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Disruptive Technologies and Evolving Sourcing Tools

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EXECUTIVE SUMMARY

Businesses today seek transformational change through a range of innovative and disruptive technologies, including robotics, artificial intelligence, Social, Mobile, Analytics and Cloud (SMAC) and converged infrastructure.

As technology choices become increasingly complex, approaches to contracting, benchmarking and vendor management must similarly evolve to remain relevant to new conditions. This evolution, meanwhile, is redefining how enterprises address traditional outsourcing considerations such as build vs. buy, where to locate operations, how to manage transitions and how to deal with cultural change.

This ISG white paper examines some key emerging technology strategies and their potential applications and benefits, outlines how outsourcing management capabilities have adapted to respond to these innovations and describes how today's dynamic outsourcing landscape is impacting executive priorities and operational decisions.

EMERGING TECHNOLOGY TRENDS

Robotic Process Automation (RPA)

Gartner estimates that by 2017, automatics and Robotic Process Automation (RPA) will drive a 60% reduction in the cost of many IT services, primarily through automating repetitive tasks currently performed by humans. Potential applications of RPA solutions include traditionally labor intensive areas such as service desks and customer care centers, as well as a broader range of functions in IT operations, such as network, storage, server and application management, database administration, virtual machine provisioning, process orchestration and teleconferencing.

Service delivery model options include partnering directly with a software provider such as Arago, BluePrism or IPsoft; working with a service provider that licenses smart software; or working with a provider that offers a home-grown solution (a la Wipro's Holmes).

The underlying value proposition of RPA is transforming existing approaches to outsourcing. Traditional business models based on labor arbitrage and FTE-based contracts are being fundamentally redefined, and both clients and providers are scrambling to adjust. In terms of implementation, key issues to address include determining what to automate, how to integrate automation into the service delivery model and how to manage the touch points between automated processes and human workers. Significant change management will be required, as will significant training and retooling of skill sets.

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Despite the fundamental changes being driven by RPA, in some respects the keys to successful outsourcing remain constant. The fundamental basics that still apply include clearly defining and articulating business objectives and requirements, finding the right mix of providers, adjusting to ongoing changes and applying governance mechanisms to effectively manage the relationship over the long term.

SMAC

An ideal approach is a comprehensive strategy (at corporate or business unit level) that leverages the cloud for data storage, social media for data collection and automation for data analysis. This technology foundation makes it possible to apply data analysis to drive business outcomes. While many companies have practices dedicated to this area – including IBM, HP, Accenture, Infosys and Wipro – generic technology expertise is not sufficient.

Customers increasingly demand that providers demonstrate knowledge and insight into their unique industry requirements. Retailers, for example, demand providers with proven capabilities in omni-channel and point-of-sale technologies. Banks seek providers who can help address increasingly stringent regulatory requirements. And healthcare payers and providers need help navigating the changes wrought by healthcare reform and new standards such as ICD-10.

Due in large part to the impact of automation, data is becoming easier to collect, manage and apply. New capabilities enable the rapid processing, analysis and application of data that used to be “big,” difficult to understand and scattered.

For example, retailers can quickly discern buying patterns and trends, and be more consumer-centric through more effective loyalty programs and direct marketing campaigns.

Cloud

New cloud offerings can deliver major benefits to infrastructure management in terms of cost savings, labor requirements and agility. Most if not all of the major U.S. and India-based outsourcing providers have developed a roster of hybrid, private and public cloud offerings. Brokerage services have matured, enabling clients to use third-party outsourcing providers to procure on-demand public cloud offerings and oversee and manage commercial, operational and technical requirements. Clients benefit by enhancing purchasing power, avoiding lock-in with one provider and offloading day-to-day management responsibility of multiple providers.

Opportunities offered by cloud technology make an effective sourcing strategy imperative. Clients who can effectively leverage infrastructure investments are better positioned to embark on a cloud journey with minimal disruption.



One specific consideration is end-of-contract strategies – an ideal time to explore new opportunities. Trouble is, service providers are often too busy managing to operational requirements to keep pace with cloud innovation. Clients can also take advantage of innovation or tech refresh clauses in their outsourcing contracts to do a mid-term health check on a relationship and assess new technologies.

Convergence

Components of a converged infrastructure may include servers, data storage devices, networking equipment and software for IT infrastructure management, automation and orchestration. Converged infrastructure can also serve as an enabling platform for private and public cloud computing services, including Infrastructure as a Service (IaaS), Platform as a Service (PaaS) and Software as a Service (SaaS) solutions.

Several characteristics make converged infrastructure well-suited to cloud deployments. These include the ability to pool IT resources, to automate resource provisioning and to scale up and down capacity quickly to meet the needs of dynamic computing workloads.

The challenge is taking full advantage of convergence – too often, enterprises approach convergence as a tactical initiative rather than a strategic undertaking. As a result, they fail to derive full benefit.

SOURCING TOOLS

Contracting

Traditional outsourcing contracts were large and long-term agreements designed around strictly defined terms and requirements. Given the investment at stake in terms of both time and money, scrupulous attention to detail was imperative, and negotiation, review and due diligence typically took months.

Today, contracts are becoming shorter in length and smaller in total value. Moreover, agreements are becoming less prescriptive and more flexible, as client enterprises seek innovative solutions and alternatives from providers, rather than a vendor who can tick off the boxes on a buyer's check list. In this environment, contract mechanisms are evolving to enable clients to assess alternative options and to facilitate collaborative and creative approaches.

Multi-Sourcing

The traditional sole-source “one throat to choke” model has similarly evolved, and today complex multi-vendor models are the norm rather than the exception. Buyers seek to implement best-of-breed arrangements to leverage increasingly specialized provider offerings. As clients struggle with the complexity of managing provider teams, multi-sourcing strategies are being refined to take a more strategic approach to governance.

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Benchmarking

Benchmarks have long been used to assess pricing and service quality of IT and business operations. Traditional benchmarks, however, took a long time to execute, were expensive and limited to a historical perspectives. This limited their value to clients seeking to benefit from new technologies such as RPA and cloud. Today, benchmarking capabilities are evolving to be faster, cheaper and more dynamic and responsive to emerging trends and innovations.

Vendor Management

Typically the role of vendor management and governance was limited to policing contractual terms and negotiating pricing concessions. In this sense, the function operated largely as an extension of the procurement office. Today, vendor management is taking increasingly strategic and holistic view, one that extends across business units and focuses on achievement of business value from sourcing.

SOURCING CONSIDERATIONS

Source/Retain

Approaches to repatriation are maturing, as clients recognize that certain functions are better suited to internal management. Rather than taking services back in-house as a knee-jerk reaction to an unsatisfactory outsourcing relationship, clients are looking for a balanced approach to insourcing. That said, many clients still underestimate the cost and complexity of managing operations on their own.

Transition

With sourcing relationships increasingly fluid and fragmented, managing the transition from one provider to another or from outsourcing to internal service delivery is more critical than ever. Effective change management and project discipline are imperative.

Location

RPA is rapidly eroding the competitive advantage of labor arbitrage. As a result, decisions on where to base outsourcing operations are increasingly less likely to be based on availability of cost-effective resources. Instead, RPA makes the geographic location of where work gets done increasingly irrelevant – this opens up tremendous opportunities to develop sourcing models that drive transformative change.

Internal Resources & Skill Sets

Integrating new technologies obviously requires new skill sets. In practice, however, an additional requirement is finding skill sets at the intersection of new innovations and legacy systems – that mix is essential to managing a hybrid environment and to transitioning to new technology platforms.

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SUMMARY

To chart the right sourcing course, enterprises need to take an approach based on proven techniques and methodologies that can adapt to new requirements. Prescriptive requirements and cookie-cutter templates are becoming increasingly less relevant in today's dynamic market. As such, historical experience per se is of limited value. Instead, flexibility and the adaptation of traditional sourcing techniques to new requirements are the order of the day. A "one-size-fits-one" approach based on a proven sourcing methodology can help businesses develop a well-constructed business case.

ABOUT THE AUTHOR

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