



Jeremy Coward, Community Marketing Executive,
National Outsourcing Association



Outsourcing in 2020

Executive summary

2015 was a highly disruptive year for outsourcing. The year saw many changes occur and at a fierce pace, surpassing the number of changes seen within the entire last decade. As the extent of this transformation is only set to increase over the next few years, the National Outsourcing Association elected to launch *Outsourcing in 2020*, a research campaign set to discover what the face of modern outsourcing will look like in five years' time.

The verdict? The outsourcing industry is set to grow, with the majority of buyers keen on increasing the scope of their outsourcing. The reasons motivating organisations to outsource are also changing permanently, with companies increasingly outsourcing to achieve customer-centricity and unlock new technological capabilities, rather than simply to cut costs. In short, there's a new outsourcing ecosystem in the making, where the future belongs to the best-of-breed service providers who understand what their clients want and utilise the latest technology to provide it.

Expect the outsourcing market to become simultaneously more collaborative and more competitive. Both buyers and service providers are heavily in favour of basing contracts on outcomes rather than outputs, choosing to share risk in order to reap greater rewards. At the same time, notice periods, and even contracts themselves, are likely to become shorter, with industry giants choosing to partner more often with their smaller, sleeker adversaries. We expect to see exciting new technological investments across the board between now and the next decade, in robotic process automation and artificial intelligence in particular, while it is probable that back-sourcing, reshoring and even offshoring will take more of a backseat.

Key findings

- 70% of buyers plan to increase their use of outsourcing, with 35% planning to significantly. 10% plan to decrease their outsourcing slightly; none plan to decrease the amount they outsource significantly.
- 83% of service providers expect the outsourcing industry to grow, with 37% expecting it to grow significantly. Just 4% expect the outsourcing industry to get smaller.
- Overall, organisations said they outsourced primarily for the following reasons: Cost savings (35% cited this as the prime driver for outsourcing); improving the customer experience (23%); transitioning from legacy IT to as-a-service models (17%). This differs from the traditional prime reasons why companies outsource: cost savings; increasing operational flexibility; accessing new skills.
- Overall, respondents said they are most progressed with offshoring, cloud-based technologies and process transformation
- 83% of all respondents believed robotic process automation (RPA) will be of greater significance in the next decade. 80% said the same of artificial intelligence (AI).
- 44% of service providers said AI will be more of a game-changer than RPA. Just 7% on the buy-side agreed.
- 61% of buyers thought back-sourcing will be less significant in 2020, with 57% of service providers saying the same. 59% of buyers thought reshoring will be less significant in 2020, while 61% of providers said the same of offshoring.
- There is strong expectation on both sides that the following changes to contracting will occur:
 - 1) Contract values will be based on outcomes
 - 2) Service providers will be contracted as service integrators sharing risk
 - 3) Procurement will become a more important part of the contracting process
 - 4) Notice periods will become significantly shorter

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Methodology

Outsourcing in 2020 is an industry-wide campaign that aims to discover how outsourcing will change as a practice over the next five years. The NOA surveyed 134 organisations (one-third buyers, one-third service providers, one-third support organisations), asking them to share their expert opinions on the future trends and technologies that are expected to disrupt outsourcing between now and the next decade.

One quarter of the organisations that participated had 50,000+ employees. On the buy-side, half had a headcount of 10,000 or more, while company size on the supply-side was more varied. The vast majority of those surveyed were c-suite, directors, heads, presidents, senior vice presidents, managers and specialists. There was an even split between those interested in BPO and ITO, with customer service, FAO, HRO, KPO and LPO also given as primary focuses.

The report

The outsourcing industry is set to grow

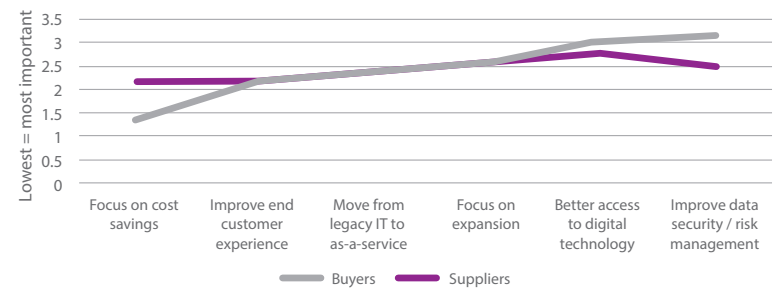


70 per cent of buyers surveyed said they expect to increase their use of outsourcing, with 35 per cent planning to do so significantly. Meanwhile 84 per cent of service providers expect the outsourcing industry to grow; 37 per cent believe it will do so significantly.

With 80 per cent of all respondents expecting themselves or their clients to increase the scope of their outsourcing, there is strong belief that outsourcing is set to become more popular as a business practice over the next five years.

Customer-centricity disrupts traditional outsourcing drivers

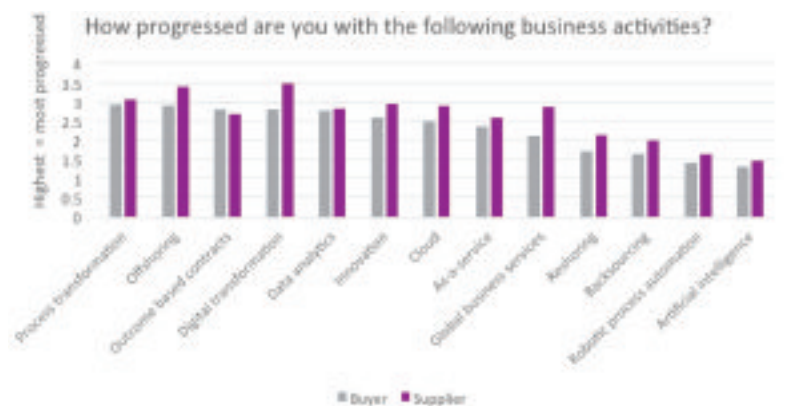
What business issues are increasing the use of outsourcing?



Buyers were asked what business issues motivate them to outsource, while service providers were asked the same in regard to their clients. Overall, 35 per cent of respondents chose achieving cost savings as the number one reason to outsource. 23 per cent chose improving customer experience, followed by the 17 per cent who chose moving to as-a-service.

There are a number of conventional reasons why organisations outsource: increasing operational flexibility, gaining access to new skills and, of course, cutting costs. For the first time, some of these drivers have become less dominant, making way for higher priorities like customer-centricity and technological excellence. As 2020 approaches, expect to see an increasing number of organisations outsourcing primarily for service improvements and other value-adding benefits such as these.

Exciting investments and stagnating trends

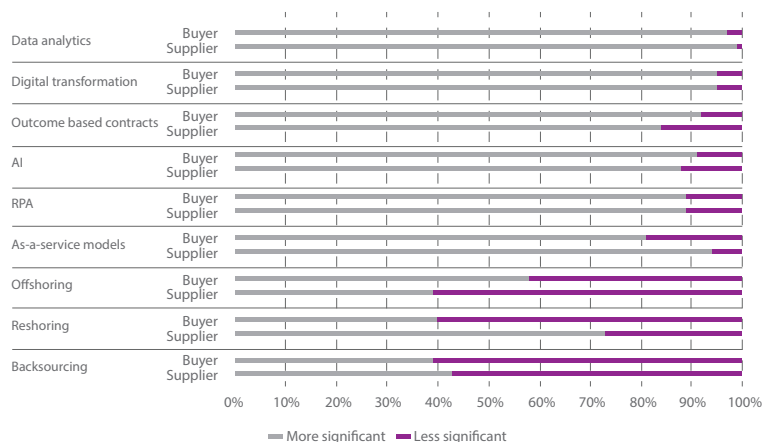


Buyers believe they have made the most progress with process transformation, offshoring and outcome-based contracts, while service providers thought their clients had done the most with digital transformation, offshoring and process transformation. Both sides ranked artificial intelligence (AI) and robotic process automation (RPA) as the two least progressed activities, which

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is unsurprising seeing as both are emerging technologies. For every activity given, providers believe their clients to have made more progress than the clients themselves said they had, suggesting that the service providers may be adopting a more “rose-tinted” perspective than their clients.

Will the same activities be more or less significant in 2020?

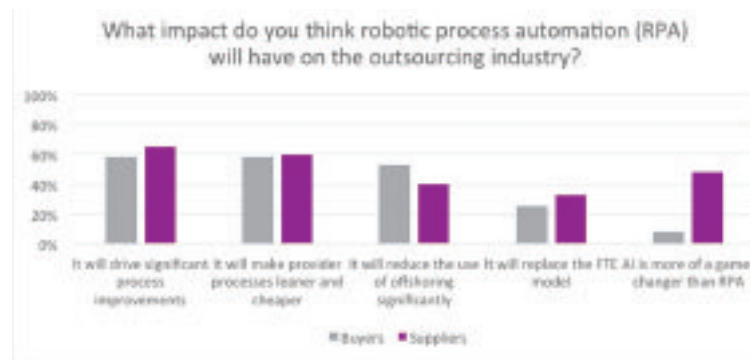


Buyers of outsourcing and their service providers are not as progressed as they'd like to be with many prominent trends and technologies, yet most of these are expected to become more significant as the years go on.

97 per cent of buyers think data analytics will become more prominent, matched by 99 per cent on the supply-side. 95 per cent on both sides expect digital transformation to play more of a role; 92 per cent of buyers believe there will be more outcome-based contracting, while 94 per cent of service providers expect to see a great uptake of as-a-service models. On both sides, the vast majority of respondents concurred that every technology listed will be more significant in 2020, meaning more investment in the likes of RPA, AI, data analytics, process transformation and digital innovations.

However, respondents indicated that they are much less likely to invest further in reshoring or backsourcing; it is unlikely there will be a significant increase in offshoring either. 61 per cent of buyers thought backsourcing will be less significant in 2020, with 57 per cent of service providers saying the same. 59 per cent of buyers thought reshoring will be less significant in 2020, while 61 per cent of providers said the same of offshoring.

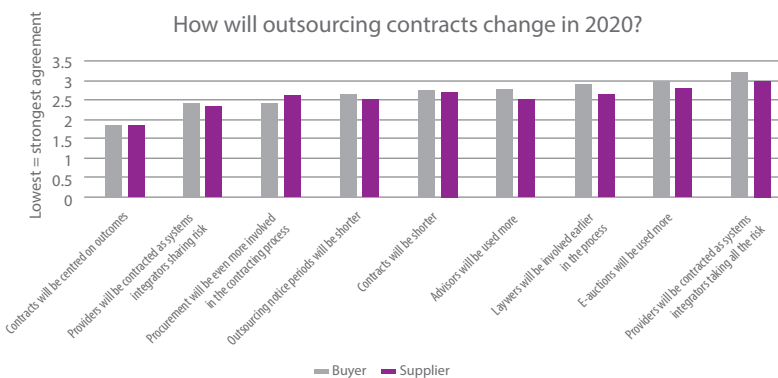
RPA or AI: Which will prove to be the biggest game-changer?



The majority of buyers and service providers agree RPA – the automation of highly repetitive, high volume tasks – will drive significant process improvements (58 per cent and 65 per cent respectively). Overall 60 per cent believe that automation will also make processes leaner and cheaper. 53 per cent of buyers think RPA will significantly reduce the use of offshoring with 40 per cent of providers agreeing, while under one-third overall thought RPA will eventually replace the FTE model.

Opinion between buyers and their partners differs massively when AI – a much more advanced form of computers acting as humans – enters the picture. When asked which technology will prove to be the biggest game-changer, almost all buyers say RPA while half of the service providers say AI. This discrepancy could be due to widespread misunderstanding of what each technology involves; nevertheless, expect there to be plenty of competition in this area as AI capabilities are developed.

Contracting in 2020



Belief is strong with both buyers and service providers that outsourcing contracts will be centred more on outcomes in 2020, with 89 per cent of all respondents believing this to be the case. 69 per cent of all those surveyed think service providers will be contracted as systems integrators sharing more risk with their clients, while only 31 per cent thought providers will be

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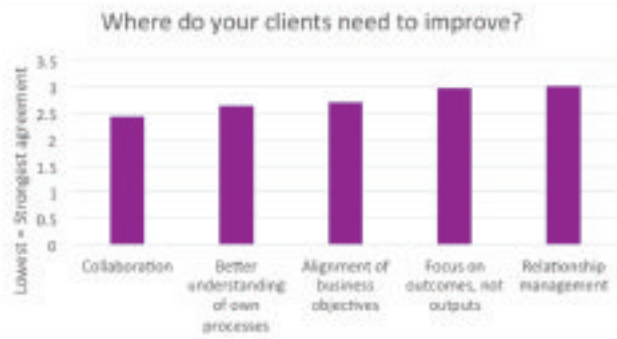
expected to adopt all of the risk themselves. 57 per cent expect procurement to become a more important part of the contracting process; more service providers believed that notice periods will become shorter as we approach the next decade, with many on both sides saying the same of outsourcing contracts themselves.

With buyers currently developing their outcome-based contracting models and both sides clearly in favour of judging the success of an outsourcing relationship through outcomes, it's safe to say that outsourcing is set to become a more collaborative practice, with organisations acknowledging that sharing risk can result in greater benefits for both sides down the line.

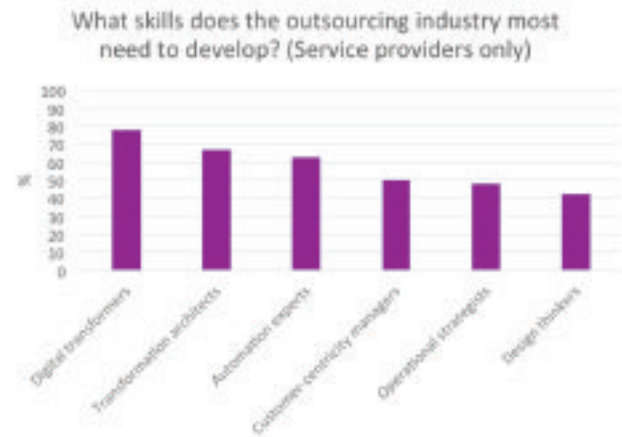
Where to improve in preparation for the future



Despite the large number of new innovations disrupting the outsourcing market, buyers are still looking for their partners to improve in traditional areas first and foremost. Staff quality, delivering value and innovation, relationship management and collaboration all ranked highly as areas where service providers need to improve.



The same can be said of the buyers themselves, with service providers saying that their clients need to get better at collaboration, relationship management, aligning objectives and understanding their own processes. Many providers also want their clients to judge more outsourcing relationships on outcomes, not outputs, a trends that we've already seen is definitely on the rise.



The firm consensus among service providers is that the outsourcing industry will need more digital transformers and transformation architects if future growth opportunities are to be maximised – personnel who can harness the power of digital technology and use it to transform the way in which a business operates, ensuring sizeable growth and healthy margins. Automation experts, customer-centricity managers, operational strategists and design thinkers will also be valued highly – a whole new breed of jobs ushered in with the new outsourcing ecosystem.

Conclusions

The future is brimming with opportunity... for some

Service providers will be overjoyed to hear that buyers intend to increase the scope of their outsourcing, as this means more available business. However, there's a slight caveat. The only providers set to benefit are those that fully understand how the industry is changing and what the modern client is looking for. That means best-of-breed partners who know how to provide customer-centricity; deft service integrators putting the latest technology to good use; providers that are apt at mining data, refining it and keeping it secure on the client's behalf. These are the companies that will prosper in 2020 - some big outsourcing names will disappear if they fail to adapt before the next decade.

RPA and AI top the investment wish list

Buyers and service providers alike believe they have made little progress with RPA or AI so far. Accordingly, they want to ramp up their investments in these areas as the relevant technologies become more advanced and more accessible. Confusion prevails across the industry when it comes to what each technology is actually capable of; as a result, there is disagreement as to which will prove to be more valuable.

And while organisations believe themselves to be more progressed with the likes of data analytics, process transformation and outcome based contracts, they believe these areas and others will be worthy of further investment too as the industry matures. From all of the upcoming trends and technologies, only reshoring, back sourcing and offshoring are areas where renewed investment is unlikely.

Contracting changes to make outsourcing more collaborative and competitive

By 2020 outcome-based contracting will be vastly more popular, with more and more buyers opting to share risk with their service providers and contract them as service integrators. Having said that, the extent to which sharing risk is possible is limited; profits and losses can be split, but it is the reputation of the client that is ultimately on the line.

Meanwhile notice periods are likely to get shorter, as well as the average length of contracts themselves, meaning increased competition between service providers and fewer megadeals as the years go on. On the other hand, a few savvy buyers may use this fact to their advantage. They know many providers will still be seeking long term deals and will use this as leverage when negotiating new contracts with them.

Technologies change, but outsourcing's core tenants remain the same

Despite all of the excitement surrounding new technologies, innovative investments and copious amounts of service disruption, buyers and service providers are still searching for partners who respect traditional outsourcing values: collaboration, relationship management, delivering value and

all-round good governance. The NOA recognises all of these aspects as core tenants, fundamental to the success of every outsourcing relationship, hence why NOA professional development programmes focus on their best practice.

Dissatisfaction will drive transformation

In 2015 the NOA hosted three executive think tanks – one for buyers, one for service providers and one for support organisations – attended by some of the biggest names in outsourcing: Expedia, the Ministry of Justice, Capita and Capgemini are just a few examples. At these round table talks, companies discussed outsourcing's current state and where organisations should improve.

They concluded that dissatisfaction is running high, particularly on the buy-side. Buyers are finding most service providers to be insufficiently flexible, and reluctant to bring new technologies and innovations into their existing outsourcing deals. These clients are undergoing disruptive change, and need their service providers to step and take action if those disruptors are going to be kept at bay. They want solutions fast, but their partners aren't bringing anything to the table. The best-of-breed partners who provide these services are out there, but they're few and far between. And while some of the larger providers are changing their ways, far more still lie dormant.

Service providers across the industry need to acknowledge the outsourcing ecosystem of the future that is outlined in this report and take affirmative action - customer-centricity, process transformation and data analytics should all be areas of focus. Those that do will win new contracts and gain significant market share; those that don't will be left by the wayside.