

Where is the value? IT finance leaders need ways to communicate IT spending

By Peter Grydgaard and Jesper Lærkedal Hansen



1.1 Why IT spend can no longer fly under the radar

Broad forces are shaping IT today. Technology has become integral to all businesses across sectors, with a vast array of digital business models, platforms, and solutions available to solve everyday challenges and enable new opportunities. As the spend on IT is increasing and has become a central part of businesses, it becomes ever more relevant to dive into the cost of IT to ensure the most efficient use of and value gained from the resources spent on IT. [A recent study](#) by Deloitte shows a correlation between high business performance and having a larger portion of the IT budget under the control of the CIO (see figure 1). The study shows that high-performing companies' CIOs tend to increase the IT budget, while keeping it at a smaller percentage of overall revenue. This suggests that the CIOs with most control over the budget gain more value out of their IT spend.

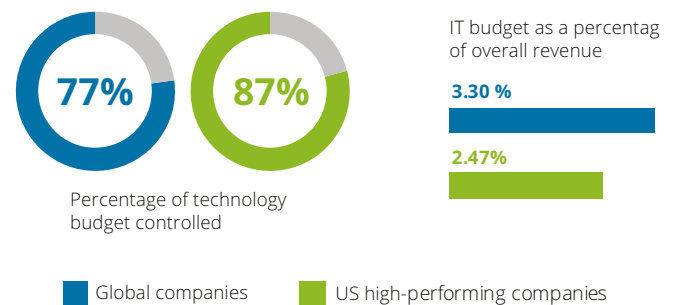
Within companies, this trend triggers many important questions about IT cost versus value. Corporate finance and the business not only want more for less, they want fact-based discussions and certainty that they gain value from their IT spend.

Answers to these questions are more relevant than ever to justify IT investments. In some cases, the answers are critical for regulators and other stakeholders demanding more transparency into IT finance organizations.

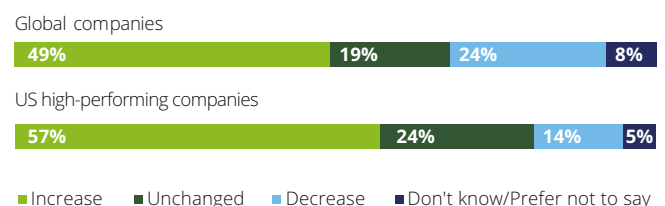
Failure to align IT spend with business objectives can kill a company's ability to properly value its technology investment. The

Technology Business Management (TBM) framework bridges the gap between IT finance, the CFO, and the CEO, offer a universal language to connect the dots and tell a data-driven story of technology and business value.

Figure 1. IT budgets in high-performing companies



IT budget change since the last financial year



Source: Deloitte 2017: CIO Insider. Based on Deloitte 2016-2017 Global CIO Survey.

1.2 A gap exists between IT finance and the C-suite

Too often the business views increasing IT costs as an unexplainable and hard-to-define overhead. Without transparency, they take the position that the charges from IT finance are unfair, outside of their control, not fulfilling their need, and not representative of actual consumption.

Moreover, the IT function feels continuously squeezed to deliver more for less, and struggles to reconcile cost reduction targets with ever-increasing business demand. Organizations experience an accountability gap, where neither IT, corporate finance, nor the business feel able to take decisive action to manage IT cost.

If companies do not change the vantage point, chances are that IT value will remain unclear to business units and costs will remain high. Because while IT delivers technology outcomes, the link between IT activities and business value/priorities are complex and indirect.

1.3 Using TBM to drive value

TBM is a business management area just as we know it from HR, Sales, Marketing, Finance, etc., and TBM managers are the IT-equivalent of the managers within HR (HRM), Sales Operations (CRM), MFG (ERP), or Finance and Admin (CPM). It is a role that supports the CIO and connects the IT function with the business.

One of the main tools of TBM is the TBM Taxonomy (see figure 2). Instead of functions referring to their own definitions of type of costs, activities and services, the taxonomy provides a standard to describe cost sources, technologies, IT resources (IT towers),

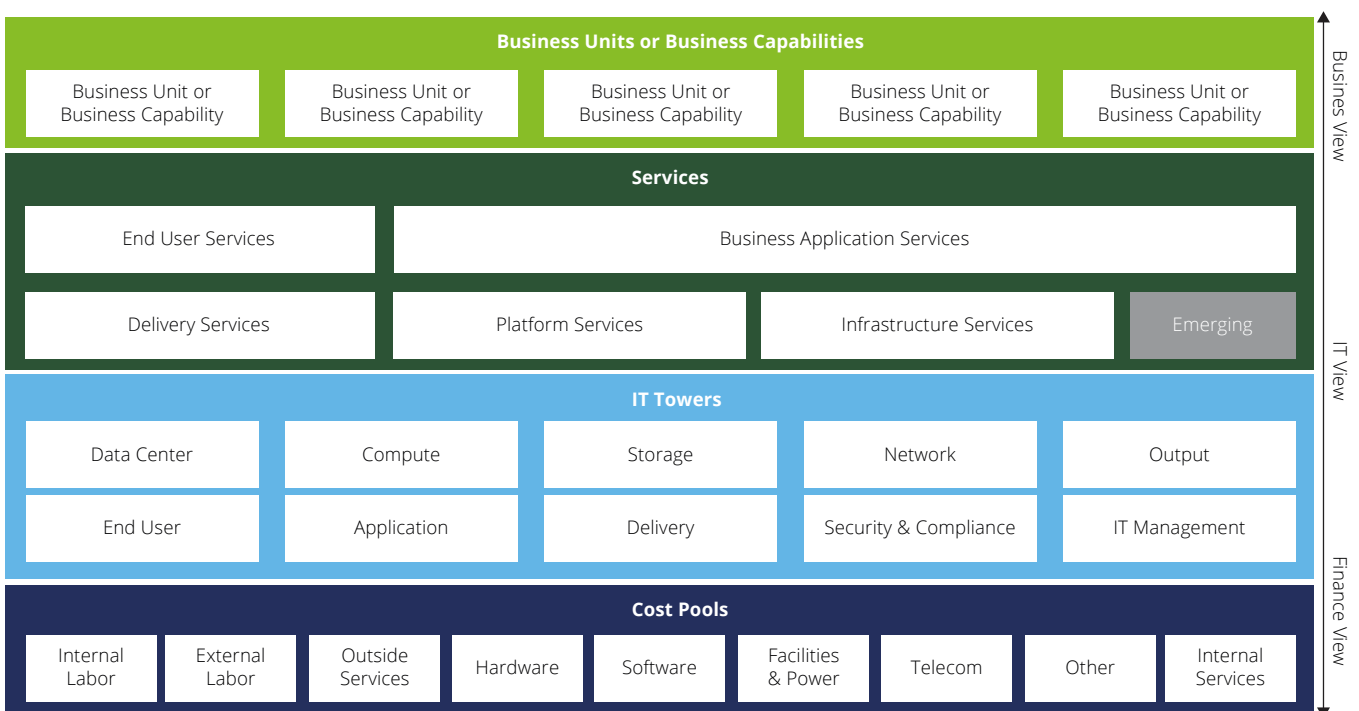
applications, and services that can be applied across industries and geographies. Not only does this framework make internal discussions clearer, it also enables easier external benchmarking to help justify investments. The TBM Taxonomy is governed and maintained by the TBM Council Board Committee on Standards, which is part of the non-profit organisation, the TBM Council.

1.4 Why use a standardised taxonomy?

Businesses rely on Generally Accepted Accounting Principles (GAAP) and public entities follow the guidelines provided by central government (e.g. the Ministry of Finance) to ensure consistent and comparable financial statements. However, these systems do not provide the activity view that IT needs to manage spend in a way that is meaningful to the business. CIOs need operational data about IT assets, applications, labour, projects, vendors, etc. merged with corporate financial data to demonstrate true cost of ownership. [The TBM Taxonomy](#) provides a generally accepted way of categorising and reporting IT costs that allows CIOs and IT finance leaders to communicate value.

Implementing and working with the TBM Taxonomy to create transparency into IT cost allocations help bridge that gap between the business, CFO, and IT leaders. This helps the business achieve greater clarity into their role in managing IT costs, and it helps the CFO lead more collaborative, business-orientated discussions about IT investments. IT finance understands exactly how and where every dollar is spent and is better able to plan, manage, and track investments to key business initiatives.

Figure 2. TBM Taxonomy V2.0 (High Level View)



Source: The TBM Council

1.5 Why this is important

Technology is a central part of any business and, in order to gain the most success, IT must help the business drive value, not generate cost. Shifting from cost center to value driver requires a change in behaviour and a new understanding that is easier to adopt when functional leaders have a common language for describing IT value.

TBM is all about aligning the CIO, CFO, and CEO around shared expectations and desired capabilities. There needs to be an agreement between what IT delivers and what the business thinks IT delivers. For example when the business says, "We need 10 PCs for office A", the CIO and the business need to know that each PC includes multiple systems and applications, a minimum level of support, and a number of hardware accessories. When the CEO says, "We want to be the cost leader," the CIO and the business need to work together to make sure run-the-business costs and grow-the-business investments align with this strategy.









When services are well-defined, it becomes possible to show the cost of the service. However, to show this cost and communicate it in an understandable and credible way, the CIO needs defensible data to back his/her arguments, as well as a way to share this information. Ways to achieve this are often in place, but the solutions are often cumbersome to use, lack cross-system integration, and require a lot of manual effort. Using a dedicated tool can improve the chance of success by giving means to consolidate, manage, and convey IT cost data to support cost transparency, IT planning, benchmarking, showback and chargeback, and other insights key to proving IT value.

Case: An energy company powers up the TBM-engine

Issue: Facing a cost reduction initiative in IT, the company saw a requirement to redesign their financial management model, as it did not support any of the required analyses.

Solution: Using the TBM Taxonomy as their guideline, the company aligned their registration framework, leveraged their CMDB, and built a business-oriented service catalogue. To enable the solution, financial and operational data was combined in a TBM application (Apptio), helping to reframe the business conversation. As a result, IT was able to turn the conversations from resistance and distrust to a partnering relationship driving efficiency and value.

Figure 3. Use cases showing value gain

	 Observation	 Data	 Analysis	 Action
 Workspace	The marketing department pays Workspace services for inactive users	<ul style="list-style-type: none"> List of all active users Mapping users to specific country and business unit Activity log 	<ul style="list-style-type: none"> Workspace spend within the department is increasing No. of active users is declining 	<ul style="list-style-type: none"> Update user list and cancel activities Adopt procedures to ensure future alignment
 Mobile	Maintenance pays a high price for mobile devices and usage per user	<ul style="list-style-type: none"> List of users that logged in List of mobile devices Consumption of data and voice Vendor contracts 	<ul style="list-style-type: none"> Cost per mobile device is increasing Device usage is stable 	<ul style="list-style-type: none"> Review and possibly renegotiate vendor contracts
 Communication	The executive office pays an excessive amount for video communications	<ul style="list-style-type: none"> List and cost of licenses Usage statistics of conference rooms List of users requesting video rooms 	<ul style="list-style-type: none"> Benchmarks show high cost of conferencing hardware and software relative to peers Different hardware support the same function 	<ul style="list-style-type: none"> Consider switching to one or few types of hardware Review and possibly renegotiate vendor contracts
 Licensing	The IT department notices high cost of software no longer in use	<ul style="list-style-type: none"> List of all active users and license owners List of all software licenses Account login log 	<ul style="list-style-type: none"> Total cost of software licenses stay the same while no. of users decline Activity logs show software with no active logins 	<ul style="list-style-type: none"> Identify and sunset systems that are no longer in use Review and possibly renegotiate or cancel license contracts

1.6 Existing solutions are often not suitable

Businesses use a variety of management tools, e.g. spreadsheets, ERP-systems, and CPM-systems. There are a number of challenges when using these:

1. **Spreadsheets** are excellent for handling smaller amounts and simpler data, but it is not a great solution when working with larger and more datasets in a more complex costing-model in IT finance. They tend to be very labour-intensive to use and maintain, prone to error, and have performance issues with large amounts of data and calculations.
2. **ERP-systems** are great for working at the lowest levels of finance, i.e. invoices and the GL accounts, but they are not able to combine this data with the IT operational input such as asset management, service desk, third party cloud providers, or systems management applications. This deficiency leaves them unable to create the view of IT spend that the business need to make well-informed decisions.
3. **CPM-systems** are usually fine-tuned to handle the core business areas of organisations, reflecting the products and services delivered directly to external clients. The issue is that these systems are generally not suitable for handling the IT-specific logic needed to provide accurate information about IT-related projects and services and resource consumption.

There are multiple solutions in the market place supporting cost transparency models, all of which have pros and cons in price, functionality, and quality.



Pure-play solutions are designed specifically but only for the IT function and the TBM Taxonomy.



Infrastructure and cloud vendors help manage IT operations. Some vendors have built modules on top to support some areas of TBM.



Project and portfolio management tools help manage IT services and projects. Some vendors have built modules on top to support some areas of TBM.



Service-catalogue-oriented vendors generally focus only on defining IT services via a service catalogue to connect to the business by a service portfolio. Some vendors support some areas of TBM.



Standard financial management tools can support TBM, but this requires developing a customised solution.

Case: Public entity opens the black box

Issue: Spend on IT has historically been a black box and the IT-department has not had the means to communicate or identify prices and increasing costs. Budget negotiations have focused purely on IT costs instead of value delivered. This led to recurring heavy resource-consumption, frustration, and miscommunication.

Solution: After adopting the principles of TBM and implementing Apptio as the primary tool to support the TBM-related activities much has improved. Challenges with data quality and availability have been identified and sprint efforts are executed to make improvements. Vendors now provide accurate information in a standardised format tailored to the needs of the organization. Furthermore, IT finance now possess a tool that generates dashboards to keep decision-makers updated on cost development.

1.7 The four steps of the TBM value journey

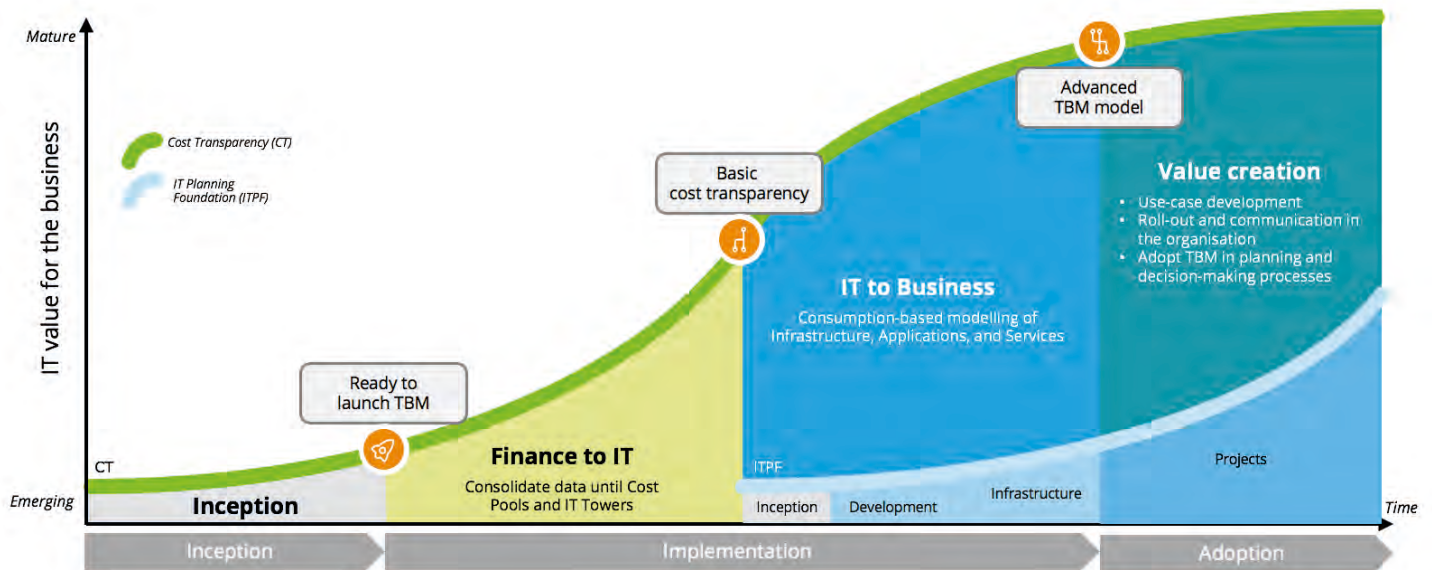
Inception of TBM in organisations typically starts either at the CIO level or through specialized champions driving the agenda. Activities in this phase can include an assessment of management needs, prioritisation of TBM Use Cases, a design of high level TBM model, selection & evaluation of tools available internally and in the market, and maybe a proof-of-concept is performed. All of this done in order to get stakeholder buy-in across IT and also in Finance and justify the investment.

After an inception phase of various length and complication – an *implementation* phase is ready to be launched. The bulk of the work lies in this phase – with also the most technical part of the journey. The first part of the phase bridges the gap between Finance and IT by setting up the first two levels of the TBM model (Cost Pools and IT Towers) with data from relevant sources. The work should have an overarching use case that directs work and focus in a designated project team. The first part of the modelling has finance and HR related data sources – so access to data owners and functional decision-makers is important here. Already at this stage, there can be significant value to reap by labour resource mix, vendor insights, IT cost levels, and accurate costing of IT activities.

In the second part of the *implementation* phase the TBM model connects IT with the Business by allocating cost using IT operational data (servers, storage, tickets etc.) to applications and services. Allocation of services to business units can also be added, giving insights into unit costs (for example cost for a ticket or a server), consumption-based TCO for Applications and demand-driven service usage by business unit – which in turn enables data-driven cost reduction opportunities.

Beyond the initial implementation phase, there are many opportunities for further *value creation*. This includes a continuous

Figure 4. The TBM value journey



development of new use cases, or adding other TBM areas such as Planning, Chargeback, Benchmarking, etc.. Furthermore securing adoption in selected processes and boards as well as focusing on communication throughout the organisation.

The blue line in figure 4 shows how an IT planning project can run in parallel to developing cost transparency. Starting after the basic cost transparency is in place during the first part of the implementation phase, can be advantageous to avoid double work. The curve of the line reflects how the value from proper planning can yield great value – especially when including project planning. Organisations tend to have many – often very expensive – IT projects running, which makes proper planning key to success.

Using TBM, organisations can open the black box of IT cost and engage in value conversations to improve current operations, make the right decisions, and prepare the business for the future. The CIO, CFO, and CEO share an important role to manage technology. Doing this right is imperative to succeed.

1.8 Contact us

We work with our clients from across industries at any stage of their TBM journey. If you want to learn more about how we can help you run your IT like a business, please contact one of our team members.



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