



Outsourcing in  
an information  
economy

**D**ata is the new oil – is an oft used phrase to drive digital initiatives and investments in an enterprise. The entire digital transformation in fact appears to be revolving around gathering, processing and harnessing data, at every place, stage and function. Data appears to be the key ingredient to the smooth functionality of everything from the government to local companies and any industrial sector – mining, manufacturing, logistics or retail. Without it, progress would halt. In fact, data and information are in many cases end products themselves. E.g. Google Maps.

### **Evolution of data supply chain, and emerging needs for outsourcing**

Data Logistics, Data Warehouse and Data Carry and Forward (C&F) agency services may soon become a specialised industry on its own. No wonder then the big new age companies are investing heavily into connectivity infrastructure and huge network of datacentres, which are data warehouses in real sense. Curie cable, the Havfrue cable and HK-G cable will all come online in 2019. The Google network has over 100 points of presence and over 7,500 edge caching nodes.

Outsourcing is nothing new to big companies. For example, mining companies lease trucks and rail freight, and most oil companies outsource drilling. EDP (electronic data processing) departments grew into IT infrastructure services, and slowly got standardised and then outsourced.

However, companies have always retained their core higher-value functions, such as exploration and operations, as their scale has enabled them to develop world-class capabilities in-house. Similarly, other manufacturing and consumer goods industries retained the core-design and development work while outsourcing manufacturing, IT, security and facilities management. For banks, primarily concerned with information storage, retention and exchange interplayed with the risk management, IT services were considered family silver, and hence traditionally they invested heavily in building in-house capability. They couldn't afford to give away the secret recipes and create an unhealthy dependency, while delivering short term efficiency gains.





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But with time, technology is breaking the traditional value chain. Companies are slowly realizing that they enjoy a competitive advantage in far fewer functions. Eventually, they might be able to outsource entire stages of the value chain. However, companies will ensure that they capture the short-term gains that outsourcing can deliver in a way that does not limit their future strategic options. IT services being core to the information, the companies will surely try to revisit erstwhile outsourcing contracts. They will start guarding against outsourcing arrangements or partnerships that prevent them from adopting new technologies or contracting. And as information and data analytics become their digital trade secret, they may actually look towards reducing IT outsourcing.

### **Cloud service providers - the new C&F agents and factories-on-hire**

Technology is the driver of success in this digital age. Most of the new plant and machinery investments are actually going towards building huge compute and electronic storage capabilities. And with smartness quotient increasing in every equipment, companies are burdened with maintaining an army of digital technicians to just run and maintain this new machinery.

However, emergence of cloud and software-as-a-service landscape has made it easy for them now. Companies no longer need large in-house or traditionally outsourced technology management skills. With server-less technologies, API economy, functions-as-a-service options, and out of the box automations and integrations, personnel can now assemble their own solutions with little or no upfront investments or run-and-maintain costs.

With Machine Learning and AI being delivered on demand (even in consumer toys) that can automate most of the routine system and application maintenance tasks, customers can focus on bringing or retaining their core in-house jewels. These were the typical run and maintain tasks for infrastructure and application platforms that traditional IT services companies excelled in providing skilled technical resources for, at scale. Traditional outsourcing was about labour-cost arbitrage, economies of scale of shared resources, and a nurtured skill pool of technicians. But with agility and faster GTM taking priority, enabled by efficient and evergreen SaaS, PaaS and IaaS solutions delivered from the cloud above, traditional outsourcing firms may soon face an existential crisis.

## So, what does it mean to a traditional services company to remain relevant for the emerging outsourcing needs of their customers?

In a data-rich world, suppliers have one distinct advantage – whether data has been harvested and curated properly and broken into right “byte-sizes” for easy consumption.

To consider the digital paradigm at work, consider a global supplier of electricity, who has to maintain huge turbines for power generation. Now, the manufacturer of turbines or a specialist maintenance company probably already has more data on their performance than even the largest of energy companies and so could, potentially, maintain the turbines better. It might make sense, therefore, for energy and utilities customers to outsource the supply and maintenance of turbines rather than buy and maintain them in-house. In the minerals industry, some companies already employ external technology specialists to track and improve productivity in their processing plants using Internet of Things. Some of these specialists then aggregate the data they collect from many different companies. The result could be a burgeoning new business—a platform with vast libraries of data and algorithms which customers can buy access to. As with the turbine manufacturer and maintenance provider, the insights that a platform operator would be able to deliver using this data could be far greater than those any single company could hope to uncover on its own.

## When information becomes a key ingredient of every product supply chain, service providers can become a supplier of curated information

Data and analytics is a core value where service suppliers have an advantage over customers. The core value of the supplier may no longer be the skilled labour, but the performance data that needs years to collate and accessible only to the suppliers. Even best of the analytics engines can only work magic when it can feed on huge amount of quality data. Supplier companies will also need to invest and develop their own

data-logistics to deliver the analytics on demand that are relevant to the customer. For example, the operations of a steam boiler could be optimized in weeks by comparing its performance data against the supplier’s much bigger proprietary database. Procurement costs could be rapidly reduced by a specialist with automated clean-sheet models that reveal with ease the real cost of a service or product and any room for price negotiations.

To become successful service suppliers in the new digital economy, service companies may have to grow by acquiring data (or companies with data) and investing in the logistical solutions that can supply the required data and analytics at the speed of light, on-demand.

So, when data is the new oil, the supplier with the largest reserves of information and most innovative curated bytes will be the winner.

Questions to ponder upon:

The ERP systems of today are built to manage the information about raw material and assembled product flow (and payments cash-flow in reverse direction) at each stage through the value addition chain. But are they really tuned to handle an Enterprise 4.0+ where data is the raw material as well as the finished product and paid by crypto-currencies transfers at each stage? Is there a possibility that ERP systems in a data-centric industry 5.0 integrate and become the actual manufacturing systems too?

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## About the author

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