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The TCO goal and What it Really Takes to Get There

Your Guides:

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Introductions

- Take 5 Minutes
- Turn to a Person Near You
- Introduce Yourself
- Business Cards

Agenda

- Introduction
- TCO Benefits
- Best Practices
- Deployment Tips

TCO Introduction & Benefits

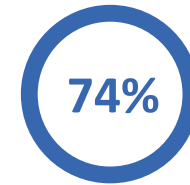


Industry IT Spending

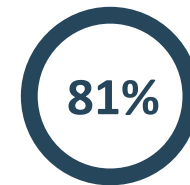
- We all know the three pillars of People, Process, and Technology – but as more and more people and processes get automated, investment in technology increases.
- IT spend has become one of the largest budget line items in organizations today.
- IT organizations worldwide spend \$3.6 trillion dollars annually, and that figure is on the rise.
- Despite rising IT spend, many IT organizations lack the capability to clearly and easily articulate where that spend is going, how it correlates to the services they are delivering, or what value the business realizes from the services.



CIOs do not believe that there is adequate transparency of IT costs, contributions and performance.



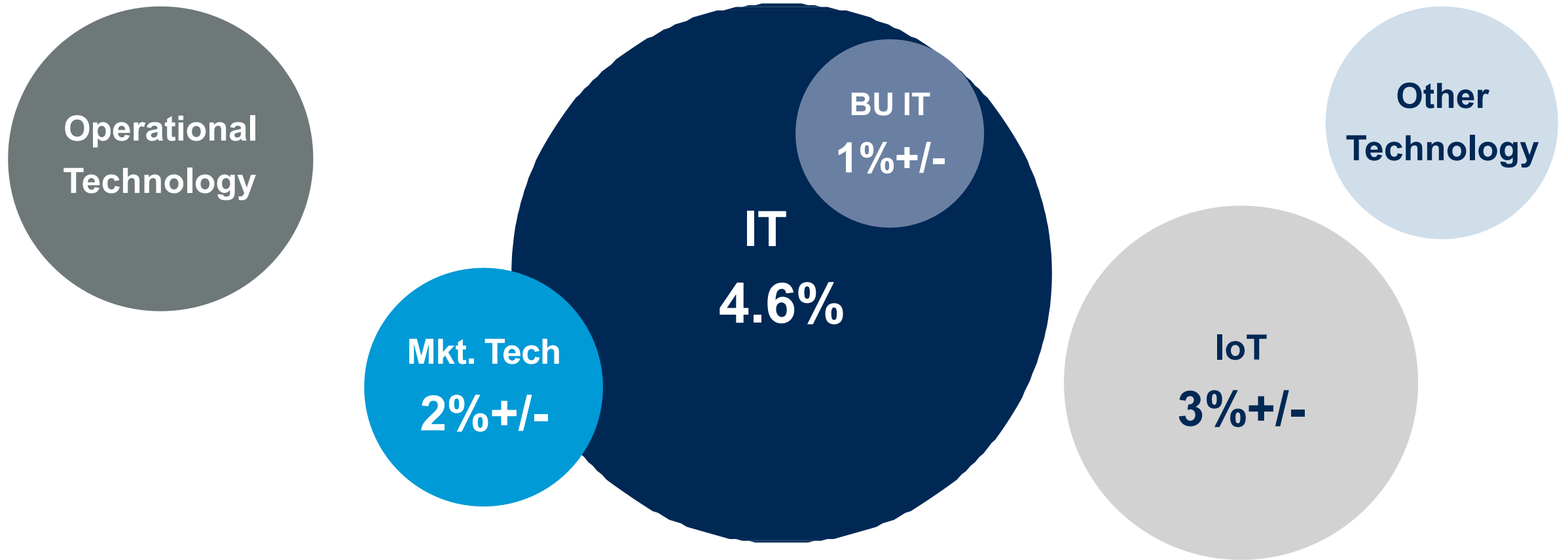
IT organizations cannot clearly define their IT services and their associated business value.



IT organizations can't consistently report/chargeback the full costs of IT services to business units

ITScore CIO survey
Source: Gartner

IT Spending Is a Subset of Technology Spending



Source: 2016 Gartner IT Spending and Staffing Survey and 2015 Gartner CMO Spend Survey (% of Enterprise Operating Expense)

Is This Your Organization?



CFO

IT Budget

Why do Organizations Pursue TCO

- An application rationalization effort
- IT has been tasked with reducing cost across the board by X%, but are having trouble deciding where to cut
- The business is evaluating external service providers, and needs to have an apples to apples comparison of cost
- With SaaS, PaaS, and IaaS vendors knocking on the door, IT needs to define and defend IT spend
- IT leaders want to compare costs against industry benchmarks

Discussion

- Is your organization pursuing a TCO initiative?
What are the drivers of it?



What are Expected Benefits of TCO Initiatives?

Calculating TCO will allow you to:



Transparency

Offer complete transparency of IT operations



Explain

Explain, quantify, and predict IT costs



Compare

Compare and defend the cost of internal IT Services to third party providers in the open market



Accountability

Drive accountability of investment decisions by having the ability to continuously monitor the impact of business decisions on IT spend.



Assets

Leverage IT assets as efficiently as possible



Evaluate

Evaluate the business value derived from applications/services to the costs incurred to deliver them.

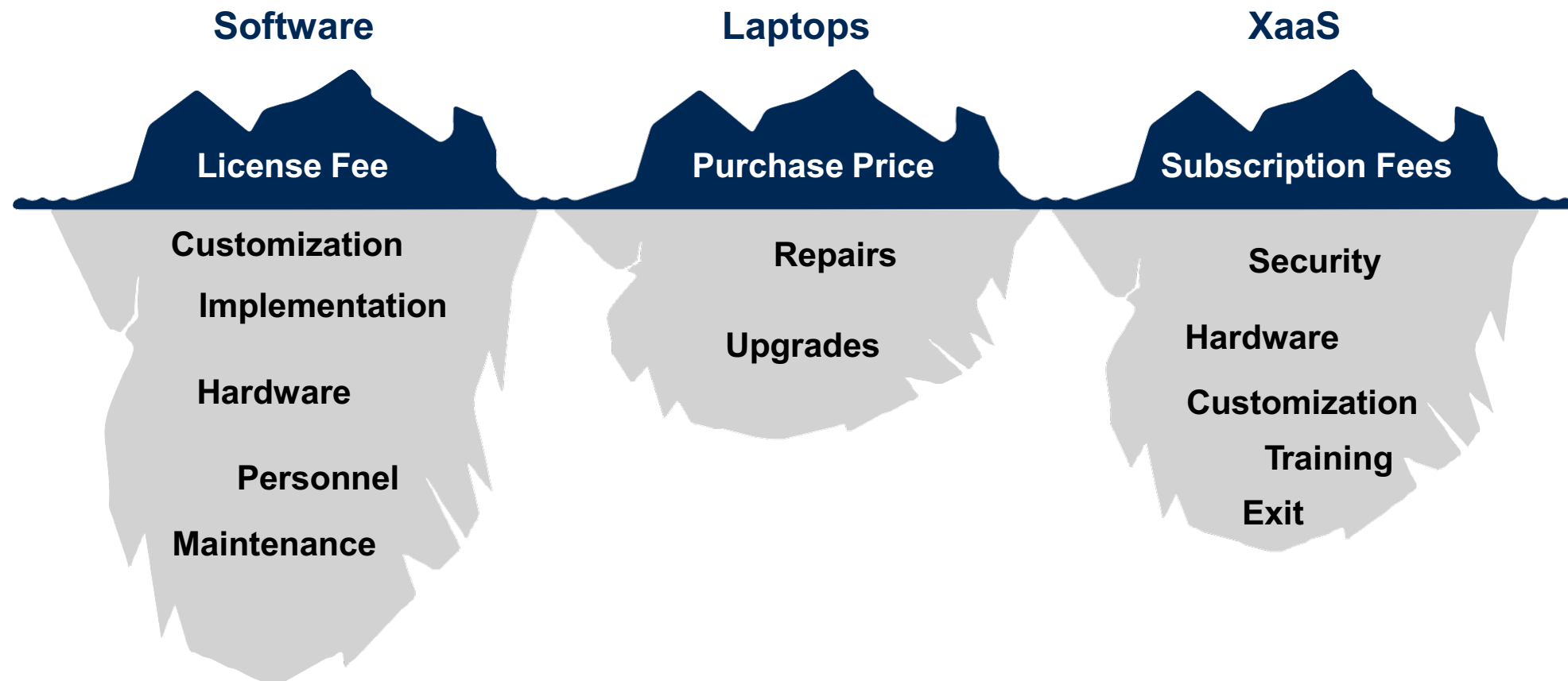


Change

Change the way business units consume IT resources, drive down IT unit costs, and focus on IT spending that delivers real business value.

TCO Calculation

Calculating TCO involves digging deep to uncover all costs, both direct and indirect.



TCO Can Have Many Meanings

Calculating TCO involves digging deep to uncover all costs, both direct and indirect, of ownership. It's frequently applied to:



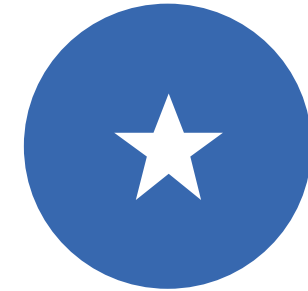
Applications

Traditionally TCO has referred to the cost of owning and running an application, and that is still a valid and important measure.



Services

Many IT organizations have adopted a service-based approach to delivering IT. They define business services and have service owners that oversee them. TCO of a service is then an important metric to evaluate the service and its owner.



Business Function or Capability

Business functions or capabilities vary by industry, and include things like Sales Pipeline Management or Customer Service. As positions like "business relationship manager" (BRM) become more common, and explaining IT in business terms becomes more important, TCO of business capabilities is an increasingly common ask.

Discussion

- Does your organization measure TCO by Apps or Services? Or something else?



Best Practices

For IT Cost Transparency



TCO Best Practices



Defensible Cost Model/Metrics

document and validate cost allocation methodologies and assumptions



Repeat

Not just a one time effort – track progress over time



Track Usage Metrics

usage of IT services changes over time. If the TCO of a service increases, did IT become less efficient, or did the organization just use more of it? Without tracking usage you won't know



Calculate Unit Costs

cost per employee, cost per incident, cost per X. This gives TCO perspective, and is useful in benchmarking against other organizations or industry standards



Put TCO in context

show the quality & business value services and applications produce



Build Roadmap

a three- to five-year plan for cost model evolution. Don't expect high maturity on your first attempt

Other Tips

Simplify Data Acquisition – it's hard, it delays, it creates dependencies



Create an Allocation Matrix – assists with planning, data acquisition, & communication



Complexity \neq Transparency – stakeholder's ability to explain it is a great litmus test



Reasons TCO Initiatives Fail

According to Gartner, 40% of ITFM tool implementations will fail due to the lack of a clear mandate, bad data discipline, and poorly designed cost models.

Gartner 2018



Fear of Bad Data

“My data isn’t ready” is a common excuse for not tackling TCO. But data will never improve in a vacuum. Just like muscles need exercise to grow strong, data must be put to use in order for it to improve. So, don’t wait for your data to be perfect. Instead, use your data to make it perfect.



Labor/Time Intensive

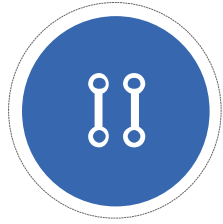
It takes effort to set up good allocation metrics, especially if you aren’t using a tool specifically designed for it. Organizations may find it’s too costly to get even close to right. Often, the result is the full budget is spent on the initial effort with nothing remaining to keep TCO running on an ongoing basis. Or worse, the TCO effort is abandoned all together.



Fear of Transparency

Masters of the old game won’t embrace the visibility. IT leaders often know that they have some “skeletons in the closet”—inefficient areas requiring better stewardship—that they are reluctant to bring to light. And business partners can be afraid to face that their decisions have real financial impacts on IT cost, and the days of IT saying “yes” to every request are over.

Reasons TCO Initiatives Fail



Analysis Lag Time

Data freshness is key. What often happens is that TCO is assessed when a reconciliation with finance occurs (annually), when it's already too late to address issues. If the TBM team is loading the GL monthly and looking at their costs, then TCO can provide actionable insight.



Indefensible

TCO alone, without clear context of how it was calculated will not be trusted by application owners, service owners, or IT leaders .



Over-Simplified

Just peanut butter spreading costs across apps and services doesn't add enough insight to make TCO useful.



Complicated

Complex calculations using inaccessible tools/data like spreadsheets lead to a TCO model that few understand. No one will accept the output if they can't understand how you got there.

Discussion

- What practices have you found important in achieving TCO?
- What stumbling blocks have you faced?



Deployment Tips



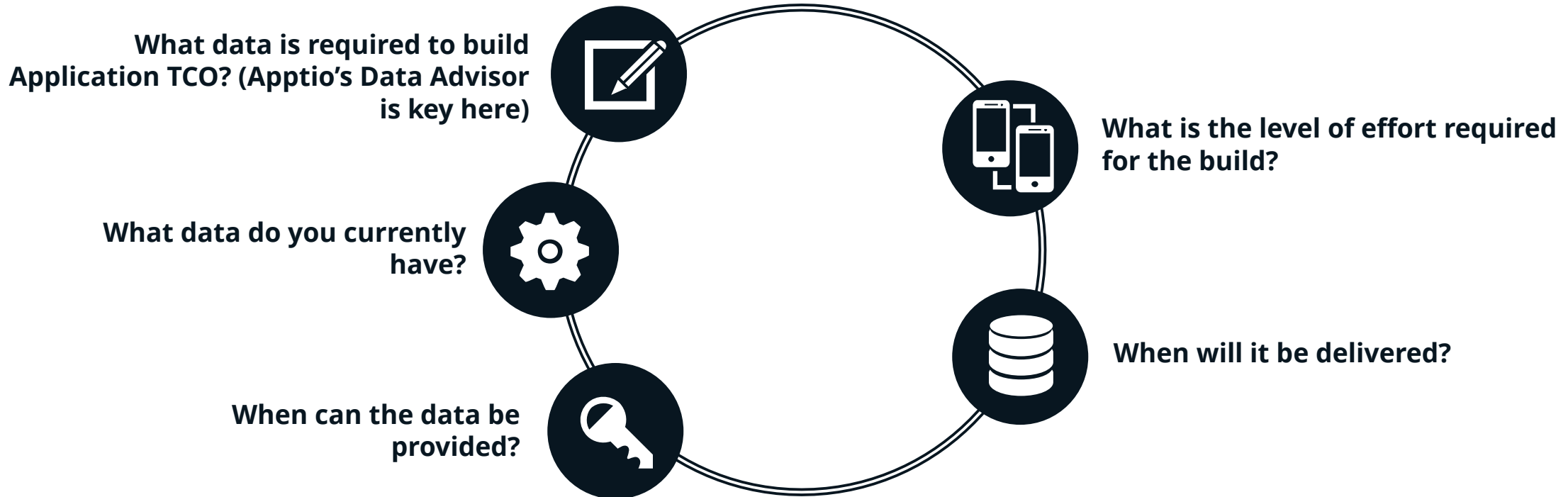
Discovery: Understand The Why

Take the time to formally evaluate the purpose of your TCO initiative – the goals and outcomes you are looking for. Ask these questions:

- Are there specific reports or metrics we need to show to IT leadership?
- What questions do business partners need answered about their consumption of IT services?
- What questions do IT leaders need answered about where the IT budget is going?
- What are the real drivers of IT spend?
- How do costs roll up vertically (e.g. cost pools to IT towers to business services) and horizontally (e.g. cost transference between IT towers)?
- What metrics can we share with our business partners to appropriately shape demand for IT services?

Quick Wins

Most organizations that implement TCO expect some quick wins. A realistic look at your data and current configuration needs to occur:



While TCO is being built, discuss with your stakeholders what additional value they are looking for and align it to the CT configuration. Apptio's Value Explorer will assist with aligning a "quick win" to an object or tower. The same questions that you ask in Application TCO will be applied here as well.

Cost Allocation Methods

- Many costs that go into TCO are indirect, making it difficult to tie to a single application, service, or capability
- To handle these costs, develop allocation methods – intelligent ways of assigning out shared costs
- Similar to activity based costing used for manufacturing, we define activities that drive IT spending, and use these as a basis for assigning costs



Assumption Based

e.g. IT shared service costs allocated to applications based on “thumb in the wind” percentages



Attribute Based

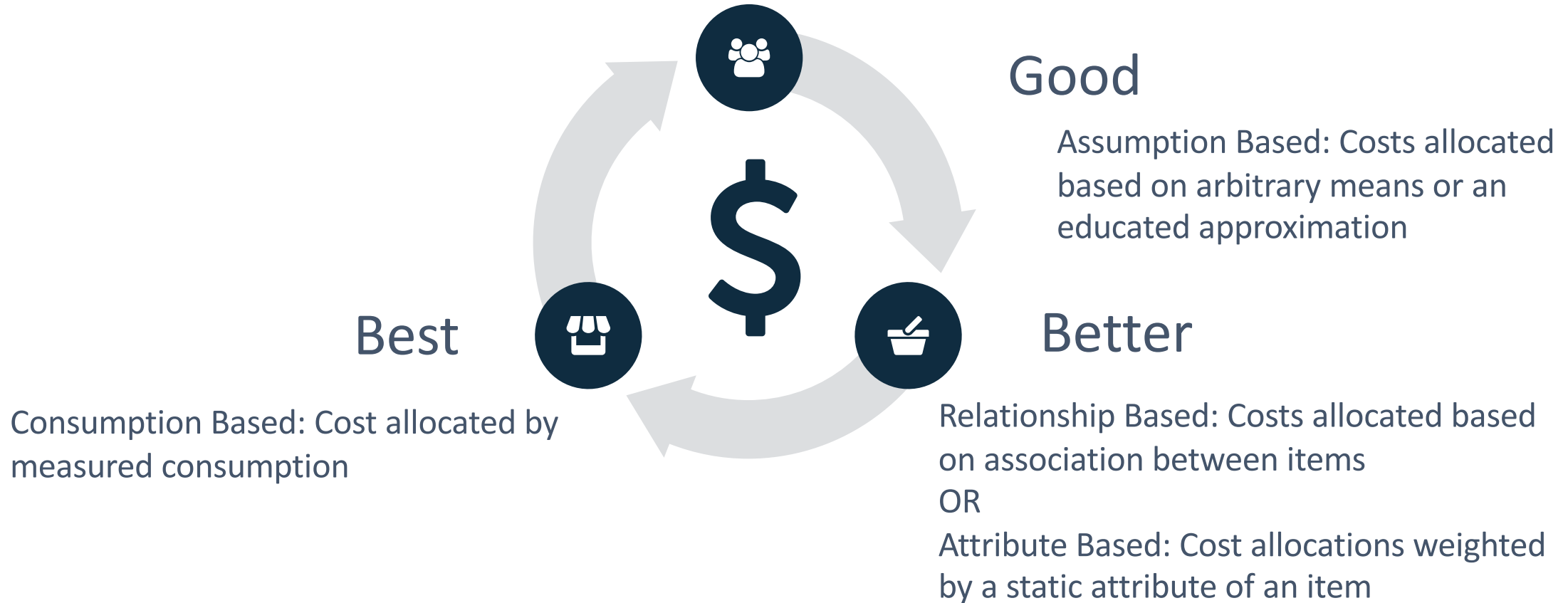
e.g. application costs allocated across business units based on the number of assigned login accounts per business unit



Consumption Based

e.g. support costs allocated to applications based on the number of support tickets per application

Cost Allocation Methods



Cost Allocation Methods

- At the beginning of your TCO journey, many allocation strategies may be Good or Better, which is just fine for a new build. Ensure that stakeholders receive education and communication about allocation strategies to understand what is supporting the strategy and the impact on the model.
- You can then further scrub and refine your data, incorporate new sources for data, include monitoring tools, etc. as you go. **But get the reports lit up. Demo each report, describe the data source, outline the allocation strategy, and ask for feedback from your stakeholders;** they may know a better source that can be implemented later.
- Always look at the value that the data/reporting can provide; **if the spend is minimal, don't spend hours on the allocation** as the value add is minimal.

Don't let "Perfect" be the enemy of "Good."

How to Accelerate Time to Value

HINT: It has nothing to do with good data



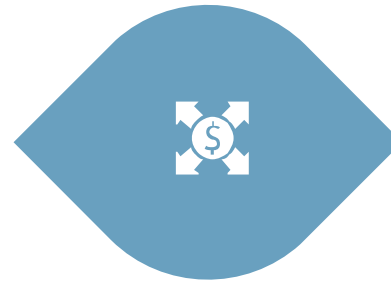
Designate Resources

Designate resource(s) to work with you that have knowledge of SORs for the CT Implementation (financial, infrastructure, tickets, applications). The bandwidth of your internal TBM team can materially impact time to value – even if you have an external implementation team.



SOR Owners

Get to know who the owners of SORs are.



“Paving the Way”

Sponsor “paving the way” so that there aren’t delays in obtaining raw data from SORs.

Politics, territorial issues and SOR owner’s questioning “what will you do with my data” can materially delay a CT implementation.



Direct Relationship

Create a culture where you or your implementation team can meet directly with SOR Owners instead of designated resources who only confer requirements.

Data relevance can become “lost in translation” or, due to the introduction of TBM concepts, create an inability to describe the purpose of data, resulting in mistrust and delays.

Socialization

Let's say your stakeholders want application rationalization and to know what IT services cost. Others in IT have a different perspective:



They've either never had to “care” about what it costs, or



They understand that once it's known what an application or service costs, then it can be subject to questions on why an item costs what it does or how can the cost be decreased.

These mindsets cause roadblocks to TCO and create a need for top-down support of Apptio

Socialization

To combat this, stakeholders can:



Require all analysis be done in Apptio by either reporting or data exports; individual spreadsheets are no longer accepted for decisions.



Require all Application owners to validate Application spend by a specific date, communicating that decisions on applications will be made based on Apptio data going forward.



Incorporate Apptio data into future compensation plans.

None of these are easy to implement, but they do drive socialization and acceptance of Apptio data. **When implementing, ensure plenty of time for application owners to understand and challenge their application TCO.** Their insights can generate allocation improvements.

What Data do you Need?

You will never have 100% of the data you want available to you on day one – start with the most important, and make a plan to get the rest over time.

System	Data Needed	What It's Needed For
General Ledger	Chart of accounts and actual costs	Most reporting and metrics
Fixed Assets	Usually a sub-ledger to the general ledger, provides a list of assets and their depreciation schedules	Reporting and metrics that involve IT assets, such as hardware and software
HR Data	IT employees listed by role plus cost centers and unique identifiers	Reporting and metrics that involve personnel costs, such as admins, development, and maintenance
Projects	List of projects by name and codes along with spending and headcount	Reporting and metrics on project delivery such as planned vs. actual
IT Assets	Lists of hardware and software assets as tracked by IT for delivering services and projects	Calculating accurate TCO of applications and granular decision-making regarding asset utilization and efficiency
Cloud	Billing data from IaaS, PaaS, SaaS vendors	Calculating more accurate TCO of applications and reporting cloud costs back to consumers (e.g. application owners and business partners)
Services	Service catalog or list of services and their definitions	Costing of services and reporting of service consumption and costs to service owners and their business partners
Application & Service Mapping	List of applications and or services and, if available, mappings to the infrastructure	More accurate and complete costing of services, including support resources and costs used for each one
Service Desk	Incidents and requests by user, priority, and impact along with support time by asset or service	More accurate and complete costing of assets and services, including support resources and costs used for each one
Monitoring	Storage consumption (allocated, used) by application, server utilization metrics, and data center utilization (racks, power)	More accurate and complete costing of assets and services, including shared resources, such as virtual servers and storage area networks
Vendor	Vendor lists along with selected billing data for major vendors and cloud providers	Transparency of vendor spending and a more accurate allocation of vendors to assets and services

Questions?



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