

IT Financial Management Matters

More informed and business beneficial decisions relating to IT service management can be made with the help of IT financial management.

IT Financial Management (ITFM) is the discipline that enables an executive to understand the business of IT service provision.

In this White Paper, David Boyd Head of Operations at Accordant Solutions Ltd., describes the benefits of implementing robust ITFM practices, how those benefits extend far beyond the IT department and how it can radically change perception of IT service provision within the enterprise.

A Service Centric World

The past 100 years has seen a huge change in employment across the western world. In the early 1900s the majority of workers were employed in agriculture and manufacturing and only 30% of workers in the western world were employed in the services sector; the services sector now employs over 80% of the workforce. This change, in part due to advances in machinery and robotics, is reflective of our consumption patterns; our lives are busy, we demand portability and flexibility and we do not want to be burdened with cost of ownership.

A clear example of this is our consumption of utilities, for example electricity; once if we wanted electricity in our home or office we would have to buy and install a generator, find a reliable fuel supply and maintain the infrastructure. All costly processes that are totally independent of how much power you actually need or will use. Now the process is very much easier, your provider gives you what you need and you pay for what you use. You do not have to worry about the power plant, the staff that work there, the fuel supply, the transport mechanisms or the infrastructure. As long as the price is fair, you are happy.

The same evolution is occurring in IT. Provision of technology or technical capability, whether it be from an external (e.g. cloud) provider or from the internal IT department, is now – more than ever – service based. Consumers of enterprise IT services (e.g. lines of business) do not need or want to know about the technical details, or adopt the ownership of data centre infrastructure. Indeed, they often do not want to know about governance, compliance or security either. What they want is cost effective, reliable services that enable them to do their job quickly and efficiently.

Defining the Value of a Service

This requirement brings a challenge to the service provider. Services are often intangible and the value they offer can only be quantified by the consumer. Consumers will always pick the service which provides them with the functionality and features they want at a price which they



are willing to pay. Furthermore, the value of a service is not static, it changes in line with consumers' requirements and with environmental and economic conditions.

The service provider must, therefore, seek to provide services which offer sufficient utility (the ability of a service to support the consumer's desired outcomes) and warranty (the quality to which the service is delivered). These measures of value are well understood within IT departments and management strive to work with the business and deliver relevant services at an expected level of quality.

Whilst a service can be described in terms of utility and warranty to assign value a third dimension is needed, and that is cost. A first class long-haul flight is a service with excellent utility (you get to where you need to get to) and excellent warranty (you arrive refreshed, well fed and relaxed) but most of us do not perceive it as having good value because of the price tag. To assign and understand value both the provider and the consumer must understand the cost of a service. In addition, the provider must also be aware of the cost of competing services and the consumer aware of the impact of using cheaper services. In our analogy, if an executive doesn't see the value in a first class flight, but arrives unrefreshed and unable to work effectively it is not to his best advantage. The three dimensions of service value have complex interplays, if you only know two you have limited the reach and value of your service provision.

Define Cost to Convey Value

Many IT executives find themselves in a vicious circle, where their departments are underrated by business units who don't believe their services are properly aligned to the business direction, where quality is perceived to be low and costs are unpublished or unknown.

This perception can hinder the communication processes that are necessary to ensure IT is positioned to develop new services in the timelines expected by business, inevitably leading back to poor service quality and low value recognition. A significant knock-on effect of this is deterioration of internal morale, at state that can fuel the vicious circle through increased staff turnover, decreasing service performance and further loss of reputation. Breaking this cycle is important if the enterprise IT department is avoid the rise of Shadow IT and complete with readily available solutions from external providers.

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Despite the large budgets afforded to IT departments, it is common to find that IT executives are unable to demonstrate how much IT spends in the support of a business service. In the past, when IT infrastructure and support was highly fragmented, cost management was readily achievable but over the last two decades consolidation of data centres, virtualisation of IT infrastructure and the introduction of global support teams has made those calculations very much harder. Even where the capital and operational costs associated with providing network services (for example) can be found, how they are attributed to a business service is rarely measured.

Robust IT Financial Management Opens Opportunities

IT financial management (ITFM) is the discipline that enables an IT executive to understand the business of IT service provision. It involves understanding the detailed costs associated with service provision and the execution of financially assured change. Fundamental to ITFM is an understanding of the cost of service provision. This data alone is of immense value to the IT department, yet the value of robust ITFM practice goes extends well beyond IT and into the business where it can influence business direction and strategy.

The cost of service provision is made up of: direct and indirect; fixed and variable and; capital and operational



costs. Each of these can be further subdivided, for example direct, fixed capital costs associated with data centre infrastructure can be divided into network, server, storage etc. For the IT executive, knowing the individual costs at this level of granularity gives the information needed to perform targeted efficiency and/or consolidation initiatives. Also the data naturally lends itself to the creation of more detailed business cases making budget approvals less onerous and spending requests more relevant.

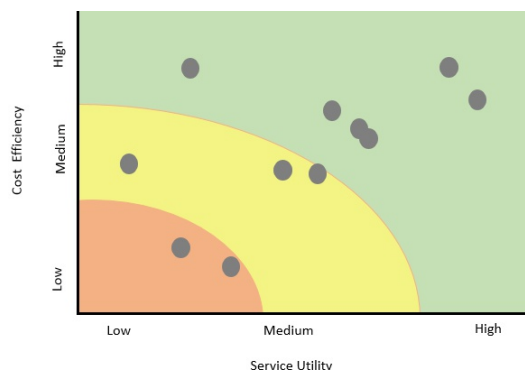
Where internal IT services are not costed it is easy for business users to assume that cloud services (e.g. from Amazon, Google or Microsoft) are cheaper and that obtaining cloud technology is quicker and easier than following internal company processes. Working with finance and business leaders the CIO can articulate the cost of service provision facilitating direct comparisons with similar (e.g. cloud) solutions offered by third parties and provide expert advice - based upon company policy, security and compliance - on the most effective approach.

Beyond the operations department, this data can be used to enhance communications with the lines of business and influence business direction and strategy. Typical conversations between IT and the lines of business will focus on technology (which the business isn't interested in) and utility (which the IT department may not fully understand), ITFM data changes this. The cost of a service becomes the common language against which the business defines value.

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When the cost of multiple services are placed side-by-side the benefits of ITFM are heightened. Comparing the value (which could be directly linked to revenue) to the cost of service provision, it becomes clear which services are performing well (e.g. profitably) and which are not. These comparisons drive business strategy; where IT service provision is disproportionately high with respect to business benefit a case can be made for cost reduction initiatives or discontinuation. Conversely, where IT spend is relatively low but

business benefit is high a clear case for improving the warranty of the service can be made. For business executives, insights into true cost of service provision allow for the setting of detailed finance based targets and benchmarks.



Plotting cost against value for multiple business services helps to guide strategic direction and highlight investment or discontinuation opportunities.

Unit Based Costing

Another interesting outcome of robust ITFM practice is the development of unit based or consumption based costing. Several mature organisations have achieved this already, few more comprehensively than eBay. Defining the provision of a URL as eBay's 'lowest common denominator' eBay calculate and have published historical financial and environmental data (see <http://tech.ebay.com/dashboard>). eBay use unit based costing as the benchmark against which projects are approved. For example, a project whose output is an updated code set which requires fewer CPU cycles to generate a webpage will be run through their ITFM engine to determine how many less servers would be required to generate the same revenue, how much less power would be required to run those servers and what the return on investment would be. If a good return is demonstrable, the project will be approved. In this way, eBay have developed a clear project approval process based on good ITFM practices. Similar implementations are in place in other organisations, many airlines measure the cost of providing 'a passage mile', and Telco's are able to state the technology costs associated with providing a customer with a text message or a minute of a telephone call.

Calculate the Cost of Service Provision

To quantify the IT costs associated with a business

service one has to calculate the capital expense with data centre equipment (e.g. generators and air conditioning) network, storage, backup, server and security infrastructure, licence costs for operating systems, middleware and applications. Also the operational costs associated with data centre rents, data centre security and management, power and cooling, support staff, hardware and software maintenance, cloud consumption and managed services.

This data is often difficult to find and will involve the interrogation of historical orders and invoices, of governance and service management tools, the general ledger, and HR records. In many cases these costs will not be easily obtained, much of the infrastructure will be shared, and many support staff will work across business services. Identifying, collating, assessing, validating and refining data from all these multiple data sources is a complex process which involves a great degree of diligence and structure.

Once the data has been collated, validated and refined you will find it necessary to present it in a manner which is relevant to the reader. Contribution statements and P&Ls are typically of interest to the finance team and best presented in spreadsheets of raw numbers; IT managers prefer to know the cost details of infrastructure and staff and; business leaders need to see operating expense ratios, and cost v benefit comparison charts.

Clear and well-presented ITFM data will set in motion a cascade of questions and answers which will lead to improved communications between IT and the business, and increased input from IT into the direction and overall strategy of the business.

ITFM and Accordant Solutions

At Accordant we specialise in IT Financial Management. Using our proven methodology and AccSL™ (our custom-built suite of software tools) we can help you to work out the true cost behind the provision of an IT or business service. We package our results in a clear structure which allows IT executives and business leaders to understand cost and assign value. Within AccSL™ we are able to conduct what-if analysis allowing you to understand the cost implications of change which form the basis of business justifications.

Our ITFM services sit at the heart of what we do and are supported by our suite of consultancy services which include: IT, data centre and cloud strategy development; IT and enterprise service management; transformation and migration; data management and analytics and security.

Conclusion

Financial management within IT is as important as it is in any part of the business, yet the lack of granularity in the financial metrics and trends available to IT management compromises their ability to implement meaningful change, articulate the value of their service provision and compare internal services to those provided by third parties. IT organisations which have implemented and maintained robust ITFM practices can be run more efficiently, work closer with the business, can influence business strategy and be proactive in responding to the changing needs of the market.

For more information...

Visit us at www.accordantsolutions.co.uk

About Accordant

At Accordant, our motivation is simple: We want to help business and IT leaders optimize their services and solutions for cost and performance.

We achieve this through our unique set of financial and technology disciplines which give management teams unique insights into the cost of their services. Armed with this data, our customers have been able to formulate strategic plans which drive optimization initiatives, improve service delivery and understand the impact of change.

Underpinned by our purpose built software suite, AccSL™, our consultants give the power back to leaders struggling to keep pace with the changing face of enterprise IT.