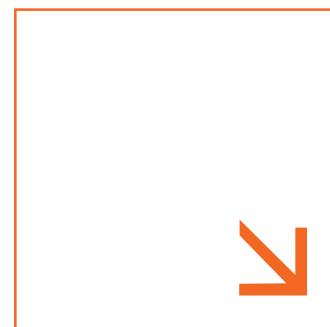


Why every CIO should start thinking about IT charge-back as their biggest opportunity.... instead of their #1 headache.



LEARN WHY IT CHARGE-BACK IS SUCH A MASSIVE OPPORTUNITY FOR YOUR BUSINESS AND HOW TO CAPITALISE ON THIS OPPORTUNITY BY INTRODUCING A RADICAL NEW APPROACH FOR MANAGING IT DEMAND.

Do you spend countless hours in meetings arguing about how to allocate your IT costs? Have you thought about the time, effort and energy consumed in agreeing how to allocate IT costs back to your business customers?

Are the business units happy with the outcome?

If you're like most CIOs that I've worked with then cost allocation is a necessary evil requiring effort that is disproportionate to the value it generates. As you would probably agree the ideal IT cost allocation method would actually reflect business use and reward behaviours to reduce costs! However, in the real world many CIOs are required to work with sub-optimal top-down allocation

models, typically based on business unit headcount or share of revenue. It is therefore not surprising when your business customers ask; "What exactly am I paying for?", "Why is the cost so high?" and, "If I reduce IT use will my costs reduce proportionately?"

The CIOs, service providers and executives that I have worked with all agree that it should be a lot easier to answer these questions. My experience

indicates that unless a totally new approach is used to determine the cost of IT services these questions will not go away and there will continue to be endless debates around IT costs.

Let's take a moment to understand

HOW WE GOT HERE AND THE TYPE OF CHALLENGES CIO'S ARE CURRENTLY FACING...

As part of delivering a more cost efficient service many CIOs have adopted a strategy of 'one solution for all'. Using techniques like strategic sourcing and outsourcing they have driven down costs and delivered utility architectures, standardising and commoditising IT. For the business this ultimately means that all business units are broadly provided with the same assets, services and service levels despite individual requirements and tolerances for cost.

While IT cost management efforts have generated significant savings they have also created a number of challenges for today's CIO:

CHALLENGE 1: ASSET PROLIFERATION AND USAGE IS DIFFICULT TO MANAGE

While many CIOs have managed to make IT operate efficiently and deliver improved service levels and up time in an increasingly complex and demanding environment, they struggle to adequately influence or control asset proliferation and usage.

Consolidated and shared IT infrastructure has made it difficult to link the ownership of each asset back to a user (or cost centre). Additionally, maintaining accurate volume, service and usage data as people join companies, transfer within companies and leave companies is difficult.

Unfortunately cost allocation masks a business unit's visibility of their actual asset usage. Given asset proliferation is largely driven through demands from within the business this lack of visibility has resulted in asset numbers continuing to grow. An inability to link cause and effect leaves the business units struggling to understand why IT costs remain high.



Given the information on hand IT and Sourcing find it difficult to dispute vendor invoices.

CHALLENGE 2: OUTSOURCERS AND VENDORS ARE DIFFICULT TO MANAGE

Given the information on hand IT and Sourcing find it difficult to dispute vendor invoices. Most outsourcers are able to provide a list of assets, services and associated costs, some are able to align this information to users or cost centres. However, the task of validating data and maintaining its accuracy is almost impossible. Accurate invoice validation can only occur

at a cost centre level where the demand for assets and services is generated. Strategic Sourcing and Accounts Payable typically limit their assessment to comparisons with a previous month's invoice and the high level analysis of any changes. As a result billing queries lead to the outsourcer being unable to address specific issues. Finally outstanding issues lead to outstanding payments, a situation where neither the client nor the outsourcer is happy with the outcome.

This situation is further complicated by contracts that reward outsourcers for the volume of services that they provide – there is no incentive for the outsourcer to reduce supply as this will negatively impact their revenue.

CHALLENGE 3: ONLY INCREMENTAL IT COSTS ARE SCRUTINISED

A business unit's IT budgeting process typically focuses on year-on-year incremental IT costs. This leaves last year's costs the undisputed baseline upon which next year's costs are compared. The business units therefore only have the ability to influence budgetary control over the IT costs which are incremental (+/-) to last year's costs. To avoid this situation a 'bottom-up' IT budgeting process would seem the better approach. This unfortunately may not provide a business unit with any better outcome given the cost allocation process dilutes their ability to directly influence the outcome. This results in the business units being shackled with ever increasing costs for IT year-on-year with a very limited ability to do anything about it.

CHALLENGE 4: CROSS-SUBSIDISATION LEADS TO WINNERS AND LOSERS

Finance and IT typically work together to define a cost allocation mechanism that 'best' mirrors business use; however, no matter how sophisticated the solution, cost allocation due to its very nature remains fundamentally flawed. There are always winners and losers with any 'cost allocation' mechanism as invariably internal cross-subsidisation occurs. This can be a very serious issue given the amounts involved (i.e., commoditised IT infrastructure costs generally represent between 35% and 55% of annual IT operating expense). Misallocations can result in significant positive and negative impacts to a business unit's perceived performance.

CHALLENGE 5: TIME INVESTED DOES NOT CONTRIBUTE TO 'VALUE ADDED' SERVICES

IT cost allocation represents one of the biggest challenges for CIOs and this is reflected by the inordinate amount of time involved in this process. In turn, it

has been known to adversely impact a CIO's relationship with their executive peers and invariably positions IT as a commodity service rather than a driver of business value. Refer figure 1:

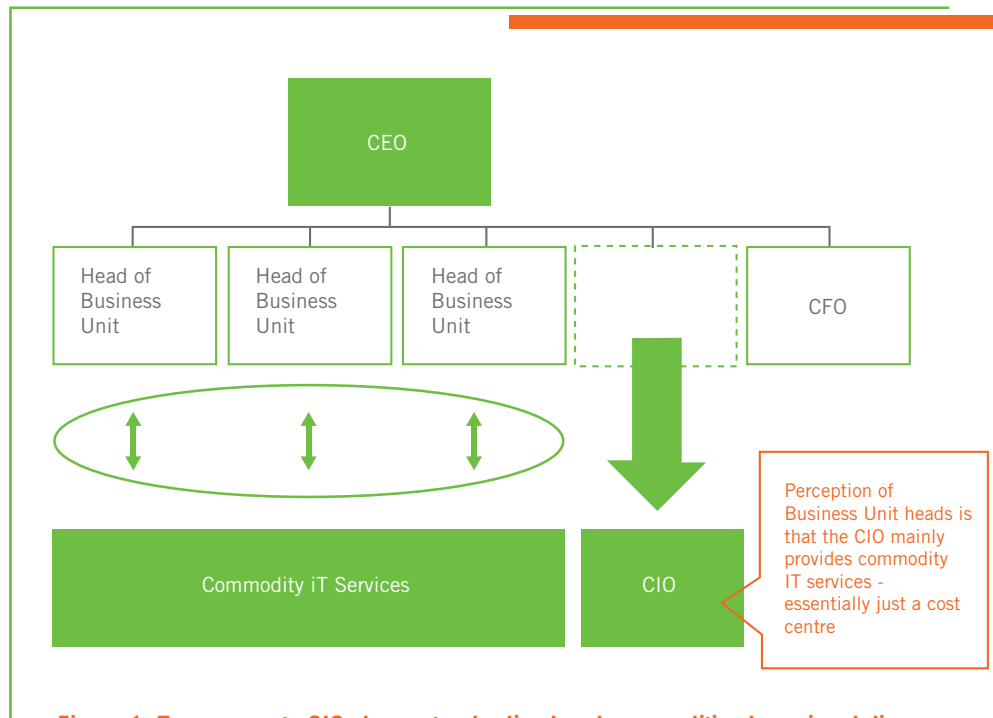


Figure 1: To save costs CIOs have standardised and commoditised service delivery, as a result they are perceived as a cost centre rather than a driver of strategic value

THE WAY FORWARD

Although each of these challenges throws up its own unique set of issues it is the combination of the lack of asset visibility and the top-down and inequitable cost allocation techniques that are at the heart of the problem. The only way to truly address this problem is to create a 'user pays' model where responsibility for IT use is directly related to the amount charged to business units.

You are probably thinking at this point that implementing a successful 'user pays' model is an impossible dream...keep reading as you will be pleasantly surprised to discover that a solution does exist.

However to develop a 'user pays' model we need to adopt a new approach.

Rather than a top-down allocation, we need to look at the challenge bottom-up where we can determine ownership and actual use by individual users and departments. As with the charging for utilities such as electricity

and water we need a means of 'metering' demand and aligning cost to use.

By providing a business service view of use to users, business units become empowered to control the demand for IT services. IT costs are reduced to two key variables; the use of assets and services, and their price. This view also makes it simple to benchmark and assess value for money.

Additionally, by charging costs directly to individual users and departments based on asset volumes and service use, responsibility for the costs shifts from the IT department to the business units. This is where it belongs as it is these users who can control cost by reducing demand.

reveal group have found that many organisations attempt to implement 'cost allocation' solutions that most closely mirror 'user pays', but in the end the majority fail. The difference between success and failure comes down to a solution that embraces the following five characteristics:

MANY SOLUTIONS FAIL TO PROVIDE AN ADEQUATELY GRANULAR VIEW OF ASSET HISTORY. WITHOUT THIS INFORMATION (E.G. SERVICE HISTORY BY ASSET TYPE) THERE IS NO MATERIAL CHANGE IN THE ABILITY TO NEGOTIATE BETTER OUTCOMES.



1. BUSINESS UNITS MUST OWN THE SOLUTION

Not all solutions engage business units sufficiently. Without real user engagement and empowerment there can be no transformation or change in behaviour.

A successful implementation must ensure users manage and regulate demand in alignment with their business requirements and their tolerance for cost. Embedding the right tools and capabilities will enable business units to actively manage demand and supply day-in and day-out. Users require visibility of assets, asset use and user information, all linked to their cost centres. This visibility needs to be interlocked with the right set of tools and processes to make it easy for users to take action, control demand, and directly influence cost.

2. INDIVIDUAL COST DRIVERS MUST BE VISIBLE TO THE BUSINESS UNITS

We have found that a good solution makes it easy for business units to understand the different cost drivers. They need to have visibility of services that make business sense; this enables them to understand what they are being charged for and why.

Reporting of business unit IT services will require a different level of detail than that required by the IT department to manage costs. Business units must be able to understand and have visibility of their cost levers.

This reporting of the individual cost levers also has the benefit of allowing the business units and IT to benchmark unit costs.

For example; desktop charges often include lease, software and help desk costs. Unless this information is firstly aggregated at a business service level, and then broken down for each component making up this service, users may believe that they are being overcharged for a simple PC. This creates an incentive for business units to purchase 'off contract' as the local IT shop is perceived to be cheaper than internal IT. In turn, this creates additional headaches for asset management and support.

3. DATA ACCURACY MUST BE MAINTAINED TO AVOID DISPUTES

Failure occurs when policies, processes and technologies are not aligned which subsequently results in poor quality data. Disputes over data accuracy undermine the whole process.

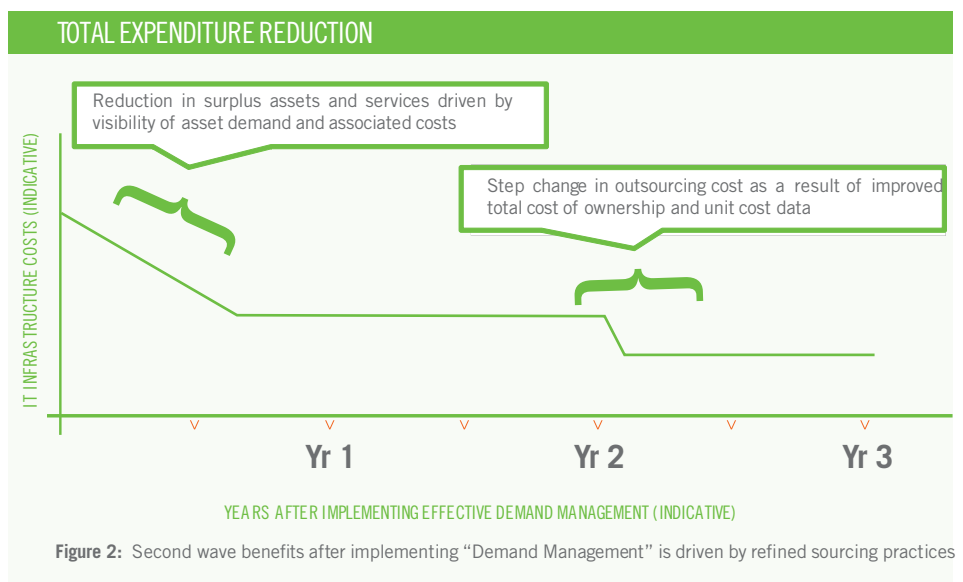
The best solutions are simple to use; changes are captured, cascaded through

the system and reflected in accurate reporting. Successful solutions make it easy to maintain accurate asset, usage and user information; as a result the reconciliation of assets, asset registers and invoices becomes straightforward.

4. TRANSPARENCY OF SUPPLIER PERFORMANCE IS REQUIRED

Many solutions fail to provide an adequately granular view of asset history. Without this information (e.g. service history by asset type) there is no material change in the ability to negotiate better outcomes.

Our experience indicates that successful 'user pays' solutions allow companies to drive better sourcing results. This creates the potential for a second wave of benefits based on the improved quality and quantity of information. See figure 2.



5. ONGOING MANAGEMENT OVERHEADS SHOULD BE LOW

Poorly implemented cost allocation solutions require a high level of management input.

Successful 'user pays' solutions require small teams to drive a process that focuses predominantly on query resolution. We have found that empowered end users then drive the cost reduction.

One organisation we have worked with has reduced their desktop count by 30%+. They have achieved this by moving from a ratio of 1.8 PC's per user to 1.1. They have managed this reduction with a total of 2 full time staff.

CONCLUSION

One of the biggest challenges facing CIO's today relates to how they can continuously add business value and how this translates to bottom-line results. Distractions from an imperfect process like IT cost allocation must be removed from a CIO's agenda for this to happen most effectively. A proxy for anything other than a pure form of 'user pays' will ultimately suffer the same pitfalls of the past. With the right solution CIO's become more efficient and effective in managing both IT demand and supply; a win-win position. If you are interested in understanding how this type of 'user pays' IT solution could benefit your company, then perhaps you should invest 45 minutes of your time to better understand how **reveal group** can help you be more successful.

We think you will find the meeting to be insightful and a good investment of your time.

ABOUT REVEAL GROUP

reveal group is a leading specialist consultancy in business performance transformation. We deliver the business and technology-related insight, tools, best practice methods and training necessary for our clients to make the right decisions, every day. We work with senior executives in large



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corporations and government agencies who are charged with increasing the effectiveness of their organisation. By focusing on the key areas of technology, operations and sales & marketing we help our clients deliver higher revenues, reduce operating costs, improve quality and greater customer service. Specifically, our Technology practice provides a range of services:

- IT Demand Management
- IT Cost Reduction
- Project Prioritisation
- Sourcing and Supplier Management
- PMO Definition & Operation
- Program & Project Delivery/Recovery
- IT Merger Due Diligence
- IT Strategy & Architecture
- IT Risk Management

In addition, our Operations and Sales & Marketing practices provide solutions which focus on revenue growth, customer satisfaction, frontline productivity, cost

reduction and improved service / quality. Our methods, tools and techniques for delivering rapid and sustainable results are radical in their simplicity, radical in their elegance and radical in their results.

Our experienced consultant's have had extensive careers in consulting and line management at leading companies around the world. This first-hand experience means we understand the politics of change within large corporations at all levels- top to bottom. This knowledge together with the 'best of the best' solutions and approaches developed at leading companies around the world guarantees that we always deliver world class results.

For further information contact **Jonathan Davey** jdavey@revealgroup.com or visit www.revealgroup.com.

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