

Kurt Salmon ✨

IMPROVING BUSINESS
PERFORMANCE

**Is it time to change your
approach to budgeting
and forecasting?**



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Virtually all companies conduct an annual budget exercise and periodic forecasts during the year, but few would claim that these processes fulfil the valuable performance management role that is intended. Too often they are seen as a “necessary evil” – processes that take too long, consume too many resources, lack cohesion across the business, with the outputs out of date before they are implemented.

A variety of complaints about budgeting and forecasting are commonly cited:



However, it is important to remember why organisations perform these crucial processes. The budget should be the output of a robust planning process that is driven from and aligned to strategic objectives. It forms the basis for sharing performance expectations across the business and setting targets for business managers and employees.

Similarly, forecasting presents the opportunity to adjust plans and take corrective action in the light of changing business conditions, and is critical therefore to maintaining the confidence of internal and external stakeholders.

Case study

Kurt Salmon conducted a diagnostic of the budget and forecast processes for a global organisation and led a series of Finance/business workshops to reach a consensus on improvements needed.

We supported the client in implementing a series of “quick win” recommendations and progressed to design a refined quarterly forecast process.

We also developed an initial guidance/target setting model and process as the basis for a shorter and more effective annual budget.

What are the characteristics of good budgeting and forecasting?

When done well, budgeting and forecasting has a hugely positive impact on managing business performance. It should be led by the business, which has clear ownership of the key assumptions and performance drivers. Finance's role is to guide and facilitate the process and generate the financial output. Effective and efficient budgeting and forecasting should incorporate the following:

Approach

- **Short target elapsed time and well sequenced process** that aligns with both the strategic review cycle and operational and commercial processes
- **Top-down approach** where objectives and targets are determined by senior management and cascaded down the organisation, allowing lower-level entities to create action plans and the bottom-up financial output
- **Robust review and validation process** at mid-tier entity management level before the budget / forecast is fed back up to senior management. Buy-in is then achieved throughout the organisation and successive reviews and resulting rework are avoided
- **High level business modelling used** to test assumptions, inform target-setting and communicate expectations of likely outcomes
- **Pragmatic and balanced level of detail** allowing focus on the important accounts and drivers that impact business performance; with forecasts generally less detailed than budgets
- **Appropriate time focused on agreeing performance improvement actions** that are achievable and coordinated across the business
- **Technology used as an enabler** in the process to avoid time-consuming manual consolidation, assuring data integrity and facilitating data reconciliation

Communication

- **Appropriate guidance in support of the process**, to ensure that all stakeholders are clear on what inputs are required, when they are required and in what format, and what outputs are expected
- **Purpose of the budget and forecast is clear**, to ensure that budget holders and the wider business understand the benefits of directing time and resource to deliver the outputs
- **Roles and responsibilities** defined and agreed to facilitate efficient execution of the process

Outputs

- **Clear action plans in support of targets** that are owned, aligned and communicated
- **Monthly reporting** to measure progress against action plans and to enable the identification and subsequent mitigation of performance gaps

By adopting these characteristics, it should be feasible to deliver a valuable, action-oriented budget in no more than 8 weeks. Forecasting frequency needs to be tailored to the specific business needs and similarly should be conducted efficiently – a “light” monthly update being performed within 2-3 days and a less frequent, more granular review (no more than quarterly) within 2-3 weeks. Forecasting should include a view beyond the current year, for example using a 12 month rolling basis, or a view to the end of the following financial year.

Improving your budgeting and forecasting

Despite the issues faced and the clear benefits of implementing good processes, many businesses fail to determine how they can improve. Maybe the degree of change appears too difficult? Or maybe, fatigued at the end of a long budget process, organisations have little appetite to set out changes for the following year? The danger is that these processes become an *expected* and *accepted* pain.

Kurt Salmon has a tried-and-tested approach to determine cost-effective ways to make your budgeting and forecasting more efficient and, crucially, more effective:

- Evaluate the current process and understand what needs to be done differently
- Identify pragmatic changes and develop the new process to include these
- Embed the new process, along with the accompanying organisational and technology changes, across the business

So, now could be a good time for you to take a closer look at your budgeting and forecasting and plan out these critical processes for the future. Making them more streamlined and effective will yield dramatic results. Not only will lead times be slashed and resources reduced, but also forecasting will be more accurate and business operating decisions better informed, helping to boost performance.

An Overview of Kurt Salmon's CFO Advisory Services Team

- Kurt Salmon is one of the world's leading strategy and transformation business advisory firms, with over 1,400 experienced professionals worldwide
- We have been recognised as a Leader in Gartner's "Magic Quadrant for Business Operations Consulting Services"
- Our CFO Advisory Services team focuses on the Finance and Performance Improvement agenda through a combination of finance expertise and deep industry knowledge
- We have worked with over 30% of the Fortune 500, 30% of the FTSE 100, and 75% of the CAC 40
- Our consultants are experienced specialists with significant experience in finance line management and consulting
- We know what works, how best to make it work and the pitfalls to avoid, and ensure these lessons are shared throughout each client engagement
- We are recognised for our practical approach - 'rolling up our sleeves to make change happen'
- We are independent and have no exclusive ties to any systems or software vendor, or outsourcing service providers

"The Kurt Salmon consultants brought structure and insight, whilst being very practical and focused on working with what we had, not giving us 'far out' solutions that required massive investment. They were committed to delivering elements where you can see results quickly" SVP GROUP FINANCE

Contact

For more information about Kurt Salmon, or to find out how our CFO Advisory Services team can help you, contact:

SIMON BENNETT

Director
CFO Advisory Services
simon.bennett@kurtsalmon.com
T. +44 7779 006 089

Kurt Salmon UK Office:

Kurt Salmon
10 Fleet Place
2nd Floor
London
EC4M 7RB
T: +44 (0) 20 7710 5200

www.kurtsalmon.com

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