



IT & DATA MANAGEMENT RESEARCH,
INDUSTRY ANALYSIS & CONSULTING

IT service cost tracking in ITSM: the missing link between IT service quality and business value

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Table of Topics

- 1** The challenge
- 2** Finance is the lingua franca of business
- 3** Why service cost matters in the great sea of IT OpEx
- 4** ITSM and service cost tracking
- 5** Service begins with 4me's service-oriented data structure
- 6** Tracking IT service costs in ITSM
- 7** Cost breakdowns that have management meaning
- 9** EMA perspective
- 10** About 4me

The challenge

In a great act of corporate irony, IT services that are SLA-ed with great precision are almost always mysteries when it comes to understanding their cost. Most IT organizations can report the quality of a service against a multitude of metrics, and they can detail IT budgets along departmental or asset lines. However, the cost of providing a service as it is actually consumed by the organization is largely an unknown. This operational blind spot is the missing link in any reasonable discussion of IT service business value. After all, how can the business value of a service be determined without knowing what it costs to deliver that service?

4me bridges the great divide between IT service and corporate finance with a simple-to-use IT financial management capability that was designed into its ITSM/ESM solution from the start. No afterthought or add-on—this capability is built into 4me's data structure.

Finance is the lingua franca of business

CIOs and their fellow IT leaders have found their place at the corporate table. Digital transformation and the turbo-pivot to an evolving “normal” place IT on the frontlines of business agility and innovation. This legitimate opportunity to serve as business leaders requires IT professionals to speak the language of their peers, and that language is finance, not Kubernetes.

They don't need to get a black belt in high-level financial analysis, but IT leaders should be able to answer reasonable questions about the cost of services. Business leaders who would be unmoved hearing about savings on a new server do relate to learning that the cost of providing email service has been cut by any percentage. A server, no matter how technologically impressive, has no real meaning to people whose lives are shaped by considerations of earnings per share, return on invested capital, EBITDA, and P/E ratios.

What does have meaning is IT service in all of its many shapes across major functions. HR, ERP, CRM, procurement, and sales, as well as facilities, finance, legal, and marketing, each sports its own subset of specialized applications and services. Corporate-wide services, such as email, Wi-Fi, and network, add to the mix that easily exceeds 100 IT services in even moderately sized organizations.

IT job #1 is keeping these services up and running with high levels of availability and performance—a job that is generally well done. Executives track execution in dashboards with real-time views that span the globe or drill down to the component level, but they can't answer on a per-service basis, **one simple question:**

What does it cost to deliver a specific service to your organization?

Why service cost matters in the great sea of IT OpEx

The fatalistic view of IT as an undifferentiated, expensive cost of doing business is at least partly a reflection of a lack of information. It's not that CIOs and business leaders don't care about the cost of IT services, it's more often that they don't have that information readily available.

Service-level thinking increasingly dominates the IT value conversation in the global move to digital transformation. However, visibility into service quality has to include the cost of service in order to serve as a basis for determining its business value. Accurate knowledge of cost per service is fundamental to IT's ability to:

- Compare with “as a service” alternatives
- Communicate the balance of service quality and value to the business
- Forecast requirements and get adequate levels of funding
- Manage costs and identify areas ripe for savings
- Facilitate internal chargeback or show-back
- Demonstrate the impact of new situations, opportunities, challenges, and changes
- Credibly hold a persuasive business-based position in budget conversations with peers

Plus, knowing the cost of delivering a service just makes good business sense. Some services are business-critical, while others are further down the business food chain. Being able to disaggregate IT spending into distinct business service costs makes it possible to keep investment levels and business values in balance.

ITSM and service cost tracking

At first glance, ITSM solutions seem like the logical place to house and track IT service costs. After all, ITSM systems and organizations take a service view of the enterprise in a way that ERP systems can't accommodate. The problem is that most ITSM solutions aren't built to capture and roll up IT costs by the services they support.

Consider the CMDB's role in ITSM. A service can be registered as a CI, then flagged to identify it as a service, maintaining the dependencies of components and interdependencies of systems. That would be a great start in a static environment of minimal changes, not today's typical IT landscape.

Without going into a lot of detail, this approach is cumbersome in the fast-changing SaaS world. It uses the CMDB for a function it is not designed to serve. There is no separate record type for services, never mind service instances and varying service objectives by instance. Although it is arguably doable in theory, in practice, service costs are not successfully tracked in mainstream ITSM solutions, platforms, or services.

By contrast,
4me designed
service centricity
into its data
structure from
day one.

Service begins with 4me's service-oriented data structure

4me's extensive suite of enterprise service management is built on a data structure that revolves around the record type "service." The structure easily accommodates and differentiates between multiple instances of any service. This capability is essential for service cost tracking and reporting.

A simple example is SAP. An SAP module will usually have a test or QA environment in addition to the production environment. The production and QA instances need to be monitored, measured, and reported differently and separately. An hour of downtime in test is business as usual. That same hour in the production environment is a business crisis.

4me points to Wi-Fi as an easy way to make the data structure/service connection case. An organization may have one Wi-Fi service with different instances of that service in each of its buildings, in many cities and countries. The country manager in France

has no interest in the Wi-Fi service woes of the Chicago office. Furthermore, different functions have different requirements. Three shifts of manufacturing need high performance and availability 24/7, while the office staff at headquarters demands near perfection only during business hours.

4me's data structure accommodates all services, instances, and variations in service objectives, as well as the resultant service-level agreements (SLA). It looks like this:

- Service = Wi-Fi
- Service instance = each location or function
- Service offering = level of service required for that instance (24/7 manufacturing or office hours)
- Service-level agreement = the link between an organization, the service instance, and the service offering that defines all the SLA's targets.

4me allows an enterprise to connect with external providers as well. If, in this case, Wi-Fi is outsourced to an external provider, all service instances are registered. When there is a problem, employees can submit their requests to IT or the service desk as usual. It is linked to the provider for resolution and tracked by IT for quality without the need for any complex integrations.

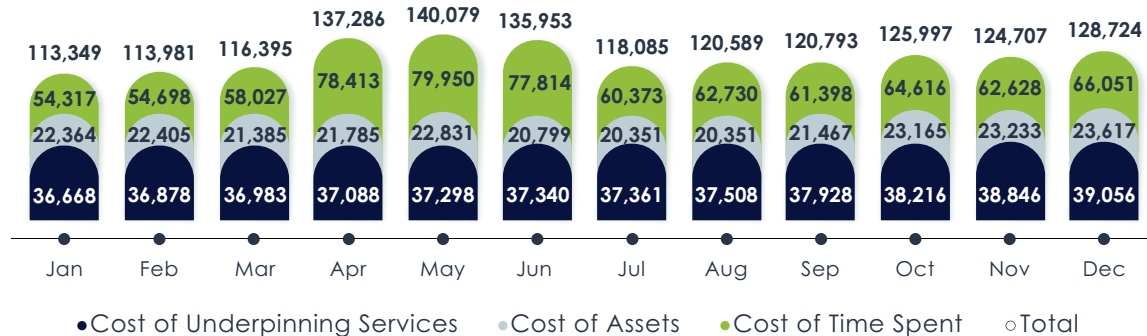
Tracking IT service costs in ITSM

Enterprise service cost tracking requires the capture of three broad categories:

- The time employees spend working on service-related assignments – a combination of 4me routinely asking how much time was spent on an assignment and HR-provided average cost by pay grade. Also includes long-term contractor time and supplier work invoices.
- Assets required to provide a service – expensed or depreciated over time, including maintenance and license costs, can be found in the CMDB plus invoices for ad hoc work.
- The supporting services that underpin a service, making it possible – usually outsourced. For example, although HR frequently outsources payroll services, it usually staffs the function with people to answer questions and act as a bridge between employees and this service. The cost of this underpinning service includes the time of these employees and the invoice of the provider.

With all three of these major cost components registered, 4me’s service management solution can automatically and continually generate service cost overviews over time. There is no need to build integrations to collect data from other systems. The costs relate naturally to the service views that are central to 4me’s value proposition and design intent.

Service Costs Over Time



Cost breakdowns that have management meaning

4me's service cost tracking further breaks down the major cost components into delineations that have meaning to management.

When it comes to time spent by employees on requests, problems, change tasks, and project tasks, 4me allows characterization as follows:

Waste

work to fix issues or resolve causes including incidents, complaints, and corrections. In a perfect world, this category would be zero.

Necessary work

activities that just have to be done as part of doing business, including requests for information, compliance, maintenance, and replacement activities.

Business alignment

activities, changes, and projects that advance or improve the business.

Likewise, assets can be categorized as operational expenses, depreciation, leases, and maintenance, or by asset type, brand, or supplier. Underpinning services are usually pretty straightforward and can be named by specific functions. A more complex but valuable undertaking is the reporting of service costs by department or customer.

Armed with this information, IT can have meaningful business-relevant discussions and managers across the enterprise can take informed, business-based actions. It's not so much the exact costs that matter; it's the visibility and trends over time.

Total	Jan 113,349	Feb 113,981	Mar 116,395	Apr 137,286	May 140,079	Jun 135,953	Jul 118,085	Aug 120,589	Sep 120,793	Oct 125,997	Nov 124,707	Dec 128,724	↑	MoM Δ 3.2%
Cost of Effort	54,317	54,698	58,027	78,413	79,950	77,814	60,373	62,730	61,398	64,616	62,628	66,051	↑	5.5%
Requests	30,836	30,340	32,107	34,112	32,923	34,092	33,928	35,342	34,420	36,408	34,871	35,711	↑	2.4%
Problems	1,341	1,808	1,279	1,661	1,681	262	1,271	1,189	1,722	2,091	1,517	1,476	↓	-2.7%
Changes	9,676	10,414	9,758	10,693	10,332	10,922	9,971	11,070	10,004	10,873	10,660	11,890	↑	11.5%
Projects	12,464	12,136	14,883	31,947	35,014	32,538	15,203	15,129	15,252	15,244	15,580	16,974	↑	8.9%
Assets	22,364	22,405	21,385	21,785	22,831	20,799	20,351	20,351	21,467	23,165	23,233	23,617	↓	1.7%
Expense	979	1,020	0	400	600	448	0	0	364	652	720	399	↓	-44.6%
Depreciation	11,280	11,280	11,280	11,280	11,280	9,400	9,400	9,400	9,400	7,520	7,520	7,520	→	0.0%
Lease	4,465	4,465	4,465	4,465	4,465	4,465	4,465	4,465	4,465	7,755	7,755	7,755	→	0.0%
Support / Maintenance	5,640	5,640	5,640	5,640	6,486	6,486	6,486	6,486	7,238	7,238	7,238	7,943	↑	9.7%
Underpinning Services	36,668	36,878	36,983	37,088	37,298	37,340	37,361	37,508	37,928	38,216	38,846	39,056	↑	0.5%
Unix Servers	17,625	17,625	17,625	17,625	17,625	17,625	17,625	17,625	17,625	17,625	17,625	17,625	→	0.0%
Database	11,515	11,515	11,515	11,515	11,515	11,515	11,515	11,515	11,515	11,515	11,515	11,515	→	0.0%
Storage	4,410	4,620	4,725	4,830	5,040	5,082	5,103	5,250	5,670	5,880	6,510	6,720	↑	3.2%
Datacenter Network	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	→	0.0%
Job Scheduling	1,443	1,443	1,443	1,443	1,443	1,443	1,443	1,443	1,443	1,521	1,521	1,521	→	0.0%
Monitoring	594	594	594	594	594	594	594	594	594	594	594	594	→	0.0%

EMA perspective

By definition, ITSM is the logical place to look for IT service costs. In practice, it just doesn't work that way. That's why many organizations interpolate information from disparate systems and throw in some well-educated guesswork to approximate service costs. The process is labor-intensive and the results are uneven.

4me strikes a pragmatic balance between elaborate financial management systems and a bulldozer approach that moves piles of IT specifics into heaps of undifferentiated expenses. The result, on a per-service basis, is real-time cost information that is accurate, informative, and useful to all business leaders. It's relatively painless to implement and is simple to maintain on an ongoing basis.

It's also another good reason to take a look at the 4me suite of integrated solutions. The company and its offerings are anything but vanilla, starting with its architecture—a topic for another day. Regarding cost tracking of IT services, this sensible capability is rooted in the foundational data structure. 4me CEO and cofounder Cor Winkler recently addressed a gathering of customers, saying, "I have never understood why service is treated as a second-class matter. A service is the central component of a service management solution. Service is not an afterthought that is shoe-horned into CMDB. It is something completely separate and should be treated separately in the data model. 4me is currently still the only service management solution that treats services with that level of respect."



About 4me

4me is a full-bodied ITSM solution that was designed for seamless enterprise service management (ESM) across both internal and external functions and providers, executed within a dynamic service integration and management (SIAM) environment. The fact that the company continues to win significant competitive replacement business in large multi-national accounts is testimony to the power of word-of-mouth promotion from an enthusiastic customer base.

There are many reasons for organizations to consider 4me. The company was named an EMA Vendor to Watch in 2019, and 4me's distinctive coupling of ITSM, ESM, and SIAM in one solution set led the list of those reasons. Within that broad and deep range of capabilities are strong bonus points to be considered, such as its unified self-service portal, portfolio management, and IT service cost tracking in one solution. The ability to easily offer multiple service domain specializations within the same 4me license makes it a cost-effective choice as well.



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YEARS

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