

From Systems to Service

**Moving from technology silos
to Business Service as a Utility**



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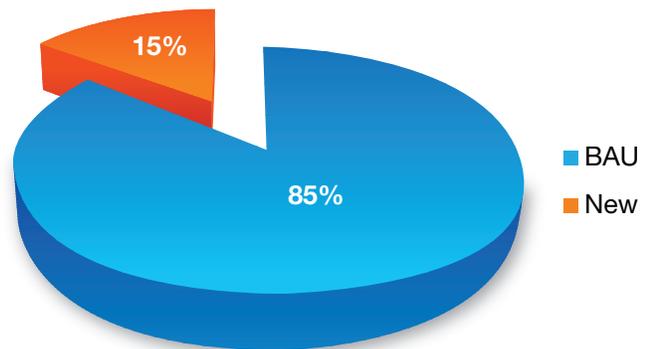
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Too much IT, too little Service

A large proportion of the current IT estate consists of applications that the business does not care about. This is not to say that their disappearance would go unnoticed though it is to say that, often, the actual functionality of certain applications is not as important as the fact that the applications are present.

Businesses face the continual problem of recognizing when yesterday's competitive advantage has become the cost-based or utility obstacle of today. Systems that previously helped automate processes that had never been automated often duplicate functionality that is now available "off the shelf." This lack of understanding of the actual cost and impact of IT is one of the primary reasons that current IT outlay is so drastically skewed between operational cost and capital expenditure.



The aim, therefore, for IT organizations and businesses, is to understand how best to focus the operational expenditure on those elements that actually have an impact on the business and to shift those that are non-critical into a utility-based pricing model where the amount spent is no longer banded under the often broad and ambiguous "IT" label, but is representative of the *service that is provided*.

Knowing the business

A major obstacle facing IT organizations is understanding the value that IT provides and how that value should be delivered. The first stage of this is to actually understand how the business operates. Creating a Business Service Architecture¹ for an organization consists of creating a big picture which illustrates how the organization operates but which is independent of the IT estate. By understanding the business services that are to be delivered, it is then possible to establish an accurate business value associated with those services which, in turn, makes it possible to ascertain how IT helps to deliver those services and consequently, the value of IT.

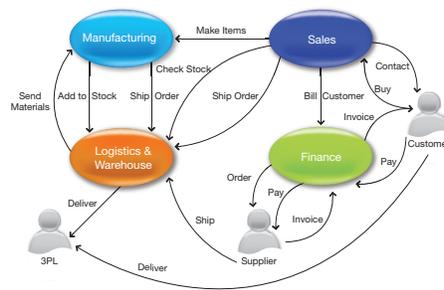


Figure 1. Manufacturing Level 0

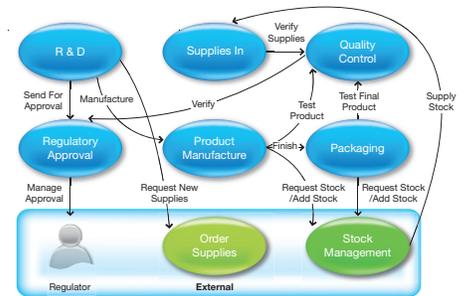


Figure 2. Manufacture Level 0

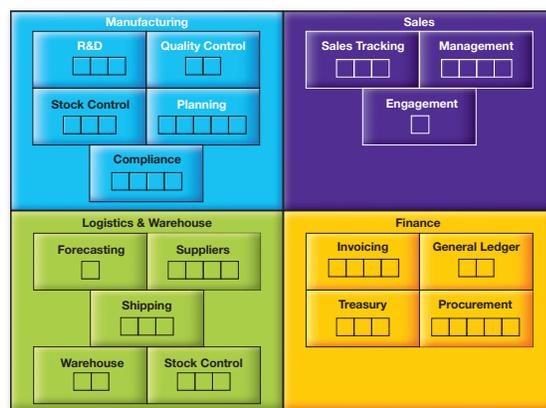


Figure 3. Example Full BSA

Without starting from the perspective of the business, it is not possible to create a truly value-driven IT organization, nor is it possible to identify the best delivery model of those services for the business.

Understanding the business value and the technology required

Once it is clear what the business services are, it is then possible to understand both the business value and the technology implications for those services. This is achieved by classifying the services based on the business driver for change, and the decision driver.

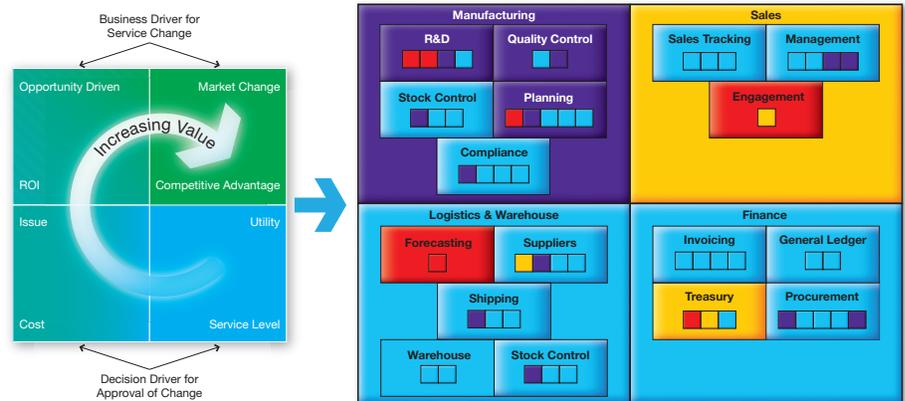


Figure 4. Business Service Value Categorization and an example heat map

The business driver explains how important the business considers a given element based on its *impact* on the market. The decision driver explains the type of approval and business case that is required for change.

The error often committed by IT organizations is to mistake reliability for importance; applications that are critical for the operation of the business are often not the applications which actually have the biggest market impact. These applications are often the most expensive, and cherished, parts of the IT landscape. They are the applications that must be operational, but which the business looks upon as a utility. Typically, a large part of an IT organization's costs are tied up in these systems which means that too little expenditure is devoted to IT investment.

The key point is that IT should be delivering against a service level for these critical applications and that the business should view the provision of these services as a utility. These are the IT equivalents of electricity, water and the phones; Components that are 100% essential to the successful operation of the company, but not actually differentiating or value adding. It is crucial that these work and that the amount paid is representative of what is used.

The problem with packages

Packaged solutions represent a major part of the IT estate in most modern companies, not only in terms of the capabilities that they offer, but also in terms of their cost. These applications are sold on the basis that they represent “industry best practice” yet all too often they are heavily customized into a business-specific solution with significant costs for upgrades and support. The problem is that organizations purchase packages, not as a business service, but as a technology which requires molding to the business. This approach represents the minimum business change and also the highest IT cost.

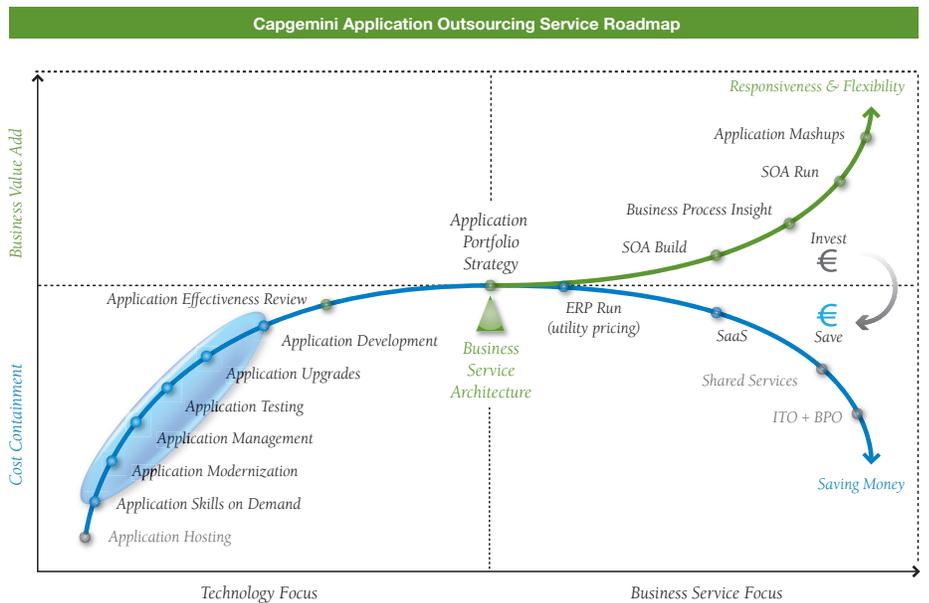


Figure 5. The scope of Package delivery today

By treating packages as a technology-centric solution rather than as a means to standardize business, the IT costs increase and the business benefits reduce.

Standardization vs differentiation

When looking at business services that are classified as utilities (the bottom right of the quadrant), it is also important to consider that this is not an area where differentiation is important. In the same way as no-one asks for “customized” electricity, but instead copes with what comes to the door, the IT organization and business must recognize that these base services are equally elements that should be driven towards standardization. By doing so, it becomes possible to further reduce the costs and challenges of IT, reduce the risks to the business and deliver new approaches more quickly. Differentiation needs to be applied where it adds value, not where it is a utility.

This is not to say that a utility focus prevents a company from driving new value where possible, it means that businesses must drive that new value from a standardized base. Thus, the company should retain those things that drive value and leverage those things that do not.

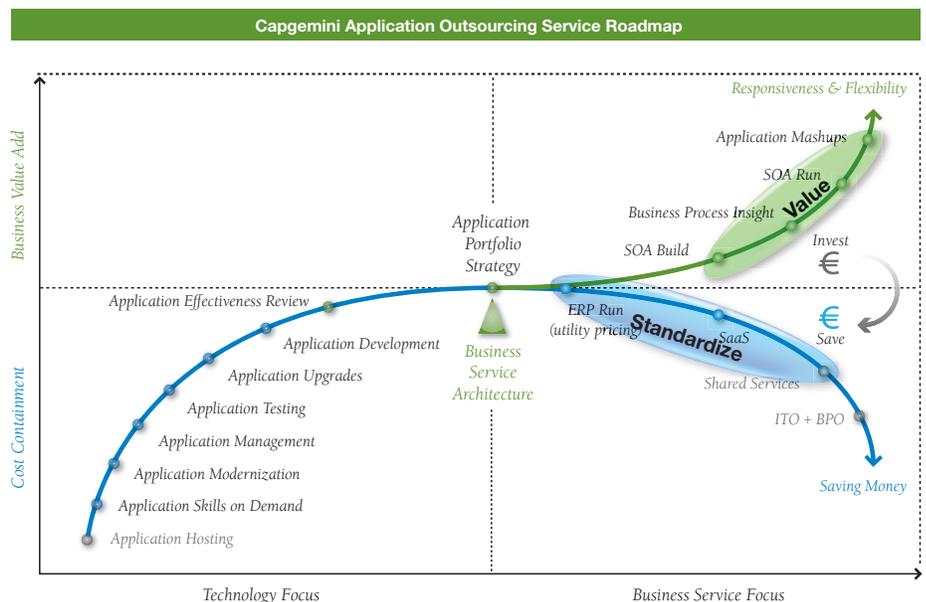
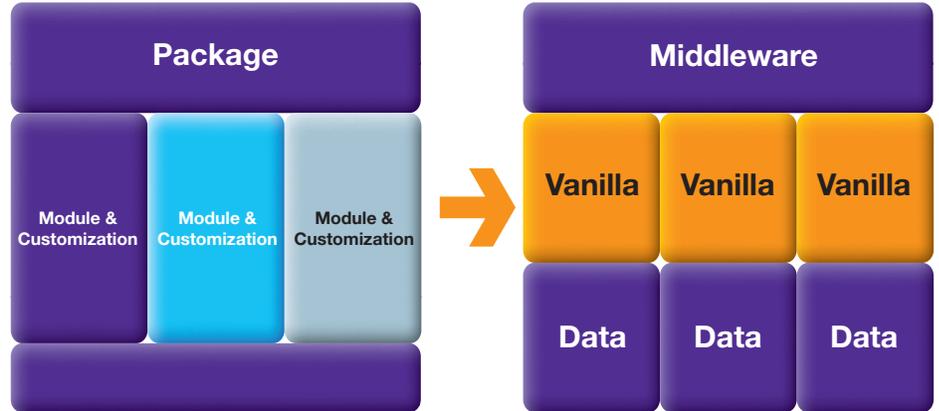


Figure 6. The competing demands of package delivery

This focus of IT and the business on value and the shifting of utility-based services to standardized models enables a business to leverage not just services from its own organization, but also to begin to consider those provided by the market, thereby achieving increasing levels of economies of scale.

This shift is most marked in packaged software development where package vendors such as SAP with eSOA² and Oracle with Fusion³ are moving away from the traditional view of a package as a single entity and towards the concept of standardized business services with a middleware layer providing the platform for differentiation.



This move enables companies to leverage standardized solutions while providing differentiation where it is required. This turns the package into a utility rather than a business-specific application and enables a greater degree of industrialization of support, maintenance and development than is possible via a business-specific application. This shift towards standardization also means that the previous challenge of package software upgrades is significantly reduced.

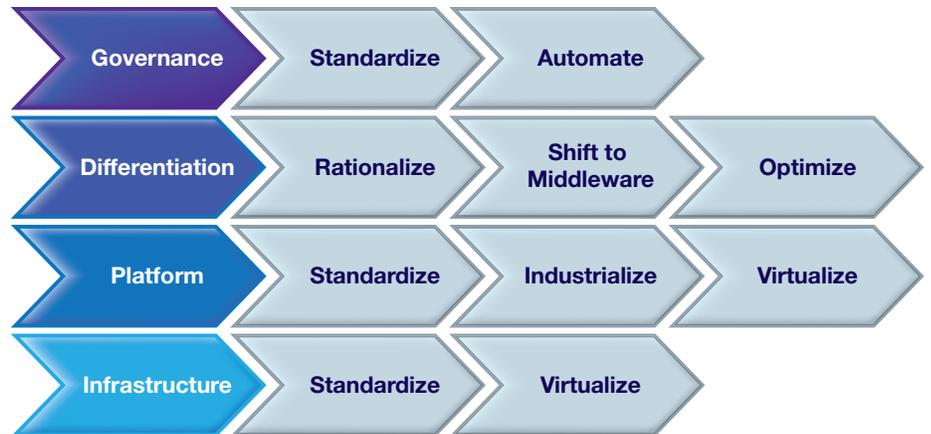


Figure 7. Industrialization Application Evolution

By standardizing the infrastructure and the core platform, it becomes possible to both standardize and automate the governance and move towards a more virtualized model. This enables a shift away from treating packages as a software cost and towards a more measurable cost and delivery model.

Pay like a phone, works like a phone

The final piece of the Utility model is that of payment. The current system-based payment model of IT only works for those areas where it can be justified. In the bottom left of the quadrant, where cost is a primary driver, it is difficult to justify spending money purely based on what the system costs, rather than how the costs are linked to the business benefits and impacts. In the utility space, however, such a justification is impossible. If the only important element is that the service should be functioning and working to a given SLA, then the only financial model that makes sense is one where the business is paying for usage of a service, rather than simply for the technology.

Payment by use is a normal part of business, whether it is for phones, gas, water, electricity, transport or any other service. Utility-based pricing is a recognition that much of IT is becoming commoditized to a similar level and should be charged to the business accordingly. This then helps to bring in more visible price competition between vendors in much the same way as phone and network charges are reduced as a result of open competition. This competition is extremely difficult to create under traditional in-house IT conditions as the real cost cannot be obtained from the price of the software alone but has to be extracted by examining the cost of the software, its implementation, management and change. By making the price visible and external, it is possible to have more open and active competition.

The other aspect of a utility service is that it is “always on”. It should not “go down” or be unavailable during long back-up or maintenance windows and any updates should be applied without impacting the end users. In the same way as a phone company is expected to upgrade its network without cutting people off for days at a time, so a utility IT service must provide a constant Service Level.

The last mile, shifting to SaaS

The final step in this journey is for the utility service to be truly considered a utility. Rather than simply consuming a service from a utility infrastructure, the platform itself becomes virtualized and shared between multiple organizations. This requires a different level of scale and reliability for the platform itself but represents only a small change in terms of the logical model from a standardized environment.

The requirements of utility pricing and high reliability are the biggest drivers behind moving away from company-owned applications towards Software as a Service (SaaS). Because SaaS suppliers must create a common platform that is leveraged by multiple companies, they have a greater ability to minimize downtime and a greater opportunity to reduce costs by harmonizing processes and technology. These SaaS solutions are truly centered on an internet delivery model, further increasing their capacity to scale, as companies like Amazon, Salesforce.com and Google have already demonstrated. The availability of these applications is a key part of the service level and is an area where businesses must obtain the right assurances that the service will work. Fortunately, everything suggests that SaaS vendors are better positioned to deliver these availability requirements than in-house IT could ever hope.

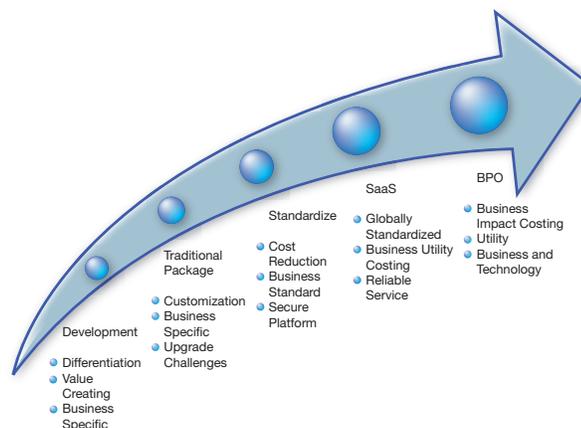
Software as a Service

– SaaS 2.0 and BPO

The true direction of SaaS, however, is dictated by the Business Service Architecture. The goal of future SaaS solutions is not to be seen as providing software for people and business but to be providing business services. Rather than providing simply the technology part of a solution, they will increasingly provide the business support required to deliver the full offering to companies. Today, SaaS is focused mainly on those areas that require little or no additional process work, for instance CRM, email and documents. In the future though, as SaaS moves into areas such as finance and billing, it will become necessary for SaaS solutions, and their partners, to offer the business context and support as well as the technology solution.

Already in the outsourcing world there has been a huge growth in Business Process Outsourcing as organizations seek to outsource the whole delivery of elements such as Finance and Accounting. BPO providers have to provide both the technology and, perhaps more importantly, the business expertise and support required to deliver these services directly to the business. The reality of BPO is that it is rarely about a single process and, more commonly, involves the outsourcing of large business functions. In other words, the goal of BPO is the outsourcing of business services and the optimization of the processes that deliver those services.

The future of business services and the IT that supports them, from market changing through to utility, and finally BPO, is relatively easy to predict. At present, BPO is an “all or nothing” step for most organizations which is applied to only a limited section of the business. By providing a progression route from in-house systems-based IT, through SaaS to BPO, it becomes possible to picture a progressive roadmap for business services.



This evolution of technology from development to BPO is better enabled with the availability of SaaS. Without SaaS, the jump from technology application to business service is a large and single-step process. SaaS provides the ability to move from technology application to technology service, which can then be used as the foundation for the future business service provision.

Summary

By clarifying and understanding the business services to be delivered, organizations are better able to appreciate the difference between critical and important. SaaS is driven by people who make pragmatic decisions on how the cost of IT should be evaluated and how IT should be supported, rather than emotional decisions based on technology. By shifting the cost of IT away from the IT systems and towards IT usage, companies are able to re-position IT costs towards the value they create. Software as a Service represents turning technology into a utility capable of delivering both the reliability and costing model that would be expected of an electricity provider.

SaaS provides a bridge between the technology-based decisions of in-house IT and the large-scale outsourcing of BPO. It helps IT to drive business-based costing while retaining intellectual property and control at the business level. By providing that bridge, greater opportunities are created for new business models and partnerships.

SaaS is not so much about “Software” as a service as it is about providing Business Service as a utility.

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