Part 4: Optimizing Operations

Automating business processes to compete

An IDC eBook, Sponsored by Microsoft

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Table of Contents

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Introduction

The Microsoft Digital Transformation series is a collection of five eBooks outlining the business opportunity to build or accelerate your digital transformation practice.

Learn how Microsoft partners have developed cloud technologies to evolve their digital transformation practices and deliver innovative services and solutions to customers. Understand how Microsoft's digital transformation pillars are your roadmap to align solutions and customer transformation needs.

eBook #1: The Digital Transformation Opportunity
Gain insight into the opportunity and size of the rapidly growing digital transformation market, the digital maturity of your end-customers, and the business attributes for success. Align your business strategy to the digital transformation market opportunity.

eBook #2: Engaging Customers
Understand how partners are engaging customers across the transformation lifecycle and integrating customer centricity across the business and through data driven insights. Align your customer engagement strategy to help customers succeed on their digital journey.

eBook #3: Empowering Employees
Learn what partners are doing to recruit, train, and develop digital-savvy skills across their organizations. Understand how partners are building modern work environments with self-service and simplified processes leveraging data and insights to aid decision making.

eBook #4: Optimizing Operations
See how partners are transforming their operations to be more adaptive, agile, and efficient by harnessing technology and digital platforms. Identify where and how you can make improvements to your business through automated processes and governance.

eBook #5: Transforming Products
Learn how partners develop and capitalize on their products and owned intellectual property (IP), leverage data to enter new markets, revise business models to prioritize agility, and make customers their business partners on the joint digital journey. Understand the breadth and value of owned IP, and where your strategy should align.

By 2019 IDC predicts that **40% of digital initiatives** will be supported by cognitive/AI capabilities, big data, and IoT, providing critical insights for new operating and monetization models.

"A lot of people make the mistake of automating everything on day one instead of treating it as an evolution."

— Geeman Yip, CEO, BitTitan

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Transforming Operations

Optimizing operations in your business can accelerate your responsiveness, improve service levels, and reduce costs with intelligent processes.

> **"Everything we do in the company is automated. Everything that's repeated gets automated."**
>
> – Geeman Yip, CEO, BitTitan

Your operations define your business agility, which is a key attribute of the transformed partner. By leveraging technology, you can implement processes that increase efficiency, mitigate risks, and reduce costs, and build automation for adaptation, growth, and governance. For those that do not include automation in their business, there are hidden costs incurred due to unnecessary rework or process inefficiencies.

Transformed businesses drive scale and customer reach through people and cost improvements, and to more effectively address the digital transformation needs of customers. Documenting internal processes, measuring key performance indicators, and incorporating automation enables you to plan, learn from, and make informed decisions.

This iterative process of evolving and streamlining processes is central to maintaining a profitable digital business and leading customers to transform.

According to a recent IDC global survey of 639 partners, operational efficiency and productivity gains are the key business priorities for partners in the next year. Efficient, automated operations can lead to faster deployment times, and the development of repeatable services, further streamlining operational efficiency.

Those repeatable services, along with your own solutions, become your intellectual property (IP) and enable you to further differentiate your value to customers. Your knowledge and experience can and should be replicated to define your unique value. Your streamlined operations and operational success are reliant on your ability to document how you successfully do things for clients that lead to repeatable processes. But equally important is identifying ways to optimize and increase productivity. Remember that reuse and effective resource allocation drive greater efficiency and ultimately greater profitability.

Efficient, automated operations can lead to faster deployment times, and the development of repeatable services, further streamlining operational efficiency.

Contents

Microsoft

Measuring Operational Success

In IDC's global partner survey, operationally transformed partners report experiencing greater than 10% improvement in their key performance indicators (KPIs) from automation over more traditional partners.

Top KPIs include business metrics such as customer satisfaction, profitability, productivity, new customer acquisition, recurring revenue, and new industry penetration.

Having clear, documented, and measurable criteria of success builds efficiencies, and KPIs can track internal benchmarks and identify issues and trends. Aligning your internal metrics to critical profit, revenue, and market share metrics also aligns expectations across your organization, driving improvements and operational excellence across your overall business. With continuous iteration in business process improvements, companies can re-mediate issues earlier in the cycle and yield increased efficiencies.

10%+ KPI Improvement from Operational Automation

61%

35%

■ **Transformed Partners**

■ **Traditional Partners**

Improvment in KPIs

Contents
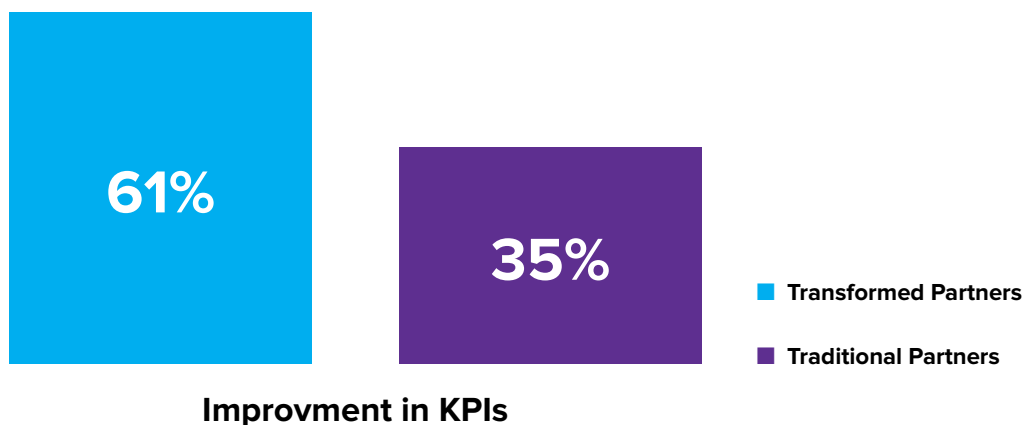
Digital Metrics

Standard business KPIs are critical to effectively identifying, evaluating, and prioritizing areas for change.

Consider incorporating digital metrics into your overall business review process. Your own digitally mature customers are doing this now, and it's incumbent on you to understand what digital KPIs make sense for your business.

IDC has identified the following 15 key metrics to measure digital transformation performance across five areas of the business. Trailing indicators, sometimes referred to as lagging indicators, measure performance as actually achieved and are typically output-oriented and easy to measure, but difficult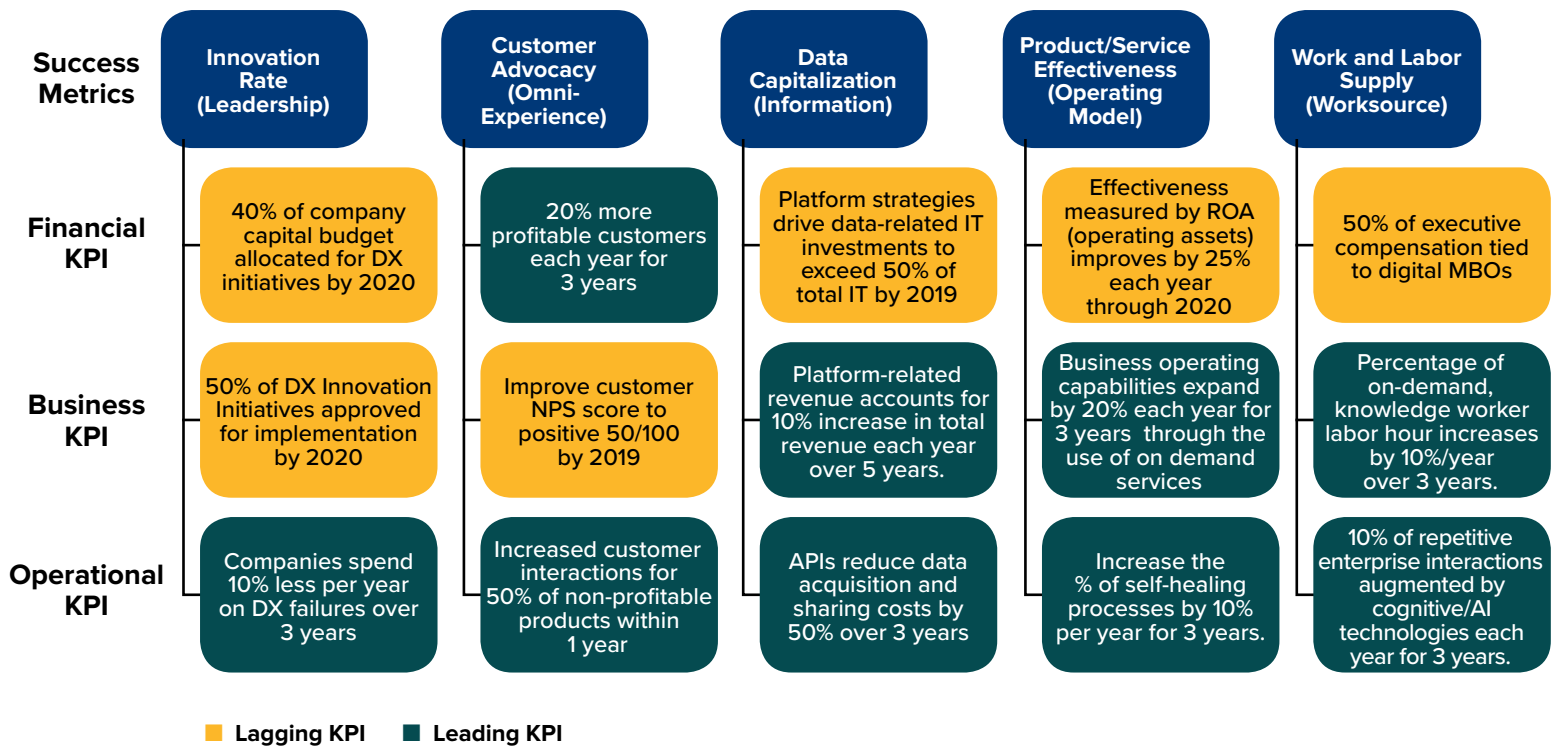 to improve or influence. Leading indicators, on the other hand, are typically input-oriented, difficult to measure, easy to influence, and usually change before the actual achievement of a goal or objective.

Overall Digital Key Performance Indicators

Success Metrics	Innovation Rate (Leadership)	Customer Advocacy (Omni-Experience)	Data Capitalization (Information)	Product/Service Effectiveness (Operating Model)	Work and Labor Supply (Worksource)
Financial KPI	40% of company capital budget allocated for DX initiatives by 2020	20% more profitable customers each year for 3 years	Platform strategies drive data-related IT investments to exceed 50% of total IT by 2019	Effectiveness measured by ROA (operating assets) improves by 25% each year through 2020	50% of executive compensation tied to digital MBOs
Business KPI	50% of DX Innovation Initiatives approved for implementation by 2020	Improve customer NPS score to positive 50/100 by 2019	Platform-related revenue accounts for 10% increase in total revenue each year over 5 years.	Business operating capabilities expand by 20% each year for 3 years through the use of on demand services	Percentage of on-demand, knowledge worker labor hour increases by 10%/year over 3 years.
Operational KPI	Companies spend 10% less per year on DX failures over 3 years	Increased customer interactions for 50% of non-profitable products within 1 year	APIs reduce data acquisition and sharing costs by 50% over 3 years	Increase the % of self-healing processes by 10% per year for 3 years.	10% of repetitive enterprise interactions augmented by cognitive/AI technologies each year for 3 years.

■ **Lagging KPI**   ■ **Leading KPI**

"Embrace automation and model what you do internally with what you're telling your customers."

– Geeman Yip, CEO, BitTitan

The goal of operational excellence is to increase business performance while delivering increased value to customers. Reengineering internal processes with digital capabilities optimizes efficiencies and enables your business to be more responsive.

Evolving your processes into a continuous improvement cycle requires using data inputs and analysis to understand changes that can be made and to which processes. IDC estimates the amount of public and private data globally will rise to 44 zettabytes in 2020, and 180 zettabytes by 2025. Leveraging these massive amounts of data presents a tremendous opportunity to adopt intelligent processes and automation with AI and cognitive capabilities. Digital capabilities can improve the speed of change, reduce the incidences of errors, and minimize the need for extraneous personnel intervention.

Digitally transformed partners, like their transformed customers, are continuously ingesting and analyzing data to make decisions. Their operations take advantage of automated processes, information, and analytics to improve efficiency and effectiveness. Economies of scale are achievable only if the right operational processes are automated. With this mature data process, partners can gather insights into customer buying behavior and build more profitable solutions tailored to their customer needs.

Digitally transformed partners, like their transformed customers, are continuously ingesting and analyzing data to make decisions.

> "There are a lot of things that are done because that's the way they've always been done. No one stopped to think about why. "
>
> **— Zoiner Tejada, CEO, Solliance**

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Automation and Gross Margin

Operational excellence can optimize value to your business through gross margins.

Partners that have transformed their operations and adopted digital capabilities retain the highest gross margins across all activities performed, from resale, to project and managed services, and selling their own packaged IP. These businesses benefit from the agility and speed provided by automating processes and measuring results.

In IDC's global partner survey, gross margins reported by transformed partners are much higher than those reported by partners with lower digital adoption rates. Considering that project services, managed/cloud services and packaged IP are areas of high value and growth for your business, maintaining the highest level of profitability should be the goal, and one way to achieve this is through streamlined operations and automation.

Gross Margin

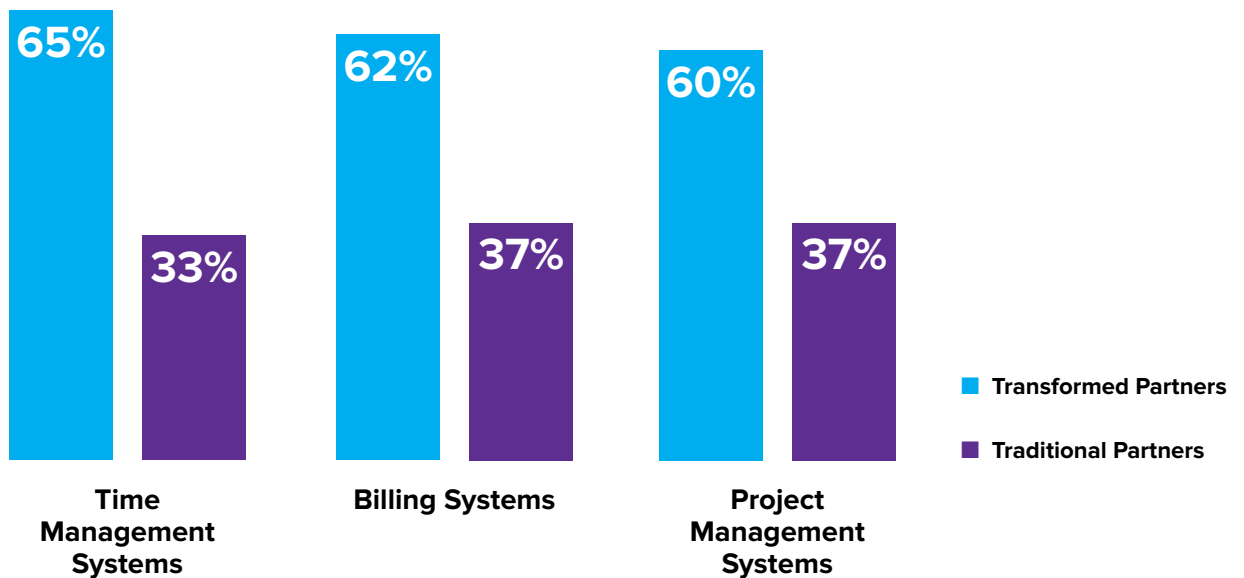|	Transformed Partners	Partner Average	Traditional Partners
Packaged IP	72%	57%	37%
Managed/Cloud Services	61%	52%	33%
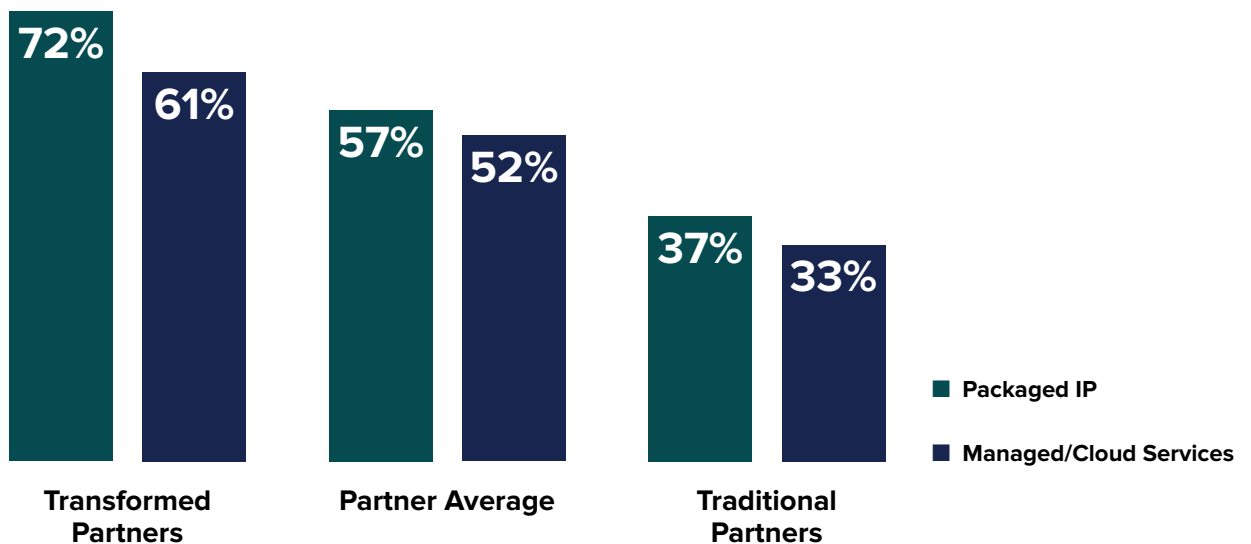
Gross margin is also one example of many that define operational excellence, and the fact that it increases your overall business value. Partners with operations supporting a digitally mature business have the following important attributes:

- View digital technology as a growth strategy, and have a greater focus on cloud, IoT, AI, and security solutions.

- Experience high growth, with 55% reporting more than 10% revenue growth, in comparison to other partners.

- Are more likely to be specialized in industry verticals and have a longer history of offering cloud solutions.

The emergence of AI solutions in a partner's customer service process with chatbots and real time response is a great way to increase the value of your offering in market. This not only expedites the service provided to customers, but also increases the efficiency of your operations with automated support.

Digitally mature partners also transform their internal processes by adopting automation for functions such as billing, time management, and project management. According to the partners surveyed, more than 60% of transformed partners invest in automating and simplifying these systems, while 37% of other partners are leveraging automation.

50%+ Internal Processes Automated with Digital Technologies

Bar chart:

	Transformed Partners	Traditional Partners
Time Management Systems	65%	33%
Billing Systems	62%	37%
Project Management Systems	60%	37%

Microsoft partner BitTitan is all about automation. A company known for Office365 migrations has continued to leverage automation in evolving it's IP. In fact, the software developer's flagship product, MSP Complete, is an IT services automation platform that helps service providers optimize and automate their practices, from assessment to deployment and management.

As a software-as-a-service (SaaS)-based product running on Azure, MSP Complete is administered as a subscription-based pricing model focused on commoditization and automation, with strong data metrics. As a subscription-based SaaS application, it is critical to optimize your ability to onboard, manage, deploy, and assess performance to manage costs and improve performance.

Adopting digital technology and automation enables you to:

- Improve service levels and responsiveness

- Proactively identify and efficiently resolve issues

- Reduce cost through effective people and asset management

As a subscription-based SaaS application, it is critical to optimize your ability to onboard, manage, deploy, and asesss performance to manage costs and improve performance.

"Cloud has been the vehicle for us to deliver a range of services that has made us so much more efficient."

— **Eamon Moore, Founder & Managing Director, EMIT**

Operational Solutions

Repeatable processes and best practices can be automated and packaged into customer solution offerings. The objective is to get to as automated and as rapid a process or product as possible.

This is a sensible approach because it's becoming more important to deliver solutions to customers with fewer hours attached. Revenue models are changing, as service-based solutions provide stronger revenue contributions than traditional billable hours.

Your operational model and alignment should follow the dollars. It's no longer a sell-and-go-away transaction. Instead, it's the efficient delivery of solutions, your ongoing commitment to client success, and your continued investment to further optimization and value-add. Shift from transactional to perpetual consumption goals and evolve your operational capabilities to further your engagement and return on investment.

Adopting AI capabilities internally increases efficiencies in your operational processes, and applying these learnings enables you to build customer solutions that drive automation through AI. For example, provide faster and more efficient customer support and service through automated solutions such as customer agents with bots, and develop those capabilities as a solution offering to your customers.

"In the new model the customer goals and our goals are much more aligned than they were in a traditional consulting model — it's mutually beneficial."

— Alex Brown, CEO, 10th Magnitude

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Efficiencies Drive Revenue

With the evolution of partner business models, recurring revenue from managed/cloud services is becoming a greater proportion of overall revenue.

Operational efficiencies for providing managed services are dependent on technology, such as management platforms and tools to automate processes. Microsoft partner EMIT, for example, leverages automation to manage employees activities – time, calls, interactions with customers. Those activities are applied to projects and contracts to ensure transparency, effective project management, and to ultimately improve profitability.

Efficiency is imperative in delivering managed services. Having the ability to track a broad scope of support activities ranging from help desk tickets, system monitoring, alert management, and additional project services enables you to nurture your relationship with the customer, while measuring the resources required to support that customer.

Leveraging technology for your own internal practices and processes, and integrating applications such as Power BI into your systems for managed services, provides streamlined reporting capabilities that are critical to your ability to measure the profitability and success of your project or solution.

Dynamic and active service reporting, such as visual reports, can drive renewals. If you're charging clients monthly for a managed service, it is important to maintain visibility to the operation of that service and reinforce its value.

Those activities are applied to projects and contracts to ensure transparency, effective project management, and to ultimately improve profitability.

Contents

For most partners, their IP is their operating procedures, the experiences they create for their end customers, and their ability to effectively repeat and scale that exact same service for every customer. BitTitan's IT services solution helps drive automation and efficiencies, and the development of their own IP.

BitTitan's solution enables partner employees to easily document key technical artifacts and processes to be used with other employees. Given the high demand for technical talent in the market, companies struggle with losing valuable resources who have created IP that may or may not be documented. This solution enables the company to capture intellectual property (IP) in an automated manner and to share subject matter expertise.

The world of digital transformation is complex – automation, standardization, and repeatability can reduce that complexity for you internally, and for your customers through your solutions. You need to be automated and data-driven internally so that you can do the same for your customers. Benefit from the data realized by measuring automation and its outcomes – realizing the full ROI of it all.

The value is around automation, standardization and benchmarking. Creating standardized processes that are repeatable and scalable, making sure you have automated steps to lower costs, and then benchmark it against the manual processes over time, including the people, the processes, and the technology.

A partner like New Signature starts the conversation with customers about what success looks like, and pivots to envision and plan the resources needed to meet that goal. Organizationally, the partner's practices are organized independent of geography so that it can bring resources to a customer requirement regardless of where they reside.

> Creating standardized processes that are repeatable and scalable, making sure you have automated steps to lower costs, and then benchmark it against the manual processes over time, including the people, the processes, and the technology.

This allows New Signature to be operationally responsive and agile, to have resources at the ready much more quickly than if they operated a branch management model, which would require more scale in having resources locally for every contingency. It can be considered an adaptive approach that starts first from operational building blocks.

New Signature has also invested in its own customer cloud management portal that provides real-time visibility into everything the partner does on the client's behalf, for project services, and managed services.

When you develop such repeatable motions for engaging with customers, you become more capable of higher margin because you're repeating processes you've already done. Managed services tend to have a higher degree of standardization and automation in the delivery of the service, and that represents greater margin opportunity.

As a digitally transformed partner you need to challenge your established processes. UK partner Red Pixie (recently acquired by HPE) has introduced bots into its support department for speed and a better user experience. They are also using social channels to support customers via twitter and Facebook, backed by a KPI to drive specified response times.

There are also vendor programs that help you improve your operations. Microsoft's CSP Program, for example, has an embedded agility in its license provisioning and billing model. This model provides practicality and empowerment to partners with the ability to provide one cloud services bill to customers, but in an automated way that also allows for service changes at any time.

> **"That's a margin expansion opportunity: finding things that you can do again, and again, on a repeatable basis."**
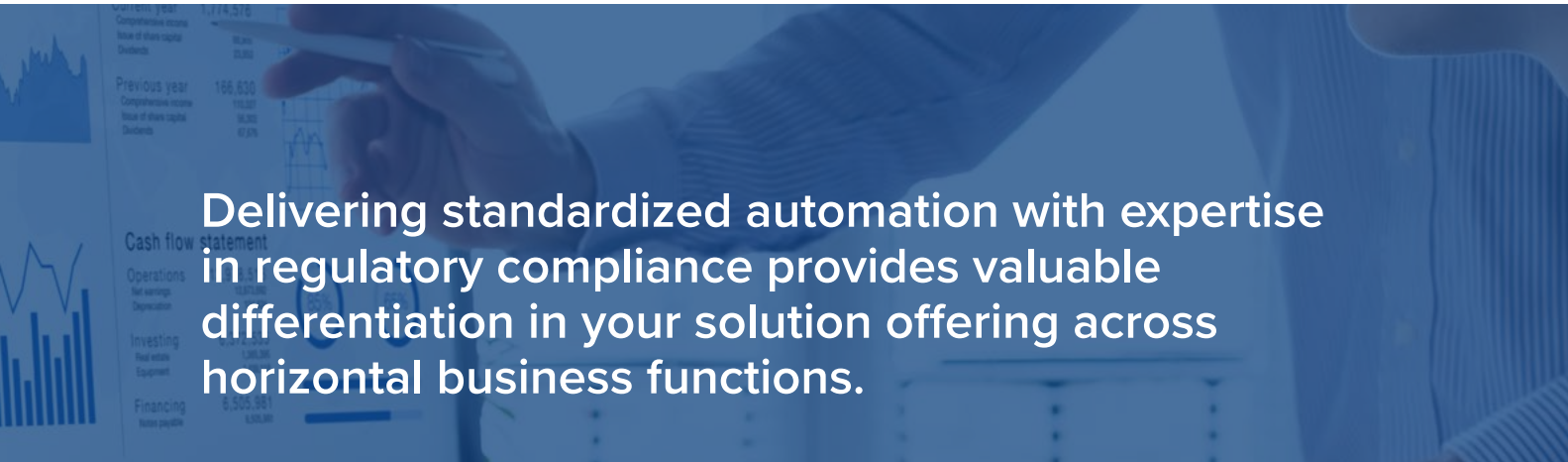> — Jeff Tench, CEO, New Signature

Partners engaged in the CSP Program can benefit from billing and provisioning capabilities that they've built themselves using Microsoft APIs, or that are provided through Microsoft distributors. Regardless of where the capability originates, partners can manage CSP licenses by customer or allow the customer to do it themselves. There's also a level of ease of administration, which helps create a touch point with customers through monthly or quarterly billing.

The level of investment from partners differs based on their business model and structure. Some partners, such as managed service providers (MSPs), have already made investments in billing systems and support, but still incur costs to maintain those systems and for staff. Other partners have had to make all investments up front. These scenarios also impact the time it takes for the partner to achieve a return on its investment.

Lastly, governance is a key factor in maintaining operational efficacy. Microsoft partner Maureen Data Systems employs a consultative methodology and partners with a legal firm to determine impact of the regulatory environment and steps needed to achieve full compliance with GDPR. Delivering standardized automation with expertise in regulatory compliance provides valuable differentiation in your solution offering across horizontal business functions.

Optimizing and transforming your operations not only increases your business agility and performance, it helps you validate and develop your successful processes into the repeatable IP delivered in your solutions. Optimization in the digital world is a continuous process, assisted by data, intelligent technology, and the best practices you've honed with experience. Use your operational excellence to help your customers modernize and enhance their operational capabilities.

Delivering standardized automation with expertise in regulatory compliance provides valuable differentiation in your solution offering across horizontal business functions.

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Recommendations

Your operations are the basis for your business agility. As a digitally transformed partner you require automated processes to succeed and grow. Operational excellence comes from fundamental business tenets that are required attributes, including the following:

1. **Take a longer-term view of operational reengineering**
Agile operations don't happen overnight, so it's important to work iteratively towards the reengineering of your processes. Remember that investments are required to get there, but operational excellence can lead to higher overall profitability.

2. **Focus on key processes first**
Digitally mature partners have already automated processes across billing, time management, and project management systems. Automating these three processes are a good first step towards developing agile operations.

3. **Identify and replicate processes**
Your knowledge and experience are valuable and should be replicated to define your IP and value, the foundation of which is streamlined operations. Document how you successfully do things for clients that lead to repeatable processes. This reuse approach creates greater efficiency and ultimately greater profitability.

4. **Consider digital KPIs as the new benchmark for successs**
Standard business KPIs are important but consider also incorporating digital KPIs into your overall business review process. Identify those digital KPIs that make sense for your business and use them to further guide your operational evolution.

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What's Next In This Microsoft Digital Transformation Series

This eBook is one in a series of five that will be published throughout 2018. Each eBook seeks to explore the digital maturing of the partner ecosystem relative to partners' ability to address the digital requirements of their customers. In addition, the eBooks examine how partners work with Microsoft to address key attributes aligned to the digital transformation pillars.

eBook 1: The Digital Transformation Opportunity

eBook 2: Engaging Customers

eBook 3: Empowering Employees

eBook 4: Optimizing Operations

eBook 5: Transforming Products

Research Methodology

The content in this eBook series was developed through a combination of 16 in-depth interviews with forward-thinking Microsoft partners, and a survey of 600 partners worldwide. The goal of the research is to understand the partner view of the digital transformation opportunity, and the steps they're taking to position themselves for success with their customers. For more complete description of the methodology please refer to the Appendix in eBook 1 found here found here.

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