Anyone that is in IT has at some point heard the phrase “run IT like a business”. But what does that really mean? This Gartner paper looks at the capabilities that need to be addressed to make those words a reality. There are six major “pillars” called out for organizations seeking to gain maturity and to embrace a model of running IT like a business. These six pillars are:

- IT Budgeting
- Investment Planning
- Chargeback/Showback
- Benchmarking
- Cost Optimization
- Performance Metrics

This paper provides a quick overview of what kinds of capabilities are required in each of these areas. Organizations need to determine how critical each area is to meeting the expectations of the lines of businesses they serve. The paper also provides some fundamental questions that can be used at a high level to assess your level of maturity for each area. You can use the intersection of the criticality and your maturity for each area to identify a process improvement program that helps you increase your ability to deliver the right outcomes required to better align IT with line of business expectations.
VMware IT Business Management Suite can help improve business-IT alignment and accelerate IT transformation by delivering complete transparency into the costs and quality of all IT services. The comprehensive solution includes four essential integrated management capabilities—Business Management for Cloud, IT Financial Management, IT Benchmarking, Service Quality Management—required to support “running IT like a business”. With VMware IT Business Management you can:

- Track and manage all IT costs at a service level
- Model the impact on the cost of services for proposed IT initiatives
- Present LOB with a detailed “bill-of-IT” that represents actual consumption
- Benchmark internal costs against industry and like complexity peers
- Leverage existing service cost and benchmarking data to identify cost optimization opportunities
- Integrate service level metrics alongside financial data to support cost/quality trade-offs

VMware IT Business Management Suite is part of the VMware Cloud Management® portfolio which also includes VMware Cloud Automation Center Suite® and the VMware Cloud Operations Management Suite®. By simplifying and automating IT management, VMware Cloud Management solutions empower IT to govern services across multiple platforms and providers—reorienting IT from merely delivering services to being able to source, provision and manage the lifecycle of all IT services across the enterprise. With VMware Cloud Management, organizations can achieve IT-as-a-Service and unprecedented levels of efficiency, agility, control, and choice for their businesses.

Source: VMware

**From the Gartner Files:**

**Run IT as a Business Using Six Pillars of Effective IT Financial Transparency**

IT financial management initially focused primarily on managing the IT budget. The six pillars presented here extend the focus of IT financial management beyond budgeting to enable the CIO and IT leaders to effectively run IT as a business and provide effective financial transparency.

**Key Challenges**

- The value IT contributes to the enterprise is difficult to measure and inhibited by focusing financial management primarily on basic cost management activities, such as IT budgeting, forecasting and variance analysis.

- The increased demand for IT projects and services, coupled with challenging economic times, has heightened the need for doing more than simply managing the IT budget.

- IT has historically been run as a cost center, sticking to the budget at the expense of customer requirements for service quality, reliability and value.

**Recommendations**

- Review the six pillars of IT financial transparency and assess where your IT organization is doing well and where it needs to improve.

- Identify the two or three most critical pillars, and improve those first.

- Develop a multiyear road map for IT financial management (ITFM) maturity, but keep it to two to three years.

**Introduction**

In many cases IT is already running a business, or at least a business within a business. The question is, how effectively? A typical shared-services IT organization offers most of the services that an external provider does, just often not at a profit. IT leaders are at a critical juncture. They have historically run IT as a cost center, sticking to budget at the expense of customer requirements for service quality, reliability and value.
Without frameworks or the organization of abstract ideas, few great concepts can be implemented successfully. The hidden and overt pressure to cut costs and deliver business change does not happen accidentally. Clients that are serious about long-term changes in the financial side of the IT organization need a framework to plan for these changes.

Gartner has created the six pillars of IT financial transparency to help CIOs and IT leaders to design multiyear programs for maturity improvement so that optimization can be balanced with business change and innovation. Regardless of the goals of cost optimization programs, enterprises will still need IT-enabled changes to ensure sustainability.

Given the increasing demand for IT services driven by issues such as social, mobility, cloud and big data, traditional competencies are no longer sufficient. However, IT is often funded as a utility to provide lowest-common-denominator, “one size fits all” service, with no ability to scale resources to meet demand, which perpetually exceeds supply. So if IT should be already running a business, the question remains, “What does that entail, and what activities should an IT organization focus on to run its business effectively and to find opportunities to change the business?”

Running IT like a business requires giving customers a choice wherever possible and requiring them to pay for their choices. CIOs and IT leaders can set up internal IT as an external-like provider where they offer the right services at the right price with one major advantage over external providers — the opportunity to become a strategic partner with the business and drive value. Figure 1 shows the six pillars essential to running IT like a business.

**Analysis**

**Review the Six Pillars and Assess Where Your IT Organization Is Doing Well and Where It Needs to Improve**

**Pillar 1: IT Budgeting — Managing Multiple Views**

The ability to effectively manage the IT budget is “Job 1” from a financial perspective. It is a prerequisite for extending the focus beyond budgeting. The inability to manage the traditional asset or general-ledger-based view of IT spend will mire the CIO in continuous dialogue with the CFO and undermine IT’s credibility, thereby impeding the ability to demonstrate value.

Successful CIOs and IT CFOs typically manage multiple views of IT spend. Sometimes this is driven by the complexity of the enterprise requiring views by business unit, region, product, and so on. More often, the need for multiple views is driven by the complexity of IT itself. The fact that IT delivers projects and services often requires views of both.

The project or portfolio view is needed to enable organizations to prioritize investments, understand associated cost (typically capital-intensive) and communicate how IT enables change in the business.
that drives additional value. The services view should be focused on presenting the operating expense (opex) budget by IT services. The value of ongoing costs of IT services is typically demonstrated through price/performance. This is needed to have effective financial transparency in a language the business understands. The key is that these services must be business-focused, not technology-focused.

The ability to slice and dice the IT budget into different views is often needed to provide additional financial transparency, effectively manage costs and aid in discussions concerning the business value of IT. This additional transparency can begin to answer the question, “Why is IT so expensive?” along with communicating the IT budget in business terms, not just in terms of people, hardware and software.

Pillar 2: Investment Planning — Effective Project Financial Management

More than 30% of IT spend is typically invested in new initiatives or projects. In addition, the enterprise often sees the “project portfolio” as the primary value IT delivers. Effectively managing the project portfolio requires an end-to-end view of an investment, usually starting with an approved business case that outlines expected benefits as well as total costs.

IT needs to communicate the life cycle cost of a project at the time of project approval so that more than just implementation costs are funded and tracked. These new operational expenses are also required as part of the financial section of a business case to calculate financial metrics such as ROI, net present value (NPV) and payback period.

IT often is involved in assisting in the process of creating the assumptions that drive the benefits required to complete a business case and receive funding approval. Accountability for ensuring that business benefits are actually delivered is often missing in many enterprises, driving some IT organizations to lead the benefits realization effort in order to demonstrate the value of IT. (See “Benefits Realization: The Gift That Keeps On Giving” for best practices on measuring, tracking and realizing benefits on new initiatives.)

Once a project is approved, IT needs to track both the actual and forecast project cost through completion. This is the most common form of project financial management, and is required to ensure that the individual project is delivered in a cost-effective manner, and to effectively manage the capital expenditure (capex) and opex associated with the project portfolio.

Pillar 3: Chargeback/Showback

There is an ongoing debate about the value of chargebacks — even within Gartner. More than one-third of our client organizations see limited value and choose not to charge back or even show the client what it costs to deliver IT services (showbacks). Others simply allocate costs based on high-level metrics (such as the percentage of revenue or the percentage of employees). However, IT leaders who understand that effective chargeback/showback practices have many benefits invest in the necessary resources to implement the right chargeback process for their enterprise.

Benefits of Effective Chargeback:
• Better aligns IT with the business
• Improves demand management
• Helps answer the question, “Why does IT cost so much?”
• Enhances cost optimization activities
• Increases IT financial transparency

While there are multiple approaches to allocating and charging IT costs (see Figure 2), we have seen a shift in recent years by many of our most advanced practitioners to IT service-based pricing. This approach goes beyond traditional IT cost pools based on technical domains (such as mainframe, server, storage and network) to the creation of IT services in business terms.

Pillar 4: Benchmarking IT Costs

Benchmarking IT costs is one of the most overlooked of the six pillars. Leveraging benchmarks, such as those in “IT Metrics: IT Spending and Staffing Report, 2013,” is an effective way to track your own performance over time while comparing it to your peers.

Benchmarking is relatively easy to do compared with the work effort required for most other pillars. Incorporating effective benchmarking into the annual planning process will not only provide additional financial transparency, it can also be used as a mechanism to identify areas of opportunity that need to be addressed.
leadership and planning by CIOs and IT leaders. IT cost optimization needs to be an ongoing discipline. Targets should be set through the use of cost optimization frameworks, such as Gartner’s “The Four Levels of Cost Optimization.”

The primary focus of cost optimization has often been the IT operational budget, with a heavy focus on the first two pillars (the bottom two) in Figure 3. Business and IT

Pillar 5: IT Cost Optimization

CIO and IT leaders have always attempted to optimize IT costs. The question is, “How effectively have they done this?” Too often, cost optimization activities happen organically within different areas of the IT organization, and are not managed centrally unless a cost reduction target is handed down. Then the IT leadership team scrambles to put together ideas in flight, with new ideas needed to meet the cost reduction target. Once the cost reduction target has been met and the “fire drill” is over, IT leaders typically return to “business as usual.”

Due to increased demands for IT projects and services, some IT organizations have begun to employ a proactive approach that is centrally planned and managed at the CIO level. Ingraining cost optimization within the IT organization’s DNA requires
leaders often talk about “doing more with less.” However, lately we have found additional focus on the top two pillars as IT gets the business involved, often requiring organizations to make difficult choices about what projects, services and service levels the enterprise can afford. In some environments, this can lead to doing “less with less” or “doing the same with less.”

### Figure 3: Gartner Framework for Cost Optimization

#### Business Restructuring and Innovation
- Process improvement, reorganization, new methods

#### Joint Business and IT Cost Savings
- Implement cost-saving technologies with the business

#### Cost Savings Within IT
- Identify opportunities to reduce IT costs

#### IT Procurement
- Get the best pricing and terms for your IT purchases

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**Pillar 6: Performance Metrics**

Many IT leaders and their IT organizations avoid the opportunity to communicate IT performance and business value. For some, performance metrics focus on the “five nines” of system availability (99.999%) and operational metrics. These types of metrics indicate that IT organizations are ensuring that the “trains are running on time,” but they often lack anything that can be considered truly strategic once the original problems are solved.

The real key is to create a set of performance metrics that will communicate multiple activities (such as the delivery of project and services, financial performance, operational performance, and innovation). Often, we see IT organizations separating their IT performance scorecards into two parts — the supply-side scorecard and the demand-side scorecard. The
audience for the supply-side scorecard is IT, and the metrics measure IT processes. The audience for the demand-side scorecard is the rest of the business, and the metrics measure IT business service delivery, including IT-enabled business initiatives.

The demand-side scorecard can be used to illustrate the value IT is delivering to the enterprise by increasing the maturity level of IT performance management, scorecards and dashboards. Enterprises with low maturity levels of IT performance management will be unable to provide the business value and transparency required for future IT and economic challenges.

Assess Your Performance in Each Pillar by Asking Key Questions

**Pillar 1: IT Budgeting — Managing Multiple Views**
- How effective is your current budgeting process?
- Do you use techniques such as zero-based budgeting to improve your planning capabilities?
- Do you differentiate between projects and operations in the planning process (such as run/grow/transform, run vs. invest, etc.)?
- Do you budget your expenses based on IT business services?
- Do you have the ability to manage multiple views of your IT budget to provide the right level of transparency and effective optimize costs?
- How can you improve your current IT budgeting process?

**Pillar 2: Investment Planning — Effective Project Financial Management**
- How effective is your current investment planning process?
- Do you utilize business cases to approve investments? Do you quantify all the benefits?
- Is there accountability for project benefits as well as costs?
- How do you fund the increase in opex (aka “new run”) created by projects?
- Do you review retirement of assets and conduct postproject reviews?

**Pillar 3: Chargeback/Showback**
- Do you chargeback any of your current IT spend?
- If yes, what is the reason you chargeback?
- Do you have top-level sponsorship (CIO and CFO) for your chargeback practices?
- Are your allocation methodologies effective in providing the right level of transparency to your clients in order to facilitate effective demand management?
- Do you understand the cost of technical and business services?
- Do your chargeback practices motivate the right behavior?

**Pillar 4: Benchmarking IT Costs**
- What is the purpose of benchmarking your IT costs?
- Have you reviewed Gartner’s “IT Metrics: IT Spending and Staffing Report, 2013” and completed the IT Budget Survey?
- Do you spend more or less on enterprise technology than your peers? Is that good or bad?

**Pillar 5: IT Cost Optimization**
- Are you satisfied with your current IT cost optimization activities?
- Do you leverage frameworks like Gartner’s “The Four Levels of Cost Optimization” to identify opportunities, set targets and run IT cost optimization as an ongoing discipline?
- Is your CIO a champion of IT cost optimization?
- Are there internal targets established by IT leadership to optimize costs?
- Do you solicit cost optimization ideas from key staff throughout the enterprise, rather than only from a small team of IT leaders?
- Does your IT cost optimization focus expand beyond costs that only impact IT to engage the business?

**Pillar 6: Performance Metrics**
- How do currently utilize performance metrics and communicate these via dashboards and scorecards?
- Do you focus primarily on operational metrics or do you use business value metrics?
- Do your IT key performance indicators align with key business goals and metrics? If not, how can you improve them?

Source: Gartner Research G00238696, J. McGittigan, 24 June 2013
VMware® IT Business Management Suite™ provides transparency and control over the costs and quality of IT services enabling the CIO to align IT with the business and to accelerate IT transformation. By providing a business context to the services IT offers, IT Business Management helps IT organizations shift from a technology orientation to a service broker orientation, delivering a portfolio of IT services that align with the needs of line of business stakeholders. With benchmarks providing objective evidence, IT Business Management also provides the fact-based approach needed to minimize the cost of IT while maximizing the value IT delivers to its customers.

Greater transparency and alignment, and the continuous improvement of IT services they enable, support IT as it seeks to develop competitive advantage through major IT transformation initiatives such Cloud, Mobility and Data Center Modernization.

For more information, as well as case studies, and discussions of how other IT organizations have approached IT Business Management, go to www.vmware.com/products/itbm-suite/.