

## Chargeback Considerations

These functions collect statistics on systems usage by users, groups or departments and allocates charges based on appropriate chargeback algorithms. A key goal is to provide an incentive costing structure that communicates to users how much processing services that they are using actually cost. From this, users can make good decisions about new systems. A secondary goal is to provide feedback to users on resources currently consumed. This helps them see a relationship between the size of their workloads and costs to process them. By having user departments directly responsible for costs, they will also tend to control and utilize resources more efficiently.

Chargeback systems and procedures need to be user-oriented. There is a tendency to present billing information in terms of Number of I/Os, Processing Time or Memory Consumed. These units have little or no meaning to most users. A desired approach is to tie system resources to business entities. In this way, users see charges by items such as Customers Processed or Accounts Updated. These are areas in which users can communicate and control usage of their processing resources.

Key chargeback functions can be grouped into the following areas:

### *Data Collection Functions*

These are tasks that initially collect statistics on systems performance and resource usage. These statistics tie with cost elements that are to be charged. For example, if a cost element is based on number of transactions, then the number of transactions executed each day will have to be collected.

### *Account Table Maintenance*

There will most likely be some form of account table that describes the various users and departments and how system data that is collected is to be allocated across these entities. This table will periodically change as new users are added, departments change or charging algorithms and elements change. Periodic maintenance will need to be done on this table to ensure that charges are being allocated correctly based on the most current requirements of the business.

### *Rate Setting*

Chargeback algorithms and rates may change over time due to increased costs for services or changes in user departments. These rates need to be fairly developed, agreed upon by key users and integrated into the current procedures and systems used to do chargeback.

### *Billing & Reporting*

Chargeback bills and reports will have to be produced on a periodic (probably monthly) basis. These get sent to users to provide an audit for billed charges.

In addition to distributing processing costs to user areas, other administrative functions may interface with chargeback activities. These may include the following:

- Budgeting Activities
- Pricing Decisions
- Usage Variance Analysis Requests
- Business General Ledger & Accounting
- Cost Allocation Decisions
- Capacity Planning & Usage Trending Activities

Activities in areas such as those above may require additional reporting or trending of chargeback results.

Other key issues in this area may include the following:

### *Chargeback Software Selection*

It may be decided to obtain vendor software to perform chargeback activities. Key requirements are to determine the charging algorithm flexibility of the product chosen, accuracy of collection and reporting and ease of maintenance and use.

### *Configuration Versus Utilization Costing Strategies*

When developing cost algorithms, a key decision is whether to charge based on utilization of resources versus charges directly related to the costs of the configuration. If using the latter approach, percentages will have to be determined that distribute costs to user departments. The former approach involves setting of variable or incremental charges and measuring use of cost resources.

### *Fixed Versus Variable Cost Elements*

It must be determined whether charging algorithms are to be based on fixed charges versus variable charges. Fixed charges are fine for usage that is predictable and steady each billing period. Variable charges may be desired for more unpredictable use. For variable charges, it may be determined that a minimum base is charged that includes some amount of the elements being charged for. Once this amount is exceeded, the variable rate then kicks in. Reporting and billing will then have to show how rates have been applied and what amounts of the variable elements have been recorded and charged for.

### *Unused or Idle Resources*

It should be determined how unused or idle resources will be covered by the chargeback system. A typical example would be a large host processor shared by many departments. Some portion of processing resources may not be used (possible excess capacity). How should this be accounted for?

### *Overhead Resources*

It should be determined how overhead resources will be accounted for. These resources tend to be used by all users (such as the Operating System). If these types of resources are to be charged to users, a fair allocation strategy needs to be determined. This will also have an impact on gathering of usage and performance statistics as these may not easily be collected by whatever allocation scheme that will be going into place.

### *Shared Resources*

It should be determined how shared resources will be covered by the chargeback system. Most likely, usage indicators will have to be identified, measured and then applied fairly across all departments that share that resource.

### *Systems Software Customization*

Some customization efforts for systems software may be needed to adequately measure and collect usage statistics.

### *Scope Of Processing Costs*

The scope of processing costs needs to be determined to understand the true costs of delivering services that needs to be recovered. These categories include items such as:

#### *Equipment expenses.*

This covers areas such as rental, lease, maintenance or depreciation on equipment.

#### *Communications expenses.*

Costs for lines, wiring, transmission facilities and services.

#### *Salary expenses.*

Costs for personnel used to support processing functions.

#### *Occupancy and facilities expenses.*

Costs for building space and utilities.

#### *Supplies expenses.*

Costs for supplies, forms and other non-equipment materials.

#### *Other allocated expenses.*

Costs that have been allocated to operations from other activities within the business enterprise.

### *Manual Services*

Chargeback activities may need to include cost items for manual services such as data entry, tape mounts, etc. These need to be recorded and entered as part of chargeback procedures.

### *Variable Charge Rates*

It may be desirable to change charges depending on some criteria such as time of day, peak loads, priorities, etc. Thus the same type of service may have several charges depending upon what circumstance it was used in.

### *Variance Analysis*

It may be desirable to compare budgeted processing expenses with those actually incurred by each user department.

### *Charge Penalties*

It may be desired to implement penalty costs for exceeding usage limits or processing certain types of functions at inconvenient times of the day.