

IT Financial Management

Cost transparency and effective IT governance

White paper

Table of contents

Introduction	3
Information transparency and ITFM stakeholders	3
IT management	4
Business leaders	4
CFO office	6
Flawed ITFM practices	7
Different accounting for different purposes	7
No business accountability for IT investment decision	8
Faulty governance of price futures	8
Perpetual crisis management	8
Seven best practice principles	9
Enable transparency	9
1. Measure labour effort and track asset use	9
2. Instil a culture of forecasting	10
3. Define the value chain taxonomy	10
Implement effective governance of the IT investment life-cycle	11
4. Formalise business case analysis for IT investments	11
5. Represent IT costs in business services	12
6. Link budgets and costs to IT investments	12
7. Map reorganisations to requirements and costs	12
ITFM with HP	12
HP Project and Portfolio Management Center software	12
HP Asset Manager software	13
Financial analysis for each stakeholder group	13
Processes to link strategy, delivery and support	13
Working with HP Professional Services	14
Conclusion	14
Appendix	15

Introduction

During downturns in the business cycle, many CIOs today are forced to cut capital spending and rein in costs for running IT. At the same time, they need to be planning for the recovery. This means CIOs must focus on cost optimisation and competitiveness. In other words, running IT like a business. Senior management often sees IT as a black box – and a black hole for capital outlays – with no real visibility into where the money goes or how it translates to business value. At the same time, IT management often views the company's expectations as unrealistic given the budget and human resource constraints. Why has it been so difficult to bridge the gap and deliver true financial visibility into IT activities? And what can be done about it now, in the face of continuing pressure on IT budgets and growing complexity in the IT environment?

This paper provides substantive answers to these questions, with new insights into the underlying issues and a closer examination of the opportunities inherent in effective IT Financial Management (ITFM). The paper summarises the basic requirements of ITFM, highlights some of the flawed practices that have created problems, presents best practice principles and finishes with a summary of how the HP ITFM solution can help create a mature and efficient IT organisation.

A proper approach to ITFM is vital for better IT investment decisions, improved financial accounting support and better allocation of IT resources. This paper will help you structure your thinking about implementing ITFM to fill the business information void.

Information transparency and ITFM stakeholders

In the 2009 'State of the CIO' survey by *CIO magazine*, 49 per cent of the business executives (surveyed) judged IT's performance as 'fair' or 'poor.' Another 5 per cent said IT did not support acquiring or retaining customers at all. The underlying issue is not the performance of the IT department but the lack of information transparency among IT and its stakeholders. Senior management does not know the business value of what it is getting for the budget and resources allocated to IT. And the reason for the lack of transparency: applying age-old business practices to IT is no small task and often does not work.

Traditionally, executives have alternated between attempting to directly govern IT and leaving this task to technologists, and both approaches have problems:

- Business leaders have had a hard time introducing changes in IT processes without stifling IT productivity and efficiency.
- When technologists who have little business experience are allowed to run IT, business discipline takes a back seat to innovation.

Today, in many IT organisations IT strategy is heavily politicised and inconsistent while its execution is driven by the urgent instead of the important. The result is an environment where key stakeholders cannot get the information they need – or are forced to compete for that information.

Understanding and supporting the information requirements of stakeholders is the first step towards improving IT strategy and IT execution (the systems, tools and processes IT personnel use to conduct IT activities) and increasing returns on IT investments. There are three primary IT stakeholder groups: IT management, business leaders and the CFO office. The next section reviews the unique information requirements of each group.

IT management

Like any organisation, IT management wants to make sure it is effectively marshalling its resources and work is being done efficiently. Taking advantage of forecasting and usage measurement concepts will not only improve control and predictability, but also will help eliminate bottlenecks and waste. The measurement of IT resource usage provides the source data to generate all actionable stakeholder information. IT management requires:

1. Forecasts of labour and asset resource requirements to create baseline plan¹
2. Forecast updates to provide an early indication of upcoming variance
3. Measurement of actual labour and asset resource use
4. Steps 1–3 linked to investment decisions as accurately as possible
5. Separately, 1–3 linked to services as accurately as possible

Steps 1–3 can provide information to all three stakeholder groups, and for IT management, plan to actual budget management. The investment decision perspective allows investments to be continuously evaluated and provides accountability for improving forecasting and business case analysis. IT management knows its people are working on the

right things when the linkage to value creation and agreed upon investment decisions is transparent. The service perspective provides critical decision support information for investment decision making. It also enables chargeback mechanisms to be implemented.

Business leaders

Senior management needs clear answers to three primary questions:

- Are IT costs trackable?
- Are the right IT investment decisions being made?
- Do financial controls permit effective chargeback?

Business leaders consume IT services as part of running their business. These customers realise that IT is an integral part of many business processes and can be the key to reducing costs, improving information quality or enhancing revenue.

For business leaders, understanding how IT supports these processes in business language is fundamental. Ultimately, this will mean linking IT costs and benefits in a comparable way for each service IT provides, and measuring service consumption by each business process. With this 'service costing' information, business leaders can apply standard business-case analysis to strategic IT decisions. It is important for IT management to understand how this information is evaluated and what role IT has in delivering that information. However, your organisation does not need to implement service costing to reap the rewards of ITFM. Service costing represents a high level of maturity – a goal to strive towards while you achieve incremental benefits along the way.

¹ This is also referred to as the 'plan of record,' or the 'approved budget.'

Management accounting (also known as cost accounting or cash flow accounting) is the common language of business throughout the globe. Decisions are guided by analysis that requires estimating all costs and benefits by month over a period of years. With these estimates various financial calculations can be made to evaluate and prioritise an investment proposal. A few common calculations include Internal Rate of Return (IRR), Net Present Value (NPV) and Payback Period and companies often develop their own variants.

Creating a monthly breakdown of costs and benefits for an investment is not easy. The business stakeholders are typically best suited to create the benefits of forecasting. Forecasting IT costs requires knowledge of resource requirements for each month for years into the future. Thus IT is instrumental to obtaining a reasonably accurate forecast of the costs associated with an investment.

Though data is spread throughout many systems, in many companies, IT information for the business stakeholders and the CFO is often generated through the same system. One common approach is to develop home-grown billing systems. These can work reasonably well, but generally are limited in the scope of information they present and are expensive to modify. Another option is to deploy a full-time staff of finance people to amass the data and manipulate it in spreadsheets. This is also expensive and of limited value. A purely top-down approach, without measuring IT work and relating it to value creation, is costly and limited in effectiveness.

The IT information required to generate good business information is fairly simple to describe. Make sure every proposal states the actual business value and that there is clear agreement between the business and IT. For a given investment² proposal, create a forecast of labour and asset requirements by month for several years, spanning both delivery and support. When a programme has been approved and a baseline plan established, including various roll-ups of organisational budgets, do the following:

1. Refine required resource forecasts as time progresses
2. Measure actual effort and asset use against the business scope
3. Manage actual to plan
4. Deliver and support the business requirements until change is desired

Steps 1–3 represent the foundational ITFM activities. Step 4 is about service definition, quality and performance, which is important, and assumed for this discussion. With this information, business leaders can make informed IT investment decisions, enabling them to manage both individual investments through their life cycle, and the entire investment portfolio.

As discussed in the best practice principles section, adding detail to this information makes it possible to create service views of financial information. Building this information-gathering into IT processes supports all IT stakeholders.

² 'Projects' or 'Strategic Projects' have often been used to mean 'investment' historically. Since projects are used to organise work, implementing all business requirements in a single project is often impractical. A programme, representing a set of projects, as required, is ideal for representing the business requirements. In this document, programme and investment are used synonymously.

'As much as 10–20 per cent of IT spending occurs outside the IT department in business unit budgets.'

The Executive's Guide to Information Technology,
by John Baschab and John Piot

With a service perspective on cost, which can be combined with a service perspective of IT performance, business alignment and investment decisions can improve significantly. Investment decisions can be made considering the tradeoffs between cost, benefit and quality.³

CFO office

The CFO wants answers to these basic questions:

- Can IT Capital Expenditures (CapEx) and Operational Expenditures (OpEx) be forecasted adequately?
- Is there timely and accurate information related to SOP-98 exposure?
- Can IT expenses be allocated to cost centres easily and fairly?

The CFO's primary responsibility is management of financial accounting – the controlling and accurate reporting of expenses in quarterly and annual reports. This means the CFO needs an accurate measurement of earnings, both expenses and revenues. In addition, the CFO wants to predict and control that earnings outcome as much as possible. This control is very important since stock prices are influenced by how consistently and accurately the company sets expectations about future earnings. For instance, if sales fall below expectations, IT expense for the quarter may need to be reduced, or a project completion date may need to be pushed back, delaying depreciation expenses.

An expense is usually not the same as a flow of cash, so the CFO requires a different view of the financial information than the business leaders do. So different that it can be seen as a different set of accounting 'books.' To fully understand the requirements of the CFO and how they differ from those of the business, one needs to understand the fundamental differences. Appendix A provides a simple example to highlight the differences between financial accounting, management accounting and IT resource accounting.

The financial accounting information within enterprise resource planning (ERP) systems contains much of the information required by the CFO, including total expenditure, which the CIO has certainly been made aware of. However, according to SOP 98-1, a subset of the labour costs associated with some projects should be capitalised and expensed over time. And if the project is cancelled before completion, all capitalised costs must be immediately expensed, which, if the expenses are large enough, can have an impact on reported financial earnings. To complicate things further, not all labour effort is capitalised within the project. The tracking of CapEx and OpEx within projects is therefore important, and it is a core capability of project and portfolio management (PPM) products, such as HP Project and Portfolio Management Center software. HP Asset Manager software also provides tracking of CapEx and OpEx for assets. The following example highlights the advantage of these capabilities.

³ Information Technology Infrastructure Library (ITIL) version 3 uses utility and warrant in place of benefit and quality.

⁴ SOP-98 addresses internally developed software systems and is interpreted differently throughout companies.

'Business users are demanding greater IT cost transparency and financial analysis in order to understand the true cost of service operations.'

Peter O'Neill

IT Operations Financial Management Helps The Business Control Its Service Consumption, Forrester Research, January 21, 2009

ERP lacks information about how hardware and software assets are being used, making it impossible to accurately associate these expenses to services or directly to cost centres in order to support chargeback. Where the ERP solution captures one line item showing that 1,000 laptops were purchased, the tracking of each individual laptop as it moves throughout its life cycle is a core capability of asset management software. In addition, consistent and efficient processes have to be defined and controlled as software moves throughout an organisation. HP Asset Manager tracks and measures the costs of all hardware and software assets as they move throughout an organisation. This is needed to ensure cost control, governance and prevent overspend.

To effectively manage and accurately measure expenses, the CFO needs:

1. Project effort captured by CAPEX and OPEX components
2. Updated project forecast effort by CAPEX and OPEX components
3. For all projects with CAPEX components, information about schedule or potential cancellations so that the impact on expenses can be considered
4. Depreciable asset usage information over time by service or cost centre
5. Service usage information for each customer of IT to support chargeback

With this information the CFO can collaborate with IT management and business leaders to govern expenses efficiently and support equitable chargeback for IT services.

Yet at most companies, many of these information requirements are not met. There are various factors inhibiting the maturity of IT towards best practice. Before discussing best practice principles in more detail, it will be useful to first discuss the barriers to best practice.

Flawed ITFM practices

Over the years, attempts to impose traditional financial management practices onto the IT organisation have impeded true progress towards IT maturity. Here are a few of the most common poor practices.

Different accounting for different purposes

IT management often finds itself in a no-win situation. All too often, business leaders demand that IT management systems be aligned to their specific accounting needs, leaving IT management without effective execution information. Conversely, using an accounting system specifically designed for IT often results in a lack of management-level information for effective decision making.

Most project accounting systems supply information that is only really useful for the CFO. Similarly, using a cost-accounting system to measure the performance of IT personnel individually has serious drawbacks. IT managers should not be punished for price variances that were outside their control. Nor should project managers be rewarded when, for example, a salaried employee works 80 hours on two projects, thus halving the hourly rate that is used to assign cost and expense to the project. Distortions like this are common when accounting systems are used for purposes other than what they were designed for.

'2 per cent to 15 per cent of projects taken on by IT departments are not strategic to the business.'

AMR Research Inc., Dennis Gaughan as noted in April 22, 2008 SearchCIO.com

IT managers need to be judged for forecasting abilities, not just activity progress and quality. This should include the accuracy and timeliness of updates to those forecasts and management of actual plan, all in terms of labour and asset usage. While price has informational value, to a degree price is out of the manager's control, the manager should not be responsible for it.

No business accountability for IT investment decisions

For many companies, IT is the business, an inseparable part of core operations. Yet business responsibility for IT outcomes is often lacking. Only in the past decade has the business started to take a real interest in ITFM, deploying teams of finance experts or creating home-grown billing systems. But this does not address the real problem: the lack of business accountability for IT investment decisions.

All IT costs can be traced to prior business decisions to invest in IT. While some costs, such as the CIO's salary, cannot be traced to a specific IT investment, they are still the result of the IT requirements the business specified. The business has no visibility into what drives IT costs or sources of cost variance because it does not manage its IT investments with the same rigour that it manages its investments outside of IT. At most companies, business sponsors have no accountability for projected business benefits, allowing personal agendas to bias the numbers.

Also common: the detailed requirements for accurate delivery and support cost forecasting are completed after investment approval has already taken place – after analysis has stopped. In some cases, support costs are not even considered until

the project is complete. These and other cases lead to waste and perpetuate the IT crisis culture. While there are various political and cultural reasons for poor IT investment management, the days of ignoring the waste are over and this must change.

Faulty governance of price futures

Cost is made up of quantity and price. While IT managers are able to forecast and measure actual usage of resources, they have little or no influence over price variance caused by inflation, vendor negotiations or changes in currency exchange rates. The business is mostly or wholly responsible for price variance that occurs after the date of plan approval.

Yet, it is not uncommon to hear of IT leaders being criticised or penalised for all of these factors outside of their control. These price risks should be wholly or mostly governed centrally at a corporate level, where functional specialists can govern the entire price risk portfolio.

Perpetual crisis management

IT management is often under pressure to reduce costs through unrealistic conforming budgets needed for yearly planning and business change cycles. This budget practice creates an incentive to have a short-term approach. Cuts in maintenance and support are the easy mark since there is often no clear linkage to the eventual downstream impact. With no traceability for decisions at that level, by the time the problems occur, the decision to make the cuts is forgotten. The cost reduction leader is promoted internally or externally before the impact of the praised cuts percolates up to the business level in terms of lower service levels, and the successor inherits a new crisis.

Ideally, IT leaders should resist this pressure and do the right thing. Realistically, the business needs to work with IT management in a way that encourages good decisions.

Outside of IT, forecasting is an important part of investment portfolio management. If economic or regulatory conditions change, forecasted revenues or cost savings are updated and plans can be modified dynamically. However, within IT, forecasting is mostly relegated to the yearly planning cycle with far too little rigour. While plan to actual results are managed throughout the year, an update of both the future benefits and costs rarely occurs.

Similarly, it is often true that the only time an investment is put under the spotlight is when there is a problem with IT execution. Many investments that will never deliver the promised business value are well executed from an IT standpoint and rolled out. At the same time, many that could deliver solid ROI are cancelled because people wrongly believe that there may be future cost overruns or delays. All investments need to be periodically re-evaluated with respect to their potential business value independently from how well they are being executed.

Seven best practice principles

Observing what goes wrong with traditional ITFM practices provides a foundation for understanding the advantages of alternative approaches. This section summarises the guiding principles for ITFM best practices.

Enable transparency

Financial transparency is an overarching goal and there are multiple ways to achieve it. The sections below provide just a few examples.

1. Measure labour effort and track asset use

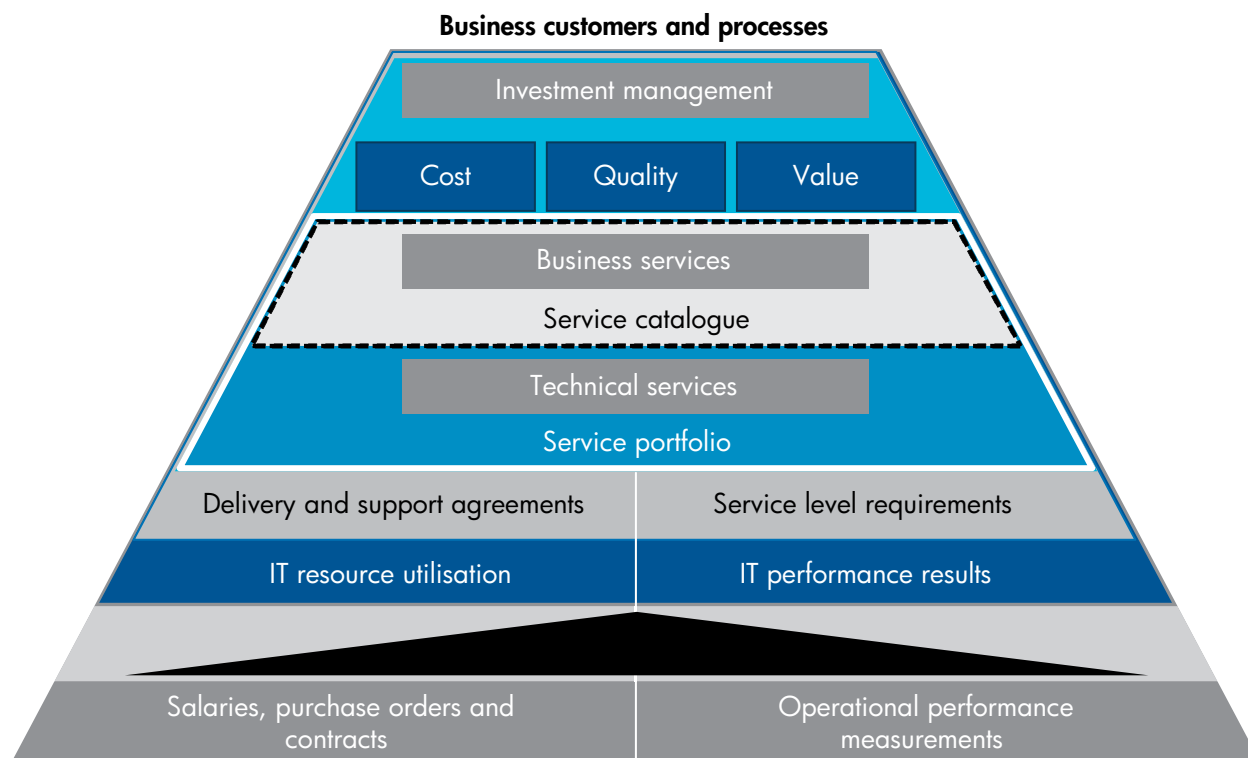
IT cost capture is the subject of much discussion, but is not the real issue. Certainly cost information is required, but for most companies this data already exists in ERP systems. The CIO has undoubtedly been told how much the business is spending on the IT organisation every year. However, ERP cost data cannot be associated with either investment decisions over their life cycle or with specific services. Secondly, ERP also requires resource usage information, as described previously. Finally, much of what should be considered 'IT spend' is actually shadow IT, funded directly from business budgets, which increases both risk and waste.

The information requirements include usage of software and hardware assets along with internal and externally contracted human effort. The most accurate way to capture resource usage is at a detailed level in IT execution systems. By building usage measurement into IT processes, the cost of the measurement is minimised and accuracy is improved. Companies are at different levels of maturity and may not be time tracking for labour resources or use tracking for hardware and software today.

Getting started with usage tracking is the key. Data quality will improve over time, but usage data is mandatory for actionable information to be produced for all IT stakeholders. Usage information also provides the basis for accurate forecasting.

Figure 1: The modern value chain taxonomy

IT investments are managed as services instead of projects and the relationships among cost, quality and business value can be consistently measured and managed, providing a higher level of financial visibility.



2. Instil a culture of forecasting

Forecasting is a tree with multiple fruits. First, in addition to facilitating cost estimates, the process of forecasting, done repetitively, engenders creativity and a long-term perspective. Second, frequent forecasting encourages accountability, which motivates the forecaster (usually an IT manager) to be more vested in the plan to actual results. Third, if not relegated to the yearly planning cycle, forecasting can be exploited as a leading indicator of cost variance, providing highly valued information to all stakeholders.

The value of forecasting increases the more frequently it is performed and the more visibly it is linked to the management decision processes. To facilitate forecasting, IT management systems for labour resource management and IT asset management must be linked to budget management dynamically; IT managers can be evaluated by how well they forecast and how early they indicate variance from plan by updating forecasts in addition to how well they execute.

The transition to a forecasting culture requires maturity in three areas independently. First, the organisation should manage resource supply through labour resource management and asset management. Second, tracking labour time and asset utilisation should be in place with enough detail to support actionable decisions. Third, the processes should be in place to provide decision support, feedback and accountability. It is usually easier to

begin this transformation within the new investment planning process because the level of maturity is often higher there and because operational variance is often caused by poor life-cycle investment planning. Implementing all of this change within IT is not easy, but the benefits are consistently better decisions for IT strategy and execution.

3. Define the value chain taxonomy

The IT value chain is the mechanism through which IT activity, both planned and actual, is linked to business value. The illustration highlights the core elements; the advantages of this model are presented in more detail in the following sub-sections.

Service-based value chain taxonomies are ideal since they best support a direct comparison of costs and benefits. Lower levels of maturity distort the relationship between cost and benefit to some degree. For example, it is very easy to associate cost with IT work, for example, projects, help desks, servers and others. This domain-level cost association can provide some insight into variances, but it does not provide very actionable information because tradeoffs between cost and value cannot be analysed. In fact, this kind of information can lead to distorted decisions/mandates such as, 'storage utilisation is higher than industry average by 10 per cent; this year we must come in line with industry norms.' Without knowing what value the storage is providing throughout the various services it supports, this decision may actually reduce the effectiveness of one or more IT services.

On the other hand, it is challenging to organise IT activity so that resource use is linked with a specific business service because activities cross domains, IT groups and processes, and span many IT investment decisions. However, the information provided is actionable; for example, 'We are consuming too much storage on legacy data backup, but storage limits on internal workspaces and e-mail is limiting productivity for those services. What we need is a more efficient archive and purge process to reduce storage waste while repurposing some of the storage capacity savings to e-mail and internal workspaces.'

Few companies today are using a service-driven taxonomy. The most common value chains today are IT domain and project-based, which limits the potential gains of usage measurement and forecasting to budget management. Companies should strive to improve the way IT activities are aligned with business decisions and business value, ideally through a well defined service value chain taxonomy, to improve transparency and alignment of IT. Lacking this step, the cost and value relationship will remain elusive.

High levels of IT maturity are possible as IT aligns its strategic and execution processes, including forecasting and utilisation measurement with a service-based value chain taxonomy. The benefits of this service-based value chain taxonomy do not end at ITFM. Service Portfolio Management is also enabled by taking advantage of the relationships in the taxonomy to create composite metrics for IT service performance.

Implement effective governance of the IT investment life-cycle

As alluded to earlier, to a large degree, IT costs should be traceable to prior IT investment decisions. This may not be possible in the current state, but the process can begin with new investment decisions.

The business and IT do not have an arm's length relationship, as would be the case if all IT is outsourced. The fundamental advantage of having strategic IT capabilities managed internally is that the IT and business stakeholders can collaborate to optimise long-term value for each investment decision, if incentives are aligned. The goal here is ever-better forecasting of resource requirements and benefits, with timely updates to the stakeholders for decision support.

4. Formalise business case analysis for IT investments

With a well-defined business proposal, a business case can be created by forecasting the costs and benefits over time. And, with any business proposal, for example, opening a new retail outlet, there are many variables to consider, like leasing or buying the real estate, or decorating with gold leaf versus gold paint.

Forecasting the cash flow associated with each option is normal in the business world. The same principles can and should be applied to the IT world. With proper information, the business can optimise cost and benefit tradeoffs across the many variables that make up an investment decision. The key missing ingredient today is the IT forecasts for these various options. IT must help by supplying forecast cost information linked to business requirement variables to improved ROI, for example, 'Perhaps we don't really need 99.99 per cent internal portal availability after all.'

In addition to overall ownership of the business case analysis, the business is responsible for business benefits forecasting and accurately describing the requirements to achieve those benefits so that IT can accurately forecast the required resources. The business, through corporate finance, is also responsible for prices that will be paid for the forecasted resource requirements. Thus, the business should manage that price variance risk. Finally, the business should make sure that all expenditure on IT is tracked and ideally managed through the IT organisation. Linking IT Financial Management processes to corporate procurement supports control and visibility.

IT is responsible for forecasting the labour and non-labour needs for several years into the future, both to deliver and to support the investment. It is also important that IT understand the requirements well enough to be useful as a consultant that provides options the business may not have been aware of. In the case of cost reducing technology investments, IT, with a more clear understanding of technology, may initiate the creation of proposals that the business will ultimately consider.

Business leaders realise no one is a prophet; actual results always vary from initial forecasts. Business leaders simply require timely updates of forecasts to facilitate timely, effective decisions, both with respect to each investment and the entire investment product line.

The life-cycle management of each investment is the responsibility of the business programme manager. Ideally, this person is detached from the sponsoring process so that personal bias will not influence information being provided. The business programme manager is responsible for ensuring collaboration regarding business requirements and ensuring forecasted cost and benefits are revised often.

Economic, regulatory or other factors could mean a change in plans or repurposing of resources to another investment. For proper governance of IT investments, forecasted costs and benefits should be updated often and the investment re-evaluated if necessary.

However, business stakeholders need to accept responsibility for the future liability they are signing up for as they approve a new investment in IT. Two-thirds or more of the cost is going to be incurred after the delivery of the service change they requested.

By recording all decisions, this process will improve over time, and with it, the return on IT investment decisions. Not only is each investment analysed individually, but all IT investments are aggregated and analysed at the portfolio level. For smaller companies, there may be one portfolio representing all IT investments. At larger companies, and companies with different reporting units, each business unit will want to manage their stake in IT investments in collaboration with their peers. With accurate and timely information related to actual and forecasted costs, the business leaders can make effective decisions at this level.

5. Represent IT costs in business services

Costing to business services equates to a high level of ITFM maturity because it provides the best comparison between costs and benefits. The view of prior investment decisions is important because it provides a history of decisions made to enhance IT capability. However, the service perspective provides the current state of cost and benefits in a directly comparable way.

Since all business value is represented by business services, it would make sense that all IT costs should be represented in the business services. The current state and direct cost of each business service is the outcome of one or more investment decision. With proper investment life-cycle management, this relationship becomes transparent.

Similarly, each investment decision enhances one or more services. Thus, when IT is forecasting the cost to deliver and support an investment proposal, a lot is happening within IT: first, IT needs to identify the services that will require change, existing or new; then, for each service, both the delivery and support resource requirements are forecasted. Since services provide a current view of IT value, like IT investments, they need to be evaluated independently, and in aggregate, at the service portfolio level.

6. Link budgets and costs to IT investments

Once approved, the IT investment forecasts become the baseline plan for that investment. The baseline plan can be used to compare with actual results as time progresses. This not only increases accountability, but also enables process improvement. As forecasts and actual results vary from the baseline plan, a decision can be made regarding the variance. If the investment is to be continued, forecasting used for budget creation in the next period can take advantage of the new information.

IT budgeting can exploit the information provided by doing the activities described above. As investments are managed through their life cycle, IT operational budgets should start to contain line items that are traceable to prior investment decisions. Most IT resource consumption is directly or indirectly related to IT services. Creating a budget that mostly contains prior commitments provides justification to the manager for the proposed cost. If cuts are required, the discussion about impact of that cut becomes informed. Armed with this information, business and IT collaboration can evolve into rational discussions about what is waste and what is intentional reduced investment in value or quality, for example, 'We are stopping minor enhancements to Seibel.' Overhead costs can be identified as such. They will never be completely eliminated, but can be managed effectively by identifying them.

7. Map reorganisations to requirements and costs

With investment portfolio and service portfolio views, all IT resource requirements in terms of direct, indirect and overhead needs are identified and independent of organisational structure. When reorganisation occurs, the business can decide which capabilities it wishes to maintain and IT management can allocate resources in the new organisational structure accordingly. IT reorganisations can be mapped to all requirements as needed.

ITFM with HP

The HP approach is to take advantage of operational systems already in use by IT personnel to effectively manage IT resources. It is only through these systems that accurate usage information can be related to business level decisions and value creation. HP has developed an ITFM maturity model and consulting offerings available to help customers transform their IT organisation. A few of the core services are summarised below.

HP Project and Portfolio Management (PPM) Center software

HP PPM Center is an integrated suite that provides:

- A process automation capability that is ideal for formalising the investment proposal process
- Portfolio management capabilities to govern IT investments through their life cycle
- Labour resource management and time management that function together to support forecasting and actual effort measurement by resource category, both for projects work and operational support activities

The company that created the Internet's leading auto classifieds marketplace used HP PPM Center to provide visibility into the change management life-cycle. With its HP solution, the company has:

- Reduced the percentage of projects 'in the red' or at risk from 50 per cent to just 14 per cent
- Increased discipline in handling new project requests
- Centralised all project plans and increased visibility into resource allocations
- Enabled IT management to quantify the non-project work the department does
- Resolved conflicts over resources and priorities

- Project management capabilities that, in addition to supporting service delivery, link IT project forecasting and time capture by CAPEX and OPEX and service to investments for dynamic decision support

HP PPM Center is leveraged at many large companies to manage IT resource capacity by skill, allocate those resources against the combination of new development efforts and support activities, and capture time against project and support budgets. Labour cost categorisation, capitalisation designation and scheduled completion dates, all at project task or IT support activity level, capture information with enough detail to support the decisions of key IT stakeholders.

HP Asset Manager software

HP Asset Manager is deployed to govern the life cycle of software and hardware assets (both physical and virtual). Asset information is obtained from purchasing systems and ERP so that each unit can be tracked individually throughout its life cycle. This detailed tracking information is necessary for accurate cost association with investments and services. HP Asset Manager provides functionality to calculate fully burdened asset costs, and pricing for internal consumption purposes, and model depreciation. It also can allocate costs based on usage behaviour and facilitates chargebacks for utilisation of a specific business service.

Working in conjunction with HP Discovery and Dependency Mapping Inventory (DDMI) software and the HP Universal Configuration Management Database (CMDB) products, inventory and usage information quality and timeliness is improved and simplified through automation. These integrations

provide the ability to manage costs at the service level and ensure the common taxonomy that aligns operational performance with business results.

Financial analysis for each stakeholder group

HP DecisionCenter software improves the quality of service delivery by helping IT organisations make informed decisions to improve business processes. It provides pre-configured metrics and analytics based on ITIL v3 to enable business-centric measurements needed for continual service improvement. The ITFM functionality of HP DecisionCenter exploits data warehouse technology to provide specialised financial management and analytic capabilities for each set of stakeholders: business leaders, financial accounting and IT management. Allocation scenarios of costs by project, programme, application, IT department, vendor, services, business process and IT customer are all supported.

Processes to link strategy, delivery and support

HP PPM Center is designed to support investment life-cycle management, from proposal and business case planning through retirement and ex post facto analysis. Since this information is linked directly with the programme and project management functionality used to deliver these investments, forecast information that is updated as resources are assigned to projects provide leading indicators of cost variance, improving agility and control at the strategic level.

'As HP expands into new areas, Gevity capitalises on that growth to better serve our clients. We've been continually impressed with HP's ability to anticipate technology trends and originate solutions that address those trends.'

Vito Melfi, VP, IT Operations, Gevity

HP Asset Manager discovers and tracks all physical, virtual, contractual and financial information about the attributes of software and hardware to enable the delivery of cost-efficient, timely business services. By measuring all costing information about the IT asset and rolling these costs up to the business services, IT managers can begin to understand the total cost of ownership of a business service. Utilisation of a business service can be then charged back to the individual business unit, allowing for cost control and better budget management at the departmental level.

HP DecisionCenter takes this one step further. Aggregating timely and accurate labour and non-labour costs for both delivery and support activities, users can create numerous customised cost roll-up scenarios to support a wide range of needs, including cost variance analysis, vendor management, reorganisation modelling, depreciation impact modelling, service and business process costs, and analysis of chargeback schemes.

Working with HP Professional Services

HP offers a flexible range of options to customers who are interested in making the move to more effective ITFM.

- **HP Software's Professional Services** provides you with the experience and expertise you need to streamline your HP ITFM solution implementations. HP consultants can guide you through the strategy, planning, deployment, installation and management processes required to create a world-class solution.

- **HP Business Intelligence Solution (BIS)** organisation provides IT Analytics services that include strategy, planning and implementation. The objective is to draw on HP software, research and deep business intelligence experience to create solutions that increase operational efficiency, reduce costs, analyse risk and communicate the business value of IT.

- **HP Software as a Service** for HP PPM Center and HP Asset Manager helps you reduce costs and risks by allowing HP to continuously manage your solution. Through these managed services, our team of experts monitors your solution around the clock and provides you with ongoing expertise to help you fully utilise your applications over time.

- **Comprehensive training** is available through HP Software and IT Service Management classes. These products provide the training you need to realise the full potential of your HP solutions and achieve better return on your IT investments.

Conclusion

Applying age-old business practices to IT is no easy task. But delivering financial visibility into IT activities is a strategic imperative. An effective, modern approach to ITFM is vital for better IT investment decisions, improved financial accounting support and better allocation of IT resources.

By adopting the seven best practice principles, you can enable transparency to improve the cost effectiveness of investments made in IT. Simply put, they can finally bridge the information gap that has impeded business-level IT maturity.

Internal shared storage project

	Start								End				
	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11
IT resource accounting													
ProLiant DL 500 Server 4 CPU	1												
Oracle 11 SEO 4 CPU			1										
System admin hours	20	10	5	4	4	4	8	4	2	2	2	2	
Developer hours			20	40	80	80	80	80	80	40	10	10	10
Management accounting (cash flows)													
ProLiant DL 500 Server		US\$16,000											
Oracle 11 SEO 4 CPU		US\$30,000											
Sys admin contract @ 160/Hr	US\$1,600	US\$ 2,400	US\$ 1,200	US\$ 720	US\$ 640	US\$ 640	US\$ 960	US\$ 960	US\$ 480	US\$ 320	US\$ 320	US\$ 320	US\$ 320
FTE dev cost: salary \$200K	US\$ -	US\$ 1,000	US\$ 3,000	US\$6,000	US\$8,000	US\$8,000	US\$8,000	US\$8,000	US\$6,000	US\$2,500	US\$1,000	US\$1,000	US\$1,000
Monthly cash outlays	US\$1,600	US\$19,400	US\$34,200	US\$6,720	US\$8,640	US\$8,640	US\$8,960	US\$8,960	US\$6,480	US\$2,820	US\$1,320	US\$1,320	US\$1,320
Financial accounting (expenses)													
ProLiant DL 500 (3 yr useful life)	US\$ 444	US\$ 444	US\$ 444	US\$ 444	US\$ 444	US\$ 444	US\$ 444	US\$ 444	US\$ 444	US\$ 444	US\$ 444	US\$ 444	US\$ 444
Oracle 11 Server (4 yr useful life)		US\$6,500	US\$ 500	US\$ 500	US\$ 500	US\$ 500	US\$ 500	US\$ 500	US\$ 500	US\$ 500	US\$ 500	US\$ 500	US\$ 500
System admin expense	US\$3,200	US\$1,600	US\$ 800	US\$ 640	US\$ 640	US\$ 640	US\$1,280	US\$ 640	US\$ 320	US\$ 320	US\$ 320	US\$ 320	US\$ 320
Developer expense									US\$ 958	US\$ 958	US\$ 958	US\$ 958	US\$ 958
Monthly expenses	US\$3,644	US\$8,544	US\$1,744	US\$1,584	US\$1,584	US\$1,584	US\$2,224	US\$1,584	US\$2,223	US\$2,223	US\$2,223	US\$2,223	US\$2,223

Appendix

Here we have an example project to enable internal shared storage for a small company. This simple example demonstrates the different information requirements for each stakeholder group.

The project starts in February, 2010, and ends September, 2010, thus showing only four months of forecasted support and maintenance costs. A business case would project these costs well beyond that timeline.

Starting at the top with IT management, there is a forecast of resource requirements to roll out and maintain shared storage. IT management needs to become good at forecasting resource requirements and managing the actual consumption of those resources against the agreed plan. Here we are simply showing the forecasted resource requirements that IT management says it will need to roll out and maintain the project for four months. As the project begins, management will manage resource consumption to this plan. Ideally they will also provide leading indicators of cost/expense variance by updating resource forecasts and through forecast updates, advise finance and accounting of variances to plan before they occur.

The business takes this information and translates it into cash outlays for the project per month. Because invoices are paid the month after the products are received, the cash flow is a month behind the actual purchase of the hardware and software. Similarly, labour effort is paid with a half-month delay. It is worth noting that since exempt employees get paid a fixed salary, the actual cost attributed per hour to the project will depend on how many hours they actually work throughout all projects and other activities.

Financial accounting of expenses is quite different. Normal expenses are incurred when they actually are received, but assets are depreciated over time. Some internal development projects, including our shared storage example, create depreciable software assets that must be expensed over time. Design, maintenance, support, training and other costs are expensed normally. Thus our system administrator's time is expensed when the effort is put in. However, the developer expense is capitalised over the life of the project and depreciated over time, from April through September in the example. Hardware and packaged software applications over a certain price have also depreciated over their designated useful life.

Technology for better business outcomes

To learn more, visit www.hp.com/go/itfm

© Copyright 2009 Hewlett-Packard Development Company, L.P. The information contained herein is subject to change without notice. The only warranties for HP products and services are set forth in the express warranty statements accompanying such products and services. Nothing herein should be construed as constituting an additional warranty. HP shall not be liable for technical or editorial errors or omissions contained herein.

4AA2-6219EEW, May 2009

