

Adapt Your Software Charge Back Program for Competitive Advantage

John Smith,
Principal Consultant,
Acesso Software

Why Charge Back?



- To accurately recharge significant costs across business units
 - Manage the business in terms of profit and resource
 - Direct investment to effective areas
- Transfer costs across national / legal boundaries according to accounting procedures
 - Impacts taxation and therefore revenue
- **CHANGE BEHAVIORS**

Chargeback Methods



??

Usage

- Based on total hours used or number of executions (seems fairer but may harm productivity)
 - slow work rate = low consumption = low charges
 - Often implemented by prioritization (only high profile projects get licenses)

Poll tax

- Based on head count (assumes equal usage)

Profitability

- Each division pays according to profits generated / revenue (penalizes good performance)

Flat rate

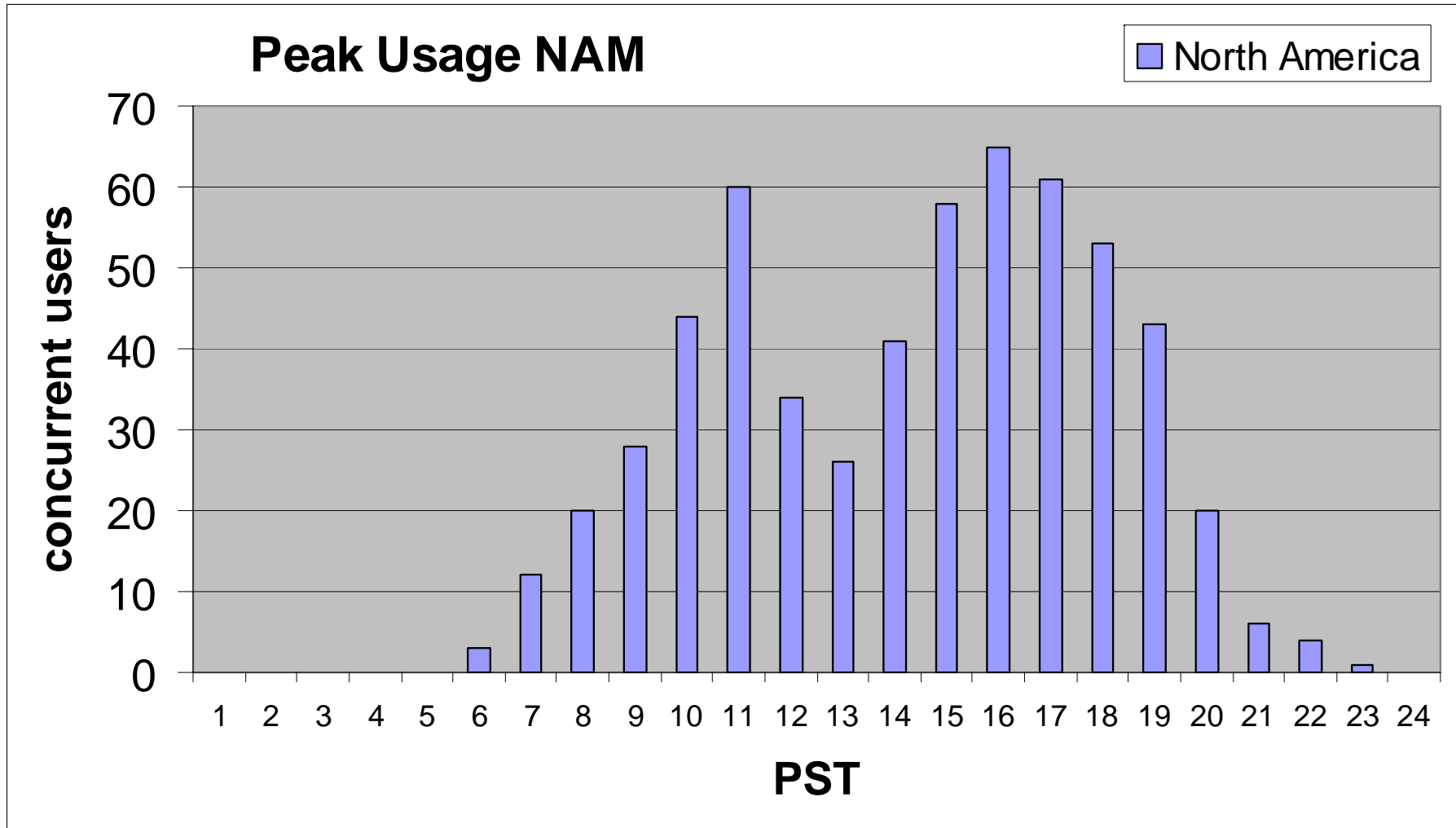
- 5 divisions each pays 20% (blunt instrument)

Cost Drivers and License Models

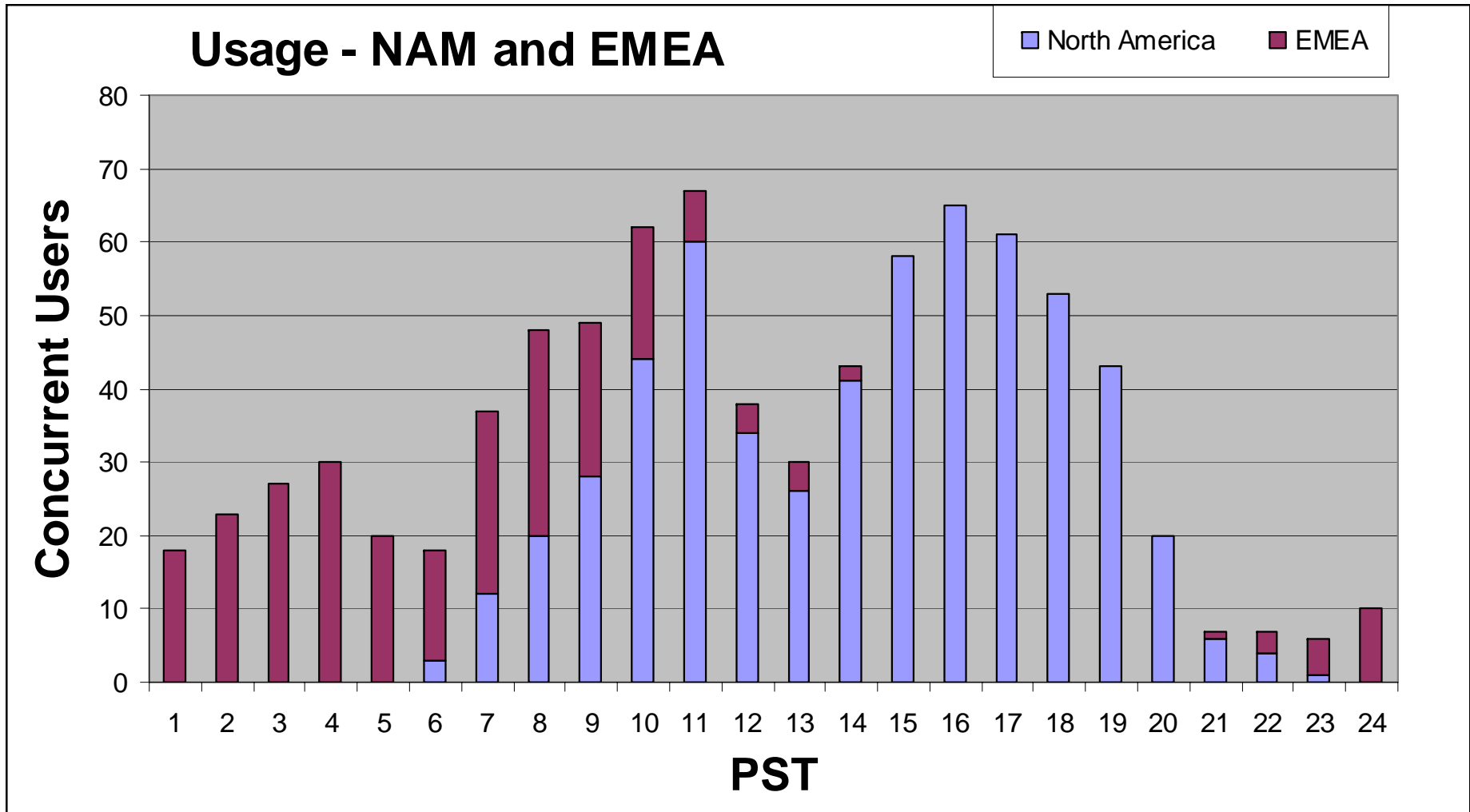


- Feature-based model
 - Concurrent usage
- Token-based model
 - Variation on model above
- Pay per use
 - rarely implemented
- Site license
 - more relevant to IT infrastructure / less expensive desktop
- Named user
 - Not common in FLEX environments

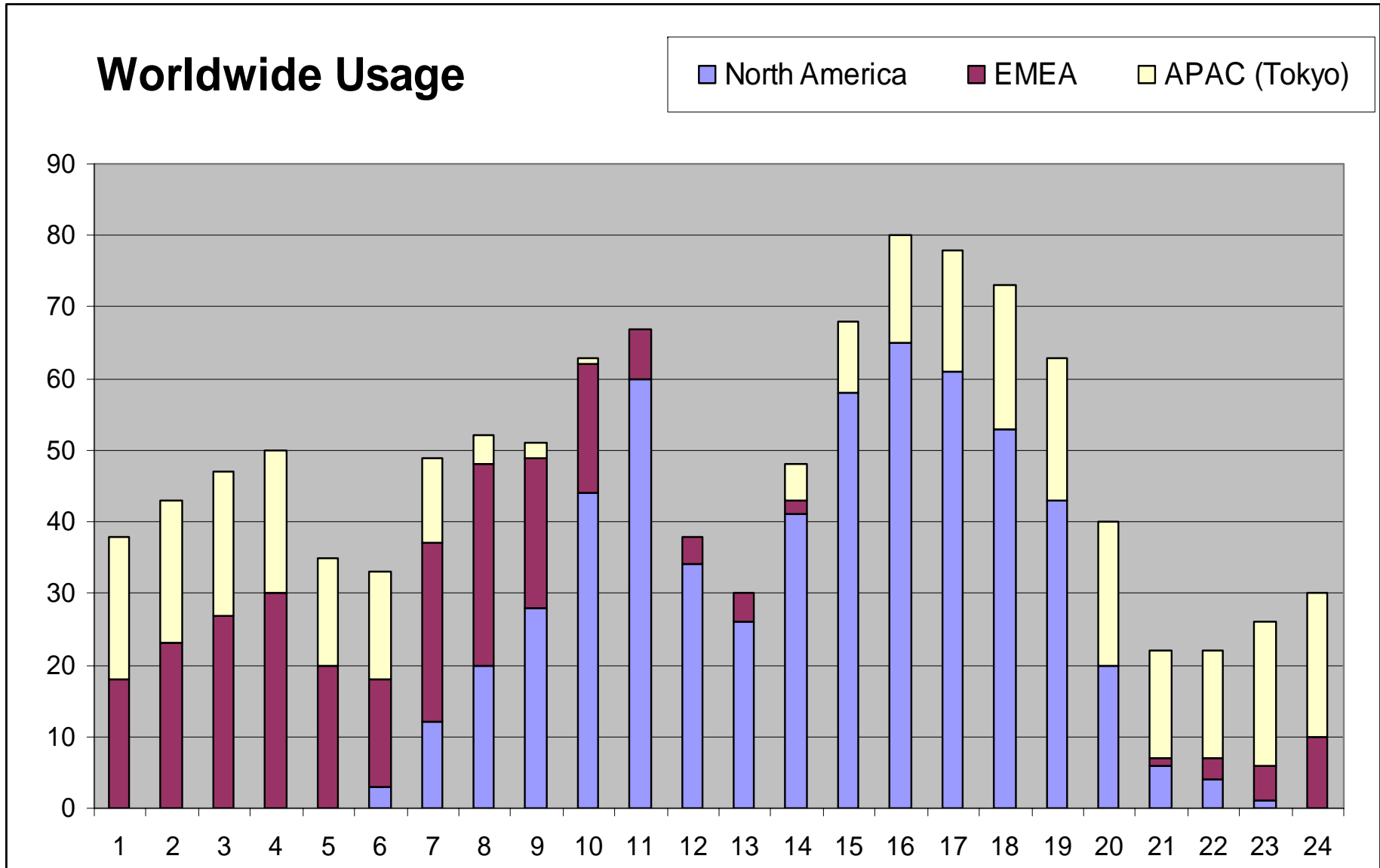
Typical Usage Pattern



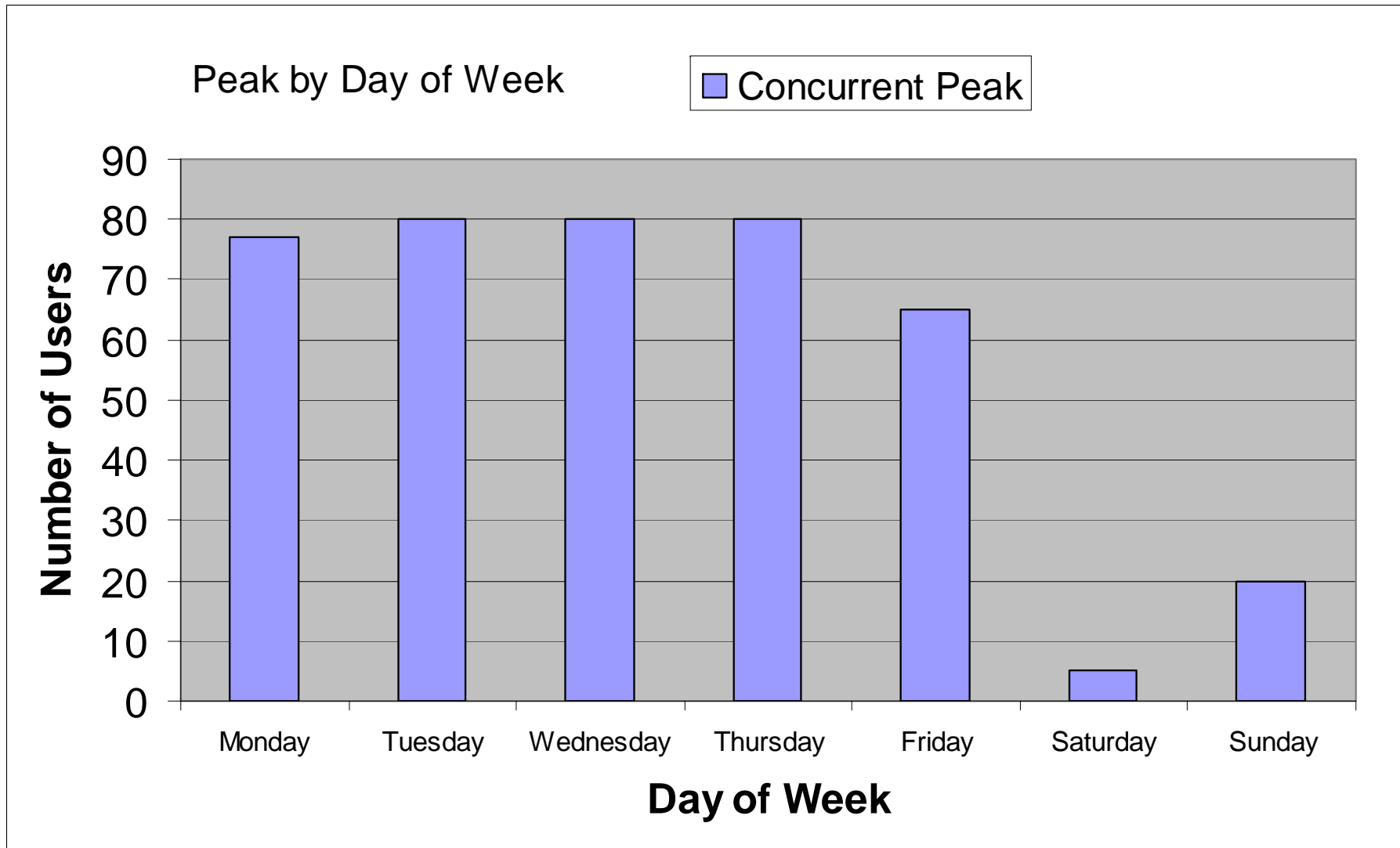
Usage in 2 Time Zones



Worldwide Usage



Daily Peaks



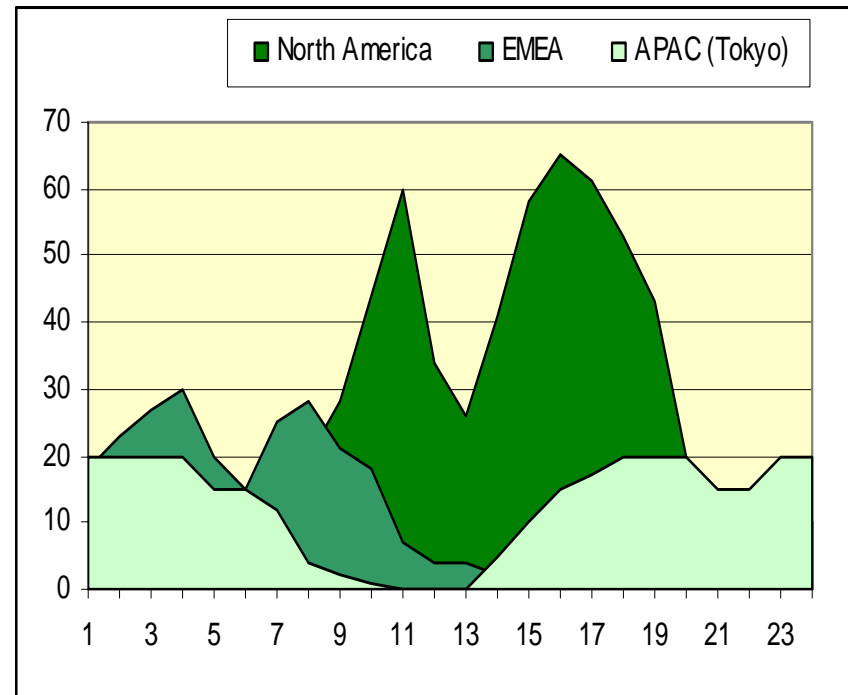
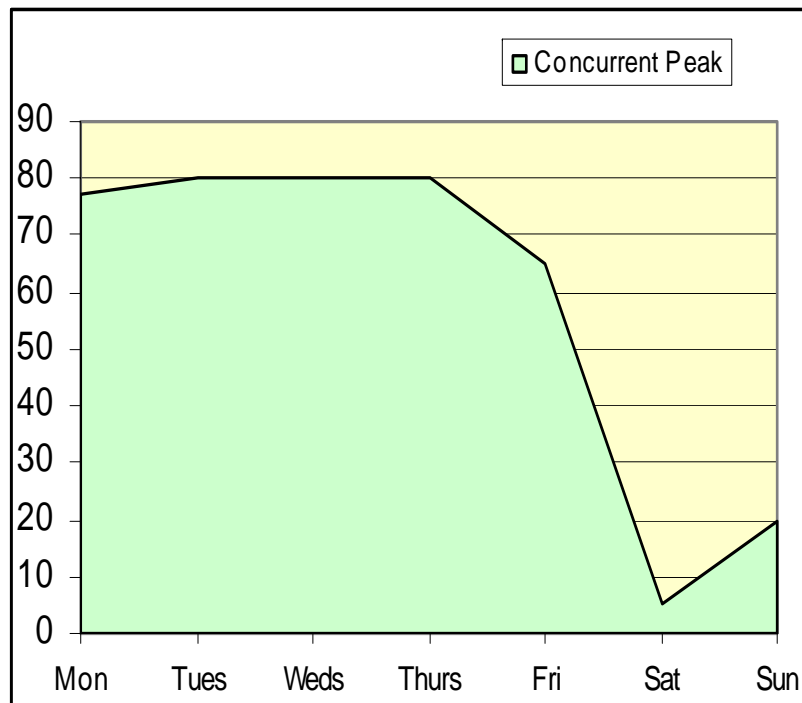
Summary



- Usage is seldom spread evenly across geographies
- Normal working generates daily, weekly troughs
- The more complex the environment, the higher potential gains (more software, more users)
- True software cost is only at peak demand: why not charge back based on the reality?
- Therefore implement a peak usage charge back model

How To

- Establish Benchmark (C I W Y D M)
- Determine achievable objectives



- Gain executive sponsorship
- Develop an algorithm based on peak usage
 - Simple is good
 - Predictable
 - Under each managers' control
 - Apply only to critical resources (80 / 20 rule)

How To

- Don't use instant of time
- Could be binary (charge only for use between x and y times)
- Or different several tariffs
- Review regularly (theory of constraints = moving bottleneck)
- Generate quarterly
 - Monthly is too onerous
 - Annually is too static, no benefit perceived

Implementation



- Inform Sponsor of progress
- Provide feedback, showing increased tool throughput (turns per hour / usage hours per day)
- Generate charge backs automatically

- Behavior changes result from incentives to use off-peak
- Pressure to increase turns of critical software
 - Run crucial tools on powerful hardware
- Increase ROI of software
 - more output per license
 - prioritization of important projects

= Productivity Increase

= Shortened project times, reduced TTM

= Competitive Advantage

Case Study



- **Semiconductor Design House**
- **1300 Engineers – NAM, EMEA, APAC**
- **License Servers in San Jose, Munich, Tokyo**
- **Ownership silos (5 divisions)**
 - **Restrictions on key tools**
- **No chargeback – each division with its budget**

- **Implemented measurement within each division**
- **From usage statistics created charge back algorithm**
 - **based on concurrent usage within publicized peak times**
- **Identified key tools (40 / 400)**
- **Established daily turns baseline per tool**
- **Implemented charge back for 3 months**
- **Adjusted exceptions (corner cases)**
- **Reviewed daily turns / tool, quantified value based on cost of annual TBL**

Impact



- **Daily turns increased between 30% and 250% (average 65%)**
- **Increase in value of \$12m annually**
- **Design time reduced by 10%**
- **Significant reduction of rework (more regression testing)**
- **TTM reduced by 2 – 6 weeks**
 - **Huge competitive advantage**

Chargeback Policies

What Works and What's Overkill?

Julia Froemke

3M IT

Corporate Technical Computing Solutions





3M

- Worldwide organization
- Headquarters in St. Paul, MN
- Operate in more than 60 countries
- Over 60,000 products



Corporate Technical Computing Solutions

- We manage technical software for the company
- Serve 3M clients in 40 Countries
- Provide license management
 - 48 individual network license pools
 - 37 of these are Flex licensing
 - 9 servers in 2 data centers
- Software management / hardware input
- Some application support
- Software contract management
- Financial management



Issues/Caveats/Concerns

- How to charge equitably?
 - Hourly rate?
 - Charge by headcount/installation?
 - Flat fee?
- Each software vendor is unique!
 - You must know how each license model works
- More customizations create more overhead
- Users need to know what your chargeback methods are



Pay for Play at 3M

- All software costs are paid for by 3M clients
- Use a managed account
- Two cost models for shared software
 - Hourly charge
 - Split cost
- Also have direct department chargeback for software that is owned by one group.
- Quarterly check / Annual Review



#1 Hourly Charge

- This is calculated by taking the yearly software cost and dividing it among all the clients based on their usage of the software.

This cost may vary slightly from month to month but typically remains very stable over time.

Software that is used heavily by a large group of people will have a fairly consistent usage over time. This type of charge model must be able to handle variations in usage as the charges need to remain fairly level.



#2 Split Cost

- This charge is negotiated and set for each department using the software. All commitments must meet the total software cost for the year.
- Client base is usually smaller and usage of this software may vary greatly. Hourly costs would be unpredictable.
- Specialty software may be expensive but it can be critical to the business. Clients may not use the software on a daily basis but expect it to be available and up to date when they do need it. Split cost covers the financial obligation more equitably.



Our hourly charge process

- Know the products and create unique reports to capture the key feature data for charges
- Do not compare different products and costs
- All software runs through common db to resolve user, department, and country use (non-IT)
- Each software package runs through it's own unique routine to determine it's cost to the client
- Charges sent out on a monthly basis



Challenges

- Managing the usage data for many software packages with different license managers
- Trusting the data
- Not nitpicking the usage data
- Knowing each software's licensing rules/quirks
- Be careful when comparing different products and costs
- Managing the client (and their manager's) expectations



Value of chargeback to our Clients

- We provide a total software solution:
 - We negotiate software contracts
 - We handle all purchasing and yearly renewals
 - Clients get a fully managed software product
 - Consistent recharges spread throughout the year.