

BUDGETING WORST PRACTICES

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Oh, One More Thing

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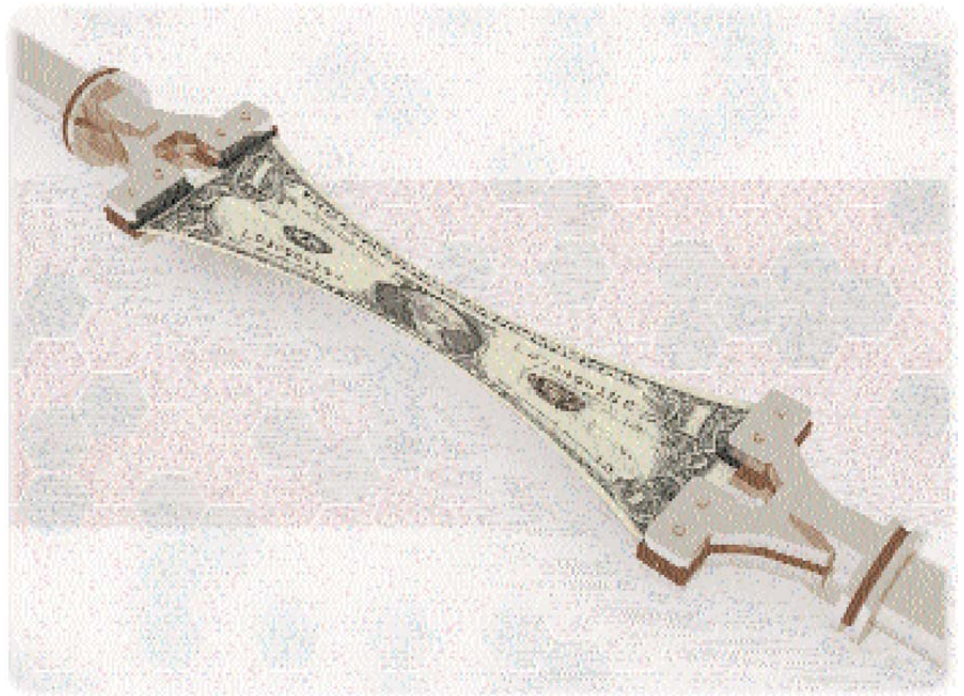
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“Okay, I'd like to call this executive-committee meeting to order. Harry, Bob, please. Thanks. Right then, folks, let's talk about our new z-generation product launch. You know how important this is to me, and to our future. Development is right on course, just eight months behind schedule. So it's time to marshal all our resources for the launch. Let's start with IT. Pat?”

“Well, my folks have looked at the situation. The challenge is adapting our applications to this new system-sell business model.”

“What's so tough about that?”

“Well, it's not just a matter of adding a few new product codes. Believe me, if it were that simple, I wouldn't have bothered you folks by even bringing it up. The whole concept of z-gen is modular product configuration.... Ahem, a brilliant concept at that! But not everything goes with everything; lots of combinations of the modules just don't make sense. And then we're talking about systems pricing; so it's not just a matter of adding up the items on an invoice like we do today. We've got an awful lot of development work to do.”



“Can you do it in time?”

“Absolutely! But we're talking somewhere north of seven figures.... We'll need a budget increment.”

“Not an option. I promised the Board we'd meet our operating budget, and we can't capitalize a bunch of little IT enhancements. You're going to have to make it work with what you've got.”

“But, sir, we're working to the limit as it is. My people are already at the breaking point, and our budget is already committed to other stuff. We really need to bring in consultants and get some help from the software vendor. And remember, this whole project wasn't in our original budget.”

“Hey, there's a lot we didn't know when we did the budget a year ago. But that was then; this is now; we've got what we've got; and that's that!”

“Yes, sir.”

The Root of the Problem

Later that day.... “Tough meeting, boss?”

“Not good.”

“What's going on?”

“Well, the z-gen project is non-negotiable. But we get no incremental budget! ‘Just do it,’ is all the Prez would say. Meanwhile, if we slip on our other commitments, the business units will hang us out to dry.”

“So, what are we going to do?”

“Something's got to give. There just aren't enough hours in the day to do it all. Where does that guy get off, thinking he can change the laws of physics and create time and money out of thin air!?”

“Well, can't you just go back to the executive committee and show them what's on our plate and get them to decide what to bump?”

“I wish I could. But they'll just say it's our problem. Our budget isn't linked to demand; so they see how much money we spend, but they don't see all the things we're delivering to the business. They think we've got enough fat to absorb additional work. And I'm not sure we can prove otherwise. Can we honestly say we know where each budget dollar is going, and what we'd get back if we bumped this or that?”

“Hmm, not really.”

“You know how political this can get. If I had solid ground to stand on, sure, I'd go back and force the executive committee to figure out what they'll do without. But without the facts behind us, I'd get killed.”

The Way Out

“What kind of facts?”

“I'd need a clear layout of the full cost of each of our projects *and* all our ongoing services.”

“What about all the stuff the business units don't have any interest in paying for, like infrastructure depreciation, and our support costs?”

“Well, I guess like any business, we'll have to spread that overhead across the business deliverables. You know, we're going to need some sort of scientific method, something transparent and defensible.”

“Yeah, we need a method, and a tool!”

“Basically, we're talking about service costing for everything we do. You want to look into it?”

“I'll give it a try.”

Practicalities

“So, what'd you find?”

“I talked to our accounting firm. They said it can't be done. Basically, what they said was, give them half a million and they'll analyze the activity-based costs of *one or two* of our business processes.”

“Well, that won't solve our problem.”

“That's what I told them. So I got on the web and did some hunting. There are a bunch of vendors talking about ‘transparency.’”

“What do they mean by that?”

“They want to sell us an invoicing system, even though we don't do chargebacks. They call it ‘show-backs.’ They say it'll get the business to understand the costs of their requests, and they'll voluntarily cut demand.”

“Yeah, right! Why would they do that, when everything is free to them!?”

“I agree. I also found a bunch of consultants that want to help us with our catalog and rates.”

“That doesn't give me the cost of all our deliverables, does it?”

“Nope. We'd have to define all our deliverables, multiple those rates by volumes, and add the pass-throughs. Rates are just a piece of the puzzle.”

“So is anybody out there doing anything that can help us?”

“Actually, yes. I found something called ‘investment-based budgeting.’ It's a planning process that links *all* our costs to our projects and services. It seems to be working for other organizations.”

“That's exactly what we need! Let's see what it would take to implement it.” □

For a library of information and case studies on investment-based budgeting, the method, and the tool, go to fullcost.com. And CIOs interested in a private sounding board on their resource-governance processes may enjoy a private consultation with Dean Meyer. Contact NDMA at 203-790-1100, or info@ndma.com.