Creating Technology
Financial Accountability
IT Financial Management and Cost Transparency
White Paper

comSCI
www.comsci.com
CREATING FINANCIAL ACCOUNTABILITY FROM IT ACROSS THE ORGANIZATION

Insight into IT Costs and Services Enables CIOs, CFOs, Business Unit Managers and Business Partners to Make Strategic Technology Decisions

Executive Summary

Rising costs and greater demands with fewer resources are spurring many businesses to look at their IT investments and identify opportunities to lower or control IT spending – without impacting services delivered to business users. At the same time, CIOs are pressured with providing the highest quality service at the best possible price while also demonstrating the value of IT to their internal customers. Additionally, there is continual pressure to invest in new technologies to meet changing business needs and maintain a competitive advantage. However, the CIO is not alone in managing the consumption and total expense of IT. It requires the organization to revise their behavior and attitude regarding their use of technology. To do that effectively, organizations need IT financial transparency with accurate insight into technology budgets and forecasted expenses.

Yet, for an expense that typically represents a significant portion of company revenues, most organizations have little to no visibility into how IT spending is linked to the business strategy and economic value. While distributing costs evenly across the organization has been a mainstay of many organizations’ IT chargeback model, it does little for the business manager trying to understand the cost of IT in relation to the value of the products or services they are receiving. By not having detailed insight into the IT products they are actually consuming, with Total Cost of Ownership (TCO) of all their associated costs, it becomes difficult, if not impossible to forecast or control consumption.

Even with the hardest days of the recent recession likely behind us, it remains critical for organizations to make cost-conscious decisions that deliver maximum value. According to Gartner Research, overall IT forecast growth in U.S. dollar terms has been revised up from 5.1 percent to 5.6 percent for 2011 and from 4.4 percent to 4.5 percent.
for 2012.¹ Even with marginal budget increases, many organizations are challenged to deliver additional or new and improved services and make future investments that drive real ROI to the organization.

How can organizations ensure effective communication between IT and business executives to empower the IT organization to continue delivering optimal technology solutions and that the business users are making the most responsible technology decisions? Implementing an automated technology financial management solution streamlines the entire IT financial management process; organizations can enable the financial management supply chain to achieve greater control over costs and increased visibility into IT product and service rates. Combined with Web-based monthly invoices, organizations can communicate the value of IT while gaining the clear IT cost visibility necessary to manage and control expenses.

### Why is IT so Expensive?

IT investments are a significant expense for most companies. For example, a January 2010 report from Forrester Research Inc. reveals that IT spending as a percent of revenue ranged from 1.0 percent for wholesale trade firms up to 6.8 percent for financial services firms, on average.² In a December 2009 survey from McKinsey & Company respondents indicated that IT has become more important to improving business efficiency and reducing costs across the enterprise than it was in 2008.³ More than one-third of respondents cite delivering services at the lowest possible cost as a key goal for their organization. If they want to fundamentally change how their internal organization consumes technology, organizations should involve the full spectrum of stakeholders – from the CIO and CFO to business unit managers and even the organization’s business partners. That means both inserting accountability and providing transparency into products, services and their associated costs and consumption, so everyone in the technology financial management supply chain is empowered to make informed decisions.
IT FINANCIAL TRANSPARENCY DELIVERS THREE STRATEGIC SETS OF INSIGHT THAT DRIVE REDUCED SPENDING

**IT financial transparency helps business users understand the cost of IT products and services and enables strategic spending decisions.** Without visibility into the costs of IT products and services, as well as the value delivered, business unit managers who have a line item for IT on their operating budget are left questioning why IT is so expensive. That’s because they don’t have a true understanding of what goes into the cost of IT products and services. Are they paying for just the software? Are they also being charged for servers and storage? Help desk support? Without a line of sight into their own consumption and the true cost of IT products and services provided to them, they cannot make informed technology decisions or effectively change consumption behavior.

**CFOs gain greater transparency and detailed insight into IT costs, revealing the true cost of spend at the business unit, department and even individual level.** As expenses rise or fall, CFOs and CIOs need to manage and have access to all technology costs so the organization can prioritize IT investments, understand key benefits and address operational gaps - all without putting the success of the business at risk. IT financial transparency provides insight that helps with product profitability analysis so organizations can understand the cost of technology and its strategic value to the business.

**CIOs need insight into unit costs to better define and understand IT service delivery and its costs.** When they have this information, they can make equitable comparative analysis of other alternatives, such as third-party outsourced solutions or cloud-based applications. This enables them to have insight into the value-to-cost relationship, identify opportunities for lowering or containing expenses, and, at the same time, provide a CIO Invoice to their internal customers. When CIOs have access to this information and can communicate effectively, they can help the IT organization operate efficiently and effectively; assist business units with identifying products and services that boost profitability and help non-IT leaders understand how the organization is benefiting from IT.
DRIVING DEMAND

Following an elongated period of economic turmoil, many organizations have reduced IT spending, while others have noted they are willing to increase IT investments that drive real returns to their companies. This requires insight into budget data and understanding what products and services will deliver the greatest profitability. For example, a publisher increasing digital content delivery might want to expand infrastructure and support services to support 24-hour content delivery.

McKinsey & Company’s global survey indicate that only 31 percent of respondents at public companies expected to maintain or increase their current IT spending last year, while 62 percent of respondents at private companies said the same. For new investments, the pattern is similar: 60 percent of public-company respondents expect to maintain or increase new investments, compared with 73 percent at private companies.

One reason technology spending is likely to increase for some organizations is the desire for technology refresh as companies upgrade end-of-life or legacy hardware. These organizations do not want to be burdened carrying forward a non-performing expense, such as license fees for underutilized applications or maintenance support for their legacy hardware. As organizations consider new investments, a technology financial management solution can eliminate potential oversights and omissions and ensure greater fiscal control. Likewise, innovator organizations are always planning three to five years out for new technologies and they are willing to make these changes.

Accounting for hidden expenses is essential for planning purposes and budget control. While cloud computing is enabling some fundamental changes in how IT is delivered, it is also creating a conundrum among business users. That is because business users often fail to consider the additional investments that go hand-in-hand with commoditized cloud services such as help desk support or virus protection to comprise the total end-to-end cost of the solution.

Third-party cloud computing vendors tout a cost-saving value proposition, which is appealing to buyers, but it also requires internal IT to be able to equally articulate the value of services they provide. When the internal IT organization can clearly communicate the costs and value of the solutions
they provide, businesses can then make informed decisions regarding alternate solutions.

Just as new technologies have the ability to offer savings and flexibility (as well as hidden expenses), the way that IT organizations choose to manage their spending can also offer clear benefits – and, sometimes, hidden pitfalls. Many organizations have managed IT spending either through general ledger accounting platforms or by using disparate systems to track costs and expenses. A general ledger approach may reveal overall costs, but fails to delve deep into the consumption details that comprise a total solution. Technology advancements over the last decade have increased overall technology interoperability and now allow for the automation of data collection from disparate systems. A technology financial management solution eliminates the silos of IT consumption, usage and cost data by providing a centralized system for increasing IT cost transparency.

THE BUSINESS OF IT ECONOMICS

As more third-party and cloud solutions become available – including infrastructure, software, platform, business processes, outsourced IT labor services, etc. – internal IT organizations need to demonstrate their own value. This means running the internal organization like a business, offering better or equally competitive service.

According to a recent Gartner research report, the tools and practices for effective chargeback are now mature enough for implementation to yield positive benefits, as long as there are goals for success with chargeback.⁵
One way to achieve that is by providing visibility and transparency for resource optimization and alignment of labor – even if the cost structure is run at a no net profit. To do that, organizations need to eliminate an even allocation approach and create an effective chargeback or showback model that is based on actual consumption.

Allocation processes such as an even distribution of expenses contributes to the perception that IT is either free or too expensive. Worse, it completely hinders end-user accountability about technology consumption. For example, a business unit manager may note a monthly charge for $180,000 for IT. However, without detailed insight into what comprises that cost, how can that manager determine the business value received for that charge?

IT costs that are charged back to cost centers either via an even distribution methodology or based on prorated allocation do not reflect actual IT usage. As a result, some departments are charged for more than they consume, while others are charged less. When IT costs are not accurately charged back, it limits productive communication around IT investments, inhibits accountability and prohibits the business from aligning IT investments with the overall business strategy.

To change this dynamic and affect consumption behavior, it’s important to examine the perspective of key stakeholders – the CIO, CFO and business unit managers – and how their role impacts technology consumption and services. Organizations then need to establish the tools, technology and processes that support a transparent approach to IT financial management.

**CHANGING CONSUMPTION BEHAVIOR**

Over the last decade, the role of the CIO has gained increased significance as technology continues to play a key role in capturing efficiencies across the organization. Activity-based service costing is taking center stage for organizations focused on understanding and reducing IT costs. Service
costing enables companies to calculate the total cost of products and services and forecast business needs based on actual consumption data. This helps the CIO create an accurate budget, communicate what the business will and will not pay for, and helps involve IT managers more in the financial aspect of their IT product and service delivery.

With a better understanding of total costs, the CIO can determine how much it costs to deliver services to internal customers as well as the unit rate associated with each and every product and service delivered. It also provides a better understanding of total costs so they can more effectively manage resources and vendors. Using an activity-based costing model, internal IT can also demonstrate the value delivered.

For example, if an organization combines engineer costs into the cost of network connectivity, application hosting or email, they risk elevating the cost of the service beyond what is competitive. However, if the charges for maintenance – repairing, enhancing and nurturing the IT infrastructure that supports those services – are presented as a line item, internal customers gain insight into what they are paying for – the solution and the support – thereby increasing their value. When the CIO is able to provide the organization with that information via a monthly invoice, regardless of whether the service is internal or external, business users can then fully understand their technology consumption and its associated costs.

From the CFO’s point of view, there is a need to articulate the details of consumption that business units are asked to be accountable for rather than simply allocate expenses based on a prorated usage allocation or department head count. By communicating costs effectively, they can then begin to understand and measure the value of IT services to the business.

Having detailed visibility into IT expenses allows for better management of demand and weighing value against expense for rising technology costs. A technology financial management solution ensures consistency, accuracy and integrity of the data and supports data-driven decision-making. With this insight, the CFO can communicate to the organization what the business is paying for and receiving in terms of IT services, and ultimately influence behavior. By having accurate insight into resource utilization, the CFO can support escalation of strategic projects or influence departments to delay or drop lower-priority requests. Laser-like insight into expenses enables the CFO to determine impact on business profitability and prioritize strategic initiatives.
Engaging business unit managers and increasing accountability are key for a successful IT financial management strategy. As more business unit managers are targeted by third-party infrastructure and Software-as-a-Service (SaaS) providers, it is crucial that they understand the total cost of IT products and services – both those provided internally and externally – and the value derived from them.

When business unit managers understand how and why they are consuming technology products and services, they can then make behavior changes that influence consumption. Having insight into their actual usage via a monthly invoice increases accountability and enables business unit managers to prioritize decisions and become responsible corporate citizens.

From any perspective, fact-based decisions that encompass direct, indirect, and overhead costs can foster more productive dialog and organization-wide cost control that empowers business users to make optimal strategic spending decisions.

**GETTING THE VISIBILITY NECESSARY TO MANAGE AND CONTROL EXPENSES**

Financial discipline requires tools that align IT performance measures to organizational strategies. By implementing a solution that fosters tighter IT governance, businesses can then manage priorities and processes that transform IT from a cost center into a competitive advantage.

A technology financial management solution provides detailed descriptions of all incremental technology costs in a centralized database. Organizations can gain macro and micro level details of both actual consumption as well as total cost of technology. Instead of seeing a monthly charge for IT services, business users can view a comprehensive monthly invoice that itemizes every component of IT products and services. This supports more dynamic forward-facing budgeting, forecasting and planning, enabling business users to make strategic and responsible decisions based on actual data.

A service costing module is a critical component of technology financial management that can result in a significant return for organizations. By developing rates and costs for services, organizations can increase
transparency and build trust between IT and business unit managers. That is because with a service costing module in place, charges are allocated fairly and business users understand what it is they are paying for. Increasing the level of granularity around IT products and services also produces more accurate costs, enabling fair comparisons and accurate benchmarking. And, by having accurate costs, business users can compare internal costs to outsourcing and make the most strategic decisions.

When creating an IT service catalog, organizations should be sure to present the information in business language so users are able to process the information and make informed decisions. For example, instead of a line item that says “PC and connection, $450 per month,” include visibility into the IT cost categories such as PC acquisition costs, capacity planning, security, help desk support etc. By providing transparency, managers understand they are buying the entire suite of services, not just the hardware and software. By “speaking” in business language and providing transparency into IT expenses, organizations can encourage more productive conversations between IT and the business and encourage higher accountability.

By providing business managers with insight into their complete IT expenses in business language, they are now better armed to make strategic pricing decisions about the services they provide to their external customers (pricing for check processing fees, online reservations, ATM fees, etc.). For example, by understanding product profitability through more transparent IT financial management processes, business managers can better distinguish value-added activities and costs from non-value-added activities and costs. A financial management solution delivers the appropriate level of details that enable business managers to make informed decisions, accurately price new offerings and remain competitive in the market.

Successful technology financial management solutions are production systems that can replace existing internally developed cost allocation/cost recovery systems. To implement an effective and efficient chargeback process, a production system needs to be incorporated - not BI tools providing a high level “bill of IT” information. With a true production system, users can access all technology financial data, ensure optimal resource utilization and increase efficiencies.
CHANGING THE WAY PEOPLE USE TECHNOLOGY

Organizations that increase IT Financial transparency and enable key stakeholders to make more data-driven decisions can also positively affect consumption behavior. By providing visibility into costs of technology products and services through an automated approach to IT technology financial management, organizations can facilitate change, strengthen the dialogue between IT and the business units and positively change the way people use technology.

1 Gartner Research, “Forecast Alert: IT Spending, Worldwide 1Q11 Update”, March 2011, ID G00212180


About ComSci

ComSci delivers Technology Financial Management solutions that empower organizations to implement more effective IT financial governance. Through decades of experience and a suite of Web-based tools, ComSci helps IT organizations enhance technology transparency and visibility, which in turn enables business units to understand and optimize demand and utilization of technology resources.