Running IT as a business

How government CIOs can connect spend to mission value

EY

Building a better
working world

Shifting the
focus from cost to value

In spite of greater demands, the pressure to reduce federal IT costs is undiminished. In some ways this is unsurprising, particularly as IT remains one of the largest government expenses, and consequently the return on investment is squeezed and scrutinized. With growing mission and reporting demands, IT now has to deliver a lot more with a lot less.

A number of high-profile IT and security failures have generated a new wave of mandatory risk and resilience projects. Emerging technologies have also created new demands for digital solutions, often using technologies and skills that the IT function has not previously had to develop or acquire.

To make matters more complicated, technology providers have upped the stakes – mission units can often buy cloud-based storage, computing capability or business services directly from vendors, with consumption-based pricing. They appear to be low cost, with low barriers to use, and have a clear, transparent charging model. The IT function now has powerful competition.

In contrast, most government IT functions are unable to match these transparent, consumption-based models. Hence, the real cost of IT provision is opaque and establishing a link to the value provided is a significant challenge.

Being unable to clearly connect spend-to-value, the agency has less evidence of the value of in-house IT than it does for external service providers, even though most internal IT functions are delivering far greater business value. Within this context, it is no surprise that "shadow IT" – external contracts that bypass the IT function – are once again on the rise.

This all leads to a startling conclusion for IT: if you can't demonstrate value to the mission through clear and transparent costs, you risk being replaced by providers that can. In short, you need to run IT as a business.

What does "run IT as a business" mean?

- There is clarity of mission purpose and benefit for every line within the IT budget

- IT capacity and capability are directly linked to mission demands

- The mission is charged for the IT services it uses in clear, fine-grained, business-oriented terms

- There is a clear link between spend and value

- Reprioritization and reallocation of spend (to support in-year changes) is possible, with clarity on the impact and opportunity costs

Issues IT functions are facing

Many IT functions are struggling to achieve cost transparency and demonstrate their value to the mission:

Cost transparency

Current state

- Costs are unclear and hard to understand

- The processes for recharging IT costs are manual, time consuming, brittle and poorly governed

- Business chargeback is opaque and drill-down capability is limited

Effects

- Inadequate support for strategic planning and prioritization

- The budgeting process takes too long

- External costs often appear to be cheaper

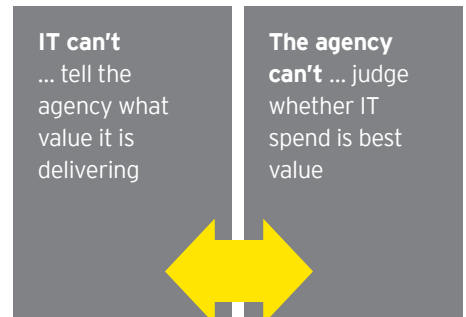- Missed opportunities – potential improvement projects not initiated

Value of IT

Current state

- IT services are not defined in mission or business terms

- The links between IT cost and the mission value created by it are weak or non-existent

- Focus on cost reduction rather than value creation

Effects

- Value created by IT is perceived as low

- IT is the first port of call when costs need cutting, as mission impacts are not easily demonstrable

- The agency doesn't trust IT to lead innovation so doesn't use it to its fullest potential

IT can't … provide timely, defensible charges to the mission units	**The agency can't** … plan strategic investments or tactical changes with confidence	**IT can't** … tell the agency what value it is delivering	**The agency can't** … judge whether IT spend is best value

Our approach

- ‣ We help clients to measure, demonstrate and communicate the value that IT adds to the mission

- ‣ We help CIOs move their focus away from ''policing'' technology spend toward helping the agency to make better investment decisions

- ‣ In turn, we help clients to reduce IT costs or release tied-up budgets that can instead be spent on mission needs or innovation
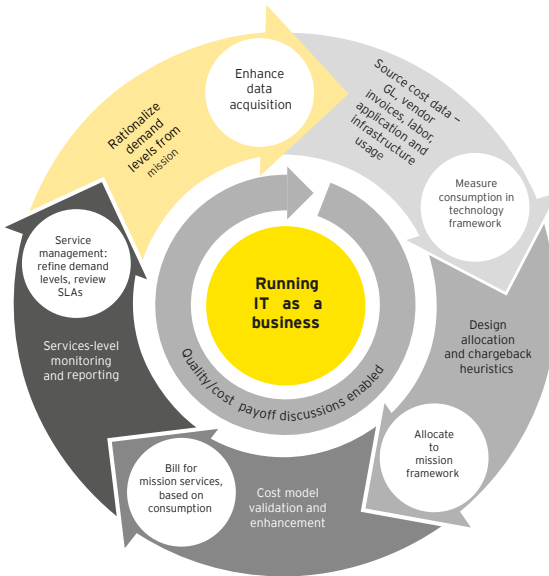
The first step is cost transparency

The first step to achieving the goals of demonstrable value, enhanced agility and budget reclamation, is the development of a transparent cost model.

Based on our experience, this tends to start with the acquisition of detailed IT usage and cost data, from which a transparent cost model can be developed. The Technology Business Management (TBM) framework standardizes how IT costs are categorized.

Software-based solutions are now available that enable rapid data acquisition and modeling.

Discover, identify and prioritize the IT data sources you need. We can also help you construct your IT cost model and select an appropriate software solution.

The benefits
of our approach

1. Cost transparency

Clarity on how expenditure leads to mission outcomes

‣ Surface all IT costs and charges (both above and below the line), including hardware, software, support and licensing

‣ Measure consumption by the mission end users, as well as cost to the IT organization

‣ Develop explicit costs for differing service levels (e.g., continuity provisions, data storage tiering), creating options for the mission and comparisons to other service providers

2. Value transparency

Leading to better IT choices and prioritization of spend

‣ Clearly align service outcomes, unit costs and service levels to a defined service catalogue

‣ Create clarity on both the IT cost model and the cost chargeback/allocation mechanism

‣ Link mission processes and financial outcomes to IT business services, and agree KPIs that are meaningful to the mission

‣ Agree accountability for IT investment and prioritization decisions

3. Increased agility

Faster, value-based decision-making and reprioritization

‣ Define, automate and accelerate the IT chargeback process, leading to on-demand service delivery and pricing

‣ Drive IT planning from the service catalogue and predicted usage/volume metrics, using forecasts from the mission

‣ Develop cost scenarios for tactical and strategic change to identify areas for cost optimization

4. Budget reclamation

Evidence-based disinvestment, releasing budgets or reducing costs

‣ Identify underperforming or underutilized IT spend driven either by mission or technology underperformance

‣ Identify IT expenditure that is misaligned to the mission and technology strategy

‣ Agree disinvest candidates with the mission

‣ Enact disinvest decisions, reducing costs or releasing budgets for reallocation to change

How we can help

We understand the demands and pressures on today's CI through our deep experience in:

- ‣ Technology strategy
- ‣ Sourcing and managed services
- ‣ Technology Business Management (TBM)
- ‣ Core systems implementations

We also have a deep understanding of the CFO agenda through our work on:

- ‣ Finance transformation
- ‣ Activity-based costing
- ‣ Recovery and resolution planning

We have worked successfully with the leading software vendors in IT finance management in engagements with a number of clients across all sectors.
We have a team of dedicated data specialists who can assist your implementation of IT finance management software systems, aided by our data modeling accelerators.

How we have helped our clients

We count many of the largest and most complex services organizations in the world as our clients. Our work spans government, business and technology domains.

US-based global bank	**Global wealth manager**	**Pre-eminent aerospace manufacturer**	**Leading private health care provider**
We developed a standardized process framework and target operating model delivering $320m in infrastructure savings, over $65m in IT service management resource savings and further planned savings of over $100m.	We defined an application rationalization blueprint – identified over $100m in savings across the operational expense budget.	We assessed and benchmarked the client's cost accounting and chargeback processes and designed the target operating model for IT finance management infrastructure.	We analyzed the cost base, and supply and demand drivers of IT spend, yielding opportunities to save over $11m across 3 years through more than 20 initiatives.
Our work with the client helped them identify an opportunity to move to a more cost-effective IT provider.	This enabled our client to make confident disinvest decisions about underused applications, resulting in them releasing a BAU budget for new initiatives.	This resulted in $200m worth of savings in project curtailments, elimination of duplicated effort and rationalization of underused software systems.	This better understanding of the mission's capacity needs enabled IT to be more responsive to the organization.

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