KPMG APPTIO

How CFOs can help drive more Value from their Technology Management

Defending profitability in a volatile market:
How siloed tech costs can be optimised with future-proof enterprise-wide technology cost management



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Key economic trends impacting how firms operate today.

Over the last few months, a weakened global economy has been headline news, and Financial Services are feeling the pain of current market conditions. Businesses across the globe are facing unprecedented obstacles across supply chains, operating costs, customer demand and growth forecasts. This has generated a multitude of challenges businesses are facing today.

Cost Pressures

The low interest landscape, enjoyed for the best part of a decade, has ended. As central banks continue to increase interest rates to manage inflation and cost pressures, this puts a squeeze on banks ability to leverage deposits. Coupled with increased operating costs, firms have felt a significant tightening on profit margins.

Sustainability & Reg

The regulatory environment has tightened with a focus on future-proofing BAU operations. Financial institutions are seeking operational efficiency gains through optimising business processes and models whilst only wanting to deploy minimal resources. Increasing the need of efficient tools & platforms to enable businesses to do this.

Navigating Uncertainty

The post pandemic environment highlights the need for organisations to adapt quickly and build a resilient business model. Driven by geopolitical tensions companies are reshoring their supply chains to improve resiliency and decrease the dependency on factors out of their control.

Technological Disruption

Technological advancements have made it harder for larger organisations to timely source capabilities that allow businesses to remain competitive and adapt to the new world. Whether that be through the emergence of powerful user friendly artificial intelligence or integrated enterprise performance management software; these tools can disrupt how traditional finance functions operate.

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Call to Action

The time to break the Tech Silo in Enterprise-wide Technology Cost Management is now…

Strategic Decision Making

Effective technology cost management is becoming a top priority initiative within wider strategies, which can support a business model fit for the future. With cost pressures impacting profit margins, it is clear that executives of financial institutions need to have a robust understanding of their cost base to aid strategic decision making. Technology costs are one of the most substantial costs within a business, that a C-Suite generally have the least visibility over.

Adjacent Processes

Financial institutions tend to allocate these costs in a silo adjacent to the rest of the allocation process, which distorts cost transparency, product unit costs and operational decision making. It is important to note that technology adoption does not guarantee cost-savings. To reap the benefit of improved technology businesses must shift cost management discussions to earlier in the transformation cycle.

To future-proof the operating model, it is key to have an appropriately balanced view of how technology costs impact the business, and affect the strategic decision-making process. Two key areas should be considered prior to making such leaps:

Defend profitability

Breaking down the technology silo will enable the wider business to greater understand unit/product cost base, enabling strategic decisioning to maintain profit margins.



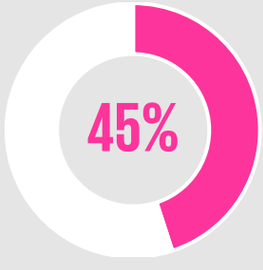
Optimise Technology Investments

Enable the business to fully utilise their technology stack and maximise operational efficiency.

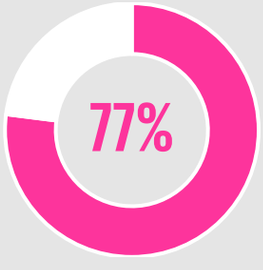
Optimisation

Running costs are optimised to aid re-investment for future growth & change. These annual operating activities are often bloated with over provisioned and duplicated IT that remains functional, but not cost-effective. Continual optimisation and modernisation can provide a streamlined service aligned to strategic business growth areas, so that services and spend support business expansion. This would include establishing financial guardrails into transformation initiatives to ensure IT resource provisions get tracked and managed.

With a comprehensive understanding of Technology costs, businesses can re-invest savings towards future-proofed technologies. Thereby aiding senior management with the tools they need to make appropriate decisions for both short term and long term goals.



of organisations have no formal way of measuring IT value



of CIO's have trouble articulating true app costs

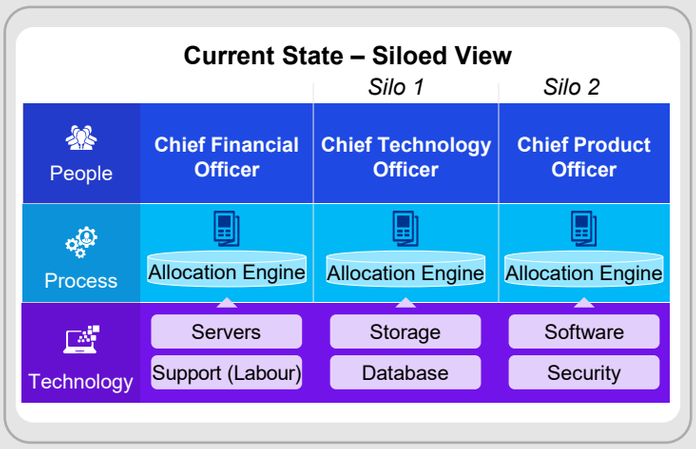
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Current Challenges in Technology Cost Allocations & Management

Many financial institutions struggle to manage and allocate cost efficiently, impacting profitability and increasing the probability of persistent run-cost increases. Disparate teams, processes and technology cause continuous challenges to end-to-end technology cost transparency. The current state houses a multitude of challenges experienced by leadership.



1 Visibility

Providing inadequate visibility on costs that individuals can influence, leading to disengagement from internal stakeholders on key cost factors

2 Over Empowered Developer on Cloud

Cloud empowers developers to provision products of choice without any prior approvals and validation. This creates potential for wastage of resources in cloud. It further mandates the need for proactive guardrails and centralised financial management across enterprise.

3 Inadequate Governance Structure

A prerequisite to hold individuals accountable for true profitability management. A lack of accountability will remove incentives to drive effective cost management as leaders neglect potential cost savings and cost transparency. Restricting the heights of profitability in companies with persistently less cost understanding.

Business leaders navigate a complex landscape, with issues surrounding a combination of people, process and systems. Financial institutions must bring their stakeholders on the journey to total cost of ownership to reap the rewards. To future-proof the business model, leaders can no longer ignore the benefits gained from having full cost transparency, and should give cost management the recognition it deserves as a top priority transformation moving forwards.

4 Operational Continuity

Operational continuity and resiliency have surfaced as recent challenges for Financial Institutions. A lack of clarity of costs and business processes associated with system applications, limit the ability to fully appreciate an organisations architecture. Without understanding total cost of ownership (TCO) across the full end-to-end process, decommissioning and/or maintaining systems is challenging. It also creates difficulty in managing critical systems for business continuity.

5 Cultural Change

Traditionally, cost allocations and cost management are part of the finance function that sit adjacent to the rest of the business. Demystifying this dated stance is important in changing the rhetoric for finance; moving to ‘Finance for the Business’ and away from ‘Finance for Finance.’

6 Ownership

Limited cost transparency and drill-back capabilities result in a “grey-area” when mapping IT costs to relevant business units or products, the foundation to strategic decision making. Highlighting the importance to establish shared responsibility in reporting true cost and profitability of portfolios amongst management.

7 System Integration

A corporate financial system is not an adequate subledger for IT, and does not speak the IT specific TCO language needed for strategic IT decisions, leaving a granularity gap. Integrating systems and processes to run IT and Non-IT cost allocations is a critical transformation.

8 Engagement

IT cost allocation engines primarily focus on the tech function and as such neglect bringing adjacent business areas on the journey to understand IT costs. As a result, the IT and Non-IT functions separate. The configuration and understanding of these processes must act in unison for companies to yield the benefits from effective cost management.

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Market considerations to future-proof your Technology Cost Management capabilities

As the market continues to evolve and change, business priorities and technology cost management need to be integrated across all ongoing and new initiatives. The dynamic nature of industry conditions places a spotlight on certain market trends.

Agile Ways of Working

Businesses have changed due to agile ways of working and as a result traditional cost centres will not work effectively with this new model. Employees roles can no longer be defined with a simple one-to-one relationship with a cost centre. Instead employees can work across multiple different value streams in a given period. Now, and in the future, financial institutions need to have the ability to cross charge effectively between cost centres to appropriately split an individuals cost proportionally. Furthermore companies are increasingly struggling with labour capitalisation and the ability to allocate labour to new long term digital products that in turn contribute to a companies financial statement and key performance metrics.

Moving to the Cloud

A perceived risk of moving to the cloud, is the transition from Capex to an Opex spend, which highlight concerns about how this might impact EBITDA. The second being that CFO's perceive a loss of control on purchasing in the cloud and are looking for additional financial control tools and processes to help track the spend and costs. A robust control framework would facilitate tying the budgets and cost back to owners to force accountability of spend into the IT development community.

Benefits Tracking

The need for businesses to tie revenue generating and cost consuming activities to objectives and key results is crucial in making business leaders and product owners accountable for profitability in their specific area. To do this, leaders require superior analysis and reporting capabilities over business unit costs within their area, further highlighting the importance of full cost transparency.

System & Process Integration

Integrating the technology stack as part of the forecasting & planning process – feeding Total Cost of Ownership information directly from source into Finance systems improves transparency. Furthermore as one part of the wider financial management processes, cost allocation feeds key Financial Planning, Budgeting and Forecasting activities. With accurate integration and cost management of the tech stack, financial institutions will have an increased level of insight that will benefit these adjacent activities.

Effective cost management is clearly pressing as a result of the challenging and complex issues financial institutions are facing in the current market conditions.

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Leverage Benefits Tracking as part of Agile Transformation

Financial organisations who have not been able to holistically manage their portfolio of initiatives, see a negative impact on the Return on Investment of these projects.

Symbiotic with Portfolio Management
There is often a disconnect between benefits tracking and portfolio management as these activities are thought of as adjacent to one another. Benefits tracking and portfolio management should be viewed through a holistic approach as they enjoy a symbiotic relationship to be exploited by business leaders.

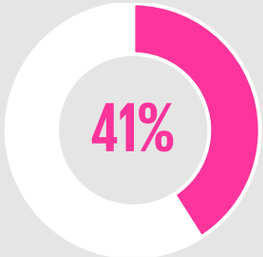
Configuration of On-Prem and Cloud
As old legacy systems approach end of life financial institutions are struck with a dilemma as to whether to replace systems with on prem solutions or install cloud based software designed for the future. The combination of on prem and cloud based applications can cause issues with integration if the correct configuration is not established.

Maximise Value-Add time
Continued manual processes and intervention from stakeholders reduce the time teams have to undertake value-add activities. As manual process and inefficient end user controls (EUCs) are maintained, internal stakeholders work on inefficient activities and not on analysis activities that could improve and optimise processes instead.

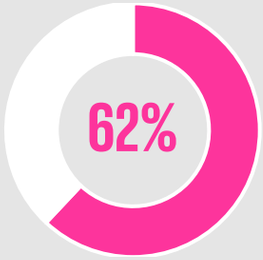
Combine TBM and FinOps
The combination of on-prem and cloud based applications in the new hybrid world means organisations must adopt and merge the disciplines of Technology Business Management (TBM) and Financial Operations (FinOps).

Optimise the technology allocations, spending through better visibility, accountability and cost management. Improve collaboration between Finance, IT and business stakeholders. Aggregating and connecting this discipline to strategic Agile OKR's and strategy improves the efficiency and speed at which the business is able to align to business outcomes.

- ✓ **TBM** improves business outcomes by giving technology, finance and business leaders a consistent way to translate technology investments to business value. Leaders can react quickly to changing market dynamics and optimally leverage cloud and agile practices to deliver on business objectives.
- ✓ **FinOps** is a practice of optimising the financial operation of cloud computing resources and involves the alignment of operational processes to ensure cloud infrastructures is used in the most cost-efficient way.



of organisation lack cloud strategy alignment between business & IT



of organisations want to self-fund digital transformation

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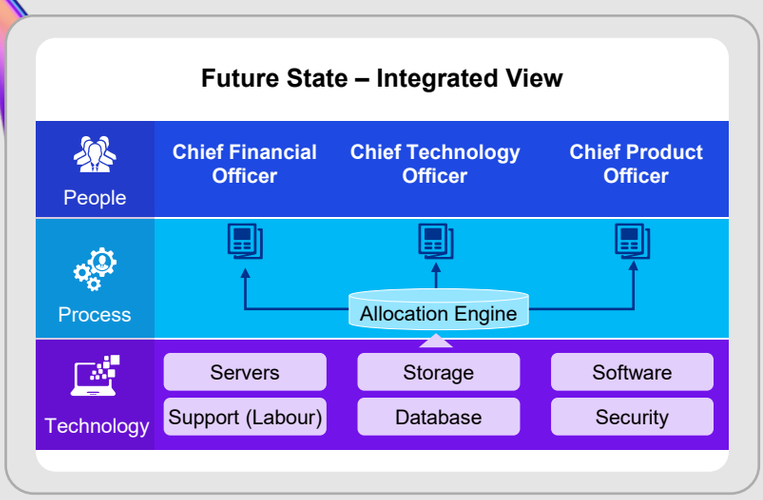
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Shaping your Future State Technology Cost & Value Management Design

We understand the common pitfalls that financial institutions often stumble upon and we can use our battle scars to help financial institutions navigate these effectively.

In order to move from current to future state as illustrated in the below diagram, there are key lessons we have learnt from our experience:



1 Culture Change

A complicated issue arises in any transformation, that of culture change and user adoption. It is important to have upfront buy-in to increase active participation throughout implementation. Optimising disparate processes, technologies and teams will have a knock-on impact on the BAU activities individuals undertake. An appropriate user adoption and impact roadmap should be developed to help with transformation projects.

2 Streamlined Operating Model

A complex business architecture is challenging to maintain and the business should aim for a streamlined operating model that can be managed effectively. This should include a dedicated centralised FinOps functions / COE that spans across all BU's to provide guardrails and further help in knowledge across organisation.

3 Near-Time Dashboarding

End users will require near real time cost dashboarding capabilities in order to improve analysis. Near real time dashboarding can also benefit the monitoring of anomalous cloud spend and detect errors quicker. This will give end users more accountability and analysis capabilities driving value across BAU activities.

We have worked with our clients on numerous projects across cost management and carry the corresponding battle scars. Our experience can help you navigate the ongoing volatile market conditions and effectively ensure your cost management initiatives will be best placed for success.

4 Tool selection

Technology cost allocation requires a tool set that manages sophisticated factors such as usage, resource consumption and service levels. Typical home grown analytics systems or spreadsheet solutions cannot track this level of detail needed.

The key to success is to ensure the granularity of what is being tracked and allocated is combined with meaningful business context data, enabling effective decisions. This empowers IT leaders to communicate the value of IT to the business and pro-actively shift spend toward high-value services and innovation.

5 Optimised Technology costs

Financial institutions should holistically view costs and break down the barriers that often exist between the core allocation system and tech allocation systems. Systems and processes should be integrated in order to avoid silos.

6 Cloud Adoption

As financial organisations look to replace old legacy systems, they are struck with a dilemma – continue with on prem solutions or adopt fit-for-future cloud based alternatives. Cloud solutions are powerful but need to be managed appropriately with security, cost and storage considerations. Ensuring the correct initial setup and configuration are key for maximising the value of cloud adoption.

6 Optimisation

Typically we see a dependency on manual processes across business functions. Fully leveraging technology across the business can drive efficiencies and transform the business to be operationally lean.

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Outcomes of Implementing a Technology Cost & Value Management Framework

Financial institutions can often ignore the significant benefits available from effective technology cost management and incorporation of the wider tech stack.

The benefits of getting this right will drive the following outcomes, increasing profitability and maximising efficiency across the organisation:

Unified Allocations Process

With full end-to-end cost transparency through the implementation of a unified allocations process, companies will drive better strategic decision making, that will future proof the profitability and longevity of their products and business units.

Dynamic Cost Transparency

With the business adopting more flexible agile practices, a dynamic culture will be positively reinforced. Cross charging between cost centres will become best practice in order to gain full cost transparency of people costs, and in turn, product and unit costs.

Robust Governance Framework and Accountability

The introduction of robust governance frameworks combined with increased accountability on individuals will lead to better decision making, especially when prioritising investment spend.

Improved Prioritisation of Investment Spend

Furthermore, the ability to optimise your portfolio of products and applications will become easier with greater cost analysis capabilities, leading to cost take-out.

Reduced Regulatory and Insolvency Risks

With improved traceability of costs and a robust governance framework implemented, effective cost management can significantly reduce regulatory and insolvency risk. In turn, operational continuity and resiliency will improve.

In conclusion, cost management should be at the forefront of your strategic objectives not only because of the current market volatility but due to the significant value add benefits your company can enjoy as a result. The market volatility has only exacerbated the issues surrounding effective cost management and in order to future proof your operating model, improve operational efficiencies and drive greater cost analysis for profitability, cost management should be at the top of the C-suite agenda.

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Services for you to leverage

To gain maximum value from technology cost management transformations, it is imperative businesses choose best-in-class teams to support the journey.

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We can begin your journey with an end-to-end review of how your People, Process and Systems can be better optimised. In the initial phase, we can:

Outline the business case for change: often companies and senior stakeholders struggle to articulate the material benefits of undergoing cost management initiatives. We bring the necessary experience to help develop robust business cases.

Benchmark existing capabilities against leading market practice: we have unique market insights that we will leverage to benchmark your current cost management capabilities against that of your industry peers and the wider market.

Future state Technology Value Management Framework: with any strategic initiative, understanding the desired end-state is important. Companies sit at different levels of maturity in their technology cost management journey and we will leverage our SME's to design an appropriate future state.

Transformation approach and roadmap: across front to back operating model, we can assist in driving efficiency outcomes from consolidation, modernisation and rearchitecting of current estate.

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APPTIO

Apptio provides SaaS tooling and is a leading technology spend & value management company. Apptio is a founding member of both the Technology Business Management Council and the FinOps Foundation with 1,800 customers supporting 60% of the fortune 100 and managing $650B of tech and non tech spend globally.

Apptio can help across a multitude of use cases but with a specific focus placed on the following three areas:

Portfolio Resource Management: Agile Transformation- Visibility of OKR's, work, resources, budgets and portfolios Typical Outcomes: 50% faster time to market and 35% improvement in agile worker productivity

Technology Business Management: Clear visibility and planning of tech spend by vendor, cloud, application or service Typical Outcomes: 3-5% redirection of budget from run activities to innovation with 75% reduced planning time

FinOps Cloud Financial Management: Cost and consumption transparency of multi cloud and container Typical Outcomes: 15-30% reduction in multi-cloud costs with faster migration decisions. 90% improvement in forecasting accuracy

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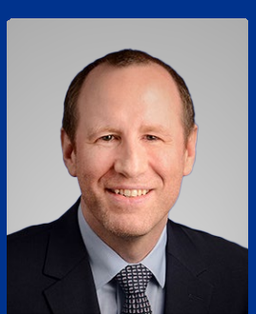
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