13 Ways to Manage

your IT Budget

CIOs are often faced with the challenge of doing 'more with less'. Managing the IT budget is as important as charting the right strategy

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With technology getting obsolete at an increasing pace and budgets getting tighter, CIOs have a challenging task at hand. To opt for the best-in-class technology or go for a cost effective solution, to invest in developing systems for the long term or to buy easy-to-deploy solutions that can yield immediate returns —IT managers have to take many such tough decisions. They are under constant pressure to trim their IT budgets and yet ensure maximum business value from their tech investments. "Over a period of time, for most of enterprises, the IT budget's major share tilts towards opex for maintaining the infrastructure, and therefore investment in new technologies takes a back seat. CIOs should be wary of this fact and take strategic actions to reduce opex cost. Deploying IT automation tools and adopting cloud technology can help bring down the opex cost," says Radhakrishna Pillai, CIO, SRL.

In an increasingly competitive scenario where organizations are looking at leveraging technology to ensure greater productivity and business growth, budgeting and planning assumes even greater significance. Emphasizing on the budget in a CIO's context, Dr Sharat M Airani, chief, IT (systems & security), Forbes Marshall Group of Companies says, "Making a budget helps a CIO get off the treadmill of living from one payment to the next. It enables him/her to sort out money priorities and find the right balance between spending and saving. A budget lets you plan better for payments when your big projects are planned, and save up for a big purchase or use the same for over-shoot."

In most companies budgeting activity is an annual affair and does not necessarily take into account the changes that occur due to global, political, economical, and social parameters. However, looking at today's dynamic economic scenario, companies may need to review various budgets on a quarterly basis and provide greater flexibility to adapt with changing market needs. A CIO has to establish a budget process that includes business and IT stakeholders and link with the strategic objectives and business needs of the organization. Budget performance also needs to be systematically reviewed against IT and business objectives. One may even need to follow a transparent escalation path (for example, thresholds, roles, actions) for taking action on budget variances.

Dataquest spoke to several CIOs to understand their IT and business priorities, the factors they consider while creating their IT budgets and some of the best practices they follow.

#1 Plan Well Ahead of Time: Planning an IT budget is as important as managing it as it holds a piece of pie for every stakeholder. To make matters

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simple a CIO needs to start on the budgeting process well ahead of time as it will help him make the necessary allocations for the required spends. He should also do his home-work well. After having set his business priorities right, the next task that needs a CIO's attention is ensuring that the budget prepared is realistic.

CIO's suggest that one should plan at least 3 years ahead, and ensure regular updation of the plan every month. A planned budget needs to be made and actual spends should be made part of the daily CIO dashboard. The importance of this process is to start early and ensure that the CIO asks questions on business priorities if the same are not clear.

#2 Budget Right: If it is important to keep the company's ability to spend in mind while preparing a budget, it is equally important to segregate funds allocated for each initiative separately. This will ensure clarity in the budget spend and also streamline IT efforts. The CIO should separately enlist the new initiatives and the upgradation activities; keep operating expenses for BAU as a separate head; and create different heads for each kind of expense, for example, networking, data center, server upgrades, etc. As a word of caution to CIOs, Girish Rao, head IT, Marico says, "Budget reasonably. That is, a CIO should not over-budget nor under-budget. The budget should have a reasonable buffer for any sort of contingencies, but it should be stated upfront. Set up an internal control within IT and approval mechanisms to ensure that IT spends take place wisely. Get as much detail about the spend as is possible upfront, that is at the time of budgeting."

#3 Involve all Stakeholders: Involving business stakeholders in project-specific budgets will help you highlight the specific needs and make arrangements accordingly. And once the implementation is made it will be to cater to each one's specific needs. While planning any project, involve the 'owner' to get the requirement clearly laid down in the initial stage itself. This is mostly done by many if not all CIOs. Take inputs from your team members as it may bring to the surface an out-of-the-box idea that may help you in looking at a scenario in a totally different manner. Later linking these inputs to business outcomes is a big step. Clarity in thinking, focusing on objectives, consciousness on business benefits and perfect alignment of IT and business initiatives will avoid budget debacles.

5 Timeless Truths about Budgeting

Read and Understand the Fine Print

"A CIO of a top 100 company, selected and implemented an HRMS system, but did not negotiate the licence cost increases after the first 2 years. In the 3rd year the vendor hiked the prices, and the company ended paying double as it was locked in"

—Aditya Berlia
member of management board, Apeejay Stya & Svran Group

Do First Things First

"Many times IT budgets are cut as they don't support business priorities. Planning for business intelligence and analytics when basic ERP is not matured is an example of wrong prioritization"

—TG Dhandapani
CIO, TVS Motor

Plan for Possible Failure Scenarios

"IT Implementation agencies under the RAPDRP program is a good example. IT leaders did not factor the impact of exchange rates, underestimated the scope of work and as a result had to upgrade the budget, affecting the overall bottom line of the project"

—Rajiv Sharaf
CIO, Rinfra

Spend the Budget

"In the earlier years, we used to end the year underspending resulting in a lower budget for the specific item the subsequent year and it would be difficult to justify the budgeted amount. We learnt that underspending could be as bad as overspending"

—Girish Rao, Marico

Simplify the 'IT' Talk

"The CEO was presented a budget to refresh the core network infrastructure. The CEO expressed surprise on a 'switch' costing a million rupees. The CIO took the CEO to the data center and pointed out to the switch and said "If this fails, we all can go home until we get a new one." The budget was eventually approved"

—Arun Gupta
chief information officer, Cipla

Sometimes a project is undertaken by a business without considering IT plans. This has a major impact on the budget and therefore a CIO should work closely with various business heads to forecast projects and avoid debacles.

#4 Keep Buffer Funds: Always keep a buffer fund provision handy as it would really help in times of need. Technology is known to be disruptive and budgets need to be prepared for any sort of exigency that may arise. This provision in the budget will work as a shield preventing it from going off-track in times when sudden need arises. A buffer provision will always ensure that your budget is successful and resistant. Set up a contingency item which does not exceed 2-5% of the overall budgets to account for surprises/unplanned for expenses. Have a hidden buffer should any project run out of control.

"There should be a reserve in the budget to take some initiatives that may not be of immediate importance to business but may require it in near future. We name these initiatives as "Shelf Engineering". This helps in reducing the latency of business requirement and availability of the solution. We make good use of this and enjoy more than 90% success rate," informs TG Dhandapani, CIO, TVS Motor.

If your budget is approved, don't celebrate too much as it may undergo change with changing business priorities and external factors. Technology change may require changes in the original plan. This flexibility could be in relation to technology or even financial aspects. In such a scenario, keep the CEO, CFO, and the other team members in-

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5 Ways to Avoid Budget Debacles

■ Understand technology trends and consumerism in IT
■ Understand objectives and projects of your stakeholders
■ Do a ground up/Zero base budgeting

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formed so that they can help you sort out the scenario.

#5 Connect with the CFO: Building a rapport with the CFO will help you understand the finer aspects of budgeting activities. Both the CIO and CFO view business from different lenses, which also affects their ability to plan. As CIOs may be excited with the advancement in technology, CFOs will be on the alert to reduce expenses and ensure RoI on investment.

After the economic downturn, the biggest challenge faced by CFOs and CIOs is that the management will not consider funding a budget unless the factor of return on investment is well defined. With the CIO maintaining his contact with the CFO, he could get a lot of information to support his budgetary proposal. When CIOs plan technology investments suitable to business objectives the involvement of the CFO is called for.

#6 Choose the Right Technology: Choice of the right technology that is in line with business demands and financial aspirations is important. Pay for quality, otherwise you will pay double, if not more to fix it. Take time to think about architecture, it is very expensive to change a building once it has been built. Take weekly or even daily back-ups of development in progress from outside vendors. Demand

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and pay for extensive in-process documentation.

"Over a period time most of the enterprise IT budget's major share tilts towards opex for maintaining the infrastructure and therefore investment in new technologies takes a back seat. So CIOs should be wary of this fact and take strategic action to reduce opex cost. Deploying IT automation tools and adopting cloud technology can help bring down the opex cost," says Radhakrishna Pillai, CIO, SRL.

Choose base technologies that will survive for the next 5 to 10 years. Becoming a legacy system in four to five years or less is not a good idea. "We started on the journey of virtualization and cloud computing 10 years ago, and the aim was to be 100% in the cloud with no servers in our offices. This move has led to massive cost savings, and application performance has increased across our companies," says Berlia.

#7 Monitor Regularly: Strictly monitor usage logs, small things can add up easily over time. Monitor the budget allocations regularly (maybe on a monthly/weekly basis) and rigorously viz a viz actual spends. Do not worry about cost overrun vis a vis budget but ensure that it is not by design but due to genuine reasons. Foster a culture which is value conscious and not cost conscious. This will help to manage project scope methodically.

However, do not get obsessed with small details all the time. Do not be petty in tracking small amounts as it could potentially lead to significant drain on share of mind for big ticket items.

#8 Involve Vendors to Plan for the Future: Remember that life is unpredictable, and things

happen that are beyond our control. Technology change is so rapid that it calls for a major change in the existing structure. Hence involve the vendors on future trends that are set to take the IT scene in its stride, but, as a word of caution, do not trust the vendors totally. Also keep in touch with the CIO fraternity for their view on future trends and vendors to opt for.

#9 Keep Track of Hidden Costs: Several checks should be put in place in order to avoid problems and debacles. Understand when a particular billing model was chosen for accounting purposes rather than actual reflection of what is going on. Look for the hidden costs, there is no such thing as a free lunch. Keep currency fluctuations into account, keep a tab of hardware/software refresh as it can add to hidden costs, etc. Take the time out to have very detailed user studies and system requirement studies. If possible, get wireframes up front before beginning the project. Always read the fine print, and model out different scenarios of billing. Chances are you will run into one or more issues that you did not think of. Implement a very strict project management system to avoid deadline slippage.

Always have a pragmatic and measurable milestone payment system. Never pay everything upfront. Leave the last major payment post production deployment and use for at least a few months.

#10 Manage Vendor Relationships and Risks: Vendors always have a tendency to take you for granted so make sure you have 20% of your IT with a second source. Ask detailed

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4 Golden Rules of IT Budgeting

- ■ Ensure that the IT organization presents a balanced budget. A senior management group should certify that the budget is balanced.
- ■ Draft budgets in a straightforward manner, stating spending for the next year rather than specifying spending changes relative to earlier years. This would protect against line items disallowing spending cuts.
- ■ A spending limit considering upcoming project(s) and existing set-up can prevent budget debacles.
- ■ Present the budget with full conviction and force. Simplify and exemplify. Don't get bullied into cuts if you believe they cannot be achieved.

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billing questions. Don't get fooled, unscrupulous vendors are counting on that. Never reveal your budget to a vendor, they will adjust prices accordingly.

Negotiate and revise the regular contracts time-to-time. There are always a possible price reductions or new features and facilities may be available on any technology. This will benefit to drive cost reduction or we can say—cost benefit.

A fantastic class A team came in to quote for a year long project. Within three months most of the A players had left the vendor or had been assigned to new projects. The company ended up with the B team of the vendor which scuttled the project.

#11 Plan Exits Well: Exit clauses should be read with extra caution and understood well as it will enable to protect the business in the event the CIO wants to exit the contract prematurely. If a CIO wants to exit a vendor's services without having understood the termination clause ahead in time, then it could mean making a payment of a substan-

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tial amount. Always plan vendor exits in advance. Exit clauses in contracts must contain intellectual property or work done till date transfer clauses, independent of payment disputes.

#12 Outsource with Care: CIOs can outsource functions related to data centers, networks, servers, storage systems, etc. Do not outsource your core functions if you can help it. Find the best people not necessarily the best companies. Freelancers are often the best bet in this scenario. "I am personally not in favor of 100% outsourcing. Routine IT maintenance activities should be outsourced while retaining the critical areas in-house, which will also reduce the impact on opex cost," according to Pillai.

#13 Ensure Reuse: Do not duplicate solutions unnecessarily. Combine requirements and plan reuse. "There were multiple business initiatives with similar functionality funded by respective functions. We assimilated the entire process and budget, and rebuilt the solution. The new solution evolved as a profit center for IT and the cost charged back to functions were significantly reduced—well appreciated and endorsed by business," Raj Khemani, head IT, Clariant, shares an example.

On a Final Note
A final word of caution from Dhandapani: "Don't always get constrained by the budget. No CEO will deny the budget if RoI is handsome. Having said that, don't spend just because the budget is available, spend only if you have a sound business case. This will improve the CIO's respect in the organization." ■