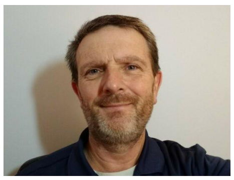
Accounting can help you avoid a 25% budget cut



Stephen Phillips

Warren Buffet has aid “Accounting is the language of business,” and the most successful Information Managers have an excellent understanding of how effective financial management can enable their business. Accounting for the cost of running a team, including compensation, technology, real estate and other corporate costs is extremely important, but is usually dwarfed by third party product spend managed by the team.

Given current economic headwinds and emerging challenges in the operating environment, many organizations are looking to reduce their discretionary spend. While Information Managers would balk at the suggestion, organizations often deem information spend as discretionary and therefore subject to rigorous scrutiny. This puts additional pressure on Information Managers to either justify spend, identify lower cost (although not necessarily more cost effective) alternatives, or cancel products to realize savings. This can be a significant challenge in what is normally a well managed category with few, if any, opportunities to reduce cost.

While many organizations take a short-term view, asking their leaders to adapt and adjust to market forces on a quarterly basis, tenured Information Managers have a longer-term perspective to see beyond short term fluctuations in the operating environment. As a result, their capacity to respond quickly to short term market fluctuations is limited.

Supplier contracts are one such example where it is impossible to “spin on a dime”. Many larger relationships will be locked into multiyear contracts, based on sustained demand, to ensure continuity of access, secure beneficial pricing and alleviate the burden of annual negotiations. Given that >80% of spend is with <20% of suppliers, the influenceable spend in any given operating period will be a fraction of the total annual budget. Information Managers expecting to deliver a 10% saving on a spend of $10mm may find only $4mm of that spend is influenceable, effectively raising the target saving to 25%: or $1mm on the $4mm of contracts up for renewal!

Where information spend is budgeted centrally, it should not be too difficult to understand recognize the real savings opportunities available to the business. If information costs are allocated to business unit sponsors, things become more complicated, involving an intricate series of conversations with stakeholders to reconcile their cost saving expectations with the reality of their situation.

Information Managers need to proactively manage their clients to help them understand the ramifications of the long-term financial commitments they make when they sign multiyear deals.

Information Managers could engage their Finance colleagues to explore more effective and appropriate mechanisms for accounting for these costs. One such opportunity might be to examine the practice of using Operating Costs to fund information purchases; in other words, the cost is funded from the Profit and Loss account and accounted for on payment of the invoice. An alternative approach is to treat the costs of multi-year agreements, and even many twelve month agreements, as Capital Expenditures and fund them from the Balance Sheet. The organization is procuring an asset in advance, so it is appropriate to depreciate these costs over the lifetime of the asset, effectively the duration of the contract.

This will help reduce sudden spikes in cost by disbursing the cost of the asset over multiple financial years, as well providing some immediate short-term benefits. For example: the invoice for a twelve month agreement with a June contract anniversary (if funded from the balance sheet), will mean only six months of the cost will be depreciated in the current financial year (assuming a December 31st year end). The remaining costs will be depreciated in the second year. If the contract renewal falls in the second year, this becomes influenceable spend that can be mitigated through negotiation, displacement, or cancellation, thereby creating an opportunity for the Information Manager to work towards current and future targets.

This approach is somewhat onerous on the Information Services and Finance teams, involving multiple allocations throughout the contract year to support the depreciation process. While it is unlikely to be appropriate for every contract, it does allow the Information Manager to monitor inventory changes or consumption patterns throughout the lifecycle of the contract. This in turn can inform a more effective dialogue with stakeholders throughout the term.

All of this requires accurate management information and a robust inventory management platform to enable these processes. At Couranto we are working with many clients to optimize their inventory management, support their budgeting process and enable them to adopt new mechanisms for accounting for these costs. Our team of experienced practitioners and consultancy solutions allow our clients to develop a more sophisticated approach to managing their product portfolio and enhance their accountability to their stakeholders.

A WBENC and Disability:iN certified diverse company with more than 30 years experience in corporate information contract management, Couranto serves clients globally with strategic programs that maximize the value of information portfolios by reducing costs while improving access to licensed content, data resources, intellectual property, corporate memberships and related contracts. Couranto's Discovery and Clarity platforms provide custom-configured end-to-end information access, budget planning and license management tools. Built on deep expertise and a long history of client successes, Couranto solutions add value to your information and help drive innovation throughout your organization, creating enduring impact.

Interested in what Couranto can offer your business?
Contact Stephen Phillips for more information.

Stephen Phillips is a global leader, influencer and advisor with over 30 years of experience in knowledge and information management, document services, analytics, and vendor management.