

BUDGET WISDOM

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INSIGHTS ON BUDGETING

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“Oh, One More Thing”

N. Dean Meyer

“Okay, I'd like to call this executive-committee meeting to order. Harry, Bob, please. Thanks. Right then, folks, let's talk about our new z-generation product line. You know how important this is to me, and to our future. Development is right on course, just eight months behind schedule. So it's time to marshal all our resources behind the launch. Let's start with IT. Pat?”

“Well, my folks have looked at the situation. The challenge is adapting our applications to this new system-sell business model.”

“What's so tough about that?”

“Well, it's not just a matter of adding a few new product codes to our existing apps. Believe me, if it were that simple, I wouldn't have bothered you folks by even bringing it up. The whole con-

cept of z-gen is modular product configuration.... Ahem, a brilliant concept at that! But not everything goes with everything, and lots of combinations of the modules just don't make sense. And then you've got the notion of systems pricing, so it's not just a matter of adding up the items



on an invoice like we do today. We've got an awful lot of development work to do.”

“Can you do it in time?”

“Absolutely! But we're talking somewhere north of seven figures.... We'll need a budget increment.”

“Not an option. I promised the Board we'd meet our operating budget, and we can't capitalize a

bunch of little IT enhancements, no matter what they all add up to. You're going to have to make it work with what you've got.”

“But, sir, we're working to the limit as it is. My people are already at the breaking point. We really need to bring in con-

sultants and get some help from the software vendor. And remember, this whole project wasn't in our original budget.”

“Hey, there's a lot we didn't know when we did the budget a year ago. But that was then, this is now; we've got what we've got; and that's that!”

“Yes, sir.”

The Root of the Problem

Later that day....

“Tough meeting, boss?”

“Not good.”

“What's going on?”

“Well, the z-gen project is not negotiable. But we get no incremental budget! ‘Just do it,’ is all the Prez would say. Meanwhile,

if we slip on our other commitments, the business units will hang us out to dry.”

“So... what are we going to do?”

“Something's got to give. There just aren't enough hours in the day to do it all. Where does that guy get off, thinking he can change the laws of physics!?”

The Way Out

“Well, can't you just go back to the executive committee and show them what's on our plate and get them to decide what to bump?”

“I wish I could. But they'll just say it's our problem. They think we've got enough fat to absorb the additional work. And I'm not sure we can prove otherwise. Can we really say we know where each budget dollar is going, and what we'd get back if we bumped this or that?”

“Hmm, not really.”

“You know how political this can get. If I had solid ground to stand on, I'd go back and force the executive committee to figure out what they'll do without. But unless we had the facts behind us, I'd get killed.”

“What kind of facts?”

“I'd need a clear layout of the full cost of each of our projects and all our ongoing services.”

“What about all the stuff the business units don't have any interest in paying for...like infrastructure, and our support costs—and your office, for that matter?”

“Well, I guess like any business, we'll have to spread that across the client deliverables. You know, we're going to need some sort of scientific method, something defensible.”

“Yeah, we need a method!”

“Basically, we're talking about activity-based costing of everything we do. You want to look into it?”

“I'll give it a try.”

Practicalities

“So, what'd you find?”

“I talked to our accounting firm. They said it can't be done. Basically, what they said was, give them half a million and they'll analyze the activity-based costs of *one* of our business processes.”

“Well, that won't solve our problem.”

“That's what I told them. So I got on the web and did some hunting. Found some guy in Connecticut that's been researching exactly this problem for years. Guess he didn't know it couldn't be done, so he figured out how to do it!”

“You believe one guy can do what our international accounting firm says can't be done!?”

“Well, he's done it for a bunch of big companies, state and local government, even the Department of Defense! You want to check him out yourself?”

“Yeah, why not? What have we got to lose? Who is this guy? □

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