

# ITIL V3: Lifecycle Phase: Service Strategy: Financial Management

## 1. Introduction

Financial management is an integrated component of Service Management. It provides vital information that management needs to guarantee efficient and cost-effective service delivery. If strictly implemented, financial management generates meaningful and critical data on performance. It is also able to answer important organization issues, such as:

- Does our differentiation strategy result in higher profits and revenue, reduced costs or increased coverage?
- Which services cost most and why?
- Where are our greatest inefficiencies?

Financial management ensures that the charges for IT services are transparent via the Service Catalogue and that the business understands them.

The benefits are:

- improved decision-making
- inputs for Service Portfolio Management
- financial compliance and control
- operational control
- value capture and creation

## 2. Basic concepts

Two vital value concepts for **service valuation** are defined:

- **Provisioning value** – The actual underlying costs of IT (creation costs), both tangible and intangible. Examples of these costs include: hardware and software license costs, annual maintenance costs, facility costs, taxes, compliance costs.
- **Service value potential** – The value-adding component based on the customer's value perception or the expected additional utility and warranty that the customers can obtain compared to their own assets. Look at the service's individual value components to determine the true value of the service. Determine the eventual value of the service by adding these components and comparing them against the costs (provisioning value).

Financial Management ensures correct funding for the purchase and the delivery of services. The expected demand for IT services is qualified and translated into financial terms via a plan.

This plan may have three primary areas, each of which delivers financial results that are necessary for continued transparency and service valuation:

- **Operating & capital planning** (general and fixed asset ledgers) – translation of IT expenditures to collective financial systems as part of the collective planning cycle
- **Demand planning** – need for and use of IT services as described earlier
- **Regulatory and environmental planning (compliance)** – is driven from the business

Financial management acts as a bridge between collective financial systems and Service Management systems. A service-oriented accounting function results in far more detail and understanding of the delivery and consumption of services, as well as the production of data for the planning process.

Related functions and accounting properties are:

- **Service recording** – Allocating a cost centre for a service.
- **Cost types** (Kostensoorten) – High-level expenses, such as hardware, software, personnel costs, administration.
  - Once the basis for cost administration (eg per department, service or customer) is established, cost types are determined for cost entry.
  - The number of cost types can vary depending on the organization's size.
  - Cost types must have a clear and recognizable description, so that costs can be easily allocated.
  - The cost types can then be split up into cost items and settlement for each cost item may be established at a later stage.
- **Cost classification** (Kostencategorieën) – To ensure good cost control, it is important to gain insight into the types of costs that occur. Costs can be split up according to various aspects. **Variable Cost Dynamics (VCD)** analyzes and searches for insight into the many variables that have an impact on the service costs. The VCD analysis is able to determine the expected impact of events like acquisitions, divestments and changes in the Service Portfolio or service alternatives.

### 3. Activities

During service valuation activities, the following decisions are made:

- **Direct costs versus indirect costs** – Can costs be attributed directly to a specific service or are they shared by several services (indirect costs)? Once the depth and width of the cost components have been identified, rules or policy plans may be required to indicate how the costs must be spread across the services.
- **Labour costs** – Develop a system to calculate the wage costs for a certain service.
- **Variable costs** – Variable expenses that depend on eg the number of users or the number of occurring events. To predict variable costs, you can use:
  - Tiers – Identify price breaks to encourage customers to buy a specific volume that is efficient to the customer and provider.
  - Maximum costs – Describe the costs of a service based on maximum variation.
  - Average costs – Set the costs at an average calculated over a defined period.
- **Translation of cost account data to service value** – Can be done only if the costs are linked to services. After having established the fixed and variable costs for each service, the variable cost drivers and variation level of a service should be determined.

Traditional models to fund IT services include:

- **Rolling plan funding** – A constant funding cycle; suitable for a Service Lifecycle for which a funding obligation is incurred at the start of a cycle and continues until changes occur or the cycle ends.
- **Trigger based plans** – Critical triggers activate planning for a specific event; the change management process, for instance, could act as a trigger for the planning process for all approved changes that have financial consequences.
- **Zero based funding** – Only include the actual costs of a service.

The **Business Impact Analysis (BIA)** represents the basis for planning business continuity. BIA identifies the financial and operational impact that may result from an interruption of business operations as well as the impact on assets and customers. This information can help shape and improve operational performance. This is because it enables improved decision-making with regard to prioritization of incident handling, the focus of problem management, change management and release and deployment management, and project prioritization. BIA offers an additional tool to determine the costs of service failure and the relative value of a service. The costs of a service failure consist of the value of lost productivity and income for a specific period. Some concepts in financial management have a big impact on the development of service strategies. A number of these are highlighted, allowing each organization to determine which the best alternatives are for its Service Strategy:

- **Cost Recovery, Value Center, or Accounting Center?** – IT’s financial cycle starts with investment in resources that create the outputs. Customers identify that outputs as value, reinitiating the cycle. Depending on the acknowledgement of the added value, IT is then considered a cost center or a valuable asset for the business objectives.
- **Chargeback: to charge or not to charge?** – A chargeback model for IT can enable justification and transparency. Charging costs increases the customer organization’s awareness of the costs incurred to provide it with information. There are several chargeback models:
  - **Notional (theoretisch) charging** – An accounting method that provides insight into the costs that would be charged for a specific settlement method.
  - **Metered usage** – Settling costs on the basis of carefully established consumption units; applies exclusively for organizations that have made serious progress in introducing financial management.
  - **Direct plus** – Less complex settlement model in which the allocated direct costs of a service are increased by a percentage of the general indirect costs for shared services.
  - **Fixed or user cost** – Simplest settlement model in which the costs are divided on the basis of an accepted computing factor, such as the number of users; this method does not allow for much distinction and therefore makes the least contribution to cost awareness.
- **Financial Management implementation checklist** – A number of example implementation steps for phased implementation: plan, analyze, design, implement, measure.

#### 4. Inputs/Outputs

**Financial Management gathers data inputs from the WHOLE ORGANIZATION** and helps to generate and disseminate information as an output to base critical decisions and activities on.

#### 5. Links and literature

Books and articles on ITIL®

[ITIL Lifecycle \(Complete Suite\) \(2007\). OGC, London: TSO](#)

[Foundations of IT Service Management based on ITIL® v3 \(2007\). Van Haren Publishing](#)

[ITIL V3: A Pocket Guide \(2007\) Van Haren Publishing](#)

[ITIL Management Guides \(2008\) Van Haren Publishing](#)

6. **Bron:** <http://www.ibpi.org/tag/itsm/>