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Justifying ITIL

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In today's cost consciousness climate rife with the mistaken belief that IT can no longer deliver a competitive advantage, more and more IT professionals struggle with justifying IT expenditures. The ITIL offers much more than process control – it provides a roadmap to doing more, for more, with less.

As the information technology used to support the business becomes a commodity, companies look closer at the costs of IT. Business managers continuously contemplate the worth of IT as they make decisions regarding its funding.

Since most IT departments have no idea of their own worth, they do not communicate it to their business customers. In effect, IT punts, and leaves matters of money, value, and worth to the business. Then, as would anyone left without visibility into IT worth, the business defaults to making decisions based on cost.

The results of this abdication include IT directives from the business that go something like this: "do more, for more, with less." Most IT managers receiving this directive start to focus on cost reductions associated with working harder. They immediately start with the usual measures of trying to increase productivity and reduce costs. The result is also usually the same -- reduced head count and slowed hiring, limited pay increases, and other well meaning but counterproductive measures.

The usual measures normally demoralize IT and reduce the quality of services. The only way to "do more, for more, with less" is to work smarter, not harder. However, without a rebuttal to business managers, cost reductions become non-negotiable edicts based on bad assumptions derived from limited information.

How can you justify the cost of adopting IT Infrastructure Library® (ITIL®) best practices when you must also reduce costs? Following I describe some of the most powerful lesser known cost benefits of ITIL adoption. These methods can deliver rapid and lasting return on investment in as little as 10 days.

Vicious Cycle

The business knows that every dollar they recover from cost has a positive effect on profit. At the average corporate net profit margin of around 8%, they know that for every $1.00 they "take out of IT" they will gain the equivalent of about $12.50 "revenue." They do not always realize that these gains are short-lived. Sometimes, in desperation and without a plan from IT, they choose the "short-sighted" solution.

As you reduce costs in IT through the normal means (attrition, lay-offs, out-sourcing, etc.) there is almost always a corresponding reduction in IT service quality. These reductions in quality result in lost productivity -- and in time a subsequent loss of revenue and profit. The normal response after service quality drops to an intolerably low enough level is a new CIO, re-in-sourcing, infusion of capital, increased hiring, and new software solutions to improve productivity.

This vicious cycle of IT funding then repeats, and will continue to repeat until the model changes. The good news is that more and more senior leaders understand the vicious cycle presented above. The bad news is that most IT people have lived it so many times its [almost] comical.

The really good news is that adopting ITIL can break the vicious circle of cost and technology, and transform it into a virtuous circle of worth and service. Investing in ITIL provides the opportunity to do more, for more, with less.

Show Me the Money

The days of throwing money, people, and technology at problems are long gone. In any business climate, but especially today's, IT infrastructure expenditures are scrutinized by senior management.

Due to the extreme costs involved with large IT infrastructure deployments and on-going operations of IT infrastructures, executive management including the CIO, CEO, and CFO all take an active part in IT decision making. Today IT purchasers are not only requesting Return On Investment (ROI) justification -- they are demanding it.

You have probably heard all the stories of huge companies saving hundreds of millions of dollars through applying IT Service Management best practices, including ITIL. Companies like Proctor & Gamble, Liberty Mutual, Caterpillar, and others have all publicly reported vast operational savings through IT best practices such as ITIL. You might wonder how they saved such money.

ROI is a standard accounting formula that compares the cost savings or revenue increase derived from deploying a solution with the investment required to deploy the solution. Since you know what a solution costs in advance, the key to determining an ROI is the identification of the savings resulting from the solution.

With regard to ITIL, there are really four main areas of savings potential:

- Cost savings – money currently being spent can be reduced
- Cost avoidance – money allocated for spending can be saved
- Higher IT productivity – increased productivity and reduced costs
- Increased Business productivity – increased productivity resulting from higher quality IT services

Specific examples of ITIL empowered ROI include:

- Avoiding the high cost of redundant infrastructure investments
- Reducing costs through idle capacity identification and re-allocation
- Identifying vendor credits and rebates
- Saving money on IT infrastructure maintenance renewals
- Proactive performance or capacity problem forecasting
- Increased network uptime and its associated increase in user productivity

The ITIL provides a clear set of processes that deliver these and other savings. Instead of the usual belt tightening measures, here are five areas where ITIL can help you wring out costs:

1. Vendor management savings
2. Bandwidth management savings
3. Asset management savings
4. End-user productivity increases
5. Increased labor efficiencies

Vendor Management Savings

Effective ITIL processes, as described in the V3's Supplier Management process, provide the information to show you how good your vendors and their products are, allowing you to:

- Improve what you have by knowing which of your vendors are delivering
- Obtain refunds, rebates, and credits from vendors
- Eliminate maintenance costs
- Reduce the cost of service delivery by eliminating your non-performing vendors and services
- Increase negotiating power and manage your vendors before they manage you

Vendor management savings occur through:

- **Rebate, refund, and credit discovery**
  ITIL Availability Management techniques can identify and document those underpinning services (e.g., WAN, Frame Relay, ATM, ISDN, Leased Line, etc.) which are not providing you the level of service for which you have subscribed. For example, most services (WAN, managed services, hardware support, etc.) come with performance guarantees that include refunds, rebates, or credits when service does not meet certain defined tolerances. I have

worked with several firms to recover hundreds of thousands of dollars in this manner. Often you can identify and realize these savings in 60 to 90 days.

- **Cost avoidance through identification of correct underpinning services**
  ITIL Service Level Management (underpinning contract) techniques can identify which services contribute or detract from overall service quality. You can determine which services you should maintain and which you should replace or cancel. For example, choosing Service type “A” instead of “B,” or moving from “B” to “A.” The result of these choices can be higher network availability and performance, which results in higher productivity of your enterprise. It is important to note that just because a service costs more does not mean it actually contributes positively to the bottom line. Sometimes, a less expensive product or offering may be more appropriate to your needs. Often you can identify and realize these savings within 90 to 120 days.

- **Higher discounts through consolidation and management of vendors**
  Not every vendor is the same. Once you know your top performing vendors, you can choose to make them your primary suppliers. Eliminated vendors represent savings potential in terms of supplier budgets. For example, consolidating vendors leads to greater savings by being able to negotiate better terms for greater business with the remaining vendors. Often you can identify and realize these savings within 90 to 120 days.

Bandwidth Management Savings

ITIL Capacity Management indicates how to determine current, historical, and projected future network capacities allowing you to:

- Maximize what you have to reduce surplus and balance demand
- Reduce your bandwidth costs
- Manage existing bandwidth more efficiently
- Proactively identify capacity shortfalls with projected saturation dates, allowing you to avoid the costly problem of saturated links

Most engineers design links and circuits to handle peak load traffic. Often, some links or circuits are overloaded, underutilized, unbalanced, or nearing saturation. Using Capacity Management techniques, you can categorize links and circuits into these classification categories. Each category represents an opportunity for savings. Bandwidth management savings:

- **Cost reduction through identification of excess capacity**
  Of the Links/Circuits that are underutilized, some represent redundancy in the transmission facilities infrastructure. Others do not carry any significant load worth paying for every month. Therefore, it is prudent to route the traffic over underutilized and non-redundant links to another set of links, and then drop the underutilized non-redundant links. Consider redundancy when computing savings from consolidating underutilized links. Often you can identify and realize these savings within 10 days.

- **Minimizing downtime from saturated links**
  Once a link or circuit is saturated, downtime impacts business. The provisioning cycle time of the provider determines the recovery time. Predicting link or circuit saturation date and taking into account provider provisioning lead-time, minimizes negative impact on the business. Often you can identify these savings within 20 days.

Asset Management Savings

Configuration Management can show you what IT assets or Configuration Items (LAN/WAN, server, equipment, OS, software, etc.) you have. Combined with other ITIL processes you can then determine the assets utilization. Knowing asset location and utilization lets you:

- Reduce the cost of maintenance renewals by only paying for what you have and use
- Maximize your current investments through re-allocation your existing but idle resources
- Manage change safely by ensuring that you have the required resources before implementation

Many CIs can help with cost avoidance savings through:

- **Maintenance contract cost reductions**
  When you know exactly what your assets are, where they are located, who uses them and to what degree, you can develop an "asset map" showing those devices that require maintenance contracts and those that do not. The difference between maintenance on all elements vs. just the elements you actually use may be substantial and result in a powerful ROI justification. These savings can usually be identified within 10 days and realized at the anniversary of the maintenance renewal.

- **Redundant/idle element re-allocation**
  When you know to what degree an asset is utilized, and can identify both future requirements and current utilization of assets, you can avoid purchasing new assets by leveraging existing assets. Significant idle or redundant capacity is often available in the enterprise; finding out where your idle/redundant assets are may result in a significant ROI. One company I worked with was able to avoid a $600,000 hardware purchase by simply re-deploying existing assets. These savings can be identified within 10 days and realized at the point of purchasing new elements.

End-user Productivity

Business is very dependent upon IT. ITIL processes and techniques show you how to quantify the business impact of outages. Understanding the financial costs of downtime lets you understand your costs for outages and downtime. You can increase productivity and revenue through defining, tracking, and optimizing the availability of services to your users. These savings can be identified and realized within 30 to 60 days.

When you can manage services as entities, and relate the impact a service has on your company's productivity and revenue, you can begin making changes and driving strategies that increase end-use productivity; which results in higher profits and reduced costs. These savings can be identified and realized within 90 to 120 days.

Increased Labor Efficiency

Consider the labor savings and improved operation efficiency of a Configuration Management Database of all equipment, its make, model, idle ports and its operating system or OS version compared to the time required to acquire this information manually (in hours).

Summary

There are other areas where ITIL can have an impact on costs as well, but the ITIL empowered techniques in this article directly reduce costs and improve service in short timeframes. These are not pipe dreams. These are real, hard dollar savings that also improve corporate competitiveness, increase customer satisfaction, reduce operating expenses, and "do more for more with less."

The next time the mandate is to "do more for more with less", tell them you agree, and that your plan is to implement ITIL!