Five Key Actions to Advance Your ITFM Initiative

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By Analyst(s): Jim McGittigan, Robert Naegle

Initiatives: IT Cost Optimization, Finance, Risk and Value

CIOs have challenges when effectively balancing cost and value at acceptable risk levels across all IT spend. Use the key actions cited here to advance your ITFM capabilities and solve for the five key pain points that often stand in the way of delivering the most value at a reasonable cost.

Overview

Key Findings

- Many IT organizations struggle to get adequate funding for essential capabilities, as well as for growth and innovation, due to a lack of understanding of technology's contribution to enterprise success.
- IT spend is often not linked to enterprise strategy and, therefore, key business stakeholders often feel limited accountability for the effective use of IT resources.
- IT can be often viewed as nonstrategic and subject to continued cost reductions, especially in operating expenses (opex), despite an increasing move to cloud services, which typically increases opex.

Recommendations

CIOs struggling with effectively managing IT cost and value should:

- Advance your ITFM program or initiative by proactively addressing the five key pain points detailed in this research.
- Target your strategic objectives by prioritizing your response to these initial five issues.

Introduction

Organizations that are looking to maximize the value delivered by technology and optimize their IT spend at an acceptable risk level often run into multiple roadblocks that make IT financial management (ITFM) difficult. CIOs who have invested in ITFM best practices may not eradicate all issues, but evidence shows it helps significantly. [1]

Analysis

CIOs facing roadblocks around effectively managing cost while optimizing and demonstrating the value of their technology spend should examine the five ITFM pain points outlined in Table 1 and determine which ones are the most challenging in their enterprise. Each ITFM pain point is supported with a summary of implications, a brief list of recommendations and links to additional reading that will provide greater detail to support resolution of the pain point.

Table 1: Address These Five Key ITFM Pain Points

(Enlarged table in Appendix)

ITFM Pain Points	Implications	Actions/Recommendations	Research
The inability to effectively justify and defend the IT budget	▪ IT is perceived as an expensive cost center with limited strategic vision. ▪ Adequate funding for IT can be challenging as executives do not understand IT's contribution. ▪ IT is underfunded and understaffed.	▪ Benchmark cost of IT versus peers and trend key internal IT spend metrics over time. ▪ Show how IT spend is linked to existing and new capabilities (e.g., new products/projects and existing products/services). ▪ Break spending into "run" vs. "change" and target optimizing run by improving price for performance, while allowing for increases in change to drive more value.	▪ IT Key Metrics Data 2021: Overview ▪ CIOs Must Master Four Views of Spend to Manage IT Finances ▪ Toolkit: How to Present Your IT Budget to the Board of Directors ▪ Financial Transparency: Project and Service Portfolios Required ▪ Managing IT Spend Using IT Product Lines ▪ IT Budgeting Fundamentals: A CIO's Guide to Securing Funding and Delivering Value
The business is not held accountable for IT spend.	▪ Key stakeholders expect more than IT can deliver with the funds available to them. ▪ Consumers of technology do not understand the cost of what they use. ▪ Demand for IT capabilities continually exceeds supply when IT funding is capped and can lead to high levels of unmanaged shadow IT, potentially introducing additional risk.	▪ Define IT capabilities in client-facing views of IT products and services. ▪ Aggregate technology consumption at the "unit of value" level (e.g., per user, per transaction). ▪ Assign a cost/price to the services consumed, and give key stakeholders a fixed checkbook for the cost of services so that they can make choices. ▪ Report and manage technology consumption through effective governance that optimizes consumption options.	▪ How to Demonstrate IT Cost Management Success ▪ Expert Insight Video: 5 Best-Practice Rules for Chargeback ▪ Define Your Objectives Before Selecting Chargeback, Showback or Building an ITFM Cost Model ▪ Quick Answer: Are volume drivers the right way to showback or chargeback IT costs? ▪ Service-Based Cost Allocation Guide ▪ Simplify and Depoliticize IT Chargeback Through Collaborative Governance
Funding is often scarce for growth and innovation.	▪ The ability to leverage technology to drive differentiating value is impaired. ▪ The IT organization is often focused heavily on run or keep the lights on (KTLO) activities and treated like a cost center and either shifts innovation funding elsewhere or reduces it across the enterprise.	▪ Convince business stakeholders to own the need for innovation by linking business-outcome-driven metrics to enterprise strategy. ▪ Create a process to seed fund innovation separately from existing capabilities.	▪ Outcome-Driven Metrics for the Digital Era ▪ How to Address 'Run the Business' IT in Strategic Planning ▪ Depoliticize Project Prioritization With a Decision Framework ▪ Jump-Start Your Innovation Journey With a Customizable Innovation Framework
There is a lack of understanding of the value of IT investments across the enterprise.	▪ The key executives with the most influence or power get their initiatives funded first. ▪ IT and key stakeholders are often focused on the technology solution and not the improvement in business outcomes. ▪ IT investments are typically not optimized for value.	▪ Create investment governance that approves investments aligned to enterprise strategy that drives the most value. ▪ Ensure all new initiatives use outcome-driven metrics as their primary measure of success (as opposed to delivery of a solution on time/on budget). ▪ Implement benefits or value realization driven by the CFO or CEO not just the CIO.	▪ Use Our Decision Model to Optimize Risk, Value and Cost in Governing Portfolios ▪ Align Projects, Products and Outcome Metrics to Business Goals ▪ Case Study: Technology Investment Prioritization Based on Customer Journeys (Autogrill) ▪ The Gartner Business Value Model: A Framework for Measuring Business Performance
The desire by many CFOs to constrain opex funding more than capex is putting the delivery of critical business outcomes needed at risk.	▪ As IT spend shifts more to opex funding due to public cloud in order to provide the flexibility and speed required for digital transformation, the preference for capex can stifle innovation and put digital transformation at risk. ▪ As opex increases due to public cloud consumption, IT funding can be at risk and opex cost reductions can occur (if IT is asked to self-fund cloud-related opex increases through its existing opex budget).	▪ Understand the current mix of IT opex/capex and how your cloud strategy will impact the mix over the next several years. ▪ Communicate and receive buy-in for your cloud strategy and the impact on opex from the C-suite for any opex impacts by focusing on total cost and value.	▪ Proactively Manage the Impact of SaaS on Opex and Capex Budgets ▪ The Impact of Public Cloud on Operating Budgets ▪ Opex vs. Capex: CIOs Should Partner With CFOs ▪ Establish the Impact of Cloud on Your Organization's Opex and Capex Budgets

Source: Gartner

Use the recommendations and related research to build a plan of attack via an ITFM roadmap to minimize the impact of the selected pain point(s). While the solutions need to be tailored to your unique situation, they provide options to explore and potentially implement to address the issue. Leverage Gartner's ITFM practice to help in this endeavor and use it as a sounding board to assist.

Evidence

[1] Thousands of ITFM-related interactions with clients plus primary research survey data (see attached deck for survey results).

Recommended by the Authors

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

7 Steps Drive IT Financial Management Tool Success

Toolkit: Foundational Service Costing

Build a Focused ITFM Cost Model and Use a Simple Allocation Approach to Deliver Rapid Value

Don't Ignore IT Services When Moving to a Product-Centric Operating Model

Value-Based Performance Measurement: How to Build Effective KPIs

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The business is not held accountable for IT spend.	■ Key stakeholders expect more than IT can deliver with the funds available to them. ■ Consumers of technology do not understand the cost of what they use.	■ Define IT capabilities in client-facing views of IT products and services. ■ Aggregate technology consumption at the "unit of value"	■ How to Demonstrate IT Cost Management Success ■ Expert Insight Video: 5 Best-Practice Rules for Chargeback

	■ Demand for IT capabilities continually exceeds supply when IT funding is capped and can lead to high levels of unmanaged shadow IT, potentially introducing additional risk.	level (e.g., per user, per transaction). ■ Assign a cost/price to the services consumed, and give key stakeholders a fixed checkbook for the cost of services so that they can make choices. ■ Report and manage technology consumption through effective governance that optimizes consumption options.	■ Define Your Objectives Before Selecting Chargeback, Showback or Building an ITFM Cost Model ■ Quick Answer: Are volume drivers the right way to showback or chargeback IT costs? ■ Service-Based Cost Allocation Guide ■ Simplify and Depoliticize IT Chargeback Through Collaborative Governance
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