

TAKING A BITE OUT OF OVERHEAD

THE DEFENSE DEPARTMENT'S TECH BUDGET HAS TOO MUCH 'TAIL,' NOT ENOUGH 'TEETH.' HOW ABOUT YOURS?



The U.S. Marine Corps calls it the "tooth-to-tail" ratio.

That is how the service branch evaluates the effectiveness of its Expeditionary Units, Air Wings and Marine Divisions. The "teeth" are the riflemen, artillerymen, combat pilots and commandos who deliver firepower. The "tail" is all the overhead personnel—barracks staff, administrators, purchasing agents, recruiters, logistics managers and drill sergeants—who keep the lights on, the troops fed and prepared, and the supplies coming in, but don't actually engage in direct combat.

This is a useful ratio to apply to your company's information-technology budget. How much of your technology spending actually supports competitive actions—the teeth of your business' operations? And how much is allocated to support functions such as finance, personnel, corporate management, logistics and infrastructure—the tail?

If more money is spent on the tail than the teeth, the tail is wagging the war. And you can consider your attempt to battle for more business to be ineffective.

To illustrate what one can gain from such an examination of a technology budget, I analyzed the 4,121 Department of Defense projects that make up the projected fiscal year 2006 spending of \$30.1 billion.

Shockingly, the amount of money spent on teeth—\$7.6 billion—is only about a third of the almost \$22.5 billion spent on the tail of Defense Department technology operations.

That ratio is low compared with those of major corporations. The budget also reveals a high correlation between staff compensation and overall technology spending. In fact, spending on technology staff amounts to about 20% of total payroll at Defense.

An extraordinarily large percentage of money is spent on infrastructure. More than half of the tail projects—1,891—tend to perpetuate incompatibilities in data and applications. Without radical simplification, Defense's vast range of systems tends to generate chaos. That makes it hard to conduct war. Or defense.

Such chaos also depletes the funds needed to adapt Defense to new circumstances. Fully 51% of the depart-



ment's information-technology budget is spent supporting the infrastructure. That's \$15.3 billion a year spent simply on maintaining existing hardware and software—and not resolving incompatibilities.

This complexity is apparent from an examination of fiscal year 2006 spending patterns. Some 86% of Defense Department infrastructure projects have budgets of less than \$10 million. For the military, that's pocket change. Not much systems integration can get accomplished with projects of that size.

There are 1,627 project managers laboring to keep alive whatever local infrastructures were put in place years ago. There are only 21 large-scale projects with budgets exceeding \$100 million (for a total of \$5.91 billion). This money is spent to support organization-specific needs. The Air Force has five projects for \$800 million; the Army three projects for \$423 million; the Navy four projects for \$805 million. The balance of the money is divided among four agencies for coming up with mission-specific solutions.

To what extent does such a comparison of teeth to tail spending apply to commercial organizations?

Consolidating hundreds of legacy accounting or logistics applications is likely to yield only marginal improvements unless a new, low-cost, greatly simplified infrastructure consisting of an Internet-like network and a universal metadata directory is put in place beforehand. And by keeping track of the tooth-to-tail ratio, a company can identify where excessive resources are consumed by any part of its technology operations that doesn't make a direct difference in market share or profitability.

That's the best way to put some bite back in your technology operation. ◀

PAUL A. STRASSMANN (PAUL@STRASSMANN.COM) HAS FOUND THAT OVERHEAD-LADEN I.T. SYSTEMS CAN BLUNT A COMPANY'S ABILITY TO COMPETE IN THE MARKETPLACE.

MILITARY TECHNOLOGY: MISSING TEETH?

	NUMBER OF PROJECTS	BUDGET CATEGORY	FY 2006 BUDGET (IN BILLIONS)	PERCENT OF TOTAL
TOOTH	585	Warfighter	\$7.64	25.4%
TAIL	1,891	Infrastructure	\$15.33	51.0%
	102	Acquisition	\$0.25	0.8%
	251	Finance, Accounting	\$0.64	2.1%
	440	HR Management	\$2.22	7.4%
	680	Installation, Logistics	\$2.55	8.5%
	172	Planning, Budgeting	\$1.44	4.8%
	4,121	Total I.T. Spending	\$30.07	100%

SOURCE: STRASSMANN INC.