Agenda

• Why IT Financial Management Matters more now?
  • IT Financial Management in the Digital World
  • How IT4IT standard enables ITFM in the digital world
  • Questions
Need for IT Financial Management

Today’s CIOs face a difficult balancing act: to achieve high performance they must manage today, control costs and deliver at increasing pace tomorrow

Run, Grow, Transform IT...
- Deliver day-to-day services
- Enhance quality of IT services
- Create more efficient, seamless integration across services
- Introduce Technology Innovations to create differentiation

...while controlling costs and driving value
- Deliver more with flat or declining budgets
- Maximize business return and value from IT Investments
- Enhance efficiency, effectiveness, productivity, by removing complexity from the IT portfolio
- Simplify and standardize service costing

62% of CIOs do not believe that there is adequate transparency of IT costs, contributions and performance.

74% of IT organizations cannot clearly define their IT services and their associated business value.

81% of IT organizations cant consistently report/chargeback the full costs of IT services to business units

93% of CIOs cannot consistently apply good benefits realization practices including benefits harvesting

In the face of these challenges, IT organizations need to manage IT finances in transparent and efficient way to achieve results:

- Get more bang from the IT buck and drive value through aligning to market trends, to maximize ROI
- Forecast and plan IT budget effectively
- Benchmark your IT spends against the leaders in Industry
- Implement service based costing and data driven investment decisions
- Optimize IT costs and asset management - reduce Unit cost to serve

Source: Gartner ITScore surveys 2015
The 2015 Gartner CIO survey
Scope of IT Financial Management

- Manage the preparation of forecasts/budget, challenge department forecasts as required, ensure forecast numbers align with company targets.
- Be accountable for the formulation of the 3 year / 5 year investment plan (company dependent)
- Manage capital expenditure and capital budgeting processes
- Manage IT Financial policies, delegation of authority, procedures, cost centre structure, project reporting structure

- Analyze and report IT spend actuals, highlight corrective action to ensure IT delivers to financial plans
- Manage IT service charging processes both outside and inside IT
- Assess value delivered by IT services and price IT services.

Typically out of scope:
- Tax and treasury management
- Legal entity management
- Asset management
- IT headcount management
- Procure to Pay processing
The benefits of strong IT Financial Management

Today’s CIOs face a difficult balancing act, to achieve high performance they must manage today, control costs and deliver at increasing pace tomorrow

- Enables data driven prioritization of IT Investments.
- Allows IT to set expectations in an effective manner through long term accurate planning.
- Enables IT to be run as a business, for the business.
- Provides data points for IT Optimization: by providing multiple views on the cost of IT services.
- Provides early visibility of opportunities or problems so corrective actions can be taken.
- Increases the relevance of IT to the business through appropriate cost and value reporting.
### IT Financial Management Maturity

A strategic shift is required in IT investment planning to move focus from “Run the business” and “Grow the business” to “Transform the Business” projects and services.

<table>
<thead>
<tr>
<th>Maturity Level</th>
<th>Level of Sophistication</th>
<th>Futuristic **&lt;br&gt;IT operates as a profit center</th>
<th>Optimized&lt;br&gt;IT operates as a value creator</th>
<th>Defined&lt;br&gt;IT as service provider</th>
<th>Initial&lt;br&gt;IT as Cost center</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>• Investment decisions based on business value of service&lt;br&gt;• Sophisticated analytics engine proposing insights for optimizing costs&lt;br&gt;• Service Priced to create profit for funding IT Budgets</td>
<td>• Investment planning linked to a service catalog&lt;br&gt;• End-to-end integration of service costing to identify true TCO&lt;br&gt;• Automated chargeback mechanism enabling cost recovery tracking</td>
<td>• Investment planning and forecast based on product sets &amp; business units&lt;br&gt;• Cost information available across the enterprise &amp; reviewed for strategic decisions&lt;br&gt;• Well defined chargeback based on usage pools [departments…]&lt;br&gt;• Fixed price not directly related to service cost</td>
<td>• Budgeting based on asset classes e.g. software, infrastructure etc.&lt;br&gt;• Departments have their own systems/manual process for cost capture&lt;br&gt;• No defined chargeback mechanism</td>
</tr>
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</table>

* Chargeback Function is optional for IT based on business decision

** Futuristic State is an optional maturity level and may be user for IT services in context where IT is provided to business partners E.g. Franchise Partners for example
Which level is your IT organization ready for

Assessing target maturity level can be tricky, it depends on the overall maturity of the IT organization.

Traditional IT Organization:
- Has a legacy core and operations
- Builds incrementally upon existing infrastructure and services
- IT is seen as a cost center
- Delivery speed is perceived as slow

Multi-speed IT Organization:
- Has a hybrid core and operations
- Builds incrementally on core and innovates on consumer experience.
- IT is seen as a service center

Digital IT Organization:
- Has cloud based core and operations
- Links external and internal capabilities to innovate on core services as well as consumer experience.
- IT is seen as a value creator
- Delivery is with Agile methods
- Speed perceived as fast
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How does ITFM work in Organizations at initial maturity stage

Current ITFM state

Data Sources
- IT Monitoring
- Service Desk
- Storage
- CMDB
- PPM/PSA
- GL, COA & Expenses
- Public Cloud
- Private Cloud
- SharePoint, Internal Cost Models, Apps, Vendor Invoices...

ITFM Capability
- IT Budgeting
- Performance Metrics
- Benchmark
- Chargeback/Showback
- Cost Optimization
- Investment Planning

Currently, ITFM tools bring data from disparate systems to a consolidated data store to provide capabilities to analyze IT investments and spends

Issues/Challenges

- **Dependency on ITFM tools** – ITFM tools are typically used in large organisations and require significant effort and cost to implement.
- **Focus on managerial accounting** – At present ITFM in organizations focus on managerial accounting driven by the needs of corporate finance.
- **Fixed budget** - Budget is often fixed, lacks flexibility and is focused more on running the business & product management than on enterprise strategy.
- **IT viewed as a cost center** - IT organization, currently, is viewed as a cost center and doesn’t focus on the value IT investments can bring to an enterprise.
- **Limited cost transparency** - The current view of IT costs provides very limited visibility. Cost tracking in these organizations is done by the project and there is no view of the Total Cost of Ownership (TCO) at the service level.
What should ITFM look like in the Digital world

For CIOs, the focus now is to reinvent the Enterprise IT to convey business value in the midst of a Digital Revolution. To truly improve business outcomes CIO’s need a more mature IT Financial Management

Chargeback & Pricing
- Chargeback based on consumption and price
- To implement pricing models, organizations often start with a simple mechanism where price equals to cost.

Budgeting
- Maintain an authoritative list of all IT investments and measure the ROI of each investment
- Enable CAPEX vs. Opex decisions

Costing
- Track total cost of ownership for each service
- Define the offer catalog for all services offered internally or externally (or as a mix of both)
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IT4IT Standard enables end-to-end traceability to accelerate your ITFM Journey

Service Lifecycle:

- Business needs
  - Apply conceptual blueprint to logical design to ensure traceability on any discrepancies
  - Becomes...

- Logical Service Model
  - User consumable services aggregation
  - Published in...
  - Deployment of logical design to physical instantiation provides alignment between Dev and Ops
  - Released/Deployed!

- Physical Service Model (Realized)
  - Manage service subscription lifecycle and fulfillment
IT4IT Standard enables end-to-end traceability to accelerate your ITFM Journey

Stages of Service Lifecycle:

1. Servitize Everything
2. Build service budgets at required level of detail
3. Track costs Here
4. Aggregate costs at each lifecycle stage to understand TCO

Strategy to Portfolio

Requirement to Deploy

Request to Fulfill

Detect to Correct

Conceptual Service → Logical Service → Service Release → Service Release Blueprint → Service Catalog Entry → Desired Service → Actual Service
IT4IT Standard enables end-to-end traceability to accelerate your ITFM Journey

Service Lifecycle:
IT Investment Portfolio

Aligning business with IT and data driven decisions empower IT organizations to track actuals against budgeted costs.
IT Service Costing – Service Subscription

IT4IT framework connects various consumers with goods and services they need and fosters service consumption and fulfilment.

1. **Catalog Composition**: Listing of all IT services including 3rd Party Services.
2. **Engagement Experience Portal**: Service Bundled into Offers.
3a. **Request Rationalization**: Service Subscribed by Business Users.
3b. **Fulfillment Execution**: A desired service is created for each subscription.
3c. **Service Monitoring**: Subscribed services are delivered to the consumer and service consumption is monitored.

**ILLUSTRATIVE**
IT4IT uses the Service Backbone to establish transparency in cost flows for services offered by IT Organizations.

1. Service monitors created for subscribed services.
2. Usage Collection
3. Chargeback
4. Service Portfolio

Costs can be consolidated at any level of the service backbone giving end-to-end cost visibility.

Determines and tracks the Total Cost of Ownership (TCO) of a service.
IT Asset Management

IT Asset management ensures optimal utilization of assets and correct valuation of period costs of assets in use.

**Usage**
- Request for asset expensed cost
  - Input: Invoice for capital investments, period

**Service Monitoring**
- Depreciated Asset Costs per period
- Asset health and Utilization
- Keeps track of utilization and asset health. Interacts with capacity management capability to optimize assets (incl. hardware and software licenses)

**Finance**
- Invoice for capital investments e.g. servers
  - (from Sourcing & Vendor Management)

**IT Asset Management**
- Purchased Assets (from Sourcing & Vendor Management)

Note: The function of IT Asset Management is not included in RA v2.1 and is still work in progress.
IT Financial Management – Progress so far
IT Financial Management - Documents

- **IT4IT Pocket Guide** – This document provides an in depth view on the IT4IT Reference Architecture. It describes a reference architecture illustrated by an IT Value Chain necessary to manage the business of IT. IT Financial Management recommendations are incorporated as a part of IT4IT 2.1 standard.

- **Scenario documents** – This document provides a walkthrough on how service costing is calculated and tracked across the service lifecycle for a pure service and hybrid service with the help of a hypothetical scenario
  - Pure Service Scenario
  - Hybrid Service Scenario

- **Guidance Paper** – This document provides the major concepts of IT Financial Management
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