box UK

White Paper

Eight Pitfalls to Avoid When Budgeting for Digital Transformation

Providing you with:

✔ Practical tips to define an effective budget

✔ Common budgeting mistakes to be aware of

✔ Advice on ensuring a successful digital transformation

Introduction

Defining an appropriate budget - one that's realistic, yet takes into consideration the aspirations of and opportunities available to your organisation - is a difficult balancing act.

This is especially true if you're in the early stages of planning a digital transformation project. You may know what you're looking to achieve, and even have an idea of how you'll get there, but now you're tasked with putting together a budget that accurately reflects the scale and complexity of your initiative - not to mention getting it signed off too.

We all know the horror stories: projects going over budget; stalling; or even being abandoned altogether. So what can you do at this budgeting stage to lay the foundations of success?

There are numerous pitfalls that can trip an organisation up when budgeting for digital transformation - and it's these hazards that this white paper will help you to avoid. We'll show how, when it comes to budgets, shifting your mindset can help you keep up with the pace of change being driven by emerging technologies, and provide practical tips on defining and allocating your budget that will help put you on the right path from the start.

1

Not looking beyond your own borders

Sound familiar?

- Closely-guarded departmental budgets
- A lack of communication and collaboration
- Siloed systems and processes

Typically, budgeting has been managed on a departmental basis, with the financial director approving a high-level budget that is then distributed across the team. But while this does provide a certain degree of accountability and control, it doesn't encourage collaboration between different departments. Consequently this approach can easily lead to silo-based projects that, while they may take into account the needs of a particular budget holder, often ignore the (likely cross-functional) requirements of the business.

And when it comes to digital transformation, this model simply isn't viable. Digital's influence today is so great that many argue a standalone 'digital strategy' is redundant. After all digital touches all parts of the enterprise, not just a single team, department or customer experience. In this environment a collaborative approach to budgeting - one that involves multiple teams, roles and even locations - is essential.

Collaboratively planning and budgeting for digital transformation allows you to gain an overarching picture of your core business processes and ensure that every element of these is factored in. Fail to do this and you run the risk of creating bottlenecks in an otherwise efficient system, which will draw investment down and away from revenue-generating activities.

Remember too that this collaboration needs to continue throughout every stage of the project, with change management processes and communication channels in place to facilitate organisation-wide understanding and adoption. Be sure, therefore, that your budget allows for any costs associated with these activities.

2

Overlooking critical costs

Sound familiar?

- A focus on feature delivery
- No formal requirements gathering process
- Unclear project scope

As well as involving all relevant areas of the business in your budgeting process, you also need to make sure the budget you define caters for all of the disparate elements needed for a successful digital transformation. This can be more difficult than it sounds - after all, you don't always know what you don't know, and while you may have considered the practicalities around the product or service you want to develop there are plenty of supplementary requirements for the project that can be easily overlooked.

Conducting a requirements gathering phase can prove incredibly valuable in helping ensure your budget covers all the necessary moving parts. Without taking the time to build this picture of requirements at the outset you may find that - whether you're approaching it top-down or bottom-up, Agile or waterfall - your project fails, because you've underestimated its scale or not budgeted for critical components.

Some of the 'critical components' you should be considering include:

- The infrastructure that will support your digital solutions - including the migration of vital data from your existing systems
- Any effort required to meet relevant compliance and security standards

- Internal costs - even if you are engaging an external supplier, staff time will still be required to get them up to speed and provide on-going support

- Cost of change - if your digital transformation plans are going to change your processes there will be an overhead to rolling these changes out

- Training - not just in using the new solutions (although that is important) but also in understanding how the transformed processes affect different departments, roles and tasks

- Consultancy costs such as user research, user testing, business and technical analysis - and not forgetting the requirements gathering activities themselves!

After taking all these associated costs into account, you may find that your digital transformation project will need to be split into distinct stages to ensure it's adequately covered by the available budget. However, it's better to know this at the outset than to dive straight in and commit resources; only for the project to fail because you haven't defined your requirements clearly enough at the start.

Assuming everyone in the business shares your vision

Sound familiar?

- Difficulty achieving budget sign-off
- Numerous delays and questions
- An inability to articulate your vision

Of course to get sign-off on your budget you'll need to get buy-in for your vision, and while it's easy to assume that everyone shares your priorities and goals this may not always be the case. On the contrary, budgets are often agreed in advance, without any view or detailed understanding of the complexity and dependencies involved. So when it comes down to it, you may find you don't have the necessary resources to move as quickly as you'd like or to achieve your desired results after all.

Raising awareness of the need for - and benefits of - digital transformation at an early stage is therefore a crucial step in the budgeting process, and should be planned for accordingly. This will help avoid any disconnect between those driving the project and those with the final say on budgets further down the line, as well as facilitating the organisation-wide approach encouraged in section 1.

Additionally you may want to budget for a dedicated 'discovery' phase at the start of your project, to help you more clearly articulate what you want to achieve, key areas of focus, and even initial ideas for potential solutions. The information gathered here can also be used to inform early lower-fidelity deliverables such as prototypes and proofs of concepts that will enable you to better demonstrate your vision to stakeholders; further building the confidence that will help secure buy-in.

# Running agile projects with non-agile budgets

Sound familiar?

- Rigid budgets
- Long decision cycles
- Resistance to change

A large part of the drive towards digital transformation is the digital disruption that is being experienced in all walks of life, with organisations looking for new ways to quickly capitalise on new trends and market conditions. In fact, "responding faster to changing needs" has been cited as the top driver behind digital transformation for business (source: Raconteur).

And with the whole world in flux, shouldn't your budget be similarly flexible and fluid?

In terms of operational processes, many organisations have already embraced greater agility to achieve the responsiveness required; employing iterative approaches that allow for the regular review of output, as well as on-going prioritisation and re-prioritisation of requirements. The commercial elements of a project, however, typically still follow more traditional approaches.
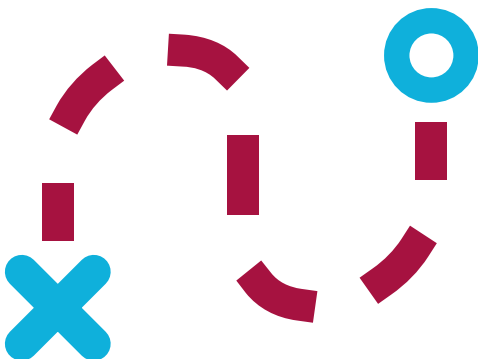
Budgets (and indeed contracts) often remain set on fixed costs, defined requirements, annual cycles and allocated spend. This not only leaves little capacity to accommodate positive change but can also discourage continual collaboration, communication and iteration - putting the project in jeopardy before it's even begun.

It's clear then that a change in mindset is required to apply more agile principles to budgeting too, so that people are empowered to make decisions in response to emerging opportunities and focus on the delivering the greatest possible business value. In the following sections of this report, we'll explore in more detail some of the ways that this can be achieved.

Failing to evidence value

Sound familiar?

- Ill-defined success criteria
- Budgets shaped by features
- Difficulty establishing a business case

Delivering value is a key element of any digital transformation project. It can be easy to focus on the features you want delivered, but if they don't serve your overall vision the project is unlikely to deliver the results you're after. Defining exactly why you're undertaking the project - in a way that allows you to clearly demonstrate success and measure return - is therefore vital.

Often, these questions are only thought about at the end of a project (with the original plan then retrofitted accordingly), but it's something you should be thinking about from the very start. From a budgeting perspective, for example, you'll need to explain to your financial director the specific benefits you aim to realise in order to get sign-off. Is it more streamlined processes? A larger user base? Higher revenues? Whatever your goals, by thinking about the project outcomes in this way you'll be better able to budget for value, rather than features and functionality.

Knowing what you want to achieve also enables you to create a baseline against which you can assess the success of your initiatives. This takes time to construct - particularly for digital transformation projects, which affect so many parts of the business - but is a vital process. After all, how will you know if you've achieved your objectives if you can't compare before and after? Here, the metrics you have defined will provide a tangible and objective measure of performance to aid the benchmarking process, as well as strengthen the business case you put to your financial director.

6

Ignoring change

Sound familiar?

• No formal review process

• Budget holders have little involvement in projects

• Budgets are committed far in advance

While gearing your project (and budget) towards delivering value at the outset will significantly improve your ability to generate real returns, it may not always be enough. The concept of what 'value' is often evolves in line with emerging technologies, dynamic market conditions and changing business priorities, so you also need to make sure you have the flexibility required to react to these events and keep your project on course for success.

Although they may offer high levels of predictability, strict budget plans can seriously impact your ability to respond to change and leave you at risk of being overtaken by nimbler and leaner competitors. So, a more flexible approach is needed - although those allocating budget will be unlikely to want to relinquish control altogether. Balance can be achieved however through a model that budgets for 'epics' (large, overarching projects), while allowing those with a closer working knowledge of individual initiatives to make more granular decisions as to where investment is directed.

You may also want to reconsider changing the way your budgets are structured entirely, to give you a closer steer to reality. Some organisations now, for example, choose to plan two six-month budgets instead of a single annual cycle - increasing the frequency with which they can assess project deliverables and monitor the market for potential opportunities. As a result, they can more quickly reinvest budget in productive areas - as well as cut their losses where value isn't being realised - to minimise waste and accelerate the rate at which they'll see returns.

Stifling innovation

Sound familiar?

- Reluctance to jeopardise proven revenue streams
- Difficulty demonstrating the value of initiatives
- No dedicated R&D budget

The disruptive potential of digital is fuelling a desire for innovation right across the organisation - and alongside building this innovation into your core digital transformation budget there are various other techniques you can explore to ensure creativity isn't impeded, while still keeping budgets under control.

For example, there is a growing trend for dedicated 'innovation' projects that offer the opportunity to try out new ideas on specific parts of the wider digital transformation piece. Like the lower-fidelity deliverables mentioned earlier, this allows you to build up a picture of the project requirements and expected deliverables at a small scale first, then use this improved understanding to inform the wider budget with more confidence and detail than previously.
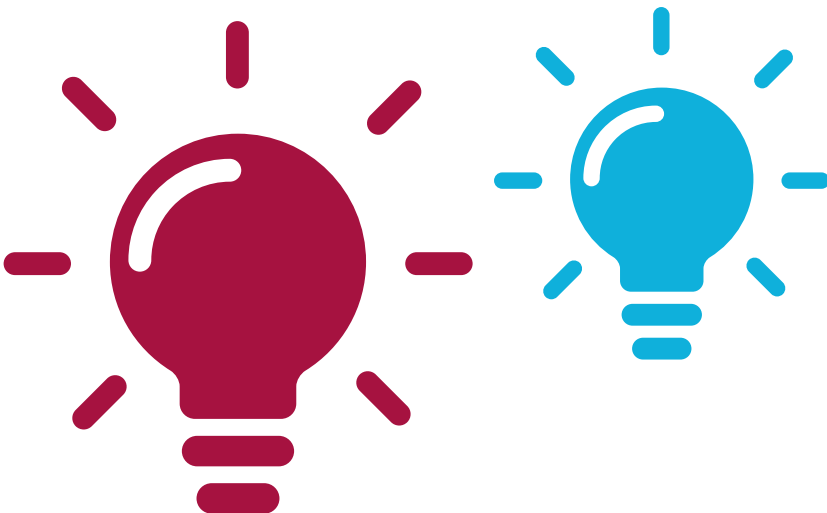
Getting a feel for the challenges and benefits associated with a project before committing significant resource also enables you prove the business case in a low-risk environment - assuaging any fears budget holders may have to help secure buy-in and budget for your long-term digital transformation plans.

It's even arguable that if you're embracing a culture of continuous improvement, you should have a Research and Development (R&D) line in your budget anyway. While not a specific strategy or tactic that's being rolled out throughout the year, this investment can be used to explore various opportunities for innovation and disruption, without the constant pressure to demonstrate return on investment.

Seeing digital transformation as a one-off event

Sound familiar?

- Inability to follow through on long-term initiatives
- Lack of engagement with emerging trends and tech
- End-users not involved in the process

Perhaps the most important thing to remember when budgeting for digital transformation (and indeed at every stage of your transformation journey) is that this isn't a single, distinct piece of work, but an on-going journey. New trends and technologies will always continue to emerge, and while you likely won't (and probably shouldn't) try to capitalise on them all you will need to ensure that you have adequate resources available to execute a strategic roadmap that aligns with the latest conditions and priorities.

Adopting an iterative approach - such as that encouraged by **Agile frameworks** - can prove extremely beneficial here. Focusing on regular deliveries, demonstration and feedback, they are ideally suited to the complex and evolutionary nature of digital transformation, and will provide you with a model that can be adapted and extended beyond the initial launch to ensure you continue to deliver value.
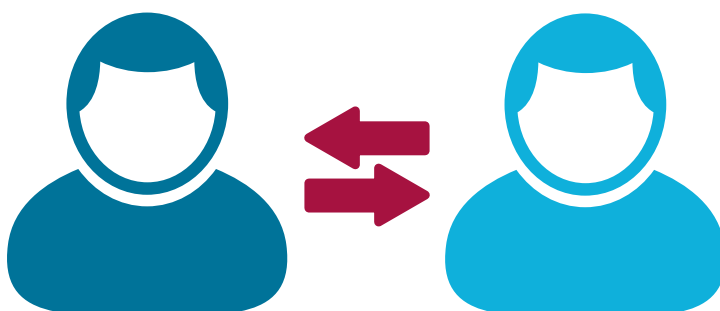
It's also important to gather feedback from internal and external stakeholders once your project has gone live. This gives you the opportunity to uncover any issues encountered through the 'real-world' use of your solutions, as well as identify opportunities for refinement and enhancement. Your findings can then be used to inform further work on your solution, and may even inspire brand-new initiatives - which will, of course, need to be budgeted for accordingly...

Conclusion

In an increasingly fast-moving landscape, digital transformation has become a priority for organisations of all kinds. However, for these initiatives to be successful they must be driven by a co-ordinated, long-term strategy - and that requires the support of an appropriately scoped and managed budget.

If you're in the process of - or even thinking about - defining your own digital transformation project, this white paper will hopefully have provided you with a framework to help ensure your budget effectively serves your aims. Beyond the wider shift in mindset that may be required to bring your budgeting approach in line with your delivery processes, you should also be thinking about:

- Whether you've considered all areas of the organisation in your digital transformation plans
- Making sure your budget covers all of the moving parts that make up a successful digital transformation
- Fostering a shared understanding of the project vision before defining a budget
- Building agility into your budgets
- Thinking about the value that will be delivered, rather than focusing on features and functionality
- Allowing your plans to evolve in response to new opportunities and requirements
- How innovation will be managed
- The long-term maintenance that will be required to ensure your strategy remains relevant

At Box UK we've supported numerous organisations on their journey towards digital transformation, including the Royal College of Nursing, Jaguar Land Rover and RS Components. To find out how we can help you too, visit the **Strategy & Planning** section of our site, or **get in touch** with a member of our team today.

Further Reading

New technology changing the way we work

Raconteur

Nine questions to help you get your digital transformation right

McKinsey & Company

SAFe Budgets Abstract

Scaled Agile

Your Agile Project Needs a Budget, Not an Estimate

Harvard Business Review

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Simply brilliant thinkers
making software brilliantly simple

Strategy & Planning

User Experience & Design

Software Consultancy

Software Development

At Box UK our team of simply brilliant thinkers, consultants and application developers mastermind simply brilliant solutions to the world's toughest web and software projects.

It's why blue chip organisations around the world, from airlines to car manufacturers, international banks to global charities, choose to trust us with the execution of their digital strategies, from the development of enterprise-level custom software platforms to the delivery of award-winning multi-channel experiences.

So if you want an effective, compelling software solution, talk to us.

info@boxuk.com   •   +44 (0)20 7439 1900