

## Transformation Execution Strategies<sup>SM</sup>

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### Insights to empower you to transform enterprise performance

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# Does Your Outsourcer Empower Relentless Innovation?

Publication Category: Research Update  
Publication Title: Does Your Outsourcer Empower Relentless Innovation?  
Publication ID: US-SGA-TES-2006-005  
Domain: All Domains  
Topic: Execution Strategies  
Released: May 16, 2006

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#### Context:

Relentless Innovation is imminent in your industry, and in all likelihood, it has already cast its shadows on your business. It is crucial that your Business Transformation strategy be conceived to make relentless innovation work for you, not against you. Further, your Performance Transformation strategy, i.e., the strategy to continually reconfigure your costs, services and in-house capabilities (in domains like IT, F&A, HR, Supply Chain, Product Development), must align in support of your Business Transformation strategy.

Outsourcers can play a key role in empowering your relentless innovation. For this to occur, your relationship with your outsourcer must be strategic, and continually leverage the outsourcer's capabilities over a multi-year term (i.e., transformation focus). This requires your understanding of your outsourcer's planned future capabilities, and a validation that these do empower your relentless innovation.

Unfortunately, almost all outsourcing arrangements put in place over the last few years and most of those being arranged today do not have transformation focus, are designed to achieve tactical, one-off benefits (i.e., transaction focus) and rely largely on an assessment of the outsourcer's past and immediate capabilities.

#### Analysis:

While it is true that the outsourcing industry is growing year-over-year, individual outsourcers are under constant margin and profitability pressures and are themselves subjected to relentless innovation. Therefore they regularly make portfolio choices regarding where to invest their own time, money and resources, across a rolling 3-5 year time frame.

An outsourcer's capability in a particular discipline (example: Customer Care) in a particular Industry (example: Automotive) and in a particular process (example: Returns Processing) can shift between world class, best in class and industry standard categories during a 3-5 year period, driven primarily by the outsourcer's own Business Transformation strategy.

For an enterprise to fully leverage its outsourcer's capabilities for relentless innovation, First Kernel suggests that:

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1. The enterprise map-out its 3-5 year Business Transformation strategy (example: currently focused on selling platform may need to rapidly shift to selling services riding on the platform starting in about the 3<sup>rd</sup> year)
2. Next the enterprise map-out a 3-5 year Performance Transformation strategy (example: current innovation strengths are in platform design and development may need to rapidly achieve strength in software development and integration starting in about the middle of the 2<sup>nd</sup> year)
3. Finally, the outsourcer that is engaged for some or all of this work must be chosen based not just on past and current strengths, but also (and sometimes especially) based on future strengths over a 3-5 year period.

Criteria for confirming future strengths in an outsourcer include: Investment program, Staff development plan, Labor arbitrate model, Ecosystem partnerships, Commitment to standards and Technology direction.

#### Take Away:

Relentless Innovation is here to stay. Industry-leading enterprises should co-opt capabilities of their outsourcers to out-innovate their competitors. Therefore, the criteria to select an outsourcer must emphasize continuous transformation over mere point-in-time transaction benefits. Finally, the enterprise must explicitly determine the outsourcer's own commitment to leadership and relentless innovation in its own field. [www.firstkernel.com](http://www.firstkernel.com)

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#### Mentioned in this Research Update:

Individuals:	None
Organizations:	None
Websites:	None
Publications:	None

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#### About First Kernel Research

First Kernel Research is a unit of First Kernel Consulting, Inc. We are experts in Enterprise Performance Transformation. We help enterprises develop and execute exceptional performance transformation strategies and initiatives to continually align costs, service quality and capabilities with the overall strategy and imperative of the enterprise.

Our Clients leverage the integration of our expertise, intellectual property, tools and guidance to achieve or surpass their SG&A performance targets. First Kernel has developed the industry's first *Enterprise Performance Transformation System*<sup>TM</sup>, currently pending a United States patent.

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