**How to create a system for charging back IT services**

Keep it simple and be recognised as good value

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There are several key questions at the forefront of a CIO's mind when it comes to the provision of IT services in a recession. How can IT services be sensibly charged for? Can IT services be charged for accurately? And what value will the business realise if a granular charging model is adopted? Dean Branton, CIO of KCOM Group, has these suggestions.

Speculation about whether IT services can be charged for accurately has increased as [budgets](http://www.cio.co.uk/management/budgets/?intcmp=HPM2MS2) are stripped back and enterprises demand more accountability. Activity Based Costing - which is just one method of charging, focuses on identifying "actual" costs that can be attributed to lines of business with the aim of discovering "true" profitability.

However, for most organisations the cost of operating a system like this to identify costs and then apply recharges is a burden which would never provide good value. In order to attempt to run a granular system, resources would need to be employed and the time of key members of staff diverted into an administrative "merry go-round", which would be nonsensical.

IT has adopted a flat fee structure for the delivery of KCOM Group project work in order to avoid unnecessary overheads and operate efficiently. Irrespective of the project's length, or whoever is involved, a set daily rate is charged, regardless of specialism or seniority. This rate targets the IT department to break even. Day-to-day services are also recharged simply - the known costs (licenses, maintenance etc) are collected and the rest (Help Desk, Desktop Services etc) allocated on what Finance believe is the best split; this is generally based on head count.

Kcom finds this model particularly helpful with bid work, where Kcom is charged IT's standard daily rate and then resells this service at the market value. By helping to generate additional revenue from customers, the perception of the IT department within Kcom has been transformed from that of a cost centre to a vital business function. This change in perception has also been driven by IT's continued focus on bringing down costs whilst improving performance. Consequently, within the company, the role of the IT department has been widened to take responsibility for the Strategic Business Improvement team, Contact Centres IT team, as well as the recent deal with [BT](http://www.cio.co.uk/cio100/bt/177/) to outsource management of [Kcom](http://www.kcom.com/about-us/" \o "Kcom)'s national carrier network.   
  
In reality, many organisations have adopted a relatively simple mixed model of charging - easily identifiable costs are charged specifically to a business unit, and then an allocation method is used for those costs which are shared or have insufficient clear ownership. The shared costs are typically those that are fixed. In an ideal world, most organisations would like to convert their fixed costs into variable costs. This would allow the business the maximum amount of flexibility in leaner times. It is worth remembering that a simple pricing structure does not eliminate the potential disagreements between departments, but the resources required to recoup costs are minimal.

This should also enable the business to build a reasonable view of profitability, as well as ensure that pricing reflects the cost structure. One of the responsibilities of the IT department is to enable the business to be as flexible as possible. The trends towards [cloud computing](http://www.cio.co.uk/debate/3214577/defining-the-business-case-for-cloud-computing/?intcmp=HPF4) and SAAS, for example, must be considered as options in supporting this.  
  
As well as finding a charging model that suits the organisation, which should be as simple as possible, CIOs must identify how the IT department can best demonstrate its value to the entire organisation. Ultimately the wider business will support the IT department if it recognises the contribution that it makes to the enterprise as a whole. Today's IT departments must work collaboratively with all business units to help support and drive their commercial objectives forward.

The strategic direction of progressive IT departments is to be accountable, take greater ownership of delivery through transformation, and to develop opportunities towards making the IT proposition a value added function. Microsoft Office Communication Server was recently rolled out in our business. The initiative, championed by IT, has delivered cost reductions, by reducing travel expenses and improved productivity through online collaboration.    
Supporting the business through implementing new technologies and transformational change are now key responsibilities for the CIO. Helping to support process and organisational change quickly and effectively has a direct impact on company profitability. IT departments that are predominantly focused on "keeping the lights on" will face substantial cost pressure, while needing to demonstrate real value. Typically, such departments have ever increasing budgetary demands and fail to recognise the pressure that colleagues are under, as well as not recognising the importance of the IT department's role in adding value to the entire business. These traditional IT departments are failing their companies in the current climate and as such cannot expect support from the wider organisation.

By contrast, progressive IT departments that demonstrate additional value by supporting the business with transformation, continuous improvement projects and providing thought leadership, are seen as driving things forward on behalf of their colleagues and achieve a greater level of support within the business.   
  
All businesses need a charging model with some way of cross-charging or allocating cost to help give a broad understanding of profitability, and a means of helping to set realistic prices. This needs to be as simple as possible. The recharge debate generally arises because of dissatisfaction and frustration with the financial performance of the IT function and its failure to be seen to add value. If the IT department can prove its value, the organisation is more likely to trust the charging model it employs.

Elaborate systems of collecting and charging for costs will never be clear cut and inevitably there will be shared resources where ultimately an accountant will have to decide some basis for sharing costs. Our experience suggests that utilising the simplest model possible will both save time and money - and the lesson to learn is that no recharge mechanism will ever be right!

So what should CIOs consider when adopting a costing model?

1. Efficiency is key - this will help reduce costs. If the costing model being adopted requires substantial administrative resources then it probably should be reconsidered  
2. CIOs should be ready to champion the introduction of new technologies into the organisation that will deliver tangible cost benefits to the wider business. This is a fundamental way for them to add value and demonstrate "payback" on IT expertise.   
3. It is important that the perception of the IT department is transformed from the traditional view of a cost centre into a vital business function. Only by demonstrating leadership and creativity, allied with continuous improvement, will IT's true value be recognised. It's about adding increasing levels of value and becoming ‘sticky' with the business.   
4. IT must assist the organisation in meeting the challenge of reducing opex and capex with effective resource utilisation and management. Once this is achieved, IT can expect more support from the wider business.  
5. The IT department should partner and collaborate with the business to demonstrate commercial credibility. If IT is helping to win new business, it will be much harder for the organisation to justify arbitrary cuts to the department, or question how it charges for its services.