

The business value of IT



X MEDIA



- SHOW BUSINESS
- NETWORK
- MUSIC
- CINEMA
- BUSINESS/FINANCE
- WORLD NEWS

```
120101110101001
00101010101001
11010111001011
11010020011011
1111011010111010
101101010101
1111100010101111011010
10101111
1010110101010101
0110011110101
1111101010110101
01101011111111
```

NETWORK SEARCH

PEOPLE	<input type="checkbox"/>	<input type="checkbox"/>
FORUMS	<input type="checkbox"/>	<input type="checkbox"/>
EMAIL	<input type="checkbox"/>	<input type="checkbox"/>
LINK	<input type="checkbox"/>	<input type="checkbox"/>
BUY	<input type="checkbox"/>	<input type="checkbox"/>
SALE	<input type="checkbox"/>	<input type="checkbox"/>



- SHOW BUSINESS
- NETWORK
- MUSIC
- CINEMA
- BUSINESS/FINANCE
- WORLD NEWS

```
120101110101001
00101010101001
11010111001011
11110020011011
1111011010111010
101101010101
1111100010101111011010
10101111
1010110101010101
0110011110101
1111101010110101
01101011111111
```



- CULTURE
- ECONOMIC
- FINANCE
- BUSINESS
- MEDIA
- PEOPLE
- CREATIVE
- TUTORIALS
- INVESTMENT
- NETWORKING



```
120101110101001
00101010101001
11010111001011
11110020011011
1111011010111010
101101010101
1111100010101111011010
10101111
1010110101010101
0110011110101
1111101010110101
01101011111111
```



ISTOCK/THIN KSTOCK

Understanding the real value of IT and proving it to the business

At a time when costs are being continually squeezed, there is more pressure than ever to demonstrate the business value of technology. Lisa Kelly reports

Ultimately, IT only has value if it has value to the business. But demonstrating that value to business leaders to have meaningful conversations about what IT actually achieves has historically been a dark art, often based on the purchase price of products such as servers or storage and plenty of intelligent guesswork.

Today, with increasing pressure on IT budgets to do more with less, such an archaic method simply will not do.

"The recession has put pressure on spending in many companies, and this continues in spite of optimistic noises currently coming from the UK government. It is important that what money is available is spent wisely," says Chris Harding, director for interoperability at IT standards body The Open Group.

Steve Carter, principal analyst in KPMG's CIO advisory team, says annual IT spend in

some industries is as much as 10% of total operating costs, and the CIO is accustomed to IT budgets coming under focus from the business.

"This scrutiny is increasing due to several factors, including weak growth and disruptive technologies such as cloud," he says.

What's more, with the focus on virtualising datacentres to drive efficiency and cut costs from IT resources, the outdated approach of buying a new server for each

**"IT IS IMPORTANT THAT
WHAT MONEY IS AVAILABLE
IS SPENT WISELY"**

CHRIS HARDING, THE OPEN GROUP



ISTOCKPHOTO/THINKSTOCK

new business application, and using the price tag as the basis for quantifying value, becomes redundant.

Virtualised IT resources are part of a holistic pool to be used on demand, further blurring the efficiency and cost attributed to each part of the organisation.

But if IT cannot properly demonstrate its value, it risks being bypassed, says Bob Tarzey, director at analyst Quocirca.

“Unless IT can prove it is providing cost-effective and relevant business support, it will lose the sponsorship of various lines of business and become irrelevant,” he says.

MEASURING COST AND VALUE

Effective engagement between IT and the business is vital for the survival of the IT function, and IT chiefs need to be able to analyse the value of IT operations related to their financial costs, and to better manage and plan capacity needs.

“It is important to measure not only the services that are used, but also the business results that come from their use,” says Open Group’s Harding.

This is particularly the case for organisations wishing to adopt an internal pay-as-you-go model associated with a private cloud environment, to give an accurate assessment of where resources are directed and to help better plan for future service provision and capacity.

“Focusing on business value will focus IT management; better business conversations will follow as a result,”

says Tarzey.

Being able to demonstrate where

resources should be directed is also central to having productive conversations with the business about future innovation. Understanding IT and cost data can help with capacity planning of future services and drive further efficiencies by preventing unnecessary IT investment.

“The real issue here is how business processes can be flexibly and affordably supported where costs can be shown to be high, and how much virtualisation and cloud will reduce costs, and so on. With the use of flexible IT resources, processes and business ventures can be pushed harder without the need for huge upfront investments in IT infrastructure,” says Tarzey.

FUTURE PLANNING

Tools are now emerging that allow IT managers to combine operational information with day-to-day running costs, helping them to build an accurate picture of the true costs and capacity requirements of IT to better plan for the future.

KPMG’s Carter says CIOs are beginning to build a more agile IT organisation that is able to manage forward supply: “This internal capability gives the CIO greater control over their business.”

IT leaders are becoming more interested in disciplines designed to help them manage IT more as a business than as simply an engineering capability. By looking at tools to help gain insight into the true costs of IT, they increase the efficiency of IT resources, improve the level of transparency of IT costs, and can more effectively underpin any IT-enabled business agenda, he says.

“A service-based approach to cost and capacity management enables the CIO to



“UNLESS IT CAN PROVE IT IS PROVIDING COST-EFFECTIVE AND RELEVANT BUSINESS SUPPORT, IT WILL LOSE THE SPONSORSHIP OF VARIOUS LINES OF BUSINESS AND BECOME IRRELEVANT”

BOB TARZEY, QUOCIRCA

manage business demand, because of the transparency of costs," says Carter.

A service-based approach to cost management can also be the basis for demonstrating the true productivity and business contribution of IT, which is particularly relevant in a virtualised environment.

Roy Illsley, principal analyst at Ovum, says cloud and virtualisation of IT services has pushed the IT department into a transition.

"It is important to find a model where IT can conduct a conversation with the business by demonstrating how much IT services are consumed, especially if IT wants to support chargeback," says Illsley.

Having the right model to show the real cost of IT services in a virtualised environment allows for better capacity planning and governance.

"Organisations can have central governance and create a strategy for IT spend if they can see where the money is being spent," says Illsley. "Just like any other valuable and effective resource, they can understand the value of IT. There is no way of valuing IT if it is just a thing at the side of the organisation. All parts of an organisation need IT - how it is used from a support function through to mainstream business activity needs to be analysed so better decisions can be made."

Deploying software that facilitates a service-based approach to cost management should be explored in tandem with the transformation of the datacentre through cloud and virtualisation.

"IT leaders can look at the costs and go back to the people in the business and say, 'This service is costing x pounds, do you want to keep it as an IT priority?' and future planning can improve," says Illsley.

CHARGEBACK OPPORTUNITIES

Many organisations are interested in discovering the true value of IT to instigate some kind of consumption measurement or chargeback facility.

"Organisations are getting serious about measuring IT consumption with money changing hands," says William Fellows, analyst at 451 Research. "A CIO with the necessary financial tools can create an invoice for IT that can be charged to lines of business."

He says the trend towards remodelling IT departments to think more like businesses will continue as they seek to turn themselves from cost centres into service delivery organisations that focus on delivering value to the business.

Although this evolution does not guarantee the survival of the IT department, Fellows says it makes it look a lot healthier in the eyes of the CxO and IT can return to innovating for the business.

TRANSFORMATION LAG

However, different business sectors are addressing the cultural shift from the cost of IT to the value of IT at varying rates.

"The higher education sector in the UK is really beginning to understand the value of IT and reach out and talk to students. Banking is beginning to realise the value of online services and customer retention, and retail

THE TREND TOWARDS REMODELLING IT DEPARTMENTS TO THINK MORE LIKE BUSINESSES WILL CONTINUE AS THEY SEEK TO TURN THEMSELVES FROM COST CENTRES INTO SERVICE DELIVERY ORGANISATIONS THAT FOCUS ON DELIVERING VALUE TO THE BUSINESS

knows the value of online shopping. Other sectors are beginning to come to terms with the value of IT, but they do not fully understand its significance," says Illsley.

There is a propensity for some elements to be very blinkered and not look beyond given boundaries. The risk of this blinkered approach is being unprepared for the agility and change demanded in a fast-paced

world, where successful businesses are the ones that can accurately predict where to devote resources.

"If there is evidence that IT resources are tied to an uncompetitive part of the business, then it can open the door to a discussion about getting a different model or finding other opportunities. However, these conversations are not always easy and are unlikely to happen overnight, but they need to happen," says Illsley.

Ultimately, all organisations should aim to make IT a transparent cost, to move towards providing IT as a service that can better support the business and deliver tangible benefits.

"To some extent technology has to tread water while organisations catch up and understand how they should best use IT services and structure the IT department to operate in this new world," says Illsley.

"The internal datacentre is going through a transformation and there is a need for new ways of asking questions about IT value so the business can grab the information and IT can help how the business innovates and operates and move forward," he says.

"The challenge is finding the best way to get the information you have within the datacentre out to the business - you need

to visualise it to get the message across," says Illsley.

FOCUS ON BUSINESS GOALS

Getting that message across is important to the forward-thinking CIO. "The CIO of the future is one who is collaborative and knows how he or she can help the business progress. To do that effectively, it is essential to realise and appreciate the value of IT to the organisation and find the tools to change the recognition from cost to value," says Illsley.

If the CIO gets it right, there are significant gains for the business, as IT and cost data help with mitigating the risk of capacity planning for future services in a dynamic new world.

"There are many exciting things happening in IT, particularly in the new areas of cloud computing, social media, mobility, big data, and the internet of things. These are leading to innovative business models," says Harding.

"Keeping track of use of IT services and understanding how they contribute to business results provides the best basis for planning of future services. Innovation usually involves risk. Understanding the underlying factors and models helps keep the risk to a minimum." ■

DEMONSTRATING BUSINESS VALUE

The majority of CIOs believe the IT department can increase the value it delivers to the organisation by improving cost measurement, according to a recent survey by the Service Desk Institute.

Some 82% of respondents said that improved reporting of activities and metrics from IT, enabling the business to gain a clear understanding of IT's output and results, was significantly important towards achieving this goal.

The study showed that 93% of CIOs believe better collaboration with business units to improve understanding of their goals and how they deliver value is necessary for delivering real value. Some 69% want clearer communication from executives about business plans and objectives.

The *Demonstrating business value* report also found that only a quarter of CIOs (27%) said senior executives view IT as contributing to strategic business goals such as growth or diversification, while 30% view it as a necessary trading expense that needs to be tightly controlled. Some 43% view IT only as a means to increase efficiency.

Half of IT teams either have no formal reporting mechanism for IT performance (17%) or focus on metrics such as downtime (33%) rather than anything more strategic.

Nearly all respondents (98%) said IT can play a bigger role in supporting the goals of the business as a whole.