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TBM AND THE PUBLIC SECTOR:

An Overvieww of the IT Cost Commission and FITARA

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In the age of digital transformation, the advantage of IT cost transparency is that it gives organizations the insights they need into current IT spending so they can make informed decisions that will translate into sound IT investments over the long term. In essence, the future competitive state of an organization—even an organization like the United States federal government—depends on the IT decisions it makes today. And, like so many businesses, the federal government is signaling it is ready to embrace the digital era and the future of IT cost management.

In 2015, the Technology Business Management (TBM) Council formed the Commission on IT Cost, Opportunity, Strategy and Transparency (IT COST) as a joint initiative to align private sector IT domain experts with their federal agency CIO counterparts. In July 2016, the IT COST Commission issued the IT COST Commission Report that outlines best practices and recommendations for the federal government to improve federal agency IT spending in keeping with the Federal Information Technology Acquisition Reform (FITARA) Act passed by Congress in 2014.

The report focuses on how a standardized IT costing taxonomy would enable the federal government to more easily implement federal guidelines established by FITARA. ISG assisted with the development of the IT COST report by leading the team and process dedicated to creating a framework based on TBM metrics and benchmarking. The report contains many use cases to demonstrate the benefits of IT cost benchmarking within a standardized taxonomy and outlines the need for federal agencies to establish improved guidelines, policies and procedures in IT services procurement. The goal is to optimize resources, transparency and accountability for federal taxpayer dollars.

The implementation of TBM practices designed to meet FITARA compliance expectations will require significant coordination and governance within and among federal agencies and their employees. According to the IT COST Commission report, strategies necessary to achieve FITARA goals may include consolidating data centers, eliminating redundancies and

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embracing "IT strategies, processes, systems, roles and ways of making technology decisions that impact stakeholders well beyond IT." This approach will free resources to commit to new IT investments and practices.

On the surface, solving for FITARA compliance at the federal level may appear as complicated as a jigsaw puzzle. However, the application of a standardized taxonomy—referred to as the TBM taxonomy—will give federal agencies a starting point and a baseline for achieving greater IT cost transparency and meeting their FITARA regulations and mandates. Now is the time; as CIO Richard McKinney of the U.S. Department of Transportation noted during a final presentation of the TBM Council report, this may be the "last chance to get this right" in terms of getting overall federal IT spending under control.

Key themes throughout the report include benchmarking, sourcing and organizational alignment. The overall IT COST findings are consistent with the advice of many private sector professionals in the TBM space. More than 7,000 LinkedIn professional profiles now include a TBM reference, and according to the TBM Council, today's TBM practitioners represent the management of $650 Billion in enterprise IT spending.

What is technology business management?

Founded in 2012, the TBM Council focuses on developing "a definitive framework for managing the business of IT by establishing standards and providing ongoing collaboration and education opportunities." The Federal IT COST Commission Report states: "Technology Business Management is a value-management framework instituted by CIOs, CTOs, and other technology leaders. Founded on transparency of costs, consumption and performance, TBM gives technology leaders and their business partners the facts they need to collaborate on business-aligned decisions. Those decisions span supply and demand to enable the financial and performance tradeoffs necessary to optimize run-the-business spending and accelerate business change. The framework is backed by a community of CIOs, CTOs, and other business leaders on the Technology Business Management Council".
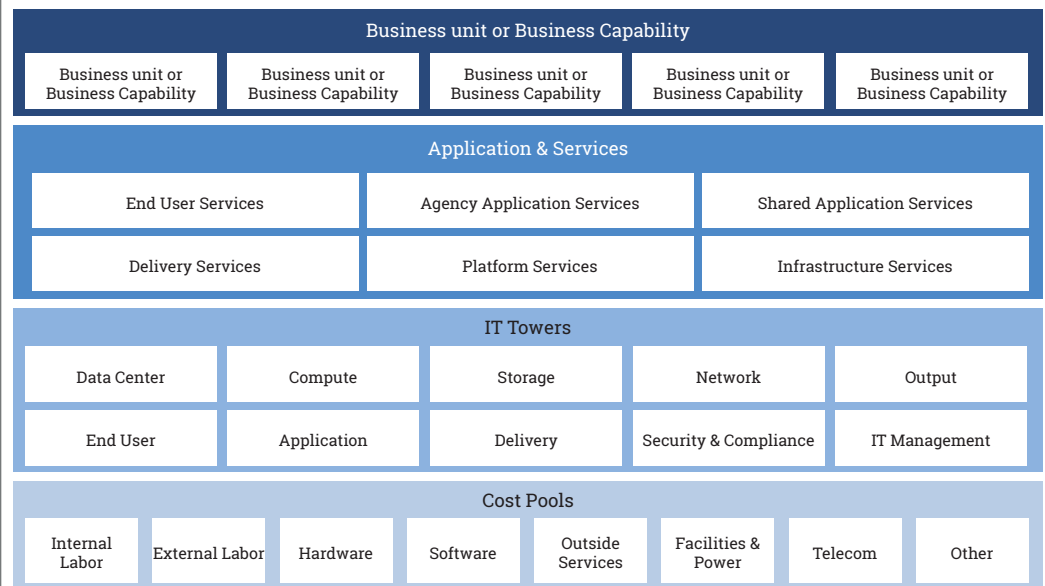
ISG's definition of TBM supports the TBM Council's mission of establishing an IT costing taxonomy that leverages automation and standardization. In addition, ISG has developed a multidimensional framework for TBM, which includes people, process, data, technology, strategy and analytics (see Figure 1). Within each of these dimensions, we extend the principles of a standardized IT costing taxonomy and apply them in a holistic manner to develop comprehensive and strategic TBM programs. Our approach to TBM is designed to drive and support enterprise-wide IT transformational programs through each of the core tenets of our multidimensional framework.

ISG's Multi-Dimensional Approach to TBM (Figure 1)

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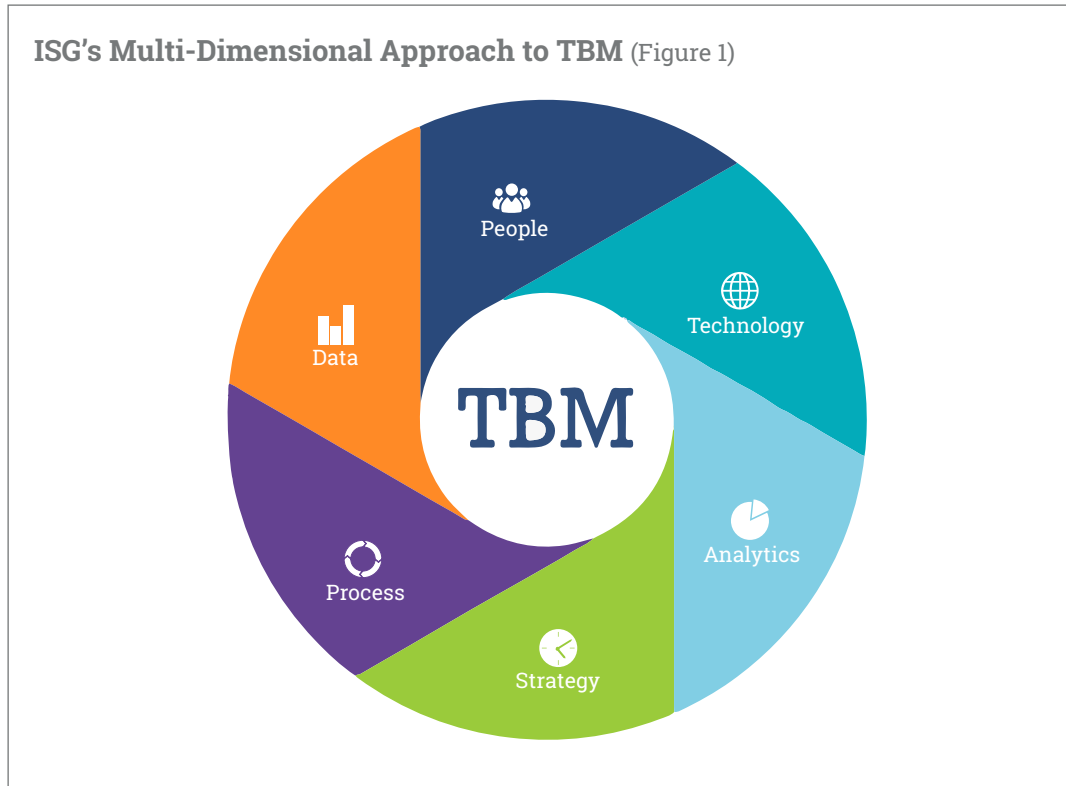
Key TBM Definitions

- TBM Unified Taxonomy – This is the conceptual framework for categorizing IT costs. As depicted in Figure 2, the TBM taxonomy is designed to present generally accepted ways of reporting IT costs and producing quality metrics, much like generally accepted accounting principles (GAAP).

- TBM Data Model – This is an automated data model designed to generate IT cost insights based on the TBM Unified Taxonomy. The TBM model is used for mapping and allocating IT costs and IT resource consumption. The IT COST Commission report explains that this model is what translates data between the layers of the taxonomy, for example, between IT towers and Applications and Services.

The TBM taxonomy provides a standard set of categories for costs and other metrics. (Figure 1)

Business unit or Business Capability				
Business unit or Business Capability	Business unit or Business Capability	Business unit or Business Capability	Business unit or Business Capability	Business unit or Business Capability

Application & Services		
End User Services	Agency Application Services	Shared Application Services
Delivery Services	Platform Services	Infrastructure Services

IT Towers				
Data Center	Compute	Storage	Network	Output
End User	Application	Delivery	Security & Compliance	IT Management

Cost Pools							
Internal Labor	External Labor	Hardware	Software	Outside Services	Facilities & Power	Telecom	Other

Source: IT COST Commission Report

What Is FITARA?

Congress passed FITARA in 2014 in an effort to improve federal agency IT spending. FITARA is essentially legislation that requires federal agencies to implement improved governance and processes to enhance IT cost transparency so that it can better procure and manage an estimated $90 Billion of annual federal IT spending.

For 2017, the known IT spending budget for the U.S. government is $81.7 Billion, with $55.9 Billion devoted to operations and maintenance (O&M) and $18.7 Billion to development, modernization and enhancements (DME) across 10,500 data centers. A goal of FITARA is to help shift dollars from O&M to DME, to take advantage of competitively priced services and fund innovation among all federal agencies.

A foundational principle of FITARA is that success will require agency-by-agency teams and require more than just the CIO or a single office to implement. According to GovLoop's recent guide FITARA: What You Need to Know, the estimate for year-one implementation of an agency FITARA program is about $3 Million, which includes putting in place a program to achieve IT cost transparency while satisfying governance requirements as outlined by the legislation. A key consideration is that FITARA compliance is essentially an unfunded mandate, meaning no additional budget will be provided to the agencies.

The seven primary requirements for which FITARA holds CIOs accountable include:

- Agency CIO authority enhancements;
- Enhanced transparency and improved risk management in IT investments;
- Portfolio review;
- A federal data center consolidation initiative;
- Expansion of training and use of IT cadres;
- Maximization of the benefit of the Federal Strategic Sourcing initiative;
- A government-wide software purchasing program.

IT COST COMMISSION REPORT SUMMARY

When IT COST first began, there were no real preconceived notions on the savings potential the TBM taxonomy could have for the U.S. federal government. When the report was complete, it estimated a $6 billion savings impact. Report findings, recommendations and participants are outlined in the Federal IT Cost Commission Report.

IT COST Commission Recommendations

In total, the IT COST Commission report issues 21 recommendations for agency CIOs and federal leaders. The recommendations were the result of the collective effort of four integrated workstreams, each of which included a mix of private sector experts and partners, public sector representatives and CIOs. The report's recommendations are broken down into five primary categories, including:

- **TBM Taxonomy and Metrics** – a standardized language for describing what IT delivers and at what cost, along with consumption and composition for meaningful analysis, benchmarking and planning;
- **Financial Accounting and Reporting** – minor adjustments to the way federal agencies account for IT spending;

- **Governance and Standards** – policies and other steps to ensure TBM programs mature and deliver improved decision-making capabilities;

- **Organizational Capabilities** – roles, responsibilities and other human considerations for improved transparency and decision-making;

- **Functional Capabilities** – tools, cost modeling and other requirements needed for effective and sustainable transparency.

Of the 21 recommendations, ISG has outlined three that we believe will have the biggest overall impact when implementing a TBM taxonomy to facilitate cost insights across federal agencies. These three recommendations, in order of priority, are:

1. **Agency CIOs should benchmark significant IT tower and sub-tower costs on an annual** basis. (Recommendation #3)

2. **Federal agencies should adjust the financial reporting process to ensure IT spend can be identified from other spend.** (Recommendation #7)

3. **Agency CIOs should take specific steps to ensure better alignment of reporting between their offices and the offices of the Chief Financial Officer and the OMB.** (Recommendation #12)

TBM Benefits to the Public Sector

Among the many enterprise-level objectives facing federal CIOs and CFOs, the standardized IT costing taxonomy also will enable them to:

- Become a transparent broker of services to the business by providing clarity into costs from third parties, such as cloud providers and consultants, and internal consumption and total cost of ownership (TCO) of owned assets, such as servers and storage networks;

- Negotiate better outsourcing contracts by providing a clearer perspective of internal costs and consumption to ensure vendor proposals are complete;

- Benchmark and assess trend analyses of IT costs;

- Accelerate decisions about whether to fund or retire applications, consolidate vendors, migrate applications to the cloud, consolidate storage, servers and data centers or build business cases for technology refresh investments.

Public Sector Challenges

Not unlike the private sector, the public sector needs a strategy to drive adoption of the TBM taxonomy and TBM programs. We often see success in the private sector with TBM when companies link TBM to a broader set of corporate strategic initiatives. By linking TBM with FITARA, the U.S. government has been effective in connecting a transformational IT initiative with a broader governing law. Combining the TBM taxonomy in support of compliance with

FITARA requirements will be a hurdle for federal agencies unless they place emphasis on the people, process and programs necessary to drive adoption of the TBM data models.

Notable challenges the U.S. government can overcome with a TBM program include:

- CFOs concerned about losing power;
- The lack of knowledge transfer during administration changes and personnel turnover;
- Lack of trust in data among department stakeholders.

The U.S. General Services Administration (GSA) is an early adopter of TBM within the federal government. GSA CIO David Shive says he plans to advocate and educate by "spending a lot of time talking to stakeholders" about how the TBM costing taxonomy has been commercialized across all agencies. Shive adds that he believes people and process are important areas of focus in preparation for implementing a successful TBM program.

Private Sector Challenges

When the IT COST Commission report was publically shared in July 2016, TBM practitioners from the private sector openly shared and discussed the lessons they have learned with TBM. On the topic of organizational alignment and what defines a TBM team, CIO James LaPlaine of AOL said he wished his organization had fully assessed the requirements of a TBM office earlier; the firm has had a TBM office for just six months but began its TBM journey several years ago. Shive, on the same topic, said "the quickest way to fail is without a TBM management function [in place]."

In the private sector, many organizations lead with an approach to implement the TBM taxonomy with less emphasis placed up front on people, process and program. AOL's challenges, in the absence of a dedicated TBM team, are consistent with those of other private sector organizations pursuing a TBM journey. According to LaPlaine, AOL moved forward with strategic cloud initiatives "to achieve groundswell and link TBM to IT transformation," and now invests significant time in the internal marketing of TBM, which is building credibility for the TBM approach as it drives creative awareness and adds operational efficiencies and value.

CONCLUSION

The TBM Council, now in its eighth year, has made great advancements in defining industry standards for the TBM taxonomy and approach for costing IT services. With a board of directors comprised of private sector CIOs, the TBM Council has a wealth of information about the standardized taxonomy to share with public sector organizations, including the U.S. federal government, state and local agencies and institutions of higher education.

With growing interest in controlling IT spend and increasing the need for transparency with taxpayers, the U.S. federal government now can align with the commercial sector in taking advantage of the TBM taxonomy, TBM data models and accompanying best practices. The ongoing collaboration of public and private sector work in the field of TBM makes it more likely that organizations will align with TBM principles to achieve better IT cost transparency to fund innovation and progress into the digital era.

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Published Sep 21,2016

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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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