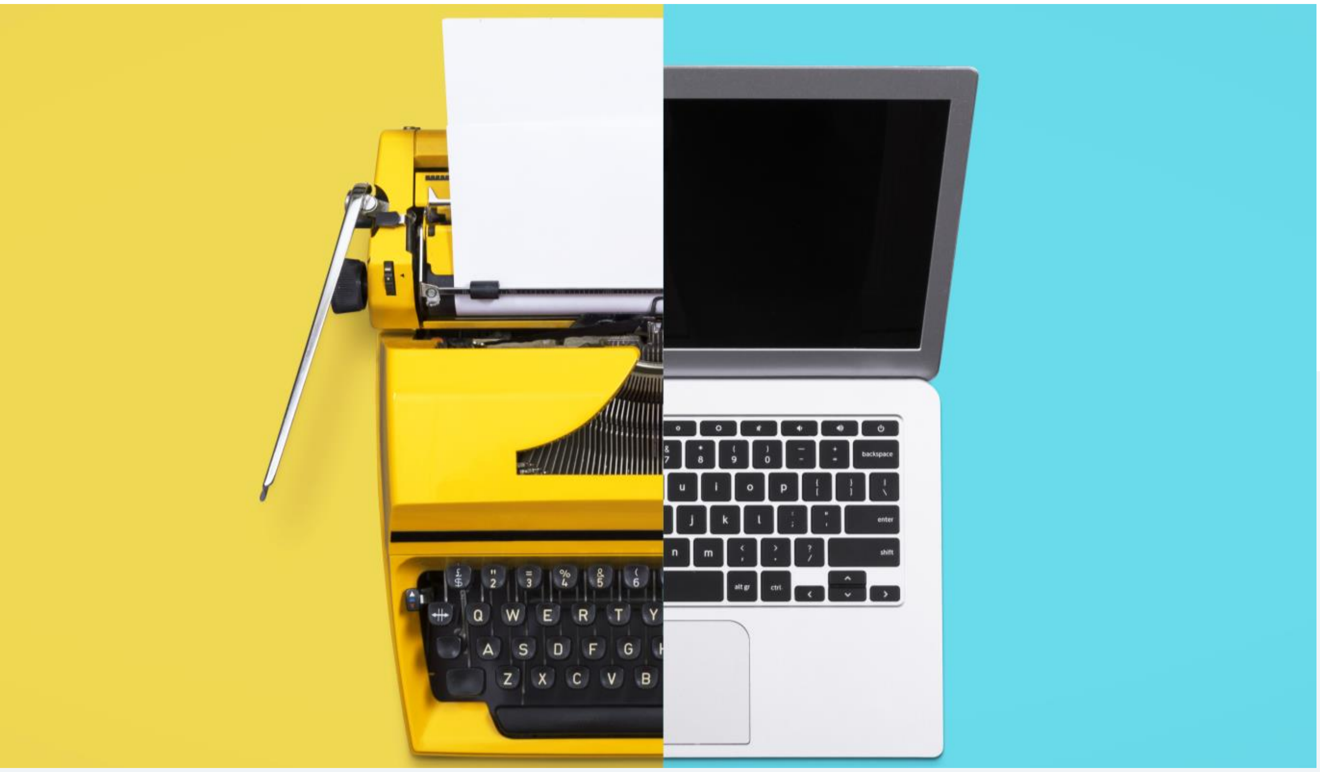
Future-Proofing your IT Services Model

Outsourcing for the Digital Age



We are currently in an age of transformation and disruption of business largely driven by the advances and capabilities unleashed by IT. IT was once relegated to utility status, similar to email or telephone support. While everyone needed it, it was tangential to getting business done. However, with the emergence of digitization, cloud, IoT, analytics, and other technology disrupters, IT's role in and value proposition for the business units it supports, have become integral to how competitiveness is established and maintained.

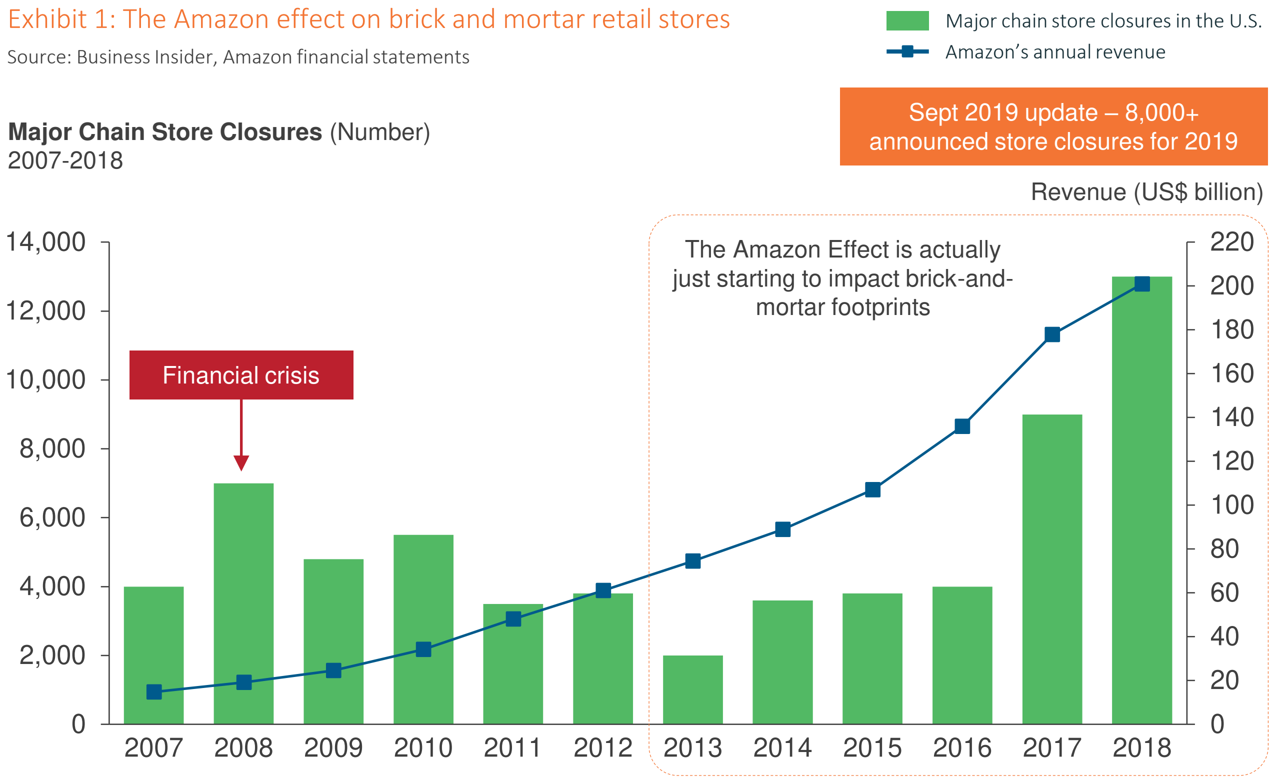
The drive to different, value-generating IT services delivery models

Businesses that are incapable or unwilling to leverage the full power of the technology advances or resist adapting to the new business models that are being enabled, will, in relatively short order, become laggards in their industry, and in some cases cease to remain in business.

Let's take a look at a couple of familiar real-world examples.

Exhibit 1: The Amazon effect on brick and mortar retail stores

Source: Business Insider, Amazon financial statements



Amazon's impact on brick and mortar stores has been anticipated for a time, but it is only since 2017 that the number of retail store closures has increased significantly. Why? Because these businesses were unable to keep pace with Amazon's ability to leverage superior technology (they pioneered the public cloud after all) and innovation to drive superior customer experience by delivering products faster and cheaper. Continuously innovating to push the boundaries of customer experiences is making it harder for traditional competitors to keep pace, and hence the spike in brick and mortar store closures.

It is also helpful to look back at another such disruption that happened not long ago – at Blockbuster. Blockbuster, with its 60,000 employees and 9,000 plus stores used to figuratively "rule the world," or at least the United States, when it came to the consumption of movies outside of the theater.

Netflix shifted its business model to take advantage of the new technology capacity and became the leading video streaming service. Ironically, Netflix is now witnessing challenges from Amazon, Apple, and Disney.

Its brick and mortar format required consumers to physically go to the store to pick up what were initially analog-only VHS versions of movies. As movies were digitized, it adapted and shifted its physical inventory to DVDs. However, as broadband internet service penetration increased became nearly ubiquitous in US households, Blockbuster did not adapt.

While Netflix was trying to figure out how to accelerate getting content to its customers more quickly, (if you remember, Netflix was originally much slower than Blockbuster because you had to wait for your DVD to arrive in the mail), Blockbuster never adapted. Netflix shifted its business model to take advantage of the new technology capacity and became the leading video streaming service – and Blockbuster went out of business. All successful competitors in the non-theater movie provisioning business are allowing technology advances to help shape its basis of competition. While it is now table stakes to stream content, the focus on original content and the quality of the analytics to predict what users would like is becoming more of a differentiator. Not surprisingly, Netflix itself is now witnessing challenges from Amazon (which has its own rival streaming services with a strong emphasis on original content), Apple, and Disney.

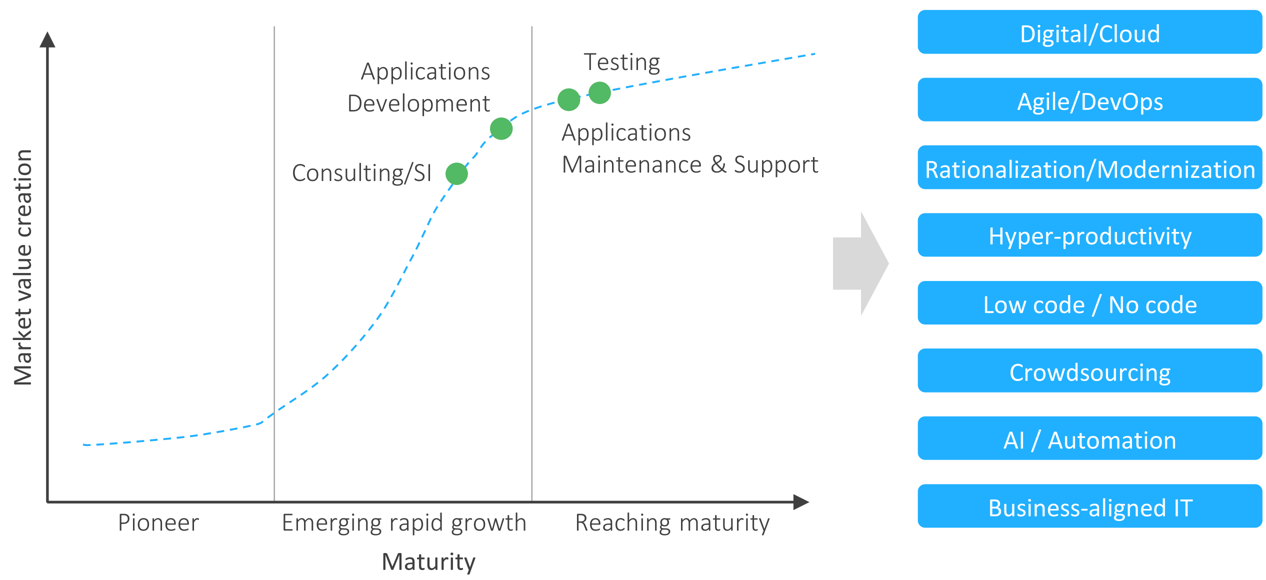
The changes in IT – which center on helping organizations realize new types of transformational value that are enabled by new technology, rather than on the technologies in and of themselves – are driving a seismic shift in the way IT services are delivered.

A case in point: the mature IT applications outsourcing market

While the applications outsourcing market was largely responsible for the growth of the offshore IT service industry, it is now facing unprecedented levels of demand disruption. (See Exhibit 2)

Exhibit 2: The mature applications outsourcing market is witnessing unprecedented levels of demand disruption

Source: Everest Group



Cloud and digital technologies are no longer "if's" in today's business environment. Most organizations are already on the journey, in some shape and form, of incorporating them into their delivery schema. An increasing number of enterprises are taking select workloads and transitioning them to software-as-a-service (SaaS) environments, eliminating the need for new development and production support, and in turn shrinking the overall IT applications footprint. Digital requires new functionality to be built across systems of engagement, systems of record, and systems of compliance.

Many enterprises are recognizing that the development talent required for legacy application development is very different from the creative agency type talent required for user experience design. Agile is prompting the need for greater proximity and the emergence of full-stack developers.

Further, technological advancements due to AI and low-code / no-code development are fundamentally disrupting the software development life cycle for new applications.

Automation has become an important theme in IT services with capabilities such as robotics, artificial intelligence, cognitive and neural computing. However, automation is not a stand-alone objective. Rather, automation is the means to deliver greater productivity and greater speed. While enterprises used to be satisfied with, arbitrage-oriented savings, a new source of value they seek is full time equivalent (FTE) reduction enabled by automation.

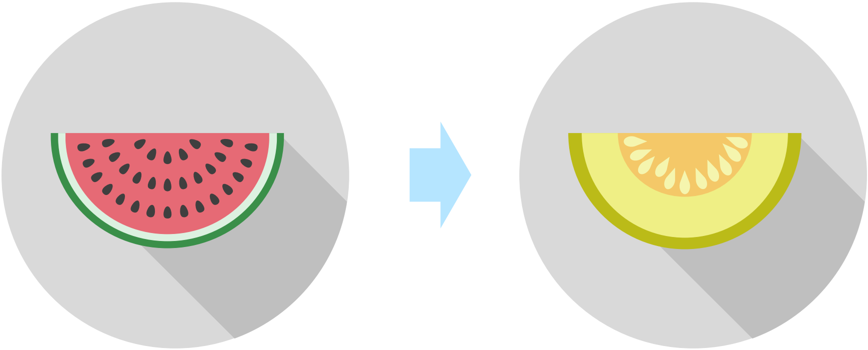
As technology becomes increasingly key to competitive differentiation, classical siloed applications development and maintenance activities must give way to a more integrated development approach in which IT and the business work together across the development life cycle.

Legacy environments are creating barriers to value creation

Today's current delivery environment and approach can best be described as producing watermelons. Success is measured in terms of cost goals being met, efficient delivery, and consistent compliance with service level agreements. By these dimensions, most organizations experience an all green scorecard most of the time.

But when you dig a little deeper, you find a significant amount of dissatisfaction among end users – the overall sentiment appears to be red, not green. The use of offshore factory models, and the focus on delivering the initially agreed upon scope year after year when the business environment is changing daily or weekly, is not satisfying the underlying business need. Due to this dissatisfaction, end users continue to pressure IT for lower costs on the services provided while increasing the level of shadow IT spend by engaging other sources to meet their needs.

The desired experience end users prefer is one that results in receiving a honeydew melon – green on both the outside and on the inside. The basics as it relates to cost, efficiency, and SLA compliance are satisfied, but the primary focus is on the business requirement for speed and agility.

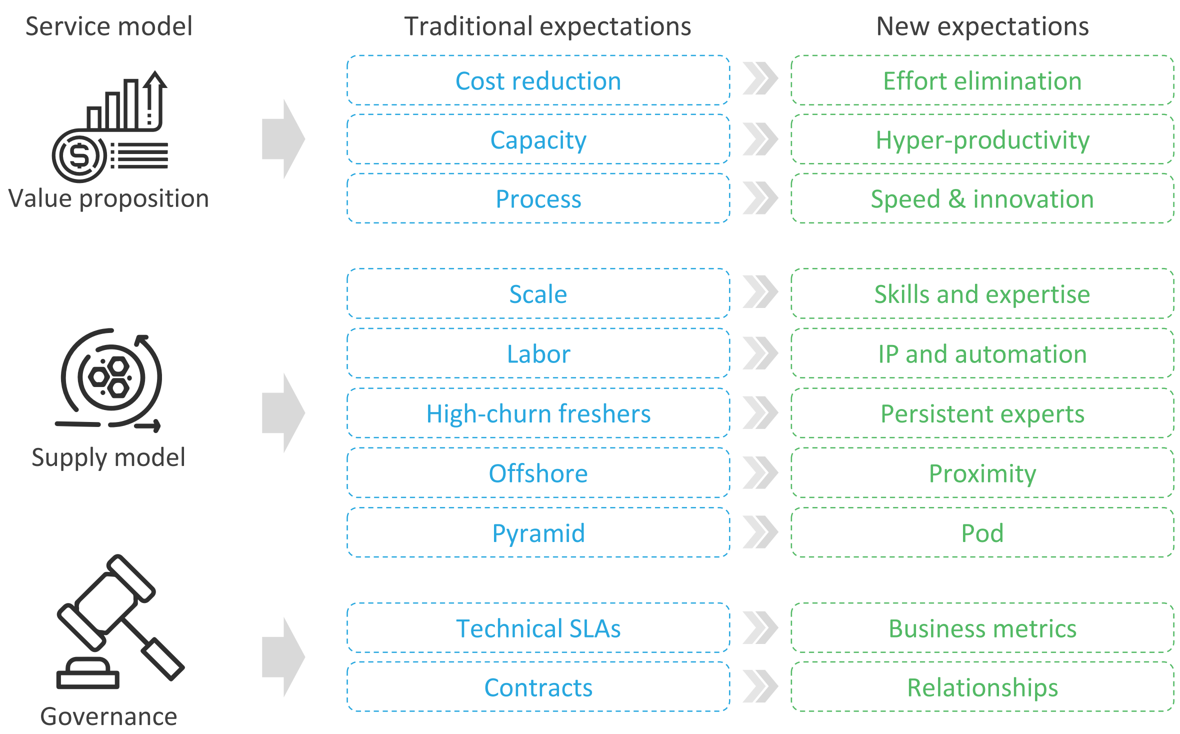


The new services model

In order to meet enterprises and end users' value expectations, there must be fundamental shifts in the delivery model's value proposition, supply model, and governance emphases. (See Exhibit 3)

Exhibit 3: Clients are expecting a different services model to meet new value expectations

Source: Everest Group



From a value proposition perspective, the traditional focuses on cost reduction, the service being defined largely in terms of capacity, and an efficient process orientation must be replaced with the elimination of unnecessary effort, hyper productivity, and the rapid enablement of innovation to accelerate release frequency.

The new expectation for the supply model is that volume gives way to a focus on skills and expertise. Methods of using IP and automation to replace labor become increasingly important. And experts, or the appropriate expertise, are placed in the appropriate location, which in many instances today means local, rather than many time zones removed. Further, enterprises are recognizing that the traditional pyramid model of delivery with high churn needs to give way to self-contained, cross-functional pods that have persistent teams.

In terms of governance, the traditional focus has been on technical service level agreements and contracts that often involve a significant amount of change management should something new need to be done. To achieve underlying satisfaction with the delivery model, buyers are expecting IT to focus on delivering business value. They need relationships with their providers that are more partner-oriented, so the inherent ambiguities in the business environment can be addressed with the least amount of friction.

The time has come for traditional, labor arbitrage-centric business models

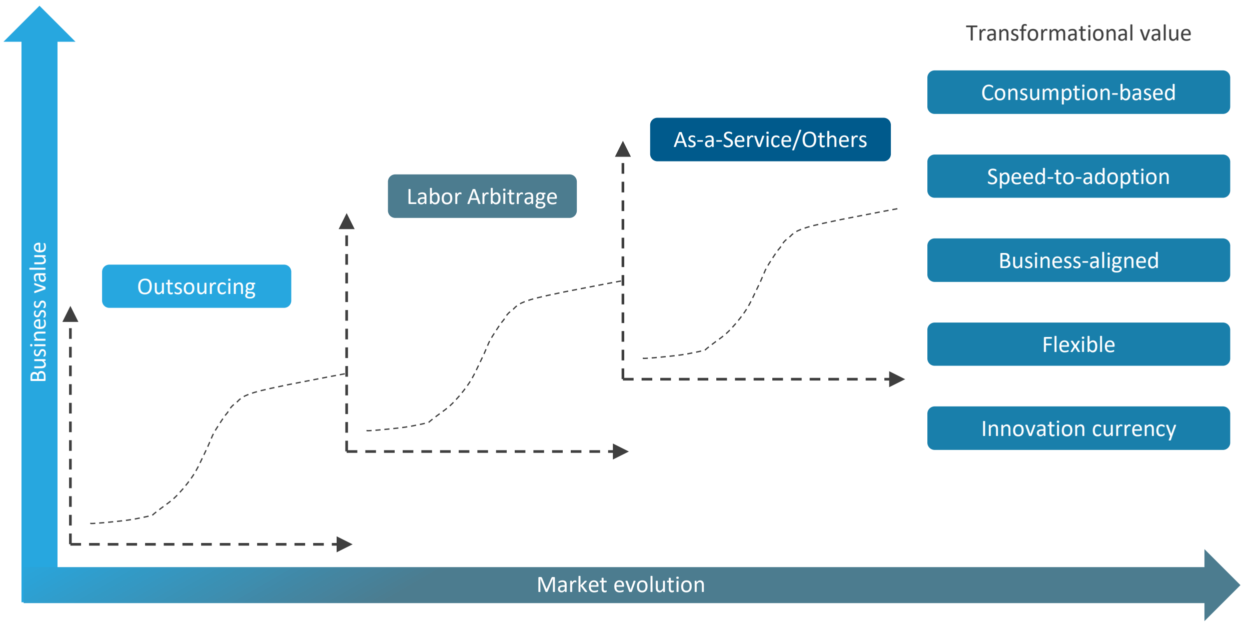
Transformational service models must replace traditional business models

Because of the new value expectations, the time has come for traditional, labor arbitrage-centric business models to give way to more transformational service models suitable for the digital world. Given that it is relatively early for clients on this journey, no one model has yet become the one everyone is rallying around.

However, we have identified some common themes regarding the types of value buyers are beginning to expect. And as you'll see, all the attributes are fundamentally contrary to the design and intention of traditional business models. (See Exhibit 4)

Exhibit 4: Consequently, traditional business models need to give way to transformational service models

Source: Everest Group



Speed is critical. Buyers are no longer satisfied with waiting 12-18 months for their requests to be implemented

Several of these expectations are being driven by the experience individuals have with consumer SaaS offerings. Despite the fact that some may feel that an inappropriate comparison in a business environment, the SaaS user experience has helped shape expectations. Following is a quick look at each of the new types of transformational value we have identified.

Consumption-based models are much more in demand. Buyers want to pay only for what they consume, and reduce the need to over acquire services and capacity as a means to hedge their risk.

Speed is critical. Buyers are no longer satisfied with waiting 12-18 months for their requests to be implemented. The market is changing dizzyingly fast, and speed of adoption is becoming a significant basis of competition. Soon to be gone are the days when IT makes decisions based solely on technical requirements and what makes the best sense to IT. Technological investments must be aligned with the strategic needs of the business as IT becomes increasingly integral to the value proposition.

Businesses want higher levels of flexibility in their engagement with service providers so that, as their worlds change, they have a partner ready to change with them.

Finally, the C-Suite is expecting IT to deliver the capabilities and innovation required to keep them competitive in the marketplace.

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