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# Financial Best Practices for Enterprise Agile

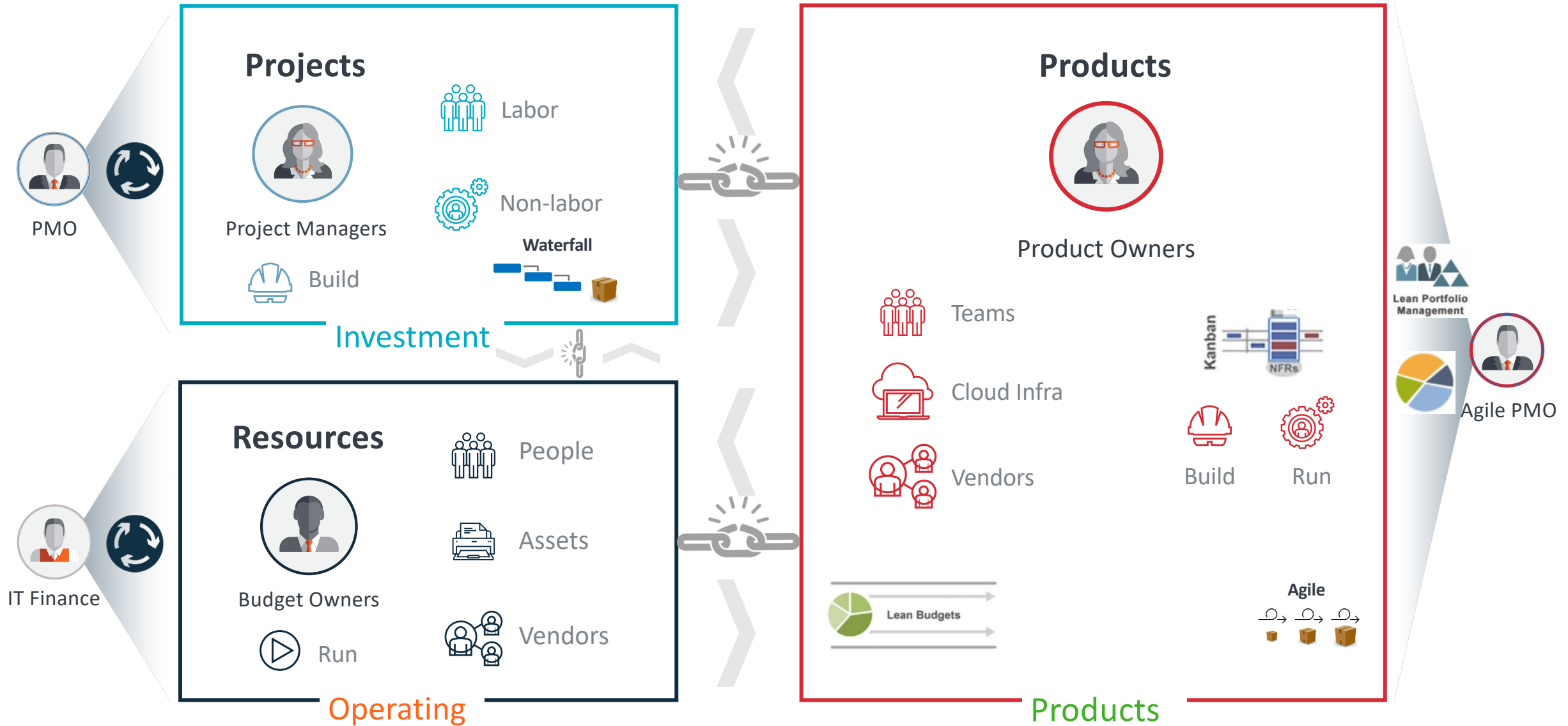
**Your Guides:**  
Jeff Barschaw & Hollie Potts

# Introductions

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

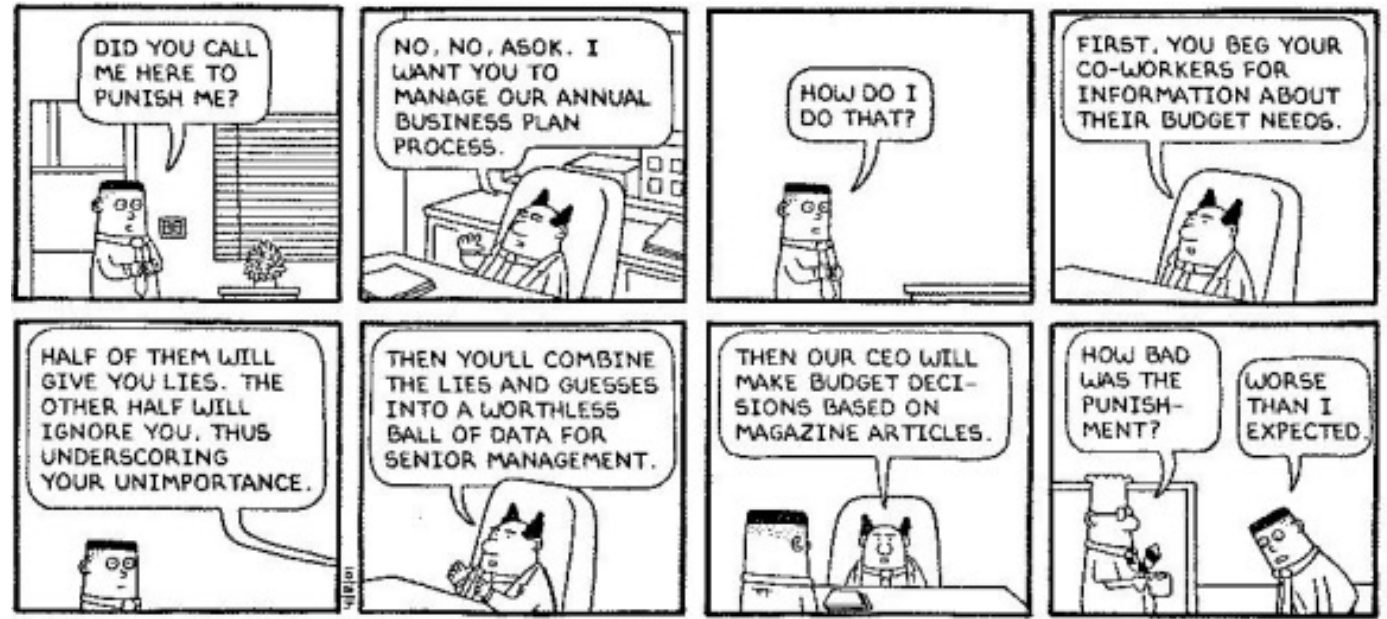


# Project / Product / Operations Disconnect





# 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- Assumptions quickly outdated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 being done
- The world ends on December 31<sup>st</sup> (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

7

## AGILE IMPACT ON FINANCIAL GOVERNANCE

Percentage of Respondents

Funding process with Agile has changed

15%

85%

Little change to funding process

n=191

Using Agile techniques to track costs and labor capitalization

20%

80%

Labor capitalization process unchanged

n=187

Business case different than waterfall

24%

76%

Business case for entire project

n=187

Changed to product-centric model

28%

72%

Still using project-centric model

n=192

Same investment body regardless of delivery method

88%

12%

Different governing bodies for Agile and waterfall investments

n=187



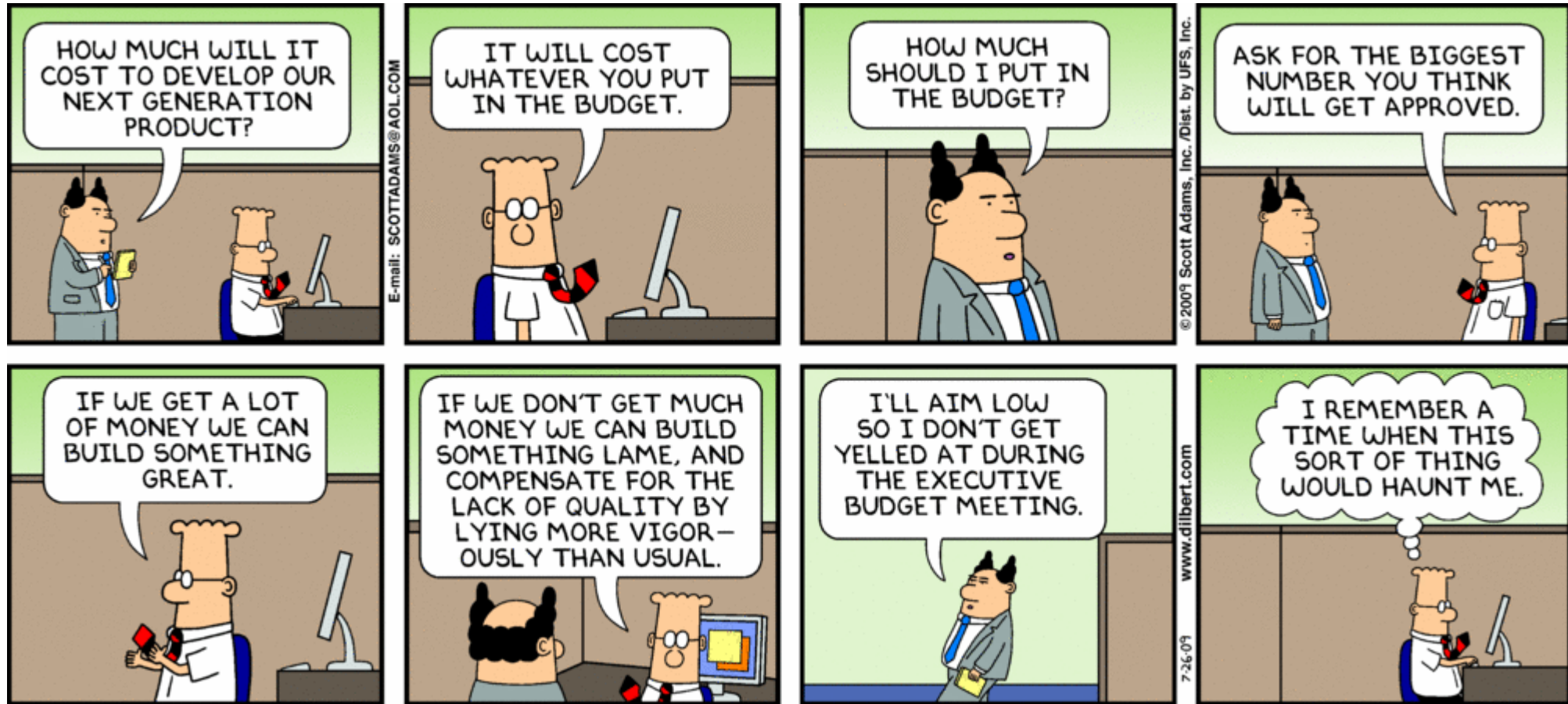
Gartner  
Research Circle

Agile in the Enterprise



# Is This the BEST IT Financial Planning Approach?

8







- What Financial Practices are challenged in your environment as Enterprise Agile is introduced

# Common Financial Challenges with Enterprise Agile

- ▶ **Investment Prioritization:** How are investments evaluated and prioritized in moving from waterfall to Agile or Dual/Hybrid - 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?

# 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 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?



# Best Practices and Trends in IT Financial Planning

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

# 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

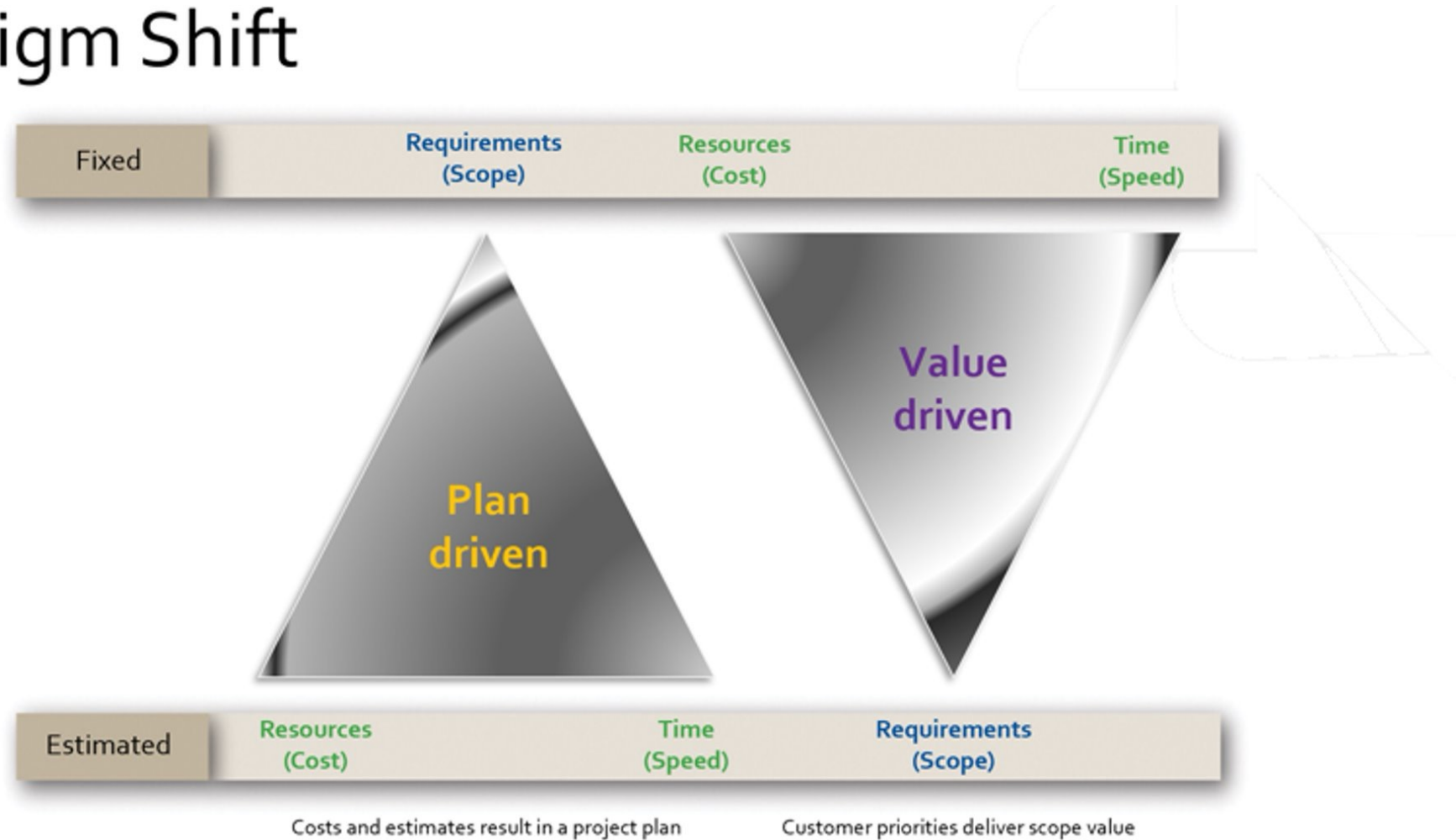
## Value Added Time

- 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



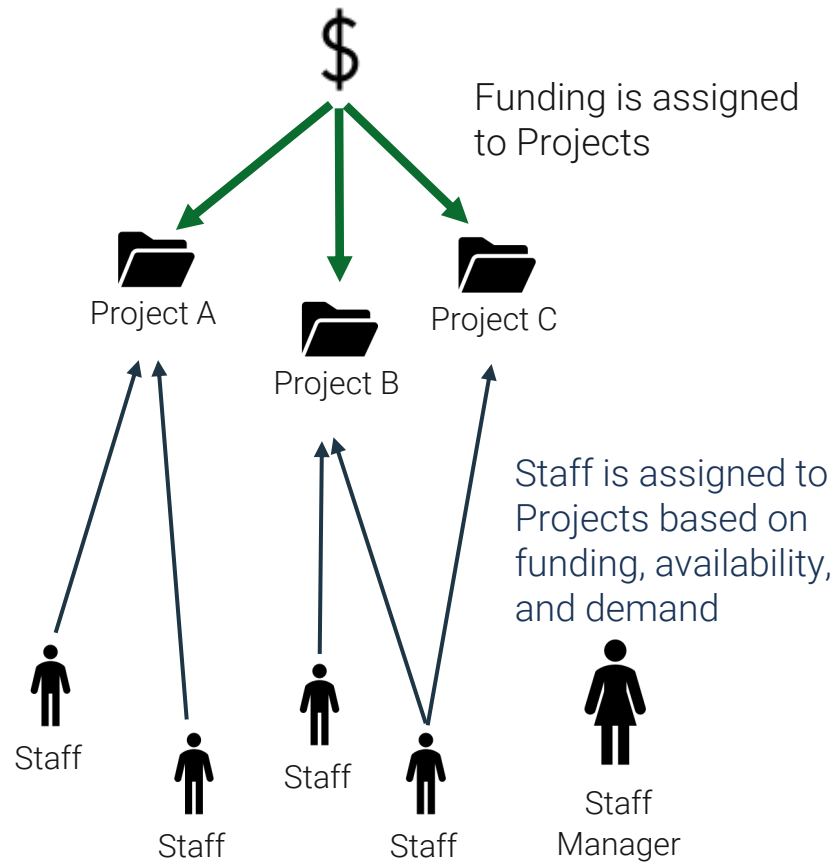
# Reversing the Iron Triangle

## Paradigm Shift

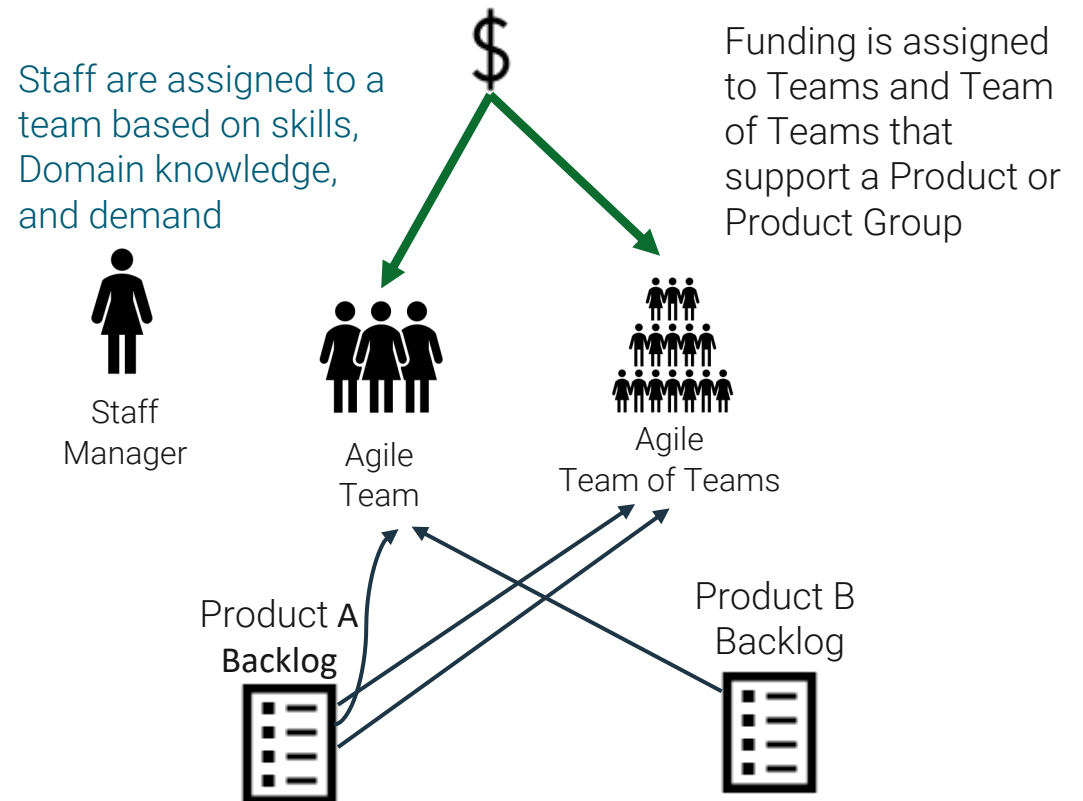


# Waterfall Projects vs. Agile Products

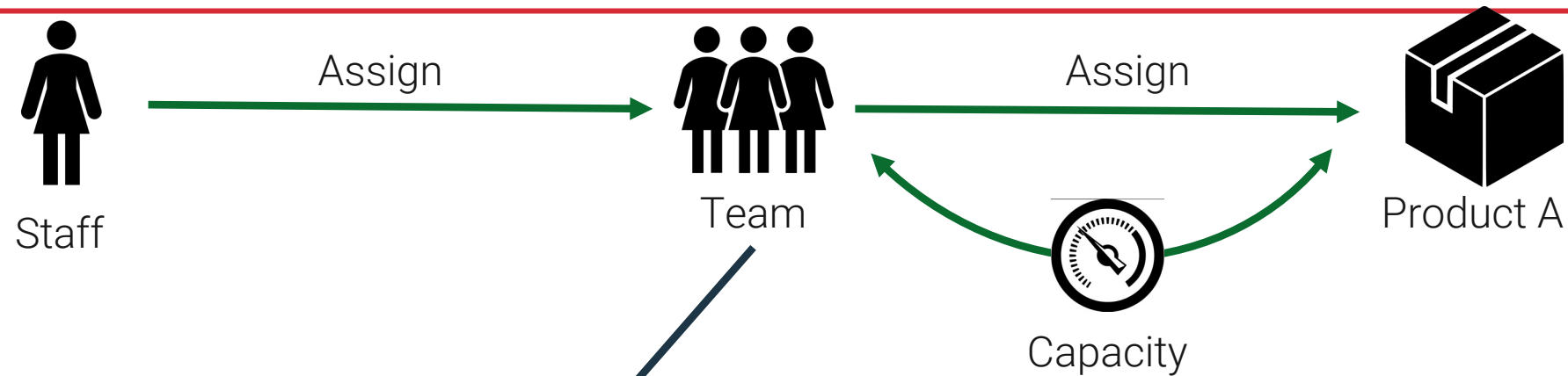
## Waterfall Projects



## Agile Products



# Labor Cost Allocation Best Practices



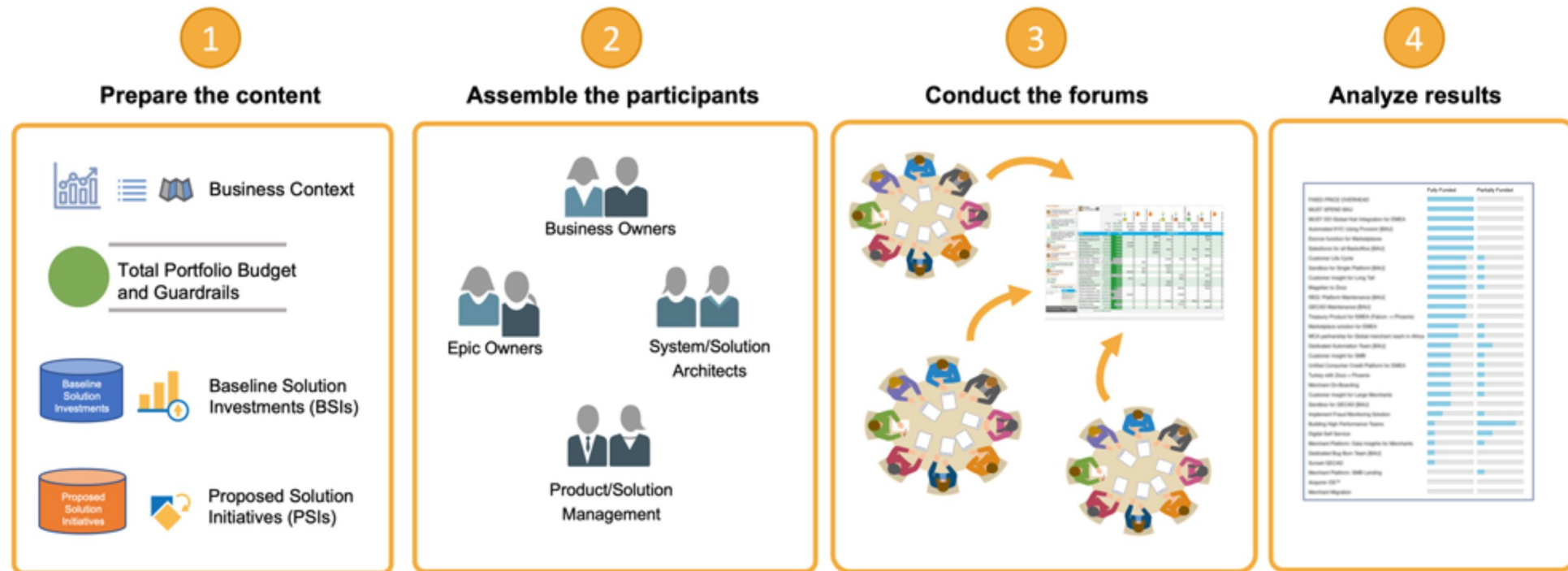
	Cost / Week	No Of Weeks	Total	CapEx	OpEx
Team A	\$80,000	24	\$1,920K	\$1,536K	\$384K
Team B	\$65,000	12	\$780K	\$624K	\$156K
Team C	\$50,000	52	\$2,600K	\$2,080K	\$520K
Team D	\$70,000	52	\$3,640K	\$2,912K	\$728K
Total			\$8,940K	\$7,152K	\$1,788



# 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



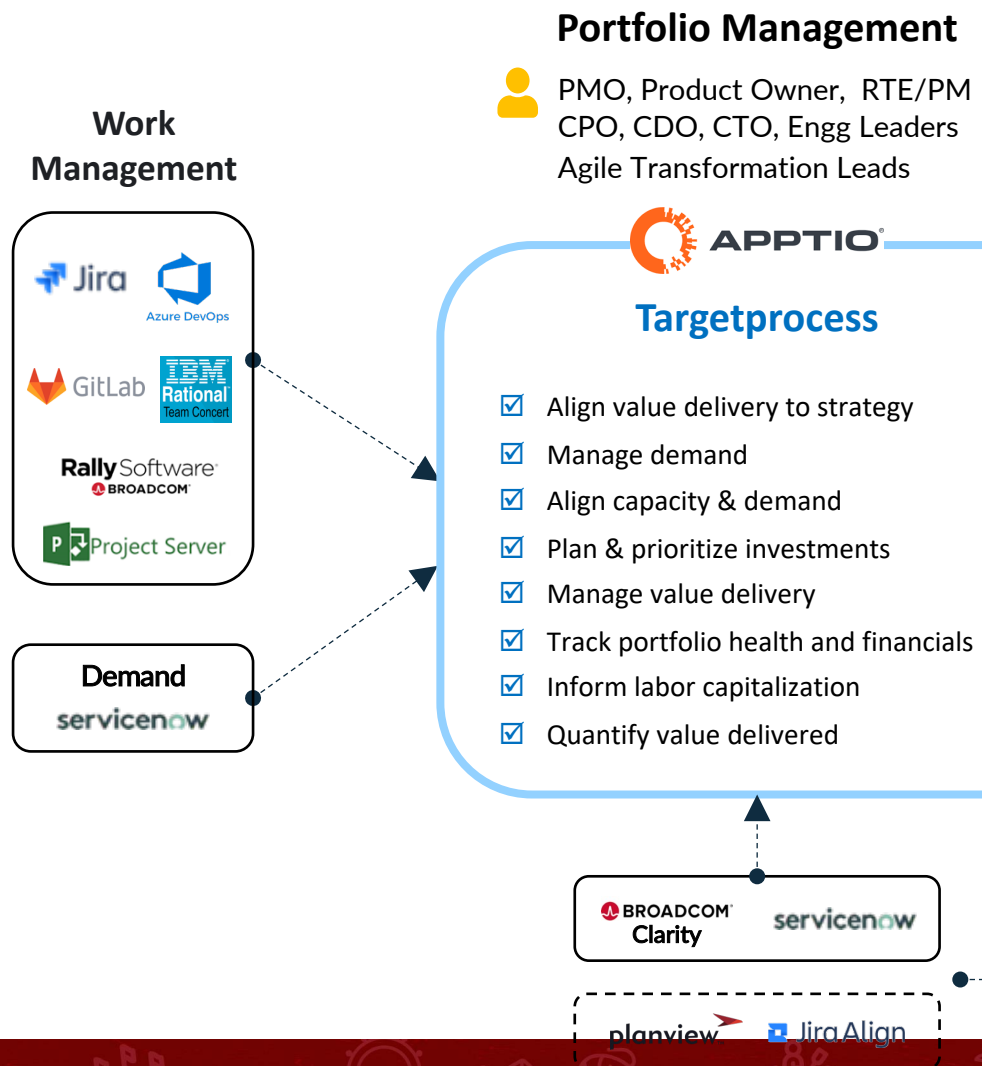
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# IBM Apptio + IBM Targetprocess

Better Together

# Connected ecosystem improves visibility, alignment, and value delivery

## Deliver business value



## Manage cost and funding of business value delivery

### Tech. Financial Management

IT & Corp Finance, OCIO  
IT & BU Leaders, CFO



# How IBM Apptio + IBM Targetprocess integration works



ApptioOne



Targetprocess

Idea creation

Strategic initiatives

EXEC

Align Work &amp; Strategy

Fund Work

Execute &amp; Measure

Analyze &amp; Act

Align Value Streams to strategy

Allocate/plan resource capacity

Plan &amp; prioritize work

What-if analysis of prioritizing work

Request more non-labor funding

Reconcile line-item expenses

Request more labor

Adjust project funding

Manage feature roadmaps &amp; delivery

Manage risks and dependencies

Measure progress against OKRs

Capture value delivered

CIO &amp; Business value dashboards

ROI &amp; margin analysis

Budget vs actuals reporting

BU consumption analytics

IT  
Finance/PMO/PM/RTE

Technology budget &amp; actuals

Labor &amp; non-labor expenses

IT Finance



Send budget for strategic projects & products

ORACLE

SAP

Act on future planning cycles



# Labor Capitalization for Agile

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"> <li>• Feasibility research and prototyping</li> <li>• Analysis and formulation of alternatives</li> <li>• High-level architectural work in support of decision-making</li> <li>• Training</li> <li>• Production maintenance and support</li> </ul>	<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"> <li>• Detailed design activities (maybe)</li> <li>• Salaries</li> <li>• Cost of materials</li> <li>• Contract labor</li> <li>• Burden</li> </ul> <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 be 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

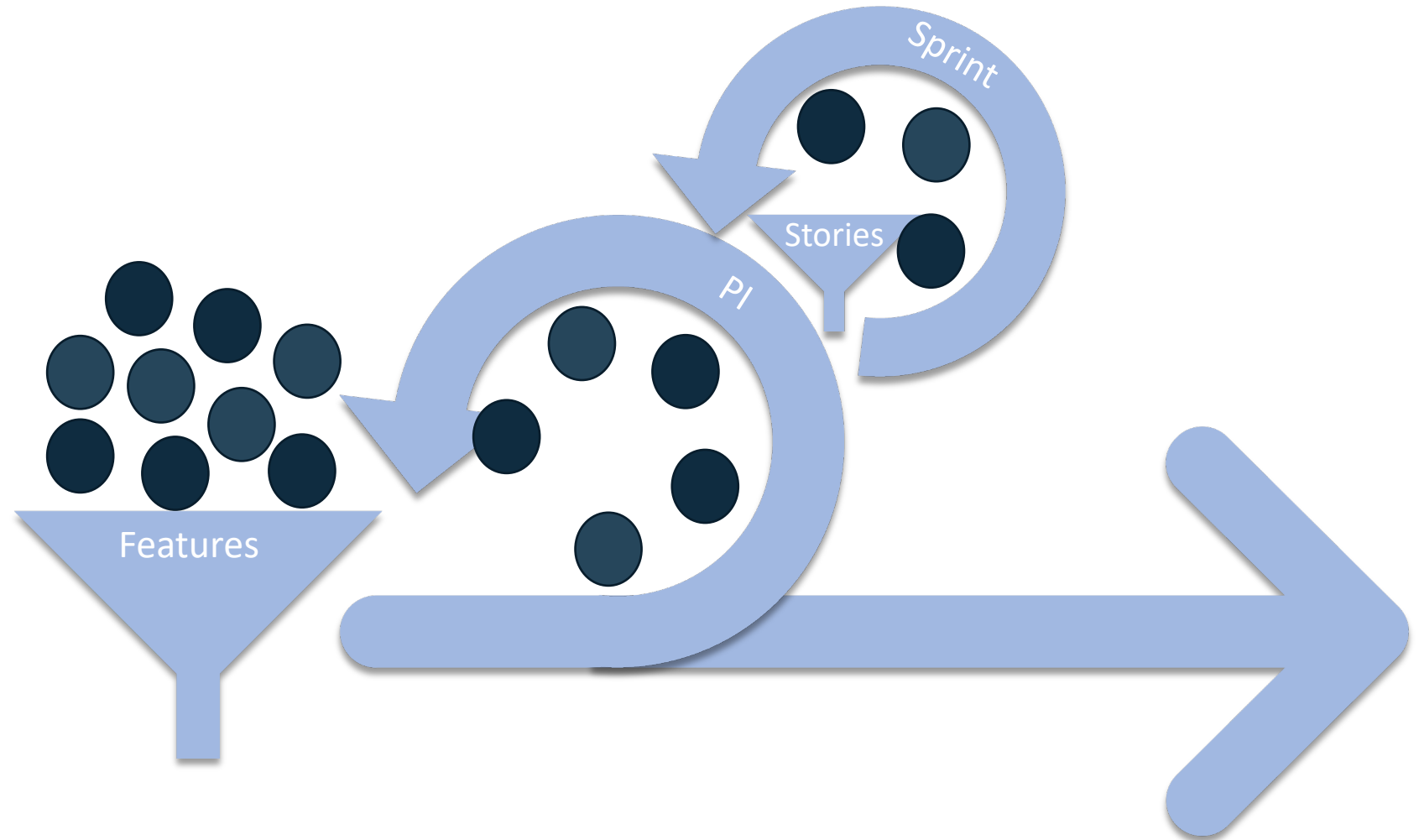
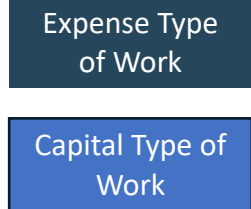
<https://www.agilealliance.org/wp-content/uploads/2016/02/ACCOUNTING-FOR-CAPITALIZATION-OF-AGILE-LABOR-COSTS.pdf>

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

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

# Entity Identification

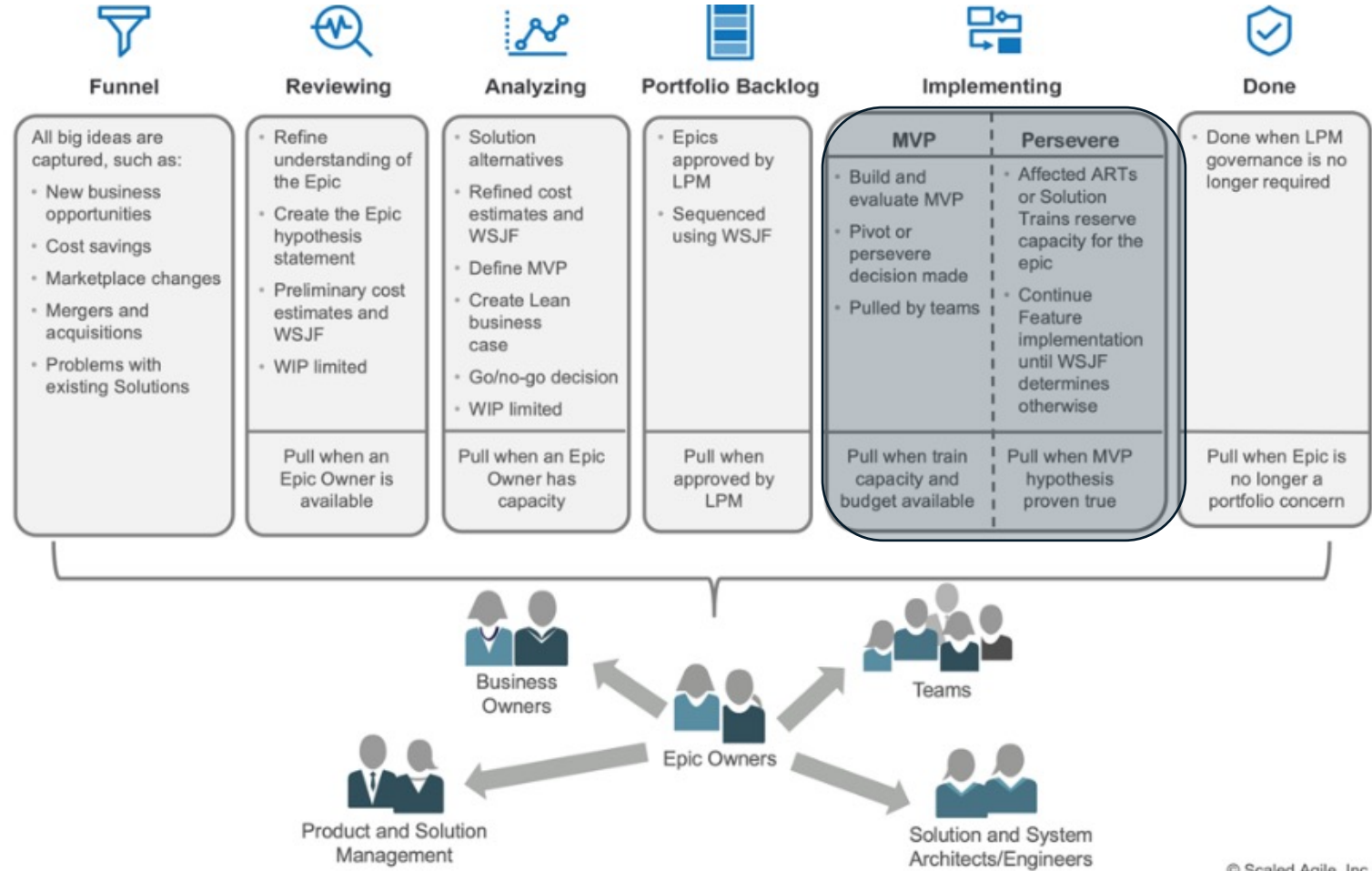
CapEx and OpEx work can be occurring simultaneously during each timebox with **Agile** development practices.





# Portfolio Kanban Flow

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



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- Class Provider = **Rego Consulting**
- Class Name = **regoUniversity**
- Course **Description**
- Date Started = **Today's Date**
- Date Completed = **Today's Date**
- Hours Completed = **1 PDU per hour of class time**
- Training classes = **Technical**
- Click on **I agree** and **Submit**



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