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# Market Overview: IT Financial Management Software

by Thomas Mendel, Ph.D., and Peter O'Neill  
for Vendor Strategy Professionals

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The Time Is Right For More Cost Transparency In IT

by **Thomas Mendel, Ph.D., and Peter O'Neill**

with Jean-Pierre Garbani, Paul Hamerman, and Edward Radcliffe

## EXECUTIVE SUMMARY

As IT continues to morph into business technology, it increasingly gets the same treatment and is subject to the same expectations as any other business operation. Some of the most pressing needs in this respect are clearly measured, continuous process improvements as well as better documentation and analytics about all resources used to manage those processes. IT financial management will be the new mantra where standard business practices like budgeting and activity-based costing (ABC) will become the norm for IT organizations. Forrester therefore recognizes IT financial management as an emerging segment in the IT management software market and has reviewed the current and planned offerings from more than a dozen vendors. The market is still nascent, but it will grow significantly in the next few years. The engineering of a suitable IT financial management solution will challenge existing IT management software vendors, suppliers of project and portfolio management (PPM), and existing business application vendors alike. The marketing and sales challenges for these vendors are also significant. There is currently no clear leader, and the playing field is level.

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Forrester interviewed 13 vendor companies, including Apptio, BMC Software, CA, Compuware, Digital Fuel Technologies, HP Software, IBM Tivoli, Microsoft, Nicus Software, REALTECH, SAP, SAS, and VAlign Software.

### Related Research Documents

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

"What's After BSM? Understanding The Financials"  
January 6, 2009

"Trends 2009: Financial Performance Management"  
November 21, 2008

"The Forrester Wave™: Business Performance Solutions, Q4 2007"  
October 10, 2007

## IT FINANCIAL MANAGEMENT SOFTWARE — THE WHAT, WHY, AND HOW?

A new and urgent imperative is emerging in IT. As business users' expectations of IT continue to rise, many IT operations and development groups lack the business maturity to effectively demonstrate the business value of IT investments and operations. Business users are demanding greater IT cost transparency and financial analysis in order to understand the true cost of IT. They believe the transparency and analysis are critical in enabling them to intelligently manage demand for IT services and participate in cost management decisions. During recent months, Forrester has seen a wave of inquiries from clients around the topics of IT cost transparency and financial analysis.

“How do the established IT service providers, or even telcos, understand the financial breakdown of their services and charge these back to their customers. What tools do they use?” (Director of service management, large US manufacturing company)

This client wanted to be able to calculate the total cost per service and then calculate variable service charges based on service usage. The irony is that most service providers actually still charge back or bill their customers based on fixed allocations, usually using the IT infrastructure asset base as the key to calculate these charges.<sup>1</sup>

“I have a good handle on IT project costs. We use a PPM system to keep those numbers up to date. But I also need more insight into the IT operations budget — that's three-quarters of my IT spend, and we can only book it by cost type. We allocate it to the users based on some factor, but they complain that it is unfair and they're probably right. How can I do a better job of analyzing those costs?” (General manager of IT shared services, international consumer packaged goods company)

In most enterprises, the current IT budget book contains two major sections:

- **A detailed list of IT's capital investments.** This list is based on the output of the PPM office, which prioritizes and documents all new IT projects and their associated investments. It could include IT infrastructure investments under the rubric of consolidation or replacement projects, but they are not allocated to any current services.
- **A not-so-detailed list of MOOSE expenditure.** This list contains spending on maintenance and ongoing operations, systems, and equipment (MOOSE).<sup>2</sup> Forrester usually cites MOOSE values as a percentage of revenues, but the portion of the IT budget spent on MOOSE ranges from 60% to 80%. Enterprise accounting systems typically provide this data — mostly equipment depreciation costs, IT product maintenance charges, and labor. But it may not be complete because power consumption and other utility costs don't tend to be allocated to IT.

At best today, IT — or accounting — is able to allocate the MOOSE bill to the businesses based on fixed keys, such as headcount or number of workstations. It usually lacks a mechanism to relate the ongoing costs to their causal effect, such as which business units require which component

of MOOSE or what MOOSE values are per application or per business service. The best that IT organizations can do with MOOSE is to benchmark it against their peers and set themselves general targets to manage the expenditure categories.

Managing and analyzing the financials of IT operations is not a trivial task; collecting financial data to support activity-based accounting in IT operations requires integrating additional processes and data. The service management systems that IT runs have to link to and collate data from enterprisewide human resources and financial systems. The financial reports also have to feed back into the enterprise financial system to invoke cross-department allocations or chargebacks.

This pent-up demand for a resource planning system for IT has now prompted several vendors to work on combining elements of PPM, asset management, and accounting analytics systems into a new solution that Forrester is calling IT financial management.

### A Market Definition

In order to better manage the challenges described above, enterprises are starting to look at better ways to manage the whole IT budget. They are also asking software vendors for standardized solutions to the problem. IT financial management software presents the answer, but it is a new market with no single vendor offering a complete solution yet. Vendors are currently selling very different solutions under the banner of IT financial management software. Therefore, there is a need to clearly define the term and its solution components.

Forrester defines IT financial management as:

*The discipline of planning, budgeting, monitoring, and controlling the use of a firm's total IT budget (operations/maintenance and new projects/investments).*

IT financial management software provides an application that allows companies to support and automate the process of IT financial management. This is done by applying general cost accounting principles to IT.

### Why Now?

There are two key reasons why companies are looking to invest in solutions for IT financial management right now, despite the fact that the need has been there for a long time:

- **IT process maturity.** The phenomenal growth of the IT Infrastructure Library (ITIL) as the de facto standard for IT service delivery and IT service support processes has raised the bar for internal IT department process maturity considerably.<sup>3</sup> Most internal IT departments today can be considered to be in the stable stage, rather than the chaotic stage of a few years ago. The obvious next step for IT then is: Run IT like a business, just like service providers do — and that's what IT financial management is all about.<sup>4</sup>

“We have now completed our ITIL implementation, a process that took us a good four years. Feedback from our business customer is excellent. However, I am looking for the next step in process excellence — the more I think about it, the more it becomes clear to me that now is the time to tackle the IT budget holistically and to create the next level of cost transparency.” (Chief information officer [CIO], global manufacturing company)

- **Data availability.** No good cost accounting can come from bad data — it’s as simple as that. Technology advances in discovery technologies have enabled companies to gain very high levels of data accuracy in recent years.<sup>5</sup> And, more and more companies are using time sheets to report time spent on service delivery, incidents, and projects. Keep in mind that personnel costs are already the largest and ever-increasing IT budget items.<sup>6</sup>

“I can’t get a holistic and consolidated view of our IT and telecom spending. I have to go to more than 10 different departments in the company to get some idea, but it’s still incomplete.” (Business line manager, European health insurance firm)

### Solution Characteristics

A solution for IT financial management consists of three components: software, process models, and consulting around best implementation practices. Smart vendors will make sure to offer this as one package. On the software side, we again have three essential solution elements: models, reports, and interfaces (see Figure 1).<sup>7</sup>

One central element is the ability to use ABC principles for cost structure modeling.<sup>8</sup> This is essential because of the high percentage of indirect costs in IT services and projects. Without ABC, the trustworthiness of the results will be forever in doubt.

“Our company has a long history in using ABC across our company. I was frankly astonished, or shall I say shocked, when I learned that IT cost accounting was no way near the level I was expecting. Implementing ABC is now on top of our IT project list. And because IT reports to me, we anticipate swift execution.” (Chief financial officer, global engineering firm)

**Figure 1** Key Capabilities Of IT Financial Management Software

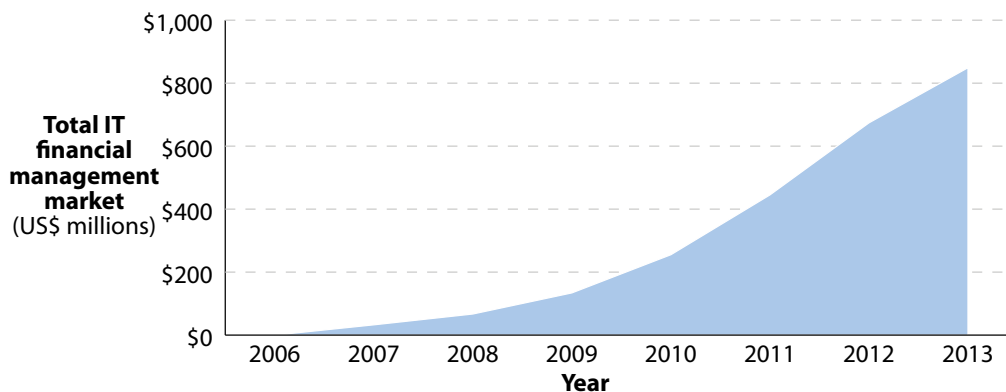
Modeling capabilities	Reporting capabilities	Interfacing capabilities
<ul style="list-style-type: none"> <li>• IT budget</li> <li>• IT processes</li> <li>• IT services/IT projects</li> <li>• IT cost structures (using ABC)</li> <li>• Service/unit costs</li> </ul>	<ul style="list-style-type: none"> <li>• Time sheets</li> <li>• Cost center</li> <li>• Services/projects</li> <li>• Budget deviation</li> <li>• Scenario planning</li> </ul>	<ul style="list-style-type: none"> <li>• Asset management/CMDB</li> <li>• Chargeback/billing</li> <li>• Corporate (cost) accounting (ERP)</li> <li>• Service desk</li> <li>• BI, PPM, BSM, BPM, and vendor management tools</li> </ul>

## IT FINANCIAL MANAGEMENT SOFTWARE MARKET SIZE AND FORECAST

Forrester has been forecasting the total IT management software market for several years and maintains market sizes for 12 separate segments such as IT asset management and service desk.<sup>9</sup> In 2009, spending on IT financial management would fall under the “other” category, but Forrester anticipates significant growth in the next five years so that this segment alone will exceed \$800 million in 2013 (see Figure 2). The process for establishing a market forecast involves a series of market modeling assumptions:

- **Technology adoption.** We used the established Forrester technology adoption methodology to model how quickly the solution will be adapted by users.<sup>10</sup> Forrester interviewed vendors targeting this nascent market about their deal size, industry, and account segment mix to calibrate the adoption rate.
- **IT maturity.** The refinement of IT financial management assumes an advanced maturity within the IT organization around the internal processes as well as the understanding of providing business value. Forrester’s business service management (BSM) adoption rate analysis serves as a strong indicator of this maturity, and this factored into the market estimation.<sup>11</sup> The 2008 IT management software market has 12 segments, and the probability of software-as-a-service (SaaS) being successful varies by segment. We refined our previous assessment of SaaS penetration and factored the assumptions into the forecast calculations.

**Figure 2** Emerging Trends For IT Financial Management Software



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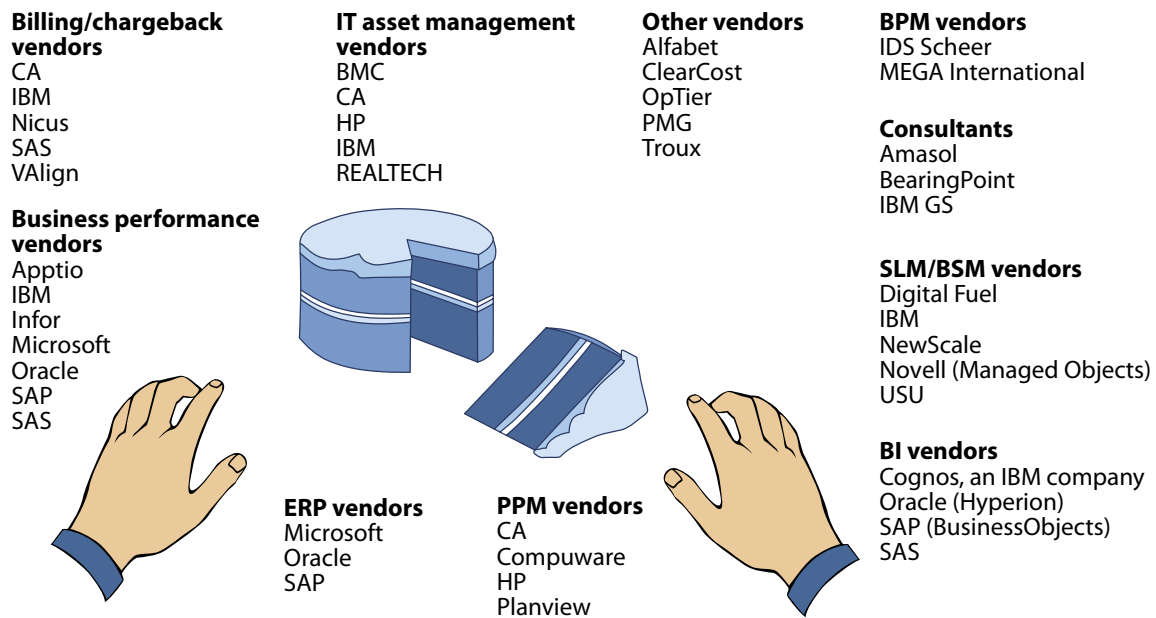
Source: Forrester Research, Inc.

### Everybody Wants A Slice Of The Cake

Exploding demand from end user companies has not gone unnoticed. Consequently, the vendor landscape in this nascent market is already sufficiently complex and seems to be growing by the minute. Vendors are coming at this market from all directions (see Figure 3). And because

implementing IT financial management involves process changes, consulting is an important part of the project. That's why we also see consulting companies offering product independent implementation services.

**Figure 3** IT Financial Management Software — Dividing The Cake



Note: This only includes solutions that Forrester clients have reported using for IT financial management.

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Source: Forrester Research, Inc.

### But Who's Gonna Get It?

Because of the very different origins and legacy products, vendors' interpretation of IT financial management can be very different. Not every vendor sees the full picture yet, and consequently not everyone has an equal chance to win this game. So, who's got the edge?

- **ITAM first — if they get the processes right.** The IT asset management (ITAM) vendors all have a good foundation for developing an IT financial management solution. Some of them are already closely linked to accounting systems as well. CA and HP also have mature PPM solutions and installed bases to provide further leverage: CA has already integrated Clarity with CA Asset Portfolio Management, and HP is about to announce its integrated product. BMC has integrated its 2008 ITM acquisition to provide one of the most complete solutions so far. IBM's ITAM solution scores well in financial management, but IBM has little exposure in the PPM space as a product vendor. USU Software has traditionally labeled its ITAM solution as an "IT Controlling" application and has the necessary technology, while lacking the necessary market reach. The other ITAM specialists focus more on device and/or software license management.

However, the most experienced vendor in this space remains REALTECH, with the most complete (although not 100%) solution on the market today. This is no big surprise, since REALTECH's sweet spot is IT management software for SAP hosting providers.

- **PPM second — if they learn to understand operations.** Aside from the PPM solutions provided by the megavendors, which also have an ITAM solution, the specialist PPM vendors must expand their sales, marketing, and product reach to cover IT financial management needs in IT operations. This is a nontrivial extension, requiring new skills in their sales force and considerable extensions to their products. Keep in mind that operations are the much bigger slice of the overall IT budget cake.
- **Business intelligence third — if they acknowledge the garbage-in/garbage-out syndrome.** Some vendors are focusing on the business intelligence (BI) challenges of IT financial management, and a similar approach can be observed from interesting emerging vendors like alfabet. Each of these companies can extract data from IT operations systems and then provide the overlaying analytics and reports. However, unless these projects are accompanied by a diligent business re-engineering progress to improve the data quality, they will not provide sufficient added value and will die after the first phase, with the vendor being blamed.
- **Business performance solutions fourth — if they develop IT-focused solutions.** Business performance solutions (BPS) contain key software capabilities used primarily by finance, including budgeting/forecasting, ABC, strategy management, and performance measurement.<sup>12</sup> Purpose-built solutions for planning, costing, and performance measurement are evolving to support other corporate functions, including human resources, operations, and IT. SAS Institute, for example, has a leading ABC offering and purpose-built performance measurement for IT. Costs of adoption remain a barrier for IT, however, since BPS products are typically priced for enterprise deployment. Apptio is an emerging SaaS vendor that also offers ABC and specific cost models, reports, and analytics targeting IT with a lower cost of adoption.
- **ERP never — because this will forever remain a niche market.** Curiously, these vendors are often the first considered by business management addressing IT for the first time. One of the most common inquiries for Forrester analysts in ITAM is: "Can we use the enterprise resource planning (ERP) system?" The general Forrester opinion is that the enterprise software vendors do not pay enough attention to specific IT-centric requirements, which makes ITAM different than enterprise asset management, and the danger is that the same will happen to IT financial management.

## HOW TO GET STARTED

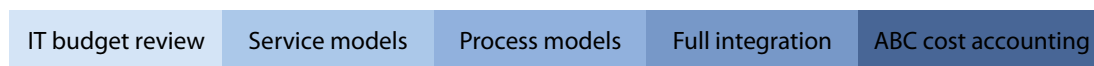
In 2009, this developing market will be best approached by focusing on that segment of enterprises that display sufficient maturity to want to, and be able to, do IT financial management. There is no need for demand generation. It is more important to qualify accounts accurately to ensure a good reference project for future leverage. The most suitable accounts for IT financial management investments are those where you can find:



- **Mature BSM projects.** IT financial management is certainly a natural follow-on analysis for mature BSM project teams. The fact that the term “business” is used in the context of IT is already an important indicator. Forrester has documented how to assess BSM maturity of prospects in various ways, and these principles apply equally to this topic.<sup>13</sup>
- **New-generation CIOs.** Increasing numbers of new CIOs are being appointed from non-IT career paths, and these new-generation CIOs quickly want to apply more general business management processes to their IT organization, including IT financial management. These prospects are more than likely going to turn to the business consultants and business applications vendors that they are familiar with, so IT management software vendors need to work hard to ensure that they are exposed to this audience as early as possible.

Forrester believes that most customers will go about implementing IT financial management in phases similar to Forrester’s “just-enough CMDB” approach (see Figure 4).<sup>14</sup>

**Figure 4** Just-Enough IT Financial Management: Implementation Phases



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Source: Forrester Research, Inc.

## RECOMMENDATIONS

### NO MARKET LEADER YET — OPPORTUNITIES ARE THERE FOR THE TAKING

As usual, there is a gaggle of vendors in adjacent markets eyeing this emerging market segment with relish. The cliché go-to-market strategy for these vendors is to focus on cross-selling from their installed base and leading with their established brand for new business opportunities. This includes IT management software vendors with a history of IT infrastructure monitoring, IT service management, and BSM. It also includes PPM vendors moving into the IT operations arena and existing business applications vendors that can also cover IT.

### IT Management Software Vendor: Cover The Business Aspect Of IT Financial Management

However, we are now in both Web 2.0 and BSM 2.0, and the most likely buyers of IT financial management solutions will be new executives taking on the challenge of managing IT as a business: with little affinity for, and even less loyalty to, existing IT management software brands. Vendor strategists in the incumbent IT management software vendors therefore have a particular set of challenges. They must:

- **Position their solution as business technology.** The new executives want a business application and one close to the existing enterprise business applications in look and feel. The IT financial management solution must be effectively positioned with strong value statements, return on investment (ROI) tools, and stakeholder-targeted messaging. If the IT management software vendors do not do this well, they will lose out to the business applications vendors.
- **Consider their sales approach carefully.** The buying center for IT financial management software is going to include important business-minded decision-makers. The traditional sales profile of IT management software vendor organizations may not be compatible. The vendors will need to staff more appropriately or work with consulting partners.
- **Develop a consulting ecosystem.** These solutions will require enterprise-specific project consulting and systems implementation. The classical IT management software partners, which are good at connecting disparate infrastructure components or training on ITIL processes, will not melt this ice. Vendor strategists will need to recruit new partners.

#### Project Portfolio/Business Applications Vendor: Don't Underestimate Challenges Of Ops Data

The plumbing underneath the IT financial management solution will require connections to a collection of many different systems. Most IT operations systems were not built strategically and usually involve several different product architectures — sometimes even for the same function. So, you will need to leverage the experience of IT operations professionals to make your solutions work. The consulting partners of IT management software vendors can also provide this expertise.

## SUPPLEMENTAL MATERIAL

### Companies Interviewed For This Document

Apptio	Microsoft
BMC Software	Nicus Software
CA	REALTECH
Compuware	SAP
Digital Fuel Technologies	SAS
HP Software	VAlign Software
IBM Tivoli	

## ENDNOTES

- <sup>1</sup> Forrester studied a project at Nationwide Mutual Insurance that uses IT financial management software to calculate and show the actual service costs based on equipment costs, maintenance, operating headcount, and other ABC in support of the service. See the January 21, 2009, ["IT Operations Financial Management Helps The Business Control Its Service Consumption"](#) report.
- <sup>2</sup> Most CIOs properly focus on controlling and reducing the costs of maintaining and operating existing IT systems and operations — what Forrester calls the IT MOOSE. However, many are uncertain about what should count as MOOSE-qualifying expenses. Our ongoing discussions with CIOs and a recent survey of 42 CIOs provide guidance on the general principles by which to define MOOSE and the consensus of these CIOs on what they include in their definitions of MOOSE. See the October 18, 2005, ["Defining The MOOSE In The IT Room"](#) report.
- <sup>3</sup> The ITIL was originally created by the UK government. ITIL summarizes best practices for the implementation of IT management processes. ITIL defines the processes to be implemented to deliver and support IT services (most of the time, IT services equaling applications today) focusing on the business (IT's customer). The ITIL philosophy revolves around the service desk as a communication platform and the configuration management database (CMDB). For more on ITIL adoption rates in \$1 billion-plus companies — 20% in 2005, 50% in 2008, and 80% in 2010 — see the June 30, 2008, ["Business Service Management Market Update"](#) report.
- <sup>4</sup> Forrester has previously estimated BSM adoption rates in \$1 billion-plus companies. See the June 30, 2008, ["Business Service Management Market Update"](#) report and its corresponding Figure 1.
- <sup>5</sup> Application to infrastructure dependency mapping bridges the gap between business user value, application performance, and what the IT specialist sees — essentially, infrastructure component availability. This, combined with the ITIL CMDB concept, lays the foundation for radical changes in the way IT operations

manage resources. The basic information for application dependency mapping exists in all configuration files, routing tables, and port allocation tables, as well as all information that the different infrastructure components supporting the application use to function effectively at runtime. This technology is therefore best described as a kind of online reverse engineering and consists of exploring, analyzing, and querying all components supporting an application. See the February 27, 2006, "[The Forrester Wave™: Application Mapping For The CMDB, Q1 2006](#)" report.

- <sup>6</sup> Forrester surveyed 704 North American and European executives who said that for 2008, 35% of their IT budget was devoted to full-time IT staff, the largest segment recorded. Forrester also saw that only 68% of those surveyed increased their IT departments' average compensation (including salary and benefits). See the March 27, 2008, "[The State Of Enterprise IT Budgets: 2008](#)" report.
- <sup>7</sup> Please review the following for more information on the terms used. For more information on asset management, see the June 8, 2007, "[The IT Asset Management Software Market](#)" report. For more information on CMDB, see the October 1, 2007, "[CMDB: Get Ready, Get Set, Go!](#)" report. For more information on ERP, see the June 23, 2008, "[ERP Applications 2008: The Battle Goes Vertical](#)" report. For more information on service desk, see the July 25, 2007, "[The Service Desk Software Market](#)" report. For more information on BI, see the January 23, 2008, "[How To Pick The Right BI Service Provider](#)" report. For more information on PPM, see the April 22, 2008, "[Portfolio Management Solutions: Do I Need One?](#)" report. For more information on BSM, see the September 7, 2007, "[The SLM/BSM Software Market](#)" report. For more information on business process management (BPM), see the October 6, 2008, "[Drive BPM Initiatives To Higher Business Value](#)" report. For more information on vendor management, see the November 5, 2008, "[The State Of Vendor Management: 2008](#)" report.
- <sup>8</sup> ABC is a costing model that identifies activities in an organization and assigns the cost of each activity resource to all products and services according to the actual consumption by each.
- <sup>9</sup> Since 2005, Forrester has tracked the IT management software market across 12 defined categories. For the latest forecast, see the March 13, 2009, "[Market Overview: The IT Management Software Market In 2009](#)" report.
- <sup>10</sup> IT products do not have a natural obsolescence. Thus, IT vendors must rely on innovation to periodically relaunch the hardware, software, and service markets. Both technology vendors and users constantly face the dilemma of funding or buying into an innovation without knowing its future. See the April 12, 2005, "[How To Predict Which IT Innovations Will Succeed](#)" report.
- <sup>11</sup> Forrester has estimated the adoption rate of BSM across 5 stages, which also illustrates the points where other subcategories are incorporated to supplement the total BSM package. See the June 30, 2008, "[Business Service Management Market Update](#)" report.
- <sup>12</sup> BPS is a category of applications tracked by Forrester that combine planning, financial reporting, cost and profitability management (e.g., ABC), and strategy/measurement. See the January 20, 2009, "[Business Performance Solutions: Clash Of The Titans](#)" report.

- <sup>13</sup> As an increasing trend toward delivering BSM, vendors need to qualify their BSM prospects and help their sales teams determine their approach. Forrester details this complex market scenario and how vendor strategists can communicate their BSM solution depending on various levels of maturity. See the February 28, 2008, [“Snugly Fitting Your Customers For Business Service Management”](#) report.
- <sup>14</sup> Sometimes, there’s no other solution apart from starting with a blank sheet of paper and redesigning the whole operation around new concepts. But this is a luxury that very few organizations can afford. Because firms can’t interrupt IT services, the best approach to moving an organization toward BSM is to renew processes one at a time — starting with the most broken ones. This means that the CMDB is process-driven and implemented from the top down: It starts with just enough information for the first steps and is enriched with information as it grows to encompass all management functions — essentially eating the CMDB cake one slice at a time. See the April 12, 2006, [“The ‘Just Enough’ CMDB”](#) report.

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