

10 Steps to Successful IT Cost Management

Health Check

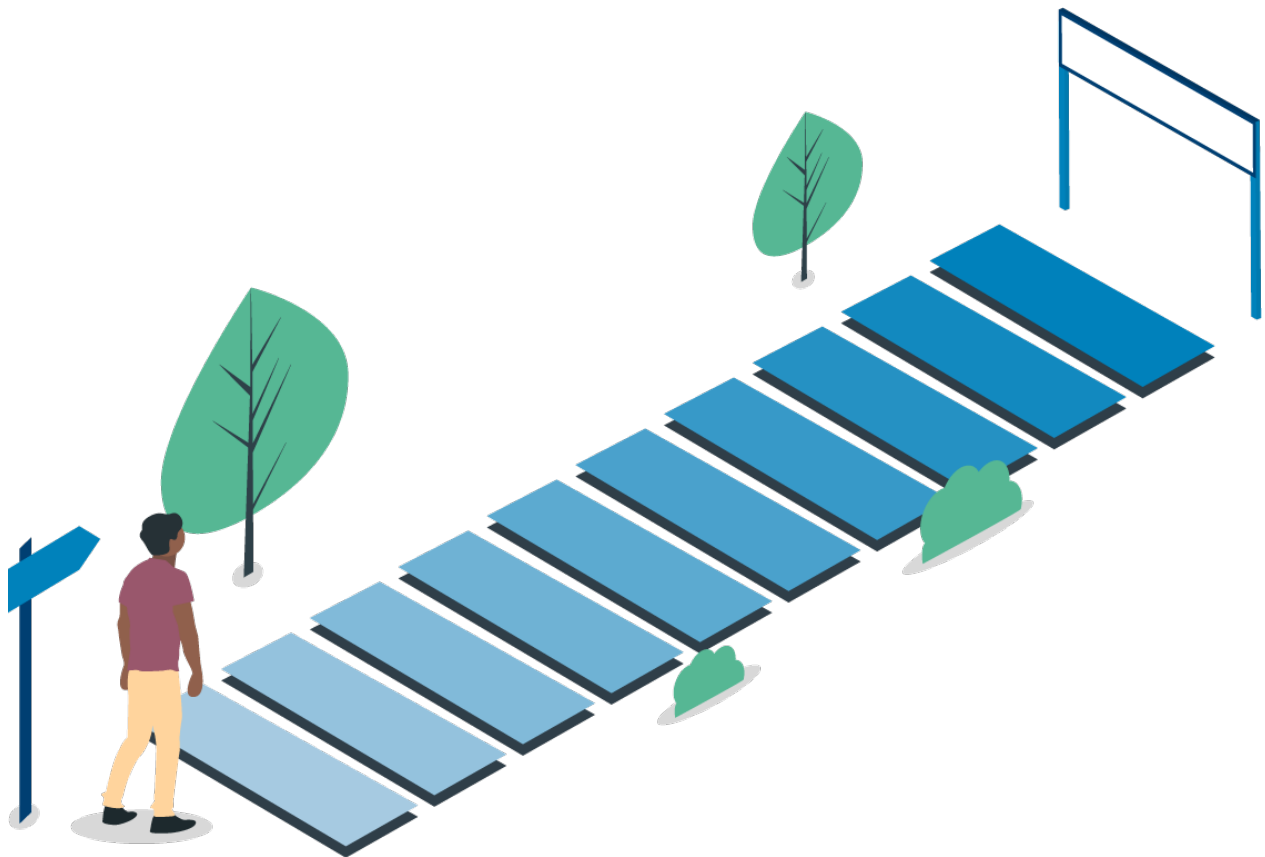


Table of Contents

Introduction	3
1 10 Steps to Successful IT Cost Management.....	4
1.1 Step 1: Creating a Comprehensive IT Service Catalog.....	4
1.2 Step 2: Effectively Monitoring IT Costs.....	4
1.3 Step 3: Assessing IT Budget Management.....	5
1.4 Step 4: Managing the IT Budget for Running and Growing the Business	5
1.5 Step 5: Keeping a Positive Gross Margin	6
1.6 Step 6: Staying Tax Compilation	7
1.7 Step 7: Benchmarking and IT Service Pricing	7
1.8 Step 8: Identifying Cost Drivers.....	7
1.9 Step 9: Showback/Chargeback of IT Costs to Consumers.....	8
1.10 Step 10: Managing Supply and Demand	8
1.11 Conclusion.....	9
2 About Serviceware	10
3 About Serviceware Financial.....	10

Introduction

This white paper aims at providing a basic 10-step outline for jumpstarting, maintaining, and optimizing IT cost control. By implementing a framework that allows for **a comprehensive, detailed, and transparent overview over all IT costs**, controlling processes like budgeting and invoicing are streamlined and simplified. Ultimately, this will boost your business performance and help your IT reach the next level.

Steps 1 to 3 explicate the foundations of this framework by focusing on matters of **planning and budgeting**. They answer questions about how the necessary framework of successful IT cost control is established with the help of IT service catalogs and various budgeting approaches. **Steps 4 to 7** go into more depth about the implications this framework holds for **IT cost controlling** processes. Finally, **Steps 8 to 10** showcase how the mechanisms established in the preceding chapters can boost **optimization and efficiency** of the overall IT enterprise. Ultimately, this white paper underlines the importance of the overarching theme of transparency and furthermore, how this **transparency serves rationalizing IT cost control**.

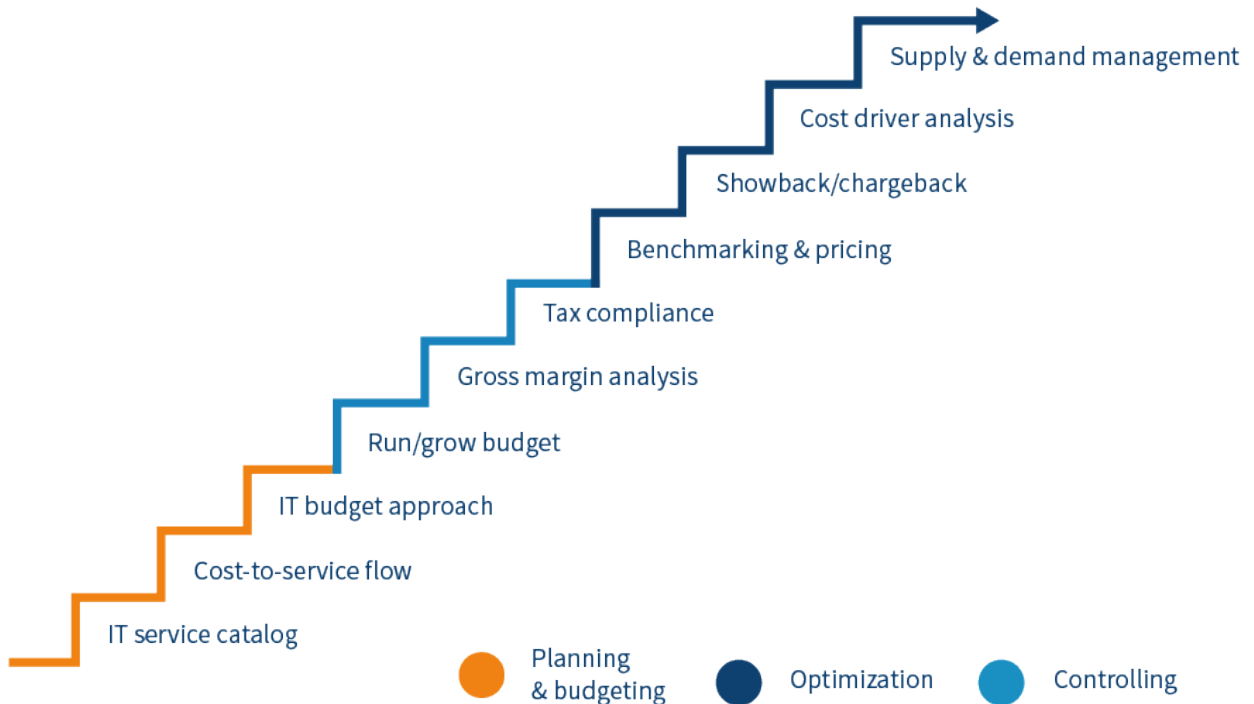


Figure 1: The ten steps to successful IT cost management

10 Steps to Successful IT Cost Management

Step 1: Creating a Comprehensive IT Service Catalog

An ideal onset to jumpstart efficient IT cost control is **creating an IT service catalog**. This catalog should aim at precisely describing what particular IT services entail. This gives you a precise overview of what your IT services do, what they cost, and how you can use them. Thereby, **IT service costs are directly linked to IT service performance and value**.

The ideal outcome of a comprehensive IT service catalog is twofold: (1) all services that the IT service provider offers are clearly and comprehensively defined, thereby generating standards as to which services are available and what they are comprised of. (2) Consumers gain an understanding of the costs and values of the IT services they deploy.

Finally, an IT service catalog bridges the gap between the different departments of an enterprise. Technologies used, services provided, and values generated can be discussed by the IT and finance departments, as well as by management, in a comprehensible and meaningful way. This creates the basis for company-wide, transparent communication of IT issues. In turn, this transparency will allow for more flexibility in the optimization of IT service management processes.

Step 2: Effectively Monitoring IT Costs

A fundamental tool in tracking IT costs is **value chain control**. The value chain is a concept that aims to track the flow of IT costs from the smallest units—i.e. things like personnel or material costs all the way to finished business units. Keeping track of these costs seems like an insurmountable challenge, especially in larger companies where the interconnection between resources and services is proving to be increasingly complex. However, there are ways to gain comprehensive access to these figures (e.g. with the help of the service catalog, benchmarks/standard metrics, use of ITFM tools or in-house solutions) ultimately leading to a **cost-to-service flow** that visualizes the fluctuation of IT costs in detail.

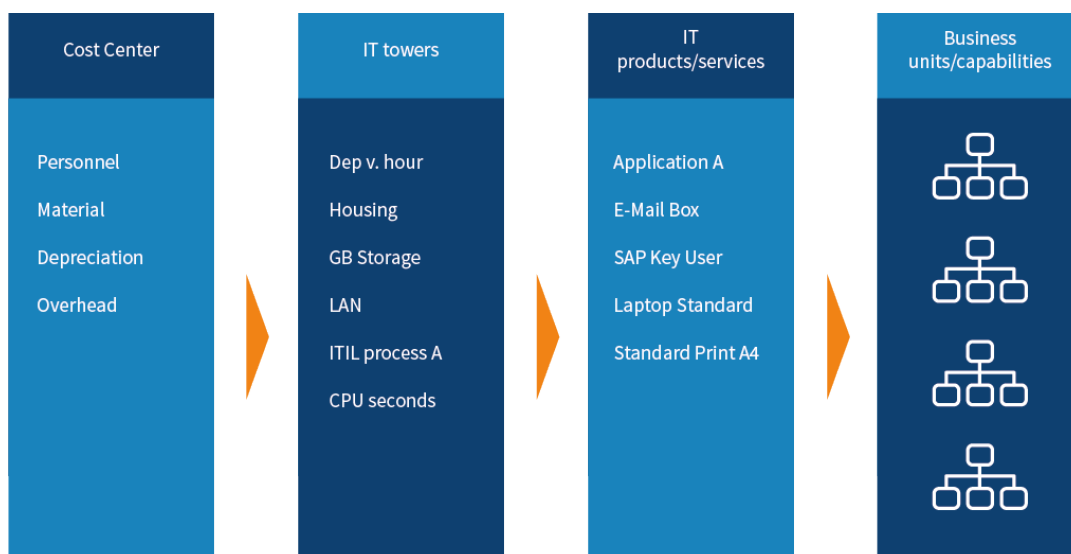


Figure 2: The cost-to-service flow

Once the cost-to-service flow is available to suppliers and consumers, all stakeholders have a complete and transparent overview of where costs stem from and where budgets are allocated. This can be achieved via **bottom-up and/or top-down processes** depending on requirements. A bottom-up process is used to track an individual cost unit as it moves through the value chain to see in which business units it is used. In the latter process, completed business units are analyzed to determine which upstream products and basic cost units were used in their production.

Mastering the value chain allows for more efficient IT cost control as well as more flexibility and adjustability in IT budgeting, which in turn will lead to reduced IT costs and targeted, sustainable budget allocation.

Step 3: Assessing IT Budget Management

IT cost control and proper IT budgeting are two inseparable issues. Knowledge of cost allocation is an important factor in making informed decisions and adjustments regarding IT budgeting. However, even with perfect transparency of IT costs (as enabled by the IT service catalog and the cost-to-service flow), there are still different approaches to allocating the IT budget. In the following, we will briefly discuss the three main approaches:

1. In a **centralized approach**, a budget is set beforehand and distributed to the overhead and different projects in a top-down process. While this approach allows for a simple, streamlined budget allocation, potentially promising grow projects may be overlooked.
2. In a **decentralized approach**, the process is virtually reversed: the overhead is calculated in detail before budgeting. Furthermore, IT service providers pitch their projects which are then approved or declined on a case-by-case basis until the budget is used up. The downside of this is that budget demands might exceed available resources.
3. The **iterative approach** tries to combine both methods. Set budgets, overhead, and prospective projects are put together to make a detailed assessment of what the most viable course of action would be. While this seems to be the most lucrative approach, it also requires the most resources when it comes to planning and sourcing.

None of these approaches are necessarily superior. Instead, it depends on the resources available as well as the enterprise's structural organization to decide what works best. The more independent individual departments operate, the more relevant approaches 2 and 3 become. Once more, the importance of transparency must be emphasized. The more comprehensive the overview of IT costs, the easier it is to make smart and flexible budgeting decisions and the more effectively your company can generate value through IT.

Step 4: Managing the IT Budget for Running and Growing the Business

Apart from choosing a general approach to IT budgeting, it is essential to consider how the IT budget is allocated to operating costs and projects on a percentage basis. While there are different valid categorizations for these costs (e.g. Run/Grow/Transform or Run/Change), in this white paper we will limit ourselves to Run and Grow categories for simplicity.

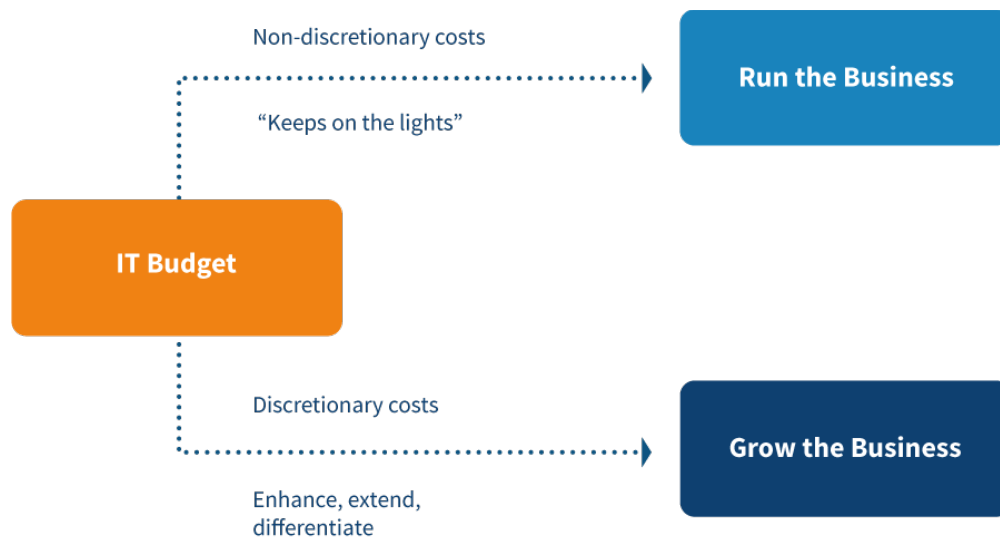


Figure 3: Run vs. Grow costs

Before allocating the budget, the most important aspect of this process is to **define the categories of Run vs. Grow costs** as clearly and unambiguously as possible in order to properly control them. Run costs usually refer to the overhead, i.e. costs for all services and products needed to keep the business “running-as-usual”. Grow projects, on the other hand, relate to any services and products aiming at changing, transforming, and/or expanding business practices. These designations might sound simple on paper, but depending on the business, there is wiggle-room for assigning specific costs to the Run or Grow category. However, while there are benchmarks and standard definitions available, it is not necessary to adhere to those as long as there is consistency in assigning costs to these categories.

Once definitions are clear and costs and projects have been assigned to categories, the IT budget needs to be allocated or—more specifically—decisions need to be made on how to split the budget. A budget split of 70 % Run/30 % Grow is considered to be an average across enterprises, but **there is no one-size-fits-all approach** to these allocations. While benchmarks might be helpful, in individual cases, these decisions depend on many factors: available resources, quality and potential of Grow projects, company goals, and the willingness to take or avoid risks.

Step 5: Keeping a Positive Gross Margin

It is not enough to keep mere control over IT costs and IT budgeting. In the end, the goal of cost control is to **secure profit** with made investments, i.e. make sure that allocation decisions are economic and sustainable. If you’ve followed the steps above so far, you already have complete transparency regarding which products and services are offered, where IT costs stem from and where budgets are allocated. This transparency furthermore allows assessments relating to the gross margin. This makes it easy to analyze where and how much of the budget is being consumed and where costs are creating profits or losses. If there is a positive gross margin, adjustments can be made to optimize the underlying controlling efforts even more. Contrarily, if the gross margin is negative, it is possible to access causes and take corrective action, e.g. re-negotiation of contracts or adjustments to the overhead. Essential in these efforts is frequent and **thorough analysis of costs, budgets, and profits**, e.g. by comparing planned to actual costs as well as (at least) quarterly evaluation of key figures.

Step 6: Staying Tax Compliant

One additional important factor in comprehensive IT cost controlling is tax compliance. The more the enterprise of a company operates internationally, the more relevant it is to **stay on top of varying international tax regulations**. IT products and services that are marketed and deployed across nation borders are all subject to country-specific tax laws and need to be managed appropriately.

To achieve flawless tax compliance, it is necessary to **provide proper transfer pricing documentation** that is dependent on three premises:

1. Transparent analysis and calculation of IT services based on the aforementioned value chain
2. Assessment of services deployed and consumed as well as related accounting processes
3. Access to and management of service contracts between service provider and consumer as a legal basis for IT service delivery

Due to the transparency enabled by following the above steps, it is possible to fulfill these premises and guarantee flawless transfer pricing documentation. This gives you more certainty in complying with international tax laws, as well as saved time and costs thanks to the automation of the underlying processes.

Step 7: Benchmarking and IT Service Pricing

Closely related to considerations of gross margins (see Step 5) is the question of how to price IT services, i.e. how to **stay competitive while avoiding losses**. The first step in this effort should be the **acquisition of benchmark data**. There are several ways to research benchmarks on standard IT service pricing. Furthermore, there are ITFM tools that allow for the automatic collection of benchmark data from various interconnected databases. Access to benchmark data provides a solid foundation for further IT cost allocation and pricing decisions.

Next, a unit cost calculation is necessary to concisely and effectively define what individual IT services (and by extensions their pre-products and basic resources) cost. Fortunately, this is already ensured by access to the cost-to-service flow (see Step 2). Then it is a simple matter of comparing internal unit cost calculations with acquired benchmarks and competitors' prices to subsequently make decisions regarding your own pricing. This is, for example, especially useful when deciding on whether to use cloud services or in-house IT solutions.

By comparing the available data, it becomes easy to design pricing policies in an economical and sustainable way, so you can ensure the competitiveness of your enterprise without putting your profits at risk.

Step 8: Identifying Cost Drivers

Another aspect of IT cost control that is streamlined by assessing the cost-to-service flow is the identification and management of main IT cost drivers. When there is a **properly modelled value chain** it becomes evident which IT services—or more precisely which pre-products and cost centers tied to these services—create the biggest costs and why. This **factual cost driver analysis** allows for concise adjustments to expenditures and helps avoid common misconceptions on cost drivers (e.g. the significance of infrastructure on the generation of IT costs). Consequently, strategies can be devised to cut IT costs effectively and to handle expensive resources carefully.

Step 9: Showback/Chargeback of IT Costs to Consumers

IT cost controlling via the value chain allows for efficient **usage-based accounting and invoicing** of IT services and products. If IT costs are transparently visualized, these costs can easily be assigned to the actual consumers of IT services. This extends the level of transparency to the billing process, which in turn creates opportunities to analyze the value of IT to the enterprise more accurately.

When managers know which IT services and products are used where, and consumers are aware of their own consumption, targeted and efficient adjustments can be made. In this context, there are two ways to communicate IT consumption: (1) via **showback**, i.e. displaying generated costs as well as their origin or (2) via **chargeback**, i.e. billing costs directly to the respective consumers and subcontractors.

Step 10: Managing Supply and Demand

The processes described in Step 9 further extend transparency regarding IT cost control. In addition, the assessment and discussion of the value of IT services is facilitated and ideally enabled at all organizational levels. Consequently, IT costs can not only be identified and allocated to their consumers, but can also be compared with each other in relation to different departments, companies and functions.

This holistic assessment provides a larger, more detailed picture of IT service consumption allowing **conclusions about supply and demand** regarding IT services in various business areas. For example, if it turns out that one department generates the bulk of IT costs compared to other departments, this is a suitable basis for discussing whether supply and demand are used effectively in the implementation of IT services. Ideally, such considerations lead to **more comprehensive value analysis and optimization of the use of IT services**. In the end, this minimizes discrepancies between supply and demand, i.e. enabling demand satisfaction while avoiding overproduction.

Conclusion

By following the above steps, you can implement a secure, transparent and sustainable system for IT cost control. This system stands on three pillars that enable promising developments in IT service management:

1. Proper **planning and budgeting** through the creation of a comprehensive **IT service catalog** as well as **control over the value chain**. These tools provide transparency to all stakeholders and make costs, services and values visible at all organizational levels.
2. Simplified **controlling** through the systematized allocation of the IT budget, consistent analysis of IT cost-related metrics, and maintenance of proper transfer pricing documentation.
3. **Process optimization** based on the two previous points. Transparent access to the value chain and simplified controlling allow for clearer communication and increased efficiency when it comes to benchmarking, pricing, and supply/demand management.

The methods and suggestions presented here will ultimately help you elevate your company's IT to new levels of efficiency and maturity. Budgets can be used optimally, IT costs can be cut, and overall productivity significantly boosted. Of course, ignoring this advice will not necessarily lead to business failure. However, it is advisable to keep track of the ever-changing conditions of the current market landscape so that nothing stands in the way of your overall business performance and growth.

All of the steps above can be facilitated by using specialized ITFM tools and software. Serviceware Financial, the ITFM software suite created by Serviceware, enables simple and automated implementation of the processes discussed in this white paper.

About Serviceware

Serviceware is a leading provider of software solutions for the digitalisation and automation of service processes ([Enterprise Service Management](#)) with which companies can increase their service quality and manage their service costs efficiently.

The Serviceware Platform includes the software solutions [Serviceware Processes](#), [Serviceware Financial](#), [Serviceware Resources](#), [Serviceware Knowledge](#) and [Serviceware Performance](#). All solutions can be used in an integrated manner, but also independently from one another.

Serviceware partners with customers from [strategic consulting through the definition of the service strategy](#) to the implementation of the Enterprise Service Platform. Further components of the portfolio are safe and reliable infrastructure solutions as well as Managed Services.

Serviceware has more than 1,700 customers worldwide from various business sectors, including seventeen DAX companies and five of the seven largest German companies. The headquarters of Serviceware are in Idstein, Germany. Serviceware employs more than 500 employees at fourteen international sites.

For more information visit www.serviceware-se.com.

About Serviceware Financial

Serviceware Financial is an ITFM software solution suite that enables the automation of the entire financial management process for a shared IT service center. This includes analyzing service costs and demand for immediate cost reductions and performance measurement, scenario-based service planning and budgeting for better allocation decisions, and charging and invoicing to provide 100% transparency for customers about the service consumption for better visibility and accountability. Serviceware Financial helps you save IT costs immediately, ensures that your IT service meets business requirements and allows you to prove the value of your IT organization.

If you want to learn more about Serviceware Financial and how it can help you perfect your IT cost control, feel free to contact Serviceware. Our service employees will gladly give you a rundown of the software's features and capabilities. Visit [our product page](#) to get in touch with us and we will provide all the info you need.

Contact

Serviceware SE

Serviceware-Kreisel 1
65510 Idstein
Germany
Phone: +49 6434 9450 0

Serviceware SE UK Limited

Building B, Watchmoor Park, Riverside Way
Camberley, Surrey GU15 3YL
England, United Kingdom
Phone: + 44 1276 402 345

E-Mail: contact@serviceware-se.com

Web: www.serviceware-se.com

Copyright © Serviceware SE. All rights reserved.