



BATTLE LINES IN THE SOURCING WORLD

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The sourcing industry can be thought of as one harbinger for new ideas, technologies and solutions that much of the developing world wasn't privy to toward the end of the millennium. Of course, the nature and type of explosive growth this industry has created is old news. The good side of this story was in its ability to create millions of jobs for young people in much of the developing nations struggling with economic growth in the face of older industries and lack of sustainability. The adverse side to this story has been the rising income gaps between the enabled and the un-enabled folks that couldn't benefit from the wave of technological adoption (factors influencing such lack of adoption notwithstanding).

Twenty years of rigorous adoption of sourcing has seen progressive creation of new service lines and delivery models, alongside rigor and discipline across the entire life-cycle. However the primary premise – of leveraging human resources as capital and inputs – remained unchanged. Was value created or eroded? This is a question that is beginning to gain traction, both in terms of defining what value actually meant, and what it doesn't. I am inclined to think that one cannot (and should not) judge the industry's achievements (or lack thereof) in the recent past to lack of knowledge or experience. On the contrary, I would argue that the progressive pursuits from discrete to integrated services has opened up a plethora of opportunities, which in turn didn't garner much attention. Consequently, many organizations that were at the cutting edge of adopting sourcing began to see the limitations these models continued to pose, particularly in the face of an increasingly complex marketplace where consumer needs changed quickly.

As a practitioner in this industry I would have expected that we in the industry realized the inherent limitations we began building. Unfortunately most of us live through a blinkered outlook based on our successes. Principally among the pursuits has been an aggressive nature of commoditization of (hitherto) innovative services. Such democratization has been extremely helpful in transcending borders and fueling growth in many nations. Of course, a price needed to be paid and that took the form of de-leverage. Control, ownership and predictability gave way to inter-operability, open-standards and ubiquity that transcended experience or size. Meanwhile, another significant set of changes were in motion. Of particular importance (in the context of the sourcing industry) has been the evolution in social networks, data science, cloud computing, atomically precise manufacturing, automated machine learning and M2M interactions. Machines and technologies have begun to replace human labor.

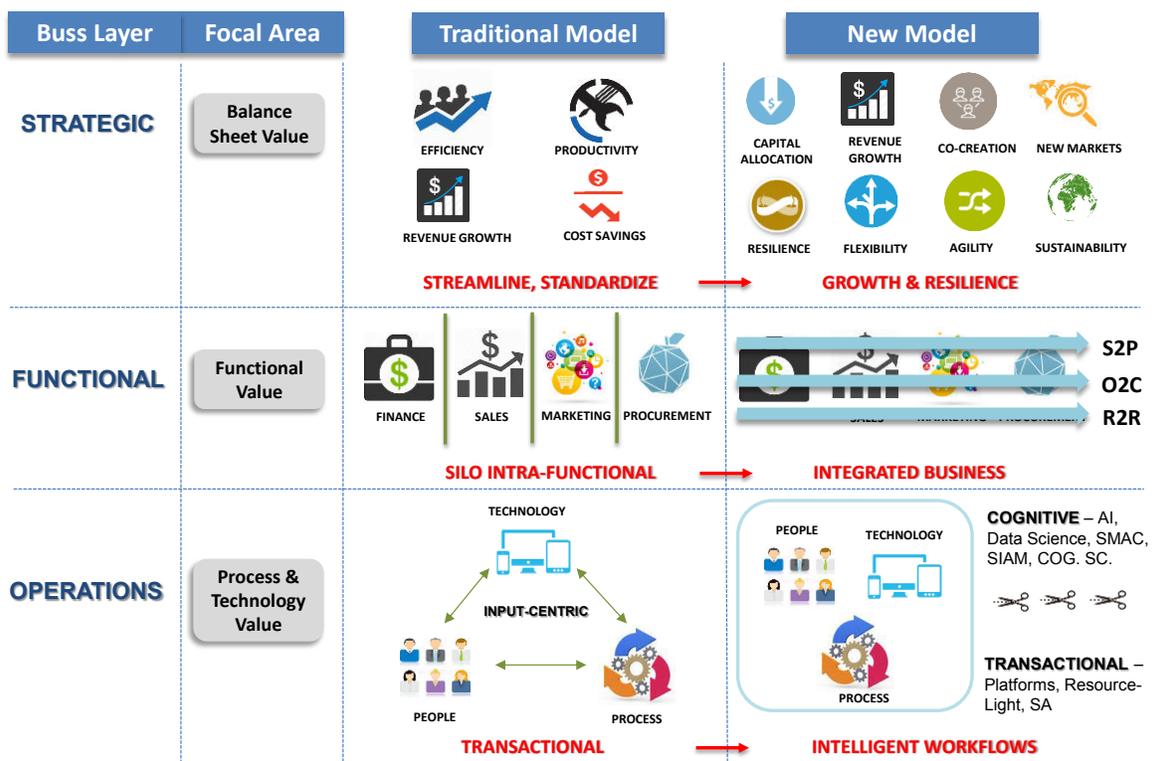
In the face of increasing population and a growing middle class, a resource revolution has been waiting to happen to satisfy the needs of over 2.5 billion new middle-class people worldwide. Meanwhile, smart machines have become increasingly able to perform advanced pattern-recognition tasks (that hitherto required human intelligence). The evidence of "capital deepening" is undeniable, where robots, computers and software (as capital) are increasingly substituting human labor. The contributing factors for such capital deepening have been increasingly cheap processing power, sophisticated software, cheap and ubiquitous sensors, and a much better understanding of human intelligence (in the form of cognitive sciences).

Meanwhile, other significant shifts came into play in the marketplace. Primary among these were the reduced distinction between buyer and supplier markets, where integrated approaches to production and consumption

began to give rise to a new breed of companies. Technological innovations like atomically precise manufacturing have begun to compress global supply chains (thereby upending traditional businesses ad nauseum). Further, automation at the transactional level (especially jobs requiring high levels of pattern recognition) began to replace humans. Input factors began to get equalized to the extent that organizations that had thrived on differentiating (amongst themselves) by the nature of their inputs began to lose out. The age of “Zero Marginal Value” has begun, where capital such as software and robots can be replicated cheaply, thereby creating an environment that builds upon its successes, with marginal value reducing dramatically even when used in greater quantities. A state of “Global Commons” is likely to be established as the marginal costs of many industries are driven to near zero (nearly profitless).

The intensity of these changes have impacted all industries, including global sourcing. Traditional models that thrived on input-factor sophistication are being seen as increasingly irrelevant in the face of transcendental shifts in business models, marketplace complexities and consumer expectations. The uncertainty faced by organizations is unprecedented. Expectations from the sourcing industry have invariably shifted from being fringe provisioning entities to collaborative and co-creation partners. The loosely used term Global Business Services (GBS) encompasses all of this and much more. Is the sourcing industry ready to address these impacts¹?

The below graphic is a snapshot of all that is changing within corporations worldwide.



¹ I must emphasize that this paper doesn't cover any ecosystem aspects, particularly those that continue to be vexing: youth unemployment (un-employability), lagging educational systems, unsustainable urban environments, resource scarcity in many parts of the world (in the face of a global oversupply of capital, people and assets), as these are both fallouts and leading indicators to increasing complexities going into the near-term future, and beyond the scope of this paper.

Fundamental shifts are noticeable across all layers within organizations. The biggest shifts are observed in the Operational and Tactical layers. The former is seeing a shift from transactional to intelligent workflows, where technologies and other innovations across data science, artificial intelligence and other trends mentioned earlier are influencing traditional resource-heavy delivery. Intelligence is being created continuously instead of keeping the lights up. The fallouts are the irrelevance of job-centric and transactional models. Meanwhile in the tactical layer traditional service delivery the premised efficiency-based endeavors within functions is being replaced by an integrated multi-functional and cross-organizational view. The endeavor isn't as much about enhancing efficiencies of operational inputs through structure and rigor. Rather the emphasis is co-creation and predictive approaches that aim to build resilience within the larger organization.

At this point, it is worthwhile bringing in some clarity to this entire deliberations around RPA. Principally, it is crucial to note that process / service automation (or more popularly known as RPA) isn't the panacea for all things transactional. It is just one additional tool that permits incorporation of transactional platforms, while either eliminating expensive and low-value resources, or freeing up such resources to move into more cognitive roles. The entire notion that RPA will replace all transactional jobs is highly misplaced. In fact, all such replacements are being driven by a desire to obtain an integrated view to value creation and incorporating intelligence into business workflows. The only entities that would suffer substantially from introduction of transactional automation (as I would prefer to reference) is those in the business of provisioning discrete transactional services (or traditional low-cost non-value BPO services). I must reinforce that as organizations integrate their functions with an outcome-centric perspective, automating the repetitive elements will be but just one change within their larger endeavors. All such initiatives shall result in intelligent workflows where risks are shared, and business/ functional results pursued. Meanwhile, plain vanilla provisioning of extremely discrete services shall get eliminated owing to their integration into an end-to-end solution.

These transformative approaches are having a significant impact on strategic expectations. Leaders now expect their provisioning partners (third party of shared services or joint ventures) to focus on growth and resilience, instead of just establishing standardization. The emphasis on creating a nimble, loosely centralized yet highly agile organization is taking precedence over traditional management theory on how to run corporations with a global footprint. And this is the crux of all the changes one is witness to in the world today. We may toss new terms like RPA, SIAM, SMAC within the industry (and assume these are replacing older terms like ITO, KPO, BPO etc). The reality is way more complex and matrixed than one realizes.

The need of the hour for the provisioning side of the sourcing world is to appreciate that new deployment models, and a radically new way of thinking is needed to remain relevant. Principally among them would adoption of the following (in addition to the technological aspects elucidated in the graphic above): (a) **Substitution** – replacing of scarce, costly materials with plentiful, cheap yet non-comparable substitutes; (b) **Optimization** – using advanced software and algorithms to increase the efficiency with which scarce materials are used; (c) **Virtualization** – substituting services delivered over the Internet for tangible products; (d) **Circularity** – finding additional value in products after initial use; (e) **Waste Elimination** – applying lean thinking and process redesign to eliminate waste in materials usage.

I firmly believe that such an endeavor would eliminate the current inconsequential conversations around talent shortage, distinction through peddling operational efficiencies, or location distinctions (since shores do not matter any longer). The old days when such factors played a huge role in building a provisioning marketplace don't hold any longer. The faster that firms recognize these undeniable shifts the better for them. The questions have moved from differentials to existential.

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 **Multimedia Development 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.