

The Pressing Need for IT Cost Transparency

Abstract

Business governance for IT has shaped up as a primary focus for IT in 2009. Necessarily, an understanding of where and why investments are being made, and their relative success for IT and across the organization as a whole is an imperative. IT spend levels have grown dramatically and CIOs and business executives are looking at ways to get a handle on the poorly monitored and often inadequately understood domain of IT investments. IT has become a service provider for the business and similarly enterprises are discriminately using external service providers on a broader scale. Improved financial transparency and management for transactions, processes, service usage and service allocation are all desperately needed. Project budgets can no longer exceed allocations, and executives are increasingly recognizing that only the most justified initiatives can be funded. The overarching requirement boils down to more effectively managing the financial processes within IT, making good business decisions for IT in context with the larger business that it supports, and communicating the financial aspects of IT and the related decisions with effective data and analysis.

IT no doubt has a lot of “cool” technology at its disposal. As a group, those within the high technology industry have spent decades developing the latest and greatest technology for all manner of purposes. This includes management and support technology for running IT strategy and operations. Service management including business service management have moved organizations closer to running IT more effectively and with better business alignment. And yet, IT financial management has not caught up with the sophistication of technology and service management toolsets. Yet, pressures in the market are thrusting the need for IT cost management into the limelight. Apptio is an innovative start-up with the insight and connections to understand IT’s requirement to automate IT cost and financial management with a business context, while supporting requirements for advancing IT maturity levels. As such, the company has developed its software-as-a-service (SaaS)-based solution to meet IT where it is in the maturity curve, and help IT organizations mature as they address the complex requirements of financial transparency in an automated and manageable way.

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IT Maturity Meets Business Needs with Financial Management

Making good decisions has always been a priority for IT. In the early days, technology issues were the primary concern. As IT has matured, organizations are now prepared to tackle the business of IT and its effective financial management strategies. Companies of all sizes are interested in managing IT cost transparency proactively. Toolsets are finally available to help IT leaders meet the financial needs of its department and enterprise at large.

There are varying levels of IT financial management maturity ranging from those that are simply managing costs using spreadsheets as they have done for decades to those that are now utilizing software solutions to streamline their analysis. Some tie financial management to services and assets while others are simply focusing their efforts on streamlining and improving the regular budgeting and planning process. No matter what level of maturity or focus, all efforts serve as valuable building blocks as the organization is able to take on broader and more sophisticated financial management and transparency endeavors. IT service

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management has demonstrated that far-reaching cultural and operational changes are most effective when approached a phase at a time, but designed to build upon each prior step.

You might say that Apptio's solution has come onto the market just in time to meet the contemporary business needs of the day. The financial condition of companies and the world as a whole is driving the need to better manage the cost structure of a more service-based culture within IT. The question is not "why" for IT leaders, but how? IT finance groups have been doing a lot of manual planning over the years. Spreadsheets have been the method of choice. But tying planned and actual budgets as well as service-based cost details together requires much more than can be handled in a spreadsheet-based system. There are far too many opportunities for significant errors, the level of available analysis is both minimal and labor intensive, and the administrative overhead to maintain such a system at even modest levels of currency is expensive.

Practitioners Best Illustrate the Need

In the process of monitoring the market, Enterprise Management Associates® (EMA™) analysts had the opportunity to interview three of Apptio's customers—two are highlighted here. These discussions demonstrated that practicality and near-term results take precedence over often naïve, idealistic visions. Each company was at a different level of maturity for IT financial management. Yet, the common thread was how to best improve the financial condition of IT in the near-term. The nature of those efforts may have differing magnitudes. Nonetheless, they exist in all company sizes.

Mid-Size IT Shop Seeking Control and Credibility

EMA interviewed a CIO from a medium size financial services business to gain insight into requirements for IT financial planning and cost transparency. This CIO was relatively new in his position, but quickly realized that IT was not well-regarded within the company. Respect and credibility was the primary challenge this IT executive needed to solve along with gaining control over service delivery expenses. The CIO embarked on an IT-driven initiative to better communicate with the business. Perhaps the first lesson learned here is the value of taking a proactive stance.

As a member of the senior management team, the CIO sought to provide a monthly operational packet to educate the management team about IT's value and the true costs associated with IT service delivery. While this may seem to be a simple goal, implementation is complex with data residing in a multitude of different sources.

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Tackling the Challenge

This CIO was proactive in pulling together detailed information about his organization, while at the same time evangelizing and educating the management team. His objectives were:

- To create a means to discuss budgets across IT, as well as with other executives in the company.
- To assess the cost of services. How much is IT security costing? Core infrastructure? Application development costs?
- To monitor only the top ten priority services in the short-term.

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The process of executing on his plan involved developing a rudimentary service catalog. This was the first attempt to name and track services and their size and scope with the intent to make sense out of the service and cost structure currently in place. The CIO created a pilot project of a monthly management team review packet and assigned a staff member to manually pull it together. Data feeds ranged from the general ledger to asset management to staffing and overhead costs. He knew this manual approach would not be sustainable over time, but wanted to get the effort off the ground as soon as possible. The plan was successful. The CIO got the ear of his executive colleagues. Later, he would leverage this credibility to acquire an automated solution to develop an efficient and more accurate management process.

Retailer Taking Incremental Steps

There is no single right way to get started with IT financial management. Each enterprise must evaluate its own readiness and goals, both near-term and longer-range. Companies have shown success in getting started at whatever state of readiness makes sense for the enterprise. Early successes in cost reduction and transparency can then be used to drive greater maturity of ITFM processes.

EMA also interviewed the Director of Global Infrastructure for a large and well-known retail food and accessory distributor. The focus of this organization around IT financial management was to evaluate the total cost of ownership (TCO) for the desktop environment. This was a company that had experienced exponential growth for many years and was accustomed to spending in all areas without restraint. The economic challenges in the market have driven behavior that necessitates better decision-making for all aspects of the business.

This company hired a new CFO in 2008 who wanted to dive into technology costs. Initially, it also created a manual, spreadsheet-driven analysis to look at a single point in time for desktop TCO. Never did the IT leadership intend to repeat this exercise. The goal for IT was to take a very pragmatic look at a single cost center and narrow its focus on saving dollars in that area knowing that success would drive expansion and maturity in its IT financial decision-making. The Director of Global Infrastructure had set a goal to create a competency center for all of its desktop lifecycle management. The effort would have to be easy to initiate and have low start-up costs. It was a requirement that its solution be offered as a SaaS model for these reasons. The company is looking toward SaaS and cloud computing for many of its technology management needs.

The Director of Global Infrastructure had three primary goals in looking for an IT financial management solution. He needed to conduct trend-analysis for desktop usage, to model “what if” scenarios for decision-making around the overall cost model for desktops and to manage the entire lifecycle of the desktop asset. The decision to move ahead with Apptio has enabled IT to decrease costs and make better choices. IT has now been able to make software reconciliation and licensing choices; analyze desktop usage by location and device type; and model lifecycle decisions to evaluate the best place for investment. Most importantly, this company has succeeded at negotiating down the desktop support cost. It uses an external service provider that charges per seat. Prior to this visibility, there was a greater percentage of desktops out of warranty and the costs are greater to support those units. With more now in warranty, the company has been able to renegotiate a better cost per seat.

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Going forward in the desktop group, this retailer will focus on improvements in its current system. For instance, it is still working on automation of the data feeds. Some are currently automated and some are still manual. Expansion plans are also underway. This company will next look at applications within the server group and increase use in other domains over time. As stated previously, this company has a strategy around cloud computing. Using SaaS for IT financial management has been a great first step that proves it can be done.

Apptio Innovation for IT Financial Management

Apptio was formed in 2007 specifically to address the financial management needs of IT. This innovator provides a robust, purpose-built IT financial management solution to aid IT executives in managing the challenging domain of cost and business performance management. Its solution includes a scalable, cost modeling, executive-friendly dashboards and the ability to integrate a wide variety of data sources to assist IT and the business in reducing IT costs and better manage IT service demand. While Apptio's solution has many foundational and application-oriented capabilities, its value lies in the executive-level visibility and analytics it offers IT and business decision-makers.

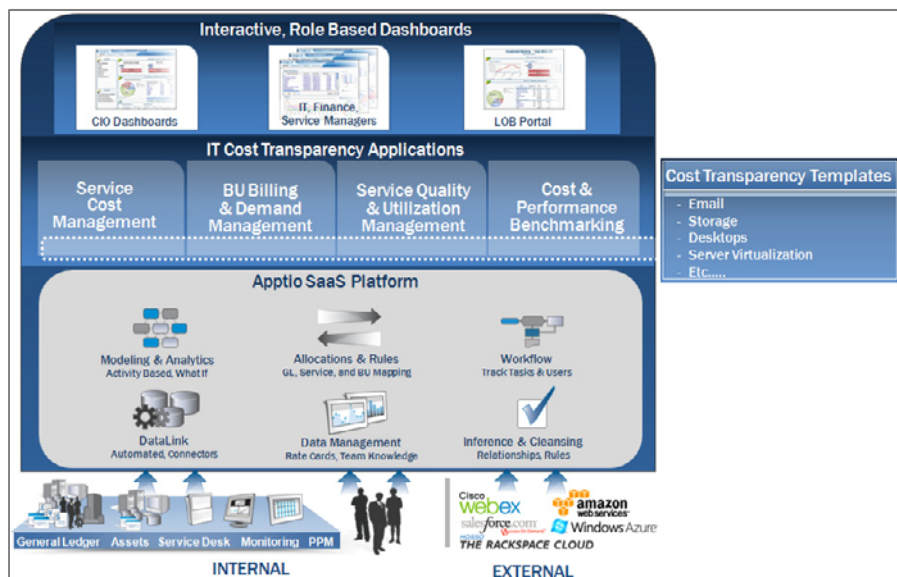


Figure 1: Apptio's Architecture to Support Financial Management for IT

The company has chosen a SaaS-based licensing and delivery approach to eliminate one aspect of the buying process—the cost to acquire hardware and install on-premise software. SaaS also enables Apptio to capture industry data that can be used as a valuable, financial benchmarking tool over time. The core of the solution is the graphical modeling system and data inference technology that identifies patterns in disparate sets of financial and IT data. Using the modeler, users can define their cost flows and structures to match the needs of the business. Data and assumptions can be entered directly into Apptio or imported from financial and IT systems to populate cost, utilization, or usage models. Costing of services can be activity based or driven from top-down costing estimates. Demand and cost-oriented dashboards are then generated to support decision-making. Customers, like those described previously, can capitalize on the automation and the executive-level reporting to manage ongoing financial processes, adjust investments and resources as well as better communicate with the business.

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Apptio has recently begun to define its functionality in terms of applications. These applications fit together in four distinctive categories:

- **Service Cost Management** includes two primary functions: (1) enabling managers to calculate the fully loaded cost of IT services and perform data analysis to deeply understand the fundamental cost drivers and (2) streamlining the budgeting and planning process and tracking the actual costs versus budget over time. Service cost analysis can start from a top-down or a bottom-up process, can include activity-based costing drivers and includes a flexible visual cost allocation modeling environment. It captures data and drives workflow activity from the organization and financial and IT systems.
- **Business Unit Billing and Demand Management** enables the allocation of IT service costs directly to the divisions and departments that are consuming them. This application provides a “Bill of IT” to show the details of the allocated costs. Providing a Bill of IT is a key component to Demand Management—the process of engaging with Line of Business managers who consume IT on which services they require, which can be decommissioned, and how to prioritize spending during times of contraction. The application integrates with financial systems to drive chargeback for both internal services and those in the cloud.
- **Service Quality and Utilization Management** offer a much greater level of depth looking at utilization and quality of service delivery. For many different infrastructure components, utilization tracking is available along with tools to monitor infrastructure capacity.
- **Cost and Performance Benchmarking** is a distinctive addition to the Apptio product suite. It provides baseline information showing the “industry norm” for performance in the areas of IT spending and financial metrics as well as infrastructure and support costs. Data sources are two-fold with some coming from third-party benchmarking sources and survey firms and an increasing amount from data aggregation on the Apptio platform.

Supporting User Needs to Get Started Quickly

The value for managing IT financial details is clear and Apptio is a clear innovator in this space. Yet, there is more to it than that. Apptio moves beyond those requirements to understand just how important it is to assist its customers in getting off the ground with the basics. And these basics may mean different things to different organizations. Apptio technology has a number of features to support customers in moving forward as easily as possible. One of these services is the development of templates that serve as a starting point for key initiatives. These templates give users a jumpstart on modeling in their own environments. The intent is to grow the number of templates available. Currently, templates exist for server virtualization, client, email, storage, network and support. In addition, as not all organizations have robust data in their IT systems, so Apptio supports a “top down”, estimate driven approach to IT services costing that enables customers to drive allocations based on organizational knowledge and then augment that as better data from systems becomes available. Other capabilities exist as well including a visual modeler for service costing, a flexible rules-based approach to cost allocation and an easy-to-use general ledger mapping tool to ease the transition with financial systems.

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EMA Perspective

IT has arrived at a new level of maturity that has brought with it a coincident need for better business management. To deliver business-focused management practices, IT needs better systems and processes to manage the financial and key performance aspects of IT. Wise CIOs will be proactive in working through the details of managing and reporting on IT costs and justifying the investments that are being made. Innovative solutions such as the Apptio offering have come to market in an extraordinary time. The insight offered by Apptio is just what the doctor ordered to help customers like the financial services organization that was stridently working to control costs and demonstrate value to the business.

EMA interviewed another company in conjunction with this brief. This retail enterprise customer had a similar situation. The difference was that this organization had conducted a benchmark study with The Hackett Group to assess its performance relative to its peers in the industry. The results of this study recommended treating IT as a value-add utility to ensure that it was as cost efficient as possible. But this could only be accomplished by establishing an effective cost model and managing to that in order to support the highly-competitive retail environment that it served. Both companies, for different reasons, found themselves in need of a financial management solution that was efficient and effective.

Enterprises such as those highlighted here can benefit greatly from Apptio's innovation. The company stands out on a number of fronts. First and foremost, it is focused on addressing the near-term financial transparency needs of its customers. The development of templates, support for top-down as well as bottoms-up service costing, and benchmarking data clearly make it stand out from the pack. It was early in offering a SaaS-based solution, which is valuable for customers trying to control costs. The challenge now is that competition with these solutions is heating up. Some of the larger players are now targeting financial management, as it becomes a stronger need. Apptio can maintain and capitalize on its early lead by continuing to put itself in its customers' position. To date, it has shown a clear intention of doing just that. Flexibility in costing models is important, but even more important are the automation capabilities built into its rules engine, workflow and rate cards. Innovations such as these demonstrate a solid understanding of customer needs—both at the start of a financial transparency initiative as well as maturing financial and performance processes and controls over time.

About EMA

Founded in 1996, Enterprise Management Associates (EMA) is a leading industry analyst firm that specializes in going “beyond the surface” to provide deep insight across the full spectrum of IT management technologies. EMA analysts leverage a unique combination of practical experience, insight into industry best practices, and in-depth knowledge of current and planned vendor solutions to help its clients achieve their goals. Learn more about EMA research, analysis, and consulting services for enterprise IT professionals and IT vendors at www.enterprisemanagement.com or follow EMA on Twitter (http://twitter.com/ema_research).

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