

We've Already Got Budget Spreadsheets, Don't We?



Courtesy of Sonoco Products Company

how one organization discovered the value of a fully developed budgeting and product/service costing solution

BY N. DEAN MEYER

“Sure we had budget spreadsheets – lots of them!” laughed Bernie Campbell, CIO at Sonoco Products Company in Hartsville, South Carolina. Founded in 1899, Sonoco is a \$4 billion global manufacturer of consumer and industrial packaging products and a provider of packaging services, with approximately 335 operations in 35 countries.

By 2005, Campbell's corporate IT department had come a long way toward being a customer-focused shared-services provider to Sonoco's business units and headquarters staff. But their budget planning and product/service costing process was time consuming and did little to build trust or give clients meaningful control of their IT spending.

The Spreadsheet Jungle

In prior years, they had defined their products and services and tried to assign fully burdened costs to each. But it wasn't easy. "It required several home-grown Excel spreadsheets that were very difficult to change," Campbell recalled.

Steve Wyatt, head of infrastructure engineering and services, manages two-thirds of the IT budget. "It was very cumbersome," he concurred, "a complex and tightly linked set of spreadsheets."

"Each year required a large amount of rework to update them," Campbell added.



Bernie Campbell is chief information officer of Sonoco Products Company in Hartsville, South Carolina.

The information that went into their budgets was dispersed, and it was a time consuming process to bring it together. Although they'd linked some of the spreadsheets, a change in one file would not always be reflected in all the related spreadsheets, some of which might have already been reviewed with clients.

Beyond that, when they wanted to verify where a budget number had come from, they had to spend lots of time looking back through multiple spreadsheets, in some cases examining the date stamp to determine which was the correct version. "The relationship of the separate pieces to the 'finished product' was almost impossible to manage," Wyatt said.

And when problems arose, what did they do? "Build bigger spreadsheets!" Campbell quipped.

The Planning Process

Beyond the mechanics, Sonoco's internally developed budget planning process was a source of frustration. Keith Wyrick, director of finance and HR applications and a key client liaison, told the story:

"We spent many hours on a fundamentally flawed process. We would try to come up with a reasonable estimate of next year's expenses based on current spending. We'd add or subtract from that based on expectations for either growth (new projects) or contraction (retired applications, closed plants, etc.). This would take several weeks, even months. If the submitted budget was too high, we had to go back to the drawing board."

Wyrick explained that they would attempt to negotiate service levels with clients. "We'd demonstrate how the addition of five new applications would require additional support hours. But if the cost exceeded last year's budget, we'd get into a debate about how these applications were different and wouldn't really require support! We used historical billing records to try to justify our numbers. But this had limited success."

As much as they wanted to help clients understand the implications of their budget decisions on service levels,

"by then, we'd run out of time; so instead of figuring out which services to cut, we would just take a proportional amount from each line item and resubmit it."

This led to budgets out of synch with the growing needs of the business, and IT staff without sufficient resources to meet clients' burgeoning expectations.

Implementation – Take One

Campbell explained why they looked outside for help with their budget software and process. "I was interested in a comprehensive solution that would cover existing and yet-to-be defined scenarios. FullCost was far more complete than anything we had developed — or would likely develop — ourselves. Sonoco had worked with NDMA in the past, and although we had never licensed software from them, we knew that their business-within-a-business approach to budgeting and costing was in synch with ours. The risk with FullCost was quite low compared to the potential benefits: we had to get some relief!"

They bought the license for the FullCost software, but admittedly got off to a false start on its implementation. In fact, they almost gave up and went back to their old ways.

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Wyrick explained what went wrong. "We participated in a minimal amount of training. But the people we sent to training hadn't participated in our previous budgeting

process, so relating old processes to the new terminology and software was difficult. We had regular meetings, but our budget delivery date was about eight weeks away and we hadn't made any real progress. Our contingency plan was to do it like we did before, and we began preparations to do that.

"About that time, I was on a long flight with nothing to read but the FullCost manual," Wyrick continued. "During that flight, a lot of light bulbs clicked on, and I began to understand how FullCost worked and how it could fit into our current process. When I returned, I told Bernie (Campbell) that I thought we still had a chance to use FullCost this year if he accepted that it wouldn't be perfect, and if he were willing to arbitrate anything we debated for more than 5 minutes. He was, and he did."

With just eight weeks to go, Wyrick didn't have time for training. Being unaware of many of the capabilities of FullCost, he ended up reinventing many of its functions — including key reports — in Excel macros. "Over the

next six weeks, I probably spent over 100 hours perfecting tools that were basically unnecessary because they were already in FullCost," he said.

The effort paid off. "The last few weeks before we turned in the budget was when everything came together," Wyrick said. "Our meetings were more fact based. Our conversations changed. Instead of general discussions, we went through each deliverable and how this year's actuals would translate into next year's budget. If it took 200 hours to support an application this year, you can't expect to budget 200 hours next year AND promise enhancements AND an upgrade."

Their frank discussions produced a budget that realistically described the full cost of all the products and services the IT department planned to deliver in the year ahead.

Clients' Reactions

Even this simplified implementation of FullCost induced a noticeable shift in the dialog with clients. Wyatt noted that, "We were able to present a bundled, complete service, defined in a way that was understood by our internal customers."

Wyrick observed first-hand clients' reactions to the greater transparency. "Our budget presentations to the business units were supported with a lot of detail; and for the first time, there was virtually no debate. The facts are disarming. We had a number of meetings to explain the details, but that was it."

This early implementation, with all its short-cuts and shortcomings, was a success. The decision was made to invest further in the FullCost process.

Lessons learned (so far): "Don't try to do everything at once," Wyrick said. "You don't have to be perfect to get benefits. It's something you can grow into and improve upon each year."

Implementation – Take Two

In 2006, Campbell assigned Jackie Ponder as the budget manager, and Wyrick worked with him to improve the cost model.

"The first year, only some of the best practices from the FullCost documentation were followed," Ponder remembered. "The second year, we followed the process and included additional detail, which allowed us to answer questions a lot quicker."

In their third year, the team decided to reach out to NDMA for help. "We visited NDMA for hands-on training and consulting," Wyrick said. "This was a huge leap in understanding for us."

The time they spent with FullCost inventor Dean Meyer was more than just training. "During those sessions, we recreated our model and undid many of the things we'd cobbled up the previous year," Wyrick said. "Also, there was a lot of give and take, and NDMA made some enhancements to FullCost that helped us more closely fit it to our business model. In retrospect, we could have saved a lot of time and achieved more benefits sooner if we had placed a greater emphasis on training in the beginning."

Internal Impacts

With the capabilities of FullCost more fully utilized, the process got even easier. As Wyrick noted, "It significantly reduced the time spent developing and cleaning up the budget prior to reporting."

Campbell was pleased. "I spend far less hands-on time during the budget process than I had in the past. In addition to speed, we're using the tool in collaborative working sessions with my direct reports. In the past, budget discussions tended to be a series of one-on-one reviews. Now, group discussions focus on underlying principles and business strategy."

Wyatt also noted that his staff, who weren't involved in budget planning, feel "more secure because of a clearer understanding of costs, customers, and the IT business model."

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The process also revealed opportunities for cost savings. "We continually compare internal rates versus external," Campbell said. "When sustainable external services can be procured at lower rates, we outsource. But for the most part we've found that fully-burdened internal rates are less expensive for critical services like internal consulting, architecture, and the PMO. FullCost gives us the facts to make this case."

"We found some significant savings," Wyrick recalled. "Some of it we would have done anyway, but the exercise of building a detailed inventory of products and services revealed several opportunities to consolidate servers, reduce backup frequency, remove unused accounts, etc."

Client Impacts

Campbell also appreciated the way that FullCost allows IT to respond to clients' questions. "We explore different scenarios and react to changes in clients' assumptions much faster than before. For example, in 2009, we were able to produce 13 'official' versions of the budget, and a number of informal ones, from July through January."

Transparency enhanced IT's relationships with its clients. "It took a lot of the stress out of the process," Wyrick observed. "Now, we give them detailed spreadsheets of their charges, and our discussions are specific to products, services and costs. Transparency has enhanced our credibility."

"I see more trust between our business units and the operations staff," Ponder said. And when IT does get questions about their calculations, "We now spend much less time researching why something costs what it costs," Ponder continued. "One benefit that I see is that we get fewer questions about our costs from our customers, and have more meaningful discussions of business needs."

As a result, Wyatt said, "There's a pretty tight link between business requirements and required IT infrastructure. Upper management within the customer base now knows that their costs are directly proportional to the services they consume."

Furthermore, giving clients control over what they buy

has improved IT's alignment with the business.

"FullCost helped our customers understand the concept of ownership," Ponder observed. "It helped them to realize that we are selling a service, and that they must decide whether they want to buy it or not."

Campbell gave an example, "It helped divisions which historically spent a high proportion of their IT budget on minor enhancements to legacy systems to realize that they could shift IT dollars to higher payback new applications by freezing those legacy apps. We never had the facts to present to our clients before."

The payoff of transparency was felt well after budget negotiations were finished. "This last budget cycle was our smoothest ever," Ponder said. "Clients use FullCost to review the rates ahead of time and are comfortable with what we're charging them. They know in advance what charges they'll be receiving and what they're for."

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to get benefits.

Building on their success with the FullCost budget process, Wyrick was tasked with developing a client-driven portfolio-management process.

"FullCost provides a set of common terms and definitions that we now use in related activities, such as project portfolio management."

Client control has been extended beyond just the big projects. "For example, we recently implemented an ITIL-based IT service delivery system, and we used several of the FullCost components to build the service catalog and framework within the system," Wyatt said. "And as we prepare for the next budget cycle, we'll extract information from it to help with forecasting usage within FullCost."

FullCost also facilitates innovation. "We now have the ability to consistently charge our customers for new services on a per usage basis," Ponder said.

Cut the Budget

Like so many others these days, the current economic downturn has forced Sonoco to cut spending. But thanks to FullCost, the dialog is very different than in past years.

"While the demand for budget reductions didn't change," Wyatt said, "both ours and our customer reactions were methodical rather than extreme panic."

Ponder noted a key difference. "The burden of what to cut is not on IT but on our customers. We've been able to help our customers evaluate where the cuts should come."

Wyrick illustrated the contrast. "I recall meetings where someone would say something like, 'I need to remove 2 percent from the total.' Now we say, let's work together to determine what deliverables you can reduce or do without entirely."

Campbell appreciated change in his dialog with peer executives. "Clients have come to recognize they can control their IT spending, as opposed to having it imposed on them. With the challenges in the current economy, Sonoco's divisions have to make trade-offs among competing projects and services. It is still a tough environment, but GMs now have the facts to make decisions for their businesses. With the right data, managers can quickly reset priorities."

Campbell appreciated that "FullCost helped us make tough choices based on facts. We didn't enjoy it, but it was better than traditional across-the-board cuts."

Words to the Wise

When asked for advice based on their experiences, the team had a number of useful observations.

Wyrick, initially a skeptic and then a key driver of the implementation process, said, "You'll get out of it what you put in. The granularity of your products/services and cost structure is certainly a choice with consequences. The more detail you have, the more data that's required, and the more defensible your budget becomes.

"Particularly on the infrastructure side, we decided that more data is better. We used to do allocations based on just total salaried headcount. Now, we collect actual account information to come up with an exact amount for each division, and for each application and service. There's a list of names tied to each allocation. The divisions took those lists and removed users who didn't

really need the application. They do this every year. The process of taking a detailed inventory forces you to clean house, and there's usually savings in that."

Would you recommend this process to others?

"I encourage them to consider it," Campbell said. "It makes sense and it's quite elegant. But it's not for the faint of heart. It forces one to examine long-held biases."

Wyatt echoes Campbell's enthusiasm. "Understanding the full cost of your services is the way to go, no matter how those services are being offered today.

While it works best in an organization that's selling services to educated customers, I think there would be a benefit just to understand and manage your budget."

Wyrick agrees. "If your current budget process causes a lot of frustration and unhealthy interaction with your customers, then FullCost is definitely worth a good, hard look."

Ponder was unequivocal. "It's worth the investment and effort. This process will improve your own understanding of your costs, while also improving your customers' confidence in your rates." □

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