

**INFORMATION TECHNOLOGY
SERVICE MANAGEMENT**

**TRANSFORMATION TO BUSINESS FOCUSED
INFORMATION TECHNOLOGY
SERVICES**

White Paper

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Onsett International Corporation

TRANSFORMING INFORMATION TECHNOLOGY SERVICES

Executive Summary

When Information Technology (IT) services are not defined as business-centric services, discontent among business unit leaders—the IT service customers—is often high. Discontent is further compounded by charge-back models that confuse the relationship between charges and services consumed. The key to improving the relationship between IT service providers and consumers is Service Management Transformation: the tailoring and re-definition of IT technology-centric services into a business-centric integrated services. Service Management Transformation provides a comprehensive yet comprehensible vehicle for both IT service providers and consumers to control cost, quality of service and satisfaction.

The Path to Today's Environment

Computing and telecommunication technologies are critical in today's business environment. In many organizations the role of Information Technology (IT) is to support the revenue generating activities of the business, while in others IT is a core component of the business. Regardless of which role IT plays, the IT organization has undergone significant changes in the past decade due to cost cutting pressures as well as strategic business realignments. Even in successful companies, IT services can be hard to explain and difficult to understand. For global companies the problems are compounded by variations in service level requirements, costs, and suppliers that are as diverse as the geographies they support. The problem is that IT organizations have difficulty managing the changing technology environment and describing their services in terms that are meaningful to their business customers. The result is low customer satisfaction due to misunderstandings in service quality and cost.

Adjustment or renovation in corporate strategy has a significant effect on IT strategy. IT professionals recognize the cresting waves and resulting operational impact of such things as Intranets and e-commerce platforms but they are more likely to have their operational approach affected by less interesting and non IT focused pressures and events such as:

- **Business Model Changes:** As the business environment changes, the IT organization must adapt to new requirements, often without additional funding. Money allocated to technology evolution is redirected to revolution.
- **Globalization:** As businesses organize around global units rather than regional hierarchies, disparities in IT regional approaches are illuminated or exacerbated.
- **Cost reduction:** IT is among the “usual suspects” when the search begins for corporate cost savings.
- **Mergers and Acquisitions:** IT is rarely the primary factor for acquisition or divestiture; but maximizing long-term ROI can be undermined by poorly managed IT integration and operation.

These forces put constant pressure on IT service delivery models. The effects of these pressures frustrate both business and IT executives resulting in strained customer relationships.

Customers want to know “What do I get?” “What will it cost me?” and “Why is it different in different places?” The burden of communication rests with the IT organization to articulate and communicate its services and prices in terms that satisfy its customer's need to know.

IT support to today's business environment has developed from incremental adjustments. As their business models change, Business Unit management requires clarification from IT of service characteristics and commitments. This endless cycle of re-articulating the value added by IT management ignores a required fundamental change in the role of IT from “running the data center” to “providing technologies and services that support revenue generating activities.”

Evolutionary Role of the IT Organization

Through the 1990s, IT transformed from providing back office, opaque, and routine IT support to an increased focus on adding value to the company's business goals. While the sequences for these efforts may have varied in different companies, the basic activities changed little:

- **Consolidate:** reduce the number of data centers thereby eliminating redundancies and reducing costs
- **Standardize:** establish standard platforms for both hardware and software to leverage economies of scale and reduce cost of ownership
- **Streamline:** reengineer to eliminate redundancy in IT operations and new technology development
- **Outsource:** outsource non-core operations to capitalize on service provider efficiencies

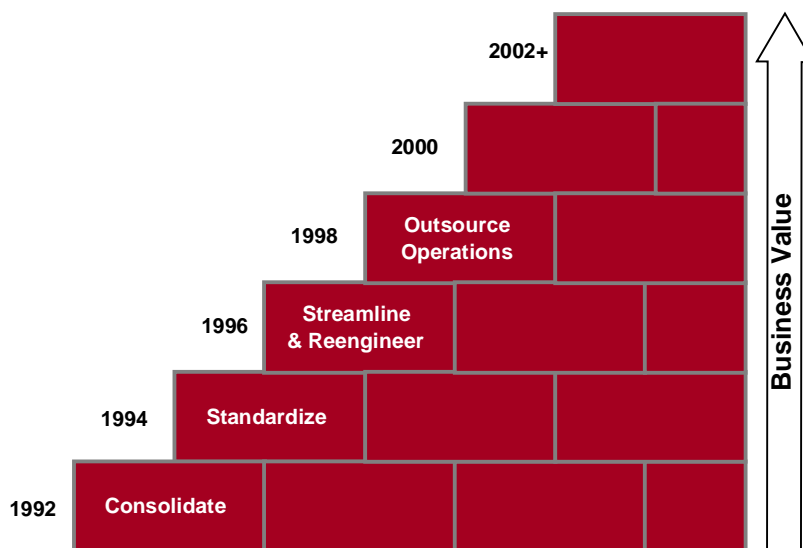


Figure 1. Building Business Value through Continuous IT Improvement

During this period, companies consolidated their IT capabilities into a small number of data centers and/or outsourced their routine IT operations. During this evolution, companies had serious issues in their operations that derived from:

- Failure to align contractual Service Levels with Business Unit expectations
- Misunderstandings surrounding cost structures
- Lack of specificity in process definition
- Miscommunications and delays in determining the scope of existing service versus new services

Companies today are not satisfied with the results. They continue to mandate improvements in IT services and optimization of investments beyond their current performance. The issues derive from a lack of clarity in defining and managing IT services. Too often IT organizations do not clearly define the services they operate or provide. While this is a serious problem for internally operated IT services, its magnitude becomes more obvious during the rush to outsource. The company and their suppliers are left to determine "as-is" service definitions and Service Levels during the contract due diligence period. The result is a period of contentiousness and mistrust that can persist for months or years.

IT Operating Models

Through the IT evolution stages, organizations that worked as the total service supplier have moved to new operating models (Figure 2).

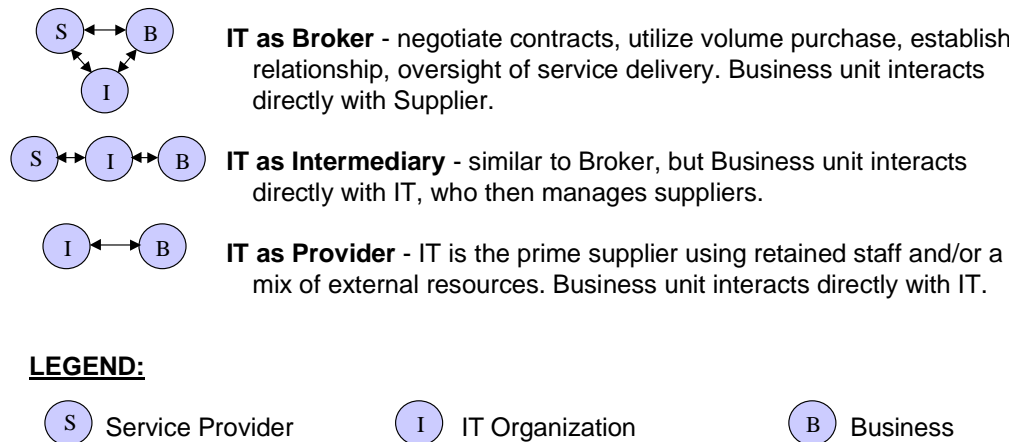


Figure 2. IT Operating Models

Each model has its advantages and disadvantages depending on the business requirements. The inhibiting factor is the lack of realization by IT organizations that their operating model has changed, or more accurately, the service delivery model has been altered. IT articulates their newly defined value adding services leaving business units to detect service gaps.

In global companies, the IT organization often operates in a mixture of these roles and must find ways for the models to coexist. In all of these roles the IT organization must address the requirement to manage its services. Put simply, you can't effectively manage something that is ill-defined. It is important to define services before outsourcing the provisioning of the service because outsourcing turns the budgeted activities of internal staff into enumerated contract "IT line items." As companies have agonizingly learned, outsourcing does not, in itself, solve IT management problems. The most successful outsourcing arrangements are those in which the IT organization has already addressed their service management needs and outsourced the items that can be delivered best by an external provider.

The IT organization retains the responsibility to define a service management program including service definition, cost, performance, and communication. This requires a commitment to setting management processes for long-term improvement across organization, technology, and financial functions.

Observations and Analysis

The following table captures our observations from more than 20 companies. The situation is remarkably consistent across the constituents and independent of the IT operating model.

Symptom	Root Cause	Solution
Technology service delivery is inconsistent.	Service interdependencies are not well understood or managed.	Reorganize technology components into integrated end-to-end business services AND Align the cost recovery processes with consumption of business services
Technology Service Definitions and Service Levels are unclear.	Services defined in technology terms, not business terms.	
Business units do not understand the services.	Services are technology components or IT aligned.	
IT Service charge-backs are unclear.	Financials are aligned with the underlying technologies not consumption of service.	
Business unit customers are being forced to act as integrators.	Interdependent services are being delivered and supported from many uncoordinated points.	

Figure 3. Observations and Analysis

In short, IT organizations do not communicate well. They need to reestablish their responsibilities, priorities, and articulate the value they add to the business. Unfortunately, pressure to survive cost reductions and react to changing business needs makes it difficult for IT managers to initiate efforts to improve their communications with customers or clarify the responsibilities they already hold. New corporate configurations such as operating alliances and joint ventures demand IT organizations clarify their services and financial management. External customers would not tolerate being told, “You get what you got last year plus 7%.” Internal customers do not find satisfaction in that response either.

IT organizations are moving from a monopolistic environment to a free market environment—they now compete for their customer base. Business managers are turning more to the public infrastructure for IT. The free market environment mandates behavior such as competitive offerings, value-added selling, price competitiveness, and consumption based charging mechanisms.

As many companies have formed “Shared Business Services” organizations, they realize that the requirement to define services goes beyond the IT area. The potential to outsource non-IT functions only heightens the need for IT to define and organize its offerings. The IT underpinnings need greater clarity, and end-to-end management so that they can be reused and even resold as part of other business services. As an example, businesses would prefer to have IT components bundled and pay for an a unit of output such as an “invoice” produced rather than the CPU seconds plus megabytes of storage plus network charges plus support services it took to produce it.

Setting the Stage – Transformation via Guiding Principles

To ensure continuous improvement by the IT organization in support of business strategy IT must construct a foundation of guiding principles—a finite set of clear statements from which operating details can be derived. A principle statement might be: “The consumers of an IT resource will pay for its consumption.” This statement is simple on the surface, however it leads to a series of choices in operations, reporting, financial management, customer relationships, and supplier relationships.

Effective guiding principles direct the business and the IT organization to subsequent levels of maturity and sophistication. Additionally, consistent implementations of IT principles simplify IT customer relationships. Even where customers are unhappy, attention focuses on resolution of genuine issues rather than unexplainable variance (or personalities). It is easier to address the complaint, “this doesn’t meet the Service Level Agreement” than “the service is terrible.”

Striking a Balance

From business objectives, companies must determine the appropriate balance between consistency and flexibility. We have found that among the most difficult choices to make is the proper balance point between cost and responsiveness. Specifically, effectiveness is proportional to responsiveness and inversely proportional to cost.

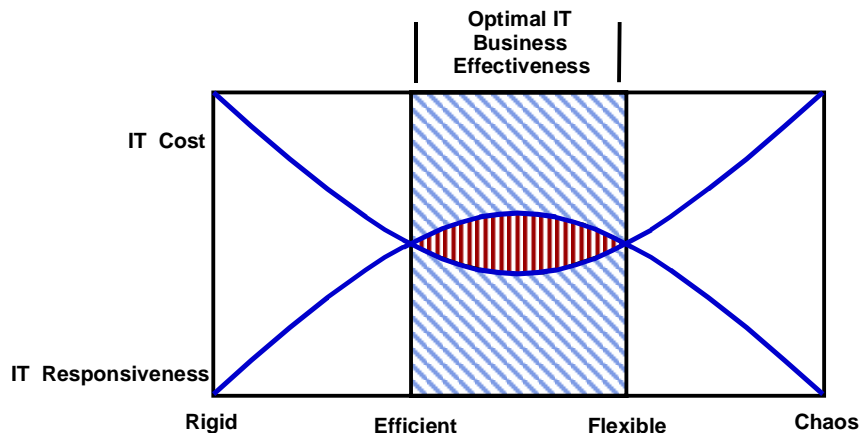


Figure 4. Optimizing IT-Business Effectiveness

On the left end of the spectrum, rigid infrastructures, even those that are run efficiently cannot react quickly to new business requirements since they are structured to operate in only one way. The cost to operate can be low but the cost to change is high. On the right end of the spectrum, responsiveness is hindered by the lack of predictable foundations on which to build new capabilities. This leads to a variety of problems -- unnecessary variations, operating complexity, etc. The cost to operate and change is high. In the middle, are infrastructures that maintain a balance enabling both efficiency and flexibility. They have the highest effectiveness because they are configured to react to new requirements. The challenge is finding an optimal point (cost, responsiveness) to provide technical services that meet business needs.

IT organizations can go only so far in reducing costs before they have a significant impact on service quality and responsiveness. They can consolidate. They can outsource. But the pressure to do more for less continues.

Taking Action - What should IT do?

But what should IT do? The answer in most cases is to restructure services and simplify the “face” that IT presents to its business customers. This means:

- Defining clear and simple service offerings that are aligned with business needs and allow for regional variation
- Clarifying charges and charge-back mechanisms associated with actual consumption of services
- Optimizing integrated services that meet business requirements
- Managing service performance from end to end

We call this Service Management Transformation. Service Management Transformation enables IT organizations to migrate from operating technology line items to providing high-value business-aligned services that are comparable or better than those offered by free market competitors. The above steps do not depend on the current IT operating model(s). In-sourced or outsourced, consolidated or distributed, the IT organization has the responsibility to execute these steps. The manner in which they are executed may vary based on scope of control and the level of integration that best supports business strategy, including:

- Scale of the enterprise

- Current state of the IT environment
- IT Operating Model
- Proportion of variable vs. fixed costs
- Proportion of commodity vs. custom IT services

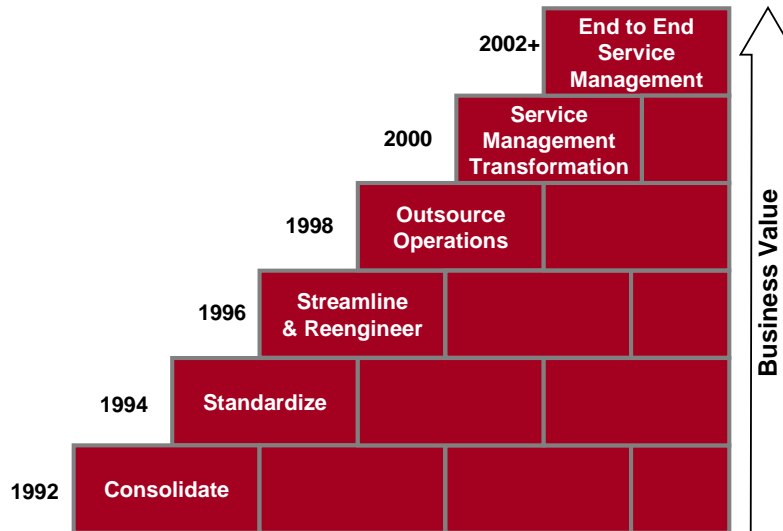


Figure 5. The Next Step – Service Management Transformation

In small companies, or in medium and large companies with little synergy across business units, the degree of difficulty to integrate services is lower. In companies with broader needs for integration, the challenge rises proportionally.

How to Execute

We have found that significant improvements in cost control, customer satisfaction, and business responsiveness, depend explicitly on IT organizations putting the consumption controls in the hands of the business consumer. This allows a business to control its consumption within its own business objectives. The transformation to an environment that allows this control (integrated business-aligned services and consumption based cost recovery) requires investment and considerable management support. The cost to execute is returned many-fold in gains from volume control and business responsiveness.

The transformation requires executing three parallel iterative efforts:

- **Business Unit Engagement** - requirements analysis, identifying needs.
- **Service Definition** - constructing integrated services to meet the needs and simplify management controls.
- **Financial Management** - aligning costs with services for impact analysis, consumption reporting and charge-back.

IT management practices play a critical role in achieving a successful transformation to an efficient and flexible IT service organization without expanding overhead costs. The solutions depend on the scope of control and the level of integration required to support the business strategy.

The dimensions of IT Service Management Transformation include:

- Defining enterprise-wide IT services, i.e. cataloging IT services.
- Establishing business-relevant Service Level Agreements and service performance models.
- Developing or renovating charge-back models.
- Developing, reviewing and amending outsourcing agreements where required
- Developing organizational roles and responsibilities with appropriate transition plans
- Creating implementation roadmaps and managing implementation

Service Management Transformation Services help clients navigate through the challenges to answer these questions by constructing global service definitions that describe IT services in clear understandable user terms.

A concrete product of this effort is a Services Catalog that contains unambiguous definitions and explainable financial management processes (meaningful service levels, costs, reporting requirements, operation plans). The Services Catalog itself becomes a communications vehicle between IT and business customers. It also forces the linkage between sources of service, service delivery, costs and price. It creates a discipline in the management of IT and clarifies expectations. When developed well, it initiates continuous improvement in the entire IT infrastructure. ***But the Services Catalog is a means, not an end.***

Ultimately, customers want to receive services that are managed from end to end. The Services Catalog that is produced by Service Management Transformation provides the foundation to achieve this goal.

Conclusion

The pressure to improve IT performance across evolutionary stages will not subside. Iterative improvements require balancing IT responsiveness with cost control managed from clear guiding principles. IT services managed from end to end is a desire of business and IT management alike. The results are achievable, but the solutions require commitment and cross-functional expertise.

Service Management Transformation provides the mechanism to solve many of the most vexing problems in managing the business use of IT:

- Aligning services with business needs by redefining the delivery of service.
- Providing real cost controls by presenting consumption based controls to business customers.
- Improving IT-Business Customer relationships by optimizing IT effectiveness in the context of business strategy.

Service Management Transformation is the best approach to get the most from IT investments today and to move quickly toward End-to-End Service Management.

Onsett International is an Information Technology Management consulting company based in Cambridge, Massachusetts. Onsett provides pragmatic solutions to enhance business performance through improved utilization of Information Technology (IT). Onsett focuses on the transformation of IT services in the areas of Service Management and Information Security for companies who continue to search for ways to improve the return on their IT investments. We work with our clients to define and align their IT service delivery organization to provide superior business value.