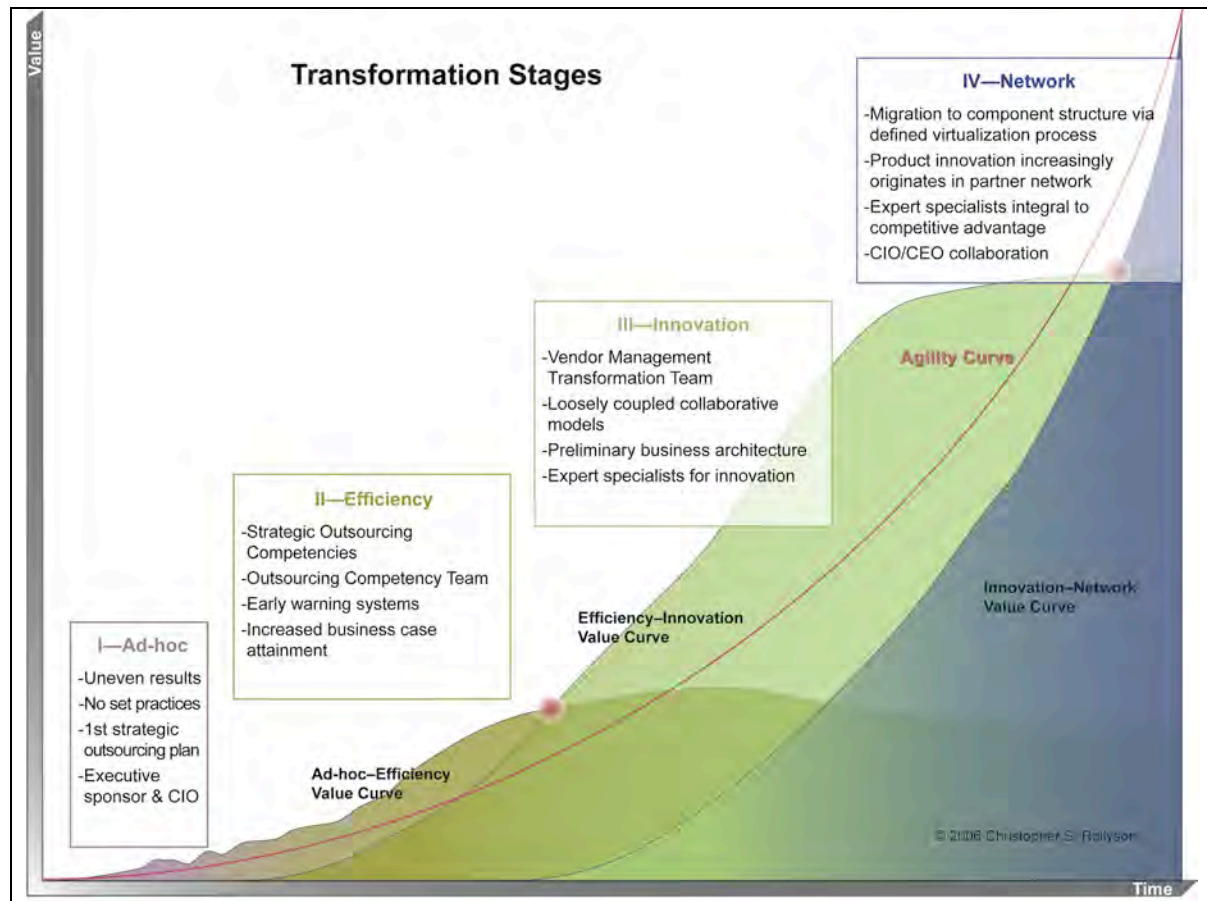




Executive Summary: Pervasive Outsourcing Enterprise Roadmap

The Pervasive Outsourcing Enterprise Roadmap describes the journey by which the industrial enterprise transforms itself into a virtual enterprise. The goal of Pervasive Outsourcing is transformation, which is necessary for 21st century companies to thrive in an emerging environment that demands unprecedented agility and innovation. The four transformation stages are Ad-hoc, Efficiency, Innovation and Network, and the roadmap suggests the length of time spent and the value attained in each by the shape and position of their boxes.



DRAFT

The Transformation Stages

Stage I: Ad-hoc

Outsourcing is performed sporadically as a discrete activity, and the focus is on cost reduction, with few established practices and a mixed track record of results. The main activity is creating the company's first strategic outsourcing plan, which explicitly sets forth how the company will use outsourcing to virtualize itself. Along with this, it appoints an executive to champion the initiative. If not the CIO, the CIO is also asked to take an active role, as IT will be a key enabler. In fact, the outsourcing transformation initiative is a golden opportunity for CIOs to increase their influence because its focus is iterative transformation at the business process level, and there will be significant CEO involvement.



By the end of the relatively short Stage I, executives have gained crucial insight into 21st century opportunities for innovation in product/service, customer experience, delivery and even business model areas. They probably realize that they cannot achieve the degree of possible innovation using past/present methods because they have a spotty record with innovation at best. In light of this, executives are committed to the idea of pursuing outsourcing as a transformational activity. However, although the transformation will be guided from the top, it will be implemented at the project level, and it will deliver incremental benefits, which stands in sharp contrast to old-style, "transformation" initiatives that required large upfront investments.

Stage II: Efficiency

Stage II begins to connect outsourcing project teams to create and share Strategic Outsourcing Competencies (SOCs). It is focused on maximizing outsourcing's cost savings and increased performance, with increasingly consistent results. The main activity is building key infrastructural elements of strategic outsourcing:

- **Strategic Outsourcing Competencies (SOCs)** address current and future states outsourcing. In the future, the enterprise will have more partners, and what is regarded today as "outsourcing" will be the de facto way to do business. If that were true, what SOC's would be required? The current state is best understood as "good" practices.
- The **Outsourcing Competency Team (OCT)** manages the enterprise's development and sharing of SOC's. While outsourcing project teams' focus is on meeting the business case that concerns their business units, the OCT's goal is developing and sharing SOC's across the enterprise.
- **Early warning systems** are developed collaboratively—using information from several outsourcing projects—to develop a collective understanding of when projects are starting to deviate from plan. They are not merely financial measures; they involve any measurable and verifiable indicator. Notably, they target above- and below-expectation results.

As Stage II concludes, the enterprise has begun to incorporate the strategic component of Pervasive Outsourcing activities at the project level, and it has begun the process of federating outsourcing, which has enabled outsourcing project managers to understand how and why their projects succeed and fail. As Stage II concludes, SOC's, the OCT and early warning systems combine to impact the performance of outsourcing projects, after a period of delay while the company has been learning how to use them and it has renegotiated select outsourcing contracts.

Stage III: Innovation

CEO attention often increases in Stage III, which continues to refine Stage II's efficiency, but here the enterprise pursues a two-pronged innovation thrust. Internally, it transforms how it manages its collaborative relationships (the current state term is "vendor management") through a process of redefining and standardizing interactions as business services. Externally, it begins to pilot collaboration with expert specialists in high-stakes innovation ventures.

Key internal activities are:

- The **Vendor Management Transformation Team (VMTT)** manages a profound change in how the enterprise interacts with partners, focusing on collaboration, shared risk/destiny and innovation.
- **Preliminary business architecture** models the enterprise at a high level in terms of its key processes and interactions, recasting parts of the organization as "business components" that issue requests and fulfill requests to and from each other. This effort reuses any preexisting enterprise architecture and business process models.
- The VMTT works with the Business Architecture Team to create **loosely coupled collaborative models**, which it pilots with select partners. The models transform current interactions between the enterprise and the partner from individual, custom interactions to standardized requests for service and responses to them.

Key external activities are:

- Engaging a new kind partner, which possesses high-value knowledge relevant to the enterprise's core business, in key innovation initiatives. **"Expert specialists"** offer expertise that executives would normally consider to be related to core competencies, but either they have a superior technology/approach or the competency is emerging in importance, so the enterprise accesses the competency externally.



- Pilot innovation initiatives are measured investments with strategic implications. They are neither science projects nor back burner propositions. Risk is shared with partners.
- The enterprise employs its emerging loosely coupled models with expert specialists.

As Stage III unfolds, the enterprise has developed and tested several new models for partner interaction within the context of a preliminary business architecture, and it has collaborated with several partners in the transformation process. The VMTT has collaborated extensively with the Enterprise Architecture Team to define interactions as service requests and fulfillment of service requests, and it has iterated the models. It has conducted several pilots with expert specialists, learning to source expertise when and where it emerges.

Stage IV: Network

Stage II and Stage III have produced significant results within pockets of transformation across a wide range of scenarios, and Stage IV scales the transformation to explicitly virtualize the enterprise, managing the effort in numerous phases based on investment criteria:

- **Business architecture** explicitly virtualizes the enterprise in areas targeted for transformation. The enterprise also develops a **defined virtualization process**.
- The **partner network** becomes increasingly vital to the enterprise's innovation efforts. Notably, the enterprise shifts into an explicit "orchestrator" role within its network, facilitating interaction among partners (not only between itself and partners).
- **Expert specialists** rapidly grow in importance because the enterprise, through its transformation expertise, becomes adroit at onboarding partners quickly and gaining value from an increasing variety of collaborative partner relationships. Increasingly, it can source expertise quickly and introduce it to its network, a tremendous competitive advantage.
- **CIO/CEO collaboration** is a hallmark of Stage IV: The CIO often uses virtualization as a strategic platform from which to orchestrate other IT initiatives and, given that, Pervasive Outsourcing is an opportunity for the CIO and the CEO to form or expand a close working partnership. The Enterprise Architecture (EA) team holds much of the enterprise's competency in (software) architecture and modeling because they have presumably been building distributed applications. The CIO's stewardship is critical because a virtual enterprise is a company whose structure is componentized and distributed and, as such, it mirrors closely the enterprise software transformation that has been unfolding since the 1990s.

As Stage IV progresses, partners become a vital part of the enterprise's new network structure, which has become more flexible in many areas: risk mitigation is focused on the enterprise's seamless processes for onboarding new partners rather than on the former approach of controlling variables. Moreover, as the enterprise learns to innovate more consistently and quickly—in shorter cycles—it can take more risks because it can kill mistakes faster, and partners share in the risk. Innovation becomes the tip of the agility spear during Stage IV. In addition, the enterprise has a process for virtualizing itself, which it employs as needed.

The Four Curves

The curves are an essential part of the roadmap because they reflect the relative amount of progress made during each stage per time elapsed, according to their shapes and sizes.

The Value Curves

Value curves reflect the value created when moving from one transformation stage to another. The shape of each continues to infinity to suggest the level of value that would be obtained if the enterprise had remained in a stage indefinitely. Each curve builds on its predecessor's momentum but surpasses it at the clearly marketed magenta points. In terms of total value produced (i.e. the area of the curve), since most enterprises progress from one curve to the next, the value is cumulative. In addition, the total value of the Innovation–Network curve is necessarily distorted since this roadmap continues through Stage IV (as more time would pass, its value would increase very quickly).

The Ad-hoc–Efficiency Value Curve

This curve's most unique feature is its rollercoaster shape, which reflects the mixed results of Stage I (Ad-hoc) but which flattens during Stage II (Efficiency). Its overall slope increases very slowly toward the latter part of



Stage I, which shows that most companies will learn from their outsourcing mistakes even if they do not pursue Pervasive Outsourcing. The curve's slope accelerates slowly (produces more value at an increasing rate) during Stage II, as the OCT defines and encourages reuse of SOCs. Value continues to increase slowly after Stage II; however, it loses steam because it requires Stage III's vendor management transformation to continue to increase in value.

The Efficiency–Innovation Value Curve

The Efficiency–Innovation curve has a steeper slope than its predecessor because it is firing on two cylinders: Stage II's federation of outsourcing, which multiplies outsourcing expertise within all outsourcing projects, as well as the growing contribution of Stage III's innovation projects. Note that the slope accelerates most toward the end of Stage III and continues into Stage IV before falling off, as it loses potential without Stage IV's maturation and extension of the business architecture, which is necessary to scale successes.

The Innovation–Network Value Curve

This curve has the highest acceleration of all, as the network effect, which holds that the value of a network accelerates with its increasing members, has its greatest impact. Its slope increases most toward the end of Stage IV, as the enterprise's virtualization initiatives combine to multiply impact on performance.

Several drivers are: increased diversity of vendors increase the range of innovation and its success rate, the enterprise's growing prowess at orchestrating partners is a repeatable process that bears more fruit over time, the enterprise develops a process by which to virtualize areas of its organization that are under high pressure to be adaptive and/or innovative, and the structure of Pervasive Outsourcing enables the enterprise to leave legacy structures in place.

The Agility Curve

The red agility curve shows the relative level of agility attained by the enterprise as a function of time. It is a geometric curve in that its slope accelerates, increasingly during the later stages.

For Additional Information

If you find the Pervasive Outsourcing Enterprise Roadmap to be useful, more information is available at <http://www.pervasiveoutsourcing.com> or by contacting the author.

About the Author

Christopher S. Rollyson has over 15 years of experience with Big Five and technology consultancies, with distinction in enterprise transformation and innovation. As a principal strategy consultant and marketing executive, he has been involved in the release of Java as an enterprise solution, marketing transformation for professional services, e-business transformation for automotive, petroleum, consumer products and financial services and, most recently, with the transformation of enterprise software.