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SAN DIEGO • 2023

Financial Best Practices for Enterprise Agile

Your Guides:

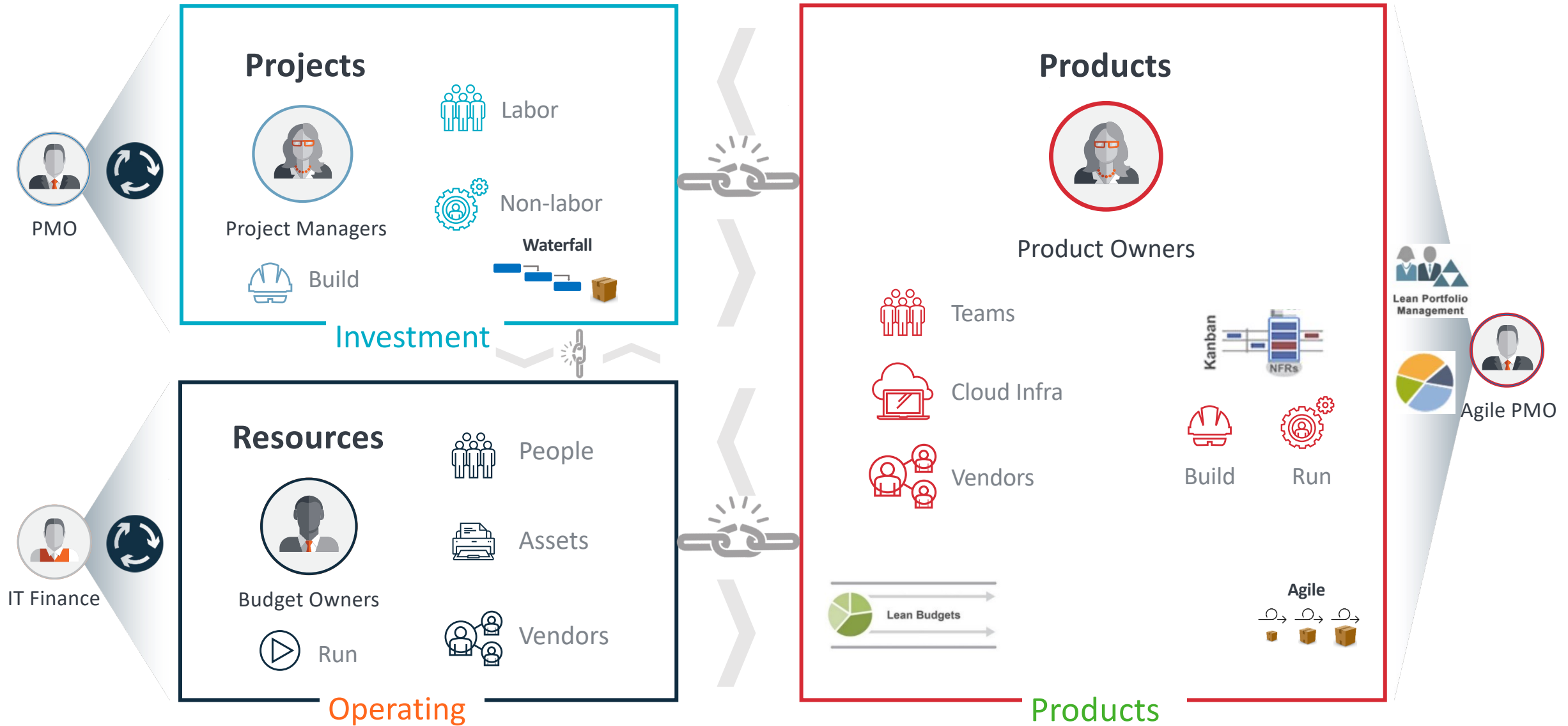
Jeff Barschaw and Hollie Potts

Part I: Introduction

Introductions

- Take 5 Minutes
- Turn to a Person Near You
- Introduce Yourself
- Business Cards

Project / Product / Operations Disconnect



Common Financial Challenges with Enterprise Agile

- ▶ **Investment Prioritization:** How are investments evaluated and prioritized in moving from waterfall to Agile or hybrid-Waterfall/ Agile environment?
- ▶ **Resource Optimization:** Where do we optimize resources to for new innovation, maintenance, and quality efforts?
- ▶ **Value Tracking:** How to we track the \$ value of product delivered based on the investments made and resources allocated?
- ▶ **Labor Cost Allocation:** Without projects or timesheets, how do we allocate labor costs to the correct Apps, Services, or Business Units?
- ▶ **Labor Capitalization:** How do we shift from traditional capitalized labor tracking and accounting to an Agile one, considering that time is no longer based on timesheet process?

Traditional Financial Planning Reality



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Challenges with Traditional Financial Planning

- Weak links to strategy
- Very time-consuming process
- Stimulates unethical behavior
- Assumptions quickly outdated
- Provides illusion of control
- Decisions are made too early
- Decisions are made too high up
- Often prevents right things from getting done
- Often leads to wrong things from being done
- The world ends on December 31st (or whenever your FY ends)
- A language ill-suited for performance evaluation

Source: Implementing Beyond Budgeting by Bjarte Bogsnes, 2016

There is a shift from Waterfall to “Agile at Scale”

Business Value Alignment

- Delivers incremental value based on customer needs
- Ongoing re-prioritization ensures right focus
- Rapid iteration with customer improves value alignment

Time to Market

- Focus on MVP
- More rapid release cycles
- Continuous delivery of incremental value

Improved Productivity

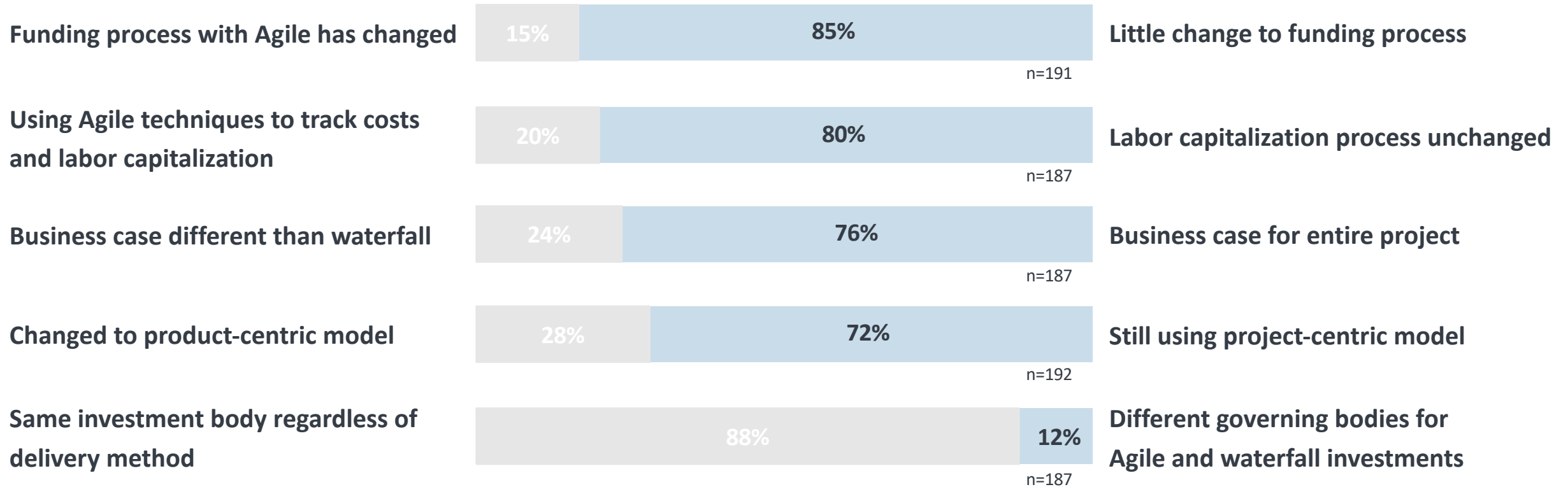
- Merges App Dev and operational processes
- Focus on prioritized backlog
- Quality issues addressed on ongoing basis



... but Financial Governance is not keeping pace

AGILE IMPACT ON FINANCIAL GOVERNANCE

Percentage of Respondents



Why change what you are doing today?

1

Time Consuming & Outdated Budgets

Are you spending large portions of your days for 3-6 months developing an annual budget that is outdated before you even finish?

2

Plans Deliver Limited Value

Are you executing on plans that no longer add or at least optimize value as the world and your organization changes?

3

Inaccurate Variances

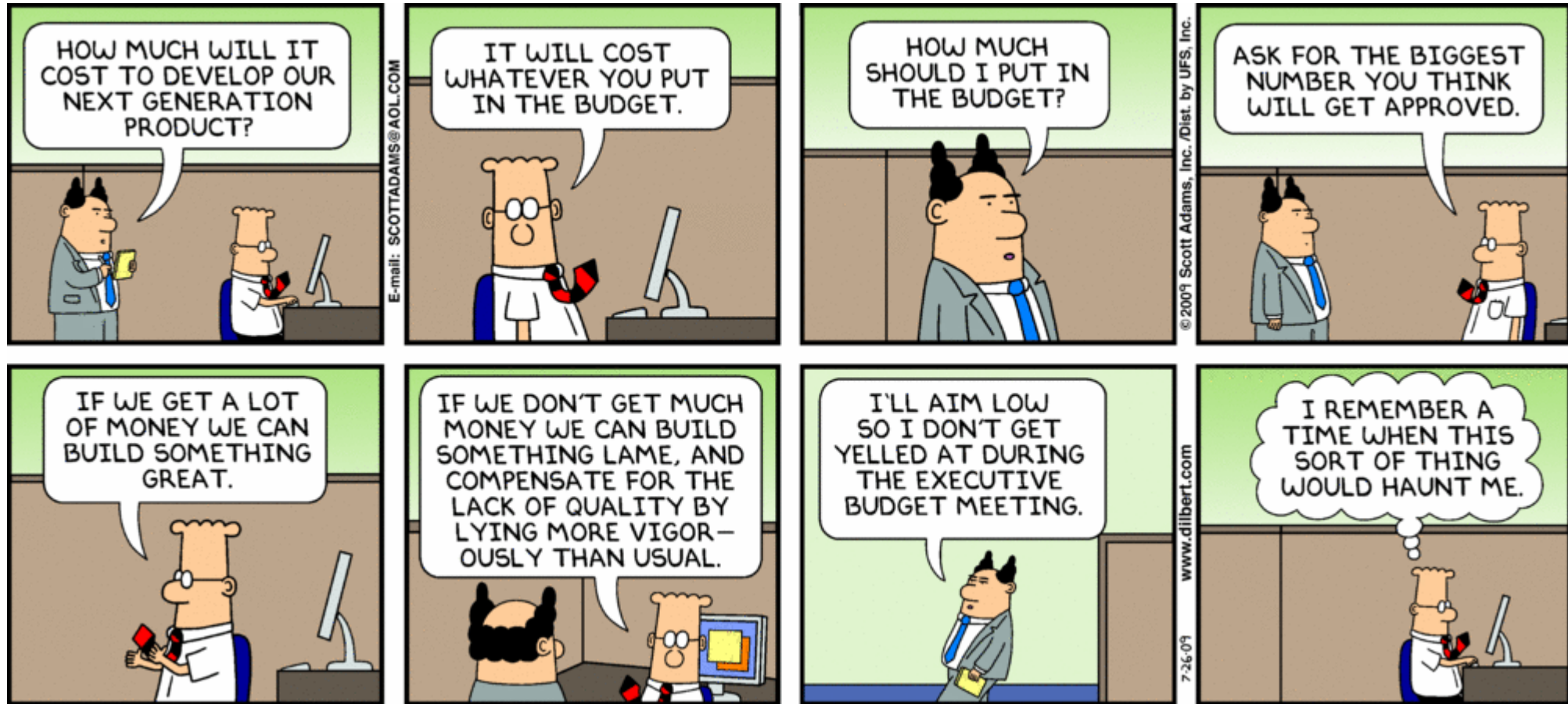
Do you spend a considerable time every month explaining variances to plans that were not very accurate in the first place?

4

Not Doing the Right Things

Does the organization reward the team for being “on budget” but not necessarily doing the right projects the best way possible?

Is This the BEST IT Financial Planning Approach?



Best Practices and Trends in IT Financial Planning



Ability to do Rolling forecasts / Continuous planning a must have today

Weekly/Monthly planning of IT budgets now common place since Covid 19

On-going access/updates in real-time instead of a small open window where changes are allowed

Revision control and what-if scenarios mandatory today, drives forecasting accuracy

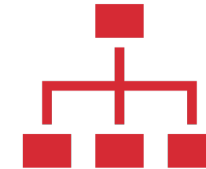


Agile / Product funding models

The ability to capture and ingest data from the multitude of dispirit systems in use today

Labor planning around Agile Application Development and Services provided by IT

Auto-generated budget consolidation, OPEX and CAPEX line items, depreciation and amortization



Holistic approach to IT planning – not compartmentalizing PPM, Agile, ITSM, and IT Finance.

Delivers faster time to IT business value

More accurate IT budgets and forecasts

Better decision making around IT investments and operating spend



Moving to Rolling Wave Planning

To create agility across the organization, we need to encourage realignment as the market shifts. This means moving away from a fixed annual budgeting process and shifting to Rolling Wave Planning. By focusing on funding products instead of projects, we speed the engagement of critical new work by no longer needing to get money to back it. Instead, we fund the entire product and then identify the most valuable work and push that to the top of the list. To do this, we meet twice a year to review and prioritize the Epics and realign our people based on what we identified is the immediate need for the next planning cycle

Impact of Continuous Planning

Less waste

Free up significant resources consumed to create the annual budget and **reduce time** consumed explaining variances

High Performance Teams

Right things done at the right time for the right reasons translating into lower stress overall and happy, engaged teams

Efficient / Effective Process

More efficient and effective process since **planning occurs continuously** and up to date information is available

Continuous Planning Process

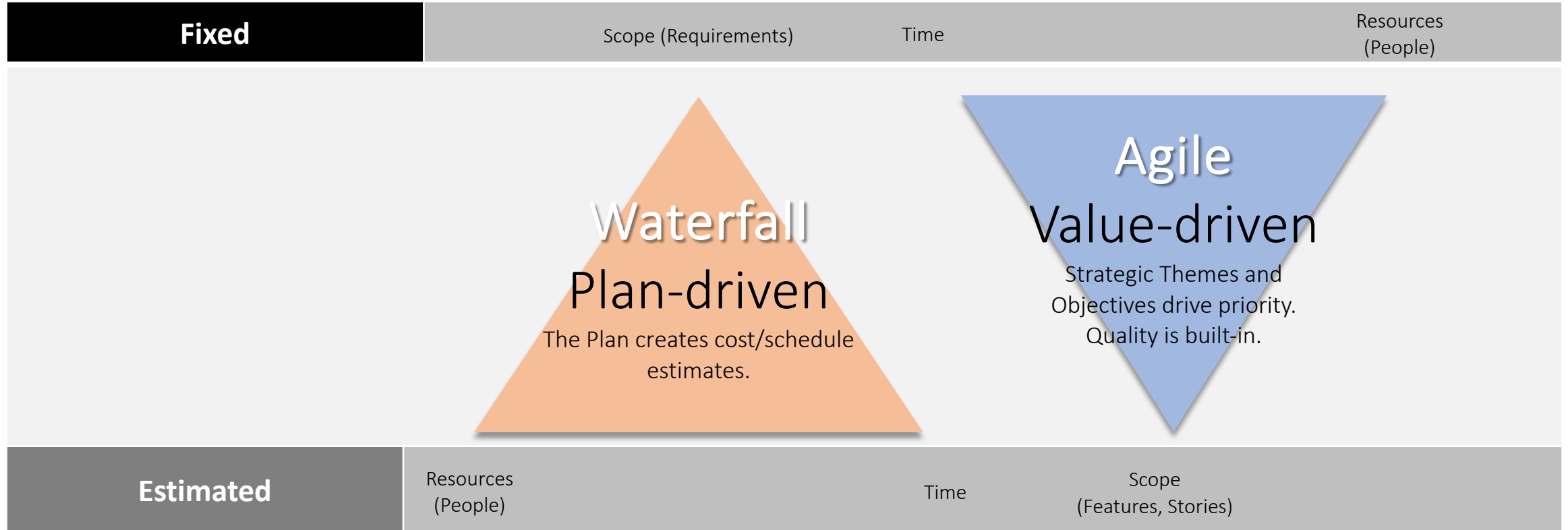
Time efficiencies

Spend time creating plans and forecasts that are more accurate when better info is available

Value Added Time

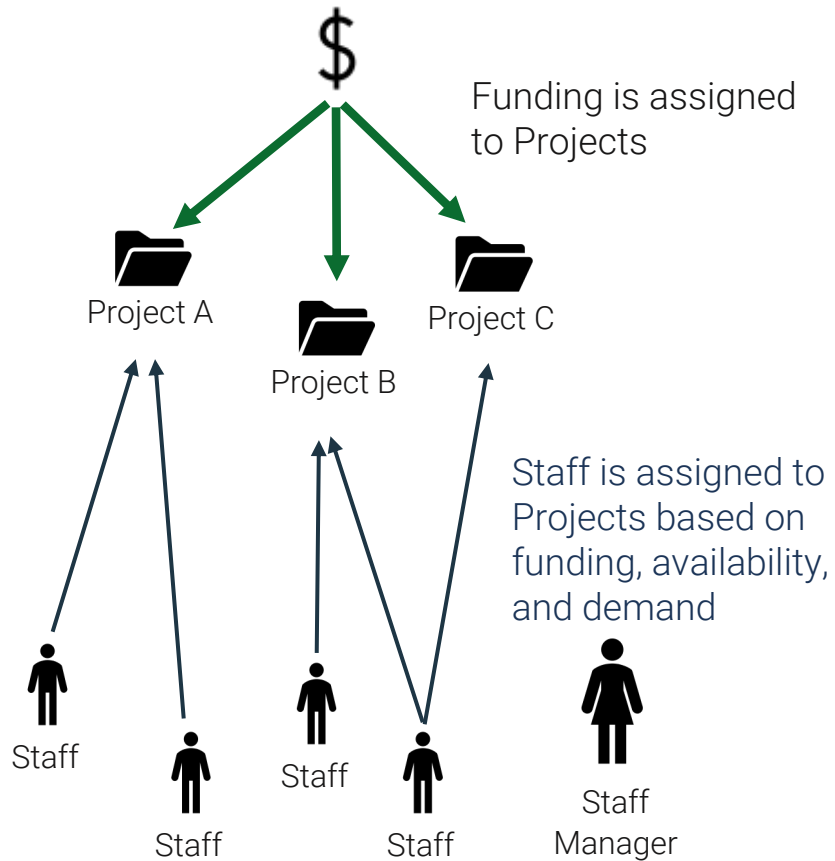
- No time spent on initiatives that did not make the ideation cut
- Starting point for future plans making analysts more efficient so they can find opportunities that optimize value

Reversing the Iron Triangle

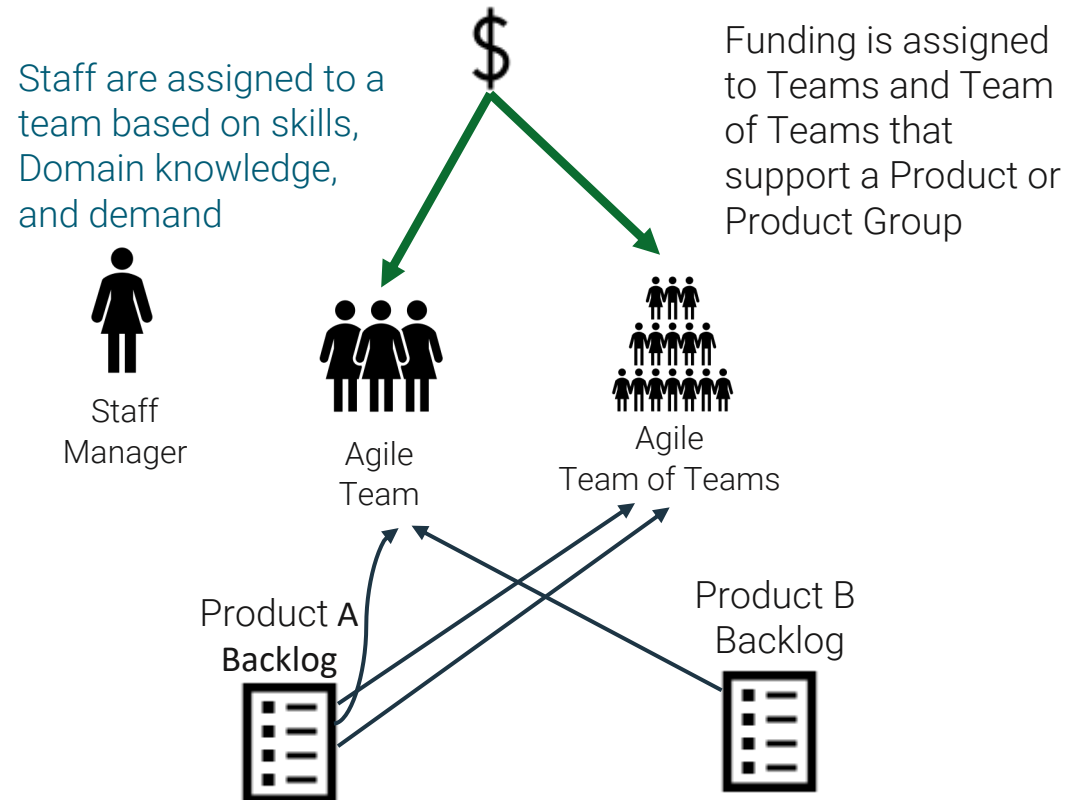


Waterfall Projects vs. Agile Products

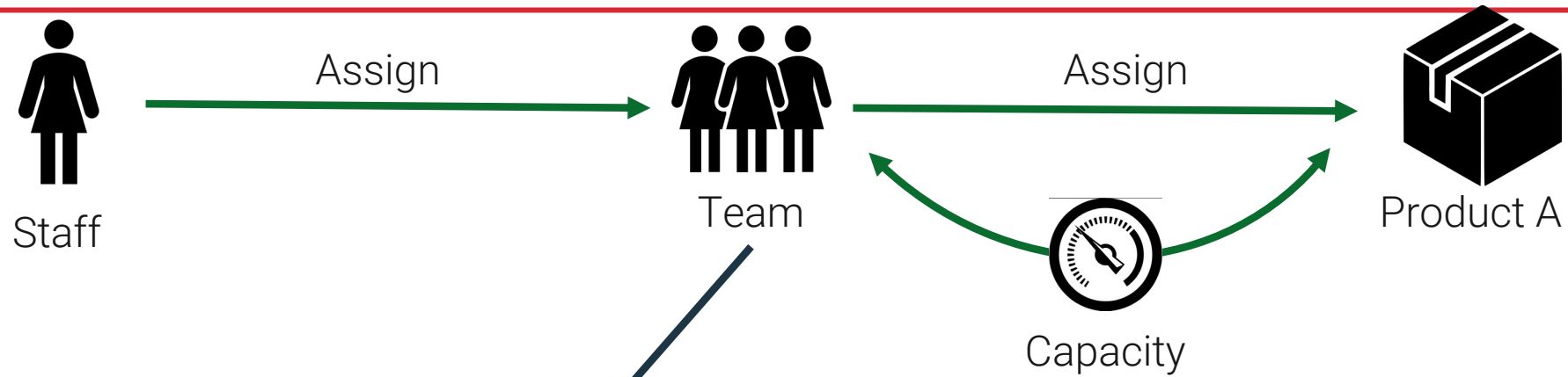
Waterfall Projects



Agile Products



Labor Cost Allocation Best Practices

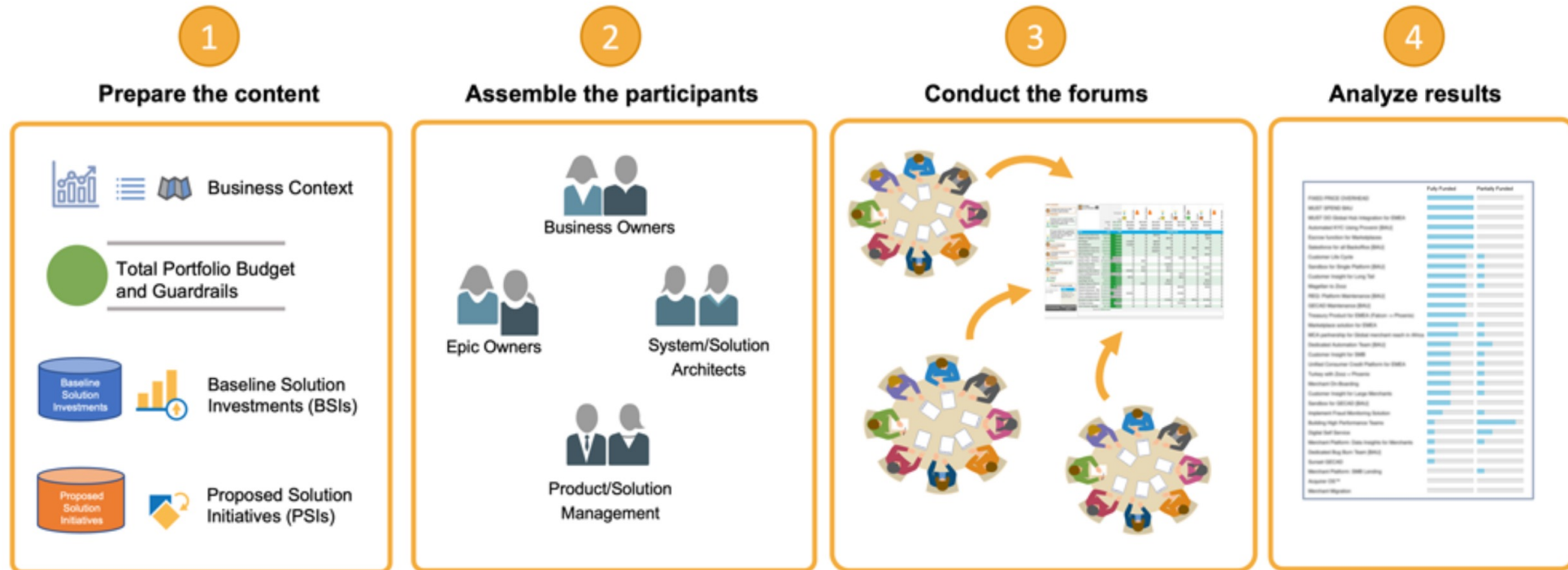


	Cost / Week	No Of Weeks	Total	CapEx	OpEx
Team A	\$80,000	24	\$1,920K	\$1,536K	\$384K
Team B	\$65,000	12	\$780K	\$624K	\$156K
Team C	\$50,000	52	\$2,600K	\$2,080K	\$520K
Team D	\$70,000	52	\$3,640K	\$2,912K	\$728K
Total			\$8,940K	\$7,152K	\$1,788

Participatory Budgeting

A dynamic, collaborative process that enables LPM to gather the data and build the census required to invest in the best possible solutions

- Allows the portfolio to adjust budgets to support rapidly changing customer and market needs
- Provides leaders with insights and perspectives from multiple stakeholders about existing solutions and proposed epics
- Creates alignment and buy-in on difficult funding choices, improving employee engagement and morale
- Increases ownership of budgets and results in more realistic and achievable budgets than those imposed top-down
- Improves information sharing and knowledge between leaders and teams



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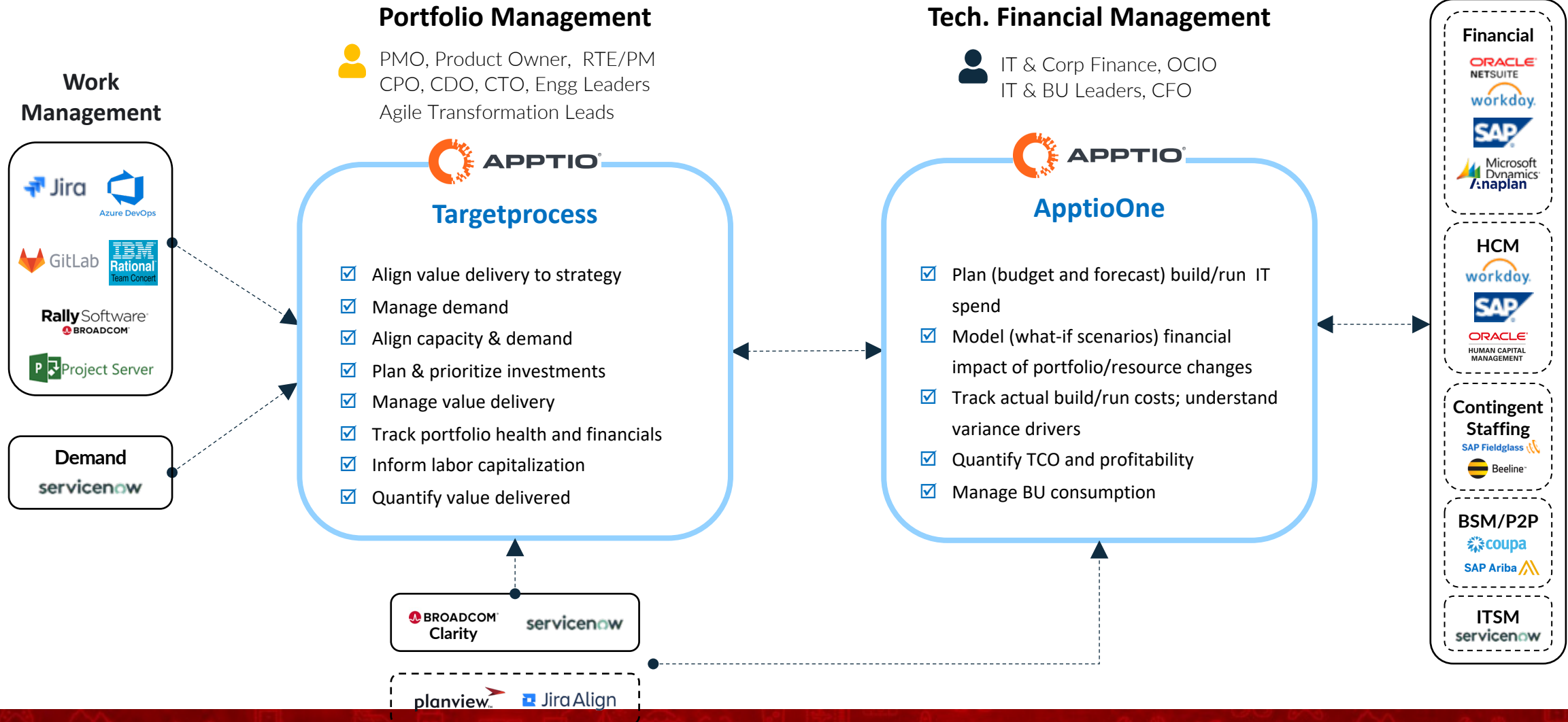
ApptioOne + Targetprocess

Better Together

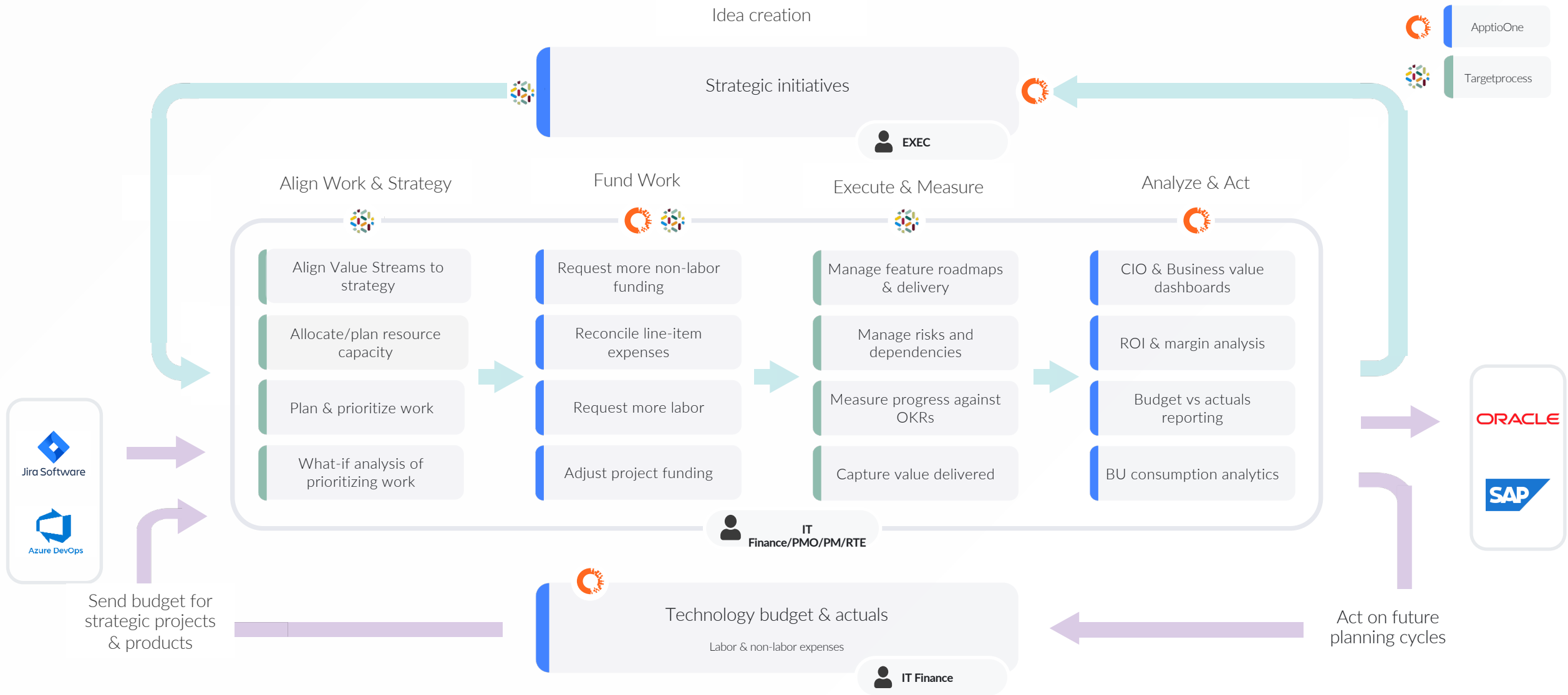
Connected ecosystem improves visibility, alignment, and value delivery

Deliver business value

Manage cost and funding of business value delivery



How ApptioOne + Targetprocess integration works



Labor Capitalization for Agile

Introduction to Capitalization

FASB 86 categories of expenses and potentially capitalized costs:

Expense	Capitalize
<p>Costs associated with establishing feasibility of a program, including:</p> <ul style="list-style-type: none">• Feasibility research and prototyping• Analysis and formulation of alternatives• High-level architectural work in support of decision-making• Training• Production maintenance and support	<p>Costs associated with committed new projects and upgrades and enhancements that increase functionality of existing software which may include:</p> <ul style="list-style-type: none">• Detailed design activities (maybe)• Salaries• Cost of materials• Contract labor• Burden <p>Excludes specifically general and administrative costs and overhead.</p>

Capitalization Patterns Summary

Disclaimer: We do not provide specific recommendation on which method to use due to variations in Laws, Guidelines, and accounting practices

Waterfall or Agile

Timesheets:

- Identify Projects and/or Tasks that are Capitalized
- Other categories for activities, work not Capitalized
- Staff logs time to these areas based on where they put their time

Flat Percentages:

- Using empirical previous Projects/Products, calculate the percent of effort Capitalized
- Apply that ratio to current and future work
- At least annually review and adjust ratio

Agile Only

Entity Identification:

- Features, User Stories, and/or Tasks are flagged as Capitalized
- Decomposition of work must segregate the entities into these one of the categories.
- Either effort is entered for each entity or a ratio of CapEx/OpEx is determined then applied to the total cost of the team

Portfolio Kanban Flow :

- Portfolio Kanban represents the steps from Idea to Delivery
- Those steps can be mapped to OpEx or CapEX
- While the Entity is in the step, several methods can be used to determine and accrue costs

<https://www.agilealliance.org/wp-content/uploads/2016/02/ACCOUNTING-FOR-CAPITALIZATION-OF-AGILE-LABOR-COSTS.pdf>

<https://www.infoq.com/articles/agile-capitalization/>

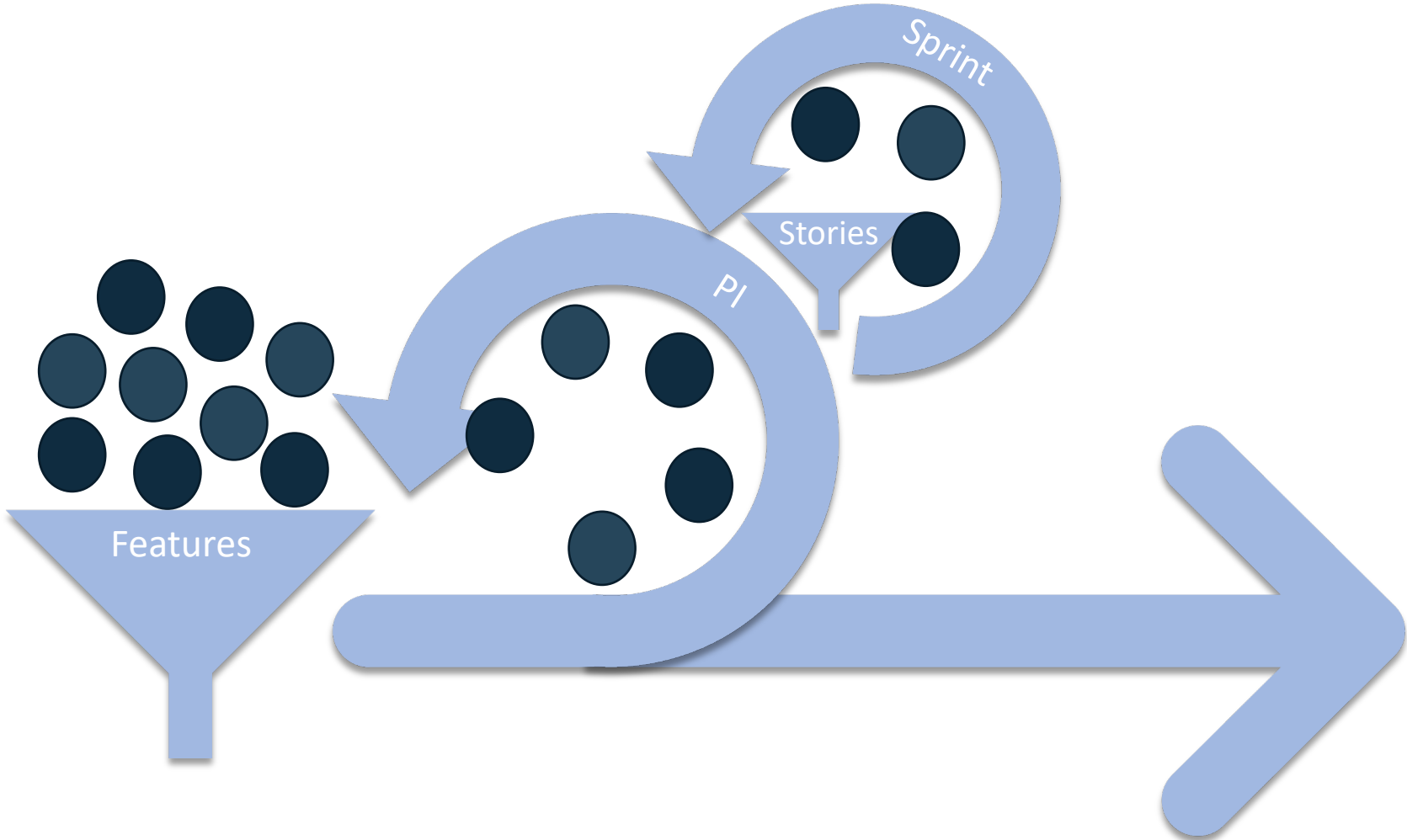
<https://www.scaledagileframework.com/capex-and-opex/>

Entity Identification

CapEx and OpEx work can be occurring simultaneously during each timebox with **Agile** development practices.

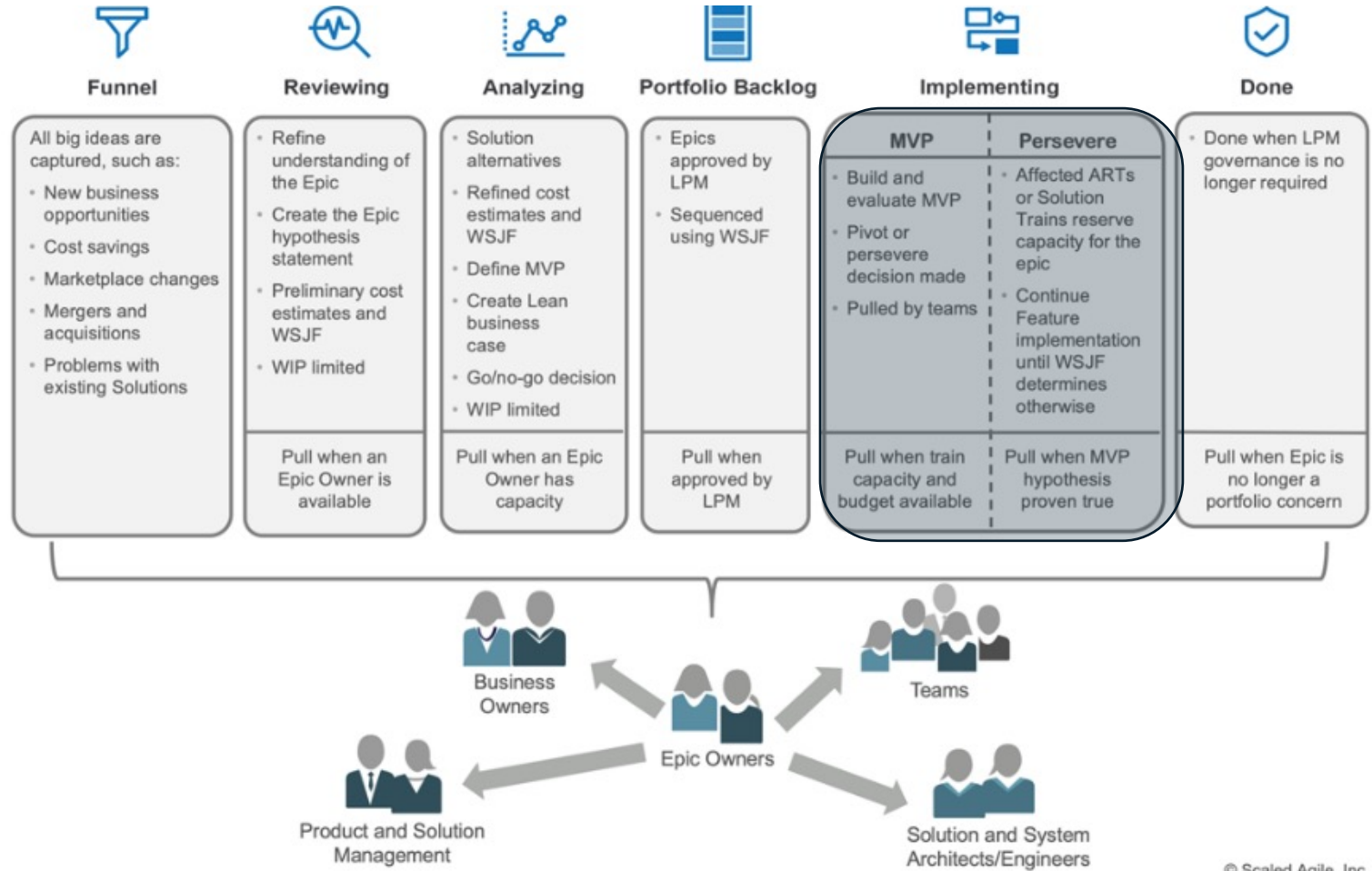
Expense Type of Work

Capital Type of Work



Portfolio Kanban Flow

Here we reference the Scaled Agile Framework's Portfolio Kanban framework.



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Questions?



Surveys

Please take a few moments to fill out the class survey.
Your feedback is extremely important for future events.



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- Class Provider = **Rego Consulting**
- Class Name = **regoUniversity**
- Course **Description**
- Date Started = **Today's Date**
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- Click on **I agree** and **Submit**



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