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Business Value Highlights

Avanade's application and infrastructure managed services delivered a 446% ROI and paid for themselves in 13.4 months, just over four months after going live, through the following benefits:

Returned benefits for every $1 invested:

Almost $5.50

Lowered annual operations cost:

$2.2 million

IT staff time savings and productivity gains on application *development*:

67%

IT staff time savings and productivity gains on application *management:*

42%

Mitigated risk by reducing downtime:

64%

Lowered infrastructure costs:

13%

Achieving Business Value with Avanade's Application and Infrastructure Managed Services

EXECUTIVE SUMMARY

An IDC analysis demonstrates that organizations are leveraging Avanade's application and infrastructure managed services to create significant business value, recording an average five-year return on investment (ROI) of 446%. IDC's analysis shows that Avanade managed services are:

» Providing organizations with skills, talent, and experience that are making their IT departments much more productive, especially with regard to application development, without having to incur the time and cost of hiring and training additional IT staff

» Helping organizations drive productivity levels across their business operations by speeding up application and technology deployment times and reducing the time that employees must wait for IT efficiencies to be delivered

» Driving higher revenue by lowering the number of downtime hours organizations experience per year and by alleviating internal resource constraints that slow or hold up products and services from reaching customers

Situation Overview

Top Corporate Imperatives, Challenges, and Trends

In this fast-paced world, businesses are under extreme pressure to ensure top performance. Some of the key factors driving this are responding to market demands more quickly, meeting a broader set of government and partner regulations, and adapting to changing buyer behavior. The result

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is the need for firms to build more adaptive and agile IT environments to support these requirements while achieving their strategic business imperatives and managing critical business challenges.

» **Top business imperatives.** IDC research shows that the top most significant imperatives for firms involve meeting key financial performance metrics (revenue, costs, and profits), optimizing brand image (customer satisfaction), meeting quality standards (operational excellence), and ensuring differentiation (innovation).

» **Critical business challenges.** However, the biggest challenge facing businesses in executing their corporate strategy is the inability to focus the right people and resources on strategic initiatives. Essentially, firms are looking to focus on their core competencies while optimizing productivity. In addition, firms indicate that they want to ensure the alignment of their business requirements with IT and to gain greater financial visibility and integration.

Underlying the need to create a more dynamic set of IT capabilities is the corporate trend of adopting new technologies, including mobile, social media, cloud, and analytics. These shifts are only further exacerbating the risks that businesses are facing. Just consider the impact of the following on the ability of enterprises to execute their corporate strategy and achieve their top imperatives:

» **Increased investments in mobility, social media, and analytics.** The combination of employees utilizing these capabilities outside formal corporate processes, such as bring your own device (BYOD) or social media to pursue business opportunities, and how buyer behavior is changing as they use these same capabilities is placing an inordinate amount of pressure on organizations to adapt their business processes more quickly. Couple these factors with the vast volume of data now generated from these capabilities, and enterprises increasingly face the need to incorporate the right level of analytics to ensure competitiveness.

» **Shift to cloud-based delivery.** Enterprises are incorporating many types of cloud capabilities (e.g., PaaS, IaaS, and SaaS) to support critical business needs such as lowering costs, accelerating time to market, and increasing agility. Top application environments for which enterprises are using cloud include office and productivity, finance and accounting, CRM, and data warehousing. Interestingly, most organizations indicate that they will be challenged to manage their own internal cloud environments because of their lack of key physical assets (e.g., redundant datacenters, operations centers, management of telecommunications). Consequently, enterprises will need to assess how they will manage a shift to the cloud and what role a provider of managed services should play.

Underlying the need to create a more dynamic set of IT capabilities is the corporate trend of adopting new technologies, including mobile, social media, cloud, and analytics.

Enterprises are also facing greater challenges in managing across all their IT resources, both internally and externally. Many organizations do not manage their IT centrally at a worldwide level. In addition, many enterprises are procuring cloud services, particularly SaaS, either at the business unit level or outside of formal corporate channels, also referred to as shadow IT. The combination of federated management of IT and procurement of IT services is increasing corporate risks in achieving business imperatives. Finally, when it comes to selecting the most appropriate provider of managed services, buyers indicate that they use a number of strategic factors in the selection process. These include the provider having a full range of IT and business process services; a proven record of delivering on service-level agreements (SLAs) and costs; financial stability; and industry expertise and a strong reputation as a service provider.

Value of Managed Services in Supporting Strategic Corporate Objectives

So what is the business value of using managed services today? Fundamentally, the business value of managed services has dramatically changed over the past decade. It has moved from the historical "lift and shift" and goal of driving down costs while standardizing technologies to one requiring innovation and transformation. As discussed in the following bullet points, today's buyers want to use managed services as a means of restructuring their financial model and getting access to innovative services that can support greater business agility and help accelerate the pace of change enterprises need to make in order to stay competitive.

» **Reduce costs and meet key financial performance metrics.** Enterprises look to managed services to help drive down costs in order to meet internal cost savings mandates and to offset potential high costs of upgrading to new technologies. In addition, businesses are increasingly using managed services to shift their financing model for IT from capex to opex. This aligns with their need to meet key financial performance metrics involving costs and ultimately the profitability of their firms.

» **Allocate talent and skills to focus on core competencies.** Managed services provide buyers with the ability to focus people on strategic initiatives. Enterprises view managed services as a means of gaining access to technical expertise and integration skills; resources, staff, and capacity; and industry knowledge and expertise, all of which can enable them to focus on their core competencies.

> Fundamentally, the business value of managed services has dramatically changed over the past decade.

» **Support need for greater business agility and operational excellence.** Buyers highlight that they utilize managed services to enable time to market by speeding up implementation of applications across business units. Interestingly, buyers expect that providers will be able to provision applications much more rapidly than internal IT departments. In addition, enterprises look to managed services to increase operational efficiencies, which require key provider capabilities such as process maturity and industrialization of tools, and to accelerate provisioning of application services to meet faster time-to-market requirements. Combined, these factors can help companies drive improvement in business agility while optimizing ROI.

» **Provide access to flexible sourcing models.** Enterprises look to providers of managed services that can support them across a variety of sourcing models. This ranges from global delivery models that can leverage talent from specified local and offshore sites, sometimes referred to as "rightsourcing," to more host-based service delivery options that include private and public cloud services delivered from strategic geographic locations. This aligns with the need of buyers to be able to select how they want to consume services based on key business requirements and existing IT capabilities.

» **Optimize investments while accessing innovation.** Buyers are looking to providers of managed services to offer more strategic capabilities and continuous innovation. Buyers want providers to help standardize and consolidate their IT environments, but they increasingly want providers not only to optimize the value of existing software assets but also to help redesign existing architectures and move to innovative delivery models involving cloud/SaaS that include providing access to new IP. The goal for buyers is to gain access to capabilities from the provider that they can utilize in their own organizations to innovate new products and services in order to grow their business.

Buyers are looking to providers of managed services to offer more strategic capabilities and continuous innovation.

Discussion of Avanade Managed Services

Overview of Avanade Application and Infrastructure Managed Services

Established in 2000, Avanade is a joint venture between Microsoft and Accenture that brings together a set of core competencies and capabilities that combine the best of Microsoft's comprehensive enterprise platform technologies and access to Microsoft's R&D resources with Accenture's industry and business acumen, cross-industry solutions, and horizontal solution accelerators. Avanade supports a full range of application and infrastructure services from consultative capabilities including design and development through managed

"operations" and support across existing service models as well as emerging services and technologies such as cloud, mobile, social media, and Big Data/analytics. Further, Avanade's breadth of technical capabilities spans both non-Microsoft and Microsoft technologies.

Currently, Avanade drives more than $1 billion in revenue, has more than 70 locations in 20 countries, and is supported by more than 20,000 professionals, including 12,000 people who are part of the company's offshore global delivery network and 4,000 managed services specialists. These professionals have accrued more than 23,000 Microsoft certifications and 20 Microsoft Gold competencies. Avanade's managed services business supports more than 1,000 firms in over 50 countries.

Strategic Differentiators

Avanade helps enterprises meet strategic business imperatives by providing continuous improvement, transformation, and innovation to support an increasingly complex set of IT and business process requirements and needs. Key to Avanade's ability in helping organizations achieve these corporate goals are the following strategic differentiators:

» **Business outcome and results-oriented approach:** Core to Avanade's value for customers is its results-oriented approach to delivering managed services that help achieve overall business outcomes whether they involve financial performance metrics, brand image, operational excellence, or differentiation through innovation.

» **Strategic consultative and life-cycle approach:** Part of helping enterprises achieve their business objectives is Avanade's strategic consultative and life-cycle approach of engaging with customers. Avanade proactively positions itself as both a consultative partner that helps customers navigate the myriad of changes they are facing while transforming their IT and ensuring control and a managed service provider that can help customers develop and integrate application capabilities and systems environments when needed in order to ensure their ability to adapt to market changes more quickly.

» **Accelerated access to and specialization in Microsoft technologies:** Through the joint venture and specialization in Microsoft technologies, Avanade gains unprecedented access to new Microsoft technologies and R&D. Avanade utilizes this core competency to help customers accelerate their ability to modernize and transform existing IT environments to meet key business objectives such as faster time to market and greater agility.

Part of helping enterprises achieve their business objectives is Avanade's strategic consultative and life-cycle approach of engaging with customers.

» **Integrated portfolio and breadth of technology for tailoring solutions:** By offering customers an integrated portfolio across the full life cycle of services from design and development to implementation and operations/managed service across both Microsoft and non-Microsoft technology environments, Avanade gives buyers the flexibility to select just what they need, when they need it.

» **Vertical and business process expertise to support industry-specific requirements:** Avanade utilizes its relationship with Accenture to gain access to the breadth of Accenture's deep knowledge across 45 industry business services. Avanade utilizes this expertise to ensure that its managed services can meet the specific and unique industry and business process requirements of each customers.

» **Flexible sourcing options and effective governance:** By providing customers with an array of sourcing options, from local to offshore resources and from existing to emerging delivery options (e.g., private/public cloud), Avanade enables the flexibility customers require in aligning how they source for services based on their business requirements. Further, by providing strong governance, which is supported by formal and standardized methods, tools, and processes, Avanade ensures customers have effective control in utilizing these different sourcing options.

» **Rapid adaptation of IT using new consumption and delivery options:** Today's emerging models of deployments involving SaaS and PaaS are characterized by frequent updates and releases and require a greater interdependence and integration between IT operations and software development. Avanade's deep heritage in custom application development enables it to meet these needs.

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Discussion of Avanade's Solution

Enterprise Application and Infrastructure Managed Services Portfolio

Avanade's portfolio of services provides enterprises with a full life cycle of options to support their needs across the entire IT environment for both business applications and infrastructure. Avanade's portfolio, specializing in Microsoft technologies, includes consultative services, which range from strategy, design, architecting, development, deployment, systems integration, and migration of IT and application technologies to 24 x 7 ongoing, proactive management and support.
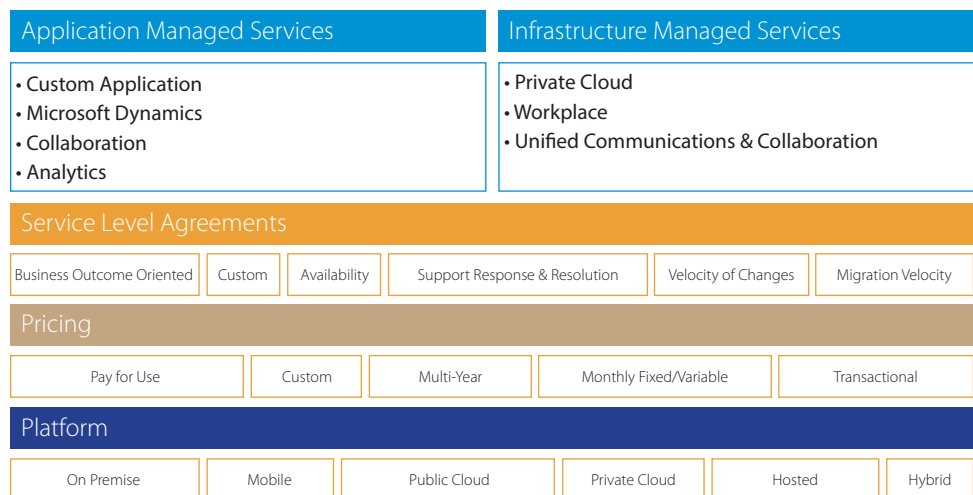
Key to Avanade's customers is that all of these service elements form part of Avanade's managed services portfolio. As a result, Avanade is able to offer a menu of managed services, as Figure 1 highlights, which for example, effectively include systems integration and application

development delivered as a managed service. This means Avanade is able to deliver on its commitment to provide continuous improvement and innovation as part of its application and infrastructure managed services agreement.

» **Application managed services.** Avanade offers managed services for Analytics, Collaboration, and Microsoft Dynamics (CRM and AX) and SharePoint as well as for custom applications built on the Microsoft stack using technologies such as Windows Server, SQL Server, and .NET. Avanade uses Microsoft technology across the spectrum of application development, application management, application life-cycle management, and application portfolio management. This means Avanade can design, build, enhance, and run solutions related to mobility, cloud, digital marketing, and new custom applications for a range of industries and verticals.

» **Infrastructure managed services.** Avanade supports a full suite of infrastructure environments that includes its portfolio of Unified Communications & Collaboration (UCC) managed services for Microsoft Exchange, Lync, and SharePoint. Avanade's Workplace managed services include its suite of Microsoft Office technologies as well as virtualized desktop and mobility. Avanade Private Cloud managed services also support a full array of datacenter needs involving servers, databases, network, storage, OS, and datacenter facilities. With expertise that spans the Microsoft platform, Avanade combines ongoing systems integration with infrastructure management. This enables Avanade with the capabilities needed to design, build, and enhance solutions that benefit IT, business units, and the workforce for a range of industries and verticals.

FIGURE 1

Avanade Life Cycle of Application and Infrastructure Managed Services

Application Managed Services		Infrastructure Managed Services	
• Custom Application • Microsoft Dynamics • Collaboration • Analytics		• Private Cloud • Workplace • Unified Communications & Collaboration	

Service Level Agreements					
Business Outcome Oriented	Custom	Availability	Support Response & Resolution	Velocity of Changes	Migration Velocity

Pricing				
Pay for Use	Custom	Multi-Year	Monthly Fixed/Variable	Transactional

Platform					
On Premise	Mobile	Public Cloud	Private Cloud	Hosted	Hybrid

Source: Avanade, 2014

Service Delivery Options and Platforms

Avanade will support enterprises using a full array of sourcing and delivery options. These include sourcing from local to offshore resources to create a "rightsourced" model for each customer that can change with the needs and expectations of its business.

Avanade has created an integrated managed services platform that is able to provide managed services based on two high-level scenarios:

> » **Standard and repeatable.** Avanade has developed a "blueprint architecture" for many of the Microsoft product–based solutions it creates to ensure an industrialized approach to deployment. An example of this would be Avanade's Unified Communications & Collaboration managed services. This solution manages dedicated instances of Microsoft Exchange, Lync, and SharePoint. The application is customized to the specific requirements of the customer but built on a proven pod-based architecture, which is also modular in nature. This allows for rapid configuration and deployment of a solution that can quickly scale with the changing needs of the business. The solution is remotely managed using Avanade's patented software-driven management tools and is delivered in a similar way whether the solution is deployed on-premises, in a private cloud, or via a hybrid model.

> » **Custom and specialized.** Avanade can develop custom solutions for a single dedicated customer environment. An example of this would be Avanade's Custom Application managed services, which supports the creation, enhancement, and management of applications that are custom built for specific customer needs. The solution, typically built on Microsoft .NET technology, uses Avanade Connected Methods (ACM) — a common set of repeatable methods, processes, and tools used to streamline the development and deployment of business applications. The fully customized and dedicated application can be deployed on-premises, on Microsoft Azure, in a private cloud, or via a hybrid model. Avanade still achieves economies of scale in the way it manages this type of solution by leveraging its global delivery model and shared service centers.

A Consistent Approach to Service Enablement and Management

Key to Avanade's approach to ensuring effective service delivery is a consistent approach to service enablement and service management processes:

> » **Service enablement.** Service enablement focuses on the transition process of a customer's applications and/or infrastructure to Avanade managed services. Using a set of

Avanade has developed a "blueprint architecture" for many of the Microsoft product–based solutions it creates to ensure an industrialized approach to deployment.

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> Avanade focuses on ensuring business continuity and stability during any transition through effective change management, knowledge transition, skills development and training.

standardized delivery methods and tools, Avanade focuses on ensuring business continuity and stability during any transition through effective change management, knowledge transition, skills development and training, use of industry certifications, and global expertise that leverages centers of excellence (COEs) and solutions factories.

» **Service management.** Service management focuses on the process of ongoing management of a customer's application and/or infrastructure environment. Key processes that Avanade utilizes to ensure that a customer's managed services achieve the business outcomes set by the customer include governance, demand management, SLA management and reporting, and delivery management, which incorporate Avanade's Innovative Pyramid Structuring for better subject matter expert support and enhanced quality. Avanade has incorporated a series of tools designed not only to help optimize workflows and utilization of resources but also to provide predictive capabilities needed to support agile service delivery.

Business Value

Study Demographics

In fall 2013, IDC interviewed 11 organizations that had been using Avanade's application and infrastructure managed services for a period of 6 months to 8 years, with an average time in production of 2.5 years. The interviewed organizations range in size from 110 employees to 90,000 employees, with an average of 15,426 employees, and span the banking, education, healthcare, insurance, pharmaceutical, mining, manufacturing, retail, sports, and telecommunications industries. The 11 organizations are headquartered in the United States, Europe, and Asia/Pacific, and a number of organizations operate on a global scale. IDC designed the interviews to elicit quantifiable information as well as qualitative statements regarding how the organizations use Avanade's managed services for their business applications and infrastructures. With this information, IDC evaluated the impact of Avanade's services on the organizations. Table 1 provides an aggregated profile of the organizations surveyed for this white paper.

TABLE 1

Demographics

Average number of employees	15,426
Average number of users of IT services	15,000
Average number of users of Avanade's services	9,600
Organizations using Avanade's application managed services	91%
Organizations using Avanade's infrastructure managed services	27%
Organizations using Avanade's application and infrastructure managed services	18%
Industry	Banking, education, healthcare, insurance, pharmaceutical, mining, manufacturing, retail, sports, and telecommunications
Region	United States, EMEA, Asia/Pacific

Source: IDC, 2014

Nearly all of the interviewed organizations use Avanade's application managed services, while the percentage of interviewed organizations using Avanade's infrastructure managed services is lower. Of the 11 organizations, 2 reported that they use both managed services.

Financial Benefits Analysis

Organizations interviewed for this white paper are realizing a number of benefits by using Avanade's application and infrastructure managed services. Interviewees listed the following as significant benefits of Avanade:

» Bringing talent, skills, and experience to their organizations that their existing employees do not possess and that their organizations could not otherwise easily or cost effectively develop or obtain in-house

» Allowing existing employees to focus on doing what they do best

» Making business application development efforts more productive by enabling custom business application development and reducing time to market

» Obtaining flexible sourcing models for services related to business applications and infrastructure and providing new ways for the organizations to consume these services

» Reducing the incidence and duration of downtime and improving the efficiency of help desk operations

» Driving revenue through reduced downtime and enhanced operations at an organizational level

» Avoiding costs by achieving production efficiencies with Avanade and eliminating some datacenter-related costs

IDC conducted interviews with Avanade's application and infrastructure managed services customers to measure the financial impact to these organizations of their use of Avanade's services. Based on these interviews, IDC estimates that these organizations will realize a discounted average five-year aggregate benefit of $28.6 million, which is an average benefit of $297,835 per 100 users of Avanade's managed services.
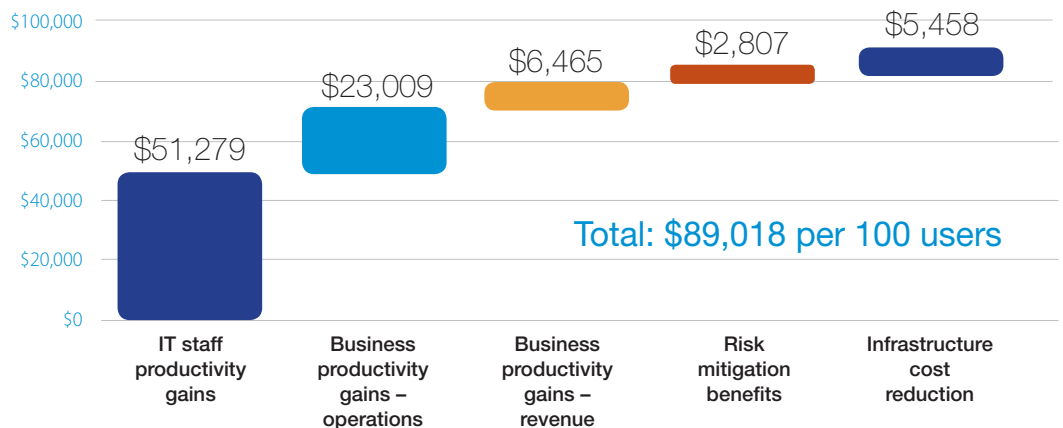
These organizations are realizing financial benefits from their use of Avanade's managed services in the following five areas:

» **IT staff productivity gains:** Organizations are making their IT departments much more productive by bringing in talent, skills, and experience through Avanade that they could not develop internally in a cost-effective manner. These organizations are realizing five-year average annual benefits of $51,279 per 100 users, or $4.92 million per organization.

» **Business productivity gains in operations:** Organizations are realizing productivity gains across their operations by using Avanade's managed services, as well as cutting time to market and spending on external contractors. These organizations are realizing five-year average annual benefits of $23,009 per 100 users, or $2.21 million per organization.

» **Business productivity gains resulting in higher revenue:** Organizations are achieving higher revenue by reducing downtime and making their overall business operations more efficient. On average, surveyed organizations are realizing an average of $6,465 of additional revenue each year over five years per 100 users, or $0.62 million per organization.

> IDC conducted interviews with Avanade's application and infrastructure managed services customers to measure the financial impact to these organizations of their use of Avanade's services.

» **Risk mitigation benefits:** Organizations are reducing the incidence of downtime and average time to recover from downtime, as well as making their help desk operations more efficient. This is resulting in five-year average productivity benefits per year of $2,807 per 100 users, or $0.27 million per organization.

» **IT infrastructure cost reduction:** Organizations are avoiding costs that they would otherwise bear to develop comparable internal solutions or to use another service provider and reducing spending on server hardware. On average, organizations are avoiding an average of $5,458 in costs per 100 users per year over five years, or $0.52 million per organization (see Figure 2).

FIGURE 2

Average Annual Benefits per 100 Users

Total: $89,018 per 100 users

$51,279	$23,009	$6,465	$2,807	$5,458
IT staff productivity gains	Business productivity gains – operations	Business productivity gains – revenue	Risk mitigation benefits	Infrastructure cost reduction

Source: IDC, 2014

IT Staff Productivity

Surveyed companies report that Avanade offers them access to talent, skills, and experience that they could not cost effectively develop or maintain in-house.

Organizations are leveraging Avanade's application and infrastructure managed services to reach significantly higher IT department productivity levels. Surveyed companies report that Avanade offers them access to talent, skills, and experience that they could not cost effectively develop or maintain in-house. One customer praised Avanade for "bringing us a set of skills based on their experience out in the marketplace. We concluded that Avanade would provide a better skill set and a better sense of integration and experience in dealing with the solutions we were attempting to develop." Another acknowledged that it benefits from Avanade's experience: "We've been getting the benefits of their work for other customers."

Organizations are benefiting from their use of Avanade managed services through higher IT staff productivity in two main areas:

» **Applications management:** Organizations obtain skills for application management from Avanade that they do not possess internally, as well as processes based on Avanade's experience. One Avanade customer recounted how, when it needed to develop an industry-specific product, it "brought in an Avanade business analyst to work with some domain people and basically get a product to the market" that otherwise would have been challenging to achieve. Another referenced Avanade's expertise in Microsoft SharePoint as a significant advantage.

» **Systems management:** Organizations also benefit because Avanade instills their IT staff with flexibility and offers processes and a robust underlying infrastructure to handle growth. One customer explained, "If it's a situation where we're in a long-term project, and we need to deliver over time, then our ability to switch out needed skill sets with Avanade could easily save us 50% of the calendar time it would otherwise take."

Because of the talent, skills, and experience that Avanade offers, the IT staff of these organizations have become much more productive and are realizing significant time savings for completing important tasks. For example, Avanade has helped the IT staff achieve average time savings of 78% for forecasting and configuration management activities and 67% for application development activities (see Figure 3).

> "If it's a situation where we're in a long-term project, and we need to deliver over time, then our ability to switch out needed skill sets with Avanade could easily save us 50% of the calendar time it would otherwise take."

FIGURE 3

IT Staff Activity Time Savings
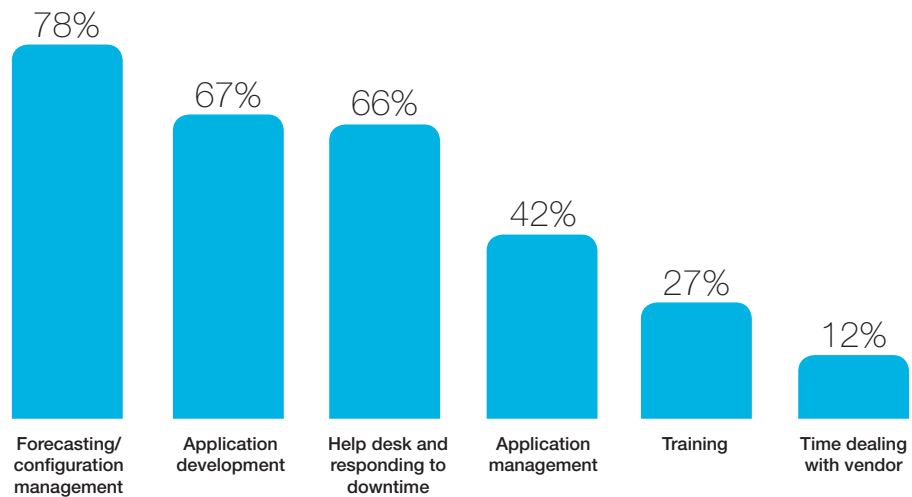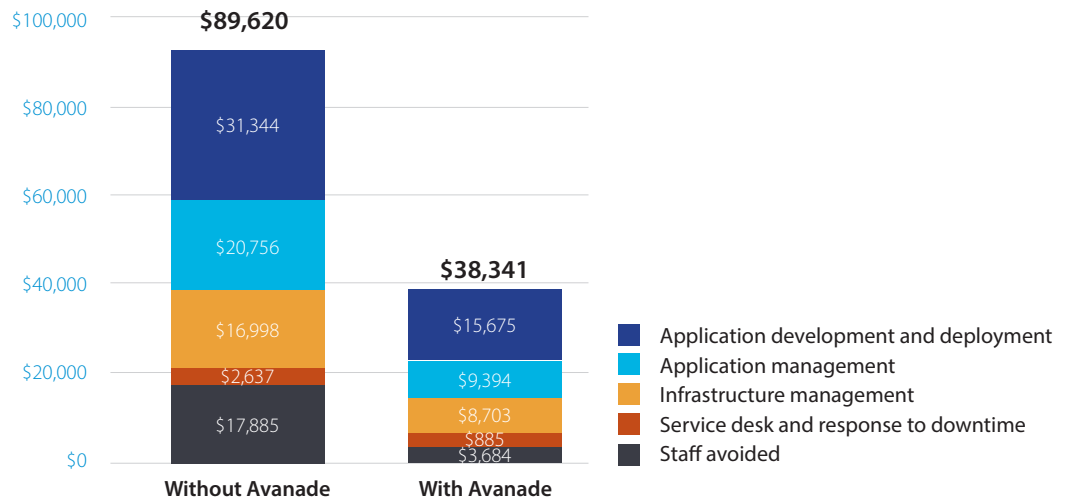

Source: IDC, 2014

While these organizations are leveraging Avanade's application and infrastructure managed services to drive efficiencies and productivity gains across their IT staff, benefits are centered on:

» **Application development and deployment:** Organizations are leveraging Avanade's experience and expertise to increase the speed of their application deployments and improve the quality of their applications. One Avanade customer provided an example of how Avanade made its application development more efficient: "We had to configure complicated software on an application. We were able to get Avanade on board within a week. If we were doing it ourselves, it would have taken much longer."

» **Application management:** Organizations are employing Avanade to shift resources to more productive uses when it comes to managing projects centered on application deployments. One organization explained that it has been able to "move about four people in IT to other projects" by building a uniform project framework with Avanade.

» **Infrastructure management:** Organizations are making their infrastructure management efforts more efficient. One Avanade customer explained that "not that much time needs to be spent on server administration now because we employ Avanade to do that."

» **Avoided hires:** Organizations are benefiting from Avanade's value in talent and skills, as well as processes, to reach IT staff productivity levels that they could not otherwise meet without hiring additional employees or contractors. One customer explained that it would struggle to justify making new hires and that the recruitment process itself is costly and challenging: "One major advantage of using Avanade for us is that it's very hard to hire technical professional staff, and Avanade takes away the recruitment. To find all of those people, it might take 10–20% of recruiting staff time because these people are hard to get. That cost is hidden, but Avanade allows us to avoid it."

» **Service desk and response to downtime efficiencies:** Organizations are also realizing IT staff efficiencies in responding to downtime and carrying out service desk and other support functions because Avanade is helping them minimize downtime and other issues that require service desk support.

In total, these organizations are realizing five-year average annual IT staff productivity gains and cost savings of $51,279 per 100 users, or $4.92 million per organization, by using Avanade's managed services, which account for a significant percentage of the overall value that these organizations are achieving with Avanade (see Figure 4).

"One major advantage of using Avanade for us is that it's very hard to hire technical professional staff, and Avanade takes away the recruitment. To find all of those people, it might take 10–20% of recruiting staff time because these people are hard to get. That cost is hidden, but Avanade allows us to avoid it."

FIGURE 4

Average Annual IT Staff Costs per 100 Users

Source: IDC, 2014

Business Productivity

Organizations report that they are leveraging their use of Avanade's application and infrastructure managed services to realize business productivity increases and revenue gains. Above all, Avanade allows these organizations to do more with their existing resources. One customer explained that Avanade enables it to "ramp its resources, manage the development process, and basically have an application that we couldn't have had by using only internal resources."

Organizations are realizing five-year average annual business productivity gains of $23,009 per 100 users, or $2.21 million per organization, with Avanade (see Figure 5). The most significant driver of these business productivity benefits is improved productivity among non-IT staff enabled by Avanade. One customer noted that because of Avanade, its employees no longer "have to wait for efficiencies" from new technologies, which saves significant time across the organization's entire employee base. Avanade is also helping these organizations reduce the time it takes to deploy internal applications. As a result, applications can be put to use sooner. One customer referenced the faster time to market for its applications with Avanade as well as the benefit it saw from reducing business risk by deploying the application sooner: "Extending the project, which might have happened without Avanade, would have meant that we would have had to delay going live for another 12 months."

One customer explained that Avanade enables it to "ramp its resources, manage the development process, and basically have an application that we couldn't have had by using only internal resources."

FIGURE 5

Average Annual Business Productivity Benefits per 100 Users

$1,479

$19,565	$1,965	

$25,000
$20,000
$15,000
$10,000
$5,000
$0

Total: $23,009 per 100 users

Improved user productivity | Faster time to market | Reduced external spend on contractors
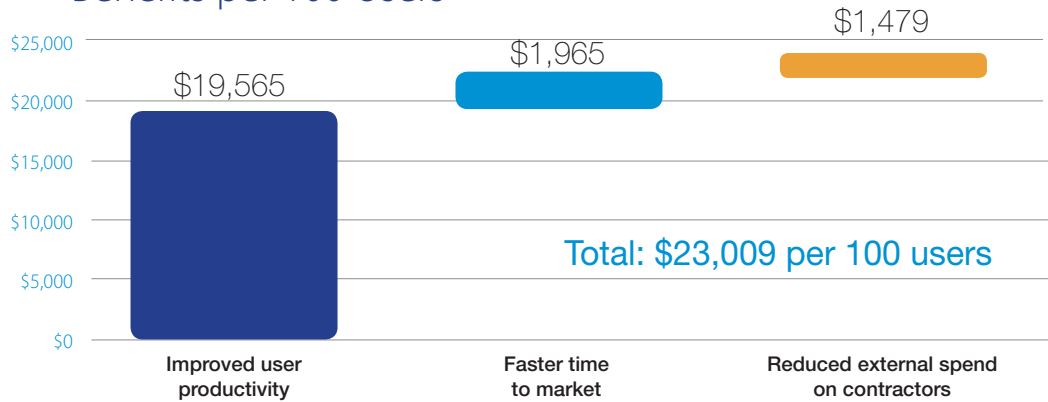
Source: IDC, 2014

These organizations are also leveraging their use of Avanade's managed services to increase their revenue by a five-year annual average of $6,465 per 100 users, or $0.62 million per organization (see Table 2). Revenue growth stems from Avanade's impact on two aspects of their operations:

» **Reduced downtime:** Downtime for customer-facing applications directly impacts the revenue of these organizations, so by reducing the extent of downtime, Avanade is helping these companies increase their revenue. One customer explained that Avanade's impact extends to how it approaches doing business: "We have more opportunities to make money with Avanade, because we do not need to be as cautious. We weren't taking as much risk as we could have before because we were concerned about our systems. Now that we have more confidence in them with Avanade, we can take more risk."

» **Improved operations:** Avanade has also helped these organizations realize operational efficiencies that are leading to higher revenue. One customer explained the link between its use of Avanade's managed services and higher revenue: "With the products and features that Avanade has helped us create, the typical user saves time. Our ability to create these types of features more than doubles with Avanade. These features help to increase revenue because it helps us improve our primary product that we sell to our customers."

"With the products and features that Avanade has helped us create, the typical user saves time. Our ability to create these types of features more than doubles with Avanade."

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TABLE 2

Business Productivity Enhancements — Revenue

	Annual Value	Value per 100 Users
Revenue impact — reduced downtime		
Reduced downtime — hours per year	21	
Lost revenue per hour of downtime	$480,000	
Lost revenue recognized in study	25%	
Revenue impact — additional revenue from reduced downtime	$2,523,951	$26,287
Revenue impact — improved operations		
Additional revenue from improved operations	$575,000	$5,988
Additional revenue related to Avanade	12%	
Sum of additional revenue	$3,098,951	$32,276
Realized revenue benefit	20%	
Net revenue benefit	$619,790	$6,465

Source: IDC, 2014

Risk Mitigation

These organizations are leveraging their use of Avanade's application and infrastructure managed services to reduce the incidence and duration of downtime and to improve the efficiency of their help desks. By doing this, they are realizing five-year average annual internal user productivity improvement benefits of $2,807 per 100 users, or $0.27 million per organization.

Avanade's managed services have helped organizations reduce the number of downtime incidents they experience per year by 40% and cut the time it takes to recover from downtime by 35%. These improvements stem from the robust nature of Avanade's application and infrastructure managed services, as well as the company's strong methodology and processes, particularly for developing and deploying business applications. One customer laid out the difference between its previous vendor and Avanade: "With the previous vendor, the environment was less stable, and they often could not find root causes for problems because of their lack of diagnostic skills."

Avanade's managed services have helped organizations reduce the number of downtime incidents they experience per year by 40% and cut the time it takes to recover from downtime by 35%.

An Avanade customer noted that its help desk operations were "a more personalized service" with Avanade that "get the user back up and running faster — 15 minutes versus 5 minutes."

The organizations also report that their help desk operations have become more efficient since moving to Avanade's managed services. They have reduced the time it takes on average for their help desks to handle a call by 67% with Avanade. In addition, fewer problems require Level 2 or 3 support, lessening the productivity drain on these organizations of help desk inquiries (see Table 3). An Avanade customer noted that its help desk operations were "a more personalized service" with Avanade that "get the user back up and running faster — 15 minutes versus 5 minutes."

TABLE 3

| Reliability KPIs	Without Avanade	With Avanade	Benefit	Advantage with Avanade (%)
Downtime				
Downtime incidents per year	10.30	6.14	4.16	40
Downtime hours per incident	3.34	2.18	1.16	35
Annual downtime hours per user	18.37	6.65	11.73	64
Service desk				
Level 2/3 calls per week	123.50	24.70	98.80	80
Minutes per call	26.25	8.75	17.50	67
Annual hours per user	1.39	0.46	0.93	67

Source: IDC, 2014

Infrastructure Cost Reduction

Interviewed organizations report that they are saving on infrastructure-related costs because Avanade's managed services provide production efficiencies while also helping them save on certain datacenter infrastructure costs. In total, these organizations are realizing five-year average annual savings of $5,458 per 100 users, or $0.52 million per organization (see Figure 6).

FIGURE 6

Average Annual IT Infrastructure Cost Reductions per 100 Users
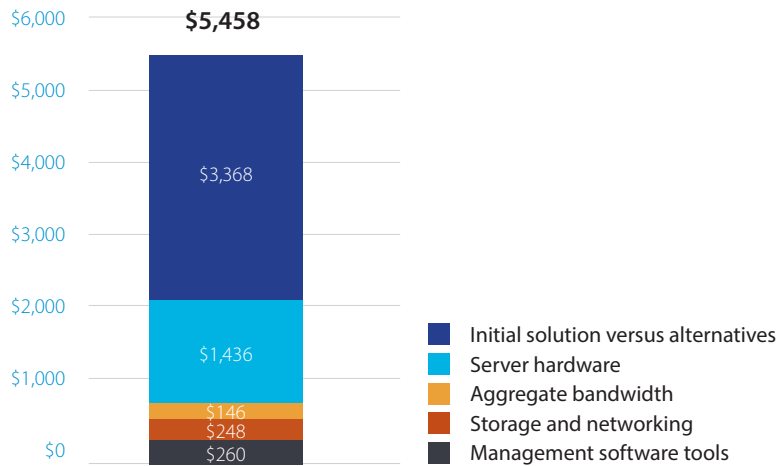
Source: IDC, 2014

Organizations realized savings when putting Avanade into production because deploying and using Avanade's managed services require less time and fewer staff members on average than developing a solution internally or using another managed services provider. One Avanade customer explained: "Avanade is expert in SharePoint 2010. So they were onsite and able to resolve issues that arose. Without their technical experts, deployment would have taken more time and cost more." Organizations achieved five-year average annual benefits of $3,368 per 100 users due to cost savings and efficiencies when they moved to Avanade's managed services.

Avanade's customers are also realizing other infrastructure cost reductions. These cost savings are most evident for server hardware, but organizations are also cutting costs for bandwidth, storage and networking, and management software tools. One customer explained that Avanade "helps us keep our architecture balanced so that we have the right balance between the number of servers and performance, availability, and cost. Without them, it could mean buying more servers." Another customer noted that Avanade helps "us stay on top of infrastructure issues and minimize impacts on our business," which included avoiding some hardware purchases through proactive management. These other IT infrastructure cost benefits total $2,090 per 100 users per year over five years on average.

Avanade "helps us keep our architecture balanced so that we have the right balance between the number of servers and performance, availability, and cost. Without them, it could mean buying more servers."

Benefits of Avanade: Managed Application Versus Managed Infrastructure Services

Organizations using both Avanade application and infrastructure managed services report achieving significant IT staffing benefits. This is the result of Avanade bringing skills and experience to these organizations that they otherwise would not have, as well as strong processes and methodology for implementing changes. For surveyed organizations, this is the core of Avanade's value proposition, for both application- and infrastructure-related services that Avanade offers.

On the other hand, business productivity gains have been much more concentrated on organizations using Avanade application managed services, in terms of both internal productivity benefits and revenue increases. This reflects the dynamic position that applications now have at most organizations. Avanade's ability to help these organizations develop and deliver applications more quickly and to make their overall business operations more efficient are allowing these organizations to leverage Avanade to achieve significant benefits in this area (see Figure 7).

FIGURE 7

Comparison of Annual Benefits per 100 Users by Avanade Managed Service
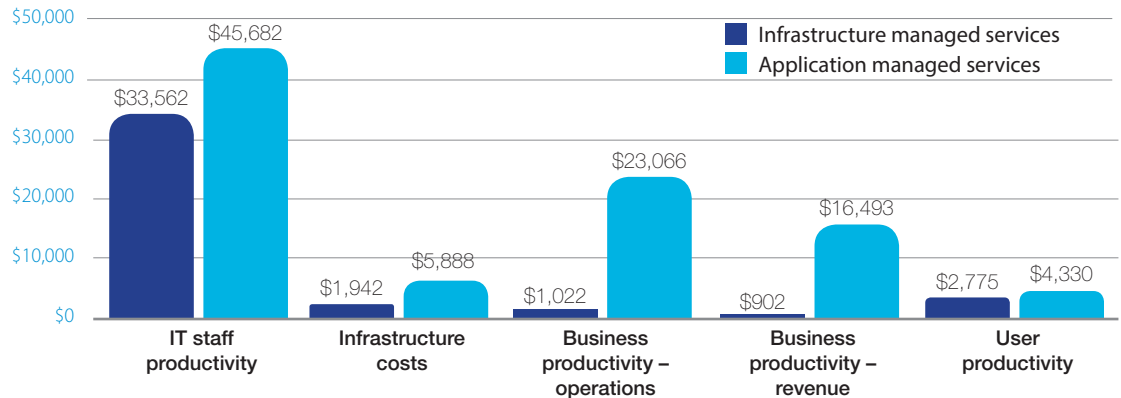
Source: IDC, 2014

ROI Analysis

IDC uses a discounted cash flow methodology to calculate the return on investment and payback period. ROI is the ratio of the net present value (NPV) and discounted investment. The payback period is the point at which cumulative benefits equal the initial investment. Table 4 shows that these organizations deployed Avanade's managed services in just over nine months on average.

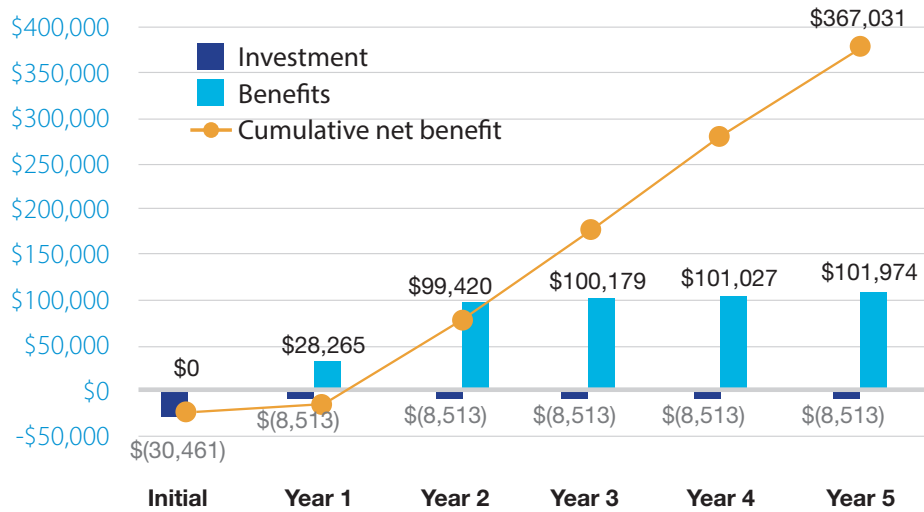**TABLE 4**

Investment in Avanade Managed Services per 100 Users

	Average
Deployment	9.05 months
Initial cost	$20,033
Installation staff costs	$10,425
Annual fees	$6,909
Annual IT support costs	$1,603

Source: IDC, 2014

IDC assessed the cost, benefits, and value of Avanade's application and infrastructure managed services to these organizations over a five-year period (see Figure 8). These companies made average initial investments of $30,461 per 100 users on Avanade for these services and are spending $8,513 per 100 users each year over five years. These investments will result in average annual benefits of $86,173 per 100 users over five years, with data growth increasing the value of the benefits each year. Over five years, these companies will realize a cumulative net gain of $367,031 per 100 users.

FIGURE 8

Cost Benefit Analysis per 100 Users

Source: IDC, 2014

Table 5 presents IDC's ROI analysis for the companies' use of Avanade's application and infrastructure managed services. This ROI analysis is a five-year view of the financial impact of Avanade on these companies.

Avanade's customers effectively return almost $5.50 for every $1 invested in Avanade's managed services.

The five-year ROI analysis shows that on average, the organizations in this white paper will spend $54,592 per 100 users ($5.24 million per organization) on Avanade's managed services and achieve $297,835 in benefits per 100 users ($28.6 million per organization). This results in an NPV of $243,244 per 100 users ($23.53 million per organization) for their use of Avanade. Based on these results, the organizations saw an average payback period of 13.4 months (just over four months from going live) and an ROI of 446%. This means that Avanade's customers effectively return almost $5.50 for every $1 invested in Avanade's managed services.

TABLE 5

Five-Year ROI Analysis per 100 Users

Benefit (discounted)	$297,835
Investment (discounted)	$54,592
Net present value (NPV)	$243,244
Return on investment (ROI)	446%
Payback period	13.4 months
Discount rate	12%

Source: IDC, 2014

Challenges/Opportunities

Challenges

While there is significant value to using managed services, buyers indicate that providers of managed services need to address critical requirements and concerns, including the following:

» **Ensuring robust security.** Buyers indicate that security is their paramount concern when using managed services, whether for existing or newer services such as cloud. To assure buyers that their data, information, and business processes are secure, providers need to offer a full range of security capabilities (e.g., managed firewall, intrusion detection, and virus protection) as well as understand specific regulatory and compliance requirements that also involve knowledge of differing geographic needs. Avanade's portfolio of services is designed to meet these needs as is reflected by its full suite of security services coupled with deep industry knowledge.

» **Ability to calculate ROI and ensure effective return.** Enterprises show concern that they can't calculate and/or anticipate the degree of cost savings they can achieve using managed services and that managed services may not provide an effective return on investment. As this white paper shows, buyers of Avanade's managed services are achieving an average of 446% ROI.

» **Risk of underperformance.** Another potential barrier for enterprises in using managed services is the risk of reduced quality of service, including 24 x 7 customer support, and inability to meet critical SLAs such as availability, speed of provisioning, and responsiveness. This is of particular significance with buyer expectation for much higher levels of service using newer capabilities such as social media, cloud, and mobility. Based on the results, Avanade clearly shows its ability to significantly elevate the performance of a customer's IT environment.

Enterprises show concern that they can't calculate and/or anticipate the degree of cost savings they can achieve using managed services and that managed services may not provide an effective return on investment.

» **Supporting the ability of enterprises to maintain control and ensuring trust.** Core for many enterprises in ensuring optimal business performance when using managed services is the need to maintain control. This dovetails into their need for a trusted provider. Achieving this will require that providers incorporate key capabilities such as effective governance, program management, dashboards and tools, proofs of concept (POCs), and access to COEs. Also critical is ensuring the transparency of information and strong communications.

Opportunities

The results of this white paper highlight how managed services can assist enterprises in maintaining competitiveness and ensure that enterprises achieve their top business imperatives from financial performance to customer satisfaction, operational excellence, and differentiation, in the following areas:

» **Focusing employees on strategic initiatives.** Using managed services enables organizations to focus their employees on much more strategic initiatives that are core to their business while allowing the provider to focus on what is no longer a core competency to the business but is core to ensuring optimal business performance — the IT operations of the customer.

» **Achieving cost reductions and freeing up funds for investment.** Managed services can help organizations drive down their costs, which will help enterprises gain access to funds they need for more strategic imperatives.

» **Ensuring greater market agility and time to market.** Enterprises indicate that managed services accelerate the quality of service from designing, developing, and deploying IT to ensuring improved availability. This will help organizations improve their business agility and accelerate time-to-market requirements, particularly with the adoption of new technologies (e.g., cloud, mobile, social media).

» **Optimizing employee and user productivity.** With faster provisioning times and greater availability, enterprises can increase the level of productivity across employees and end users.

» **Enhancing innovation.** This white paper also shows that organizations get access to new capabilities that further enhance their ability to innovate. This will be increasingly critical as enterprises transform their IT environments to incorporate newer capabilities, including mobile, cloud, social media, and analytics.

Conclusion

Businesses must continue to find ways to build and maintain more adaptive and agile IT environments to meet strategic business objectives and manage business challenges. Increasingly, managed services serve not only as a means for them to shift and reduce costs but also as a means for them to position IT as a driver of businesses by creating access to innovation and talent that companies could not otherwise obtain. Avanade offers a suite of managed services that help enterprises meet their business objectives by providing improvement, transformation, and innovation through its managed services. Avanade's capabilities extend across its customers' IT environments, and Avanade's customers benefit from Avanade's depth of knowledge about Microsoft technologies that they would be hard pressed to develop internally. As a result, and as this white paper shows, organizations are able to use Avanade's managed application and infrastructure services to make their IT operations significantly more productive. Avanade achieves this by infusing its customers with skills and experience that their internal IT teams lack while also contributing to increased overall employee productivity and revenue gains by making IT environments more robust and stable.

Appendix

IDC utilized its standard ROI methodology for this project. This methodology is based on gathering data from current users of the technology as the foundation for the model. Based on these interviews, IDC performs a three-step process to calculate the ROI and payback period:

» Measure the savings from reduced IT costs (staff, hardware, software, maintenance, and IT support), increased user productivity, and improved revenue over the term of the deployment.

» Ascertain the investment made in deploying the solution and the associated training and support costs.

» Project the costs and savings over a five-year period and calculate the ROI and payback for the deployed solution.

IDC bases the payback period and ROI calculations on a number of assumptions, which are summarized as follows:

» Time values are multiplied by burdened salary (salary + 28% for benefits and overhead) to quantify efficiency and manager productivity savings.

» Downtime values are a product of the number of hours of downtime multiplied by the number of users affected.

» The impact of unplanned downtime is quantified in terms of impaired end-user productivity and lost revenue.

» Lost productivity is a product of downtime multiplied by burdened salary.

» Lost revenue is a product of downtime multiplied by the average revenue generated per hour.

» The net present value of the five-year savings is calculated by subtracting the amount that would have been realized by investing the original sum in an instrument yielding a 12% return to allow for the missed opportunity cost. This accounts for both the assumed cost of money and the assumed rate of return.

Because every hour of downtime does not equate to a lost hour of productivity or revenue generation, IDC attributes only a fraction of the result to savings. As part of our assessment, we asked each company what fraction of downtime hours to use in calculating productivity savings and the reduction in lost revenue. IDC then taxes the revenue at that rate.

Further, because IT solutions require a deployment period, the full benefits of the solution are not available during deployment. To capture this reality, IDC prorates the benefits on a monthly basis and then subtracts the deployment time from the first-year savings.

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