

A hand in a blue shirt points at a tablet displaying a 3D bar chart with seven bars of varying heights. The bars are white wireframe outlines. The background is a blurred blue and white.

# **Managing the Internal Economy - Cost Transparency, Service Provider Concepts, and Chargeback**

ITFMA 2025  
San Antonio

A close-up, blue-tinted photograph of a pen writing on a document. The pen is positioned at the top right, and a line graph is visible on the left side of the page. The background is a light blue gradient.

# ABSTRACT

- IT organizations are redefining relationships among itself and the organizations they support. IT management in many organizations have embraced the concept of operating as an internal economy. This allows IT to merge strategies of acting as an Internal Service Provider using Cost Transparency and Chargeback to enhance communications and decision making. As services are more clearly defined, it has become more obvious that these are critical parts of the toolset used to better manage technology.

# What is an internal economy?

- Managing the IT organization as an internal business, delivering value to the greater corporate structure through “best fit” services and mature financial controls.



# Defining the Internal Economy



Running IT as business



Communicating as a service provider



Moving to a consumption-based model



Presenting data using cost transparency



Becoming a trusted advisor in both in-house and external IT resourcing

# PRIMARY GOAL

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- *Shift the IT Financial discussion and justification from a “tops down” total spend to a consumption-based model.*

# Transparency - highly used term to describe full disclosure

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- Openly sharing financial data with clients and/or decision makers outside of IT
  - Cost Structure
  - Budget process
  - Rate strategy
  - Management Controls

# The biggest obstacle to IT Cost transparency -

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## The “What if” factor

- The client doesn't like the estimate
- The client questions the staff assigned
- The client questions why we spent the money
- The client tries to tell me how to manage
- The client decides to take the work outside

# Before you start – Get your financial processes in Shape!

1

Assess your current financial fitness levels

2

Identify strengths and weaknesses

3

Determine what needs to change

4

Get in Training!

- If it feels the same, you aren't changing!

# IT Financial Activities are complex



- Requires a multi-dimensional perspective

Acknowledge that  
your Financial  
Management  
processes are a  
significant asset.

Processes were developed at considerable investment of time

Processes operate using software which has been customized to support your corporate strategy

Processes represent intellectual capital which allows you to manage technology operations effectively

Processes offer business intelligence that drives corporate decisions for investments

# AREAS OF FOCUS

Budgeting  
Cost Modeling  
Rate Setting  
Services

Ownership –  
Distribution to Clients  
Variance Analysis  
Demand Management  
Forecasting

Budgeting

Creating organizational budgets by Chart of Accounts. Wages, salaries, hardware, software, power, facilities

Cost Modeling

Putting budgeted costs or actual spending from chart of accounts into pools aligned with resources charged

Rate Setting

Creating rates to charge Usually a straightforward process of dividing dollars by volumes to create unit rates

Ownership= Distribution  
to Clients

Aligning estimated or actual charges to clients using Transformation steps, based on tags or metadata associated with usage information

Variance Analysis

Comparison of budget to actual spending or comparison of rates to actual cost to provide service

Demand Management  
Forecasting

Projecting levels of Client consumption and related charges for a future period

# AREAS OF FOCUS

## **Budgeting**

Cost Modeling

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## Budgeting

Creating organizational budgets by Chart of Accounts. Wages, salaries, hardware, software, power, facilities

For most organizations, Salaries, contracts, hardware, and software will make up 90% of the IT spend

Sources of input: HR System can provide list of current employees and actual salaries for forecasting  
Asset Records for Hardware/Software  
Contract Management System, License Tracking  
Service management tools

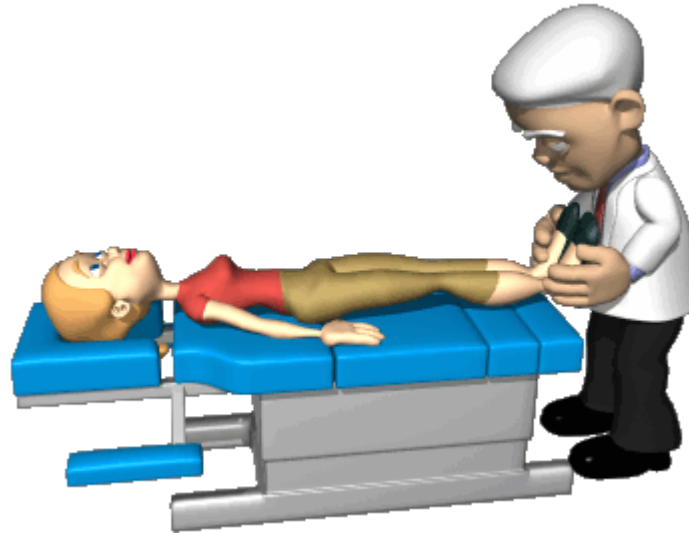
How has cloud changed your expense distribution?

As more work is moved to Public cloud , expenses will shift from traditional capital expense categories to contract expenses

# Budget Chiropractic Clinic

## *A full service budget clinic*

- Arms twisted
- Knees buckled
- Necks stiffened
- Spines tingled
- Brows wrinkled
- Heads banged



Jaws clenched

Teeth rattled

Knuckles cracked

Fingernails removed

Guts wrenched

Hair pulled



If you are not managing  
your spending forecasts  
well. . . .

you can't manage a  
cost transparency  
process effectively

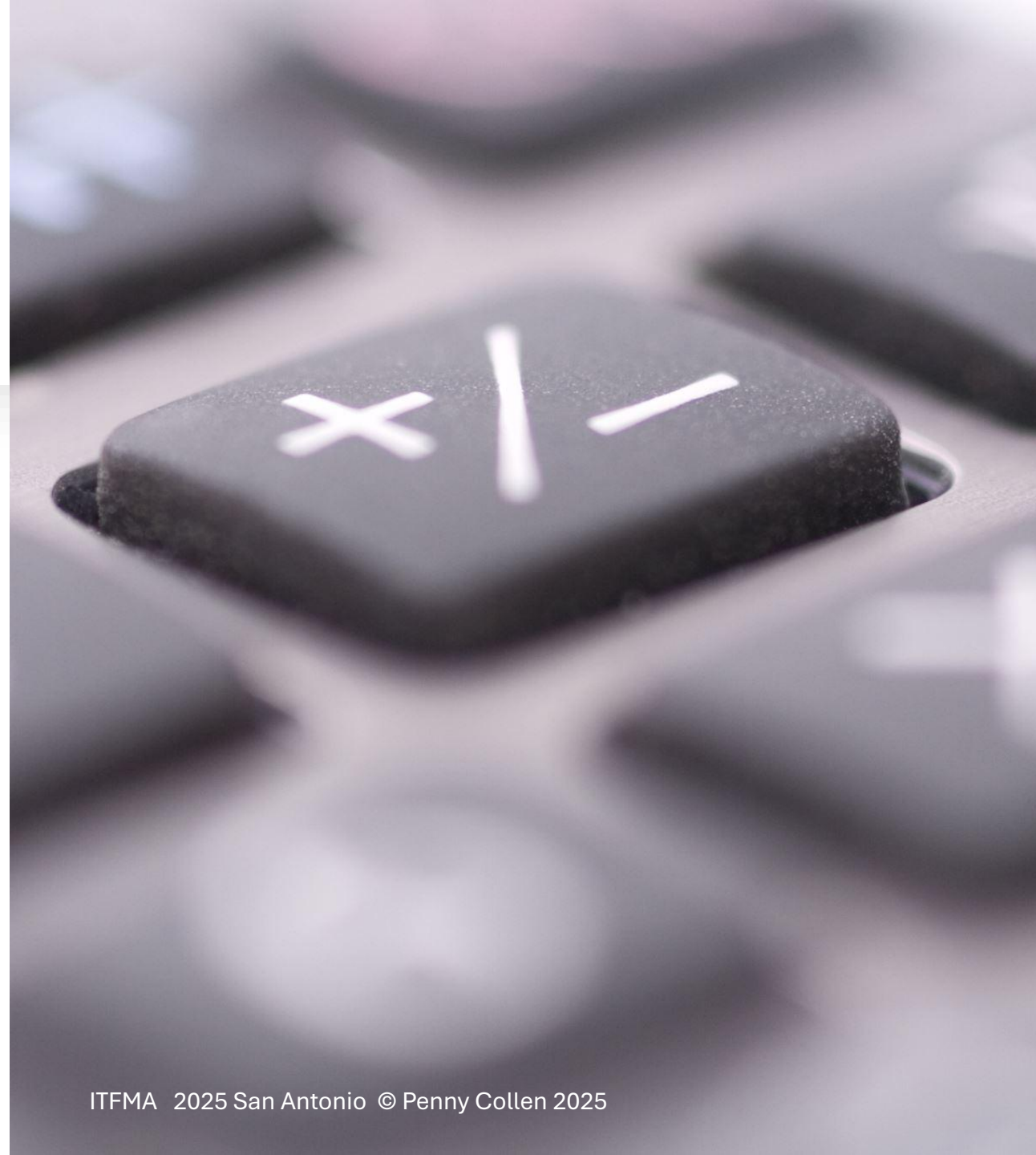
# AREAS OF FOCUS

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# Understanding how you spend (or plan to spend) your dollars . . .

- is key in building a cost model.



# Ask Why First

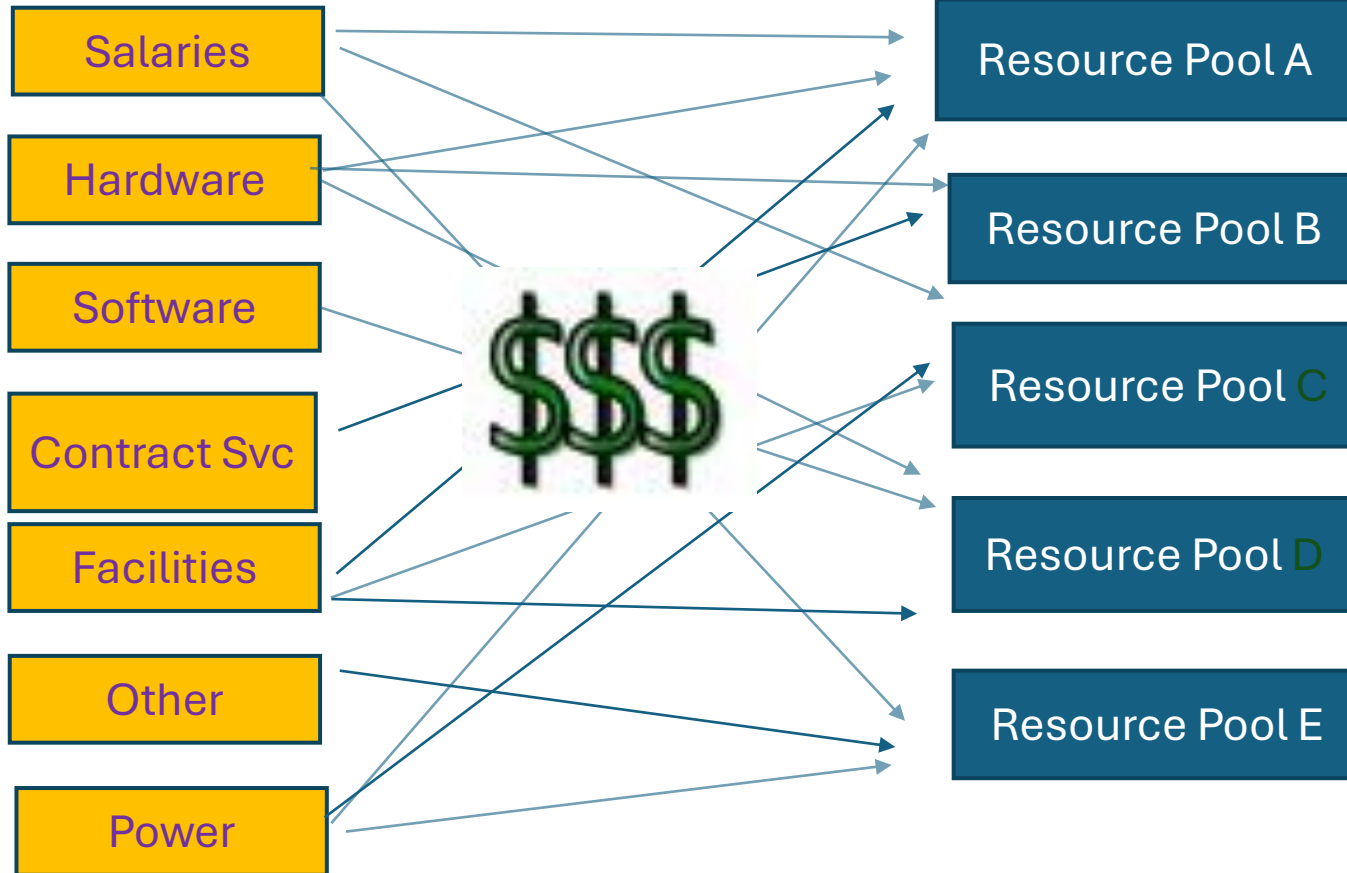
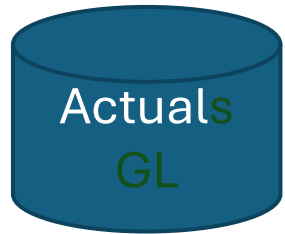
- If you don't know WHY, the HOW, WHAT, WHEN and WHO don't matter!<sup>TM</sup>

Warren Avery

[www.ITWeeklyNewsletter.com](http://www.ITWeeklyNewsletter.com)

# Cost Modeling

Putting budgeted costs or actual spending from chart of accounts into pools aligned with resources charged



Dollars can be directly assigned or can be allocated based on allocations driven by other correlated statistics

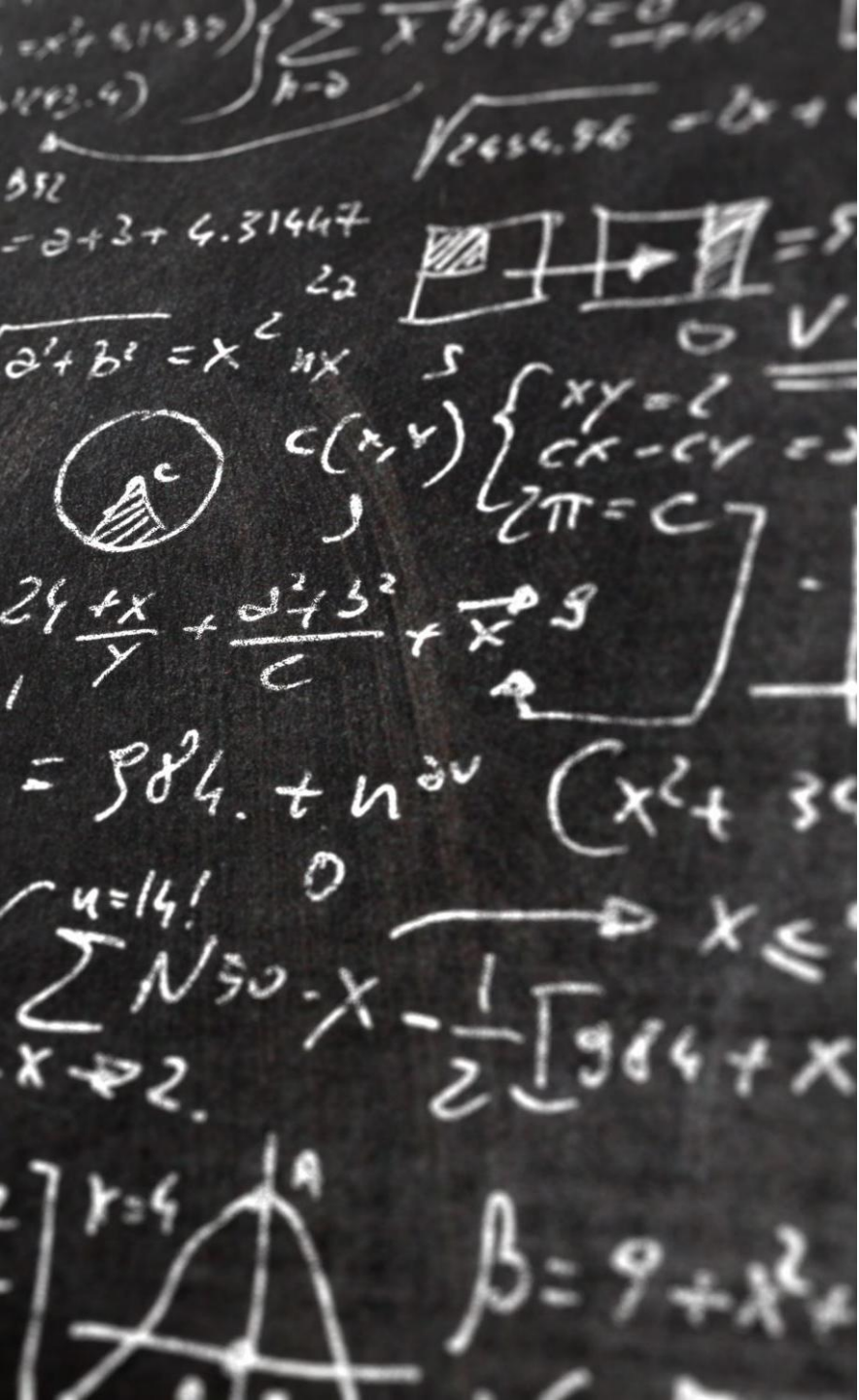
Job aid –  
Common  
Allocations

	Most Common	Also used
Wages and Salaries	Time Entry	Manager input
Employee related	Time entry	
Travel	If project specific, assign directly	Not project specific - use wages distribution
Training	If project specific, assign directly	Not project specific - use wages distribution
Hardware	Use CCMD, Asset records	
Maintenance	Use CCMD, Asset records	
Software	Use CCMD, Asset records	
Facilities	Allocate based on total dollars per pool	
Power	Allocate based on total dollars per pool	
Contracts	Directly assign if possible. Time records for people, usage for resources	
Other Misc.	Allocate based on total dollars per pool	

# Risks: Cost Modeling

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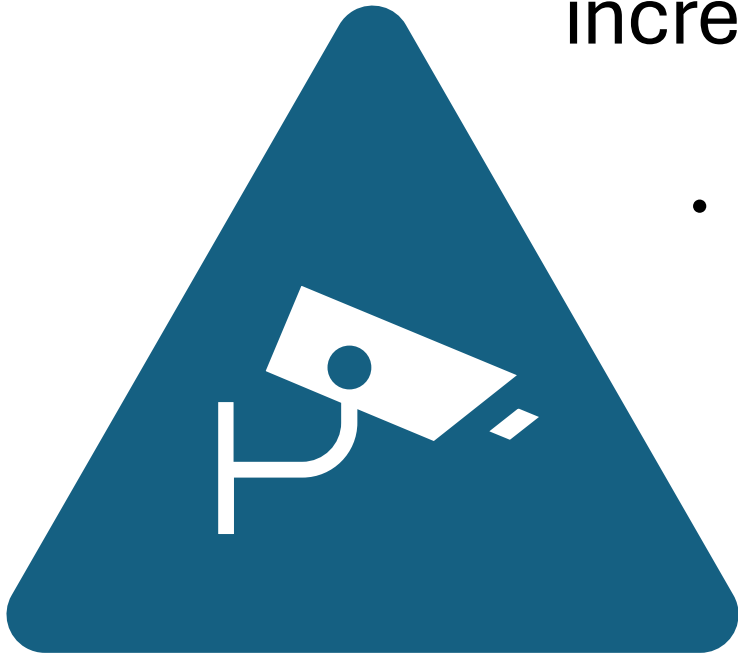


## But my volumes are not reliable

- “Merely measuring something has an uncanny tendency to improve it. Pretty soon you start noticing what makes the number go up, and you start to do more of that.” W. Edwards Demming, Father of Total Quality Management (TQM), whose fundamental principal was t

To those trying to support results,  
“Allocation” is often a four-letter word

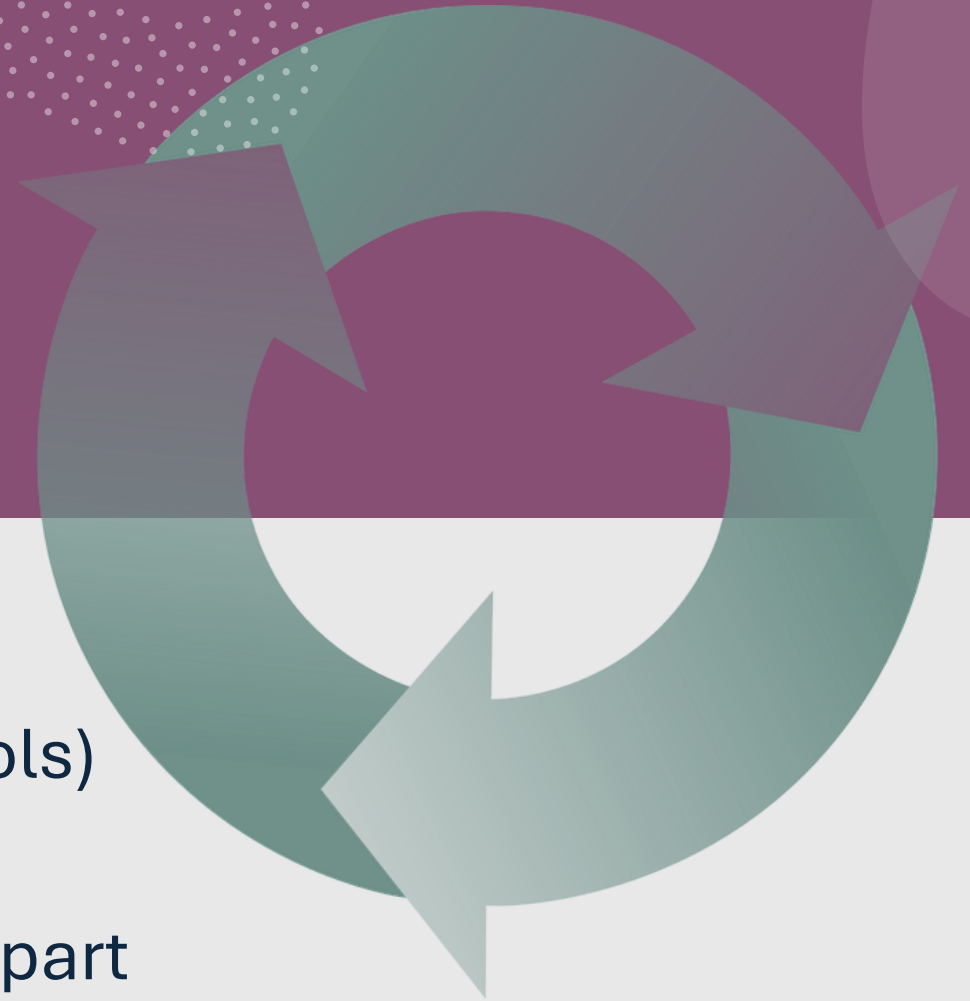
## Capturing intelligence about your spending “up front” increases costing accuracy



- Determining what you want to track and how spending occurs impacts your ability to get “buy in” from your clients.

# The nemesis of all cost models - Circular Billing

- Who pays for the cost of IT providing services?
  - (Security, IT Laptops, Performance Tools)
- Including the cost of internal services as part of the rates for other internal services is best practice.



# What can the results of a good cost model provide to affect change

- *Unit costing can provide management with information about the full and relevant costs of activities, goods, and services, thereby enabling managers to know which activities to pursue and which to eliminate.*
- Improves cost control
- Provides more accurate product cost
- Provides productivity information
- Better performance
- Encourages continuous improvement
- Increases effectiveness of budgeting by identifying the cost performance relationships at different activity levels.
- Aids in Cost reduction



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# Rates are a function of both cost and strategy

- IT is not operating in its own world
- Even organizations using a clearing account approach need to be concerned about rates.

# Rate Setting

# Determining rates to be charged



**Resource Volume** = **\$ X.XX**  
*Rate per unit*

Rate setting is a business strategy executed in accordance with corporate constraints. Rates may be cost based or market based. Costs may be adjusted for uplift, margin, etc..

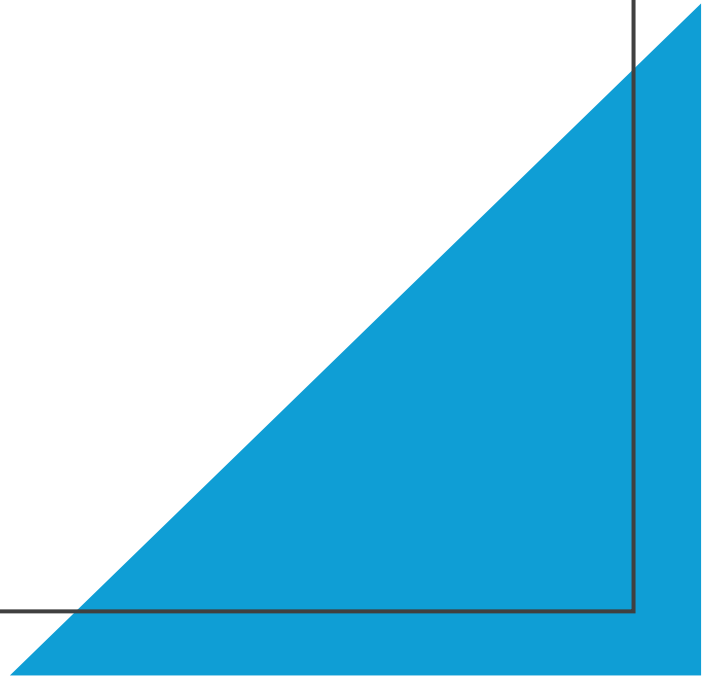
A significant number of organizations are required to clear all accounts to zero on a monthly or annual basis. This requires monthly rates updates or annual true-up processes.

**Do you set rates?  
What challenges do you  
face in rate setting?**

# Risk: Costing/Pricing Strategy

- Pricing to drive away customers
- Pricing to drive behavior
- Pricing to at market to “prove your value”
- Pricing to show what it costs

Position your plan  
well within corporate  
strategy



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# SERVICES - Joining Operational Strategy and Financial Strategy

Working with the Service  
Catalog



# Service Catalog

- Key communication vehicle between IT and client
- Coordinated effort with operations, development, and IT finance
- Linked with Service Agreements

# Service identification and bundling

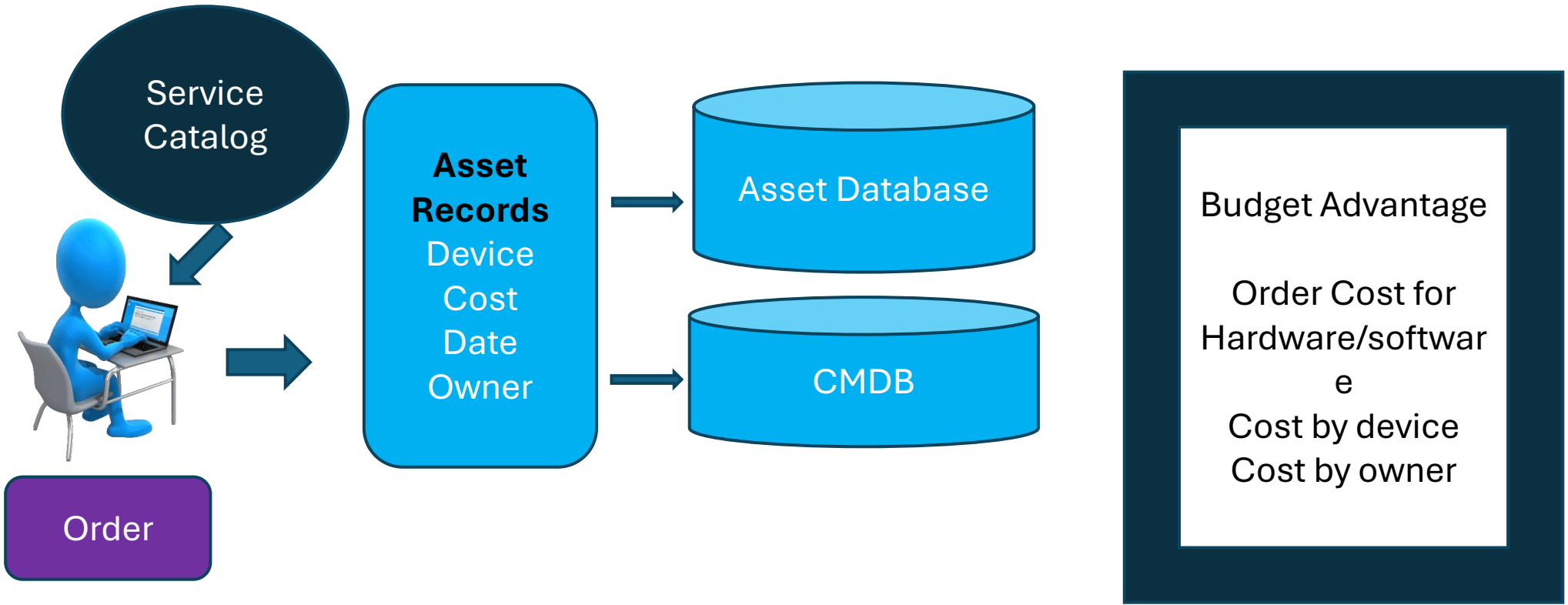
## What happens to rates development?

- Services are billed at a bundled level



Services are identified at a detailed level

# Service Desk/ Asset focused solutions



# Risk: Service Level Agreements



Are your financial plans tied to your SLA service levels?



Have penalty clauses been factored into your pricing?

Reruns

Contractual penalties



Do you have “pre-nup” clause?

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Determining  
ownership is  
mission critical

Ownership is part of accountability  
and partnerships for success

## Distribution to Clients

Aligning estimated or actual charges to clients using Transformation steps, based on tags or metadata associated with usage information

Defining business rules for transformation to identify usage owners remains a client responsibility,

### Desired functionality in tools:

Automated transformation based on user defined business rules  
Flexible aggregation hierarchy enabling reporting and analytics  
Real-time costing for immediate results  
Historical database with all data aligned  
Immediate identification of new processes, users, or applications as part of error handling

# Risk: Identification of Clients



## **Lack of internal standards**

Naming conventions

Enforcement



## **Lack of understanding current technology**

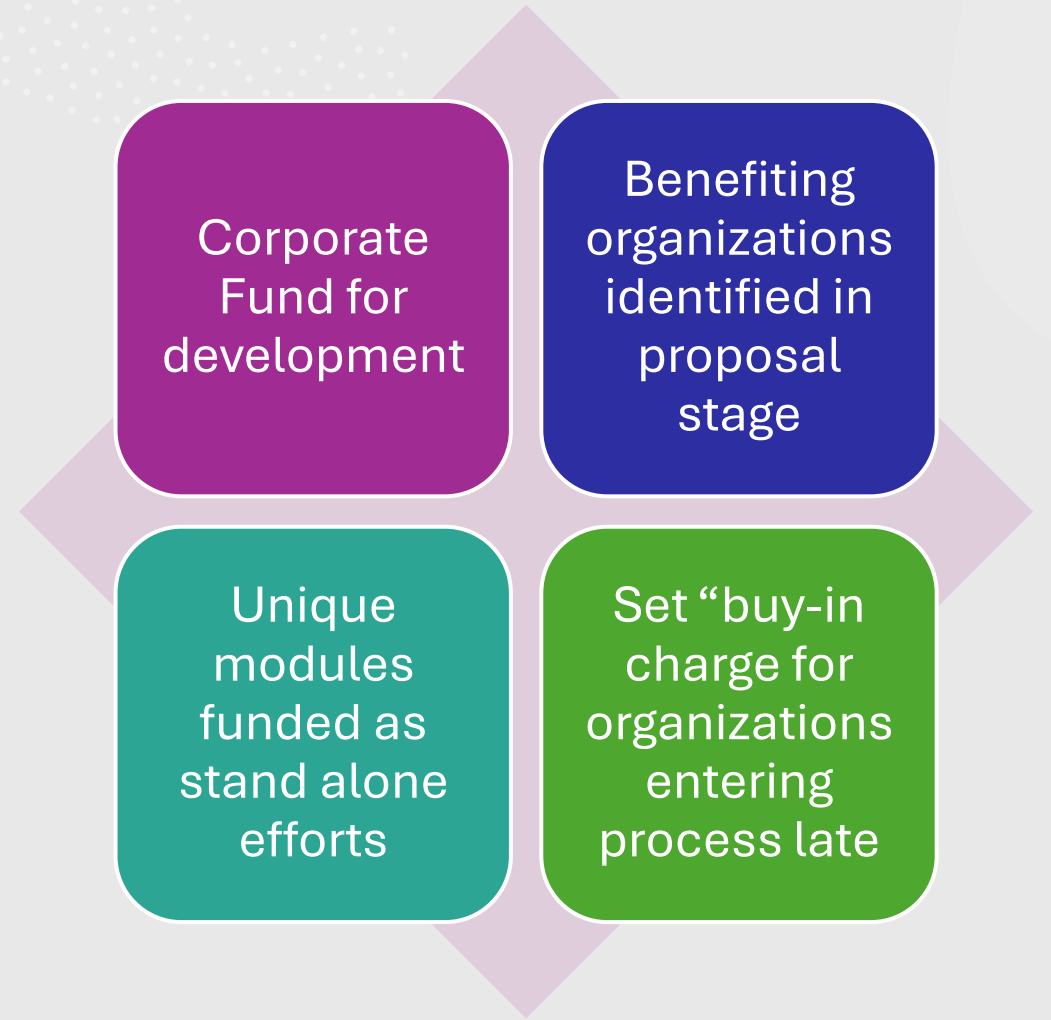
Centralized vs decentralized

Data collection

Or not using tools you have!

Virtualization, cloud computing, data warehouses, et al.

# Funding development of applications with multiple benefiting clients



# Operating costs with multiple benefiting clients



Tangible counts such as licenses



Usage of software  
(Transaction tracking usually not available)



“Agreements”

- That's been one of my mantras - focus and simplicity. Simple can be harder than complex: You have to work hard to get your thinking clean to make it simple. But it's worth it in the end because once you get there, you can move mountains.

[Steve Jobs](#)

# AREAS OF FOCUS

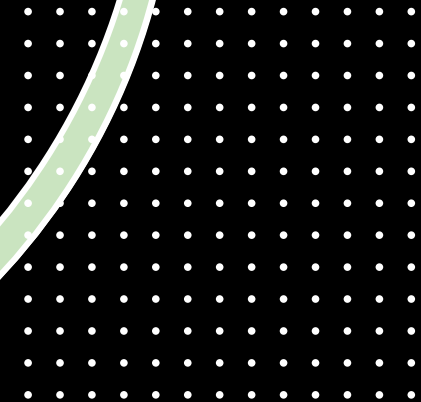
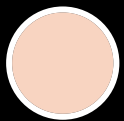
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# Chargeback increases the number of touchpoints for analysis

For each dimension of cost you report,  
you will need a variance analysis and  
supporting data



## Variance Analysis

Operational Budget

Distributed Budget Amount

Distributed Volume

Actual Operational Spend

Budgeted Rates

Comparison of budget to actual spending or comparison of rates to actual cost to provide service

Actual Operational Spend

Actual Distributed Amount

Actual Volume

Actual Distributed Amount

Actual Rates

Variance

Variance

Variance

Variance (P&L)

Variance

# Rates variance analysis can be systematic

$\text{Est Cost} / \text{Est Volume} = \text{Est Rate}$


$\text{Act Cost} / \text{Act volume} = \text{Actual Rate}$

$\text{Est Cost} / \text{Actual Volume} = \text{Variance due to volume}$

$\text{Act Cost} / \text{Est Volume} = \text{Variance due to Cost}$

## Additional variance reporting can enhance IT's explanation of spending patterns

Learn to use improved unit costs over time to show productivity gains



We provided X more units over the past year at a unit cost that is 5% lower

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- 
- Forecasting - Projecting levels of Client consumption and related charges for a future period

### ***Forecasting features***

Time – ability to select historical timeframe used

Hierarchy – ability to forecast by dept., application, etc.

Trend – ability to select trend algorithm to be applied including straight-line, fixed, regression, preset percentages, etc..

Unique adjustments – ability to add new workloads or drop in accordance with strategy

Ability to forecast by individual resource

Versioning

Create rates based on forecast volumes

Report impact of trends by dimension defined by user



Forecasting requires understanding of usage patterns as well as spending

- Creating a good forecast without understanding of client strategies is impossible
- How much history is relevant?

Support & Resistance Trend Lines  
Oracle (ORCL), 5 Year, 1 Day Interval Price Chart



+



# Trending and forecasting

- What assumptions for forecasting do you use?

Trend Lines for PowerPoint





CLOUD

## AREAS OF FOCUS

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# Kiss K.I.S.S. Goodbye!

- Familiar tools and approaches are likely to fail
- Public Cloud services and bills are complex
- Services and usage are not consistent across providers
- Hybrid environments are increasing complexity
- FinOps





# Demand Management Forecasting

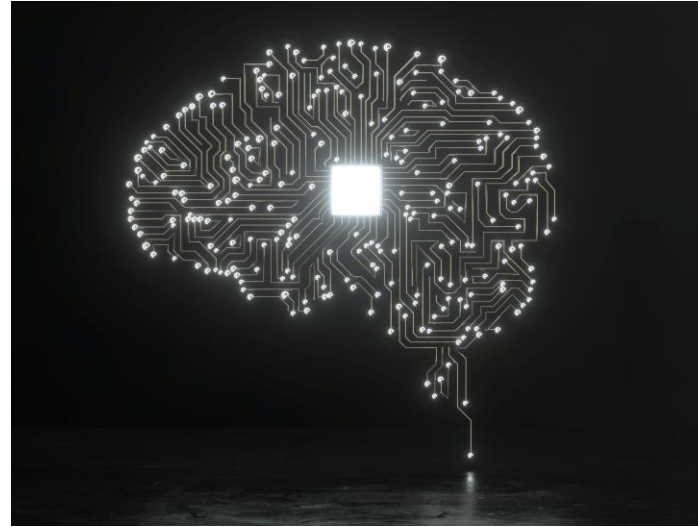


How do you

manage **DEMAND** you can't predict

with **SUPPLY** you can't control?

# HOW HAS AI IMPACTED THESE AREAS OF FOCUS




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Demand Management  
Forecasting



To Charge or  
not to Charge



The goal is increased  
accountability

# Cost Transparency results in tangible benefits



# Parts of a good Communication and education routine

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01

CAREFULLY  
PREPARE YOUR  
COST  
INFORMATION

02

DEVELOP A  
COMPREHENSIVE  
SERVICE CATALOG

03

EDUCATE YOUR  
STAFF TO EXPLAIN  
THE INFORMATION

04

ALLOW OPEN  
ACCESS TO DATA

05

ENFORCE  
COMPLIANCE WITH  
REPORTING AND  
PERFORMANCE  
STANDARDS

06

MAINTAIN  
RIGOROUS  
STANDARDS FOR  
ACCURACY



# Change your perspective

- Start to view the cost information as a marketing tool
  - Long term vs. short term costs
  - Investment based decisions
  - Shared goals for success
  - Value statements



# Cost transparency is a shared obligation

- You ask the client to justify the benefits after a project
- You ask the client to forego other expenditures to do IT work
- You may ask the client to prove benefits after implementation
- What are you willing to provide in return?

# Risk Area - Links to the business



Are you a partner or a competitor?



What does IT contribute to the external market?



The goal should not be to manage IT costs or manage client usage.

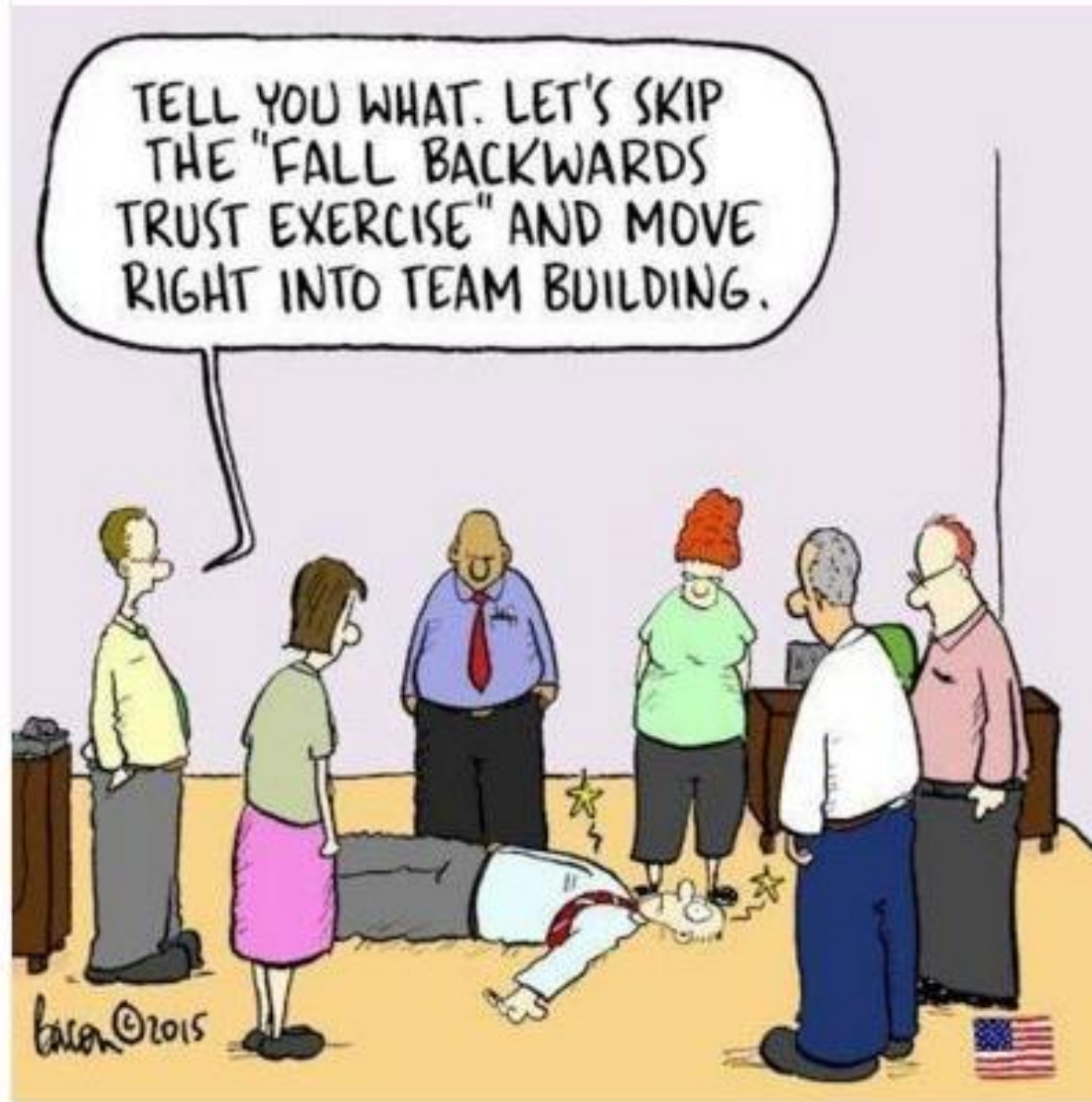


The goal is to make the corporation more profitable



# Key Success Factors

- Rules and procedures clearly defined
- Ethical standards of behavior required
- Timely publication of financial data
- Procedures to monitor expenditures
- Quality standards for publication of data
- Expose costs in business terms



# Desired result: Enhance the relationship with the client



Provides better data for management decisions (IT and Client)



Enhances ability to align IT with the business



Clearly improves value analysis



Increases effective use of resources in IT



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What obligation do you have in spending the client's money?

Cost transparency is a leap of faith for the IT management team – not a leap off a cliff

Baring it all greatly increases trust.



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**THANK YOU**