

Offshore Insights

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RESEARCH SUMMARY:

The Futurized Corporation

Excerpt from an upcoming book by
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The Futurized Corporation? We believe it is going to be the company that shines in its ability to seamlessly stitch together component-based, composable services from different providers and its own operations to re-create self-standing business functions – a virtualized supply chain.

There has already been a dramatic evolution in corporations' thinking about outsourcing. But as far as services globalization has evolved, the question for today's corporation nevertheless remains: "Which functions should be outsourced?" Today's corporations do think beyond back-office, labor-intensive tasks to outsource complex business processes – from investment and pricing analytics to inventory management to aircraft engine maintenance forecasting – but when considering global sourcing, corporations have the mindset that there are only certain processes that can be chosen to be globally sourced while the rest stay in house.

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The Futurized Corporation, in contrast, asks: “How can I better serve my stakeholders? Can I leverage services globalization to make it happen?” Instead of considering certain processes that can be chosen to be sourced, the Futurized Corporation focuses on the stakeholders and leverages services globalization to achieve goals. It also focuses on what its core competency is and what it leverages others for to complete its quilt!

Broadly, the Futurized Corporation will keep three pieces in house: its vision, its strategic execution, and its core competencies. These three building blocks will be the sources of competitive advantage for the Futurized Corporation – beyond them, all functions in the value chain can be outsourced and done better by others.

The Futurized Corporation’s vision is a plan for what the business will look like in 5, 20 – even 100 – years. The organization knows the kind of business it wants to be, the partners it wants to engage, and the customers it wants to serve.

Strategic execution includes the corporation’s ability to engage and disengage sourced services quickly and effectively and its ability to seamlessly integrate services from different providers to re-create self-standing business functions (the virtual supply chain) – these abilities will be key to the Futurized Corporation’s success after it has completely shed all but its most core competitive advantage functions.

The Futurized Corporation’s core includes those competencies or assets that cannot be separated from the corporation without fundamentally changing it – including, perhaps, entrepreneurial capabilities, intellectual property, goodwill, relationships, values, principles, reputation, and brand.

Not only will the Futurized Corporation outsource what corporations today consider core, but it will actually redefine what is core. Some corporations are already headed on that path. EA (Electronic Arts), for example, outsources art asset development – a critical component of the creative development process (which intuitively would appear a core function for a game developer). And Nike, too, outsources a large percentage of its non-core functions, retaining primarily brand ownership and design – the one function that Nike truly considers core.

It may seem counterintuitive that companies like Nike and EA would outsource seemingly core activities – such as product design or creative development. But they’re good examples of how the companies that will become futurized corporations see core competencies in a different way – they are at the forefront of the paradigm shift in how companies think about what is core.

By virtualizing its services supply chain – engaging and disengaging service providers quickly and effectively to seamlessly stitch together services – the Futurized Corporation is able to offer its customers more of what they demand, including customer-centric and customized products and services.

Dell, for example, allows its customers to build their own computer on Dell’s website – the mass customized technology (Dell’s website) allows the company to create a unique product for each individual customer – and Dell’s virtualized supply chain makes the whole process cost-effective (the company leverages economies of sourcing). In that way, Dell is able to maintain direct touch with its customers, effectively owning the customer experience. Lenovo, in contrast, has not cultivated the ability to offer unique products or services to individual customers in a cost-effective way; their products are sold off-the-shelf based on the old economies of scale model.

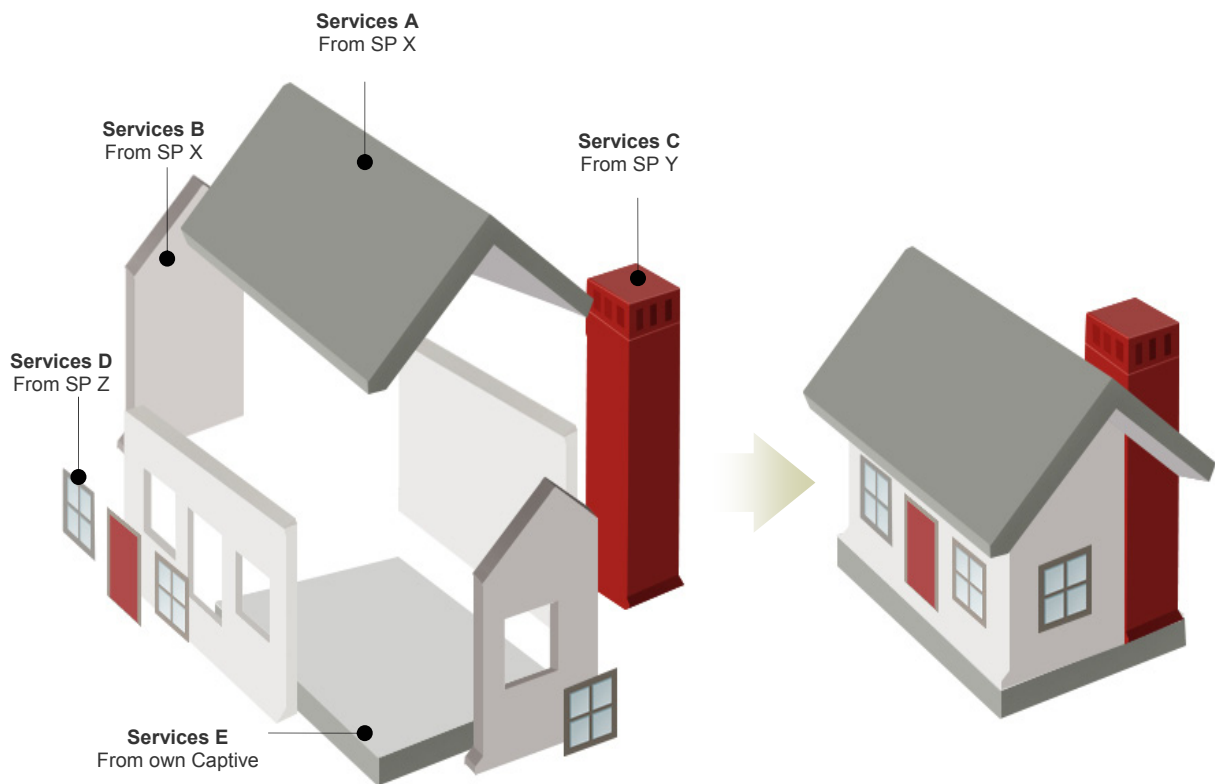
Driving Futurization: The Service Oriented Business Architecture Concept

The driver that will allow the evolution toward the Futurized Corporation is the emergence of service providers within a service oriented business architecture. The concept of service oriented business architecture (SOBA) is borrowed from service oriented architecture (SOA), which encompasses technology-based services such as ecommerce. The principle behind SOA – and SOBA – is that a company uses what exists, integrating its own resources

with purchased, pre-packaged resources from others.

One SOA technology, for example, is the payment gateway – the web equivalent of credit-card process machines at retail stores. Payment gateways are built by banks that then share the technology with online merchants. By stitching together banks' payment gateways with its own website – whether it's a site that sells items or one that accepts online bill payments – a merchant is able to offer its customers a service they demand – online payment – without having to invent and build that payment system itself.

Figure 1: The Concept of Service Oriented Business Architecture



But a service oriented business architecture by itself is not sufficient to allow the development of the Futurized Corporation; there need to be service providers available to offer the kinds of services that the Futurized Corporation needs to be able to create a virtual value chain.

Already, the trend is toward a world in which there are plenty of competent external suppliers at every level of the value chain. A greater number of providers in increasingly larger parts of the world are offering a broader range of more complex services today than five or ten years ago – eight years from now, there should be ample supply of service providers competent at all levels of the supply chain.

Those service providers will be diversified in what they do and where they operate from, but they will all have certain characteristics in common:

- Each service provider will offer a particular service that matches the Futurized

Corporation's compartmentalized service needs (for example, the payroll processing component of a company's HR function).

- Service providers will be highly focused. Just as the Futurized Corporation retains only its vision, core, and strategic execution, so will the service providers focus on their own way of serving their customers and outsource all non-core functions.
- They will work under standard interface definitions so that the Futurized Corporation can seamlessly stitch together services from multiple providers.
- Their operations will be encapsulated, or "black-boxed" – they will be outside of the Futurized Corporation's view except during due diligence prior to contract signing and during periodic audits. (For this reason, service agreements and contracts will be crucial to successful interactions in a SOBA-based future.)

Snapshot: Virtualized Services Supply Chains

To truly understand the evolution of a corporation from its present to its futurized state, it's helpful to take a look at how each business function may be done globally in the Futurized Corporation – and how those futurized business functions look different from today's or

yesterday's. Imagine all of an organization's business functions and ask, "How will services globalization and the virtualization of the supply chain change these business functions?"

Customer service for a bank



Banks have been able to offer more customized customer service by evolving from teller-based customer service to an online banking self-service model. While mass customized in the true sense, a bank's website allows customers to tailor their experiences to their own needs and

preferences. And unlike teller- and ATM-based customer service, with online banking, the customer's fulfillment process isn't pre-structured by the bank; the customer drives his own need-fulfillment process, navigating the website based on what he wants and needs.

IT for a consumer goods company



Ten years ago, companies began to replace legacy applications with packaged software solutions, and hired service providers to implement, maintain, and support those packages. In the future, that ASP model will evolve to a software-as-service model as service providers offer software on their servers for rent to corporations. Where the corporation of the past made its software solutions, the corporation of the present buys them, and the Futurized Corporation will pay for them on a per-use basis.

At the same time as the software procurement has evolved, so have the types of IT functions that companies outsource. As IT has evolved within the corporation, service providers have moved up the value chain; now they are able to provide more than skills, including the ability to take on and manage application maintenance, development, and support projects.

Human resources for a telecommunications company



Services globalization allows organizations to customize their product/service offerings. In HR, for example, the present corporation already shows the beginnings of the customization trend, with self-service employee portals. Self-service is a key characteristic that we'll continue to see more of in HR as corporations futurize.

And while the corporation of the present shows the beginnings of HR virtualization, it is in the evolution to the Futurized Corporation that the HR supply chain becomes completely virtualized. In the Futurized Corporation, the HR function will have only one employee: the HR outsourcing manager who works with service providers to cover the outsourced value chain, ensuring that each process is seamlessly stitched together.

Game development for a gaming company



The game development company of the past did all of its development in house. Modern game development companies began outsourcing with simple game testing, then outsourced minor game modifications, then simple art assets (objects such as tables, chairs, etc.), then more complex art assets (including texturing, modeling, and animation). Today's game

development company outsources those processes as well as character development.

But the futurized game development company will outsource the entire game development function (including logic). That will bring the company to its core, with conceptualization and design alone being done in house.

Investment analytics for an investment bank



The investment bank of the past performed all of its investment analytics internally. Today, many investment banks outsource the knowledge-gathering process. But the futurized investment bank will seek out online expertise sold by research vendors – the bank can either buy the

vendor's pre-packaged research or commission customized research from the vendor. But the research itself will no longer be a key differentiator for investment banks – what they do with the research, what they take from it, will be the new competitive advantage.

Getting from Here to There: Creating a Futurization Roadmap

In order to evolve from the present corporation toward the futurized corporation, organizations must develop a clear roadmap for aligning themselves toward the future. That roadmap has five steps.

Step 1: Assess SOBA readiness

The first step that an organization must take on the path to becoming a Futurized Corporation is to assess its readiness to deal with the business world in the future. The organization must ask: "Are we ready to take advantage of the opportunities provided by the evolving global economy?" Most importantly, corporations will have to learn how to leverage SOBA.

Step 2: Develop a services globalization competency

As the Futurized Corporation sheds all of its non-core business functions, retaining only its vision, its core, and its strategic leadership, it will have to hone its ability to successfully source around the virtualized services supply chain. To do that, the Futurized Corporation must develop competencies in sourcing, governing, and managing strategic alliances with its service providers; the old model of deriving competitive advantage from business functions like research and development or sales and marketing will no longer apply in the future.

Step 3: Restructure as a utility operational model

To accomplish the goal of compartmentalization and unit-level economic feasibility, the corporation must organize its business around

the utility services concept – sharing a common infrastructure on commodity processes, sometimes even with competitors. Then, not only must each business function be economically feasible, but it must also contribute to the organization's greater vision for the future; if it can't, the organization should take that individual function out of the value chain and outsource it to a provider that can provide the service more efficiently.

Step 4: Virtualize the services supply chain

If an organization's business functions will all be virtualized – outsourced individually to different service providers – then an organization must become prepared to source its processes that way by compartmentalizing internally first. To become ready for the future, organizations must break every function up as a profit and loss account – every department, every function will be accountable for its economic feasibility.

Step 5: Leverage the economic value of the service network

Where internal providers do provide services for the Futurized Corporation, they will have to behave like external providers – offering clearly defined service agreements and maintaining cost competitiveness. (They'll have to "share the pain and share the gain".) They will be "paid" with credits against their profit and loss accounts. And they will have to compete with external service providers for the job – they must be able to offer the Futurized Corporation a value that the external providers can't in order to remain in-house (and the onus is on the internal providers to periodically prove that value).

Case Study: Virgin Mobile USA

Virgin Mobile USA is a good example of a company on its way to becoming a futurized corporation. Virgin Mobile USA understands its strengths, makes those strengths its core functions, focuses on those core functions, and outsources the rest. The company, launched in 2002, is a joint venture between Virgin Group and Sprint Nextel; it is the first Mobile Virtual Network Operator (MVNO) in the US and the first mobile telecommunications company in the US to focus exclusively on the youth market.

As an MVNO, Virgin Mobile USA does not own its network structure; instead, it purchases minutes from Sprint's network to resell under the Virgin brand. In a May 2002 article in *Telecommunications International*, Tom Alexander, then CEO and managing director of Virgin Mobile, said, "The brand is our biggest asset because it symbolizes the great customer experience that Virgin stands for."¹ Instead of trying to be good at operating a network infrastructure and maintaining its brand, Virgin Mobile opted to stick to what it's good at – maintaining its brand – and develop a relationship with another company that could offer the other piece.

But its MVNO structure is not the only way that Virgin Mobile USA embodies many of the characteristics of a futurized corporation. It also outsources processes and functions that aren't truly core (its brand is a large part of Virgin Mobile USA's core). The company enlisted the help of third-party providers to design, implement, and manage new interactive voice response (IVR) systems, including a Spanish IVR to help the company increase its market share among Spanish-speaking consumers.

Virgin Mobile USA also chose to purchase a service oriented architecture (SOA) system to integrate and manage its operations – including point-of-sale order processing, product fulfillment, service provisioning, and connectivity with the Sprint network. That SOA system allowed Virgin Mobile USA to launch operations only seven months after the company was created and allows the company to continue to roll out new features about every four weeks.

Conclusion

In order to work toward becoming a futurized corporation – one that quickly and effectively engages and disengages service components to seamlessly stitch together services and create a virtualized supply chain – today's corporation must ask:

- Do we have a clear vision of the future? What would our business world will be like?
- How will we fit in that world?
- Do we recognize what it takes to get to that vision?
- What role does services globalization play in this?
- Have we started working towards it?

The process of becoming a futurized corporation is a journey rather than a destination. But it's a journey that will allow the organization to grow by focusing on what's truly core.

¹ Matthew Secker, "The right MVNO cocktail? – View from the Top," *Telecommunications International*, May 2002. Available at www.findarticles.com/p/articles/mi_m0IUL/is_5_36/ai_86648880.

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This is an excerpt from an upcoming book by Atul Vashistha. If you would like to receive notifications related to the book please register at www.neoit.com/gen/publications/Futurized_Corp.html