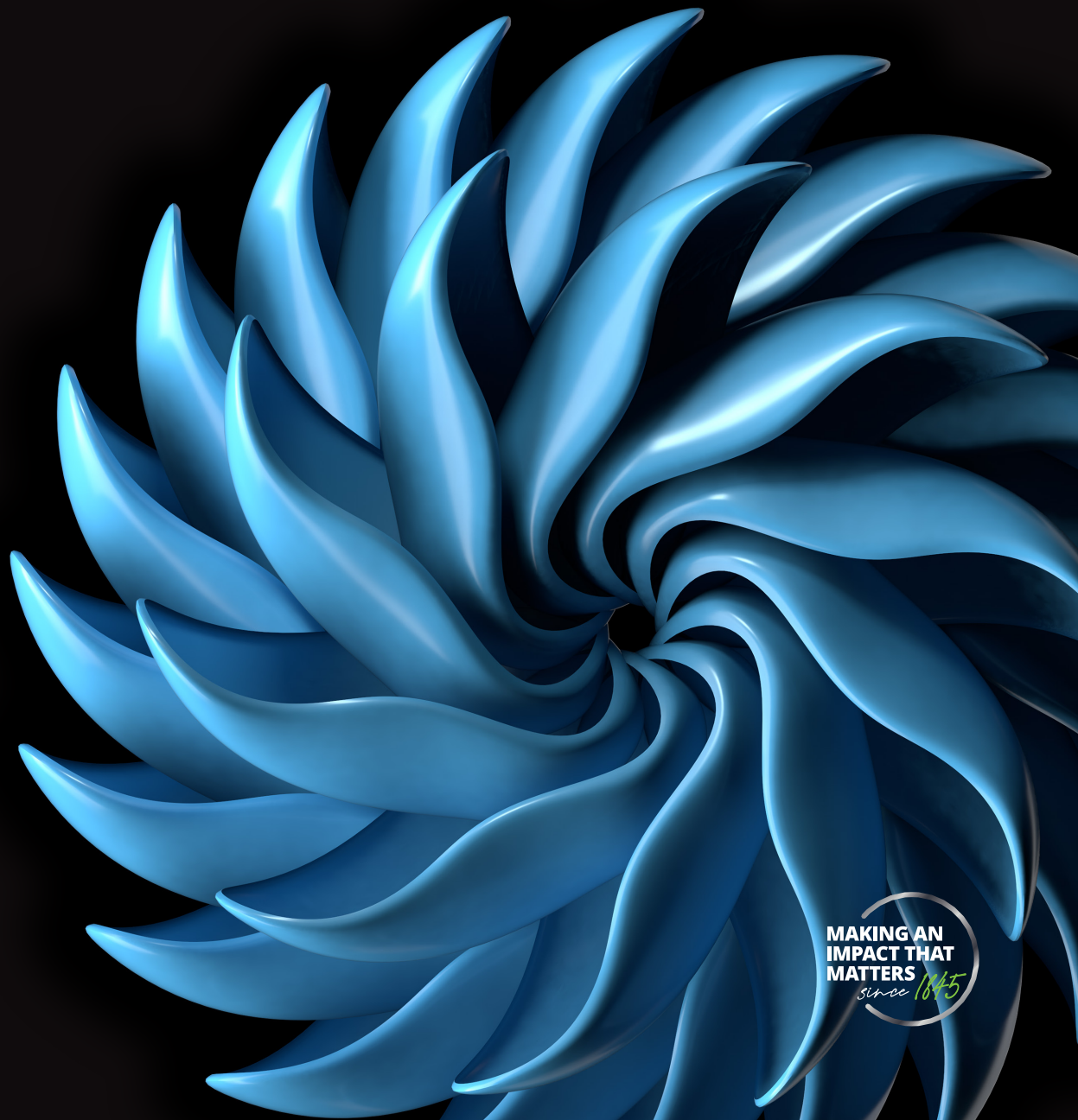


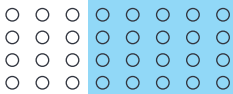
# Deloitte.

## Managed Services

A Strategy for Government & Public Sector  
Enterprise Service Transformation



MAKING AN  
IMPACT THAT  
MATTERS  
*Since 1845*



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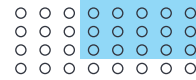
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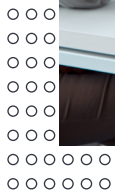
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## What are Managed Services?

Managed services is the practice of contracting with a third party for the transition, operation, sustainment, and/or optimization of a shared function, service, or process (i.e., an enterprise service), usually for some combination of reduced cost accruing from scale or improved operations through the benefits of innovation and expertise. Managed services are, however, evolving beyond their traditional scope of information technology (IT) outsourcing for lower cost. They are rapidly being adopted for higher-value enterprise services, such as acquisition, finance, human capital, cybersecurity, and data analytics, with a focus on value and innovation. Managed services are increasingly becoming a critical

tool for government and public sector enterprise service delivery, particularly to address hard-to-source talent, rapid technology changes, and to scale in response to changes in government mission, stakeholder needs, or citizen expectations. To maximize mission impact and minimize risk, government and public sector leaders should consider managed services in the context of an agency's broader operating model. Only in this way can agencies unlock the true value of managed services and avoid the pitfalls that have plagued these efforts historically.



# What are common Managed Services pitfalls?

Managed services are a growing component of government and public sector service delivery. While engaging managed services for evolving service scope and mission criticality is increasingly a viable and valuable option for government and public sector enterprise service delivery, agencies typically encounter six common pitfalls. Not addressing these issues upfront can result in failure to meet objectives, higher costs, unsatisfied employees and stakeholders, and industry friction.

## Common pitfalls in adopting Managed Services

**There is significant value in managed services, but execution can be challenging**

### Lack of executive alignment



Organizations often fail when they begin their journey without clear internal alignment on the program ambition, expected outcomes and drivers of value (e.g., high service levels are in tension with lower costs), the kind of organization/function they want to be and how a managed services provider can support that ambition. Executives need to agree on how they will manage key changes that go beyond the managed service itself, e.g., What the measure of successful outcomes should be and how they should be built into their managed services arrangements, how the process connects with (and impacts) the rest of service delivery, or how to plan and implement an appropriate leave-behind, “retained” organization to manage the service. Critically, this alignment is not a one-time event, but requires a periodic refresh that addresses changes to agency priorities, leadership team composition, innovations in the marketplace, and lessons learned.

### Treating it merely as a contracting action

Organizations often approach managed services as strictly a contracting action and not as a shift or expansion of their enterprise operating model. Such an approach overlooks the importance of taking an integrated view of the way the agency is operating today versus the way it needs to in the future to achieve strategic outcomes with its extended eco-system of partners and vendors.



### Not taking time to understand end-to-end processes



Sometimes agencies and programs do not have a view of the actual services they perform (or consume) in the delivery of their mission outcomes. This can lead to misunderstandings about which processes or services are critical to the mission. Agencies and programs may seek to outsource processes or services that are unsuitable or inappropriate for managed services due to mission needs or other risks. Not having a clear and documented understanding of the end-to-end processes can also lead to misunderstanding of ownership and process hand-offs between the agency and the managed services provider.

### Poor planning for the retained organization and capabilities required

Agencies have experienced the pitfall of “outsourcing one’s brain” and relinquishing too much responsibility to the managed service provider. The most overlooked aspect to overseeing managed services is the pivot required of internal skills and organization from performing work to overseeing the work. This shift requires critical capabilities within the organization to manage its expanded operating model (e.g., performance/service level agreements management, vendor management, business case tracking).



### Lack of customer and industry engagement



Sometimes agencies and programs do not take the time to build their managed services requirements and the business case iteratively and collaboratively with customers and industry. Without careful mapping of functions’ processes, hierarchies, and interdependencies with customers, it is easy to oversimplify or overlook critical service requirements, which results in unmet customer needs, non-compliance, and unrealistic managed services provider expectations.

### Absence of focus on transition

Often the process for engaging a managed services provider gets reduced to the vendor acquisition process, without consideration for broader people, process, and technology impacts to the organization or the time it will take to fully transition. Agencies that fail to develop a holistic roadmap inevitably fall victim to foreseeable and preventable risks (e.g., misaligned workforce, lack of oversight of provider performance).



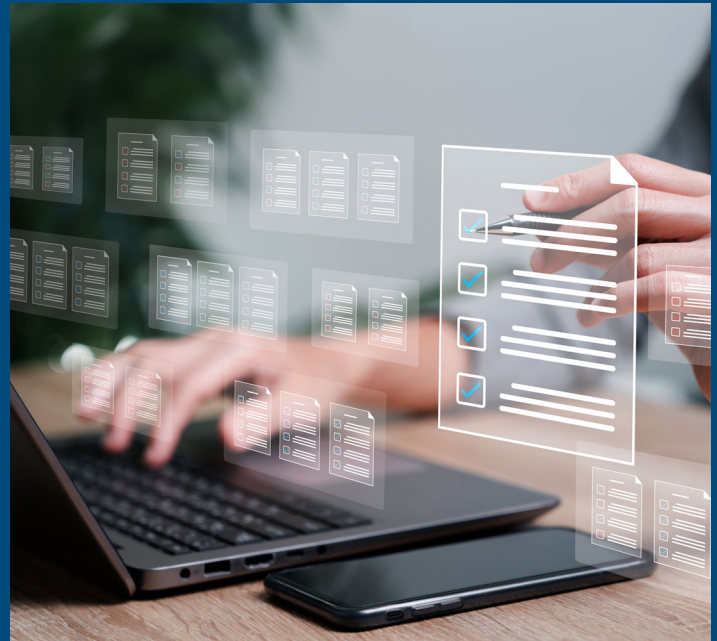
**The key to avoiding these pitfalls is to start with a holistic understanding of how an organization delivers its services and achieves its mission — what we call an operating model.**





## What is an Operating Model and why is it important for Managed Services?

An operating model, in its simplest form, is a collection of capabilities organized to drive a specific outcome addressing the **“why,” “what” and “how”** of delivering enterprise services. For government and public sector organizations, this typically takes the form of a set of mission programs, mission support functions, and enterprise services, supported by a combination of in-house employees and contractors and legacy and outsourced technology. But times are changing. For government to execute on its evolving mission and address changing stakeholder expectations (e.g., digital service delivery), new capabilities are needed to deliver its services and achieve its mission. Agencies and programs are increasingly considering how to do work differently — often through the consolidation of work into services to be delivered across an enterprise. At the same time, they are increasingly reliant on contracting to obtain the requisite talent and innovation (e.g., automation, artificial intelligence, machine learning). To do this effectively, agencies must start by rethinking their operating models and the way in which capabilities are organized to support this improved service delivery.



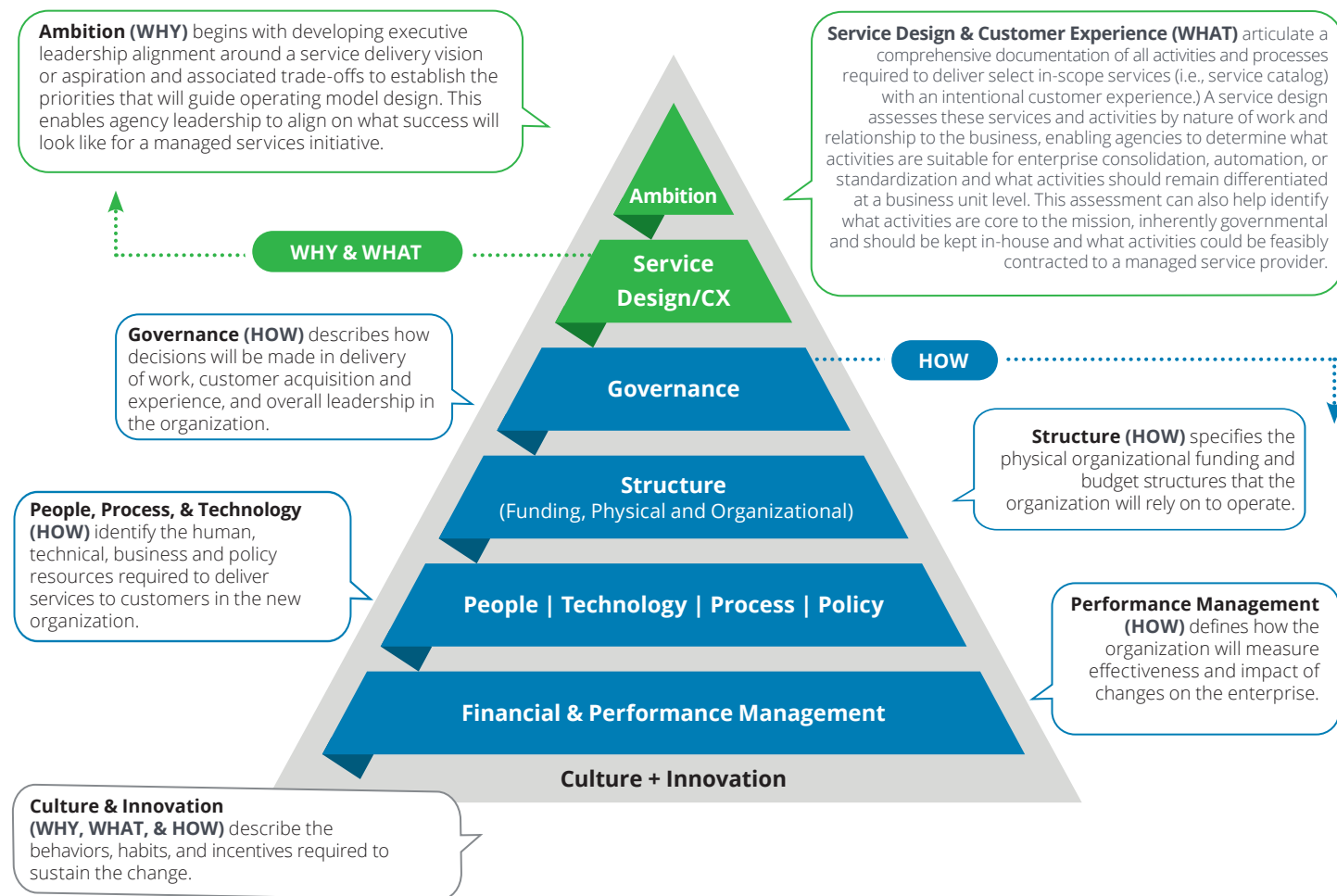
The first step is to understand the why, what, and how of service delivery. If the **“why”** of service delivery is to improve customer experience, the **“what”** answer may be different than if the overarching **“why”** goal were cost reduction. **“What”** services are defined and delivered can likewise change based on innovation in **“how”** work can be performed. For example, call centers have ceased being centers and are often decentralized and virtual today. And because the **“why”** of a call center is to efficiently address customer questions or concerns, they have ceased being call centers and are now contact centers managing multi-modal communications. The **“how”** of managing those contacts is quickly shifting to more automated approaches (e.g., chat bots). This evolution in the why, what, and how is occurring at differing speeds across the full range of mission support functions, so new strategic thinking is required to fully embrace new potential.

**Deloitte offers an operating model framework for thinking through the why, what, and how of service delivery, specifically in relation to managed services.**



## Designing an Integrated Operating Model

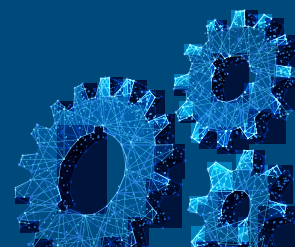
Successful transformations begin with developing an integrated operating model that aligns critical elements of the organization to an agreed upon ambition providing direction for how the organization delivers a set of services, outcomes, or products based on the mission.



To develop a comprehensive and sustainable platform for delivering mission or mission enabling work and services, each element of the operating model pyramid needs to be carefully designed.



The result of these efforts is an understanding of a future state operating model that can be compared against existing operations to enable the development of a holistic roadmap for achieving the ambition. In the government and public sector, a key aspect for defining a managed services roadmap includes identifying and evaluating the available managed services options.

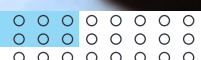


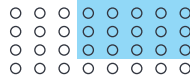


## What are the different Managed Services models?

In the federal marketplace, managed services may be obtained either through a commercial contract or by interagency agreement. Managed services fall into five common models typified by the following characteristics:

01	<b>Requirements ownership and control (and degree of standardization):</b> Single buyers can acquire managed services with unique requirements, while other managed services are government-wide solutions based on common requirements.
02	<b>Privity of contract:</b> There are three common legal and contractual arrangements for managed services in government: 1) direct privity by buying agency; 2) central buyer privity of the master contract and individual agencies privity over their task orders; and 3) interagency agreements with privity between buyer and provider agencies (but not between buying agency and the commercial managed service provider supporting the provider agency).
03	<b>Funding mechanisms and sources:</b> Different managed service models will manage costs of modernization and enhancements differently, which can impact life cycle cost patterns, e.g., depreciation and amortization management, and responsibility for life cycle management.
04	<b>Ownership of licensing for information technology components of the managed service:</b> Ownership of rights to use intellectual property can typically be resold to agencies, retained by private sector managed service providers, or owned by federal shared service providers.
05	<b>Agreement type:</b> Depending on scope and appropriations law, managed services might be provided via procurement contract, interagency agreement (IAA), internal memorandum of understanding (MOU), or via overhead chargeback, e.g., to a working capital fund.





	1: Marketplace	2: Central Multi-award Contract	3: Central Provider	4: Managed Service Provider	5: Shared Service Provider
<b>Definition</b>	Individual agencies identify market-based managed services to self-procure	Federal requirements included in government wide framework agreements (e.g., IDIQ, BPA, etc.)	CMA sets requirements and delivers services to Customer Agency (likely with Industry Partner supporting delivery)	CMA manages contract for managed services on behalf of Customer Agency	CMA delivers services through a combination of agency staff and contracts
<b>Graphic relationship Key</b>	<p>Customer Agency</p> <p>Central Management Agency (CMA)</p> <p>Industry Partner</p>				
<b>Requirements ownership/control/commonality</b>	Agency-specific requirements/ high local control/low government-wide commonality	Framework overall scope controlled centrally; individual task orders introduce variations	CMA owns requirements, maintains high control and desired commonality	CMA owns requirements, offers one or more commercial service offerings	CMA owns the service delivery model
<b>Customer service level agreement (SLA) responsibility</b>	SLA per individual contract	SLAs might exist at framework level; or per individual agreement	SLAs may exist in MOU/IAA between CMA and Customer Agency	SLAs may exist in IAA between CMA and Customer Agency	CMA per IAA
<b>Ownership of licenses for systems supporting services</b>	Could vary per individual contract	Framework agreement scope could offer alternatives defined in task order	Variable, likely licenses owned by/associated with Customer Agency	CMA obtains required intellectual property or license	CMA obtains required intellectual property or license
<b>Privity (i.e., who is party to a contract)</b>	Agency has privity with Industry Partner	CMA privity with framework agreement holders; Agency privity with task order awardee	CMA has privity with Industry Partner	CMA has privity with Industry Partner	CMA has privity with Industry Partner
<b>Agreement type</b>	FAR or non-FAR procurement contract	Framework Agreement: IDIQ or BPA; task order procurement contract	CMA has procurement contract; IAA or MOU between CMA and Customer Agency	CMA procurement contract with Industry Partner; IAA with Customer Agency	CMA procurement contract with Industrial Partner; IAA with Customer Agency
<b>Funding</b>	Agency funded	Agency funded at TO level	CMA funded or Hybrid CMA/Customer Agency	CMA funded (with IAA revenue from Customer Agencies)	CMA funded (with IAA revenue from Customer Agencies)





# Getting started on the Managed Services journey

To begin the managed services journey, agencies can take the following steps:

## Step 1 : Develop an Enterprise Services Transformation Ambition

Decisions around managed services should be taken as part of a broader enterprise service transformation strategy and plan for a future state operating model. Managed services need to be part of a broader strategic set of considerations for overall service delivery.

## Step 2 : Develop an Enterprise Service Blueprint

Build a service offering view of your program and choose services, functions, or sub-functions to consider in scope for managed services. Examining the nature of work to determine a) what work is transactional vs. strategic, b) suitable for consolidation vs. distributed delivery, c) where there's potential for technology enablement to inform the scope and nature of the managed services program. Developing this lens ahead of time is often clarifying to leadership, providing focus on the biggest service offerings in need of change or improvement to meet organizational goals. Not all service transformation will make use of managed services, of course. Some transformation is best achieved by use of other policy, process, or organizational changes. Some functions often stand out, however, as good candidates for managed services based on criteria, such as

- a. Level of criticality to core mission and how inherently governmental the work is;
- b. Availability and quality of shared or managed services in the marketplace;
- c. Need for control;
- d. Quality and internal availability of skills;
- e. Data protection and privacy requirements and risks;
- f. Complexity of interface with other services and their delivery model(s);
- g. Maturity of current processes and ability to adopt a common process;
- h. Need for innovation and efficiencies.

## Step 3 : Develop Requirements and a Business Case

The best customers of managed services take time to iteratively build requirements and the business case for the managed services. Benchmark current performance, cost, or satisfaction, even if only to prove and communicate that there are no baselines available. Understand and engage the full range of internal stakeholders to maintain compliance and customer focus and to build agreement with the goals and vision for the function.

## Step 4 : Engage Industry

Communicate early and often with industry during market research to confirm feasibility and availability of solutions. Share draft requirements and solicitation documents to solicit feedback on industry practices, build a strong shared understanding of the goals, current state, and interrelationships with and dependencies on out-of-scope processes. Build a process that accommodates due diligence sessions to enable frank 1-on-1 conversations and questions and answers that build understanding. Industry days are good for communicating agency goals, but do not encourage two-way learning due to industry's fear of compromising proprietary concepts or competitive advantage in a public forum.



## Step 5 : Evaluate the current state of your capabilities.

Take the time required to assess the current state of critical capabilities required to manage the extended operating model, including where they may not exist at all and need to be created. Understand which critical enabling capabilities in the current organization are not sufficiently mature to support a shift to managed services. Use this understanding to plan to build up or upon existing capabilities to establish new or retained organization functions required to properly oversee and direct the integration of managed services. The current state will differ for each organization, but in our experience some of the critical oversight functions to plan for includes a.) Customer management liaison function, b.) Enhanced agreement management function, c.) Process/requirements ownership, measurement and policy control function, and d.) Service strategy and performance management (see descriptions below).

### Illustrative Example: Deloitte Service Delivery Capability Maturity Assessment

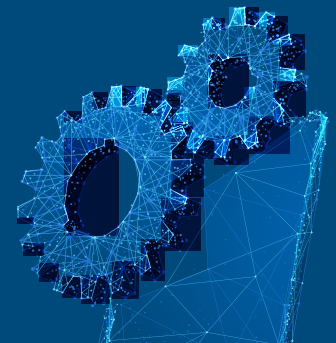
Dimension	Capability	Category	Pin Your Progress
<b>Strategy</b>	Scope of Services	Services Strategy, Catalog, and Design	Low  High
	Service Delivery Strategy	Operating Model Strategy	Low  High
	Value	Development of Business Case	Low  High
<b>Work Delivery Management</b>	Service Performance Management	Customer Experience	Low  High
	Customer Relationship Management	Customer Communication Channels	Low  High
	Customer Relationship Management	Customer Analytics/Value Creation	Low  High
	Sourcing & Service Provider Relationship Management	Service Request Management	Low  High
	Sourcing & Service Provider Relationship Management	Transition Oversight	Low  High
<b>Process, Technology and Infrastructure</b>	Program Management	Transition Methodology, Capabilities and Resources	Low  High
	Process	KPIs	Low  High
	Process	End-to-End Processes	Low  High
	Technology	Automated Processes	Low  High
	Technology	Enabling Technologies	Low  High

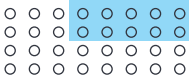
**Key:**    Triangles indicate current state capability maturity



- a. Customer management liaison function:** implementing managed services requires an organization to understand and manage its own stakeholders by acting as a liaison between the customers and managed services providers. This function should include feedback loops to inform the vendor management function, including recommendations for updates to requirements. The function should be connected in other meaningful ways to agency customers to help inform product/service roadmap input to the service provider. Great customers avoid becoming a passive consumer and are engaged participants in building the future with their managed service providers. Agencies need an organization to regularly track user/stakeholder satisfaction and manage communications with users and stakeholders.
- b. Enhanced agreement management function:** because managed services are often more integrated with critical processes outside the scope of the managed services agreement – and are therefore among the more complicated acquisitions to manage, enhancements to the skills of your acquisition professionals and associated acquisition management and quality assurance functions is likely. This function must focus on agreement management, relationship management, and marketplace expertise. Agreement management covers activities like contract performance, changes, price adjustments, and cost monitoring. Relationship management requires competencies for excellent two-way status communications and managing expectations (e.g., award fee criteria and providing product/service roadmap contributions). The Agency must also retain marketplace expertise to maintain awareness of changes to the services market in terms of participants, offerings, pricing, risks, and other dynamics.
- c. Process/requirements ownership, measurement, and policy control function:** the Agency must retain experts and process owners that remain up to date on how functions are performed to maintain and update agency requirements, help manage changes, review and update SLAs, and maintain integration with policy and governance.
- d. Service strategy and performance management:** the Agency should create or modify existing strategy and performance management organizations to explicitly maintain and review service delivery performance and performance management of functions in the newly defined operating model, including business case management. A service delivery function will plan service integration as up- or downstream services impacting the managed service change and require adjustments to the managed services with the agency as well as across multiple services providers, if applicable. This function often includes a continuous improvement capability to address refreshes to the operating model in which the managed services functions.

In conclusion, utilizing managed services holds tremendous opportunity for transforming government and public sector organizations when approached with an integrated operating model lens as described in this paper. Learning from both successes and failures points to the need to proactively align on the ambition, goals, and outcomes (why) to inform the types of work and services to be performed within the agency as well as those with managed services providers using thoughtful criteria (what) and finally, identifying and investing in the required enterprise service management capabilities (how) that may be new or changed to manage the new and extended operating environment.





## Further reading and contact information

Deloitte Global Outsourcing Survey 2022: Beyond outsourcing: Entering a new sourcing ecosystem, Deloitte Research, 2022.

<https://www2.deloitte.com/us/en/pages/operations/articles/global-outsourcing-survey.html>

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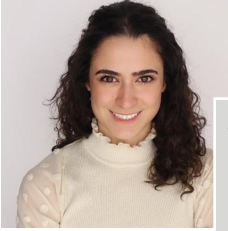
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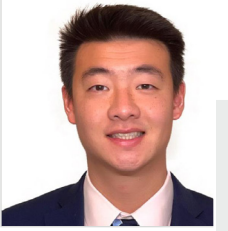
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