



CostPerform – delivering bottom line benefits

Value for money, improved service and accurate charging of IT Services

A multi-national company had a large IT Service function and over a five year period the organisation had achieved major cost reduction and customer service improvements, in which IT played a significant part. Yet in this period, IT Services' reputation for timely and fit-for-purpose service delivery sank to an all-time low. The costs of IT support and operations were rising inexorably. Users were questioning what they were getting for their money and how they were charged.

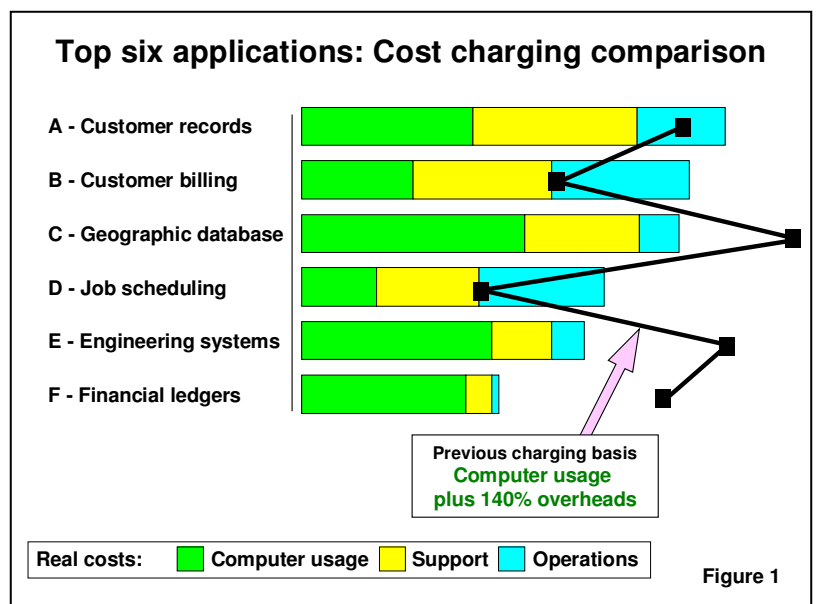
The management accounts were strikingly uninformative. They showed the cost of IT resources - staff costs, travel and so on - but very little about what those resources were doing or what they delivered to the business. To get real transparency of costs the IT Director decided implement an activity-based costing model of IT Services.

What does it really cost to deliver application systems?

Application costs had been based on a single measurement, computer usage. This had some merits when usage had for many years represented the lion's share of application costs. However, technology was diversifying, and support costs were escalating in tandem. Specialist knowledge of client/server technology, networking and packaged software now supplemented traditional mainframe skills. Activity-based costing revealed the total costs of servicing user applications for the first time.

The analysis (Figure 1, see right) showed that the mix of costs for the main application systems varied widely. Up to that point, managers had directed their efforts to improving the efficiency of computer usage. The figures now showed that significant leverage on cost reduction could be gained from the support and operational areas. In addition, by making explicit the support and operational costs of ageing mainframe systems (Applications B and D) the true expense of these systems compared with a modern package-based solution (Application F) was exposed. With their new understanding of the relative costs, managers could justify replacing the legacy systems and realise the promised savings.

Application C, the Geographic Database, used data plotters which required high levels of support for servicing and replenishing ink and stationery. Once the support costs were exposed, the case was made for progressively replacing the plotters. Drawings from the new equipment were produced more quickly and with greatly improved clarity. User satisfaction soared and overall costs were lower.



Are users getting a fair deal from cost recovery?

Recharges of IT Services comprised two elements: computer usage and an overhead allocation. The computer usage charge was calculated using a complex algorithm that was incomprehensible to those outside IT. The overhead allocation - a crude and massive 140% of the computer usage charge - had long been a bone of contention with users.

From the analysis it was evident that charges to users did not reflect the real costs of the applications. Nor, it was found, did charges reflect the differing operational and support demands of business areas using the same applications. Some business areas were being highly overcharged while others were being under-recovered. Placing this information in front of users enabled open and realistic discussions on appropriate charging and on what could be done to improve value for money.

Fact began to replace emotion as the true cost drivers of operations and support were understood by both sides. One outcome was the introduction of a rate card for services (Figure 2, see right).

Both parties could now work together on the likelihood of future scenarios. Whenever an event occurred, accurate predictions of resources were immediately available. New events would still have to be estimated from scratch, but the estimating process was much easier than before, and less contentious.

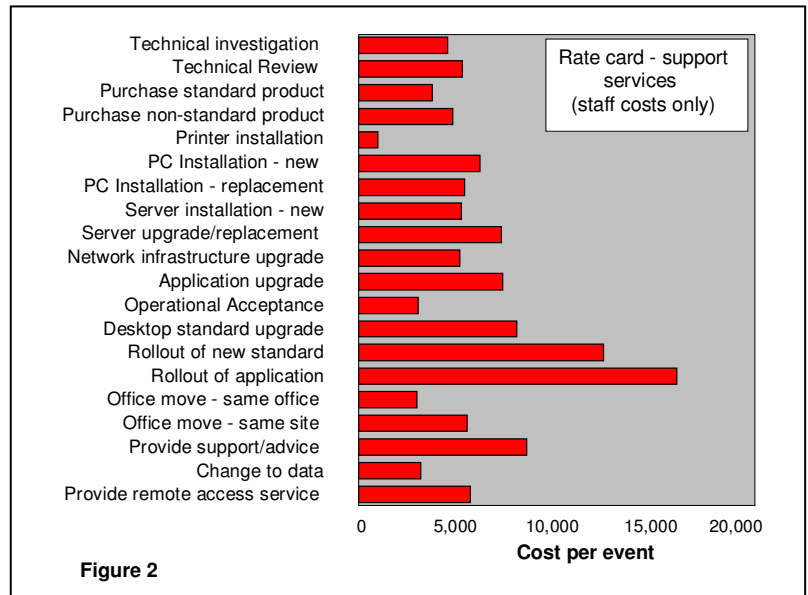


Figure 2

Negotiations over IT costs were transformed from antagonistic, long winded debates about the need for people, to positive and brief discussions about the need for activities. This gave the client a real feeling of control over IT spending for the first time. The supplier benefited as well. Given stable prices, a reduction in costs would grow the margin made on services.

Are we managing problems or fighting fires?

IT managers had long recognised the importance of problem management, both as a learning process and as a means of prioritising responses. But they lacked basic knowledge about what was going on. For example, to what extent were people throughout the IT support areas engaged in resolving problems?

It transpired from the model that problem management was costing about £5 million a year, equating to 30% of IT Services' costs. The cost to the company as a whole was even higher, as that sum did not include the costs of service failures borne by user departments or the cost resulting from poor service to customers. Two factors stood out from the analysis. Firstly, problems resolved by Application Support and Computer Operations cost three to four times more than those resolved by other areas. By investing time in building robust procedures, support costs fell by 20%. Secondly, more than half the problems were resolved by Help Desk and Security Administration. Why was their problem-solving running at such a high rate? Investigation showed that the recent innovations in information technology were creating turmoil among poorly-trained users, who had no choice but to flood Help Desk with cries for help. By providing targeted user training, the volume of calls was almost halved, and the call-queuing time and Help Desk responsiveness were dramatically improved.

Benefits of applying activity-based costing to IT Services

- Clear definition of services, their costs and the activities involved in their delivery
- Information on areas of potential cost saving, improvements to services and value for money to users
- The basis for an equitable charging structure based on resource consumption: recharge costs based on the true drivers of cost
- A means of assessing the benefits of outsourcing and supporting benchmarking
- Metrics to improve cost management with well-informed strategic and resource planning: eg reschedule the replacement of legacy systems, improving cash flow over three years by £400,000 a year
- Reduction in the overall cost of IT Services: eg eliminate 40% of Help Desk queries,

