

Mazars Annual Outsourcing Survey 2010



Mazars are delighted to present the results of our 2010 Outsourcing Survey. We are very grateful to all the participants who took part in the survey and believe that the results provide an interesting insight for companies who currently outsource activities or who manage outsourced activities on behalf of clients.

The objective of the survey was to identify recent outsourcing patterns in the Irish market and anticipate likely trends for 2010 and beyond. The survey also identifies why Irish companies outsource along with the organisational and cost impact of doing so.

Responses were received from a large number of organisations of varying size across nine industry sectors. Questions were tailored to collect the opinions of both organisations who provide outsourcing services and organisations who avail of outsourcing services. For the purposes of this survey;

- “Organisations that outsource” refer to organisations that outsource activities to third parties
- “Service providers” refer to organisations that manage outsourced services on behalf of clients

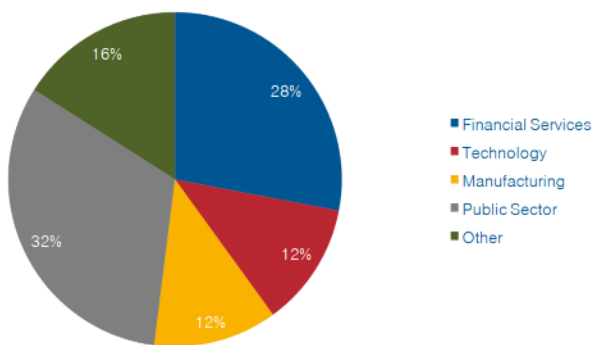
Highlights

- 90% of organisations think that outsourcing adds value to their company
- Over 80% of organisations indicated that they maintained or increased their use of outsourcing services in the last 12 months
- Organisations appear to be primarily increasing their use of outsourcing services to reduce costs these companies indicated that they will continue to outsource
- In general companies outsource to save costs, to access skills and knowledge that are not available internally or to improve the efficiency of business processes
- Whilst cost savings are common when routine or transactional processes are outsourced, the outsourcing of highly skilled activities is more likely to result in cost increases. Of organisations that outsourced routine activities 75% indicate that outsourcing results in cost savings
- 64% of organisations that outsourced in order to access new skills stated that economic conditions have had no impact on their decision to outsource
- SAS 70 audit reports would appear to be an ongoing requirement for many organisations who outsource activities to third parties
- Organisations within the public sector and the financial services sector are most likely to outsource activities to third parties.

Who Outsources?

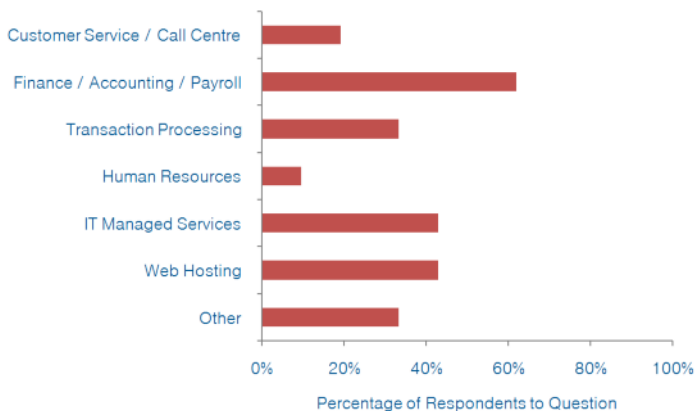
Responses were received across a variety of industry sectors. As can be seen from graph 1, the majority of respondents from organisations that outsource operate within the public and financial services sectors.

Graph 1: Profile of Respondents By Industry Sector



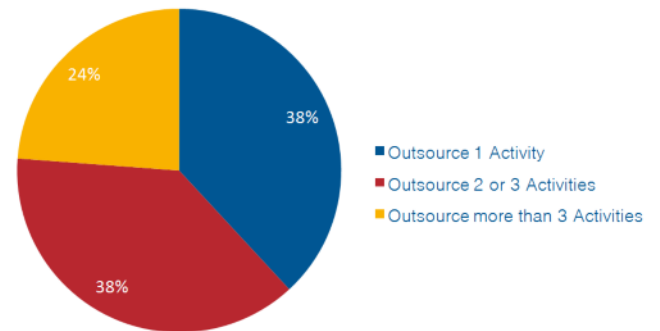
We asked organisations that outsource to list the services that they currently outsource. It is evident from graph 2 that the most popular single outsourcing category was “finance, accounting and payroll” with 62% of respondents currently outsourcing these activities. A large proportion of the respondents outsourced IT managed services and/or web hosting indicating that organisations are looking to external parties to support their technology needs. The results indicate that a reliance on highly skilled outsourcing services is common in the Irish market. It is notable that whilst 38% of organisations outsource one activity, the majority of organisations that responded to the

Graph 2: Aspects of the Business which are Currently Outsourced



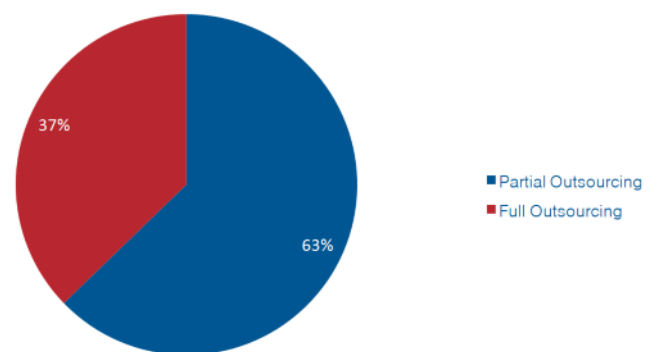
survey outsource more than one function with 24% outsourcing four or more activities. Although graph 3 indicates that organisations rely on outsourced providers to support a number of different

Graph 3: Usage of Outsourcing Services



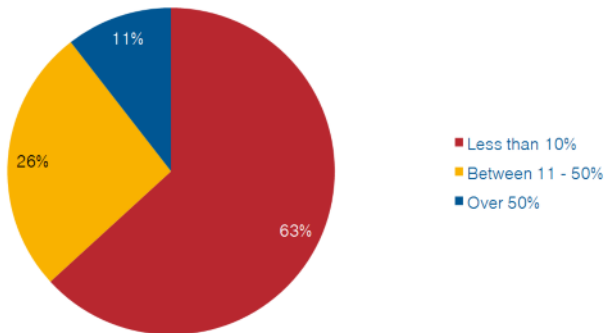
functions it is interesting to note that the majority of these organisations retain an element of control in each process that they outsource. This is evident from graph 4 which shows that the majority of organisations opt for partial outsourcing option as opposed to a full outsourcing. When we asked organisations to identify the percentage of their total internal cost base that was outsourced, the

Graph 4: Aspects of the Business which are Either Partially or Fully Outsourced

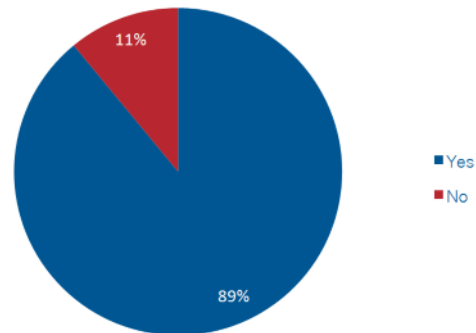


majority of respondents indicated that outsourcing accounts for less than 10% of their total internal costs. Interestingly 11% outsourced more than 50% of their total cost base.

Graph 5: Percentage of Organisations Total Internal Cost Base Which is Outsourced



Graph 7: Do You Believe that Outsourcing Adds Value to your Organisation?

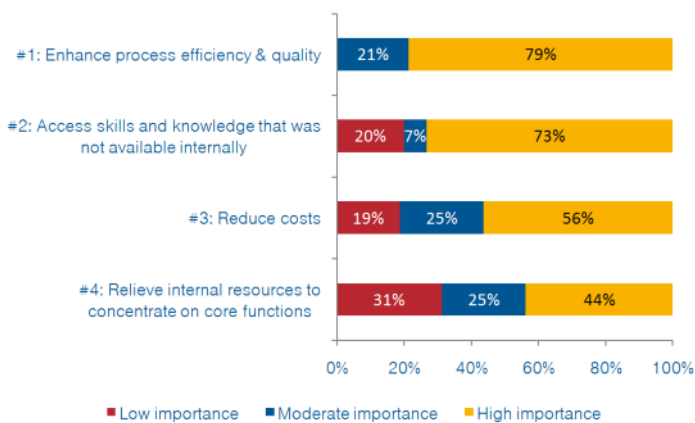


Why Outsource?

The results indicate that the primary reason why organisations outsource activities are to enhance process efficiency and quality, closely followed by organisations seeking to access skills and knowledge that are not available internally. Again these results indicate that a reliance on specialised outsourcing services is common in the Irish market.

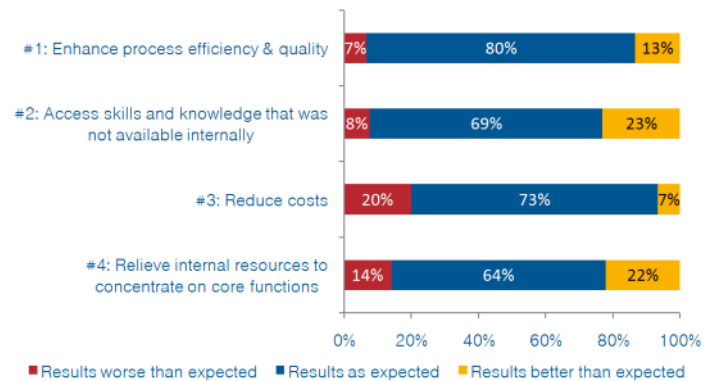
Although the objectives of “reducing costs” and “relieving internal resources to concentrate on core functions” are also considered important outsourcing drivers, their importance is less than the other two options.

Graph 6: Factors of High Importance in Outsourcing Decisions



When respondents were asked to rank how well the outsourcing solution was addressing their original objectives the majority of organisations indicated that “results were as expected” for all areas which were assigned levels of high importance. The group that reported the highest percentage for “results better than expected” were those that outsourced in order to access skills and knowledge that were not available internally” indicating a high satisfaction rate for specialised outsourcing services.

Graph 8: How well is the Outsourcing Solution Addressing Your Original Objectives?



The Value of Outsourcing

As can be seen from graph 7, almost 90% of respondents indicated that they believe that outsourcing adds value to their organisation.

Potential Financial Savings

Organisations that outsource were divided in their assessment of the financial impact of outsourcing. Overall 54% of respondents reported cost savings however the results are more meaningful when analysed by the nature of the outsourced activity.

- Of organisations that outsourced in order to access skills that were not available internally

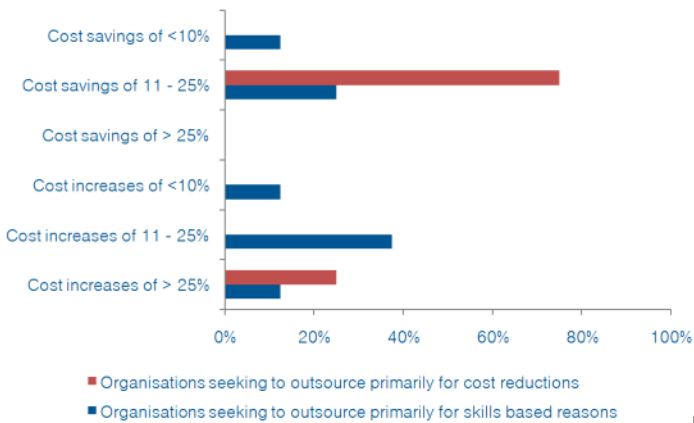
62% of respondents indicated that outsourcing resulted in cost increases

- Of organisations that outsourced in order to achieve cost savings 75% indicated that outsourcing resulted in cost savings

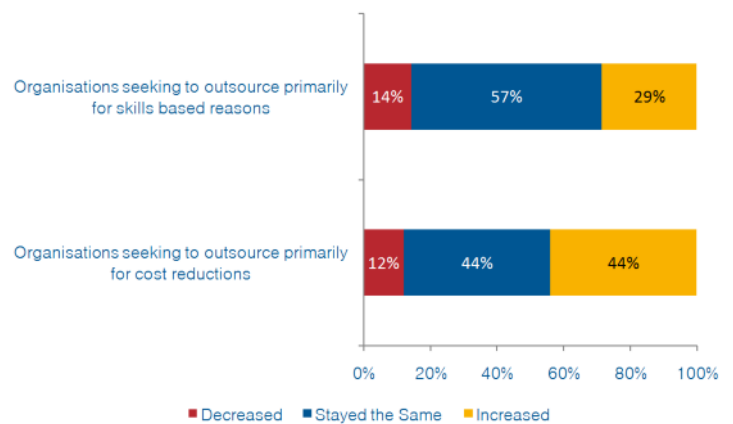
These facts indicate that the financial savings that can be made from moving to an outsourced model are directly related to the nature of the outsourced activity. Whilst cost savings are common when routine or transactional processes are outsourced, the outsourcing of skilled activities is more likely to result in cost increases.

Interestingly the trend to increase outsourcing services in the past 12 months was primarily driven by those organisations seeking to reduce costs. When examining the responses of organisations who outsource, 44% of organisations who rated cost reduction as a top priority had increased their outsourcing in the past 12 months. The graph below provides a more detailed analysis of demand for outsourcing for organisations that outsource. This trend seems to indicate that outsourcing is being considered as a viable means of achieving cost savings.

Graph 9: Potential Financial Savings from Outsourcing



Graph 11: Demand for outsourcing in the past 12 months



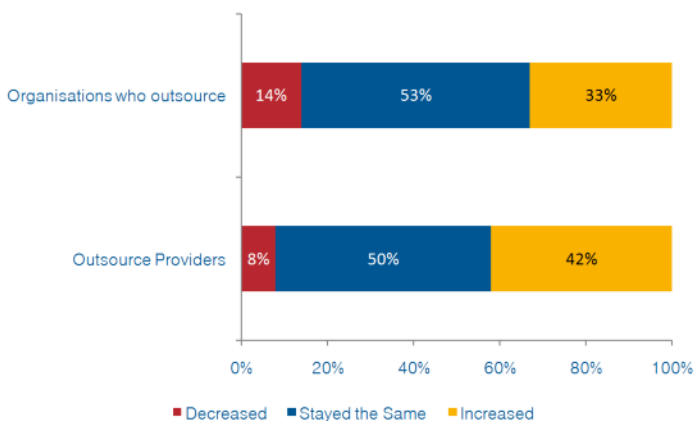
Current Outsourcing Trends

Based on the survey results, over 80% of organisations that outsource and over 90% of service providers reported that the use of outsourcing services has either “stayed the same” or “increased” in the last 12 months. Only a minority of respondents reported a decrease in outsourcing over the period.

Future Outsourcing Trends

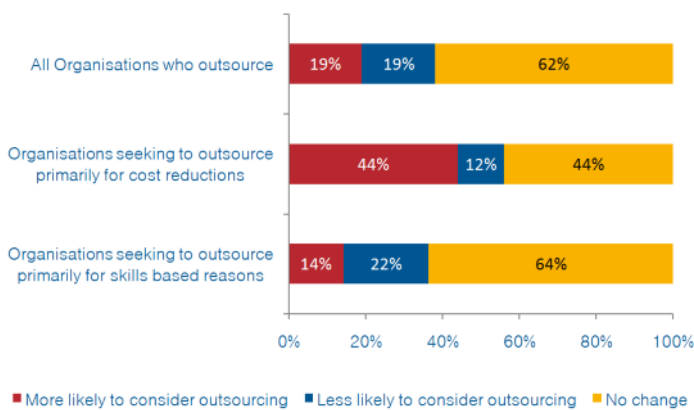
When taking the responses as a whole it appears that the downturn in the economy has not influenced the decision to outsource as 62% of those surveyed indicated that the current economic climate had not changed their view of outsourcing. However when the responses are split between organisations that outsource to achieve cost savings and organisations that outsource to access skills and knowledge that are not available internally, the results are different.

Graph 10: Demand for outsourcing in the past 12 months



As is evident from graph 12 organisations that outsource in order to achieve cost savings are more likely to consider outsourcing in the next 12 months.

64% of organisations who outsourced primarily for skills based reasons stated that the current economic impact had no impact on their view of outsourcing nor will it increase or decrease their outsourcing needs in the next 12 months. This indicates that organisations that outsourced for skills reasons appear to require these services regardless of external economic factors.

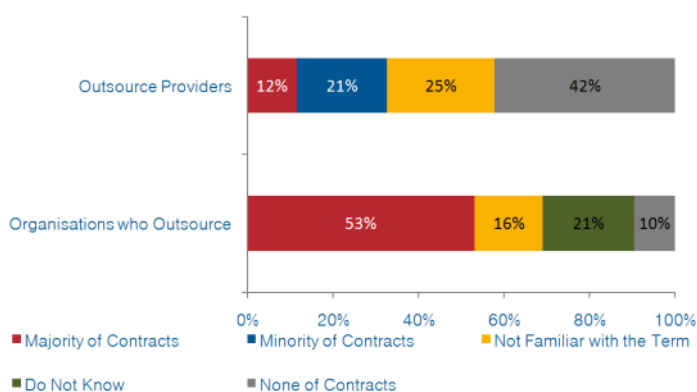
Graph 12: The Affect of the Current Economic Climate on Outsourcing


Assurance

The inclusion of a “right to audit” clause in the contract between an organisation and the company that manages its outsourced activities allows organisations to carry out specific audits or procedures in order to obtain assurance over the risks associated with outsourced activities. For example an organisation that suspected that fraud was being committed by their outsourcing partner would have the right to carry out a fraud audit and the outsourcing partner would be obliged to co-operate.

It is clear from the survey results that the right to audit clause is not routinely included in outsourcing contracts. While over 50% of outsourcing organisations indicated that a right to audit contract was in place, only 12% of outsource providers responded that the right to audit clause was included on the majority of their contracts.

Approximately one third of organisations that outsource and one quarter of service providers were “not familiar” with the term or did not know if the right to audit clauses were in place.

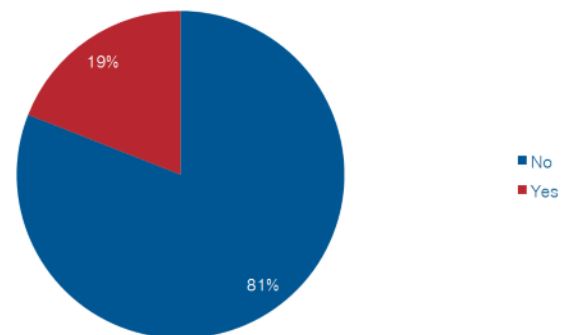
Graph 13: Is the right to audit included in contracts in place with your service provider / client?


Of those surveyed, Service Level Agreements (SLAs) were the most popular method of assessing controls with three quarters of organisations that outsource and service providers who participated in the survey indicating that SLAs were in place. Other methods of assurance included internal audits, SAS70 or AAF 01/06 audits and audits on outsourcing suppliers undertaken by the outsourcer.

SAS 70 or AAF01/06 Certificates can be used to demonstrate that effective controls are in place over outsourced operation.

Although only 15% of participating service providers had completed SAS 70 or AAF 01/06 audits at the time of the survey a further 21% indicated that they have considered obtaining SAS 70 assurance. Approximately half of the remaining respondents were not familiar with the certification.

Of those service providers who currently have certification, “meeting current client requirements” and “attracting potential new clients” were the most important reasons cited for obtaining assurance.

14: Have you considered getting SAS 70 or AAF 01/06 assurance?


If you have any queries regarding the information contained in this survey please contact

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