Outsourcing in Europe

An in-depth review of drivers, risks and trends in the European outsourcing market
Our thanks to the executive experts of organizations who participated in the survey for this study. In particular, a special thanks to all who shared their insights and personal experiences during in-depth interviews. Beside the organizations listed below, a further 15 organizations participated in this survey but requested to remain anonymous.

**Client organizations:**
Aker Solutions AS, AstraZeneca Nordics, BDI Federation of German Industry, Ferrovial, Gesfor, Hafslund Nett, Philips, Saab Group, TDC.

**Service providers:**
Atos, Capgemini, Genpact, IBM, ISS, Johnson Controls (JCI), Serco Group, Sodexo.
Dear fellow outsourcing professionals,

Welcome to the 2013 Outsourcing in Europe report, the first in-depth research to focus on the outsourcing market across eight countries in Europe. The report provides:

- Insight into the current outsourcing market
- Trends and developments in the market
- The main drivers and risks

We have extended this year’s survey to include organizations from the following countries:

- Denmark
- Finland
- Germany
- Netherlands
- Norway
- Spain
- Sweden
- United Kingdom

As well as an online survey of 3,700 respondents from eight European countries, we conducted in-depth interviews with executives from client organizations and service providers. The results show some interesting differences between the countries; for instance, Spain and Sweden were the most pessimistic about the potential in the information technology outsourcing (ITO) and business process outsourcing (BPO) market, with 15% and 14% of respondents respectively predicting contraction, and the lowest number of respondents anticipating year-on-year growth.

Some of the findings make for challenging reading. Surprisingly, most respondents indicate that services are transitioned to an external outsourcer on an as-is basis without any transformation of the service. This conflicts with the objectives that most respondents want to achieve in the short term (i.e., cost reduction, efficiency, quality improvements), or at least indicates that such improvements should only be measured over the lifetime of an arrangement.

Much of the content of this report is directly relevant to our roles within EY, where we face client outsourcing challenges on a daily basis. We are pleased that, in compiling this report, we were able to draw on the views of hundreds of outsourcing professionals and their colleagues, representing every major industry across Europe.

EY plans to build on this initiative by developing annual international research to address the wide-ranging topics of outsourcing and global business services. We trust you will find this report as useful as we have.

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Advisory, Middle East
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Executive summary
This research highlights that cost-efficiency remains the main driver for consideration and implementation of outsourcing initiatives, with 42% of respondents listing cost reduction among their top three reasons for outsourcing. Cost is the key driver for first generation outsourcing initiatives. In Northern Europe (Sweden, Norway and the UK), access to specific knowledge, expertise and tools are also key drivers.

With cost reduction, efficiency and quality improvements being listed as the top three objectives when outsourcing, it is surprising to note that services are transitioned to an external outsourcer on an as-is basis, with no transformation of the service.

When it comes to the retained organization, almost two-thirds (62%) of respondents employ staff who were not responsible for the service prior to outsourcing, indicating that most understand that the skill set required to manage an outsourced service is different to operationally delivering that service.

Approximately 75% of IT services remain in-house, indicating that even a mature market such as ITO demonstrates large potential for growth in the coming years.

There is no clear trend balancing local and regional economic factors with acceptance of offshore or global delivery models, with Spain, and notably Sweden, being the least adoptive of near and offshore delivery models. These two countries were also the most pessimistic about the potential in the ITO and BPO market, with 15% and 14% respectively predicting contraction, and with the lowest number of respondents of any country surveyed anticipating year-on-year growth.

Interestingly, although respondents note that innovation is difficult to define and harder to measure, 70% of respondents do in fact embed innovation clauses within their services contracts.
Introduction and background
This report is the result of EY’s European survey on outsourcing among market respondents, clients and service providers. Almost 3,700 respondents across eight European countries were questioned about the use of outsourcing in their businesses, their reasons for, and anticipated risks of, outsourcing, what they saw as developing themes and trends in the outsourcing market, their outsourcing experiences and other outsourcing-related topics. The respondents were interviewed by the use of an online questionnaire; the eight participating countries are:

- Denmark
- Finland
- Germany
- Netherlands
- Norway
- Spain
- Sweden
- UK

One uniform questionnaire was used, containing over 50 questions. Respondents were questioned about their experiences of outsourcing IT services and business processes. The table below details the services and processes per category used in our survey.

<table>
<thead>
<tr>
<th>Business processes</th>
<th>IT services</th>
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<tbody>
<tr>
<td>Call center and customer support</td>
<td>Application development</td>
</tr>
<tr>
<td>Design and engineering</td>
<td>Application management</td>
</tr>
<tr>
<td>Facilities management</td>
<td>Desktop and workplace management</td>
</tr>
<tr>
<td>Finance and accounting</td>
<td>Infrastructure and data center service</td>
</tr>
<tr>
<td>HR services</td>
<td>IT helpdesk and support</td>
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<tr>
<td>Knowledge processes</td>
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<tr>
<td>Legal services</td>
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</tr>
<tr>
<td>Logistics</td>
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<tr>
<td>Marketing</td>
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<td>Payroll services</td>
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<td>Procurement</td>
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<tr>
<td>Production and development</td>
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<td>Sales</td>
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</table>

As well as the 3,700 online respondents, almost 30 clients and service providers were interviewed across industries to get more insights into market outcomes. The client interviews were conducted with CEOs, CIOs, CFOs, CPOs, business managers and heads of outsourcing delivery within international organizations.

![Figure 1: All respondents by region](image1)

![Figure 2: All respondents by industry](image2)
Figure 3: Interviewed clients by industry

- Production: 50%
- Services: 30%
- Government and public sector: 5%
- Trade and distribution: 5%
- Other: 10%

Figure 4: Interviewed clients by revenue

- <€1b: 33%
- €1b–€2.5b: 3%
- €2.5b–€7.5b: 27%
- €7.5b–€15b: 17%
- €15b–€30b: 10%
- >€30b: 10%

Figure 5: Service providers by type of main services

- ITO: 22%
- BPO: 45%
- ITO and BPO: 33%
- Other: 33%

Industries:
- Automotive
- Cleantech
- Consumer products
- Life sciences
- Manufacturing
- Mining and metals
- Oil and gas
- Power and utilities
- Retail and wholesale
- Transportation
- Health care
- Government and public sector
- Financial services
- IT
- Management consulting
- Media and entertainment
- Private equity
- Professional services
- Real estate
- Technology
- Telecommunications
“When organizations perceive confidentiality as a risk of outsourcing they are less willing to outsource their service(s) to another country.”

Graeme Butterworth, Center of Excellence Outsourcing Advisory, EY
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The outsourcing market in Europe
Increased confidence and understanding among players, but lessons still to be learned

As competition, both within Europe and globally, continues to rise, organizations are increasingly more open to outsourcing as a valid means of cost reduction, particularly with regard to IT and business processes. Furthermore, certain industry sectors are more willing to outsource than others, and there is a mixed picture concerning the desirability of onshore, nearshore and offshore service provider locations.

3.1 Who’s outsourcing what – the general picture

In today’s market, outsourcing is a key business tool leveraged by most major enterprises. Two decades ago, organizations began to initiate shared service centers to improve the efficiency of their back-office processes. For many organizations, outsourcing was the next step to cutting costs and further improving efficiencies. Outsourcing today is no longer seen as exclusive to a specific size of organization or industry; however, there are differences in services being outsourced within various countries.

Figure 6: Outsourcing of services per country

IT and business processes most favored for outsourcing

Organizations in Finland, Spain and the UK outsource services to external service providers more often than other countries in our survey. In these countries, the highest percentage of outsourcing is seen in IT services, such as application development, IT helpdesk, infrastructure and testing, but also payroll services. Other business processes, such as sales, procurement and HR services, are outsourced less in these countries, but still more frequently than in the other countries.

Swedan and Denmark have the lowest levels of outsourcing. Although IT services such as application development and IT helpdesk services are outsourced to some extent, marketing, HR services, sales and procurement are outsourced only on a very limited scale. However, according to respondents, Denmark’s organizations are expecting to increase outsourcing of services in the coming years (see paragraph 3.6 for more details on future predictions).

Figure 7: Outsourcing of services per industry

Differences between industries

There is a marked difference in outsourcing of services between industries. The consumer products industry outsources most readily compared with other industries, followed by organizations in the automotive, telecommunications and management consulting industries. In the manufacturing industries, such as consumer products and automotive, margins are low, whereas in telecommunications, revenues are tight and declining – and all industries are seeing fierce competition, both within Europe and globally, hence we find a constant focus on cost reduction and a willingness to leverage sourcing models. Management consulting and services, generally, is a heavily acquisitive industry, characterized by new business models; consequently, outsourcing is considered normal practice for many non-core functions and services.

Reasons for outsourcing

The main reasons given for outsourcing in 2013 are cost reduction, followed by efficiency improvement and reduction in headcount, continuing a well-established trend. Organizations in the cleantech and IT industries execute most services in-house. Cleantech industry margins are relatively high, which reduces the pressure to lower costs by outsourcing. Organizations in the IT industry are naturally strong in
the delivery of core IT services and, as these are the most readily outsourced services across the market, it is perhaps not surprising that the IT industry has the lowest percentage of outsourced services overall.

Traditionally, government and public sector industries have not generally outsourced; however, our survey reveals that they now score average in outsourcing of services.

**Figure 8: Outsourcing of IT services per industry**

IT functions are outsourced most in the automotive industry, followed by the telecommunication and consumer products industries. Automotive organizations have, on average, outsourced 42% of their IT services – comprising mainly testing, other ITO services, helpdesk and support – to an external service provider.

**Figure 9: Outsourcing of business process services per industry**

Business processes are outsourced most in the management consulting industry, followed by the consumer products and oil and gas industries. The main business process services outsourced in management consulting are facilities, payroll services, and production and development services.

Whereas organizations in most industry sectors outsource more IT services than business process services, the oil and gas industry is different. This may be explained by the maturity level of the IT function in these organizations, which in general is higher than in other industries, and there is therefore less benefit to outsourcing IT services.

**Figure 10: Outsourcing of IT services**

The above chart indicates that approximately three-quarters of IT services at respondent organizations remain in-house, indicating that even a mature market, such as ITO, demonstrates large potential for growth in the coming years.

**Figure 11: Outsourcing of business process services**

Looking at what services organizations outsource most, IT services still lead, and appear to be the logical starting point when it comes to outsourcing. Once these services are outsourced, organizations are willing to identify outsourcing opportunities for business processes and services. This underlines a more mature market for IT services than for business process, albeit that the latter has been improving in recent years.

Services such as sales and procurement remain among the least outsourced; this is surprising as, according to last year’s respondents, these were expected to grow. This might indicate that either initiatives to leverage the market for these services stalled, or other pressures from respondents’ core markets eased, leading to changes in priorities. Infrastructure and
data center services are more outsourced than last year; in 2012, only 11% of the organizations surveyed outsourced their infrastructure services whereas this has doubled to 22% this year.

3.2 Onshore, nearshore, offshore – who’s outsourcing where, and why

In the survey, the respondents were asked about the location of outsourced services. Three options were identified:

- Onshore – provided from the same location or country
- Nearshore – from another country in the same continent
- Offshore – from an offshore location, usually located in Asia, the Middle East, Africa or Latin America

Although most services are provided from onshore locations, Denmark has the highest percentages provided from nearshore (26%), and offshore (16%) locations compared with the other countries in this survey. Services such as finance and accounting, desktop and workplace management, and HR services have a low percentage of onshore outsourcing in Denmark, only 11%, 20% and 29%, respectively.

However, outsourced services provided from offshore locations also remains small, with the preference being for nearshore delivery – the only exception being finance and accounting which, in 44% of the participating organizations, is provided from an offshore location.

In Germany, production, HR services, and finance and accounting are mainly provided from nearshore or offshore locations, with 28%, 32% and 38% respectively provided onshore.

Finland has the third-lowest percentage of outsourced services provided from onshore locations. However, Finnish organizations only outsource to offshore locations in a small number of cases, favoring nearshore locations instead.

Stefan Westdijk, Outsourcing Advisory Director at EY, comments: “The decision for an outsourcing location (onshore, nearshore or offshore) is the balance between the objectives an organization tries to achieve and the risks perceived. An organization that outsources mainly in order to achieve significant cost reductions, but perceives the risk of offshoring as too high, usually ends up with an onshore or nearshore location.”

At the other side of the spectrum are Sweden and Spain, where the least amount of outsourced services are provided from locations outside the country. It is somewhat surprising to see such extensive onshore outsourcing, especially in Sweden, as it not a low-cost country.

Figure 12: Location of outsourced services per country

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Figure 13: Location of outsourced services per industry

Organizations in the oil and gas, life sciences and telecommunications industries outsource their services the least to onshore locations compared with other industries, and instead attempt to optimize the reduced service charges of the low-cost countries.
Although the government and public sector industries are traditionally less interested in nearshore and offshore locations, there are a number of services not provided onshore; 13% of the participating organizations in this sector outsource finance and accounting to offshore locations, and 18% and 16% respectively of outsourced knowledge and procurement services are provided from nearshore locations.

3.3 Is maturity leading to core process outsourcing?

Nearly 60% of respondents in Spain reported outsourced services as part of the core business, followed by nearly 50% of the respondents in the UK and 41% in Germany.

There is an interesting link between organizations outsourcing their core business, and the level of outsourcing of organizations in a country (see paragraph 3.1), as it’s Spain, the UK and Germany that are respectively second, third and fourth when it comes to level of outsourced services. The conclusion is that organizations in these countries have a more mature view on outsourcing than the other countries; they are not only outsourcing non-core business-related services, but are willing to partner with external providers to improve their core business and create a competitive advantage.

3.4 Cost savings failure drives some services back in-house

In recent years, there has been speculation about bringing services back in-house. By asking respondents about which services are being insourced again, having been previously outsourced, we see the following outcomes.

Testing and application development are the two services most commonly insourced after a period of external provisioning, with one-quarter having been brought back in-house over time.

The main drivers for insourcing these services are “cost savings not realized,” “efficiency gains not realized” and “quality improvements not realized,” although the interviews with enterprise clients indicate that increased leverage of agile development methods over more traditional approaches has also had an influence on the insourcing of testing services.

3.5 The main drivers for outsourcing are changing

As in former local research, improvement in cost levels is still the most frequently cited reason for outsourcing (42%). Efficiency improvements and a greater focus on core business are the second and third reasons for outsourcing within Europe. However, this research unearthed a number of other interesting observations in this field. Although cost is still a strong argument for outsourcing, the number of nearshore and offshore locations used is still low. This might be explained by a perception that nearshore and offshore outsourcing will lead to additional complexity, influencing optimal cost savings and limiting efficiency.
Another contradiction to cost being the main driver for outsourcing is the level and size of retained organizations. In two-fifths of the surveyed organizations, the retained organization is rather large in comparison with the outsourced service, making it difficult to realize the desired cost level improvements (see paragraph 6.3 for a more detailed analysis on retained organizations).

Compared with previous research, access to specific knowledge as a driver for outsourcing has now dropped from second to fifth place, although it remains a key driver in Northern Europe. Efficiency improvements have become more important, moving from fourth to second place.

In Norway, Sweden and the UK, access to specific knowledge, expertise and tools is an important driver for outsourcing, and influences the location choice for outsourced services as these countries outsource less to nearshore and offshore locations.

**Figure 17: Most important reasons for outsourcing**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Norway, Sweden, United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvement in cost level or reduction</td>
<td>42%</td>
</tr>
<tr>
<td>Efficiency improvements</td>
<td>33%</td>
</tr>
<tr>
<td>Improved focus on core business</td>
<td>26%</td>
</tr>
<tr>
<td>Reduction in headcount objectives</td>
<td>24%</td>
</tr>
<tr>
<td>Access to specific knowledge, expertise and tools</td>
<td>23%</td>
</tr>
</tbody>
</table>

Respondents were also asked whether the reduction of capital investments is one of their main drivers for outsourcing. This seems to be important in the production and manufacturing industries; as these organizations are extremely influenced by market conditions, they want to become more flexible in their costs, enabling them to scale up or down according to market demands, or to meet needs to free up cash.

Clients and service providers shared that the main reasons given for outsourcing are strongly dependent on the organization’s experience of outsourcing. Several clients indicated that, for the first generation of outsourcing contracts, the main focus was on cost level reduction, efficiency improvements and improving focus on core business. For the second generation outsourcing contracts, organizations took cost level reduction as a given and changed their main drivers to efficiency improvements, access to specific knowledge and tools, quality improvements and standardization of services. One client commented: “Initially, it is all about an efficiency plan, which then turns into an effectiveness play.” Another said: “Growing into a second generation outsourcing contract, cost reduction will be achieved by end-to-end processes, looking for step changes in the quality delivered while driving efficiency, which will allow us to become more flexible, i.e., integrating acquisitions will be easier, almost like plug and play.”

**Figure 18: Most important risks for outsourcing**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Norway, Sweden, United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependency on external service provider</td>
<td>51%</td>
</tr>
<tr>
<td>Loss of control</td>
<td>43%</td>
</tr>
<tr>
<td>Impact on quality</td>
<td>35%</td>
</tr>
<tr>
<td>Loss of knowledge</td>
<td>29%</td>
</tr>
<tr>
<td>Loss of confidentiality</td>
<td>29%</td>
</tr>
</tbody>
</table>

**Risks of outsourcing**

When organizations outsource IT services or business processes, a number of risks have to be addressed. As in previous, local research, dependency on the external service provider is perceived as the most important risk by just over half of the respondents, followed by loss of control and impact on quality.

Loss of confidentiality is mainly perceived as a risk by Spanish organizations. As is visible in Figure 12, Spanish organizations outsource very little to nearshore and offshore locations. The perception of the loss of confidentiality plays a role in the location of outsourcing. Graeme Butterworth, Leader of EY’s Center of Excellence Outsourcing Advisory, comments: “When organizations perceive confidentiality as a risk of outsourcing, they are less willing to outsource their service(s) to another country. A good example would be a recent outsourcing engagement at a client in Switzerland. This client identified that the risk of confidentiality was so high that there were specific requirements to the location of the outsourced services. In that case, the client restricted the service provider to deliver the services only out of Switzerland.”

The perception of dependency on the external service provider is often seen as an important risk for companies. However, mitigation of this risk is not always a given. Only a small number of organizations implement mitigating activities to reduce the risk of dependency, and a significant number are struggling to do so.

Although organizations face many risks overall when outsourcing services, they are apparently capable of managing these risks, as they continue to outsource. One client commented: “You need to change the way of working in order to get the best out of a contract, which means adopting supplier standards, therefore permitting the risk of over-dependency on supplier
know-how and reducing the risk of changing to another provider or bringing the service back in-house.”

3.6 Outsourcing will grow, but there are mixed thoughts about procurement

Overall, the feeling is that the outsourcing market will continue to grow over the coming years, especially in Norway. Some clients, however, expect the increase to be higher than the average reflected in this survey. One client remarked: “The result of the survey may reflect willingness rather than real expectations.”

Figure 19: Prediction of outsourcing market per country

It is expected that, for all services, the outsourcing market will grow in the coming years; however, the question is, to what locations? One client noted: “Outsourcing will be on the up, the question is whether it will go offshore or be kept nearshore. India’s resource costs are spiraling, but in Europe, the unions and labor councils understand this problem, and wage inflation is low – the interesting aspect here is, once the current economic climate changes, will this trend become permanent or not?”

Respondents identified that procurement is a service on its own. Although the market overall expects a slight increase in procurement outsourcing, one-quarter of respondents expect this service to be increasingly provided in-house. Apparently, organizations are struggling with procurement and therefore have mixed thoughts about outsourcing it. Most identify that transactional procurement services can be outsourced, but also realize that procurement affects a high number of stakeholders throughout the organization, making it more complex to outsource.

When asked what they will do when their current outsourcing contract ends, most clients mention extending the current contract, without any selection process. This shows that organizations are either satisfied with the delivered service(s) or that costs related to switching are too high. However, a significant proportion intend to execute a (limited) selection process in which their current service provider will be included.

Eight percent of respondents intend to select another service provider after the contract end, due to dissatisfaction with the delivered services. This shows that organizations are becoming less resistant to switching from one service provider to another. One executive mentioned that this willingness to change providers will increase as “standardization of services and solutions in the cloud will make it easier to switch.” However, the use of standards is an essential prerequisite for this.
**Maturity: the basis of trust**

Countries in which companies have a longer history of outsourcing tend to have longer records of positive outsourcing experience. This maturity deepens trust in outsourcing and, in turn, encourages more firms in these countries to outsource. Regulations in some countries prevent companies from outsourcing jobs unless the people whose jobs are outsourced are offered jobs at the service provider. In countries with strong labor unions, it can become very expensive and politically sensitive to outsource.

Organizations in the consumer products sector face considerable margin pressure on their products. With increased competition for their products, they need to reduce their costs quite significantly – and they look to outsourcing as a way to realize this.

**Procurement: seeing the bigger picture**

Services such as sales and procurement remain among the least outsourced. One of the problems with procurement is that the stakeholder group is huge, because almost everyone in the organization is affected. In addition, there is a significant lack of visibility over the data, i.e., who's spending what, and with which suppliers. This lack of transparency makes it hard to optimize and outsource the function, as service providers are less willing to take over services from organizations that don't have purchasing contracts, policies and procedures in place. This is because, if policies and procedures don't exist, it's impossible to motivate employees to approach procurement in a consistent way. Instead, everyone makes individual purchasing decisions in the, often false, belief that they are getting the best deal. However, companies should see the greater good of outsourcing procurement. Even if the goods you procure are not actually cheaper, you can gain in other ways, such as invoice handling, centralizing processes and better spend visibility.

**Change management: the key to success**

When outsourcing, it is crucial to communicate with all of your stakeholders and make sure that they are on the journey with you. Not involving the different stakeholders can result in an outsourcing failure. To realize the full benefits of outsourcing, a comprehensive communication and change management program is critical.

**Offshoring: embedding culture**

Picking up knowledge of the client’s business is the biggest single challenge for an offshore provider. This can be addressed by knowledge transfer sessions at the beginning of the partnership. But invariably, attrition of staff will erode this knowledge base. So, the key is to become a business partner and keep interacting with the business, even becoming embedded in it. For example, people from the offshore provider could, for regular periods, work onshore side by side with the business so they can deepen understanding and exchange cultural knowledge. At the end of the day, it’s a partnership and if the company sees the relationship as “us and them,” it will fail.
In addition, when looking at Figure 12, it is worth keeping in mind the effect of government outsourcing, which always tends to be onshore and will have skewed the percentages by country shown in this chart. Governments have a political imperative not to export jobs and hence they onshore when outsourcing. Figure 13 shows this tendency – both for government and also real estate.

**Decentralized outsourcing: a driver for onshoring**

The data suggests that more companies are onshoring than offshoring. One reason for this might be a lack of centralization. Companies are happy to outsource a function, but in multiple countries, i.e., it’s not a centralized approach but carried out within each country. In addition, it’s often easier to onshore because there are no cultural or language issues. Or, in some instances, it may be that local costs are lower than offshore. One other factor is data privacy and security, despite particular agreements across Europe, companies still don’t feel that they have a strong enough safety net. They keep some services in-house or outsource it onshore because of the potential risk of data privacy issues and information security.

**Insourced services: preserving first-mover advantage**

In certain sectors, companies bring services back in-house as they seek to carve out a competitive advantage. For example, telecommunications companies are bringing application development in-house. That particular industry is moving very quickly, as it attempts to meet the ever-changing demand for unique services. In a fast-moving world, companies are aware that outsourcing this work could mean that providers share best practice with other clients as they seek to drive their own efficiencies. The result of this would be a loss of first-mover advantage.

**New drivers: looking for added value**

For first generation outsourcers, cost used to be the main driver for outsourcing. But cost savings are now a given factor, and service providers are looking for additional drivers to further develop the relationship with the outsourcer. Clients are looking to providers to act as business partners, who get to know their business and help to drive efficiency and development. Over time, as organizations build trust with their providers, parts of the business that were once considered too core to outsource, will begin to move to providers. For example, a company might keep its financial analysis in-house because it does not trust the outsourcer to do it. But a second generation outsourcer may have increased capabilities, giving more comfort to client organizations handing over more responsibilities to them.
What this means for businesses

Risks of outsourcing

For many companies in many sectors, confidentiality is the biggest perceived risk. They protect their brands and company data fiercely. Providers are very aware of the importance of confidentiality, and implement all kinds of elements to protect security and privacy. However, it is very difficult to stop someone who is determined from stealing your data. All you can do is use best practice to minimize the risks.

Another risk is loss of control. At the start of an outsourcing relationship, there is no trust borne of experience. Trust isn’t built immediately and, at the start, it has to be implicit. When you have mutual trust, you’ve got something on which to build.

The risk of being dependent on a single provider can be mitigated by using more than one provider. The risk of using a single provider was demonstrated in 2009, when Indian IT services provider, Satyam, admitted to falsifying company accounts.1 It was practically destroyed as an outsource provider, with devastating consequences for those companies who relied solely upon it for their IT services. Having more than one provider also produces constructive competitive tension.

On the other hand, using multiple providers can make outsourcing more difficult. For example, there may be a complexity caused by not knowing who’s doing what or who’s responsible for what. There are other considerations, such as the relationship, which can be adversely affected because the client is less important to the provider due to a reduced buying power. In addition, splitting services across multiple providers can make it more difficult to realize cost savings.

Production and development: collaborating to cut costs

In certain industries, to keep costs down, companies are starting to collaborate more or use pooled services for development. The automotive industry is a classic example where, in future, manufacturers will collaborate more on things such as designing chassis or floor panels. By collaborating, they share the cost. In the design stages, for instance, you may find that the key work is being kept within the company. But they outsource to do the expensive development work because there is a glut of technical experts in India, for example, as it has grown to be a more knowledge-based country.

After signing the contract: better benchmarking

When they sign the outsourcing contracts, businesses expect to realize cost savings. But increasingly, clients will look to drive that even further. Even if they’re happy with the outsource provider, on renewal, many will deliberately go through a selection process to see if there is a better provider out there. And even if they don’t, they should still benchmark quality and value against alternative providers to ensure that they can drive a harder renegotiation deal.

4 Trends
Clients become more demanding of their outsourcing partners

The research shows a movement from supply to demand, where clients ask for specific expertise and knowledge from the outsourcing supplier. This trend is seen emerging into a vertical focus, specializing at the industry level, underpinning the specific knowledge and expertise companies are searching for nowadays. One service provider observed: “Since we need to focus more toward asset-based outsourcing, we should speak the client’s language, industry-specific software and applications.”

For all countries except Norway and Finland (who rate it second), cloud computing is seen as the most important trend in the outsourcing market. Although cloud is listed as the highest likely trend relevant to outsourcing, it is often seen as an enabler for big data and more flexible pricing models, and therefore also supports these specific trends.

Figure 22: Trends in the outsourcing market

4.1 Big data is an up and coming trend

Large companies (i.e., more than 5,000 employees) see big data development as an important outsourcing market trend, with the power and utilities industry rating this highest. Smart metering enables a dramatic increase of data collection frequency for companies in this industry. Consumer products and automotive are second and third to rate the importance of big data, whereas management consulting, private equity and cleantech have little or no recognition of this trend.

Figure 23: Big data, top three rankings

4.2 Sustainable outsourcing - still more to be done

While 20% of respondents estimate that sustainable outsourcing will be an important trend in the outsourcing market, a significant 44% of agreements with outsourcing providers do not contain any sustainability agreements. In general, there is an intention to move to sustainable outsourcing, but no concrete plans to turn this intention into practice.

For those respondents that have sustainability agreements, the most mature ones set lack of sustainability certification as a disqualifier and, on top of that, invest an element of the service fee in sustainable initiatives.

Service providers have obviously picked up on the sustainable outsourcing item, since most of them reflect this in their corporate social responsibility (CSR) targets. It encompasses some of the most important aspects of our long-term sustainability: health and safety, the environment, people and communities.

Although often included in the contract, some service providers only see the sustainability item as a hygiene factor, and a topic typically more talked about than essential. One of our service providers noted: “Two to three years ago, sustainability was a hot item. Currently, this is not the case. It is no more than a hygiene factor.” Our study shows that this is not just a hygiene factor, and that respondents believe it should be seriously taken into account.

Figure 24: Sustainable outsourcing

Netherlands leads, with 29% of the Dutch respondents indicating that sustainable outsourcing will be a trend in the future. This might be explained by the fact that the Dutch Government has launched a sustainability agenda to stimulate Dutch companies to be highly focused on CO₂ reduction and sustainability.
What this means for businesses

**Cloud computing: passing problems to the provider**

It is widely acknowledged that cloud computing is a good way to turn a fixed cost into a variable cost. For example, rather than paying for systems and software themselves, by outsourcing cloud services, companies ensure that variations in cost become the provider’s problem. In future, more and more companies will turn to outsourced providers for cloud services.

**Big data: maximizing information, minimizing effort**

The other large trend in outsourcing is big data. Companies have more data than they can manage. Learning how to analyze and use data properly will become increasingly important in certain sectors. Current technology makes it possible to analyze huge quantities of data in a short time. Doing it effectively takes resources. With the help of an outsourcer to find, collate, format and analyze data, companies can get a snapshot of information within half an hour, when it could take weeks if they had to do it themselves. Using outsourcers to do this time- and resource-consuming work allows the client to stay focused on their business and their marketplace, while still receiving the same insights that they would have otherwise generated themselves.

This research and analytics, or knowledge processing, is a specialty service and the market for this is still developing.

**Sustainable outsourcing: shared responsibilities**

As organizations are increasingly under scrutiny for their sustainability efforts, this is becoming an important component of the outsourcing contract. Companies are aware of their corporate social responsibilities and the impact this can have on their brand and reputation. Many clients are careful to ensure the outsourcer follows their CSR directives and requirements.
5

Service providers and contracts
The market is “growing up”

There is a growth in outsourcing to industry-specific service providers, and even smaller organizations have increased the services they are prepared to outsource. With regard to contracts, fixed price and full-time equivalent (FTE) are still most widely used; however, there is a small, but significant, shift toward outcomes-based pricing, which is anticipated to grow in coming years.

5.1 Clients looking for industry-specific solutions

For most services, the outsourcing market has reached a rather mature level. Many providers have been servicing clients for several years on most of the indicated services. However, the market strategy and focus of these service providers differs. Some service providers are convinced that they can serve their clients best if they focus on providing a number of services to one or more industries. These industry-specific service providers develop and maintain their services based on the specific industry needs. Another category of service providers, generalist service providers, focus instead on a number of specific services (e.g., finance and accounting and HR services, or application development and application maintenance). These providers deliver their services to clients across different industries and focus on the elements that bind the services across industries.

![Figure 25: Type of service provider per country](image)

Most respondents outsource to industry-specific service providers, especially those in Finland, Spain and Germany. Furthermore, as organizations increase in size, they are more willing to outsource to generalist service providers. This is interesting, as most generalist service providers are larger organizations themselves. In most cases, however, these provide an industry-specific service offering. One client even remarked: “We would expect that all service providers are industry-specific now – either as a specialized provider to the vertical or horizontal, or through a specific go-to-market or business development approach.”

![Figure 26: Type of service provider per size of organization](image)

5.2 Fixed price and FTE-based pricing arrangements most common

The most common financial arrangement for outsourcing contracts is still the fixed price and FTE-based pricing arrangement, and has been confirmed in the qualitative sessions held with clients and service providers. These contracts often come combined with FTE-based pricing and often include employee transfers. Most first generation outsourcing contracts are based on a fixed price arrangement, whereas second generation contracts are more often focused toward volume variability and gain share arrangements. “Fixed price can be beneficial in that it reduces the overhead to manage the contract and invoicing, but can be more risky as you have to contract for everything explicitly and be clear on scope. For the future, we would look to move toward outcome-based pricing - so transaction based with flexibility to ‘flex’ the demand of personnel within limits,” observed one client.

![Figure 27: Financial arrangements of outsourcing deals](image)

When looking at country differences, Denmark and Finland by far make the most use of fixed price arrangements. Risk and reward is more common for countries such as Germany and the UK.
5.3 Innovation a problem in outsourcing contracts

Although innovation is stated as being an important requirement of outsourcing, it is not addressed in 41% of outsourcing agreements. Further analysis and discussion with clients and service providers show that defining innovation is the biggest challenge for both. Organizations are struggling with the term innovation. “What is continuous improvement and what is innovation? It’s very difficult to define, and innovation is a real struggle to articulate,” expressed one client. “Innovation is an integrated part of all outsourced services - but it is difficult to make it work.” There appears to be a more specific role for service providers to explain innovation to clients and show how innovation is included in the provided services. Client organizations want to see more specific innovation from providers.

Figure 28: Innovation elements in outsourcing contracts

5.4 Most outsourcing agreements include sustainability

Beside the general trend of sustainability, we also asked respondents to indicate what sustainability agreements are made with their service providers. For the purposes of this study, we have defined sustainability as a range of environmental and corporate social responsibility elements. Over 55% report specific sustainability agreements with service providers in the outsourcing contract.

Figure 29: Sustainability elements in outsourcing contracts

Typical sustainability agreements with the service provider(s) include elements around:

- Certification on sustainability
- Child labor
- CO₂ reduction
- Sustainable initiatives

Overall, being certified on sustainability is the most important criteria for our respondents. One of our clients stated: “All suppliers are CSR-assessed before contracts take effect.” This especially relates to the production industry. A guarantee that no child labor is used is an especially important criteria in the consumer products industry (52%). However, 44% of respondents answered that they have no agreements on sustainability whatsoever.

Interestingly, an agreement to invest part of the service fee in sustainable initiatives is one of the elements agreed on with service providers, as indicated by the respondents, especially cleantech (72%), management consulting (55%), and automotive (40%). One client reported: “We request our providers to be certified and, on top of that, part of the service fee is invested in sustainable initiatives.”
Providers: industry-specific experience
Most service providers are not offering a generic service across several industries, but have specific industry solutions. So although they’re not industry-specific, the client experiences them as such. The big outsourcing providers have done a good job in creating an industry-specific solution or, at least, making customers feel like they’re getting one.

Innovation: lost in translation
In a contract between a business and a provider, defining innovation is difficult. What can be considered continuous improvement, and what can be considered innovation? It is difficult to articulate, and the parties can spend time arguing over whether innovation targets have been met – and fees earned. Without clear benchmarks, it’s easier for the client to argue that the provider is not being innovative. From the provider’s point of view, they want to offer innovation, but their view of what it is may differ from that of the client – and the client’s expectations may therefore be inflated.

Ethical working: protecting your reputation
With companies attracting increasing scrutiny of the way they produce their goods and services, they have to ensure that providers exhibit the same commitment to ethical standards as they do themselves. Are providers treating their environment, their workers and their communities with respect? Do they adhere to regulations? High-profile organizations can suffer severe reputational damage if one of their providers is exposed, for example, as a polluter or an exploiter of labor, or if it acts fraudulently. So, to attract and retain business from high-profile organizations, providers must reach and sustain high standards of ethical behavior. Companies should insist that ethical commitments are written into contracts with providers and are measured and audited periodically.
Transition and the retained organization
The much-needed rise of transforming functions

As attitudes to outsourcing become more focused, there is a realization that without much-needed transformational activities, many of the benefits of outsourcing cannot be realized. Another interesting aspect is that organizations are becoming increasingly aware of the need to have in-house resources with a new skill set, which can optimally manage the outsourcing services. The market is also seeing an increase in the use of external resources for support and advice in decision-making about outsourcing.

6.1 Most services outsourced on an as-is basis, but this is changing

An essential factor of outsourcing services to an external provider is the transition phase. The largest group of our respondents indicated a preference to outsource most of their services as-is, without any transformational activities prior to or after the outsourcing transition. This mainly concerns first generation contracts (first-time outsourcing). Second generation contracts (from one outsource provider to another) include more transformational activities.

Interestingly, not transforming at all conflicts with the main outsourcing objectives of respondents, i.e., cost savings and efficiency improvements. Outsourcing could stimulate an improved focus on core business, but by not transforming, any improvements in efficiency and costs are practically impossible.

Some companies first lift and transform functions to a shared services center (SSC), after which the service can be outsourced as one harmonized function, including more chance of a fluent transition. In this case, the organization optimizes the function itself before outsourcing it to an external service provider.

As organizations move to a more mature outsourcing stage, there will be more focus on transforming functions before moving services to providers, after which further transformation during the contract lifetime will take place.

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**Figure 30: Transition approach across all countries**

| Transition of services as-is (no transformation) | 33% |
| First transform, then outsource | 22% |
| First outsource, then transform | 20% |
| Combination | 25% |

---

6.2 Service quality and rates the main focus of client and provider discussions

During the transition of activities, multiple discussions exist between service providers and their clients. Figure 31 shows the most common, with quality of service listed as most discussed. Essential for both the client and service provider is to make solid agreements on the transition service level agreement (SLA), since this is often forgotten. Obviously, the rates for services are part of the discussion as well, but interestingly, at a number of outsourcing initiatives, this is still an item of discussion during transition phase. Rate discussions would be expected to be finalized and documented in, for example, a rate card, once the contract is finalized to avoid such discussions later on in the transition.

---

**Figure 31: Discussion elements during contract life cycle**

- Additional change requests: 17%
- Budget during transition: 23%
- Change in resources or team: 23%
- Level of standardization or customization of services: 22%
- Planning: 24%
- Quality of service: 43%
- Rates for services: 35%
- Responsibilities of each party: 25%
The reasons for discussion during transition of services appear to be the same across countries, with only some country-specific deviations. The most interesting gap is between Sweden and Finland; Sweden marginally discusses the responsibilities of each party during transition, where Finland seems to be very critical along most of the axes. Apparently, in Sweden, generally, the roles and responsibilities are clearly agreed upon, limiting the reasons for discussing these during the contract life cycle.

Only a very few respondents report having no discussions at all during transition.

Figure 32: Reasons for discussion in the transition phase

6.3 Retained organizations employing new resources with different skill sets

Transitioning to the service provider is an important factor in the success of the outsourced service. Both the retained organization and the transition methodology define the chances of success.

When asking organizations how they structure their retained organization, most reply that this is a combination of specialists and experts already employed by the company working in the outsourced function, and newly attracted resources with a specialized skill set. Organizations seem to realize that successful management of the service provider requires a combination of additional skills and knowledge of the organization and the outsourced service.

Figure 33: Structure of retained organization

When looking at the size of the retained organization compared with the outsourced service, there is no “one size fits all,” with variances from between 0% and 5% to more than 50% of the outsourced service.

Remarkable is that more than 40% of the organizations indicate that their retained organization is rather large, i.e., more than 20% larger than the outsourced function measured in FTEs. For such large retained organizations, it becomes very difficult to realize the most important objective for outsourcing – cost reduction. The diversity in size of the retained organizations can be explained by differences in responsibilities. Retained organizations managing their outsourced services in detail are in general larger than retained organizations that have fewer responsibilities.

Figure 34: Size of retained organization as % of outsourced service

6.4 Use of external support in decision-making for outsourcing

When asked whether they engage with external sources, 42% of organizations indicate external sources are used in the preparation and execution of outsourcing initiatives. When comparing countries, Germany and the UK are most mature in using external support in their outsourcing engagements. The Nordic countries overall use the least support when outsourcing business or IT processes. In 75% of cases, no external support is used.

Figure 35: Use of external support
Outsourcing in Europe
An in-depth review of drivers, risks and trends in the European outsourcing market

Of all respondents using external support for their outsourcing engagements, most engage them for their independent view and to gain expertise about outsourcing initiatives and approaches.

**Figure 36: Reason for external support**

An interesting difference between countries is the reason for external support. The Netherlands focuses mainly on obtaining an independent view on outsourcing initiatives, whereas Denmark, for example, mostly wants to improve the quality of the decision-making process. This could be explained by differences in outsourcing maturity within these countries.

**Figure 37: Reason for external support per country**
Transformation: building a strong base

There are two elements to transforming. The first is changing the process at a functional level. This is what organizations tend to focus on, because it is within the gift of the service provider to help push.

The second is transforming the operational design, i.e., the retained organization, and this can't be influenced by the service provider. Unless the client brings in specific outside help to do this, it is difficult for them to get it right. This is because not only does the organizational design need to change, but the way people work and the roles and responsibilities that they have in the retained organization must also change. And people's capabilities to deliver must change too.

It can cost less in the long run if you invest in getting processes right before you outsource them. If a business transitions a service or function that is soundly run, the provider will be better prepared to focus on excellence because the organization would already be there and the inefficiencies already eliminated. The business can outsource at a lower cost, without paying for expensive remedial action.

Indeed, a knock-on effect of doing it this way is that the relationship with the service provider is on a solid footing from the very beginning. If you transition broken processes, and they're transformed by the service provider, what will tend to happen is that the relationship is rocky right at the beginning as both parties suffer from operational teething problems at a stage when they have not had time to forge trusting relationships.

However, some organizations don't have the capability to change the services themselves, and are reliant on an external provider to help them.

Service quality: managing expectations

Unless the parties have an established, trusting partnership, their relationship will be governed by SLAs. Many clients find that SLAs are not delivering what they want. This is because, at the beginning of the relationship, they fail to establish the right SLA. The service provider maintains that they are delivering to the SLA that was agreed, but the client feels that this is beside the point because the SLA was not appropriate in the first place. The client will aspire to best-in-class service, while the provider may be taking worst-in-class service from the client's hands and improving it. So, an expectation gap about the pace of progress can be built in from the start. Managing expectations is key.

Figure 32 shows how, in Norway, there is much less discussion about rates and service quality. So, apparently, clients in Norway have done a much better job of defining the SLA. This is perhaps because, right now, the Nordics is a very hot region for outsourcing. Countries in this region have come to outsourcing later than others and they have learned much more, very quickly. They are better informed about how to structure an outsourcing deal.
What this means for businesses

Organizations should be aware that while they may be approaching outsourcing for the first time, the providers will have been through the negotiation process hundreds of times. They will be much more experienced at negotiating SLAs – and knowing how SLAs can work in their favor. So, to redress this imbalance, organizations must make sure that they are properly advised.

Skill sets: retain your capabilities

Once you outsource a service, you have to build a retained organization that manages it and ensures that you get the service you need. It’s important for the business to retain key subject matter specialists who know the business back to front. They are the people who will help manage the relationship with the provider. If outsourcing the function does not work, they offer the capability to build it up in-house again. Organizations also need people to manage the contracts. Working with a service provider is a specialist skill for which companies must provide.

External support: the value of good advice

Figure 35 shows that the more mature outsourcing markets, such as Germany and the UK, are more likely to use external support when outsourcing. Of interest are countries, such as Denmark and Finland, which are showing as less inclined to rely on other advisors to help. There are a number of reasons why this might be. The Nordics, as a region, came to the outsourcing market later than other countries, and this means they’ve had the benefit of learning from others’ experiences. So, in the Nordics (and this pattern can be seen in other geographies too) organizations that have been preparing to outsource have researched the process and learned to do some of the work themselves.

Meanwhile, some that are onto their second or third generation contracts have gone through the process before, and are confident enough to run the selection process themselves, while seeking advice on other issues. Others, naively, think that they can undertake the whole task of establishing a relationship with an outsourcer. Often, they don’t get a good quality of service at the end of it, because they don’t actually know what they need in the first place.

Getting an independent view on outsourcing initiatives – and ensuring that the right balance of processes is outsourced – is critical. An expert advisor will look at an organization’s risk appetite and assess what services, in reality, that organization will accept being outsourced. The advisor will help present options, some of which will push boundaries, and help the organization find the balance of purposeful outsourcing while staying true to themselves.
Driving sustainable and measurable results: why EY’s Advisory services?
What we do

EY uses its sector-focused approach and global delivery capabilities to help our clients to transform business performance, manage risk and sustain improvement.

Our global structure, including our SSC practitioners’ network of over 800 subject matter experts, enables us to operate seamlessly with our clients and across our own organization in over 140 countries. Our advisory capabilities are forged by our heritage in assurance, tax and transactions, and enriched with our people to inject sector-specific knowledge.

• With various benefit forecasting and management tools, we are able to monitor development and outcome — starting from the global business services strategy refinement to the point of implementation.

• EY’s change management approach will be a focus area from day one of such a project. It closely aligns communication and change elements to project evolution and the issues that may arise for stakeholders. For each project phase, road-tested tools and methods are in place, which enable change. We recommend deploying our EY Advanced Solution Center toward the end of the design phase, to achieve strong stakeholder alignment on the target operating model and gain additional momentum for change.

• We employ a multitude of proven tools to tackle the challenges that clients typically face during each project phase.

Our end-to-end Global Business Services framework can improve your business performance. We provide the business intelligence, planning and analysis to help enable our clients to make practical, informed decisions about business direction and the technology needed to enhance these services. Our global knowledge can help you to increase your operational effectiveness, drive sustainable and measurable results and protect your business.

What we offer

• A highly integrated business, a highly integrated Advisory practice
  We operate as a highly integrated business across all our geographical areas, which improves our decision-making and speed of execution.

• Highly experienced outsourcing and shared service experts
  We attract and retain top talent across industries in a structure that enables us to mobilize our people quickly – and allocate them to projects in the right place, at the right time.

• One global methodology
  We have a highly integrated modular methodology so that wherever we work, we deliver consistently.

The EY Shared Services Center Leaders Club

Founded in 2007, our Shared Services Center Leaders Club connects global peers and specialists who work in this area. It’s a place where leaders can discuss the challenges and issues that they all face, and share knowledge with peers beyond company boundaries. We hold regular get-togethers, where discussion often focuses on how to solve common operational problems. The club’s members are representatives of organizations with a proven record of successful shared services implementation. These professionals work for many of the world’s leading companies and come from industries including automotive, chemicals, consumer goods, pharmaceuticals and transportation.
Appendix – Country profiles

Denmark

Respondents per industry

- Production: 19%
- Services: 23%
- Government and public sector: 21%
- Trade and distribution: 10%
- Other: 28%

Respondents by size of organization

- More than 10,000: 31%
- 5,001 to 10,000: 16%
- 1,001 to 1,000: 28%
- 201 to 1,000: 26%

Outsourced services

- ITO: 7%
- BPO: 23%

Location of outsourced services

- ITO: Onshore 53%, Nearshore 28%, Offshore 19%
- BPO: Onshore 65%, Nearshore 23%, Offshore 12%

Percentage of outsourced core and non-core business

- Core business: 31%
- Non-core business: 69%

Transition approach

- First outsource, then transform: 25%
- First transform, then outsource: 5%
- Combination: 24%
- Transition of services “as-is” (no transformation): 46%

Top five reasons for outsourcing

1. Improvement in cost level or cost reduction: 18%
2. Quality improvement: 16%
3. Becoming more flexible: 15%
4. Clients’ organization cannot keep up with the latest technological changes: 11%
5. Attractiveness of offer from service provider(s): 10%

Top five risks for outsourcing

1. Dependency on external service provider: 20%
2. Impact on quality: 16%
3. Loss of control: 15%
4. Loss of knowledge: 10%
5. Ability to achieve the objectives of outsourcing: 10%
Appendix – Country profiles

Finland

Respondents per industry

<table>
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<th>Industry</th>
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<tr>
<td>Production</td>
<td>12%</td>
</tr>
<tr>
<td>Other</td>
<td>23%</td>
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Percentage of outsourced core and non-core business

- Core business: 11%
- Non-core business: 89%

Transition approach

- First transform, then outsource: 28%
- First outsource, then transform: 9%
- Combination: 20%
- Transition of services “as is” (no transformation): 43%

Respondents by size of organization

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<tr>
<th>Organization Size</th>
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<td>5,001 to 10,000</td>
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<td>1,001 to 5,000</td>
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Outsourced services

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<td>BPO</td>
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<td>86%</td>
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Location of outsourced services

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<th>Service Type</th>
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<th>Nearshore</th>
<th>Offshore</th>
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<tr>
<td>ITO</td>
<td>67%</td>
<td>21%</td>
<td>12%</td>
</tr>
<tr>
<td>BPO</td>
<td>81%</td>
<td>15%</td>
<td>3%</td>
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</tbody>
</table>

Top five reasons for outsourcing

1. Improvement in cost level or cost reduction: 19%
2. Reduction in headcount objectives: 16%
3. Improved focus on core business: 15%
4. Efficiency improvements: 13%
5. Reduction of capital investments (moving from Capex to Opex): 8%

Top five risks for outsourcing

1. Dependency on external service provider: 23%
2. Impact on quality: 15%
3. Loss of knowledge: 13%
4. Loss of control: 12%
5. Ability to achieve the objectives of outsourcing: 10%
Top five trends

- Specific or specialist knowledge and expertise: 30%
- Cloud computing: 23%
- Sustainable outsourcing: 21%
- Insourcing: 20%
- New (more flexible) pricing models: 18%

Future market predictions

- Increase: 27%
- Stay the same: 67%
- Decrease: 6%

Innovation elements in contracts

- There are no agreements on innovation during contract lifetime: 44%
- The internal organization and the service provider are responsible together: 10%
- Innovation days are organized on a regular basis: 9%
- There is an (annual) budget assigned to invest in innovation: 8%
- The service provider has to deliver a certain innovation level during contract lifetime: 3%
- The service fee is based on the level of innovation: 1%
- Innovation board appointed which is responsible for delivering innovation: 4%

Sustainability elements in contracts

- No sustainability elements are agreed with the service provider: 43%
- The service provider is certified on sustainability: 23%
- The service provider guarantees that no child labor is used: 19%
- The service provider is monitored for CO₂ production: 10%
- Part of the service fee is invested in sustainable initiatives: 8%
- Other: 4%

Size of retained organization

- 0%-5%: 24%
- 6%-10%: 24%
- 11%-15%: 16%
- 16%-20%: 13%
- 21%-25%: 5%
- 26%-30%: 4%
- 31%-50%: 11%
- More than 50%: 16%

Outsourcing in Europe: An in-depth review of drivers, risks and trends in the European outsourcing market.
Appendix – Country profiles

Germany

Respondents per industry

- Production: 19%
- Trade and distribution: 8%
- Services: 22%
- Government and public sector: 29%
- Other: 23%

Percentage of outsourced core and non-core business

- Core business: 41%
- Non-core business: 59%

Transition approach

- First transform, then outsource: 35%
- First outsource, then transform: 20%
- Combination: 21%
- Transition of services “as is” (no transformation): 24%

Respondents by size of organization

- More than 10,000: 27%
- 5,001 to 10,000: 13%
- 1,001 to 5,000: 23%
- 201 to 1,000: 37%
- More than 5,000: 27%

Outsourced services

- ITO: 20%
- BPO: 12%

Top five reasons for outsourcing

- Improvement in cost level or cost reduction: 17%
- Reduction in headcount objectives: 14%
- Improved focus on core business: 12%
- Efficiency improvements: 12%
- Standardization: 9%

Location of outsourced services

- ITO: 70%
- BPO: 61%

Top five risks for outsourcing

- Dependency on external service provider: 21%
- Loss of control: 17%
- Loss of confidentiality: 14%
- Impact on quality: 13%
- Loss of knowledge: 10%
Outsourcing in Europe
An in-depth review of drivers, risks and trends in the European outsourcing market

Top five trends

- Cloud computing: 36%
- Specific or specialist knowledge and expertise: 27%
- Big data: 26%
- Sustainable outsourcing: 21%
- New (more flexible) pricing models: 18%

Sustainability elements in contracts

- No sustainability elements are agreed with the service provider: 50%
- The service provider is certified on sustainability: 23%
- The service provider guarantees that no child labor is used: 21%
- Part of the service fee is invested in sustainable initiatives: 17%
- The service provider is monitored for CO2 production: 14%
- Other: 0%

Future market predictions

- Increase: 29%
- Stay the same: 60%
- Decrease: 11%

Innovation elements in contracts

- There are no agreements on innovation during contract lifetime: 48%
- There is an (annual) budget assigned to invest in innovation: 19%
- Innovation days are organized on a regular basis: 18%
- The service provider has to deliver a certain innovation level during contract lifetime: 18%
- The internal organization and the service provider are responsible together: 16%
- The service fee is based on the level of innovation: 15%
- Innovation board appointed which is responsible for delivering innovation: 13%

Size of retained organization

- 0%-5%: 23%
- 6%-10%: 20%
- 11%-15%: 25%
- 16%-20%: 7%
- 21%-25%: 8%
- 26%-30%: 7%
- 31%-50%: 10%
- More than 50%: 0%
Appendix - Country profiles

Netherlands

Respondents per industry

- Government and public sector: 30%
- Services: 25%
- Trade and distribution: 4%
- Other: 11%
- Production: 11%

Percentage of outsourced core and non-core business

- Core business: 22%
- Non-core business: 78%

Respondents by size of organization

- More than 10,000: 23%
- 5,001 to 10,000: 11%
- 1,001 to 5,000: 33%
- 201 to 1,000: 34%

Transition approach

- Combination: 42%
- First outsource, then transform: 10%
- First transform, then outsource: 18%
- Transition of services “as is” (no transformation): 30%

Outsourced services

- ITO: 20% Outsourced, 80% In-house
- BPO: 9% Outsourced, 91% In-house

Location of outsourced services

- ITO: Onshore 69%, Nearshore 11%, Offshore 21%
- BPO: Onshore 84%, Nearshore 12%, Offshore 3%

Top five reasons for outsourcing

- Improvement in cost level or cost reduction: 17%
- Efficiency improvements: 13%
- Improved focus on core business: 12%
- Access to specific knowledge, expertise and tools: 10%
- Quality improvement: 9%

Top five risks for outsourcing

- Dependency on external service provider: 23%
- Loss of knowledge: 19%
- Loss of control: 18%
- Impact on quality: 12%
- Impact on client’s organization: 6%
Outsourcing in Europe: An in-depth review of drivers, risks and trends in the European outsourcing market

Top five trends

- Cloud computing: 39%
- Sustainable outsourcing: 29%
- New (more flexible) pricing models: 29%
- Combined outsourcing of IT and business processes (multifunctional business services): 19%
- Social media connections: 19%

Sustainability elements in contracts

- No sustainability elements are agreed with the service provider: 43%
- The service provider is certified on sustainability: 25%
- The service provider guarantees that no child labor is used: 12%
- The service provider is monitored for CO₂ production: 9%
- Part of the service fee is invested in sustainable initiatives: 5%

Future market predictions

- Increase: 33%
- Stay the same: 54%
- Decrease: 13%

Innovation elements in contracts

- There are no agreements on innovation during contract lifetime: 43%
- The internal organization and the service provider are responsible together: 16%
- The service provider has to deliver a certain innovation level during contract lifetime: 10%
- There is an (annual) budget assigned to invest in innovation: 8%
- The service fee is based on the level of innovation: 6%
- Innovation days are organized on a regular basis: 6%
- Innovation board appointed which is responsible for delivering innovation: 5%

Size of retained organization

- 0%-5%: 23%
- 6%-10%: 24%
- 11%-15%: 11%
- 16%-20%: 11%
- 21%-25%: 11%
- 26%-30%: 11%
- 31%-50%: 5%
- More than 50%: 1%
Appendix – Country profiles

Norway

Respondents per industry

- Production: 25%
- Services: 20%
- Government and public sector: 17%
- Trade and distribution: 9%
- Other: 30%

Percentage of outsourced core and non-core business

- Core business: 27%
- Non-core business: 73%

Transition approach

- First outsource, then transform: 20%
- First transform, then outsource: 15%
- Combination: 34%
- Transition of services “as is” (no transformation): 32%

Respondents by size of organization

- 1,001 to 5,000: 30%
- 201 to 1,000: 30%
- More than 10,000: 24%
- 5,001 to 10,000: 13%
- 1,001 to 5,000: 13%

Outsourced services

- ITO: 16%
- BPO: 7%

Location of outsourced services

- ITO: Onshore: 76%, Nearshore: 13%, Offshore: 11%
- BPO: Onshore: 85%, Nearshore: 6%, Offshore: 9%

Top five risks for outsourcing

- Loss of knowledge: 23%
- Dependency on external service provider: 20%
- Loss of control: 19%
- Impact on quality: 13%
- Loss of confidentiality: 8%

Top five reasons for outsourcing

- Access to specific knowledge, expertise and tools: 19%
- Improvement in cost level or cost reduction: 15%
- Improved focus on core business: 10%
- Efficiency improvements: 9%
- Client’s organization cannot keep up with the latest technological changes: 9%
Outsourcing in Europe
An in-depth review of drivers, risks and trends in the European outsourcing market

Top five trends

- Combined outsourcing of IT and business processes (multifunctional business services): 38%
- Cloud computing: 38%
- Specific or specialist knowledge and expertise: 28%
- Sustainable outsourcing: 26%
- Social media connections: 21%

Sustainability elements in contracts

- No sustainability elements are agreed with the service provider: 39%
- The service provider guarantees that no child labor is used: 34%
- The service provider is monitored for CO2 production: 13%
- Part of the service fee is invested in sustainable initiatives: 9%
- Other: 7%

Future market predictions

- Increase: 42%
- Stay the same: 50%
- Decrease: 7%

Innovation elements in contracts

- There are no agreements on innovation during contract lifetime: 45%
- The service provider has to deliver a certain innovation level during contract lifetime: 20%
- The internal organization and the service provider are responsible together: 16%
- Innovation days are organized on a regular basis: 14%
- There is an (annual) budget assigned to invest in innovation: 12%
- The service fee is based on the level of innovation: 8%
- Innovation board appointed which is responsible for delivering innovation: 4%
Appendix – Country profiles

Spain

Respondents per industry

![Circle chart showing the distribution of respondents by industry in Spain.](chart)

- **Government and public sector:** 26%
- **Trade and distribution:** 7%
- **Services:** 27%
- **Production:** 13%
- **Other:** 13%

Respondents by size of organization

![Circle chart showing the distribution of respondents by size of organization in Spain.](chart)

- **1,001 to 5,000:** 13%
- **5,001 to 10,000:** 26%
- **201 to 1,000:** 29%
- **More than 10,000:** 31%

Outsourced services

![Bar chart showing the distribution of outsourced services in Spain.](chart)

- **ITO:**
  - **Outsourced:** 25%
  - **In-house:** 75%
- **BPO:**
  - **Outsourced:** 13%
  - **In-house:** 87%

Location of outsourced services

![Bar chart showing the distribution of outsourced services by location in Spain.](chart)

- **ITO:**
  - **Onshore:** 88%
  - **Nearshore:** 10%
  - **Offshore:** 2%
- **BPO:**
  - **Onshore:** 83%
  - **Nearshore:** 12%
  - **Offshore:** 4%

Top five risks for outsourcing

- **Dependency on external service provider:** 20%
- **Loss of confidentiality:** 15%
- **Loss of control:** 15%
- **Loss of knowledge:** 13%
- **Change risk and transition risk:** 10%

Top five reasons for outsourcing

- **Improvement in cost level or cost reduction:** 18%
- **Efficiency improvements:** 14%
- **Quality improvement:** 10%
- **Client’s organization cannot keep up with the latest technological changes:** 10%
- **Becoming more flexible:** 10%

Percentage of outsourced core and non-core business

![Bar chart showing the percentage of outsourced core and non-core business in Spain.](chart)

- **Core business:** 59%
- **Non-core business:** 41%
Top five trends

- Cloud computing: 37%
- New (more flexible) pricing models: 30%
- Social media connections: 25%
- Vertical outsourcing: 25%
- Combined outsourcing of IT and business processes (multifunctional business services): 24%

Future market predictions

- Increase: 27%
- Stay the same: 58%
- Decrease: 15%

Sustainability elements in contracts

- No sustainability elements are agreed with the service provider: 39%
- The service provider is certified on sustainability: 28%
- The service provider guarantees that no child labor is used: 15%
- The service provider is monitored for CO2 production: 14%
- Part of the service fee is invested in sustainable initiatives: 3%
- Other: 1%

Innovation elements in contracts

- There are no agreements on innovation during contract lifetime: 35%
- There is a (annual) budget assigned to invest in innovation: 24%
- The internal organization and the service provider are responsible together: 23%
- The service provider has to deliver a certain innovation level during contract lifetime: 21%
- Innovation board appointed which is responsible for delivering innovation: 15%
- The service fee is based on the level of innovation: 14%
- Innovation days are organized on a regular basis: 12%

Size of retained organization

- 0%-5%: 19%
- 6%-10%: 15%
- 11%-15%: 15%
- 16%-20%: 15%
- 21%-25%: 15%
- 26%-30%: 15%
- 31%-50%: 15%
- More than 50%: 15%

Outsourcing in Europe An in-depth review of drivers, risks and trends in the European outsourcing market
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Sweden

Respondents per industry

- Government and public sector: 31%
- Trade and distribution: 6%
- Services: 24%
- Production: 13%
- Other: 26%

Respondents by size of organization

- 201 to 1,000: 26%
- 5,001 to 10,000: 15%
- More than 10,000: 27%
- 1,001 to 5,000: 32%

Percentage of outsourced core and non-core business

- Non-core business: 84%
- Core business: 16%

Transition approach

- First transform, then outsource: 24%
- First outsource, then transform: 19%
- Combination: 33%
- Transition of services “as is” (no transformation): 33%

Outsourced services

- BPO: 84%
- ITO: 16%

Top five reasons for outsourcing

- Becoming more flexible: 15%
- Improved focus on core business: 14%
- Improvement in cost level or cost reduction: 13%
- Access to specific knowledge, expertise and tools: 11%
- Efficiency improvements: 10%

Location of outsourced services

- BPO: 89%
- ITO: 85%

Top five risks for outsourcing

- Impact on client’s organization: 21%
- Impact on quality: 16%
- Loss of control: 14%
- Dependency on external service provider: 18%
- Loss of knowledge: 21%
Top five trends

- Cloud computing: 35%
- Combined outsourcing of IT and business processes (multifunctional business services): 23%
- Specific or specialist knowledge and expertise: 21%
- New (more flexible) pricing models: 15%
- Insourcing: 14%

Sustainability elements in contracts

- No sustainability elements are agreed with the service provider: 47%
- The service provider guarantees that no child labor is used: 16%
- The service provider is certified on sustainability: 15%
- The service provider is monitored for CO2 production: 11%
- Part of the service fee is invested in sustainable initiatives: 5%
- Other: 2%

Future market predictions

- Increase: 27%
- Stay the same: 59%
- Decrease: 14%

Innovation elements in contracts

- There are no agreements on innovation during contract lifetime: 39%
- The internal organization and the service provider are responsible together: 23%
- The service provider has to deliver a certain innovation level during contract lifetime: 19%
- Innovation board appointed which is responsible for delivering innovation: 11%
- There is an (annual) budget assigned to invest in innovation: 10%
- Innovation days are organized on a regular basis: 10%
- The service fee is based on the level of innovation: 7%

Size of retained organization

- 0%-5%: 9%
- 6%-10%: 14%
- 11%-15%: 20%
- 16%-20%: 23%
- 21%-25%: 11%
- 26%-30%: 5%
- 31%-50%: 5%
- More than 50%: 2%

Outsourcing in Europe An in-depth review of drivers, risks and trends in the European outsourcing market
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UK

Respondents per industry

- Services: 22%
- Government and public sector: 27%
- Trade and distribution: 11%
- Other: 28%
- Production: 13%

Respondents by size of organization

- More than 10,000: 32%
- 5,001 to 10,000: 14%
- 1,001 to 5,000: 23%
- 201 to 1,000: 31%
- More than 201: 31%

Outsourced services

- ITO: 23% Outourced, 77% In-house
- BPO: 13% Outourced, 87% In-house

Location of outsourced services

- ITO: 76% Onshore, 9% Nearshore, 9% Offshore
- BPO: 77% Onshore, 11% Nearshore, 13% Offshore

Percentage of outsourced core and non-core business

- Core business: 52%
- Non-core business: 48%

Transition approach

- First transform, then outsource: 12%
- First outsource, then transform: 29%
- Combination: 23%
- Transition of services "as is" (no transformation): 35%

Top five reasons for outsourcing

1. Efficiency improvements: 15%
2. Improvement in cost level or cost reduction: 14%
3. Access to specific knowledge, expertise and tools: 13%
4. Improved focus on core business: 9%
5. Reduction in headcount objectives: 9%

Top five risks for outsourcing

1. Dependency on external service provider: 20%
2. Loss of control: 17%
3. Impact on quality: 16%
4. Loss of confidentiality: 11%
5. Loss of knowledge: 11%
Outsourcing in Europe: An in-depth review of drivers, risks and trends in the European outsourcing market

Top five trends

- Cloud computing: 35%
- Combined outsourcing of IT and business processes (multifunctional business services): 28%
- Sustainable outsourcing: 20%
- Social media connections: 20%
- Big data: 19%

Future market predictions

- Increase: 28%
- Stay the same: 65%
- Decrease: 7%

Innovation elements in contracts

- There are no agreements on innovation during contract lifetime: 38%
- The internal organization and the service provider are responsible together: 24%
- There is an (annual) budget assigned to invest in innovation: 19%
- Innovation board appointed which is responsible for delivering innovation: 18%
- The service fee is based on the level of innovation: 17%
- The service provider has to deliver a certain innovation level during contract lifetime: 15%
- Innovation days are organized on a regular basis: 9%

Sustainability elements in contracts

- No sustainability elements are agreed with the service provider: 41%
- The service provider is certified on sustainability: 29%
- The service provider guarantees that no child labor is used: 20%
- Part of the service fee is invested in sustainable initiatives: 17%
- The service provider is monitored for CO2 production: 14%
- Other: 8%

Size of retained organization

- 0%-5%: 12%
- 6%-10%: 12%
- 11%-15%: 8%
- 16%-20%: 5%
- 21%-25%: 5%
- 26%-30%: 8%
- 31%-50%: 13%
- More than 50%: 22%

Future market predictions

- Increase: 28%
- Stay the same: 65%
- Decrease: 7%

Innovation elements in contracts

- There are no agreements on innovation during contract lifetime: 38%
- The internal organization and the service provider are responsible together: 24%
- There is an (annual) budget assigned to invest in innovation: 19%
- Innovation board appointed which is responsible for delivering innovation: 18%
- The service fee is based on the level of innovation: 17%
- The service provider has to deliver a certain innovation level during contract lifetime: 15%
- Innovation days are organized on a regular basis: 9%
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