From Adversaries to Advocates

how budgeting and product/service costing improved relationships between IT and its clients

BY MARY JANE CASTO AND JAMES AMANN

"When JL Albert arrived at his new job as CIO of Georgia State University in 2004, he entered a battle zone. His Information Systems and Technology (IS&T) department served clients in both the academic colleges and administrative departments, but relationships were strained.

"They saw us as a budgetary black hole," JL said. "They didn't trust us, and honestly believed we were inefficient and should have been giving them a lot more services."

The problems went beyond just mistrust. "Needs and wants always exceed available resources, so we were always saying no," he said. "We were their obstacle. We were being accused of making decisions in a vacuum. This just made relationships worse."

Suspicions grew to the point where the Faculty Senate formed a committee to investigate IT spending. "They thought they were going to pour through my books and find big stashes of money that we'd been hiding!" JL laughed.

JL's Vision

JL wanted to be open and transparent, and explain how the $23 million IS&T budget translated into products and services delivered to each of the colleges and departments. "I wanted to present the costs of all our products and services, and who uses them," he said. "I wanted to make our value clear."

Mary Jane Casto and James Amann of Georgia State University in Atlanta.

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"But when I asked my management how much it costs to operate our student system, for example, all I got back was blank stares," JL admitted.

He also wanted to prove that IS&T was a good deal. "I wanted to define our rates so that we could compare ourselves to outsourcing and to the decentralized IT groups that had been cropping up all over the institution."

Beyond just transparency, JL wanted to give clients control over his budget. "We needed our clients to understand the limitations of our resources, and take some responsibility for containing costs. I wanted to literally give my checkbook to the clients and say to them, 'This isn't an IT budget; it's your budget. You need to decide what we will provide, and you need to write the checks.'"

In addition, JL had some ambitious internal goals. He wanted his staff to understand that their customers have the right to choose what they buy from IS&T—to cultivate a culture of customer focus. "I wanted to consistently and predictably keep our focus on our customers' needs, and expand services as requested," he said.

Expand services in a tight economy? "Sure, if customers are willing to pay!" JL replied.

He also wanted to break down the "stove-pipes" within IS&T to eliminate redundancies and enhance technology integration. "We found situations where staff were eager to serve customers," JL explained. "The problem was, they didn't use the resources available to them. A great example was when somebody implemented an application that required a server. Instead of letting the data center bring up the server, monitor it, and maintain it, they put a server up themselves. And now I'm running a mission-critical application on a machine that's in somebody's office without security, protected power, etc. We needed a holistic look at our business."

In addition, he wanted to build greater accountability for results (not just for spending the budget as planned). And he wanted every manager to be frugal, managing costs to offer clients the best deal. "We didn't have an understanding of cost containment, because we had no idea what things cost," JL said.

Innovation was also a concern. Some new initiatives may have offered higher payoff than traditional budget items; but they were often ignored under the pressure of satisfying current demands with a constrained budget. JL wanted his leaders to be entrepreneurial and innovative, and bring these new ideas to the table.

In short, JL wanted IS&T to become the university's "IT vendor of choice" through transparency, a businesslike relationship with clients, and value.

The Linchpin: Product/Service Costing

At the center of JL's vision was a budget that associated all IS&T's costs with the products and services they delivered. This was a key element for a number of reasons.

First, it would allow JL to show clients what portion of his budget they were consuming and exactly what they got for it. This would build trust and a perception of value.

Second, it would provide the information clients needed to decide what they will and won't "buy" from IS&T within the university's limited IT budget, building the basis for implementing a client-driven governance process. This would enhance IS&T's alignment with business strategies.

Needs and wants always exceed available resources

And third, it would help IS&T leaders understand what businesses they were in, what their products and services were, who their customers were, and how to manage their costs within the context of their deliverables. In short, it would help them develop from good technology managers into entrepreneurial business leaders.

IS&T didn't even have a product/service catalog, and was far from being able to associate all its costs with its deliverables.

Determining product/service costs was not a simple problem. While not huge, IS&T was complex. In addition to the usual IT products and services, it ran the technology in classrooms, labs for professors, labs for students, building security systems, and super-computers with specialized research tools. It produced multimedia learning objects used in teaching, helped professors incorporate technology into curricula, and helped students use technology to accomplish their assignments.

More than Just Costing

In thinking about the challenge, JL realized that IS&T needed more than just a product/service catalog with rates. IS&T needed a budget that explained what specific IS&T products and services each client could expect to receive. This budget was to be used in a negotiation process, where university leaders would understand the impacts of budget reductions and clients would adjust priorities within spending limits.

JL broke the challenge down into four steps:

1. Product/service catalog: First, every group within IS&T needed to understand what businesses they were in, and what products and services they offered.

2. Business plan: Next, every manager needed to forecast their "sales" of those products and services, and plan how they'd fulfill those sales.

3. Budget: Based on the business plan, they needed a budget for their planned sales—the cost of proposed products and services by client—as well as the traditional spending by manager in the general-ledger expense codes.

We saw a sense of entrepreneurship, ownership, and accountability among team members

4. Rates: Closing the loop, they needed to calculate rates for each of the items in their product/service catalog. They used rates for fee-for-service work (over and above what was funded by the core budget), for estimating the cost of new projects during the year, and for external benchmarking.

Despite having to develop the cost model before the actual budget was known, rates had to be stable. "We had to be able to communicate rates based on the actual cost of all the components, and that the price would stay firm," JL said.

All this had to be done with complete transparency, permitting inspection to any level of detail by clients as well as the university's Finance and Administration office.

And all this had to be done by the IS&T leadership team, not by JL's financial manager. Participation was

the only way to develop accurate data. Beyond that, JL knew that participation was the key to getting his managers to accept accountability for fulfilling the plan. "My objective was to get people engaged so that they would take ownership of the businesses they ran."

JL also expected that participation would be a learning experience that would impact the IS&T culture.

He realized he needed software to capture the data, amortize indirect expenses, and produce the needed reports. JL was insightful enough to realize that he also needed a method to structure the participation of his leadership team—one that went beyond just costing and provided an entire business and budget planning process.

JL didn't have the time, money, or in-house expertise to develop all this internally. He and five of his senior leaders scanned the industry for help. They were not interested in paying a big consulting firm to develop something at their expense. So they went on a hunt for thought leaders with experience and ready-to-implement solutions.

They found many consultants offering to help with the product/service catalog. They found many costing tools, where budget is the input and product/service costs are the output. And they found many vendors offering chargeback and cost accounting systems that weren't strong on planning.

Finally they found FullCost,® which met their needs precisely. They bought the package (software and method) and engaged its inventor, Dean Meyer, to lead them through the process. JL appointed Mary Jane Casto, his deputy, to manage the project, assisted by James Amann and the IS&T financial staff.

The Process

The participative process was time consuming. "I had to get staff to understand the importance of this," JL said. "I told them that they're the ones running the business, and that this process would be part of their performance appraisals."

Meyer brought more than software and financial knowledge. As one of the IT industry's original proponents of the business-within-a-business paradigm, Meyer helped IS&T leaders learn to think like entrepreneurs.

Using Meyer's Structural Cybernetics framework, they defined exactly what businesses each of them were in. This made it much easier to define a comprehensive product/service catalog for each line of business under each manager.

Next, managers forecasted their sales of those products and services to each client, whether funded by core budget, grants, or fee-for-service revenues (chargebacks). "In the course of this process, we found about 7500 deliverables that we were selling," JL recalled. Sales in multiple groups were linked where they were parts of project and service-delivery teams.

They also planned their staffing strategies. In addition to headcount by type of staff within each line of business, they carefully planned the time they'd set aside for "unbillable" sustenance activities like vacations, training, innovation, process improvements, and customer relationships—a key driver of costs.

Then they planned non-labor costs—capital and expense. Direct costs were associated with specific deliverables, and indirect costs were amortized to just the right subset of each manager's deliverables.

One unique aspect of FullCost is the treatment of internal support services. Support groups are considered entrepreneurs whose customers happen to be within the department. "There are no second-class citizens," Meyer said emphatically. Instead of putting these activities in "cost pools" to be spread onto external sales, internal support groups defined their product/service catalogs and planned their sales just like everybody else.

IS&T found that some managers sell almost exclusively to customers within the department, but even they made occasional sales to clients. They also found that external-facing groups typically sold their products and services within IS&T as well.

All internal sales had to be approved by the customer within IS&T, and department-wide overhead was approved by the senior leadership team. "One thing that was really neat about this notion of internal sales," JL said, "was the recognition of how interdependent the managers really are. It really kicked up the level of teamwork."

At this point, they had the fully burdened cost to the university of all products and services.

Next, JL personally met with each manager to examine his/her plans. He looked at the rates, drilled down to the component costs, and challenged managers to remove any "fat" and refine the descriptions of their deliverables. This scrutiny process gave him the confidence to stand up to the "do more with less" challenges that inevitably occur during budget negotiations, and force back on the university the tough decisions of which deliverables to cut when budgets are tight.

In this process, the leadership team reverse-engineered the existing FY2009 budget into the FullCost model, tuning the data to match a known reality. Then, they revised their inputs and produced their actual FY2010 budget submission.

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The Results

The effects on the IS&T culture and leadership team were evident even before the process had been completed. JL saw "a sense of entrepreneurship, ownership, and accountability among team members, as well as stronger leaders with focus on teamwork and general excitement about the future."

"My managers now are able to make sound business decisions," JL boasted. "They have a sense of entrepreneurship, and are proposing investments that will enhance our business in the future."

The impacts on customer focus were particularly dramatic. JL said, "You know how hard it is, in a government university environment, for folks to understand that their jobs are totally dependent on providing things that the customers want to buy? That's a revolutionary way of thinking for some people!"

The process also brought to light problems with their organizational structure—stove-pipes, scattered lines of business, and redundancies. Once the budget was finished, they embarked on a structural change process. As each line of business was positioned in the new organization chart, the budget data told them exactly what accountabilities and resources came with it.

JL Albert, CIO of Georgia State University.

This was not intended as a one-time effort. IS&T now has "a process to continually plan our business and to make sound business decisions," JL says.

JL's primary goal was to improve relationships between IS&T and its clients, and the budget planning process accomplished that.

When JL presented his budget to the CFO, he got an enthusiastic response. "That's how much it costs us to put technology in the classrooms? I need those numbers! We're acquiring new classroom space, and now I can plan the total funding for the project."

"I had similar discussions with VPs and Deans," JL said. "Now that I have the facts, I'm able to tell them what services we provide, exactly what they cost, what they pay in reimbursable charges and fee-for-service versus how much comes out of the core budget. Most of them were shocked.

"I can give you an example. One of the colleges always thought they were overpaying when they wrote IS&T a check for $200,000 per year. I was able to show them that they were actually getting $1.4 million worth of services, most of which was paid by the university IT budget. All of a sudden, someone who had been an adversary became my advocate! They started defending my budget."

"Now, there's a new level of trust," JL reported, "because I've got more reliable numbers than they've got about their own (decentralized) IT spending."

JL also presented the budget to his governance committee, comprised of executives and faculty. With a deeper understanding of the services and costs, they were able to make more meaningful contributions to IS&T's service-portfolio decision making.

An equally important goal was to improve alignment. "We can now truly negotiate the budget with university clients," JL said. "I no longer have to make the decisions about what's important. I let the customers do that. This put them in the driver's seat."

Since JL arrived, the IS&T budget was continually decreasing. In the first five years, it went down by 10 percent. Now, JL is anticipating a 9 percent cut in one year alone; and for the first time, the department may be forced to lay people off. With such severe budget cuts imminent, "informed decisions can replace 'slash and burn'," JL said.

"It was very fortuitous that we'd implemented FullCost when we did," he continued. "Now I can walk into my boss's office and say, 'here's my budget and what things cost. What do you think isn't important anymore?' What do you want to take out of the core budget and convert to fee-for-service?"

Of course, now that clients understand the link between IS&T's costs and deliverables, they'll understand that budget cuts translate into reduced expectations.

Oh, and remember that faculty committee chartered to scrutinize IS&T's costs? With complete transparency, they came to trust IS&T and appreciate how much value they were actually getting. JL challenged them to provide the same transparency on decentralized IT costs. And now, instead of fighting with JL, they're investigating potential savings through consolidations of duplicate IT services.

Earning market share through value and relationships is the best evidence that FullCost is delivering exactly what JL had hoped. ❑