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Damned lies and TCO

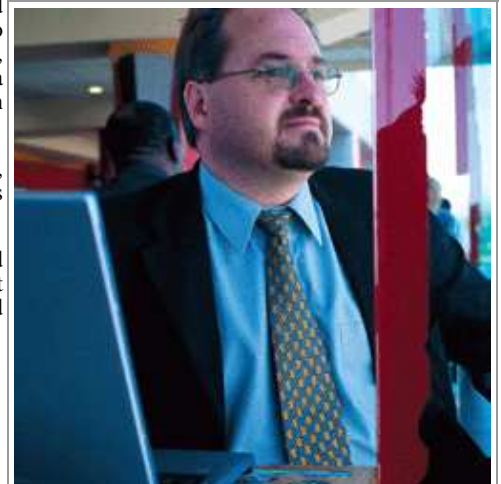
By **Brian Bakker**

Working out the total cost of ownership is not a simple process. Experts weigh in with the pros and cons of this business calculation.

In BusinessWeek online in April, *Steve Hamm* complained of the "never-ending stream of studies comparing Linux to Windows". He singled out the Yankee Group and its analyst, *Laura DiDio*, for special attention and attacked a methodology that appeared to tilt things in favour of a certain large software company based in Redmond.

Mike Davis, senior research analyst with the Butler Group, admits to being increasingly frustrated with the nebulous concept of TCO (total cost of ownership).

"We know tangible costs, but what of the intangible and opportunity costs, both for what can be gained and also what can be missed? Calculating TCO is not an exact science and any measurement is restricted to the explicit costs," he says.



Simple stuff: Mark Rotter believes every company's business model provides guidelines for TCO.

Too general

Mark Walker, director of BMI-Tech-Knowledge, believes that TCO in its current form has reached the end of its useful life. "It purports to measure TCO of IT systems as related to a specific business, but over the years the methodology has become applied in an increasingly generic way. But a lot of the TCOs that are bandied about are so generic as to be absolutely useless, in my opinion," he says.

Mark Rotter, senior analyst with Africa Analysis, agrees that while there is little wrong with the concept of TCO, its application leaves something to be desired. "The principle of thinking about how much money you're spending on what component is not a bad way to approach a problem.

"However, what is a problem is to generalise - to allow people with technical skills to define the business model of a company. When any business starts up it typically does so with a business model. And while it may not expressly say so, that business model provides very clear guidelines for TCO and ROI [Return On Investment]," he adds.

Lars Mieritz, VP and director of research at Gartner Research, says TCO is really almost anything that people want to put into it. "I have a client call me up and say they have been presented with a TCO that was so low they couldn't believe it. It turned out that this model did not take into account the end user expenses of running a distributed environment," he says.

Hidden costs

Davis believes that calculating ROI has similar problems to that of TCO. "I recently spent a day in Microsoft's 'home' in London. It's a £5 million, three-storey town house in central London that Microsoft rents for 10 weeks, equipping with all the latest Microsoft enabled technology, from Media Center to tablet PCs.

"How will they measure the ROI on that? Only a few people will ever visit it. It does raise profile, I do feel better about Microsoft and my copy may be more favourable as a result - but how do you quantify that in pounds or dollars?"

Ditto TCO

Mieritz believes that similar hidden costs can be omitted from TCO studies, but not necessarily for sinister reasons. "At the highest level we look at the cost of hardware, software, operations, administration, down time and at what we call end-user operations costs.

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"I have had people calling me up to say they have just been shown a TCO that is 30 percent lower than what Gartner gave them. It turned out, upon investigation, that the other model did not include the cost of the users fiddling around or helping each other.

"This can, in Gartner's view, impact the total TCO by anything from a third to more than 50 percent of the cost. It really depends on the salaries of the users and how much they are fiddling about."

Rotter has analysed a number of generic TCO methodologies and recommends them heartily. He does warn that any framework is only as good as the quality of the data inserted into the model. "If you've got a contract with a Meta, Gartner or Deloitte, take their model. It covers the necessary ground," he advises.

One-size doesn't fit

Walker believes that working out the TCO of a new system or technology is possible, but that it's critical to take everything into account. "If it is to be done properly it is a project that should be undertaken by experts, such as Accenture, KPMG, Cap-Gemini, IBM Global services, Gartner, whoever," he says. He adds a rider: "And it's got to be done with a view to obtaining a genuine TCO measurement - by which I mean there mustn't be marketing mileage wanted out of it. It must be a genuine assessment, which is something that is time-intensive, resource-intensive and expensive."

Rotter believes that keeping costs down and obtaining acceptable ROI is a lot simpler: "It's income minus expenditure. In most businesses IT is a very small part of overall expenditure, typically less than 10 percent of the total. I think the basis according which TCO is treated as the be-all and end-all is not correct. It should be done as an input into the overall financial process," he says.

"It really depends on the salaries of the users, and how much they are fiddling about."

**Lars Mieritz, VP and director,
Gartner Research**

Mieritz believes that there is no right or wrong TCO. "Of course, you can get a feeling if it seems very high or very low, but everybody's TCO will be a reflection of their 'technology park' and the mix of technologies. It will also be a consequence of the applications that are running and the users' education level," he says.

Simulations and scenario planning are useful tools to get a feel for the potential consequences of a technology upgrade. Mieritz offers an example of a company that considered replacing the desktop PCs issued to its sales force with laptops.

"If everybody has a desktop then you can close the help desk at 7pm, because everybody goes out of the office. But if everybody has a laptop, you need to extend your [help desk] hours to 11 o'clock so that you can help the guys who are calling in from the hotel rooms."

Another example where scenario planning proved useful occurred several years ago, when thin client computing was all the rage. "I was working with a manager and we looked at what is TCO today on normal desktop environment.

"We then tried to simulate a thin client environment. The network and support costs were much higher because [the processing demands are higher] and if you have thin clients you need fat cables," says Mieritz. **B**