Services Financials

Reconcile a service portfolio to your company's processes

Excerpted from JCC Executive Partners' Service Financials Workshop

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Introduction

Credible and sophisticated Information Technology (IT) leaders get back to basics when it comes to defining their service catalog. And it's defined according to the business processes of the company, aligned to the company mission.

As IT creates value, the perspective must be of business leadership with a business vocabulary. If IT professionals are asked about supporting infrastructure or applications or technology, the rationale for these technical components must always be the service view vs. the technology view; IT professionals must also acknowledge themselves as business contributors, whose objective might be to "move product, attract market share, foster customer loyalty." How different that is from an IT professional who sees his role only as "troubleshoot a network, monitor a disk farm, or route a trouble ticket." IT professionals are business professionals, responsible for advancing those business objectives and processes through a rigorous control of services.

When the CIO presents IT status, the views of services take center stage. These services must align to the value chain of partner executives -- the leaders of business units, accountable for business process success.

Business Architecture

Business Process models are hard to come by – not as a philosophy or definition, but as a formal reference, documented and understood in the company's internal (and external) literature. But this can't stop IT from seeing itself as an enabler of business process, nor stop the CIO from advancing his business process model. Underlying every process is the service catalog of IT, delivering value for each process and advancing the mission of the enterprise.

Too many service catalogs are collection bunches, unsorted multitudes of technology listings and technical functions, such as Data Center monitoring, or Helpdesk requests, or add/moves/changes. Few of them reconcile to the company's business process model.

Aligning to the organization, IT's service catalog should reconcile with business processes for the enterprise at large. For example, if the corporation is an online shopping warehouse, the overall business processes might include sales, distribution, supply chain activities, customer care, marketing and administrative. The services that IT provides are enablers to these processes and should be identified and categorized accordingly.

A services portfolio can includes all active and inactive services, including business and technical services. It's our job to compartmentalize these services accurately, for the basis of environmental analysis and, ultimately, cost savings and revenue enhancement.

For purposes of this discussion, we will focus on active services, and creating a hierarchy of processes and business services.

Figure 1, Business Process outline with associated business and technical services, shows a basic structure for one Business Process called Customer Care. This process has been reconciled to a set of business services and technical services, with primary stakeholders for each.

Business Process	Primary Stakeholder	Business Service / Application Portfolio	Technical Service	Supporting Resources
Customer Care	COO	Customer Shipments	Package tracking application	TBD
	Customer Service head		Inventory management	
			Supplier networking	
	COO / CIO	Online ordering	Web support	
			Change control	
			Data Base support	
			Ifnrastructure monitoring	
	CMO	Marketing and Promotion	Web Hosting	
			Metrics and monitoring	

Figure 1, Business Process outline with associated business and technical services. The supporting resources can be assessed and associated to each of the technical and business services.

This is most rudimentary information necessary to begin organizing the service portfolio and undergoing the business process alignment. It is also prerequisite for financial insight -- what it costs to run a service and to run a process.

CIOs shouldn't shy from being provocative with their staff, themselves, and their customers, pushing the question – why are we here? The answer is simply not to monitor the network, manage a package tracking application, support a database sizing, or to create a promotional workshop. The answer is, to drive the mission of the company – the same answer for every person in the organization. Certainly, that mission is supported by various business processes, which cannot succeed without the underpinning human capital and technology, but the vocabulary and the paradigm is one of business processes in pursuit of a business mission.

IT should begin to identify its overall application portfolio and its service offerings in terms of supporting those business processes. Surprisingly, I have often heard, "Our organization doesn't yet have a formalized business process model, so we can't be sure we are structuring and aligning our service model appropriately." This is not an inhibitor. Move ahead. The act of organizing your service portfolio and aligning to a business process model will be embraced by the leadership throughout the organization. And as a start, though it sounds simplistic, you already have the basis of the business process hierarchy – the company's organizational structure. There is a head of sales, a head of marketing, of administration, of supplier relations. You can start with that very framework.

For each business process area, we shall specify the functions supported to drive the "sales" process, to support the distribution process, to ensure customer service, etc., and in parallel, collate the applications, and technical services that align/support these processes. You are immediately identifying a service architecture.

As your service architecture comes together, you are in a perfect position to start assessing the cost of those services and processes. If you organize your cost drivers within this view, cost savings opportunities will become evident.

Organizing your cost drivers

Your back end data mart requires granularity of cost drivers. As shown in *Figure 2, Fishbone Analysis and Deriving Cost components -- Data Mart Dependency*, the technical service called Web Hosting is comprised of multiple resources -- support layers and cost elements. (In Figure 1, we saw that Web Hosting was a key ingredient to Marketing and Promotion, which was a business service that enabled the Customer Care business process.)

The resources that are funded by the company and usually managed by IT are often scattered throughout various databases and source systems. Your data mart should have collected and reconciled these resources for easy access, application and allocation to a services architecture. The decomposition of Web Hosting includes a variety of enhancement efforts (projects), labor, supplier consulting and other costs. (At a later point, some of these costs will be split and allocated to other services.)

To construct an accurate cost of the Web Hosting service, we require insight into the elements that go into the overall service cost. These elements will include:

- Fiscal Period
- Planned Cost of the Resource
- Actual Cost of the Resource
- General ledger account code reconciliation
- Relationship to a cost center budget
- Variance information
- Fiscal period decomposition.

The detail listed above will be required to monitor the cost over time, as a trend, and to determine whether or not the unit-cost of providing this service is optimal and explainable. Without these characteristics and granular metrics, analysis of your service portfolio and financial management will be severely constrained.

The tried and true fishbone method is elegant in its simplicity and its efficacy. An analysis of all technical services should follow a stepwise pattern of collecting cost elements from your systems of record -- asset, supply chain, labor. As this exercise is completed for your active service portfolio, you can begin to assess the financial implications of your underlying infrastructure, support agreements and depreciation. Decision-making around investments is geared to business process impact, a view that considers IT's accountability as impacting *both* sides of the ledger..

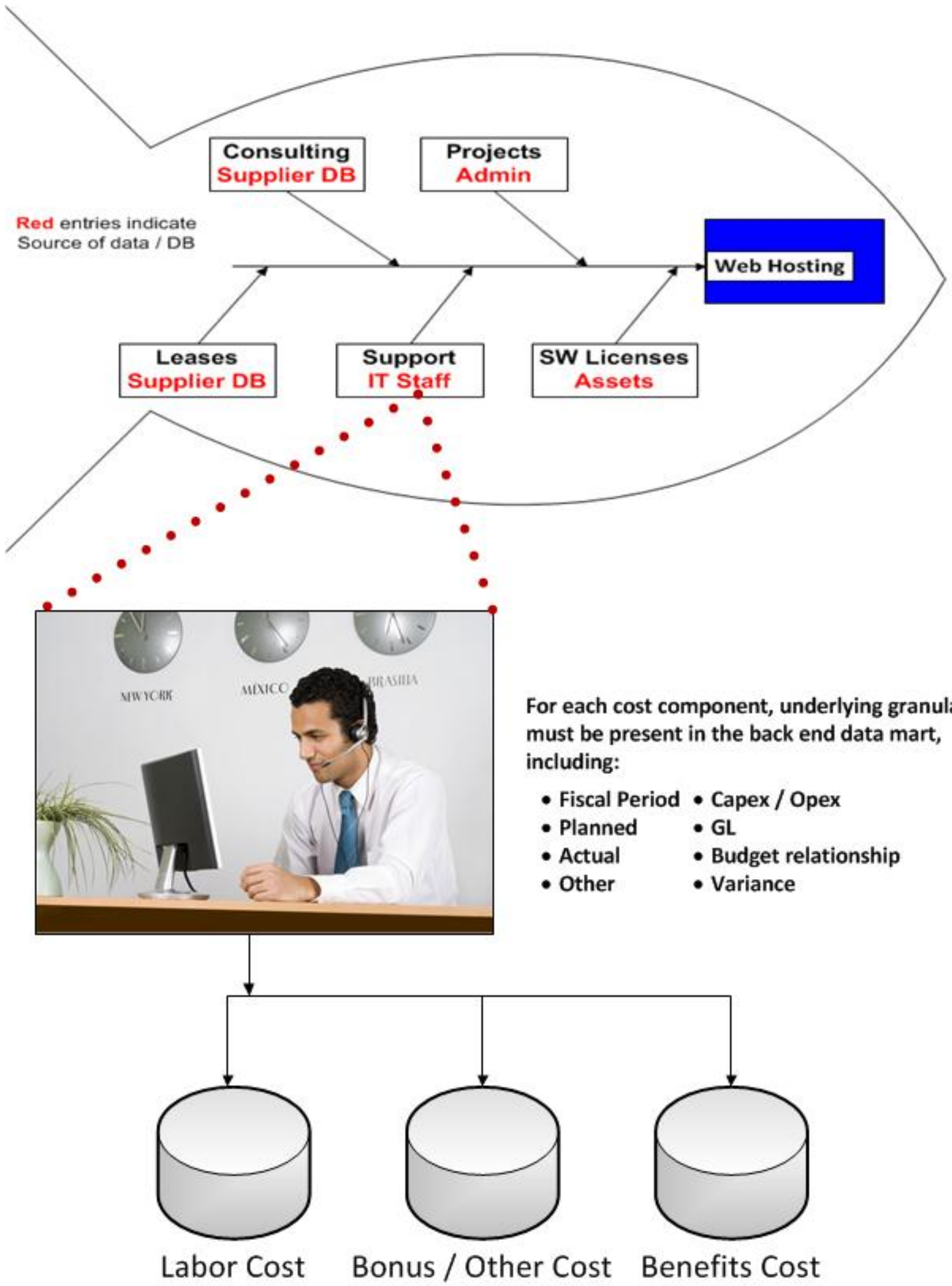

Figure 2, Fishbone Analysis and Deriving Cost components -- Data Mart Dependency Service called 'Web Hosting' is assessed and diagrammed.

Summary and Executive needs

Any discussion of strategy, associated costs, and ROI for that strategy demands a view of business processes supported by business services. Technology flows from there. The CIO who presents costs in terms of service levels, service capabilities and service impact is the CIO who is speaking the language of the CIOs business partners.

We discussed how a series of business services (supported by an underlying environment of technical services) is the focus of the IT department As the enabler and business partner, value is derived through a balance of technological insight and business acumen. When the professional IT staff assesses technology, determines availability requirements, backup schedules, mission criticality, rigor in supplier due diligence, the staff must see technology in terms of a service capability. Cost benefit analysis is suspect if one is not considering the overall cost of the *business service*, the rationale for purchasing labor and assets in the first place.

In a following series, we will be focused on the actual exercise of TCO service analysis, including the distribution of resource costs across a variety of business services.
This analysis will depend on the data mart's cost granularity and its ability to parse capital and expense, planned and actual, over several fiscal periods.

If a formal business process document or definition has not been undertaken by the company at large, the CIO can still move ahead, creating an overall business process view that is aligned to key stakeholders who, in turn, can collaborate and modify it accordingly.

About JCC Executive Partners

JCC Executive Partners provides consulting to C-level and upper management executives in deriving ***and sustaining*** greater returns from their business, Information Technology, operational, and strategic investments. Via a trust-based and collaborative approach to assessing a firm's environment and Information Technology strategy, JCC Executive Partners streamlines teams and operations and promotes technology alignment to drive sustained returns.

JCC Executive Partners' practice principal is John Chambers, whose 25 years of professional experience spans diverse Information Technology systems and business management disciplines, project methodologies, quality management techniques, and technology development. Chambers has championed and steered multiple global programs and cross-cultural technology implementations for small and large enterprises.