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To Spend Or Not To Spend? The Importance of Transparency and Technology Business Frameworks in Controlling IT Spend

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1.1 Why IT Spending Should No Longer Fly Under the Radar

Technology is integral to businesses in all sectors. Accordingly, a vast array of digital business models, platforms and solutions have emerged that solve everyday challenges and provide new opportunities.

Considering the centrality of IT to businesses, it is noteworthy how susceptible IT spending is to changes and forces within the business environment and society in general. As IT spending is expected to continue its upward trajectory in the coming years (see figure 1), it is now more important than ever to ensure that your company's IT cost base is transparent.

In 2020, we bore witness to a pandemic that enveloped both the private and public sector in uncertainty. Despite Covid-19, data shows signs of an increased appetite for technology (see figure 1). This is a positive sign as businesses now more than ever need to prioritize technology to advance their goals and maintain high performance (See figure 2). Consequently, a transparent, collaborative and universal language that can be used to catalogue and discuss IT spending is necessary. Such a language would serve to streamline communication/spending for growth periods, which are expected once the situation stabilises.

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. It offers a universal language that connects the dots and illustrates a data-driven story of technology and business value.

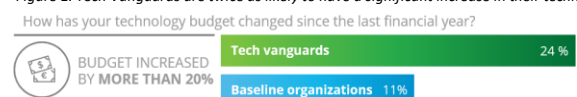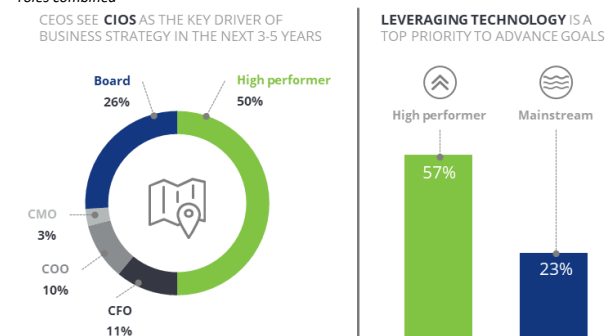Figure 1. Tech Vanguards are twice as likely to have a significant increase in their technology budget [1]

Figure 2. CEOs see technology leaders as their primary strategy partner, more than all other C-suite roles combined [1]

[1] Deloitte Touche Tohmatsu Limited: Deloitte insights, The kinetic leader: Boldly reinventing the enterprise, Published 18 May 2020

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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, the business takes the position that the charges from IT finance are unfair, outside of their control, not fulfilling the business' needs and not representing actual consumption.

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

If companies do not change the vantage point, chances are that the value of IT 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 is 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 and 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 TBA tools is the TBM taxonomy (see figure 2). Instead of functions referring to their own definitions of types 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 on public entities to follow the guidelines provided by central government (for example the Ministry of Finance) to ensure consistent and comparable financial statements. However, these principles do not provide the activity view which 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 in IT cost allocations help bridge the gap between the business, the CFO and IT leaders. This again helps the business achieve greater clarity into its role of managing IT costs, and it helps the CFO lead more collaborative, business-oriented 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 3. TBM taxonomy V4.0 (high level view)
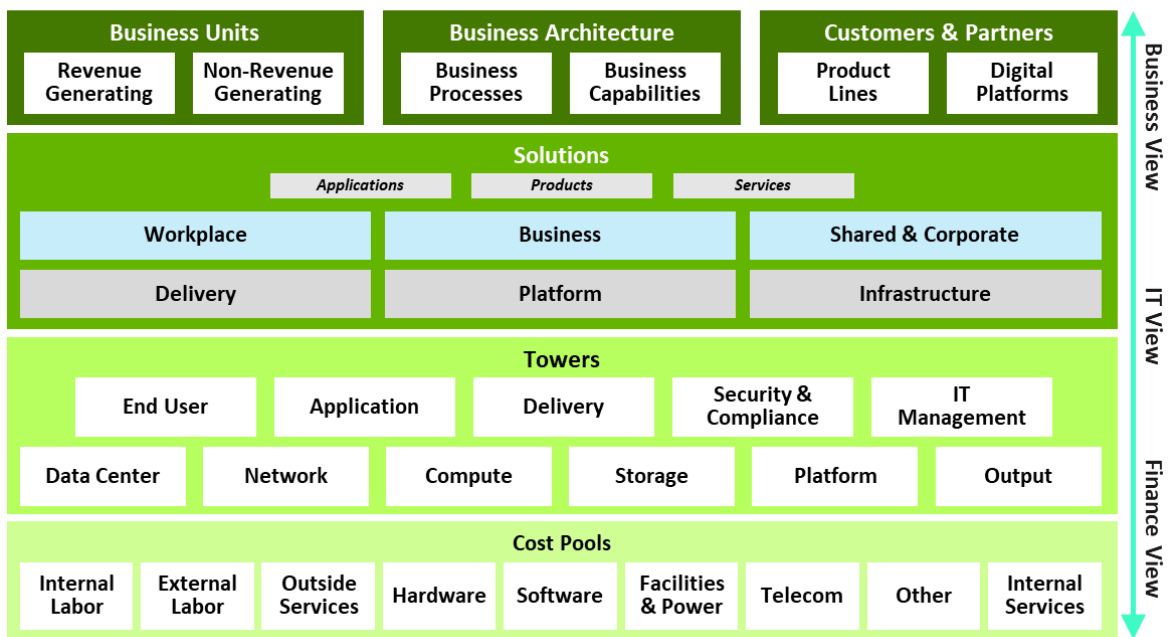
1.5 Why this is important

Technology is a central part of any business and, in order for the business to gain the most success, IT must help the business drive value, not generate costs. Shifting from cost centre 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 need to be an agreement between what IT delivers and what the business thinks IT delivers. For example, when the business says: 'We need ten 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 are aligned with this strategy.

When services are well-defined, it becomes possible to show the cost of the service. However, in order to show it and communicate it in an understandable and credible way, the CIO needs defensible data to back his/her arguments and share this information. Ways to achieve this are often in place, but the solutions are in many cases cumbersome to use, lack cross-system integration and require a lot of manual efforts. 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: A retailer's IT chargeback model powers up the TBM engine.

Issue: The relation between the business and IT was at a low point as the current IT chargeback model caused frustration due to its inability to impact cost and explain cost development.

Solution: Using the TBM taxonomy as guiding principle to structure their service catalogue in cost impact categories enabled the right value conversations between the right stakeholders within IT and the business. Moreover, simplifying and adjusting their budget and pricing processes lowered the effort to produce data and reports to support the dialogues. Furthermore, this has enabled accountability within IT as the TBM taxonomy has clearly outlined how and who is responsible for which cost elements.

Figure 4. Use cases showing value gain

	Observation	Data	Analysis	Action
Workspace	The marketing department pays workspace services for inactive users	• List of all active users • Mapping users to specific country and business unit • Activity log	• Workspace spend within the department is increasing • The number of active users is declining	• 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	• List of users that logged in • List of mobile devices • Consumption of data and voice • Vendor contracts	• Cost per mobile device is increasing • Device usage is stable	• Review and possibly renegotiate vendor contracts
Communication	The executive office pays an excessive amount for video communications	• List and cost of licenses • Usage statistics of conference rooms • List of users requesting video rooms	• Benchmarks show high cost of conferencing hardware and software relative to peers • Different hardware supports the same function	• Consider switching to one type or few types of hardware • Review and possibly renegotiate vendor contracts
Licensing	The IT department notices high cost of software no longer in use	• List of all active users and license owners • List of all software licenses • Account login log	• Total cost of software licenses remains the same while the number of users declines • Activity logs show software with no active logins	• 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, for example spreadsheets, ERP systems and CPM systems. Some of the challenges related to the use of these tools include:

1. **Spreadsheets** are excellent for handling small amounts of data and simple data, but they are not a great choice when working with large amounts of data 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 these data with the IT operational input such as asset management, service desk, third party cloud providers or systems management applications. These deficiencies leave them unable to create the view of IT spend that the business needs 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 as well as resource consumption.

Multiple solutions exist in the marketplace supporting cost transparency models, all of which have pros and cons of price, functionality and quality.

Pure-play solutions are designed specifically 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 TBM.

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

Standard financial management tools can support TBM; however, this requires development of 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 explain increasing costs or communicate IT service prices. 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 a 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 organisation. Furthermore, IT finance now possesses a tool that generates dashboards to keep decision-makers updated on the cost development.

## 1.7 The four steps of the TBM value journey

The *inception* of TBM in organisations typically starts either at the CIO level or through specialised champions driving the agenda. Activities in the inception phase may include an assessment of management needs, a prioritisation of TBM use cases, a design of a high-level TBM model, selection and evaluation of tools available internally and in the market and maybe carrying through a proof of concept. These activities are carried out in order to get stakeholder buy-in across IT and in finance and to justify the investment.

After an inception phase that varies in length and extent of complications, an *implementation* phase is ready to be launched. The bulk of the work lies in this phase, which also includes 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) based on data from relevant sources. The work should have an overarching use case that directs the work and focus in a designated project team. The first part of the modelling includes finance and HR-related data sources, i.e., access to data owners and functional decision-makers is important at this stage. Significant value can be reaped already at this stage 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 of 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.

Many opportunities for further *value creation* exist beyond the initial implementation phase. These include continuous development of new

Figure 5. The TBM value journey
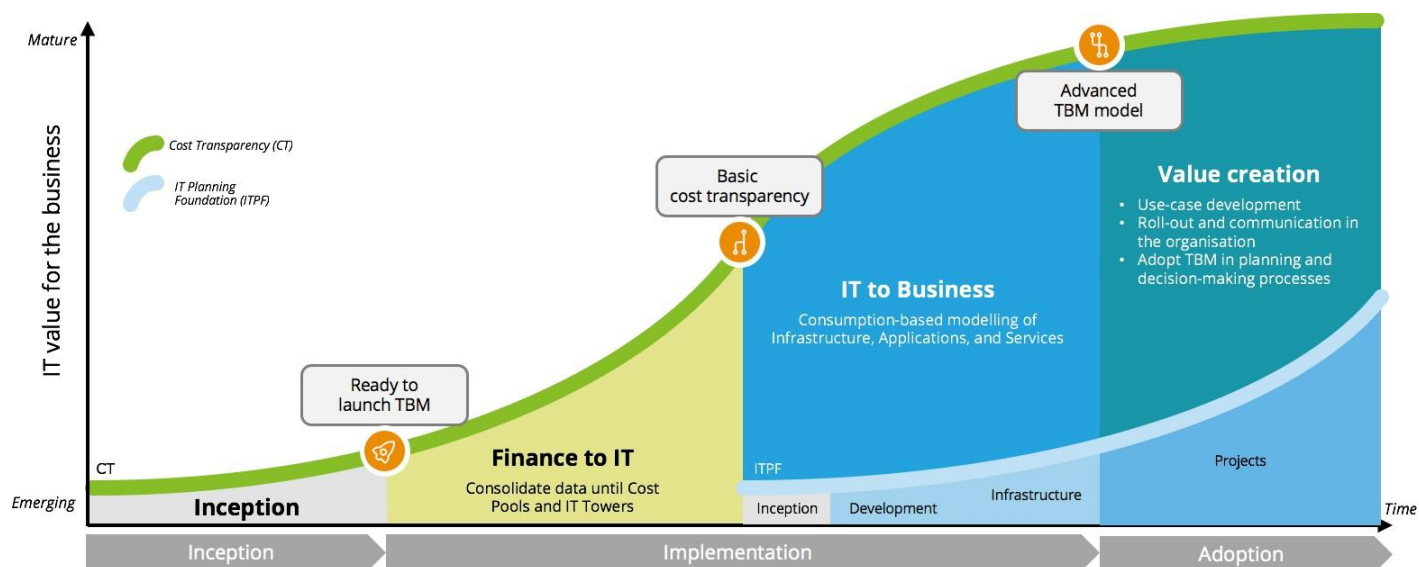
use cases or adding other TBM areas such as planning, chargeback and benchmarking, etc. Furthermore, this ensures adoption of TBM in selected processes and boards and focuses on communication throughout the organisation.

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 duplicated 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 run many – often very expensive – IT projects, which makes proper planning key to success.

By using TBM, organisations can open the black box of IT costs 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 in managing technology; doing this right is imperative to succeed.

1.8 Contact us

We work with our clients across industries at any stage of their TBM journey. If you would like 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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