



Outsourcing 2010

Summary of Findings from IAOP's
State of the Industry Survey

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For the past 18 months, and with the support of Accenture, the International Association of Outsourcing Professionals® (IAOP®) has been regularly surveying its members to identify key trends and developments in this highly robust and diverse global industry. Our goal has been to benchmark how companies' outsourcing programs have changed in size, make-up, and impact. Equally important we've sought to better understand the outsourcing profession itself, where in excess of 100,000 people lead the design, implementation, and management of these complex, cross-company relationships.

The questions we've sought to answer are:

1. How has the recent global economic crisis affected outsourcing plans? Are companies outsourcing more, less, or about the same? Are their reasons for outsourcing the same or have they changed? Are the business activities being outsourced different today than they were 18 months ago?
2. What are the critical issues that customers and providers are facing and how are these issues reshaping the way they make and implement outsourcing decisions? For example, is the outsourcing industry more or less competitive than it was 18 months ago? Are larger or smaller service providers benefiting disproportionately? Are customers approaching outsourcing in a more bundled or a more discrete way? Are customer and provider interests becoming more or less aligned with each other? What new issues and opportunities have merged over these past 18 months?
3. Finally, we wanted to know how the profession of outsourcing was faring. Is it a better career opportunity today than it was 18 months ago? Are professionals being paid more or less; are there more opportunities or fewer? Are the best opportunities today with customer organizations, provider organizations, or advisors? How is the role of the outsourcing professional viewed in companies and has it changed?

About the Participants

The data used for this report is based on three distinct surveys of IAOP's more than 100,000 members and affiliates worldwide. These surveys were conducted via email in January and September 2009 and January 2010. Additionally a live audience voting system was used at The 2010 Outsourcing World Summit in February 2010 to gather additional insights from those in attendance. In total, more than 1,200 surveys were collected over this period representing roughly one-third customers, one-third providers, and one-third advisors.

Primary industries represented in this data are financial services, technology, telecommunications and pharmaceuticals. About half of the respondents work in companies with more than US\$5 billion in revenue. About two-thirds are from the US, with Europe, Canada, and South East Asia representing the next largest geographies. Overall, the individuals completing the surveys work in companies with fairly significant outsourcing experience: two-thirds with more than 5 years.

1. How has the recent global economic crisis affected outsourcing?

The global economic crisis has had a direct impact on the existing outsourcing programs at most companies.

In January 2009, 42 percent of respondents indicated that existing outsourcing contracts at their companies were unchanged from 12 months earlier. By September 2009 this was down to 19 percent and by January 2010 it was 16 percent. Companies have clearly been changing their current outsourcing programs in response to the dramatic economic changes.

The largest percentage of companies have been renegotiating current contracts to adjust prices and volumes. By January 2010, 44 percent of companies had done so. Where contracts have come up for renewal, by a 2-to-1 margin customers say they've actually been increasing either the volume of work, scope of services being outsourced, or both. Only 2 percent of companies indicated that they had significantly curtailed or cancelled their existing outsourcing contracts.

Over the past twelve to eighteen months companies have renegotiated where needed but overall have expanded their existing outsourcing programs.

As companies now look to future, they expect to continue to increase the size and scope of their outsourcing programs.

This is probably one of the most important and far reaching affects that the economic crisis has had on outsourcing as an industry and as a profession.

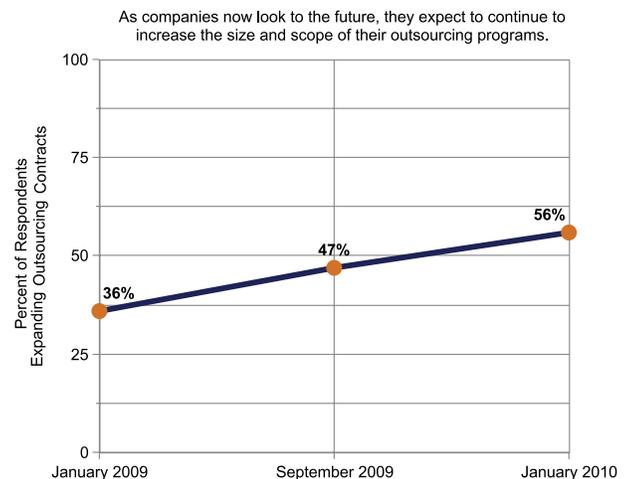
In January 2009, 36 percent of respondents indicated that their companies were expanding their future outsourcing programs. By September 2009 this number was 47 percent. By January 2010 it was up to 56 percent and delegates attending the 2010 Outsourcing World Summit said that for them it was now 70 percent.

The trend toward expanding future outsourcing programs in light of the recent economic crisis is clear and pervasive.

Outsourcing programs are not just expanding but are becoming more strategic.

This increase in the strategic importance of outsourcing is reflected in both a shift in the reasons that companies are outsourcing and in the level of senior executive involvement.

Although near-term cost savings is always a key driver, its importance, even during a period of enormous financial pressure has not come to dominate the decision process. In January 2009, 25 percent of respondents indicated that these near-term cost saving had become more important over the previous 12 months. This rose to about 50 percent in September 2009 and stayed at that level in January 2010.



However, over the same period, 50 percent indicated that greater business flexibility had also become more important and just about as many indicated that long-term cost savings and preparing the company for future growth had grown just as much in importance.

So, although cost-savings matter, strategic issues have grown just as much in terms of being a key driver of outsourcing decisions at most companies.

At The 2010 Outsourcing World Summit only 35 percent of the delegates (they could pick only one option as opposed to being able to select multiple responses as in the data above) said that immediate cost savings had become more important. This means that for 65 percent of the delegates factors other than immediate cost savings had become more important. Leading this list was long-term cost savings, supporting future growth plans, and increasing overall business flexibility.

Over this same period, outsourcing has also become a more important topic at the senior executive level. When asked in January 2010 specifically about the level of executive involvement in outsourcing decisions, two-thirds of respondents indicated that senior executives were increasingly involved in outsourcing versus only 13 percent who said that senior executives were less involved.

Activities being outsourced are trending toward the knowledge-based end of the continuum.

Although companies are increasing their outsourcing program across the board – as discussed earlier - the trend in what's being outsourced is toward more high-skilled, knowledge-based activities. In both the fall of 2009 and January of 2010, 40-plus percent of respondents indicated that the outsourcing at their organizations was increasingly focused in these areas as compared to less than 30 percent who said they were increasing the outsourcing of lower-skill level positions.

2. What are the critical issues that customers and providers are facing and how are these issues reshaping the way they make and implement outsourcing decisions?

Maximizing the value of outsourcing is a pervasive issue for everyone in this field. As a result, various approaches are being tried to reduce the complexity and management challenges of outsourcing and to better leverage technology in the delivery and management of outsourced business activities.

Generally speaking, companies are trending toward a more bundled approach to outsourcing.

A more bundled approach to outsourcing, where more services are outsourced to the same provider, is clearly winning out over what has been often called 'multi-sourcing.'

By January 2010, 45 percent of survey participants stated that their company was more focused on bundling services with fewer providers as opposed to less than about half as many, or 18 percent, who indicated that they were doing more multi-sourcing to more suppliers.

This does not mean, however, that companies are working with fewer suppliers overall. Companies are bundling more, which reduces the number of providers they work with, but they are also expanding their overall outsourcing programs, and more companies are outsourcing. The cumulative effect of both trends is that in January 2010, slightly more companies, 43 percent versus 34 percent, are actually working with more not fewer suppliers today than they were a year ago.

Preferences toward offshoring, nearshoring, and onshoring seem to be in a state of flux.

In January 2009, 24 percent of survey participants indicated that they were doing more offshoring as compared to only 9 percent who said they were doing less.

By September 2009, 31 percent said they were more focused on offshoring while 33 percent said they were more focused on nearshore and onshore providers. By January 2010, the percent increasing their focus on offshoring was down to 25 percent while the percent increasing their focus on onshore and nearshore providers was at 26 percent.

Providers are getting more global as well. In September 2009, 47 percent of respondents from provider and advisor companies said that their firms were expanding geographically and 42 percent said the same thing in January 2010. In both surveys, about 30 percent of providers said they were establishing more local and rural centers from which to service their customers.

It may well be that as these providers become more global and distributed in their operational footprint, and as the work becomes more fluid in terms of where it's done, that these distinctions are less significant in customer decision-making. Costs are becoming more blended as well in virtual delivery models, making a pure-play offshoring decision less of a driver for many companies than it was in the past.

The outsourcing industry has not only stayed strong, but become more competitive.

Thirty-one percent of respondents from provider and advisory firms indicated in September 2009 that mergers and acquisitions were an important way that their companies were expanding their portfolio of services. This percentage had dropped by only a little, to 24 percent, by January 2010. Many high-profile examples like HP-EDS, Dell-Perot, Convergys-NorthgateArinso and Xerox-ACS can be cited.

Sixty-seven percent of providers in January 2010 said that at the same time the industry was becoming more, not less, competitive. Customers recognize this as well, with 85 percent saying January 2010 that the number and quality of outsourcing service providers had increased or stayed about the same during the previous 12 months.

Two-thirds of the attendees at The 2010 Outsourcing World Summit agreed that the number and quality of outsourcing service providers had increased or stayed the same over the past twelve months.

Consolidation in the outsourcing industry does not currently appear to be taking the industry toward a less competitive position; instead it appears to be more driven by the desire to offer a broader scope of services to customers and probably some opportunistic business acquisitions during a period of depressed equities.

Knowledge management is a growing concern for customers.

As stated earlier, companies are trending toward higher-value, more knowledge-based outsourcing. So, it comes as no surprise that customers are also reporting that knowledge management is becoming increasingly important to them. Sixty-one percent say knowledge management is more important than it was a year ago, while only 2 percent say it's less important.

Management of the knowledge around the outsourcing process itself is getting greater focus in most customer organizations as well. Forty-seven percent of customer respondents say that outsourcing is now more centrally managed than before as compared to only 14 percent who say it's less centrally managed.

Overall, according to delegates at The 2010 Outsourcing World Summit, although the trend is toward more central management of outsourcing, that shouldn't be interpreted as meaning that most outsourcing professionals now work in these centralized groups. In fact, about three-quarters of all outsourcing professionals work not in central groups but in specific functional areas or business units at their companies. Only 26 percent of outsourcing professionals work in centralized groups operating as centers of excellence across the company.

Expect a rapid adoption of new outsourcing technologies, such as, Software as a Service (SaaS) and Cloud Computing.

In January 2009, 70 percent of customers participating in the survey said that their companies were examining either Software as a Service (SaaS) or Cloud Computing as a new approach to outsourcing. By January 2010 this had grown to 88 percent.

Providers are on the same track. In January 2009, 62 percent were exploring these technologies for the delivery of services to their customers. By January 2010 this number was up to 66 percent.

Fully, 86 percent of delegates at The 2010 Outsourcing World Summit see cloud computing as was to deploy technology-based services and resources over the Internet.

3. Finally, we wanted to know how the profession of outsourcing was faring.

Outsourcing is also a new profession offering increasing numbers of individuals career opportunities in the design, implementation, and management of these complex cross-company relationships, whether doing so as customers, providers, or advisors.

The question is: How has this new profession fared during these challenging economic times?

Employment for outsourcing professionals has stayed steady in spite of the economy.

In January 2009, 30 percent of customer organizations were increasing the number of outsourcing professionals at their companies as compared to 14 percent who were decreasing the size of their staffs. The percentages were just about the same a year later, 29 percent and 17 percent respectively.

Employment was even stronger at provider and advisor organizations. In January 2009, 40 percent of these companies had increased the number of outsourcing professionals at their companies over the past 12 months while only 16 percent had decreased them. By January 2010, these numbers were just about the same at 39 percent and 18 percent respectively.

Clearly, in the face of one of the most dramatic periods of job loss in recent memory, outsourcing professionals have fared very well.

Outsourcing professional employment is not only steady, but wages are generally going up.

Salaries are generally trending up as well. In January 2009 at customer organizations, 21 percent had seen salary increases during the previous 12 months as compared to only 10 percent with salary decreases. By January 2010, these numbers had shifted even higher, with 28 percent reporting salary increases during the previous 12 month period and only 5 percent reporting salary decreases. The story is much the same at provider and advisor organizations.

Outsourcing professionals are increasingly focused on governance.

Most outsourcing professionals work across the entire life-cycle simultaneously, developing strategy, selecting partners, implementing relationships and managing them.

For example, 68 percent of outsourcing professionals at customer organizations were involved in strategy in January 2009 and the percentage was exactly the same in January 2010.

But, as companies have more and more outsourcing relationships in operations, the percent of outsourcing professionals working in relationship management has naturally increasing even faster. In January 2009, 81 percent of outsourcing professionals were involved in governance. By 2010 this number was up to 89 percent.

Similarly, a little more than half of providers and advisors have the majority of their outsourcing professionals working with existing clients – either managing the current contract or working with these clients on new opportunities.

Managing outsourcing relationships is increasingly central to what outsourcing professionals do.

Summary: Recent economic crisis has been good for outsourcing

As one reviews these insights collected from more than 1,200 surveys over almost an 18 month period, the clear conclusion that is reached is that the recent economic crisis has actually been good for outsourcing.

Companies have certainly sharpened their pencils to reduce costs – which is always healthy and needed from time to time. But the result has been to make the entire industry more efficient. The marketplace of providers is better and stronger than ever. And, it's a great profession to work in.

Outsourcing has also become more strategic and more focused on delivering value over time. Companies didn't simply use outsource to deal with the current crisis; they used outsourcing to get stronger for the long haul. And, new technologies are likely to be quickly adopted, accelerating outsourcing adoption and strategic importance even more.

Finally, it's a great career area, too. Where else has both employment levels and wages increased during the past 12 to 18 months? The demand for outsourcing professionals and the importance of what they do for the companies they work at is likely to only continue to grow.

What the next year or two may is anyone's guess. But if recent trends are any indication, then the continued growth of outsourcing as a management practice, industry, and profession looks pretty secure.

IAOP

The International Association of Outsourcing Professionals (IAOP) is the global, standard-setting organization and advocate for the outsourcing profession. With more than 100,000 members and affiliates worldwide, IAOP helps companies increase their outsourcing success rate, improve their outsourcing ROI, and expand the opportunities for outsourcing across their businesses. www.IAOP.org.

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