



THOUGHT LEADERSHIP

GLOBAL SOURCING & TRYST WITH GROWTH

SERIES I: THE VALUE-SCALE CONUNDRUM

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THE PREDICAMENT

Two decades into the industry we have seen a host of service providers from various regions commence businesses, across the larger spectrum we term outsourcing. The first decade saw the Indians and Philippines alongside traditional locations like Canada and Ireland provision services, on the back of private sector endeavor and fueled by surging demand from the Western world. The second decade has truly manifested the complexities we see today. While the corporate world continued relentlessly to focus on hiving off their “non-core” activities across technologies and back-room functions, the “seemingly endless” boom of consumption fueled either by savings (read Asian economies) or market largesse (read expansionist endeavors of Western corporations in other regions), or by new-found stability in the LATAM region, marketplace dynamics have come to be governed – subtly or overtly – across the planet in what we call “emerging” nations. Sectoral dysfunctions were clearly ignored by most nations in their rush to modernize, and grow their economies. Some industries went into their sunset stage, while others were burdened by long gestation periods, while some others continued to see increasing competition to the point that economics went the other way more often than not. Perhaps, just perhaps the knight in shining armor seemed to be the ICT sector that bucked the trends that all other industries demanded (in terms of their initiation and sustenance) while also offering to level the playing field thanks to globalization. Did this knight deliver upon expectations?



THE VALUE-SCALE CONUNDRUM

The past two decades has seen the sourcing marketplace go through some significant upheavals, both on the client side and the supply side. The latter has seen more disappointments than cheer. For long have I argued that “value-scale” needs to become a mainstay driver for service providers, in their quest to grow revenues and market-share. To a large extent, entry of, and leadership by federal government agencies in promoting the sourcing industry (within their larger ICT sector development strategies) has fueled the confusion seen in the marketplace today. I say confusion primarily because clients and end-user organizations looking for partner organizations (as they themselves endeavor to contain costs, conserve capital, increase revenues, penetrate new markets etc) have more often than not come away disappointed at the gap between marketing rhetoric and delivery realities. The heydays of the early 21st century where technology and technology-enabled services were touted as intrinsically important for organizations, are today less the focus as technology has become embedded into their businesses significantly. The aura of “new technology” is being replaced with the “fatigue” of ongoing spend bereft of any continual value. Provider promises of transformation have become nothing more than break-fixes, resulting in an increasing dilution of the value outsourcing seems to have promised. There are quite a few instances of outsourcing portfolios being restructured not because of the ability of providers to deliver upon current needs, but their failure to modulate/enhance their service provisioning in tandem with changing end-user business needs. Restructuring of such portfolios has become increasingly common – with insourcing, and reduction of spend being two key approaches clients have been pursuing over the past five years.

The economic crisis has put a big spanner in the works for global sourcing. While sheer volumes within the opportunity have increased by an average 5% - 7% YOY - even during trying times starting 2008 - the nature of services being sourced out have moved away from low-end cost-chasing commoditised ones toward more value-enabling and business-oriented service bundles. The spanner here is that increasing maturity with buying services has finally resulted in an increasingly sophisticated buyer marketplace, whose general ability to discern real vs. the promise has enhanced tremendously. Such sophistication in turn places unplanned and unexpected pressures on service providers to get their act together. In other words, technology for the sake of it has become meaningless, and providers with nothing more than a fancy software solution or the promise of being the best at “keeping the lights up” or offering single-service lines have become irrelevant. We need to thank the economic crisis for helping the industry focus its attention on “promise of” vs. “sustained value”. For long, advisors like us have constantly endeavored at stemming the seemingly endless positivity with doses of reality. For once, though I may be sounding narcissistic in an industry that continues to buck trends and grow, I am glad that a thorough distillation of realities is taking place as we speak. Of course it raises some serious questions. I will take up two of the most pertinent in this series I.

Mushrooming of Service Providers in Emerging Nations – thanks to the opportunity perceived, there are more service providers across 30 contending nations on the planet (Argentina, Uruguay, Chile, Brazil, Colombia, Costa Rica, Jamaica, Dominican Rep, Mexico, Rural USA, Czech Rep, Serbia, Ukraine, Macedonia, Malta, Poland, India, Philippines, China, Malaysia, Singapore, Vietnam, Bangladesh, Egypt, Jordan, Ghana, South Africa, Kenya, Tanzania, Uganda) than there are perhaps resources to support the industry. An interesting similarity in all these locations is the large number of small service providers who have – being candid – latched on to the fact that “gestation periods” and “investment needs” in the sourcing sector are quite minimal, hence the opportunity to make

some quick monies seems to be a given. What has compounded this issue is that governments within most – if not all – of these nations have taken it upon themselves to transform their economies on the sheer opportunity the sourcing marketplace presents, and have hence taken on the driver's role in promoting their own competencies with service provisioning. While I am not suggesting that parastatal agencies have no role to play, it seems that these agencies whose role was to promote and enable, have become drivers, leaving their local industry hidden or at best silhouetted in the context of marketplace visibility. While I am no proponent of “unbridled free-market economics” I am also quite averse to having “only state-led” endeavors at economic development. I have often been told by service providers in these emerging nations that their governments do not understand their needs, while the very same governments have confided that their industries don't know what they want. So it goes – a merry-go-round of blame-fixing. At the end of the day, providers are in business and what matters for them the most is their balance-sheets, while for national governments there is a pursuit of longevity, and impacts to GDP/ GNI. These pursuits will always remain in conflict given the short vs. the long-term emphasis. Trying to bring these two endeavors together is a foolhardy enterprise at best. Some nations seem to have put some semblance into their public-private endeavors at promoting and increasing FDI into their countries from this sector, while most others are still struggling with basics.

Ignoring Demand: Clients are more experienced in their ability to purchase services and solutions. Their endeavors at sourcing beyond the usual (read IBM, Accenture, and the big 5 from India) have more often than not been quite disappointing. Often I have been told by such organizations that service providers from emerging nations have – in their quest at increasing revenues – forgotten one cardinal rule: Know your customer. There is more rhetoric around software and technology while no clarity exists with business lines or industry specificities. And perhaps this is one of the key reasons why providers from emerging nations continue to fail to make an impact: their governments do not speak the industry language, while they themselves don't offer anything beyond a technology or a process fix. And that is the ongoing conundrum. The continual quest to sell however one could - without understanding the broader repercussions to their clients' businesses - is reflective of this cardinal mistake countries and providers within indulge in. Demand-based provisioning has always resulted in growth. The absence of demand-driven pursuit by service providers is reflective of their current endeavors at growing through collaborative partnerships with all and sundry. At best a minimal evaluation of “common traits” with businesses is established before two providers agree to work together. Taking such a loosely held model to potential client markets is like committing hara-kiri. I have also been witness to parastatal agencies taking it upon themselves to “enforce consolidation” amongst local service providers. Armed with ranking of local providers identified through “internal” assessments of their provider capabilities (where no global benchmarks or comparative indices are ever deployed), such agencies are creating more confusion than necessary. I have always failed to imagine how and why a government is best suited to tell which company in their local industry is the best, and which one isn't. I would've imagined that such categorizations are what the industry is good at – identifying its own leaders! As a necessary next step such agencies have in place robust plans to put money and muscle behind “highly ranked local providers”. So is this benevolent dictatorship? I would like to think so. The moment a government gets into the shoes of “driving and leading” instead of just “enabling and promoting” an industry, there can only be one result: a goal-less pursuit. Capitalist human history has not seen a single industry success as yet from such environments. So I wonder – is this naivety or wanton disregard for business realities?

IN CONCLUSION

I am unsure as to what will happen next. While I have colleagues tell me that the cloud will replace current provisioning, and remove all inefficiencies, I am quite sanguine in taking such an advice at face value. Wish life were that simple! I would rather like to think that the industry will continue what it does best – pursue new goals, and ignore those who can't run along, or have “localized” their justifications as to why their approach is the best. A collective endeavor at industry growth is never planned, hence having 10-year plans to develop industries best remains a government's economic pursuit, but never an industry's roadmap. Industry has the faculties to create new opportunities, enlist a few risk-takers and surge ahead. The world usually follows. Given the quest amongst most nations to transform themselves into “knowledge economies” I find it interesting to observe that some key development components are missing. While I have addressed two of them, I shall continue the series and touch upon two other components in my next paper, namely (a) Policy Complexities, and (b) Socio-Economics. So please watch this space!

ABOUT THE AUTHOR



Bobby is one of the top 25 most powerful leaders in the global sourcing space, and the [founding] **Chairman & CEO** of **Matryzel Consulting Inc**, a strategy consulting, sourcing advisory and management firm headquartered in New York. Matryzel advises corporations and governments worldwide adopt concerted strategies aimed at enhancing competitiveness while focusing on their core competencies. He advises federal governments across four continents on ICT sector development with particular emphasis on policy development, industry-government partnerships aimed at creating GDP growth and enabling positive economic impacts. Bobby has advised Fortune 500 customer organizations on Strategic Planning, Mergers & Acquisitions, JVs, Private Capital Investment Evaluations, Process Reengineering, Pricing Strategies, Sourcing Relationships, Business & Financial Modeling et al, contributing immensely to global sourcing for clients. He is a sought-after speaker in conferences and round-tables worldwide where he moderates panels and presents content on thought leadership. He has been quoted and published in Forbes, fDi, Economist, The Outsourcing, ZDNet, CIO Africa, Brazil Exportati, Times of India, Business Week, New Straits Times, Malaysian Business, Technology Inquirer, Logicall Wordpress etc.