

Best Practices: Self Service Budgeting



“THESE DIFFICULT TIMES REQUIRE ORGANIZATIONS TO ADJUST THEIR SPENDING PLANS - AND BE IN A POSITION TO ADJUST AGAIN AS ECONOMIC AND BUSINESS FORECASTS CHANGE. THERE NEEDS TO BE OWNERSHIP AND ACCOUNTABILITY FOR THESE PLANS UP AND DOWN THE ENTIRE ORGANIZATION – REAL FISCAL DISCIPLINE. XLERANT’S BUDGETPAK IS TRULY UNIQUE IN ITS ABILITY TO SUPPORT A PROCESS THAT WILL MAKE THAT HAPPEN.”

*Jim Perakis
Former CEO
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EXECUTIVE SUMMARY

The extraordinarily challenging economic environment we are in today calls for heightened fiscal discipline throughout the organization. This is the new reality and it requires a fundamental retooling of the way companies plan and manage their business.

There is a parallel with the not too distant past. Corporate “rightsizings” were once seen as a drastic response to a temporary problem, but subsequently became a standard, ongoing management practice. The same fiscal discipline associated with salary related costs is now being extended to all operating expenses. In other words, companies are rightsizing their entire cost structure, not just headcount.

There is a dramatic upside to pursuing this. The companies that get it right will not only have weathered the storm but will have established a new organizational competency and a sustainable competitive advantage.

This presents a truly remarkable opportunity for the Finance department to step up and take a strategic seat at the table. Who better to lead a transformational effort to instill fiscal discipline and an owner’s mentality throughout the organization?

Getting your budgeting house in order may be your first step in changing behavior and driving accountability to the front lines. Not just to weather a temporary storm -- but to remain competitive in a global economy.

Why Budgeting?

It may seem a little too simplistic to focus on budgeting; especially when there’s been such a proliferation of sophisticated modeling tools and reporting applications promising improved “visualization.”

But in today’s economy CFOs are more interested in making their numbers than they are in making history.

And CFOs also know that they alone don’t control the outcome. It’s really in the hands of all those front line managers -- making day to day decisions, approving purchase orders, signing up new vendors -- that will ultimately determine success or failure.

So why budgeting? Because it remains today, as it always has, the foundation of fiscal discipline.



Back to Basics #1: The People Who Spend the Money Should Budget their Spending.

According to a survey of over 250 companies conducted by CFO Magazine and The Buttonwood Group, companies that push budget creation to front line managers take half the time to develop budgets and are twice as likely to hit their numbers as those



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that have Finance do it for them. Interestingly, these companies are also far more likely to make their managers answerable for explaining budget versus actual variances (a bellwether indication of fiscal discipline).

But in many companies the Finance organization winds up owning the budget and listening to a chorus of “that’s not my number” from line managers.

What’s really behind that? Line managers can’t or won’t use the budgeting tools given to them. Excel is the most widely used tool for budgeting, but it’s not very user friendly (your average non-finance user doesn’t know for example, that she needs to anchor an absolute cell reference with a “\$” sign). Even well known and expensive planning applications still have interfaces that mimic Excel and require knowledge of arcane formulas and commands, and use specialized syntax (such as using a “>” and a “*” to trigger a percent increase).

The end result of all this is that the people who spend the money don’t actually budget their spending. And without that most fundamental requirement, real accountability isn’t possible.

What’s required is a planning system that replaces the need to learn & use formulas and commands, with plain English prompts and selections -- a system that managers will actually want to use.

Back to Basics #2: Earmark Spending. Senior Executives can’t make informed budget decisions

without good information. They really need to see the budget presented in business terms -- IT Projects, Marketing Campaigns, Promotional Events, Strategic Initiatives, Trade Shows, Improvement Efforts and other forms of “earmarked spending”. The objective is to provide senior executives with a clear sense of what they are approving spending for and why. Therefore, making it easy for line managers to create a project budget to begin with should be a requirement of any planning system.

Back to Basics #3: Integrate Supporting Detail Inside the Budget System. Line managers often build up their budgets with detail kept on legal pads, laptops, whiteboards or network drives. They can access it (when asked) but it’s not visible to the finance staff and it’s not reportable with any consistency. It precisely this detail that explains a budget, that gives it shape and meaning. Capturing supporting detail inside a planning system, so it’s easily accessible and reportable, is another fundamental requirement.

Back to Basics #4: Facilitate Disciplined Plan Reviews. Traditionally, plan reviews focus on year-over-year projected account spending. While comparing G/L accounts is certainly necessary and helpful, effective budgeting focuses on where the money is really going. We mentioned before that managers can, and should, earmark spending for Strategic Initiatives, Marketing Campaigns, IT Projects, and so on. All of these examples cut across multiple G/L accounts -- and more accurately & fully describe what the money is going



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Back to Basics #5: Reliable

Reporting. First, all the numbers have to add up right. That's not always a certainty with Excel; and can only be addressed -- with confidence -- by replacing spreadsheets with a real database.

Second, to the extent practical, actual reporting should be provided at the same level of detail as the budget. Historically, companies report by G/L account, comparing actual versus planned results. But for truly effective reporting you need to move beyond that.

If a company has budgeted in business terms (i.e., by project, strategic initiative, etc.) then this is the right level to report on as well. That often means extending the chart of accounts to include a project field. Yet that should not delay budgeting in business terms or conducting plan reviews in those terms. Let the G/L catch up when it can; but don't use that as an excuse not to get started.

Beyond Budgeting

Budgeting is the bedrock of fiscal discipline, and if you don't have that foundation it's difficult to do much else. But assuming you have high definition budgeting & reporting in place, you may also consider:

- **Training** so that managers can learn Budgeting 101 and other essential skills.

- **Linking a manager's merit Increase**, bonus, promotion, or other rewards to a demonstration of fiscal discipline/accountability.
- **Forecasting** to make sure the company is trending where it needs to be (and make course adjustments as necessary).
- **Technology enablers** to make it easier for managers to do what's being asked of them; especially around requirements for helping to create (and own) their budget numbers.

The Payoff

Fiscal discipline as a core organizational competency will make your company more competitive in a global economy; and effective budgeting provides the platform for turning that vision into reality.

Learning More

There are a number of useful tools available on our 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's planning solutions help organizations save time and reduce operational expenses by making better managerial decisions. Our award-winning BudgetPak software facilitates "self serve budgeting" - enabling both business managers and financial managers to collaborate more closely while mitigating many of the inefficiencies, lack of visibility, and frustration common to the planning process. Hundreds of business managers are engaged in budgeting in a very powerful new way with BudgetPak.