Lesson 2 Study Guide

Service Strategy Basics

ITIL® Lifecycle Courses - Service Strategy

Strategy Basics

Welcome to the second chapter of your Study Guide. This document is supplementary to the information available to you online, and should be used in conjunction with the videos, quizzes and exercises.

After your subscription to the course has finished online, you will still have the study guide to help you prepare for the Service Strategy exam - if you've not taken the exam by the time your subscription expires.

At the end of each Lesson as you progress through the course, you'll be prompted to download a new chapter of the Study Guide. By the end of the course, you'll have 19 chapters that build up into the full guide.

This Chapter contains the Study Guide information for **Lesson 2 – Strategy Basics.**

Use this Study Guide in conjunction with your own notes that you make as you progress through the course. You may prefer to print it out, or use it on-screen.

After each Lesson, you can consolidate what you have learnt whilst watching the videos and taking the quizzes by reading through the chapter of the Study Guide. If you progress on to do the Service Strategy exam, your Study Guide will provide you with vital revision information.

Remember, your Study Guide is yours to keep, even after your subscription to the Service Strategy Course has finished.

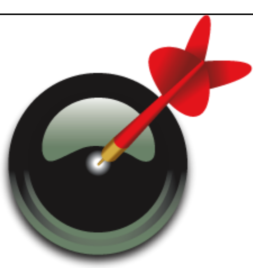
Text in *"italics and quotation marks"* is drawn from the ITIL core volumes

Quoted ITIL text is from Service Strategy, Service Design, Service Transition, Service Operation and Continual Service Improvement

Table of Contents

Study Guide Icons

Watch out for these icons as you use your Study Guide. Each icon highlights an important piece of information.

	**Tip – this will remind you of something you need to take note of, or give you some exam guidance.**
	**Definition – key concept or term that you need to understand and remember.**
	**Role – a job title or responsibility associated with a process or function.**
	**Exercise Solution – suggested solution to one of the exercises you will complete throughout the course.**
	**Purpose or Objective – for a particular process or core volume.**

Lesson Contents

This Lesson looked at some of the Service Strategy basics covered by the course syllabus.

We studied:

- **The basic approach to deciding a strategy**
- **Strategy and opposing dynamics**
- **Outperforming competitors**
- **The 4 Ps**
- **Customer, service and strategic assets**

Syllabus Reference

The information in this Lesson relates to syllabus section SS02. You can use your syllabus document to identify areas in the Service Strategy volume for further reading as part of your self-study.

Deciding a Strategy

A strategy is a plan to show how an organisation will meet a set of objectives.

In the real world, strategic planning is often more complex than this. Strategy is a complex planning process that shows how an organisation will move from its current state to a desired future state, while at the same time dealing with changing internal and external variables.

A Service Strategy shows how a service provider will use services to support the desired business outcomes of its customers. If customers are happy with the services provided and continue to use them, it's likely the service provider will meet its own objectives – whether they are an internal or an external service provider.

IT strategy focuses on how organisations use technology to meet business objectives. The IT strategy will typically include an IT service strategy.

Strategic planning is hard. There are a number of reasons why strategic thought and action can be challenging, including:

- Organisations may have to deal with complexity, conflict and uncertainty outside their normal comfort zone
- They must be able to discern patterns, predict trends and accurately estimate probabilities
- They must be able to see all factors, and interactions between them
- They must be able to understand the basic underlying principles and theory that support their business

We studied a basic approach to deciding a strategy. This needs to include recognition of 2 key factors:

- Acknowledgement that every organisation has competitors
- Deciding on an objective or end-state to differentiate the organisation and the value it provides

Competitors will influence an organisation's strategy. Every organisation has competitors. Even public sector organisations now have to compete to survive – whether this is with shared services from the same organisation, or external companies who offer services via an out-sourced model.

When deciding on their strategy, an organisation needs to consider their competitors.

Service providers need to define exactly what value they deliver, and aim to be as efficient as possible. This will then allow them to compete within their market space or sector.

The second consideration when deciding a strategy is the objective or end state that differentiates the service provider. This might be what the service provider does, or how they do it. It needs to be clearly articulated to customers, who must believe that it would be hard to get the same value from another provider.

Value can be monetary, such as higher profits, or it can be social – for example a government organisation might use IT services to coordinate health care.

Service providers that can differentiate their services will attract customers through the provision of unique value. Differentiation can come from a number of factors:

- Barriers to entry might make it too expensive for other companies to offer what you do
- Your organisation might have a much better understanding of your customer's business
- Your service offerings might be broader than anyone else's, making you a one stop shop for your customers

Differentiation can be eroded quickly as markets evolve and competitors seek to copy successful service providers.

The ultimate goal of Service Strategy is **superior performance versus competing alternatives.**

To achieve this, service providers must meet objectives based on customers desired business outcomes. Service providers also need to work within any constraints.

Every strategic decision about services to offer or markets to serve will have consequences, and organisations need to understand these as much as possible.

Strategy and Opposing Dynamics

A strategy needs to be able to absorb and synthesize different sets of variables to be effective. These sets of opposing dynamics will all affect how a strategy performs.

We studied:

- Future versus present
- Operational effectiveness versus functionality improvements
- Value capture during launch compared with value capture during operations

Future vs. Present

Strategies are long term plans, implemented in an environment where change and innovation is getting faster and faster. By the time a strategy is implemented, it may not be the right strategy.

Organisations need to plan for the future, but they also need to be able to react to changes and opportunities that are happening in the present.

Functionality improvements vs. Operational effectiveness

Many organisations focus on operational effectiveness, trying to improve service delivery, sometimes while reducing costs.

This is necessary, but it is not enough for an organisation to stay competitive. If a service is delivered perfectly, but it's not an appealing service, the customer will not be impressed.

The service strategy an organisation adopts must explain how it will be effective, but also how it will compete with alternative services offered by other providers. Operational effectiveness is important, but the quality and distinctiveness of services delivered is also relevant.

Even in public sector organisations, services need to be distinctive, or the service provider is at risk of being replaced.

Value Capture during launch vs. Value Capture during operations

Value capture is the part of the value created by a service that the service provider is able to keep.

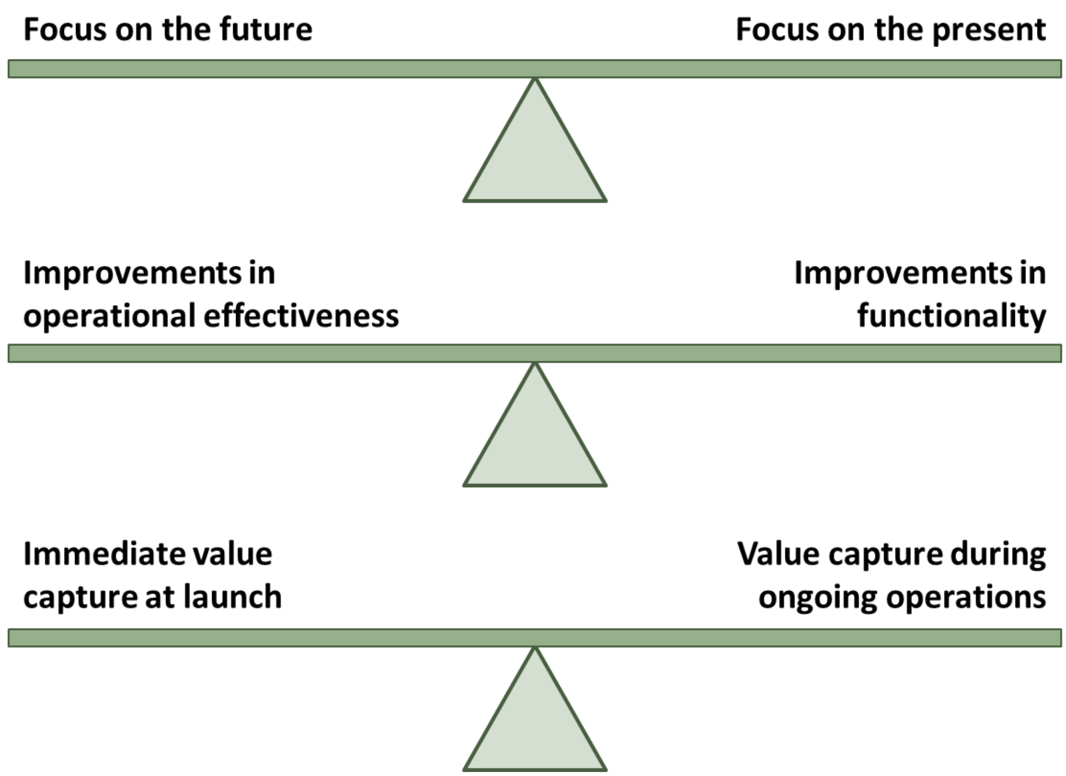
Value capture during innovation or the launch of a new service will normally only happen for a short time – until a competing alternative appears.

Service providers create value by creating innovative services, but this is expensive. The value created might not be enough to balance the cost of service development.

Operational value capture will decrease as more and more competitors appear. Each organisation will need to balance operational value capture against searching for new opportunities to innovate.

If any service provider fails to manage these dynamics, their strategy is more likely to fail. It may appear successful in the short term, but could cause long term harm. For example, if the organisation focuses on operational value capture, they might find that they have no new services to offer their customers when the market moves on.

The diagram below summarises the areas of opposition that the IT executive must be able to balance. Executives need seemingly contradictory skills – they must be able to react and predict, adapt and plan. Blending all of these opposing dynamics will result in a truly successful service strategy.



Service Strategy fig. 3.1 achieving a balance between opposing strategy dynamics

Outperforming Competitors

Successful service providers will need to outperform their competitors.

It's important to note that this applies to both private and public sector organisations. In the private sector, success can usually be demonstrated by financial metrics and measures such as increased profit.

In the public sector, where value capture might not be fully applicable, service providers need to demonstrate value for money and achievement of organisational objectives.

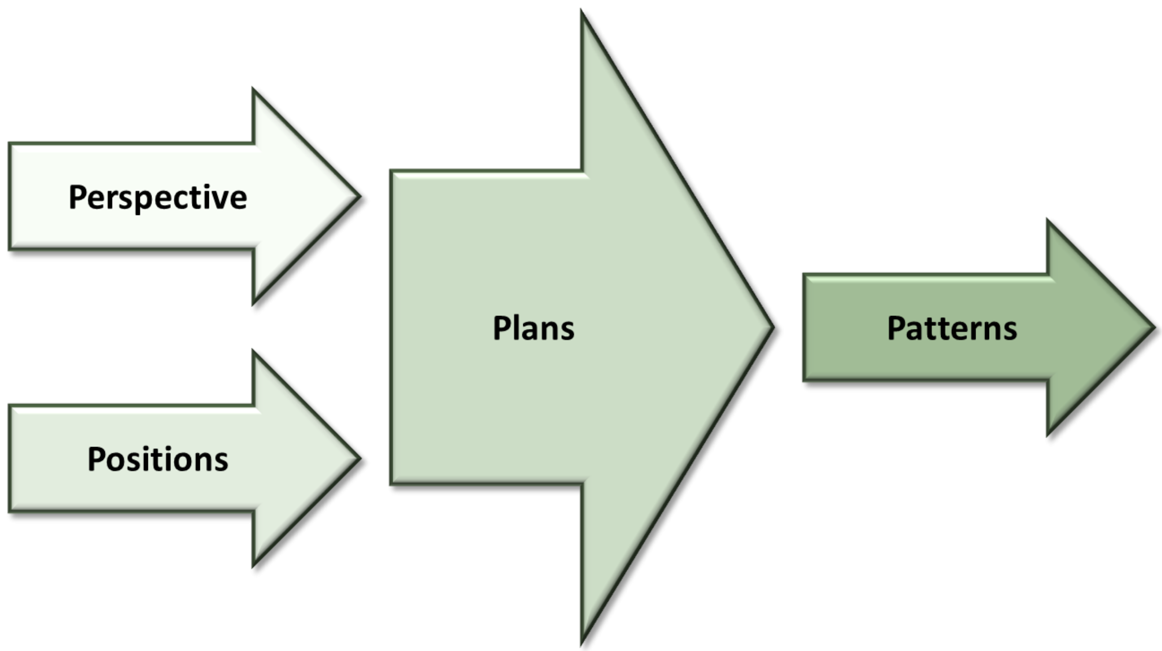
Every service provider tries to meet customer objectives within a set of constraints – such as time constraints, or budget constraints. Organisations need to choose the customers they serve and the markets they operate in carefully, in order to be able to outperform their competitors. An organisation with very diverse customers may find itself spread too thinly, and may end up pleasing no one.

The goal of Service Strategy is to deliver superior performance when compared with competing alternatives. A high-performing strategy will support this, allowing a service provider to perform well over years, even during disruption or leadership changes.

Organisations need to be in a position to succeed now and in the future.

The 4 Ps

We also studied the 4 Ps which you can see in the diagram below:



Service Strategy fig. 3.2 Perspective, positions, plans and patterns

Mintzberg introduced the concept of four forms of strategy, which need to be present when a strategy is defined.

The Ps are:

- **Perspective** describes vision and direction for an organisation
- **Positions** describe how a service provider will compete against other service providers
- **Plans** explain how the service provider will move from as is to the desired future state
- **Patterns** describe a series of consistent actions over time

Remember

A service provider can begin with any of the Ps, and then evolve the rest of them. For example, analysing patterns within an organisation might lead to an emergent strategy which dictates the rest of the Ps.

Using the Ps is important – using them in a specific order is not. Using them in different orders allows service providers to deal with existing strategies as well as planning future ones.

Perspective

Perspective articulates what the organisation's business is, how it interacts with customers and how services or products will be provided. A perspective is used to help employees and customers clearly understand what makes a service provider distinctive.

An organisation's perspective is an expression of how it sees itself in relation to its context. It describes what it is, what it does and who for, and how it works.

The perspective must be expressed in a way that allows it to be communicated easily – both internally and externally. Perspective is used to remind stakeholders about the beliefs, values and overall purpose of the organisation. Stakeholders might include customers, employees and suppliers.

Perspective sets direction and shows how the organisation will fulfil its purpose. Here are some examples:

- Focus on the user and all else will follow
- Consumer connectivity first – anytime, anywhere
- We will be a best in class service provider for our industry

These are examples from real world service providers:

- Highly efficient back office operations – adopted during the emergence of service outsourcing
- Low cost service provider – during the emergence of offshore skilled labour

Positions

Positions describe how a service provider will compete – based on the attributes and capabilities that make it distinctive. Positions could be based on value, or low cost, knowledge of the customer, specialised services or many other variables.

Strategy as a position allows customers to understand how a service provider is distinctive.

Service providers can compete in the same space, but offer differentiated services to create a value proposition that is attractive to customers. This could include, for example, offering low cost services – this would be a strategic position.

There are 4 broad types of position that we studied.

Variety Based	In this position, the service provider offers a narrow range of services to a variety of customers with different needs. For example, a mobile phone company might offer a range of packages based around time, and type of usage. Customers will choose the package that suits them best, and each customer might use their package differently.
Needs Based	If needs-based positioning is adopted, a service provider will offer a wide range of services to a small number of customers. This relationship is sometimes known as customer intimacy. The service provider gets to understand their customer very well, and can develop new services to meet their needs in addition to the existing ones offered. This reinforces the relationship and keeps other competitors out. The strength of the relationship and how well the service provider understands the customer will dictate whether this is successful or not.
Access Based	Access based positioning describes a service provider who offers very tailored services to a specific target market, normally based on location, special interest or another category. Only those within the target group will have access to the service. For example, a hardware support organisation may only offer support services to customers within a certain geographic area.
Demand Based	This is an emerging approach, where a service provider uses a variety-based approach to appeal to customers, and then allows customers to choose which service components they will use and how much of the service they will use. For example, software as a service organisations may allow users to select modules, license numbers and types, and access requirements.

Plans

Plans are a tangible part of the strategy. A set of documents might be referred to as the overall strategic plan. The plan will detail how the organisation will achieve strategic objectives, and what it will invest to do this.

Plans describe how a service provider will transition from their current situation to the desired end state. They describe activities that need to happen if the service provider is to achieve its perspective and positions.

Business change and innovation move quickly. Plans will normally address this by developing more than one possible scenario, each one describing activities and the level of investment.

Plans need to be compared with events and adjusted if necessary. Some plans are very high level – such as the overall strategy. These will then be supported by more detailed plans, showing how the strategy will be executed – for example by creating a new process or service.

All plans need to be coordinated and linked to the overall strategic framework.

Patterns

Patterns describe ongoing, repeatable actions that need to be performed if strategic objectives are to be met. Patterns could include organisational hierarchies, processes, services and the way that teams and departments collaborate.

Patterns might be internal or external. Internal patterns relate to the way the organisation works, and external patterns relate to how it interacts with customers and suppliers.

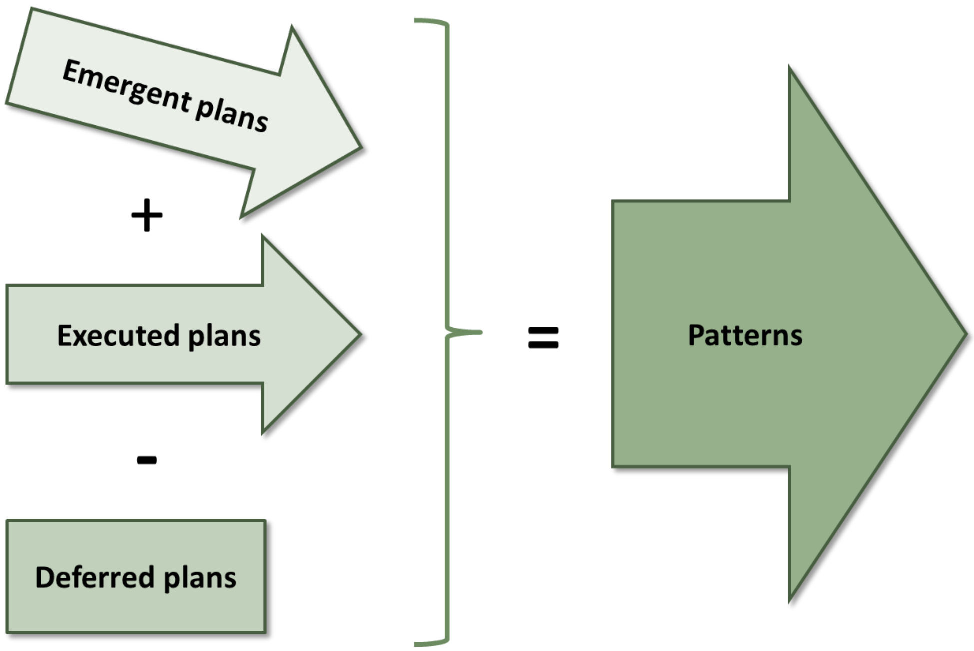
Patterns make sure that a service provider acts in a way that will allow strategic objectives to be fulfilled. Without patterns, there is a danger that the service provider will react to customers' demands in a tactical, short term way. This can be inefficient and costly.

Some organisations will define the patterns they expect to see as part of their strategy, and then monitor compliance. Other organisations will analyse patterns to identify successful ways of working, which then create a strategy. This is known as emergent strategy.

The future is uncertain, and no strategy is perfect. An organisation's perspective and positions should lead to plans that allow it to meet its strategic objectives.

These plans might be perfect when they are written, but they will need to respond to changes in the market and organisation.   Following an out of date plan can create a real risk for an organisation.

The diagram below shows the dynamic nature of plans.



Service Strategy fig. 3.3 Strategic Plans Result in Patterns

Some plans will be executed, but others will be deferred because conditions have changed.

A major change might result in a new, emergent plan being developed to respond to the change. The executed plan plus the emergent plan provide the patterns for the organisation.

Strategy is not just about implementing plans. It is about adapting to changes to make sure the organisation and its services remain relevant.

Assets, Resources and Capabilities

	Asset	***"Any resource or capability. The assets of a service provider include anything that could contribute to the delivery of a service. Assets can be one of these types – management, organisation, process, knowledge, people, information, applications, infrastructure or financial capital."***
	Capability	***"The ability of an organisation, person, process, application, IT service or other configuration item to carry out an activity. Capabilities are intangible resources of an organisation."***
	Resource	***"A generic term that includes IT infrastructure, people, money or anything else that might help to deliver an IT service. Resources are considered to be assets of an organisation."***

Capabilities develop over time. The more experience an organisation has of its customers, market spaces, contracts and services, the more developed and distinctive its capabilities will be. Experience comes from problem solving, risk management and failure analysis.

Organisational wisdom grows and service management processes mature – as long as the service provider captures knowledge and feeds it back into service management.

Service growth is constrained by resource or capability limits. A service may reach maximum potential and will not be able to grow any further. Trying to push a service past resource and capability limits can cause performance to drop.

Customer Assets and Service Assets

For services to deliver value there needs to be a relationship between the service provider and customer.

Service providers use assets to deliver services. Business units or customers use services to enhance the performance of their assets. We studied how these assets interact and how value is created.

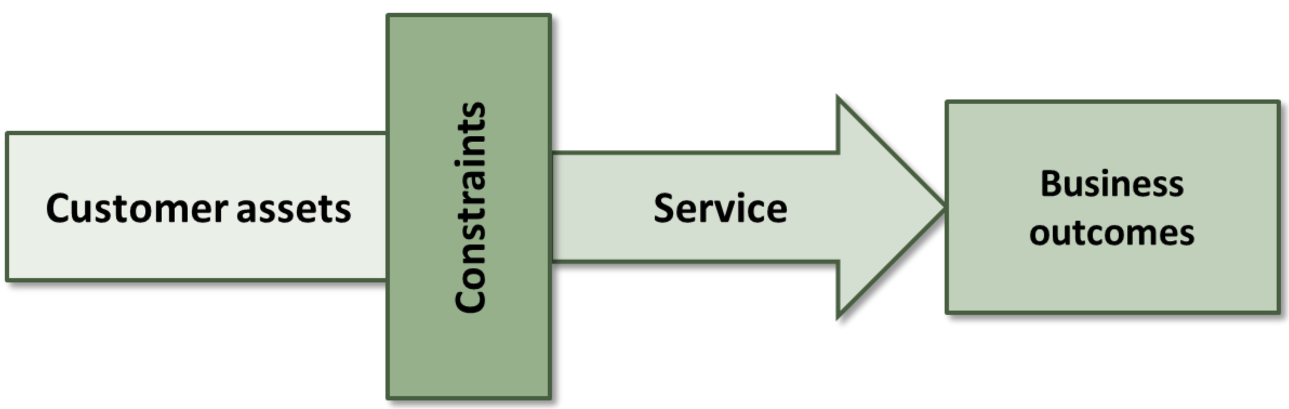
Business Units

Business units are organisational entities that operate under a manager to perform a defined set of activities that create value for customers in the form of goods and services.

The goods or services are delivered using customer assets. The business unit's customers will pay for services, giving the business unit a return on its assets which it will require to survive.

The relationship is good as long as the customer receives value and the business unit recovers costs and receives some form of compensation or profit.

The diagram below shows service dynamics within a business unit.



Service Strategy fig. 3.16 Customer assets drive business outcomes

Customer assets are used to achieve business outcomes. The assets are affected by constraints. If constraints can be removed or relaxed, more business outcomes can be achieved.

The business unit will use its capabilities to coordinate, control and deploy its resources in a way that creates the most value.

Value must always be defined in the context of customers and customer assets. Some services make extra resources available to the customer. Other services increase the performance of a customer's management, organisation, people and processes.

To create a strong relationship with the customer, there must be a balance between value created and returns generated.

The relationship is what's known as an **escalating cycle.** The more a customer uses a service, the more a business unit will focus on and invest in the service. The business unit's resources and capabilities get stronger, so the customer will use the service more.

This leads to better returns for the business unit which can then invest further in resources and capabilities.

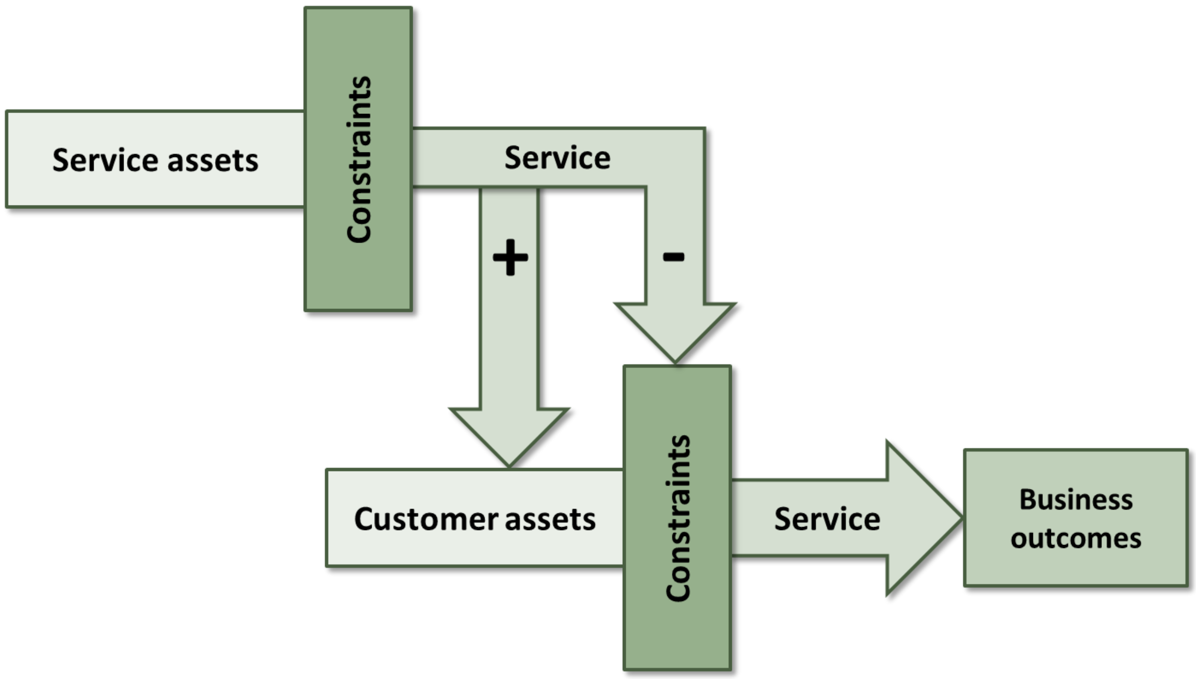
Business units can be part of public or private sector organisations. Revenue could mean profits from sales, or it could mean internal investment from budgets. Public sector business units may receive more investment if they meet set objectives.

The business units' customers who consume the services could be internal or external.

As well as business units, an organisation will include internal service providers. These departments are similar to business units. They will operate under a manager, performing activities to create and deliver services that support the activities of the business units.

Services will define the relationships between business units and service providers.

This diagram shows the relationship between service providers and business units.



Service Strategy fig. 3.17 Service assets drive services to achieve business outcomes

Service providers use service assets to deliver services to the business unit. In IT, for example, service assets could include hardware, software and support staff.

The services delivered need to enhance the performance of customer's assets, reduce the effect of constraints, or both. If not, the service will not increase the likelihood of business outcomes and will not add any value.

Exercise – Constraints

This Lesson included an Exercise to look at the constraints that affect service assets. If you didn't have time to complete the exercise during the Lesson, why not attempt it now?

Exercise

What constraints are likely to apply to IT service assets such as hardware, software, and staff?

How could a service provider overcome these constraints or lessen their effect?

Exercise Solution

Here's a suggested answer – remember, you might have some different answers based on your experience and knowledge.

Many constraints will affect service assets:

- Funding constraints
- Technical constraints – technology may not be able to perform as required
- Legacy constraints – for example, historical misconfiguration
- Physical space constraints and power constraints
- Virtual space constraints such as memory or processor
- Legislative constraints
- Capability constraints and knowledge constraints – such as lack of training

The first thing a service provider needs to do is understand which constraints affect their service assets and which ones are having a negative impact on services.

To remove or lessen some constraints, investment might be necessary. Other constraints can be addressed by changes and optimisation.

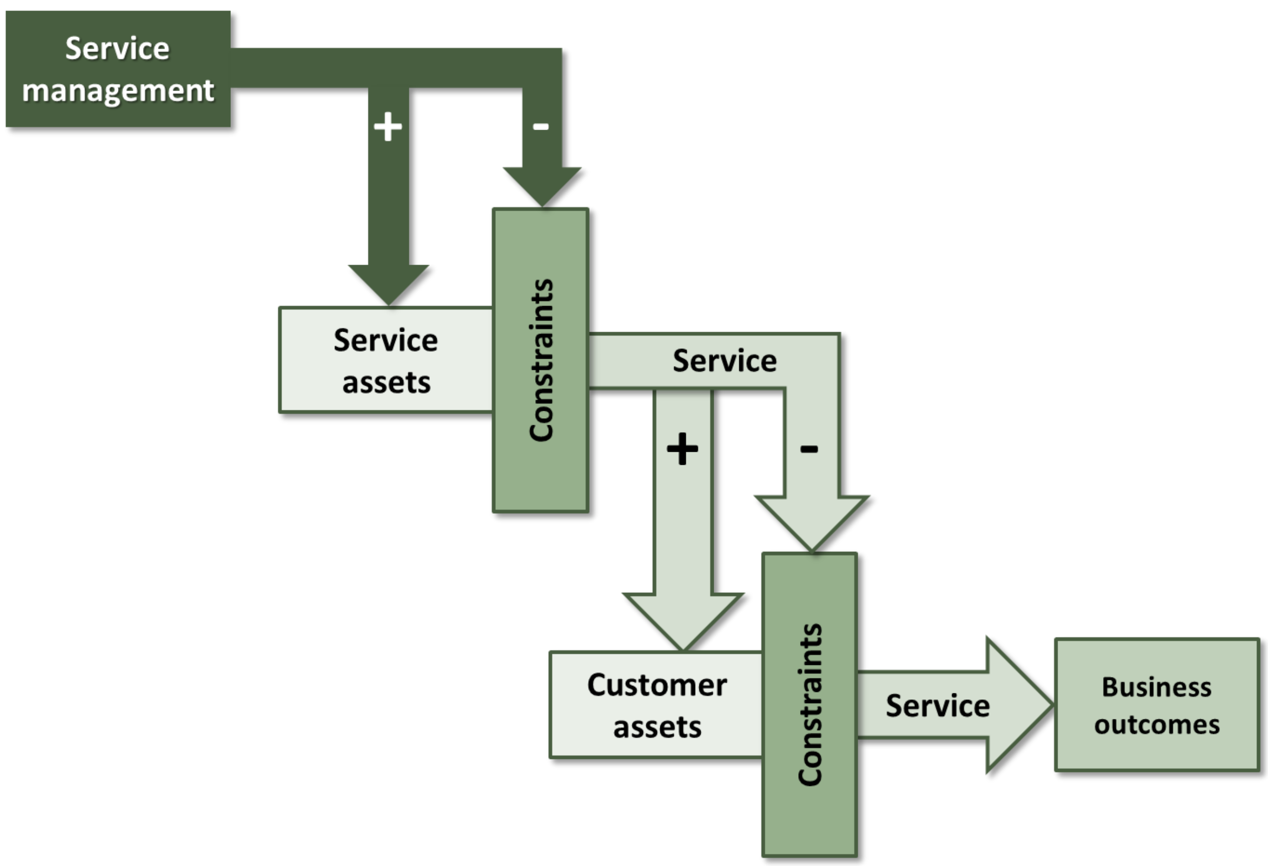
For example, knowledge constraints could be overcome by an improved knowledge base and sharing. Virtual space constraints could be overcome by better load balancing across the infrastructure.

	Before investing to relax or remove constraints, an efficient service provider will look to see what can be done with existing assets.

Service Management and Service Assets

Service management manages the resources and capabilities used to deliver services that support the achievement of customer outcomes. The customers may be internal or external.

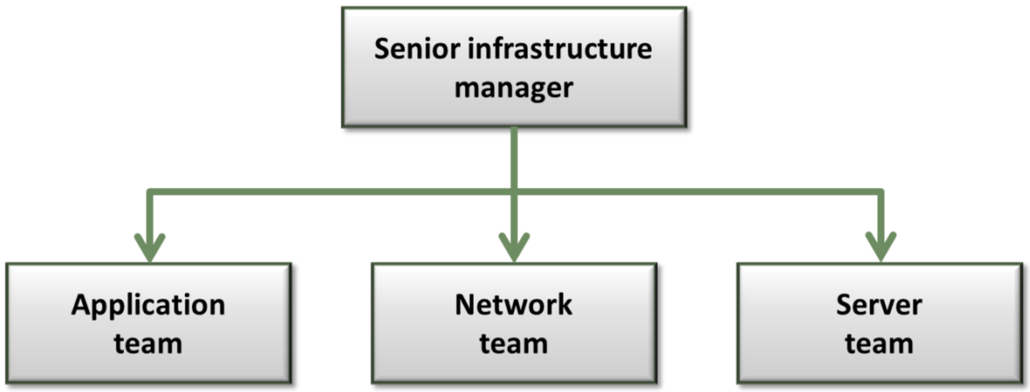
The diagram below shows how service management can improve the performance of service assets and reduce the constraints that prevent them from fully meeting customer requirements.



Service Strategy fig. 3.18 Service management optimises the performance of service assets

IT service management does this by carefully managing resources and capabilities. This might be done internally, or using third party suppliers and technology vendors. Achieving service management maturity and an acceptable level of performance can take time, and will not always be easy.

This diagram shows a common starting point for many service providers:



Service Strategy fig. 3.19 Simple view of an IT organisation

IT has been organised according to technical specialisation. This is a simple approach, but it does not take into account how technology relates to customers, or how services are provided.

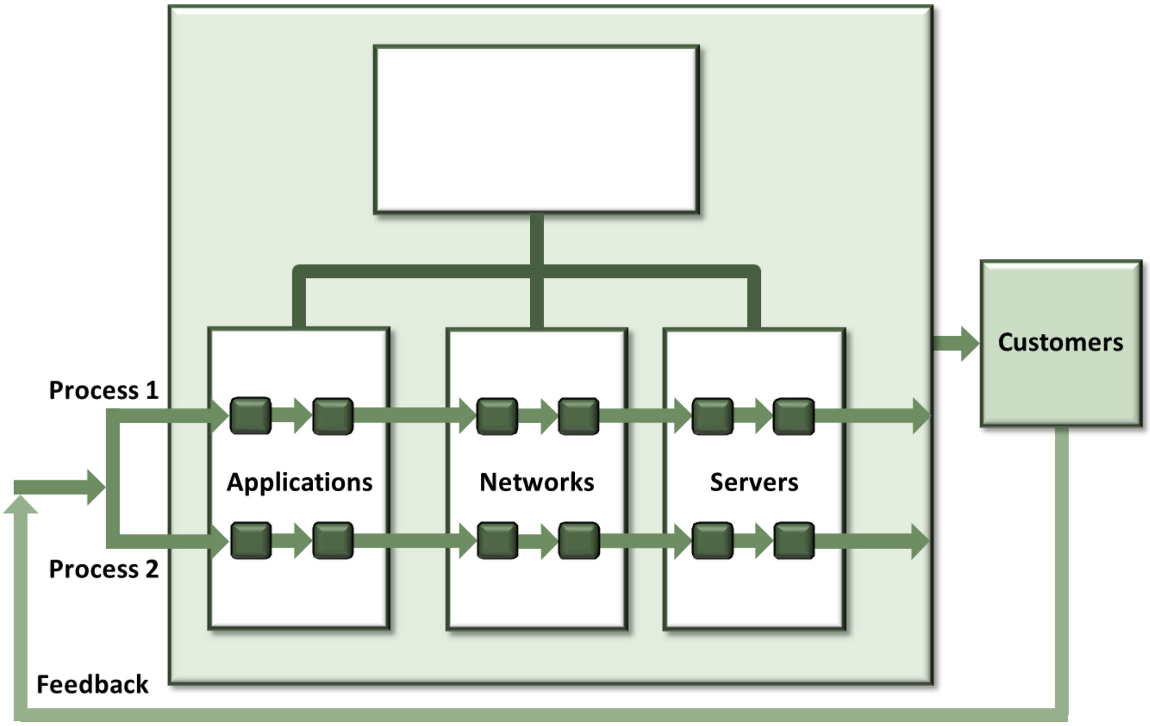
Very simple organisational structures do not show what the organisation does, how it does it or who it's done for. Organisation by technical specialisation can also lead to the development of a silo mentality. Teams will report on a technical level, and the service view can be lost. Staff may be hired for technical expertise only, and not for any customer focus.

Managers of technical teams often see each other as competition – for budget, staff and priority.

An organisational structure like this can often struggle to solve simple problems. Because teams don't work together, any issues have to be escalated to management level and take time and resources away from other tasks.

Cross functional issues may be ignored altogether and cause further resentment and lack of cooperation. You may have seen this in your organisation – when one technical team blames another for not providing them information, or not resolving incidents.

The diagram below shows a different approach – using processes to manage silos on an organisation chart.



Service Strategy fig. 3.20 Process as a means for managing the silos of an organisation chart

Improvement opportunities are found in the links between teams, rather than the teams themselves. IT service management needs to make sure that technical skills are in place, but it also needs to manage IT as a whole, and align it with customer requirements.

The processes used within service management may be confined to one functional area or may span functional areas. The management of processes is a key responsibility for IT service management.

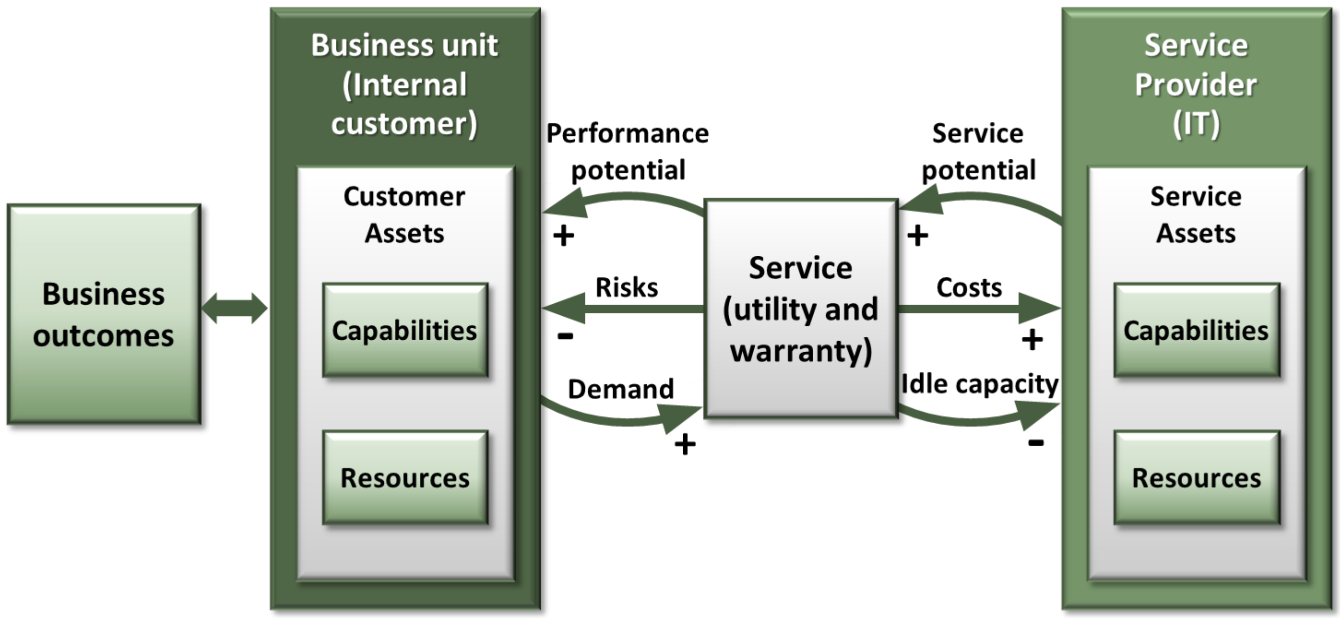
IT needs to be seen as a set of resources and capabilities, managed by processes, that ultimately leads to the delivery of a service. However, process alone does not guarantee the service will be delivered – or that it will meet customer requirements.

From the business perspective, IT service management enables the delivery of services that are used to achieve business outcomes. IT supports business services and provides customer-facing services. IT needs to think about more than just delivering an output – it needs to focus on the business outcomes that the output supports. IT needs to understand business objectives, and link services to business processes. This requires IT management to have a good relationship with the owners of lines of business.

Modern organisations need to focus on automated end to end business services, not IT infrastructure. This can only happen is the operational objectives of business processes are translated into IT terms.

Processes like Business Relationship Management can provide real support here.

This diagram shows the relationship between an IT service provider and an internal business unit.



Service Strategy fig. 3.22 How a service provider enables business unit outcomes

To achieve its outcomes, the business unit needs a minimum level of utility and warranty – the service in the centre. The higher the levels of utility and warranty, the more chance there is that the service will enable business outcomes. Requirements for utility and warranty are translated to IT, which uses the information to organise service assets. The better the capabilities and resources, the higher the service potential – although this may also mean a higher cost.

Better service performance will lead to higher demand, which will reduce idle capacity. If utilisation exceeds service potential, the business unit may have to invest more in the service.

In this diagram, the service provider's resources and capabilities represent the service potential.

If resources and capabilities are increased or optimised, the service potential will increase. The table below shows some examples of how service potential is increased.

"Service management initiative	***Increasing service potential from capabilities***	***Increasing service potential from resources***
Data centre rationalization	*Better control over service operations* *Lower complexity in infrastructure* *Development of infrastructure and technology assets*	*Increases the capacity of assets* *Increases economies of scale and scope* *Capacity building in service assets*
Training and certification	*Knowledgeable staff in control of service lifecycle* *Improved analysis and decisions*	*Staffing of key competencies* *Extension of service desk hours*
Implement incident management process	*Better response to service incidents* *Prioritization of recovery activities*	*Reducing losses in resource utilization*
Develop service design process	*Systematic design of services* *Enrichment of design portfolio*	*Re-use of service components* *Fewer service failures through design*
Thin client computing	*Increased flexibility in work locations* *Enhanced service continuity capabilities*	*Standardization and control of configurations* *Centralization of admin functions"*

Service Strategy table 3.8 Examples of how service potential is increased

Configuration Management links service assets to services. These relationships can be used to justify investment and assess the impact of changes.

Services can increase the performance potential of customer assets. If a service doesn't do this, there is no reason for the customer to buy it. Service providers need to work backwards from the customer assets to define and create services.

Service providers need to ask:

- Who are our customers and what do they want?
- Can we offer anything unique, or is the market already saturated?
- Do we have the right portfolio of services?
- Do we have the right catalogue of services?
- Is every service designed and operated to support the required outcomes?
- Do we have the right models and structures to be a service provider?

The productive capacity of service assets is transformed into productive capacity of customer assets.

Customers will also expect a service to reduce risk. The performance potential of services can come from the removal of costs and risks from a customer's business.

Demand, Capacity and Cost

When services work well, demand will typically increase. This will also normally lead to higher compensation for the service provider.

The higher the service levels, the higher the level of compensation will typically become.

As service management maturity increases, it can be possible to deliver higher levels of utility and warranty without an increase in costs. Increasing the scale of a service can also have a lower unit cost than the original service.

Strategic Assets

	**Strategic Asset**	***"Any asset – customer or service – that provides the basis for core competence, distinctive performance, or sustainable competitive advantage, or which qualifies a business unit to participate in business opportunities."***

Strategic assets need to be dynamic and continue to perform when circumstances change. They will need learning capabilities to allow lessons from the past to be applied to the future.

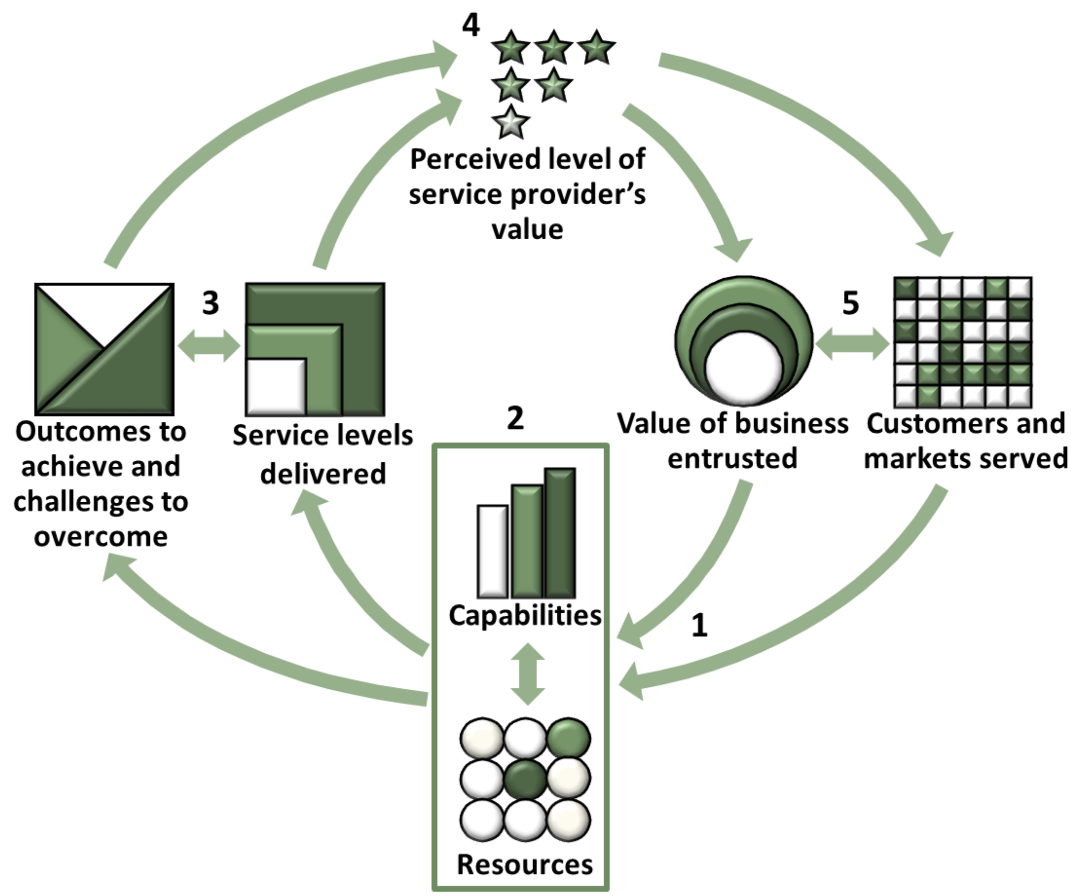
Service Strategy needs to identify how IT can be a strategic asset. This will happen when services are linked to business outcomes, and IT will no longer be seen as a black hole that just consumes money.

IT will need to work hard and consistently to be seen as a trusted business enabler. Every time IT supports the business to overcome a challenge or achieve an objective, its status will grow.

If IT fails to support the business, it will not be seen as a strategic asset and may even become a constraint the business has to consider when planning to achieve outcomes.

The diagram below shows 3 cycles of building trust that a service provider has to move through.

The white shapes are the first cycle, followed by the lighter green and then the darker green.



Service Strategy fig. 3.23 Growing service management into a trusted strategic asset

The cycle will follow a series of steps:

- Step 1 - the selection of an opportunity by the service provider and the business.
- Step 2 - requires the service provider to make sure the right resources and capabilities are in place
- Step 3 - the services allow the business to achieve the stated objectives
- Step 4 - the customer sees that IT has delivered value
- Step 5 – more opportunities are entrusted to the service provider

This is a relationship that benefits both service provider and business unit. The cycle will be repeated many times before the IT service provider is seen as a fully trusted, strategic asset.

Service management should be seen as a strategic asset. Its processes can allow a service provider to differentiate itself and achieve objectives.

Service management needs to:

- Have a catalogue of services that support business outcomes
- Identify where IT enables the business to complete in market spaces
- Define how services meet business challenges and measure them to demonstrate success
- Build capabilities and resources to deliver services
- Communicate achievements to the business