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Our Mission

The mission of *IT Business* is to provide a platform for discussion and analysis of the successful use of IT to enhance business processes.

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IT Business Brief

Is Your Firm Getting the Most Out of IT?

by Malcolm I. Allan,
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Business Strategies

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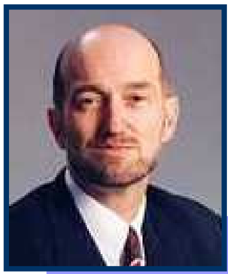

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A note from the founders

We think you're going to find this IT Business Brief, which actually is the first installment of a three-part series, most interesting and useful. When it first came across my desk(top), it literally screamed "This is what IT Business is all about!"

There are a few aspects I particularly want to make note of. First, the RoI analysis discussed here closely parallels a methodology that we've been discussing extensively over the past couple of years. This is the concept of moving the RoI discussion from the tactical realm of purely cutting costs to the strategic realm of performing a cost-benefit analysis and considering the impact of using IT to redefine business processes.

Secondly, considering the fact that only a little over 50% of our readership is based in the US, I'm quite pleased that this piece actually comes from Europe. On the one hand, this adds a global perspective. On the other, the common themes here confirm that the need for fundamentally shifting our IT priorities is a worldwide phenomenon.

Finally, this series fits our mission in that it looks at the entire IT realm, and not just the telecommunications aspects. I'm sure that after reading this installment, you'll be eagerly awaiting the continuation.

- *Steven Taylor, Distributed Networking Associates / Webtorials*

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Is Your Firm Getting the Most Out of IT?

To get the most out of IT, firms must seek to maximise their Return On Investment (ROI) in technology. For example, when considering a system upgrade, along with looking at that technology, the firm should also be asking: how will this system facilitate an increase in its productivity so it can make more money; and, how will this system improve efficiency in order that worthwhile savings can be made on overheads?

The purpose of this paper by SysDom Technologies is to look at, consider and provide awareness on the various business and management issues associated with the successful implementation of technology projects especially for the small to mid-size organisation (SME's).

In this first of three parts, we'll consider

- Return on Investment - A Measurement
- IT Costs How Much?
- Cutting Costs or Making False Economies

The figures quoted here are based up trade press surveys and reports on companies operating in Europe. As always, your mileage may vary.

Return on Investment - A Measurement

When it comes to IT projects, a firm's management must ensure that all of its decisions will be based on sound economic and business reasoning rather than an extravagant enthusiasm for technology, The question is, however, how should a firm try to evaluate the potential benefits of such technology?

For most firms, technology is one of the single largest items of expenditure in their annual budgets, with businesses spending on average 5.5 percent of their gross revenues each year on IT related products, services and resources, including, in larger companies, IT staff. Smaller firms tend to spend less than this - between 2 and 4 percent - although often their calculations do not take into full account the amount of managers' time that can be consumed attending to IT issues. Furthermore, once expenditure is averaged out over a five year period, taking into account the cyclic nature of inevitable major hardware and software upgrades, even the most cost-conscious of firms would be amazed at just how much of their money is devoured by its information technology requirements.

However, despite the fact the potential expenditure is considerable; the method most firms use to measure their return on this investment (ROI) is, to put it charitably, naive and unscientific. Some firms will frequently be heard attempting to justify a huge expenditure wholly on the grounds that "it will help us to provide a better service to our clients." Whilst of course, it is both hoped and expected that it is going to help provide a better service, otherwise these systems would not constitute such an intrinsic part of a business' purchasing programme. However, such warm and cosy "guesstimations" almost certainly will not pay the firm's bills - nor will they generate the profits and income to placate the board/shareholders.

There is however an alternative way of considering the ROI issue - which, as has been said before, is currently prevalent in most of those firms employing finance directors and managers who have previous experience in commerce and industry, although some of the leasing companies who help firms finance IT projects are also advocating this approach.

According to this school of thought, what really counts is that instead of agonizing about how much the new system is going to cost - which to many businesses is still their only real financial consideration - firms should be asking themselves: "how much money is this new system going to save us?" and/or "how much in extra income is this system going to help us achieve?"

Put another way, will this technology allow the firm to increase productivity while at the same time help in economies with overheads, so the business can not only handle more work with equal or lesser resources but also increase its profitability?

IT Costs How Much?

Continuing from the previous factor, closer consideration must be made in regard to how much money small to mid-size businesses (SME's) *should* be spending on technology?

There is an element of "how long is a piece of string" with this question, as some firms are clearly not spending enough while some others probably are spend more money than they need. The spending pattern among SMEs tends to take the form of a big splurge on new systems every four-to-six years and then solely day-to-day running costs during the intervening years. However, bearing in mind most firms fund major capital projects through some form of lease-rental finance arrangement, wherein payments are spread over a three or five year period, it is possible to estimate a firms' annual expenditure.

Along with finance payments - and at current rates, an average expenditure of £100,000 would involve lease-rental payments of £3,200 per month over three years or £2,445 per month over five years - SME's also *MUST* take into account various annual running costs. These include, but of course are not limited to:

- Annual hardware and software maintenance/support contracts;

in some instances

- Annual software licences; insurance - including cover for the increased cost of working if you need to revert to manual methods while data is recovered after a computer disaster;
- Telecommunications costs - including the charges for accessing the internet and maintaining 'leased line' links between branch offices;

and

- Consumables such as laser printer toner and continuous stationery.

There will also be the inevitable extras you may not have originally budgeted for such as extending the network to encompass new members of staff. In larger firms - as a rule of thumb this tends to be in businesses with in excess of 25-to-30 computer users - there will also be the additional cost of employing dedicated IT support staff. And, there are also the various accounting charges associated with IT, including capital allowances and depreciation.

Add this all together and the figure that consistently emerges from research into this topic, both in the UK and USA, is that subject firms spend between 2% and 7% of their total income each year on IT - with SME's spending an average of 3% and larger firms an average of 5.5% per annum.

Cutting Costs or Making False Economies?

Combined with staff salaries, commercial and/or liability insurance, together with office accommodation and commercial rates, Information Technology is now one of the single largest items of expenditure that a SME will make - on average spending, depending on size, between 3% and 5.5% of its annual revenues. Or, to put it another way, some firms are potentially spending the equivalent of their entire pre-tax profits each year on IT systems.

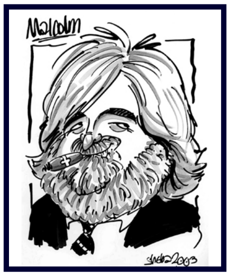
Given the sheer size of this expense, it unsurprising that a considerable number of firms, not only SME's, but even some large multinationals try to trim their IT budgets to the minimum - but is this approach actually financial prudence or a deceptively false economy?

For example, the typical office system is comprised of three basic elements: its commercial/trading applications software, the PC hardware it runs and the network infrastructure that distributes the software and data from workstation to workstation around the office. In an attempt to economise, some firms will opt out of committing to the annual support and maintenance contracts most software vendors offer. Because of the current economics of the PC hardware distribution market, PCs and their associated hardware are able to be sourced from mail order operations like Dell or even from High Street store, such as Dixons or PC World, for less than the price quoted by a specialist systems provider. And, if you look through the telephone directory, you will almost certainly find a local network specialist who can assist with the technology infrastructure.

Add all these basics together and it may very well be possible to cut the overall price-tag by 20% or more - which is marvellous, providing of course that nothing goes wrong. Unfortunately, if and when problems do arise, the potential for ending up in the centre of a trilateral dispute or even litigation, becomes all too real. Does the problem emanate from an inherent bug in the software? Or, is it because the wrong hardware has been installed, perhaps because the PCs that have been purchased and deployed run a version of the Windows operating system that is not compatible with the existing applications software? Or, is it simply because the network has been inappropriately configured?

Factor in that it was decided to opt out of the maintenance contract with a soft/hardware supplier, they in turn are unlikely to offer you more than minimal assistance. Plus, the fact that many High Street hardware vendors offer no onsite maintenance whatever- which means packing up the malfunctioning component/s and sending it/them back to a central repair depot for examination. And a firm could be facing the complete shutdown of its IT facilities while a relatively minor problem is fixed.

In other words, unless a firm has its own in-house IT expertise or access to a specialist consultancy with whom it has established a supportive relationship and which it can rely on entirely, it may very well be an entirely false economy to opt for the cheapest possible deal.



Malcolm I. Allan *is a Senior Partner at SysDom Technologies (http://www.sysdom.org), a London-based consulting firm based on providing comprehensive solutions from conceptual planning, design architecture, vendor analysis & selection to final delivery and maintenance.*