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Foreword

Application management is fast becoming one of the primary means for companies to generate value through information technology. As businesses move beyond multi-year Enterprise Resource Planning (ERP) implementations and other big IT investments, they are looking for more value, in less time, at the right cost. This is just what your application management organisation should deliver.

In the past, application management was often viewed as synonymous with application maintenance or help desk support. But today, it encompasses everything from change request management and solution integration to quality management, performance monitoring, training, and more. In fact, for a growing number of companies, application management is emerging as the primary engine for continuously delivering business value from information technology.

Application management is no longer just a cost of doing business; it is now a key enabler for improved performance and results. That's why it's so important to understand what application management is all about — and how you can use it to your advantage.

Even companies that outsource their application management activities need to understand the latest trends and operating practices, if only to ensure that the promise of value in their outsourcing agreement is being achieved.

This report examines major trends and challenges in application management and offers practical advice to help companies maximise the return on their application investments. The insights are drawn from our respective Application Management Services (AMS) practices' experience helping companies around the world improve their application management capabilities and from a global survey of application management organisations around the world, completed in the first quarter of 2007.

We hope this report helps your company derive more business value from application management.



A handwritten signature in black ink, appearing to be 'B L'.

Bruce Laco
National AMS Lead
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A handwritten signature in black ink, appearing to be 'Rod W Kleinhammer'.

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Executive summary

“Races are won and lost in the pits.”

- A fundamental law of auto racing (and business)

Like a well-trained pit crew, application management can help your business operate at peak performance — which in today's hyper-competitive business world can be the difference between sipping champagne in the victory lane and crashing into the wall.

Unfortunately, some companies invest so much time, money, and energy on application *development* that they don't have anything left for application *management*. Others mistakenly believe that by deploying a standard ERP package, their application issues will magically disappear. And in many cases, application management organisations that were well-suited to the challenges of the past have simply become obsolete.

While many companies continue to view application management as a secondary technology function or 'help desk', a number of leading organisations have begun to recognise the full potential of application management and are using it to help boost their business performance and results.

Deloitte Touche Tohmatsu (DTT or Deloitte) has numerous Application Management Services (AMS) practices globally¹ and based on Deloitte's experience, effective application management revolves around seven key elements:

- **Strategy.** Developing an application management strategy that aligns with the company's overall business strategy.
- **Organisation.** Designing an operating model and organisation structure — including external service providers — that fit the needs of the business while maximising application management efficiency and performance.

- **Financials.** Using financial tools such as business cases and chargebacks to quantify the value that application management is creating and to make investment decisions based on hard data.
- **Talent.** Overcoming the global talent shortage through new approaches to recruiting, development, retention, and skills management.
- **Processes.** Using structured process models and/or formal process certification to improve performance.
- **Technology.** Developing hardware and software tools to improve service delivery and reporting.
- **Service delivery.** Defining and measuring success through Service Level Agreements (SLAs) and Key Performance Indicators (KPIs). Aligning performance measures and incentives across the entire value chain.

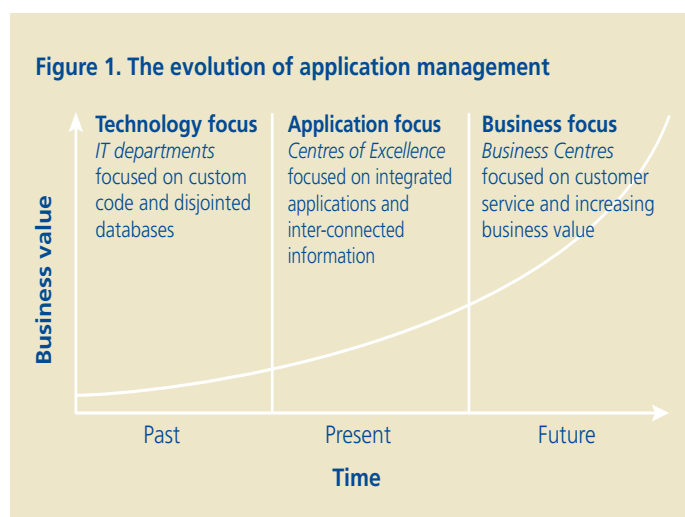
These elements work in concert to define a company's application management capabilities. However, each presents unique challenges and keys to success — as well as a dizzying array of options. For example, in structuring their application management organisation, companies can choose from insourcing, outsourcing, shared services, and offshoring. Or they can choose from an infinite number of hybrid approaches to produce something entirely new.

In the end, every company is different — and every application portfolio is unique. The best way to get started is to take a hard look at your capabilities in each of the seven areas listed above and then to design an application management strategy that fits the particular needs of *your* business.

¹ The Deloitte AMS practice is made up of DTT member firm AMS practices.

A moving target

Application management is a complex challenge that is increasingly critical to business success. Yet, technologies and application management models are changing so quickly that it's almost a full-time job to keep up to date. Approaches that worked in the past may no longer be effective (see Figure 1).



Historically, the predominant focus for application management was on technology issues, particularly the support of custom code and isolated databases. At the time, most businesses and operating units retained their own in-house IT staff to manage the organisation's software applications.

More recently, the focus of application management has shifted to integrated applications and data, with the range of application management activities expanding to include areas such as testing, training, document management, and project management.

Application management organisations are placing less emphasis on technology and more emphasis on creating value for the business through continuous delivery of IT enhancements. Meanwhile, major software vendors are evolving through acquisition or expansion to offer more complete and robust solutions, not just technology implementations.

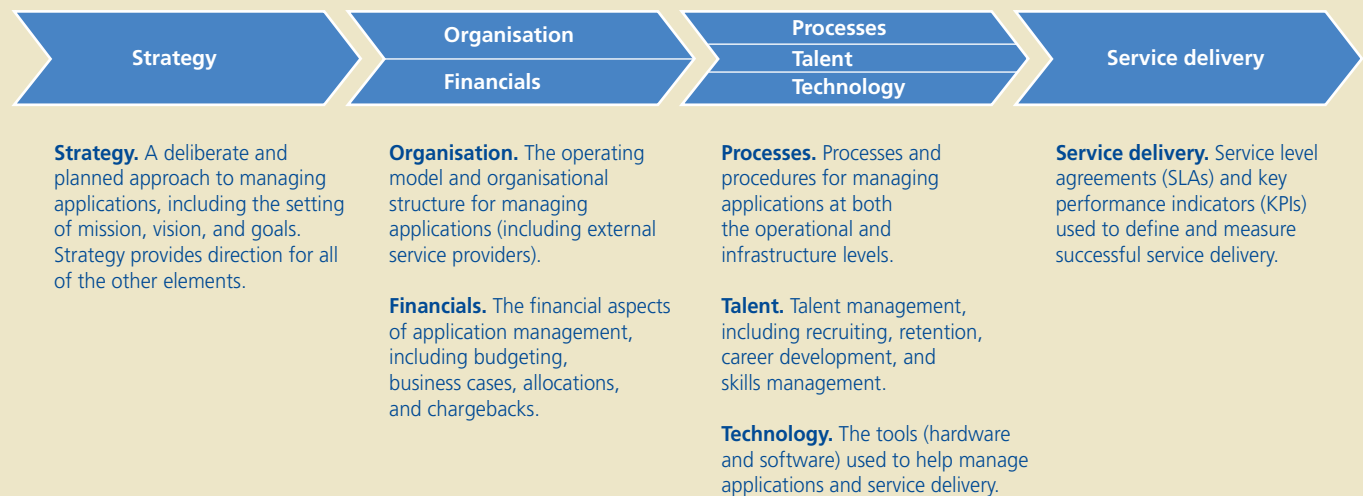
Looking ahead, the Deloitte AMS practice expects this trend to continue, with companies increasingly viewing application management as a way to maximise their overall business performance. At the same time, more and more companies are shifting to non-traditional application management models such as shared services, outsourcing, offshoring, and application management services (sometimes known as application maintenance outsourcing) — or developing their own unique hybrid. These new support models offer a number of advantages in speed, service quality, cost efficiency, and flexibility; yet they also present new challenges that must be understood and addressed.

The *Deloitte AMS Practice Survey* results suggest that companies indeed want to move towards a business focus — but are not yet there. Among survey respondents, 79 percent say their application management strategy is aligned with the overall business strategy. However, respondents also cite 'alignment to business' as one of their two biggest challenges. Moreover, only 25 percent say their application management group is viewed as a value-added business partner. This suggests that application management has not yet achieved its goals of aligning with strategy and providing value to the business.

A framework for successful application management

Application management relies on seven related elements (see Figure 2), each with the capability to determine an application management organisation's overall effectiveness. Improvements in each of these areas help the organisation deliver more business value.

Figure 2. The seven elements of effective application management



About the global Deloitte AMS Practice Survey

The global *Deloitte AMS Practice Survey* was conducted in early 2007 to identify major challenges and leading practices in application management and to validate the beliefs and experiences of this report's authors. It contained 85 detailed questions and was completed by 24 senior level executives from around the world. Respondent companies spanned a wide range of industries, with workforces ranging in size from less than 500 employees to more than 10,000.

See page 12 for key findings from the survey.

Application management defined

Many people associate application management with help desk support and bug fixes. But today, such activities are just a small part of the picture.

Other responsibilities often include:

- Finding new ways to create business value with IT
- Application support
- Change request management
- Business process improvements
- User authorizations management
- Environment management
- Application performance monitoring
- Business performance monitoring
- Service pack/patch management
- Project management
- Compliance
- Quality management
- Data archiving
- Disaster recovery planning and management
- Solution integration
- Testing
- Document management
- Standards management
- Training

In essence, application management encompasses many of the activities necessary to help a company continuously deliver business value from its IT investments.



Element #1: Strategy

Putting the business first

“Circumstances may cause interruptions and delays, but never lose sight of your goal.”

- Mario Andretti, World champion racecar driver

Application management and support must fit the needs of the business and be able to quickly adapt to changing requirements. Without a clear and proactive strategy, application management will continue to have limited business value — and will continue to revolve around day-to-day fire fighting.

Although three-quarters of the application management organisations in the *Deloitte AMS Practice Survey* say they are aligned with the business strategy, an equal number cite business alignment as their top challenge — suggesting that there is still much work to be done.

Challenges

In the past, the issue of strategy was relatively simple. Application management organisations were responsible for a fairly narrow set of services, and their primary focus was on day-to-day operations — maintaining a few key systems, responding to user requests, putting out fires, and keeping costs in check. However, looking ahead, the challenges and expectations for application management are likely to be much greater.

The number and complexity of systems and interfaces continue to grow exponentially, and new technology and tools continue to emerge, creating massive support challenges. And in the future, application management organisations will be increasingly responsible for extending and improving these enterprise systems, not just supporting them.

In addition, the external technology landscape is constantly shifting. For example, recent consolidation in the business software industry has raised major questions about application roadmaps, IT staffing, and training. The increasing frequency of these types of market upheavals makes application management a significant source of business risk.

Factor in an overwhelming array of strategic options such as insourcing, application management services, outsourcing, shared services, and offshoring, and it's clear that the need for an effective application management strategy has never been greater.

Keys to success

- **Align your application management strategy with your business strategy.** The ideal strategy for managing applications varies from one company to the next. Work with business leaders to understand their needs and to help them understand how you can help achieve the business vision. For example, if the company's strategy revolves around 'quality', the application management strategy needs to support that goal. A balanced scorecard tailored to the needs of the business can help measure and maintain this strategic alignment.
- **Make application management a business enabler, not a business inhibitor.** Application management shouldn't be dismissed as merely a nuisance or cost of doing business. Done right, it can improve a company's overall performance and create significant value. Effective application management can not only help a business get more value from its application investments, it can also help reduce costs and improve all aspects of business performance, from inventory turns and accounts receivable to customer satisfaction, cycle times, and revenue growth.
- **Spread the word.** Most executives and managers don't fully understand how application management can help the business, or what services are available. To help close this knowledge gap, many leading application management organisations are publishing service catalogues to help their business colleagues see all the ways that application management can be used to improve the company's competitiveness and performance.



Element #2: Organisation

Weighing the trade-offs

Deciding how to structure your application management organisation is a big decision with significant consequences. And in recent years, the decision has become a lot more complicated.

In the past, companies essentially had three choices for managing applications: they could maintain their own on-site IT staff, they could hire a contractor to operate on-site, or they could outsource the activities to an outside vendor. Today however, there are many more decisions to make: Centralise or decentralise? Buy or build? In-source or outsource?

Operate on-site or off-site? Near-shore or offshore? Report to IT or to the business?

The *Deloitte AMS Practice Survey* illustrates how companies often focus on improving efficiency and reducing costs, rather than maximising business value. For example, many of the companies surveyed are structuring their application management group along functional lines, instead of organising around business processes or business units.

Challenges

When it comes to structuring an application management organisation, the over-arching goal is to provide high-quality service at a reasonable cost. However, every organisational model involves trade-offs.

For example, a barebones organisation might cost less to operate but may not be able to deliver the service levels and quality that the business expects — or may not provide enough flexibility for a changing business environment. Although many businesses focus on cost, in reality there is a wide range of important factors to consider, including: service quality, vendor management, time-zone lag, and operational flexibility.

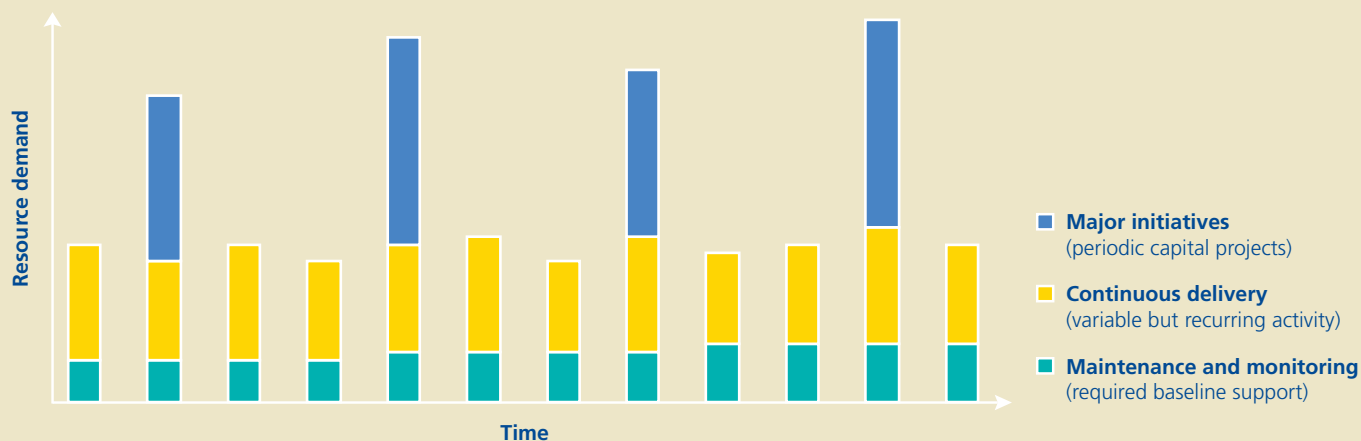
Knowledge transfer is another design parameter that often involves trade-offs.

In the end, some organisations are simply not ready to accept a new operating model. For example, many still think of outsourcing and offshoring as 'dirty' words.

Keys to success

- **Think beyond the organisational chart.** Many organisations make the mistake of structuring their application management offerings and strategy around the organisation chart, when it should really be the other way around. Understand your business requirements first. Then design an organisation structure that fits.
- **Avoid the 'flavour of the day'.** It's easy to get caught up in the latest business trend, or to focus on one narrow aspect of the problem. For example, more and more companies are jumping into offshoring as a way to save money. But what's right for them may not be right for you. Above all, your application management organisation must align with your unique strategy and business requirements.
- **Consider the hidden costs.** Some application management models may not be as efficient as they appear to be. For example, offshoring often seems like a no-brainer to companies that are primarily interested in cutting costs. But hidden costs — such as extra management oversight, data privacy issues, and additional communications infrastructure — can silently eat away at the expected benefits, quickly turning 50 percent savings into 20 percent. And that's a completely different value equation. In addition, labour costs and turnover are rising quickly in popular offshore markets, such as India, leading to a negative impact on productivity.
- **Stay flexible.** Nobody can predict the future, which is why it's so important to design an organisation that is nimble and flexible. In the past, application management was viewed as a relatively simple and stable activity that primarily focused on maintenance and support. But today, leading application management organisations typically spend less than a third of their time on maintenance, and more than two-thirds on business improvement. An effective model must be flexible enough to adapt to the changing needs of the business (see Figure 3). Do your best to anticipate future requirements and to design an application management model that fits. And don't lock yourself into a rigid 10-year deal.
- **Set goals and measure performance.** To maximise performance, you need to align your goals with the business and then constantly monitor your progress toward those goals. Establish internal and external SLAs to establish a baseline — then track your performance to see how your organisation measures up. Use empirical evidence such as benchmarking and a skills database to assess and improve your capabilities, to help ensure that what gets measured gets done.

Figure 3. Application management's fluctuating resource demand



Taking a hard look at offshoring

Offshoring is all the rage these days — and for good reason. Tapping offshore labour markets can significantly reduce a company's costs and can provide access to skills and talent that may be hard to find back home. However, the *Deloitte AMS Practice Survey* shows that many organisations underestimate the costs of shifting application management activities offshore, particularly costs associated with knowledge transfer, process development, and increased cycle time.

Although large companies with diverse global operations were the first to take advantage of offshore and near-shore models, companies of every shape and size are now considering this approach. In fact, smaller companies may have even more to gain from outsourcing their application management activities to a vendor with offshore capabilities because the vendor's economies of scale provide access to world-class people, processes, and systems that a smaller company might otherwise not be able to afford.

Inexpensive labour has traditionally been the biggest draw for offshoring, with wage rates in developing countries often a mere fraction of those back home. Additional savings come from reduced overhead, including lower costs for recruitment, national insurance, and real estate. However, some of these savings are inevitably lost to start-up costs, communications costs, increased management overhead, and various administrative inefficiencies. In addition, the expected savings can quickly be diminished by rising salaries and unfavourable exchange rates.

Offshoring also presents a variety of unique challenges, from geo-political risk to cultural incompatibilities, and more. For example, an offshore location that seems like a bargain could turn out to be just the opposite if a political coup ends up disrupting operations. Also, just because onshore and offshore staff speak the same language, it doesn't necessarily mean they will understand each other. Different cultures have different values and norms, opening the door to misunderstandings and conflict.

Despite these hidden costs and challenges, most companies still report significant offshore savings. The key to success is being realistic about the obstacles you are likely to encounter and developing specific plans to overcome them. For example, you can partially mitigate the risks associated with offshoring by establishing on-site or near-shore capabilities to serve as a front-end to your offshore operations. Deloitte's AMS practice's experience suggests that this kind of hybrid approach can materially increase the chances for offshore success.

Key Findings from the Deloitte AMS Practice Survey²

- Companies are figuring out that their massive investments in ERP applications and other major systems are essentially wasted unless the systems are properly used, supported, and continuously improved.
- Organisations that treat application management as nothing more than 'help desk support' are short-changing themselves — and their stakeholders.
- Although 79 percent of the application management organisations in the *Deloitte AMS Practice Survey* say they are aligned with their company's business strategy, roughly the same percentage cite business alignment as their top challenge — which suggests there is still much work to be done.
- Some application management models may not be as efficient as they seem. For example, offshoring seems like an obvious way to save money; however, hidden costs for proper management of the process, such as management oversight, communications infrastructure, and data privacy issues, can quickly erase much of the expected benefit.
- Like most support services, it's hard to know exactly how much value application management is creating. The survey shows that most companies now use some form of chargeback, which serves as a tangible measure of the value created by application management.
- Half of the survey respondents cite 'lack of knowledge and skills among application management staff' as a significant challenge. Yet almost 60 percent of respondents don't have a formal staffing strategy and only 50 percent have implemented formal career development plans.
- Only 25 percent of the application management organisations in the survey have achieved some level of formal certification: Capability Maturity Model (CMM), IT Infrastructure Library (ITIL), or International Standards Organisation (ISO). Of those, roughly 80 percent did not see a return on their certification investment.
- Almost two-thirds of the respondents continue to rely on spreadsheets and other home-grown tools for significant parts of their operation. In addition, more than a third of respondents do not allocate part of their annual budget to the infrastructure and tools necessary to support their application management activities.
- Half of the application management organisations in the survey have not established formal SLAs or performance objectives, which means they may not be clear on what their customers expect, or whether those expectations are being met. Further, in the Deloitte AMS practice's experience, most SLAs tend to focus on technical performance metrics rather than on measures that track business value.

² Deloitte, *Deloitte AMS Practice Survey, 2007*.

Element #3: Financials

Not just overhead

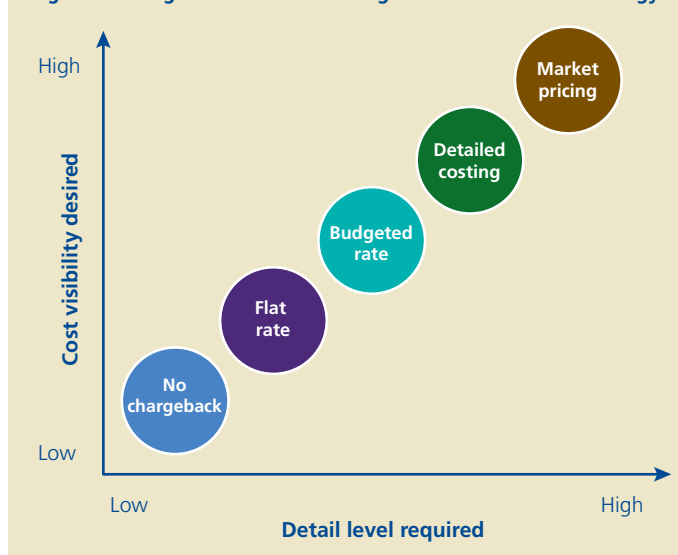
As is the case for most support services, it's hard to know exactly how much business value application management is creating. Sound financial management practices can help answer that question by putting a specific price tag on application management services. They can also help ensure that applications are being managed as efficiently as possible.

Challenges

The financial aspects of application management have long been ignored — or dismissed as ‘administrivia’. Traditionally, most businesses treated day-to-day application management as an operating expense or overhead cost. But in recent years, more and more companies have moved to a chargeback model to bill business units for application management services (see Figure 4). In fact, the *Deloitte AMS Practice Survey* shows that most companies now use some form of chargeback, and that many of today's business executives are confused and frustrated by the overwhelming variety of pricing and chargeback options — and by a lack of transparency and accountability.

Another big challenge is that application management organisations often lack the necessary funding to achieve their long-term goals. To secure more funding, they must learn to demonstrate their value in financial terms — which is something any business person can understand.

Figure 4. Chargeback model must align with the financial strategy



Keys to success

- **Be creative about cutting costs.** After years of focusing on cost containment and cost reduction, companies are often reluctant to increase their budget for application management — or to invest in new systems and upgrades. In order to improve both efficiency and effectiveness, organisations need to be creative in the way they deliver services. Although 67 percent of survey respondents cited cost reduction as a major challenge, simply cutting costs across-the-board is generally not the right answer.
- **Strike a balance between cost reduction and value creation.** In the *Deloitte AMS Practice Survey*, 71 percent of respondents cited business alignment as a major challenge — putting it just ahead of cost reduction. It's important to spend money wisely. But if you want to be seen as a value-adding business partner, you must also focus on finding ways to add value to the business. Fixating on cost reduction simply reinforces your image as a cost centre.
- **Benchmarking.** The best-run application management organisations benchmark themselves against other organisations to identify improvement opportunities and appropriate staffing levels. This benchmarking effort can be formal or informal. The key is understanding how your efficiency and effectiveness stack up against other organisations in your industry. The *Deloitte AMS Practice Survey* results show that 70 percent of companies don't base staffing levels on benchmarks or metrics. This suggests that they are focused more on managing to a budget, instead of staffing at an optimal level to deliver the required services and service levels.
- **Use business cases to demonstrate value.** Business cases can be an effective tool for conveying the true value of application management. Yet, only 21 percent of survey respondents use business cases for their application management investments. Even fewer use a business case as a baseline to track a project's ongoing performance — and to ensure it delivers on its promises. These activities might seem like a lot of work. But they are vital to demonstrate — and capture — the full value of your application management investments.



Element #4: Talent

Now hiring: IT experts who understand business

“We are about to face a demographically driven shortfall in labour that will make the late 1990s seem like a minor irritation.”

- Anthony Carnevale
Former Chairman, National Commission for Employment Policy
Deloitte Research, *It's 2008: Do You Know Where Your Talent Is?*, 2004

Companies in the world's most developed economies face a decades-long labour crisis driven by aging workforces, retiring baby boomers, and shifting education patterns. Fields such as application management are expected to be hit the hardest, with experienced programmers and other IT workers retiring in droves — and a shortage of young technology workers to replace them.

Challenges

When thinking about application management, it's easy to get hung up on technology issues. But in reality, it's people who make the difference. After all, application management is fundamentally a service, and services ultimately hinge on the quality of the people who deliver them. Yet, according to the survey, almost 60 percent of the application management organisations don't have a formal staffing strategy, and only half have implemented formal career development plans.

For application management to move beyond its 'tech department' image, it needs workers with a broad mix of capabilities — including non-technical qualifications such as project management, hands-on business experience, and the ability to collaborate with others. Unfortunately, it's getting harder and harder to find people with the necessary qualifications. In the *Deloitte AMS Practice Survey*, 50 percent of respondents cite 'lack of knowledge and skills among application management staff' as a significant challenge.

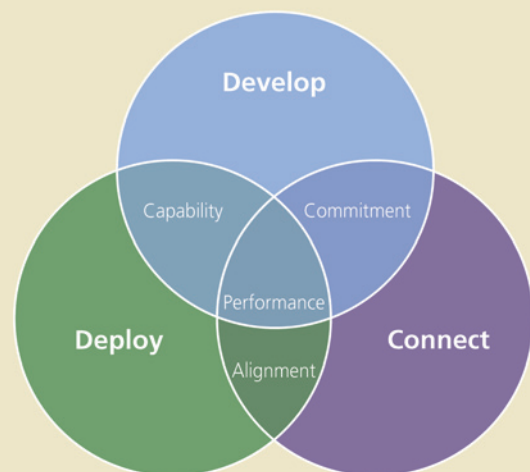
To be effective, application management organisations must improve their ability to hire, develop, reward, and retain workers. Existing talent management practices simply won't be good enough.

Keys to success

- **Try a different approach to talent.** Most companies rely too heavily on recruiting new talent. This might solve the problem for a while, but it's expensive and hard to sustain. On average, the cost of replacing an employee is 150 percent of their annual salary.³ Moreover, an acquisition-oriented approach ignores the real problem — there simply isn't enough talent to go around. Many companies don't know — or won't admit — that they have a talent problem. But in order to succeed, application management organisations must be brutally honest about their current skills and capabilities — and have a realistic understanding of the challenges ahead.
- **Look beyond compensation.** Salary and other forms of financial compensation are generally a top priority only when they are much too low. Beyond a certain point, what employees really want are (1) interesting, challenging work; (2) open, two-way communication; and (3) opportunities for growth and development.
- **Develop. Deploy. Connect.** Savvy companies recognise that the best source of future talent is developing and retaining the talent they already have. A recent Deloitte Research study described a three-pronged approach to minimise turnover and maximise productivity from your employees that should be at the core of your talent strategy (see Figure 5):
 - Help them *develop* their talent and capabilities.
 - *Deploy* them on work that aligns with their skills and interests.
 - Help them *connect* with other people to share information and build meaningful relationships.
- **Take inventory.** According to the survey, the majority of application management organisations don't maintain a comprehensive list of the skills and capabilities within their workforce. Conduct a skills review and ongoing skills assessment to identify talent gaps and identify hidden sources of talent. Maintain a skills database to keep track of your organisation's capabilities and needs.
- **Focus on critical workforce segments.** An effective talent management strategy strives to help everyone. However, it focuses extra attention on the individuals and groups that have the greatest impact on overall performance. Recent research shows that 'superstars' are the first employees to be poached by competitors — and are the hardest to replace.⁴ That means you can't just replace a lost superstar by hiring one from somewhere else. You need to take care of the top talent you already have.
- **Start with management.** The number one reason people leave their jobs is that they don't get along with their boss. Instead of searching for a fancy technology to reduce stress and improve morale, start by looking at how your organisation develops and manages the people who are responsible for leading others.

These three things — more than raises or promotions — are what make work satisfying and rewarding. And they are particularly important in today's flatter organisations, where employees are more likely to move sideways than up. In the absence of vertical mobility, employees need lateral experiences that offer challenge and growth. In some cases, that means allowing your best people to participate in projects outside of their current area — and then backfilling with new hires or contractors.

Figure 5. Develop-Deploy-Connect Model



Deloitte Research, *It's 2008: Do You Know Where Your Talent Is?*, 2006

³ Deloitte Research, *It's 2008: Do You Know Where Your Talent Is?*, 2004.

⁴ Boris Groysberg, Ahshish Nanda, and Nitin Nohria, *The Risky Business of Hiring Stars*, Harvard Business Review, May 2004.



Element #5: Processes

An excuse to improve

“Sixty-two percent of companies say their application management processes are an obstacle to serving the business.”

- Deloitte DTT AMS Practice Survey, 2007

These days, many application management organisations tend to ignore their operating processes unless they are actively pursuing a formal stamp-of-approval such as ISO, CMM, or ITIL certification. However, certification is just one of several good reasons to develop efficient and robust operating processes.

Companies that apply structured process models report significant improvements in quality, efficiency, and customer service — as well as long-term financial benefits. Yet according to the *Deloitte AMS Practice Survey*, more than 60 percent of responding businesses and application management organisations either (1) haven’t defined their processes; (2) don’t understand their processes; or (3) believe their existing processes are cumbersome and inefficient. And half don’t have performance measures to assess the efficiency and effectiveness of their processes.

Challenges

Structured process models help you understand what you do, how well you do it, and most importantly — how to improve. Without that baseline, it’s hard to make things better.

Given the potential benefits, why isn’t every application management organisation improving its processes and implementing structured process models?

Here are some of the most common barriers to change:

- People are not ready to operate with so much structure.
- The organisation prefers to stick with what has worked in the past (‘if it ain’t broke, don’t fix it’).
- Performance measures show the processes are working well, but in fact the wrong things are being measured.
- The organisation is so busy fighting fires that it doesn’t have time or energy to invest in long-term improvements.

In many cases, organisations wait until they have a serious problem and then try to use process certification to dig themselves out of the hole. However, this reactive strategy is invariably more expensive and disruptive than a more forward-looking approach.

Keys to success

- **Don't fixate on certification.** Process certification is time-consuming and costly. And while it might make the organisation feel good, the results aren't necessarily worth the trouble. Among the application management leaders surveyed, only 25 percent reported to have achieved some level of formal certification. And of those, 80 percent did not see a return on their investment.
- **Use certification as a means to an end.** Many companies might be best served by simply focusing on process improvement and process modelling — instead of pursuing full-blown certification. However, others may find that formal certification is the only way they can get the organisation's undivided attention.
- **Allocate time and money to maintain your processes.** Process improvement is an ongoing effort, not a one-time event. Organisations that don't allocate enough time and resources to maintain and update their processes will have a hard time adapting to new business requirements, and are likely to find their processes and metrics gradually drifting off course.
- **Don't forget about ancillary processes.** Supporting processes such as human resources and finance can be just as important as your core application management processes. For example, in today's tight labour market, an effective recruiting process isn't just desirable — it's essential.
- **Look before you leap.** Structured process models affect everything from staffing to skills requirements to corporate culture. In order to understand the full impact — and required effort — it's a good idea to conduct an assessment before committing to a major investment. Simulation tools can help you understand the likely benefits and outcomes across a variety of best- and worst-case scenarios.
- **Choose a methodology that fits.** Approaches such as ITIL and CMM make it easier to implement a structured process model by providing common roles and responsibilities, service definitions, and performance measures. However, each approach has its own unique strengths. Before you get started, be sure to choose the one that best fits the needs of your business.

Element #6: Technology

The right systems and tools for the job

The right systems and tools can dramatically improve your ability to manage and deliver application management services. Activities where systems can make a significant impact include: financial management, resource management, ticket/request management, testing, and document management.

Systems for tracking and managing change requests and approvals are particularly common, with 95 percent of the organisations surveyed having established such systems. In most cases, these tracking systems are closely integrated with help desk systems and other related services.

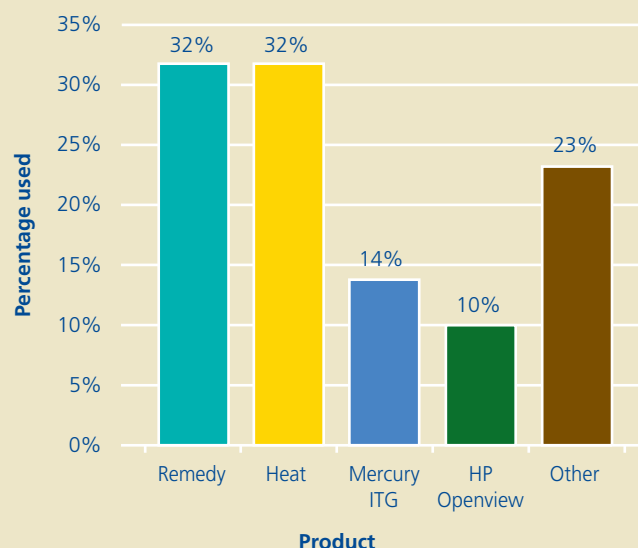
Challenges

Developing and maintaining advanced systems and tools can be challenging. And given that many application management organisations operate as cost centres, it can be especially difficult to get funding for new systems or upgrades.

In the *Deloitte AMS Practice Survey*, 88 percent of respondents have invested in off-the-shelf systems such as Heat, Remedy, or Mercury ITG to help manage some or all of their application management services (see Figure 6). However, 65 percent continue to rely on spreadsheets and other home-grown tools for significant parts of their operation. In addition, more than a third do not allocate part of their annual budget for supporting systems.

The cost and complexity of developing and maintaining advanced application management systems is one factor that has prompted many companies to consider outsourcing. Most service providers have already made major investments in the latest technology and can offer their customers immediate access to world-class systems and processes.

Figure 6. Off-the-shelf application management tools usage



Source: DTT AMS Group Survey

Keys to success

- **Use automated workflow for consistency.** Leading support organisations are using ticket management systems with workflow capability to ensure that processes are executed in a consistent manner. This is far superior to traditional systems that require the support team to manually update the status of a ticket, and are therefore subject to human error.
- **Don't forget about performance measurement.** Effective application management systems don't just enable your organisation's processes — they provide data to continuously measure and improve organisational performance. If you aren't using the feedback and performance data from your tools to improve your processes, you aren't getting your money's worth. The data can also be used to demonstrate the value created by new systems and to justify additional investments.
- **Enable self-service.** Self-service is an emerging trend in application support technology. Allowing users to serve themselves for simple tasks such as resetting a password or updating a list of values can improve overall service levels and responsiveness, while simultaneously reducing costs.
- **Avoid useless bells and whistles.** Select technology tools that are appropriate for the needs of the business and avoid overkill.

Element #7: Service delivery

Define success – then achieve it

The final element for effective application management is to define and measure success. Unfortunately, that's not as easy as it sounds. Every business has unique application management requirements and defines success in different ways.

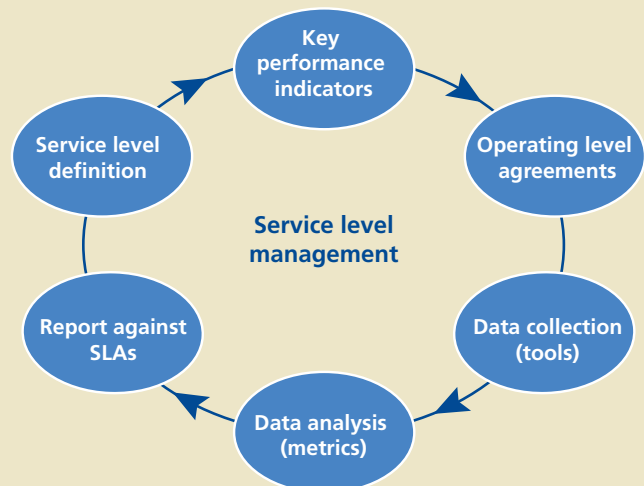
A formal service level agreement (SLA) helps ensure that you and your customers are using the same definition of success and are working towards the same goals (see Figure 7). At the heart of an effective SLA are key performance indicators (KPIs), which reflect the aspects of performance that are most important to the business. Organisations often use these same KPIs on their balanced scorecard.

Challenges

Half of the application management organisations in the *Deloitte AMS Practice Survey* have not established formal SLAs or performance objectives, which means they may not be clear on what their customers expect or whether those expectations are being met. The survey also shows that the majority of companies have not even documented the set of services they provide to the business. These deficiencies can lead to a gap between the needs of the business and the capabilities of the application management organisation.

When it comes to measuring performance, most application management organisations focus on internal measures, rather than external measures that align with the company's strategic objectives. For example, less than 15 percent of the organisations surveyed include 'innovation' as a key measure. To maximise their impact, application management organisations need to track a balanced set of performance measures that reflect their true value to the business (see Figure 8).

Figure 7. Reporting and metrics implementation flow



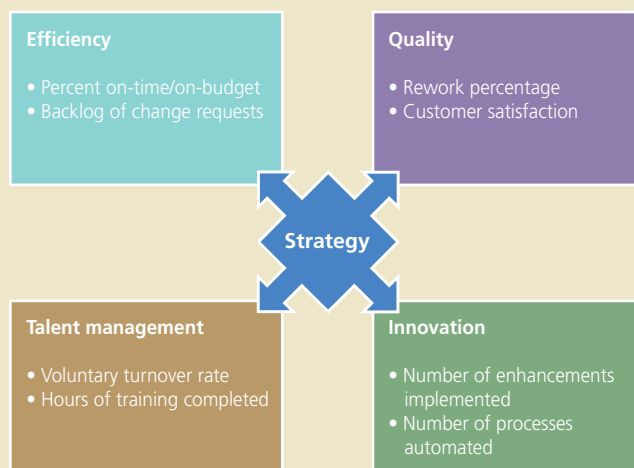
Source: Deloitte AMS Group, *Service Level Agreement & Management Effectiveness*, 2006

Keys to success

- **Talk to your stakeholders.** Too many application management organisations develop SLAs without consulting their stakeholders. The resulting agreements tend to be heavily slanted towards IT-driven metrics that may not reflect the needs of the business. A better approach is to work with your customers from the outset, developing balanced SLAs that align closely with the company's business requirements.
- **Start simple.** Developing a comprehensive SLA often requires specialised skills, processes, and tools that most companies don't have internally. However, that's not a good reason to skip the agreement altogether. An effective SLA has the flexibility to change over time, so you can always fine-tune the agreement as you gain more experience. The key is to get something in place as a starting point.
- **Focus on a few key metrics that align with strategy.** Many companies make the mistake of trying to measure everything. But focusing on everything is the same as focusing on nothing. It's okay to capture a wide range of measurements, but management should focus its attention on the handful that best reflect the strategic priorities of the business. These KPIs form the basis of your overall scorecard. The items on the scorecard can be changed from time to time as the needs of the organisation evolve. However, there should generally not be more than 10 to 20 KPIs.
- **Align customer SLAs with vendor SLAs.** Another common mistake is to negotiate one level of service with your customer but a different level with the vendor that is actually providing the service. This misalignment puts the entire agreement at risk — with your organisation caught squarely in the middle. The risk is even more pronounced for organisations that use a multi-sourcing strategy. To avoid the problem, develop Operating Level Agreements (OLAs) with all service providers — both internal and external — that fit the requirements of your customer SLAs.
- **Match personal incentives to SLAs.** Performance measures and incentives have a big impact on behaviour. To get everyone pulling in the same direction, make sure your organisation's metrics and rewards align with your SLAs and KPIs.

Figure 8. Possible balanced scorecard dimensions

Sample key performance indicators



Getting into gear

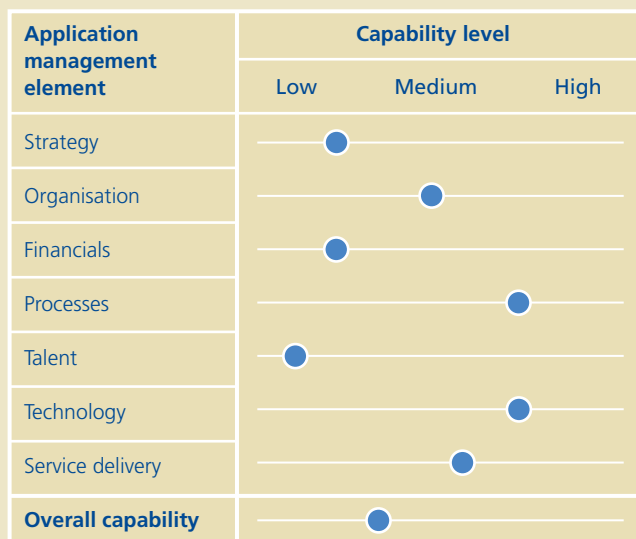
Auto races are won and lost in the pits — and the same is true for business.

Application management might seem like a secondary business activity. But if it's not done right, it can severely undermine your ability to compete.

Improving your company's application management capabilities is a complex and multi-faceted challenge. So where do you start?

The first step is to conduct a high-level assessment of your current capabilities for each of the seven key elements (see Figure 9 for an example). This helps focus your efforts where they will achieve the greatest benefit.

Figure 9. Measuring your application management capabilities



Here are some key questions to ask when conducting your assessment:

- **Strategy.** Does your application management strategy align with your business strategy? Is it flexible enough to adapt to your company's rapidly changing needs?
- **Organisation.** Do your organisation structure and operating model fit the overall strategy or are they simply the 'flavour of the day'?
- **Financials.** Are your financial plans and investment decisions data-driven — using benchmarking and business cases? Or are most decisions made by the 'seat of your pants'?
- **Talent.** Do you know what talent you need? Have you developed formal plans and programs to develop your workers, or are you still relying on big salaries and bonuses to attract and retain talent?
- **Processes.** Do you document and measure your processes as a way to improve performance? Or are you counting on formal certification to provide a magic cure?
- **Technology.** Do you have integrated systems and tools to support your application management processes or are you still relying on spreadsheets?
- **Service delivery.** Do you know exactly what service levels your customers expect and have you documented those expectations in an SLA? Do your vendor and staff incentives align with the key metrics in your SLAs?

Think about the major challenges and keys to success in each of these seven areas. Then decide which practices and tools make the most sense for your specific situation.

The most important thing to remember is that application management can't be designed in a vacuum. Its sole purpose is to help your company maximise its performance and achieve its business goals. Organisations that develop application management capabilities without considering the business implications are just spinning their wheels.

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DTT's Application Management Services practice is made up of Deloitte member firm AMS practices, which provide application management services to hundreds of companies around the world. Deloitte offers everything from long-term, full service support across multiple locations to individual specialists on demand.

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- Application monitoring
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- Business case development and measurement

The following DTT and Deloitte member firm thought leadership reports can be obtained by contacting the authors of this report

- *It's 2008: Do You Know Where Your Talent Is? Why Acquisition and Retention Strategies Don't Work*, 2004
- *HR That Means Business: Focusing on Value Creation*, 2006
- *Global Financial Services Offshoring: Scaling the Heights*, 2005
- *Global Shared Services Survey*, 2007
- *Service Level Agreement & Management Effectiveness: Negotiating the Options*, 2006
- *China and India: The Reality Beyond the Hype*, 2006

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