NPI Real experts.
Real data.
Real savings.

Is Technology Business Management a Harbinger for the Future of IT Sourcing?

Enterprises are spending more and more on IT, and that trend is not going to change. The bigger this spend becomes, the more questions the CIO gets from the CEO and CFO. That's leading to (long overdue) advancements in IT financial management methods and tools – which is positive news for organizations that seek IT sourcing excellence.

Despite the monumental business advancements driven by enterprise IT in every industry, IT in many organizations is still viewed as a cost-driver rather than a value-creator. Among a set of progressive IT leaders, there's an emerging movement to change the conversation with the CEO and CFO – to drive IT decision-making and business alignment by talking about IT *in their language.*

One practical issue is that the granularity and transparency inherent in managing other cost categories (human capital or real estate, for example) is difficult to achieve in IT. Traditional metrics like ROI, fixed versus variable cost ratios, and budget forecasting are harder to discern given the expanse, complexity and shared nature of the IT estate. As a result, CIOs have found it challenging to precisely quantify and communicate the value of IT spend to the CEO and CFO in a way that facilitates assessment and decision-making (particularly for infrastructure). These stakeholders may recognize the importance of IT to the organization, but when it comes to allocating more funds, discontinuing a service or empowering IT to have an equal voice at the executive table, the business case is not always easy to understand.

In addition to that practical challenge, the unstoppable migration of enterprise IT to the cloud is re-defining the role of the CIO into a broker of third-party IT services. Best practices for selecting and managing a multi-vendor virtual enterprise IT estate are evolving in real time. This is driving the need for increased sophistication in IT financial management and vendor management.

The pressure to grow and innovate is enterprise-wide, and IT is the heartbeat of many of these initiatives. Information technology spending, the number of moving parts it contains, business demand and mission-criticality will unquestionably continue to increase. Many businesses are responding with rigor by implementing IT-specific management approaches and best practices that minimize IT costs, optimize value and empower strategic decision-making alignment.

One example is IT Asset Management (ITAM), which combines financial, contractual and inventory best practices to manage the lifecycle of IT assets. Another, more narrowly focused example is Financial Management for IT Services (ITFM). A derivative of the ITIL process framework, ITFM aims to optimize the cost and quality of IT services to promote accurate and cost-effective stewardship of IT assets and resources. Software Asset Management (SAM) best practices – also referenced in the ITIL framework – have been adopted by many businesses as a way to optimize the full software lifecycle from purchase and deployment to utilization and disposal.

ITAM, ITFM and SAM have been around for a while, but these disciplines are now gaining momentum and traction as IT spending grows.

There are differences, overlap and interconnectivity between these IT management approaches. However, they all represent the evolution towards an approach that is more centralized, formalized and precise – one that fosters agility and cost control, and is more aligned with the way other areas of the business are managed.

Technology Business Management (TBM) –
A Progressive Approach to IT and Business Alignment

On one forefront of the evolution of IT management is Technology Business Management (TBM). According to the TBM Council, it "provides a practical, applied discipline for maximizing the value of the IT investment portfolio by enabling technology leaders and their business partners to collaborate on business aligned decisions. Relying on transparency, TBM defines a foundation for managing supply and demand by enabling financial and performance trade-offs needed to optimize run-the-business spending and improve change-the-business investments."

Founded in 2008, the TBM Council addresses the chasm between IT and executive leadership. Where other IT management approaches focused on managing and measuring IT against IT-specific metrics, the TBM Council has acknowledged the need for IT to be managed in closer alignment with the business. As such, they have created a framework of best practices and benchmarks that provides a shared decision-making model for technology and business leaders. With more than 1,100 IT leaders on the council (including CIOs, CFOs and COOs), and hundreds of world-class companies adopting its framework, TBM has quickly emerged as one of the most progressive and comprehensive approaches to IT management.

TBM provides value in the following ways:

- **Transparency.** How much does it cost to provide a specific IT capability to a user or department? How is IT actually consumed within the business? TBM challenges businesses to provide greater transparency into IT costs and utilization – which in turn creates more informed business and IT decisions.

- **Drives greater value for every dollar spent on IT.** The TBM framework incorporates multiple metrics for IT cost/value optimization including return on IT assets (ROITA), unit cost versus benchmarks, TCO by business application and more.

- **Improves the precision of cost allocation.** Equipped with greater transparency into IT consumption and spending patterns, TBM enables IT leaders to allocate IT costs more accurately.

- **Changes the conversation between IT and finance.** Using the TBM framework, IT leaders are able to break down the traditional language barrier that exists between themselves and their C-level peers. By providing sound, meaningful analysis of IT performance and costs as it relates to specific business initiatives, TBM enables IT leaders to participate in conversations that shape revenue and competitive strategy.

- **Moves costs from run-the-business to grow-the-business.** IT cost benchmarking, IT consumption analysis, and fixed cost vs. variable cost ratio optimization are just three TBM-related practices that can lead to cost optimization. These activities, among others, work to emancipate budget dollars that can be repurposed for innovation projects that will grow the business.

One way to think of the financial management element of TBM is "activity-based costing for IT." It puts every IT investment into a business-need context, which drives a different, more enlightened dialogue. "Wow, that's what it really costs to deliver this service? Do we really want to spend this much for that? Should we find another way?"

This helps non-IT executives understand where IT investments are going and participate in determining whether to increase or decrease specific investments.

It also clearly reveals redundancies and resources with low utilization.

Finally, it provides a basis for scenario modeling so companies can readily quantify financial impact of various alternatives before making final decisions.

At NPI, we're excited about the TBM movement – not only because our IT spend management services dovetail perfectly with its objectives, but also because it supports the evolution of clear best practices for IT financial management that will ultimately make IT sourcing a faster and easier process.

TBM Intersects with IT Sourcing Excellence

The TBM framework extends well into the IT sourcing domain, and stands to transform the way this function is viewed by the business. Like IT itself, IT sourcing has outgrown its departmental and functional boundaries. It has evolved from a tactical set of activities into a critical lever in strategic business management. The way in which technology products and services are procured, and the way in which those costs are managed over the lifetime of the IT investment, has a direct bearing on business performance.

TBM and strong IT sourcing share the same cornerstone – cost transparency. To effectively manage IT and align its operations, cost and strategy with the business, IT leaders must have greater visibility into IT spend. Who is using what IT resources today? What resources will be required tomorrow? How much do those resources cost? Are those costs in line with fair market value? In what areas are IT resources overburdened and/or underutilized? Are there redundancies? How do current product use rights and SLAs impact IT costs and performance?

These questions (and others) factor into optimizing the value of every dollar spent on IT. Yet, NPI has observed that most IT sourcing organizations lack critical vendor-specific benchmark data and licensing expertise. This knowledge is crucial to optimizing licensing and securing best-in-class pricing business terms that will support current and future requirements. Without this information, and the cost and consumption transparency it provides, companies cannot effectively deploy TBM. This further validates the important role that IT sourcing plays in the TBM framework.

Companies that use the TBM framework, or those that are simply exploring ways to better align IT and business strategy, are advised to build a strong foundation for IT cost transparency. This means having access to IT benchmarking expertise, fair market value pricing intelligence across a broad set of vendors, and an understanding of the myriad licensing/subscription programs they offer (and the associated contractual terms).

The value this information delivers spreads far and wide across the business ecosystem. It minimizes IT overspending, and allows enterprises to make their technology budget go further. In some cases, it gets rid of redundancies and underutilization of IT resources (for example, eliminating excess server capacity or right-sizing software assurance). Less IT cost waste means more funding for innovation, and smarter deployment of capital. It also helps mitigate the risks associated with vendor audits.

The enterprise IT climate outside of the four walls of the business has become increasingly challenging for sourcing professionals to navigate. The consumerization of IT – fueled by mobility and cloud computing – is fundamentally changing the way vendors do business. There are new offerings, licensing and subscription programs every day. The confusion quotient for product use rights and SLAs is growing for some vendors (for example, Microsoft), as others turn to overly standardized, inflexible contract terms.

Meanwhile, many vendors – especially enterprise software – are using audits (either official or under the guise of software asset management engagements) as a tactic to increase revenues and shorten the customer's upgrade path. They're also benefitting from rampant shadow IT spending that erodes enterprise leverage at the negotiation table.

NPI helps neutralize these threats. We provide vendor-specific price benchmark and license optimization services that help clients cut IT purchase costs and improve business terms.

In most cases, the insight required to deliver these benefits can't be found internally. For example, the typical enterprise renews its Microsoft EA every three years and therefore can't keep a Microsoft licensing expert on staff for that event. The depth of knowledge and narrowness of focus is outside the scope of conventional IT sourcing expertise. Much in the way CFOs rely on outside legal and tax accounting counsel to navigate events that require particular pockets of expertise, CIOs and IT sourcing leaders today require similar counsel to navigate the intricacies of specific IT purchases.

IT leaders that are eager to shed the cost-driver image must, ironically, start in the very pigeonhole they seek to avoid. By bringing transparency to IT costs, they can more precisely translate those costs into value and influence business strategy.

> TBM makes it much easier for the CIO, CEO and CFO to see what each IT dollar actually pays for, and decide whether those investments make sense from a business perspective. It's a business conversation, not a technology conversation.