



Creating and Managing an On-Campus IT Cost Recovery Center

Pre-Conference Workshop
Jeff Frey
1:00pm – 4:30pm
Monday, July 19, 2010

CAMPUS 2.0 TECHNOLOGY
July 19 - 22, 2010 | Seaport World Trade Center | Boston, MA

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Cost Recovery Workshop

Jeff Frey

- Web Services at Rice University
- Technology & Data Solutions
- BS/MS in Computer Science and MBA
- 7 Years of corporate management
- 5 Years academic Information Technology
- Ivy Plus University Roundtable
- Non-profit sustainable revenue models

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Cost Recovery Workshop

“Web Services” at Rice (A)

- History: hired for departmental website
- Not keeping the few people busy
- Starting sharing salaries with other depts
- IT took it over, didn't manage it well either
- Year 1 – figure it out; business analysis
- Year 2 – policies, procedures, and hiring
- Year 3 to 5 – run, maintain, and grow

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Cost Recovery Workshop

“Web Services” at Rice (B)

- 15 full time employees
- 9 +/- students at any given time
- \$2mm budget inflow/outflow per year
- Every department on campus is a client
- Any faculty, staff, student, “friend” can call
- 60%: app dev, 40%: software, sites, design
- SMBusiness: model, hr, marketing, sales...

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Cost Recovery Workshop

Agenda = a Business Plan

- Introduction
- Business Case
- Finances
- Service Offerings
- Management and Staffing
- Operating Plan
- Marketing

A business plan is the key to creating and managing your cost recovery center.

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Cost Recovery Workshop

Agenda - the Plan of Attack

- 20 minutes for each topic
- 2 breaks about 15 to 20 minutes each
- “Workshop” and interaction to help think
- Spend an afternoon just on this topic
- Ask clarification questions anytime
- Ask for examples, or share, anytime
- Save consultations for this week or after

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Cost Recovery Workshop

Some Questions

1. Who is doing it now successfully?
2. Who is doing it now... not so successfully?
3. Who is NOT doing it now, but knows for SURE they will do it in the future?
4. Who is not doing it now, and are **not so sure** if they are going to do it at all?
5. Who else is here and why?
(I want you all to leave with something valuable.)

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Cost Recovery Workshop

Some Questions

- What really is it? The term...
Information Technology Cost Recovery Center?
- *IT is easy:* A department tasked with the study, design, development, implementation, support or management of computer-based information systems, particularly software applications and computer hardware.
(Are there any people here NOT in IT?)

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Cost Recovery Workshop

“Cost Recovery Center?”

- What is “Cost Recovery?”
 - Revenue recognition method under which no gross profit is recognized and all the cost of the merchandise or service has been recovered (maintaining a zero balance).
 - The payments received from customers are treated as a recovery of the cost of goods or cost of providing the services sold.
 - May be within a certain time period.

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Cost Recovery Workshop “Cost Recovery Center?”

- **Types of Cost Recovery**
 - **Full recovery** – all costs recovered (rent, hardware, software, training, salaries, etc)
 - **Partial recovery** – portions of the “costs” are naturally absorbed elsewhere (common: rent)
 - **Subsidized recovery** – portion of overhead or services paid for with university money
 - **Central Funding** – term for what is given to the cost center without services provided

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Cost Recovery Workshop “Cost Recovery Center?”

- Northern Illinois University
 - See bullets under strategies and action plan
- University of Georgia
 - Click down to individual departments
- Web Services at Rice U
 - “Technology solutions provider”
 - Partial recovery at \$65/hour

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Cost Recovery Workshop “IT Cost Recovery Center?”

- Portion of an IT department
- Maintains a zero balance by
 - Providing services to clients
 - Charging them enough to cover costs
- Full, Partial, or Subsidized funding
- Questions so far about an “IT Cost Recovery Center?”

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Cost Recovery Workshop

Agenda

- **Business Case**
- Finances
- Service Offerings
- Management and Staffing
- Operating Plan
- Marketing
- The Business Plan

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Cost Recovery Workshop

Business Plan on YouTube, stop at two minutes.

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Cost Recovery Workshop

Business Case

- A *business plan* is a narrative and quantitative document describing the details of developing and operating a new venture, starting with the *business case*
- One must consider why (goals), and what one hopes to accomplish (objectives)
- Should be a living document and the business plan should change over time

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Cost Recovery Workshop Business Case

- Take away from the video... think about the audience, the readers, stakeholders
- Who are you going to be presenting it to?
- What story should it tell?
- The "golden rule" of business...

"He who hath the most gold, maketh the rules." (write it for that person and for the management)

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Cost Recovery Workshop Business Case

- Who else? Think about your customers!
 - The plan should determine what "business" the business is in... and NOT in
 - What are their needs, desires, and wants... and what are they asking for?
- The business case explains what hole needs to be filled and why you are filling it the way that you are intending to fill it

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Cost Recovery Workshop Business Case

- Example, what business are we in:
 - "I need a database."
 - Data services department?
 - But then "I need it to look nice."
 - Oh and "Be editable by non campus users."
 - "It would be nice if it connected to software."
 - etc... What is this department doing?
 - Details of "services" come later

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Cost Recovery Workshop Business Case

- More elements in the business case:
 - What is going on in the IT department that necessitates or helps this case
 - What do you hope to achieve by doing this
 - Think about benefits for not just the IT department or not just the clients... but both are extremely important
 - (Again, remember your audience / readers)

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Cost Recovery Workshop Business Case

- *Starting Your Business Plan* handout:
 - Who is your audience? (readers)
 - Who are your customers? (clients)
 - And what business are you in? (overview)
 - Why are you doing this? (goals)
 - What will you accomplish? (objectives)

(spend one minute on each subject)
- *We will build on these throughout the day*

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Cost Recovery Workshop Business Case

- The next part of the business case:
SWOT analysis
 - Strengths
 - Weaknesses
 - Opportunities
 - Threats

	Helpful in achieving the objective	Harmful in achieving the objective
Internal strengths advantage over the competition	S Strengths	W Weaknesses
External strengths advantage over the competition	O Opportunities	T Threats

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Cost Recovery Workshop Business Case

- SWOT Handouts
 - Undertaking a SWOT Analysis
 - SWOT Analysis Template
- Let's brainstorm a general / overview / common SWOT analysis for a IT cost recovery on a university campus
- *Everyone's campus is different, look at a completed SWOT to assess feasibility*

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Cost Recovery Workshop Business Case

- Audience
- Customers
- The Business
- Goals
- Objectives
- SWOT
- Eventual SWOT / Objective Alignment

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CAMPUS 2.0 TECHNOLOGY

Cost Recovery Workshop Agenda

- Business Case
- **Finances**
- Service Offerings
- Management and Staffing
- Operating Plan
- Marketing
- The Business Plan

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Cost Recovery Workshop

Finances

- Pro forma Income Statement, Balance Sheet, Statement of Cash Flow, Capital Needed and use of that capital, etc
- One, two, three, and five year projections
- BUT... to start your cost recovery center...
 1. Start with a simple budget
 2. Calculate your break even point
 3. Create multiple funding scenarios

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Cost Recovery Workshop

Finances

1. Start with a simple budget
 - Focus on what you need to pay for: expenses
- Business Budget handout is simplistic
 - Expenses: which pertain, and add new ones
 - Salaries (and fringe? bonus? awards?)
 - Computers (and software licenses? phones?)
 - Training (and travel? books? subscriptions?)
- *Take two minutes on your own to think*

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Cost Recovery Workshop

Finances

1. Start with a simple budget
 - Focus on what you will get paid for: income
- Business Budget handout is simplistic
 - Income: for now, just list sources
 - “Services provided” (*flat fee or by the hour*)
 - Will you sell any *pre-packaged* products
 - *Maintenance agreements and/or ongoing fees*
- *Let's talk through pros and cons of sources*

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Cost Recovery Workshop

Finances

1. Start with a simple budget
 - Funding
 - Sources: clients, IT, president's office
 - Flat fee versus an hourly rate, rush rate
 - Any pre-packaged products (event reg)
 - Maintenance agreements and contracts
 - Ongoing fees such as hosting
 - What is your current IT support model

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Cost Recovery Workshop

Finances

2. Calculate your break even point
 - Expenses must equal Income for true cost recovery; revenue generating or bad business
 - **Fixed:** does not vary depending on production or sales levels, such as rent, property tax, insurance, salaries, or interest expense
 - **Variable:** hourly labor, material or overhead that changes according to the change in the volume of production units (student story)

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Cost Recovery Workshop

Finances

2. Calculate your break even point
 - Working example: generic salary cost recovery break even point using customer only funding through constant hourly rate amount using ten employees working on services only
 - Assume \$50,000 average pay
 - How would we go about doing this?
 - Break even example handout

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Cost Recovery Workshop

Finances

3. Create multiple funding scenarios
 - The winner will become your "funding model"
- Using the example:
 - Hours per day, is that number realistic
 - Partial central funding accepted for support
 - Charge a flat fee for a certain service
 - Maintenance fee ongoing to cover overhead
 - What about overcharging to keep a reserve

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Cost Recovery Workshop

Finances

1. Start with a simple budget
2. Calculate your break even point
3. Create multiple funding scenarios

Any questions on different funding models?

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Cost Recovery Workshop

Agenda

- Business Case
- Finances
- **Service Offerings** (then a break)
- Management and Staffing
- Operating Plan
- Marketing
- The Business Plan

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Cost Recovery Workshop Service Offerings

- One of the most important pieces of this cost recovery business plan... what services you are going to offer.
- It goes back to the “what business are you in” question from the first handout: Starting Your Business Plan.
- **Who are the customers...**
...and what will they PAY for?

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Cost Recovery Workshop Service Offerings

- Web Services brochure...



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Cost Recovery Workshop Service Offerings

- Other examples:
 - University of Chicago: one department
 - Look at Services, Rates, and Web Services
 - MIT: scattered throughout
 - View All Services, Training, Fees
- What will you, and won't you, charge for
- Core versus Non-Core versus Outsource
- Let's make some lists...

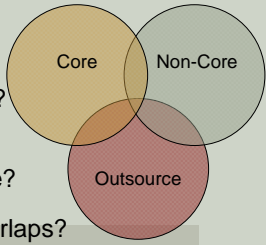
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Cost Recovery Workshop

Service Offerings

- What is core?
ex. email, storage
- What is Non-Core?
ex. development
- What to Outsource?
- Where are the overlaps?



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Cost Recovery Workshop

Break

- On your own, fill out the sheet... then...
- Break up into teams of three and discuss one item each that you feel are core, non-core, and outsourced services for your potential IT cost recovery center
- We will use this working break as a personal rest break as well
- Be ready to share a few insights

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Cost Recovery Workshop

Break

- Share a few examples that you discussed
 - Core
 - Non-Core
 - Outsourced
- Anything you don't know where to put?

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Cost Recovery Workshop

Agenda

- Business Case
- Finances
- Service Offerings
- **Management and Staffing**
- Operating Plan
- Marketing
- The Business Plan

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Cost Recovery Workshop

Management and Staffing

- Back to [YouTube Video](#)... stop at 3:40
- Critical to the Business Plan
 - Management Team
 - Advisory Board
 - Staffing
 - Structure

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Cost Recovery Workshop

Management and Staffing

- Management Team
 - Person or people in charge of overseeing the cost recovery center
 - May need to move around existing employees or hire outside expertise
 - Need management skills to oversee people, projects, budgets, and client management
- *Thoughts? What else do they need? (2)*

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Cost Recovery Workshop Management and Staffing

- Advisory Board
 - Needed in a university setting
 - Populate it with stakeholders from departments around the campus
 - Hold regular meetings to discuss issues such as project priorities, bill rate, staffing concerns
 - Keep it small and bring in others temporarily as needed based on gaps in expertise
 - *Who would you invite? (2)*

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Cost Recovery Workshop Management and Staffing

- Staffing
 - Based on the services you would like to provide, create ROLES, don't name individuals
 - Then, see if there are individuals who fill roles
 - Takes a mind shift to start billing if a person has not billed for hours or services before
 - Must keep track of hours, project timelines and budgets, make notes for bills, engage clients

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Cost Recovery Workshop Management and Staffing

- Structure
 - The organization of the people in place
 - Reporting Structure Up
 - Management / Director
 - Advisory Board
 - Sub Managers if Needed
 - Staffing at the Lowest Level
- Here are some org chart examples...

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Cost Recovery Workshop Management and Staffing

- Sketch for yourself for a few minutes...
don't make it too complicated
(that's why I only gave you a half sheet of paper)

- Management
- Advisory Board
- Staffing Roles and People

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Cost Recovery Workshop Management and Staffing

- Web Services at Rice
 - 1 manager, then director, then CIO, ITEC and ITAC
 - 1 project manager, 1 billing / marketing manager
 - 1 customer service specialist, 1 usability expert
 - 2 graphic designers, 3 web site developers
 - 3 hard core developers, 2 database administrators
 - 1 systems manager, IT handles all server hosting
- Thoughts or Questions about Management and Staffing?

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Cost Recovery Workshop Agenda

- Business Case
- Finances
- Service Offerings
- Management and Staffing
- **Operating Plan**
- Marketing
- The Business Plan

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Cost Recovery Workshop Operating Plan

- The Operating Plan handout
- Think about the workflow...
 - Who takes the initial call?
 - Is there a quote process?
 - How does the client approve work?
 - Who does the work? When? In what order?
 - How does the client get billed?
 - Are policies/infrastructure already in place?

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Cost Recovery Workshop Operating Plan

- The SDLC
 - Software Development Life Cycle
 - Many examples, Web Services handout
 - "Control Points" document... also an artifacts document and a systems document
- *Let me walk you through it! THE SDLC*
- *Green means GO! Take some time and jot down what you're process would look like.*

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Cost Recovery Workshop Operating Plan

- I've said to brush over some parts of the business plan (ex. simple budget instead of pro forma cash flow statements)
- However, the Operating Plan needs to be completed in excruciating detail
- *Questions, thoughts, comments?*

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Cost Recovery Workshop

Agenda

- Business Case
- Finances
- Service Offerings
- Management and Staffing
- Operating Plan
- **Marketing**
- The Business Plan

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Cost Recovery Workshop

Marketing

- Goes back to "who are your customers" from Starting Your Business Plan handout

1. Industry Analysis
2. Client/Customer Profiles/Personas
3. Marketing Strategy

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Cost Recovery Workshop

Marketing

1. Industry Analysis

- Porter's Five Forces Analysis
 - Define your industry (goes back to what business are you in and services)
 - Discuss the industry
 - From that perspective, look at five forces which have the potential to shape what your business looks like

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Cost Recovery Workshop Marketing

1. Industry Analysis

- Porter's Five Forces Analysis
 1. Potential Entrants into the Industry
 2. Suppliers of the Business
 3. Buyers of the Services/Products
 4. Substitute Products/Services/People
 5. Competitors' Degree of Rivalry

Two Handouts, 5 Forces, and RiceWS Example

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CAMPUS 2.0 TECHNOLOGY

Cost Recovery Workshop Marketing

2. Client/Customer Profiles/Personas

- Goes back to who are your customers
- Create a few persona's of people who will use your services / products
- Ask people which they identify with more and create new ones or modify existing
- Helps narrow the focus of how to advertise,
- also feeds back to services and operations

Tiffany's persona... specifically with the calendar

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Cost Recovery Workshop Marketing

3. Marketing Strategy (or the Marketing Plan)

- When you're going to advertise
- How you're going to do it
- How much it will cost
- Testing the effectiveness of advertising

What will work well on your campus?

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Cost Recovery Workshop Marketing

1. Industry Analysis
2. Client/Customer Profiles/Personas
3. Marketing Strategy

BUT... what are you going to call your cost recovery center? Logo? Advertise?

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Cost Recovery Workshop Marketing

- Brainstorm the name of your cost recovery center and decide for the moment if it will have a catchy acronym or a logo
- Use the confetti paper to write a name, acronym, etc down... and sketch the logo

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CAMPUS 2.0 TECHNOLOGY

Cost Recovery Workshop The Business Plan

- Business Case
- Finances
- Service Offerings
- Management and Staffing
- Operating Plan
- Marketing
- **The Business Plan**

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Cost Recovery Workshop

The Business Plan

- Back to the concept of the Business Plan
- Confetti sheet is the cover page
- **The Business Case Section**
 - Starting Your Business Plan handout is your Statement of Purpose
 - Your objectives there are Success Factors
 - The Business Case section ends with the SWOT analysis (assemble those handouts)

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CAMPUS 2.0 TECHNOLOGY

Cost Recovery Workshop

The Business Plan

- **The Finances Section**
 - Detail your starting budget (budget handout)
 - Calculate your break even analysis
 - Edit the break even on some of the other things now that we discussed other specific services, maybe some have different rates
 - Do a detailed budget for year 1, and preferably projections of years 2, 3, and 5... even 10

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CAMPUS 2.0 TECHNOLOGY

Cost Recovery Workshop

The Business Plan

- **The Service Offerings Section**
 - List your core, non-core, and outsourced services (venn diagram handout)
 - For example, will help desk tickets that pertain to a specific project be billed?
 - What about "extra training" months past a certain project has been closed?
 - You can get detailed now, explaining who will do the work, and how much they will charge

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CAMPUS 2.0 TECHNOLOGY

Cost Recovery Workshop The Business Plan

- **The Management and Staffing Section**
 - A role based organization chart is a very good start to this section (graph paper)
 - Then you can list the capabilities needed for each role and list individuals that have those capabilities to prove it is not people based
 - May need others, or training for the gaps
 - It is also a good idea to include the resumes / CVs of the management team

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Cost Recovery Workshop The Business Plan

- **The Operating Plan Section**
 - The best thing to put in here is the project workflow along with all the
 - Systems
 - Policies
 - Procedures
 - Artifactsthat the department needs to do the work.
 - The green sheet of paper

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Cost Recovery Workshop The Business Plan

- **The Marketing Section**
 - Industry Analysis – assess the environment
 - Client Profiles – who they are, what they want, and how they want it
 - Marketing Strategy – how you'll advertise to those people knowing what you know about the industry

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Cost Recovery Workshop The Business Plan

- Here are the components again:
 - Cover
 - Business Case
 - Finances Section
 - Service Offerings
 - Management and Staffing
 - Operating Plan
 - Marketing Plan

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Cost Recovery Workshop The Business Plan

- How does this help you create and manage an IT Cost Recovery Center?
 - You've thought through just about everything you need to have a successful business
 - Not all models are the same, yours is unique, every campus/business is different
 - Commonalities occur across what you do to define and organize the cost recovery center
 - You have all the parts to create/maintain now

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Cost Recovery Workshop The Business Plan

- Final questions or thoughts on any part of the cost recovery business plan assembled
 - Business Case
 - Finances Section
 - Service Offerings
 - Management and Staffing
 - Operating Plan
 - Marketing Plan

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Cost Recovery Workshop
Goodbye and Thank you!

- jdfrey@rice.edu
- Work Phone: 713-348-5827

Rings to cell while I'm at the conference

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**Creating and Managing
an On-Campus
IT Cost Recovery Center**

Pre-Conference Workshop

Jeff Frey

1:00pm – 4:30pm

Monday, July 19, 2010

**CAMPUS 2.0
TECHNOLOGY** July 19 - 22, 2010 | Seaport World Trade Center | Boston, MA

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