

Axing the Budget

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“Tim, we know it’s coming.”

“Yeah, Wendy, we know.”

“Shouldn’t we start preparing ourselves now?”

“Do we have to? Last time we had a major cut, we were able to absorb it — the license savings we’d already negotiated, contractors, open headcount we’re not filling...”

“That one worked out without layoffs. et’s hope we can do the same this time. But you know we’re still paying the price of that cut.”

“What price? The last cut was months ago. It’s over and done with.”

“We cut our spending, sure. But our clients expect us to produce all the same services.”

“We did postpone the ERP customer module.”

“Yeah, the one module that has real revenue impacts. Meanwhile, we’re still cranking out thousands of pages a month of reports no one looks at.”

“True.”

“And we know that killing one module didn’t pay for the entire cut.”

“Postponed, not killed.”

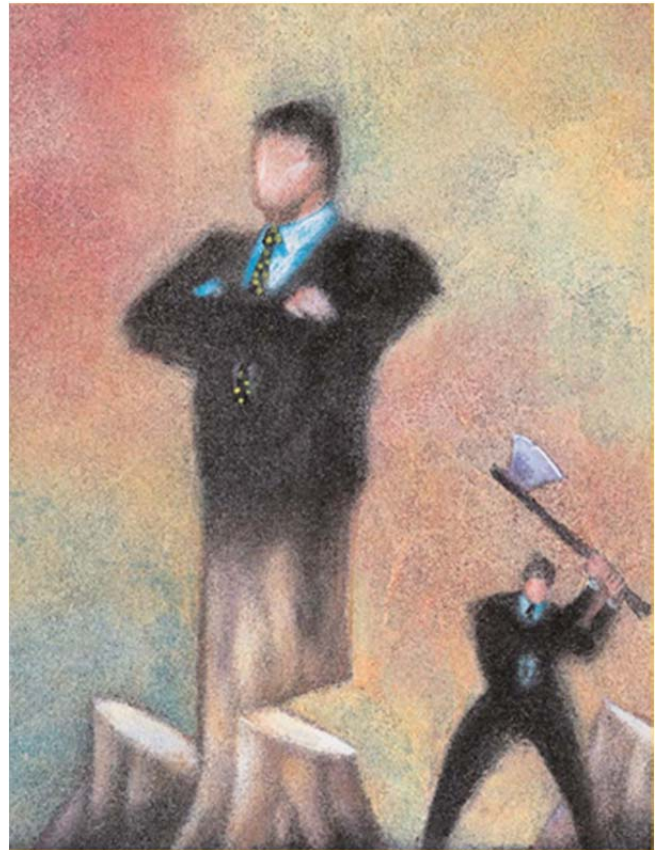
“Tim, the point is, clients have always demanded more of us than we’ve had resources to deliver. The last cut made that a heck of a lot worse. They really believe we’re going to do everything we did last year, and all the stuff we promised in the budget.”

“You’re right, they do expect it.”

The Root of the Problem

“The problem is, we never cut expectations when we cut the budget.”

“Wendy, I think everyone knows we took a cut and something’s got to give.”



“At the conceptual level... as long as it’s not my project that’s cut! Tim, we’re already stretching staff to the max, and we’re still getting whacked every day for being unresponsive and for blowing deadlines.”

“I know, I know. I get the calls.”

“We’re down to the bone now. This next cut could put us under. What do you think our performance appraisals are going to look like this year?”

“Not good, not good.”

“Why? Because we can’t do more with less? It’s totally unfair!”

“That’s true. But that’s the nature of cutbacks. We’ve all got to do our share. What can we do about it?”

The Way Out

“This is what I’m saying, Tim. Let’s be better prepared this time.”

“You mean start laying people off now!?”

“No! That’s not what I’m saying. We’ve got to show clients that cuts mean we deliver less. We’ve got to bring expectations down when we bring resource levels down.”

“Ah, managing expectations!”

“You could call it that.”

“We tried last time, didn’t we?”

“We waved our arms and talked about it conceptually. A lot of good that did us!”

“What else can we do?”

“I think we’ve got to list our products and services, and cost out each. Then, when they want to cut our budget, they’ll have to tell us what they’re willing to do without.”

“We have a vendor hounding us about transparency through show-backs. Is that what you’re talking about?”

“Kinda.... But instead of after-the-fact accounting, let’s use it for planning. I’ve been looking around the web. It’s called investment-based budgeting.”

Practicalities

“I’ve heard that service costing is real expensive and difficult to implement. Didn’t they try that over in John Garthwaite’s shop?”

“He went with that vendor, and it cost him over a million bucks and took him two years to implement! And all he got was show-backs – you know, mock invoices – and no real way to manage expectations. But that’s not what I’m talking about.”

“Say again what you’re talking about....”

“Investment-based budgeting. We can do it all with a planning tool, no changes to formal accounting systems, no time-cards, no big systems integration project like John’s shop went through. It’s not nearly so hard, and it’ll pay off right away, not a year from now once the data is in.”

“What would we do with an investment-based budget?”

“When they tell us to cut, you smile and say, ‘Sure, what do you want to not buy?’ You show them the list of our products and services, with full costs, and they decide what deliverables to cut to save money.”

“Makes sense. Can we do it?”

“I think so. From what I’ve read, there’s an off-the-shelf toolkit we can buy. All we need is that, plus some training and consulting support.”

“Wait a minute. We can’t go spending money on consulting at a time like this!”

“Tim, sometimes you have to spend a little to save a lot. It’s not a lot of money. And think of the benefits to the company of doing this next cut right — you know, cutting the low-payoff stuff instead of the revenue-producing projects. And think of the benefits to our staff, who don’t get much training, work their butts off, and still don’t satisfy the business.”

“Not to mention the benefits to our careers!” □

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.