

**THOUGHT
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GLOBAL SOURCING – AN ACHILLES HEEL OR PANACEA IN TODAY’S CHALLENGING TIMES?

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So Where Were We?

One consistent headline I have come across in the past few months across global and regional media is the great predictions around outsourcing booming in recessionary times. Too much has been said and analyzed about the impacts of recession on corporations and governments worldwide. Unfortunately, just about the time when the world is beginning to rework itself out of the financial meltdown mess, we have Bernard Madoff’s Ponzi scheme striking yet another fatal blow on large banking and financial institutions. The confidence of investors has been shattered in the recent times and now this blow seems to sound like a death-knell to globalization in general. On the one hand many economies with conservative and quasi-protectionist approaches from developing economies are beginning to indulge in chest-thumping acts, vindicated by the lesser impact they are feeling in today’s times. On the other hand corporations within such economies are coming under increasing pressure to overhaul their business portfolios in a manner unprecedented in recent history. In such dynamic and distressing situations where ambiguity seems to have become the norm of the day, what is in store for global sourcing as an industry? Let’s try and address a few of the interesting aspects I have come across, without gainsaying or attesting to other predictions of doom or growth.





LET'S DISCUSS THIS

So where is the Achilles Heel? Is global sourcing going to lend lost credibility to corporations struggling to keep their balance sheets from going into the red? Or is there going to be a significant and palpable withdrawal from the industry in order to clean house internally through conservative adoption of strategic initiatives? It is time we took stock of some of the impacts in the recent past first before we delve into a thorough analysis of repercussions, or predict light at the end of the tunnel. There are many impacts, but I shall touch upon the few most important ones here to ensure the readers' attention span is not compromised.

CIOs Cutting Down On Technology Spending: Most CIOs across the globe have almost vowed to their boards to completely cut down on new technology spending. They are taking a diametrically opposite view to technology and infrastructure. There were days when CIOs were busy spending on adopting the latest state-of-the-art technologies so as to be – potentially at best – nimble and competitive, without much focus on utilization or expansiveness of applicability. Today the view is to make more with less. This in itself is changing the perception that older technologies or infrastructure are just that – old. Demand for innovating and reengineering business processes and functional applicability without additional investment is on the increase, forcing service providers to come up with solutions that go beyond standard infrastructure services.

Capital Expenditures Being Deferred: Typically the industry has seen significant capital expenditures in business models and services that are deemed core to organizations and their businesses, while non-core services were sourced out to competent third-party service providers. However there is increasing pressure on Boards to defer or reduce capital expenditure. Unfortunately with lack of internal capabilities sourcing globally for talent and service competencies is forcing companies to farm out even complex and core services to third-party service providers. In such scenarios, the old days of simple competitive bidding methods are unable to address concerns around business risk, IP protection and the like. Sourcing methods are increasingly incorporating core services as inherent targets for service to work on, with the caveat that service providers need to take on more risks than they are either ready to, or have the experience with.

Business Models Are Being Realigned: Standard fee-for-service based business models are increasingly being seen as low value. Customer organizations are demanding their service providers to put their “skin-in-the-game” through price entrenchment and ownership for the pass-through impact of such services on the customers' businesses. This is an inherently fundamental shift in the nature of global sourcing one has seen so far. While it is appreciable that customers are beginning to trust their global service providers more than they have done so before, it is also putting the noose around the necks of service providers as they are taking on more business risk than ever. While such entrenched models do offer opportunities for longer-term relationships between the customers and provider organizations, focus on co-creation of solutions is putting the pressure on providers to transform their view of their businesses. No longer are customers content with their providers branding or viewing themselves as IT or BP providers. The demand is for providers to view themselves as “vertically-aligned” and “user-oriented” solution providers where industry-specific solutions and innovation are driven in a cohesive manner to create and sustain value.

From Cost Arbitrage to Skills Arbitrage: While access to skills and talent has been touted for long in the industry, cost arbitrage still held the highest attention and focus in the minds of customers. “It will be the death of the mile-wide inch-deep outsourcing deals”, says Keith Higgins, VP-Worldwide Marketing for Aricent. I tend to agree with his observations. Too many times has scale been touted as the biggest lever for winning in a fiercely competitive marketplace. Not too much emphasis was placed on depth of capabilities. I think the days of “value-scale” are here now and here to stay. Providers are being forced to create value at the business layer within chosen industry verticals, either through technology or business solutions, and add scale to such value through a concerted spread of such value across industries. In India the BPO providers are beginning to



rigorously invest in innovation that could support such value-scale creation, through what is termed as Platform-Based BPO services. Hence it is not just access to talent, but the ability to leverage and transform the competencies of such talent pools to deliver value. Cost in such cases tends to become an inherent component of value-scale, as cost savings are derived from reduced innovation cycles.

WHERE TO FROM HERE?

Well, I don't have a one-size-fits-all answer to this question. However I think it is important for providers to seriously invest in some "evaluation of fundamentals" thinking with their business and services. The place to start is perhaps to ask these questions – how thoroughly commoditized are my services? How do I transform them into value-orientation? Which industry can I address best? I would rather focus on what value-scale I am capable of supporting, rather than trying to outdo my competitors, since competition is also in the same seemingly inextricable situations. On the other hand, I think it is important for customer organizations to work closely with their providers and help them transform. Sometimes customers expect providers to jump at the flip of a switch, which isn't possible. So I believe working through the in-transformation issues enables both organizations establish a stronger pedestal for collective growth.



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