WHAT IS ITFM?

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IT Financial Management effectively reduces the costs, required for design, develop and deliver IT services, that meet the strategy of the organization.

Despite the discipline is based on traditional financial and accounting approaches, its methods and practices are strongly adapted to the specific requirements of IT asset and resource management. Therefore, the area of responsibility for the process itself should be divided between the financial and IT divisions at the level of middle and senior management.

The main task of ITFM is to provide the organization with an accurate and complete view of the costs of IT resources and assets. Cost analysis for this process includes collecting, classifying, and evaluating IT-related data.

The ultimate goal of ITFM is to optimize IT costs and increase the profitability of the whole organization.

KEY TOPICS

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- BUSINESS CASES
- P&L STATEMENT
- COST MANAGEMENT
- UNIT ECONOMICS
- BUDGETING
- OPERATING CYCLES
- CUSTOMER BILLING
- RISK MANAGEMENT
- FINANCIAL KPIS

ECONOMIC LIFE CYCLE OF AN INVESTMENT

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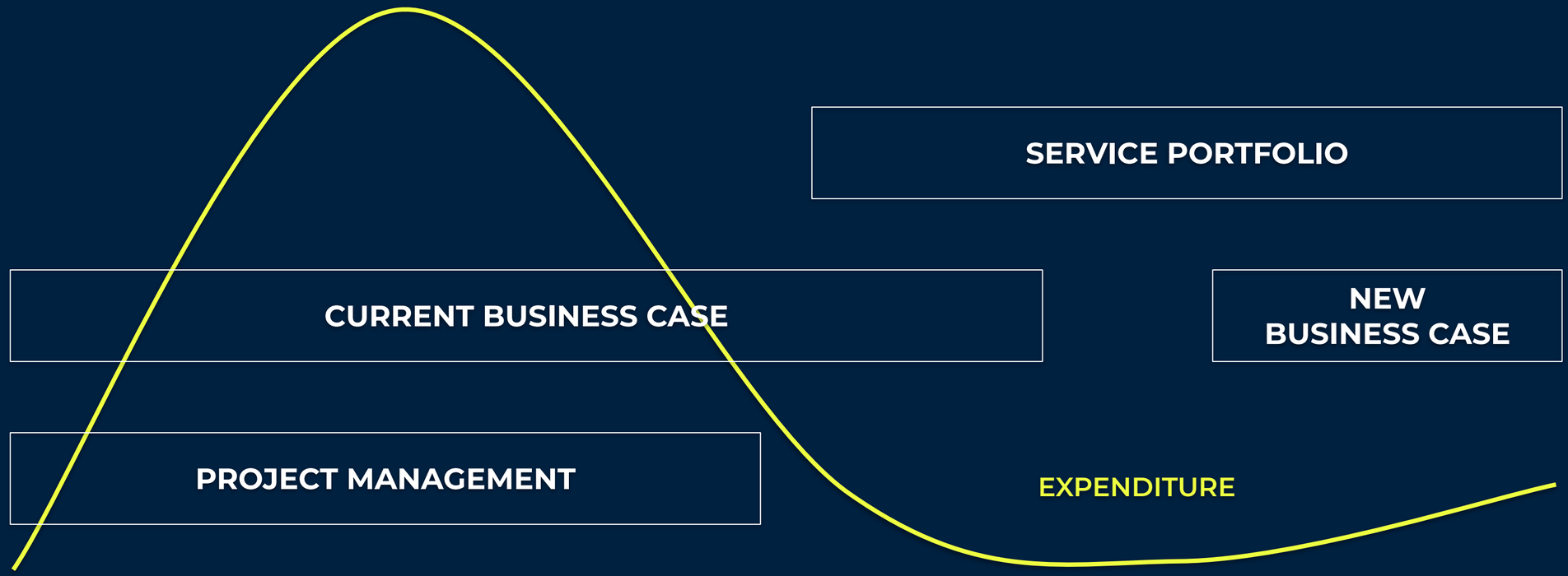

INVESTMENT	ADOPTION	VALUE CREATION	VALUE SUSTAINMENT	RETIREMENT
Developing the necessary capabilities for project realization	Implementing the necessary capabilities for project realization	Moving project's outcomes to operations, Go-live	Assuring that those outcomes continue to create value	Decommissioning the resulting assets in the end of the life cycle

IT COST FOCUS

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INVESTMENT TYPE	**AUTOMATION**	**INFORMATIZATION**	**TRANSFORMATION**	**INFRASTRUCTURE**
TYPE OF ORGANIZATION	**PRIVATE EQUITY**	**GOVERNMENT**	**NPO**	
SIZE OF ORGANIZATION	**LARGE CORPORATION**	**SME**		
VOLUME OF INVESTMENTS	**SMALL**	**MEDIUM**	**LARGE**	
BUSINESS IMPACT	**LOW**	**MODERATE**	**SIGNIFICANT**	

EXAMPLES

Purchase of a router, peripherals and components, purchase of video conferencing system, software development for reporting automation, upgrading of computer equipment for one or several company's divisions, purchase of small consumables.

INTERNAL RATE OF RETURN (IRR)

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Every investment has its own internal rate of return over a certain period of time. It can be determined either by the method of interpolation according to the following formula, or by using the standard functions of table editors.

$$IRR = i_1 + \left[\left(i_2 - i_1 \right) \times \left(\frac{NPV_1}{NPV_1 - NPV_2} \right) \right]$$

$$10\% + \left[\left(15\% - 10\% \right) \times \left(\frac{1\,012}{1\,012 - \left(-408 \right)} \right) \right] = 13,5\%$$

EXAMPLE

In our example, we received an additional value of **NPV_1** in the amount of €1,012, which means that the internal rate of return for the project is higher than **i_1**=10% per annum. In order to determine the **IRR**, it is necessary to find such a value of the discount rate **i_2**, at which the NPV indicator will have a negative value. Take, for example, **i_2**=15%, at which the estimated **NPV_2**=-€408.

YEAR (t)	PV_t (10%)	PV_t (15%)	PV_t (13,5%)
0	-€10 000	-€10 000	-€10 000
1	€1 818	€1 739	€1 763
2	€2 066	€1 890	€1 942
3	€2 254	€1 973	€2 054
4	€2 391	€2 001	€2 113
5	€2 484	€1 989	€2 128
	€1 012	-€408	€0

RETURN ON SECURITY INVESTMENT (ROSI)

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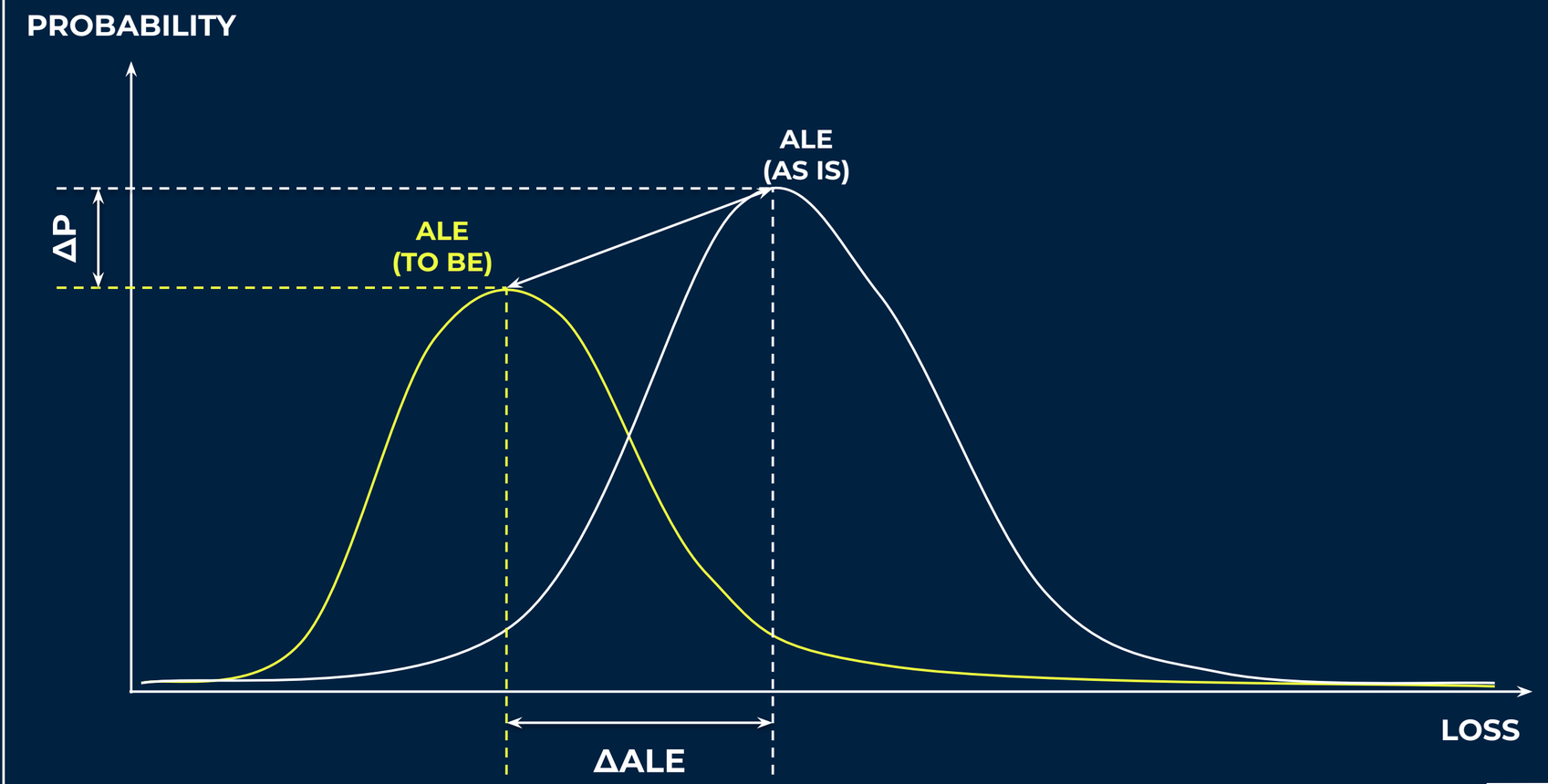
ROSI CALCULATION

$$ROSI = \frac{(Benef\,it - Cost)}{Cost}, \; where \; Benef\,it = ALE_{AsIs} - ALE_{ToBe}$$

1. Investments in information security are first and foremost investments and should be considered in terms of alternatives.
2. Types of IS costs can be direct (acquisition, integration and maintenance) and indirect (loss of productivity, decision-making under conditions of uncertainty).
3. Implementation of the Gordon-Loeb model when defining the cost of IS controls (ROSI > 1.7).



INVESTMENT LIFE CYCLE MONITORING

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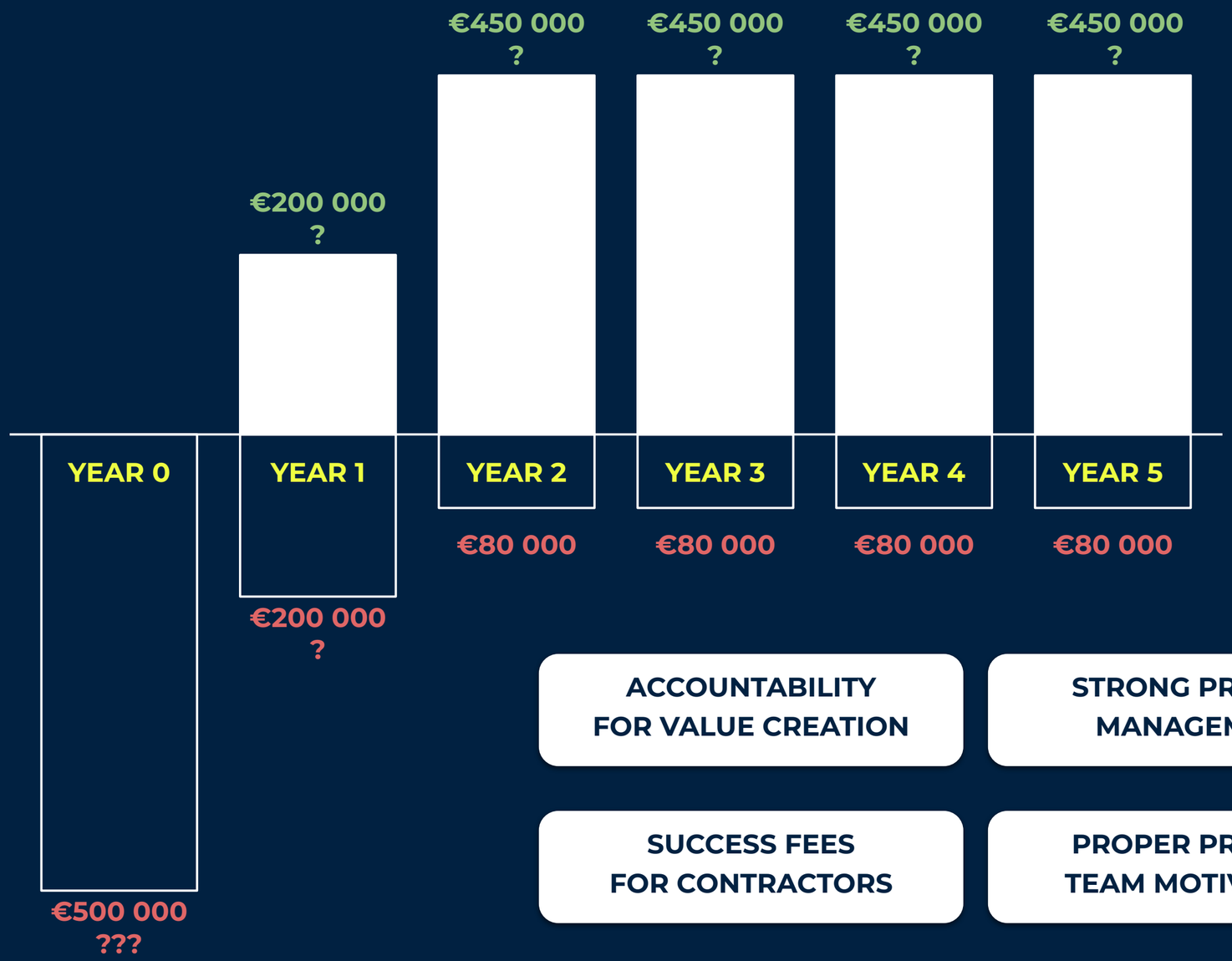

ROI: ?

NPV: ?

IRR: ?

PP: ?

DPP: ?

- ACCOUNTABILITY FOR VALUE CREATION
- STRONG PROJECT MANAGEMENT
- AVOIDING SUNK COST FALLACY
- SUCCESS FEES FOR CONTRACTORS
- PROPER PROJECT TEAM MOTIVATION
- IMPLEMENTATION OF RISK TREATMENT PLAN

INVESTMENT KPIS CALCULATION

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YEAR (t)	$COST_t$	$BENEFIT_t$	CF_t	$CUMCF_t$	$1 / (1 + 10\%)^t$	PV_t	$CUMPV_t$
0	€740 000	-	-€740 000	-€740 000		-€740 000	-€740 000
1	€205 000	€215 000	€10 000	-€730 000	0.909	€9 091	-€730 909
2	€75 000	€430 000	€355 000	-€375 000	0.826	€293 388	-€437 521
3	€75 000	€430 000	€355 000	-€20 000	0.751	€266 717	-€170 804
4	€75 000	€430 000	€355 000	€335 000	0.683	€242 470	€71 666
5	€75 000	€430 000	€355 000	€690 000	0.621	€220 427	€292 093
TOTAL	€1 245 000	€1 935 000	€690 000			€292 093	

TRENDS IN THE CIOS' MISSION CRITICAL PRIORITIES

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Evanta
a Gartner Company

On a surface level, it appears that the CIOs' operating budgets and planned spend have increased year over year. But according to Gartner research, "Although IT budgets will go up an average of 5.1% in 2023, that's lower than the rate of inflation." This – coupled with high interest rates – really tells us that IT budgets are remaining flat this year.

51%

51% of CIOs have identified an increase in their operating budget in 2023, but this is down from 61% in 2022.

54%

Similar story, 54% of CIOs have identified an increase in their planned spend for this year, but that's an 11-point decrease from 2022.

№1

Notable investments this year align directly with their business objectives - **Cybersecurity**, Data & Analytics and Cloud Applications are three highest planned investments for 2023.

P&L REPORT ANALYSIS: META, 2023M3

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THREE MONTHS ENDED	31.03.2023, MUSD	31.03.2022, MUSD	COMPARISON, %
REVENUE	**28 645**	**27 908**	**2.6%**
COST OF REVENUE	**(6 108)**	**(6 005)**	**1.7%**
GROSS INCOME	**22 537**	**21 903**	**2.8%**
GROSS INCOME MARGIN	**78.7%**	**78.5%**	**0.2%**
RESEARCH AND DEVELOPMENT	(9 381)	(7 707)	17.8%
MARKETING AND SALES	(3 044)	(3 312)	(8.8%)
GENERAL AND ADMINISTRATIVE	(2 885)	(2 360)	18.2%
OPERATING PROFIT	**7 227**	**8 524**	**-17.9%**
OPERATING PROFIT MARGIN	**25.2%**	**30.5%**	**(21.1%)**
INTEREST AND OTHER INCOME	80	384	>(100%)
PROVISION FOR INCOME TAXES	(1 598)	(1 443)	9.7%
NET PROFIT	**5 709**	**7 465**	**-30.8%**

CAPEX VS OPEX

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1. What is a stage of organization’s life cycle?
2. In the concept of “every business borns to be sold” - does IT CAPEX add value to the capital/EBITDA multiplier when the company is sold?
3. Are there specific internal or regulatory IT requirements?
4. Are security aspects considered when choosing in favor of IT OPEX?
5. Do IT staff have sufficient competencies to implement OPEX/CAPEX based strategy?
6. What is the period of time for which the IT investment should pay off?
7. Don’t we lose competitive advantages if we prefer IT OPEX (e.g. data center which using only outsourcing)?

PRACTICE: COST OF IT EQUIPMENT

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We have an ongoing project of warehouse management system (WMS) implementation, which requires powerful on-premise server for go-live. Market price of such a server is €20 000. We need to define what impact will have implementation the cost of this server to the project, cash flow and key investment metrics.

CASE	DESCRIPTION	COST RELEVANCE	COST AMOUNT
1	Server has a 5 year life and no resale value. It would depreciate at the annual rate of €4 000, but this won't have any impact to the cash flow, because depreciation is a non-cash cost. The only relevant cost we have is the €20 000 purchase price, because the only reason that we are incurring the €20 000 is for this project.	**INCREMENTAL UNAVOIDABLE**	**€20 000**
2	We already have a server, which was purchased for another failed project, it costs €20 000 and it's free to use.	**SUNK**	**€0**
3	We already have a server, which was purchased for another failed project, it costs €17 000 and we can use it after modernization, which will cost us €3 000.	**INCREMENTAL UNAVOIDABLE**	**€3 000**
4	We have no free server at the moment, as a €20 000 for a purchase, but we can use a server, which was already purchased and which earns us currently €1 500 per year.	**OPPORTUNITY**	**€7 500**