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Why & what do companies outsource?

The state
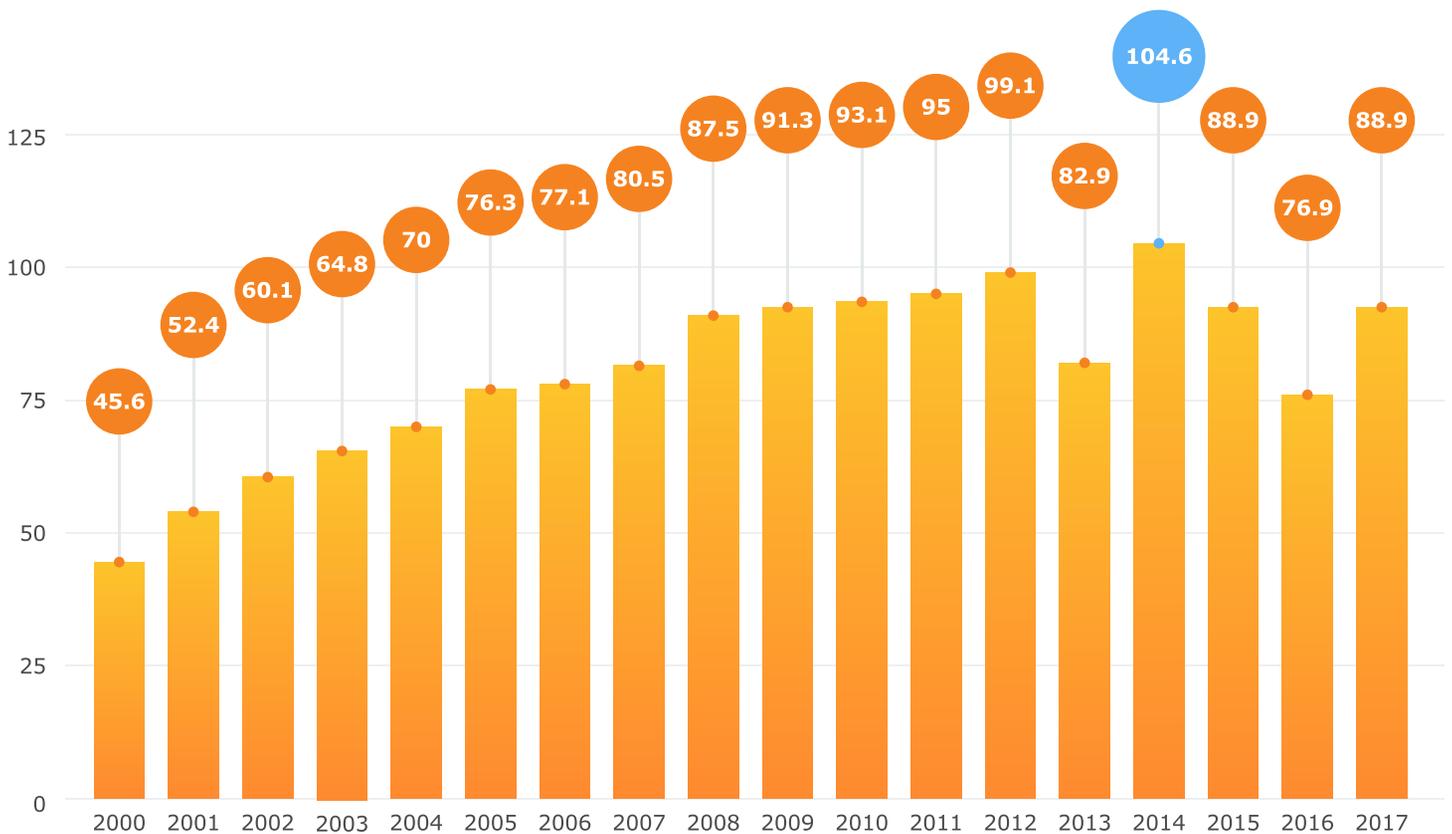of software
development
outsourcing
for 2019

The way the world works has changed

Not too long ago, companies that were looking to hire highly-skilled tech talent were limited to candidates that lived within a certain mile radius of an office location. In high-tech hubs like Silicon Valley and New York City, the talent was easier to find, but more expensive to hire, In smaller cities, these types of programmers were few and far between.

Today, an organization can hire the exact person or team they need for a specific project and it doesn't matter if that person or team is located halfway around the world. Thanks to modern technology and the internet. access to technical experts is easier and more affordable than ever before.

![intetics logo](Where software concepts come alive™)

OUTSOURCING HAS STEPPED UP TO MEET THE MATURING NEEDS OF THE TECH INDUSTRY AND IS NOW REVOLUTIONIZING THE WAY BUSINESS IS DONE IN JUST ABOUT ALL SECTORS. IN THE LAST YEAR, DELOITTE REPORTED THAT **31%** OF ALL IT SERVICES WERE OUTSOURCED AND STATISTA CONFIRMS THAT THE GLOBAL OUTSOURCING INDUSTRY GENERATED **88.9 BILLION U.S. DOLLARS** IN REVENUE.

Year	Value
2000	45.6
2001	52.4
2002	60.1
2003	64.8
2004	70
2005	76.3
2006	77.1
2007	80.5
2008	87.5
2009	91.3
2010	93.1
2011	95
2012	99.1
2013	82.9
2014	104.6
2015	88.9
2016	76.9
2017	88.9

Source: Statista

Of course, the main reasons that companies outsource are to save money and increase overall business efficiency. Statistics clearly show outsourcing trending upwards, but there are several scenarios to consider when predicting its future. For example, what effect is the 2016 election and the new "America First" agenda having? How are fintech companies dealing with regulations regarding blockchain and cryptocurrency solution development? What is the real state of outsourcing as it currently stands?
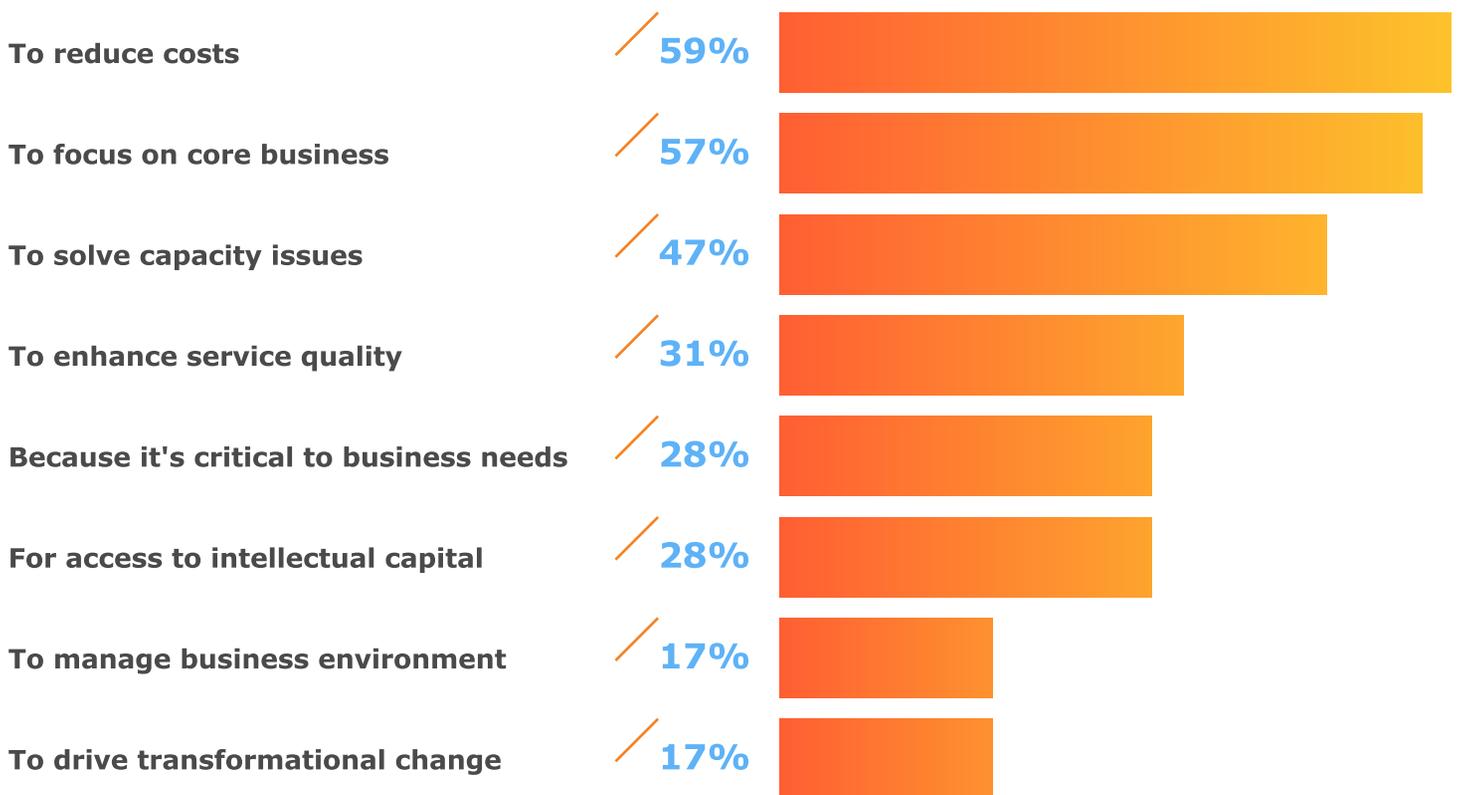
In this paper, we'll answer the following questions as they relate to outsourcing:

1. Why do companies outsource?

2. What do they outsource?

3. Which industries are doing the most outsourcing?

4. What role does automation have in outsourcing?

5. What are the trends to watch for 2019?

Why do companies outsource?

There are many factors that contribute to a company's decision to outsource some (or all) of their IT functions. According to Deloitte's 2016/17 Global Outsourcing Survey, the two main reasons are to reduce costs and to have the ability to focus on core business goals and planning.

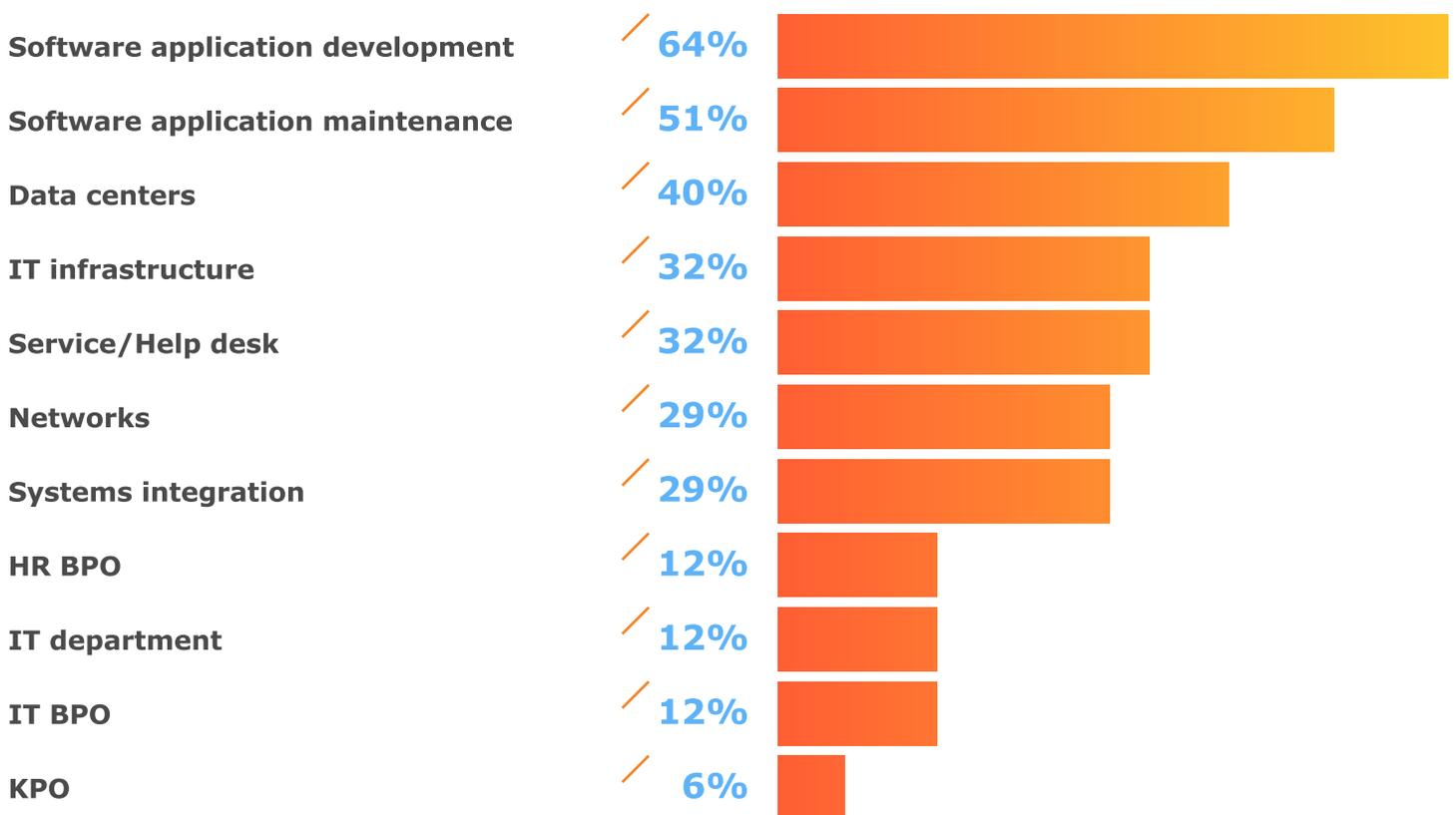| Factor	Percentage
To reduce costs	59%
To focus on core business	57%
To solve capacity issues	47%
To enhance service quality	31%
Because it's critical to business needs	28%
For access to intellectual capital	28%
To manage business environment	17%
To drive transformational change	17%

Source: Deloitte

The Deloitte report points out that most companies are starting to view outsourcing not just as a cost-cutting measure, but as a key attribute when it comes to innovation. The ability to mitigate risks from cyber security and regulatory requirements and assistance in merger & acquisition strategies are other factors that makes outsourcing attractive.

What do companies outsource?

The most commonly outsourced business process is software application development. However, the last several years have seen a rise in the outsourcing of customer service, human resources, sales & marketing, and facilities management as well. According to Statista, the breakdown of outsourced IT functions is as follows:

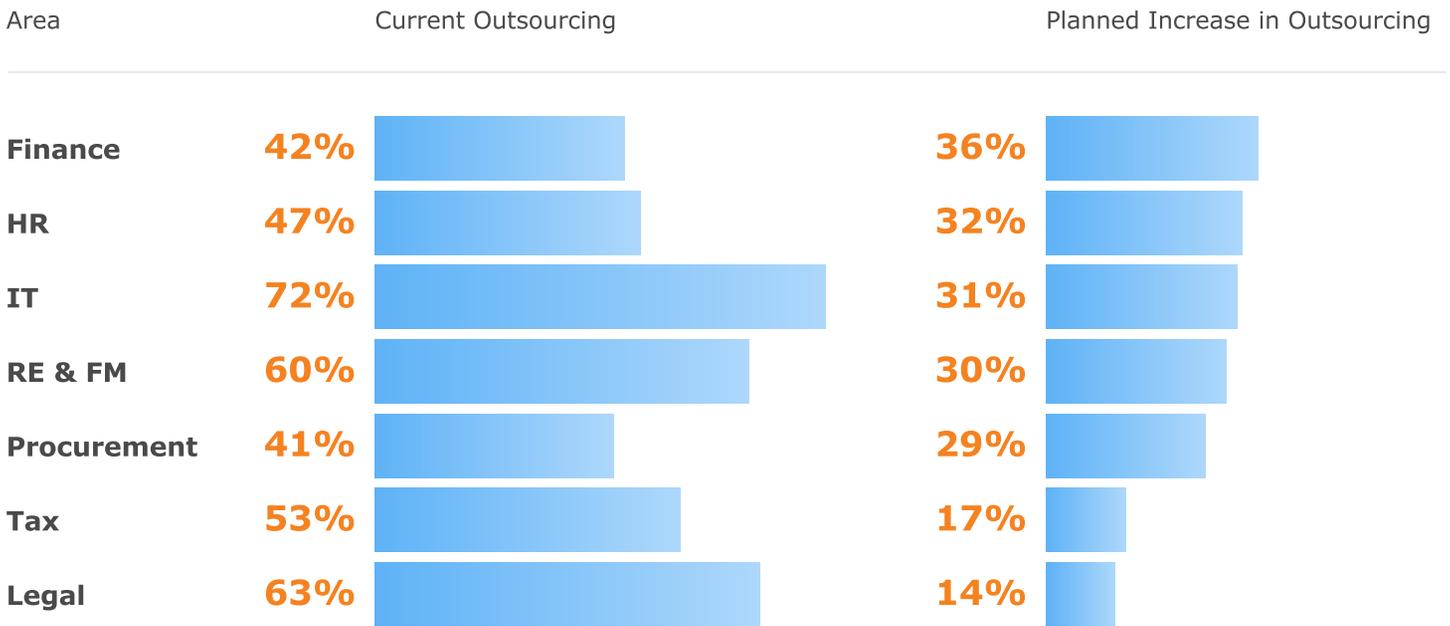|	
Software application development	64%
Software application maintenance	51%
Data centers	40%
IT infrastructure	32%
Service/Help desk	32%
Networks	29%
Systems integration	29%
HR BPO	12%
IT department	12%
IT BPO	12%
KPO	6%

Source: Statista

While the typical IT operation functions top the list, there is a growing trend in Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO), which include accounting, call-centers, customer service, and research and development. Given the fact that companies are now outsourcing in orderto have more time to focus on strategic business planning and innovation, there will continue be an increase in the number of areas and business processes to be outsourced.

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What industries & business units do the most outsourcing?

Outsourcing used to be thought of only in terms of tech companies, but that thinking is shifting, as more and more businesses across all industries are looking for ways to improve their processes and keep up with competition.

According to Deloitte's 2016 Global Outsourcing Report, the primary industries for outsourcing are Consumer & Industrial Products, Financial Services, Life Sciences & Health Care, and Technology, Media & Telecom. There has also been a growing increase in outsourcing from industries such as real estate, facilities management and procurement.

When asked about current and future outsourcing strategies for specific business areas, theresponse was as follows:

Area	Current Outsourcing	Planned Increase in Outsourcing
Finance	42%	36%
HR	47%	32%
IT	72%	31%
RE & FM	60%	30%
Procurement	41%	29%
Tax	53%	17%
Legal	63%	14%

Source: Deloitte

As you can see, Finance, HR, and IT are primed to have the biggest growth when it comes to outsourcing. These are also the areas where automation will have the most impact.

What role does automation play in the current state of outsourcing?

Just as the way we work is changing thanks to outsourcing, the outsourcing landscape itself is changing thanks to automation. How will the rise of automation affect developing countries that benefit from offering offshore services the most? Will "no-shoring"– the current trend of companies utilizing cloud-based automation solutions - eliminate the need for outsourcing altogether?

In A.T. Kearney's 2017 report, "The Widening Impact of Automation", the company is quick to point out that while many outsourced positions will certainly be eliminated by automation, there will be several new higher-skilled, better-paying jobs created in return.

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Efforts to match the right talent at the right cost – anytime, anywhere – will continue and grow.

A.T. Kearney's
"The Widening Impact of Automation"

According to the report, on average, there is one new management position created for every four jobs that automation replaces. Robotic process automation (RPA), predictive analytics, deep learning and AI can certainly process and analyze all the big data it consumes, but there will always be a need for someone to program the solution, manage the solution, and then make critical business decisions based on the automated analysis.

What Are The Trends To Watch
For 2019?

1   The focus of outsourcing will continue to shift from
        a strictly cost-saving perspective to innovation

The focus of outsourcing will continue to shift from a strictly cost-saving perspective to innovation.

Everyone agrees that outsourcing saves companies thousands – sometimes even millions – of dollars in salaries, benefits, expensive office space and more. But an often-overlooked benefit of outsourcing is the time it saves, allowing management to focus on improving business processes and growth.

In the future, the success of outsourcing will be measured not only in dollars and cents, but in innovation and improvement.

2   Because of the current political climate, more offshoring
        agencies will set up small shops inside the U.S.

The U.S. election of 2016 had consequences, not only for its citizens, but also for the outsourcing industry, as a new "America First" agenda took center stage. This has led to a somewhat negative view of outsourcing in general among Americans and U.S. companies being pressured not to outsource and penalized when they do.

In an effort to combat this criticism, more and more overseas agencies are setting up small satellite offices within the United States, either in tech hub states like California and New York where the majority of clients are located, or in places where the costs of opening a business are relative low, like Arizona or Florida.

When simply having a U.S. address and presence can mean the difference of landing a big client or losing one, the obvious choice is to make the move.

3 Financial services outsourcing will increase in places that provide less regulation

With blockchain and cryptocurrency being the topic-du-jour in the financial services industry, look for more companies – both startups and established enterprises – to turn to outsourcing in countries that support this particular type of development.

For example, Belarus recently announced its "Decree on Digital Economy Development" legislation for blockchain, smart contract, and bitcoin and other cryptocurrency solutions. The legislation bypasses traditional regulation for mining, buying and selling cryptocurrency, making Belarus the #1 tech-hub when it comes to blockchain development. It also offers significant tax benefits and an offshore duty exemption.

So, while automation may be reducing the number of offshored jobs, new technologies such as blockchain are helping to level the playing field.

Conclusion

In conclusion, the state of outsourcing may seem to be in somewhat of a flux, given the current political environment and the effects of automation. But the long-term outlook is quite positive when taking into consideration the need for highly-skilled developers and tech talent, which continues to be a struggle for U.S. based companies.

Also, with a new emphasis being placed on innovation rather than just cost-reduction, outsourcing is poised to become a necessity in order for companies to keep up not just with their competition, but with the rapidly changing pace of technology in general.

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