Budgeting and Forecasting

Synaptic

Budgeting and Forecasting supports the planning of foreseeable business performance by challenging business leaders to map out current business conditions, how those business conditions might change and corrective action that will enable the business to stay on the right track. Additionally, the process allows functional managers to analyze their own backyard and compare the specifics of their functional area with all other functions throughout the enterprise. Negative aspects inherent within this process include sandbagging, fiefdom syndrome, and politics. Many believe the annual budget process is a waste of time, as its relevance diminishes as time passes. Synaptic Consulting believes the budget process should represent a point in time, or a “stake in the ground”, and be the starting point for the monthly forecast. We will discuss this in more detail later. We challenge anyone to question the annual budget process as its serves as a great opportunity for “silo busting” -- bringing all players together to define key operating targets, identify companywide cost reduction opportunities in addition to setting goals and opportunities for the entire organization. It should also be noted that simply because we live in a dynamic world, it does not change the fact a budget is one of the critical organizational disciplines that needs attention when completed on an annual basis. Companies must report quarterly and annually and compare to some sort of base-line to private equity boards, banks, shareholders, etc., thus one way or another annual budgets are not simply going away. After the first year executing the budget process and its component rolling forecast (out the 12-18 months) the 2nd year budget preparation can be executed seamlessly.

The most difficult aspect of budgeting and forecasting is projecting revenue. Cost estimation can be ascertained utilizing historical accounting data: while fixed costs are, of course, fixed, variable costs are a function of sales. Monthly forecasting is essential as it takes into account any major business change (e.g. customer gain/loss, startup-delays, one-time expense, product design changes, etc.) that bridge favorably/unfavorably from budget and allow an organization to make the appropriate changes in the projected financial statements. The benefit is it integrates a monthly basis sales planning, mfg./operations, material/headcount planning and finance into a monthly forecast routine.

Cloud-based tools and, for larger businesses, big data tools are leveling the playing field -- enabling smaller companies to deploy sophisticated functionality quickly and at a relatively low cost. Currently available tools (i.e. cloud-based app functionality, mobile apps, and analytic apps) compared to the prehistoric days make this process easily accomplished. Make sure to build in projection and assessment algorithms into the forecast model that take your current trend rate in each applicable area and project that out for the future.

Dashboards in conjunction with sophistic analytics are becoming increasingly automated with heuristic- and/or AI-based alerts and early warning built into the budget / rolling forecast. No longer do they require a financial analyst to review 100 variances on a monthly basis to decipher which ones are important. Parameters should be set so that a variance is flagged when a limit is exceeded.