

MEASURING VALUE

Does Your Tech Budget Have Teeth?

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Time to make a case for your information-technology department's annual budget to the CEO?

The typical chief information officer's presentation shows line-item spending for hardware, communications, applications development, maintenance and overhead. Most likely, it breaks out money devoted to startup projects from annual operating costs, including labor, hardware and software, as well as training.

For another view, identify the "tooth-to-tail" ratio of your I.T. budget (see "Real Numbers," p. 30). That ratio is often discussed in terms of the portion of defense spending for combat troops (tooth) vs. outlays for support—logistics, supplies and administration (tail).

In information technology, the "tooth" represents the portion of

spending on projects intended to yield a competitive advantage. That includes the direct operating costs, excluding overhead or fixed costs, of computer applications used by salespeople, brand managers and market researchers, customer service reps, or other staff.

The "tail" has two major areas of spending. First, there's direct operating costs of applications attributable to functional departments such as purchasing, finance and accounting. Put the staff managing the I.T. department in the back-office category, or identify it separately. Next, figure out the cost for infrastructure such as servers and network connections.

To calculate the tooth-to-tail ratio, divide the costs of servicing customers and coping with competition by the sum of all other information-tech-

nology costs. Your I.T. budget may warrant further review if:

- ▶ Your infrastructure costs consume more than one-third of your budget and are rising faster than your total I.T. budget.

- ▶ If your ratio of direct I.T. support to customer and competitive applications is anywhere close to 1.0, your overhead costs are likely to be excessive.

- ▶ Support functions eat up more I.T. per capita than money-making operations.

Tooth-to-tail ratio analysis can display the structure of technology spending in ways more in tune with CEO thinking than the usual budget presentations. If your numbers are not better than those in our worksheet example, get to work to deliver a more convincing story next time. ◀

▶ TOOL: Figuring Your Tooth-to-Tail Ratio

Discussions about military budgets often focus on how much money is allocated to combat troops (teeth) vs. administration, logistics and other support costs (tail). The same can be applied to the technology spending in support of business initiatives. This example assumes a company with 1,456 employees and an annual I.T. budget of \$30.1 million. **INSTRUCTIONS:** Fill in your own numbers in the columns labeled "Your Company" and do the calculations described at the left. Or, log on to GO.BASELINEMAG.COM/MAY05 and download the spreadsheet from our Premium Tools Library.

FUNCTIONS PERFORMED	EXAMPLE			YOUR COMPANY		
	I.T. spending \$000s	Number of employees	Spending/employee \$000s	I.T. spending \$000s	Number of employees	Spending/employee \$000s
A I.T. spending, all departments	\$30,087	1,456	\$20,664			
TEETH: COMPETITIVE DIFFERENTIATORS						
B Customer service, competitive actions	\$7,644	765	\$9,993			
TAIL: FUNCTIONAL DEPARTMENTS AND INFRASTRUCTURE						
C Purchasing	\$251	38	\$6,605			
D Finance and accounting	\$643	53	\$12,136			
E Human resources	\$1,109	62	\$17,887			
F "Back-office" operations, logistics	\$2,551	163	\$15,651			
G Engineering, research and development	\$1,445	153	\$9,444			
H Corporate management	\$1,218	222	\$5,486			
I Total, functional departments (C + D + E + F + G + H)	\$7,217	691	\$10,445			
J Infrastructure (servers, network connections, etc.) (A - B - I)	\$15,226	1,456	\$10,457			
Tooth-to-Tail Ratio* (B ÷ (I + J))	34.1%					

***BOTTOM LINE:** A ratio of less than 50% suggests that the systems organization may be wasteful.

SOURCE: STRASSMANN INC.