

The Benefits of ITIL

White Paper



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Document Objective

Pink Elephant consultants are often asked the question: “Can you provide me with the tangible benefits of ITIL?” Historically, this question has been difficult to answer since many of the benefits realized by adopting the best practices of the ITIL framework are often expressed as organizational or cultural. It is always challenging to establish key performance indicators that can be translated to numeric and percentage values. This challenge is also further complicated because ITIL is relatively new to North America and many companies embracing it have not had enough time to fully adopt and realize its benefits. In addition, many companies do not release this information due to its proprietary nature, or conversely, they simply cannot establish baseline measures of how much it costs to deliver services to their customers. Therefore, they cannot accurately measure improvements until they have developed the means to effectively define, control and measure their internal business processes.

In response to this challenge, this document strives to clarify and provide examples of the benefits derived by adopting and implementing ITIL.

Benefits

IT is what drives business today! The fact is that business profitability and shareholder loyalty is dependent on the high availability, dependability, security and performance of IT services. This fact has made the relative maturity or immaturity of IT management highly visible. This is further complicated by the fact that many businesses outsource the technology to deliver their core business processes to third party vendors such as ASPs, Network Operating and Data Centers etc. Many companies state that due to the rapidly changing nature of their business, the recent downturn in the economy, and the pressure from competition to become more cost-effective while still achieving the same or greater profits and output, they do not have time or resources to apply to process improvement. In fact, this is the time when processes are critical.

By improving the processes around IT, the organization can begin to:

- Improve resource utilization
- Be more competitive
- Decrease rework
- Eliminate redundant work
- Improve upon project deliverables and time
- Improve availability, reliability and security of mission critical IT services
- Justify the cost of service quality
- Provide services that meet business, customer and user demands
- Integrate central processes
- Document and communicate roles and responsibilities in service provision
- Learn from previous experience



- Provide demonstrable performance indicators

Recently, some companies have made public the benefits they realized by implementing ITIL best practices for IT service management:

Proctor & Gamble - Started using ITIL three years ago and has seen a six to eight percent cut in operating costs. Another ITIL project has reduced help desk calls by 10%.

Ontario Justice Enterprise - Embraced ITIL two and a half years ago and created a virtual help/service desk that cut support costs by 40%.

Caterpillar - Embarked on ITIL projects 18 months ago. After applying ITIL principles, the rate of reaching the target response time for incident management on Web-related services jumped from 60% to more than 90%.¹

What do these numbers really mean? Are there direct associations to the implementation of ITIL best practices? Have these companies only applied some or all of the ITIL principles? Have they applied these principles to one, some or all of the 10 core Service Support and Service Delivery processes?

These questions are all valid and there are many more. Furthermore, many of the answers lie within the motivations, needs, cultures and direction of each organization individually. While every company's motivations and application of the principles is unique, these examples indicate that by applying best practices (no matter how, what, when or why) these organizations have realized intangible improvements and tangible, bottom-line benefits.

Intangible Benefits

During the past decade, the redesign of business functions as processes have become an established strategy for reducing costs, shortening cycle times, and improving quality and customer satisfaction. There is a growing recognition that IT is a key driver of business process improvement, and this has led to a predictable shift in the expectations for the IS organization to emulate the process changes taking place within finance, sales, marketing and manufacturing. In some cases, this has led to the creation of such organizational structures as relationship managers, steering committees and user councils to improve the alignment of business and IT planning. Another effect of the change was to look at functionally separate IT activities as linked sets that share common information and customers.²

¹ Melissa Shaw, Network World Management Strategies Newsletter, 11/07/01

² Gartner, **Improved IT Processes Yield Numerous Benefits**, F. Magee, 3 September 1997



CIOs today are interested in allocating costs to the less tangible benefits of service provision or business performance. IT organizations are striving to detect and eliminate problems *before*, or at the very least *when* they occur. This is due to the increasing rate of change within organizations that require quick decision-making and less reaction time. The problem with traditional measures, such as revenue or market share, is that they reflect a delayed snapshot of business performance, thus making it too late to avoid a problem once detected. By having a balance between these lagging indicators, and other measures that help forecast those early warnings, organizations can begin to manage proactively and more precisely. Additionally, measures such as customer satisfaction, staff training, internal processes and service metrics will be recognized as those leading indicators of whether an organization will achieve its business goals.

Measuring these provides early warnings and a more accurate measure of the internal business or IT contribution. These internal metrics may also be used to measure and manage the operational aspects of the specific internal business or IT function. This helps managers to forecast, diagnose and optimize their operation and the contribution it makes to the business.³

Return On Investment

Companies are beginning to value return on investment by addressing three key inputs to any project - people, process and technology. They then translate these into quantifiable returns, related to utility of the products and services they offer and the cost of delivering them.

Once investments are viewed in this context, it is easier to define expected benefits and subsequently measure those returns. Another crucial consequence is that this explicitly demands the creation of multi-skilled, cross-functional teams with shared accountability and responsibility for success. No longer can users point fingers at IT and vice versa, because the degree of mutual dependency for success is explicit.⁴

IT On Business Value

IT and business alignment is a key ingredient to the successful implementation of ITIL best practices. By knowing the direction the organization is going and what the customers of IT are demanding, IT can begin to improve its own internal processes to meet customer demands.

³ Bruce Cochrane, October 1999, IT Support Solutions

⁴ Measuring the Return of IT Investment



Steering IT on business value is becoming ever more important, although for many IT organizations, cost is still the primary steering indicator. ITIL improvement programs need to make the business case clear - what is the added value to IT not just in terms of cost savings....⁵

Market Trends

1. By 2003, 60% of large enterprises will adopt a balanced set of metrics to guide business related IT decisions.⁶
2. ...Managers declare that in the future IT will need to be steered on benefits and value to the business in place of costs.⁷
3. Only 45% of business managers said they effectively steered IT performance⁸
4. Seven out of eight companies involved in a study declared to having an IT strategy, but aligning it and measuring it against the business strategy was another matter, only 50% declared a true alignment.⁹
5. ...Along with the need to keep IT costs in line is the need to demonstrate the business value of IT. A survey of CIOs shows that most do not have confidence in their enterprises' ability to track and qualify, let alone quantify, the benefits of IT investments. Gartner Group has published a startling finding showing that through 2002, less than 25 percent of application projects will deliver hard, monetary benefits that exceed the cost of the implementation. The tracking and harvesting of benefits is a weakness and a crucial priority for most enterprises. CIOs responsibilities are to assist the enterprise to establish processes for benefits and their realization. Those responsibilities often require considerable joint work of business and IT executives, usually through enterprise top-level governance mechanisms. If proper processes are not in place, anticipated benefits tend to be unrealized — and the CIO is often the person who pays the price as the IT budget continues to swell in the typical enterprise.¹⁰

⁵ Paul Wilkinson, Pink Elephant, BITA research note. Steering on Value

⁶ Gartner

⁷ Gartner

⁸ Nolan/Norton

⁹ Gartner study

¹⁰ Gartner



Case Study

A postal service company carried out an ITIL based improvement program focusing on integrated change management and as effective customer support.

What did they get out of the investment business-wise?

Balanced perspective	Indicator	Result
Internal	Productivity gains	<ul style="list-style-type: none"> • The same throughput realized with 50% less resources (from 400 to 200 people) • 50% reduction in average incident resolution times
Innovation	Reduced time to implement change	<ul style="list-style-type: none"> • 30% shorter time to realize new changes
Financial	Reduce costs	<ul style="list-style-type: none"> • Company realized improvements in resource utilization without impacts on throughput and time to accomplish activities



Other Benefits

1. By increasing the knowledge available to first level support through Problem Management, organizations can increase the first level resolution rate, and then in turn decrease the required work by second level that is typically four to six times more expensive.
2. Reduction of elapsed incident handling time by agreeing to improvements between first and second level support teams.
3. Quicker root cause analysis and improved impact and risk analysis for Change Management due to available Configuration Management information.
4. Release Management requires improved testing, resulting in a reduction in the number of failed changes.
5. As organizations develop and scale their internal processes to compete in the knowledge based economy, the ability to exploit and automate intangible assets, such as knowledge and business processes, has become far more decisive than simply managing static physical assets.
6. Cost analysis applied to a process or service assists in answering the following questions.
 - What should a product or process cost?
 - What are the non-value-adding activities that contribute to its current cost?
 - What is the cost based pricing for a product or service?
 - What can the organization do during the design and engineering stages of a process or a service to avoid unnecessary costs in the first place?



ITIL Book Reference:

The ITIL books site some examples of how to quantify the costs and benefits of implementing the processes described in the Information Technology Infrastructure Library. These are only examples and are not meant to be comprehensive.¹¹

In this example, the following assumptions are made:

- All employees cost \$50 an hour
- Your organization comprises 500 Users
- The total number of Incidents is 5,000 per year
- The average time to fix an Incident is ten minutes
- A working year has 200 days.

Example costs and benefits are set out below.

Process	Purpose	Cost/Benefit Examples
Configuration Management	Controlling the IT infrastructure. Ensuring that only authorized hardware and software are in use.	Following the implementation of Configuration Management, the Service Desk has a much greater insight into the relationship between users, configuration items and incidents. The three people assigned to incident matching can be reduced to two, resulting in a benefit of $200 * 8 * \$50 = \$80,000$ per year.

¹¹ Best Practice for Service Support, and Best Practice for Service Delivery, [ITIL the key to Managing IT services](#)



Process	Purpose	Cost/Benefit Examples
Incident Management	Continuity of the service levels underpin Service Desk function.	The implementation of Incident Management has resulted in a decrease in down time per user. This is defined as the amount of time a user is on the phone to the Service Desk or cannot work because of a failure. If the downtime per user is reduced by one minute per person per day, this would save the organization $500 * 200 * \$50 * 1/60 = \$83,300$ per year.
Problem Management	Minimize disruption of the service level.	Suppose that the implementation of Problem Management decreases the number of recurring incidents by 500 (10% of total) per year. This means a revenue of $500 * \$50 * 10/60 = \$4,000$ per year.
Change Management	Efficient handling of changes.	Two changes are implemented simultaneously, resulting in a major problem. The customer support system fails, resulting in the loss of 50 Customers with an average purchasing power of \$500. This has just cost your company \$25,000 potential revenue.
Release Management	Ensuring authorized software modules are used. Providing means to build change releases. Automating release of software.	Suppose that a new software module is released containing a bug. The previous version should be reinstalled, but due to poor version management, the wrong version is used, resulting in a system shutdown that lasts for three hours and affects two-thirds of all employees. This would cost the organization $500 * \$50 * 3 * 2/3 = \$50,000$.



Process	Purpose	Cost/Benefit Examples
Service Level Management	Agree on and control the service levels. Understand business needs.	Thanks to a clear set of agreements, the Service Desk is less troubled with calls that are not part of the services offered. In this way the four Service Desk employees can handle five percent more users, resulting in \$16,000 a year in new revenue.
Availability Management	Ensure high availability of services.	Due to a physical error on a hard disk, a server supporting 100 people crashes. It takes three hours to have a new disk delivered and installed before starting up the system again. Costs: $100 * 3 * \$50 = \$15,000$. On a critical system, Availability Management processes would have highlighted the need for a mirror disk, which could automatically take over.
Capacity Management	Ensure the optimal use of IT.	There is an overcapacity of 20%. Assuming your IT infrastructure costs you five million dollars, you could gain up to one million dollars by implementing Capacity Management and frequently reassessing the necessary capacity or selling the extra capacity.
IT Service Continuity Management	Ensure quick recovery after a disaster.	A water pipe breaks, flooding the server room. It takes two days to be operational. The average User has missed 10 hours of work. Total costs (apart from the pumping): $500 * 10 * \$50 = \$250,000$. Please note that a good contingency plan is not cheap; However, the recovery costs (as in this example) could be dramatic - that is, if your organization is still in business!



Process	Purpose	Cost/Benefit Examples
Financial Management	Provide insight, control and charge the costs of IT services.	Imagine that the true costs of delivering IT services are charged back, or at a minimum communicated to the business customers that use them. If this resulted in a 10% reduction in the requests for new services, this would directly result in a reduction of IT expenditures. Providing insight into the real costs of IT services proves to be surprising in practice; Most users do not have a clue about the costs.

Conclusion

As outlined in this document, the benefits of adopting and implementing ITIL are many. Organizations have cut costs, improved processing time and enhanced their overall service provisions significantly. Since IT is what drives business today, service provision to customers has a major bearing on the interests of CIOs. The accurate measurement of service provides them with strategic information for decision making in their quest for return on investment and the alignment of IT with the business.

Although the ITIL revolution is still relatively new in North America, organizations are already reaping in the rewards that ITIL has to offer. From small organizations to multinational enterprises and anything in between, this best practice framework has helped many improve efficiencies and bottom line figures, putting IT back in business!