



MANAGED IT SERVICES | TOLEDO, OHIO

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# How Much Should Your Business Actually Spend on IT?

A Practical IT Budgeting Guide

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Benchmarks, cost breakdowns, and a budgeting worksheet for small & mid-sized businesses — so you can stop guessing and start planning.

# Why This Guide Exists

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Here's the uncomfortable truth: most small and mid-sized businesses have no idea whether they're spending the right amount on IT. Some are overpaying for services they don't need. Others are dangerously underspending and don't realize it until something breaks catastrophically.

IT budgeting shouldn't be a mystery. You wouldn't run your business without a financial plan for payroll, rent, or insurance — but somehow technology gets treated like an afterthought. A vague line item. A "we'll deal with it when something breaks" expense.

That approach is expensive. Reactive IT costs 3–5x more than proactive IT over time. Unplanned downtime, emergency repairs, data breaches, compliance fines — these are the real costs of not having a plan.

This guide gives you practical, no-nonsense benchmarks and tools to build an IT budget that actually makes sense for your business. No jargon. No fluff. Just the numbers and frameworks you need to make smart decisions.

**Bottom line: A good IT budget isn't about spending more — it's about spending smart.**

# Industry Benchmarks: What Others Spend

IT spending varies by industry and company size, but these benchmarks give you a realistic starting point. The numbers below represent total IT spend as a percentage of annual revenue.

INDUSTRY	% OF REVENUE	NOTES
Professional Services	5–8%	Law firms, accounting, consulting
Healthcare	4–7%	HIPAA compliance drives costs up
Financial Services	6–10%	Security and compliance intensive
Manufacturing	2–4%	Lower unless heavily automated
Retail / Hospitality	2–5%	POS systems, e-commerce platforms
Construction / Trades	2–4%	Project management, mobile access
Nonprofits	3–6%	Often underspend; donor data is critical

For most small businesses with 10–50 employees, plan on \$150–\$350 per user per month for fully managed IT services. That typically includes help desk support, monitoring, security tools, backups, and basic cloud services.

## Benchmarks by Company Size

COMPANY SIZE	MONTHLY RANGE	ANNUAL RANGE
1–10 employees	\$1,500–\$3,500/mo	\$18K–\$42K/yr
11–50 employees	\$3,500–\$15,000/mo	\$42K–\$180K/yr
51–200 employees	\$12,000–\$50,000/mo	\$144K–\$600K/yr

*These ranges assume fully managed IT. Break-fix or partial support will cost less monthly but more over time.*

# IT Cost Categories: Where the Money Goes

Understanding where your IT dollars go is the first step toward budgeting effectively. Here are the six major cost categories every business should plan for.

## 1. Hardware Lifecycle

- Workstations, laptops, monitors, printers, networking equipment
- Plan to replace desktops/laptops every 4–5 years, servers every 5–7 years
- Budget \$800–\$1,500 per workstation; \$3,000–\$10,000 per server
- Don't forget peripherals: docking stations, headsets, webcams

*Pro tip: Stagger replacements so you're not replacing everything at once. A hardware refresh plan spreads cost evenly across years.*

## 2. Software Licensing

- Microsoft 365 or Google Workspace: \$12–\$36/user/month
- Line-of-business applications (ERP, CRM, accounting): varies widely
- Security tools (endpoint protection, email filtering): \$5–\$15/user/month
- Collaboration and project management: \$5–\$20/user/month

*Audit your licenses annually. Most businesses are paying for seats nobody uses.*

## 3. Cybersecurity

- Endpoint detection & response (EDR): \$5–\$12/user/month
- Email security & phishing protection: \$3–\$8/user/month
- Security awareness training: \$2–\$5/user/month
- Cyber insurance premiums: \$1,000–\$5,000+/year depending on coverage
- Penetration testing / vulnerability assessments: \$2,000–\$10,000/year

*Skipping security isn't saving money — it's borrowing against a future disaster. The average cost of a data breach for small businesses is \$120,000–\$150,000.*

# IT Cost Categories (continued)

## 4. Cloud Services & Infrastructure

- Cloud hosting (Azure, AWS, Google Cloud): \$50–\$500+/month for SMBs
- Cloud backup & disaster recovery: \$5–\$15/user/month
- VoIP phone systems: \$15–\$35/user/month
- Website hosting & domain management: \$20–\$200/month

*Cloud costs can creep up fast. Review your cloud bills quarterly and eliminate unused resources.*

## 5. IT Support & Labor

- Fully managed IT (outsourced): \$100–\$250/user/month
- In-house IT staff: \$55,000–\$95,000/year salary + benefits per person
- Break-fix (pay-per-incident): \$150–\$300/hour, unpredictable costs
- Strategic IT consulting (vCIO/vCTO): often included in managed plans or \$150–\$300/hour

*For businesses under 75 employees, outsourced managed IT is almost always more cost-effective than hiring in-house. You get a full team for less than one salary.*

## 6. Compliance & Documentation

- Compliance assessments (HIPAA, PCI, SOC 2): \$3,000–\$15,000/year
- Policy development and documentation: typically included in managed IT
- Audit preparation and evidence gathering: \$2,000–\$8,000 per audit
- Employee onboarding/offboarding procedures: included or \$50–\$150/event

*If your industry has compliance requirements, budget for them explicitly. "We didn't know" is not a defense regulators accept.*

# CapEx vs OpEx: When to Invest, When to Subscribe

One of the biggest budgeting decisions in IT is whether to buy something outright (Capital Expenditure) or pay for it as a recurring service (Operating Expenditure). Here's how to think about it.

## CapEx

### (Capital Expenditure)

- Large upfront cost
- You own the asset
- Depreciation over time
- Example: Buying servers
- Good for: Stable, long-term needs

## OpEx

### (Operating Expenditure)

- Predictable monthly cost
- Subscription/service model
- Always current/updated
- Example: Cloud hosting
- Good for: Flexibility, scalability

**Our recommendation: For most SMBs, lean toward OpEx. Predictable monthly costs are easier to budget, you avoid large capital outlays, and you stay current with technology. Reserve CapEx for assets with long, stable lifespans.**

## When to Invest (CapEx)

- Your current hardware is failing and repair costs exceed replacement value
- You're scaling rapidly and need infrastructure that will last 5+ years
- Regulatory requirements demand on-premises equipment you control
- The total cost of ownership is significantly lower than leasing/subscribing

## When to Wait / Subscribe (OpEx)

- Technology in that area is evolving quickly (don't buy what'll be obsolete in 2 years)
- You need flexibility to scale up or down with your workforce
- Cash flow is a concern and you can't absorb a large capital hit
- The vendor offers regular updates and support as part of the subscription

# Hidden Costs That Blow Up IT Budgets

Even businesses with an IT budget get blindsided by costs they didn't plan for. Here are the most common budget-busters — and how to prepare for them.

## Unplanned Downtime

The average cost of IT downtime for small businesses is \$427 per minute. A four-hour outage can cost \$100,000+ in lost productivity, revenue, and recovery. Budget for redundancy and disaster recovery — or budget for the consequences.

## Shadow IT

When employees sign up for unauthorized tools and services on their own, you lose visibility, create security gaps, and duplicate costs. Audit your software stack regularly and give people approved alternatives that actually work.

## Technical Debt

Running outdated systems, skipping updates, and deferring maintenance saves money today but compounds into expensive problems tomorrow. That ancient server you're nursing along? It's a ticking time bomb.

## Employee Turnover

Every employee who joins or leaves triggers IT costs: provisioning/deprovisioning accounts, equipment setup, license transfers, security audits. Budget \$200–\$500 per onboarding/offboarding event.

## Compliance Penalties

HIPAA violations can cost \$100–\$50,000 per incident. PCI non-compliance fines range from \$5,000–\$100,000/month. If compliance applies to your industry, the cost of non-compliance dwarfs the cost of getting it right.

## Vendor Price Increases

Microsoft, Google, and every other SaaS vendor raise prices regularly. Budget 5–10% annual increases for subscription services. Lock in multi-year agreements when pricing is favorable.

# IT Budgeting Worksheet

Use this worksheet to estimate your annual IT spend. Fill in each category with your current or projected costs. If you don't know a number, that's a sign you need to find out.

COST CATEGORY	ANNUAL COST
Hardware (lifecycle replacements)	\$ _____
Software Licensing (per-user & per-app)	\$ _____
Cybersecurity (tools, training, insurance)	\$ _____
Cloud Services (hosting, backup, DR)	\$ _____
IT Support / Managed Services	\$ _____
Compliance & Documentation	\$ _____
Internet & Connectivity	\$ _____
Contingency / Emergency Fund (10-15%)	\$ _____
<b>TOTAL ESTIMATED ANNUAL IT SPEND</b>	<b>\$ _____</b>

**Quick sanity check: Take your total and divide by your annual revenue. If it's below 3%, you're likely underspending. Above 8%, review for waste. Between 3-7% is the sweet spot for most SMBs.**

## Your IT Spend as % of Revenue

Annual Revenue: \$ \_\_\_\_\_

Annual IT Spend: \$ \_\_\_\_\_ IT as % of Revenue: \_\_\_\_\_%

*Don't forget to include an emergency/contingency fund of 10-15% above your planned spend. IT surprises are inevitable.*

# Need Help Building Your IT Budget?

Budgeting for IT doesn't have to be a solo project. We help small and mid-sized businesses in Toledo and beyond build IT budgets that are realistic, comprehensive, and aligned with their business goals.

Schedule a free IT budget review. We'll look at what you're currently spending, identify gaps and waste, and give you a clear plan — no strings attached.

**GET YOUR FREE IT BUDGET REVIEW**

[flyght.support/contact](https://flyght.support/contact)

(419) 670-7100

[support@flyght.support](mailto:support@flyght.support)

7430 W Central Ave., Toledo, OH 43617