

MICHAL BRÓSKA

The key to cost-effectiveness in IT operations: measurement and evaluation

Since its publication at the end of the 1980s, the methodology Total cost of ownership (TCO) has become a highly popular tool for those who want to discover their true costs. In the field of IT, the term TCO is understood as determining the costs for procurement and operation of IT services or solutions. The costs of procurement are usually the simpler part of the decision-making process, while operating costs are a different story, as they tend to conceal many more unknowns.

In recent years we have been witness to dynamic growth in the cost of labour in the IT sector. On one hand people working in IT can be satisfied with the special remuneration they get compared to other sectors, but on the other hand the costs for their work account for a pretty big slice of the operating costs "cake". If for reasons of savings a part of the money in the operating costs cake stagnates, or if the costs are cut right out of the cake, the IT department is forced to look for reserves. Under the assumption that it has operating costs under control in an amalgamated way, defending the budget or decisions about possible outsourcing becomes much simpler.

Unlike distinct payments for the lease of licences, payments for software and hardware maintenance, extended warranties or for the rental of data centres, costs linked to labour represent a much tougher nut to crack. Here in this article we will not offer the path of least resistance, meaning personnel costs plus overheads of the company and their subsequent spread over IT systems. We offer a more complex, but also more responsible path. This makes distinguishing costs for individual services transparent.

TIME IS MONEY

The first prerequisite, or even necessity, is to have a catalogue of services compiled, which maps the services provided to internal or external customers. This catalogue serves in operations as the base for reporting the volume of provided services.

It is then only a small step from recording the volume of services to introducing the reporting of time required for individual services. We recommend firstly monitoring these reports over a longer period with the aim of capturing the long-term average, accounting for holiday fluctuations or an increased number of incidents after implemented changes and other factors. Results come in the shape of average times required for a specific type of specialist to install a PC, for instance, or for one call to the service desk, or for prophylacting 100 servers. This will produce time norms for individual services in the catalogue. Based on these statistics, it is possible to determine the first key parameter of the price of a service: the time required to provide a unit of service.

An almost essential addition to the catalogue now is to have mapped infrastructure in the form of a configuration database that contains all configuration entries mapped to services in the catalogue. It is possible to designate specific attributes to these configuration entries that contain costs linked to licenses and maintenance, costs for extended warranties, or even energy consumption for servers in the data centre.

We recommend selecting a sensible level of detail that is worth measuring and evaluating.

We believe it is right to monitor also costs that do not always end up in the IT section cost centre (e.g. for electricity). IT can then approach savings in a much more proactive way, which makes defending tight budgets easier.

WHAT IS THE COST OF TIME?

The second key parameter is the price for a unit of time. The price for human work is derived from overall costs for the given specialisation and from the usability of the so-called fund of work time (FWT).

The usual FWT is 160 hours a month. Experience shows, however, that this figure is lower due to holidays, sick days, training and stoppages depending on the specific specialisation in IT.

For example, the service desk or the control centre enable better use of the FWT. Unlike call-out technicians, they do not suffer from outages and from “wasted” time spent traveling to the customer.

The price for a unit of time is usually set by the sum of all direct and indirect costs for individual types of specialist and accounting for the usability of the FWT. Direct costs include gross salaries, remunerations, levies of the employer, business trips, costs linked to company cars, communication costs, social benefits, training, or other expenses depending on the nature of your company. Many companies have fairly accurate data on indirect costs at their disposal, including their allocation to individual employees. To set the unit price for an hour of work that will be defined in the catalogue of services, it is necessary for costs to account also for unused time from the FWT. This means that if when setting the price we apply costs for the month, we not only have to take into account all monthly costs of the worker, but also divide it only by the number of usable hours. Only then will the price for an hour of work of the given specialisation actually cover the costs.

Based on previous settings, the IT section will have the possibility to produce an exact picture of labour costs required for individual services. It is necessary to add to these costs also additional costs defined by the TCO methodology. Subsequently, it is possible to look for space for optimisation and to ask questions about the use of the fund of work time, the overburdening or insufficient use of resources, and last but not least, to compare their own costs with the costs of an external provider, and so look for an optimum-cost sourcing model. Without the said skills, decision-making in these issues comes relies only on the accuracy of an estimate. Such an approach is more suited to players in the casino.

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PosAm, spol. s r. o.
Odborárska 21, 831 02 Bratislava
tel.: +421-2-49 23 91 11
fax: +421-2-49 23 98 88
www.posam.sk