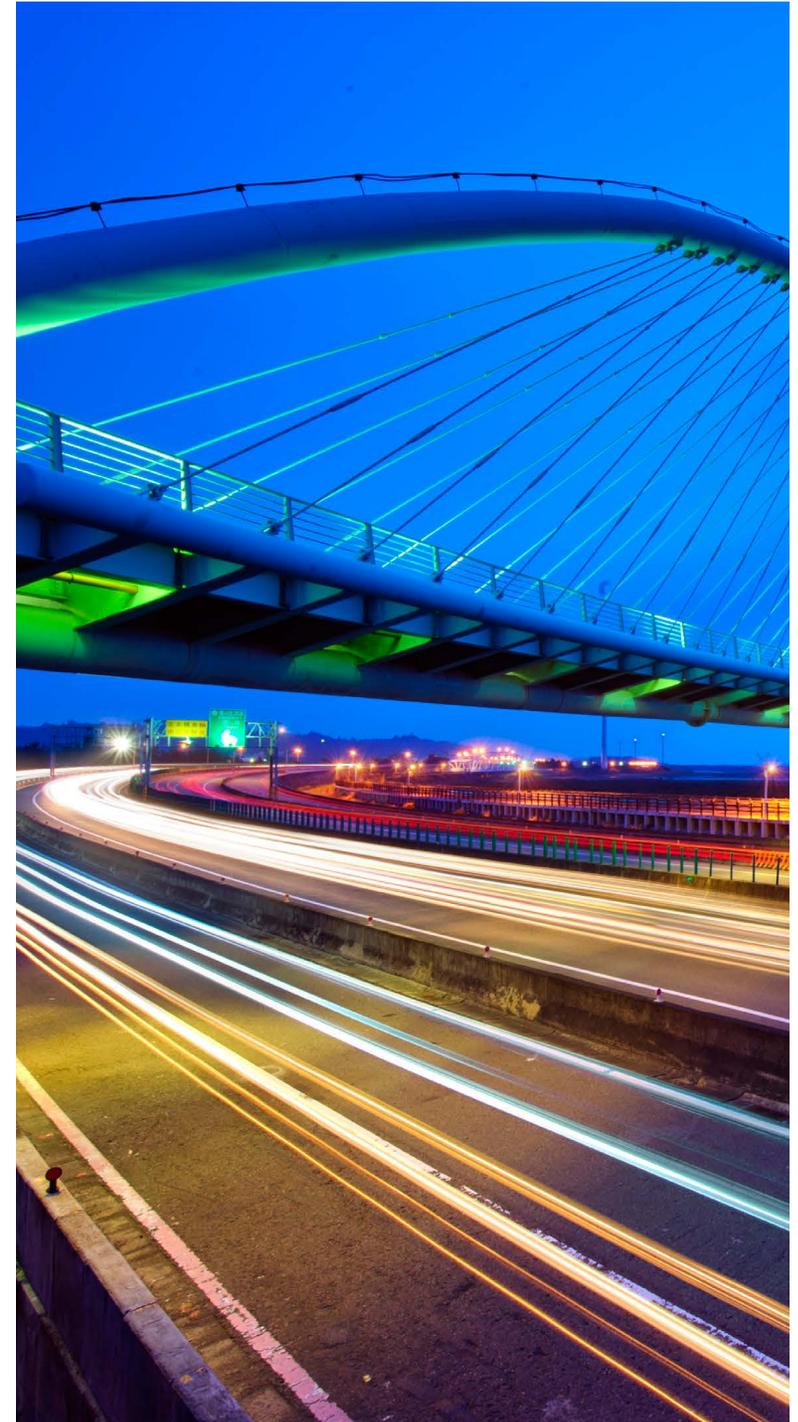
In these categories, companies generally view their capabilities as being at or above average. In truth, VMO investments are probably not fully realized since respondents reported significant savings attributable to VMOs, even though few

spent a meaningful portion of outsourcing costs on them. Fortunately, a majority of respondents are working actively to improve their VMOs' capabilities.

Stronger governance supports operational excellence.

A clear link remains between operational excellence and governance-model maturity. A growing number of companies are strengthening their vendor management and relationship-management capabilities. This enables them to use contractual levers and oversight activities, such as implementing clear and mature escalation paths, to resolve vendor performance and disputes rather than triggering termination rights.

The following pages highlight additional findings that support, explain, and explore these observations in more detail. Read on to learn what other organizations are doing to define, measure, and realize more value from their outsourcing relationships. ➔



Emerging trends

Redefining outsourcing benefits: Motivations expand beyond cost.

Taking a deeper look into the data of this year's survey, we uncovered key insights that may provide a deeper understanding of the state of outsourcing in 2016 and beyond.

Cost continues to play a leading role in outsourcing, however, capabilities around mergers and acquisitions (M&A), capacity, service quality, robotic and cognitive process automation, cloud, and innovation are growing in importance. (Figure 3)

Companies are redefining the benefits of outsourcing by asking their service providers to add value in ways beyond cost cutting, such as enabling M&A activity, providing needed capacity, and advancing functional capabilities. (Figure 4) ➔

Figure 3. Motivations to outsource

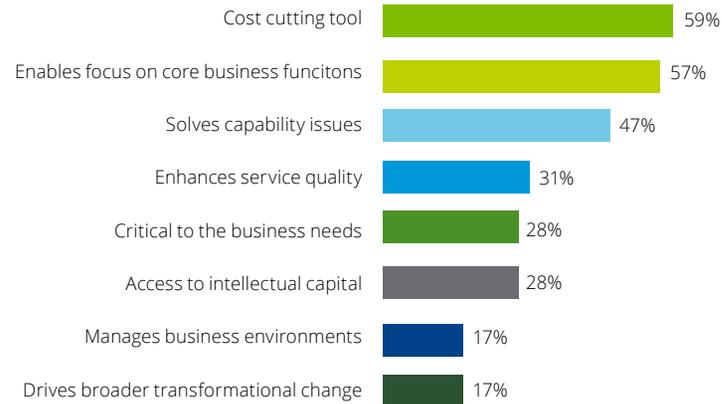


Figure 4. Outsourcing is a key enabler to M&A activity and has the ability to deliver tangible benefits for savvy organizations



45%
of respondents see outsourcing as a key enabler of M&A activity



Securing the benefits of outsourcing: The real effect of innovation is yet to be measured.

Only 35% of organizations surveyed measure outsourcing value through innovation. However, looking forward, a large majority see cloud computing and robotic and cognitive process automation as key innovations.

Innovation is seen by respondents as a key driver of quality, but companies struggle to define, measure, and motivate it in their outsourcing relationships.

More than one-third (35%) of respondents measure the value delivered by outsourcers through innovation. But only 21% of respondents make innovation a key part of contracts, which demonstrates a “disconnect” in the initial establishment of the vendor relationship.

Seventy percent are currently implementing or are discussing the use of robotic and cognitive process automation to improve outsourcing results. (Figure 6)

Cloud computing has the ability to affect outsourcing relationships. Service innovation is emerging as a result of a rapidly changing technology. (Figure 7) ➔

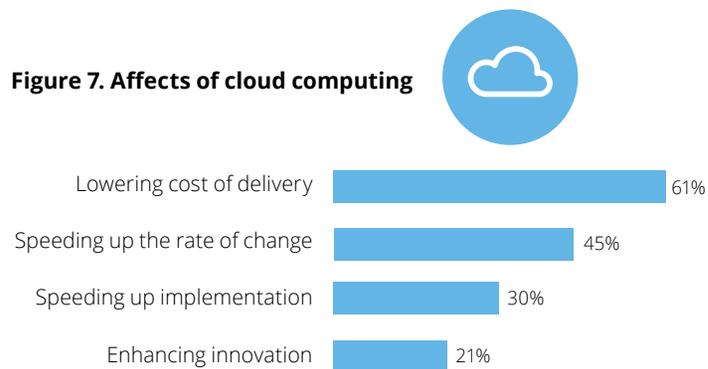
Figure 5. How respondents are using innovation



Figure 6. Is robotic and cognitive process automation emerging in your outsourcing relationship?



Figure 7. Affects of cloud computing



Securing benefits while mitigating risk: Cyber security gains traction, but there is more work to be done.

While a majority (73%) of respondents consider cyber risks during the outsourcing process, most see outsourcing as part of their cyber risk solution. Only 23% say they will reduce outsourcing in response to cyber risk. (Figure 8)

Only 28% of respondents are actively evaluating their service providers as part of their effort to mitigate cyber security risk. This effort could be undertaken more frequently if organizations dedicated more outsourcing resources to vendor management capabilities.

Respondents are changing the way they are entering into outsourcing relationships to secure the benefits of innovation while protecting the business from regulatory and cyber risk. ➔

Figure 8. Perspectives on Cyber Risk



Managing relationships to realize value: Strong vendor relationships require foresight and follow-through.

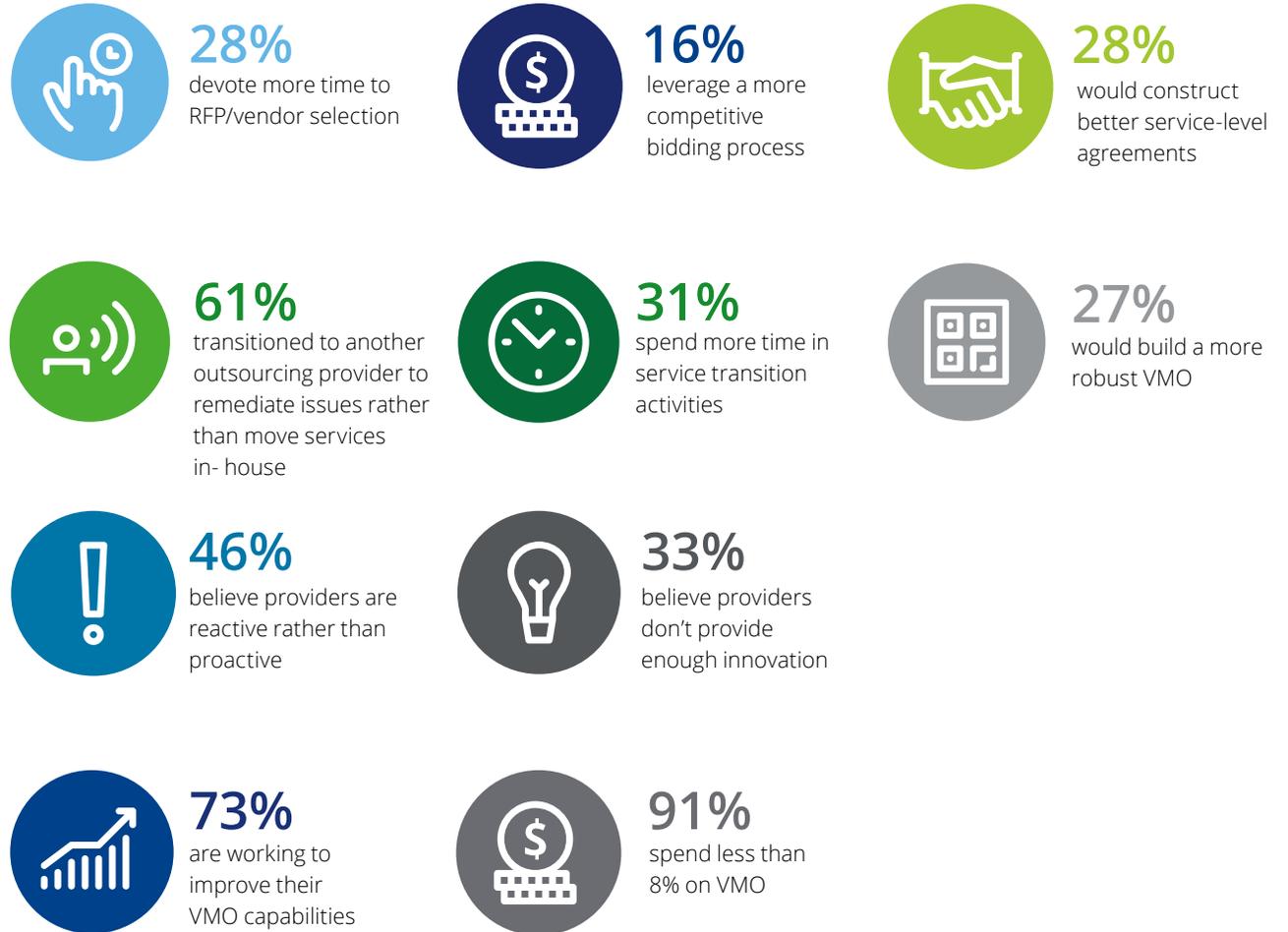
Respondents expressed a desire to enhance the competitive process in future outsourcing initiatives by targeting better SLAs and a more robust VMO. (Figure 9) They also see the value of dedicating more time at the beginning of an outsourcing partnership to select the right provider and put in place supporting SLAs and organizational capabilities.

Respondents indicated they are also actively managing relationships within the current contract and governance structures.

Forty-three percent of respondents reported significant savings attributable to the vendor management function. This suggests too many organizations are underinvesting in this function.

VMOs generally focus on contract management, where 89% rate themselves as average or above average. In contrast, 64% rate themselves as average or below average in transition and transformation management. Transformation management in particular is becoming critically important to savvy customers who use outsourcing as a channel to build innovation within their organization. ➔

Figure 9. Opportunities for improvement



Our take

Our analysis of the 2016 Global Outsourcing Survey indicates that the market for outsourced services will likely continue its rapid adaption to meet—and in many cases to anticipate—the demands of the customer. While the regulatory environment has changed quite significantly for some industries since our 2014 survey, there is still significant strength in the outsourcing market.

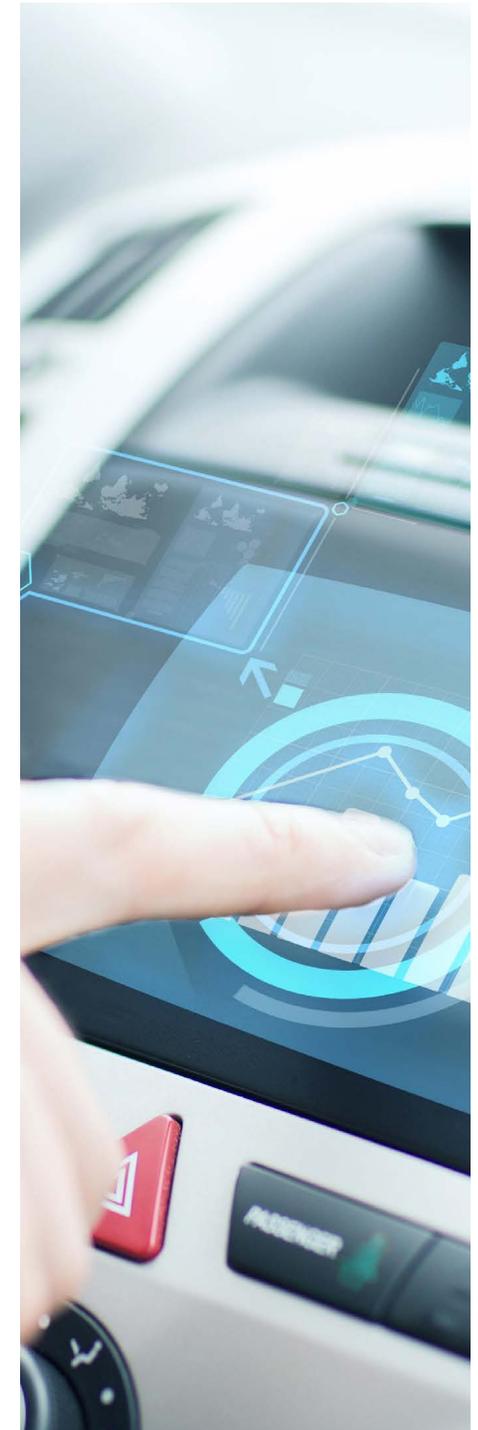
Today, customers are expecting innovative services from their managed service providers, especially since improvements from labor arbitrage and process improvement have largely been achieved. These transformational requirements are facilitated by advancements in technology and corresponding process shifts. Value, rather than cost, is the new watchword, and will likely be measured by how service providers help empower business growth through innovation.

Our analysis of this year's survey reveals key insights that will affect both customers and managed service providers alike going forward.

- Defining innovation and securing it through solid contracting procedures will separate market leaders from followers.
- Robotic and cognitive process automation will be a key, disruptive technology shaping the business process outsourcing landscape and forcing accelerated service transformation and enhanced service capability.
- The market will be driven by smarter buyers of services who are capable of integrating new technologies from various providers into their rapidly changing environment to empower business growth.
- New offerings will create opportunities for well managed organizations to exploit the marketplace to create competitive velocity for their business customers.
- The market will continue to produce services that bundle process, technology, and support via cloud, as-a-service, and capability-based service models.
- Outsourcing as an industry, while rapidly adapting its technologies and processes to meet the demand for value, will

continue to be an enabler for business strategy, including M&A and other business transformations.

Over the last six years our surveys have seen significant change in the market's opinion and perception of outsourced services. These trends toward rapid change and disruption in the outsourcing market will likely continue well beyond 2018, and could be the new normal. As organizations examine their present service delivery environment, they should find clear opportunities to enhance organizational value by more fully accessing the innovation marketplace through the channel that outsourcing makes possible. ➔



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To transform your business, transform your service delivery model.

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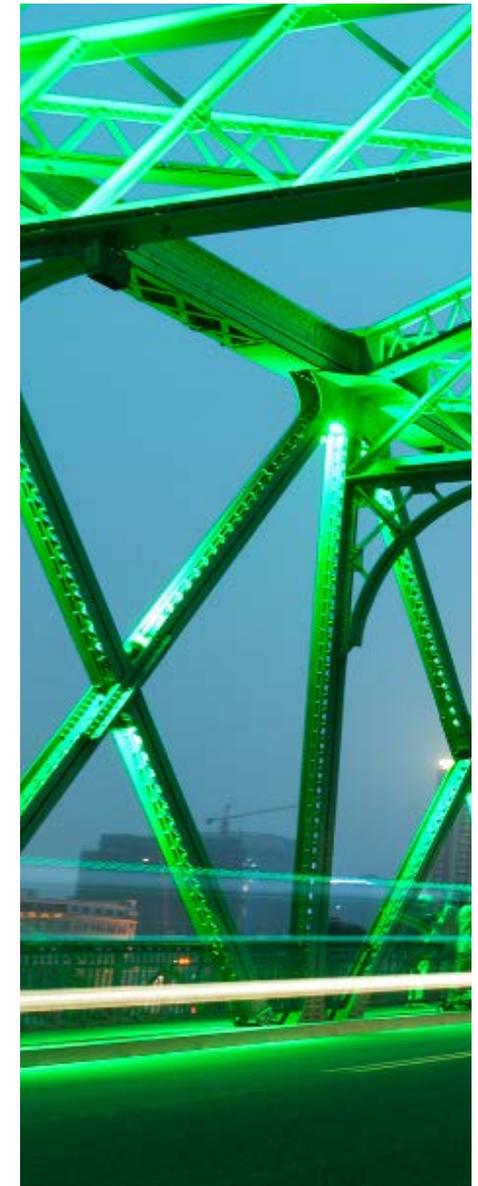
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