IT Service Management

Service Strategy

1

What is a strategy ?

- Term originated in the military world …
  - The distribution and application of military resources in order to meet the objectives of a plan
- In Service Management the strategy also has to maintain the link between policies and tactics
  - and project-oriented IT organizations …
- The goal of Service Strategy is to identify the competition (market focus) and to compete with them by distinguishing oneself from the rest and by delivering superior performances

2

The four Ps of strategy (Mintzberg, 1994)

- **Perspective -** have a clear vision and focus
- **Position -** take a clearly defined stance
- **Plan -** form a precise notion of how the organization should develop itself
- **Pattern -** maintain consistency in decisions and actions

3

Strategy as Perspective

- Defines the convictions, values and goals that govern the behavior of the entire organization.
- A strategic perspective determines the direction through which the service provider can achieve its objectives

4

Strategy as Position

- A service provider needs to be conscious of its position in the marketplace
- Defines the distinguishing characteristics of the service provider in the eyes of the customer
- Positioning
  - based on **diversity**
  - based on **need**
  - based on **accessibility**

5

Strategy as Plan

- Prescribes how an organization handles a development
- Focuses on the organization's action plan in a competitive market.
- Service management is a co-ordinated set of plans through which service providers plan and implement service strategies

6

Strategy as Pattern

- ◆ Organization’s procedures
- ◆ Characteristic patterns are created that lead to recurring successes
  - As a consequence of the perspective, position, and plan of the strategy

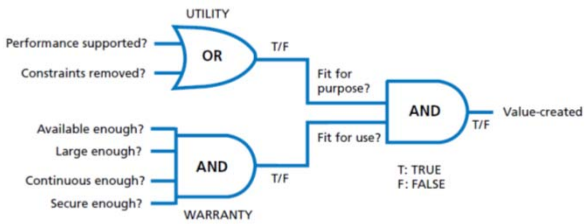
Service Strategy: Mission and Objectives

- ◆ To survive, organizations must understand how they create value for themselves and for the customer
- ◆ Mission of Service Strategy: *developing the capacity to achieve and maintain a strategic advantage*
- ◆ Objectives of Service Strategy:
  - Determining the direction for growth opportunities
  - Setting investment priorities
  - Defining outcomes, learning about effectiveness
  - Creating strategic assets
  - Identifying the competition
  - Surpassing the competition by delivering distinctive performances
  - Devising plans that will ensure dominance over the competition now and in the future

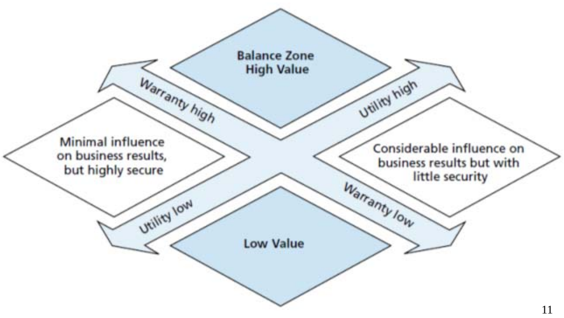
Service Value: Utility and Warranty

- ◆ Economic value vs economic perception
- ◆ Service Value: a combination of Utility and Warranty
  - For customers, the positive effect is the ‘utility’ of a service
  - The insurance of this positive effect is the ‘warranty’.
- ◆ Utility - *fitness for purpose*
  - The attributes of the service that have a positive effect on the performance of activities, objects, and tasks with a specific result.
  - *Utility stands for the increase of a possible profit*
- ◆ Warranty- *fitness for use*
  - Availability and reliability in continuity and security.
  - *Warranty stands for the decline in possible losses*

Combining Utility and Warranty (1)

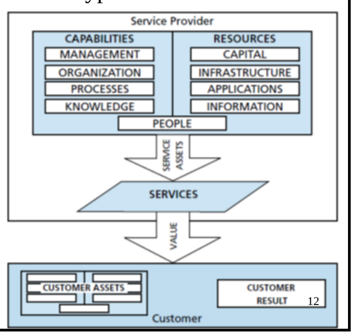


Combining Utility and Warranty (2)



Service Assets

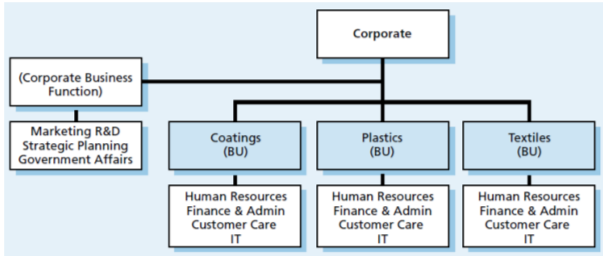
- ◆ Resources and capabilities are types of assets
  - Used to create value in the form of goods and services
  - Resources: the direct input for production
  - Capabilities: the capacity of an organization to co-ordinate, manage and apply resources in order to produce value



Types of Service Providers

- ◆ **Type I -** Internal Service Providers
  - Deliver their services within their own business units
- ◆ **Type II -** Shared Services Unit
  - Deliver services to Business Units that operate under the same collective strategy
- ◆ **Type III -** External Service Provider

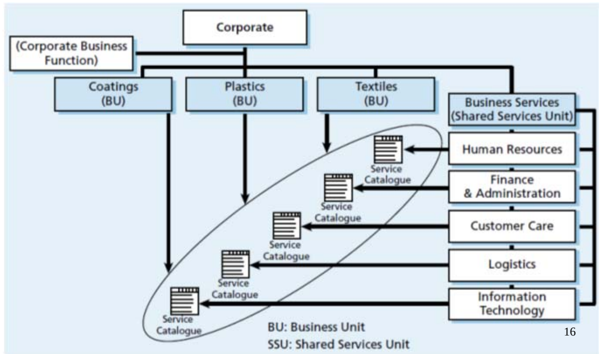
Internal Service Providers (1)



Internal Service Providers (2)

- ◆ Objective
  - **Value contribution** (for the business unit they belong to)
- ◆ Advantages
  - **Short lines of communication** (with customer)
  - **Customer-oriented** (specialized in a limited set of business needs)
  - **Limited decision rights (**decision rights by the manager of the business unit)
- ◆ Disadvantages
  - **Limited opportunities for growth** (growth is tied to the growth of the business unit)
- ◆ Competition
  - **Open market** (providers outside the business unit)

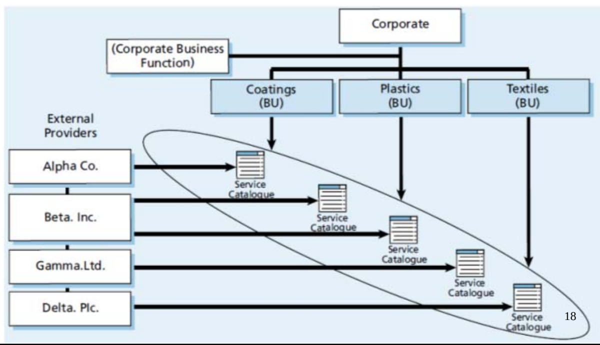
Shared Services Unit (1)



Shared Services Unit(2)

- ◆ Objective
  - keep up with the industry's best practice, cultivate the market, formulate business strategies, strive for operational effectiveness and develop distinctive capabilities
- ◆ Advantages
  - **lower prices** (compared with external service providers)
  - **broader decision-making authority**
  - **possibility for standardization** (development of a standard, which could be used by various business units)
  - **competitive position (**possibility of challenging the competition)
- ◆ Disadvantages
  - **replaceable** - customers can compare the provider with external service providers

External Service Providers (1)



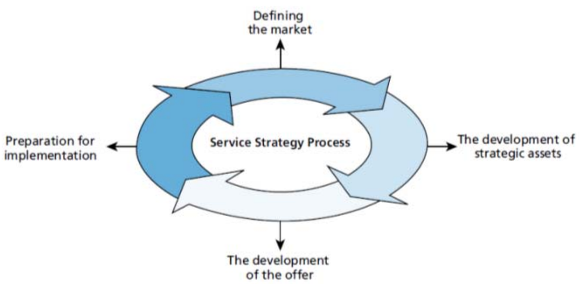
External Service Providers (2)

- Objective
  - to offer customers flexibility and external knowledge, experience, scale, scope, capabilities and resources
- Advantages
  - **more flexibility** (more freedom to exploit more opportunities)
  - **competitive prices (**more opportunities to vary prices)
  - **minimizing of system risks** (spreading risks over a larger network)
- Disadvantages
  - greater risks for the customers
  - extra costs

Changing Type of Service Provider

From/To	Type I	Type II	Type III
Type I	Functional reorganization	Disaggregation	Outsourcing
Type II	Aggregation	Corporate reorganization	Outsourcing
Type III	Insourcing	Insourcing	Value net reconfiguration

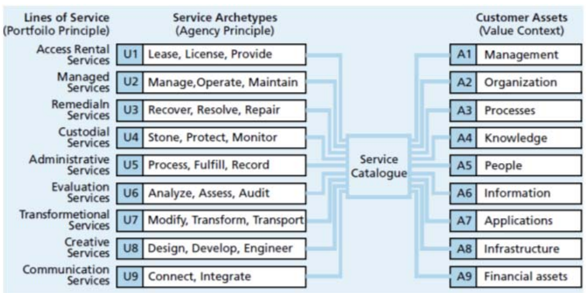
Processes and other activities of the Service Strategy phase



Defining the Market

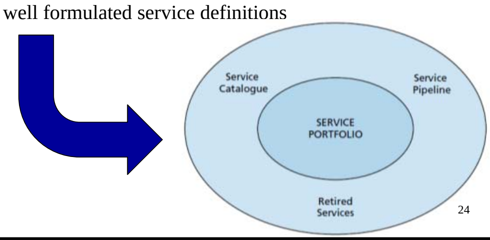
- Understanding the customer
  - Essential to know the performance of the customer's assets
- Understanding the opportunities
  - customers' unsupported objectives → opportunity in which services can be developed → offered as a solution to the customer's problem
  - Business Relation Managers manage the opportunities through the use of a Customer Portfolio
- Classifying and visualizing services
  - **Service archetypes:** serve as the business models for services
  - **Customer assets**: the context in which value is created
  - Items of the **Service Catalogue** are combinations of a service archetype and a customer asset

Service provider business model and customer assets



Developing the Offer

- Look at the market (customers and opportunities)
- Results-oriented definition of services
  - Service management from the customer's perspective
  - … well formulated service definitions



Service Portfolio

- Represents the **opportunities** and **readiness** of a service provider to serve the customers and the market
  - agreements and investments that the service provider makes with all customers and markets
    - contractual obligations, service development, Continual Service Improvement (CSI), …
  - resources that are active in the various phases of the Service Lifecycle
    - every phase needs resources in order to conclude projects, initiatives and contracts (important governance aspect of Service Portfolio Management)

Service Catalogue

- Services that are active and approved in the Service Operation phase
  - Business Service Catalogue
    - mapping of critical business processes to the underlying IT services
    - support the customer's view of the Service Catalogue
  - Technical Service Catalogue
    - details on the technical composition of services
    - not visible to the customer
    - support the service provider's view of the Service Catalogue
- The Service Catalogue describes the part of the portfolio in which costs are recovered or profits are earned
- Serves as the visualization tool for SPM decisions …

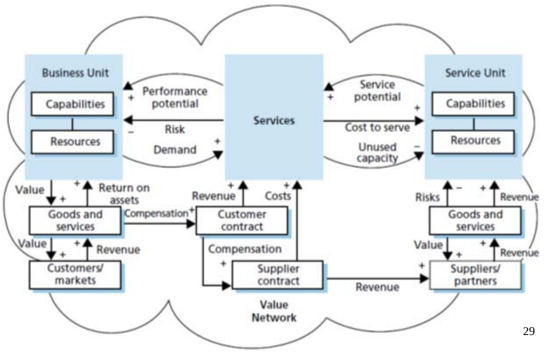
Service Pipeline and Retired Services

- Service Pipeline: Services that are still in development for a specific market or customer
  - represents the growth and strategic anticipation for the future
  - need for good financial management
- Retired Services: phased out or withdrawn services
  - The out-phasing of services is a component of Service Transition and occurs in order to guarantee that all agreements with customers will be kept and that the phased out service assets no longer have any contractual obligations.

Developing strategic assets

- Service providers must regard service management as a strategic asset
- Service management begins with the capabilities that co-ordinate and manage resources in order to support a catalogue of services
- Capabilities and resources strengthen each other and are modified until the goal of attaining a higher service level is achieved

Service management as a strategic asset and a closed-loop control system



Preparation for Implementation

- Strategic Audit
  - Looking at the provider's distinguishing capabilities
  - Examining strong and weak points, determining Critical Success Factors (CSF), identifying risks and opportunities
- Setting goals
  - Needs to know what the customer wants to achieve
- Defining Critical Success Factors (CSF)
  - Determine the success or failure of a Service Strategy
  - Influenced by customer needs, business trends, competition, regulations, providers, standards, best practices and technologies

Service Strategy phase: processes (1)

- Financial management
  - Ensuring that the right financing is obtained for the delivery and purchase of services
    - » Bridge between collective financial systems and service management
  - Service valuation: translating utility and warranty into a monetary figure
    - » **provisioning value** (the production costs)
    - » **service value potential** (the value-adding component)

Service Strategy phase: processes (2)

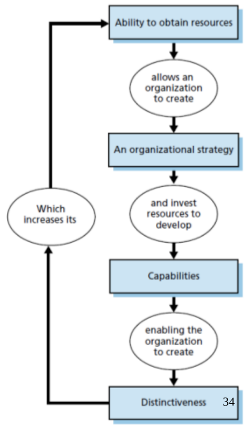
- Demand management
  - Harmonizing the offer with the demand
  - Predicting (and regulating) the purchase of products
    - » Excess capacity can result in costs that will not be compensated in value
    - » Insufficient capacity influences the quality of the delivered services and limits the growth of the service
  - Synchronizing production and consumption
    - » Service Operation is not possible without the existence of the demand for the product to be consumed
  - Business processes are the primary source of the demand for services
    - » It is crucial to study the customer's business

Service Strategy phase: processes (3)

- Service portfolio management
  - Managing all service management investments
    - » Achieving maximum value creation while at the same time managing the risks and costs
  - Documentation of the standardized services of the organization
    - » in particular, the Service Catalogue
  - To be financially feasible, the portfolio must include the right mix of services in the pipeline and a catalogue
  - Work methods
    - » Define - inventory the services and business cases; validate portfolio data
    - » Analyze - maximize the value of the portfolio, set priorities;
    - » Approve - completion of the proposed portfolio
    - » Charter - communication of decisions, allocation of resources

Organizational Value Creation Cycle

- An adequate amount of resources, a well-considered strategy, and distinctiveness combine to position the organization to deliver superior services in a competitive market while justifying the acquisition of additional resources



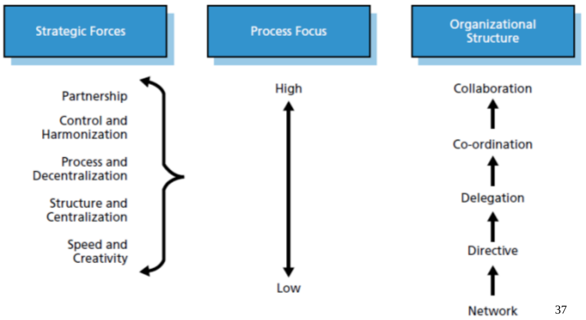
Development of an IT Organization (1)

- Phase 1: Network
  - Fast, informal, and ad hoc provision of services
  - No formal structure, innovation, and entrepreneurship
- Phase 2: Directive
  - Strong management team; leading the strategy and guiding managers to embrace their functional responsibilities
  - Establishment of hierarchical structures
- Phase 3: Delegation
  - Enhancing technical efficiency and providing space for innovation in order to reduce costs and improve services
  - Decentralized organizational structure: responsibility shifts from functional ownership to process ownership

Development of an IT Organization (2)

- Phase 4: Coordination
  - Using formal systems as a means of achieving better co-ordination
  - Centralization of technical functions and decentralization of service management processes, with the goal of improving response time to market demands
- Phase 5: Cooperation
  - Improving co-operation with the business (customer)
  - Matrix structure with the flow of functional responsibilities on the vertical line, and the flow of product- or customer-related responsibilities on the horizontal line

Development of an IT Organization (3)



Basic organizational structures

Basic structure	Description	Strategic considerations
Function	Organizing by function is the best way of specializing. Pooling of resources and minimizing duplication.	• Specialization • Development of standards • Small-scale
Product	Organizing by product is preferred by organizations that are focused on new and diverse products. This organization is found primarily in processing industries.	• Focus on product • Strong product knowledge
Market or customer	Organizing by market or customer offers differentiation in the form of increased knowledge and response to the wishes of the customer.	• Service is unique for each segment • Customer service • Powerful consumer • Quick service
Geography	Organizing by geography is preferred when providing services in close proximity. Minimizes travel and distribution costs while benefiting from knowledge of local area.	• On-site services • Close to customers for delivery and support • Organization is viewed as a local enterprise
Process	Organizing by process is preferred in executing processes from start to finish.	• Need to shorten process cycle time • Process excellence

Service outsourcing

- Sometimes it is more efficient to outsource certain services
- Risk: outsourcing to a competitor
  - Substitution - the vendor can replace the sourcing organization
  - Disruption - the vendor can damage your reputation
  - Distinctiveness - you can develop a dependence on another organization

Outsourcing structures

- Internal outsourcing
  - Internal staff: most control, but limited in scale
  - Shared Service: internal BUs; lower costs than internal staff, more standardization, still limited in scale
- Traditional outsourcing
  - Complete outsourcing of a service: a single contract with one service provider; better in terms of scaling opportunities, but limited in best-in-class capabilities
- Multi-vendor outsourcing
  - Advantage: maintaining strong relationships with each provider while the risks are spread out and costs are contained
  - Challenge: governance and management of these relationships

Multi-vendor outsourcing

- **Prime** - a single contract with one service provider who works with multiple providers
  - improved capabilities and risks, but increased complexity
- **Consortium** - a selection of multiple service providers
  - Advantage: best-in-class with more oversight;
  - Disadvantage: risk of the necessity of working with the competition
- **Selective outsourcing** - a pool of service providers selected and managed through the service receiver
  - most difficult structure to manage
- **Co-Sourcing** - a variation of selective outsourcing in which the service receiver combines a structure of internal or shared services with external providers
  - the service receiver is the service integrator

Roles

- **Chief Sourcing Officer**: reports to the CIO and manages the implementation of sourcing
- **Director of service management**: supervises the provider on behalf of the business
- **Contract manager**: manages the service contract from the perspective of the service provider
- **Product manager**: manages the services in the service provider’s organization
- **Process owner**: manages the process models that have been developed on behalf of the users
- **Business representatives**: represent the customers’ interests and manage the sourcing relationship from that perspective

Tools for Service Strategy

- Simulation
  - System Dynamics: a methodology to get a handle on and to model feedback processes, supplies and flows, delays and other complex problems
  - a tool for evaluating the consequences of new policies and new structures before they are put into practice
- Analytical modeling
  - Knowledge coming from analytical modeling helps to improve performance in light of technical, financial and time constraints

Return on Investment

- One of the greatest challenges in seeking financing for ITIL projects is identifying a specific business objective, which is dependent on service management.
- Techniques
  - **Business case** - a way of identifying business objectives that are dependent on service management
  - **Pre-Program ROI** - techniques for quantitatively analyzing investments in service management
  - **Post-Program ROI** - techniques for retroactively analyzing investments in service management

Business Case

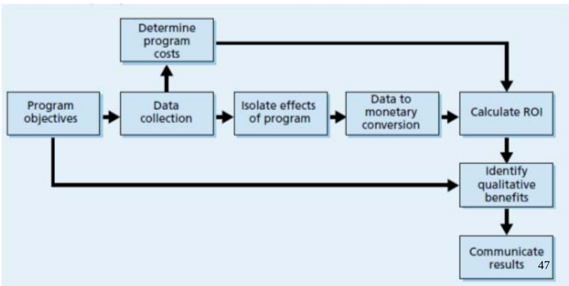
- A business case is a decision-making, support, and planning instrument that plans for the likely consequences of a business action
  - Consequences can be quantitative or qualitative
  - A financial analysis is often central to a good business case
- The business impact has to be directly linked to the business objectives (the reason for the service management initiative)

Pre-Program ROI

- Capital budgeting is the investment of financing now in order to yield increasing cash inflows or decreasing cash outflows in the future.
- Capital budgeting decisions
  - **Screening decisions** - because you have to spend money to make money, the time value of money (discounted cash flow) plays a role; capital budgeting decisions can be based on analyses of the cash flows
    - » Net Present Value (NPV): difference between cash inflows and cash outflows
    - » Internal Rate of Return (IRR): the yields over the entire lifecycle of a service are compared with the cash inflow (rate of return)
  - **Preference decisions** - decisions can also be based on preferential approaches

Post-Program ROI

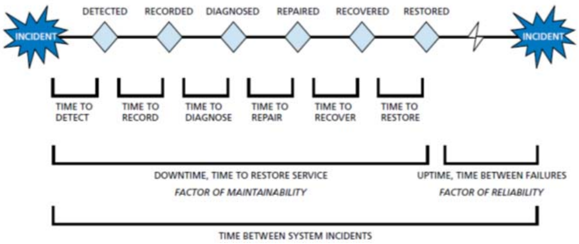
- If a service management initiative is launched without prior ROI analysis, it is wise to do the analysis



Service Strategy: Quality Perspective

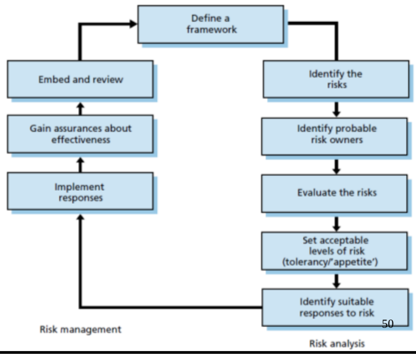
- SLA-metrics are necessary, but that not sufficient to measure the quality of services provided to the customer
  - Utility and Warranty ..
- Warranty factors
  - Reliability - Mean Time Between Failure (MTBF)
  - Maintainability - Mean Time to Restore Service (MTRS)
  - Redundancy - a way of increasing reliability and sustainability of systems

Incident Lifecycle



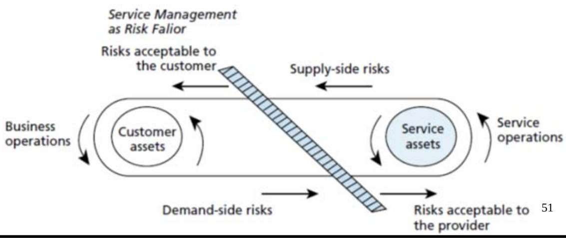
Risks

- A risk is an uncertain outcome, or in other words, a positive opportunity or a negative threat



Transfer of Risk (1)

- Services reduce the risk to the client's business, but they also bring risks to the service providers
  - Clients compensate service providers for these risks in a variety of ways: first and foremost by paying for the services



Transfer of Risk (2)

- Service providers must ensure that sufficient compensation occurs but at the same time, they must remain reasonable.
- Costs are facts, but prices are a matter of policy.
- For example, certain investments can yield a profit over the course of time.
- In addition, with new services and customers, the risks can pay for themselves in the form of new customers (scale) or demand for other services (scope)

Risks for Service Providers

- **Contract risks**
  - Risks that the service provider will make it impossible to satisfy the contractual agreements are strategic risks
    - » they not only threaten the current production, but they also damage the trust for future interactions
- **Design risks**
  - Poor performances are the result of bad design
    - » The services will achieve undesired results
    - » Low utility for the customer
- **Operational risks**
  - risks for the business units and risks for the service units
- **Market risks**
  - Can be reduced through *differentiation* of the offer and/or *consolidation* of the demand