



Summary of Findings



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For the past several years, the International Association of Outsourcing Professionals® (IAOP®), in collaboration with Accenture, has surveyed its members to monitor the evolution of outsourcing and identify developments. The datasets we now have, including longitudinal data over several years, are enabling us to track key trends as outsourcing continues along a clear growth path.

In this year's report—"Outsourcing 2013: Summary of Findings from IAOP's State of the Industry Survey—we have especially focused on matters such as the changing value proposition of outsourcing, the importance of innovation, the role that cloud computing is truly playing, and the extent to which professional certification is growing as a means of improving results and credibility of outsourcing providers.

More specifically, questions we have sought to answer include:

- Is outsourcing providing more strategic kinds of value to customers, in addition to cost savings?
- How important is innovation to outsourcing customers and providers, and how can innovation be incentivized?
- To what extent is cloud computing altering the means of providing outsourcing services?
- Do customers continue to worry about security issues?
- Is the political climate about outsourcing, including anti-outsourcing legislation, affecting customers' outsourcing decisions?
- What is the level of commitment to corporate social responsibility among outsourcing customers and providers?
- Is outsourcing being increasingly seen as a true profession, and are organizations taking advantage of professional certification programs?

About the research

The data used for this report is based on surveys of IAOP's more than 120,000 members and affiliates worldwide in 2012 and 2013. Additionally, a live audience voting system was used at The 2013 Outsourcing World Summit in February 2013 to derive additional insights from outsourcing customers, providers and advisors. In total, about 800 surveys were collected for this report.

The primary industries represented by the customer data are primarily financial services, technology and telecommunications. Customer respondents were from most areas of the world, with the majority coming from North America and Western Europe. More than half work for companies with annual revenues greater than \$5 billion.

The providers surveyed came primarily from North America, Asia Pacific and Europe and some from Latin America. About one-fourth of providers have annual revenues above \$1 billion. About 60 percent have annual revenues under \$100 million.

Part 1: The changing value of outsourcing

Outsourcing is in growth mode and both customers and providers are now more experienced and savvy.

A finding of our study that underlies many of the others is that survey participants clearly believe outsourcing is in growth mode. For example, among the delegates to The 2013 Outsourcing World Summit, 94 percent agreed that outsourcing is “totally” or “somewhat” in a growth mode, with 53 percent agreeing with “totally.”

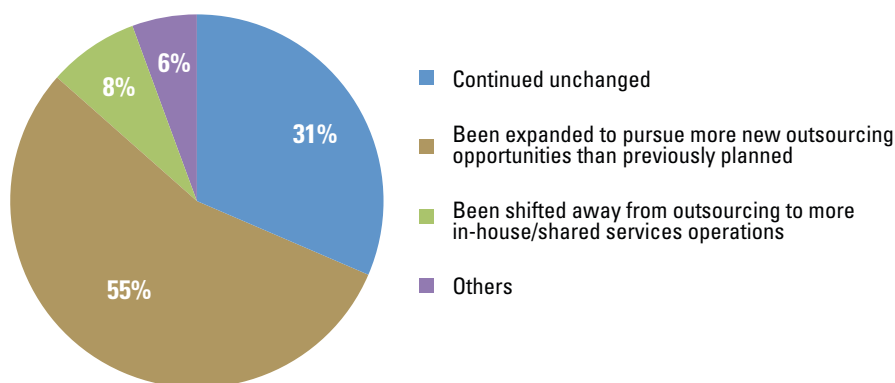
Most companies are expanding their plans for new outsourcing opportunities—55 percent in the 2013 study compared with 51 percent in 2012. Few are cutting back; only 3 percent say they are reducing their outsourcing plans, compared with 14 percent in 2012 and 12 percent in 2011.

Customers and providers alike are now much more experienced, as well. In the 2013 survey, 59 percent of customers report that they have been outsourcing more than 7 years compared with 42 percent in 2011. Among providers, 73 percent have now been providing outsourcing services more than 7 years, compared with 66 percent in 2011.

Over the past 12 months, almost all customers continued their existing outsourcing contracts, with 18 percent saying the contracts have been continued or renewed with increased volumes and 19 percent saying new contracts had included expanded services.

Customers’ plans for new outsourcing opportunities also remain strong. Eighty-six percent indicate that their plans have either continued unchanged or been expanded to pursue more opportunities. The percentage of providers was almost identical, at 80 percent.

Customers: New outsourcing contracts over the past 12 months have:



With experience, many customers are becoming more savvy about how to increase the value of the services they receive. This year, for example, 38 percent indicated they are renegotiating to change prices, volumes or services compared with 27 percent in 2012. Among providers, 49 percent noted that their customers were more focused on flexible contracts in terms of volume and staffing. Slightly higher percentages of providers (17 percent vs. 11 percent) claim that their customers are now more interested in shorter-term contracts.

Outsourcing is now being used more strategically by customers and providers alike

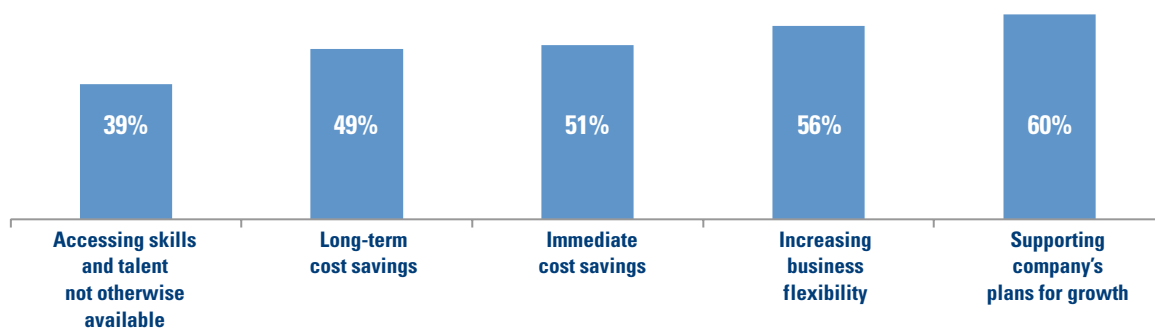
An important hypothesis as to why outsourcing is in growth mode is that the value proposition for outsourcing is changing. That is, customers have already wrung significant value from the cost savings of outsourcing; if cost were still the primary impetus one would expect the use of outsourcing to have leveled out.

Instead, it is not only growing but expanding into additional and more strategic kinds of value propositions. A focus on cost savings, especially immediate savings, continues to be important, noted by 51 percent of customers, up from 40 percent in 2011. 52 percent of providers also note their clients' interest in short-term cost savings.

However, higher percentages of customers, 60 percent, are pursuing outsourcing to support their company's plans for growth, up from 42 percent in 2011 and 52 percent in 2012. Almost half of providers, 49 percent, concur.

In addition, 56 percent of customers are pursuing outsourcing to increase their business flexibility, an increase from 50 percent in 2012. This impetus was noted by 53 percent of providers.

Customers' main reasons for outsourcing



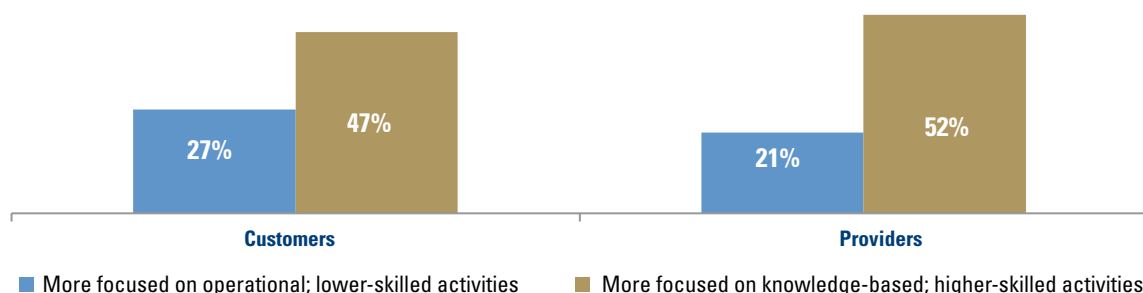
Access to skills and talent is an increasingly important reason for outsourcing

Delegates to the Outsourcing World Summit named "access to skills," along with cost savings, as the most important reasons for pursuing outsourcing relationships. The survey data supports this finding. "Accessing skills and talent not otherwise available to us" was cited as an impetus for outsourcing by 39 percent of customers, up from 33 percent in 2012. 35 percent of providers concurred.

The types of skills being sought are also changing in accord with companies' desire to pursue more strategic objectives through outsourcing. For example, 47 percent of customers are looking for knowledge-based, higher-order skills; just 27 percent are looking in particular for operational/lower-skilled activities. In 2012, just 41 percent were looking for higher-order skills and more (31 percent) were seeking operational skills.

Providers are experiencing this change in skills being sought even more intensely. 52 percent say their clients are looking for knowledge-based skills and only 21 percent indicated a desire for lower-level skills. In 2012, just 43 percent said their customers were seeking knowledge-based skills.

Customers and Providers: Focus of outsourcing activities over past twelve months

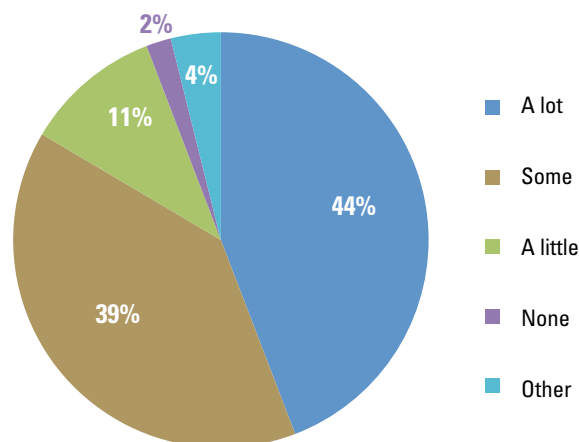


“Innovation” is seen as a value add, but not yet a major reason for outsourcing

Many outsourcing providers tout their ability to deliver innovation as part of the outsourcing relationship, and anecdotal evidence exists that many customers have been beneficiaries of innovation. However, innovation is not yet seen as a major reason for outsourcing. At the Outsourcing World Summit, only 6.4 percent of delegates named innovation as a top reason for outsourcing. In the surveys, just 20 percent of customers cite “increasing new business opportunities” as an impetus, a percentage that has remained basically unchanged since 2011. Only slightly higher percentages of providers (27 percent) see their customers pursuing innovative opportunities through outsourcing.

However, innovation is now being seen by customers as an important byproduct or additional value. Among the Outsourcing World Summit delegates, for example, 44 percent expect “a lot” of innovation from their providers and 39 percent expect at least “some.”

How much innovation do you expect from your providers?



Customers see innovation as something arising out of the partnership or relationship. The delegate survey indicated that 63 percent of customers believe they contribute to innovation efforts either always or most of the time.

What kinds of incentives do customers believe are most successful at generating innovation? More than half of the Summit delegates advocate some sort of gainsharing/painsharing approach and about one quarter of the delegates note the effectiveness of special governance forms that are more likely to spur and manage creativity.

One thing customers and providers agree on: few customers are willing to pay a premium for innovation. Among customers 56 percent say they would do so “only in limited circumstances” and 61 percent of providers agree.

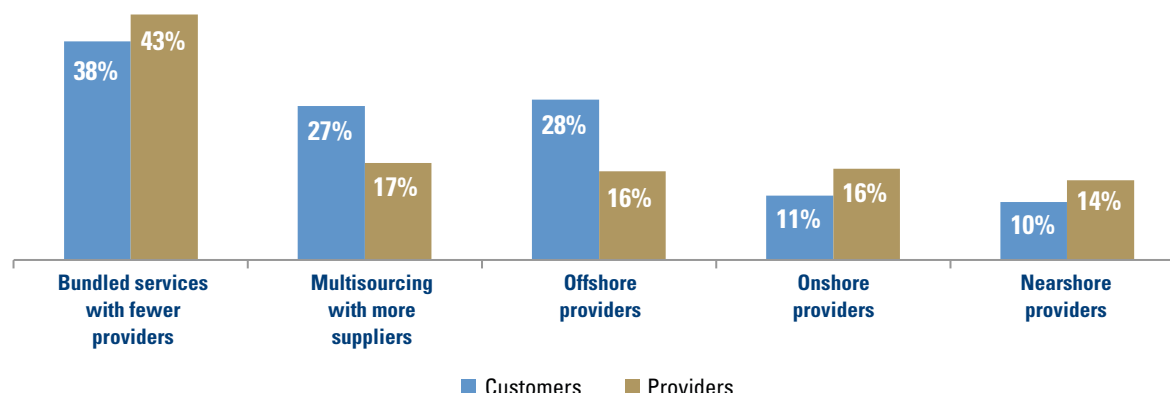
The trend toward sole-sourced/bundled outsourcing is slowing but the preference for offshoring continues

One change we note in this year's study is that the trend toward more bundled outsourcing, with a single provider in charge of multiple functions—has slowed. In 2011, for example, 37 percent of customers were pursuing bundled outsourcing with fewer providers and 19 percent were pursuing multisourcing with more suppliers. This year, about the same number (38 percent) are going with a bundled approach, but more customers, 27 percent, are pursuing multisourcing.

Interestingly, providers do not see the world in the same way. Of providers surveyed, 43 percent see their customers preferring bundled outsourcing while only 17 percent point toward their clients' preference for multisourcing.

In terms of how services are being delivered, a distinct preference for offshoring is noted by customers but not by providers. Among customers, 28 percent said they were more focused on offshore providers, 11 percent said onshore and 10 percent indicated interest in nearshore providers. Among providers those percentages were: 16 percent offshore, 16 percent onshore and 14 percent nearshore.

Customers and Providers: Delivery approaches over past twelve months



Part 2: Outsourcing, the cloud and security

Customers are beginning to try out cloud-based outsourcing for certain business functions

Of the customers surveyed, the impact of cloud-based outsourcing remains somewhat unclear at this relatively early stage in its evolution. About one-third (34 percent) say they have no plans to implement cloud-based outsourcing services. Outsourcing providers have a different take on the matter, with only 15 percent saying that none of their clients plans to implement cloud-based outsourcing solutions.

Those customers that are interested in cloud-based outsourcing are focused in areas including:

- Information/communications technology (34 percent)
- HR management (20 percent)
- Customer relationship management (20 percent)
- Corporate services (17 percent)
- Administrative services (15 percent)

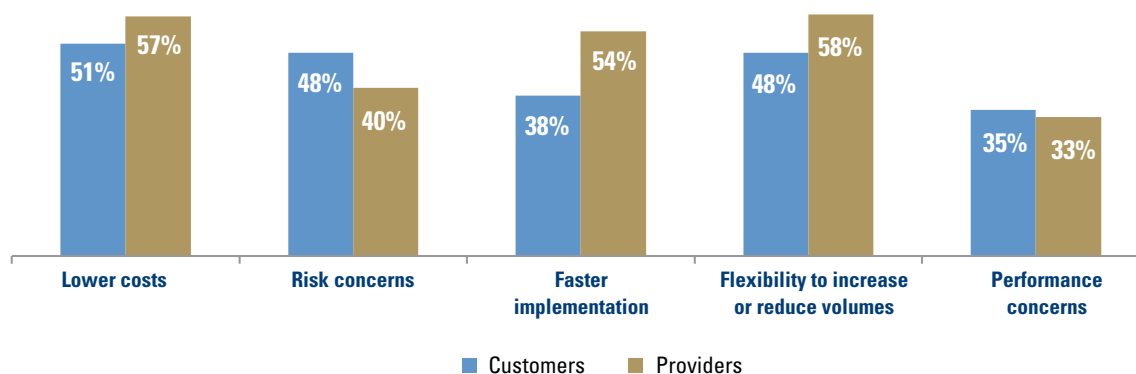
Providers roughly agreed with this mix of which cloud-based offerings are of most interest:

- Information/communications technology (40 percent)
- Customer relationship management (30 percent)
- Financial management (24 percent)
- HR management (20 percent)
- Document management (20 percent)

In general, it appears at this point that cloud-based outsourcing solutions are most relevant to customers in the IT area, as well as in areas that rely heavily on call centers.

In terms of the potential advantages of cloud-based outsourcing, more than half of the customers surveyed (51 percent) see the benefit of cloud-based outsourcing as being in the area of cost reduction; 48 percent believe cloud solutions will offer more flexibility to increase or reduce volumes; 38 percent are aware of the potential benefit of cloud to speed implementation time. Providers generally concur about the most important factors that influence their clients' decision to use a cloud-based approach: reduced costs, faster implementation and more flexibility.

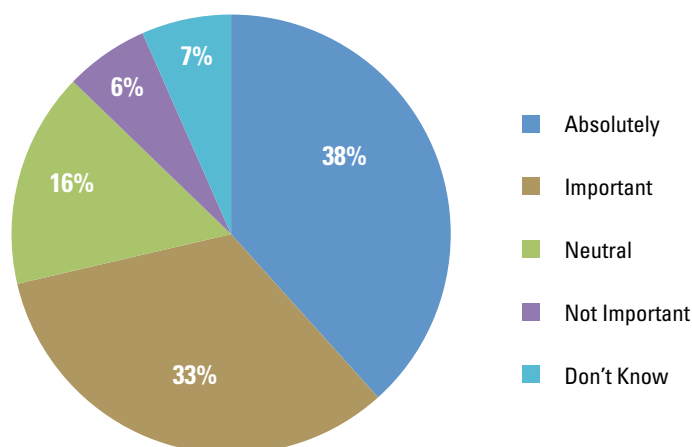
Customers and Providers: Top factors when considering cloud- based outsourcing solutions (multiple responses allowed)



Information security is a top concern among outsourcing customers and high percentages are putting in place supplier security certifications

Among Summit delegates asked if security is a top-five priority this year, 71 percent agreed that it was either “important” or “absolutely important.”

Is security a top-5 priority for your company this year?



Only 29 percent of these companies were victims of a data breach or data loss incident last year, but a number of security concerns are on their minds including outsourced data, cloud risks, malware and cyber-attacks, as well as things like employee carelessness and the spread of the “bring your own device” (BYOD) phenomenon in the workplace.

Survey results also indicated risk concerns about cloud-based outsourcing with about half of customers (48 percent) saying that data protection and privacy risks weigh into their decision to use the cloud, and that performance is also an issue—that is, availability and service levels.

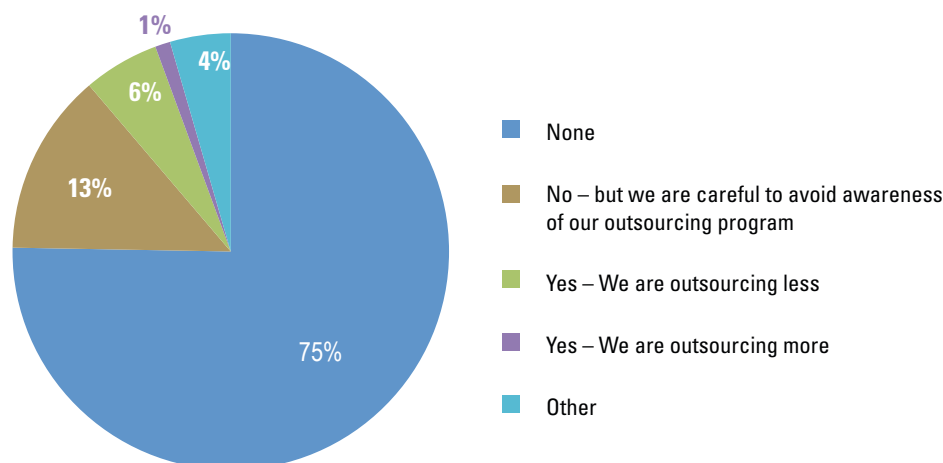
Due to their risk concerns, more than half of customers according to the Summit survey (54 percent) already have in place formal supplier security certifications to ensure that their suppliers can provide sensitive outsourcing services. Another 19 percent plan to put such certifications in place.

Part 3: The political climate for outsourcing and the role of corporate social responsibility

An anti-outsourcing political climate is not yet having widespread effects on customers' plans

In some areas of the world, the political climate about the role outsourcing plays in national economies and the global economy in general has sometimes been negative. However, 75 percent of customers and 70 percent of providers surveyed indicate that this climate has not had an effect on their outsourcing decisions and offerings. 13 percent of customers and 17 percent of providers say that they have not changed their business plans, but that they are careful to avoid widespread awareness of their outsourcing programs. Just 6 percent of customers say they are outsourcing less. Just 6 percent of customers say they are outsourcing less. Just 6 percent of customers say they are outsourcing less.

Customers: Response to the impact of proposed anti-outsourcing legislation



Indeed, delegates to the Summit were quite clear about what they perceive to be the benefits that nations and regions can realize thanks to outsourcing. Asked about the greatest economic value outsourcing can create for a nation, 43 percent said it can increase global competitiveness; 21 percent said it can create stronger businesses.

Nevertheless, customers' commitment to corporate social responsibility as a part of their outsourcing strategy is strong

Asked how important corporate social responsibility programs and activities are to their outsourcing business strategy, two-thirds of both customers and providers said it was "important," "very important" or "extremely important." Ten percent of customers and 5 percent of providers said it was "critical." These numbers have basically held steady since our 2011 survey.

The top priorities of customers in considering corporate social responsibility programs are:

- Labor practices (72 percent)
- Fair operating practices (69 percent)
- Environmental issues (52 percent)

These were the same priorities as those held by the providers surveyed.

Part 4: The growth of outsourcing as a profession

The number of outsourcing workers being certified as professionals is holding steady

Outsourcing is growing as a profession in its own right and many companies are seeking certification of their professionals as a means to improve success and sales. Delegates were surveyed at the Summit about whether outsourcing was being recognized as a profession and 33 percent said “completely,” 16 percent said “mostly” and 26 percent said “sometimes.” 25 percent said their outsourcing people were “rarely or “never” recognized as such.

Among customers surveyed, about half (49 percent) say the number of outsourcing professionals in their organization has stayed the same and 37 percent say it has increased. These percentages are slightly lower than in past years: In 2011, for example, 45 percent of customers said their number of professionals had remained steady while 43 percent pointed to an increase.

Among providers, 35 percent said the number of their outsourcing professionals had stayed the same and 56 percent noted an increase. This is also a slight decrease from 2011, when 63 percent of provider organizations said they had increased their numbers of outsourcing professionals.

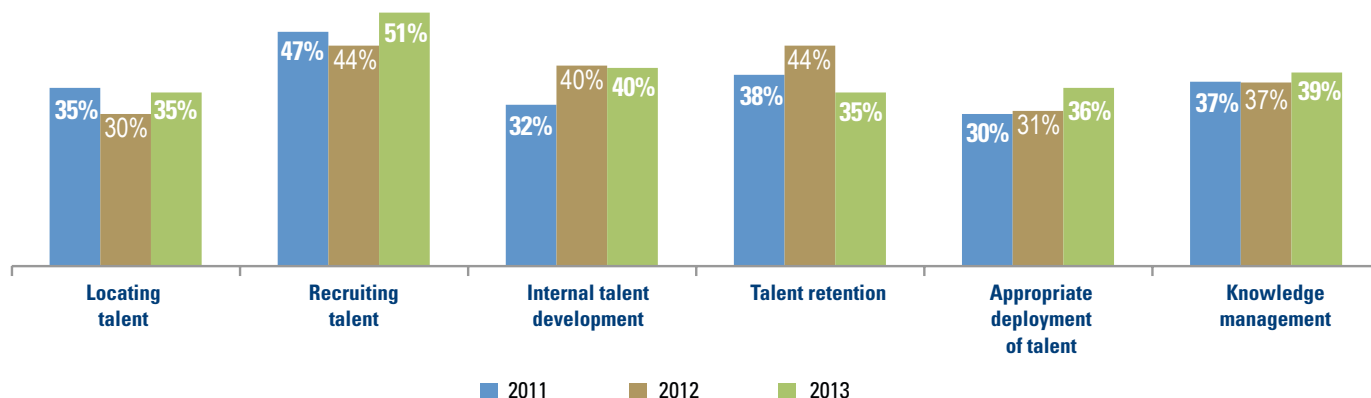
In general, the number of such individuals at the organizations surveyed is not high. About half of customers (52 percent) say they have fewer than 10 professionals; 34 percent indicated they had between 10 and 50.

Providers are much more likely to have certified outsourcing professionals. Indeed, 30 percent of providers said they have more than 250 such individuals and 20 percent said they have between 50 and 250. These percentages are quite similar to those from the 2011 and 2012 surveys.

Among customers, 53 percent say their professionals work primarily in a specific functional area or business unit and 26 percent say they are part of a centralized group or center of excellence.

The top challenges noted by providers in managing outsourcing professionals include recruiting (noted by 51 percent), internal development of such professionals (40 percent), and managing knowledge (39 percent).

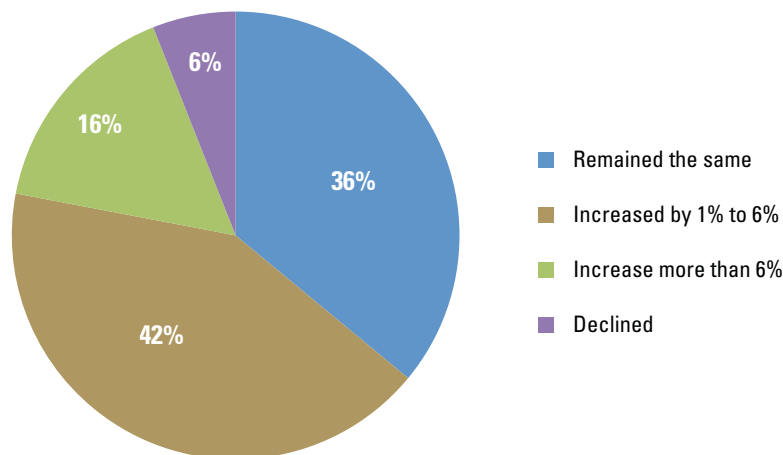
Providers: What are the primary issues you face in managing outsourcing professionals?



Compensation levels for outsourcing professionals are holding steady or rising

Compensation levels are quite encouraging to outsourcing professionals. Among the customers surveyed, about 60 percent say salaries have remained the same and almost 40 percent say they have increased. Among providers, about 36 percent say compensation has remained the same, 58 percent indicate it has increased and 6 percent say it has decreased.

Providers' response to the change in compensation of outsourcing professionals



Summary

Outsourcing is in growth mode and its influence is now felt across increasing numbers of business processes and functions. As customers and providers alike become more experienced they are targeting more strategic business outcomes—supporting plans for growth, increasing flexibility and accessing specialized skills and talent. To support those strategic goals, more customers are looking for higher-order, knowledge-based skills rather than operational skills alone.

The importance of innovation as part of outsourcing contracts continues to be an interesting development. Although customers rarely cite innovation as a primary reason for outsourcing, they overwhelmingly expect innovation as an additional value derived from the outsourcing relationship, and are likely to see innovation as a collaborative endeavor with their provider.

The impact of the cloud on outsourcing remains—well, “cloudy.” Providers are more likely than customers to have a sense that the use of cloud-based services is taking off. The data suggests that cloud-based outsourcing solutions are most relevant to customers at this time in the IT area, as well as in areas that rely heavily on call centers.

Although less than one-third of customers surveyed were a victim of a serious data breach or data loss incident last year, security remains a top concern and more customers are putting in place certification programs to ensure that their providers can provide sensitive outsourcing services.

Finally, a significant area that customers and providers alike should be pursuing to help outsourcing continue along its current growth path is professional certification. The place of outsourcing in the global economy, in the political environment, and in the competitive marketplace for top talent, can all be helped by helping the profession to grow in stature.

Customers and providers alike remain strongly committed to corporate social responsibility, and believe that outsourcing is playing a positive role in the economic development of nations and their people.

About IAOP

The International Association of Outsourcing Professionals® (IAOP®) is the global, standard-setting organization and advocate for the outsourcing profession. With more than 120,000 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. Visit www.IAOP.org.

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