![next I.T. logo]

I.T. Budgeting For Small To Medium Size Business

The smaller the budget, the more focus, and planning is necessary.

Your Annual Technology Budgeting; the necessary evil of all successful organizations. Business leaders analyze costs and expenditures for the upcoming year and compare to what they've spent in years past. It is an excruciating process filled with anxiety, frustration and most prevalent, UNCERTAINTY.

Common sense would tell you that budgeting for smaller businesses would be easier, right? There are fewer assets, a smaller labor force, and not as many unknowns. However, that could not be further from the truth. While the variables may be fewer in number, the room for error is equally as small. When large organizations incur an unforeseen fiscal event, they can usually weather the storm because of the resources in their toolbox. Not so for small or medium size businesses for they typically have fewer pools to pull from to address unforeseen budgetary disasters. So, while the large firms of the world have more areas to budget for, the smaller business are the ones who can't afford to miss anything.

Why is the I.T. Budgeting Process Important?

So why is I.T. a crucial factor in budgeting for your small to medium-sized business? The age-old theory of "if it isn't broken, don't fix it" is one that many small business owners follow with their technology. This methodology of break fix is one that could save you money in the short term. But eventually, it will catch up to you and inevitably, you will end up with large expenditures all at once. What if that expenditure was $30,000? Another scenario is the rapidly changing tech world we inhabit today.

The line of business applications are continually updating their programs. Too often small businesses are left behind because they have not allocated resources to change with these programs. They then end up in a situation where in order to move forward, it is a significant overhaul with a significant expense. What inevitably happens when small businesses do not actively allocate I.T. spending, is business infrastructure falls behind and what suffers is employee productivity and revenue-generating activity.

Budget Strategy

Information Technology Planning should be viewed as a strategy to gain efficiency and increase productivity. All businesses are striving for efficiency for their people and processes to help increase productivity. A great place to start is with your employees. Have conversations with the people that I.T. directly affect. On any given day people either struggle with some aspect of I.T.. Or, they don't notice it at all.

Having one on one discussions allows those creating the budget to find pain points and may reveal ways to improve processes and efficiencies in their roles. In our experience, clients that set a pre-determined lifecycle/replacement schedule for their computer equipment and allocate the necessary budget for replacement schedules experience fewer issues or downtime than those that don't.

So, What's This Going to Cost Me?

There are a few different methodologies for creating an I.T. budget. Some prefer a percentage of yearly revenue, while others prefer a flat dollar amount per employee, others will just tabulate what they spent a year ago and repeat, and some create capital expenditures based on equipment lifecycles and ongoing support/maintenance. The best methodology is one that makes sense to the budgeter, but only if the process stays consistent year over year. There are many studies out there as to how it's done and a few of the findings are as such. You can find **guides to I.T. budgeting** from renown experts online:

- **Gartner** is an American research firm that provides leading insight for I.T. and related fields. They are the foremost experts In the I.T. field when it comes to consulting and management advisory. They set industry standards for I.T. spending and emerging technologies. Their most commonly used tactic to determine I.T. spending is as a percentage of top-line business revenue. **Their North America Cross Industry Standard as of 2016 is 3.5% of revenue should be budgeted for I.T. investment.** This investment includes hardware, software, personnel or outsourced services, and disaster recovery. While Gartner indicates this is the most common and an effective way to determine your I.T. budget, it is to be taken into consideration with other factors. Going over that ratio or under is not a determination of good or bad, it is just the benchmark. In fact, most business fall within a range of 2-5% of their revenue earmarked for I.T. spend. This benchmark needs to be considered in tandem with business objectives. For instance, if the entire business is going to be using a new software tool the following year, the budget should reflect this along with the percentage of revenue benchmark. Gartner supplies a free sample I.T. budget along with methodology and details to help you build your own.

• **Spiceworks** is a Texas Based I.T. networking site that surveyed over 1,000 experts in May of 2014. Their findings on per employee based I.T. budget show that costs are dramatically reduced when the number of employees increases. On average, businesses that employed 19 or fewer people spent $2,770 while large corporations with over 500 employees spent an average of $698 per person. The same study found that 48% of companies surveyed planned to increase I.T. spend, 28% planned to stay flat and only 16% planned to decrease spending.

• **Deloitte** is a world-renowned accounting, audit, and business advisory firm. They surveyed over 900 I.T. professionals in 2014, many of the CIO's of larger firms, regarding their I.T. spend philosophies. 77% reported increased or similar I.T. spending over the prior year. When ranking priorities of their spending, 71% said that driving business needs was their budget focused in smaller environments, we like to use a % of revenue for a benchmark in conjunction with a capital expenditures guide. This is relatively easy to complete in smaller environments.

The Do's and Don'ts and Why You Should

Finally, we have some best and worst practices for when you sit down to evaluate your future I.T. budget.

DO:

- Be vision based, set your budget and keep the big picture in mind when allocating those funds.
- Be outcome-based, ask your I.T. vendors what you can get for x-dollars. Hopefully, they will be forthright in making the best decisions for your network.
- Know what your I.T. assets are, what they cost, how old they are and plan future replacement dates to keep them current and aligned with technology changes.
- Be inclusive and seek the opinion of all those who are affected by I.T. change. They will give you key insight as to what works and what should be changed.

DON'T:

- Don't lock in on a fixed number as in "the I.T. budget must be this percentage of revenue." Take a broad vision of upcoming projects, past projects and consider multiple methodologies.
- Don't create the budget without consulting others, include internally trusted advisors and I.T. professionals to give you input.
- Don't WAIT FOR SOMETHING TO BREAK BEFORE REPLACING I.T.. Once something breaks you have lost time and resources while waiting for a fix or replacement. Create a schedule to replace before failure.

Why you should sit down and create your I.T. budget:

- To control and plan for costs, make sure you can spend money when you need it and not in case of emergency
- To keep equipment current, the general rule of thumb is replacing PCs every 4-6 years, mobile devices every 2-4. If you can keep an inventory of the age of your hardware, you can create schedules to keep things current.
- To make sure employees have the tools they need. When employee's tools become deterrents to efficiency, it increases costs, reduces productivity.
- To ensure you have the funds to fit your needs. The I.T. budget's main purpose is to make sure a business has the tools it needs to thrive. Knowing your budget allows you to know what is possible, whether good or bad and allows for I.T. planning to fit the resources available.

Plan Now, or Regret It Later

Planning for your I.T. spend is a must for any successful business. It guarantees you have the tools needed to accomplish goals now and in the future. Today's technology runs on 4-6 year cycle, in that time your hardware and software will most likely need replacing. Waiting longer could save you money in the short term, but it could be costlier in the long run. Not maintaining your I.T. will cost businesses in downtime, productivity, and efficiency. Downtime is difficult to measure but increases exponentially as machines age. If you can budget to keep your I.T. system current, you can save money with efficiency and productivity.

Utilize Your Professional Information Technology Resource

Most business owners are not also CIO's, but you still may be able to utilize one. If you are working with an I.T. managed services company, make sure you make them part of the budgeting process. Nobody knows your network like your information technology vendor. Further, your vendor can act as your Chief Information Office and should be able to bring ideas to you that help gains greater efficiencies, uptime, productivity, and money savings. All which go straight to your bottom line.

next I.T.

If you are still wondering how you can keep your business ahead of the game, find out how we can help with more than 20 years of I.T. experience.

Call or email us at
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