



Service Integration and Management

An Idea Whose Time Has Come

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Executive Summary

Increasing complexity of technology and global services is driving buyers to relook at their Service Integration and Management (SIAM) strategy. Despite sourcing services (internally or externally) for a long time, buyers still rely on fragmented SIAM to manage these engagements.

Implementing a successful SIAM strategy requires transformational appetite. There are significant drivers for implementing a SIAM program, however, key risks need to be addressed and mitigated. Buyers need to streamline the change management required, invest in process transformation, and create collaborative relationship management.

With growing complexity of the technology landscape, demand for business agility, cost pressures, and next-generation services, a SIAM strategy will become critical to the overall service landscape.

As buyers try to continually optimize their relationships and services portfolio, it becomes imperative to implement a SIAM strategy that enables scalability in delivery, in line with the increasing demand for services, without proportionate increase in the cost of management.

This report explores the challenges in a fragmented SIAM model, the value of a comprehensive SIAM function, key success factors for a SIAM strategy, the risks associated, and potential mitigation measures.

The report analyzes:

- Key challenges in sourcing initiatives
- Tipping point in sourcing and the role of SIAM
- Key challenges in a fragmented SIAM
- SIAM's role in deriving value from sourcing services
- Success factors and risks associated with SIAM

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Key Challenges for Buyers in Sourcing Services

Despite significant evolution of the global services landscape, buyers continue to face age-old as well as newer challenges. Irrespective of whether the services are sourced internally or externally, Everest Group witnesses five key issues:

- How to manage the ever growing complexity of the provider landscape?
- Are internal/external providers delivering the services they are intended to?
- What is the performance of these providers? How can performance of individual providers be compared meaningfully?
- Are providers geared towards enhancing end-user satisfaction?
- Are providers aligned towards business objectives?

Comprehensive service integration and management has the potential to alleviate these concerns by reducing the governance burden, improving performance management, financial discipline, and satisfaction of business users.

Tipping Point in Sourcing

Buyers of global services typically started their sourcing journey with a sole-source / single provider model. They created Vendor Management Organizations (VMOs) staffed with temporary resources with suboptimal skills or training.

As enterprise buyers grew more comfortable with sourcing initiatives, the number of providers, as well as the quantum and nature of services being sourced, started to grow. This gradually expanded into the best-of-breed philosophy, further leading to an unprecedented growth in management complexity. As enterprise buyers continue to deal with large, fragmented portfolios of relationships, several key challenges have emerged:

- Driving accountability across providers
- Managing and comparing performance across providers
- Driving standardization of processes, tools, and technologies
- Aligning a multitude of contracts and incentive structures to the broader business objectives

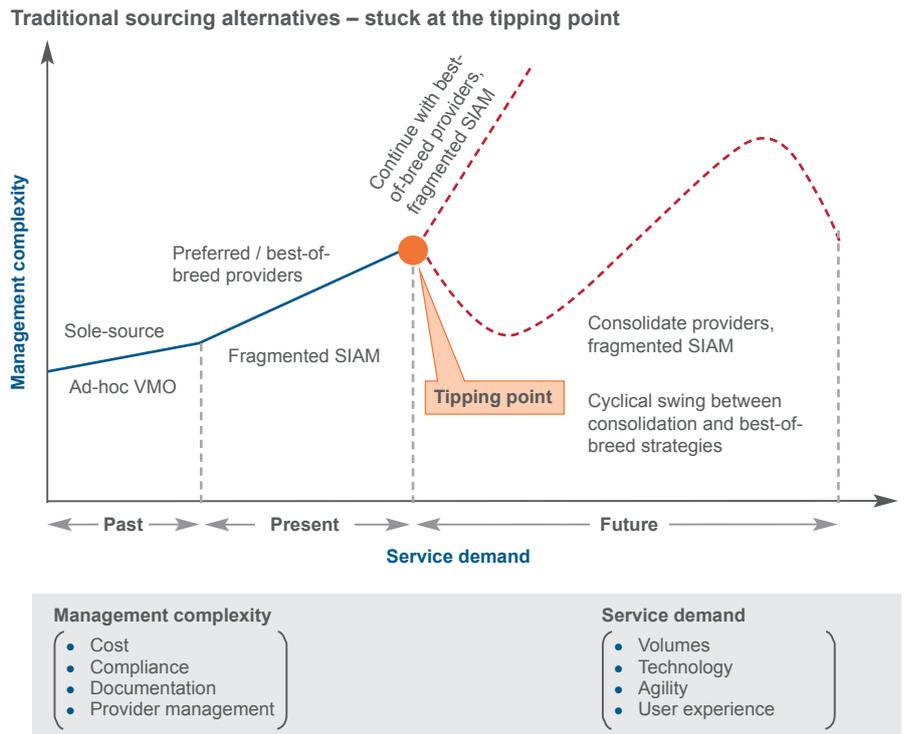
In other words, governance and management complexity increased disproportionately compared to the primary sourcing benefits and the scale of services and relationships being sourced.

Continuous escalation of these pressures, against a backdrop of rapidly evolving technology and a tough business environment, has led to a **tipping point** in the overall sourcing philosophy for enterprise buyers.

EXHIBIT 1

Sourcing at the tipping point

Source: Everest Group



As expectations for returns from technology investments spiral upward, **buyers will have limited alternatives** to derive value out of sourcing engagements, **unless they invest in a comprehensive SIAM strategy**. There are two traditional alternatives buyers may look at:

Continue with best-of-breed providers

Buyers continue to leverage best-of-breed service providers without investing in a comprehensive SIAM function, and will witness an overwhelming increase in the management complexity. This will result in a significantly challenged sourcing initiative with very limited effectiveness and associated value, with the cost of management and governance eroding from the sourcing business case. Further, as the governance mechanism fails to keep step with the complexity of the portfolio, several key risks are likely to emerge:

- Cost escalation as specialized skills and technology resources are duplicated across the portfolio as a direct consequence of non-standard processes
- Lack of standardization further leading to productivity loss and deteriorating quality
- Suboptimal long-term investment in the sourcing model as a direct consequence of insufficient accountability and misaligned contract structures
- Eventually, as enterprise sourcing organizations struggle to deliver against business expectations, they may face erosion of executive sponsorship

Undertake major portfolio consolidation

Several enterprise buyers are currently in the middle of significant portfolio consolidation initiatives. While there are immediate benefits to be derived through the “single throat to choke” approach, we feel that such models have

run their course. The challenges of the near-monolithic outsourcing construct have been well documented, and led to enterprises moving towards the best-of-breed programs in the first place. The key long-term challenge lies in over dependence on a few strategic providers, which, in turn, presents specific risks:

- Erosion of the skill and knowledge base of retained IT
- Significant lock-in being generated across processes, tools, and technology solutions, making it difficult to deploy specialized or niche providers
- Last but not the least, there are limits to scale benefits arising from this approach. As the demand for services continues to grow and technology continues to evolve and proliferate, enterprises banking on consolidation initiatives, **in the absence of process and governance transformation**, may well find themselves oscillating back to the best-of-breed solution in the long term

A Case for Comprehensive SIAM

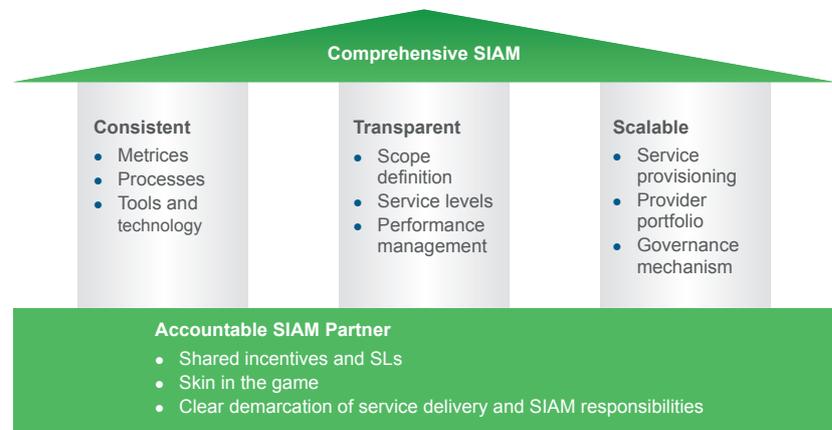
We define comprehensive SIAM as:

*“The phenomenon by which a provider performs some or all of the traditional service management roles across multiple providers in a **consistent, transparent, and scalable** manner, and is in turn held **accountable** for effective provisioning of such services.”*

EXHIBIT 2

Comprehensive SIAM framework

Source: Everest Group

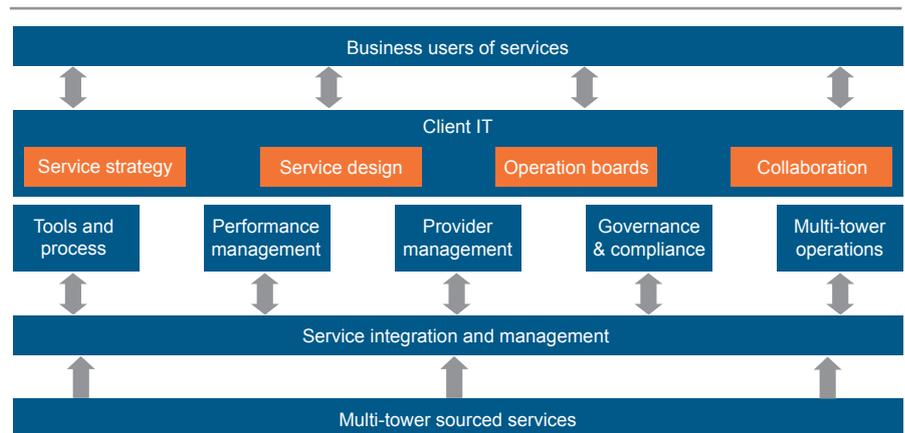


Operating between multi-tower services and retained IT, it is imperative that the SIAM framework is **consistent**. A comprehensive SIAM framework must establish a single source of truth, with comparable metrics, toolsets, and technology platforms across multiple towers and providers. This in turn drives accountability, as well as effective performance management, across providers.

EXHIBIT 3

SIAM in the delivery stack

Source: Everest Group



An effective SIAM strategy responds well to a growing business. Due to the evolving demand, the number and type of providers may change (e.g., traditional system integrators, offshore players, and cloud providers). The key premise of the SIAM model as an alternative to the best-of-breed or portfolio consolidation strategies is the need for a scalable governance model. By establishing standard processes, tools, and contract mechanisms, a comprehensive SIAM framework allows for the “plug-and-play” removal and addition of different service providers.

The critical barrier to driving an effective SIAM program lies in aligning incentives across multiple tower providers, the service integrator, and the enterprise’s business objectives. Conversely, the most important component of a comprehensive SIAM program is defining **accountability of the service integrator**. While defining the service integrator’s role, it is important to consider:

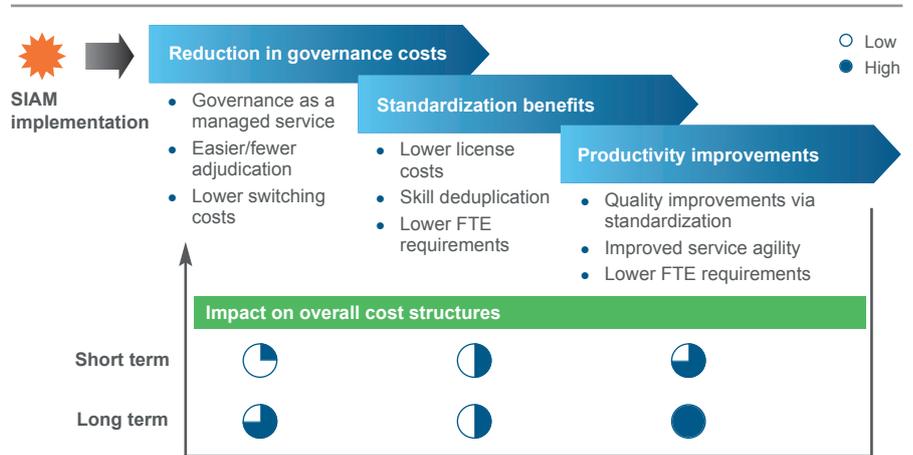
- **The scope of services to be integrated:** The guiding rule for determining the scope should be whether it can be integrated in a consistent manner with uniform processes and technology tools
- **The delivery obligations of the integrator:** While there are multiple models of service integration, including the “guardian model”, whereby the integrator does not undertake delivery obligations in any tower, such models are relatively less frequently observed. It is more common for enterprises to assign the service integrator role to an existing provider of tower services. Such an approach is generally favored by enterprise buyers not only because of reasons of client familiarity, but also because it ensures the integrator has sufficient “skin in the game”
- However, it is imperative to maintain a clear line of **independence between the provider’s tower delivery and service integrator roles**. The service integrator’s incentive should be aligned towards the overall delivery objectives, rather than commercial expansion within the delivery towers. Ideally, the provider’s delivery team and integration team are separated by Chinese walls with distinct leadership and different incentive structures. Enterprises need to evaluate the independence question against the requirements of having the best-suited tower owner and building sufficiently strong delivery onus for the service integrator

The Virtuous Cycle of a Comprehensive SIAM

Implementation of a successful SIAM program leads to significant cost benefits over a period of time.

EXHIBIT 4
SIAM business case drivers

Source: Everest Group



Reduction in governance cost

Much of the initial reduction in governance cost is driven by standard managed services dynamics as operational governance processes, such as invoicing and charge-backs to business, are consolidated and driven by the integrator.

Contract and metric standardization implies easier adjudication and performance management, as well as a dramatic lowering of switching costs in the long run. Adding providers to the portfolio becomes easier, and governance cost as a proportion of the total cost of services delivered goes down incrementally over a period of time.

Further, as standardization leads to lower defects, there is a further reduction in governance requirements.

Standardization benefits

The initial benefits of technology standardization accrue through lower license costs. As process improvements get baked into the environment and performance management systems are made transparent and visible, opportunities for headcount reduction emerge. A comprehensive SIAM framework enables easy identification of duplications in the skill portfolio, opening up opportunities for streamlining demand management systems and elimination of superfluous “specialist” roles.

Productivity improvements

Improvements in productivity comprise the most powerful driver of SIAM economics. Standardization sets off an implicit continuous improvement mechanism as the number of incidents fall over a period of time. This, in turn, leads to incremental headcount reduction over a period of time, which in turn leads to further lowering in the cost of governance.

Business IT alignment

Comprehensive SIAM implementation enables the enterprise to generate a unified view of demand and consumption of IT services. This in turn can help channel investments in areas that are the most productive from a business point of view. In an age when the next-generation technologies like cloud are leading to a multiplicity of environments and under-the-radar business spending on IT is spiraling, the SIAM strategy becomes increasingly relevant for the CIO. A comprehensive SIAM strategy helps the enterprise IT organization not only to generate better visibility, but also to address the business agenda, without sacrificing control or disrupting security and compliance requirements.

Key Success Factors for SIAM Implementation

Implementation of a comprehensive SIAM framework represents a fundamental shift in the way IT services are delivered. Implementation of a successful SIAM program requires careful analysis of risk factors as well as strong stakeholder buy-in.

While SIAM implementation may be contextual and drivers may vary in importance, the following dimensions are almost universally important:

Identifying transformational scope

Successful SIAM implementation involves significant process transformation as the underlying value driver beyond the redesigned contract structures.

Consequently, enterprises need to identify the scope of SIAM implementation clearly. While large, enterprise-wide, multi-tower implementations yield significant scale benefits, these must be undertaken within the broader industry standard frameworks such as ITSM.

Identifying relationship scope

Enterprises need to create a partnership-based relation with key service providers. This assists in designing better contracts, delivery reports, unified service view, and other management information that will improve SIAM effectiveness and returns from sourcing initiatives. While portfolio consolidation in the absence of SIAM initiatives may not lead to optimal results, adjustments to the portfolio might need to be undertaken in conjunction with SIAM initiatives.

Management commitment

Implementing SIAM requires transformation of service management processes, alignment of service providers' incentives, overhaul of program management offices and management information systems. SIAM requires commitment from various stakeholders, especially senior management. As the framework needs initial investments and process reengineering, buy-in from executives and end-user groups is critical.

Business case construction

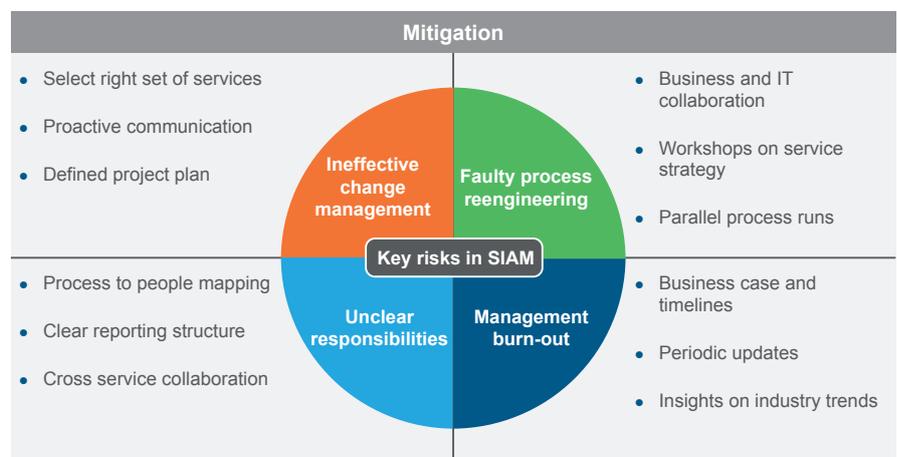
A baseline of service management costs, process efficiency, resource productivity, etc., is essential for successful SIAM implementation. Enterprises need to periodically assess SIAM effectiveness in meeting their business outcomes. This includes contract analysis of each provider and SLA adherence reports, and benchmarking to industry best practices.

Improper execution of each of the following implies several key risks that need to be anticipated and mitigated through an effective change management that cuts across technology and sourcing teams, as well as business groups.

EXHIBIT 5

SIAM risk mitigation

Source: Everest Group



Case Study: State of Texas SIAM implementation

The State of Texas was faced with a challenging contract situation with its existing infrastructure service provider.

End user government agencies were not bought in, customer satisfaction ratings were at record low levels, and it was increasingly being felt that the service provider's incentives were skewed towards capital preservation, and away from the flexibility that the client required.

By implementing a comprehensive SIAM model with Capgemini as the service integrator, and Xerox ACS as the predominant tower owner, the State of Texas realized the following benefits:

- Standardization of technology and process frameworks
- Improved productivity over a period of time, and consequently lower governance requirements
- Significant program expansion across government agencies, and a sharp jump in customer satisfaction levels
- Easier path to adoption of next generation technologies

By enabling a SIAM vehicle with suitable contractual incentives across all parties (client, service integrator, and tower owners), the State of Texas was able to build a scalable model for provisioning and governing technology services. The program is well on its way to further expansion, as the State of Texas, led by the Department of Information Resources (DIR), considers bringing more services under its ambit.

The Client

The Department of Information Resources (DIR) at the State of Texas is responsible for development of the central technology strategy for the state. This involves coordination across approximately 120 different state agencies. Being a non-cabinet form of government, each department has its own CIO and can pursue its own roadmap. However, the Department of Information Resources lays down the overall strategic framework, including policy guidance and information security strategy. The department also runs the centralized procurement program for IT products and services. Other government agencies are mandated to initiate new purchases through the centralized program – however, they can engage in repeat purchases and contract extensions independently. Other key functions of DIR include management of the government portal that offers approximately 1,100 programs to citizens, and in recent years DIR has initiated an ambitious datacenter consolidation program across all agencies. Generally, all state agencies are mandated to use the datacenter, telecom, and portal services through the Department of Information Resources. The Executive Director of the DIR acts as the CIO for the State of Texas.

The context

In 2005, the Department of Information Resources awarded a contract to a single IT service provider for management of several key towers including mainframes, servers, print services, email, network services, and physical datacenter services. While the contract was signed between the DIR and the service provider, 28 Government agencies were mandated to use the services being delivered out of the contract scope.

DIR retained the governance and service integration functions. Key to DIR's role was working as an interface between the end-user agencies and the service provider. DIR was responsible for managing the service provider's performance, driving adoption, and program expansion, and the service provider was not explicitly accountable for evangelization.

The contract itself was awarded on the basis of "lowest cost", with significant Capex investment on the part of the service provider. This resulted in several problems:

- By virtue of the contractual structure, the service provider perceived the DIR as its sole customer, and did not make proactive attempts to engage the other government agencies who were end users of the services
- The agencies on their part, did not feel engaged or bought into the program. Driving change was proving to be a tough challenge
- Over a period of time, as the contract entered its latter stages, the focus of the service provider shifted to recovering its initial investment. This was exactly the stage during which the State of Texas was expecting further

investments in innovation. Overall, there was an increasing misalignment of expectations, as the service provider's focus on return on capital drove inflexible service delivery, and consequently, high customer dissatisfaction. For instance, provisioning of new servers was taking as much as 9-12 months, as the service provider increasingly sought to "make do" within the existing environment

Service integration – a new direction

In 2011, the DIR decided to implement a new transaction with a fresh set of service providers. A service integrator model was envisioned by DIR, as opposed to the traditional monolithic contract structure. As per the plan:

- The State of Texas would sign contracts with multiple service providers who would own individual towers, but there would be one service integrator provider responsible for the overall service delivery, and coordination across end-user agencies. As such, the integration and governance functions across tower providers and agencies would largely reside with the service integrator. This was a significant change from the previous model, where the coordination function was vested with DIR and the tower provider
- The service integrator would be responsible for a set of service levels that would have significant overlaps with the tower owners. Further, the service integrator would be prohibited from contesting any of the towers, thereby, avoiding any potential conflict between the service integrator and the service delivery organizations
- While DIR was the contracting agency, the service integrator would be heavily incentivized for customer satisfaction across end-user agencies, with strong upsides for program expansion within participating agencies, and for onboarding of other agencies
- While the bid winners were expected to invest heavily in technology modernization, the selection criterion was not "lowest price", i.e., the contract prices allowed for the service providers to earn reasonable margins. The focus of the business case was required to shift to long-term TCO benefits, with a strong drive towards customer satisfaction, and establishment of a scalable program
- Pricing was based on consumption volume, with prices being defined for over 40 defined resource units. Price per resource unit was contracted to go down with increasing volumes. Given the mandate on efficiency, this implied a significant push for the service providers to work with the end-user agencies in expanding the program
- Several service providers were invited to bid as part of the new contracting process. Xerox ACS emerged as the leading contender for four of the towers. Capgemini was chosen as the service integrator

The results

Over a period of time, significant benefits have been realized. The journey started with Capgemini, in its capacity as a service integrator, investing in standardizing and upgrading the technology and process environment. Capgemini introduced standardized toolsets, ITIL methodologies, and processes, and invested in build out and maintenance of the Configuration Management Database (CMDB). The investment in standardization was critical for Capgemini to effectively meet its service levels around efficiency, agility, and customer satisfaction.

Subsequently, the following benefits have accrued:

- **Enhanced scalability of governance function:** Overall governance requirements have gone down as the quality and certainty of service delivery has gone up. From an initial DIR strength of 35 FTEs, the governance function has shrunk to 14 FTEs – a reduction of 80%
- **Improvements in productivity:** As a result of standardization, significant improvements in productivity have been observed leading to an increased consumption of resource units for a comparable base of users, and consequently, additional cost reduction benefits
- **Improvements in customer satisfaction:** The most significant benefits have been accrued in terms of customer satisfaction. From a rating of 1 (one) on a scale of +/- 5, at the time of contracting, customer satisfaction scores have improved to levels comparable with the industry best practices. This has been a direct consequence of the service integrator's ability to interface directly with end-user agencies and delivery towers through standardized processes, and to deal with requests on a rapid turnaround basis. It is important to note that such behavior on the part of the provider is due to the nature of contract incentives that encourage flexibility and agility, as opposed to capital preservation
- **Scalable technology adoption:** Having a standard environment with sophisticated processes and a low burden of legacy platforms and tools has paved the way for DIR to adopt next-generation technologies, with all the concomitant benefits. The Department has implemented Database-as-a-Service (DbaaS), public cloud models for certain workloads, and migrated 110,000 mailboxes to Office 365. Currently, datacenter consolidation initiatives comprise a major initiative, and DIR is actively thinking of VDI implementation. DIR is also planning for program expansion into application development and maintenance functions

Lessons learned

We believe there are significant lessons to be learned from the DIR, State of Texas story, which are relevant not only for government, but also for large enterprises:

- SIAM is a viable model for organizations that have a highly federated structure with decentralized, quasi-autonomous decision making patterns. The State of Texas structure is analogous to many global enterprises that are matrixed by geographies and product/service lines, with individual CIOs driving IT strategies for their businesses. Under such circumstances, the central organization is faced with efficiency and effectiveness challenges due to a fragmented portfolio of technologies and service providers. SIAM implementation complements ongoing portfolio consolidation initiatives by enabling a scalable process and governance framework that allows for successive onboarding of business units and geographies
- The key to successful SIAM implementation lies in incentive alignment. Incentives must not only be aligned between the service integrator and the tower owners, but must also be designed in a manner that allows the service integrator to earn reasonable margins by program expansion, while bringing down per unit ticketing volumes, in spite of the initial investment requirements
- Most enterprises find themselves impeded in adoption of new technologies due to the burden of legacy infrastructure and systems. While most CIOs cite the risk of migrating to next-generation technologies as a key impediment, few are able to articulate the opportunity cost of non-adoption. In reality, the initial complexity of modernization, in the absence of a clear roadmap to sustainable benefits, leads most organizations to shelve the transformational agenda. With each such decision point, the task becomes progressively more difficult. A comprehensive SIAM framework can help significantly in alleviating the risk of new technology adoption
- Last but not least, intangible elements, such as cultural compatibility, form the cornerstone of successful SIAM implementation. Setting up a comprehensive outsourced SIAM function is not easy, and requires considerable commitment and change management on the part of all stakeholders. In case of DIR, seven amendments have been made to the initial contract over the first 16 months of the contract. Such a course is natural, and indeed desirable, as the contracting vehicle needs to be flexible and adaptive to changing requirements. Enterprises need to evaluate potential service integrators on contracting flexibility and cultural compatibility as much as on technical sophistication and consulting capabilities

Conclusion

As enterprises seek to optimize the services and relationship portfolio, they also need to address the underlying service management issues.

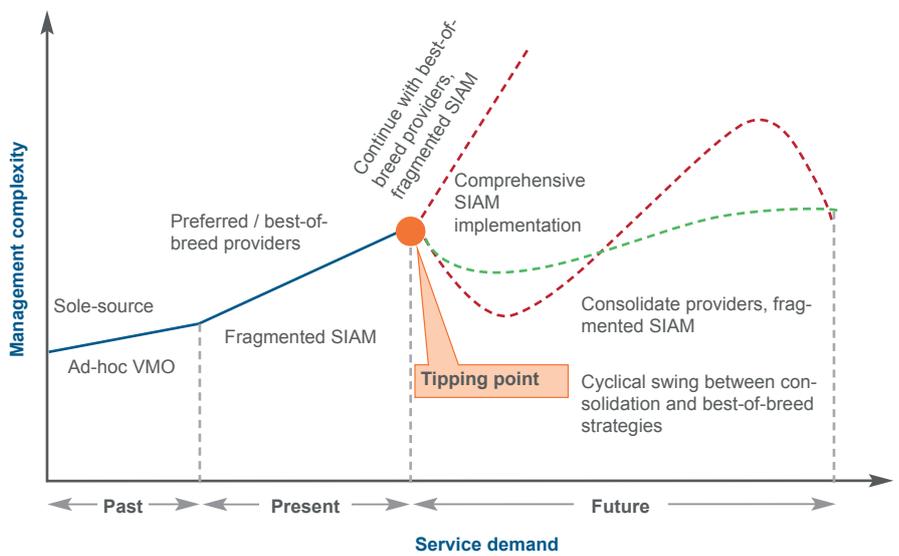
Enterprises with complex portfolios are at risk of riding a never-ending oscillation of sole source at one end of the swing, and fragmented portfolios at the other. While the demand for services is likely to keep growing, enterprises will be challenged - not only in curbing management costs, but also in meeting expectations around flexibility and agility.

EXHIBIT 6

SIAM – a third alternative

Source: Everest Group

SIAM – a third alternative



Management complexity	Service demand
<ul style="list-style-type: none"> • Cost • Compliance • Documentation • Provider management 	<ul style="list-style-type: none"> • Volumes • Technology • Agility • User experience

○ Low ● High

	Sole source	Best of breed	Comprehensive SIAM implementation
Delivery scalability	○	●	●
Governance scalability	●	○	●
Strategic control	○	●	●
End-user satisfaction	○	○	●

Implementation of a comprehensive SIAM framework represents a novel way of meeting these challenges. While the portfolio optimization question may not be supplanted, it certainly assumes greater relevance when considered in the context of how SIAM implementation may help in scaling delivery and governance constructs, yet supporting control over strategic technology assets and business processes.

About Everest Group

Everest Group is an advisor to business leaders on next generation global services with a worldwide reputation for helping Global 1000 firms dramatically improve their performance by optimizing their back- and middle-office business services. With a fact-based approach driving outcomes, Everest Group counsels organizations with complex challenges related to the use and delivery of global services in their pursuits to balance short-term needs with long-term goals. Through its practical consulting, original research and industry resource services, Everest Group helps clients maximize value from delivery strategies, talent and sourcing models, technologies and management approaches. Established in 1991, Everest Group serves users of global services, providers of services, country organizations, and private equity firms, in six continents across all industry categories. For more information, please visit www.everestgrp.com and research.everestgrp.com.

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