

Budgeting & Forecasting

Achieve the Unthinkable: A Painless Budget Process

by Paul Yarwood

Stop kidding yourself! The traditional methods of budgeting and forecasting for most businesses no longer work. Today's budget process is too long, too costly and inappropriate for today's business needs.

Budgets are often finalized well into the budget year. Due to their structure being set months in advance, many budgets are often irrelevant by the time they are complete. An Accenture report¹ suggests that some of the worst offenders are unable to finalize their budgets within six months. All of which makes the half yearly reforecast somewhat academic.

What about the big boys? The same study suggests that \$1 billion companies will spend, on average, 25,000 working days defining budgets. In other words, if you redirected 600 of your best employees to work full-time for two solid months on budgets, you'd be close to utilizing 25,000 business days. It's simply staggering, and it seems like the problem is getting worse.

Budgeting shouldn't be an annual affair where the commitment and frequency to reforecast is dictated more by the arduous nature of the process, rather than the business need. It should be a process of continual planning and forecasting towards ensuring the strategic goals of the business are being met.

It's unacceptable – in the Information Age – to rely on a budget that was created 12 months ago. Why risk depending on old data when the business world is moving so quickly, the competitive landscape is constantly changing, and the current economic times are so uncertain? Companies need to adapt when evaluating their financial and economic standing. Budgets, and the budgeting process, need to be more agile to address the necessary changes.

Isn't it time to take stock and acknowledge that the current process is generally unacceptable? There are innovative ways to change the practices, culture and the technologies needed to support a new budgeting approach. The traditional methods of budgeting and forecasting for most businesses no longer work.

¹ Budgeting & Forecasting: Issues and Leading Practices - Building finance and performance management mastery with superior budgeting and forecasting capabilities. By Stephen Hunt, Accenture

Here's a blueprint for radically changing the budget process:

- **Focus on automating the budgeting workflow** – It's the key to radically accelerating a budget cycle, and creates the possibility for continuous budgeting via easy revisions
- **Stop using spreadsheets** – They cause more budgeting problems than they solve
- **Work directly with your ERP data** – Working with a single source for all budgeting activities encourages a more collaborative and informative process
- **Ensure your budgets are returned to your ERP** – Unless you want to inherit significant “actual versus budget” reporting challenges down the line
- **Develop an immediate budgeting “feedback loop”** – It's the most effective way to deliver the value out of the budgeting process

Budgeting Automation

The budget process needs to be automated with a greater focus placed on understanding, optimizing and automating the budgeting workflow.

It's easy to forget: The logistics involved in coordinating the activity among the many budgeting stakeholders is the single biggest time factor to complete the budget process. To be completed efficiently, an automated workflow process designates the “who” behind what needs to be completed, when, and in which order.

Good workflow allows for budgeting to be delegated to all levels of the organization. This is where ownership of the numbers can be enforced with certain individuals responsible for budget input, and other individuals responsible for approvals and finalizing the budget. In each case, the lines of responsibility are systemized; each role can only perform certain activities – a process that minimizes errors and inconsistencies.

Workflow automation yields faster budget cycles. Faster budget cycles are the key to achieving the notion of continuous budgeting. Workflow automation allows for budget adjustments to be made easily – in a controlled and auditable manner, using the same setup and process as the original budget. The frequency and velocity of re-forecasts should now be measured in hours, not weeks.

Short cycles fundamentally shift from discrete budgeting activity (with dedicated budgeting teams) to a rolling budget “best practice” that defines the standard for today's top-performing businesses.

Spreadsheets: Friend or Foe?

There's a reason why Controllers are called Controllers and the spreadsheet is their comfort blanket. Free from IT involvement, they have control over the numbers. In addition, they need lots of hours and careful mouse control.

Spreadsheets do more harm than good in the budgeting process. Here's why:

Spreadsheets often become a central component in the budget process because they are so flexible for modeling. The problems begin when modeling sheets quickly turn into the budget templates that finance

asks the budget stakeholders to complete. Uncontrolled spreadsheets are often e-mailed to multiple budget holders. Everyone is then forced to work on their copy of the data, making adjustments that could introduce errors.

The process lacks a central control system that pulls everything back together. Of course, budgets are never completed in a single iteration. Inevitably, multiple sheets are sent to the same individuals and version control becomes a nightmare.

There is a fundamental choice:

- Place processes around this spreadsheet culture to mitigate these issues, or...
- Abandon this path and utilize technology solutions that embed the distribution of budget sheets (and the data collected from them) into the workflow process itself.

Working With Your ERP

One of the most effective ways to manage a budget process is to establish a single source of truth: A common repository of data from which all budgets are created and measured.

This type of repository already exists within your business; it's called your ERP. It's where your actual results are stored and the basis upon which budgets are created. Using a single source for all budgeting activities encourages a more collaborative and informative process. It also avoids the alternative of having multiple "silos" of information that become difficult to manage and control – the common cause of budgetary delays.

Of course the ultimate solution is to be able to work with real-time budget information. This allows everyone to immediately know everything that's happening, as it relates to their budget data.

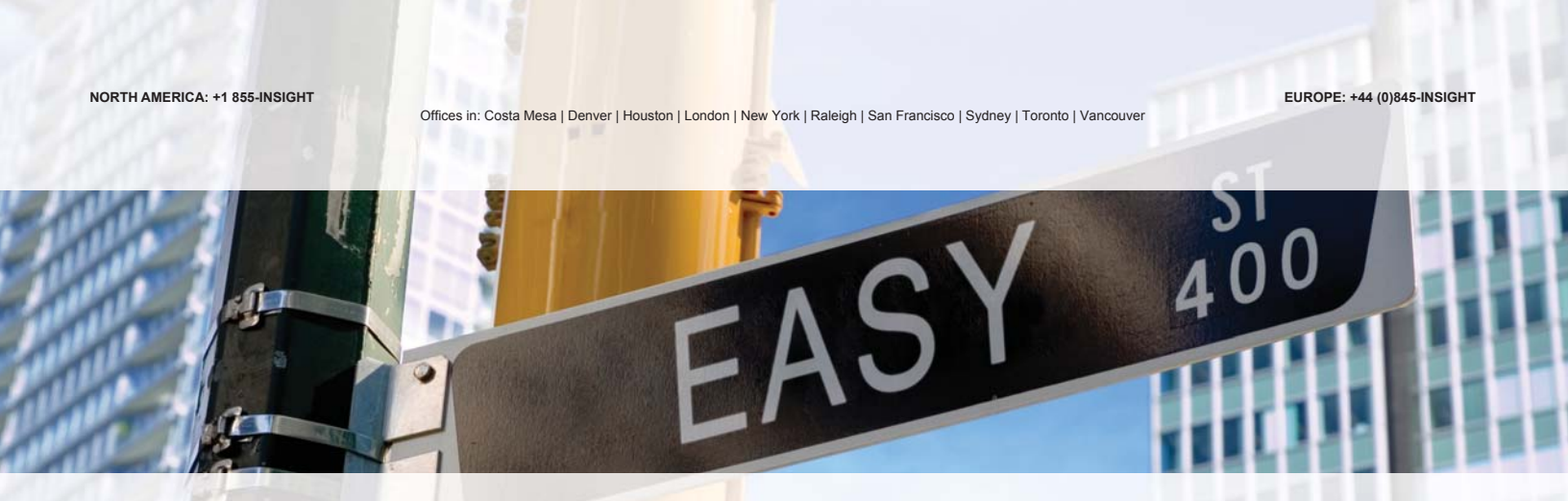
Single source, real-time budget data is the pre-cursor to data consolidation, including the budget holder's data. This allows the stakeholders to see the budget being constructed before their eyes in an environment where anomalies can be quickly identified and corrected.

Avoiding Reporting Problems

It's difficult for a business to have an effective budgeting strategy unless it includes a method to enter the budget data directly into the ERP system or easily reincorporating the data. Failing to do so merely shifts the problem from budgeting to reporting. Given that many organizations also have acute reporting problems, a poorly aligned budgeting strategy makes things worse.

When the actual results and budget figures are stored separately, you are forced to extract the actual results from the ERP to produce "actual versus budget" variance reporting. This can introduce management issues around security, data duplication, loss of drill-down capabilities, and data integrity. It also adds complexity to the process.

Are you willing to compromise your budget process just because your budgeting tools are incapable of working in unison with your ERP system? Insisting that your budgets are stored in the ERP creates a "win-



win” situation. It influences a streamlined budgeting process with less reporting headaches.

Instigating the Feedback Loop

Budget cycle iterations are an essential element of the budgeting process. In a continual budgeting environment it's even more relevant. The challenge is to make this iterative process as fast and simple as possible – requiring an immediate budgeting feedback loop.

Traditional budgeting processes have often suffered from a lack of feedback. They not only prolong the cycle but also become a chief contributor to poor forecasting.

Feedback is vital. For example, during the process of budgeting by operating statement, it's important to see your gross margin change as you enter and change the composite budget figures. Feedback in the form of drill-down is also important, particularly when explaining the detail and justification behind the figures. The ability to track changes is imperative as well, especially when communicating changes to the Board of Directors.

In all these situations, working with the real-time ERP data makes the feedback loop easy. In contrast, a disparate budgeting process cannot provide such immediate feedback.

The business drivers – the rules and logic that underpin the budget figures – are just as essential as the budget figures. They explain how the budget is constructed. The ERP struggles to work with this type of data. It's essential for the budget automation tool, so it can handle the data and make it visible in the feedback process.

For many organizations there is a budgeting process in place “that works.” But organizations today need to do more than just “get by” with the status quo. It's simply a question of understanding, responding to the issues that created the problems in the first place, and applying some fresh ideas.

For a more detailed analysis of how to ensure that a budgeting automation solution meets all these different budgeting requirements, review the InsightSoftware.com Budgeting Buyer's Kit: www.InsightSoftware.com.