



**FIVE PROVEN STRATEGIES FOR REDUCING COSTS
USING IT SERVICE MANAGEMENT
WHITE PAPER**

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Five Proven Strategies for Reducing Costs Using IT Service Management

As the global economy faces tough times, IT organizations are under even greater pressure to “do more with less” and to demonstrate Return on Investment in everything they do.

Now, more than ever, IT service providers must manage their services with the highest levels of efficiency, effectiveness and cost control. They must build disciplined, repeatable process in order to produce quality services at the lowest costs. And now, more than ever, IT organizations must understand and apply the best practices documented in IT Service Management (ITSM) frameworks and standards such as ITIL®, MOF, CobiT and ISO/IEC 20000 in order to deliver customer value in the face of significant resource constraints. Now is not the time to discard process in the face of panic – now, more than ever, is the time to use process to steer the IT organization through stormy waters.

It's All About Value

So what is value? ITIL® defines services as *a means of delivering **value** to customers by facilitating **outcomes** customers want to achieve without the ownership of specific costs and risks.* Value is perceived in the eyes of the customer and is shaped by whether the outcome enhanced performance or reduced constraints. **Value for Money (VFM)** comes from the customer's perception that the cost-benefit ratio for the outcome was acceptable.

Once services and processes have been defined through Service Management, all IT activities then become

- **Value Add** – services and processes that directly benefit your customer
- **Non Value Add** – “overhead” that must be done to support the “value add” activities
- **Waste** – work that does not add value or support added value and cannot be described as a part of a service or process

Value is only realized if services, processes and activities directly support your organization's business objectives in a cost-effective way. It is therefore important to identify and eliminate waste whenever possible.

Set the stage for fiscal improvements

Before an organization can reduce costs, it first has to understand how IT costs are spread across services, customers and activities. Costing is very different from invoicing, budgeting or charging. While each of those will provide data for financial management, it is the development of cost models that will be the basis for allocating and understanding tangible and intangible expenses. Cost models consider all IT costs and assign them to a specific service, customer or activity, starting with direct, specific expenses. Formulas are then built for fairly allocating a portion of indirect costs (such as shared applications, networks, and the internet) into each model. The allocation can be based on consumption, headcount or other calculation. Finally, all of the remaining or unabsorbed costs (such as IT management salaries or office supplies) can be equally divided among the models. While developing the initial cost models will take some effort, the models will provide repeatable formulas for measuring and allocating future expenses.

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Once cost models are built, organizations can begin to benchmark existing costs and prepare for future measurements. Once costs are understood, you can now consider strategies for cost control and reduction.

Strategy 1: Build and Analyze Your Service Portfolio

As defined in both ITIL® V3 and the Microsoft Operations Framework (MOF), a Service Portfolio represents all services that are managed by a service provider. Like all portfolios, the Service Portfolio provides insight into all IT investments including services in development, in production and in retirement. It will also demonstrate where financial, technical and human resources are being consumed or released. A Service Portfolio approach allows IT management to prioritize and manage investments according to the needs of the customer or business.

Service Portfolios do not need to be very complex – they can be assembled using data from a Configuration Management System, Configuration Management Database or other data source (including a simple spreadsheet).

Once a Service Portfolio is built, analyze the data to determine if

- Human, technical and financial resources are invested in services that deliver the most business value
- Less critical services are consuming resources that could or should be applied to more critical services
- Services could be consolidated or retired
- IT investments are delivering Value for Money

Strategy 2: Optimize Your People

The first place to look for waste is in workflows. Waste often reveals itself in the form of excessive unplanned work, redundant work or rework. Work is always more expensive when it is done more than once or if it is frequently interrupted. Redundant work or rework is usually found when more than one business unit must repeatedly perform or redo the same task or when data is captured into multiple systems.

To optimize your people, it is important to flowchart and analyze workflows by department, unit or process. Such an approach makes it easier to assess what everyone is doing and how it is being done

- What's being done by more than one person or unit?
- What work is unnecessarily iterative due to errors, data re-entry or ineffective short-cuts?
- What percentage of work is unplanned (reactive)?
- How often are more expensive Level 3 resources being engaged to handle recurring incidents?
- Can you automate some tasks to reduce workload?

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Consider this example of unplanned work for Level 3 staff

- Level 3 staff: 20
- Average L3 salary: \$75,000/year = \$6,250/month
- Monthly L3 salary: \$125,000
- Percentage of unplanned L3 work: 50%
- Monthly cost of unplanned work = \$62,500 or \$750,000 per year

Although it is at times necessary to engage Level 3 resources, it is important to recognize the cost of doing so. Such costs include lost productivity for both customers and IT staff, project delays caused by interruptions, inefficient use of IT resources, and so forth. If more incidents can be resolved at Levels 1 and 2, thereby cutting Level 3 unplanned work in half, the cost savings would be \$375,000! That's a great way to demonstrate ROI on ITSM.

Strategy 3: Improve Your ITSM Processes

ITSM best practice frameworks provide guidance for improving the effectiveness and efficiency of internal processes, thereby improving IT service quality in a cost-effective way. The higher the efficiency, the lower the cost.

ITIL® V3 reinforces the concept of process models for repeatable, proceduralized and cost-efficient activities. Many organizations already have models for common incidents such as password resets, or for standard changes.

By analyzing the most common types of incidents, problems, requests, changes and releases, you can build models for each that define

- Steps to be taken
- Chronological order and dependencies
- Responsibilities
- Timescales and thresholds
- Escalation procedures

Pre-defined procedures control costs by proactively predicting and optimizing the time, resources and effort needed to perform frequent activities without "reinventing the wheel."

Another opportunity for quick process wins is to leverage the methods and techniques described in Problem Management. Recurring incidents are very costly – both in lost business productivity from service outages and the cost of staff to apply workarounds. At an average of more than \$24 per incident, identifying and removing the root cause of the Top 10 recurring incidents would significantly reduce cost and improve service quality. Even if the root cause cannot be permanently removed, declaring a Known Error with a trusted workaround would reduce the time to restore service (thereby lowering the cost per incident).

Strategy 4: Align Your Partners

Partners and suppliers are likely a critical part of your IT service value chain. Whether you have outsourced an entire function or one aspect of an IT service, it is important to align and retain management control of all of ITSM processes. By ISO/IEC 20000 definition, management control is defined as

- Knowledge and control of inputs
- Knowledge and use of outputs
- Definition and measurement of metrics
- Accountability for process functionality
- Definition, measurement and review of process improvements

Partners and suppliers should be required to align their ITSM process with your ITSM processes, vocabulary and data file formats. Whenever possible, you should also require that partners use your ITSM tools for logging incidents, problems, changes and requests. Aligning your processes with those of your partners and suppliers will reduce redundant work and improve efficiencies, thereby lowering the cost of doing business with external organizations.

This is also an opportune time to review your accounts with your suppliers in order to reconfigure or renegotiate the cost of their products and services.

Strategy 5: Assess Your ITSM Technologies

While there is no dispute that ITSM technology supports and improves process effectiveness and efficiency, investment in new tools should be carefully evaluated based on organizational and process maturity. Remember, tools should complement process; they should not define process.

Before investing in additional technology, inventory your existing tool kit for

- Monitoring systems
- Incident, change, request and problem logging systems
- A Configuration Management System

Once you understand your current capabilities, you can optimize existing tools and assess the gap between what you have and what you need to meet current process maturity.

To lower the costs associated with implementing and supporting ITSM technology, it is wise to avoid over-customization. While a certain amount of customization is necessary and encouraged, internal and external support costs will be proportionate to the complexity of the end product. Highly customized tools are often difficult and expensive to enhance or upgrade.

In any event, do not be lured by the glamour of products that have functionality that you may not deploy in the foreseeable future. "Shelfware" is an unnecessary expense that may be obsolete when you actually need the additional functionality.

Start Simple, Stay Simple

Take baby steps. Encourage your staff to look for quick wins and opportunities to eliminate waste everywhere! Require clear business cases for non-value add activities. Do not spend more on cost-reduction efforts than the expected benefits.

In difficult financial times, it is natural to want to make deep cuts in costs immediately. While the short term gain may be apparent, the long term ramifications may be more expensive. Taking the time and effort to understand and apply Financial Management practices will absolutely reveal bigger opportunities to identify and prove tangible reductions.

Now, more than ever, you need ITSM.