IT Cost Transparencies

A practical guide to finding hidden cost while securing a seat at the leadership table

Do you want to get the attention of your business leadership and secure a strong position at the business table? Offer them a **25% reduction** in hard IT cost.

The following is a demonstrated approach to achieve two objectives: practical cost out and stronger leadership relationships.

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EXECUTIVE SUMMARY

Securing a seat at the business strategic table takes leadership that can recognize the importance of knocking down internal barriers, communicating on a recognized business level, and most importantly offering share holders value.

To get through the door you will need to get their attention. Not surprising, the best method is via the almighty dollar. Take a leap and offer a 25% decrease in cost that will hit the bottom line. Now that you have their attention, offer a comprehensive plan of just how you are going to achieve it, all while providing them a partnership for achieving additional future returns on their initial investment. Share with them that it will all be reported in business unit detail. The cost to the business; the time of some of their key leaders to determine the best service needs and build a lasting partnership with the common goal to grow the business. Who could turn it down?

INTRODUCTION

Do you want to get the attention of your business leadership and secure a strong position at the business table? Offer them a 25% reduction in hard IT cost. These dollars are hard won, but very real and hidden within your organization. To recognize these hidden jewels, you may have to take non-traditional technical approaches and adopt a more business centric approach.

Too often we technical savvy IT leaders loose site of the business aspects of running IT; specifically, managing the financials with the same rigor as we drive for system uptime and availability. The traditional school of thought has been to simply report it as general accounting line item or in larger corporations the costs may be assessed or liquidated back to the business side with one lump sum. Either way, it is rare that IT provides the business with any details. Along with the “don’t ask, don’t tell” approach there are other out-dated drivers for not disclosing. One of the more common non-disclosure approaches/philosophies is simple; IT doesn’t know the true costs at the granular level. Whether this is done intentionally or as a general practice, the end result is the same: business disillusionment with IT.

These antiquated approaches are a significant contributor that limits IT’s abilities to get to the business table and thus become a more strategic partner in the business decisions and strategies. Think of it in other terms. A business has two significant reports that are indicators of the business success and stability: operational reports and financial reports. Hands down, there is broader interest in the financial reports. So it does not take much to figure out that IT should emulate the same as the business to insure an equally appropriate emphasis or visibility is applied along with some degree of governance and accountability.

So if your organization has not considered this approach in the past, it is not as simple as just saying we are going to have detailed financial reports and there you have it. Financial managers have established mechanisms and applied extensive historical experience when reporting on the financial health of the business. Examples: Financial reports, Financial Controllers, etc. Depending on the size and complexity of your IT portfolio, you should plan on investing six to twelve months of effort in establishing similar mechanisms to report the financial story for IT back to the business.

Why so long? We are not talking about a simple spreadsheet of computers, servers, printers, applications, licenses, etc. The complexity of the reporting mechanisms is directly tied to the complexity of your business. In addition, during this process you will most likely discover some aspects of the operation that are less than optimized or Lean[1] and therefore, they will need some adjustment prior to moving forward. For example, if the business has multiple operating units with a matrix organizational structure, then you will need multiple mechanisms to delineate the costs among the business units. Keep in mind that some of the assets will be shared among business units. Shared assets can dramatically change the complexity of the model used to break down the costs down to a specific business unit. Shared servers illustrate this best. If three business units are sharing a single server, how do you divide up the costs to maintain that server?

I can hear the IT managers now, "Who cares how the cost breaks down? It is just not that important to get down to that layer. The business doesn't care." These same IT managers are the ones that want a seat at the table when business strategy is being discussed. These are also the same managers that most likely have business partners that have concerns about the amount of money they have wrapped up in IT. Imagine the success (or lack there of) of an automotive manufacturer; who does not know the cost of the engine and the significance of that cost on the business profit margins.

DEEPER BENEFITS:

We have touched on two of the most significant benefits already: Understanding the true cost and the potential of establishing a seat at the strategic table. Now let's take a look at some of the other benefits, including some soft benefits.

Like most soft benefits, they are very difficult to measure but still significant to a longer-term strategy. To understand these benefits we will need to explore this approach a layer deeper and consider some of the activities that will take place in achieving the goal.

Hidden IT Operations - As an added benefit you may discover insight and perspective into hidden IT operations that are less then optimum or may be a barrier to the organizations future growth. These operations are difficult for team members to

[1] Lean or Lean Manufacturing is a process methodology derived from Toyota Production System and closely related to Six Sigma. At its core, it is focused on reducing non-value add activities (or waste) in a given process.

acknowledge, as they are often closely associated with personal ownership. Knocking down some of these doors to expose these areas can be disruptive to the organization and the daily operations. Establishing a cooperative team environment will mitigate some of the disruption as members pull together to address any gaps and facilitate resolution.

Cost Ownership - The effort of exploring and breaking down the costs with the objective of assigning them back to the business will drive a better understanding within the IT organization of the portfolio, but it will also provide the business a bigger stake in the game via cost ownership. There may be initial resistance by the business or within IT when this is first introduced and may be perceived as being non-value add. But you can be sure that once the business units sees these IT numbers hitting their books, they will take notice as it is now effecting their bottom line and not some distance obscure line item in the general ledger.

This approach does not, however, suggest that IT relinquish the cost ownership, but instead consider sharing the ownership with the business, thus increasing the visibility to the granular business unit layer.

Relationship Building - During this same exercise, IT will invariably have to interface with other IT resources and the business resources that use IT services to understand their use and needs. These interactions build relationships that foster increased dialog between the organizations. This approach can also break down prior barriers and establish confidence within the business that IT truly understands that they are part of the business where IT costs is a significant factor to the bottom line. The simple act of asking the business for assistance/partnership in exploring IT costs will communicate an openness that they may not have had before and may be the catalyst to initiate the over all effort.

Again, when IT is looked at as a “cost center”, it is less likely to have a seat at the strategic table and more likely thought of solely as a necessary cost of doing business. Other benefits to this approach include:

- Identifying areas for further investment or divestiture
- Optimizing IT Operations – visibility into the IT offerings will expose hidden factories that may benefit the few, but rarely align with the business strategy
- Optimizing IT Organizational structures – gaps in business fulfillment may require re-alignment of resources to match the business structure
- Securing ownership and governance

HERE'S THE SIMPLE SOLUTION:

Provide your business partners with a complete disclosure or transparency to the true costs at a detailed layer that targets each business partner. So if your business is broken into multiple business units, you will need to provide each business unit with granular level details of their IT piece of the pie. Use existing common financial reports that the business will be familiar with (reference Fig. 1).

Before you can provide meaningful reports you will need to fully identify the alignment between your IT assets and IT cost drivers with the various business organizations.

Does this all sound similar to building an Information Technology Infrastructure Library (ITIL)? Well it is. IT needs to understand its total portfolio (assets & services) in detail and all aspects of it before it can be ready for the next evolutionary step; true business partnership. The glory days of building IT solutions without thought about the long-term management are a thing of the past. The step from emerging technology and information explosion of the 90s to the strategic partner of today will require an investment from the IT organization to fully understand what it has built, what it is going to need to build, and how it is all best optimized in the dynamic IT market place. With this change comes the responsibility of operating IT as a profitable investment and also providing the the visibility back to the business on its IT financial health. Structured approaches like ITIL or the subset ITSM (IT Service Management) are the precursor to cost transparency and an excellent framework for accomplishing this understanding or knowledge in a structured manner.

The good news is that you don't have to kick off a fully blown ITIL effort to achieve some of the benefits of the next generation of IT. Just like you would not roll out a new shop floor solution without first running a pilot; you may not want to drain the valuable IT pool until you prove the theory. So run a pilot program first. In my case, we initiated it in a focused area; ERP Application support. Our ITIL structure was just getting under way with the implementation of HPSD Openview® being a key cornerstone.

Financial reports…

H/W Inventory: total assets, leased, owned, obsolescence risk, future projections

S/W Inventory: total assets, obsolescence risk, future projections, maintenance costs

Vendor spend: On-shore / off-shore, Rates, Summary & Business Unit specific

Organizational Cost: Direct Heads, Comp/Ben, T&L, Training, Property (leased & owned)

The company was very focused on reducing cost and returning that savings to the shareholders. it will not be long before ITIL is a way of life for IT and ingrained within the corporate culture in the same fashion as Six Sigma. The true test will be how we capitalize on this information to obtain strategic company objectives and a competitive advantage.

FAST TRACK APPROACH:

The following is a fast track approach to achieving the cost transparency that will lead to cost reduction opportunity without deploying a full-blown ITIL effort. For those of you familiar with Six Sigma, this approach is DMAIC, a basic methodology to quality improvement and a core element to the corporate culture at many large successful companies. This is not to say that you should dismiss having ITIL as a part of your strategy, but more of a quick hit or pilot approach. Here is your "cookbook" approach to laying a sound IT Cost Transparent organization:

Step 1 (Define) -- Select a focus area

- Consider your autonomy to make effective change within a specific focus area. Obviously areas that you may not have complete autonomy to change are going to have greater risk due to increased coordination and the potential for more road blocks and therefore may be less successful for initial fast track efforts. The non-autonomous areas can be tackled later after you have realized the benefit and achieved some preliminary business impact and feedback.
- The number of groups that will need to be impacted or needed to be interfaced with to make the effort a success.
- Business needs – The business may be more focused on areas where there is the greatest cost, different political alignment, or areas where the most pain exists. In either case, they may not be the best choices initially as they are also most likely to have the greatest risk as well.
- In any of the above, it is advisable to choose middle of the road areas for the initial effort; risk mitigation 101.
- Brand it. Turn this effort into a strategic initiative within the business and kick off a comprehensive communication and public relations campaign to provide the appropriate visibility across the organization. This will convince the business partners that this is not status quo, but instead a joint venture.

Step 2 (Measure) -- Gather your IT demographics.

- This will be the most time consuming and laborious step. This is also one of the most crucial steps in the process. If you do nothing else, complete this step. The information contained within this step will be the start of your ITIL. If you already have a ITIL in place, review its content for accuracy and completeness.
- If you assume that you must liquidate all of your cost back to each business unit you will have the needed mind set to determine the best methods to identify key characteristics to cost.

- The more details gathered the more insight that will be gained and in turn the greatest returns that will be realized. You are going to need some basic demographical information about your IT portfolio before you make any decisions. Figure 2 is cross section of the information that will be needed to make smart decisions about how best to structure your cost accounting. For a complete list, reference ITIL. The list provided is designed for a focused team that provides application support services, but it can be applied to other areas as well, with the goal of differentiating the use by the business organization.

- Business leaders do not like to make decisions without supporting data, nor should you. It is imperative to do the diligence. The data gathered here is very similar to the data you would gather when considering a business acquisition. If your team has not had the experience in this area, this may be a great opportunity to do it on your terms and within your own timeline, unlike the fast paced environment around an acquisition.

- Be prepared for the discovery of the unknown or a hidden IT factory. This step will undoubtedly be the device by which you can obtain the greatest exposure to some of your organization's shortcomings. Because of this discovery, this is also where you will need to exercise your willingness to expose the inner workings and dysfunctional areas. Fight the urge to raise the shields and hide these vulnerabilities from your business partners. Here is where you can start to build the partnerships with your business counterparts.

Sample Data:

- Contracts – Get all contracts pulled together & understand the following aspects…
  - Master Service Agreements (MSA)
  - Statement Of Work (SOW)
    - Rate structures – Resources, H/W, S/W, etc.
    - Productivity cost reductions commitments
    - Service Level Agreements (SLA)
    - Scope of services (in scope / out of scope)
    - Hours of Operation
    - Location or site / region specific
    - Roles & Responsibilities of the IT organizations
    - Length (1, 2, 3 …year deals)
  - 3rd party support structures
  - License agreements
    - Cost structure
    - Limitations
    - Training
    - Renewal periods
- Demographics - Detailed understanding of the environments (ITIL Lite plus)

Figure 2

Step 3 (Analyze) – Let the data drive and support the conclusions.

- In this phase you will want to enter into it with an open mind. You may discover that your coveted centerpiece project is in need of some serious reevaluation. Let the data drive and support the final conclusions. With the data as the driver you can be more objective and remove your team from being the lone warriors on a crusade.

- By applying some basic statistical analysis on the data gathered, you should be able to isolate some of the low hanging fruit that is prime for the picking. Simple demographics may lead you to conclude that you can consolidate your servers and reduce your overall footprint and the associated support services.

- The data gathered may not provide a full or clear picture of the actual situation so in these cases you may have to gather additional data or validate your measurements. It is not uncommon to have a faulty method of measuring that skews the results. Applying some common sense goes a long way.

- The earlier mentioned approach of searching for ways to break down each of the cost areas for the purpose of liquidating the cost can serve you well for digging into the details and finding the true cost drivers and therefore the ideal opportunities. This is still true even if your business does not seek this financial model. Keep the data and be prepared in the event that there is an area that you can offer the business assistance.

- Consider building a dashboard of the key areas. This will come into play during the control phase.

This same data will be the baseline that you will later measure against so show the improvement. The same measurements will need to be taken after the next step in this process to prove the benefit.

- Graph it. Business leaders rarely want to look into the raw data for IT, especially if it is not the key commodity of your business offering. Your business leaders may not recognize IT costs as a commodity, but that does not mean that should not consider it in those terms. Placing the data in easy to read and self-explanatory formats will assist in securing the buy in that will be the first action in the next step.

- Construct a short, mid, and long-term strategy based on the data conclusions and the savings associated with this plan. Use that data to support the conclusions. Consider you best gains for the least risk first. Higher risk items are going to take more time as they will require greater detailed risk mitigation plans and may also require more time to secure the full buy-in from your business partners.

Step 4 (Improve) - IT's specialty that provides opportunities for showcasing talents and value

- Now that you have analyzed your data and built your strategy it is time to pull the business leaders in and secure the buy in. At this point in the process you and your team should have been engaging the various business team members and the team have jointly recognized the key focus areas and the overall strategy.

- This is also the area that IT should shine the brightest. After all, IT is all about execution, project leadership, and process.

- Implementing your strategy should showcase your team's talents, ability to execute, and engagement into the business bottom line.

- Your financial reports should be well fleshed out and the driving metrics (dashboard) fully implemented.

- Avoid building overly bureaucratic processes that will limit your ability to be flexible and responsive to the business need.

- The improvements should also position the IT organization for the business future. For example, if the are a few acquisitions on the horizon, your new financial model and supporting data should be readily adopted by the businesses entering your organization.

Step 5 (Control) - IT Governance

- Empower key team members to be the gate keepers for the various areas and place controls in place to ensure that things do not return to status quo.

- Governance. Establish a rhythm of review and re-measure to confirm that the changes have taken hold. Formal operational reviews are an excellent way to convey the permanence of this approach and further showcase the teams overall commitment to the business.

- Establish a means to routinely report out on the health of IT. Use the IT financial reports that are targeting the business leaders to illustrate the same. Most businesses have monthly, quarterly, and annual financial closings; your organization should emulate the same and bring to the forefront the key items of how IT is making the act of doing business better and providing competitive advantage.

- Celebrate. At this point the team will have put forward considerable amount of effort, knocked down a few barriers, and uncovered the hidden IT factories. Reward them for their dedication, but make the reward shared with your new business partners.

- Update the IT mission statement to reflect the team's new commitment and position with the business.

The foregoing approach was followed, proven, and the motivator for writing this article. In this real example we: chose the ERP Application support group [Define], gathered all of the detailed statistics identified in figure 2 [Measure], spend weeks analyzing the assets (h/w, s/w, resources) and associated cost drivers [Analyze], partnered with the business to redesign the support structure (contracts, support organization – team alignment, scope of

services / work, SLAs) [Improve], and finally built in metrics to measure our new structure [Control].

When it was all said and done, we had met the goal of explaining and justifying our cost structure, reducing our costs by $750K hard dollars from a $4M budget, rebuilding partnerships with our business counterparts, eliminating confusion and complaints associated with cost, establishing a cost model that was equitable, repeatable, and completely transparent to the business. The savings more then offset the initial six month effort.

The detailed business unit reports provided the foundation upon which additional growth was built all while keeping providing a common business communication mechanism for additional dialog with the business partners.

Still not a believer? Without this foundation, we would not have been prepared for the next round of growth challenges that we faced. We went from 12 production instances to 35 almost over night via a business re-organization, or as we term it; a synergy exercise. This time, we brought back $2M in savings!!

It's safe to say that IT has assured our seat as key contributor at the strategic table alongside with its business partners through a serious of strategic alignments, one of which is IT cost transparency.