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# How much disruption?
# Deloitte Global Outsourcing Survey 2020

**2020**

# How much disruption?

## When we started planning for this 2020 survey, no one expected the challenges and surprises that this year would have in store.

Our 2018 report centered on the theme of disruption, and 2020 has raised this to a new level. COVID-19 has been one of the most disruptive events in a generation; and the impact is still being felt, not only across the global economy but also across the huge amount of outsourcing relationships in place.

Our biennial survey has been the cornerstone of our research into the outsourcing market for over a decade. This year, we adopted a more intimate approach. Instead of releasing an online survey, we interviewed 40 executives across our clients, service providers, and lawyers globally to bring a more complete perspective to our findings. The interviewees were spread across the Americas, Africa, Europe, Asia, and Australia, giving us a global view of the outsourcing ecosystem. The interviews were conducted both before and after the start of the COVID-19 pandemic, enabling us to identify how the industry has responded.

**We are seeing contradictions.** Clients are keen to continue embracing disruptive technologies. Cloud and automation continue to be a driving force for change. Microsourcing continues to expand along with the ecosystem of specialized services providers. However, the fallout from COVID-19 is signalling a return to basics: shoring up value and driving down costs, with a renewed focus on risk management.

There are difficult decisions ahead. Should we continue to invest in bold ideas for major transformational changes or invest in those capabilities that protect the business in the face of economic uncertainty? How much more disruption can we take?

We have produced this report by interpreting and analyzing the insights generously shared by our interviewees, coupled with our own extensive insights from working with clients, service providers, and lawyers over many sourcing contracts. We are always interested in seeing your take on our report and we look forward to having this discussion with you.

**Miles Underwood**
Deloitte Consulting AG
mileunderwood@deloitte.ch

**Mike Stoler**
Deloitte Consulting LLP
mistoler@deloitte.com

# Introduction

The outsourcing industry continues to embrace disruptive technologies, breathing new life into a mature but critical driver of the economy. However, the uncertainty created by COVID-19 has instilled caution, as everyone in the industry adjusts to the disruption caused by the pandemic.

This report provides insight into how the latest trends in outsourcing are dramatically reshaping the industry. In addition to the direct takeaways from the 2020 interviews, we also follow up on our 2018 survey to understand whether the trends we predicted two years ago have actually emerged. On the whole they were emerging...before the world changed as we knew it.

## Four key findings emerged from our interviews

**Cost reduction is back on top.**
In the recent past, many people in the industry have stated that cost reduction is a secondary benefit behind other objectives, such as increasing agility or improving the quality of service. This year's survey shows a sharp increase in the number of organizations giving priority to cost reduction, and in the face of a likely pandemic-induced global recession, this number will get higher.

**Cloud and RPA are table stakes now.**
It is no surprise to see cloud and RPA solutions as being core to most new outsourcing transactions. In fact, as they become more proven and familiar, they are less of a driver than two years ago and considered "table stakes" for all transformations. Organizations are looking for the next major technology catalyst to power their business transformation efforts.

**Supplier management is underpowered.**
Third party ecosystems are more complex than ever, which has implications for regulatory compliance, security, risk, and data protection requirements. Organizations have rising expectations that service providers will spearhead their innovation agenda. COVID-19 has put a severe strain on the supply chains of organizations. All these changing dynamics have made the role of supplier management more critical than ever; however, this function is still underpowered in many organizations. Clients need to invest more in building their supplier management capabilities to manage the new normal and achieve maximum value from their service provider ecosystem.

**Agility is critical.**
Changing business scenarios, heightened visa restrictions, and increasing customer expectations are all creating an imperative for the service providers to become more agile. Firms will now accelerate overall outsourcing as they learn to collaborate in a world where speed, quality, flexibility, and cost are more important than physical location. To stay ahead in the game, service providers will need to rethink how they provide services remotely yet effectively, build plug and play solutions that can be rapidly integrated, and have contracts that allow them to pivot as the business situation evolves.

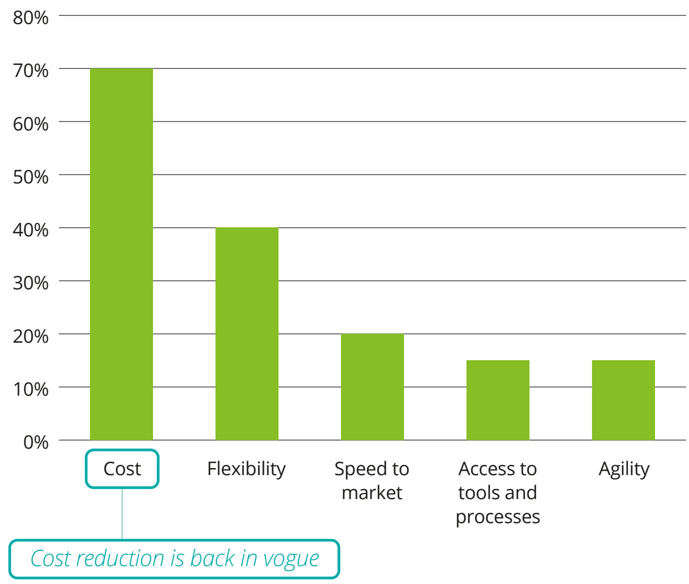
# Outsourcing objectives and strategies

## Cost reduction is a primary objective

Only a minority (if anyone) would say that cost is not important in an outsourcing deal. However, in our 2018 survey, the key objectives of outsourcing were moving away from reducing operating costs to enabling speed to market, scaling faster, enhancing user experience, and achieving competitive advantage. Now, cost reduction is becoming increasingly critical again with over half our interviewees indicating that cost reduction is a primary reason for outsourcing. The impact of COVID-19 plays a key role here: the uncertain economic environment is switching the focus back to the numbers.

The providers and lawyers we interviewed tell us that cost reduction is the main reason to outsource. While they hear their clients talk about scalability, agility, technology enablement, and innovation, they recognize that, ultimately, clients focus on cost. Many indicated that it is easier to measure the impact on cost than it is to articulate the benefits of scalability and tech enablement in a way that withstands forensic analysis. It is therefore no surprise that parameters like cost to achieve, rate card, and IT investments are still heavily weighted in the down select and final contract award decision. Cost may not be what drives a deal to the table, but dinner isn't over until the bill has been paid.

**Outsourcing objectives**




Source: Deloitte Global Outsourcing Survey 2020

> "What drives the clients' decisions is cost reduction. If there is no positive cost case, it will not happen. It is always about cost."

**Partner, Law firm, EMEA**

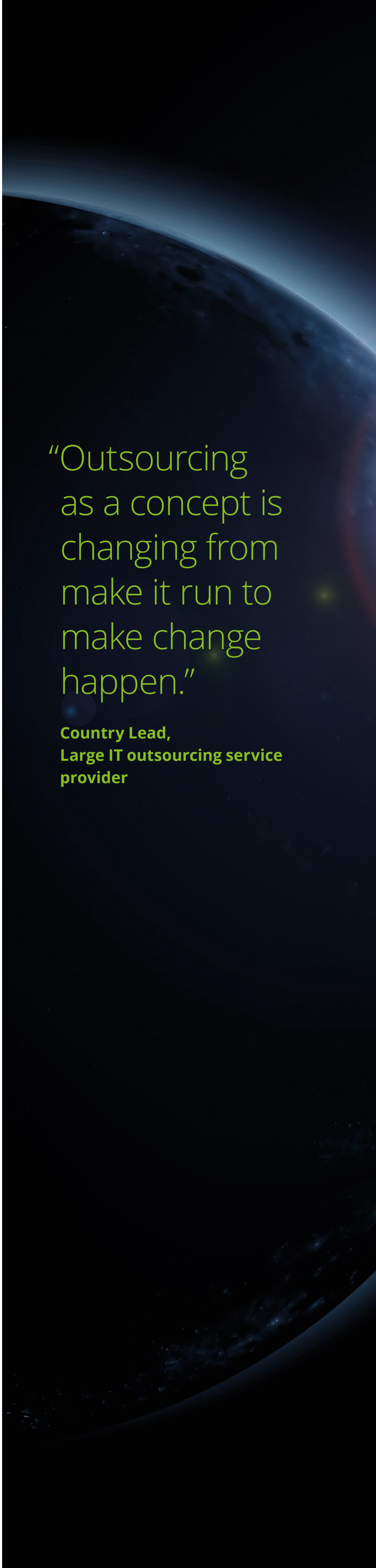
**Outsourcing still seen as an enabler of business transformation**

Additionally, organizations yearn for partners that can genuinely deliver a business transformation. As digital solutions become increasingly mainstream, clients are seeking providers who can elevate the way they do business, enable them to be more flexible, help them leverage the latest technologies, and improve their overall speed to market. Understanding providers' strengths is critical to deploying the right mix of large and niche providers to achieve the desired outcomes.

**Service orchestration limits strategy implementation**

A flexible sourcing model with "inter-changeable service providers" is now the mainstay for most client sourcing strategies. This trend has been consistent over the past two years with clients describing their strategies as "multi-vendor" and "multi-sourced." Organizations are not deterred from taking on the challenges of integrating these service providers, but most note that there is "room to improve their orchestration capabilities" and recognize that they are not doing enough to manage service providers adequately.

A few of the clients we talked with expressed disappointment that providers were not delivering the necessary value. Some of them are responding by bringing the work back inhouse. While this approach may work, in some cases it is a step too far. Investing in strong service orchestration is key, as it will help ensure organizations realize maximum benefits from their service provider ecosystem, resulting in comprehensive accountability for action and reduced value leakage. It is obvious to state that investing more in supplier management will improve the control organizations seek; however, whilst a number of interviewees agreed with us, many were frustrated about the ability to secure investment, knowing well that outsourcing deals require multiple years of management to ensure that the business case promised at contract signature will still be delivered throughout the term.



"Outsourcing as a concept is changing from make it run to make change happen."

**Country Lead,
Large IT outsourcing service provider**

# Robotic Process Automation (RPA)

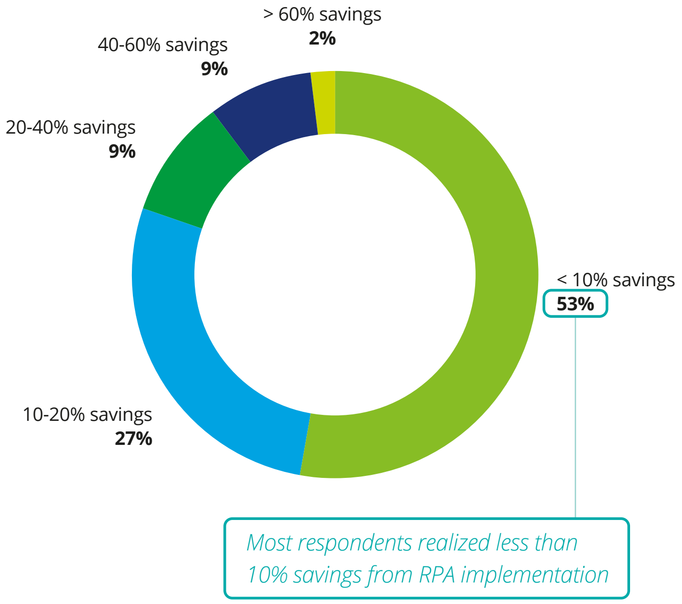
**Successful clients are pursuing RPA for reasons beyond cost**

RPA continues to be a major driving force in outsourcing solutions, but today's challenges are more granular. Over 75 percent of our interviewed clients are actively considering or pursuing RPA in their sourcing arrangements. In 2018 we predicted that the adoption of RPA would continue to grow, with companies implementing automation solutions through third party providers, Centers of Excellence (CoEs), or a combination of the two. At that time, 72 percent of the organizations in the survey had adopted or were considering RPA. Since then, organizations have progressed much further by "overcoming technology limitations" and "improving management awareness."

Our 2020 survey results show a clear progression in the adoption of RPA through outsourcing. Our interviewees are now focused on solving the tactical challenges of RPA adoption, such as developing and maintaining a positive business case, defining provider responsibilities, and assigning data ownership. This contrasts with our 2018 survey, when organizational resistance, process fragmentation, and regulatory constraints were the biggest roadblocks to the adoption of RPA.

Again, reducing costs is a key driver. The primary motivation seems to have shifted with most 2020 interviewees (two-thirds) citing cost savings as the major driver for RPA adoption (while our 2019 Shared Services Survey showed that results had been modest), whereas two years ago it was never "top of mind."

**Savings achieved through RPA**




Source: Deloitte Shared Services Survey 2019

## Overcoming implementation challenges and building smarter bots

Creating capacity by scaling RPA is an opportunity to invest in more fulfilling jobs, more flexible work arrangements, and enhancing employee experience. Organizations struggling to develop a positive business case should expect an initial increase in operating costs with benefits growing slowly as the digital workforce matures.

Outsourcing providers can add value to organizations looking to adopt RPA; strategic discussions with providers, establishing joint ownership, and putting in place appropriate incentive mechanisms are crucial steps.

Businesses that have successfully implemented simple task-based automation can adopt more advanced solutions like AI; many organizations are already making steady progress in the application of intelligent automation.

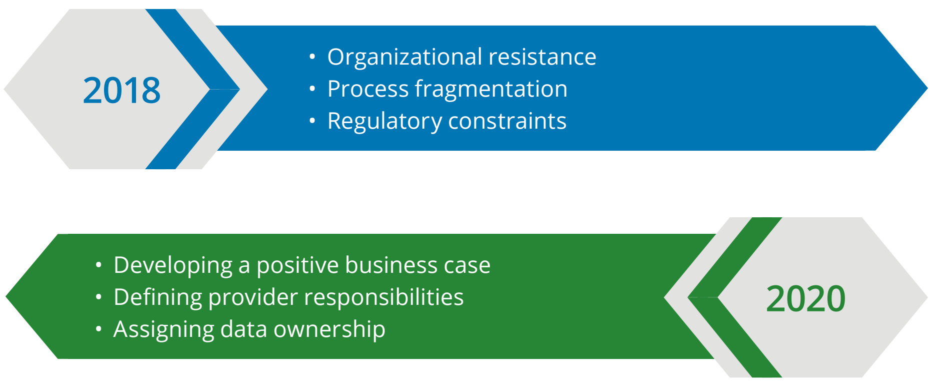
## The road ahead for RPA

According to the 2020 survey interviewees, the biggest barrier to RPA adoption is the inability to capture immediate value. Some clients find it difficult to justify the investment as they don't see a positive business case in the short-term. However, while the current pandemic crisis makes technology adoption an even bigger challenge for many organizations, it offers aggressive organizations with liquidity an opportunity to implement automation programs that transform their operating models and outpace competitors lacking the means, or the foresight, to adjust. Investments today are likely to produce large scale benefits in the long-term.

RPA adoption is not just about cost reduction. It can also free up the workforce to focus on more strategic issues. Doing so can lead to greater employee and customer satisfaction, with subsequent improvements in enterprise value.

As the popularity of RPA matures for logical rule-based processes, the use of advanced technologies like Artificial Intelligence (AI) is also becoming widespread. According to Deloitte's, "Automation with Intelligence" survey (2019), 58 percent of respondents had already started implementing AI. There was higher acceptance and increasing adoption of AI in companies that were using RPA. As maturity increases, this trend is unstoppable as more and more organizations experience these benefits.

**Top challenges in RPA adoption**




"RPA and AI are helping us become smarter, they are our key focus for 2020."

**Head of IT Applications Management, International engineering and services company**

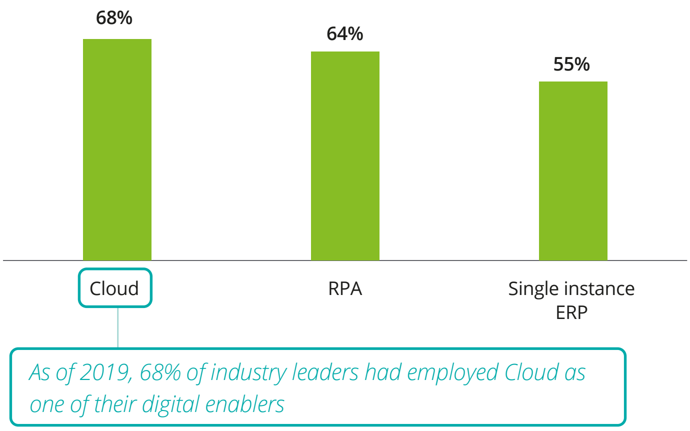
# Cloud

### Still number one

Almost every organization interviewed claims to be "cloud first," but many are still struggling to implement the changes to their operating model that are required to reap the benefits. Around 90 percent of this year's client participants saw cloud as one of their primary enablers in their outsourcing journey—a similar statistic to 2018 and supported by findings from our 2019 shared services survey. Yet, a surprising number of respondents cite "lack of maturity" either in terms of solutions or operating models as being major barriers to realizing the full benefits, particularly around increasing scalability, improving speed to market, and reducing costs.

The COVID-19 crisis will accelerate cloud adoption further as traffic is pushed off corporate networks and into the internet (with telco providers and network architects racing to meet the challenge), and organizations are eager to shrink their real estate portfolios management overheads by relinquishing their data centers.

**Top 3 digital enablers**




Source: Deloitte Shared Services Survey 2019

"Cost savings, transparency, faster provisioning and deployments—overall it has been a positive cloud journey for us."

**Head of IT Applications Management, International engineering and services company, EMEA**

### Managing risks is a top priority

Data security is still the most cited concern relating to cloud services. Worries on compliance and regulation risk have displaced those relating to performance over the past two years.

None of our interviewees in 2020 mentioned concerns about performance, whereas almost 50 percent of the respondents raised this issue in 2018. The efforts of both public and private cloud providers appear to have strengthened cloud resilience, even if there is still the occasional headline-grabbing outage.

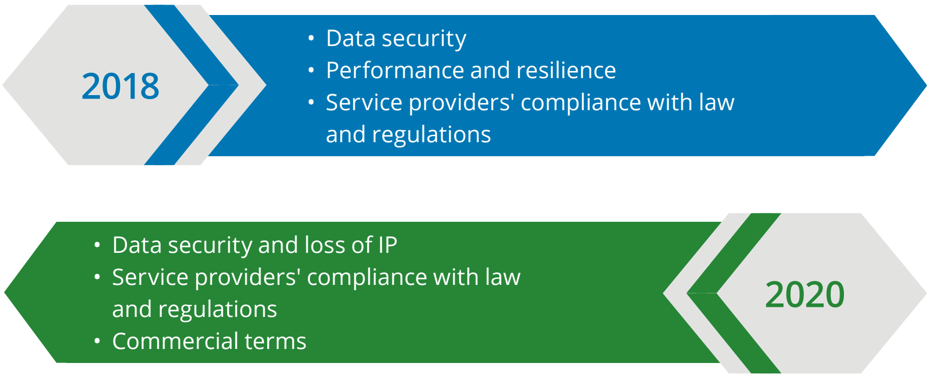
Commercial concerns are predominating over technical and operational issues. Terminating without significant penalties remains a highly relevant issue, but more clients are concerned about maintaining competitive tension and "avoiding lock-in to a single supplier." Is it agile to go all in with a single cloud provider, or does agility also mean managing a broad portfolio of cloud options?

The mechanisms for risk mitigation between client and cloud service provider need to be stronger. Roughly four in ten of our interviewees articulated this need to ensure they can enjoy the benefits of the cloud with peace of mind. Providers are getting this message: almost all interviewed suppliers indicated that improving cloud data security was their biggest ongoing focus.

"Microservices are the new disruptive solutions. Though core processes are some time away from being disrupted, the standard business processes are seeing its adoption."

**Vice President, IT outsourcing service provider**

**Primary concerns with cloud contracting services**




Microservices are an architectural pattern that structures an application as a collection of loosely coupled services that implement business capabilities. The microservice architecture enables the continuous delivery and deployment of large, complex applications. This helps improve organizations' speed to market.

## Newer cloud solutions will emerge in the future

The demand for cloud-based outsourcing is going to increase. Most interviewees in this year's survey plan to increase their use of the cloud and other disruptive technologies, to simplify their operating environment and improve decision making with "actionable data." Therefore, as organizations embrace flexible consumption through both hybrid and multi-cloud environments, and become increasingly cloud-savvy, the demand for business transformation capabilities can be expected to increase.

The use of traditional outsourcing solutions will decline, driven by cloud service providers offering microservices. These services can be switched on and off to meet demand, and while traditional outsourcing contracts also provide some flexibility (when properly crafted), microservices are far more flexible. Microservices was mentioned by about ten percent of clients and service providers as "one for the future." As the ability to utilize cloud solutions improves, microservices will play an "increasingly larger role in the landscape," providing end-to-end solutions tailored to a customer transformation journey, rather than bolt-on capabilities that are applied to legacy solutions.

# Commercials and contracts

**Contracting in an age of disruption**
Outcome-based contracting is still a distant prospect for most clients. Most of our survey participants still utilize traditional models linked to outputs or more simplistic models like FTEs. This is despite a huge buzz in recent years towards linking charges to clients' specific business outcomes.

It seems surprising that buyers have not yet abandoned a model that does so much more for their providers than it does for themselves. "Implementation complexity" was cited as one of the main issues by interviewees for inaction, as moving away from simplified pricing models requires a more complex and robust governance structure. However, the resulting performance improvements and cost reductions should be sufficient to justify the investment. Supporting management toolsets have increased capability which will also facilitate the transition to more sophisticated models, without the need for unrealistic investment.

Modifying the pricing mechanism is a strong lever for increasing value; however, it is not the only available option, and there is no "one size fits all" strategy. Our survey interviewees have built up to 30 percent year-over-year productivity into their provider rate cards. This is a robust mechanism to drive down costs and is widely adopted across industries. It also gives providers the flexibility to choose from a plethora of options such as automation, offshoring, and driving process improvements to achieve the committed cost savings, making it a win-win for both parties.

**Trust? Only so much…**
Only a handful of client interviewees stated their service providers had attained the outsourcing ideal of strategic partner. This is a staggeringly low number considering that strategic partnership has been a term of choice for many. So, what has gone wrong?

To have a partner you have to be a partner. Much of the problem has come from an inability to trust the other party—or more specifically, for both sides to agree on what is a beneficial level of trust. Clients still demand robust and detailed protections in their contracts, which focus on managing risk and cost. We believe that this focus will only increase due to the repercussions of the COVID-19 pandemic. Some service providers interviewed stated that these contracts are prohibitive and restrictive, preventing them from operating outside the box and driving innovation. Both sides do agree, however, that a true strategic partner is able to look at mutual benefits beyond cost.

Furthermore, clients' portfolios of service providers are becoming more complicated, and require management comparable to looking after a portfolio of stocks. Balancing risk and return across multiple dimensions requires greater investment in a robust supplier management function, as failing to invest in this critical area can drag down the value of outsourcing arrangements for everyone. Indeed, some service providers have characterized their client vendor management functions as "chaotic" and "purely cost-focused." Investment is often focused on operational management, whereas real benefit can be delivered by client teams comprehending the specific capabilities of an individual provider, combined with a detailed understanding of their own business, so that they can "marry" effectively, where appropriate. This doesn't mean that good procurement practice is jettisoned, and the healthy scrutiny of solutions is spared, but the cynicism about outsourcing-driven innovation must go. Establishing an enabling culture within supplier management is a good place to start.

"Often when our service providers bring innovation to us, our IT stakeholders find it difficult to shift and we are too slow at implementing."

**IT Sourcing Lead, EMEA**

"Clients don't need classic vendor management. They want vendor management that can understand technology, understand the start-up ecosystem, help find solutions for the business, and manage internal stakeholders."

**Senior Vice President, Large IT outsourcing service provider**

# Lessons learned

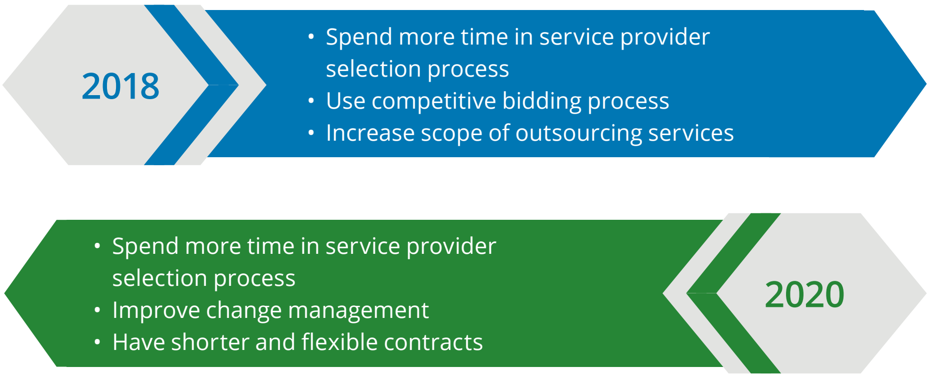
### Service provider selection process

In 2020, the top lesson learned is the need to spend more time on the RFP or service provider selection. As this has not changed since 2018, clearly we have to question whether people are really heeding the lessons from prior experiences!

It may help to put it in context. The industry is trying to address two competing needs: getting the details right and the need for speed. With new disruptive solutions in the market, the task of systematically selecting providers is increasingly complex, requiring long RFP processes with providers to craft customized solutions. But the need to get the details right runs counter to the need for speed, since one of the most important design principles in a rapidly changing business environment is to outpace competitors.

These two demands are in conflict. Ultimately, faster contracting mechanisms will emerge because the market will demand them. The industry will adopt and standardize solutions and contracts to speed up the process. However, no one advocates skimping on due diligence. In fact, both the service providers and lawyers we interviewed said that a shorter contracting process "creates unnecessary risk" by curtailing due diligence, which leads to downstream issues later on.

**Top lessons learned in outsourcing**




### Change management

Newly announced outsourcing journeys don't tend to win many hearts and minds. So it is perhaps no surprise that many interviewees in 2020 suggested that they would like to spend more time and effort during the outsourcing process on change management. Change is inherently unsettling, and keeping employees honestly informed from the beginning helps smooth the transition, saving the company time, resources, and reputation, especially as employees may still have a negative perception of outsourcing. To make changes with minimal disruption to the business and its people, interviewees plan to focus more of their efforts on communication and getting people ready for the change.

### Shorter contracts, more flexibility

Everyone wants more flexible and shorter contracts. Almost half of the lawyers we interviewed indicated that one of the most significant learnings for the future was to push for shorter and more flexible contracts—a theme that had wide support across both client and service provider interviewees. As organizations embrace agility and disruption, outsourcing contracts must facilitate these philosophies and be structured to recognize the increased commoditization of the services provided.

# “We should have spent more time in getting people (our employees) ready for the change.”

**CIO, Large US manufacturing company**

# Preparing for the post-pandemic world

We cannot ignore the impact of one of the most significant global events in decades, so in this final section we have drawn out a few specific observations about the COVID-19 pandemic.

Businesses are already grappling with the concept of a "new normal"—a term that, although overused, is an apt description of the way that businesses and employees will change their ways of working. The agility with which organizations respond and adapt to the new normal will determine who will fall behind and who will thrive in the post-pandemic world.

Outsourcing decisions will play a significantly more strategic role in short-term resilience and long-term growth. However, the outsourcing industry itself is not unaffected by the pandemic, and providers are also having to adapt quickly to new ways of working. The impact has been greater on business process outsourcing (BPO) than on information technology outsourcing (ITO). This is largely due to the regulatory limitations on the extent of virtual workforces, rendering BPO firms under-prepared. Indeed, we have heard success stories from both clients and service providers about how they have helped each other address the immediate issues of lockdown, such as mobilizing their own individual supply chains to obtain laptops for each other.

From our interviews and own insights, we anticipate the following three changes will take shape across the outsourcing industry.

### Building resilience

Business Continuity (BC) has become a critical issue, and few contracts will contain adequate provisions for another global lock-down.

While current business continuity plans in outsourcing contracts provide mitigation for regional disaster scenarios, few (if any) plans would have factored a scenario in which the whole world comes to a standstill. COVID-19 was a black swan event that took BC planners by surprise, highlighted gaps in the level of preparedness, and tested the limits of imagination for everyone. BC planning is now evolving rapidly to cover future global pandemic scenarios and will include testing of service providers' ability to deliver from home offices and maintain their own supply chains, while delivering desired data security and work productivity.

### Accelerating cloud adoption

The cloud model has never looked so attractive. It is tailored well to the circumstances that organizations find themselves in today. For industries like travel and hospitality, demand is at an all-time low while the customer base of many streaming service providers is hitting all-time highs. Organizations that have migrated their functions and processes to the cloud will be in a better position to scale their technology resources with the changing demand, not only to pay what they need, but also to provide technology resources required to meet that demand. They will also be in a better position to return quickly to "normal" and adjust their technology footprint once the pandemic has subsided. Increasingly, organizations are experiencing, first-hand, the flexibility that the cloud offers, and are likely to accelerate their journey to more cloud enablement.

### Increase in outsourcing

COVID-19 has banished the idea that physical co-location of resources is necessary to develop a trusting relationship in the workplace. This was a (sometimes misguided) "major inhibitor" in many outsourcing transactions. Providers' offshore and nearshore resources have always been considered "outsiders." But as the crisis imposes a remote working model on these firms, the nature of workplace relationships as we know them today is changing drastically. Organizations are becoming increasingly comfortable with hiring through virtual interview meetings, signing new contracts without a formal handshake, replacing onsite workshops with online sessions, and celebrating project successes over a virtual cocktail party or apéro. A remote work culture is being ingrained gradually within companies, and this will help them access global talent from the most cost-effective locations. It would also allow companies to hedge their risks by diversifying their delivery locations. Also, with the global economy expected to contract, firms are "looking at ways to preserve cash." All these developments suggest that the needle will be tilting more towards outsourcing.

Outsourcing remains an essential tool for client organizations to support their strategic goals. Requirements constantly evolve (even more so due to the COVID-19 pandemic) and the industry continues to support with both established and new solutions. As always, benefitting relies on a client's preparedness to invest being met by the service provider's willingness to embrace flexibility.

# Let's talk

Today's disruptive outsourcing environment is filled with opportunities to enhance innovation and market competitiveness for forward-thinking organizations. If you would like to learn more about ways these solutions could help your own organization, or to gain deeper insights into how other organizations are using them already, please contact us. We would be glad to provide you a full briefing.

## Authors

**Michael Stoler**
mistoler@deloitte.com

**Miles Underwood**
mileunderwood@deloitte.ch

## Contacts

### Americas

**Michael Stoler**
**US ITO Advisory Leader**
Deloitte Consulting LLP
New York
+1 212 618 4634
mistoler@deloitte.com

**Simon Tarsh**
**US BPO Advisory Leader**
Deloitte Consulting LLP
New York
+1 305 372 3254
starsh@deloitte.com

**Kort Syverson**
**US GBS Leader**
Deloitte Consulting LLP
San Diego
+1 619 237 6590
ksyverson@deloitte.com

**Caroline Thiemi Yokomizo**
Deloitte Touche Tohmatsu
Sao Paulo
+55 11 5186 6431
cyokomizo@deloitte.com

**Mark Lade**
Deloitte Consulting
Canada
+1 416 867 8364
mlade@deloitte.ca

### EMEA

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

**Dorthe Keilberg**
Deloitte Consulting BV
Amsterdam
+31 882 883 944
dorkeilberg@deloitte.nl

**Thomas Andersen**
Deloitte Consulting
Copenhagen
+45 2220 2752
thoandersen@deloitte.dk

**Sean Pepper**
Deloitte MCS Limited
London
+44 20 7303 3957
sapepper@deloitte.co.uk

### APAC

**Yasushi Nobukuni**
Deloitte Tohmatsu Consulting
Co., Ltd. Tokyo
+81 80 3367 2790
ynobukuni@tohmatsu.co.jp

**Norman Hunter**
Deloitte Consulting Pte Ltd
South East Asia
+65 6232 7146
normanhunter@deloitte.com

**Viral Thakker**
Deloitte Touche Tohmatsu LLP
Mumbai
+91 22 6122 8530
vthakker@deloitte.com

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

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