

Information Technology Cost Management through Financial Transparency

White Paper

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Overview

Federal institutions face the on-going challenge of managing information technology (IT) costs, while ensuring that needs for capacity, performance, and new functionality are met. In many instances, the costs of technology track directly with budgets; in others, technology costs are actually growing in real and percentage terms. We have discovered that a highly effective practice for controlling IT costs can be achieved by establishing *IT Financial Transparency* as a means to enhance accountability for the consumption of IT by the user community. This method is proven to be equally effective in federal entities that outsource and/or internally provide IT services and has consistently resulted in a 10-25% reduction in annualized IT operating expenses, with the largest savings realized within the first 3-6 months of implementation.

IT Financial Transparency is the ability to illustrate, in business terms, the cost, purpose, and priority of technology components and projects. This practical and proven approach allows direct participation from users of technology, and facilitates rational decisions on need and priority, based upon today's and tomorrow's expected business demand. This White Paper describes good-practices and benefits of leveraging transparency to facilitate technology cost management accountability.

Creating *IT Financial Transparency* provides the correlated measurements necessary for ready translation between business and IT terminology. This is the basis for establishing key management processes for effective and efficient management of IT services to business needs including:

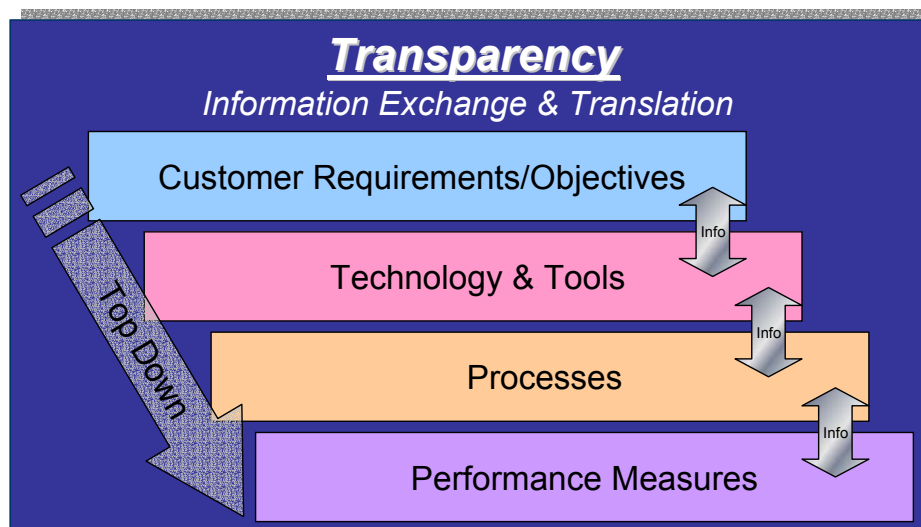
1. Demand management within IT for the required supply of needed IT services from internal, external and/or outsource providers.
2. Consumption management of IT services within the business/user community for awareness and accountability of IT costs to business functions.
3. An integrated model of demand and consumption management that is placed into the business context for direct translation between business requirements and IT capabilities.
4. Evaluation and optimization of IT operating leverage, where every IT dollar can be directly related to business outputs.

IT Financial Transparency establishes the business processes needed to drive both efficiency and effectiveness of IT to business objectives, creates enhanced accountability for the user to prioritize existing and new spending, and adds confidence and trust to the business-IT relationship.

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Differentiation

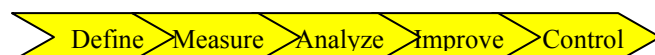
Success achieved for our clients is due in part to our unique approach. We align IT assets and processes to the business functions that they support. This 'Business view' facilitates the correlation of functional KPM's (Key Performance Measures, ---e.g. transactions completed, services delivered) to any or all technology measures (e.g. capacity, cost, performance and risk) to create *IT Financial Transparency*.



This key leave-behind, what our team calls the 'top to bottom' provides the ability for business, application and technology managers to understand the relationships between business functions, applications, and assets in their own language. In today's multinational organizations, where business processes, application development and/or infrastructure management may be handled by decentralized or external groups, these associations become more critical to managing success. The transparent linkage of business KPM's and outcomes to IT measures facilitates a sustainable and improvable management tool, facilitating tactics that optimally support business needs in the short and long-term.

Best Practices

DMAIC Framework



All of our methods are built upon a DMAIC (Define, Measure, Analyze, Improve, Control) framework, to organize, measure and optimize technology and technology measures in support of business objectives. The DMAIC framework creates a repeatable structure and an intuitive understanding of how to logically implement *IT Financial Transparency*, and how to optimize IT

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from the current state baseline. This approach leverages existing templates and allows the enhancement of templates and deliverables after each phase of the effort, to align the method to existing processes, ensure timeliness and maintain momentum.

Top to Bottom

We construct a 'Top to Bottom' in the Define Phase to establish an understanding of the business, objectives, functions and locations to the IT applications and infrastructure that support each business functional area.

Focusing upon technology cost, the following key data assets are building blocks of the top to bottom:

- Key functions and organization charts
- Cost center structure or other financial hierarchy
- Available key performance measures (KPM's) for business or agency functions (how the business/agency measures itself)
- Technology assets, processes, or projects in-scope for the transparency
- Cost and utilization data of the in-scope elements



It is important to note that it is not necessary, and often not desirable to create transparency on all elements of technology at the same time. The DMAIC approach allows the cycle to be repeated, creating opportunity to pick up additional areas of technology in future efforts, and add them into the top-to-bottom understanding.

Finding Quick Hits

It is a great idea to start with an area of technology cost for which data is readily available, or an area that has high total or rapid growth in cost. We have repeatedly found that these three areas provide a high pay-back in a short period of time:

1. Discretionary Items
 - Variable and non-recurring costs (and projects) are often straight-forward to track, represent incremental business 'wants', rather than 'needs', and can provide quick pay-back for the effort in Transparency. Creating cost accountability is a great way to begin to illustrate to technology users the incremental and additive cost of these non-mandatory items.
2. Distributed Servers
 - In many large organizations, distributed computing represents the "Wild West" of technology spending, in that each new requirement, application, or business location creates justification for acquisition of additional servers. Moreover, prudent risk management requires separation of development, production, and business recovery. Consequently, each server added magically becomes three! Creating

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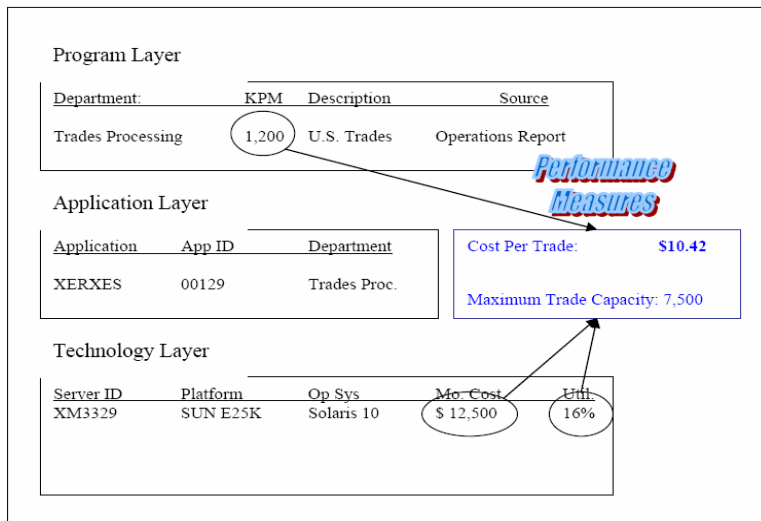
financial transparency in distributed servers can create large cost optimization opportunities, often with minimal implementation cost.

3. Personal Computers and Other Personal Productivity Items

- These ubiquitous assets are typically well-managed at a global level. However, at specific locations, or in certain groups, our experts have seen basic ratios of 3 or 4 PC's for each employee. Again, once identified, these represent quick returns on investment, and the opportunity for IT users to directly manage their own costs.

Baselining Business KPM's to IT Costs

Top-to-bottom information is fully-utilized in the initial 'Define' and 'Measure' phases in order to establish a 'Transparency Baseline' of the in-scope IT costs.



As an example, the illustration on the left is for a single server, highlighting the correlated server cost per business transaction. We can just as easily highlight the cost of personal productivity assets per employee, or the cost of discretionary items per group or per person. Typically, all information will be entered into a spreadsheet or database for ease of analysis. The baseline is used to validate the accuracy and completeness of the information, and identify initial areas of opportunity for further analysis.

Reviewing the baseline with IT users typically produces surprise and "Aha!" moments. Surprise at all of the IT assets and costs supporting their needs, and "Aha!" moments when the IT users identify for themselves opportunities for improved cost management.

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Prioritization

'Analysis' reviews the opportunities to better manage IT cost. The objective of Analysis is to determine, on the basis of business and IT, the prioritization and achievability of potential cost improvements.

Again using servers as our example, server consolidation opportunities can be prioritized based upon cost savings and technical complexity for each business functional area. The simple table at right illustrates how server opportunities can be ranked in terms of the technical effort involved, by considering the operating system, physical location, application suite, and hardware type of multiple servers that meet our utilization thresholds. Depending on the in-scope costs, or contractual arrangements, other criteria can be substituted.

<u>OS</u>	<u>Loc</u>	<u>App</u>	<u>H/W Type</u>
Same	Same	Same	Same
Same	Same	Same	Diff
Same	Diff	Same	Same
Same	Diff	Same	Diff
Same	Same	Diff	Same
Same	Same	Diff	Diff
Same	Diff	Diff	Same
Same	Diff	Diff	Diff

Correlation of Business Demand to IT Consumption

Similarly, Transparency creates the ability to meaningfully consider business conditions and objectives. Since in-scope costs and assets can now be directly correlated to the business functions they support, consideration can be given to the specific requirements of that group. Factors can include:

1. Current and forecasted volume (i.e. personnel, locations, functions, transactions)
2. Seasonality and cyclicity
3. Criticality of function
4. Acquisition plans
5. SLA requirements

Consideration of these *Business Demand* criteria is a key benefit of Transparency. Cost decisions can be based upon current and projected business needs aligned specifically with the assets or actions under review. This creates a CFO-friendly context to IT spending, where a direct correlation between business measures can translate into actions for IT growth or shrinkage on a discrete and targeted basis.

Consensus on Optimization

The focus of 'Improvement' includes the vetting of prioritized opportunities. Specifically, business and technology subject matter experts and leaders will be consulted and involved in a workshop or similar round-table, to evaluate each of the opportunities. As qualitative,

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undocumented information may exist, consultation can facilitate a more contextual view of cost optimization and cost management opportunities.

Improvement Phase culminates in agreed upon cost improvements which can be implemented with limited resources, producing the largest cost savings opportunities, with minimal technical complexity and no business functional impact. One of the great strengths of IT Financial Transparency as a vehicle for technology cost management is that it results in business, applications, and technology agreement on cost savings opportunities. There are no surprises, and any potential timing or conflict issues are addressed before an implementation plan is developed.

Business case and ROI development is straightforward, in that the cost savings opportunities are focused on the largest and technically simplest opportunities, where all stakeholders have participated in review.

Using IT Financial Transparency to Manage Costs

Successfully achieving financial transparency of IT costs constitutes a win-win for any organization. Accountability and empowerment are increased, in that business and technology professionals understand the relationships between business needs, IT actions and assets, and cost. Also, because the process is repeatable, additional cost elements can be added into the framework, providing an ever-more-complete picture of technology costs.

The fundamental value proposition of IT financial transparency, is that it permits users of IT to manage their own technology costs, making educated decisions about the trade-offs in cost, performance, and capacity, directly correlated to functional objectives. The relationships between IT users, applications, and infrastructure evolve into partnerships, with each functional area contributing their subject matter expertise to the achievement of the organization.

About Measurable Results

Measurable Results implements methods that increase the efficiency and effectiveness of systems and processes on an end to end basis. We have successfully implemented and integrated IT Financial Transparency, End to End SLA's, Demand Management and Consumption Management Processes into the world's largest and most complex IT organizations. Our methods are equally effective in outsourced, off-shored and internally provided IT organizations, and most commonly a hybrid of all three models. We are enabling the business management of IT services to directly serve the shareholder.

We operate on fixed price, shared risk and pure risk, performance-based contracts that are directly tied to our client's objectives.

Measurable Results provides quantifiable value for organizations that endeavor to:



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- Improve service delivery to the end-user
- Optimize costs of IT services to the business
- Measure organizational contribution toward goals
- Maintain operational excellence with reduced budgets
- Demonstrate relevant output and outcome measures for services provided

Measurable Results' Supplier Performance Ratings (D&B Open ratings) score an overall summary rating of **97 out of 100** with our clients, placing our firm in the top quintile for all consulting services companies on the basis of reliability, cost, order accuracy, delivery/timeliness, quality, business relations, personnel and responsiveness.

Measurable Results delivers outstanding business value to our customers.

Visit us on the web at: [www.measurable**results**.biz](http://www.measurableresults.biz)

About Business Management Associates, Inc. (BMA)

BMA assists organizations to link their business actions to strategic and financial results. Our experts assist you to:

- Make Better Business Decisions—we perform statistical analyses utilizing available corporate data to assist managers in the decision-making process
- Better Execute Activities and Improve Efficiency—we conduct cross-functional analysis and integrate processes to allow organizational team members to be more effective
- Ensure Regulatory Compliance—we document and review corporate governance practices and decisions to ensure compliance with major regulatory mandates while leveraging prior strategic decisions

Our team of certified and expert consultants utilizes proven methodologies within a proven framework to resolve government and business strategic and process issues. We look forward to working with you to optimize your organization's performance.

BMA is an 8(a), woman-owned company. We have worked with the U.S. Department of Housing and Urban Development and the Federal Deposit Insurance Corporation.

Visit us on the web at www.bizmanagers.com.