

Managing the cost of it operations

Technology



Rowland Roland is about to consolidate the 70 production NT servers and is contemplating installing the IM-System to provide capacity utilization numbers for the NT servers to more effectively manage and possibly reduce the number of NT servers required in production. Apart from this, he also wants to push management to make use of the numbers provided by IM-System to effectively identify and manage the cost drivers of the IT operations. Should the IM-System be installed and how should the numbers be used in the future? Analysis

IM-System is trying to solve the problem of capacity utilization of IT resources (mainframes, UNIX servers, NT servers). The existing analytical tools are not adequate to provide a consistent measure across the various servers. Since the numbers from each machine are different, it is tedious and difficult to come up with accurate overall utilization of the IT resources. As a bank that is trying to bid up its acquisition price based on the seamlessness of its IT operations, a centralized management system is needed. IM-System provides for a consistent way to measure the utilization across all servers in a given IT system.

IT facilities of small scale may be able to operate effectively without a system such as the Provment System. However, when one is trying to effectively manage an IT portfolio of such a large size, an interface that manages capacity and ultimately cost is necessary. While the measurement method of the Provment System may or may not be optimum, a manager needs to understand how much equipment is needed and the appropriate cost structure to allocate to the equipment. In the case Roland didn't

understand how much equipment was needed or the correct costs to associate with usage.

After the Provment System was installed Roland began to understand exactly what his costs were and was able to find better ways of managing the manpower and equipment needed for the bank centralized strategy. Centralization of IT is a method in which to develop economies of scale. IT portfolio management (using a real-time analysis tool) is necessary to ensure that economies are realized. One may assume that Roland is beginning to develop his portfolio management strategy and is currently in the " Defined" and moving towards " Managed" stage of Jeffery and Lelivelds' " Best Practices in IT Portfolio Management", Spring 2004.

Aside from the economics of an IT management interface one must analyze the customer side of the equation. In order to provide adequate service to your customers you must be able to maintain your technological infrastructure. How can you do so without monitoring it? We see from this example that if a company needs a stable (and low cost) IT infrastructure they must monitor it to do so. Recommendation We recommend that Roland should continue with the capacity utilization package IM-System and consolidate his NT servers to provide the same cost savings as the UNIX server consolidation provided.

The bank is up for a possible acquisition. A consolidated IT system that is controlling its cost and is efficient in managing its resources has value to a possible acquirer. Also the IT system is central to the bank's success, the managers should view this exercise as a production management problem

and so the IT systems should be enhanced as much as possible for superior performance. It is a question of quality. Implications of recommendation One important implication in the move to consolidate NT server is that the NT servers might not be as under utilized as the UNIX servers.

It could be that the consolidation process and the subsequent IM-Systems installation might only free a few servers and might not even cover the expenses of installing IM-System. There is also the problem of consolidating NT servers without problems as opposed to UNIX servers. UNIX is built on a more robust technology and the system has a sophisticated kernel that manages itself more efficiently. NT on the other hand relies on too many local libraries. It could very well be that a few applications might not run on the consolidated NT system due to missing or misplaced local libraries.

Another implication of the IM-System running on different IT systems is that the measure of RU might not be comparable between the systems. The numbers have to be taken into the context of what it means for that particular system. This contextual parameter increases the complexity of the reported numbers for managers who would ideally like to see one number across all IT systems. Apart from this, one of the biggest concerns about the IM System would be the implementation and choices of cost drivers for the financial analysis.

Management accounting systems are not standard for every company, and therefore there is the potential for misinterpretation and mistakes based on RU measurements. As for the measurement unit, it can provide a basic benchmark in terms of usage statistics adjusted for various variables to

compare capacity. However, due to management accounting issues it could be very difficult to compare various systems based on different cost allocations. One company or division within a large company could allocate costs differently, even on a full cost basis.