

## Hybrid IT service delivery

A strategic thinking model for optimizing  
IT resources

Business white paper

### Abstract

With the maturation of the IT industry it becomes realistic to adopt a mixture of modern business models like shared services and value-based pricing. In particular, implementing a combination of various business models takes advantage of a “best-of-breed” implementation strategy. It pays off with double-digit savings. However, the application of mixed business models to structure IT organizations does not come for free. If the various business models are not well understood or if they are implemented in a fragmented way, disastrous misalignments will result with an uncontrollable amount of unproductive discussions in a significant deterioration of IT delivery performance.



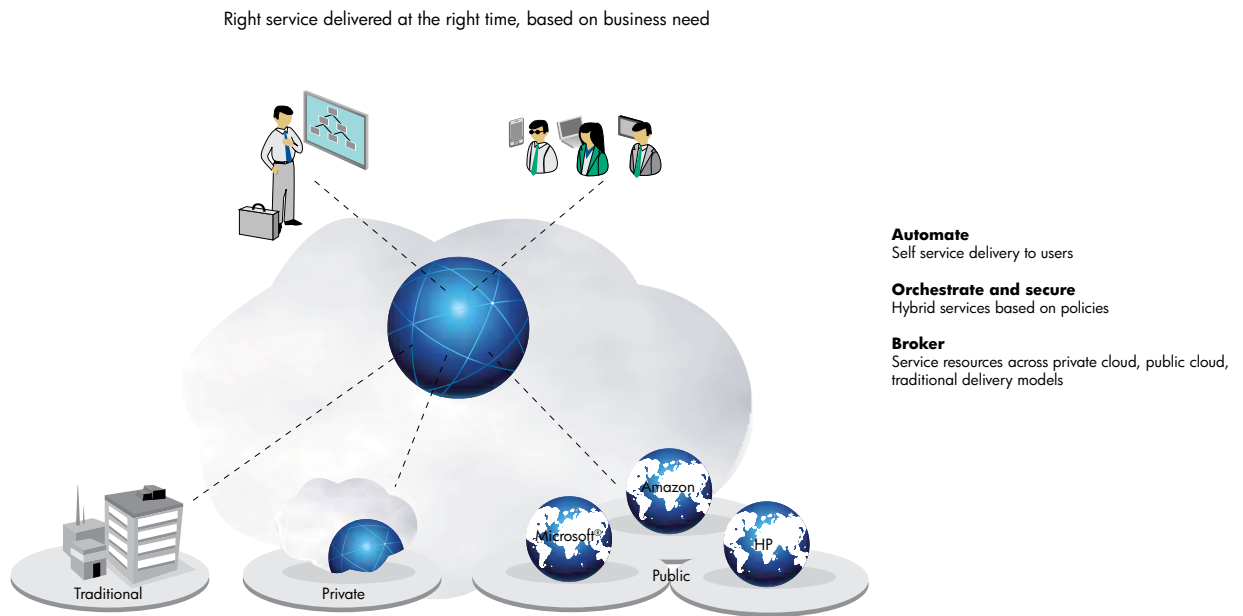


## Table of contents

---

|   |   |
|---|---|
| Introduction.....   | 3 |
| The concept of value networks .....                           | 3 |
| Running IT as a business .....                                | 4 |
| HP service transformation model .....                         | 5 |
| The value network roles.....                                  | 6 |
| HP transformational projects repository .....                 | 6 |
| How to take advantage of<br>HP Hybrid Delivery strategy ..... | 6 |
| What typically goes wrong .....                               | 7 |
| HP Hybrid Delivery Strategy Service.....                      | 8 |
| Conclusion .....  | 8 |
| References .....  | 8 |

**Figure 1**  
Hybrid delivery enables transformation.



## Introduction

The introduction of the Shared Services concept in the beginning of the nineties has been a game changer for a number of industries; Logistics and Manufacturing are examples of industries which have enthusiastically created massive turnarounds from cost-consuming internal support functions to Shared Services-based profit centers. By contrast, in order to deal with the ever-present business demand of reducing cost while increasing delivery flexibility, IT organizations have been slower to embrace Shared Services models. Instead, they have been focusing primarily on improving operational excellence and innovating in areas such as distributed computing and reducing cost of compute capabilities.

However, the introduction of ITIL v3 in 2007 began to shift the focus of the IT industry towards a more services-driven approach. Concerns about cost and efficiency, combined with the maturing of the technologies that support IT delivery, such as virtualization, service automation, orchestration, and governance have led more and more IT organizations to the point where it becomes beneficial to transform to a Shared Services model for IT delivery. Concepts such as cloud computing, outsourcing, and service-oriented architectures offering “anything as a service” have taken hold and are changing the way we view our IT operating models.

With these new services-driven approaches to IT delivery, a new management dilemma emerges. In the past, IT was operating as a support function executing against an allocated budget that, the business could afford (or was willing to make available). Today, many different IT value offerings are available on the open

market. These offerings range from facilities services via platform and application into full business services with all kind of variations in between.

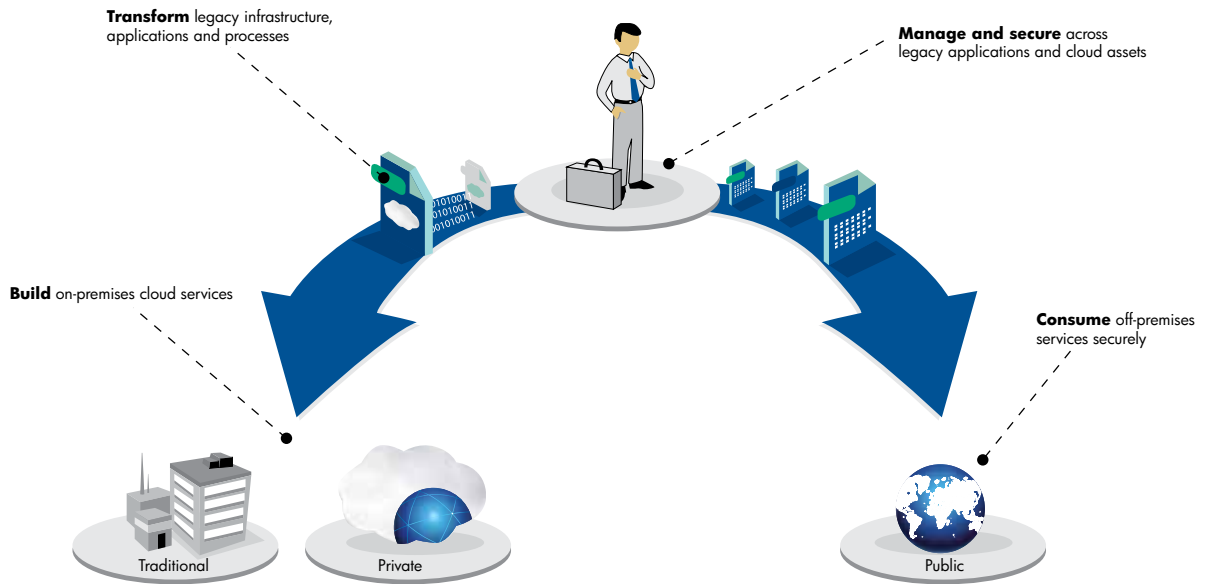
With the introduction of cloud computing, the IT industry has a new path for applying Shared Services business models to better utilize a company’s financial and operational resources. At the same time, it creates the need to understand how these new business models can be integrated with existing IT organizations and business, and understanding that it is sub-optimal to organize the management of IT resources into a “one size fits all” management model. For example, the operational management of a monolithic service, like a flight reservation system, has very different operational characteristics compared to the management of a development environment for a conference room reservation application.

HP Hybrid Delivery strategy offers a structured approach to the development of your IT delivery model, taking advantage of the best of all the various business models and creating a safe pathway through the complex landscape of IT sourcing and IT delivery.

## The concept of value networks

If an IT organization is planning to move to a Shared Services model such as cloud computing, it needs to consider itself as part of a value creation network that ultimately represents the added value to the enterprise it is part of. Figure 1 is a representation of such a value network. The components of the network are independent units that all deliver their own services to other organizations in the network. The final value is then marketed, sold, and billed to other organizations as paying customers of the network.

**Figure 2**  
CIO becomes builder, integrator and broker of IT.



Value networks have a number of specific characteristics that make them different from the previous model of organizing the cost structures as internal support functions. Value networks are:

- **Independent:** Each unit in a value network is an independent unit operating within the boundaries of IT policies, business policies, and other compliance policies, such as public regulations and laws. Through pay-per-usage model, resource usage and supply for services can dynamically match demand for services.
- **Non-hierarchical:** All units in a value network can interact on a non-hierarchical, commercial basis. Meaning, if there is a large demand for the added value, the service will grow. If there is little demand the service will shrink or even disappear.
- **Dynamic:** Every service in a value network is trying to increase their added value to “stay in business”. This implies that the interfaces and size of the service are dynamic and need not be managed from the outside other than through setting the rules of engagement and the policies that the service that must operate. Services with too little added value get absorbed or eliminated via a natural process. Dependent on the type of added value there is a constant competition to enlarge economies of scale by integrating services, increase flexibility by decreasing response times, or enhance the delivered added value by extending the integration along the value chain.
- **Financial Predictability:** Value networks are, by definition, financially not very predictable. As the interactions between the services being offered and the business need for the services are dynamic, a constant drive is ongoing to reduce cost (increase added value), leading to a more dynamic use of budget as a management control tool. Yearly budget predictability (actual versus plan) in value networks is typically less than 90 percent.

## Running IT as a business

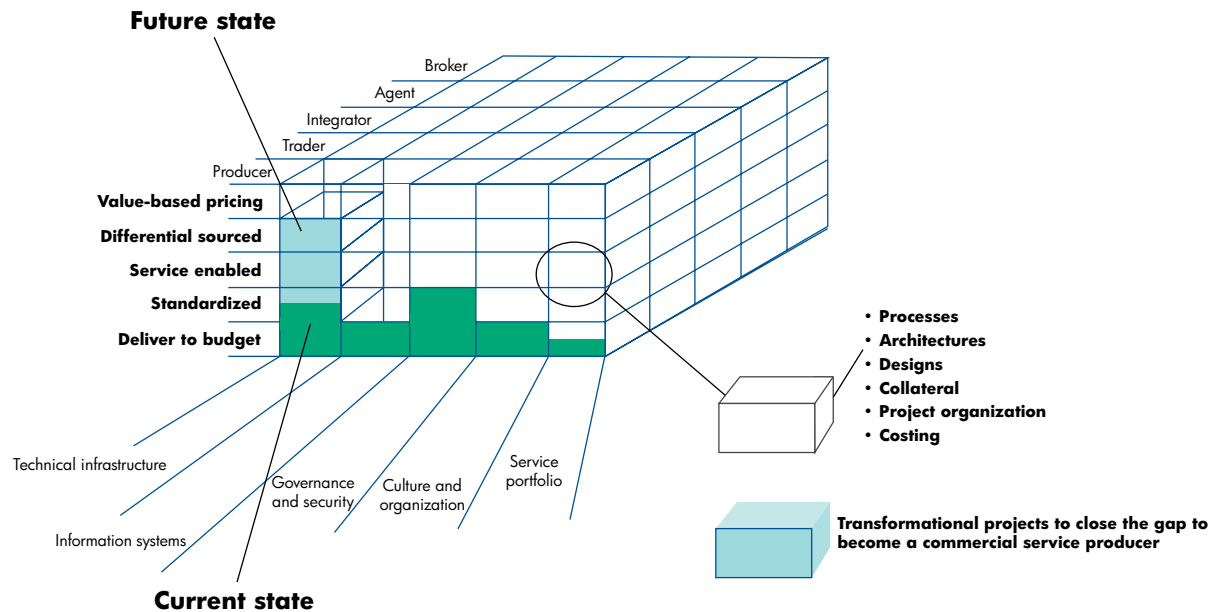
To what extent value network principles are formalized and practiced depends on the sourcing strategy of the business for their cost structures. In the case of growing companies and market leaders, a more financially predictable approach is implemented by keeping strict control over expense budgets. Service structures are implemented in a minimum fashion. For “price fighters” and market followers, the cost structures are typically more commercially focused in order to create value for a variable cost.

In the last 10 years, HP globally transformed the cost structure of the company into a services-based structure with many Shared Services centers in all the supporting disciplines (manufacturing, finance, logistics, IT, and HR). HP also has many years of experience assisting its customers to do the same.

In a value network typically three possible operating models are used (ITIL type I, II, and III service providers):

- **Type I:** IT support functions—The “traditional IT delivery model”. This operating model is characterized by the use of financial allocations as the primary management control capability. Yearly (often with quarterly reviews) the allowed spend on IT is planned and agreed upon by the consumer and service provider (IT organization). This operating model creates excellent cost predictability but is not well-positioned to reduce cost. Typical systems utilization using this operating model is around 5–10 percent.

**Figure 3**  
HP transformation project database.



- Type II:** True-cost service providers—This operating model is characterized by some form of chargeback mechanism against consumed services. This implies that there is no formal agreed budget other than an agreed volume and cost of to-be-consumed services. It is the accountability of the IT organization to ensure that the actual consumption of resources matches with the committed cost per service. This structure allows the IT organization to optimize the use of resources over and above specific agreements with customers. The actual cost of providing a service is charged back to the organization consuming the service. Often the difference between actual and planned use of resources is redistributed pro rata to the consumers to ensure correct financial management (typically at the end of a financial cycle). An example of this type of operating model is a Private Cloud, although the exception with a private cloud compared to other Type II service providers is that a Private Cloud does not have a committed volume of services, only a committed cost of service.
- Type III:** Value-based pricing service providers—This operating model is similar to the Type II operating model, but with a distinct difference. With this operating model, the IT organizations are forced to compete against external service providers. The consequence is that overbidding and underbidding of the IT organization becomes practice. The benefit is that it also ensures the most value is generated by IT.

There is no single answer as to which operating model best fits an IT organization. An IT organization will want to explore a combination of approaches based on which model works best for the service being delivered.

## HP service transformation model

Choosing the right operating model or models for the business is only the first step in the transformational process. Based on extensive IT transformational experience, HP has developed a patent-pending methodology and supporting system to help businesses to orchestrate the evolution of their IT organization from one operating model into another by structuring optimization efforts within a chosen operating model. It also allows customers to move between operating models and, by doing so, to take advantage of the best operating model for each portion of the added value of IT.

The Service Transformation Model is the first dimension of the sourcing strategy for an IT organization. It specifies the characteristics of each operating model with an optimized state for each operation in between. HP helps support functions to evolve into true cost (shared) service providers and from there evolve into value-based (open market) pricing service providers. The upwards force for this evolution is the need to reduce cost and the downward force is the need to be financially predictable. Where the IT organization in the model operates is dependent on the business level sourcing strategy (predictable versus flexible). There is no right or wrong at a certain level of the transformation, however lack of horizontal alignment on a certain level creates waste. Most organizations do not stick

within one operating model. However, when the decisions are made based on personal preferences, and without exploring the business impact of the decisions being made, the organizational transformation will often result in a sub-optimized silo-based mixture of operating models with subsequent inefficiencies and alignment stress in the IT organization.

## The value network roles

The second dimension of the hybrid delivery strategy is the selection of the role of each organization in the IT value chain. With the maturation of the IT industry, every IT organization has to focus on performing a certain role within the IT value chain. It is in practice impossible to effectively execute different value chain roles using the same operating model. A practical classification of roles is based on the added value each role delivers:

- **(Cloud) IT service producer:** This role is accountable for the actual creation of services, like platform, applications, and business-level services. Typically they do not take any accountability beyond the actual production of the service like contingency, and disaster recovery. Outsourcers also fall into this category.
- **IT integrator:** This role combines IT services into a new IT service. A sample is a company that takes cloud platform services and SAP services from the open market and offers logistics management services. This role accepts accountability for the final business level service.
- **IT broker:** IT brokers combine IT services into a usable package. They mediate between producer and consumer to create optimal packages of services suitable for consumption. They do not accept accountability for the integration of the IT package.
- **IT agent:** The added value of this role is mostly organizational. Agents have expertise in a certain area of IT and negotiate contracts on behalf of a customer. A typical sample of this role is a company that prepares and negotiates outsourcing contracts on behalf of a customer.

## HP transformational projects repository

IT capabilities are sub functions of an operating model contributing to the overall performance of that operating model. Each role, as well as each operating model, requires a certain mix of sub functions to construct the optimal operating model.

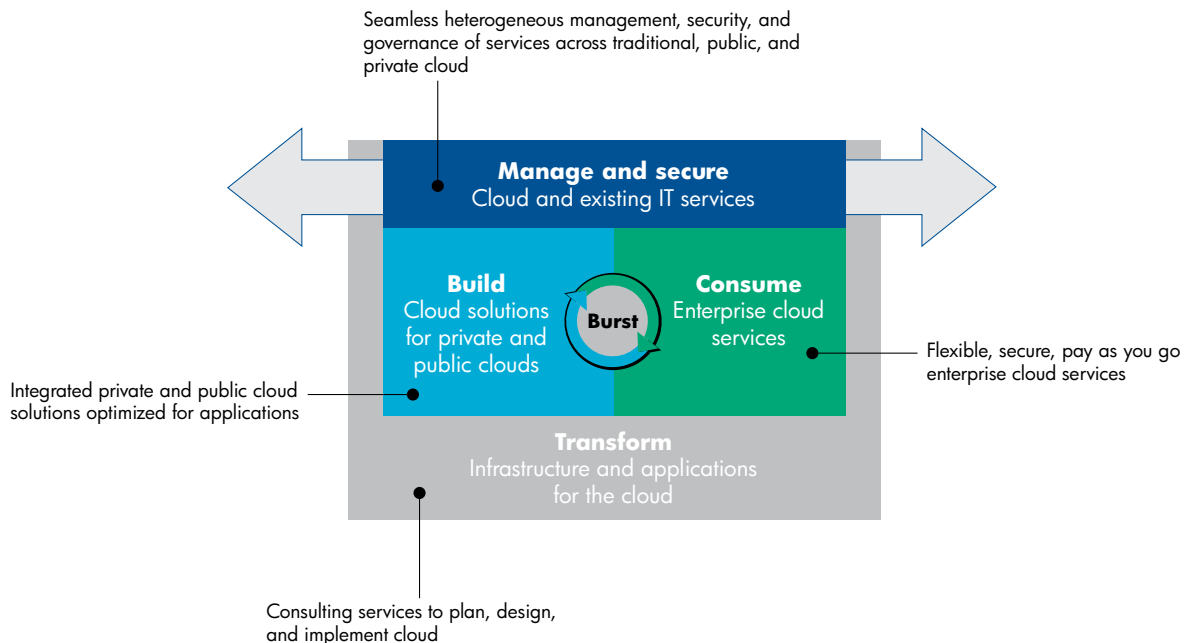
For example, IT agents need an extensive sourcing capability. They do not need a service desk. To create the desired capabilities, HP has developed a project database that stores all collateral, project definitions, and associated collateral per sub function. It allows HP, based on the current profile of the operating models of the customer, to create a set of capabilities that belongs to the optimal implementation of the desired role in the overall IT value chain of the customer. Figure 3 is an overview of the structure of the transformation project database.

The database enables HP to create, plan, and implement a proven transformation program, in line with the customer's needs while leveraging previous successful engagements.

## How to take advantage of HP Hybrid Delivery strategy

- **Step 1-Assess:** Understand what the customer's technology-enabled services need to deliver against the three operating models. HP has strategy workshops, workload analysis tools, and experts to help you select the right delivery model for that service.
- **Step 2-Design:** Once the assessment is complete and the service delivery operating model is selected, HP can then take the strategy created in the assessment phase, develop a business case for it, and design a logical roadmap for the evolution. This design phase must take into account the run time phase of the service to ensure that the service runs for maximum value, reduced risk, and a lower total cost of ownership (TCO).
- **Step 3-Implement:** The next step is to implement the solution. HP has a full suite of implementation services to cover all three delivery models: Traditional (including internally build and deploy), outsourced, and managed services, or a number of shared services and cloud delivery options that can be integrated into the IT operating environment.
- **Step 4-Manage:** The next step is to ensure the quality and the continuity of the service being delivered. Service management delivered as a tool or as a service provides the critical monitoring and management of an IT hybrid service portfolio. Only HP has a full suite of managed services and software assets to help clients embrace hybrid delivery models, spanning on-premises, off-premises, physical, and virtual environments. HP solutions enable IT teams to effectively manage the performance and availability of all applications in the same way, irrespective of where they are running.

**Figure 4**  
Complete solutions for hybrid delivery.



## What typically goes wrong

In the last 10 years HP has executed thousands of consultancy engagements. Many customer problems can be traced back to poorly-managed implementations of a certain operating model, or trying to implement conflicting operating models. Both problems typically show up as a perceived bad financial or operational performance of an organization or a perceived bad performing interface between organizations.

**Under-performing organizations:** Using the HP transformation model, a profile of the current state is produced. Using this current state profile, imbalances or incomplete implementations of a certain operating model type becomes visible. For example, an IT organization may have a service catalog in use (needed for a Type II service provider) while still following a financial management process based on an allocated total budget (needed for a Type I service provider). As the financial process does not facilitate charging back to the business consumers, this mixed implementation of two operating models causes the savings of using a service catalog to be largely eliminated by the lack of management control on service consumption.

A second example is the extensive use of server provisioning automation to reduce service request fulfillment (a function that belongs to a Type II or Type III service provider), while at the same time no services are defined (as in a Type I service provider).

The result is an unmanageable use of server spare pools and a “wildfire” of unneeded server allocations.

Using the HP service transformation model, a “current state” profile maps out these inconsistencies. Based on the “current state” profile, the activities required to harmonize an IT organization at a desired state are identified and structured into a transformation roadmap. Also, a profile of the optimum number of Full-time employees per organizational function is produced.

**Poorly-performing organizational interfaces:** One of the largest, but most difficult to trace, causes for inefficient hybrid service delivery is the lack of understanding of the limitation of the ability of each type of operating model to interact with the other operating models. For example, if a Type I (allocated budget) organization wants to start using Public Cloud services, in this interaction there is no management control mechanism in place to control actual consumption of cloud services. The result is an unmanageable growth in consumption or management blocking the use of cloud consumption, eliminating the advantages of cloud computing for their consumers.

Another example is when a very customer-specific demand is being requested from an outsourced IT organization. An outsourced IT organization is optimized for the predictable, efficient, and repeatability production of standardized services.



To help customers gain a better insight into their delivery inefficiencies, HP developed the Hybrid Delivery Strategy Service. By using this service, the customer can work with HP to select the various sourcing options for the organization, compare them and map them out. Using the HP Information Technology Solution Architecture (ITSA) modeling approach, an initial reference architecture for the hybrid IT delivery model is produced. Using HP Workload Analysis service the reference architecture is quantified, validated, and a business case can be developed.

## HP Hybrid Delivery Strategy Service

The HP Hybrid Delivery Strategy Service is a two-day workshop to help our customers explore the various options available and understand the financial impact and business value that each approach may offer to them.

Using the HP stakeholder-based ITSM methodology, the Hybrid Delivery Strategy Service facilitates a business-of-IT discussion, with the technology and architecture discussion featured as a supporting theme. Topics such as governance and the optimal use of available automation technology are put in the context of financial, administrative, and operational execution models, ensuring the conversation is business-focused and not only IT-focused. The result of the Hybrid Delivery Strategy Service is a better understanding of how to take advantage of hybrid computing in a way that best meets the needs of your consumers and offers the best value to the organization.

## Conclusion

HP Hybrid Delivery strategy enables customers to structure their IT delivery model based on a combination of "best-of-breed" operating models, suitable for each section of the added value of the IT organization. In order to do this, HP has developed a structured approach to access, design, plan, and implement this strategy.

HP Hybrid Delivery Strategy Service is targeted to help customers to take Step 1 of their strategy development: the assessment of their current situation. HP Workload Analysis tool is targeted to help customers validate and design an optimized hybrid delivery model. After the design phase, many different HP services are available, ranging from architecture design to full deployment of the hybrid delivery model.

## References

**What is Strategy?** by Michael E. Porter, a summary of the differences of execution excellence and the ability to modify

[http://www.ipocongress.ru/download/guide/article/what\\_is\\_strategy.pdf](http://www.ipocongress.ru/download/guide/article/what_is_strategy.pdf)

**A Guide to Implementing the Theory of Constraints (TOC)** by Eliyahu M. Goldratt

A structured approach to largely improve operational execution

<http://www.dbrmfg.co.nz/Overview%20Preface.htm>

**The Value Chain**

Summary of value chain analysis, value chain roles, and value network characteristics

<http://www.netmba.com/strategy/value-chain/>

**The World Is Flat**, by Thomas L. Friedmann

The link between globalization, value network, and impact on society of value thinking

<http://www.thomasfriedman.com/bookshelf/the-world-is-flat>

To know how HP hybrid delivery strategy can help you structure your IT delivery model, visit: <http://www.hp.com/go/hybriddelivery>

Share with colleagues



Get connected

[www.hp.com/go/getconnected](http://www.hp.com/go/getconnected)

Get the insider view on tech trends, alerts, and HP solutions for better business outcomes

© Copyright 2011 Hewlett-Packard Development Company, L.P. The information contained herein is subject to change without notice. The only warranties for HP products and services are set forth in the express warranty statements accompanying such products and services. Nothing herein should be construed as constituting an additional warranty. HP shall not be liable for technical or editorial errors or omissions contained herein.

Microsoft is a U.S. registered trademark of Microsoft Corporation.

4AA3-2556ENW, Created February 2011

