



A Pragmatic New Strategy for Enterprise Competitiveness

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Outsourcing Outlook 2006: Current and Future State

ITA Outsourcing Roundtable

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Agenda

- My background and approach
- Interesting numbers
- Enterprise (client) observations
- Provider observations
- Future trends
- Conclusions and guidance

Background and Approach: Over 15 Years of Experience with Enterprise Transformation

- Human capital transformation
 - Coached executives and specialists on thriving on economic changes
 - Built pioneering office for one of the largest human capital firms in the U.S.
- Technology transformation: the Internet and enterprise software
 - Leading role in launching Java as an enterprise solution
 - Launched one of the Midwest's first corporate Internet businesses
 - Standards-based technology, distributed computing
- Technology/business transformation: e-business and knowledge
 - Corporate change agent at Big Five consultancy
 - Built websites, intranets and extranets to change business processes
 - Principal and Subject Matter Expert at Big Five consultancy
 - Led strategy engagements to advise automakers, oil, consumer products, financial services and others on creating the “real-time enterprise”
 - Business strategy for start-ups: transform industries with innovation
- Business process transformation: “Pervasive Outsourcing”
 - Outsourcing will actualize globalization and a business process revolution
 - How enterprises are built, how they run, how they satisfy customers
 - What will stay the same, what will change

Interesting Numbers

- MGI report “The Emerging Global Labor Market” (mid 2005)
 - Predicts “minimal” wage threat to western economies
 - Supply numbers misleading: many supplier country graduates not immediately suitable for offshore contracts
 - Demand: 11% service jobs could be outsourced by 2008 (max)
- Deloitte “Calling for a Change..” study (early 2005)
 - Excellent summary of the “Trough of Disillusionment”
 - Gotchas: outsourcing for the wrong reasons, with wrong goals
 - Learning curve: since when have large projects *of any type* been successful?
- Forrester: 2005 “Record Year” for outsourcing
 - 9% growth to 293 contracts but outsourcing expenditures lower
- Conclusion: we are set for a long adoption curve
 - Economics undeniable, growing successes will increase
 - Difficulty and complexity will persist as challenges

Enterprise Focus: “Best” Practices

Best practices

- Offshore (outsource) for the right reasons
- Choose the model carefully
- Get your people on board
- Invest time and money
- Treat partners as equals

Interpretation

- Outsourcing offers alternatives to every aspect of business
 - What do you want to change?
 - How do you want to change it?
- This means a serious learning curve
 - Business has always been complex, but..
 - Due to increased information, we are more aware of complexity
 - We can slice/dice more
 - We may have outsourced before, but our info-rich environment makes it a different, more complex proposition
 - To be sustainable, outsourcing must have a value proposition for all parties

Enterprise Focus: Drivers and Opportunities

- Publicized “failures” have overshadowed successes
- IT becoming more agile, can support more flexible business processes
 - SOA, Web services, software vendor adoption
 - Still in initial stages
- There will be a significant SMB opportunity in the future
 - The barrier is the lack of outsourcing knowledge and familiarity
 - The enabler is competitiveness and need
 - The Barry-Wehmiller story
- Observe and think creatively
 - Emerging knowledge and services create new opportunities
 - You have to think differently, be aware of assumptions that no longer hold true

Enterprise Focus: Preliminary Adoption Model for Transformational Outsourcing

| Stage One (Basic) | Stage Two (Intermediate) | Stage Three (Advanced) | Stage Four (Visionary) |
|---|---|---|--|
| <p>Scope: cost reduction by outsourcing a discrete process</p> <p>Led by: process manager</p> <p>Expectations often made by looking at manufacturing experiences of outsourcing</p> | <p>Scope: departmental efficiency</p> <p>Often includes more than one process</p> <p>Led by: department executive</p> <p>Shared services, may be BPO or offshore</p> <p>Expectations more tactical than strategic</p> | <p>Scope: enterprise</p> <p>Led by: CIO, COO or SVP</p> <p>Drivers include efficiency, but new emphasis on acquiring new capabilities</p> <p>BPOed several of its non-strategic business processes,</p> <p>Several offshore locations to mitigate risk</p> <p>Focus on brand building within emerging markets</p> | <p>Scope: trans-enterprise</p> <p>Led by: CxO with CEO</p> <p>Outsourcing pervasive; much competitive advantage derived by partner network</p> <p>The enterprise permeable, key elements of innovation and business strategy driven by partners.</p> <p>Major focus employees in emerging markets and community activities</p> |

Outsourcing is transformational: developing competence in outsourcing is a way to deliver the adaptive enterprise, iteratively and profitably

Provider Focus: Drivers and Differentiators

- Providers under pressure to innovate
 - Constant competition; there's always someone willing to do it more cheaply
 - The same forces that enable providers to displace work in higher cost countries enable lower cost countries to displace *them*
 - Innovation and specialization
- The value curve
 - Outsourcing (of discrete activities)
 - BPO (integrated, process-based)
 - KPO (new level; offers expertise the enterprise never had)
- Location: politics and economics
 - Ability to collaborate: language, proximity, culture
 - Incentives and legal: can change quickly, leading to new entrants
 - However, infrastructure not built in a day

Provider Focus: The Multiple Meanings of Proximity

- Examples
 - China: manufacturing; high local demand drives expertise as well
 - India: out in front due to language, culture
 - SE Asia (Singapore, Philippines)
 - Eastern Europe: cultural/geo proximity to Western Europe
 - Latin America: cost advantage + language + time parity
 - Canada, low-cost USA: cost advantage + language + time parity
- Larger trend: global human capital
 - x-shore: where the work is done less relevant than it seems
 - Although important, it's an implementation detail
 - All U.S. outsourcing vendors have offshore components
 - Increasingly, the offshore providers have offshore providers
 - High competition to persist and increase
 - Business strategy and global market expertise needed to manage value proposition

Seismic Shifts

- From the industrial economy to the knowledge economy
 - Technology-enabled business processes provide more information about everything
 - Information drives the opportunity to differentiate
 - However, information-driven differentiation easier to emulate
 - Competitiveness now global and in your face; the death of distance
 - Information is the key input, not raw materials
- Enterprises as currently structured were built for the industrial economy, not the knowledge economy
 - They need to transform their business processes to flow with customer demand
 - Outsourcing is a tool to achieve transformation
 - Iterative, profitable change
 - No need to stop the engines

Conclusions and Guidance

- Points of confusion
 - Outsourcing is deceptive because it seems familiar
 - It's been practiced for years, but the environment has changed
 - Globalization seems familiar, but its context is tech-enabled
 - As people around the world jump on-line, their lifestyles will converge due to information exchange and access
- Outsourcing's significance
 - Outsourcing will be a major factor in restructuring enterprises and the economy
 - It will create an interactive, interdependent global economy
- Opportunities
 - Think about where enterprises are on the adoption curve
 - Due to strategic value, the market will be dynamic at all levels
 - Specialization is key; think about barriers to entry
 - The SMB market bears watching

For Additional Learning

Sample Resources*

- McKinsey Global Institute
- IBM Institute for Business Value
- Baker & McKenzie Webinars: country backgrounders
- Return On Outsourcing site
- Outsourcing for Strategic Advantage site
- rollyson.net for papers, articles and advisories

*Google these phrases

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*Consulting and seminars