Making Sense: Budgeting

Creating an effective annual budget that is aligned with a clear vision for the future of the company is a goal any business owner will agree on. Timely, accurate, and thorough budget preparation helps to quantify and achieve clear company goals for the next year. The information needed to create the budget will come from many sources:

- The company's historical budgets
- KPIs extracted and analyzed from past and current financial statements
- Sales forecasts and planned growth initiatives
- Other internal and external information

Learning from the Past

When examining historical budgets, it must be determined if those budgets aligned with the company's goals for those years, and if the goals were achieved. These budgets and their analysis will help to create the foundation of a new budget that will be modified based on the other sources of information.

Looking at KPI's

The analysis of KPIs will determine actions that need to be taken to improve those metrics throughout the year. These actions may reduce or increase costs. The KPIs, combined with other factors, will impact sales forecasts. If projections indicate that sales will increase, supporting those additional customers may require things like additional inventory, operational capacity increases, and higher customer support costs.

Sales Forecasts

If the company plans growth initiatives for the year, which may involve increasing sales and marketing, expanding product lines, or expanding into new markets, the expected costs and additional planned revenue, as well as the costs of the necessary higher customer support capacity must also be part of the budget.

Internal and External Impacts

Planning and budgeting also must consider other factors. For example, if profitability is largely dependent on labor costs, current and projected trends in labor costs must be analyzed. This is true of any other major costs of the company, such as inventory and materials. Industry and market trends in general must be thoroughly examined as well.

Multiple budgets may be required. Creating worst case, best case, and mid-range budgets will prepare the business owner for various scenarios.

Process is Everything

A clear budgeting process also must be in place. Pete Gstalder of FocusCFO says that an effective CFO should "oversee the implementation of a comprehensive forecasting and budgeting process. This is a forward focused process that forces the organization to plan for the future in a very detailed manner." When developing the process, the following should be considered:

- Who will be involved in the process? (which should be driven by the CFO)
- What systems will be used to create the budget?
- What resources of information (i.e. market and industry information) will be used?
- Who will monitor the budget and what are the potential actions that may need to be taken if the budget needs to be modified? For example, if sales forecasts are not being met, what costs will need to be reduced?

Budgeting is an ongoing process – no budget is set in stone. It is dynamic and must be adjusted continuously based on real results.

Most importantly, the budget will be determined based on the company's goals. However, don't lose sight of how the budget will also *impact* the company's goals by helping to determine if the goals are realistic based on all the factors analyzed. In other words, the strategic plan and the budget must align.

About FocusCFO:

Founded in 2001, FocusCFO is a leading fractional CFO services provider, with more than 100 CFOs and Area Presidents serving clients throughout Ohio, Michigan, Pennsylvania, Kentucky, Indiana, North Carolina, Tennessee and West Virginia. FocusCFO works closely with small to medium sized businesses, helping business owners gain control over three key financial and operational areas: increasing cash flow, reducing business risk, and creating a platform for scalable growth. This allows business owners to then realize full financial control and increased value in their businesses. FocusCFO provides services on a fractional basis, meaning clients get all the advantages of a full-time, seasoned CFO under terms that are flexible, affordable and within each client's budget. What really sets Focus CFO apart is their CFOs work exclusively onsite at the client's office under a *recurring schedule. Typically, engagements range from two days a month to several days per week, and many clients are in the $2 to 10 million revenue range when they initially engage with FocusCFO.*

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