7 Steps Drive IT Financial Management Tool Success

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Initiatives: IT Cost Optimization, Finance, Risk and Value

CIOs must take seven key actions to ensure the success of a purpose-built tool in an ITFM initiative. This requires developing a clear mandate, defining success and engaging stakeholder support early.

Overview

Key Findings

- IT financial management (ITFM) efforts regularly falter when IT organizations race to implement a tool before they clarify and socialize their mandate, benefits and timing.
- Tool implementations fail to deliver value when a specific audience and need are not clearly identified and prioritized as part of the mandate.
- The quest for hyperaccuracy, a perfect data model and detailed consumption data often prevents or delays reasonable financial transparency, reporting and analytics. Perfection gets in the way of improvement.

Recommendations

CIOs seeking to mature an IT financial management practice and improve the perception of IT and its impact on business outcomes should:

- Ensure the likelihood of a successful ITFM tool initiative by engaging with executive stakeholders and clarifying, documenting and socializing the project mandate and desired outcome.
- Plan for ITFM cost model evolution by understanding near-term versus long-term needs and building a three- to five-year cost model vision.
Introduction

Often, when CIOs are challenged to justify their budgets or demonstrate the value of their spend, they look to tools to solve their transparency problems. But tools are only as good as the data and cost models that they use. Without careful planning and the right input, ITFM tools take too long to set up, cost more than anticipated and don't succeed. This research details how CIOs can use ITFM tools effectively to achieve their objectives.

The success or failure of ITFM tool initiatives is commonly tied to seven steps (see Figure 1). These elements include a clear project mandate (or charter), obtaining the appropriate funding and skilled resources, disciplined data management, well-executed cost model designs, and effective reporting and communication alignment.

- Manage the data aggregation process proactively by cataloging key data sources, scoping normalization requirements and identifying data access requirements.

- Identify potential cost-allocation issues by documenting, socializing and validating cost-allocation methodologies and assumptions.
Figure 1: Seven Steps That Drive IT Financial Management Tool Success

**Seven Steps That Drive IT Financial Management Tool Success**

1. **Define and Refine the Cost Model**
2. **Clarify and Socialize the ITFM Mandate**
3. **Assess Data Aggregation Requirements**
4. **Document and Communicate Allocation Assumptions**
5. **Scope Reporting and Analytics Expectations**
6. **Identify and Assign Appropriately Skilled Resources**
7. **Justify the Investment and Secure Funding**

Source: Gartner 75055_C

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**Analysis**

**Clarify the ITFM Mandate**

ITFM initiatives can, and often do, have very different goals and objectives, depending on the issues they address and the targeted audience. Before CIOs or their teams establish their program and shop for (or build) a solution, they must clearly define the program mandate. Start by addressing fundamental project-scoping questions (see the list below), and answer them with the input and expertise of business stakeholders.

ITFM mandates are unique to the organization and, in turn, will drive different approaches or metrics. Client surveys indicate that the top four drivers of an ITFM program are:

1. Aligning IT “spend to business value”
2. Prioritizing new technology investments
3. Providing transparency into IT spend to show where the money goes

4. Identifying cost savings or optimization opportunities

Failure to understand and set expectations, and failure to win executive sponsorship are the most common reasons why ITFM initiatives are not successful. Typically, these failures result in projects that drift in scope and definition, delay benefit realization, frustrate business partners, and stall potential returns on the investment.

CIOs should collaboratively define and deliver against the mandate. Start with the end result in mind, and answer the following (see Table 1).

**Table 1: Answer the Following Questions**
(Enlarged table in Appendix)

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<td>The CFO can and needs to be a key supporter of any ITFM initiative.</td>
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**Define and Refine the Cost Model**

Source: Gartner (June 2021)
An ITFM cost model is the framework into which the aggregated (total) cost data is allocated. The cost model requires multiple views of the cost that are meaningful to IT, leadership, the business and other designated stakeholders. It is critical that specific audiences and their required view(s) are identified and prioritized.

Seventy-four percent of mature IT organizations prepare multiple views of the budget, including general ledger, asset, IT technical domains, business services and investment portfolio (such as run, grow and transform) types to inform decision making compared with only 42% of the remaining organizations who participated in the maturity assessment.

— Source: Gartner IT Score for CIOs, May 2021, n = 252

An ideally defined cost model will provide multiple views of IT cost data. A single view of IT spend is not enough. When a cost model is limited solely to a technical view of costs for transparency or budgetary purposes, the primary audience is IT — technologies, architects and designers. The goal of that view is most likely cost optimization.

Gartner recommends that CIOs plan for at least four additional views of IT cost, as each is critical for different aspects of financial and technology business planning (see CIOs Must Master Four Views of Spend to Manage IT Finances). Figure 2 adds one additional view of IT, that of consumption. This is added, as it is increasingly important for CIOs to manage the consumption of their services and resources by consumers.
Most business leaders want to know that they are paying a fair price for what they receive from IT. This is difficult to achieve when the bottom-up approach of providing the costs for all of the parts is followed. Instead, CIOs should focus on providing business leaders with the aggregated IT costs for the services they consume (the product, finished goods or business impacting service). As an IT organization matures and becomes more service-oriented, the cost model will mature and increasingly map to business-centric services (see Build a Focused ITFM Cost Model and Use a Simple Allocation Approach to Deliver Rapid Value).

Assess Data Requirements

The process of data aggregation and normalization, as well as the allocation of cost data against a defined cost model, is a cornerstone function of an ITFM tool. Yet CIOs typically report that the identification, integration and aggregation of numerous, disparate data sources required for any ITFM tool implementation are the most difficult parts of the process.
The first axiom of ITFM data discipline is “never underestimate the effort required to prepare data for cost model allocation and analytics.” Start by asking, how much consumption data do we really need? Catalog key data sources, scope normalization requirements and identify data access requirements.

ITFM data should be separated into two basic categories: spend and consumption.

- Most spend data is sourced from the corporate finance systems (for example, the general ledger and the subsidiary ledgers, and purchasing and fixed assets systems).

- Consumption data is sourced from systems that track configuration, usage, allocation, change and so on (for example, public cloud infrastructure usage, time recording and call reporting). Accurate and detailed consumption data will offset assumptive allocations to drive greater accuracy as IT spend is allocated to the ITFM cost model.

When using historical spend data to build a total cost of ownership view of IT spend, the number of data sources required is a function of desired accuracy. The only required data source is the general ledger or the actual spend data. Allocation of spend to the cost model can be achieved via allocation assumptions to speed the time to a business conversation. Consumption data replaces allocation assumptions when additional detail or accuracy is required.

Prior to purchasing and implementing an ITFM tool, take the time to catalog data sources, assess organizational barriers, and determine hygiene requirements and potential aggregation issues. Proactively taking these actions will significantly improve the time to deliver value from the cost model. Start by building a list that includes all systems that record cost, expense, usage, consumption and related data. Next, evaluate each according to frequency, location, ownership and access for each data source. Determine which data sources are critical and optional and which can be replaced with estimations or allocation logic.
“Don’t expect, predict or promise perfection.”
— Gartner client when asked about lessons learned from their ITFM journey

The ITFM data access, aggregation and allocation process is a journey that is regularly reviewed and refined:

- Be willing to start with more general or assumptive allocation approaches.
- Determine whether time or accuracy is the priority.
- Set expectations accordingly and move faster to a life cycle cost view, with a clear plan to add more data sources and variables for accuracy as required or needed.
- Drive for accuracy when required by cultural or political need and when cost optimization is an increasing or top priority.

Use the following checklist to help scope the data requirements:

- Identify all potential sources of IT expense, contract and utilization data that might be required to construct a total view of IT costs.
- Catalog ownership of the data source, access requirements and limitations.
- Account for all general ledger classifications of cost as determined by corporate finance, such as asset (hardware and software), labor, maintenance, overhead, allocations and depreciation.
- Calculate the amount of data that will be aggregated and the required aggregation frequency. More data aggregated more often will impact tool selection.
- Determine the level of data accuracy required to move forward at each step of the process, such as vendor engagement, go-live, cost validation and business team engagement.
- Start with two or three key data sources to identify any data integration, normalization and reporting issues. Learn from these, then incrementally add other data sources.
The challenge for most CIOs will be to move forward, even when the data is not “completely ready.” It is easy to fall victim to overanalyzing the data collection process or postponing a go-live date because the “data is not clean enough.”

Gartner clients that have successfully implemented an ITFM solution advise peers to “proceed with ITFM initiatives, even when the data is less than perfect.” Many suggest going live with data that is “at best 70% to 80%” ready, if the need and intent to refine and improve the dataset is clearly understood and commitments to the business are carefully managed. Ultimately, the job of an ITFM program and any tool adopted is to facilitate access to and aggregation of imperfect data.

**Document and Validate Allocation Methodologies and Assumptions**

The allocation of IT cost data into an ITFM cost model requires specific allocation methods or consumption data (see Figure 3). CIOs should document their current allocation methods or business rules, catalog allocation models, and validate allocation assumptions with the business. This will save implementation cycles and reduce time-consuming modifications to initial ITFM tool implementations.
Allocation models range from simple high-level allocations (for example, costs/user x number of users per department) to consumption- and metered-usage-based models.

Ask the question, “What does my organization require?” For most, this is a business-driven or politically driven question. Organizations with higher thresholds of transparency, organizational complexity and budgetary contention will usually require more usage- or meter-based allocation methods. Allocation methods need not be more complex than the organization requires.

Scope Reporting and Analytics Requirements
Lastly, consider what IT financial information will be shared, with whom and in what format. The ITFM mandate should clearly define the primary audience(s) for all reporting, dashboard and analytics capabilities. Evaluate reporting and dashboard capabilities with specific user needs in mind. Use the following checklist to help build your reporting criteria:

- What will you report?
- With whom will you share the information?
- In what format is the information desired (reports, dashboards and widgets)?
- How often will the information be updated?
- How dynamic will the dashboards need to be (real-time updates, daily, weekly or monthly)?
- What type of advanced analytics is required?

Tools differ significantly in presentation, approach, usability, canned reports, visuals or widgets, analytics, and the visual quality of the dynamic output. Scoping the reporting and analytics expectations in advance will proactively shape vendor-qualification requirements.

ITFM tool initiatives that have a clear mandate with clearly documented expectations of data requirements, cost standards, allocations, expectations and reporting expectations are better aligned for success.

Furthermore, funding and stakeholder engagement is easier to secure, and the required skills will be easier to scope as part of the initiative plan. Gartner inquiry data suggests that CIOs who take the time to properly scope their ITFM tools initiative as part of their larger program are 50% to 60% more likely to get value from their tool investment in the first two years of use.

**Staff and Train to Support the Program and Tool Initiative**

CIOs need to source and secure appropriate IT financial management skills and capabilities to lead and execute the ITFM program. Core skills include:

- Functional knowledge of finance concepts
- Accounting familiarity (especially general ledger functions)
The ITFM analyst or program leader need not necessarily be an accountant, but having a solid understanding of accounting fundamentals will assist them in the delivery of ITFM outcomes. In addition, an understanding of IT components and service delivery will be invaluable, as will be the ability to interact and work with a variety of stakeholders (including business, finance and IT).

**Justify and Secure Funding**

ITFM is a strategic investment for the CIO and the broader organization, in that it enables a more-cost-efficient enterprise implementation of business strategy, and it provides the financial information required to “run IT more like a business.” Just like any other investment, this one needs to be justified and, if approved, funded appropriately for success.

The investment in an ITFM tool is not trivial, requiring both skilled labor and purpose-built tools. It will also require a commitment of time from business, finance team and IT staff to establish and support the cost model and ongoing reporting requirements (see Market Guide for IT Financial Management Tools).

**Evidence**

Based on client inquiry, Gartner IT Score for CIOs and vendor briefings.

**Document Revision History**

- 7 Factors Drive IT Financial Management Tool Success - 22 August 2019
- Five Success Factors for IT Financial Management Tool Initiatives - 8 June 2017
- Five Critical Actions to Increase ITFM Tool Success - 7 December 2015

**Recommended by the Authors**

Some documents may not be available as part of your current Gartner subscription.

- Corporate accounts and cost centers
- Costing and cost-allocation principles
- Cost models (and modeling)
- IT operations and management
Market Guide for IT Financial Management Tools

Build a Focused ITFM Cost Model and Use a Simple Allocation Approach to Deliver Rapid Value

Toolkit: Foundational Service Costing

CIOs Must Master Four Views of Spend to Manage IT Finances

Key Concepts in IT Financial Management: Budgeting, Transparency, Allocation and Funding

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