Today’s successful CIOs are not only technology experts; they also deliver vital business leadership. They run organizations that act as service brokers, driving competitive advantage, rather than as simple service providers who only respond to requests. They identify opportunities to leverage technology to drive growth and innovation, while understanding that spending decisions have a direct business impact.

Optimize the Business Value of Your IT

VMware IT Business Management solutions deliver complete, consolidated views into IT capital, operating and service expenses across a broad range of financial data sources. They collect and abstract information, model it and publish service, cost and governance models.

VMware solutions leverage meaningful measurements and reports—including a bill of IT services, chargeback, service-level reporting and vendor scorecards—to support more effective engagements with business stakeholders. With VMware solutions, enterprises manage IT agendas with deep financial discipline, leveraging fact-based decisions across the entire IT portfolio. As a result, enterprises can make informed financial trade-offs that are aligned with business priorities.

Innovative CIOs and IT organizations are using VMware IT Business Management to:

- Gain complete, consolidated visibility into IT cost and performance
- Manage IT agendas with deep financial discipline
- Leverage fact-based decisions across the IT portfolio
- Align cost and performance service trade-offs with business priorities
- Engage more effectively with business stakeholders through meaningful measurement

Source: VMware
Using IT Financial Management to Improve Business Outcomes

Dedicated IT finance functions have historically focused on traditional financial activities. Many IT finance functions stay in their comfort zone and fail to optimize/maximize the value they can deliver. Getting more value out of IT financial management (ITFM) requires expanding the IT finance function’s involvement into other areas.

Key Findings

• The IT finance function has focused primarily on traditional financial planning and analysis activities, such as budgeting, forecasting and monthly closings.

• Financial planning and analysis activities are critical for proper managerial accounting and create the foundation for effective ITFM.

• The IT finance function can lead or (more often) work together with other functions to create additional business value (for example, PMO, procurement, IT vendor management or IT asset management).

Recommendations

• Ensure that your IT finance organization is operationally efficient and effective in the fundamental financial planning and analysis areas before attempting higher levels of engagement and maturity.

• Conduct an assessment of the IT finance function and build a two- to three-year road map that outlines the mission of ITFM.

• Expand the IT finance function only in those key areas that add significant value for your organization (for example, portfolio management, business case analysis, chargebacks, service costing and benchmarking).

• Clearly communicate any changes in responsibility in the IT finance function to all stakeholders.

ANALYSIS

ITFM has historically focused primarily on cost management through the traditional financial planning and analysis activities of budgeting, forecasting, monitoring and reporting of costs that are driven by the needs of corporate finance. These are absolutely essential, and the initial focus of any IT finance function should be to ensure that financial planning and analysis activities are done well. However, to truly improve business outcomes, ITFM needs to move beyond managerial accounting. This will include focus on several key areas, such as portfolio management, business case analysis, chargebacks, service costing and benchmarking.

Key ITFM Focus Areas

During the past several years, IT has become increasingly important to business success, and has the ability to add value and impact the bottom line significantly. We have identified the following nine key focus areas that the IT finance function should lead or assist with, which, if done correctly, will enhance business outcomes:

• Traditional financial planning and analysis activities: This is the cost of entry into effective ITFM and the foundation in which effective ITFM practices are built. There must be solid processes within IT that integrate into corporate systems so that a company’s financial position is effectively managed. Failure to do this often mires the CIO with an inability to get past the “budget” discussion with the CFO and corporate finance regarding:

  • Budgeting and forecasting (operating and capital)

  • Financial reporting and analysis (generally profit-and-loss-based, including variance analysis)

  • Monthly close process (booking and monitoring IT general ledger entries)

  • Providing financial support to the CIO and IT senior leadership
• Investment/business case analysis:
The ability of ITFM to provide accuracy costs and benefits associated with technology investments is critical whether it is new project spending or a technology refresh. This builds a solid foundation that enables IT, finance and the business to have a clear understanding of why the money is being spent and whether there are benefits that drive additional value. Success requires partnership with IT (senior leaders, PMO and business relationship management), corporate finance and the business.

• Chargebacks/allocations (showback or bill of IT): A clear understanding of the services IT provides in addition to per-unit cost and usage is required to effectively allocate costs, as well as drive service cost optimization and improvements. IT can use this information when working with the business to understand the services they use and can afford. This also assists greatly in the demand management process. Mature ITFM organizations often use a service costing approach to facilitate effective chargebacks. However, if a full service-based costing approach is not used, then ITFM can take alternative approaches, such as “showback”. At a minimum, you should identify and allocate for key discretionary IT costs (for example, projects and end-user costs, such as mobile phones). It is extremely important to give cost transparency to the business. Going a step further and charging IT costs will greatly assist in optimizing costs.

• IT benchmarking and measurement:
Providing insight into how internal costs compare with other internal and especially external providers is an area that IT finance should provide leadership in. The ability to provide benchmarking has dual benefits. It often builds credibility internally, while identifying areas of opportunity for IT to improve its cost structure. IT finance is in the best position to understand IT costs and work with key IT staff to build a repeatable process.

• IT staffing and resource management:
Because labor accounts for more than 40% of IT spending in a typical environment, ITFM should effectively cost out labor rates by resource type and work with the PMO or resource management office to ensure that IT resources are effectively used. The inability to effectively manage resource demand is often the single biggest risk to the IT budget. A wide variety of topics affect costs exist that the IT finance function can assist in analyzing and directing. The IT resource labor mix (for example, internal versus external resources, and onshore versus offshore) is a prime example. The associated strategies will drive labor rates and service quality.

• Project portfolio management:
The IT finance function should collaborate with the PMO and business relationship management in understanding the costs of projects, as well as the timeliness and the quality that the end results deliver. In many organizations, the business views effective project delivery as the primary value add from IT.

ITFM should ensure that project costs are consistently defined, tracked and forecast. This can be a complex process, because it often requires tracking time and resources spent on the implementation (with a time tracking tool), new capital expenditures for hardware and software (in a fixed assets system), along with new support costs triggered by the project (for example, depreciation, maintenance and hosting) booked directly to the general ledger. Although tracking costs is paramount, the need to track project benefits is also an area where the IT finance function can assist IT and the enterprise in understanding whether the benefits were received.

• Vendor management/procurement:
The IT finance function can assist procurement and vendor management in ensuring that the right data related to IT spending is available and analyzed. Gaining visibility into the spending associated with vendors is critical through the examination of existing contracts and upcoming renewals. Having the ability to forecast ongoing needs and effectively leverage this information in the procurement process is integral to optimizing IT costs. It matters less whether ITFM manages this process or is even heavily engaged. What is most important from a financial perspective is ensuring that accurate IT spending data is available for analysis and forecasting purposes.

• IT performance management:
Cost and benefit goals should be integrated with typical IT performance metrics, and ITFM
should work with the appropriate IT owner to ensure that these are incorporated. It isn’t sufficient to show that IT provides services at the right prices. IT must show it uses the right services at the right price at the right time.

- **IT asset management**: Tracking assets and their associated costs are instrumental in delivering additional value. ITFM must effectively partner with the configuration management database (CMBD) owner and/or IT asset management to ensure that key financial elements are captured. Although often difficult to do effectively, efforts must be made to manage the process. Otherwise, there are significant risks of unexpected costs (especially in software licensing). Like the last four key focus areas, ITFM does not need to take the lead but does need to partner to ensure that the financial impact of assets are tracked and are available for multiple uses.

### Potential Benefits of ITFM

Organizations with a high degree of ITFM credibility typically see many benefits. The most critical benefit is an overall improvement in the alignment between the business and IT. This is particularly true of organizations that expand ITFM beyond budgeting, forecasting and chargeback, widening its focus by providing cost transparency (for example, via service costing), which enables the business to make better decisions regarding the use of IT services or assisting in project tracking, prioritization and investment analysis. The improved alignment with the business and the resulting integrated business and IT planning and communication, not the ITFM processes in and of themselves, provide the increased value to the organization.

### Delivery of Additional Value Enabled by ITFM Tools

When we consider the major challenges facing IT leaders today, most of them do not necessarily revolve around technology. Given the complexity facing the IT and IT finance functions, most IT CFOs need to address the following challenges to succeed:

- Lack of clarity regarding what the IT finance function is responsible for (and minimal direction from CIOs and/or CFOs).
- The requirement for significant amounts of IT data and IT analytics—both financial and nonfinancial.

*The need to slice IT costs multiple ways often requires additional tools just for the IT finance function. Fortunately, these ITFM tools are becoming increasingly available. However, properly explaining their justification can be difficult.*

ITFM tools can enable IT leaders to have meaningful discussions with business consumers about the cost, consumption and value of IT-enabled business services. Although tools are not a panacea, they do allow IT organizations to create a single version of the truth regarding the cost of IT—something that has traditionally not been present in most organizations. This improved view into IT costs and consumption enables business stakeholders to make more informed decisions about where to invest in IT. Often, ITFM tools are brought into the organization to support cost allocation and recovery efforts. However, the potential exists to use

![Figure 1](Potential Benefits of ITFM)

**Figure 1**  |  **Potential Benefits of ITFM**
---|---
Cost Management/ Optimization | IT Financial Transparency and Service Costing | Improve Financial Accuracy and Forecasting
Align IT Investments With Business Objectives | Improve IT’s Ability to Respond to Business Needs | Achieve Better Outcomes From IT Investments
 Improve the Credibility of IT | Manage Demand for IT More Effectively | Improve Resource Utilization

Source: Gartner (August 2011)
ITFM tools for other areas (such as budgeting and forecasting, as well as vendor and contract management).

Assess ITFM Capabilities and Expand Them Based on Potential Benefits

Each of the nine key focus areas outlined in this research will add value if done well by optimizing costs, managing risk or enhancing revenue. Next steps should include:

- Perform an objective assessment of each of the nine key focus areas to measure the overall performance, regardless of whether the associated activities are performed by ITFM.
- Do a gap analysis for each key focus area, and identify where you may need additional effort (people, processes and technology) to effectively deliver.
- Prioritize each key focus area based on the requirements of the IT organization and which areas will most benefit the enterprise.

Use this assessment to decide where to enhance your ITFM capabilities, and build a road map of where you would like the IT finance function to be in the next two to three years.

Expanding the role of the IT finance function does not necessarily mean taking work or responsibility from previously established areas (for example, PMO, procurement, IT vendor management and IT asset management). Rather, it means ensuring that the right financial data is available and effectively leveraged to manage your organization.

Conclusion

Ensure that you get the basics right first. If your IT finance team cannot sufficiently plan, forecast or report on IT based on how corporate finance views IT expenses and capital, then you will likely lose the confidence of the CFO and spend too much time explaining budget variances. If there is a gap in any of the nine key focus areas, then decide how you will fill it, and determine how or whether the IT finance function can assist.

Ensure that you gain a clear understanding of the organization’s priorities as it relates to the nine key focus areas in order for ITFM to be effectively leveraged. A great first step is getting senior management (CIO or CFO) buy-in to the right focus areas. Don’t try to tackle all areas at once. Use an iterative process, and build an ITFM practice that meets the needs of both IT and corporate finance, while maximizing value to the enterprise.

Gartner RAS Core Research Note G00215700, Jim McGittigan, 12 August 2011

Figure 2 | IT Business Management: Attribute Maturity

Tools Can Help Here…

- Improve IT Financial Visibility
- Invest in the Right Areas
- Manage Demand for IT
- Improve IT/Business Relationship
- Provide IT Governance In a Box
- Define Services and Processes

…but They Won’t Solve All IT Issues.

Source: Gartner (August 2011)
About VMware

From the leader in virtualization and cloud infrastructure, VMware IT Business Management (ITBM) solutions enable CIOs to have unprecedented visibility into their cloud costs to make fact-based decisions. Our suite gives you financial discipline, SLA management capability and vendor governance for your entire service portfolio.

Cloud is bringing in unprecedented innovation and change. This kind of change requires that IT leaders have visibility into their investments, manage expectations of their services and create governance frameworks for vendors. These processes need to work hand in hand to provide IT leaders a single pane of glass from which they can make fact based decisions. VMware ITBM suite is designed to simplify cloud management with the lens of business. Further by providing a common language for IT and the Business to measure and communicate, it creates transparency and trust in all IT Innovation.