CEO GUIDE

SOLVING THE MYSTERY OF IT BUDGETS
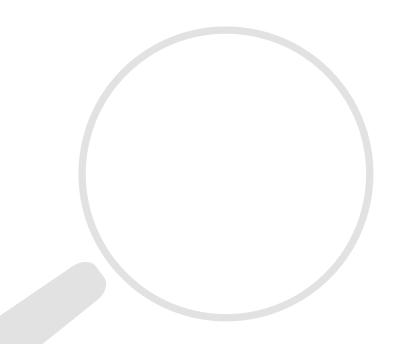
A guide for senior mid-market business excutives

Are you troubled by what you're spending – or not spending – on IT? You know how to analyze the costs for raw materials, equipment, sales commissions, and media spend, because you grew your career immersed in those details. Yet the IT budget remains a mystery to you.

These four tips will help lift the shroud, generate a productive conversation with your IT team and ensure you have an effective IT strategy to advance your business.

1. Focus on Innovation vs. Maintenance
   Budget conversations often start and end with a discussion of "capex" vs. "opex". This distinction is important in support of an exit or tax strategy, or to satisfy the auditors, but

it is critical to go beyond it. Categorizing all IT costs as either innovation or maintenance can lead to useful insights.
In simple terms:

- Innovation Costs are expenses related to providing significant new functionality or capability to the users or significant improvement in system processes.

- Maintenance Costs are those required to keep an existing solution, feature, or function running. They include the end-user support costs, ongoing license fees, the hardware and data center costs, and the labor to fix bugs or create small enhancements.

Several insights can emerge from evaluating costs through this lens. First among them: Innovation projects must align with business priorities. If they don't align, you should ask a lot of questions. Always apply rigorous ROI analysis to all innovation projects.

Second, business leaders are often surprised by the size of ongoing maintenance costs for their IT systems. A deep understanding of these costs will allow for a more realistic discussion when considering new initiatives. Maintenance costs are the best place to focus on improving efficiencies. Many companies staff for maintenance initiatives and outsource during bursts of innovation.

2. Categorize by Function

In addition to slicing your budget by Innovation vs. Maintenance, it is also useful to categorize by function. We have identified five core functions - each with unique budgeting considerations.

CORE FUNCTION	WHAT IT IS	WHY IT MATTERS
Infrastructure	Server hardware and operating systems, storage, virtualization, cloud infrastructure, phone lines, data lines, firewalls, network, implementation and support of all these.	Significant core infrastructure costs can suggest opportunities to save money with a shift to the cloud. Understanding planned capital purchases in this category over a longer time horizon (2 to 3 years) can help you disrupt hardware-refresh plans with cloud migrations.
End User Support	Service desk, training, user communication, user hardware, end-point operating systems, end-point security, and mobile devices.	End-user support costs benefit most from the economies of scale. Evaluation of support cost per information worker provides insight into whether your budget could benefit from outsourcing all or part of this function.
Productivity Applications	E-mail, IM/Presence/Voice, Office, SharePoint, etc.	New cloud-based licensing models are emerging that allow for significant cost savings in this category.
Line of Business Applications	Applications in support of line functions like accounting, ERP, logistics, warehouse, payroll, etc.	The applications contained in this budget category align directly with core business processes. You should ask whether the largest budgets align with the most critical processes. Most budget requests in this category correspond to cost reductions and should be evaluated and measured in that light.
Customer-Focused Applications	Website, e-commerce, customer portal, customer-facing mobile apps, CRM, e-mail marketing etc.	Budget requests for customer-focused enhancements are most often aligned with revenue increases and should be evaluated and measured with that in mind.

Categorizing costs by their function allows you to focus your decision-making in alignment with those functions.

3. Track IT Time

Most mid-market IT organizations don't track their time. Even though IT organizations claim to track their hours, when you dig into the details, you'll find something different. Only a portion of the total hours are tracked, not to mention in large increments that don't provide enough visibility to determine what's really being worked on. Since labor makes up a significant portion of any IT budget, detailed tracking is critical.

Detailed time tracking has the following benefits:

- It ensures that effort is aligned with business priorities.

- It shows which groups are requesting the most from your IT team and why.

- It keeps IT teams focused on achieving deadlines instead of other priorities that sidetrack them. With an unbiased record of time spent, discussions become more rational and fact-based.

- It helps your IT team become better at estimating their efforts due to the direct feedback of tracked time. This results in more predictable deadlines and budgets in the future.

- It ensures all teams become more accountable for their efforts.

Investing in a time-tracking system will be repaid tenfold by the benefits listed above. Excuses for not tracking time are nothing but that — excuses.

TIPS ON TRACKING IT TIME

- Track by the hour and by a detailed set of projects.

- Review timesheet summaries with your IT executive to ensure time spent is in alignment with strategic initiatives.

- A wide range of affordable, cloud-based time tracking systems are available and the benefits are significant.

4. Allocate IT Costs

Too often mid-market companies don't charge their technology costs back to the decision makers and the business units that are generating the demand. A variety of reasons are given: "It's not worth the time" or "if we charge for technology, nobody will use it."

The reality is, when IT doesn't get charged back, the people demanding services tend to consider IT a free utility. Your IT department ends up juggling competing priorities and is forced to pursue projects with dubious business value. Business leaders will take projects much more seriously when their budget is spent on each effort. Most important, you'll have greater transparency to who is spending your IT resources.

SUMMARY:

Using these tips will help you have a productive partnership and conduct meaningful budgeting discussions with your IT team. Just like everything else, IT budgets require good fiscal management. Mystery solved.