

# IT Cloud Financial Management

March 2010

***DigitalFuel***

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# **Business Service Management And IT Financial Management In The Cloud**

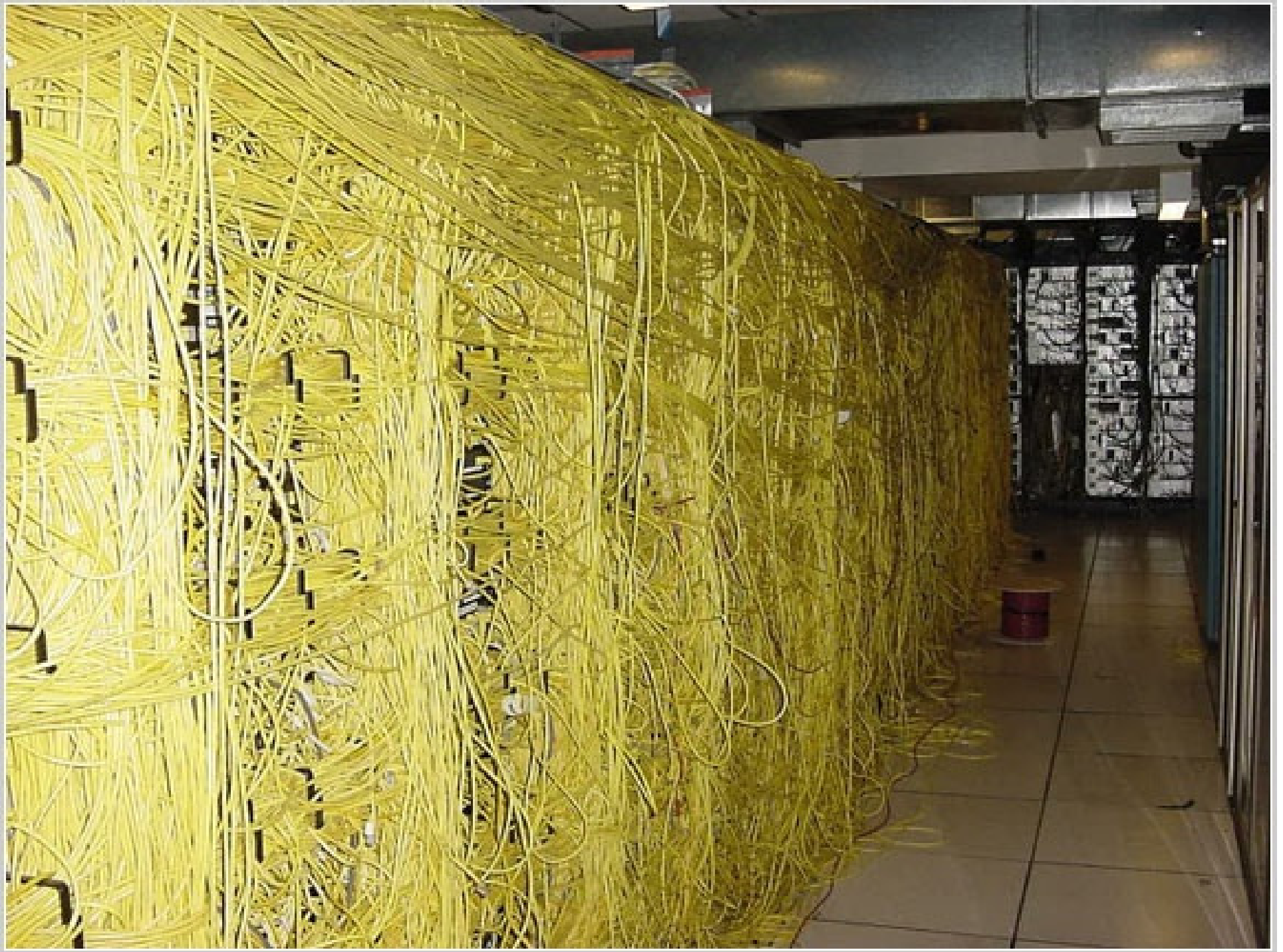
**Dr. Thomas Mendel, Ph.D.**

Vice President & Research Director  
Forrester Research

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# Agenda

- Understanding the cloud
- It's time for IT financial management





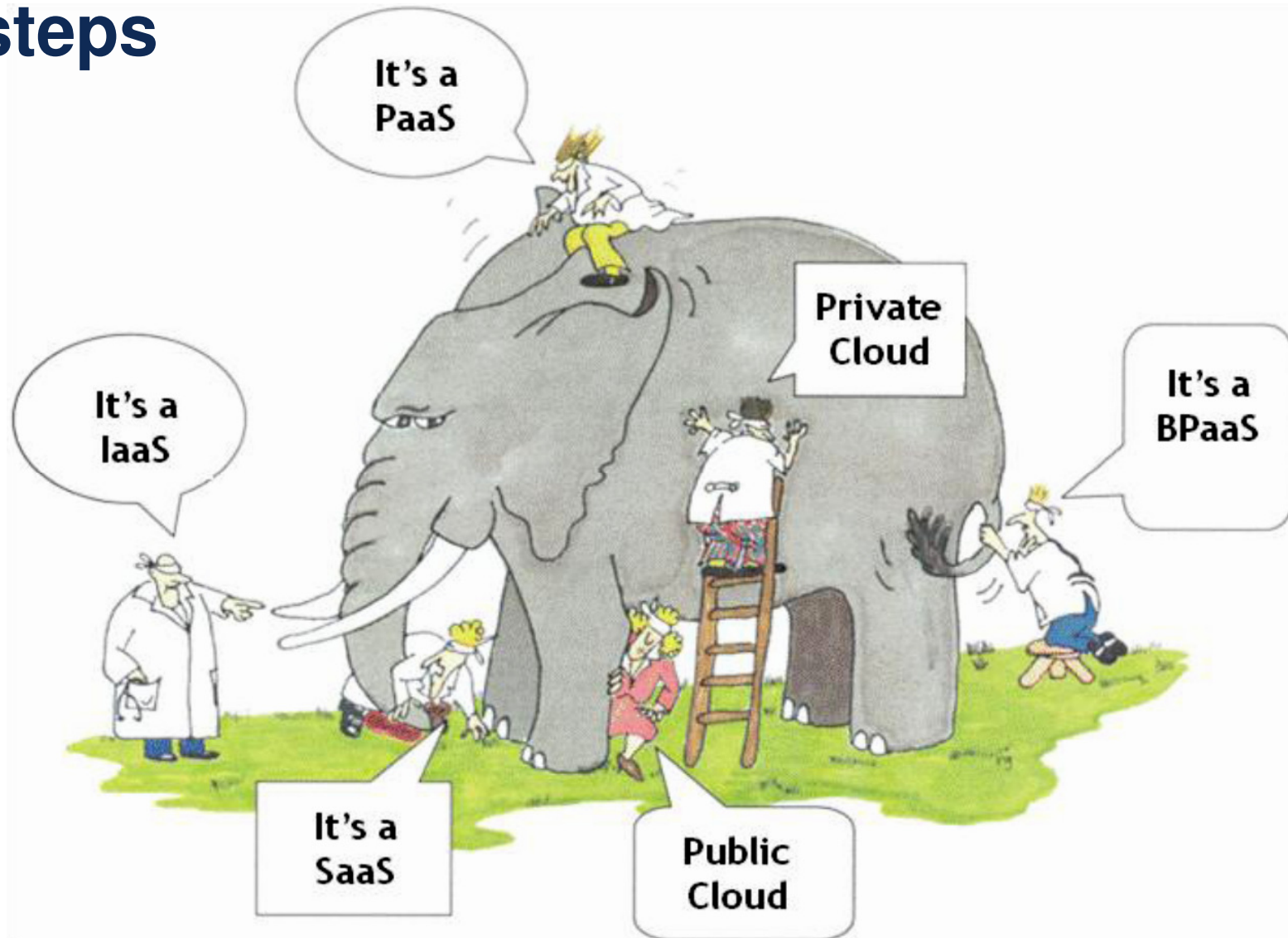




# Cloud Clarity

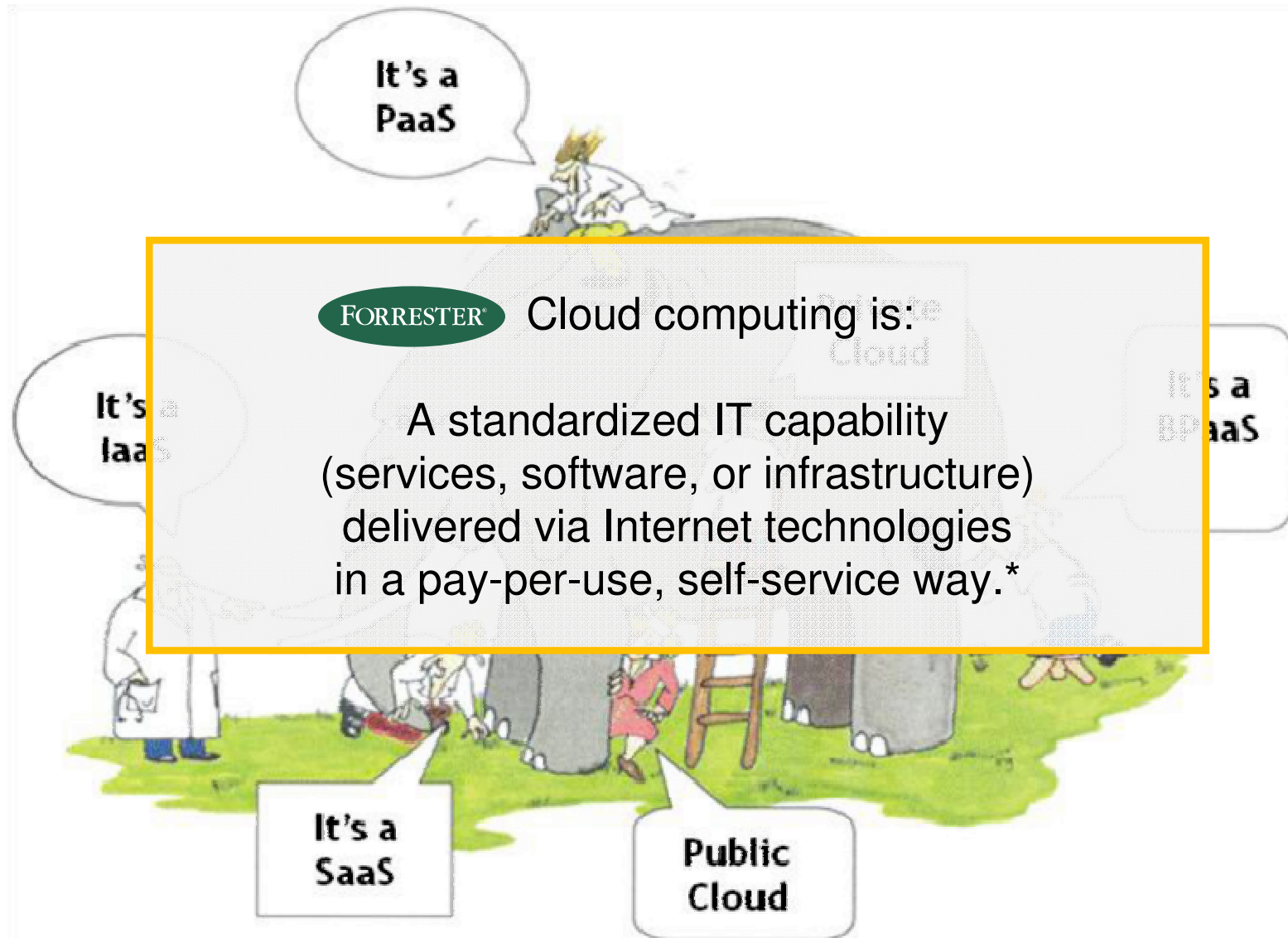
FORRESTER®

# What IS cloud computing? Give me three steps





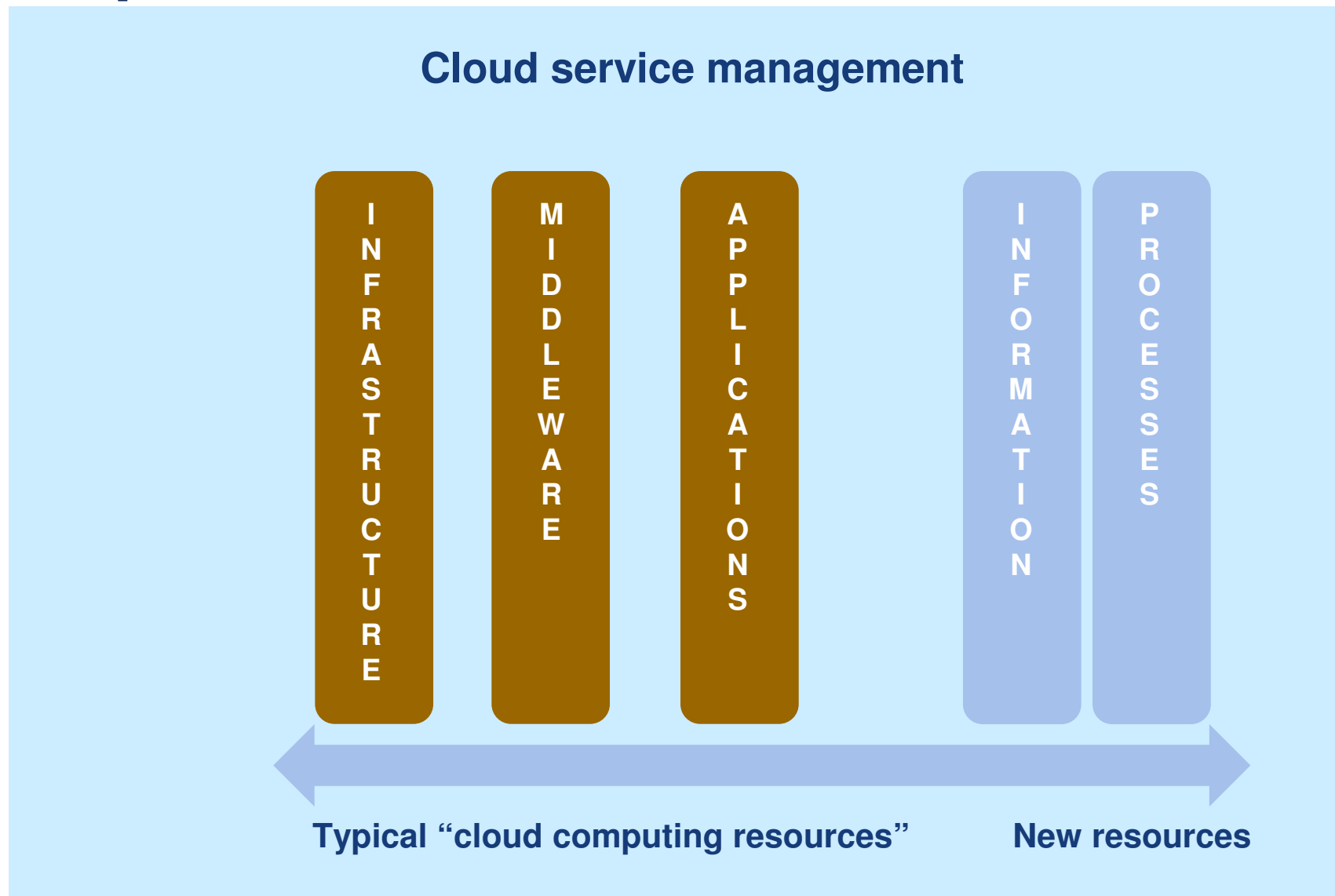
# Understanding vendors cloud portfolios



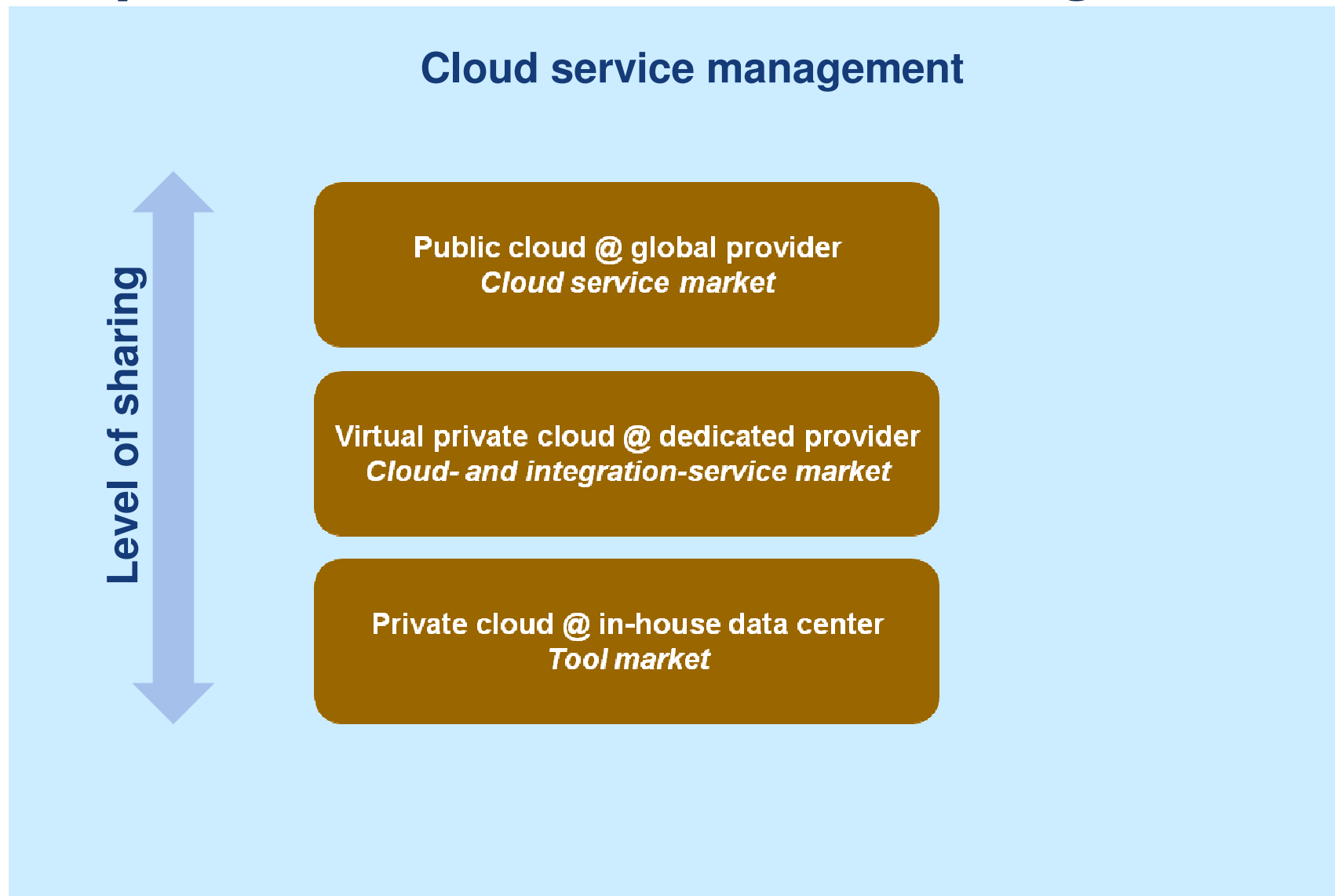
Source: Wipro



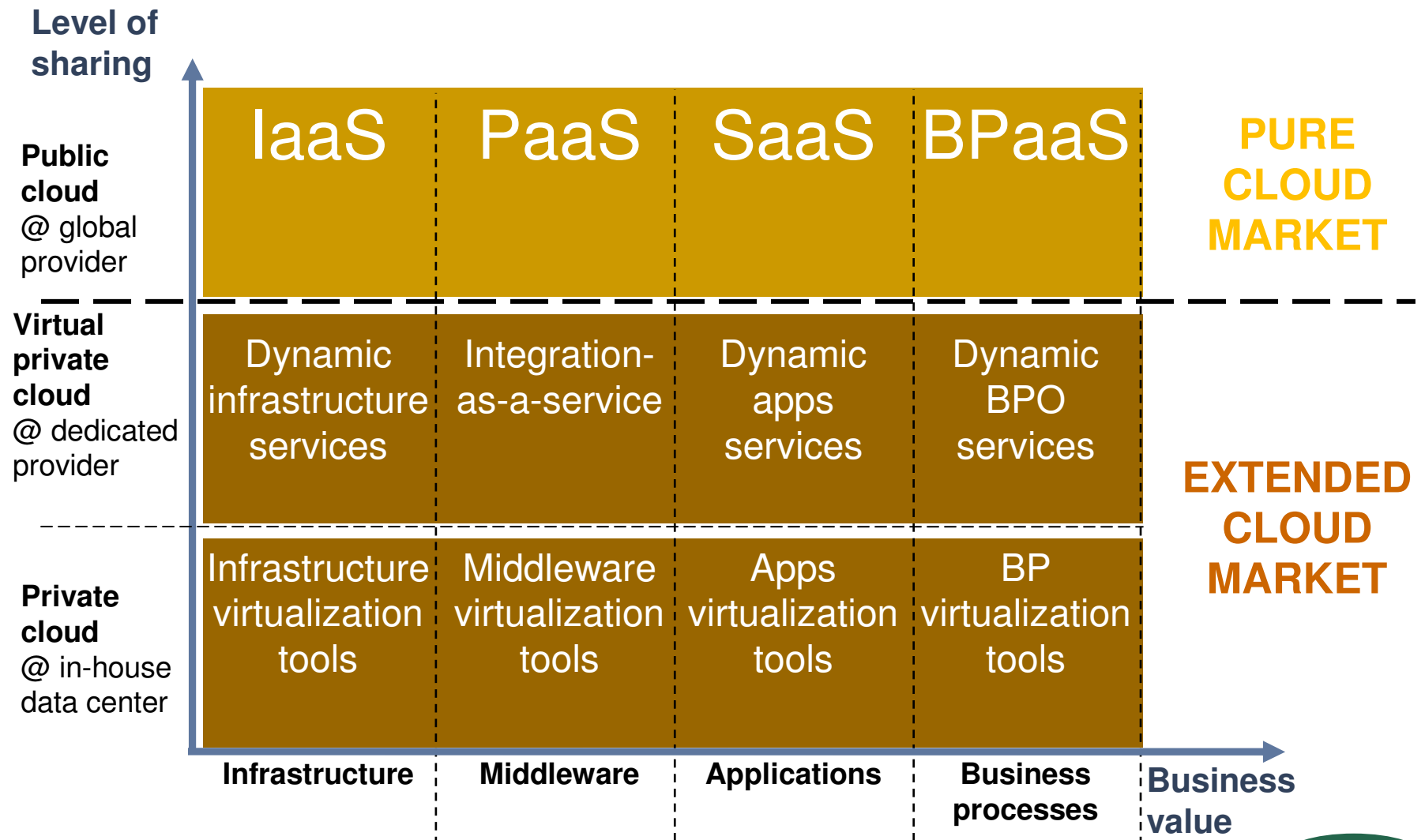
# Step1: What comes as a service?



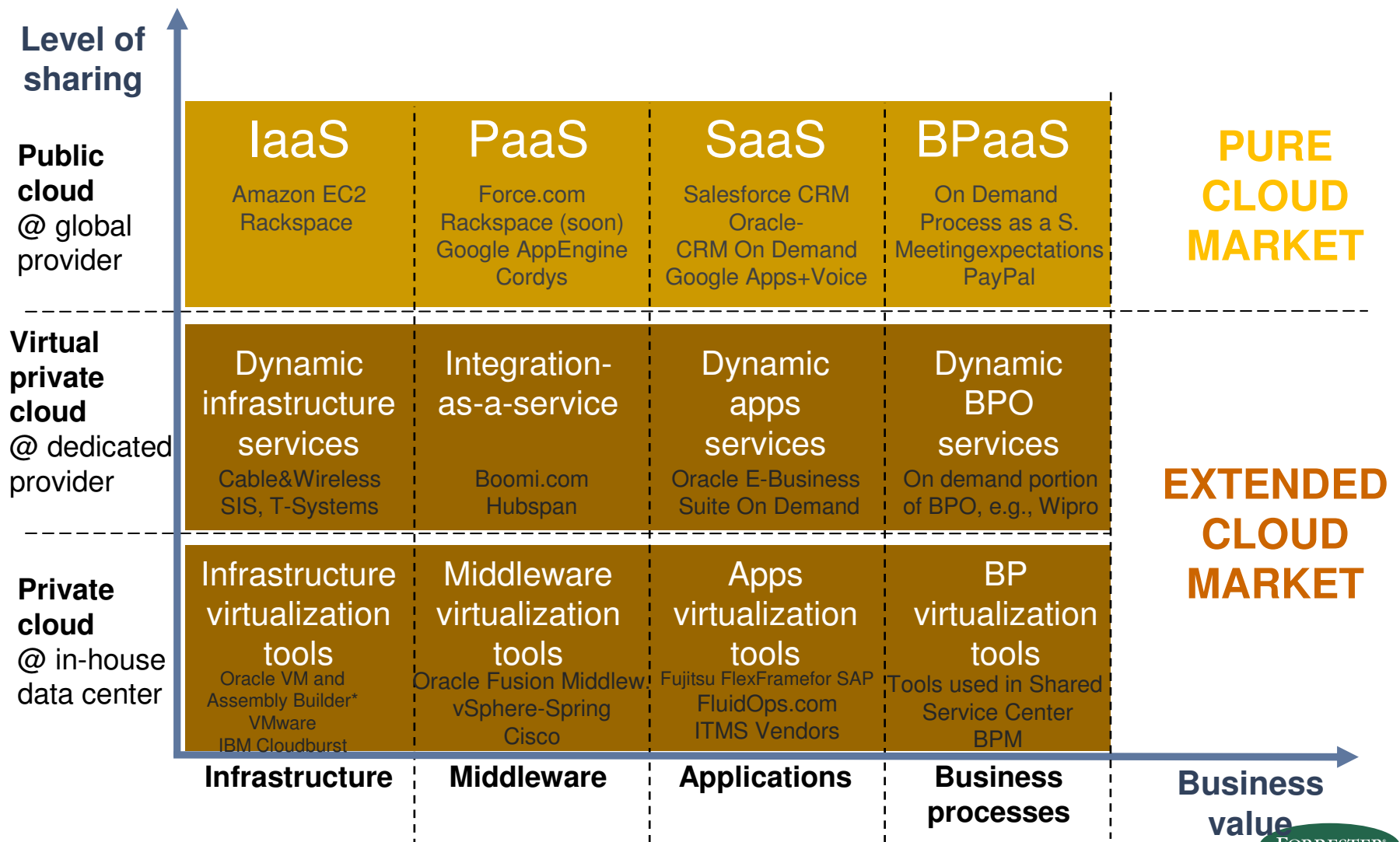
## Step2: What is the level of sharing?



# Forrester's full cloud taxonomy

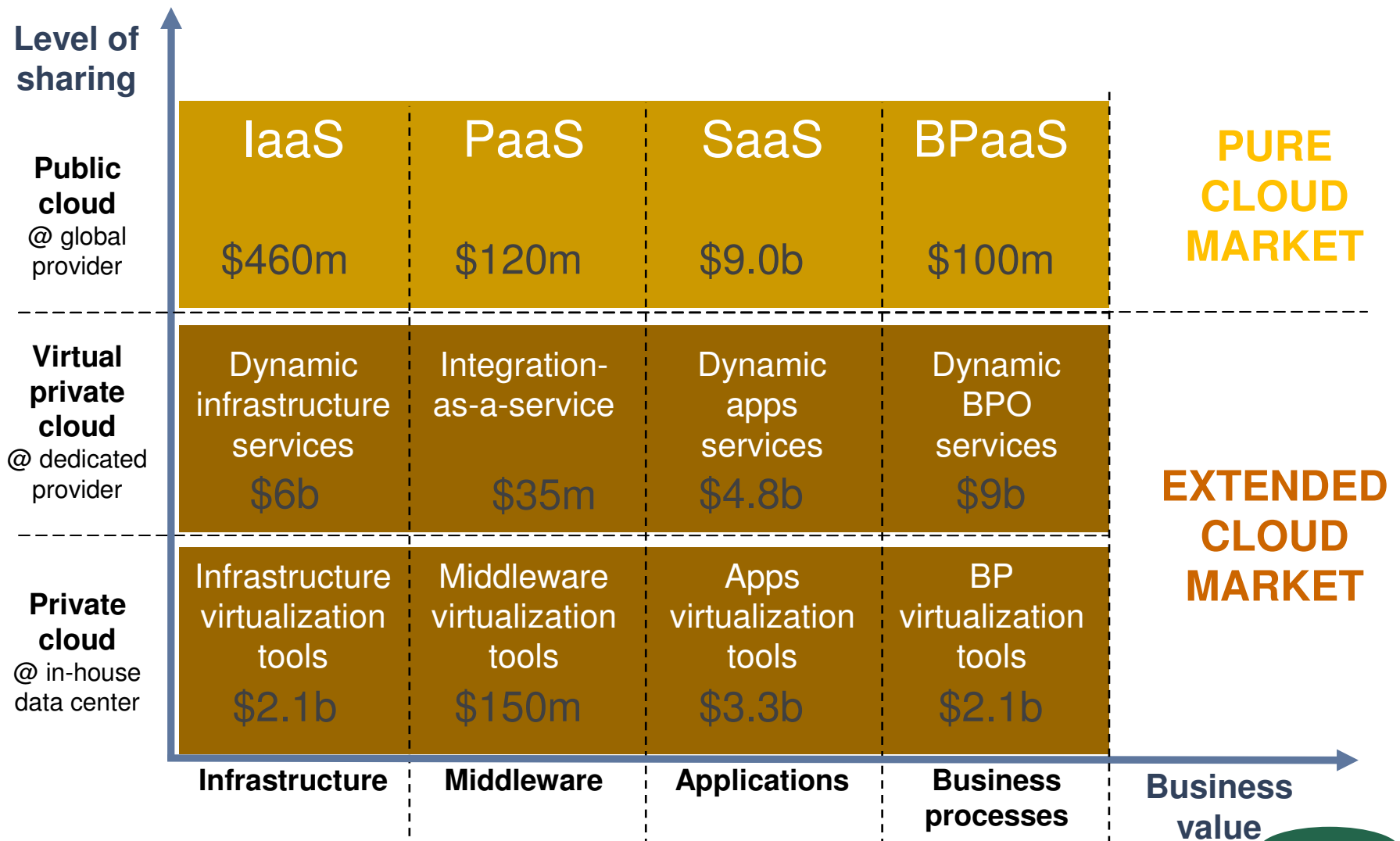


# Forrester's cloud taxonomy and example vendors

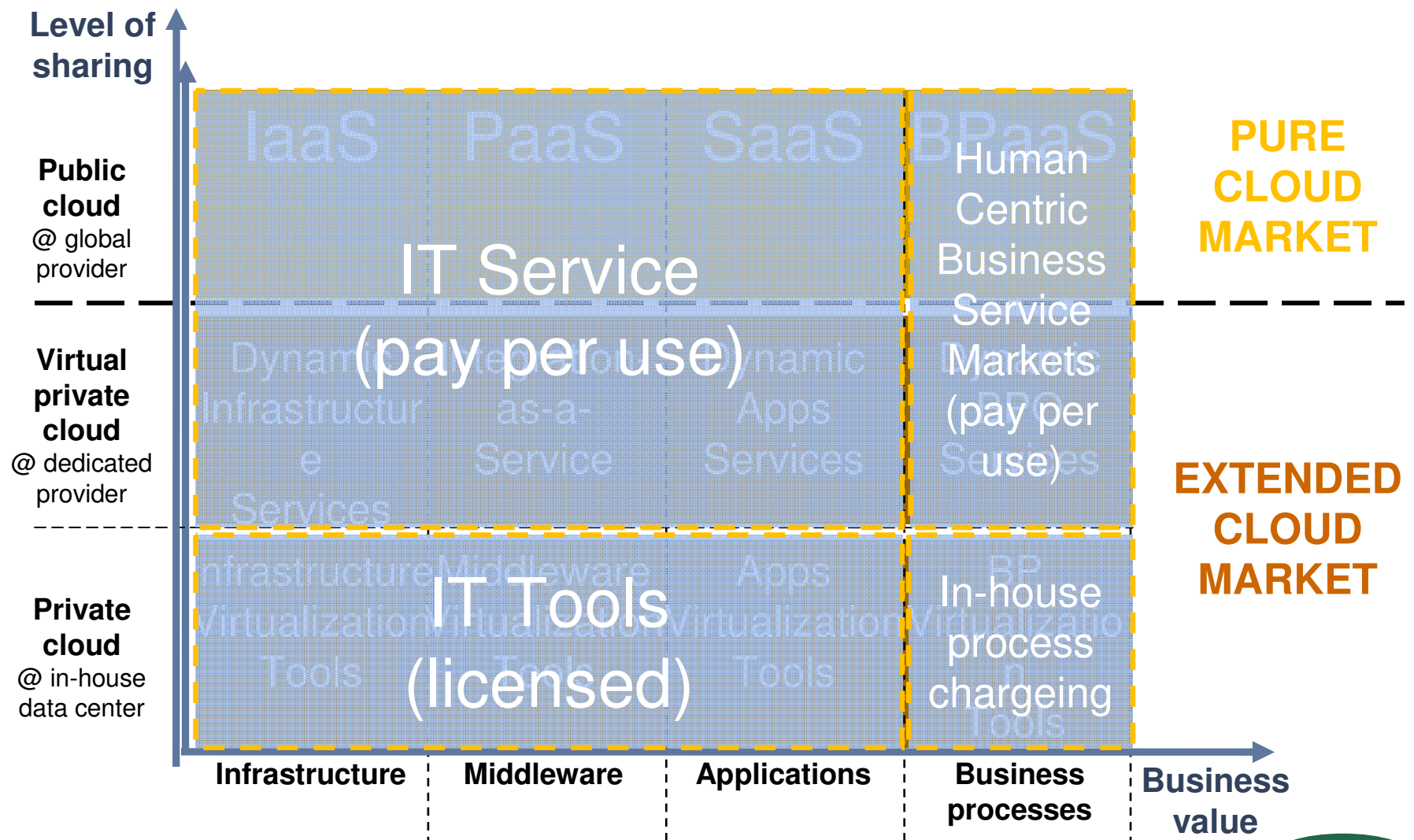




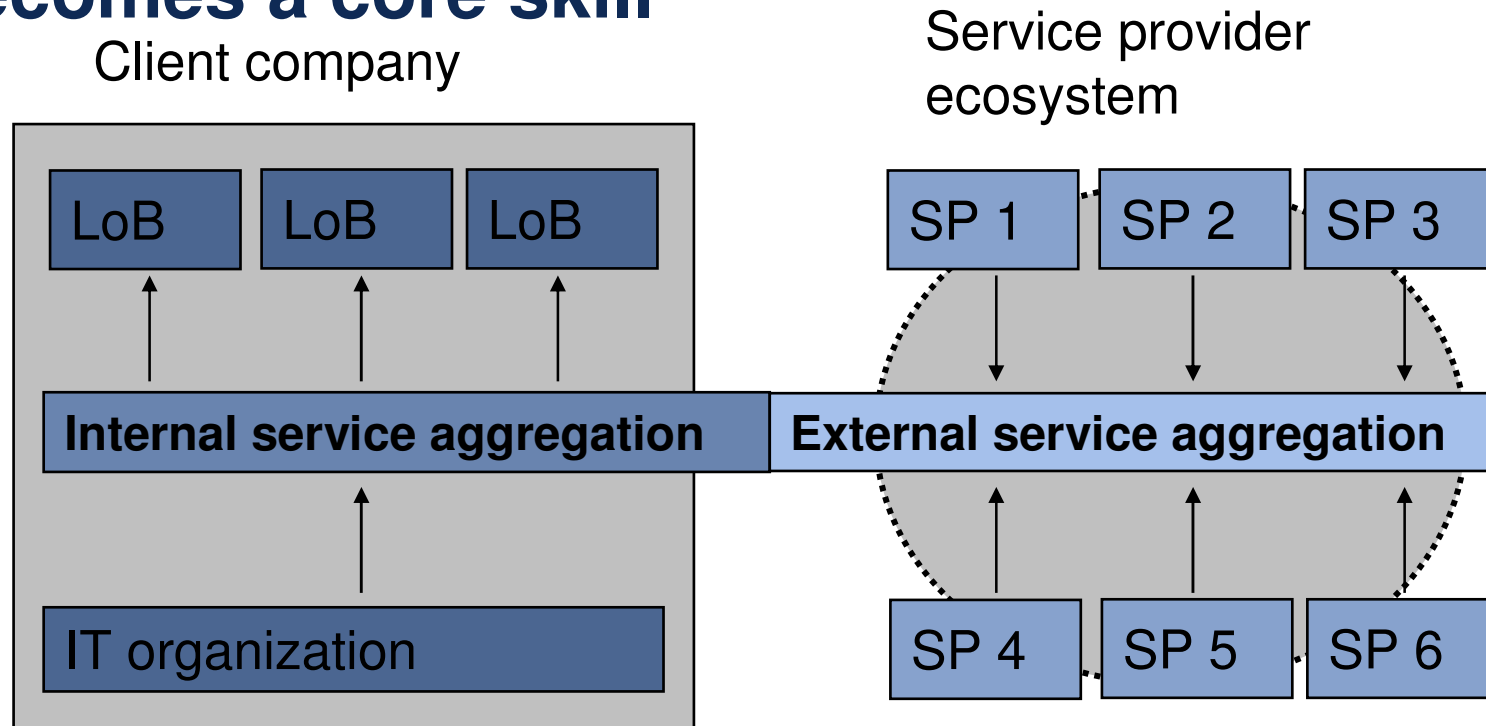
# Forrester's cloud taxonomy mapping to vendors' portfolios



# End user perspective of offerings



# Service cost and performance aggregation becomes a core skill



- **Cost and performance management across end-to-end service delivery**
- **Coordinated across all stakeholders and constituencies, internal and external**
- **Requirements capture and new project initiation**
- **Balanced responsibility between in-house IT and external service providers**

# Defining IT financial management

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.



# IT financial management – Why now?

**IT users and IT departments are experiencing an accelerating need for IT financial management because:**

- Cloud & virtualization are driving additional IT adoption at a rapid rate
- Business units are demanding IT cost visibility and predictability
- Profit pressures demand businesses to manage IT cost vs. business performance tradeoffs and alternatives like never before
- IT process maturity (e.g. ITIL) has moved many IT organizations from a chaotic to a stable state so they are now better prepared to add IT financial discipline
- Data availability and accuracy (through discovery) has improved greatly

# Key capabilities of IT financial management software

## **Modeling Capabilities**

- IT Budget
- IT processes
- IT services/IT projects
- IT cost structures (using ABC)
- Service/unit costs

## **Reporting Capabilities**

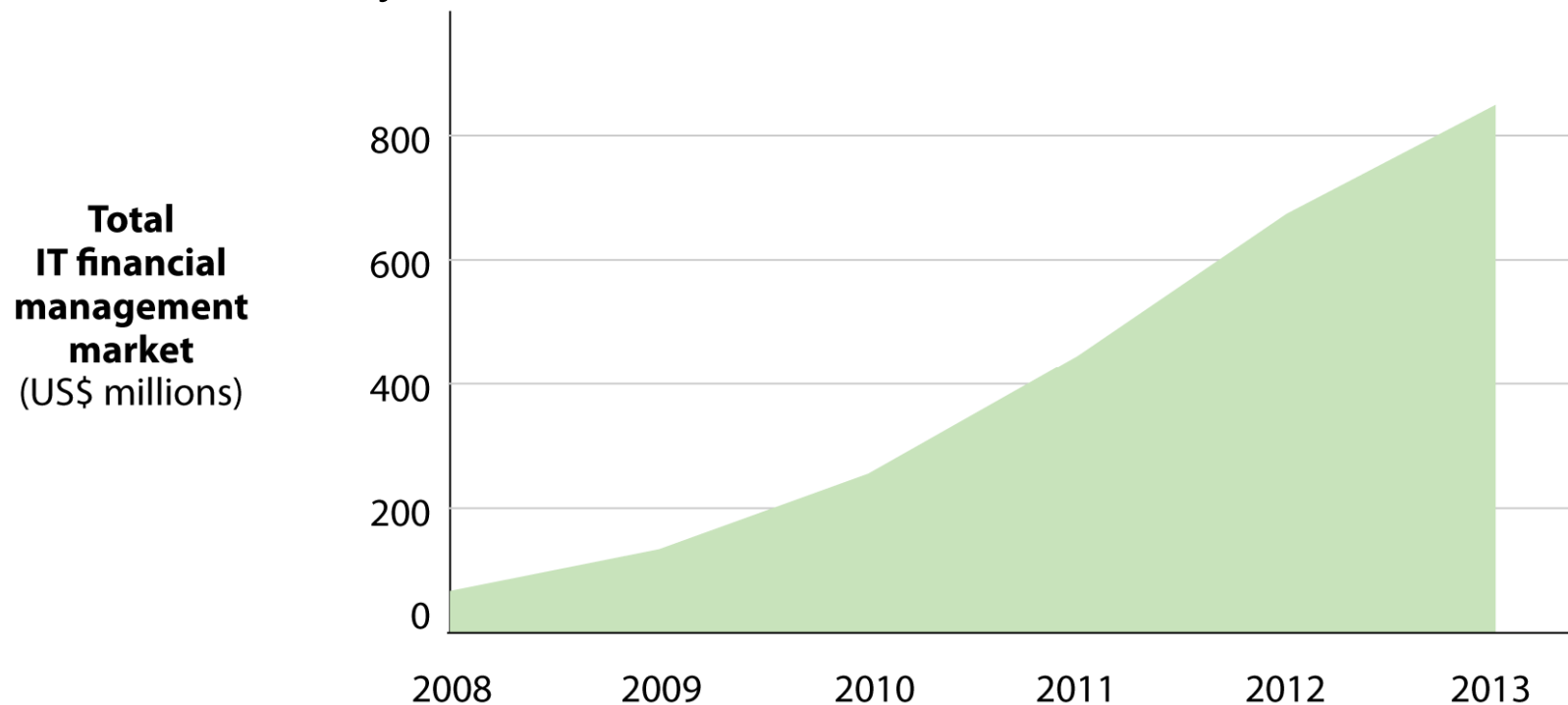
- Timesheets
- Cost center
- Services/projects
- Budget deviation
- Scenario planning

## **Interfacing Capabilities**

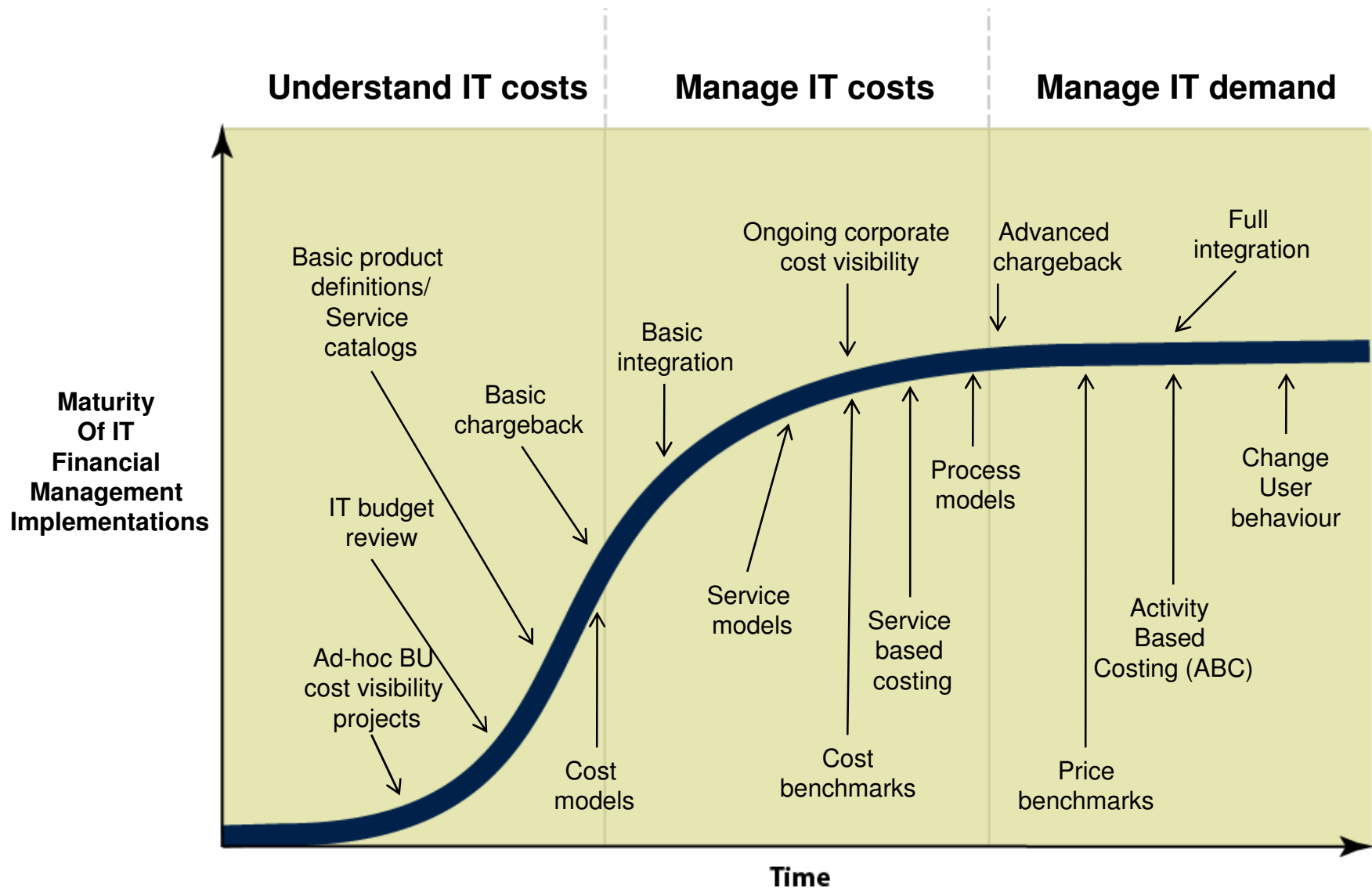
- Asset management/CMDB
- Chargeback/billing
- Corporate (cost) accounting (ERP)
- Service desk
- BI, PPM, BSM, BPM and Vendor management tools

# Emerging trends: IT financial management software

- The IT financial management software market will exceed \$500 million annually in 2012.



# IT financial management adoption s-curve





# IT financial management – Best practices

- Create a governance structure and revamp your organization
- Deploy service definitions/service catalogs
- Develop cost and service models
- Optimize delivery through right sourcing
- Invoice customers to rationalize behaviors

# Thank you

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[http://blogs.forrester.com/vendor\\_strategy/](http://blogs.forrester.com/vendor_strategy/)

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# Managing the Cost of Cloud Services



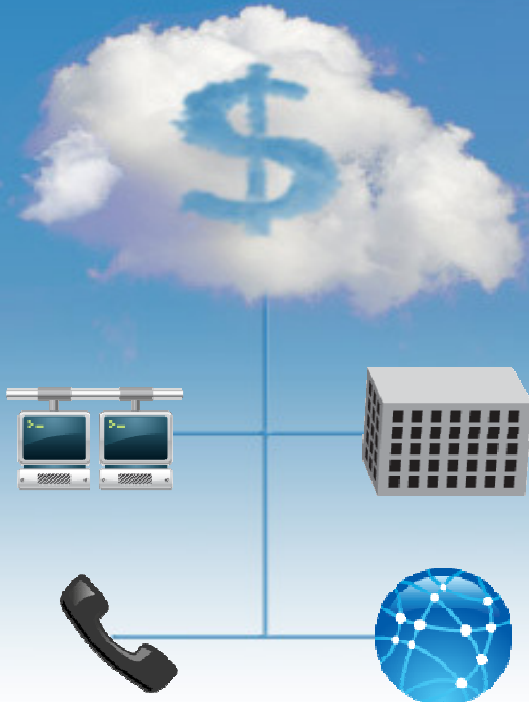


# Where to Start: Build A Cost Model

## Application Cloud



## Infrastructure Cloud



## Process Cloud



Google™

salesforce.com.  
Success. Not Software.™

NETSUITE

amazon  
web services™

rackspace®

vmware®

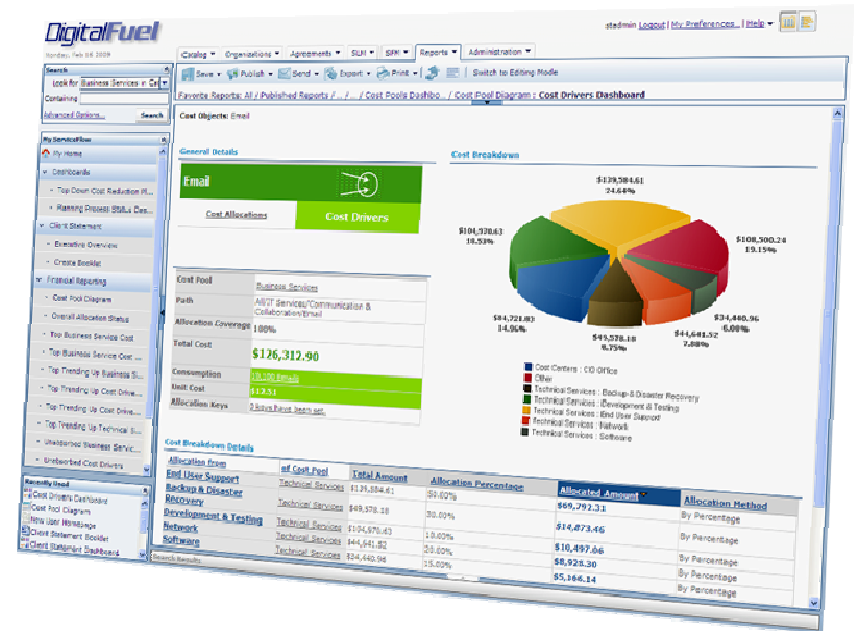
IBM

MailSource

xerox

# Cost Model Enables You to know:

- Total Service Cost and Usage
- Usage based cost allocation
- Underlying Cost Drivers cost
- Unit Cost
- Calculate key metrics:
  - Cost per headcount
  - Cost per revenue
  - Capex vs Opex
  - Many others



# IT Cloud Cost Model

*What can you do with this knowledge?*



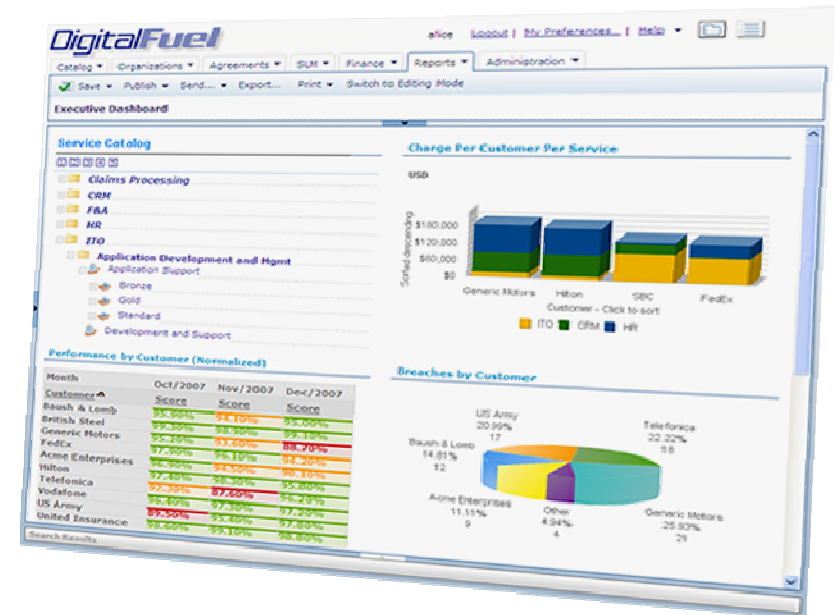
# Proactive Cloud Cost Control

- Cost trends at all levels
- Track Actual vs Budget
- Automatic observations
- Root cause
- What if planning



# Business Unit Cost Visibility and Predictability

- Detailed periodic invoices
  - Cost and Usage
- Forecast
- Reforecast
- Compare to alternatives
- What if analysis



# Cost Value Optimization

- Mix and match, Compare between:
  - Vendor and internal options
  - Different service offerings
  - Delivery models
  - Cost models
- Meter usage, Identify:
  - Virtualization candidates
  - Consolidation candidates
  - Standardization options
  - Defer upgrade potentials
  - End-of-life potentials





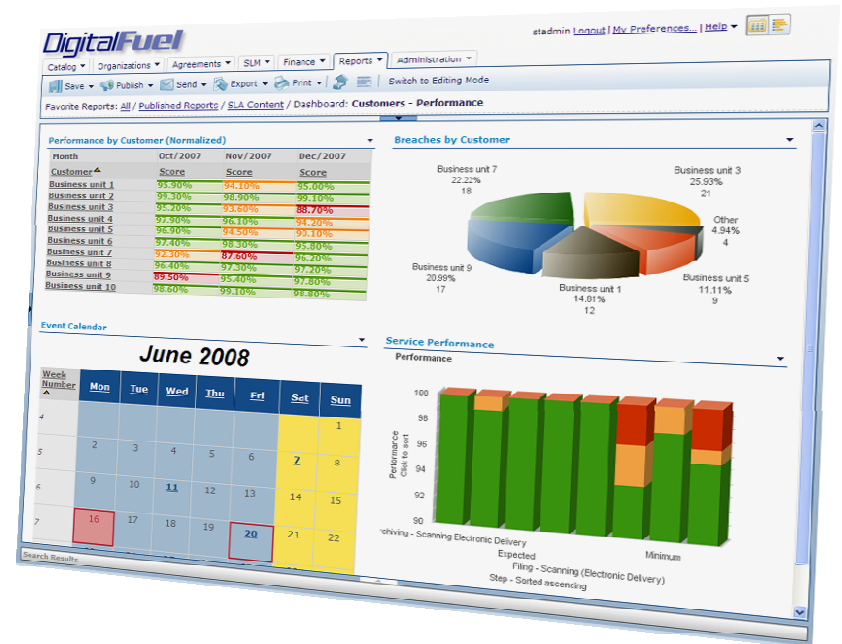
# Usage based IT Cost Allocation

- Allocations must be:
  - Automated
  - Consistent and ongoing
  - Justifiable
  - Audit trail
  - Standard
- Pass in “flying colors”:
  - Tax audits
  - Stock market reporting
  - Regulator audits



# Accurately Plan and Budget – Based on Facts

- Actual Historically based unit cost:
  - For every IT service and cost driver
- Actual Historically based usage:
  - Accurate demand forecasting
- Demand & driver information
  - Sophisticated calculator
  - Applies the historically calculated costs, drivers, and usage
  - Automatically produce a proposed IT budget



# Summary

*IT Cost management  
enables realization  
of cloud benefits!*



# Thank you!

The logo for DigitalFuel, featuring the word "Digital" in a blue sans-serif font and "Fuel" in a bold, italicized blue sans-serif font.The Forrester logo, consisting of the word "FORRESTER" in a white serif font inside a dark green oval.

## Questions?

*Please enter your questions in the Q&A panel  
located in the lower right section of your screen*

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