

# VeriSM™

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## Lesson 2 Study Guide

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## Welcome to 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.

## Study Guide Icons

	<b>Tip</b>	This will remind you of something you need to take note of, or give you some exam guidance.
	<b>Definition</b>	Key concept or term that you need to understand and remember.
	<b>Role</b>	Job title or responsibility.
	<b>Purpose or Objective</b>	For a process or activity.

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In this lesson, we considered the impact that digital transformation has on service provider organizations. We looked at what we mean by digital transformation, and the impact this has on service management.

## 1 Digital Transformation

Digital transformation is affecting organizations by changing business models, ways of interacting with consumers and the technology solutions in use. Technology is moving away from the traditional data center and into the mainstream of the organization. This requires an agile approach to development and management of technology, as services are delivered from anywhere to anywhere.

New technologies and opportunities create new competitive challenges. Technology can deliver a competitive edge, and organizations need to innovate to survive. Failure to change will lead to customer dissatisfaction, poor customer experience and reduced competitiveness.

Digital transformation has resulted in a shift to more Agile product development, releasing product iterations more frequently. These methodologies increase the flow of work, delivering more, faster. Along with the adoption of Lean techniques, automation and virtualization, organizations can deliver more quickly, more securely and at lower costs.



### **Definition: Digital Transformation**

Digital transformation refers to the changes associated with the application of digital technologies across all areas of an organization, from sales to marketing, products, services and new business models.

Technology is no longer just something provided by an internal IT department. All capabilities within an organization will use technology to deliver products and services faster and more profitably. These benefits are sometimes referred to as digital disruptions.

Dion Hinchcliffe is an expert in information technology, business strategy, and next-generation enterprises. His description of digital transformation is below:



## Quote

*“Digital transformation is “the rethinking, the reimagining of a business in more digital terms...It’s fundamentally looking at delivery channels, operations, marketing and sales and customer care - all business models and rethinking how that might be packaged as new digital products and services, all delivered using digital first as the way business gets done.”*

**Dion Hinchcliffe**

Digital transformation is allowing organizations to change their use of technology to reach new markets, and optimize operations. Transformation is driven both internally, by exploiting new technologies to improve consumer loyalty and reduce costs; and externally by changes in the market place and the delivery of products and services to consumers. Organizations can be more flexible, making them more responsive to changing consumer needs.

## 1.1 Digital Optimization

Often organizations use innovative technologies and methods to augment existing services. This is known as ‘digital optimization’. This is not the same as digital disruption.

## 1.2 Digital Disruption

Digital disruption describes a way of doing business that is significantly challenged by new technologies or companies that have mastered them. The solutions they provide cause a shift in customer behavior and market context. Digital disruption occurs when:

- *Technology is used to radically change the operating performance of an organization.*
- *Technology is used to radically extend the reach of the organization to new customers and markets.*
- *Technology is used to radically seize customers or win new customers from competitors.*
- *Competitors begin copying, emulating and maybe improving on the use of technologies and approaches that were undertaken by the challenger organization.*

Examples of digital disruption include:

- Enabling items bought in store, to be bought on-line instead.
- Use of social media to raise the power of the consumer, and enable feedback to the organization directly.
- Artificial Intelligence combined with Big Data, enabling searches on information that can change working practices.

## 2 Case Study

The Auto Trader case study describes organization that changed from a print medium to a digital medium, and revolutionized its working practices.



### Case study: Auto Trader

*Auto Trader® is a UK-based organization. Started in 1977, it published a magazine of vehicles for sale. From a peak circulation of 368,000 copies per week in 2000, print sales dropped steadily until June 2013, when the organization stopped printing magazines altogether.*

*Auto Trader transformed from a print organization to a digital organization. It is now the number one online marketplace for car buyers in the UK. In addition to its individual customers, Auto Trader also provides a range of services to car dealers, helping them with everything from pricing to stock acquisition. Auto Trader has taken advantage of digital services to use data to create new commercial offerings.*

*Andy Humphrey, Auto Trader's head of service management, shared some of the main lessons from their journey. We've grouped these into:*

- Transformation;
- Culture and principles;
- Structure;
- Process;
- Technology.

*These allow you to consider each area from the perspective of your own organization. Remember, not every lesson from this case study will be true for your own organization.*

## **Transformation**

*The journey from being a print organization to a digital organization was a huge change for Auto Trader. They had a bold ambition – to become a world leading digital organization, but they also recognized that big problems need to be divided into small sections to be manageable. They recognized that slow, steady change leads to the right solution.*

*For example, in 2010 Auto Trader started to use Agile development (see chapter 17) to get more visibility of software projects. This change was rooted in a poor relationship between business teams and technical teams. From this small change came much larger changes. Agile development drove a need for better communication, the use of stand-up meetings and a need for more automation. The culture spread from development teams to operational teams, as the operational teams responded to new demands. The pressure on traditional change and release management processes led Auto Trader to recognize they needed to do things differently.*

*Initially, software was delivered in 'Agile projects', with teams dis-banded at the end of the project implementation. This led to a lack of ownership of live products which drove the transformation to continuous product development which enabled product teams to continually refine and improve products.*

*Eventually, a restructure created autonomous product teams and the senior management of the company changed with the hire of a CEO who had a digital background.*

*In 2014, Auto Trader floated on the UK stock market. During an initial public offering (IPO), organizations need to convince potential shareholders and investors that they are a stable company with a strong future. Auto Trader's CEO used the strength of its digital teams as a selling point. The company can react to change quickly and release new products safely. Auto Trader's competitors won't stand still, so*

*Auto Trader must also be flexible and responsive.*

## **Culture and principles**

*In this section, we look at some of the cultural decisions and organizational principles that have supported Auto Trader's success story.*

- *Co-location – the organization moved its staff from 15+ sites to a single site.*
- *Reduction in contractors – Auto Trader chooses to use permanent staff rather than associates and contractors.*
- *Technical staff sit with customer-facing teams – part of the benefit of co-location; this builds relationships and supports communication.*
- *Make work visible – Auto Trader's offices are filled with Kanban boards, monitors and posters. Staff can see at a glance what is happening in the organization and when a service is not performing as it should.*
- *All external customer-facing applications are written in-house, with limited reliance on external suppliers – along with co-location and limited use of contractors, this increases Auto Trader's autonomy and ability to adapt its services.*
- *More autonomy in teams – increases the flow of work. Auto Trader found that responsibility must be devolved in small increments which allows time for culture to change.*
- *Trusting the teams – for example, trusting technical teams to make a change. Overall, Auto Trader found that more autonomy led to better behavior from team members. In the 'old world', they were trying to create control by using processes. In the new world, the focus is on identifying and removing bottlenecks.*

## **Structure**

*Auto Trader structures its product teams into 'squads' and 'tribes', based on the Spotify model but adapted to fit the organization. Squads are commercially and technically responsible for the products they work on and operate with*

high autonomy and low interference. Tribes are larger groups of squads with some areas in common.

Auto Trader has worked to minimize dependencies between teams, which supports autonomous working and reduces the need for project manager and business analyst type roles.

At Auto Trader, the lines between operational roles and development roles are becoming blurred; in a way, everyone is a developer. Operations has a defined purpose, to lead, rather than to support.

When the structural changes were first being implemented, release analysts acted as go-betweens for the development and operations teams. Over time, the need for these go-betweens reduced. Service management at Auto Trader is now largely embedded in the organization's product squads, rather than in a centralized service management team.

## **Process**

In this section, we will look at some of the ways Auto Trader's processes evolved to support their digital transformation. Auto Trader's aim for its service management guardrails is to use the minimum possible level of governance and focus on delivering value through customer impact. Areas like capacity and availability of services are all part of the service management guardrails that guide the product teams.

Auto Trader focuses on 'light' processes, using the minimum control required. Rather than proactively anticipating problems that need to be fixed with process controls, their approach is to wait and see if a problem emerges. Processes need to be scalable and are automated wherever possible. Let's look at how change management has evolved at Auto Trader:

- Continuous delivery is a standard at Auto Trader, with product teams working towards continuous deployment (see chapter 23 for more information).
- Change management authority is devolved to

product squads, with squad leads prioritizing work and decided when it goes live.

- Forward-fix is more common than reversing a change, but neither are needed very often.

In 2008, each department in Auto Trader had its own change advisory board. These took an average of three hours per week and reviewed every single change. Now, changes are logged on Kanban boards (see section 24.1). The weekly change advisory board takes five minutes and focuses on:

- Manual infrastructure changes;
- High impact, high risk changes;
- Changes that need support from multiple teams or cross squad and service boundaries.

Change management is a supporting process, not a hurdle. The change to smaller, more frequent releases at Auto Trader saw release success rate increase dramatically to currently 99.2%. Their attitude changed from requiring developers to ask, "can I release?" to asking developers "why aren't you releasing?". Storing changes into large batches is seen as increasing business risk. Getting better at releases has also meant Auto Trader has fewer change freezes (periods when changes are banned).

### **Technology**

While many of the changes at Auto Trader were cultural and behavioral, there were also some technical decisions that supported the transformation, leading them to their current average of 116 releases per week.

These technical decisions included:

- Working to automate release processes – allowing delegated authority to make changes and reducing manual error.
- Moving to 'cloud everything'.
- Building a private cloud platform designed to allow product teams to take more control of environment

*provisioning and application releases.*

- *Breaking up large monolithic applications into simpler services that a small team can effectively manage.*
- *Working to build their own 'chaos monkey' to test resilience by randomly creating failures.*
- *Having one application per virtual machine – this is a more expensive way of working, but has supported the goal of minimizing dependencies.*
- *A strong focus on effective monitoring to make sure the operational performance of its products could be understood by the whole organization.*
- *A strong focus on release automation and automated server provisioning.*

### **The Auto Trader Way**

*Auto Trader has developed the Auto Trader Way to guide the development of new products, processes, strategies and services. The way is based on testing assumptions and hypotheses to validate an idea, assessing it from the perspective of customers, marketing and operations, product and technology, and business.*

## 2.1 Technology Evolution

Organizations need to respond to the impact of digital transformation, or they risk becoming obsolete. Technology evolutions ranging across the Cloud, Big Data, Artificial Intelligence, Machine Learning and any recent emergent technologies are driving change in working practices.

## 2.2 Service Management and Digital Transformation

Service management needs to respond to digital transformation.

To meet the requirements of digital transformation, there is a focus on the capability of an organization to be more Agile, so that technology can be everywhere and services can come from anywhere.

Digital capabilities and the decision to use them exist in almost every department of the organization. This means service management can no longer be the sole property of the IT department. It must be adopted across the organization. IT capabilities are still important, but need to work within other capabilities, such as marketing, sales, HR or finance.

Products and services require input from multiple business capabilities. Service management needs to coordinate the use of these capabilities. Digital transformation focuses on the consumer experience.

Service management needs to play a leading role, moving organizational culture from 'inside-out' to 'outside-in' thinking, developing principles that help deliver services that are valuable to the consumer. All organizational capabilities need to understand:

- *How does the organization enable and deliver value?*
- *What are the supply chains within the organization that deliver value?*
- *How do the individual capabilities contribute to or support the supply chains to deliver value?*