

TECHVERA



How to Create an Effective IT Budget (Without Spending More Than You Need)



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Technology seems to occupy a bigger position in our lives and businesses with each passing year. Huge annual advancements in computers, phones, tablets, POS systems, cloud storage, data backup, software, and more create an ever-changing realm of IT possibilities.

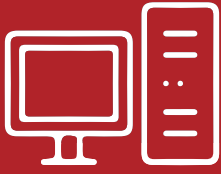


This can make it difficult to determine how to allocate your business' technology funds. Many owners make the mistake of using the same IT budgeting model every year, without considering changing company needs and technological advancements that could benefit them.



But deciding on your company IT spend requires more than just picking numbers that sound good! "Businesses are confused and uncertain as to what an appropriate IT budget is, and they don't have a clear vision how these funds should be spent" ([American Structurepoint](#)).

Here we'll help answer some common IT budgeting questions, examine industry benchmarks, and share insight into where businesses today are investing their IT budgets.



Technology should be viewed as both a cost of doing business, and an opportunity to do more.

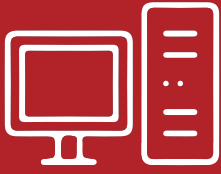
BENEFITS OF TECHNOLOGY IN BUSINESS

Every business owner must decide where to allocate funds, and it can be difficult to reconcile spending a huge amount on IT without seeing immediate returns. But IT is an integral part of nearly all organizations, and can offer widespread and lasting benefits.

SOME GAINS THAT COME FROM WELL-INVESTED IT DOLLARS ARE:

- The ability to reach more potential customers and develop a better business relationship with your consumer base
- Supporting better relationships with key partners
- Using customer demand to better guide the business
- Providing better and unique service to customers
- Rising above competitors to establish your business as the most progressive and forward-thinking in the industry
- Streamlining operations, reducing costs, improving efficiency, maximizing profit, minimizing waste, devoting talent to core business instead of maintenance tasks (to name just a few!)

Customer expectations are rising quickly and the bar is always climbing; technology allows your business to compete and rise above in this digital world.



INDUSTRY AVERAGES

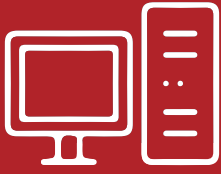
Overall as of 2013, businesses spent between 4-6% of their revenue on IT.

Company size generally has a large effect on budget size, and should be taken into consideration when planning your fund allocation.

Small and medium businesses surprisingly often outspend larger ones percentage-wise when it comes to their IT budget (SearchCIO.techtarget.com):

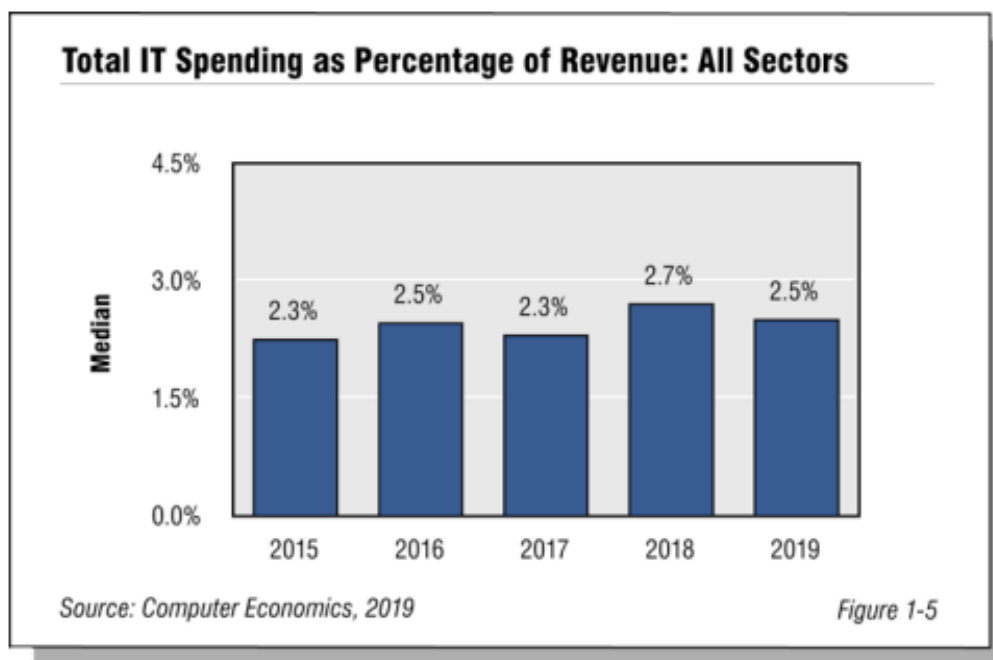
- The average small company (less than \$50 million in revenue) spends 6.9% of their revenue on IT
- Mid-sized (between \$50 million - \$2 billion) spend 4.1%
- Larger companies (over \$2 billion) spend a relatively tiny 3.2%

As technology becomes a greater part of business operations, budgets have been steadily growing. The 2017 survey found that enterprise organizations projected a 4.8% increase in 2017 IT budgets, and SMBs predicted a slightly larger increase of 8% from 2016.



IT spend changes in 2019

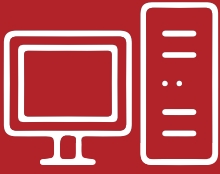
Average IT budgets vary from year to year, and are affected by things like industry, company size, and overall revenue. We can see this in budget percentage statistics for 2019:



Source: [Computer Economics IT Spending and Staffing Benchmarks study 2019/2020](#)

Computer Economics states that for the above statistics, it's important to note that "the percentage decreased from 2.7% last year to 2.5% this year despite the growth in budgets. **This would indicate that while IT budgets are increasing at a healthy pace, corporate revenues are increasing at an even stronger pace.**"

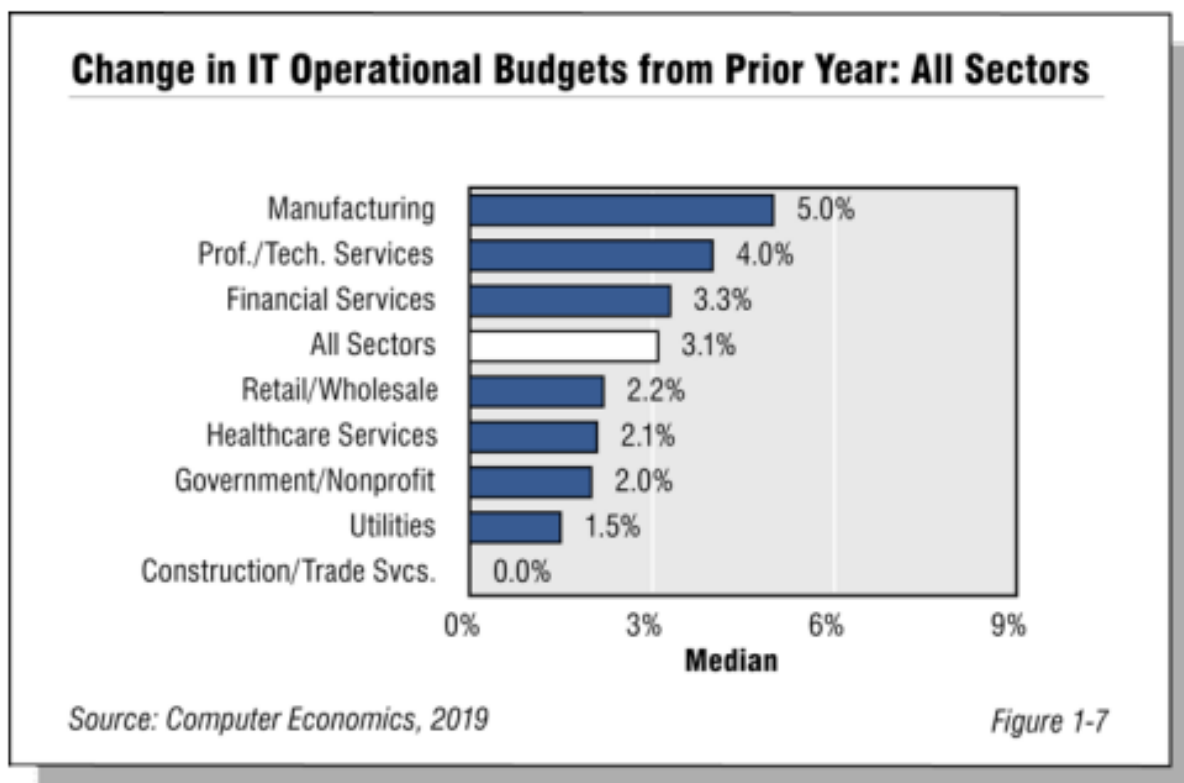
Both IT budgets and revenue have grown for many companies, with revenue outpacing IT spending. This makes the average percentage smaller than our previous 5.2% even though overall IT spend has increased (which is good news all around!)

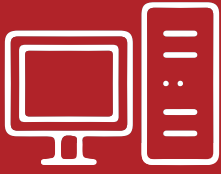


IT spending changes by industry

Nearly all industries are increasing IT budgets. However some industries are putting a larger focus on technology than others.

Computer Economics' study shows how different industries are increasing their IT spend for 2019 and 2020:





Effective IT spend is more important than the number

It's important to keep in mind that the companies that invest the most in IT aren't necessarily the best performers. On average, the most successful small and medium companies are more frugal when it comes to IT spending (as long as they do it judiciously).

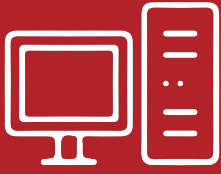
Regardless of amount of spending, if investments aren't made and used wisely, it will be reflected in that company's returns and productivity.

In order to produce a reliable technology budget, it's critical that a company go through an assessment phase to review the network and its related systems from several angles (users, hardware, and current IT vendors).

Finding a trusted IT consulting firm to guide this process is ideal, as it allows for an unbiased, all-inclusive assessment, along with budgeting advice that's in line with the overall business objectives.

- [Get your free consultation](#) -

The 4-6% average is a great guideline, but the final number will depend on your company's individual needs and goals.



IT BUDGET PLANNING QUESTIONS

There are a few questions every business owner should consider when determining their IT spending budget to effectively implement technology decisions.

How will it change the basis of competition in our industry?

"For incumbents in many sectors, technology is becoming an arms race. Companies are harnessing technologies such as social media and location-based services to reinvent the customer experience and capture market share." ([McKinsey.com](https://www.mckinsey.com)) It is important to know who your emerging or existing competitors are, how they are taking advantage of technology, and how your IT is helping you win against them and even enter new markets.

What will it take to exceed our customers' expectations in a digital world?

Companies who are e-commerce leaders like Amazon and Apple are reeducating customers as to what the online business world can be. Ultra-convenient and personalized experiences are pushing customer expectations higher and upping demand for consumer-driven technology. You should understand how your customer experience compares with that of leaders in other sectors, what your customers expect and what it will take to delight them, and have clear plans for how to meet or exceed their expectations.

Do our business plans reflect the full potential of technology to improve our business?

"Technology expenses can be high, but they are relatively small compared with their potential to boost the operating performance of a business." Technology can drive revenues, reduce overall costs, and lower risk. By seizing opportunities and mitigating threats, companies can dramatically improve their performance in all sectors. Ultimately, the strategy that emerges from an assessment of opportunities and threats should be an integrated plan that shows how the business will beat the competition using information technology over many years to come, not simply a revised annual IT budget.



How will it improve our operational and strategic ability?

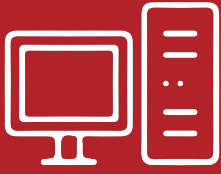
Leading companies are continually using IT to improve business agility and streamline processes. IT agility can be increased by changing the systems landscape, improving data quality, optimizing IT delivery processes, and building flexibility into the company. To be a leader, your company must measure and manage both business and IT agility, ensuring that the organization can operate competitively and determining where improvements can be made.

Do we have the capabilities required to deliver value from IT?

It is one thing to have IT, and another thing entirely to use it effectively. "Technology alone delivers no value. It is the combination of a clear strategy, the right technology, high-quality data, appropriate skills, and lean processes that add up to create value." Leading organizations actively assess their capabilities in these dimensions and target any weak spots to ensure they will derive value from IT changes.

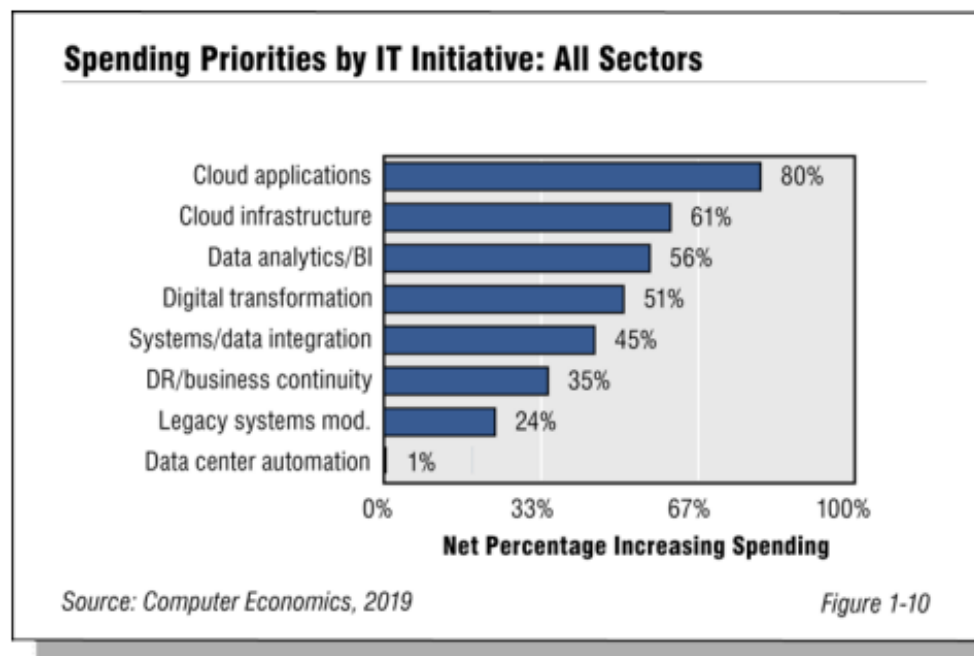
Are we comfortable with our level of IT risk?

"Cybersecurity is a significant and growing IT issue. Every large company's security has been breached, and most executives have a poor understanding of the risks." Companies need a comprehensive system for managing IT risk that assesses the full range of threats and addresses their root causes. It is important with any IT budgeting strategy to ensure you are mitigating risks and preventing security breaches as comprehensively as possible.



WHERE IS THE MONEY GOING?

In The Computer Economics *IT Spending and Staffing Benchmarks* study for 2019/2020, businesses show a clear preferences towards putting their budget towards cloud technology. This is followed by data analytics/business intelligence, digital transformation, and other data, cloud, and backup-focused solutions.



Every business is different, and the technology that your organization decides to use should fully meet the needs of individual departments while still being flexible enough to integrate new technologies as needed, without compromising daily business operations.

This is where an assessment and strategic plan can pay huge dividends, helping your business determine where is best to spend your technology dollars. The technologies listed in the chart above are great for many companies, but may not be right for yours.



We believe it's important to change the commonly-held view that business technology is a necessary evil. Technology is an investment into the operations and flow of your organization, rather than a cost of doing business. This is especially true in the modern age where most companies rely on their computers, phones, website, software, and other devices to function properly and drive success.

With proper IT budgeting, your company's infrastructure can be designed and used in a way that enhances your ability to respond to varying changes in the competitive business environment and supports your company's goals.