DITY™ Weekly Newsletter
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The workable, practical guide to Do IT Yourself
Vol. 6.7 • February 19, 2010

Overcoming the Isolation of IT: Financial Management and the Cost of Service

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Try posing this question to IT customers and IT professionals – pick the most important part of IT – pick the one process, one section of infrastructure, or the one department that stands out as the most strategic piece of IT.

What responses do you think you would receive? Really, does IT have one most important strategic piece? The cut to the chase answer is this: None of the pieces are strategic by themselves. None. IT has too many parts.

This article examines the strategic role of IT Finance by emphasizing the concept that IT Finance cannot be strategic by itself. Finance must join with other IT processes to develop harmony with company strategy.

Often organizations gather these parts into technology stovepipes and manage accordingly. Technology stovepipes can lead to incoherence, non-communication, and disharmony within IT and certainly outside of IT. IT Finance is often just another stovepipe out of synch.

Reporting the cost of service without including the results of the service is an example of a stovepipe telling only part of the story. Conversely, reporting service results without the corresponding cost and value is also only part of the story. No single stovepipe can reveal the sum of the parts of IT.

Following I discuss how financial management helps reveal what is really important.

Importance of Understanding Costs

Many IT departments have various stovepipes working in isolation to gain efficiencies. The stovepipes are often organized by technology. Networks are over here, UNIX over there, finance in here. While it is cheaper and more effective to have experts in one technology than generalists who must have skills across several technologies, IT organizations that depend on generalists often lose view of business alignment and IT strategy. This creates an IT where no one plays a strategic role and without a way to bring all the stovepipes together to.

Technology stovepipes make it difficult to communicate problems, results, and issues either to peers managing different technologies or to upper management. CIOs also point to a chaotic/reactive maturity environment where they spend time reacting to problems rather than preventing them. Since putting out fires consumes more time than preventing them, IT never finds the time to develop an approach to bring the organization to a higher maturity level.

IT Financial Optimization measures the financial results of the other maturity initiatives plus a few other areas. Here, IT Finance folds into IT strategy. The strategic role of Financial Optimization in IT maturity initiatives is to provide financial insight into the engineering processes to move from reactive to alignment, including Service Level Management, and legacy application costs.

The financial insight required transcends far beyond traditional budgeting or departmental views of financial performance. Financial Optimization determines the costs of capacity, services, and legacy applications with transparency into the cost elements. Expressed another way, Financial Optimization, IT Finance's new role, must create cost models that have all the "sections" of IT as cost elements: people, processes, and infrastructure expressed in cost objects of business service, processes, and IT customers.

In particular, let's look at the crucial relationship between IT Finance and Service Level Agreements (SLAs). In this discussion, SLAs are the IT organization's product for its business customers. SLAs define the performance requirements of each business application.

SLA performance requirements can be quite granular, extending down to individual processes and to the time of day. In addition, properly defined SLAs determine the value the business places on the application by setting forth how much they are willing to pay for the performance requirements of the application. Measuring the financial performance of SLAs is as important as measuring other facets of SLA performance (expressed in terms of *Availability/Response Time/Throughput* or A/R/T). Adequate performance must come at the right price. If the price is too high, then the additional cost could undermine the business case for the application.

Many IT organizations struggle to define and implement SLAs, but in reality they struggle to reverse-engineer legacy applications into SLAs. Creating "operating" service level agreements where IT measures A/R/T while determining SLA operating costs establishes a baseline that pays dividends when IT helps the business create business cases to assess whether or not to keep, enhance, or replace aging applications. Financial review applies equally to new business cases and older, legacy services. Taken together, new and legacy SLAs become the essential IT Finance measurement that must be standard to compare acceptable service delivery results with acceptable costs.

Knowing and communicating the cost of services is essential because it contributes to forming and fine-tuning strategy and optimizing operational resources. For internal customers, it helps them make appropriate choices concerning the mix and quantities of services they consume. Without understanding the cost of a service, customers naturally want the Cadillac version. Knowing the cost enables them to choose the service level adequate to their actual needs. The bottom line is that reports to internal customers give the CIO and the IT organization an opportunity to communicate in clear business terms with transparency to cost elements.

Our objective is to trace costs to products/services provided by IT. Service Level Agreements contain the value definition for business applications as well as service level requirements. In addition to documented SLAs, there may be more general standard services offered as a cost savings or legacy services not yet formally documented with customers. Even without formal documentation, IT should be ascertaining cost and service performance for internal management purposes.

Cost analysis of services becomes available to trend service costs and service unit cost. With the relationships to ITIL processes, components, and people resources already established, these services can be analyzed by ITIL process and/or the resources consumed for growth forecasting. Conversely, resources can be analyzed in terms of the services that ultimately consume them whether the resource is a server, calls to the help desk, or other ITIL process.

Summary

In the final step, services are assigned to customers based on the consumption metrics of their usage. Cost metrics are now available by customer. As these are added to the relationships already calculated in the model, a rich analysis base becomes available to help understand the operations and to be related to operating results. Since the ultimate services that IT provides are business applications covered by SLAs, the results can be used for both value reporting to customers and also for internal IT optimization.

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