UNSEEN BLACK SWANS – PRICE WE ARE PAYING TODAY

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Identifying Black Swans

The sourcing industry has so far had a spectacularly wonderful run. Twenty five years of constant change, dynamism, technical competencies, business-aligned, people-centric, and bottom-line focused; intrinsically able to deliver on all promises made. As with any journey, bumps and roadblocks are expected. Navigating them painstakingly has created heroes of many an organization, spilling over benefits into the developing world, and capital markets. I don't gainsay the fact that millions of jobs (and millions more into indirect economies) were created, translating into greater (though exclusive or discrete) purchasing power within nations and communities, alongside building reputations and careers for thousands. The gains that were paraded over time have overshadowed the complexity of the industry's underbelly. Short shrift was given to deliberations on the industry's longer-term future. All our endeavors have at best been dedicated to projecting into a 12-month future. Opportunities alongside – however uneven or distinctly convoluted they may have been – kept trickling into the industry, thereby giving us all a semblance of normalcy. We seem to have gone down the path of not anticipating "black swans" as we believed this industry didn't have to deal with them.

This paper is not brooding over what could have been. It is aimed at splitting the underbelly and taking a peek inside what we may have ignored – either the warnings, or the signals. A decade and a half ago, the provider marketplace was distinctly divided into two camps: the traditional biggies, and the (developing world) newbies. The latter sought growth and profitability on the back of cheap provisioning of inputs, while the former continued to grow on the back of home-grown resource provisioning (considered expensive only when the alternatives for cheap labor came up). I wonder what would've been the case if such cheap labor was not discovered. Would this industry have developed into what it is now? At that point traditional biggies set about changing their delivery models so as to effectively compete with the newbies, while the newbies themselves aligned themselves with capabilities to take on the biggies on their own turf. Competition came to a point about input-factor sophistication (and attendant aspects around costs needed to provision such factors), alongside other tactical factors like quality and structure, standards and predictability. These were what defined value then. The first black swan perhaps?

Fast-forward a decade later, most such traditional models (dubbed outsourcing 1.0 and 2.0) failed on even their basic promises. Nevertheless, a multitude of nations embarked on the promise of cheaper inputs, thereby supporting the original successes with sourcing. The industry had gone global, notwithstanding either the ability or the sustainability of such nations to continue with such provisioning in the presence of complex internal sector specificities/ woes that influenced their own economic well-being. Value now got defined as a continuous pursuit at commoditizing input-factors, where the greatest bang for the cheapest buck prevailed. The second black swan perhaps?

The industry continued to surge, notwithstanding a few glaringly obvious trends, spanning reduced third-party sourcing deals, increased insourcing and vendor consolidation, delivery contracts structurally altered to pass on more business risk to providers, demand for business centricity changing the fundamental sourcing language from the buyer end, and attendant technology alternatives that permitted clients to relook at all their relationships afresh. An Outsourcing 3.0 emerged, seemingly (though inadvertently if I may surmise) in response to these very changes in demand behavior.

Provisioning models locked horns with customers in a bid to unravel a plethora of skeletons out of the closet. Principal among these revelations was a complete lack of trust between partners, risks unequally shared, retained organizations struggling to align to marketplace changes even while vendor portfolios grew and became unmanageable (thereby increasing governance controls). These factors had a spiraling impact on taking away focus from the primary goal driving such relationships – marketplace value that made sense to the customers' top-lines. Value now got defined as a function of robustness of governance and oversight. The third black swan perhaps?

Enter the disrupters. Their seemingly startup culture-driven models promised zero baggage and a hundred percent value alignment with customers' top-lines. Their entry of course was premised on (a) replacing traditional input-heavy sourcing relationships with cheap and easy-to-deploy-and-maintain technologies, and (b) continuously gaining end-consumer insights through deployment of modern technologies (social media, analytics) and access platforms (mobility and cloud). This entry again was targeted at those very functions that had embarked on the sourcing journey from 1.0 through to 3.0, and weren't the wiser for their experience. Value is now defined by the modernity of technologies deployed in operational/ functional environments in comparison to others. It almost seems like old wine in a new bottle. The fourth black swan perhaps?

Envisioning Tomorrow

Here we are now, at a point in the industry's lifecycle, where successes are measured not as a function of business value so much as a function of technology modernity in play. Marketing rhetoric has superseded the need for reality checks in a world flush with start-ups promising to be the next best thing that may have happened to humanity. Concerns around organizational size, internal matrix relationships and complex governing environments aren't thought of as important enough to address. Business value languishes while enhanced end-consumer focus has created lopsided organizations where internal resilience isn't reflective of the demands placed by the marketplace. As a case in point, during announcements of financial results for Q3 2016, TCS (a listed entity) showed markedly appalling numbers, with average quarter-on-quarter growth down to approx. 1.47% despite healthy profitability at around 25%. Meanwhile growth of Accenture at 40% YOY surprised many. Weren't the newbies (TCS) and biggies (Accenture) essentially offering seemingly replicable services at similar price points, articulating almost the same value through the industry's three "transformational" cycles?

What changed? Large human-resource heavy firms (spanning both newbies and biggies) that provisioned cheap labor at great economies of scale are now struggling to remain relevant. Cannibalizing existing models has never been easy, yet a disregard for all such black swans that came by over the past twenty-five years is pushing organizations to do exactly that. I would like to think that the black swans I mentioned above were never seen in that light by a few firms who chose sustained value over intermediate populism. Their focus on customers' top-lines has and always remains at the forefront of conversations. Sharing risks and co-creating solutions has enabled some to build resilient organizations that are not carried away by the latest fad (SMAC, Big Data, DevOps, SIAM) or hype (automation and RPA). Instead they have been able to view all input types – human and otherwise – in the context of value being pursued, with value itself being strictly aligned to customers' top-lines. Goals then are to deliver on such values; routes to or input-factor combinations notwithstanding.

We have arrived at a point in the industry's growth where pretenses and half-measures will no longer give us room to maneuver. Replicating marginally distinguishable input-factors, or treating technology as divine will surely not assist organizations in co-creating value. Neither will competitively distinguishing such factors from standpoint of balance-sheets alone suffice in enabling growth for customer entities. Instead, black swans will hit more often. I would instead recommend that we invest in "unlearning" all that we know about the industry. Such unlearning is a precursor to a new pursuit, in a more complex, more integrated yet nefariously heterogenic world. It would also then allow us to don a bigger role around national transformation and domestic marketplace enhancements that emerging and developing economies have come to expect of us. We as an industry too could substantially benefit from being moved up the relevance ranks ("derived" to "mainstay" economic activity tag). Perhaps that would permit us to remain ahead of the curve, anticipate black swans and align our approaches with resilience and sustainability forming pedestals for such pursuits.

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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** three years in a row (2013, 2014 and 2015)**.** 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 global standard setting organization for the sourcing industry; the **Global Sourcing Council (GSC)** - an entity focused on sustainable and socially responsible sourcing practices (both headquartered in New York); and the **Malaysia Australia Business Council (MABC)** – an entity focused on cross-border trade enablement. He is an Assessor & Mentor, Product Development & Commercialization Fund (PCF), established and managed by **Malaysia Digital Economy 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.