

Introduction

This download provides six articles written by TechRepublic contributor Peter Hennigan regarding the financial management of IT. We've also included five resource documents created by Hennigan. All the articles and resource documents were previously published on TechRepublic, and we've brought them together for you here.

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Portfolio management keeps IT aligned with business strategy

There's a great deal of talk these days about how CIOs need to align IT with the corporate business strategy. Yet, as most tech leaders know, it's not as simple as it sounds.

"Synchronization between IT and business strategy is not the natural state," explained Dr. Peter Weill, director of the MIT Center for Information Systems Research (CISR).

"[IT organizations] may be aligned now, but you're likely to go out of alignment because strategies and technology change. Organizations face a never ending quest to keep IT and business strategy aligned."

A good way to stay in alignment is to apply the proven principles of financial portfolio management to IT investments. Weill detailed this approach at a recent meeting of the Society of Information Management (SIM) and Financial Executives International (FEI).

His research concludes that four types of management objectives drive organizations' IT investments, and that the objectives, in turn, lead to four types of asset classes that comprise the typical IT investment portfolio. Management must constantly review this portfolio to keep it synchronized with its strategy and to balance its risk vs. return profile.

Portfolio approach

The portfolio approach suggested by the CISR research offers a technique for organizations to monitor the alignment of IT. Organizations can view their IT investments in the four asset classes listed in **Figure A**.

Asset class	Management objective
Strategic	Gain competitive advantage or major innovation
Informational	Provide better information
Transactional	Reduce cost of doing business
Infrastructure	Provide shared base IT capability

Source: Weill and Broadbent, "Leveraging the New Infrastructure: How market leaders capitalize on IT," Harvard Business School Press, 1998

Categorizing IT investments in this manner allows an organization to monitor how its investment mix aligns with its business strategy.

For example, Weill explained that during the current economic downturn many companies weighed their portfolios more heavily toward the transactional class in concert with a greater management focus on cost reduction.

The ongoing balancing of the portfolio also considers the risk/reward profile of each asset class. As shown in **Figure B**, that profile again differs by asset class. Just as individuals balance the overall risk/reward profile of their financial portfolio based on individual objectives, an organization must balance its IT portfolio to reflect its current appetite for business risk.

Asset class	Risk/reward profile
Strategic	High risk, huge potential upside and 50 percent failure rate
Informational	Moderate risk due to difficulty of acting on information to create business value
Transactional	Lowest risk with solid returns of 25 to 40 percent
Infrastructure	Moderate risk due to long life and business and technical uncertainty

Source: Weill and Broadbent, "Leveraging the New Infrastructure: How market leaders capitalize on IT," Harvard Business School Press, 1998

The need for portfolio management

The CISR research reflects the actual practices of several companies, and places the structure of financial portfolio management around those practices. Many other industry stakeholders, from the IT analyst community to software and professional service providers, also preach the benefits of applying portfolio management practices to IT investments.

Although their pronouncements may differ in scope and level of detail, they all agree on the desired outcome—continual alignment of business strategy and IT investment.

The portfolio approach supports that alignment in three ways. By definition, it forces engagement between the business and IT. It raises that engagement out of a sometimes myopic review of individual projects to a more complete review that looks across all projects in the context of a comprehensive business strategy. Finally, it greatly reduces the emotional aspects of the prioritization discussion and replaces it with criteria grounded in the business strategy.

Implementing portfolio management

The sophistication with which IT organizations apply portfolio management practices varies widely. Some organizations focus on it once a year during the planning season, using it primarily as an annual prioritization tool. Others attempt to embed it in ongoing business processes. Many vendors seek to sell software and consulting to help organizations accomplish that goal.

Regardless of the sophistication level, any organization attempting to apply portfolio management practices must take the following basic steps. The IT organization should not take these steps in isolation. Engaging the business, particularly in steps 2 and 3, is critical for success.

1. **Inventory the portfolio:** Identify all existing IT investments. The simplest approach is to view all investments as projects.
2. **Develop investment classifications:** Develop the investment classifications to use in managing your portfolio. Weill's list presents one possibility, but organizations can use any variation that makes sense.
3. **Classify investments:** Tag every investment with one of your classifications.
4. **Develop planned cost:** Develop the planned cost for each investment.
5. **Store data:** Store your investment/project data in a database that will enable you to summarize, sort, and report the data.

The next steps

These basic steps are just the beginning. They will provide CIOs with a planned view of investments and projects, and enable tech leaders to begin prioritization discussions within the context of their portfolio classifications.

The additional steps required to embed the portfolio practices into business processes include developing the capability to report actual spending by project. That capability enables you to continually

monitor your actual portfolio and determine if alignment with business strategy remains when business conditions change.

Implementing comprehensive portfolio management practices across an enterprise can be a very challenging undertaking from both a cultural and an operational perspective. You need to sell both IT and business people on the merits of such practices, and in larger organizations you need to provide the tools and training to make it happen.

That challenge, however, shouldn't stop you from at least introducing portfolio management concepts into your organization. Most business executives are familiar with those concepts, and will welcome a discussion of IT investment in that language. And CIOs as well as other IT managers will obviously welcome a discussion context that facilitates mutual understanding of the alignment between IT investment and business strategy.

Weigh the benefits of leasing decisions to the enterprise and its units

Often you hear one or both of the following statements when CIOs and IT pros discuss leasing computer hardware:

- Leasing eliminates the risk of technology obsolescence.
- Leasing saves money.

If executed properly, leasing provides flexibility and shifts technology risk to the lessor. Lessors are compensated for taking risk, and the specific terms and end-of-lease details for each leasing transaction ultimately determine the cost of that flexibility.

When tech leaders say they're leasing because "it saves money," it's usually shorthand for one of the following reasons:

- Leasing reduces short-term cash outflow.
- Leasing exerts a smaller impact on the annual budget.
- Leasing presents the best economic option, because it limits cash outflow, has a smaller impact on my budget, and is the only viable choice.

Weighing the benefits to the company and the business unit

Since leasing allows enterprises to stretch the payment for the use of the computer hardware over a multiyear term, the first two reasons hold true. The first reason is often the cash-constrained company's primary basis for leasing. If the company's cash and credit position is constrained, leasing is more favorable than purchasing.

The second reason for leasing comes into play when corporate managers try to squeeze the maximum resources out of a limited budget. Leasing is typically an individual business unit management decision—the business unit either doesn't have the budget to support a purchase or the business leaders want to sidestep a formal purchase approval process, so they lease. If an individual manager's budget situation is constrained, leasing is more favorable than purchasing for that manager. Whether leasing is more economically favorable for the company is another question.

The best approach to making that decision is with an economic analysis. The evaluation usually consists of a discounted cash flow analysis of the projected cash flows associated with the lease and purchase scenarios. Discounted cash flow analysis considers the time-value of money. Consider this example: You can either purchase hardware today for \$12,000 or lease it over three years at an annual net cash outflow of \$4,000. In both cases, the total cash outflow is the same, but the values of those cash outflows in today's dollars differ. While the value for the purchase option is \$12,000, the value of the lease option would be less than \$12,000 because you could earn an investment return on cash you retained over those three years.

The cash flow projections rely on assumptions regarding several factors, such as hardware requirements, expected market life, and the term of lease needed. It is those assumptions that will determine whether leasing is the right decision to make.

The assumptions regarding those factors drive the projected cash flows.

To make an educated decision, a technical manager should understand each of the following factors and provide related assumptions for any lease analysis.

- Useful life of the hardware within the organization
- Useful life of the hardware in the marketplace
- Expected end of lease action (e.g., return, renew, purchase)
- Possible pre-end of lease actions (e.g., termination, upgrade)
- Organization's asset management capabilities

The useful life within an organization determines the most appropriate lease term. The useful life of the hardware in the marketplace is key because its relationship to the useful life in your organization determines whether lessors might provide an economically attractive lease.

The third and fourth factors are critical because the final actions will ultimately determine whether the lease made economic sense. Considering these factors and reviewing actual past experience will also help IT executives identify specific terms (e.g., early termination schedule, renewal rates, purchase rates, substitution rights) to include in the lease.

The final factor is important when dealing with distributed assets like PCs. Leasing does not magically eliminate the need for effective asset management. Consequently, if you don't effectively manage distributed assets, you must consider the potential impact of those poor practices on the economics of a leasing decision.

The best approach may be a mixed approach

Because computer hardware leasing decisions are typically made by individual business units within an enterprise, the most common scenario is that companies have a mixed leased/owned equipment landscape in house.

Figure A provides some general guidelines on what characteristics define hardware lease candidates vs. purchase candidates. Although these guidelines aren't a substitute for an economic analysis that considers the factors previously discussed, they provide a quick check.

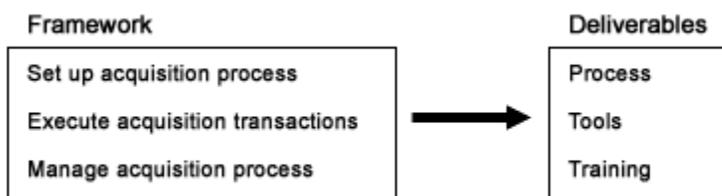
High cost	Low cost
Located in single site	Multiple locations
Small count	Large count
Short technological lifecycle and actively managed to maximize price/ performance (e.g., DASD farm where portion of farm is swapped out for new technology at regular intervals)	Functions effectively with little technological change for many years (e.g., possibly a PBX or tape silo)
Useful life in organization is shorter than in market	Useful life in organization is same as or greater than in market

There's always going to be a lively and unique discussion among IT leaders and business chiefs when the leasing vs. purchase issue is suggested within a business unit due to the various factors at play—such as budget constraints and a technology's life expectancy. Forecasting the actual consequences of the leasing decision is critical to making the right decisions for the enterprise.

Apply this framework to establish a solid acquisition process

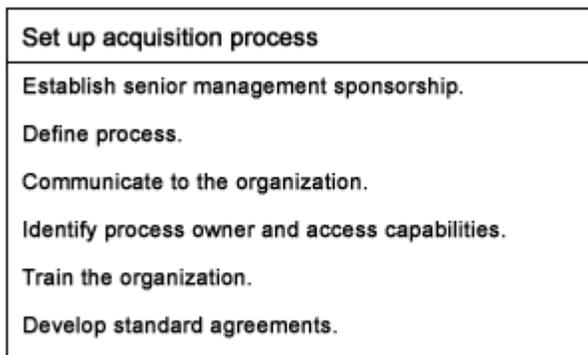
The key to ensuring that your IT organization adequately addresses the business risk associated with acquiring technology products and services is to build structure around that acquisition process. The formality can vary depending on the size and culture of the organization, but the structure must establish a process and the tools and training to support it.

I'll explain how to build a framework for that structure. Organizations can use this framework to build a technology acquisition process that best matches their size and culture. The framework consists of three steps (see **Figure A**). The way you implement those steps determines the formality of the process, tools, and training that will support your acquisition activities. Let's examine the three steps and how you can vary their implementation to reflect your organization's needs and mitigate the risks regarding cost and terms that accompany the procurement of external products and services.



Step 1: Set up acquisition process

The setup step includes the activities required to develop a structured technology acquisition process (see **Figure B**).



Let's look more closely at each of these activities.

Senior management sponsorship

Establishing senior management sponsorship is critical to the implementation of any organizational process, and this is no exception. The lack of buy-in equals failure.

In many organizations, the CIO may be the senior management that provides sponsorship. In some organizations, that management may include the CIO's entire staff along with additional senior management from other departments (finance, procurement) that have a stake in procurement processes. Regardless of the organization's characteristics, it is essential that senior management clearly sponsor any effort to build structure around the acquisition process.

Defining the acquisition process

The next step entails defining and documenting a process that reflects the specific characteristics of your organization. Key components in the process document should include process description, process stakeholders with roles and responsibilities, process checklists, and approval/sign off requirements. The resulting document serves as a valuable communication tool. To assist you in this process, I've provided a downloadable template for technical acquisitions (**included in a separate document**) that TechRepublic members can use.

Communicating to the organization

Once you've generated a process document and established sponsorship, you need to communicate the new process to the organization. Your communication technique can range from e-mail notification with links, to extranet sites containing the documentation, to more formal rollout meetings with a presentation.

Identifying process owner and assessing capabilities

If you're establishing a formal process, someone must own the execution of that process. Ownership varies depending on the organization.

Examples of acquisition process owners include IT finance, IT procurement, corporate procurement, and individual IT managers. You need to identify the owner and determine whether he or she possesses the required skills and training.

Training the organization

The training activity includes both the process owners and participants. If your assessment of the process owners concludes that expertise is lacking, you can consider external training.

The [Association of Technology Procurement Professionals](http://Caucusnet.com) at Caucusnet.com is one source of further information on training. Once adequately trained, the process owners should handle any training needed for the participants.

Developing standard agreements

One key to a structured technology acquisition process is utilizing boilerplate contract documents constructed from your organization's perspective. If you don't have these, it's well worth the time and resources to develop them.

At a minimum, your portfolio of standard agreements should include a confidentiality agreement, software license, software maintenance agreement, consulting services agreement, and a lease.

Step 2: Execute acquisition transactions

Establishing an acquisition process is great, but it means little if you can't execute. The basic steps required to effectively execute a transaction can vary depending on the transaction type and size, but any execution must align with the following four principles.

6. Know what you need (define your requirements).
7. Identify potential providers.
8. Systematically evaluate providers.
9. Identify the best providers and maintain a competitive environment until you have executed a contract.

For larger transactions, these principles translate into the steps shown in **Figure C**.

Execute acquisition transactions
Ensure requirements exist.
Ensure selection criteria and process exist.
Issue request for proposal (RFP).
Evaluate RFP responses.
Select top two to three providers.
Conduct face-to-face negotiations.
Analyze results.
Select provider and sign contract.
Release other providers.

Effective execution of these steps requires a team approach that includes various stakeholder perspectives. Those stakeholders can include the IT manager driving the acquisition, his or her business sponsor, and the finance, legal, and procurement departments.

Involvement of all the stakeholders throughout the process ensures that the final contract protects the organization's interests while minimizing both risk and cost. The acquisition process owner should lead the transaction team.

Step 3: Manage acquisition process

Managing the acquisition program includes the ongoing contract management and vendor management aspects of a technology acquisition process. This step is essentially an information management activity.

Someone must be responsible for collecting and storing all the information associated with existing contracts, analyzing the ongoing risk and cost impact of the contracts, and delivering the appropriate contract information on demand. **Figure D** summarizes those activities.

Manage acquisition process
Inventory existing contracts.
Evaluate existing contracts.
Establish document workflow.
Establish central contract repository.
Evaluate contract administration tools.
Implement contract administration tools.
Establish portfolio reporting.

Responsibility for these activities lies with the acquisition process owner. The process owner is best positioned to centrally manage the critical information and provide it to the other stakeholders as needed.

Managing that information will usually require some type of tool. The sophistication of the tool will vary based on an organization's individual needs. Whether that tool is a simple spreadsheet or a full-blown contract management system, it must enable the process owner to effectively manage the contract and vendor information.

A challenging, but attainable goal

Managing the business risk associated with acquiring technology products and services presents a significant challenge. Organizations can address this risk by reviewing how they acquire technology products and services and determining whether a more structured process is warranted. As you consider revamping your existing process, consider utilizing this framework as a guide.

When it comes to IT investment, CIOs need to take the helm

You can't pick up an industry publication these days without reading that everyone from the CFO to the software salesperson wants to ensure that every IT investment is adequately analyzed.

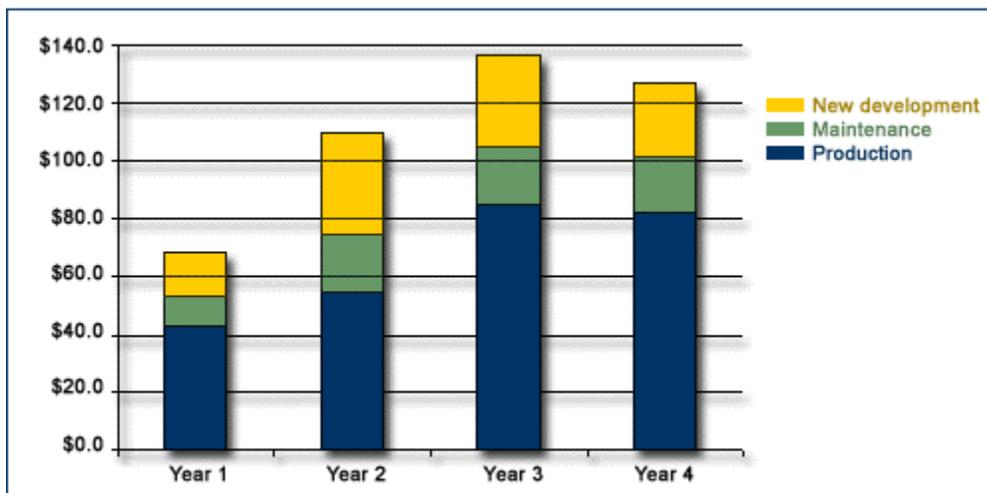
CIOs need to heed this increasing scrutiny. Rather than reacting to others' revitalized interest in IT investment analysis with a knee-jerk response, CIOs need to begin driving investment discussions toward two objectives: discussions that encompass an enterprise view in addition to just discrete project views, and discussions to replace the term "IT investment" with "business investment."

These two objectives, as outlined in this article, provide the foundation for developing productive and ongoing investment discussions.

An investment model

CIOs can achieve the discussion objectives by utilizing a simple model to frame both the financial information and the discussion. The model, illustrated below in **Figure A**, organizes enterprise financial data into three categories:

- Production: resource required for the infrastructure supporting an enterprise's portfolio of applications
- Maintenance: resource required for maintaining the portfolio of applications
- New development: resource required for additions to the portfolio of applications



Viewing a business's IT investment in these categories over time enables business and IT leaders to discuss and understand the dynamics between each category. In the example above, the organization significantly grew investment in new development from Year 1 to 2 and maintained that level in Year 3. The Year 2 investment affected both production and maintenance costs in Year 3.

If the leaders had initially viewed the planned investment in the context of this model, they would have anticipated these effects. That knowledge surfaces because the model forces an examination of three important questions:

- How much will we invest and over what time period?
- How will the investment impact maintenance costs (short and long term)?
- How will the investment impact production costs (short and long term)?

Answering these questions enables tech and business leaders to candidly set expectations and monitor them as they execute the investment plan.

Project vs. enterprise view

Business leaders typically don't examine the enterprise investment view in lieu of discrete project views. Rather, they examine it in addition to discrete project views. Applying the model framework to a discrete application or project is critical because it forces business leaders to answer the three questions for a specific application.

Adding the enterprise view forces a compilation of the discrete project views. This compilation, in turn, forces an analysis of the linkage across the entire application portfolio as you answer the three questions from an enterprise perspective.

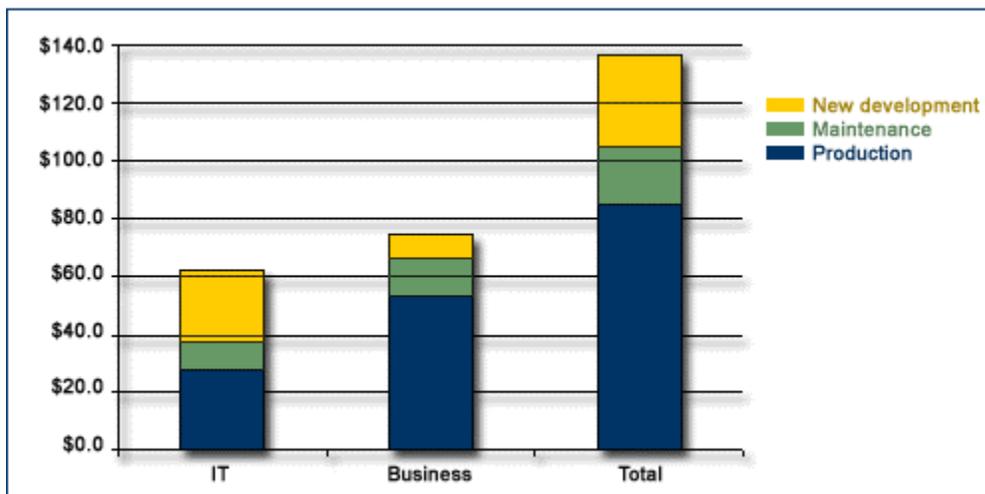
IT vs. business investment

A common flaw in any IT investment discussion is including just the IT component of an investment. It's critical to remember that an application portfolio exists to support the business processes in the same way that business people and facilities exist to support those processes.

When businesses look to operate more effectively and efficiently, they must first determine how to structure their processes in order to improve. They then can explore opportunities to leverage technology to execute the new process structure.

Consequently, any review and discussion of an IT investment should include the business component driving the investment, thus making it a business investment discussion. This inclusion presents a complete picture as it forces a review of the three questions for the entire business process, and initiates the value discussion regarding an investment.

In the context of the model, this inclusion is simply an additive process. As illustrated in **Figure B**, a business investment component should combine with each IT investment component to generate an investment total.



It may not be easy, but it is worthwhile

Taking the helm and driving the investment discussions may prove more difficult for CIOs in the current environment, but tech leaders will find the process a great deal easier if they use a simple framework to ensure productive ongoing discussions. That framework must establish both a project/application and enterprise view of investment plans while including the business component of any investment.

Such a framework will ensure that IT and business leaders are addressing the important questions and understand the dynamics of investments in their IT portfolio—an all-important aspect for both CIOs and corporate leaders.

Targeted communication drives the budget process

It is a rare CIO who has never had problems with planning and budgeting. Annual budget and planning sessions present annual challenges and headaches. But you can increase your chances of crafting an accurate and useful budget if you put a premium on information sharing.

To reach that goal, you need to organize and distribute financial information to three key stakeholders in the process: IT managers, business unit executives, and senior corporate management (i.e., CEO, CFO). Although the communications with each should be tailored to the stakeholder, all communications should be based on a consistent set of financial information.

That set of financial information reflects the nature of the communication required for each stakeholder. I'll examine that communication strategy and then look at how to provide the financial information to support it.

Communicating with IT managers

Communication with your IT managers must provide a complete understanding of four major points that will also help you effectively communicate with the other stakeholders (see **Figure A**).

This communication will identify whether your managers understand their budgets, make continual efforts to maximize efficiency, grasp the budget-business objective link, and effectively engage the business.

The financial information required for these discussions includes traditional budget information (i.e., budget by expense category with year-to-year growth), committed vs. discretionary budget, and a portfolio budget view (i.e., budget by project and/or application).

Budget composition	What makes up the budget? What is committed vs. new spending?
Budget efficiency	What spending is growing and why? What ideas/efforts have we identified to reduce spending?
Business drivers	How does the budget align with the business objectives? What is the budget by activity and/or project?
Business engagement	How did you engage the business in order to develop the budget?

Four budget elements require special attention

Communicating with business unit executives

Discussions with business unit executives will focus primarily on the alignment of the IT investment with their business objectives. Executives want to understand what resource maintains the existing operation and what resource develops new initiatives.

They will also want to know what portion of the new initiatives is driven by tactical needs (cost reductions, response to mandatory demands) vs. strategic objectives (drive revenue growth, develop competitive advantage). This information is critical for prioritizing resource allocation and ensuring alignment with business objectives.

These discussions can't occur without the availability of financial information that effectively portrays the application portfolio. That portrayal must show the resource allocation to portfolio maintenance and development (both strategic and tactical).

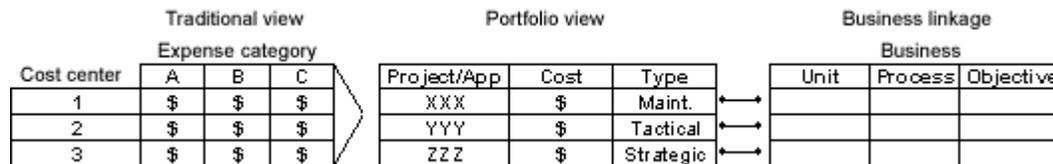
Communicating with senior management

Senior management discussions will also focus on the alignment of IT investment with business objectives, but the perspective will be enterprisewide. The CEO and/or the CFO will want to see the entire enterprise view in order to answer the following questions:

- What is the enterprise IT investment and year-to-year growth?
- How is it allocated by the business unit?
- Does that allocation align with our strategic objectives?
- How much of that investment is allocated to new initiatives?
- What is the impact of new initiative investment on future operations?
- Do the business unit managers understand these dynamics?

Supporting financial information

The prior review of communication needs identified the components of a consistent set of financial information that IT units require to communicate effectively. Those components consist of the traditional financial view and the portfolio view depicted below (see **Figure B**). The final component is the linkage of the portfolio view to the business.



How the views link up

At a minimum, that linkage should tie the project/application financial information to a business owner. More integrated linkage relates that information to the actual business process the project/application supports. Linkage to the business process then leads to linkage with business objectives at the operational level.

To help illustrate how to build the financial information set for stakeholders, I've created this budget model spreadsheet (**included as part of this download**). The document provides three tabs: financial data, a project listing and identification sheet, and a graphic of spending by project type over the course of several years. The first tab presents financial data for a cost center in the traditional expense category view and then converts it to a project view. Both views are across three years. The second tab lists the projects and identifies their types. This tab sums up the financial data by project type across years. The final tab provides a graphic of the spending by project type across years.

The steps in providing financial data

Providing the traditional and portfolio financial views requires several steps. The first step is to ensure that the traditional financial view generated by your financial system reflects a robust cost model (see ["Follow this model for effective IT cost management"](#)). The next step is to develop a portfolio inventory.

Begin developing that portfolio by listing all the existing applications/systems. Then list all your new projects. The combination should provide a good initial cut of your portfolio inventory.

Next, identify the business owner of each application/project. If possible, identify a single business owner for each application or project.

Then assign an identifier for the type of application/project. You can develop your own set of application/project types, but one simple set is the maintenance, tactical, and strategic combination mentioned earlier. This set allows you to differentiate between maintenance on an existing application, tactical development on an existing application, and strategic development projects.

Once you've developed this portfolio, you must establish a process to distill your financial data into this view. The sophistication of this process can vary widely, but one key is assigning people costs to each of the applications/projects in your inventory.

This is straightforward on a budget basis. Your IT managers simply divide their headcount among the applications/projects they manage. It is more complicated on an actual reporting basis.

If you want to report actual financial information in the portfolio view (the business will demand it if you provide budget information in that view), then your options span the spectrum from executing a monthly allocation process to implementing time-tracking.

It all reduces the pain

CIOs often find corporate planning and budgeting processes painful due to the absence of meaningful financial information. Creating and delivering targeted financial information helps the CIO drive the communications with the process stakeholders and reduce the pain.

Follow this model for effective IT cost management

Although most CIOs strive to shift the focus on IT costs to one of business value, they realize that ongoing cost management is crucial to IT operation. The basis for effective cost management is understanding cost structure and analyzing the costs flowing through that structure. I'll present a model for framing cost structure along with the steps required to implement that model.

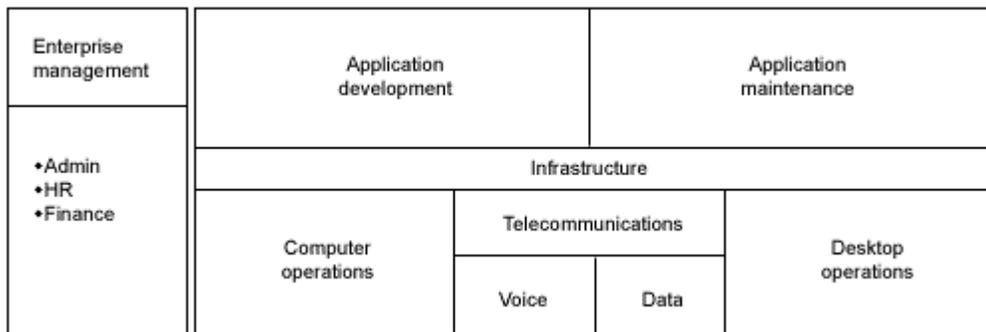
The views in play

Two cost views drive the model. The first, the functional view, associates cost with an IT business function. The second and more traditional, the category view, tags costs with specific identifiers that usually reflect a subset of either people or nonpeople cost categories. Both views are essential to understanding, monitoring, and managing your costs.

The functional view

Figure A depicts generic IT business functions. The value of this functional view is twofold. First, it provides a functional basis for analyzing costs, which enables you to see how you allocate resources functionally and positions you to analyze the impact that spending on one function exerts on the others.

Second, it provides a logical context for communicating effectively with your business partners regarding resource allocation, alignment of spending with business objectives, and the relationship between spending today and future operating costs. Those communications are key to effective ongoing IT cost management.



The category view

The second view of IT cost slots specific expenses into cost or account categories. This is the traditional financial reporting view that managers across any organization encounter. Managers are familiar with the common cost categories, such as salary, benefits, rent, and travel, but they probably are unaware of all the available cost categories. Those categories provide the foundation for this view, and the organization's chart of accounts defines and documents them. You can [download a sample chart of IT accounts](#) to use and customize for your enterprise needs.

If a chart of accounts doesn't include categories established specifically for IT, the reporting based on it obviously provides little value to IT. Standard cost categories, such as equipment and fees, are too general to provide any useful IT cost management information—the IT organization must expand the standard chart of accounts to meet its needs. The cost categories an IT organization chooses to add to the chart of accounts can vary, but a standard expansion will serve most IT needs.

The category view resulting from using such a chart of accounts generates value by providing actionable information. Information reported in meaningful categories over time positions managers to

answer the three questions that effective cost management poses: What are we spending money on, how much are we spending, and how is it changing?

Bringing cost management into play

Answering the three questions above leads to the following additional questions that ultimately produce cost management actions:

- What are my cost drivers?
- What business need is driving the cost?
- Is that need consistent with known business objectives?
- Does the business understand this dynamic?
- How do we acquire the product, service, or resource that produces the cost?
- Do my acquisition practices minimize the costs?
- Can we source certain acquisitions more cost effectively?
- How do we manage the ongoing cost?
- Do we understand to what degree costs are fixed or variable?
- Are we managing contractual commitments? How can we influence them?
- Does current capacity align with current business need?

If organizations address these questions on an ongoing basis, coherent cost management actions result. Developing those actions relies on the information that the category view provides.

The implementation process

The functional and category cost views drive a basic IT cost model. That model may not address all the cost management challenges presented. You may face the need to view IT cost information on a project, application, business process, or fixed/variable basis. Although this model doesn't specifically address those needs, it does provide the foundation required to address them.

Even more importantly, it does so in a manner that is easily implemented in most organizations. Most standard financial reporting systems can provide functional and category cost views; consequently, implementing the cost model presented is not complex.

The [chart of accounts](#) is the key to implementing the category view. Work with your organization's finance group to expand the chart to meet your needs. Most financial systems allow for expansion of the standard chart, and the process for doing so should be fairly simple.

The functional view often closely matches the IT organizational structure, so the pertinent financial system data element is the cost center or department. First, design your structure to meet your needs, and then work with finance to establish the cost center/departments in the financial systems. This process is also straightforward.

Once you've made the changes to your financial systems, you must take the necessary steps to ensure that expenses are correctly coded according to your new cost structure. At a minimum, this will require documentation of the changes and some degree of training. At most, it may require you to review and possibly modify your current expense-handling processes.

Final thought

No CIOs want to overly focus on the cost view of their organization, but business reality dictates that CIOs must manage their costs at least as effectively as any other operating unit.

A simple cost model that provides actionable information provides the basis for effective cost management. If such a model isn't in place, implementing one will allow you to reap benefits far outweighing the effort it requires.

Resources included in this download

In this TechRepublic download, you'll find the following:

- IT chart of accounts

Tech leaders are familiar with the common cost categories such as salary, benefits, rent, and travel, but they may be unaware of all the available cost categories. Download this sample to help define and document your organization's chart of accounts.

- Leasing term checklist

In making the decision whether to lease or buy hardware, it's imperative that IT executives understand all the unique financial terms used. This leasing term checklist can help you get up to speed on the various terms and definitions.

- Use this checklist to map out ROI values

When it comes to determining ROI, it's not the numbers but the process. To help IT leaders examine the values that need to be considered, TechRepublic offers this checklist to provide insight on the various values.

- IT cost center budget model spreadsheet

Communicating budget requirements, projections, and estimates goes smoothly with this IT budget model spreadsheet. IT executives can download this tool and customize cost center categories to meet their own enterprise needs.

- A template for technical acquisitions

Download this template as a guide before you begin your next technology acquisition project. The template includes entries on a variety of acquisition process issues, including an acquisition process statement and acquisition checklist.