



Service Value Rationalization Can You Compete Without It?



Abstract

To compete effectively, organizations must improve two main areas in IT:

1. Operational efficiency
2. Service Value Rationalization (alignment of IT investments with business value)

Of the two, Service Value Rationalization is more important since efficiently executing the wrong task nets zero results. The only way to identify the right task is to understand its value to the business.

IT complexity (cloud, hybrid, Artificial Intelligence (AI), robotics, hyper-converged, etc.) has been growing by leaps and bounds for decades. The success of each business offering hinges on myriad technologies, interfaces, service providers and more. These technologies are increasingly a key factor in your ability to compete. How are they performing compared to other technologies available in the market? How much do they cost compared to others? If you are not aware of how your IT investments are supporting your business plan, your IT investments are already out of control.

This paper offers a way to gain competitive advantage through Service Value Rationalization, by attempting to answer the 'what, why and how'.

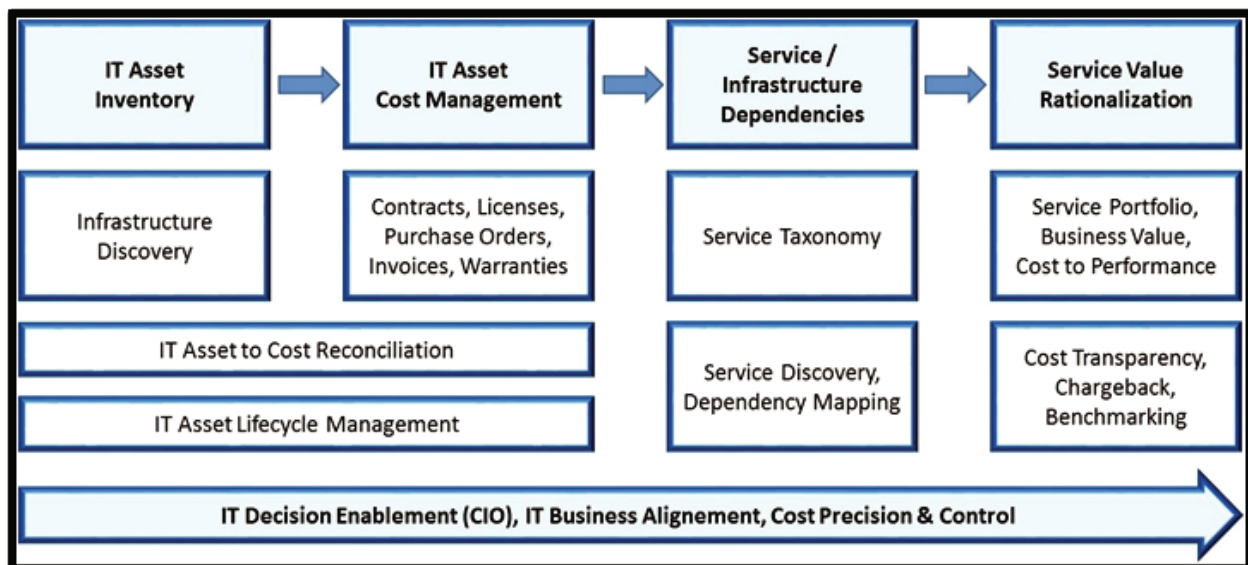
Abstract

Only 45 companies listed in the 1996 Fortune 100 list still feature in the list in 2016. Over the next 20 years, this attrition rate (55%) will increase as technology accelerates the pace of change and enterprises struggle to keep pace. In the course of the next five years, AI and robotics will create a tectonic shift in IT investment priorities.

More important than the accelerating technology landscape, is your ability to adjust your business services (e.g. virtual agents, robotic delivery, augmented reality show rooms) and IT services in lockstep. This ability, in turn, depends on your capability to abstract the complexity of your IT assets into transparent services consumed by the business - in measurable ways.

The problem is most of businesses are far from prepared for this journey. And I am not speaking about their preparation to adjust to the evolving technology; I am referring to their ability to manage the technology to meet business objectives. Businesses are not ready because they are unable to map the costs of underlying technology to the value of a business service. I refer to this as "Service Value Rationalization". This was supposed to be the objective of IT Service Management. However, most implementers of ITSM have focused instead on operational efficiency through process design and standardization. I use the term Service Value Rationalization here to avoid the fixed ideas now erroneously associated with ITSM.

An organization starts with a basic IT asset inventory and develops the capability to decide, manage and govern IT investments as part of a service strategy supported by organized and accurate information (see Figure 1). Figure 1 includes concepts from Technology Business Management and ITIL®.



Business impact

In Figure 1, IT costs are bundled in the first three columns. Typically, businesses use some version of the following equation to calculate operating ratio.

Operating Ratio=(LOB Expense+LOB Expense+IT Expense)/(LOB Net Sales+LOB Net Sales)

With this approach, IT expenses are opaque. They might or might not be serving your highest business priorities. Essentially, you have very little control over some very large expenses. When your competitors gain control of their expenses, your business will be at a disadvantage. So, what will it take for your business to hold or regain its advantage against your competitors? The

The Value Vision

To outline the value vision, I will borrow from the TBM Council, “Technology Business Management”, as documented in Todd Tucker’s book .

<http://tbmcouncil.org/learn-tbm/tbm-book.html>

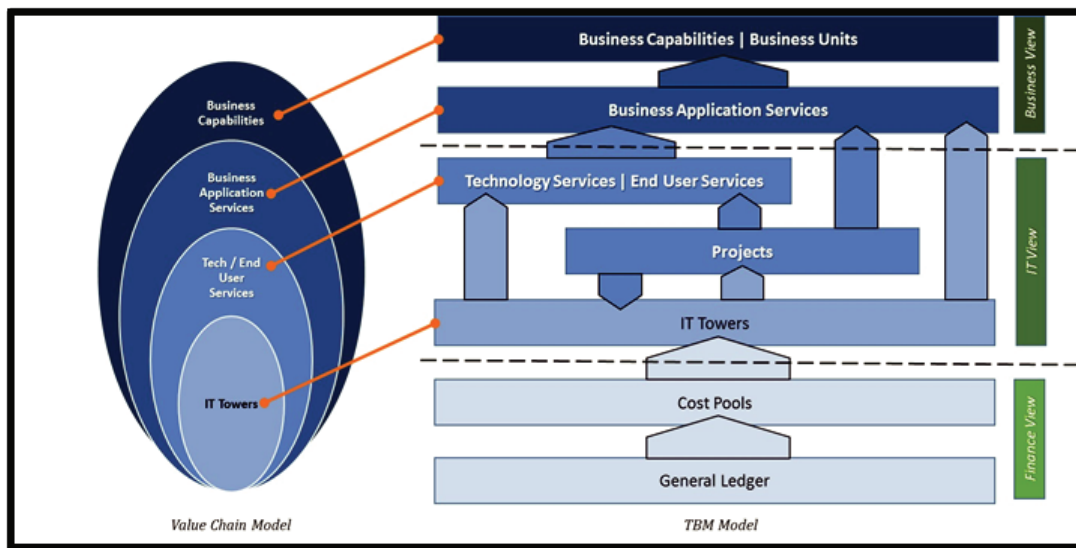


Figure 2. Mapping Value Chain Model to TBM Model (www.tbmcouncil.org)

Every enterprise needs to understand the value chain clearly. From infrastructure components and IT services to applications and business capabilities, the model helps us understand an organization’s place in the chain that keeps the enterprise alive.

The core concepts of the Value Chain Model have been around for a while. Unfortunately, businesses have lacked the technology, expertise and wisdom to establish the necessary framework.

Organizations need to broaden their vision from a myopic IT focus to a view that encompasses business and finance. This is not to say that operational efficiency is any less important or that technology innovation should slacken. On the contrary, innovation and operational efficiency thrive in an environment where the business understands and controls its IT investments. For example, if all IT resources are fully occupied in maintenance and break/fix, how can you support innovation? An informed business would focus on shifting its key resources to project-related tasks. It might do this through a change in IT investments such as outsourcing, cloud provisioning or automation. Or, if the company’s web site has a poor cost/performance ratio, it will need to prioritize improvements. These and other similar decisions should be simple and obvious.

With current technology and documented frameworks, businesses are now equipped to shift from blind IT expenditures to business-savvy IT investments and transparent cost control.



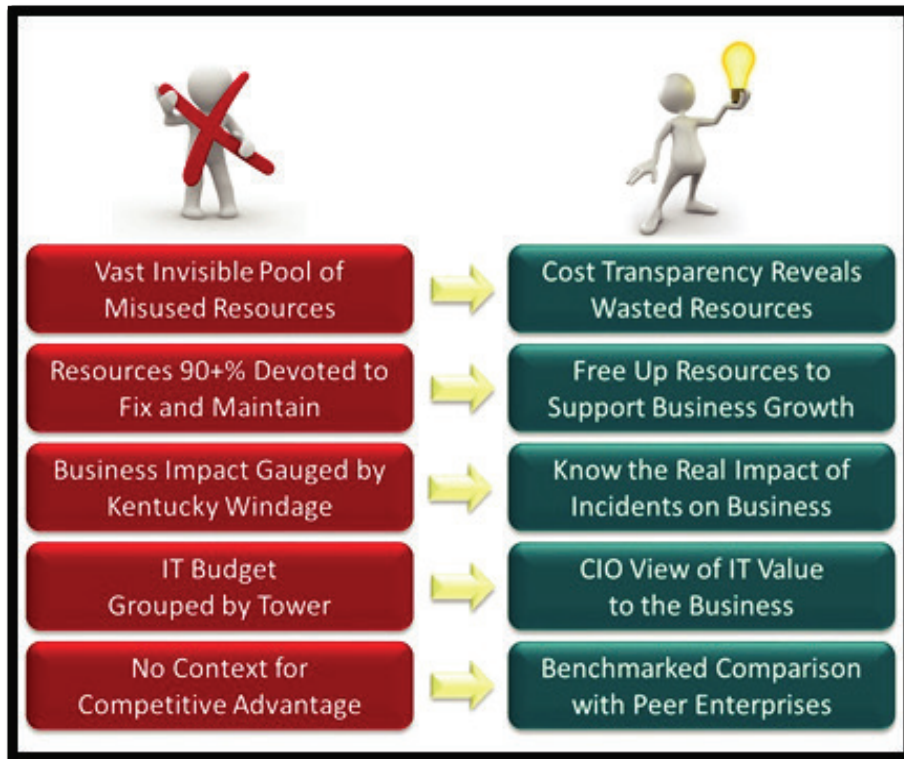
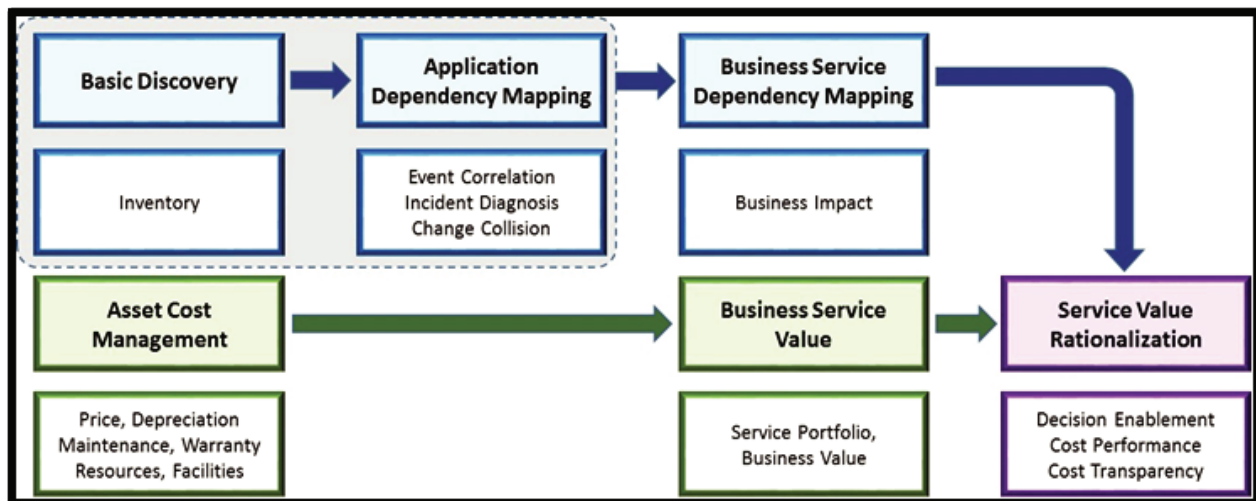


Figure 3. Shifting to Service Value Rationalization.

Solution Approach

Our proposed solution framework for Service Value Rationalization is a blend of ITSM and TBM. Many enterprises have some form of discovery and even a degree of application mapping, with both focused on operational efficiency (see Figure 4). In addition, all enterprises have some form of IT asset cost management, though these costs are typically bundled and are not directly tied to business outcomes.



There are a multitude of tools on the market that can address the first two columns in Figure 4, although application dependency mapping requires special care to reduce maintenance costs. Asset cost management (ITAM, SAM) is far easier to implement today than five years ago but still demands specialized expertise, especially with respect to software license management.

Generally, a good consulting firm should be able to achieve moderate capability listed in the first two columns of Figure 4 in less than a year. For those who have delayed this effort, it is best to rethink that delay because the components in the first two columns are the foundation for the elements in the other two columns. These elements, in turn, are imperative for the survival of your business

As we move to the third column in the diagram, we begin to gain an understanding of business services and capabilities. In the past, Business Service Management (BSM) mapping presented a formidable challenge. What is a service? How should they be organized? How do we map those services to underlying applications and infrastructure? Each business service taxonomy was unique, and as a result, most failed in their effort to map BSM.

The challenges set the stage for the emergence of a Technology Business Management Council. After years of collaboration and effort, they published TBM Taxonomy 2.0, in October 2016. The taxonomy is available for download from tbmcouncil.org. It provides standardized guidance on mapping across three layers – Finance, IT and Business. Finance is divided into cost pools and IT is divided into towers, while business is divided into service type, category, name and offering.

Having long struggled with business service categorization, my first exposure to this taxonomy was transformational and influential.

The benefits to the CIO, the finance function and business executives are obvious. For an IT professional, there are many more advantages, as the taxonomy can be used for mapping IT towers and business services in the CMDB. Consequently, the CMDB and Asset Management database map seamlessly to the financial layer with its cost pools. With a standardized map, we can now easily benchmark against industry standards.

Solution Approach

We generally work with ServiceNow or Cherwell which works on any CMDB by adjusting the categories in the CMDB to align with the TBM taxonomy. If this approach is too disruptive, you will have to establish a reconciliation matrix to translate your taxonomy into the standardized one. We prefer a common taxonomy.

Use a discovery tool that can easily map services to applications and applications to infrastructure, and more importantly, can easily maintain those maps. There are many tools on the market but the key is to reduce the resource hours required to maintain the maps. The discovery tool should also support netflow discovery as heavy reliance on probes may conflict with credential and security concerns.

Implement IT Asset Management. We have separate guidance on ITAM but generally recommend you start with a limited scope and that you take a modular approach based on your order of precedence. Software title normalization and software license reconciliation are usually the most challenging tasks.

Establish a robust process for Service Portfolio Management. ITIL Service Strategy provides excellent guidance in this area. This will require parallel efforts on Demand Management, Capacity Management, and Financial Management for IT based on ITIL.

To simplify much of this, consider Apptio (www.apptio.com), a solution that offers a TBM-aligned data model with deeper layers of categorization. It incorporates the above processes and enables implementation in a matter of months rather than years. Apptio integrates smoothly with Cherwell and ServiceNow, though we recommend that the CMDB in these tools be TBM-aligned for easier maintenance and best practice.



Final Word

The framework and technology now exist to allow you to know exactly how much you are spending for a business service and how well the service is performing. We can even benchmark most key performance indicators against your peers. This is more than cost accounting or even cost transparency; this is decision enablement at the CIO level. If you are not already using Service Value Rationalization, you could risk losing the race!

About Hexaware

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We serve customers in Banking, Financial Services, Capital Markets, Healthcare, Insurance, Manufacturing, Retail, Education, Telecom, Professional Services (Tax, Audit, Accounting and Legal), Travel, Transportation and Logistics. We deliver highly evolved services in Rapid Application prototyping, development and deployment; Build, Migrate and Run cloud solutions; Automation-based Application support; Enterprise Solutions for digitizing the back-office; Customer Experience Transformation; Business Intelligence & Analytics; Digital Assurance (Testing); Infrastructure Management Services; and Business Process Services.

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