



## Sourcing Trends 2014: The Year of Transformation

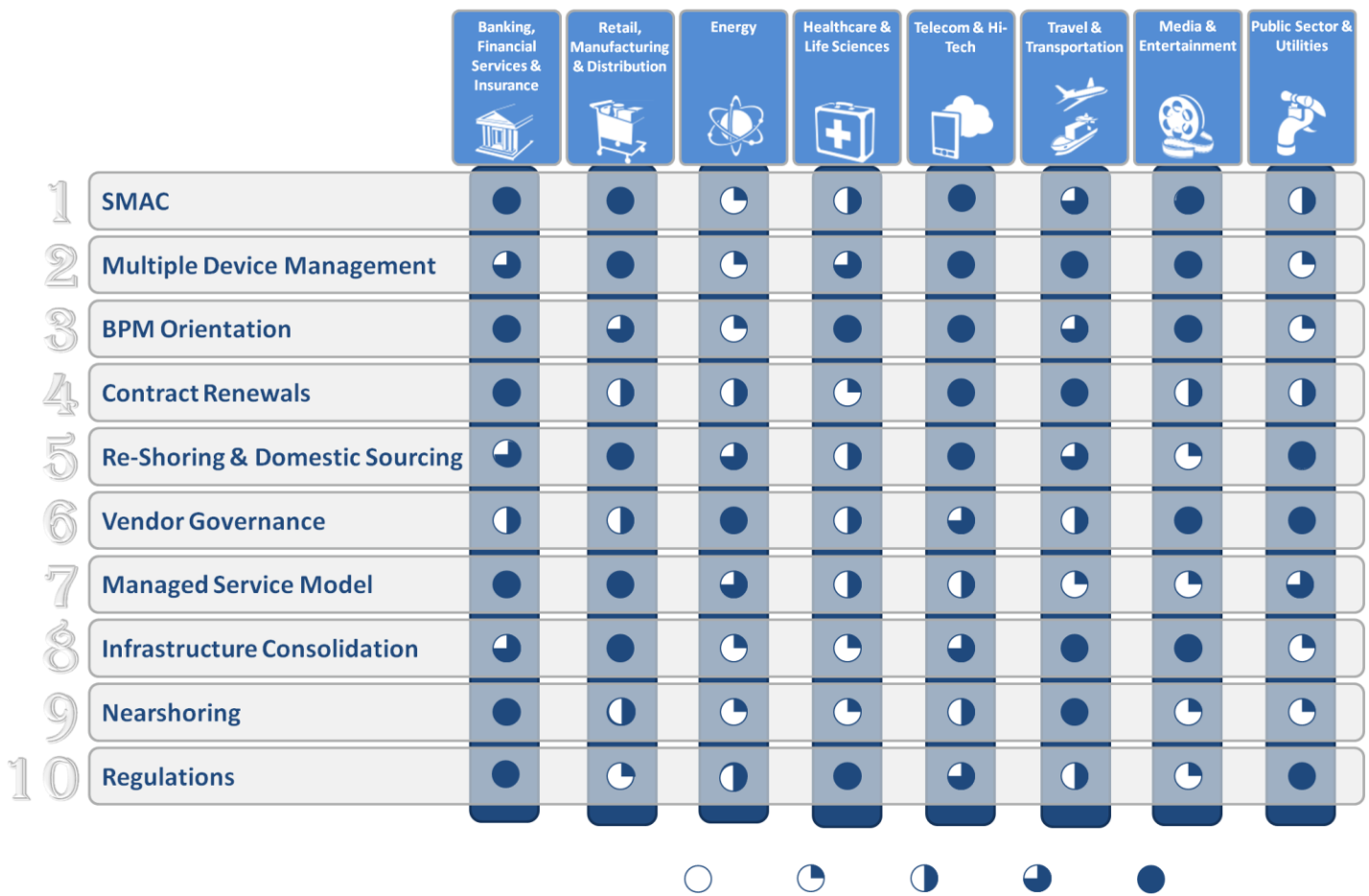
As we welcome 2014, global sourcing is witnessing changes driven by fast-paced technology, development of customized service offerings, and emergence of new business paradigms. The market is expected to go northwards with stronger contributions from Americas and increased demand in Europe and Asia Pacific. Avasant believes that innovation led transformation will have a significant impact on shaping the sourcing landscape in 2014.

Traditional outsourcing models are crumbling rapidly with continued globalization, industry diversifications, and rapidly changing market dynamics. It is a world of converging technologies, transforming business models, increasing location complexities and shifting vendor landscape. Driven by the pressures of these fast-paced technology changes and innovation, outsourcing industry is witnessing challenges as well as new opportunities never seen before. Predicting what will happen in 2014 is difficult yet stimulating - so here is our perspective on the key trends that will influence global sourcing in 2014.

## The Trends Matrix

Avasant sees many of these outsourcing trends cut across industries and having a profound effect on how organizations evolve and transform their business models. While these outsourcing trends are being evidenced in industry verticals, the primary drivers are horizontal factors that carry an impact across various industries, albeit in different ways.

In this report, we intend to bring out not only the primary horizontal trends but also their intrinsic relationship with various industry verticals, which is critical to understand future market dynamics. The following matrix depicts the extent of impact of each of these horizontal trends across industry verticals:



## 1. SMAC drives the New Digital Enterprise:

Social, Mobility, Analytics, and Cloud are the convergent forces driving changes across the industries globally. With more than 9 billion interconnected devices and the rise of social networking platforms, voluminous amount of data is being generated every second. In the year 2014, enterprises will transform their business paradigms in order to compete with disruptive organizations thriving on digital platforms. Traditional business models will embrace SMAC and strive towards customer empowerment to gain competitive advantage.

Banking, financial services, retail, healthcare, telecom, and media will continue to experience the rise of unstructured data and evolve technologies to draw suitable business insights from data. Data mining, business intelligence, and predictive analytics will become areas of concern for enterprises with maximum customer base. With more enterprises adopting digital, cloud computing will gain prominence both among large and small & medium enterprises. Travel, Tourism and Transportation sector will see an increase in outsourcing spend especially for innovative solutions in the areas of cloud and analytics. In the developed markets where the telecom customer base is saturated, SMAC will enable innovation through digital technologies and diminish the silos powered by enterprise mobility and enterprise social media. Smart firms are reinventing themselves as Digital Enterprises that are better aligned with their internal and external customers by leveraging the true power of SMAC.

### Banking, Financial Services and Insurance:

Organizations are now able to reach previously unbanked people and have launched mobile banking solutions, loyalty and reward programs, and even mobile trading systems to improve customer service

### Retail, Manufacturing & Distribution:

Retail giants are using big data to personalize the offers to enhance customer experience, up sell and bring new products to market. Manufacturing companies are using big data to improve their products, predict the failures in their product lines ahead of time to make every customer interaction seamless and smooth.

## 2. Multiple Device Management to enable higher levels of Productivity:

Enterprises now have multiple touch points to connect with consumers leading to high demand for infrastructure consolidation. Growth in the number of interconnected devices operating on umpteen platforms has increased the culture of Bring Your Own Device (BYOD) and Bring Your Own App (BYOA). Enterprises will continue to allow their employees to integrate their own device to the work environment. This will further reduce the boundaries between virtual and real workstations. Information and data rich industries, like retail, healthcare, banking, financial services, travel, transportation, media, & entertainment will see a foreseeable threat to their available data.

New security policies, regulated use of smartphone, phablets etc. will optimize concerns to data theft. Ultimately, the

### Retail, Manufacturing & Distribution:

Retail Organizations are looking to add consumer focused services such as mobile commerce, point of sale, offers, and coupons integrated to simplify buying experience.

### Telecommunication & Hi-Tech:

Organizations are launching content delivery applications, consumer application stores and messaging tools.

### Travel & Transportation:

Transportation organizations are using telematics to stay updated about the fleet location and to manage routing. Airline organizations are using mobility to enable ticketing and for check-in.

### Media & Entertainment:

Organizations are looking to provide television on mobility devices, and new services like social television. In addition, each new content development like games or videos now is provided for multiple devices and consoles.

### Public Sector & Utilities:

Public sector organizations have also seen a lot of use of mobility solutions: m-Governance and education are some areas where a lot of innovation is expected to take place.

paradigm of any information, anywhere, on any device will become a reality and if channeled properly, can drive new levels of productivity within organizations.

### 3. Shift towards Business Process Management (BPM):

The outsourcing industry is evolving from task oriented BPO services to a platform-centric and outcome-linked BPM (Business Process Management) model. With analytics and know-ledge centric services, growing twice as fast as traditional horizontal services these high value services will drive the future growth of outsourcing. Big data, social media, enterprise mobility, and new technology will drive demand for specialized services beyond the current horizontal and vertical specific offerings. The fine line between core and non-core processes will diminish even further bringing newer processes under the sourcing ambit. Also, with increased automation of commodity services and limited solution differentiation at lower levels, innovation in improving business outcomes would play a critical role. These factors coupled with increased adoption of cloud-enabled BPaaS will further drive the shift towards BPM in 2014. BPM fits in the social, analytics, mobility and cloud, and these disruptive forces will directly impact business processes in 2014.

#### Banking, Financial Services and Insurance:

Platforms provide great grounds for the BFSI segment processes to be automated and standardized.

#### Healthcare & Life Sciences:

Large amount of standardization, regulations and transactions can use BPM to improve efficiency.

#### Telecommunication & Hi-Tech:

Integration of analytics with big data and BPM will provide significant value for the telecom vertical .

#### Media & Entertainment:

Entertainment is increasingly social, and with gaming and media already on the cloud – BPM will make a huge impact to the vertical's future.

### 4. Contract Renewals to foster Services Transformation:

With more than 1,000 contracts, due for renewals in 2014 outsourcing providers will find numerous business opportunities. Service providers are expected to face challenge both from existing as well as new players in the outsourcing market. Enterprises may look into evaluating IT contracts with emphasis on aligning them to suitable business outcomes. The trend towards shorter contract terms (3 to 5 years) will be very evident in 2014. Service Providers will prefer renegotiation of contracts rather than face a re-compete and hence may be willing to offer better terms and service level driven contracts aligned with the business objectives of their clients. Many firms will also take this opportunity to transform their engagement structure towards a Managed Service model.

#### Telecommunication & Hi-Tech:

Telecom vertical is expected to have the highest contract value in 2014 due to major contracts due to terminate in 2014

#### Banking, Financial Services & Insurance:

BFSI is second only to telecom in renewals due for 2014.

#### Travel & Transportation:

Large IT services contracts, which were signed before the consolidation started in the airline industry will open in 2014 for renewal and may change the structure of outsourcing for the vertical.

## 5. Resurgence of Re-shoring and Domestic Sourcing:

Continued erosion of offshore labor arbitrage, high attrition, political sensitivities and availability of relatively lower cost “Rural Shore” service providers, will result in a higher share of deals being either re-shored or outsourced domestically. Not only are companies bringing back critical services and processes to their captive centers or onshore service providers, they are pro-actively looking at Rural Sourcing providers that can leverage low cost tier-II/III locations in the US along with attractive tax incentives to offer compellingly attractive services. Increased scrutiny on regulatory and data privacy issues, coupled with increased customer resentment with offshore customer support and better options for home-based agents will make onshoring a reality.

### Banking, Financial Services and Insurance:

Increased regulations, local customers and international affairs enable BFSI to choose domestic sourcing.

### Retail, Manufacturing & Distribution:

Retailers are increasingly international but in their attempt to attract local customers they are seriously looking at smaller towns for their sourcing requirements.

### Telecommunication & Hi-Tech:

Large customer service requirement enables telecom vertical to seriously look at domestic sourcing.

## 6. Vendor Governance moves from an Art to Science:

Companies have realized that the success of an outsourcing program lies largely on their vendor governance practices. While many organizations continue to reduce investments in this critical activity, there is a growing awareness that good governance can make or break a deal. Up to 15% of the outsourcing contract value can be lost due to lack of or mismanaged Vendor Governance. Understanding and adequately enforcing key aspects of Vendor Governance will significantly reduce risks emerging from Geo-Political, Financial, Regulatory, and Operational factors. Effective Governance can stop value leakage and improve outcomes, especially in a Managed Service environment. In 2014, companies will increase their investment in Managed Governance services and Automated Governance tools.

### Energy:

Energy organizations have typically had low outsourcing penetration and poor governance of contracts, contract governance will enable energy vertical to significantly improve upon their sourcing.

### Media & Entertainment:

Airlines, hotels and entertainment businesses have been some of the first adopters of contract governance and will continue to be strong buyers.

### Public Sector & Utilities:

Government contracts are often not tracked as diligently, contract governance is expected to penetrate further into the vertical in 2014.

## 7. Increased Transformation to MSM (Managed Service Model):

2013 was the year Managed Services Models gained true acceptance as the way to ensure alignment of business objectives with sourcing outcomes. As firms mature their outsourcing strategies, they are evolving their relationships with service providers beyond the traditional client-vendor relationship to that of a business partnership. Effectiveness of sourcing relationships is now increasingly measured by its impact on overall business related outcomes and not just on cost and efficiency improvements. Service providers are leveraging their domain expertise and use of tools and technologies to move from FTE or transaction based delivery models to that of a Managed Services Model (MSM). As the vendor takes on end-to-end responsibilities including both delivery and management, the client organization can fully focus on their core strategic initiatives. At the same time with control of end-to-end processes, vendors are more independent and incentivized to drive process improvements, make strategic investments indirectly benefiting the client, as well as provide measurable gains to the client organization under overarching SLA's. It is this alignment with business outcomes and the ability of vendors to manage their margins that will drive increased adoption of MSM in 2014.

### Banking, Financial Services and Insurance:

As one of the most mature verticals for outsourcing, the years of outsourcing now drive the buyer-vendor relationships. Increase trust in vendor delivery capability and relationship with buyer allow BFSI clients to derive more out of outsourcing using MSM.

### Retail, Manufacturing & Distribution:

Requirement for the retail vertical to integrate IT and BPO with big data and customer analytics lead to the end-to-end requirements for the buyer. Vendors expect their MSM capabilities to find more buyers in 2014.

## 8. Infrastructure Consolidation to Optimize:

In 2014 Avasant expects significant requirement for Infrastructure being consolidated and optimized. This is being driven by Increased M&A activity in a few markets resulting in redundancy of infrastructure assets, contracts and services acquired by the acquired/merged entities. Large contract renewals and additional infrastructure consolidation requirements are expected to go hand in hand. Recent Comcast acquisition of NBC Universal is a good example which will lead to additional churn in the deal landscape.

### Travel & Transportation:

Large mergers among airlines, numerous legacy contracts due for renewal and asset redundancy create need for consolidation.

### Media & Entertainment:

Multiple acquisitions and mergers in the vertical is expected to keep generating requirement to consolidate.

### Retail, Manufacturing & Distribution:

Manufacturing and retail have witnessed significant M&A's which are expected to enable infrastructure consolidation in 2014.

## 9. Nearshore goes Mainstream:

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After playing in the shadow of offshore locations for a decade, Nearshore is finally coming of age. The fact is evidenced in the sophistication of services being delivered and the maturity and diversity of providers from Nearshore locations. Providers with strong offshore presence are now actively placing some of their sourcing assets in Nearshore locations. Most of the larger contracts are still going to global providers with Nearshore capabilities, however the increased visibility and credibility is also helping regional providers. As the quantum of Mobile, Cloud and Web based work grows, a large percentage of that is being nearshored. The popularity of Agile development and open source toolsets is also favoring nearshore locations. 2014 should see many Nearshore locations such as Costa Rica, Chile and Colombia become mainstream options, winning deals on merit rather than just nearshore credentials.

### **Banking, Financial Services and Insurance:**

Nearshore capabilities transform into not only savings but a closer to home experience for the customer.

### **Retail, Manufacturing & Distribution:**

Maturity of nearshore centers to provide services to the retail sector have meant not just capabilities in performing transaction services but also high-value services like analytics and research support.

### **Travel & Transportation:**

Multilingual capabilities in countries like Costa Rica and Mexico drive requirements from the travel vertical, which require being cultural/language friendly to their customers.

## 10. More Regulations means More Business:

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Outsourcing in the past has rarely faced as many regulatory pressures as it does now. New regulations for payroll, security, financial reporting and compliance along with changed immigration rules have made the sourcing environment seem like a minefield. This has created a need for greater controls and visibility over outsourced programs resulting in a higher cost of doing business. However these changes also require additional support which is resulting in increased deal flow and new opportunities. Healthcare and BFSI sectors are the ones most impacted and expected to see increased deal activity in 2014.

### **Healthcare & Life Sciences:**

This sector is facing a tsunami of changes with Obamacare and other legislative and regulatory pressures. Many Healthcare firms are using this opportunity to revamp their IT, creating increased deal flow.

### **Banking and Financial Services:**

Market opportunity is being shaped by external regulators, with the Basel III global banking accord & Dodd-Frank Wall Street Reform, FAT-CA and Consumer Protection Act in the U.S. establishing new rules, standards and limits on how financial firms can operate.

## Final Word

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After years of hearing about Innovation and all too familiar slide-ware from providers, we are beginning to see some practical and measurable Innovation-linked deals. Whether it is the use of Technology to reduce head-count and improve processes or co-creation of new products/services to go to market, Innovation has never seemed so real. Providers are investing in Innovation and the results are evident in the market. Customers have also become more demanding and are making decisions not just on price and capabilities, but on the ability of the provider to leverage Innovation. Moreover, Innovation is being used as the primary lever to achieve IT and Business Transformation.

In sum, 2014 will be about new ways to outsource, new pricing models, new ways to manage deals, and a plethora of rich new services leading towards Services Transformation.



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Avasant drives customer value and superior outcomes through the use of proprietary tools and methodologies which have been refined over hundreds of sourcing transactions and transformation engagements. The combination of seasoned talent, customer-centric approach and industry experience provides our clients the right advice to thrive in a global economy.”