

CHERUB

ADVISORY & CONSULTING
IT Sourcing for Maximum Value

Autonomous Service Delivery How can it enable significant cost savings?

CONTENTS

Introduction.....	3
What is Autonomous Service Delivery?	3
Key cost drivers.....	5
How can Autonomous Service Delivery drive cost down?	9
Recommendation	12
Should you adopt the Autonomous Service Delivery model?.....	12
Conclusion	12

PREFACE

***Can “Autonomous Service Delivery” really deliver cost savings
Or is it simply hype?***

In this discussion paper Cherub reviews three case studies that delivered enviable savings of between 30-35% beyond the current services contracts.

So, the savings are real, however, realising them takes effort and isn't without risks.

We explore the Critical Success Factors, of Culture, People, Process, Tools and Vendor Management, along with the four key cost drivers: Active management of the Service Provider by the Customer, Maturity of Process and Procedures, Nature of Service Levels and Leveraged Staffing.

We help define key frameworks of:

- Governance
- Service Delivery
- Service Objectives, and
- Consumed Resources

while providing recommendations on many aspects of the process.

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Introduction

The Australian outsourced IT services market has grown and matured significantly since outsourcing gained wide-spread acceptance as an operational business tactic in the 1990's.

Autonomous Service Delivery has been seen to deliver significant financial savings to customers. In the past four years we have seen direct savings in the order of 30% when compared with more traditional managed service contracts. Further savings have also been possible in some instances through adjusting effort for customer internal support.

This paper discusses how these savings have been achieved and the many contributing factors. We also highlight the significant changes associated with moving to an Autonomous Service Delivery contract, and the impacts they may impose on your organisation.

To that end, it is assumed that your organisation has managed service contracts in place and therefore a good foundation of experience, knowledge and understanding of how traditional managed services operate. The reason for this is fundamental. Whilst moving from an in-house IT operation to a managed service contract presents significant challenges and changes to the organisation's operational IT fabric; moving to Autonomous Service Delivery without a solid appreciation of managed service operations presents still another magnitude of challenge.

But if you have that experience, and you are prepared to embrace the change Autonomous Service Delivery brings with it; and you understand what Autonomous Service Delivery is and is not; then you are well placed to consider if your organisation can take advantage of this type of service delivery.

What is Autonomous Service Delivery?

Customers have been consuming services from Service Providers for decades. The consumption of these services has evolved from simple project-related staff augmentation approaches, to single tower managed services, to multi-sourced managed services. Software-as-a-Service (SaaS) evolved from Application Service Providers (ASP) in the 2000s. Cloud computing (principally IaaS and PaaS) emerged as a mature service around 2009, primarily due to the availability of high capacity networks and the widespread adoption of virtualisation technology.

SaaS presents opportunities of lower upfront licence fees, reduction of hardware required to support the applications, and reduction of internal support and maintenance effort and costs. IaaS, and PaaS present on-demand scalability – up and down; and eliminate overheads arising from investment in platform infrastructure, in data centre hosting costs, and in staff to manage and operate both infrastructure and facilities.

Autonomous Service Delivery is not a Cloud model (unlike SaaS, IaaS and PaaS). Autonomous Service Delivery is an operational model where Service Providers deliver services in a manner whereby they have control over optimising process and procedures, and deliver the IT services to you, the Customer, as a packaged set of services.

Customers determine what services are required. Service Providers determine how the required services are best delivered; increasingly delivering them as end-to-end services. The caveat to this is that Customers will have frameworks that must be followed, and Service Providers must adhere to these frameworks. We discuss the key frameworks later in this paper.

Autonomous Service Delivery is different to IT Managed Services. Both Autonomous Service Delivery and IT Managed Services allow you to pass responsibility for specific IT operations to the Service Provider. In an IT Managed Services model, responsibilities are typically defined as Outputs, such as monitoring, incident/problem management, backups, security, patch management etc.

You retain a lot of control over when and how activities are to be undertaken by the Service Provider, and in choosing which activities will be performed by your in-house IT team. And in so doing, you also retain full visibility of the process and management of your systems.

Therein lies the distinction between IT Managed Services and Autonomous Service Delivery.

IT Managed Services are typically a 'white box' process. You not only have very clear visibility of processes and management of your systems provided by the Service Provider, you also have significant input and control over those processes and management activities.

Autonomous Service Delivery is delivered as a 'grey box' process. The Service Provider is responsible for optimising their processes, procedures, and management activities in the delivery of the services. You have some visibility into those activities but choose not to become actively involved to any great extent nor to dictate operational procedures.

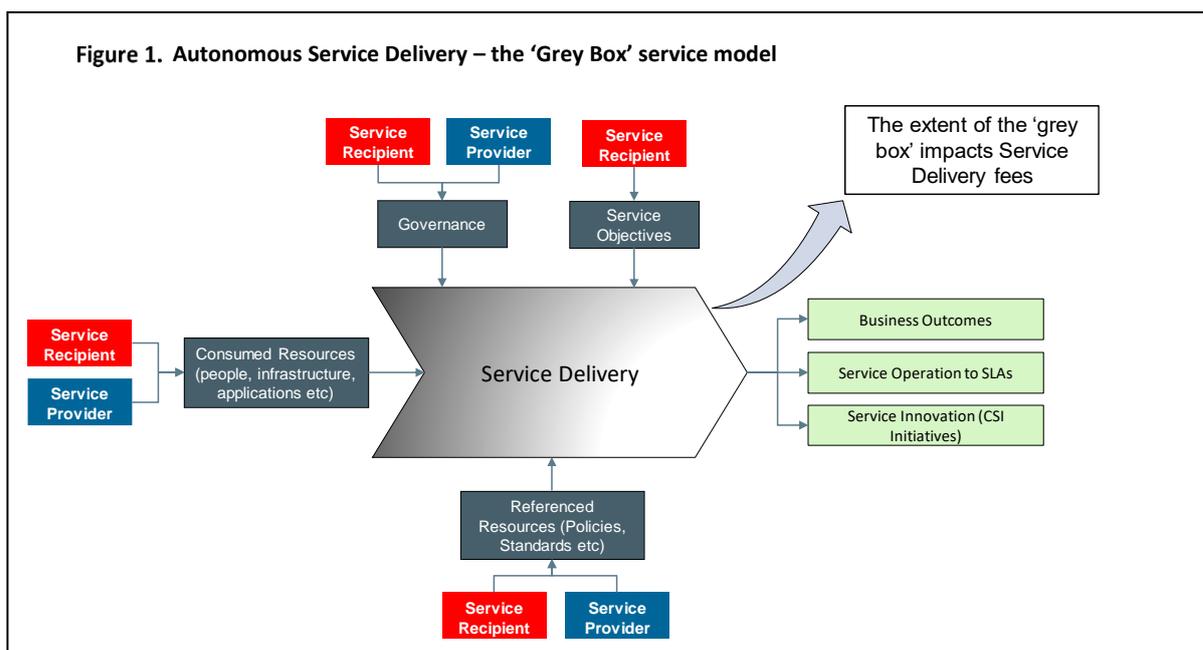
Autonomous Service Delivery is rarely a 'black box' – that is, a service where you have no visibility into operational matters, nor any say over them.

The Figure below illustrates the principle of the 'white box' and 'grey box' service process.

In both IT Managed Service and Autonomous Service Delivery models there are a variety of inputs supporting Service Delivery.

The inputs can be represented as Consumed Resources (i.e. people, infrastructure, budget, applications, etc.), Referenced Resources (i.e. Policies, Standards, etc.), Governance requirements, and Service Objectives.

Whilst the Service Delivery outputs provide Business Outcomes, Service Operations to SLAs, and Service Innovation.



In both models there is typically a role for the Service Provider and the Customer. The distinction between IT Managed Services and Autonomous Service Delivery is the extent of the 'grey box', that is, the proportion of the service that is performed by the Service Provider rather than the Customer.

The greyness of the box typifies the distinction between Autonomous Service Delivery and Managed Services. IT Managed Services will adopt a model whereby you and the Service Provider are both actively involved in Service Delivery, and the nature of the service processes will be 'white' to you.

Autonomous Service Delivery will adopt a model whereby the Service Provider will assume a larger portion of Service Delivery, and the nature of the service will be 'grey' to you.

The extent of the 'grey box' impacts Service Delivery fees.

The 'whiter' you insist the box to be, the more Autonomous Service Delivery reverts to a traditional Managed Service and the more the cost advantages of Autonomous Service Delivery evaporate.

Allowing the process to be a dark grey box is the challenge; trusting the maturity of the Service Provider and their service processes to deliver the required Outputs. Trusting them enough to not insist on making the service process 'white' by inserting Customer governance monitoring and check-points throughout the process, thereby ratcheting up the Service Provider compliance workload and costs. Savings opportunities will evaporate with increased customer oversight.

Does the concept of saving money by utilising a Service Provider sound impossible, or at best, unlikely? We understand that scepticism if you are thinking 'yes'. In the

past four years we have seen examples with our clients where they have achieved significant cost savings compared to both internal service delivery, and replacement of traditional IT managed service delivery models. Three client examples are provided in the sidebars.

The three examples delivered significant financial savings to the clients. The required range and level of services in two cases matched that of existing services. Client Two example incorporated some additional expanded services, with the new total fee again at a reduced fee to the previous IT managed services contract.

Key cost drivers

Our research has indicated the following four cost drivers as being critical factors in Service Providers being able to deliver cost savings:

- Active management of the Service Provider by the Customer
- Maturity of process and procedures
- Nature of Service Levels
- Leveraged staffing

Active Management

Active Management is part of the Customer **Governance Framework**.

When Customers actively manage their Service Providers, it hampers the Service Providers' ability to right size. A key attribute of Autonomous Service Delivery is that the Service Provider can manage time and resources as required to meet their service obligations. When they are actively managed, and particularly if over-managed, they lose that flexibility. Active management in the form of Governance should exist as part of effective Vendor Management but should not

extend to excessive supervision of the Service Provider. Over-management is time consuming and costly for Service Providers responding to daily requirements, as well as yourself.

A second consequence of over-management is that the Service Provider may need to increase staff levels or vary processes and procedures to meet what may be excessive requirements. A direct result of this is that potential savings are eroded.

A third consequence is perceived Service Provider risk. There is a danger that the Service Provider will interpret the requirements as constant checking and reviewing, which in turn may be interpreted as increased service delivery risk. Any interpretation by the Service Provider of increased risk is likely to be met with the Service Provider applying additional people or process to mitigate the risk, resulting in cost increases.

Recommendation

We recommend that you review what you, as a Customer really need to effectively Govern your outsourced IT Services. This is all part of the Governance Framework. Within the Governance Framework, review where management activities add value, vis where they can be relaxed. An ability to relax Active Management whilst retaining overall Governance control will have a direct influence on fees.

Maturity of Process and Procedure

Processes and Procedures are part of the Customer **Service Delivery Framework**. You will require that the Service Provider adheres to your core Processes, for example Change Management to avoid business disruption. There will be a number of Standards and

Client One

Overview

The client is a government entity. They had an existing IT Managed Services contract for the provision of End User Computing services. The contract was approaching end of term and the decision was made to move to an Autonomous Service Delivery model. The services included:

- *full provision of IT Services to manage the EUC environment*
- *asset lifecycle management*
- *purchase of existing EUC infrastructure and lease back*

Whilst this was a 'grey box' model, there were clear aspects of 'white box' requirements. The contract required the Service Provider to operate within an extensive range of client procedures and technology frameworks.

Outcome

The estimated Total Cost of Operations of the negotiated Autonomous Service Delivery contract when compared with the previous IT Managed Services contract, and including the cost of IT infrastructure, was in the order of 30% less per annum.

Processes within your *Service Delivery Framework* that are non-negotiable. Service Providers understand this reality, however to the extent that they can follow their own developed Procedures, they will be able to bring increased internal efficiencies. These efficiencies result in lower service fees. Particularly so where both Customer and Service Provider use mature, industry-standard Processes such as those of ISO 20000.

Recommendation

We recommend that obligations to adhere to the *Service Delivery Framework* are reviewed. Don't compromise on ensuring that integrity of process and confidence of outcomes is maintained. Do relax process obligations where they are more of a commodity basis, adding nothing unique to the organisation. An example might be where the Customer retains control over Change Management process and allows the Service Provider to implement its own Release and Deployment process.

Nature of Service Levels

Service Level compliance and reporting is part of the ***Service Objectives Framework***. Service Level compliance and reporting takes effort on behalf of the Service Provider, and often on yourself, in analysis of outcomes.

We regard Service Levels and associated Service Credits as an essential measure of Service Provider performance. We also recognise that the greater the number of service levels imposed on the Service Provider, particularly those that have associated Service Credits, the higher the fee charged by Service Providers.

There are two core reasons for this. The first is the effort required on behalf of Service

Client Two

Overview

The client is a private sector corporation. They had existing multi-sourced IT Managed Services contracts with a limited number of Service Providers.

Two significant contracts within the portfolio were approaching contract end. For operational reasons the client sought opportunities to consolidate services from the multi-sourced IT Managed Services model to a more consolidated (although not totally) Autonomous Service Delivery model. Ownership of IT assets was retained by client, with Asset lifecycle management provided by Service Provider.

Outcome

The estimated Total Cost of Operations of the negotiated Autonomous Service Delivery contract when compared with the previous IT managed services contract was in the order of 30% - 35% less per annum.

Providers to measure and report on service level performance. This translates to resource effort, in turn impacting fees.

The second reason is that Service Providers will view Service Credits as financial risk. They will consider in the potential financial impact of the service credits being applied and factor in a risk premium.

Recommendation

We recommend a careful analysis of required service levels and service credits. Be prepared to reduce the number of service levels, and the number that have associated service credits. Focus on business-critical services, ones where poor Service Provider performance is felt in the business. For example, service levels associated with Priority One Incidents are required; but for Priority Three or Four Incidents, so long as the Service Provider is aware of expectations, it may be preferable not to actively measure those in an Autonomous Service Delivery model.

We often see that although service levels are measured and reported, not all attract service credits.

Equally, consider if you can reduce the quantity of service levels to a core set, yet at the same time have enough confidence that you are receiving adequate performance information, and just as importantly, that the Service Provider retains focus on operational requirements, and has the correct financial incentive to meet all requirements.

Leverage Staffing

Service Provider staff levels are often considered important information by the Customer. Customers may ask for a breakdown of staff levels, by classification and location. Staff level information is part of the **Consumed Resources Framework**.

Client Three

Overview

The client is a public sector entity. They were providing End User Computing services with internal staff. For internal reasons they elected to seek an external Service Provider capable of delivering end-to-end End User Computing services.

These services were delivered in conjunction with remaining internal IT staff, who retained responsibility for those functions that required high customer intimacy, coupled with a deep knowledge of the corporation. The final contract did not involve any transfer of asset ownership.

Outcome

The estimated Total Cost of Operations of the negotiated Autonomous Service Delivery contract when compared with internal service delivery was multi-million-dollar savings per annum.

We see that when Customers seek detailed staffing information they are essentially treating the Service Provider in a Staff Augmentation mode (i.e. calculating how much they are paying per FTE). The more this is done, the 'whiter' you are making the box. Emphasising the requirement on the Service Provider to provide a detailed breakdown of staff levels can drive up fees. The reason for this is that Service Providers will often look to leverage back-end staff providing non-customer facing services. Most Service Providers have large operational centres where many of these staff are based, often offshore. By having the flexibility to leverage those staff the Service Providers can achieve greater economies of scale, resulting in lower fees.

Recommendation

We recommend that key staff are identified and demanded. If possible, be prepared to allow back office staff to operate in a model suggested by the Service Provider. Even greater economies can usually be achieved if these staff are offshore. Consider if you are willing, or able, to have offshore Service Provider staff. And, of course, consider if there are any associated data security or sensitive personal or commercial information concerns with offshore delivery. Also consider whether any such concerns can be effectively mitigated.

How can Autonomous Service Delivery drive cost down?

If Customers are able and willing to adjust the Cost Drivers, our research indicates that significant cost savings can be realised. Each of the identified Cost Drivers has an impact on fees.

To achieve an effective, well managed Autonomous Service Delivery contract we make the following recommendations.

Define your Frameworks

We have talked about four key frameworks: Governance, Service Delivery, Service Objectives, and Consumed Resources. You may also consider additional frameworks.

Think about what is really needed versus what is it that you are used to having? Take a 'critical few' approach.

Consider if you have any flexibility within the frameworks. Service Providers will work within the required frameworks; however, they may benefit from some degrees of flexibility. Be prepared to discuss this with the Service Providers to understand any benefits you may achieve.

Moving towards an Autonomous Service Delivery 'grey box'

Review your options and appetite to allow Service Providers to work within a 'grey box' environment. Consider each of the core Cost Drivers. Are you able to relax your supervisory requirements and practices? And if so, can you relax them to the extent that you can allow the Service Provider to manage their own operations, work in a 'grey box' environment, and deliver you cost savings.

Listen to the Service Provider

Be prepared to sit down and talk with your Service Provider about your objectives regarding Autonomous Service Delivery.

It's not all about cost, because certainly you must expect efficiency and effectiveness of service that meets all your business and IT operational needs.

However, talk with the Service Provider to better understand factors that drive their fees. They will likely welcome a conversation where they can discuss opportunities to make adjustments, 'pull some levers' that are mutually beneficial. Make it clear to them what your mandatory frameworks are, and seek feedback from them.

A word of caution

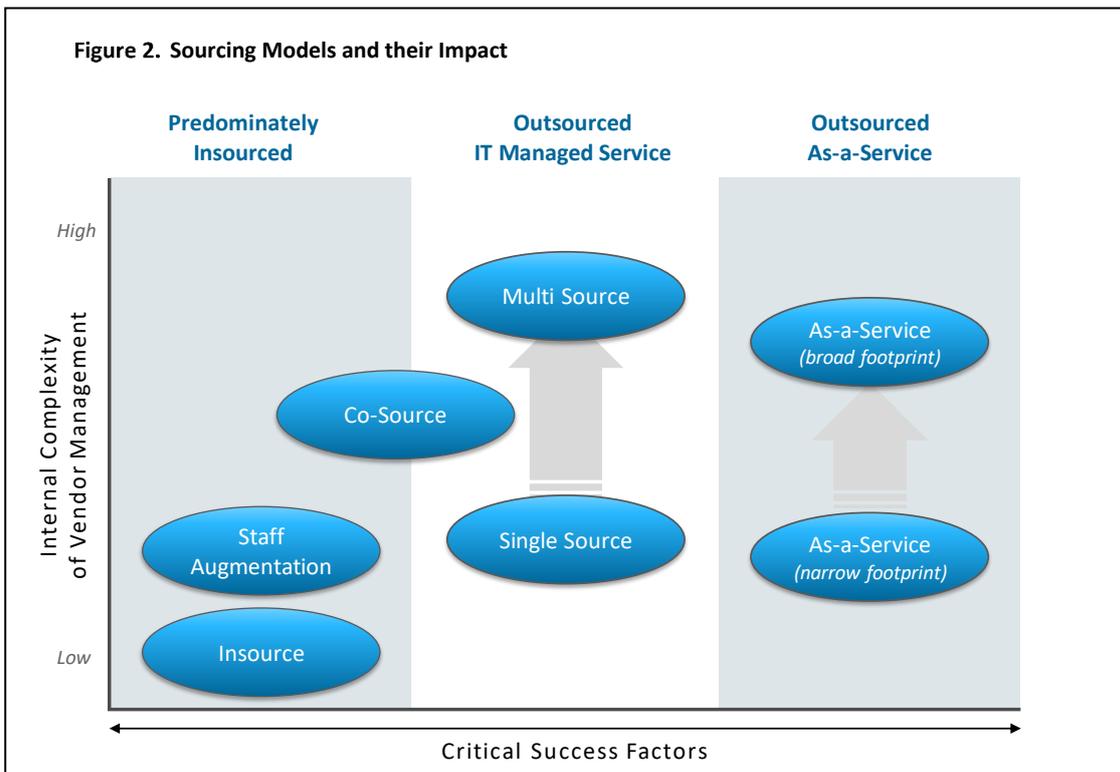
Whilst Autonomous Service Delivery offers service efficiency outcomes, resulting in financial benefit, the style of contract may not work for all Customers. For a Customer transitioning from internally delivered IT services, or even from 'white box' IT Managed Services to 'grey box' Autonomous Service Delivery there will be a few challenges.

Autonomous Service Delivery requires a different management style and attitude from you.

It also requires a different service delivery approach from the Service Provider. Our research indicates that there are several Critical Success Factors for all sourcing models, be that Insourced, Staff Augmentation, Co-Sourced, Managed Services, as-a-Service. Success in any sourcing model is an outcome of these Critical Success Factors.

Figure 2 illustrates the core sourcing models. It maps those models into three groups: Predominantly Insourced, Outsourced IT Managed Service, Outsourced As-a-Service.

The model also maps the sourcing models regarding Critical Success Factors. We have identified five Critical Success Factors.



Culture

The culture of the organisation (be that the IT organisation within the company, or the company-wide culture) has a significant impact on the success of various sourcing models. For example, consider a culture that favours a high degree of control, requiring regular feedback mechanisms.

The organisation, or key individuals within the organisation, may not be comfortable letting go and view the changed level of governance as inadequate. Such a culture will create tension, or even failure, in an Autonomous Service Delivery, and potentially even in a Multi Sourced environment. Equally, if there is a culture that prefers open, trusting relationships where it's important to feel that the Service Providers are working collaboratively as a team, a highly managed environment will seem onerous, and often prove counter-productive.

Culture is often difficult to change. If there is a strong culture that better suits some sourcing options over others (e.g. the culture supports Predominantly Insourced models), it's important to recognise that moving to Autonomous Service Delivery may be a 'bridge too far'.

If you are in the situation described above, consider a stepping-stone approach whereby you transition part way, with a view to the longer journey.

Vendor Management Capability

Depending on the sourcing model there are varying demands on Vendor Management. Autonomous Service Delivery requires greater Vendor Management capability than Insourced, but less than Multi-sourcing. Review your current capability level and determine if it's suited to the sourcing model or models you have or are considering.

Process

Consider if you have adequate internal processes to support the sourcing model. Insourcing clearly needs well developed operational processes. Outsourced models need well developed Risk, Compliance, and reporting processes. Industry-standards based processes are essential when using outsourced models.

Tools

Consider tools used by the organisation and tools that the Service Provider must bring. Does the organisation have appropriate performance management and document management tools to support an outsourced model? Does the organisation have appropriate IT Service Management tools available to it?

People

Customer staff levels and competencies have an important role in the success of the sourcing models. Naturally the Customer will require a sufficient number of technically competent staff and contractors to support an In-Sourced model.

In the various outsourced models there is less requirement to work at the operational level however there is a requirement to have staff with the capacity and capability to review and interpret Service Provider outputs.

Recommendation

We recommend that a Sourcing Impact Assessment (or similar) is undertaken for any change in sourcing approach. Autonomous Service Delivery is a very different approach to sourcing from traditional IT Managed Services, let alone internal sourcing strategies. Culture, Vendor Management, Process, Tools and People are all Critical Success Factors that must be understood. Autonomous Service Delivery requires the Customer to be able to manage it properly. These factors are critical to successful implementation of Autonomous Service Delivery.

Should you adopt the Autonomous Service Delivery model?

Yes – Autonomous Service Delivery can deliver significant savings.

The Autonomous Service Delivery model has shown that there are service efficiencies – ones that deliver significant reductions in charges – to be achieved by trusting your Service Provider and getting out of their way.

Existing approaches predicated on a lack of trust and leaning towards over-supervision of the Service Provider have failed to recognise the significant maturity and productivity gains within the IT services industry over the past decade. True Autonomous Service Delivery agreements recognise those gains and take advantage of them to deliver significant cost savings to the you, the Customer.

Prior to the advent of Cloud-based delivery or Autonomous Service Delivery, cost savings were unlikely. There have always been many reasons to outsource aspects of IT Services to a Service Provider, but cost reduction usually wasn't one of them. SaaS, IaaS, and PaaS represented opportunities to reduce upfront costs, and shift expenditure from CAPEX to OPEX.

Conclusion

Autonomous Service Delivery can change the game.

Autonomous Service Delivery represents the potential to match (or exceed) the levels of service provided through internal IT service delivery or traditional IT managed services, at a lower overall cost.

CHERUB

ADVISORY & CONSULTING

Cherub is a Sourcing Advisory and Consulting firm that specialises in providing practical and actionable insight and consulting spanning the entire sourcing lifecycle.

Our single-minded focus is on understanding the Australian IT Sourcing marketplace and leveraging our unrivalled practical experience and market perspective to provide our clients with pragmatic and actionable sourcing advice, solutions and consultancy and help you answer critical questions such as:

- Am I getting value for money today from my current deal?
- Is my strategy optimised to business needs?
- How can I get the right vendor, with the right services, backed by the right deal?
- How do I realise the goals and objectives of my strategy?
- What should I do to ensure success?

We know that the sourcing journey has many stages. Our Lifecycle Solutions Framework is pivotal in helping our clients to understand each stage of the journey and where their sourcing initiative fits into the overall sourcing journey.

It provides a platform from which clients can have a clear and informed view of the foundational activities and steps that have preceded the journey to date; as well as understanding what activities and steps need to follow to ensure success.

At the heart of our Lifecycle Solution Framework is Advisory Services which is the foundation of everything Cherub does and delivers. Our understanding and appreciation of both the 'hard' and 'soft' aspects of Advisory means that we are able to extend 'thinking' into 'doing' through the application of our best practice approaches, methods and tools.

Figure 1. Cherub's Lifecycle Solutions Framework



This is achieved through our Consulting Solutions that can be used to complement a client team's capacity or capability. Alternatively, a client may opt for a targeted sourcing consultancy where Cherub delivers an end-to-end solution. Such sourcing consultancies can focus on some or all aspects of the sourcing lifecycle, including:

- Sourcing Strategy to set the direction;
- Go To Market to select the solution;
- Price Benchmarking to evaluate the deal, set the price baseline and inform the business case;
- Transition to monitor the health of transition and ongoing transformational projects;
- Value Strategy to review, refine, and if necessary, undertake rectification of a service contract to help maintain and improve the effectiveness of the sourcing relationship between the customer and the supplier; and
- Vendor Governance to support excellence in governance and management of the relationship, including where required, the design and establishment of the vendor management office and toolsets.

We pride ourselves in our flexibility to either “roll our sleeves up” and work closely with clients; or to simply provide expert guidance in a more advisory role.

We believe it is our many years of real-world experience combined with our deep functional expertise that provides lasting value to our clients.

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