CREATING A VALUE PROPOSITION WITH COMMODITIZED SERVICES IN TODAY'S GLOBAL MARKETPLACE

Over nearly two decades corporations have adopted outsourcing strategies through working with competent service providers. With the advent of offshore outsourcing, many successful relationships have been built on the ability of service providers to deliver upon quality and process competence. Given the limited ability of such deals to create or enable topline value for customer organizations with their core businesses, bulk of these service portfolios have remained very tactical, aiming principally to enable customers save on their costs, with other fringe benefits like access to talent pool, focus on core competencies etc contributing little to the topline. Today customer organizations, having gone through multiple outsourcing lifecycles in partnership with service providers have not been able to realize the value they anticipated. This in turn has resulted in service providers being unable to focus their business beyond commoditized services that have been easy to package. The resultant imbalance between customer expectations and provider competencies has created a significant gap between outsourcing rhetoric and reality. While one can argue about customers not willing to partner with providers in reality, it is pertinent that providers also embark on value creation with their services continuously and rigorously, or else risk losing their customers to other more proactive providers, or worse to other business models.

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Introduction

Today's service providers have been able to successfully offer technology and technology-enabled services (often referred to as BPO services) by leveraging two core competencies - focus on quality of service delivery and adoption of process models that have helped establish a discipline at the process level. Unfortunately however, these often replicable services have become a stumbling block for provider organizations in their ability to scale up the value chain of customer organizations. While it is interesting to note that most service provider organizations have been able to grow their revenues through offer of standard services, not many have been successful in integrating themselves into the business strategies of their customer organizations.

The most successful organizations have realized the need for moving away from rigid "traditional command and control" business models to a "networked" organization, wherein the discrete abilities of various companies could be leveraged continually to create nimble and forward-looking organizations. This shift in strategic perspective has far-reaching consequences to the world going forward into the next decade, as organizations become flexible in their ability to adopt, align and create products and services that are truly global. One significant transformation that is anticipated is that the traditional distinction between suppliers and consumers of services shall pave the way for organizations that are continually focused on creating innovative business models [and core competencies] aimed at a networked corporate world. The corporations of the future shall be focused and specialized ones - inventors, transformers, financiers, and brokers.
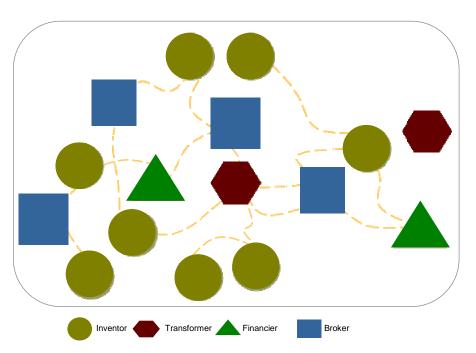
Bandwagon Effects

One of the most important questions being asked today is whether organizations worldwide are approaching strategic evaluation of their growth strategies in the right manner. This is particularly the case with today's service providers. Most evidence points in the opposite direction, with corporate compulsions driving most Boards towards "bottom-line" oriented strategic envisioning. It is important to understand these "bandwagon strategies" if companies are to extract themselves from such value-eroding business models.

Cost Cutting & Pricing Discounts

➢ The all-pervasive strategy that has - seemingly - worked for over a century in the quest of the corporate sector to rationalize business evaluation and competitive positioning. A downstream impact of such approaches has been the inability of corporate mind-sets to look beyond costs, thereby eroding any ability to leverage internal competencies that can position the organization towards creating a core competence. Reaction to competition, rather than appropriate positioning of products/ services is the bane of commoditization.

Focus on Marketing & Sales

➢ Assumptions that extensive marketing spend, sales strategies and investment in revenue-generating resources is enough to increase turnover, and resulting bottom-lines. No attention is being paid to evaluation of the effectiveness of products/ services being sold in the first place, resulting in a race to outwit competition.

Develop new operating models to include work structures, Inter-Networked Corporate Boards & multi-Locational governance models

Building the needed competencies to perform in a global delivery model by staying focused on a core – Inventor, Transformation, Financing or Consulting.

Planning strategically to move business and service focus from "process" to "domain" competence.

Planning HR impacts including talent development and retention focused at "topline" value creation

● Inventor ⬡ Transformer ▲ Financier ■ Broker

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Compulsion To Grow Bigger

The most common focus area for Boards and CEOs - to grow larger and achieve economies of scale that results in heftier bottom-lines. All strategies, especially investment-related decisions are made with this compulsion in mind.

Always Asking Customers What They Want

Providers have always been reactive in their offer of service competencies. An ability to proactively create services and technology-enabled products that address the need of customer organizations to transform their own businesses into modular corporations is required. This is perhaps the only way forward if service providers are to sustain their business models and contribute effectively to tomorrow's globalized world.

Using Law & Politics To Sustain Businesses

Another common and most used approach to sustain businesses has been to leverage political connections to garner favors resulting in award of contracts. This is particularly prevalent in most developing nations where government intervention has created invisible monopolies within certain sectors. These companies enjoy the favor of government policy, and resulting contracts that are awarded based on relationships rather than on competence. Such successes with contracts tend to give companies and illusionary perspective that their business and service models are responsive to customer demand.

Improving Current Products & Services

While improvement in itself isn't necessarily value-eroding, most providers are focused on such improvements in so much as it serves to address a customer organization's requirements. Evaluation of longer-term impacts of such focus isn't carried out from a perspective of changing dynamics of the globalized world itself.

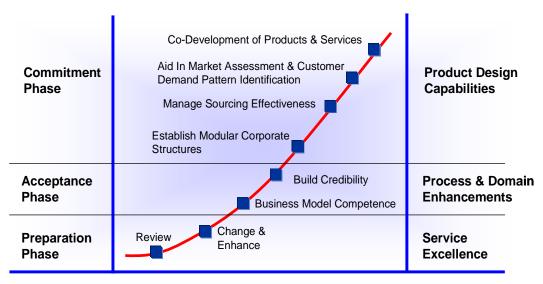### Replicating Service Successes of Competition

The growing demand for provides in the global sourcing marketplace has resulted in hundreds of entrepreneurs commencing businesses where services are replicated incessantly. As the demand continues to increase, such providers have been able to win small contracts and make fairly decent margins. While such businesses have been replicated in many countries across multiple continents, most of the current demand of approximately a $1 Trillion is being addressed by not more than the top twenty provider organizations. This replicability has therefore not created real competition, and neither has the provider marketplace grown in its ability to create sustainable business models.

The resultant impact is what we see today - companies that offer commoditized services. An extended reality to this standard business model is that most providers continue to sell services that only seem to address cost-saving measures, while other requirements of customer organizations - enhancing domain competencies, innovating new products/ services, entering new markets, reducing research & design timelines - is not addressed.

Roadmap To Extraction

Provider organizations need to extract themselves from the seemingly impossible situation they are in. The manner in which this can be achieved is to undertake a comprehensive review of their company's internal abilities, and focus foremost on what is contribution to *value erosion* rather than on costs, pricing and technology. This evaluation is difficult and needs a staged approach, rather than finding a comprehensive solution to the problem itself.

The roadmap follows a three-staged approach.

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Preparation

The commencement of this initiative of breaking away from the commoditized spiral is for provider organizations to conduct a comprehensive review of internal competencies, and what services form the core experience of the organization. A further commitment to service excellence (involving both technology and domain) needs to be established, and the only manner by which this approach would be successful is when the Board and senior leaders accept that change is not only vital, but a systemic one is necessary.

Such a change has to commence right at the Board, through a complete overhaul of the composition of the Board with leaders who are reputed to be strategists. The CEO becomes the principal leader upon whose competence rests the provider entity's ability to adopt forward-thinking approaches that can take the organization out of the commoditized environment. Next steps surround a comprehensive assessment of the existing service portfolio. An overhaul or enhancement to existing services isn't enough (and can more often than not result in a delusional impression that the company has changed).

This transformation has to be necessarily complemented with an assessment of the existing talent pool. Core investments are not around technology, but needed to be made in people. Middle management needs to be focused on domain competencies, and not just on technology or process capabilities.

In essence, this is perhaps the most vital investment that can either propel the organization towards a value-creating entity, or remain a commoditized service provider.

Acceptance

This phase is clearly aimed at creating more flexible business models that can support the core service structures that have been established in the preparation phase. The models will necessarily involve a thorough overhaul of service pricing strategies, margin assessments, capital expenditure forecasts, and expansion and acquisition strategies. The principal driver is the goal to establish competent provider businesses that can directly work alongside larger global corporations and become integral partners through focus on core competencies that have been established in the preparation phase.

Commitment

This is the phase where the provider organizations are in principal working towards generating topline value. It becomes pertinent to note that this value is not isolated. Rather it is shared value that enables both organizations - providers and customers - manage sourcing competencies effectively, establish go-to-market strategies together, co-create products and services that enable value-creation, institutionalize focus on measurement and continuous improvement of shared competencies.

This level of commitment can result in *shared values and topline focus* for both entities, and a reflection of the success of a modular corporation. Such partnerships are no more outsourcing or global sourcing related relationships, but are proof of the manner in which competencies from the global marketplace have come together to create lasting solutions.

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