



Newsletter Article

March, 2017

A GOOD TIME TO WHAT-IF YOUR GLOBAL SOURCING STRATEGY?

By Rajiv Goyal and Bob Olson

ABOUT THE AUTHORS

Rajiv Goyal is Executive Vice President and co-founder and **Bob Olson** is senior vice president, financial services, for ThoughtFocus, the New York-based consulting, software engineering and business process management firm.

Email: rajiv@thoughtfocus.com
bob.olson@thoughtfocus.com



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Introduction

With global sourcing a contentious topic in political circles, U.S. bank executives are asking: *What's in store for our sourcing initiatives?*

Current rhetoric notwithstanding, global sourcing options remain vital for financial services. Developing countries are flooding their own job market with educated, ambitious but underemployed citizens. Domestic demand for many IT skills far exceeds U.S. supply. Technology advances facilitate the sharing of work across oceans and borders and make the work safer and more secure. All this while taxes, laws, and regulations drive up costs in highly developed countries such as the U.S.

With those trends holding steady for decades, it's important not to read too much into any new portents, but be poised for whatever change actually happens. Three observations to date:

The more nuanced and flexible your sourcing strategy, the better your results under any circumstances.

If you look at the sourcing model of most large organizations, you don't find a binary predilection in favor of or against offshoring. Instead they cultivate a "multi-shoring" strategy – for example, their "corest" work based firmly in the U.S., their manufacturing in Vietnam, some high-skilled white collar work in India, and so on.

The nimblest among them keep their choice fluid. In a globalized world where they are vulnerable to changes in regimes, taxes, laws, and enforcement, they stay poised to alter the plan when circumstances alter the business case – including reshoring work back to the U.S. Many favor arrangements that allow them to scale up or down quickly as work volumes change, without incurring penalties or delay.

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Source: J.D. Power Retail Banking Study

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As you plan your innovations, be aware that skill shortages can complicate your execution.

Some of today's rhetoric tends to conflate two very different challenges: high blue-collar unemployment and severe white-collar skill shortages. When manufacturers leave the U.S., blue collar workers can be left jobless. Not so for the lion's share of financial firms whose offshoring strategies increasingly allow them to grow their core business at home while also creating net new jobs overseas.

The U.S. is simply not producing enough scientists, software developers, engineers to meet the exploding needs of digitization, robotics, data analytics, mobility, cybersecurity, and other new disciplines.

Not even the most vocal offshoring critic seeks to reverse healthy, logical business trends of decades.

The arc of human work progress over the ages is one of outsourcing – sometimes in the innocuous guise of industrialization or specialization. Industrialization couldn't have happened if people had not been able to outsource the raising of their food to an ever more efficient agricultural industry. All professions increasingly specialize in ever narrower fields. A doctor might specialize in just the hand, not the arm – and outsource the patient's bloodwork down the hall, his prescriptions across town, and his MRI to India. When the educated and capable find specialists who can do something better and free them up to focus on their specialty, all parties prosper, and no one considers it exploitation.

Who seriously expects that the logic of the ages will suddenly and arbitrarily be suspended, especially considering the top-drawer business leaders of the President's Strategic and Policy Forum. These heads of leading companies like Disney, Blackstone, General Motors, JPMorgan Chase, Wal-Mart, Boeing, and more, have more in common than business success, leadership chops, and patriotic readiness to serve. Almost all represent globalized companies with successful global sourcing strategies for their thriving, companies.

Each of these executives has two simultaneous obligations that they can be counted on to take seriously: advising the new administration on business strategy and policy, and figuring out how their own companies will carry out any new policies or regulations. They value their American workers, their American buyers, and their reputations at the same time that they value the shareholder value that can be delivered via global outsourcing strategies. They further understand that the point is not to artificially recreate yesterday's low-skilled jobs but to empower a strong economy that produces new jobs the future demands, a goal not furthered by restricting global companies from pursuing healthy global sourcing strategies.

So as you assess your sourcing strategies, consider creating what-if scenarios for various new possibilities. While many may never come to pass, what-if exercises are almost always clarifying in unexpected ways:

- How flexible vs. locked-in are your current sourcing arrangements? Are you able to shift work locations or scale up or down without undue delay?
- How exposed are your sourcing business cases to tax and regulatory change in the U.S.?
- Does your sourcing strategy enable you to focus on your core business, not just perform at lower cost?
- What global sourcing best practices can be gleaned from the companies led by the business executives who are advising the administration?

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