WHITEPAPER

Transparency over	Commitments	Rolling Forecast in Bee4IT
Expected expenses	(✓)	✓
Planned expenses	✗	✓
Potential and long-term savings potentials	✗	✓
Organizational risks	✗	✓
Technical or regulatory risks	✗	✓
Effects on the business	✗	✓

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Without Commitments: How Rolling Forecasts Render Commitments Obsolete

Increasing IT costs in organizations makes it necessary to introduce appropriate control mechanisms for them. Frequently, especially in times of crisis, financial steering is based on commitments. On one hand, however, there is a risk that outstanding payment obligations will not be considered in a differentiated manner. On the other hand, the process of reconciling and determining commitments is complex and often not supported in practice, which can lead to errors, especially in decisions regarding possible savings potentials. However, IT has become an integral part of the value chain and leads to strategic competitive advantages. Therefore, efficient cost control, aligned with an organization's priorities and strategies, should always be possible. Based on this premise, the following white paper introduces Bee4IT's system-based rolling forecast. The paper will show how this approach covers the deficits of commitment-based financial management.

The Definition of Commitments and Their Use in Practice

The term 'commitment' refers to a company's payment obligations and includes not only received and unpaid invoices but also future payment obligations. Commitments usually occur in purchasing and controlling (e.g., purchase requisition commitments, purchase order commitments, funds commitment, etc.) and companies release them when they receive goods or invoices or reduce reserved funds. In practice, a distinction is also made according to the account assignment object (order, cost center, and project commitments).

Commitments are used by cost center responsibles and project and service managers to identify purchase order financial buffers. IT controllers use commitments to analyze expected IT expenditures. Especially in economically challenging times, commitments are used to evaluate savings potentials. In such times, it is important to maintain operations and to stop or pause ongoing projects. Important questions are, therefore: 1) what is the commitment for operationally relevant RUN activities? and 2) how much can be saved from projects, or so-called CHANGE activities?

Commitments are merely intended to have a supporting function. After all, they only represent a part of reality and do not include all management-relevant information.

Why Commitments Only Represent Part of Reality

In practice, it has become apparent that commitments represent a distorted picture of the company's expected payment obligations. The following examples illustrate this fact:

Order volumes are not fully exhausted:
Purchase requests and future orders are created on the basis of the supplier's quotes. During the course of the project, the framework conditions change continuously—requirements and priorities change and adjust. This change leads suppliers to change their involvement. Thus, IT's expected payment obligations can evolve very quickly. In the event of the order value increasing, the enlarged payment obligation is identified at a very late stage. On the other hand, the order volume is not fully exhausted. The existing commitment must then be closed by the IT Controlling. In practice, this situation rarely happens, or is delayed, so funds are not released for further IT activities.

Commitments for new suppliers:
Supplier selection, registration, and auditing are tedious but important processes. In practice, projects are often implemented even though the order was not triggered due to missing supplier master data. For these—often important—projects no information is available based on commitments.

Services provided but not yet invoiced:
External resources contribute significantly to the cost of IT projects. When a company does not use an integrated time reporting system with a credit note procedure, external partners' services are recorded in the accounts only after a significant delay. If controlling does not set up accruals, this delay leads to a distorted presentation of the corresponding commitment.

Decentralized responsibility and obligation management: High-quality, management-relevant information can only be collected in a decentralized manner, which means that cost center managers (department heads, team leaders, etc.) and those responsible for activities (project and service managers) who have the best knowledge regarding financial resources demand must provide the data. Now, this area is where the challenge lies. When managing commitments, purchasing, controlling, or financial accounting builds up and reduces funds. The quality of commitments therefore requires thorough coordination, which in practice is not always guaranteed and is subject to time delays.

The situation is further complicated by the fact that no additional decision-relevant information can be derived from commitments. The analysis of savings potentials can only be automated to a limited extent. For all projects, it is necessary to clarify. Which orders from projects have already been placed? Which are in the planning or approval process? Is it possible to stop current project orders? What are the contractual obligations? Is the IT department obliged to accept? Have services already been provided but not invoiced? Which expenditures serve the strategically important projects? Which expenditures guarantee IT operations? What is the progress of the individual topics? What are the internal service users' specifications and priorities?

Before commitments can contribute to the decision-making process for savings, all these questions must be answered.

Using Rolling Forecasts for Efficient Financial Management

Identifying savings potentials and efficiently using financial resources must not be viewed and practiced as a recurring exercise in difficult economic times, but as continuous discipline for the entire IT organization. The use of rolling forecasts[1] and decentralized management support the effective use of IT resources.

[1] See Clausmark "*Let's Roll: How Rolling Forecasts Enable Agile Financial Management*", Published: 23 September 2020

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Rolling forecasts are continuously collected, adjusted and decentralized, which means that those responsible—such as project managers or service managers—immediately include new findings in the planning. Only management-relevant information is included, such as scope and scope changes, required financial and personnel resources, risks, and effects on existing enterprise architecture. Stakeholders are closely involved in the approval processes on a regular basis, which complies with the dual control principle and ensures the quality of the planning data. The planning format is consistent for all activities; the differences in the handling of RUN and CHANGE are only a matter of content and organization.

The continuous comparison of planned and actual data supports the rolling forecast. The responsible person can compare the planning with already-accrued expenses and reported times and adjust it accordingly. By reporting time from external partners in Bee4IT, one can estimate early on whether the planned support needs to be expanded.

Based on the rolling forecast, as well as on the IT strategy and initiatives transparently documented in Bee4IT, a data-driven discussion can take place to identify savings potentials at all levels of IT.

In the CHANGE area, it is necessary to re-examine—with the decision-makers for all strategic and regulatory projects—whether the changed environment (e.g., Covid-19) makes it necessary to implement the project. For all projects, it is necessary to evaluate how high the savings potential actually is. If projects do not require external capacities and expenditures, the savings potential can usually only be achieved by reducing the expenditures for internal staff. For all ongoing projects, it must be clarified whether completion is possible based on current progress. The identified projects must be stopped, and the capacities released by the discontinuation must be allocated to current projects in order to replace as many external capacities as possible. For all other projects in the CHANGE area, it must be determined how the implementation can be achieved with reduced effort. Decentralized responsible parties in business and IT have to be involved in this step.

In the RUN area, the question „How can expenses be reduced and operations maintained?" must be answered. In this area, it is important to note that expenses such as maintenance, licenses, and operation by third parties are usually long-term expenses. Here, too, it is important to check how the changed environment changes the operation. For example, are fewer licenses or devices needed in any departments? The business department is exposed to the same pressure to save funds and will want to reduce its IT costs. All investment decisions that have been made but not yet implemented must be examined to determine whether they can still be stopped. All external capacities must be examined to determine whether they can be covered by internal capacities. Job cuts will be difficult to justify if external capacities are tied up to a large extent.

Once the savings potentials in the portfolio have been identified, the IT organization's expenditures must be examined more closely. How does the changed environment and the changed demand affect the IT organization? For example, in light of the Corona virus, travel costs and training costs for on-site trainings can be reduced across IT. It is necessary to evaluate whether external capacities can be reduced due to the changed demand and whether planned jobs may have to be cut.

The rolling forecast provides the necessary information and enables systematic and efficient financial management. The presented methodology is not only suitable in financially strained times; IT should adopt it permanently.

Why Commitments Can Still Be Appropriate

Companies that are currently at the early stages of the financial management maturity model and therefore cannot access the above-mentioned information should use commitments for more transparency. Please note, however, that this transparency is subject to the uncertainties mentioned above. Managers with high budget responsibility may also find it useful to provide transparency on order volumes, which allows follow-up orders to be triggered at an early stage.

Commitments represent only a part of reality. With the rolling forecast and the Bee4IT approach described above, reality is mapped holistically with current data, which can be collected and evaluated without time-consuming coordination.

About the Authors:

Sergej Neumann

Sergej is a walking financial management dictionary. He has developed and maintains a holistic perspective on all financial matters within organizations. His experience in various industries and his sharp mind allow him to guide everyone precisely through all levels of abstraction and maturity of financial management. He is able to adapt quickly to any organizational context and can work out the relationship between a given management approach and the available technological solutions in an instant. Powerful knowledge meets excellent communication skills.

Jonas Pfeifer

Jonas is driven by the challenge of providing decision-relevant information in volatile environments with floods of data. His deep financial understanding as well as his cross-industry experience enable him to quickly adapt to the individual needs and requirements of his customers and to holistically view and classify them. As a management consultant, his aim is to drive transformation in companies in such a way that tangible added value is created in the processes of decision making and organizational management.

Interested in How Rolling Forecasts Enable an Agile Financial Management?

Learn More About It in Our Whitepaper „Let's Roll: How Rolling Forecasts Enable an Agile Financial Management"

The goal of financial management is to use financial resources efficiently in line with the corporate strategy. The basis for this is a transparent and integrated view of control-relevant data. Often, this perspective has to be created in a manual and time-consuming manner. As a result, avoidable expenses are incurred and reaction speed decreases. However, the increasing speed of change in today's markets requires a high reaction speed in order to facilitate an agile reaction to the constantly changing environment. Rolling forecast, as a transparency-creating, integrative and flexible cornerstone of financial planning, meets the requirements.

Download the Whitepaper here

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