

# Rethinking procurement strategies for application services





Just as cloud set us on the path to on-demand, as-a-service computing, there's a movement afoot to deliver application services in a similar fashion, priced not only by consumption but also by value. Companies are cutting costs and increasing business value by shifting from time and materials to these more flexible as-a-service models. This paper describes the benefits of an as-a-service application services model, five factors to consider for a successful model, and two companies that are reaping the rewards.

What if, rather than sign an application services contract that binds you to time and materials (T&M) costs, you could pay for them month to month? And what if the monthly price is calculated by how well the service makes good on specific outcomes, such as increased sales that correlate with five-nines application uptime and a quality customer experience? Or, suppose you could order application development services from a self-service catalog when your sales team needs a quick-turn app to support a new product launch, and pay a price for the service that's tied to the app's quality and on-time delivery?

If this intrigues you, take note. Just as cloud set us on the path for on-demand, as-a-service computing, there's a movement afoot to deliver application services in a similar fashion, priced not only by consumption but also by value.

It's already happened at a data storage company that has cut application services spend by 20 percent and gained more than \$5 million in business value. A major airline is shifting away from a T&M model for application testing and is paying only for the services it uses. And then there's a leading life insurance company that has put its innovation stake in the ground by choosing a flexible as-a-service model for application services.

Creating and delivering such a flexible model for application services is complex. Both the amount of services used and the business outcomes the service delivers have to be taken into account, not just T&M. Many providers claim they offer it, but few actually do.

So, just how does such a model work? How is pricing determined and value measured? What steps do you need to take before contracting with a provider and employing the model for your application services, including application management, testing and digital assurance, development, and modernization and transformation?

### Pricing tied to consumption and value

An as-a-service model for application services is a paradigm shift that fundamentally changes the way applications are created, managed, valued, purchased and paid for. At its core, it will help enterprises pay only for services they use and that deliver positive outcomes for customer experience and business requirements.

Unlike old-school models that were tied to mainframes and MIPS consumption and involved long-term contracts with an end date and specific price tag, as-a-service models promise flexibility, agility and more efficient ways of paying that can lead to less complex billing.

As-a-service models can shift customers' spend from run to innovation by giving service providers and their customers a foundation that shifts the relationship from cost-based to value-based.

They also can deliver services that match demand, reduce shadow IT and drive down costs from over-provisioning. Most importantly, they can shift customers' spend from run to innovation by giving service providers and their customers a foundation that shifts the relationship from cost-based to value-based. And an as-a-service model (such as applications security on demand with a price per scan business model) gets to the heart of what customers have been asking of service providers for a long time: put more "skin in the game."

### The makings of a successful as-a-service model

Customers today have plenty of questions about as-a-service models for application services. Will it add more complexity? Does the model require a shift in budgeting? How are services valued? How are outcomes determined? The many questions reflect the fact that, at this stage, few enterprises have employed such as-a-service models for application services. For many, the model challenges their desire for control and they are uneasy about the impact to their business.

Expect that to change. Information Services Group (ISG) said in a recent report on application development and maintenance (ADM) services, that fixed-fee pricing for application services is displacing T&M as the most preferred pricing model and that output-based deals are on the rise.<sup>1</sup>

Moving to such a flexible model will require changes. You'll likely have to rethink budgeting processes. Taxation and legal processes could be impacted. And your organizational structure and even your company culture will need adjustments.

It is critical to work with a services provider that employs a highly skilled and flexible workforce, has a cloud-first mentality and has advanced IP and technology platforms. The provider has to be willing to take ownership of the services and outcomes yet still work closely with all the essential members of the client's team. Ideal service providers will have already delivered as-a-service implementations of application services, and will be able to reference those projects.

During the planning stages, which typically take 2 to 4 weeks, the business units and processes that will be part of the services will be determined, as will the service levels and performance metrics. Also, key subject matter experts and stakeholders will be identified and educated on the model and how it will impact daily operations.

<sup>1</sup>"Application Development and Maintenance Services Quadrant Report," ISG Provider Lens, August 2017. [https://www.dxc.technology/application\\_services/ds/142249](https://www.dxc.technology/application_services/ds/142249)

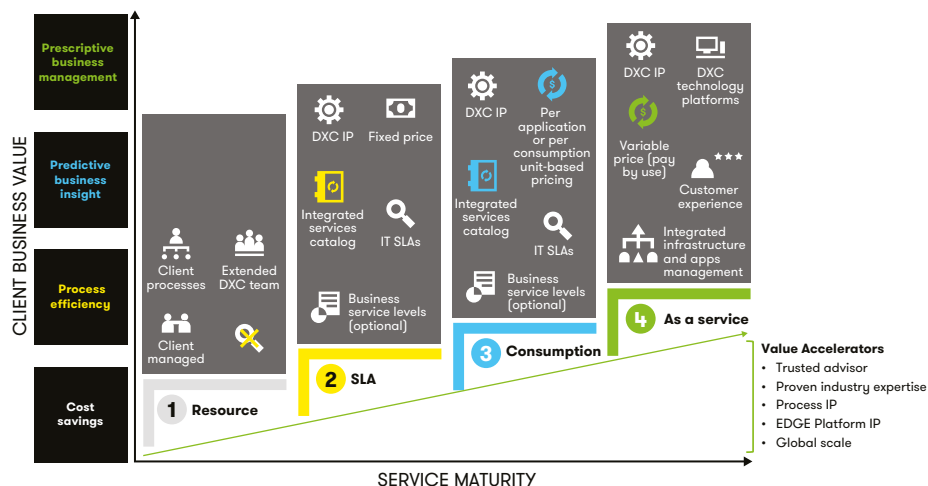
The following recommendations are fundamental to securing an as-a-service model that injects on-demand functionality and value-driven pricing into application services:

- **Don't expect one-size fits all.** Most application services delivered as-a-service will need to be customized to match an organization's specific business requirements. Will there be more than one application service tied to the contract — for example, application development and testing? Is the service tied to just one line of business, or is this an enterprise-wide engagement? What's the expected usage, and what values will be applied to the pricing model?

Also, most companies won't employ as-a-service models only. They'll rely on a hybrid of models to acquire, leverage and pay for application services. DXC Technology works with clients to select the most appropriate models from among the following types (**Figure 1**):

- **Resource** — a straightforward resource-based model that focuses only on T&M
- **SLA** — a fixed-price model that includes service-level agreements (SLAs), DXC intellectual property (IP) and an integrated services catalog
- **Consumption** — includes SLAs, DXC IP, an integrated services catalog and pricing based on the applications or units used
- **As-a-service** — DXC IP and technology platforms; SLAs; an integrated services catalog; and variable pricing based on use, customer experience and business outcome (i.e., testing as a service)

**Figure 1.** Applications Management Services Maturity Model



- **Understand and plan for the cultural shifts required.** As-a-service models often affect business processes, and when it comes to consumption and values-based pricing, you'll need to consider how the model will impact your processes. In particular, look closely at how such a model will impact accounting, and coordinate with your accounting department in the planning stages of an as-a-service contract. Will it require a change in budgeting — i.e., capital versus operating expenses? Will it affect taxes? Ask the provider for pricing models that can be used to inform a reasonable budget. Also, consult with your legal team to ensure the contract, which will inevitably be more elastic, doesn't cross any internal company policies, industry and government regulations, and customer commitments, SLAs or contracts.

### As-a-service application services — 5 factors to consider

- Don't expect one-size fits all.
- Understand and plan for the cultural shifts required.
- Determine how consumption is measured.
- Determine the value of billable units and how that value is measured.
- Expect a delivery mechanism.

Don't forget to examine the impact an as-a-service model will have on employees. Not only will you need to determine if and how such a contract needs a program manager and what his or her roles will be, but you'll also have to consider how the model impacts the day-to-day roles and time of a variety of employees. And remember, cultural shifts need strong support from the top, so be sure to engage with and get buy-in from your company executives.

- **Determine how consumption is measured.** In order to determine how consumption is measured, you'll first have to know, generally, what your consumption is. For each service to be included, you'll need to establish a baseline that includes the global view of all enterprise IT assets and identifies details of usage. Be sure to link consumption data to resource usage — of both owners and consumers — and be sure to include the number of apps involved.
- **Determine the value of billable units and how that value is measured.** It is relatively easy to determine and agree on the value of a billable unit if it is based on an application's criticality to business. A life-blood application such as a transaction processing system runs around the clock and needs 99.999 percent uptime, but a time-sheet app or expense report likely doesn't. Discuss legacy apps versus custom apps versus cloud. Ideally, an as-a-service model will be agnostic to an application's provenance, age and infrastructure (whether physical, virtual, in a data center or in the cloud). Other ways to inform value can be determined through existing key performance indicators (KPIs) and SLAs that your IT team has set with your business units. Don't forget to define how a unit's value will be impacted if anything should happen that affects users, customers, suppliers or partners.

The use of artificial intelligence (AI), intelligent process automation and machine learning can be applied to track and monitor consumption in relation to value. DXC, in partnership with Mphasis, takes a predictive and prescriptive approach for managing applications — predictive in our ability to understand patterns of issues through AI techniques and prescriptive to resolve issues, proactively, through automation.

- **Expect a delivery mechanism.** An integrated services catalog or enterprise app store will provide you with the easiest, most effective way to acquire the services. For example, in a catalog for application management services, you might find services for removing defects, stabilizing an app, removing duplications, consolidating apps, managing an application life cycle, managing application performance or improving application security. The catalog needs to be comprehensive but easy to use; you should be able to buy one of the services as easily as you spin up compute power in a virtual data center.

Providers should also deliver dashboards that illustrate all the parameters and agreements set forth in a consumption-based, value-driven model. Dashboards provide executives with easy-to-access, high-level views of the program and show whether it is meeting the needs of the organization.



By moving from a T&M application management model to one that is consumption- and values-driven, the company has seen a 27 percent reduction in tickets for incidents and has significantly reduced recurring incidents, boosted financial transparency, and validated savings of \$5 for each dollar spent on service improvements.

### **Cutting costs and boosting value at a data storage company**

When mission-critical apps don't perform well, business suffers. That's why one DXC customer, a data storage company, decided as-a-service was the best model for its app management services. Since moving from a T&M model to one that's based on consumption, service levels and key performance indicators all tied to business outcomes, the company has cut services spend by 20 percent, the equivalent of more than \$5 million in business value.

Pricing is based on two consumption units: tickets for incidents and/or requests for production support, and work requests for minor enhancements. The price per unit is calculated by average effort, the mix of onshore and offshore support, coverage, skills and more. To help determine the annual budget, DXC works with the company to establish consumption baselines and applies machine learning technologies to help predict future volume. Monthly invoices reflect actual consumption.

Today, DXC manages 80 percent of the company's mission-critical applications, drawing from its pool of experts who are cross-trained on multiple applications and can cater to the company's rapid fluctuations in business demand. Self-healing and automation help minimize manual intervention and improve productivity. The customer can use robust internal tools and dashboards to easily track performance and adherence to the SLAs.

By moving from a T&M application management model to one that is consumption- and values-driven, the company has seen a 27 percent reduction in tickets for incidents and has significantly reduced recurring incidents, boosted financial transparency, and validated savings of \$5 for each dollar spent on service improvements. The company is reinvesting much of that savings into application modernization and innovation.

### **Pay per use at a major airline**

DXC is delivering application testing services as a service for a major airline. The program includes functional testing for mobile applications, performance, service virtualization, web applications and data migration. While the structure of the model is somewhat hybrid, as it does include some T&M pricing for resources and the number of applications involved, it is largely based on a consumption-driven model. The airline pays only for the deliverables it consumes rather than a fixed headcount. This model is flexible enough to handle the various iterations involved in application development, and that works well with the agile methodologies the airline employs.

Consumption of the service is measured by the number of test units delivered per month, per project. Each unit is associated with a dollar amount, and the customer's monthly invoice depends on the number of units delivered by the project test team per month. If the team delivers 2,000 functional test units, then the invoice amount will be 2,000 times the dollar amount.

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The pricing also takes into account value beyond the assigned dollar amount. Whenever consumption-driven models are set, a variety of factors are used to define value, including KPIs, an application's importance to a business function, or service agreements established between IT and business units, for example.

### **Thrive on change**

Virtualization and cloud have effectively eliminated static IT service models, and now enterprises expect to get the services they want when they want them. Now, they're starting to ask for innovative and flexible as-a-service models for application services based on consumption and values-driven pricing, so they can be more agile, innovate faster and ultimately increase business value across their entire organization.

Of course, doing so won't be straightforward. It will take preparation, a more flexible procurement process and an in-depth understanding of how services are used and the value they should deliver. It will require a healthy appetite for change, especially in processes, organization and culture. And it will require a service provider that is committed to working closely with clients through these challenges, and ready to deliver application services as a service. DXC is committed, and ready.

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#### **About Mphasis**

Mphasis (BSE: 526299; NSE: MPHASIS) enables customers to reimagine their digital future by applying a unique formula of integrated cloud and cognitive technology. Mphasis X2C2™ formula for success (shift anything to cloud and power everything with cognitive) drives five dimensions of business value with an integrated consumer-centric Front to Back Digital Transformation, enabling Business Operations and Technology Transformation. Mphasis applies advancements in cognitive and cloud to traditional application and infrastructure services to bring much needed efficiency and cost effectiveness. Mphasis' core reference architectures and tools, combined with domain expertise and hyper specialization, are the foundation for building strong relationships with marquee customers. For more information, visit [www.mphasis.com](http://www.mphasis.com).