Deloitte’s 2016 Global Outsourcing Survey -

May 2016
Background and key findings

**Background:**
- Survey completed January 2016
- Composed of 70+ questions covering entirety of outsourcing lifecycle and market trends

**Key findings:**
1. Invest additional time during the initial stages of the outsourcing relationship to ensure value is achieved throughout the process
2. Value is being achieved through the impact of innovation, ease of relationship management, and improved strategic flexibility, not just cost savings
3. Invest in transition, governance and vendor management capabilities to ensure realization of benefits within and beyond the terms of contract
4. Outsourcing is expected to see growth across all functions surveyed, particularly IT, Finance, and HR
5. Outsourcing is becoming more important in enabling M&A deals
Organizational profile of respondents

More than 85% of respondents are from organizations with over $1 billion in annual revenues.

- 23% with $25 billion or more
- 27% with $1 billion to less than $5 billion
- 25% with $5 billion to less than $15 billion
- 11% with $15 billion to less than $25 billion
- 23% with $25 billion or more

78% of respondents felt positively about their outsourcing relationship.

Respondents have operations in the following regions:
- 90% North America
- 65% Europe
- 56% Asia Pacific
- 50% South America
- 40% Middle East
- 33% Africa
Functions of respondents

Respondents represent more than 25 different sectors

29% Consumer & Industrial Products
27% Financial Services
11% Life Sciences & Health Care
9% Technology, Media, & Telecom

What are your current and future outsourcing strategies for the various business functions?

Currently outsource
Increase use of outsourcing

IT 72% 31%
Legal 63% 14%
RE & FM 60% 30%
Tax 53% 17%
HR 47% 32%
Finance 42% 36%
Procurement 41% 29%

Majority of participants represent legacy functions like IT, Finance, and HR
Why do companies outsource?

Cost, enabling core business functions, and solving capacity issues are primary drivers to outsource. Leading practice organizations use outsourcing to drive transformational change and improve business results.

- **Cost Cutting Tool**: 59%
- **Enables Focus on Core Business**: 57%
- **Solves Capacity Issues**: 47%
- **Enhances Service Quality**: 31%
- **Critical to Business Needs**: 28%
- **Access to Intellectual Capital**: 28%
- **Manages Business Environments**: 17%
- **Drives Broader Transformational Change**: 17%

Companies seek innovation from outsourcing agreements, but many are unsure how to define, motivate, and track it (65% do not currently measure the value created through innovation).
How do companies outsource?

6%... of respondents always use sole sourcing when a decision is made to outsource services.

48%... of respondents sometimes use sole sourcing when a decision is made to outsource services.

95% of respondents usually use RFPs when a decision is made to outsource services.

RFP is still the most popular method used by respondents (95%).

Always leverage current providers (19%).

Sometimes leverage current providers (70%).

Relationships with current providers are ‘sticky’; 89% leverage their current provider(s) always or sometimes for additional services.

While sole sourcing is still used by many respondents it is the least popular method cited.
How does innovation create value in outsourcing relationships?

Innovation is being used to:

- Increase level of quality: 58%
- Lower cost of delivery: 44%
- Improve user experience: 38%
- Increase client revenue growth: 31%
- Increase provider revenue growth: 29%
- Decrease transaction time: 21%
- Deliver new capabilities: 20%

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

- Use outsourcing to reduce need for Transition Service Agreements: 41%
- Use outsourcing to improve the operating income of divestitures: 39%
- Outsourcing initiatives make our organization more appealing: 32%
- Use outsourcing to speed up ability to integrate new organizations: 21%
- Use outsourcing to lower operating costs of acquired companies: 19%

Only 21% make innovation a key part of contracting.

...of respondents see outsourcing as a key enabler of M&A activity.
Key technologies driving innovation in outsourcing

70% are currently implementing or are discussing the use of **Robotic and Cognitive Process Automation** to improve outsourcing results.

- **Currently implementing** 13%
- **Service providers demonstrate it** 13%
- **Service providers want to discuss** 20%
- **Currently evaluating** 12%
- **Respondents are driving the conversation** 12%

**Cloud Computing** has the ability to affect outsourcing relationships; respondents say it is:

- **Lowering cost of delivery** 61%
- **Speeding up the rate of change** 45%
- **Speeding up implementation** 30%
- **Enhancing innovation** 21%
Effect of legislation / regulatory risks on outsourcing decisions

Does legislation effect the outsourcing decision process?

- Yes - bringing work onshore, 9%
- Yes - more cautious about outsourcing, 41%
- Has no effect on outsourcing, 50%
- No

75% feel confident in their outsourcers ability to stay on top of legal / regulatory issues

Likely to Decrease Use of Outsourcing
- Data Privacy: 14%
- Anti-Corruption: 11%
- Tax Regulations: 15%
- Export Controls: 15%
- Restrictions on Hiring: 20%

Likely to Increase Use of Outsourcing
- Trade Agreements: 20%
How are cyber security risks affecting outsourcing decisions?

23% of respondents indicate cyber risks are affecting outsourcing decisions.

50% of respondents are modifying their processes.

A majority of those adjusting their approach continue to view outsourcing as part of the solution, not the problem.

Of respondents who are modifying processes, 64% indicated that they were focusing more attention on defining security protocols or sharing security risks with vendors.

Contractual data risk / security protocols, 39%

Periodic evaluations conducted, 28%

Data risk / security protocols shared, 25%

Not focused on cyber risks, 1%

Expect provider to monitor risks, 8%

Already have processes in place: 14%

We do not consider cyber security risks: 13%
What are companies doing to manage their outsourcing agreements?

64% are working to improve their Vendor Management Organization (VMO) capabilities

34%...  
...of organizations rate themselves above average for managing multi-supplier environments

91% spend less than 8% on VMO

43% of respondents reported significant savings attributable to the vendor management function

43%
What are companies learning from their outsourcing experiences?

Opportunities for improvement

- 31% Spend more time in service transition
- 28% Construct better Service Levels
- 28% Devote more time to vendor selection
- 27% Build a more robust VMO
- 20% Transform process
- 18% Increase outsourced scope
- 16% Use alternative pricing model
- 16% Use competitive bidding process
- 15% Decrease outsourced scope
- 15% Use third party advisor

Nearly half of respondents experienced challenges with change management (46%) while over 25% reported challenges with job reassignments, retaining process design, retaining job changes, and process / service management.

22% of respondents conducted an audit of their provider and identified material issues.

Over 50% of participants found that third-party advisors added value during strategic assessment, business case development, RFP / vendor selection, and negotiation and contracting.
How do companies respond to service provider issues?

The top issues with service providers:

- Providers are reactive rather than proactive (46%)
- Don’t provide enough innovation (33%)
- Have high staff attrition rates (29%)
- Lack of leading practices (25%)
- Unqualified resources (23%)
- Lack of internal integration (22%)
- Poor service quality (20%)
- Lack of cross provider integration (20%)

When issues arise, a majority of respondents indicated they first seek to "manage to the relationship".

- Terminated for Convenience (8%)
- Terminated for Cause (13%)
- Applied Penalties (22%)
- Increased Competition (35%)
- Enhanced Governance (40%)
- Restructured the Deal (49%)
- Escalated to Leadership (68%)

Of the 21% using termination as a method to remediate issues with providers:

- Move to another single provider, 39%
- Move to multiple providers, 22%
- Insource to near/onshore center, 13%
- Insource to captive offshore center, 13%
- Move to cloud solution, 9%
Where is the outsourcing market headed?

Respondents plan to increase outsourcing across all functions

Companies are reporting fewer concerns with provider proactivity, innovation, responsiveness, resource quality, and service quality

Overall, respondents are rating more of their vendor management capabilities as above average

Finance (36%), HR (32%) and IT (31%) present highest future opportunities for outsourcing growth
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