

# AUDIT YOURSELF BEFORE OTHERS DO!

Isn't it better to know all the weaknesses in your product/service cost model . . . BEFORE others do!?

**Y**ou've worked hard and done your best to develop a robust cost model. But another pair of eyes can help.

An objective assessment tells you what you can do to improve it.

The assessment process is done in 3 simple steps:

1. **Examination:** 2-4 days with you to gather data (with more time required the more you've done to date); we'll talk about what you've done, working through a detailed list of questions, including the structure of your cost model, your process, your tools, and your documentation.
2. **Analysis:** analysis and writing (back in our offices) result in a report of our findings – strengths and weaknesses.
3. **Presentation:** 1-2 days with you to present the findings and discuss recommended next steps.

**Cost:** \$35,000 (plus travel).



Dean Meyer is one of the original proponents of running organizations within companies as a business, and has implemented it in corporate, government, and non-profit organizations through culture, organizational structure, and resource-governance processes based on market economics.

He has guided dozens of organizations through the process of defining pragmatic service catalogs, and applied them in service cost models and governance processes.



## Benefits of a self-assessment:

1. **Head's up:** Don't be surprised by questions and challenges raised by clients and auditors. Stay a step ahead of them by knowing the problems before (and better than) they do. This gives you a chance to prepare your responses, or (better yet) to fix the problems before you're challenged.
2. **Disarm:** Nothing is as effective in defusing an attack as being honest and open, and admitting your own weaknesses. This builds trust, and generally buys you time to fix any problems.
3. **Validation:** An outside expert noting what you've done right is a stamp of approval that builds confidence and trust, and fends off ill-founded criticism.
4. **Choose your timing:** If you haven't yet released your cost model, you may have time to decide whether to proceed with the release or hold off a bit and fix any remaining problems.
5. **Plan your next steps:** If you have released your cost model, an objective assessment may help determine your strategy for next steps, and justify an investment in taking your cost model to the next level.

# Here's what we examine:

## Structure:

**Product/service catalog:** principles used in its definition, granularity (purchase decisions, levels of service), suitability to purpose, units (understandable, controllable, measurable, usage based), wording, definitions.

**Deliverables** (Investment-based Budgeting only): scenarios, attributes, prime-sub relationships, ventures/subsidies versus overhead.

**Compensation costs:** blended average with staff augmentation, billable-time (by type by LOB within organization), skill sets/tiers with productivity normalization, costs/perquisites, billable hours, headroom for growth using contractors.

**External costs:** direct (per project/unit) versus indirect, treatment of indirect (cost pool definitions and granularity, break-even at pessimistic (with scale up), treatment of reimbursables (Investment-based Budgeting only); blending of job shop outsourcing (eg, cloud) for overflow work.

**Internal indirect:** pools versus sales to appropriate LOBs within organization (spider web), cost pool definitions and granularity (including cost of supervision), break-even at pessimistic (with scale up), treatment of reimbursables (Investment-based Budgeting only).

**Overhead:** amortization choices, distinction from subsidies/ventures, not applied to internal sales or ventures.

**Capital and expense:** linked, conversions (all to expense for billing, capitalization of labor).

**Rate calculations:** stable regardless of volume changes (growth in contractors, amortization of indirect), client, funding source; set within each LOB within organization; optionally with/without subcontractors (teams); optionally with/without overhead.

## Data:

**Deliverables** (Investment-based Budgeting only): forecasted units (source), direct costs (source).

Compensation costs: billable-time ratios.

**External costs:** source.

## Process:

**Participation:** role of leadership team versus finance team.

**Documentation:** steps, frameworks, tools.

## Tools:

**Participative:** supports management participation, ease of learning and use, data input tools, data integrity checking (including rate errors).

**Safe:** locked, secure.

**Functionality:** includes staff planning tool to model staffing under scenarios (eg, model cost of headcount caps); treatment of circularity (mapping, breaking, iteration); treatment of set rates (markups, fixed fees); treatment of revenues (core budget, allocations, fee for service, checkbooks); currency conversions.

**Reports:** analysis, scrutiny, budget presentation, catalog, rates (by LOB within organization, option to share rates across groups); roll-ups by client, service portfolio, contract bundle, manager, other attributes; for all, transparency (drill-down).

**Uploads:** costs to budget submission, rates to invoicing system, hours to project-management system, management metrics.

## The Value of Using an Outside Expert:

1. **Objectivity:** The people who developed the cost model are typically too close to it to see its weaknesses.
2. **Credibility:** Even if you could be objective, the perception of objectivity is far greater if an arm's length expert authors the assessment.
3. **Expertise:** An outside expert brings the experiences of many organizations, as well as formal studies of the theory. This ensures a more thorough review and sound, actionable recommendations.

Schedule a complimentary telephone consultation by calling 203-790-1100.



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