

# Point of View

## Transform to Perform: Reconsidering Application Management Outsourcing

### Reduce Costs, Deliver Strategic Business Results

#### Application Management Outsourcing:

Reduce Costs, Deliver Strategic Business Results

The effects of globalization have never been more apparent. For several years, economies that were intricately linked grew together. Global companies became larger. Emerging companies flourished and became global competitors. And interest rates were so low that borrowing money cost next to nothing. However, as 2008 demonstrated, economies that are intricately linked can also fall together.

Today, companies face daunting challenges amid a steady stream of trying events:

- ⇒ Global credit crunch
- ⇒ Reeling stock markets
- ⇒ Record unemployment
- ⇒ Slowing consumer spending

- ⇒ Rising health-care costs
- ⇒ Collapse of U.S. auto and financial industries

The reality is that even in challenging times, organizations still need to operate their businesses. Finding ways to cut costs while still providing services to run businesses will remain the top priority of senior executives.

Organizations must grapple with these business realities. One area where they can reduce costs, while continuing to effectively and strategically serve the company, is through outsourcing the management of applications.

This paper will address the following topics:

- ⇒ Factors driving the need to better manage applications
- ⇒ A brief history of enterprise applications
- ⇒ The application management lifecycle situation

- ⇒ The role of application management outsourcing
- ⇒ Implementing an effective application management strategy
- ⇒ Avanade's approach to application management
- ⇒ Getting started

**Several factors drive the need for organizations to better manage their applications.**

#### Increasing cost of IT

- ⇒ Gartner Inc. estimates that upwards of 70 percent of IT spending goes to support and operate existing technology. Approximately 30 percent of IT budgets go to the salaries of people performing ongoing operations and maintenance. A big part of this cost is maintaining, integrating, and supporting legacy applications. The current situation hinders the ability of most IT organizations to be proactive

and agile in responding to the daily changing needs of their businesses in a highly competitive marketplace.

#### **Lack of IT-business alignment**

- ⇒ Failure to align IT capabilities with business needs has led to IT being disconnected from contributing to an organization's strategic purpose. There is a need to make better use of in-house business knowledge and support established business processes.

#### **Need for increased productivity**

- ⇒ For many organizations, there is a lack of established methodology and/or committed resources to optimize application support. Too often there are missing or inappropriate monitoring tools to push performance and reduce downtime. Additionally, increasing deployment cycles of application enhancements lead to increased defect backlogs, reducing staff productivity.

#### **Need for greater agility**

- ⇒ The ability to react to new business initiatives, or rapidly respond to changing economic conditions, is of paramount importance. Unfortunately, over-burdened IT staff members are unable to contribute to increasing technology requests.

#### **Strategic direction**

- ⇒ Many companies have considered or even used an off-shore application management services model. But they lack the requisite knowledge to outsource successfully with secure, controlled delivery. There is a need to contain costs by shifting to an

application management outsource service model and turn the IT organization from cost center into profit center.

#### **Enterprise Applications—A Brief History**

Over the past 30 years, most organizations have created large portfolios of applications, including those that were custom built, as well as packaged software. Often, these applications were implemented as stand-alone applications. It involved little consideration for integration within the company and with partners, customers, and the Internet. Mergers and acquisitions (M&A) during the 1990s and early 2000s compounded the problem, creating situations where redundant capabilities were spread over silos of applications across business functions. Many of the people who implemented these applications have since left the companies, and adequate documentation on the system implementations often is not available. Furthermore, the skills base for legacy programming languages and technologies is dwindling, which drives up labor costs for those people who still possess these skills.

Some organizations that find themselves in such a situation are considering a variety of options. For example, many are looking for alternative ways to lower the costs of maintaining the applications. One way is to rationalize their portfolio of applications to remove the redundant capabilities. They also need to move the applications to a flexible, modern, and agile service-oriented architecture.

Of course, it's critical that organizations free up resources to focus on new strategic initiatives. Many enterprises are finding results through outsourcing the application management function.

By adopting this approach, organizations can establish a model for cost optimization, user productivity, and operational improvements that support competitive advantage and better responsiveness to business opportunities.

#### **The Application Management Lifecycle Situation**

The lifecycle of an application includes not only the design and development of the application but, more importantly, the care and feeding of the application as it evolves in a production environment. A new application produces the greatest business value when it acts as a key component in a business process. Many organizations focus on optimizing the requirements and development processes related to application development. However, very few put the right emphasis on the processes, tools, and evolution strategies needed to ensure the application's long-term success.

**"The costs involved in application management should be looked at as an investment in the future of the business. It ensures that a proper mix of process, tools, and on- and off-shore resources are considered to drive repeatable, predictable application management solutions."**

Maintaining business-critical applications is an expensive proposition. From a portfolio perspective, these costs normally represent the majority of an IT budget. The expense is primarily due to the high cost of local resources, little or no coordination between support teams, and the presence of one-off tools and process models that are difficult to replicate. Further, organizations get bogged down in supporting applications that take key resources—with all the business-process knowledge they bring. Some organizations might miss ways to consolidate application functionality, remove application redundancies, and leverage existing technology to pursue new opportunities.

These problems create a situation whereby application management is treated as a discrete activity that focuses too narrowly on each specific application. The result: expensive, walled-off solutions that slowly fade out of relevance. The costs involved in application management should be looked at as an investment in the future of the business. It ensures that a proper mix of process, tools, and on- and off-shore resources are considered to drive repeatable, predictable application management solutions. That reinforces the goal that the team does not lose the vision of emerging technologies. And it can evolve applications into modern, agile, service-oriented solutions that meet the changing needs of the business.

### The Role of Outsourcing Application Management

Companies depend more heavily on business applications today than at any

time in the past. While the pressure to reduce costs across all IT has intensified, the need for organizations to innovate and evolve also continues to grow in importance.

Tolerance for downtime is bound to decrease. Support requests are likely to rise, creating a need for companies to implement a robust application management program.

Application management is perhaps the single most important and costly function in an IT organization. Therefore, it is a viable target for cost reduction and service innovation. As stated earlier, upwards of 70 percent of an organization's typical IT budget is related to IT operations, specifically support and maintenance. Not surprisingly, Gartner Inc. also reports that application management services are the fastest-growing application-related services.

Another contributing factor to the rise of outsourced application management is the desire to place key internal IT resources where they are most needed by leveraging off-shore skills for application management.

#### **Transform to Perform**

The Avanade Application Management™ solution improves return on investment and can show hard cost savings in the first year, with these types of returns in a typical 5-year scenario:

- ⇒ 20% reduction in support team
- ⇒ 33% reduction in support costs
- ⇒ Optimized costs
- ⇒ Service levels implemented

The following key business and IT factors are driving the need for application support and management:

- ⇒ *Business opportunity costs:* While organizations can quantify the hours that developers spend on application management tasks and can compute the direct cost, enterprises often fail to account for the cost of opportunities that are lost because developer resources are not directed toward creating or enhancing applications.
- ⇒ *Unfulfilled service-level commitments:* Many IT organizations struggle to understand how effective their maintenance and support operations really are. However, implementing the processes and exercising the discipline to track and monitor service capabilities is time consuming and shifts focus away from daily priorities. Without the capability to monitor service levels, it is very difficult to improve maintenance and support.
- ⇒ *Retaining skilled resources:* Recruiting, training, and retaining staff skilled in emerging or legacy technologies is very expensive. The pressure to be competitive requires faster time to market for new applications and enhancements to existing ones. Yet the simultaneous need to keep costs down and make IT resources as productive as possible makes it even harder to find the right staff. Retaining the proper mix of staff skills also adds management overhead, requiring an extra investment to keep employees

motivated and on a personalized career path.

- ⇒ *Redundant capabilities:* Many organizations possess numerous applications that replicate the same functionality. With a stringent application management strategy in place, companies can rationalize their application portfolios and remove application redundancies, creating a robust IT environment.
- ⇒ *Modernization:* Many organizations would be better suited moving their application portfolio to a competitive and agile service-oriented architecture.

### Implementing an Effective Application Management Strategy

A comprehensive application management strategy can provide many business and competitive advantages.

For one, using a global service network can reduce labor costs while providing true 24/7 support. Offloading application maintenance to a third party creates the opportunity to realign IT resources to focus less on maintenance-related tasks and more on projects that relate to key competencies. Also, working with an effective partner can enable companies to modernize their application infrastructure and move to a more flexible, agile, service-oriented architecture.

Finally, better aligning line-of-business IT resources and support helps improve service levels and gives companies the ability to rationalize their application portfolios to remove redundant capabilities.

A practical approach to application management takes the non-strategic but essential work from IT staff and replaces it with other important tasks. Meanwhile, the fundamental aspects of application management are handled by resources equipped with the skills, experience, tools, and processes to make short work of the routine. These resources can also determine the best way for the business to better anticipate challenges and identify potential improvements that will serve the business well in the long term.

### Defining a Viable Strategy

One of the most important and practical things an IT organization must do to ensure its day-to-day and long-term success is to put in place an effective strategy for knowledge transfer from the development team to the production support team.

The guiding principle behind a practical application management strategy is to make the maintenance and support process repeatable, measurable, efficient, and cost-effective, while at the same time looking for opportunities to modernize applications and increase efficiency by removing redundant capabilities.

The Avanade approach to an application management strategy integrates a series of capabilities into the application lifecycle to provide a seamless support service (see Figure 1). For example, when Avanade and a customer collaborate to develop the application and transition it to an Avanade team, key support team members are involved very early in the development process. Consequently, the support team is “run-ready” for deployment of the application, and the costs and risks of the transition phase are minimized.

In situations where an existing application is a candidate for Avanade to manage, a well-planned transition can capture the internal documentation and the support team’s knowledge. This information is stored in an online knowledge repository to ensure visibility into the business processes that are vital to the successful support of the application.

In all cases, the Avanade Application Management solution gives an organization the opportunity to

Figure 1

| Application Origin              | Transition Model  | Transition Costs | Internal Support Costs                      | Avanade Support Costs |
|---------------------------------|---|------------------|---|-----------------------|
| Customer/Third-party Developed  | Formal transition to Avanade team through knowledge management tools    | High             | Moderate                                    | Moderate              |
| Avanade-ported                  | Formal transition to Avanade team through knowledge management tools    | Moderate         | Moderate                                    | Moderate              |
| Avanade Port/Partial Rewrite    | Formal transition to Avanade team, augmented by migration documentation | Low              | Moderate-to-high (potential learning curve) | Low                   |
| Avanade Rewrite/New Development | Integrated support team, “run-ready” team                               | Lowest           | Moderate-to-high (potential learning curve) | Lowest                |

implement an ongoing support strategy that can deliver a repeatable, measurable, and efficient management model. Applications can be added or removed from the portfolio without disrupting existing application management service.

It's far more practical to plan for and link development and migration efforts to a managed application environment in advance. Having an application management strategy is a crucial investment and an integral part of the initial planning process; it should not be treated as an afterthought. When the development project is tied to an application management environment from the outset, risk and cost are reduced.

### Avanade's Approach to Application Management

The heart of Avanade's practical approach lies in its expertise and its unique relationship with Microsoft, yielding perhaps the most comprehensive set of skills and experience available for application management on the Microsoft .NET platform.

Before beginning work, Avanade provides insight to help define an application management environment that can deliver appropriate support across all applications in a company's portfolio. Effective application management may entail on-site, on-shore, near-shore, or off-shore support, each of which offers its own set of advantages and disadvantages. A multi-shore delivery team brings its own management issues, as well. The Avanade Global Delivery Network

(GDN) has locations around the world that provide 24x7 support. (Click [here](#) to read more about the Avanade GDN.) Furthermore, delivery of application management support related to break-fix, enhancement, and performance improvement requires transitional, process, technical, and measurement capabilities. There are four key capabilities essential to application management:

- ⇒ *Transitional capability:* Crucial to moving application management from one organization (such as the development team) to another (such as the production team), transitional capability is the most important event in the management process. Avanade's transition capabilities captures the specific knowledge required to support and maintain applications. These tools have been used in hundreds of applications and have proven valuable in transitioning new teams and team members into projects over time.
- ⇒ *Process capability:* Vital for effective delivery of application management services, process capability sees that the most effective processes result in productivity gains almost immediately. The Avanade GDN can deliver CMM Level 5 services that can offer immediate process improvements to almost any application environment. From our experience, the combination of transitional and process capabilities can bring improvements to application management engagements quickly and efficiently.
- ⇒ *Technical capability:* Using technical capability to address how an

organization evolves and delivers innovative application management resources provides insight into supporting a wide range of applications without neglecting legacy technologies.

- ⇒ *Measurement capability:* Supporting the organization's ability to meet business requirements in terms of service-level measurements is provided through measurement capability. It's not enough to measure success based on user feedback; success in a support environment must be gauged by quantitative metrics that indicate contribution to business benefits. The Avanade Service Management Suite™, deployed on hundreds of engagements, provides a comprehensive set of automated issue monitoring, resolution tracking, and reporting capabilities that allow Avanade consultants to customize a metrics-monitoring program for each engagement.

Together, these capabilities form the basis for the Avanade Connected Methods™ for Application Management. This application management framework covers five strategic aspects of a comprehensive application management solution:

- ⇒ *Business Operations Management:* Provides application management for applications that support strategy, customer relationships, customer demand, finance, and day-to-day operations.
- ⇒ *Service Management:* Serves as the point of entry for customer requests that includes management of help

desk functions and service requests, monitors service-level agreements. Assists the team in meeting its service commitments to the customer.

- ⇒ **Quality Management:** Covers management and monitoring of quality, metrics, best practices, process excellence, and continuous improvement.
- ⇒ **Environment Management:** Provides what the application management team needs, from the facilities to the technical infrastructure necessary to run and support the application management team.
- ⇒ **Services Provisioning:** Plans, executes, and tracks application maintenance efforts for specific requests and problems.

The first four areas provide functional support for the service provisioning operations, which perform the actual application maintenance work for the customer. All activities take place continuously or cyclically (see Figure 2).

**Getting Started**

Successfully introducing application management capabilities with a partner requires both a detailed assessment of your current environment and a well-calculated implementation plan.

Crucial steps in this process will include:

- ⇒ Using a proven methodology for working with tactical and strategic business owners to identify and organize data and application management needs.

- ⇒ Forming strategic partnerships with an experienced application management service provider and strategic independent software vendors.
- ⇒ Establishing upfront management commitments, service agreements, and support that achieve desired goals.
- ⇒ Assessing your current application portfolio for opportunities for migration and outsourced management.
- ⇒ Considering technology platform consolidation where appropriate, to gain economies of scale in your migration and support environments.



Figure 2

## Conclusion

To weather the current economic storm, executives are looking for ways to reduce spending in all areas, including IT. One of the most effective ways to reduce IT costs while continuing to effectively and strategically serve the company is through outsourcing the management of applications. With application management, your entire organization can:

- ⇒ Realize significant cost savings in maintaining applications through the use of off-shore resources.
- ⇒ Increase productivity and improve time to market by freeing up critical IT resources to focus on strategic business initiatives.
- ⇒ Rationalize your application portfolio and remove redundant functionality.
- ⇒ Move your applications to a flexible, modern, and agile service-oriented architecture.
- ⇒ Better understand application support environments through structured, measurable service levels.

For companies under pressure to cut costs while maintaining essential business services, Avanade can help. Outsourcing the management of your Microsoft® application portfolio to Avanade under a long-term, service level-based agreement can drastically reduce your operating costs. Avanade's combination of highly competitive off-shore capabilities and productivity improvements enabled by the Avanade Global Delivery Network processes can help organizations meet the challenges in today's business climate.

For more information, please visit [www.avanade.com](http://www.avanade.com).



### About Avanade

Avanade provides business technology services that connect insight, innovation and expertise in Microsoft® technologies to help customers realize results. For more information, visit [www.avanade.com](http://www.avanade.com).

©2010 Avanade Inc. All rights reserved. The Avanade name and logo are registered trademarks in the US and other countries.

### Americas

Seattle  
Phone +1 206 239 5600  
[America@avanade.com](mailto:America@avanade.com)

### Europe

London  
Phone +44 0 20 7025 1000  
[Europe@avanade.com](mailto:Europe@avanade.com)

### Asia-Pacific

Sydney  
Phone +612 9005 5900  
[AsiaPac@avanade.com](mailto:AsiaPac@avanade.com)