Sponsored by: **Avanade**

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Using Avanade's Managed Services to Unlock Business Value

Business Value Highlights

433%
Five-year ROI

$5
in benefits for every $1 invested

10 month
payback period

$6.38M
additional revenue per organization

50%
faster application development

82%
less staff time for cloud migrations

45%
more efficient core IT operations

65%
less unplanned downtime

EXECUTIVE SUMMARY

IT organizations are increasingly being called upon to leverage digital technologies to support and drive their business operations. This requires agile innovation at the speed necessary to meet demand from their customers and increasingly digital workforces. As a result, many turn to third-party partners for the skills, expertise, and knowledge required to generate value through deeper integration of digital technologies into their business applications, customer-facing services, business processes, and IT operations.

An IDC analysis demonstrates that organizations capture significant value from having Avanade serve as a trusted managed services partner. To understand the impact of supporting IT and business operations with Avanade managed services, IDC conducted independent interviews covering various qualitative and quantitative questions regarding the impact on Avanade clients' IT and business operations. Based on these interviews, IDC projects that these organizations will realize an average five-year return on investment (ROI) of 433% from their Avanade engagements. In addition, these organizations will capture $6.38 million of additional revenue per year in improved business results and reduced impact of downtime; with a 20% operating margin applied to this higher revenue, the average annual increase in operating margin for these organizations is $1.28 million. As this study shows, benefits from Avanade's support are increasingly being achieved through improved business and operational performance, in addition to continued strong efficiencies for IT organizations. IDC's analysis shows that having Avanade's support:

- Enables the timely delivery of innovative and value-generating applications and services that drive higher revenue and increased productivity levels for digital workforces
- Provides the expertise needed to migrate mission-critical business applications to the cloud to benefit from efficiencies and agility
- Maximizes IT staff efficiency and productivity levels

» Ensures the reliability of the most important business applications and services, thereby limiting the impact of outages on employee productivity and business results.

Situation Overview

Business Objectives Center on Agility, Efficiency, and Innovation

To win in an increasingly competitive business environment, organizations must address customer needs faster. To do this, they must be more responsive and adaptable to evolving business conditions and environments, as well as possess superior capabilities to work and engage with customers based on how and when customers want to interact. To address these needs, many organizations seek to create new business models to engage with their prospects and customers more intimately. To achieve this, they are changing the foundation of their front- and back-office operations. This requires organizations to march toward a new set of initiatives that revolve around:

» **Digital transformation.** CEOs across industry segments and geographies see digital transformation as central to their business strategy. Digital transformation isn't a technology initiative alone. It includes business process remediation as well as creating new business models. The new business models, in turn, must be underpinned by technologies like cloud, mobile, social, and analytics to drive informed decision making based on financial results; empower the line-of-business leadership that will have to execute; and establish more robust relationships that capture revenue.

» **Application modernization.** A critical enabler of digital transformation is application modernization. Many organizations possess a variety of applications in their application portfolio that support a variety of business functions. However, those applications can be limited in supporting the speed and efficiency requirements that businesses may have. Existing applications can lack real-time data access and also hinder an organization's ability to be responsive to customer needs. Even though applications possess value through the data that is contained within them, existing applications in the portfolio often need to evolve to help organizations create new business models, be more flexible to changing business conditions, and create higher levels of business efficiency.

» **Automation.** Key to delivering higher levels of business speed and responding to customer needs better and more quickly is automation. Establishing and building upon automation capabilities help augment an organization's capacity and throughput and, as importantly, free up labor force time to focus on more value-added work, such as creating new revenue channels or developing new products and services. Automating activities like infrastructure

setup, application procurement and provisioning, application maintenance through cognitive computing, and the acceleration of application life-cycle management through DevOps within IT helps organizations free up resources to innovate their business processes and enhance resource efficiency rather than spending significant resources and time administering routine, repetitive activities through human labor.

Three Challenges Impede Organizations from Achieving Their Objectives

Although the digital transformation, application modernization, and automation objectives offer promising business and IT benefits, achieving those objectives and reaping the benefits they can generate are not easily accomplished. Organizations can face hurdles with overcoming the core challenges these benefits can bring. The challenges organizations must be prepared for center on:

1. Managing risk of business and IT change. Embarking upon a major transformation initiative requires organizations to make significant investments in what they intend to change and how they intend to change. A transformation also requires organizations to identify and effectively manage ways to mitigate risk that such transformation brings to their existing business. Arguably the toughest challenge to successful digital transformation initiatives is establishing, evolving, and managing a program for change throughout the entirety of the initiative. As business conditions change and customer demands and needs change, so does the type of risk. Consequently, organizations must ensure the transformation paths they are on can deliver value amid an evolving external environment.

2. Corralling and effectively managing business and IT transformation costs. Core attributes to enacting change and making a transition from the current state of operations to some future, planned state of operations are capital, resources, and funding. Organizations must continue to run their existing business operations in order to generate cash flow and fund the business as a going concern, so organizations need to be savvy about where and what changes they make so as not to disrupt existing operations too drastically that it becomes detrimental to business performance. Organizations need to focus their resources' time, how much labor they use, and how much of their existing IT systems will be retained or transitioned away. Organizations often find that they need to possess a wide range of skills and resources to maintain old technologies, as they simultaneously implement and manage new technologies and tools to run a bimodal IT environment. What results is that the costs of running such an operating model can quickly outgrow the amount of funding available for the transformation.

3. Formulating and fostering a new culture for both business and IT. Beyond managing business risk and change management costs, paramount to rolling out and transforming the organization to be more agile and competitive is nurturing a new culture for the organization. Transforming the mindset of how applications are developed and deployed, and moving from a more traditional, staggered delivery approach to a more agile/iterative or DevOps approach of continuous deployment, for example, requires a mix of incentives, teamwork, leadership, and work ethic. An inability to deftly link those components together will severely undermine the ability of an organization to make progress on how it executes tasks; this may as well derail the success of any transformational initiative.

Value of Managed Services in Supporting Digital Transformation

Utilizing managed services can aid organizations with overcoming the key challenges with digital business and IT transformation. The business value of utilizing managed services has evolved from a "lift and shift" model — which is rooted in driving down costs of an existing operating model — to a model that provides organizations access to innovative, value-added services. Managed services can help organizations unlock the potential of greater business agility and accelerate the pace of change that enterprises must possess to stay competitive in today's increasingly digital world. More specifically, utilizing managed services can help organizations:

- **Leverage IP investments for application life-cycle activities automation**. Managed service providers have invested in tools and modern software engineering approaches that assist with speeding up and enhancing various aspects of the application life-cycle process. This in turn aids buyer organizations with, for example, streamlining application testing initiatives for application modernization activities like packaged application upgrades and developing mobile applications. This in turn helps deliver value faster to the organization.

- **Harness expertise and experience across a wide array of projects and initiatives.** Managed service providers have often faced pressing challenges previously that are plaguing organizations today. Whether it's architecting a data model and warehouse to support big data and analytics received from sensors on remote equipment or simply leveraging lessons learned from numerous prior projects for building a mobile application, experience can streamline initiatives going forward. This means that buyers can avoid the potential pitfalls, which they may not even be aware of, because the managed service provider has already

overcome them on other projects. This can be particularly relevant when modernizing aging legacy applications.

- **Take advantage of partnership ecosystems and relationships.** Managed services providers bring a portfolio of partnerships with technology and other service providers. These partnerships enable organizations to have direct access to a vast array of technologies and services beyond what they could access through a single managed services provider. Such direct access can have an influence around product and service design and function, allowing an organization to utilize best-of-breed services at the outset. This in turn leads to higher levels of competitive advantage; products and services can be purpose built rather than adapted over time through extensive customizations.

In addition to the benefits highlighted previously, another value imparted by a managed services provider is an increase in the buyer organization's IT performance, which is a critical success factor to the IT department itself. In addition, IT performance has a significant effect on competitive differentiation for organizations on their digital transformation journey.

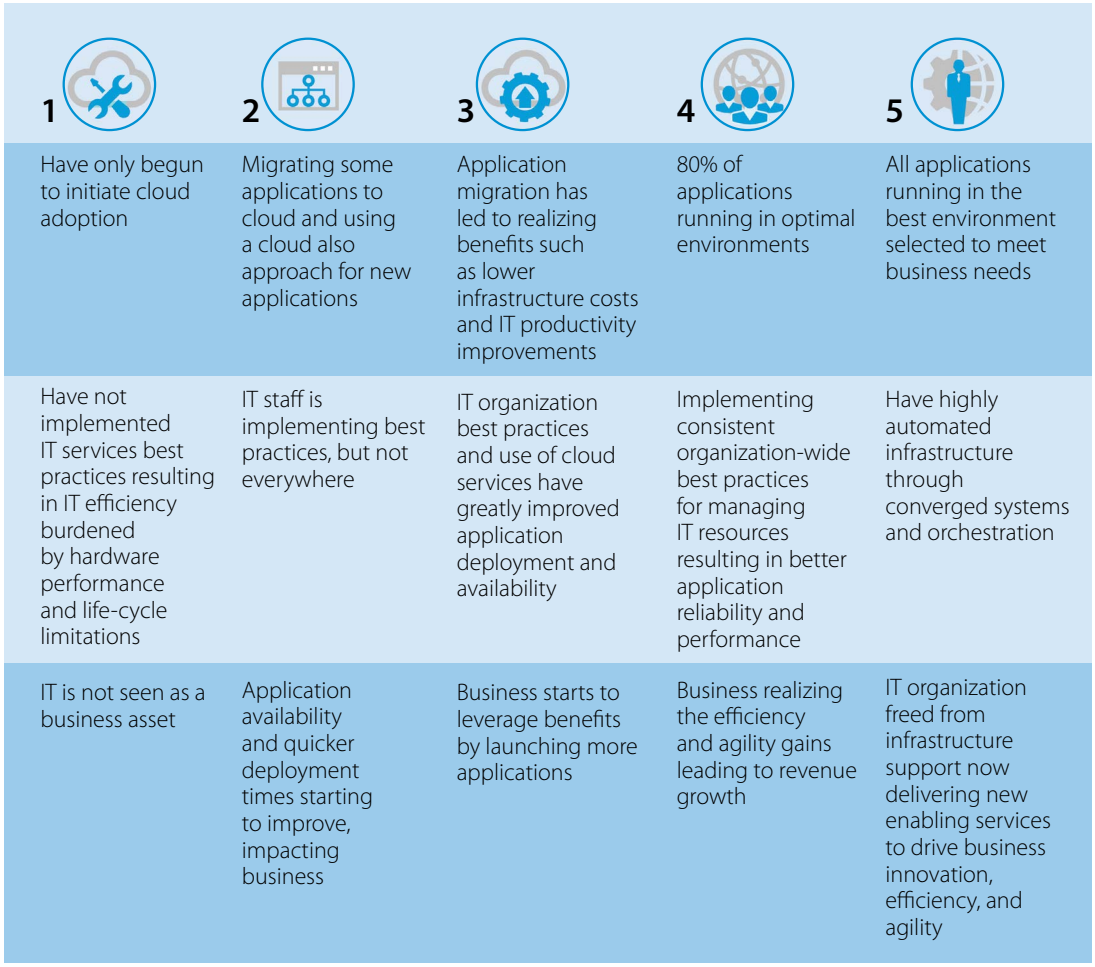
IT Performance

IDC has created an IT performance model based on the results of interviews with over 400 organizations across multiple industries and four global regions. The research tracked the relationship between IT key performance indicators (KPIs) and the impact on business outcomes. IDC found that the companies with the highest levels of IT performance also had the greatest levels of business success across nearly every dimension including revenue growth, operational profitability, and employee productivity.

IDC research identified five levels of IT performance (see Figure 1). The levels track the adoption of cloud, the optimization of IT practices, and the impact on IT operations and business benefits. Only 5% of organizations can be considered at the highest level 5.

FIGURE 1

IT Performance Maturity Index



Source: IDC, 2016

The model is based on evaluating IT performance measures.

IT Efficiency

All of the benefits of IT performance start with efficient IT operations. We define IT efficiency as the ability to deliver more services/applications with better quality and with fewer resources. We measure IT efficiency with two KPIs: Opex costs per application and unplanned downtime hours per year.

Agility

Agile organizations are able to make decisions more quickly and execute those decisions to gain strategic advantages. IT supports business agility by delivering reliable, high-quality applications and services fast. We measure this ability by the time required to develop and deploy new applications

and services, the speed of adoption of new applications, and the availability of the applications.

Innovation

Innovation enables companies to change their operational paradigm to drive growth. We define innovation as the ability of a company to do new things. We measure IT's ability to contribute to innovation with two KPIs: Time spent keeping the lights on and percentage of IT budget available for strategic/innovative projects. IDC Business Value analysis measures how Avanade has enabled its customers to progress to higher levels of IT maturity and calculates the financial impact on the business.

Business Value Analysis

Study Demographics

IDC conducted in-depth interviews with 16 organizations over the past three years that are supporting their IT and business operations with Avanade managed services, including 11 organizations interviewed in 2013 and 5 organizations interviewed in the summer of 2016. IDC recorded results from these interviews, which covered both qualitative and quantitative topics related to these organizations' use of Avanade, to inform this study's analysis. For more details about IDC's Business Value methodology, see the ROI Methodology and Analysis section.

As shown in Table 1, these are generally relatively large organizations and enterprises, with an average employee base of 18,135, and represent the experiences of organizations in the United States, Australia, and a number of countries in EMEA, as well as a variety of industry verticals. A number of interviewed organizations operate on a global scale with Avanade's support across these operations. IDC designed the interviews to elicit quantifiable information as well as qualitative statements about the impact of using Avanade, with an emphasis in the summer of 2016 interviews on how organizations are leveraging Avanade to support their digital workforces and deliver high-quality business applications and services to their employees and customers. Table 1 provides an aggregated profile of the organizations surveyed for this white paper broken out by averages for all 16 organizations (including the 5 organizations interviewed in the summer of 2016).

TABLE 1

Firmographics of Interviewed Organizations

	All Organizations	Newly Interviewed Organizations
Average number of employees	18,135	22,468
Average number of IT staff	311	298
Average number of IT users	15,150	16,968
Average number of users of applications supported by Avanade	2,556	1,958
Countries	Australia, Denmark, Finland, Germany, Italy, the Netherlands, Sweden, United Kingdom, and United States	
Industries	Retail, banking, utilities, insurance, automotive, communications, insurance, consumer goods and services, health, energy, natural resources	

Source: IDC, 2016

Financial Benefits Analysis

Avanade clients interviewed for this white paper are realizing a number of benefits across their IT and business operations. The general nature of the benefits was similar across all interviews, although the five organizations interviewed in 2016 referenced a more pronounced impact of Avanade's support on their business operations. In particular, these five organizations cited impact on their efforts to deliver applications and services to employees and customers and expressed more benefit from the increasingly digital nature of their operations and businesses. As one organization explained: *"Avanade has been engaged to help us understand where we want to go with our digital services … One of the things we're looking at is how we can act as some kind of hub for our customers so that we can work together to get the right outcomes for each of them."* Overall, interviewees named a variety of benefits that Avanade provides, including:

- Leveraging expertise and experience to speed up the delivery of applications and features and deliver new and innovative functionality
- Bringing talent, skills, and experience that their employees do not possess and that they could not otherwise easily or cost effectively develop or obtain in-house

"Avanade has been engaged to help us understand where we want to go with our digital services … One of the things we're looking at is how we can act as some kind of hub for our customers so that we can work together to get the right outcomes for each of them."

- Enabling the migration of mission-critical business applications to the cloud, with the attendant efficiencies and agility of having a more cloud-focused application environment
- Driving revenue and higher employee productivity by delivering innovative and timely digital-focused applications and services and reducing the impact of unplanned outages
- 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 making help desk operations more efficient
- Avoiding costs by achieving production efficiencies with Avanade and eliminating some datacenter-related costs

Based on interviews with these 16 organizations, IDC projects that they will realize financial benefits worth an average of $75,737 per 100 users per year ($11.47 million per organization) over five years in the following areas through their engagements with Avanade (see Figure 2)[1]:

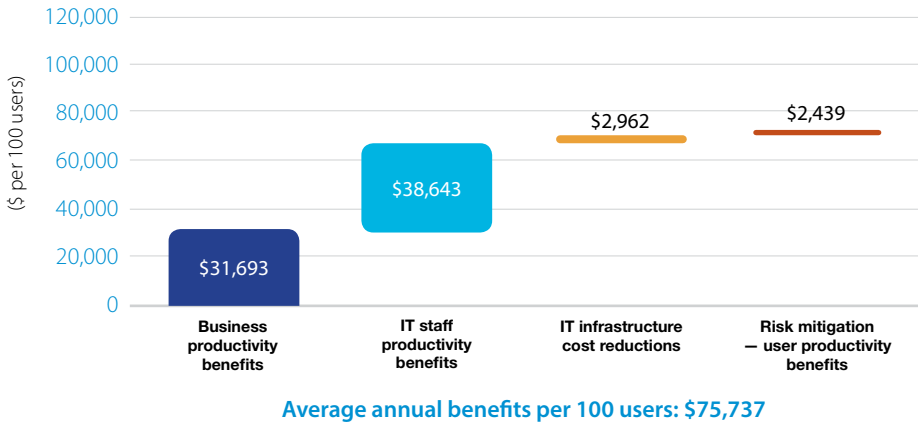
- **Business productivity benefits:** Organizations are delivering higher-quality and innovative applications and services to users and customers, which is resulting in improved business results and higher user productivity. In particular, organizations interviewed in 2016 are seeing a higher proportional share of benefits related to Avanade's impact on their business operations. IDC projects that interviewed organizations will achieve five-year average annual benefits of $31,693 per 100 users, or $4.80 million per organization, in increased profit and higher user productivity attributable to support from Avanade.
- **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. Increasingly, this includes being able to rapidly deliver business applications and features to users and customers and migrating business-critical business applications to the cloud. IDC calculates that interviewed organizations will realize five-year average annual benefits of $38,643 per 100 users, or $5.85 million per organization, in higher IT staff productivity levels.
- **IT infrastructure cost reduction:** Organizations are avoiding costs that they would otherwise bear to develop comparable internal solutions or to use another service provider, as well as reducing spending on server hardware. IDC puts these savings at an average of $2,962 in costs per 100 users per year over five years, or $0.49 million per organization.

1. IDC normalizes per-organization data on a per-100-user basis so that the results can be more easily applied to a particular organization's IT and business environment. For more information about IDC's Business Value methodology and how value is calculated, please see the ROI Methodology and Analysis section.

» **Risk mitigation benefits:** Organizations are reducing the frequency of unexpected outages and the 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 of $2,439 per 100 users per year, or $0.37 million per organization.

FIGURE 2

Average Annual Benefits per 100 Users



Source: IDC, 2016

Business Productivity Benefits

Organizations reported that they are achieving strong business operational benefits with Avanade by improving their ability to provide innovative, digital-ready applications and services to their employees and customers. As Table 2 demonstrates, Avanade's support and expertise are enabling interviewed organizations to deliver mission-critical business applications and services — including new features for additional functionality — in much less time. This has the dual benefits of putting these applications in the hands of employees and in front of customers in less time and requiring less IT staff time to deliver each application or new feature. Several organizations interviewed in the summer of 2016 provided examples of applications and services core to their business operations that they are delivering with the support of Avanade:

» **CRM application used by the sales team** to engage with customers and potential customers, with an increasing focus on delivery to mobile devices

» **Productivity applications for management** for an organization with hundreds of distributed locations

"I'm pretty sure that we couldn't have even developed our core CRM application with our previous partner. It was too complex, too broad. It was too big a project for the partner, so I can't even estimate how long it would have taken."

» **Development of a customer-facing website and portal** designed to better engage potential customers and support business expansion efforts

According to these organizations, they are delivering better applications and services with Avanade in less time. A representative from one organization noted the faster cadence with which it can deliver new functionality to its users with Avanade's support: *"Avanade has accelerated our ability to deploy new features and new requirements … far faster than we could ever do. I'd say we'd put out 12 in a year before. And now, it's like once a week."* Another Avanade client expressed doubt that its previous partner could have provided the support and knowledge needed to deliver the CRM application it is using to support its sales team: *"I'm pretty sure that we couldn't have even developed our core CRM application with our previous partner. It was too complex, too broad. It was too big a project for the partner, so I can't even estimate how long it would have taken."*

TABLE 2

Application Development and Migration with Avanade

	Before Avanade	With Avanade	Difference	Benefit (%)
Application development, new applications				
Time to deliver (weeks*)	48.3	31.7	16.6	34
Staff time per application (hours**)	42,900	21,450	21,450	50
Application development, new features				
Time to deliver (weeks*)	4.3	1.0	3.3	77
Staff time per application (hours**)	7,887	3,920	3,967	50

** Time to deliver (weeks) is the average number of weeks it takes interviewed organizations to develop and deliver a new application or feature to users or customers.*
*** Staff time per application (hours) is the average number of staff hours it takes to develop and deliver a new application or feature to users or customers.*
Source: IDC, 2016

By providing high-quality applications and services to users and customers in less time, interviewed organizations are both achieving better business results and enabling their employees. The impact on their business results can be seen in terms of higher revenue from both better addressing growth opportunities and limiting the impact of application and system outages on business operations. One interviewed organization described how Avanade enabled its efforts to set up a customer-facing website designed to engage potential customers and win their business: "*Avanade supports us in the technical design, development of tests, and development test of an application supporting our core services … They support the ongoing development and testing of that platform, yes, and support through some application support staff … We've seen some big growth with this service, and I attribute a lot of this to the*

platform Avanade has helped us develop." Another interviewed organization reported that Avanade supported its effort to develop a platform for distributing content about its core product, which it also reported was leading to better business results. IDC calculates that interviewed organizations will capture an average of $5.55 million of additional revenue per year in better business results over five years that they attribute to Avanade. IDC has applied a 20% operating margin to this higher revenue, putting the average annual increase in operating margin for these organizations at $1.1 million per year (see Table 3).

Beyond better addressing business opportunities through the faster delivery of robust and business-critical applications and services, interviewed organizations are also reducing, with Avanade's support, the amount of revenue they lose every year due to unplanned outages. IDC calculates that organizations will prevent an average loss of $833,900 per year, or $166,800, in operating margin.

TABLE 3

Business Operations Impact and Revenue with Avanade

Averages	Per Organization	Per 100 Users
Impact — improved business results		
Additional revenue per year	$5.55 million	$36,620
Operating margin*	20%	20%
Total recognized revenue (operating margin) per year	$1.11 million	$7,324
Impact — reduced unplanned downtime		
Hours per year of reduced downtime	21	
Revenue per hour lost due to unplanned downtime	$160,000	
Percentage of organizations interviewed for study recognizing revenue loss from unplanned downtime	25%	
Additional revenue per year due to reduced downtime	$833,900	$5,504
Operating margin*	20%	20%
Total recognized revenue (operating margin) per year	$166,800	$1,101
Total impact — improved business results and reduced unplanned downtime		
Total additional revenue per year	$6.38M	$42,124
Total recognized revenue (operating margin) per year	$1.28M	$8,425

** As explained previously, IDC applies a 20% operating margin assumption to revenue to arrive at the revenue recognized for purposes of this analysis.*

Source: IDC, 2016

In addition to improved business results, interviewed organizations are realizing operational efficiencies through higher employee productivity as a result of providing higher-quality business applications at an earlier time to their employees. For example, one organization that has developed a CRM application with Avanade's support explained the impact on how it is used: *"Users are more efficient because they can share easily more information within our organization, and they can communicate more effectively with customers."*

IT Staff Productivity

"We looked to partner with Avanade to augment our current capabilities and to modernize our IT technology."

Organizations are leveraging support from Avanade to reach significantly higher IT department productivity levels, in terms of both supporting their IT infrastructures and delivering higher-value business applications in a timely manner. 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 representative from a customer commented on how the organization benefited from its engagement with Avanade: *"We realized that, as a smaller IT team, we didn't have the experience and knowledge and the ability to expand to actually meet the regulatory challenges facing us. We looked to partner with Avanade to augment our current capabilities and to modernize our IT technology."*

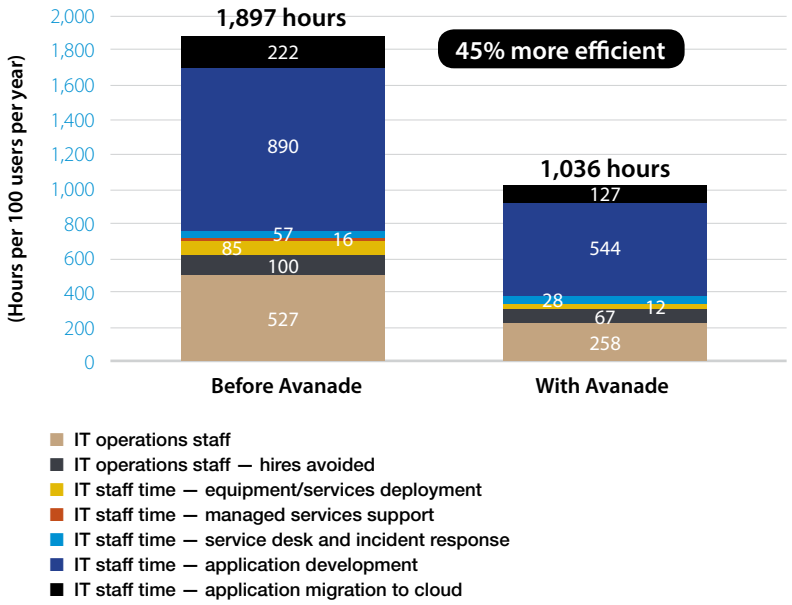
Organizations are benefiting from their use of Avanade managed services through higher IT staff productivity in two main areas when it comes to supporting their IT operations on an ongoing basis:

- **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.
- **Systems management:** Organizations also benefit because Avanade instills their IT staff with flexibility and offers processes and a robust underlying infrastructure to handle growth.

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. Interviewed organizations reported that their IT operations teams are on an average 51% more efficient with Avanade supporting them, with significant efficiencies in other IT staff operations areas including incident management, managed services support, and deploying equipment and services contributing to an average 45% efficiency across their IT departments in the areas listed in Figure 3.

FIGURE 3

IT Staff Efficiencies: Average Hours per 100 Users Saved per Year with Avanade



Source: IDC, 2016

In addition to ongoing management efficiencies, interviewed organizations reported that their application development efforts are significantly more effective with Avanade's support. As discussed previously, application development teams can deliver more applications and new functionality to users and customers in less time thanks to Avanade's support and expertise. As a result, the time required of application development team members at these organizations per application and new feature delivered is cut in half (50% efficiency).

In addition to supporting application development teams, Avanade is enabling interviewed organizations to increasingly benefit from efficiencies in complex and time-consuming migrations of important business applications and services to the cloud. These migrations are important to these organizations' efforts to ensure the quality, agility, and cost-effectiveness of these applications and services, and Avanade has provided the needed know-how to carry out these migrations. As shown in Table 4, interviewed organizations are migrating more applications in less time with Avanade's support and require significantly less of their IT teams' time to carry out such migrations. As one representative from an interviewed organization commented: *"The entire delivery of our BI solution is via the cloud, and Avanade moved it there. They moved the database, and they moved the architecture … Before, we didn't know how to do that really … To migrate each of these … might be like six weeks. If we were doing it on our own, it would take three times longer with significantly more of our staff time."*

"The entire delivery of our BI solution is via the cloud, and Avanade moved it there. They moved the database, and they moved the architecture … Before, we didn't know how to do that really … To migrate each of these … might be like six weeks. If we were doing it on our own, it would take three times longer with significantly more of our staff time."

TABLE 4

Cloud Migration KPIs with Avanade

	Before Avanade	With Avanade	Difference	Benefit (%)
Number of applications migrated to cloud per year	1.7	4.7	3.0	180
Time to migrate (weeks)	22.0	6.3	15.7	72
Staff time per application migrated (hours)	5,712	1,005	4,707	82

Source: IDC, 2016

"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."

Risk Mitigation

Organizations are leveraging Avanade's managed services to reduce the incidence and duration of downtime and to improve the efficiency of their help desks. Avanade's managed services have helped organizations reduce the number of downtime incidents they experience per year by 35% and cut the time it takes to recover from downtime by 32%. These improvements stem from the robust nature of Avanade's 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 as follows: *"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."*

The organizations also report that their help desk operations have become more efficient with Avanade support. With Avanade, they have reduced the time it takes for their help desks to handle a call by an average of 59%. In addition, fewer problems require Level 2 or 3 support, lessening the productivity drain on these organizations caused by help desk inquiries (see Table 5). An Avanade client noted that its help desk operations were *"a more personalized service … that gets the user back up and running faster — 5 minutes versus 15 minutes."*

TABLE 5

Risk Mitigation and Unplanned Downtime with Avanade

	Before Avanade	With Avanade	Difference	Benefit (%)
Unplanned downtime				
Number of instances per year	12.2	8.0	4.2	35
Mean time to resolve (MTTR) (hours)	3.1	2.1	1.0	32
Hours lost per user per year	4.6	1.6	3	65
Help desk				
Number of escalated calls per year	191	38	153	80
Time per call (minutes)	20	8	12	59
Hours of support per user per year	2.5	1.1	1.4	59

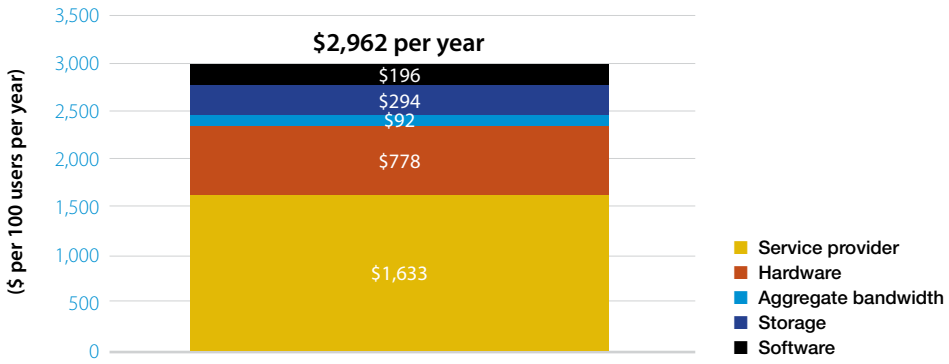
Source: IDC, 2016

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. These cost savings are most evident for server hardware, but organizations are also cutting costs for bandwidth, storage and networking, and management software tools (see Figure 4). 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.

FIGURE 4

IT Infrastructure Cost Efficiencies, Average per 100 Users per Year, Avanade



Source: IDC, 2016

ROI Methodology and Analysis

ROI Methodology

IDC used the following three-step method for conducting its return-on-investment (ROI) analysis:

- **Gathered quantitative benefit information during the interviews using a comparative assessment.** In this study, the benefits included staff time efficiencies and higher productivity levels, increased revenue, and IT-related cost efficiencies.
- **Created a complete investment (five-year total cost analysis) profile based on the interviews.** Investments go beyond the initial and annual costs of these organizations' engagements with Avanade and can include additional related costs, including migrations, planning, consulting, configuration or maintenance, and staff or user training.
- **Calculated the ROI and payback period.** IDC conducted a depreciated cash flow analysis of the benefits and investments for these organizations' use of Avanade to support their IT and business operations over a five-year period. ROI is the ratio of the net present value (NPV) and the discounted investment based on benefits these organizations attributed to Avanade. The payback period is the point at which cumulative benefits equal the initial investment.

IDC's standard ROI methodology was utilized for this project. This methodology is based on gathering data from current users of the technology as the foundation for the model. Interviews with these Avanade clients covered a variety of topics on a before Avanade and after Avanade basis, including topics such as IT staff time required to support IT operations; various IT-related costs; the frequency, duration, and impact of system and application outages; and the impact of application performance and delivery of applications and services on employees and business results. 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. For this study, IDC used its standard assumption of $100,000 fully burdened salary per year for IT staff members and $70,000 for other employees.
- Downtime values are a product of the number of hours of downtime per organization multiplied by the number of users affected
- The impact of unplanned downtime is quantified in terms of impaired end-user productivity and lost revenue based on the impact on Avanade clients
- 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.

ROI Analysis

Table 6 presents IDC's analysis of the average discounted benefits, investment, and return on investment for the Avanade clients interviewed for this study. IDC calculates that these organizations will invest an average of $49,129 per 100 users ($7.44 million per organization) in Avanade services. In return, IDC projects that these Avanade clients will realize benefits worth an average of $262,202 per 100 users ($39.69 million per organization) as discussed in this study. This would result in an average five-year ROI of 433% for these organizations and mean breaking even on their investment in Avanade in just over 10 months on average. Clients realized returns of more than $5 for every $1 invested in Avanade.

TABLE 6

Five-Year ROI Analysis

Averages	Per Organization	Per 100 Users
Benefit (discounted)	$39.69 million	$262,202
Investment (discounted)	$7.44 million	$49,129
Net present value (NPV)	$32.25 million	$212,874
Return on investment (ROI)	433%	433%
Payback period	10 months	10 months
Discount rate	12%	12%

Source: IDC, 2016

Challenges/Opportunities

Challenges

Although utilizing managed services can unlock significant business value, achieving anticipated return on investment from managed services can be elusive if organizations fail to address key challenges like:

- **Change management/risk management.** Organizations can get caught up in assuming that implementing managed services alone can directly lead to business value generation. Establishing escalation paths for issue management, performance metrics, governance structures, and clearly defined roles and responsibilities are keys to successful implementation of managed services within IT. Without effective change management, governance, and risk management employed with managed services, organizations potentially face increased hazards of business failure and undermine the very objectives they were hoping to achieve through third-party services.
- **Corralling costs.** If not planned and managed properly, costs to execute application and infrastructure development and management can rise when using managed services in conjunction with internal IT resources. Organizations need to clearly divide roles and responsibilities between internal IT and managed services personnel as well as establish effective workflow communication standards to avoid duplication of effort and wasteful uses of cash.

- **Creating new culture and operating model.** Altering the operational model for how application development and management is completed requires changing mindsets of the organization's resources and often can be the key stumbling block for harnessing and achieving the benefits of managed services. Trust, reliability, and transparency are major foundations for enabling culture adjustment. Without them, organizations will struggle to achieve success through use of application managed services.

Opportunities

This study highlights how managed services have aided enterprises with transforming into more efficient and resilient organizations. Along these lines, other organizations looking to build higher levels of productivity through leveraging managed services can:

- **Repurpose IT resources to address strategic digital transformation initiatives.** Using managed services for application development, management, and infrastructure tasks enables organizations to focus their development and maintenance employees on strategic application initiatives that are linked to digital transformation objectives. Using a managed services provider reduces carrying costs to maintain assets and resources internally and also aids organizations with transitioning work to service providers that specialize in application development and migration, which, in turn, can enhance application performance, reliability, and quality.
- **Create sources of cash to support application modernization objectives.** Managed services can help organizations drive down their application development, management, and infrastructure maintenance costs, which can help enterprises build sources of cash they in turn can direct toward strategic application modernization initiatives.
- **Build and extend levels of IT automation.** By utilizing managed services for application development, management, and infrastructure, organizations can enhance levels of speed and automation for application and infrastructure servicing. Through higher levels of automation, line-of-business personnel can enhance speed of responsiveness to customer needs as well as enhance competitive positioning against rival organizations.

Conclusion

Managed services can be employed as a means for enterprises to not only shift and reduce costs but also position IT as a catalyst to business value. Through enabling access to innovation and talent via managed services, organizations can create opportunities for business agility that they may not have had access to by executing application tasks themselves. Avanade's application and infrastructure managed services can help

organizations meet business objectives through improving IT operational efficiency and supporting digital transformation and business innovation. As this study has shown, organizations have been able to utilize Avanade's managed application and infrastructure services to achieve measurable financial, speed, and productivity benefits. The benefits, in turn, have enabled Avanade's clients to be more competitive against their peers as well as more operationally efficient to improve the value of their organizations.

Appendix

Discussion of Avanade

Overview of Avanade

Avanade describes itself as the leading provider of innovative digital and cloud-enabling services, business solutions and design-led experiences, delivered through the power of people and the Microsoft ecosystem. Majority owned by Accenture, Avanade was founded in 2000 by Accenture LLP and Microsoft Corporation.

Currently, Avanade drives more than $2 billion in revenue, has more than 70 locations in 24 countries, and is supported by more than 30,000 professionals. This includes 21,000 people who are part of the company's global delivery network (GDN), which comprises onshore, nearshore, and offshore sites. These employees are located in 10 countries across the world, from India and the Philippines to Argentina, Spain, and beyond. This "follow the sun" approach means support is always available for global clients. Avanade's GDN includes specialized studios focusing on areas such as cloud, digital technologies, and experience design along with 15 centers of excellence focusing on a wide range of topics including cloud transformation, Dynamics AX, CRM, message and content migration, data and analytics, and digital marketing.

Avanade is the most highly accredited Microsoft partner in the world:

- 12-time winner of Microsoft Partner of the Year
- 24,000+ certifications in Microsoft technology
- 90+ Microsoft partner awards
- 23 Microsoft Gold Competencies

Discussion of Avanade's Managed Services

Enterprise Managed Services Portfolio

Avanade's portfolio of services provides enterprises with end-to-end options to support their needs across the entire IT environment. Avanade's portfolio, specializing in the Microsoft technology ecosystem, includes consultative services involving strategy, design, architecting, development, deployment, systems integration, and migration of IT and application technologies as well as 24 x 7 ongoing proactive management and support.

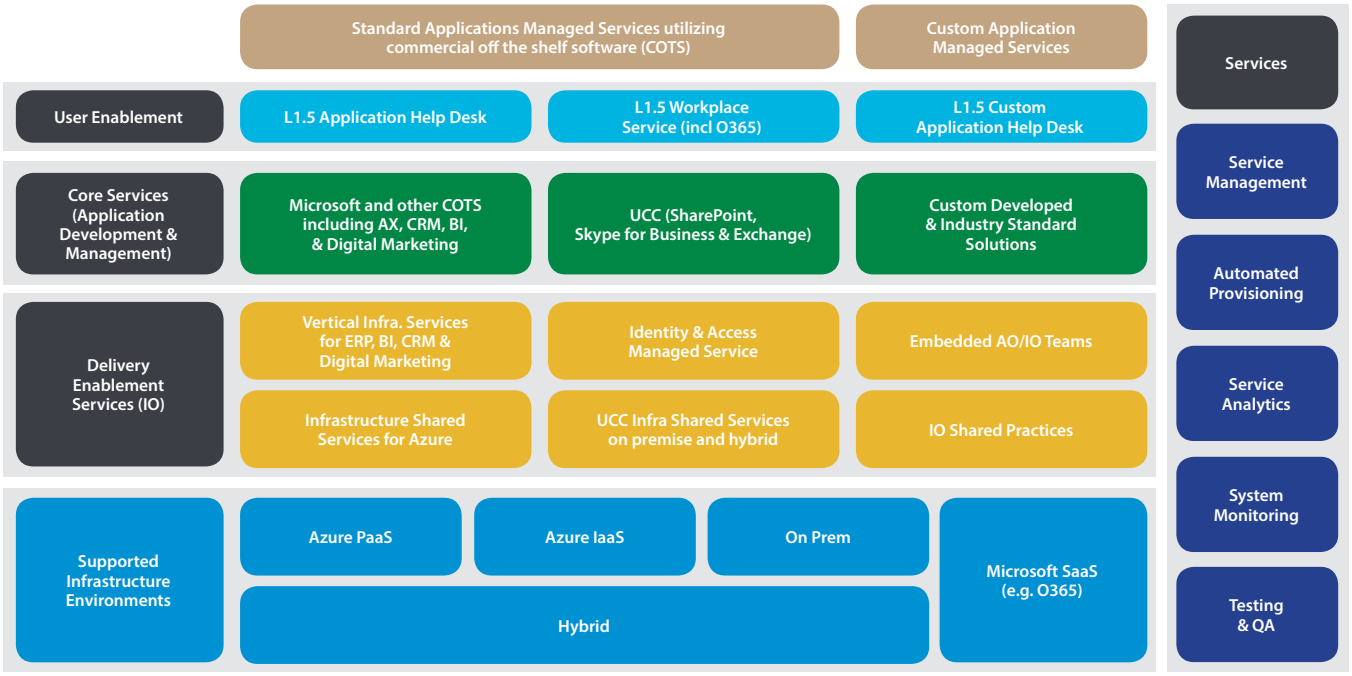
A key to Avanade's clients is that all of these service elements form part of Avanade's managed services portfolio. As a result, Avanade is able to offer end-to-end managed services, which include the ability to provide systems integration and application development work as part of a managed service (see Figure 5). This means Avanade is able to deliver on its commitment to provide continuous improvement and innovation as part of its managed services agreement. Avanade's portfolio covers two primary categories of managed services:

- **Standard applications managed services utilizing commercial off-the-shelf (COTS) software.** These services are built on Microsoft software or software typically built using the Microsoft technology ecosystem, including open source and fall into two categories:
  - Designed to help clients develop capabilities to support the digital business and meet the expectations of the digital customer, these services are based on Microsoft Dynamics AX, Microsoft Dynamics CRM, Microsoft Dynamics 365 and in the case of digital marketing, Sitecore. They can include Microsoft SQL and other data and analytics capabilities as well as integration with Microsoft Azure.
  - Designed to provide the transformational technologies needed to create the digital workplace, these services are based on Microsoft Unified Communications and Collaboration (UCC) software including dedicated instances of Microsoft Exchange, Skype for Business, and SharePoint as well as Microsoft Office 365 and all of its components including Delve. These services also include Microsoft Office applications as well as Microsoft Enterprise Mobility & Security for identity and access management and for example Microsoft Azure Active Directory. For today's enterprises, these services typically support a hybrid environment of Office 365 and dedicated instances of for example Skype for Business managed by Avanade.
- **Custom application managed services.** These services reflect Avanade's track record in managing business-critical application portfolios based on Microsoft .NET and built around the Microsoft technology ecosystem. Avanade can design, build, enhance, and run business-critical applications that are increasingly built on the cloud and focused on specific industries like finance transaction platforms and emerging technologies like the Internet of Things (IoT).

Transition is key to successful delivery, particularly around business-critical applications. Avanade transition experts use proven methods that manage risk and ensure a controlled handover of services that maintain business continuity. Avanade gains additional scalability and insight through its unique ability to leverage Accenture's investment in capabilities and the range of technologies Avanade supports.

FIGURE 5

Avanade Managed Services End-to-End Operating Model



Source: Avanade

Service Delivery Options and Platforms

Avanade's managed service offerings are built up upon three types of services that layer onto each other in order to enable Avanade to offer its clients end-to-end services that can be consumed as a service. The three types of services can also be sold individually to a client in principle; however, they add more value and are primarily designed to be sold as part of the solution.

» **User Support.** Level 1.5 or application help desk services providing a direct interface to the client's end users, similar to a level 1 support, but with scope dedicated to a specific applications or set of applications that are managed and/or operated by Avanade (These services are focused on driving down level 1 support costs for the clients and to increase end-user satisfaction through high first-call-resolution rates.)

- **Core Services.** Application management, application enhancement, and application life-cycle services — core competencies of Avanade — focus on a particular application or application landscape, also provide level 2 and level 3 support for the specific application, and are tailored to achieve business outcomes for the clients, depending on the type of application (e.g., lower cost for ERP systems or faster time to market for business-critical applications and digital marketing applications.)

- **Delivery Enablement Services.** Mainly infrastructure support services that are tailored to the specific requirements of applications that run on top of this infrastructure. This includes shared services for applications that remain stable and require just a minimum level of monitoring to stay "up and running." In addition, combined application development and infrastructure operations teams (DevOps teams) can effectively support applications, typically running in the cloud, that need to run stably as well as support a high rate of changes at the same time.

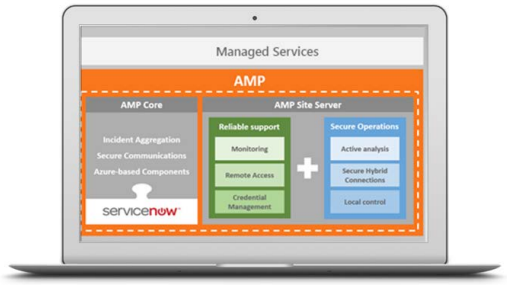
These services are leveraging all available cloud platforms and technologies from Microsoft and the related ecosystem in order to provide clients with an infrastructure that delivers the right level of availability at the most economic price point.

- **Modern Engineering Platform.** Underpinning the approach Avanade uses to develop and manage software solutions is its Modern Engineering Platform (MEP). Incorporating many of the tool sets available either from Microsoft or the Microsoft technology ecosystem, including open source, Avanade describes the MEP as an industrialized and intelligent platform for developing, maintaining, and operating liquid applications across connected ecosystems.

  - Combines Microsoft technology ecosystem with Avanade experience and global subject matter expertise
  - Minimizes the investment needed to rapidly benefit from the agile and DevOps promise
  - Delivers Avanade's clients IT operations with lower costs, decreased ramp-up time, higher quality, and reduced risk so they can more quickly build, test, and deploy software with high agility, frequent innovation, and deep insights
  - The shared services model allows clients to pay for what they need and provides ease of scaling

» **Avanade Management Platform.** For the management, monitoring and support of applications (either of the shelf or custom) Avanade uses its Management Platform. Avanade describes this platform as a remote monitoring and management platform that uses shared resourcing and a common tool set to drive down costs.

- Provides proactive 24/7 system monitoring; protects the user experience by ensuring system is up and running and optimized
- Provides rules based engine to identify infrastructure- and application-related issues



- Video audits provide visibility into remote access sessions that Avanade consultants take
- Provides adoption and usage analytics so we can make recommendations for improvement
- Provisioning Automation provides fast, consistent, automated deployment via scripts and templates
- Configuration Management Database (CMDB) discovery allows the acquisition of the topology of physical, virtual and logical elements, and the relationships between them
- As a result, enterprises gain powerful IT assistance – the issue may be resolved by the same Modern Engineering Platform team who built and deployed the environment – and enterprises also see the benefits highlighted in this research

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