REACH BEYOND E.R.P. SYSTEMS FOR MANAGING I.T. SERVICE COSTS, FINANCIAL PLANNING, AND BUDGETING

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In the "new normal" of nonstop, intense, worldwide competition, IT is in the bull's-eye for cost-cutting and accountability initiatives. That's why senior management needs a full understanding of how much the CIO is spending and what benefits the business is getting for its investment. Without the right level of detail, IT management doesn't have enough information to determine which IT services could be provided more efficiently through outsourcing, on-demand services, or the cloud.

However, managing, understanding, and delivering all the data related to IT spending requires far more detailed and integrated information about assets, applications, projects, and IT services spending than what's available from most corporate financial enterprise resource planning (ERP) systems. Therefore, it's critical to consider how integrated technology can provide service costing, financial planning, and budgeting data.

When ERP Is Not Enough

It's only natural for a CIO to assume that an ERP system can provide the integrated and detailed information needed about IT costs and benefits, especially after he or she has spent millions of dollars to implement it. However, we've seen far too many companies try this and fail, and wind up turning to spreadsheets or an integrated solution rather than an ERP system.

In many companies, the IT organization has far greater need to track capital assets and operating expenses than other business units. Every server, storage array, and network switch represents a capital asset that must be amortized over time. Sometimes, software is also a capital expense, requiring the tracking of different types of licenses for different classes of users using various modules within multiple software packages. All of these expenses are, of course, accounted for within broad entries in the ERP system. However, they are often not recorded at the *level of detail* or in the *context* needed to track and manage those resources, or they aren't described in a way that allows IT managers to link those line-item expenditures with the kinds of processes and activities managed by IT.

Most ERP systems, particularly when used for finance and accounting, record the spending for servers, storage arrays, or network switches under

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the broad line-item category "total cost of hardware." They do not provide a way to link specific physical assets to a line item in the budget or to the depreciation schedule for those assets within the financial fixed-asset area of the accounting application. Therefore, when an asset reaches a significant milestone (such as its end of life), it is almost impossible to find the asset and record that change. It is also more difficult to reconcile the assets against their budgets.

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Because the ERP system does not provide this level of detail, many IT organizations use spreadsheets to track the lifecycles of specific capital assets. These spreadsheets are notoriously difficult to keep up to date. It's also more difficult to maintain consistent standards for describing and classifying purchases using such ad-hoc spreadsheets. When you can't easily associate line items with physical assets, it's more challenging to estimate project-related costs, such as maintenance, replacement, software licenses, and network bandwidth or power, and to improve the accuracy of the budgeting process. As a result, you have to scramble for additional budget authority if the spending forecasts fall short before the end of the budget year.

You can configure the corporate ERP systems to track assets at the level of detail you require and to describe them in a way that would be useful for IT accounting. However, doing so is not feasible because this level of detail is far more than most other units in the business require and ultimately results in too much overhead and complexity for the rest of the organization.

Get a Big-Picture View of Planning, Budgeting, and Tracking

An IT business management solution can help address the challenges discussed here by connecting the systems that store detailed information about assets with the corporate accounting system and describing them in a way that IT can understand. When IT administrators can get an accounting perspective on their IT assets in terms they can understand, it is far easier to identify and correct budget variances, plan future purchases, and save money in ways that will not have a negative effect on critical business processes. For example, rather than manually poring through hundreds of thousands of general ledger entries, seeking to reconcile expenditures with records of IT hardware, the accounting staff or cost center owner can receive reports listing only the variances they need to investigate. When the CIO has a more granular, context-specific view of the specific IT financials, he or she can more accurately predict related costs, such as maintenance, licensing, and network expenses.

Make Better Business Decisions

By identifying in greater detail which IT resources support which business functions, you can discuss the proposed prioritization of spending at the business service level, rather than at the hardware or software level. In addition, you can ask the business owners to prioritize their desired level of service related to availability, performance, or other criteria. With a more detailed and current view of the assets IT owns and how close those assets are to retirement, you can help the business make more informed decisions. For example, understanding the future committed spend for data center-based costs is critical when evaluating the ROI of moving to cloud-based services.

If the majority of physical assets are relatively new and have many years of planned depreciation ahead, the economics of moving to cloud solutions are quite different than if the majority of those assets are older with less residual value. This view of assets also helps IT to determine which assets to keep, which to consolidate, and which to retire in the case of mergers or acquisitions.

In one case within BMC Software, the IT business man-agement solution helped managers identify support applications that had been purchased by a company BMC had acquired. Once these were identified, BMC decommissioned the acquired applications and replaced them with existing support platforms at a substantial savings. BMC also generated substantial savings by leveraging an IT business management solution to identify all IT spending inherited from a newly acquired company. Once those costs were identified and catego-rized, BMC was able to consolidate and decommission redundant IT spending, with most of those savings coming from redundant applications.

Achieve IT Cost Transparency

An IT business management solution provides the granularity and context to meet the financial planning and budgeting requirements for managing IT resources. At its core, IT cost transparency refers to the growing need for IT leaders to accurately plan, track, manage, and explain the costs of IT. Even more importantly, IT needs to be able to leverage that information as the basis for informed decision-making. This can include understanding whether it makes more financial sense to build an internal cloud or leverage a public cloud. It also means understanding which services and com-ponents provide the fastest ROI when they are moved to cloud-based computing.

IT business management spans several different aspects of IT beyond an understanding of capital or asset costs. In addition to asset lifecycle management, IT business management also includes service costing and management, supplier management, and demand and portfolio management.

Ideally, IT business management should help IT under-stand where it is spending money and enable more educated, sound decisions about spending. The result may be reducing IT costs while delivering higher busi-ness value.

Another key aspect of IT business management is com-munication of this information to IT's customers in their language, so they understand what they're getting for their money. One way that IT business management solutions can provide this kind of customer-facing IT cost transparency is through charge-backs and

"show-backs" (charge-backs without actual financial transactions) through something akin to a "bill for IT." This bill shows users the costs of specific IT services within each line of business. The solution should also provide best-practice models that track and manage changes in utilization, component costs, and cost struc-ture over time.

The IT organization can use these models to show complex costs lumped and allocated as a group when necessary, or with discrete cost components high-lighted as needed. These tools should make it easier to estimate the ongoing cost of providing IT services by capturing key cost drivers, as well as providing an instant drill-down for analysis of consumption metrics. They should support the allocation of costs based on consumption/utilization data and the allocation of costs to various business units based on unit cost and consumption. The tools should also provide improved forecasting of future costs and show the impact of changes on costs, as well as the allocation of technical services and/or building-block cost components to services.

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Finally, you should be able to leverage these tools to develop "what-if" financial planning, budgeting, and analysis including total cost of ownership (TCO) for all IT spending. This capability will reduce the time and effort for IT budgeting cycles while improving IT cost transparency. The information should be available in a dashboard format to ease decision-making.

Insist on the Appropriate Solution

IT organizations can become much more valuable to the business by using the right tools for managing highly complex financial processes and facilitating better decision-making. In order to identify which spending is essential and to verify the accuracy of your budgeting, consider implementing an IT business management solution that includes the kind of financial capabilities and granularity IT requires. By taking this approach, you can control costs, increase cost transparency for IT and its customers, make more informed decisions, and help meet the needs of the business more effectively.

For more information about BMC IT Business Management solutions, visit www.bmc.com/ITBM.

ABOUT THE AUTHORS
As Information Services and Technology (IS&T) chief of staff at BMC Software, Karen Garcia leads the strategy, definition, and implementation of IS&T internal business management practices. She joined BMC in 1993 as a business analyst and progressively advanced to senior manager of IS&T Order Services, senior program manager of Sarbanes-Oxley Compliance and M&A Strategy, IS&T Customer Support account manager, director of the IS&T Program Management Office and, most recently, IS&T chief of staff. Garcia has more than 25 years of IS&T business and project management experience. Prior to joining BMC, she held various IT positions at ExxonMobil and Shell Oil. She holds a Bachelor's degree with an emphasis in accounting and management information services from the University of South Florida.

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