



How To Identify & Measure "Real Dollar" Savings From ROI

"Show Me The Money"

A Jade Communications Solutions White Paper

This white paper presents a solution to measuring and defining cost savings from IT investments. Organizations look at technology investments as a means for a competitive advantage but many times business executives are left pondering the real gains. Could the definition of "reducing costs" be an alignment gap between IT and Business? Is IT measuring productivity results while Business is looking at reducing real dollars and improving cash flow? This white paper will define the breakdown of IT costs, identify opportunities for reducing measurable "real dollars" and finally, show how a New Paradigm enables these results.

By:

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*You can't improve what you can't measure
You can't measure what you can't define
You can't define what you can't find or identify.*

How To Identify & Measure "Real Dollar" Savings From ROI

Business goals and expectations can be summed up in four points:

- Grow revenue
- Reduce expenses
- Grow beyond market growth rates
- Control cash flow

IT Investments are evaluated and executed to achieve these business goals; the challenge though is in measuring the end results. Did the investment improve the business financial and market position and if so, by how much? Without defined measurements and results, IT must prove their value through efficiency gains and showing potential savings by avoiding costly downtime. Is efficiency cost savings what the business is looking for or is business looking for definable, measurable money that can be mapped to the organization's financial bottom line?

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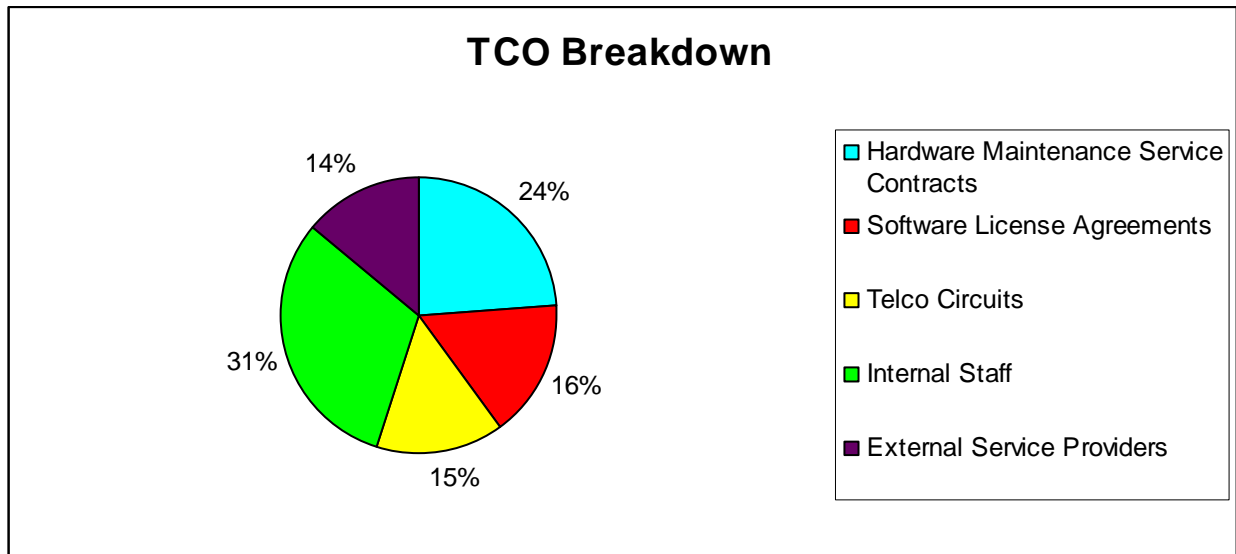
It's been widely publicized that IT costs are growing faster than most organizations desire. Organizations look at consolidating, converging, outsourcing and open-sourcing to deliver services more economically. In an organization's quest to improve services at reduced costs, they will spend on average \$2 in ongoing operational expense for every \$1 dollar investment. These numbers are reflected from numerous IT Staffing & Spending Surveys¹, showing that Operation Expense, (OpEx, or sometimes referred as Total Costs of Ownership, TCO), is growing much faster than Capital Expenses or CapEx. If TCO is the area we should be focused on, then it's important to understand what in the IT budget constitutes TCO, how TCO can be reduced and what, if any, can organizations do to reduce these costs. It's also important to understand how under utilized assets can be optimized to reduce CapEx.

¹ Source: Gartner Group IT Spending and Staffing Survey Results, 2003



Identifying TCO Opportunities For Real Dollar Cost Savings

The following pie chart displays the breakdown costs of TCO reflected in a typical IT budget



Source: Gartner Group IT Spending & Staffing Survey Results, Metrics reflect Industry Averages

Using the following information, we can start to calculate areas where an organization can reduce TCO costs by identifying areas of over-spending for assets that are under utilized, not in use or non-existent.

Example:

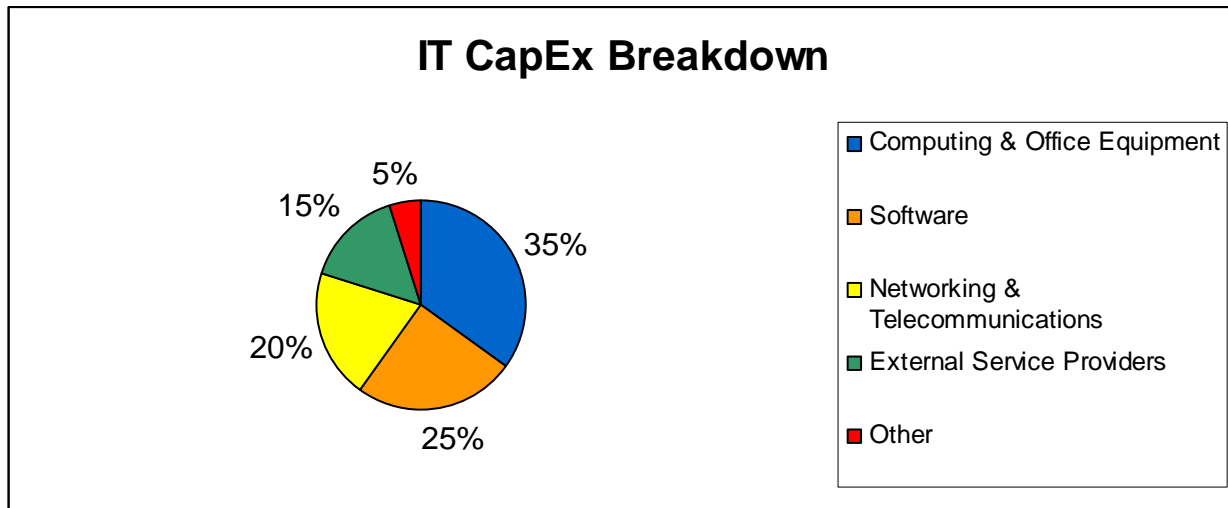
Business: High-tech Entertainment - \$ 3.0 Billion in Revenue
 7,000 Employees
 IT Budget: 3% of revenue or \$90 Million
 OpEx or TCO: 2/3 of IT Budget: \$ 60 Million
 CapEx: 1/3 of IT Budget: \$ 30 Million

TCO Breakdown	Breakdown Costs - TCO	Reduce By	TCO Savings
Hardware Maintenance Service Contracts	\$ 14,400,000	10%	\$ 1,440,000
Software License Agreements	\$ 9,600,000	10%	\$ 960,000
Telco Circuits	\$ 9,000,000	10%	\$ 900,000
TCO Real Dollar Savings			\$ 3,300,000



Optimizing IT Assets

The following pie chart displays the IT Capital Expenditures reflected to the IT Budget



Example – Continued

The calculated IT CapEx Budget is \$30 Million. A realistic reduction in CapEx if an organization could identify and or redeploy under utilized assets is reflected below.

IT CapEx Breakdown	Breakdown Cost - CapEx	Reduce By	CapEx Savings
Computing & Office Equipment	\$ 10,500,000	10%	\$ 1,050,000
Software	\$ 7,500,000	5%	\$ 375,000
Networking & Telecommunications	\$ 6,000,000	10%	\$ 600,000
Total CapEx Savings “Real Dollars”			\$ 2,025,000



Business & IT Efficiency Gains

The following is an example of "cost savings" that industry ROI models project to justify the need for an organization to invest.

Downtime Avoidance Cost Calculation: Reduce 10 hours of Downtime

Example Continued

7,000 Employees with a \$ 60/ hour average fully loaded labor rate.

Application Downtime affects 50% of workforce

Application Downtime causes a 50% average impact on job duties

$7,000 * 50\% \text{ workforce} = 3,500 \text{ employees affected by downtime}$

$3,500 \text{ employees} * (10 \text{ hours downtime} * 50\% \text{ impact}) = 17,500 \text{ hours of lost productivity}$

$17,500 \text{ hours} * \$ 60/\text{hour} = \mathbf{\$ 1,050,000 \text{ in annual cost savings in downtime avoidance}}$

Reduce Change Management Costs by 25%:

350 changes per year, with an average cost of 1,750 per change

$350 * \$1,750 * 25\% = \mathbf{\$ 153,125 \text{ in annual cost savings in change management}}$

Reduce Help Desks Service Calls by 25%

14,000 Help Desks Calls with an average of \$25 per call

$14,000 * \$ 25 * 25\% = \mathbf{\$ 87,500 \text{ in annual cost savings in Help Desk reductions.}}$

Total Efficiency Gains: \$ 1,290,625, rounding up - \$ 1,3M in annual Cost Savings

Question: How many "real dollars" are invested to receive cost savings in "efficiency dollars?"

"While business efficiency is critical, the calculated monetary gains cannot be translated to "cost savings" to the organizations bottom line or diverted to fund other projects."

Improving employee productivity is important to every organization. Organizations constantly look to IT departments for innovative ways to streamline business processes, improve communications, ensure availability of applications and secure critical business information. While business efficiency is critical, the calculated monetary gains cannot be translated to "cost savings" to the organizations bottom line or diverted to fund other projects.



The Challenge

Organizations have been looking to IT for answers to reduce costs and in doing so have explored and implemented many solutions. To reduce costs, they add more hardware, software, circuits, maintenance contracts, license agreements and the costs keep growing and growing. This vicious circle continues as do the increasing costs. As the IT infrastructure grows, so does the complexity and the infrastructure becomes almost impossible to know

what you have, where everything is located, who's using what and how much is being used.

While the opportunity to reduce TCO and CapEx looks straight forward, the ability to gather the data is not. Not only must an organization be able to discover their assets in a multi-vendor environment but must also correlate this data with business, accounting and facilities data to get a clear picture where overspending exists for unused and non-existent assets.

“No software or hardware tool exists today that can capture business and technology data together from multiple sources and restructure the data into actionable information.”

Obtaining Results Involves Correlating Business & Technology Data

The calculations to reduce TCO and CapEx look rather simple. However, the reality is that no known system or tool exists today that can capture business and technology data from multiple sources and restructure the data into actionable information. To do this, an organization must go through a difficult and complex process:

- **Define** & Create secured repository – meet internal information protection policies
- **Capture** Data from Technology Operations, Facilities, Accounting, Business Administration, Network Operations – Deposit into separate secured folders into an company secured repository
- **Validate** common data and create Error Correction Files, to correct existing business systems
- **Synchronize** data from multiple business and technology sources including cost center relationships
- **Reconstruct** the corrected and correlated data into actionable information
- **Provide** Accounting with import files containing identified assets that are “Not in Service or Not Found”, correlated to specific contract number for each asset
- **Submit** Corporate Accounting maintenance/software license cancellations to each vendor identifying each specific asset to be cancelled and any retroactive, recoverable funds that may be applicable based on vendor's billing specifications.



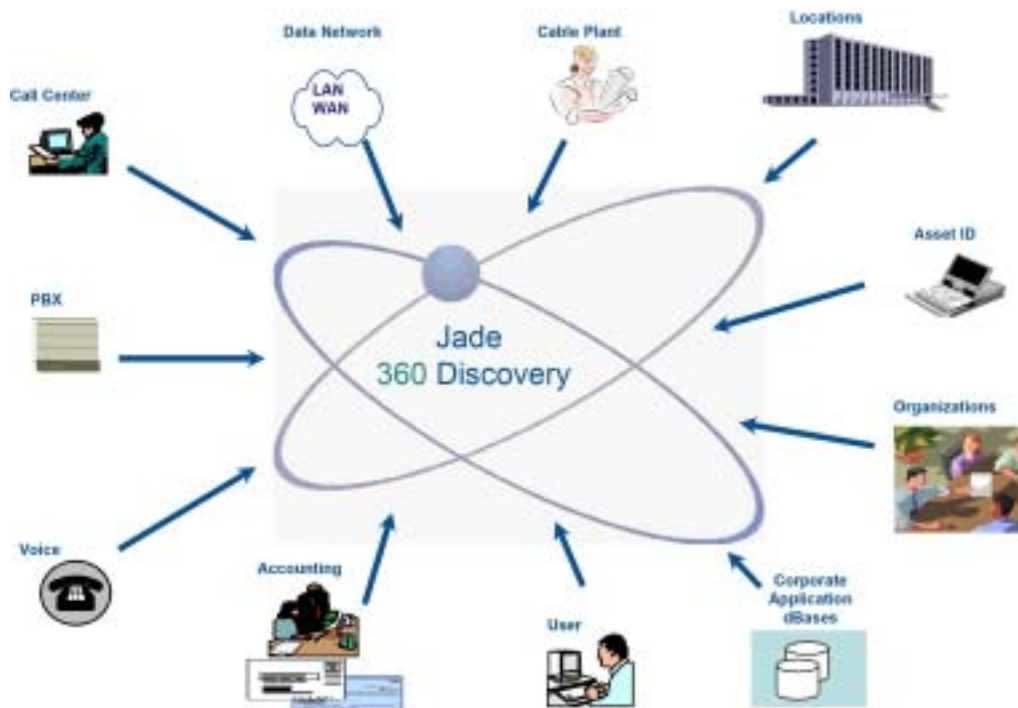
New Paradigm To Enable Real Dollar Savings

Jade 360 Discovery is a service that captures, correlates and restructures business and technology data into actionable information enabling true cost savings and business efficiency. Jade 360 Discovery service is automated (computer based), non-intrusive, secure, involves minimal customer involvement to execute, results within weeks of initial engagement and positive cash flow within months of project completion.

Jade 360 Discovery will provide “**360 Actionable Information**” like:

- Who – user, department, region, cost center etc...
- What – technology & business assets, applications, physical plant infrastructure
- Where – the physical location – Region, City, Building, Floor, Closet, Office
- How Much – Asset counts, Asset maintenance costs, Software license allocations, Physical capacities and physical utilization metrics.

360 Actionable Information can be formatted for direct import into existing operational support systems or populate new CMDBs for immediate use to improve business performance.



The core of Jade 360 Discovery is the capability to capture raw, non-sensitive business and technology data from multiple systems, departments and locations and then correlate, validate, correct, synchronize and re-structure the data into actionable information.



Jade 360 Discovery Business Case

Financial:

- Positive cash flow within months of project completion
- Proposals are quick win, assume at least a 4:1 ROI in “Real Dollars” in current year
- Low risk; preliminary results received before first payment
- Invoice can be accompanied by a detail breakdown to appropriate cost centers which benefit from the information.

Implementation:

- Preliminary results in 3-4 weeks of initial engagement
- Minimal customer involvement, Jade provides Champion and staff to engage and secure information from each department.

Security

- Non-intrusive data collection
- Work within customer’s security policies and procedures
- Service captures only Non Customer-Sensitive data.

For a customized ROI model for your organization, please contact sales@jadecommsolutions.com.

Summary

Organizations are looking for ways to reduce their technology costs. Adding more technology to solve the challenge continues the trend of increasing costs. Efficiency gains are important but the cost savings can’t be translated to the bottom line or diverted to fund other projects. For costs to be reduced, they must be measured in “real dollars”.

A new paradigm exists, where business and technology data can be captured, correlated and restructured to produce actionable information. The results will enable organizations to significantly reduce TCO and CapEx costs and divert real dollars to the bottom line or fund other projects.

Real Dollar cost savings are now possible with the services of Jade 360 Discovery.



About Jade Communication Solutions:

Jade Communications Solutions is comprised of a team of experienced business and technology leaders. Having assisted many organizations with implementing, managing and supporting multiple technology platforms over the years, Jade recognized the biggest challenge for businesses was in managing and controlling its IT infrastructure and data to support business objectives. Today, Jade focuses on helping organizations elevate business performance through Jade 360 Discovery.

About the author:

Greg Shoff: Vice President of Sales & Marketing. Greg has over 20 years of experience in leading organizations with providing customers with solutions to their business challenges. Experience and knowledge in various IT Infrastructure solutions including networking hardware, software, physical plant and professional services. Greg is ITIL Foundation certified.

For more Information

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