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STRATEGIC OUTSOURCING AND SHARED SERVICES

By Fabiano Rosa



OPINION

Millennial outsourcing is here, are you ready for it?

Organizations, service providers and advisors share thoughts on millennial outsourcing and the other latest trends within the outsourcing industry.



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Last month I participated in numerous events in North America with clients, service providers and advisors – primarily discussing the many changes we are facing within the outsourcing industry. We are indeed going through some fundamental changes and exciting times for all parties.

Below is a summary of the latest thinking, which I call *millennial outsourcing*, and the facts we should be aware of:

- **Change is imminent:** There are several outsourcing contracts expiring within the next year – most of which will not likely be renewed exactly the same way as a traditional outsourcing deal is. During the *Wall St. Technology Conference* hosted by the Outsourcing Institute on June 2 in New York City, ISG President and Conference chair,

Mr. Anubhav Sanexa, disclosed a staggering finding: the numbers of contracts facing significant changes are in the thousands.

- **The as-a-Service model is here to stay:** The technological advancements with software technologies and cloud now enable organizations to effectively multisource for both standard and project-related services. Although premature, this trend is set to continue to evolve – as buyers are becoming more experienced. A key component to an effective as-a-Service model is Governance, since the “handshakes” required are within the critical path for an effective service delivery.
- **The labor arbitrage dilemma:** As the middle class in emerging economies continues to grow, the labor benefits will commence to erode. A recent trend on nearshore and onshore locations has already begun, although there are other considerations driving that forward. For now, the basic measure that offshore is cheaper remains sustainable, however no one is certain on how long it will take for service providers to reach an offset.
- **The automation optimum:** As service providers and clients look to benefit from automation as a service, there are some constraints/key considerations to be taken into account. During a recent event hosted by *Wipro and The Outsourcing Institute* in New York City, Mr. Nicholas Carr, a renowned speaker and author talked about his latest book, “Automation and Us.” The comment that did resonate with me was the fact organizations like Toyota are “Humanautomating Things” – which is basically *to bring the best from machines and humans to obtain the best possible outcome, not one vs. the other.*

Another important consideration to automation is the implication to traditional pricing models. In the near future, organizations and service providers may define the new acceptable way for pricing structure at the unit rate level. A potential approach will be to disclose the percentage of automation and labor applied to a specific tower or service within a unit rate. This will help to determine the “automation appetite” of organizations and service providers before they enter into an outsourcing relationship. In addition, this will also influence some potential gainsharing targets/goals for the agreement.

- **The orchestration becomes real:** The art of a good workflow to manage services from end-to-end through a multitude of service providers is very complex to achieve. Great examples of success have been obtained by some service providers – *CapGemini's state of Texas case study* the first one that comes to mind. What is interesting about this

is that different organizations have different perspectives on who should be orchestrating their services. There is no right or wrong here – rather an organization’s preference for managing some strategic considerations or involving an external party to do so. In addition, governance protocols and processes will be more strategic rather than operational – as organizations will need to put *stronger emphasis on relationships* at all levels, not on tasks or dashboards.

- **The dependency on data and analytics rises to the top:** Regardless the organization’s target operating model, data and analytics will become a major driver on how organizations’ assess services being provided – and where the organization should focus. The standard reporting and metrics provided today will continue to be enhanced – up to a level organizations’ have not seen yet. This will determine a much more fact-based approach, linking organizations trends internally with external factors. *The focus will be direct tied to customer experience*, not only tasks being completed on time. The old saying, “all of my SLAs are green, however, my clients are still unhappy with services” is no longer acceptable. In the near future, organizations and service providers shall be able to understand and address issues proactively.
- **The new client-facing focus:** As discussed, customer experience will drive the organization’s perception of services being provided, not only the standard metrics and SLAs. The fact that services providers, either for software or infrastructure, have already invested a great amount of development and time on it is a major step forward. The integration of software and tools with mobile technology is becoming essential to the service providers business and client experience. The important factor is that organizations are heavily concerned with client-facing elements of services – as that is where the opportunity exists for them to make a difference from the client’s point of view.
- **The risk considerations can no longer be evaluated in silo:** The integration of technology tools from procurement to risk will provide greater visibility to risks that would otherwise be hard to assess in a timely manner. As organizations are constantly looking to protect their brands, the dependencies on service providers, regulatory requirements, and client expectations can no longer be assessed separately. During the *Wall St. Technology Conference*, I had the pleasure of moderating a panel discussion on this exact topic – the message I got from our speakers was simple: *if you do not manage risks effectively, you will not survive.*

- **The market consolidation is taking shape:** As margins for outsourcing deals are in decline, a consolidation among the service providers is already taking place. Most recently, CapGemini acquired iGATE, setting a precedent for greater competition with IBM, Tata and others. The strategic nature of acquisitions going forward will be a strong factor for organizations while assessing their upcoming contract renewals.
- **The workforce generation gap:** With the increased use of automation to commodity-like activities, a new generation will grow knowing how to monitor activities but lacking execution knowledge. As such, some skills and talents will become extremely valuable both to organizations and service providers. Therefore, it will be important for organizations and services providers to start laying out some of the required foundations sooner than later, so this can become a non-issue.

As you can see from above, our industry is going through fundamental changes. All parties involved are trying to anticipate the right solutions/responses to the items listed above. The upcoming months shall provide greater clarity on where we go from here. As an advisor myself, I believe these are exciting times as we learn to navigate in this new outsourcing world – welcome to millennial outsourcing and enjoy the ride.

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Fabiano Rosa



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Fabiano Rosa is an Experienced Manager in PricewaterhouseCooper’s Consulting and Deals practice in Toronto. Fabiano is an ITIL V3 and Green Belt Lean Six Sigma professional. Fabiano focuses on providing clients with a range of Management Consulting services most notably most notably (1) Large Scale Outsourcing, (2) Shared Services Strategy and (3) Third Party Sourcing Risk Management and Technology trends within the context of (1), (2) and (3).

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