

Fall 2016

Budgets: Improve the Process

In our last newsletter we covered some of the problems with budgets. But there are some techniques you can use to correct those problems. This month's newsletter lists out a number of techniques you can try.

Techniques used to correct for the weaknesses in traditional budgeting include:

- a. Strategic budgeting** – Align the budgeting process with the company's supply chain management and operating management. Integrate strategic planning initiatives into the budget. There are a number of articles you can find on the subject.
- b. Prepare rolling budgets** – Each month or quarter update the budget for the following 12 months or 4 quarters. Make the budget more dynamic to reflect new developments in the business.
- c. Zero-based budgeting** – Do not budget as a percentage of growth (or decline) from the prior year. Each budgeting cycle assess the necessity of all expenses. Challenge prior practices and focus on best practices.
- d. Establish an innovation fund** – Budget a pool of funds specifically intended to drive innovation in the company. Operating managers can request innovation funds to pursue various initiatives and upper management can approve the allocation of innovation funds to particular departments / activities. Upper management must be effective in selecting projects if they receive a large number of requests to fund innovative ideas.
- e. Critical chain analysis** – Critical chain analysis is a technique used to shorten a project's timeline, which in turn reduces costs. There are articles you can find with more detail.

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- f. Predictive modeling** – By integrating the budget with a company's enterprise resource planning (ERP) system, management can use historical data to make more accurate predictions about future cost behavior.

g. Link budgeting to the Balanced Scorecard Approach – The goal is to use data that is more easily understood by operating managers and employees. As an example, instead of focusing on a financial measure (such as material expense), it may be more effective to focus on scrap rates or defect rates (which affect material expense). There are a number of books/articles about the Balanced Scorecard if you are interested.

h. Build a dashboard of key performance metrics – Decision-making data is most useful when it is timely and when management can draw useful insights from it. Many companies are building dashboards that track key performance measures so management has regular updates to judge the company's performance relative to budget / forecast. Many dashboards include non-financial data.

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"Go to Google, then type: How To Uncook A Turkey."



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- i. Integrate external data into the budgeting / forecasting process** – It is becoming more common that companies are identifying leading economic indicators and building them into their budgeting and forecasting process to create more accurate budgets and forecasts.
- j. Integrate the budgeting process with the forecasting and strategic planning processes** – It is not uncommon that forecasts are built separate and apart from budgets. Many companies are taking steps to integrate the development of their budgets with the development of their forecasts and ensuring that both are consistent with the strategic plan.

- k. Apply continuous improvement principles to the budgeting and forecasting processes** – Similar to any business task, forecasting and budgeting can be improved with continuous improvement principles. Plan. Do. Check. Act. Identify ways that the budget and forecast can be made more accurate and in less time.

The magic is always in the details, but this list could give you some ideas about how to improve the budgeting process in your company. If one of the ideas sounds like a fit for your situation, try searching the Internet to see if there are any articles with more detailed ideas. If you can't locate any specific information, give me a call and we can talk it through. Good luck!

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Please contact Ronald DiMattia at Corporate Value Partners at (216) 741-1330 or ron@corporatevaluepartners.com with any questions or if you need help with a valuation or corporate finance matter.

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