SERVICE STRATEGY

ITIL - Part 5

CONNECTING BUSINESS & TECHNOLOGY

DEVOTEAM SOLUTIONS

AGENDA

- Introduction do ITIL
- Service Operation
- Service Transition
- Service Design
- Service Strategy

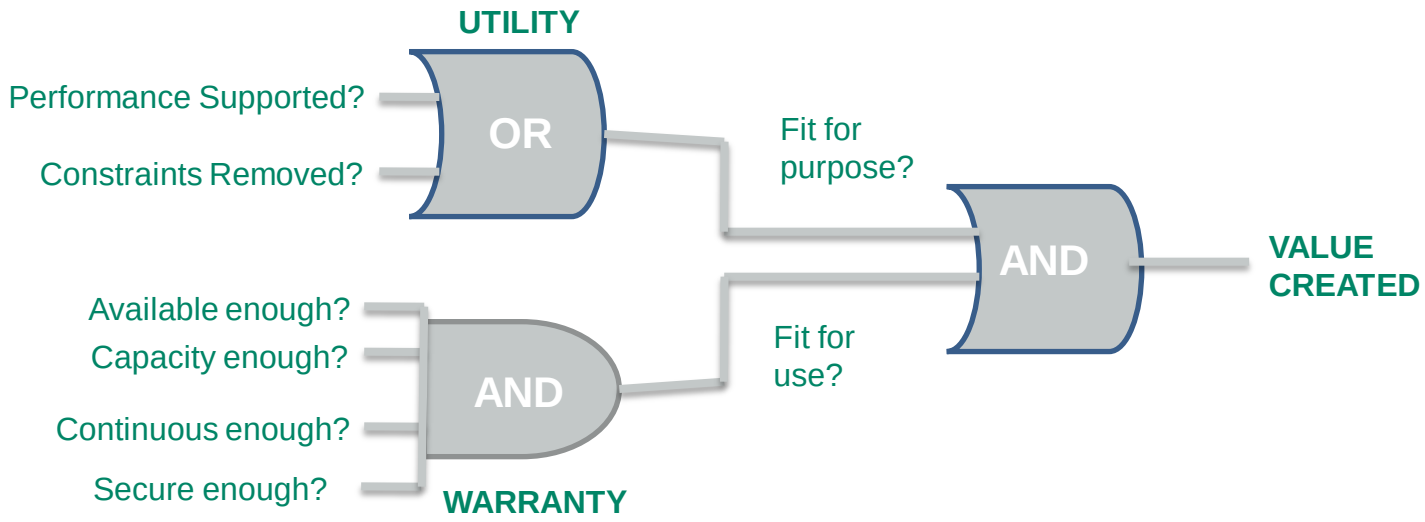
SERVICE STRATEGY

- Shows organizations how to transform Service Management into a strategic asset and then to think and act in a strategic manner
- Helps clarify relationships between various services, systems, and processes and the business models, strategies, and objectives they support
- Ensures that organizations are in position to handle the costs and risks associated with their service portfolios, and are set up not just for operational effectiveness, but for distinctive performance

SERVICE STRATEGY

- Key concepts
  - Utility and Warranty
  - Value Creation
  - Service Provider
  - Delivery Model Options
  - Service Model
- Processes
  - Service Portfolio Management (SPM)
  - Demand Management
  - Financial Management

SERVICE STRATEGY CONCEPTS



- Utility, Warranty, Value
  - From the customer's perspective, value consists of two primary elements: utility or fitness for purpose and warranty or fitness for use.
  - Utility is what the customer gets, and warranty is how it is delivered.

SERVICE STRATEGY : SERVICE ASSET

- Service Asset
  - Any Capability or Resource of a Service Provider.

- Resources and capabilities are types of assets.

Organizations use them to create value in the form of goods and services.

SERVICE STRATEGY : RESOURCES AND CAPABILITIES

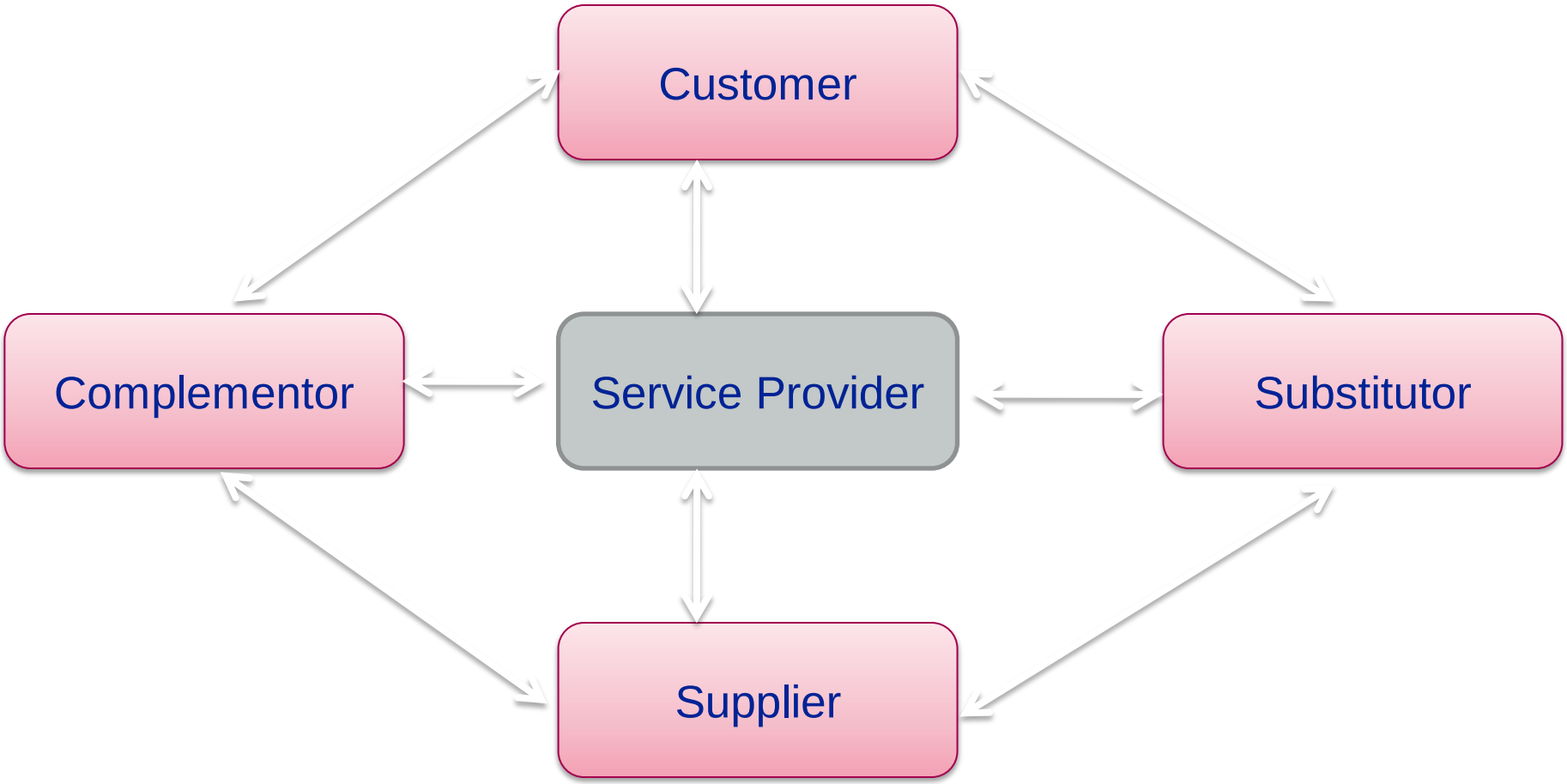
- Resources :
  - Resources are direct inputs for production. Management, organization, people, and knowledge are used to transform resources.
- Capabilities :
  - Organization's ability to coordinate, control, and deploy resources to produce value. They are typically experience-driven, knowledge-intensive, information-based, and firmly embedded within an organization's people, systems, processes and technologies.

- Easy to acquire resources compared to capabilities. Capabilities are developed over time. Investments in learning capabilities are particularly important for service providers for the development of strategic assets
- Service providers need to develop distinctive capabilities to retain customers with value propositions that are hard for competitors to duplicate.
- Capabilities by themselves cannot produce value without adequate and appropriate resources. Capabilities are used to develop, deploy and coordinate this productive capacity.

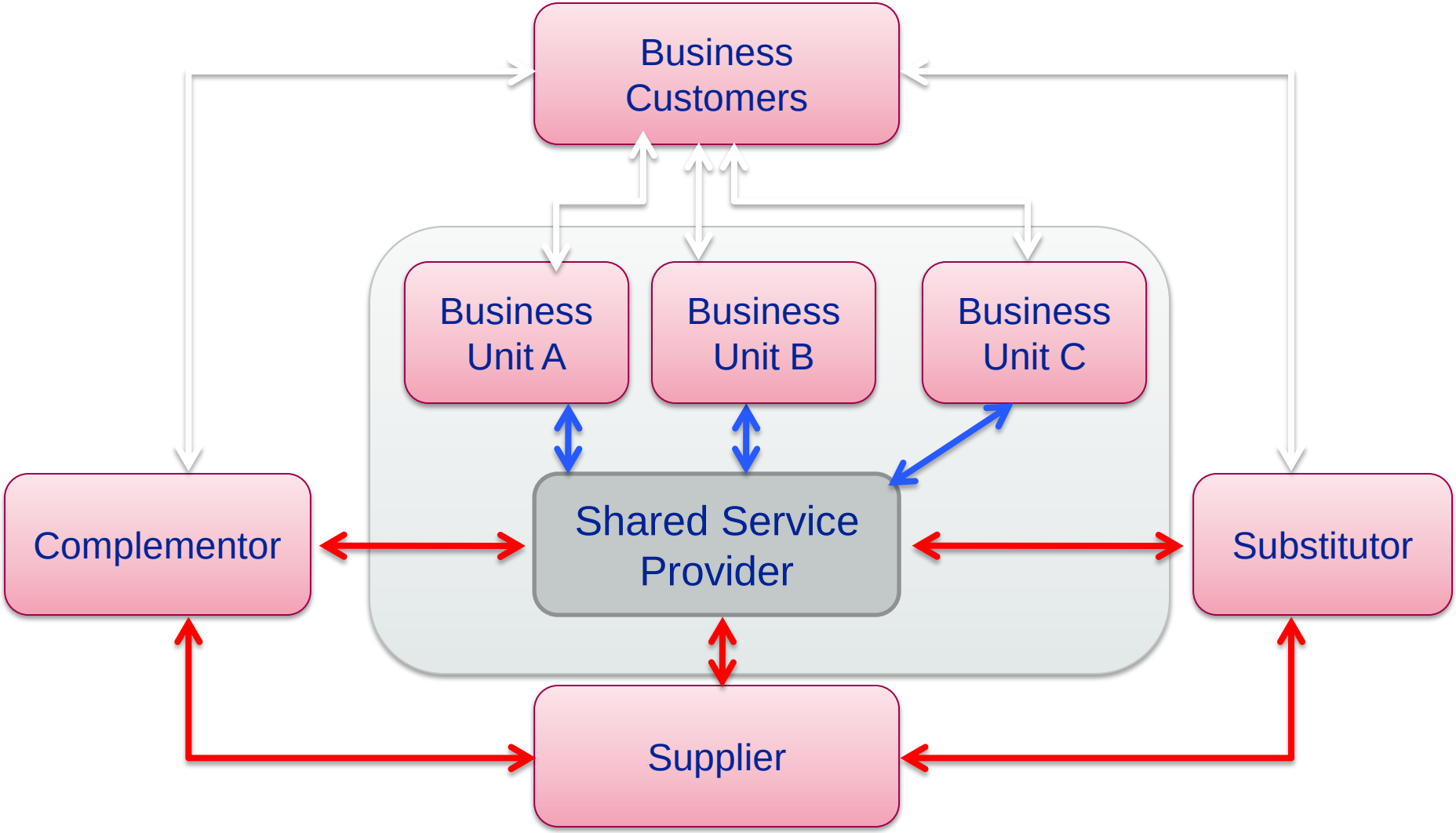
SERVICE PROVIDER

- There are three types of service providers:
  - Type 1: Internal
  - Type 2: Shared
  - Type 3: External

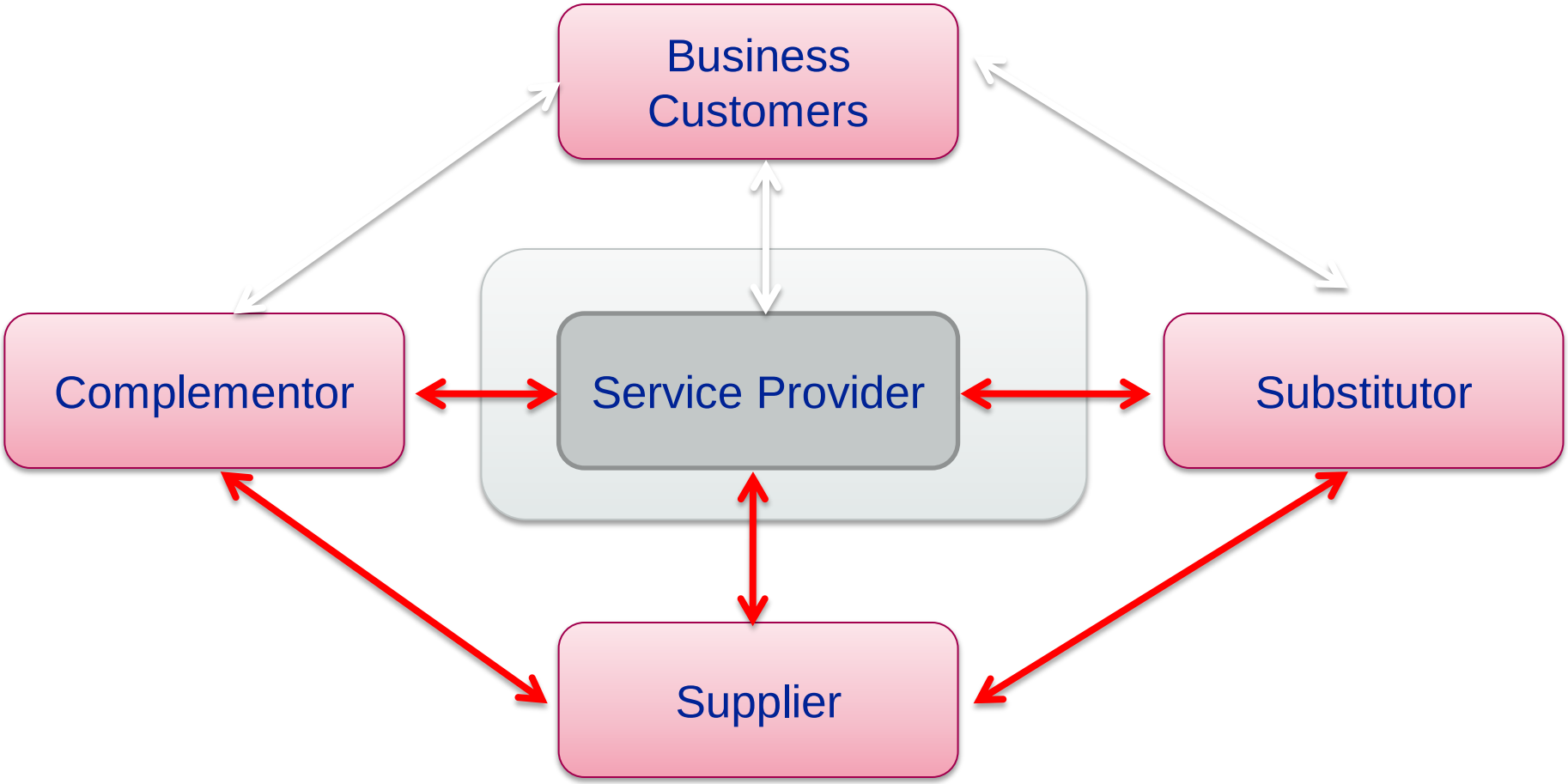
SERVICE PROVIDER TYPE 1



SERVICE PROVIDER TYPE 2



SERVICE PROVIDER TYPE 3



DELIVERY MODEL OPTION

- Insourcing
  - utilizing internal organizational resources for all stages in the lifecycle
- Outsourcing
  - Utilizing the resources of an external organization or organizations
- Co-Sourcing
  - Combination of Insourcing and Outsourcing to co-source key elements within the lifecycle
- Partnership or Multi-sourcing
  - Formal arrangement between 2 or more organizations to work together
- Business Process Outsourcing (BPO)
  - Formal arrangement between 2 organizations to relocate and manage an entire business function from a low-cost location
- Application Service Provision
  - Formal agreement with an Application Service Provider (ASP) to provide shared computer based services over a network (on-demand application)
- Knowledge Process Outsourcing (KPO)
  - Provision of domain based process and business expertise requiring advanced analytical an specialists kills from the outsourcer

SERVICE STRATEGY

- Service Model
  - Graphical representation of the components that make up a service
  - Document workflow and dependencies
  - Used to support design, analysis and communication

SERVICE STRATEGY ACTIVITIES

- Define the market
  - Evaluate the services you could potentially offer, and who you may be able to offer them to
- Develop the offerings
  - Continue to formulate the services you think it will be worthwhile pursuing
  - Utility and Warranty are considered at this stage
- Develop strategic assets
  - Service Management should become a strategic asset
  - Look for opportunities to exploit your services and capabilities
- Prepare for execution
  - Take all the necessary steps to ensure that we are ready to go ahead and it is worthwhile doing so

SERVICE STRATEGY

SERVICE PORTFOLIO MANAGEMENT

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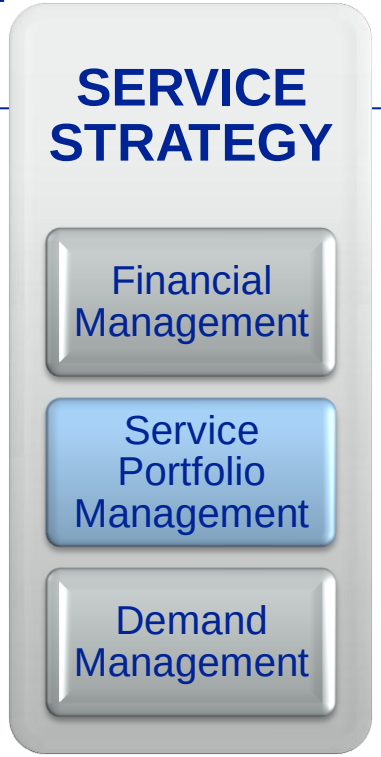
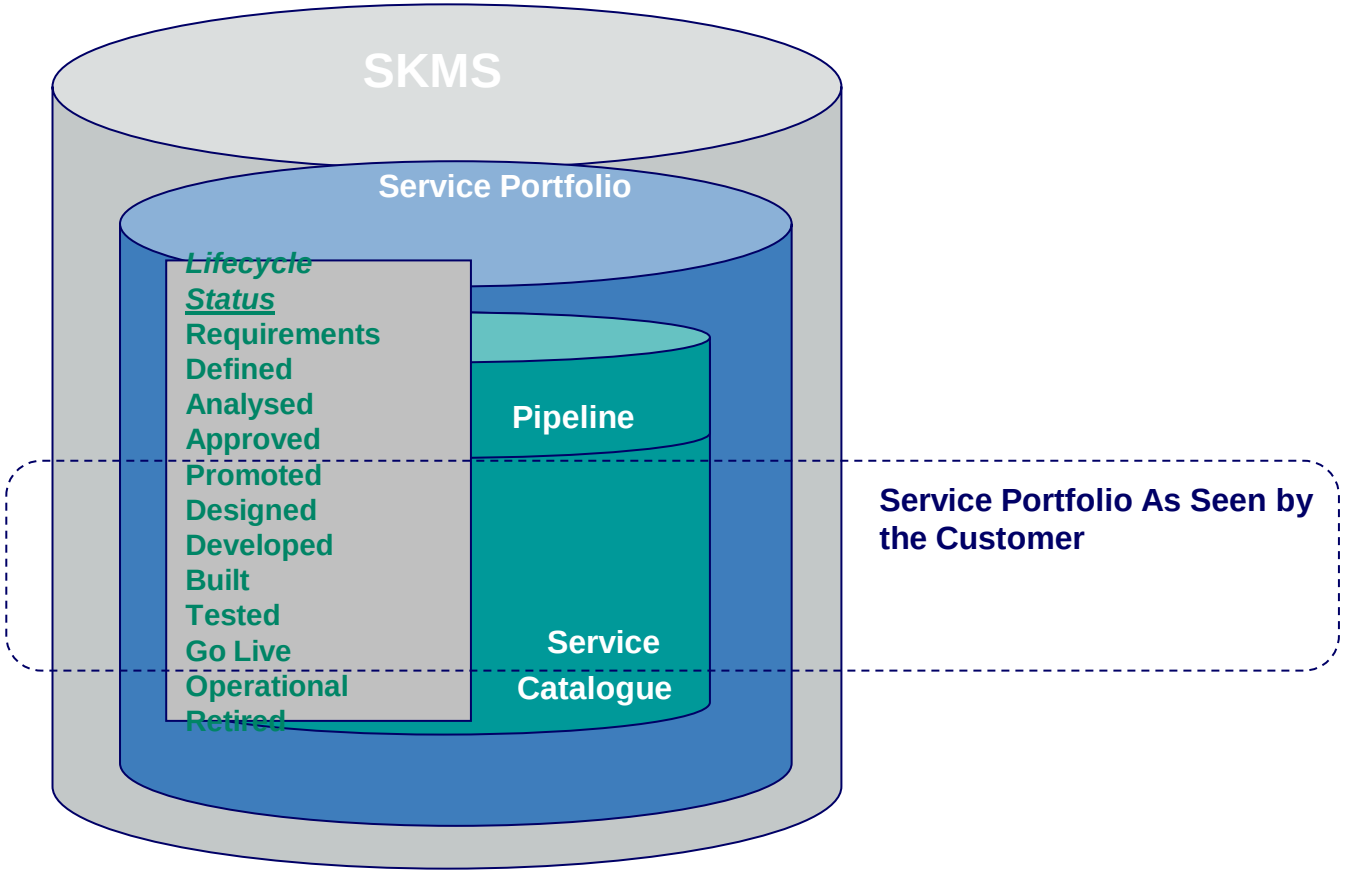


- SPM : Objective
- Decide what services to offer
- Understand
  - Why should a customer buy these services?
  - Why should they buy these services from us?
- Provide direction to Service Design
  - So they can manage and fully exploit the services in the future

SERVICE PORTFOLIO MANAGEMENT- BASIC CONCEPTS

- Basic Concepts :
  - Business Service
    - A service that directly supports a business process
  - IT Service
    - A service that the business does not think of in business context or semantics
  - Business Service Management
    - Considering service management in terms of business processes and business value

SERVICE PORTFOLIO MANAGEMENT



SERVICE PORTFOLIO MANAGEMENT

- Activities
- Define:
  - Inventories, Business Cases
- Analyze:
  - Value Proposition, Prioritization
- Approve:
  - Service Portfolio, Authorization
- Charter:
  - Communications, Resource Allocation

SERVICE PORTFOLIO MANAGEMENT

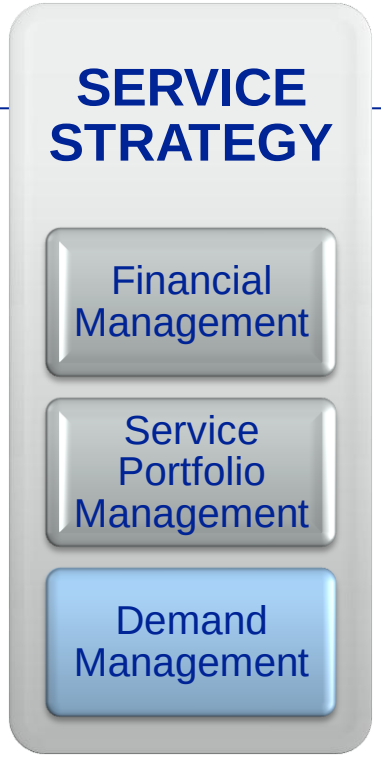
- Roles
- Product Manager
  - Owns and manage a set of related services
  - Evaluates market opportunities and customer needs
  - Creates business cases
  - Plan new service development programs
- Business Relationship Manager
  - Identify and document customer needs

SERVICE STRATEGY

DEMAND MANAGEMENT

DEMAND MANAGEMENT - OBJECTIVE

- Understand customer requirements and how these vary over the business cycle
- Ensure the provision of appropriate levels of service
- Ensure that offered Warranty and Utility match customer needs



DEMAND MANAGEMENT CONCEPTS

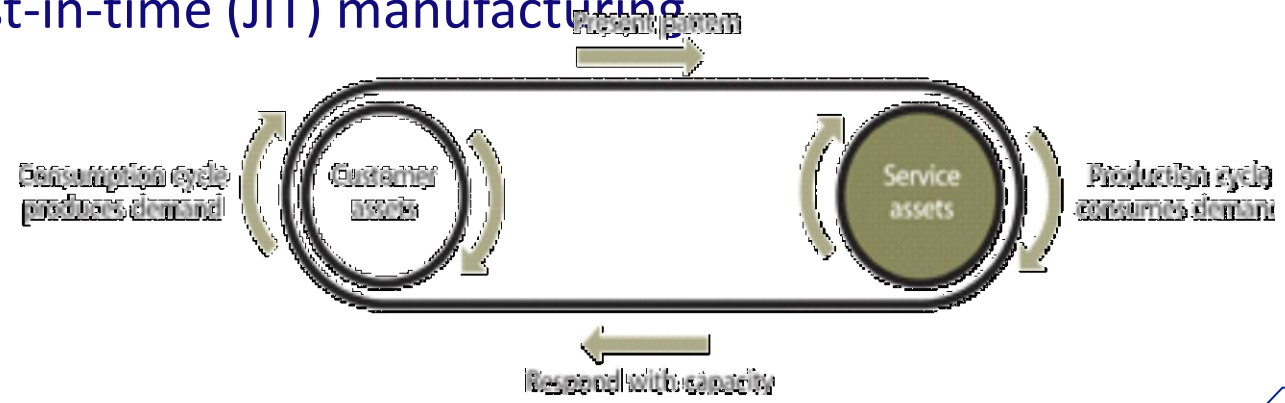
- Core Service vs. Supporting Service
  - IT Service (that delivers outcome desired by one or more customers) vs. Backup Service (that enable or enhance a core service)
- Pattern of Business Activity (PBA)
  - Workload profile of one or many activities
  - Varies over time
  - Represent changing business demands
- User Profile
  - Pattern of user demand for IT Services
  - Each user profile includes one or many PBAs

DEMAND MANAGEMENT CONCEPTS

- Service Package
  - Detailed description of a service
  - Includes a service level package and one or more core services or supporting services
- Service Level Package
  - Define level of utility and warranty for a particular service package
  - Designed to meet the need of PBA (for example, gold, silver or bronze service)

CHALLENGE IN MANAGING DEMAND

- Demand management is a critical aspect of service management.
  - Poorly managed demand is a source of risk for service providers because of uncertainty in demand.
  - Excess capacity generates cost without creating value.
- Insufficient capacity : impact on the quality of services delivered and limits the growth of the service.
- Demand cannot exist simply because capacity exists.
- Pull-system in which consumption cycles stimulate production cycles to synchronous production and consumption. Demand and capacity are far more tightly coupled in service systems even when compared with just-in-time (JIT) manufacturing.



SERVICE STRATEGY

FINANCIAL MANAGEMENT

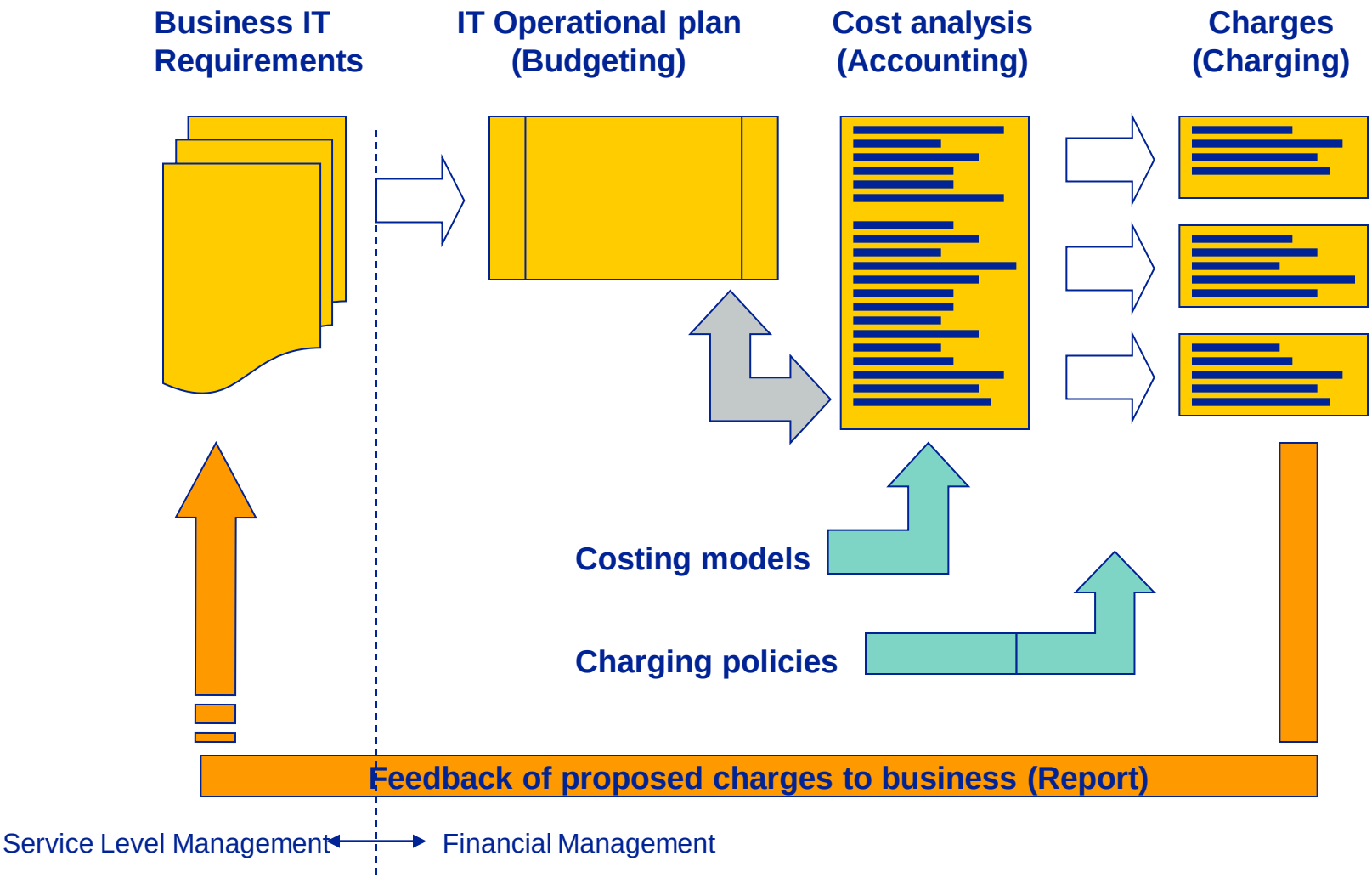
FINANCIAL MANAGEMENT

- Objectives:
  - Financial visibility & accountability
  - Financial compliance & control
  - Enhanced decision making
  - Operational control
  - Value capture and creation
  - Understand the value of IT Services

FINANCIAL MANAGEMENT CONCEPTS

- Service Valuation:
  - Cost of providing a service
  - Value to the customer receiving the service
- Service Investment Analysis:
  - Understand the total lifecycle value and costs of proposed new services
- Accounting:
  - Keeping track of what has been spent, assigned to appropriate categories
- Business Case:
  - A decision support and planning tool that predicts outcomes of a proposed action – to justify investments
- Business Impact Management:
  - Understand the financial cost of service outages

FINANCIAL MANAGEMENT - PROCESS



BUDGETING (1)

- Budgeting process has a key influence on strategic and tactical plans
- Periodic (e.g. annual) round of negotiations between the business departments and the IT organisation covering expenditure plans and agreed investment programmes
- Example

Budget Item	Capital	Purchase Cost	Annual Maintenance	Spend This Year	Budget Next Year	Notes	Annualised Cost
Hardware							
UNIX Server	Yes	£80,000	£8,000	£8,000	£8,000	No changes	£34,667
NT Server	Yes	£10,000	£1,000	£1,000	£1,000	No changes	£4,333
ORACLE	No		£7,000	£7,000	£8,400		
Marketing and Sales appl.	No		£3,000	£3,000	£3,600		
MS Windows (50-User)	No		£2,500	£2,500	£3,000	Staff increase	

BUDGETING (2)

- Estimating the cost of budget items
  - Arbitrage
  - Expenditure trends
  - Depreciation
- Estimating the cost of workload dependent budget items
  - Workload estimations
  - Targets
  - Forecasts

IT ACCOUNTING (1)

- Business Perspective
  - Charge for IT services or not ?
- Different organisations
  - Accounting Centre (costing inputs)
  - Recovery Centre (costing outputs / services)
  - Profit Centre (separate business entity)
    - Sufficient autonomy
    - Outsourcing
    - Risk : the Customer becoming aware that the IT organisation is 'making a profit' from them
- Building the cost models
  - To calculate the costs of IT Service provision, it is necessary to design a framework in which all known costs can be recorded and allocated to specific Customers, activities or other **Category**. This is called a Cost Model

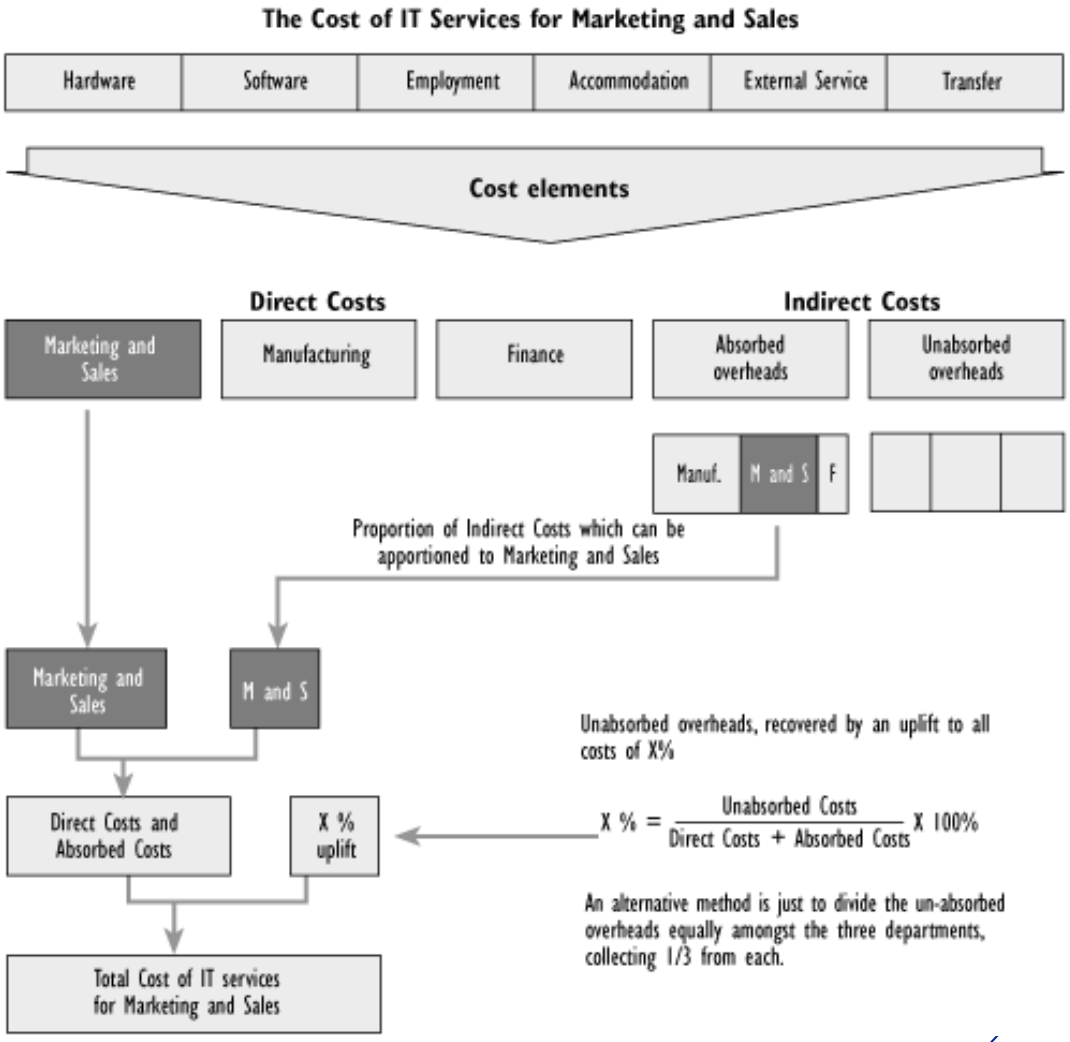
IT ACCOUNTING (2)

- Costs types
  - hardware costs
  - software costs
  - people costs
  - accommodation costs
  - External Service costs
  - Transfer costs
- Direct or indirect costs

Major type	Cost Elements
Hardware	Central processing units, LANS, disk storage, peripherals, wide area network, PCs, portables, local servers
Software	Operating systems, scheduling tools, applications, databases, personal productivity tools, monitoring tools, analysis packages
People	Payroll costs, benefit cars, re-location costs, expenses, overtime, consultancy
Accommodation	Offices, storage, secure areas, utilities
External Service	Security services, Disaster Recovery services, **Outsourcing** services, HR overhead
Transfer	Internal charges from other cost centres within the organisation

IT ACCOUNTING (3)

Cost Model



IT ACCOUNTING (4)

- Classification of Cost Elements
  - Capital
    - computer equipment
    - building and plant
    - software packages
  - Operational
    - staff costs
    - maintenance of computer hardware and software
    - consultancy services, rental fees for equipment
    - software licence fees
    - accommodation costs
    - administration expenditures
    - electricity, water, gas, rates
    - disaster recovery
    - Consumables
  - Direct or Indirect
  - Cost Centre
  - Fixed or variable

IT ACCOUNTING (5)

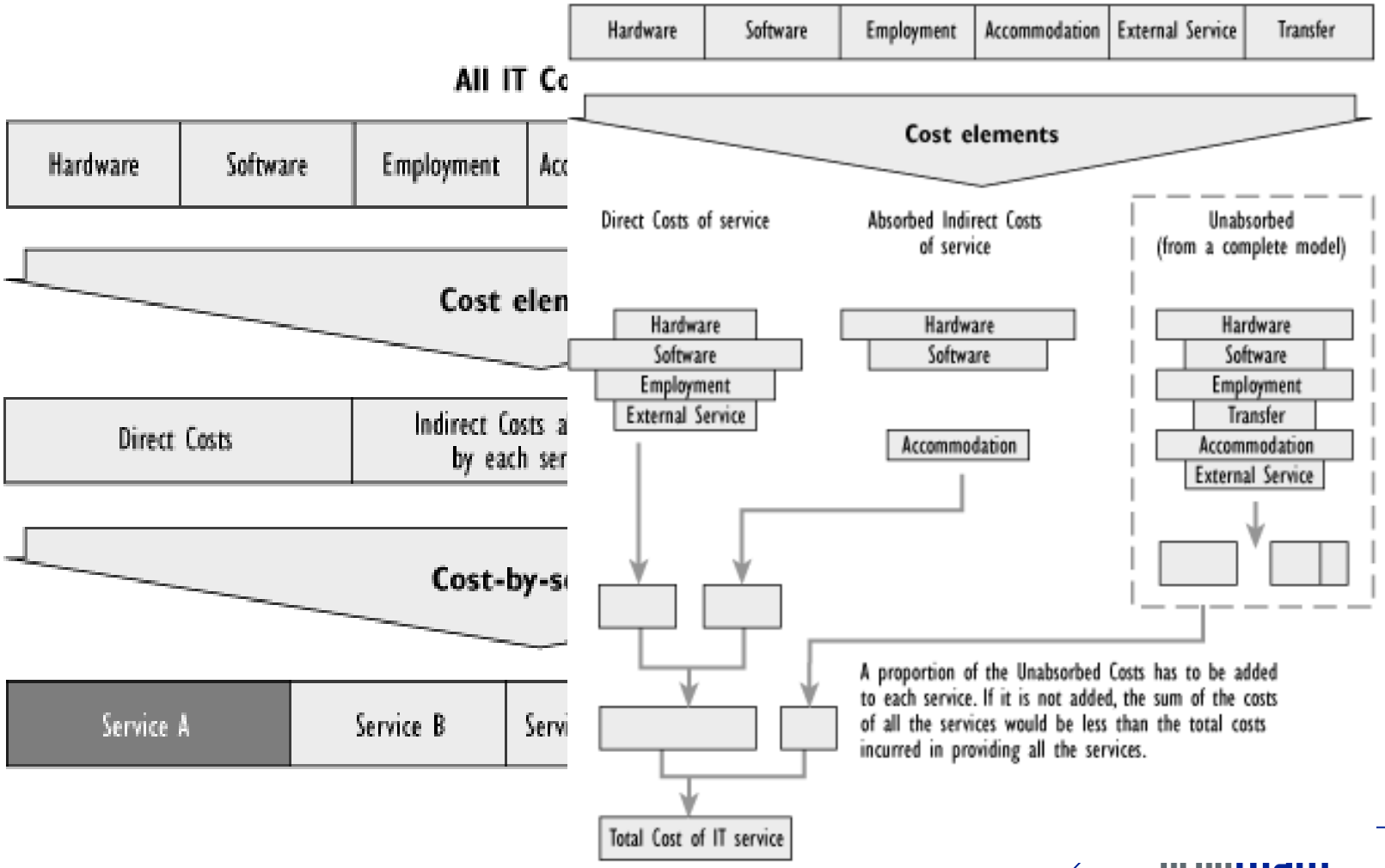
- Depreciation
  - pre-determined, as in the case of a lease
  - dependent on its physical deterioration through use or passage of time
  - reduced by economic or technological obsolescence

- Apportioning the IT Services costs

	Capital	Annual Cost	Direct	Apportionment Method	Customer		
					Marketing and Sales	Manufacturing	Finance
Hardware							
UNIX Server	Yes	£34,667	No	50/50 split	£17,333	£17,333	
NT Server	Yes	£4,333	Yes		£4,333		
Netware Server	Yes	£1,300	No	Infrastructure			
PCs (50)	Yes	£26,000	No	By PC	£5,200	£19,240	£1,560
Routers (5)	Yes	£1,300	No	Infrastructure			
LAN Cabling	Yes	£17,333	No	Infrastructure			
Software							
General Ledgers	No	£20,000	Yes				£20,000
ORACLE	No	£7,000	Yes			£7,000	

IT ACCOUNTING (6)

- Calculating the Cost-by-servic



IT ACCOUNTING (7)

- Calculating the costs of Cost Units
  - PC, Operator hour
- Changes affecting costs
  - Disks
- Investment appraisal
  - being clear about objectives
  - thinking about different ways of meeting them
  - estimating and presenting the costs and benefits of each potentially worthwhile option
  - **ROI** (**Return on Investment)**= average increase in profits(average taken over an agreed number of years) / Investment

IT ACCOUNTING (8)

- Total Cost of Ownership
  - The Gartner Group pioneered a method of calculating the costs of a product or service with the title of 'Total Cost of Ownership' (**TCO**).
  - The most widely known example was that for Personal Computers. In an era where the price of a PC on a desk had fallen to $2,000, Gartner demonstrated that the 5-year cost of a PC, when taking into account purchasing overheads, upgrades, maintenance, a proportion of support staff and Service Desk costs, disposal etc. was closer to $35,000
- Budgeting, IT Accounting and Charging cycles

	Budgeting	**IT Accounting**	**Charging**
Planning (annual)	Agree overall expenditures	Establish standard **Unit costs** for each IT resource	Establish pricing policy Publish price list
Operational (monthly)	Take actions to manage budget exceptions or changed costs	Monitor expenditure by cost-centre	Compile and issue bills

CHARGING (1)

- Goals
  - forcing the business divisions to control their own Users' demands
  - reducing overall costs and highlighting areas of service provision which are not Cost effective
  - allowing the organisation to match service to justifiable business need, through direct funding
- Chargeable items
  - Chargeable Items should be understandable and controllable by the Customer
  - Relate to the organisation's business
- Variable costs and charges
  - estimate of the likely charges and possible upper and lower limits
  - variable costs do not decrease with decreasing usage

CHARGING (2)

- Pricing
  - the determination of a pricing objective
  - understanding the true (not perceived) demand for the service
  - accurate determination of Direct and Indirect costs
  - the level of control of the internal market
  - understanding the services available externally if Customers have a choice
  - legal, regulatory and tax issues
- Internal market
  - Tied customers / Untied customers
- Differential charging
  - For example, during peak daytime
- Pricing flexibility
- Billing
  - **Bills** Charging information is passed to Customers to make them aware of the cost of the resources used by their business
  - to manage cash flow => **Billing cycle**

CHARGING (3)

- Case Study : Discouraging use of services
  - A company provided its Users with a dedicated, outsourced Service Desk facility. The vendor charged the company on a per-call basis. The charging policy was to recharge all IT spending to the business on the basis of true cost.
  - Once the Service Desk was in place, Customers realised that they could reduce their costs by not placing Service Desk calls. Some business managers instructed their Users not to use the Service Desk, or to route all issues through a single, local support person.
  - Decreasing the total number of calls decreased the calculated charges to the Customer but did not reduce overall price of the service by the same amount. It also resulted in:
    - increased wasted time for Users
    - reduced effectiveness of IT systems
    - poor perception of the IT Services and the IT organisation
    - additional work for the IT organisation to discover problems
    - reduced leverage in negotiating service costs with the outsourcing vendor.
  - *Resolution*
    - The charging method was changed to one in which a fixed fee per User was negotiated, based upon an estimated call rate taken from previous years' volumes and business predictions. This charge was reviewed quarterly to check that call levels were within agreed thresholds.

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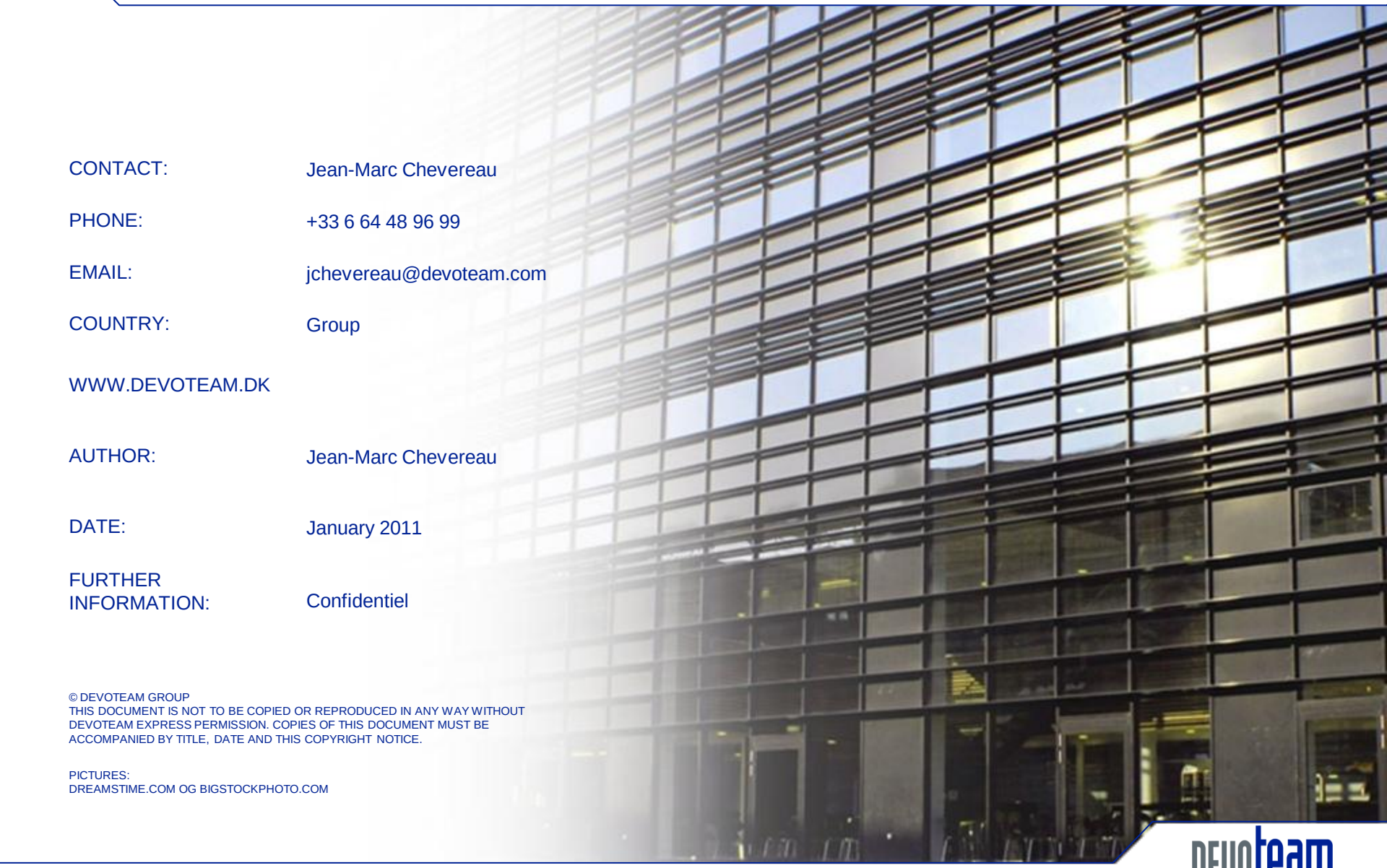

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