
DEMOGRAPHICS

It is true – availability of a young population in many emerging nations across the planet has created a significant opportunity for not just sourcing, but for many other industry sectors across the consumption spectrum. The “youth bulge” is being seen as a key driver for growth in new products and services driven by discerning yet disparate consumptive behavior, lack of consistency (and continuity), and pursuit of the modern over the sustainable. It is quite interesting to note that while in developed nations aging is creating major economic, political and social implications particularly as it relates to reform in social security, national healthcare systems, long-term solvency of pension plans, and the impending fiscal consequences of such decisions, the developing world seems to be viewing this situation as just another short-term opportunity to leverage (through provisioning cheap yet competent services), their youth without giving much thought to the very nature of their own internal social, economic and political changes being brought upon by the same youth. Of course lessons have been learned (I would like to think so) from the recent developments across much of the developing world where youth protests have overshadowed any and all other national initiatives aimed at development (regardless of whether they were driven by lack of, or exclusionary behavior with employment opportunities for the very youth that nations are hoping pinning their future upon).

I am no economist or social thinker hence I shall refrain from asking questions across the wider spectrum, but limit my inquiries and applicability to the world of global sourcing. The demographic dividend as it is known in many fast-developing nations from across regions – Latin America, Africa, Asia-Pacific, Middle East, South Asia – is considered the holy grail for developing and sustaining a (competitive) global sourcing marketplace, again resting on the fact that provisioning of competent solutions and services be limited to consumers from the “aging” world. Local / regional markets including domestic markets are being given short shrift continuously.

I would like to think that the reluctance amongst most developing nations to look at their own economies is driven partly by their unwillingness to change status quo (which is primarily a function of exclusive democracy – where it exists of course), and partly because of monopolistic practices have been long embedded into economic environments¹ that are neither easy nor aligned for change. Toward the end of 2012, I was at an ICT conference in Mauritius listening to a very impassioned speech made by Louis Otieno² of Microsoft. Among a host of interesting things he spoke about, I was particularly fascinated by the positivity exuding from his presentation in terms of the nature of youth bulge in Africa (which according to his estimates were in the range of well over 300 million people), and the latent opportunity this availability created for companies to leverage.

¹ Greater references to this point can be found with respect to “government in business” structures as seen in nations like Malaysia, Singapore, Vietnam, the Middle East, or in the form of closed private sectors where market dynamics manifest in the form of crony capitalism and closeted family-run businesses, for e.g. in South Africa, Philippines, Indonesia etc. Either way, exclusionary economics is at play. Hence it is not surprising that these nations are unable to really leverage their “demographic dividends”.

² Louis Otieno, Regional Director -Buss. Development & Strategy (West, East, Central Africa), Microsoft

PRODUCTIVITY & SAVINGS

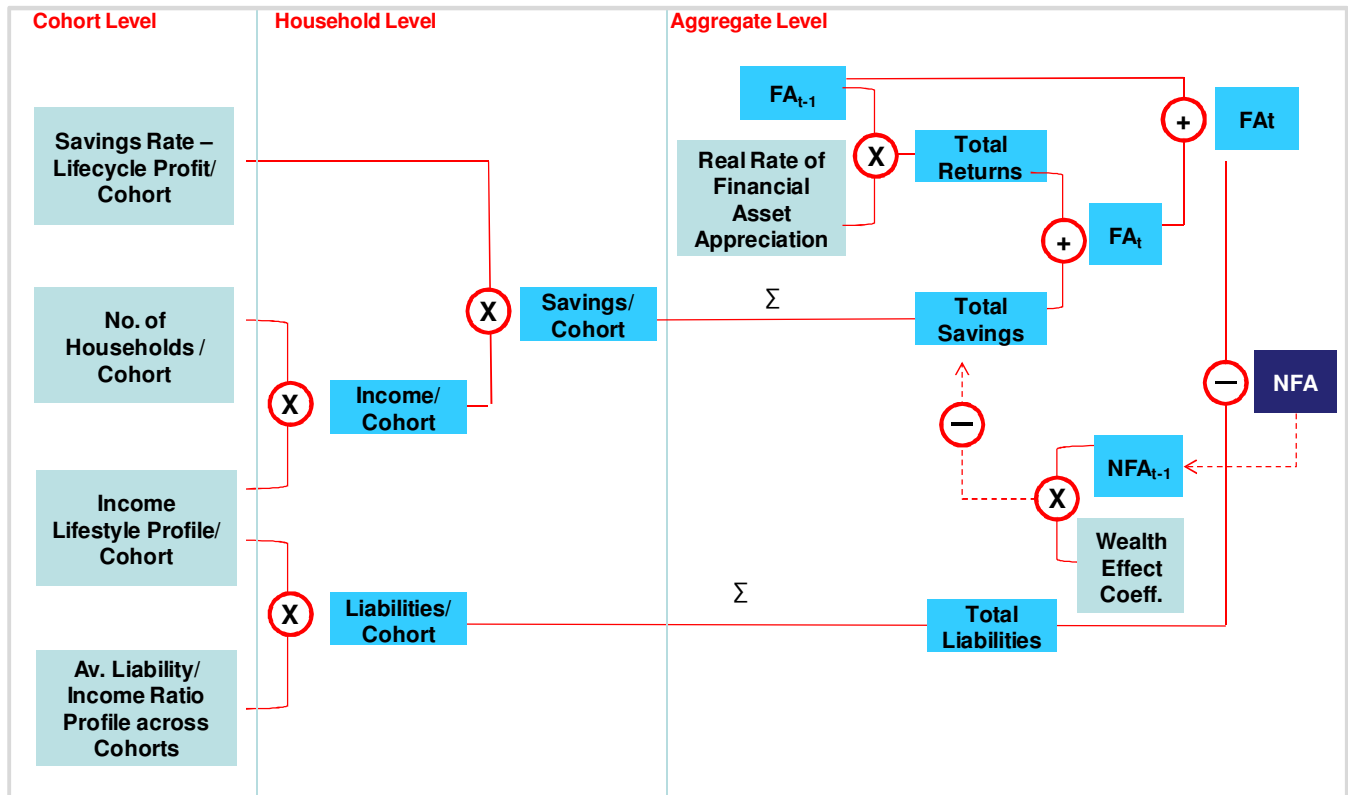
I believe the argument about youth bulge would apply in equal measure if one were to speak about countries with large populations – India, China, Philippines, Indonesia, Brazil etc fit the bill. My subsequent discussions with Louis triggered an interesting debate surrounding facets like affordability, proximity, necessity and sustainability – from points of (a) continuity with the demand remaining a prescient one, and (b) constancy of the assumption that demand would grow exponentially.

Since then, I have been intrigued by the questions surrounding constancy of demand and their consequential sustainability in the face of an exponential growth. How does one justify the other? I believe it is important to delve into not just the number of young people (consumers) available, but also the nature of their socio-economic status and locus standing if we are to make sense of the argument or disprove it. In order to make a compelling argument, I will borrow some thoughts from McKinsey's study referred to earlier, particularly as it relates to the US Household Wealth Model, and construct a Leverage Model for youth in developing nations³. Please bear with my assumptions and analyses as this is work-in-progress, and more of an attempt to distill questions as opposed to seeking (permanent) answers.

Let's understand the McKinsey's Wealth Model⁴ first (as reflected in the infographic below) which speaks about the erosion in savings owing to aging. It is evident that at the Cohort level, the components influencing both income and expenditure are a function of cohorts, where the primary assumption is that the "cohort" is also contributing to economic activities (i.e. income generation). Further, while the liabilities are incurred by cohorts (perhaps in equal measure), the aggregate financial assets being accumulated are assumed to be (mostly) appreciating as well. Hence the concept of savings is not as much an issue as it perhaps is made out to be in the context of developing nations (particularly Asian countries).

³ In this context, I shall only take into account populations of nations that are 75 million or more. Other nations that have lesser populations have been wantonly excluded as the number dynamics is perceived to be of little consequence purely in the context of local economics, and given this analysis is aimed at understanding the nature of global sourcing sector's opportunity, it is only appropriate to take into account scale from a standpoint of availability first, and purchasing power next. On the other hand, I am not a proponent of the stance that "scale overshadows all other factors". In fact I am using the very argument here that scale and competence do not necessarily mix in a homogenous manner, regardless of all the arguments proponents have for long presented.

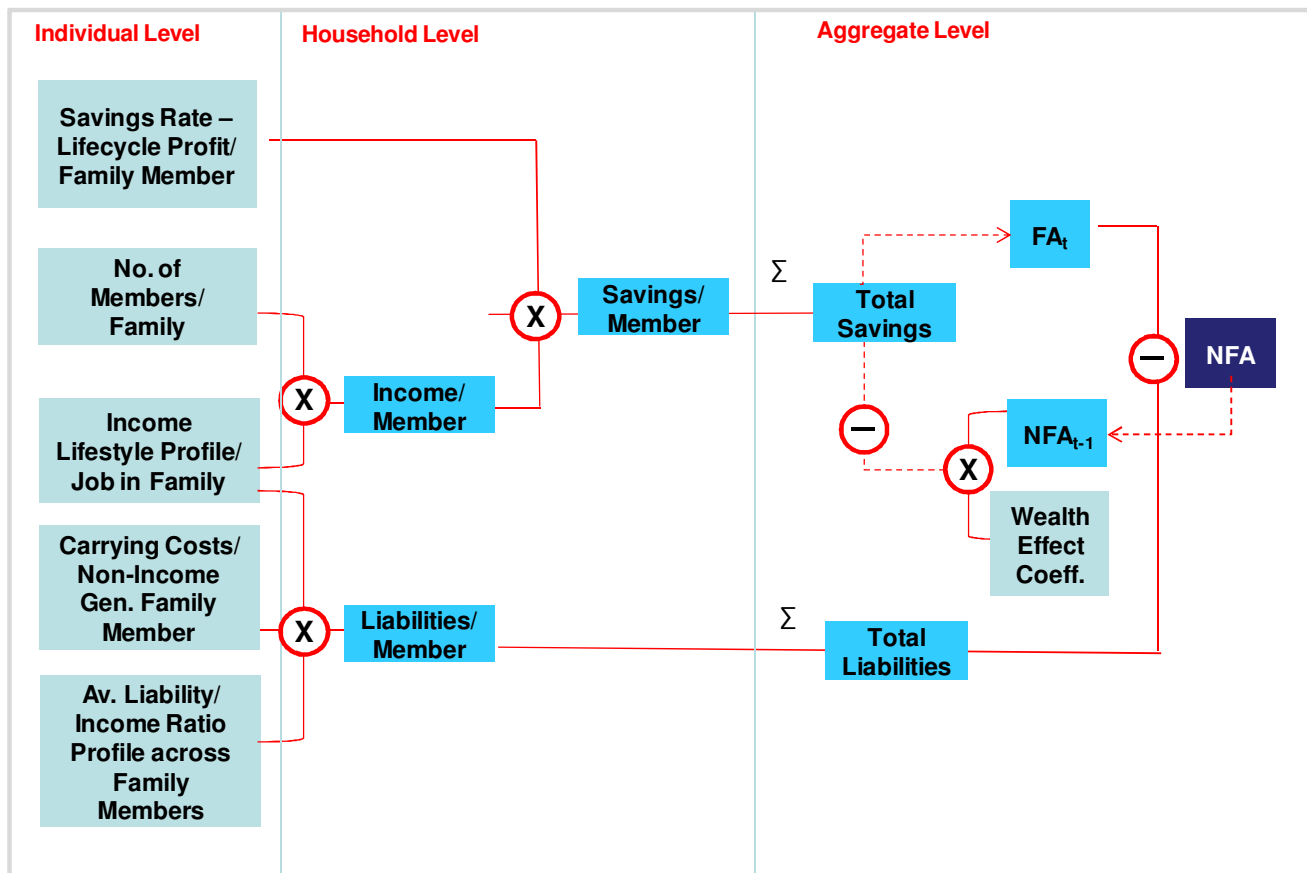
⁴ Adapted from McKinsey Global Institute's report titled "The Coming Demographic Deficit: How Aging Populations will Reduce Savings", Exhibit 1, page 17. This infographic is being replicated here to make an argument, without questioning the validity or efficacy of this model outside the USA. The crucial aspect of using this model is to reflect upon the various facets impacting income generation, expenditure, savings and the overarching discussions around opportunity, availability, continuity and sustainability of the youth bulge as it relates to global sourcing.



Let me explain by presenting my Youth Leverage Model⁵ (as in infographic below) that follows logic on principles similar to that of McKinsey, but overlays some fundamental distinctions between developed and developing nations. I will then weave the nature of global sourcing industry’s ability to address the consequential opportunities. In my model, I have taken into account the fact that for most people (and youth) at the individual level, gaining a job is the first step toward a whole host of issues that need to be addressed. As you can see, the income needs of a productive youth from developing nations is not as much a function of his/ her desire, but of filial restrictions/ limitations placed on each dollar earned. Presence of many (economically) non-productive members in the family increases the pressure on consumption (and consequent demand for wage increases), while on the other end, the increased availability of youth in a particular market depresses compensation rates to sufficiently manageable levels (supply over demand). With increasing liabilities (age, marriage, children, healthcare for senior family members etc) the purchasing power of an economically productive youth in most developing nations is not as much as it is slated to be. Hence the consequential wealth effect coefficient would be significantly low to be of any meaning to any large producer of consumer-facing products/ services. Further compounding the wealth accrual effect is lack of highly appreciating financial assets.

⁵ © Matryzel Consulting - All Rights Reserved. The Youth Leverage Model has been developed in context of analyzing the impact of unemployment or restricted opportunities with jobs on youth in developing nations that have to contend with distinct social pressures and a family fabric that does not present too many similarities with the developed world notion of economically productive cohorts

This particular facet has manifested most pointedly in two countries, where the global aspirations that increased purchasing power will have a compounding and positive impact on products/ services (consumption in general) have been eroded – India and China. While both nations grew at incredible paces economically, inadequate wealth distribution measures, siloed development agendas, pursuit of wealth by a few and exclusion of others (most through suppressed wage structures and rigid employment policies), have resulted in the youth bulge not really contributing to the consumptive expectations from the West.



It is crucial to note that the Youth Leverage Model explained in the infographic above needs to be understood clearly before one commences predictions of success, increased consumption from the youth and their consequent productive endeavors. Most likely the youth in developing nations currently work and live in extremely restrictive conditions, where both employment opportunities, and savings potential are being continuously eroded (particularly with rampant inflation, food scarcity, and unfettered aspirations making for a deadly combination). In such instances I don't see this large number of young individuals as a cache that one could leverage in the sourcing marketplace through deploying traditional models. The dynamics surrounding their inability to become a latent workforce in the immediate short-term are many. For e.g. Metro Manila has well over 3 million people living in slums. Typical discussions around availability of scale always portray Manila to be a city with a large talent pool and therefore highly attractive city to expand outsourcing/ sourcing models. The distinction between “number of

people available” and “number of capable people available” is just not made. Similar stories can be told of many cities for e.g. Mumbai, Sao Paulo, Cebu city, Rio de Janeiro, Johannesburg, Dhaka, and Nairobi etc.

REALITY WITH THE YOUTH BULGE

Let us now focus on the countries that are agog with opportunities thanks to them sitting on heavy populations of youth. While I firmly believe that sourcing models have a way to create jobs for these youth, the current conversations around “capability” or “lack of it” are quite tactical if we were to look at the bigger picture. I would like to take this facet of available people and convert them into a productive workforce now, else face a “lost opportunity manifested in social unrest, civil disobedience and general anarchy – something that is already being seen in many of these countries listed below”. **Replacing the sense of entitlement with a sense of ownership is more crucial than ever now.** Before I go into the analysis with respect to the opportunity, an understanding of certain facts is essential to the argument.

Please consider the following data points as in below table. It provides insights into the population statistics of some of the most heavily populated developing nations. Further, please also note the statistics on unemployment which gives one greater insights into the issues, opportunities and challenges to manage for countries going forward.

Country	Population 2013 ⁶	Youth Ages 10-24 ⁷ (millions) 2013	Youth as % of Total Population 2013	Youth Ages 10-24 (millions) 2050	Youth as % of Total Population 2050	Unemployment Rate ⁸
WORLD	7103.1	1809	23%	1884.9	20%	
China	1359.2	299.1	22%	183.9	14%	4.1%
India	1232.2	362	28%	340.9	20%	9.8%
Indonesia	237.4	64.3	26%	51.6	18%	6.56%
Brazil	193.1	50.7	25%	35.5	16%	4.7%
Pakistan	183.8	58.5	32%	59.4	22%	5.7%
Nigeria	173.6	53.5	31%	116.2	30%	9.9%
Bangladesh	152.5	46.7	30%	34	17%	59%
Russia	143.1	23.5	16%	20.3	16%	5.2%
Mexico	117.4	32	27%	25.4	18%	5.12%
Philippines	98.16	30.4	31%	34.2	24%	7%
Vietnam	88.7	23.3	26%	15.5	15%	2.9%
Ethiopia	86.6	30.5	35%	34.2	24%	18%
Egypt	83.6	24.1	28%	25.3	20%	13.2%
Turkey	75.6	19.3	26%	15.6	17%	8.1%
14-Country Totals	4224.96	1117.90	-	992.00	-	-
% to World	59%	62%	-	53%	-	-

⁶ World Bank Population Statistics, 2013

⁷ Youth related numbers and %ages to population sourced from the 2013 Population Reference Bureau (www.prb.org)

⁸ Unemployment rates are reported rates solicited from Trading Economics, Wikipedia and World Bank. These are reported numbers, and do not necessarily include “real unemployment” rates that would take into account people who have stopped looking for a job. In most fast-growing developing nations, this group of people is stated to contribute to more than twice the reported unemployment rates.

Some interesting facts emerge. The top 14 developing nations with the largest populations together have 4,224.96 million (4.2 billion) people, or approximately 59.46% of the world's population. Intriguingly, the youth are slated to reduce from a current 62% of population (in these countries put together) to 53% by the year 2050 - a significant 9% drop. Is this projected decline because of reduced fertility rates, or increasing infant mortality rates, reduced procreation, or economic issues, or increase in nuclear families, reduced marriages, or changes to male-female ratios⁹? Or is it a combination of all these factors? Whatever be the reasons, I think the need to rejoice on the back of a youth bulge is not sustained even by projected population growth statistics.

Interestingly, this table when read alongside unemployment numbers (reported at least) shows perhaps a less gruesome picture in terms of the available opportunity as it relates to the youth bulge. The average unemployment rate is quite high, well over 5% to 7% in most cases. Read together with the increase in the absolute number of youth projected to be in the 10-24 years age group by 2050, it is not surprising that the unemployment rate may only set to rise – which is a scary thought.

The fact is further compounded by lack of skills, and/ or readiness with skills relevant to today's (and tomorrow's) industries. I therefore believe that in a general context (as I had alluded to in my chapter around obsolescence of knowledge), short shelf-life with knowledge is the principal contributor to the misery around employability. This particular issue does not plague only the developed nations with aging populations (who perhaps have a lot more to lose given their lifestyles, accrued financial assets and related aspects they need to protect), but also the currently deprived youth in developing nations who yearn for a purchasing power that continues to elude them.

From a global sourcing standpoint, there are sufficient opportunities to leverage the unemployed youth. Of course one has to shed the current inhibitions that only “capable and trained” youth can find gainful employment in the sector. Entrepreneurs have to devise new ways of engaging with this large pool of young people, most primarily through investing in initiatives that can create jobs quickly, employ people and train them to become productive citizens at paces faster than ever before. Componentization of jobs would have to become a principal (if not the only) driver for expansions, while technology modernity should be pursued only if such endeavors compliment the ability to create jobs within communities that have been hitherto excluded even from consideration.

The ability of entrepreneurs pursuing sourcing models is not of question, as much as it is about their intent. From a standpoint of aging in the western world (where opportunities seem to be present currently), I believe such

⁹ An ideal male-female ratio to sustain mankind on the planet is envisaged to be 108-100. In many countries, owing to various reasons including cultural and social norms, this ratio is getting skewed in a manner that's deemed unsustainable, with impacts as adverse as increase in social anarchy, collapse of administrative systems, and increased governance issues. For e.g. some untenable ratios seen in a few countries are as follows: China at 138-100, Northern India at 136-100. Greater details can be found in the archives of McKinsey Global Institute.

opportunities to serve them will not last in perpetuity. The developed world will begin to refuse being dependent on the developing world for most of its needs. So long as it was about lifestyle related services, developing nations with cheap resources were quite the delivery opportunity. With today's economic and sustenance issues, most companies in the West are looking at localizing their needs – both from a design and delivery standpoint¹⁰. Hence it is only sensible that entrepreneurs in developing nations pursuing globalization models commence looking at their own backyards where the opportunities are enormous.

The youth bulge makes for great conversations. However, conversations around engaging them are usually one-sided – that of selling to this large group of youngsters. My moot point is that one can only purchase what one can afford. In the context of the Youth Leverage Model I had presented above, the ability to create savings almost always proceeds income generation – a fact that is less appreciated than it should be. Wealth is considered a luxury in this context. An increasing ability to enhance income-generating capabilities results in an individual's ability to contribute more to the economic activities of a location/ country through increased consumptive behavior. Outsourcing providers have the distinct opportunity to create jobs for the youth, bearing in mind that it is not just cheap resources they are employing, but resources that have the distinct ability to contribute positively to the nation's economics but will need to be nurtured. What better way to nurture them than to ensure their inclusion into the productive economy through jobs that are neither complex, nor demanding of complex skills? Its in the inclusion that most answers rest.

From a standpoint of balance sheets, domestic opportunities across all these nations are enormous. One only needs to look at latent industries to decipher the wealth of issues plaguing competitiveness, transparency, and effectiveness. Outsourcing as a business model has the distinct ability to transform domestic industries to become more competitive, globally aligned and regionally outward-looking to the point that one doesn't have to go after provisioning cost-chasing commodity services where value pursuits are an afterthought. Value can become the principal driver for growth and success. The youth can make it happen, but it will have to necessarily be on the back of enhancing their productive capacities, not just riding roughshod over them by using their current inhibitions as tactical levers for a short period of time.

¹⁰ Domestic sourcing has become a hot issue, particularly in the USA where it is now a stated White House mandate being implemented by TechAmerica. Various states like Missouri, North Dakota, Louisiana, Tennessee, Michigan etc are involved in enhancing their cities and towns to become delivery locations for a variety of services hitherto considered as best enabled for offshoring. Given the distinctively changing domestic needs – thanks in large part to the demographics within – these opportunities will only get bigger and better for entrepreneurs who understand domestic markets. On similar tones (though owing to different economic drivers), this particular behavior is being displayed increasingly in developing nations like India, Brazil, China and Indonesia as well, though not mainstream as yet.

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**, one of the **World's Best Outsourcing Advisors** which focuses on strategy consulting, sourcing advisory and sector development. 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.