

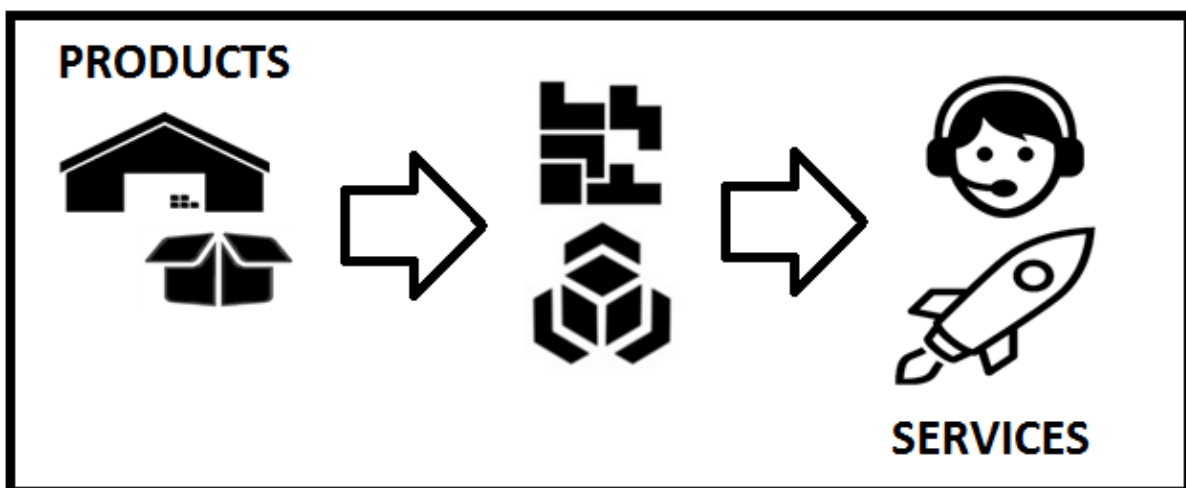
Migrating from Products to a Service Based Model

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SYNOPSIS

This fact sheet provides an overview of the key steps that should be considered when making the transition from a traditional product based procurement approach to a service based model. A description on how to establish and define two types of business process management (KPIs and SLAs) is provided. The key takeaway is that the process is evolutionary and you will need to change the contract and measures as you mature, so don't make them too restrictive or prescriptive at the start; sample, test, try, evaluate, modify, baseline then continually improve, baseline again and repeat. An iterative spiral approach is recommended to allow for the changes to your portfolio in the context of changing markets, competition and environments.



FROM PRODUCTS TO SERVICES

INTRODUCTION

All commercial roads seem to lead to managed services, and it has been happening in the product-oriented solution sector for the last decade. The transition continues as more and more companies opt to become Managed Service Providers (MSPs), as they offer recurring revenue streams, higher growth rates and higher margins (if you get it right). Good MSPs understand the importance of the technology infrastructure (tools to allow remote monitoring and management), pricing (linked to the level of service provided), introducing new business practices (automation of service delivery becomes critical) and personnel (staff selling services not products, supported by technical staff with the appropriate certifications and expertise). One of the biggest challenges for companies is developing Key Performance Indicators (KPIs), Service Level Agreements (SLAs) and managing to them, remembering that SLAs are official commitments that prevail between MSPs and their customer organisations. Organisations are seeking MSPs to deliver cost savings with improved performance, speed of deployment and scalability are normally the top business motivations, and this trend is likely to only increase.

KEY STEPS

There are a number of key steps that should be followed when considering migrating to services, and they should be done in a strategic and methodical manner:

1. Assess enterprise products, applications and processes to determine which workloads can benefit from early migration to a service model. Key considerations include cost of migration, application redesign or modification, application performance & availability, security & privacy requirements, intellectual property and regulatory requirements must all be taken into account;
2. Do some real deep things and look at your organisational strategy in order to determine your current core capabilities that you want to retain in-house. Consult your technology strategy to help inform what you need to do more of or develop capabilities in the near and longer term, to help you decide areas for leverage, partnerships, mergers, acquisitions and divestitures. Finally look at the markets, trends, gaps and windows of opportunity that may exist. Remember, don't outsource your core capabilities or major problems.
3. Life and business has now reached a stage that it has become too complicated for ad-hoc acquisition. Interlinked and overlapping projects and programmes, multiple development and operational, technical baselines and service boundaries emerging that need to be managed coherently, overlapping functionality at the subsystem and product/application level, and increasing legacy/obsolescence that requires an evergreen approach for incremental subsystem introduction, in order to maintain a place in the market, customer expectations and user capabilities, within budget and resource constrained environments. The use of Architectural and Service Reference Models (System Orientated Architecture type approaches) that have de-constructed the system into modular building blocks with known dependences and links (e.g. interface control documents determining behaviours between elements) which is one level of abstraction away from the traditional vendors, products and technologies, and allows elements to be swapped in and out in a controlled and managed manner;
4. Identify the business problems with existing products and applications, and make sure that the MSPs can potentially address these, and the moving to a Service Model is the right strategic alternative and will deliver meaningful business value (if you don't capture it and measure it, how will you know if you are getting the right business benefits and outcomes);
5. Be crystal clear with the scope of service, because if you forget anything, then it will not be delivered. Pay particular attention to elements such as boundary elements and interfaces, how the MSP SLAs map to your enterprise SLAs (a 'Gold Service' from one MSP may only be a 'Bronze Service' from another, and your end-to-end service will naturally be dictated by the lowest common denominator), what are the measurement methods/tools and how are they reported (as this will dictate if the MSP meets the required SLAs and gets paid, especially on issues such as licences used and availability), feedback from the end users (numbers and criticality of incidents raised, time to resolutions for both quick temporary fix and slower permanent solution begin identified), and responsiveness to requests (up scaling, down scaling, reliability, repair times, spares holdings);
6. Start small with a pilot for example and expand after initial success has been proven as the most prudent approach. You will not get it right first time around, so factor in and be prepared to make adjustments and changes in terms of your contracts as time goes by, so you can undertake continuous improvements ideally before going live;
7. Make sure you understand what the MSP is not delivering themselves, and what they are expecting your organisation to deliver (do you have the staff, skills, experience to perform these functions), who provides integration support, how do complex issues gets resolved when they arise across the enterprise (server performance, configuration errors, network design and implementation, due to security policies, application architecture, user errors or a combination of all these factors) and are not specifically identifiable to one MSP service?

8. Now you have a proven model, you can start migrating your user and business critical products and applications to the new Service Model and following your migration roadmap;
9. Do you have clearly defined set of boundaries, standards and interfaces that mean it is easy to switch to using an equivalent alternate MSP, thereby eliminating or reducing the likelihood of provider lock-in?
10. Don't overlook storage or data management. Regardless of the service models you choose, storage services are a key consideration because applications and data lives on storage. Make sure you have on-demand scalability to keep your applications running, regular snapshots to provide crash-consistent local and/or offline backup, remote off-site backup and/or disaster recovery replications, and high availability that is independent of any potential disruptions caused due to maintenance or upgrades. People always think capacity is the key, but it is not, you can always turn off non-critical services or limit their access to key personnel (you should always have a graceful degradation of service plan in mind to cope with the unexpected), availability is the key. Every second without available applications, your business is vulnerable and you are not delivering business results/outcomes;
11. Don't overlook how many versions, domains and baselines need to be managed at any single instance and for how long. Rollouts can take significant periods of time, so plan carefully the introduction of new or upgraded services, and the withdrawal of the older services to make sure there is no loss of service during the transition. This effect is complicated by when you introduce the networking elements, and making sure users are pointed to the right services at the right time. Always have a rollback plan, should there be unexpected issues when rolling out new services;
12. Don't just bundle together a series of products and applications and assume you now have a service. Providing Managed Services requires a whole series of organisational processes, starting with defining a SLA for a specific service, understanding how it fits into the holistic end-to-end enterprise and works with other services (i.e. fundamental foundation, happy cohabitation, glorious isolation), understanding what changes to your business you need to make to incorporate the service into your operating model, running it initially as a pilot, defining levels and set baselines, monitoring process, service level reporting and methods of service continuous improvements.

ESTABLISHING KEY PERFORMANCE INDICATORS (KPIs)

"If you don't measure success, you can't track, manage or improve it"

Analytics and business processes can now deliver an overwhelming amount of data and information by ways of dashboards and reports. Significant business insight can be gained from developing the right KPIs and well-crafted evolving ones (i.e. can be very difficult to select) can easily provide a roadmap to success, however you will probably have to try a few out and see how they perform. Identifying what values to look for, what parameters to track and what thresholds to set, the reliability and repeatability of the data, and the challenge of interpreting it and extracting out the minutiae that have true meaning and relevance is an art form. It is almost pointless to measure quantity if the quality is poor, because you will only have a metric that identifies the amount of waste or re-work required. You need to focus on how well you are performing, and then use the data to drive proactive continuous improvements, positive interventions and opportunistic innovation. KPIs are backward looking metrics that record how you have done and where you have been that help indicate how successful your overall strategy is.

Following the KPI Karta (® Registered) process is one way of creating and measuring actionable KPIs:

1. **Establish Goals & Objectives** – Created to either increase sales/presence or decrease costs;

2. **Establish Critical Success Factors (CSFs) from the Goals & Objectives** – Specific conditions that either measure or facilitate the meeting of your business goals and objectives within pre-set timescales. Written with action verbs, clearly and concisely conveying what needs to be done through measurable activities and set timescales;
3. **Establish Key Performance Indicators (KPIs) from the CSFs** – This is the identification stage of the process where the calculated measures/metrics are determined;
4. **Collect the 'Real' Measures** – This can be very difficult to do, if they have not been explicitly defined and if there is any degree of misunderstanding (i.e. when do time periods start, statistical variations due to the calculation of mean, mode and median, the effect of different sampling rates and at what time in the process where values collected, source, integrity and authority of the values), the training and skill of the person collecting the data, the maturity and robustness of the recording process, and biases of people all play a part in the output.
5. **Calculate Metrics from Measures** – This is where we get into the expression of the results as ratios, averages, rates or percentages. The values are often used to set target aim points, improvement criteria, or benchmarked values where the system should not go below. The psychology of human behaviour when a 100% target has been met, and the motivation and incentive to improve this figure even more comes into play, is another subject worthy of debate. This is the starting point from where outputs start to drive outcomes. A word of warning here, in complex systems there is very rarely a linear relationship between cause, action and effect. The interwoven aspects of complex systems can mean you get variable results when using the same actions at different times. When you don't understand the full system of systems, eco-system within which it operates (everything from a closed system, through partially open systems, right down to the wild west where anything is possible) and the levels of adaptive behaviours that are likely to occur, you quickly venture into the 'Land of Unintended Consequences', and all bets are off and KPIs become meaningless.

DEFINING A SERVICE LEVEL AGREEMENT (SLA)

When defining an SLA, the interaction between the DURATION and SCHEDULE is critical, as it will define how long the services is expected to be up and running, and more importantly how long the services can legitimately be down or unavailable to the users. The maturity of documented SLAs tends to become more sophisticated as the maturity of Service Level Management increases within your organisation. It often takes some time (even months) to see what targets are realistic, and it is often best to set baselines after the first service review meeting, when the MSP will present the results of the service provision, and you are better informed to set targets, establish levels and determine costs of running the service.

There are a number of fields that are typically considered when defining a service and it should be brief, understandable (simpler the better because it is easier to get implemented and improved later) and no longer than 2 pages, covering the following:

1. **Name** – Identify a unique name for the SLA;
2. **Definition** – Define in one sentence the nature of the service to be provided;
3. **Business Owner** - Each service must have a business owner from the funding organisation;
4. **Business Need** – Present the metrics to be tracked and allow Business Owner to select them (start with system availability during required defined hours & incident resolution time during and after defined hours);
5. **Type** – Type of agreement being defined – SLA, Operational Level Agreements (OLAs), Operational Performance Indicators (OPIs) or Underpinning Contract;

6. **Service Provider & Major Service Outsourcing Provider** – Name and contact details including operating hours (plus holidays) of the MSP including any major outsourcer that has a critical relationships or influence to any of the service attributes, metrics or service commitments;
7. **Workflow** – Determines what activities occur in response to the SLA including the monitoring process;
8. **Retroactive Start** – Enables administrators to set different triggering events/priorities for an SLA that is attached to a task or user initiated request;
9. **Service Attributes** – What parameters can be measured and what are the escalation routes when a parameter fails to meet an SLA (e.g. reliability, responsiveness - mean time between failure, mean time to repair, mean time to recovery, incident resolution time-frames, service level reporting, call abandonment rate, average speed to answer, first time call resolution, turnaround time, network uptime, power uptime, number of scheduled maintenance windows, number of un-scheduled maintenance events);
10. **Duration Type** – Method of calculating the duration of the SLA (user specific or relative duration);
11. **Breached Duration** – Length of time the SLA runs outside established limits before it is marked as breached;
12. **Schedule** – The hours during which the SLA runs;
13. **Time zone** – Time zone for the SLA;
14. **Start Date** – The event that triggers the start of the SLA;
15. **Start/Stop/Pause & Reset Conditions** – Conditions for starting/stopping/pausing and resetting the SLA;
16. **Service Commitments** – List of all commitments for this service offering, including steps for reporting issues with the service;
17. **Condition Class** – Set the SLA Condition Rules record to be use instead of the global Condition Rules, including periodic (annual) re-visitation to make changes ;
18. **Lines of Demarcation** – How often the parties are to meet to create an open forum for communications, and how long actions arising from said meetings should take to be closed;
19. **Rewards and Penalties** – Compensation or repercussions for the MSP when not meeting its commitments outlined within the Underpinning Contract;
20. **Termination of Agreement** – Conditions and definition on how the service agreement can be ceased by both parties outlined within the Underpinning Contract.

SUMMARY

There is no ideal solution, methodology, process or procedure as each individual case is unique due to the cultural, environment, sector, strategy and business, model, development and operating models, needs and expectations of the customers and user base. Use this fact sheet as a checklist. The key takeaway is that the process of migrating to services is evolutionary and you will need to change the contract and measures as you mature, so don't make them too restrictive or prescriptive at the start; sample, test, try, evaluate, modify, baseline then continually improve, baseline again and repeat. An iterative spiral approach is recommended to allow for the changes to your portfolio in the context of changing markets, competition and environments.

DEFINITIONS

KPI **Key Performance Indicator.** A measureable value or internal business metric used to demonstrate how effectively an organisation is achieving the key business objectives, and/or critical measure of health in evaluating the success at reaching targets.

- OLA **Operational Level Agreement.** This approach is frequently used to set agreements between internal functions and support groups (typically maintenance and other technical related services) and delineates each of the groups' relationships, responsibilities and performance to other groups within the organisation, to ensure that they all work together to provide the holistic end-to-end SLA.
- OPI **Operational Performance Indicator.** Very similar to a KPI, expect that KPIs are typically described in broad strategic level vital metrics, OPIs operate at the tactical level in that they measure specific functions, bottlenecks, procedures or operational processes.
- SLA **Service Level Agreement.** An official commitment or contract between a service provider and a customer that defines the level of service (quality, availability, responsibilities) in terms of quantitative measurement output that the customer will receive. Failure to do so will incur fines, penalties or even the cancellation of the commitment/contract. SLAs are often a subset of KPIs for an organisation, but the reverse is not necessarily true.

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