



THOUGHT LEADERSHIP

# SOURCING & THE CLOUD – PERSPECTIVES, OPPORTUNITIES AND INHERENT CONFUSION

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## DOOMSDAY PREDICTIONS

The past six months has seen a plethora of discussions around the impending death of outsourcing as we know it, thanks to the new delivery model termed Cloud Computing. A host of professionals and advisors around the world are agonizing over the facts presented by the “cloud camp” that they are the soul saviors to specific issues that have been constantly encountered by companies adopting outsourcing (and global sourcing). While the comparatives themselves have been few and far in between, the interesting twist to the entire conversation is based on the premise that switching delivery channels from the traditional (i.e. leveraging global telecom networks) to the cloud (whether managed in a public or private environment) through changing the underlying capital dynamics would make up for much of the losses clients seem to have encountered as they adopted global sourcing and outsourcing. On the other end, the traditional IT service providers continue to focus on greater depth and wider spread with their services, impacting not just the non-core components but the very topline oriented aspects of businesses worldwide, while relegating IT to the embedded enabler role. This has in turn transformed the industry hitherto built around labor arbitrage and transactional services to utility-based and value-aligned combinations where business process re-engineering, new technologies, virtualization, standardization, rationalization and front-end services have been bundled into value-based services. Is the cloud cut out to replace the value that’s been created by traditional IT services providers yet?



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## UNDERSTANDING THE CLOUD

I am not engaging in a technology conversation explaining what the cloud is. Rather, the “disruption” that the cloud is intended to cause is a feature that I would accept with a degree of sanguinity that needs more convincing. In the general context, the very fact that the cloud is changing industry economics because of its very deployment nature seems to qualify it to be called a disruptive (and potentially a replacer to global sourcing) has some truth in the face of economics in general, but not for all who adopt cloud computing. As much as IP switching technology disrupted, or as much as global telecom networks disrupted the notion that services cannot be delivered from across the planet, extending the same logic to almost every new technology hitting the stands seems to be more marketing-speak than reality.

The definition that’s generally accepted with respect to cloud computing premises that *it provides on-demand access to a shared pool of configurable computing resources that is rapidly provisioned and released with minimum client or provider interaction. This model promotes availability and comes with distinct characteristics and solution types*<sup>1</sup>. The interesting aspect of this definition is that it does justice to the real need amongst corporate chieftains today about maximizing their existing computing resources, while modernizing their internal organizations, actively seeing to reduce their infrastructure footprint in the face of a reduced “time to obsolescence” and dwindling budgets. All this seems to make a lot of sense for the CIO’s office, as he/ she contends with fast-paced requirements of his workforce and organization – be it mobility, convergence, multi-device computing, or dynamic end-customer preferences. What seems to be missing though is the relevance to the business itself – to its products, services, customers, supply chains, business processes et al. Key benefits as promoted by proponents of cloud computing are quite exciting for businesses that are struggling to invest wisely – seemingly for now.

Particularly important to note is the ability of organizations to shift their capital expenditures to operational expenditure models in a manner that allows them to conserve capital and direct such capital toward more consumer and market-aligned activities. Coupled with other benefits like higher security, flexibility with provisioning computing resources, enabling an increasingly mobile workforce and rapid provisioning, the cloud seems to promise benefits that traditional outsourcing / sourcing models may not have been able to address to the extent desired. Despite some clear evidence surrounding these benefits the uptake with adoption of cloud-based solutions continues to be lackluster. Is there more room for learning, or have the benefits not been actually derived by corporations? The jury is still out there. In this context I would like to delve into both the comparatives and economics so as to provide an executive with an objective assessment of the opportunities, risks and limitations the distinct business environments pose.

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<sup>1</sup> As defined by Ben Trowbridge, CEO, Alsbridge Inc in his book “Cloud Sourcing the Corporation”, 2011, Live Oak Book Co. Specific insights around the characteristics and solution types including the top 100 cloud providers are appropriately listed in this book.

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## SOURCING VS. THE CLOUD

Traditional sourcing models have for long leveraged not just strategies around workforce availability and labor arbitrage, but over the past decade the opportunity with what is termed skills arbitrage has become mainstay drivers for global sourcing. Starting with back-end operations like application maintenance and discrete support (thanks to global telecommunications networks and switching technologies), the industry grew with increasing adoption as the promises around saving on costs became a reality. Over time the services themselves being offered became increasingly complex, integrated (in the sense that providers took entire functions into their control and delivered both value and savings), and also embedded themselves into the back and middle-offices of client organizations. Alongside, with greater understanding of industries and vertical specificities (across various nations), providers were able to not just integrate their discrete delivery capabilities into global delivery models with sufficient flexibility accorded to specific client / sector requirements, but also embarked in internal enhancements to processes and services themselves that were delivered. Starting with operational improvements that didn't have a direct bearing on the topline, to impacting revenue streams through inventions like convergence solutions and platform-based process models, traditional providers have come a long way in delivering value. While this is not a new conversation, I would like to reinforce the fact that most such value created by providers from delivering integrated services has been translated into the client's bottom-line and topline clearly. The sector's impressive growth even during recessionary times is reflective of the undeniable fact that sourcing has added significant and sustained value to clients' businesses, and not just their back/ mid-offices.

The view taken by most forward-looking services providers has been to integrate their competencies surrounding technologies and process modeling into tangible services/ solutions that could be embedded into client organizations, where success is a function of direct impacts to the client's business (measured not just with cost savings, but more importantly with revenue source alignments, and the incremental benefits such solutions provided clients – spanning capital conservation, identifying right investments, reducing product-cycle times, to enhancing cross-functional integration, removal of multiplicity, and standardization of workflows that removed internal silos. These benefits go way beyond just articulating a function's reduced cost base, or providing marginal improvements that become business-as-usual at the end of the fiscal year such cost savings were derived. In the context of the cloud therefore, clients experienced with sourcing have more questions that need to be addressed appropriately if proponents of cloud computing are to make a coherent "replacement" argument. Of course, in my opinion, I am inclined to believe that the discussions around replacement are quite limiting and short-sighted.

There are quite some interesting and compelling arguments for adopting cloud computing models, but it is crucial that organizations do not base their decisions on the premise or promise that the cloud will solve all problems. The rise in network security solutions, global data centers and other front-end solutions that permit monitoring, tracking, instructing, and enhancing performance of a mobile workforce on the one-end,

and a distributed business on the other end is quite the harbinger for the growth of cloud computing. So long as an executive looks at the cloud as one other solution that could assist his organization's quest to become flexible, agile and not a slave to technology, there is significant room for the cloud to work alongside sourcing. Of course it is moot point but I would like to reinforce - the premise that an organization can do everything by itself in today's dynamic and complex world is obsolete.

Two key points become inherently crucial to delve into further:

1. IBM had in 2010 developed a simple and easy-to-understand framework for adoption of cloud computing. The discussions around the four basic types of cloud: Infrastructure Cloud Services (IaaS), Platform Cloud Services (PaaS), Application Cloud Services (SaaS), or Business Process Cloud Services (BPaaS) are premised on the embedded characteristics specific to technology in principle, where flexibility, agility and replace-ability (or rapid provisioning in tech speak) can be achieved without the inherent dependencies on expensive infrastructure whose capital outlays need to be recovered by businesses (and thereby reducing their ability to provision the "right" infrastructure all the time). This is an apt argument that I endorse, with a caveat though. While the CIO may be quite excited about the benefits he/ she could provide the larger business, the business units / end-users within any organization are not just from the technology division unfortunately. Such users pursue different business goals which are premised on product/ service performance, controls, risk management, capital/ resource provisioning and the like. Hence prior to determining what kind of a cloud model it is important to determine its "conduit" to business goals.
2. The various options available – private cloud, enterprise cloud, public cloud, hybrid cloud, department cloud, exploratory cloud – in the marketplace have added further confusion. For instance, an SME looking only to reduce its capex with expensive infrastructure is highly likely to adopt some form of a public or hybrid cloud as their ability to invest in the cloud infrastructure is limited, hence having to depend on a cloud provider's ability to spread provisioning costs through multi-tenanting. On the other end, large enterprises with complex operations, established supply chains, customer markets and operational divisions don't have that much comfort or value in going for simple cloud models. From an exploratory standpoint there is nothing stopping them from testing the waters, but the value that could potentially be derived is inherently a function of the spread of the cloud solution's ability to impact business rigidity (manifested in both high cost environments, and declining flexibility). In such instances, private clouds become more risk-averse and control-aligned options. But the question then is: when the quest is to reduce the capital base in the face of infrastructure that's fast-eroding in value, the premise of the cloud (that there would be significantly higher costs savings, to the tune of 60% to 75% from current base, and therefore greater than what traditional sourcing can provide) may be compelling – but who is going to make the investment on behalf of the client?

This last point is crucial to appreciate. There aren't too many pure-play cloud providers in the marketplace that have invested significantly in their own infrastructure that they could offer out to large enterprises and promise a technology foot-print reduction. While I am not denying the ability to institute ingenious financial models to justify high spend, risk vs. value become increasingly important conversations in these cases. Here is where I see the common thread between sourcing and cloud computing. Who is going to invest?

There are hundreds of cloud service providers, with the likes of Salesforce.com, 3 Par, Rackspace, RSA, rPath, flexiant, Gigaspaces, Genpact, CSC, Accenture, GridGain, HP, PayPerCloud, Parallels, MirrorImage, Oxygen Cloud, OrgangeScape, Savvis, Wipro, WNS etc offering a range of cloud services, typically embedded in one of two spaces: IaaS and AaaS. Some offer PaaS as well but there aren't too many focusing on BPaaS as yet. Interestingly two points come to mind:

- (a) Are there firms that have the ability to offer all "as-a-service" models bundled or modularized sufficiently enough to create tangible value in the first place? and
- (b) Among the indicative list of providers stated above you would notice a combination of traditional services providers and pure-play cloud providers. So who among these firms has the ability to not just rapidly provision but also bring to the table an understanding of the client's business itself that goes beyond technology speak?

It is worthwhile noting that the promise of the cloud has been delivered to a significant extent in the public space, with Apple showing the way to effectively provision, and others like Google, Amazon, Samsung following suit. In B2C environments, the cloud seems to have delivered upon the promise of provisioning "BPaaS" solutions with ease. I am not sure I could accept the logic extending this argument to remain applicable to enterprises too. The discussions around more M2M (machine-to-machine) interactions, the need to provision for multiple devices inter-connected almost all the time, and business applications (principally not just access but decisions being performed) that need to be available make the discussion more complicated than it seems to be made out to be today.

Of course, conversations with cloud providers on these aspects, or on factors surrounding business linkages and alignment between IT and business are given short shrift, leaving me thinking about the cloud more as a "fad" than as a "savior" or "panacea" for all evils caused by technology or sourcing. The conversations start with the modernity of the cloud's technical prowess, and quickly dwindle down to network security. Economics aren't addressed appropriately or succinctly. What's more maddening is that the cloud providers either don't know or don't care about the impact adopting a new solution needs to have on business. The point b above tends to reinforce itself time and again in my mind, with few answers forthcoming from the cloud community as yet.

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## IS IT JUST ABOUT THE ECONOMICS?

There are positive economics with adoption of cloud computing – that is a fact. The specific modalities on how an organization can actually benefit are more murky than clear at this point. While measures like “reducing the number of MIPS” or “reducing the number of servers” may have some direct bearing on technology infrastructure costs, these measures do not indicate any reduction in business risks, or increase in product/ function’s effectiveness per se. Cloud providers are not inclined to measure anything that doesn’t have a technology component embedded in it, while CXOs are thinking revenues, market share, growth, and product/ function agility in more ways than technology measures can address. This disconnect is perhaps more important to appreciate than it is now. Taking a leaf from the experience that sourcing providers gained is the best suggestion one can offer cloud providers. In the initial heydays of sourcing, service providers measured what was easy, not necessarily what was important. Of course given the advent of service level commitments in those days, it was new and therefore much appreciated that some levels of discipline and accountability are being brought to the table.

Fast forward two decades, and one witnesses that much of those SLAs have become defunct, while providers themselves have begun to embrace performance measures that are integrally embedded into the client’s business goals, thereby paving the way for cohabitation and collective pursuit of value. I would hope that cloud providers would take some lessons from the traditional sourcing providers and embed them into their business models. In consequence, the experience of traditional providers like IBM, Genpact, CSC, Wipro, WNS, RSA (backed by EMC) in provisioning global delivery models with positive economics will only enhance their abilities to provide the same value through the new channel called cloud. Pure-play providers would do well not to overpromise, given that these traditional providers are watching, who have both the money to invest on the client’s behalf (and thereby making private clouds a reality), and the experience to embed business goals into their provisioning. I would continue to watch this space with utmost interest, and do predict a convergence between the two in a few years, not one replacing the other.

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## 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, Logically Worldpress etc.