

## IT Cost Management

Optimize the availability of insight and the ability to act

Many organizations find it hard to keep IT costs in control. Increased complexity of the IT landscape together with the perception of IT costs as fixed leads to the importance of IT costs management. Successful IT costs management starts with a foundation in which both the availability of insight and the ability to act are in place. Capgemini Consulting can help your organization by professionalizing your IT cost management in our proven three phased approach.

### Introduction

Our experience in the marketplace tells us that many organizations face high IT costs and find it challenging to control these costs. Business managers are confronted with increased complexity in their IT landscapes and receive charged IT costs which they do not understand and which they perceive to be as too high. The IT department, on the other hand, is unable to explain the recharge bill to their internal customer because there is no transparency in the way costs

are build up, measured or allocated. This does not support cost cutting initiatives.

The supply-demand relationship between the IT department and the business is not functioning in an optimal way. The unclear relationship between usage and costs leads to the perception that IT costs are fixed. In addition, we have noticed that the business has little incentive to bring down their IT usages which is also one of the reasons that savings initiatives often do not lead to the proposed savings. In the ideal situation, the IT department supports the business optimally while costs are under control.

### Our thoughts on IT cost management

To manage their IT costs, organizations need to transform the interaction between the business and the IT department. To create a cost efficient

IT function, insights in costs need to be available and people must be willing and able to act on these insights and take decisions;

The **availability of insight** depends on 1) to what extent IT cost elements are registered, 2) how they are allocated and 3) if reporting is done on a regular basis to the right organizational level.

### 1. Registration of IT costs elements

It all starts with a correct and complete registration of IT cost elements. Wrong input will always lead to a wrong output. Cost elements are all the drivers of the IT costs and can be categorized in hardware like servers, storage and infrastructure, middle ware, software and other costs such as IT staff costs and overhead. Registration is a continuous process



as cost elements continuously change. Therefore it is important to set up a formal maintenance or change management process to secure full administration.

## 2. Allocation of costs towards cost drivers.

To link the cost elements to actual usage and end users, the costs need to be allocated based on cost drivers. A costs allocation method intends to allocate costs to products or services based on simple keys which reflect the costs behaviour as good as possible. General rule to do this is:

- Allocate direct variable costs like user specific hardware (e.g. laptops) directly to products or services.
- Allocate indirect variable and direct fixed costs through a cost driver, a representative key which runs parallel to cost behaviour.
- Allocate indirect fixed costs such as overhead costs through a mark-up.

A large part of the costs elements are indirect variable or direct fixed. Think about servers, storage and business software. Cost drivers to allocate these costs can be the storage space (MB), number of users for a specific system or number of hours spend by IT personnel. The result of the cost allocation is that the costs of complete products or services are recognized by their users.

## 3. Reporting

The charged costs then need to be reported to the users at the correct organizational level. This will provide the insight to those who are able to influence the IT costs. The reporting must be embedded in the regular reporting cycle and must be at the level of detail that is required to be able to act upon. Transparency on the allocation and using clear cost drivers result in cost figures that are understandable for the users of IT services.

The first three items will create the insight to enable decision making.

Besides insight, key players must also be able to act. The **ability to act** and take decisions depends on 4) the accountability for the IT costs in the organization and 5) to what extent there is an internal market between IT and her client (the business).

## 4. Accountability for the IT costs

The accountability for the IT costs must be at a decision making level within the organization; that means, those who can actually influence the costs should be held accountable for it. Our experience shows that IT costs are only limitedly charged to the business which results in costs unconscious behavior on the business side.

To support this, IT and customers need to be connected by a clear governance representing the authority and processes connecting the IT department and its customers, from set up through to delivery and continuous improvements. It also requires the sharing of achievements and issues. Some guidelines:

- The IT board is accountable for ensuring customer satisfaction and coordinating improvement projects (services offering, performance enhancement, cost reduction etc) as well as managing budget and negotiating charge back prices.
- The “performance management system” supports IT co-operation

by promoting increased transparency and improved control.

- Clear metrics are provided to measure performance (efficiency and effectiveness) and monitoring target achievements are the basis of the discount / incentive management system.
- The IT department enables benchmarking and highlighting of improvement opportunities.

## 5. Internal market

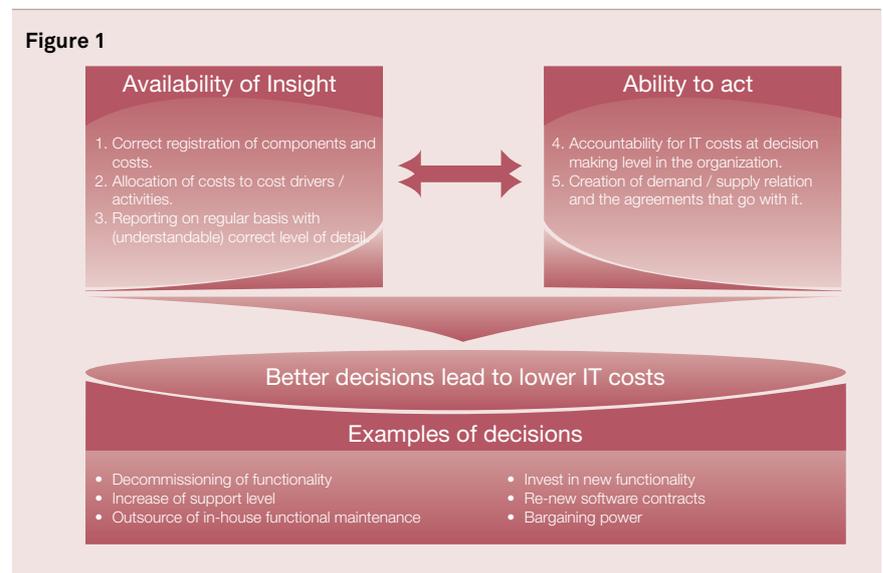
The supply and demand relation between IT and the business needs to be strengthened and formalized by means of agreements. Service level agreements (SLA's) are the central instrument to agree upon the provision of services between the business and IT which includes the KPI's and pricing structure.

If insight is available and the decision making unit is able to act, the decision making process will improve. For example, decisions concerning decommissioning of functionality, in- or decrease of the support level, outsourcing, license management and business casing for new investments will improve, leading to lower IT costs

## Optimize the availability of insight and the ability to act

To get a grip on their IT costs management, organizations need to get

Figure 1



both the insight and ability to act in place. However, to get there, an organization can focus on either one of them to achieve the desired result:

1. A push effect rises when insight is well developed and cost cutting opportunities are known. The business is thereby implicitly forced to act on this insight. The balance with the ability to act will be restored to explicitly make business units accountable for realization of the savings.

2. In situations where decision making units have the intention to act while faced with a lack of insight to base the decisions on, a pull effect will arise. Restoring the balance will thus be realized by forcing IT to provide more insight.

### How Capgemini Consulting can help you

The best way for us to work for you is to work with you. The Collaborative Business Experience™ helps you define the rules of the game, rather than be limited by them. Collaboration is central to the Capgemini philosophy, in this way we want to maximize the willingness to transform.

Capgemini Consulting, the global strategy and transformation consulting unit of the Capgemini Group, has broad experience and proven methodologies to support companies in controlling your IT costs. A general set-up includes three phases: Project initiation, Analyze & Design and an Implementation phase. The activities per phase are tailored to the maturity of the organization, the objectives and findings in the Analyze & Design phase.

#### Phase 0: Project Initiation

- Define scope and objectives of IT costs management.
- As-Is analysis on reporting, allocation, configuration management to gain a deeper understanding of the challenges and constraints of the organizations.
- Assess current IT costs awareness.
- Deliver detailed project plan with milestone planning.
- Kick off meeting with stakeholders – next steps phase 1.
- An assessment of the current situation.

#### Phase 1: Analyze & Design

- Define transfer pricing components (what to charge).
- Define transfer pricing method (how to charge).
- Deliver blue print enhanced recharge.

- Design KPI's.
- Present improvements to stakeholders.

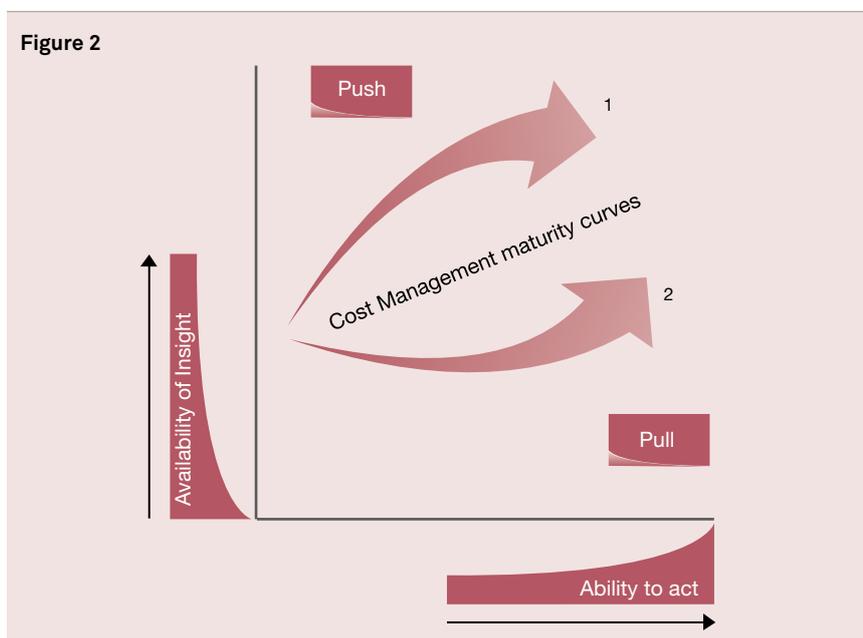
#### Phase 2: Implementation

- Communicate improved cost management method to stakeholders.
- KPI setting.
- Ensure enhancements on costs management in current organization.
- Communicate improved cost management method to stakeholders.

In the project plan we build in multiple go/no-go decision steps. During the project, two separate streams for mobilization & communication and project management are in place to strengthen the three phased approach. Across the phases Capgemini Consulting creates the necessary transparency and assures controlling relevance in all aspects. We thereby help our clients increase their operational efficiency and effectiveness and regain valuable business insight.

#### Benefits for you

- IT cost management in control will lead to lower IT costs due to improved decisions:
- IT decisions are made on correct and understandable figures.
  - Customer feels accountability and takes responsibility for IT costs.
  - IT costs awareness embedded in DNA of all parts of the organization, including business and IT.
  - Transparency and acceptance of the way costs are allocated.
  - IT outsourcing partner is under control.
  - Costs saving initiatives do lead to cost savings.





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With more than 120,000 people in 40 countries, Capgemini is one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2011 global revenues of EUR 9.7 billion. Together with its clients, Capgemini creates and delivers business and technology solutions that fit their needs and drive the results they want. A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

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Capgemini Consulting is the global strategy and transformation consulting organization of the Capgemini Group, specializing in advising and supporting

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