

Deliver IT Cost Visibility with Digital Fuel

Abstract

Financial transparency requirements are on the rise, creating a need for visibility into IT costs. IT executives are looking for toolsets to help them with this challenge and finding only a limited number of solutions on the market. Digital Fuel is one of a small handful of IT management vendors offering meaningful IT financial management capabilities. While the company does not stand alone in this endeavor, it got an early start on its vision to provide business-focused management tools for IT building on its expertise helping IT organizations define IT services and attain IT service levels cost-effectively. Digital Fuel offers two distinctive solutions each with service portfolio management capabilities included: one solution for IT cost management and one solution for service quality management. Each of these solutions stands on its own to meet pressing corporate priorities. Yet, they are integrated and work together demonstrating Digital Fuels' vision to bring together cost, quality and service management into a cohesive management strategy.

Today's pressing market need is to get control over IT spending. Digital Fuel provides robust IT service cost modeling and process automation for allocating expenses to IT services, understanding IT cost drivers, notification of budget overruns and chargeback and billing. Digital Fuel's solution integrates directly with financial data sources from general ledger to Project and Portfolio Management (PPM) tools. The company has developed its solution set with an appreciation for modularity that addresses the needs of a wide range of IT organizations; enabling an incremental approach on the road to financial management maturity and an integrated service and service cost model.

This ENTERPRISE MANAGEMENT ASSOCIATES® (EMA™) impact brief discusses the financial management needs today for IT and some of their drivers. It then highlights the capabilities of Digital Fuel to support these needs, including a discussion of one customer's incremental approach to a more advanced financial management model.

Managing the Costs of IT

As long ago as five years, EMA developed a position for "Next-Generation Asset Management (NGAM) that it believed would evolve over time. This vision anticipated ITILv3's focus on integrated configuration and asset management with a focus on service interdependencies. The two most distinctive tenants behind the NGAM model were:

The notion that IT services were effectively IT's "products" – and so all IT opex and capex assets should be viewed in a service context. These services, in turn, should be understood in terms of their contributions to the business and business models that a given IT organization supports. So understanding impacts on business process, indirect and direct revenue, employee productivity, and the relevance and demand for a specific service should ideally be linked to costs associated with developing, provisioning, managing and retiring that service.

The concept that given this model, assets should be understood in terms of their contribution to a service, and that this included understanding assets as "performing" contributors versus merely amortizing hardware or assessing compliant or non-compliant SW licenses. So once again, usage, relevance, and actual effective performance (e.g. how much does one brand of server or application deliver consistent performance with minimal downtime compared to another brand of server?) trump more traditional, static metrics. This once

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Deliver IT Cost Visibility with Digital Fuel

again brought the notion of service management closer to asset management, as it tied in SLAs associated with devices, services from service providers, and other “performing” entities to the performance of the larger business.

The “transparency” achieved by viewing asset management in this way is fundamentally different from more niche approaches that isolate assets in static boxes in traditional ITAM. It is much like the difference between understanding how Olympic athletes perform in terms of running the hundred-yard dash, or their ability to perform certain dives, versus simply viewing them in terms of eye color, weight and city or town of origin. It is a dynamic view of managing assets with an eye to service and business impact that can support a far more dynamic and relevant approach to managing costs.

These dynamics—the relationships between services and assets and finance—are just what are needed to tackle financial management for IT. IT executives have increasing pressure to support the financial needs of the business. This requirement is not a replacement for corporate financial management, but rather a parallel and supportive effort where IT financial management provides additional layers of detail to help IT manage its own investments in support of the business. IT financial management can only be effective if it understands the relationships between the underlying silos and technologies as they fit together to provide the business services the organization needs to be successful.

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The Value of a Phased Approach

Much value can be realized by organizations that embrace the integrated view of services, assets, and financial strategic direction. The long-range goal is ambitious and well-aligned with business needs. The complete picture of IT cost management requires a lot of planning. Yet, it isn't just the end-goal that is important. A great deal of value, visibility and perspective can be achieved along the way. Organizations should take advantage of interim steps as it strives for a longer-term vision. For instance, CIOs can take advantage of added visibility delivered in short-term steps and similarly can use this insight to build stronger awareness of all that IT is providing as well as credibility by simply having this data available to share in a consumable format.

Three steps that can prove valuable include:

- Start with what you know is the best advice anyone can give. It requires no investment and builds on the existing capabilities, simply using them more wisely. Choose two or three IT services that offer the greatest business support for your company or organization. Then, build a data model that correlates existing cost data, estimating those costs that are unknown. In all likelihood, estimates will come within 80% accuracy of real expense data and provide a basis for decision-making. Use this insight to make internal IT investment decisions.
- Use the above information to generate a one-time analysis or infrequent reporting system to communicate the costs associated with delivering important business services. This activity—even when performed infrequently—begins to lay the groundwork for business unit understanding of the costs involved with technology support for the business. In this effort, IT is essentially creating a proof-of-concept for IT cost management. In the near-term, it can be used as an educational tool for business units and executive teams that often need greater insight into IT's cost structure.
- Build upon this initial manual process by deploying a software solution that can automate the labor-intensive manual system used to get started. A manual approach is a good step forward, but not

Deliver IT Cost Visibility with Digital Fuel

sustainable over time due to its labor-intensive nature and issues around human error and accuracy. The effort expended to define initial parameters and priorities directly support the implementation of an automated solution. Use of a solution will enable IT to gain a deeper understanding of IT costs on a timely basis as well as communicate costs and cost drivers associated with delivering important business services.

- Increase the complexity of the costing model and associated data being used for reporting and decision-making. For some organizations, this will be added depth for existing services and replacement of estimated data with actual data. Other enterprises will want to expand the scope of services for which they are measuring costs. This additional detail in both directions can then be incorporated into your solution. In adding to the scope of the effort, CIOs will need to find ways to further automate the process.

The primary advice here is to try to not tackle the elephant all at once. Meaningful information can percolate even from the most basic of IT financial cost models. Putting together what you know about existing expenses and then wrapping them around the services that are most critical can go a long way in moving this process forward.

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Digital Fuel and Cost Management

Digital Fuel has been a service management solutions provider for nearly a decade. The company brought innovative thinking to the market early on with its initial service level management (SLM) offering aimed at meeting the business on “its own terms.” As the market has evolved, so have the capabilities in Digital Fuel’s ServiceFlow Software Suite. Today, Digital Fuel’s ServiceFlow includes Digital Fuel Service Level Management, Digital Fuel Service Portfolio Catalog and Digital Fuel IT Cost Management.

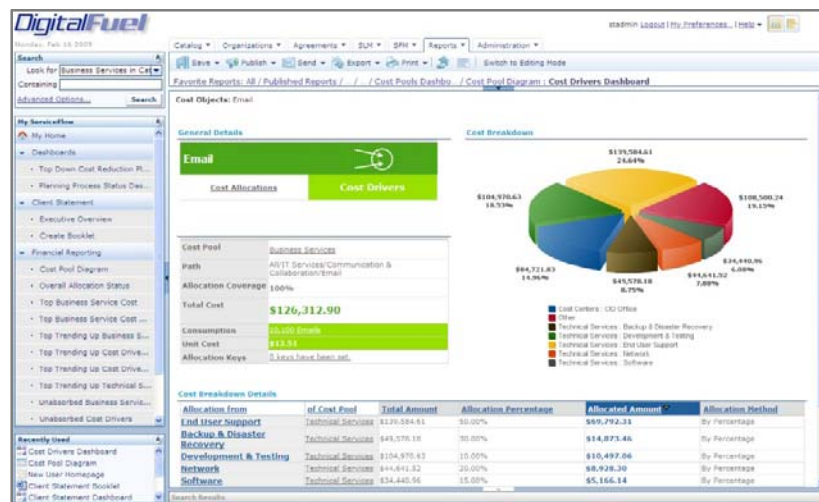


Figure One: Digital Fuel IT Cost Management: Cost Breakdown

The trio of capabilities incorporated into Digital Fuel ServiceFlow demonstrates the company’s understanding of the linkages between services and financial management as well as their reliance on underlying assets. Each of these products represents a key component needed as IT shops mature and support business requirements and yet they have all been designed to function as independent solutions in their own right. In the domain of cost management, Digital Fuel has focused on enabling customers to understand their IT costs and drivers to make better decisions and effectively communicate IT costs to business units based on their consumption (and in the most mature organizations this may include full charge back and billing processes) for its IT

Deliver IT Cost Visibility with Digital Fuel

services. Today's capabilities in Digital Fuel IT Cost Management are oriented to provide a new level of IT cost visibility. Its capabilities for cost management are geared toward strategic planning and managing IT investments for the business.

Digital Fuel IT Cost Management now offers customers a number of more sophisticated capabilities. Among the benefits offered to the company's customer is the ability to:

- Gain visibility into IT service costs enabling informed decisions with better cost trade-offs for optimizing IT spending. Early warning notifications are built in to alert IT when trending is headed outside of the planned budget.
- Model and allocate cost pools between cost centers and business units. Cost pools can include general ledger, IT assets, projects, technology services, business services and IT cost centers.
- Proactively track and drill down into overall costs and cost drivers of specific IT services including infrastructure, application licenses, labor costs, shared services among others. Assess IT service efficiency by tracking Service Unit Cost.
- Prepare chargeback statements for IT service charges by consumption; users can also create detailed breakdown of charges, resolve IT chargeback issues, and identify top spenders by geography and/or business unit. This capability, when applied appropriately, leads to better-decision making even if formal chargeback is not yet applied to the P&L of each business unit.
- Take advantage of out-of-the-box IT service definitions built into Digital Fuel's Service Portfolio Catalog to accelerate and simplify the application of cost models.
- Assess utilization using usage analysis features to ensure that service utilization is linked to business value and that the most efficient and valuable services are widely promoted across the organization when non-efficient unused services are quickly retired.

The analytics and automation incorporated into Digital Fuel's IT Cost Management solution are just what customers need as they move ahead from a simple IT financial management strategy with adhoc reporting and limited visibility to one that more closely aligns with the needs of their business users. Since Digital Fuel IT Cost Management is available on a subscription-based licensing model, start-up costs associated with an automated system can be minimized.

A Customer Perspective

Digital Fuel is fortunate to have many customers that have put the Digital Fuel IT Cost Management functionality to the test. EMA had the opportunity to interview Nationwide Insurance. As discussed at length in Digital Fuel's Nationwide Case Study, this financial services company has put Digital Fuel's technology to work. The company has evolved its IT financial management plan for the past 7 to 8 years without automation tools until a year ago with an initiative to accelerate IT cost visibility and when it started using Digital Fuel's IT Cost Management solution.

Nationwide has over 300 IT-related products and services that are tracked including tiered services. Categories include mainframe, storage, IT service desk, web-hosting and other productivity applications. The company has evolved from the basics to a mature IT financial management operation. Today, using Digital Fuel, the majority of its IT costing function is automated. The company now carries out a range of IT cost management activities from unit cost analysis to facilitating ongoing reductions in IT service unit costs. It uses a practical approach to showing service costs to departments based on consumption including billing when the organization is ready to apply chargeback processes.

For companies that are not so high on the maturity curve, it would be useful to understand some of the cost components that go into Nationwide's analysis. IT management in this company looks at fixed, variable and

Deliver IT Cost Visibility with Digital Fuel

semi-variable cost components including activity-based costing. Labor and non-labor categories are separated. Each year, the “product” or “service” owner has an objective to lower its overall costs by a percentage. The visibility from ServiceFlow IT Cost Management has enabled Nationwide to achieve cost savings. Even in cost categories such as labor, which typically rise, Nationwide can counter those increases with costs such as hardware and software maintenance.

Digital Fuel is used to consolidate all of the related costs that reside in other systems, and then automatically applies the allocation formula for IT service costing; incorporating the dimension of cost drivers that comprise the unit cost for each IT service. Its systems are integrated with enterprise financial management solutions to gather information needed to model IT services and associated costs. Some of the off-the-shelf products that are integrated with Digital Fuel IT Cost Management include Oracle PeopleSoft, CA Clarity and Hyperion for the service desk. Mainframe data has also been incorporated. The company has an end of the month cycle where information is collected and consolidated. The end result is that IT is better able to make decisions for the business, and appropriate usage information can be provided to departments outside of IT.

EMA Perspective

IT’s increasing level of maturity has significantly altered the landscape of management technology requirements. While technology-level management and analytics no doubt is still a requirement, new solutions are needed to help IT manage the business-related disciplines of IT. IT financial transparency needs that are so pressing for today’s CIOs is just one example of the types of solutions needed to effectively run and IT organization.

Digital Fuel brings a unique strength to the market in its focus on the business governance needs of IT executives. It has a track record of developing solutions that are geared to address business governance—in the domain of service quality, IT cost management or provisioning of services. Digital Fuel is positioned well to help customers with IT financial management and has proven to be effective for many customers seeking to provide their organizations with cost transparency.

The market is not without challenges. Many of the large management technology vendors are now arriving on the scene with IT financial management solutions and in some cases tied to service management. There are a few innovators as well that are beginning to showcase solutions geared toward the financial transparency needs of the day. Digital Fuel has the advantage of starting early and investing aggressively in the area of cost management. The company must continue this pace of investment to receive the market share it deserves in this segment.

In the end, Digital Fuel has a lot in place for its success. No doubt, the company can leverage the past decade of experience and the hands-on understanding of IT financial needs. Success will come if it can adequately assist customers in moving forward “a step at a time” as enterprises recognize and take advantage of the value in demonstrating IT financial transparency.

About EMA

Founded in 1996, Enterprise Management Associates (EMA) is a leading industry analyst firm that specializes in going “beyond the surface” to provide deep insight across the full spectrum of IT management technologies. EMA analysts leverage a unique combination of practical experience, insight into industry best practices, and in-depth knowledge of current and planned vendor solutions to help its clients achieve their goals. Learn more about EMA research, analysis, and consulting services for enterprise IT professionals and IT vendors at www.enterprisemanagement.com or follow EMA on Twitter (http://twitter.com/ema_research).

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