Building Your Business Case for Best-Practice IT Services Delivery

By Kathleen Goolsby

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**Introduction**

Information technology (IT) service delivery is changing more than ever before. IT organizations are under pressure to improve their company’s performance and drive continuous value from IT investments yet, at the same time, reduce operational costs.

This requires a two-pronged approach: becoming more efficient (delivering more with less) and becoming more effective. Effectiveness can be measured in not only productivity gains but also in such aspects as mitigating risks, minimizing business disruptions, ensuring compliance, improving the end-user experience, and optimizing the IT environment to deliver desired benefits to a company’s lines of business.

The drive for best-practice delivery of IT services – that is, achieving both efficiency and effectiveness – requires a multidisciplinary approach in the buying decision’s criteria and in building an accurate business case.

The business case for delivering best practices and delivering “more with less” needs to demonstrate that the IT service delivery model will:

- Prevent negative impacts to the lines of business
- Provide positive impacts and value benefits to the lines of business
- Achieve cost objectives

When companies compare the IT service delivery models of in-house services, traditional outsourced services, or a software vendor-delivered outsourcing model (such as Oracle On Demand), they usually base their decision on a total cost of ownership (TCO) analysis.

A TCO analysis at the heart of a business case must be comprehensive. Smart companies ensure the analysis includes the IT cost impacts as well as impacts to the lines of business and does not overlook important, less obvious TCO components.

This white paper examines various TCO components and complexities, as well as hidden costs, cost avoidance, and business impacts that companies can miss when building their business case. The paper discusses aspects of building a business case in assessing the total cost of ownership in delivering best practices through an in-house IT service delivery model compared to the cost of an outsourced on-demand service delivery model.
Best-Practice IT Service Delivery Components

The Hackett Group, a leading research and benchmarking firm, proved that firms that follow “best practices” outperform their peers in getting more business value from investment in IT. As Exhibit 1 demonstrates, world-class performers are more likely to build a business case for any IT project along multiple dimensions.

In addition, the Hackett Group looked at IT spending over several years. As Exhibit 2 demonstrates, for the first time, world-class performers (those that deliver the most business value from IT) are actually spending less on IT per end user than their peers. Hackett expects that this trend will continue to widen because “world-class companies are harvesting the benefits of historical investment in consolidation and IT complexity reduction.”

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Exhibit 1

Assessment or projection required in all or most business cases

<table>
<thead>
<tr>
<th>Component</th>
<th>Peer Group</th>
<th>IT BVM Top Performers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk assessment</td>
<td>32%</td>
<td>62%</td>
</tr>
<tr>
<td>Total Cost of Ownership (TCO) projections</td>
<td>19%</td>
<td>77%</td>
</tr>
<tr>
<td>Projections of intangible benefits</td>
<td>19%</td>
<td>62%</td>
</tr>
<tr>
<td>Assessment of alignment with enterprise strategic objectives</td>
<td>19%</td>
<td>77%</td>
</tr>
<tr>
<td>Projections of non financial performance improvement metrics</td>
<td>19%</td>
<td>77%</td>
</tr>
<tr>
<td>Option valuation</td>
<td>29%</td>
<td>38%</td>
</tr>
<tr>
<td>Projections of other traditional financial metrics (e.g., Payback, NPV, IRR)</td>
<td>50%</td>
<td>92%</td>
</tr>
<tr>
<td>ROI projections</td>
<td>58%</td>
<td>92%</td>
</tr>
</tbody>
</table>

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Hackett’s finding justifies the fact that whether an IT organization streamlines itself or outsources the streamlining to another company, the valid comparison when evaluating outsourcing is to look at the cost of making the improvements in house versus having an outsourcer do it.

Best-practice IT service delivery ensures maximized services, provides advantages that competitors seek to duplicate, and creates shareholder value.

**Level of Services.** Outsourcing Center evaluated responses of 256 outsourcing buyers and providers in a study conducted jointly with Miami University in 2003. This study revealed that outsourcing relationships where the customer selected the service delivery model based on the lowest cost resulted in unsatisfactory services. The study found that taking an approach based on cost of services did not result in delivering the highest value in services.

**Shareholder Value.** In a panel discussion on measuring the value of IT investments, an A. T. Kearney executive pointed out that the real value of IT comes from “how it ultimately helps create and drive a winning strategy, not just the tactics of driving down cost ….” He further stated that “growth is a far more powerful driver of shareholder value than cost reduction.” The IT service delivery model is a critical aspect of value.

According to Mercer Oliver Wyman, an international management consulting firm, managers need transparency about IT initiatives and services so they can challenge the business benefits of an IT service delivery model and the strategic role IT plays in creating shareholder value.¹

**Quantifying the Value of IT to the Business.** Companies must balance their IT cost impacts against the business impacts. The authors of *The Business Value of IT: Managing Risks, Optimizing Performance and Measuring Results*, point out the importance of identifying and assessing risks and of effectively measuring IT. In their book, they state that the business case regarding IT decision-making for any new project (and thus also for a service delivery model) should include IT costs but also “quantification of the value to the business in terms of tangible and intangible benefits.”²

Forward-thinking executives drive their decision-making with information about potential overall business impact and risk, in addition to cost. Thus a TCO analysis for best-practice IT service delivery models needs to include (a) direct and indirect IT cost impacts and (b) the impacts on the lines of business.

Without significant experience in building robust business cases, companies easily overlook important cost impacts associated with such factors as:

- Cost avoidance
- Normalization of service quality
- Improved agility, flexibility
- Risks
- Innovation
- Improved security
- Cost associated with responding to deficiencies or discrepancies identified in an audit
- Software upgrades every 18-36 months

In addition, they often overlook qualitative impacts to the lines of business, which are more difficult to measure. While it is sometimes difficult to quantify value in terms of dollars, identifying areas of business value/benefit is invaluable in justifying costs in a business case.

**Exhibit 3** provides an illustrative list of some of the different cost and value components to consider in building a business case for IT service delivery options.

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Building an effective business case for best-practice IT service delivery starts with identifying the business needs/objectives and then moves to mapping the costs. Business needs/situations might include, for example:

- Publicly held company’s mandate to achieve cost reduction
- Requirement to deliver business agility
- Improve capability to facilitate integration of mergers, acquisitions, divestitures
- Existing IT resources cannot meet new business demands
- Privately held company with IT group “partnering” with the business and wanting to implement new software features that will provide benefits to the company’s customers
- Need to move to a more efficient, more flexible architecture
- Stalled software implementation, with the company lacking resources to hire or train people with the necessary skills
With business challenges in mind, mapping the IT and lines of business impacts should include the following:
1. Impact of the quality of the function on business success
2. Effect of the cost (or cost avoidance) on the bottom line
3. How the risks impact costs and business success
4. How the level of a capability (or lack thereof) impacts the cost of another area
5. Incremental costs

**Factors Involved in Ability to Execute.** The following list of factors comprising the “ability to execute,” for example, shows some often overlooked costs in achieving best-practice service delivery. Among other factors such as environment size and user counts, overall costs in the ability to execute are a function of:
- Currency (What is the most current release?)
- Complexity (What is the degree of customization? Costs increase with complexity)
- Suitability
- Supportability
- Proficiency rating (good, average, poor, or trouble) in each ITIL service support and delivery area, including:
  - Service support areas
    - Release management
    - Change management
    - Configuration management
    - Incident management
    - Problem management
  - Service delivery areas
    - Service level management
    - Availability management
    - Continuity management
    - Capacity management
    - Financial management

As already stated, a comprehensive, accurate business case must consider each cost element in the context of how it impacts other areas. For example, lack of in-house documentation hinders release management and content management; thus a company’s lack of documentation is a risk factor. Similarly, poor or good ratings in any of the above-listed “ability to execute” areas affect other areas.
Assessing the Cost of Risks

Gaining a clear picture of the risks inherent in each delivery model is a critical component in building a business case for best-practice service delivery. Risks either add to the bottom-line costs, or the mitigation of risks reduces or avoids costs and creates business value. Risk areas include:

- **Operational risks** that would prevent the business from meeting its current or future needs (e.g., bottlenecks in migrations/implantations, stability and uptime of systems, disaster recovery)
- **Strategic risks** that would hinder the company’s ability to achieve its desired outcomes (e.g., speed of implementation, inability to quickly expand scope for new business needs)
- **Legal risks** that would cause the company to be out of regulatory compliance and possibly incur financial penalties (e.g., failure to adhere to Sarbanes-Oxley requirements)

Exhibits 4 and 5 illustrate two areas of risk (software upgrades and regulatory compliance audits) and compare some of the IT cost impacts and lines of business impacts in two IT service delivery models.

### Exhibit 4

Costs and business-impacts value associated with software upgrade in two IT service delivery models

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### Exhibit 5

Costs and business-impacts value associated with regulatory compliance audit in two IT service delivery models

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In addition to Oracle’s best practices in the area of Sarbanes-Oxley compliance, companies can realize value by adding Oracle PCI Compliance Services to protect customer credit card data.

**Best Practices in IT Service Delivery**

Alternative IT delivery models available today (e.g., Software-as-a-Service [SaaS] and on-demand services) present best practices, significant value, and dynamic competitive advantage to businesses. Among the business-impact benefits are the following:

- Flexibility from converting a capital expense to an ongoing operating expense
- Quick time to service and scalability
- Ability to take advantage of innovation without disrupting operations
- Just-in-time procurement of assets and services
- Increased business agility accelerates business results
- IT-enabled business transformation

The following cases are examples of assessing the business-impact value of in-house practices and IT costs with a best-practices Oracle On Demand solution.

**Case #1: Cost Avoidance**

The company needs to invest $400,000 to upgrade the power and cooling in its data center. It has a mandate to cut operational costs and new capital investments. It will cost $100,000 more per year to move to an on-demand service delivery model. By doing so, it will avoid the cost of the capital investment in the data center and reap additional value as well.

An important consideration in a business case that companies often overlook in their TCO analysis is the cost tied to continued investments in IT for delivering a best-practices level of in-house services.

**Case #2: Increased Productivity**

The company’s in-house call center system experiences too much downtime. With just a one percent increase in availability from moving to the on-demand model, the company gains .08 hours of productivity per employee on the system (20 hours per 25-day year). At a burdened rate of $50 per hour ($1,000 per employee) and 500 employees on the system, the company realizes $500,000 per year in productivity improvement.
Case #3: Increased Revenue

The company is losing business to competitors because its e-commerce site experiences frequent unavailability. It gains a one percent increase in availability by moving to Oracle On Demand, amounting to .16 hours on a 16-hour selling day for 350 days of online store operations (or 56 more selling hours per year). With sales of $1,000 per hour, the business impact of the on-demand solution is $56,000 more revenue per year.

Case #4: Improved Customer Service

The company’s move to Oracle On Demand reduces the cycle time in its customer service transactions. With transactions at a rate that is 10 percent faster than the prior in-house service delivery, the company saves its customers one hour of time for every 10 hours that they require service.

Case #5: Improved Alignment and Focus

The company used Oracle applications in its locations worldwide but has more than a dozen different versions of the applications due to mergers/acquisitions, geographic locations, etc. By shifting to the Oracle On Demand model, the company was able to consolidate to a single instance of Oracle and also achieve faster roll-out of IT for new business units in various countries as well as lower cost. By centralizing its IT to the on-demand service delivery model, it increased its ability to win in a very competitive marketplace.

Market perceptions about on-demand services are misleading

Myth: There is an expectation in the marketplace that “on demand” solutions aim to provide lower cost, limited functionality, and low levels of service.

Reality: A solution such as Oracle On Demand is a premium service with an objective of providing greater value for a lower cost.

Best-practice services do not stand still. Another important consideration in best-practice service delivery is the on-demand model’s more modular approach to service, ensuring the customer will have the technology and level of support it needs when they are needed. From the perspective of both the IT costs impact and the impacts to the lines of business, this aspect stands in stark contrast to in-house service delivery as well as services from a traditional outsourcing provider.

While both models deliver initial cost-reduction and process improvement benefits, one model has constraints with serious ramifications to the ability to execute.

The cost and value proposition of the in-house and traditional outsourcing service provider models depends on keeping the service stable. As long as the company can keep the service basically standing still and not evolving, the direct IT cost impacts may, indeed, be lower than an on-demand solution. However, if a company wants a change or modification because of new business challenges, it will not only incur the cost of the change but also the IT cost impacts of deferred maintenance, adding additional risk,
time, and expense with both the in-house and the traditional outsourced delivery models. In the long run, these service delivery models can rack up higher IT cost impacts than an on-demand solution.

It is difficult to put a dollar value on such invaluable benefits; yet they are an integral part of a business case for an IT service delivery model. Exhibit 6 displays other aspects of evaluating the cost and value components in delivering best-practice IT services.

### Exhibit 6

Examples of business impacts compared within two service delivery models

<table>
<thead>
<tr>
<th>In-house Service Delivery Model</th>
<th>Oracle On Demand Delivery Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business agility limited by human and capital resource constraints</td>
<td>Increased business agility accelerates business results</td>
</tr>
<tr>
<td>Constraints in capability to evolve quickly and cost-effectively with evolving business needs</td>
<td>Ensures alignment of capabilities and business needs, at the time they are needed</td>
</tr>
<tr>
<td>Lack of resources to quickly ramp up new services or increase time to market; disruptions to business operations for implementation and testing</td>
<td>Ensures scalability, quick ramp-up time, speed to market and capabilities; ability to keep pace with escalating needs with only minimal disruption to business for quick testing</td>
</tr>
<tr>
<td>Varying levels of capabilities, from poor to good, in ITIL-based performance criteria</td>
<td>Excellence in ITIL-based performance criteria</td>
</tr>
<tr>
<td>Not adopting new software functionalities or versions because of the need to train staff and incur additional costs</td>
<td>Maximum value and impact from new features and functionalities of software</td>
</tr>
<tr>
<td>Resource constraints can result in cutting corners or not meeting a business need when changes are called for</td>
<td>Stability of operations; cost predictability</td>
</tr>
<tr>
<td>Resource constraints create risks of bottlenecks and installation stalls in migrations, implementations upgrades</td>
<td>Critical software patches delivered as soon as available; non-critical patches and upgrades delivered per periodic maintenance</td>
</tr>
<tr>
<td>Employees’ inability to do their jobs, and customers’ dissatisfaction when systems are not available</td>
<td>Increased productivity and revenue opportunity as well as increased customer satisfaction due to increased system availability</td>
</tr>
<tr>
<td>Reactive approach to service delivery</td>
<td>Faster problem resolution due to immediate understanding of whether the root cause impacts all on-demand customers or is specific to one customer</td>
</tr>
</tbody>
</table>

Such business impacts listed in Exhibit 6 are difficult to quantify in costs but are a significant component of business value and thus are a critical aspect of conducting a comprehensive TCO analysis as the basis for an accurate business case for best-practice IT service delivery models.
Conclusion

This paper has presented aspects of building a business case in assessing the total cost of ownership of delivering best practices through an in-house IT service delivery model compared to the cost of an on-demand service delivery model.

Companies frequently overlook some important components of a TCO analysis – especially the qualitative impacts to the lines of business, which are more difficult to quantify.

As pointed out in this paper, studies show that a comprehensive TCO analysis for a business case looks at the IT cost impacts alongside the impacts to the lines of business.

A business case needs to justify the total value of a solution. Doing so will ensure that the selected IT service delivery model will achieve the company’s objectives of:

- Reducing operational costs while, at the same time, becoming more efficient and more effective
- Driving continuous value from IT investments

For more information about analyzing IT cost impacts and the value from impacts to lines of business, or for more information about Oracle On Demand, contact our Business Development team at 1-800-633-0738. Oracle On Demand has a robust methodology and tools that assist companies in capturing and calculating all components of TCO in building a comprehensive business case.

Oracle On Demand includes all Oracle solutions:

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- Oracle-Acquired Applications
- Industry Applications
- Deep Application Integration
- Fast Path to Fusion applications and SOA
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