



Welcome!

About ITSM Academy



- Accredited Education
 - ✓ Certified Process Design Engineer (CPDE)[®]
 - ✓ ITIL[®] Foundation
 - ✓ ITIL Capability (OSA | PPO | RCV | SOA)
 - ✓ ITIL Lifecycle (SS | SD | ST | SO | CSI)
 - ✓ ITIL Managing Across the Lifecycle (MALC)
 - ✓ ISO/IEC 20000 Foundation & Bridge
 - ✓ MOF Foundation
- Practical, Value-Add Workshops
 - ✓ Building Blocks, Roles, Service Catalog, etc.
 - ✓ ITIL, MOF, ISO 20K Overviews
 - ✓ Apollo 13, Visible Ops: The Class
 - ✓ And more!
- Since 2003 - *Tens of Thousands Trained and Certified*
- ITSM Professional Diplomas
 - ✓ Change/Support/SLM
- Public Classes throughout U.S.
- Corporate On-Site Classes
- Virtual Classes
- Courseware Licensing
 - ✓ Corporate & Partner (GEM)
- Alumni Program
- PMI Global Education Provider
- Certified Woman-Owned

Welcome!

Calculating ITIL ROI is Difficult

- Benefits of ITIL span the entire organization
 - ✓ All departments depend on IT
 - ✓ External facing services
 - ✓ Business strategy
- Costs can be more narrow
- Some things cannot be quantified



Where Do We Start?

- Forecast costs
- Forecast benefits
- What can be translated into \$\$?
- Are any models available?
- Benchmark
 - ✓ What have others done



ITIL Isn't Cheap

Adopting ITIL best practices can be costly

- ✓ Technology purchase/configuration
- ✓ Training
- ✓ Consultants
- ✓ Process Design
- ✓ Culture Change
- ✓ Time required



How do we justify all this time and effort?

Measuring the Benefits

Quantifying benefits can be difficult

- ✓ Which processes are to be attempted
- ✓ What is the starting point (baseline)
- ✓ Can your cost accounting capture cost of:
 - IT and business downtime?
 - Customer dissatisfaction?
 - Unplanned work?
 - Failed/delayed changes?
 - Missed business opportunities?



What are the Benefits?

According to Gartner after a 2-3 year “serious” commitment:

- ✓ 50% - 75% reduction in unplanned work
- ✓ 10% - 25% labor productivity benefits
- ✓ 20% improvement in customer satisfaction surveys



Source: Gartner (June 2011)

Big Picture Financial Benefits

- Reduce IT service cost
- Improve IT-supported sales
- Reduce time to market
- Business staff productivity



Other Benefits

- IT reputation = trust = business confidence in IT
- Increased Consistency/Predictability
- Reduced rework/increase reuse
- Improved capacity utilization
- More accurate budget forecasts
- Compliance
- Business agility



Divide and Conquer

- One process at a time
- Estimate avoided costs and benefits
- Modify accounts to capture more *service-based* costing in IT
- Share business financial information
- **Danger: All processes have interdependencies**



Incident Management

Benefits

- Reduction of **Incident Volume**
- Reduction of elapsed incident **handling time**
- Increased **customer satisfaction**
- Increased visibility and **communication** of incidents to business and IT staff
- Increased business **confidence** in IT capabilities

Metrics

- Cost per incident
- Cost of downtime of IT services
- Labor cost of incident handling time at 1st and 2nd level
- Customer satisfaction survey results/cost of customer dissatisfaction
- Incident handle time

Incident and Downtime Cost

- Lost productivity in IT AND the Business

- ✓ Highly variable

- ✓ Depends on groups affected

- ✓ IT labor costs at all levels

- Cost to implement and use workarounds



Cost of Customer Dissatisfaction

- “Home-grown” solutions
 - ✓ Lack of economy of scale
 - Hardware including maintenance contracts
 - Software licenses
 - ✓ Bypass security policy
 - ✓ Local administration costs
- Outsource?



Incident Model Example

ITIL Incident Management process adoption benefits:		
Existing:		
Cost per incident (tier 1):	\$	15.00
Cost per escalated incident (tier 2+):	\$	65.00
Total number of incidents/month:		5000
Total number of escalated incidents/month:		500
Average incident handle time at 1st tier (minutes):		5
Average escalated incident handle time (minutes):		15
Total average incident duration (in minutes):		10
Average fully loaded salary for 1st tier:	\$	30,000.00
IT labor cost at 1st tier/minute:	\$	0.24
Average fully loaded salary for 2nd tier:	\$	50,000.00
IT labor cost at 2nd+ tier/minute:	\$	0.40
Average number of business users affected by incidents:		20
Average fully loaded business user salary:	\$	40,000.00
Business downtime cost per minute:*	\$	6.41
Forecasts:		
Number of incidents/month avoided:		500
Number of escalations/month avoided:		75
New average incident handle time at 1st tier (minutes):		4
New average escalated incident handle time (minutes):		12
New average incident duration:		8
Savings:		
Avoided incident cost (tier 1)/month:	\$	8,581.73
Avoided incident escalation cost/month:	\$	5,385.82
Avoided business downtime cost/month:	\$	3,217.95
Total avoided cost/month:	\$	17,185.50
Total avoided cost/year:	\$	206,225.96
ITIL Incident Management process adoption costs		
Percent of new tool acquisition cost allocated to Incident Management		33%
One time only costs:		
Tool infrastructure purchase (ignores tool depreciation):	\$	100,000.00
Tool infrastructure purchase cost allocated to Incident Management	\$	33,333.33
Initial training costs:	\$	20,000.00
ITIL training costs allocated to Incident Management:	\$	6,666.67
Incident Management process training costs:	\$	10,000.00
Incident Management tool training costs:	\$	10,000.00
Incident Management tool configuration costs:	\$	100,000.00
Process design costs:	\$	50,000.00
Total one time only costs:	\$	210,000.00
Ongoing costs:		
Tool license costs/year:	\$	150,000.00
Tool license costs/year allocated to incident management:	\$	50,000.00
Ongoing training costs:	\$	5,000.00
ITIL training costs allocated to Incident Management:	\$	1,666.67
Incident Management process training costs:	\$	1,000.00
Incident Management tool training costs:	\$	1,000.00
Total ongoing costs/year:	\$	53,666.67
Total annual Incident Management adoption costs:		
1st year:	\$	263,666.67
2nd year and beyond:	\$	53,666.67
ITIL Incident Management process adoption ROI:		
1st year:		-22%
2nd year and beyond:		284%
ITIL Incident Management process adoption Payback period in years:		
		1.38

Problem Management

Benefits

- Increase **1st call resolution**
- Reduction of **Incident Volume**
- Reduction of **downtime**
- Reduction of **open problems**/shorter **problem lifecycle**
- Reduction of **impact to the business** for incidents that cannot be prevented
- Increase business **confidence** in IT capabilities

Metrics

- Labor cost of incident handling at 1st and 2nd level
- Cost per incident
- Cost of downtime
- Cost per open problem
- Forecast of number of incidents prevented

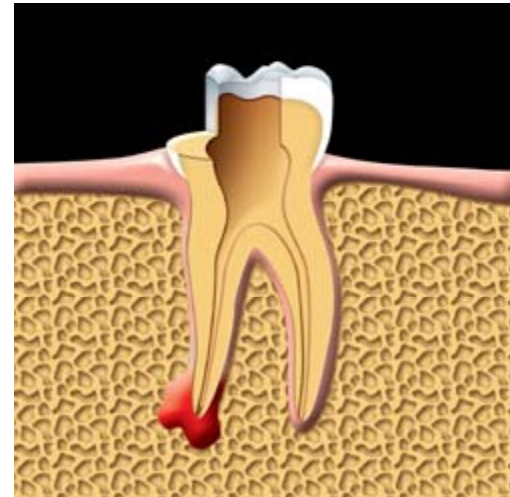
Increase 1st call resolution



- Communicate known errors and workarounds
- Good Knowledge Management is key
- 2nd and 3rd level work can cost 4-6 times more

Cost per Open Problem

- Workaround costs
 - ✓ Call handling in IT
 - ✓ Business downtime
 - reporting incidents
 - Implementing workaround
- Problem resolution time



Change Management

Benefits

- Less **failed/unauthorized changes**
- More changes that meet the **customer's requirements** (compliance, quality, cost, time)
- Increased **accuracy of predictions** relating to change (time, quality, cost, risk)
- Less change related **incidents**
- Increased accuracy of the **CMS**
- Reduction in **downtime**
- More **changes/quicker to market**

Metrics

- Cost of failed changes
- Amount attributed to the cost of an IT service that is due to unmet customer requirements
- Budget and costing variance forecast vs. actual
- Cost per incident
- Cost of unauthorized changes
- Costs resulting from inaccurate asset and configuration data
- Cost of non-compliance

Cost of Failed/Unauthorized Changes

- Rework
- Defects
- Incidents
- Downtime
 - ✓ 80% of downtime is spent figuring out what changed
- Other failed changes resulting from changes that are not communicated



Unmet Customer Requirements

- Time spent using workarounds
- Redesign
- Retest
- Loss of confidence in IT
- Impact on external customer
- Lost sales



More Changes/Quicker to Market

- Business agility
- First to market
- More business opportunities
- Reuse
- Lost sales



What to Forecast/Estimate

- How many avoided incidents/problems?
- How much reduced downtime?
- How much improved customer satisfaction?
- How many avoided calls?
- How much will call handle time decrease?
- How much will time to implement a change decrease?
- How much will 1st call resolution rate increase?
- How many escalations will be eliminated?

How to Forecast*

- Case studies
- Benchmarking
- Forums
- Industry groups
- SWAG?



*Calculating ITIL return on investment is an inexact science. How does your organization compare with your peers? Are you starting your effort further along the service management maturity curve? Are you able to capture all of the avoided costs?

Accounting Considerations

- Decentralize budgets
- Appropriate level of detail
- Appropriate Chart of Accounts
- Service based costing

Metropolis Medical Clinic
Allocation of Administrative Expenses
For the month of January 2000

	Administrative	Laboratory	Radology	Dr. Kent	Dr. Olson	Dr. Lane
				240 Visits	200 Visits	360 Visits
Office salaries						
– Direct	1,500	(1)		600	500	400
– Payroll & personnel admin.	1,000	(2)	119	39	337	254
– Supervision	2,000	(2)	238	79	673	508
– Unutilized	500	(5)				
Advertising	600	(3)		200	200	200
Rent	1,000	(4)	125	125	250	250
Utilities	200	(4)	25	25	50	50
Office supplies	300	(3)		100	100	100
Building insurance	100	(4)	12	13	25	25
Telephone	600	(3)		200	200	200
Depreciation	300	(3)		100	100	100
	8,100		519	281	2,535	2,187
					2,187	2,078

(1) Allocation based on computation of average administrative cost per office visit of \$5.
 (2) Amounts allocated based on payroll costs. Allocation based on number of employees is another rational allocation method for this expense.
 (3) Allocation split equally by physicians.
 (4) Allocation based on square footage occupied.
 (5) Underutilization is not allocated.

Don't Forget the Business



- IT as a strategic partner
- Optimum mix of IT service investments
- Quicker to market
- Business reputation/image

Intangible Costs and Benefits

Benefits

- More long-term*
- Improved relationship between IT and the Business
- Trust
- Communication
- Image (IT and the business)

Costs

- Culture Change
- Resistance

* Intangible benefits may be the most significant of all over the long-term

What to do?



- ITIL ROI calculation is like ITIL process adoption
 - ✓ Incident and Knowledge Management
 - ✓ Financial Management and ITIL ROI
 - ✓ Chicken and egg scenario
- Collect all the avoided costs and additional revenue generated where possible
- Estimate other costs and revenue if possible
- Make mention of non-quantifiable benefits
- Always include *business* benefits

Please feel free to contact me:



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Download my ITIL ROI Template:

<http://soflahdi.com/LiteratureRetrieve.aspx?ID=111708>

Download the ITSM Academy Template:

http://www.itsmacademy.com/Page.bok?file=ITIL_ROI.html