APPTIO
an IBM Company

6 Best Practices for Communicating the Business Value of IT

Hint: the key is to first understand your IT costs

Executive summary

Are business unit (BU) stakeholders asking questions like, "Why is tech so expensive?", "Why are costs increasing?", and "Shouldn't we move to the cloud?" Do they see technology expenses as a cost center—not as investments that empower their business? Tech costs are ultimately driven by BU choices regarding consumption of and investment in technology offerings. But when BUs lack visibility into the impacts of their consumption choices on total technology costs, they tend to demand more without sufficient funding, which drives higher fixed run costs that crowd out investment for innovation.

When business partners see vague buckets of technology cost instead of the applications and services they rely on and can assign value to, they question the value of IT. Because BUs don't understand their share of tech costs and what levers they can pull to change them, there is friction instead of prioritization, feeding perceptions that IT is the "department of no."

It doesn't have to be this way! Tech leaders successfully driving change and innovation follow the principles of Technology Business Management (TBM) to maximize the business value from every IT dollar. TBM started with a focus on technology costs and planning for an on-premises, data center-focused world, but now encapsulates the adoption of pay-as-you-go SaaS, OpEx-fueled IaaS, and the shift away from data centers where most applications were monolithic and static. Also, TBM reflects how business operations support both project- and product-based practices by placing resource management outcomes into value streams. Companies like CHRISTUS Health, UPenn, and Tokio Marine North America Services use TBM to understand and communicate the business value of tech investments by showing cost, consumption, and choice in business terms. In this brief, we'll explore the best practices for making this a reality in your organization.

Recognizing the problem

If your IT organization is like most, you lack the cost and resource visibility that other business leaders take for granted. Conversations about the economics of technology are difficult because the necessary data is fragmented across finance systems, IT operations systems, and spreadsheets. Inventing and maintaining a cost model is labor-intensive, error-prone, and of dubious credibility. The financial data available to leaders of specific IT functional areas or technology centers lacks the granularity or IT context to be actionable.

Even if you had an accurate model of technology infrastructure costs, that wouldn't be enough to satisfy business unit stakeholders. For BUs, tech costs are rarely presented in a context they understand or value, and BUs don't see how their projects impact technology run costs or what they can do to change them. Infrastructure and operations (I&O) drive significant tech costs, but they're not connected to things the business values, such as applications and services that support business capabilities and drive growth. BUs see the straightforward cost and value of public cloud services and now want similar transparency from IT.

If you're in IT finance or a tech leader, you're probably breaking out in a cold sweat just thinking about this. You struggle with hand-built cost models in spreadsheets that lack the granularity and pivots needed to be defensible and understood by BU and I&O leaders. You're all too familiar with the problem of BUs funding projects without seeing the long tail of operating expenses (OpEx) and fixed costs they create for IT. You have had more than your fill of painful discussions with the business about allocations they see as unfair.

Can you afford to work this way?

Because of these challenges, it takes too long to answer financial questions, harms IT's credibility as business leaders, and results in rushed decisions and missed opportunities. BUs treat technology as a cost center— one that can't explain or defend its budget. As a result, they often leave IT out of key technology decisions, which corners IT into reactivity.

Furthermore, BUs exhibit unchecked demand, over-consuming I&O resources because they don't understand the cost impact. In coping with the resulting high run costs, I&O is unfairly seen as a blocker because it can't keep pace with unfunded demand.

Worse, the choices made by the business lock IT into fixed cost structures that keep costs high even when business demand declines. When it's time to restructure, BUs actively or passively resist efforts to partner on cost optimization. No one wants it to be this way, but BUs lack the information to be more financially accountable for their consumption and quality choices.

Every day this goes on, it feels like the hole you're in gets deeper and deeper.

> **Apptio has been an indispensable tool for helping our IT leaders solve pressing issues around transparency, financial agility, and transformation. There are so many challenges IT leaders must navigate today — not being able to understand or tell their financial story to the business area should not be one of them.**

Dickson Kasamale
Second VP of IT Finance & Analytics
The Standard

6 Best practices for communicating the business value of IT

Fortunately, there's a way to change BU behavior and position IT as a trusted business partner. It all starts with IT getting a grasp of their own business. But how do you do this, and where do you start? The answer is Technology Business Management (TBM), a discipline that improves business outcomes by giving organizations a consistent way to translate technology investments to business value. It is backed by a standardized taxonomy that enables IT, finance, and business leaders to react quickly to changing market dynamics and optimally leverage cloud and agile practices to deliver on business objectives.

A core principle of TBM is the necessity of offering transparency through accurate, detailed technology costs. In an ideal world, you could directly measure the value that BUs derive from their use of technology offerings. In reality, this value is often subjective and difficult to quantify. However, tech leaders have learned that technology costs provide a frame of reference to drive effective conversations about the true value of technology for the business.

Consequently, leading adopters of TBM make it a priority to understand and show technology cost, consumption, and choice in relevant language that BUs can immediately use to make critical business decisions. Here are six best practices that technology leaders and practitioners rely on to understand and communicate the business value of IT.

1 Establish a continuous understanding of the economics of your tech investments

Most IT organizations have a rough sense of their finances because they've done one-off calculations to support specific decisions or initiatives, but those point-in-time views quickly get stale and leave tech leaders blind to current circumstances. Leading technology innovators develop a detailed, ongoing financial analysis of their IT business. In this approach, tech leaders regularly scrutinize technology spend on resources, labor, vendors, and projects. With an up- to-date view of spend, they can quickly identify and answer questions about budget variance or provide guidance on priorities. They confidently demystify technology cost drivers when asked and keep a close eye on the balance between run-the-business spend and investments in innovation to boost productivity or fuel growth.

Outcome: Demonstrate a command of your technology investments

2 Use actual costs for an accurate, complete & defensible view

History has shown that it's not enough to base IT financial analysis on estimates or rate cards. These methods miss important costs and rely on outdated inputs. When stakeholders start probing, they quickly find weaknesses and lose confidence. Instead, tech leaders should rely on a feed from the corporate general ledger, which records the actual expenditures incurred by the organization. There's no substitute for actuals that provides the same coverage and defensibility required for stakeholders to have confidence in your analysis.

Outcome: Trust that your analysis is grounded in truth

3 Frame technology costs in business-friendly language

BUs understand and assign value to IT through the lens of the applications and services they rely on. As mentioned above, the general ledger is the best source of "truth" about technology spend, but there's a problem: its cost records don't align with the way BUs perceive tech value. Furthermore, the general ledger lacks granularity needed by tech leaders for informed decisions about technology. Tech leaders can address these challenges by adopting a cost model that maps general ledger entries into detailed IT structures such as compute, network, storage, and end user. The model then uses IT operational data (HR data, CMDB, help desk records, etc.) to accurately route and apportion costs through IT resources to applications and services, and on to BUs. This sophisticated approach weights costs according to usage and consumption so that the resulting spend metrics accurately reflect real-world value in terms that make sense to the business.

Outcome: Have BU conversations focused on facts and value instead of gut-feelings and costs

4 Show BUs how their consumption drives costs

Most BU stakeholders want to be good consumers of technology, using it efficiently and appropriately, but they often don't know what that looks like. Tech leaders should take a proactive approach and engage their BU partners in conversations about the cost and value of technology. This means showing each BU what applications and services they consume, how much they consume, and the complete cost implications of their consumption choices. BUs can see total costs alongside their fair share of the costs. They can see how those costs break down into technology resources (compute, network, storage, etc.) and how those resource costs are composed from cost pools (internal labor/contractors/outside services, hardware/software, etc.).

Outcome: BUs treat technology costs as their business costs

5 Provide BUs with choices to impact their technology costs

As soon as BUs understand their fair share of technology costs and their composition, the natural response is to look for ways to adjust their consumption behavior to match the value they perceive from delivered services. Tech leaders can embrace this by offering specific levers of choice that BUs can manipulate to influence technology spend. These include reducing consumption, retiring lightly-used applications (that were likely claimed to be indispensable before costs were understood), or shifting to lower-cost alternatives (e.g., lower storage tiers). When BUs understand how their decisions translate into long-term costs, they become better consumers of technology. They partner with IT and finance on tough decisions to free up run costs, and they become better stewards of innovation budget, maximizing value.

Outcome: BUs adjust behavior when they understand the long tail of consumption decisions

"One of the issues we've struggled with is communicating value from our IT department to the rest of the organization and our regional facilities. By helping our business units understand what's flowing through their areas and expenses that are directly their responsibility, we're enabling managers to be more accountable. Now they can see those impacts and communicate them to their teams."

Stephanie Rendon
Director of Finance
CHRISTUS Health

6 Leverage automation to incorporate TBM into your review cadence

By now, you've probably guessed that a one-time effort to execute these best practices may lead to a momentary gain, but for a sustainable shift in behavior, you need a consistent ongoing cadence of technology investment cost analysis. Of course, this level of cost modeling and reporting is extremely difficult to maintain using spreadsheets, which are manually intensive and error prone – affecting timelines and defensibility. Even with homegrown tools, which often lack integrations, scalability, and require extensive customizations, IT finance staff will struggle to keep up, and their availability for analysis and guidance will all but vanish. Technology leaders can address this by using tools to automate the collection of finance and operations data, restructure that data in an IT context, and model costs and conduct analysis for the resulting spend metrics. By using TBM software, tech leaders can embed TBM best practices into their operational processes and cultivate a data-driven culture. This frees IT finance to engage tech leaders and BU partners in data-driven discussions that deliver actionable insights in a language everyone understands.

Outcome: IT finance's time freed up for more strategic analysis and guidance

> "We recognized a couple years ago that we really needed to get the right tooling in place to ensure that our investments in product, hardware, and people are really providing the value we need. TBM as a methodology and Apptio as a solution have given us the insights, we need to achieve those global goals."

Bob Pick
CIO
Tokio Marine North America Services

Apptio® can help

Companies like Sheetz and The Standard use Apptio to communicate and improve the value of technology investments by showing cost, consumption, and choice in business terms. TBM practitioners will tell you it's not *where* you start but *that* you start. As your TBM practice matures, value conversations expand to other business areas. Getting started with Apptio is easy, as there's no one path or starting point, no matter the state of your data. Quickly categorize and allocate costs across technology domains while surfacing key insights into tech spend and impact. Instead of struggling with manually intensive and error-prone spreadsheets or homegrown solutions that lack functionality, you can spend more time on valuable, strategic spend analysis. Optimize your entire tech portfolio and make defensible investment decisions while driving accountability across the enterprise. With Apptio, you can transform technology from a cost center to a value driver.
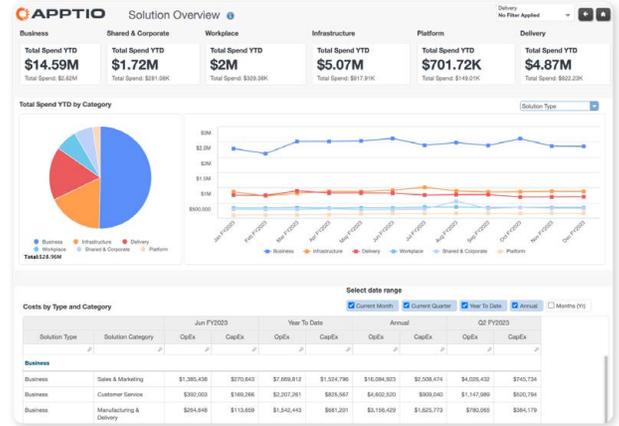
Apptio Benefits

- Establish foundational cost transparency.
- Get actionable insights in 30 days with out-of-the box, interactive reports.
- Save time & reduce risk with an automated platform.
- Drive scalable value quickly.

The Standard®

Lack of transparency on key tech spend drivers affected alignment and decision making. Apptio got stakeholders on the same page with the TBM taxonomy, increased financial agility, and drove budget prioritization. Their IT Finance teams are now able to spend 80% of their time focusing on analysis, decision support, forecasting, and insights.

SHEETZ — FRESH FOOD — MADE TO ORDER

Opaque IT costs were once considered a "black hole," impacting IT strategy. With Apptio, they improved IT cost transparency across all departments, increased forecast accuracy, and achieved an 85% reduction in IT planning cycles - going from 87 spreadsheets to 6. They also reduced data entry errors that cost up to $1 million annually.

CHRISTUS Health®

With manually-intensive processes involving numerous spreadsheets and 35 budget owners, annual planning could take up to 6 months. In just 6 short weeks, they were up and running with Apptio and saw value by week 12. Planning cycle time dropped by 90%, their forecasting cadence moved from quarterly to monthly, and annual budget variance was reduced by 50%.

Get Started

Apptio, an IBM company, is the leading technology spend and value management software provider. Apptio's AI-powered data insights empower leaders to make smarter financial and operational decisions across Information Technology (IT), multi-cloud FinOps, and digital product development. Apptio's mission is to deliver business value with every technology investment and team. Powered by Apptio's cloud platform, Apptio's SaaS applications translate technology spend into clear business outcomes and financial ROI. As a pioneer and category leader in Technology Business Management (TBM), FinOps, and Agile Portfolio Management, Apptio works with thousands of customers, partners, and community members worldwide.

Learn more at **Apptio.com**