IT Service Management vs. IT Financial Management

Determining which is the chicken and which is the egg?

itSMF Dallas LIG April 10, 2013
Jason Byrd, Managing Partner
Agenda

1. Growing Financial Requirements Upon the IT organization
2. What the Relationship between ITFM and ITIL?
3. Using ITFM as an IT Chargeback Vehicle
4. ITFM Maturity Model Defined
5. ITFM Implementation
6. ITFM Software Tools
## Agenda

<table>
<thead>
<tr>
<th></th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Growing Financial Requirements Upon the IT organization</td>
</tr>
<tr>
<td>2</td>
<td>What the Relationship between ITFM and ITIL?</td>
</tr>
<tr>
<td>3</td>
<td>Using ITFM as an IT Chargeback Vehicle</td>
</tr>
<tr>
<td>4</td>
<td>ITFM Maturity Model Defined</td>
</tr>
<tr>
<td>5</td>
<td>ITFM Implementation</td>
</tr>
<tr>
<td>6</td>
<td>ITFM Software Tools</td>
</tr>
</tbody>
</table>
Which is the Chicken and which is the Egg?

ITSM

ITFM
IT Financial Management can be defined differently if the lens of ITSM is used

- ITFM is *generally* applying financial disciplines to the IT organization and technologies, and can be broken down ITFM into specific areas of focus to the right.

- However, within established IT organizations, ITFM has evolved to *specifically* mean something within IT Service Management (ITSM) and the ITIL Framework.

So, is ITFM driving ITSM... or the other way around? And what is ITSM anyway?
Across all of the process areas, there are many of which touch also on ITFM:

- Service Strategy
  - Service Portfolio Management
  - Financial Management for IT Services
  - Demand Management
  - Business Relationship Management

- Service Transition
  - Transition Planning and Support
  - Change Management
  - Service Asset and Configuration Management
  - Release And Deployment Management
  - Service Validation and Testing
  - Change Evaluation
  - Knowledge Management

- Service Design
  - Design Coordination
  - Service Catalogue
  - Service Level Management
  - Availability Management
  - Capacity Management
  - IT Service Continuity Management
  - Information Security Management
  - Supplier Management

- Service Operation
  - Event Management
  - Incident Management
  - Request Fulfillment
  - Problem Management
  - Access Management

- Continuous Improvement
No matter what you call it, mature ITFM provides multiple benefits to IT and customers

| Accuracy | A single source of IT cost data is provided  
|          | Cost information is reconciled with the general ledger  
|          | Service unit cost data is available for services  
|          | Cost assignments are based on cause and effect relationships  
|          | Cost data meets the needs of internal reporting  
| Decision Making | Cost data provides valuable inputs into the decision making process  
|          | Cost information is used in the management of IT  
|          | Cost data is included in the planning, budgeting, forecasting & performance processes  
|          | Business stakeholders receive cost and volume information for services  
| Timeliness | Cost information is ready and available when decisions are made  
|          | Reports and cost data are produced on a regular schedule  
|          | Managers have the ability to perform ad hoc queries  
|          | Operational changes are incorporated into the cost models  
| Communication | Lines of business receive detailed cost information  
|          | Executives and business managers understand IT cost data  
|          | IT cost data are utilized in the closing process and performance management system  
|          | Services and their unit costs are used in the chargeback process  
|          | Over / under charges are communicated to the business lines when they occur  
| Transparency | TCO is provided for all services  
|          | Infrastructure costs are defined as internal services for support customer facing services  
|          | Managers understand the behavior of costs such as fixed and variable costs  
|          | The chargeback process provides a bill of services consumed  

Lines of business making demand based decisions

Improved understanding of service costs

Confidence in IT cost improvement process
<table>
<thead>
<tr>
<th></th>
<th>Agenda Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Growing Financial Requirements Upon the IT organization</td>
</tr>
<tr>
<td>2</td>
<td>What the Relationship between ITFM and ITIL?</td>
</tr>
<tr>
<td>3</td>
<td><strong>Using ITFM as an IT Chargeback Vehicle</strong></td>
</tr>
<tr>
<td>4</td>
<td>ITFM Maturity Model Defined</td>
</tr>
<tr>
<td>5</td>
<td>ITFM Implementation</td>
</tr>
<tr>
<td>6</td>
<td>ITFM Software Tools</td>
</tr>
</tbody>
</table>
The “Free Market” can be applied within IT by implementing IT Chargeback

- Milton Friedman, Professor of Economics at the University of Chicago and 1976 Nobel prize winner, offered comments that could apply to IT chargeback and pricing for today’s technology-dependent enterprises…. 

  “Price works so well, so efficiently, that we are not aware of it most of the time…. If an exchange between two parties is voluntary, it will not take place unless both believe they will benefit from it.” —Milton Friedman

- The largest impediment is that an IT organization is not a “free market.”
- Explicit effort and governance are required to maintain the semblance of laissez-faire.
- The greatest is risk that the required people, processes and technologies may create the very governmental bureaucracy that Friedman feared when he also cautiously noted…

  “When government — in pursuit of good intentions — tries to rearrange the economy, legislate morality or help special interests, the costs come in inefficiency, lack of innovation, and loss of freedom.” —Milton Friedman

- Chargeback can be an effective tool, but it must be within a mature ITFM environment, and aligned with corporate finance, governance and culture.
There are 2 dimensions of IT costs to understand when using IT Chargeback

- **Price Layers**
  - Technology Refresh
  - Market Adjustment & Profit
  - Risk Contingency
  - Strategy, Admin & Overhead
  - Variable Costs
  - Fixed Costs

- **Chart of Accounts**
  - Hardware
  - Software
  - Service/Cloud Providers
  - Indirect Labor
  - Direct Labor
  - Overhead
  - Licenses

- Decomposing IT costs into this second category of price layers will often create new discussions....
Decomposing the financial layers creates more questions to address

- A number of highly political questions inherent in the financial layers of IT costs can undermine the effectiveness of chargeback reform—if not addressed adequately in advance….
  - Are capital assets depreciated beyond or before the end of their effective lives, and is the depreciation linear or exponential?
  - How is a business unit charged for access to an IT system already fully paid for by another business unit?
  - Are IT overhead costs readily separated from service delivery costs?
  - Are the IT delivery organization’s service levels generally agreed to be appropriate?
  - Can all IT costs be extracted and reported in terms of the services to which they relate?
There are 4 behavioral drivers for determining appropriate chargeback (pricing) methods

**Simplicity**
- Is the method easy to understand, and is what I’m paying for clear?

**Fairness**
- Does the method allocate costs equitably to whomever uses the service?

**Predictability**
- Does the method allow me to forecast my costs?

**Controllability**
- Does the method allow me to control my costs?

Each behavioral driver has its “equal and opposing force”
There is a spectrum of IT chargeback methods ranging in complexity and cost.

<table>
<thead>
<tr>
<th>Complexity, Sophistication &amp; Cost</th>
<th>MBP</th>
<th>NFR</th>
<th>TFR</th>
<th>MRU</th>
<th>DC</th>
<th>HLA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High</strong></td>
<td>Market-based prices</td>
<td>Negotiated flat rate</td>
<td>Tiered flat rate</td>
<td>Measured resource usage</td>
<td>Direct cost</td>
<td>High-level allocation of specific IT costs</td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td>Per measured unit of service</td>
<td>Based on projected service usage</td>
<td>Based on service accessibility whether used or not</td>
<td>Based on measured consumption of IT resources</td>
<td>Based on dedicated resource ownership</td>
<td>Based on user size (e.g., employees, revenues)</td>
</tr>
<tr>
<td><strong>Low</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

There is a spectrum of IT chargeback methods ranging in complexity and cost.
Each one of the chargeback methods correlate across each behavioral driver

<table>
<thead>
<tr>
<th>Highest Complexity, Sophistication &amp; Cost</th>
<th>MBP</th>
<th>NFR</th>
<th>TFR</th>
<th>MRU</th>
<th>DC</th>
<th>HLA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simplicity</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Fairness</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Predictability</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Controllability</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>
Agenda

1. Growing Financial Requirements Upon the IT organization
2. What the Relationship between ITFM and ITIL?
3. Using ITFM as an IT Chargeback Vehicle
4. ITFM Maturity Model Defined
5. ITFM Implementation
6. ITFM Software Tools
RPC has defined an ITFM Maturity Model with 4 ITFM processes and 6 organization levers.
What are the 4 ITFM process best practices?

- **Data Collection** - Required financial and operational data is collected and loaded into the IT Costing system. Review and analysis of the financial and operational data collection process. Design and implementation of data integration. Managing the owners of the data collection and maintenance process. Identification and selection of operational data used for cost drivers.

- **Cost Assignment** - Costing relationships are developed and required calculations performed. Establishing the assignment path using methods such as traditional costing and activity-based costing. Design and development of IT cost models. Production of cost for products, services, applications and business partners.

- **Cost Analysis** - Cost reports are generated and the results are analyzed. Develop standard, custom and ad hoc reports focused on management accounting and costing. Perform analytics on costing results including, variance analysis, process analysis, cost simulations, value added analysis and benchmarking. Compare actual output values with budgeted values. Development of basic business partner analytics including product, service, application and capacity analysis.

- **Manage Business** - Analytic results are processed by the organization and then translated into business decisions. Integration of actual cost results into the budgeting and forecasting processes. Review and compare actual and planned results with operations and business partners identifying improvement opportunities.
### What are the 6 ITFM levers of best practices?

<table>
<thead>
<tr>
<th></th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ITFM includes budget and forecast data</td>
</tr>
<tr>
<td></td>
<td>IT costs are at the right level of detail</td>
</tr>
<tr>
<td></td>
<td>ITFM data is available across the organization</td>
</tr>
<tr>
<td></td>
<td>Cost information is used throughout the business</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Data validation is automated</td>
</tr>
<tr>
<td></td>
<td>Costs are available in multiple dimensions (product, customer, region, etc.)</td>
</tr>
<tr>
<td></td>
<td>A published schedule is in place for producing IT costs</td>
</tr>
<tr>
<td></td>
<td>IT Costing reports are being used each period</td>
</tr>
<tr>
<td></td>
<td>90% of time is spent on analysis as opposed to reporting</td>
</tr>
<tr>
<td></td>
<td>ITFM data is used in the budgeting process</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>People</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Staff are trained on data collection techniques and software</td>
</tr>
<tr>
<td></td>
<td>Key business partner users know who the IT Costing experts are</td>
</tr>
<tr>
<td></td>
<td>Business partners are trained on the use of IT Costing data</td>
</tr>
<tr>
<td></td>
<td>Roles are defined for decision makers</td>
</tr>
</tbody>
</table>

![Data](data.png) ![Performance](performance.png) ![IT Costing Model](model.png)
What are the 6 ITFM levers of best practices?

<table>
<thead>
<tr>
<th>4</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>➤ Data loading is automated</td>
<td></td>
</tr>
<tr>
<td>➤ Maintenance is easy and user friendly</td>
<td></td>
</tr>
<tr>
<td>➤ The business partners can perform ad hoc analysis</td>
<td></td>
</tr>
<tr>
<td>➤ Budgets are linked to business partner demand</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>➤ Driver data comes directly from operational systems</td>
<td></td>
</tr>
<tr>
<td>➤ IT cost data is available one day after period end</td>
<td></td>
</tr>
<tr>
<td>➤ IT cost data is benchmarked</td>
<td></td>
</tr>
<tr>
<td>➤ Cost savings are captured and documented</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>6</th>
<th>IT Costing Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>➤ Data sourced from the same data used by other organizations</td>
<td></td>
</tr>
<tr>
<td>➤ The IT cost model reflects the behavior of costs (fixed/variable)</td>
<td></td>
</tr>
<tr>
<td>➤ There is only one IT Costing model in use</td>
<td></td>
</tr>
<tr>
<td>➤ The IT Costing model allows for detailed drill downs</td>
<td></td>
</tr>
<tr>
<td>➤ The IT Costing model is continuously refined</td>
<td></td>
</tr>
</tbody>
</table>

1. Strategy
2. Process
3. People
Move towards ITFM best practices by assessing current/desired maturity (1 to 5)

- There are five different maturity stages in the ITFM process moving from Initial to Optimizing.
- Each stage requires additional levels of integration, standardization and organizational commitment.
- Movement from stage to stage is incremental and defined by a well thought out roadmap, to close gaps between current state and future state.

To move to best practices, an IT organization must understand the current state and the desired future state. Our ITFM approach provides the tools required to close the gap between the current state and the best practices.
An integrated view is needed to identify any short falls in the ITFM process

- RPC Solutions’ ITFM method address all aspects of cost development and the use of cost information in the decision making process

Manage Business
- ITFM data and analysis are not used to make decisions
- Managers do not understand ITFM results
- Cost information is not integrated with the performance management system
- Budgets do not utilize ITFM information
- IT management does not review ITFM results

Cost Analysis
- Significantly more time is spent on reporting than analysis of results
- ITFM data is not clearly understood
- Decision maker do not have access to data
- A Total Cost of Ownership (TCO) view is not available

Data Collection
- Data collection is primarily manual
- Cycle time to collect data is extensive
- Data received from all systems components
- No defined data validation process

Cost Assignment
- Multiple cost models in use
- Level of detail is too granular or at too high of a level
- All costs are not accounted for in the assignment process
- Maintenance of the cost model is difficult and time consuming

The RPC ITFM Maturity Model is designed to improve your cost information and to improve the ITFM process within your organization
The Maturity Model is used to assess an org’s ITFM process, and then identify the gaps.

<table>
<thead>
<tr>
<th>Leverage</th>
<th>Current</th>
<th>Future</th>
<th>Best Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>1.3</td>
<td>3.7</td>
<td>5.0</td>
</tr>
<tr>
<td>Process</td>
<td>2.0</td>
<td>4.3</td>
<td>5.0</td>
</tr>
<tr>
<td>People</td>
<td>2.0</td>
<td>4.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Data</td>
<td>1.5</td>
<td>4.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Performan IT Cost</td>
<td>1.5</td>
<td>3.8</td>
<td>5.0</td>
</tr>
</tbody>
</table>

### Maturity Question

<table>
<thead>
<tr>
<th>Maturity Question</th>
<th>Score</th>
<th>Level of Importance</th>
<th>Current</th>
<th>Future</th>
<th>Initial</th>
<th>Repeatable</th>
<th>Defined</th>
<th>Managed</th>
<th>Optimizing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is cost information used in the strategic planning process?</td>
<td>1.3</td>
<td>Important</td>
<td>Initial</td>
<td>Managed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do IT executives and managers use cost information in the decision making process?</td>
<td>1.3</td>
<td>Important</td>
<td>Repeatable</td>
<td>Defined</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is ITFM cost information required for all financial analyses?</td>
<td>1.3</td>
<td>Important</td>
<td>Initial</td>
<td>Managed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Maturity Levels

- **Initial**: Cost information is reviewed for the strategic planning process.
- **Repeatable**: Cost information is only used for financial reporting and chargeback.
- **Defined**: Cost information is provided to all IT executives and managers.
- **Managed**: Cost information is understood by the entire IT organization.
- **Optimizing**: Cost information is integrated into the strategic planning process.
## Agenda

<table>
<thead>
<tr>
<th></th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Growing Financial Requirements Upon the IT organization</td>
</tr>
<tr>
<td>2</td>
<td>What the Relationship between ITFM and ITIL?</td>
</tr>
<tr>
<td>3</td>
<td>Using ITFM as an IT Chargeback Vehicle</td>
</tr>
<tr>
<td>4</td>
<td>ITFM Maturity Model Defined</td>
</tr>
<tr>
<td>5</td>
<td><strong>ITFM Implementation</strong></td>
</tr>
<tr>
<td>6</td>
<td>ITFM Software Tools</td>
</tr>
</tbody>
</table>
ITFM projects leverage RPC’s standardized proprietary P7 implementation methodology

- The RPC P7 Methodology is our proprietary system integration methodology. It was designed to implement various solutions, and has been refined with years of experience to provide the customer with a seamless integration process. The P7 Methodology is based on similar and well-proven approaches used by the largest and most renowned systems integration firms in the world. It can be used for a range of vendor applications, technologies or functional areas.

The RPC P7 Methodology

- Plan
- Process
- Personalize
- Program
- Protect
RPC Solutions objectives and work products

**Plan**
- Define scope of the project and identify cost base
- Project planning and mobilization of project team

**Processes**
- Conduct current state assessment of the ITFM process and document
- Develop future state assessment of ITFM process
- Create gap analysis between current state and defined future state
- Develop options to close gaps and prioritize

**Personalize**
- Confirm scope and approach
- Identify success criteria
- Finalize business requirement
- Perform software selection
- Develop conceptual design
- Obtain approval of conceptual design and business case

**Program**
- Create implementation plan and staff project
- Build pilot and review results
- Update design and prepare for implementation
- Build design and implement new ITFM process
- Review implementation results and modify process as needed
- Sign off on process

**Protect**
- Create organizational training plan
- Develop ITFM analytic capabilities
- Implement analytic process
- Capture and document ITFM benefits
- Update ITFM model and process with improvements

**Objectives of Steps**
- Plan
  - Define scope of the project and identify cost base
  - Project planning and mobilization of project team

- Processes
  - Conduct current state assessment of the ITFM process and document
  - Develop future state assessment of ITFM process
  - Create gap analysis between current state and defined future state
  - Develop options to close gaps and prioritize

- Personalize
  - Confirm scope and approach
  - Identify success criteria
  - Finalize business requirement
  - Perform software selection
  - Develop conceptual design
  - Obtain approval of conceptual design and business case

- Program
  - Create implementation plan and staff project
  - Build pilot and review results
  - Update design and prepare for implementation
  - Build design and implement new ITFM process
  - Review implementation results and modify process as needed
  - Sign off on process

- Protect
  - Create organizational training plan
  - Develop ITFM analytic capabilities
  - Implement analytic process
  - Capture and document ITFM benefits
  - Update ITFM model and process with improvements

**Work Products**
- **Plan**
  - Project Scope Document
  - Project Plan
  - Project Staffing Plan
- **Processes**
  - Current State Analysis
  - Approved Current State Analysis
  - ITFM Future State
  - Gap Analysis
  - Opportunity Evaluation
  - Business Case
- **Personalize**
  - Project Goals and Objectives
  - Results of Software Selection
  - Training Plan
  - Conceptual Design
  - Finalized Business Case
  - Updated Project Plan
- **Program**
  - Implementation Plan
  - Training Plan & Materials
  - Test Plan and Results
  - Completed ITFM pilot model
  - Test Results and Action Plan
  - Completed ITFM Model and Process
  - ITFM Model/ Process Release Sign Off
- **Protect**
  - Organizational Training Plan
  - Analytic Process Plan
  - Benefits Documentation
  - Post Implementation Business Case
  - ITFM Model/Process Update Plan

© Copyright RPC Solutions, LLC 2013
The “higher order” of each side evolve to the union of the two
Will the software vendors ultimately evolve together as well?
IT costing vendors can be plotted 2x2 against Functional Scope & Organizational Focus.
Contact Information

Jason Byrd
Managing Partner
RPC Solutions, LLC

(972) 893-3370
jbyrd@rpc-solutions.com
www.resourcesprojectchange.com