



# Find the Indirect Costs

## *Why Equating ITAM Successes to Financial Impact is Vital*

Over the last two months I have had no fewer than 6 former students call or send me an email saying their organization was going through reorganization and their positions were being eliminated. The reasons most cited were budget cuts and new management that didn't see the value of the program. Either reason leaves me amazed.

Now I'm not going to give a big lecture on building your marketing initiative for your program. We all know we need to validate what it is we do. Instead I want to share ways of calculation, how to equate it to budget impact, capital reallocation and communicating the results.

### **I'm going to use a small scale project to serve as our example.**

First let's start with understanding direct financial impact and indirect financial impact. Direct financial impact is easy to calculate, "We reduced the need for 100 individual licenses by going to concurrent licensing for 25 users utilizing a web interface, based on our analysis of actual use of the product."

Pretty simple math gets us that one. Individual license costs minus concurrent license costs equal financial impact. But what about the indirect impact? Management of the licenses and documentation, support of each individual installation, creation of electronically distributed file packs for patches and upgrades, the cost of the server and its support for the concurrent web interface all are examples of indirect impact. Again, the equipment costs are pretty straight forward and easy to figure. But what about the support costs or the time spent doing license management and compliance auditing?

That is the key, time. Every touch we make to something costs us in the way of time value. Now don't go hog wild here, remember common sense and simplicity are your guiding principals especially until your program matures enough to commit to building a service costing model. Take averages of wages and benefits that can be provided by HR or the budget manager of the parties involved.

Have you taken in the ripple effect? "Through the change of function of the application we were able to change our process of creating billing services reporting, reducing the time needed to develop queries and create the reports and achieve a higher level of detail." Again each of the effects in the ripple of the original change has a monetary value. Time is again the most common denominator although further detailed analysis has a value all its own.

Now how does all this equate to validating the financial value of ITAM? Let's say in our simple calculations of the

license cost differential we can ascertain a cost savings between the two of \$50,000 a year. We as Asset Managers jump up and down and slap each other on the back for a \$50,000 win. Our total IT budget for the year is \$60 million. Our \$50k win equates to a change of a touch over 8/100th's of 1(one) percent variation of the budget. That will really make the C levels stand up and take notice!

### **Now let's take in the indirect and ripple effects.**

Server equipment costs are near zero because we use virtualization in our data center and can utilize existing equipment. It will take 2 hours a month to maintain the patch management on the application on the server. Two hours times a hypothetical average wage and benefit package of \$150 per hour equals \$3600 annually bringing our subtotal to \$47k.

Reduction of 10 trouble tickets per month taking in employee call in and down time, help desk ticket creation and diagnosis, desktop technician time and data entry for ticket resolution.

Employee time for this example we'll take at \$50.00 per hour giving us an annual cost of \$6000. Productivity loss can be calculated but we're not going that deep here. Help desk costs again for the example we'll calculate to be another \$4500 annually and the desktop time another \$6000.



## So now license and support comes to \$111,500.00.

Now we look at the ripple effect, the rate of producing the work output of the application in this example has given us a 10% productivity increase which we calculate based on monthly department productivity reports. The value of something like that is near impossible to put into an example without hard data but we can equate it back to time. Our 100 users are 10% more effective, calculating the \$50.00 an hour; it could be viewed that their cost would be reduced by, \$60,000.

Now between licenses, support and increased work output we have \$171, 500.00 for this initiative, tripling the value of the fast cash valuation.

Next is to forecast what the annual effect our ITAM program can produce realistically looking at our product portfolio, finding similar situations we have in place at this time. (This works really well when you start talking about why having a standardization project is worth doing.)

If we duplicate the results twice a month, that leads to a financial impact of \$4,116,000.00 throughout the year now equating to nearly 7% of the annual budget. Or even better, if you have been at this for a while, go back and get your true budget impact figures calculated and put your program impact statement together.

This might seem like a lot of work to go through, but so is finding a new job. No matter what sector you are in, you always have to show the full effect of your program to the bottom line. You don't need fancy financial formulas or calculators to start with, save that for when you reach the

maturity level when you create a service costing model. Keep it simple to start but show the real impact your program has on the annual budget.

With the economy going through a slowdown and many of our members feeling the effects, now more than ever your services are needed by your organizations.

**David Keith**

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and Government Relations  
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## Where do your IT assets go when you dispose of them?

- Landfills in third world nations
- Evidence rooms awaiting litigation
- The grateful hands of identity thieves
- The water supply you drink from



## Where should they go?

Intechra is the world leader in IT asset disposition. We focus exclusively on eliminating the risks surrounding data security, compliance, and environmental impact, while maximizing value recovery on IT asset investment for businesses around the world. Visit us at [www.intechra.com/itak](http://www.intechra.com/itak) for more information or to schedule a meeting.