



# An Overview of Chargeback Best Practices

# *Chargeback – Why do we do it?*

- **Organizational profitability**
- **Product profitability**
- **Cost allocations**
- **Just because – we have always done it!**
- **??**

# *Why do we do it?*

- **Control cost**
- **Zero-base**
- **Equitable**
- **Competitive**
- **Manage demand**
- **Benchmark**
- **Product costing – pricing**
- **Customer satisfaction**

# *How do we define successful chargeback?*

- **No one complains**
- **Everyone complains**
- **There is measurable cost savings**
- **There is measurable cost avoidance**

# *How do we define successful chargeback?*

- **Defensible**
- **Passes audit**
- **Recoup costs**
- **Accounts for growth**
- **Understandable**
- **Flexible**
- **Competitive**
- **Simple**

## *Chargeback – What has not worked?*

- **Allocations were too simple**
- **Allocations were too complex**
- **Allocations were too high in the organization**
- **It was allocations, and not controllable by those charged**
- **Financial entries with no information about charges**
- **Invoices or reports were too technical**

# *Chargeback – What has worked?*

- **Charges based upon resources used**
- **Charges based on technical resources**
- **Charges based on business oriented metrics**
- **Charges to those who could make changes**

# *Chargeback Best Practices – Myth or Possibility?*

- **Is chargeback a quest for the impossible?**
- **Can chargeback change organizational behavior to really make a difference?**

# *Let's Build a Best Practices Chargeback System*

- **What do we need first?**
- **What's second, third, etc?**

# *High level management support*

- Technical – CIO
- Financial – CFO

# *Chargeback Philosophy – Why?*

- **What is the vision of chargeback?**
- **What is the mission of chargeback?**
- **What are the measurable objectives?**

# *Chargeback Best Practices Characteristics*

- **Equitable.**
- **Repeatable and Accurate.**
- **Understandable.**
- **Controllable or Predictable.**
- **Economical**

# *Equitable*

- **Fair to all customers.**
- **One customer is not subsidizing the cost of another customer.**
- **The customer pays for the services they consume or the capacity they request.**
- **Use activity-based costing methodology.**

# *Repeatable and Accurate*

- It should not matter when (time of day or day of the month) the job or activity is performed.
- The same volume of work should cost the same each month.
- Assuming the same input, it should consume the same resources each time.

# *Understandable*

- **The customer must understand the chargeback process and methodology.**
- **IT must understand the chargeback process and methodology.**
- **They both must know what is being charged.**
- **What is included in the charges.**

# *Controllable or Predictable*

- **The customer must have the ability to control or predict the cost of performing a particular activity.**
- **If the customer processes more transactions, the cost should increase.**
- **If the customer reduces activities, the cost should decrease.**

# *Economical*

- **The system itself must be relatively inexpensive to run, including:**
  - **Collecting data.**
  - **Processing.**
  - **Reporting on the information.**
  - **Resources required**
    - **Hardware**
    - **Software**
    - **Staff**

# *What are the benefits?*

- **Short-term**
- **Long-term**
- **Financial goals – break-even or profit?**

# *Overall cost of IT*

- **Understanding what IT really costs**
- **Managing the cost of IT**

# *Chargeback – What? Who? When? How?*

- **What resources do we charge?**
- **What costs do we charge?**
- **Who do we charge?**
- **When do we charge?**
- **How do we charge?**

# *What resources do we chargeback?*

- **Resources with significant or material costs**
- **Resources that can be measured effectively**
  - **Easy to collect volumes**
  - **Cost effective to collect volumes**

# *What costs do we charge?*

- **Infrastructure only**
- **Mainframe**
- **Distributed – dedicated / shared**
- **Data communications**
- **Voice communications**
- **Programming development**
- **Total IT**

# *What type of costs?*

- **Fixed costs – when?**
- **Variable costs (rates) – when?**
- **Mixed – both?**

# *How do we charge?*

- **Simple allocation**
- **Journal entries**
- **Invoices – memo only**
- **Invoices – entries to financial reports**

# *Who do we charge?*

- **At what level in the organization?**
  - **Cost center / department / division**
  - **Product**
  - **Business unit**

# *When do we charge?*

- **Monthly, quarterly, annual**
- **Rate changes**
- **Adjustments – quarterly, year end, or ever**

# *Information Provided*

- **Strictly financial**
- **Customer**
- **IT management**
- **Corporate management**

# *Type of Process*

- **Quick and dirty**
- **Slow and accurate**
- **Quick and accurate**

# *What is the cost of chargeback?*

- **Implementation**
- **Operational**

# *Chargeback Implementation Project*

- **Charter**
- **Plan**
- **Budget**
- **Stakeholders**
- **Team**

# *Chargeback Software Characteristics*

- **Software**
- **System configuration**
- **Reporting**
- **Database**
- **Application**

# *Software*

- **Cost of software**
- **Ease of implementation**
- **Cost of implementation**
  - **Consulting resources**
  - **Internal staff resources**

# *System configuration*

- **Data collection**
  - Mainframe
  - Distributed
  - Centralization of data (application server)
- **Application**
- **Database**

# *Reporting*

- **Web-based**
- **Drill down to details – job, project, user, etc.**
- **Reporting security by business unit or user**
- **Reporting user guide / training**

# *Database*

- **Comprehensive relational database**
- **Optional database versions**

# *Application*

- **Easy to use**
  - Intuitive, easy process flow
- **Easy maintenance**
  - Customers
  - Rates
  - Users
    - Administrators
    - Reporting

# *Chargeback Operations*

- **Data collection**
- **Application processing**
- **Reporting**
- **Staff requirements**

# *Data Collection*

- **Daily**
  - Automated data loading
  - Monitoring – errors / corrections
- **Monthly**
  - Automated data loading
  - Manual data loading
  - Monitoring – errors / corrections

# *Application Processing*

- **Maintenance for updating**
  - **Customers**
  - **Rates**
  - **Report Users**

# *Reporting*

- **Standard reports**
- **Custom reports**
- **User read-only access to database**

# *Staff Requirements*

- **Technical**
- **Financial**
- **Administrative**

# *Technical Skills*

- **Mainframe**
- **Distributed**
- **Database**
- **Application**
- **Web**
- **Reports**

# *Financial*

- **Financial analysis**
- **Support for data input**
- **Results monitoring**

# *Administrator*

- **Finance system administrator**
  - Monthly processing monitor
  - Customer questions
  - Custom reports or not?

# *Total Cost of Chargeback*

- **Software maintenance**
- **Hardware resources**
- **Staff resources**

# *Summary Slide*

- **Chargeback – Why do we do it?**
- **How do we define successful chargeback?**
- **Chargeback – What has not worked?**
- **Chargeback – What has worked?**
- **Chargeback Best Practices – Myth or Possibility?**

# *Summary Slide (cont.)*

- **Let's Build a Best Practices Chargeback System**
  - High level management support
  - Chargeback Philosophy – Why?
- **Best Practices Chargeback System**
  - High level management support
  - Chargeback Philosophy – Why?

# *Summary Slide (cont.)*

- **Chargeback Best Practices Characteristics**
  - Equitable
  - Repeatable and Accurate
  - Understandable
  - Controllable or Predictable
  - Economical

# *Summary Slide (cont.)*

- **Chargeback benefits?**
- **Overall cost of IT**
- **Chargeback – What? Who? When? How?**
  - **What resources do we chargeback?**
  - **What costs do we charge?**
  - **What type of costs?**
  - **How do we charge?**
  - **Who do we charge?**
  - **When do we charge?**

## *Summary Slide (cont.)*

- **Information Provided**
- **Type of Process**
- **What is the cost of chargeback?**
- **Chargeback Implementation Project**

# *Summary Slide (cont.)*

- **Chargeback Software Characteristics**
  - Software
  - System configuration
  - Reporting
  - Database
  - Application
- **Chargeback Operations**
- **Data Collection**

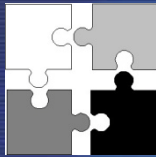
# *Summary Slide (cont.)*

- **Staff Requirements**
  - Technical Skills
  - Financial
  - Administrator
- **Total Cost of Chargeback**
- **What Have We Missed?**

# *Questions / Comments*



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