



# the IT Budget

## Managing Your IT Finances Effectively



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“Never base your budget requests on realistic assumptions, as this could lead to a decrease in your funding.”

*-Scott Adams*

Scott Adams, the humorous author of the Dilbert comic strip, was not joking when he wrote the above quote. Many IT management personnel in today's business world treat the IT budgeting process as an exercise in futility: if you are honest about what you need, your budget will just get cut anyway; so why not pad the heck out of it? Better safe than sorry, right?

Wrong...

Stop driving yourself crazy about this budget stuff. As soon as you come to terms with the fact that it is not your money - you are just a steward of the company's IT finances at the particular time and space continuum - the sooner you will free yourself from this weighty IT finances burden.

I'm not saying to throw in the towel and give up because it is not your operating and capital dollars to spend. Quite the contrary: I'm saying to get your finances under control, but to transfer the burden and angst over the budget to the place where it really lies: to the business! Trust me...if you follow these steps and learn the ins and outs of IT-related finances, you'll be amazed at how manageable the budget and the rest of your IT operation will become.





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# WELCOME

Congratulations on your purchase, and welcome to the IT Management Survival Series! You have chosen Volume 1, The IT Budget: Managing Your Finances Effectively, and you have chose wisely!. You have taken the first critical steps towards getting a firm handle on your current and future IT-related expenses. This how-to guide and the associated templates within this volume will be very helpful in identifying all the things that are necessary to build and implement an effective finance management strategy for your IT-related assets.

All of the templates have been created using the Microsoft Office suite of products, and are customizable to suit your exact requirements. You can customize them yourself, or you may want us to help customize them for you. More information about this and our contact information is included at the end of this User Guide.



## SYSTEM REQUIREMENTS

The IT Management Survival Guide, Volume 1, The IT Budget: Managing Your Finances Effectively is not a standalone software program. It is a series of documents and templates that require Microsoft Word, Microsoft Excel, Microsoft PowerPoint and the Adobe Acrobat reader to be installed on your computer in order to display and use them. The Microsoft Office programs must be version 97 or higher. A free copy of the Adobe Acrobat reader can be obtained from:

[www.adobe.com/products/acrobat/readstep2.html](http://www.adobe.com/products/acrobat/readstep2.html)

Operating system requirements are Microsoft 98 or higher, up to and including Windows 7.

Hardware requirements are any computer capable of running the above versions of Microsoft Word, Microsoft Excel, Microsoft PowerPoint and the Adobe Acrobat reader. You will need free space of at least 5 megabytes of free hard disk space. The guide and associated documents and templates are best displayed with a screen resolution of 800x600 or above.



# FORWARD

**M**any IT managers and executives have come up through the ranks as technology programmers, administrators, engineers, etc., and have never learned or developed the ability to manage IT-related finances. As a matter of fact, you'd be surprised at the number of firms that do not have any formal control over their IT finances! Look, most technology experts got into this field because it was fun and challenging. In today's world, the rate of innovation with technology is making it more fun in some respects, but much more stressful in others.

These technology gurus that have risen through the ranks, often to keep the pay rate consistent with their technical contributions to the firm, may be incredibly bright and able formulate, implement and support technology solutions, but...do they really know if those technology solutions meet the goals of the business from both a functional and financial perspective? Have they learned the ins and outs of Cost/Benefit Analysis (CBA)? Return of Investment (ROI)? Total Cost of Ownership (TCO)?

I realize that these topics of discussion can be foreign, and downright boring, to many technology-centric IT managers and executives. I get that; I really do. But it's time to change. It's time to look at IT finances in a totally different way. It's time to look at the skill of managing IT operating and capital expenses as a way to maximize the return on every IT dollar you spend, and to keep that technology innovation train rolling forward; be it with people, hardware, software, services, etc. It is all about showing that you are actually an incredibly important value-add to the business, and not just an incredibly large cost burden to the bottom line.

Improving (and hopefully mastering) your financial ability within the IT space will not only immediately benefit your IT team and your business, but it will make you into an IT rock-star. You have the technical skills. You are already in a position of authority and influence. And now you are developing the ability to speak the same language as the business people do, and can be a tremendous influence on the strategic decisions that make or break the business. Are you kidding me? If that's not being in the driver's seat of your team, your company, and your career's success, I'm not sure what is.

If you have never learned or are struggling with managing your IT finances, if you have had historical challenges with getting IT initiatives approved, if you are always being asked to do more with less, or if you just want a sanity check that you are doing all you can to keep your IT spend under control, then this how-to volume is right up your alley.

If you think you can continue to survive in IT management without these skills, you are sadly mistaken. Let's stop making things more difficult than they need to be, shall we? Let's follow some successful and repeatable steps that can help us get to where we want to be. With commitment and patience, you will transform and improve your IT team's financial situation in a relatively short period of time.

**If you are ready, let's get started!**



# GETTING STARTED

## UNDERSTAND WHAT YOU ARE SPENDING TODAY

When I join a new firm, or engage a new client, the first thing I do is get a handle on the current situation with both operating and capital IT expenses. I try to table any immediate pressure from the business to address its financial wish list, like cutting 85% percent of the IT spend before lunch on my first day. I also delay any decisions on new technology purchases like those shiny new blade servers that the infrastructure team must have before the entire data center implodes, or the 5-day HTML class at the Bellagio in Las Vegas that the former IT executive promised your lead software developer.

Get a firm understanding of the current financial situation before you make any financially-related IT decisions for the team and the company as a whole. Whether you are an existing management resource that is looking to start from scratch, or a newly promoted IT manager or executive, or a new management-level employee recently hired by the firm: get intimately familiar with what the IT spend ASAP!

### Step 1:

**Gather as much IT budget and financial-related information from your IT team, and also Accounts Payable in Finance if necessary, first.**

- If a current IT budget exists, get a copy of it, along with the year- to-date actuals if available.
- If a current budget does not exist, but an older one does, use that as the starting point to discuss the IT spend with your trusted IT team members.
- Make sure you understand the spend by logical and functional groupings (voice telecommunications, data networking, data center, application development, help desk, etc.). Re-sort or re- group them if necessary. This will form the basis of what it costs to operate each area and discipline within IT, which will be discussed in greater detail later in the module.
  - > These functional groupings are subjective from company to company, but your previous IT experience and the input from the rest of the team can help you get off to a good start.
- If no budget exists, you need to start building one based upon the actual spend that IT incurs. Input from the IT management team, and other detailed information such as voice and

### Key Point:

There will be plenty of time and opportunity to sit with the relevant individuals in Finance about the IT spend. I prefer to get as much unbiased, factual information as possible before I have any formal discussions with Finance.

data circuit inventories, hardware and software maintenance contracts, personnel records for salaries, etc. can help a great deal.

- > If necessary, ask the Accounts Payable manager to either give you read-only access to the IT spends within their AP system, or have them run reports for you that go as farback as you need. I would recommend at least 1 year; even more if they have the data at the ready.

## Step 2:

**You may be tempted to start making immediate, knee-jerk-reaction changes and decisions related to the IT spend once you start getting a better picture of what that spend really is. Resist that temptation, at least for the short term!**

- It is entirely possible that one line item in the current spend could be positively or adversely affected by making premature decisions. Get an understanding of the entire current picture first so that you can see the relationship of one line item to others within the overall IT spend. For example:
  - > You find what looks to be overly inflated training budget, and make the hasty decision to cut it by 50%. After all, those are easy, low-hanging fruit dollars to reclaim, right? However, in the weeks after you make that cut, you see a capital project coming up later in the year that includes new infrastructure technology such as virtual storage, a new web service platform, and new messaging service for your primary business application. That project's success is dependent upon your team getting the proper training for these new environments. Ooops!
- Be deliberate. Go slower if you need to, but keep making incremental progress. You'll get it all under control soon enough.

## Step 3:

**Compile all of your findings into one central document or database that can be used as your baseline, or your jumping off point to get into the finer details surrounding your IT spend.**



## Template

Operating & Capital Budget Template included with this module.

Use the template included with this module. You can modify it to fit your own needs, or you can use the template to verify that the other tool you are using has all of the relevant fields to capture important data.

- The fields that you use in your own approach may differ from the one included with this module. The relevant information required can certainly vary from company to company.
- I have found that the below fields come back time and time again and are critical to having a comprehensive understanding of IT spends. Some of these may not be entirely relevant at the beginning of your quest to get a handle on your IT finances, but they will certainly come into play over the course of time. Capture what you can now, and fill in the gaps as you go along:
  - > **Budget ID:** this is used as a unique line item identifier as budgets and spends change during the course of the year, and from year to year.
  - > **Cost Center:** or some other code or identifier that Finance uses to differentiate spends



from one functional area or department to another.

- > **GL Code:** typically a numeric identifier within your company's financial application that outlines what kind of expense the line item is (i.e. Hardware Maintenance, Data Network Circuit, etc.)
- > **GL Name:** the text description equivalent of the GL Code.
- > **Manufacturer:** the entity that manufactured the asset of or the service for this line item.
- > **Vendor:** the 3rd party entity that you purchased or will purchase this line item from. For example, you can have a manufacturer called ACME Computers, but actually purchase it from a local computer vendor called John's Computer Equipment. ACME is the manufacturer, and John's Computer Equipment is the vendor. In some cases, the manufacturer and the vendor will be the same if you purchase direct.
- > **Item Description:** brief but accurate description of the line item.
- > **Expense Type:**
  - **Straight-Line:** the full expense is paid and recorded in full in the month it was purchased
  - **Pre-Paid:** the expense for an item that spans multiple periods (i.e. 3 year maintenance) is purchased in one month, but the expense is deferred, or spread out evenly, over the term of the expense (in the 3 yr. maintenance example, that would be 36 months)
  - **Capital - 3Yr.:** a capital asset that is purchased and depreciated for its pre-determined useful life: in: 36 months in this case (i.e. desktop PC's)
  - **Capital - 4Yr.:** a capital asset that is purchased and depreciated for its pre-determined useful life: in: 48 months in this case (i.e. router)
  - **Capital - 5Yr.:** a capital asset that is purchased and depreciated for its pre-determined useful life: in: 60 months in this case (i.e. server)
- > **Term Period:** how long of a period does the purchase cover: indicate how long the contractual or capital commitment is for the line item, such as a 36 mo. maintenance contract, a 12 mo. internet connection agreement, a 60 mo. capital asset.
- > **Term Start:** date that the term starts for the line item (i.e. 5/23/11 for the start of a 3 yr. maintenance contract).
- > **Term End:** date that the term starts for the line item (i.e. 5/22/14 for the end of the 3 yr. maintenance contract).

## Key Point:

Keeping a separate “For IT Eyes Only” document or template for IT finances is a great idea. It can be used as a worksheet for budgetary purposes, and can also be used to ensure that Finance and the business in general is in sync with your IT reality!

### > Monthly Budget

- **Prior Year:** the monthly cost for this same line item during this same month the previous year.
- **Current Year:** the expected monthly cost for this line item during the current fiscal year
- **Variance:** the difference, in dollars, between the current and previous years. Automatically Calculated

> **Full Year Totals:** running 12 month totals and variance for previous and current fiscal years. Automatically calculated.

> **Comments/Notes:** use this field to note any important information not covered under other fields. Maybe you want to include a discount percent from the vendor, or a key contact number for an internal or external resource, etc.

## FIND OUT HOW IT IS FINANCIALLY ORGANIZED

So now you have some significant degree of familiarity of your current IT finances. You may not feel 100% comfortable with its accuracy at this point, but that's ok. There is plenty of time to get more involved with the nitty-gritty details of every last line item, and to verify the accuracy of each and every one.

You are now ready to meet with Finance to get a better understanding of what they, and the rest of the business, believe the IT spend to be, in addition to understanding the various guidelines, methodologies and procedures they use (rightly or wrongly) to accurately capture the IT expense-related data.

### Step 1:

**Make a comprehensive list of all the questions you need to ask Finance before you schedule a formal meeting with them.**

- How is IT currently organized from a financial perspective?
  - > Does each IT department or discipline have a cost center that rolls up to a master IT cost center?
  - > Is there a chargeback model to the rest of the business?
    - How exactly does that work? For example, specific IT-related expenses purchased by a specific cost center is directly charged to that cost center (such as a PC, or shrink-wrapped application), but all common expenses such as network access and data center costs are divvied up by headcount, percentage of sales, etc.?
- Is there an existing budgeting system in place?

### Key Point:

Given that IT finances can be very complicated, and that there are a significant number of questions that need to be answered, it may take some time to get all the answers you are looking for. Be patient, and give Finance some time to help you get the right information!

- > Online application, database, spreadsheet, other?
  - What kind of canned reports are available?
  - Are ad-hoc reports allowed?
    - › If so, how does that request process work?
- What is Finance's understanding of what the existing IT budget and year-to-date spend is?
  - > This should be from an operating, capital and overall perspective.
- Who has responsibility for booking actual expenses into the financial accounting system?
  - > What is the process that they use to book expenses?
- Is there an existing IT/Finance budget-to-actuals expense review each month or quarter?
  - > If not, is Finance open to doing that to ensure both groups are on the same page throughout the course of the fiscal year?
- Is there a General Ledger (the company's accounting records) chart of accounts in place for IT?
  - > For example, are their detailed accounts in the GL for Voice Telecommunications, Data Communications, Training, Hardware Maintenance, etc.?
  - > Where can that be found?
  - > What is the process for adding/modifying accounts?
- Is the company's fiscal year a standard calendar year (January through December)?
  - > If not, what is the fiscal year?
- When does the budgeting process for the next fiscal year begin?
- Are formal budget re-forecasts performed during a fiscal year?
  - > If so, when are they typically performed?
- What does the company consider a capital expense (from a dollar value perspective)?
  - > For example, firms may have a policy that any asset that has lasting value past one accounting period or fiscal year such as equipment, facilities, etc., that exceeds \$500 in purchase value, can be considered a capital (or fixed) expense.
- What is considered a capital project?
  - > For example, firms may have a policy that any project that provides long-term value through the procurement, development, or enhancement of capital assets (such as a data center move, or the development of a critical business application). that exceeds \$500,000 can be considered a capital project.
- What does the IT depreciation (or the allocation of the cost of a fixed asset over its useful life) schedule look like?
  - > For example, is there one depreciation period (i.e. 60 months) for every IT fixed asset, or are there different periods for different types of assets (such as 36 months for desktop PCs, 48 months for firewalls, and 60 months for servers), depending on its estimated useful life?
  - > Is IT depreciation considered an IT expense (and therefore reflected in IT's budget and actuals each year), or is it considered more of a company expense and recorded somewhere else?

- Can Finance provide a report of the existing IT depreciation schedule?
- What is the process for getting an asset off the depreciation schedule?
  - > What specific information is required by Finance (i.e. Make, Model, Serial #, Date Purchased or In Service, etc.)
  - > Is there a form that Finance requires?
    - If none exists, are they open to using a new form that IT develops?
- Does an IT asset disposal process currently exist?
  - > Does it provide for the environmentally safe, as well as financially responsible, disposal of those assets?
  - > Is there an asset disposal form that Finance requires?
    - If none exists, are they open to using a new form that IT develops?



## Template

Fixed Asset Form Template & Instructions included with this module.

- How is pre-paid maintenance handled?
  - > For example, let's say you have a 3-year hardware maintenance contract worth \$36,000. Is the total expense taken in the month that it was paid (i.e. January 2011), or is it spread out, or deferred, over the life of the contract; meaning Finance would book \$1,000 of expense over the next 36 months for that line item?
- Is there a dollar limit for determining what pre-paid maintenance is paid as a one-time expense and what is deferred over the life of the contract?
  - > For example, any maintenance items  $\leq$  \$1,000 are one-time expenses, and all others  $>$  \$1,000 are deferred expenses.
- Is there a published expectation of the yearly IT expense?
  - > For example, is there an expectation that IT must be  $\leq$  a specific percentage of all company expenses, or of company before-tax revenue, etc.?
- Does a formal PO Requisition and Fulfillment system and process exist?
  - > What are the IT approval levels (who can approve what specific dollar amount)
  - > How are received products and services tied back to the original POs, and to the GL?
- Does a formal billing approval/payment process exist for IT related invoices?
  - > Is it automated or is it a manual process?





- > What are the IT approval levels (who can approve what specific dollar amount)?
- > If a PO was already approved and it required 5 signatures to authorize that purchase, do the same 5 individuals have to approve the invoice once it comes in?
- Is IT responsible for all company IT-related expenses?
  - > Do non-IT department and entities budget IT-related items (i.e. desktop PCs, software licenses, etc.) in their own budgets, or does IT have responsibility for budgeting and managing ALL IT-related expenses?
- Does the company support leasing as a viable financing mechanism for procuring assets such as servers, storage, network gear, etc?
  - > Are there any hard/fast rules in place for leasing vs. buying?
  - > Has anyone presented a long-term (i.e. 10 years) analysis of the costs, benefits and risks?

# PULLING IT TOGETHER

## COMPILE AND DOCUMENT YOUR IT FINANCES APPROACH

After sitting with Finance and getting the answers to the many questions outlined in the last section, you should have a very detailed understanding of how IT finances are currently being handled within your company, and what your current financial position is; for better or for worse.

It's important to note that while you have an understanding of how things are working today, it may not mean that is how it should be going forward. We'll get into more of that later. At the very least, you know how things are working and you need to document the current state for you and your key staff members so that you are all on the same page.

### Step 1:

**Compile all of the information and material you gathered from Finance since your initial and subsequent discussions into a comprehensive document or group of documents.**

- Organize the document(s) into logical sections, such as Budgets/Re-forecasts, Leasing, Fixed Assets, Depreciation, GL Codes, Procurement, etc.
- You can put all of this information into file folders on a shared drive or in physical binders with logical dividers so you can add/change/remove easily, and have ready access to the information you or your team is looking for.

### Step 2:

**Publish all of the information and material you have gathered for your key staff members (or those that have day-to-day responsibility for managing the budget and IT finances in any way, shape or form):**

- You can duplicate the physical binders for all relevant staff members. This might be helpful, but maintenance can be a challenge as hard-copies would need to be printed and distributed each time a change occurs.
- It is best to publish these documents to a secure drive share, an internet page or document collaboration portal if possible.

## MAKE NECESSARY CHANGES TO THE IT FINANCIALS APPROACH

So, you now have a comprehensive understanding of how things are working in IT from a financial perspective, and you've compiled all of the relevant information and documentation into one central area. Your current state is pretty well defined at this point. However, as we touched upon in the last section, what is currently in place may not always be what is right.

How do you know if it is or isn't right? The real answer is, you don't know. You most likely will not know until you get more familiar and comfortable with managing IT finances and budgets, and until you work through all of the relevant process and procedures that are in place to see if there is any opportunity for improvement. Chances are, if the state of your IT financial situation was

cloudy at best when you started this analysis, there will be a fair amount of opportunity to improve! This section will outline a few examples of where you might be able to introduce or improve upon processes that can save time and money, and that can make managing IT finances a bit more predictable. It is not intended to be all inclusive, so make sure you look at all areas within your span of financial control, and not just the ones outlined here!

### Step 1:

#### **Take a look at the Procurement/Purchasing process.**

- Ensure that IT gets formal control over all budgeted and purchased IT assets. You can't manage it if you do not have formal responsibility for it.
- If there is no formal purchase approval process in place, put one in with the help of Finance with a logical approval hierarchy.
  - > This will discourage wasteful and wanton spending, and will allow you and your team to better plan for the handling of that purchase (hardware, software, etc.) once it is delivered.

### Step 2:

#### **Take a look at the Billing & Invoice Payment process.**

- Ensure that IT is key participant, if not the primary driver or overall manager, in the approval of all IT-related invoices
  - > For example, there are firms where all IT invoices are sent to Accounts Payable and are paid on faith without IT even taking a look at or approving that invoice! Don't do that. I'm sure you can understand the countless reasons why that just doesn't work.
  - > This is particularly helpful when products and services are being billed when they are no longer needed (i.e. telecommunications lines that were supposed to have been canceled, but were not).
- Make sure you know where each invoice is during the approval process to ensure that it does not get delayed and to avoid late payments and subsequent penalties.
  - > If a manual invoice approval process exists, having one person in IT (and a designated back-up) responsible for tracking invoices from the time they come in until the time they are paid, is extremely valuable.
    - When was the invoice received?
    - What cost center does it belong to? Who needs to approve it for payment?
    - When was it submitted for payment?
    - When was it actually paid?
    - What was the check #?



## Key Point:

This following section is not intended to be all-inclusive. Make sure you look at all areas within your span of financial control, and not just the ones outlined here!

## Step 3:

### Take a look at the Fixed Asset Depreciation process.

- If a formal process was never in place, or the process was inadequate (meaning it is almost impossible to understand the details around what fixed assets are depreciating, how much is left on the books, and when does it fall off of depreciation), you should make some simple changes to start fresh.
- Make sure you come to an agreement with Finance that every IT fixed asset does not share the same useful life, and that categories should be created to accommodate those different useful life periods. For example:
  - > Laptops and desktop PC's have a shorter useful life than network routers or web servers, and they should be treated differently to ensure a more accurate financial representation. You could be looking at a difference of 36 months vs. 60 months with those examples.
- While it may be next to impossible to fix any previous IT-related fixed asset records in Finance, you can start with ensuring that all new records going into Finance are correct and manageable. A new or updated IT Fixed Asset Form can help with that. It should include, at a minimum:
  - > Department of Area (who owns this asset)
  - > Make
  - > Model
  - > Serial Number
  - > Description (what is it, what is it used for?)
  - > Total Cost
  - > Useful Life (in months)
  - > Date in Service (not date purchased, but the date you actually installed it and started using it)





## Does This Sound Familiar?

Some years back, several high powered servers were purchased for a very large, very expensive capital project. Shortly after that, new mail servers were purchased to replace some very old, under-performing ones. And, around the same time, Operations requested a few new dedicated file servers, with high availability, for a large marketing campaign for several branches across North America. All total, about 60 new servers were purchased within a 2 year period.

When you look at your hardware inventory that your team has kept painstakingly accurate over the years, and compare it to the financial view that Finance has in its fixed asset system, nothing comes close to tying out. Product numbers are in serial number fields. Serial and model #'s are missing. Some records that you know should be there, aren't. Memory expansion cards, NICs, fiber channel connectors, and other server add-ons that are not considered fixed assets in their own right, are listed separately as depreciable items. There is no way to understand what fixed assets were purchased when and for what purpose, and what the current "on the books" cost is for all of that very expensive gear that was purchased over the last several years. Some critical questions you'll want that fixed asset list to answer can include:

- Does this list accurately reflect what is in my data center?
- Are we still depreciating assets that are no longer in service?
- Are we not depreciating assets that still have a lengthy useful life?
- Is it time, based upon what is still on the books, to refresh our desktop population?

The answers to these and other questions are critical to the effective and efficient management of IT assets. Can they be answered quickly, easily and accurately in your shop?



### Step 4:

#### Take a look at the monthly Budget Reconciliation process.

- If one doesn't exist, implement one right away! Print out your view of the IT numbers, and compare with what Finance believes them to be.
  - > If they are not exact, they should be pretty darned close!
- As you gain a more detailed understanding of the true picture of your IT finances, you'll want to make sure that IT and Finance are on the same page.
  - > While the detailed review may yield some inconsistencies, it does provide an open forum to discuss and resolve those issues in a collaborative fashion.
  - > It promotes transparency, teamwork and trust for all involved parties

## Step 5:

### Take a look at the Lease vs. Buy option.

- Many Finance and general business executives frown upon leasing due to the lease/financing costs that exist above and beyond the actual purchase price. If you need to make a significant purchase any time soon, take a look at the longer-term comparison between lease vs. buy.
  - > You can't compare a 3 year lease vs. a purchase. You have to look at the lease vs. buy strategy over at least a few lease cycles (maybe 3 or more) to get an accurate comparison of the benefits, risks and overall costs over time.
- Some advantages over a longer period (i.e. 10 years) can include:
  - > A nominal, if non-existent, additional cost to lease considering the cost to run, maintain and refresh older gear that was purchased outright.
  - > If the firm's cash flow is not strong at the current time, it may be a way to get the critical gear you need without having to give up large amounts of cash.
  - > Leasing removes the technology obsolescence issue. For example, if you have a data center filled with gear that is 8, 10 or even 15 years old, leasing will force an upgrade after the lease term ends.
- This is NOT meant to be in favor of leasing in general, but to promote a number of well thought-out options for the business to choose from!

## Key Point:

You should not have a situation where Finance is publishing a monthly view of the year-to-date actuals against the current budget, and IT does not agree with or understand where those numbers are coming from. Both groups must be in sync!



# DOING THE REAL WORK

## FIND SAVINGS OPPORTUNITIES WITHIN THE IT BUDGET

Things are really moving now. You are starting to change how IT and the rest of the company look at and manage IT finances. You are ready to attack the existing budget and look for ways to save the company money, but without compromising service levels for the business.

As a matter of fact, most decisions that need to be made for each budgeted line item will, in fact, be made by the business. You will see to that! After all, it is not your money to spend (or to save), now, is it?

### Step 1:

**Make an electronic copy of your most current budget, and add four columns: the first called “Business Need”, the second called “Action to Take”, the third being “Current Year Reduction”, the last being “Next Year Reduction.”**



## Template

Budget Analysis Template included with this module.

- The Business Need column will have three choices for each line item:
  - > Must Have
  - > Should Have
  - > Nice to Have
- The Action to Take column will have three choices for each line item:
  - > Keep
  - > Modify
  - > Remove
- The Current Year Reduction and Next Year Reduction line items will contain the dollar amount of a conservative estimate that you can save in each respective time period.
  - > This is especially important if you are well into the current year: you won't receive full-year savings until the next fiscal year. The business will want to see that clearly outlined.

### Step 2:

**For each line item in the budget - yes, each and every one - work with your key management members within IT to define whether the various values for each of the new columns you have added.**

- For the new column Business Need:
  - > **Must Have:** the line item is a non-discretionary, critical element to keep the existing “lights-

on” operation running. For example, hardware maintenance for your ERP servers, or your primary internet connection for the company.

> **Should Have:** the line item is important, but could be removed if the business was willing to make an informed decision, and make some trade-offs if the line item was removed. For example, an expensive video conferencing solution can be removed (as well as certain travel expenses) if the business was willing to use a lesser quality open source video or voice conferencing services.

> **Nice to Have:** the line item is a discretionary cost that the company can do without, but could put future innovation and efficiency at risk if removed. For example, the wireless equipment that was planned to allow for mobility throughout the facility.



■ For the new column Action to Take:

> **Keep:** The line item is critical to the IT operation, and the cost of the service is well in line with reasonable expectations. For example, you recently renegotiated with your internet carrier to procure a primary connection to the internet that is twice the size of the current connection for half the cost).

> **Modify:** The line item is critical, or at least important, to the IT operation, however the specific service and/or cost can be modified to ensure a savings. A business decision may need to be made here. For example, you have historically covered your server farm with 24x7x365 and 2-hour response coverage, yet you have only had 2 service calls within the last 12 months, both of which were drive replacements. You may want to explore looking at 12x5x365 with a 4-hour response, cutting the maintenance costs in half, while investing in several spare parts to keep onsite in case of emergencies.

> **Remove:** Then line item is not critical, or even important, to the IT operation, and should be considered for immediate removal. For example, you purchased a yearly support contract for an open-source web service. You have never used the service, your staff members are now highly skilled in the support of the product, and there is a vast array of online support resource for your team to utilize should it need the help.

## Key Point:

These designations that you are making for each line item are merely suggestions at this point. Each decision should be reviewed with the relevant members of the business to ensure that there is consensus for how to proceed with any prospective savings to the budget!

### Step 3:

Prepare an impact analysis document for each Modify or Remove line item you have identified as an opportunity for potential savings within the current budget.



## Template

Budget Change Impact Analysis Template included with this module.

- Within this document, each line item in question should include:
  - > Current cost.
  - > Potential savings for the current year and the next full fiscal year.
  - > Brief description of what it is.
  - > Potential risks for modifying or removing this line item.
  - > Your recommendation to the business.
- At the end of the document, provide the total savings for the current year and the next full fiscal year should the business agree with your recommendations.
  - > You may want to include the total savings for all the line items (even the ones you are not strongly recommending they take) and only the ones you do recommend.

### Step 4:

**Schedule a meeting with the relevant business principals/decision-makers to present your budget reduction recommendations.**

- Make sure you book a conference room or meeting area that is large enough to accommodate your audience, and that has a speakerphone to accommodate those not onsite.
- For those not onsite, make sure you send them a copy of the document before the meeting. You may also want to consider a virtual meeting option to present online.
- Make sure you have a projector and laptop to run the presentation. Perform a dry run before



the actual presentation to work out any technical details and to ensure that it does not run longer than the time you have allotted.

- Print out hard-copies in case of technical difficulties, for those who prefer to have them for making notes, taking with them after the meeting, etc.
- At the end of the presentation, make sure you understand what the decisions were, and what the next steps are, if any.

### Step 5:

**Modify your impact analysis to reflect the decisions that were made in the presentation, or in subsequent meetings and discussions afterwards.**

- Send this document attached to an email to the relevant business principals/decision-makers confirming that these decisions were made, are final, and you will begin taking the necessary actions to reduce the budget immediately.

### Step 6:

**Ensure that you are sending occasional updates in the status of the reductions to the relevant audience.**

- You should include some information regarding any impact that has surfaced from the cuts, and whether they were anticipated or not.
  - > Get a consensus from the relevant stakeholders about the validity of those impacts, for better or for worse, before publicizing any status. For example, if you removed the support contract for an application used within Finance, make sure you are in sync with the manager of the team that uses the application. You don't want to publicly state that all is ok, and that manager counters with a number of issues that had surfaced since the support contract was terminated.



## Key Point:

The goal is to develop a culture within IT and the business that everyone has a stake in the budget reductions you are recommending, and that they are not just IT decisions. This builds trust and collaboration for IT and the business.

## DETERMINE TOTAL COST OF EACH IT FUNCTION

Just because you have a handle on your budget, and on the day-to-day transactions such as making purchases and paying invoices, that doesn't necessarily mean you have a handle on your IT finances. What happens when your CEO tells you may have to lose 10 IT employees next quarter due to downsizing efforts to save the company money? What will your immediate response be? If you are like many IT managers, you will either say "OK, we will do what we have to do", or "No way! We can't live without those resources!" In either case, how do you really know what the impact will be? How do you know if you will be "ok", or if the world will collapse around you?

What happens when the CFO comes up to you and says that he recently read somewhere that outsourcing the Help Desk is a great way to save money, and that he wants to do that as soon as possible. What will your response be, then? Will you have enough information about the performance of your in-house Help Desk, and, just as important, the overall cost of the Help Desk, in order to take a sound approach?

In today's world, you must get a handle on what your current IT functions are costing you, and to be in a position to make more informed IT-related business decisions when the time comes. Rest assured, that time is coming soon if it hasn't come already.

## Step 1:

If you haven't already done so, as was outlined in an earlier section in this module, now is the time to sort your yearly budget by IT department, function or discipline.

- Start with non-personnel costs first, such as maintenance, outside services, telecommunications, etc.

## Step 2:

Compile the financial data for each functional area in a separate spreadsheet. I would recommend using a different worksheet for each functional area to avoid any confusion.



## Template

IT Functional Areas - Cost Breakdown Template included with this module.

- For example, you should have worksheet tabs called something like Help Desk, Network Operations, Database Administration, ERP Application Development, etc.

## Step 3:

Once you have put each non-personnel line item from the budget into your new functional area worksheets, you need to add your personnel costs.

- If you have the detailed personnel information that can be easily pulled from the budget such as salary, benefits, taxes, facilities overhead, etc., then go ahead and do that. However, you will find that it is very complicated to extract and understand fully.
- A better approach may be to work with Finance to determine what a strong employee overhead percentage will be, and apply that to each individual yearly salary.
  - > For example, if you have a Help Desk employee making \$40,000/yr, and you have decided with Finance that a 30% overhead cost is appropriate, the fully-loaded yearly spend for the Help Desk employee will be \$52,000.
- If you have hourly employees, you may want to take a look at the last few years worth of salary plus overtime data, and estimate the adjusted yearly salary with the average over those few years.

## Key Point:

The real goal here is to understand what the IT cost is by discipline. The total cost of all the disciplines will give you an understanding of what it cost to run the IT function for the company. In the end, you can slice and dice the data any way you see fit, as long as it will be useful for you to make informed business decisions!

## Step 4:

Once you have put each non-personnel line item from the budget into your new functional area worksheets, you can also add key metrics and statistics to each functional worksheet that may be important for future tactical and strategic IT decisions. For example, you may compile such information as:

- **Help Desk:** number Calls Offered (Hour, Day, Week, etc.); Abandoned Rate, Average Speed of Answer, etc.
- **Application Development:** Number of Enhancement Requests (Per Week, Month, etc); number of Bugs/Defects, etc.
- **Network Operations:** Uptime percent, Average Downtime For Outages (Planned and Unplanned); number of Outside Threats, etc.
- **Data Center Operations:** Number of Overnight Batch Jobs; Run-Time for all jobs; Average number of Job Failures (Day, Week, Month, etc)
- **And others:** included any piece of information that you feel is important to the effective and efficient level of performance for each function.



## Step 5:

Now that all the relevant personnel and non-personnel costs are outlined to give you an understanding of what each discipline costs, and you have other important information included for each functional area, you can now make decisions for the IT organization that you may not have been able to effectively make in the past.



- You can now compare your internal Help Desk vs. an outsourced solution from cost and service level perspectives (at a minimum)
- You can now explore the option of using an outside database administration resource compared to hiring another full-time DBA.
- You can determine whether it makes sense to keep your Data Center in-house, or move it to a co-location or hosting facility.
- There are countless uses for this data as you navigate the challenging waters of running an IT organization that is fiscally and operationally responsible.



# MANAGING THE BUDGET

## MAINTAIN ONGOING CONTROL OVER YOUR IT FINANCES

Wow, what a ride! It has been at least several months since you decided to get control over your existing (or new) IT group's finances. You have finally got it all under control, and most likely have ever line item in the budget committed to memory at this time; be it a \$5 million or \$100 million budget.

You have to keep control over your IT finances. It can easily slip out of control if you let it go. You'll be surprised how only a month or two of negligence can send your IT group into financial chaos.

Be disciplined. Keep it all out in front of you. I promise, this aspect of your IT life will be much easier from this point forward! Having supreme control over all things financial within your IT group will also make the rest of your operation much more predictable and manageable.

### Step 1:

**Keep those monthly budget reconciliation meetings with Finance going. Resist Finance's attempts to stop them because you all finally "have it all under control"!**

### Step 2:

**Ensure that all of your key IT and project managers, as well as your technical and administrative leads, have fiscal responsibility for their respective areas, and that they have the ability to understand how to manage IT finances.**

- Add this responsibility to their yearly goals and objectives. They may resist at first, but it will make them very well-rounded as IT professionals, and will take some of the pressure off of the one or two resources within IT that have had historical responsibility for IT finances.

### Step 3:

**Each year, perform a zero-based budget exercise during your company's budget season.**

- Every year is an opportunity to understand what is critical to the operation, and is there opportunity to save (or re-invest) IT dollars.
- Don't forget to include review the business need for each line, and the opportunity to keep it as is, change it for the better, or remove it altogether.

## Key Point:

Don't fall into the trap of just carrying over last year's costs, and maybe even cutting a few line items by "x" %, or padding others by "y" %. Do the work. It's worth it! And remember, it's not your money, so...be responsible with it!

#### **Step 4:**

Each year, review your existing IT cost center structure and determine whether or not it works, or needs to be enhanced in some way to get a firmer handle on where costs lie.

#### **Step 5:**

Each year, review the GL code listing with Finance to ensure that is still relevant, and that you are not using some codes as a dumping ground because the necessary ones do not exist.

#### **Step 6:**

Continue to review the systems and processes surrounding Purchasing, Bill Payment, Fixed Assets and others, to ensure they not only work as expected, but that any opportunity to make them more effective and efficient are being explored.

# CONTACT US

We trust that you found this eBook and its associated templates helpful, and that you are well on your way to becoming an IT finances expert! We appreciate your comments and feedback, and encourage you to let us know what you thought of this material. In addition, if you have any specific questions about this eBook, or if you need help customizing the included templates, feel free to email us at: [support@ironkeygroup.com](mailto:support@ironkeygroup.com)

## ABOUT IRON KEY GROUP LLC

Iron Key Group LLC is an IT management consulting organization that was built upon the charter of helping IT and business executives maximize the return for every IT dollar invested within their respective organizations. We find that many extremely bright and capable IT managers and executives excel at the more technical aspect of their roles, but struggle with the critical business skills that are necessary to make their teams truly successful. Managing change, establishing clear and attainable goals, organizational leadership, talent development, financial and budget management, establishing strong relationships with other elements of the business, providing better service to their customers, and personal and professional growth for their team members are all areas that our customers are asking for help with.

Ken Morris, founder and President of Iron Key Group, has over 20 years of proven IT leadership experience within small, medium and large firms alike. Ken has developed Iron Key Group as a visionary organization that has the expertise to help you identify and navigate through the obstacles that block you from reaching your company's IT and business goals. We will provide you with the tools to achieve your vision and ensure success for you and your organization.

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