
Outsourcing in Denmark:



Executive Summary

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TRELLIS

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Note: This document is an excerpted version of the full cross-industry analysis. Should you wish to see the whole analysis, please contact Trellis at info@trellis.dk or at +45 7020 4283.

INTRODUCTION

During the second half of 2008, Trellis conducted a benchmark study on the use of outsourcing by Danish companies across four industries: IT, finance, pharmaceutical/biotech and manufacturing. The results of that study are included in this analysis.

The purpose of the study was to gain an understanding of what was happening with outsourcing in Denmark. Of particular interest was how firms go about building outsourcing strategies that support their business strategy.

The study included 22 Danish companies from the four industries. In addition, we have involved an accomplished array of vendors, advisors and academics with perspectives on outsourcing and the Danish market to help us to understand and articulate the issues at hand.

The study consisted of both an in-depth interview and a questionnaire for all of the companies involved in the study. The questionnaires provided the basis of the quantitative comparisons, the details of which are in part II of this report.

Among the areas of focus of the study were:

- The connection between overall business strategy and outsourcing
- The motivations for outsourcing
- The oversight and involvement of management
- The decision-making process
- The partners themselves: Choice and criteria
- How the relationships are managed and evaluated
- How relationships are terminated

Our study has produced a fascinating picture of how outsourcing is currently being used by Danish firms. We are certain that this study will add a qualitative dimension to the discussion of outsourcing as well as provide a way to enable Danish firms to continue to master this strategic business tool.

Trellis is a consulting firm focused on helping our clients to maximize the potential of external resources and relationships, typically those with suppliers and outsourcing partners.

We help our clients to build strategically cooperative relationships which leverage strengths and capacities of both parties.

Learn more at www.trellis.dk or contact Katie Gove, Founder and Principal Consultant at kg@trellis.dk.



EXECUTIVE SUMMARY: OUTSOURCING IN DENMARK

What we found among the companies with whom we spoke and that we studied was an approach to outsourcing that could be categorized as operational and almost exclusively non-strategic. To quote one of the study's participants, "We have no strategy, no risk planning, no back up and no benchmarking." Although this sounds bleak and certainly deserves attention, we also found a common interest in continuing outsourcing regardless of how well they were currently satisfied with their efforts. We found a firm acknowledgement that outsourcing was an indispensable tool for the companies to meet the challenges of the market. To quote another study participant, "Outsourcing didn't make us number one but it will keep us there."

Observation: Outsourcing in Denmark is almost exclusively transactional

Outsourcing in general and certainly in Denmark can be categorized as being an immature management tool that is neither properly exploited nor understood. Few firms are using outsourcing as a strategic tool or at a strategic level.

Danish companies across all four industries are relatively positive about their future with outsourcing

We found both a willingness and a need to use outsourcing either because of perceived or actual cost savings and access to competencies that otherwise cannot be supplied in the volumes necessary in Denmark. There is also a sizable volume of outsourcing for specific and/or niche competencies which are not in

place at the sponsoring firm itself.

Denmark is highly predisposed towards international outsourcing and has the highest level of both national and international outsourcing of all of the Scandinavian countries¹. Close to 90% of the biggest companies in Denmark (companies with 500 or more employees) engage in outsourcing. Of the functions being outsourced, facility management and IT operations rank the highest with significant distance between them and the next highest ranking functions being outsourced². Most Danish outsourcing is done within Europe, the greatest volume of which is internal outsourcing within Denmark's own borders. The second most significant outsourcing destination after Europe is Asia³.

¹ Danske Virksomheders Outsourcing; Økonomi- og Erhvervsministeriets, 2008

² IBID

³ IBID

Danish firms have approached outsourcing with interest and a fair willingness to experiment quickly and independently. However, it is also clear that the relative lack of strategic thinking and appropriate management of outsourcing affects the results of outsourcing. Rather than ready-aim-fire, Denmark seems to be approaching outsourcing from a fire-aim-ready position.

Denmark's flatter organizations are able to move fast and independently but where exactly is it that they are

The approach to outsourcing in Denmark has been fire-ready-aim

moving to? Decision making is often de-centralized and operational managers have a fair degree of budgetary discretion which allows them to use outsourcing based on their own needs. However, few are using it in a strategically integrated manner benefiting the firm. What we see are tactical needs being serviced by operational tools.

Common across many of the firms in the study was an initiation into outsourcing that took place at mid-management or lower in response to an operating demand. Where senior management was concerned, involvement typically came in the shape of a directive to lower costs or to "try" outsourcing. None of the companies with whom we spoke had a formal outsourcing strategy in place prior to beginning their outsourcing. In addition, only a handful of the companies in the study could articulate a connection between their outsourcing efforts and the firm's business strategy. In two cases, it even appeared that the outsourcing efforts were at odds with the organization's overriding business strategy.

Evident among the firms in our study was a strong demand for tools to evaluate and measure outsourcing thereby providing a platform to understand performance both of the suppliers and of the companies' own abilities to master outsourcing.

Firms, for the most part, have not been enabled to take advantage of the power of outsourcing which means that it's difficult to apply both the strategic and operational advantages of outsourcing and that it's almost impossible for firms to effectuate corrective action when something goes off-course. What's clear is that the ability of Danish firms to react quickly could be greatly empowered if strategic vision and context were developed and articulated by management. The "revolution" for Denmark would be for companies to develop that strategic vision and context for outsourcing which best suits their overall strategic business goals.

Denmark is a great place for the future of outsourcing: Flatter organizational structures and a willingness to experiment could open the door for new models of partnering via outsourcing

The current financial crisis will likely impact the Danish market by forcing companies to find further cost optimizations so interest and focus on outsourcing as a cost-savings tool will probably increase. Combined with Denmark's constrained ability to domestically provide the necessary knowledge-intensive resources, these conditions will assure that Danish companies will have to master more strategic dimensions of outsourcing.

SELECTED INDUSTRY PROFILE: FINANCE

FINANCIAL INDUSTRY

The financial industry consistently reports higher cost and time savings via outsourcing than other industries

As the “granddaddy” of outsourcing practitioners, the financial industry presents a more mature profile of an industry engaged in outsourcing. The primary goal of outsourcing in the financial industry in Denmark is exploiting cost advantages particularly via IT outsourcing. As a whole, the financial industry has achieved higher cost and

time savings than the other industries included in our study.

However, the financial industry isn’t registering blistering satisfaction with this performance. Instead, there’s a more temperate reaction to the solid performance we see in our study. More than the other companies in the study, the financial industry companies in our study have been through several phases of outsourcing and on average have more professionals with longer outsourcing experience in positions of responsibility. Many in the industry have been part of fairly seismic shifts to wall-to-wall outsourcing popular in the ‘90s. It’s also in the financial industry where we see a more frequent use of insourcing to selectively take back operations which once had been outsourced.

Compared to other industries, the financial industry shows a higher than average employee turnover as a result of outsourcing. However, the pattern of outsourcing within the industry is heavily focused on functional IT outsourcing rather than supplementing internal capacity so it’s not necessarily unexpected.

The financial industry expects the lowest growth in outsourcing over the next twelve months of all the industries in the study

While we would shy away from using the word cynical to describe our study’s participants within the finance industry, there is certainly a fair share of skepticism among the firms participating and this held across the banking, pension management and insurance sectors. Of all of the industries in our study, the financial industry indicates the lowest willingness to increase outsourcing in the next twelve months. As an industry though, they are interested in outsourcing in new areas and more than a few in our study expected the next big wave to be business process outsourcing, commonly called BPO.

The industry actually ranks fairly high in its willingness to outsource in core areas, with several vocal objections noted, and it was at a financial firm that we saw one of the most interesting examples of product co-creation with a partner in our study. This particular example involved a highly specialized niche area in which there were no competencies at the organization in this field. The reason for partnering was to create a new financial tool

via niche competencies. It's likely that the total lack of those competencies at the sponsoring firm was the necessary ingredient to "allow" the firm to outsource in this key area. However we heard from several participants that they felt that partners and suppliers could be used to develop and deliver products for and to the market at a faster pace than the firm alone could manage. Several in the study mentioned that they expected the current financial crisis to accelerate and make real this simmering interest in collaboration with partners.

The financial crisis will undoubtedly leave its mark on the financial industry in Denmark. Signs of consolidation are clear. This movement towards consolidation will absolutely be felt in the outsourcing arena which supports the financial industry.

SELECTED FINDINGS FROM OUR ANALYSIS

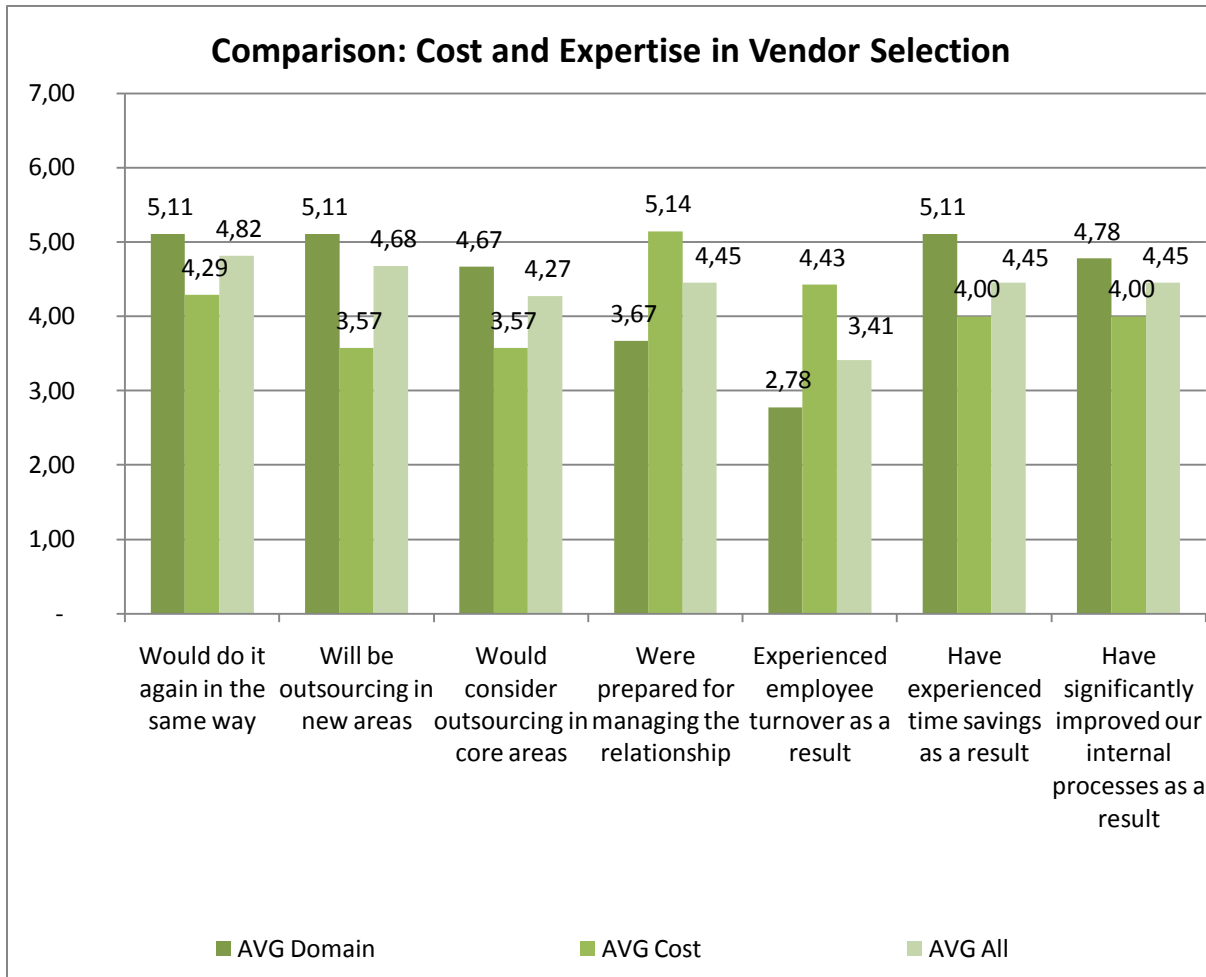


SATISFACTION AND WILLINGNESS TO INCREASE OUTSOURCING



- High average satisfaction levels (5.09 of 7)
- IT companies are the most satisfied, followed by finance
- Pharma (4.80) and manufacturing (4.83) are the least satisfied
- Pharma and IT companies plan to increase their outsourcing the most in the coming 12 months, while manufacturing and finance say they are less likely to do so
- There little or no correlation between satisfaction levels and willingness to increase outsourcing within the next 12 months
 - It is interesting to note that we see a significant deviation from the average across different industries regarding their willingness to increase outsourcing

COMPARISON: COST AND EXPERTISE IN VENDOR SELECTION



- The companies selecting vendors based on domain expertise are much more positive towards the relationship than those who choose based on cost.
- Moreover, the companies deciding based on domain expertise have achieved higher time savings and have improved their internal processes more significantly.
- Companies choosing vendors based on domain expertise have achieved lower employee turnover and are more likely to outsource in core and new areas.
- The companies choosing vendors based on cost say that they've been much more prepared for managing their relationships than those companies choosing based on domain expertise.
- It is interesting to note that although they choose vendors based on costs, they have not achieved significant cost savings over companies using other criteria for vendor selection.

- As a conclusion, we can say that cost focus as the dominant vendor selection criterion remarkably does not necessarily bring cost savings.
- Companies that are selecting the providers whom they believe can provide them with more quality and higher domain expertise benefit much more from their outsourcing relationship in terms of cost savings.
- It is interesting to note that 84% of the companies using cost as a criterion for selecting vendors have a 3-5 year pricing model, while 75% of those who have choose vendors based on domain expertise are using either short- or long-term pricing model.