HfS

*The Knowledge Community
for Global Business & IT Services*

Outsourcing • Smart Governance • Disruptive Technologies

SOURCING SAVANTS 2.0

HfS Research is a leading analyst authority and knowledge community for the global sourcing industry

- **20 dedicated analysts across US, Europe and Asia/Pac**

- **Educates and facilitates discussion among the world's largest knowledge community of services and operations executives, currently comprising 120,000 subscribers.** *19,000 LinkedIn Group members; leading blog and research portal in the services industry*

- **The largest web and social media presence in the sourcing industry:**

- **A major following from the buy-side:** *40% of readership comes from sourcing buyers*

- **We leverage our vast community of sourcing professionals to deliver rapid insights on global sourcing industry trends & developments:** *Surveyed over 15,000 organizations in 2011-12 on their sourcing intentions and dynamics*

HfS Research

HfSResearch.com

Meet the HfS Research team

Analysts across US, Europe, India and Australia
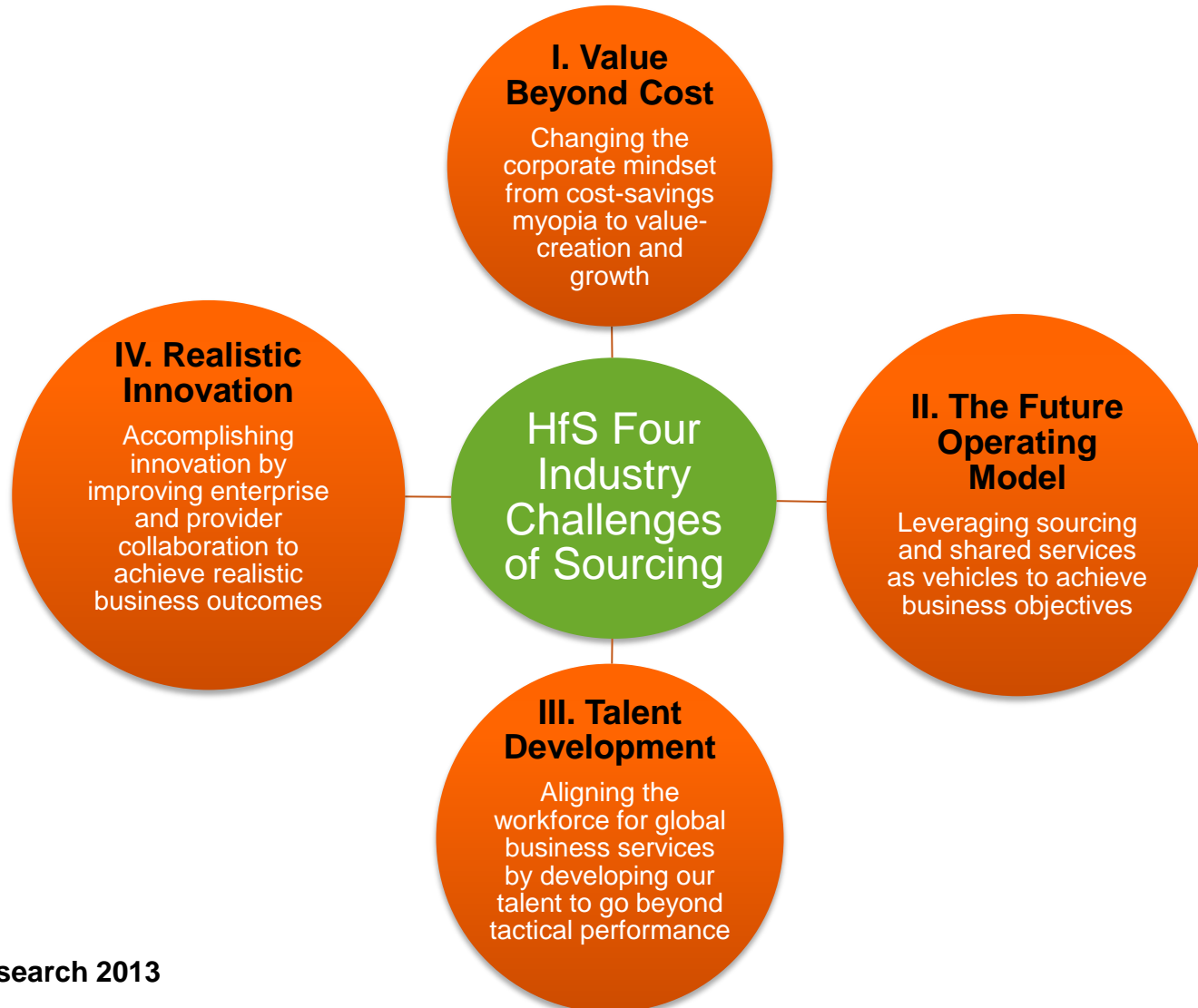
Are you ready for dreamSource?

www.dream-source.com

Creating Opportunities from the Four Industry Sourcing Challenges facing all Global Organizations

I. Value Beyond Cost

Changing the corporate mindset from cost-savings myopia to value-creation and growth

HfS Four Industry Challenges of Sourcing

II. The Future Operating Model

Leveraging sourcing and shared services as vehicles to achieve business objectives

IV. Realistic Innovation

Accomplishing innovation by improving enterprise and provider collaboration to achieve realistic business outcomes

III. Talent Development

Aligning the workforce for global business services by developing our talent to go beyond tactical performance

Source: HfS Research 2013

Research investigating how companies overcome the challenges across major functions and industries

	I. Value Beyond Cost	II. Operating Models	III. Talent Management	IV. Realistic Innovation

Functions

- Finance and Accounting
- Procurement and Supply Chain
- Customer Relationship Management
- Human Resources
- Information Technology

Industries

- Financial Services
- Insurance
- Healthcare

Outsourcing • Smart Governance • Disruptive Technologies
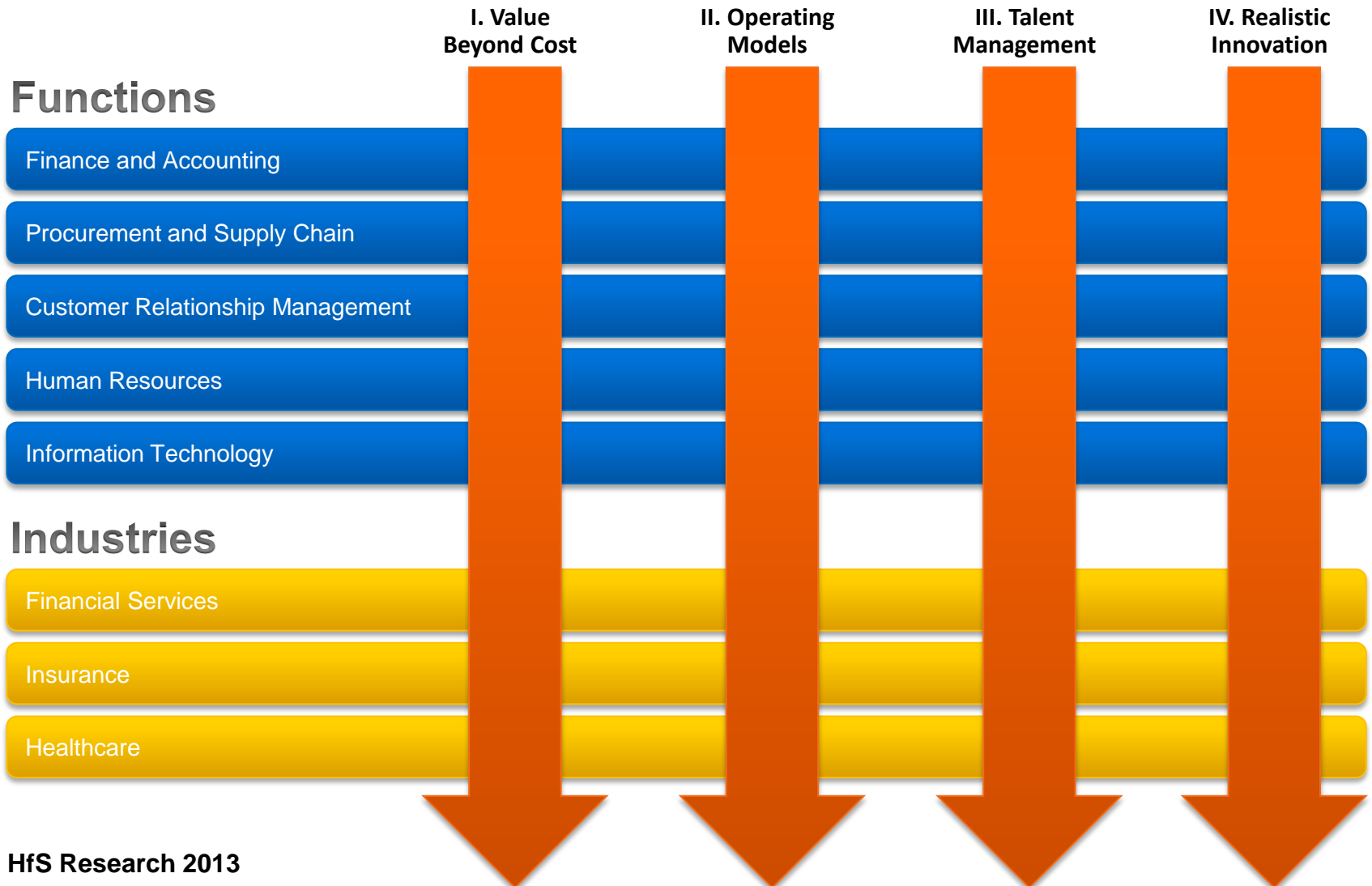
…and here are the Sourcing Savants!

Challenge #1

- **Challenge #1: Overcoming this singular focus on cost that strips the industry of its value**

- **Challenge #2: Leveraging outsourcing as one of a variety of vehicles to achieve business objectives**

- **Challenge #3: Both Buyers and providers have to develop their respective talent to go beyond tactical delivery**

- **Challenge #4: Buyers and providers need to partner to foster innovations into business process outcomes**

Outsourcing • Smart Governance • Disruptive Technologies

Drivers behind outsourcing decisions in 2013

Q. How important are the following business DRIVERS behind your company's IT outsourcing and BPO decision making in today's business environment?
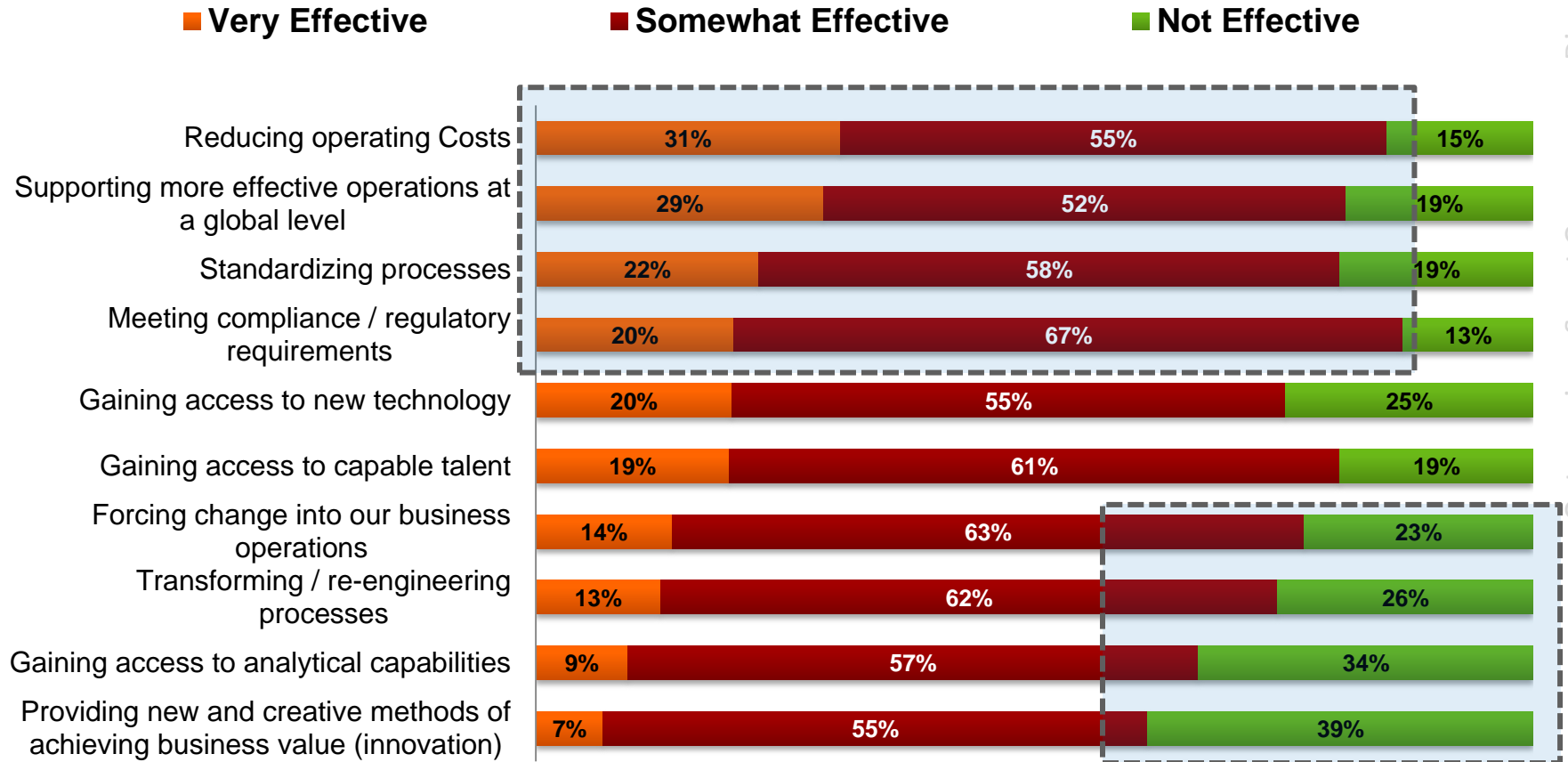
Legend: ■ **Mission critical** ■ **Important, but not critical** ■ **Somewhat Important** ■ **Not Important at all**

Operational

Driver	Mission critical	Important, but not critical	Somewhat Important	Not Important at all
Reduce Operating Costs	43%	44%	10%	3%
Greater flexibility to scale operations	37%	45%	12%	6%
Standardize processes	35%	39%	22%	5%
Meet compliance / regulatory...	34%	34%	21%	11%
More effective operations at a global...	33%	36%	16%	15%
Transform / re-engineer processes	29%	39%	27%	5%

Strategic

Driver	Mission critical	Important, but not critical	Somewhat Important	Not Important at all
Gain access to talent	24%	46%	28%	3%
Gain access to new technology	22%	40%	32%	6%
Improve analytical capabilities	21%	41%	27%	11%
Proven / mature offerings from...	20%	45%	27%	9%
Force change into our business...	17%	43%	29%	11%

Source: HfS Research 2013
"2013 State of Outsourcing" Study, *n* = 399 Buy-side Enterprises

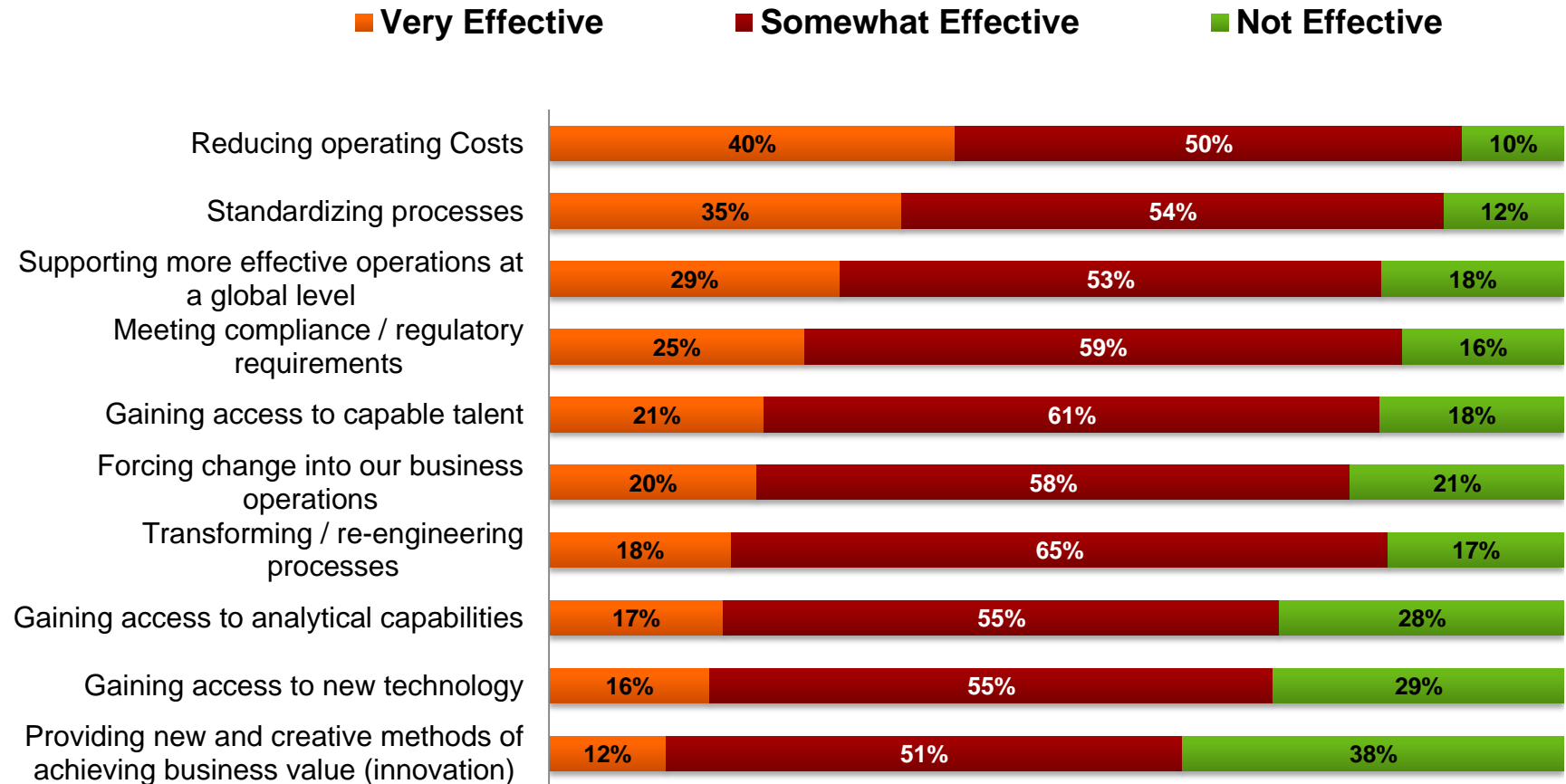Outsourcing • Smart Governance • Disruptive Technologies

Effectiveness of IT outsourcing initiatives

Q. How effective have your current IT outsourcing initiatives been for achieving the following business benefits to date?

■ **Very Effective**　　　■ **Somewhat Effective**　　　■ **Not Effective**

Benefit	Very Effective	Somewhat Effective	Not Effective
Reducing operating Costs	31%	55%	15%
Supporting more effective operations at a global level	29%	52%	19%
Standardizing processes	22%	58%	19%
Meeting compliance / regulatory requirements	20%	67%	13%
Gaining access to new technology	20%	55%	25%
Gaining access to capable talent	19%	61%	19%
Forcing change into our business operations	14%	63%	23%
Transforming / re-engineering processes	13%	62%	26%
Gaining access to analytical capabilities	9%	57%	34%
Providing new and creative methods of achieving business value (innovation)	7%	55%	39%

Outsourcing • Smart Governance • Disruptive Technologies

Effectiveness of BPO initiatives

Q. How effective have your current business process outsourcing initiatives been for achieving the following business benefits to date?

■ **Very Effective**　　■ **Somewhat Effective**　　■ **Not Effective**

Benefit	Very Effective	Somewhat Effective	Not Effective
Reducing operating Costs	40%	50%	10%
Standardizing processes	35%	54%	12%
Supporting more effective operations at a global level	29%	53%	18%
Meeting compliance / regulatory requirements	25%	59%	16%
Gaining access to capable talent	21%	61%	18%
Forcing change into our business operations	20%	58%	21%
Transforming / re-engineering processes	18%	65%	17%
Gaining access to analytical capabilities	17%	55%	28%
Gaining access to new technology	16%	55%	29%
Providing new and creative methods of achieving business value (innovation)	12%	51%	38%

Source: HfS Research 2013
"2013 State of Outsourcing" Study, *n* = 399 Buy-side Enterprises

Polling Question 1:
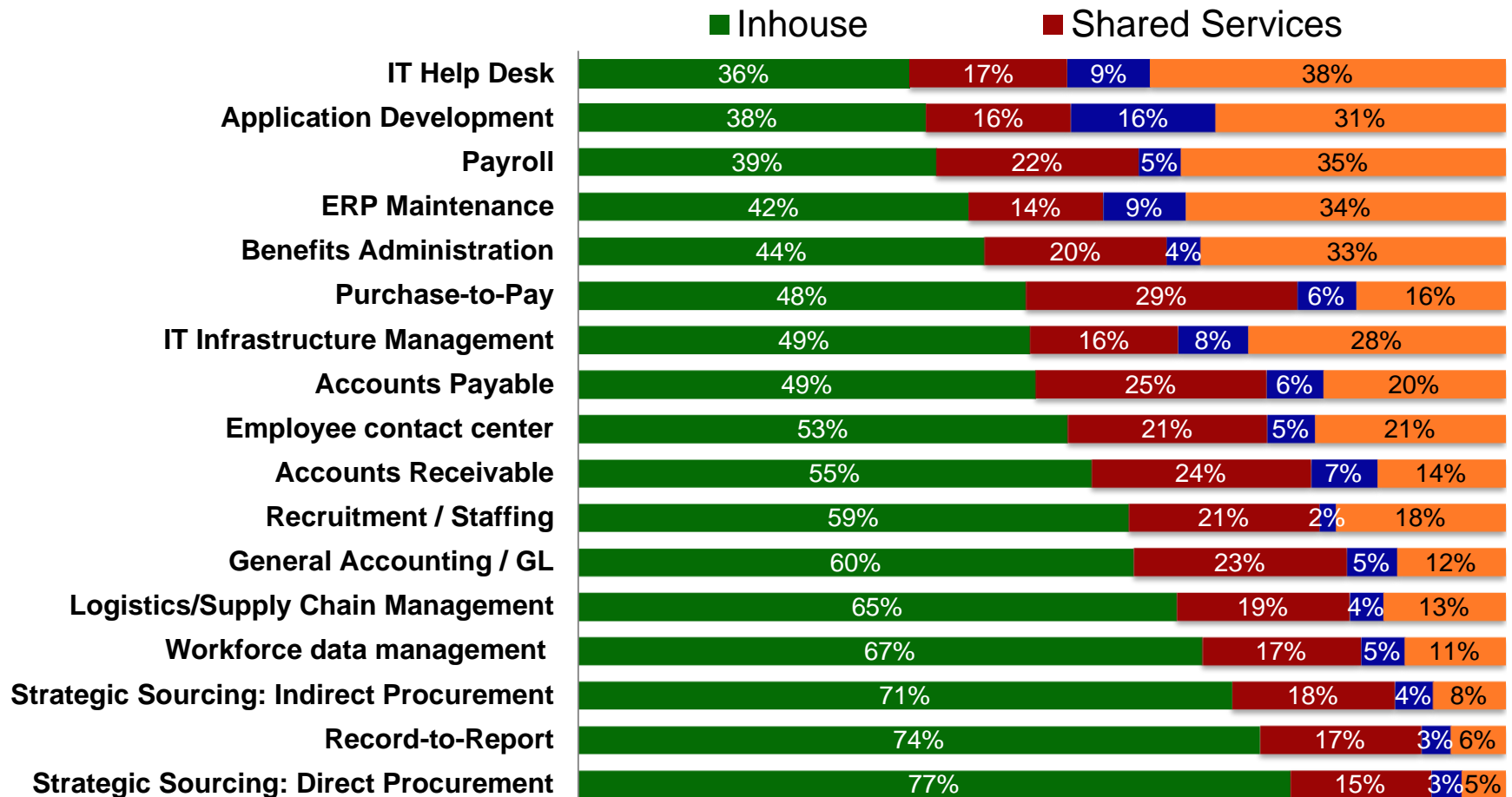## *Are buyers still overly obsessed by cost?*

A) Yes – little has changed in in the last 5 years

B) Somewhat, but less than they were

C) Much less than 5 years ago

Challenge #2

- **Challenge #1: Overcoming this singular focus on cost that strips the industry of its value**

- **Challenge #2: Leveraging outsourcing as one of a variety of vehicles to achieve business objectives**

- **Challenge #3: Both Buyers and providers have to develop their respective talent to go beyond tactical delivery**

- **Challenge #4: Buyers and providers need to partner to foster innovations into business process outcomes.**
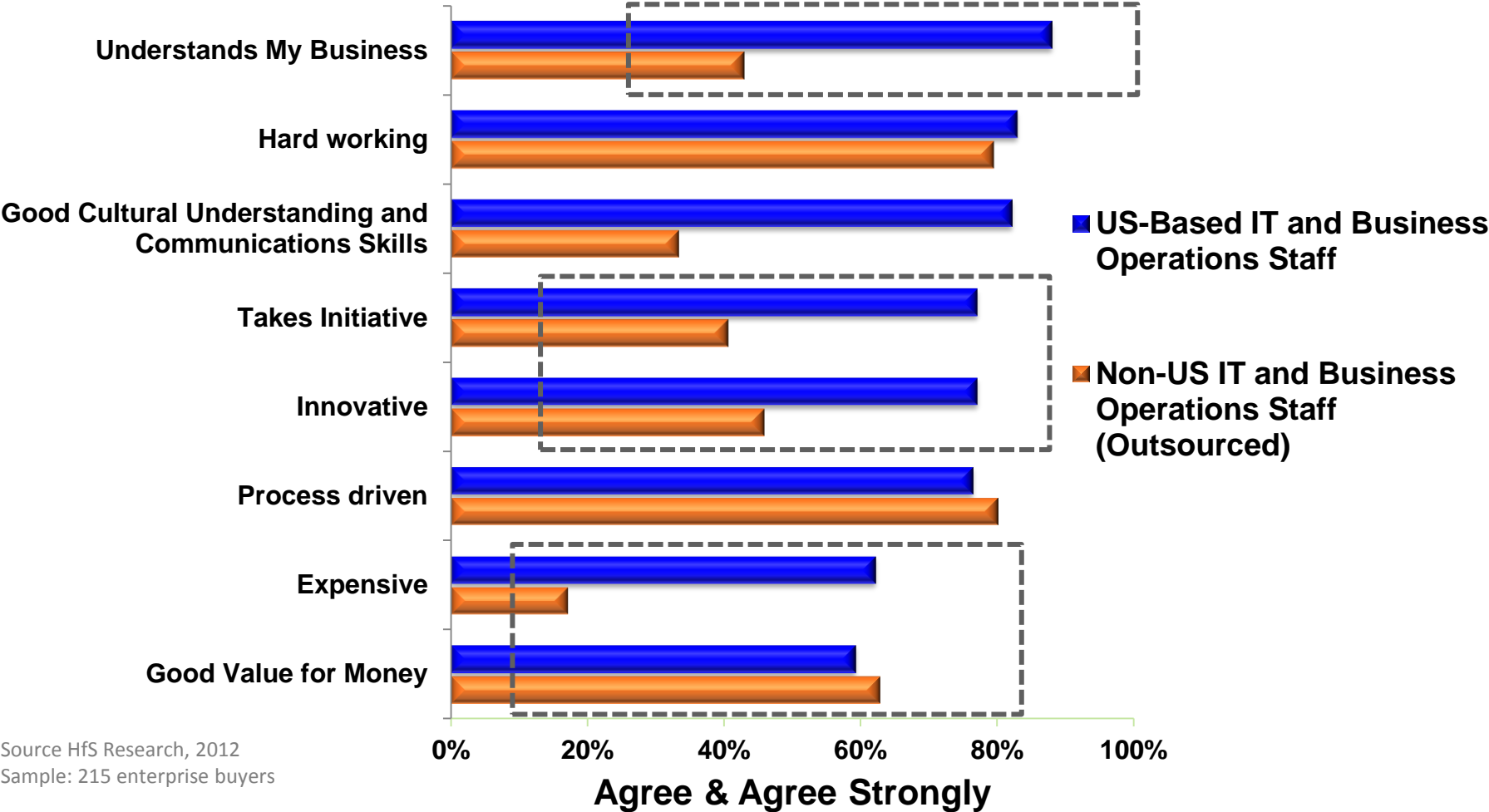
Can we really move the needle, or are today's enterprises stagnating?

Q. What is your primary sourcing model for managing the following IT & business processes?

■ Inhouse   ■ Shared Services

Process	Inhouse	Shared Services	(blue)	(orange)
IT Help Desk	36%	17%	9%	38%
Application Development	38%	16%	16%	31%
Payroll	39%	22%	5%	35%
ERP Maintenance	42%	14%	9%	34%
Benefits Administration	44%	20%	4%	33%
Purchase-to-Pay	48%	29%	6%	16%
IT Infrastructure Management	49%	16%	8%	28%
Accounts Payable	49%	25%	6%	20%
Employee contact center	53%	21%	5%	21%
Accounts Receivable	55%	24%	7%	14%
Recruitment / Staffing	59%	21%	2%	18%
General Accounting / GL	60%	23%	5%	12%
Logistics/Supply Chain Management	65%	19%	4%	13%
Workforce data management	67%	17%	5%	11%
Strategic Sourcing: Indirect Procurement	71%	18%	4%	8%
Record-to-Report	74%	17%	3%	6%
Strategic Sourcing: Direct Procurement	77%	15%	3%	5%

HfS

Are today's outsourcing models too offshore-centric? How should the global outsourcing model be calibrated to achieve business objectives?

Q. Describe the attributes of your staff supporting Business and IT Processes

Horizontal bar chart comparing US-Based IT and Business Operations Staff (blue) vs Non-US IT and Business Operations Staff (Outsourced) (orange) on "Agree & Agree Strongly" percentages.

Legend:
- **US-Based IT and Business Operations Staff** (blue)
- **Non-US IT and Business Operations Staff (Outsourced)** (orange)

Categories (top to bottom): Understands My Business, Hard working, Good Cultural Understanding and Communications Skills, Takes Initiative, Innovative, Process driven, Expensive, Good Value for Money

X-axis: Agree & Agree Strongly — 0%, 20%, 40%, 60%, 80%, 100%

Source HfS Research, 2012
Sample: 215 enterprise buyers

Polling Question 2:
Are today's ITO and BPO deals too offshore-focused?

A) Yes – more work needs to move to onshore or onsite locations

B) Not sure – we're still figuring out the optimum model

C) They are just fine – no need to change anything

D) No – we like the cost advantage and are looking to *increase* offshore component

Challenge #3

- **Challenge #1: Overcoming this singular focus on cost that strips the industry of its value**

- **Challenge #2: Leveraging outsourcing as one of a variety of vehicles to achieve business objectives**

- **Challenge #3: Both Buyers and providers have to develop their respective talent to go beyond tactical delivery**

- **Challenge #4: Buyers and providers need to partner to foster innovations into business process outcomes.**

Outsourcing • Smart Governance • Disruptive Technologies

HfS

Buyers' talent is strong in transitional activities, but they struggle with improvements and innovation

Q. How would you assess your organization's talent in each of the following categories?

Buyers View of their Talent

Category	Rating
Contract Negotiation	
Service Provider Selection	
Adding Addition Volumes to Existing Services	
Managing Transitions	
Defining and Adding New In-Scope Processes	
Improving Service Provider Relationships	
Managing Financial Business Cases	
Influencing Executives	
SLA Performance Management	
Raising the Bar for Existing SLAs	
Improving Industry Acumen	
Improving Analytics	
Driving Innovation	
Defining Business Outcomes Beyond Cost.	
External Benchmarking	

"Early phase" sourcing work

"Future value" sourcing work

2.50   3.00   3.50   4.00

Rating: Weak   Rating: Strong

Outsourcing • Smart Governance • Disruptive Technologies

The gap in talent falls exactly in the areas where the greatest shift in importance is

Q. How important are the following sourcing business objectives to your team when you first started compared to today?

Chart — Increase in Importance:

- Improving Analytics — 32%
- Driving Innovation — 27%
- Defining Business Outcomes Beyond Cost Reduction… — 27%
- Raising the Bar for Existing SLAs — 25%
- Defining and Adding New In-Scope Processes — 24%
- Improving Service Provider Relationships — 22%
- External Benchmarking — 21%
- Improving Industry Acumen — 19%
- Adding Addition Volumes to Existing Services — 17%
- Contract Negotiation — 14%
- Influencing Executives — 13%
- Managing Financial Business Cases — 12%
- SLA Performance Management — 12%
- Service Provider Selection — 10%
- Managing Transitions — 9%

X-axis: 0% 5% 10% 15% 20% 25% 30% 35%

Increase in Importance

Source: HfS Research 2012, N = 282 Buy-side Executives

Many service providers staff lack formal training

Q. In which of the following areas does your organization train and develop staff? (Formal Programs Only)

Polling Question 3:
Do we have the right talent mix for today's sourcing engagements?

A) Yes – we have sufficient talent for both tactical contract management and innovative work

B) Somewhat – we have sufficient contract management skills, but innovation could be a bit better

C) Barely – we have sufficient contract management skills, but innovation could be a lot better

D) No – we are lacking both tactical and innovation skills

Challenge #4

- **Challenge #1: Overcoming this singular focus on cost that strips the industry of its value**

- **Challenge #2: Leveraging outsourcing as one of a variety of vehicles to achieve business objectives**

- **Challenge #3: Both Buyers and providers have to develop their respective talent to go beyond tactical delivery**

- **Challenge #4: Buyers and providers need to partner to foster innovations into business process outcomes.**

Buyers not totally wed to their current providers

Q. Have you (or will you) changed services provider or insourced any of the following in the last 3 years?

Legend:
- 🟧 **No change in provider and no plans to switch**
- 🟥 **Currently outsource and plan change provider in next 24 mths**
- 🟩 **Have changed service provider**
- 🟦 **Have Insourced most/all of the function**

Category	No change	Plan change	Have changed	Insourced
Document & Print Operations Outsourcing	57%	20%	15%	8%
Contact Center Outsourcing	55%	19%	11%	15%
IT Infrastructure Outsourcing	56%	13%	22%	9%
Application Development & Maintenance…	59%	12%	21%	9%
Human Resources Outsourcing	58%	13%	10%	19%
Finance & Accounting Outsourcing	60%	10%	14%	16%
Procurement & Sourcing Outsourcing	57%	11%	14%	18%
Marketing Operations Outsourcing	62%	13%	9%	16%
Industry-specific Processes (i.e. life…	68%	9%	10%	14%
Analytics & Knowledge Process Outsourcing	58%	11%	10%	21%
Legal Process Outsourcing	66%	8%	12%	14%

Source: HfS Research 2013, N = 202 Enterprises

Outsourcing • Smart Governance • Disruptive Technologies

How can buyers and providers move from the "Lights-On" to the "Strategic"?

"Lights-On" Outsourcing → **"Efficient" Outsourcing** → **"Strategic Outsourcing"**

Old World Outsourcing Relationship

- "This is about getting them to meet our needs"

- Assign blame and apply penalties

- Customer decides, vendor executes

- Customer defined metrics

- Adversarial - arbitrary outcomes

- Each party is often surprised and actions are reactive

Collaborative Outsourcing Relationship

- "This is about meeting both our needs in a sustainable way"

- Diagnose and work jointly

- Joint input

- Metrics are jointly developed

- Problem-solving - good precedents

- Planning is highly integrated, and actions are proactive with a collaborative approach

For more information on HfS' Research services, please contact

tom.ivory@hfsresearch.com

Outsourcing • Smart Governance • Disruptive Technologies

Are you ready for dreamSource?

www.dream-source.com