

# The shifting sourcing paradigm in a post-Covid-19 world

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In the new business paradigm in a post-Covid-19 world, organizations are adopting a pragmatic approach to sourcing and vendor consolidation. In this new normal, an increased need for velocity and innovation is driving a holistic, value-driven approach to sourcing that considers the business impact and intrinsic risk. Organizations seeking to improve time to value, reduce risk, optimize cost and foster a more collaborative culture across various hubs around the globe, should rethink their pre-pandemic sourcing strategies.

## Insourcing or outsourcing?

A good sourcing strategy should start with an assessment of the core competencies that business and IT would need to deliver the expected business value. Organizations should begin by defining the skills they need to retain in-house to remain competitive. Such as skills that are critical for accelerating speed-to-market and driving innovation. At the same time, they also need to define the skills that are needed to support operations with less frequent change, with little IP creation, and with an increased focus on cost and efficiency.

For example, organizations may need, at a minimum, a strong architecture function that is grounded by engineering or leadership capabilities. This means they will need to ensure that business and IT system skills are either retained in-house or possibly leveraged in a captive organization. They will also need to ensure that other competencies such as data and analytics capabilities as well as core system customization skills are retained, built or co-built. But repeatable, low-value tasks with a high potential for standardization and automation can be outsourced.

Both insourcing and outsourcing have their merits. Figuring out the best option for an organization is what is key. We have found that constrained by compliance requirements and risks associated with data and operations, there are five common dimensions, namely innovation, flexibility, alignment to business objectives, need for future growth and profitability according to which an organization can evaluate sourcing decisions. Each organization is unique when it comes to finding the right balance between insourcing and outsourcing; a smart sourcing framework (as shown in the figure) can help organizations establish the strategy best suited for their needs and determine the appropriate roadmap by providing a three-dimensional view of sourcing (insourcing, co-sourcing, outsourcing), shoring (local, nearshore, offshore) and capability building (build, buy, leverage) options.

## Global supplier consolidation

While organizations rebalance their sourcing strategies, they are also increasing the pace of supplier consolidation. Today, there is a push to simplify the supplier footprint across an organization, but not by fully consolidating to a single vendor. Besides the obvious risk of relying on a single vendor, over-consolidating reduces access to niche and varied talent, skills and mindsets, inhibits cross-pollination of ideas, and prevents

cost competition.

Leveraging two or three strategic partners can foster more partnerships, open innovative commercial constructs (such as a joint venture or an alliance) and simplify the contract management landscape (whether it's procurement, mergers and acquisitions, engagement models, or SLAs). All while benefitting from economies of scale, accelerated team setup, continuous talent sourcing and improved quality assurance. Consolidating globally limits cultural misunderstandings and misalignments, potentially inconsistent engagement levels, and non-standardized ways of working across suppliers. For example, IBM is structured to foster one way of working across all its organization teams.

Though strategic vendors generally compete for work, it is possible to foster collaboration by having a transparent sourcing strategy, conducting joint governance sessions, adopting agile ways of working and standardizing engagement models across teams. Governance and transparency become even more critical as control shifts to vendors—and their subcontractors—with increasing reliance on them for core services.

In addition, client-outsourcer relationships are evolving rapidly given the need to move more rapidly and fill the gaps in talent capability. Shared risk models like joint ventures or alliances have become common practices with different commercial terms. Though consolidation can become a “fait accompli” as part of a transformational joint venture, client-specific capabilities can be built and embedded in the partnership in a few different ways: build-operate-transfer, co-creation/co-execution/virtual captive (Garage methodology), formal training/on-the-job coaching, or support to workforce strategy and engagement (hiring, training or retention).

Regardless of where an organization is on its sourcing journey, having a clear idea of its value drivers and understanding how its sourcing strategy will align with its business and transformation strategies can help it make the right sourcing decisions. If the current pandemic has taught us anything, it is that it's more important than ever to have a clear, simple and sustainable strategy to ensure enterprise resiliency. And indeed, it was the companies that had a robust strategy in place that were able to shift sourcing models based on re-prioritized imperatives and address the needs of various stakeholders including members, brokers and employees.

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