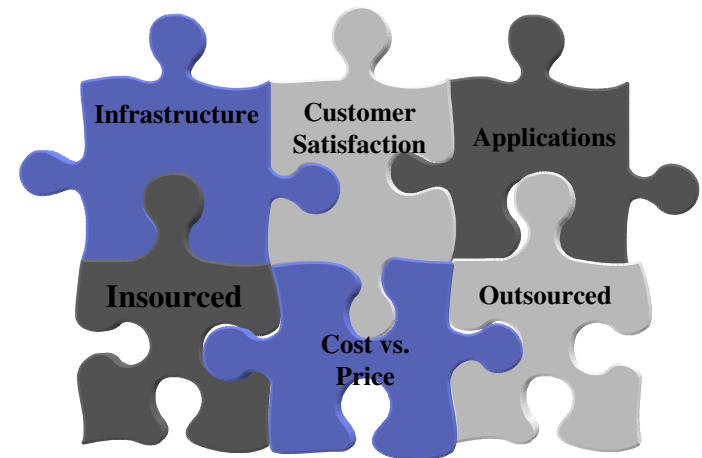# IT Benchmarking:

A Baseline For Improving Performance

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strategic consulting partners

Today's Discussion:

- IT benchmarks are important for an organization
- IT benchmarks help to minimize risk and maximize IT decisions
- Current state of IT benchmarking
  - Different types
  - Time involved
  - Cost in dollars and resources
- Results that you should see
- Benefits you should expect
- Should you recommend an IT benchmark?

Infrastructure

Customer Satisfaction

Applications

Insourced

Cost vs. Price

Outsourced

Overview:

- Not too many years ago, the IT benchmark was heralded as a "necessity" for many of the Fortune 500. CIOs used the results to impress the CEO or to justify budget increases from the CFO.

- It was a good idea then, it's a good idea today.

- Before you start you need to know what is available, what it will cost in time, resources and dollars, and what the benefits should be.

IT benchmarks are important if your organization is facing:

- Increasing competition in its industry sector
- Greater demands on IT to align with the business
- The need to demonstrate economic value
- The need to understand how competitive your IT services are
- The need to improve and optimize the delivery of IT services
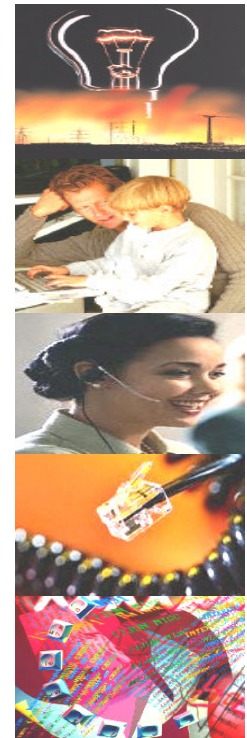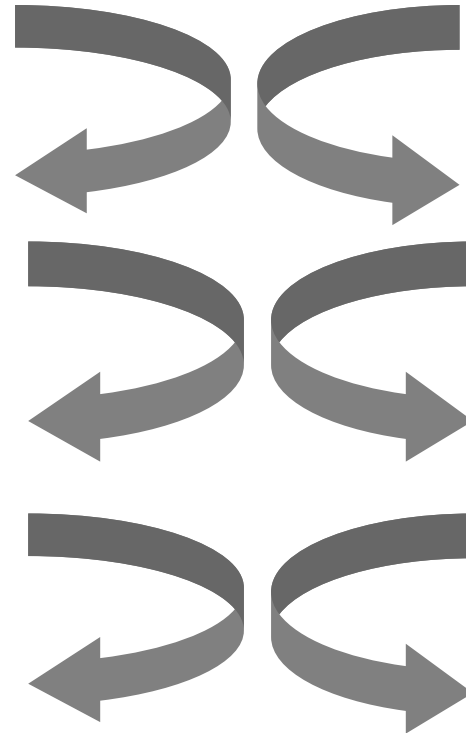
Building an IT-based competitive advantage has become a necessity. Ongoing benchmarking can ensure that your IT investment is delivering the best value to the organization

Reducing risk is all about being able to answer questions based on objective facts:
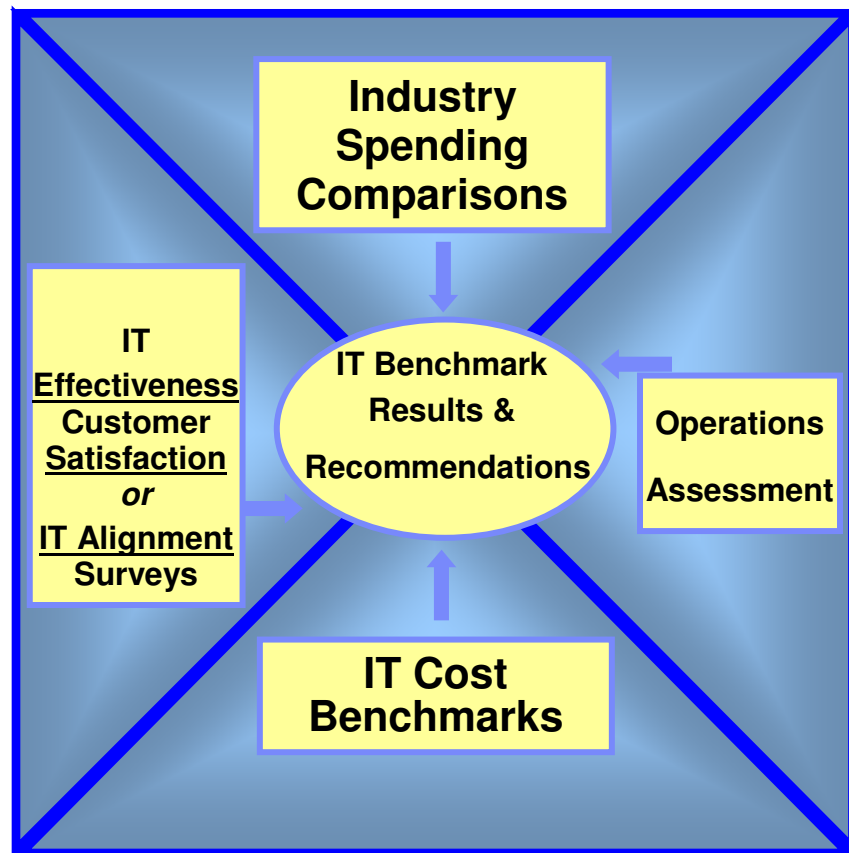
- How do my IT costs compare to others in my industry?
- How do my service levels compare to others in my industry and *best in class* organizations?
- What is our performance baseline and where should performance targets be set?
- Is my IT cost vs. quality tradeoff appropriate?
- What are the industry's best demonstrated practices, and how do I compare?
- How can I improve upon and optimize the delivery of IT services within my company?
- What is the level of customer satisfaction with the delivery of IT services

Today's IT benchmark must be able to provide a 360º view of IT performance

The IT benchmark has advanced from a detailed view of a technology tower to a holistic view of IT performance

The organization can be focused in one or a number of areas

- Peer/ industry comparisons
- Customer satisfaction
- Business – IT process
- IT effectiveness/value
- IT efficiency/cost

Industry Spending Comparisons

IT Effectiveness Customer Satisfaction *or* **IT Alignment Surveys**

IT Benchmark Results & Recommendations

Operations Assessment

IT Cost Benchmarks

Insourced or Outsourced, a benchmark for each

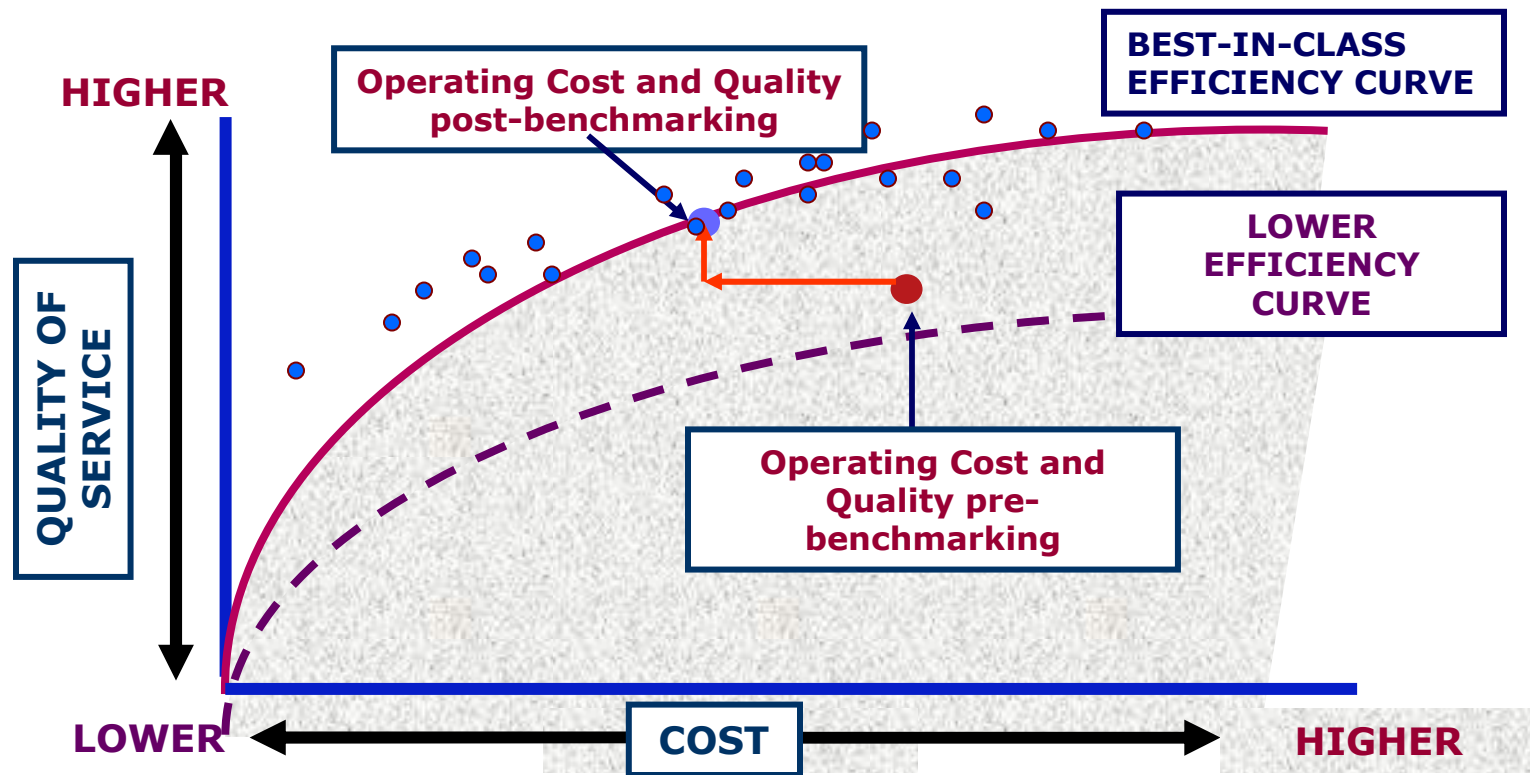**TWO TYPES OF BENCHMARKS**

COST/PERFORMANCE BENCHMARKING

PRICE BENCHMARKING
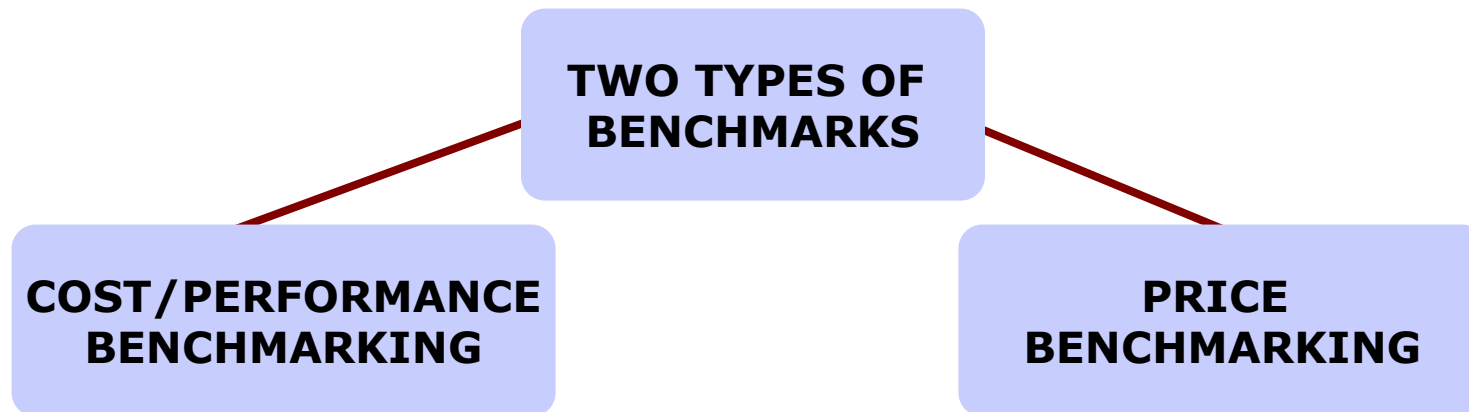
- Cost and performance benchmarking is for internally managed IT functions
- Allows an IT organization to compare their performance and costs to a comparable workload or industry peer group
- Identifies opportunities for improvement

- Price benchmarking is for potentially or already outsourced IT functions
- Assists companies to determine if outsourcing is a viable option
  or
- To determine if they are paying a fair price

Cost Benchmark Value Proposition: Better, Faster, Cheaper…

BEST-IN-CLASS EFFICIENCY CURVE

Operating Cost and Quality post-benchmarking

LOWER EFFICIENCY CURVE

Operating Cost and Quality pre-benchmarking

HIGHER

QUALITY OF SERVICE

LOWER   COST   HIGHER

- Cost Benchmarking addresses both cost _and_ quality of service issues

Key Benchmark Metrics:

IT Functional Area	Metric
Distributed Computing	Cost per User
IT Help Desk	Cost per Handled Contact
Mid Range Server	Cost per Server
Wide Area Data Network	Cost per Connected Device
PBX Telecom	Cost per Extension
Wireline Telecom	Cost per Minute

Cost Benchmarking will answer a number of questions:

- How do my costs compare to peer, industry and best practices?
- What are the best-demonstrated practices in the industry, and how do I compare?
- What can I do to reduce and improve performance?

Cost Benchmark Coverage Areas:

Midrange – Intel	Help Desk/Call Center
Midrange – Unix	Desktop/LAN
Wide Area Data Network	Mainframe Data Center
Telecom – Long Distance	Applications Development
Telecom - Wireless	Applications Support

The Price Benchmark:

- Purpose: Evaluate IT service offering and estimate "fair market" price

- Applicability: Designed to meet contractual benchmark clause requirements. Also used for internal cost comparison to external market for sourcing decisions

- Process: "Normalize" similar outsourcing deals to "unique" service profile or "Uplift" costs to include vendor markup

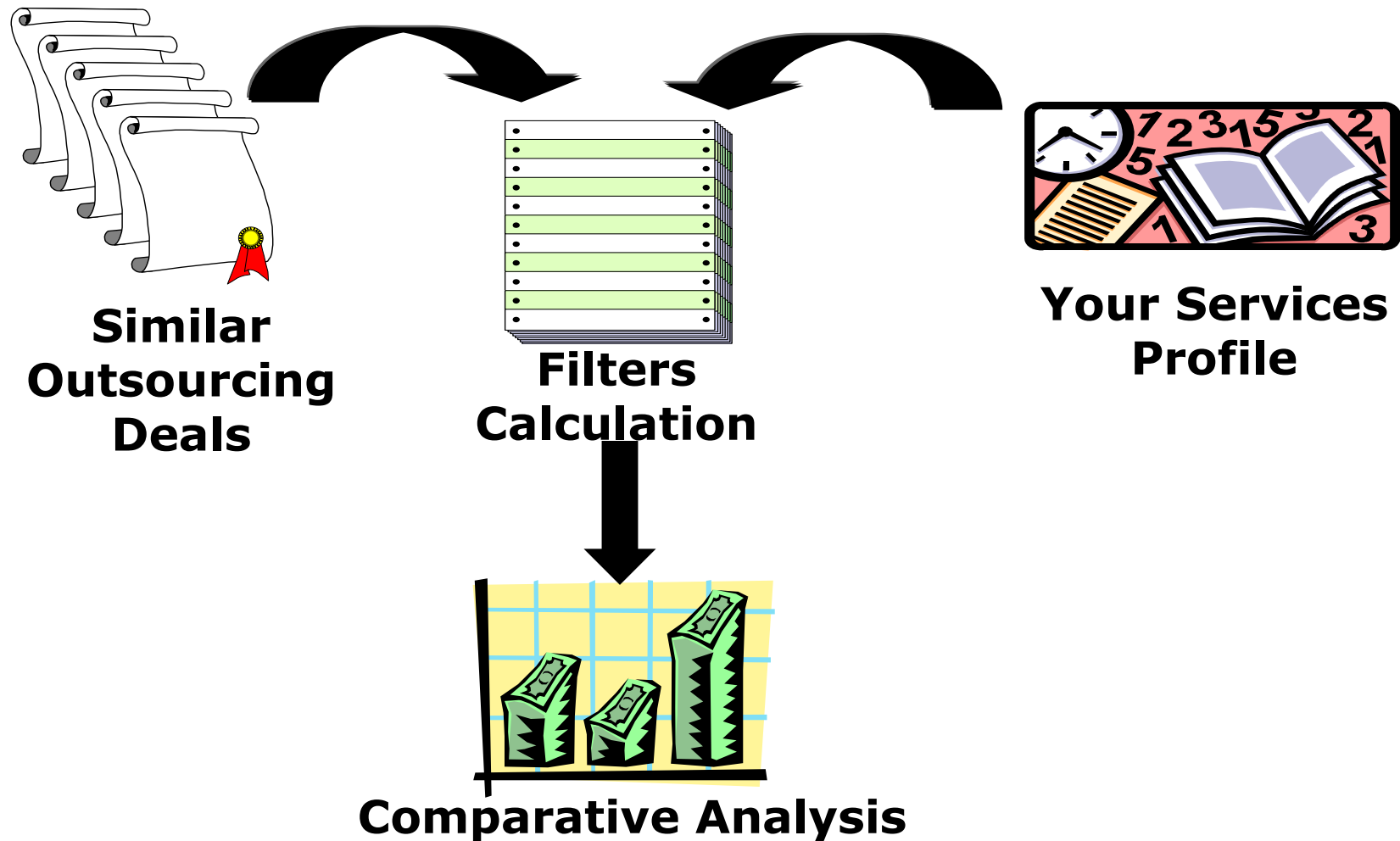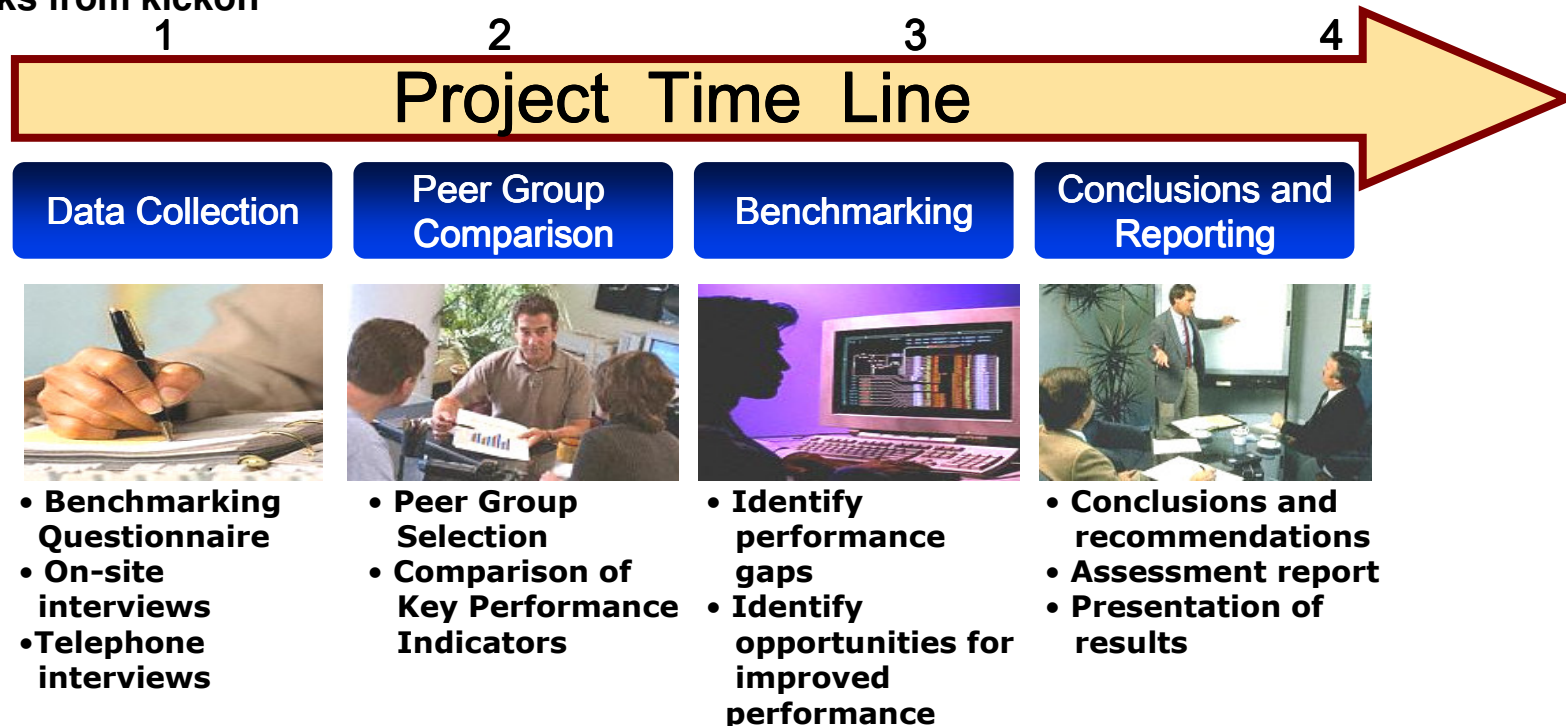## Coverage Areas

Help Desk
Desktop/LAN
Midrange
Mainframe

Price Benchmarking: "Normalization" Methodology

Similar Outsourcing Deals → **Filters Calculation** ← **Your Services Profile**

↓

Comparative Analysis

How long does it take and how much effort

Weeks from kickoff

	1	2	3	4

Project Time Line

Data Collection	Peer Group Comparison	Benchmarking	Conclusions and Reporting

- **Benchmarking Questionnaire**
- **On-site interviews**
- **Telephone interviews**

- **Peer Group Selection**
- **Comparison of Key Performance Indicators**

- **Identify performance gaps**
- **Identify opportunities for improved performance**

- **Conclusions and recommendations**
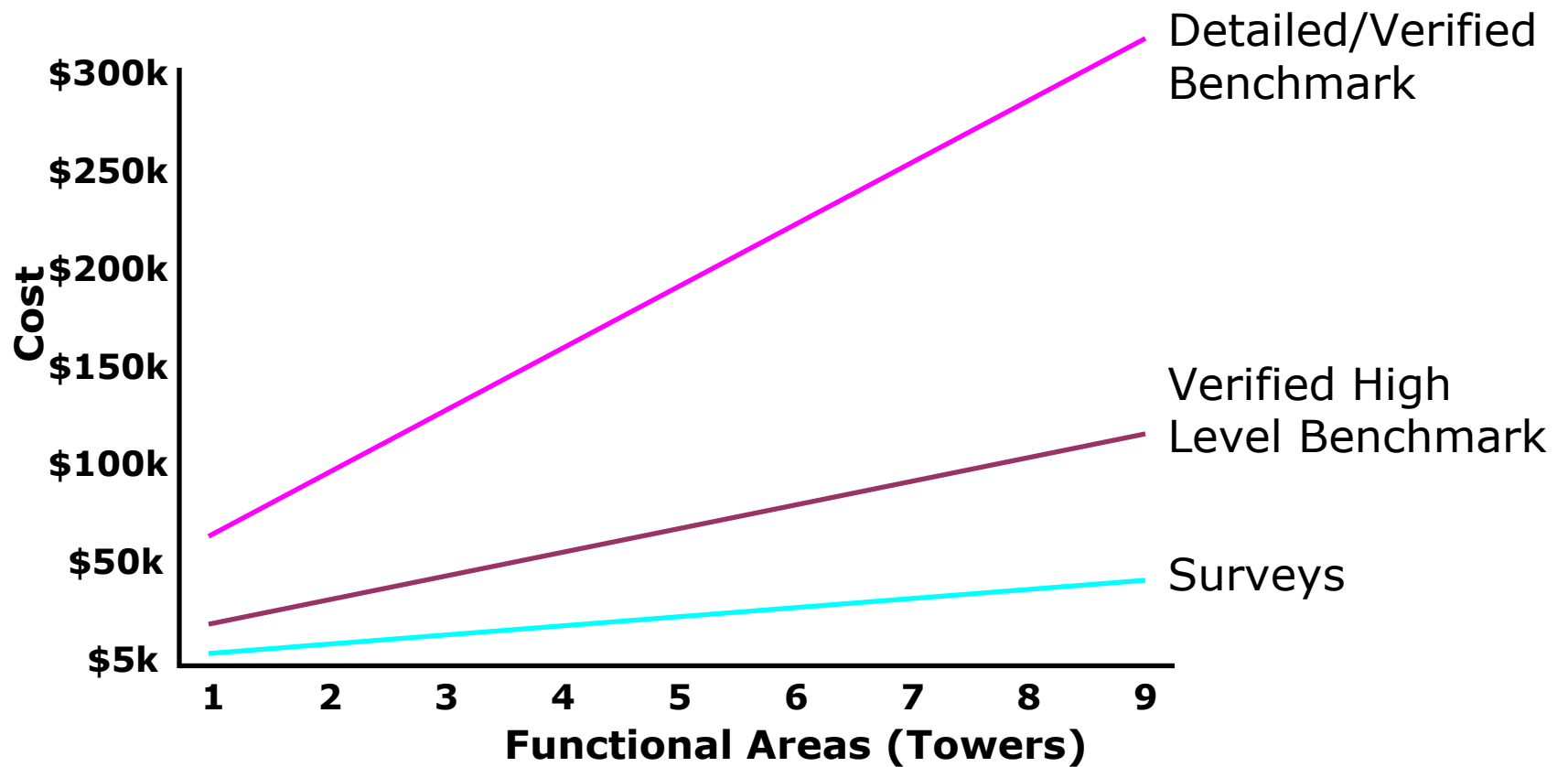- **Assessment report**
- **Presentation of results**

An organizations level of effort will depend on how well organized the data is and past experience. Organization's that are well organized, should spend no more than 2 days per technology tower for data collection and automated data entry.
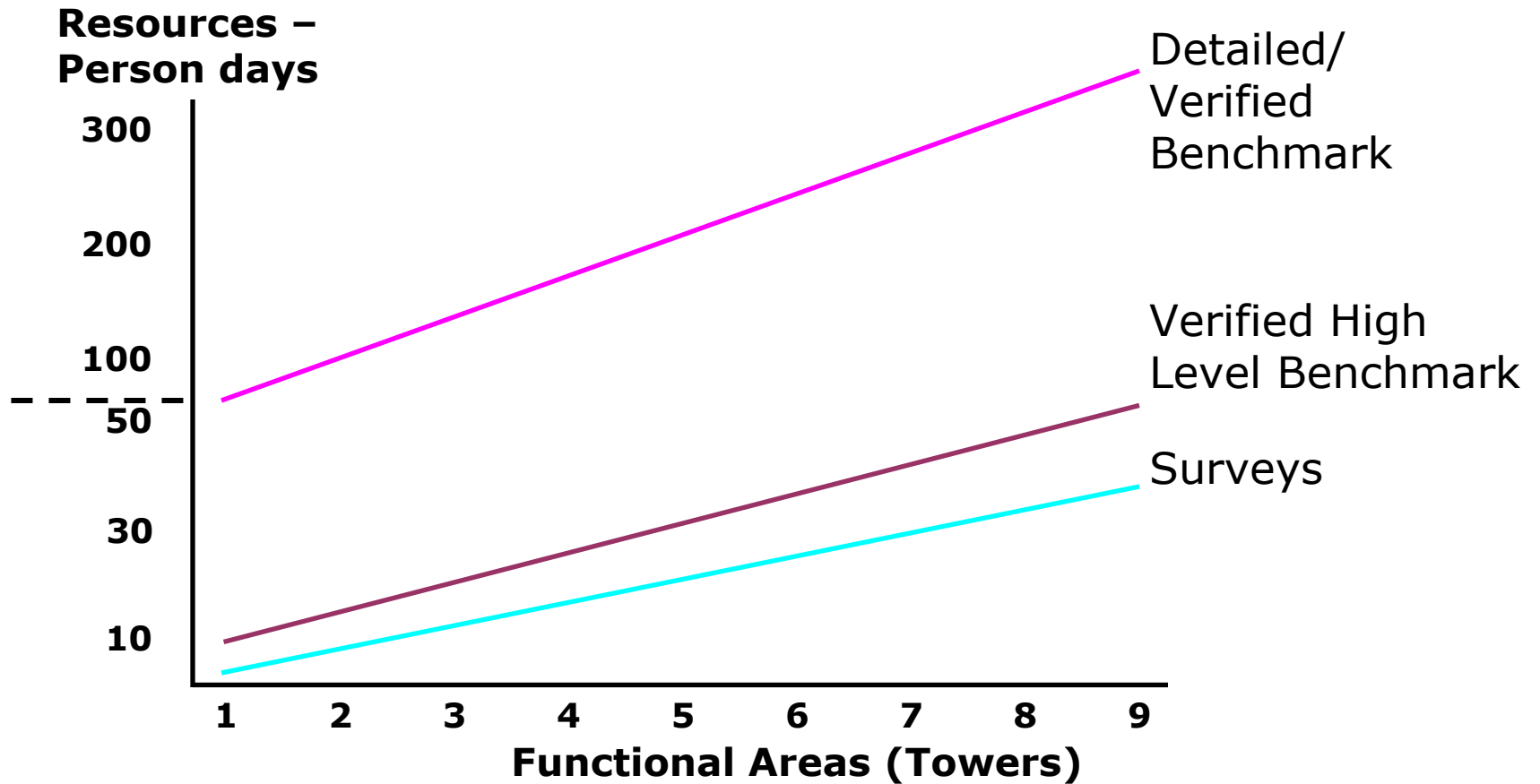
Benchmark cost in dollars and resources:

- IT benchmarks vary in size (dimensions) and complexity (detail of data collection)

- Quick surveys of single tower functions can take 2-3 hours and cost <$5,000

- Multi-functional areas with great detail can take over 6 months and cost in the $100,000s

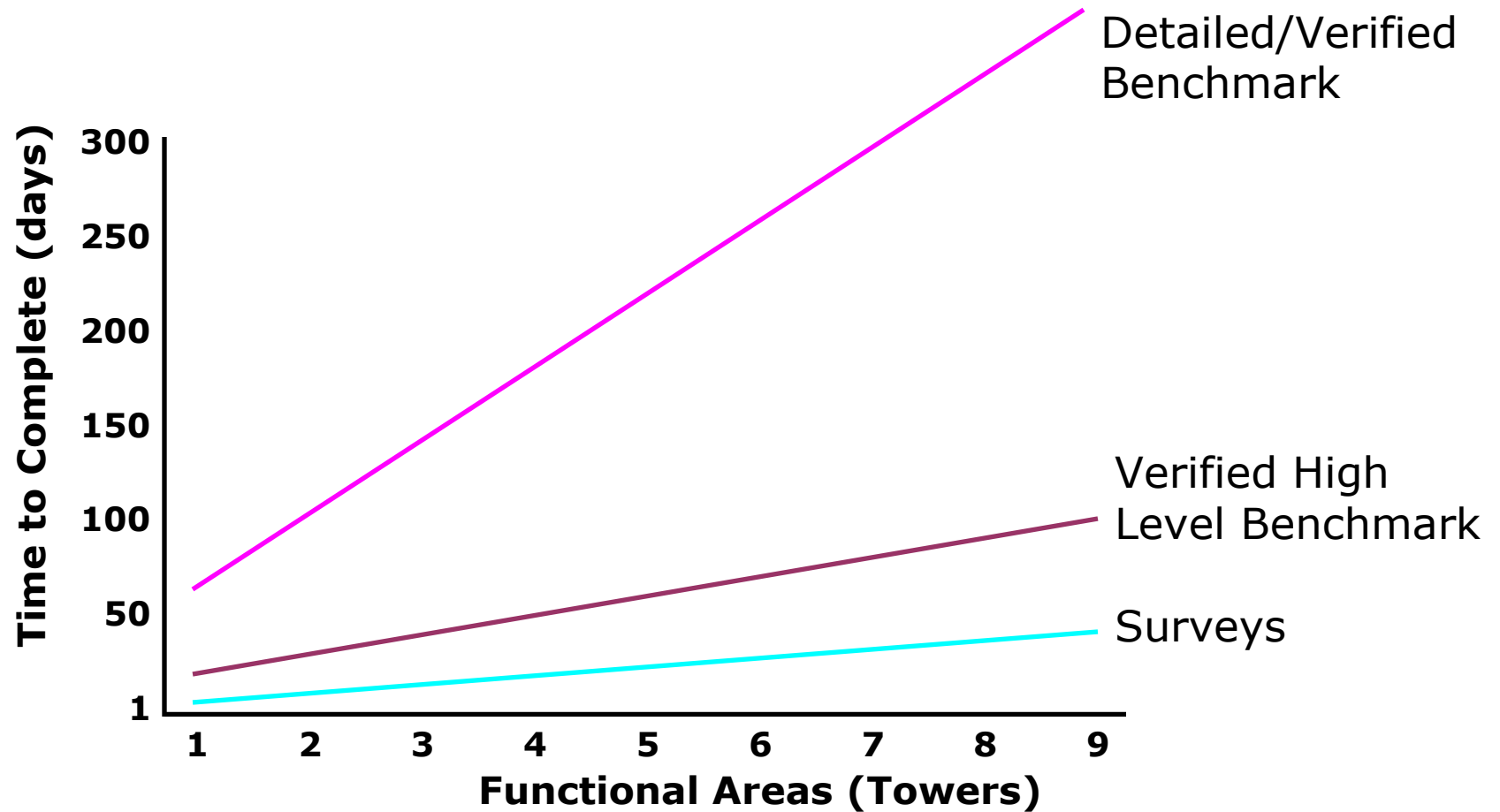# Benchmark cost in terms of dollars:

Chart showing Cost (Y-axis: $5k, $50k, $100k, $150k, $200k, $250k, $300k) vs Functional Areas (Towers) (X-axis: 1 through 9), with three lines: Detailed/Verified Benchmark, Verified High Level Benchmark, and Surveys.

Benchmark cost in terms of resources:

ITPMG

Time involved in a benchmark:

Chart: X-axis "Functional Areas (Towers)" (1 to 9), Y-axis "Time to Complete (days)" (1, 50, 100, 150, 200, 250, 300). Three lines: Detailed/Verified Benchmark, Verified High Level Benchmark, Surveys.

Results you should expect:

1. **<u>Observations</u>** of why your costs are what they are:
   a. Contextual and meaningful to your situation
   b. Focused on objective performance criteria
2. **<u>Assessment</u>** of IT process performance and how they impact total performance
3. **<u>Actionable recommendations</u>** to improve performance and move toward *best in class*
4. **<u>Accurate comparisons</u>** of your cost or price to industry and/or work group peers
   a. Comparisons focused on your organization's greatest areas of interest and importance

For examples of actual results see the slides in the "For your consideration" section

Benefits you should expect:

- You will have a more thorough understanding of your IT cost structure
  - Objective and accurate communications with CFO
  - Unambiguous statement of efficiency to your business peers and senior management
- An accurate understanding of your performance <u>baseline</u>
  - In order to begin the journey of *continuous improvement,* the starting point must be established
  - Improved capability to set achievable and measurable performance targets
- Knowledge of which specific areas of performance to focus on in order to achieve the greatest gain
- Establishment of critical Key Performance Indicators that can be tracked into the future

Benchmarking Success Factors:
Turning Data Into Action

- *Leverage Experience:* Benchmarking is not just about databases and number crunching. Individuals performing benchmarks should have experience and a working knowledge of the industry/trends and a cause-and-effect understanding of results.

- *Measure Against Peers:* Every benchmark should involve comparison against a unique peer group. Selected groups should be normalized using criteria such as volume, spending levels, and service offer differences. This apples-to-apples comparison is far more insightful and valuable than "canned reports" against industry averages.

- *Avoid Invasive and Time-Consuming Data Collection:* Benchmarkers must be aware of IT executive and staff time constraints. Flexibility in data collection approaches are necessary to complete an accurate benchmarking analysis with minimum disruption to the organization (questionnaires, in-person interviews, telephone interviews, on-site observation, etc.).

- *Seek Actionable Insights:* Benchmarks go well beyond the comparative tables that typify many benchmarks. A successful benchmark is characterized by actionable recommendations to yield immediate and long-term improvements. A comparison is of little value unless it outlines specific steps to improve efficiency and effectiveness.

Should you recommend an IT benchmark?

- IF there is room in your organization for improvement…
- IF you think there has been improvement, but don't know where you are or can't measure it because you don't know where you were…
- IF the demand for IT services continues to grow, but your budget can't…
- IF there is any question about the "Value of IT"

<u>and</u>

- IF you approach the benchmark with an understanding that improvement is a continuous effort worth undertaking…
- IF you commit the time and resources to completing the benchmark, considering the results and their potential impact, and implement the recommendations

Then, ABSOLUTELY – YES! You should do an IT benchmark because there is much to Gain!

Thank you

and now

Questions and Answers

For Your Further Consideration

What is a benchmark?

- A standard by which something may be measured or judged

What is an IT benchmark?

- There are two distinct types of IT benchmarks
  - A technical benchmark that compares technological aspects of a product or service against standard specifications
    - E.g. Floating point performance using SPEC CPU2000
  - A cost comparison of individual IT towers within the context of:
    - Business requirements, service levels, process performance, customer satisfaction and other factors
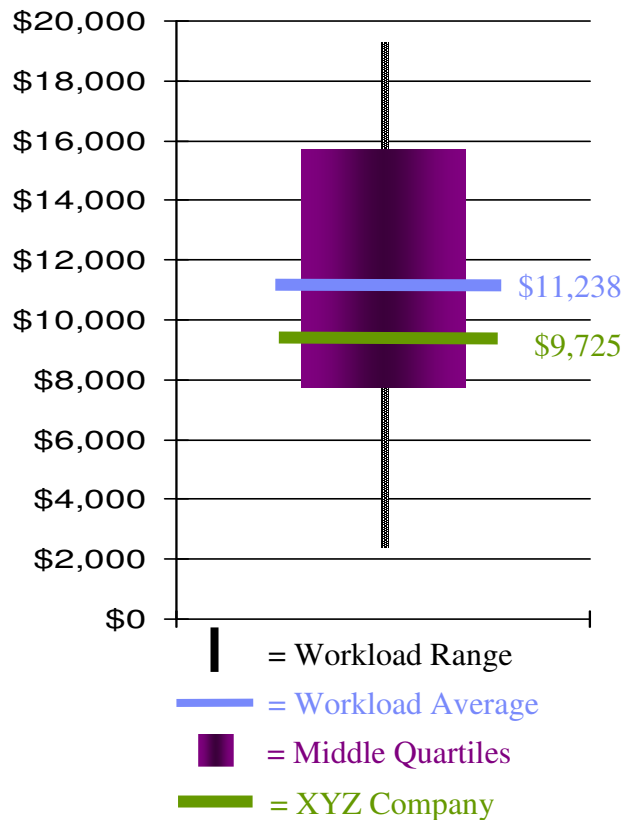
What will the benchmark provide?

- A controlled, repeatable result that establishes an individual or a set of performance "indicators"
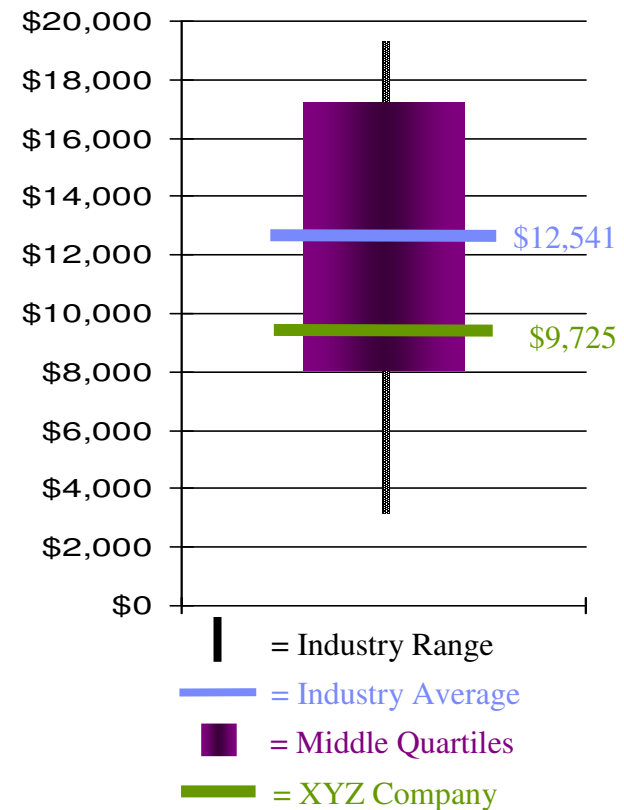
Glossary:

- **Tower**: refers to a specific area of IT e.g. mainframe computing
- **Consensus Model**: a consistent, comprehensive view of an IT tower inclusive of all those elements that make up its cost, consumption and resources
- **Database**: The comparative population of other organizations that your organization is compared to
- **Peer Group**: The specific set of companies within the database that your organization will be compared to
- **Workload Peer**: Those organizations that exhibit the same technology, distribution, consumption, security level, etc. as your company
- **Industry Peer**: Those companies that are in the same industry as yours regardless of their workload profile

Results You Should Expect to See

**IT Spending per Company Employee – Workload Peer**

- $11,238 (Workload Average)
- $9,725 (XYZ Company)

| = Workload Range
= Workload Average
■ = Middle Quartiles
= XYZ Company

IT Spending per Company Employee - Industry

- $12,541 (Industry Average)
- $9,725 (XYZ Company)

| = Industry Range
= Industry Average
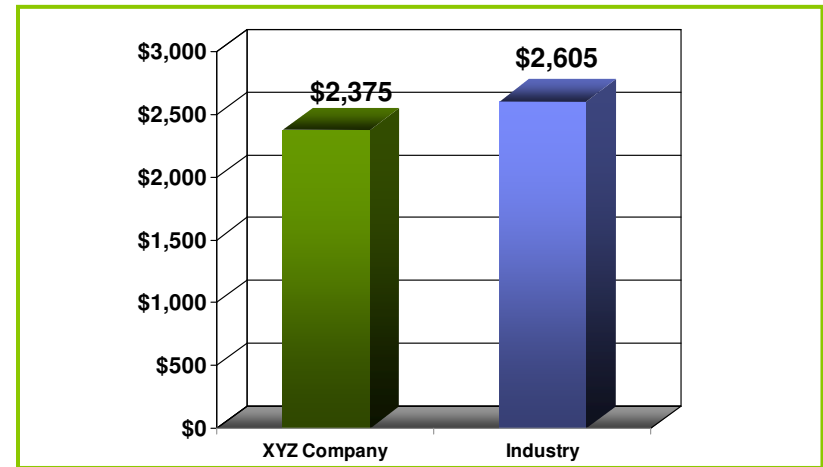■ = Middle Quartiles
= XYZ Company

Results You Should Expect to See

Cost Per User Per Year – Workload Peer Group
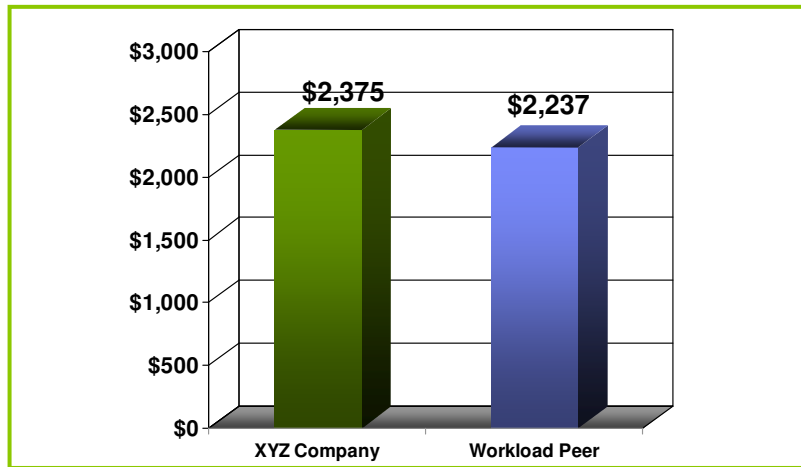
Cost Comparison Range	Annual Desktop LAN Server Cost (M)	Cost Per User
Low	$10.93	$1,540
High	$12.40	$1,859

Complexity of Desktop LAN Server

XYZ Company	66
Workload Peer	68

Cost Per User Per Year – Industry Peer Group

Cost Comparison Range	Annual Desktop LAN Server Cost (M)	Cost Per User
Low	$10.93	$1,540
High	$12.40	$1,859

Complexity of Desktop LAN Server

XYZ Company	66
Industry Peer	59

How an IT benchmark is conducted

The data is entered into the "engine" for analysis

- Data is "scrubbed" and issues brought to client's attention
- Peer groups selected
- Comparisons made
- Results analyzed
- Observations made
- Conclusions drawn
- Recommendations made

IT Spending per Company Employee

$20,000	
$18,000	
$16,000	
$14,000	$11,238
$12,000	$9,725
$10,000	
$8,000	
$6,000	
$4,000	
$2,000	
$0	

= Industry Range

= Industry Average

= Middle Quartiles

= XYZ Company
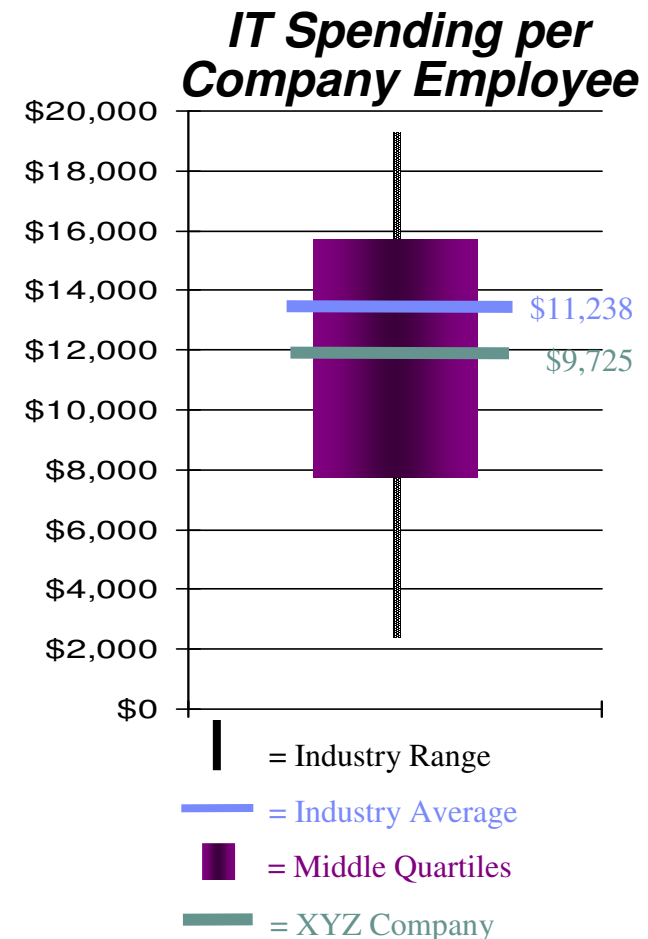
Characteristics you should look for when selecting a benchmark

Manageable
- Usable
- Repeatable
- Reliable
- Unambiguous
- Timely
- Portable

Representative
- Purpose specific
- Predictive of real behavior
- Cleary defined & understood metrics

Scalable
- Over a range of technologies
- Over multiple disciplines

Citable
- Architecture agnostic
- Ubiquitous
- Sharable without undue restriction

Benchmarks must be usable and credible