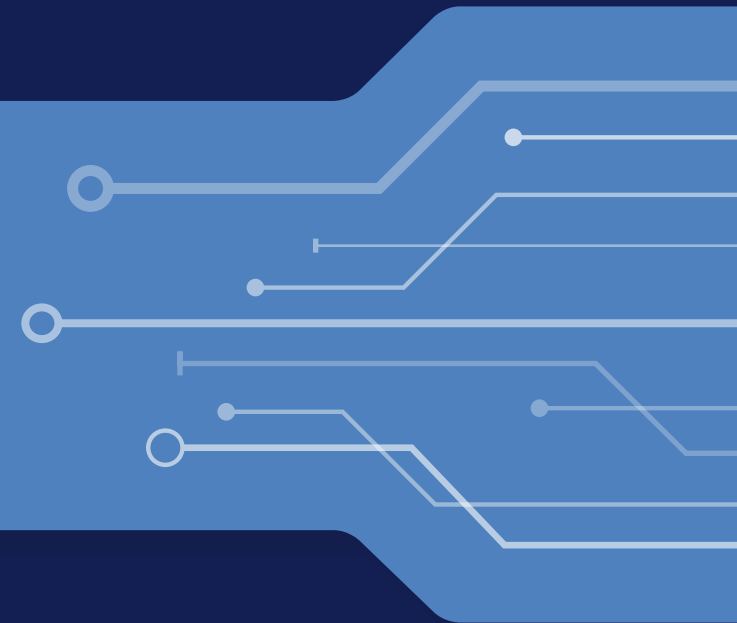




IT Cost Transparency





Model Name: **IT RUN Model 1**

Model Name: IT RUN Model 1

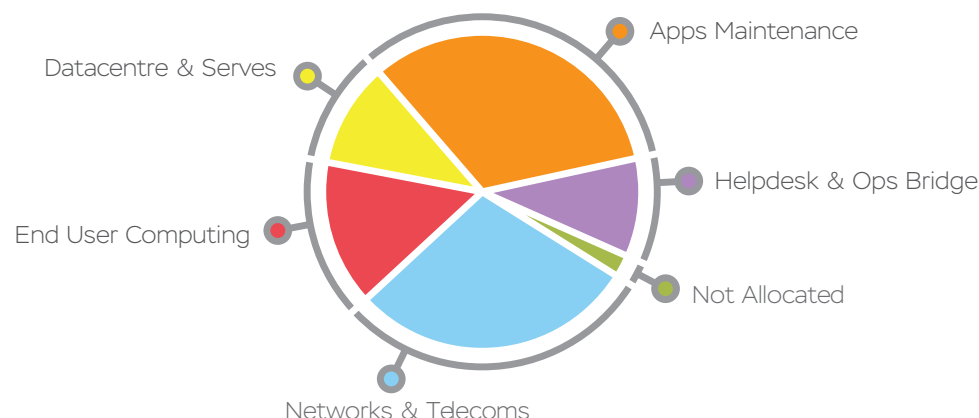
IT Run Model 1 is a simple IT costing model suitable for any industry. It is designed to support a sophisticated level of cost transparency across common IT technologies, towers and services with a minimum of effort. As a starting point this model is mainly focused on the IT costs that “run” the business. However, it can be extended to cover a detailed view of IT investments that “change” the business as well. In addition, it can be used as a starting point to manage demand by extending support for specific business processes.

This model is a concrete implementation of the Technology Business Management (TBM) standard framework.*
TBM has three main views:

- Finance View,
- IT View,
- Business view.

This model implements these views through three simple layers; IT Cost centres, IT Technology Towers and Products & Services. You can start by implementing just the IT Cost Centres to get some valuable insights before moving on to the IT Towers and Product/Services layers.

Tech Towers (Run Build Manage)



* For Technology Business Management (TBM) see tbmcouncil.org



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Published Model Number:
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Author:
MATRECIS

Contact Us:
enquiries@matrecis.com

Visit Us:
www.matrecis.com

Related models:
IT Build Model 1 - 100002

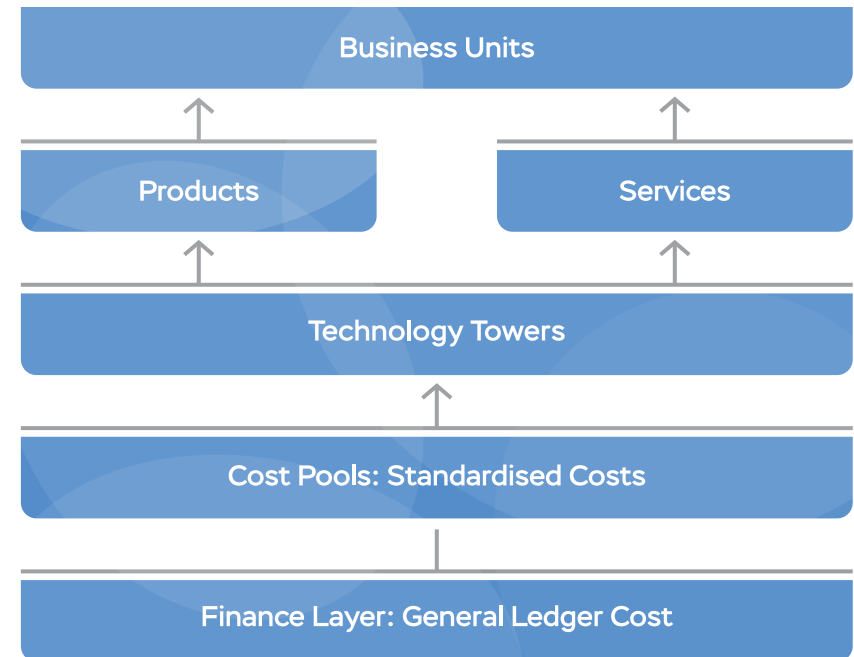
TBM provides a simple but clear way to describe IT costs and how they build into technology towers, services and applications. The next page details the model layers and categories. It splits costs over three broad categories:

- Build,
- Manage
- Run.

In TBM terminology “Run” is IT that supports the existing business, while “Build” is equivalent to change the business.

The TBM model is shown in the diagram opposite. It does not, however, show the projects layer as this is part of the “change-the-business” IT spend and this model focuses mainly on “run-the-business” IT.

The cost reference point of the model is the General Ledger, meaning there is always a clear reconciliation with corporate financial systems i.e. a single point of truth.





Layer 1

Run, Build & Manage

1. IT Staff

- 1.1 IT Staff Internal
- 1.2 IT Staff External

2. Software

- 2.1 Depreciation
- 2.2 Lease
- 2.3 Expensed
- 2.4 Maintenance & Support

3. Hardware

- 3.1 Depreciation
- 3.2 Lease
- 3.3 Expensed
- 3.4 Maintenance & Support

4. Facilities & Power

- 4.1 Depreciation
- 4.2 Rent/Lease
- 4.3 Expensed
- 4.4 Facilities Management
- 4.5 Electricity

5. Third-Party

- 5.1 IT Consulting
- 5.2 Managed Services
- 5.3 Cloud Services
- 5.4 Other Services

IT Cost Centers

Layer 2

Run only

1. Networks & Telecoms

- 1.1 Networks
 - 1.1.1 WAN
 - 1.1.2 LAN
- 1.2 Telecoms
 - 1.2.1 Fixed Line
 - 1.2.2 Mobile
 - 1.2.3 Video Conferencing

2. End User Computing

- 2.1 Desktop PC
- 2.2 Laptop
- 2.3 Tablet
- 2.4 Printers
- 2.5 EUC Support

3. Datacentre and Servers

- 3.1 Datacentre
 - 3.1.1 Buildings & Rent
 - 3.1.2 Electricity
 - 3.1.3 Datacentre Equipment
 - 3.1.4 Datacentre Support
- 3.2 Servers & Storage
 - 3.2.1 Mainframe
 - 3.2.2 Midrange
 - 3.2.3 X86

3.2.3.1 Processing

3.2.3.2 Storage

- 1 NAS
- 2 SAN
- 3 DAS
- 4 TAPE

3.3 Co-Located Datacentres

3.3.2 Rack Unit Fees

3.3.1 Set-up Fees

4. Applications

- 4.1 Applications Maintenance
- 4.2 Software Licensing
- 4.3 SaaS

5. Cloud & Hosting

- 5.1 Cloud Compute
- 5.2 Cloud Storage
 - 1 NAS
 - 2 SAN
 - 3 Archive & Backup
- 5.3 App & Web Hosting
- 5.4 Cloud Other

6. Service Operations

- 6.1 Helpdesk
- 6.2 Operations Bridge

Tech Towers & Sub Towers

Layer 3

Run only

1. Services

- 1.1 End User Computing
 - 1.1.1 Desktop PC - Thin Client
 - 1.1.2 Desktop PC - Thick Client
 - 1.1.3 Laptop PC
- 1.2. Network & Telecoms
 - 1.2.1 Desk phone
 - 1.2.2 Mobile phone
 - 1.2.3 Video Conferencing
- 1.3. Communications
 - 1.3.1 Email
 - 1.3.2 Messaging services
 - 1.3.3 Other

2. Products

- 2.1 Back office
 - 2.1.1 Finance
 - 2.1.2 HR
 - 2.1.3 Procurement
 - 2.1.4 Legal
- 2.2 Supply chain & Operations
 - 2.2.1 ERP & MRP
 - 2.2.2 Other
- 2.3 Sales & Marketing
 - 2.3.1 E-commerce
 - 2.3.2 Other

Products & Services

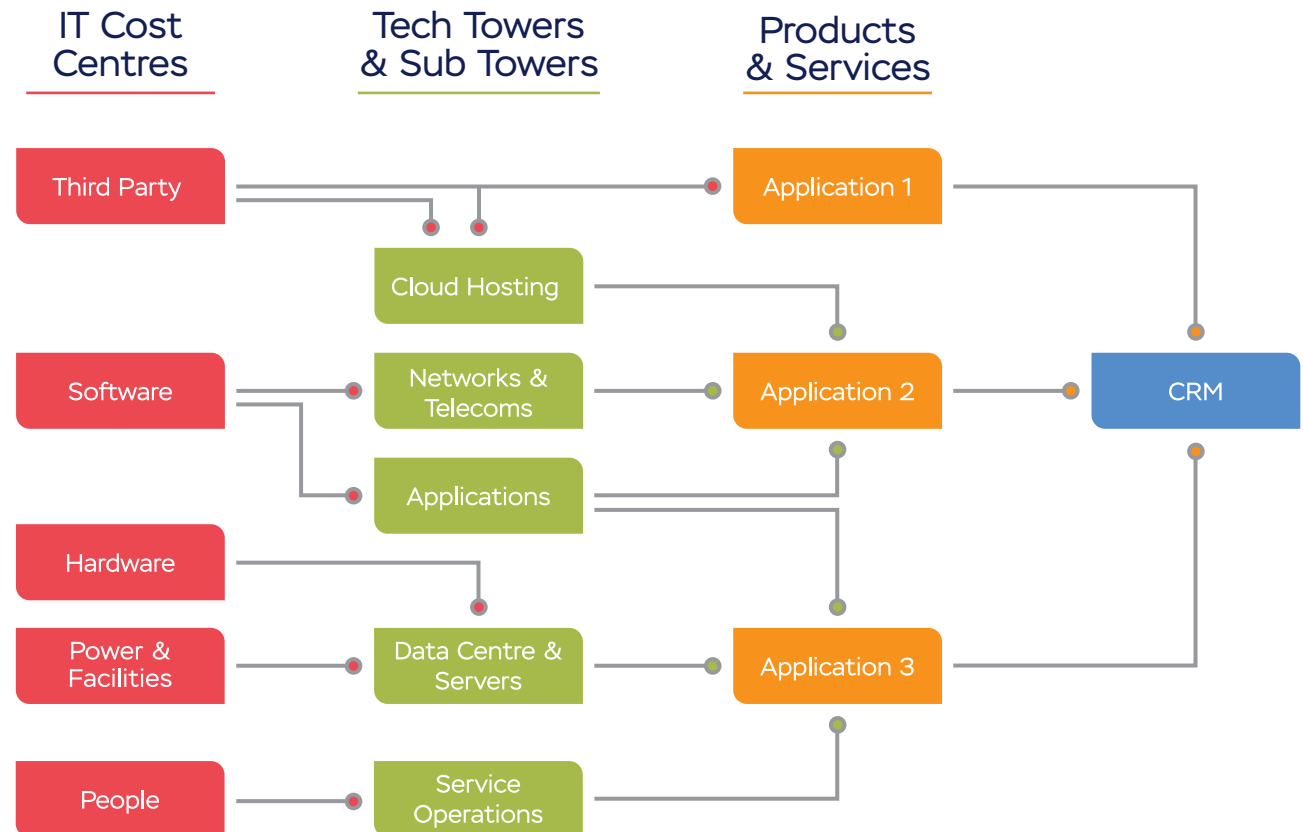
Sample Model Allocations

Model Name: IT RUN Model 1

The sample model diagram shows the costing structure of a business service through the layers of the model.

As you can see the CRM service here is supported by three applications that are in turn supported by different internal and external infrastructure services, people and third parties.

At the tech tower level costs can be optimised around the desired performance, while at the products and services level you can compare the fully loaded costs of the applications on a like for like basis. This can be used for demand management, show back and charge back purposes.



LAYER 1 - Finance view: IT Cost Centres

Model Name: IT RUN Model 1



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IT Cost Transparency

This view captures the basic finances for an organisation's IT spend. Costs are captured under 5 main cost categories including: IT Staff, Software, Hardware, Facilities/Power and Third Party. This is usually done with a subset of the General Ledger, no more than 40 lines. There are 4 sample measures shown here, the first three give a general measure of IT spend that can be compared across your organisation or with industry benchmarks.

For the last sample measure these costs are then split over three broad categories: **Build, Manage and Run**. CIOs often focus on project work while run IT costs tend to accumulate over time, as we will see in the next layer.

Data sources

1. General Ledger and sub ledgers (asset register)
2. Budget and Time Recording Systems

Sample Output

Measure

IT Costs as a Percentage of Turnover

IT Costs per Employee

Average IT Staff Costs

IT Run, Build and Manage as a percentage of IT Costs

Insight

This gives a general indication whether or not you are spending above or below the industry average or how spending differs across your organisation's operating companies. Internally this is a good indicative measure; externally you need to compare with others of a similar size in your industry.

Like the measure above, IT cost per employee is a general indication of how spending differs across your organisation's operating companies or how it compares with similar companies in your industry.

At this level average IT Staff costs are a very generic measure, but they become much more informative and actionable in the layer above where costs are assigned to activities and technology towers – as IT continues to become more commoditized, big differences emerge in staffing costs.

This gives an indication of "balance" - whether or not you are investing enough in building new services to support business growth as opposed to running the existing IT estate. Usually there is a focus on IT projects while run costs tend to accumulate & grow over time. Money released from optimising Run costs can be redeployed in building new capabilities. This is shown in the layer above.

LAYER 2 - IT view: Technology Towers and Sub Towers

Model Name: IT RUN Model 1

The Technology Towers layer captures the cost of the technologies, services and platforms that underpin IT products & Services. A few of these categories, such as telephony, can be charged directly back to the business. However, the vast majority of these towers are shared between products and services. Typically this is infrastructure and as this usually represents 60% to 70% of all IT expenditure it is a good place to optimise costs.

The key is to create transparency, establish Price for Performance measures and challenge technology leaders and vendors to find efficiencies to reduce these cost every year.

In this model we have made a conscious effort to keep most useful and significant data for the least amount of effort. This approach is shown in the sample output opposite.

Data sources

1. Layer 1 - IT Costs Centres - Run
2. Budget and Time Recording Systems
3. Configuration Management Databases

Sample Output

Measure

Datacentre
Owned Datacentre Cost per Rack
Co-location Datacentre Cost

X86 Compute
CPU cost Per Owned Datacentre
CPU cost Co-Location Datacentre
CPU cost per Cloud CPU

Insight

Co-located datacentre costs are usually charged inclusively on a per rack basis. These costs include physical hosting and electricity costs per machine. Here we use this measure to compare the costs of in-house datacentres against each other and external hosted suppliers. In this model, datacentre costs are modelled with four categories: Electricity, Equipment, Support and Buildings/Rent. Electricity costs are typically 20% of datacentre costs but this number can vary greatly. All datacentre equipment, racks, cooling fire suppression etc. is captured in the Equipment category and it is important that any depreciation costs are normalised using the model standard.

The results can be used for demand management, charge-back, and although it does not give exact details on how to optimise datacentres, it does give you very good pointers where to start. When drilling down into the costs it is important to add technical, performance and utilisation data for each datacentre. For example, servers per datacentre, what type, unused capacity and where the equipment is in the depreciation cycle.

The X86 CPU measure is used for comparing the fully loaded cost of running X86 compute in-house, in co-located data centres and in the cloud. For example, in-house X86 CPU is calculated by dividing the platform costs by the number of X86 CPUs. You should make a discount for any other types of computing power in the datacentre. The in-house X86 category includes costs of Hardware, Software, Maintenance and Support. When examining these figures it is important to capture average unitisation rates as datacentres are often full of old and under-utilised servers.

LAYER 3 - Business view: Products and Services

Model Name: IT RUN Model 1



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IT Cost Transparency

In this model we have added a simple products & services layer that brings together all the costs from the previous layers. It is split into two broad categories, namely Products and Services.

Services are owned by the IT organisation and can be sold to the business on a unit priced basis for example, email and desktop services. It is possible to have a Technology Services layer that sells infrastructure by unit costs but these are seldom understood at a business level.

Products reflect the line of business applications that support the operating business. They always have a business owner and need to be capacity managed in line with business demand. The default categories are fairly generic, although it is possible to extend the model with your own Business Capabilities, maybe starting with industry reference architectures. However, for simplicity this layer has been designed to support Cost management, Vendor management, and Business demand.

Data sources

1. Layer 1 and Layer 2
2. Business Usage Data

Sample Output

Measure

Desktop
Cost per Desktop PC - Thin Client
Cost Desktop PC - Thick Client
Cost per Laptop PC

Email Cost Per Mailbox

ERP
ERP cost per user
ERP cost per transaction

Insight

Desktop is a typical service that is owned by the IT organisation and sold back to the business. The three categories here represent the fully loaded cost of providing these services. These often include costs that are not evident to the business such as break fix maintenance, set-up and support costs. Thin client solutions typically have datacentre, server and software costs that are needed to support the desktop virtualisation. These costs should be offset by reduced desktop support staff costs.

Email is another service that is owned by the IT organisation and sold back to the business. It is not a differentiator but it is critical to nearly all business operations. It is important to include performance criteria in this category, such as SLA and amount of storage to make valid cost for performance comparisons.

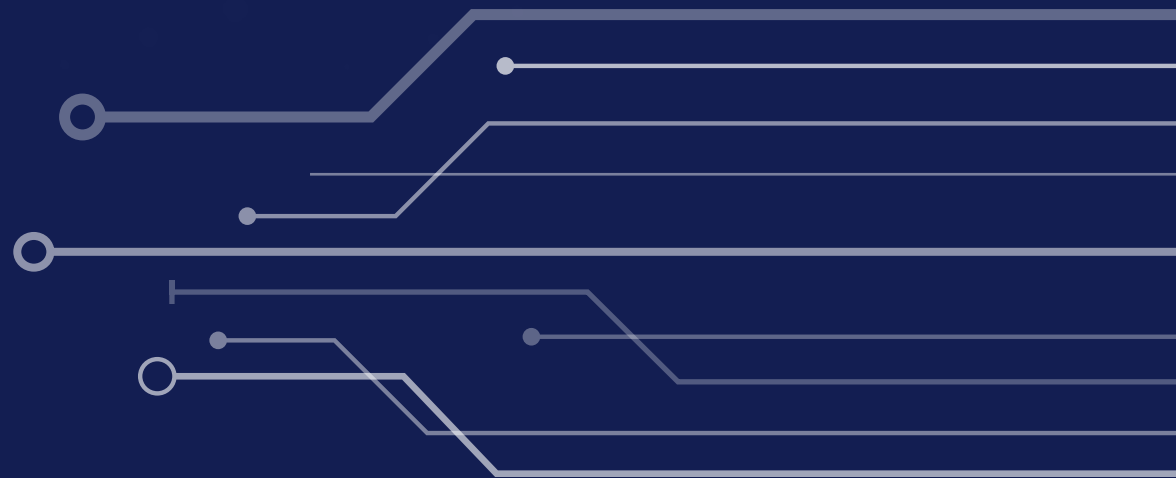
This is the first foray into products that support particular business processes. Here we look at ERP cost per user but also ERP cost per transaction – focus on transaction costs begins to show the business the cost of supporting their processes and we can start to manage capacity and demand. For example, the business may be using three separate applications to support the same process. In highlighting the costs there could be a case for consolidation / rationalisation (for example across a preferred channel) or indeed a case for further investment.

NOTES

Model Name: IT RUN Model 1



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