

BUDGETING WORST PRACTICES

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Take It Out of Hide

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“Whaduya mean, 10 percent!? You want me to cut my budget 10 percent when I can’t even keep up with demands now!?”

“Calm down. Be a team player. This is a tough economy. Revenues are down. We’ve all got to cut, and your IT department is no exception. Across the board, 10 percent. That’s the deal.”

“Okay, we want to do our share. But you know we’re barely able to keep our heads above water as it is. It’s not like my people are sitting around wasting time and money. It’s not like we can suddenly be more productive. We’re just not going to be able to meet all their expectations. The business units will be screaming. What do you want me to do?”

“You’ll have to get ‘lean and mean’ and ‘do more with less.’ And you’ve got to focus on the strategic things, and let the rest go by the wayside.”

“Thanks, boss. That helps a lot.”

“I have confidence in you. You can do it. Now, if you’ll excuse me....”

The Root of the Problem

“Honey, this was not a good day. We’re facing a down-sizing. I’ve got to cut 10 percent. Meanwhile, I’m already in trouble for not delivering all that the business units expect.... No, that’s too mild. All they demand! What am I going to do?”

“Sweetheart, when you took this job and we moved here, you took a pay cut to get the kids out of the city, remember?”

“Yes. We made that choice together.”

“That’s right. And I don’t regret it for a minute. I love it here. But how did we handle the pay cut?”

“Well, we went over our budget together, and we decided on some things we could do without — like some of the fancy meals we used to enjoy, the vacations abroad, the sports car I wanted....”

“That’s right. We adjusted our expectations to fit within our means.”



“We did. But there’s no way the president of the Hot Products Group is going to say, ‘It’s okay that you didn’t deliver that strategic systems I need to pull us out of this slump. I understand you had a budget cut.’ He’ll have my neck in a noose at the next executive-committee meeting!”

“Sweetheart, it’s not your fault that your budget got cut.”

“I know that. You know that. But he doesn’t give a hoot! He thinks it’s *my* problem to keep on delivering the same level of service with less funding.”

The Way Out

“But that’s impossible. Any reasonable person knows that. Who gets mad at the store when she doesn’t have enough money to buy everything she wants? It’s not the store’s fault! Why would that guy think that way?”

“Well, to be honest, I guess we’ve allowed him to think that way. Nobody really knows what’s covered in my budget and what’s not. So when it comes time for a cut, I can’t really say, ‘What do you want to do without?’”

“I don’t get it. Why can’t you say that?”

“Well, it’s my job to fight for enough budget to keep the IT department running. We’re not a store with prices on our products and services.”

“But, of course you are! The things you do take money and time. Everything has a cost, doesn’t it?”

“Yes. But our clients don’t see it that way. They think it’s my fault when we can’t give them everything they want.”

“That’s silly. Why would they believe that?”

“You see, when we submit our budget, we argue for money to pay for our compensation, travel, training, vendor services, etc. We don’t really tie it to deliverables, like clients’ projects and ongoing services. So we can’t show the business units what the budget pays for and what it doesn’t cover, and we can’t really talk about what has to drop out when we have a cut-back.”

“So why don’t you work more like a store?”

“I guess the truth is, we really don’t know the cost of our products and services. Sure, we know the obvious direct costs. But we have all these fixed costs, and internal support services, and overhead. And if those things are separate line items in my budget, they’ll just tell me to cut those and do their projects instead. But we need those support services to deliver their projects and services.”

“Well, the grocery store manager doesn’t expect me to pay his rent before go shopping for food!”

“That’s because all his indirect costs are imbedded in the price of his products. But to come up with the full costs of our products and services, we’d have to build a cost model for our entire product line.”

“Well, then, that’s what you have to do!”

Practicalities

“That would be nice. I wish we could. But we just don’t know how to do it. The consulting firms want to charge me an arm and a leg to do it for us. But then what will we do next year when we need to submit a new budget!?”

“Sweetheart, here, read this.”

“What’s this?”

“It’s a case study from some guy who did exactly what you’re talking about. Maybe he didn’t know it was impossible!?”

“Really? He did fully burdened costing for everything in his budget?”

“That’s what he says. Would that help you with this cut?”

“I don’t know. Just putting rates on our service catalog won’t help. And issuing mock invoices after the fact – what they call show-backs or cost transparency – that won’t help much either. We need to understand what a given level of budget really pays for.”

“That’s exactly what this guy did. He calls it ‘investment-based budgeting.’ And he used an off-the-shelf planning tool to do it.”

“Fantastic! If we had that, well then, they can cut my budget as much as they want, as long they cut their demands at the same time. But you know, I bet that when they actually see what deliverables they’re losing, they’ll have second thoughts about the cuts.” □

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.