IT COST TRANSPARENCY: A NEW APPROACH TO AN OLD PROBLEM

by Scott Fuzer
For many companies, information technology (IT) is a mysterious black box. It’s easier to quantify what goes in than what comes out. And as far as tracing IT costs back to individual business units or their services or functions—well, the struggle intensifies exponentially. While achieving effective IT financial management remains elusive for most organizations, continued pressure on revenue and margins has made the need for effective management of what is one of an organization’s largest expenditures more important now than at any point in history. The traditional approach to providing IT cost transparency has been the “smearing” of IT expenditures across the organization or to base costs on “IT services,” which the business rarely identifies with or accepts as accurate. There is, however, a new way to finally achieve accurate and business oriented IT cost transparency that transforms the relationship between IT and the business into a mutually beneficial partnership.
Let’s start with clarifying what we mean by “IT cost transparency.” In short, IT cost transparency (ICT) is an approach to managing IT services, assets, resources, and activities in a manner that allows the IT function to track and model the total cost of these correlated activities back to specific business functions or activities—enabling the business to answer questions such as these:

- What are the IT costs for my day-to-day business operations?
- How will those costs be affected by introducing a new product or service?
- What business services or functions are actually achieving a return on investment?

ICT can also help clarify how IT and the business align, eliminate the mystery around what is a “service,” and ensure meaningful and accurate chargeback or cost allocation to the business.

THE FOUNDATION OF EFFECTIVE ICT

What is required to achieve effective ICT? Well, to begin with, the maturation and integration of Information Technology Service Management (ITSM), Information Technology Asset Management (ITAM), and Project and Portfolio Management (PPM) frameworks all provide critical foundational metrics and analytics that are necessary to achieve ICT. Where ITSM defines the costs of IT “services,” ITAM defines the costs of IT “assets,” and PPM provides program, project, and human resource costs. While organizations may have identified these costs, the challenge is that the costs do not correlate to specific business functions or activities. “Service Blueprints” help link these costs to one another and to the business activity or function. Service Blueprints are a logical grouping or mapping of assets and their interrelationships and dependencies that have relevance to an organization and enable business recognizable activities or functions (see Figure 1 for an example of a Service Blueprint).
Service Blueprints provide the ability to view IT expenditures and investments through the lens of business activities and enable the organization to understand and predict the effect of business behavior on these costs.

**DEVELOPING A CHARGEBACK STRATEGY**

Once you identify the foundational costs of IT (i.e. ITSM, ITAM, and PPM) and understand how they relate to the business, you can then layer in shared service costs (such as HR, procurement, and legal costs) and determine a cost assignment strategy. There are many mature and well-established cost assignment models that you can leverage to determine how costs will be assigned to the business. These include practices such as Activity-Based Costing ("ABC"), direct charging, and cost allocation practices. Finally, with the total cost of IT understood and attributed to specific business activities or functions, if desired, you can establish a chargeback strategy to govern and manage how the business will be charged for those costs.

The pyramid in Figure 2 illustrates how the base of comprehensive IT costs and metrics are refined into a chargeback strategy that assigns costs to meaningful business activities or functions. One could view this as a top-down/bottom-up process where business activities or functions are driven down to the appropriate level and IT costs are consolidated up to appropriate business activities by leveraging Service Blueprints.

**Figure 2**

![Image of pyramid illustrating chargeback strategy process]
Despite the powerful benefits produced by aligning these frameworks, being able to manage IT costs effectively still requires a concerted and sometimes challenging effort, as anyone who has pioneered these efforts in the past can attest. Both business and IT executive commitment to the journey is critical. Additionally, balancing the level of detail throughout the pyramid’s layers is critical to avoiding creating a “monster” that is impractical, unmanageable, and easily outdated, and, thus, becomes an untrusted source of information.

IT cost transparency is truly transformative and provides both IT and the business the information, processes, and tools required to form a partnership for effective IT financial management.