

Baseline®

Topline

IN THE NAME OF EFFICIENCY

BUDGET SEASON IS AROUND THE CORNER. HERE ARE FIVE BEST PRACTICES TO HELP KEEP YOUR COMPANY'S I.T. COSTS UNDER CONTROL.

BY ROBERT HERTZBERG

FOR MANY COMPANIES, the budgeting season is coming up fast. Two-thousand-and-seven has already taken shape, and the finance department is reminding managers that their forecasts for 2008 are due in a few months. Technologists aren't exempt from this exercise; many are now thinking through what they'll need next year—and what they'll be able to live without.

Against that backdrop, *Baseline* offers this quintet of best practices for I.T. cost containment. They are worth keeping in mind, not just for the \$40,000 or \$4 million they may return to the bottom line, but for the possibility that I.T. itself will be allowed to invest part of the savings.



**BEST PRACTICE NO. 1:
KNOW THE
RELATIONSHIP
BETWEEN YOUR I.T.
COSTS AND THE BUSINESS**

You can't be adept at cost containment if you don't know how much you're spending and what you're spending it on. So, understanding your costs is the first step that every I.T. manager must take.

This doesn't mean simply knowing, say, that you've got a \$200 million capital budget or a 300-person staff. It means having detailed conversations with your business counterparts so you have a chance of adjusting the inputs when costs are an issue.

Last year, a business executive at a major U.S. investment bank found himself complaining to one of his technology executives about the cost of completing a trade. It was only after the

business executive got specific—saying he wanted to bring the \$4 cost down by 25 cents—that the technology exec was able to take corrective action, including getting more out of his hardware and making better use of his software.

Forrester analyst Bobby Cameron, who relayed this anecdote, says some of this precision can be achieved through activity-based costing, a method of tracking both direct and indirect costs to the business transactions they're supporting.

But activity-based costing—which requires its own staff and imposes its own overhead—isn't a replacement for common sense. More than once, Cameron has come across companies that have had one item with out-of-whack technology-support costs. It's usually pretty easy to figure out what the problem is. "It's because some turkey wanted special code," Cameron says. "If you did it out of the box, it wouldn't cost so much."



**BEST PRACTICE NO. 2:
IMPROVE/
STANDARDIZE
YOUR PROCESSES**

Over the last three decades, so much new technology has come into the workplace that it has been impossible for most companies to be systematic about putting it to use. First there were personal computers, then there were local-area networks, then there was the Internet.

But the pace of technology innovation has slowed, and some companies have taken advantage of the respite to develop procedures for getting more from their technology investments.

In particular, some big U.S. companies have turned to the ITIL framework to become more organized about how they use technology. ITIL, which is short for Information Technology Infrastructure Library and was originally developed in the U.K., is a set of guidelines for how to manage areas like security and applications, and is associated in the minds of some I.T. executives with effective cost management.

To be sure, poor processes can hurt the bottom line. Consultant Scott Jacocks gives the example of a 5,000-person manufacturing company where the help-desk function is being underutilized. About half of all incidents that should be handled by the help desk are actually being resolved by higher-level engineers making \$80,000 to \$90,000 a year. Not only does this raise the cost of support, but it keeps the engineers from meeting deadlines on their own projects. And it reduces the help desk's ability to spot new problems — as opposed to everyday incidents — and route them to another department.

"It's not really a best practice to burden the help desk with problem management," says Jacocks, who works for Covestic, a Kirkland, Wash.-based consulting firm. To do so is to prevent the problem-management process from working per the ITIL prescription, and risk an "exponential growth in incidents," he says.



**BEST PRACTICE NO. 3:
USE A PROJECT
MANAGEMENT
OFFICE**

Here's another avenue of cost containment that has to do less with technology than with managing it.

Project management offices (PMOs), which are departments of people who supervise big technology initiatives, don't make sense for companies whose I.T. projects are few and straightforward. "If I'm small—with less than \$500 million in sales—I can do what I call water-cooler management," says Forrester's Cameron. "It's when I hit \$1 billion to \$2 billion that the wheels start coming off."

Indeed, if PMOs are rarely seen at midsize companies, they are becoming a familiar tool within the *Fortune* 1000. Approximately half of that group have had functioning PMOs for several years, with financial firms and health-care companies leading the way, according to Anthony DeMarco, president of Price Systems, a Mount Laurel, N.J., consulting firm that specializes in doing cost estimates for big technology projects. Most other *Fortune* 1000 companies are in the process of setting up PMOs.

Theoretically at least, PMOs save money because they are staffed by independent analysts and managers who aren't stumping for anything other than business success. In a way that everyday technologists might not be, the PMO is attuned

A PMO's toughest responsibility revolves around killing projects outright, which is one of the most difficult technology decisions companies ever make. "The PMO will typically be the independent third party that says, 'Let's bite the bullet and not throw good money after bad,'" says Chuck Tucker, who was a consultant and analyst at Gartner for more than a decade before retiring in March.



**BEST PRACTICE NO. 4:
USE VIRTUALIZATION**

Competition and an increase in PC capability have allowed companies to save on their raw computing costs. Now a new wave of savings has arrived, made possible by virtualization software that lets servers do several different things at once.

How big is the savings opportunity? One indication is that server-utilization rates average 10% to 20% for most big companies; storage utilization averages 25% to 35%. Get those computers to take on more tasks, and you can make do with fewer computers.

Using virtualization software (VMware is one popular choice), an expert in infrastructure design could put eight virtual machines on one server—meaning an e-commerce site could slash the number of machines it's using to 100 from 800. While that may look like an eightfold savings, the actual savings are more modest—between 40% and 70%—because

to try out an environment for a new project, a software manager can tweak an existing machine and test the environment on it instead of having to requisition a new PC. "You can respond to business requests in 20 minutes instead of six weeks," Tucker says. "It makes you much more flexible and versatile."



**BEST PRACTICE NO. 5:
BE OPPORTUNISTIC**

Not every cost-control tactic results from using a specific technology or adhering to some arcane discipline. Sometimes, it's just a habit of mind, of exercising sound business judgment.

Contract renewals are one example. Even big companies don't always appreciate the negotiating power they have. And when they provide too much information to vendors—like the lead programmer who says, "The contract is yours; we're just waiting for one sign-off"—companies become their own worst enemies. "That one little bit of info will cause any pricing discussion to become very inflexible," says Jon Winsett, whose Atlanta-based consultancy, NPI Financial, advises multibillion-dollar companies like Boeing on how to negotiate with vendors.

Even Microsoft has become more willing to talk price in recent years, swayed by its move into areas where it isn't all-powerful, like collaboration software, and by the Linux labs that some resourceful companies erect in the days before Microsoft account managers arrive.

Of course, it's not just contract renewals that provide a shot at cost savings. Say a company is remodeling an existing building and moving employees around. That's a chance for technology builders to migrate to a wireless VoIP (voice-over-Internet Protocol) network and avoid having to pay unionized workers to punch holes in walls or pull copper cables around. Over the years, a change like this can yield ongoing dividends by obviating the need for building maintenance to get involved when, for instance, an employee gets promoted. With VoIP, the employee can just pick up his phone and plug it in at the new workspace. ◀

Companies that are small—below \$1B in sales—can do water-cooler management. Above that, the wheels start coming off.

to signs of scope creep and requirement creep—things that can lead to delays and spiraling costs. The PMO would also tend to take a much more realistic view of a project's progress than would, say, the team of developers who conceived it. "Someone might say a project is going to take six months. The PMO might say no, it's really going to be 18 months," DeMarco points out.

of increased network costs and the need for more powerful servers. But that's still a significant cost savings, according to Tucker, who spent part of last fall debriefing information-technology executives on their cost-saving strategies. "All of the CIOs I spoke to were at some stage of doing this," he says.

Virtualization, Tucker adds, has some benefits that go beyond lower cost. Asked

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Corporate Headquarters | 5555 Lakeview Drive, Suite 100 | Kirkland, WA 98033
425-803-9889 | info@covestic.com