

10 Strategies to get more for your IT Dollar

As the use of Information Technology grows, the cost of IT grows in relation to revenues. A typical company used to spend 4% of revenues on IT, hardware, software, services and personnel. What is that number for your business? Yet most companies don't understand what they are getting for their investment. There is an ongoing question of the value delivered by IT. While managing costs does not necessarily increase value to the business, it can reduce wastage and improve the opportunity to understand what you are getting for your dollar.

While financial management of corporations has improved by putting in processes and tools to manage expenditures more effectively, these tools have not necessarily improved for IT. Most financial management tools do not recognize that IT expenses are getting to be the largest single line in your General Ledger. There are a large number of leases and assets to be managed, yet, how many organizations have tools to manage those assets? Because of the history of IT coming from a centralized environment, many leases are centralized and yet poorly managed because of the lack of tools.

These strategies may help you to better manage your IT investments.

1. Manage individual IT assets by Cost Centre

Most employees have a PC, either a laptop or a desktop. In an organization of 100 people, we have 100 desktops/laptops at a cost of \$100,000 per year in hardware and much more in software. Many businesses lease these devices and this lease is often managed centrally.

In my experience 10-20% of these funds are wasted, because the devices are no longer in use. Attempting to manage this centrally is the same as managing staff centrally. While possible in a small organization, it quickly becomes impossible as the organization grows. The only effective way to manage these devices is at the cost centre level. Have the cost centre manager sign off on these costs every month, as is done with staff salaries and other expenses.

In many cases, equipment leases are managed centrally, because the vendor has negotiated a deal that provides for a single point of contact and a specific volume. While this is beneficial for the business, it doesn't mean that you can't have distributed accountability. Have your vendor provide you with an invoice broken down by cost centre. Then each cost centre manager can still sign off. It is preferable that you maintain responsibility for reconciliation internally, unless you have some other mechanism for managing the vendor's reconciliation.

In one organization where I implemented an asset management system, I found over \$10,000 in leased PCs stored in a warehouse and forgotten.

2. Manage Shared Assets Centrally



Shared assets include servers, network components and software. In most cases, these technical components are not well understood by non-technical individuals. Network components, by their very nature cannot be used by only one person or department. The costs are directly related to where people are located. Larger centres provide better value from a network perspective. The network could be considered as an extension of the building and managed as such.

Servers can be assigned to one department, but capacity planning and performance requires in depth skills and is best left to a specialist. Proper capacity planning can make a big difference in the cost of servers. Most servers have far more capacity and therefore, too much money is being spent. The opposite can be worse, however. If a server is under capacity, it will not be able to handle the volume of transactions, and business could be lost.

Software is another challenge altogether. While the server software should be managed as part of the server, individual copies of personal software has both a personal and an enterprise need for management. The cost centre manager needs to know what software is needed and used by his/her department. However, because of the ease with which software can be duplicated, a company can easily exceed its licensing agreement. With software companies aggressively going after businesses that don't manage their licenses, this can be an expensive proposition. With no inventory, a business has **no information to refute a claim by a software company that they owe thousands of dollars more in fees.** On the other side of the coin, many companies buy licenses as they buy new PCs, not recognizing that they already have more licenses than people and are **paying for the same license over and over again!**

An effective inventory of software is required, managed at the enterprise level as well as the cost centre level. The former will ensure that licenses are reused, while the latter will ensure accountability at the cost centre level.

3. Calculate your costs based on business transactions

Normally, in managing IT finances, the technology components are managed. These typically have no meaning to the business, except where a server has been purchased for a particular area.

In the mainframe environment, significant effort was placed in capturing data to "charge back" for transactions. It was not uncommon for 30% or more of processing being used up to calculate how many MIPS (Meaningless Indicators of Performance) were used by application. This is not what is being suggested here. There are much simpler ways to calculate how IT assets are being used. Rather than calculate from the bottom up (i.e. memory, CPU, etc.), split your costs from the top down. Most of this can be allocated in a reasonable fashion. Although this is less precise, it also does not cost a lot in processing. A reasonable estimate can be calculated and refined over time.



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Why calculate costs by transaction? All business decisions are made on a net return basis. You calculate your cost of earning revenue. You make business decisions to continue selling a product or service based on its net revenue. If the alternative is to not understand the contribution of IT to your revenue, then it does provide a good return.

When there is a need to cut costs, do you want to cut across the board, or cut your costs where they have a minimal impact on net revenue?

4. Implement Best Practice IT Processes

Good processes deliver products and services at a good price. The starting point of many quality programs has been improved quality and customer satisfaction. **Yet every quality program that I have been involved in has saved money!** There are savings in well functioning business processes. The same is true for IT. As IT organizations grow and evolve, the communication between people is strained and overheads are initiated to "improve communication or function". Over time this leads to inefficiencies and overheads.

Reassess your IT processes with a view to **customer added value**. You will find that the customer probably receives little from many of the activities. These activities are overheads or wasted resource.

There are many ways to improve process performance. You can look to Best Practice frameworks, such as the IT Infrastructure Library, to give you a base to start.

5. Measure the Quality of IT service in Business Terms

Lord Kelvin said: "When you measure what you are speaking about and express it in numbers, you know something about it, but when you cannot express it in numbers your knowledge about is of a meager and unsatisfactory kind."

Many IT organizations track statistical measures of performance. Most of these are incomprehensible to business clients. If server availability is 100% but you can't use your application, what value is it?

Although many of these measures are important to the IT technicians for investigation purposes, they are meaningless to the business. Look at the business impact of service. **Every service incident means lost time to the business and possibly lost revenue.** This has become obvious in the Internet world. Measure what's important to the business and use the others to diagnose how to solve the service issues.

6. Measure Staff Productivity in Business Terms



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Many companies measure the revenue contribution by employee. This is a reasonable measure, especially if all costs are included. In the case of IT, we have many options of doing it internally versus outsourcing. Outsourcing reduces your employees, but increases your costs. Being able to measure net revenue by employee shows a direct benefit of IT and any outsourcing choice.

7. Outsource to improve timeliness of new services

In many cases, outsourcing has been a cost based decision. Companies don't understand what they are getting for their IT dollar, and outsourcing companies are always willing to tell them they can do it cheaper. Since outsourcers have the advantage of economies of scale and focus of skills, **why do so many outsourcing contracts fail to deliver on their promises?**

The reason is that companies are too focused on saving money, and not focused enough on what they really need. This is not to say that they can't save money, but there are much better reasons for outsourcing. **A focus on money usually leads to a lack of focus on what the business really needs.**

Startup of new services or new technologies is an area where IT projects do poorly. The ramp up time for new technology can be quite long. If the initiative is critical to the business, consider outsourcing. It may cost more money in the short term, but the focus will be on the value to be delivered in terms of time, quality and customer satisfaction. Once the product is up and running and delivering to service requirements, then consider bringing it in house.

The delays that will be encountered because of learning, making mistakes, inability to deliver on service levels will be more than worth the extra cost, if any.

8. Establish a Focal Point to Manage Vendor Relations

With a large number of purchases of hardware and software, managing the invoices issued by suppliers is often a significant problem.. Errors are made in invoicing that often cost companies thousands of dollars. Invoices are paid assuming they are correct. Customers must verify invoices and significant effort is spent in reconciling the invoices to the order. With thousands of PCs, software and other equipment, resources are expended in wasted activity.

With a vendor-relations focal point, you can ensure that not only do you receive the services that you contracted for, but that a process is put in place to manage the financial aspects. This process, referenced in point 1, would ensure that you are paying for what you contracted for with minimal effort.

9. Establish a Focal Point to Manage Client Relations



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Similarly, establishing a client relations focal point, allows you to manage not only the service you are delivering, but can ensure that clients play an active role in managing costs that they incur. In a small business, where all of IT is outsourced, there is no need for client relations, only vendor relations.

10. Measure Client Satisfaction

One of the biggest time wasters is following up on issues raised by clients. By the time you find out about an issue, it has grown to be a major problem. You should have service level measurements in place to identify these, and respond when they happen. However, client requirements are constantly changing. If your staff is client focused, they will respond to the client's needs by adding activities that provide greater satisfaction to the client. While this is a good response, it creates unnecessary overheads. These extra activities were necessary because your process did not meet client needs.

Measuring client satisfaction on a regular basis can identify these changing needs and allow you to respond more quickly with fewer overheads.

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