



IDC ExpertROI® SPOTLIGHT

Integrated Energy Company Leveraging Avanade's Managed Services to Reduce Downtime Impacting Key Business Platforms and Applications

Sponsored by: Avanade

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Overview

The ability to minimize service disruptions and maintain the stability of key platforms and applications is becoming more vital to trading operations within integrated energy companies. These trading divisions must achieve IT service levels that provide them with maximum availability and stability for the platforms and applications that support their time-sensitive and volume-based operations. To achieve this objective, while also reducing its costs, the trading division of one international energy company decided to outsource management of IT support for its trading platform to Avanade Inc.

With Avanade in place, the division has noted much improved quality of IT services supporting its trading platform. Higher service levels have helped the division cut the incidence and duration of downtime impacting key systems and applications to a significant extent, thereby helping the division capture revenue it was losing during downtime. The division credits greater stability and availability of the platform to the depth and variety of experience and skill that Avanade provides. Avanade has also helped the division expand and speed up application and technology deployments, which it has achieved without needing to hire additional IT staff and contractors.

According to an IT manager at the trading division, Avanade has benefited his group by bringing repeatable, measurable processes to application management. In addition, the division has gained proactive monitoring capabilities through its relationship with Avanade, which have given it more control over its operating environment. As a result, there are now fewer downtime incidents, and problems get fixed faster, which translate into a better environment for the division to conduct its business.

Business Value Highlights

Organization: Trading division of an international energy company

Challenge: Improve IT service levels to maintain higher availability of key platforms and applications while reducing costs and ensuring flexibility

Solution: Avanade Application Managed Services

Cumulative Benefits:

- \$60.3 million (discounted) over five years
- ROI of 358%
- Payback in 8.4 months

Other Benefits:

- 50% reduction in downtime incidents
- 60% reduction in average time needed to resolve downtime
- Avoided hiring significant numbers of internal IT staff and contractors
- Capturing more revenue because of less downtime and improved ability to take advantage of business opportunities

Further, with less downtime, the division's IT staff spend less time dealing with outages and can work instead on projects that better support and grow the business. In addition, with fewer service interruptions occurring, the division's non-IT employees have become more productive, and the division has increased its revenue as a result of the improved ability to pursue new business opportunities.

Based on interviews with the IT manager, IDC found that the division is capturing more revenue by significantly reducing the impact of downtime on key platforms and systems, improving both IT and non-IT staff productivity levels, and reducing some infrastructure costs by using Avanade Application Managed Services. The company is achieving average benefits of **more than \$17.1 million per year** over the projected five-year period, resulting in a **five-year ROI of 358%** and a **payback period of 8.4 months**.

Implementation

Prior to moving to Avanade Application Managed Services, the trading division had gradually enlarged its IT team to manage a growing number of applications. That strategy changed with the arrival of a new head of IT who understood and appreciated the potential value of outsourcing application management.

The IT manager explained the rationale for looking to a managed services provider to improve the team's performance: "Our new strategy was to use managed services to improve the quality of service from IT and to provide greater business agility, especially with the adoption of new technologies."

The organization issued an RFP and then visited a number of vendors before narrowing its choice to two companies. "We selected Avanade because it really stepped up to the plate when we asked to see its best practices as they relate to application life-cycle management and what we could do together," the IT manager said. In addition, Avanade had built up a strong relationship with the trading division's parent company through its support of a variety of application development projects. This mutual trust played a role in the division's selection of Avanade.

The trading division began transitioning support and maintenance of its applications to Avanade in a three-month process beginning in January 2012. Avanade now manages the support, maintenance, and enhancement of the organization's energy trading platform on a 24 x 7 basis. This platform is at the heart of the division's efforts to grow its midstream business.

In addition to managing the main trading platform, Avanade now also manages a scheduling system and a balancing and portfolio management system. Both of these systems have a full two-way interface with the system vendors. Avanade also manages a number of systems developed in-house at the trading division and more than 100 applications.

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Each month, individuals from the Avanade team and the trading division meet to discuss operational issues that have arisen. In addition, they have implemented a review board that meets quarterly to analyze performance metrics and examine outstanding issues. "Avanade was very supportive during implementation, and I'm pleased to say that spirit of partnership has continued," the IT manager said.

Benefits

Since moving to Avanade Application Managed Services, the division has reduced the occurrence of system downtime by about 50% and reduced the time needed to fix these outages by about 60%. Because of the nature of the work being done by the trading division, even brief outages of only a few minutes can significantly impact its ability to carry out business and realize revenue. Thus, by minimizing the impact of downtime on its operations with Avanade, the division is avoiding scores of users and revenue being impacted by system outages per year.

According to the IT manager at the trading division, Avanade has helped cut the impact of downtime significantly by offering "repeatable, measurable processes to application management, which we lacked before." By using proactive monitoring of systems enabled by Avanade, the division now has better control over its operating environment. "With Avanade, there are fewer downtime incidents, and the problems get fixed much faster," the IT manager said. "The 24 x 7 service, in particular, has been a real boon."

The organization is also leveraging the improved quality of service achieved since moving to Avanade to move into new markets with greater comfort. "Avanade has enabled us to improve the trading system," the manager said. "We've also been able to release more new applications and do so faster because of the shorter time needed to ramp up our production work. With Avanade, we now have a deep pool of resources to draw on." These improvements have played a role in positioning the organization for growth and greater revenue. "Before Avanade, we took a more cautious approach to business expansion because we were concerned about our system," the manager said.

Besides allowing the organization to scale faster, Avanade's approach to application portfolio management has made change easier. "We had some complicated changes to make to our trading system, and Avanade was able to pull in a specialist within a week to help us," the manager said. "If we had done it ourselves, we might have taken a month or more, and that's assuming we could even have found someone."

The organization has also avoided hiring new IT staff and contractors, with Avanade managing these platforms and applications. "We have avoided hiring many positions, mostly for application management but also for application development and server, storage, and network management," the manager said. The division has also achieved savings on infrastructure costs by retiring its legacy system and saving on hardware and bandwidth costs.

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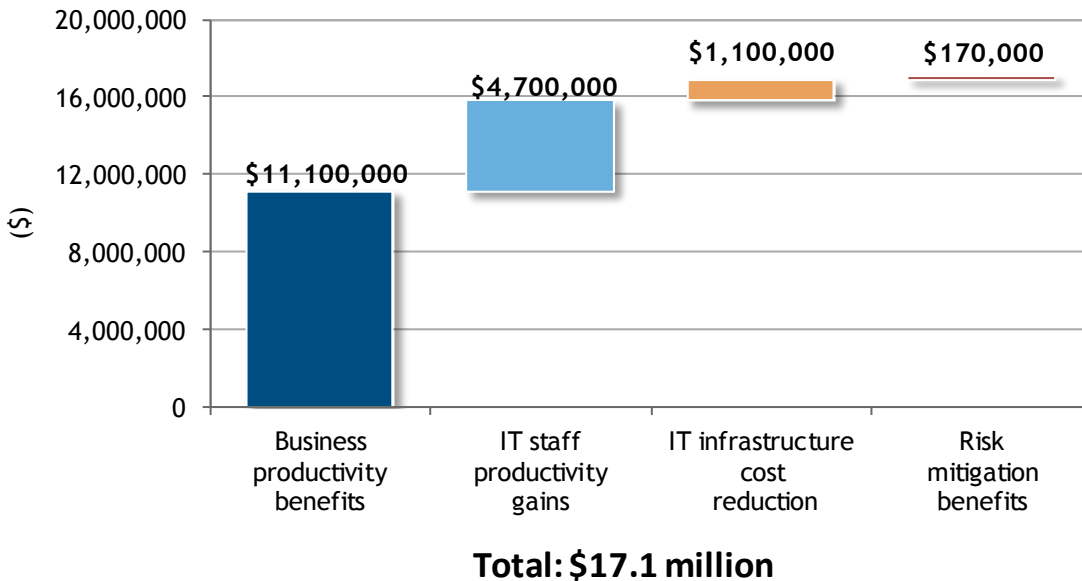
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Quantifying the Benefits

From interviews with an IT manager at the trading division, IDC was able to quantify the benefits realized from the organization's use of Avanade Application Managed Services. Projected over five years, IDC calculates that the **benefits** to the company from higher IT and non-IT staff productivity, increased revenue, and infrastructure costs avoided averaged **\$17.1 million per year** (see Figure 1).

FIGURE 1

Average Annual Benefits



Source: IDC, 2014

Business Productivity and Risk Mitigation Gains

With Avanade in place, the division has cut the number of system downtime incidents in half and the average time it takes to resolve incidents by almost 60%. Because its trading platforms and systems are down much less with Avanade, the division is able to conduct more business and thereby capture more revenue. IDC calculates that the division is earning an average of \$10.8 million more in revenue per year over five years with Avanade in place by avoiding downtime incidents that impacted the division's business operations. The division is also leveraging the improved IT environment and associated gains in confidence and capabilities to increase its revenue by taking advantage of new business opportunities. IDC estimates that the division is earning an average of an additional \$324,000 annually over five years in revenue because it can better take advantage of these opportunities with Avanade. In total, IDC calculates that **the division is capturing an average of \$11.1 million more per year over five years in operating margins** with Avanade.

Reduced downtime also means that the organization's 200 non-IT employees are spending more time doing their jobs and less time dealing with outages and have more confidence that IT can support their work. As a result, the division is realizing **productivity gains worth an average of \$169,700 annually over five years by mitigating downtime risks.**

IT Staff Productivity Increase

The division has leveraged the depth of skill, experience, and talent that Avanade brings to the table to streamline and maximize the productivity of its IT staff. With Avanade in place, the division has avoided a number of permanent IT staff hires and does not need to spend significant amounts of money on expensive contractors. Beyond these cost savings, having Avanade is allowing the division to reassign IT staff to more strategic tasks, including supporting the identification and pursuit of new revenue opportunities. IDC projects that the division is **achieving savings in IT staff and contractor costs worth an average of \$4.7 million annually** over five years.

In addition, the division's IT staff is now spending less time dealing with outages as the occurrence of downtime has fallen. IDC estimates the productivity gains for the division's IT staff from this reduced downtime at an average of \$28,000 annually over five years.

IT Infrastructure Cost Reduction

By using Avanade Application Managed Services, the division has been able to **retire its legacy system, saving an average of \$1.1 million annually** over the five years. It is also achieving further savings in hardware and bandwidth costs worth an annual average of \$23,900 and \$12,000, respectively, over five years.

Return on Investment

From interviews with an IT manager with the division, IDC was able to quantify the benefits and investment associated with the trading division's use of Avanade Application Managed Services and to develop an ROI analysis. From its analysis, IDC projects that the trading division is realizing a **five-year ROI of 358%** from its use of Avanade and achieved **payback on its investment within 8.4 months** of beginning to move to Avanade (see Table 1).

TABLE 1

Five-Year ROI Analysis

Benefit (discounted)	\$60,300,000
Investment (discounted)	\$13,200,000
Net present value (NPV)	\$47,200,000
Return on investment (ROI)	358%
Payback	8.4 months
Discount rate	12%

Source: IDC, 2014

IDC conducted two interviews with the organization to quantify the benefits and investment associated with its use of Avanade Application Managed Services and created an ROI analysis from the results.

IDC calculates the ROI and payback period in a three-step process:

1. Measure the benefits from increased IT staff and user productivity and other cost savings since deployment.
2. Ascertain the total investment.
3. Project the investment and benefit over five years and calculate the ROI and payback period. The ROI is the five-year net present value of the benefit divided by the discounted investment. To account for the time value of money, IDC bases the ROI and payback period calculations on a 12% discounted cash flow.

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