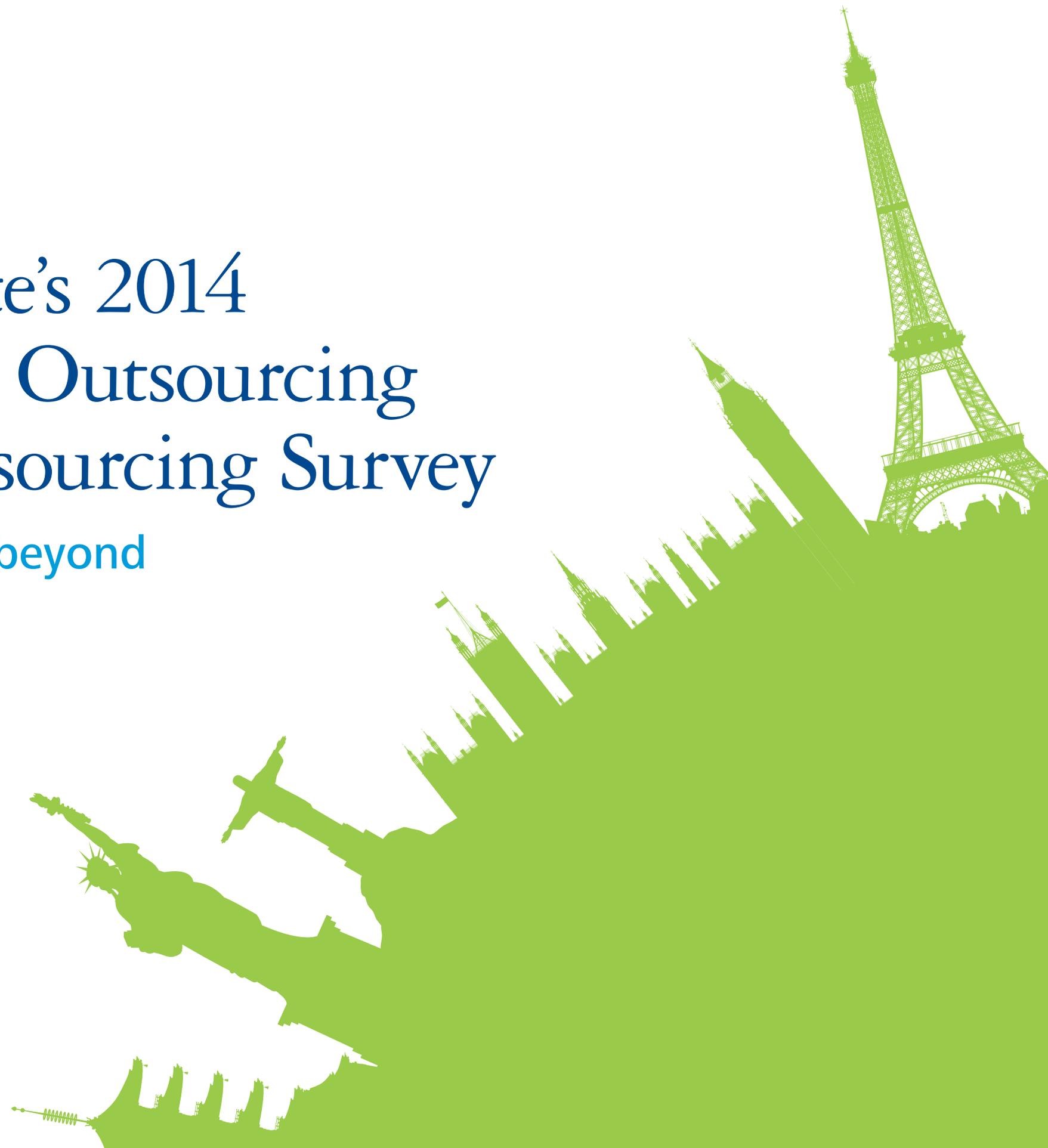


# Deloitte's 2014 Global Outsourcing and Insourcing Survey

2014 and beyond



# Contents

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# Executive summary

## 2014 and beyond...

The results of the Global Outsourcing Survey of 2012 rang loud, identifying a noticeable market shift towards insourcing — a response to changes in political sentiment, wage deflation, and high labor supply following the Great Recession of the late 2000's.

In 2014, however, the sentiment of the market appears to have changed, signaling a net increase in outsourcing consumption. Customers are no longer focusing on bringing services back in house, but are focusing on optimizing vendor relationships and improving operational flexibility.

**Beyond 2014, customers are looking to expand their flexibility to react to potential changes in the regulatory and technology environment.**

Historically, increases in market consumption of outsourced services have been driven predominately by new customer expansion for mature functions like Information Technology, Human Resources, Finance and Accounting, and Procurement (the 'Big 4'). As expected, customer growth in mature services will likely continue to play a significant role in growth beyond 2014. Growth will also be supplemented by an appetite for newer functional offerings like Facilities Management and Legal Process outsourcing and vertical Business Process Outsourcing (BPO) like Claims and Mortgage Processing. In addition to functions, the geographic mix of the

sourcing landscape will continue to evolve, as customers seek opportunities to expand their geographic footprint from mature markets like India, China, Eastern Europe, and the Philippines, to new locations in South America. **Beyond 2014, the outsourcing market is projected to grow by several key dimensions including functions, services, and locations.**

Technological advancements and innovations including cloud computing, 'big data', mobility, business process as a service (BPAS), are changing the game as end users and customers alike are demanding high quality content and service in real time. Many of these advancements are having immediate impacts on the outsourcing landscape, particularly those which remove barriers like country of origin, capital investment, and long implementation horizon. In addition to enable innovations, companies are also looking at diversifying their service delivery footprint by considering locations that have a reputation for high service quality and lower cultural barriers. Countries with an educated technological workforce, language capabilities, stable currency, and stable technology infrastructure are potential candidates for offshoring. **Beyond 2014, technology will reduce geographic barriers, encouraging companies to constantly reassess service delivery options.**

Outsourcing growth, in all forms, is not without risk. New geographies expose vendors to new geopolitical and socioeconomic risks which may have not been previously factored into outsourcing decisions by customers. In the early years of outsourcing, companies would turn over key management responsibilities as part of their outsourcing transition without making the ongoing investments in vendor and service management. This resulted in value leakage, talent attrition, and service issues. With a whole host of new risks being introduced into the outsourcing landscape, companies must rethink their strategic investments in vendor management.

**Beyond 2014, customers will be better equipped and positioned to manage and govern vendors.**

In order to make the leap from low cost and high quality service delivery; to innovative and proactive business partnership, vendors and companies will need to meet in the middle. On the vendor side, an enhanced focus on bringing the right skills, innovative ideas, and industry expertise is required. On the company side, building a strategic vendor management and governance capability is necessary. **Beyond 2014, collaborative relationships between vendors and companies will help drive service quality.**



# The sourcing landscape

In a perfect world, all of the changes occurring in the outsourcing landscape would result in tangible value creation for end customers and improved profitability for both the companies and service provider. Unfortunately, not all of the changes will result in anticipated positive change. Potential changes to the regulatory landscape including data privacy legislation in the European Union (EU), as well as, pending immigration legislation in the United States (US) may hinder business economics and increase outsourcing related risks.

## Key trends in outsourcing

To understand the dynamics of the outsourcing market, Deloitte surveyed 140 companies in nearly 30 different countries, on specific dimensions representing changes affecting the outsourcing industry. These categories included: regulation and legislation, functions and services, geography, and innovation and technology. Based on the results of the questionnaire, the following key trends emerged:

**Technology:** Recent developments and innovations, like cloud computing and business process as a service (BPAS), are driving growth within the outsourcing space while innovations like gamification and 'Bring Your Own Device' (BYOD) are having less influence on outsourcing decisions. New and emerging innovations like mobility and big data are also having a pervasive impact on sourcing decisions; however, they are not the primary innovations that respondents are focusing on. As big data and mobility gain additional popularity, these technologies should begin to have a larger impact on sourcing outcomes.

**Location strategy:** India continues to represent the primary destination for offshoring (especially for English language operations) and a global hub for multi-location sourcing strategy. In addition to India, respondents have indicated that they are continuing to pursue opportunities in Poland, Philippines, and China. Over the past decade, new markets for outsourcing opportunities have emerged in Romania, Mexico, and Brazil, and these are expected to see continued growth. Countries within South America and Asia remain as high potential opportunities, however, further development is required before they are viewed as viable sourcing options.

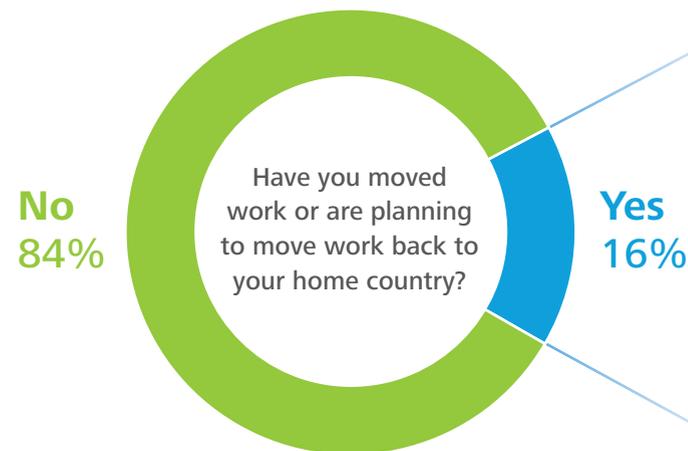
**Legislation and regulation:** Respondents are unanimously not in favor of legislation to limit offshoring. If legislation is enacted to curb offshoring, respondents believe they may face an increase in costs, which they intend to pass through to consumers. Some participants indicated that they will absorb the impact through a reduction in profitability. In Europe, the Middle East and Africa (EMEA), relaxation of employment related regulation (e.g. immigration controls, ARD/TUPE) is expected to lead to an increase in outsourcing, while increased data privacy regulation is likely to reduce the use of outsourcing globally.

# Structural change

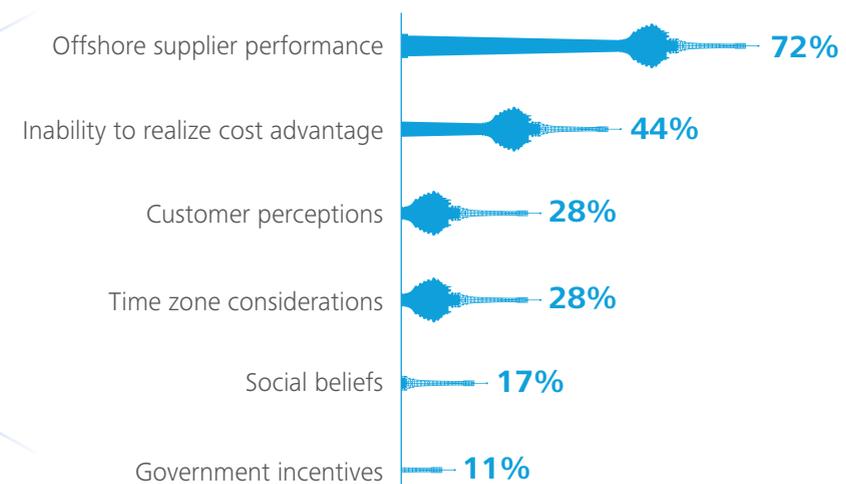
The last two decades have seen a significant rise in offshoring to external service providers. The driver for this trend has been largely economic, since offshoring often offers more competitive price points for the same service levels. Beyond cost savings, companies often also use outsourcing to support their strategy — in this case the choice of focusing on core, strategic competencies and relying on a global network of external service providers to perform less strategic functions. In recent years we have witnessed a small but growing reversal of this trend where companies that have

previously offshored functions are bringing them back to their home country (also known as “onshoring”).<sup>1</sup>

Based on the results of the 2014 Survey, a significant majority of respondents have not and do not plan to move work from offshore locations back to their domicile country locations. Those in the minority, who do plan to move things back onshore, cited supplier performance and inability to achieve cost targets as the primary drivers for reverting or pursuing an alternative sourcing strategy.



## What are the main drivers of such a decision?



- Only **16%** of respondents have moved work back to their home country.
- Most of the respondents who have moved work back to the home country have done so due to **offshore supplier performance**.
- **Government incentives** provide **less motivation** for respondents to move work back to their home country than other driving factors.

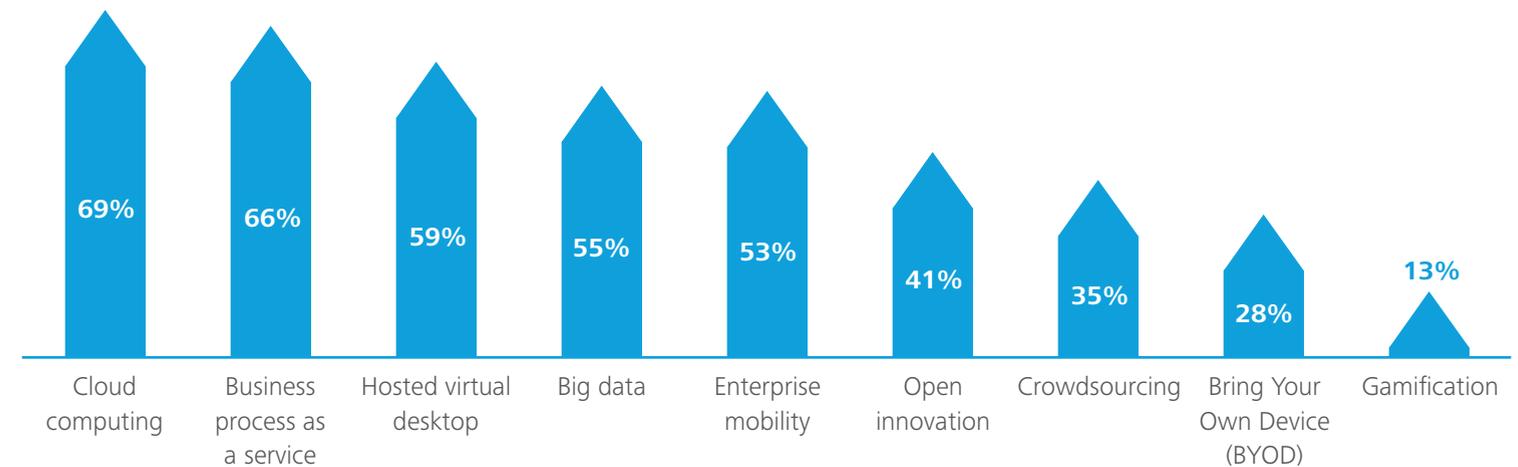
# Drivers for change

## Technology

The coupling of traditional outsourcing (e.g. services plus staff enablement technology) with cloud-based offerings has both advanced and complicated the latest, cutting-edge data center deals. Both are required components to encompass the end-to-end scope of services. Historically, this has been achieved through traditional outsourcing alone, but we are seeing increased pockets of cloud products embedded in data center scope, with the vendor's solution providing economies of scale by leveraging virtualized servers on standardized architectures, technologies, and interfaces. The result is a lower infrastructure cost to the company (along with decreased applications costs when standardized development methods are applied) and the flexibility for companies to cease running their own data centers.

According to respondents, end user engagement innovations (gamification and crowdsourcing) and hardware flexibility innovations (BYOD) are not expected to lead to an increase in outsourcing in the foreseeable future. Given the nascent nature of these innovations, many respondents are unable to predict what influence they will have on future outsourcing decisions.

To what extent will the following technology developments impact your future outsourcing decisions (% of respondents more likely to outsource as result of development)?



- Over **50%** of respondents have indicated that developments in enterprise mobility, big data, hosted virtual desktop, business process as a service, and cloud computing will increase outsourcing.

- Less mature technology developments like BYOD and gamification are **not likely** to affect respondents' decisions to outsource.

# Drivers for change

## Location strategy

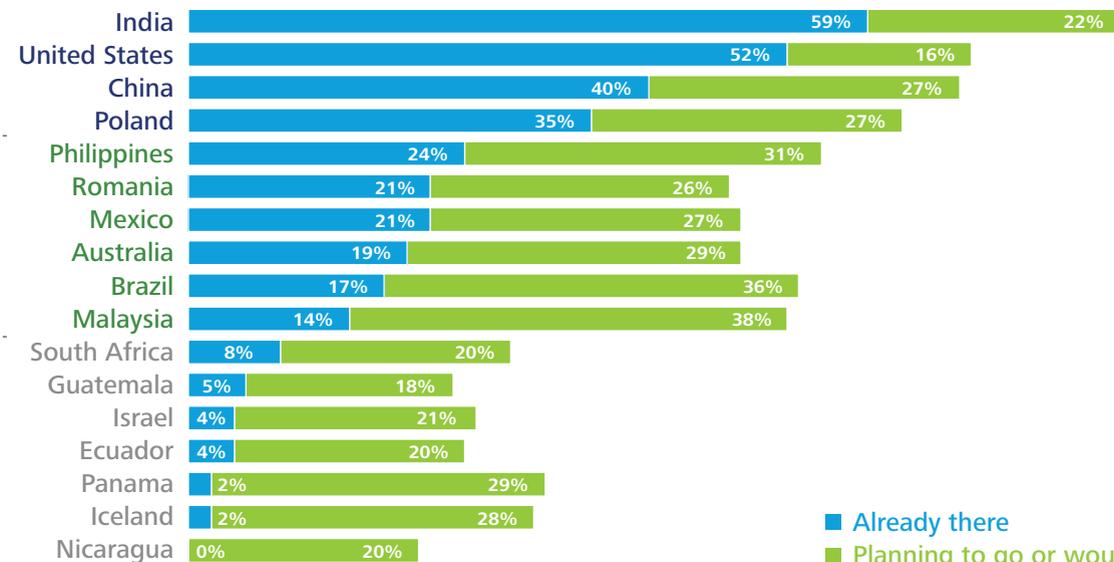
India has been traditionally the preferred choice for many offshoring and outsourcing activities. Even though high labor costs, high withholding tax, currency volatility and inflation in Latin America are inhibitors for outsourcing as compared to established outsourcing destinations like India and China; other factors like proximity and time-zone make Latin America an attractive option for offshoring. Latin American governments continue to support free trade and promote various English language support programs to attract global service providers and companies alike. The Finance and Accounting Outsourcing (FAO) market in Latin America emerged from the earlier success of captive/shared-service center pioneers in the region and now third-party outsourcing providers are increasing their presence in the region. The market is currently driven by intra-region outsourcing demand; however, as global FAO providers scale up their presence in the region, Latin America is soon expected to become one of the major hubs for FAO. While this region is flush with opportunities, firms looking to outsource to Latin American should proceed with caution, as countries like Brazil, although ripe with opportunity, are also subject to variable tax structures.

While emerging markets with low labor costs locations receive considerable attention, established offshore, near-shore, and even onshore locations still provide compelling opportunities to support business. Outsourcing location decisions today are driven by not just labor-cost arbitrage opportunities, but critical operating factors, risk appetite, and corporate growth strategy.

### Developed

### Developing

### Future opportunities

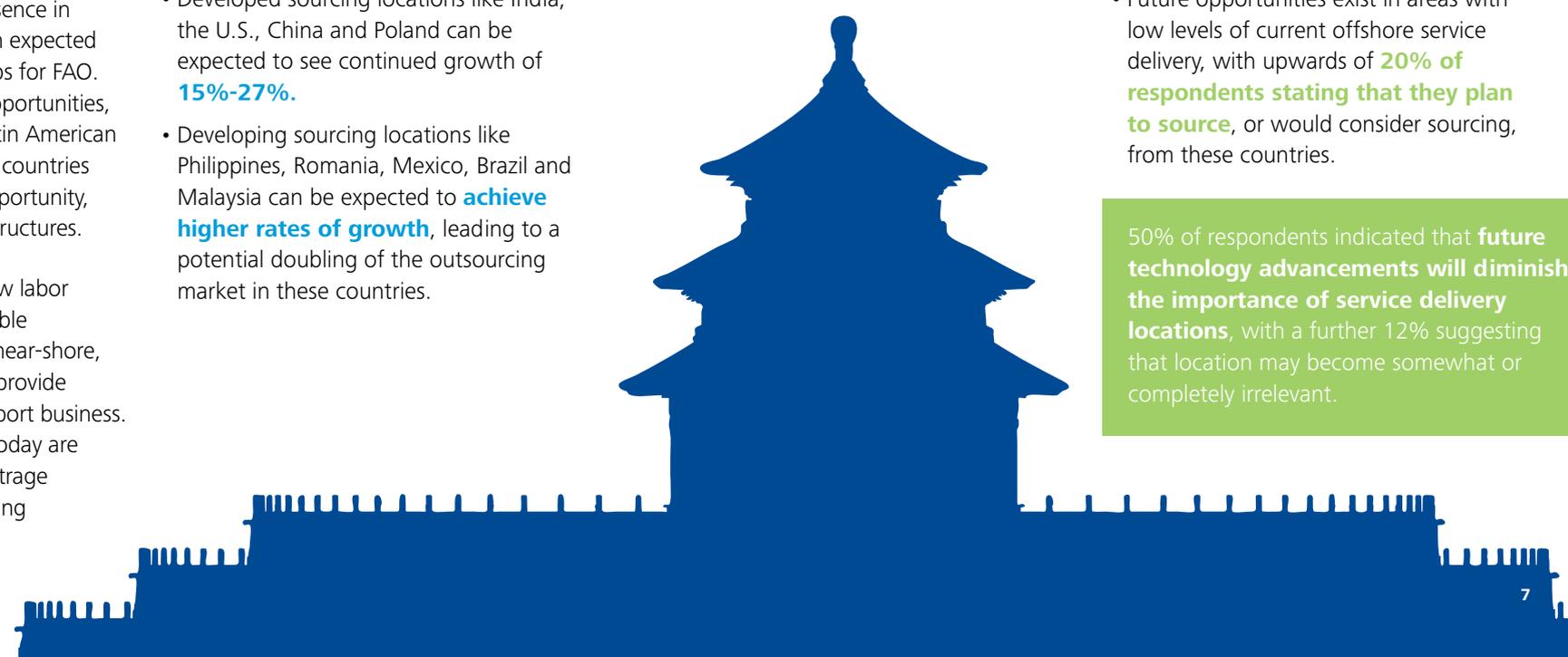


■ Already there  
■ Planning to go or would consider

- Developed sourcing locations like India, the U.S., China and Poland can be expected to see continued growth of **15%-27%**.
- Developing sourcing locations like Philippines, Romania, Mexico, Brazil and Malaysia can be expected to **achieve higher rates of growth**, leading to a potential doubling of the outsourcing market in these countries.

- Future opportunities exist in areas with low levels of current offshore service delivery, with upwards of **20% of respondents stating that they plan to source**, or would consider sourcing, from these countries.

50% of respondents indicated that **future technology advancements will diminish the importance of service delivery locations**, with a further 12% suggesting that location may become somewhat or completely irrelevant.



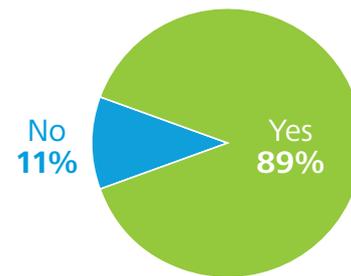
# Drivers for change

## Legislation and regulation — offshoring

Cyclical downturns in the US and global economy will likely continue to increase the political pressure for prohibitive anti-offshoring legislation to be passed in the future, even though it has been historically difficult, particularly in North America.<sup>2</sup>

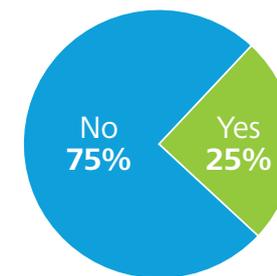
According to survey respondents, anti-offshoring legislation will have negative financial, economic, and competitive impact on corporations.

Will offshoring continue to grow unless legislation is enacted to curb it?



- Almost all respondents (89%) believe that offshoring will **continue to grow** unless legislation is enacted to curb it. However, only 1 out of 4 respondents support such legislation.
- More than half of responding companies will be **negatively impacted** by anti-offshoring legislation. In the event of anti-offshoring legislation, 18% of

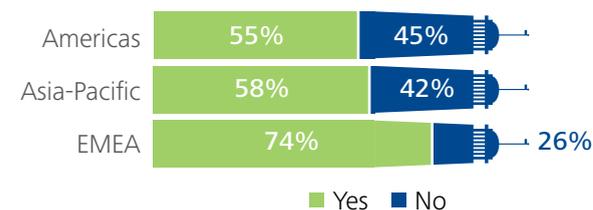
Should legislation be enacted to curb offshoring?



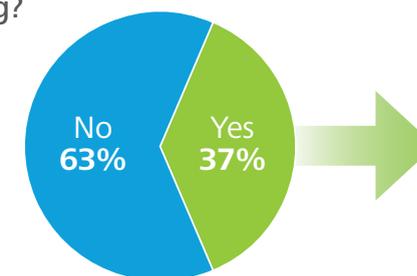
- organizations anticipate cost increase will be passed to the consumers. A further 50% anticipate increased costs which will not be passed to the consumers, possibly resulting in competitive disadvantage.
- Among **large organizations** (greater than 100,000 employees), **90% are opposed to anti-offshoring legislation**, while small organizations

- (fewer than 1,000 employees) are the more favorable to anti-offshoring legislation.
- According to the survey results, companies in **Asia and Americas are less concerned** about anti-offshoring legislation as compared to Europe.

Do you believe your home country will enact regulations to restrict offshoring?



- Despite limited support for legislation to curb offshoring, nearly 40% of respondents **expect such legislation to be enacted** in their home country.



- Half of U.S. respondents believe the U.S. will enact regulation, and 60% of U.S. respondents believe such regulation would have a negative impact to consumers or to top line growth. However **only 10% characterize the impact as significant**.

Do you believe there will be a significant impact to your business?

**32%** Impact will be significant  
**68%** Impact will be minimal

- Government incentives to promote repatriation of jobs have **not motivated respondents** to move work back to their home countries (less than 2% reporting that they did so as a result).

<sup>2</sup> Anti-Offshoring Bill Unlikely to Impact Call Center Industry, CIO Magazine, 2013

# Drivers for change

## Legislation and regulation — data privacy

With the latest host of data breaches at some of the largest corporations within the Fortune 500, data privacy and security has become a major priority amongst both technologists and back-office leadership alike. With concerns regarding private protections of Personally Identifiable Information (PII), governments globally are exploring opportunities to bolster and enhance existing consumer data protections. While it is unclear what future data privacy legislation may look like, it is clear that any future legislative changes will have an immediate impact on the consumption of outsourced services — particularly those directly dealing with customer information.

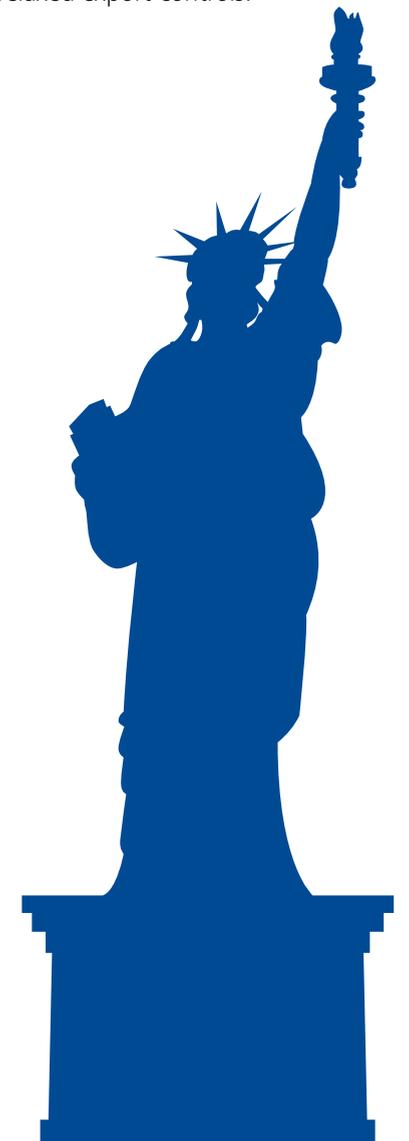
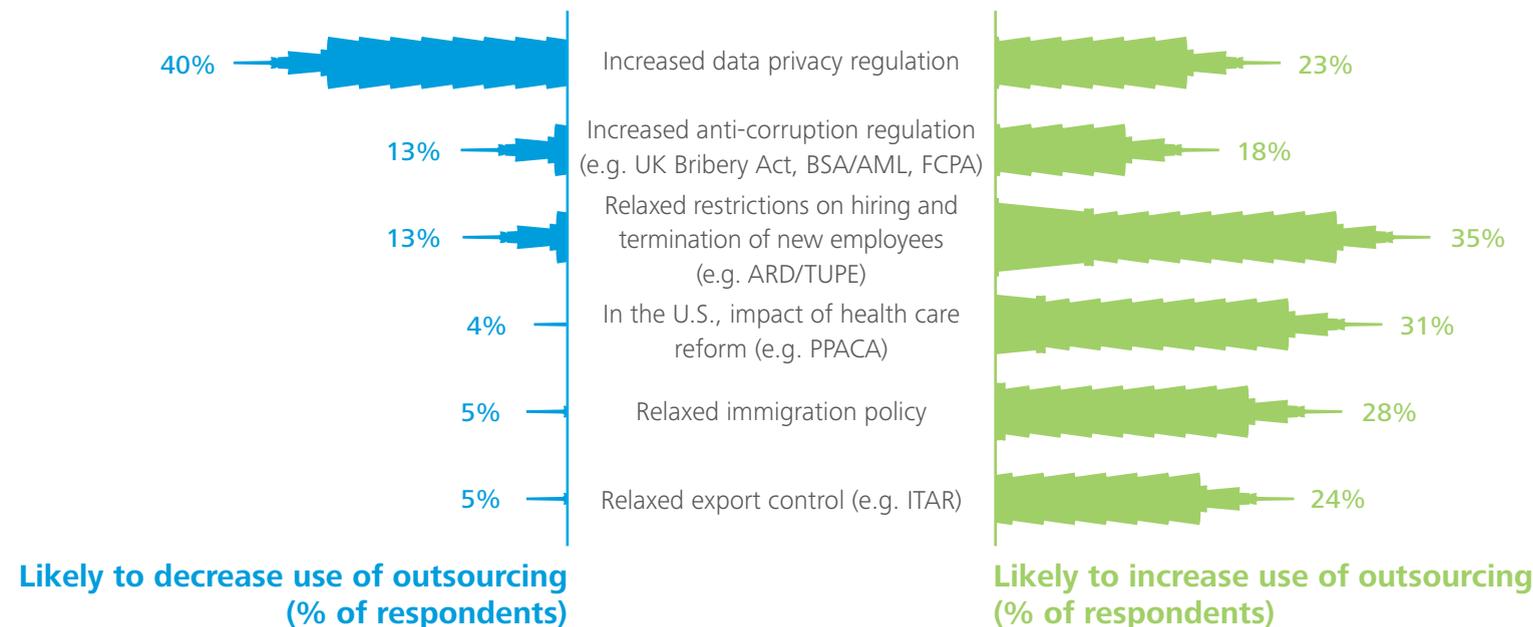
According to survey respondents, increased data privacy regulation will have a material impact on whether or not a respondent chooses to outsource to a third party.

- Of the regulations surveyed, increased **data privacy regulation** is projected to have the greatest impact on the outsourcing decisions.
- U.S. organizations are **three times** more likely to **decrease**, rather than increase, outsourcing due to an increase in data privacy regulation. EMEA organizations are almost twice as likely to decrease, rather than increase, outsourcing.
- The majority of respondents felt that **increased anti-corruption regulations** would be unlikely to impact their decision to outsource.
- Organizations outside of the U.S. are **three times** more likely to **increase**, rather than decrease, outsourcing, due to relaxation of hiring and termination

restrictions. In the U.S., most respondents (71%) anticipate no impact on the outsourcing decision.

- In the U.S., **health care reform** is expected to result in a moderate increase of outsourcing.
- Relaxation of **immigration policy** will result in a moderate increase in outsourcing, driven primarily by the Asia Pacific region with 45% of participants indicating they are likely to increase use of outsourcing versus 28% across all geographies combined. This sentiment is lead primarily by responses from India, Pakistan, South Korea, and Japan. Less than 5% of organizations are likely to decrease outsourcing as a result of a relaxation in immigration policy.

- **Relaxation of export controls** will result in a moderate increase in outsourcing activity, driven primarily by the Asia Pacific region with 45% of participants indicating that they are likely to increase use of outsourcing versus 24% across all geographies combined. Less than 10% of organizations are likely to decrease outsourcing as a result of relaxed export controls.



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# Managing change

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A typical Fortune 500 organization may use as many as 10,000 suppliers to meet its business objectives.<sup>3</sup> As capabilities and offerings of third-party providers become more sophisticated, the management of outsourced and out-tasked services becomes more complicated and risky. Nowadays, Regulators and customers, expect organizations to be accountable for the actions of their third-party providers. For example, the Office of the Comptroller of the Currency and Federal Reserve hold the board of directors of financial institutions responsible and accountable for risks taken by the organization including those taken via third-party engagements. Hence, corporations should make Vendor Management as an integral part of their business strategy.

## Key trends in Vendor Management

**Vendor Management:** The market is currently under-invested in the area of vendor management, particularly when it comes to tools, methods, and processes. Despite the lack of investment, companies generally believe that their vendor management capabilities are equal to or better than their peers. These trends clearly articulate that a lot of the underinvestment in vendor management, may be a direct result of a general market consensus that each company is equal to or better off than their peers, regardless of whether or not they assign any additional resources to improve their vendor management process maturity.

## Issue and Dispute Management:

In addition, to evaluating performance, companies are expanding their capabilities in terms of managing and resolving issues or disputes. Where historically, companies were fairly quick to terminate a vendor contract or drastically reduce vendor services, they are now pursuing a series or preliminary options before terminating contract. In circumstances, where contracts are terminated, companies prefer to stick with a predominately outsourced strategy versus trying to insource their services.

<sup>3</sup> Vendor Management Program Office — Five Deadly Sins of Vendor Management, Deloitte 2013

# Managing change

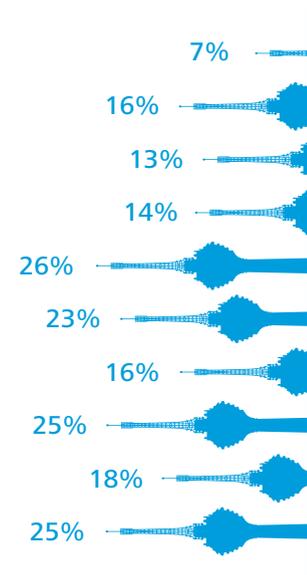
## Vendor management

Historically companies have extended onshore sourcing and procurement functions to include a Vendor Management capability. With increasing demand for outsourcing and offshoring and growing complexity, Vendor Management functions have evolved and established their own identity (including specialized skills and tools). The next stage of outsourcing journey has seen a small but growing trend of organizations moving Vendor Management functions and processes to near shore or offshore centers. Just as companies have evaluated benefits for outsourcing IT and non IT services, in addition to realizing cost benefits, the same approach can be applied to Vendor Management.

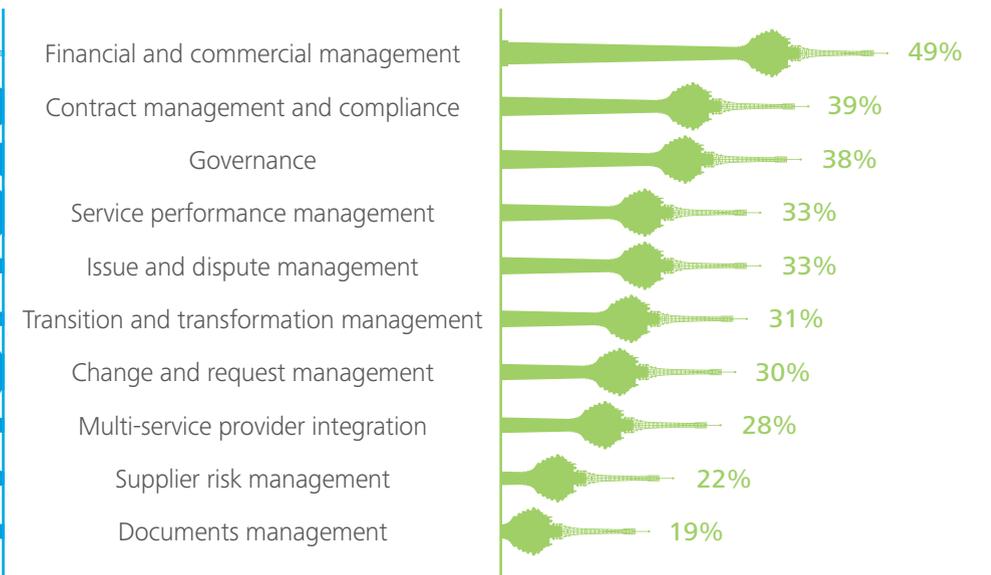
According to the survey respondents, Financial, Commercial and Contract Management capabilities are perceived to be above average in terms of quality and maturity. However, other processes including Governance, Service Performance, Issue and Dispute Management, and Transition Management require additional improvement.

### How would you rate your vendor management capabilities?

#### Below average (% of respondents)



#### Above average (% of respondents)



- Respondents believe that they are the most mature in Financial and Commercial Management with nearly **93%** of respondents indicating that they are **at or above their peers**.
- Respondents believe that they are the least mature in Issue and Dispute Management with nearly **26%** of respondents indicating that they are **below the market**.

- Vendor Management organizations continue to be **most effective** at traditional Vendor Management (e.g. financial management, contract management), however few organizations rate themselves above average in Multi-Service Provider Integration and Supplier Risk Management.



# Managing change

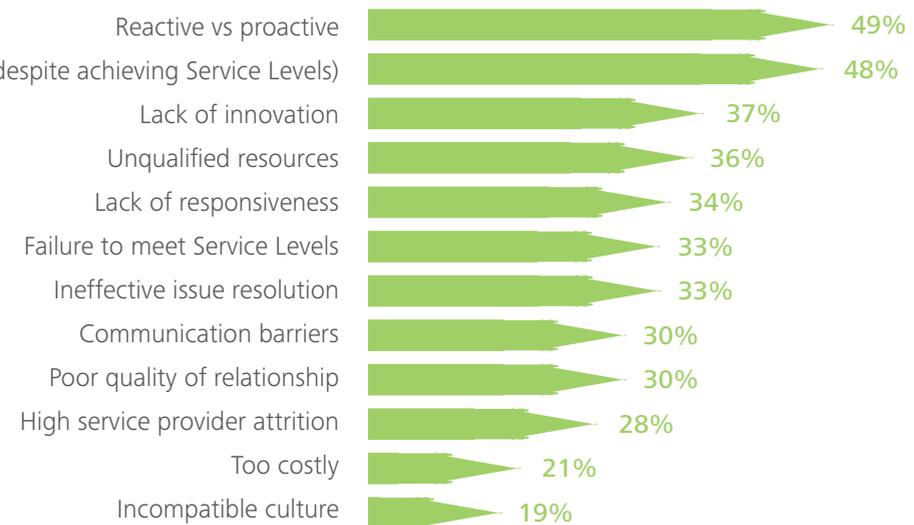
## Issue and dispute management

As companies move beyond 'Managing to the Contract', they will continue to look at and evaluate vendors on multiple dimensions. During the early stages of outsourcing, vendor performance was measured predominately through quantitative measures, e.g. service levels; however, companies are now beginning to further expand performance management programs by evaluating providers based on a variety of different measurements including end-to-end business outcomes and results.

According to survey respondents, most issues are derived from the service provider being reactive rather than proactive or from the provider delivering poor service despite achieving service levels. Cost related metrics and culture compatibility are least commonly cited as the cause of service provider related issues.

- Nearly 50% of respondents cited that the **reactive vs. proactive nature** of their service providers and poor service quality despite achieving service levels as reasons for issues surfacing with service providers.
- Nearly 40% of respondents cited a **lack of innovation** and **underqualified resourcing** as reason for complications with service providers.
- Despite the focus on **attrition** and **cost**, less than 30% of survey respondents cited these reasons as a cause for issues surfacing with providers.

### Please identify issues that you are currently facing with your outsourcing providers



# Managing change

## Issue and dispute management (continued)

Once an issue has been identified with a service provider, companies may pursue several alternative strategies to address and remediate the issue before it escalates to a dispute. The primary option for the company is to 'Manage to the Relationship', whereby they leverage informal channels to identify an immediate resolution which may or may not fall within the guardrails of the contract. The secondary option for the company is to 'Manage to the Contract', often a more contentious approach, requiring them to leverage contractual mechanisms, rights and obligations to resolve the issue. As a tertiary option, companies may choose to resolve the issue through conclusive actions like terminating the contract in part or in its entirety. All options are viable, however, given the hierarchical nature, and challenges posed by each, companies generally choose less contentious methods first.

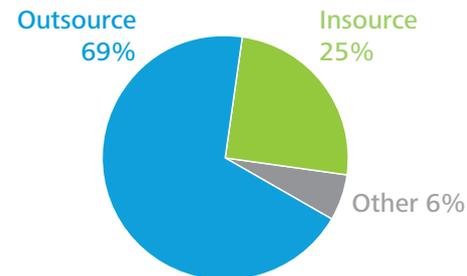
According to respondents, the preferred approach for resolving conflict with providers is to first 'Manage to the Relationship', then 'Manage to the Contract', and leverage any 'Last Resort' options where needed. Additionally, nearly 70% of respondents choose to continue outsourcing upon termination of the agreement, indicating that many of the unresolved issues are vendor specific and not attributed to outsourcing specifically.

### What steps have you taken, if any, to remediate outstanding issues with your providers?



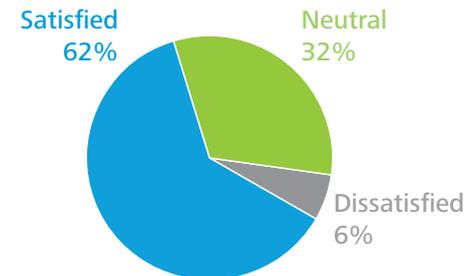
### Post contract insourcing vs. outsourcing

#### What was your post contract termination strategy?



- Over 60% of respondents, indicated that **escalating issues** to vendor leadership is the best method for resolving issues and disputes with vendors.

#### Were you satisfied with the results?



- Last resort** options including termination for cause and termination for convenience were taken by 13% and 9% of respondents, respectively.

- Of respondents who elect to **terminate** their agreement, 70% continue to contract with a 3rd party to achieve their post contract service strategy.



# Functions and services

In spite of the structural (e.g. legislation, regulation, and technology) and cultural (e.g. location) changes influencing outsourcing decisions, the market appears to be demanding more outsourcing.

Information Technology (IT) continues to be the most commonly outsourced function, at nearly 60% penetration. While IT services are highly mature in the market place, to gain a better perspective, it is necessary to evaluate functions

like Human Resources, Legal, and Real Estate and Facilities Management where outsourcing is expected to grow by 12%-26% per annum.

This growth is redefining what traditionally outsourced tasks were within each function, e.g. from transactional to increasingly complex work based on judgment.



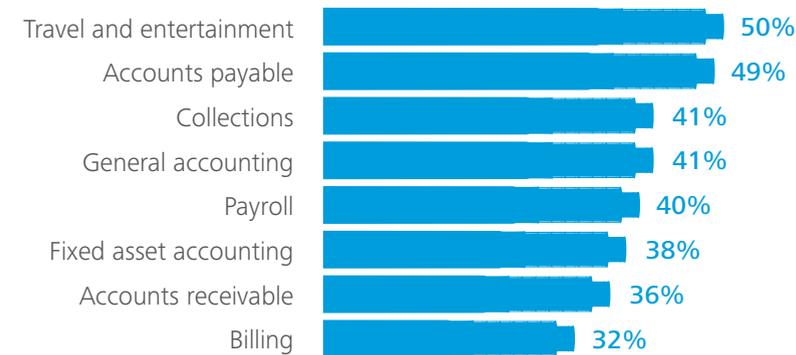
# Functions and services

## Finance

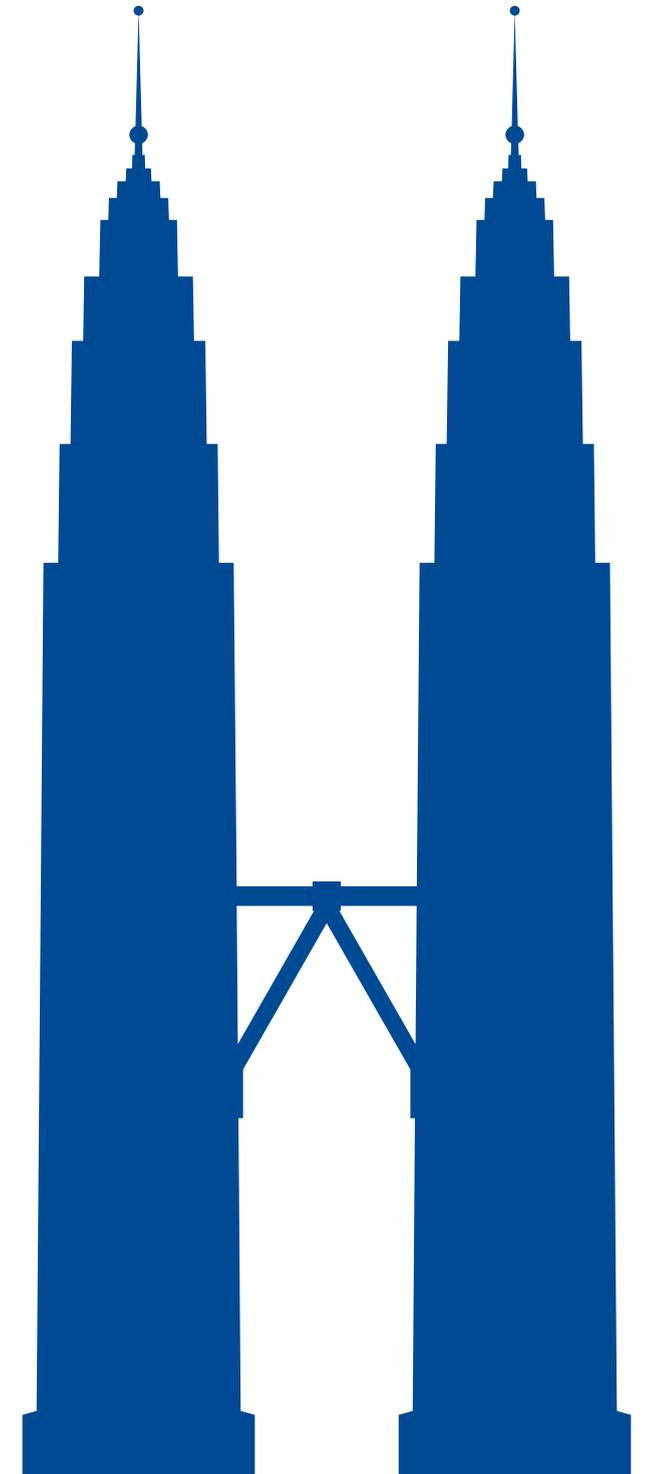
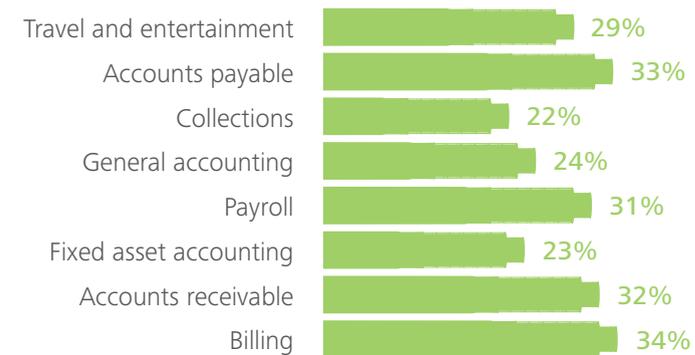
Finance and Accounting (F&A) services outsourcing is expected to increase in growth over the next few years. 30% of respondents expect to outsource additional services across all areas of F&A, with the least historically outsourced services, Accounts Receivable and Billing, seeing a planned increase above the 30% mark. This trend suggests outsourced F&A will continue to see strong growth and become more standard practice for many companies.

Increasing availability of global service providers in non-traditional locations will support this fast-growing functional area. Currently many activities are basic transactional finance and accounting processes such as accounts payable, however companies are starting to experiment with outsourcing non-transactional financial functions like financial analysis. Outsourcing knowledge-based financial services is still a nascent business practice, but as the comfort level of organizations rise it should become a more common practice.

### Current outsourcing (% of respondents)



### Plan to outsource (% of respondents)



# Functions and services

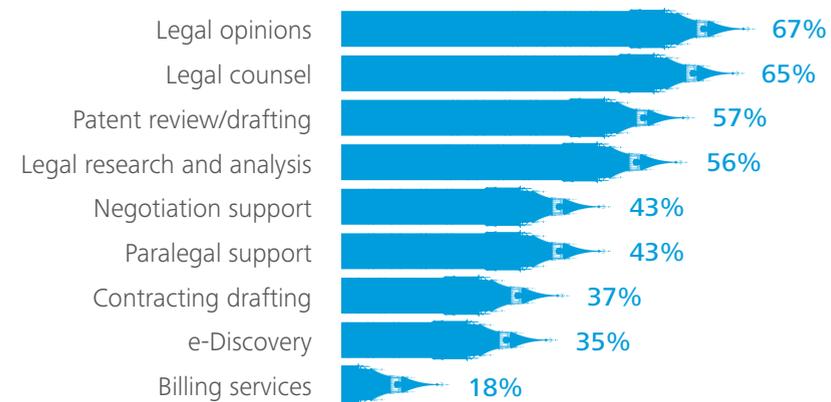
## Legal

Corporate legal departments are faced with a number of issues that require them to evaluate and implement Legal Process Outsourcing (LPO) solutions. Key concerns include resource allocation, inefficiencies in processes and project management, and technological investments such as automation and document standardization.<sup>4</sup> The solutions offered by outsourcing Legal services have led to a rise in tactical Legal services such as e-Discovery, Billing, and Research and Analysis.

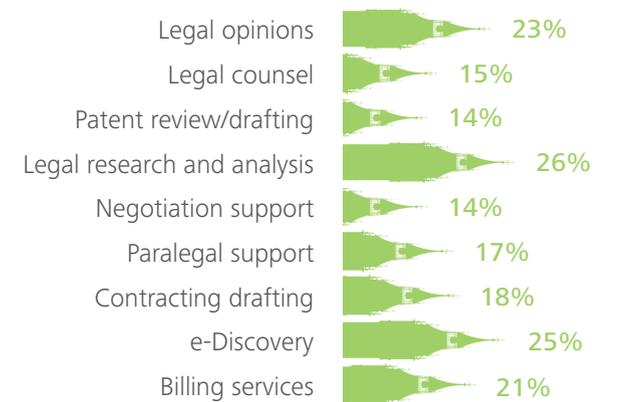
E-Discovery is one of the largest growth opportunities within legal services outsourcing. Among respondents who plan to outsource legal services, 25% plan to outsource e-Discovery.

As the LPO market becomes more mature, corporate legal departments are starting to move outsourcing beyond transaction-based legal processes to judgment based processes, such as Contract Drafting which is expected to grow by 18%.

### Current outsourcing (% of respondents)



### Plan to outsource (% of respondents)



<sup>4</sup> Implementing a corporate legal process outsourcing solution, Deloitte 2013

# Functions and services

## Real estate and facilities management

Real Estate and Facilities Management (RE&FM) spend is typically the second largest administrative cost for companies.

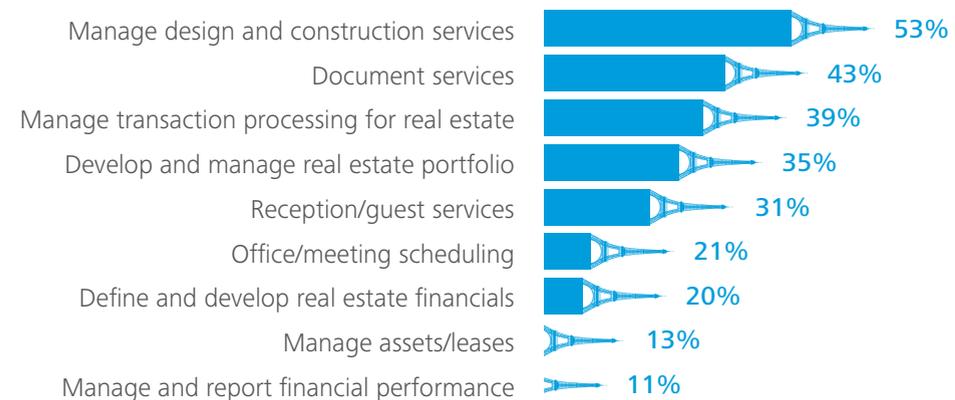
Design and Construction are the most commonly outsourced services in RE&FM with 53% of respondents indicating that they are currently outsourcing these services.

While RE&FM services like Design and Construction and Document Services are reaching saturated levels of a mature market, there are still significant opportunities for growth.

Of all RE&FM services polled, Asset and Lease Management is the greatest area of expected growth. While only 13% of the respondents currently outsource Asset and Lease Management Services; 37% of those who plan to outsource, are considering doing the same.

Another notable service is Financial Performance Management and Reporting, which is projected to grow nearly 19%.

### Current outsourcing (% of respondents)



### Plan to outsource (% of respondents)



# Functions and services

## Human Resources

Over the last few years, Human Resources (HR) outsourcing has struggled to find the right balance between comprehensive solutions and targeted competencies that address specific business issues. The transformation continues to seek equilibrium, shifting to a center that includes value-added and judgment-based services (e.g., workforce analytics, global mobility, and employee relations).

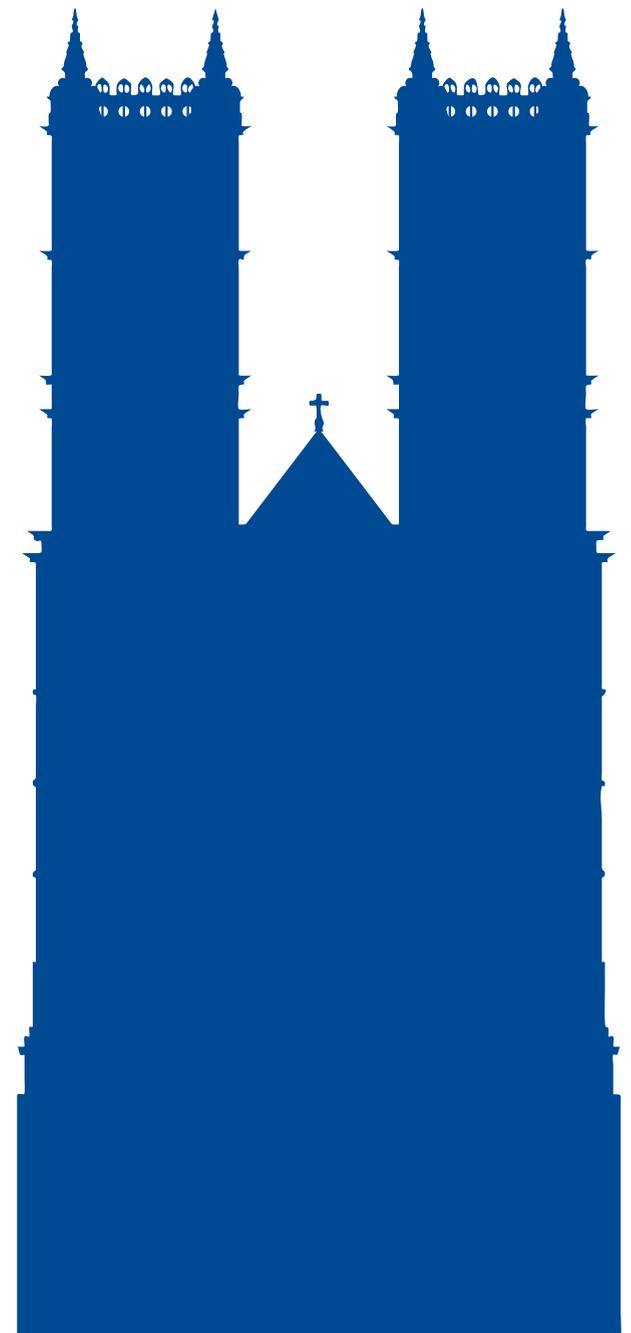
Call Center Management is a commonly outsourced service in Human Resources and is usually aligned with administration for specific services such as benefits administration. Other services commonly outsourced include Expat Administration and HRIS Maintenance and Support.

In the last few years the industry has seen an increased use of offshore services. Integration services such as reporting are becoming more prevalent and are expected to undergo high growth. Among respondents who plan to outsource HR, 38% plan to outsource HR Administration, as compared to only 13% who currently outsource. Some of this trend can be attributed to growing service offerings for leave administration, recruitment process outsourcing, and learning process outsourcing.

### Current outsourcing (% of respondents)



### Plan to outsource (% of respondents)



# Functions and services

## Customer service

Contact centers expect to grow to support organizational needs to improve customer service, to support business growth, and to support contact volume growth across all channels, email and social media in particular. Results of the 2013 Global Contact Center survey showed 85% of organizations currently support multi-channel customer service capabilities and over 90% of organizations that view customer experience as a competitive differentiator provide multi-channel customer access.<sup>5</sup>

With one of the highest expected growth rates in Customer Service, Simple “Tier 1” Customer Service Inquiries is the most commonly outsourced service.

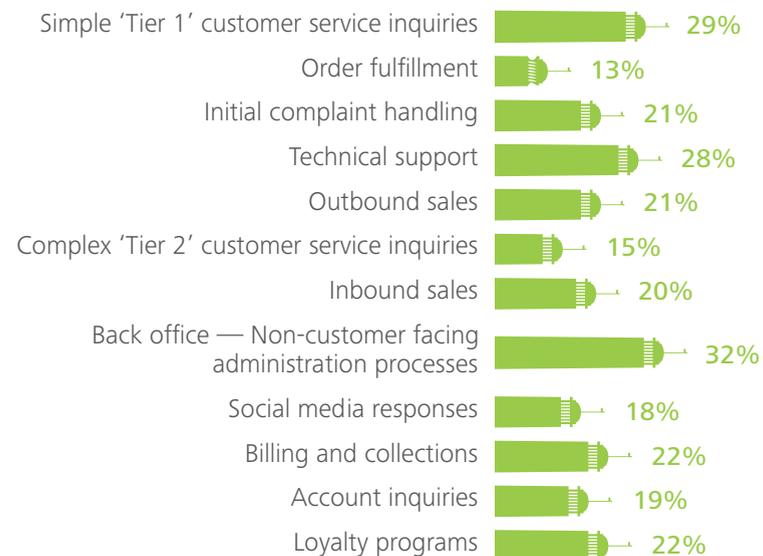
Due to the importance of the customer experience, Complex “Tier 2” Customer Service Inquiries are less commonly outsourced and are seeing some of the lowest growth rates among customer service outsourcing.

Loyalty programs are relatively uncommonly outsourced services but are expected to break their way into mainstream customer service outsourcing.

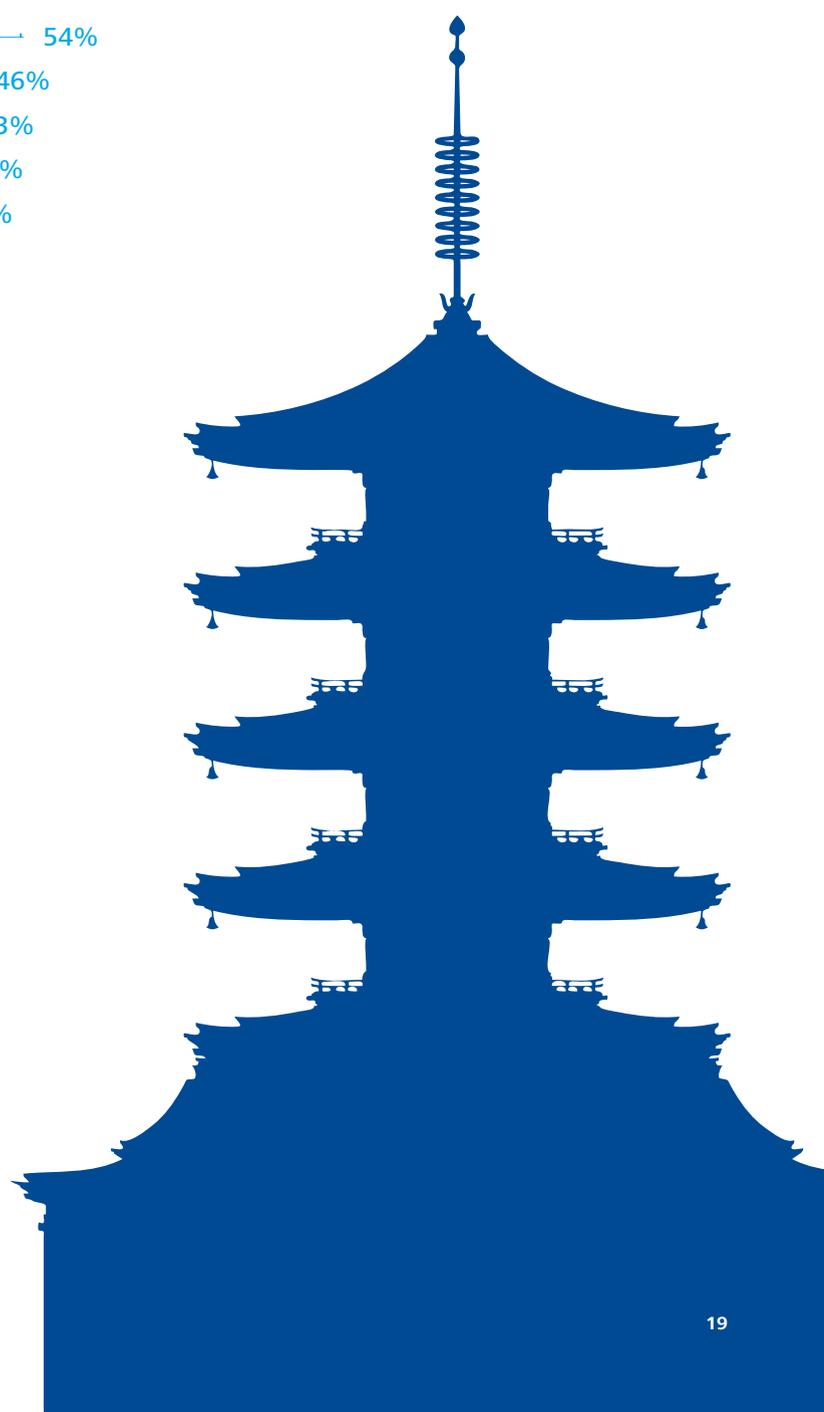
### Current outsourcing (% of respondents)



### Plan to outsource (% of respondents)



<sup>5</sup> 2013 Global Contact Center Survey Results, Deloitte, 2013



# Functions and services

## Procurement

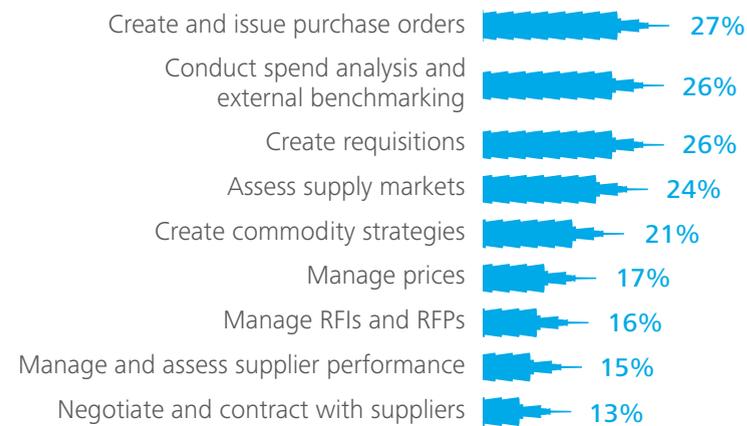
The adoption of procurement outsourcing has been very slow. The main barriers to adoption being the need for deep understanding and control of spend categories, gaining trust of the stakeholders, shortage of procurement and sourcing skills, and lack of broad knowledge of the suppliers across geographies. In many cases, procurement outsourcing is restricted to the transactional procure to pay processes as an extension of the F&A BPO deals. Consequently, the procurement outsourcing marketplace is still growing and offers an opportunity for companies seeking additional cost reductions.<sup>6</sup>

Rewards for breaching procurement outsourcing barriers are high; savings for non-core commodities and services procured through BPO services could range between 5% to more than 20%.<sup>7</sup> As a result, there has been a significant uptick in the outsourcing of indirect procurement activities, including transactional processing and sourcing of goods and services.

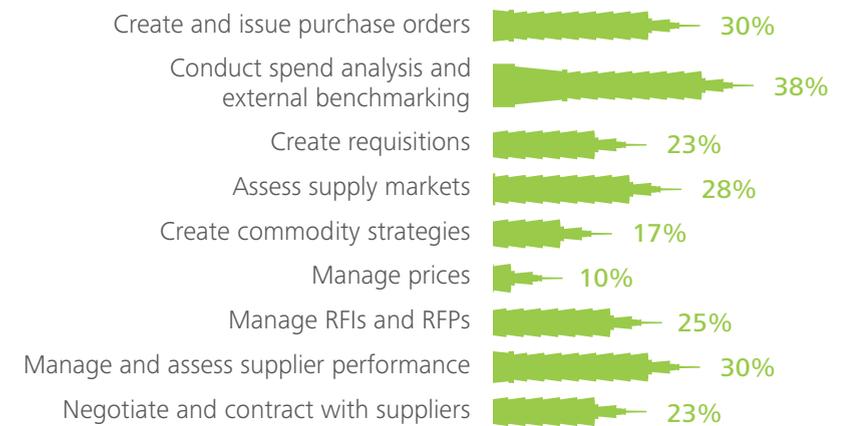
Results of the survey reflect a higher adoption for transactional services. First on the list of commonly outsourced processes in Procurement is Create and Issue Purchase Orders, followed by Spend Analysis and External Benchmarking, then Creating Requisitions, and Assessing Supply Markets.

Traditionally the least commonly outsourced Procurement processes and services are Supplier Negotiation and Contracting as well as the Management

### Current outsourcing (% of respondents)



### Plan to outsource (% of respondents)



and Assessment of Suppliers; however, despite the current limited outsourcing activity in Procurement space, 30% of respondents have indicated that they plan to outsource Supplier Performance Management and Assessment and 23% of respondents plan to outsource Supplier Negotiation and Contracting.

<sup>6</sup> The untapped potential of procurement outsourcing, Deloitte 2013

<sup>7</sup> The untapped potential of procurement outsourcing, Deloitte 2013

# Functions and services

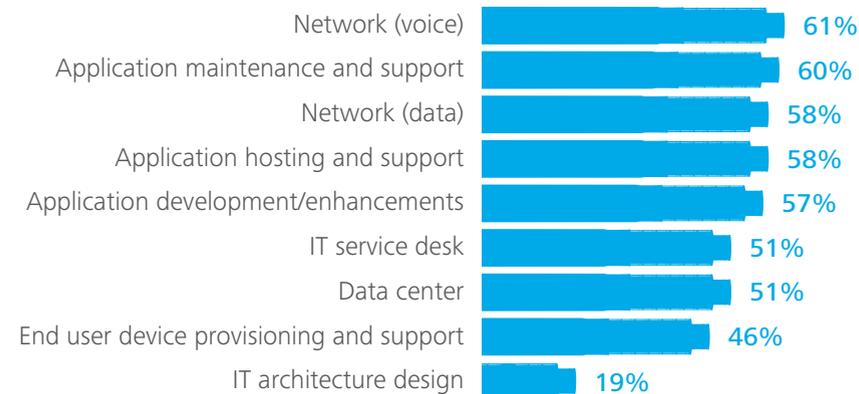
## Information technology

IT is typically the single largest administrative cost for companies. Over the years, IT Outsourcing (ITO) has matured into a well understood construct which drives over 60% of the total sourcing market.<sup>8</sup>

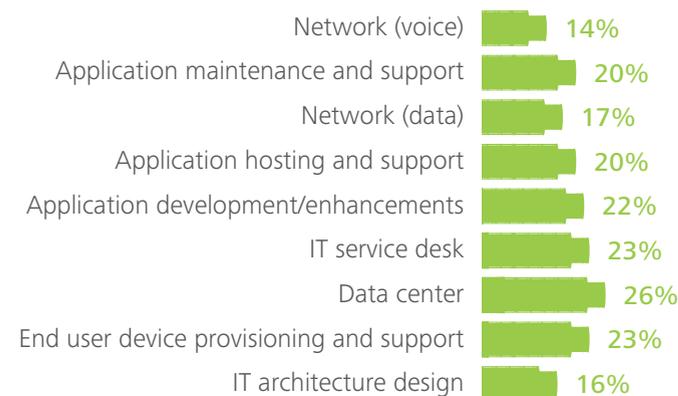
Though the demand for ITO continues to grow, there are significant shifts within the IT services delivery model driven by recent advances in technology (e.g. cloud computing, social computing, and green IT) which offer companies and providers new and creative solution options. Companies demand more value than can be derived from economies of scale and labor arbitrage alone. Sophisticated consumers of outsourced IT services are seeking service partners and arrangements that will position them to take advantage of future changes in the IT landscape.

Over the past few years, leading companies have moved away from “mega deals”; instances where large organizations sole-sourced significant chunks of their IT service delivery environment to a single provider through long term deals.<sup>9</sup> Instead, companies have begun to segment their environments and pursue a “portfolio approach”, by engaging multiple providers and benefiting from the capabilities of smaller, specialized vendors.

### Current outsourcing (% of respondents)



### Plan to outsource (% of respondents)



<sup>8</sup> ITO Market Trends, Deloitte, 2014

<sup>9</sup> From strategy to execution An Outsourcing Advisory Services compendium, Deloitte, 2013

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# Conclusion

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The outsourcing landscape is constantly changing to better serve customers and Deloitte continues to assess the market dynamics to provide valuable and detailed insights to Deloitte customers. While today we are seeing continued growth in the consumption of outsourced services; there are no assurances of how long this trend will continue to last. It is nearly impossible to predict with any level of certainty when a macro-economic or disruptive business event will happen and how that will affect the interaction between companies and service providers. Despite the uncertainty, there are a few things that we do know.

1. Vendors' service offerings are continuously evolving to fulfill customer needs
2. Customers will likely continue to demand more from their vendors expecting them to go above and beyond the terms of the agreement to deliver value on both qualitative and quantitative terms
3. The bar for vendor management capabilities will likely keep rising as companies seek to leverage multi-vendor or multi-functional strategies requiring transition and service integration capabilities
4. The regulatory and legislative landscape will likely continue to influence outsourcing decisions and retaining the flexibility to change direction rapidly, even for complex services, is key
5. Beyond 2014, as vendors become adept at delivering innovative solutions, analytics and cloud offerings, customers will continue to benefit from the resulting increased flexibility.
6. Despite a political environment that can dampen the appeal of outsourcing, for the foreseeable future, we expect to see a continued growth of the industry.

# Appendix

## Demographics

Deloitte Consulting undertook a broad research effort to analyze the outsourcing landscape, trends, and approaches that companies are currently taking. The Deloitte Consulting Global Outsourcing Survey 2014 had 157 unique respondents representing 140 public and private sector entities. Respondent organizations represent major industries and include both single-country companies and multinational corporations.

### Industry

The participants represented are in 22 industry sectors across Technology, Media, Telecommunications, Healthcare and Life Sciences, Energy and Resources, Government, Consumer Products, Industrial Products, Financial Services and Professional Services.

The 10 sectors with the greatest representation were Banking, Professional Services (including Legal), Consumer Products, Technology, Process and Industrial Products, Telecommunications, Life Sciences, Transportation, Power & Utilities (including renewable), and Insurance.

70% of respondents were from three industries: Consumer and Industrial Products (C&IP), Financial Services (FSI), and Technology Media and Telecommunication (TMT) industries

### Size

The typical respondent representing 40% of the organizations surveyed generated between \$1 billion and \$15 billion in revenue and 61% of respondent organizations had revenues greater than \$1B.

The typical respondent representing 49% of the organizations surveyed had between 1,000 and 25,000 employees and 74% of respondent organizations had greater than 1000 employees.

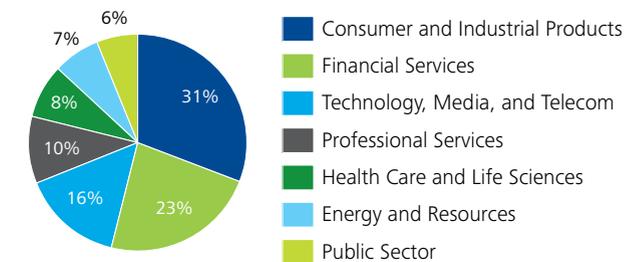
### Geography

Survey participants represent 30 countries located across North America, Central America, Asia, Africa, Eastern Europe, Western Europe, and Australia.

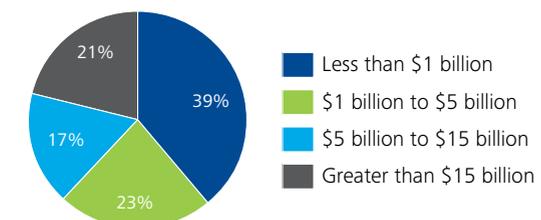
10 countries with the greatest representation were the US, Korea, India, Canada, UK, the Netherlands, Denmark, Finland, Colombia and Australia. 69% of survey participants are headquartered in North America or Europe.

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.

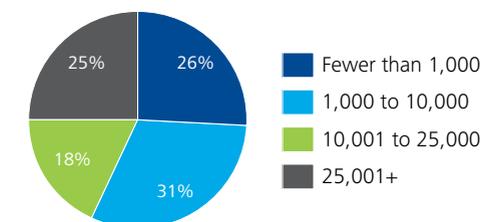
### What is your organizations primary industry sector?



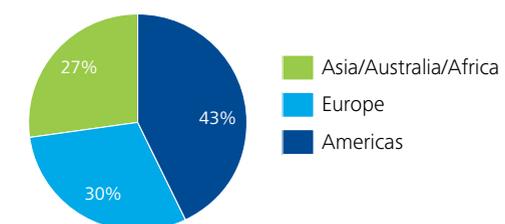
### What is the revenues of your organization?



### What are your total employees?



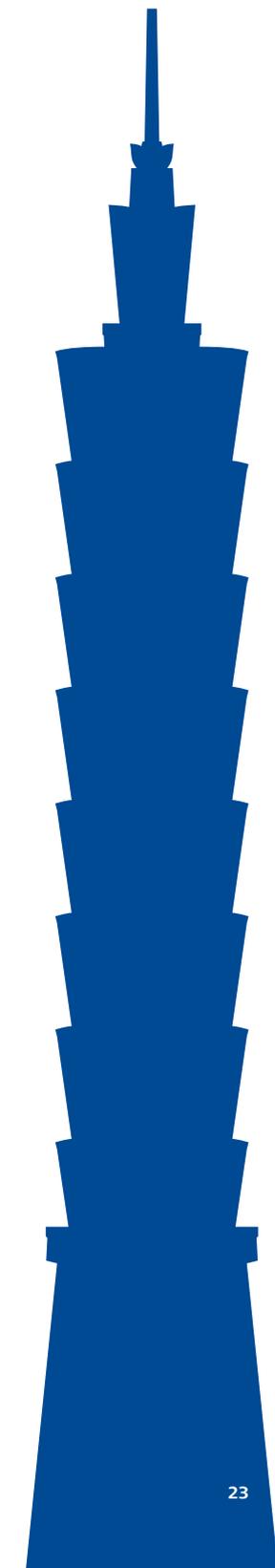
### Respondents by region



#### A note on location terms

The survey instrument defined the terms "within country," "nearshore," and "offshore" as follows:

- **Within country:** Service is generally performed in the same country as the service is received or in a country where labor rates are generally consistent with those where the service is received (e.g. US-to-US, US-to-UK, Sweden-to-UK, etc.).
- **Nearshore:** Service is generally performed in another country near where the service is received (usually within or close to the same time zone) and where labor rates are generally lower than those where the service is received (e.g. Mexico-to-US, Eastern Europe-to-UK, etc.).
- **Offshore:** Service is generally performed in another country where labor rates are typically significantly lower than those where the service is received and there may be a significant difference in time zone (e.g. India-to-US, Philippines-to-UK, etc.).



# Contact us

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

**Simon Tarsh**  
Deloitte Consulting LLP  
New York  
+1 212 313 1983  
starsh@deloitte.com

**Christine Ahn**  
Deloitte Consulting LLP  
Los Angeles  
+1 213 553 1084  
chrisahn@deloitte.com

**John Tweardy**  
Deloitte Consulting LLP  
Pittsburgh  
+1 412 402 5418  
jtweardy@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 51866911

## EMEA

**Punit Bhatia**  
Deloitte MCS Limited  
London  
+44 20 7007 9466  
punbhatia@deloitte.com.uk

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

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

**Daan De Groodt**  
Deloitte Consulting BV  
Amsterdam  
+31 6 8201 9392  
dadegroodt@deloitte.nl

**Per Lund Pedersen**  
Deloitte Consulting  
Copenhagen  
+45 3093 6038  
plpedersen@deloitte.dk

## 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 Ptd. Ltd.  
Southeast Asia  
+65 9030 3303  
epeffer@deloitte.com

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

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