IT Service Management vs. IT Financial Management

Determining which is the chicken and which is the egg?

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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

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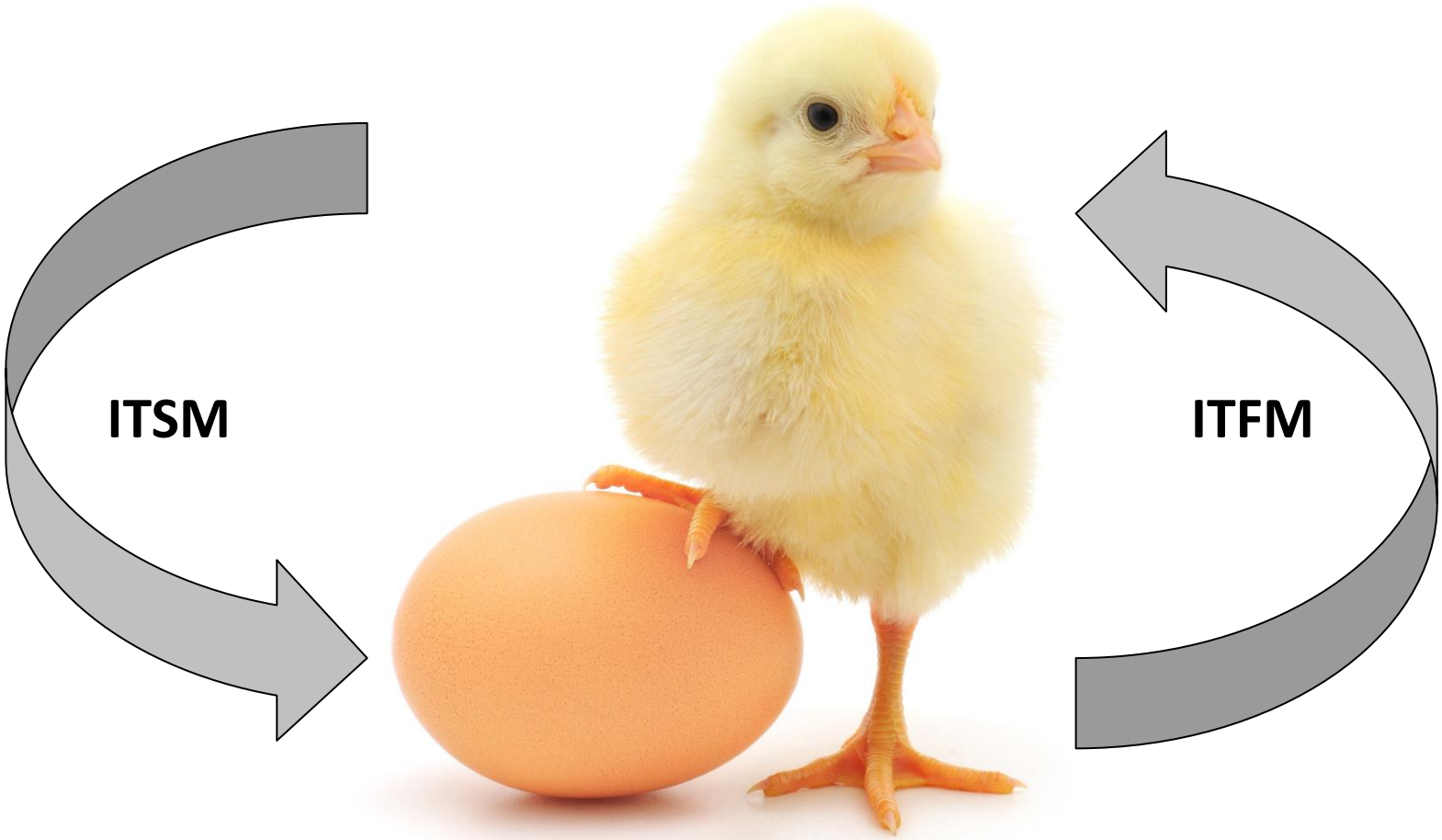
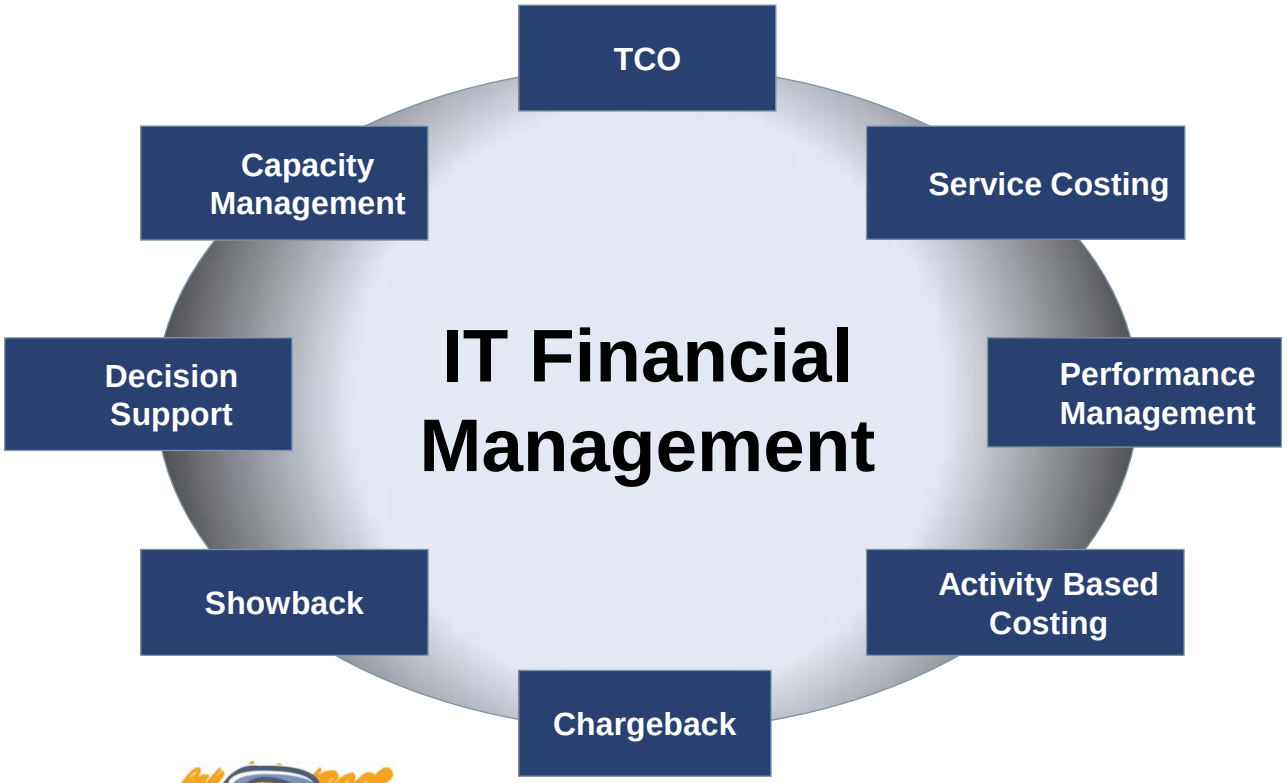
Which is the Chicken and which is the Egg?



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 Design

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

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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

Lines of business making demand based decisions

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

Improved understanding of service costs

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

Confidence in IT cost improvement process

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

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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….**

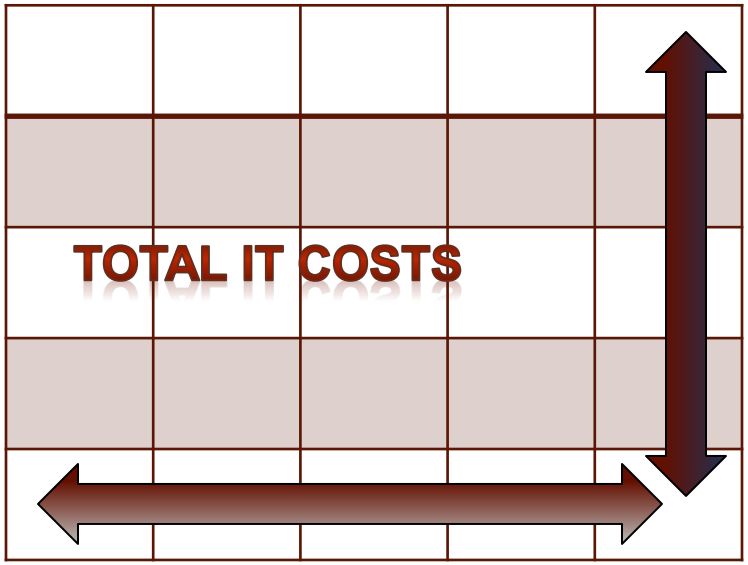
> *"Price works so well, so efficiently, that we are not aware of it most of the time…. If an exchange between two parties is voluntary, it will not take place unless both believe they will benefit from it."* —Milton Friedman

- **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 <u>can</u> 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

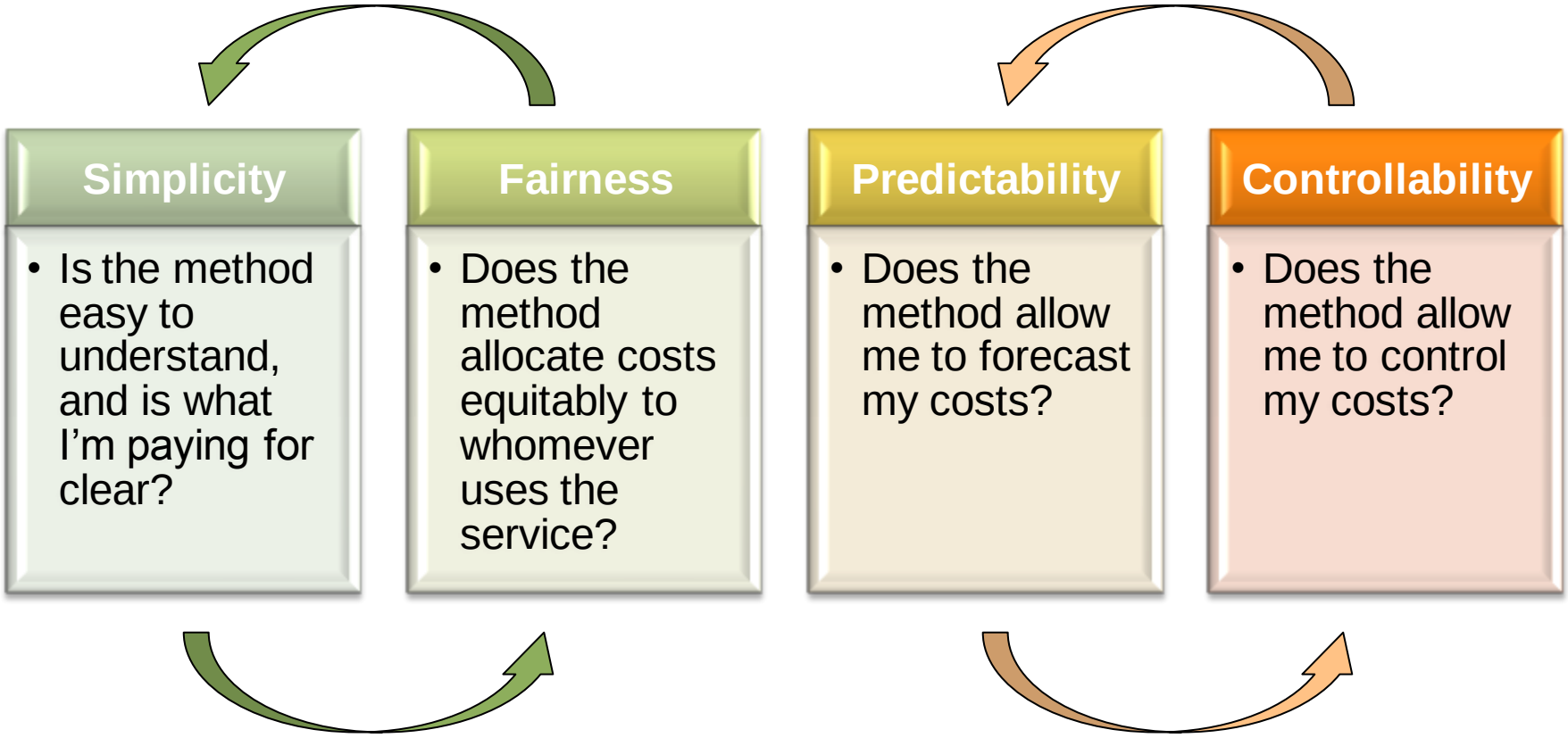
- Hardware
- Software
- Service/Cloud Providers
- Indirect Labor
- Direct labor
- Overhead
- Licenses

- 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



Each behavioral driver has its "equal and opposing force"

There is a spectrum of IT chargeback methods ranging in complexity and cost

Highest Complexity, Sophistication & Cost

Lowest Complexity, Sophistication & Cost

MBP	Market-based prices	Per measured unit of service
NFR	Negotiated flat rate	Based on projected service usage
TFR	Tiered flat rate	Based on service accessibility whether used or not
MRU	Measured resource usage	Based on measured consumption of IT resources
DC	Direct cost	Based on dedicated resource ownership
HLA	High-level allocation of specific IT costs	Based on user size (e.g., employees, revenues)

Each one of the chargeback methods correlate across each behavioral driver

Highest Complexity, Sophistication & Cost

Lowest Complexity, Sophistication & Cost

	Simplicity	Fairness	Predictability	Controllability
MBP	1	4	1	2
NFR	1	4	2	2
TFR	2	2	3	1
MRU	1	4	1	4
DC	3	3	1	3
HLA	4	0	3	1

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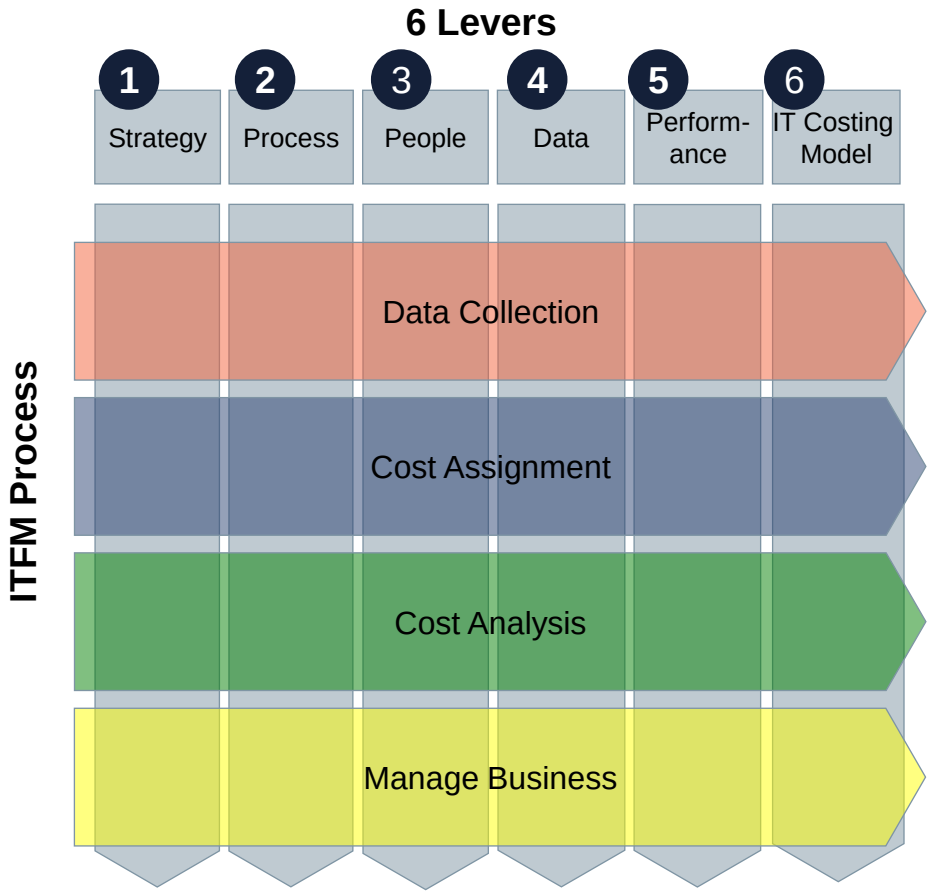
RPC has defined an ITFM Maturity Model with 4 ITFM processes and 6 organization levers



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?

1 Strategy	▶ ITFM includes budget and forecast data ▶ IT costs are at the right level of detail ▶ ITFM data is available across the organization ▶ Cost information is used throughout the business
2 Process	▶ Data validation is automated ▶ Costs are available in multiple dimensions (product, customer, region, etc.) ▶ A published schedule is in place for producing IT costs ▶ IT Costing reports are being used each period ▶ 90% of time is spent on analysis as opposed to reporting ▶ ITFM data is used in the budgeting process
3 People	▶ Staff are trained on data collection techniques and software ▶ Key business partner users know who the IT Costing experts are ▶ Business partners are trained on the use of IT Costing data ▶ Roles are defined for decision makers

4 Data **5 Performance** **6 IT Costing Model**

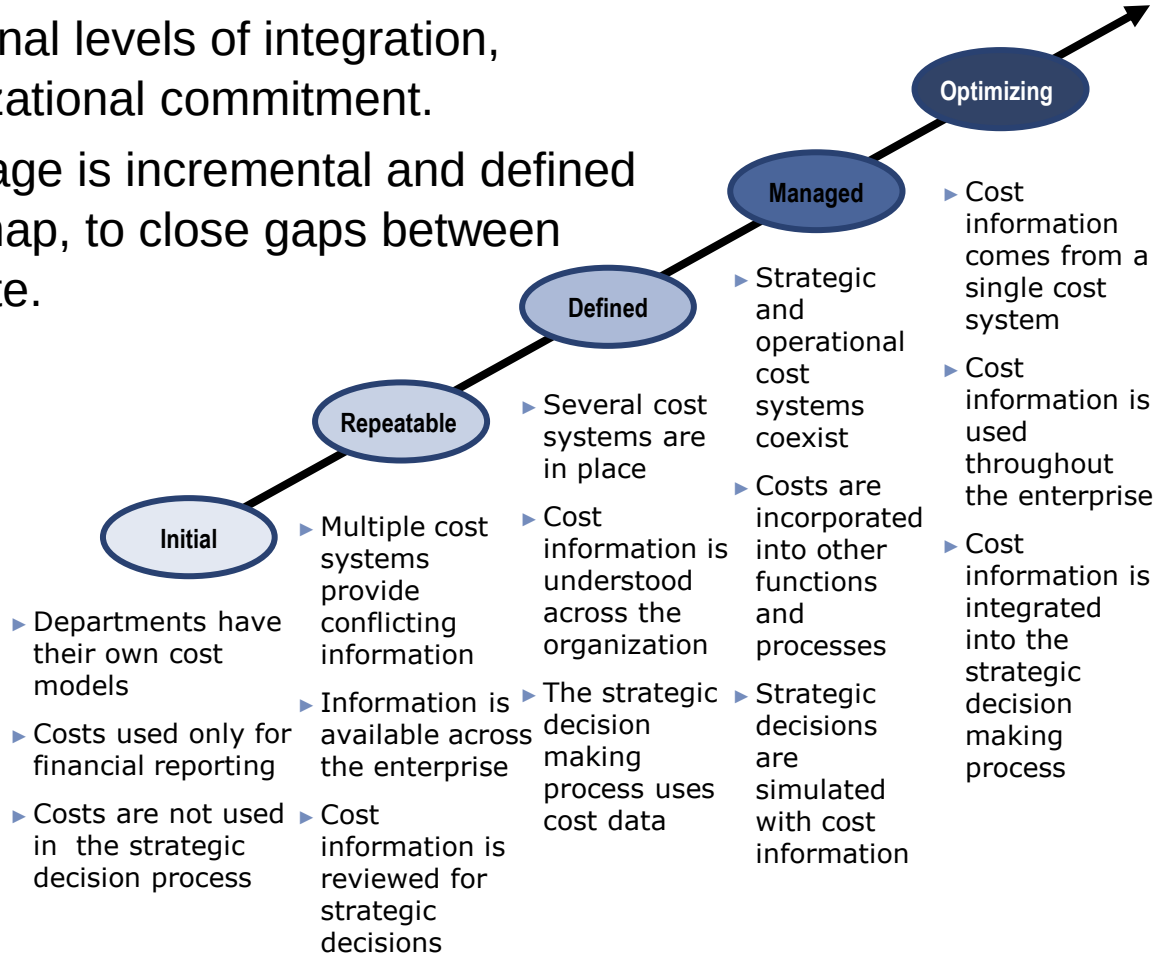
What are the 6 ITFM levers of best practices?

4 Data	▶ Data loading is automated ▶ Maintenance is easy and user friendly ▶ The business partners can perform ad hoc analysis ▶ Budgets are linked to business partner demand
5 Performance	▶ Driver data comes directly from operational systems ▶ IT cost data is available one day after period end ▶ IT cost data is benchmarked ▶ Cost savings are captured and documented
6 IT Costing Model	▶ Data sourced from the same data used by other organizations ▶ The IT cost model reflects the behavior of costs (fixed/variable) ▶ There is only one IT Costing model in use ▶ The IT Costing model allows for detailed drill downs ▶ The IT Costing model is continuously refined

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.

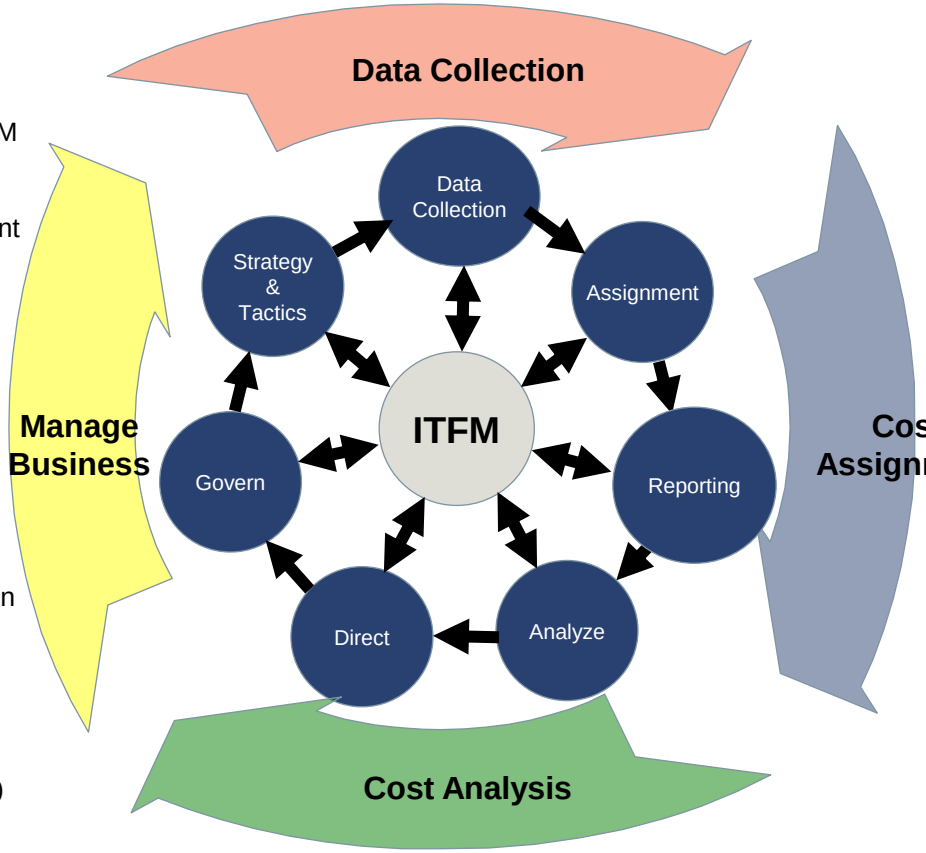


To move to best practices, an IT organization must understand the current state and the desired future state. Our ITFM approach provides the tools required to close the gap between the current state and the best practices

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



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

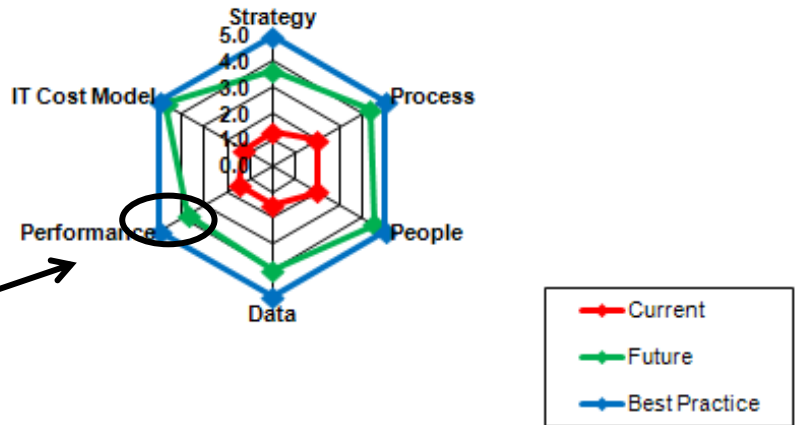
Cost Analysis
- Significantly more time is spent on reporting than analysis of results
- ITFM data is not clearly understood
- Decision maker do not have access to data
- A Total Cost of Ownership (TCO) view is not available

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

Lever	Current	Future	Best Practice
Strategy	1.3	3.7	5.0
Process	2.0	4.3	5.0
People	2.0	4.5	5.0
Data	1.5	4.0	5.0
Performan	1.5	3.8	5.0
IT Cost	1.3	4.8	5.0



Opportunity Gap

		Score	1.3	3.7	Maturity Level				
		Weighted	1.3	3.7					
Maturity Question	Level of Importance	Current	Future	Initial	Repeatable	Defined	Managed	Optimizing
Is cost information used in the strategic planning process?	Important	Initial	Managed	Cost information is not being used in the strategic planning process.	Cost information is reviewed for the strategic planning process.	The strategic planning process requires cost information as part of the	Cost information enables 'what if' capabilities for the strategic planning process.	Cost information is integrated into the strategic planning process.
Do IT executives and managers use cost information in the decision making process?	Important	Repeatable	Defined	Cost information is only used for financial reporting and chargeback.	Cost information is provide to all IT executives and managers.	Cost information is understood by the entire IT organization.	Cost information is used in the decision making process.	Cost information is used by the entire IT organization.
Is ITFM cost information required for all financial analysis?	Important	Initial	Managed	There is no requirement to include ITFM cost information in financial analysis.	It is recommended that ITFM cost data be included in all financial analysis.	The ITFM organization is consulted for ITFM cost data to be included in financial analysis.	ITFM cost data is required for financial analysis but the ITFM organization does not sign off on the analysis.	ITFM cost data is required for financial analysis and the ITFM organization must sign off on the analysis.

Maturity levels

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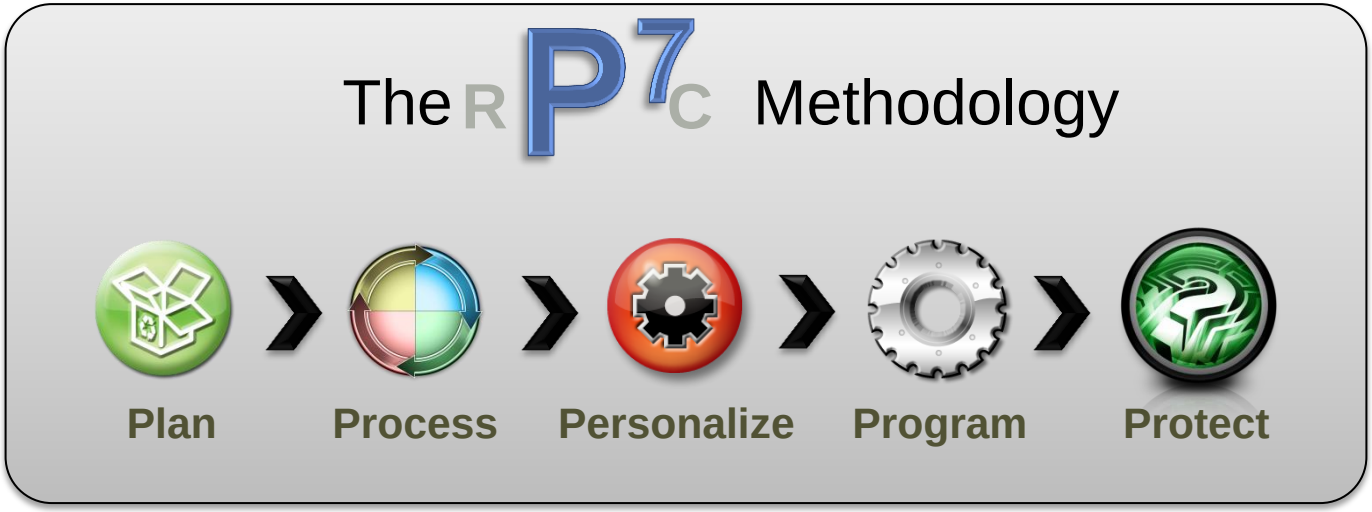
ITFM projects leverage RPC's standardized proprietary P7 implementation methodology

- 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.



RPC Solutions methods and tools supports your improvement goals

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P7 Steps

Plan

- 1.1 Establish client needs
- 1.2 Develop project planning

Processes

- 2.1 Document current state
- 2.2 Document future state
- 2.3 Evaluate risks and gaps
- 2.4 Identify opportunities and develop next steps

Personalize

- 3.1 Confirm requirements
- 3.2 Develop conceptual design
- 3.3 Create detailed design
- 3.4 Review design with stakeholders and gain approval

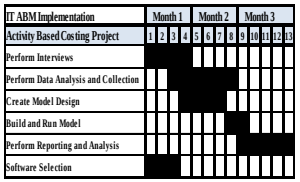
Program

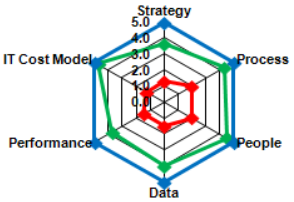
- 4.1 Create implementation plan
- 4.2 Build pilot, and review
- 4.3 Build design and validate results
- 4.4 Move design into production
- 4.5 Update design and receive final approval

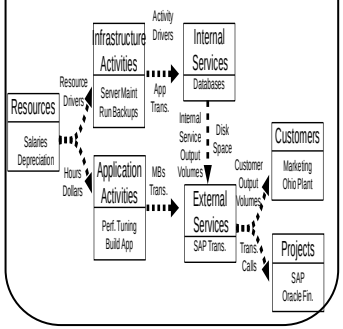
Protect

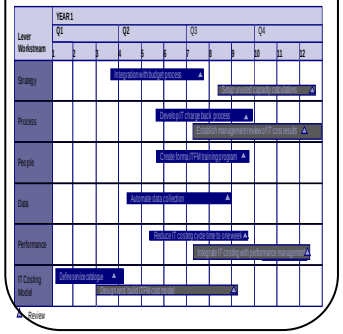
- 5.1 Establish training across organization
- 5.2 Develop analytics
- 5.3 Document and harvest benefits
- 5.4 Review and update design

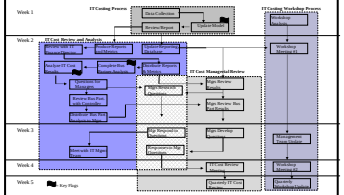
RPC Tools











Assessment

Implementation

RPC Solutions objectives and work products

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	Plan	Processes	Personalize	Program	Protect
Objectives of Steps	▸Define scope of the project and identify cost base ▸Project planning and mobilization of project team	▸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	▸Confirm scope and approach ▸Identify success criteria ▸Finalize business requirement ▸Perform software selection ▸Develop conceptual design ▸Obtain approval of conceptual design and business case	▸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	▸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	• *Project Scope Document* • *Project Plan* • *Project Staffing Plan*	• *Current State Analysis* • *Approved Current State Analysis* • *ITFM Future State* • *Gap Analysis* • *Opportunity Evaluation* • *Business Case*	• *Project Goals and Objectives* • *Results of Software Selection* • *Training Plan* • *Conceptual Design* • *Finalized Business Case* • *Updated Project Plan*	• *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'*	• *Organizational Training Plan* • *Analytic Process Plan* • *Benefits Documentation* • *Post Implementation Business Case* • *ITFM Model/Process Update Plan*

Assessment → **Implementation**

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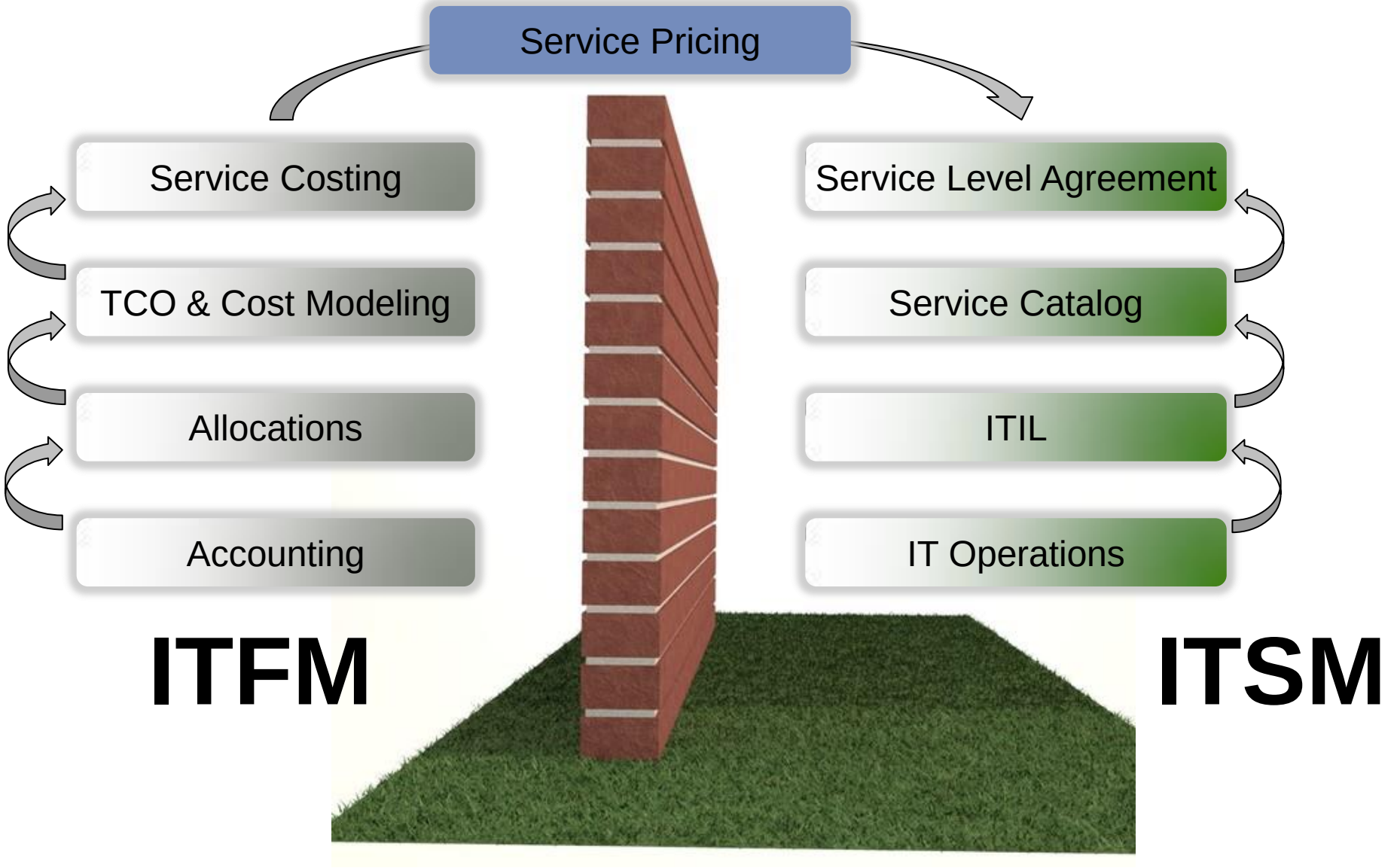
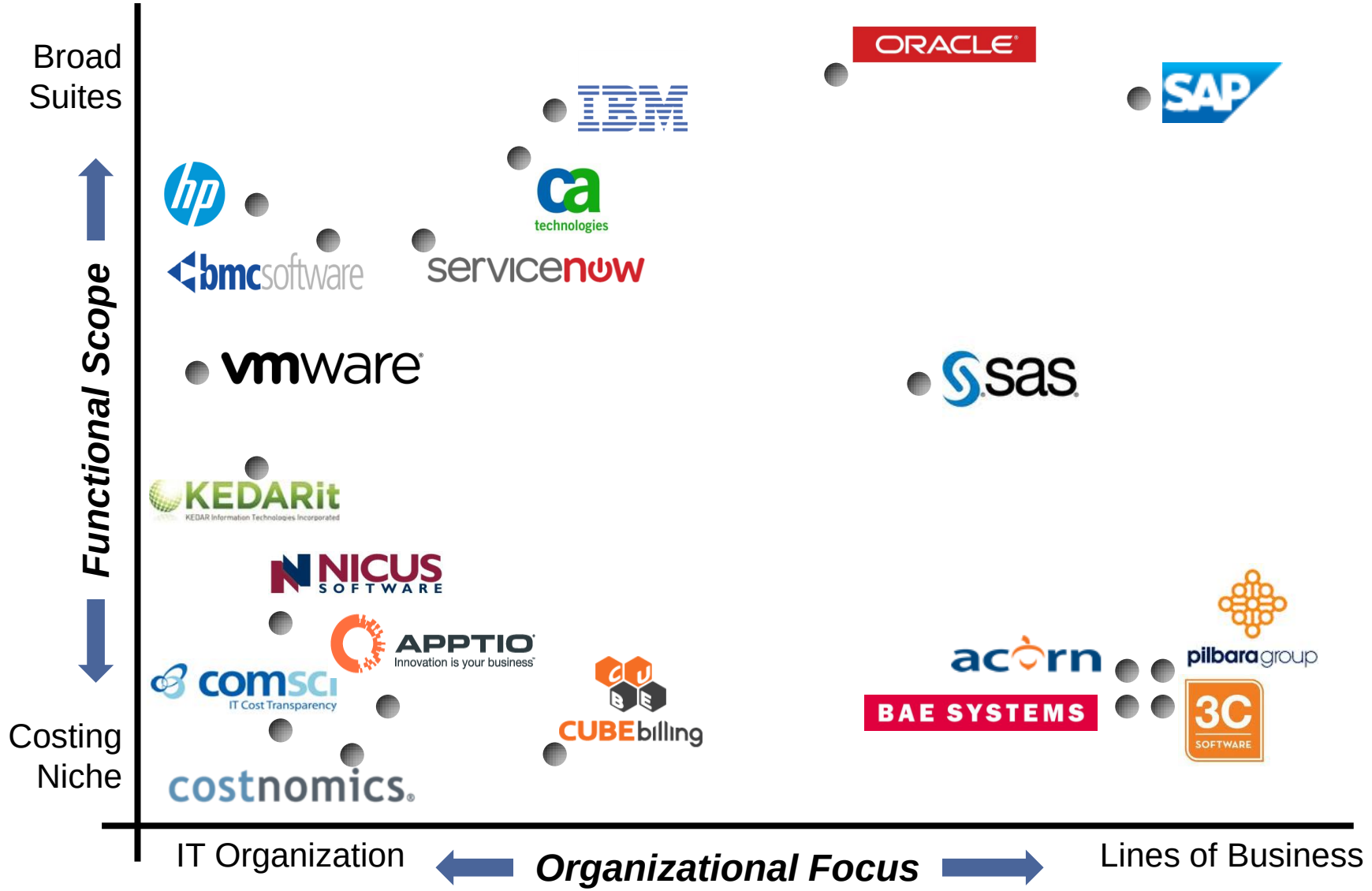
The “higher order” of each side evolve to the union of the two



Will the software vendors ultimately evolve together as well?

IT costing vendors can be plotted 2x2 against Functional Scope & Organizational Focus



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