

BENCHMARKING ALONG THE TBM JOURNEY

How
Technology
Business
Management
Builds a Bridge
between IT and
the Business

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INTRODUCTION

Technology Business Management (TBM) is a multi-dimensional approach to managing an organization's information technology (IT) finance and operational costs and forging a closer alliance between an enterprise's IT organization and its core business. Through a combination of people, processes, technology and data, TBM is pioneering a new framework to drive transformational IT initiatives as we move into an age of digital automation.

Enterprises that use IT benchmarking to increase visibility into their costs achieve a more strategic approach to IT spending, a greater return on their investments with a line of sight toward how IT initiatives benefit the business's bottom line, and a stronger tie between IT investment and innovation.

This white paper explores the history of IT benchmarking and the recent advances in IT cost transparency made possible by TBM, which gives enterprises the necessary insights into their current state so they can make informed, strategic plans for an optimal future.



IT BENCHMARKING

IT benchmarking, as the industry has come to accept it, first began in 1979, when five Swedish companies co-sponsored a project to determine whether they could conduct a benchmark of IT costs using an approach similar to activity-based costing used in manufacturing. Soon after, they formed a firm called Compass, which fast became recognized as a global leader in IT benchmarking and was later purchased by ISG. Over time, benchmarking evolved to become a catalyst for organizations wanting to manage their technology spending.

THE PURPOSE OF IT BENCHMARKING

Even in this evolving industry, the reasons enterprises conduct IT benchmarks have generally stayed the same. Over the past 35 years, organizations that have conducted benchmark studies of their IT organizations have done so primarily to achieve one of three goals:

1. Check the box: To complete a management requirement as part of an annual exercise or as a routine health-check.
2. Industry peer comparison: To gain visibility into the cost of an IT service and compare it against peers in the market.
3. Drive transformational change: To develop a strategic approach to gain cost efficiencies and synergies.

The results of an IT benchmark, regardless of the specific use case that may have initially spurred it, is a baseline against which an organization can then track and measure improvement. The extent to which an organization uses the baseline depends on which of the three aforementioned goals it hopes to achieve.

DESIRED OUTCOMES FOR IT BENCHMARKING

When broken down into its component parts, an IT benchmark provides important insights that help enterprises understand, plan and transform the way they provide IT services. A benchmark helps to:

1. Understand and communicate the value of IT: Justify IT spend, gain insights from peer performance and demonstrate IT efficiency.
2. Plan efficiently and predictably: Inform fiscal planning, set informed cost and service-level targets and plan for skills development and future staff growth.
3. Optimize cost and investment: Identify cost optimization targets, improve investment decisions and identify staffing optimization targets.
4. Transform the business of IT: Enable empowered conversations, drive informed transition to services orientation and run IT like a business.

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THE EVOLUTION OF IT BENCHMARKING

While the use cases and desired outcomes for conducting a benchmark study have remained consistent, the methodology for doing so has evolved. Today, clients have the ability to leverage industry best practices in TBM technology and business processes designed by industry leaders in the benchmarking profession.

COMMON CHALLENGES OF TRADITIONAL BENCHMARKING STUDIES

Benchmarking professionals and clients who conducted benchmarking studies in the past likely overcame some specific challenges to ensure a successful result. The time it takes to complete a benchmark and the cost of conducting it are two challenges that top the list. Many enterprises have also found it difficult to quickly develop and deploy strategies based on the study output.

Time challenges include:

1. Manual data collection.
2. Data aggregation into a specific benchmarking taxonomy, which is required for a peer comparison.
3. Point-in-time comparison (otherwise known as a benchmark snapshot).
4. Possible time constraints to running the analysis, depending on the time of year the benchmark study begins and ends.

Process challenges include:

1. Non-repeatability in data collection.
2. Difficulty in preparing and managing prior-period benchmarking studies to track trending.
3. Too much focus on historical analysis and not enough on future planning.

Cost of services challenges include:

1. Cost contingency associated with the benchmarking study's scope of services, which include the number of towers assessed, the depth of a benchmark, the number of business units and geographies.

HOW TBM MITIGATES HISTORICAL BENCHMARKING CHALLENGES

By leveraging TBM technology and processes, enterprises today have addressed many of the traditional limitations of IT benchmarking. In lieu of spending a great deal of time collecting, aggregating and aligning data to a specific taxonomy, companies are finding that they can leverage the proven methodology and industry-leading data from ISG to quantify performance gaps, identify root causes of cost and productivity problems, measure stakeholder satisfaction

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and define corrective actions. When they use the Apptio TBM Unified Model™ (ATUM) to standardize financial information and align their benchmarking data to the industry-leading taxonomy used by ISG, they are able to realize the following benefits:

1. Reduced time needed for data collection with automated processes and calculations.
2. Simplified historical trending and analysis with aggregated data (month over month, year over year).
3. Ongoing comparison of infrastructure IT costs against industry peers.
4. Increased emphasis on data analytics to enable increased focus on strategy and IT transformation.

The traditional IT benchmarker's role has always been to help the client focus on managing the business of IT. With the use of TBM technology and processes, benchmarkers are now considered trusted advisors who provide guidance on TBM next steps and strategy.

TBM TECHNOLOGY & TBM PROCESS METHODOLOGY

An integrated approach to blending TBM technology with TBM methodology in the context of benchmarking can help set the foundation for an organization to create ongoing cost transparency and leverage it to achieve quick wins and fund its TBM journey. Used independently of each other, technology and process can achieve a stakeholder's desired point-in-time output—a snapshot of a moment in time—but when combined, they can achieve a dynamic, multi-dimensional and continuous approach to managing IT costs over the long term. A TBM benchmark lays the foundation for building real-time, ongoing benchmarking capabilities and analysis, which have not existed before in the market.

TBM's multi-dimensional approach includes:

1. **TBM technology:** This is defined as the IT cost- transparency software that includes a standardized taxonomy referred to as ATUM. ATUM is endorsed by the TBM Council and is included as part of market-leading TBM technology software to set the framework for developing foundational IT cost models.
2. **TBM methodology:** This is the underpinning frameworks, principles and processes that are independent of any specific technology. By definition, many TBM processes serve as foundational principles for frameworks used in IT Financial Management, Information Technology Infrastructure Library (ITIL) and Control Objectives for Information and Related Technology (COBIT) to help join operational and financial data in a meaningful way. With a defined plan, benchmarking can support and drive TBM processes, and TBM processes can, in turn, drive improved services management.

Benchmarking produces analytical outputs, which can then be used to create a fact-based approach to building a set of strategic initiatives. Throughout the TBM benchmarking process, data quality remains a key ingredient. Organizations that achieve their goals do so by fully appreciating how complex the process is, working toward a roadmap of desired outcomes, understanding how the process integrates with the TBM program function and recognizing how the TBM initiative aligns to a broader organizational strategy.

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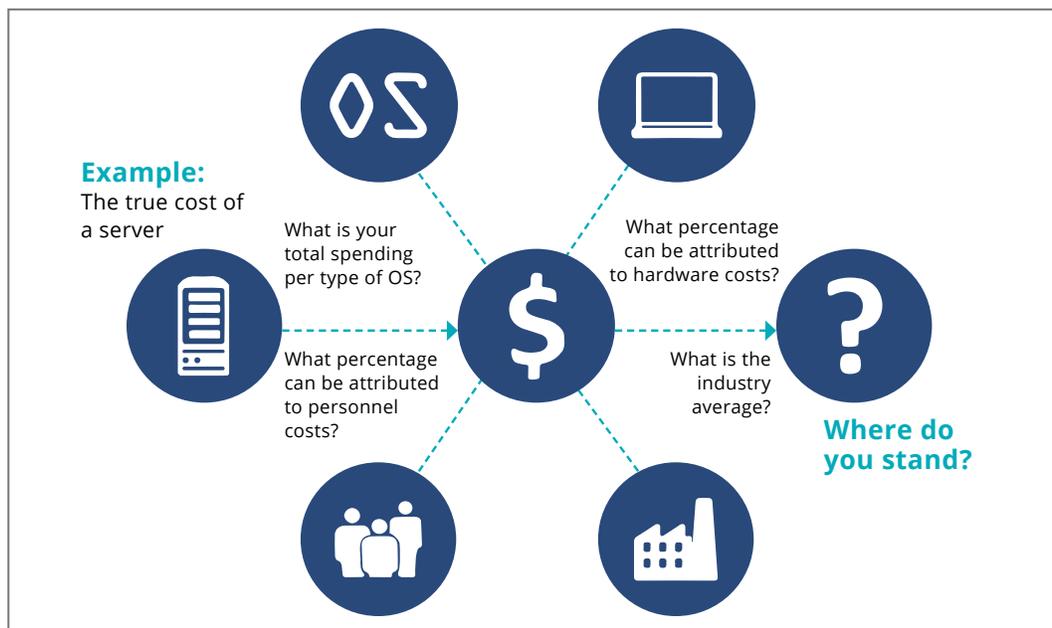
TBM AT WORK

A manufacturing enterprise, for example, needed a greater understanding of its data in relationship to peers and to the larger IT marketplace. In an analysis and benchmark of midrange servers in its infrastructure tower output, the company found that the Unix environment was operating at a 15 percent higher cost than enterprises of similar size and that it had an annual cost savings opportunity of \$2.1 million in services and \$0.67 million in assets.

By uncovering this kind of data, the company could drive financial and organizational value within the context of a broader technology management program to gain, among other things:

1. **Cost savings** by limiting providers where possible to achieve higher standardization, lower complexity and lower unit pricing.
2. **Business change** by consolidating servers and storage into regional data centers to drive higher utilization targets, simplify management processes and reduce services costs.

The graphic below illustrates how a benchmark complements the TBM methodology to elicit deeper understanding of the implications of IT costs in the context of an individual company and in the broader IT marketplace.



DRIVERS OF CHANGE: IT ANALYTICS & STRATEGY

Organizations interested in evaluating the impacts of IT cost structures on various IT delivery strategies and models are able to do so through a combination of analytics and strategic planning. By leveraging TBM technology, encompassed by a broader approach to managing IT finance and IT services, organizations will be able to more efficiently measure and monitor cost structure impacts.

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Benchmarking analytics can be combined with strategy to:

1. Reduce costs while maintaining or enhancing services.
2. Deliver the benefits of consolidated operations with fact-based and automated support.
3. Exploit captive near-shore and off-shore markets.
4. Develop a common platform for the integration of disparate businesses/territories.
5. Investigate alternative delivery models (e.g., cloud, XaaS, and automation).
6. Align shared services costs to business processes, product and business units.

Agility and innovation are critical for survival in today's rapidly changing marketplace. Enterprises that pursue benchmarking in the context of TBM are positioning themselves to make rapid and effective business decisions based on up-to-date information. The alignment of traditional benchmarking with the technology and methodology of TBM provides the necessary baseline for future analytics and strategic planning that enterprises need to remain competitive.

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Alex-Paul works closely with enterprise leaders, IT finance managers and IT business unit leaders to help implement the discipline of Technology Business Management (TBM) into their organizations and optimize their enterprise IT. He advises both commercial and public sector organizations on the adoption of TBM programs, designs fact-based analytical strategies and supports broader IT transformation initiatives. His development of a strategic TBM multi-dimensional framework addressing people, process, data, analytics, technology and strategy is part of ISG's industry-leading set of market best practices and methodologies. His thought leadership has been featured in *CIO Review*, *MiddleMarket Executive* and the TBM Council's book *The Four Value Conversations CIOs Must Have with Their Businesses*.



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