



Trends Likely to Impact Global Sourcing in 2013

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Welcome 2013, a year we anticipate positive change in market dynamics of the global sourcing industry as the cloud of uncertainty around US Presidential Elections disperses, the US economy avoids the “fiscal cliff” and large number of outsourcing contracts come up for renewal and negotiations. While 2012 witnessed market uncertainties amid global financial crisis, this year we expect global investments to show an upward trend. In the area of technology, investment in cloud services and mobile networking is expected to grow significantly, making a radical change in the global service delivery model. Strategic sourcing decisions will have to be tweaked to support the new paradigm in services delivery. Cloud based service delivery models will lead to additional debate, dialog and concern about issues like security. Buyers of services will show an inclination to source services from near shore destinations like Latin America & Africa, to enable easier coordination and governance. Use of social media, blogs and discussion forums is expected to have an impact on the sourcing decision making process.

A combination of trends within technological, operational, and marketing environments will impact the way; global sourcing decisions are taken to gain competitive advantage. Avasant’s thought leadership believes the following trends will have a significant impact on shaping the global sourcing market in 2013.

Technological Trends:

1. **Big Data Analytics:** Connected environment achieved through mobile and social networking technologies has led to the growth of voluminous amount of data, both structured and unstructured. The challenge faced by enterprises is to filter and analyze this available data for business use and gaining competitive advantages. Enterprises in 2013 will look forward towards adopting business intelligence in big data using applications and multiple integrated systems with advanced analytical capabilities. Marketing and Business leaders are likely to reach out to abundantly available analytics skills in geographies like India and China, to gain novel insights from their business data and take innovative decisions.
2. **Data Security:** Security of sensitive business data is an area of concern for enterprises and often demands huge investments for data protection. Cloud computing along with rise of Bring Your Own Device (BYOD) and Bring Your Own App (BYOA) in 2013 would pose data threat to enterprises which compromise on formulating data security policies and monitoring security breaches. Regulated use of smart phones, tablets, other corporate assets and stricter data security policies enforcement will be major thrust in days to come. Enterprises are expected to increase budget allocation to manage data security threats effectively by outsourcing security monitoring services.
3. **New Global Sourcing Paradigm through Cloud Strategy:** The dynamics of the sourcing environment will change with cloud solutions offering an alternative to align IT with Business strategy, more effectively, in both infrastructure and applications arena. In 2013, buyers will increasingly look at cloud services not as an alternative, but as an integral part of their sourcing strategy. Service providers will also realize that cloud computing is not a threat to their existing traditional services model. On the contrary, it will be seen as an opportunity by the smarter providers, who will build cloud capabilities and use it as a differentiator to gain market share from their clients.

Operational & Business Trends:

4. **Governance (Organizational):** Leading CIOs would increasingly manage people and information than just IT infrastructure and assets. With advent of big data and cloud, CIOs have to increasingly manage diverse skills: technological, analytical and domain specific and bring these together to deliver business solutions. CIOs would be assessed not just on their ability to achieve cost optimization in their IT department but by the business value that the department delivers through the big picture that the data information managed by them, produces.

5. **Reverse Sourcing:** Due to various reasons like continued narrowing and erosion of offshore labor arbitrage, high attrition at offshore vendor premise, tax breaks available for using services from on-shore vendors, local political reasons- some of the critical services and processes may be brought back to company's captive centers or to onshore service provider facilities. This may increase cost of operations but may result in easier governance.
6. **Rural Sourcing & Nearshoring:** As US begins another year with uncertain spending and tax cuts, local firms will still be wary about deciding a fixed budget for outsourcing. To deal with such uncertainty, firms are focusing on having an agile outsourcing model that focuses on de-risking investments, reduced costs and quicker response from their service providers. This is pushing firms to look for cheaper and closer alternative destinations in rural US and near shore locations in Latin American countries. With choice of service delivery location being driven by need to access talent, mapping of available skills with need of business will be the winning "mantra".
7. **Innovative Pricing:** Innovative pricing models like "gain sharing" will be order of the day in global sourcing, as the buyer-service provider relationships mature and enters the 2nd or 3rd term of contracting.
8. **Growth of India & China centric Service Providers:** After a lacklustre 3 quarters failing market in 2012, service providers from India & China are showing signs of reversal in trends. Indian IT companies like TCS, Infosys, and HCL have booked record profits. This trend is expected to continue for the next year as the US economy recovers. With most companies reworking their strategy post downturn, most are expected to post healthy growth and returns. This would prompt at least few major M&A deals during the second half of 2013 to effectively compete with the US & Europe based MNC service providers.

Marketing & Social Impact Trends:

9. **Rise of Social Media & Mobile:** With rise of mobile connectivity and social media usage, both buyer and provider of services will leverage the new media effectively, to gain business advantage. Service providers will use it effectively to brand and differentiate their services and reach out to buyers in new hitherto untapped markets. Contact centres will use social media as an alternate channel to manage customer queries and improve service. Buyers of services will leverage discussion blogs and forums to effectively shop for their service providers or seek online solutions to their problem.
10. **Impact Sourcing & Corporate Social Responsibility:** Progressive & socially committed organizations will invest in creating jobs in the IT & BPO sector for poor and vulnerable sections in emerging economies, where they have significant business presence. Donor agencies like Rockefeller Foundation, World Bank and various NGOs committed to the sector will play a significant role to make socially effective outsourcing a reality.

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