

ITIL – Introducing service strategy

The objectives of service strategy

Service strategy shows organisations how to transform service management from an organisational capability into a strategic asset, and to then think and act in a strategic manner.

Service strategy helps clarify the relationships between various services, systems or processes and the business models, strategies or objectives they support.

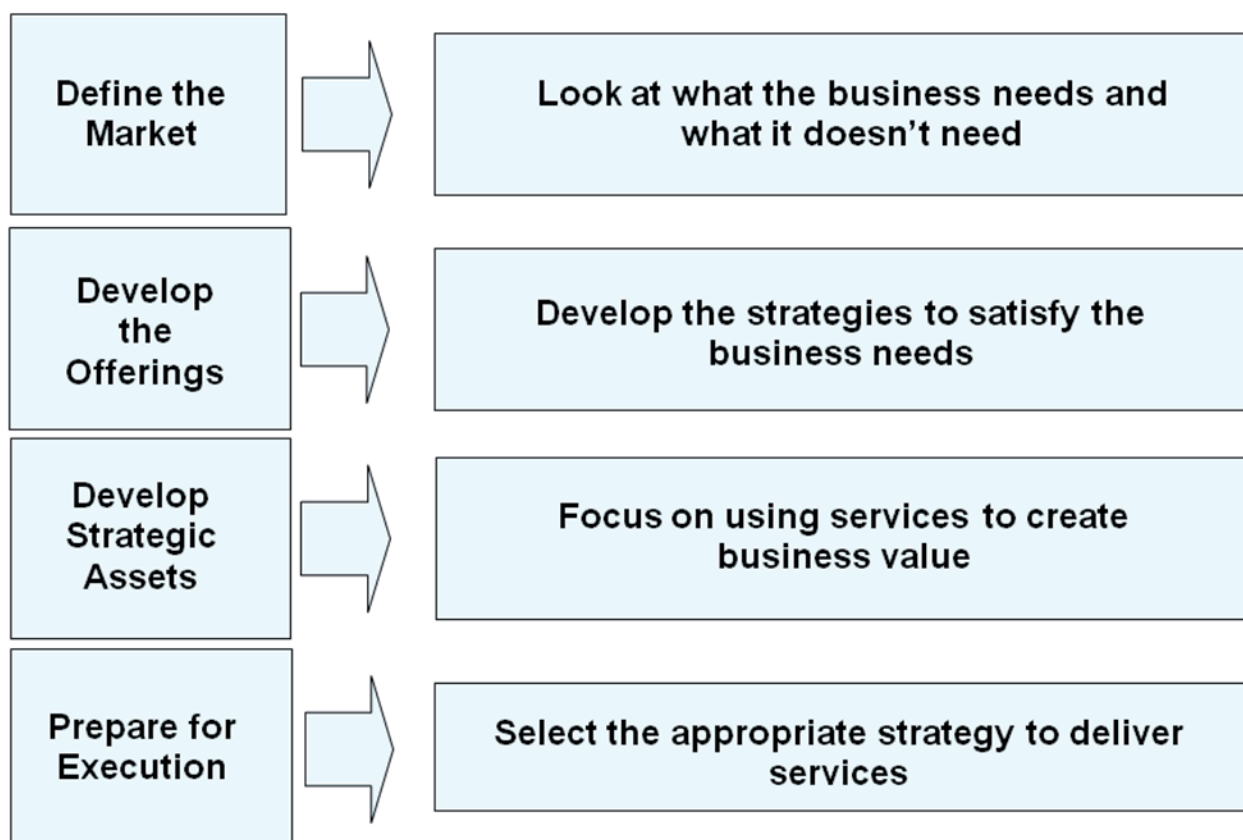
Other objectives include:

- Provide business stakeholder value
- Differentiate the organisation
- Make solid cases for investment
- Resolve conflicting demands for services
- Improve service quality by strategic planning

Value to the organisation/business of service strategy

- Provides guidance on how to design, and put in place service management as a strategic asset
- Sets the principles for developing service management policies, guidelines and processes across the service lifecycle
- Sets objectives and expectations of performance towards serving customers and market spaces
- Identifies and prioritises opportunities
- Ensures that organisations can manage the costs and risks associated with their service portfolios
- Asks questions and plans a strategy for how to do something before progressing

Introducing strategy generation



The service strategy processes

- Financial management for IT services
- Service portfolio management
- Demand management

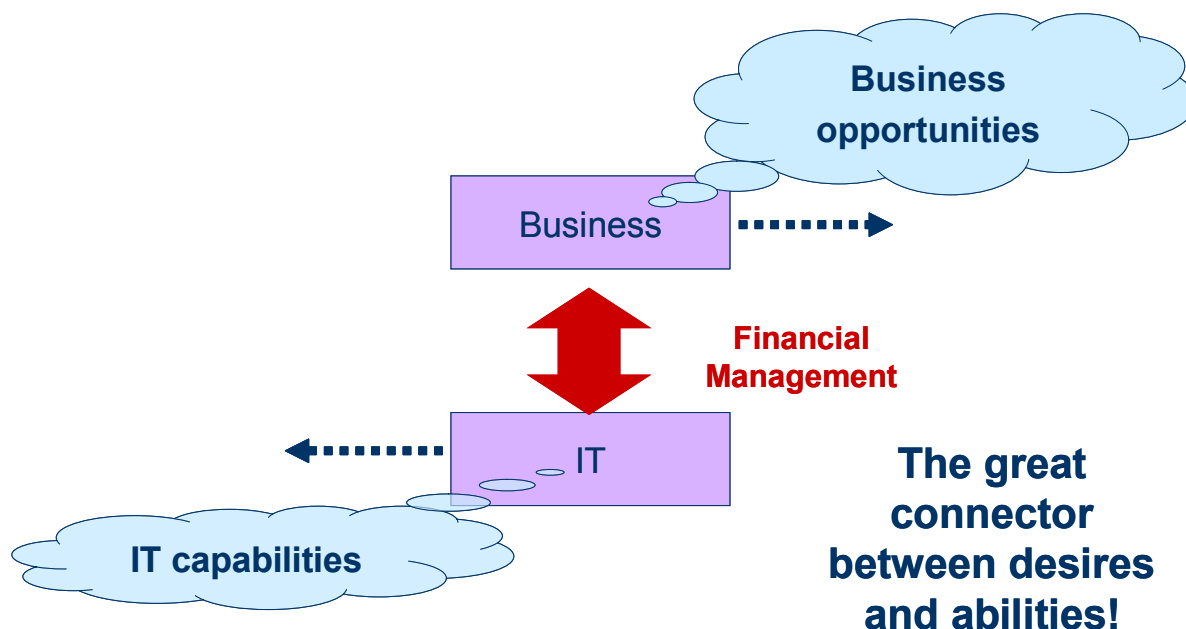
Financial management for IT services

The objectives of financial management

- To provide cost effective stewardship of the IT assets and resources used in providing IT services

The aims for any IT services organisation should include:

- To be able to fully account for the spend on IT services and to be able to assign these costs to the services delivered to the organisation's customers
- To assist management decisions on IT investment by providing detailed cost analysis regarding changes to IT services



The activities of financial management

Budgeting is the predicting the expected future requirements for funds to deliver the agreed upon IT services to the service customers. Budgets are typically created on an annual basis. The activity requires careful monitoring of agreed budgets against the actual spend (accounting).

IT accounting enables the IT organisation to account fully for the way it's money is spent (the practices allow identification of costs by customer, service and/or activity). The activity is not simple and this is one area that should involve some outside expertise usually provided from within the Finance Department.

Types of accounting methods include:

- Direct cost vs. indirect cost
- Capital cost (GCA) vs. operational cost (GST)
- Fixed cost vs. variable cost
- Cost types (e.g. hardware, software)
- Cost elements (e.g. PC, local service within the cost type hardware)
- Cost unit (chargeable unit)

Charging is an optional activity within financial management for IT services. The decision whether the IT department will charge customers for the actual provision of IT services is made at a strategic level – not from within the IT department.

Charging must be linked to controllable aspects for customers/users as they may wish to alter their behaviour/usage of services based on the charges they incur.

There are several charging policies (pricing):

- Cost price (Recovery of costs associated with provision of services)
- Cost price + (Cost price plus a percentage mark up value)
- Going rate (Deriving charge based on other department's charges)
- Market price (Price charged by a third party provider)
- Fixed price (Agreed price independent of actual usage of services)

Service valuation: financial management for IT services provides a common language with which to communicate with the business.

Service valuation teams up with service level management to make mutual agreements with the business regarding what a service is, what its components are and the actual cost or worth.

- **Provisioning value:** the actual underlying cost to IT, related to provisioning a service. Input comes from financial systems, and consists of payment for actual resources consumed by IT in the provisioning of a service. Cost elements include, e.g. hardware and software license, costs and maintenance fees, personnel resources to support these.
- **Service value potential:** the value added component is based on the customer's perception of the value from the service, in comparison with what is possible using the customers own assets. Provisioning value provides the baseline from which the service value potential is determined.

The terminology of financial management:

Service asset

A service asset is any capability or resource of a service provider. These types of assets are used by organisations to create value in the form of goods and services. It is relatively easier to acquire resources compared to capabilities.

Service valuation

Service valuation provides the business and IT with the measurements to agree on the value of IT services (cost vs. benefit analysis). Value is created by combining warranty and utility.

Service warranty

Service warranty for a service provides the customer a level of reassurance and guarantee to meet agreed requirements.

Service utility

Service utility defines the functionality of an IT service from the customer's perspective (i.e. what the service does).

Accounting centre

Costing inputs with some elements of budgeting (no billing).

Recovery centre

Account fully for all IT spend and recover costs from the customer.

Profit centre

The IT organisation operates as a separate business unit.

Notional charging

Notional charging creates cost awareness without the physical exchange of money. *"If we were going to charge you, this is how much you would have to pay".*

Differential charging

To try to influence behaviour use of services at peak times may attract penalty fees, and likewise use of services at non-peak times attracts overall lower charges for the customer.

Service portfolio management

Why have service portfolio management?

The purpose of a service portfolio is to describe a service provider's services in terms of the business value. These services, which are managed by the service provider, articulate business needs and how the provider can meet those needs. By definition, the *business value terms* correspond to marketing terms, and in doing so, provides a means for comparing service competitiveness across alternative providers.

Objectives of service portfolio management

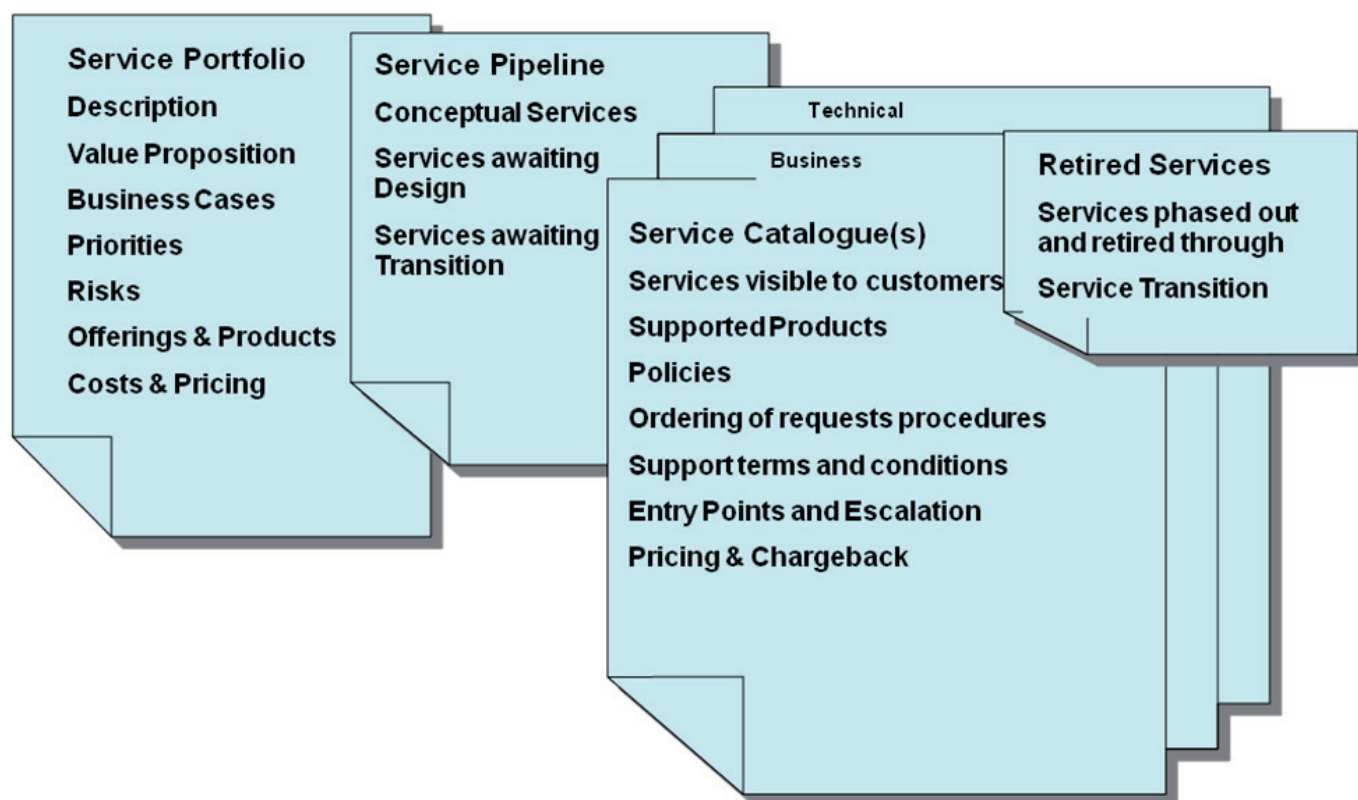
The service portfolio aims to:

- Include the complete set of services managed by a service provider
- Manage the entire lifecycle of all services

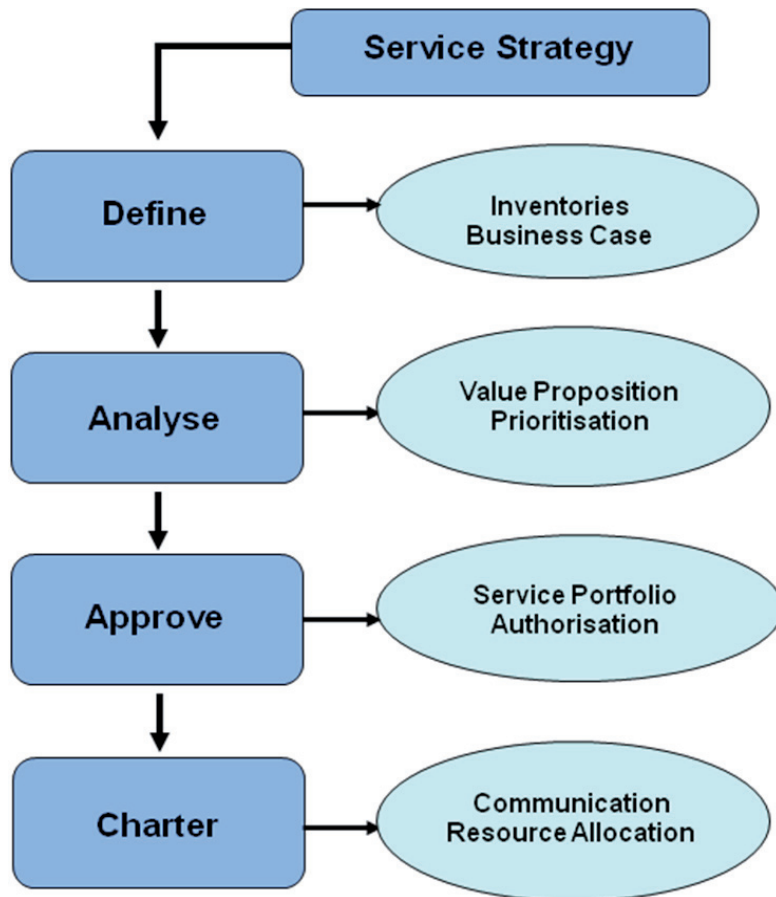
The three categories of the service portfolio are:

- Service pipeline (proposed or in development)
- Service catalogue (live or available for deployment)
- Retired services (decommissioned services)

The service portfolio



The activities of service portfolio management



Define: collates information from all existing services as well as every proposed service (this includes any services in the conceptual phase). The scope covers all the services the organisation would provide if it had unlimited resources, capabilities and time.

Analyse: the *analyse* exercise is performed to find the perspectives, plans, patterns and positions. This information is used to guide the analysis and the desired outcomes of service portfolio management. Understanding their options helps senior management to make informed investment decisions, with regards to service initiatives.

Service investments are split among three strategic categories:

Run the Business (RTB) – centred on maintaining service operations

Grow the Business (GTB) – intended to grow the organization’s scope of services

Transform the Business (TTB) – moves into new market spaces

Approve: the two previous activities lead to a good understanding of what the future holds. This exercise is concerned with completing the final draft of the portfolio.

The outcomes for existing services falls into six categories:

The six Rs

- **Renew:** these services meet functional fitness criteria, but fail technical fitness. An example may be a service whose fulfilment elements include a mainframe system and frame relay network that still supports business critical processes, where the strategic direction of the organization is to retire the mainframe platform and source an MPLS (multi protocol label switching) WAN.
- **Replace:** these services have unclear and overlapping business functionality.
- **Retain:** largely self contained, with well defined asset, process and system boundaries. These services are relevant and aligned with the organisations service strategy.

- **Refactor:** often services that meet the technical and functional criteria of the organization have confused or inconsistent process or system boundaries. In these cases, the service can often be refactored to include only the core functionality, with other common services used to provide the remainder.
- **Retire:** services that do not meet minimum levels of technical and functional fitness. Retirement is an often overlooked investment; this is potentially one of the largest hidden costs in a service provider's organisation, particularly in a large organization with a long history.
- **Rationalise:** often organisations discover they are offering services that are composed of multiple releases that come from the same operating system, or multiple versions of the same software. These services need to be rationalised.

Charter: this exercise is concerned with communicating decisions and allocating sufficient resources and charter services. Decisions will be communicated via a clear and unambiguous report that includes detailed action points for implementation.

The decisions should be correlated to budgetary and financial plans (budget allocations should enforce the allocation of resources).

During this exercise service portfolio management will engage with the other lifecycle phases:

- Newly chartered services are promoted to service design
- Existing services will be refreshed in the service catalogue
- Retired services are forwarded to service transition

The terminology of service portfolio management:

Service asset: includes any capability or resource of a service provider. These types of assets are used by organisations to create value in the form of goods and services. It is relatively easier to acquire resources compared to capabilities.

Service valuation: provides the business and IT with the measurements to agree on the value of IT Services (cost vs. benefit analysis). Value is created by combining warranty and utility.

Service pipeline: database or structured document listing all IT services that are under consideration or development, but are not yet available to customers.

Service catalogue: database or structured document with information about all **LIVE** IT services, including those available for deployment, and is available to customers.

Retired services: decommissioned services.

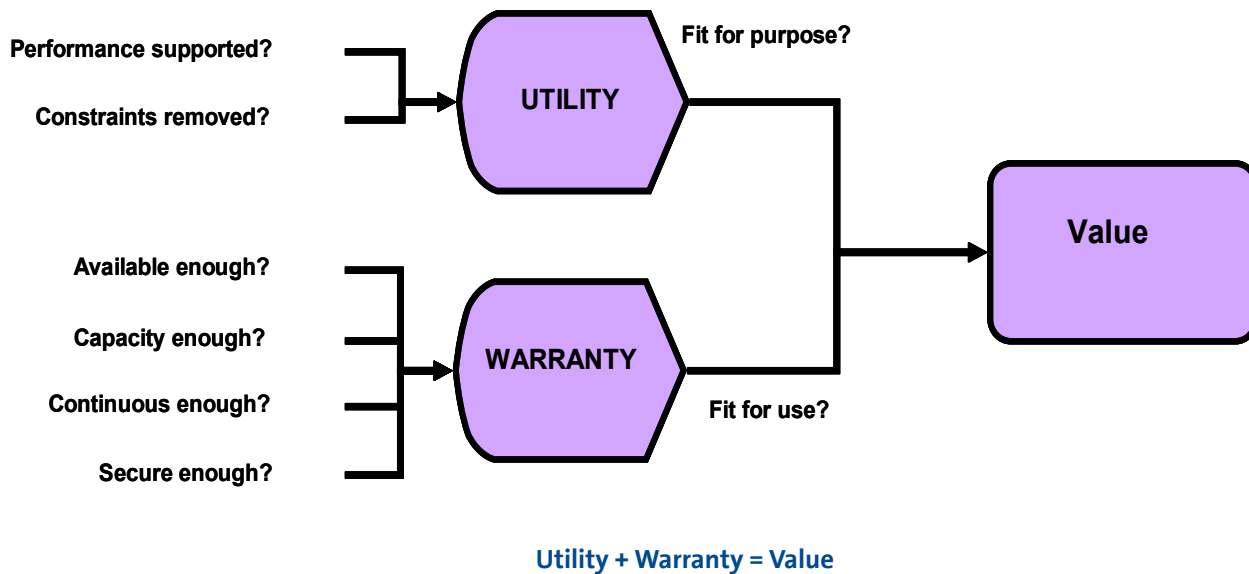
Business case: a model of what a service is expected to achieve; the justification for pursuing a course of action to meet organisational goals. The assessment of service investments in terms of potential benefits and the resources and capabilities required to provision and maintain it.

Utility: functionality offered by a product or service to meet a particular need. Utility is often summarised as *what it does*.

Warranty: a promise or guarantee that a product or service will meet its agreed requirements.

- **TTB:** Transform the Business
- **RTB:** Run the Business
- **GTB:** Grow the Business

Utility and warranty



Demand management

Why have demand management?

Demand management is a critical aspect of service management. Poorly managed demand is a source of risk for service providers because of uncertainty in demand.

The objectives of demand management

Demand management is responsible for understanding and strategically responding to business demands for services by:

- Analysing patterns of activity and user profiles
- Provisioning capacity in line with strategic objectives

Activity based demand management

Unlike goods, services cannot be manufactured in advance and stocked, in anticipation of demand. There is no *here is one I prepared earlier*.

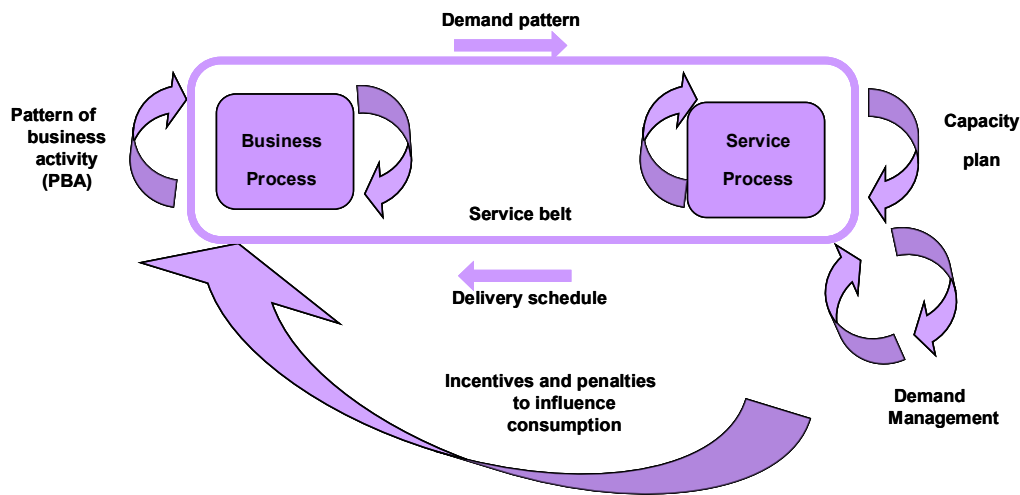
The productive capacity of resources available to a service is adjusted accordingly to demand forecasts and patterns. Some types of capacity can be quickly increased as required and quickly released when not in use. The arrival of demand can be influenced using either financial constraints or pricing incentives or physical constraints.

Business processes are the primary source of demand for services. Patterns of Business Activity (PBA) influence the demand patterns seen by the service providers.

It is very important to study the customers business to identify, analyse and understand such patterns to provide a sufficient foundation for capacity management.

Analysing and tracking the activity patterns of the business process make it possible to predict demand for services in the catalogue that support the process.

Every additional unit of demand generated by business activity is allocated to a unit of service capacity. Activity based demand management can link the demand patterns to ensure that the customers business plans are synchronised with the service management plans of the service provider.



Service production cannot occur without the concurrent presence of demand that consumes the output. It is a pull system where consumption cycles stimulate production cycles. Consumption produces demand and production consumes demand.

The terminology of demand management:

BRM: Business Relationship Manager

PBA: Pattern of Business Activity

UPs: User Profiles

SLPs: Service Level Packages

Core services: an IT service that delivers basic outcomes desired by one or more customers