

View Point



The Roadmap to Modular Global Sourcing

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In today's global economy, businesses are under constant pressure to manage operational efficiency and control costs. But in order to deliver breakthrough results, they also need to maintain a strategic focus on innovation.

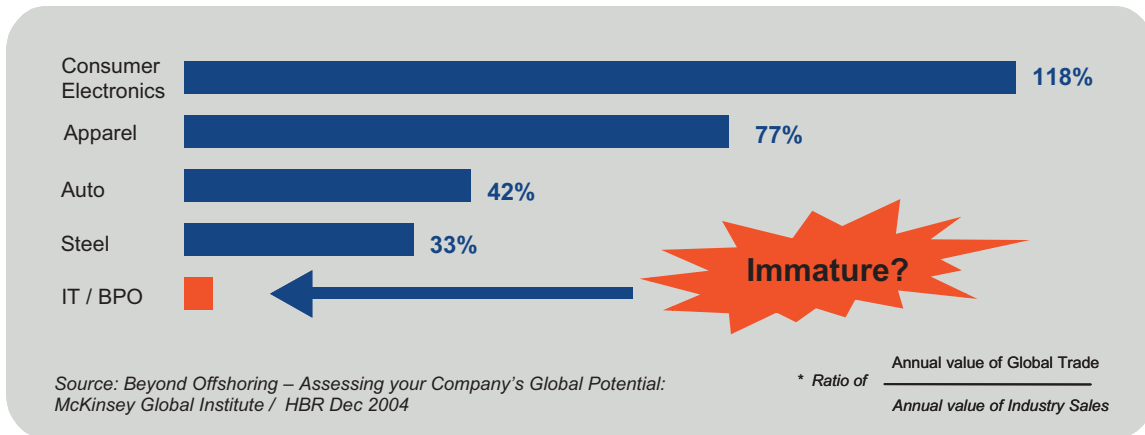
Information Technology (IT) has been a great enabler for businesses to improve operational efficiency and drive down transaction costs. However, traditional IT outsourcing models have focused mainly on cutting costs and fallen short on the current imperatives of business alignment and innovation.

Global sourcing has played a critical role in driving design and manufacturing innovation for industries such as Automotive, Apparel and Consumer Electronics. Clearly, the level of global sourcing maturity in IT and business process services is not the same as in their manufacturing counterparts. Hence, it is worth examining how some of the best practices from relevant industries and functions can be applied to IT and business process Services.

This paper outlines Infosys' point of view on the subject, as part of the development of a new approach – Modular Global Sourcing.

Globalization and Sourcing Maturity by Industry

One of the key features of global sourcing maturity in manufacturing has been the modularization or disaggregation of components and production processes. This has enabled companies to outsource more effectively and achieve greater benefits using global supplier networks. A recent McKinsey Global Institute/ Harvard Business Review study points out that the industries at the highest globalization levels are characterized by *disaggregated value chains* and *distributed global sourcing*. These industries — in particular, the Consumer Electronics and Apparel sectors — have achieved higher sourcing maturity, as far as their approach to manufacturing is concerned. In contrast, the globalization of IT/BPO and Product Engineering is in its infancy. Their value chains are not disaggregated. In fact, they are not even well defined.

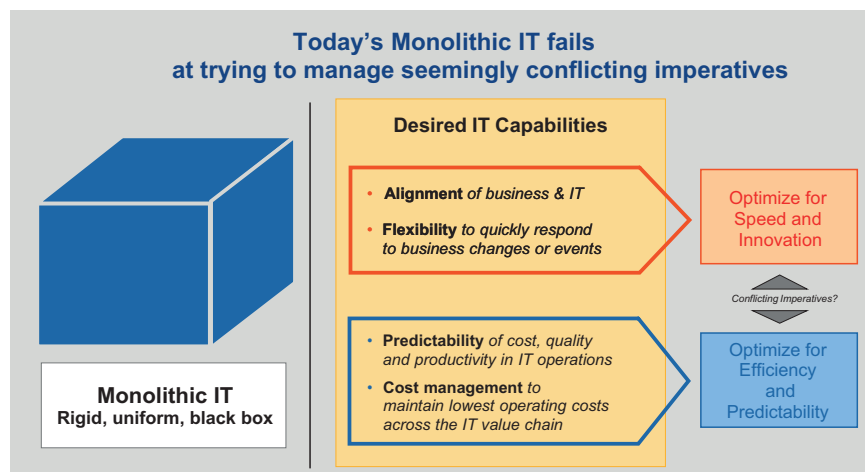


Faced with a host of such challenges, enterprises are demanding a new improved model for services sourcing. A model that builds on the lessons learnt from other industries and applies them to IT and Business Process Operations. This would involve leveraging the principles of *Modularity* (Disaggregation of Value Chains) and *Global Sourcing* that have been so successfully applied in industries that have higher sourcing maturity.

Infosys created the *Modular Global Sourcing* (MGS) model to enable companies better align their sourcing activities with business strategy, deliver innovation and achieve operational efficiency. It applies the concept of modularization to sourcing services, business processes, program implementation and management.

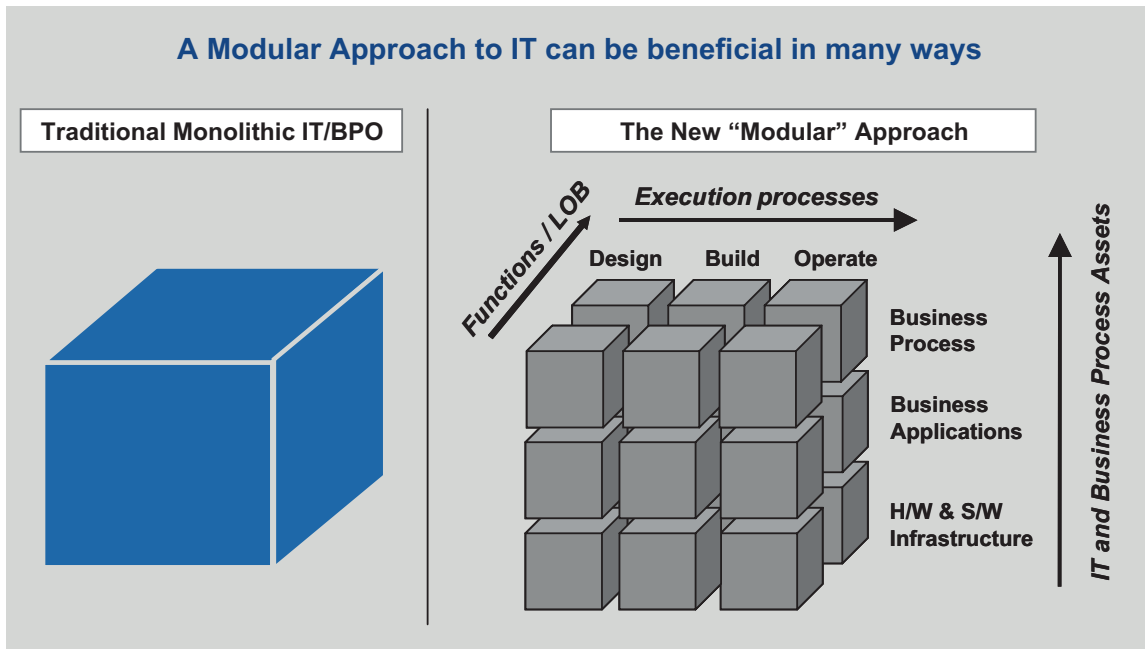
The Modular Global Sourcing Concept

The traditional IT sourcing models operate within narrowly defined activity-based structures and geographic/organizational boundaries that are best suited to delivering operational efficiencies. In today's global economy organizations are looking for more in terms of business alignment, flexibility and predictability -- the key enablers of business innovation. These capabilities can be categorized into two sets of imperatives. One – to Optimize for Speed and Innovation. Two – to Optimize for Efficiency and Predictability.



However, these objectives seem to be very different; perhaps even conflicting with each other. Can one actually optimize the same entity for two different things? It is perhaps like asking an athlete to be a sprinter and a marathon runner, or a retailer to be a Neiman Marcus and a Wal- Mart at the same time! Therein lies a big problem.

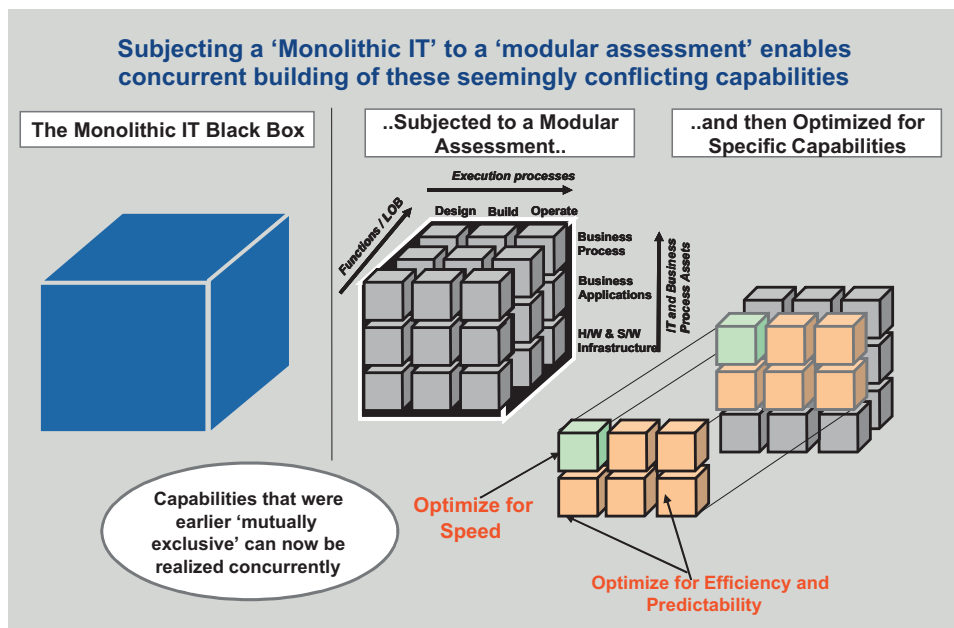
The concept of Modularity holds a lot of promise in solving this problem. Modularization in a strategic sourcing context involves deconstructing complex business processes, supporting IT applications/infrastructure and their execution phases (i.e. innovate, design, develop, maintain). This enables an organization to optimize different 'modules' and tune them to distinct business imperatives.



Simply put, modules are sliced along a three dimensional grid:

1. by the enterprise estate "stack" (Business processes / IT apps / underlying infrastructure),
2. by its lifecycle or execution processes - Design, Build, Operate and
3. (most importantly, by its key functions or lines of businesses

Each of these 'modules' can then be optimized for desired capabilities.



For instance, in the case of an Order Management function, one could optimize the business process design for speed. As new products come on board and new customers sign on, the order management function must speedily bring about these changes.

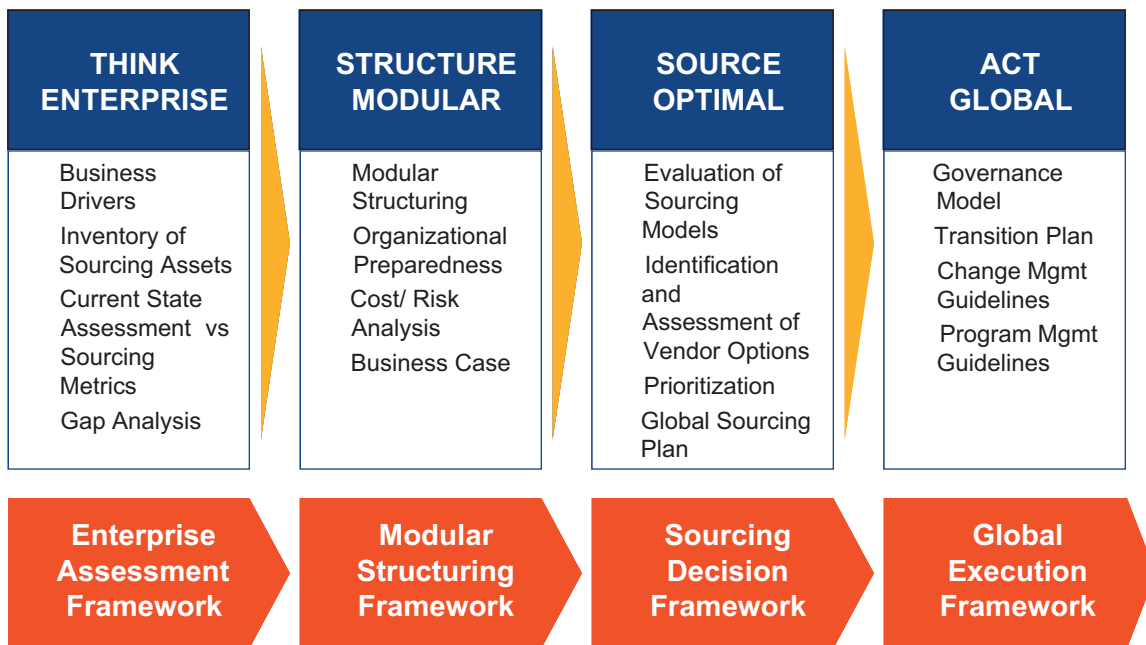
The rest of the business process and application layer - order processing, fulfillment and delivery to customer - can be optimized for predictability of cost and quality.

The metrics becomes aligned to business value - cost per order, service levels, error rates customer satisfaction and so on.

Modular Global Sourcing: A Set of Actionable Frameworks

MGS is designed to help enterprises at different levels of sourcing maturity realize the full benefits of global sourcing. MGS also provides a conceptual foundation and a **set of actionable frameworks** for business and IT leaders to:

- **Think** about outsourcing services at an **enterprise-wide** level to create **alignment** between businesses, operations and IT
- **Structure** businesses and IT assets and their execution phases into a well-defined modular fashion to achieve *flexibility*
- Determine **optimal sourcing** strategies - resource utilization models (in house, services vendors, contractors) and location decisions (onshore, near-shore, offshore)
- **Act** on a **global** level using global delivery to ensure *predictability* of cost, quality, and risk to meet shared business objectives.

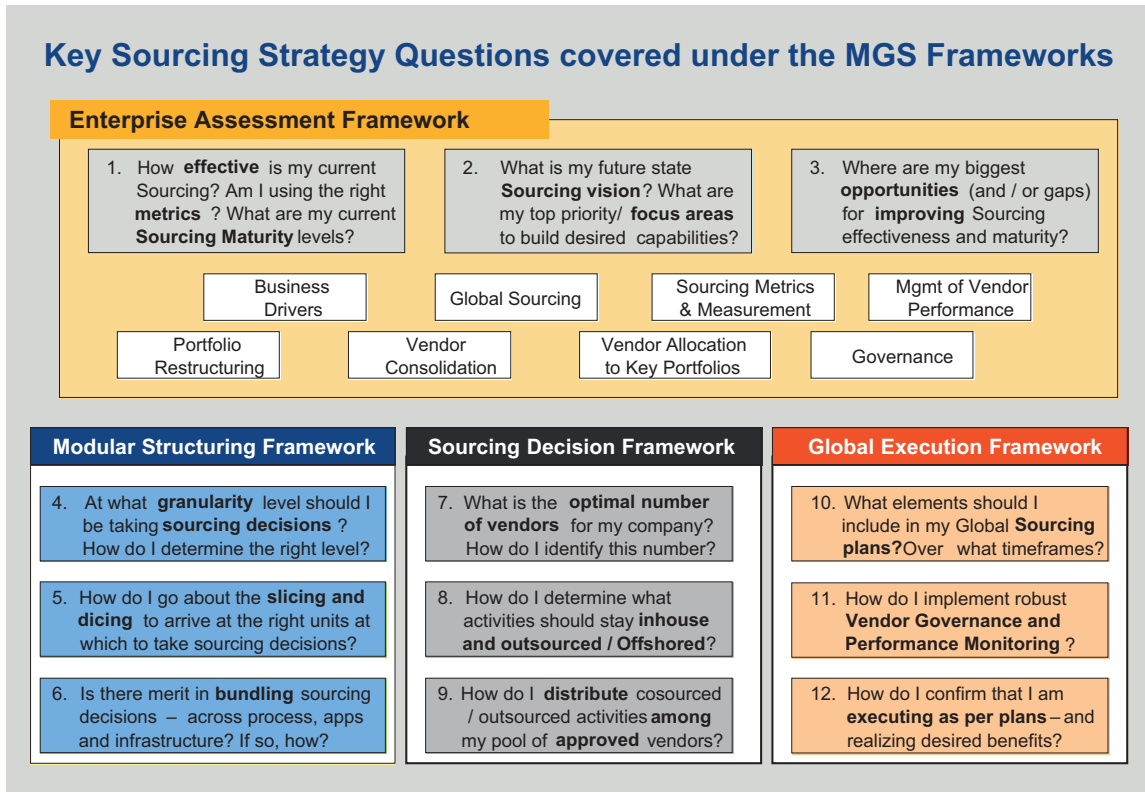


The **Enterprise Assessment Framework** is the ‘umbrella’ framework that identifies the organization’s key business drivers and objectives for the Global Sourcing Program. A future vision is developed along with a set of measurement metrics to enable senior executives gauge the success of the Global Sourcing Program. The sourcing effectiveness assessment provides insights into key sourcing opportunities, desired capabilities and key risks, which in turn are mapped to create a high-level Sourcing Strategy with appropriate cost, risk and reward trade-offs.

The other three frameworks provide the rigor and detailed analysis required to validate the hypotheses and assumptions of the high-level Sourcing Strategy. Based on Sourcing drivers and objectives, the **Modular Structuring Framework** identifies and evaluates appropriate modules.

The **Sourcing Decision Framework** is used to make sourcing decisions that maximize the value derived by the organization while minimizing risk.

The results of these evaluations are fed back into the high-level Sourcing Strategy to create a detailed roadmap and execution plan that addresses the organization's readiness to undertake such a Global Sourcing Program. The roadmap is supported with governance mechanisms and transition plans in order to ensure smooth implementation of the envisioned objectives, while providing a mechanism to effectively monitor progress. These are elements of the [Global Execution Framework](#).



These frameworks are structured for flexibility of approach depending on client needs and situation. The MGS methodology is executed in a collaborative environment with inputs from key stakeholders while ensuring buy-in from senior executives.

Through the four frameworks, MGS covers wide ground and addresses key questions to provide organizations with a robust Sourcing Strategy. It also emphasizes the point that modularity and disaggregation of the IT process/value chain precedes all sourcing, ownership and geography decisions.

Benefits of Modular Global Sourcing:

MGS provides benefits for the organization by:

- Ensuring predictability of costs, risks, quality, skills, deliverables and meeting of shared business objectives
- Combining strategic focus with optimized operational efficiencies around lower and variable costs, higher quality and productivity
- Enabling business innovation and helping drive competitive advantage
- Accelerating results to faster sourcing maturity
- Helping enterprises evolve beyond current outsourcing approaches and achieve what truly matters: blend of strategic, innovation and operational focus

Conclusion

MGS represents Infosys' vision for the future of outsourcing, a conceptual shift in thinking about IT and business process servicing on a global scale. It defines a set of actionable frameworks and steps that business and IT decision makers can undertake to put these concepts into practice to realize operational efficiencies and enable business innovation, regardless of their current levels of sourcing maturity.

The emphasis of MGS is not only on how and where to outsource, but also on the importance of why and what to outsource and to whom. The driving principle is a proactive focus to embrace change without the constraints of locked-in, long-term contracts. Customized to the needs of the enterprise and executed properly, MGS accelerates the results of global sourcing, builds sourcing maturity – to deliver predictability along with better alignment between business and IT.

About the Authors

Suketu Patel has over 25 years of experience in Information Systems. As Head of Strategic Global Sourcing at Infosys, he leads the unit that specializes in dealing with the complexities of large global offshore outsourcing. This includes sourcing model development, market positioning, transition management and actual delivery of outsourced solutions. Prior to Infosys, as Vice President of Information Systems at TRW Automotive, he developed and championed the e-business strategy focusing on operational efficiency, supply chain effectiveness, and new product introduction while implementing a strategy to reduce ongoing costs via offshore outsourcing. Suketu holds a Bachelor's Degree in Computer Engineering from the University of Michigan, and has served on the boards of several organizations. He can be reached at Suketu_Patel@infosys.com

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