Best Practice Insights

Focus On:
ITIL® Service Strategy

Updated for ITIL 2011

bmcsoftware

This publication has been revised to bring the content up-to-date with IT Infrastructure Library® (ITIL®) 2011 by Anthony Orr. Orr is BMC Director, Service Management and works within the Office of the CTO at BMC. He is one of the authors for the ITIL 2011 update and a senior ITIL examiner for APMG. Orr has more than 30 years of information technology experience.

Note to Readers

This publication highlights key elements of the ITIL *Service Strategy* publication, and includes commentary on important concepts from BMC ITIL experts. BMC commentary is highlighted in blue text.

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Foreword

Organizations are constantly changing, and this can have a significant impact on how the business, the service provider, and their personnel all work. The introduction or decommissioning of a service often requires significant changes that need to be managed and delivered through the service lifecycle. Where there is major change, there will be complexity and risk. Many organizations deliver significant change through formal projects; however, many projects fail to include the full service management, operational, and functional requirements. This often leads to project failure or additional cost and risk.

Service transition sits at the center of the IT Infrastructure Library® (ITIL)® lifecycle structure. Service design supplies its inputs, and service operation receives its outputs — which are usable services. Successful service transition requires the effective application of change management, quality assurance, and risk management at each stage through the service transition process to establish and confirm progress against current requirements — not just for one service, but across all services in transition.

Service transition works with projects to establish assurance of the actual and expected service deliverables. It covers the assessment of the predicted performance of a service against the actual performance and management of any deviation and associated risks prior to service acceptance. Adopting service transition practices can enable service improvement and increase an organization's service management capability by ensuring that the introduction, deployment, transfer, and decommissioning of new or changed services are consistently well managed.

Shirley Lacy
Managing Director, ConnectSphere
Co-author of the ITIL *Service Transition* publication,
by the Office of Government Commerce (OGC)

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Foreword

A cosmetics executive once remarked that his industry sells "hope in a jar." In other words, customers don't buy services; they buy the satisfaction of particular needs. The value of services can only really be quantified by customers — not the organizations that provide them. The more intangible the value, the more important this nuance becomes. This idea, known as the *Marketing Mindset*, is one of the most elusive for IT organizations. Chances are you intuitively understood this well enough already. Chances are, like many, you may have missed the punch line.

Service strategy is perhaps one of service management's most controversial concepts. Almost no one agrees on what it is, yet most agree it is important. It is sometimes described as an IT operating model or enterprise architecture. But this thinking does not account for the reality of competition. The *Marketing Mindset* means seeing the IT organization through the eyes of its customers. And therein lies the real bombshell: competition. No organization acts in a vacuum. Customers always have alternatives, even for government and nonprofits where alternative social services compete for scarce tax dollars and contributions.

Competitive forces demand that an IT organization do its job better than the alternatives. It means being different, either in the services you provide or how you provide them. It may be in the form of lower cost structures or service quality. Or it may be in the form of customer or product know-how. Either way, it is a distinctiveness not easily duplicated or found elsewhere. When we carve away all the buzzwords, this is what a service strategy is really about: "How do you become *not* optional?"

What follows is a primer on the essentials of service strategy provided by ITIL experts from BMC Software. BMC carefully guides the reader through important concepts from ITIL *Service Strategy*, a volume within the ITIL compendium of carefully researched industry best practices. They offer insights to understanding and making the strategic choices that allow an IT organization to outperform its competing alternatives. They offer a road map to becoming *not* optional.

Michael Nieves
ITIL *Service Strategy* Co-author

on the field. They need to have a defensive strategy to prevent the other team from scoring and to regain control of the ball.

In every case, successful strategy depends on taking a big-picture view, and putting in place a plan to achieve goals and objectives based on a thorough assessment of the current situation and the anticipated future situation. And the plan needs to be flexible to adapt to an ever-changing environment.

The ITIL *Service Strategy* publication is a guide to applying strategic thinking to IT service management. The ultimate goal is to design, develop, and implement service management as both an organizational capability and a strategic asset. This volume highlights how you can transform your IT organization into a valuable service provider to the business.

A major focus of this publication is that your customers are the reason IT exists, so be sure you understand what your customers need and the business outcomes they desire. Think about *why* you are doing something, in the context of the impact on the business, before you think about *how* you should do it. Value has to be created efficiently, effectively, and economically, and then realized with services delivered and supported.
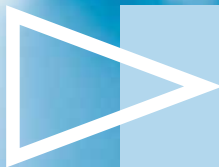
The Lifecycle Approach

ITIL is based on a service lifecycle.
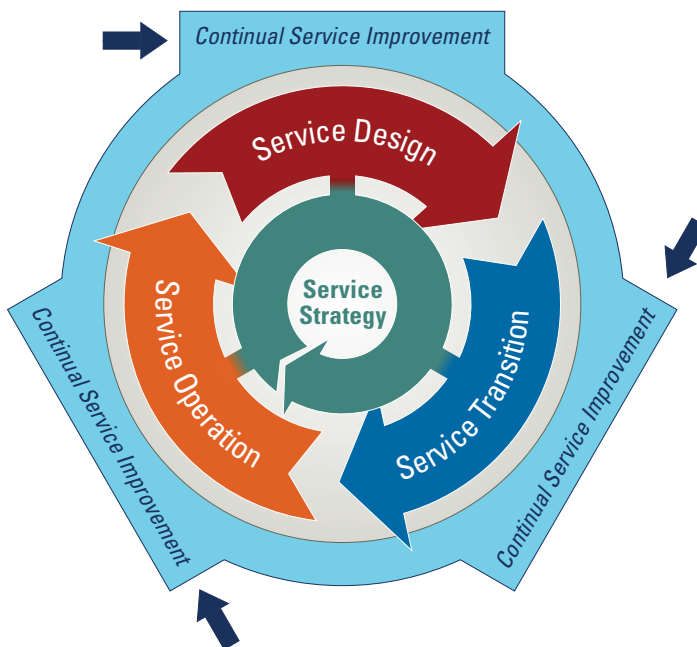
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Figure 1. ITIL Service Lifecycle Approach

Chapter 1
Introduction

A strategy is a plan of action designed to achieve a particular goal. To be successful, a strategy has to be adaptable based on changing conditions. Strategy comes into play in all aspects of life: You may have your own personal strategy for saving a certain amount of money prior to retirement, getting a promotion at work, or convincing your ten-year-old to eat his vegetables.

Sports teams have a strategy for winning the game, based on a plan for leveraging their own skills and executing on plays, while keeping in mind the competitors' skills and potential moves. For example, skills in dribbling, shooting, and passing are critical for soccer players, but these abilities alone will not win the game. Team members need to be able to quickly analyze the playing field, make immediate decisions on what needs to happen, and communicate with each other on the intended plan.

Every time a player passes the ball, the team should have a plan in mind as to what will happen next, with the ultimate objective of scoring a goal. If the intended recipient of the pass is being heavily guarded by the defense, then the play needs to be adapted, and another player needs to take over. If the pass is intercepted by the competitor, then the team has to immediately adapt with a new plan based on the current situation

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The lifecycle approach enables you to create business value through Business Service Management (BSM). The cornerstone of BSM is managing IT from the perspective of the business with the appropriate partner relationships, technology implementations, people enablement, and process alignment. With a sound strategy in place, and with a focus on the business rather than the technology, you will be much more successful in becoming a strategic part of the overall organization.

Integration with the Business Is Paramount

If you currently use ITIL as a framework, you are most likely already thinking about how the IT services, systems, and processes you manage support the business that depends on IT to be successful. Use the *Service Strategy* publication to help you better understand the business, integrate with it, and become a truly strategic partner to it.

> With a sound strategy in place, and with a focus on the business rather than the technology, you will be much more successful in becoming a strategic part of the overall organization.

As IT moves further into the mainstream, ITIL is becoming the generally accepted way in which IT operates. ITIL provides a framework for you to build upon so that you can optimize your IT organization, based upon the business's unique needs and capabilities.

To effectively adopt a service strategy, try moving outside of your IT world and looking at things from perspectives typically associated with other business functions. For example, it's useful to adopt a financial perspective so that you can create a strong business case for a new initiative, or take a marketing outlook in order to better understand your customer.

Summary

Using ITIL as a framework can completely change the way you operate as an IT shop. Your ultimate goal is to transform IT so that it is 100 percent focused on the business. Collaborate with the business to determine how you can create and realize value with both your assets and your customers' assets. While reducing costs can be an important contribution to the overall company, IT can be much more than that. IT can generate revenue and become a profit center, actually contributing to the bottom line.

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The Lifecycle Approach
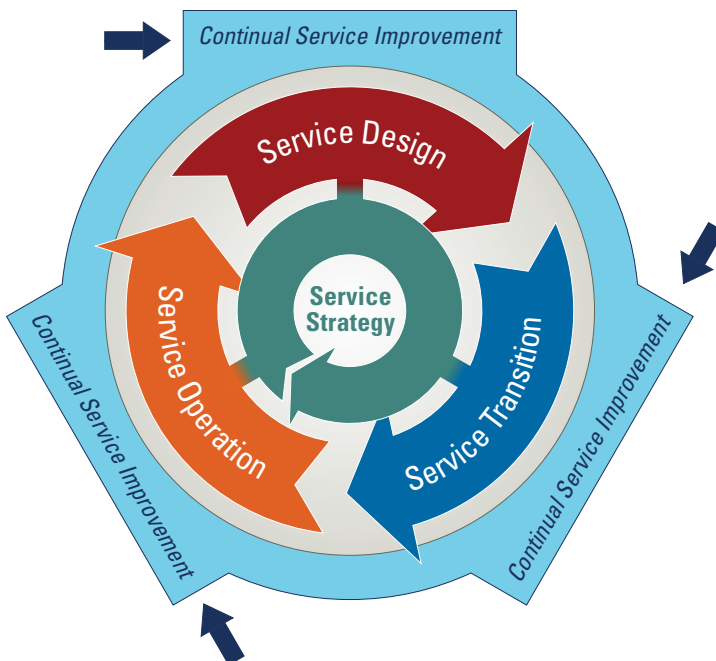ITIL Version 3 is based on a service lifecycle.

Figure 1. ITIL Service Lifecycle Approach

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Service Design, Service Transition, and *Service Operation* are individual, progressive phases of the lifecycle, representing addition, change, or transformation in daily operations. *Service Strategy* encompasses the policies and objectives required to implement the lifecycle approach, while *Continual Service Improvement* focuses on an environment of learning and enhancement.

The service lifecycle approach represents a broad, all-encompassing view of service management. This approach focuses on gaining an understanding of the service management structure, the ways in which all of the components are interconnected, and how changes in one area may affect the whole system. The end result of each phase is a service package, which is then passed on to the next phase until the service is operational.

> Your ultimate goal is to move IT from being just an operational aspect of the business to being a strategic contributor to business success.

What does this approach mean for you? In essence, it means that silos in your IT organization should be a thing of the past. Organizational collaboration, value chains, and investment decisions need to be architected to support the overall business strategy. The assets, resources, and capabilities for which you are responsible are elements of the overall, complex IT infra-structure, and any actions you take may have an impact on another area. So, take a broad outlook and, for everything you do, think about how your actions will affect the entire IT infrastructure and your ability as an organization to not become optional to your customers. Even more importantly, think about how your actions will affect your customers and the business as a whole — not just your piece of it.

The Benefits of the Lifecycle Approach

The lifecycle approach motivates you to focus on the business's needs, and on how IT can provide added value. In this approach, you become proactive, ensuring that your activities will provide value to the business from the outset of an initiative, rather than reacting to occurrences in the IT environment.

Think of this approach in terms of the original meaning of *lifecycle:* An IT organization gives life to many projects or initiatives. By understanding the roots, or the "beginning of life," of an initiative, you will truly understand the business's needs and what your IT team must deliver.

Your ultimate goal is to move IT from being just an operational aspect of the business to being a strategic contributor to business success. Instead of IT being a cost of doing business or an entity that saves the business nickels and dimes, IT is elevated to a profit center, working in partnership with the business to create value. For example, every dollar invested in IT can bring three or four dollars back into the business because you are now operating a value-added enterprise that supports organizational growth and innovation.

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To effectively adopt a service strategy, try moving outside of your IT world and looking at things from perspectives typically associated with other business functions. For example, it's useful to adopt a financial perspective so that you can create a strong business case for a new initiative, or take a marketing outlook in order to better understand your customer.

Summary

Using ITIL V3 as a framework can completely change the way you operate as an IT shop. Your ultimate goal is to transform IT so that it is 100 percent focused on the business. Collaborate with the business to determine how you can create and realize value with both your assets and your customers' assets. While reducing costs can be an important contribution to the overall company, IT can be much more than that. IT can generate revenue and become a profit center, actually contributing to the bottom line.

service had better be working, so that customers can process their transactions and be assured of the continuity of service. The final factor, security, is critically important. Because the bank is dealing with customers' financial assets, confidentiality and integrity of customer data are essential.

From Value Creation to Value Realization for Your Customers

The value of a service is derived from a combination of *utility* and *warranty*. Think of *utility* as functionality offered by a service to meet a specific need. Think of *warranty* as the elements that you take for granted until they are absent.

Let's look at an example of what ITIL means by the combination of utility and warranty. Before the cable industry was deregulated in 1996, the cable companies could deliver only one type of service: analog cable. The only growth opportunity was to sign up more customers. The deregulation act *removed a constraint* for the cable companies, allowing them to transform the business and compete in other areas, such as broadband and Voice over IP (VoIP). Because cable companies use a more robust pipe than the phone lines, they can deliver a higher-quality service over competing alternatives (i.e., greater bandwidth). The end result is that they are now successfully competing in, what is for them, a completely new market, using utility (bandwidth supporting customer service value) and warranty (IT availability, capacity, security, and continuity) as distinguishing factors.

> You can create differentiation and retain customers by developing distinctive capabilities that are difficult for your competitors to replicate.

The cable companies then establish an agreed-to warranty regarding a basic service level of availability. Typically, this includes an associated penalty: Customers get a credit for time during which the service isn't available. The warranty includes other measures such as service continuity, security, and capacity.

The customer realizes value when the service becomes operational for usage. The customer asset now interacts with the business service asset. Value must be realized from the business and customer perspective. Value realization continues when the service is adequately supported.

Service Assets

According to ITIL, resources and capabilities are types of assets that organizations can use to create value for their customers. *Resources* are direct inputs to produce a service, while *capabilities* are the organization's ability to utilize resources to create value. You can create differentiation and retain customers by developing distinctive capabilities that are difficult for your competitors to replicate.

Chapter 2
The Practice of Service Management

Chapter 2 introduces some important definitions that provide a basis for the ITIL framework, and it introduces key concepts that are essential to service management success. Significant points stressed in this chapter are value creation, the importance of organizing for service management, and the service lifecycle. The key message in this chapter is to think about how the services you offer are architected so that they provide the most value to your customers. Please refer to the ITIL glossary for the definitions of the following terms: *service management, customers, users, suppliers, service, utility, warranty,* and *process.*

Types of Service Providers

The *Service Strategy* publication references three types of service providers. Many service management concepts apply regardless of the type of service provider you are; however, characteristics such as customers, competition, and strategy differ for each type of service provider. A brief summary of each type is provided below.

» An *internal service provider* (Type I) is embedded in the business unit(s) it serves and is funded through overhead. Examples are organizational functions such as finance, human resources, or IT. An internal service provider is tightly integrated with its customers and must operate within the business guidelines.

Competition comes from providers outside the business unit. This type of service provider is appropriate when the function is critical to competitive advantage and requires careful control.

» A *shared service provider* (Type II) model is appropriate when a function is not critical to the business's competitive advantage. In this case, you can consolidate shared functions into a shared services unit. A benefit of this approach is the ability to leverage opportunities across the enterprise and spread costs and risks across a wider base. In addition, you can often offer services at lower prices than external providers can. As a shared service provider, your competition comes from external service providers.

» An *external service provider* (Type III) typically can provide services at lower prices, because it can consolidate demand, which reduces unit costs. An external service provider is an attractive option for organizations that don't want to own and operate the assets needed to provide certain services. Customers benefit from the breadth and depth of experience that an external service provider can offer. In many cases, a single external service provider's customers are competitors of one another, which decreases any competitive advantage offered by the services.

The *Service Strategy* publication provides a list of questions for analyzing whether you want to continue providing a service in house or whether it makes more sense to outsource it. You'll want to evaluate the total costs of outsourcing. In addition, keep in mind the overall lifecycle and consider both your short- and long-term goals. For example, if you are looking only at the short term, you may decide to outsource so that you don't have to purchase costly assets. But if you look at the long term, you may realize that you ultimately want to keep this activity in house. Here's a rule of thumb: If the activity is strategic to your business or your core competence, think long and hard before outsourcing it.

> As a service provider, focus on building a strong foundation for a lasting relationship with your customers.

As a service provider, focus on building a strong foundation for a lasting relationship with your customers. Once this relationship is established, your customers will most likely find it easier to stay with your company than to move to another provider, due to switching costs.

Take Nothing for Granted

If you have established strong working relationships with your customers, it will be difficult for them to move to another provider. But be cautious of taking the relationship with your customers for granted. The idea of providing value is not static; it's essential to constantly improve and differentiate the value you deliver. For most customers, it's not about the past: What are you doing for them today, and how will you meet their business needs tomorrow?

Stakeholders

Everyone in the IT organization should be considered a stakeholder for service management. Service is everyone's responsibility, no matter what role they play to deliver and support services for their customers.

There are also external stakeholders to be considered, including customers, users, and suppliers. These stakeholders, along with the organizational stakeholders, support a value network in which services are consumed and delivered.

Utility of Service

Customers want to achieve business outcomes by receiving services that are fit for their purposes. The utility of a service must either support the customer's performance or remove a constraint. Customers can become very frustrated with a service that is fit for their purpose but lacks sufficient warranty for their use.

Warranty of Service

This chapter provides guidance on warranty of service, which you can communicate to customers in terms of commitments to *availability, capacity, continuity,* and *security* of the utilization of services.

» *Availability* means that the customer can use your service under the terms and conditions you have mutually agreed upon.
» *Capacity* ensures that the customer will be able to utilize the service at a specified level of business activity or that demand will be fulfilled at a specified quality level.
» *Continuity* guarantees that the customer will be able to use the service even if you experience a major failure or other unexpected event.
» *Security* means that the customer's utilization of services will be free of specific risks.

Many of the services IT provides are considered commodities. You create a competitive advantage when you are able to deliver a certain level of warranty to your customers.

Customers, both internal and external, need to be confident that you can effectively and consistently support their business strategies. Since service providers are constantly matching others' service offerings, you must constantly improve your value proposition to stand apart. Use one or more of the service management processes to drive these improvements.

Warranty of Service in Banking

In evaluating this concept, consider banking services. All four of these factors — availability, capacity, continuity, and security — are key. If a particular bank's ATM machines aren't operating or the online banking site is consistently down, then customers will not trust that bank to be available when they need it. If the online banking site is up, but it takes several minutes to process a transaction because of capacity limitations, again, customers will not be happy. And if the online banking site is down, the telephone banking

service had better be working, so that customers can process their transactions and be assured of the continuity of service. The final factor, security, is critically important. Because the bank is dealing with customers' financial assets, confidentiality and integrity of customer data are essential.

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Let's look at an example of what ITIL V3 means by the combination of utility and warranty. Before the cable industry was deregulated in 1996, the cable companies could deliver only one type of service: analog cable. The only growth opportunity was to sign up more customers. The deregulation act *removed a constraint* for the cable companies, allowing them to transform the business and compete in other areas, such as broadband and Voice over IP (VoIP). Because cable companies use a more robust pipe than the phone lines, they can deliver a higher-quality service over competing alternatives (i.e., greater bandwidth). The end result is that they are now successfully competing in, what is for them, a completely new market, using utility (bandwidth supporting customer service value) and warranty (IT availability, capacity, security, and continuity) as distinguishing factors.

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Process

Processes deliver their primary results to the customer in the form of services. To be considered a process, the action must have input or triggers, define actions and activities, and have an output or specific results. Processes also have metrics associated with them. Resources and capabilities within or external to your organization can enable your processes. To ensure that required processes are executed correctly, make certain that the processes follow enterprise governance standards and have policy compliance built into them. Processes are executed by people and are sometimes enabled with technology implementations.

For a service to be effectively delivered and supported, its contributing processes must be collaborative and integrated appropriately, so that the output from one process provides the necessary input to the next process. Processes should be efficient, effective, and economical for the services they support.

Service Lifecycle

The service lifecycle is dynamic; each stage of the lifecycle supports all of the other stages. Specialization and coordination of resources across the lifecycle are very important for the delivery and support of services. The service lifecycle should work as an integrated system that has feedback mechanisms for continual improvement.

Summary

This chapter provides a foundation for the components and life of a service. As an IT leader, you can create value for the business only if you think strategically based on a solid understanding of the desired business outcomes and how IT can influence them. Value realization is a combination of customer and business interactions that are delivered and supported by IT. As you set out on any initiative, think holistically and from the business value perspective, and make sure you have the capabilities and resources necessary. You're not just delivering an application; you are actually facilitating a service for the business.

Chapter 3
Service Strategy Principles

Chapter 3 builds upon the definitions introduced in Chapter 2 and introduces key concepts that are essential to service management success. Significant points stressed in this chapter are service strategy theory, the importance of understanding the customer's perspective, value, and the need to focus on business and customer outcomes.

This chapter presents the idea that, instead of concentrating on efficiently using your assets, it's best to focus on or create a strategy to most effectively deliver the outcomes that your customer wants and needs. An added benefit is that improving business outcomes may actually have the effect of improving operational efficiencies.

Remember: Customers are buying the fulfillment of their particular needs — that is, the desired business outcomes.

The Big Picture
To create business value, it's important to have a solid understanding of how the different service management pieces interconnect. At the same time, it's essential to understand what are — and are not — your core competencies, and to evaluate how you focus your resources accordingly for customer value. Think long term.

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For example, consider a business in which suppliers are critical to success. If you outsource a critical application that helps to manage suppliers, you lose knowledge and expertise. If supplier performance issues arise, you are at risk because you've lost the expertise to manage them.

Look at the bigger picture, in terms of overall service management strategy: You can develop a strategy that looks great on paper, but if you don't work with the transition team to set expectations and learn if it's all doable, then your strategy may not be realistic. Instead, work with the different functions and processes throughout the whole lifecycle to ensure that the requirements you are creating can be supported by the existing processes and functions.

Service Strategy Fundamentals

A good portion of Chapter 3 is devoted to defining the fundamental concepts of service strategy. In essence, a *service strategy* is a unique approach for delivering better value. It is not a concrete plan, however; rather, it provides a framework that enables you to react and adapt to an ever-changing environment. The ultimate goal of any service strategy should be to provide superior service to customers over all other competitive offerings. This goal is essential not only for companies that provide services as their core businesses, but also for internal service providers, so that they remain relevant and useful to their companies.

One important point ITIL raises is the need to have a strategy in place to ensure that the services you provide are differentiated. You can achieve this by having a solid understanding of the business and overall industry, the desired business outcomes, and why these outcomes are desirable. If you do not differentiate your services, then there is little to prevent competitors from replacing you or to keep another service provider from invading your market space.

Like you, your customers are constantly trying to improve their business models and strategies. In a nutshell, they want to improve outcomes in business processes with little or no increase in cost. Typically, companies achieve improved outcomes through innovative solutions. As a result, IT managers need to have a continual focus on the business and on enhancing the services you provide. There are other service provider options for most services, so keep in mind that you can be replaced. What the customer values today may be different tomorrow. You'll need to anticipate or, at minimum, be ready to react to the customer's shifting views of value. And, remember, having an attitude of delivering value isn't enough — it's essential to show results. While you want to ensure that you deliver value to your customers, you realize real success only when you can actually demonstrate that you are providing business value.

Being "Non-optional"

Take a continual improvement approach to how your organization can provide additional value to your customers. If you provide software or hardware that a customer needs, that's important; but also think about what kind of service or additional value you can provide. What can you offer that the customer can't get from another supplier?

Service Management as a Strategic Asset

Service management can be a strategic asset to your organization, and you will want to treat it as such. It becomes a strategic asset like this: First, customers receive value from you, the service provider. Satisfied customers then entrust you with more business, justifying further investment in service management, and so on. The cycle continues, and, over time, service management becomes more mature and achieves higher capability levels. As a result, you realize a higher return on your service assets.

To develop service management as a strategic asset, map out the value network that you operate, including components within your enterprise as well as external customers, suppliers, and partners. Then, create a feedback system in which you use information gained from your present service offerings to enhance your offerings in the future.

> Be sure that you are always aligned with the business outcomes that your customers desire.

Increasing Performance Potential

Your services can increase the performance of customer assets. (Refer to the ITIL glossary for a detailed explanation of the term *customer assets*.) This potential is really the only reason that customers will want to buy your services, so be sure that you are always aligned with the business outcomes that your customers desire. The *Service Strategy* publication specifies a list of questions to consider so that you can optimize performance. The key to increasing performance potential is to offer the right services and ensure that these services enhance your customers' businesses.

As you effectively increase the performance of your customers' assets, demand for your services will most likely increase. Increased demand results in increased payment from customers, which contributes toward total income earned by the service assets deployed to deliver and support the service. While total return depends on asset income and the cost to serve, your bottom line typically increases as demand increases. In addition, as service management matures, you can deliver higher levels of utility and warranty without a proportional increase in costs. Due to fixed costs and overhead, the cost of providing additional units of service decreases with an increase in demand.

Increasing Service Potential

Your services can increase the productive capacity available to customer assets. Developing your capabilities and resources can increase your service potential, and the *Service Strategy* publication highlights additional ways to increase service potential. The key to increasing service potential is to enhance your services and ensure that these services enhance your customers' businesses. Cloud computing services are a prime example: The service provider increases its customers' service potential by enhancing the customers' capabilities and resources. Ultimately, this enhances the customers' businesses.

Relationships Matter

If you have configuration management, use this process to identify all service assets that support a particular service. This knowledge will enable you to better understand the impact of changes, as well as help you to justify purchasing new service assets. In addition, you may be able to identify areas in which you can expand a service. Also, this knowledge can be used to determine which of your service assets are critical for a particular customer or market space.

Sourcing Strategy

This chapter also gives useful guidance for determining whether or not to outsource particular activities. While it may seem obvious, it bears repeating: Do not outsource activities that are critical to your organization's competitive advantage.

To determine whether it makes sense to outsource an activity, think about whether the value from performing the activity internally is less than the costs of managing it. If so, it may be appropriate to outsource the activity. The answer may change over time, however.

When you contemplate outsourcing, keep in mind that you will actually be outsourcing resources and capabilities, which are a source of competitive differentiation. Analyze whether the proposed services will improve your capabilities to provide services and, if so, how.

Outsourcing may be appropriate if the proposed services do not closely interact with and influence your competitive and strategic positioning. If, on the other hand, the candidate services will closely influence your competitive and strategic positioning, then you need to be aware that this sort of sourcing structure may result in:

» *Substitution* — Your customer goes straight to the supplier for the service.
» *Disruption* — Your reputation is affected if the quality of the service is poor.
» *Distinctiveness* — You may become dependent on the outsourcer for continued success.

Core Versus Context

Based on your service portfolio, which services should you provide internally, and which should you outsource? You might consider this question in terms of the concepts of "core" versus "context," described by Geoffrey Moore in his publication, *Living on the Fault Line.* "Core" includes those elements or activities that create sustainable differentiation for your services, and thus competitive advantage. "Context" refers to everything else. ("Core," in this sense, does not mean "core business" or "core competence.")

Obviously, you would not want to outsource any service that provides a competitive advantage for your company. Why? Because the vendor providing that service may want to leverage this service and provide it to other companies, including your direct competitors. And once your competitors have access to this service, your competitive advantage is lost.

In creating a sourcing strategy, you'll need to balance the benefits with the risks and levels of control. First, define the desired outcome, such as reduced cost, improved service quality, or reduced risk. Then, analyze your internal service management competencies, compare those with industry benchmarks, and assess your organization's ability to deliver strategic value.

Sourcing services from multiple providers is considered a good business practice, because you can have a strong relationship with each provider while spreading risks and reducing costs; however, it can be difficult to manage multiple providers. Be aware of technical complexities, organizational interdependencies, and the need for integrated solutions, as described in the *Service Strategy* publication.

IT as a Strategic Asset

If you don't focus on the business outcomes, then you won't have a business, at least not for very long. If you aren't looking at what matters from the customer's perspective, then you can't operate effectively. In creating your service strategy, consider the context of the customers, how they use the services, and how they perceive the value of your services.

IT can become a strategic asset by focusing on business outcomes and creating business value. An example of this is a company that provides microchips for pets. Imagine that your wandering pet, which has been implanted with a microchip bearing your contact information, appears on someone else's doorstep. Any vet or animal shelter can do a quick scan to find out where your pet belongs. But all pet-chipping services are not created equal.

The website of one successful provider of pet microchips allows you to update your contact information as well as input data to alert the company when your pet is lost. The company's system automatically sends an email or text message with your pet's description to everyone in the area who has registered to receive notifications about lost pets. This potentially broadens the scope of people who might be keeping an eye out for your lost pet — and enables you and your pet to quickly reunite.

A competing company's website simply has one page of basic information on how the chips work and provides a phone number for you to use if you want to change the data regarding your chipped pets. When you call that phone number, it's usually busy; and it turns out you even have to pay a fee to update your contact information.

There is a huge difference between the way these two companies approach IT and how it can improve the value of the service they provide while at the same time reducing costs. Which pet-chipping service would you want to do business with?

Service Economics

Service economics has four key areas: service portfolio management, financial management, return on investment (ROI), and business impact analysis. When evaluating service economics, you need to balance cost, value, and price. ROI is viewed differently depending on each stakeholder's position. Effective financial management will help you more accurately quantify the value of the services you are providing to the business as well as the value of the assets used to provide those services. If you are not responsible for financial management in your organization, many of these concepts may not be relevant to you; however, everyone in IT should have an understanding of some key concepts. ROI should be used with portfolio management and financial management for service economics.

Return on Investment

Return on investment (ROI) is the measure of the value of an investment. The *Service Strategy* publication provides a detailed explanation of how to create a business case and techniques for analyzing a potential investment in service management, as well as retroactively analyzing an investment.

Can You Believe ROI?

Today, IT organizations are focusing their attention on becoming value-generating organizations rather than being considered budget-consuming cost centers. This shift translates into a heightened focus on understanding the benefits delivered from every dollar IT spends, as well as translating this value into real business improvements. There are a variety of ways in which you can evaluate IT's contribution to the company's top-line growth and bottom-line results. But is there a clear, proven method to understand the return on your IT investment? Can you believe an ROI analysis?

Generally, ROI is a measure of the profitability of your investment. Simply put, it measures the costs of the investment and the resulting benefits. ROI is an attractive tool for IT, because it is adaptable; you can use ROI to measure cost reduction, improved efficiencies, increased productivity, and streamlined business growth, as well as to quantify the value of mitigated risks.

There can be ROI internal to IT (e.g., a server consolidation project to deliver the same services and service levels at lower cost), and business ROI (e.g., the revenue growth anticipated from a new order management software project or added server capacity to the order management service). While both are critical, it is often the lack of clear business-focused ROI that frustrates IT's attempts to communicate its value to the business and makes justifying investment priorities more difficult.

> Effective financial management will help you more accurately quantify the value of the services you are providing to the business as well as the value of the assets used to provide those services.

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Developing business cases with tangible business-focused ROI for services (new projects or existing services) requires significant commitment from the business. Quantifying expected or realized business value from business services requires a deep understanding of business processes, resources, goals, and challenges, as well as how a proposed improvement from technology can impact the top line, bottom line, or risk profile. While it can be challenging to quantify future value in business projects, it is not only a critical discipline to master but also an opportunity to drive more effective collaboration between IT and its business customers.

In calculating ROI for a proposed IT investment, use the following 4C methodology, in collaboration with your IT vendor:

1. **Credible**

    Consider the following questions when evaluating the believability of the ROI analysis: Where did the data come from? Can you and the vendor back up the data with statistics? Has the model been validated by independent research? If so, how recently? Has the model been used with other companies in your industry? If so, were the results validated by a post-deployment ROI study?

2. **Conservative**

    The ROI model should account for potential risks. Benefits should correspond to the appropriate implementation phases, keeping in mind that you may not actually realize the benefits the moment the solution is implemented. Also, be sure that the model includes only hard dollar benefits that are directly correlated to your investment.

    Understand what conservatism is based on: Does the vendor back up the cost reductions or performance improvement numbers by the actual documented data? Are the savings based on realistic costs for your industry and geography?

3. **Customer-focused**

    Does the analysis reflect your particular business and how the investment influences the desired business outcomes? For example, if the desired business outcome is increased revenue, then the model should show how the investment will, in fact, help to generate revenue, *not* how it will reduce costs.

4. **Comprehensive**

    The bottom line is, make sure the costs you account for include all major purchase components (software licenses, required hardware, maintenance costs, training, consulting, and any other internal costs) and that the benefits span not only cost reductions and other IT benefits, but also business bottom line improvements (e.g., lower cost of goods, lower cost of sales, and staff productivity enhancements), top line improvements (e.g., revenue increases and market share growth), and risk reduction (e.g., greater operational consistency and more accurate revenue forecasting).

Business Impact Analysis

A *business impact analysis* (BIA) helps you assess value as well as how much you should be willing to expend to provide and maintain the continuity of a particular service. Use the BIA to identify the most critical business services you provide. Then, assess the cost of a service outage and the relative worth of a service. A methodology for completing a business impact analysis is included in the *Service Strategy* publication.

BIA and BSM

One of the key benefits of conducting a BIA is that you gain an understanding of what is most important to the business. Use the information attained from your BIA to make sure that your supporting management software prioritizes IT services based on their business criticality. For example, if your infrastructure simultaneously experiences two outages, you automatically know which to focus on first, based on which one has the most impact on the business. Prioritizing service management activities based on impact to the business is a key advantage to a Business Service Management (BSM) approach.

The Value Network

As customers and suppliers become the direct users of IT services, their expectations and requirements become more demanding. As part of the service structure discussion, the *Service Strategy* publication explores the need to shift from a value chain approach, which is a linear model, to view the system as a value network. A *value network* is a set of connected relationships that creates value through collaborative interchanges between two or more components. This is a more complex and more accurate model than the traditional value chain.
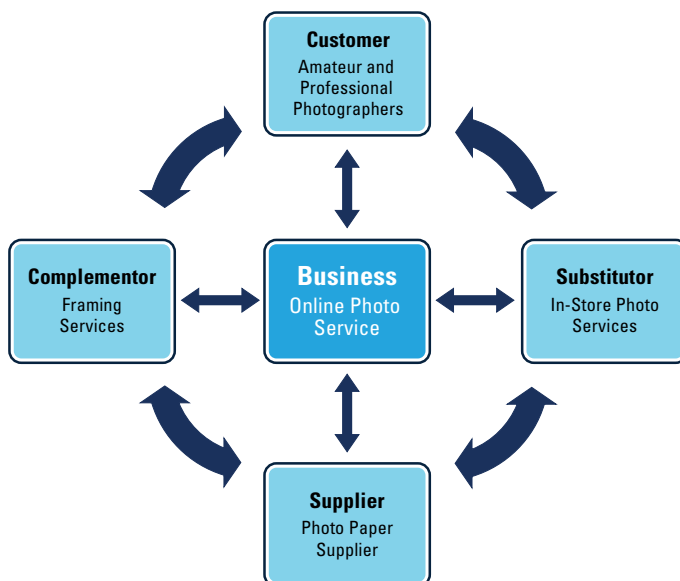

Figure 2. Sample Value Network

Four P's of Strategy

ITIL discusses at length the four P's of strategy, each of which represents a different way to approach your service strategy. Brief summaries are provided below. Please refer to the *Service Strategy* publication for more details.

» *Perspective* is your vision and direction for the services you will provide, and is attained through conversations with your stakeholders.

» *Position* is how you will differentiate from your competitors; that is, what is your unique value proposition? A sound position guides you in both what to do and what not to do based on your ability to differentiate yourself from the competition.

This chapter addresses four types of positioning:

- *Variety-based positioning* is a relatively narrow catalog of services with depth in service levels, options, and packages for a variety of customers with various needs. This approach is strong in leveraging economies of scale. Growth comes from new opportunities for the same services.
- *Needs-based positioning* provides most or all needs of a particular type of customer, with a wide catalog of services. This approach is strong in leveraging economies of scale, managing different demands from the same customers, and fulfilling needs with a flexible catalog of services. Growth is based on new services provided to the same source of demand.
- *Access-based positioning* serves customers with particular needs with respect to location, scale, or structures. Growth is based on gaining new customers with similar demands and needs.
- *Demand-based positioning* is a variety-based approach to offer services to a broad range of customers, who can customize services based on their needs.

What's Your Company's Position?

Talk to your business counterparts to gain an understanding of your company's position, as well as an understanding of how IT can help the business to achieve and maintain this position.

An example of a company with *variety-based positioning* and a narrow catalog of services is one that provides only package delivery services, enabling customers to ship and receive packages in the most efficient manner. The catalog of services is completely focused on delivering packages, but includes a variety of shipping options (for example, overnight, two-day, and ground shipments) based on the urgency of the shipment. Other services include package pickup, package tracking, and delivery confirmation services.

An example of a company with *needs-based positioning* is one that builds and operates retirement communities. These communities provide everything the residents want and need, from housing to entertainment, social clubs, physical fitness facilities, classes, and on-site medical care. The more upscale communities even offer such amenities as spas, personal chefs, and personal fitness instructors.

An example of a company with *access-based positioning* is a satellite phone services provider. This type of company provides phone services in remote locations where there are no land lines and no cell phone coverage, as well as services for emergency crews operating in disaster areas (e.g., following a hurricane), where normal phone services have been destroyed.

An example of a company with *demand-based positioning* is a provider of cloud computing services whose customers can decide parameters such as how much capacity and which resources they would like to consume (such as in a Platform as a Service [PaaS] offering).

» *Plan* describes how you will achieve the established goals and objectives. It focuses on financial budgets, your portfolio of services, new service development, investments in service assets, and improvement plans.

» *Pattern* represents consistent decisions and actions over time; that is, the organization's fundamental way of doing things. It is embedded in the way you do business. Management systems, organization, policies, processes, schedules, and budgets all have discernible patterns. Patterns can be a source of competitive advantage.

Four P's in Action

A well-known computer company's *perspective* is building to customer specifications quickly and inexpensively. Its *position* is variety-based, initially delivering only laptops and desktops, with a wide variety of potential configurations. Key to the company's *plan* is to take orders only via the Web and phone and not to sell in retail stores. And the *pattern* is a high level of customer service and competitive pricing.

Know Your Market

Defining the market is a key component of establishing a service strategy. This requires that you thoroughly understand your customers as well as your role in your customers' achievement of their business objectives. For example, how does IT impact the business's assets to effectively deliver services to the end customers?

Develop a deep understanding of the businesses you support or that you would like to support. You'll also need to understand your industry as a whole: Who are your competitors? What are they doing differently from you? One important point here is to ensure that somebody needs and wants the services that you plan to provide.

The term *market space* refers to the intersection of a customer and a need. Think about each of your customers and each of the market spaces you want to pursue. Then, list every business outcome that might apply within your strategy. From there, you can identify services (business outcomes) that you might want to begin offering, particularly if you see an outcome that currently is not being provided.

Defining services in terms of business outcomes will help ensure that you understand what the business truly needs and that the services you provide support a business objective. The best idea in the world is not useful if the business doesn't need or want it, or simply cannot afford it.

Consider a business where a corporate objective is to more quickly get new distributors online. The business asks how you can help increase efficiencies in the process. You suggest automation with workflows to expedite the approval process. But are you just providing an application to automate the process? Instead, think of this in terms of the service you are providing: an improved distributor registration and approval service that reduces the amount of time it takes to bring distributors online (the business outcome) from 5 days to 1 day. And, don't forget to put metrics in place to ensure that you are actually providing the expected outcomes.

One way to define how you are creating value for customers is to identify how the services you provide impact one or more of your customers' assets. The *Service Strategy* publication describes archetype categories within which all services can be defined. Service archetypes can be thought of as a business model for services.

First, determine which service archetype defines each service you provide. Then, in your service catalog, match up the service archetype and customer assets that are leveraged to create the value.

> Defining services in terms of business outcomes will help ensure that you understand what the business truly needs and that the services you provide support a business objective.

Creating Service Definitions

A service has both business definitions and technical definitions. When creating your service definitions, remember that a service should facilitate a desired customer outcome. Ask yourself, why are we providing this service? And what's the value, or favorable outcome, that it creates for the customer?

Consider three discrete elements: lines of service, outcomes supported, and constraints removed. Think about the services you are providing in terms of utility and warranty, customer assets supported, service assets you require to provide the service, activities supported, and performance metrics. Refer to the ITIL *Service Strategy* publication for a list of questions that can assist you in analyzing and compiling service definitions.

Summary

Clear principles and guidelines, communicated through a well-defined vision and mission statement, provide both the business and IT with a common goal. Keep a single-minded focus on the customer perspective and the business outcomes that the customer desires, and adopt a continual service improvement approach so that you are constantly enhancing and differentiating the services you provide.

Chapter 4
Service Strategy Processes

Chapter 4 discusses key processes of service strategy and provides additional definitions of service strategy concepts. The bottom line: Know your customers and the outcomes they need to be successful, and understand which service assets support your customers' critical business functions. Also, keep in mind that a successful strategy not only creates value for your customers, but also results in benefits (i.e., revenue and funding) to you, the service provider.

The key processes of service strategy are the following:

» Strategy management for IT services
» Service portfolio management
» Financial management for IT services
» Demand management
» Business relationship management

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Strategy Management for IT Services

To best support the business needs, you'll want to manage IT services from an enterprise perspective. It's not enough to align IT with the business; IT should also be integrated with the business. The strategy management process defines and maintains perspective, position, plans, and patterns related to services as well as management of the organization's services. Executive accountability and responsibility is key for this process; in addition, each business unit needs to buy in and support the strategy.

The strategy management process consists of strategic assessment, strategy generation, strategy execution, and continual service improvement. Following is each component and a list of important tasks associated with each.

Strategic assessment:
» Analyze the internal and external environments to define strategy — service valuation
» Define market spaces
» Identify industry success factors
» Establish objectives

Strategy generation:
» Determine perspective or vision/mission
» Form a position and policies
» Plan how to achieve objectives, vision, and position
» Define actions and critical success factors
» Focus on these key areas — service portfolio, financial management, service design, service transition, service operation

Strategy execution:
» Manage services
» Align service and customer assets
» Optimize critical success factors
» Prioritize investments

Continual service improvement:
» Measure and evaluate

Service Valuation

Service valuation is the strategic assessment of the service in financial terms, and is mutually agreed upon by the provider of the service and the customer. Calculate a value that is fair and that supports the costs of providing the service. Start by determining the *provisioning value*, which includes all of the costs incurred by IT to provide the service. Then, assess the service *value potential*, or the customer's perceived value of using

your service. The *Service Strategy* publication provides more details about the elements to consider in calculating the value of your services.

Why Do You Need Service Valuation?

One way to think about IT's contribution is the success of converting cash (budget) into business value. Service valuation is important because you need to ensure that the value you generate exceeds the budget used to provide the service. It is also important from a trending point of view to show to the business that, over time, you are delivering increasing value.

Service Provisioning Models

It's helpful to assess the financial implications of the various service provisioning models.

» In a *managed services model*, the business unit funds the provision of the service(s) it needs. This model is typically the most expensive, since all costs are borne by a single entity.

» A *shared services model* provisions multiple services to one or more business units through the use of shared infrastructure and resources. This model results in significant cost savings over managed services through increased utilization of existing resources.

» *Utility-based provisioning* maximizes the combination of services over the same infrastructure so that even more services are provisioned using the same resources as a shared services model. This model provides services based on how much, how often, and when the customer needs them. It is the most cost-effective model, and also the most elusive.

Refer to the *Service Strategy* publication for a detailed discussion of service provisioning cost analysis, which entails statistically ranking various forms of provisioning and providers to determine the most beneficial model.

> Service valuation is important because you need to ensure that the value you generate exceeds the budget used to provide the service.

Preparing to Execute

To create an effective service strategy, first analyze each market space, major customer, and service portfolio to get a snapshot of your current strategic position, as well as to determine which additional strategic positions might be appropriate. You can use data from customer surveys, service level reviews, industry benchmarks, and competitive analysis.

Next, define your organization's unique capabilities. Think about your most distinctive and most profitable services, your most satisfied customers, the source of the bulk of your revenues, and any successful activity that seems to be different from what other service providers are doing. Use the list of questions specified by ITIL in the *Service Strategy* publication to help you in this process.

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Then, set objectives. Identify the results you expect to achieve by pursuing your service strategy. This requires a thorough understanding of the desired customer outcomes, as well as outcomes that are currently underserved.

Finally, align your service assets with customer outcomes, keeping in mind the goal of maximizing customer value while minimizing your own risks and costs.

Defining Critical Success Factors

Another important element of your service strategy is a list of critical success factors (CSFs), which will influence the success of your plan. In other words, what is the list of things that must go right so that your strategy will be successful? To define your CSFs, think about such factors as customer needs, competitors, compliance issues, suppliers, industry trends, and technological advances. Refer to the *Service Strategy* publication for more details on CSFs. Understanding the CSFs will help you identify the service assets you need for your service strategy.

Critical Success Factors: Service Desk

To identify CSFs for your plan, think about the people, processes, and technologies you need to have in place to be effective. Consider the service desk. A number of factors influence its success, including:

» Management commitment
» Skilled service technicians
» Ability to immediately prioritize tickets based on business impact
» Adequate staffing
» Enabling technologies
» Appropriate incentive plan to provide good service rather than to close tickets
» Processes in place to escalate to a more skilled individual if the situation warrants

Expanding Service Offerings

The biggest opportunity to expand into new areas is where customers have a need that is not being fulfilled. But, keep in mind, there are probably a variety of reasons (think cost and risk) that no other service provider offers these services. This isn't to say that you shouldn't try to enter this market, but be aware that it most likely will take a technological or process innovation for you to be successful.

To analyze possible new business potential, undertake an analysis of strengths, weaknesses, opportunities, and threats (SWOT) across market spaces. Analyze business potential in unserved or underserved markets, as well as opportunities with current and prospective customers. In addition, prioritize investments in assets based on their potential to serve market spaces of interest. The *Service Strategy* publication provides more discussion to help you determine where to expand your service offerings.

To be competitive, your services must be differentiated through elements such as better service delivery or more services offered.

Service Portfolio Management

Service portfolio management (SPM) is a means by which you can dynamically and transparently govern resource investment. The goal of SPM is to maximize value to the business while managing risks and costs by viewing the business impact of your resource allocations across your portfolio of services.

Your *service portfolio* describes the collection of services you provide across all customers and business outcomes. It provides a common way of looking across your services for functionality, how value is delivered, to which customers value is delivered, what the shared sets of business outcomes (market spaces) are, and which resources are required to provide which services. Your service portfolio should cover services currently offered (presented for consumption through a service catalog), new services and enhancements that have been proposed and approved in the pipeline, and services that have been retired. It also should include any third-party services that are an integral part of your service offerings to customers.

Keep in mind that although you may provide the highest quality services in the most efficient manner, you will not be successful unless the services you offer generate the value your customers expect, both in terms of utility (service functionality) and warranty (reliability, availability). Your service portfolio should always be aligned with your service strategy.

> SPM enables you to better allocate your resources, determine where you should invest in additional service assets, and where you should divest, if necessary.

SPM enables you to better allocate your resources, determine where you should invest in additional service assets, and where you should divest, if necessary. If you understand the costs of the services you are providing, then you can make better investment decisions. For example, if you know the cost per user of providing a service, and you find a provider that offers a comparable service that meets business objectives at a lower cost per user, then it might make sense to outsource this service or revisit your current service design.

SPM includes services that are in three phases of the lifecycle:

1. *Service pipeline* includes services being created for a given market space or customer.
2. *Service catalog* consists of services presently active in the service operation phase, as well as those approved in the pipeline. The service catalog provides a description of each service, pricing and service level commitments, and terms and conditions. The service catalog is an important tool in service strategy because it is the virtual projection of your actual and present capabilities. It also serves as a service-order and demand-channeling mechanism, as well as a visualization tool for SPM decisions. The service catalog provides a strong link between SPM and service level management (SLM).
3. *Retired services* are services no longer offered.

As you analyze your service portfolio, remember to look at business processes in terms of the business outcomes they support. Work closely with your business counterparts so that you continue to effectively provide the services the business wants. But be aware that the link between the business perspective and IT infrastructure is not always obvious. BSM is a way for you to logically relate your service assets with the business services they support.

Using Service Portfolio Management for Better Decision-Making

SPM seeks to optimize IT resource investments for business value and service cost across the different customers you serve. It is a governance discipline that both informs and gets inputs from virtually all service management disciplines. SPM ultimately correlates the realized and expected value of what IT provides to all its business customers across its portfolio of services, incorporating inputs from financial management (e.g., service costs) and ROI (service value), which, in turn, get their inputs from across the service lifecycle.

SPM governs IT investment from a business perspective by helping to translate what IT does into a business context. It helps break through the complexity of relating technical assets and activities to business value by essentially breaking the problem into two chunks: *demand* and *supply*. Demand and supply are two sides of the same business service coin.

> SPM seeks to optimize IT resource investments for business value and service cost across the different customers you serve.

You get a *demand-side*, top-down picture of a business service by documenting how it interacts with your business customer's assets and business processes to generate business outcomes, such as revenue generation, business cost, and risk reduction. This demand-side view tells you what aspects of the business service your customer really values and by how much.

The demand-side view of business services requires and drives significant collaboration with the business, and is a critical component of transparency in decision-making with business customers. By working closely with your business counterparts, you can not only improve the services the business needs, but you can also do it at a level of utility and warranty justified by the cost. Through this level of collaboration, IT gains new insight and opportunities to proactively counsel the business on where business services can drive innovation and competitiveness.

You get a *supply-side*, bottom-up picture of a business service by documenting which IT resources (budget, hardware and software assets, staff skills and time, and vendor contributions) are required to provide a service. This supply-side picture should span the service lifecycle, including costs and constraints in designing, transitioning, operating, and improving different aspects of the service.

The linkages between business services and IT resources (infrastructure, people, and IT processes) are not always obvious. BSM is a way for you to logically relate your service assets with the business services they support and the value these services provide.

BSM disciplines, such as business service modeling in a configuration management database (CMDB) — including auto-discovery of application topologies, supported business processes, and service users (identities) — help fill in both sides of the picture. Following are just a few examples of how BSM can feed an SPM view of business services:

» BSM *workflow automation* of ITIL processes — such as incident, request, and change management — both guides and captures IT staff time spent on supporting business services, while also capturing data on business demand for services.
» *Capacity management* both monitors and predicts demands placed on infrastructure based on service consumption.
» *Asset management* can give you a picture of the cost of your underlying service assets.

As the word *portfolio* indicates, individually understanding both the supply and demand sides of each service is just the start. The goal of managing a service portfolio is to make investment decisions and track results based on dependencies and constraints between the resource and value components of various business services.

These are among the questions SPM can help you answer:

» What services do I offer to the sales organization today? What is the value (benefit minus cost) of IT in the eyes of that customer?
» Which business services have the most impact on our order-to-cash processes?
» What do I have in my service catalog and pipeline that maps to our CEO's Asia expansion initiative?
» Where can I rationalize my portfolio for greater value? For example, do I keep five separate, embedded, user-authentication frameworks, or would the long-term cost and compliance risk of sharing a single-enterprise authentication system outweigh its short-term cost?
» Should I prioritize an application enhancement that brings distributors on board in a shorter time frame, or a whole new finance service that helps the VP of finance close the books more quickly?
» Would my business customers realize more value from a new Web shopping cart service, or additional server and network capacity added to the existing one?

> The goal of managing a service portfolio is to make investment decisions and track results based on dependencies and constraints between the resource and value components of various business services.

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» Which services cost more than the business values them, and what will the cost impact be if I retire them?
» If we move to charge-backs, what kinds of pricing models do I need to zero out on price and cost across the portfolio?
» Should I outsource or build the service?

Where you start will depend on your business drivers. Do you need to narrow the demand funnel for new projects? If so, start by applying this supply-and-demand view to requests for new services. Is cost reduction the major driver? Then focus on modeling service costs of what you suspect are your most expensive (and/or least valued) business services. Are you getting pressure from a particular business unit to justify your investment? Start by determining the value of services for that customer.

SPM won't be a Magic 8 Ball that spits out easy answers. But it does provide a common set of reference points for IT and the business to collaborate on the inputs to these key decisions, make these decisions, and then report on the outcomes of the decisions over time.

The *Service Strategy* publication explores four phases of successful SPM: The *define* and *analyze* phases provide the basis for understanding the desired future state. The *approve* and *charter* phases help you attain that desired future state.

The Never-Ending Processes
Keep in mind that the *define* and *analyze* phases are ongoing processes, rather than finite events. Consider this example: Your company, a bank headquartered in Spain, provides online banking services primarily in Spain. The company acquires a bank in Mexico and wants to extend online banking services to this location. Should you assume the same requirements apply? Probably not. You'll need to define and analyze the requirements for the Mexico market, based on its unique characteristics.

Financial Management for IT Services
The *Service Strategy* publication discusses a number of ways financial management influences service management, such as:

» Service provisioning optimization, service investment, and demand modeling
» Better planning for operating and capital expenses, as well as for regulatory and environmental issues
» Determining whether IT funding will be replenished through cost recovery, value center, or accounting center processes

This section also includes a financial management implementation checklist, consisting of the following steps: *plan, analyze, design, implement,* and *measure.* Refer to the *Service Strategy* publication for discussions of these and other financial management concepts.

Why Is Financial Management Essential for IT?

Financial management is essential to IT for three primary reasons:

» To control IT spending for each service
» To demonstrate consistent reduction of cost per service user
» To justify investment priorities, and perhaps a greater IT budget, for the implementation of additional services, or significant service enhancements, to meet customer demand

Why do you need to do this? Well, ultimately, you want to deliver the best quality service at the lowest possible cost. This purpose-driven behavior ensures that you are maximizing the available IT budget to create business value and increases your opportunity to take on additional projects that result in even greater value to the business.

Demand Management

If you have excess capacity, you experience costs without a means of cost recovery. On the other hand, if you don't have enough capacity, the quality of the services you provide is diminished. *Demand management* will help you avoid both excess capacity and insufficient capacity. Cloud computing initiatives can help IT organizations increase service demand performance for increased value realization.

In demand management, you analyze and track patterns of business activity (by people, processes, and applications) as the basis for predicting demand. You can also analyze business activity patterns in conjunction with user profiles. Start by identifying, documenting, and sharing these patterns across processes. Then create user profiles based on roles and responsibilities, and match each user profile with one or more patterns. This provides a systematic approach to understanding and managing demand.

> Ultimately, you want to deliver the best quality service at the lowest possible cost.

As part of demand management, define your core and supporting services, which combine to create service packages. Service packages help to shape demand for your services. The core services you offer provide the basic outcomes desired by your customers, while supporting services enable the core services. Each service package is accompanied by a service level package, which provides a definite level of utility or warranty from the perspective of outcomes, assets, and the patterns of your customers' business activities. A line of service in the service catalog provides a combination of utility and warranty for a specific customer segment, defined by preferred business outcomes.

Business Relationship Management

The business relationship management process helps business relationship managers (BRMs) create a collaborative relationship to better understand the needs of the customer and the business at both a strategic and tactical level.

Through the business relationship management process, you will build business cases and develop high-level customer requirements. In service strategy, the process focuses on understanding customer objectives. In service design, the process provides guidance for understanding customer requirements. In service transition, the process ensures that the customer perspective is considered and the customer is involved in the service transition or change, service validation, and release and deployment activities. In continual service improvement, the process monitors reports and participates in continual service improvement with other processes and functions.

Summary

Ultimately, you are trying to develop a strategy to enable the business you support to be successful. You'll need to thoroughly understand the business as well as its overall industry. Once you have your strategy in place, be sure that you make all decisions and allocate resources in line with the strategy.

The business provides funding to IT relative to its portfolio investment strategy so that IT can support critical business activities. Financial management and service economics is all about being a good steward of the money that the business entrusts to you. Ask yourself: Am I truly using this money in the best possible way to deliver the services the business wants and values? Ultimately, you need to understand the economics of your IT business so that you can ensure you are being a good steward.

Chapter 5
Service Governance, Architecture, and ITSM Implementation Strategies

To be successful in executing on the service strategy, and to effectively integrate the business and IT, someone needs to be accountable and responsible for the services IT provides. Rules, policies, processes, and procedures are critical success factors for operating a successful business.

It is typical for many IT organizations today to have one group responsible for applications, another group responsible for infrastructure, someone else responsible for the network, and so on. If a service fails, there may be finger-pointing among the different groups.

A recent customer story illustrates this scenario: Each individual group that supports the service was meeting its performance objectives, but the service still wasn't operating. IT management came to the realization that someone should be responsible for each service. Then, with a manager for each service, the buck will stop there. Assigning accountability and responsibility to each individual service is key to successfully implementing and executing your service strategy. There should be a strategy, policy, and plan for governance of your business environment.

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Strategy, Policy, and Plan

The main activities of governance are to evaluate, direct, and monitor the strategy, policies, and organizational plans. There are a number of items that need to be evaluated for the organization such as the services, financial performance, opportunities, threats, and customer feedback. Direction needs to be given with vision, policies, and delegation of authority. Those who govern the organization also need to monitor compliance efficiency and the effectiveness of the governing.

Service Management System

It is essential to put in place a service management system (SMS) to direct and control the service management activities. A formal service management system helps organizations effectively, efficiently, and economically deliver and support services to their customers.

The service management system should include the strategy, policies, objectives, plans, processes, procedures, documentation, and resources required to enable services for customers.

Enterprise Architecture

The organization's architecture and associated components make up the enterprise architecture. In essence, the architecture is the associated relationship of the systems and subsystems, including external systems. Your organization's service strategy and enterprise architecture should complement each other, with the strategy supporting the framework and the framework supporting the strategy. By looking at your enterprise architecture, you will be better able to make decisions regarding service strategy related to running, growing, or transforming the business.

Implementation

To determine your organization's desired state, start by assessing the organization's current state. The external environment also needs to be assessed. The results of these assessments help with risk management, business case preparation, and defining program and project objectives.

BSM implementations should focus on people, process, technology, and suppliers. Governance and architecture are key components for BSM success. BSM is not only the implementation of technology, but is also the implementation of technology that supports service strategy performance, including organization, process, and people activities for meeting business and customer objectives.

Summary

Be sure that your organization aligns with your service strategy, and that someone is responsible for service management. In evaluating outsourcing decisions, be cognizant of the activities that provide competitive advantage to your organization, and be sure to keep these in house.

Chapter 6
Organizing for Service Strategy

Your service strategy influences the structure of your IT organization. Your IT organization fits within the broader context of a complex system, including the overall enterprise, its customers, and the industry. The *Service Strategy* publication discusses organizational development concepts and different organizational management styles. Even if you are not responsible for designing your IT group's organizational structure, it may be helpful for you to understand some of these concepts.

Organizational Development

Does it make sense for your IT organization to be centralized, which provides more control and economies of scale, but reduces responsiveness and business unit ownership? Or is a decentralized IT organization more appropriate, providing flexibility for rapid response and increased business unit buy-in, but with reduced synergy and control? This is a decision that is best made based upon your service strategy.

To know which structure is appropriate for your organization, first determine where your organization is in its move toward a service orientation. The *Service Strategy* publication describes a number of options based on

where you are in the sequence: network, directive, delegative, coordinated, or collaborative. Decide where your organization fits; then, look at the range of appropriate options, keeping in mind that each solution has its own unique challenges. Be sure that your organizational structure aligns with your service strategy. That is, set up the organization to execute upon what the organization wants to accomplish.

An Incremental Approach

It may appear that a wholesale cultural change in the IT organization is necessary to ensure a successful ITIL implementation. That's a daunting task that might put off even the most progressive CIO. Fortunately, however, wholesale cultural change is not necessary, nor even advisable. No organization implements all of ITIL, certainly not in a single step. Rather, organizations should approach ITIL in an incremental fashion, beginning with the areas that have the greatest potential to increase business value through improvement. In this way, the IT organization can also address the people issue through incremental behavioral change, not wholesale cultural change. This approach will slowly, but surely, bring about cultural change, without the trauma typically associated with such change.

BSM provides an ideal environment in which to make the transition. BSM is an approach to IT service management that is directly in line with the central theme of ITIL; that is, managing IT service from a business perspective. A BSM approach can help create an environment that facilitates incremental behavioral change. How? By providing a structure that both enforces and simplifies the transition to ITIL processes.

> Organizations should approach ITIL in an incremental fashion, beginning with the areas that have the greatest potential to increase business value through improvement.

The *Service Strategy* publication also provides details on:

» Organizational change
» Basic organizational structures
» Organizational design
» Organizational culture

Responsibility Model

Accountability and responsibility for service management should be clearly defined and supported by executive management. RACI (Responsible, Accountable, Consulted, Informed) models are needed to establish governance and compliance in this area.

For high-performing organizations, RACI models help with compliance, but you still need commitment from those who are assigned responsibility. An employee committed to the success of the organization voluntarily and vigorously supports continual improvement. Other key factors to success are role competence and training.

Summary

People are the key to service management success. An organizational state can be in various stages from "cannot perform," "just performing," or becoming "high performing" based on the commitment to success by people. People, process, technology, and suppliers all need to perform together and continually improve to maintain high performance.

Chapter 7
Technology

The *Service Strategy* publication provides guidance on using technology in a variety of ways to enhance service management. Topics covered in this chapter include *service automation, service interfaces,* and tools for *service strategy.*

Service Automation

You can use *service automation* to improve utility and warranty of services. Automation can improve service quality, reduce costs, reduce risks, and efficiently resolve trade-offs. Refer to the *Service Strategy* publication for guidance on automation.

Better Integration with the Business Through Automation

Automating processes can help you achieve better controls over manual activities. Human error accounts for most problems that occur in IT environments and the production infrastructure. Yet many functions that occur day in and day out are standard and highly repeatable, and therefore are very suitable for automation.

From an operational or a maintenance perspective, much of what IT does today is incredibly reactive in nature. It's very difficult to get your head out of the details when you're constantly trying to put out fires; yet, many IT organizations still operate in this reactive mode. Automation allows you to free up many of those firefighting resources, so they can focus on what's driving the business. Those individuals can then identify the critical areas that truly need focus and emphasis, enabling a more strategic, proactive, and innovative approach to service delivery.

Automation plays a critical role in the shift away from maintenance to more of a business services orienta-tion. Once you begin to look at well-defined procedural practices for some of those routine functions and inject automation to free up resources, you can finally begin looking more strategically at IT supporting the business. Ultimately, automation allows a better integration between the IT environment and the business, because then IT can more effectively deliver the services that are most critical to end users and the business.

— excerpted from "Enrich Service Delivery with IT Process Automation," *VIEWPOINT, Focus on: End-User Experience and Application Performance,* published by BMC Software, 2006

How Does Data Become Useful?

As a manager, you'll be called upon to interpret and understand data — instantaneously in some cases — and then to act in the most appropriate fashion, based on each unique situation. Fortunately, technology can help. Data-Information-Knowledge-Wisdom (DIKW) is a structure that describes how data can become useful in decision-making.

» *Data* describe individual facts regarding events and are obtained from raw observations and measurements.
» *Information* is created by putting the data in context, analyzing relationships and connections between the data. It answers the questions, "Who? What? Where? When? Why?"
» *Knowledge* comprises the experiences, brainstorms, connections, values, and judgments from both teams and individuals. It answers the question, "How?"
» *Wisdom* is putting the knowledge to practical use, based on an overall understanding.

Here's an example of an insurance company using the DIKW methodology, and using technology to immedi-ately turn data into wisdom. Consider what happens when a customer calls the customer service line to cancel a driver's insurance policy because he has received a lower quote from a competitive insurance company.

The customer service agent needs to pull the relevant *data* on that customer, and analyze those data to create *information*. Who is this customer? How long has the customer been with the company? Has the customer filed a number of claims? If so, when were these claims filed? Why were these claims filed? A claim filed because of a tree falling on the customer's car might be different from a claim as a result of reckless driving. Or, is this a long-standing customer with no claims?

All of the information then needs to be automatically correlated, so that the customer service agent has the knowledge to respond accordingly. *Knowledge* that the customer is low risk, and thus profitable, alerts the

customer service agent to be prepared to beat the competitor's offer. Responding to the customer appropriately, based on the knowledge attained through the information analysis, represents *wisdom*.

Service Analytics

It's important to analyze and understand patterns of information so that you know, in terms of your customers' perspectives, how the business is affected by an incident, and how IT responds to an incident. *Instrumentation* describes the technologies and techniques you put in place to measure and monitor the components of your IT infrastructure. These tools not only report actual incidents or problems in your infrastructure, but also alert you if a potential problem is imminent.

The Right Information to the Right Person

Delivering the right information to the right manager presents a challenge, considering the widely diverse information needs of the various managers in an organization. Managers in different functional organizations need information specifically targeted to their functions. Even managers in the same functional organization need different information depending on their levels and roles in that organization.

> For an organization to manage IT from a business perspective, it is essential to bridge the gap between IT managers and business managers.

One of the major issues to be addressed in delivering IT-related information to both IT and business managers is to connect the worlds of IT and business. Most IT managers have grown up in a technology world in which they have focused on the components of the IT infrastructure, such as servers, clients, applications, databases, and network equipment. Historically, they have had little understanding of the relationships among the IT infrastructure components and the business processes they support. Business managers, on the other hand, see things from a business-process perspective and see IT as a provider of business services that support those processes. Typically, they have little understanding of the relationships between business processes and the components of the IT infrastructure that support them.

For an organization to manage IT from a business perspective, it is essential to bridge the gap between IT managers and business managers. This requires an information delivery-and-presentation solution that can deliver information to both IT and business managers in an effective format that uses metrics they can understand. The solution must also provide managers with an understanding of the relationships between business processes and the IT infrastructure.

Executive dashboards meet this important information delivery requirement. These dashboards give IT managers insight into the impact of IT infrastructure events on the business. In addition, they give business

managers insight into the impact of business events on the IT infrastructure. This mutual understanding is essential for an organization to achieve its business objectives.

— excerpted from "Executive Dashboards: Putting a Face on Business Service Management," a BMC Software white paper

You can use service analytics to model existing infrastructure components and support services to the higher-level business services. Then tie infrastructure events to corresponding business processes. The component-to-system-to-process linkage illustrates the service model and allows you to clearly identify the business impact of an event. Service analytics enable operations to identify and correct problems from the end-user perspective. You can also use service analytics to predict the impact of changes. One aspect of service analytics is transaction management.

An End-to-End View of Transactions

Transaction management can help you quickly and efficiently detect, isolate, and resolve business transaction problems across the enterprise, often before the end user is affected.

A comprehensive transaction management strategy provides end-to-end service performance monitoring and incorporates the critical end-user perspective. End-to-end transaction management involves integrated tools that can view transactions as the user experiences them, automatically detect and isolate the problems anywhere in the IT infrastructure, and get the transaction back on track.

A multidimensional view of real and synthetic business transactions helps you identify, analyze, and resolve problems that affect transactions before they hurt critical business services. Comprehensive transaction management solutions enable you to simultaneously understand the true end-user experience and see the components involved in end-to-end transaction service delivery.

Transaction management is a critical part of Business Service Management (BSM), which is the full integration of IT and business. It enables IT to understand a business transaction from the customer's perspective. And data from transaction monitoring solutions will empower the IT staff to quickly detect, isolate, and resolve any problems that degrade or disrupt business transactions — often before the business even knows there is a problem.

> A comprehensive transaction management strategy provides end-to-end service performance monitoring and incorporates the critical end-user perspective.

Transaction management goes beyond the simple, fragmented monitoring of technical transactions possible with siloed systems management tools and end-user response time monitoring tools alone.

— excerpted from "Improve Business Service Delivery with Transaction Management," *VIEWPOINT, Focus on: End-User Experience and Application Performance,* published by BMC Software, 2006

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Service Interfaces

The design of service interfaces is critical to end-user satisfaction. Service interfaces are at the point of utilization or access point, and can be used with people or processes. The *Service Strategy* publication outlines how your customers interface with technology during a service encounter in five ways:

» *Technology-free:* No technology is used to provide the service; it's a manual effort.
» *Technology-assisted:* Only the service provider has access to the technology.
» *Technology-facilitated:* Both the provider and customer have access to the technology.
» *Technology-mediated:* The service provider and the customer are not in physical proximity but communicate through technology.
» *Technology-generated:* The service provider is represented entirely by technology (self-service).

Self-Service Channels

Self-service has become more and more popular, enabled by the Internet as a service delivery channel. With only a browser as a requirement, users can access self-service channels 24x7, at their convenience. Self-service channels can be implemented at very low incremental cost and are highly scalable. It's important, however, to ensure that the self-service interface is easy to use and efficient.

Improving Services with Service Request Management

Service request management technology is evolving, giving employees the luxury of one-stop, online shopping for all the services they need. It also gives the service providers in your organization a single place to advertise their services to employees. It's like having a service supermarket at your employees' fingertips.

> Self-service channels can be implemented at very low incremental cost and are highly scalable.

The business benefits are significant. Because the system employs standard, repeatable, best-practice processes for handling requests, it reduces business risk and gives management greater insight into service delivery quality and costs. Employee productivity rises because people can find the services they need when they need them. Services are delivered quickly, effectively, and at a lower cost. Employees can initiate and track service requests on their own, reducing the load on the service desk. And, finally, all service requests are tracked for later auditing, as needed for regulatory compliance.

— excerpted from "Streamlining Service Request Processes: A Key to Business Success," a BMC Software white paper

Service strategy describes how careful, systematic planning is essential to achieving the strategy that you have developed. Once you have created a strategy, what do you do next? Start by working closely with the service design, service transition, and service operation teams to ensure that services are delivered efficiently and in the manner the customer expects. Service strategy provides input into each phase of the service lifecycle.
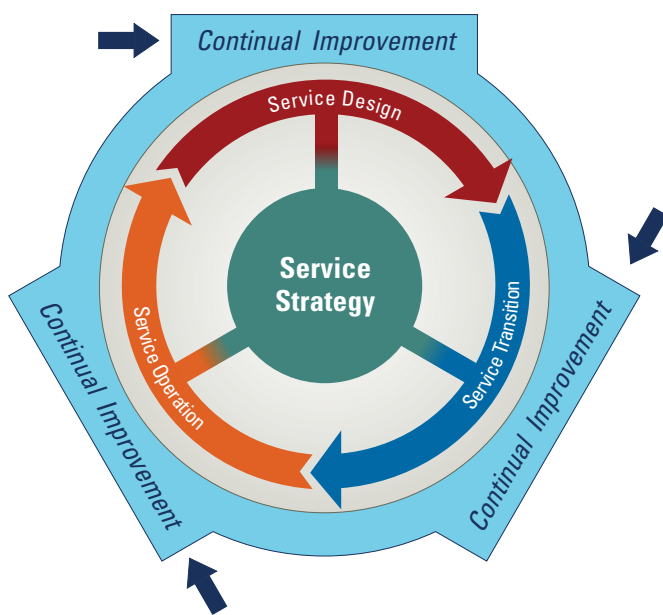
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Figure 3. Service Strategy Input into Service Lifecycle Phases

As discussed in previous chapters, your service strategy defines the portfolio of services that you offer as well as the customers that you support. Taking a top-down perspective, use the portfolio of services to determine the appropriate contract portfolio that you will need to support. From here, establish the lifecycle capabilities — systems, processes, knowledge, skills, and experience — needed at each phase to effectively support contract portfolios.

With a lifecycle approach, it's important to define the interactions between service management capabilities and then manage them accordingly. Use the required service design and operation capabilities to determine the required transition capabilities. These, in turn, will help to determine the portfolio of service designs.

You'll want to use both a top-down approach, as described earlier, and a bottom-up approach, in which continual service improvement drives feedback and ensures that challenges and opportunities are handled

Summary

Technology can help you improve service management in a number of ways. At the highest level, you can enhance service agility, quality, and quantity through service automation. You can also put in place technologies to measure and monitor the components of your IT infrastructure to ensure that you maintain service availability and quality. Measuring end-to-end transaction performance enables you to view transactions from the end users' perspectives, giving you critical insight into the customer experience. Technologies such as executive dashboards enable you to provide the right information to the right manager at the right time. Technology supports process; process supports people; and the combination of technology, process, people, and partners supports and delivers services.

Chapter 8
Implementing Service Strategy

Strategy and Service Design

Service strategy is directly linked to *service design*. When you design services, make sure you completely understand the customers' desired business outcomes. Contracts with your customers outline the services that you provide in terms of specific levels of utility and warranty, which are defined in your service strategy. By delivering and supporting the contract portfolio, you execute on your service strategy.

Use the customer assets and service models outlined in your service strategy as the basic inputs for service design. Service models outline how your service assets interact with your customers' assets to create value. Based on the service utility and warranty that you promise to provide, service models also detail the service structure and dynamics, which influence service operation. Service structure consists of the specific service assets you need, as well as how they are configured. Variables to consider include patterns of business activity, demand patterns, exceptions, and variations.

Service Models: Enabling Prioritization of Incidents Based on Business Impact

Establishing a service model helps IT organizations manage their activities based on the importance of the business service they are providing, rather than managing technology details.

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A service model enables informed decision-making based on what is critical to the business. Think of a service that is required only on specific days of the month. If the service fails to operate on a day that it is not necessary, then that failure may not be a priority incident. But, if the application isn't operating on the day that it's essential, then it's a top-priority incident that needs to be fixed immediately.

An example is your payroll application. If your company processes payroll on the 1st and 15th of each month, it may not be an issue if the application fails on the 10th. If the application isn't operating as expected on the 1st, however, then it's clearly a top-priority incident. Having a service model in place enables you to have the relevant information at your fingertips, so you know right away whether or not a failure of a particular service is critical.

Meeting Customer Needs Through Service Design

Analyze your customers' business models to effectively design, develop, package, and offer services to meet their business needs. Keep in mind that pricing should be a key design constraint — customers need to be able to justify the cost of purchasing the services.

The Importance of Service Transition

Once you have your service strategy and service design, you need to actually bring the services online. *Service transition* is identifying the least-cost/least-risk method of getting the service into operation. It's all about change and configuration management processes. Change management minimizes the impact of change on the business, and configuration management provides you with the information to effectively implement change management.

Strategy Depends on Operational Capabilities

In designing your service strategy, be cognizant of your organization's operational capabilities and constraints — the best-laid strategies will fail without the appropriate operational capabilities to execute on them. Ensure that the operations team understands the required outcomes and can provide adequate support.

The Need for New Operational Capabilities

What do you do if the business requests a new service? If it's a service that you have not previously provided, and if it requires new technology, then you either need to acquire the knowledge and capabilities or you need to find a service provider to fulfill the requirement.

> Establishing a service model helps IT organizations manage their activities based on the importance of the business service they are providing, rather than managing technology details.

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What happens if your business wants to better manage and track inventory using radio frequency identification (RFID), but you have no knowledge of the technology? If you want to successfully provide this service, then you will need to either train existing staff, hire new people with the requisite skills and knowledge, or find a service provider to support you while you develop the knowledge in house.

Managing Demand

Demand for the services you provide will not be static. To effectively meet fluctuating demand, start by analyzing patterns of business activity: evaluate frequency, patterns, and volume. Then, create service designs, models, and assets to most effectively and efficiently serve a particular type of demand. This leads to increased customer satisfaction, since you are optimizing service assets to serve relatively homogeneous groups of users. In addition, you simplify, standardize, and stabilize processes and systems. The results should be increased efficiencies, higher utilization levels for resources, and fewer mistakes.

Improving Operations

The *Service Strategy* publication focuses on using strategy to improve operations. To effectively measure quality of service, you need service level agreement (SLA) metrics, but this is not all you need. Remember, the customer's perception of quality is based on the utility and warranty of service that you provide.

According to ITIL, customers perceive four broad perspectives of quality. You'll want to take into account one — or a combination of — these perspectives:

» How good is the service?
» Does it provide value for the cost?
» Does the service meet my specifications?
» Does it meet or exceed my expectations?

Determine what is important to your customers, then measure and control your service management processes accordingly.

Keeping the End Users Happy

The end users' primary concerns are that the service is available and working as promised. Work on achieving high *mean time between failures* (MTBF) and low *mean time to restore service* (MTRS), but keep in mind that these measures aren't relevant to the end users in these terms. Obviously, the end users care about these factors, but only in regard to how they affect the availability of the service.

The Big Question: What's Causing the Failure?

One of the most frustrating calls to the service desk is one in which the caller says, "The application is not working." Without details about the service and its supporting infrastructure, it may be difficult for the service desk agent to know where to start. In many cases, it takes longer to locate the cause of a failure than it takes to fix it.

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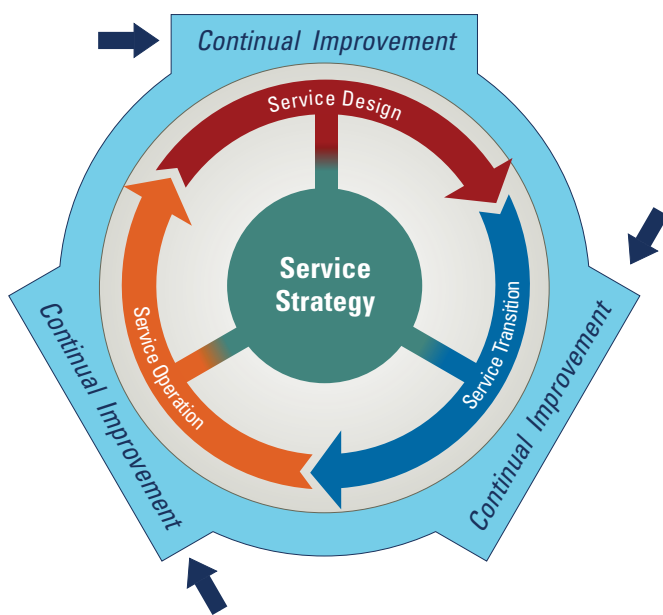

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With a lifecycle approach, it's important to define the interactions between service management capabilities and then manage them accordingly. Use the required service design and operation capabilities to determine the required transition capabilities. These, in turn, will help to determine the portfolio of service designs.

You'll want to use both a top-down approach, as described earlier, and a bottom-up approach, in which continual service improvement drives feedback and ensures that challenges and opportunities are handled

appropriately. In addition, look at patterns you see in executing the service lifecycle to help you decide on new strategic positions to pursue.

This chapter discusses how strategy influences the other components of the service lifecycle: service design, service transition, service operation, and continual service improvement.

Improving Customer Satisfaction Through IT Services

The rental car industry provides a good example of how IT systematically worked with the business to create value for the end customer. Previously, the process to return a rental car was often lengthy, involving standing in line at a counter, checking in, and waiting while an employee from the rental car company walked to the car to verify such factors as mileage and how full the gas tank was. The business side obviously figured out that customers didn't like to stand in line. Through close collaboration with IT, the rental company came up with a way the whole process at the counter could be eliminated.

> Look at patterns you see in executing the service lifecycle to help you decide on new strategic positions to pursue.

Now, when you drive your car into the lot to return it, an employee approaches with a handheld device, enters the mileage, gas amount, and any other pertinent details, and you are ready to go in a matter of about a minute. This has greatly increased customer satisfaction and has also improved employee productivity. The rental car companies have taken this same learning and applied it to the reservation and pick-up process as well. They've used technology in the advance reservation process so that registered customers can skip the line at the counter and go straight to their cars, further saving time for the customers and, ultimately, increasing customer satisfaction, while at the same time reducing the workload for their on-site staff.

Summary

This chapter discusses the next steps to take once you have your service strategy in place. The service lifecycle is dynamic in nature, and service strategy supports the complete lifecycle. Work closely with the service design, transition, and operation teams to ensure that you can successfully implement your service strategy.

Chapter 9
Challenges, Risks, and Critical Success Factors

Chapter 9 provides an overview of the various challenges, opportunities, and risks involved in being part of a complex IT organization.

Maintaining Value for Your Customers

The *Service Strategy* publication discusses various aspects of preserving value for your customers, including the challenge of keeping the total cost of utilization (TCU) as low as possible. TCU includes the direct cost of the service and all other related costs. Your goal is to eliminate as much hidden cost as possible.

In addition, this section discusses:

» Potential benefits of achieving operational effectiveness and efficiency
» Substantiating hidden benefits
» Leveraging intangible assets

Discovering Hidden Benefits

Here's an example of providing value to the business through hidden benefits: A large retailer's point-of-sales service was experiencing a high number of incidents. Upon correlating incident and event information, however, the company determined that technology performance issues were not, in fact, the cause of these incidents. When they further analyzed the incident records, they determined that the real issue was lack of training for those employees operating the point-of-sales terminals. They then used the incident record information to help the training department understand which stores needed training the most, and even were able to identify individual employees in need of training.

Effective Measuring for Effective Management

The following principle from W. Edwards Deming is well known: If you cannot measure it, you cannot manage it. Service management organizations need to implement measures that have meaning to the customers, so they can effectively meet the customers' needs.

> Service management organizations need to implement measures that have meaning to the customers, so they can effectively meet the customers' needs.

The *Service Strategy* publication outlines some useful measurement principles, with a focus on the customers' desired business outcomes and how to best serve the customers.

As your strategy evolves, you'll need to change the factors you are measuring. Remember, monitoring discrete components is not enough. End-to-end visibility is key.

Establishing the Right Metrics

Executive dashboards can help both IT and the business monitor and measure critical services and their supporting IT infrastructure. As with dashboards for IT managers, the major challenge in creating dashboards for business managers is to establish the right metrics. Business managers have their own key business indicators (KBIs) that they need to measure and monitor in managing the portion of the business for which they're responsible. It is essential to tie these business metrics to how effectively IT is supporting the business. Tying business metrics to IT-related metrics requires close collaboration between IT and business managers.

For example, for a sales executive, the end of each quarter is a critical period for closing business deals that are in the pipeline. It is crucial that IT business services that support sales (such as order fulfillment) meet agreed-upon service levels during that period. Consequently, the dashboards should permit the

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sales executive to monitor his or her KBIs, and to understand how they are being affected by IT business service delivery. That requires that the dashboards correlate the sales manager's KBIs with metrics that indicate the efficiency and effectiveness of IT in supporting the relevant business services.

— excerpted from "Executive Dashboards: Putting a Face on Business Service Management," a BMC Software white paper

Be Aware of Risks

Risk is an important topic in ITIL; there are discussions of the various types of risks you may encounter and how to minimize them. According to ITIL, *risk* is any uncertainty of outcome, and can be either a positive opportunity or a negative threat. This means that not acting on an opportunity can be considered a risk. When you provide a service, you reduce the risk to your customer's business, but take on more risk yourself. When you consider additions or changes to your customer portfolio, be sure you understand the risks that your organization is willing to assume.

Risks for you, the service provider, may be finance-related, or may include asset failure, operational mishaps, security breaches, the inability to meet target service launches, or compliance issues. Risk and related damages are measured in financial terms and loss of goodwill (reputation, customer confidence, and credibility).

> Customers are more likely to switch providers when the benefits outweigh the costs and risks of switching.

One element of risk is failure to deliver on contractual commitments, which jeopardizes both your current operations and the confidence customers will have in the future. Another risk is poor performance, often caused by poor design. Systematically applying the service design processes and methods will help you reduce the risks of not meeting contract requirements or performance expectations.

In addition, evaluate operational risks, keeping in mind risks faced by both the business units and service units. You may also want to look at the risks across an entire value net, including partners and suppliers. Service transition allows you to divide risks among these interconnected organizations. And look to the service operation capabilities to help you transfer operational risks into opportunities to create value for customers.

Finally, keep in mind market risks. A key risk is that your customers have a number of alternatives to choose from when making sourcing decisions. Customers are more likely to switch providers when the benefits outweigh the costs and risks of switching. Reduced TCU provides a strong incentive for customers to stay with you. In addition, you can reduce market risk through differentiation and consolidation.

Addressing Risks

One key way you can mitigate risk is through process governance. Control Objectives for Information and related Technology (COBIT) is an IT-focused governance and control framework created by the IT Governance Institute (ITGI) and Information Systems Audit and Control Association® (ISACA). Although COBIT is oriented to IT processes, it does not include process steps and tasks. It focuses on what an enterprise needs to do rather than how to do it. COBIT processes focus on business requirements and provide guidance in determining what is sufficient to meet these requirements.

Specifically, COBIT provides management directions for getting the enterprise's information and related processes under control, monitoring achievement of organizational goals, monitoring performance within each IT process, and benchmarking organizational achievement.

— excerpted from "Combine ITIL and COBIT to Meet Business Challenges," a BMC Software white paper

Summary

Being part of a complex IT organization brings with it a number of challenges, opportunities, and risks. A big challenge, but one worth tackling head on, is keeping the TCU of a service as low as possible for your customers. Cloud services help with decreasing show-back and charge-back service cost. Opportunities arise when you can demonstrate hidden benefits that the customer was not aware of.

Another challenge is identifying the key metrics to track. Monitoring solutions that provide end-to-end visibility into transactions will help you to most effectively meet your customers' needs. Remember to put in place measurements that relate to your customers' desired business outcomes.

Being aware of potential risks is a first step in recognizing and addressing them in your environment. You can mitigate risk through implementing a process control framework such as COBIT.

Challenges and risks can be turned into opportunities to resolve issues, alleviate problems, and enhance the overall value that you provide to your customers.

Afterword

You may have heard the saying, "If you don't know where you're going, how will you know when you get there?" A service strategy gives you a clear picture of where you are headed, so you don't need to wonder.

Now that you have created your service strategy, what next? At this point, you should have a solid understanding of your customers, the markets that you will pursue, and the services you want to provide. You also have insight into the importance of integrating with the business, and how BSM will help you get there. The next step is to pass the strategy to the service design team, who will design not only each service, but also the people, process, and technology components you need to deliver the service effectively.

Change is everywhere, and it constantly affects how we do business and our overall strategies. Technology changes, people needs change, supply and value chains change, and organizations change. Today, cloud services are changing the service delivery models. When IT organizations use a BSM approach, cloud implementations can be an evolution of their service management delivery and support, transforming their service strategy.

Remember that ITIL is a lifecycle. You will revisit the service strategy phase periodically and update it based on the changes in patterns of business activities. For example, customer needs may change, the overall market may change, or new competitors may appear. Each of these will be indicators that you will need to review and revise your service strategy. And, even if nothing changes, you'll always want to be asking "what can we do better?" as part of the continual service improvement process. In that way, you will constantly enhance the value that you provide to the business.

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