In the never-ending quest for competitive advantage, a company will strive for greater customer intimacy, operational excellence and product leadership—the first to achieve higher customer satisfaction and loyalty, the second to get products out faster or improve margins, and the third to make a market its own. IT finance plays a key role in directing IT’s understanding of these strategic disciplines to align technology decisions with core business objectives.

Under budget constraints and a continuous flow of business demands—as well as IT’s own strategic programs and change requests—IT must determine which investments and cost reduction measures best serve the business. The increased complexity of globally and organizationally distributed operations and associated IT makes it difficult to match up IT plans and business needs. Add to that the task of determining affordability of IT initiatives and the IT investment board quickly finds itself peering into the murky waters of insufficient data, makeshift analyses and corporate politics—not a good basis for making decisions with confidence.

The risk of incorrect investment decisions is very real and can be devastating to an enterprise—especially in a tightening economy. The wrong move—or failure to act—can push an already cash-strapped business into bankruptcy or gravely impact the performance of any business. Product leadership and customer intimacy cannot be achieved by uninformed cost cutting. Capital expenditures must be made and new projects supporting sales and marketing or R&D need to be funded. But money is not unlimited, and trade-offs need to be made. Which one is the question—and at what consequence to the company? In the absence of sufficient transparency into the relationships between business goals, business capabilities, proposed and running projects with their inherent interdependencies, how can one really know:

- Which business capabilities need to improve to best support business strategy?
- Which projects target improvement of those particular business capabilities?
- Which projects can be discarded to make room for the truly important ones?
- How will cancelling these projects affect other projects that are planned or running?
Reducing operating expenses with the goal of improving efficiency—running business processes at lower cost, outsourcing or reducing vendor costs—is just as fraught with potential risks. Without the ability to capture costs appropriately to be able to aggregate totals for individual business services, processes and domains, the organization can’t identify:

- True costs of IT’s support for business processes or business capabilities
- Redundant or inefficient IT support of business processes and capabilities
- Consequences of system roll outs, postponements or cancellations
- Processes that are candidates for an outsourcer who can deliver at lower cost

Business-IT alignment is the key to reducing IT operating costs and prioritizing projects with minimal risk to the business. This paper discusses how those involved in IT financial management and budgeting can gain the insight necessary to be able to make decisions that will enable the company to weather turbulent times and still maintain—or gain—a competitive edge.

**The truth is in the data**

The goal of every budget planning preparation should be to create:

- A defendable project portfolio of projects to be invested in and identify those that should be cancelled or put on hold
- A proposal for changes to the provision of IT services: adjustments to Service Level Agreements (SLAs) or IT services that can be outsourced
- IT systems that can be cancelled due to redundancy
- Vendor contracts that can be tweaked for price optimization

**What knowledge is necessary to get to these results?**

For optimizing capital expenditure (CAPEX), projects should be promoted or discouraged based on their potential contribution for achieving business strategy. Achievement of business strategy is dependent upon the strength of the business capabilities needed to support the relevant activities. The strength of the business capabilities is dependent on the quality of IT support for those capabilities. Inadequate IT support for capabilities critical to achieving business strategy warrants a good look into the project proposals aimed at improving that support. Such an assessment regards:

- Business strategy and goals
- Business capabilities and their relationship to business goals
- Projects and their relationship to business capabilities

To identify where to target improvement efforts, evaluations are required that:

- Demonstrate the difference between the required capability strength and current strength
- Prove whether a project will support closing the gap between current and desired strength

Part of the evaluation of the project portfolio should include the impact of project decisions on other projects. In cancelling a project, you don’t want to endanger projects that are supporting critical business areas. Further, proposed projects may overlap with other planned or existing projects based on the IT solutions they plan to build or modify. Identifying these dependencies can make projects easier to finance and create space in the budget for projects that are lower on the list of criticality but nonetheless important. In mapping the IT architecture information to the project portfolio, one can see:

- Which IT systems are addressed by which projects
- Where multiple projects address the same IT systems
Operational expense (OPEX) can be addressed in a similar fashion—understanding the information, relationships and processes needed to reduce operating costs without increasing risk to the business.

Many companies use the lawnmower method to cut cost, usually because the means they have to capture IT costs (typically an ERP system) provides limited views of IT costs as cost types or cost centers. So 20 percent off the top (or bottom) of hardware, software and staff and—voila!—the company saves a few million. Or applying 20 percent at individual cost centers across the value chain—R&D, production, marketing, sales, service—also money in the bank. These methods not only miss true savings potential, they also put the business at risk by cutting resources that may be critical to important business processes, capabilities and achieving business strategy.

By capturing and analyzing the IT landscape and the cost of the elements it’s made up of, IT can gain the transparency needed to find the redundant systems so often prevalent in distributed global enterprises. Seen as individual building blocks, IT objects can easily be mapped to business processes or business capabilities to be able to evaluate the IT cost needed to support the individual process, identify inefficiencies in support, and find inappropriate SLA levels and outsourcing candidates. Such an assessment captures:

- IT system costs at object level (investment-related and operations-related)
- Business processes and capabilities
- Relationships between IT systems and the individual processes and capabilities they support
- Business process and capability KPIs
- IT SLAs

This enables one to identify:

- The gap between required and provided IT support
- Business capabilities or processes that can be outsourced to improve economies of scale for business transactions
- IT systems that can be outsourced to improve economies of scale for IT servicing

Additionally, by being able to see where a common IT platform supports several business processes or capabilities, an enterprise can assess the impact of outsourcing. This helps the company avoid risk to the business while reducing cost.

<table>
<thead>
<tr>
<th>Short term</th>
<th>Cost optimization</th>
<th>Strategy execution</th>
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<tbody>
<tr>
<td></td>
<td>Gain cost transparency</td>
<td>Cross-check project portfolio for business benefits</td>
</tr>
<tr>
<td>Medium term</td>
<td>Eliminate redundancies and consolidate technologies</td>
<td>Standardize processes for non-critical decisions</td>
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Figure 1: IT financial management follows several goals.
A sustainable cost-optimization methodology

Granted the resulting deliverables will place in the CIO’s hands the means to make necessary short-term decisions as dictated by, for example, the financial crisis of the day. Yet given the dynamic nature of business, this really should not be a one-time exercise, neither for emergency cost-cutting measures nor for the annual budgeting round. New business demands motivated by environmental factors and changes in the technology environment require constant re-visiting, re-planning and adjustments to decisions. This calls for consistent monitoring and review of spending to ensure that the necessary information (on running projects, planned projects, IT systems and business-IT alignment structure) is always up-to-date. It isn’t enough to try to gather this information as the need for decision comes up. Inevitably the time will be too short to gather the data needed to make a well-informed decision resulting in delayed or under-qualified risky decisions. In establishing a process for IT financial management that ties in all the relevant stakeholders and their contribution to the IT financial planning process, you can ensure that all necessary information is current at the time of decision-making.

Such a planning process is not altogether new. IT financial management is addressed by the Business IT Management (BITM) discipline. BITM encompasses all activities that support effective and consistent decision-making about how IT should be deployed and managed. It thus involves activities such as landscape consolidation analytics, portfolio analytics, automated risk and compliance assessments, scenario planning, transparency of full application life-cycle costs and capability-driven portfolio analyses. As the linchpin of all IT management activities, modern BITM takes on a pivotal role. It establishes a systematic process to extract the necessary planning information from all involved stakeholders, ties it together in meaningful relationships and channels it into processes that address other enterprise disciplines. In including IT financial management in BITM, CIOs are empowered with the means to make decisions quickly enough to render the IT agile in its support for the business.

Context is king

Consider these survey results from Forrester Research from the report “Tracking The Renegade Technology Buyer” (Forrester, May 2013).
The general disconnect between what IT decides to invest in and what business actually needs has resulted in business procuring its own IT. Why isn’t business trusting IT to purchase technology anymore? What is causing the rift between business and IT? It isn’t due to a lack of information in the enterprise. There are many sources of information on the IT assets the company owns, the project portfolio, performance of specific business areas, the business processes being executed, services being provided by IT and IT costs.

Figure 2: IT financial management has many sources of information at hand yet lacks an integrated view that would enable an optimally informed decision.

The problem is that it’s difficult to bring this information together in a context that supports the CIO’s financial responsibilities. Business intelligence solutions can aggregate data to a certain level for planning purposes but they can’t provide the business and IT architecture context and thus can’t bring it to the high level of abstraction needed for strategic planning. These tools have no knowledge of business-IT dependencies. An IT planning and portfolio management system does. It is the owner of the relevant cost factors (ICT objects) and—as a comprehensive information management capability—can put information into the view needed to enable the best financial planning decisions.

Alfabet: Insight for financial management

Alfabet lets you see the whole picture. It captures business processes and business capabilities, projects, the supporting IT solutions and their costs and delivers the views needed to analyze IT cost structures and gain insight into activities with high IT cost and low business value. By integrating information on the business requirements, IT project portfolio, IT cost and budget and the IT landscape, Alfabet provides a holistic view of IT cost for IT financial management including:

- Which business capabilities are critical for fulfilling business needs
- Identification of IT support that is insufficient for critical business capabilities
- Where IT costs and planned IT investments are disproportionate to business strategy
- What the impact of operational cost cutting and cancelled projects are on critical business areas, existing projects and future business plans

IT financial management in Alfabet is based on several precepts based on running IT like a business. Firstly, IT budgets must be linked to strategy. This means that strategy needs to be documented. Its impact on business capabilities provides a focus for budget discussions. Associating strategy and capabilities to major programs supports portfolio optimization. An integrated IT planning and portfolio management system such as Alfabet can provide this insight.
In the screenshot in Figure 3 from Alfabet we see:

- On the left-hand panel the company’s strategy network documented in a cascading hierarchy of vision, external trends, business drivers, business requirements, architecture requirements and initiatives, ending with the initiative/project CRM++ for that particular architecture requirement
- On the upper right-hand panel the company’s business capability map showing which capabilities would be strengthened through this initiative
- In the bottom three graphs the running and planned projects associated with the “CRM++” initiative, the affected architecture and, importantly, the KPIs for the initiative that have been defined and are being constantly monitored

![Figure 3](image.png)

Figure 3: Project funding decisions should be made on the basis of their contribution to company strategy and their ability to improve the business capabilities required to achieve that strategy.

The business capability map is an important and powerful medium for understanding the business-IT relationship in many different contexts. It is an invaluable tool in discussions with the business side of the house as business can see its functional structures represented and understand IT support clearly. In a discussion on CAPEX budgeting and costs, for example, the screenshot on page 7 (Figure 4) overlays the company’s strategic projects on the capability map. The capabilities in purple are those that have been identified as strategic and where the company wants to be able to differentiate itself on the market. The company’s strategic projects (all colored boxes containing a “P”), colored according to the investment cost of the project (from light to dark representing low to high cost ranges) are “all over the map,” as they say, and do not necessarily support improvement of strategic capabilities. The non-strategic capabilities “Depot Management,” “Payment Processing” and several others have fairly costly projects supporting them whereas as the strategic capability “Channel Management” has none at all.
A solution such as Alfabet can also help decide on a CAPEX strategy by showing scenarios for an understanding of the strategic fulfillment provided by each scenario. The screenshot in Figure 5 shows three project investment scenarios: “As many projects as possible,” “Large projects first” and “Urgent first” in various evaluations. The middle graph shows which projects would be continued under each scenario. The bottom left graph compares scenarios according to pre-define KPIs. The graph at bottom right shows the strategic fulfillment level of each scenario. This type of information is essential for well-founded investment decisions.
Informed OPEX reduction decisions can also be made strategically and not tactically with the business capability map as a compass. Before deciding which applications to retire, a business capability map showing what capabilities need to be changed and which are causing high costs should be consulted. The view below shows a business capability map in which each domain is colored as to its conduciveness to change. Size represents costs ranges. The sub-domain “Customer Management” is expensive and not conducive to change. Yet the portfolio chart just below shows that it is this capability that provides the company market differentiation and needs to be flexible.

Use Alfabet to align IT cost optimization with business strategy to be able to see where to cut costs and what the impact will be to the business. Understand current and future business priorities and which IT supports them at what cost. Have confidence in decisions to cancel licenses, reduce maintenance, stop projects and postpone programs. Alfabet helps organizations achieve the IT transparency needed to be able to make those tough decisions on prioritizing and rationalizing IT spending—without compromising IT support or alignment with strategy. With sufficient insight into business priorities, IT cost drivers, the project portfolio and the IT landscape, IT can use CAPEX prioritization and OPEX management to not only reduce cost but to bring sustainable value to the business.

**Figure 6:** Decisions to retire applications should be made with full knowledge of the business impact of doing so.