

2014 Global Outsourcing and Insourcing Survey results

Executive summary

Deloitte Consulting LLP
May 2014



Deloitte's Global Outsourcing and Insourcing Survey provides insight into client executives' plans and perceptions related to the outsourcing industry

Summary Findings

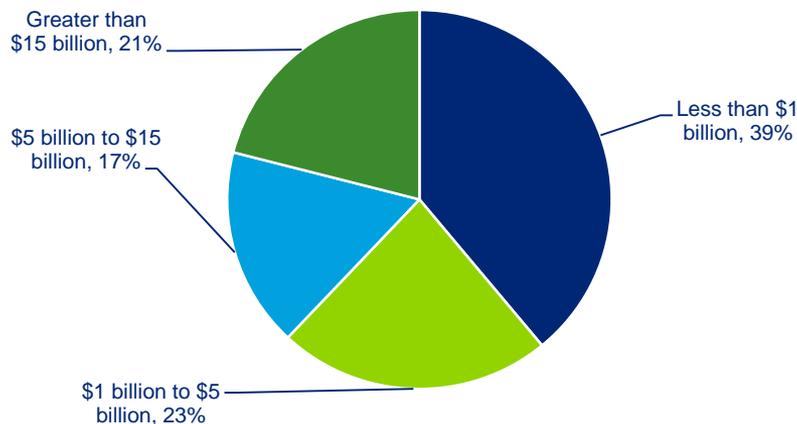
- Outsourcing as a business practice will see growth across all functions surveyed. Information Technology (IT), Legal, and Real Estate & Facilities Management represent the three most commonly outsourced functions amongst respondents
- Legislation or regulation to curb the offshoring of domestic jobs, if enacted, can be expected to have a negative effect on businesses and consumers. To date, government incentives to promote on shoring have not created a significant motivation for respondents to move work back to their home countries
- Increased regulations related to data privacy are expected to reduce organizations' reliance on outsourcing as a business model, while relaxation of employment related restrictions (e.g. hiring and termination, and immigration policy) are expected to increase organizations' use of outsourcing
- Established sourcing destinations, such as India, show continued growth, while a second tier of developing outsourcing destinations, such as Malaysia and Brazil, can expect to see more rapid growth
- Technology advancements such as cloud computing and business process as a service will reduce, but not remove, the importance of service delivery location, while at the same time will lead to an increase in the use of outsourcing
- Vendor Management is recognized as a critical factor for successful deals, yet Vendor Management Organizations (VMO) continue to be challenged by tooling, Service Integration and Supplier Risk Management

Survey participant profile

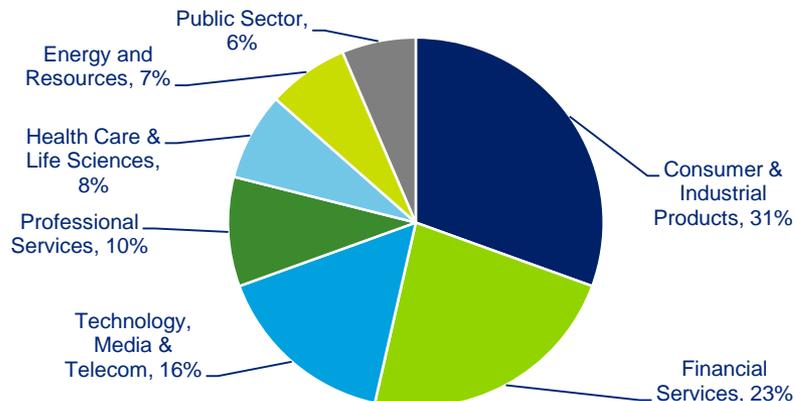


Deloitte's 2014 Global Outsourcing and Insourcing Survey respondents profile

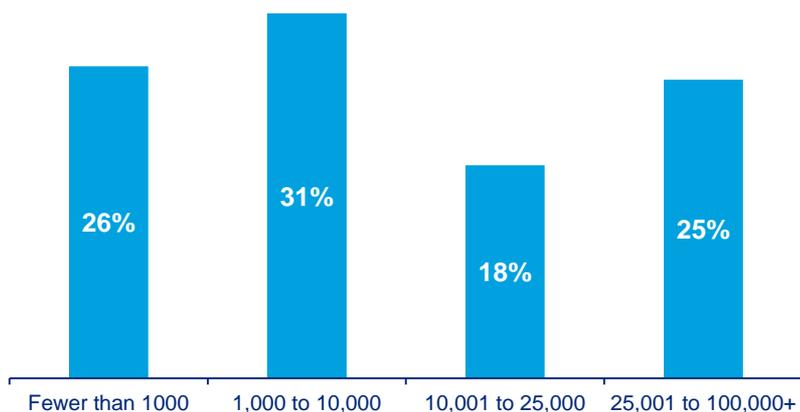
What are the revenues of your organization?



What is your organization's primary industry sector?



What are your total employees?



Respondent information

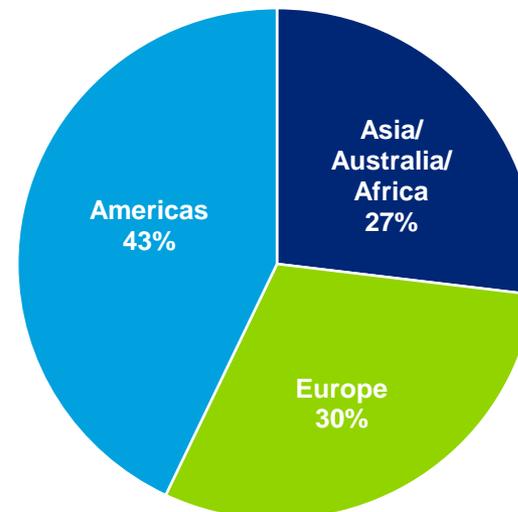
- Respondent organizations represent all major industries and include both single-country firms and multinational corporations
- 70% of respondents were from three industries: Consumer & Industrial Products (C&IP), Financial Services and Insurance (FSI), and Technology Media & Telecommunication (TMT) industries
- The average respondent had between 1,000 and 25,000 employees representing 49% of the total
- The average respondent generated between \$1 billion and \$15 billion representing 40% of the total

Geographic profile of survey respondents

Respondent Countries

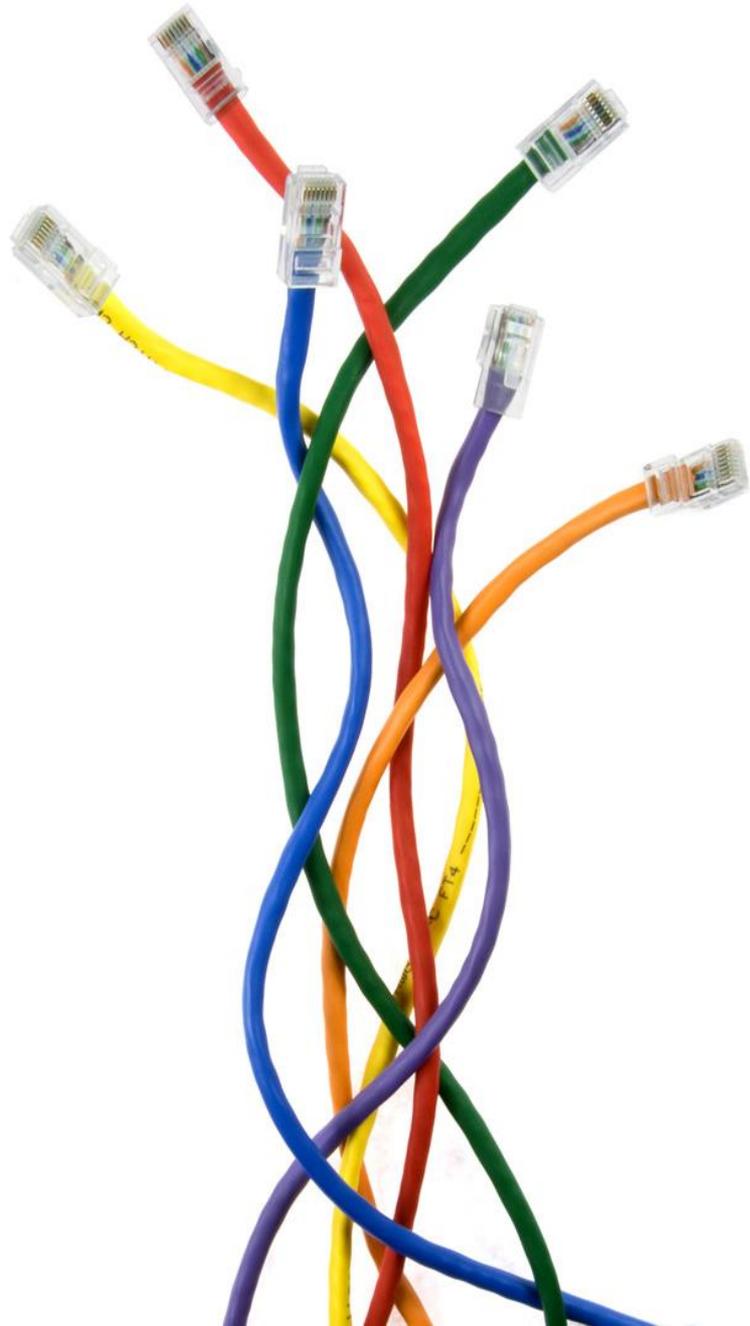


Respondents by Region



- 69% of respondents organizations are headquartered in North America or Europe
- Survey participants represent 30 countries located across North America, Central America, Asia, Africa, Eastern Europe, Western Europe, and Australia
- The 10 countries with the greatest representation were the United States of America, Korea, India, Canada, UK, the Netherlands, Denmark, Finland, Colombia and Australia
- Of the survey participants headquartered in North America, 40% had more than \$1 billion in annual revenue and 45% had more than 10,000 employees

Results overview



Key findings of the 2014 Global Outsourcing and Insourcing Survey

Scope of current and future outsourcing

- Outsourcing growth is expected to continue at rates of 12%-26% across functions
- IT outsourcing (ITO) continues to be commonplace, with nearly 60% penetration
- In IT, routine elements of the software development life cycle are commonly outsourced; while strategic elements are retained
- In Legal services, E-Discovery services offer one of the largest growth opportunities
- In Real Estate and Facilities Management, Asset and Lease Management services is expected to see the most growth in outsourcing
- Billing is expected to see the greatest growth in outsourcing among the Finance and Accounting processes
- Human Resource (HR) Administration and HR Reporting are expected to see the greatest growth in outsourcing among the HR processes

The changing sourcing landscape

- Respondents are not in favor of legislation to curb offshoring
- Should legislation be enacted to curb offshoring, businesses will face an increase in costs. Some businesses will pass this increase on to consumers, while other businesses will see a hit to topline growth
- Expanded data privacy regulation will lead to a significant decrease in outsourcing
- In EMEA, relaxation of employment related regulation (e.g. immigration controls, ARD/TUPE) will lead to a significant increase in outsourcing
- India continues to represent the primary destination for offshoring
- Technology advancements will diminish, but not remove, the importance of the location of service delivery

Key findings of the 2014 Global Outsourcing and Insourcing Survey

Vendor management and governance

- Vendor Management challenges persist, especially with respect to staffing the Vendor Management Organization (VMO), and providing the tools and processes with which to be effective
- Vendor Management Organizations continue to be effective at transactional services (e.g. Financial Management, Contract Management) but not advisory services (e.g. Issue and Dispute Resolution, Transition Management, Multi-Service Provider Integration)
- Supplier risk management has become a critical business driver in many industries such as Financial Services and Healthcare, but is not a strength of Vendor Management Organizations
- Vendors are generally meeting service levels and cost targets, and need to shift focus to soft skills and innovation
- When issues arise, organizations first “manage to the relationship” with the vendor before seeking to “manage to the contract” (restructuring deals/service levels)
- Termination is a last resort for resolving vendor issues. Post-termination strategies favor switching vendors over insourcing

Lessons learned

- Robust Vendor Management is a critical success factor for outsourcing initiatives
- Outsourcing buyers and vendors have a tendency to rush through the transaction, which can lead to downstream problems. Spending adequate time during request for proposal (RFP), vendor selection and transition is another critical success factor for outsourcing deals
- When used, third party advisors were recognized as adding significant value across all phases of the outsourcing lifecycle

Index of survey questions



The content of the complete survey results includes participant answers to the following questions:

Scope of current and future outsourcing

- What are your current and future outsourcing strategies for Finance & Accounting services?
- What are your current and future outsourcing strategies for Human Resources services?
- What are your current and future outsourcing strategies for Information Technology services?
- What are your current and future outsourcing strategies for Application Development and Maintenance (ADM) services?
- What are your current and future outsourcing strategies for IT Infrastructure services?
- What are your current and future outsourcing strategies for Legal services?
- What are your current and future outsourcing strategies for Real Estate & Facilities Management services?
- What are your current and future outsourcing strategies for Customer Service services?
- What are your current and future outsourcing strategies for Procurement services?

The changing sourcing landscape

- Will offshoring continue to grow unless legislation is enacted to curb it?
- Should legislation be enacted to curb offshoring?
- Do you believe your home country will enact regulations to restrict offshoring? If so, do you believe there will be a significant impact to your business?
- How likely is it that regulation across the following areas has or will affect your sourcing decisions?
 - Increased Data Privacy Regulation
 - Increased Anti-corruption Regulation (e.g. UK Bribery Act, BSA/AML, FCPA)
 - Relaxed Restrictions on Hiring and Termination of New Employees (e.g. ARD/TUPE)
 - In the U.S., impact of Health Care Reform (e.g. PPACA)
 - Relaxed Immigration Policy
 - Relaxed Export Control (e.g. ITAR)

The content of the complete survey results includes participant answers to the following questions:

The changing sourcing landscape

- Have you moved work or are planning to move work back to your home country? What are the main drivers of such a decision?
- Which geographies have you, or would you consider for your vendors' service delivery locations?
- How will the following technology advancements impact your future outsourcing plans?
 - Bring Your Own Device (BYOD)
 - Cloud Computing
 - Business Process as a Service
 - Gamification
 - Big Data
 - Open Innovation
 - Enterprise Mobility
 - Hosted Virtual Desktop
 - Crowdsourcing

Vendor management and governance

- Has your organization undertaken or considered undertaking outsourcing any components of your Vendor Management function?
- Does your organization have mature and adequate Vendor Management tools, models and processes to manage a portfolio of external suppliers?
- Is your Vendor Management organization adequately staffed with appropriately skilled resources to manage a portfolio of external suppliers?
- How would you rate your vendor management capabilities (i.e. tools, technology, processes, knowledge and skills) across vendor management process areas?

The content of the complete survey results includes participant answers to the following questions:

Vendor management and governance

- What issues are you currently facing with your outsourced providers?
- What steps have you taken, if any, to remediate outstanding issues with your providers?
- If you have terminated for cause or convenience, what was your post contract termination strategy (insource vs. outsource)? Were you satisfied with the results?
- Does your organization have a dedicated IT Service Integration function which provides oversight and governance for multi-vendor IT outsourcing?
- Is the IT Service Integration function in-sourced, outsourced or hybrid ?
- How would you rate your multi-vendor service integration function?

Lessons from your most recent outsourcing experience

- Considering your past experiences with outsourcing, what, if anything would you do differently next time?
- Did you use a third party advisor in one or more of your organization's outsourcing deals?
- To what extent did the third party advisor(s) add value throughout the process?

Contact information



To discuss the survey results and trends, contact:

Americas

Marc Mancher

Deloitte Consulting LLP
Indianapolis
+1 860 488 5071
jmancher@deloitte.com

Peter Lowes

Deloitte Consulting LLP
New York
+1 212 618 4380
plowes@deloitte.com

Dave Smith

Deloitte Consulting LLP
Boston
+1 617 437 3647
davesmith5@deloitte.com

Ian Chan

Deloitte Inc., Canada
Toronto
+1 416 775-7245
iachan@deloitte.ca

Michael Montonen

Deloitte Consulting Group
Mexico
+52 55 5080 6416
mimontonen@deloittemx.com

Luiz Fernandes Costa

Deloitte Touche Outsourcing
Serv. Cont. Adm. Ltda.
Sao Paulo
+55 11 5186 6911
lfcosta@deloitte.com

EMEA

Punit Bhatia

Deloitte MCS Limited
London
+44 20 7007 9466
punbhatia@deloitte.co.uk

Neville Howard

Deloitte MCS Limited
London
+44 20 7303 7252
nhoward@deloitte.co.uk

Napolitano, Fabrizio

Deloitte Consulting AG
Zurich
+41 5 82796766
fnapolitano@deloitte.ch

Daan De Groodt

Deloitte Consulting BV
Amsterdam
+31 6 8201 9392
dadegroodti@deloitte.nl

Per Lund Pedersen

Deloitte Consulting
Copenhagen
+45 3093 6038
plpedersen@deloitte.dk

Peter Ratzer

Deloitte Consulting GmbH
Munich
+49 89 29036 7970
pratzer@deloitte.de

Philippe Rassek

Deloitte Consulting France
Paris
+33 6 7945 4923
prassek@deloitte.fr

APAC

Parag Saigaonkar

DC Overseas Services LLC
Mumbai
+1 (678) 299-7001
psaigaonkar@deloitte.com

Peter Barta

Deloitte Touche Tohmatsu
Melbourne
+61 3 9671 6699
pbarta@deloitte.com.au

Colleen Gordon

Deloitte Touche Tohmatsu
Sydney
+61 2 9322 7661
collgordon@deloitte.com.au

Koji Miwa

Deloitte Tohmatsu Consulting
Co., Ltd.
Tokyo
+81 80 4359 3273
kmiwa@tohmatsumi.co.jp

Eric Peffer

Deloitte Consulting Pte Ltd
South East Asia
+65 9030 3303
epeffer@deloitte.com

Stanley Dai

Deloitte Consulting (Shanghai)
Company Limited
Shanghai
+86 21 61412222
sdai@deloitte.com.cn

Deloitte.

This presentation contains general information only and is based on the experiences and research of Deloitte practitioners. Deloitte is not, by means of this presentation, rendering business, financial, investment, or other professional advice or services. This presentation is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte, its affiliates, and related entities shall not be responsible for any loss sustained by any person who relies on this presentation.

Copyright © 2014 Deloitte Development LLC. All rights reserved.
Member of Deloitte Touche Tohmatsu Limited