Integrated Operational Planning and Budgeting (IOPB)

Introduction

There are only two types of project in any organisation. There are the ones that you have to do because of some legislative, regulatory or enforced change where you don't get any benefit. The other and much more interesting type of project is the one that you want to do.

In CIO Plus's view, the only good reason that a company should want to do a project is that it improves the bottom line and you can only do that either by reducing costs or increasing sales. Cost reductions can either fall directly within IT or they can be found in other departments by installing systems that enable them to work more efficiently.

Identifying and Capturing Benefits

A pre-requisite of a want-to-do project is correctly identifying the hard benefits of all affected departments as opposed to soft ones. If you can put a name or a pound sign to a benefit, then you've got a hard one.

You also need a sound project methodology that includes some form of pre- and post-implementation review which:

> a) Ensures that the potential benefits being claimed via a project are achievable and bought into by the beneficiary, and;
>
> b) Ensures that the project's claimed benefits will actually be delivered.

These can be on a project-by-project basis or on a more encompassing method such as IOPB which CIO Plus has successfully deployed with dramatic results. If you don't have a tracking mechanism then savings potentially evaporate or become so hard to find that no one bothers to look for them.

We have always used payback (rather than IRR) as a methodology to justify a project. If an IT project doesn't actually wash its face in terms of hard benefits within 24 months then don't do it. Things move so quickly in IT that if it takes longer than 24 months to deliver benefits, then there is probably something else that will come along in that period which will be better.

IOPB is about bringing the planning and budgeting process together and making sure that any "claimed" benefits are incorporated into plans and budgets. There are no hiding places and it soon becomes apparent if the projects are being built on 'nice to haves'.

Interestingly enough, you can turn 'have to do' projects into 'want to do projects' by considering the wider picture. We were once faced with an expensive software upgrade where supplier support was terminating. Rather than implement the standard upgrade, which would have brought no additional benefits, we re-engineered the product and rolled out a thin client solution which increased call centre flexibility dramatically. The additional cost to the project was about 30% but the payback period for the combined project was less than 3 months. Pretty good when we started without a payback!

Outcomes

If we look at examples of where CIO Plus has delivered using this approach, then we can point to significant improvements in IT service delivery while reducing costs to such an extent that it substantially improved the share price. That's the sort of return on IT investment that we look for. In a more recent case CIO Plus constructed a four-year operational plan that's predicting to save IT and other departmental costs in the order of 35 per cent, and that's a significant impact on profits. We have set out a specific construction example graphically below.

What's happened at the companies that we've operated in is that this approach has started off in IT and then it has spread to other departments. Chief executives like it – it's a good tool. It also builds trust. When you get to budget review time, and you're in the second year of a planning cycle and you've exceeded the expected benefits that you said you were going to deliver, then they tend to believe what you're telling them will happen next year. This builds up a tremendous relationship between chief executives and CIOs.

Overview

The main steps required to construct an IOPB are:

1. Plan over sufficient timescales
2. Aim for a benchmarked position
3. Identify low hanging fruit to start the ball rolling
4. Integrate projects with plan and budgets
5. Show the positive impact of project benefits on BAU expenditure or sales
6. Show the positive impact of projects on operational metrics

Specific Steps Include (These are IT centric but equally apply across other functions)

1. Ensure all sources of IT spend are identified and accounted for including:

    a. IT spend in user departments
    b. Capitalised spend
    c. All network costs

   d. Recharges to other departments

2. Ensure that the financial reporting applying to IT spend separates 'business as usual' spend from 'discretionary' spend. i.e. normal running costs from projects

3. Build a Financial Model (covering an appropriate number of years, 3, 5, 11 – whatever is appropriate – it may well be that this is related to major existing outsource arrangements) that shows the KPI's that will be benchmarked. This should be constructed in such a way to be able to model the total spend and benchmarks simultaneously. Inputs should include:

   a. Total number of staff analysed over their departments
   b. Average salaries per department
   c. Number of contractors
   d. Last complete year of IT spend with all relevant existing KPI's that are relevant.
   e. Current year spend predicted for full year.
   f. Average project payback.
   g. Any other key metrics

   Complete and current years are used to predict relevant ratios (e.g. maintenance, staff costs etc...).

   The payback of each project identified will be deducted from the relevant BAU spend in the relevant year.

   Some future projects will be known with an actual payback, but as the years go further into the future then the IOPB will move to the 'benchmarked' proportion of IT spend with the average acceptable payback built in.

4. Prepare a set of benchmarks as a minimum:

   a. % IT spend of turnover
   b. IT Cost per user
   c. Proportion of total IT spend spent on projects
   d. IT staff as a proportion of total staff.
   e. Proportion of IT staff to contractors
   f. % of projects capitalised
   g. Network costs as a % of total IT spend
   h. Other appropriate relevant industry benchmarks.
   i. Other appropriate specific benchmarks

5. Ensure that projects are justified on hard benefits.

6. Determine low hanging fruit to start the project ball rolling and free up some headroom:

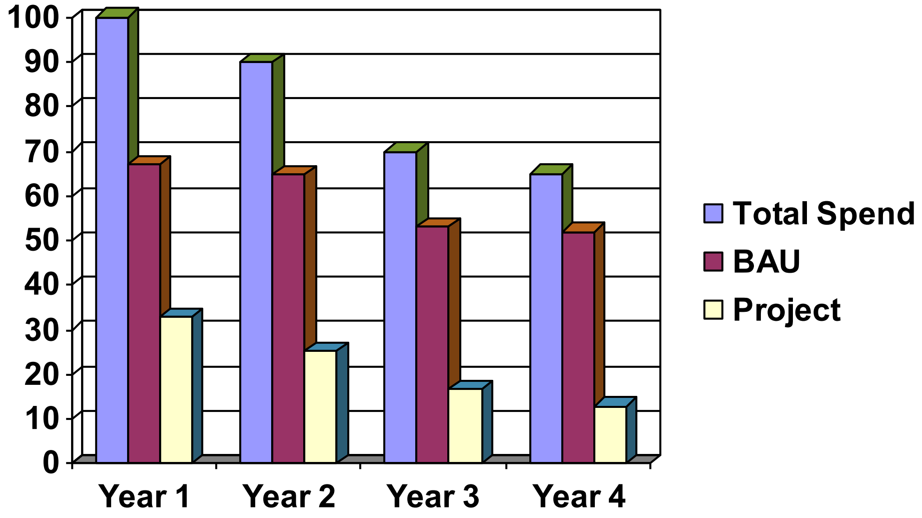
    a. Typically telephony
    b. Other spends that are not controlled by a central competent function

7. The first year of the IOPB will form the budget for the next year.

8. Once the IT department has been modelled then it becomes apparent which projects are worth doing (good payback with hard benefits) and which are just noise.

9. The principal can then be extended beyond the IT department, though if the original motive for embarking on a major programme of such projects comes jointly from IT and the business, then the above steps can be followed by other business functional areas in parallel.

Construction Industry Example – IT Spend Profile - IOPB



Not only did we reduce IT spend by identifying low hanging fruit to fund efficiency projects we had significant IT issues to fix along the way:

- In-sourcing the provision of IT, which was previously 90% out-sourced
- Restructuring the IT budget and identifying **all** the relevant spend
- Setting monthly operational & financial meetings in place
- Rationalising 2 conflicting email systems down to one
- Setting up a standardised approach to the provision of IT on construction sites

- Swapping to a new data network provider and completely re-engineering the network
- Swapping to a new telephony provider
- Swapping to a new mobile phone provider
- Putting effective DR and virus protection in place

And this was all achieved within the space of nine months and IT costs reduced from the outset!

Pitfalls, Issues and Tips

When a far reaching programme of change involves different dimensions of timing, organisational scope, functional areas (both IT and business), geography, it is key to understand and reflect dependencies in the programme. Low hanging fruit from one perspective may not be quite so low when viewed from another.

So clarity of governance, objectives & strategies, reporting and general communication is crucial. A strong PMO (policing and supportive) is critical; as is sponsorship, formal monthly reporting of operational and financial performance (always report IT costs gross).

But beware, this methodology really works. If you set off on this path and don't deliver the benefits that projects have been justified upon it will soon show.

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