MegaSoft IT Consulting & Training

ITIL® 4 Foundation

Module 01

Key Concepts of Service Management

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Module 01

Key Concepts of Service Management

Learning Objectives

By the end of this module, you will be able to:

- ✓ Describe the relationship between value and its stakeholders, including the organization, service providers and service consumers, and other stakeholders (BL2)
- ✓ Recall the definitions of the service consumer roles of a customer, user and sponsor (BL1)
- ✓ Describe the key concepts of value co-creation through service relationships, including service relationship management, service provision and service consumption (BL2)
- ✓ Describe the relationship between products, service offerings, and services (BL2)
- ✓ Describe the key concepts of creating value with services, including outcome, output, cost, risk, utility ad warranty (BL2)
- ✓ Recall the definitions of utility ad warranty (BL1)

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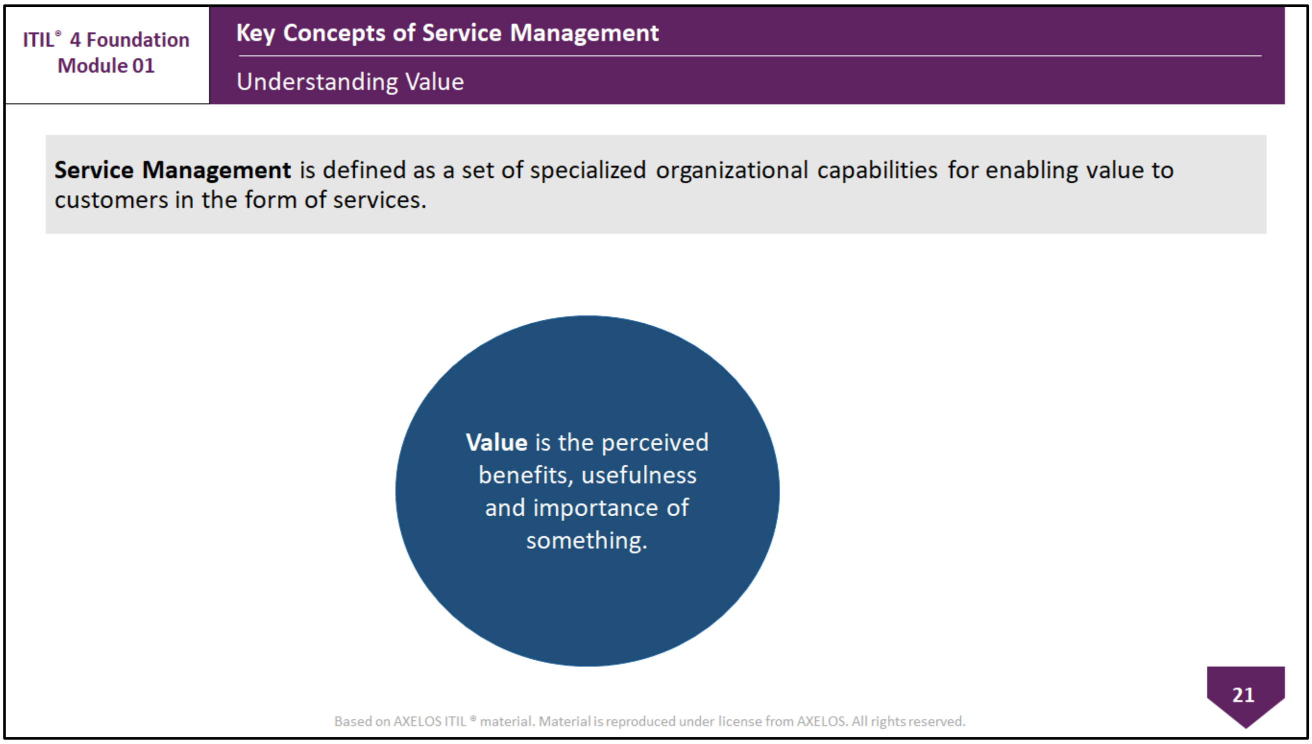

To address real world challenges of service management and adopt service management frame work such as ITIL, it is important to understand of the key concepts of service management.

including:
- The nature of value and value co-creation
- Organizations, service providers, service consumers and other stakeholders
- Products and services
- Service relationships
- Value: outcomes, costs and risks

These concepts apply to all services and service relationships, regardless of their nature and underpinning technology.

Service management: A set of specialized organizational capabilities for enabling value for customers in the form of services.

Developing the specialized organizational capabilities mentioned in the above definition requires an understanding of:
- the nature of value
- the nature and scope of the stakeholders involved
- how value creation is enabled through services

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Services and Products

A **Service** is a means of enabling value co-creation by facilitating outcomes that customers want to achieve, without the customer having to manage specific costs and risks.

A **Product** is a configuration of resources, created by the organization, that will be potentially valuable for their customers.

Products are typically complex and are not fully visible to the consumer.

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Products and services:

The central component of the service management is the service. The service provider deliver value through services

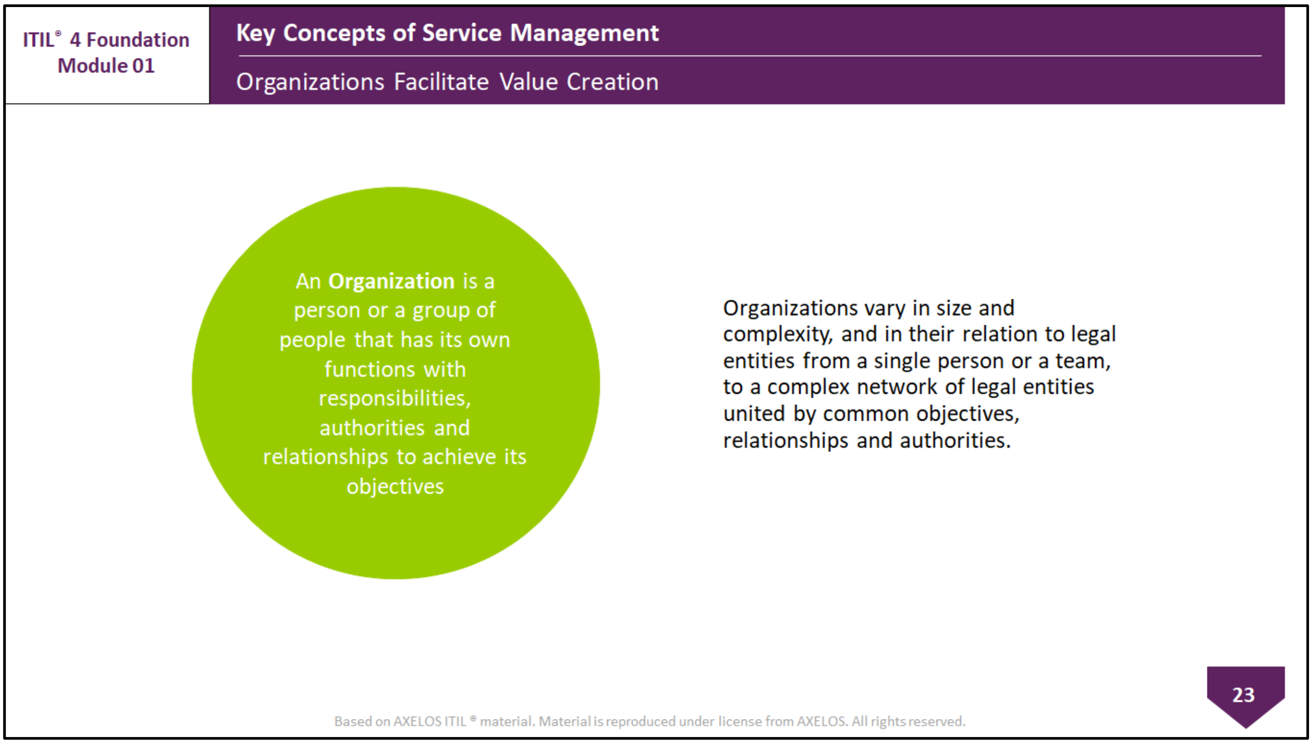
Service: A means of enabling value co-creation by facilitating outcomes that customers want to achieve, without the customer having to manage specific costs and risks.

The services that an organization provides are based on one or more of its products. Organizations own or have access to a variety of resources, including people, information and technology, value streams and processes, and suppliers and partners. Products are configurations of these resources, created by the organization, that will be potentially valuable for their customers.

All services have service cost when they become operational and this cost should be managed. To avoid taking risks, consumers look to service provider to satisfy their need for those services.

Product: A configuration of an organization's resources designed to offer value for a consumer.

Each product that an organization offers is created with a number of target consumer groups (either internal or external to the organization) in mind, and the products will be tailored to appeal to, and meet the needs of these groups. A product is not exclusive to one consumer group, and can be used to address the needs of several different groups. For example, a software service can be offered as a lite version, for individual users, or as a more comprehensive corporate version.
Products are typically complex and are not fully visible to the consumer. The portion of a product that the consumer actually sees does not always represent all of the components that comprise the product and support its delivery. Organizations define which product components their consumers see, and tailor them to suit their target consumer groups.



Organization:
A person or a group of people that has its own functions with responsibilities, authorities and relationships to achieve its objectives.

Organizations vary in size and complexity, and in their relation to legal entities, from a single person or a team, to a complex network of legal entities united by common objectives, relationships and authorities.

The relationships between and within organizations become more complex. Each organization depends on others in its operation and development. Organizations may hold different roles, depending on the perspective under discussion. In the context of Service management ,the organization can act as a Service provider or a service consumer. In reality, it can play both roles at the same moment.

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How Is Value Created?

There was a time when organizations saw their role as delivering value to their customers in much the way that a package is delivered to a building by a delivery company.

This view treated the relationship between the service provider and the service consumer as a mono-directional and distant.

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Value and value co-creation:

The purpose of an organization is to create value for stakeholders.
Inherent in this definition is the understanding that value is subject to the perception of the stakeholders, whether they be the customer or consumer of a service, or part of the service provider organization(s). Value can be subjective.

Value: Value is the perceived benefits, usefulness and importance of something.

There was a time when organizations self-identifying as 'service providers' saw their role as delivering value to their customers in much the same way that a package is delivered to a building by a delivery company. This view treated the relationship between the service provider and the service consumer as mono-directional and distant.
The provider delivers the service and the consumer receives value; the consumer plays no role in the creation of value for themselves. This fails to take into consideration the highly complexand interdependent service relationships that exist in reality.

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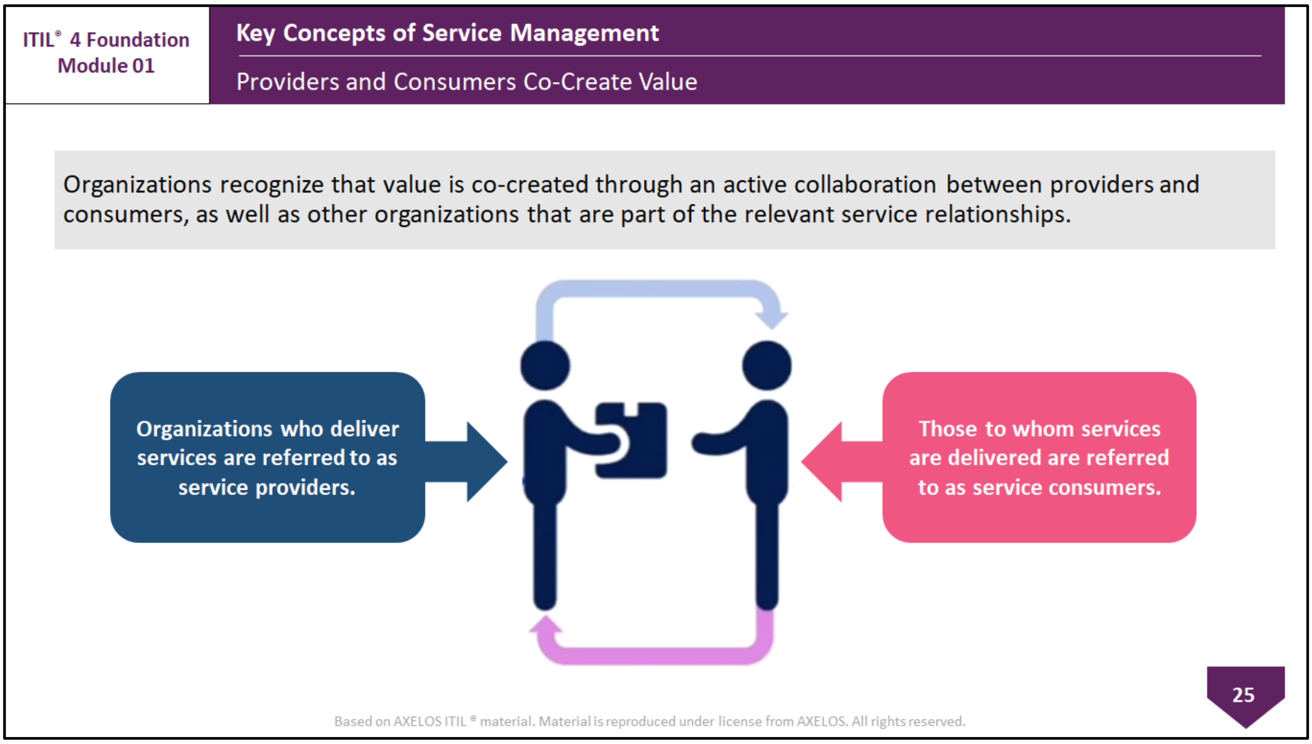
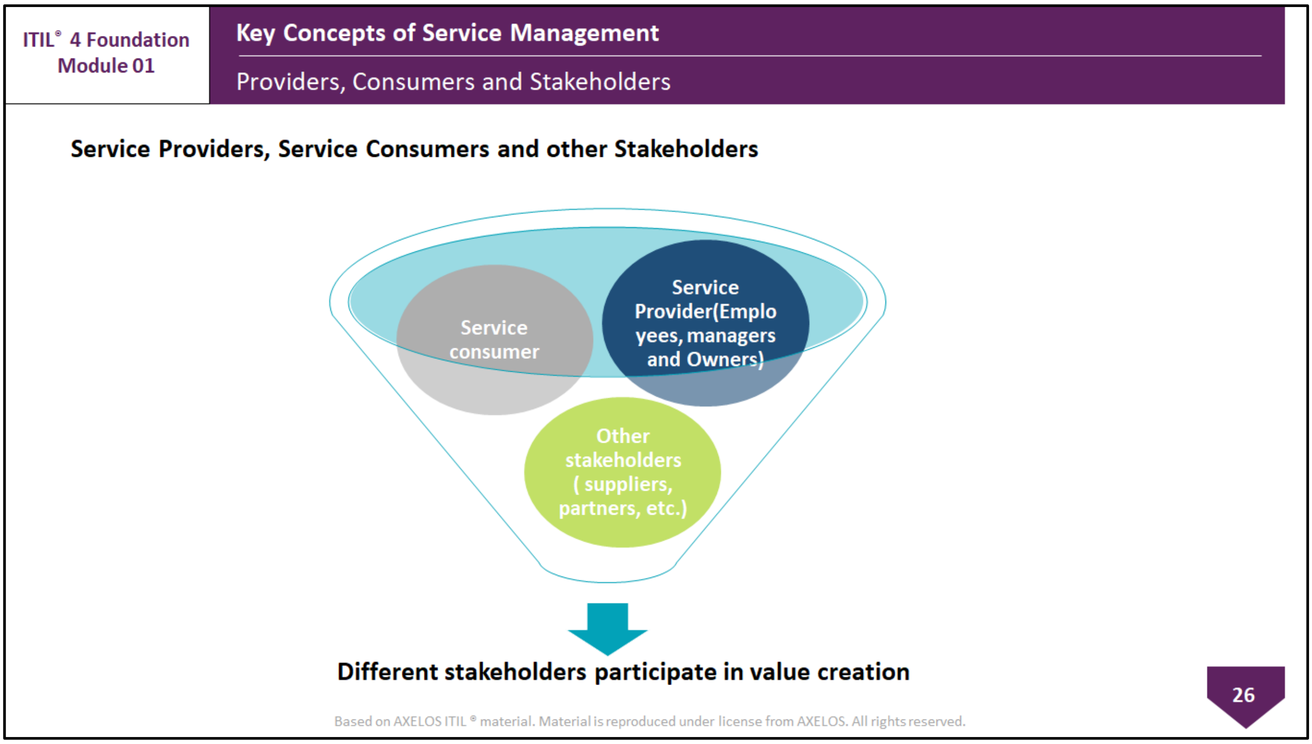


Value co-creation:

Increasingly, organizations recognize that value is co-created through an active collaboration between providers and consumers, as well as other organizations that are part of the relevant service relationships. Providers should no longer attempt to work in a vacuum to define what will be of value to their customers and users, but actively seek to establish mutually beneficial, interactive relationships with their consumers, empowering them to be creative collaborators in the service value chain.

Stakeholders across the service value chain contribute to the definition of requirements, design of service solutions and even to service creation and/or provisioning itself.

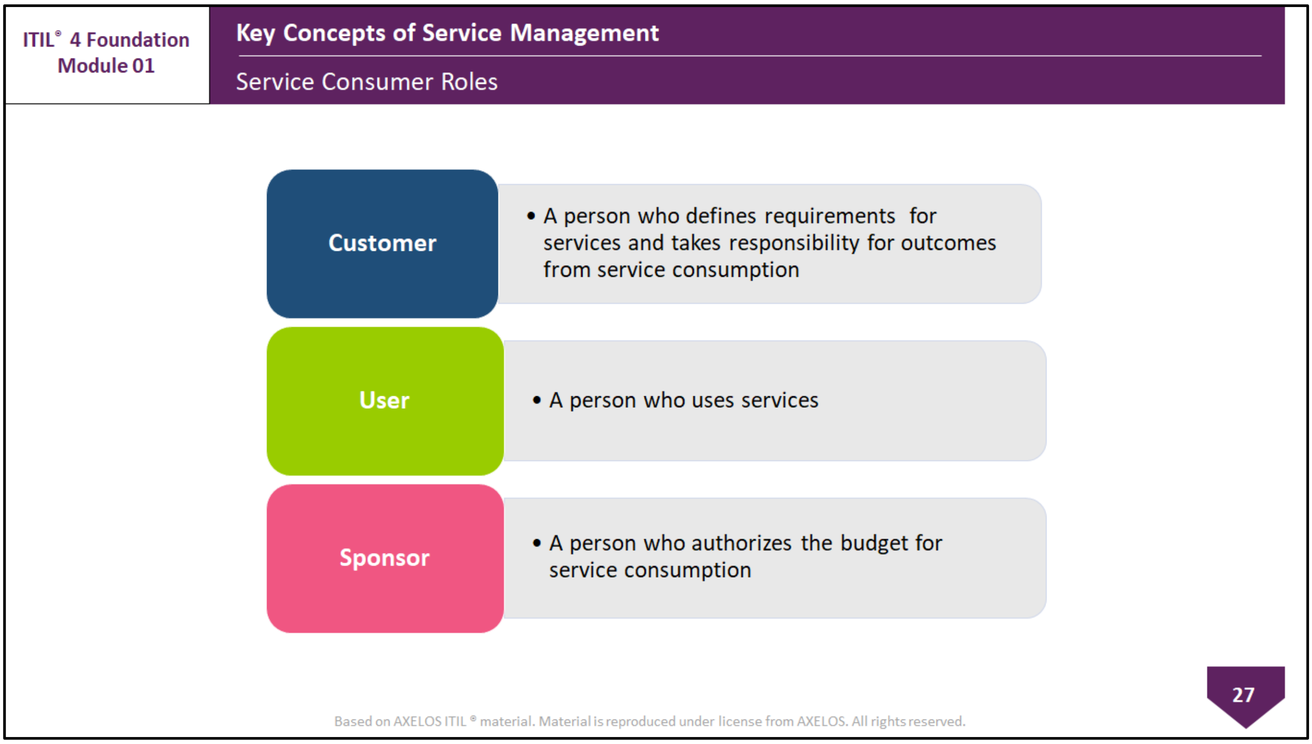


It is important to outline the various stakeholders who are involved in value co-creation and the language used in ITIL to describe them.

- ❑ **Service provider:**

When provisioning services, an organization takes on the role of the service provider.
The provider can be external to the consumer's organization, or they can both be part of the same organization.
In the most traditional views of ITSM, the provider organization is seen as the IT department of a company, and the other departments or other functional units in the company are regarded as the consumers. This is, however, only one very simple provider-consumer model.
A provider could be selling services on the open market to other businesses, to individual consumers, or they could be part of a service alliance, collaborating to provide services to consumer organizations.

The key is that the organization in the provider role has a clear understanding of who its consumers are in a given situation and who the other stakeholders are in the associated service relationships



❑ **Service Consumer:**

One of the most important stakeholder groups for any organization is the Service consumer, Service consumer is a generic role that is used to simplify the definition and description of the structure of service relationships.

In practice, there are more specific roles involved in service consumption, such as customers, users and sponsors. These roles can be separate or combined.

> **Customer:** A person who defines the requirements for a service and takes responsibility for the outcomes of service consumption.
> **User:** A person who uses services.
> **Sponsor:** A person who authorizes budget for service consumption.

For example:

if a company wishes to purchase mobile phone services for its employees from a wireless carrier (the service provider), the various consumer roles may be distributed as follows:

• The chief information officer (CIO) and key communications team members fill the role of customer when they analyze the mobile communications requirements of the company's employees, negotiate the contract with the wireless carrier and monitor the carrier's performance against the contracted requirements.
• The chief financial officer (CFO) fills the role of the sponsor when they review the proposed service arrangement and approve the cost of the contract as negotiated.
• The employees (including the CIO, CFO and communications team members) fill the role of users when they order, receive and use the mobile phone services as per the agreed contract.

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Other Stakeholders in Value

Beyond the consumer and provider roles, there are usually many other stakeholders that are important to value creation.

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❑ Other stakeholders:

A key focus of service management, and of ITIL, is the way that organizations co-create value with their consumers through service relationships. Beyond the consumer and provider roles, there are usually many other stakeholders that are important to value creation. Examples of these include individual employees of the provider organization, partners and suppliers, investors and shareholders, government organizations such as regulators, social groups, etc.

For the success, and even the continued existence of an organization, it is important that relationships with all key stakeholder groups are understood and managed. If stakeholders are unhappy with what the organization does or how it does it, the provider's relationships with its consumers can be in jeopardy.

Products and services create value for stakeholders in a number of ways. Some are quite direct such as the generation of revenue, others more indirect such as employee experience.

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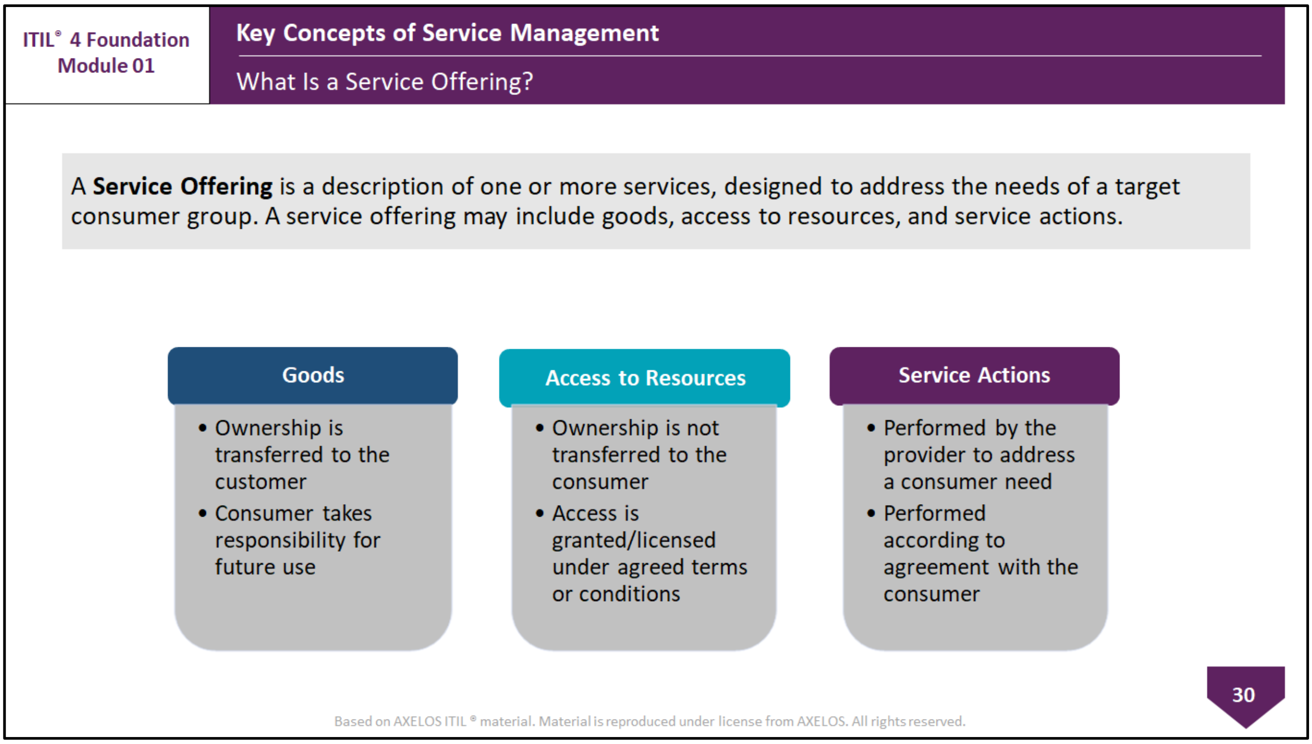
Other stakeholders:

Stakeholder	Example Stakeholder Value
Services consumers	Benefits achieved, costs and risks optimized
Service provider	Funding from the consumer; business development; image improvement
Service provider employees	Financial and non-financial incentives, career and professional development, sense of purpose
Society and community	Employment, taxes, organizations' contribution to the social and community development
Charity organizations	Financial and non-financial contributions from other organizations
Shareholders	Financial benefits, such as dividends; sense of assurance and stability



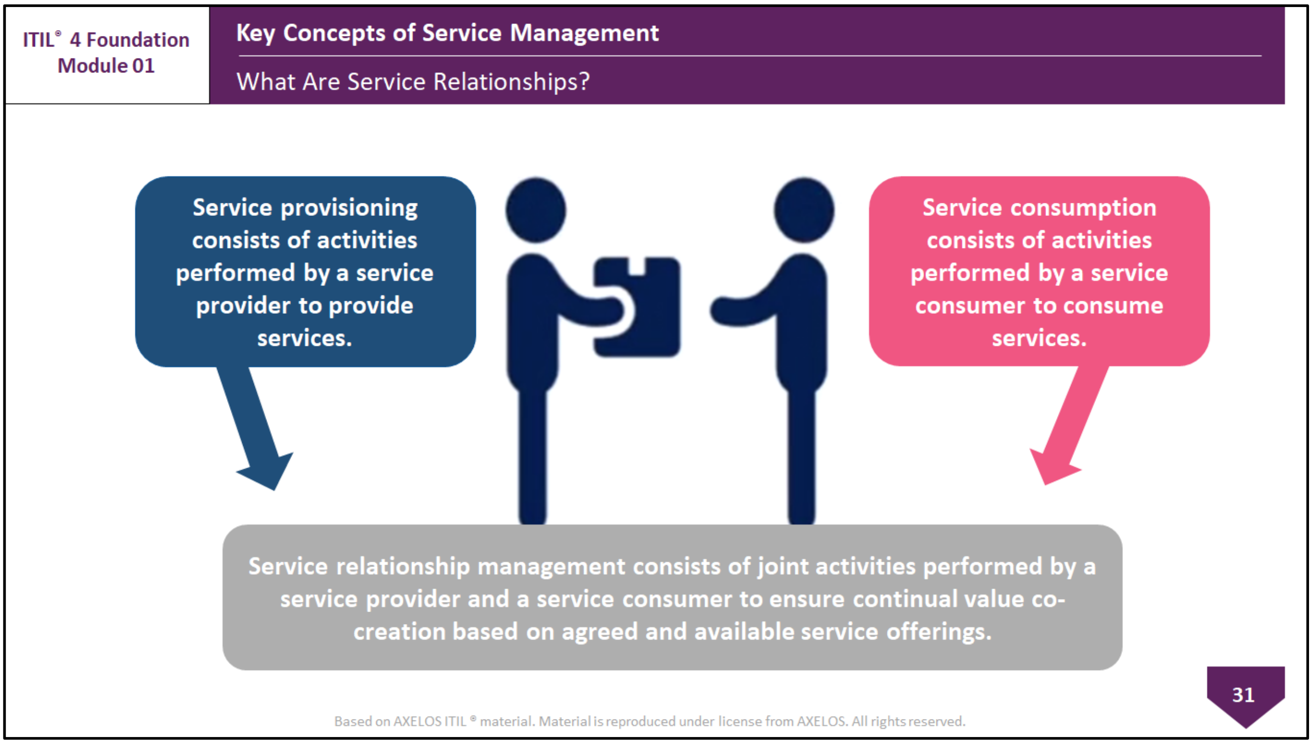
Service offerings:

Service providers present their services to consumers in the form of service offerings, which describe one or more services based on one or more products.

Service offering: A description of one or more services, designed to address the needs of a target consumer group.

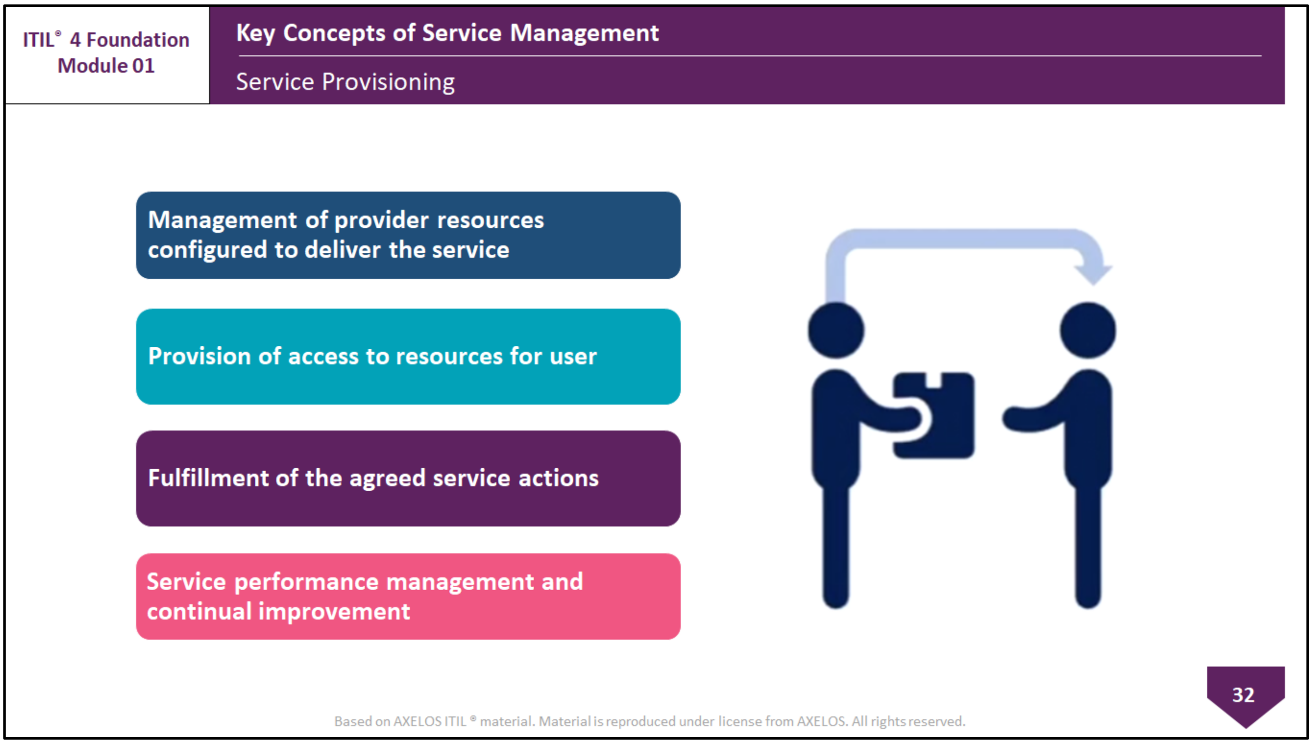
Service offerings may include:
• **goods** to be supplied to a consumer (for example, a mobile phone). Goods are supposed to be transferred from the provider to the consumer, with the consumer taking the responsibility for their future use.
• **access to resources** granted or licensed to a consumer under agreed terms and conditions (for example, to the mobile network, or to the network storage). The resources remain under the provider's control and can be accessed by the consumer only during the agreed service consumption period.
• **service actions** performed to address a consumer's needs (for example, user support). These actions are performed by the service provider according to the agreement with the consumer.

Services are offered to target consumer groups, and those groups may be either internal or external to the service provider organization. Different offerings can be created based on the same product, which allows it to be used in multiple ways to address the needs of different consumer groups.
For example:
a software service can be offered as a limited free version, or as a comprehensive paid-for version, based on one product of the service



Service relationships are established between two or more organizations to co-create value. In a service relationship, organizations will take on the roles of service providers or service consumers. The two roles are not mutually exclusive, and organizations typically both provide and consume a number of services at any given time.

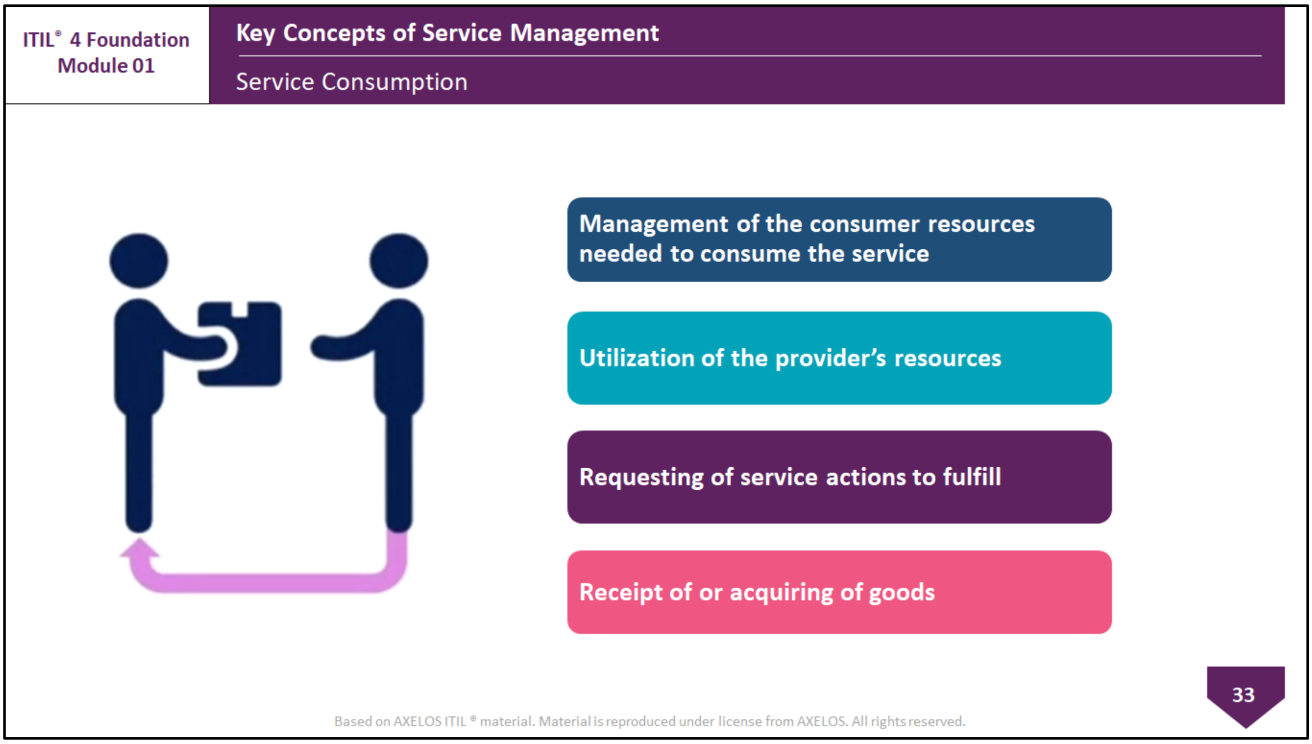
Service relationship :A co-operation between a service provider and service consumer. Service relationships include service provision, service consumption and service relationship management.



Service provision: Activities performed by an organization to provide services. Service provision includes:

- management of the provider's resources, configured to deliver the service
- access to these resources for users
- fulfilment of the agreed service actions
- service level management and continual improvement.

Service provision may also include the supplying of goods.



Service consumption: Activities performed by an organization to consume services. Service consumption includes:

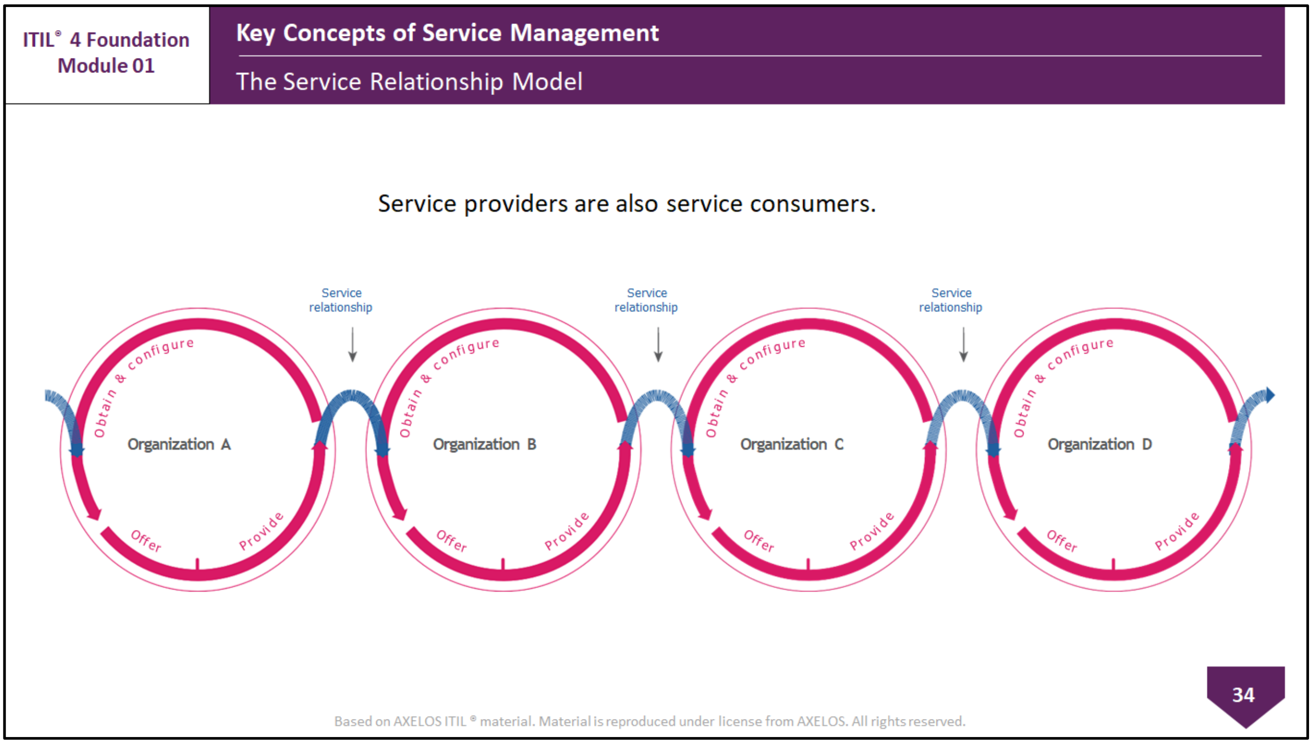
• management of the consumer's resources needed to use the service

• service use actions performed by users including: o utilizing the provider's resources

o requesting service actions to fulfil.

Service consumption may also include the receiving (acquiring) of goods.

Service relationship management: Joint activities performed by a service provider and a service consumer to ensure continual value co-creation based on agreed and available service offerings.



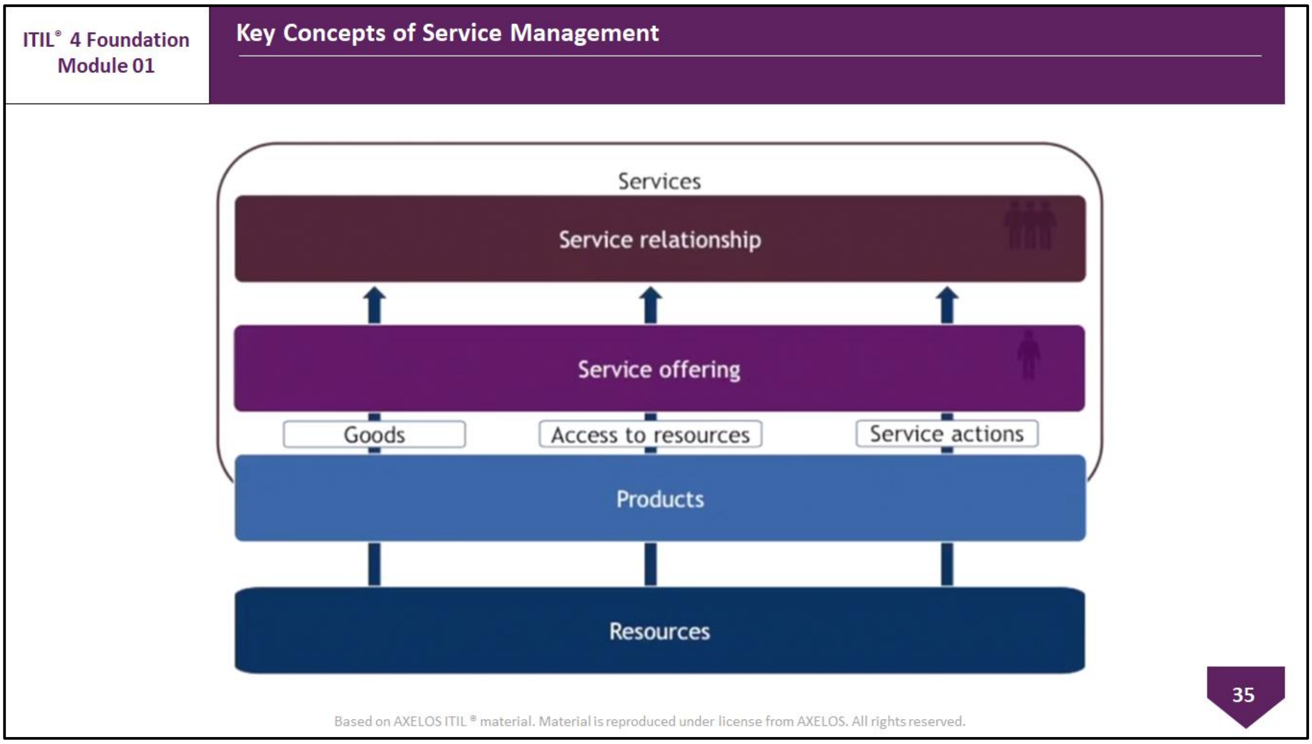
The service relationship model :

When services are delivered by the provider, they create new resources for service consumers, or modify their existing ones.

For example:

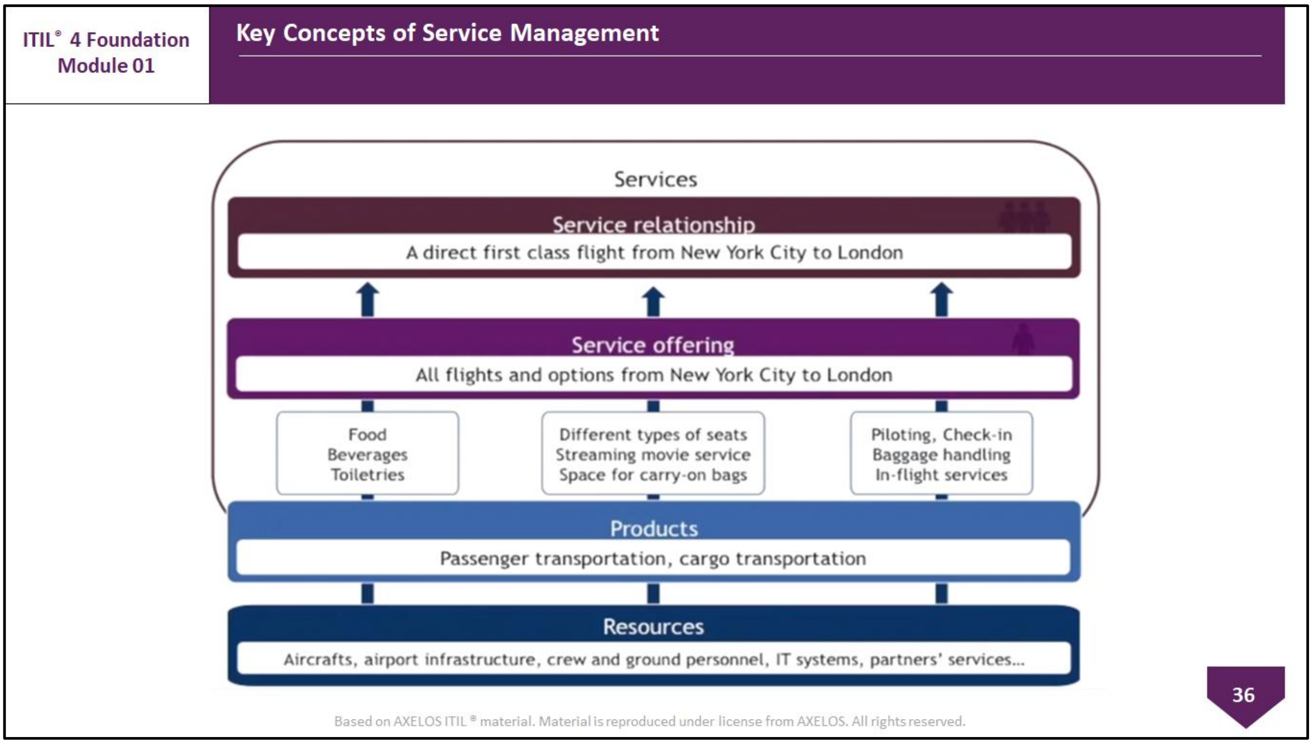
- a training service improves the skills of the consumer's employees
- a broadband service allows the consumer's computers to communicate
- a car hire service enables the consumer's staff to visit clients
- a software development service creates a new application for the service consumer.

The service consumer can use its new or modified resources to create its own products to address the needs of another target consumer group, thus becoming a service provider.



- The organizations configure their resources to create products which are desirable to the consumers
- The visible parts of these products are used in service offering ,goods component of the product, access to resources enabled by these products and service actions present in the product.

- These service offering are chosen, purchased and consumed by the service consumers through the service relationship they have with the service provider.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Services
Service relationship
A direct first class flight from New York City to London
Service offering
All flights and options from New York City to London
Food
Beverages
Toiletries
Different types of seats
Streaming movie service
Space for carry-on bags
Piloting, Check-in
Baggage handling
In-flight services
Products
Passenger transportation, cargo transportation
Resources
Aircrafts, airport infrastructure, crew and ground personnel, IT systems, partners' services...
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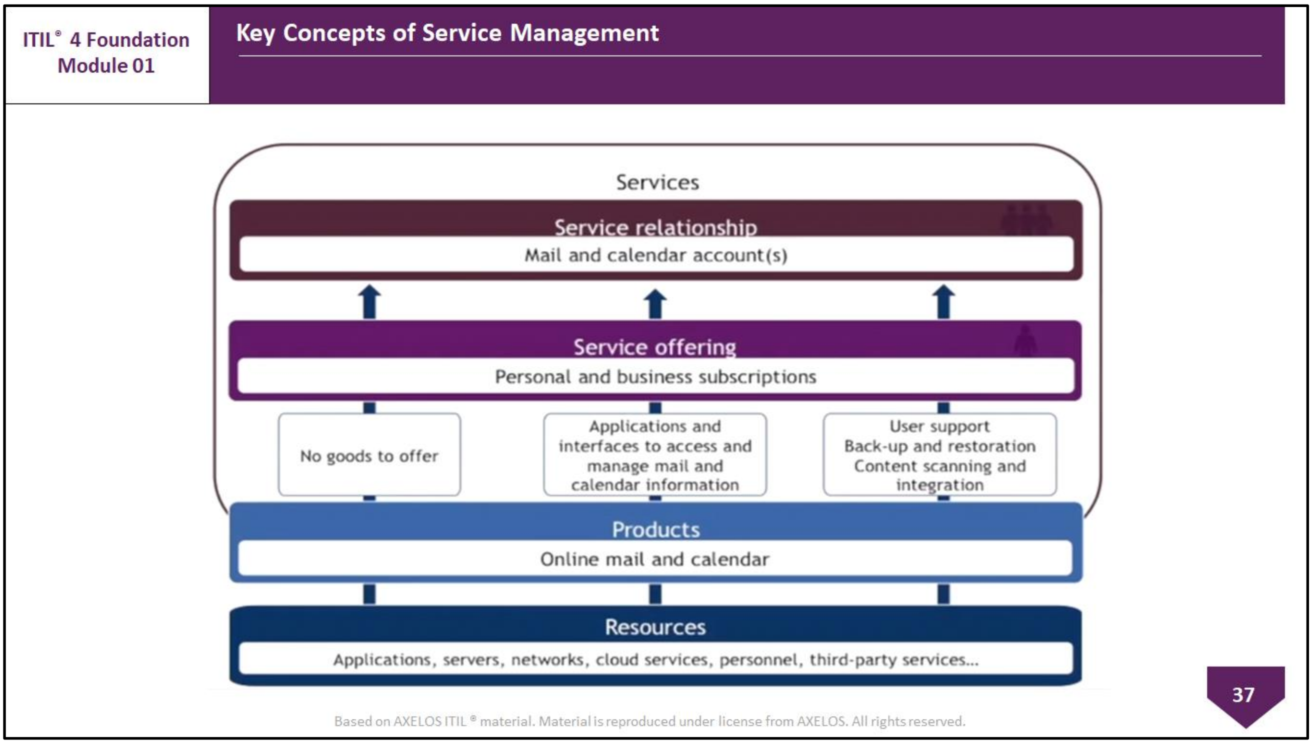
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Services
Service relationship
Mail and calendar account(s)
Service offering
Personal and business subscriptions
No goods to offer
Applications and interfaces to access and manage mail and calendar information
User support
Back-up and restoration
Content scanning and integration
Products
Online mail and calendar
Resources
Applications, servers, networks, cloud services, personnel, third-party services...
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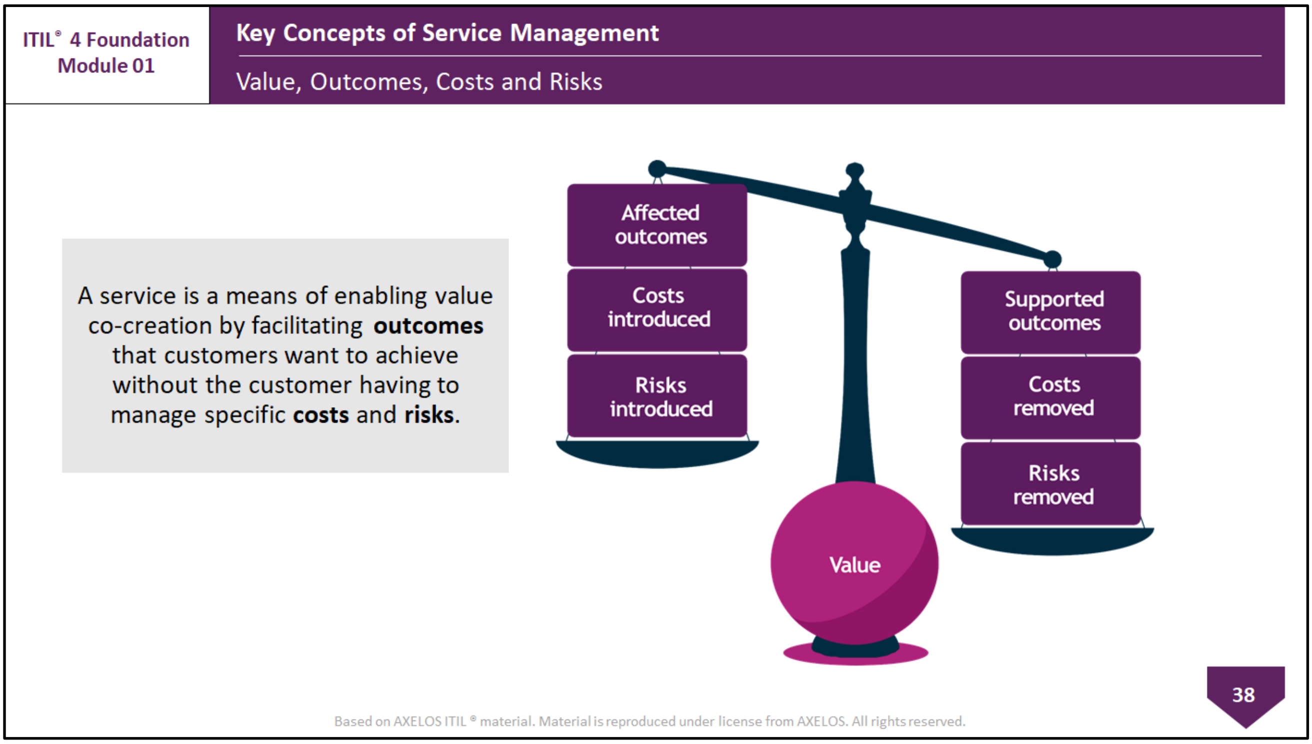
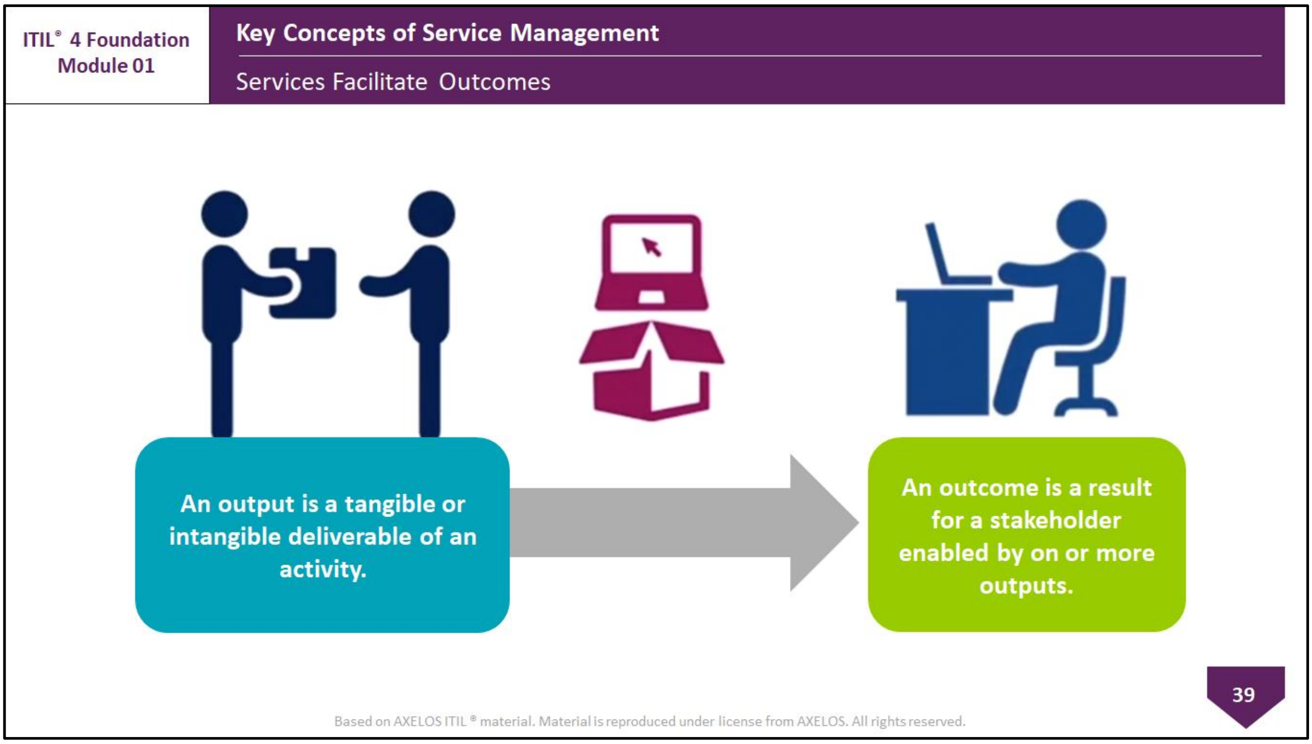


Outcomes, costs and risks:

Achieving desired outcomes requires resources (and therefore costs) and is often associated with risks. Service providers help their consumers to achieve outcomes, and in doing so, take on some of the associated risks and costs.

On the other hand, service relationships can introduce new risks and costs, and in some cases, can negatively affect some of the intended outcomes, while supporting others. Service relationships are perceived as valuable only when they have more positive effects than negative.



❑ **Outcomes :**
Acting as a service provider, an organization produces *outputs* that help its consumers to achieve certain *outcomes*.

Output: A tangible or intangible deliverable of an activity.
Outcome: A result for a stakeholder enabled by one or more outputs.

It is important to be clear about the difference between outputs and outcomes.

Sometimes, it can be difficult for the provider to fully understand the outcomes that the consumer wants to achieve so the provider works with the consumer to define the desired outcomes, for example, business relationship managers in internal IT or HR departments may regularly talk with customers and discuss their needs and expectations. In other cases, the consumers articulate their expectations quite clearly, and the provider expects them to do so.

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Understanding Costs

Costs refer to the amount of money spent on a specific activity or resource.

There are costs removed from the consumer by the service.

(**part of the value proposition**)

There are costs imposed on the consumer by the service, including charges by the service provider.

(The costs of service consumption)

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❑ Costs:

Cost: The amount of money spent on a specific activity or resource.

From the service consumer's perspective, there are two types of costs involved in service relationships:

- costs removed from the consumer by the service (a part of the value proposition). This may include costs of staff, technology and other resources, which the consumer does not need to provide.
- costs imposed on the consumer by the service (the costs of service consumption). The total cost of consuming a service includes the price charged by the service provider (if applicable), plus other costs such as staff training, costs of network utilization, procurement, etc. Some consumers describe this as what they have to 'invest' to consume the service.

Both types of cost are considered when the consumer assesses the value which they expect the service will create. To ensure that the correct decisions are made about the service relationship it is important that both types of costs are fully understood.

From the provider's perspective, a full and correct understanding of the cost of service provision is essential. Providers need to ensure that services are delivered within budget constraints and meet the financial expectations of the organization.

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Understanding Risks

Risks refer to possible events that could cause harm or loss, or make it more difficult to achieve objectives.

There are risks removed or reduced for the consumer by the service.

(part of the value proposition)

There are risks potentially imposed on the consumer by the service.

(risks of service consumption)

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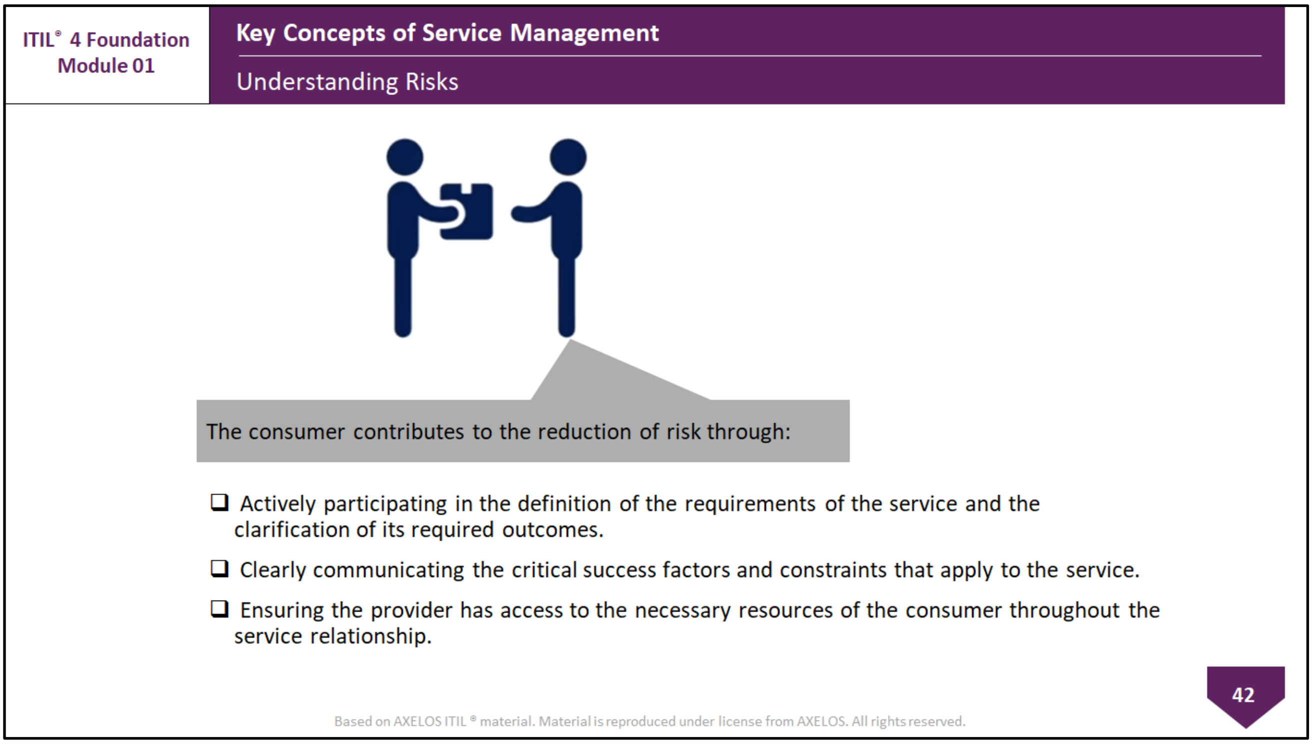
❑ **Risks:**

Risk: A possible event that could cause harm or loss, or make it more difficult to achieve objectives. Risk can also be defined as uncertainty of outcome, and can be used in the context of measuring the probability of positive outcomes as well as negative outcomes.

there are two types of risks that are of concern to service consumers:

• Risks removed from a consumer by the service (part of the value proposition). These may include failure of the consumer's server hardware or lack of staff availability. In some cases, a service may only reduce a consumer's risks, but the consumer may determine that this reduction is sufficient to support the value proposition.

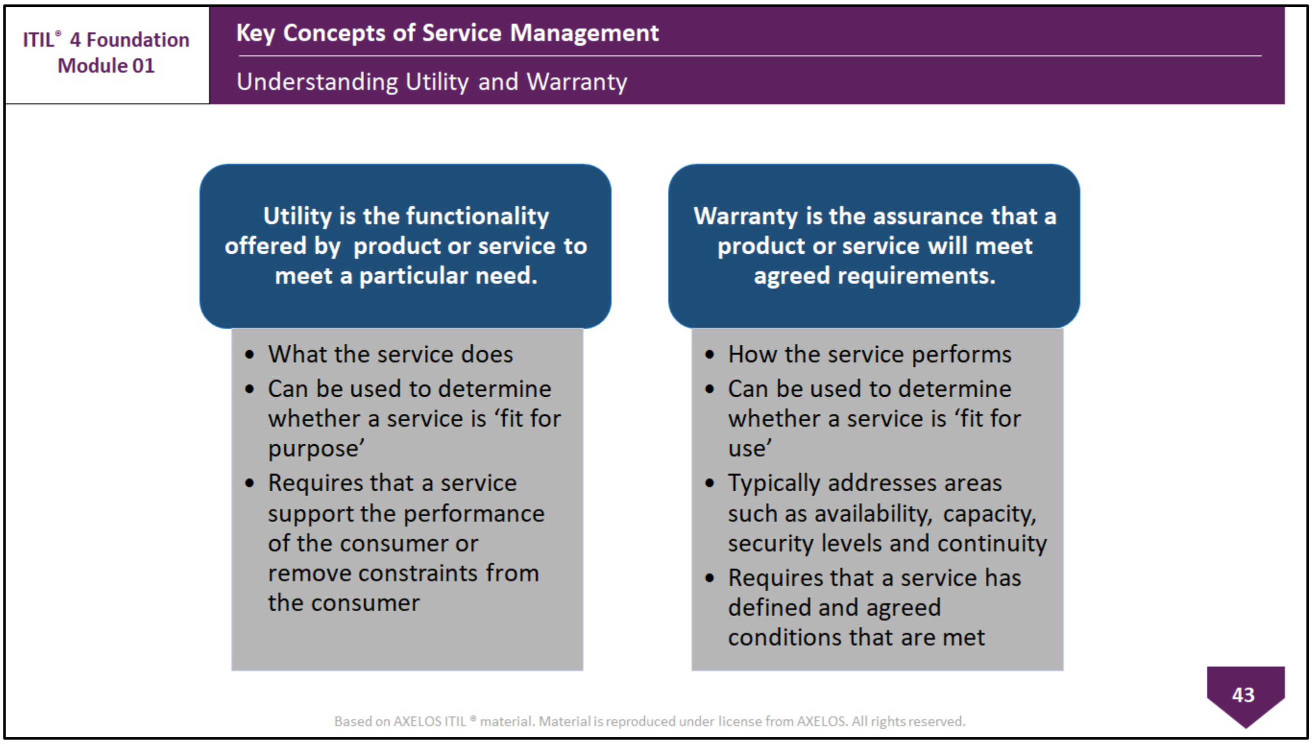
• Risks imposed on a consumer by the service (risks of service consumption). An example of this would be a service provider ceasing trading, or experiencing a security breach.



It is the duty of the provider to manage the detailed level of risk on behalf of the consumer ,this should be handled based on a balance of what matters most to the consumer and to the provider.

The consumer contributes to the reduction of risk through:

- actively participating in the definition of the requirements of the service and the clarification of its required outcomes
- clearly communicating the critical success factors and constraints that apply to the service
- ensuring the provider has access to the necessary resources of the consumer throughout the service relationship.



Utility and Warranty

To evaluate whether or not a service or service offering will facilitate the outcomes desired by the consumers and therefore create value for them, the overall utility and warranty of the service should be assessed.

Utility: The functionality offered by a product or service to meet a particular need. Utility can be summarized as '**what the service does**' and can be used to determine whether a service is **'fit for purpose'.** To have utility, a service must either support the performance of the consumer or remove constraints from the consumer. Many services do both.

Warranty: Assurance that a product or service will meet agreed requirements. Warranty can be summarized as '**how the service performs**' and can be used to determine whether a service is **'fit for use'.** Warranty often relates to service levels aligned with the needs of service consumers. This may be based on a formal agreement, or it may be a marketing message or brand image.

Warranty typically addresses such areas as the **availability** of the service, its **capacity**, levels of **security** and **continuity**. A service may be said to provide acceptable assurance, or 'warranty', if all defined and agreed conditions are met.

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Review

You should now be able to:

- ❑ Describe the relationship between value and its stakeholders, including the organization, service providers and service consumers, and other stakeholders
- ❑ Recall the definitions of the service consumer roles of a customer, user and sponsor
- ❑ Describe the key concepts of value co-creation through service relationships, including service relationship management, service provision and service consumption
- ❑ Describe the relationship between products, service offerings, and services
- ❑ Describe the key concepts of creating value with services, including outcome, output, cost, risk, utility and warranty
- ❑ Recall the definitions of utility and warranty

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Review Questions:

1) What is the definition of warranty?

- A. A tangible or intangible deliverable that is produced by carrying out an activity
- B. The assurance that a product or service will meet agreed requirements
- C. A possible event that could cause harm or loss, or make it more difficult to achieve objectives
- D. The functionality offered by a product or service to meet a particular need

2) Identify the missing word(s) in the following sentence.
A service is a means of enabling value co-creation by facilitating [?] that customers want to achieve.

- A. the warranty
- B. outcomes
- C. the utility
- D. outputs

3) A service provider describes a package that includes a laptop with software, licenses, and support. What is this package an example of?

- A. Value
- B. An outcome
- C. Warranty of a service
- D. A service offering

4) What are the two types of cost that a service consumer should evaluate?

- A. The cost of creating the service, and the cost charged for the service
- B. The costs removed by the service, and the costs imposed by the service
- C. The cost of provisioning the service, and the cost of improving the service
- D. The cost of purchasing software, and the cost of purchasing hardware

5) Which describes outcomes?

- A. Tangible or intangible deliverables
- B. Functionality offered by a product or service
- C. Results for a stakeholder
- D. Configuration of an organization's resources

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Completed