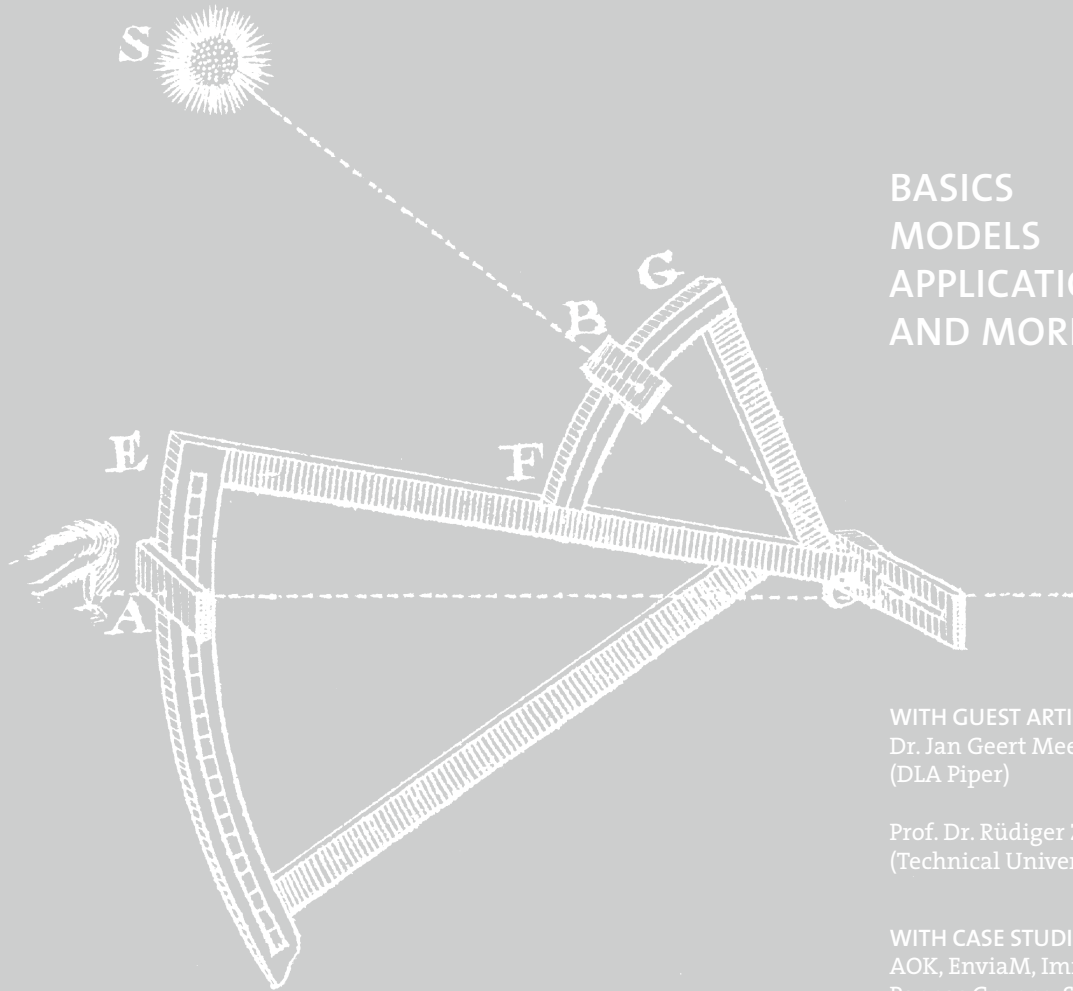


IT BENCHMARKING



BASICS
MODELS
APPLICATIONS
AND MORE

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MATURITY

compared with the actual services delivered and the utilisation of technology by IT departments. The evolution of IT showed that a number of industries, such as finance and the automotive industry, were forced by the requirements of the market to play a trailblazing role in certain sectors.

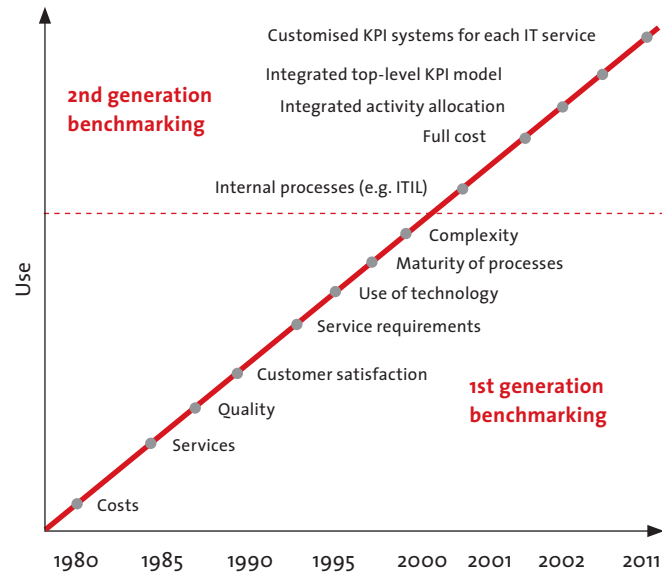


Figure 2: Benchmarking has developed from a simple comparison of costs and services into a complex system

For contemporary benchmarking projects, this means also having to consider the level of maturity of technologies and processes and the degree of organisation in a company. One of the biggest cost drivers in particular is the complexity of organisations, and not just in IT. Mapping this is a difficult undertaking, since in order to form an appropriate comparator group for the assessment the complexity of comparator companies needs to be of a similarly high

level. If no checks are made and a centrally managed company is compared with a decentralised company, the results obtained will be of little use.

Old school IT benchmarking had to adjust to the new realities. Previously, the classic comparison of apples and oranges in many benchmarking projects was the order of the day, and the business implications were not considered. Particularly when it came to outsourcing projects, this procedure was negligent as it is in only very few cases that clients roll out entire departments similar to the classic benchmarking cost models. Also benchmarking experts had to be able to judge objectively the prices charged for outsourced services.

Moreover, the costs that normally arise in the context of an outsourcing decision are not directly allocated to the IT department: these also have to be incorporated as appropriate. It is a similar situation with respect to potential savings: when a company decides to have its applications development work undertaken by a service provider to cut the cost of 300 programmers, this decision also frees up office space and HR resources. These interconnections were not sufficiently recognised in traditional benchmarking models. The standard ITIL (IT Infrastructure Library) definitions for service management terms and content proved to be an unforeseen advantage for IT benchmarking. Thanks to ITIL, it is significantly easier to compare IT processes.

About ten years ago, a “second generation” of performance comparison consequently evolved, in which internationally recognised standards such as ITIL were adopted and absorption costing, for example, was introduced. The growing service orientation was finally accommodated with a customised KPI model for all IT services. Thus the foundation was laid for a future benchmarking methodology which could cope with the increasing complexity of IT.

The IT Infrastructure Library (ITIL) developed on behalf of the British government is today the de facto global standard for IT service management. It contains comprehensive and publicly accessible professional documentation for the planning, delivery and support of IT service provision, and its suggestions for implementation are based on best practice.

METHODOLOGY

A typical second generation benchmarking project essentially comprises four stages plus good preparation. The actual objective of the project must always be defined right at the start. The definition of the area to be investigated and the level of detail of the questions depend on the original commission. Once these points have been clarified, all of the data which is the subject matter of the benchmarking project is captured from the client's current IT environment using questionnaires, workshops and interviews at the client's premises in the first stage. In the second stage, the information thus captured is checked to ensure it is accurate and complete. As a rule, this is carried out by means of preliminary comparisons with values accumulated from past experience and by analysing significant differences. The data captured in this way must then be prepared and normalised for comparison with database values and/or vice versa.

The normalisation or standardisation of data for complex organisations forms an important basis for benchmarking projects. It involves adjusting the indicators of peer groups so that they can be compared usefully with the client's indicators.

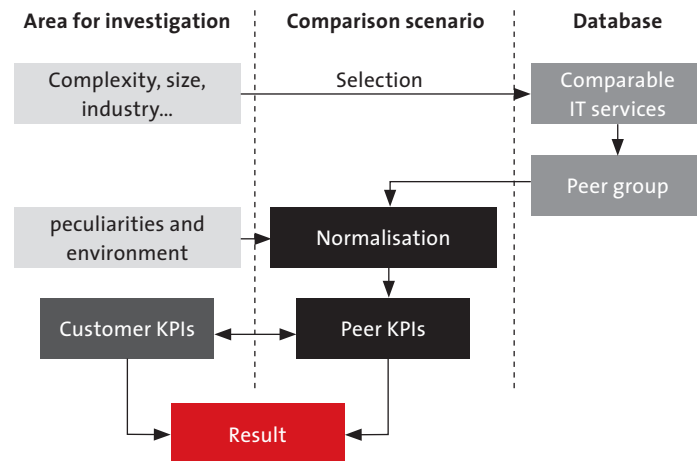


Figure 3: Factors in the benchmarking process that generate KPIs from the data and a result from the comparison and whose analysis is beneficial for the company

In the third stage, the relevant peer company comparison values from the database are identified according to certain criteria, such as complexity, volumes and industries. Then the actual comparison is made. Finally, in stage four, the differences are analysed. The consultant establishes the possible causes for variations and advises on strengths, weaknesses, opportunities and threats (SWOT). Within the normal SWOT analysis, they then work out proposals for improvements.

IT COSTS

The key component in the entire benchmarking process is purported to be the cost of IT. While often processes and quality are at the forefront in preparatory discussions for a benchmarking project as these are the pillars that support information technology, the significance of cost becomes increasingly apparent to all involved during the course of the process. Central to this is not only cleanly capturing the true cost of IT, but also identifying the "hidden costs". For the client/server environment, initial advances were achieved with the development of the Total Cost of Ownership (TCO) concept in recent years. This approach identified and assessed the shift of IT costs to decentralised functions, in particular to the individual business units of a company.

Despite this, secondary costs generally continue to be disregarded. These relate to the expenditure allocated to all departments for the HR and legal departments and other central services such as the canteen, for example. The reason for this is that it is relatively difficult for most companies to capture these secondary costs or at least to give a reasonable estimation. However, the massive trend of the past for outsourcing and the associated need to assess sourcing decisions and absorb benchmarking data into management accounting (controlling) make it essential that all costs are precisely identified. The aim can therefore only be an approach based on full costs.

IT costs are accorded a central importance in benchmarking in most cases. However, a sound assessment also requires a clean allocation of secondary overheads as well.

While Figure 1 shows the non-normalised comparison, Figure 2 shows the normalised comparison, which produces a different result. The example illustrates another problem of normalisation: a client may not always want to make a fair comparison – instead they would like shortcomings to be highlighted specifically. This is where a non-normalised comparison can also be justified. As the non-normalised result shows a different result that is, however, required or expected by the client, it could even be preferable because it serves a purpose.

Comparing non-normalised data can be useful strategically within the company.

Normalisation of data requires good data material plus experience.

Ideally, both values should certainly be highlighted. In practice, however, this unfortunately often leads to intense discussions about the normalisation values in principle: this can end in the principles of normalisation being discussed at greater length than the results of the benchmarking project! This then leads to another problem: it isn't generally possible to provide objective proof of whether normalisation at a given level is correct at all. Intelligent normalisations are a mixture of confidential data and expert knowledge – and benchmarking professionals will not divulge the recipe!

DIRECTION OF NORMALISATION

With every normalisation, the question arises as to which value should be used as a “reference” – in other words, who is being normalised to whom? In the above example, the reverse variant would also be justified for a fair comparison: in this case, for example, service 1 at company A would have the IMAC cost removed in order to arrive at the same result below the line, i.e. the desktop service of company B is more expensive.

Experience suggests that the current benchmarking environment should always be retained as the target environment in each case; in other words, the values of the comparator group should be adjusted to the client's figures. There is a simple reason for this: if the

client's data is normalised to a different alien environment, the client will soon fail to recognise their own data. The data then no longer corresponds to the actual financial and/or performance data that the client has collected. For a few indicators the values can easily be converted or estimated, but for complex benchmarking projects the client's official figures should be recognisable immediately. It is the comparative data for the company under investigation which should, therefore, always be normalised.

Another interesting aspect is the prospect of creating future scenarios for clients by means of normalisation. Considerations here include: “What would happen if these services/costs did not arise?” or “What would happen if other components were included?” Thus, normalisation provides an excellent means of providing a basis for these considerations and simulations.

EXAMPLE OF NORMALISATION

As an example of a simple normalisation exercise, let us describe normalisation as the basis of comparison. The process of adjustment in this case is applied to the basis of comparison for service units, whereby three computer centres (CC 1, CC 2 and CC 3) report the full cost shown in Figure 3 (annual cost per square metre). At first sight, CC 1 is cheapest. However, no account was taken of the fact that CC 1 had allocated and charged the cost of the entire area, while the other two computer centres had quoted the price of the floor space. It is easy to see that this is not a useful comparison when a further comparison is made using normalisation as described in Figure 4.

According to Figure 4, typically only 33 per cent of the entire area of the computer centre is actually available as floor space. After normalisation, a different picture now emerges as a result (see Figure 5). This normalisation takes account of the fact that areas are to be provided as circulation areas (e.g. corridors, staircases, lifts, com-

The data for the client's benchmarking environment should remain unchanged to ensure it does not become meaningless and to be able to use it for benchmarking later on.

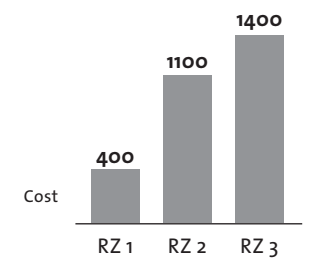


Figure 3: Comparison of annual cost on a non-normalised basis of comparison (i.e. different areas)

MARKET PRICE
BENCHMARKING
IN THE SOURCING
ECOSYSTEM

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The Employees perspective – originally entitled Learning and Innovation – should be reassigned specifically for IT BSCs to Opportunities & Threats so other important drivers of IT are not lost.

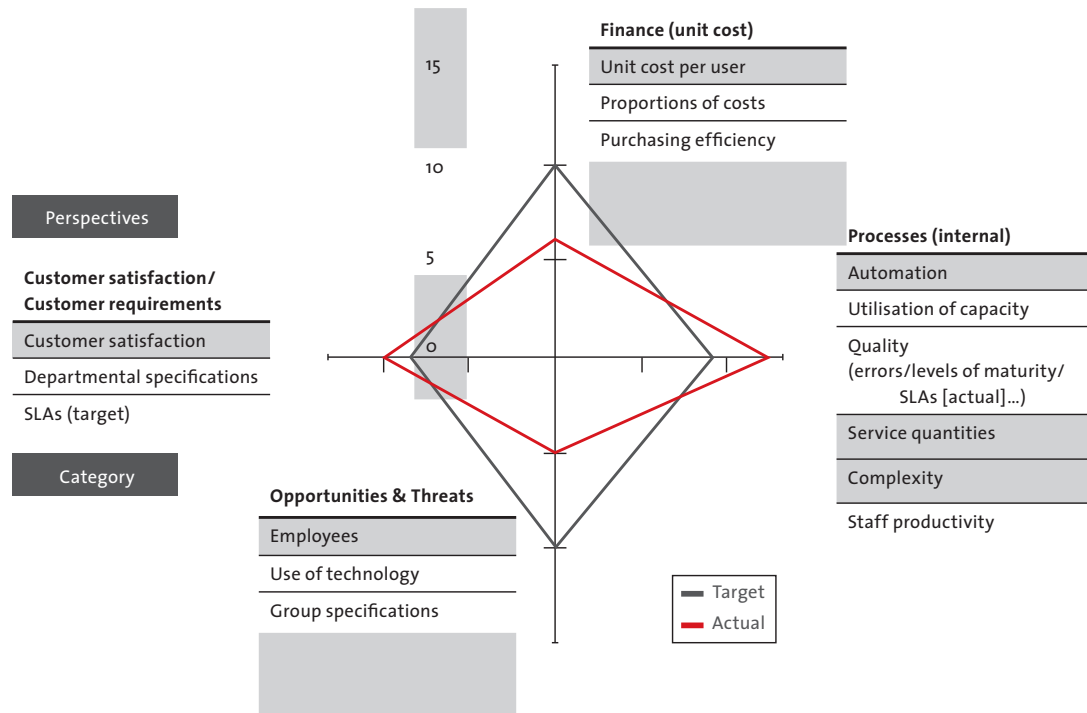


Figure 3: The four perspectives of an IT balanced score card

Due to the failure of a great many BSC projects, today's strategic KPI systems frequently tend to be described as IT dashboards or simply just as "top-level KPI models". Their structures tend to follow their own organisation rather than as specified by Kaplan and Norton. Operational KPIs, for example, can therefore be compressed at the level of applications right through to the whole of IT.

	Costs				Quantities				Quality		...
	Unit cost	Change as a %	Total cost	Change as a %	No. of users	Change as a %	Changes	Change as a %	Errors	Change as a %	
Total	€ 32.78	0.11 %	€ 68.963	0.69 %	2104	4.10 %	52	-6.90 %	67	-6.90 %	
App 01	€ 12.54	-1.20 %	€ 11.856	1.80 %	945	2.50 %	14	2.80 %	7	-5.20 %	
App 02	€ 7.35	1.42 %	€ 6.832	1.60 %	530	0.00 %	27	-10.40 %	23	17.30 %	
...											

Figure 4: KPIs for applications

Other possible categories for KPIs include services, manpower levels, customer satisfaction, employees' skills, the age of applications and new development as a percentage.

Operational KPI systems

Operational KPIs are needed at the level of IT functions, IT processes and IT services in order to manage them. In contrast to strategic KPI systems, a bottom-up approach tends to be found here. Most IT targets are the same for all companies: high quality at low cost. Only the way in which they are prioritised or weighted is found to be different. Accordingly, standard value drivers (e.g. technical complexity) can be defined using standard KPIs (e.g. the number of different operating systems in use). This means those responsible for services can manage IT unit costs in relation to rates of productivity and key cost drivers. These KPIs can also be compared with the market without requiring further input (i.e. benchmarking).

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IT BENCHMARKING

MATURITY

IT benchmarking helps organisations to compare their in-house IT performance. However, the aim of a benchmark is not to have the best IT but to improve current IT performance. Instead of simply placing figures on expenditure and earnings, the focus of benchmarking projects is to continue to develop IT. The aim of a comparison with other organisations is to identify best practice and errors from which competitors have learned lessons. The result of the benchmarking project provides management with guidance in a non-transparent market. This book describes the principles of IT benchmarking and is intended to provide both an informative and an easy to read guide to the process. Practitioners report the essentials for a comparison, what requirements must be satisfied and how the results can be used. To identify the status of their IT, companies can use best practice to be able to use the full potential of a benchmarking project.



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