

Service Portfolio Management: Optimizing the Business Value of IT

JULY 2009

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TECHNICAL SALES





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Executive Summary

Challenge

IT organizations are constantly being challenged by what to invest in, what to cut back on, what should be outsourced and when to retire Services.

Most IT organizations face growing demand from the business while IT budgets remain flat, or in some cases, cut. This un-gated and ever-increasing demand makes the selection and management of services even more difficult.

Another challenge is demonstrating IT's alignment and value to the business. Yes, there may be individuals within IT that understand it the same way Business Relationship Managers do, but that is not the pervasive trend.

ITIL V3 introduces the concept of Service Lifecycle and Service Portfolio Management (SPM), enabling IT to analyze and optimize the investment in the Services it offers.

Opportunity

Service Portfolio Management allows the IT organization to provide something that has been very elusive in the past: a definition for the business value of a Service. Now ITIL V3 enables us to view Services at the strategic level — as investments. SPM allows the IT organization to continuously optimize IT resource allocations for maximum business value by understanding IT through the lens of service function, quality, cost and benefit.

Organizations with the capability to determine which Services should be delivered, how to deliver what is needed and when Services should be retired can demonstrate where and how they deliver strategic value to the business — elevating IT from simply keeping the lights on.

Benefits

- Ability to establish the criteria for 'fact-based' decision-making and effectively deliver only those Services that actually provide value and strategic advantage to the business
- Maximize value of investment decisions and rapidly re-evaluate those decisions when events and governing assumptions change
- Optimize the build phase of a Service to ensure it is delivered in the most cost-effective manner and as quickly as possible, providing the performance required to meet business needs
- Deliver quality Services that provide the required quality/functionality and the supporting eco-system to sustain them as a consumed Service
- Provide strategic advantage to businesses by giving them early indications when a Service is decreasing in value, allowing them to decide whether to improve, retire or replace the Service if necessary.

Understanding the Business Value of Services

IT struggles with understanding the business value of Service for two primary reasons: First, because most IT organizations do not look through a Service lens; and second, IT rarely asks the business how they define, determine and ultimately measure business value.

That is the strategic nature of ITIL V3. It is about expanding upon the operations focus of ITIL V2 (which concentrated on Service Delivery and Support) to one that recognizes and manages the entire Service Lifecycle — from initial discussions about a Service, to analyzing which Services add the most business value, to building the Service and the eco-system that supports it, to Transitioning the Service into Production, Operating the Service and eventually retiring it.

Service Portfolio Management, as described in ITIL V3, is responsible for analyzing and optimizing the investment IT makes in Services across the Services' entire lifecycles. It does this by understanding business value, with which IT needs to become better integrated. IT will generally talk in value terms it can instrument and measure, such as availability, response times, utilization, etc. The business talks in value terms such as revenue, ROI, increased market share, increased customers, decrease in lost business, etc. With this in mind, it should be noted that business value metrics will change over the lifecycle of the Service (which will be discussed in greater detail later in the white paper).

Service portfolio management has three phases (as seen in Figure A): Pipeline, Service Catalogue and Retired Services.

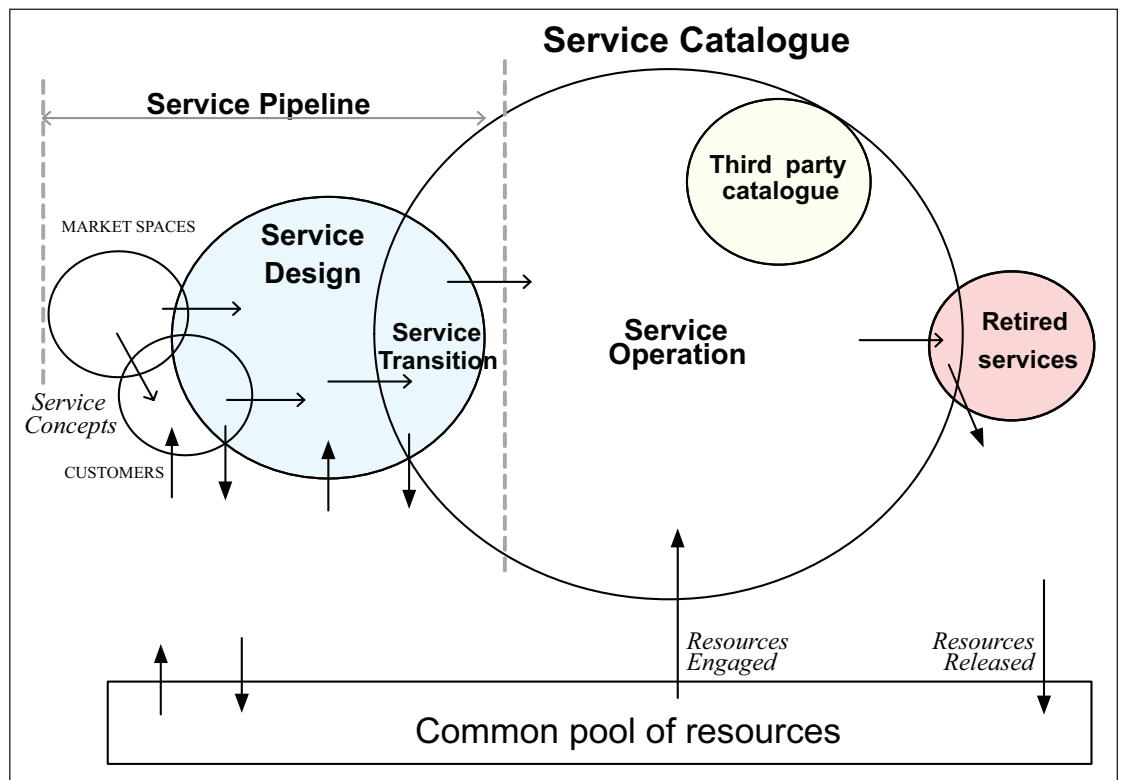



FIGURE A: ITIL V3 SERVICE LIFECYCLE



From a demand perspective, there generally will not be consistent criteria to determine which Services, if introduced, will return the greatest business value. Often times the criteria used include the most politically aligned or well-funded business units, and whichever ones drive demand. As such, potentially higher-value Services that are less politically aligned are often not be considered and delivered.

IT then wastes critical, constrained resources on delivering lesser value Services to the business. Or even worse, IT over-engineers Services, driving up costs while lowering business value. When business performance is inevitably sub-optimized, IT is very often held solely accountable. In fact, these flawed decisions result from the business and IT not having the constructs and processes needed to make collaborative, fact-based decisions in order to deploy and manage the most advantageous services.

Once we have decided which Services to deliver, we need to closely monitor the build phase to ensure the Service design is really what the business needs and that it performs to the required level. The fit-for-purpose component of design is referred to as utility; the fit-for-use component is referred to as the warranty.

Once the Service is designed and the business signs off on the utility and warranty, IT needs to make sure resources are optimized to build the Service as specified in the Service Design Package (SDP). In the old days Service Design was all about the functional requirements built into an application and delivered into production for production support to worry about.

The SDP exists to raise the level of thinking to focus on everything necessary to deliver the utility and warranty of the Service. This means that the SDP must also include all associated Service Management processes, procedures, knowledge, etc to support the Service when it being consumed in the production environment.

The SDP is then passed to Service Transition to perform all the steps necessary to create the Service and its supporting eco-system — and then perform the Transition processes to move the Service into the Run environment. Service Transition is about the delivery of a quality Service into production and minimizing the risks involved.

When the Service is released into production and consumed by the business, IT must ensure it meets or exceeds appropriate service levels (identified in the SLA), as well as continually monitor the value of the service to the business. IT should continuously provide the business with the information necessary to determine when to retire or replace the service as its values decreases over its operational phase.



Service Portfolio Management

Managing Services in a portfolio allows IT to analyze and manage the investments in Services across their entire lifecycles. It is about maximizing value and minimizing risks and costs across three key phases:

The Demand Phase

In the Demand phase IT is faced with a funnel, where there is a large amount of demand from the business to deliver new or modified Services at the larger end. At the smaller end of the funnel is IT's ability to deliver — limited by the constraints applied to them, resources, funding, time frames, etc.

Somehow IT has to engage the business to decide how to prioritize this demand and choose which Services and enhancements to deliver with the limited resources IT has at its disposal. How do most organizations do this? Well, most organizations guess! At best, a costed business case will have been prepared in the previous year's budget cycle (under the past economic climate). Most of these business cases will use different methods to determine a return on investment (ROI) figure. If the project meets a certain ROI, it may be funded. Unfortunately, many organizations lack the benefits realization processes needed to determine if the projected ROI is actually realized.

What IT needs to do is help the business create standard criteria that will help determine the future value to the business. ROI could, of course, be one of these. But it is not the only one!

In this Demand phase, how do you define the value of a Service to the business? First, IT must sit down with the business and ask them how they define value based on their business objectives and desired outcomes for the Service. This valuation process will generally not be expressed in terms IT can measure on its own. IT instruments for availability, throughput, transaction levels, etc. None of these are terms the business would use. The business talks about revenue growth, market share, number of customers, customer satisfaction, number of cross-sell transactions and risk reduction. These are objectives that, if not foreign to the people in IT, are at least foreign to the tools they use. But at the demand phase that is not a problem. All IT needs to do is be able capture these objectives (as metrics where possible) for each Service and use them to level the playing field for all Services entering the Service demand funnel. In itself, this means IT has to come up with a common set of metrics that it can apply across all investment decisions. Again, this cannot be done in isolation. IT must work with senior levels of the business, above the Lines of Business, to understand how investment decisions are made on a corporate level.

This all sounds quite simple and straightforward, but in practice it is difficult. This is mainly due to a lack of business process maturity and sophistication, preventing the business from providing IT the metrics required to determine value. In this case start simple, by helping the business understand the metrics they can capture and subsequently measure. As the business realizes that IT is capable of structuring collaborative decisions based on business value, they will be incented to develop and use more sophisticated metrics.

Once the criteria is in place all the new demands should be assessed against it. Now, generally, this is not something that can be done manually. CA provides the software that can capture this demand and criteria. By using such technology, an IT organization can create bubble charts (as seen in Figure B). These bubble charts show how well a Service rates against the criteria in relation to other Service Demand.




FIGURE B: SERVICE BUBBLE DIAGRAM

The ability to compare and rate Services against one another according to standard criteria is in itself a quantum leap in capability for most organizations. Service Portfolio Management simplifies and enables this fundamental capability.

In the figure above, the size and color of the bubble represent some of the business value metrics. The Y axis represents business alignment and the X axis projected ROI. The size and color would generally be aggregated metrics such as service quality (a roll up of IT metrics), costs, ROI, etc. This visualization of the Services and enhancements in the demand funnel (pipeline) makes it easier to determine which Services IT should be prepared to resource to build.

It is also important to be able to apply weightings to the criteria so that as conditions change, IT can quickly reassess the impact on Service demand. For example, growing the market and the market segment may be benefit metrics. If there is a shift in the mortgage market, IT may want to reprioritize all Services that meet this as a market segment criteria. The technology must be able to support and perform this function dynamically. It should also be able to perform “what if” scenarios so the Service Portfolio Manager can look to optimize investments.



All the value metrics and criteria used in this phase should be forward-looking, as described above. There is no magic set of value criteria, so IT must work with the business to define value on their terms.

The Build Phase

Once the decision has been made to commit to delivering the Service, IT must maximize resources and minimize cost and risk in delivering the Service, at the same time monitoring and measuring value to the business.

In the previous phase, value to the business was defined by forward looking, business-centric metrics. Once the Service progresses to the Build phase, value to the business falls into terms familiar to IT — costs, resources and timeframes.

This then becomes a phase at which IT should be highly proficient — Program and Portfolio Management. Though the PPM process is familiar to IT, decisions are now in the context of delivering services, and not simply application builds.

The first part of the Build phase is, of course, design. IT needs to have a detailed understanding of the utility and warranty the business requires of the Service. Most of this is documented in the ITIL V3 Service Design book. In addition to businesses requirements, IT requirements must be considered now too. These requirements include managing risks, providing resilient infrastructure, monitoring and measuring, as well as developing skills and capabilities to optimally run the Service.

As the Service Design book points out, Service Design is a balancing act between functionality, resources and schedule. These then become very good ‘value to the business’ metrics that require measurement and management throughout.

In keeping with the overall lifecycle of the Service, things can happen that require adjustments during the Build phase. IT must understand additional business metrics such as business alignment, risk, governance imperative, etc. Many of these will have been identified during the Demand phase.

Once the business signs off on Service Design, IT should then add the Service to the Service Catalogue as a “to be” delivered Service. Now the Service Design Package (SDP) is ready to be passed to Service Transition to work with the Build/Release team to create the Service.

There are a number of CA Technical Briefs that deal with this. The important thing to remember is that value to the business metrics are different for this phase than they are for Demand. They need to be monitored, managed and controlled. There are a number of technology toolsets that perform this for you, such as CA's Clarity. Figure C shows a dashboard of resources, costs and scheduling that need to be optimized.

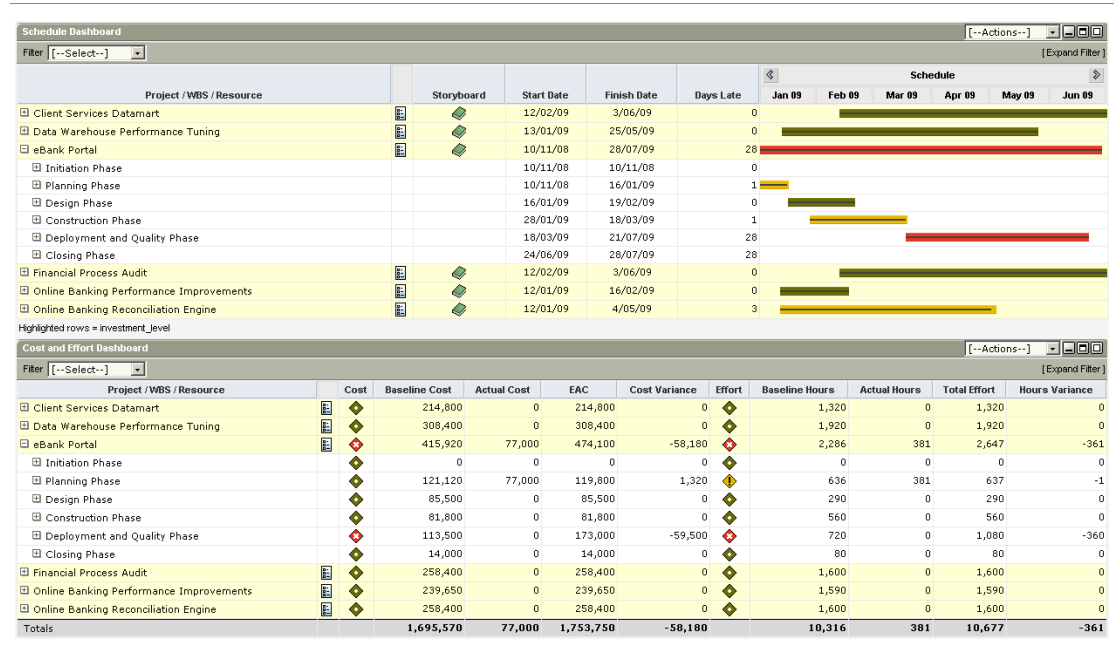


FIGURE C: DASHBOARD FOR BUILD PHASE


In addition to using these dashboards, bubble diagrams are a very good way of comparing the value to the business metrics and showing all the Services being built.

Once the Service is built in line with the Release process, the CMS has been updated and all the governance has been properly applied, the new Service can be deployed in the operations environment in conjunction with Change Management.

The Run Phase

Once the Service has been transitioned into the operations (Run) world, IT has a responsibility to ensure the warranty of the Service. The IT organization will use the Service Operations processes to ensure the Service meets the requirements of its Service Level Agreement (SLA). IT typically focuses its efforts inward, basing value to the business on achieving those SLAs. This is why, so often, IT fails the business — because of their inward focus. The business really wants outward focus, something with which IT has traditionally struggled. The IT organization needs to share the outward focus of the business. Again, this is where the Service Lifecycle approach of ITIL V3 can help.

By shifting their approach to a Service orientation, IT will again work with the business to determine business value metrics and where to get them. This is a significant challenge, given that IT does not have the monitoring tools to collect them. The business has already helped in the Demand phase by providing the forward-looking metrics they use to determine value. Those same metrics should be used to determine current value now, in the Run phase.



So how does IT collect them? This is one question that can be put to the business. If these metrics are important to them, surely the business is collecting them somewhere. IT can help the business funnel these metrics into similar technology used to create the bubble diagrams and dashboards. That way, IT provides an unprecedented aggregated view of the value the Services provide to the business.

IT must be prepared to overcome any hesitancy from the business to share such metrics. This reluctance may be due to their unfamiliarity with this level of transparency. IT may need to find Executive champions to advocate and foster this transparency since it is critical in ensuring Enterprise success.

IT may run into yet another hurdle. Even if the business recognizes the importance of these forward-looking metrics from a Demand perspective, it may lack the ability to collect them. In such cases, IT needs to work with the business to define critical, objective metrics that can be collected, understood and acted upon. This will then be fed back into the Demand phase to make sure the forward-looking metrics can actually be measured when the Service enters the Run phase.


Now, once there are metrics that can be collected, they should be used to create bubble charts capable of quickly identifying when Services are producing declining value. Once a downward trend is identified, IT can work with the business to determine the appropriate response. The Service may need to be modified to increase value, retired and/or replaced; new Services will enter the demand funnel as others retire. By answering the age-old question of when to retire a Service, IT returns tremendous value to the business.

Getting Started

Once IT understands the importance of Service Portfolio Management they need to start creating the processes and value to the business criteria, then begin acquiring the technology to aggregate and present the information. But where do you start executing the processes and populating the technology? It may be tempting to look at all the existing Services across the Demand, Build and Run phases and bring these under the control of Service Portfolio Management — even though that's like implementing a CMDB and populating it with every piece of infrastructure and then starting to try managing it. So it's probably not the best approach. Instead, draw a line in the sand: Start with defining these strategic/consumed Services in the Service catalogue. Then use the CMDB to model the service by recording the Configuration Items and relationships that make up the service.

It is also important to ensure the following:

- Executive sponsorship and leadership, Vision and Enablement
- Business participation — IT facilitates but the business must be a partner, if not the leader, in the effort
- Business process initiative — this requires skills in process management, design, implementation and organizational change
- A high level of organizational service management and project and portfolio management maturity



What I have described above are the attributes of a highly mature organization, both from a business and Service Management perspective. For most organizations it will take some time to get there. They should look at what they are currently doing and leverage this as an onramp to SPM. Three key onramps include:

- Service Desk, Service Catalogue and CMDB
- IT Asset management
- Project and Portfolio Management

Service Desk, Service catalogue and CMDB allow an organization to define the Strategic Services that they are currently providing to the business. More mature organizations will already have done this and can then create the “Run” Service portfolio. Less mature organizations will gain other benefits as they start using these Services in the CMDB and record Incidents, Problems and Changes against them.

Part of understanding the business requires an understanding of how much it costs to provide the Service. By modeling the Service in the CMDB and associating the IT Assets (CIs) with the Service, IT can change the cost with the business. IT can use the cost model as a basis for pricing, and pricing and consumption information can be used to persuade the business to execute more judicious service design consumption through better financial transparency.

Service definitions are served within the Service Catalogue, along with key information about the Service and associated Service Levels. The Service Catalogue can be used to store the Service definitions when they are in the “Build” phase in preparation for transitioning the Service into production.

The Service Catalog is also where we generally enable the fulfillment of tactical demand executed by the Service Request Fulfillment process.

Finally, a number of organizations have been using similar processes to SPM at the project and Program level. The concept is very similar. Often the same toolset can be used to analyze and optimize the investments in Services and create the business value metrics.

Conclusion

It is clear that Service Portfolio Management is one of the key ITIL V3 processes that move IT up the value chain from aligning with the business to being a truly integrated partner.

It gives IT the unprecedented ability to fully analyze investment decisions and work with the business to optimize the value of the Services that IT delivers on behalf of the business.

No organization can really call themselves an ITIL V3 shop without having at least started thinking about how they can implement Service Portfolio Management. The benefits are many:

- Consistently consider all new Service demand against a common criteria that equally evaluates each Service and enables decisions about which ones actually add the most value
- Help the business define realistic measures that can be applied when evaluating demand and measuring the returned value when the Service is in operation
- Optimize the success rate of delivering Services to the business that provide the agreed utility and warranty
- Minimize costs as Services are being built by maximizing resource
- Measure the value to the business of Services delivered and give early warnings when Services need to be modified or retired

About the Author

Peter Doherty is an ITIL Master (Distinction), a contributing author to the ITILV3 Service Operations Book and a Principal Consultant for CA. With 25 years of Service Management experience, he is CA's foremost Service Management evangelist in the Asia Pacific region. Doherty is a widely-published author on the subjects of IT Service Management, IT Asset Management and Cultural and Organizational Change Management, and is a frequently-requested speaker at forums worldwide. He is also a practitioner who has designed and implemented many Service Management Programs.

Steve Romero gave guidance and coaching in writing this paper.

