

Research from NOA

Value beyond cost savings – myth or reality?

One of the hottest topics in specialist sourcing media is the shift towards added value being a key driver for outsourcing, with customers moving rapidly away from the old school ‘your mess for less’ attitude. Contemporary theory holds that other business benefits have now found parity with cost cutting in terms of creating customer satisfaction.

Partnering with Polaris, the NOA surveyed 158 of its members to assess the benefits beyond cost savings, to find out what’s important, how well is it being delivered and what measurements are in place to track its success.

Another key objective of the research was to find sympathies and disconnects among buyer and supplier attitudes: buyers were asked their view, suppliers were asked what they thought their customers are thinking, both in terms of their current picture and their plans for the future.

The survey sample consisted of many highly experienced professionals, with 71% of buyers and 74% of suppliers having more than 5 years’ experience in outsourcing. One third of buyers have more than 10 years’ service, compared to 56% of suppliers.

Key Findings

Outsourcing delivers
92% of buy-side professionals agree that outsourcing delivers business value, with 61% strongly agreeing. 81% believe that engaging outsourcing suppliers has

made their company more competitive (56% strongly).

Cost savings are the deal maker, improving services is on the up

54% of buyers state that reducing costs is the single main driver. 36% of buyers are choosing outsourcing primarily to improve services. Suppliers concur: 56% think buyers are mainly looking to cut costs, and 27% desire improved services above all else.

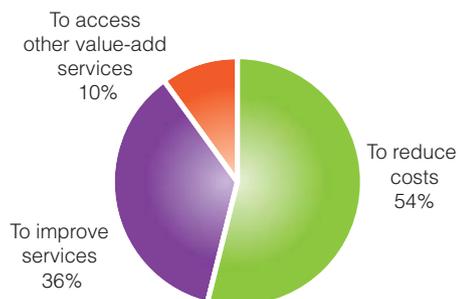
11% of buyers state that they primarily outsource for other value-added reasons. Suppliers are more enthusiastic, with 17% believing this to be the case.

Suppliers are also committing to productivity improvements: 64% of them are promising their clients between 11-30% increases, whilst stating that clients simultaneously expect cost reductions - 57% of buyers expect savings between 21-40%.

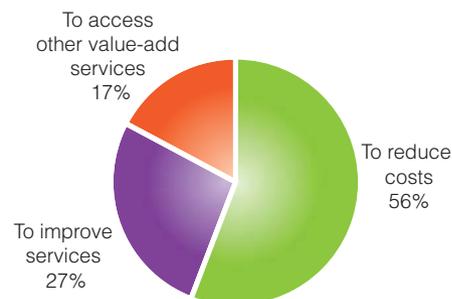
Value adders by rank

Buyers rate the most important value added activities as: service improvement (mean score 4.29/5); end client satisfaction (4.03); access to new technology/processes/tools (3.89); allowing management to focus on the core (3.79). Suppliers mostly concur, agreeing that service improvement is the biggest driver.

Buyers drivers



Suppliers views of client drivers



Less popular drivers for buyers include establishing more flexible HR models (2.78/5) and revenue generation (2.76), yet suppliers suppose outsourcing-based revenue generation to be 10% more important to buyers than it actually is.

How well is it delivering?

The survey found 'perception gaps' in terms of how important a value-add benefit is, and how well it had delivered benefits. For example, service improvement is weighted with an importance of 4.29/5 for buyers. Its average delivery of business benefits rating of 3.32 makes for a 19.4% success perception deficit, i.e. it is delivering, but not in line with how important it is. For buyers, all benefits were in success perception deficit. The same was not the case for suppliers, who thought increased levels of productivity, access to new technologies/processes/tools and establishing more flexible HR models were all delivering more than their perceived importance to clients.

Another perception gap is the general trend for suppliers believing things to be going better than their buyers do (the survey reveals that, on average, suppliers perceive clients to be benefiting 9% more than clients themselves believe they are).

Why the gaps? How is it measured?

Returned scores suggested most buyers were around 83% confident they could measure the success of their outsourcing. But the biggest disconnect in the survey was when buyers' were asked how they calculate the value.

Whereas buyers registered that studying increased outputs was their most favoured measure, suppliers supposed that it was one of the buyers' least used mechanisms: suppliers rated cost reduction, customer surveys, improved outcomes, and decreased inputs all as more conducive to how their clients assessed success.

Helpers and hinderers

To promote successful outsourcing, good relationships/partnership was highlighted as the most important influencing factor by buyers, with 80% of buyers ranking it as highly important and 72% of suppliers. For buyers, all the key components of outsourcing success were the softer skills, ranking governance, their team's and the supplier's teams skills and capabilities and then supplier transparency/trust as key to success, in that order. Suppliers offered a different ranking after relationship, citing supplier transparency, process transformation and their team's capabilities as being most helpful to success after the relationship. Use of multiple suppliers was ranked as least influential to achieving added value by both parties, with a third of suppliers (36%) seeing it as a negative compared to 35% of buyers seeing it as such.

Outsourcing is successful but it can do better

60% of outsourcing buyers plan to use outsourcing more in the next five years, which presents many opportunities for our industry, but there are some key differences of opinion around how to measure the success of outsourcing, particularly around the theme of increased productivity, which suppliers are promising much more of.

There is also some buyer/supplier dissonance around how to make relationships work optimally. It appears that a greater emphasis on people and relationship skills would go some way to aligning perceptions of collaborative success.

The NOA will offer many more findings and greater objective analysis in the upcoming report Added Value in Outsourcing. Copies are available for NOA members free of charge via the website, please go to: www.noa.co.uk.

Thank you to our partners Polaris

