

7 Steps to a Better Budget



“NOT TO BEAT
AROUND THE BUSH,
BUT THE BUDGETING
PROCESS AT MOST
COMPANIES HAS TO
BE THE MOST
INEFFECTIVE
PRACTICE IN
MANAGEMENT.”

*Jack Welch
Winning
Harper Collins, 2007*

EXECUTIVE SUMMARY

Everyone is looking for ways to reduce the stress and frustration of the budget process. Here are some practical steps you can take today to achieve that:

- 1. Default spreading to last year's actual pattern.*
- 2. Create an approval flow before it reaches you.*
- 3. Adopt the best practice to "Baseline & Earmark".*
- 4. Head off "I forgot to budget..."*
- 5. Automate standard calculations (and avoid user error).*
- 6. Automate your headcount interview process.*
- 7. Shorten the budget cycle.*

These capabilities should be considered when developing a set of requirements for automating the budget process.

Tip 1: Default spreading to last year's actual spreading pattern.

Line managers tend to think in annual amounts, "I've got \$20,000 I can spend on Travel next year." But the Finance department needs that budget spread by month.

Too often the answer is "Divide by 12" and the result is the Finance department is stuck explaining timing variances all year long. While some budgeting software packages come with sophisticated ways to spread a budget, many managers still just divide by 12.

A better solution is to have the default method be "spread like last year" which will automatically reflect seasonality and is a much better answer than divide by 12.

The trick though, as always, is to make that option easy to select and execute, **and better yet if it's the default choice.**

Tip 2: Create an approval flow before it reaches you.

In many organizations all budgets are submitted to the Finance department at once (usually after the deadline) and are then rolled up and reported. How well scrubbed these budgets are can vary widely, and often Finance is left to play the role of "Budget Police".



In world class organizations the budgets go through an operational approval process where line management reviews and approves budgets for departments underneath them. Depending upon the size of the organization, there might be tiered levels of review and approval.

While that might sound bureaucratic, **it actually saves time.** Each level of review is attesting to the fact that they've reviewed the budgets under them for completeness and reasonableness. So by the time budgets reach the senior executive level they're



Traditional budget reviews focus on year over year projected G/L account spending. While this is necessary and helpful; world class organizations go beyond this and put a spotlight on where the money is really going – by identifying earmarked spending.



well scrubbed and defensible.

And if there are adjustments that need to be made, they're directed at an operational level for operational reasons, rather than being the result of "the Budget Police."

Of course, you want to automate that approval process as much as possible if you want line people to participate.

Tip 3: Baseline & Earmark. In world class companies, the Finance department will create baseline budgets. This doesn't have to be very complicated. For example, a baseline budget may simply assume 3% salary increases and 1% inflation.

Then it's up to the department heads to earmark any spending above that threshold. Special projects, strategic initiatives, CEO directives, IT projects, marketing campaigns, onetime events, and so on.

The important thing to realize is that these earmarks will normally involve multiple accounts, rather than a single G/L account. For example, a marketing campaign may involve 3 separate G/L accounts -- photography expense, outside services, and advertising.

What you don't want is to bury that spending by just adding line item detail under each account. You want to be able to easily "see and review" each project or program individually.

By earmarking spending this way, Senior Executives are able to quickly focus on exceptions. Often the conversations around earmarked spending are much more operationally focused than they are when there is nothing to review but a list of G/L account spending.

The other point to make here is that the Finance department isn't imposing some artificial cap or limit -- which breeds frustration and resentment from line managers. Instead, the cap is what's reflected in the baseline budget; and if line managers have a compelling rationale for requesting more, they have a chance to win over senior executives and get it approved.

The Finance department can transform its role in the process to that of a true partner in the business by helping line managers develop their project and program spending and rationale.

Tip 4: Head off "I forgot to budget..." Line managers aren't accountants, and sometimes they forget to put a number in a budget, even if there is a line item staring them in the face.

One answer is to earmark spending in business terms, as discussed above. This works because managers are budgeting in business terms and thinking operationally, which makes it less likely they'll forget something important. The other answer, and this sounds simple (but simple is sometimes overlooked) is to have a visible checklist so that as different areas get budgeted for, a check mark automatically appears, making it easy to see what's been budgeted for already, and what's left to do.

Tip 5: Automate standard calculations (and avoid human error). A recent survey found that 87% of calculations used when completing a budget are relatively simple. These include those calculations seen below.

Condensing the budget cycle is a goal everyone can get behind, but to make that achievable, the mechanics of the process, and the opportunities for human error, need to be minimized.



Sum: This is most common. Especially when inserting rows to add line item detail (requiring a sum for the total).

Unit times Rate: For example, budgeting hotel expenses at \$95 a day for 3 days.

Percent Increase: Usually in regard to increasing revenue or expenses by X% over prior year.

Per Head: For example, budgeting for Travel at X\$ per head.

Driver times Rate: Taking a driver (such as Volume) and multiplying by a rate to arrive at a budgeted amount.

The same survey revealed that user error with these relatively simple calculations account of the majority of all budget errors.

If you consider how much time is spent validating budgets to ensure no errors are present -- and how much embarrassment there is when errors are discovered not by the Finance staff but by senior executives -- then the goal of preventing them to begin with becomes paramount.

The best way to prevent human error is to automate these calculations so users select them rather than write them.

Tip 6: Automate the headcount interview process.

For many organizations, salary related expenses account for 60% or more of a budget. The process for developing those expenses is familiar to most budget holders: Someone from Finance or Human Resources asks managers what their hiring plans are, or if anyone is leaving. There may also be discussions around “exceptions” a manager might want to request for say, a star

performer who’s been making leaving noises to get an above average raise.

By automating that interview process the average company can save days or weeks of work; and dramatically reduce errors and miscommunication.

Tip 7: Shorten the budget cycle.

The real payoff of implementing the tips outlined in this whitepaper is that the cycle time required to produce a budget can be greatly condensed. This is because a lot of the mechanics, error checking, error correction, and miscommunication have been reduced. And by condensing the start and end date of the budget process, line managers will become much more willing to participate in the process.

These capabilities should be considered when developing a set of requirements for budgeting software.

Learning more

There are a number of useful tools available on the XLerant website, including informative video clips and testimonials. To learn more, visit us at www.XLerant.com. You can reach us directly at info@XLerant.com or by calling 203/328-3787. We look forward to hearing from you.

About XLerant: XLerant helps companies control costs, instill fiscal discipline in the workforce, and manage profitability. XLerant’s planning application; called BudgetPak, is unique in the way it replaces traditional budget templates & spreadsheet commands with plain English prompts and selections – making it easy for everyone to use. Improved collaboration, greater ownership of the numbers and increased transparency enable CFOs to better manage their business.