Service provider organizations have been delivering Application Management Services (AMS) for over two decades. It is probably the most industrialized and mature of all outsourced IT services in today's market. Ironically, these mature IT services also have some of the most dissatisfied customers – especially in markets such as the U.S.

There is a clear disconnect between what AMS service providers deliver and what customers expect. Vendors often do not provide true value to their clients, an issue that needs to be rapidly addressed to improve quality of services and customer satisfaction.

Read through this paper to understand how organizations can provide AMS in a manner that addresses the most common and deep concerns customers generally have.

**Why AMS Providers Retain Unfulfilling Engagements**

AMS outsourcing engagements have long been structured and executed with a cost-reduction paradigm. These are typically irrespective of size contracts in which the ownership and/or responsibility for the applications portfolio is passed on to the provider through a variety of contractual and engagement models. However, the approach to cost reduction often has been a location-driven labor arbitrage, where every move to a low-cost location is only cost-focused, leading to silos and disconnection with the business.

It is worth exploring current customer satisfaction levels with AMS engagements. A 90-percent successful contract renewal rate does not necessarily indicate a satisfied customer. In most cases, it is a resistance to change – a change that is as painful as it is costly. As a provider becomes more embedded in maintaining legacy applications across an organization, over a period of time, these contracts are perceived by the customers as virtually irreversible. This inertia becomes the main reason why customers continue to engage with incumbent providers, not the clients’ levels of satisfaction with AMS.

As a result, customers remain with AMS providers who often may not take the steps necessary to improve quality of service, and the chief areas of concern are left unaddressed.

With new outsourcing options becoming available to both large and small enterprises, where do providers and customers differ in their mindset towards AMS, and what approaches can AMS providers employ to alleviate customer pain points and actually improve customer satisfaction?

**Where Are Provider and Customer Expectations Misaligned?**

**Portfolio Cost Management Priorities**

**Provider Perspective**

Our customers assume legacy AMS portfolios are lower priority, less business critical and deserve little more than a rigorous cost-reduction treatment. The customer expectation is for us to take charge and while keeping the application environment stable. Low-cost locations and less costly resources are engaged to deliver maximum cost savings. What more can customers ask for?
Customer Perspective
One-time labor cost arbitrage is great, but then what's next? Where is the transformation? Where is the innovation? The fact that enterprise application portfolios run consistently and with stability in production environments does not mean the portfolios are finished and complete. These portfolios are an integral part of the business and need to evolve as the business evolves.

Service Improvement Approach
Cost reductions should be viewed from a Total Cost of Ownership (TCO) and business results perspective. Labor arbitrage is great to deliver one-time, upfront savings, but a transformation approach is required to reduce the total cost of ownership (TCO) of the AMS stack. A TCO-based unit cost reduction guarantees sustainable cost savings and truly variable-izes the cost to meet customer business fluctuations. At the same time, it helps to improve and transform the application portfolio based on the needs of the business.

Real World Application
A banking client that was engaged with multiple vendors had grown rapidly through multiple acquisitions and had mushroomed into a highly inefficient unit with many redundancies. With the help of an AMS vendor focused on business improvement, the client…

» Rationalized and simplified the application landscape

» Eliminated demand redundancy to help deliver cost savings

» Established a more sustainable environment, achieved using a TCO-based approach to first simplify the landscape and then manage it

Measuring Services. Quantity or Quality?
Provider Perspective
We are delivering more than we signed up for. All contractual service-level agreements (SLAs) are met or exceeded. The SLA performance dashboards always are dark green. Customer surveys on transactional services always have a high score. There is no reason why the customers should think they have been deprived of anything.

Customer Perspective
Contractual SLAs are a mechanism to track and agree upon certain terms of service and, in most cases, are out of date and have little or no relevance to our business. So where is this business value? Executing a project based on SLAs is more binding than liberating. In quite a few cases, it can be detrimental. For example, a reactive SLA-based approach to IT disruptions often results in temporary workarounds where the root issue resurfaces sooner rather than later. Recurring problems are rampant, and it is difficult to imagine that our AMS partner will identify the root cause and remediate it.

Service Improvement Approach
Delivering business value is critical in order to meet customer expectations. It is important to identify, measure and report a set of business-impacting KPIs as a true indicator of business value. SLAs are to be followed to manage how you reach that business value; understanding and delivering to customer expectations is what ultimately matters.
When reducing defect backlog or incident count, an AMS vendor should focus on quality more than quantity (though contractually, the SLA is usually set up to guarantee the quantity). The best AMS vendors prioritize defects based on business value for resolution. Alternatively, they may prioritize remediating known errors that prevent critical incidents over those which limit high volume, low criticality incidents.

Continuous Improvement Targets

Provider Perspective
Continuous improvement delivers what customers look for. Lean and Six Sigma methodologies have been fully ingrained into the DNA of how IT services are delivered, so issues related to delivery are addressed and remediated through continuous improvement efforts. Continuous improvement also helps to reduce the cost of providing services and realizing the business case. With predictable services at a reduced cost, customers have every reason to believe that continuous improvement delivers the expected value.

Customer Perspective
Providers are expected to deliver predictable services at a reduced cost and to deliver to the business case and value. Continuous improvement executed in silos within the offshore vendor premises have little relevance to the business. With predictable services at a reduced cost, customers have every reason to believe that continuous improvement delivers the expected value.

Service Improvement Approach
Continuous improvement approaches should be based on collaboration with the business and focused on improving indicators that articulate true business value. Efforts to manage internal costs and delivery efficiencies offer little or no business value in isolation and may even result in higher TCO.

Customer feedback is the most potent KPI that AMS vendors should leverage to measure the services they deliver. Vendor support staffs should be encouraged and incentivized to identify, measure and continuously improve these KPIs—which rarely include a “defect count”.

An AMS vendor should implement business value metrics as a composite index for IT applications in production so they can...

- Collectively evaluate parameters like technical debt, functional value and end user productivity
- Seek to continuously improve the value of this index

Collaboration Effectiveness

Provider Perspective
Outsourcing engagements are great examples of how collaboration should work. We have dedicated account management executives on customer premises to engage with key stakeholders and address issues according to their priorities. We deploy a service delivery team, typically located offshore, that executes the plan. This is a proven model to drive customer collaboration and satisfaction.

Customer Perspective
True collaboration happens when subject matter experts from within our organization and the provider organization work together to devise solutions and execute them. Inaccessible offshore resources at a low-cost location with less experienced team members function like a disintegrated unit, developing solutions with little or no understanding of our business. Effectively there is little collaboration or even awareness around the underlying business needs.
Service Improvement Approach
Customer proximity, or at least interactivity, is essential to the design and implementation of a collaboration model which can deliver maximum results. The advantages of a nearshore model, for example, can greatly facilitate implementing an effective collaboration model.

Having critical resources onshore at customer premises and nearshore in the same time-zone, for example, can significantly improve the likelihood of delivering successful results.

Canadian operations for one of the world’s largest multinational banks are supported by a nearshoring model from Mexico, which partners with the client on some of their most important strategic initiatives – including single customer view and omni-channel integration.

Establishing the Value of a Quality Outsourcing Partner
When evaluating whether a vendor is capable of addressing your AMS needs, look for an outsourcing firm with a value proposition that contains these five core components:

Maximizing business value of applications in production
Enhance application resiliency for the business applications, ensuring they are “fit for use” and “fit for purpose”, thus maximizing the productivity of the business users and enhancing the end-user experience when leveraging business applications.

Using a flexible delivery model based on current demand
This model will allow you to manage and control fixed IT costs and ultimately reduce TCO for maintaining the application stack.

Manage the application stack to reduce TCO and drive down per-unit service costs. The vendor should help variable-ize costs to meet customer’s business demand fluctuations.

Mitigating risk factors with cost-effective delivery models
Reduce the risk of AMS nearshoring by increasing the levels of collaboration while cutting costs. This is driven by client-specific objectives and cost-risk trade-offs based on customer risk tolerance.

Aligning “applications management” to the client’s business strategy
Vendors that drive application management from client business needs enable clients to focus their scarce management resources on strategic agenda items.

Striving to make application delivery a competitive advantage in time to market
Significant automation and simplification of application development and engineering processes transforms application delivery into an agile-based, cloud model focused on continuous integration, thus significantly reducing the overall time-to-market for application delivery.

About Stefanini
Stefanini brings decades of IT outsourcing expertise to clients around the globe. We support mid-size and large corporations through offshore, onshore and nearshore IT managed services, systems integration, consulting and strategic staffing. Our service offerings include: IT infrastructure outsourcing (help desk/desktop services and data center), application managed services, ERP/SAP consulting, and strategic IT staffing solutions.