Proactive Insights and Analytics for TCO: Tools and Data Sources to Help Calculate TCO

Your Guides: Doug Greer and Ben Barrow

Introductions

- Take 5 Minutes
- Turn to a Person Near You
- Introduce Yourself
- Business Cards

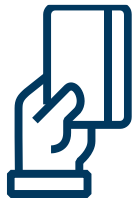
Agenda

- Introduction
- Outcomes
- Approaches
- Frameworks
- Tools
- Best Practices

What are the drivers of a TCO or Cost Transparency Initiative?

Is This Your Organization?

The State of Technology Investment



Understanding Cost

77% of CIOs have trouble articulating true app costs

Rationalize Portfolio

Difficult to know which apps to keep vs. divest

Cloud/SaaS Transition

41% of organizations lack cloud strategy alignment between business & IT

Invest for Growth

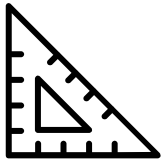
62% of organizations want to self-fund digital transformation

Accurate Analysis

45% of organizations have no formal way of measuring IT value

Fair Allocations

38% of IT spend will be managed, defined and controlled outside of IT



Measuring Value

7% organizations are successful demonstrating the business value of IT

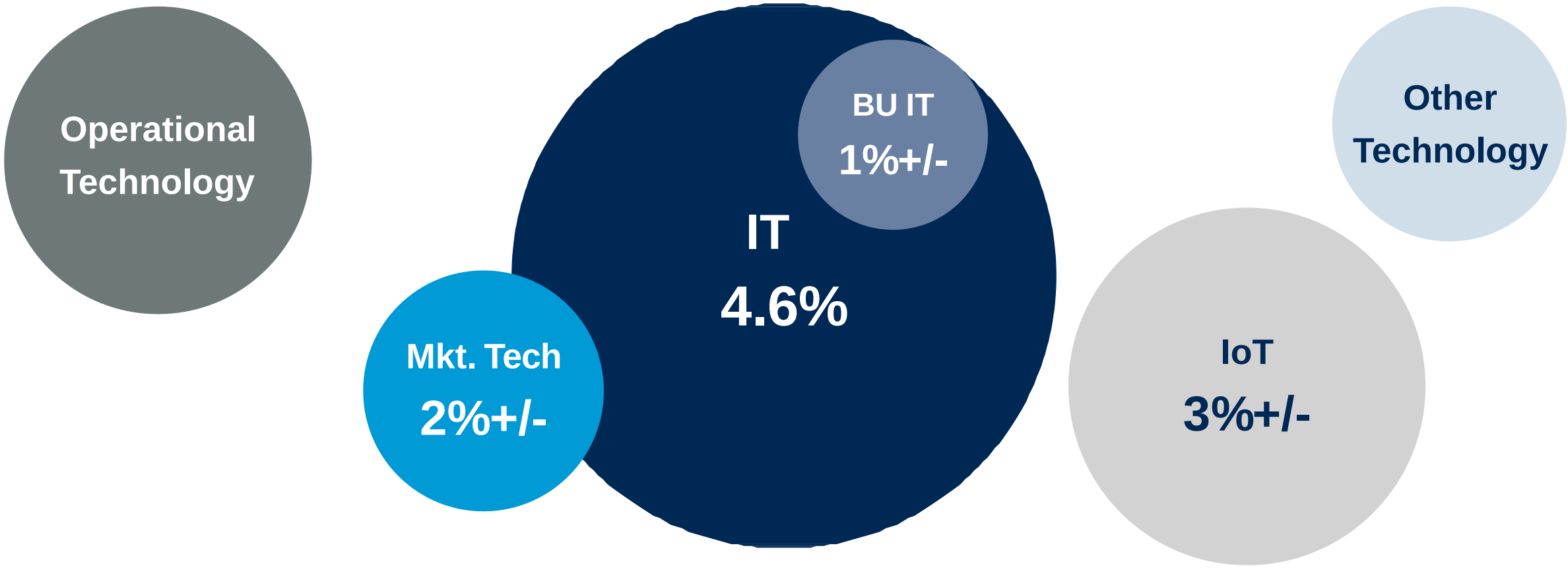
Recovering Costs

30% of chargeback related questions are to help the business understand the value IT

Technology Investment Challenges

Challenge	Solution
Connecting full application cost to business value	Exposing true total cost of ownership of applications and services
Sub-optimized infrastructure and applications resources	Gaining discrete visibility into opportunities to optimize
Responsible transition to cloud-based and SaaS applications	Maximizing SaaS application investments
Prioritizing investment for growth vs. maintaining the status quo	Using the business context as a core input to the application strategy

IT Spending Is a Subset of Technology Spending



Source: 2016 Gartner IT Spending and Staffing Survey and 2015 Gartner CMO Spend Survey (% of Enterprise Operating Expense)

Legacy Modernization

3X

Through 2020, every $1 invested in digital business innovation will require enterprises to spend at least three times that to continuously modernize the legacy application portfolio.

Cloud Migration

70%

of IT leaders cited cloud migration as a top priority over the next 5-8 years

Application Rationalization

35-45%

of IT spend in on application development and support

Mergers & Acquisitions

25%

of typical M&A-related integration efforts are coming from IT

Cost Optimization

29%

of CIOs say their budgets are less than 2018

What are Expected Benefits of TCO Initiatives?

Calculating TCO will allow you to:

Transparency

Offer complete transparency of IT operations

Explain

Explain, quantify, and predict IT costs

Compare

Compare and defend the cost of internal IT Services to third party providers in the open market

Accountability

Drive accountability of investment decisions by having the ability to continuously monitor the impact of business decisions on IT spend.

Assets

Leverage IT assets as efficiently as possible

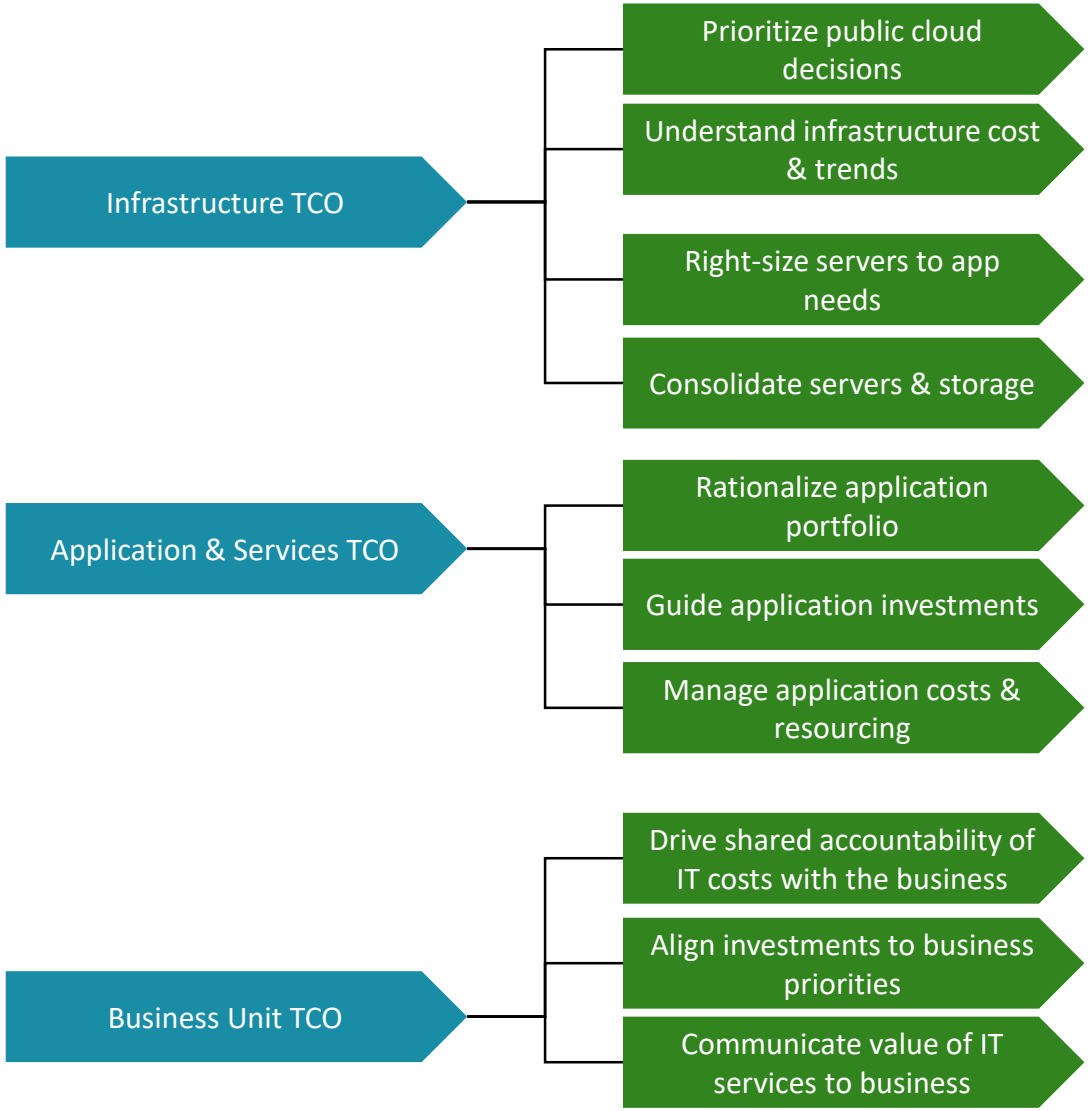
Evaluate

Evaluate the business value derived from applications/services to the costs incurred to deliver them.

Change

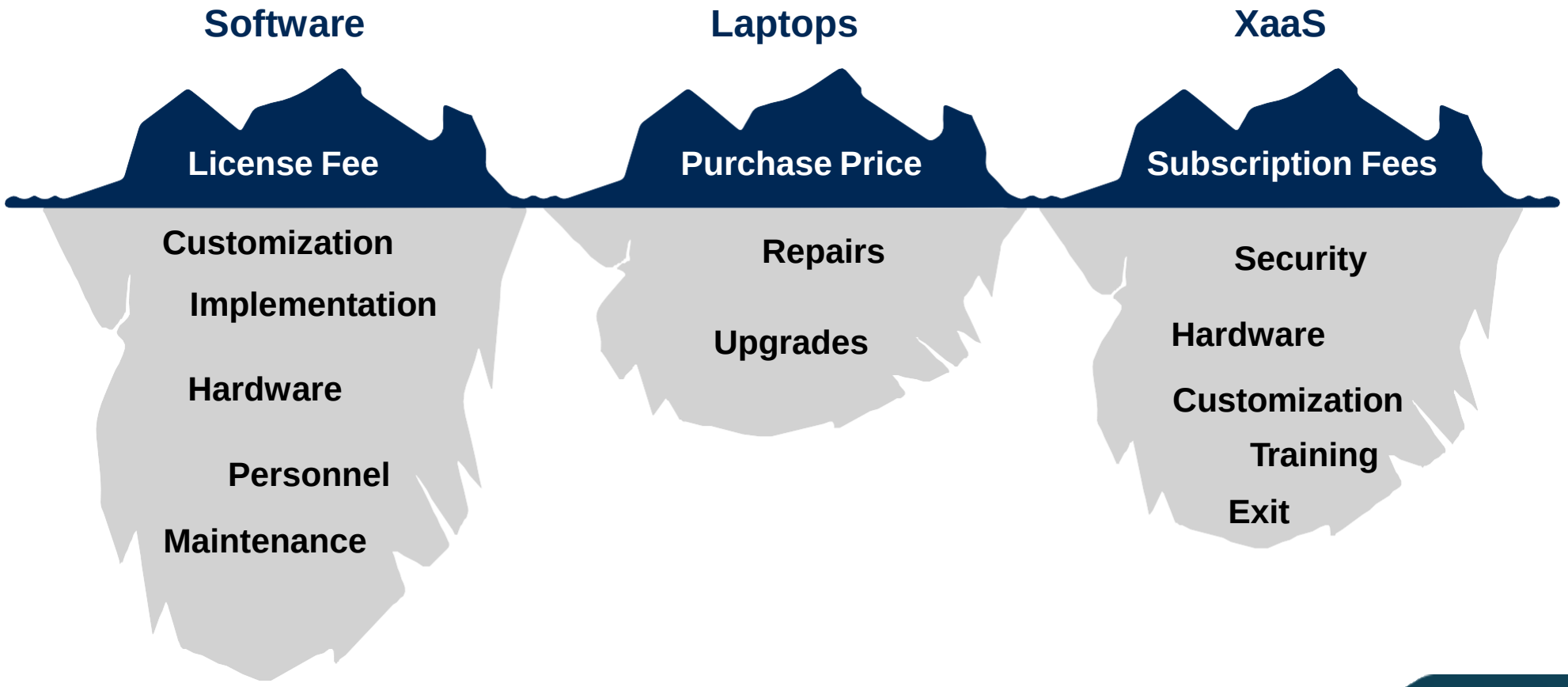
Change the way business units consume IT resources, drive down IT unit costs, and focus on IT spending that delivers real business value.

TCO Can Have Many Meanings



TCO Calculation

Calculating TCO involves digging deep to uncover all costs, both direct and indirect.



Cost Allocation Methods

- Many costs that go into TCO are indirect, making it difficult to tie to a single application, service, or capability
- To handle these costs, develop allocation methods – intelligent ways of assigning out shared costs
- Similar to activity based costing used for manufacturing, we define activities that drive IT spending, and use these as a basis for assigning costs

Assumption Based

e.g. IT shared service costs allocated to applications based on “thumb in the wind” percentages

Attribute Based

e.g. application costs allocated across business units based on the number of assigned login accounts per business unit

Consumption Based

e.g. support costs allocated to applications based on the number of support tickets per application

Allocation Examples

Type	Allocation
Assumption-Based	Labor costs allocated using a 25% / 75% spread across Wintel and Unix Compute
Assumption-Based	Data Center costs estimated with a “rate card” value (e.g. $50/kW-Mo)
Assumption-Based	Application support labor costs allocated to applications based on “peanut butter spread”
Assumption-Based	Business Application costs allocated across LOBs based on % revenue
Attribute-Based	Data Center cost allocations weighted by # of CPUs or kWhr power rating
Attribute-Based	Desktop cost allocations weighted by desktop make/model
Attribute-Based	Application support labor cost allocations weighted by size or complexity of an application
Attribute-Based	Business Application cost allocations weighted across LOBs based on # of assigned login accounts
Consumption-Based	Data Center costs allocated based on measured power consumed during month
Consumption-Based	Server costs allocated to applications based on total compute hours per month
Consumption-Based	Application support labor costs allocated to applications based on support tickets
Consumption-Based	Business Application cost allocated across LOBs based on # of business

What Data do you Need?

System	Data Needed	What It's Needed For
General Ledger	Chart of accounts and actual costs	Most reporting and metrics
Fixed Assets	Usually a sub-ledger to the general ledger, provides a list of assets and their depreciation schedules	Reporting and metrics that involve IT assets, such as hardware and software
HR Data	IT employees listed by role plus cost centers and unique identifiers	Reporting and metrics that involve personnel costs, such as admins, development, and maintenance
Projects	List of projects by name and codes along with spending and headcount	Reporting and metrics on project delivery such as planned vs. actual
IT Assets	Lists of hardware and software assets as tracked by IT for delivering services and projects	Calculating accurate TCO of applications and granular decision-making regarding asset utilization and efficiency
Cloud	Billing data from IaaS, PaaS, SaaS vendors	Calculating more accurate TCO of applications and reporting cloud costs back to consumers (e.g. application owners and business partners)
Services	Service catalog or list of services and their definitions	Costing of services and reporting of service consumption and costs to service owners and their business partners
Application & Service Mapping	List of applications and or services and, if available, mappings to the infrastructure	More accurate and complete costing of services, including support resources and costs used for each one
Service Desk	Incidents and requests by user, priority, and impact along with support time by asset or service	More accurate and complete costing of assets and services, including support resources and costs used for each one
Monitoring	Storage consumption (allocated, used) by application, server utilization metrics, and data center utilization (racks, power)	More accurate and complete costing of assets and services, including shared resources, such as virtual servers and storage area networks
Vendor	Vendor lists along with selected billing data for major vendors and cloud providers	Transparency of vendor spending and a more accurate allocation of vendors to assets and services

TCO Should be Part of Cost Optimization

Best practices include:

- Make it an **on-going** discipline
- Having an **owner** for cost optimization
- Having high-level **sponsorship**
- Tackle cost optimization from a **cross-functional** perspective

Frameworks

Let Rego be your guide.

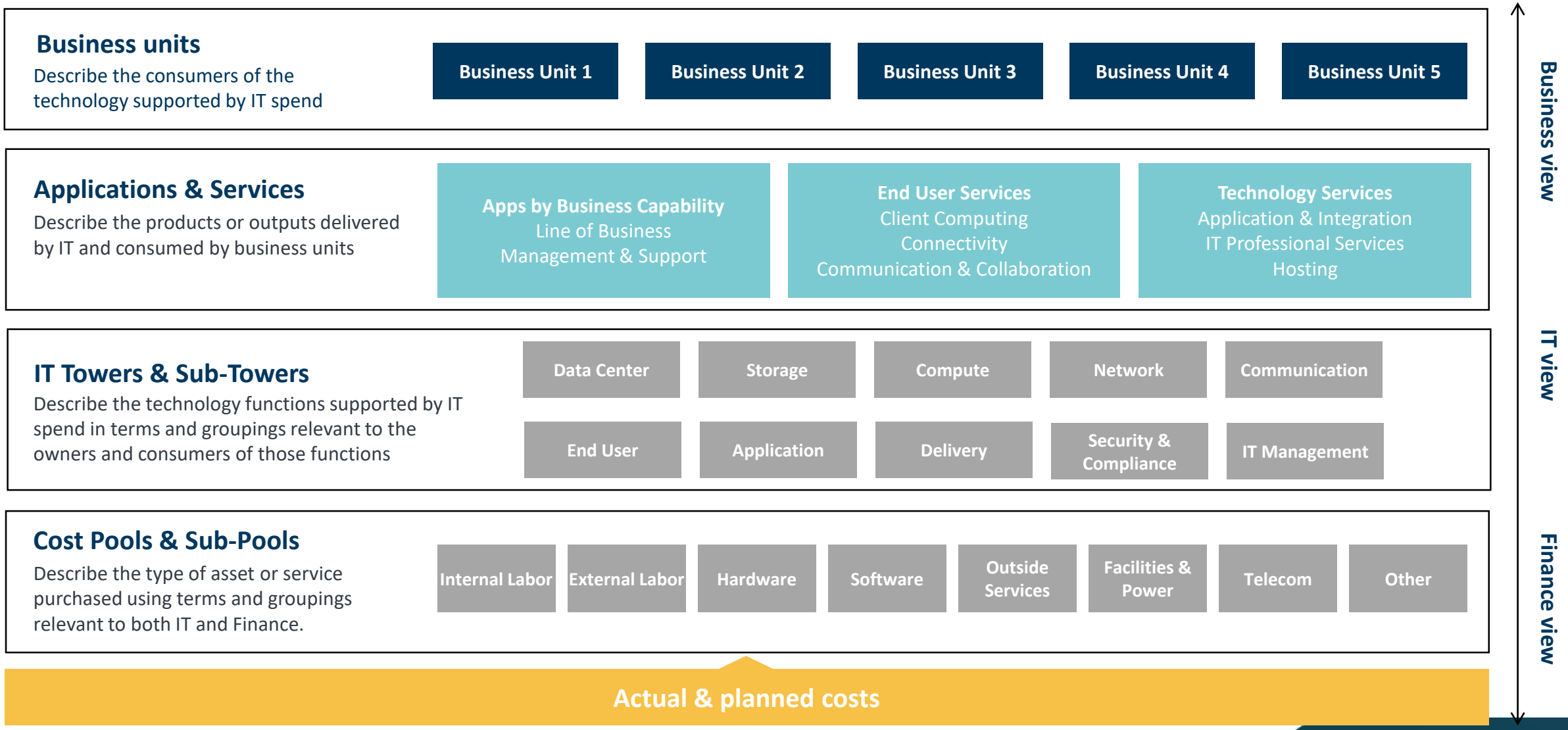
Technology Business Management (TBM)

- TBM defines a **business model and decision-making framework** which enables IT to run as a business.
- TBM provides IT organizations with the solutions—strategies, methodologies, and tools—to **manage the cost, quality, and value of their IT services.**
- TBM was instituted by CIOs, CTOs, CFOs, and other technology leaders. **Founded on transparency of costs, consumption, and performance**, TBM gives technology leaders and their business partners the **facts they need to collaborate on business-aligned decisions.**

TBM Benefits

- **Optimize:** Continuously **improve the unit cost of technologies** and services while keeping cost and quality in proper balance
- **Rationalize:** Better **focus of time and resources** on the services, applications, technologies and vendors that drive the most value
- **Innovate:** Mission/business and IT **partnership that ensures maximum value** from technology investments
- **Transform:** **Provide mission/business partners with agility** to "pivot" more quickly to exploit innovation and capitalize on new opportunities

TBM ATUM Model



Gartner: Six Pillars of IT Financial Transparency

Optimizing IT Cost and Value Requires Effective Financial Transparency

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Gartner: IT Cost Optimization Roadmap

Increasing Improvement →

IT Cost Optimization Year 1 — Implement	IT Cost Optimization Year 2 — Institutionalize	IT Cost Optimization Year 3 — Continually Improve
Directional timing may be accelerated/reprioritized based on stakeholders/business needs/activity		
Conduct Baseline Measurements	**Determine Optimization Focus Areas**	**Revisit Optimization Focus Areas**
Identify Cost Optimization Opportunities	**Year 2 Quick Wins**	**Align Processes, Skills, Tools, Metrics**
Establish Cost Optimization Governance	**Levels 3 and 4 Opportunities**	**Year 3 Quick Wins**
Implement Quick Wins (Levels 1 and 2)	**Align Processes, Skills, Tools, Metrics**	**New Levels 3 and 4 Opportunities**

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Tools

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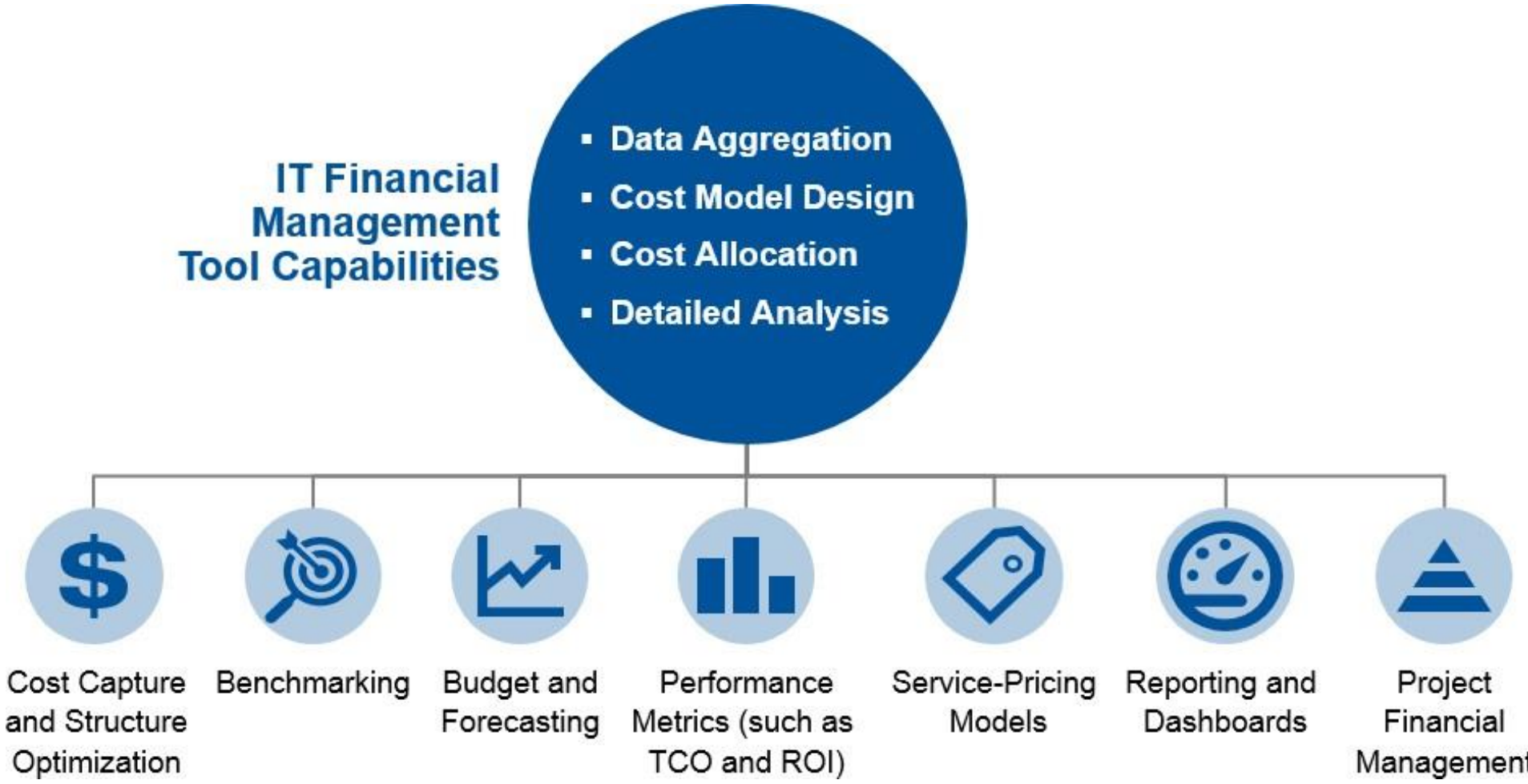
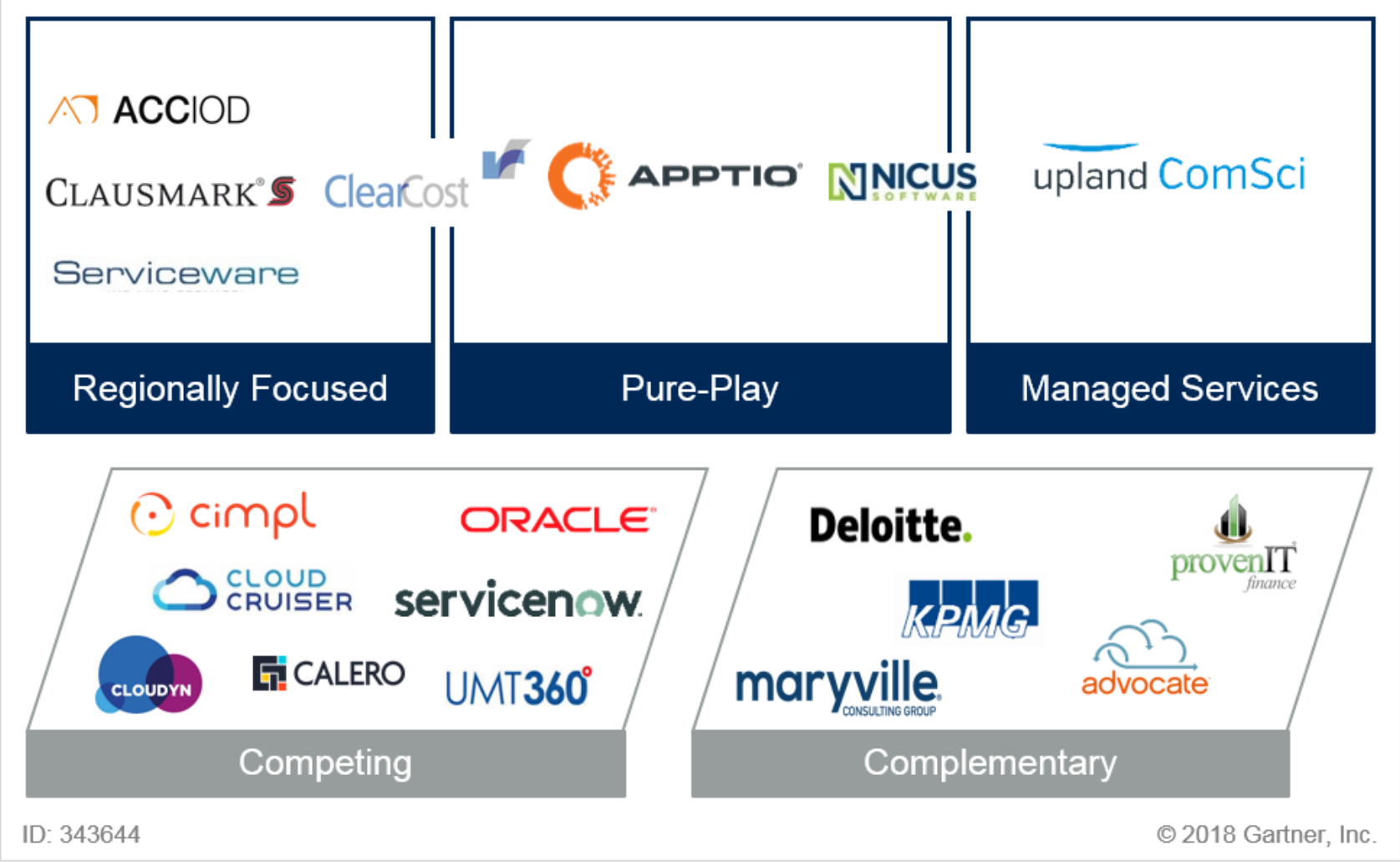
IT Financial Management (ITFM) Tools Landscape

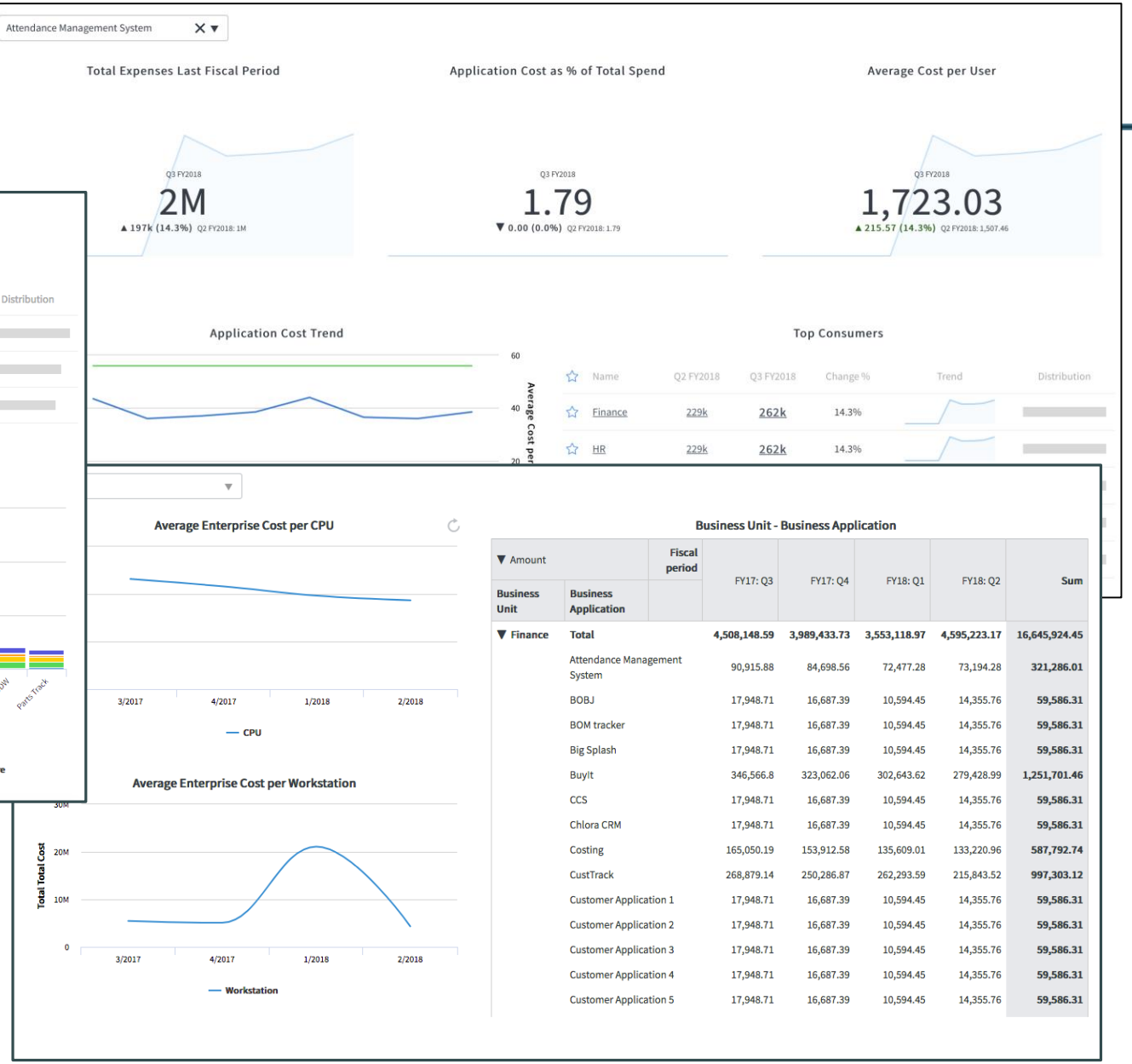


Gartner Research: "Market Guide for IT Financial Management" (G00317762)

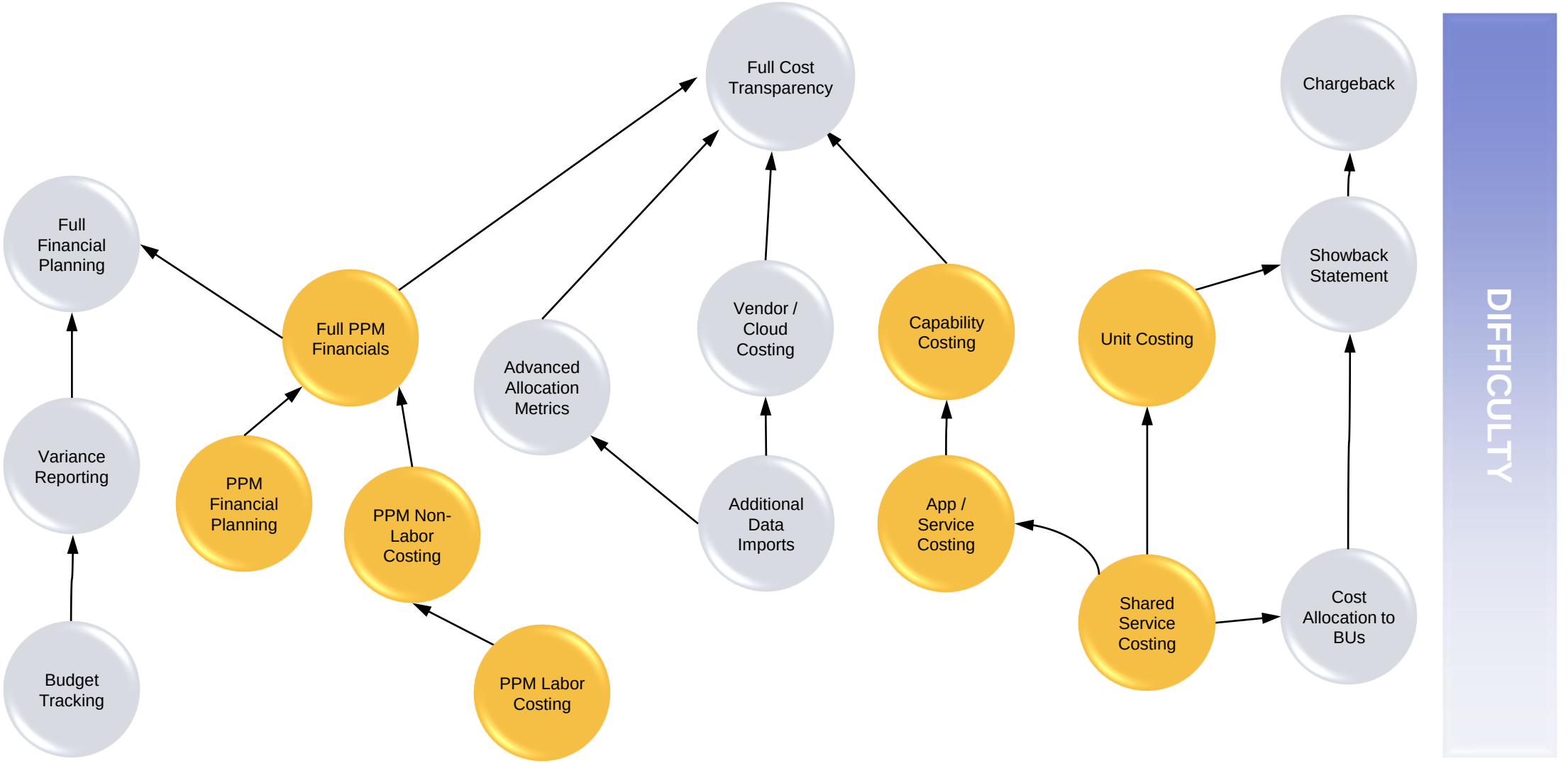
IT Financial Management (ITFM) Tools Landscape




Business.Unit
Total Expenses Last Fiscal Period
Q2 FY2018
73M
▲ 7M (10.3%) Q1 FY2018: 66M
Total Expenses YTD
FY2018
139M
▼ 69M (-33.2%) FY2017: 208M
Top Spenders
Name Q1 FY2018 Q2 FY2018 Change % Trend Distribution
Sales 41M 45M 10.3%
IT 37M 41M 10.3%
Legal 35M 38M 10.3%
Visualization Scorecard Breakdown Business Unit
Total Spend
60M
40M
20M
0
Apr '17 Jul '17 Oct '17 Jan '18 Apr '18
SAP Financials SAP Ariba Inventory Management My Portal BuyIt
DirectShip CustTrack Temp Tracker Invoice Tracker Costing
Finance DDW Parts Track
Visualization Stacked Column Breakdown Business Applications
Business Applications Cost with Drivers
15M
10M
5M
0
Total Amount
SAP Financials SAP Ariba Inventory Management My Portal BuyIt DirectShip CustTrack Temp Tracker Invoice Tracker Costing Finance DDW Parts Track
Facilities Hardware Labor Other Services Software


Attendance Management System
Total Expenses Last Fiscal Period
Q3 FY2018
2M
▲ 197k (14.3%) Q2 FY2018: 1M
Application Cost as % of Total Spend
Q3 FY2018
1.79
▼ 0.00 (0.0%) Q2 FY2018: 1.79
Average Cost per User
Q3 FY2018
1,723.03
▲ 215.57 (14.3%) Q2 FY2018: 1,507.46
Application Cost Trend
60
40
20
Average Cost per
Top Consumers
Name Q2 FY2018 Q3 FY2018 Change % Trend Distribution
Finance 229k 262k 14.3%
HR 229k 262k 14.3%
Average Enterprise Cost per CPU
3/2017 4/2017 1/2018 2/2018
CPU
Average Enterprise Cost per Workstation
30M
20M
10M
0
Total Total Cost
3/2017 4/2017 1/2018 2/2018
Workstation
Business Unit - Business Application
Amount Fiscal period FY17: Q3 FY17: Q4 FY18: Q1 FY18: Q2 Sum
Business Unit Business Application
Finance Total 4,508,148.59 3,989,433.73 3,553,118.97 4,595,223.17 16,645,924.45
Attendance Management System 90,915.88 84,698.56 72,477.28 73,194.28 321,286.01
BOBJ 17,948.71 16,687.39 10,594.45 14,355.76 59,586.31
BOM tracker 17,948.71 16,687.39 10,594.45 14,355.76 59,586.31
Big Splash 17,948.71 16,687.39 10,594.45 14,355.76 59,586.31
BuyIt 346,566.8 323,062.06 302,643.62 279,428.99 1,251,701.46
CCS 17,948.71 16,687.39 10,594.45 14,355.76 59,586.31
Chlora CRM 17,948.71 16,687.39 10,594.45 14,355.76 59,586.31
Costing 165,050.19 153,912.58 135,609.01 133,220.96 587,792.74
CustTrack 268,879.14 250,286.87 262,293.59 215,843.52 997,303.12
Customer Application 1 17,948.71 16,687.39 10,594.45 14,355.76 59,586.31
Customer Application 2 17,948.71 16,687.39 10,594.45 14,355.76 59,586.31
Customer Application 3 17,948.71 16,687.39 10,594.45 14,355.76 59,586.31
Customer Application 4 17,948.71 16,687.39 10,594.45 14,355.76 59,586.31
Customer Application 5 17,948.71 16,687.39 10,594.45 14,355.76 59,586.31

ServiceNow ITFM Product



ServiceNow ITFM Product

- ServiceNow has an ITFM product, but has recently made shifts in the direction
- Current ServiceNow ITFM customers (or customers already evaluating the product) will be unaffected
- Future focus will be on:
  - PPM Financial Planning
  - SPM Use Case for Service Offering TCO
  - APM Use Case for Application & Capability TCO
- When might this new direction be a fit?
  - Leveraging only data already within ServiceNow instance
  - Starting from scratch and not replacing another ITFM solution
  - Simple use cases aligned to out of the box solution

Purpose-built ITFM Tools

- Market-leading IT Financial Management (ITFM) / Technology Business Management (TBM) solutions for IT organizations
- Business management systems to measure technology investments, plan for the future, and communicate the business value of IT.
- Helps IT leaders make data-driven business decisions by providing analytics and insights into the cost, quality, and value of IT.
- Automatically aggregates, cleanses, and establishes relationships across large amounts of data from disparate sources

Key Benefits

- Single view of IT costs across the entire IT portfolio
- Cloud costs shown in the context of total IT spend
- Granular self-service analytics for IT decision makers
- Project and app cost by business priority and initiative
- Start with basic allocations and refine them over time

Best Practices

Let Rego be your guide.

Overall Cost Transparency Best Practices

Defensible Cost Model/Metrics

document and validate cost allocation methodologies and assumptions

Repeat

Not just a one time effort – track progress over time

Track Usage Metrics

usage of IT services changes over time. If the cost of a service increases, did IT become less efficient, or did the organization just use more of it? Without tracking usage you won't know

Calculate Unit Costs

cost per employee, cost per incident, cost per X. This gives cost perspective, and is useful in benchmarking against other organizations or industry standards

Put Cost in context

show the quality & business value services and applications produce

Build Roadmap

a three- to five-year plan for cost model evolution. Don't expect high maturity on your first attempt

Phase 1 - Initiate

Value

Focus on Time to Value – start with basic allocations

Analysis

Introduce New Analysis Constructs – “walk down” the model

Foundation

Establish a Foundation of Data – to show trends

Questions

Enable Fundamental Cost Analysis – generate questions not answers (yet)

Provide Traditional Baseline Views – to establish confidence

Phase 2 - Accelerate

1. Correct Cost Allocation Outliers – what's noticeably "off"
2. Build Allocation Refinement Plan – large cost buckets not all
3. Acquire Base Consumption Data – get/validate/automate
4. Introduce Costing to the Business – confirm "groupings" make sense
5. Capture Power User Feedback – start the quest for answers

Phase 3 - Operate

Buy-in

Solidify Buy-in from Power Users – validation & peer advocates

Personalize

Create Persona Based Dashboards – enable quick, relevant, access

Operationalize

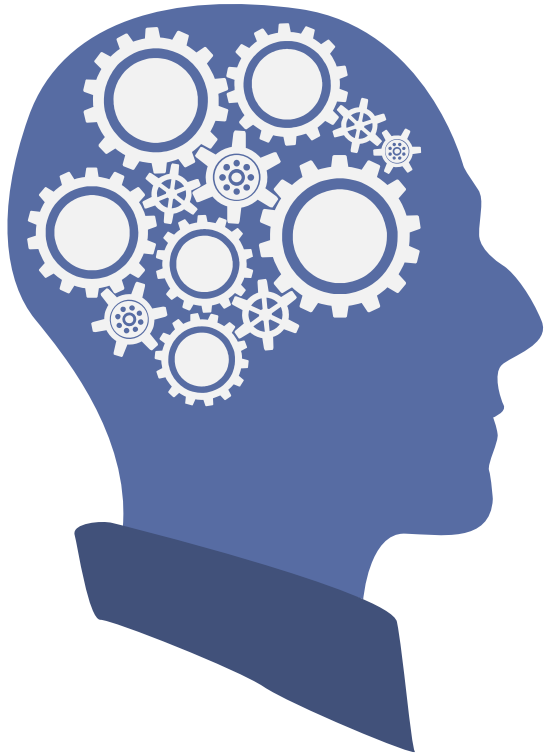
Operationalize Insight Usage – integrate into daily/weekly/etc. processes

Maintaining Control of the Solution & Costs

Implement Cost Transparency First – new insights will change planning & the GL

Create an Allocation Matrix – assists with planning, data acquisition, & communication

Complexity ≠ Transparency – stakeholder's ability to explain it is a great litmus test



Simplify Data Acquisition – it's hard, it delays, it's creates dependencies; use NOW first

Avoid the Golden Handcuffs – weigh the cost/benefit of proprietary technology

Reasons ITFM Initiatives Fail

According to Gartner, 40% of ITFM tool implementations will fail due to the lack of a clear mandate, bad data discipline, and poorly designed cost models.

Gartner 2018

Fear of Bad Data

"My data isn't ready" is a common excuse for not tackling ITFM. But data will never improve in a vacuum. Just like muscles need exercise to grow strong, data must be put to use in order for it to improve. So, don't wait for your data to be perfect. Instead, use your data to make it perfect.

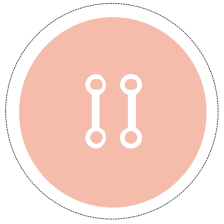
Labor/Time Intensive

It takes effort to set up good allocation metrics, especially if you aren't using a tool specifically designed for it. Organizations may find it's too costly to get even close to right. Often, the result is the full budget is spent on the initial effort with nothing remaining to keep ITFM running on an ongoing basis. Or worse, the ITFM effort is abandoned all together.

Fear of Transparency

Masters of the old game won't embrace the visibility. IT leaders often know that they have some "skeletons in the closet"—inefficient areas requiring better stewardship—that they are reluctant to bring to light. And business partners can be afraid to face that their decisions have real financial impacts on IT cost, and the days of IT saying "yes" to every request are over.

Reasons ITFM Initiatives Fail

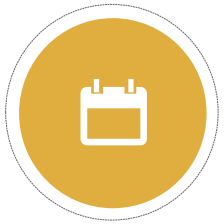


Analysis Lag Time

Data freshness is key. What often happens is that costs are assessed when a reconciliation with finance occurs (annually), when it's already too late to address issues. If the ITFM team is loading the GL monthly and looking at their costs, this can provide actionable insight.

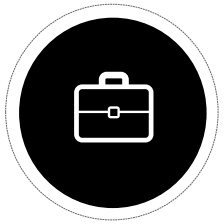
Indefensible

Cost alone, without clear context of how it was calculated will not be trusted by application owners, service owners, or IT leaders .



Over-Simplified

Just peanut butter spreading costs across apps and services doesn’t add enough insight to make cost data useful.



Complicated

Complex calculations using inaccessible tools/data like spreadsheets lead to a cost model that few understand. No one will accept the output if they can’t understand how you got there.

Questions?

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- Date Completed = **Today's Date**
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