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Note to Readers
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32  **AFTERWORD**
Organizations are always changing. This can have a significant impact on how the IT organization works. The introduction or decommissioning of a service often requires significant changes. You must deliver and manage these services through the service lifecycle. Where there is major change, there will be complexity and risk. Many organizations deliver significant change through formal projects. But many projects fail to include the full service management, operational, and functional requirements. This often leads to project failure or extra cost and risk.

Service transition sits at the center of the IT Infrastructure Library® (ITIL) lifecycle structure. Service design supplies its inputs, and service operation receives its outputs (or usable services).

For service transition to be successful, you must confirm progress against current requirements. To do this, you need to apply change management, quality assurance, and risk management at each stage of the process—for all services.

Service strategy is perhaps one of service management’s most controversial concepts. Almost no one agrees on what it is, yet most agree it is important. It is sometimes described as an IT operating model or enterprise architecture. But this thinking does not account for the reality of competition. The marketing mindset means seeing the IT organization through the eyes of its customers, and therein lies the real bombshell: competition.

No organization acts in a vacuum. Customers always have alternatives, even for government and nonprofits where social services compete for tax dollars and contributions.

Competitive forces demand that an IT organization do its job better than the alternatives. It means being different, either in the services you provide or how you provide them. It may be in the form of lower cost structures or service quality. Or it may be in the form of customer or product know-how. Either way, it is a distinctiveness not duplicated or found elsewhere.

This is what a service strategy is really about: “How do you become not optional?”
CHAPTER 1: INTRODUCTION

A strategy is a plan of action designed to achieve a particular goal. To be successful, a strategy has to be adaptable based on changing conditions. Strategy comes into play in all aspects of life: You may have your own strategy for saving a certain amount of money or getting a promotion at work.

In every case, successful strategy depends on taking a big-picture view, and putting a plan in place to achieve goals and objectives based on a thorough assessment of the current situation and the anticipated future situation. The plan needs to be flexible enough to adapt to an ever-changing environment.

The ITIL Service Strategy publication is a guide to applying strategic thinking to IT service management. The goal is to design, develop, and implement service management as an organizational capability and strategic asset. This volume highlights how you can transform your IT organization into a valuable service provider to the business.

A major focus of this publication centers on the notion that your customers are the reason IT exists. Be sure you understand what your customers need and the business outcomes they desire. Before you think about how to do something, think about why you are doing it. Make sure you are looking at it within the context of its impact on the business. To create value, you must be efficient, effective, and economic.

Service Design, Service Transition, and Service Operation are individual, progressive phases of the lifecycle. They represent addition, change, or transformation in daily operations. Service strategy encompasses the policies and objectives required to implement the lifecycle approach. Continual service improvement (CSI) focuses on an environment of learning and enhancement.

The service lifecycle approach represents a broad, all-encompassing view of service management. This approach focuses on gaining an understanding of the service management structure, including the ways in which all the components interconnect and how changes in one area may affect the whole system. The end result of each phase is a service package, which is then passed on to the next phase until the service is operational.
Your ultimate goal is to move IT from being just an operational aspect of the business to being a strategic contributor to business success.

What does this approach mean for you? In essence, it means that silos in your IT organization should be a thing of the past. Organizational collaboration, value chains, and investment decisions need to be architected to support the overall business strategy. The assets, resources, and capabilities for which you are responsible are elements of the overall, complex IT infrastructure, and any actions you take may have an impact on another area. Take a broad outlook and for everything you do consider how your actions will affect the entire IT infrastructure. Think about your ability as an organization to not become optional to your customers, and how your actions will affect your customers and the business as a whole.

**THE BENEFITS OF THE LIFECYCLE APPROACH**

The lifecycle approach motivates IT to focus on the business’s needs and how to add value. You become proactive by ensuring your activities add value to the business from the outset.

By understanding the roots of an initiative, you understand the business’s needs and what you need to deliver.

The goal is to move from being an operational aspect of the business to being a strategic contributor to business success. Instead of IT being a cost of doing business, you should aim to elevate IT to a profit center, working in partnership with the business to create value. You want to operate a value-added enterprise that supports organizational growth and innovation.

**INTEGRATION WITH THE BUSINESS IS PARAMOUNT**

To adopt a service strategy, try moving outside of the IT world. Look at things from other perspectives associated with other business functions. For example, it’s useful to adopt a financial perspective so that you can create a strong business case for a new initiative. Alternatively, a marketing outlook may help you better understand your customer.

**SUMMARY**

Your ultimate goal is to transform IT so that it is 100 percent focused on the business. Collaborate with the business to determine how you can create and realize value with both your assets and your customers’ assets. While reducing costs can be an important contribution to the overall company, IT can be much more than that. IT can generate revenue and become a profit center, actually contributing to the bottom line.
CHAPTER 2: THE PRACTICE OF SERVICE MANAGEMENT

Chapter 2 introduces some important definitions that provide a basis for the ITIL framework, and it introduces key concepts that are essential to service management success.

Significant points stressed in this chapter include:

- Value creation
- The importance of organizing for service management
- The service lifecycle

The key message in this chapter is to think about how you architect the services you offer. Do they provide the most value to your customers?

TYPES OF SERVICE PROVIDERS

The ITIL Service Strategy publication references three types of service providers. Many service management concepts apply regardless of the type of service provider. Characteristics such as customers, competition, and strategy differ for each type of service provider. We provide a brief summary of each type below.

**An internal service provider (Type 1)** is embedded in the business unit(s) it serves and is funded through overhead. Examples are organizational functions, such as finance, human resources, and IT. Internal service providers are integrated with their customers and operate within the business guidelines. Competition comes from providers outside the business unit. This type of service provider is appropriate when the function is critical to competitive advantage and requires careful control.

**A shared service provider (Type 2)** is appropriate when a function is not critical to the business's competitive advantage. In this case, you can merge shared functions into a shared services unit. A benefit of this approach is the ability to leverage opportunities across the enterprise. Costs and risks can also be spread across a wider base. In addition, you can often offer services at lower prices than external providers can. As a shared service provider, your competition comes from external service providers.

**An external service provider (Type 3)** can provide services at lower prices, because it can consolidate demand. This can reduce unit costs. This option is attractive to organizations that don’t want to own and operate the assets needed to provide certain services. Customers enjoy the breadth and depth of experience that an external service provider can offer. Often, a single external service provider’s customers compete with each other. This may decrease any competitive advantage offered by the services.

The ITIL Service Strategy publication provides a list of questions to analyze whether you should continue providing a service in house or whether it makes more sense to outsource it. As a rule of thumb, if the activity is strategic to your business or your core competence, think long and hard before outsourcing it.

As a service provider, focus on building a strong foundation for a lasting relationship with your customers.

Once this relationship is established, your customers will most likely find it easier to stay with you than to move to another provider, due to switching costs.
If you have established strong working relationships with your customers, it will be difficult for them to move to another provider. Still, be cautious of taking the relationship with your customers for granted.

**STAKEHOLDERS**
Everyone in the IT organization is a stakeholder for service management. Service is everyone’s responsibility, no matter what role they play in delivering support services for their customers. There are also external stakeholders, including customers, users, and suppliers. All stakeholders support a value network in which services are consumed and delivered.

**UTILITY OF SERVICE**
Customers want to achieve business outcomes by receiving services that fit their purposes. The utility of a service must either support the customer’s performance or remove a constraint. Customers can become very frustrated with a service that fits their purpose but lacks sufficient warranty for their use.

**WARRANTY OF SERVICE**
Warranty of service can be communicated to customers in terms of commitments to availability, capacity, continuity, and security of the utilization of services.

- **Availability** means the customer can use your service under the terms and conditions upon which you have both agreed.
- **Capacity** ensures the customer will be able to use the service at a specified level of business activity or that demand will be fulfilled at a specified quality level.
- **Continuity** guarantees that the customer will be able to use the service even if you experience a major failure (or other unexpected event).
- **Security** means that the customer’s use of services will be free of specific risks.

Many of the services IT provides are commodities. Since service providers are constantly matching others’ service offerings, you must constantly improve your value proposition to stand apart. Use one or more of the service management processes to drive these improvements.

**FROM VALUE CREATION TO VALUE REALIZATION FOR YOUR CUSTOMERS**
The value of a service is derived from a combination of utility and warranty. Think of utility as the functionality offered by a service to meet a specific need. Think of warranty as the elements that you take for granted until they are absent.

**SERVICE ASSETS**
According to ITIL, resources and capabilities are types of assets that organizations can use to create value for their customers. Resources are direct inputs to produce a service, while capabilities are the organization’s ability to utilize resources to create value. You can create differentiation and retain customers by developing distinctive capabilities that are difficult for your competitors to replicate.

**PROCESS**
Processes deliver their primary results to the customer in the form of services. To be considered a process, the action must have input or triggers, define actions and activities, and have an output or specific results.
For a service to be effectively delivered and supported, its contributing processes must be collaborative and integrated appropriately, so that the output from one process provides the necessary input to the next process. Processes should be efficient, effective, and economical for the services they support.

**SUMMARY**

This chapter provides a foundation for the components and life of a service. As IT leaders, we can create value for the business only if we think strategically based on a solid understanding of the desired business outcomes and how IT can influence them. Value realization is a combination of customer and business interactions that are delivered and supported by IT. As you set out on any initiative, think holistically and from the business value perspective, and make sure you have the capabilities and resources necessary. You're not just delivering an application; you are facilitating a service for the business.
CHAPTER 3: SERVICE STRATEGY PRINCIPLES

Chapter 3 builds on the definitions introduced in Chapter 2 and introduces key concepts that are essential to service management success. Significant points stressed in this chapter are service strategy theory, the importance of understanding the customer’s perspective, value, and the need to focus on business and customer outcomes.

This chapter presents the idea that instead of concentrating on efficiently using your assets, it’s best to focus on creating a strategy to most effectively deliver the outcomes that your customers want and need. An added benefit is that improving business outcomes may actually have the effect of improving operational efficiencies.

THE BIG PICTURE
To create business value, it’s important to have a solid understanding of how the different service management pieces interconnect. At the same time, it’s essential to understand what your core competencies are—and are not—and to evaluate how you focus your resources for customer value.

Think long term.

For example, consider a business in which suppliers are critical to success. If you outsource a critical application that helps manage suppliers, you lose knowledge and expertise. If supplier performance issues arise, you are at risk because you’ve lost the expertise to manage them.

You can develop a strategy that looks great on paper, but if you don’t set expectations and learn if it’s doable, your strategy may not be realistic. Instead, work with the different functions and processes throughout the whole lifecycle to ensure that the existing processes and functions can support the requirements you are creating.

SERVICE STRATEGY FUNDAMENTALS
One important point ITIL raises is the need to have a strategy in place to ensure that the services you provide are differentiated. You can achieve this by having a solid understanding of the business and overall industry, the desired business outcomes, and why these outcomes are desirable. If you do not differentiate your services, there is little to prevent competitors from replacing you.

Like you, your customers are constantly trying to improve their business models and strategies. They want to improve outcomes in business processes with little or no increase in cost. Typically, companies achieve improved outcomes through innovative solutions. As a result, IT managers need to have a continual focus on the business and on enhancing the services they provide.

What the customer values today may be different tomorrow. Having an attitude of delivering value isn’t enough. It’s essential to show results. You realize real success only when you demonstrate that you are providing business value.

SERVICE MANAGEMENT AS A STRATEGIC ASSET
Service management can be a strategic asset to your organization, and you will want to treat it as such.

To develop service management as a strategic asset, map out the value network that you operate, including components within your enterprise as well as external customers, suppliers, and partners. Then, create a feedback system in which you use information gained from your present service offerings to enhance your offerings in the future.
Your services can also increase the performance of customer assets. (Refer to the ITIL glossary for a detailed explanation of customer assets.) This potential is really the only reason that customers will want to buy your services, so be sure that you are always aligned with the business outcomes that your customers desire.

As you effectively increase the performance of your customers’ assets, demand for your services will likely increase. Increased demand results in increased payment from customers, which contributes to the total income earned by the service assets that have been deployed to deliver and support the service. While total return depends on asset income and the cost to serve, your bottom line typically increases as demand increases. In addition, as service management matures, you can deliver higher levels of utility and warranty without a proportional increase in costs. Due to fixed costs and overhead, the cost of providing additional units of service decreases with an increase in demand.

**RELATIONSHIPS MATTER**

If you have configuration management, use this process to identify all service assets that support a particular service. This knowledge will enable you to better understand the impact of changes, as well as help you justify purchasing new service assets. In addition, you may be able to identify areas in which you can expand a service. Also, this knowledge can be used to determine which of your service assets are critical for a particular customer or market space.

**CORE VERSUS CONTEXT**

Based on your service portfolio, which services should you provide internally and which should you outsource? You might consider these questions in terms of the concepts of “core” versus “context.” “Core” includes those elements or activities that create sustainable differentiation for your services, and thus competitive advantage. “Context” refers to everything else. (“Core,” in this sense, does not mean “core business” or “core competence.”)

Obviously, you would not want to outsource any service that provides a competitive advantage for your company. Why? Because the vendor providing that service may want to leverage this service and provide it to other companies, including your direct competitors. Once your competitors have access to this service, you lose your competitive advantage.

In creating a sourcing strategy, you’ll need to balance the benefits with the risks and levels of control. First, define the desired outcome, such as reduced cost, improved service quality, or reduced risk. Then, analyze your internal service management competencies, compare those with industry benchmarks, and assess your organization’s ability to deliver strategic value.

Sourcing services from multiple providers is considered a good business practice, because you can have a strong relationship with each provider while spreading risks and reducing costs; however, it can be difficult to manage multiple providers (see introduction to SIAM). Be aware of technical complexities, organizational interdependencies, and the need for integrated solutions, as described in the *ITIL Service Strategy* publication.

**RETURN ON INVESTMENT**

Return on investment (ROI) is the measure of the value of an investment. The *ITIL Service Strategy* publication provides a detailed explanation of how to create a business case and techniques for analyzing a potential investment in service management, as well as retroactively analyzing an investment.
Effective financial management will help you more accurately quantify the value of the services you are providing to the business as well as the value of the assets used to provide those services.

CAN YOU BELIEVE ROI?

There are a variety of ways you can use to evaluate IT’s contribution to the company’s top-line growth and bottom-line results. But is there a clear, proven method to understand the return on your IT investment? Can you believe an ROI analysis?

Generally, ROI is a measure of the profitability of your investment. It measures the costs of the investment and the resulting benefits. ROI is an attractive tool for IT, because it is adaptable. You can use ROI to measure cost reduction, improved efficiencies, increased productivity, and streamlined business growth, and to quantify the value of mitigated risks.

There can be ROI internal to IT (e.g., a server consolidation project to deliver the same services and service levels at lower cost) and business ROI (e.g., the revenue growth anticipated from a new order management software project or added server capacity to the order management service). While both are critical, it is often the lack of clear business-focused ROI that frustrates IT’s attempts to communicate its value to the business. This makes justifying investment priorities more difficult.

Developing business cases with business-focused ROI for services requires commitment from the business. Quantifying expected or realized business value from business services requires a deep understanding of business processes, resources, goals, and challenges, as well as a grasp of how a proposed improvement from technology can impact the top line, bottom line, or risk profile. While it can be challenging to quantify future value in business projects, it is a critical discipline to master. It is also an opportunity to drive more effective collaboration between IT and its business customers.

In calculating ROI for a proposed IT investment, use the following 4C methodology in collaboration with your IT vendor:

1. **Credible:** Consider the following questions when evaluating the believability of the ROI analysis: Where did the data come from? Can you back up the data with statistics? Has the model been validated by independent research? If so, how recently? Has the model been used with other companies in your industry? If so, were the results validated by a post-deployment ROI study?

2. **Conservative:** The ROI model should account for potential risks. Benefits should correspond to the appropriate implementation phases, keeping in mind that you may not actually realize the benefits the moment the solution is implemented. Also, be sure that the model includes only hard dollar benefits that are directly correlated to your investment.

   Understand what conservatism is based on. Does the vendor back up the cost reductions or performance improvement numbers by the actual documented data? Are the savings based on realistic costs for your industry and geography?

3. **Customer-focused:** Does the analysis reflect your particular business and how the investment influences the desired business outcomes? For example, if the desired business outcome is increased revenue, then the model should show how the investment will, in fact, help generate revenue—not how it will reduce costs.
4. Comprehensive: The bottom line is to make sure the costs you account for include all major purchase components (e.g., software licenses, required hardware, maintenance costs, training, consulting, and any other internal costs) and that the benefits span not only cost reductions and other IT benefits, but also business bottom-line improvements (e.g., lower cost of goods, lower cost of sales, and staff productivity enhancements), top-line improvements (e.g., revenue increases and market share growth), and risk reduction (e.g., greater operational consistency and more accurate revenue forecasting).

BUSINESS IMPACT ANALYSIS

A business impact analysis (BIA) helps you assess value as well as how much you should be willing to expend to provide and maintain the continuity of a particular service. Use the BIA to identify the most critical business services you provide. Then, assess the cost of a service outage and the relative worth of a service. A methodology for completing a business impact analysis is included in the ITIL Service Strategy publication.

One of the key benefits of conducting a BIA is that you gain an understanding of what is most important to the business. Use the information attained from your BIA to make sure that your supporting management software prioritizes IT services based on their business criticality. For example, if your infrastructure simultaneously experiences two outages, you automatically know which to focus on first, based on which one has the most impact on the business.

THE VALUE NETWORK

Requirements and expectations become more demanding as customers become direct users of IT services. The ITIL Service Strategy publication explores the need to shift from a linear value-chain approach to a value network. A value network is a set of connected relationships that creates value through collaborative interchanges between two or more components. This is a more complex and more accurate model than the traditional value chain.
FOUR PS OF STRATEGY

ITIL discusses at length the four Ps of strategy, each of which represents a different way to approach your service strategy. Brief summaries are provided below. Please refer to the ITIL Service Strategy publication for more details.

1. **Perspective** is your vision and direction for the services you will provide, and is attained through conversations with your stakeholders.

2. **Position** is how you will differentiate your organization from your competitors. That is, what is your unique value proposition? A sound position guides you in both what to do and what not to do based on your ability to differentiate yourselves from the competition. (For more information on the four types of positioning, please see the ITIL Service Strategy book)

3. **Plan** describes how you will achieve the established goals and objectives. It focuses on financial budgets, your portfolio of services, new service development, investments in service assets, and improvement plans.

4. **Pattern** represents consistent decisions and actions over time; that is, the organization’s fundamental way of doing things. It is embedded in the way you do business. Management systems, organization, policies, processes, schedules, and budgets all have discernible patterns. Patterns can be a source of competitive advantage.

KNOW YOUR MARKET

Defining the market is a key component of establishing a service strategy. This requires that you thoroughly understand your customers as well as your role in achieving your customers’ business objectives. For example, how does IT impact the business’s assets to effectively deliver services to the end customers?

Develop a deep understanding of the businesses you support or that you would like to support. You’ll also need to understand your industry as a whole. Who are your competitors? What are they doing differently from you? One important point here is to ensure that somebody needs and wants the services that you plan to provide.

The term “market space” refers to the intersection of a customer and a need. Think about each of your customers and each of the market spaces you want to pursue. Then, list every business outcome that might apply within your strategy. From there, you can identify services (i.e., business outcomes) that you might want to begin offering.

Defining services for business outcomes will help ensure that you understand what the business needs and that the services you provide support a business goal. The best idea in the world is not useful if the business doesn’t need it, want it, or cannot afford it.

Consider a business where a corporate goal is to get new distributors online faster. The business asks, “How can we help increase efficiencies in the process?” You may suggest automation with workflows to expedite the approval process. But are you just providing an application to automate the process? Instead, think of this in terms of the service you are providing. An improved distributor registration may reduce the time it takes to bring distributors online from five days to one day. Don’t forget to put metrics in place to prove that you are providing the expected outcomes.

One way to define how you are creating value for customers is to identify how the services you provide impact one or more of your customers’ assets. The ITIL Service Strategy publication describes archetype categories within which all services can be defined. Service archetypes can be thought of as business models for services. First, determine which service archetype defines each service you provide. Then, in your service catalog, match up the service archetype and customer assets that are leveraged to create the value.
CREATING SERVICE DEFINITIONS

A service has both business definitions and technical definitions. When creating your service definitions, remember that a service should ease a desired customer outcome. Ask yourself why you are providing this service. What’s the value, or favorable outcome, that it creates for the customer?

Consider three discrete elements: lines of service, outcomes supported, and constraints removed. Think about the services you are providing in terms of utility and warranty, customer assets supported, service assets you need to provide the service, activities supported, and performance metrics.

SUMMARY

Clear principles and guidelines, communicated through a well-defined vision and mission statement, provide both the business and IT with a common goal. Keep a single-minded focus on the customer perspective and the business outcomes that the customer desires, and adopt a continual service improvement approach so that you are constantly enhancing and differentiating the services you provide.
CHAPTER 4: SERVICE STRATEGY PROCESSES

Chapter 4 discusses key processes of service strategy and provides additional definitions of service strategy concepts. The bottom line: Know your customers and the outcomes they need to be successful. Understand which service assets support your customers’ critical business functions. Keep in mind that successful strategy not only creates value for customers, but also results in benefits (i.e., revenue and funding) to you, the service provider.

The key processes of service strategy are the following:

- Strategy management for IT services
- Service portfolio management
- Financial management for IT services
- Demand management
- Business relationship management

STRATEGY MANAGEMENT FOR IT SERVICES

To best support the business needs, you’ll want to manage IT services from an enterprise perspective. It’s not enough to align IT with the business; IT should also integrate with the business. The strategy management process defines and maintains perspective, position, plans, and patterns. These relate to services as well as management of the organization’s services. Executive accountability and responsibility are key for this process. Also, each business unit needs to buy in and support the strategy.

The strategy management process consists of strategic assessment, strategy generation, strategy execution, and continual service improvement.

Following is each component and a list of important tasks associated with each.

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<th>Strategic assessment:</th>
<th>Strategy generation:</th>
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<td>Analyze the internal and external environment to define strategy-service valuation</td>
<td>Determine perspective or vision/mission</td>
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<td>Define market spaces</td>
<td>Form a position and policies</td>
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<td>Identify industry success factors</td>
<td>Plan how to achieve objectives, vision, and position</td>
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<td>Establish objectives</td>
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<th>Strategic execution:</th>
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<tr>
<td>Manage services</td>
<td>Measure and evaluate</td>
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<td>Align service and customer assets</td>
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<td>Optimize critical success factors</td>
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<td>Prioritize investments</td>
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SERVICE VALUATION

Service valuation is the strategic assessment of the service in financial terms, and is mutually agreed upon by the service provider and the customer. Calculate a value that is fair and that supports the costs of providing the service. Start by determining the provisioning value, which includes all of the costs IT incurs to provide the service. Then, assess the service value potential, or the customer’s perceived value of using the service.

WHY DO YOU NEED A SERVICE VALUATION?

One way to think about IT’s contribution is in terms of its success in converting cash (i.e., budget) into business value. Service valuation is important because you need to ensure that the value generated exceeds the budget used to provide the service. It is also important from a trending point of view to show to the business that, over time, you are delivering increasing value.

SERVICE PROVISIONING MODELS

It’s helpful to assess the financial implications of the various service provisioning models.

A managed services model: The business unit funds the provision of the service(s) it needs. This model is typically the most expensive, since a single entity bears all the costs.

A shared services model: IT provisions multiple services to one or more business units through the use of shared infrastructure and resources. This model results in significant cost savings over managed services through increased utilization of existing resources.

Utility-based provisioning: This model maximizes the combination of services over the same infrastructure so that even more services are provisioned using the same resources as a shared services model. This model provides services based on how much, how often, and when the customer needs them. It is the most cost-effective approach and also the most elusive.

PREPARING TO EXECUTE

To create an effective service strategy, you must analyze each market space, major customer, and service portfolio. This will provide a snapshot of your current strategic position. It should also determine which additional strategic positions might be appropriate. Data from customer surveys, service-level reviews, industry benchmarks, and competitive analysis will help.

Next, define your organization’s unique capabilities. Think about your most distinctive and most profitable services. Who are your most satisfied customers? What is the source of most of your revenue?

Set objectives. Identify the results you expect to achieve by pursuing the service strategy. This requires an understanding of desired customer outcomes as well as currently underserved outcomes.

Finally, align service assets with customer outcomes. Keep in mind the goal of maximizing customer value while minimizing your own risks and costs.

DEFINING CRITICAL SUCCESS FACTORS

An important element of the service strategy is a list of critical success factors (CSFs), which will influence the success of the plan. What is the list of things that must go right so that your strategy will be successful? To define the CSFs, think about factors such as customer needs, competitors, compliance issues, suppliers, industry trends, and technological advances. Understanding the CSFs will help identify the service assets needed for the service strategy.
SERVICE PORTFOLIO MANAGEMENT

Service portfolio management (SPM) is a means by which you can dynamically and transparently govern resource investment. The goal of SPM is to maximize value to the business while managing risks and costs. This is possible by viewing the business impact of resource allocations across the portfolio of services.

The service portfolio describes the collection of services provided across customers and business outcomes. It provides a common way of looking across your services for functionality. How do you deliver value? To which customers do you deliver value? What are the shared sets of business outcomes (i.e., market spaces)? Which resources do you need to provide which services?

The service portfolio should cover services currently offered, new services, approved enhancements, and retired services together with any third-party services that are integral to your service offerings to customers.

Your service portfolio should always align with your service strategy.

SPM enables you to better allocate your resources, and determine where you should invest in additional service assets, and where you should divest, if necessary.

If you understand the costs of the services being provided, you can make better investment decisions. For example, if you know the cost per user of providing a service, it might make sense to outsource this service or revisit your current service design.

USING SERVICE PORTFOLIO MANAGEMENT FOR BETTER DECISION-MAKING

SPM seeks to optimize IT resource investments for business value and service cost across the different customers you serve.

A governance discipline both informs and receives inputs from virtually all service management disciplines. SPM correlates the realized and expected value of what IT provides to all its business customers. It incorporates inputs from financial management (e.g., service costs) and ROI (e.g., service value), which in turn get their inputs from across the service lifecycle.

SPM governs IT investment by helping translate what IT does into business context, relating technical assets and activities to business value by breaking the problem into two categories: supply and demand.

You achieve a demand-side, top-down picture of a business service by documenting how it interacts with your business customers’ assets and business processes to generate business outcomes, such as revenue generation, business cost, and risk reduction. This demand-side view reveals what aspects of the business service your customers value and by how much.

The demand-side view of business services requires and drives significant collaboration with the business. It is a critical component of transparency in decision-making with business customers. By working with your business counterparts, you can improve the services the business needs. What’s more, you can accomplish it at a level of utility and warranty that justifies the cost. Through collaboration, you gain new insight and opportunities to counsel the business on where services can drive innovation and competitiveness.
Where you start will depend on the business drivers. Do you need to narrow the demand funnel for new projects? If so, start by applying this supply-and-demand view to requests for new services. Is cost reduction the major driver? Then focus on modeling the service costs for what you suspect are your most expensive (and/or least valued) business services. Are you getting pressure from a particular business unit to justify your investment? Start by determining the value of services for that customer.

SPM won't be a crystal ball that dispenses easy answers, but it does provide a common set of reference points for IT and the business to collaborate on the inputs to these key decisions.

Keep in mind that the define and analyze phases are ongoing processes, rather than finite events.

**WHY IS FINANCIAL MANAGEMENT ESSENTIAL FOR IT?**

Financial Management is essential to IT for three primary reasons:

- To control IT spending for each service
- To demonstrate consistent reduction of cost per service user
- To justify investment priorities, and perhaps a greater IT budget, for the implementation of additional services, or significant service enhancements, to meet customer demand

Why do you need to do this? You want to deliver the best-quality service at the lowest possible cost. This purpose-driven behavior ensures that you are maximizing the available IT budget to create business value and increase the opportunity to take on extra projects that result in even greater value to the business.
DEMAND MANAGEMENT

If there is excess capacity, you incur costs without a way to recover them. Yet, if you don’t have enough capacity, the quality of the service you provide diminishes. Demand management helps avoid both excess capacity and insufficient capacity.

In demand management, you analyze and track patterns of business activity (by people, processes, and applications) as the basis for predicting demand. You can also analyze business activity patterns in conjunction with user profiles. Start by identifying, documenting, and sharing these patterns across processes. Create user profiles based on roles and responsibilities and match each user profile with one or more patterns. This provides a systematic approach to understanding and managing demand.

As part of demand management, define core and supporting services that combine to create service packages. Service packages help shape demand for your services. The core services you offer provide the basic outcomes desired by your customers. The supporting services enable the core services. Each service package accompanies a service-level package, which provides a definite level of utility or warranty. A line of service in the service catalog provides a combination of utility and warranty for a specific customer segment. This should be defined by preferred business outcomes.

SUMMARY

Ultimately, you are trying to develop a strategy to enable the business you support to be successful. You’ll need to thoroughly understand the business and its overall industry. Once you have your strategy in place, be sure that you make all decisions and allocate resources in line with the strategy.

The business provides funding to IT relative to its portfolio investment strategy so that IT can support critical business activities. Financial management and service economics are all about being a good steward of the money that the business entrusts to you. Ask yourself: “Am I truly using this money in the best possible way to deliver the services the business wants and values?” Ultimately, you need to understand the economics of your IT business so that you can ensure you are being a good steward.
CHAPTER 5: SERVICE GOVERNANCE, ARCHITECTURE, AND IT SERVICE MANAGEMENT (ITSM) IMPLEMENTATION STRATEGIES

To successfully execute the service strategy, and to effectively integrate the business and IT, someone needs to be accountable and responsible for the services IT provides. Rules, policies, processes, and procedures are critical success factors for operating a prosperous business.

It is typical for many IT organizations today to have one group responsible for applications, another group responsible for infrastructure, someone else responsible for the network, and so on. If a service fails, there may be finger pointing among the different groups.

STRATEGY, POLICY, AND PLAN

The main activities of governance are to evaluate, direct, and monitor the strategy, policies, and organizational plans. There are numerous items that need to be evaluated for the organization, such as the services, financial performance, opportunities, threats, and customer feedback. Direction needs to be given with vision, policies, and delegation of authority. Those who govern the organization also need to monitor compliance efficiency and the effectiveness of the governing.

SERVICE MANAGEMENT SYSTEM

It is essential to put a service management system (SMS) in place to direct and control the service management activities. A formal service management system helps organizations effectively, efficiently, and economically deliver and support services to their customers.

The service management system should include the strategy, policies, objectives, plans, processes, procedures, documentation, and resources required to enable services for customers.

ENTERPRISE ARCHITECTURE

The organization’s architecture and associated components make up the enterprise architecture. In essence, the architecture is the associated relationship of the systems and subsystems, including external systems. Your organization’s service strategy and enterprise architecture should complement each other, with the strategy supporting the framework and the framework supporting the strategy. By looking at your enterprise architecture, you will be better able to make decisions regarding your service strategy related to running, growing, or transforming the business.

IMPLEMENTATION

To determine your organization’s desired state, start by assessing the organization’s current state. The external environment also needs to be assessed. The results of these assessments help with risk management, business case preparation, and defining program and project objectives.

SUMMARY

Be sure that your organization aligns with your service strategy, and that someone is responsible for service management. In evaluating outsourcing decisions, be cognizant of the activities that provide competitive advantage to your organization, and be sure to keep these in house.
CHAPTER 6: ORGANIZING FOR SERVICE STRATEGY

The service strategy influences the structure of the IT organization. The IT organization fits within the broader context of a complex system. This includes the enterprise, its customers, and the industry. The ITIL Service Strategy publication discusses organizational development concepts and different organizational management styles. It is helpful to understand these concepts even if you are not responsible for your IT group’s structure.

ORGANIZATIONAL DEVELOPMENT

Does it make sense for the IT organization to be centralized? This may provide more control and economies of scale, but it may also reduce responsiveness and business unit ownership. Is a decentralized IT organization more appropriate? This could provide flexibility for rapid response and increased business unit buy-in. But the downside may be reduced synergy and control. This is a decision that is best made based on the service strategy.

To know which structure is appropriate, determine where the organization is in its journey toward service orientation. The ITIL Service Strategy publication describes some options based on where you are in the sequence, including:

- Network
- Directive
- Delegative
- Coordinated
- Collaborative

Decide where the organization fits. Then look at the range of appropriate options. Keep in mind that each solution has its own unique challenges. Be sure that the organizational structure aligns with the service strategy. That is, set up the organization to execute what the organization wants to accomplish.

AN INCREMENTAL APPROACH

It may appear that a wholesale cultural change in the IT organization is necessary to ensure successful ITIL adoption. That’s a daunting task that might put off even the most progressive CIO. Fortunately, wholesale cultural change is not necessary, nor even advisable. No organization adopts ITIL in its entirety.

Rather, organizations should approach ITIL in an incremental fashion. Begin with areas that have the greatest potential to increase business value through improvement. The IT organization can also address culture through incremental behavioral change, not wholesale change. This approach will gradually bring about cultural change, without too much trauma.

(For more information on organizational change, basic organizational structures, organizational design, and organizational culture, refer to the ITIL Service Strategy publication.)
RESPONSIBILITY MODEL

Executive management should define and support the accountability and responsibility for service management.

For high-performing organizations, RACI models help with compliance, but you still need commitment from those who have been assigned responsibility. All employees committed to the success of the organization support continual improvement. Other key factors to success are role competence and training.

SUMMARY

People are the key to service management success. People, process, technology, and suppliers need to perform together. Collaboration and continual improvement are key to maintaining high performance.
CHAPTER 7: TECHNOLOGY

The ITIL Service Strategy publication provides guidance on using technology in a variety of ways to enhance service management. Topics covered in this chapter include service automation, service interfaces, and tools for service strategy.

SERVICE AUTOMATION

You can use service automation to improve utility and warranty of services. Automation can improve service quality, reduce costs, reduce risks, and resolve trade-offs.

Better Integration with the Business through Automation

Automating processes can help you achieve better controls over manual activities. Human error accounts for most problems that occur in IT environments and production infrastructures. Yet many functions that occur every day are standard and repeatable. These are particularly suitable for automation.

From an operational or maintenance perspective, much of what IT does today is reactive in nature. It's difficult to get your head out of the details when you're trying to put out fires. Yet, many IT organizations still operate in this reactive mode. Automation allows you to free up many of those firefighting resources. This allows them to focus on what's driving the business and identify the critical areas that need focus and emphasis. It also enables a more strategic, proactive, and innovative approach to service delivery.

SERVICE ANALYTICS

It's important to analyze and understand patterns of information. This show you how an incident can affect the business and how IT responds to it—from your customers' perspectives. Instrumentation describes the technologies and techniques in place to measure and track components of the IT infrastructure. These tools not only report actual incidents/problems in the infrastructure but also alert you if a potential problem is imminent.

THE RIGHT INFORMATION TO THE RIGHT PERSON

Delivering the right information to the right manager presents a challenge. Considering the diverse information needs of various managers, those in different areas need information targeted to their functions. Even managers in the same functional organization may need different information.

One issue you need to address when delivering IT-related information is to connect the worlds of IT and business. Most IT managers have grown up in a technology world in which they have focused on the components of the IT infrastructure. They may have little understanding of the relationships between the infrastructure components and business processes they support. Business managers see things from a business-process perspective, and they view IT as a provider of business services that support those processes. They may have little understanding of the relationships between business processes and the infrastructure components that support them.

For an organization to manage IT from a business perspective, you must bridge the gap between IT managers and business managers. This requires an information delivery and presentation solution that can deliver information to both parties. The solution must use metrics that both groups can understand and supply an understanding of the relationships between business processes and infrastructure.

Business dashboards that pull real-time information are an excellent way to provide data to business managers. Many ITSM software solutions provide dashboards in some form or another, but these can also be created in house if necessary.
Use service analytics to model existing infrastructure components and support business services. Then tie infrastructure events to corresponding business processes. The component-to-system-to-process linkage illustrates the service model and allows you to identify the business impact of an event. Service analytics enable operations to identify and correct problems from the end-user perspective. You can also use service analytics to predict the impact of changes.

**SERVICE INTERFACES**

The design of service interfaces is critical to end-user satisfaction. Service interfaces are at the point of utilization or access point, and can be used with people or processes.

The *ITIL Service Strategy* publication outlines how your customers interface with technology during a service encounter in five ways:

- **Technology-free**: No technology is used to provide the service; it's a manual effort.
- **Technology-assisted**: Only the service provider has access to the technology.
- **Technology-facilitated**: Both the provider and customer have access to the technology.
- **Technology-mediated**: The service provider and the customer are not in physical proximity but communicate through technology.
- **Technology-generated**: The service provider is represented entirely by technology (self-service).

**SELF-SERVICE CHANNELS**

Self-service has become more popular, enabled by the Internet-as-a-service delivery channel. With only a browser, users can access self-service channels 24x7, at their convenience.

Self-service channels can be implemented at very low incremental cost and are highly scalable.

It's important, however, to ensure that the self-service interface is easy to use and efficient.

**IMPROVING SERVICES WITH SERVICE REQUEST MANAGEMENT**

Service request management technology has evolved. It gives employees the luxury of one-stop online shopping for all the services they need. It also gives the service providers in the organization a single place to advertise their services. It's like having a service supermarket at your employees' fingertips.

When done well, the business benefits are significant. The system employs standard, repeatable, best-practice processes for handling requests. It reduces business risk and gives management greater insight into service-delivery quality and cost. Employee productivity rises because people can find the services they need when they need them. Services are delivered quickly, effectively, and at a lower cost. Employees can initiate and track service requests on their own, reducing the load on the service desk. And, finally, service requests are tracked for auditing, as needed for regulatory compliance.
SUMMARY

Technology can help you improve service management in many ways. You can enhance service agility, quality, and quantity through service automation. You can put technologies in place to measure and monitor the components of your IT infrastructure. Measuring end-to-end transaction performance enables you to view transactions from the end users’ perspectives. This gives critical insight into the customer experience. Technologies such as dashboards enable you to provision the right information to the right manager at the right time. Technology supports process. Process supports people. And the combination of technology, process, people, and partners supports and delivers services.
CHAPTER 8: IMPLEMENTING SERVICE STRATEGY

STRATEGY AND SERVICE DESIGN

Service strategy links to service design. When you design services, make sure you completely understand the customers’ desired business outcomes. Contracts with customers outline the services provided for specific levels of utility and warranty. These are defined in the service strategy. By delivering and supporting the contract portfolio, you execute on your service strategy.

Use the customer assets and service models outlined in the service strategy as the basic inputs for service design. Service models outline how service assets interact with customers’ assets to create value. Based on the service utility and warranty you promise to provide, service models detail service structure and dynamics that influence service operation. Service structure consists of the specific service assets needed, as well as how they are configured.

Variables to consider include patterns of business activity, demand patterns, exceptions, and variations.

SERVICE MODELS: ENABLING PRIORITIZATION OF INCIDENTS BASED ON BUSINESS IMPACT

Establishing a service model helps IT organizations manage their activities based on the importance of the business service they are providing, rather than managing technology details.

A service model enables informed decision-making according to what is critical to the business. Think of a service required only on specific days of the month. If the service fails to operate on a day that it is not necessary, then that failure may not be a priority incident. But, if the application isn’t operating on the day that it’s essential, it’s a top-priority incident that needs to be fixed immediately.

Having a service model in place ensures you have the relevant information at your fingertips. You know right away whether a failure of a particular service is critical.

THE IMPORTANCE OF SERVICE TRANSITION

Once you have your service strategy and service design, you need to actually bring the services online. Service transition is identifying the least-cost/least-risk method of getting the service into operation. It’s all about change and configuration management processes. Change management minimizes the impact of change on the business, and configuration management provides you with the information to effectively implement change management.

STRATEGY DEPENDS ON OPERATIONAL CAPABILITIES

In designing your service strategy, be cognizant of the organization’s operational capabilities and constraints. The best-laid strategies will fail without the appropriate operational capabilities upon which to execute. Ensure that the operations team understands the required outcomes and can provide adequate support.

Establishing a service model helps IT organizations manage their activities based on the importance of the business service they are providing, rather than managing technology details.
MANAGING DEMAND
Demand for the services you provide will not be static. To meet fluctuating demand, start by analyzing business activity patterns. Evaluate frequency, patterns, and volume. Create service designs, models, and assets to most effectively serve the specific demand. This leads to increased customer satisfaction, as service assets are optimized to serve homogeneous groups of users. In addition, you simplify, standardize, and stabilize processes and systems. The results include increased efficiencies, higher use levels for resources, and fewer mistakes.

IMPROVING OPERATIONS
To effectively measure service quality, you need service level agreement (SLA) metrics. You also need to remember that the customer’s perception of quality is based on the utility and warranty of service provided.

According to ITIL, customers perceive four broad perspectives of quality. You’ll want to take into account one—or a combination—of these perspectives:

- How good is the service?
- Does it provide value for the cost?
- Does the service meet my specifications?
- Does it meet or exceed my expectations?

Determine what is important to your customers, then measure and control your service management processes accordingly.

KEEPING THE END USERS HAPPY
The end users’ primary concerns are that the service is available and working as promised. Work on achieving high mean time between failures (MTBF) and low mean time to restore service (MTRS). Keep in mind that these measures aren’t relevant to the end users in these terms. End users do care about these factors; they are only concerned with how they affect the availability of the service.

THE BIG QUESTION: WHAT’S CAUSING THE FAILURE?
Without details about a service and its supporting infrastructure, it may be difficult for a service desk agent to know where to start. In many cases, it takes longer to locate the cause of a failure than it takes to fix it.

Service strategy describes how careful, systematic planning is essential to achieving the strategy that you have developed. Once you have created a strategy, what do you do next? Start by working closely with the service design, service transition, and service operation teams to ensure that services are delivered efficiently and in the manner the customer expects. Service strategy provides input into each phase of the service lifecycle.
With a lifecycle approach, it’s important to define the interactions between service management capabilities. Use the required service design and operation capabilities to determine the required transition capabilities. These, in turn, will help determine the portfolio of service designs.

You’ll want to use both a top-down and a bottom-up approach. Continual service improvement drives feedback and ensures that challenges and opportunities are handled appropriately. Also, look at patterns in executing the service lifecycle to help you decide on new strategic positions to pursue.

**SUMMARY**

This chapter discusses the next steps to take once you have your service strategy in place. The service lifecycle is dynamic in nature, and service strategy supports the complete lifecycle. Work closely with the service design, transition, and operation teams to ensure that you can successfully implement your service strategy.
CHAPTER 9: CHALLENGES, RISKS, AND CRITICAL SUCCESS FACTORS

Chapter 9 provides an overview of the various challenges, opportunities, and risks involved in being part of a complex IT organization.

MAINTAINING VALUE FOR YOUR CUSTOMERS

The *ITIL Service Strategy* publication discusses various aspects of preserving value for customers, including the challenge of keeping the total cost of utilization (TCU) as low as possible. TCU includes the direct cost of the service and all other related costs. The goal is to eliminate as much hidden cost as possible.

In addition, this section discusses:

- Potential benefits of achieving operational effectiveness and efficiency
- Substantiating hidden benefits
- Leveraging intangible assets

EFFECTIVE MEASURING FOR EFFECTIVE MANAGEMENT

The following principle from W. Edwards Deming is well known: If you cannot measure it, you cannot manage it. Service management organizations need to implement measures that have meaning to their customers, so they can effectively meet the customers’ needs.

The *ITIL Service Strategy* publication outlines some useful measurement principles, focusing on the customers’ desired business outcomes and how to best serve the customers.

As your strategy evolves, you’ll need to change the factors you are measuring. Remember, monitoring discrete components is not enough. End-to-end visibility is key.

ESTABLISHING THE RIGHT METRICS

Dashboards can help both IT and the business monitor and measure critical services and their supporting IT infrastructure. As with dashboards for IT managers, the major challenge in creating dashboards for business managers is to establish the right metrics. Business managers have their own key business indicators (KBIs) that they need to measure and monitor to manage the segment of the business for which they’re responsible. It is essential to tie these business metrics to how effectively IT is supporting the business. Associating business metrics to IT-related metrics requires close collaboration between IT and business managers.

BE AWARE OF RISKS

Risk is an important topic in ITIL; there are discussions of the various types of risks you may encounter and how to minimize them. According to ITIL, risk is any uncertainty of outcome, and can be either a positive opportunity or a negative threat. This means that not acting on an opportunity can be considered a risk. When you provide a service, you reduce the risk to your customer’s business, but take on more risk yourself. When you consider additions or changes to your customer portfolio, you must be sure you understand the risks that the organization is willing to assume.
Risks for the service provider may be finance related, or they may include asset failure, operational mishaps, security breaches, the inability to meet target service launches, or compliance issues. Risk and related damages are measured in financial terms and loss of goodwill (e.g., reputation, customer confidence, and credibility).

Customers are more likely to switch providers when the benefits outweigh the costs and risks of switching.

One element of risk is failure to deliver on contractual commitments. This jeopardizes both current operations and the confidence customers will have in the future. Another risk is poor performance, often caused by poor design. Systematically applying the service design processes and methods will help reduce the risks of not meeting contract requirements or performance expectations.

Evaluate operational risks, keeping in mind the risks faced by both the business units and service units. You may also want to look at the risks across an entire value net, including partners and suppliers. Service transition allows you to divide risks among these interconnected organizations. Look to service operation capabilities to help transfer operational risks into opportunities. This will help create value for customers.

Finally, keep in mind market risks. A key risk is that your customers have many alternatives to choose from when making sourcing decisions. Customers are more likely to switch providers when the benefits outweigh the costs and risks of switching. Reduced TCU provides a strong incentive for customers to stay with you. You can also reduce market risk through differentiation and consolidation.

ADDRESSING RISKS

One key way you can mitigate risk is through process governance. Control Objectives for Information and Related Technology (COBIT) is an IT-focused governance and control framework created by the IT Governance Institute (ITGI) and Information Systems Audit and Control Association® (ISACA). Although COBIT is oriented to IT processes, it does not include process steps and tasks. It focuses on what an enterprise needs to do rather than how to do it. COBIT processes focus on business requirements and provide guidance in determining what is sufficient to meet these requirements.

SUMMARY

Being part of a complex IT organization brings with it many challenges, opportunities, and risks. A big challenge, but one worth tackling head on, is keeping the TCU of a service as low as possible for your customers. Cloud services help with decreasing show-back and charge-back service cost. Opportunities arise when you can prove hidden benefits that the customer was not aware of.

Another challenge is identifying the key metrics to track. Monitoring solutions that provide end-to-end visibility will help you meet your customers’ needs. Remember to put measurements in place that relate to your customers’ desired business outcomes.

Being aware of potential risks is a first step in recognizing and addressing them in your environment. You can mitigate risk through implementing a process control framework such as COBIT.

Turn challenges and risks into opportunities to resolve issues, reduce problems, and enhance value to your customers.
AFTERWORD

You may have heard the saying, “If you don’t know where you’re going, how will you know when you get there?” A service strategy gives you a clear picture of where you are headed, so you don’t need to wonder.

Now that the service strategy is created, what’s next? At this point, you should have a solid understanding of your customers, the markets you will pursue, and the services you want to provide. You also have insight into the importance of integrating with the business. The next step is to pass the strategy to the service design team, who will design not only each service, but also the people, process, and technology components needed to deliver the service effectively.

Change is everywhere, and it constantly affects how you do business and your overall strategies. Technology changes, people needs change, supply and value chains change, and organizations change.

Remember that ITIL is a lifecycle. You will need to revisit the service strategy phase periodically and update it based on the changes in business activity patterns. For example, customer needs may change, the overall market may change, or new competitors may appear. Each of these will be indicators that you will need to review and revise the service strategy. Even if nothing changes, you’ll always want to be asking, “What can we do better?” as part of the continual service improvement process. In that way, you will constantly enhance the value that you provide to the business.

ABOUT BMC

BMC IS A GLOBAL LEADER IN SOFTWARE SOLUTIONS THAT HELP IT TRANSFORM TRADITIONAL BUSINESSES INTO DIGITAL ENTERPRISES FOR THE ULTIMATE COMPETITIVE ADVANTAGE.

Our Digital Enterprise Management set of IT solutions is designed to make digital business fast, seamless, and optimized. From mainframe to mobile to cloud and beyond, we pair high-speed digital innovation with robust IT industrialization—allowing our customers to provide intuitive user experiences with optimized performance, cost, compliance, and productivity. BMC solutions serve more than 10,000 customers worldwide including 82 percent of the Fortune 500®.