

# SERVICE COST TRACKING

How to Capture Enterprise Service Costs and Provide Actionable Management Reporting



The employees of a typical enterprise rely on many different services from functions such as HR, IT, Finance and Facilities. An enterprise makes these services available to its employees to ensure they have everything they need to be as productive as possible. To control the cost of these services, the cost needs to be captured and presented in a way that helps management identify improvement opportunities. Not knowing how much it costs to provide a service, and how this trends over time, makes it difficult to determine whether or not a service is provided in a cost-effective manner and whether a service offers sufficient value to the business to justify its cost.

## Examples of Typical Enterprise Services

### **HR**

- Recruitment
- Payroll
- Relocation

### **IT**

- Email
- Enterprise Resource Planning (ERP)
- Customer Relationship Management (CRM)

### **Marketing**

- Event Planning
- Ad Campaigns
- Social Media Monitoring and Management

### **Finance**

- Purchasing
- Accounts Receivable
- Treasury

### **Facilities Management**

- Climate Control
- Office Furniture
- Office Cleaning

### **Legal**

- Legal Advice
- Legal Document Review
- Dispute Handling



## Capturing Costs: Major Cost Components

For cost-tracking information to be useful, it must be possible to break down the service costs in different ways. Being able to see which components contribute most to the cost of a service, and which cost components are increasing the most, allows management to identify areas where spending might need to be reined in.

One of the key requirements for enterprise service cost tracking is the capture of how much time employees spend working on service-related assignments. Apart from time spent, there are two other major components that contribute to the cost of a service. These are the assets needed to provide the service and the supporting (or underpinning) services that help make the service available to the employees of the enterprise. These three cost components are discussed in detail in the following sections, along with recommendations on how the organization's service management application can be used to capture them.

## Cost Component #1 - Time Spent

For many enterprise services, the largest cost component is the time employees of the internal service provider organization (e.g. the Finance department's specialists) spend working on the service. This time can be spent answering questions about the service, resolving issues that affect the service, improving the service, or completing tasks to ensure that the service continues to be provided in a manner that complies with the corporation's policies.

### Tooling Considerations – Time Spent

In a service management application, the cost of time spent can be tracked by asking people to register the time they spend when they update an assignment (such as a request, problem or task). Since a large percentage of time is spent on projects that introduce new services or improve existing services, it is important that the time spent on project tasks is also registered in the service management application. That is one of the reasons why most service management applications now include project management functionality. Managing all project tasks in the service management application has the added advantage that the employees of an internal provider organization can manage all their assignments in the same application.

But not all of an employee's time is spent on assignments. For example, employees can spend time in meetings, traveling or on medical leave. To be able to track 100% of the costs of an enterprise service, these overhead costs need to be captured as well. This requires advanced time-tracking capabilities in the service management application.

By relating the time entries to specific time allocations, such as Time Off, Travel and Administration, management can obtain a reasonably accurate overview of the activities that consume the most time.

Time entry records can be used to automatically calculate the cost of time spent by simply multiplying the time spent by the hourly cost of the employee who spent the time. Ideally, an employee's hourly cost should include not only this person's salary but also any payroll taxes, benefits, office space occupied, software licenses used, training attended, etc. In many cases, the hourly cost of each employee can become difficult to measure. That is why it is best to ask HR for an average cost for each pay grade. That should be accurate enough to determine whether a service's cost is reasonable for the value it provides and not spiraling out of control.

### Invoices for Time Spent by Long-Term Contractors

A decision needs to be made by each provider concerning contractors who work for the provider on a long-term basis. Such people often work in the provider's teams just like regular employees. The provider can decide to simply register the invoices from long-term contractors and spread the costs of these invoices over the services that the contractors have worked on using their timesheets.

Typically, though, a long-term contractor uses the same service management application as the regular employees to organize the work they do for the provider. Whenever this is the case, it is best to ask the contractor to track their time in the service management application, just like the other members of their team. This way, the costs of the contractor will be attributed more accurately to the services on which the contractor works. These costs will then be included in the management overviews that break down the costs of a service into the different types of activities that were performed for the service.

### Invoices for Time Spent by Suppliers

When a supplier performs work for an internal provider of the enterprise and this work is not covered by an SLA or a contract, the internal provider will receive an invoice. Whenever possible, these invoices should be related to a request, change or project. These links ensure that the invoices can be attributed to the service for which the request, change or project was registered.

If a supplier's invoice is specific to an asset, contract or SLA, however, the invoice amount should be included in the costs of assets or underpinning services, as described in the sections below for the other two major cost components.

## Cost Component #2 - Assets

Another major contributor to the cost of an enterprise service is often the assets needed to deliver the service. These assets can range from desks and chairs that the Facilities department leases for its Office Furniture service to the software licenses that the IT department acquires for the ERP service.

Some asset costs can be expensed immediately, which means that the entire purchase amount can straightaway be attributed

to the service for which they were acquired. The costs for larger purchases are often depreciated over time. These capital expenditures, therefore, contribute to the service costs over a long period of time. The same goes for leased equipment. Lease charges typically need to be spread out over the lifetime of the lease agreement so that they are properly represented when management looks up the service costs for a specific month. And the costs of the maintenance and/or support contracts must also be distributed evenly over the full contract term.

### Tooling Considerations - Assets

In a service management application, the assets used to deliver services are registered as configuration items in the configuration management database (CMDB). The configuration items in the CMDB are related to the services they help to deliver. The CMDB can be used to support service cost tracking when the cost and depreciation method is registered for each configuration item.

Apart from registering the equipment and software license costs, the charges for maintenance, support, and lease contracts should also be captured in the CMDB. These contracts, in turn, should be linked to the configuration items that are covered by them.

In addition, the invoices for support and/or maintenance contracts, as well as lease agreements, should be linked to the appropriate contract records in the service management application. These contract records are linked to the configuration items for which they were established, which allows their costs to be included in the appropriate service cost overviews.

And finally, it should be possible to add any ad hoc repair and maintenance invoices to configuration items. This allows charges for parts and labor not covered by a contract or warranty to be included in the cost-tracking overview of the right services.

### Cost Component #3 - Underpinning Services

Nearly all enterprise functions outsource parts of the services they provide. An HR department may, for example, have outsourced the Payroll service to a payroll provider. A Facilities Management department may have outsourced the Office Cleaning service to a local facility services company. And an IT department may have outsourced the storage for the Email service to a cloud infrastructure provider.

Typically, the function within the enterprise that is responsible for a service still adds something to the service before providing it to the enterprise's employees. For example, HR may have several people who verify that wage increases are approved and administered in the outsourced payroll system. The HR specialists may also attempt to answer questions from employees about their payslips. And HR will plan and coordinate much of the work they want the external payroll provider to perform to better align the service with the needs of the business. This makes the service that the payroll provider delivers to the HR department an underpinning service of the Payroll service that HR provides to the employees of the enterprise.

When HR determines the cost of its Payroll service, it needs to make sure that the service charges from the external payroll provider are included. The invoices the HR department receives from the external payroll provider are likely to be a large cost component. Since the HR department will need to approve these invoices, the cost of this underpinning service should be easy for them to attribute to their Payroll service. This is why keeping track of the costs of underpinning services is fairly straightforward.

### Tooling Considerations - Underpinning Services

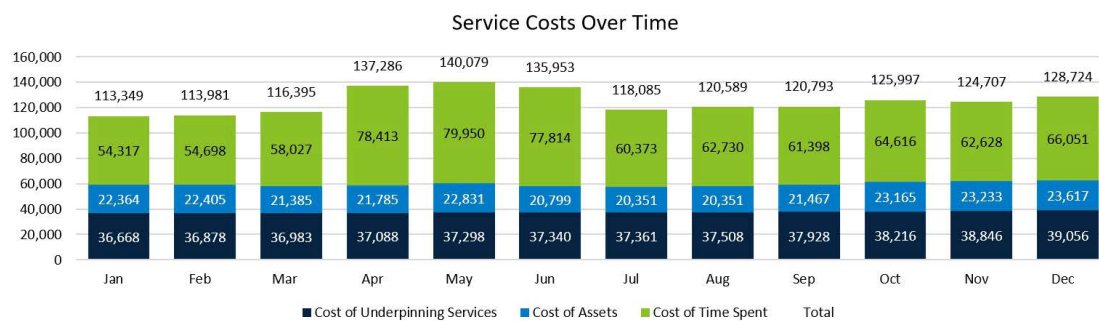
For the costs of underpinning services to be tracked in a service management application, it should be possible to register the invoices that are received from the providers of these underpinning services. The provider that receives an invoice for an underpinning service should be able to link this invoice to the service level agreement for the underpinning service.

Since some services can underpin more than one enterprise service, the service management application must allow the invoice amount to be spread over the services that are underpinned. The cost driver that is used to decide how much of the invoice amount needs to be attributed to each of the underpinned services can vary. Ideally, it should be possible to track how many of the invoiced units were consumed by each of the underpinned services.

When an underpinning service is provided by an internal team (for example, the Unix Server or Storage team of an IT department), each chargeback amount can be registered as an invoice from this team. Such internal chargeback invoices can then be linked to the SLAs that are registered in the service management application for the underpinning services provided by internal teams, just like the invoices from external providers.

## Reporting

With all three of the major cost components (time spent, assets and underpinning services) registered in the service management application, it is possible to offer the service owners an overview of their service costs over time. The service management application can now generate service cost overviews without having to build integrations that collect data from other systems.



Being able to break down the total cost incurred by service is an important step toward controlling service costs. Seeing how much each of the three cost components contributes to the cost of a service gives management an indication of where there might be opportunities to significantly reduce costs. Seeing these three cost components increase or decrease over time allows management to see whether their cost control initiatives are paying off.

In practice, however, the ability to break down the costs into the three major cost components is not sufficient. Management will need more detailed information to pinpoint the cost reduction opportunities more precisely. For truly insightful reporting, the cost components need to be broken down further, as described in the following sections.

### Cost Breakdowns - Time Spent

An easy and obvious way to break down the cost of time spent on a service is by the type of work that was performed. This provides a breakdown by the following assignment categories:

- Requests
- Problems
- Change tasks
- Project tasks

While this breakdown can undoubtedly be helpful, the information it provides for management is still limited. Perhaps a more interesting way to break down the cost of time spent is to classify the activities that were performed for a service as waste, necessary work or business alignment. This breakdown may show management more clearly the activities on which they should focus to reduce time spent.

### Waste

Any work performed to fix issues or remove the root causes of problems can be considered waste. This includes time spent on:

- Requests with the category:
  - Incident
  - Complaint
  - Other (request is out of scope)
  - problems
  - changes and projects with the justification 'Correction'

Ideally, time spent on these activities should be zero.

### Necessary Work

Some activities need to be performed, not because something has gone wrong or because they help the business be more successful, but because they are necessary. These activities include:

- Requests with the category:
  - RFI (request for information)
  - Compliment
- Changes and projects with one of the following justifications:
  - Compliance
  - Maintenance
  - Replacement

Time spent on these activities can never be zero but should be reduced as much as possible.



**Business Alignment**

The third area contains the activities that the business will always want the provider to do more of. Here, management will primarily look for ways to reduce the resources needed to complete these activities. The following can be considered business alignment activities:

- Requests with the category:
  - RFC (request for change)
  - Reservation
- Changes and projects with one of the following justifications:
  - Expansion
  - Improvement
  - Move
  - Removal

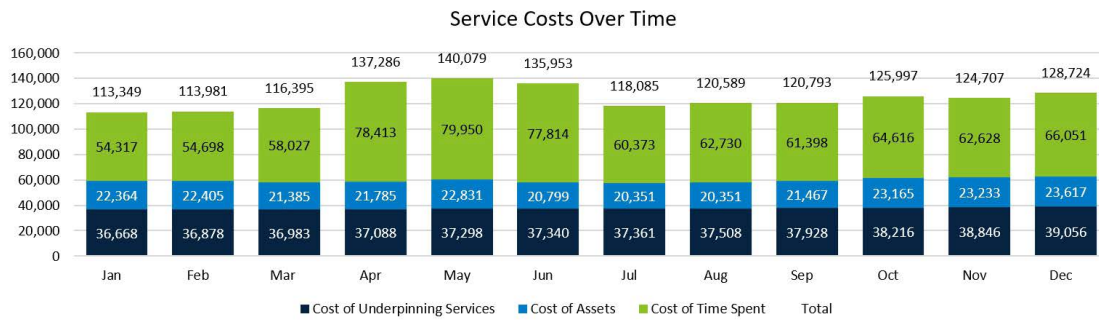
**Cost Breakdowns - Assets**

The total amount spent on assets that are used to provide a service can be broken down in different ways. For example, it can be interesting to see how much was spent on:

- Operational Expenses (for assets that did not need to be depreciated over)
- Depreciation
- Leases
- Maintenance and/or support agreements

Other examples of valuable breakdowns of a service's asset costs are by:

- Asset type,
- Brand, or
- Supplier.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	MoM Δ
<b>Total</b>	<b>113,349</b>	<b>113,981</b>	<b>116,395</b>	<b>137,286</b>	<b>140,079</b>	<b>135,953</b>	<b>118,085</b>	<b>120,589</b>	<b>120,793</b>	<b>125,997</b>	<b>124,707</b>	<b>128,724</b>	↑ 3.2%
<b>Cost of Effort</b>	<b>54,317</b>	<b>54,698</b>	<b>58,027</b>	<b>78,413</b>	<b>79,950</b>	<b>77,814</b>	<b>60,373</b>	<b>62,730</b>	<b>61,398</b>	<b>64,616</b>	<b>62,628</b>	<b>66,051</b>	↑ 5.5%
Requests	30,836	30,340	32,107	34,112	32,923	34,092	33,928	35,342	34,420	36,408	34,871	35,711	↑ 2.4%
Problems	1,341	1,808	1,279	1,661	1,681	262	1,271	1,189	1,722	2,091	1,517	1,476	↓ -2.7%
Changes	9,676	10,414	9,758	10,693	10,332	10,922	9,971	11,070	10,004	10,873	10,660	11,890	↑ 11.5%
Projects	12,464	12,136	14,883	31,947	35,014	32,538	15,203	15,129	15,252	15,244	15,580	16,974	↑ 8.9%
<b>Assets</b>	<b>22,364</b>	<b>22,405</b>	<b>21,385</b>	<b>21,785</b>	<b>22,831</b>	<b>20,799</b>	<b>20,351</b>	<b>20,351</b>	<b>21,467</b>	<b>23,165</b>	<b>23,233</b>	<b>23,617</b>	↓ 1.7%
Expense	979	1,020	0	400	600	448	0	0	364	652	720	399	↓ -44.6%
Depreciation	11,280	11,280	11,280	11,280	11,280	9,400	9,400	9,400	9,400	7,520	7,520	7,520	→ 0.0%
Lease	4,465	4,465	4,465	4,465	4,465	4,465	4,465	4,465	4,465	7,755	7,755	7,755	→ 0.0%
Support / Maintenance	5,640	5,640	5,640	5,640	6,486	6,486	6,486	6,486	7,238	7,238	7,238	7,943	↑ 9.7%
<b>Underpinning Services</b>	<b>36,668</b>	<b>36,878</b>	<b>36,983</b>	<b>37,088</b>	<b>37,298</b>	<b>37,340</b>	<b>37,361</b>	<b>37,508</b>	<b>37,928</b>	<b>38,216</b>	<b>38,846</b>	<b>39,056</b>	↑ 0.5%
Unix Servers	17,625	17,625	17,625	17,625	17,625	17,625	17,625	17,625	17,625	17,625	17,625	17,625	→ 0.0%
Database	11,515	11,515	11,515	11,515	11,515	11,515	11,515	11,515	11,515	11,515	11,515	11,515	→ 0.0%
Storage	4,410	4,620	4,725	4,830	5,040	5,082	5,103	5,250	5,670	5,880	6,510	6,720	↑ 3.2%
Datacenter Network	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	1,081	→ 0.0%
Job Scheduling	1,443	1,443	1,443	1,443	1,443	1,443	1,443	1,443	1,443	1,521	1,521	1,521	→ 0.0%
Monitoring	594	594	594	594	594	594	594	594	594	594	594	594	→ 0.0%

## Cost Breakdowns - Underpinning Services

The most useful way to break down the cost of the services that underpin an enterprise service is simply by each of the underpinning services that help make the enterprise service available to the employees.

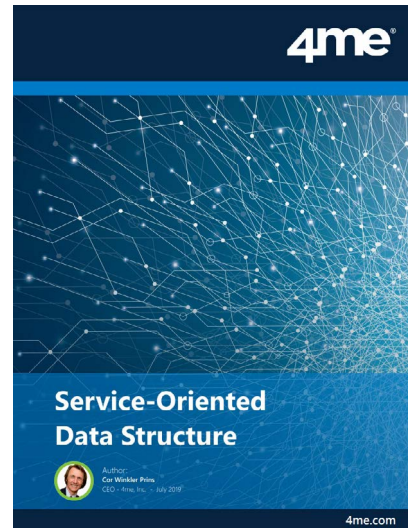
## Cost Breakdowns - Customers

Finally, another important way to break down the cost of a service is by customer. For enterprise services, the customers are typically departments within the enterprise. Seeing how much is spent to provide a specific service to a specific customer makes it possible to identify significant differences between customers, which can help to identify cost-reduction opportunities.

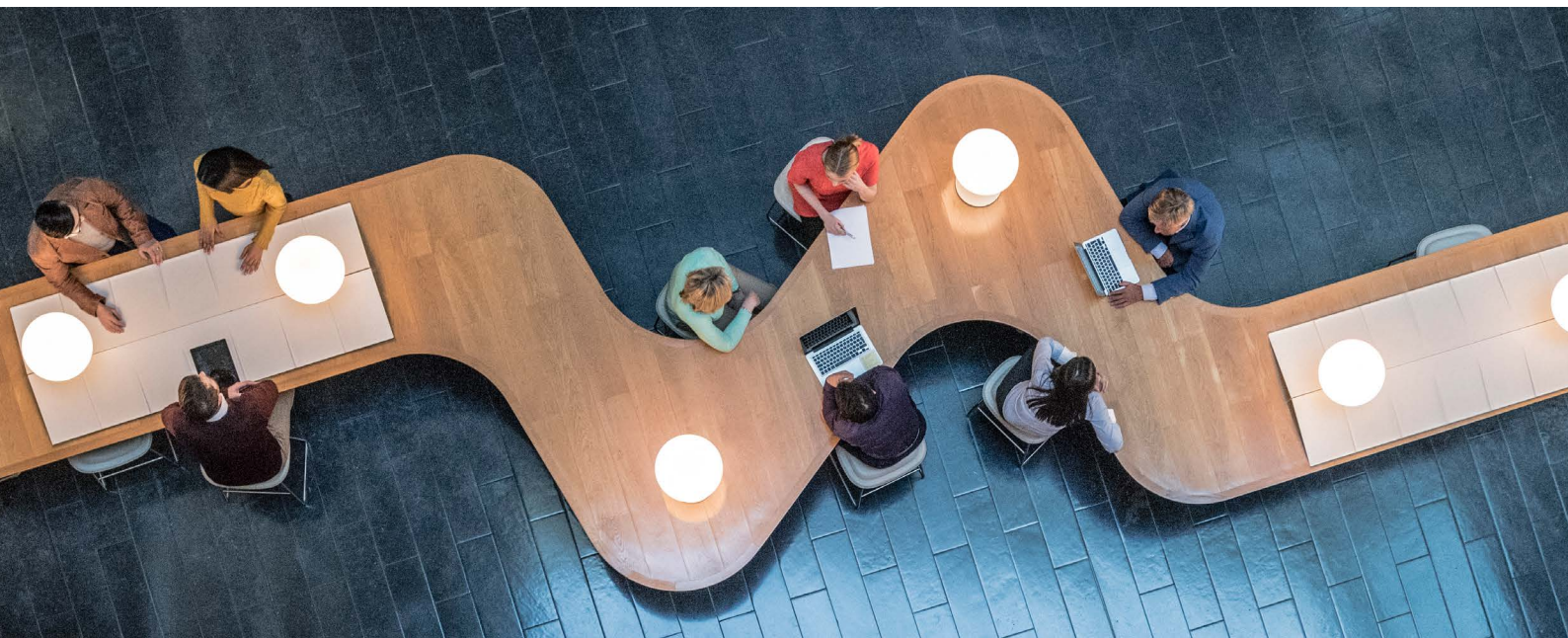
The primary reason why an enterprise organization needs to know how much is spent on a service per customer, however, is to facilitate internal chargeback.

Tracking service costs for every internal customer is more complex than measuring the total cost of a service. How this can be done pragmatically is discussed in another white paper that is currently being prepared.

**Want to learn more about the underlying data structure needed to support service cost tracking in a service management application?**



[READ THE PAPER](#)



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