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# Best Practices in Implementing IT Financial Management Tools

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**Analyst(s):** Jim McGittigan, Barbara Gomolski

Tools focused on IT chargebacks, especially those associated with mainframe allocations, have been around for decades. However, in the past few years, toolsets have appeared that not only facilitate cost recovery, but also enable more effective end-to-end management of IT spending. Most of today's IT financial management (ITFM) tools are designed to serve as a repository for cost information from various sources across the enterprise.

## Key Findings

- Effective ITFM requires IT organizations to view IT financial data for a variety of purposes, ranging from traditional budgeting and forecasting, chargebacks and service costing to portfolio management and benchmarking.
- ITFM tools have evolved during the past several years and can now manage multiple views of IT cost information.
- The key to successfully using an ITFM tool is *always* in the underlying business processes and the quality of the supporting data. Regardless of the capabilities of the tool, lack of adequately defined IT financial processes leads to failed implementations.
- It is essential to develop an ITFM road map or multiyear plan (with senior management buy-in) that outlines current and future ITFM capabilities.

## Recommendations

- Understand ITFM tool capabilities and whether deployment makes sense for your organization. Often, ITFM tool business cases are justified by cost savings that will result from greater financial transparency. Avoid investing in a tool without a clear plan as to how the organization's ITFM capabilities can evolve over three years, and how those capabilities will drive business value. Get the CIO, the IT leadership team and the finance organization onboard.
- Ensure that resources are in place to define the ITFM-framework-associated business processes (for example, IT portfolios, services, metrics and data sources) and to capture the necessary data.

- Although conventional wisdom says to wait until processes are finalized prior to implementing an ITFM tool, we have found that, in many cases, an ITFM tool can be brought in after the initial framework has been built and a subset of finalized processes have been defined. The tool can be leveraged in certain areas (for example, optimizing costs), while building out the remaining financial processes.

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# Analysis

Tools used in at least one aspect of ITFM have been around for decades. Many of these tools originally focused on chargebacks and had their roots in mainframe allocations. Today, most ITFM tools allow for the effective end-to-end financial management of all IT spending, and often reach further into the realm of managing IT services and resources.

## Features and Functionality

The ITFM market is quickly evolving, and there are now many tools available that can enhance the management of IT financials in one or more areas, as seen in Figure 1. The ITFM tool market is fragmented with many providers focusing on just one or two aspects related to ITFM. However,

effective ITFM requires the ability to manage all IT spending across multiple views to accomplish different objectives (see Figure 2).

Figure 1. Partial List of ITFM Tools

**Primary ITFM Tools (100% Spending)**

- Apptio TBM
- BMC Software ITBM
- ComSci TFM
- HP ITFM
- Nicus Software
- VMware ITBM (Digital Fuel)

**Other ITFM Tool Providers**

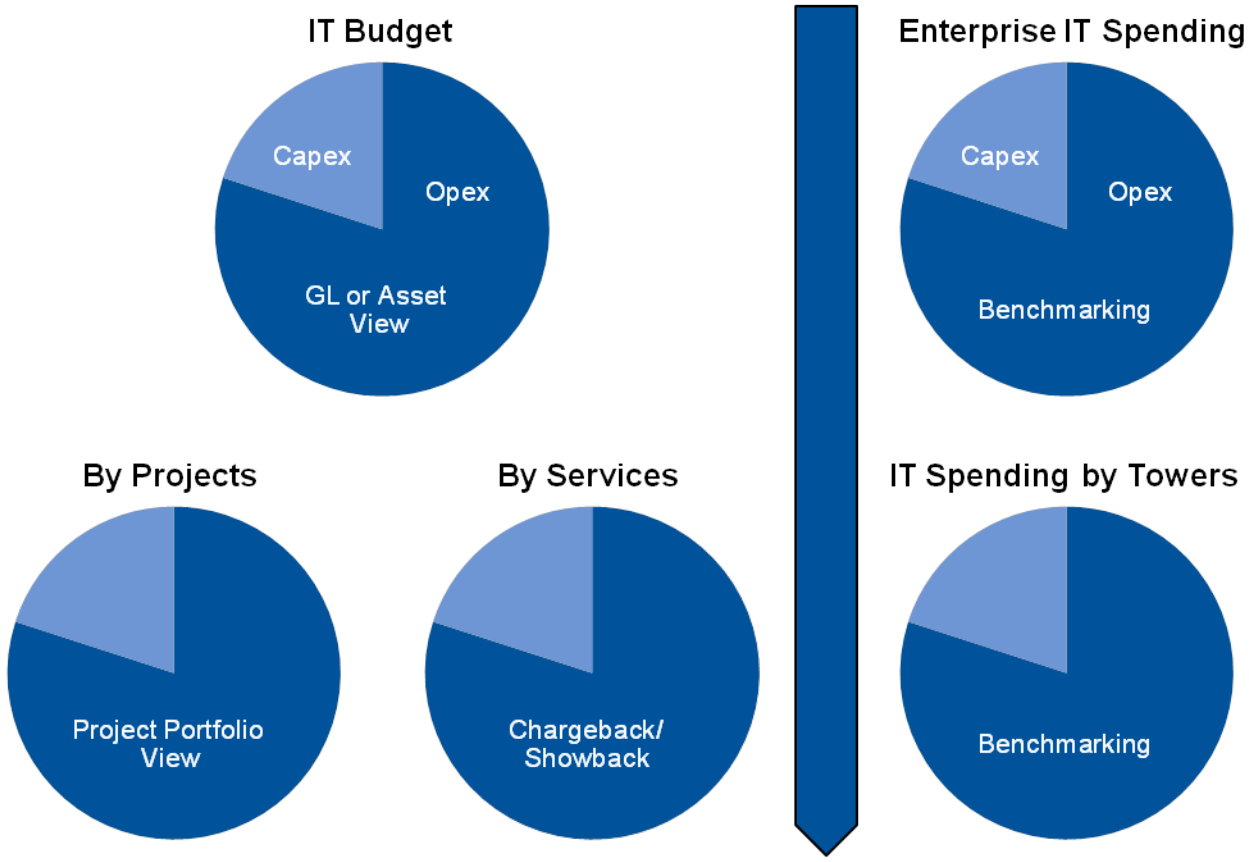
- Acorn Systems (Enterprise Costs)
- AnchorPoint (Telecom Expense Mgmt.)
- ALG Software (Service Costing)
- Aria Systems (Cloud Billing)
- ASG-PS'Soft ITFM (Chargeback)
- Avocent (DC and Network Mgmt.)
- Axios (ITIL IT Financial Mgmt.)
- Blazent (IT Infrastructure)
- BSG (Telecom Billing)

**Other ITFM Tools — cont.**

- CA Technologies (PPM and Service Mgmt.)
- Claritia (IT Spending Mgmt.)
- ClearCost (Budget and Chargebacks)
- Costnomics (Service Costing)
- Cube Billing (Cloud Chargebacks)
- EcoSys (Project Financials)
- FullCost (Business Operations Planning)
- IBM-TUAM (Infrastructure Billing)
- MetraTech (Enterprise Billing)
- newScale (Service Catalog)
- OpeniT (Software Metering)
- SatoriTech (DC Metering)
- SAS IT Financials (Service Mgmt.)
- UMT (Microsoft Project Financials)
- UniSolutions (Unix Chargebacks)
- VAlign (Service Costing)
- Vkernel (VM Chargeback)

Source: Gartner (January 2012)

Figure 2. Multiple Views of Typical IT Spending




Source: Gartner (January 2012)

A holistic ITFM solution will often serve as a repository for all spending managed by IT (projects, products and services), and can incorporate cost data (for example, budgets, forecasts and service costs), regardless of whether it was created in the ITFM system. The requirements for a holistic ITFM solution include:

- **IT service costing/modeling —** the ability to bring all product, project and service costs together by capturing the total costs for each service, as well as the associated per-unit costs and metrics that can be used to support service costing for chargeback or showback
- **Bill of IT —** provides an invoice that illustrates the cost of projects and services consumed by the business, giving stakeholders visibility into their technology consumption
- **IT budgeting and forecasting —** uses the ITFM tool as the budgeting and forecasting tool for all IT spending (both operating expense and capital)
- **IT metrics, reporting and analysis —** the ability to generate IT scorecards, dashboards, reporting, ad hoc queries and what if analysis on data captured in the ITFM tool
- **IT benchmarking —** the ability to capture costs and services at a level that allows for price-to-performance comparison against other technology providers

Some ITFM vendors have added functionality beyond what is listed above to enable CIOs to run IT more like a business (for example, providing services with a client focus and effectively managing the cost and utilization of those services). Thus, some of the key players in this space have shifted their branding from ITFM to IT business management.

## Benefits of ITFM Tools

ITFM tools do a lot more than just automate the financial scorekeeping associated with managing a complex IT environment. They provide a single repository for all costs related to running IT, and this information may be used for multiple purposes. ITFM tools can be deployed to do all the functionality listed above, or they can be used in just a single area (for example, server virtualization).

The major benefits of ITFM tools come from the additional visibility and transparency they provide into technology costs and services. This helps run IT like a business, and also gives business stakeholders better insight into the financial implications of technology use and change.

Organizations that do not deploy ITFM tools usually manage the finances of IT using Microsoft Excel or corporate financial management tools that are not specifically geared for the complexities of IT. This is labor-intensive. Automating ITFM can streamline that process and increase maturity, but ITFM tools are not a panacea. To get value from the tools, data quality is critical to ensure that insight coming from the tools is not limited and potentially misleading. However, building a system of record for IT finance is just the tip of the iceberg. Installing an ITFM tool is often a catalyst for discussion about the value of IT to the business, policies, methods and procedures.

A properly deployed ITFM tool should provide:

- IT cost transparency that allows for multiple views in the IT cost structure (see Figure 2).
  - Traditional general ledger or asset-based view of IT financials.
  - Service-based view often used for chargebacks.
  - Traditional tower view used for benchmarking.
- IT cost optimization by providing better information for decision making purposes. This could include, for example, capturing the trends regarding storage costs or identifying the potential cost savings of a data center consolidation.
- IT chargebacks via multiple methodologies, including service-based pricing.
- Creation of a bill of IT that helps users see the true cost of IT services.
- IT benchmarking that illustrates price-to-performance capabilities.
- Improved business alignment through the visibility of IT service utilization and cost analysis. For example, after implementing ITFM, many organizations learn that they are investing more heavily in IT to support nondifferentiating business capabilities than they would like.

- Improved IT demand management. This typically results from having better visibility into available IT resources, plus the ability to more accurately allocate and/or chargeback the cost of IT.
- Ability to make better IT decisions through improved scenario planning or "what if" alternatives (for example, cloud versus on-premises).
- Better techniques for demonstrating the value of IT. This results from being able to see the "real" costs of IT services and from performing more credible cost-benefit analyses.
- Increased agility by identifying fixed versus variable costs and enabling a change in the mix.
- Analysis of IT spending ways to lower operational spending in order to increase spending on value-add investments.
- Bottom-up financial modeling to understand the real total cost of ownership of each service.

## Decisions on Using an ITFM Tool

ITFM tools deployed effectively as part of program to improve financial management practices within IT deliver significant value to IT organizations, and provide hard and soft benefits. However, organizations with less than $50 million annual IT spending may have difficulty cost justifying these tools.

For IT organizations that can cost justify an ITFM tool, several questions need to be answered first:

- What is the objective of automating ITFM, or what technology or business issues are we trying to resolve?
- Which ITFM practices are in place that can be leveraged in the ITFM tool deployment?
- What business-process-related information has yet to be defined (for example, service definitions, metrics required for service costing and data feeds from multiple source systems)?
- When should we deploy an ITFM tool, and how long will it take?

## Objectives

Many reasons exist for implementing an ITFM tool. Most deployments hinge on cost transparency and the need to better understand cost structures to find opportunities for cost savings, or to better manage demand via chargebacks or showbacks. We recommend that organizations initially focus on one or two immediate goals, and build a three-year road map on how to use ITFM tools to mature their ITFM capabilities over time. Today, few organizations are leveraging all of a typical ITFM tool's features and functionality (for example, budgeting and forecasting, service costing/ chargebacks, and bill of IT) for managing 100% of IT spending in their ITFM tools. However, the goal should be to do just that.

## Current ITFM Practices and Business Process Definitions

Before thinking about specific ITFM technologies, do an assessment of your current ITFM practices, and identify the work that needs to be done as part of an ITFM tool deployment. This gap analysis is essential to understanding the true requirements of the ITFM installation. For example, if you plan on implementing service costing with an ITFM tool, and already have a defined process in place that includes services, metrics and rates, then automating the existing processes in an ITFM can be relatively quick. However, if you do not do service costing or even have a clear definition of services, and have not yet developed the business process to support cost modeling, then plan on significant additional time to define and obtain internal agreement.

## When to Deploy an ITFM Tool

As with any tool implementation, planning needs to be done prior to the deployment. If you are automating existing processes, then an ITFM tool can typically be deployed quickly.

If, on the other hand, the implementation requires constructing new processes, such as those outlined in the second service costing example above (defining services, metrics and data sources), then you need to allow for sufficient business process definitions and mappings, in addition to the other steps outlined above. Any process changes (including data source feeds) should be identified, along with an expected timeline for configuration and implementation. Our work with clients suggests that the business process planning component often takes longer than the tool configuration and implementation itself (typically six to eight weeks), and can extend the implementation cycle to as long as six to eight months, depending on the maturity of the IT organization.

Historically, we have recommended getting the majority of your business processes designed prior to implementing a tool. However, Gartner has found that most of the ITFM tools can expedite business process design and data gathering once installed — even if not fully deployed. Therefore, we recommended bringing in an ITFM tool after the objectives have been established, the funding has been approved and the high-level framework is in place.

## ITFM Tool Implementation

Successful implementation of an ITFM tool requires a thorough understanding of the issues that will be addressed by the ITFM tool and those that will not. Present a three-year road map of how you intend to effectively use an ITFM solution. A typical ITFM tool implementation plan focused primarily on service costing is outlined below. The design and implementation phases will differ, depending on your scope and the maturity of your ITFM processes. However, our experience indicates that project planning (Phase 0) is critical, regardless of project scope or the maturity of existing processes.

Most of the leading ITFM tool providers are based on software as a service, often requiring little, if any, capital investment. The pricing models vary among vendors and can be significantly different from the quoted list price. The cost of an ITFM tool generally requires initial consulting services for tool configuration and an ongoing annual usage fee, and often requires an internal resource (full or

part time) for ongoing management of the tool. The initial consulting costs and the ongoing service fees can be significantly different, depending on the scope of the implementation and the size of the data being managed. For many of the ITFM tool leaders, the licensing model has shifted from a per-seat charge to value based on multiple variables (the most important being the size of the annual IT spending). Even for a straightforward implementation on modest IT spending ($50 million to $100 million), consulting fees for implementation can be in the $50,000 to $100,000 range or more, while annual service fees often fall in the $100,000 to $200,000 range:

- Phase 0 — Project Planning
  - Business case development and approval: Outline why an ITFM solution is needed, and the associated upfront and ongoing annual costs and benefits (both quantitative and qualitative). Most ITFM tool implementations can deliver quantifiable savings, so the business case often includes a typical five-year cash flow that calculates the net present value, internal rate of return and payback period (see Figure 3).
  - Identify key stakeholders: Proper governance that ensures that the approach is sound and that objectives are met is essential. Also, the need for input from subject matter experts (SMEs) within IT is often critical to success. These resources are often constrained and may not be able to assist if the ITFM implementation is not a visible, high-priority initiative.
  - Determine the initial scope: Build an ITFM capability road map, and decide on the focus of the ITFM tool implementation (for example, service costing/chargebacks, cost optimization of one or more services, budgeting/forecasting of all IT spending, benchmarking and performance metrics scorecard).
  - Ensure that a project team with the right resources is in place (project manager, finance and technology management representation and necessary SMEs).
  - Determine the role of corporate finance in the ITFM initiative: The finance organization rarely leads ITFM automation initiatives. However, it is important to determine how and when the finance organization will be involved. At a minimum, finance should be informed about ITFM to ensure consistency with corporate finance policies.

Figure 3. Sample Financials for ITFM Business Case

**ITFM Tool Implementation**
**Cost-Benefit Analysis**

| Income Statement: | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total |
|---|---|---|---|---|---|---|---|
| **Incremental Benefits:** | | | | | | | |
| Cost Reduction | 0 | 200,000 | 400,000 | 400,000 | 300,000 | 200,000 | 1,500,000 |
| Cost Avoidance | 0 | 125,000 | 250,000 | 200,000 | 150,000 | 150,000 | 875,000 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Incremental Benefits** | **0** | **325,000** | **650,000** | **600,000** | **450,000** | **350,000** | **2,375,000** |
| **One-Time Implementation Costs:** | | | | | | | |
| Labor | 25,000 | 0 | 0 | 0 | 0 | 0 | 25,000 |
| Services | 90,000 | 0 | 0 | 0 | 0 | 0 | 90,000 |
| **Total One-Time Costs** | **115,000** | **0** | **0** | **0** | **0** | **0** | **115,000** |
| **IT Opex:** | | | | | | | |
| Labor | 0 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 250,000 |
| Services | 0 | 250,000 | 250,000 | 250,000 | 250,000 | 250,000 | 1,250,000 |
| **Total Fully Loaded Opex** | **0** | **300,000** | **300,000** | **300,000** | **300,000** | **300,000** | **1,500,000** |
| **Total Incremental Costs (one-time & opex)** | **115,000** | **300,000** | **300,000** | **300,000** | **300,000** | **300,000** | **1,615,000** |
| **Total Benefits Less Costs (before tax & funding)** | **(115,000)** | **25,000** | **350,000** | **300,000** | **150,000** | **50,000** | **760,000** |

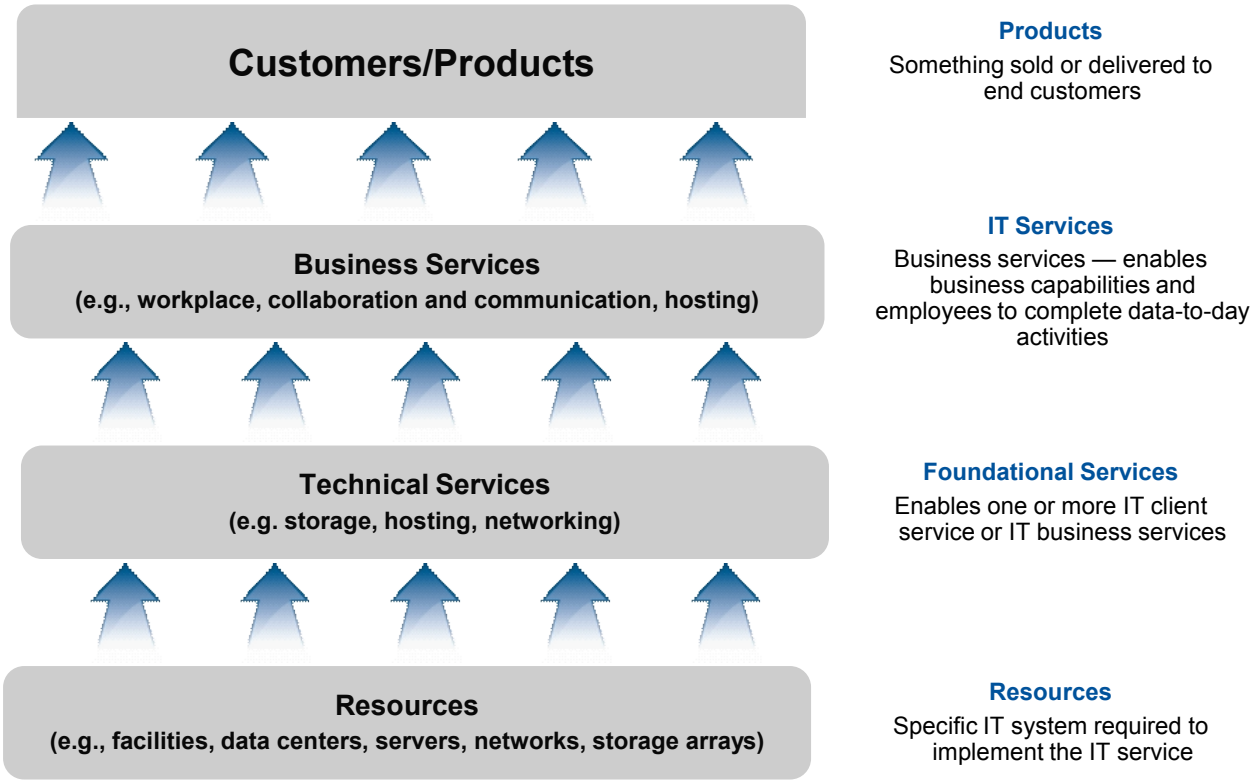
| Key Financial Indicators | Impact |
|---|---|
| Net Present Value (disc. @ 8%) | **590,650** |
| Internal Rate of Return | **80.1%** |
| Simple ROI* | **47%** |
| Payback Period | **<2 years** |

* Simple ROI = (Total Benefits - Incremental Costs)/Incremental Costs

Source: Gartner (January 2012)

- Phase 1 — Design (assumes service costing focus)
  - Build a cost model framework (see Figure 4 for an example).
  - Define services and identify drivers (if not already done).
  - Perform a gap analysis that identifies existing data sources and data quality.
  - Develop a pricing/chargeback methodology for each service.
  - Define outputs (such as reports and scorecards).
  - Complete a business requirements document.

Figure 4. An Example of a Service Cost Model




Source: Gartner (January 2012)

- Phase 2 — Implementation
  - Perform testing as needed.
  - Finalize end-to-end ITFM processes.
  - Upload data into the tool.
  - Capture logic.
  - Create reports.
  - Define the target audience for ITFM tool output.
  - Create training.
- Phase 3 — Transition to Operation
  - Conduct initial assessment of the results.
  - Perform executive review and training.

## Conclusion

IT cost transparency and IT cost management have become more important as organizations look to reduce the cost of day-to-day IT services and funnel more investment dollars into growth and innovation. Increasingly, business leaders want a clearer picture of the cost of IT services and how their IT investments (both capital and operating) align to business objectives. For most organizations, automating ITFM will be an integral part of running IT like a business. The tools in this space have matured significantly in the past few years, and early adopters have demonstrated that there are often hard dollar savings, as well as lasting business benefits, to automating ITFM.

# Recommended Reading

*Some documents may not be available as part of your current Gartner subscription.*

"Hype Cycle for IT Operations Management, 2011"

"Predicts 2012: Cloud Shift Drives Higher IT Spending, Changes in IT Funding and a Focus on New IT Performance Goals"

"VMware's Acquisition of Digital Fuel Flames Interest in IT Financial Management"

"IT Financial Management; CIO Desk Reference Chapter 23"

"Using IT Financial Management to Improve Business Outcomes"

"Ten Lessons Learned as an IT CFO"

"Most IT Leaders Charge Back IT Costs; What About You?"

"The 10 Biggest Chargeback Myths: Nurture Them at Your Peril"

## Regional Headquarters

**Corporate Headquarters**
56 Top Gallant Road
Stamford, CT 06902-7700
USA
+1 203 964 0096

**Japan Headquarters**
Gartner Japan Ltd.
Atago Green Hills MORI Tower 5F
2-5-1 Atago, Minato-ku
Tokyo 105-6205
JAPAN
+ 81 3 6430 1800

**European Headquarters**
Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

**Latin America Headquarters**
Gartner do Brazil
Av. das Nações Unidas, 12551
9° andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509

**Asia/Pacific Headquarters**
Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600