



# Enabling Innovation Through Outsourcing (PES)

Declan Fay

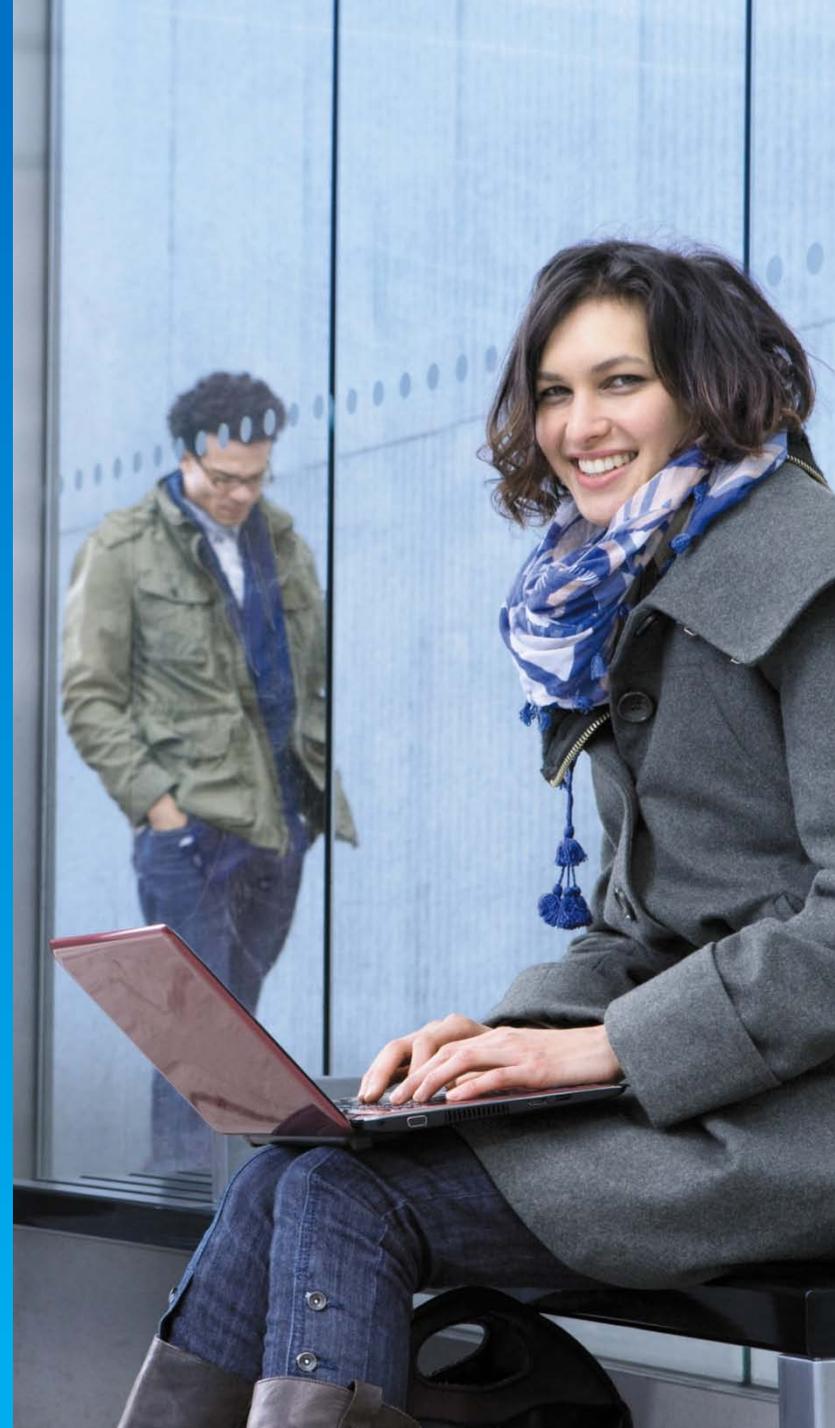
Global Sourcing Manager – Intel Corporation

June, 26 2012



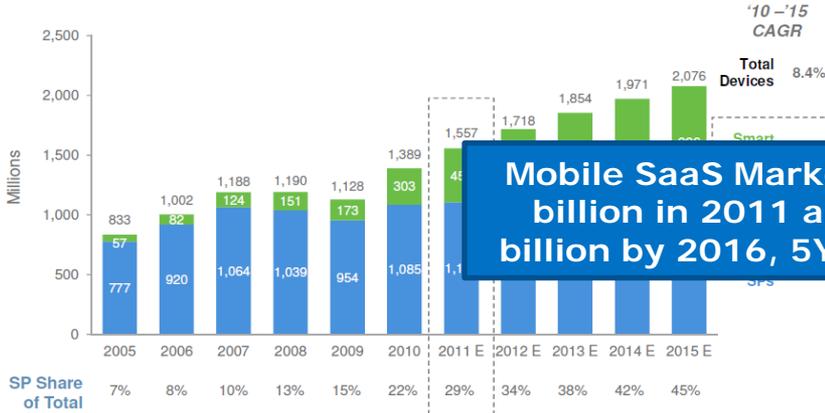
# Topics

- **Understanding the environment** – markets, industry & corporate strategy
- **Building a capability** & understanding your customer
- **Demystifying innovation** – identifying & closing gaps
- **It's not only about the contract** – CI, value engineering, just doing it!
- **Examples of innovation**
- **Conclusions**



# Changing Markets – The Connected World

Global Mobile Shipments  
2005-2015E, Millions



Who is building a cloud?

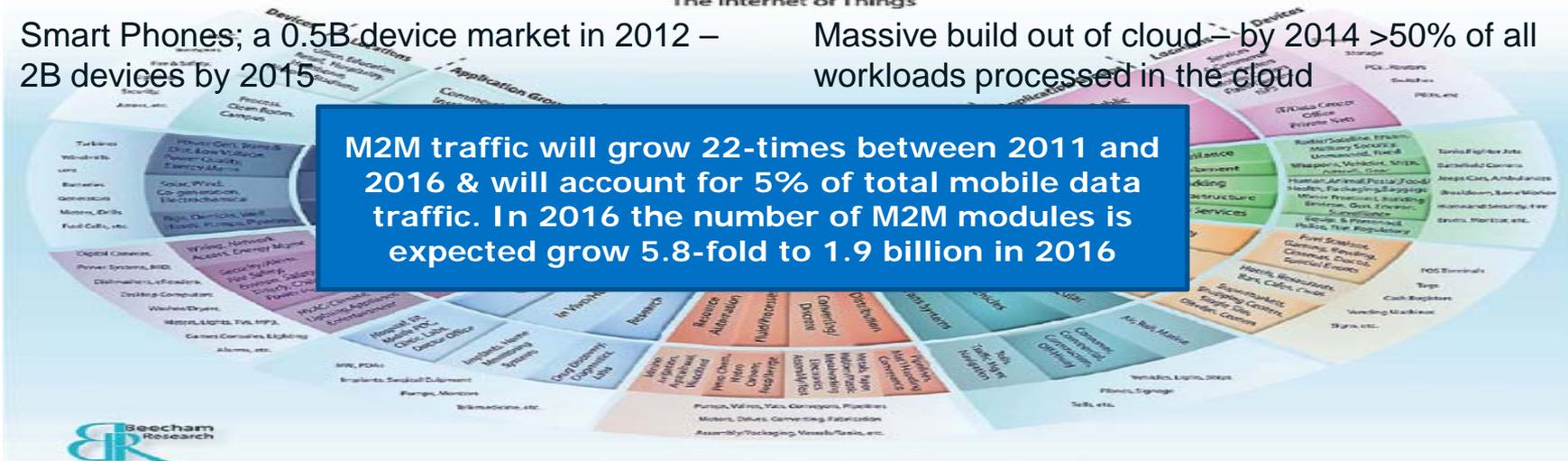


The Internet of Things

Smart Phones; a 0.5B device market in 2012 – 2B devices by 2015

Massive build out of cloud – by 2014 >50% of all workloads processed in the cloud

**M2M traffic will grow 22-times between 2011 and 2016 & will account for 5% of total mobile data traffic. In 2016 the number of M2M modules is expected grow 5.8-fold to 1.9 billion in 2016**



**Sources:** Accenture; Mobile Trends, Cisco; Mobility & M2M forecasts, IDC; Market Analysis Perspective – Worldwide SaaS & Cloud Services, 2011, New Models for Delivering Software, Analytics Magazine; Corporate Mobile Software-as-a-Service Forecast, Beecham Research

# Intel's Strategy – what this means for Global Sourcing

## Global strategy

- PC chip company to a Computing Solutions Provider
- Accelerate the PC globally
- Extend IA into adjacent markets
- Build new businesses by tackling big problems
- Create a continuum of secure, personal, computing experiences
- Care for our people, the planet and inspire the next generation

## Potential changes

- Tick-tock – faster cadence of development
- New products for new markets
- Innovative ideas and ecosystem partners to enable new businesses & tackle big problems.
- Increased competition, lower cost, faster time to market key

## xBU/CSP

- Ability to securely scale talent and support will be key
- Reducing variable operating cost through efficiency, negotiation and innovation
- Enabling supplier innovation through collaboration
- Contributing to velocity & TTM by selecting partners that can enable Intel win in target markets

# Outsourcing Industry Evolution

Will PES take centre stage?

Margin pressure in ITO/BPO driving OSP's towards PES & IP acquisition to move up the value curve!

Future Looks Cloudy ☺!

Initial cloud offerings focused on ITO (SaaS, IaaS, etc) – rapid growth in Product Solutions – Online stores, Infosys Flypp, Perfecto Mobile, Mob4Hire, etc

Industry

ITO/BPO

PES

Apps rationalization and data centre consolidation become key focus for CIO. Cloud services emerge SMB first (i.e. Amazon & Salesforce) – enterprise and OSP's in hot pursuit

ADM moves up the value chain with ERP and RIM and asset light IT infra services develop. VMWare emerges and sets in place early building blocks for cloud

Mid to late 1990's ADM refines ITO & Y2K demands establishes India as a key destination. Shared services & call centres establish BPO

Late 1980's & early 90's CEM & Data Centre creates an industry... asset intensive model

Late 1980's – early '90's

Late 1990's enterprises take advantage of low cost technical resources - captive engineering centres emerge

Spin offs of enterprise captive engineering, i.e. Bosch & T1 OS provider investment, i.e. HCL & Wipro – PES becomes an established OS category

Swathe of T2 vendors invest in PES creating an India ecosystem while mobility drives development elsewhere, i.e. the Nordics

2000's

201X & Beyond

Mid – late 1990's

# Growth Factors – Industry - Intel

Continuous pressure from Wall Street to cut costs and improve efficiency;

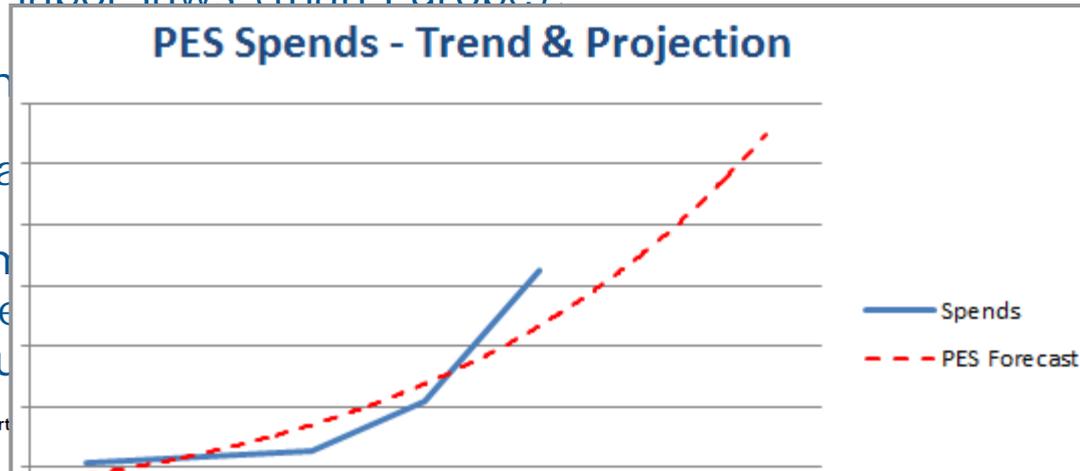
Drive growth by tapping into emerging markets (especially BRIC countries);

Less stringent labor laws (than Europe):

Increasing competition

Positive reputation

... success of new  
has provided  
to start sourcing



in the U.S.

and ITO services  
in eastern markets  
as well.

High Cost Engineering Spend By Vert  
2007

Engineering Services  
(2020)

- Changing markets referred to earlier
- Hiring constraints – push for efficiencies
- Acquisitions, i.e. Infineon Wireless Business (IMC)

Off-shoring PES – a \$150 B market by 2020 – 20 – 30% in India alone



India  
30-35%

50 Billion

South America: Brazil

Source: Booz & Co

Global Sourcing & Procurement

Shaping the Supply Chain to Make the Impossible, Possible

INTEL CONFIDENTIAL



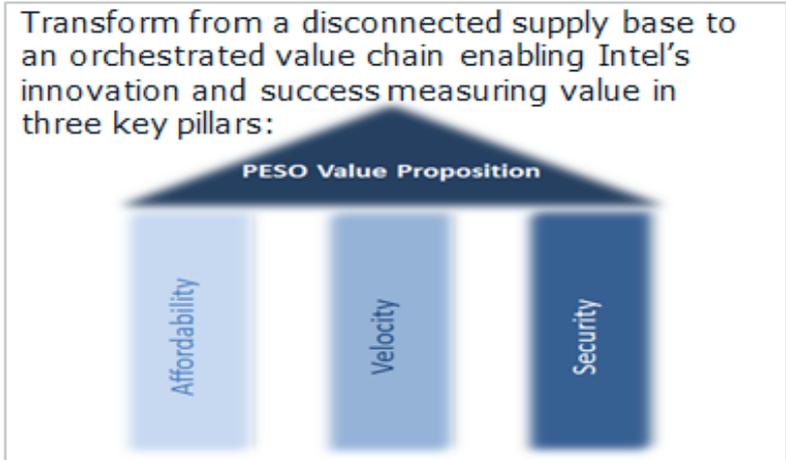
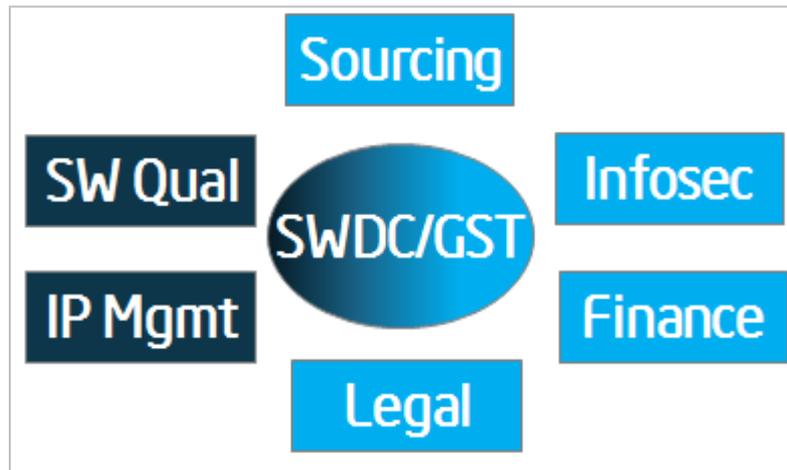
# Building a Capability for PES

Moved PES out of ITO domain to create synergies and better stakeholder alignment

Created a global virtual team to focus on PES – providing support in all key Intel R&D locations

- Resources in US, Mexico, Ireland, Israel, Germany, India, PRC & Malaysia
- Bringing together fellow travellers to develop a community of practice

Developed a strategy based on three key value pillars



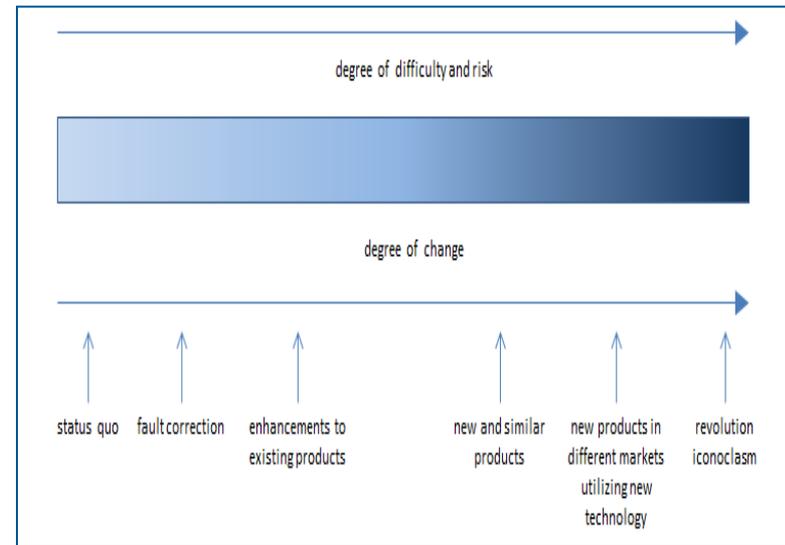
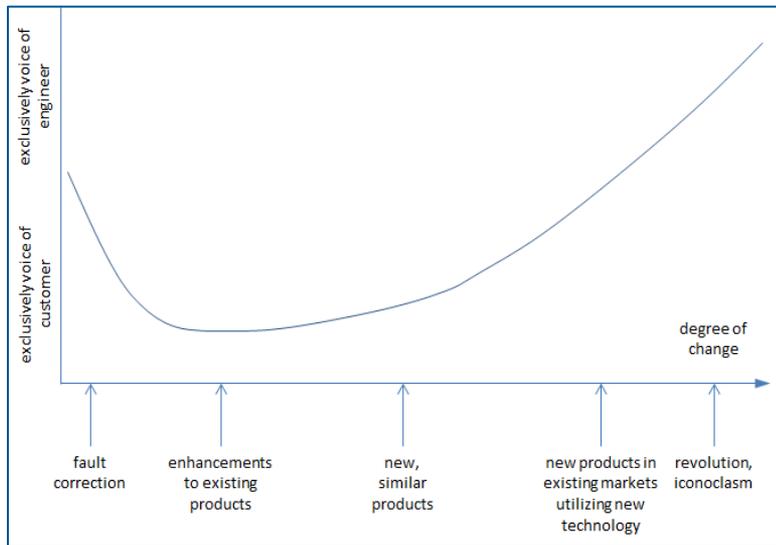
Without understanding what is important to your customers innovation may be misdirected

# Thinking about innovation

Defining innovation, good luck with that 😊!

Understanding the nature of innovation – more amenable... maybe!

- Reichtin-Maier spectrum of innovation



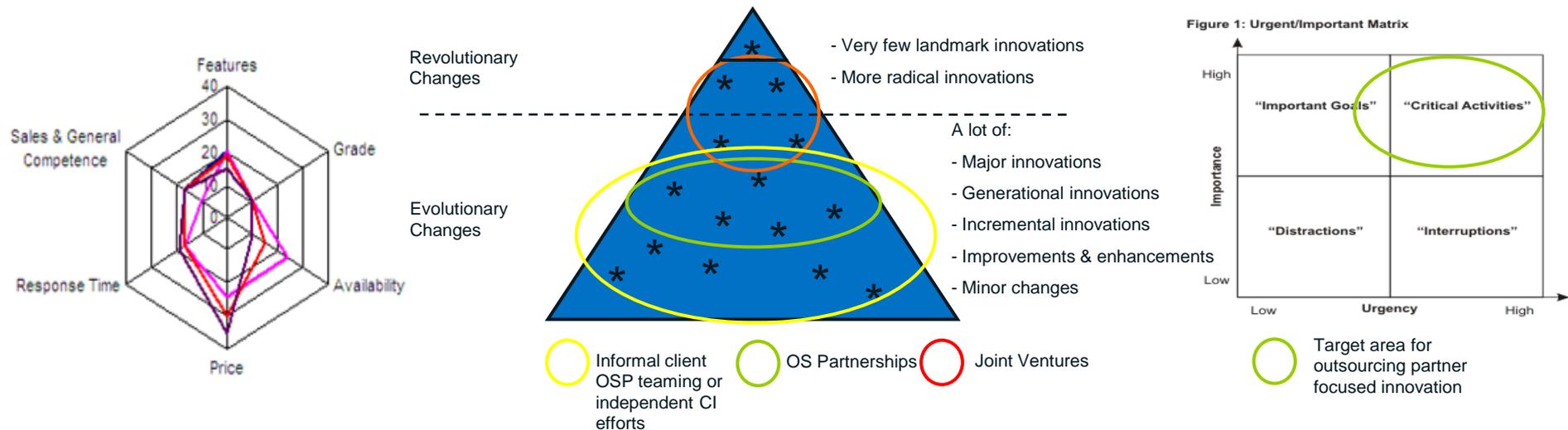
Two perspectives on innovation

# Identifying Gaps – Where are the opportunities & challenges?



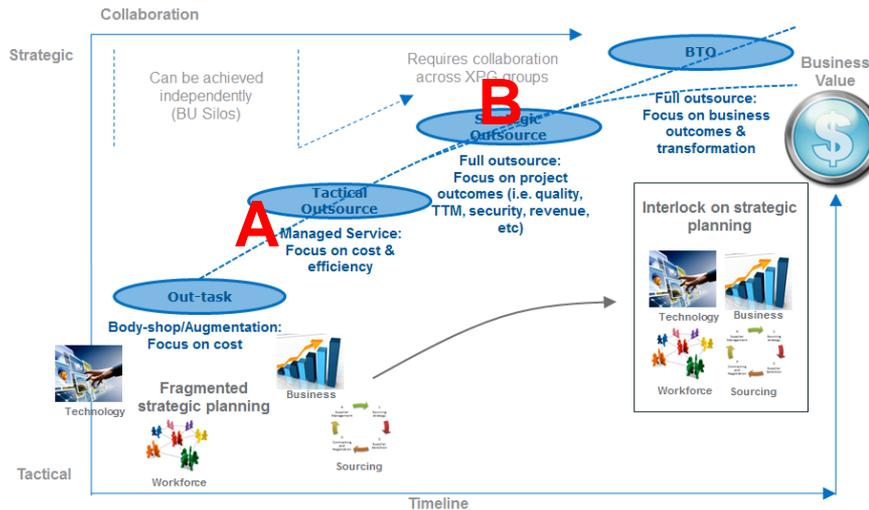
**Innovation can be viewed as bridging the gap between where we are today and where we want to be!**

- But how do you know where you want to be? Strategy & benchmarking are critical
- Develop an understanding of some fundamentals!
  - Levels of innovation – incremental, radical, both?
  - Areas for innovation - product, process, both?
  - Understand the risks and rewards – different levels of innovation imply different levels of risk & reward!
- Implementing formal methods to address these and other questions can help create a framework for innovation management:
  - Team based innovation, Analytical methods, Problem solving and implementation techniques
- Targeted innovation – understanding urgency and importance and aligning innovation with value drivers are key



# Not only about the contract – nor the engagement model – a tale of two providers

## Business Value & Sourcing Maturity



## Relationship Barriers

- Providers often too focused on the engagement model
- Both parties get too hung up on the contract
- Both are important but not the complete story

- Two service providers (A & B) occupying two different positions on the value curve – both multi \$M relationships
- Given the same challenge at roughly the same time – “find a way to engineer new business value for Intel stakeholders”... results tied to forming more strategic partnership
- ‘A’ engaged with dynamism & enthusiasm – ‘B’ did not!
- **Learnings: for OSP’s**; be willing to innovate beyond the engagement model, **for Clients & OSP’s** – where you find a willing partner you must engage – **Just do it!**

# Some Intel Innovations Around PES

- Price benchmarking and negotiation (**Affordability – E**)
- Formal partnership with R&D Finance on significant savings goals committed across all R&D groups (**Affordability – D**)
- Identification of gaps vs. contracting best practice for security & IP protection (open source, restrictions on competitor work, etc) (**Security – D**)
- Implementation of risk & reward framework into all MSA's & shifting focus to outcome based sourcing (**Velocity, Quality & Security – C**)
- Developed formal methodology to help stakeholders perform core vs. non-core analysis & sourcing strategy alignment – focuses internal teams on core business & innovation (**Velocity – B**)
- Introducing a focus on market enablement as a differentiator for supplier selection (**Velocity & TTM – B**)
- Development of Secure Outsourcing (SO) practice & supplier S certification (**Security – B... Y potential if adopted in the industry**)
- Portal & supplier intelligence database to transform how R&D groups engage and utilize outsourced PE Services (**All value pillars – A... possible X depending on value realised**)

## Innovation Classification:

- A. Major innovations
- B. Generational innovations
- C. Incremental innovations
- D. Improvements & enhancements
- E. Minor changes
- X. Radical innovations
- Y. Landmark innovations

While most opportunity is in evolutionary innovation – strive for radical & landmark innovations through possibility thinking

# Conclusions

- Develop a deep understanding of the environment and agenda for innovation – industry, markets, corporate strategy and customer needs
- Build a capability for innovation – invest in your team (knowledge, business acumen, methods & tools)
- Understand where you are but more importantly – where you want to be
- Target innovation in areas where you will realize value that is important to your stakeholders
- Understand that there are different levels of innovation and partnering is not a one size fits all model
- The contract and engagement model are important but not the complete story – partnership, collaboration, creativity and action are people dependent – not contract dependent
- Challenge 'can't' reward & celebrate 'can'!

Thank You – Q&A