

Make Your Assets Sweat

Managing IT Costs: Making Macroeconomic Improvements to Your Cost Structure by Reducing Capital Expenditures

Introduction

Though it's obvious that reducing costs and doing more with less is important in the current economic climate, gaining a better understanding of your cost structures can also affect how IT is perceived within the business. By connecting the revenue streams that are associated with a business service to the total cost to IT for supplying this service, you can readily determine ROI for IT services. And once you understand the economic value of the services, you can start changing the perception that IT is simply a cost center and help the business understand that it is supporting critical revenue streams. Additionally, understanding the cost structures over the life of the service can help you determine when a service is no longer valuable to the business and should be retired.

By gaining a closer understanding of your costs, you can establish IT as a value center and an engine for competitive advantage and innovation within a company. IT imperatives become business imperatives. We stop thinking in terms of *aligning* to the business, where the business determines goals, priorities, objectives and metrics, and we start thinking in terms of *integrating* with the business, where IT collaborates with the business to establish a shared set of goals, priorities, objectives and metrics¹. We begin speaking in business terms (usually in terms of cost and risk) and improve collaboration, planning, execution and evaluation relative to IT services.

Integrating IT services and business goals can be framed in terms of the concept of the "Economics of IT:" issues affecting the whole business are considered macroeconomic, and issues that affect specific services are microeconomic. This concept plays out when you're contemplating ways to improve your cost structure as well. Things you do at a macroeconomic level improve your cost situation across all services, whereas things you do at a

microeconomic and operational level will improve things for specific services. In this article, I'll focus on the macroeconomic view starting with capital expenditures (CAPEX), which relates directly to your asset base.

Get Lean: Examine the IT Asset Base

With CAPEX, the first thing to examine is the IT asset base in order to determine what assets you have, because you can't manage what you don't know. The second is to determine the current rate of utilization for each of the assets. To paraphrase a common message that's used in business, you need to "make your IT assets sweat for you."

There can be significant areas of waste that can be recaptured once you have a better handle on IT asset



management. For example, analyst studies indicate that many organizations are actually over-licensed by as much as 20 percent. In other words, they've bought large software licenses—presumably to use applications enterprise-wide—but they're only using a small percentage of the licensed instances. In one example, a business held a site license for a product that cost \$500,000 annually. When the firm deployed asset inventory software to discover how many instances of that software were actually being used, it discovered that only five or six people actually had it installed. With each license costing less than \$3,000, the firm was able to buy six licenses for \$18,000, resulting in a \$482,000 annual savings.

Server Consolidation: The First Technique to Start Reining in Costs

After you examine your IT asset base, a second thing to examine is the possibility of server consolidation. It's an established fact that most IT assets are significantly underutilized. Because IT systems have to handle capacity for peak loads, there are certain periods in the day (or certain times of the month) when they're operating below peak, and they're oversized for the workload. In the majority of cases, assets run at very low utilization rates. Some estimates place average server utilization rates as low as 25% in any given month. As a result, a trend that emerged several years ago and continues to grow in popularity today is server consolidation. Instead of several smaller machines dedicated to specific tasks, you consolidate into a smaller farm of larger machines that process many of the same tasks at the same time. You basically run what you need when you need it by distributing the workload on fewer resources during the normal monthly processing cycle.

Virtualization: To Further Rein in Costs

A third consideration for reducing CAPEX is virtualization, a technique that enables you to “virtualize” environments on physical hardware, e.g., run multiple operating systems on the same hardware platform at the same time. Imagine the cost-saving potential if you could run 20 or 30 instances of Windows Server or a heterogeneous virtual environment (some Windows, some Linux, for example) on one machine, and each one of these environments ostensibly operates like an autonomous environment that would normally require its own hardware in the server room. What's more, you can provision, manage and de-provision these environments on demand as needed. Combining virtualization technologies with server consolidation offers even more possibilities and opportunities to “make your IT assets sweat.”

But adopting a virtualization strategy can pose a new set of challenges for the IT asset manager, both in terms of keeping pace with VM sprawl and accommodating the unique management requirements of virtual environments. Virtualization amplifies the imperative to understand your asset base from a physical, financial and contractual standpoint. What servers do I consolidate on? Where are



they located and what cost centers are they associated to? Which assets do I retire as part of my VM strategy? How do I track their disposal? What are the contractual ramifications of virtualizing and how can I effectively manage vendors and contracts to reduce CAPEX? What are my software licensing needs? How do I accurately budget for all of this? The questions can be endless, but the point is clear: a successful virtualization strategy is predicated on a clear understanding of your IT asset base.

Concluding Thoughts

It can't be said often enough, but you can't manage what you don't know. So the first thing you need to know is what your asset base looks like. Then look at the current utilization and seek out opportunities for server consolidation and virtualization. And all three of these things combined will put you in a very good position to improve your cost structure.

But these three ideas - examining the IT asset base, server consolidation and virtualization - are broad brush strokes, because implementing them can have far-reaching downstream consequences on affiliated IT services. So in terms of CAPEX, we can reduce *costs*. The caveat with CAPEX is that each IT asset has a measurable lifespan, and

the business depreciates these assets. You can't just say that you're going to reduce CAPEX, because capital expenses are based on the life of the asset. What you can control is future spend by optimizing asset utilization, so you can avoid unnecessarily purchasing new assets.

"Making your IT assets sweat for you" means making every asset count, and that means getting "lean." The principles of lean pioneered by durable goods manufacturers can be applied with great effect to drive down the costs of IT services. Operationally, you can *improve flow* by developing a comprehensive asset repository, automating asset provisioning, automating the IMAC process, integrating with the Service Desk to minimize MTTR, etc. From a strategic perspective, you can *eliminate waste* by reducing CAPEX (inclusive of inventory carrying costs), optimizing vendor/contract terms, etc. The net result is a better integrated, more efficient platform for delivering IT services to the business.

¹ This idea is expressed in a 2008 IT Process Institute Executive Snapshot entitled: "Know Thy Self: Improving an IT organization's ability to drive business success: A simple archetype framework can be used to assess IT's role in executing business strategy, and optimizing IT business integration" by Kurt Milne and Laurie M. Orlov.

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LEAN IT

Maximize Value.
 Minimize Waste.



Maximize the Value of Your IT Investments.
 Make Every Asset **Count**.

CA IT Asset Management is designed to help you increase the value of your IT investments and deliver real business benefits to your IT and company bottom line.

Our market leading solutions give you a comprehensive view of your IT assets to help maximize usage, avoid unnecessary purchases, better manage vendor license and contracts, and reduce the risk of noncompliance — all with greater visibility and control. Now, more than ever before, your IT assets are business currency.

Visit us at IAITAM Booth #46 to see our IT Asset Management solutions in action and learn how we can help you increase the value of your IT assets. You'll also have an opportunity to see our unique capabilities around telecom expense management, as well as integration with RFID and barcode scanning.

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