

Outsourcing 4.0: Domain, De-risking, And Digital in a Post-Corona World

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Calling the Covid-19 or coronavirus pandemic a crisis is an understatement. If anything, history teaches us that crises ultimately end, good times return, and often, the industry changes structurally—some times more, sometimes less. The last two crises of 2001 and 2008 turned out to be positive in the long run and changed the outsourcing industry. This PoV discusses how the outsourcing industry has evolved in the past and is expected to evolve in the post-corona world.

The outsourcing industry is facing its biggest challenge, with both supply and demand disrupted and the need for enterprises changing

In the earlier crises of 2001 and 2008, demand was disrupted for some time. In this crisis, even supply is disrupted and the need for enterprises is changing.

There are business and technology challenges amid a tightening budget on the demand side, whereas enterprises are facing demand challenges and real business or survival issues. They need partners who can help figure out survival strategies in the current environment and, later, thrive in the new normal.

On the technology side, even before the crisis began, it was evident that enterprises had to transform into technology companies, but budgets were proving to be a constraint. Thus, they were cutting technology spend on running the firm and investing money in changing it. That need to change has become imperative now. However, this need is coupled with uncertainty (to the extent of looming bankruptcy) in business and more budgetary constraints.

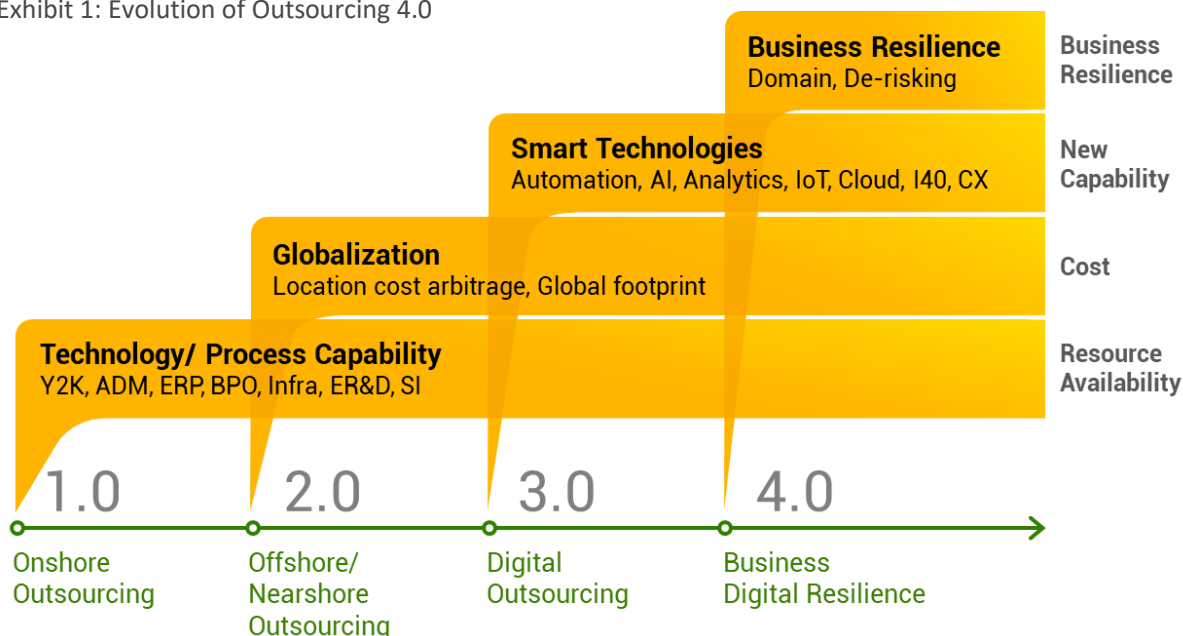
On the supply side, previously there was some disruption because of the tightening visa regime. Now it has gone further and enterprises are facing operation disruptions. They need partners who can manage this disruption across geographies.

Enterprises want to invest in technology but don't have the money or the line of sight to plan for it. They need partners who can solve their demand and survival issues, de-risk the business, make it digital savvy, and partner with them in a collaborative or risk-sharing model where they can co-invest even when they don't have the money or the line of sight.

Earlier, outsourcing waves were about resource availability, globalization, and digital, whereas now outsourcing 4.0 is about digital, domain, and de-risking

To anticipate the future, let's analyze the past by looking at earlier outsourcing waves and how each crisis has changed the industry. Three outsourcing waves and the contours of a possible fourth outsourcing wave are shown in the exhibit below.

Exhibit 1: Evolution of Outsourcing 4.0



Source: EIIRTrend

Outsourcing has been different in the various waves in the last few decades.

- **Outsourcing 1.0:** The first wave of outsourcing was all about technology resource availability onshore. The major winners were global firms who had an onshore presence. Offshore service providers joined the party and started sending people on visas, and also established delivery centers in different locations to provide labor arbitrage. Here, the driving factor was resource availability.
- **Outsourcing 2.0:** The next wave of outsourcing involved scaling up of global delivery centers in different offshore locations for labor arbitrage. Seeing the success of this model of offshore service providers, global service providers also augmented their delivery presence in offshore locations. Here, the driving factor was cost along with resource availability.
- **Outsourcing 3.0:** The third wave of outsourcing was digital. Advancement in technology and a decline in the price of computing power, connectivity, and storage disrupted many businesses. Each business became or tried to become a technology business, with the consumer at the center. There was a need for design, mobility, cloud, analytics, cybersecurity, IoT, artificial intelligence, and automation among others. The lead was taken by global service providers, after which offshore service providers joined the party. The driving factor here was new capability.

Incidentally, there is a link between previous post-crisis recoveries and these outsourcing waves.

Outsourcing 2.0 or the wave of globalization picked up after the 2001 crisis, and outsourcing 3.0 or the wave of digital picked up after the 2008 crisis. Other developments also supported these coincidences.

Now, in the post-corona world, outsourcing 4.0 is predicted to emerge. The earlier needs for resources, labor cost, and digital are still there. The need is further increased, especially for digital, along with the risks of demand and supply.

- **Outsourcing 4.0:** The next wave of outsourcing or outsourcing 4.0 will be a combination of digital, de-risking, and domain.
 - **Domain:** Solving business problems for enterprises such as increasing sales, reducing operating cost, reducing working capital, reducing inventory, avoiding bankruptcy, keeping the supply chain running, increasing product or service usage, improving customer experience, applying virtualization, etc.
 - **De-risking:** How can enterprise de-risk their operations financially and geographically? De-risking geographically by planning for business continuity in all critical locations. De-risking financially by working with different business models, converting capex to opex, linking to revenue and co-investment. It is helping enterprises de-risk their core business model as well their outsourcing engagements to survive the downturn and have the potential to have the upside after the crisis is over.

- **Digital:** Developing strong technology capabilities for enterprises by scaling and doubling down on digital technology initiatives. Businesses with a strong technology foundation will survive and thrive in the post-crisis period. Technology will be needed for both brownfield and greenfield operations. Many greenfield opportunities will arise when customers rethink their operations, processes, and supply chain globally. Greenfield operations will be designed with a technology-first approach, wherein outsourcing partners can help.

Bottomline: Outsourcing 4.0 is about making enterprises resilient by surviving first and thriving later with digital, domain, and de-risking

In Outsourcing 4.0, enterprises need help with developing different models.

- **Business Model:** Enterprises need help to make their businesses resilient by solving pressing business concerns. With domain and business expertise, service providers can help enterprises determine their business operating model and take decisions about markets, products, or services, functions or processes, pricing, manufacturing or operations, support or supply chain globally. No one can predict risks, but they can be smart enough to anticipate and plan and be agile enough to act according to the situation.
- **Operating Model:** The choice of service operating model needs to be made by balancing cost and risk with an optimum mix of in-house centers, onshore service providers, offshore service providers, work from home (WFH), virtual delivery centers, gig economy workers, subcontractors etc. and constantly optimized for evolving situations.
- **Commercial Model:** Enterprises need to choose commercial models which will help them de-risk and survive in the short term and thrive in the long term. A mix of revenue sharing, capex to opex, and other risk reward business models is needed in addition to regular time and material fixed price- or transaction-based models.
- **Geographical Model:** The optimum geographical model is required such that operations do not suffer from single location challenges and are not dependent on floating employees from different locations. Now, with WFH success, even smaller cities can be in the mix. For resilience, some operations in critical cities need to be increased.
- **Technology Model:** The technology stack of enterprises across front, middle, and back office need to be reimaged and made agile like a technology-first or digital native business. Service providers can help enterprises implement the digital stack in alignment with their business, operating model, commercial model, and geographical model. They can also help enterprises generate superior returns on their digital investments.

Most service providers have invested in digital. It is time to double down on digital and think of domain and de-risking. Weren't service providers always saying that they wanted to do revenue-sharing deals, but clients wouldn't agree? Now, there is a good chance that a travel firm or an oil and gas firm will do it. But the question is: are service providers willing to do it? Ignore or dare, outsourcing 4.0 is here.

About the Author

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Pareekh Jain is Founder and Lead Analyst of EIIRTrend and Pareekh Consulting.

EIIRTrend.com is a neutral platform to discover emerging engineering, IoT, Industry 4.0 and R&D (EIIR) trends across 12 industry verticals. Pareekh Consulting is a focused analyst and advisory firm for EIIR.

A seasoned EIIR professional, Pareekh has seen the EIIR industry from four perspectives: service provider, sourcing advisor, enterprise buyer, and industry analyst.

He is regularly quoted in the media on engineering services, IoT, and outsourcing trends, including Harvard Business Review (HBR), NDTV, Times of India, Economic Times, Business Standard, Hindu, Business Line, Livemint, Financial Express, Rediff, Voice of America, and Business Insider.

Pareekh is a thought leader, having authored various publications on topics related to EIIR outsourcing. He loves business fiction writing in his free time, and has authored a novel, Who Is That Lady?

Pareekh received his MBA from the Indian Institute of Management (IIM), Bangalore and his Bachelor of Technology degree from the Indian Institute of Technology (IIT) Delhi.

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