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# **Forum Discussion Best Practices – IT Allocations and Back charges**

**35<sup>th</sup> Annual PIMA Information Technology  
International Conference**

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# IT Allocations and Back Charges Discussion

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- P&L Strategies
  - Unallocated, Allocated, Direct?
- IT cost allocation models
- Tiered pricing
- Administration aspects of cost recovery
- Tools to automate and track costs



# Credits

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- Gartner Research
  - Server Consolidation Charge back Models and Benefits
  - Research Note COM-19-7661
  - C. Claunch
  - 18 April 2003



# Business Unit Charge back Issues

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- Fairness
  - Costs are proportionate to use of service
- Predictability
  - Avoiding planning and budgeting surprises
- Control and Influence
  - Costs reflect business decisions to use or scale back service levels



# IT Organization Charge back Issues

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- Certainty of Cash Flow
  - Fixed costs need to be covered
- Administrative Cost
  - Costs to collect are part of the total costs
- Influence Behaviors
  - Services reflect cost to deliver, impact service choices



# Charge back Methods

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- **No Allocation**
  - IT as corporate Overhead
- **Fixed Allocation**
  - \$/unit, employee, group, etc
- **Direct plus Overheads**
  - Where directly attributable, charge direct, rest is overhead
- **Subscription Pricing**
  - E.G. \$/pc, load all costs regardless of use
- **Tiered Subscription Pricing**
  - E.G. \$/pc, but reflect different levels of service
- **Measured Usage**
  - E.G. \$/gigabyte
- **Internal Service Provider Model**
  - Charge “market” rates, make a profit or outsource



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**Discussion**



# The situation at Canfor

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- **IT costs are centrally collected**
- **IT costs are fully charged out to operating divisions**
- **Many, inconsistent methods of charging for services**
  - **Applications – by user, by usage, by group**
  - **Networks – per pc loaded costs**
  - **Servers – some direct, most per pc loaded costs**
  - **Services – per pc loaded costs**
  - **Overheads – per pc loaded costs**
  - **Desktops/Notebooks – actual pc lease costs**
- **Became known as the “Cost Cloud from IT”**



## The situation at Canfor

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- Low level of acceptance or understanding
  - Not a lot of discussion with or buy-in by the Operations about the fairness of the charges
  - Methods had been set by previous managers, company had seen a lot of organizational change and IT demand change
- Bad behaviors starting to appear
  - Increasing demands for new services, with an expectation that they would be absorbed in the per pc charge



# The situation at Canfor

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- Cost Pressures
  - Corporate wide cost reduction initiative squarely targeted overhead and corporate departments
  - IT is the largest single corporate department in both \$ and FTE's
  - Suddenly we had everyone's intense interest



# Solution - Applications

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- Applications
  - Reviewed/developed both the budget and the charge out methods with application governance bodies
  - Set up the desktop suite, helpdesk, technical support as an application
  - Result was just as varied, but acceptance level is high



## Solution – Helpdesk, Technical

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- Helpdesk & Technical
  - Tiered delivery of application helpdesk was just getting started
  - Record keeping was not at the level to support a by application or service charge
  - Cost per call model thought to be too high an administrative cost
  - Retained the per pc charge-out



## Solution - Networks

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- Networks
  - Did not have the tools to accurately and consistently measure application or user activity
  - Separated “backbone” network from outlying circuits
  - Backbone remained per pc
  - Connection to the backbone are direct charges
  - Suddenly the demand for unlimited bandwidth to outlying areas cooled



## Solution - Servers

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- Servers and Computer Rooms
  - Direct lease cost for servers and software
  - Charge to applications or to locations
  - SWAG % where servers were shared, agreement between users on %
  - Fully recovered server team costs on per-server overhead model
  - The demands for non-shared, incremental servers slowed, we now have a server consolidation plan



# Solution - Overheads

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- Overheads
  - Separated as line item from other per pc charges



## Solution – Customer Invoices

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- Customer Invoices
  - Developed a line-by-line charge journal voucher
  - Customers can see exactly where their charges are coming from
  - Charge out at plan, but intent is to reconcile to actual on quarterly basis beginning mid-year
  - Customers now know what IT costs to question
  - Customers now know what their choices cost them



# Learnings

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- **Make the costs visible**
  - Satisfy the controllers urge for detail
- **Involve your customers**
  - Getting trust obviates desire for control
- **Charge back should follow the cost driver**
  - What is driving the cost in this area?
- **There are always trade-offs**
  - Cost versus accuracy
- **Double check the behavior you might be driving**
- **Revisit your solution**
  - Conditions and metrics change over time

# The answer remained a mixture of methods

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