The Power of IT as a Service

Insights into why and how to structure ITaaS – plus 5 implications

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Introduction

Organizations today are under pressure to develop greater business agility to sustain competitive advantage. And technology has the potential now to be even more powerful than in the past to change how organizations interact with customers, change supply chains and transform the business. But there is a significant gap between business users' expectations and the reality of services delivered. This gap is a red flag for CIOs and IT organizations that traditional approaches to IT service delivery can no longer support modern business demands.

IT has increasingly become unaligned with the new business demands, thus creating the gap and dissatisfied business users. In IT's relentless focus on operational excellence and cost reduction over the past years, IT departments became more efficient but, in the process, lost touch with business users' shift to business value and cycle time as their core objectives. Business users reacted by purchasing Software-as-a-Service (SaaS) products to help achieve their desired business outcomes.

This paper will detail how to align IT and the business to maximize the value IT delivers to the business. The effort starts with reorganizing the IT department into services aligned with the business services. The resulting new structure is an IT-as-a-Service (ITaaS) model.

Understanding how to structure IT as a service is key to meeting business users' objectives. What are the steps involved in navigating through this restructure? And what are the implications to IT and the business due to the reorganization? This paper lays out an approach, discussing why and how to switch to an IT-as-a-Service model. It also presents insights into the implications and challenges of going down the path of reorganization and realigning IT.

Benefits of IT as a Service (ITaaS)

Alignment of IT with business needs. The primary reason companies move to the ITaaS model is they want tighter alignment between the technology delivered and the business needs. Simply put, the business users want more value from technology than IT has delivered from its traditional construct in place for the past 15 years. The change is part and parcel of today's trend of moving away from systems of record to systems of engagement. It is also a move into the Digital World, reengineering business functions along digital principles. Further, it enables agility in a hyper-competitive business environment.

Speed is the new currency in this environment. Business stakeholders recognize that technology is core to their ability to change the game, and they want IT to respond faster to their needs. In a traditional IT delivery model, projects or initiatives take too long (often a year to 18 months) to deliver the functionalities/capabilities the business needs. Further, IT often focuses on how to do those functionalities cost-effectively instead of focusing on the customer or user experience and the value derived from that. The primary objectives of traditional IT services, cost and reliability of technology are now secondary objectives.

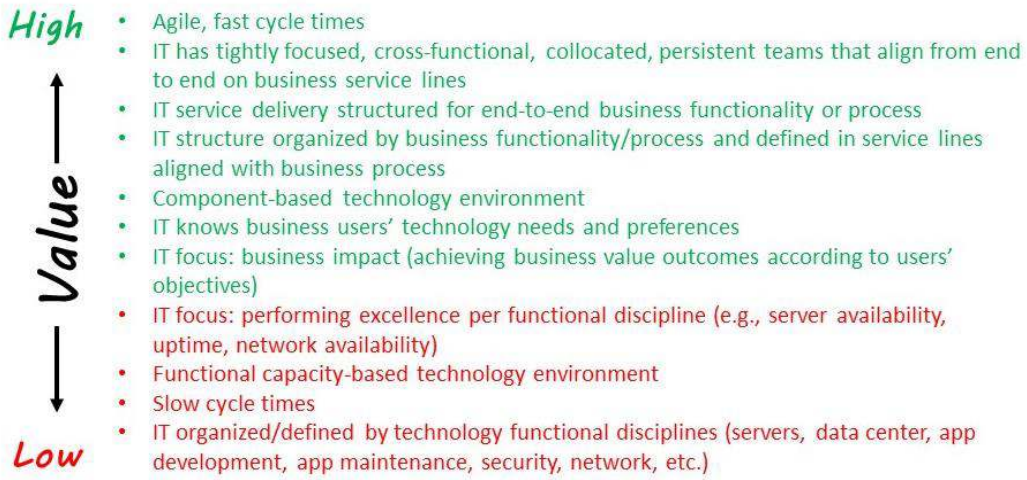
Agility. In an ITaaS model, businesses can react more quickly and flexibly to change and adopt a functionality and also scale their consumption. To achieve agility, IT needs to get to continuous releases in technology, not semi-annual or annual releases or regular releases. This requires shrinking the time from concept to implementation.

Agility also facilitates future-proofing. Businesses need to be able to incorporate new technologies and capabilities as they enter the market and not have the technical debt or stranded costs that saddles them in the traditional function-oriented IT model.

Facilitates consumption-based model and on-demand management. IT organizations want to be able to accurately manage user demand.

When the organization defines IT according to a functional construct, business users don't understand how to measure their usage/demand. For instance, When IT asks business users how many servers they need to use, their response is often "How many did we use last time?"

The IT-as-a-Service construct gives business users a way to understand their usage or demands of technology. For example, a healthcare payer understands how many people it expects to enroll. This is a metric the business can use to predict usage and the time frame in which the users will need the IT service. IT can then manage the demand for the service it provides to the payer based on the number of enrollments. Thus, when companies organize IT along service lines instead of functions, business users pay only for what they use and IT has a more accurate grasp of the capacity they need.



Rethinking IT delivery. Accommodating today's need for speed and business outcomes requires rethinking traditional IT service delivery. IT is too slow and cannot meet the new requirements for speed, business value outcomes, agility and on-demand management if organized through a traditional structure where technology orientation is based on functions (data centers, applications maintenance, application development, network, security, purchasing, etc.).

In the IT-as-a-Service model, CIOs reorganize their IT departments along service lines (such as the process of onboarding a new client, enrolling a new member in a health plan) instead of functions such as applications maintenance or networks.

Companies are moving to the IT-as-a-Service model to enable alignment with business needs around speed and agility. In doing so, they often create breakthrough opportunities.

The benefits are extremely powerful; however, the reconceptualization of IT is far from trivial. The ITaaS model is not simply a new pose for IT. It fundamentally reshapes the IT philosophy on how it's organized, procured, provisioned, measured, and managed.

Five Steps for Implementing ITaaS

As already discussed in this paper, IT's traditional structure – functional orientation – is not well aligned with the business demands and is too slow in delivery. IT needs to be more agile and achieve faster cycle times.

To accommodate these new core objectives in user demands, enterprise IT must realign with the business by service lines and have persistent teams that align from end to end on the service lines. The results will be:

- IT will focus on the business impact of technology instead of performing technology excellence in a functional way

- Business stakeholders will be able to move faster and flexibly to adopt necessary technology functionalities

Step 1: The starting point for implementing IT as a service is to think about the business from an end to end construct – from the point of origination to the end result. This naturally sets up IT as a service.

- How to do it: Break the business down into functions or services (such as the functions for onboarding new employees). Next, establish persistent, cross-functional teams in IT aligned with each business function/service.

Step 2: As speed is the new objective of business stakeholders, IT needs to speed up its cycle time (the time it takes to respond to IT's customers or respond to an issue) to drive the business faster. The days of conducting quality testing in production are over. IT cannot afford to disrupt the business by having incomplete or faulty technology being used by customers or by the business.

- How to do it: First, ensure better interactions with business end users to understand their true needs and preferences. This understanding will enable designing the technology for ease of use, instead of the traditional IT orientation around accuracy and compliance.

Step 3: To get to the business users' objective of agility, IT must achieve continuous releases, not semi-annual/annual/regular releases. This requires shrinking the time from concept to implementation.

- How to do it: First, break down the technology contents into smaller pieces and test them. This will get technology into production or into the business using them much faster. Second, recognize that this goal cannot be achieved internally or with a single vendor.

Step 4: To drive agility and speed, the CIO needs to move IT delivery into a software-defined world as much as possible. The infrastructure, network and testing environment would be software defined and heavily automated. In addition, the CIO needs to move IT into a consumption-based model, which will accelerate agility and speed. A software-defined, consumption-based technology environment requires investing and reorganizing into a different people/talent model.

- How to do it: Shift teams away from a construct defined/organized by functions (data center, application maintenance, security, etc.) to a construct of small, tightly focused, cross-functional as-a-service teams.

  Essentially, the as-a-service teams are very flat, engineering-focused, cross-functional teams that have the responsibility to manage, design, and operate the environment.

An example is Microsoft Azure. To facilitate collaboration between IT and the business, they organized the Azure group into small, homogenous teams (called "feature teams") of 15-20 people who are collocated together. Each team has only two job functions: (a) product managers who manage the product functionality the team drives (the "what" and "when") and (b) engineers who are responsible for the "how" of the functionality.

Step 5: Ensure an end-user focus.

- How to do it: Use "breakthrough metrics" that define and measure the results in terms of business impact instead of technology component performance. For example: the traditional metrics around uptime, server availability and network availability are irrelevant in an ITaaS model. Instead, metrics must focus on end-user objectives such as timeliness, completeness and ease of use.

Understanding the Significant Implications of Switching to ITaaS

A shift to an IT-as-a-Service model, with agility and speed as the core objectives, has enormous implications or operational consequences for the enterprise in that it requires a reconceptualization of the following aspects:

- How IT is organized
- How assets, services and software are procured and provisioned
- How IT is measured and managed

The implications or consequences affect the technology, the IT talent model, the resources ecosystem and changes to the business itself. Although the benefits of switching to an ITaaS model, explained above, are significant, as it fundamentally changes the status quo that has been in place for the last 15 years. It is not easy, quick, or inexpensive to make these changes.

Implications to Technology Decisions

In an IT-as-a-Service model, organizations need to make different decisions around technology, especially automation. IT cannot move at the speed or with the precision required if it conducts manual business or technology interactions. Consequently, the enterprise needs to think differently and invest significantly in automation.

Fortunately, the range of automation is now much bigger, ranging from service delivery automation (SDA) to robotics to cognitive computing. The ability to automate a process and the work/computing environment is dramatically different than it was a few years ago.

Automation replaces some of the people previously doing rote work, shifting to software that can be spun up at any time and shut down when the work is finished. The result is significant efficiencies, reduced errors, lower costs, and the ability to deliver services in a consumption-based pricing model. Our studies show that the average impact on the reduction of headcount after automation is about 40 percent reduction of FTEs (ranging from 20 percent at the low end to 80 percent at the high end).

In this world where agility and speed are king, IT also needs to future-proof technology to ensure no technical debt or stranded costs. Thus, technology must be purchased on a consumption basis, not on a license basis. This strategy enables paying for technologies on a usage basis, which in turn, facilitates agility and lower cost.

Implications to the IT Talent Model

As explained above, ITaaS requires shifting from tech-functions teams to small, as-a-service, cross-functional teams. The implications of an ITaaS talent model also carries the need to deploy IT talent differently, collocating them.

To move at the speed necessary for closely aligning IT with the business, the IT teams are best collocated with the business units. This really calls into question and puts stress on the old distributed talent model where people are spread around the world across multiple offices and countries to reduce the cost of labor. Now the focus is business alignment, speed, and agility rather than driving down unit costs.

However, in a software-defined environment with teams that are organized differently and focus differently, the result is a very different cost base. In fact, that cost base can often be half that of the traditional functional IT structure.

As-a-service teams collocated with the business results in cost reduction because of far greater productivity and less rework when developing technology. Reducing the cost of interaction time between functional layers also further reduces cost. In addition, speed facilitated by automation kills cost. The net result is a much more cost-effective service.

Implications to the Resources Ecosystem

In an ITaaS model directly aligned with the business, the enterprise makes all technology investments through the lens of speed and agility. This mindset drives to an automated, standard, component-based environments in which it is easier and faster to assemble and interchange components.

In this ecosystem, or service provider network, the enterprise pays for things on a consumption basis instead of in advance to build capacity. Thus, the CIO or IT department becomes a broker and assembler of components, not a manufacturer.

Implications to the Business

An ITaaS model enables driving change throughout the business in a much more profound way. As the shift to ITaaS progresses, organizations often start to incorporate changes to their business capabilities in the same construct as the new IT construct. This has implications to project management. A healthcare organization, for example, completely rethought the role of its Project Management Office (PMO) and moved it out of IT into the office of the CEO because of the implications of the changes the ITaaS model drove throughout the business.

EXHIBIT 1

Understanding the ITaaS Model

Essential Characteristics	Benefits	Implications
Close alignment of IT with business needs	Speed and agility – more business value from technology	Business incorporates operational changes in its capabilities to match the ITaaS model
Ecosystem of service components	Fast, easy interchangeability of components when needed Consumption-based cost model	CIO / IT takes on role of broker assembling components instead of its traditional role of manufacturer IT services no longer totally sourced internally or with a single vendor
Small, as-a-service, cross-functional teams	Increased productivity and less rework – results in lower cost	IT teams collocated with the business Calls into question the use of distributed teams to lower cost of labor
End-user focus regarding how IT is managed and measured	Measure results in terms of business impact value	Metrics focus on user's needs (timeliness, completeness, ease of use)
Technology investments	Purchase technology on a consumption basis, not a license basis to future-proof tech and avoid stranded costs	Invest significantly in automation to ensure speed Investing in software-defined environment requires changing IT talent model

How to Reduce the Risks of Moving to an ITaaS Model

The move to an IT-as-a-Service model does not have to be all or nothing. An alternative approach to a big-bang abandoning of the traditional shared service IT construct is to first shift to ITaaS only in high-value areas, where IT most urgently needs better alignment with the business.

Typically, these are areas focusing on digital and where the business units use technology to change the engagement with their customers or change competitiveness.

In an incremental approach, IT moves only some components to the new model and the remainder stays in the traditional shared service model. This approach potentially limits the area of change and the extent of investments. It carries the advantage of the organization learning and tweaking the new model along the way and gaining several vocal advocates for the move to ITaaS once they see the power of this model.

But an incremental approach also carries disadvantages in that it creates two parallel IT organizations. Thus there will be some redundancies as well as the risk that the traditional IT group will fiercely resist the new construct and attempt to impose their traditional standards and way of thinking on it. It is also likely that this approach will lead to more shadow IT if the business units become dissatisfied with the performance of the traditional shared service model. There will be friction between the two models, and the CIO will need to carefully manage this challenge.

Conclusion

The shift to an IT-as-a-Service model is not without risks and not an inexpensive endeavor. Whether an organization takes a big-bang approach or an incremental approach, ITaaS changes the status quo of how IT is organized; how assets, services and software are procured and provisioned; and how IT is measured and managed. But the benefits are enormous to the business.

In the Digital Age, gaining a competitive advantage depends on how quickly the business can get the necessary technology functionalities. The tighter alignment of IT with the business through implementing an IT-as-a-Service model will yield a powerful, growing impact to the business.

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