

Sage ERP

The Budgeting Process:

Forecasting With Efficiency and Accuracy



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Defining the Issues Involved

While most companies acknowledge the importance of planning and forecasting within their business management environment, many struggle for an effective, accurate, and efficient way to incorporate such a task into their strategic cycle. While spreadsheets may work for smaller organizations or companies with straightforward static planning needs, they are not an effective tool for midsized and large companies that need more dynamic, timely, and intuitive planning tools.

It is important, however, for any such tool to be flexible and customizable since no two budget processes are alike. Most companies have fairly unique indicators, or interrelational setups among their data, which are essential to monitor and factor into both short- and long-term planning cycles.

The frustration level for most companies is common. Planning cycles traditionally take an inordinate amount of time and resources to complete. This makes them both frustrating and expensive. In addition, many companies may choose to leave out certain information or components because they are too difficult or time-consuming to include. Or perhaps, accuracy is jeopardized due to extensive rekeying of data or limited automated calculation capabilities. This limits the data generated, its quality, and its usefulness.

In addition, this process is often shepherded or run in total by the company's CFO or controller, whose time is neither plentiful nor inexpensive. Even so, many companies have never stopped to calculate the expense of the hours placed into their planning process. While important, there has to be a better, less expensive way. In fact, Price Waterhouse undertook a study that found on average it took organizations 110 days to complete their annual budget cycle. They further found that the cost of this effort was \$60,000 for every \$100MM in revenues—and that was in the accounting department alone. When the efforts of the people that lie outside the accounting group are included, this figure could be easily tripled or quadrupled for most companies.

The time involved would be worth it if the numbers were accurate and provided the solid foundation for corporate decisions the process promises. However, most companies find the difficulty in coordinating spreadsheets and in gathering data from the wide variety of sources that need to be involved, detrimental to the accuracy of the data and completeness of the process. The static setup of spreadsheets also makes it hard to react to changing business conditions or new planning objectives. It's also incredibly important but highly difficult to incorporate data from the company's general ledger, as well as other systems across the enterprise, in a dynamic fashion that doesn't require rekeying.

So what if there were a product designed specifically for the budgeting needs of midsized and large companies? What if this product could automate the budgeting process and provide an easier means to do accurate rolling forecasts? What if this product were flexible enough to be designed around your budgeting process but complete enough to automate the setup of similar planning models and environments across your organization? Would the benefit of having such a tool as part of a corporate budget cycle be immediately evident?

The Budgeting Experience

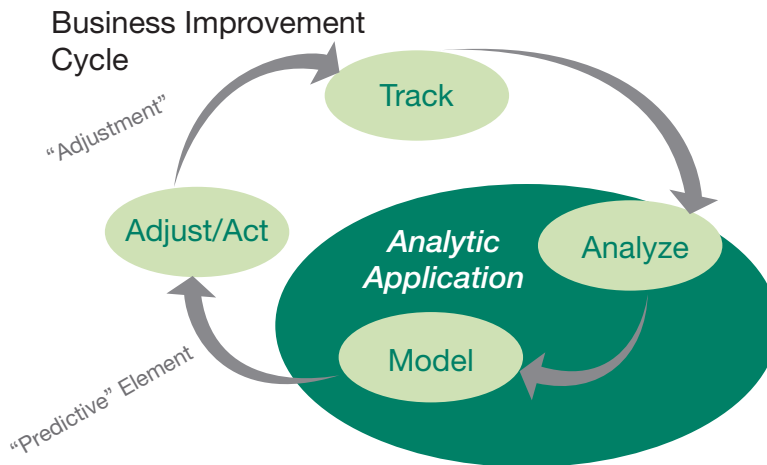
“Something that tends to conjure up in the minds of many managers images of inaccurate estimates, produced in tedious detail, which are never exactly achieved but whose shortfalls and overruns require explanations.”

Source: Harvard Business Review

Furthermore, what if there were an efficient and simple way to involve all the managers from across an organization needed to provide input? What if it were possible to integrate to any open database to populate corporate planning data? And finally, what if this solution could read and incorporate all the data in the chart of accounts without requiring reformatting or rekeying? Wouldn't it save time and increase the effectiveness of corporate forecasts?

The Process

The typical planning process for most organizations begins with the communication from top management of strategic goals and objectives. These can range from very detailed to very general. The budget director, using the resources and personnel at his or her disposal, then uses these goals and objectives to create the budget model for the company. The company as a whole then uses the data generated by this forecast model to define its actions and adjust its assumptions for the year. Progress is tracked against the plan, and then finally results are analyzed and the process starts over again. While this is the ideal system (see figure below), it is not easily accomplished manually and even many corporate information systems typically are not good at closing this loop. For example, many accounting and ERP systems don't give users the ability to accurately model company performance, while reporting systems lack features to incorporate adjustments into the cycle. In a sense, many current information systems are like driving using only the rear-view mirror as a navigation aide. Instead, an enterprise planning and analysis system should facilitate—working in conjunction with the underlying corporate data sources—the closing of a continuous improvement cycle and the ability to navigate by looking forward.



Source: "A Model for Closed Loop, Enterprise-Wide Analytic Applications" (IDC #16043).

Challenges at Each Stage

For the budget manager an effective continual improvement cycle comes with challenges at each stage.

Modeling

This stage relies upon familiarity with the business environment and the development of accurate planning and forecasting formulas and assumptions. Any tool used to facilitate this must be able to incorporate the necessary data and automate the involved and sometimes complex formulas developed by the budget managers to accurately represent current conditions and forecasted numbers. The modeling stage also needs to be able to take into account the outside business environment and other factors affecting the company's budget numbers and results. Data also needs to be able to be easily gathered from throughout the company and those numbers integrated and rolled up into high-level planning models.

Adjust/Act

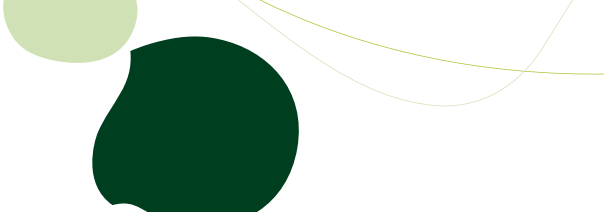
A good budget process should be ongoing. Numbers should be gathered as the process goes along and tracked against assumptions. Any tools used should be flexible enough to allow for incorporation of this information and the adjustment on assumptions and forecasts based on the current information. To allow for this updating, the process needs to be easy to do and very updatable. In fact, some of the most effective and timely forecasting is done on a rolling basis and updated weekly, monthly, or by period.

Track

All numbers need to be tracked against results. Any system used should be integrated to ERP data so that actual numbers can quickly and easily be incorporated into the budget plan and compared to forecast data.

Analyze

Finally, all data gathered should be able to be easily and fully analyzed so that it can be used effectively in strategic planning. This can take the form of "what if" scenarios, the examination of variances, or even multidimensional data analysis. It's important that this analysis go beyond the two-dimensional layout offered by spreadsheets and that all data relationships are explored. This analysis can then be used to adjust the modeling as plans are rolled forward and the process continues.



Sage Budgeting and Planning: Redefining the Budgeting Process

Sage Budgeting and Planning can provide all this and more. A proactive software product designed specifically for the budgeting and forecasting process, Sage Budgeting and Planning offers significant business predictive improvement. It shortens planning cycles, features spreadsheets like ease of use, integrates with enterprise data, is web enabled, and focuses on the benefit of analysis and the ability to make midcourse corrections to planning assumptions. In fact, many Sage Budgeting and Planning users update their budgets frequently, some even daily.

In short, the goal of Sage Budgeting and Planning is process improvement within the planning environment accomplished by transforming data into meaningful information, streamlining the process and shortening decision-making times.

Process Improvement

Start by taking a look at some of the major challenge areas for each company during their planning cycle and how Sage Budgeting and Planning works to improve the process.

Time

One of the most costly aspects of planning for most companies is the time involved. Putting together an effective forecast can take weeks or even months, depending on your company's scope and needs. Sage Budgeting and Planning addresses the time-consuming components of planning head on to reduce your planning time dramatically and increase the time available for strategic analysis. It does this by enabling collaboration across all lines of your business through web-based input channels and the ability to seamlessly combine budget submissions from multiple departments, divisions, or companies. It also allows you to instantly and accurately access both historical and current data from your enterprise wide database sources without importing or rekeying. Combine this with a familiar spreadsheet look and feel (for quicker learning) and the ability to roll your budget numbers forward and update your time periods (and associated data) quickly and easily, and the time savings add up rapidly and repeatedly year after year.

"If you have to forecast,
forecast often."

*Edgar R. Fiedler in The Three
Rs of Economic Forecasting*
—Irrational, Irrelevant and
Irreverent, June 1977.



Flexibility

Automating your planning process won't do you any good if you have to conform to someone else's idea of what's important. Sage Budgeting and Planning offers full flexibility of setup to make the product work with your existing goals and systems. You can design and create your own set of templates from which to build your plan for each of your companies. In addition, you can draw planning periods and your chart of accounts directly from your general ledger in order to automate your setup and keep your planning consistent with your existing business practices. Sage Budgeting and Planning has the ability to use the numbers as they exist, with support for full segmentation of your chart of accounts. If you add, remove, or inactivate any accounts, Sage Budgeting and Planning can automatically recognize those changes. In addition, you can link to such enterprise data such as HR/payroll, capital/fixed assets, customer information, sales data, and more. This allows you to forecast based on the business dimensions important to your company and to utilize all the information available to you.

Reach

While most budget managers would in many ways rather handle the entire process themselves, they realize that many others need to be involved in order to give the numbers credibility and generate buy-in across the company. In fact, for a true and accurate forecast to be developed, line managers must be included. With the Web View product in Sage Budgeting and Planning, this process is not only possible, it's easy. Line managers and others can access the budget process over the web with full security available to control what they view and participate in. Once their input is complete, Sage Budgeting and Planning can consolidate the data and roll it up to higher level planning sheets.

Accuracy

Of course no planning process is worth the time or effort invested if it isn't accurate. With Sage Budgeting and Planning, since data is seamlessly incorporated from your enterprise software, everyone is always working with the most current and accurate numbers. Also, since it's easy to involve others but still have security and control over the process, you can plan down to the detail level necessary to provide you and your process with the numbers you need.

Analysis

So you now have your numbers, one big question that's often ignored is, what do you do with them? Many times this most important stage of the process is ignored or given the short shrift due to the time involvement in assembling the forecast. Sage Budgeting and Planning not only frees up more time during the planning cycle but also provides the tools necessary to do in-depth analysis throughout the process. You can analyze alternative business plans, compare line and business unit performance, examine sales and expense variances, and make allocations based on key business drivers. You can create an unlimited number of revisions so that you can try numerous "what if" scenarios. In addition, Sage Budgeting and Planning provides a multidimensional analysis tool that allows users to interact directly with their budgeting and planning data and a graphical manner. Advanced analysis capabilities can also allow users to decompose aggregate values and drill-down on specific data elements.

Summary

While most companies have a budgeting and forecasting process in place and willingly acknowledge the value and necessity of such an exercise, many are utilizing tools that don't support their company's level of sophistication or size. The result can be a budget process that takes far too long, delivers inaccurate numbers, and frustrates those involved. Automation solutions exist for this process that can be effective, but it's important to focus on those that are flexible enough to incorporate a company's actual budget process.

The best solutions should be integrated and open to allow the incorporation of a company's general ledger and ERP data without rekeying or cumbersome transfers. This data should retain its native format to allow for proper use and easy transfer back into the general ledger application. The application should also be powerful enough to allow for any formulas and calculations necessary to automate the process and return accurate forecast information based on assumption models generated by the budget manager. This should all be done utilizing a process that can streamline the timeline involved, be adjusted for changing assumptions and realities, be rolled forward as necessary without the need to recreate, and offers multiple what-if scenarios and multidimensional data analysis.

Sage Budgeting and Planning offers all this and more. With full support of the business improvement cycle it can help shorten timelines and provide accurate intuitive information to improve and streamline the budget process. You can quickly gain control of the entire process and be able to make quicker, more informed business decisions. You'll also be able to encourage collaboration across your enterprise, tie budgeting activities to performance, and be better able to predict your business improvement.

For more details about Sage Budgeting and Planning and its complimentary offering, Sage Allocations, can be found at <http://NA.Sage.com> or by calling 1-866-996-7243.