

How global uncertainty drives business, commercial and pricing models

written by Rajesh R N

With rising global uncertainties, fueled by the recession of 2008, came new operating and business models including cloud computing. Business Processing Outsourcing (BPO) came in much earlier to that, perhaps due to the previous recession and evolution of technology.

The traditional model of customers having to bear huge upfront cost for implementing largescale transformation programs and subsequent operating costs over time, became the not so preferred model. The need for elasticity and opex based models gained further momentum. Thus, the conversion of capex based pricing into opex based pricing could be one theme for large service providers who have the financial ability to do this. Upfront costs must be recovered over time on a certain basis such as a per Virtual Machine or per transaction with the cost of capital built into it, to successfully deliver and reap the benefits of being a true transformation partner. Taking this further, a catalog based pricing with options to mix and match offerings is another within this. On top of this simulating across different volumes of transactions or other unit of measurement such as Virtual Machines meant a nightmare for the pricing modelers as well as procurement departments of the customers who need to look into the future and guesstimate the demand to support the service providers in building a model and quote. All this has given rise to something very interesting for the customer. Equally on the other side, customers need to provide some ramp up assurances over time to the service providers with a tight governance model on both sides, in order for the service provider to be able to meet commercial goals while unleashing the transformation.

Not all transformation programs run their full life and meet their stated objectives, many fall by the way side for so many different reasons that one could write a book. In such scenarios, the service provider should in fairness get compensated for upfront costs remaining un-recovered for having taken the risk and tried best possible endeavor to make it a success.

Decision making and implementation has to be quick even though the planning is for the long term. It is somewhat like running a marathon, but at the speed of multiple sprints so as not to lose focus on the long term goals as well as celebrating tangible short term success along the way, thereby retaining continued sponsorship for the overall program.

The other not so related thought that comes to mind is why cloud is not being spoken about extensively in the Finance and Accounting (F&A) BPO space. After all, the so called key F&A processes such as Accounts payable (AP), Accounts receivable (AR), General Ledger (GL) and Fixed Assets (FA) are so noncore to the finance function of the customers in the first place, which is why they go the BPO way towards the goal of reducing the cost of running the finance function as a % of revenue. These are clear candidates for being moved onto cloud based computing environment, typically a public cloud. Similarly processes around procurement and other horizontal offerings can certainly be looked at being moved the cloud way. Some extra ordinary mix and match of technologies, tools and providers

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are available in the Cloud space, which should be evaluated, selected and implemented along with the now over mature cost arbitrage based process and workflow automation tools, to get miles of first mover advantage for new customers or take existing customers to the next level of transformation.

Data privacy and security are key in cloud no doubt, but there are global best practices and standards around this which service provider are more than eager to implement.

Outcome based pricing is another area which is dreaded by most except commodity services as in the infrastructure maintenance space or low end BPO space where outcomes can be defined with ease and measured without ambiguity. Taking a true partnership approach, all the pitfalls of outcome based pricing needs to be overcome and progress needs to be made vigorously by service providers in this direction far beyond these two areas, with customers ready to share the benefits when outcomes are realized and the times are good without taking it away from the service provider. Continuity of account management & governance on both sides over a long period of time is very crucial here.

Fear of failure must be overcome, in order to succeed. And innovation, with relentless pursuit to implement it and showcase commercial success is a must.

Another aspect that comes to mind is how to deal with service. Today everyone wants to sell something to you and run away. When it comes to service, it is either expensive in the form of Annual maintenance contract (AMC) or spares, or the product goes obsolete much earlier than not so long ago, requiring a mandatory replacement. While in the IT world, this is natural, as technologies evolve, in the non IT space, it is important that products are made like the good old days where the product would function its stated purpose for many years or decades to come and there is reliable service around it. In general, today's products are not built to last very long as they used to decades ago. Most of the spares within it require to be replaced at certain prescribed intervals or risk the warranty lapsing and the value of the product, such as a car, keeps going down very rapidly. While this means big business for the car manufacturers in the form of revenues from after sales spares and dealers on account of servicing and selling these spares, the end customer actually ends up buying a consumable in the form of a car, rather than an asset, as in the past. Similarly in IT, there is a need to build robust technology which will last a very long duration of time. IT when taken in its total cost of ownership is actually very expensive and hence this theme holds lot of importance.

IT should be used to solve world's major problems such as food security, healthcare and natural disasters in a much more intensive, long term oriented and cost effective way than it is today and there should be lots of opportunities if this happens.

IT spend within emerging economies has to go up manifold and yet be affordable in such highly price sensitive markets and thereby enhance quality of living where most of the world's population resides.

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The last 2 themes will further help in reducing global economic uncertainty, which is what this article started off with.

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Result oriented and with rounded experience, Core strength is in creative, analytical and advisory roles spanning delivery, consulting and finance to help build high performing teams and also enjoy individual contributor roles.

After graduating from the St. Joseph's College of Commerce, Bangalore University, Rajesh became a Chartered Accountant from the Institute of Chartered Accountants of India. Thereafter Rajesh went to U.K and underwent his Masters in Business Administration (M.B.A) from the Aberdeen Business School at The Robert Gordon University through a full time program.

Rajesh has close to 24 years experience since graduation, of which the recent 15 years were in the IT and ITeS industry involving roles in Program Management of large global complex transformation programs, Commercials and Contracts Transitions management, Solution design, Management Consulting. The remaining years are in Business Advisory services, Corporate Financial Management, Accounting, Auditing and Taxation in diverse industries such as oil and gas, property development, consulting firms, floriculture and bio tech.

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