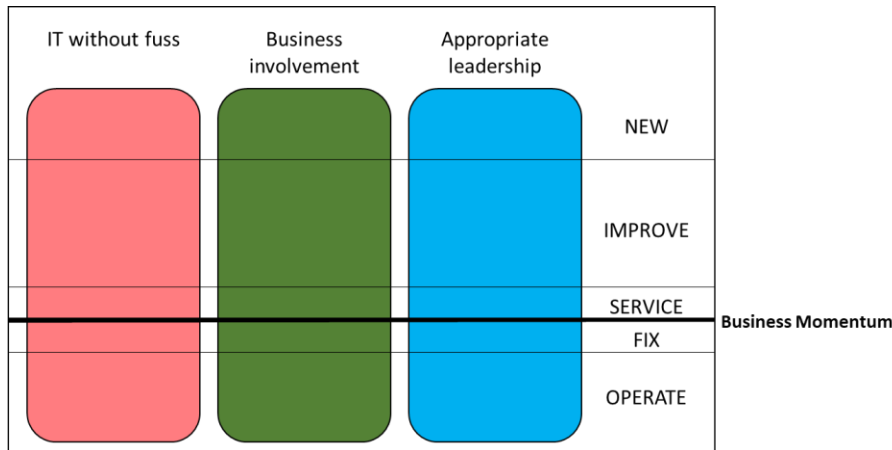


Three roles of IT: Part 4 – Budgeting for IT

We have been through the three roles of IT in the previous articles using the 3RM. Now it is time to be practical. And what is more practical than talking about money?

We all know that IT is often short of funding. Here is a way of describing where the IT department spends its money and where it needs to spend more money. Executives understand this budgeting model based on the 3RM (3 roles/momentum) model. Most IT Directors that I know who use this budgeting model get the budgets they are asking for.

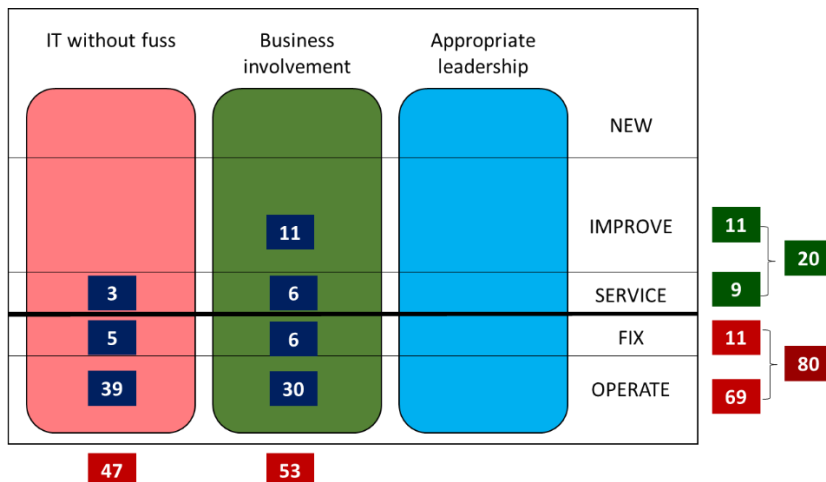
Let us start with the 3RM model as follows:



How do we think about finances and IT budgets in the 3RM?

Firstly, we allocate our budget above the line and below the line (ATL and BTL) of business momentum. The BTL budget is how much money we need to spend on IT to maintain business momentum. The ATL budget is what we need to spend to SERVICE the IT infrastructure and to IMPROVE the business and to create NEW products, services, channels, and functions. Usually, I find about 80% of the IT budget is BTL, and 20% is ATL.

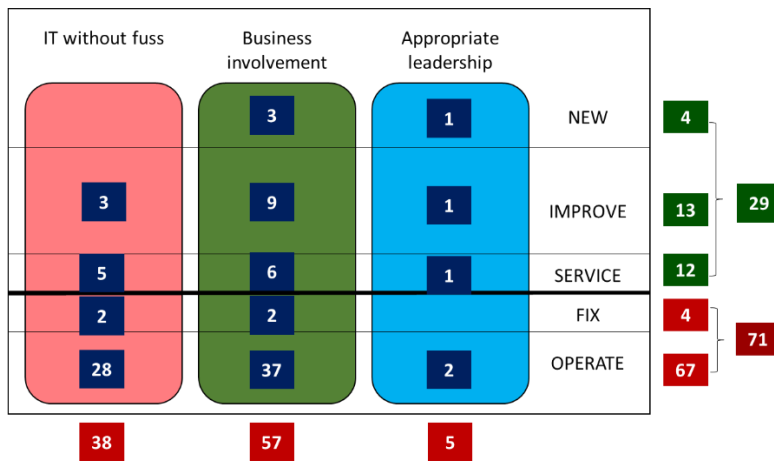
Then, we break the IT budget into three roles, both ATL and BTL. I find this normally takes a few hours of concentrated thinking, and we end up with a budget that looks something like this:



Here we have a fairly typical organization, spending 80% of its budget BTL and 20% ATL. And it is spending 47% on IT and 53% on IT for business, which is also fairly normal. The fact that it is spending nothing on leadership is also normal (sadly). But...

The 11% spend on FIXing things when they go wrong is worrying. They should be spending more on SERVICE – I have analyzed several IT budgets, and the more you spend on SERVICE, the less you have to spend on FIX. The above budget is also a problem because nothing is being spent on IMPROVE in the IT column. How efficient and effective can the IT department really be if it spends nothing to improve itself? And of course, IT is contributing nothing NEW to the business.

Now compare the above IT budget with this one:



The business is spending 29% of its IT budget (ATL) – looking forward. Because it is spending in the SERVICE layer, it has a smaller FIX spend. What is interesting is that 4% of the IT budget is spent on NEW projects – perhaps money that was freed up from the FIX layer? I will allow you to analyze both IT budgets and draw some conclusions for yourself. (By the way, the 2% leadership OPERATE spend is for their real-time EA tool, which allows them to develop and test future scenarios and to test ideas before implementing them.)

When it is time to make budget cuts, we usually start at the top layer and work downward – who needs new products and services when we can't sell our existing ones? But look at the two organizations: The first business can only make an 11% cut in their IT budget before they affect their SERVICE layer, and the second business can make a 17% cut without affecting anything except their medium-term future. The BTL budget must be defended from budget cuts as long as possible. This doesn't mean that there cannot be efficiency improvements BTL, but it does mean that any budget cuts for BTL must be examined very carefully.

Now ask yourself some questions when looking at the above two businesses and their IT budgets:

- Which business will sustain a recession better, and which will come out of it sooner?
- Which business is more agile and can afford digital transformation?
- Which business is more stable and resilient?
- Which business respects its IT department?

I have done these budgets for the same company for over four years and it is possible to track how an increase in IT spend in one area causes an increase or decrease in spending in another area. Also, I have compared the IT spend of global companies and show that one IT department is less well managed than another.

Finally, and most importantly: **I have not used any jargon at all in explaining how these IT budgets work and what their effects are.** Business-people understand these IT budgets as well as IT people.

One last anecdote: One CIO I worked with, put his budget into the 3RM model, and went off to present to the finance committee. When he got there, he said there was blood on the floor – everyone before him had their budgets slashed, cut, and burned! The directive was that only a 5% increase would be allowed. He projected an 11% increase in his budget. He was nervous, but his budget was passed! He asked the committee where they would find the money, and they replied, “We will take it from someone who didn’t explain their budget as well as you did.”

One important thing to remember: **Budgets have very little to do with money!** One company I know took a loan to fund their IT budget because they believed it would turn the company around. IT budgets are about politics, power, understanding, and return on investment. Mostly, budgets are about communication.