

EVALUATING OPERATIONS

Measuring Info Management

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How much of your company's resources are devoted to managing its information versus producing and delivering goods and services?

I have devised a model called the Information Management Multiplier (IMM) to identify the scope of information activities at a company.

To start, take sales, general and administrative costs, as reported on financial statements. I exclude research and development because it is usually outside a CIO's oversight.

Next, take the net cost of operations, which is total operating costs minus the worth of all outsourced

work (see "Calculating an Outsourcing Ratio," go.baselinemag.com/mar05).

The ratio of information management to net cost of operations then becomes the IMM, which reveals how much information management costs exceed (or don't exceed) the direct costs of production and services. ◀

TOOL: FIGURING YOUR INFORMATION MANAGEMENT RATIO

Is your company information intensive or production intensive? This worksheet is intended to help you answer that question by developing an Information Management Multiplier, or index.

If the ratio of information management costs to net operations costs is greater than 1.0, the efficiency and effectiveness of managing this resource will materially influence a firm's profitability. Improvements in information productivity are likely to make greater contributions to profitability than improvements in the productivity of direct labor.

A ratio greater than 1.0 elevates the importance of information technologies at a company. That's because I.T. is essentially a tool for inserting productivity enhancement capital to improve the effectiveness of corporate information management.

This calculator can be also used to make benchmark comparisons against a firm's closest competitors. Let's say a firm competing in the identical market segment has a comparable ratio of purchases to sales, yet has a lower Information Management Multiplier. In this case, your firm should scrutinize overhead costs, such as diminishing the complexity of administrative processes or improving the total supply chain visibility.

INSTRUCTIONS: Enter data from published financial statements into the pale yellow cells (numbers in the example come from Johnson & Johnson's 2003 financial results). Then perform calculations as prescribed in lines C, L, N and O. For an interactive version of this worksheet, see go.baselinemag.com/may06.

PART I: INFORMATION MANAGEMENT	EXAMPLE (\$ millions)	YOUR COMPANY
A Sales, general & administrative costs	\$18,815	
B Research & development costs	\$5,602	
C Cost of information management (A - B)	\$13,213	
PART II: NET COST OF OPERATIONS		
D Net sales	\$41,862	
E Labor & directly related expenses	\$10,005	
F Depreciation costs	\$1,869	
G Interest costs	\$315	
H Non-operating income minus expenses	\$440	
I Special income minus losses	\$0	
J Income taxes	\$3,111	
K Income before extraordinary items	\$7,197	
L Purchases (D - E - F - G - H - I - J - K)	\$18,925	
M Cost of goods sold	\$10,307	
N Net cost of operations (A + M - L)	\$10,197	
O INFORMATION MANAGEMENT MULTIPLIER (C ÷ N)	1.30	