

IT Budgeting Best Practices

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Budget Planning best practices



Findings

- Organizations need to improve the quality, reliability and insightfulness of the data they use to produce reports
- Organizations need to look beyond internal data sources to build a better picture of their future performance

People

- Leading organization are more likely to involve their operational managers in the forecasting process
- Senior executive need to demand reliable forecast that drive decisions making and performance management
- Managers tend to sandbag – actual performance much better

Processes

- Scenario planning is emerging as a useful tool to address the uncertainty inherent in forecasting
- Rolling forecasts are becoming increasingly popular as a way to ensure that organization keep pace with a rapidly changing business environment

Technology

- Technology is currently one of the major impediments to forecasting, but is also seen as one of the key tools that could help improve forecasts
- Four out of ten organizations in the survey rely solely on spreadsheets to produce forecasts
- Advanced software can help improve the forecast, providing it is combined with better processes, data and a company-wide commitment to producing reliable forecasts

Budgeting Best Practices

- Define a Budgeting Process and Identify the Infrastructure Supporting the Budgeting Process
- Establish and Define the Correct Detail Level
- Define Key Performance Metrics (Indicators)
- Collaborate Across the Organization to Align Operating Tasks with Strategic Planning
- Align Resource Allocations with Objectives and Strategy
- Be Timely and Precise
- Manage for Ever-Changing Market Conditions

Define a Budgeting Process and Identify the Infrastructure Supporting the Budgeting Process



Identify the Infrastructure Supporting the Budgeting Process

- Access employees' skill levels and assign tasks and responsibilities accordingly.
- Provide the correct tools and processes for them to complete these successfully.

Define a Budgeting Process

- Used to help ensure the flow between planning phases and identifying the most efficient procedures.
- Process should include the following timelines, objectives, resources, KPI's and risk & challenges.

Establish and Define the Correct level of detail for Budget



- Only supply detail that is significant to the budget
 - Providing too much detail in the budget can be as inefficient as supplying too little. The time spent on focusing on details that do not influence the plan can be better spent elsewhere.
 - Remember that the budget does not need to reflect the actuals (i.e. general ledger).
- All accessible data is relevant - Provide enough detail for budgeting assumptions and decisions and still offer the flexibility to adjust business finances as needed.

Budgets are meant to draw attention to significant variances so they can be investigated through actuals and by other means.

Define Key Performance Metrics (Indicators)



- Definition: financial and non-financial metrics used to quantify objectives to reflect the strategic performance of an organization
- Purpose
 - understanding of key business drivers, which ultimately allows for effective time and monetary investments.
 - gauge and help control the present state of the business.
- KPI Success factors
 - Develop industry-specific KPI
 - Every industry will have unique measurements for determining the financial health of an organization.
 - limit the KPIs to only those factors that are crucial to the organization reaching its goals.
- A good KPI includes
 - the definition
 - the measurement (how the KPI is measured)
 - the target goal.

Once KPIs have been defined, they must be clearly communicated across the organization. With all departments relying on the same benchmarks, the company improves internal inefficiencies and clarifies goals.

Be Timely and Precise

- Some planning cycles take up to six months, which results in irrelevant data by the time the plan is operational.
- Plan for compressed cycle
 - Week 1: Define corporate and operational goals, as well KPIs, and link to incentives
 - Week 2: Communicate planning process to company and accept feedback
 - Week 3: Complete first pass of budget
 - Week 4: Complete second pass of budget
 - Week 5: Finalize budget and communicate to departments
- Benefits of compressed cycle
 - data is kept up-to-date and relevant.
 - allow for sufficient time and resources to meet objectives.

CFO objectives with budgeting

Table 1
 Technology is available to support performance management goals

CFO objective	How they hope to achieve it	Enabling technology available
<ul style="list-style-type: none"> Better budgeting and forecasting quality to improve plans 	<ul style="list-style-type: none"> Eliminate game playing and increase commitments to budgets Implement rolling forecasts 	<ul style="list-style-type: none"> Statistical forecasting for seeding budgets and testing whether budget submissions are realistic Integrated system for comparison of budgets, actuals, and trends
<ul style="list-style-type: none"> Better risk management and understanding of how internal and external changes could affect strategy 	<ul style="list-style-type: none"> Model business scenarios 	<ul style="list-style-type: none"> Statistical forecasting Single platform for access to all necessary data and views (e.g. by product, by region, by margin)
<ul style="list-style-type: none"> Improved efforts by business units to meet performance targets 	<ul style="list-style-type: none"> Allow budget holders to comment on their ability to meet performance targets before plans are set Put analytical capability in the hands of business users Provide better self-serve access to performance data 	<ul style="list-style-type: none"> Collaborative systems that allow text notes, emails, and other types of two-way communication to occur Web-based analytical tools and ad hoc reporting Enterprise-wide portal for strategic performance information
<ul style="list-style-type: none"> Enable finance to spend more time on value-added activities 	<ul style="list-style-type: none"> Reduce time spent on transaction processing and reporting Reduce time spent looking through information hoping to spot the critical problems and opportunities 	<ul style="list-style-type: none"> Automated data collection, report production, and report distribution Automated alerts and exception reports
<ul style="list-style-type: none"> Better alignment between budget and strategy 	<ul style="list-style-type: none"> Identify and focus on key performance indicators 	<ul style="list-style-type: none"> Dashboard of key indicators for decision makers and budget holders Ability to track and report on strategy by initiative, key performance indicators, and other measures as necessary
<ul style="list-style-type: none"> Improve ability to understand the factors behind current performance trends 	<ul style="list-style-type: none"> View detail behind numbers in reports 	<ul style="list-style-type: none"> Ability to drill down into the transaction system Integrated system which accommodates both financial and non-financial measures

Source: CFO Research Services

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