



For Cloud Professionals, part of the On Cloud Podcast

David Linthicum, Managing Director, Chief Cloud Strategy Officer, Deloitte Consulting LLP

Episode 6: An inside look at disruptive outsourcing, enabled by cloud

Description: Join host David Linthicum and Doug Plotkin, Managing Director at Deloitte Consulting LLP, as they discuss how outsourcing has evolved from being simply a way to reduce costs to its new role as a strategic enabler. Organizations now look to outsourcing as a way to help increase agility, flexibility, creativity, performance, and more. Learn how cloud is playing a leading role in disruptive outsourcing, and hear insights from the 2018 Deloitte Global Outsourcing Survey.

Duration: 0:23:15

Operator:

Welcome to On Cloud, the podcast for cloud professionals, where we break down the state of cloud computing today and how you can unleash the power of cloud for your enterprise. Now here is your host David Linthicum.

David Linthicum:

Hey guys welcome back to the podcast. We got a special guest this week, one of our Deloitte colleagues is here today and is Doug Plotkin, and Doug is the Strategy & Operations Managing Director of the Infrastructure Operations service line. Doug brings expertise to the IT strategy and outsourcing offering. He has more than 23 years of experience and has led multiple IT strategy and sourcing projects for large, global organizations. It looks like he has done some eminence stuff, some thought leadership stuff, he speaks at industry conferences, tell us a bit about that. Which one of the conferences do you speak at in which you recommend?

Douglas Plotkin:

Well I've spoken at a few. David, hi and nice to talk to you by the way. And I've spoken at IAOP in the past and SIG in the past and spent a few years and so have done that, recently I spoke at a legal conference called PLI with a care of instruction for lawyers once a year I think they have two courses so I gave a presentation on how you do outsourcing pricing and I hope that went well, that was fun, so that's the kind of stuff that I do every once in a while.

David Linthicum:

So how is outsourcing pricing fun?

Douglas Plotkin:

Well, I'll tell you that might start being an outsourcing pricer, I started off as a physicist and when that didn't work out so because I couldn't afford it, the pay wasn't great I had a child at the time, I didn't think I could afford to have a second child and so I went back to business school and coming out of business school I ended up at IBM and I started off at IBM research but from there I went into what was then called ISSC where we were doing outsourcing. I didn't know much about it at the time this was 1994 and I don't think many of us knew what outsourcing was about but I was the financial analyst on those deals and I did the pricing, and I think it was the most fascinating thing that you could do to try to understand the entire solution, how to cost it, and then how to think about in the market what the price might be and the cost of course is different from the price and so there was a little bit of thinking that went on both angles of that P&L and it was a lot of fun, we had a lot of fun negotiating those deals, some very large deals, some it was kind of a cowboy kind of time at IBM in those days of ISSC. We were growing the business pretty quickly and we had a great time negotiating those things.

David Linthicum:

Yes, it does sound fun, question for you before we get into the Cloud topics, what does a Strategy and Outsourcing Managing Director do? Day-to-day operations, types of engagements you work on, things like that, this is more for my education. I've been at Deloitte for a year and every time I meet somebody they do something kind of cool and neat and very different than what I do and I love to learn about it.

Douglas Plotkin:

Well I've been here for seven years, and I was brought into help lead the IT Outsourcing Group. Over the years, I've also delved into number of different strategy pieces as well, I've shared services and other sorts of things around service management, vendor management, those sorts of things that are sort of adjacent to outsourcing or which were learnings from outsourcing and things that we've been able to acquire for our clients, but I still go back from time to time once a year or so and like to lead and negotiate a good size outsourcing deal and it's still fun for me when different side of the table now obviously from when I was on the vendor side but it's great bit of fun to take our clients through these deals and to make sure that they're getting a pretty good deal and get the playing field as level, because the vendors bring some good capabilities on their legal team on their service delivery teams and so to help the clients face-off and negotiate those deals is still exciting for me, I still enjoy it.

David Linthicum:

Yes, I guess they are very strategic deals. Ultimately, they come down to profitability and productivity for the next several years sometimes five to 10 years correct?

Douglas Plotkin:

Yes, I mean it's usually when I started off these were ten-year deals. It since slipped to about five to seven year deals and the reason for that is that there is so much change in the environment that casting a ten year deal really doesn't make that much sense the deals that we do today and I think we've been into this a little bit, more have to be agile, very flexible, and they have to accommodate the pretty dramatic changes that our clients see every year, every two years, and so the vendors as partners had to become much more accommodating of those changes and the entire industry shifted as a result.

David Linthicum:

So you recently did a survey that led around outsourcing. I mean walk us through the objectives and quick overview around that survey

and what you found and what your opinion was?

Douglas Plotkin:

Well we do every even year at Deloitte we do the “Global Outsourcing Survey” and every odd year we do a “Shared Services Survey” so I’ve lead the last two “Global Outsourcing Surveys” so 2016 and this year 2018. This year we had the largest level of participation we’ve ever had, we had 521 executives from all over the world and responding out of 25 sectors, six different industries, 86% of our respondents came from organizations over a billion dollars, and this was fairly global we had 41% of the respondents were US, and the other set was from all over the world from our clients. So we reach out to our clients, to our account teams, through our LCPs and LCSPs and every which way that we possibly can to find the right participants at the right level who really understand outsourcing and works in their organization both from an IT perspective, a BPO perspective, including F&A and HR and Procurement all of that and put together this survey. So this year we were focusing on what we call disruptive outsourcing, and disruptive outsourcing we really want that to get a focus and understanding of how things were changing given the advent of Cloud RPA and RCA, and so that’s what we went out and queried our clients about.

David Linthicum:

So that’s an interesting concept—Disruptive Outsourcing. Can you elaborate on that concept and also tell the listeners how Cloud plays a role in that concept?

Douglas Plotkin:

Sure, so if you think about outsourcing as it’s always been of course it’s been changing but the traditional perspective on outsourcing is I have a whole bunch of stuff I don’t want to do it anymore, I want to get somebody else to do it because it’s not part of my core and I hope I can get somebody else to do it cheaper. And so I am going to outsource, mostly for cost savings. Now over the years I’ve thought about five different reasons why people outsource and this is generally for back office functions, IT, F&A, HR and those reasons are to cut costs which is the predominate reason, everybody wants to cut costs, to improve their levels of service, to get access to skills that they don’t have and they don’t want to get or train, or to get to market faster.

For example, if I have an application that I need to develop I could try to build it myself or I can go find somebody else to build it for me and so for a long time people have looked to the market to get that application build faster. And finally, “variability,” if I want to convert fixed costs into variable cost outsourcing is a great way to do it, so this is what we’ve been doing for a long, long time. When I started in 1994 it was all about cost cutting, if you can’t take 20% out of your environment then I’m not going to do a deal with you. And over the years that’s shifted the models have changed, we think about sourcing in a little bit more strategic way, and so these changes have been fairly modest and iterative in a way. We’d go from one provider to multi-providers because I can get better costs out of many providers I have to learn to manage them better, this has been the sort of trend line that’ve seen.

But with these new technologies with “Cloud” and “RPA” and particular we’ve seen that there is really a quantum change and how outsourcing is done and how it’s perceived. What we mean by disruptive is that outsourcing is morphing away from the notion that it’s just about cutting costs, labor arbitrage, off shoring, doing pretty much what I’m doing today for a little bit less, maybe a little bit better, maybe a little bit faster, these are iterative changes that have been very helpful from the outsourcing industry, but they’re aren’t what I would I think of as disruptive, quantum changes in the way that sourcing plays a component. And so when we think about “Disruptive Outsourcing” we’re thinking about how the whole ecosystem for an organization changes as they seek out partners who can help them do a myriad of different things, of course to keep costs down, of course to keep speed to market up, of course to do all those same things that we’ve always done, but also to think about different channels. How can I change my revenue profile in a way that I never thought about doing before? How can I bring innovation from the market into my environment in a way that I didn’t really think about doing before? So these are some of the things that Cloud has enabled that RPA makes possible the Automation that we get, but from cognitive, associations around Machine Learning, some of the changes that that we’re seeing in the marketplace truly are disruptive and it’s changing the way our clients look to outsource, it’s changing the way their vendor partners reacting, and it has to change the way we as advisors help our clients think about what these disruptive technologies can do for them.

David Linthicum:

So it sounds like a forced multiplier in the world of outsourcing, so now there is now cloud computing can in essence allow smaller organizations punch above their way smaller outsourcing deals punch above their weights. We can be a little more efficient and operationally excellent in doing whatever the outsourcing program is doing?

Douglas Plotkin:

Well I think that’s right, I think that the innovation that you can buy in the marketplace that organizations would have had a very hard time building for themselves levels the playing field in a lot of ways, we’ve seen that in a lot of disruptive cases and so it looks to me now

that if you are not participating in Cloud and thinking very, very hard about RPA which is a little bit less mature then you are going to fall behind. Now what we found looking at the data is that, for example, 93% of our respondents are working within the Cloud environment so they're getting it. They're on to it now partly that's still about I want to cut costs, but very interestingly to me having done this for a long time when we ask them, why are you moving to the cloud, cutting costs is number six for the reasons why people are doing it. The most important reasons are in order to get IT innovation that I couldn't get before, to improve time to market, to improve performance, to have scalability that I didn't have, etcetera. Those are the main reasons and people are even expecting in a lot of cases to pay more for a Cloud solution than they are for their legacy solutions and that tells me that organizations are recognizing the deep value and disruptive change that these technologies can bring to them and they realize they have to do it and have to stay ahead of the curve even if that costs more money to do it.

David Linthicum:

So getting back to the survey what are some of the takeaways of this survey that you would advise your clients on so in other words what was surprising that the enterprises may not be grasping right now that they should be aware of that are going to change kind of a focus of outsourcing leveraging enabling technologies such as Cloud Computing, the ability to get out in the market and make an impact leveraging outsourcing is a key strategic differentiator?

Douglas Plotkin:

That's a great question. So, I think that what we're seeing in some sense in the survey results is a little bit different from what I might advise. So, for example one thing that we are seeing in the survey result is that when we asked our clients what lessons did you learn from your past outsourcing experiences? We heard a lot, say 42%, I would spend more time in the RP or the service provider selection, and for the longest time I believe the same thing. Now I'm starting to think about this is a little bit differently, and I'm talking to my clients about this a little bit differently too, it's crucial to have a good RFP process but we have to do it a lot faster than we used to do it, and one of the things that we're seeing in terms of change and that I'm hearing a lot about from clients is that we need to change the way that procurement organization sources these deals.

Now if you go back in time and think about it from the prospective of when I started we were looking at these large ten year deals that pretty much covered the enterprise if you think about IT that took out most of the organization and went to one provider and so the procurement organization if it existed did this one deal and then sort of left it along watched it. Let the service provider manage themselves and on and on. That has now shifted considerably to an environment where the procurement organization is developing an entire ecosystem of partners around its organization that bring different capabilities at different times. They come in, they get integrated, they are used fairly quickly, they might stick around, or we might decide that the value that they are providing is no longer important as the needs of the organization shift over a year or two, and so they are moved out of the environment.

So, you get this very rapid kind of yin-yang approach to sourcing that requires the procurement organization to be much more agile. It's really I think it has roots in a way that cloud scales up and down in the same way procurement has to be agile and scale up and down be able to find the right partners, bring them in and shed them when they are no longer valuable. And so that changes everything. When speed is the key we can no longer sit around negotiating over six to 12 month period a large outsourcing deal in the way that we used to, we have to bring the module of service in much more quickly because by six to 12 months the markets moved away from us the competitors may have moved away from us as well and so to create and maintain that flexibility in the environment speed, alacrity, agility all are becoming much more important and so the way that we contract has to change as well, and so I've been having these conversations with my friends from the legal profession internally it's a xx among the advisors set, about how we can shift our thinking about risk in these outsourcing deals it's something a little bit different where the risk is no longer about missing a terming condition although that's still important but the risk becomes the notion that we're taking too long, we are missing the window of opportunity to bring the innovation and integrate it.

David Linthicum:

So is there an opportunity to combine negotiating these outsourcing contracts with negotiating Cloud contracts or is that kind of a little bit more or kind of a very different worlds in terms of how we negotiate stuff?

Douglas Plotkin:

Well I think of them as a little bit different world because the Cloud Providers have a much more fixed approach and the customization of that backend I think is integrated into the agreements that have to be seen in a sort of more classic set so when you think about the whole ecosystem and their important part of that I'm also thinking about all of the other players in the ecosystem who sometimes play a more traditional role well in terms of the transformation of the current environment into one that's a little bit cloudier and replatformed and so I think that you will see elements of more standardized cloud-based contracts coupled with more customized but more quickly finished standard contracts that are legacy based around the applications and the infrastructure that's not yet able to transform into the

Cloud.

David Linthicum:

So does Cloud Computing make outsourcing easier to deal with? In other words, if I'm managing an outsourcing contract, I'm managing over a long period of time is leveraging Cloud Computing going to facilitate communication, sharing work products, the ability to share ideas better collaborate better, or is it basically the same as it was?

Douglas Plotkin:

Well I think it makes the job of the advisor a lot more challenging. It's another dimension that we have to add in. It's a dimension that's absolutely necessary because it adds so much value for the customer that we have to be able to think about how to integrate it, but it certainly has its challenges and I think that's a good thing, it's intellectually interesting, it's fun too, and it's important, it's necessary to do. So we're going to have to figure it out how to do it and how to couple the ecosystems around the traditional Cloud producers with the traditional outsourcing players who are dancing in that space, but not quite there, I mean never get there.

David Linthicum:

So here we go it's an interesting topic I think outsourcing I did not know much about it, now I know a lot about it more than I did before we started this podcast. So, Doug where can we find more information on the web perhaps the survey how can we reach out to you directly to find out more about Outsourcing, what Deloitte does with outsourcing?

Douglas Plotkin:

Well our survey is listed out on our website the name of it is "Traditional outsourcing is dead. Long live Disruptive Outsourcing" the Deloitte Global Outsourcing Survey of 2018, so if people would go take a look at that I think they'll enjoy it and if they like to reach out to me for it or to talk about it I'd be delighted to talk to them about it. My email address is dplotkin@deloitte.com and my phone number 508.963.3648.

David Linthicum:

So, Doug I want to thank you for being on the podcast and hopefully you can come along some time in the future and kind of update us and listeners on what's going on in your world and what's happening in the world of outsourcing as related to Cloud Computing.

Douglas Plotkin:

Okay, well, David thank you very much I appreciate it.

Operator:

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