



Cloud Enabled "Smart Business Services" for Digital Natives

Business outsourcing - an economic outlook to delegating the non-core functions of an organization is a rather traditional and limiting approach to the rising opportunities in this industry. In the digital world of being "Smart" - "Smart" Business Outsourcing is an extension that provides renewed offerings with the momentum to re-imagine partnerships and revolutionize business models by leveraging cloud-led transformation. This form of outsourcing is a game-changer for Digital Natives and a chance to explore a distinct competitive advantage.

by Rahul Shah, SVP and Business Head - JAPAC



The world is witnessing a decade of disruption by startups, or digital natives, as they are called. In India, for instance, only one unicorn was added till the financial year of 2016-17. However, in the last few years, with a staggering 66% growth YoY, India harbored 107 unicorns as of September 2022. This growth was also visible in the Southeast Asia market, with the economic surge in 2021 seeing a growth of 25% in the total number of unicorns.

Digital natives have been prolific buyers of the cloud, and rightly so; since they are born on the cloud, they do not have a legacy technology debt to address and need infrastructure flexibility, scalability and global reach should they decide to expand. Most of them have technology platforms as their core, so engineering is one of their core strengths. However, the same cannot be said for business processes. HR, finance, planning, budgeting, forecasting, onboarding, procurement, accounting, contracting, and legal research are some areas where digital natives might have built capabilities and strengths. They have yet to partner with those given that they prefer to evolve and do many of these in a truly digital way, iterative, learning or failing fast and digitally.

The current perception of process outsourcing means having large swathes of teams manage high volumes of steady-state transactions (invoices, outbound/inbound calls, order processing) and applying levers of location strategy, AI & Automation, team structuring,

standardization. The focus on cost takeout does not lend itself to easy adoption by digital natives.

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However, the current imperative of cost optimization is an excellent opportunity for digital natives to explore "Smart business services." These services will offer them scalability, flexibility, global reach, and, most importantly, a manifold cost-takeout and experience uplift compared to their technology spend optimization efforts. Let us understand how.

Exponential growth leads to a critical imperative of scalability that can be addressed through outsourcing. Strategic Outsourcing can address many other facets apart from scalability; for instance, best practices can be brought in, technology-led transformation can be enabled, hard-to-find skills, including vernacular capabilities to facilitate expansion in hitherto uncharted segments, can be done, and omnichannel experience can be enhanced. A real-life incident of a renowned ed-tech company emphasizes the importance of balancing all

business processes. While the experience of teachers, content, and pedagogy was of good quality, customer service & billing were far from frictionless. It led to revenue leakage for them, poor customer experience for us and a general lack of trust. If they had built an outsourcing partnership, they could have leaned on their partner to scale up and bring in the best practices. Most importantly, the company could have identified specific patterns, and the outsourcing partner could have built cloud-enabled digital solutions. These technology extensions could have been woven into their core platform, creating further differentiation.

Let us now explore the "how" of outsourcing. Effective outsourcing requires four key pillars to come together – **a well-defined structure, proper contracting and relationship management, an efficient operating model and a flexible mindset.**

To practically put the four key pillars to use, let's hypothetically use an example of a digital native providing financial services to MSMEs. Their core proposition is a differentiated digital platform that creates a 360-degree view of

an MSME to sell and manage various financial products while managing the risks through comprehensive asset, business and banking information. This requires multiple functions, such as competitive research, customer research, lead generation, marketing and campaign management, MSME onboarding, distribution channel enablement and management, including incentive payouts, invoicing/billing, collections and contracting, legal, finance, HR and procurement processes. Each of these processes is critical to the business.

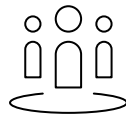
For example, if the onboarding experience is not smooth after customer acquisition, there is a loss of loyalty, a higher dropout ratio and delays in revenue generation. If contracting is not done correctly, there are legal implications. If distributors are not managed well, they will be prone to be weaned away by competition. These processes simultaneously contribute to the business's success even though it is not their core value proposition. Hidden costs are trapped in each process, and there can be experience ramifications.

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Here's how an outsourcing partner can step up.



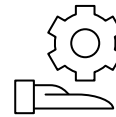
The first pillar of effective outsourcing is a well-defined structure.



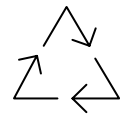
Dedicated "lighthouse" team



Helps bring in best practices



Establishes the operating model



"Transforming" the process.

The first pillar of effective outsourcing is a well-defined structure. All stakeholders involved need to reorganize their teams. Having a dedicated "lighthouse" team in place is a start. The partner can establish the "lighthouse" team. This team understands the business value chain and process requirements, helps bring in best practices, puts an MVP team together, runs the few pilot transactions, establishes the operating model and then transfers it perhaps to a shared team that might be running the same process for a few non-competing customers. The same lighthouse team is also responsible for "transforming" the process. For example, MSME onboarding can be digitized; teams can create digital channels; personalization can

be done, and they can leverage APIs to collect publicly available information.

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One particular instance had merchant onboarding reduced from 50 days to less than 5 minutes by re-imagining - APIs, digitization, AI and mobility - all done on the cloud. Outsourcing partners should create capabilities and models around lighthouses with a few dedicated services like research, lead generation, contract management, and customer onboarding, to name a few.

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The second pillar of effective outsourcing is Proper contracting and relationship management; they must be inevitably different. Contracting needs to keep in mind the dynamic nature of the transactions and should be highly agile, using a combination of T&M (time and material), transaction-based or fixed price and finally, a reward mechanism based on the impact created. In continuation with the example mentioned above, there are a few lighthouse members who can be paid on a T&M basis; shared services support can be paid on a fixed price or transaction-based model and; a reward can be paid based on the cost takeout, client satisfaction upliftment and process efficiencies generated.

The partnership model should not be fragmented across too many partners either. RFPs will lead to inefficient use of time, and procurement teams should be aligned with the core purpose of deriving business value rather than just focusing on costs. A study by BCG highlights the importance of being selective about partnerships. It shows that, on average, companies work with as many as five service providers. However, developing deeper relationships with fewer partners

is preferred. Having one partner who can handhold the complete journey from strategy to implementation to management is the best strategy. This arrangement's prices and pricing model cannot be and should not be compared with large-scale traditional outsourcing. Instead, it should be compared with the consulting approach - as trust, transformation, flexibility and agility are the cornerstones of these relationships.

Thirdly, an efficient operating model is the foundation of modern-day service providers. Strong governance should enable continuous dialogue between the partner and the LOB owners. Teams should detail frequency and metrics for delivery reviews, define critical milestones across the life-cycle of a process being outsourced and make transparent disclosures of the business ambitions in the next year. Additionally, a clear framework highlighting the number of resources, flex required, the flow of work and other details needs to be clearly defined.

A suggestion is to have 20% more capacity than required in the initial stages of the relationship. This set of dedicated personnel needs to be

on the same wavelength. The partner and the internal team need to develop a "product" mindset that defines its scope of work not project-wise but cohesively works to activate the long-term desirability-feasibility-viability and continuously prioritize in the interest of the end customer and the business.

Last but not least, the founders and key LOB heads need to embrace outsourcing as a critical strategy - a mindset flexible enough to see outsourcing as a long-term strategic partnership that carries out more than just transactional functions. Typically (and rightfully so), the senior leadership wants to have a close watch on all the processes of the business. Developing a level of mutual comfort and trust with the partner sets the tone for the nature of the partnership.

The relationship can kick-start with a few days of a workshop where all the key processes are discussed and prioritized, and the early focus areas are identified. Prioritization dimensions can be many and can change over a period of time. For instance, during the growth phase, the criteria can be scalability & experience; during the consolidation phase, it can be scale and cost; and during the differentiation stage, it can be tech-led transformation potential. Cross-disciplinary teams are set up, governance established, and a vision defined and redefined as necessary.

Finally, businesses can leverage the cloud to

modernize many of these processes. Dedicated squads can be set up that work closely with the outsourcing teams and leverage their intimate process knowledge to build cloud-based extensions and automation rapidly.

We believe there is an excellent opportunity for digital natives to leverage outsourcing and transform beyond the core. It provides them with early access to structured business management capabilities with the potential for colossal scalability. Combined with the entrepreneurial culture, this will be the way to build disruptive, flexible and sustainable business models. VC firms, private equity firms and investors in all forms also have a conscious role in encouraging the founders of their investee firms to leverage outsourcing. In 2021, almost half of all the companies BCG surveyed said they would outsource more work than they would do internally.

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Rahul Shah is an alumni of two of most prestigious universities of India - IIT and IIM-A. He has had 25+ years of experience and works as a business head for the Searce JAPAC region. He has led design and technology led transformation initiatives for a couple of decades across some of the largest GSIs. Rahul has worked on multiple multi-million dollar digital transformation engagements across Asia Pacific, Middle East & Africa leading digital, legal, business process transformation initiatives.

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