



Five capabilities IT needs to run like a business and be a successful service broker

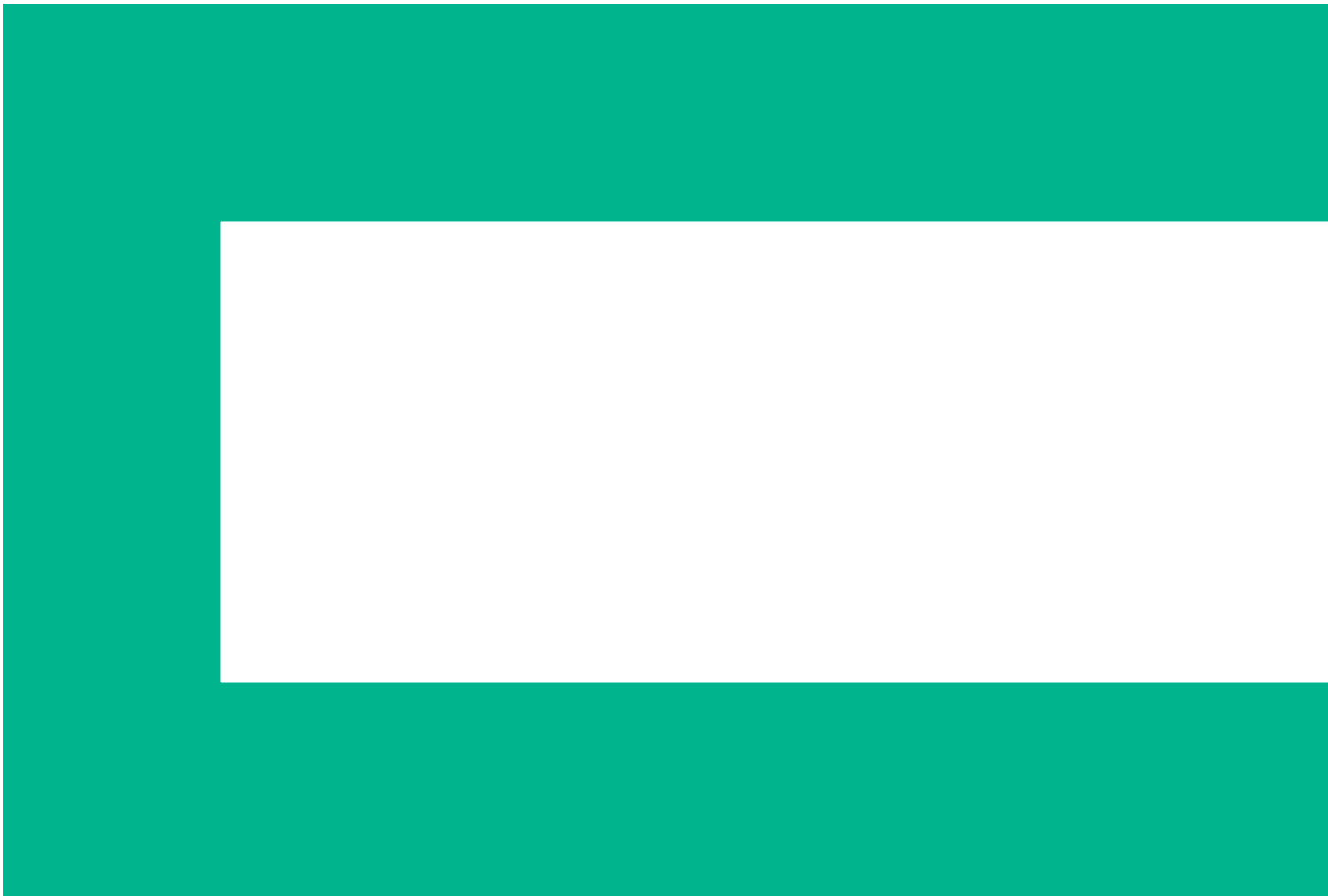




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Executive summary

Cloud is changing the economic model of IT. The emergence of cloud as a legitimate option for delivery of IT services has changed the playing field. No longer the sole provider of these services, enterprise IT finds itself in what is effectively an open marketplace. Whether it is SaaS applications, infrastructure-on-demand, or productivity tools, lines of business are circumventing IT to procure IT services, often unsanctioned by corporate IT and without their knowledge.

Many users are quick to pass negative judgment on IT, but the reality is that IT plays an enormously important role for any company: While users seem quite gung-ho about this new freedom of choice, “shadow IT” poses severe risks to the enterprise if left unchecked and ungoverned. It is therefore both incumbent upon IT and in the best interest of the enterprise for IT to remain relevant in governing the use of IT services and corporate data as a whole.

To do that, IT must ensure that it is a value creator by becoming a service broker: rather than providing all the services, IT can choose which services to offer and broker the rest—while ensuring governance—from the open market. This new world is inhabited by for-profit businesses, and IT must first transform its economic model not only to compete effectively and remain a viable provider, but to succeed in its role as service broker.

While a transformation of the IT economic model is not the only thing IT needs to achieve, this paper will focus on what this transformation looks like and what IT needs to do to get there.

Running IT like a business

Enterprise IT is at a crossroads, facing a decision regarding its identity. Should it remain a cost center with a government-like operating model or should it try to be more like a private sector entity and become a value center?

If you look at the profile of governments over the course of the last few decades, you start seeing a clear parallel to what is happening in the technology world. Governments have transferred many services to the private sector. In some cases, they have exited the market altogether (e.g., utilities); in some cases, they have allowed private enterprise to provide competing services (e.g., health); and in some cases, they have remained the “store front” that citizens see, but with service delivery that has been outsourced (e.g., airport security in some countries). Of course, those services essential to the public interest (such as the military, central banking, and law enforcement) have been fully retained. The government has, in fact, become a service broker.

However, while governments had a choice, it would seem that the Hybrid Delivery model ushered in by cloud (meaning internal IT with external providers) has forced IT’s hand. At first glance, this would seem like a disadvantage, but upon closer inspection, this is a great opportunity for IT, for one simple reason: If you have to deliver every service, you are bound to be good at some and bad at others—or, overall, average. When you can choose which services you want to deliver, you have the opportunity to choose those in which you excel. Successful businesses learned a long time ago that trying to be all things to all people does not work. Excellence is key to long-term success, and comes only after you have decided what kind of business you want to be.

So what does IT need to do to run like a business? One simply has to look at how businesses operate:

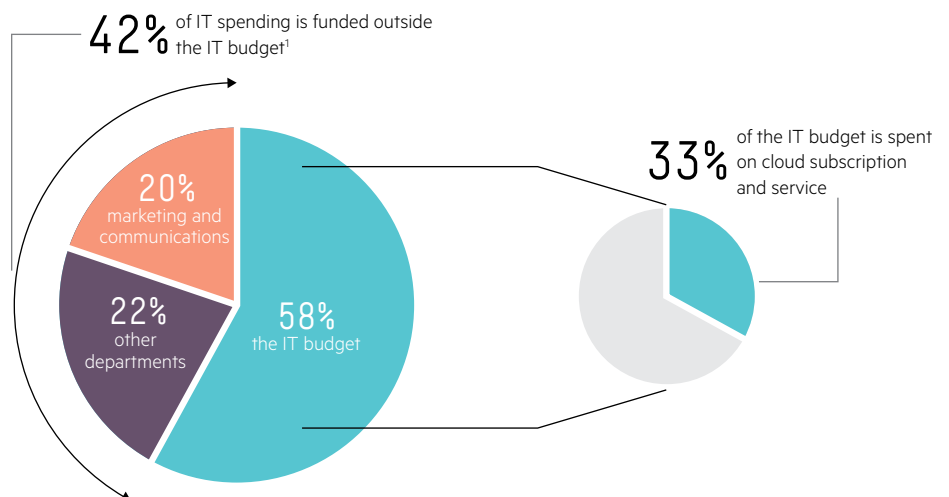
- **Portfolio management:** Examine your portfolio of current services and decide which you want to keep and which you want to source in the open market based on likely demand.
- **Product management:** Speak to your customers and understand what they want, so you can build services that will be consumed.

- **Financial management:** Understand your competition, supply chain, production processes, and cost of labor and components so you can price your product attractively. You also need to be able to meter and bill your customers for usage.
- **Performance management:** Measure how you are performing so you can determine whether you are successful, and take corrective action if you are not. In addition, manage external supplier performance, both as part of your governance role and due to the fact that some of your services may rely on these suppliers.
- **Relationship management:** Engage your customer throughout their lifecycle—from marketing, through sales, to support.

All of this means that IT will not only need to adopt new capabilities, but also establish new roles such as business relationship managers and even sales and marketing staff.

Portfolio management: The market perspective

In most companies today, internal IT is still the largest provider of IT services within the enterprise. However, more and more IT initiatives are being funded by lines of business, and no one can deny the rise of public cloud alternatives.



The natural reaction of any CIO to these changes would be to try to retain as much control as possible. IT is still the only provider who “has the company’s back,” but its approach for retaining control needs to capture the benefits of public sourcing while mitigating the risks, or it may render the enterprise uncompetitive. Forcing control on LOBs through policies and corporate mandates is—in the long term—not a tenable approach. So what can IT do? At the macro level, IT should become a value creator:

- Entice LOBs by convincing them that it is in their best interest for IT to remain the provider of choice
- Become a service broker by embracing a hybrid delivery model
- Adopt a framework that will allow it to manage service delivery in a multi-supplier world

¹ Gartner, “Cloud Service Providers Must Understand Deployment, Adoption and Buyer Complexity to Leverage Cloud Revenue Opportunities,” January 13, 2015.



This begins with IT examining its own portfolio and optimizing it for cloud adoption. It must decide where it has a competitive advantage or provides differentiation, or where certain imperatives exist (e.g., customer privacy) that make it in the best interest of the company for internal IT to be the service provider. But in all other cases, IT should source services from the open market. This is very different from how IT operates today, where it offers services simply because it wants to. IT should offer a given service only if it can do so at a competitive price point and not offer services that in the long run are commercially unviable.

This type of portfolio management is not a one-off activity. IT must evaluate its portfolio on an ongoing basis to ensure that portfolio decisions are optimal based on the prevailing conditions in the market. For example, a decision might have been made for IT to deliver a specific service because it was not available in the open market at the time. IT must re-evaluate its decision in the light of new services entering the marketplace, and determine whether its position should remain the same or change.

IT must also allow itself to remain flexible. Legislation may change that will open new opportunities for sourcing services or may force IT to bring back services in house. New technology may address concerns that have previously prevented sourcing because it was not in the best interest of the company or the technology was not mature enough. The company itself may decide to enter new markets requiring new IT services to be provided.

Product management: The customer perspective

While Portfolio Management sets the overall direction, the tactical execution is part of Product Management, ensuring that products and services are not created on a whim or in a vacuum. One of the main reasons private cloud initiatives fail is lack of product management. Many IT organizations, under pressure to “do something cloud,” adopted a “build it and they will come” approach, yet users have not adopted the service because it wasn’t one they wanted or were prepared to pay the “IT price” for. To be a successful business, you need to ensure that you are creating something your customers actually want and are willing to pay for. Product management is responsible for ensuring that your portfolio of products and services meets the demand of your customers. Common principles of product management include:

- **Knowing and understanding your customers:** You will have many different constituencies, and you need to be able to identify them and understand their needs. The needs of an application developer will be very different from those of an HR manager, and you must have a clear picture of which services you are targeting to which group of customers.
- **Continuous customer engagement:** Borrowing a fundamental principle of DevOps and Agile development, you must involve your customers throughout the service development process. Good product managers reach out to their customers and engage users at the start of the lifecycle to work with them on goal setting and defining what outcome they expect to get, the value they expect from it, and the price they are prepared to pay.
- **Defining the service release cadence:** In the agile world we live in, you need to release services early and often to get rapid customer feedback before development has gone too far. This means that you need to decide what functionality will be available when, and set the right expectation with your users by communicating with them in an open and transparent manner. Equally, it means not just releasing rapidly, but getting the necessary customer feedback early and often.
- **Innovation:** It is not enough to just offer the services your customers need today. You must continue to innovate by looking into the future, anticipating market trends relevant to your company, and proposing solutions that enhance business agility and responsiveness. This is, perhaps, IT’s biggest advantage over external providers—it understands not only what the technology can do, but also has intimate knowledge of the company’s business. This combination opens up insight and ideas, making IT a proactive enabler that can help the company gain a competitive advantage.

“Just building a cloud is not sufficient. The ‘if you build it, they will come’ strategy usually will fail because users aren’t prepared to use the services, or the services miss the mark on their requirements... Fully engage end users of a potential cloud service and the infrastructure and operations (I&O) staff throughout the design and deployment of the private cloud project, targeting specific, appropriate use cases.²”

Financial management: The provider perspective

The move to a broker in a hybrid delivery world provides an opportunity for IT to get out of the capacity trap that is partially responsible for its poor reputation for service quality and responsiveness. IT, like government, has historically faced a gap between expectations and supply. The LOB demand for growth and disruptive innovation has outstripped IT’s supply capacity, constrained as it is by a fixed budget based on last year’s demand. This has often put IT managers in the inappropriate or impossible position of prioritizing business demand among LOBs, or facilitating a group decision with LOBs, in which IT often becomes the fall guy—“we wouldn’t have to prioritize if only IT could deliver.” Much of this comes from being considered a cost center, and therefore a capacity that should not grow.

By becoming a business—a value center and not a cost center—not only can IT decide which services to provide vs. which to broker, but more importantly it can move to a supply-vs.-demand model as opposed to a supply-vs.-expectations model. Put another way, the pitch to LOBs becomes “you can get or use more, immediately... as long as you are willing to pay for it.” This is the fundamental change to the economic model of IT, and it paves the way for customer delight as opposed to customer disappointment.

This change has three significant consequences:

1. **Capacity risk shifts to IT:** As IT commits to be able to increase supply to meet demand, the budget can no longer act as a protective wall. IT product managers have to be able to forecast demand and prepare accordingly. In other words, IT bears the capacity risk. Of course, one of the opportunities of a “co-opetition” approach is that IT can take steps to move some of that risk onto its suppliers, which they will likely welcome. If done right, IT’s marginal at-risk capacity extension becomes the supplier’s upside pipeline.
2. **IT needs to be able to show price by service (for show-back, charge-back, or invoice):** Delivering on the promise of “you get what you pay for” is critical for the new economic model of IT, and for many organizations requires a fundamental shift in IT’s financial practices. IT has to consider the services it provides (or brokers) as “service products” with a unit price. Just as in any other commercial setting, the price has to reflect all of the cost components of parts and labor required to market, sell, deliver, and service the offering, even if the target profit margin is zero.
3. **Hybrid delivery means that you procure to provide:** Since IT may itself be procuring services in the open market and using them to deliver its own, IT now needs to be able to account for the costs charged by external providers, factor them into its own cost structure, and determine how it will pass them on to the consumers of IT.

² Gartner, “Six Reasons Private Clouds Fail, and How to Succeed,” October 25, 2014.

This is a significant change from the cost center perspective: What is considered overhead needs to be minimized and, as far as possible, cost needs to be tracked by service and by user (or “tenant” in cloud-speak) to deliver a true consumption-based model.

Then, the resulting “service bill” needs to be provided to the consuming organization either as pure show-back (this is what you incurred), charge-back (this is what you incurred and it was charged to your cost center), or invoice (this what you incurred and an account receivable has been opened).

Very few organization have achieved this with legacy IT because retrofitting the new practices to established systems and processes is usually too expensive or time-consuming. So getting new financial practices right the first time in cloud, is mission-critical to the new economic model of IT.

Performance management: The broker perspective

As a service broker and a business, IT needs to manage both its own performance and that of its suppliers.

Every successful business leader has a performance management solution. Whether it is size of pipeline, number of units shipped, or time to process claims, every business has a set of key performance indicators (KPIs) reflected in their performance management solution, and it is what business leaders use to drive decision-making, increase their value, and remain competitive. CIOs must have similar capabilities, since without performance management, IT is flying blind and will find it very hard to run like a business. This will provide IT with capabilities such as:

- Service performance tracking
- Service utilization tracking
- Service demand forecasting
- Service cost and profit management

IT must also manage supplier performance. This does not mean that IT needs to do the supplier’s work (e.g., monitoring, break/fix, quality testing), but rather institute a framework, both process and tooling, that allows it to measure performance and work with suppliers to take corrective action when necessary. This framework will undoubtedly require IT to adopt new tools and change its own operating processes to support capabilities such as:

- Service catalog aggregation
- Managing incidents across suppliers
- Managing service configuration across suppliers
- Dynamic pricing
- Agile service onboarding
- Multi-tenancy

Relationship management: The sales and marketing perspective

This is perhaps the capability furthest away from the traditional image of IT. It is also one of IT's weakest points. Nevertheless, it is a key enabling capability required to run IT like a business. Cloud providers realized early on that low barriers to entry are a double-edged sword. If it is easy for customers to buy the service, then it is also easy for them to leave it and move to a different provider. Furthermore, they realized that most customers will initially tend to buy the entry-level option or in small quantities, give it a try and, if happy, buy more. This phenomenon makes customer retention crucial to success, and many providers have invested in dedicated customer success capabilities to ensure that their customers remain happy. This approach is known as "land and expand" and it requires not just ensuring customer satisfaction but also continuous marketing to entice customers to increase their investment.

All cloud providers have sales, marketing, and customer success capabilities, and IT must also adopt them if it wants to level the playing field. Internal IT sales and marketing may seem like a radical mindset shift, but when you examine it closely, it is not that far-fetched. It is a well-known fact that IT does a poor job of marketing itself, evidenced by the usually negative perception it has with its users. Is it therefore a surprise when users circumvent IT to procure services? There is no point in IT resenting this behavior. Seen from the users' viewpoint, why should they choose a provider they have a low opinion of? IT must rebuild trust within its customer base and this begins with changing their own perceptions, starting to regard enterprise users as customers, and realizing that it needs to earn their business. This can be achieved only by striking a relationship with customers, building trust, driving adoption, and managing this relationship throughout the customer lifecycle.

Summary

Cloud has changed the playing field. "Running IT like a business" used to be just a catchy marketing phrase, but now it is a business imperative. IT must transform its operating and economic model so that it can become the service broker its LOB stakeholders need it to be. This is a challenge but also a huge opportunity for IT to reclaim its position as the technology leader, innovator, and value creator. Portfolio, product, financial, performance, and relationship management are five vital capabilities that IT must and can develop to become a successful service broker.

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