

IT: how much is it really costing you?

The hard and soft costs for SMBs

It's vital to know the real costs of running your own IT, especially if you're considering outsourcing it for a monthly fee. How will you know if providers' prices are fair if you don't know your full costs? This Short White Paper identifies the hard and soft costs for small to medium businesses (SMBs) and how to calculate them.

1. Soft costs are real

Few companies know the full cost of running their own IT. Yes, they keep track of the obvious or 'hard' costs, such as for:

- Purchase or lease of hardware (e.g. PCs, servers, routers etc);
- Software licences and upgrades;
- Hardware and software support contracts;
- Wages for IT support staff;

yet, they often underestimate the full extent of 'soft' costs because they're hidden, hard to track or simply not considered.

The first step in calculating soft costs is to understand that inefficient work practices carry a cost, often a high one. Poor staff performance could be a reason, but more likely it's the company's operations, work flow, business approach or management. The second step is to understand that reducing soft costs can reduce the hard costs. Smarter work flows make your staff more productive, because they can spend more time on core activities and less time fighting clunky processes.

A work practice example is the use of non-IT staff to carry out IT functions, usually for which they are neither trained nor employed. While unavoidable in many small businesses, it does contribute to higher costs. One cost is the core activities they're not handling; another is the extra hardware and software needed if your IT systems aren't optimised. According to IDC, management costs increase exponentially for each extra server installed, and the cost of maintaining a server is five to seven times the purchase price¹ so if your system isn't optimized, the cost can be high and ongoing.

2. IT Support

In an SMB, employing dedicated IT staff doesn't completely remove these problems because:

- It's unlikely that one or two people could be expert on your entire IT environment;
- It's difficult to attract and keep very highly skilled IT staff;
- It's not easy to judge their true competence and skill beforehand;
- Even if you had an internal Service Level Agreement (SLA), you may not gain the best service or the lowest possible downtime.

¹ Server Management Costs Soar, says IDC <http://searchcio.techtarget.com/tip/Server-management-costs-soar-says-IDC>

Outsourcing your IT support (while keeping your IT facilities in-house) may address the skills issue but won't guarantee optimum up-time. This depends on how fast the support provider responds, gets to your premises and fixes the problem. The cost of losing your IT capability at a critical time can be significant.² However, tighter SLAs with higher up-time guarantees should help to minimize lost time and costs.

3. Power consumption

The first step is to determine the power your IT equipment uses now which requires an audit. Keeping tabs on power consumed by servers and their air-conditioning is the starting point and your electrician can help you isolate this from other office usage.

Many small businesses have plans for reducing their power consumption, for both cost and environmental reasons. Simple measures like these can make a big difference:

- Replacing old CRT monitors with LCD screens;
- Switching PCs off when they're not in use;
- Using virtualisation and other techniques to optimise server use.

You can save even more if you eliminate on-site servers altogether. Savings can reach 'thousands of dollars per month for the average 100-person business,' according to Michael Osterman, CEO of Osterman Research (USA). 'The source of these savings is primarily reduced license and staffing costs, but lower power consumption alone contributes up to about \$870 in savings per server each year.'³

4. Rent

The cost of renting space for your IT equipment is easy to calculate once you know the proportion of total floor space it occupies. The cost of floor space for servers and networking equipment can be substantial, especially if you're in a CBD location, where rents range from \$500 to \$1,000 per square meter in Australia.

5. Software licensing

The cost of software licences, renewal and upgrade costs, are tedious to calculate but this cost area has other implications: it's not just a matter of ensuring all your licences are up-to-date; they need to be legal too. This has caused national organisations and IT integrators to employ consultants just to keep track of software licences. In smaller business, there may be fewer licences, but keeping track of them is just as difficult.

Ignoring this isn't trivial: you could be breaking the law.⁴ One danger is the user who is unaware that software given to him by friends is pirated; another is extending users beyond the licensed number. The business use of unlicensed software attracts big fines, and ignorance is no defence. A number of Australian companies, including International Academy, CTel Technologies Pty Ltd and Orrcon Operations Pty Ltd, have recently been fined between \$45,000 and \$200,000 for using unlicensed software.⁵

² The Hidden Cost of Computer Downtime <http://www.creativedata.net/index.cfm?webid=207>

³ <http://www.marketwire.com/press-release/Small-Businesses-Cut-Cost-Carbon-Footprint-Outsourcing-Business-Communications-1152174.htm>

⁴ <http://www.bsa.org/country/Tools%20and%20Resources.aspx>

⁵ <http://www.goldcoastbusinessnews.com.au/article598/Crackdown%20on%20software%20piracy.html>

6. IT Security

Information security is even more complex and specialised these days, and SMBs can be ill-equipped to keep pace with its growing challenges. Not only are managers more focused on day-to-day operations, employees lack the highly specialised security knowledge, and the budget for information security is often inadequate.⁶

A survey sponsored by McAfee found that three-quarters of SMBs spent five or fewer hours per week on security.⁷ In another McAfee study that tries to quantify the cost of reactive versus proactive security, one in five mid-size organizations had a security incident that directly resulted in lost revenue - \$41,000 on average.⁸ For business of all sizes, the real cost of security is in not getting it right.

7. IT Staff

This is the actual cost of your own IT dedicated IT staff, not others doing IT in addition to their core jobs. This calculation should include not just salaries, allowances, expenses and standard overheads but also office space per IT staff member, equipment used by them, plus training courses and conferences they attend. As with all staff, it's the full cost.

To close

Knowing the full cost of running IT in-house can be a key driver for SMBs to outsource their IT. When you take into account the cost, complexity, reliability and security impacts, outsourcing IT can make real economic and business sense. If the outsourced service is based 'in the cloud' there are extra benefits, because qualified specialists maintain an optimised, standardised environment for you, with assured services, security, backup and redundancy built-in. The economics of IT outsourcing stack up when everything is considered, and complexity is reduced, and reliability and security greatly improved.⁹

* * *

Author

Sam Forbes, CEO, 6YS

<http://www.6ys.com.au/>



Sam has over 20 years' IT experience in enterprise IT management, network design, software development and IT support. Sam had the vision of providing better IT solutions to small businesses and founded 6YS in 2003, pioneering the delivery of Software as a Service (SaaS) solutions to SMBs.

Sam holds degrees in Law and Political Science, and has gained numerous IT industry certifications. Sam is also a passionate sportsman: he has played representative Cricket and Rugby Union and still plays 'Golden Oldies' in both sports.

⁶ Lack of Security Focus Puts SMBs in Harm's Way http://www.darkreading.com/smb-security/security/management/showArticle.jhtml?articleID=225701975&cid=RSSfeed_DR_News

⁷ http://www.mcafee.com/us/about/press/corporate/2008/20080723_191010_q.html

⁸ http://www.mcafee.com/us/research/security_paradox/index.html

⁹ Six Cloud Computing Benefits for SMBs – InformationWeek June 2, 2010

<http://www.informationweek.com/shared/printableArticle.jhtml;jsessionid=Y015AU32K3PORQE1GHRKHWATMY32JVN?articleID=225200751>