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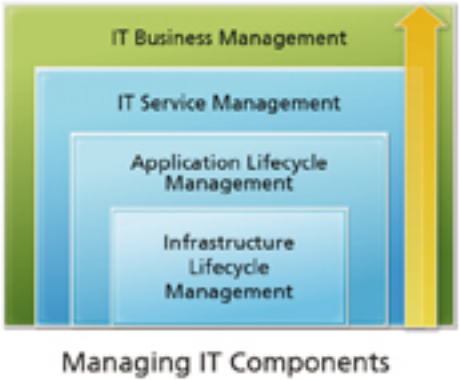
IT Business Management

Solutions from SAP

A Pocket Guide



Swen Conrad
David Pultorak

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IT Business Management

Solutions from SAP - A Pocket Guide

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COLOFON

Title:	IT Business Management Solutions from SAP - A Pocket Guide
Series:	Best Practice
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Text edit:	Barbara Kendrick, TDA Group
Publisher:	Van Haren Publishing, Zaltbommel-NL, www.vanharen.net
ISBN:	978 90 8753 620 6
Print:	First edition, first impression, October 2010 First edition, second impression, November 2010 First edition, third impression, June 2011
Layout and design:	CO2 Premedia bv, Amersfoort -- NL

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CONTENTS

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FOREWORD

When SAP started 35 years ago, IT was a back-office function aimed more at efficiency than transformation. Compared to today, systems were straightforward and self-contained, and IT management was focused inwardly on programming and maintenance.

Over the years, our industry has increased the scope of its focus, maturity, and capability to manage complex applications, infrastructure, and IT services. We work hard to meet expanding expectations and escalating constraints with innovative technologies and rigorous approaches to managing enterprise architecture, customer demand, project and service portfolios, solution development, and operations.

Ultimately, we try to run our IT organization like a real business – to drive business results and create business value with IT functionality. But we are often challenged because our IT management solutions don't provide the kind of insight needed to drive decisions that cut cost, streamline operations, control risk and improve our understanding of IT performance.

Managing IT like a business demands integrated and systematic business and IT insight – the kind of integration and systematic insight that SAP has spent the last 35 years helping the world's leading companies achieve. Best-run businesses use SAP® solutions to automate key business processes so they can close the gap between strategy and execution. Best-run businesses drive clarity into their organizations by gaining insight for improved performance, efficiency for optimized operations, and flexibility to adapt quickly to changing circumstances.

Like best-run businesses, best-run IT organizations are able to optimize operations, maximize innovation, and adjust rapidly to evolving business needs. Their IT management solutions help them better understand

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themselves and their customers and make the best decisions in the face of challenging expectations and constraints.

SAP can help you become a best-run IT organization. We offer robust software tools, best-practice guidance, expert services, and predefined key performance indicators spanning IT performance and governance, portfolio and project management, resource management, IT service management, application lifecycle management, and more. Our toolset is flexible and powerful, so you can progress incrementally and achieve a unique level of integration between business processes and IT capability.

This book outlines SAP's view on best-run IT. It will help orient you to our related solutions and provide you with ideas for driving clarity and business value in your IT organization. On behalf of myself and all my colleagues across the SAP organization who contributed to this book and are driving the topic of IT business management at SAP forward, I welcome all our fellow IT professionals to join us on our journey toward integrated IT management. Our mutual goal is to drive enterprise performance and business value for our valued customers.

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1. BUSINESS VALUE AND THE IT ORGANIZATION

1.1 Where We are Today

In the 1980s, businesses everywhere moved to information technology (IT) as a way to do more work with greater speed at lower risk. In those days, companies made IT investments with considerable caution, focusing largely on the issues of efficiency and control.

IT became a force in business in the 1990s when companies used it to transform how they worked and interacted with customers. Investments in IT were liberal, buoyed by a healthy economy and concerns about lagging behind the competition. IT management focused on nimble implementations of new software to support new capabilities.

Today, IT reflects aspects of both eras, with companies aiming to improve efficiency and reduce cost while enabling transformative innovation at the same time. Unfortunately, technology alone is not the difference-maker it once was. As IT has become increasingly commoditized on various fronts, companies have fewer opportunities to lap competitors purely on the basis of the solutions they decide to implement.

At the same time, organizations face greater regulatory hurdles than ever before, many of which intersect with how they manage their IT environments. Complying with these regulations requires companies to execute business processes and track information in ways that often impede flexibility and escalate operating costs while also adding risks of noncompliance.

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Add to this a renewed focus on cost controls that constrain resources and curb the appetite for bold investment, and it's easy to see why many IT organizations feel under siege as they struggle to justify their value to the business.

In an era of commoditized technology, growing compliance obligations, and limited resources, what can IT organizations do to succeed? What does success even look like?

1.2 Efficiency and Innovation

If yours is like most IT organizations, operational efficiency is high on your list of goals. You want to work smart, make good decisions, and maximize your resources. You also want your costs – and your risks – to be as clear and controllable as possible.

But is efficiency by itself good enough for IT in today's business world? The simple answer is no. Today, companies seek to wield IT as a competitive weapon – one that enables innovation and helps the business do what it does better than anyone else. To rise to the occasion, your IT organization needs to get closer to the business so that it can understand what drives enterprise performance. All of the decisions you make – both large and small – must be made in the context of a simple question: how can IT support strategic innovation for the business it serves?

These two aspects of IT success – efficiency and innovation – feed off one another in a virtuous cycle. Greater efficiency frees up budget, resources, and capacity to dedicate to innovation – innovation that makes IT more effective *and* helps the business execute on strategy. As it becomes more efficient, IT earns the trust of the business. This helps to bring IT closer to the business so that it can better understand where to aim its innovation. The net result is that IT adds value to the business. Instead of a cost

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center that needs to be cut, IT is viewed as a contributor to enterprise performance that is worthy of ongoing investment.

1.3 Maximizing the Value of Scarce Resources

The question remains: How do you do it? How do you successfully optimize operations and drive innovation to support business strategy? For more and more CIOs, the answer is to run IT as a business to direct and optimize the use of scarce IT resources. But what exactly does this mean?

Consider the scenario of an online retailer who does more than 75 percent of its yearly business during the month of December as customers shop for Christmas. To prepare for the increased demand, the business ensures that enough product is on hand, while IT ensures that it has the server capacity to handle the increased traffic. In the past, let's say that IT maintained 100 servers for the entire year, with 75 percent of them sitting dormant for 11 months. This, IT reasoned, was the cost of doing business. And without the business side closely monitoring IT costs, this approach worked fine.

Today, of course, most businesses are extremely cost-conscious. Fortunately, multiple solutions now exist that can help IT address the issue of server demand more cost-effectively. For example, the company could invest in virtualization technology to expand capacity without additional hardware. It could also reserve cloud resources for the expected period of increased demand. But before making a decision, the business will want to fully understand the trade-offs involved. What is the cost of maintaining under-utilized server capacity for 11 months of the year compared to the cost of the alternatives? How long will it take to recoup any investment made in virtualization? What are the risks of running internal business processes in the context of server capacity that is outsourced to the cloud? If the company deviates from traditional practices, does it stand to lose valuable customers? If so, will the cost savings outweigh the potential loss?

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An IT organization that runs itself as a business is able to answer these questions and advise the larger organization on the best course of action. As with any other business, IT's advice is based on the expected business benefit and the related resource requirements regarding cost and capacity constraints, as well as the ability to deliver and the overall risk.

Once a decision is made, IT then needs the ability to take prompt and effective action, monitor performance, and make improvements where necessary. In the end, IT acts as any business doing its best to create value and deliver it to its customer.

Value, of course, cannot be approached as a one-off endeavor. To stay in business, IT needs to deliver value on an ongoing basis. This makes value creation the lens through which IT must view the entire portfolio of its activities and investments as it attempts to run itself as a business.

Especially when looking at the complete portfolio of IT activities and assets, and putting them in order of decreasing value, it will be very obvious where to direct scarce IT resources: to the projects, activities, or applications that add the highest value. And while this may sound harsh, it may be better to cut lower-value activities, applications, or services rather than let them dilute the overall value of your IT department.

There is only one broad exception to the simple math of the IT cost-to-value calculation: IT risk.

1.4 IT Risk Drives Business Risk

Managing IT as a business aims to increase the ratio of IT business value to IT cost. The goal is to grow this key ratio over time and to understand the influencing factors. In other words: Which activities or projects add value? What are the biggest IT cost drivers?

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But despite the goal to grow this key performance indicator (KPI) for IT business management, we must also consider associated risks. While minimizing the cost of activities that add lower value (for example, by outsourcing to low-cost providers) may increase this KPI, it may also add significantly to the overall company risk profile. An unfortunate proof is the increasing number of news stories about lost or stolen customer data resulting from outsourcing. The cost of related negative publicity can quickly outweigh the cost savings that outsourcing may deliver.

Now, instead of simply maintaining the status quo or maximizing IT value at all costs, IT must find its own balance between the two extremes. And risk is part of any kind of business equation when a part of the business is trying to go where it has never gone before.

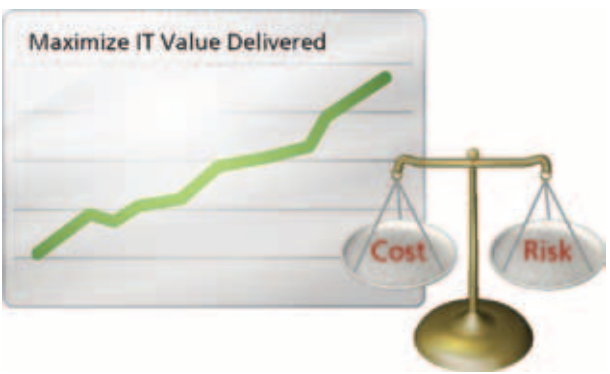

Figure 1.1 The perfect balance of IT value, cost, and risk

So instead of avoiding risk and sticking with the status quo, the new IT paradigm is about *calculating* and *controlling* risk. When you understand the potential negative impact and likelihood of the occurrence of risks, and have a well-defined mitigation plan and ongoing controls in place, these

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risks are calculated and controlled. With such transparency, you can have an educated discussion and evaluation of the risks and come to a business decision among all the business stakeholders. You are running IT like a business. Figure 1.1 (see previous page) shows the relationship of the three IT business management KPIs: IT value, cost, and risk.

1.5 Managing the Business of IT

To run IT as a business, you need insight first and foremost – insight into business needs and IT capabilities so that you can understand the priorities of your customer (the business) as well as the trade-offs involved in addressing them. You must also have control and the means to act on your insight, so that you can deliver responsive service, mitigate risk, maintain quality, and ensure security.

Like running any business, you also must be smart about how you gather information, execute daily activities, and deliver your services. This requires metrics and analytics to provide insight, comprehensive processes to enable control, and effective automation so that IT can manage enterprise-scale workloads and deliver on a consistent basis.

We have already discussed the requirements for managing IT as a business. They are also well described in ITIL®, Version 3 (ITIL V3). The strong emphasis on business services in ITIL V3 shifts the focus from internal IT services and components to external business services, business results, and outcomes. ITIL V3, in addition to other frameworks like COBIT (Control Objectives for Information and Related Technology), provides a tremendous knowledge base and valuable insight for the ongoing IT business transformation.

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Figure 1.2 Services Lifecycle in ITIL V3

As shown in Figure 1.2, the lifecycle in ITIL V3 holistically covers the following five phases:

- **Service strategy** – where the goal is to make IT an integral part of business in order to stop the ongoing competition between business and IT. This will be achieved by a new IT mindset focusing on maximized IT business value – measured in business terms – combined with controlled IT cost and risk. All IT decisions, projects, and activities will be prioritized and managed following this new paradigm, maximizing the utilization of limited resources.
- **Service design and service transition –** where the goal is to properly design, build, and/or source new IT-driven business capabilities based on the strategy direction set above. Resources are only invested in projects and activities that comply with overall company strategy. Execution of these priorities is done in a transparent and effective

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fashion. Well-planned and orchestrated deployments bridge the gap between the IT development and operations team, minimizing disruptions to the business and empowering the operations team to successfully run new business solutions.

- **Service operation** – where the goal is to automate – or more accurately industrialize – daily IT activities to minimize cost and effort by the means of auto-detection and resolution of IT alerts, including well-defined workflows. Such proactive management not only saves precious company resources (remember, we are no longer differentiating between business and IT) that can be reallocated to more strategic-level activities. In addition, well-defined and well-executed IT operations and support processes heavily shape the perception of IT through streamlined user interactions.
- **Continual service improvement** – where the goal is to proactively resolve issues, both of potential or systematic nature, by seamlessly feeding operations insight back to the strategy, design, and transition phases. This last, and perhaps most important, phase relies strongly on integrated, end-to-end IT processes that barely exist in corporations today.

The outside-in, results-driven approach starting with business services in mind is the right direction for IT. More and more IT practitioners are adopting this approach, which we like to refer to as the IT nirvana. Due to the highly intangible nature of IT and the complexity of all it comprises, reaching nirvana is a challenge not only for individual practitioners but for the whole industry. And anyone claiming to have got there may have peeled the outer layer of the services lifecycle, but most likely has not connected all the underlying management layers of IT process, application, and infrastructure. This is a complex task and requires broad industry collaboration between the major vendors for hardware, business applications, IT management tools, and IT business management tools.

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To make the IT business management challenge more tangible and to be more in sync with commonly used IT management models, we are not going to follow the above model in this book. While the authors believe in its validity, the ITIL V3 model, just like the majority of IT, is too intangible. Therefore, the IT management framework for this book differentiates in the more commonly known categories below:

- **IT business management** – where the goal is to systematically apply commercial principles to IT supply and demand. This means that IT must make choices not focusing on technical merit alone but rather on economic principles. On the flip side, requesters and users of IT must understand and appreciate that the more sophisticated their IT demands are, the more expensive they will be. This advanced insight into IT cost and value will – over time – drive a more thoughtful consumption of IT capabilities.
- **IT service management** – where the goal is to fight the growing IT operations spend by streamlining related processes starting with the IT service desk – the "IT storefront" to the end user. Critical elements are strong process orientation with rule-based workflows; deeper and deeper integration into the more technical layers of IT; self-healing technologies; and increasing process integration beyond the traditional scope of IT service management.
- **Application lifecycle management** – where the goal is to manage the software development lifecycle as well as the end-to-end operation of business applications. Managing these two diverse activities within a single framework and tool will help to bridge the often deep mistrust between application development and operations.
- **Infrastructure management** – where the goal is to optimize IT landscapes for reliability, flexibility, and cost. Increasing encapsulation of technologies into utility or cloud-based service offerings will help to shift the IT focus away from technology to a more business-oriented way of talking and accessing compute resources: "How much storage

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can I get at what price?" While the make of the storage will matter less and less in future, additional business-relevant criteria such as risk will play an increasing part in the day-to-day infrastructure conversation.

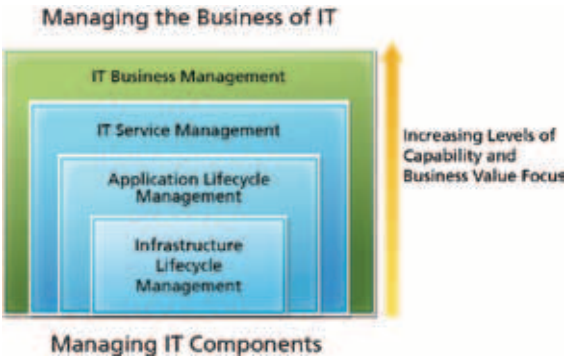

Figure 1.3 IT evolution – adding a business lens to IT

As shown in Figure 1.3, these IT management disciplines have evolved over time, with the lower levels serving as a foundation for the next higher level of optimization. Here is an example of this evolution.

Many of us will remember about 15 years ago when IT was struggling with frequently failing local area networks. Along with other innovations, this led to the advent of infrastructure management tools. Once this and similar problems on the IT component level were solved, users grew dissatisfied with slow application performance – and application performance management, an important element of application lifecycle management, was born. Next, as IT problems dropped in number and became more random, we stopped seeing IT staff swarming around the building and started wondering how to get support for IT issues, or simply who to call. This drove the need for consistent IT processes enabled by IT service management. And with the IT service management evolving at

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high speed, many of us are now wondering why – despite all these great optimizations in the past – IT is still so expensive. One of the reasons that IT is expensive is because it has rarely been managed for business benefit or for cost control and containment. Rather, it has usually been managed for maximum performance of IT services, with poor insight into, and therefore poor control of, cost.

Consider this question: Should every application's performance provide the same level of end-user experience? When IT budgets were unlimited, the answer was: Why not? However, with today's cost-consciousness, the answer changes to: Maybe not. Today, the only applications that absolutely must perform speedily and flawlessly are those where flagging performance may interfere with revenue – such as your customer-facing website where you take orders. In that case, the business benefit outweighs the cost of high application performance. For any other applications, it's necessary to compare cost and benefit first!

This basic connection between IT service (including performance characteristics in the previous example) and its relevance to the business has frequently gone unevaluated. Consequently, a lot of work and budget has gone – and is still going – into IT activities and projects with little overall business value.

This is exactly where the evolution of IT toward a business model will make the difference: it will prioritize scarce business resources in a way that maximizes IT output measured in business benefit.

Overall, this challenge is very similar to what other parts of the business experienced years earlier and solved via consolidated enterprise resource planning (ERP) applications. Only time will tell whether the next innovation will lead the industry toward an "ERP for IT."

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1.6 Managing IT Supply and Demand

While one of the primary aims of IT today is to run itself as a business, it is equally true that IT still needs to manage the core technology infrastructure, applications, and IT services that have traditionally been its responsibility. What's changed is that IT must do this in a way that focuses on business needs, while communicating to the business in a language that the business can understand. The focus, as stressed before, has shifted from provisioning technology to delivering business services – the business-facing end services that IT customers typically see, recognize, and pay for.

The result is an emerging level of IT management known as IT business management. IT business management should not be confused with the management of business processes, responsibility for which wholly resides within the business itself. Neither should it be confused with managing component subservices such as networking, backup, or testing. This is a part of IT service management, which is the next layer down in the IT management stack (as shown in Figure 1.4). Rather, IT business management focuses on supporting business processes and creating value through the provision of business services such as messaging, collaboration services, and order entry, to name just a few examples. Ultimately, the aim of IT business management is to orient IT externally, according to the business services it delivers to its customer rather than the technology components it manages.

Like any other business, IT must understand both what the customer wants and what it can deliver. For complex businesses and equally complex IT environments, this is no easy task. Hence the emergence of IT demand management as one of the pivotal focus areas for ensuring IT success.

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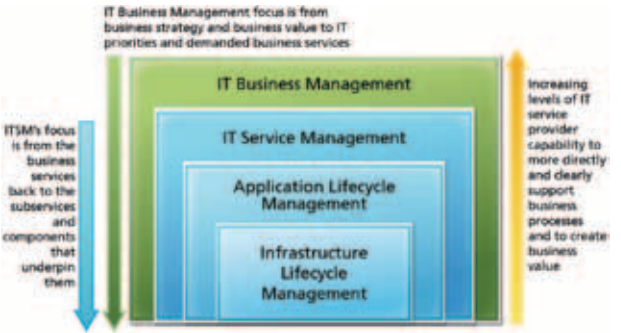

Figure 1.4 Emerging areas of IT Business Management

A number of technologies exist today that expand the scope of IT demand management beyond strategy and tactics to the level of operational execution. These include virtualization, software as a service (SaaS), service-oriented architecture (SOA), cloud computing, service catalogs, service-level management workflows, service monitoring, and control tooling. With these technologies, IT is increasingly able to meet business needs in real time or near real time.

As concluded previously, matching IT demand with limited IT resource supply in a way that maximizes business value forms the next step in IT management's continuing evolution. IT business management emphasizes the delivery of value by understanding the business – its processes, strategies and objectives – and managing IT to support these. IT demand management emphasizes the ability to act on this knowledge by flexibly matching IT resources to business needs from strategy down to real-time operational execution.

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Figure 1.5 highlights four key additional architectural elements that help the transformation of IT into IT business management. SAP refers to this group of elements as IT strategy and performance management. The elements are:

- IT strategy, governance, and risk management
- IT portfolio and project management
- IT financial management
- IT workforce and vendor management

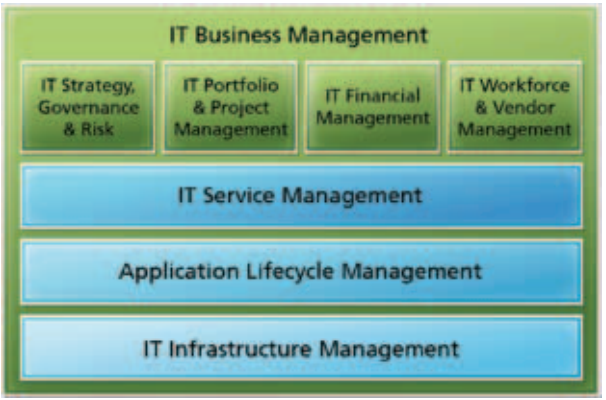

Figure 1.5 Key IT business management elements (shown in green)

As the figure shows and the previous discussion explains, these capabilities do not stand alone. They are an extension of the mostly existing IT management stack, including IT service management, application lifecycle management, and infrastructure management. They add a "business lens" to all the more technical IT activities and processes.

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No vendor today can claim to offer an overarching solution that supports end-to-end management of IT supply and demand – what we referred to as "ERP for IT." SAP, however, offers a range of solutions that can help IT run more effectively as a business today and that help you achieve a best-run IT organization.

Today's SAP solutions set the stage for full IT business management capabilities in the near future. This book explores both the current solutions and the SAP vision for managing IT supply and demand, presenting the building blocks that can move you toward achieving a vision for your own IT organization starting today.

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