ALCOR
ENABLING CLOUD

White Paper

Get The Most From Your IT Spends With Financial Management

CONTENTS

1. Introduction
2. IT budgeting challenges in an organization
3. Introduction to Financial Management and its Goals
4. The benefits of IT Cost & Financial Management
5. ServiceNow introduction
   a. ServiceNow Financial Management overview
6. Alcor capabilities in ServiceNow& Cost Management
7. Conclusion
8. References

INTRODUCTION

Late in 2015 an analysis by a business consulting firm, of 250 of the biggest companies in the world, showed that there was no significant correlation between the total IT spend of the company and the overall financial performance of the company[1]. Among the reasons for this uncertain return from the IT spend is the inability of the IT department to identify exactly how much money is being spent on specific initiatives and how that those initiatives, and hence the spend is aligned with business goals. This handicaps the ability of the organization to direct IT spends at initiatives that are more likely to contribute to better overall financial performance.

This Whitepaper will make the case for Financial Managementas an effective way to understand where the budgets are being spent and also, just how effective that spend is.

IT BUDGETING CHALLENGES IN AN ORGANIZATION

IT Departments of enterprises are under financial pressure. CIO's are also increasingly concerned with the business value they are delivering – the 2014 Global CIO Survey by Deloitte reported that 55% of the CIO's surveyed felt that “delivering business outcomes through business services” was the most important part of their job. On the one hand, there is a need to provide a robust and responsive IT infrastructure that ensures high-quality delivery of business services even in the face of a rapidly changing market and on the other hand, there is constantly also a need to optimize or reduce the overall spend. The IT Department and the enterprise is handicapped in its task because traditional approaches to IT budgeting, budgetary allocations, or accounting for the way their budgets are utilized are unable to give the insights needed to be able to optimize the overall spend.

1. Budget creation: IT budgets are traditionally created by the IT Department. This could be a problem as the IT department is not the best placed to understand budgeting and financial policies. The converse is also true, in that the finance group doesn't usually understand IT. This can come in the way of making IT budgeting a strategy-oriented exercise.
2. Budget focus: The Deloitte survey referred earlier also revealed that 55% of the IT budgets in the surveyed organizations was being directed towards “business as usual operations” and only 23% towards promoting “business change” and 22% towards supporting “business growth”. The

greater focus on "keeping the lights on" than on evolution and change could detract from the strategic focus of the IT department.

3. Budget allocation: Budgets have traditionally been allocated based on business functions or business units. Enterprises today are moving in a direction where delivery of business services is achieved through cross-functional and even virtual teams. In such a situation it is hard to accurately gather the costs associated with the delivery of specific business services.
4. Budgets heads: IT infrastructure has undergone a sea change with the emergence and rapid adoption of new technologies like the Cloud. The SpiceWorks State of IT survey in 2014 reported that 65% of the enterprises in the US had already adopted the cloud and this number has risen rapidly after that. This presents added complexity to the IT budgeting since cloud infrastructure is consumed as a service, often on-demand. This would traditionally mean an entry in the Operating Expenses rather than in the Capital Expense side of the sheet. The same is the case with tools and technologies that are consumed via the subscription model as SaaS products. Different organizations have their own specific methods to account for OpEx and CapEx and this further increases the complexity when a combination of the two may be required for the delivery of a specific business service.
5. Budget Planning: Technology is changing rapidly, especially in the outside market and in the customer eco-system. This put great pressure on the IT Department of the enterprise to anticipate potential changes in technology and proactively plan and budget for them. The budgeting challenge is that in the face of disruptive technologies (like the cloud) it is hard to "future proof" the price assumptions made.
6. Budget "Value": Most current methods of IT Budgeting and then tracking are not oriented around directly linking the money spent to the business value that it generates. This is despite, as mentioned earlier, this being viewed as the most important responsibility of the CIO. In essence, this means there is no business accountability for the spending decisions made by the IT Department.
7. Budget Effectiveness: One challenge is that the internal systems tasked with monitoring how the money is utilized are no longer in tune with the times and hence lack the level of detail that is required now. These outmoded systems are also inflexible and hence, it is hard for the enterprise to get an actionable view of what the IT spend means at the business service level or, even at the other end of the spectrum,

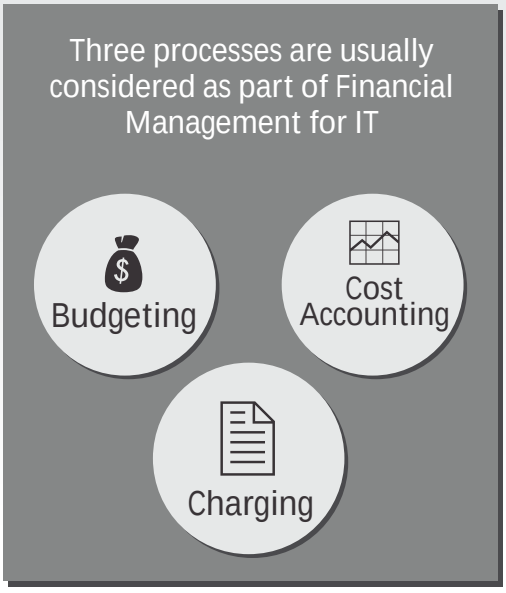
the unit level. In the face of these challenges, a common perception that is driven is that it is hard to predict exactly how much money has to be spent on IT and also that it is not really possible to tie the level of the IT spend to any specific business value. A typical budgeting response to this perception is to fix an upper cap on the IT spend for the financial period in question. This then forces the IT department to prepare annual budgets as a "make it fit" exercise rather than in any alignment to specific business goals.

Introduction to Financial Management and its Goals

Wikipedia, on Financial Management for IT says, "Financial Management for IT Services is a Service Delivery element of the ITIL best practice framework. The aim of this ITIL process area is to give accurate and cost effective stewardship of IT assets and resources used in providing IT Services. It is used to plan, control and recover costs expended in providing the IT Services"[(2)] This framework is primarily targeted to address IT services consumed from external vendors but it has also been suitably employed to address internal IT services.

The objective of Financial Management, in the context of IT is to ensure an optimised cost of the IT services. There is a balance to be played out between the several risk factors, like technology disruption, and the level at which service delivery is required by the business. The need for maintaining a high enough level of service delivery while still controlling the overall costs is key. The aim is to enable the gathering of insights that will promote data-driven cost optimization strategies.

The discipline of Financial Management for IT calls for the application of the principles of accounting and finance along with the specific issues that are of greater concern to the IT department, like fixed asset management, capital management, audit, and depreciation.



Three processes are usually considered as part of Financial Management for IT:

Budgeting – This is the process of predicting, usually at the start of a financial period, and of then tracking and controlling the amount of money spent on the IT over the period in question.

Cost Accounting – This is the process that allows the IT organization to account for the way the budgeted money is utilized. Costs are typically broken across several heads including capital expense, operating costs, direct costs, indirect costs, fixed costs and variable costs.

Charging – This is usually the process of billing the customers for the services they consume. In the context of internal IT, this can be taken to mean the allocation of "costs" to the business services that consume the IT services. Transparently and fairly charging a business service for the IT services it consumes, in this manner, can help promote an approach where the costs of IT can be more closely allied to the business value that is generated from using them.

THE BENEFITS OF IT COST & FINANCIAL MANAGEMENT

Gartner, in the report, "Hype Cycle for Governance, Risk and Compliance Technologies" in 2015, while talking about the benefits of implementing IT Financial management said, "ITFM tools, when properly implemented and maintained, can provide the business with improved cost optimization, transparency to external stakeholders, demand management of critical IT resources and an indication of IT financial compliance to efficiency requirements."[(3)]

Implementing Financial Management in the enterprise can deliver several benefits including:

1. Better management of the money spent: Financial management provides better visibility into how much money is being spent and specifically into how much money is being spent on each business service. This can form the basis for more intelligent allocation of budgets – the services that deliver the maximum value to the business can get more allocations and allocations can be curtailed for less important business services.

2. More effective and intelligent budgeting: Knowing how much money is being and spent and what it is being spent on can provide a solid base for future budgeting decisions. Budgeting decisions can be driven by insights on where money has been spent most effectively in the past and where it has had the maximum impact previously. Another advantage of such data-driven budgeting is that the pressure on the IT Department to justify the amounts

budgeted can reduce since there are very transparent indicators of how the money is being deployed. Reports and dashboards can be created that can serve to inform all the business stakeholders of the details of costs and impact.

3. Optimized IT Costs: Financial Management allows IT departments to drill down to more detailed analysis of the IT spends, including down to granular levels. Analyzing this level of data can offer clues of duplications, redundancies and over-capacity or over-provisioning – all of which, when addressed can help lower the overall costs. Since the budgets are more closely tied to business services and the delivery of specific business services often call for resources from multiple business groups, this level of analysis can also help identify potential opportunities for sharing of resources across business functions. This can again help to optimize overall costs.

4. More informed decision-making: The IT department is always under pressure to provision resources for various business functions. Some such requests are ad-hoc and are driven by changes in the external environment, like technology changes, market changes or customer demands. Financial Management allows IT to take a more informed call on which requests to provision and to what extent based on the likely impact on the delivery of business services. In cases where the likely business impact is not as great, efforts can be made to find alternate, less-expensive, solutions that, while being sub-optimal, may still be acceptable.

5. Product / Service Mix optimization: As has been mentioned earlier, with the wide-spread adoption of technologies like the cloud, today alternate ways of provisioning IT infrastructure are available. The insights available from Financial Management can help IT make data-driven decisions on what infrastructure resources need to be bought and which should be consumed as services. This decision can, again, be taken based on the business drivers that govern the usage of those resources. As an example, tools and technologies that are used in customer-facing functions in dynamic environments, like the consumer internet, may be better provisioned as SaaS infrastructure. This is because SaaS products are typically faster to adapt to changing market dynamics and release new versions.

6. Direct linkage to business goals: Ultimately the IT department is a provider of an infrastructure based service to the rest of organization. The organization is only concerned with the achievement of specified business goals. Financial management allows the IT department to specifically align IT budgets to specific business goals and to then track how they are performing against those goals. This, then allows the business leaders and the IT department to align the costs to the business goals, to monitor the performance against the business goals and to then make the required adjustments in the budgets and spend levels as appropriate.

In summary, let us turn to Gartner again. In their "Market Guide for IT Financial Management Tools" they stated, "ITFM tools enable an IT organization to make better business decisions. Fuelled by a complete view of IT costs and the ability to model costs into different views, organizations can compare ROI and cost-per-performance data on new initiatives while managing demand for current offerings. When they have the data to understand the costs of the IT products required by the business, IT leaders are better able to show value, facilitate make versus buy decisions and optimize IT investments in an increasingly competitive IT marketplace."[4]

SERVICENOW INTRODUCTION

IT Service Management is defined as a combination of people, processes, and tools that are deployed to support the production environment or for delivering other IT services to the organization's internal & external customers. ServiceNow is a leading cloud-based ITSM tool focused on the enterprise.

ServiceNowfocuses on the workflows within the enterprise and helps enterprises define, codify and automate these workflows to ensure predictability and scalability on a day to day basis. Enterprises deploying ServiceNow leverage the capabilities of the product in Incident Management, Issue Management, Request Management, Knowledge Management and for Tracking and Reporting.

ServiceNow focuses on a variety of business domains including Financial, Healthcare, Higher Education, Managed Services and various Government sectors.

SERVICENOW FINANCIAL MANAGEMENT OVERVIEW

ServiceNow's offering focused on Financial Management[5] allows enterprises to transparently allocate the costs that are incurred for various business services, applications, projects, and infrastructure to those who consume the services. The costs can be mapped to actual usage data of IT incidents, infrastructure utilised, and time consumed.

There are 2 key facets to the offering, a visualization element that provides a clear view of all the expenses and an element that connects to the "general ledger" and extract sand processes the expenses, and then maps them to the IT or business functions used by IT. Reporting is also a key functionality of the offering.
Breaking the Financial Management applications into components[6], we have:

1. The general ledger: containing the expense list
2. The fiscal period: this is the time period over which the costs would have been incurred.
3. The organization's cost model: The organization's specific way of identifying and accounting for expenses.
4. The allocation engine: this is the core of the application. The cost model of the organization is used to figure out what expenses have been incurred and to which function of business they should be allocated.
5. Financial reports and dashboards: a visual representation of the costs incurred, where they have been allocated and trends. This level of information on the IT costs and exactly where these costs are being incurred can prove crucial in aligning costs to the business goals.

ALCOR'S CAPABILITIES IN SERVICENOW AND FINANCIAL MANAGEMENT

Alcor is a global cloud advisory and implementation services company serving Fortune 500, Government Agencies, and other leading organizations in multiple industry verticals across the Americas, Canada and India. Alcor is a ServiceNow Silver partner and also partners to Mulesoft, Salesforce, FireEye, Microsoft, BigPanda and Bomgar. They advise leading businesses on cloud platforms, architecture, enterprise service management and integrating IT service delivery. They also provide business process consulting to capture, re-engineer and improve processes that can easily be automated to deliver real value. The Alcor consulting team is derived from a combination of experts in Business strategy, Cloud Technology and Organizational Change Management.

Alcor takes a strategic ITSM implementation approach and focuses on solving the business problems of their clients by leveraging an integrated business process design and technology implementation capability. Alcor's ITSM solutions with ServiceNow leverage a business view of IT services. The objective is to enable the IT support organization to:

- Quickly resolve or escalate issues and problems
- Improve root cause isolation.
- Provide higher levels of business user satisfaction.

Alcor brings substantial process expertise, ServiceNow experience and depth of organizational governance modeling to build solutions that are effective and provide complete life cycle support forIncident Management, Problem Management, Change Management and Configuration Management. Alcor has experience in Automating ServiceNow with external applications like emails, active directories, Adobe, assets, and Amazon Cloud Provision (LABS). This includes real-world experience of having worked with enterprises in the banking and financial services and retail sector where they have helped orchestrate transaction volumes running into the hundred's of thousands.

Alcor's Cost Management solution with ServiceNow help businesses better understand IT costs, manage and optimize IT budgets and deliver financial transparency. Alcor's Cost Management solution quantifies the financial costs of IT services and assets. This customized business solution has helped their clients gain insights into all areas of their IT spending.
Their solution provides both reporting and tracking of costs which in turn help's clients gain insight with projected business expenditure.[7]

Alcor achieves this by leveraging their integrated business process design and technology implementation capability. Their professionals are the top talents in the business with deep personal understanding of the business verticals they service. This allows them to deliver flexible solutions that work in the real world. Their strength lies in delivering solutions that are customized to the specific requirements of their customers including complex integrations with the other systems in the eco-system like Financial and Procurement Management systems.
Get information about Alcor and their capabilities by writing to information@alcortech.com.

CONCLUSION

Many organizations are talking of concepts like “running IT like a business” or “moving IT from a cost centre to a strategic investment” – these concepts can only be implemented when it is transparently clear to the business leadership exactly how much investment is being made and what is the return on that investment, in the form of the impact on the achievement of business goals. This transparency can be achieved through the implementation of Financial Management in the IT department.

REFERENCES

- http://www.strategyand.pwc.com/reports/maximizing-value-technology-investments
- https://en.wikipedia.org/wiki/Financial_management_for_IT_services
- https://www.gartner.com/doc/3091517/hype-cycle-governance-risk-compliance
- https://www.gartner.com/doc/3101027/market-guide-it-financial-management
- http://www.servicenow.com/products/financial-management.html
- http://wiki.servicenow.com/index.php?title=Financial_Management#gsc.tab=0
- http://www.alcortech.com/enterprise-service-management/cost-management/

ALCOR
ENABLING CLOUD

Alcor is a technology implementation company focusing on Enterprise and Government technology needs in ITSM, systems integration, web development and mobility space. We provide a strategic ITSM implementation approach to our clients and focus on solving business problems by leveraging an integrated business process design and technology implementation capability.

7600 Dublin Blvd, Suite 230 Dublin, CA 94568 / (925) 248-2344, (925) 361-7247

The Dineen building, 140, Younge Street, Suite 200, Toronto, Ontario, MSC 1X6 / (905) 867-3990

www.alcortech.com

©2016 Alcor Solutions, Inc. All rights reserved.
Alcor believes information in this publication is accurate as of its publication date. This publication could include technical inaccuracies or typographical errors. The information is subject to change without notice. Changes are periodically added to the information herein; these changes will be incorporated in new additions of the publication. Alcor may make improvements and/or changes in the product(s) and/or the program(s) described in this publication at any time. Reproduction of this publication without prior written permission is forbidden. The information in this publication is provided "as is". Alcor makes no representations or warranties of any kind, with respect to the information in this publication, and specifically disclaims implied warranties of merchantability or fitness for a particular purpose.