

Cookson Walker Consulting

Measurement is Boring, Tedious and Horrible –

But it Makes You Smart and Rich

By Chris Venn and Steve Frye.

It's hard to get excited about measurement. Tracking and recording information is rarely fun, and when it is, the definition of "fun" is probably suspect. But is it important? It is. We know it's important, but no one wants to do it.

It's also hard to get excited about technology (unless, of course, you're authoring this!). So what happens when we combine measurement and technology? As a rule of thumb, nothing happens – that's why it's so important to explore.

It's probably fair to assume that most of us with technology responsibilities don't feel that technology delivers great returns. The challenge here is that most of us have no idea about any of the "quantifiables" of our systems. But don't tune out yet! This doesn't have to be difficult, and by looking at a few numbers, you may end up with a whole new appreciation of the metrics related to your systems.

We'll go easy on you, and won't get too geeky here – as a matter of fact, we'll focus on the cheques you cut for computers, and what those numbers can tell you.

There are three great ways to consider computer system costs: as a per cent of commission income; as a cost per customer; and using our fancy new model called RTQ – more about that in a minute.

But, before we can dig into any of these, you need a critical piece of data – your total cost of technology ownership. Now, there are several models available for calculating your Total Cost of Ownership, or TCO. For our purposes here, we're going to keep it simple.

Consider TCO in three way – hardware and software costs, people costs and management costs.

Hardware, Software, Services and Communications

Hardware and software costs actually include services and communications as well. The good news is that these are easy to quantify because you signed a cheque for them at some point. There are invoices for servers, PCs, networking devices, routers, printers, toner, backup tapes, scanners, Microsoft software, backup software, anti-virus software, broker management software, monthly support fees, installation costs, service contracts, telecommunications costs, Internet connectivity, web site hosting etc. This is just a partial list, but you get the idea. If you want to know these numbers, see your controller or bookkeeper and have them dig up the invoices. You need to be extremely clear on these numbers.

People

Moving to the slightly more difficult to measure, there are many costs associated to “people” when dealing with technology. The obvious (and easy to measure) one is training. But even training is a bit tricky to quantify because we generally only measure the training we purchased from a third party. But what about all the day-to-day support that staff provide to one another? Should it be included? You bet it should.

Peer coaching can take up a lot of time. That time needs to be identified and a value needs to be assigned to it. Similarly, there is often a great deal of ‘on the job fumbling’ that goes on as staff make poor use of software. While it would be ideal to be able to hold ourselves up to some sort of efficiency meter and gauge how well we’re exploiting our technology, we generally have to make an educated guess based on some informal chats with our staff. These conversations are worthwhile. By getting a sense of how much fumbling is happening, we encourage you to put a time value on it, and then apply a monetary value to it.

The impact of Change on employee performance, however, is probably one of the biggest costs that are never measured – but can be. One of the best ways to do this is by comparing activity reports from before, and after the Change. More precisely, by comparing workflows from before and after the Change, one can very clearly measure the impact on performance. How much longer are tasks taking? Are more people involved in the process? Are there more steps? What is the cycle time of each task? Answering these questions is not particularly difficult, and is downright easy if you have proper workflow documentation in place.

Management Costs

Management costs are the fun ones – they are the ones no one seems to want to measure or reflect in their accounting of the true costs of their systems. Similar to the People costs, this is primarily a time issue.

Here are a few questions to consider. How much time do you spend searching for, discussion, researching, comparing and negotiating a technology purchase? Do you put a committee together on larger projects? Do you track their time and value? Do you spend time monitoring systems, or managing either staff or contractors who do? Did you draft a technology policy? Do you execute it? Does it involve inspecting the use of your systems? Did you have to consult a lawyer for this? Do you staff have frequent technology-related questions or problems, which you must address?

These are just a few of the questions that can offer some clear indicators of the amount of management time that is spent on technology issues. These are very real costs – both in time and opportunity. They need to be tracked and applied in your TCO equation if you are to get a clear picture of your costs.

% Of Commission Income

The standard benchmark for a number of years is that annual technology expenses represent approximately 2% of commission income. Despite the apparent ramp-up in technology investment over the past few years, this benchmark seems to remain fairly constant. In the United States of America, this benchmark is corroborated in recent

surveys of insurance brokers regardless of size, type of business (e.g. direct bill vs. agency bill) profitability and growth trends.

If you have been paying attention to what you have read to this point, you can agree that measuring and benchmarking technology expenses in this fashion leaves something to be desired. You don't have to be an accountant (actually you probably do a little bit) to understand that many of the costs described above do not find their way to the technology expense line on the income statement or nowhere in the financials in fact, for example the cost of management and employee time to investigate, invest and implement technology! So technology expenses, as a % of commission income is an incomplete measure!

So what are the alternatives?

Cost Per Customer (CPC)

In the final analysis, technology should be helping us do two things – get clients, and keep clients. But how often do we reflect our technology costs as they relate to our clients?

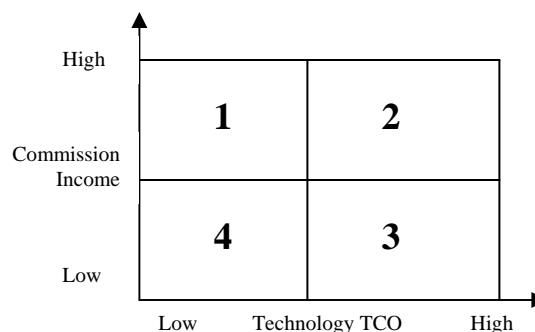
An interesting internal barometer for technology spending is Cost Per Customer (CPC). It is as easy as dividing your Total Cost of technology Ownership by the number of active clients that you have. By tracking this measurement on an ongoing basis, you will have a useful indicator as to how your technology TCO relates to a customer, and what the impact of technology changes or investments may have on profitability on a client-by-client basis: You can set targets and measure your investments/changes against those targets and any benchmarking you have done to date.

Although there are no industry norms on CPC, it can be a flexible way to illuminate the client impact of new technology.

RTQ – What Should I Do About My Technology Costs?

RTQ is the Response to Technology cost Quadrant and it provides an indicator of how appropriate your technology costs are, as they relate to profitability or commission income. Now we recognize that it's a bit of a mouthful, but, in the absence of a better TLA (Three Letter Acronym), here's the idea.

If you create a graph with Commission Income on the y-axis, and Technology TCO on the x-axis, you can begin to compare the two and we can place the result of that comparison into one of four quadrants



In the absence of any industry benchmarking, which we are in the process of developing, you can set your own parameters for low and high based on a historical review of your income and costs for the past three to five years. What you can develop on your own is the trend: Are you headed in the desired direction?

Here are some thoughts about the 4 Quadrants:

Quadrant 1 is the most desirable. Commission Income is high, while technology costs are low. Why is this ideal? Well clearly it's because you're making money, but you're not spending heavily on technology. It's likely that your workflows are in good shaped, or that you have a unique book of business that is quite lucrative. Technology costs are under control.

In Q1, there is also an opportunity for growth. You may want to explore some ways to drive additional growth through deploying new technology tools. Consider spending more time on your workflows to see if you can tune them to be even better. You are in the control position.

Quadrant 2 – the second most desirable quadrant to be in. Why? Because Commission Income is still high! To have a high technology TCO isn't bad in and of itself, but it could mean many things. It could mean you have recently invested in new technologies. You may have recently added several new producers that drove up commission income, but with new staff, come new technologies. In Q2, a business leader has a responsibility to maintain the Commission Income, but to cap, control, or reduce the technology costs in a responsible way. There is an opportunity to push to get more out of the technology so that you can shift over to Quadrant 1. If you are in this position, you need to be absolutely sure that you are getting the maximum performance from your systems, that things are running optimally and that your staff are using all the tools available to them.

Quadrant 3 – **DANGER!!** Commission Income is low and TCO is high!! What does this mean? Among many things, it means that you have not realized the investments you've made in your technology.

A high technology cost of ownership may reflect a strategic decision to invest in technology in order to grow, increase sales, meet an industry technology requirement, etc. If you've done it on purpose, that's OK. But it must be measured tightly so that you ensure you fix the situation, or get the results you expected when you invested in the technology. The TCO must be stabilized or reduced and the Commission Income needs to be addressed. This is a very vulnerable position.

Quadrant 4 begs the question "What are you waiting for?" The technology TCO is low, but the commission income isn't there either! Focus first on driving up the commission income, and then supporting it by adding the right technologies. This way you will move toward Q1 first. Don't do it the other way. Too many businesses try to buy their way out of problems by investing in new technology, but don't fully deploy new systems and therefore don't get the results they were hoping for. To do this without the Commission Income to support the business generally isn't prudent. This doesn't mean don't invest in technology – it means don't inch toward Q3 until you have moved closer to Q1.

Getting at the Data

It can be very tempting to look at the Income Statement and Balance Sheet and try to arrive quickly at a technology Total Cost of Ownership number. But today's numbers are meaningless in the absence of comparative data. Translation: you need to look at a few years' worth of information in order to find meaning.

Technology purchases are expected to serve the business for several years. With this in mind, we invite you to gather information for the past three to five years. In so doing, the costs will be normalized slightly, and will more appropriately reflect the technology spending vs. business performance.

As noted previously, while there is no industry benchmarks for RTQ as yet, use it as your own tool to plot what quadrant your business is in. Then start responding.

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