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Operations-as-a-Service
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The untapped opportunity of Operations-as-a-Service

Before we could build cars we had to master steam engines, refine oil and make countless engineering innovations. There was also a pressing need for greater efficiency and agility in transport. It may not change the world like automobiles, but something similar is happening in business operations and systems. Similar, in so far as techniques developed separately and incrementally, are coming together and changing everything.

For a start, traditional outsourcing, having evolved to a highly sophisticated level, has run its course in terms of further savings and efficiencies. Meanwhile, the As-a-Service revolution is rapidly reinventing IT and business applications. And developments in data analytics, automation, connectivity and machine intelligence are adding new capabilities and sparking innovations. Today in Australia, as in horse-drawn Europe, there is a pressing need for greater efficiency and agility. But in this context, it is a business need, driven by increasing competition and a prolonged economic slowdown.

These trends, techniques and technologies are coming together to form Operations-as-a-Service (OaaS). In this article we look at the potential of OaaS, what it means for Australian businesses, why there is urgency around adoption and offer four key factors to consider in making the shift.

To begin, we need to look at the state of play. Where is Australia in this increasingly inevitable journey towards OaaS? The nation has a mature traditional, "lift and shift" outsourcing market and there has been strong adoption of cloud-based applications, or Software-as-a-Service (SaaS), for CRM, ERP, email and groupware. Zooming right out, it is clear that we are in mid-transition between technology generations. For instance, in 2015, for the first time, one third of all IT spending – and 100% of all growth – will be in so-called 3rd platform areas (big data, cloud/As-a-Service, social and mobility).[1] As-a-Service alone is forecast to be a $1.7 billion market in 2018, up from $909.2 million in 2014 - equivalent to eight times the overall growth rate for the IT services market.[2]

What is Operations-as-a-Service?

Operations-as-a-Service (OaaS) is the logical culmination of a set of business and technology trends that have been converging for several years. Business Process Outsourcing (BPO) and IT Outsourcing (ITO) began in the 1990's but evolved significantly over time, becoming more commoditised, incorporating sophisticated platforms and bundling more and more services. This became known as "lift and shift" or 3rd generation BPO - the primary goal was to reduce labour costs while maintaining (and often improving) quality. Many businesses in Australia had reached this stage by 2010.

More recently, sourcing has blended with various forms of As-a-Service, most notably via integrated, cloud-based applications, or Software-as-a-Service (SaaS), alongside increasing levels of IT infrastructure delivered as-a-Service (IaaS). Advancements in data processing and computing intelligence (including, for example, predicative analytics and robotic process automation) have also become fundamental - allowing for a new class of data-driven business insights. This overall combination of proven business process management disciplines and intelligent, cloud-driven technologies is now known as Operations-as-a-Service.

Businesses are responding to stronger competition and a weaker economy

However, Australia's economic slowdown, driven by falling growth in China and dirt cheap commodities, is leading businesses to focus intensely on costs, agility and innovation. The economic pain has compounded already increasing domestic competition. Meanwhile, international competition is rapidly increasing and is forecast to become more powerful as digital technologies accelerate globalisation in many industries.[3] OaaS should become a strategic imperative in these conditions since it offers, not only the chance to drive down costs, but also the ability to increase agility and add new competitive advantages.

Fully-fledged OaaS is still quite new, though early adopters have been leaving the blocks for the past three years. In Australia and Asia Pacific, just 8% of organisations have implemented a core enterprise function under the OaaS model, but 62% see it as critical or absolutely critical for their organisation, and 46% plan to implement by mid-2017.[4]

That's a revolution in waiting. Many organisations are already part way there with advanced outsource structures coupled with strong SaaS adoption. And given Australia and New Zealand lead the Asia Pacific region in terms of cloud maturity,[5] we're likely to see some of the strongest regional adoption right here in 2016.

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Source: Ideals of As-a-Services" Study, HfS Research, 2015

Traditional outsource models have reached their limits

While these are encouraging signs, we're putting a spotlight on OaaS because too many organisations have yet to reboot their thinking on outsourcing. There is little more to be gained from a traditional outsourcing model, yet gains must be made given the economic and competitive forces at play. Savvy organisations are already well aware of this.

Take a look around and you see organisations at various stages of evolution to something altogether better. The public sector, for instance, is moving toward the As-a-Service economy, with a Federal 'cloud first' policy adopted in 2013. This mandates agencies to prioritise public cloud services for new IT purchases. Some State agencies are also advancing. For example, the NSW Department of Justice has pulled several previously siloed business systems, including finance, human resources and procurement, together under a streamlined As-a-Service model that is set to transform corporate services within that Department.[6] This kind of advanced SaaS implementation marks a major shift in the direction of OaaS.

Rio Tinto has taken further steps along the path to maturity. The mining giant is in the process of migrating core enterprise information and technology systems to a cloud-based, As-a-Service model. As a primary objective, this move saves substantial costs, makes services fully scalable and gives Rio greater agility - prized benefits in the volatile and cyclical commodities sector.[7]

But Rio Tinto's move is also an innovation play. The company is looking to draw new insights and capabilities from its growing internet-of-things network and connected platforms - a vast source of real time data from thousands of sources. This would not be possible without reinventing their IT and information systems and shifting towards OaaS.

In a yet more advanced case, another miner, Glencore Queensland, is moving their whole procurement services and analytics function into an OaaS framework. The business expects to save more than US$300 million over the next six years from the shift which will provide a raft of new analytical tools to help optimise their processes.[8]

Deutsche Bank has a full-scale OaaS solution. They have migrated the bank's current on-premise procurement IT platform to an on-demand, cloud based solution. This has automated their source-to-pay process, including invoice processing and contract compliance management. The move simultaneously saved 15% of procurement operations costs and 15% of operational IT costs. What's more, the bank now enjoys improved cost control, faster procurement processing and a streamlined transaction processes.[9]

The Top Five Functions Shifting to OaaS[10]

1. HR
2. Industry-specific middle office
3. Finance and accounting
4. Customer service/support
5. Procurement

Eight Benefits of Operations-As-a-Service

Plug in

Accessing services quickly—in days or weeks, not months. Modular design means companies can mobilise and then demobilise rapidly when necessary.

Scalable

Ramping up and down to match actual business volume needs.

Standardised

Moving to a shared services model to standardize and scale processes and delivery. Repeatability is achieved with a multi-client and multi-tenant model.

Consumption based

Paying based on what is used rather than committing to services or functionality that may not be needed.

Outcome oriented

Working as part of a relationship where both buyer and provider are committed to specified business outcomes.

Vendor agnostic

Providing deep knowledge and experience across multiple provider offerings in order to assemble just the combination of solutions appropriate to the business and performance outcomes desired.

Innovation enabled

Committing to ongoing innovations in business processes, infrastructure and applications.

Future protected

Shielding the buyer from the potential disruption of upgrades and future change. Services are always up to date, and buyers have continuous access to innovation, scale and in-depth expertise.

It takes a new formula to shift to OaaS

Emulating Deutsche Bank seems like an obvious move. But implementing OaaS is no flick of a switch. It's an organisational redesign requiring new skills, new capabilities, new commercial models and a different type of service provider.

So how can Australian organisations move faster, and with more confidence, towards full-scale Operations-as-a-Service? These four key changes go a long way towards answering that question:

1. Get design thinking

OaaS is transformative. Your business will need to recast its operating model, integrating greater automation and analytics, and adapting the business to the speed, agility, responsiveness and available insights this provides. Design thinking, which prioritises prototyping and iterative development cycles, is increasingly seen as a prerequisite in this process, and for OaaS success in general. In fact, 62% of those in Australia and Asia Pacific believe design thinking will have a significant impact on their ability to meet their OaaS objectives.[11]

2. Exit the cocoon

OaaS gets you closer to your clients. Intelligent automation allows for greater personalisation and responsiveness, while analytics insights can drive customer-centric innovation. At the same time, OaaS requires a partner organisation that provides data insights, advice, new ideas and knowledge. If you have a 'cocoon culture' in your organisation, you will need to transform this to make the most of these opportunities.

3. Get skills on both sides of the fence

Ensure you have the right available skills inside your organisation, and crucially, from your provider. Operations-as-a-Service requires a blend of specialist management and technology talent. The right provider will have an abundance of expertise across the board – helping supplement and develop internal skills and capabilities. But this a unified team needs to gel. Without a cultural fit and shared values the partnership is unlikely to work.

4. Rewrite the rules

Existing outsource contracts should not get in the way of OaaS. No matter your stage of development, it should be a priority to make sure contracts allow for the shift. To make OaaS possible agreements need to be dynamic, flexible and supportive of innovation. Traditional rigid, fixed-scope contracts with slow change requests should be retired – not evolved – in favour of a fresh construct designed to enable a fluid partnership.

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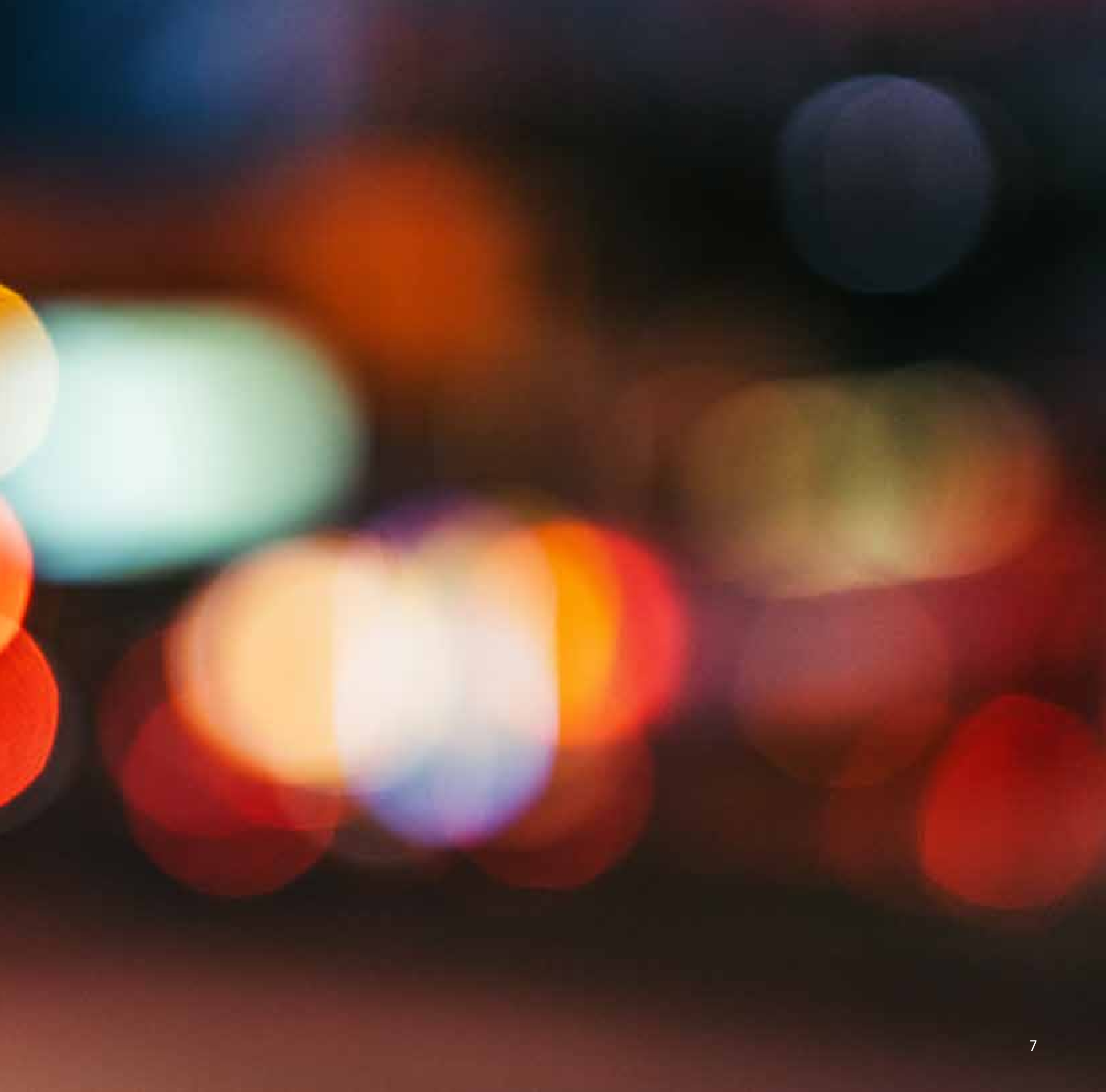
Source: Ideals of As-a-Services" Study, HfS Research, 2015

Time to leap-frog old-school sourcing

These four actions will be central to a successful transition to OaaS. OaaS gives companies which have never outsourced the chance to bypass traditional sourcing models and move straight to a more transformative and dynamic solution. Meanwhile, seasoned organisations can break through traditional lift-and-shift outsourcing and open up new opportunities to be more entrepreneurial, innovative and value-driven – all of which are critical to survival and success in an increasingly competitive environment.



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