Top 10 Pitfalls of Application Management Services
– White Paper –

Preamble

The outsourcing environment is extremely dynamic and so are the changes for Application Management due to new offerings such as virtualization or cloud computing. These developments together with the current economic situation should provoke companies to rethink their Application Management approach as well as their outsourcing partner. Outsourcing opportunities are always accompanied by risk. Frankly speaking: we are well versed in the problems of mismanaged application management arrangements.

In this whitepaper my colleagues Allison Godard and Paul Rauch will present you the Top Ten Pitfalls of Application Management Services from our point of view. By avoiding the outlined pitfalls you can establish a relationship that achieves substantive and innovative benefits for your IT organization as well as for your whole company.

Enjoy the following lines.

With best regards,
Andreas Degenhardt
(Head of Global Application Management)
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Introduction

IT outsourcing is ubiquitous and Application Management Services (AMS) is, for many companies, the foundation of their IT outsourcing program. The goal of any Application Management outsourcing partnership is to reduce cost and complexity, increase agility and innovation, and reduce risk by delivering from multiple locations around the world.

Those goals notwithstanding, any good outsourcing approach flows from a larger business purpose and reflects an interest in achieving specific, measurable objectives. Among the most common objectives companies seek to achieve are:

- Cost reduction
- Minimized risk
- Improved quality
- Standardization
- Speed to market
- Improved governance and transparency

As with everything in technology, the outsourcing environment is extremely dynamic. Technological innovation has the potential to dramatically change the way IT is delivered and new offerings like virtualization, Software-as-a-Service (SaaS), Infrastructure as a Service (IaaS), and cloud computing are changing everything for Application Management. These developments and the overall economic climate make now an excellent time to consider or revisit your Application Management approach and decide whether you want to outsource to someone else, or switch your current outsourcing partner.

This White Paper is targeted to you and the timing of your review is excellent. But every outsourcing opportunity is accompanied by risk. And having been involved in scores of outsourcing engagements, we have seen our fair share of problems in poorly structured or mismanaged outsourcing arrangements. We’ve cataloged what we believe are the Top Ten Pitfalls we’ve seen in our collective 35+ years of AMS experience and provide helpful tips on how you can avoid them.
Pitfall #1: The transition from sales pitch to delivery

The transition from a successful pitch to service delivery sets the tone for the entire engagement. Begin by completing the requirements analysis, design, and execution for the steady-state. Then create a methodology that incorporates the best business and IT practices and processes for an outsourced application management initiative and establishes the foundation for application support during steady-state.

The goal in creating this methodology is to closely collaborate with your vendor during transition. Doing so will ensure an orderly and complete transition of the knowledge, documentation, practices, and processes of the existing environment resulting in a transparent process for the users.

An important element to accomplishing a smooth and reliable transition is to complete the requirements analysis, design and execution for the steady-state. The following is a list of six things that you should do if you are going to experience a successful transition:

- Review all available documentation related to the application management
- Validate the assumptions made during the proposal and statement of work (SOW) finalization stage and perform a gap analysis
- Close any gaps – from lack of documentation to existing resources not participating in knowledge transfer
- Finalize the support process and workflow
- Implement the tools necessary to support-ticketing, knowledge management, and reporting
- Run a pilot before the start of steady-state support
- Look to the outsourcing provider to offer suggestions or propose proven and repeated processes that will improve your operation and add value to the engagement

Follow these guidelines at the outset of your relationship and you will dramatically improve your chances for a successful outsourcing relationship.
Pitfall #2: Not undertaking an Applications Portfolio Rationalization – current state, future state, and the roadmap to get there

Application rationalization is an important exercise for evaluating your entire IT organization. Rationalization helps you focus on the total cost of ownership by looking for duplicate applications, one-off technologies, applications with few users, and applications with a high cost/user ratio. With your inventory of the current state, the next step is to consider what’s necessary to move from current to the ideal.

One of the most consistent discoveries our customers make in the rationalization process is that they’re at a competitive disadvantage. Their IT environments are considerably more complex than they thought and that their total cost of ownership is considerably higher than many of their peers.

There are a number of questions you need to ask to accurately assess your own situation. How can you minimize incidents and reduce change requests? How do you ensure that you are focused on core business functions, such as finance, supply chain, marketing, etc.? What core technologies are essential to reaching your desired state? What applications will you require?

Below is an example of a checklist of information you can use to develop a Total Cost of Ownership (TCO) for applications:

<table>
<thead>
<tr>
<th>FTE's</th>
<th>Functionality</th>
<th>Number of Users</th>
<th>Hardware Costs</th>
<th>Software Costs</th>
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</thead>
<tbody>
<tr>
<td>Application</td>
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<td>Database</td>
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We define each of these categories as follows:

- **Application**: business software used by end users
- **Tool**: programs/software used to make applications work (e.g., database or interface tools)
- **Interface**: standard or custom delivered software that makes applications “talk to each other”
- **Report**: key reports delivered (e.g., new orders)
- **Database**: an organized collection of data for one or more multiple uses. One way of classifying databases is by type of content, i.e. bibliographic, full-text, numeric, image
- **FTE’s**: the number of full time equivalents required to support the application/tool/database, etc.
- **Functionality**: What the application is used for
- **Users**: the number of users using the application/tool/report, etc.
- **Hardware costs**: include servers, etc.
- **Software costs**: include operating system, software maintenance, etc.

If you complete this comprehensive checklist, your path forward will be greatly improved.

**Pitfall #3: Not getting what you pay for**

Even if you can’t always get what you want, you should at least insist upon getting what you pay for. To ensure this, follow these steps during contract negotiations with your potential AMS partner:

- Make abundantly clear what is in and out of scope. Do not allow for any “gray” areas or catch-all scenarios.
• Review the carefully crafted criteria you developed for evaluating the bid response. Give more weight to solution design, added value, and domain-specific capabilities than to the vendor’s overall capabilities. We have found this to be a far better determinant of future performance and these variables provide insight into the company’s commitment to align with your needs.

• Similarly, carefully evaluate the delivery team, more so than the entire company. Worldwide resources and name brand clients are important. But who will actually be doing your work is more important. Ask to meet the team, talk to them, and have real life project discussions. Assess the communications abilities of the team assigned to your project. Discuss your perceptions of team chemistry. And conduct the all-important “would you want to go to lunch with this group” test.

• Give greater weight to the bid responses than the legal negotiating terms. While contractual guidelines are important, the day-to-day interaction with your company is what matters most.

• Conduct stringent due diligence. Evaluate their financial strength. Conduct adequate site visits or, at a minimum, call references. Structure your RFI/RFP to factor in un-assumed risks, such as geopolitical issues in foreign countries, environmental/weather emergencies that could impact outsourcing sites, currency exchange rates, and financial problems incurred by your vendor.

• Ensure that your outsourcing partner provides adequate on-going training for anyone working on the project, including the latest tools, techniques and upgrades.

• Include customer satisfaction measurement criteria and lean heavily on industry best practices. We recommend the widely-used Net Promoter Score as a very useful metric, but there are a number of others worth considering.

• Make sure you receive business – not just IT – value.

No one counts on failure in an outsourcing relationship. But smart companies ensure that they maximize their discovery process and protect themselves in contract negotiation. So should you.
Pitfall #4: Not understanding/defining quality?

There are a number of widely recognized best practices that can inject quality into your IT systems and business. One of the most effective ways to define quality is to see how it’s defined elsewhere in your company. Do metrics exist in other departments for defining and measuring quality? If so, adopt or adapt those that make sense for IT.

We recommend partnering with vendors that employ universally-recognized quality standards, such as Lean Six Sigma Methodologies, ITIL™ best practices, and a PMI-based Quality Framework to develop a culture of continuous improvement. ISO certifications such as ISO 20000-1 IT Service Management, ISO 27001 Information Security, and ISO 9001:2000 Quality Management are another criterion for evaluating who is best qualified to meet your quality needs. The use of these industry-recognized quality benchmarks will ensure that quality is embedded into your partnership.

At Siemens, our Quality Management System focuses on five critical areas – Quality Assurance, Continuous Improvement, Standards, Quality Development, and Customer Integration. We then use tools, such as ITIL™, Lean Six Sigma, Development Needs Assessment (DNA), and Quality Gates to drive all of the practices through all of our processes. Where applicable, these tools are leveraged through the Project Management Office (PMO).

Pitfall #5: Communication problems

The trend in AMS clearly favors partners with a robust global footprint and strong global track record. The advantages of those characteristics are obvious. Those companies have valuable experience dealing with the nuances of a host of outsourcing companies and cultures and have undoubtedly instituted a global management philosophy that allows them to shift resources to the most appropriate location for each partnership.

Regardless of your geographic outsourcing location (onshore, near shore, offshore), keeping all sides in the communications loop is imperative. Doing so means much more than quarterly meetings or monthly reports.
Look for an outsourcing partner that uses a centralized ticketing tool (to ensure that Incidents and Enhancements are effectively communicated to all of the pertinent support team members regardless of location) and insist upon being actively involved as a co-collaborator in developing a strong network of information sharing. Create well-documented support processes with clearly defined roles and responsibilities for both you and your partner(s).

Regardless of where your Application Management work is done, make sure that your AMS partner has someone locally assigned as a single point of customer contact for all communications. That person should be a trusted knowledge manager who judiciously distributes information in an efficient and effective fashion and is responsible for introducing changes to the information flow without having to reach out to the client, other countries, or regional support management. Further, this person should understand your culture and possess business experience in your domain.

Ensure that information sharing is systematic, documented, and has clear guidelines for problem escalation and resolution. Your communications flow will complement your IT governance structure and involve information sharing among all parties throughout all levels of the organization: anything less, invites problems.

**Pitfall #6: Not establishing relevant metrics**

Customer satisfaction isn’t the only area in which relevant metrics are important. IT and business metrics are critical to assessment and improvement. To create effective metrics, focus them on two main areas – point in time and trending analysis. A good start to establishing your Application Management metrics is to address the following areas.

- Cost/ticket and trending
- Efficiency – SLA adherence
- Quality – Percentage of first time right
- Satisfaction – Customer satisfaction survey and incidents are closed
- Continuity/knowledge retention – Ensure that tacit knowledge doesn’t leave without documenting it
• Risk mitigation in such areas as environmental, political and business risks.
  Consider such variables as:
  - Cost of labor
  - Exchange rate
  - Potential for political unrest
  - Environmental issues like hurricane, flood, earthquake probabilities
  - Changes to tax structure of host country

Every customer will have different metrics. The key point with metrics is to keep it simple – LESS IS MORE. Too many companies focus on the volume of metrics and how they are presented. A good rule of thumb to remember is if you aren’t going to do something with the data, don’t look at it! Best practice is to pick three to five reports and evaluate their usefulness over time. If you are going to collect and review the data, ensure that your metrics are delivered in an easily understandable fashion.

An Executive Dashboard is an important feature of any metrics program because it ensures that you keep senior management engaged in ongoing IT program improvement. Deliver metrics in a timely fashion. If you can’t get a report quickly, it’s usually an indicator of a problem.

Finally, keep your eyes on the prize. Metrics are your means. What you do with them is your primary focus.

**Pitfall #7: Not establishing effective governance**

IT Governance focuses on the performance and management of risk in IT systems. Long overlooked, increased interest in IT governance is being driven by compliance initiatives, (such as Sarbanes-Oxley in the United States and Basel II in Europe), and an awareness that the precise execution of IT projects can profoundly affect the performance of an organization. If you don’t think that governance is important, consider this quote from the September, 2009 issue of CIO Magazine. In an article on Why ERP Is Still So Hard, Thomas Wailgum says that, “ERP projects have only a 7 percent change of coming in on time, most certainly will cost more than estimated, and very likely will
deliver very unsatisfying results. In addition, today’s enterprise has a little better than a 50 percent chance that users will want to actually use the application.”

Governance is also important because IT is moving out of the black box and into mainstream corporate consciousness. IT is more than backroom, technical magic. It is an essential component of business success and businesses can no longer afford to have independent towers of operations and responsibility. There is simply too much overlap and far too many mutual dependencies. Business leaders from all areas need to work in an integrated fashion. IT governance is the system by which all stakeholders – including the board, internal customers, and (especially) departments like Finance and Human Resources – have the necessary input into, and awareness of, the decision-making process.

A solid IT governance structure prevents unilateral IT decision-making and ensures that IT is integrated into the fabric of the entire organization. It also creates a knowledge base and control over your applications if/when you decide to switch application management vendors. In that situation, the lack of governance can prove disastrous. At Siemens, we have invested heavily in developing meaningful, effective, and achievable IT governance systems. Below, is a sample governance structure.
Pitfall #8: No methodology for managing change

The most insightful RFP in the world cannot anticipate everything. Work evolves. Change is inevitable. Successful companies don’t resist change because it is outside the framework. They devise a system for intelligently managing it. How you manage change can spell the difference between success and failure in your AMS relationship.

The cornerstone of a change management framework is the development of a wellorchestrated process flow designed and implemented in collaborative fashion. Upon engagement, establish clear roles for both your organization and your partner. Create and document well-defined criteria for change approval, test environments, and prioritization factors. Establish a common repository for storing work-in-progress changes as well as completed change documentation, thereby minimizing confusion around scope. To facilitate productive communications, create a communications plan that outlines who does what; who provides oversight; how and to whom content is provided; and the format and frequency of each communication vehicle. We also highly recommend establishing a change advisory board (CAB), and ensuring active involvement by your partner in the creation of your communications plan and participation in the CAB. Once implemented, it’s important to maintain your change management framework throughout the duration of the partnership. Failure to do so can have a significant impact on the quality of service and, ultimately, your partner relationship.

Once source for guidance is the ´Information Technology Infrastructure Library´ (ITIL™), a resource that provides a series of best practices and instructions for outsourcing engagements. ITIL™ has a useful and highly regarded change process that can be used as a reference point for proactively establishing a comprehensive change program.

Inherent in the design of a successful change management framework is a structure to ensure that standardized and consistent methods and procedures are used for efficient and prompt handling of all changes. Doing so minimizes the impact of change-related incidents upon service quality and improves day-to-day operations.

Finally, the change management process should be clearly defined during contract negotiations. We recommend going so far as to provide a sample change order template in the contract so that both parties understand what is expected.
Pitfall #9: Lack of a framework for process management

Just as it’s important to have a change management system in place, it’s equally as important to design a process management structure. Here again, ITIL™ is an excellent resource and is widely used in the industry. If you adopt the ITIL™ approach for process management, then make sure that you maintain and evolving it over time to continually meet the changing needs of your organization.

If you cannot or choose not to adopt the ITIL™ approach, then focus on incident management as your highest priority. Your incident management plan should include the following:

• A single tool for incident recording – regardless of platform, location, or delivery group
• A well-documented process for incident detection and recording
• Uniform incident classification and initial support
• Coordinated investigation and diagnosis
• Resolution and recovery
• Incident closure
• Incident ownership, monitoring, tracking and communication
• Reporting and monitoring to aid in continuous improvement

Again, while a full-scale Process Management approach using ITIL™ is preferable, but may not be realistic for you. A well-structured Incident Management plan will serve your IT organization well. But what’s most important is to implement an effective process management system across your entire organization and adhere to it in a coordinated fashion.
Pitfall #10: A lack of innovation in your partnership

Most IT providers focus on executing the bits and bytes – the pure technology of a project or partnership. They lack the capacity to infuse innovation into an Applications Management relationship. At Siemens, part of our differentiated approach is to bring our world-renowned network of innovation directly into the relationship. Such innovation can lower costs, increase sales and earnings, and dramatically increase speed-to-market – an increasingly critical component of marketplace success. Companies that fail to launch the right new product at the right time will be punished more severely now than ever before. But how do you develop new solutions? Can innovation really be strategically planned?

“The early bird catches the worm...,” begins a famous saying. However, the ending to this cliché illustrates how such a strategy can also lead to ruin: “...but the second mouse gets the cheese”. The first mouse was quicker, but is now dead in the trap. In the world of business, both elements of the saying are apropos, as innovation strategies will lead to success if they are consistently implemented. The first approach (the “early bird”) is that of the “first movers” – highly innovative, rapidly reacting companies that are first to market with a new technology, application or business model. Firms like Apple or Amazon are first movers. The second strategy is that of the “fast followers” – companies that avoid the lion’s share of high and risky start-up costs for research, development and market launch, but nevertheless achieve market share through price, quality or service. The Dell computer company falls into this category.

There is, however, a third innovation strategy – the “trendsetter.” Trendsetters are companies that succeed in establishing a new technology, de-facto standard, or indispensable feature on the market. In terms of the bird/mouse example above, trendsetter companies control both the worm hole and the mousetrap. As such, they can generally look forward to high profits.

To accomplish all of this, they have to be in a strong technological position, particularly with regard to so-called key and pace-setting technologies that determine who will hold the competitive advantages today and tomorrow. However, they must also be well-positioned in disruptive technologies – those technologies that can revolutionize the market in the future. Trendsetters must also closely align their R&D activities with their business strategy and possess key patents. Microsoft, Intel, and Siemens are examples of such trendsetters.
Conclusion

A tight, well-designed approach to outsourcing Application Management Services should certainly start with the fundamentals. What do you hope to achieve in the short and long term?

But your research should also evaluate the role of innovation in your AMS partnership. Does your partner bring ideas to you that are outside of scope? Do they consider the long-term objectives and not just their narrow scope of responsibilities? Can they help you become a first mover or a trendsetter?

What are your potential partners’ innovation track records? Improving process speed or reducing process cost is not innovative. At Siemens, we own some 40,000 patents and produce some 7,000 inventions annually in technologies ranging from wastewater treatment and medical imaging to network management and control systems. We know innovation and you should expect your partner to as well. You want a vendor that looks at the big picture, approaches it in the context of your overall business, and finds ways to fundamentally change how you deliver services. Reducing cost is important; but optimizing your IT processes is preferable. That is the key to program management and should be a component of your assessment metrics.

Application Management outsourcing can yield real benefits to your organization. But it is also replete with danger. By avoiding the common pitfalls outlined in this paper, you can craft a relationship that will yield substantive, measurable, and innovative benefits for your IT organization and your entire company.
The Author

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