Global Sourcing & Tryst with Growth

Case for Three Parallels

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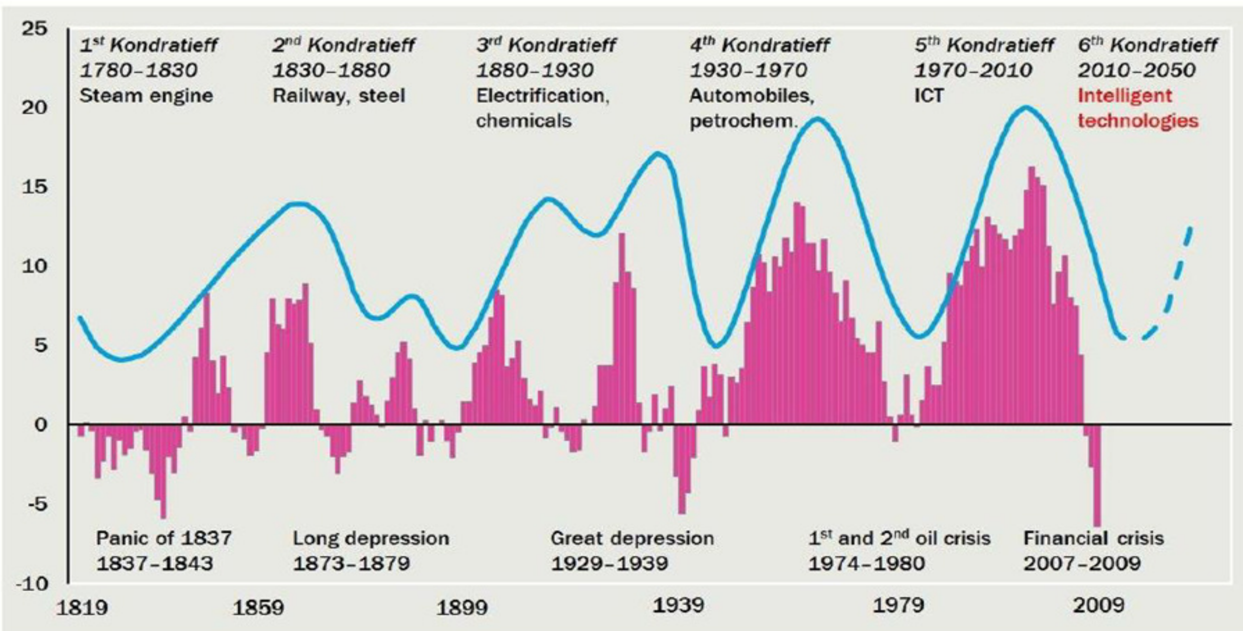
SOURCING INDUSTRY – TRANSFORMATORY WAVES

Two models have become the most popular outsourcing models prevalent globally today – shared services, and third-party provisioning, alongside range of other models across the spectrum spanning these two models, driven either by a distinct pursuit for value, risk avoidance, co-creation or some form of mutuality (vested in a short to medium-term future outlook). Most such models have (and continue to be) complex to structure, manage and sustain, hence their applicability has been limited to really complex global endeavors. On the other hand, contributing locations don't normally see themselves contributing to any model other than the two most popular ones. Nevertheless, the beginnings of this industry are important to appreciate as it has gone through six distinct cycles of "shifts". An understanding of such shifts (driven predominantly by influences/ trends from outside the industry) is crucial if one is to appreciate the complexity seen today. Below graphic is informative as it relates to the six Kondratieff Waves that have defined modern history and economic pursuits.



The most pertinent waves that have helped shape globalization are the 5th and 6th Kondratieffs – which have become a reference for industrial growth over the past 250 years. Of particular importance has been the 5th Kondratieff that opened up the world to a whole new way of looking at operating organizations, and creating solutions. Services became a significant "new" revenue source for firms beginning in the early 80s when computing moved from universities to mainstream civil society. Coupled with the advent of simple machines (namely Punch-card machines and Automated calculating equipment), the industry began its nascent journey toward automation.

Aggressive adoption of computing environments only led to a fast-paced growth of automation in its initial form. Since then, the nature and type of transformation the industry has seen cannot be described within the ambit of this paper. It is too wide, too vast and complex. Suffice to state that the 5th Kondratieff opened doors to modernization of hitherto traditional pen-and-paper business environments. The 6th Kondratieff opened up a plethora of opportunities for the world to participate in. Starting with the availability of significant communication bandwidth (thanks to the aggressive investments in broadband during the heydays of the dot-com era, and its consequential collapse leading to excess capacity), and the looming global disaster to computing environments that necessitated permanent fixes to each and every computer (more famously known as the Y2K era), services went global.

Aptly termed Services Globalization, the opportunity to ride the bandwagon became a reality. Sourcing for competencies (tools, technologies, support environments etc) was a direct consequence of the opportunity presented thanks to a global communications era. Restricting this deliberation to the Outsourcing / Sourcing industry, it is quite interesting to note that since the opening up of the sector almost two decades ago, the growth and complexity has gone hand-in-glove to what the industry represents today. Six key waves have helped shape the industry, with transformatory ideas pursued within each wave setting the stage for the next wave, in a manner much similar to the industrialization waves represented by the Kondratieffs, albeit within significantly compressed timelines.

The most interesting aspect of this development is that a range of external factors contributed to a cohesive leverage between industry, economies, and enabling socio-political institutions. The biggest contributor (and consequential beneficiary, of course) has and continues to be demographics – ageing in the traditional industrialized nations, and youth bulge in fast-growing emerging/ developing nations. The former needed the latter to support their changing needs; the latter needed the former to modernize their marketplaces and socio-economic conditions. This confluence of needs was supported by the availability of industries that were leveraging/ creating technical competencies, and a drive to leverage technology in pursuit of both modernization, and global footprints. Hence it becomes crucial for one to understand the six waves of change that have guided and shaped the Global Sourcing industry, so as to appreciate not just the growth, but also the maturity and attendant complexities (including some ignominies and obsolescence aspects) while determining if there is room for alternative models that don't necessarily have capitalist goals.

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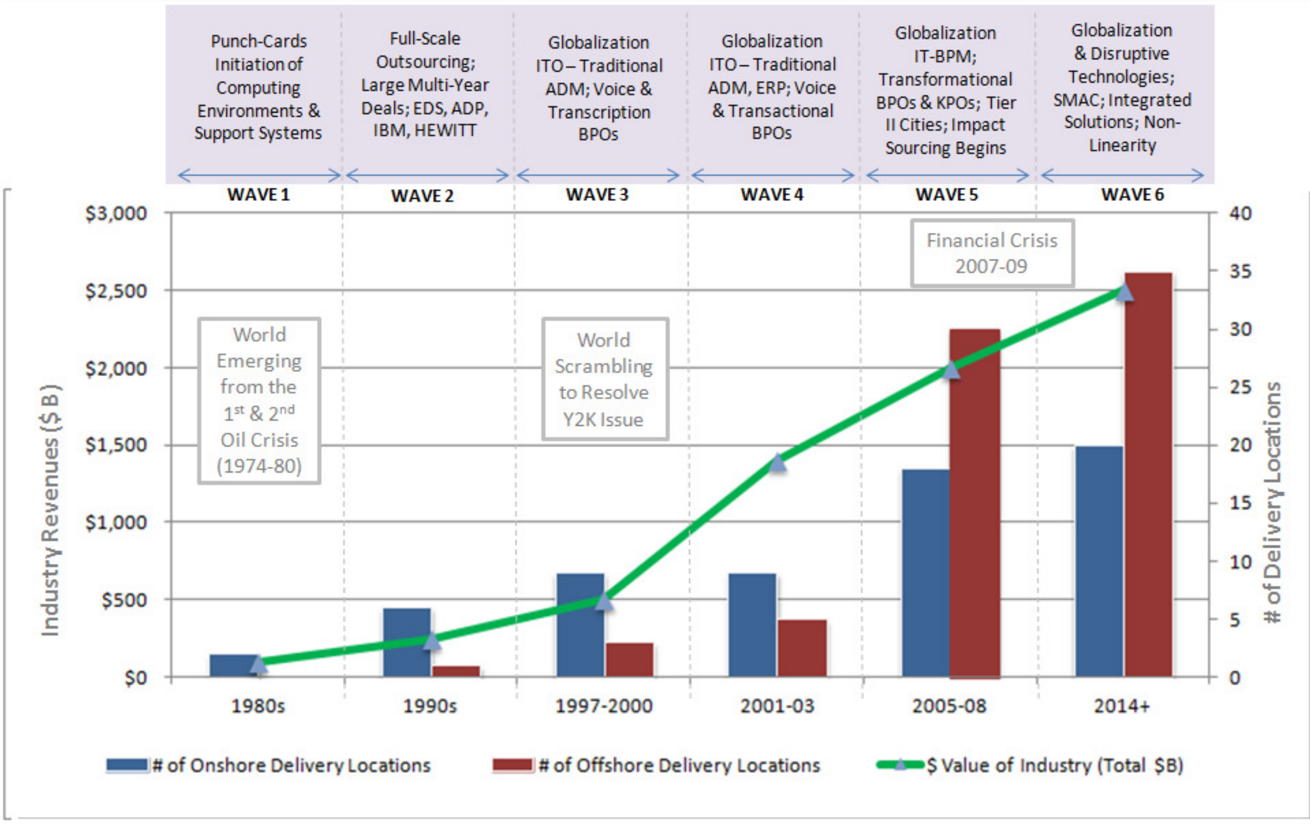

- **Wave 1 (1980s):** This was the era of punch-cards and initiation of computing environments, attendant support systems etc. Commencing with forward-looking companies like General Motors and McDonnell Douglas that looked to automate the end-of-week punch data of all its employees to ensure it adhered to state and federal regulations surrounding overtime payments (as also to ensure adherence to agreed terms with trade unions), the industry has never looked back. The foundation for what would become a thriving global industry was set.

- **Wave 2 (1990s):** Full-Scale outsourcing, large multi-year fixed-price contracts, and growing number of provisioning entities began to drive the growth of the industry, albeit within the US and UK alone. Spearheaded by firms like IBM, EDS, ADP, Towers Perrin and Hewitt Associates, it became the norm to outsource any and all services that involved electronic data. Infrastructure management (desktops, servers, computing farms) began to catch on especially given the expensive nature of maintaining such server farms. The era of full-scale asset-heavy outsourcing began.

- **Wave 3 (1997-2000)**: The growing realization that year-date fields in all computing environments would default back to “00” at the end of 1999 scared the world into quick action. The Y2K frenzy lasted three years, and opened up an opportunity never envisaged before – leveraging labor from other parts of the world. In particular thousands of engineers were required to complete the job; such numbers were available aplenty only in India, thereby opening the marketplace for globalizing sourcing of talent for services. This initial template set the stage for the remainder of the industry’s growth, sophistry and expansion beyond India.

- **Wave 4 (2001-03):** India having succeeded in provisioning cheap yet competent labor that was technically competent set the stage for irreversible growth, namely in the form of building much-needed trust in a model that was structured around compartmentalization of tasks, mostly mundane, rule-based yet technically aligned. Lowering operating costs became a real opportunity. This wave also saw two important developments take place: (a) extension of the proven ITO model for transactional aspects to the business layer particularly manifested with voice-work and transcriptions (both medical and otherwise); and (b) advent of transactional business process outsourcing (non-voice).

- **Wave 5 (2005-08):** This wave saw the true nature of the industry's globalization, fueled not as much by expansion in services considered worthy of outsourcing, as with the strategic business model changes that ensued. Six key trends are shaping this wave, ranging from shifting emphasis (cost to revenue), integrated IT-BP services, hub-and-spoke locational footprints, bundling services into solutions, expanded reach into second/ third tier cities freeing up capital, and leveraging untapped resource pools from hinterlands within.

- **Wave 6 (2014+):** If wave 5 reflected transformations at a strategic level, wave 6 revealed the limitations with traditional outsourcing models, and their much-touted replacement models. For all the greatness and glory of outsourcing industry's globalization, it continued to remain stuck in what is described as linear provisioning, essentially described as provisioning human resources (read labor arbitrage, supported by small set of predictably trainable skills, and limited by client trust issues with opening up their businesses to third-party entities).

MODELS RELEVANT TODAY

In an age of uncertainty most client organizations face, these technological revolutions in the form of Cloud Computing, Big Data, Asset-Light Managed Services, Social Media are becoming new tools in the CEO's toolkit to re-establish growth. Traditional vendors who often saw their business growth as a function of volume, began to lose sight of client value much too quickly given their distance from a client's business core (after all outsourcing was premised on non-core activities anyways). Value erosion, more aptly described as value lost began to strategically influence buyer organizations, much to the chagrin of their traditional vendors who didn't have any solutions to counter such erosions.

The advent of new firms – freshly minted with technological wizardry and unencumbered by linear volume-based business models – came as a boon to many firms struggling to put predictability at the forefront of their business growth forecasts. These firms also became a harbinger for many clients to leverage them for market insights, a value proposition that was never an offering by traditional outsourcing firms. The collective emphasis on business externalities, capital conservation models and strategic decision-making support became "invaluable calling cards" for the new technology providers. While these firms are collectively known as the Disrupters, their disruption is not as much in technologies being leveraged as much as the provisioning of such competencies is being positioned.

Customer organizations are beginning to realize that there is much more trust when risks are actually shared, including risks to be had in the near-term future. Coupled with advances in globalization and opening of new markets, customer organizations looking for de-risking their market-access initiatives are only finding support from the new-age disruptive technology vendors, not their traditional back/mid office vendors.

In tandem with the above shift, the most palpable and measurable shift has been in the manner in which non-linearity has become a mainstay driver for provisioning entities. Unconstrained by the need to create hundreds of thousands of jobs, the divestiture between jobs and revenue growth[1] has become a mainstream endeavor (much to the chagrin of traditional vendors who are trying to straddle both models).

THE THREE PARALLELS

The biggest challenge for most developing economies presently is that the industry is currently pursuing "Three Parallels" – a term that reflects the fact that three distinct waves are working concurrently. This facet raises some interesting yet complex challenges, as below:

1. **First Parallel** - Most local service providers offer services clearly reflective of models from wave 3 (i.e. of traditional low end maintenance work, contact centers, transactional services) which are considered discrete processing and volume-centric cost-chasing services, that are always subject to vagaries of costs and increasingly to competition from lesser endowed developing nations from Africa and Asia-Pacific. Meanwhile, most of the multinationals like HSBC, DHL, Shell, ABB, BASF are offering services that would be best placed in wave 4 (i.e. offering full-scale services where technology and processing have been integrated sufficiently enough, though volumes still drive much of their delivery competencies.

   The outcome of this parallel is that young individuals would rather pursue jobs with multinationals where they tend to gain visibility into longer-term career opportunities, that the discrete cost-chasing vendors don't have the flexibility to offer. Hence most third-party vendors (owned locally) are at the receiving end of this issue, further compounding their ability to grow and remain relevant.

2. **Second Parallel** – Large multinational vendors like IBM, Accenture, Tech Mahindra, Infosys, TCS, T-Systems and Sutherland Global et al have been able to leverage both their global experience, and clients with global footprint to increase their presence in Asia-Pacific region, mostly thanks to their positive performances with wave 4 and 5 type of business models deployed successfully in the Western world.

   Today such vendors are increasingly being doled out global portfolios by their clients who aim to increase their own business footprints in the APAC region. This trend has resulted in domestic and regional corporations (large end-users, banks, financial institutions, plantation firms, and most GLCs in Malaysia) looking for similar transformatory experiences to further shore up their own business value in an increasingly competitive region (and also as a run-up to the ASEAN free-market economy). Unfortunately local vendors are not well placed to deliver such value, hence their traditional home markets too are becoming difficult to serve and sustain.

[1] Case in point with non-linearity: Traditional outsourcing models (in a blended onshore-offshore context) necessitated creation of 100,000 jobs for every $2 B in revenues; non-linear models today reflect similar revenues with less than a fifth of such jobs being created, coupled with the fact that most such jobs are "new" and not "replacement" jobs. This example is that of the balance-sheet of Infosys Technologies in 2006, just prior to and after their spree of acquisitions in the US and Europe.

3. **Third Parallel** – the influence and value presented by disruptive technologies – particularly SMAC[2] – has become a pivotal point for discussions surrounding growth, resilience, and modernity, as reflected by wave 6. Most corporations (local or global) are looking for solutions from the marketplace that leverage these technologies in a manner that assists them enhance their top-line values. While local vendors – stuck in wave 3 – are seen as woefully inadequate to leapfrog into this mold, the marketplace is seen as an untapped one for anyone with competencies to leverage. Therefore its Federal governments who have taken charge in creating competencies with non-linearity – fortunately, or unfortunately?

IN CONCLUSION

A summary observation lies in the consequence of these three parallels for the developing world – distinct and concerning. The realization that these three parallels need to be bridged so as to permit organizations / providers to seamlessly traverse them isn't seen amongst most leaders driving the industry. Most such endeavors are perceived to be either low in their impact, or the responsibility of someone else.

As an externality though the industry's perception as above is partially true (since an enabling ecosystem is outside the purview or accountability of the direct players themselves), it isn't necessarily that of the government alone. Ecosystem components are as much a public-sector responsibility as the private sector. In this context, for e.g. a purely government-led SMAC strategy does create for non-participation from the private sector (and consequential revenue and market-share losses, notwithstanding the fact that irrelevance of domestic producers can only add to the woes with respect to economic interdependence).

The confluence of the three parallels has to happen, through stitching together provisioning entities' value propositions in a concerted manner. Else the parallels could lose themselves into a vague future, perhaps adversely influencing nations and industry along the way.

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[2] SMAC is a term that is used to collectively refer to four distinct technology trends: Social Media, Mobility, Analytics and Cloud.

About The Author

Bobby Varanasi is one of the acknowledged **Top 25 Globalization Leaders** in the global sourcing space and the Founder of **Matryzel Consulting** – an independent advisory firm that has been acknowledged as one of the **World's Best Outsourcing Advisory Firms** two years in a row (2013 & 2014)**.** He brings with him two decades years of experience in consulting and management across IT, Business Services and building global operations. He advises federal governments across four continents on ICT sector development with particular emphasis on policy development, industry-government partnerships aimed at creating domestic resilience through increasing productive (and inclusive) faculties of entrepreneurs. Bobby also advises Fortune 500 customer organizations and emerging market entrepreneurs on strategy, growth, sourcing and expansions. He is often quoted and published in Forbes, fDi, Economist, The Outsourcing, ICT Media BV, Ratio Magazine Africa, etc.

Bobby holds Board positions with the International Association of Outsourcing Professionals (IAOP) – a standard setting organization – and the Global Sourcing Council (GSC) - an entity focused on sustainable and socially responsible sourcing practices (both headquartered in New York). He is an External Advisor to Outsourcing Malaysia, a non-profit association engaged in developing the outsourcing industry, and an Assessor & Mentor, Product Development & Commercialization Fund (PCF), established and managed by Multimedia Development Corporation, Govt. of Malaysia that focuses on new technologies, new trends and entrepreneurship development.

He is author of a book titled ***"Humanomics – Making Sense of Socio-economic Impacts of Global Sourcing"*** published by Author House (a Penguin Random House company), which is available on Amazon, Google Books etc**.** An avid scuba diver and basketball player, he currently splits his time between Newark, DE, USA and Kuala Lumpur, Malaysia with his wife and two sons.