



Adopting Service Orchestration to Realize Greater Value from your Multisourced Ecosystem

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Abstract

Avasant is a recognized leader in providing strategic sourcing advisory services to global clients. We are frequently asked by company executives to advise them on the development of a service sourcing strategy, given the complexity of today's multisourced environments. The challenge in developing a good strategy typically centers on the need to improve customer value, while at the same time optimizing the cost of services provided by a multisourced environment. To add to this challenge, the postcontract sourcing phase from transition to steady-state governance is typically mismanaged, resulting in a significant gap between expected business outcomes and realized results.

This paper addresses these challenges by discussing the shortcomings of the current service integration and management (SIAM) framework and proposes a more effective service orchestration method. The SIAM framework looks at ways to lower the cost of service provider integration that can result in sub-par quality in business outcomes and experience and have a direct, negative impact on customer value. Avasant proposes the service orchestration and management (SOAM) framework as a more effective service integration model, with multiparty orchestration to improve customer value. SOAM quantifies customer value using outcome-driven and experience-driven attributes to help rationalize investment decisions. SOAM needs to be an integral part of a company's services sourcing strategy, design, transition, and ongoing service operations to maximize the economic value (EV) to the customer. The proposed SOAM framework also includes an analysis of solutions offered by service integration platforms such as Cisco ServiceGrid™, which enable seamless multiparty orchestration within complex sourcing and interconnected service ecosystems.

As the shift to X-as-a-service (XaaS)-based architectures, on-demand services, and hyperconnected Internet of Things (IoT) devices accelerates, these challenges will escalate. By investing in SOAM, companies can adapt to the challenges and take advantage of the disrupters that will allow them to realize greater customer value and rationalize the cost of providing complex services in a multisourced environment.

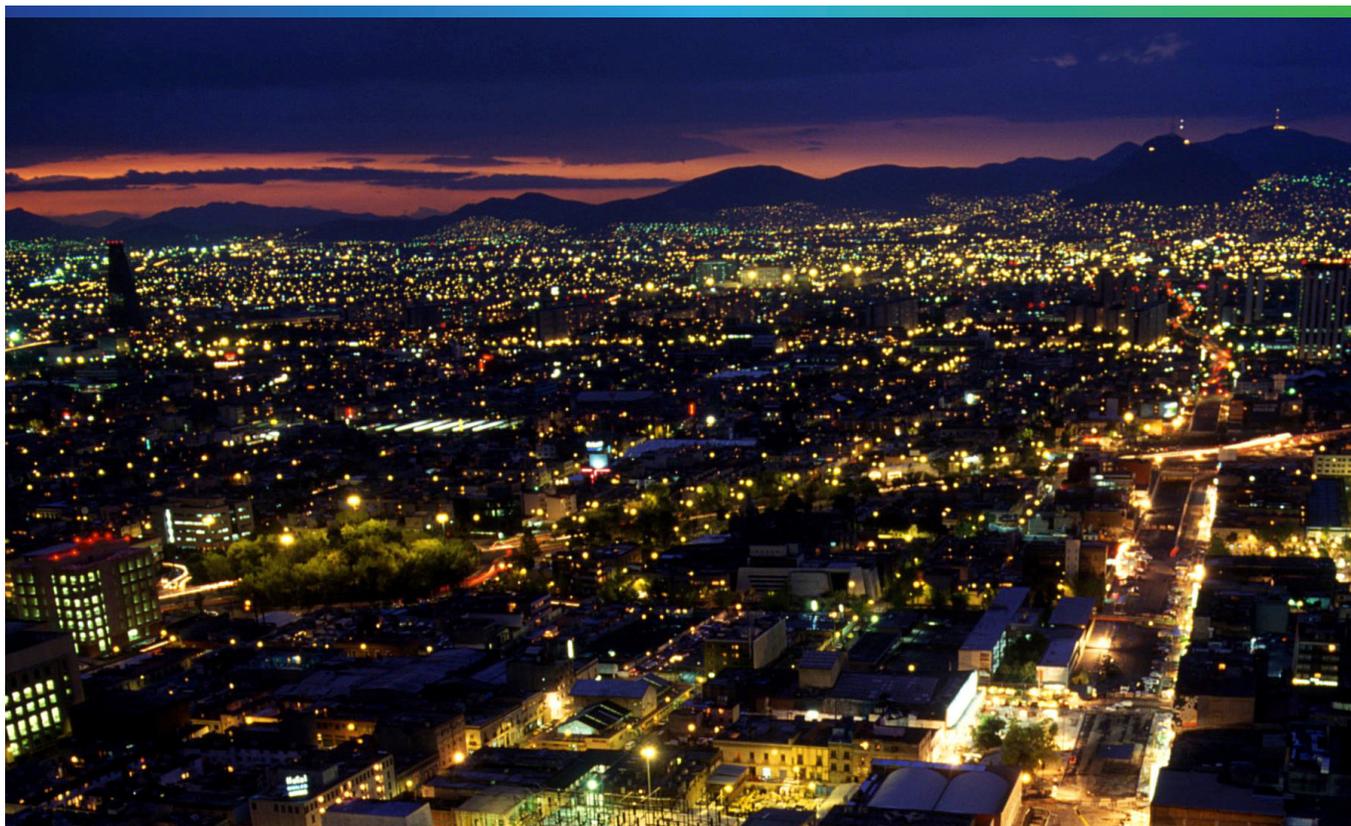


Introduction

Background

Outsourcing can be traced back to the 1970s and '80s. Companies recognized the need to create more efficiency by taking advantage of economies of scale offered by third-party service providers. They developed strategies to focus on core processes while handing off noncritical (noncore) processes to be managed by third parties who could invest in technology and process competencies to take on the risk and deliver services with higher quality.

As outsourcing matured, companies moved from sourcing with one service provider to sourcing with many service providers to diversify their risk. By removing the dependence on just one or two providers, as well as taking advantage of the best competencies of each firm, they sought to create a competitive dynamic within the sourcing relationships. With this multisourcing approach, customers began to manage multiple service provider contracts simultaneously, resulting in highly complex processes that required the establishment of a service integration and management (SIAM) function. Current SIAM models center on multiservice integration (MSI) and manage service cost through contract performance and governance processes.



Problem

Today, the multisourcing market is growing precipitously because of global companies adopting cloud-based ecosystems, low-cost digital service providers delivering from multiple locations, “best-in-class” componentized services, and service provider value chains that involve relationships that are two and three levels deep. These changes in the services landscape are disrupting the status quo while customers adopt more flexible contracts to allow for a multisourced ecosystem to fulfill outsourced services. Flexible contracts allow services to be componentized and broken down into interchangeable parts. Multiple vendors who supply service components can connect into the value chain on demand, using standard interfaces and business logic.

Current SIAM models are very static and inflexible; they are limited in their ability to enable seamless multiparty orchestration in a dynamically changing service environment. While they are effective in achieving MSI at a contractual and operational level, they are not well suited to the agile and scalable architecture of today’s XaaS-based IT environment and fail to adapt to shifting business needs. This leads to poor customer alignment, outcomes, and experience and ultimately to a reduction in realization of the value customers expect. Based on an assessment of 100 contracts executed over a two-year period, Avasant estimates that an average of 45 percent loss in realized value based on an established business case can occur within the first two years of the contract.

As shown in Figure 1, several challenges arise in the customer/vendor relationship due to:

- Poor demand and consumption management processes
- Lack of orchestration among service providers caused by real-time situations
- Insufficient visibility into and control of transactional activity
- Inflexible contracts

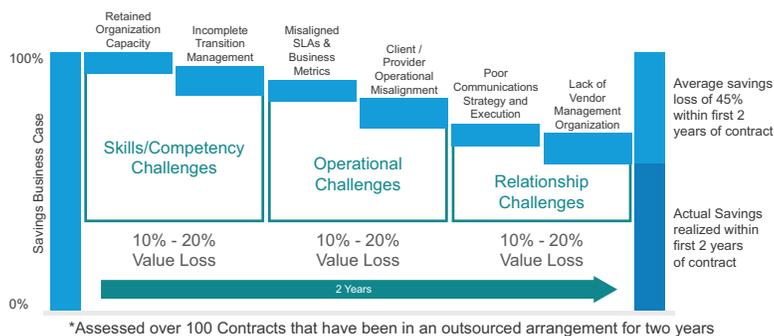


Figure 1. Realization of Value for Current SIAM Model Without Orchestration

Avasant performed a market scan in late 2014 that uncovered four important realities about the current service integration landscape (Figure 2). The scan found increased investment by companies in service orchestration as a strategy to tackle the challenges not addressed by traditional SIAM models. As technology in multisourced ecosystems continues to be a disrupter, there is a need to evolve beyond the static SIAM model toward a more dynamic, scalable, and configurable model. Over the next couple of years, these investments will increasingly focus on a multiparty service orchestration and management (SOAM) model and on enabling technologies that enhance the service integration landscape in a hybrid cloud-based and componentized services ecosystem. This scenario reflects the shift in priorities toward a managed services ecosystem in which service providers and technologies can be dynamically provisioned, almost in a plug-and-play manner, while ensuring scalability with reliable and high-performance service-level expectations. At the end of the day, companies expect their platform and services initiatives to deliver greater business and customer value in the form of higher-quality outcomes and enhanced user experience.

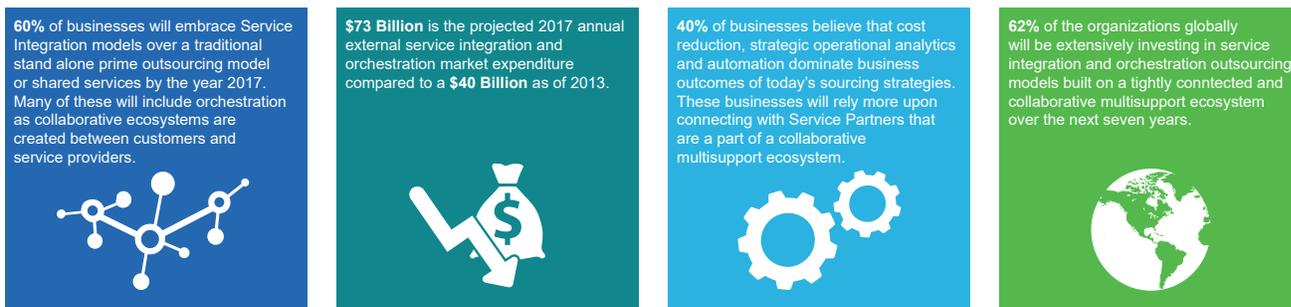


Figure 2. Scan of SOAM Potential Market

Why Is SOAM Important, and How Does It Differ from SIAM?

SIAM integrates interdependent services from various service providers into end-to-end services to meet business requirements. Typically, the focus is on management of one-to-one integration of service providers based on inflexible service contracts that reduce the costs associated with service integration and management. Service orchestration and management (SOAM) includes all of the SIAM functionality as well as new capabilities to improve customer value through orchestration of services. Orchestration makes use of the many-to-many service provider relationships in the evolving multisourced ecosystem and more flexible contracting. SOAM includes orchestration during all stage of the service management lifecycle by using automation to allow services to adapt to situations that impact customer value. Orchestration allows services to be dialed up or down based on customer demand, improving business outcomes and experience having a direct correlation to customer value.

Outcomes are assessed in terms of both the value gained (utilization) and the avoided loss of value (warranty) when a service is used and paid for. Experience is about the packaging and who delivers the customer outcomes, so the value materializes when, where, and how it is expected. Outcomes and experience can be measured using attributes that can be evaluated empirically to calculate economic value (EV) to the customer.

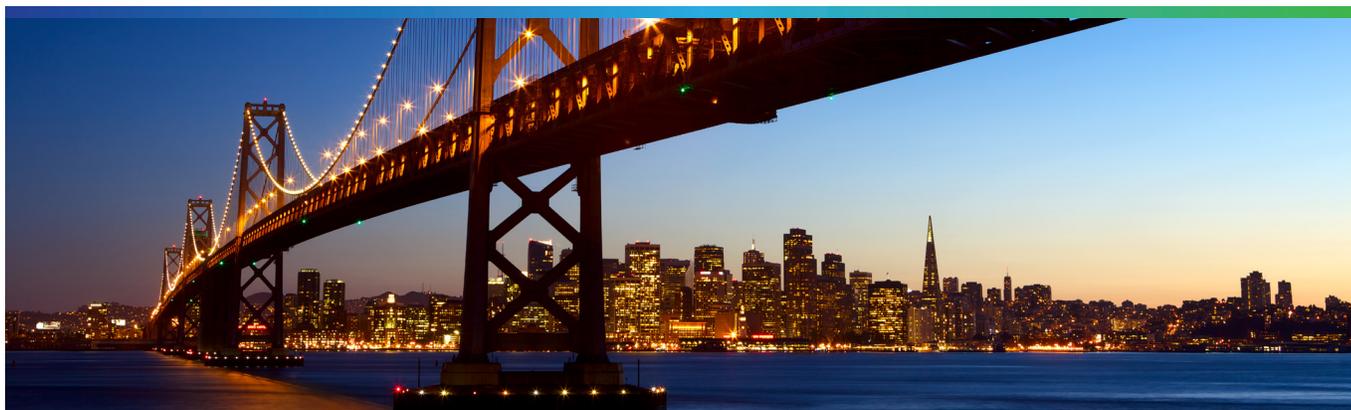
What Are Outcome and Experience EV-Based Attributes?

Outcome-based value attributes are directly related to business requirements that fulfill customer needs and realize customer value. They are based on:

- How much more useful or productive an asset is that is added, changed, or removed
- How much more productive or useful a resource is by assuring better access to it
- How much more useful or productive a resource is by using it better
- How much value loss is avoided from the monitoring, maintenance protection, recovery, and repair of customer assets
- How much value loss is avoided from having assured access to needed resources to avoid defaults, deficits, or opportunity costs from capacity shortfalls or shortcomings in their capabilities and resources

Experience-based value attributes are directly related to the customer and user experience and willingness to pay for those outcomes. They are based on:

- How easy it is to buy, register or sign up for, and set up or install the service
- How much tolerance the service has for variation or reallocation of purchased units
- How easy it is for users to interact with agents and resources used to deliver the service
- How much trust customers have in the capacity and continuity of service activities
- How dependable the agents, resources, and infrastructure are that are used to deliver services
- How easy it is for agents to advise and assist users in fixing problems, errors, or any unexpected situation
- The level of assurance that contractual obligation is not placed on customers or users or any third parties
- How simple and flexible contracts are, with options and pricing that suit a variety of outcomes and experiences



Building a Customer Profile and Calculating the Customer Economic Value

Evaluating a company's current capability and readiness for SOAM involves building a customer profile to understand the current value proposition to customers. Key company stakeholders are identified who understand the customer needs, value chains, business products and services, business and IT processes, organizational structure, sourcing and purchasing policies, service integration landscape, and technology. They answer a set of questions in six categories that evaluate SOAM readiness. The answers are evaluated for completeness and then scored. The scores are quantified and documented as six levers, each having a slider that indicates SOAM readiness (Figure 3).

The six SOAM value realization levers are pricing, orchestration, transformative functions, sourced/retained functions, sourcing mix, and organizational readiness, and they form the basis for calculating customer value. Each set of questions is grouped by these six levers and focuses on specific EV-based attributes used in the calculation to develop the base company profile. When developing a multisourcing strategy to improve customer value, companies will evaluate the base company profile based on existing capabilities and evaluate investing in new capabilities that will move levers to the right. Multiple scenarios can be analyzed quickly, showing where the greatest positive impact on customer value is received for each scenario.

The outcome is an updated customer profile and business strategy and a business case that includes investments in new capabilities (processes, people, and platforms) that realize greater customer value for the products and services offered with higher-quality outcomes and experience.

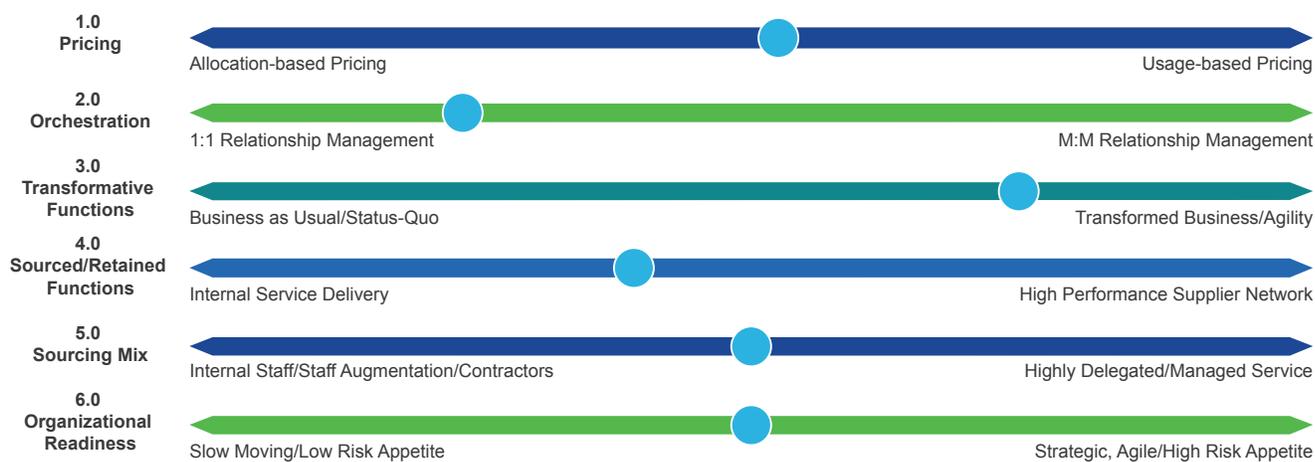


Figure 3. SOAM Value Realization Levers

Pricing

Price typically is based on some percentage of the actual cost to produce the outcome and the experience offered to the customer. However, price is also determined by the willingness of a customer to pay for value realized by a service or product. Companies need to consider moving away from allocation-based charging practices based on total cost of ownership (TCO) and deploy usage-based pricing models to improve total cost of utilization (TCU). When determining usage-based pricing models, consider:

- Accurately accounting for and measuring costs such as:
 - Direct versus indirect, fixed versus variable, and labor costs
 - Warranty, renewal, registration, security, repair, and recovery costs
 - Enhancement and optimization costs
- Level of visibility into usage of service to measure outcomes
- Level of demand and consumption planning
- Degree to which outcomes are segmented for better pricing

Orchestration

Orchestration is based on the types of relationships with service providers as well as the degree of preplanning and automation allowing for services to adapt based on the situation. Companies need to consider moving away from inflexible contracts that focus on a one-on-one relationship with their service provider and develop a comprehensive strategy that includes flexible contracts and choreographed, many-to-many relationships with their service providers. When determining level of orchestration, consider:

- Level of coordination and collaboration
- Degree of centralization of control
- Level of workflow orchestration versus workflow automation
- Tolerance for variations in demand
- Degree of flexibility in service provider contracts
- Degree of component-based, best-in-class services
- Level of automated and real-time planning, feedback, and adjustments (monitoring, repairing, recovery)
- Level of active SLA management to offer alternative fulfillment of services

Transformative Functions

Transformative functions improve a company's ability to adapt to variations in customer demand. Companies need to consider moving away from siloed and hero-based service management. Strategies that include agile service management solutions that can adapt to changing situations more easily through optimal use of processes and multisourced ecosystems become more productive. When evaluating transformative functions, consider:

- How flexible the use and control of assets and resources is
- Level of knowledge of the market and industry
- Degree to which the company adopts industry standards
- How well the company knows the service provider through visibility into its supply chain
- Degree of connectivity to the multisourced ecosystem, including "plug and play" to every service provider and multisystem integration (MSI)
- How well hybrid functions that are both retained and sourced, such as service desk functions, are managed

Sourced/Retained Functions

All companies are faced with sourcing decisions. Companies need to consider moving away from managing services mostly internally and to source properly, focusing on strategies that improve competitive advantage using high-performance supplier networks. When evaluating sourced and retained functions, consider:

- How strategic the function is to the company
- How important the function is to the operational performance of the business
- Level of complexity of sourcing relationships
- Level of integration and coordination at a transactional level
- Degree of "stickiness" to service providers that comply with industry standards
- Level of direct connection to the service provider

Sourcing Mix

When making sourcing decisions, companies must determine the proper mix to maximize customer outcomes and experience. Companies need to consider moving away from services managed internally using staff augmentation and delegate services to managed services providers. Governance and service management are typically a part of the contract, measuring customer outcomes and experience. When evaluating sourcing mix, consider:

- Advantages in using a managed contract model versus a staff augmentation model
- Degree to which a contract is "micromanaged"
- "Best-in-class" componentized services working in a many-to-many relationship model
- End-to-end visibility as they work with their network

Organizational Readiness

Companies need to evaluate their organization's ability to deliver services based on outcomes and experience. They need to consider moving away from a traditional hierarchy-based organizational structure and developing skill-based, teaming organizations that are process driven and can deal with the higher risk associated with SOAM. When determining organizational readiness, consider:

- Level of risk associated with organizational change
- Degree of interaction between users and agents used to deliver the service
- Level of trust customers have in service activities
- How quickly service providers can be onboarded
- Level of role-based job descriptions based on process-driven activities

Once the EV profile levers have been set by taking into account all of the scores from the answers to the questions about outcome-based and experienced-based value attributes, the customer EV is calculated using the following empirical equation:

$$\text{EV} = \text{Outcome} - \text{Price} \times \text{Experience}$$

The EV is a number that quantifies the customer's sensitivity to the quality of outcomes, experience, and the price paid for the service. Quality of experience is measured as a ratio of customer discomfort to comfort in using a service and is measured in terms of effort, time, or money spent to purchase and use the service as intended. A customer's tolerance for discomfort or pain depends on the outcomes involved and the price customers are willing to accept. It feels less painful when the quality of experience is good, and more painful when it is bad, making the customer more sensitive to the price paid.

The EV is used in strategy development to provide "what-if" scenarios that allow trade-offs between different investments to be evaluated. For example, because of the nonlinear relationship between outcomes, price, and experience, a company's strategy that centers on cost cutting to reduce price can adversely affect the quality of outcomes and the quality of experience, lowering the customer's EV. Conversely, simply offering a higher quality of experience may increase the total cost of utilization (TCU) and price, reducing the customer's EV. It is very important that decision makers understand how customer outcomes affect the quality of user experience and provide support for pricing decisions.

Finally, once a strategy is agreed on, a business case can be made to understand the return on the investment required to obtain the desired customer EV. This topic will be discussed separately at a later time.



Enabling SOAM Using a Multisupport Ecosystem

Advances in cloud technologies and standardization among service management processes and tools have allowed many service providers to become part of a large supplier network and connect with their customers for many service management functions. A survey conducted by Cisco demonstrated that customers who are connected electronically to service providers that allow better collaboration receive higher-quality outcomes and enhanced user experience. These “multisourced” or “multisupport” ecosystems allow companies to orchestrate end-to-end services and establish high-quality and low-cost value chains with their customers quickly.

Cisco ServiceGrid is a multisupport ecosystem platform within the cloud that provides a scalable, highly secure, and fast way to integrate the multiple service providers and support systems in a company’s ecosystem. Using standard workflows based on industry-standard processes, it provides highly secure, real-time sharing of processes and data to improve collaboration among participants. Orchestration occurs by allowing ServiceGrid® to act as the automated agent between the customer, company, and service provider for certain value-generating transactions. Economic value is realized by delivering higher-quality outcomes and an enhanced experience for the customer.

ServiceGrid, as a solution for implementing a SOAM strategy, can help companies move many of the value-based levers to the right and improve economic value. Companies will find that several of the value-based attributes used to calculate the EV produce improved customer value as a result of including ServiceGrid as part of the SOAM strategy (see Figure 4), including:

- 1 Better transaction-level visibility used to measure outcomes
- 2 Quick enrollment and renewal
- 3 Support for demand-based service management models
- 4 Use of industry standards
- 5 Connection to and collaboration among a large multisupport ecosystem
- 6 Improved “stickiness” between company and service providers
- 7 Interactive SLA management

ServiceGrid provides the support infrastructure to automate IT Service Management workflows and manage SLAs.

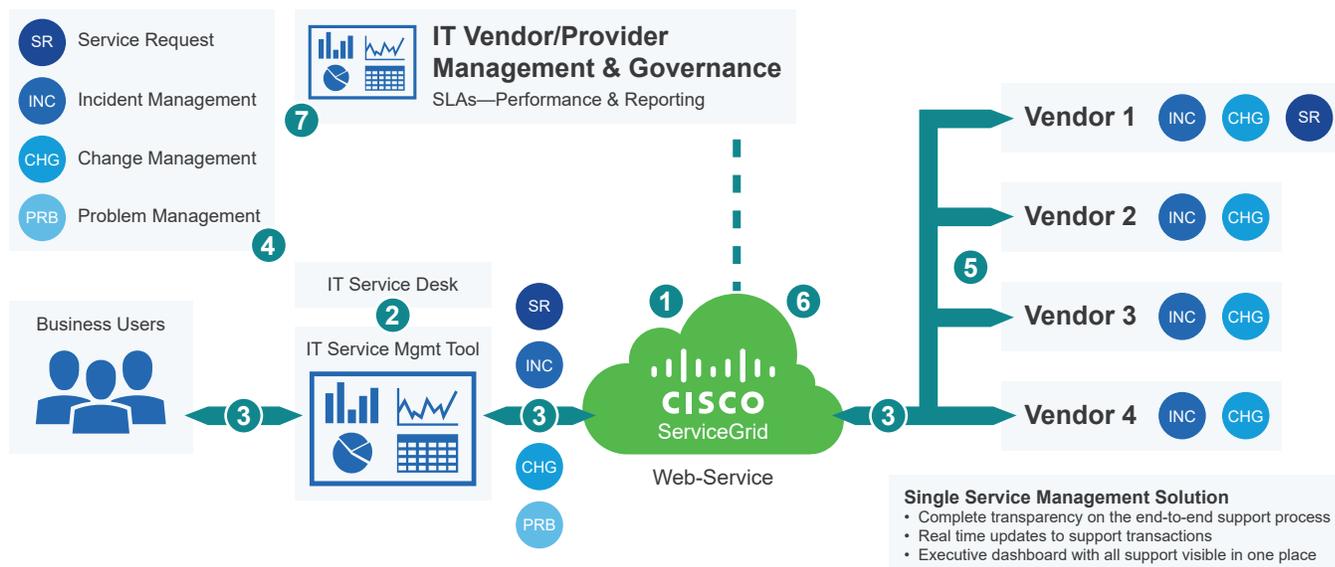


Figure 4. Cisco's Service Integration Architecture Using ServiceGrid

Conclusion

SOAM allows a company to improve customer value through higher-quality outcomes and a higher quality experience needed to remain competitive into the future, given the changing service integration landscape. Using Avasant's new approach based on orchestration as the service integration strategy and Cisco ServiceGrid as the platform to connect with a multisourced ecosystem can prove to be the right solution, as evidenced by the improvement in customer EV.

Avasant and Cisco have partnered to provide companies with a SOAM solution that replaces the traditional SIAM framework to realize greater customer value from your multisourced ecosystem.

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In his roles as entrepreneur and technology executive, Jim McDonnell is a recognized industry leader in cloud software and services. He launched his career with four start-ups, and went on to lead the creation of new Cloud business units at Cisco and Avaya. Jim rejoined Cisco with the acquisition of European-based SolveDirect, where he served as President, Americas and Chief Product Officer. SolveDirect was a 2012 Gartner Cloud Services Brokerage "Cool Vendor" and the leading business process network for multisourced IT Services. Jim drove market growth in the Americas, gained analyst recognition for the company. While at Cisco earlier, Jim consolidated all software teams within Cisco Services to form the new Smart Services Technology Group, growing the business to \$500M over three years and forming an architecturally unified portfolio of Cloud products. He grew the team from 30 into a globally distributed team of 1,000, and scaled the architecture to support 1M daily transactions. In addition, he led the formation of the services software patent portfolio, and the acquisition of Pari Networks.



About Avasant

With its headquarters in Los Angeles, California, Avasant is a leading management consulting firm focused on translating the power of technology into realizable business strategies. Specializing in digital and IT transformation, sourcing advisory, global strategy, and governance services, Avasant prides itself on enabling global 2000 organizations across various industries to achieve their business goals through a combination of strategic sourcing, digital transformation and technology-led innovation.

Our seasoned professionals have an average of 20 years of industry-honed expertise, having conducted 1000+ engagements in over 40 countries. Its next generation consulting and advisory methods have made Avasant a top-ranked firm in its class, with accolades from numerous organizations such as Vault, NOA, IAOP and Wall Street Journal.

About Cisco

Cisco (NASDAQ: CSCO) is the worldwide leader in IT that helps companies seize the opportunities of tomorrow by proving that amazing things can happen when you connect the previously unconnected. For ongoing news, please go to <http://thenetwork.cisco.com>.

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