

GARTNER TELECONFERENCE

*Insert Section Here*

# Core Financial Concepts in Running IT Like a Business

Michael Smith

July 21, 2009

Notes accompany this presentation. Please select Notes Page view.  
These materials can be reproduced only with Gartner's official approval.  
Such approvals may be requested via e-mail — [vendor.relations@gartner.com](mailto:vendor.relations@gartner.com).

**Gartner**<sup>®</sup>

# Who Is Responsible for IT Spending?

- 1. Most executives assume IT spending is controlled by IT Management.**
- 2. IT Management points to ever increasing demands from the business for IT services which increases IT spending.**
- 3. At the end of the day, the business always prevails, so what can IT management do?**

***This presentation will cover Gartner research on the proven concepts that IT management can use to “close the loop” between IT demand and IT spending.***

# Key Issues

1. Why is it critical to separate IT Supply Management from IT Demand Management when explaining IT spending levels?
2. What are the building blocks for communicating IT's contribution to the Business?
3. What is the best organizational model for sustaining IT alignment with business goals?

# What Drives IT Spending Levels?

## IT Demand Management

The number and volume of **Services** delivered by IT (has the biggest impact on IT spending).

High Cost IT Services are:

- Implicitly Defined
- Fluctuate freely

Low Cost IT Services are:

- Explicitly defined
- Evolve through a managed process



## IT Supply Management

The number and volume of **Processes** performed by IT (including hardware & software, external services).

High Cost Processes are:

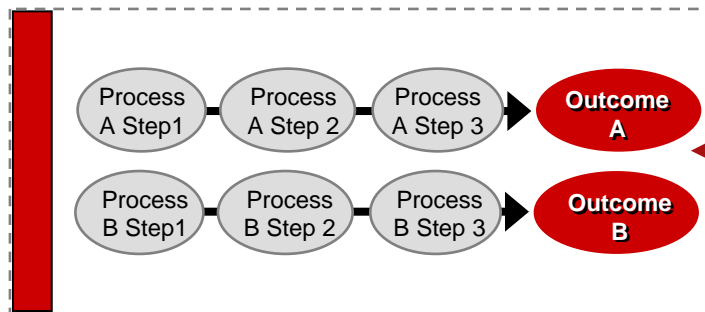
- Implicitly Defined
- Fluctuate freely

Low Cost IT Processes are:

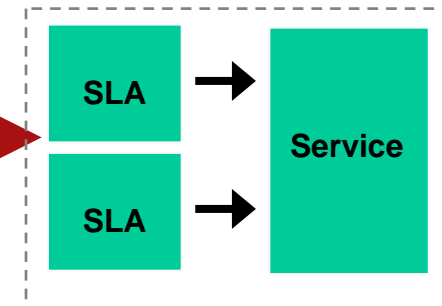
- Explicitly defined
- Managed by continuous improvement

# The First Building Block – IT Process Management (Efficiency)

## IT Performance Metrics



## Service Level Agreements



1. Operational  
Operational

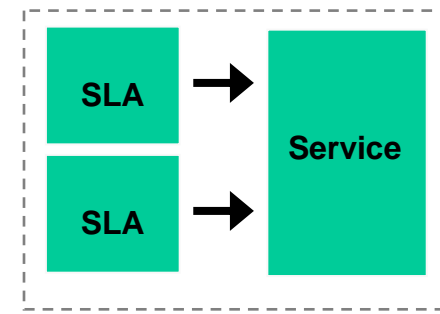
Operational Efficiency – an ability to utilize resources and capabilities to satisfy consumer needs.

- ITIL – A Good Reference Point
- Six Sigma – A Good Continuous Improvement Methodology

# The Second Building Block – IT Service Management (Effectiveness)

IT Product Management – an ability to define and segment common needs among the consumers of IT services within the company

## Service Level Agreements



**2. Product Marketing**

## Business Needs

Demand Management	Market Responsiveness	Sales Effectiveness	Product Development Effectiveness
Supply Management	Customer Responsiveness	Supplier Effectiveness	Operational Efficiency
Support Services	Human Resources Responsiveness	Information Technology Responsiveness	Finance & Regulatory Responsiveness

Gartner Business Value Model

# Product Management Needs to Define IT Services by Focusing on Business Needs

Which is defined in market terms?

## Portfolio A

- Server administration
- Back-up & recovery
- Network monitoring
- Production control
- Network admin.
- Password control
- Help desk

**Typical**

## Portfolio B

- Biz process automation
- Project management
- Employee provisioning
- Workplace support
- Biz process improvement
- Security management
- Asset lifecycle Mgmt.

**Best Practice**

***Services need to be described based on what customers want to buy, not what IT wants to sell!***

# The Third Building Block – Corporate Performance Management

## Business Metrics

Demand Management	Market Responsiveness	Sales Effectiveness	Product Development Effectiveness
Supply Management	Customer Responsiveness	Supplier Effectiveness	Operational Efficiency
Support Services	Human Resources Responsiveness	Information Technology Responsiveness	Finance & Regulatory Responsiveness

Gartner Business Value Model

**3. Value Management**

## Financial Metrics

<i>Income Statement (\$ million)</i>	
Revenue	\$1,000
Less: Cost of Goods Sold	500
Gross Profit	500
Less Operating Expenses:	
Sales	200
Administrative	200
Net Income	<b>\$100</b>

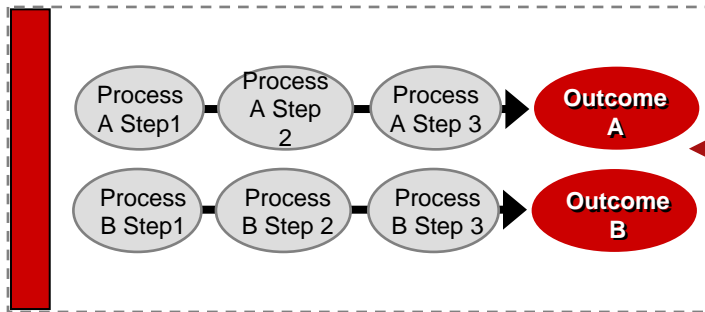
Corporate Performance Management – an ability to understand and manage to the cause and effect relationships between business processes and financial results

# Examples Of Business Outcomes

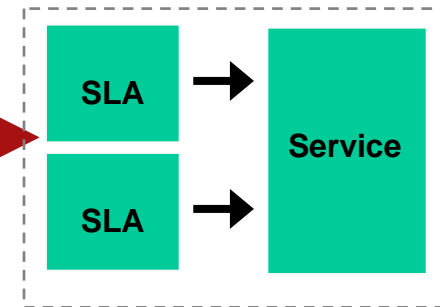
BUSINESS ASPECT	Desired Business Outcome	PRIMES			
Demand Management	Market Responsiveness	Target Market Index	Market Coverage Index	Market Share Index	Opportunity/Threat Index
		Product Portfolio Index	Channel Profitability Index	Configure-ability Index	
	Sales Effectiveness	Sales Opportunity Index	Sales Cycle Index	Sales Close Index	Sales Price Index
		Cost of Sales Index	Forecast Accuracy	Customer Retention Index	
	Product Development Effectiveness	New Products Index	Feature Function Index	Time to Market Index	R&D Success Index
Supply Management	Customer Responsiveness	On-Time Delivery	Order Fill Rate	Material Quality	Service Accuracy
		Service Performance	Customer Care Performance	Agreement Effectiveness	Transformation Ratio
	Supplier Effectiveness	Supplier On-Time Delivery	Supplier Order Fill Rate	Supplier Material Quality	Supplier Service Accuracy
		Supplier Service Performance	Supplier Care Performance	Supplier Agreement Effectiveness	Supplier Transformation Ratio
	Operational Efficiency	Cash to Cash Cycle Time	Conversion Cost	Asset Utilization	Sigma Value
Support Services	Human Resources Responsiveness	Recruitment Effectiveness Index	Benefits Administration Index	Skills Inventory Index	Employee Training Index
		HR Advisory Index	HR Total Cost Index		
	Information Technology Responsiveness	Systems Performance	IT Support Performance	Partnership Ratio	Service Level Effectiveness
		New Projects Index	IT Total Cost Index		
	Finance & Regulatory Responsiveness	Compliance Index	Accuracy Index	Advisory Index	Cost of Service Index

# Sustaining IT's Alignment with Business Goals- Running IT Like A Business

## IT Performance Metrics



## Service Level Agreements



1. Operational  
Operational

2. Product  
Marketing

## Financial Metrics

Income Statement (\$ million)	
Revenue	\$1,000
Less: Cost of Goods Sold	500
Gross Profit	500
Less Operating Expenses:	
Sales	200
Administrative	200
Net Income	<b>\$100</b>

## Business Metrics

Demand Management	Market Responsiveness	Sales Effectiveness	Product Development Effectiveness
Supply Management	Customer Responsiveness	Supplier Effectiveness	Operational Efficiency
Support Services	Human Resources Responsiveness	Information Technology Responsiveness	Finance & Regulatory Responsiveness

Gartner Business Value Model

3. Value  
Management

# Recommendations:

- Engage business leaders and educate them on the forces that result in existing IT spending levels.
- Formalize the implicit understanding of what IT does with an explicit service catalog
- Manage internal IT processes to optimize the cost of delivering IT services
- Run IT like a business

# Recommended Reading

- Leadership Development Module 2: Overview of Performance Management, ID:G00158476
- Running IT Like A Business: Introducing the ISCo Model, ID: R-18-4277
- How to Link IT Metrics to Business Value, ID: G00150099
- The Gartner Business Value Model: A Framework For Measuring Business Performance, ID: G00139413