Executive Summary
This brief shares the key findings from the CFO of IT workgroup meetings held in 2016, culminating with a survey of members about their key IT planning challenges and the discussions of those challenges and corresponding recommendations. This paper was authored by: Priyu Suryawanshi, Director, TBM Office, Group Insurance, Prudential Financial; Korey Barnard, Financial Analysis Practice Lead, ISG; Bryan Mueller, Director, ISG; and Todd Tucker, VP, Standards, Research & Education, TBM Council.
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Executive Overview

As business demands for technology services and innovation often exceed enterprise IT resources — both fiscal and organizational — the pressures on IT planning processes have grown as well. More than ever, IT leaders need to use the planning process to reassure their CFOs, CEOs and business stakeholders that they are getting value for their money. In addition, they also must use the planning process to find ways to innovate business processes, accelerate revenue growth and even transform the enterprise. Many enterprise IT organizations are looking to the CFO of IT to help them create a data-driven framework for measuring, managing and communicating the budget, cost, consumption and value of IT.

At the annual TBM Conference hosted in San Diego, California in November 2016, more than 145 conference delegates took part in an interactive session exploring common IT financial planning challenges as part of the Technology Business Management (TBM) Council’s CFO of IT Workgroup meeting. The session included small group discussions with subsequent presentations that focused on key IT Financial Planning challenges, and participants answered survey questions designed to help identify the most significant IT planning challenges and how organizations prioritize solving them. Unsurprisingly, the top challenges were those related to business needs. See the chart below.

This paper explores the top four challenges to IT planning and discusses some of the strategies the workgroup members identified to address them.

Lack of Transparency

A common problem for many organizations is lack of transparency, which manifests itself in a variety of ways. According to the workgroup, these range from limited access to budget information, to gaps in
data used to drive the budget process, lack of timeliness of data or budget results, to more complex issues around the context, depth, and users comprehension of the data. In other words, technical issues can impair transparency.

These are understandable. Today many IT organizations are made up of dozens or even hundreds of budget-center owners who each service or support multiple internal business partners and their lines of business. Each owner, in turn, is served by multiple other owners. This makes gathering details such as demand estimates, headwinds/tailwinds, and cost or price data a daunting, time-consuming and error-prone process. Furthermore, the process usually produces a view of the budget principally designed for corporate finance teams, making an evaluation of budget proposals — in terms of service or application costs, project financial estimates, benchmark comparisons — a similarly difficult exercise.

Given its wide range of underlying causes, transparency must be proactively created. The following recommendations have proven useful to many enterprises:

- **Adopt a useful taxonomy.** Using consistent same terms and definitions to describe costs and units helps clarify budget information. The standard TBM Taxonomy, produced by the TBM Council’s Standards Committee, provides a standardized and hierarchical set of terms and definitions that help translate between financial, IT and business perspectives. This taxonomy can be used for IT budgeting and standard costing (forward-looking) and for transparency of actual costs (historical, trending).

- **Use tools to improve data quality and availability.** An IT group can take some basic steps to improve transparency by making changes at the data source, but this is only effective after it has identified, quantified and prioritized the data quality problems beforehand. While IT budgeting rarely is a strong reason for improving IT asset information, doing so will enhance the budgeting process. The right tools can help you aggregate and report on data quality in a financial context.
Furthermore, TBM provides a prescriptive approach for improving the quality of data used in budgeting and costing transparency.

- **Define and formalize your planning process.** Improving transparency often requires working with a broad team of people who understand the core operational and financial processes that may be need to change (especially if the processes contribute to the problem). Just like you define and formalize processes for end-user support, change management, incident response and others, the same is true for IT planning and budgeting. Begin by identifying a process owner (or owners), specifying roles and responsibilities (e.g., for budget center owners, capacity management, benchmarking), establishing clear timelines and setting expectations for accuracy or materiality. Consider automating key aspects of the planning process to both enforce your processes and accelerate execution.

- **Use change management and elicit executive support.** Recognize that you may have to change more than just the data. Even with improved data and access, organizational change is vital to help others perceive the information as important, and leadership must focus on the right measures so employees throughout the organization take the data seriously. Consider changing the tone and purpose of the planning process: planning should not be done for the sake of planning; instead, executive management should define clear financial goals (e.g., shift 5 percent from run to grow, reduce capital spending by $3 million or increase investment in data analytics by $500K) along with non-financial ones (e.g., implement the next release of ABC, refresh one-third of all laptops or deliver a new digital storefront). In doing so, the planning process moves from checking the box to collaboratively finding value.

- **Implement chargeback or effective showback.** A well designed, consumption-based chargeback methodology provides a mechanism for the IT department and its business consumers to see and understand IT impacts. To enable and encourage adoption, chargeback methodology should be designed with inputs and participation from IT, finance and the business. When built upon a strong foundation of transparency, consumption-based chargeback can be implemented more quickly than starting from scratch. In the meantime, showback can be a powerful tool, especially at the corporate executive level, for understanding and reshaping business demand and IT value delivery.

**Telling the Story**

A lack of transparency often means IT Finance is not able to use data to adequately articulate strategy and plans back to its business partners. In other words, IT finance struggles to “tell the story.” When the CFO of IT struggles to help the IT organization understand their financials in a way that makes connections into the business or corporate strategy, the story often gets ignored. Over time, if planning processes produce analyses that fail to establish business connections, trust is erodes and the finance function is marginalized.

The following recommendations will help IT tell its story in a way its business partners can understand (and believe):
Four IT Planning Challenges Explored: TBM Council CFO of IT Workgroup Executive Brief (2016)
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- **Establish and use a source of truth.** Few things can harm trust and erode credibility more than telling a story in which figures themselves are being questioned. Along with employing a useful taxonomy and improving data quality, be sure to ensure there is a single, trustworthy system to serve as the source of truth. Rarely do spreadsheets pass muster here; instead, consider adopting an enterprise-class system. Use the same source of truth you use during the planning process but throughout the year for monthly variance reviews, quarterly business reviews and other important decisions. Consider having your internal auditors review your system to provide an added layer of assurance.

- **Operationalize data capture and reporting process.** Many workgroup members reported that data gathering, verification and manipulation was more difficult and time-consuming than analyzing the data and telling the story. Flip this situation around by operationalizing and automating the data gathering and reporting process by using appropriate tools so that your IT and finance leaders can spend more time getting on the same page and telling the right story to your business partners.

- **Ensure staff has the right skill set.** CFOs of IT must realize there is an art to telling the story, a skill that not all finance people have. Successfully telling the story requires IT finance to interact and educate IT leaders on financial issues acting as a bridge between IT and its business partners by communicating the drivers and challenges that are unique to IT. CFOs of IT may need to coach IT leaders on how to have financial conversations. They should begin by educating them better on IT financial fundamentals, such as capital vs. operating expenditures, variable vs. fixed costs, total cost of ownership, return on investment and other basics. They should also know if their costs are derived through a TBM model or another method. All IT leaders may not want to pursue an MBA, but most appreciate a better grasp of finance and accounting.

**Closer Alignment to the Business**

Closer alignment between IT and the business is more than just an element of data transparency. The availability of cloud-based or “as a service” offerings from third parties means IT organizations are finding they have competition as business units now have the ability to source solutions directly. As a result, IT organizations need to be aligned with the business so they make appropriately prioritized decisions, conform to organization standards and ultimately drive the best business outcomes.

The following approaches help drive alignment:

- **Charge back (again).** Effective chargeback drives two-way communication with the business around what and how IT services are consumed and the costs they drive. When based on the facts, chargebacks can lead to more value-based discussions and better decision-making. This is true especially during the planning cycle, when many major spending decisions are made.

- **Shore up capacity and demand management.** Capacity and demand management processes draw attention to business needs and how IT solutions might address those needs in the most cost-effective manner. They are an important element of annual planning, and a deficiency or breakdown in these processes dramatically impacts overall IT planning. In particular, capacity...
and demand management are critical for understanding and satisfying needs for hardware, labor and many outside services, including public cloud-based services. More than ever, these processes need to work effectively both during the annual planning cycle and throughout the year.

- **Take a seat at the IT leadership table.** CFOs of IT, whether or not they sit in IT or in the business, should sit at the CIOs leadership table. Nearly every major decision made by the Office of the CIO (OCIO) or equivalent has a major financial impact. Furthermore, CFOs of IT are in an excellent position to serve as representatives of the lines of business (and the corporate CFO) and help ensure alignment in both planning and execution. CFOs of IT should help IT leaders act as enablers and advisors to the business and help the business identify the right solutions for its needs.

**Mandate to Fund Innovation through Efficiency**

While it may not be fair, few IT budgets are growing to match inflation or even the growth in business demand. Rarely are budgets adequately supplemented to fund new projects or business strategies. Rather, IT organizations are presented with a mandate to provide new and innovative solutions while supporting business growth and change with a proportionately smaller amount of money, people and time. The only option many CIOs have is to fund some of the growth or innovation by improving efficiency in existing operations.

Fortunately, the planning cycle is a critical point for reviewing the prior year’s actual spending, both internally and with business partners. More specifically, the process provides an opportunity to assess total cost, the utilization of your assets, the business consumption of your applications and services, and the overall business value and balance of the IT portfolio. In doing so, many leaders are able to set achievable goals of reducing the unit cost of services or assets by 5 percent or more over the next year, usually by reducing waste (i.e., underutilized assets, unnecessary contracts), renegotiating rates or deferring purchases.

Consider the following recommendations for meeting the mandate to seemingly “do more with less”:

- **Identify Run vs. Change.** Efficiencies usually can be gained on both sides of this coin. Organizations can reduce run costs, or “business as usual” on a per-unit basis. Similarly, organizations can optimize change costs, where many of your projects sit, by focusing on labor efficiency, optimizing teams and cutting high-risk projects. CIOs find it helpful to show these efficiencies, but they must know which is which. As part of your planning process, clearly define each segment of your portfolio (e.g., Run/Grow/Transform, etc.). Working with both IT and line-of-business stakeholders is important here; poorly defined segments can cause needless debates. Document the definitions and set clear criteria for classifying operating and capital expenditures into them. It’s rarely as simple as calling all operating costs are “Run” and all project costs “Change”. Devise a way to report spending (both capital and operating) within your defined segments; use these definitions during the planning process and show the budgeted amounts for each segment. Work with your CIO and IT leaders to set targets for efficiency improvements, and then report on them regularly (at least quarterly).
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- **Prepare to address financial constraints.** Categorization of CapEx or OpEx or short-term financial targets may result in conflicts with otherwise solid business cases that have positive net present value (NPV). To help navigate these roadblocks, the CFO of IT must be prepared to build comprehensive business cases that enable everyone to understand more than just a project’s ROI; they should be able to demonstrate how the proposed spend fits into the overall organization strategy. Furthermore, be prepared to show the operating impact of new investments so the CIO, corporate CFO and other executives understand that today’s capital investment is tomorrow’s operating expense. Where possible, provide recommendations for cutting other operating expenses over time, such as eliminating an outdated application. For these decisions, the transparency you’ve worked hard to create will become highly useful.

- **Establish agility in financial processes.** Rigid financial processes with timing aligned solely to the annual fiscal reporting calendar may not match the unpredictable flow of the business environment. This can put organizations at risk for making decisions based on static and outdated information. Build agility into your financial processes to ensure decisions are made with the right date and in the right context. Tactics like implementing a rolling forecast that incorporates current information into the process are useful, especially when the tactics employ efficient tools and data-capture techniques.

**In Closing**

The planning process provides an unmatched opportunity for IT to improve business value. If challenges such as those discussed in this paper prevent the IT organization from becoming a trusted business partner and a source of value, business unities will find other ways to innovate and improve their own products and services or, worse, they will go underserved. There is no greater reason to create a well-oiled and business-integrated planning process.

The TBM Council’s CFO of IT Workgroup is dedicated to defining and advancing best practices for IT finance leaders and IT executives with financial management responsibilities. The group is open to all General and Principal members of the TBM Council. It meets throughout the year, and is Co-Chaired by Priyu Suryawanshi, Director, TBM Office, Group Insurance for Prudential Financial and Korey Barnard, Financial Analysis Practice Lead for ISG, a TBM Council Alliance Partner.

To become involved in the 2017 TBM Council CFO of IT Workgroup, please visit [www.tbmcouncil.org/cfo-it-workgroup](http://www.tbmcouncil.org/cfo-it-workgroup).
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