

How to Save Fixed Assets Costs in IT environment

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Introduction

Love it or hate it, we all use IT

Information Technology impacts on every area of our life.

Virtually every organization, whatever its size and type, depends totally on the hardware, software and systems which make up its IT infrastructure.

IT is an incredibly useful slave but a very bad master. It needs tight control, close monitoring and well-directed development. Lacking these, IT assets can all too easily proliferate and run out of control. The result may be not far short of anarchy.

No one in the organisation knows what IT equipment is in use or where it is situated. Nor can anyone say exactly what software is installed or whether that software is licensed.

The bills which come in for insurance and maintenance are impossible to verify. Migrations and upgrades cause chaos.

The costs of this all too common scenario are enormous.

Estimates vary as to the amount of money wasted by IT industry through lack of control of their IT assets, but a reliable estimate puts the figure at somewhere around in billions.

We took a look at some of the factors which make the management of IT asset particularly problematical.

We,

- ▶ Examine some important issues relating to the financial management of IT assets.
- ▶ Suggest ways in which the management of IT assets can be significantly improved
- ▶ And solutions with a major and positive effect on your organization's bottom line.
- ▶ Raise awareness of the cost savings and improved financial and risk management which result from best practice of IT asset management.

The Two Faces of Asset Management

There are two aspects to the management of all types of assets.

Assets must be managed

1. financially, and
2. they must also be managed physically.

Physical asset management means knowing exactly

1. what you have got,
2. where it is in the organisation,
3. and how it is being used.

Financial asset management means,

1. as a minimum, fulfilling statutory reporting requirements, mandatory compliances
2. knowing the value of your asset base
3. and calculating depreciation.

Proactive financial management –

1. forecasting depreciation,
2. analyzing and
3. controlling expenditure - is optional in the sense that it is not a statutory requirement.

In practice, however, proactive management of the asset base is essential in order:

- ▶ to reduce costs,
- ▶ maximize efficiency and
- ▶ increase profitability.

The Physical Management of IT Assets

The average modern office is awash with IT equipment.

1. Desk-tops,
2. laptops,
3. hand helds,
4. scanners,
5. printers,
6. zip drives,
7. servers,

There is so much of these expensive kits lying around that we barely register it.

In most organizations there is an unspoken acceptance that IT equipment will be controlled less tightly than other types of assets.

It's not that IT assets are less important or valuable than plant and machinery, furniture, fixtures and fittings or motor vehicles- the contrary is usually the case.

But IT assets are just much harder to manage.

Why is this case? What is it about IT hardware and software which makes it so difficult to control and manage?

Low cost

Much of today's IT equipment is cheap. It can be, and often is, bought with minimal approval procedures, in some cases out of discretionary budgets or even petty cash. While this may be good news in terms of up-front costs, it makes it very difficult to keep track of what exists or where it is.

Complex

Take a PC as an example.

In its visible form it consists of

1. a keyboard,
2. a monitor (screen) and
3. a CPU ('box').

Internally, the box contains:

1. a hard disk,
2. a processor,
3. a motherboard,
4. RAM
5. and more.

These components have:

1. a financial value,
2. and certain attributes, such as:
3. make,
4. speed
5. and capacity.

All of these may change.

And then there is the software,

- ▶ which was either bundled in with the hardware,
- ▶ or which has subsequently been installed.

Recording the item simply as 'PC' is grossly inadequate in terms of control.

Volatile

The basic form of IT equipment often changes during its lifetime.

Individual components may be switched or replaced to create a new configuration.

Components may also be upgraded, e.g. the capacity of the hard disk or RAM may be increased.

Software is

- ▶ frequently installed,
- ▶ uninstalled
- ▶ or upgraded.

[Many of these changes are internal and invisible, so even the use of an asset tracking system to control bar-coded or radio-tagged assets will not help keep track of this dynamic situation.]

Mobile

Much IT equipment is small and mobile.

In fact, many items (e.g. laptops, PDA's) are designed to be mobile. This is in marked contrast to most other types of assets - plant and machinery, furniture, fixtures and fittings.

Managing an asset base of no fixed abode is much more difficult than managing an asset base of items which mainly stay in one place

Desirable

Modern technology has not eliminated some old-fashioned problems, such as the tendency for office items to 'disappear', or be borrowed without permission---The Human Greed....

The usefulness, attractiveness and general desirability of many IT assets makes them prime candidates for this phenomenon.

The problem is exacerbated by the fact that remote working is now common, with large numbers of IT assets used at home and on the road.

Lack of control of such assets increases the chance that they will not be returned to the organisation to which they belong.

And many more.....

The above are just representative of the myriads of department in any organization.

Financial Management of IT Assets

The basic requirements of a financial asset management system are:

1. to calculate depreciation
2. and record the value of the asset base.

Many Organisations develop spreadsheet based systems to handle these basic functions.

As the organisation's requirements develop and become more sophisticated, the inadequacies of spreadsheet systems become apparent.

At this point a specialist asset management system may be installed.

But there is much more to control and management of IT assets than can be handled by a standard asset management system.

These are some of the financial issues which must be addressed.

The capitalizations issue

The low cost of much IT equipment means that many IT related purchases now fall below the company's capitalisation threshold.

They are therefore written off against profit rather than being recorded as assets and depreciated.

As a consequence, the expenditure does not appear anywhere on the balance sheet.

Although each individual purchase may be relatively small, the total value of these off-balance sheet items is considerable.

Calculating the TCO

Expenditure on IT does not end with its purchase, but continues throughout its life cycle. An accurate accounting of the cost of IT must therefore allow for its total cost of ownership (TCO).

Some of the items which must be included in the calculation of the TCO of IT assets are:

- ▶ maintenance charges,
- ▶ software licensing fees,
- ▶ repairs,
- ▶ upgrades and insurance,
- ▶ the cost of training,
- ▶ cost of consultancy and
- ▶ cost of support and services must be also be factored in to the calculations.

These outgoings are usually very substantial.

In most organizations, however, they are totally unmanaged. And the financial consequences of this situation are serious.

According to recent international research, an unmanaged PC has an average annual cost of ownership of about five times its purchase cost. Is this not substantial?

Overspending on procurement

In many companies, IT procurement is an area where there are few controls or procedures. Even where procedures have been laid down, people will still buy PCs, software and so on from a budget other than the official IT budget. In some cases this is due to ignorance, in many others it is simply unwillingness to get involved with bureaucratic systems for a relatively small value purchase.

As well as losing out on any bulk purchasing discounts which may have been negotiated, the result is that, very soon, no-one has any idea of what has been bought, how much was paid for it, or even where it is, let alone how much it is costing to keep it.

Whose job is it anyway?

One of the factors which make it difficult to control and proactively manage IT assets is that there is often no clear delineation of responsibility for the task.

The Finance and IT departments each operate its own system for recording expenditure on IT

Some items of information are duplicated, others recorded in only one system, and still others are not recorded at all.

As a result there is no way of identifying expense items and assigning them to individual IT assets, or groups of assets, or even to the IT installation as a whole.

What Can Be Done?

The management of IT assets is a very major task, and is central to the successful and profitable running of the organisation.

The solution has to start with recognition of the problem and willingness at a senior level in the organisation to give it high priority.

The first step

An essential first step is to make a list of all the hardware and software in the organisation.

There is no doubt that this is a difficult and time-consuming task, which is almost always best outsourced to a specialist provider.

But businesses can make significant cost savings just by doing an inventory. One of our clients made immediate savings by simply by not paying maintenance charges on returned or scrapped PCs.

Asset tracking

The next step is to put in place a comprehensive system for on-going control of IT assets. This will be much easier if IT equipment has been bar-coded during the initial asset audit.

Future physical audits can then use handheld technology to become a 'walk-round and swipe' exercise.

For maximum control, each component of each IT asset should be separately bar-coded and recorded.

In practice, this may increase the size and complexity of the asset register to an unacceptable degree. A balance must be struck between control and complexity.

Auto-discovery

Bar-coding and asset tracking can help with the control of physical, visible IT assets. A different approach is needed for the vital task of controlling software and internal components.

Auto-discovery software, which dynamically interrogates all elements of the IT installation, is an absolutely essential element of an IT asset management system.

For hardware, the information captured will include:

- ▶ processor make and speed,
- ▶ BIOS details,
- ▶ disc manufacturer,
- ▶ storage capacities and free space,
- ▶ RAM,
- ▶ serial numbers,
- ▶ interface cards
- ▶ and peripherals.

For software, it includes:

- ▶ manufacturer,
- ▶ product names and version numbers,
- ▶ serial numbers and related license data.

There are many an auto-discovery software available and many are available as free downloads also.

Discovery can be used to provide an initial inventory of the entire hardware and software configuration. Importantly, it then automatically tracks and records all changes which are made to the IT infrastructure. This means that you can:

- ▶ Identify the physical location of your assets - no matter how many times they are moved around.
- ▶ Identify all hardware and software changes over the life of a PC.
- ▶ Ensure that your organization is legally compliant with software licensing.
- ▶ Verify maintenance contracts and insurance.
- ▶ Monitor and record IT equipment which has been scrapped or replaced.
- ▶ Maintain a comprehensive audit trail.
- ▶ Determine if you have the appropriate new software upgrades.

Help-desk

A comprehensive IT asset management system will include integrated help desk software. The helpdesk system has access to detailed configuration information, dynamically updated by the auto-discovery system.

Research has shown that when this information is not automatically available, an average call to the Help Desk lasts 17 minutes, of which nine are spent simply identifying hardware and software. The Help Desk software being developed allows incidents and their resolution to be logged and used to build a knowledge base, which quickly becomes a rich resource for the resolution of future incidents.

Financial control

When it comes to financial control, there is no alternative to a clear policy and tight financial management.

As long as people can still get around the official system, unauthorized and uncontrolled expenditure will continue.

Policy must be laid down about which items are to be capitalised and which expensed.

The Indian Accounting Standards Board of the Indian Chartered Accountants Council has produced guidance on when & how company investment should be capitalised - although accounting experts admit there is a "grey area" for some types of IT investment and financial reporting.

Procedures must be put in place to ensure that all IT related expenditure is recorded on the asset management system. Systems such as **SmartAssets** are 'asset-centric', enabling costs to be assigned to individual assets or categories of assets.

KPMG, in one of its reports, recommends appointing a senior manager who would have authority over all IT asset management and licensing matters, be accountable to the board and be rewarded in proportion to cost savings achieved.

And Finally...

The more knowledge you have about your IT assets, the more control you have over the associated costs, purchases, and support.

The information provided by a comprehensive, organisation-wide IT asset management system can be used for immediate cost savings through

- ▶ reductions in service and maintenance contracts,
- ▶ cancellation of insurance premiums on non-existent hardware and
- ▶ improved security.

However, lowering costs isn't the only benefit.

The more information your staffs have about each system, the more efficiently your IT organisation operates.

Help desk calls are handled faster, and time spent performing software upgrades is reduced.

In the longer term the system provides very major benefits.

It provides a clear picture of the IT infrastructure, with costs and benefits readily apparent. This enables managers to calculate and take into account the financial and logistic implications of technical decisions.

It allows proactive management, as opposed to passive control of assets.

Significant cost savings can be achieved by

- ▶ volume purchases,
- ▶ component (as opposed to total system)
- ▶ upgrades and
- ▶ the correctly timed disposal of aging equipment.

The recent spate of news about high-profile accounting irregularities has focused awareness on the importance of accurate financial management and reporting.

Lack of accurate information means lack of transparency and inability to manage risks.

The last thing any company needs is even a hint of accounting ambiguity, let alone irregularity.

Knowledge is power.

An IT asset management system provides

1. comprehensive,
2. accurate
3. and up-to-date information about
 - i. the physical existence,
 - ii. financial value
 - iii. and on-going costs associated with IT assets.

Armed with this knowledge, it becomes possible to control these costs, and thus significantly reduce outgoings and increase profitability.

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