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Tips for Technology Budgeting

6 Tips for Conducting an Annual IT Budget Review

This White Paper is brought to you by your friends at The Fulcrum Group, Inc.

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6 Tips for Conducting an Annual IT Budget Review

With tougher economic times, your technology budget is probably under diligent scrutiny and funds may be tighter to come by. We put together these six tips and suggestions to help you in your budgeting process.

1) **Gather details on what you spent last year.**

This seems like an obvious step, but smaller firms may not spend much time classifying technology expenses on their P&L, which means you may not have an exact idea of your prior spending. You will want to gather facts about your computer, server, printer, copier, phone system, software and infrastructure purchases, but don't forget items like phone service costs, internet service costs, warranty and software renewals and such. If you support phone devices, you might even include cellular data plans, phone upgrades and the like. KEY POINT: Make sure to capture all of your recurring costs, and make sure all critical equipment is covered by the appropriate maintenance/warranty.

2) **Make a list of purchase types and create an asset list for the IT department**.

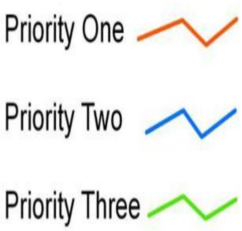
A good list of assets should have a basic description, purchase date, serial number and any information about your warranty. Software might include license counts, support contracts and any key or license information. Part of good budgeting is planning for the worst, whether you actually spend it or not. Older assets tend to go out at bad times, require more labor for support and have other unexpected consequences. So knowing what the older items are will help you interpret potential loss areas and plan accordingly. KEY POINT: Budget to replace existing laptop computers every 3 years, desktop computers every 4 years, and servers every 5 years.

3) **Think about the areas in which you hope to improve your IT operations.**

Since technology improves each year with better performance, improved reliability, better features or a completely new way of doing things, a new purchase might have an enormous impact on the benefits you get from your technology. Major changes could be as simple as the first server for a 5 person office for centralized administration and services, or embracing server virtualization as you are ready to upgrade multiple older servers to lower the cost of upgrade and improvement management.

A network also evolves as you become more sophisticated, so you might add layers of functionality to complement what is already in place. For example, an automated tape backup system can take a picture of all data and information across your entire network. As IT becomes more critical in helping your business grow, your recovery point objective (how much data you can afford to lose) and recovery time objective (how quickly you can recover from a disaster) will decrease, requiring new backup and disaster recovery systems. KEY POINT: Conduct a Business Impact Assessment and other technology reviews to make sure you have the correct technology in place to run your business.

4) **From your asset list, start a prioritized budgeting list.**
This is the start of your budget. Using your asset list, determine if there is a related



expense this year. If you purchased a firewall, anti-virus, spam filter and many other items, you will need to purchase an ongoing subscription to make sure your system has the most current protective signatures.

Sometimes a one-time purchase begets smaller ongoing purchases for the life of the device or software (I think of these as renewals). If you identified a slow laptop in the last step, you might determine that the laptop is 4 yrs. old and really needs replacement.

By prioritized, I mean I tend to categorize possible expenses as a 1, 2 or 3, in kind of a risk management approach. 1s are items like renewals where there is a smaller cost and higher benefit or when you can't do without an upgrade or purchase, like the slow laptop example, all easy decisions or “home runs” within your network.

Other examples of 1s might be where you are being forced due to external pressure. For example you might be required to meet industry compliance like PCI, HIPAA or HITECH requirements.

2s are the miscellaneous items that are possibly higher cost, but believed to have a substantial benefit, like setting up network monitoring for better alerting, trending and quicker troubleshooting. There is lots of value in doing, but you might not be able to measure exactly what the value will be.

3s are where you have an idea of a need, but some factor makes it a lower priority. It could be a really great solution you know you need but the cost is extremely tight on your budget. Or it could be a technology other firms like yours have and get great benefits from, but you may not have a good idea of cost or impact. An example could be setting up a small disaster recovery or co-location site for some of your systems. You might also need to interview department heads to realize their planned projects. If they want to upgrade HR software, get laptops for sales reps in the field or start imaging documents, they may not understand the impact this would have on your budget. KEY POINT: Prioritize your potential technology upgrades and involve key staff to make sure they have all of the tools and resources required to stay productive.

5) **Speak in terminology common to other members of your management team**.
While your list is a list of technologies that most IT departments would understand, most people outside of IT have no idea what you are

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talking about. So, you need to speak in the common language of financial cost and financial benefits to your boss or your team of peers. For each item on your list, you may not be able quantify a specific Return On Investment (ROI), but you can provide your management an idea of Benefits or Risk from your proposed budget item to complement your costs. If management doesn't understand the benefits/risks, all they see is a list of costs. You can help frame the context since you understand technology and translate the project into their language with this step.
KEY POINT: Make sure your budget includes ROI or Risk for each budget item.

6) **Consider alternatives in your budgeting process.**

When budgeting for a major project, a larger initial up-front cost may not be desirable and can move a top item down into the 3s. You might be able to acquire lease pricing to move a 3 back into the 1s list. Many capital solutions might also have "cloud"-based alternatives. For example, if you are considering upgrading Exchange 2003 or 2007 in your small organization but don't want to outlay the capital expense to buy the required servers and software needed to purchase Exchange 2013, you might consider hosted Exchange. In this case, the email is not a one-time purchase maintained by you on the network, but a service purchased for a monthly fee per user, external to your network. There are trade-offs in any decision, so before embracing any cloud service, make sure you understand the trade-offs so you still get the things you need in the way that makes the most sense for you. KEY POINT: Leasing and cloud solutions can lower your capital expenditures. Make sure to consider leasing or cloud solutions for any new technology purchase or upgrade.

Other tips to consider:

- Take advantage of IRS Section 179 tax benefits (purchase or lease new technology, receive full tax deduction in year 1 of ownership rather than having to write off over a period of 5 or 7 years).
  www.section179.org
- Make sure you allocate time on your calendar for the budgeting process.
- Engage a reputable IT services company to help you assess your IT environment and make recommendations for technology upgrades.

A good budgeting process is critical for any firm that relies on technology to make work easier. Missing network critical upgrades can place a major damper on sales numbers, manufacturing capacity or patient care quality. Don't let your firm miss the boat by not having a structured approach to budgeting for your technology in 2014. You only have so much budget to go around, so make sure your money is being used in the best places for your organization.

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