



Grant Thornton

An instinct for growth™

Outsourcing: *driving efficiency and growth*

Grant Thornton International Business Report 2014

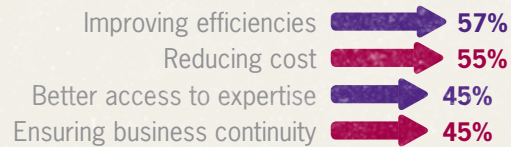


Outsourcing trends

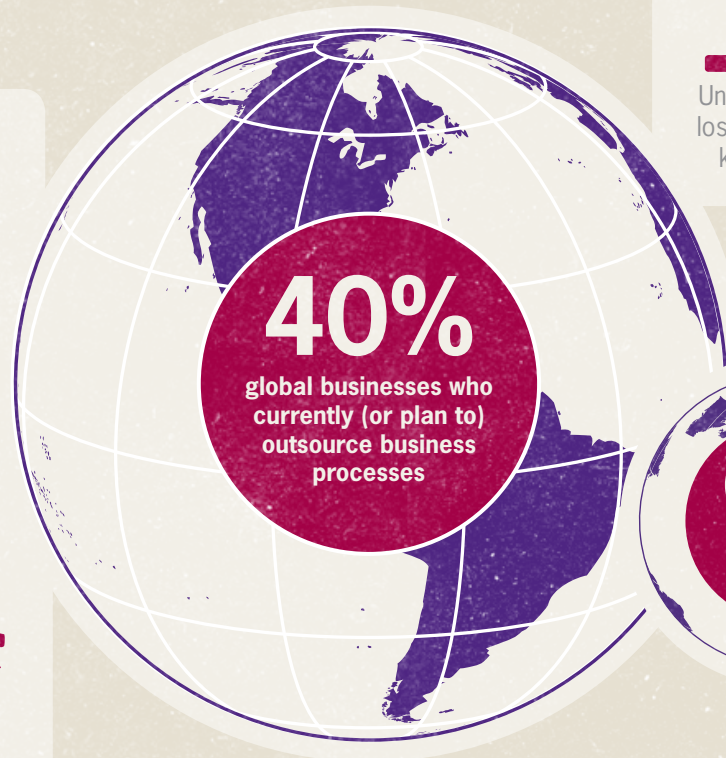
- Contents**
- Introduction
 - Outsourcing today
 - Drivers
 - Obstacles
 - Encouraging outsourcing

This report draws on 3,300 interviews with business leaders in 45 economies to better understand business attitudes to outsourcing: Why and what functions are businesses outsourcing? What is preventing businesses from outsourcing? And how can these obstacles be overcome?

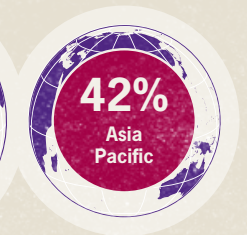
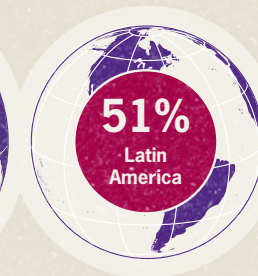
Drivers to outsource



Business processes outsourced



Obstacles to outsourcing



Introduction

Businesses have been outsourcing key processes to third parties for many years, but it was perhaps around the turn of the 21st century that the term ‘outsourcing’ started to gain traction. Around this time, businesses began to outsource to other countries – a process known as ‘offshoring’ – with large emerging markets such as India offering significant cost savings through access to huge cohorts of cheap, tech-savvy, young people.

The process of offshoring has drawn political and public attention with concerns raised that it was destroying domestic jobs. Some level of ‘reshoring’ has since taken place, but the cost and efficiency drivers to outsource business processes remain strong. Indeed, outsourcing services now account for close to 6% of Grant Thornton global revenues, a figure which is climbing all the time.

This report gives fresh insight into attitudes towards outsourcing amongst mid-market businesses. It is a process which tends to be associated with major corporates but the survey shows that demand is strong amongst smaller peers: two in five currently (or plan to) outsource business processes, rising to half in Latin America and close to two-thirds in southern Europe. Around three-quarters of businesses globally would not consider offshoring, but larger businesses (those

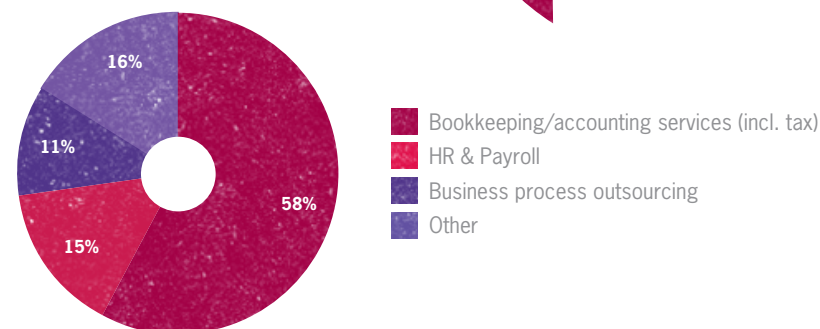
with 250+ employees) are more likely to consider both outsourcing and offshoring. Tax, IT and HR-payroll are the most popular functions that business leaders are currently outsourcing with improving efficiencies and reducing cost the major drivers.

The results also reveal that the majority of mid-market business leaders show no inclination to outsource business processes. Very few have had a poor past experience of outsourcing, rather they are mainly put off by an unwillingness to lose control of a key process and perceived high set-up costs. However, many businesses would reconsider their position if they needed to cut costs, find efficiencies or saw their workload increase significantly.

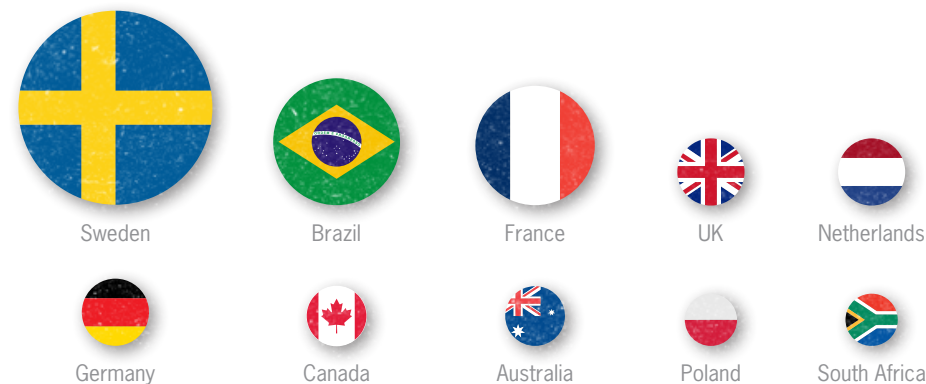
Please contact your local Grant Thornton office to discuss the outsourcing needs of your business.



Outsourcing at Grant Thornton
Principal services



Principal firms



Source: Grant Thornton

Outsourcing today

The IBR results suggest that outsourcing is reasonably popular in the mid-market: 40% of business leaders globally either currently or plan to outsource business processes, climbing to 43% of larger businesses, where economies of scale mean outsourcing can have a greater impact. This rises to 64% in southern Europe with businesses in Spain (70%) and Italy (62%) amongst the most likely to outsource. Outsourcing is also prevalent in Latin America (51%) – especially Argentina (64%) and Brazil (53%) – and Africa (Botswana 68%; South Africa 48%). By contrast, just 26% of businesses in southeast Asia are keen on outsourcing with businesses in the Philippines (4%) and Vietnam (12%) amongst the least likely to be looking at it globally.

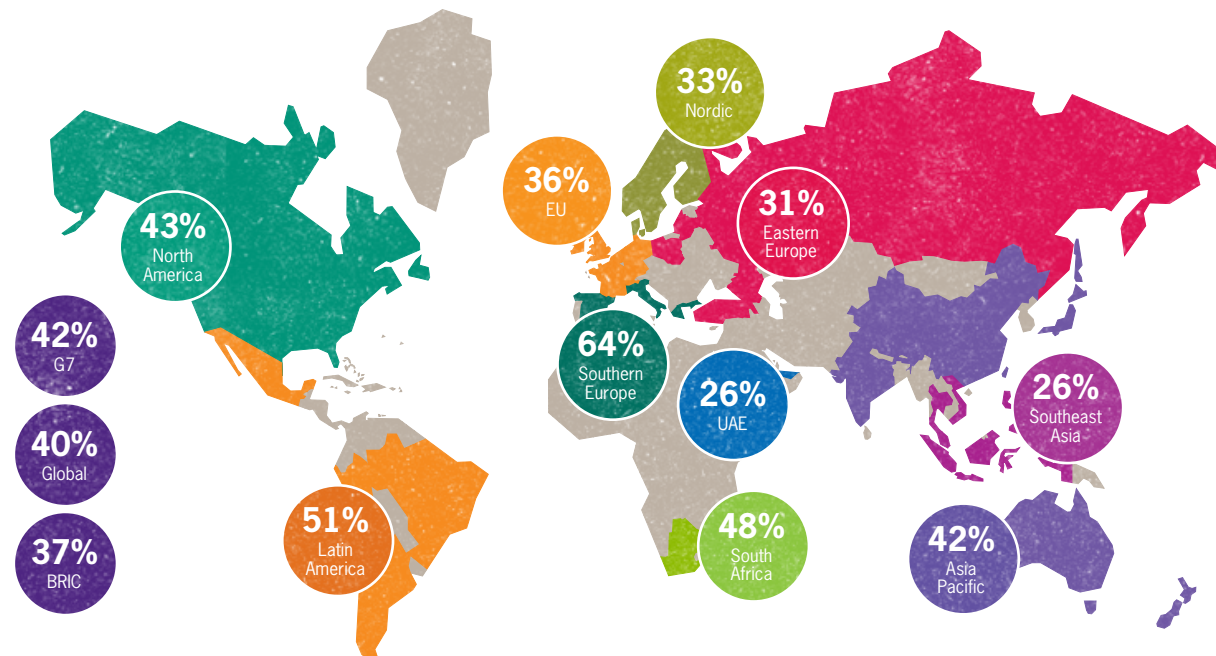
Tax services (49%) are the most likely function to be outsourced globally, rising to 64% in North America and 58% in the G7 and Latin America. 53% of larger businesses outsource tax services (compared with 46% of smaller peers) and it is also the most outsourced function in Asia Pacific. This compares with just 13% of those outsourcing tax services in the Nordics.

IT services (46%) rank second globally; 52% of businesses in Europe currently (or plan to) outsource IT, driven by large proportions in the Nordics (66%), eastern Europe (63%) and southern Europe (54%). HR-Payroll (36%) comes third globally, driven by the 55% of North American businesses; 40% of larger businesses outsource this function, compared with 33% of smaller competitors. A further 36% of businesses outsource (or plan to outsource) other services which could include financial planning and bookkeeping.

However, mid-market business leaders are more wary when it comes to outsourcing a back-office function to another country. Offshoring is most popular in southern Europe where 13% are already doing it and another 21% say they would consider it. By contrast, 82% of businesses in Latin America and 80% of those in Asia Pacific would not consider offshoring. Larger businesses (26%) are more likely to consider offshoring than smaller peers (20%).

“Businesses see outsourcing as an opportunity to increase efficiency and keep headcount low with future growth prospects still somewhat clouded by uncertainty of the recovery in Europe.”
Ignacio de Sopena
Grant Thornton Spain

Do you currently (or have any plans) to outsource any business processes? (% Yes)



Source: Grant Thornton IBR 2014

Drivers

Globally, businesses which outsource are principally looking for efficiencies (57%) and to reduce costs (55%). With low-cost labour generally less prevalent in developed economies compared with developing peers, it is notable that business leaders in North America and Europe are more likely to cite these drivers. In North America, 70% cite reducing cost and 69% improving efficiencies; in Europe the proportions are 63% and 67% respectively.

These drivers are also central to the decisions to outsource of businesses in developing economies but they are also driven by a desire to allow staff to focus on the core strategies, such as gaining market share. This emerges as the key outsourcing driver in Asia Pacific (excl. Japan; 57%), Latin America (56%) and the BRIC economies (51%).

Business leaders in developing economies also see outsourcing as a way of accessing expertise that might not necessarily be as readily available locally; 46% of BRIC businesses cite better access to expertise as an outsourcing driver, compared with 39% in the G7, and 45% cite mitigating risk through using specialists, versus 35% across the G7.

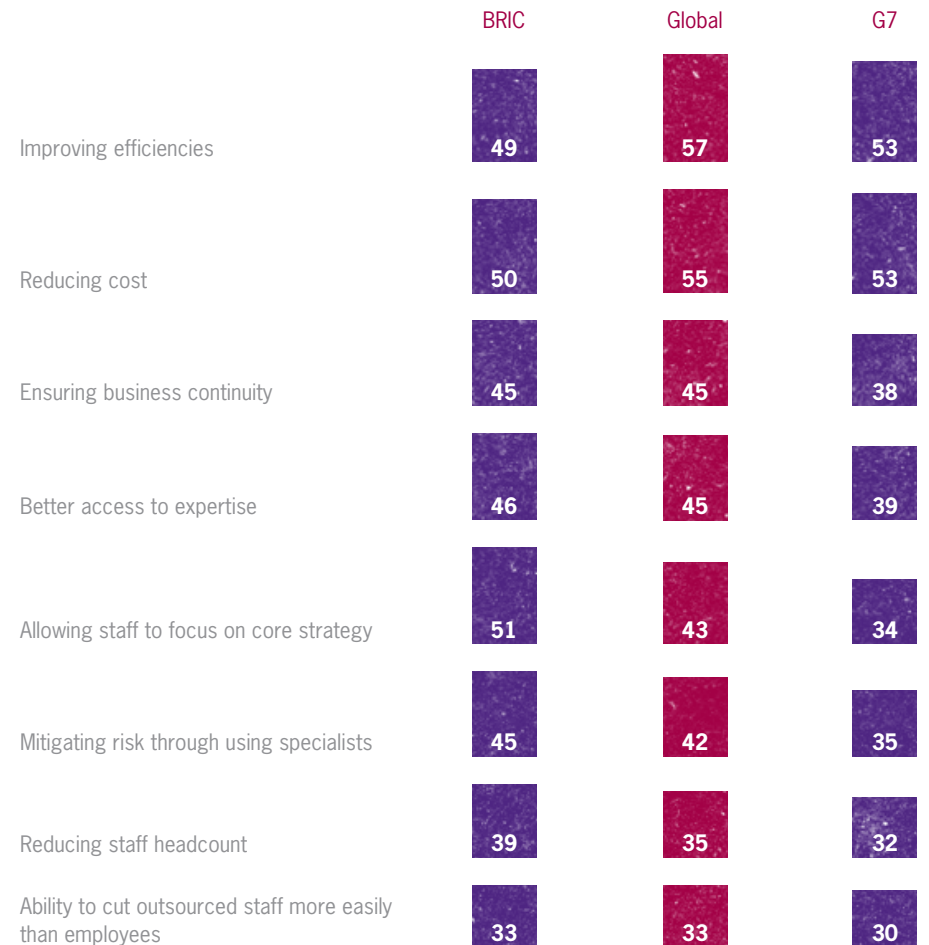
There is some variation in the outsourcing drivers for smaller and larger businesses. Larger businesses are more focussed on reducing cost and improving efficiencies (both 58%) while smaller

businesses are more likely to be looking to use outsourcing providers to ensure business continuity (48%) – perhaps because departures are often more keenly felt in businesses with lower headcounts – free up staff to focus on core strategy (44%) and reduce headcount (37%).

“Tapping into the skills and expertise offered by outsourcing providers can help businesses focus on their core activities, boosting productivity and results, providing them with a competitive edge.”

Madeleine Blankenstein
Grant Thornton Brazil

How important are the following drivers in your decision to outsource back-office services?



Source: Grant Thornton IBR 2014

Obstacles

Among the three-fifths of businesses with no plans to outsource, the major obstacle is an unwillingness to lose control of a key process. This is cited by 44% of respondents (rising to 49% in larger businesses) and emerges as the chief impediment in every region except Latin America. Interestingly, this is more of an issue in developed markets with 50% of those in the G7 citing this lack of control as an obstacle, compared with just 35% in the BRIC economies. This obstacle is highest in North America (58%) and also elevated in Europe (47%).

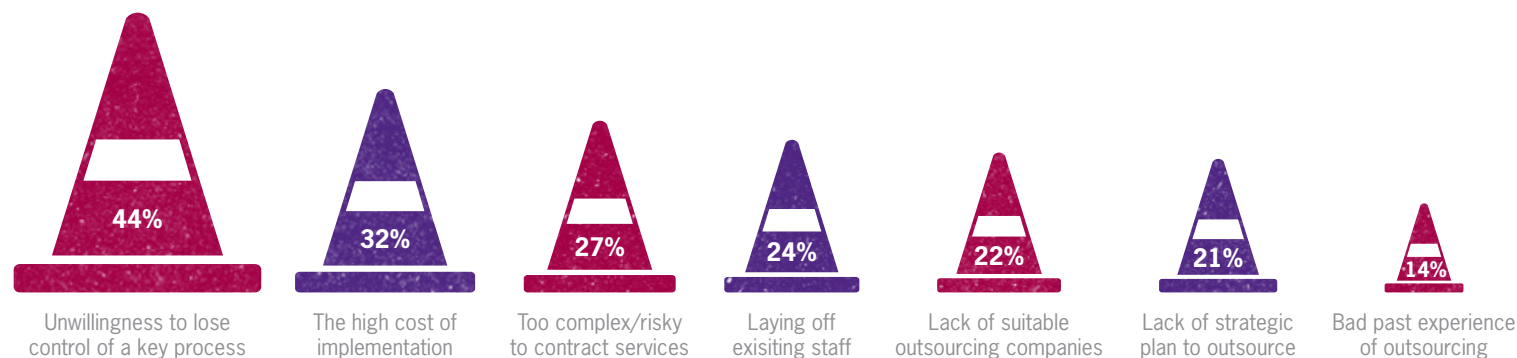
Costs are also perceived to be a challenge: 32% globally (and 34% in larger businesses) cite the high cost of implementation as an obstacle to outsourcing. This is a particular issue in the developing economies of southeast Asia (53%) and Latin America (38%), but almost as high in Europe (36%) and in North America (33%). Just 14% of business leaders are negatively influenced by a bad past experience of outsourcing, although this rises to 28% in Latin America.

In Asia Pacific, the lack of a strategic plan to outsource (28%) also ranks highly, suggesting the issue is not on the agenda in many boardrooms across the region. Meanwhile, business leaders in Europe (29%) and North America (30%) are concerned that they would have to lay off staff if they moved back-office processes out of house. This links back to the fact that businesses in developed economies are using outsourcing principally to cut costs. By contrast, peers in developing markets are more likely to be looking to access additional expertise; in other words, augmenting rather than replacing existing people.

“There is a popular misconception that outsourcing a process means a company loses control. In fact, outsourcing can actually help leaders take a step back and gain a clearer picture of how the business is performing against its strategy.”

Samantha George
Grant Thornton UK

What are the major obstacles to your business in outsourcing?



Source: Grant Thornton IBR 2014

Encouraging outsourcing

There are a range of factors that would encourage those businesses with no plans to outsource to consider it, but as with the drivers discussed earlier, a need to reduce costs or search for efficiencies are top of the list.

Globally, 41% of business leaders cite a requirement to find cost savings, led by 50% of those in North America, 48% in Latin America, 44% in southeast Asia and 43% in Europe. The drive for process efficiencies – where the focus is on doing things better and faster, rather than simply cheaper – is most evident in Latin America (50%) and southeast Asia (42%), but is also a major driver in North America (44%). Both finding cost savings (48%) and efficiencies (38%) are much bigger drivers for larger businesses.

Around a third of business leaders say they need more confidence in outsourcing providers before they would consider handing over key processes, suggesting providers could do more to market themselves as reliable partners. This is particularly true for larger firms: 43% cite a need for more confidence in providers, compared with just 25% of smaller peers.

This factor emerges as the second biggest driver in North America (47%) and is also high in Latin America (40%) and across the G7 (37%). Close to a third also say that an increase in workload would make around a third of businesses consider outsourcing, led by North America (43%), southeast Asia (37%) and the G7 (36%).

In Europe, an aversion to outsourcing is evident at board level. Across the EU, 38% of business leaders say it would need a change in company policy for them to consider outsourcing, rising to 43% in the eurozone. This also emerges as a big driver in Latin America (37%), but less so in North America (29%) and Asia Pacific (19%). By contrast, businesses in North America are more likely to require a change in legislation (40%) compared with Europe (27%).

“Leaders of high-growth businesses can quickly find their inbox filling up with administrative issues; outsourcing can help them manage their workload and focus on priorities.”

Vinamra Shastri
Grant Thornton India

What might encourage your business to outsource back office services?



Source: Grant Thornton IBR 2014

IBR 2014 methodology

The Grant Thornton International Business Report (IBR) is the world's leading mid-market business survey, interviewing approximately 3,300 senior executives every quarter in listed and privately-held businesses all over the world. Launched in 1992 in nine European countries, the report now surveys more than 12,500 business leaders in 45 economies on an annual basis, providing insights on the economic and commercial issues affecting companies globally.

The data in this report are drawn from 3,300 interviews conducted in September 2013. Respondents were chief executive officers, managing directors, chairmen and other senior decision-makers from all industry sectors in mid-market businesses based all over the world. The definition of mid-market varies between economies; in the United States it refers to businesses with US\$10m-US\$2bn in annual revenues; in the United Kingdom, those with 100-499 employees.

To find out more about IBR, please visit: www.internationalbusinessreport.com.

Dominic King

Grant Thornton International Ltd
Global research manager
T +44 (0)207 391 9537
E dominic.king@gti.gt.com



© 2014 Grant Thornton International Ltd.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton International Ltd (GTIL) and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

www.gti.org