



Building a better
working world

IT Financial Management

Why is it relevant and what
is EY's approach?

Executive Summary

The digital transformation is fueling IT spending and increasing the complexity of IT environments. This development has caused many organizations to lose control over their IT costs and made it difficult for IT management to demonstrate the value of IT.

As a result, the need for a solution enabling organizations to effectively account for, manage, and analyze IT costs and communicate their value to the business has greatly increased. EY has developed a proven approach to IT Financial Management (ITFM) that allows organizations to regain control over their IT costs. This document provides a description of each layer in EY's ITFM framework and explains how its implementation will enable an organization to position itself to increase the value of IT without compromising cost control.

1

Background

The third industrial revolution - the digital revolution - radically changed the way we generate, process, and share information (Davis, 2016). This rapid pace of disruption forced organizations to adapt or suffer the consequences, and as a result the organizations of today operate in a vastly different manner than the organizations of the past. As we now stand on the brink of the fourth industrial revolution, organizations are yet again faced with disruptive forces. With breakthroughs in areas such as IT automation, cloud, advanced data analytics and Low-Code Development Platforms (LCDP), executives must navigate a technological landscape characterized by extreme uncertainty and an unprecedented pace of change.

It is therefore no surprise that a Harvard Business Review study revealed that 74% of surveyed executives expect their IT environments to become significantly more complex over the next 18 months. Furthermore, roughly 50% say this complexity has created a sense of chaos in their organization (Harvard Business Review, 2020) . This is coupled with a surge in IT costs, as the worldwide IT spending is set to increase by almost 13% over the next two years (Mlitz, 2021). In short, while the digital transformation has been a key driver of both economic growth and productivity, its downsides are also coming to light as firms are faced with increasing IT complexity and costs.

IT worldwide spending in billion U.S. dollars

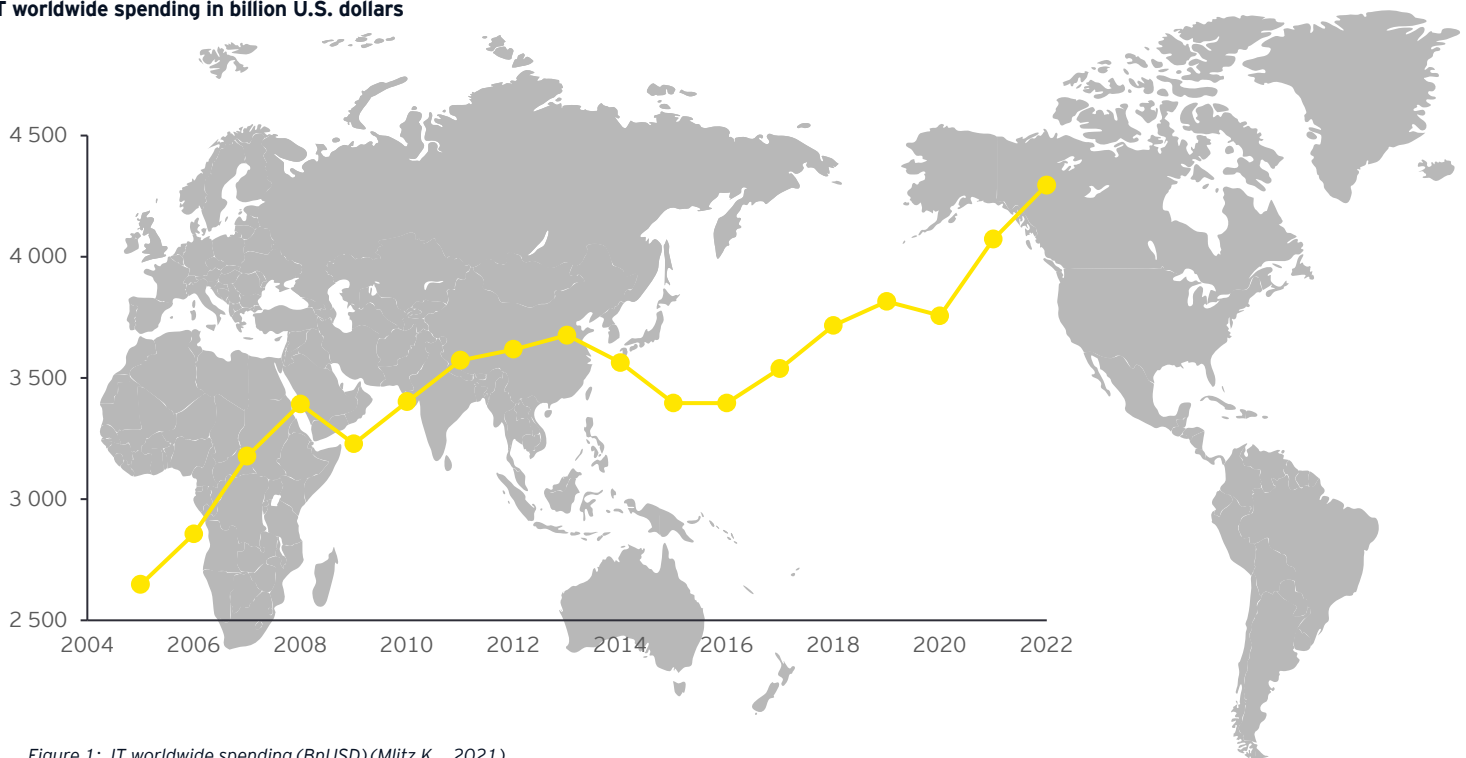


Figure 1: IT worldwide spending (BnUSD)(Mlitz K. , 2021)

2

Challenge

At EY we have seen firsthand how our clients' needs for digitalizing can lead to a lack of overview. If left unmanaged, costs can spiral out of control as they are caught in a vicious cycle of increasing IT complexity and increased share of IT-solutions (e.g. SaaS solutions) being procured dispersed throughout the organization. This comes in addition to the technical debt already accrued from legacy IT systems. The diminishing control of IT expenditures has a multitude of potential consequences.

If neglected, diminishing control of IT expenditures has severe strategic and organizational implications

Consequences of diminishing control of IT expenditures:

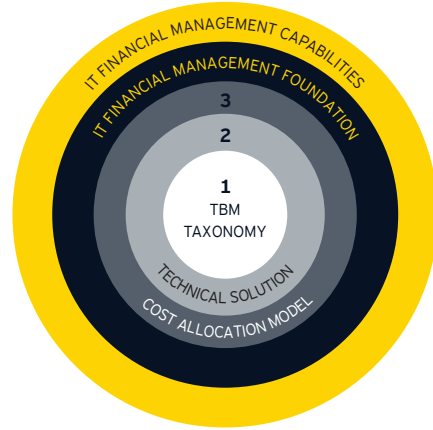
An absence of data-driven decisions making it increasingly difficult to budget IT-cost.

As the IT landscape becomes more complex, understanding where costs are actually generated becomes increasingly difficult. This can in turn lead to decisions being made on poor, if not outright wrong, data. In fact, bad data has been estimated to cost most firms an average of 15-25% of their annual revenue (Redman, 2017). When the true cost drivers of IT are hidden, accurately forecasting costs becomes a significant challenge. This consecutively decreases the IT budget's utility as a planning tool, as it becomes reduced to a rough estimate based on aggregated figures rather than accurate cost projections reflecting the organization's true cost drivers.

The value of IT becoming less apparent and a weaker alignment of IT and business.

When cost transparency decreases, the probability of the IT function being viewed primarily as a cost center increases. CIO Magazine found that roughly half of 722 surveyed IT leaders say their departments are viewed mainly as cost centers by business colleagues (Johnson, 2014). The disassociation between value generation and cost allocation poses a challenge for IT management as it undermines the importance of the IT function to the organization. This has a significant impact on the strategic alignment between IT and the business. Without a common language and a similar perception of value generation and cost allocation, the synergy between the IT strategy and the business strategy suffers. This can have detrimental effects on the outcome of IT investments, as research has established a clear link between the alignment of IT and business strategy, and the payoff from IT investments (Bryd, Lewis, & Bryan, 2005).

3



Solution

Given the direction the world is moving in, organizations have no choice but to embrace the digital transformation and its associated changes. The key challenge therefore becomes to solve how organizations can continue their transformative journey without losing control over their IT costs. IT Financial Management (ITFM) tackles this issue head on, and can be defined as:

The processes and tools providing the key capabilities to effectively account for, manage, and analyze IT costs and communicate their value to the business.

EY's approach to ITFM is built around a three-layered ITFM foundation that enables businesses to strengthen and grow their ITFM capabilities. In the following section, we will first describe the different layers that make up the ITFM Foundation, before we summarize what characterizes the different capabilities and the value derived from cultivating them.

The EY IT Financial Management Foundation

The core of the foundation is the well-proven and publicly available standard IT cost categorization;

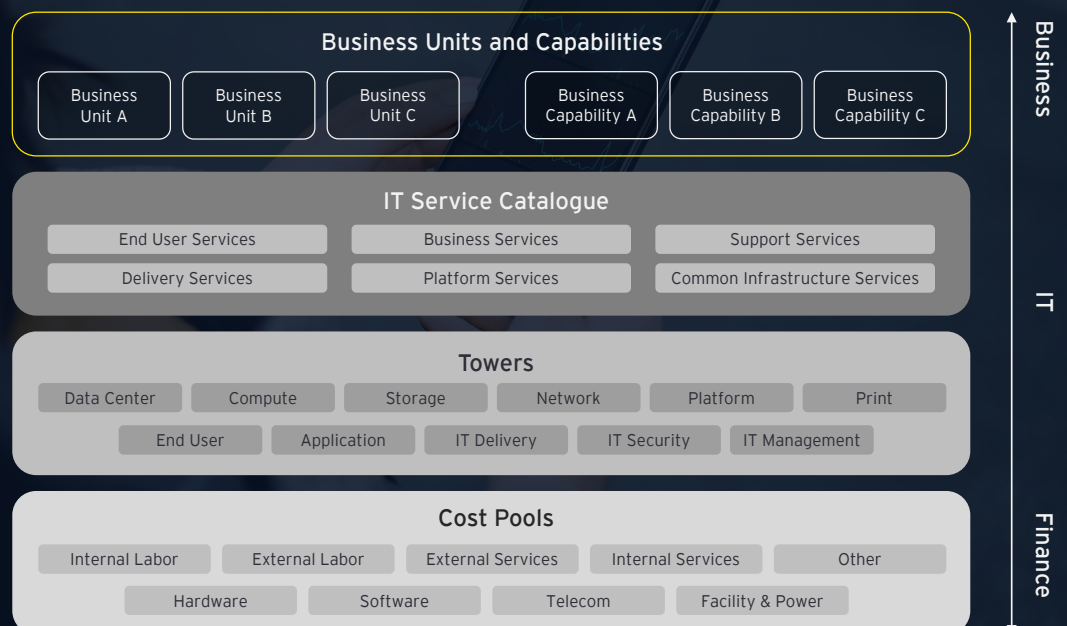
the TBM (Technology Business Management) taxonomy. The taxonomy enables the translation and categorization of raw IT financial data into categories that enable insightful communication across different business functions. The second layer of the foundation consists of the technical solution used to best structure, visualize and maintain IT financial data in an efficient way. The final layer is about how the costs are allocated, distributed, and mapped from one level of the TBM taxonomy to another.

Layer One: The Technology Business Management taxonomy

Organizations rely on generally accepted accounting principles (or GAAP) to drive standard practices for financial reporting and comparability between financial statements (Tucker, 2016). Similarly, IT leaders need a generally accepted way of reporting IT costs. Using the TBM taxonomy one can allocate, classify, and organize all IT costs in a hierarchical manner that enables the business, CFO, and IT leaders to better understand the true cost and value of IT. Implementing the taxonomy can significantly improve IT cost transparency, and give IT leaders a better foundation to lead discussions on IT budgets and investments. For more information, please visit:

[TBM Council Taxonomy](#).

Layer One: The Technology Business Management taxonomy



Layer Two: Technical Solution

EY has developed a solution based on Microsoft Power Platform (a collective term primarily for Power BI, Power Apps and Power Automate). Power Platform is Microsoft's Low-Code Development Platform (LCDP) that enables businesses to automate, visualize, and analyze data.

Power Platform connects easily with Microsoft's services such as Office 365, Dynamics 365, as well as other external data sources. Given that more than a million companies worldwide are already using Microsoft's services (Liu, 2021), implementing a Power Platform solution will typically be less resource intensive than implementing more complex ITFM solutions.

EY's ITFM solution uses Power BI to provide a complete overview of all IT costs across the organization. The dashboard includes visualizations of IT costs across all TBM cost categories with full drill-down functionality, allowing the user to understand how any expense is allocated (e.g. from invoice to consumption).

Power Apps is a platform enabling the development of applications using a low-code approach. The EY ITFM solution uses a custom Power Apps application to store rules for how

the IT cost data is categorized and allocated. Secondly, the application provides an intuitive user interface allowing users to maintain the rules, thereby easily recategorizing allocated costs if needed.

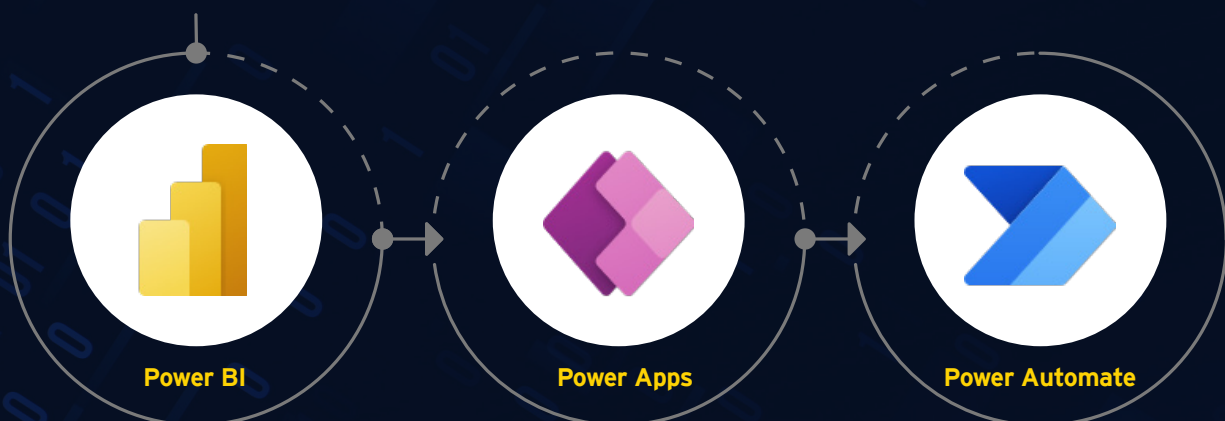


Microsoft Power Platform enables organizations to embrace a cost effective approach to IT Financial Management.

Stian Ellingsen, Norwegian ITFM lead, EY

Power Automate enables the user to create automated workflows between different Microsoft Services and other third-party applications, eliminating the need for repetitive and manual tasks. Power Automate is used to automate the process of importing, structuring, and standardizing data for the cost allocation.

Layer Two: Technical Solution - Microsoft Power Platform



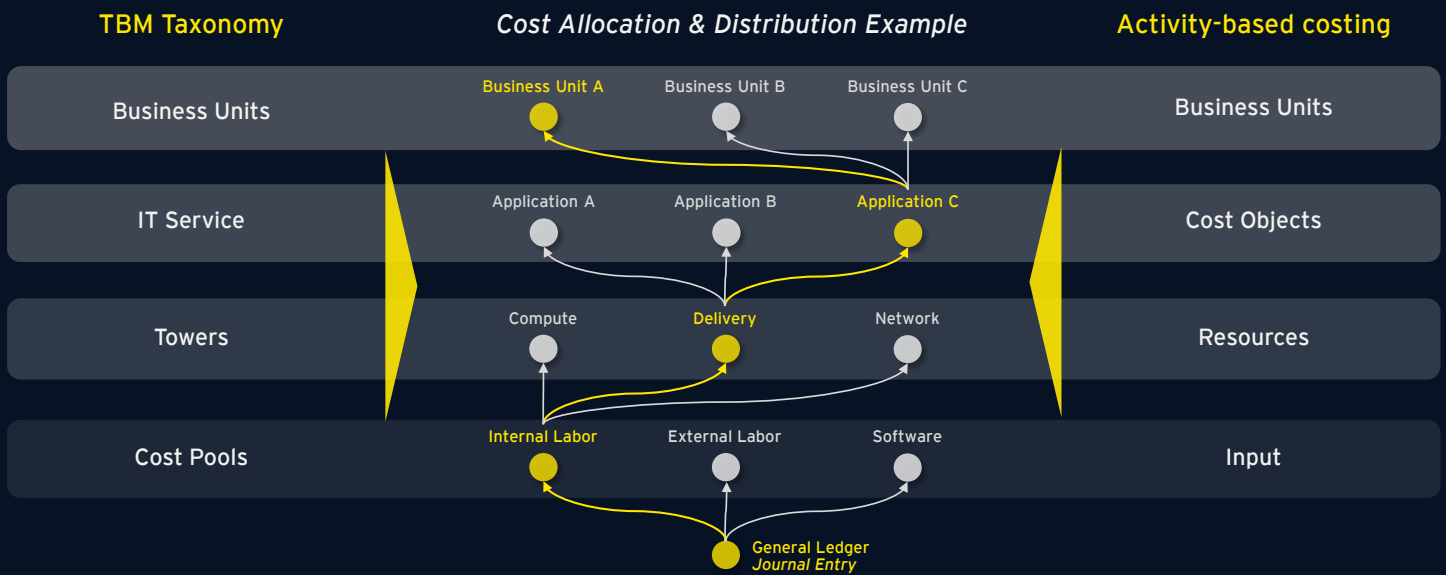
Layer Three: Cost allocation model

The cost allocation model enables the distribution and allocation of costs based on the TBM taxonomy. The model combines the cost categories with information from various data sources (e.g. financial systems, asset management, CMDB, ITSM, and HR), and allocation/distribution mechanisms. This creates meaningful and insightful visualizations of total IT costs. The cost allocation model is ultimately an activity-based costing (ABC) model, which displays the relationship between inputs, resources, cost objects and the business units.

Total IT costs are first allocated to Cost Pool (inputs) categories. This classification enables an understanding of what input factors (e.g. internal/external labor or software/hardware cost) are needed to deliver and operate an IT function. In addition, costs are allocated to IT Towers (resources), which are the resources needed to deliver the organization's IT Services. Next, the costs are allocated to IT Services (cost objects) in the Service Catalogue (the directory of services that the IT function provides to the business units). Finally, costs are allocated to the business units and/or capabilities based upon consumption.

The cost allocation model supports a multitude of charging models. The simplest of these is usage reporting. This provides an overview of business unit IT resource consumption (e.g. MB used, number of computers or cost of software licenses). A more complex method is showback, which is similar to usage reporting, but rather than only providing insight into IT resource consumption, it also provides the associated cost of the resource consumption. Finally, the chargeback method adds a pricing component on top of the consumption cost, to account for the added value the IT function delivers to the organization.

**Layer Three:
Cost allocation model**



IT Financial Management Capabilities



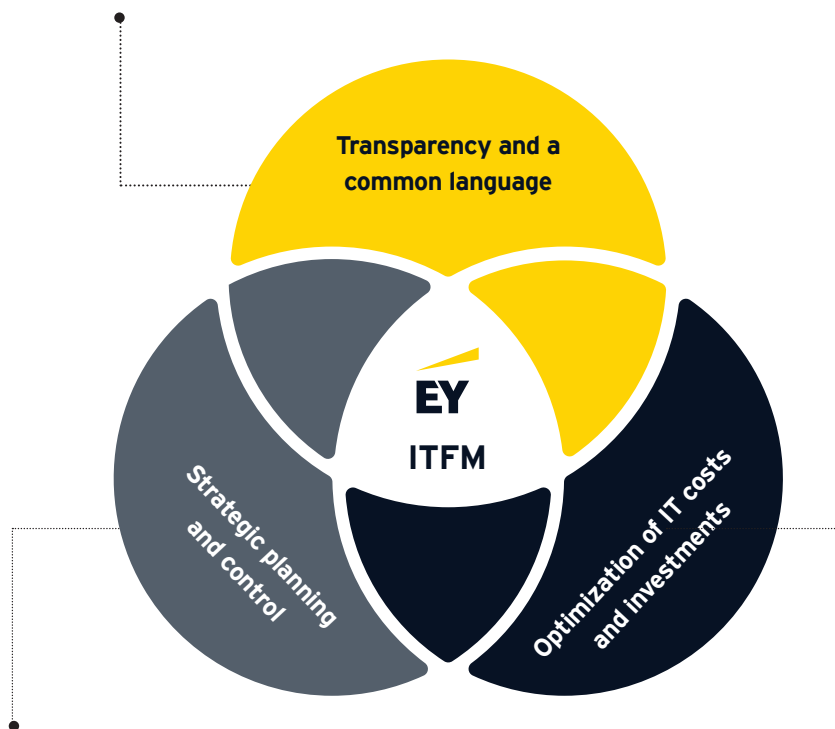
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Value

The overall value of IT Financial Management lies in removing complexity and providing understandable and actionable insight. This can be summarized in three key areas:

Transparency and a common language

By creating IT cost transparency and implementing a common language throughout the organization, ITFM facilitates better communication and strategic alignment between IT and the business functions. Additionally, the value of IT becomes clearer for all internal stakeholders as costs are directly linked to business units and/or business capabilities.



Strategic planning and control

ITFM enables long term planning and continuous improvement of the IT function from both a technical, accounting and business perspective. Furthermore, organizations can leverage the ITFM capabilities to become more agile in their response to market changes.

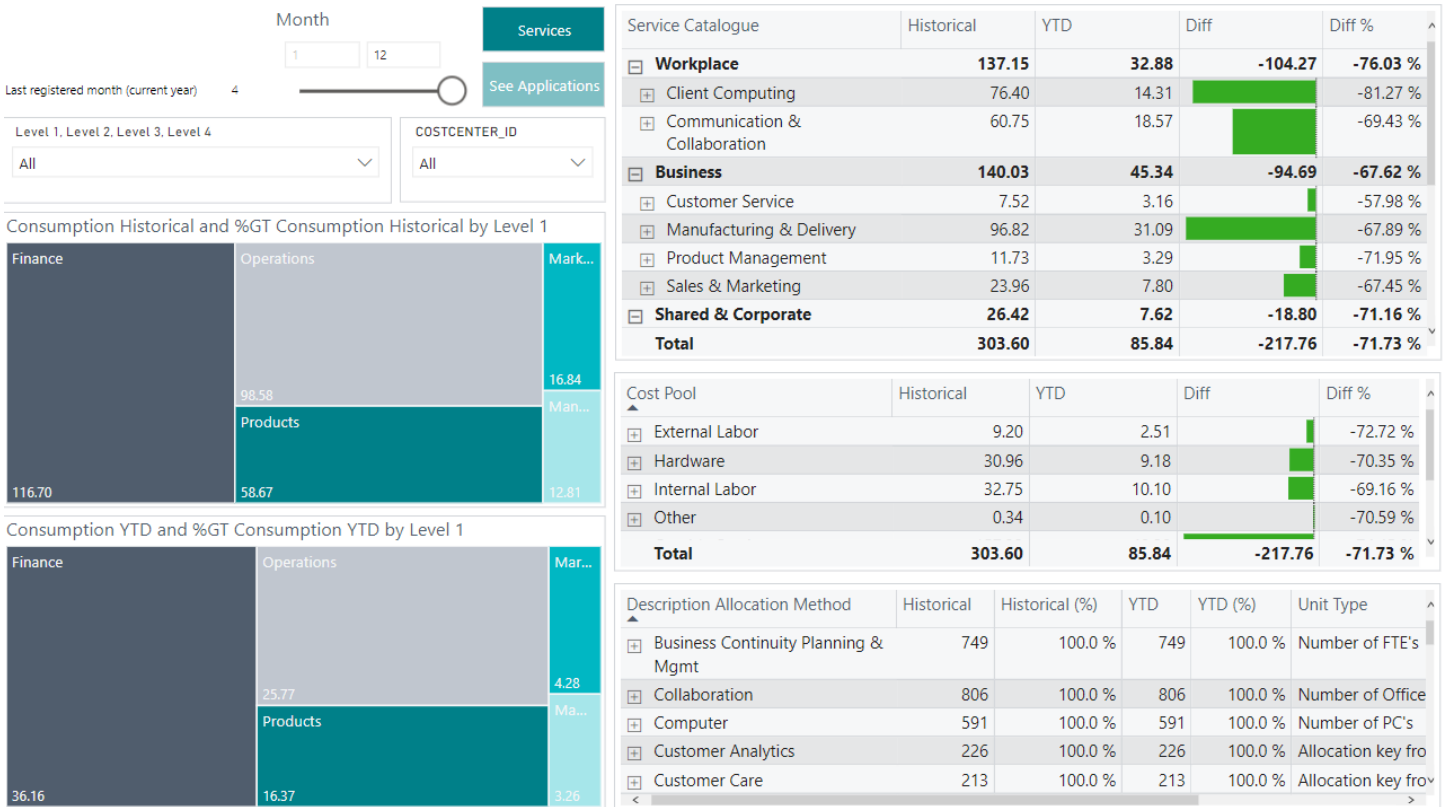
Optimization of IT costs and investments

Through an understanding of both costs and value, IT spending can be optimized over time without negatively affecting the deliverables. This can be achieved through identifying waste, increasing accountability and by finding the right balance between Opex and Capex.

The ITFM Dashboard

EY's IT Financial Management Power Platform solution enables businesses to get a complete overview of their IT environment and related costs. Some of the key features include the possibility to drilldown on all IT cost to ensure cost transparency across all services and business units. Moreover, the dashboard

provides view of historical development of both IT cost and business unit consumption. From using the ITFM dashboard, business will be able to make data-driven decision making, allowing for an improved ability to adapt and allocate resources effectively, optimizing IT OPEX and visibility of IT's value to the organization.



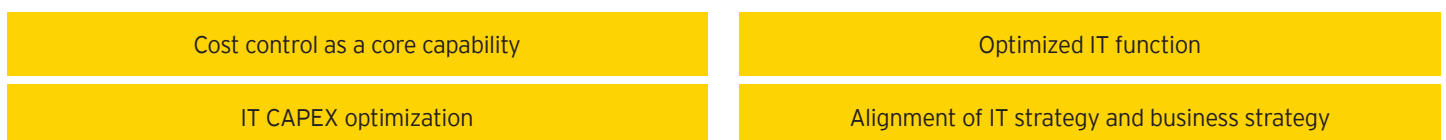
Key features



Short-term benefits



Long-term benefits



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