IT Economics Metrics for Clients

Value Versus Cost

IT is a bargain! Yet very few clients realize the value of their IT operations and the impact it has on their company's success. CIOs are often under pressure to defend IT budgets but may not have the time or resources to evaluate their IT operations from a financial perspective. These CIOs can benefit from IBM's help to put IT costs in perspective with value. With IT Economics analysis they are able to articulate the value versus cost of IT and confidently promote a case for investment.

The IBM IT Economics team to is often called upon to assess client environments and to quantify the benefits of IBM Z®. This type of TCO and business value analysis enables a client to evaluate his/her existing solution versus alternatives, and to make an informed, financially-based IT decision.

Importance of Meaningful Metrics

With quantitative analysis clients can effectively compare options and justify investment. The analysis is ultimately successful especially when the metrics are meaningful for the targeted stakeholder. An IT Manager will appreciate technical metrics pertaining to transactions per second, MIPS and GHz, but a CIO or CFO wants a metric that correlates to business impact. Not surprisingly, the need to express IT efficiency in business terms increases with the size of the opportunity since the decision maker's position is higher in the corporate management chain.

When an IT Economics consultant is engaged to do an IT Economics study he/she examines client IT data, costs, business Key Performance Indicators (KPI) and corporate deliverables such as annual investment reports, P&L and other financial statements. This enables the consultant to identify the impact of IT financials compared to the larger business landscape.

Examples of Meaningful Metrics

Here are three examples from IBM IT Economics studies. These studies helped c-level executive stakeholders articulate IT value for business operations.

1. **Travel Services Company**
   A travel services company was under pressure to present to its Board of Directors. One of its investors believed "the mainframe was holding them back. Our competitors have moved off IBM Z and so should we." The CIO asked for IBM's help to make the case, knowing that more conventional IT metrics would not adequately address concerns regarding an investment of ~$50M.

The consultant collected quarterly annuity and transactional spend for the company over five years. In the case of this client IBM had already implemented a charge model on the company's validated bookings rather than MIPS. This established a SW spend baseline. In addition, HW spend over the same period was included to establish the company's total IBM Z OPEX.

Information from the Sub-Capacity Reporting Tool yielded MIPS average and peak consumption for bookings, dev test, airline hosting and other workloads, and this data was analyzed for trends and potential anomalies. Public investor reports produced information on the number of validated travel bookings (a standard KPI for the industry), and together this allowed the team to show that the total IBM Z cost per booking remained flat over the five-year period despite significant growth in function and complexity.

Next, business metrics were found that provided revenue per booking over the same five-year period. That data showed that while IT costs were constant during that time frame, revenue per booking had grown by 15%. Even more impressive, the study showed that IBM Z cost was a mere 1% of revenue even though the IBM Z system was the key IT component in the company's operations.

This was a number that empowered the CIO to communicate that their investments in IT were highly leveraged. Despite being the key component in an information intensive industry with dynamic changes in shopping and selling channels, costs were under control and systems were responding to allow the company to expand opportunities and increase revenue.

During the course of an analysis the consultant also gleans areas for improvement. In the case of this study it became apparent that the airline hosting effort was causing loss to the company. This finding enabled the account team to share observations and engage in a conversation about options to reduce cost. With grounded, sourced data, IT Economics analysis brings insight and help to the client.

2. European Bank

The CIO of a European Bank asked for help to explain to his new CEO why the bank's IT spend continued to increase and why the bank had an expensive mainframe. The CIO needed metrics and findings that would be meaningful to the CEO.

In the case of this bank the IT department had conserved a variety of data sources. The data, coupled with IBM records of the bank's IT spend, allowed the consultant to analyze and find metrics that demonstrated the bank's cost competitiveness in a manner that would resonate with the CEO.

The study yielded impressive metrics and a surprise. Not only had the system become more efficient on key business metrics, it had done so while undergoing a major transformation from delivering through legacy channels (ATMs and branch offices), but also through new strategic channels (online users, mobile applications). In fact, over the period of time studied (three years) the bank's systems had gone from using a majority of resources on legacy channels to using a majority of resources on new channels ... all the time reducing unit costs. Specifically, the study found that the bank's ATMs managed an average of 18K transactions each per month, a KPI understood by the CEO, with a cost per ATM of $25 per month. In essence, the bank's core banking activity per ATM cost less than a mobile phone bill. The study also showed that over the period of the study the ATM unit cost had decreased from $30 to $25.

A search of industry data on ATM costs found that the total cost of an ATM on a monthly basis is approximately $1,500. So, at just 3% of the total cost of an ATM, IT is a minor cost compared to others such as ATM service calls and maintenance costs, rental space charges, etc.

These metrics enabled the CIO to show that the increase in IT spend was driven by the success of the bank's overall growth of 38%. Expanding IT operations had allowed the bank to successfully reach new customers through online banking (50% growth rate per year) and deploy new mobile and online applications. IT unit costs were actually declining indicating better efficiencies with IBM Z and the ability to undergo a strategic transformation from legacy to modern banking operations on the same platform without disruption.

3. Automobile Services Company

An auto services company in Northern Europe was struggling with cost justification for its IT services for the region's car dealerships. Like many clients, its IBM Z spend was substantial. The company had begun to question the total cost of ownership of its mainframe.

The consultant began with a series of questions to understand the company's IT budget and number of endpoints in each dealership. Discovery work found that each endpoint provided each dealership with a complete business suite (accounts payable, accounts receivable, payroll, inventory, customer relationship management, and more) all for a cost of $50 a month for each endpoint. When comparing this amount to dealership staffing, mobile phone charges, and other dealerships costs, the charge suddenly becomes very modest.

This metric of IT cost per endpoint that equaled about 1% of monthly revenue helped the company place its IT cost in perspective. Realizing that IT is not a large cost driver in the larger business picture changed the company's perception that the mainframe was expensive.

Assess the value and cost of your IT environment

Are you looking for metrics that articulate IT value and cost? Has your executive team expressed concerns about IT spend? Consider using IT Economics analysis to quantify IT operations for your business. An IBM IT Economics study is no-charge and can provide you with insights that are meaningful to both IT and business stakeholders.

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