

Total Cost of Ownership

SOME CONSIDERATIONS FOR GOVERNMENT AGENCIES

Are all the hidden costs – and benefits – of IT projects accounted for?

Gartner defines information technology total cost of ownership (TCO) as “a comprehensive assessment of information technology (IT) or other costs across enterprise boundaries over time. For IT, TCO includes hardware and software acquisition, management and support, communications, end-user expenses and the opportunity cost of downtime, training and other productivity losses.”

Based on experience gained through numerous projects with government organisations, this guide is designed to help agencies ensure that their TCO assessments are as comprehensive as possible. Sometimes seemingly insignificant costs can be larger than they appear, and others can even be missed. Over time, we’ve picked up some of the key ones that are often overlooked.

The document has been divided into four areas covering the lifecycle of a project:

1 Getting started

3 Running the system

2 Establishing the system

4 Retirement

1. Getting Started

Getting started with an IT project begins with the recognition of a business challenge important enough to be addressed. This involves research and business case development, which need people and expertise. Areas to think about:

Early Market Engagement

Early market engagement before tender is actively encouraged by most governments, and helps you to:

- benefit from suppliers' knowledge of markets and trends
- make fully informed buying decisions
- maximise buying power and minimise risk
- adapt complex, innovative and high-risk programs to better use industry capacity
- ensure the right supplier is chosen to provide the right service.

Time allocated to this activity now will reduce overall time, risk and expenditure.

Longer-term thinking

Most large IT solutions will be in place for longer than originally planned for. Build "future-proofing" into early requirements. By specifically requiring vendors to prove that their solution is robust, agile and flexible enough to contend with unforeseen needs, the large cost of potential early replacement can be saved

Project Governance and Gateway Reviews

The visibility and accountability of government IT projects is increasing significantly. It is vital to establish projects within the mandated government governance frameworks and structures, and subject to correct assurance gateways and impartial reviews. Think about seeking assistance from a trusted third party with significant experience in navigating these complex arrangements. This can save time and therefore budget and ensure that the project is initiated and run in accordance with these mandated frameworks.

RFP/ Tender writing

This is an under-appreciated art, especially in the age of digital transformation and agility. Think about sourcing sample RFPs from vendors and consultants: they can be useful to save time, but ensure that the language treads the fine line between detailed requirements and scope for creativity on the part of the responder.

Business Case Development

Only with a clear definition of the problem can the most appropriate solution be costed and chosen. Again, an external party can help with this, providing guidance and costings based on experience that the department might not have. Rather than an added expense, this can save time and money, and lead to selection of the most appropriate solution delivering the best outcome for the department.

Business Process Analysis and Optimisation

We've found that many successful projects have "begun before they've begun" by analysing current practices and processes and working on improving them before a solution has been purchased. This has the dual benefit of finding efficiencies quickly and giving a project a headstart by having optimised processes in place from the beginning. If appropriate, the cost and benefits of such an exercise should be included in a TCO calculation.

Benefits Management and Realisation

Too many government projects fail to deliver on their promises or do not visibly contribute to the strategic goals of their department and government as a whole. A small amount of time spent defining, tracking and measuring a project's expected benefits visibly enables the agency to demonstrate later delivery "on time, on budget, and on value", as McKinsey put it.

2. Establishing the System

This area tends to receive most focus when thinking about TCO, but there are still a few elements to look out for:

Enterprise Architecture

It is important to ensure that IT projects are not pursued in isolation from each other, and that they work in harmony to contribute to the long term roadmap of the organisation, its business processes, its information, and its applications and technical infrastructure. The establishment of an Enterprise Architecture, and alignment of individual project's Solution Architectures with this is an essential part of ensuring IT projects deliver for the overall organisation and do not solve one problem but create bigger problems over the longer term.

Hardware acquisition

With a cloud-based system, this requirement is generally removed, but remember to allow for server charges in areas like testing as well as production, and don't forget to allow for peripherals. Even the most modern IT solution needs a printer now and again.

Implementation

This is a large area that probably deserves its own checklist. Pay particular attention to configuration. With an eye to the future, is the solution going to be established as a foundation for growth, so that changes are tweaks? Or is every change going to be a time-consuming and expensive one?

Data migration

Potentially a significant project cost, can this be mitigated in any way, for example by archiving old data and systems, or connecting to data directly in legacy systems, rather than migrating them?

Training

Not something to cut corners on. Too often we've seen this reduced or even removed from a project, only for it to result in costly, risky and time-consuming errors and inefficiencies later.

3. Running the System

Here is where most of the total cost of ownership is incurred, since the solution will be running for some time. Some items to think about:

People

Both internal and external staff are needed to keep the system running smoothly. While ongoing external system support and management is an asset, always allow time for internal team members to contribute ideas and feedback. Think about allowing for transition of staff from internal to external teams and vice versa to ensure cross training, reduced dependency on suppliers, and enhanced teamwork.

Upgrades and Enhancements

With a cloud-based solution, core software upgrades are no longer the expensive prospect they were. However, the continued value of the solution will very likely lie in its ongoing development to meet new business needs or legislation, whether predicted or unforeseen. Project funding that allows for further phases carries significant benefits overall. Of course this assumes that the purchased software can be configured to meet future needs.

Support

The level of ongoing maintenance and support offered from suppliers can vary widely. Establish the availability and costs of full solution management and support compared with training internal staff. Often it is advantageous to stick to the agency's core competencies and let the IT partner take care of the system.

Downtime

The more the system is available, the less cost (both monetary and in terms of customer and staff dissatisfaction) is associated with downtime. Look for a track record or other evidence of high availability.

Training

New employees arrive, enhancements are made. As with "Establishing the System", a small investment in training makes a large difference to the value delivered by the solution. Consider the relative costs of 'train the trainer' arrangements versus bringing in the solution partner.

4. Retirement

Some government agencies fail to take retirement costs into account when building TCO models. These are just a couple of the things to take into consideration:

Data export and archiving

Consider the costs of archiving (and retrieving) data. Often legislated for a considerable period, exporting and archiving data should be as economical as possible, and can often be done as part of a cloud-based solution. Check that this has been built into a tender document or supplier proposal.

When to retire

It makes sense that the longer a solution is valuable to an agency, the longer it is until the solution must be retired. As with one of the points above, having a cloud-based configurable foundation provides the ability to adapt and grow with requirements.

We've provided some of the lesser-known costs of overall ownership in this guide and trust you find it useful. Please **contact us** to discuss other learnings we've made over our history of working with government agencies – to use Gartner's words, we're here to help you make a "comprehensive assessment."