White Paper

Strategic Out-Tasking:
Creating "Win-Win" Outsourcing Partnerships

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Abstract

IT outsourcing is one of the most prevalent and transformational trends in business today. Yet many times, traditional outsourcing models force significant tradeoffs for both enterprises and outsourcers. Enterprises often compromise operational flexibility and innovation over the lifetime of the contract. Outsourcers, on their end, are forced to price deals to win, resulting in razor-thin margins and aggressive cost reduction curves. Strategic Out-Tasking can be seen as a “win-win” model that breaks this traditional, vicious cycle of negative compromises. Many visionary enterprises and leading outsourcers are starting to embrace the guiding principles of the Strategic Out-Tasking model. From an operational perspective, this new model helps drive greater innovation within enterprises, yields higher outsourcer margins, and, more important, reduces partnership risks. We estimate that Strategic Out-Tasking can, over the next few years, deliver $16 billion to $23 billion in industry bottom-line savings that both enterprises and outsourcers can share.

Introduction

Today, IT outsourcing is estimated as a $233 billion global industry with an impressive 8 percent annual growth rate.[1] In a recent Gartner survey of financial services companies, roughly 60 percent of respondents reported currently high or moderate levels of IT outsourcing.[2] According to the survey, this number is expected to increase to nearly 80 percent over the next two years.

Compelling Motivations to Outsource

Enterprises have several strong business drivers for outsourcing IT requirements. Nearly 75 percent of respondents to a recent survey of IT executives (from companies with annual revenues greater than $1billion) identified cost reduction as their primary reason to outsource.[3] As shown in Figure 1, the Gartner survey of financial services companies also confirms cost takeout as the top driver for outsourcing.[4] Through economies of scale and incremental efficiencies in services delivery, outsourcers can gain significant cost reductions of 15 percent or more.[5] Not surprisingly, average contract terms have increased to an average of 5.7 years in 2006, the highest level since 2003, thereby allowing outsourcers sufficient time to recover the up-front personnel and system investments needed to realize the promised cost reductions.[6]

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[1] Gartner, “Worldwide IT Outsourcing Forecast Database,” 2006
[2] Gartner, “Dataquest Insight: IT Outsourcing Trends and User Strategies in the Financial Services Market,” ID Number: G00145762, April 3, 2007
[3] “I.T. Outsourcing: Expect the Unexpected,” March 2007, CIOInsight.com
[4] Gartner, “Dataquest Insight: IT Outsourcing Trends and User Strategies in the Financial Services Market,” ID Number: G00145762, April 3, 2007
[5] Thomas M. Stockwell, “Are Outsourcing Cost Savings Estimates Misleading?”, February 2, 2004, mcpressonline.com
[6] Gartner, “Gartner on Outsourcing 2006-2007,” ID Number: G00144477, December 19, 2006

Figure 1. Foremost Drivers for Outsourcing or Considering Outsourcing IT Services

Source: Gartner, April 2007

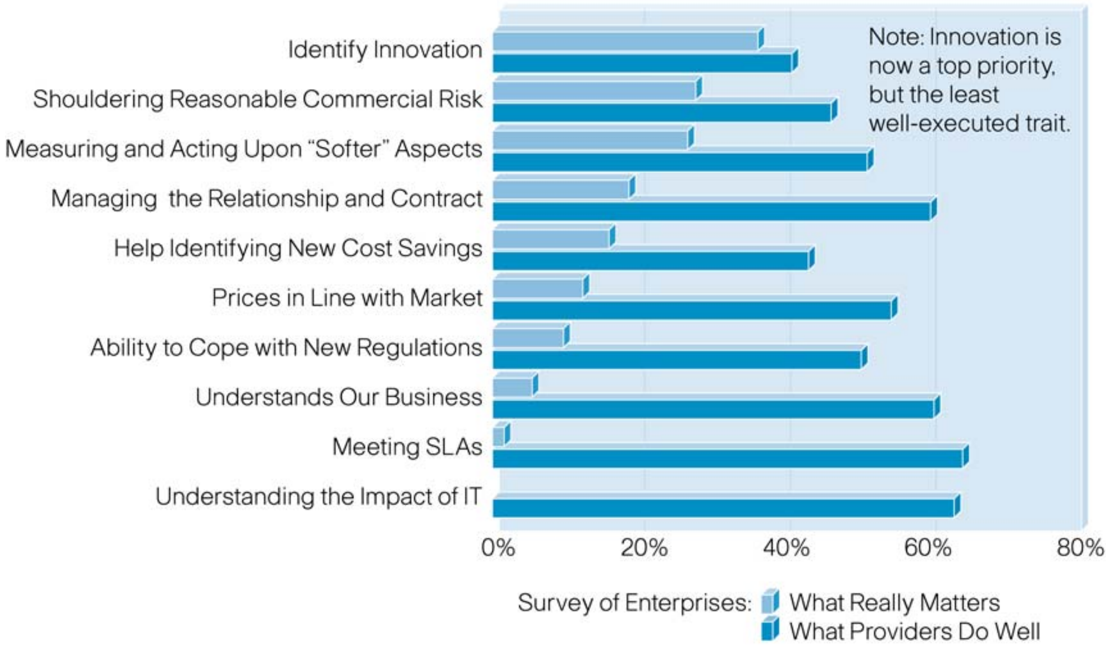
The Current Model Has Flaws

The current outsourcing model is flawed. With it, enterprises are unlikely to achieve lasting cost savings or disruptive innovations. Current outsourcing models force enterprises to compromise operational flexibility and innovation. In today's dynamic marketplace, enterprises continually need to adapt to shifts in customer preferences and market realities. Yet the common trap is for enterprises to award outsourcing contracts primarily on cost. Then, a few years into their outsourcing relationships, enterprises realize that the singular focus on cost savings often penalizes innovation and business flexibility. Figure 2 shows the results of a Morgan Chambers survey that found that while innovation ranks first in what enterprise customers want, it ranks last in what outsourcers do.[7] This drop in innovation can significantly compromise the ability of enterprises to respond rapidly to changing business conditions.

To illustrate, imagine an enterprise that, in the late nineties, was locked into a long-term IT outsourcing contract. Such a traditional, long-term contract would most likely have restricted the deployment of emerging, Web-based technologies for operational transformation. Delays in adopting such disruptive innovations will result in severe competitive disadvantages and perhaps even risk the survival of the enterprise.

[7] Robert Fawthorp, "Managing the Risk of Sourcing," TIF Outsourcing Seminar on Sourcing Innovation, September 2004

Figure 2. Growing Innovation Gap in Outsourcing

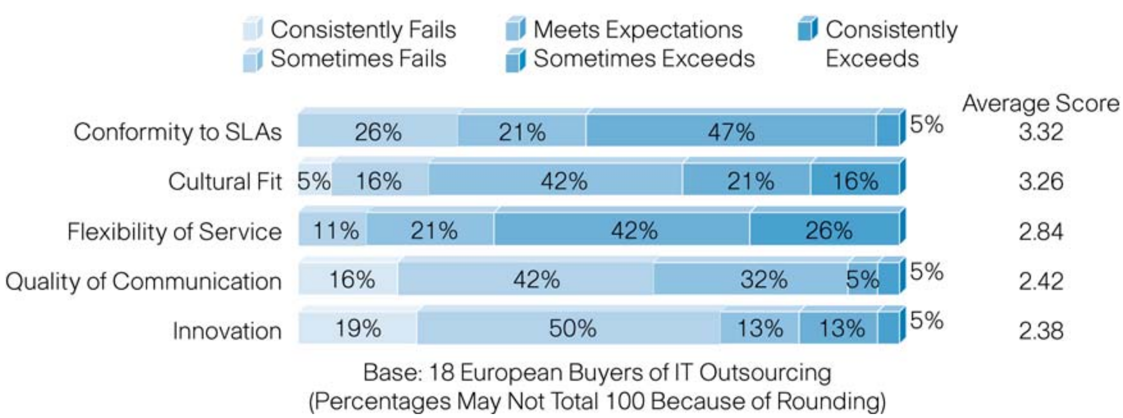


Source: Morgan Chambers, 2004

Yet even today we see examples of restrictive contracts. A Forrester Research survey confirmed that nearly 70 percent of enterprise respondents claimed IT outsourcers sometimes or consistently fail to meet expectations regarding innovation (see Figure 3).[8] One of Cisco's leading manufacturing customers, for example, faced a significant price premium when it wanted to migrate to a next-generation converged IP telephony infrastructure. The expensive change requests forced lengthy contract renegotiations, delaying the much needed technology deployments.

Figure 3. IT Outsourcing Providers Fail to Deliver Innovation

For each of the following criteria, is your IT outsourcing provider meeting your expectations?



Source: Forrester Research, December 2005

[8] Imogen Harris and Andrew Parker, "The IT Outsourcing Satisfaction Paradox," Forrester Best Practices, December 2005

Traditional outsourcing models also negatively impact outsourcers. Outsourcers are unlikely to realize sustainable high-margin returns. Many times, deals are priced to win. A number of sizable contracts are at stake: Gartner anticipates more than 12 deals in 2007 with greater than $1 billion in total contract value.[9] To win these megadeals, outsourcers often are forced to commit to aggressive cost reductions with significant penalties if these committed returns are not realized. The economies of scale and process efficiencies initially envisioned and priced into the contract sometimes are difficult to realize. Enterprises have unique needs that may require customized solutions. Outsourcers oftentimes end up having to fix broken enterprise processes. Worse, experience suggests that at times some of these broken processes are not fully identified during the initial due diligence. Such operational risks can negatively impact the outsourcer's already thin operating margins.

The Imperative for a New Model

Strategic Out-Tasking (also referred to simply as out-tasking) is a promising win-win model that breaks the cycle of negative compromises associated with traditional outsourcing. In describing this new, win-win model, we draw extensively from Cisco's own experience. In addition, the concepts presented in this paper have been validated by more than 50 of Cisco's top enterprise customers and by many leading IT outsourcers.

We offer an analogy from software engineering to illustrate the key differences between Strategic Out-Tasking and traditional outsourcing approaches. Akin to open software architectures, Strategic Out-Tasking offers a common framework and vocabulary for creating and deploying IT services. By adhering to industry standards, Strategic Out-Tasking, like an open software architecture, enables the rapid integration of new services, many of which may currently be unplanned or even unforeseen. On the other hand, traditional outsourcing approaches, like packaged software applications, typically are optimized to meet a present day need. Like many proprietary packaged applications, traditional outsourcing approaches challenge enterprises to modify their current operating models and systems to fully utilize the promised functionality. As with many packaged applications, interoperability and future extensibility of traditional outsourcing can be difficult and oftentimes disruptive.

Following is a brief overview of the Strategic Out-Tasking model. Also provided is a rough estimate of the potential industry impact of Strategic Out-Tasking; a set of actions for enterprises to create their own out-tasking strategies; and a set of actions for outsourcers to succeed within the out-tasking model. This is followed by a summary of tangible business benefits that enterprises and outsourcers can hope to achieve when pursuing this approach.

Strategic Out-Tasking Overview

At its heart, the Strategic Out-Tasking model requires enterprises to retain ownership for operations that have been outsourced. This operational accountability forces enterprises to invest appropriately in accelerating innovations and improving business flexibility from their out-tasking partnerships. The Strategic Out-Tasking model requires outsourcers to partner aggressively with enterprises to translate their business requirements into industry-accepted service-level agreements (SLAs) and then deliver these SLAs through a set of discrete managed services. By offering innovative services through shared delivery platforms that

[9] Gartner, "Gartner on Outsourcing 2006-2007," ID Number: G00144477, December 19, 2006

adhere to industry standards, outsourcers can achieve better economies of scale and minimize operational risks. A greater focus on innovation also helps outsourcers differentiate themselves from competitors while building the foundation for sustainable, long-term partnerships with enterprise customers.

Investing in Discrete Managed Services

The Strategic Out-Tasking model views IT as a collection of discrete but interoperable services. In this model, enterprises primarily are accountable for the services they out-task and for the returns they realize. This accountability has implications:

- Enterprises now need to retain processes that are critical for defining business requirements and creating new services, even when service delivery capabilities are fulfilled by outsourcers. Further, the Strategic Out-Tasking model recommends that enterprises continue to maintain operational visibility and influence over their out-tasked operations.
- Enterprises become more empowered to select "best-of-breed" providers for individual services. Such a best-of-breed strategy puts considerable emphasis on process and data integration among out-tasked and in-house services. While the outsourcer or other third-party systems integrators may perform the actual integration, the enterprise IT team should retain the overall responsibility for the integration process.

On their end, outsourcers need to make strategic choices to succeed. They must build a portfolio of service offerings in which they can be best-of-breed. Some of the drivers of business benefits include the following:

- Higher margins from differentiated expertise and delivery competencies needed for these focused service offerings.
- New revenue streams from global deployment opportunities, especially with large multinationals. Increased global revenue opportunities likely will offset any revenue loss from the more tightly scoped contracts.
- Reduced up-front deployment costs and ongoing operational expenses from adherence to industry standards.

Outsourcers can, in turn, share some of these resulting financial benefits with their enterprise customers, further cementing win-win partnerships.

Investing in Superior Partnerships

With the Strategic Out-Tasking model, enterprises are likely to have an increasing number of outsourcer partnerships, each of which requires greater process coordination and increased access to enterprise data. Enterprises should take an architectural approach to describe the vision and roadmap for implementing the relevant business processes and deploying the infrastructure to orchestrate them. In addition, these architectures should be viewed as "living blueprints" that reflect changing business needs and the emergence of new, innovative solutions. An architectural approach minimizes risks to intellectual property, customer privacy, and other sensitive information.

While enterprises own their architectural blueprints, outsourcers can contribute. Leading outsourcers are investing in standards-based service delivery platforms that help them scale existing services rapidly and efficiently while provisioning new ones. Such global delivery platforms facilitate easier integration with other standards-based enterprise services, including those delivered by third-party providers.

Executive sponsorship and governance are critical for the success of a partnership. Many companies have consolidated their partner management skills into shared centers of excellence that consistently can identify and resolve outstanding issues.

Investing in Innovations

By out-tasking operational transactions, companies can free resources to focus on higher-value interactions, such as improving customer experience and accelerating the adoption of new innovations. For example, since out-tasking many routine break-fix operations, the CIO of a major U.S. university hospital and her IT team were better able to partner with hospital functions in using imaging and wireless applications for transforming patient care and clinical management processes. Such business collaborations have been critical in repositioning IT as strategic to the hospital's goal of enhancing its premier industry position.[10]

A rewarding out-tasking partnership requires outsourcers to proactively introduce new technology and business solutions. For example, a retailer or manufacturer of consumer packaged goods is likely to value an outsourcer that can help integrate radio frequency identification (RFID) solutions with its supply chain, thereby accelerating time to replenishment and reducing sales-cycle times.

Later sections of this paper identify specific actions that both enterprises and outsourcers can execute to optimize and evolve out-tasking partnerships.

Returns Are Worth the Investment

A preliminary estimate shows that Strategic Out-Tasking can result in industry benefits of $16 billion to $23 billion that enterprises and outsourcers can share. This estimate was calculated two different ways:

1. From an enterprise perspective, our customer work reveals that companies anticipate incremental benefits of 7-10 percentage points from pursuing a Strategic Out-Tasking approach. For example, a North American public sector customer estimated an incremental $10 million to $15 million in direct IT returns from a $100 million outsourcing contract. In this case, an additional investment of $3 million to $5 million was needed to switch from traditional outsourcing to Strategic Out-Tasking. For the $233 billion global IT outsourcing industry,[11] a 7-10 percentage point increase in benefits translates into an estimated $16 billion to $23 billion in additional benefits.
2. Viewed from the perspective of outsourcers, we similarly can anticipate a 7-10 percentage point increase in operating margins. Traditional IT outsourcers currently operate on net margins of 5-10 percent.[12] Specialized business process providers, however, routinely realize much higher net margins, in the 12-20 percent range.[13] Strategic Out-Tasking can help outsourcers elevate to these higher operating margins.

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[10] Cisco Internet Business Solutions Group, "Prescription for Innovative Leadership: A Strategic IT Out-Tasking Approach Helps Stanford Hospital and Clinics Accelerate Its Business Transformation Program," July 2004
[11] Gartner, "Worldwide IT Outsourcing Forecast Database," 2006
[12] Sheetal Bahl, "Is Offshoring Demand Sustainable?", July 2005, Outsourcing-journal.com
[13] Company 10-Ks

> From an industry perspective, these 7-10 percentage point margin gains translate into a similar estimate of $16 billion to $23 billion in additional benefits.

The above order of magnitude estimate of incremental returns is only meant to be illustrative. Increased industry experience with Strategic Out-Tasking will allow us to anticipate future refinement of these estimates.

Strategic Out-Tasking also results in several indirect benefits. The required standardization and virtualization of enterprise IT assets results in real cost savings. Standardization of an enterprise's IT infrastructure can reduce the total cost of ownership by as much as 25 percent.[14] Virtualization results in better asset utilization and increased labor productivity. Cisco, for example, used advanced virtualization solutions to double its storage utilization rates from an industry average 25 percent to more than 50 percent, resulting in cost benefits of nearly $250 million.

Enterprise Actions

Enterprises should own the processes, data, and management capabilities to identify and deploy new, innovative services; actively manage the delivery of services for operational accountability; and accelerate services through their maturity lifecycles. This section provides detailed guidelines for enterprises to create their own out-tasking action plans.

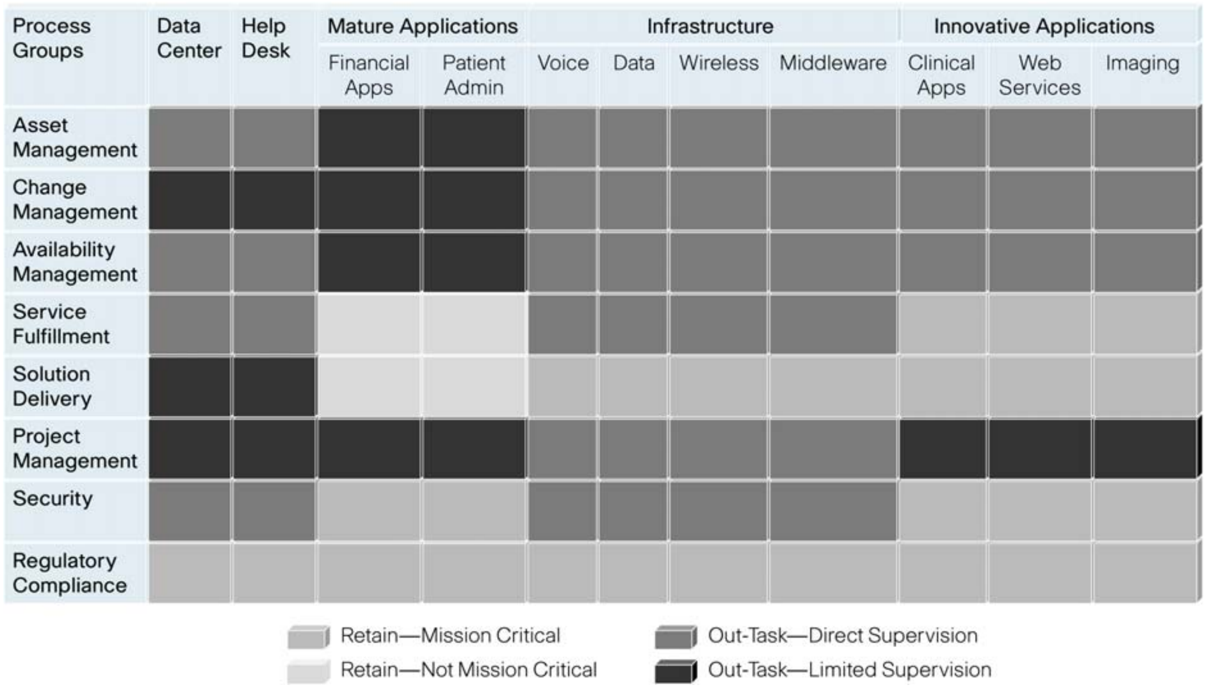
Identify and Deploy New Services

The Strategic Out-Tasking model recommends that enterprises out-task services only when they are mature and well-understood within the company and can be delivered by more than one provider with price-competitive solutions. Services such as help desks typically can be out-tasked with minimum impact on other enterprise operations and measured easily using industry-accepted SLAs.

Strategic out-tasking requires enterprises to retain overall operational accountability. To do so, enterprises should retain, in-house, the competencies to create and pilot new services and then use partners to scale more promising services. In-house competencies could include the skills, relationships, and business acumen to work with customers; relevant internal business functions to identify unmet opportunities; and the ability to design innovative, new services. The scope of retained competencies will vary. Mature service offerings, such as help desks, typically require fewer resources and processes to be retained compared to emerging services, such as rich-media solutions. Figure 4 shows, at a macro level, the processes that the IT function of a leading healthcare provider chose to retain (versus out-task) for its different service offerings. In this customer example, the actual resource retention decisions were made at a more granular level.

[14] Sage Research, "Network Cost of Ownership: Benefits of Vendor Standardization," September 2003

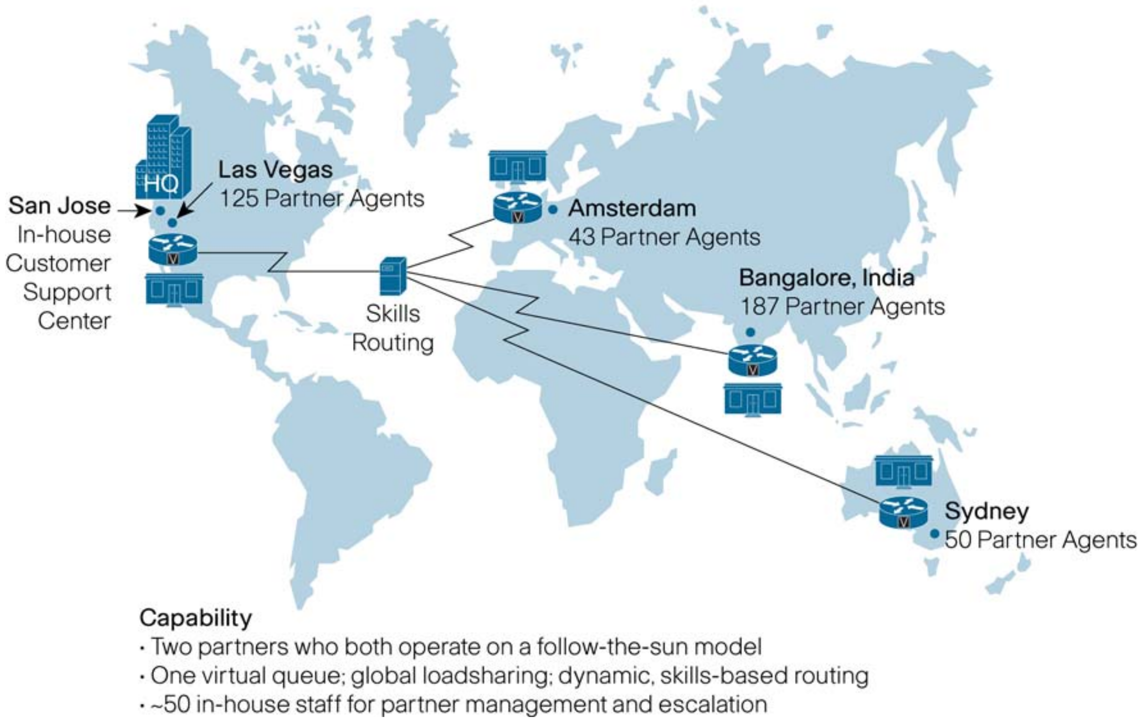
Figure 4. Process-oriented Analysis to Identify Competencies to Retain



Source: Cisco IBSG healthcare provider customer

The selection of out-tasking partners should be driven both by specific operational objectives and broader business goals. For its frontline customer support centers, for example, Cisco determined that its customers prefer reaching customer support agents during the agents' regular daytime hours. The "follow the sun" model, shown in Figure 5, allows this to happen. Partners were selected based on their global footprint and ability to transfer calls seamlessly among multiple, global locations.

Figure 5. Cisco's "Follow the Sun" Model for Customer Support



Source: Cisco Customer Advocacy

Contractual metrics should align with the enterprise's overall business goals. Poorly designed metrics can result in negative behaviors. For example, customer support metrics, such as call-handling times, may inadvertently motivate partner agents to terminate calls before customer issues are fully resolved. Figure 6 shows some metrics that a U.S. federal agency identified as reliable indicators of superior customer service.[15]

Figure 6. Public Sector Agency Metrics for Superior Customer Service

Metrics	Cisco Benchmark	How to Measure
Time to Resolution	P2—4-hr. Resolution P3—8-hr. Resolution P4—16-hr. Resolution P5—40-hr. Resolution P6—Scheduled Resolution	Case Management Tool
Issue-resolution Rate	90% Call Closure Within Targeted Timelines	Case Management Tool
Customer Satisfaction	= or >4.7 Customer Satisfaction	Customer Satisfaction Survey
After-hours Support	P2 After-hours Support	Case Management Tool
Average Speed to Answer (Tier 1)	30-Second Average Speed to Answer	ACD, IPCC
Call Abondonment (Tier 1)	<5% Abandonment Rate	ACD, IPCC/Switch
First-call Resolution	45%	Case Management Tool
Compliance with SLAs	Service-level Objective Is Not to Miss SLAs 3 Consecutive Months; 90% Compliance	Case Management Tool/ Outsourcer Reports

Source: Cisco IBSG customer example

[15] Cisco IBSG, "SBA and Cisco Help Blaze the Trail for the Connected Agency of the Future," August 2005.

Manage the Delivery of Services

Internal IT organizations should actively monitor and appropriately influence operations even after they are out-tasked. Best practices in specific partner management areas include the following:

- Mechanisms to track business returns and proactively optimize operations: Such operational visibility gives enterprises the ability to locate and address any negative performance issues or unmet customer demands in a timely manner. For both its in-house and out-tasked customer support centers, for example, Cisco maintains a real-time view of customer satisfaction scores. Armed with these scores, Cisco can work proactively with its partners to identify and resolve any performance issues. By using an integrated call queue, Cisco can, in extreme cases, shift calls away from underperforming centers to ones that are yielding higher satisfaction scores.
- Partner incentives that are designed to accelerate desired returns: Experience suggests that contractual penalties often fall short of any negative business impact from poor partner performance. Instead, enterprises are better served by helping their partners succeed. Incentives should reward partners for exceeding performance targets. For instance, Cisco provides a 2-4 percent bonus payout to customer support partners for exceeding customer satisfaction targets. In addition, Cisco provides partner agents with the tools and training necessary to help them exceed these targets.
- Retention of 10-15 percent of operations in-house, even for out-tasked services: By retaining a fraction of out-tasked operations, enterprises maintain the operational experience to collaborate more effectively with outsourcers for improving performance. In addition, enterprises are better positioned to structure credible contracts down the road. In extreme cases, the retained operational experience would simplify bringing operations back in-house if that ever becomes necessary. The 10-15 percent guideline maintains a critical operational mass that is needed to offer viable career paths for the retained workforce.

Management of out-tasked services should be a top business priority. Ideally, the CIO could be the corporate sponsor and provide executive guidance that complements day-to-day supervision provided by the in-house team. Successful out-tasking requires next-generation organizational competencies. Enterprises need to nurture a talent pool with savvy partner management skills and a deep understanding of IT services industry economics. Enterprises often choose to consolidate their partner management resources into shared competency centers that help drive best-in-class practices throughout the organization. These practices could include programs to pre-qualify partners systematically, negotiate win-win contracts, maintain executive relationships, and evolve partnerships to support changing business needs and market conditions.

Accelerate the Services Lifecycle

Enterprises should view out-tasking as an eventual scaling strategy for most IT services. Out-tasking allows enterprises to “dial up” or “dial down” service levels to respond rapidly to changes in customer and market conditions. In the Strategic Out-Tasking model, enterprises should accelerate new services through their maturity lifecycle for eventual out-tasking, including:

- Engaging outsourcers early in the services lifecycle to ensure scaling readiness: This is in many ways similar to the design-to-production practices perfected by Japanese automakers in the late eighties.
- Providing outsourcers with standards-based interfaces for their architectural blueprints: By so doing, enterprises can better orchestrate linkages among different internal and out-tasked services, facilitate the integration of new services, and mitigate security risks from these various partner interconnections. The emergence of offshore providers and remote delivery centers further accentuates the need for such holistic enterprise architectures.
- Owning an innovation agenda and requiring partners to contribute to this agenda: While enterprises own the creation of new services, outsourcers should contribute based on their research investments and innovation insights. Innovation must be a critical criterion for selecting partners, and out-tasking contracts should offer partners incentives to introduce relevant innovations and drive their adoption.

Strategic Out-Tasking as a scaling strategy has some challenges. Enterprises sometimes struggle to scale successful in-house pilots through out-tasked operations. This especially is true for disruptive innovations that potentially undermine existing out-tasking arrangements and can test the outsourcer’s competencies. A Cisco enterprise customer is, for example, looking to engage specialized third-party systems integrators to help deploy converged voice-over-IP (VoIP) infrastructure technologies within its out-tasked operations. Several open issues remain, however, regarding how the new infrastructure will be operated once the initial deployment is completed.

Clearly, the actions proposed in this section are to serve as guidelines that enterprises can customize for their own purpose. The next section explores similar actions that outsourcers may wish to pursue to become more adept at executing win-win out-tasking arrangements

Outsourcer Priorities to Support Strategic Out-Tasking

Outsourcers need to adapt their business and operating models to succeed with the Strategic Out-Tasking model. Specifically, an outsourcer needs to create a portfolio of discrete managed services, deploy “time-to-value” sales models, and invest in superior integration with other enterprise and third-party services.

Create a Portfolio of Managed Services

Outsourcers must consider their offerings as a set of discrete but modular services that can be offered either standalone or bundled into a more comprehensive solution. These services can be described in terms of expected returns represented as industry-accepted service levels. For seamless integration with other enterprise or third-party services, these modular service offerings must have well-defined interfaces for process and data interconnections, documented operational dependencies, and computational engines to execute business rules.

In order to create and deploy these modular services rapidly, outsourcers need to manage their offerings as a portfolio. Figure 7 describes a three-phase services lifecycle framework to help outsourcers create their own services portfolios, including services that are ready for go-to-market deployment.

Flexible integration capabilities clearly are important when defining services that can interconnect. This especially is true for disruptive services for which the required application functionality and integration requirements may be hard to specify up front. For example, storage-on-demand services that currently integrate with e-mail hosting and archiving applications may, in the future, be required to store and archive Internet chats and Webconferencing sessions. These new requirements likely will come with different security and retention policies. Figure 8 shows a sample portfolio of network services.

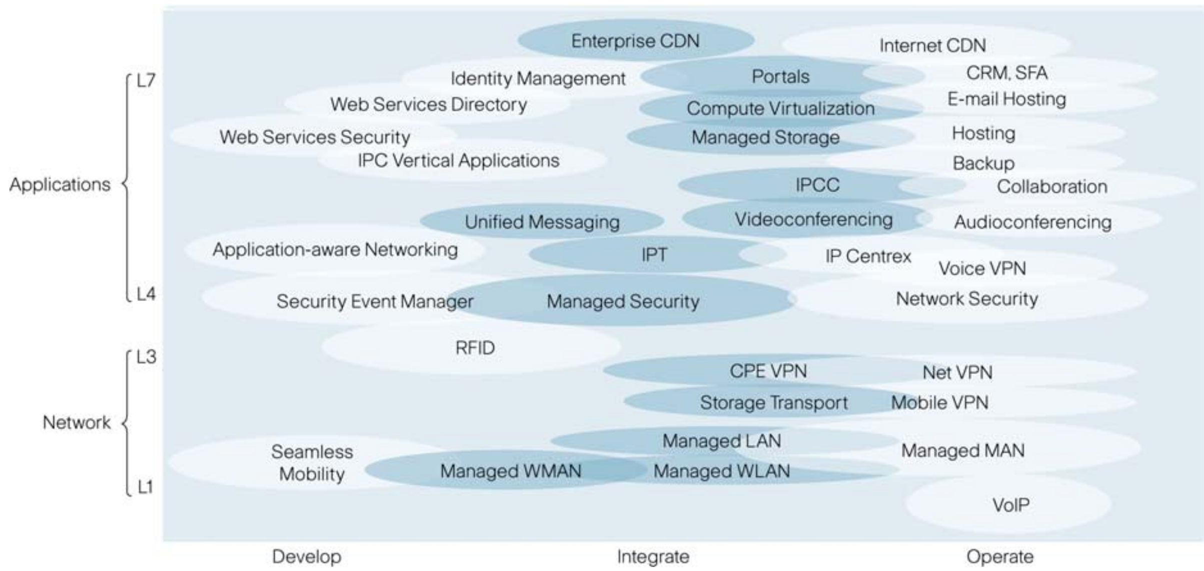
Figure 7. Three Phases of Services Lifecycle

	Phase 1 Development	Phase 2 Integration	Phase 3 Operations
Characteristics	Identified Enterprise Requirements for Services	Developed Standard Feature Set for Services	Well-adopted Third-party Services
Winners	Deliver Innovative Service Offerings	Deliver Tangible Returns; Simplify Integration	Offer Scalable and Cost-effective Solutions
Partnerships	Relationships with Leading Technology Providers to Develop Innovative Solutions	Ecosystem of Promising Technology Providers and Integrators to Offer Complete Solutions	Tightly Coupled Alliances with Industry Leaders to Deploy Standards-based Solutions Rapidly
Examples	CRM Software (1990s); Web Services (Today)	Managed Storage or "Storage on Demand"	Web Hosting

Source: Cisco IBSG, 2006[16]

[16] Bill Brownell, David Jegen, and Karthik Krishnamurthy, "Strategic Out-Tasking: A New Model for Outsourcing," Cisco IBSG, 2006

Figure 8. Sample Portfolio of Network Services



Source: IBSG global outsourcer example

Deploy Time-to-value Sales Models

For outsourcers to realize the returns anticipated from a Strategic Out-Tasking partnership, they need to move away from traditional cost-plus pricing models to ones focused on time-to-value. Our experience with leading IT outsourcers has provided three key go-to-market initiatives that help outsourcers in executing a time-to-value model.

1. Focus on business processes: At its heart, the focus on business processes is about helping enterprise customers succeed in their own marketplace. Many outsourcers have business process competencies within their management consultancy practices and business process outsourcing (BPO) operations. But often they struggle at linking traditional IT services with business consulting teams. Traditional selling models may need to be modified. Typically, distinct IT services and BPO teams can pursue a comprehensive approach for understanding the customer context and identifying differentiated ways to expand existing contracts profitably. For example, instead of a singular focus on call-center operations, an outsourcer’s IT services and BPO teams could collaborate in transforming the overall customer experience using next-generation collaboration services.

2. Build innovation into the partnership from the start: We believe that out-tasking contracts should, as a rule, include incentives for introducing emerging innovations and accelerating their adoption. Technology lab visits and performance benchmarking workshops can provide opportunities for outsourcers to introduce new technologies and practices into existing contracts.

3. Expand wallet share of existing customers: IT outsourcing is already prevalent. Expansion of existing contracts is an increasingly important lever for outsourcers to grow revenues. The good news is that an estimated 75 percent of enterprise IT spend still is untapped. IDC estimates that worldwide IT spending will total $927 billion in 2007, of

which $233 billion, or about 25 percent, is offered through outsourced services.[17] Outsourcers should focus on the expansion of contracts during their lifetime. For example, outsourcers could offer incentives to customer delivery teams for proactively identifying and facilitating contract growth opportunities.

Invest in Superior Integration with Enterprises and Value-adding Ecosystems

By selecting best-of-breed services, enterprises typically expand the number of their out-tasking partnerships. In this environment, easy and flexible integration is likely to be a competitive differentiator for outsourcers. Winning outsourcers integrate not just within their own services portfolio but also with other enterprise and third-party services. Some approaches for easier integration include the following:

1. Deploying sophisticated infrastructure and application management tools: Such tools can help outsourcers better orchestrate enterprise processes and integrate information among other ecosystem partners.
2. Pre-integrating services with other industry-leading offerings: Greater collaboration with other leading vendors and service providers can help mitigate common implementation risks and increase the outsourcers' chances of winning and retaining partnership contracts.
3. Building leveraged service-delivery platforms: Such service-delivery platforms enable outsourcers to deploy and integrate their service offerings rapidly. Ideally, the delivery architecture is the same for both external customer services and for internal development and collaboration. For large outsourcers, this converged architecture can be implemented on a global basis. A strong internal IT organization is critical to deploy these global delivery capabilities. The IT function can then aspire to become an innovation engine, showcasing go-to-market services from the perspective of the first and best customer.

In summary, we believe that through timely investments in sales and delivery capabilities, outsourcers can be well positioned to take advantage of the opportunities afforded by the Strategic Out-Tasking approach.

Summary: A Win-Win Opportunity

Strategic Out-Tasking is a win-win model that breaks the vicious cycle of negative compromises associated with traditional outsourcing approaches. By out-tasking routine transactions, enterprises now can free in-house expertise and management attention to focus on higher-value interactions related to customer experience and disruptive innovations. Enterprises also gain business flexibility from being able to modify service levels to respond more efffectively to changing market conditions. Outsourcers, on their end, enjoy higher margins from deploying more targeted services. While out-tasking contracts may be narrower in scope than traditional outsourcing contracts, global deployment opportunities, especially at large multinationals, likely will compensate for any potential revenue loss. In addition, successful Strategic Out-Tasking partnerships often create

[17] IDC, "Worldwide IT Spending 2006-2010 Forecast by Vertical Market: North America, Western Europe, Asia/Pacific and Rest of World," IDC No. 202600, Volume 1, Tab: Markets, August 2006

opportunities for outsourcers to up-sell higher-margin consulting and managed services, enabling profitable expansion of their account relationships.

For Strategic Out-Tasking to succeed, both enterprises and outsourcers need to have a win-win mind-set. The Strategic Out-Tasking model requires enterprises to remain accountable for business outcomes. Enterprises should align what they expect outsourcers to deliver with their overall business goals, select highly integrated and secure services from best-of-breed providers, and retain the processes and resources necessary for realizing the desired returns. Outsourcers, on their end, need to invest in the long-term success of their enterprise customers. This requires them to invest in global delivery platforms and scalable business models that create the foundation to develop and provision differentiated service offerings rapidly. Investments in disruptive innovations and code-sharing partnerships with other best-of-breed outsourcers can help differentiate services offerings, lower delivery costs, and, ultimately, win more business.

We believe that the results are worth the incremental investments. Our preliminary estimate is $16 billion to $23 billion in industry impact from the combination of reduced operational risks for enterprises and increased operating margins for outsourcers.

In short, the benefits can be dramatic and the time to act is now.

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More Information

The Cisco Internet Business Solutions Group (IBSG), the global strategic consulting arm of Cisco, helps Global Fortune 500 companies and public organizations transform the way they do business—first by designing innovative business processes, and then by integrating advanced technologies into visionary roadmaps that improve customer experience and revenue growth.

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