Blog for KedarIT: A new, less stressful approach to IT Allocation Strategies.

Allocations are high-level formulas that were designed to distribute IT cost pools, but trying to make them accurate is an exhausting and taxing process that anyone in IT management dreads. The Business reason generally cited for these Allocation strategies is cost recovery. The corporation wants to associate all IT costs with the various business units to measure their expenses vs. profits, and use these calculations to determine upcoming IT projects and budgets.

From a governance point of view, however, holding business unit leaders accountable for their bottom lines let alone special projects, is a taxing and time consuming battle. The Business Units quibble about costs and attempt to micromanage the CIO.

Every year, Business Units complain that IT costs too much. They claim that their share of the allocations is unfair and that they're subsidizing other business units. Occasionally they demand benchmarking or outsourcing studies to try to prove they're paying too much. Countless valuable hours (And budget dollars) are wasted justifying why IT costs were distributed as they were.

Perhaps your IT department has even implemented service-level agreements (SLAs) in hopes of better managing Business Unit expectations. Try as you might, often Business Units don’t understand what their allocation bought them.

Recently you may have read an article or two encouraging you to start thinking about allocation in an entirely different way: as a prepaid account — money put on deposit with IT at the beginning of the year in order to buy products and services throughout the year.

View it as a prepaid account for IT services, that has some form of “checkbook” accounting for the Business Unit attached to it. This “checkbook” accounting can range from very simple to very complex, but needs to clearly show your Business Units where their money is being spent.

By using the money in that “checkbook”, Business Units can decide which products and services they'll buy. True, much of their “checkbook” may be immediately used up by their agreed upon annual SLAs for specific "keep the lights on" services... but you will be sending educated Business Units into their annual meetings with CFO, and they will be able to clearly articulate what their minimum individual IT budgets need to be each year.

However, this “checkbook” approach means your IT department must submit a clearly defined budget that forecasts the cost of proposed products and services. A budget by deliverables (in ITIL, it's called "service costing") helps Business Units plan how much to put in their budgets for their portion of the IT allocation strategy. It also means extracting a Business Unit price sheet from the numbers in the budget, that clearly reflects the real cost of Business Unit overhead and IT requests.

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