Make IT Costs Transparent and IT Alignment Happens
A Case Study with Miller-Valentine Group

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Miller Valentine Group

"If you use it, you pay for it.
If you don't use it, you don't."

Michael Gutman
VP of IT/IS
Miller-Valentine Group

Objective
Give the business users direct control and accountability for their IT spend.

Approach
In 2007, Miller-Valentine Group's IT department chose to completely surrender their IT budget and implemented a service level allocation system that put 100% of the decision about what to spend on IT services in the hands of the business units.

IT improvements
- Improved utilization of computing assets from 83% to 97%
- High cost services are naturally retired
- Enabled better outsourcing decisions

Business benefits
- IT costs are predictable
- Changed behaviors to encourage cost reduction in IT "run" operations
- Projects are funded and prioritized by the business

About Miller-Valentine Group
Miller-Valentine Group is a full service real estate solutions company headquartered in Dayton, OH. Their diverse product lines include development, construction, management, brokerage, leasing, and finance across the commercial, residential, senior living, and healthcare markets. They have four regional offices, and 100+ locations supporting over 750 associates, and 8 IT employees. http://www.mvg.com

Executive Summary

Alignment between IT and the business is happening at Miller-Valentine Group. Michael Gutman, VP of IT/IS, speaking about IT Alignment: ***"As an IT leader, it's difficult for me to hold conversations about the business value of IT and achieve true IT alignment without getting the money question out of the way first. Once we achieve cost transparency, we can focus on the thornier issues of alignment around value creation and risk. Transparency isn't a panacea and the end-all of IT alignment, but it is a pre-requisite before any serious conversations can take place. IT alignment is never done, it just gets better, and we're definitely not done."*** This case study describes how Miller-Valentine Group's Information Services organization took on the challenge of IT Cost Transparency and transformed itself into a world class IT organization.

Approach

In 2006, the CEO of Miller-Valentine Group asked his IT department to help him better understand and control IT costs. The IT department responded with a radical change to funding their department, putting 100% of the decision about what to spend in the hands of the business units. To accomplish this, they completely surrendered their 2007 IT budget, and implemented a service level allocation chargeback system where they would get paid for delivering what the business units wanted, not what IT told them they needed.

IT Organization

Michael Gutman has been the Vice President of IT/IS at Miller-Valentine Group since 1999. He hires top IT professionals, with an expectation of 8x productivity gain over average, and compensates associates competitively for achieving this goal. (Reference*: "Understanding IT Worker Productivity & Finding Those Valuable "2x, 4x, 10x" Performers" from www.oakenterprises.com).* All IT associates complete a two year leadership and teamwork training curriculum designed to turn "Geeks into Humans". This curriculum is currently being updated with assistance from Development Beyond Learning (www.dblearning.biz).

The IT/IS department at Miller-Valentine Group is organized like a business with two business units, and their services are billed separately to the businesses:

- Information Technology is responsible for infrastructure asset lifecycle and "run" operations, which are billed as a monthly subscription fee at cost. This IT business unit has taken ownership of all IT assets, along with the risk that businesses can return their equipment at any time, as the business responds to market demand and conditions. These services are offered as: *"No contracts, no upfront charges, and no penalties."*
- Information Systems is responsible for custom software development projects and business intelligence reporting, which are billed at an industry-competitive time and materials rate. These services are offered as: *"If you don't use, you don't pay for it."*

There are three situations where Michael Gutman will recommend outsourcing services:

- they don't have the skill in-house and it is a temporary need, for example: planning a Windows 7 rollout.
- they have the skill in-house but they don't have enough resources for a peak need, for example: a new Property Management system.
- they can save money, for example: a Patient Care system for their Healthcare facilities

Transition

The transition from a traditional head count allocation to a service level allocation was not easy. In 2007, Michael Gutman, VP of IT/IS, took a giant leap by surrendering 100% of his IT budget and telling his staff that **"*starting today we have no budget, we're allowed to bill for services, and our business units can bid other companies competitively against us on those services. We have to deliver 100% of what we're delivering today, at the cost we're delivering it today."***

The new system uncovered technology costs that were previously buried in the business units' budgets. In the case of one business unit, hidden costs were twice the amount of the visible costs, and Michael had to communicate this cost increase to the VP of this business unit effectively. Bringing these hidden costs into the open, helped the business unit executive accept a 200% increase in IT costs. The audit reports provided by the new chargeback system allowed the business unit VP to identify cost-cutting opportunities as well as outliers using services that weren't required or needed business justification.

The IT department was now in a position where they had to be able to compete against external Service Providers. Miller-Valentine's IT department won a contract by 50% over Service Providers for their Senior Living Facility business unit when including all costs, not just the hardware acquisition and lifecycle costs.

Expensive tools were not available to assist their efforts. General Ledger information was critical to their success with identifying costs incurred in the previous years and for tracking costs in the current year. Their helpdesk evolved from Outlook tasks to an off-the-shelf Helpdesk Tool taking 7500 calls/yr with a knowledgebase built over 10 years. The Audit Bill is currently done manually and takes 6 hrs per month, but they have a goal to automate and get it down to 6 minutes per month. Their cost modeling is done in a complex spreadsheet.

Today, the IT department at Miller-Valentine Group has to take on the role of consultant, R&D, and sales. To do more for the company with IT, they need to research potential improvements, put together "marketing materials", and sell the technology as new services the business wants to buy.

Project Plan

In 2006, the IT department spent about six months planning their transition to the service level allocation system. The roadmap to their success included these steps:

1. Document Costs
2. Document Assets
3. Identify Services
4. Map Costs to Services
5. Implement the Service Catalog
6. Measure and Improve

1. Collect and Analyze Costs

Miller-Valentine Group's IT department backed into defining their costs based on evaluating expenses in previous years. The steps they took were:

- Collect budgets, financials, purchase orders, invoices and expense reports
- Include every penny spent on everything technology related, even those expenses not in their budget
- Divide them up into general buckets
- Classify them according to capital, expense, and labor
- Set the numbers aside to refer to later

2. Get Your Asset Inventory Up-To-Date

- Document and understand the cost, value, and lifecycle of every technology asset in the company
- Document where those assets are used
- Identify who can answer questions about how the assets are currently used

3. Identify What You Do for the Customer

- List the services your customers use (NOT the ones you provide)
- No technical terms or acronyms
- Apply a sanity test to your Service Catalog (Can your Mom understand it?)

4. Map Costs to Services

- Document every cost necessary to deliver a service
- Identify costs that aren't tied to services and create new services or eliminate the cost
- Split costs if shared between resources
- Amortize service startup and lifecycle refresh costs over x years
- Break Services Down by Core and Ala Carte, i.e. determine what services are used by ALL users in the company. These are core services (Windows and Office). Then determine what services have limited use in the company, or are used by a limited number of users. These are Ala Carte services.

5. Implement Your Service Catalog

- Buy back all technology assets from the business units based on remaining useful life

- Publish the cost for each service
- Identify the users consuming the services and determine the user cost
- Share the information with business unit managers
- Start charging the users a subscription fee for their services

6. Measure and Improve

- Produce an Audit Bill: A formatted spreadsheet is used by the business unit managers to easily identify outliers for services within their department.

Computer Type	Computer Name	User Name	Controller	Division	Company	GL Code	Total Allocation	Mobile Device 1	Mobile Device 2	Direct Connect Printer	External Monitor	Application 1	Application 2	Application 3
Notebook	CName1	User1	II	Div1	1	77700.1.1	$4,000		1	1		1	1	1
Desktop	CName2	User2	II	Div1	1	77700.1.1	$3,700		1			1	1	
Desktop	CName3	User3	II	Div1	1	77700.1.1	$3,300		1				1	
Thin Client	CName4	User4	II	Div1	1	77700.1.1	$1,800	1					1	1
Total:				**Div1**			**$12,800**	**1**	**3**	**1**	**0**	**2**	**4**	**2**

Figure 1: Sample Audit Bill to easily identify Service Outliers

- Produce a Financial Bill: Miller-Valentine uses their GL system for internal billing with 1 page per cost center.
- Manage to a cost budget, pay from a revenue budget
- Create an experience-based system for adjusting costs
- Compete against outsourcing – if it can be done more effectively outside the organization, do so

Experience

In the first year, Miller-Valentine Group's IT department didn't cover their costs for software development. They found that they weren't tracking their billable time effectively. Since that year, they have been self-funding, despite the difficult economy and the decline in national real estate markets. When the business makes adjustments, IT has to make staffing adjustments to account for a decline in services revenue.

As part of a corporate reward system for associates, IT has an objective to reduce IT Technology "run" costs by 3% per year. This further reinforces their alignment with the business objectives.

Don't tell the Business No! The Miller-Valentine Group IT department will support whatever infrastructure or project the business wants within reason, but the business has to fund it. For services with high infrastructure costs and decreasing demand, the remaining users of the service may have to pay for the service at a higher subscription cost.

If a business department will invest in validated training programs that reduce their number of helpdesk calls, then they get a discount on their service fees.

Miller-Valentine Group's IT department reviews their service costs annually and adjusts their service fees based on actual costs. For example, if fewer helpdesk calls were generated for a given service than they anticipated, then they reduce that service's fee. They perform year-over-year benchmarking internally and benchmark with peer companies and external service providers to ensure they remain competitive.

Results: IT Alignment Happens

IT staffing and expenditures are tied to the fiscal health of the company. The recent economic downturn reduced the IT service budget by 11%. IT cannot hold the businesses as "technology hostages".

Service levels are clearly documented and understood. Business managers can take control and identify ways to reduce their IT costs, while IT is free to spend the money in whatever way best delivers the service in a cost constrained environment. It is a win-win situation.

Miller-Valentine Group has increased utilization of their IT assets from 83% to 97%. Since the business units no longer own their own IT assets, IT is able to redeploy assets more effectively across the company.

Behavior modifications have occurred as a result of the service level allocation system – for example, they have reduced their print fleet size with fewer personal printers.

Side Benefits

- Costs can be clearly carried to external jobs if the business unit chooses to do this.
- Models for funding new services are clearly understood.
- Highest risk projects (software development) are funded by the department with the need.
- IT operations become cost justified and cost competitive and win outsourcing deals.

Conclusion

Michael Gutman, VP of IT/IS at Miller-Valentine Group, can tell his customers their service cost to the penny! He knows that $40.06 of the cost of supporting an enterprise desktop for the year covers the cost of email, $4.34 covers the network jack on the wall, and $13.11 covers equipment disposal and environmental fees. Implementing a service level allocation chargeback system at Miller-Valentine Group has resulted in a commodity approach to IT that achieves year-over-year consistent cost control combined with the ability to respond rapidly to business needs as they are identified.

About the Author

Carol Hibbard has over 28 years experience in IT. She has spent the last 10 years focused primarily on IT Service Management, with a special interest in Configuration Management. She is currently a presales solution architect for HP's ITSM solutions based in Cincinnati, OH, and has held several positions in technical marketing, technical presales support, and implementation services with Hewlett-Packard. She has presented at multiple itSMF LIG events, holds an ITILv3 Foundation certification, and has served on the Ohio Valley LIG board as communications chair and is currently serving as membership chair.