Cost Transparency Enables Strategic Cost Cutting

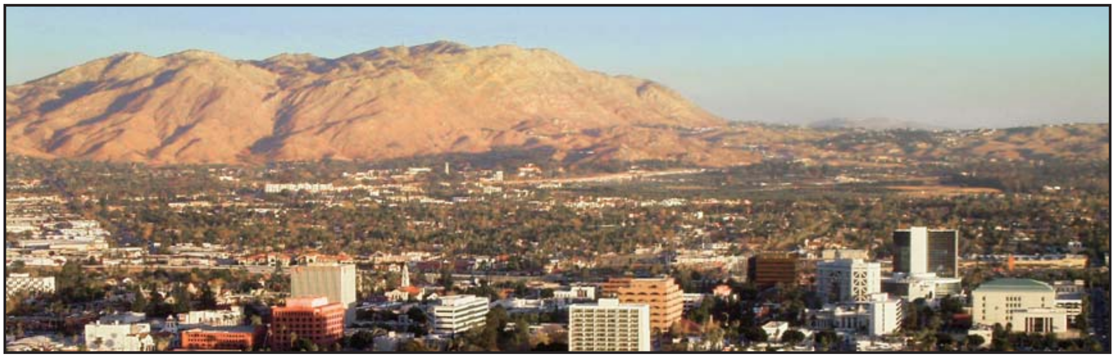

Photo courtesy of Qwerty510 at the English Wikipedia project.

Riverside County IT cut costs without risking the whole business

BY DEBBIE HILL ZELLNER AND N. DEAN MEYER

It was bad. Real bad. By early 2009, Riverside County faced the third highest home-mortgage foreclosure rate in the State of California. Their more than 2 million residents saw property values plummet and unemployment rise to 11 percent. As a result, the County's property and sales tax revenues dropped dramatically.

Hiring was frozen. Early retirements were encouraged. Voluntary furloughs turned into mandatory time off without pay. Layoffs and pay cuts, unheard of in government, were on the horizon.

For the County's 200-person IT department (RCIT), this meant deep cuts in their $39 million budget. County CIO Matt Frymire was tasked with a 25 percent cut over three years, 10 percentage points of which had to occur right away.

"It wasn't a matter of trimming down to just keeping the lights on," said Debbie Zellner, RCIT's fiscal manager. "We had to turn some lights off."

Debbie Zellner is the fiscal manager of Riverside County IT and N. Dean Meyer is the president of NDMA Inc.

Escaping the Rock and Hard Place

For many, deep budget cuts trap an organization between the proverbial rock and a hard place.

It's not as simple as cutting waste. Most organizations have been aggressively cutting costs for many years, and pressures to reduce budgets don't

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magically reveal new ways to improve efficiency. Zellner put it simply and directly, "We're not wasteful!"

RCIT knew that deferring internal support costs like infrastructure investments and innovation, another traditional response to budget cuts, would be unwise. "That wouldn't be sustainable," Zellner said emphatically.

In well-managed organizations like RCIT there's no "low hanging fruit" left — no way to "do more with less."

Nor could RCIT expect staff to work any harder. "We had some staff that worked 18 hours in a day already," Zellner reported.

In organizations like RCIT that have been well managed in the past, there's no "low hanging fruit" and no way to "do more with less." For them, budget cuts mean they'll do less with less.

That's reality—the rock. But meanwhile, clients (in this case, County agencies as well as local police and fire departments) need IT to operate, and they continue to expect all the services they received in the past—the hard place.

Between this rock and hard place, many internal service providers fail to meet clients' expectations, and as a result, find their relations with clients strained and their reputations suffering. Worse, across-the-board cuts leave it to individual managers to decide what that "less" will be, so things fail in an unplanned manner and critical business operations are put in jeopardy. And soon, cuts in training, innovation, and infrastructure result in a deteriorating ability to deliver anything.

Fortunately for RCIT, Frymire not only viewed his shared-services organization as a business within a business. He'd put that vision into practice in a very pragmatic way.

In 2005, RCIT had implemented NDMA's FullCost, a business and budget planning process and software that produces a transparent cost model which calculates the full cost of all an organization's products and services.

RCIT has used FullCost since then to prepare its budgets, set its rates, and manage its business. The results were excellent.

RCIT funding comes from the agencies through chargebacks, and the transparent cost model settled debates about the equity of their charges. "I'll stand up to any member of our Board and tell them that our rates represent the true cost of each service," Zellner said with confidence. "With FullCost, I can drill down and explain exactly what costs, direct and indirect, are in each rate. We can justify every rate."

"As an accountant with professional standards," Zellner continued, "if we didn't have FullCost, there's no way I could vouch for the numbers the way I do now."

Furthermore, relationships with clients improved as the agencies came to understand the value RCIT delivered for a given level of funding. Beyond this, clients were in control of what they bought from RCIT, and no longer expected more than they could afford.

By getting indirect costs in the right place, some rates went up and others went down. For example, the base rate for telephone service was reduced when costs associated with call volumes were absorbed in the per-call charge, not the monthly maintenance of the phone. RCIT then negotiated the per-call charge with their telecommunications vendor such that the per-call rate stayed flat.

Instead of cutting travel, training, and positions, RCIT focused on reducing deliverables.

Frymire's business-within-a-business philosophy and RCIT's investment in FullCost paid off again in 2009 by providing the data for a strategic approach to cost cutting—a deliberate, business-driven process of deciding the "less."