IT Allocation Strategies That Optimize Your Results

\*\*We may need to shelve this one for a bit. Not a lot out there on Allocation Strategies that optimize your results. See below for what I could find.

Number one: Every year, clients complain that IT costs too much. They claim that their share of the allocations is unfair and that they're subsidizing other business units. (They all say that. Go figure the math.) Occasionally, they demand benchmarking or outsourcing studies to try to prove they're paying too much. Countless valuable hours are lost justifying why IT costs were apportioned as they were.

Number two: Clients attempt to micromanage IT

Number three: Clients didn't understand what their allocation bought them.

The IT department had implemented service-level agreements (SLAs) with the hope of limiting IT's liabilities (a.k.a "managing expectations"). But despite a bureaucratic dance every year that produced piles of paperwork, clients went on expecting lo Why do people impose allocations, when they invariably lead to such troubles? The reason generally cited is cost recovery. The corporation wants to associate all costs with the various business units to measure their respective contributions to profits costs more than IT could possibly deliver.

 Allocations are high-level formulas that distribute cost pools, and trying to make them accurate is like trying to make a silk purse out of a sow's ear. Nonetheless, to whatever degree of accuracy people wish to pay for, allocations do succeed at the accounting objective of assigning IT costs to business units.

From a governance point of view, however, holding business unit leaders accountable for their bottom lines and then imposing a tax they can't control is begging for a fight. Of course they're going to quibble about costs and attempt to micromanage the CIO.

think about an 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. Viewed as a prepaid account, an allocation creates a checkbook owned by clients, albeit on the books of the IT department. Using the money in that checkbook, clients can decide which products and services they'll buy. True, much of that checkbook may be used up right off the bat when clients agree to annual SLAs for specific "keep the lights on" services. But they'll understand where their money is going.

Full cost means not just direct costs but also a fair share of all indirect costs, just as vendors do in their pricing.

This means submitting a budget that forecasts the cost of proposed products and services, not expense codes like travel, training, licenses, etc. A budget by deliverables (in ITIL, it's called "service costing") helps clients plan how much to put in their budgets for their IT allocation. It also means extracting from the numbers in the budget a set of rates (a price sheet) that tells clients the real cost of their requests.

Second, IT must implement some form of checkbook accounting. I say some form because this can range from very simple to very complex.

On the simple end of the spectrum, annual SLAs can be deducted from the checkbook at the start of the year or in equal monthly increments. Projects can be subtracted from the checkbook balance at the planned rate, without costly time cards and infrastructure utilization accounting.

the important strike against chargebacks is that they create a relationship between IT and the business that is confrontational, not collaborative – not the best way to bring value to my employer.

More reasons to consider annual allocations:

* *Increases IT and Business Agility*: Specific projects can start and stop as requirements change, without having to renegotiate costs and resources. This would also help shift thinking from Projects to Programs – fluid collections of deliverables, with teams that can quickly flex when needed.
* *Shifts the conversation from Costs to Benefits*: Instead of scrimping on component costs, business can focus on the benefits they are targeting.
* *Bolsters the Case for Integrated ERP*: A reasonably complete allocation model will put all costs for siloed systems on the business areas that use them; typically, integrated ERP with common technology and less handoffs should streamline this overhead and reduce those costs.