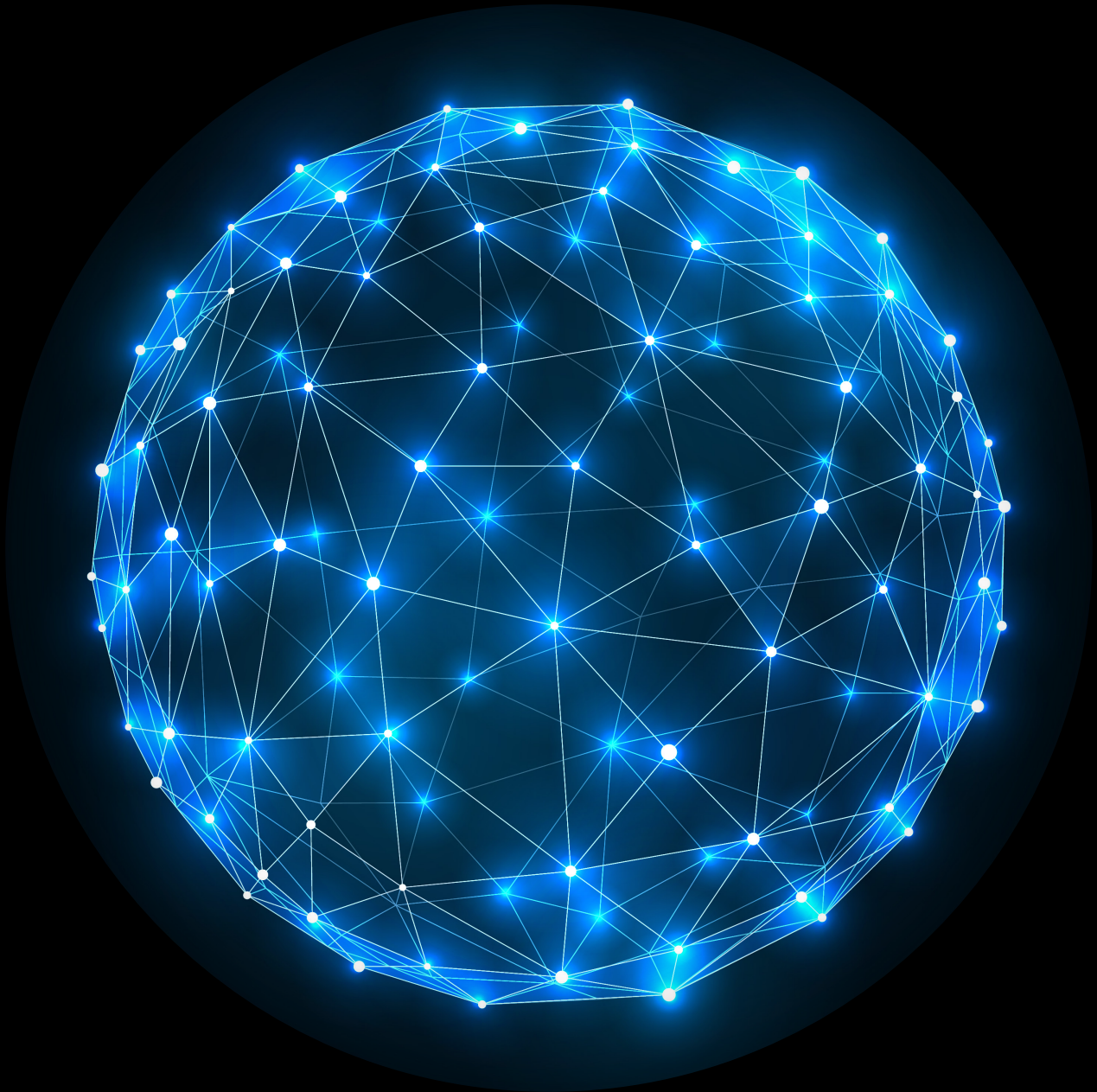


Deloitte.



**Traditional outsourcing is dead.
Long live disruptive outsourcing**

The Deloitte Global Outsourcing Survey 2018

Traditional outsourcing is dead. Long live disruptive outsourcing.

Disruptive outsourcing leaps to the front. Our 2018 survey of more than 500 executives from leading organizations indicates that disruptive outsourcing solutions—led by cloud and automation—are fundamentally transforming traditional outsourcing.

In the past, organizations typically used outsourcing to improve back-office operations through cost reduction and performance improvement. Today, disruptive outsourcing solutions are enabling competitive advantage by accelerating changes within those organizations that have the audacity and skill to leap over the technology chasm; for them, outsourcing can pioneer a northwest passage to top line growth, as well as to a more agile, effective back office. The focus has shifted from traditional work transfer to upfront transformation and automation. Organizations are recognizing that disruptive solutions can revolutionize the way they do business, and that “buying” capabilities in the marketplace is generally faster and more scalable than developing capabilities internally. Emerging solutions incorporating cloud and automation are empowering organizations to work smarter, scale faster, reach new markets, increase productivity and, ultimately, to gain competitive advantage.

As with many initiatives, organizations are finding that delivering competitive advantage through disruptive outsourcing solutions is anything but simple; effort and expertise are needed to address security and cyber risks, changing regulations, organizational resistance, skill gaps, and to help flatten fragmented processes. In this new world, place your bets on the brave and the good, and against the fearful and complacent.

This report emerges from the insights we gathered from our survey participants, who generously shared the lessons they have learned from their outsourcing experiences, coupled with our own insights garnered over many years of experience working with our clients on both outsourcing and emerging technologies. We look forward to discussing your perspective on our report with you.

Sincerely,



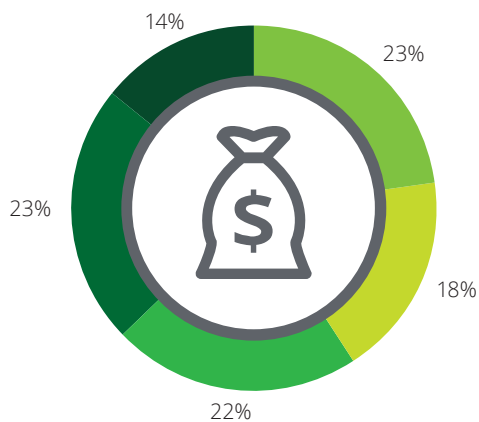
Doug Plotkin
Managing Director
Deloitte Consulting LLP

About the survey

We surveyed 521 leaders from organizations of all sizes, and with operational footprints in the Americas, Europe, and Asia. These executives represent more than 25 different sectors across six industries.

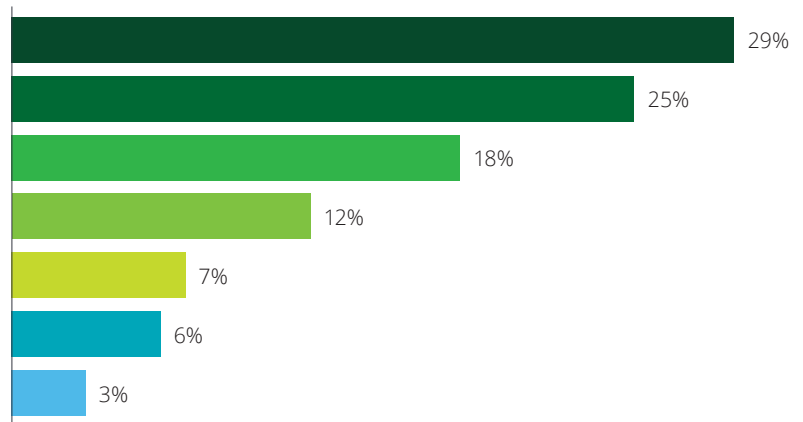
Survey respondents

Organizations' annual revenue (in USD)



- More than 25 billion
- 15-25 billion
- 5-15 billion
- 1-5 billion
- Less than 1 billion

Primary industry sector of the respondents' organization



- Technology, media & telecommunications
- Financial services
- Energy, resources & industrials
- Government & public services
- Consumer
- Life sciences & health care
- Others

Source: The Deloitte Global Outsourcing Survey 2018

Technologies driving disruptive outsourcing

Cloud computing is a model for enabling ubiquitous, convenient, on-demand access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction.¹

Robotic process automation (RPA) is software that performs repetitive rules-based tasks to improve efficiency, quality, and accuracy of process outcomes.

Cognitive automation adds additional capabilities to RPA, including learning, judgment, and "reading" of unstructured text (e.g., handwriting, text, photographs, etc.).

¹ Source: <https://www.nist.gov/news-events/news/2011/10/final-version-nist-cloud-computing-definition-published>

Executive summary: key findings

Disruptive outsourcing solutions are challenging traditional methods and driving competitive advantage

Outsourcing-led transformations can address both Business and IT challenges. The state of the art is advanced disruptive outsourcing solutions, incorporating emerging technologies to drive innovation, speed to market, enhanced user experience, and improved performance.

Disruptive outsourcing solutions have the potential to be as extraordinary a change in the sourcing world as was the Bloomberg terminal to the trading desk. Cost reduction is generally expected, though many organizations expect to invest some of those savings, increasing budgets within a particular function, to more broadly advance the business, particularly when doing so can eradicate costs elsewhere in the enterprise. Most survey respondents have accepted that they should change their outsourcing strategy. They are now thinking about how to change solutions, which partners can elevate them, how to construct an incentives regime that motivates them to continually innovate, and how to implement and manage this new outsourcing paradigm.

Three key trends emerged from this year's survey

Outsourcing is enabling competitive advantage. While cost optimization is still a critically important criterion for outsourcing, it is no longer at the top of the list (nor even in the top five), since disruptive outsourcing, when executed well, can deliver competitive advantage by transforming the way organizations operate, and making them more agile, efficient, and effective. The advantages are obvious to respondents: approximately 84 percent of them have either initiated discussions, conducted pilots, or have implemented at least some disruptive solutions.

Organizations are embracing disruptive solutions such as cloud and robotic process automation (RPA).

The vast majority of organizations—93 percent—are considering or adopting cloud solutions and 72 percent are considering or adopting RPA solutions. 70 percent of respondents believe their service providers have a reasonable or advanced ability to implement disruptive solutions.

There are real challenges with adopting disruptive solutions.

Data migration, security requirements, and application optimization/change are just a few examples of challenges related to cloud adoption. Organizational resistance, highly fragmented processes, and regulatory restraints are common challenges related to RPA adoption.

How outsourcing enhances M&A opportunities

While the primary focus of this study was to examine changes in the outsourcing landscape, we also wanted to better understand the degree to which outsourcing is used by organizations during M&A transactions. The survey results confirm a significant increase in organizations using outsourcing to enhance M&A efforts—from 45 percent in 2016 to 67 percent in 2018—a marked upsurge in just two short years. The top three benefits identified by respondents are to reduce the need for transition service agreements (34 percent), to accelerate integration of the new organization (33 percent), and to lower operating costs of the acquired entity (31 percent).

How do organizations encourage service providers to innovate?

The theme of our survey in 2016 was “Outsourcing as a channel to innovate in the marketplace.” In 2018, we wanted to understand how organizations have evolved in their approach to providing incentives to innovate, and we found a significant increase in organizations exploiting marketplace innovation to drive business value. Three levers that saw the greatest increase between 2018 and 2016 are:

- Moving additional services to providers as they innovate (49 percent vs. 20 percent),
- Making innovation a key component of the contract (43 percent vs. 21 percent), and
- Increasing provider compensation as they innovate (37 percent vs. 16 percent)

Clearly, organizations are proactively driving innovation.



Disruptive solutions transforming outsourcing

Cloud goes mainstream

Cloud creates capability, but cost counts.

Cloud is rapidly disrupting the outsourcing landscape. It is enabling competitive advantage by providing access to innovative technologies at the touch of a button, while avoiding many traditional roadblocks, including extensive upfront planning, capital expenditure, lengthy implementation times, and long-term contracts. This is helping organizations be more agile, rapidly expand their offerings, enter new markets, and transform their internal operations.

Our survey shows that cloud is now an integral part of many organizations business and technology strategies. Nearly all (93 percent) of our survey respondents report that their organizations are considering, or have already adopted, cloud services. Their primary reasons for adopting cloud are: catalyst for IT innovation (64 percent), improve

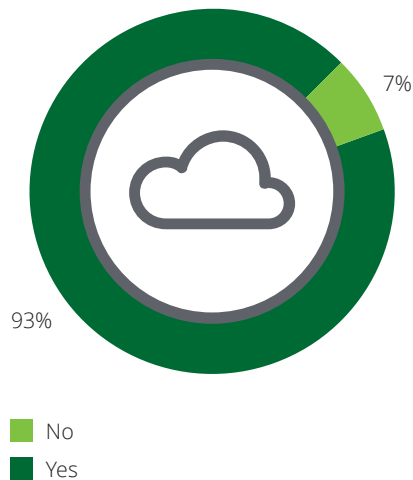
time to market (63 percent), improve performance (56 percent), and rapid scalability (54 percent).

While most respondents expect some reduction in annual operating costs by moving to cloud, only two thirds are motivated to switch to cloud solely to cut cost. In fact, one third are willing to accept a cost increase if doing so will gain them innovative capabilities and improved performance.

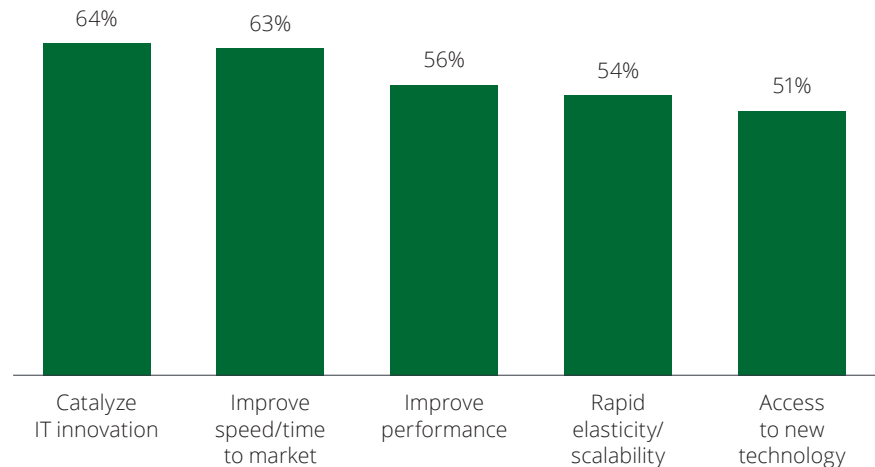
Cloud initiatives are frequently driven by the CIO/CTO, but they are equally driven by the rest of the C-suite, suggesting that senior executives see cloud as a means to improve business performance and not simply as an alternative to current business processes, ERP packages, and in-house data centers. This presents an opportunity for cloud partners to expand their offerings and their conversations beyond the technology stack to build end-to-end products or services.

Survey respondents

Percentage of organizations considering or adopting cloud



Objectives for adopting cloud

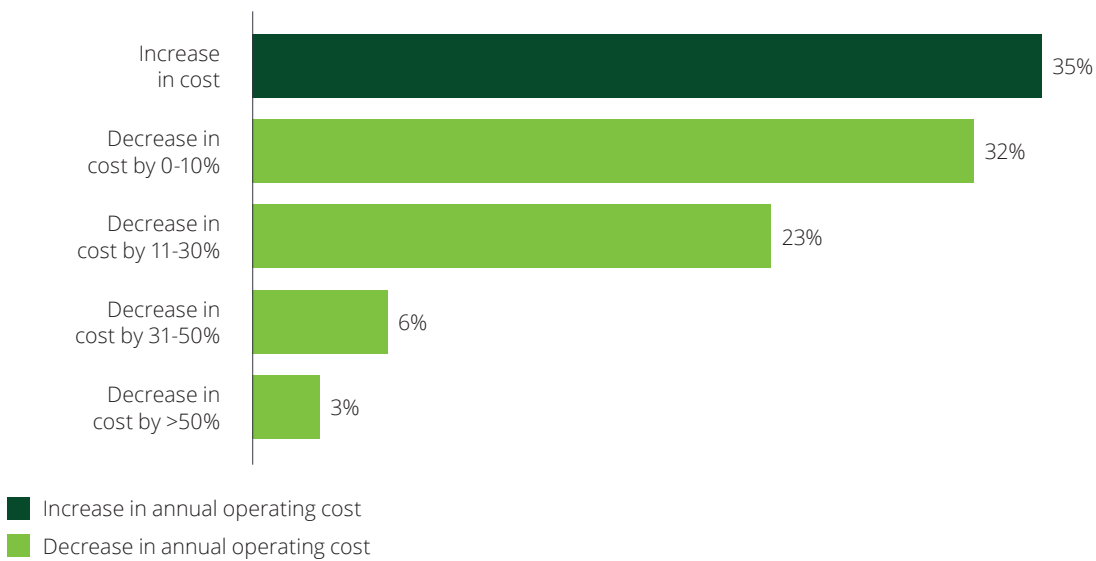


Source: Top five responses, Deloitte Global Outsourcing Survey 2018.

When selecting a cloud service provider and designing solutions, executives' primary contractual concern is data security (68 percent), followed by performance/resilience (45 percent), and providers' compliance with laws and regulations (39 percent). Data security and compliance issues can make organizations wary of

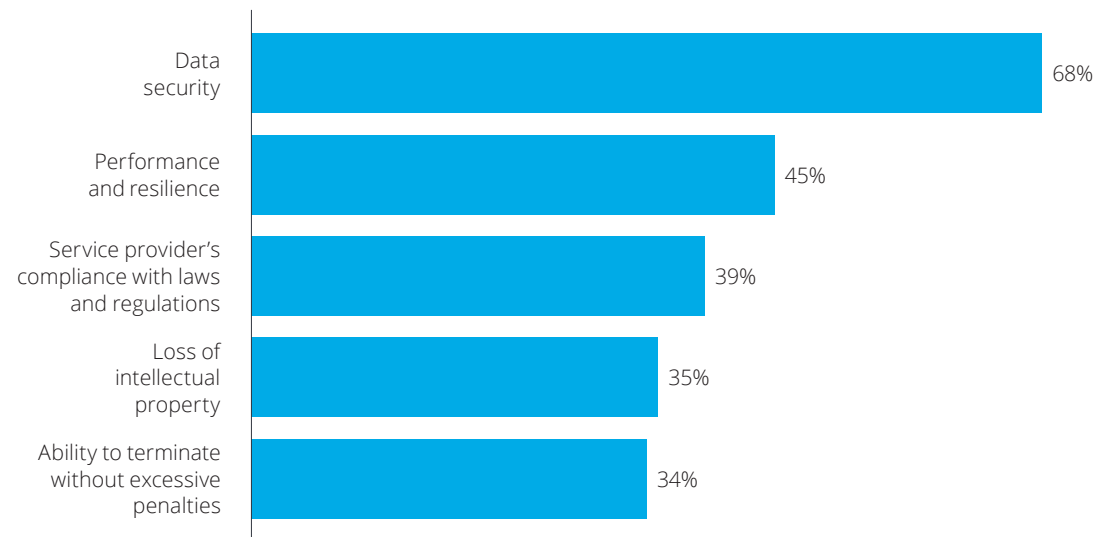
adopting public cloud solutions, but this can cause them to miss out on its many benefits. A well considered cloud strategy must strike the right balance between achieving cloud's benefits and maintaining the appropriate levels of security.

Organizations' expectations of annual operational cost by moving to cloud

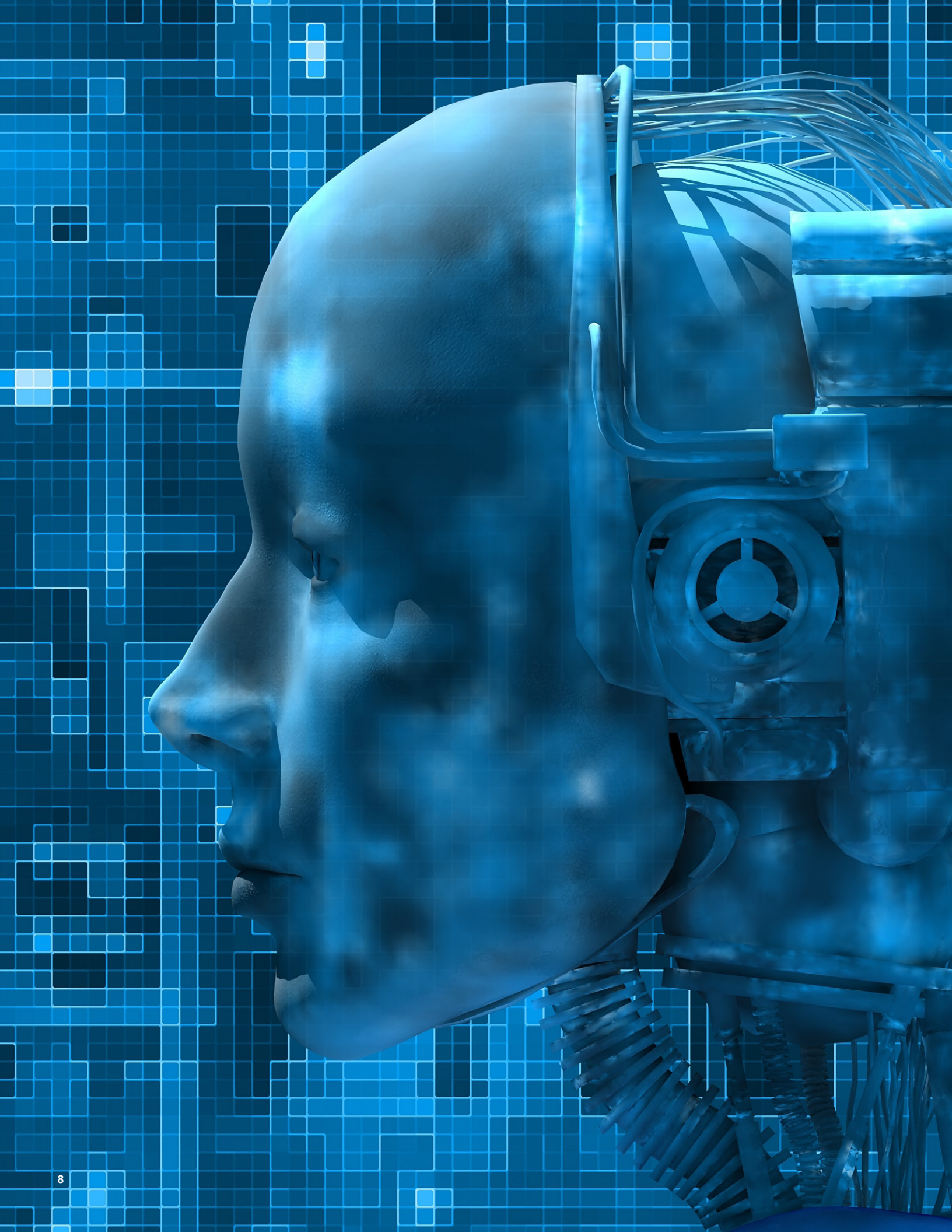


Source: The Deloitte Global Outsourcing Survey 2018.

Top five concerns with cloud services contracting



Source: The Deloitte Global Outsourcing Survey 2018.



Robotic process automation takes hold

All functions are onboard with RPA—and they are generally satisfied.

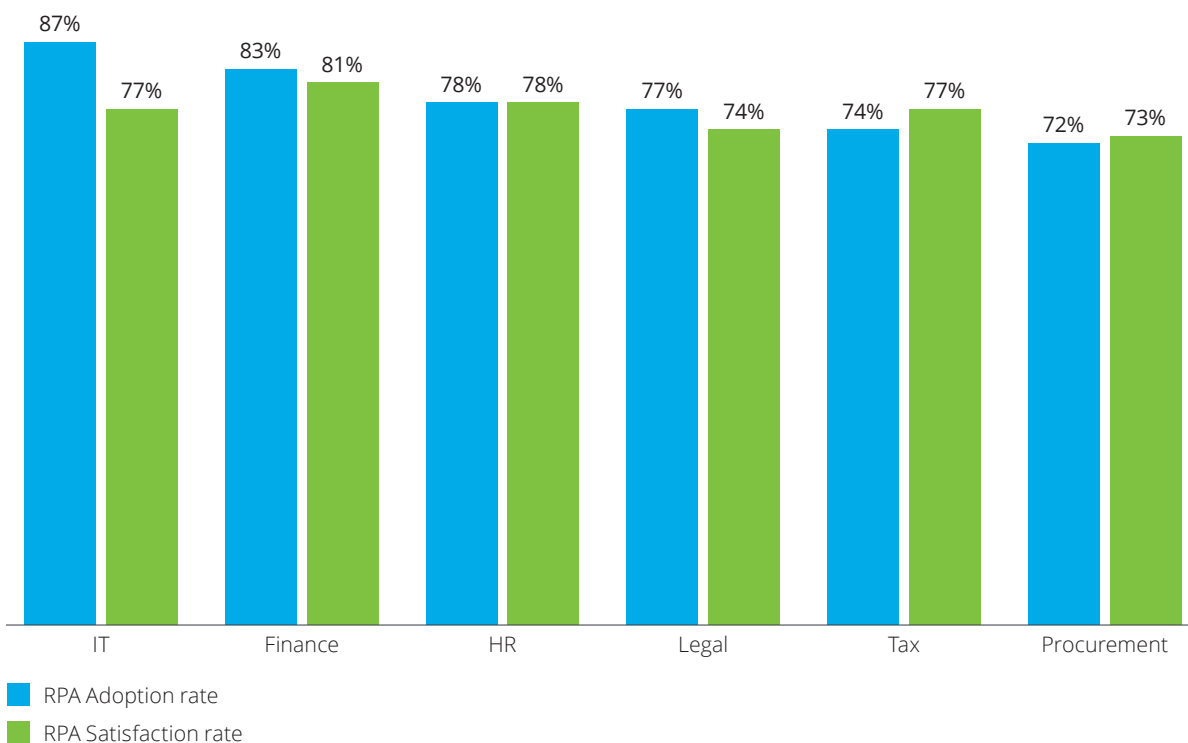
Digital labor is increasingly replacing repetitive, rules-driven tasks through automation, enabling faster, more efficient, and more accurate work at reduced costs, and fundamentally disrupting the old mantra of driving change through incremental improvements and labor arbitrage.

The starting point for most organizations is robotic process automation. However, some organizations are further enhancing their robotic processes with cognitive capabilities to enable processing and analysis of unstructured data, including text, voice, and even handwriting. For example, organizations are using human resources bots to respond to candidate applications, answer their queries, provide real-time status and support them throughout the hiring process. Organizations are also using bots to improve invoice processing operations.

Our survey shows that RPA is gaining widespread acceptance across industries and functional areas: most organizations (72 percent) are considering or adopting RPA. Of these, IT and finance are the largest users (87 and 83 percent), followed closely by other functional areas like HR and legal. All functions reported reasonably high levels of satisfaction for RPA, an indication of how rapidly this technology has matured, and an explanation for how deeply it has been adopted.

The outlier firms—who have yet to implement RPA solutions within their back office—are at considerable risk of falling behind their peers. Those at the forefront have an opportunity to expand their competitive advantage, particularly in the low unemployment environment where carbon-based employees are increasingly difficult to source.

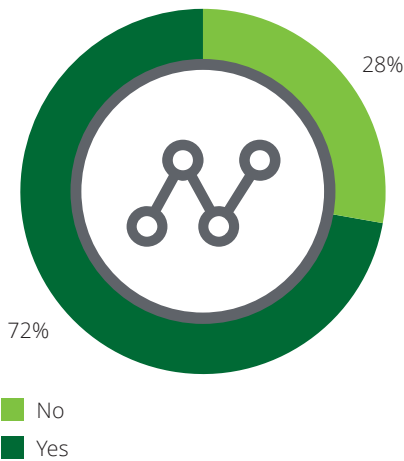
RPA satisfaction and adoption rate by function



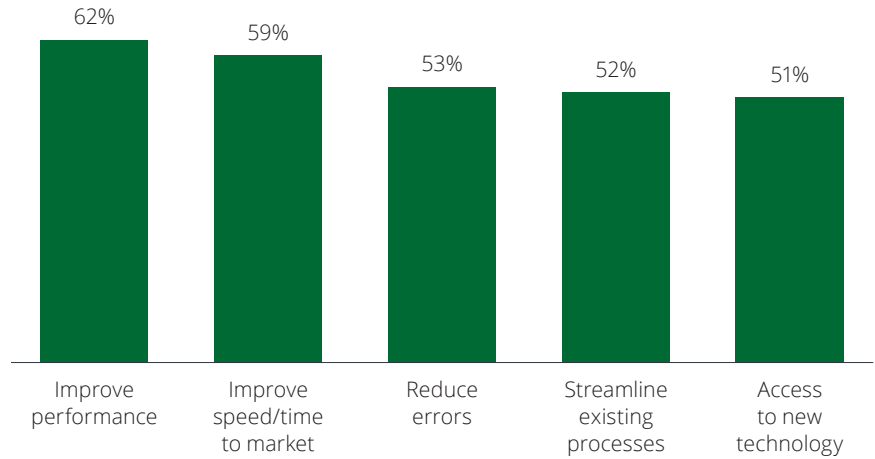
Source: The Deloitte Global Outsourcing Survey 2018

While reducing costs was also important (cited by 44 percent of respondents), it was not a primary driver for RPA adoption. The top five reasons organizations are adopting RPA are provided in the chart below:

Percentage of organizations considering or adopting RPA



Objectives for adopting RPA

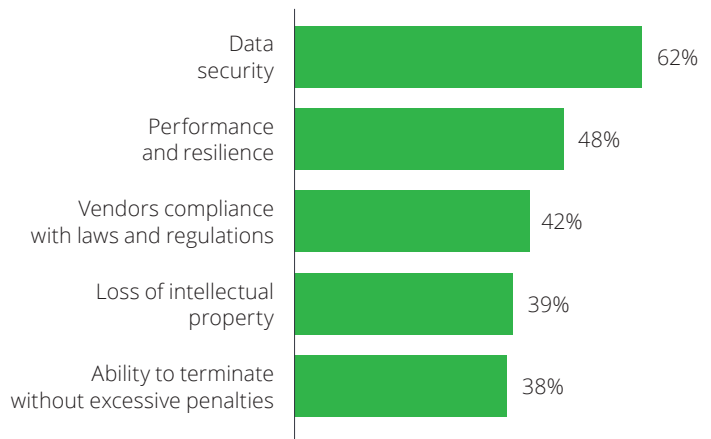


Source: Deloitte 2018 Global outsourcing survey. Only top 5 options chosen.

When selecting a RPA service provider and designing solutions, executives' primary contractual concern is data security (62 percent), followed by performance/resilience (48 percent), and the providers' compliance with laws and regulations (42 percent). Approximately half of them see organizational resistance, process fragmentation, and regulatory constraints as their biggest implementation challenges.

As RPA is increasingly accepted in the public consciousness, organizations will use it more frequently to help achieve their objectives. Adoption levels will increase as it becomes clearer that, while RPA can disrupt a great many roles, it also has the ability to enhance and expand even more. Some of the existing barriers that respondents cited, such as technology limitations and management awareness, will be overcome in time. Those who have adopted RPA will almost certainly continue to evolve to maintain their lead over competitors. Of respondents using RPA, approximately one-third are also implementing cognitive automation, while another 59 percent plan to do so within the next 18 months. So, while the automation journey is nascent, it is maturing rapidly, and its capabilities will only amplify. This is a transformative technology.

Top five areas of concern regarding RPA contracting



Source: The Deloitte Global Outsourcing Survey 2018. Only top five options chosen.

Cyber risk while making outsourcing decisions

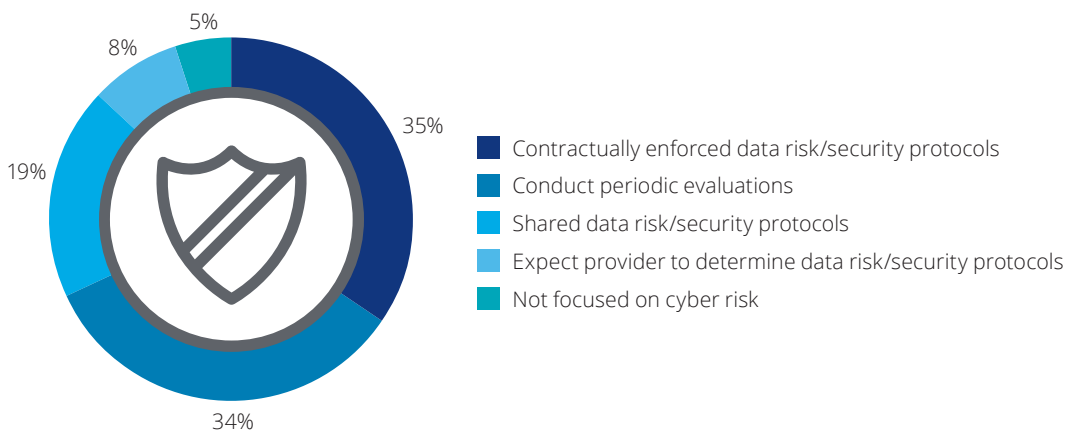
Effectively managing cyber risk while adopting disruptive outsourcing solutions

In 2016, we observed that approximately two-thirds of respondents were either modifying processes or had processes in place to address cyber risks.

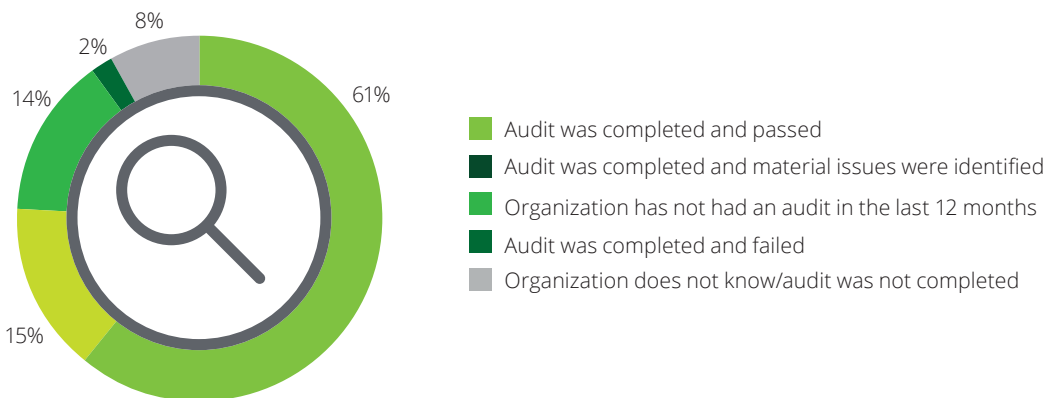
The 2018 survey tracks, and builds on, our earlier observation. Nearly all respondents (95 percent) have cyber risk measures in place. About one-third (35 percent) of organizations contractually enforce data

risk and security protocols with their providers and conduct period evaluations/audits. Clearly, organizations recognize the importance of proactive monitoring of cyber risk, and increasingly they are being proactive in its management. In 2018, 78 percent of organizations reported that their outsourcing engagements were audited within the past 12 months; this is in line with 77 percent reported in 2016. More audits were completed and passed (61 percent in 2018 vs. 53 percent in 2016), and fewer material issues were identified (15 percent in 2018 vs. 22 percent in 2016).

How organizations are addressing cyber risks when making decisions to outsource



Status of organizations with outsourcing initiatives that have been reviewed by internal or third party auditors in the last 12 months



Source: The Deloitte Global Outsourcing Survey 2018.



More organizations are conducting and passing audits with fewer material issues



76% of respondents indicated that regulations around data privacy and protection are affecting their disruptive outsourcing decisions



62% of respondents adopting RPA, and 68% of respondents adopting cloud indicated data security as an area of concern during contracting

Lessons learned

What organizations plan to do differently in the future

We asked respondents what they would do differently when launching their next outsourcing initiative based on their past experiences.

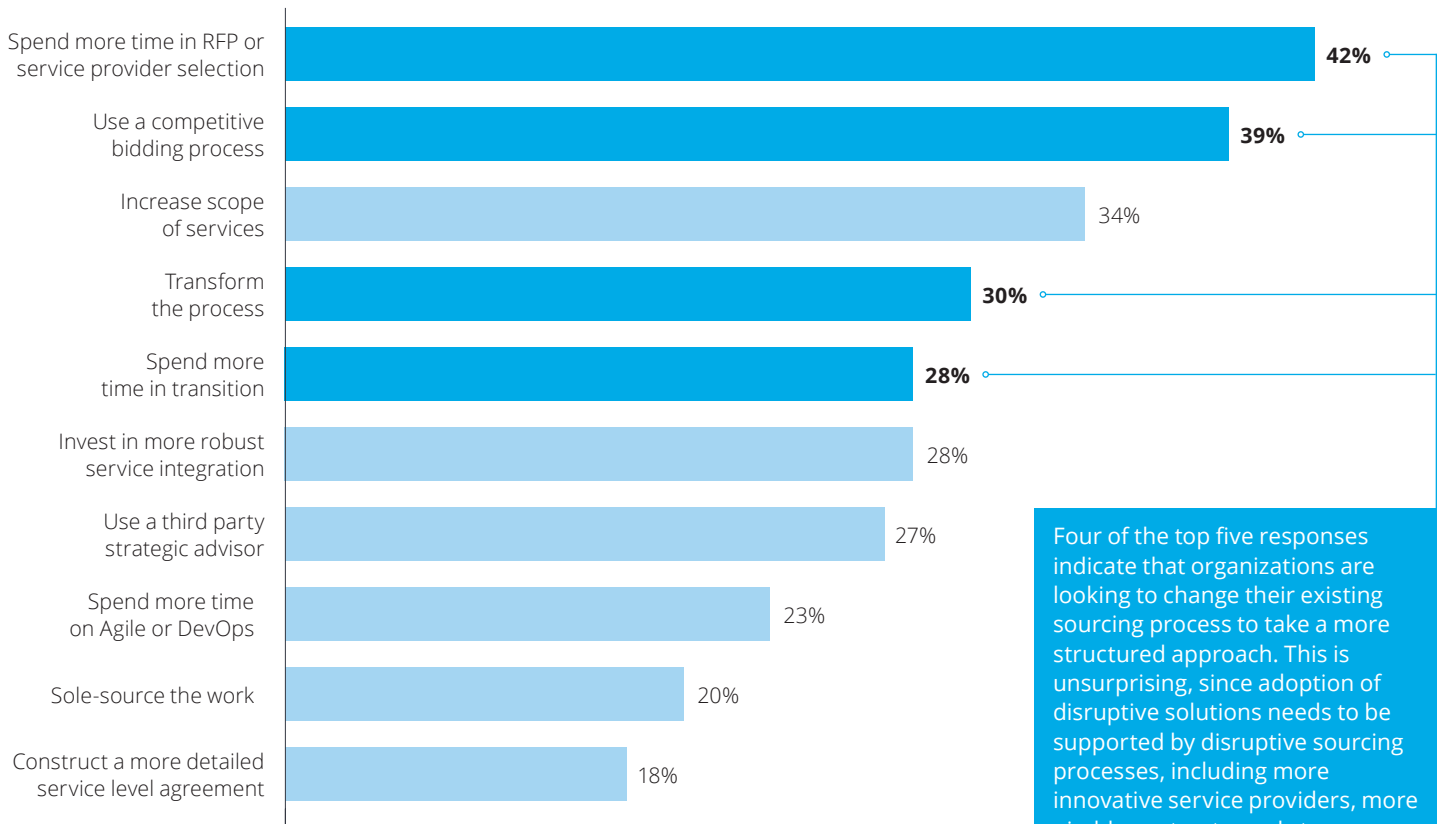
• **Service provider selection.** The top responses were related to the selection process: spend more time in RFP or service provider selection (42 percent), and use a competitive bidding process (39 percent). This may be due to the increasing maturity of both the procurement and vendor management functions within organizations. Many clients use a sole source approach to service provider selection, likely with the expectation that it is faster to execute the process with a single service provider; however, they will likely pay the price through higher fees, lower service levels, and less favorable terms. And, counterintuitively, it

will usually take longer, since a competitive process creates more sense of urgency than a sole source approach does (though, of course, a poor deal can always be done quite quickly).

• **Strategic planning approach.** Other popular answers involved taking a more strategic approach to planning a new outsourcing initiative: increase the scope of service (34 percent); transform the process rather than simply lifting and shifting (30 percent); invest in more robust service integration and transition (28 percent); and use a third-party advisor (27 percent).

This suggests that organizations come to recognize the value that transformation, improved processes, experienced counsel, and transition play on the success of their outsourcing programs, though often too late.

Key learnings from past outsourcing experiences



Four of the top five responses indicate that organizations are looking to change their existing sourcing process to take a more structured approach. This is unsurprising, since adoption of disruptive solutions needs to be supported by disruptive sourcing processes, including more innovative service providers, more nimble contracts, and stronger, more advanced governance.

Source: Deloitte 2018 Global outsourcing survey.



Our take

Disruptive outsourcing is enabling organizations to reimagine and transform their business.

Disruptive outsourcing solutions are challenging traditional outsourcing and driving competitive advantage. More than half of the organizations surveyed are adopting, or are considering adopting, disruptive solutions to drive performance, improve speed to market, and increase innovation. The focus has shifted: yesterday, outsourcing was about cutting costs and improving service in the back office. Today, disruptive outsourcing is about collaborating with partners in the marketplace to integrate services an organization cannot quickly build on its own to innovate, transform, propel its growth, and unnerve its competitors.

With disruptive outsourcing, the only limit is imagination.

To move forward effectively, organizations must be thoughtful and proactive in every step of the outsourcing journey, whether choosing service providers, negotiating flexible contracts, implementing a strong governance program, managing cyber security, addressing regulatory issues, or implementing robust service integration.

Now is the right time to capitalize and to get ahead of the competition.

History has shown that it is difficult to catch up if you ignore or delay acting on such disruptions. Those who see this as an opportunity to execute real change, even when it may cost more in the short-term, will be far better positioned to gain competitive advantage in the long run. For those who don't, they risk getting left behind their more nimble competitors.



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.

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