2014 Global Outsourcing and Insourcing Survey results

Executive summary
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?**

- Greater than $15 billion, 21%
- $5 billion to $15 billion, 17%
- $1 billion to $5 billion, 23%
- Less than $1 billion, 39%

**What is your organization's primary industry sector?**

- Consumer & Industrial Products, 31%
- Financial Services, 23%
- Technology, Media & Telecom, 16%
- Healthcare & Life Sciences, 8%
- Professional Services, 10%
- Energy and Resources, 7%
- Public Sector, 6%
- Other, 6%

**What are your total employees?**

- Fewer than 1000, 26%
- 1,000 to 10,000, 31%
- 10,001 to 25,000, 18%
- 25,001 to 100,000+, 25%

**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

2014 Global Outsourcing & Insourcing survey results
Geographic profile of survey respondents

- 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?
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