ITG Executive Summary

VALUE PROPOSITION FOR IBM SOFTWARE ACCELERATED VALUE PROGRAM: QUANTIFYING THE COST/BENEFIT CASE

Quantifying Value

What is the value of an IBM Software Accelerated Value Program (AVP) contract?

The answer depends in large part on another question: *What is the value of IBM software products to organizations that employ them?*

Companies and public sector agencies that contributed to this report had often invested hundreds of millions of dollars in IBM middleware. Hundreds of applications were supported by these products, and hundreds – in some cases, thousands – of IT staff developed for, administered and maintained infrastructures built around them.

The effectiveness with which they are used has far-reaching impact. The speed and quality of solution delivery; efficiency and cost-effectiveness of IT organizations; as well as the stability, reliability and security of solutions depend, in no small measure, on middleware infrastructures. There are few business activities that are not affected by the applications these infrastructures support.

Even relatively small improvements in overall effectiveness may thus provide major business benefits. With IBM Software AVP coverage, improvements may be substantial.

The Accelerated Value Program provides a level of IBM middleware support that is significantly greater than standard Technical Support arrangements. Staff is dedicated to the customer, proactive as well as reactive services are provided, and AVP teams coordinate availability of all IBM resources.

The value of AVP coverage is clearly understood by existing customers. Others, however, often find it difficult to quantify its value. This report is designed to assist them.

The report is based on interviews with customer IT and AVP personnel as well as on detailed documentation of AVP activities, analyses of problem reporting records, and other input from 56 large organizations participating in the program. AVP contracts covered IBM Business Analytics (BA), Enterprise Content Management (ECM), Information Management (IM), Lotus, Rational, Tivoli and/or WebSphere products.

Four sets of benefits were quantified. Annual returns – meaning total quantified benefits for a single year relative to AVP contract costs for the same year – averaged between 2.7 and 7.6 times, depending on brands. The average for all brands was, as figure 1 shows, 5.3 times annual contract costs.

Benefits were calculated as follows:

1. *AVP staff* benefits costs are for IBM Accelerated Value Leaders (AVLs) and Accelerated Value Specialists (AVSs) handling support-related tasks that customers would otherwise have had to deal with directly.

Figure 1
Accelerated Value Program Costs and Benefits: Averages for All Brands
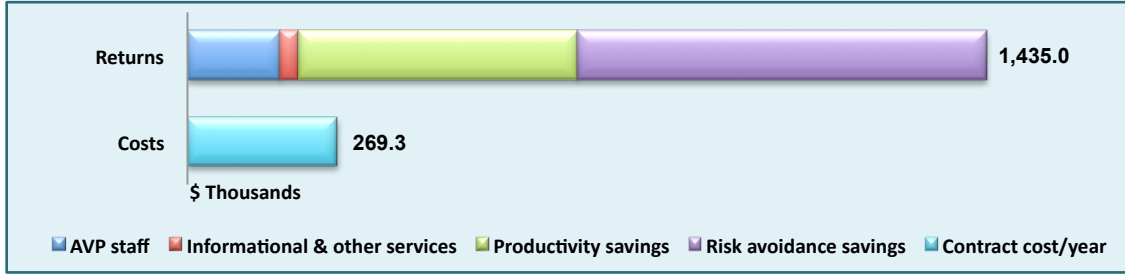
2. *Informational and other services* benefits are costs for educational, consulting and related services provided by other IBM personnel under AVP arrangements, for which customers would otherwise have been obliged to contract and pay for separately.

3. *Productivity savings* are for time saved by customer developers, administrators and other specialists dealing with IBM products.

   Savings are realized through: (1) proactive AVP activities that avoid or mitigate problems, accelerate new deployment and migration projects, and enable more effective planning and scheduling of activities involving IBM products; and (2) reactive AVP activities that enable faster resolution of issues documented in Problem Management Reports (PMRs).

4. *Risk avoidance savings* are for reduced frequency and severity, and faster resolution of incidents resulting in quantifiable business and/or IT costs. Savings are due to AVP proactive and reactive activities, and are calculated on an application-by-application basis for each installation using financial and lost end-user productivity values.

   Incidents, which vary by brand, variously involve outages, performance bottlenecks, loss or corruption of data, delays in delivering results of calculations or completing projects, operational inefficiencies, security violations and others.

The basis of these calculations, along with details of methodology, descriptions of installations, and breakdowns of costs and benefits by brand and installation may be found in the Detailed Data section of this report.

Program Coverage

The Accelerated Value Program represents a higher level of coverage than standard IBM Technical Support provided under Passport Advantage agreements. It involves dedicated procedures, technical resources and personnel.

There are two main components to the program:

1. *Problem Management*. Customers that experience problems with IBM software normally document these in PMRs and initiate contact with the IBM Technical Support organization to deal with them.

Under the Accelerated Value Program, separate, dedicated teams of AVLs and AVSs monitor PMR activity for individual customers. They assume responsibility for resolution of these, and may initiate contacts with Technical Support, escalate problems to IBM Software Group (SWG) development units and work with IBM specialists and in-house IT staff until a satisfactory conclusion is reached.

AVP customers typically experienced significant improvements in most or all PMR metrics under the program. Some organizations reported increases in PMR numbers, severity and time to resolution if major projects were initiated – although when this occurred, the role of AVP teams tended to become more significant and more beneficial.

There was general agreement among organizations that contributed to this report that problems documented in PMRs affected IT staff productivity. Individual PMR incidents often disrupted the activities of administrators, developers and/or other specialists.

There were also broader "cascading" effects. Disruptions might affect other activities within IT organizations, affecting dozens or even hundreds of individuals.

There was a further implication. Problems might cause outages or lead to other negative effects. Where this occurred, not only would IT staff productivity loss be magnified, but also end users and business operations might be impacted. Damage could be substantial.

Cascading effects might again occur. In large, complex installations with high levels of integration, effects of errors may spread rapidly to other software components. Large segments of IT infrastructures may be affected.

Any significant improvement in PMR metrics thus yielded material benefits. If the amount of time spent by IT staff dealing with problems was reduced, greater effort could be channeled into activities that contributed more substantially to functional improvement and IT effectiveness. "Costs of downtime" and other bottom-line effects would also be mitigated.

2. *Proactive support*. The second major source of AVP value involves what may be described as "proactive" activities. These vary between customers, and are agreed on a case-by-case basis. Activities are documented in an annual delivery plan, updated on a quarterly basis.

   Objectives commonly include assisting in strategy development and planning; facilitating deployment of IBM products in a rapid and trouble-free manner; ensuring optimum performance and quality of service (including such variables as availability, security and recoverability); and helping to improve the efficiency and productivity of IT organizations.

   Where proactive activities are emphasized, the focus tends to move from problem resolution to problem avoidance through improved planning; advising management on selection and deployment of IBM solutions, and on broader IT issues; educating IT staff in use of technologies, tools and practices which reduce risks of problems and increase IT effectiveness; and other initiatives described in the About AVP section of this report.

   According to organizations that contributed to this report, proactive support provides particular value in that AVP staff are familiar with customer IT environments, staff and plans. Close monitoring and analysis of PMR records contributes to this knowledge base.

   Equally, AVP teams have close links to SWG executive decision-makers, product managers and planners and developers. These may be brought into accounts to deal with specific technical issues, provide briefings and custom education and advise management on IBM plans.
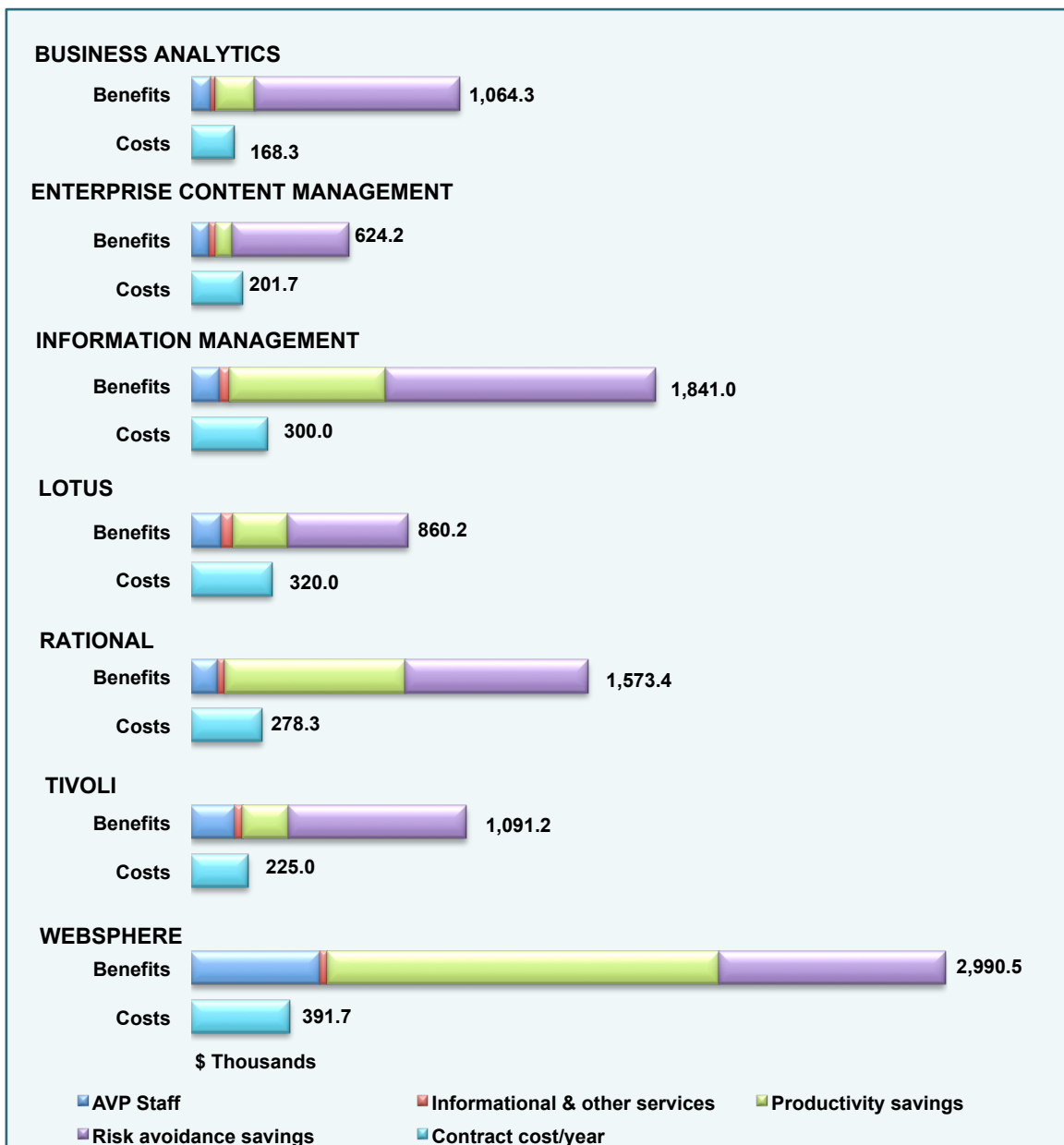
The extent to which AVP teams focused on reactive or proactive issues varied widely. For individual customers, the range was from "70 percent proactive, 30 percent reactive" to "80 percent reactive, 20 percent proactive." Variations reflected customer preferences.

The mix of reactive and proactive activities often changed over time. In many cases, program activities were initially reactive – this was particularly the case where the frequency and severity of PMR incidents was exceptionally high – but later became more oriented toward proactive goals.

Cost and Benefit Patterns

Although the general picture was consistent, there were a number of variations in costs and benefits between brands, which are summarized in figure 2, and individual installations, which are documented in the Detailed Data section of this report.

Figure 2
Accelerated Value Program Costs and Benefits: Averages by Brand

BUSINESS ANALYTICS
Benefits 1,064.3
Costs 168.3

ENTERPRISE CONTENT MANAGEMENT
Benefits 624.2
Costs 201.7

INFORMATION MANAGEMENT
Benefits 1,841.0
Costs 300.0

LOTUS
Benefits 860.2
Costs 320.0

RATIONAL
Benefits 1,573.4
Costs 278.3

TIVOLI
Benefits 1,091.2
Costs 225.0

WEBSPHERE
Benefits 2,990.5
Costs 391.7

$ Thousands

- AVP Staff
- Informational & other services
- Productivity savings
- Risk avoidance savings
- Contract cost/year

Variations reflected a number of factors. For example, benefits tended to be higher than the norm in large, complex installations with multiple IBM products and hundreds, thousands or (in several cases) tens of thousands of instances of these. At the other end of the spectrum, AVP coverage was also valued by some smaller organizations with comparatively few IT staff and limited skill bases.

In installations of all types and sizes, benefits were also typically higher when organizations were engaged in major new application deployments, migrations (including upgrades to new IBM product versions and releases) and other major IT changes. Examples of these included consolidation and shared services initiatives, and restructuring of IT infrastructures following mergers or acquisitions.

While these initiatives were under way, the role of AVP teams could be critical in preventing and resolving problems. Program activities were typically aligned with customer plans and schedules, and AVP teams often played a valuable role in ensuring that appropriate IBM resources were available at the right time to assist in planning, implementation, testing and quality assurance.

There was also general agreement that critical situations were dealt with more effectively under AVP than under Technical Support arrangements. AVP contracts often included a given number of Emergency Onsite (EOS) days, for which IBM makes best efforts to put a suitably skilled team on customer premises within 24 hours. Problems could also be rapidly escalated to SWG specialist units.

Conclusions

In its initial form, the Accelerated Value Program (originally known as Premium Support) focused primarily on improving the quality of reactive support provided to IBM middleware users. Problem management is still an important component of coverage. The program's evolution to include proactive activities, however, reflects changing demands.

The trend is industry-wide. Organizations that have invested heavily in a vendor's products have increasingly sought relationships that extend beyond traditional forms of support. While concerned to retain their independence, they have recognized that delivery of value may be materially enhanced if vendor resources are more effectively engaged, and aligned more closely with those of in-house IT staff.

Like other vendors, IBM has always maintained "special relationships" with their most important customers. The Accelerated Value Program, however, provides a degree of structure and operational focus to such relationships that has often been lacking in the past.

In contrast to Technical Support, which is ad hoc and reactive in nature, and professional services engagements, which are typically project-focused and of limited duration, AVP relationships offer greater continuity in staff, procedures and customer knowledge. This continuity was repeatedly cited as a key advantage of participating in the program.

Finally, the Accelerated Value Program reflects another broad industry trend. At a time of economic pressures and budgetary constraints, a growing number of organizations are demanding that the benefits of support should be quantifiable.

As the calculations presented in this report indicate, this is clearly the case for the Accelerated Value Program. Returns of 2.7 to 7.6 times within a year are among the highest that can be obtained by any form of IT investment.

Additional Information

This ITG Executive Summary is based upon results and methodology contained in a Management Brief released by the International Technology Group. For copies of this Management Brief, please email requests to info-itg@pacbell.net.

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