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# Budgeting Process

## Overview

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# Agenda

- Introduction
- Budgeting Best Practices – Targets / Process / Reporting
- The Budgeting Process – Targets / Top-Down Bottoms-Up Process / Sample 2 Round Process
- The Planning Tools – Excel vs. Systems / Budgeting Tools
- Taking it to the next level... Rolling Forecasts





# Best Practices

Targets / Process / Reporting

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# Best Practices – Targets

- BUILD PERFORMANCE-BASED BUDGET BY USING **SMART** GOALS
  - Use **SMART** (**S**pecific, **M**easurable, **A**ttainable, **R**ealistic and **T**imely) metrics
  - **Performance-based** framework allocates resources to specific objectives/activities based on these **SMART** metrics
  - A **performance-based** framework establishes **concrete targets** and priorities based on **strategic goals**, and **communicates** those targets to all stakeholders involved in the budget process
- ADD NON-FINANCIAL MEASURES TO TARGET SETTING PROCESS TO INCREASE UNDERSTANDING OF THE REAL BUSINESS DRIVERS
  - Indicators, such as **KPIs**, as well as outside factors, such as **economic and market conditions**, should always be taken into consideration

# Best Practices – Process

- IMPROVE YOUR PROCESS THROUGH AUTOMATION
  - Introduce of **technology** to improve the budgeting and forecasting process
  - **Automate** the process with budgeting and planning system
- CONSIDER A DRIVER-BASED APPROACH
  - **Driver-based** planning creates budgets and financial forecasts using operational drivers such as units of product, FTEs, customers, deliveries, transactions, etc.
  - Using mathematical relationships creates budgets and forecasts with **fewer inputs, reducing errors and saving time** by using calculations based on operational activities
- REMOVE EXCESSIVE DETAIL
  - **Focus on detail where it matters...** more detail for the short-term and less detail for the longer term
  - Budgeting at the **Natural Account vs. Higher Level**



# Best Practices – Process (cont.)

- **BE INCLUSIVE IN AN ITERATIVE PROCESS**
  - Narrow the strategic goals into *specific business metrics* through *iterative* discussion
  - Successful organizations promote *constructive communication* and provide a narrative to support the numbers.
- **SHORTEN YOUR BUDGET CYCLE... UPDATE FREQUENTLY TO REALITY**
  - The budget *cycle varies by the size and complexity* of an organization
  - Generally, a budget process (once targets are set) should take *about 30 days* to prepare
  - Budgets and plans should be *updated as frequently as necessary* to reflect economic, organizational, and other outside variables
  - *Don't view a budget as 'Set in Stone'*



# Best Practices – Reporting

- INCLUDE PAST PERFORMANCE
  - Past performance can be a ***strong indicator*** of future performance
  - Budgets and forecasts should include a ***look back and comparative***
- ADOPT REPORTING ANALYTICS... INCLUDE NON-FINANCIAL DATA
  - Analytics ***highlights trends and exceptions*** and ***speeds decision making***
  - Take the time to ***run ‘What-if Scenarios’*** to uncover possible future risk
  - Allows for a ***deeper understanding*** of the drivers of performance and their relationship to future outcomes
  - Helps ***develop new insights***





# The Process

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# Target Setting

## Determine Strategy

### Organizational Goals

- Organizational Mission
- Markets Served
- Customer Base (Current/Future)
- Costs to Support Mission
- Bottom Line Expectations
- Capitalization / Funding Needs
- Reserves Requirements

## Develop KPIs

### Desired Outcomes *SMART*

- Mission Success KPIs
- Market Penetration
- Customer Base Metrics
- New Product KPIs
- Headcount Metrics
- Expense KPIs to Support Mission
- Operating Margin KPIs
- ROI / ROE / ROCE
- Cash Flow

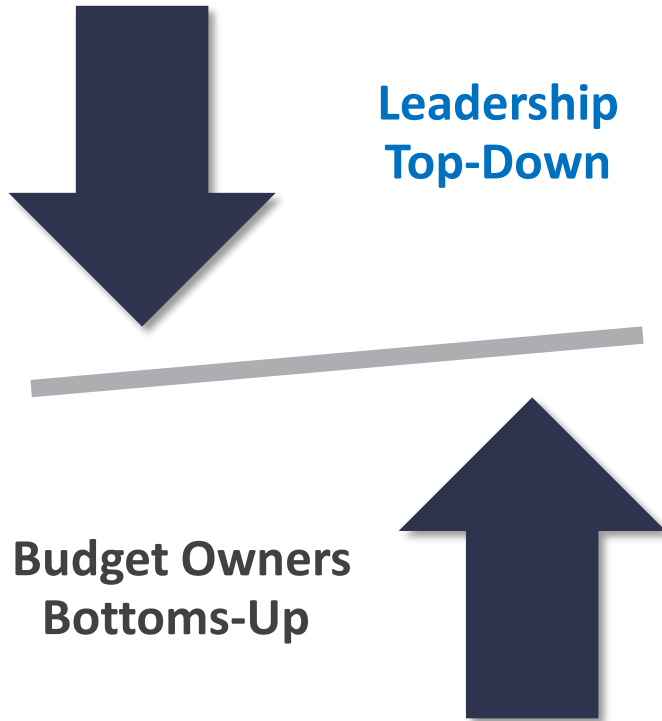
## Build Targets from KPIs

### Translating KPIs to Ps & Qs

- **Revenue/Expense Targets based on**
  - ✓ *Mission success measures*
  - ✓ *Market Penetration*
  - ✓ *Customer growth*
  - ✓ *Headcount/Expense growth*
  - ✓ *Operating Margin*
- **Balance Sheet Targets based on**
  - ✓ *ROI / ROE / ROCE*
  - ✓ *Ending Cash Flow*



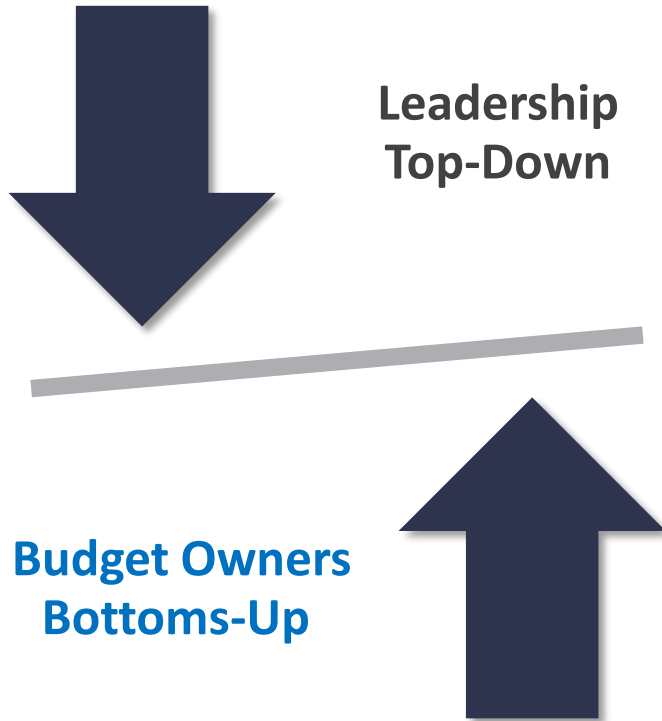
# Top-Down / Bottoms-Up



- *Targets* begin with **KPIs**
- **SMART goals** are always smart!
- Leadership **develops** and **communicates** **Targets** to Budget Owners to build their budgets
- Leadership must **collaborate** with Budget Owners to develop **budgets based on KPIs**
- Budget Owners should have **ownership** in the **Target setting** process

**Remember: Targets are targets...**

# Top-Down / **Bottoms-Up**

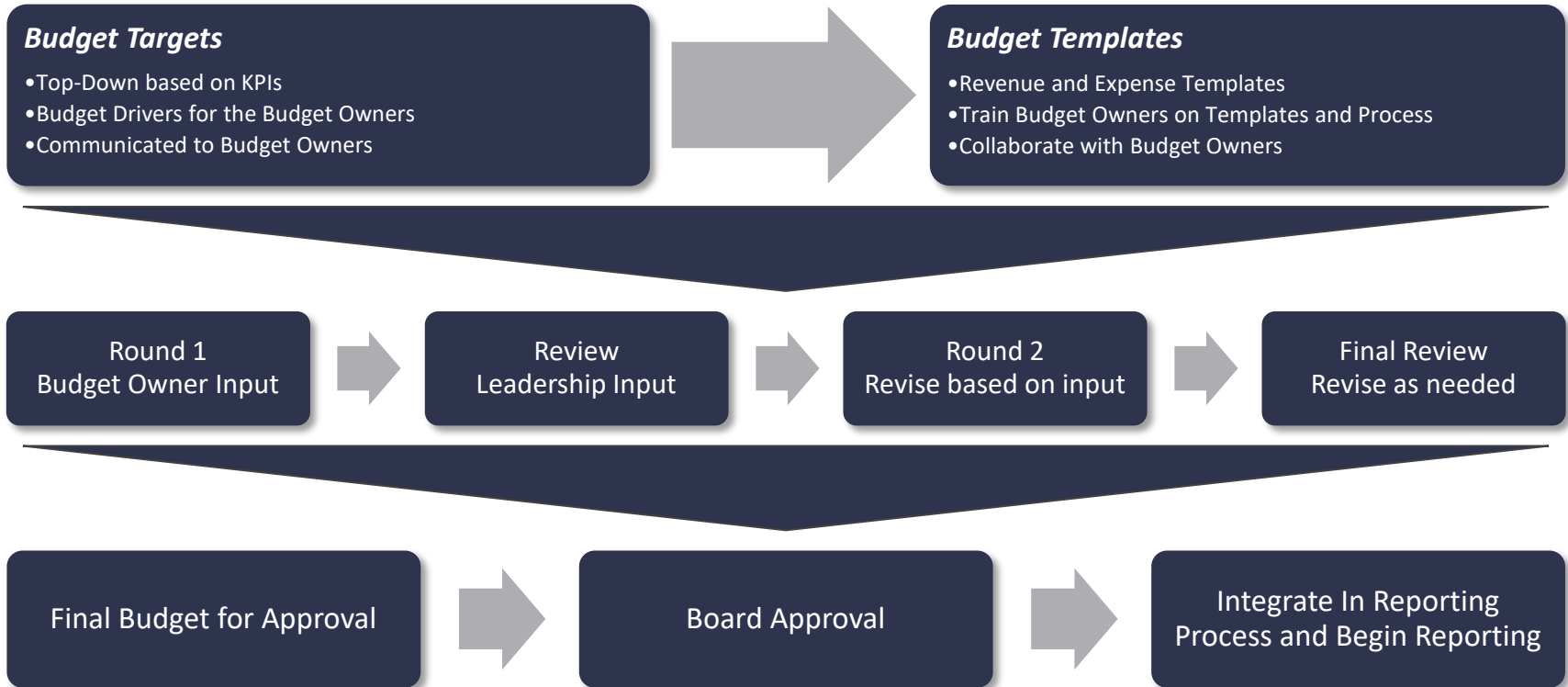


- Leadership *communicates Targets* to Budget Owners
- Budget Owners build their budget from *Bottoms-Up* to meet their targets
- Leadership should encourage *autonomy*
- The process is *iterative*...
- Budget owners need to take *ownership* of their budgets to be *effective*

*Remember: Ownership starts with Communications...*



# Budgeting Process – Basic 2 Round Process





# Planning Tools

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# Process vs. Tools

***Tools*** are used to support a properly designed  
***Budgeting and Planning Process...***

***Process*** without ***Tools*** is difficult...  
***Tools*** without ***Process*** is a nonstarter



# Planning Tools – Excel vs. Integrated Systems








- **Excel...**
  - Bespoke modeling capacities
  - Error prone when large data required
  - Heavy lift to consolidate and integrate
  - Limited security
- **Systems tools...**
  - Customization for the industry
  - May not offer Excel modelling flexibility
  - Large data capacity
  - Ease of consolidation and integration
  - Multi-level security



# Budgeting Tools

- List of tools... to name a few!

-  **MARTUS** Nonprofits, Churches and For Profits / Sage Intacct, Blackbaud Financial Edge, QuickBooks
-  **Fathom** Small and medium businesses / QuickBooks, Xero
-  **workday** Medium to Large businesses / total workforce solution / NetSuite, Sage Intacct, MS Dynamics, etc.
-  **planful** Medium to Large businesses / total workforce solution / NetSuite, Sage Intacct, SAP, etc.
-  **vena** Small to medium businesses / total workforce solution / NetSuite, MS SQL, SAP, IBM, etc.
- Etc...





# Budgeting Tool Templates

Martus Tools

Worksheet: NFP 2019 Budget

Year: 2019 Location: 200 General Department: 200 Accounting Project: 999 Non-Project or Grant Related Load Initialize Worksheet

| 2018 Actual                 | Jan-18    | Feb-18    | Mar-18    | Apr-18    | May-18    | Jun-18    | Jul-18    | Aug-18    | Sep-18    | Oct-18    | Nov-18    | Dec-18    | Total      | Total      |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|
|                             | Actual    | Actual    | Actual    | Actual    | Actual    | Actual    | Actual    | Actual    | Actual    | Actual    | Budget    | Budget    |            | Budget     |
| EXPENSE                     |           |           |           |           |           |           |           |           |           |           |           |           |            |            |
| 5121 Salaries               | 5,496.27  | 5,512.77  | 5,529.31  | 5,496.27  | 5,512.77  | 5,529.31  | 5,709.73  | 5,726.85  | 5,744.03  | 5,709.73  | 11,326.46 | 11,351.69 | 80,445.35  | 85,879.34  |
| 5122 Legal Fees             | 150.00    | 150.00    | 150.00    | 150.00    | 150.00    | 150.00    | 150.00    | 150.00    | 150.00    | 150.00    |           |           | 1,500.00   |            |
| 5180 Office Supplies        | 1,468.22  | 1,469.59  | 1,572.47  | 1,587.44  | 1,499.27  | 1,499.27  | 1,594.57  | 1,564.98  | 2,280.55  | 1,541.93  | 2,479.03  | 3,214.84  | 22,092.78  | 26,678.34  |
| 5182 Utilities              | 1,468.22  | 1,469.59  | 1,572.47  | 1,587.44  | 1,499.27  | 1,499.27  | 1,594.57  | 1,564.98  | 2,280.55  | 1,541.93  | 2,479.03  | 3,214.84  | 22,092.78  | 26,678.34  |
| 5183 Janitorial Services    | 1,477.70  | 1,479.87  | 1,542.66  | 1,597.68  | 1,528.33  | 1,538.95  | 1,606.87  | 1,375.07  | 1,532.56  | 1,381.86  | 2,896.34  | 3,235.63  | 21,472.62  | 26,811.63  |
| 5184 Insurance              | 1,494.37  | 1,495.77  | 1,605.47  | 1,615.72  | 1,446.70  | 1,525.97  | 1,625.00  | 1,382.85  | 1,545.85  | 1,569.39  | 2,726.74  | 3,272.69  | 21,714.92  | 23,046.38  |
| Total Expense               | 12,584.78 | 12,576.79 | 12,807.33 | 12,834.55 | 12,173.56 | 12,112.77 | 12,284.74 | 12,114.73 | 12,179.73 | 12,064.84 | 21,907.54 | 26,389.06 | 168,565.44 | 169,093.83 |
| 2019 Budget                 |           |           |           |           |           |           |           |           |           |           |           |           |            |            |
|                             | Jan-19    | Feb-19    | Mar-19    | Apr-19    | May-19    | Jun-19    | Jul-19    | Aug-19    | Sep-19    | Oct-19    | Nov-19    | Dec-19    | Total      | Debit      |
| INCOME                      |           |           |           |           |           |           |           |           |           |           |           |           |            |            |
| 4110 Bank Interest Earned   |           |           |           |           |           |           |           |           |           |           |           |           |            |            |
| Total Income                |           |           |           |           |           |           |           |           |           |           |           |           |            |            |
| EXPENSE                     |           |           |           |           |           |           |           |           |           |           |           |           |            |            |
| 5121 Salaries               | 5,771.08  | 5,788.41  | 5,805.78  | 5,771.08  | 5,788.41  | 5,805.78  | 5,995.22  | 6,012.33  | 6,031.23  | 6,035.60  | 11,682.72 | 14,319.27 | 80,897.77  |            |
| 5124 Life Insurance Premium |           |           |           |           |           |           |           |           |           |           |           |           |            |            |
| 5203 Consulting Fees        |           |           |           |           |           |           |           |           |           |           |           |           |            |            |
| 5302 Office Supplies        | 1,540.83  | 1,543.87  | 1,653.08  | 1,668.81  | 1,688.78  | 1,524.29  | 1,635.40  | 1,643.73  | 2,394.58  | 2,344.95  | 3,812.98  | 3,975.50  | 23,822.93  |            |

W Search

Levels Total Company

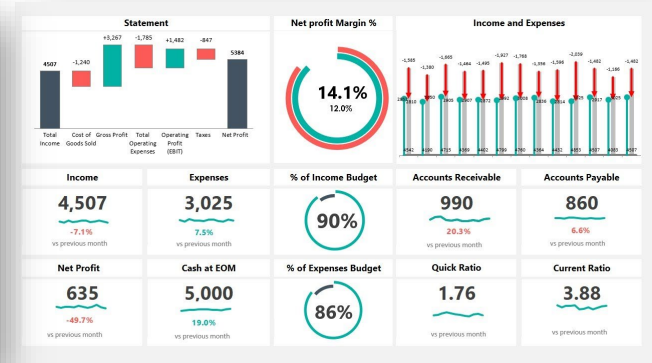
| #  | ACCOUNTS                        | FY 2022     | JAN 2023   | FEB 2023   | MAR 2023   | APR 2023   | MAY 2023   | JUN 2023   | JUL 2023   | AUG 2023   | SEP 2023   | OCT 2023   | NOV 2023   | DEC 2023   | FY 2023     |
|----|---------------------------------|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| 1  | Revenue                         |             |            |            |            |            |            |            |            |            |            |            |            |            |             |
| 2  | Product Revenue                 | 84,614,340  | 6,742,724  | 6,876,101  | 7,583,217  | 7,452,448  | 7,741,847  | 7,941,860  | 7,588,026  | 7,883,543  | 8,113,356  | 7,740,128  | 8,030,141  | 8,256,146  | 91,971,557  |
| 3  | Service Revenue                 | 42,024,239  | 3,676,391  | 3,758,881  | 3,744,878  | 3,774,878  | 3,744,878  | 3,854,881  | 4,092,360  | 4,157,737  | 4,418,475  | 4,178,486  | 4,339,747  | 4,178,486  | 47,756,458  |
| 4  | Maintenance Revenue             | 1,323,029   | 108,752    | 114,009    | 126,530    | 118,809    | 117,469    | 123,567    | 122,521    | 120,008    | 118,478    | 119,176    | 127,691    | 112,335    | 1,480,430   |
| 5  | Total                           | 127,961,548 | 10,528,787 | 10,751,041 | 11,354,644 | 11,344,936 | 11,665,766 | 11,918,928 | 11,797,809 | 12,111,329 | 12,650,389 | 11,988,304 | 12,477,579 | 12,567,976 | 141,188,311 |
| 6  | Cost of Sales                   |             |            |            |            |            |            |            |            |            |            |            |            |            |             |
| 7  | Product Cost                    | 36,001,127  | 3,969,614  | 4,167,609  | 4,315,688  | 4,100,388  | 4,294,385  | 4,442,451  | 4,231,495  | 4,432,183  | 4,583,097  | 4,375,746  | 4,584,502  | 4,717,252  | 52,199,409  |
| 8  | Service Cost                    | 22,153,592  | 1,768,755  | 1,764,576  | 2,150,136  | 2,022,264  | 2,022,885  | 2,021,177  | 2,026,323  | 2,019,323  | 2,017,261  | 2,017,261  | 2,016,776  | 2,014,689  | 23,601,342  |
| 9  | Maintenance Cost                | 800,977     | 67,558     | 67,558     | 69,819     | 69,819     | 69,819     | 69,819     | 69,819     | 69,819     | 69,819     | 69,819     | 69,819     | 69,819     | 97,584      |
| 10 | Total                           | 58,955,696  | 5,805,927  | 6,019,743  | 6,535,643  | 6,192,472  | 6,395,879  | 6,544,438  | 6,526,364  | 6,521,194  | 6,667,257  | 6,471,442  | 6,667,257  | 6,802,667  | 79,812,334  |
| 11 | Gross Margin                    | 48,836,162  | 4,758,810  | 4,711,298  | 4,818,952  | 5,154,463  | 5,269,887  | 5,374,491  | 5,461,244  | 5,589,136  | 5,969,052  | 5,916,832  | 5,810,512  | 5,697,250  | 64,166,009  |
| 12 | Gross Margin %                  | 38.9%       | 44.7%      | 43.9%      | 42.2%      | 45.4%      | 44.9%      | 45.1%      | 45.2%      | 44.1%      | 47.2%      | 46.6%      | 45.5%      | 45.4%      |             |
| 13 | Operating Expenses              |             |            |            |            |            |            |            |            |            |            |            |            |            |             |
| 14 | Sales & Marketing               | 14,243,721  | 1,395,365  | 1,431,641  | 1,816,340  | 1,301,641  | 1,464,255  | 1,367,217  | 1,526,914  | 1,511,267  | 1,489,889  | 1,429,267  | 1,479,487  | 1,499,839  | 17,863,922  |
| 15 | Research & Development          | 777,854     | 115,467    | 91,542     | 89,896     | 92,086     | 92,713     | 92,086     | 93,341     | 92,076     | 91,885     | 91,744     | 91,313     | 1,125,687  |             |
| 16 | General & Admin                 | 1,094,206   | 42,048     | 49,823     | 51,363     | 51,543     | 51,764     | 50,844     | 38,470     | 51,335     | 50,442     | 49,891     | 49,897     | 49,822     | 384,727     |
| 17 | Total                           | 16,115,781  | 1,554,180  | 1,573,007  | 1,958,001  | 1,445,089  | 1,608,072  | 1,458,214  | 1,658,725  | 1,654,613  | 1,632,264  | 1,579,881  | 1,620,128  | 1,647,079  | 19,374,251  |
| 18 | EBITDA                          | 32,720,381  | 3,144,104  | 3,138,292  | 3,271,481  | 3,569,395  | 3,569,409  | 3,706,276  | 3,864,519  | 3,937,521  | 4,286,659  | 3,938,811  | 4,190,284  | 4,038,116  | 44,501,788  |
| 19 | EBITDA %                        | 40.9%       | 29.9%      | 29.2%      | 27.9%      | 30.9%      | 30.1%      | 31.2%      | 32.2%      | 32.2%      | 34.3%      | 32.8%      | 33.6%      | 32.4%      |             |
| 20 | Interest (incl) Exp             | 21,758      | 1,812      | 1,812      | 1,812      | 1,812      | 1,812      | 1,812      | 1,812      | 1,812      | 1,812      | 1,812      | 1,812      | 1,812      | 21,744      |
| 21 | Taxes                           | 87,351      | 6,331      | 10,271     | 7,901      | 8,222      | 4,710      | 8,301      | 10,263     | 11,341     | 8,809      | 4,248      | 4,145      | 4,145      | 103,138     |
| 22 | Depreciation & Amortization     | 198,287     | 54,207     | 54,656     | 54,656     | 55,174     | 55,174     | 55,174     | 55,174     | 55,174     | 55,174     | 55,174     | 55,174     | 55,174     | 640,921     |
| 23 | Minority Interest Adjustment    | 1,122,676   | -7,211     | 1,089      | 10,559     | 25,168     | 25,168     | 40,072     | 50,305     | 41,252     | 72,325     | 83,721     | 93,464     | 107,560    | 568,082     |
| 24 | Income Before Operating Expense | -449,054    |            |            |            |            |            |            |            |            |            |            |            |            |             |
| 25 | EBIT                            | 32,271,326  | 3,136,292  | 3,136,480  | 3,269,670  | 3,567,583  | 3,564,597  | 3,704,464  | 3,852,707  | 3,915,709  | 4,274,847  | 3,917,000  | 4,198,470  | 4,036,302  | 44,233,894  |
| 26 | EBIT %                          | 39.6%       | 29.4%      | 29.6%      | 27.3%      | 30.2%      | 30.2%      | 31.4%      | 32.2%      | 32.4%      | 34.3%      | 32.8%      | 33.6%      | 32.4%      |             |

All currency values shown in USD - United States of America, Dollar

- Tool Templates are Excel based (***Look and Feel***)
- Templates can be built to meet organization's specific needs
- Consolidations use data base technology for ease of use



# Budgeting Tool Reporting – Dashboards



- Financial Statements vs. Dashboards
- Include non-financial information
- Tell the organization's "story" ...

***"How does this budget move the mission forward"***



# Choosing A Budgeting Tool

- Organization Type
  - Nonprofit
  - Public Administration
  - Educational Institution
  - Religious Organization
  - Manufacturing
  - Service Industry
  - Small Business
  - Midsize Business
  - Large Enterprise
- Integration
  - Accounting System
  - Customer Relationship management (CRM)
  - Current ERP
  - Donor Management System
  - Human Resource System
- Features
  - Dashboard Reporting
  - Template Flexibility
  - Scenario Planning
  - Workflow Management
  - Multi-entity
  - Multi-year Forecasting
  - Balance Sheet / Cash Flow
  - Multi-Currency





# Rolling Forecasts

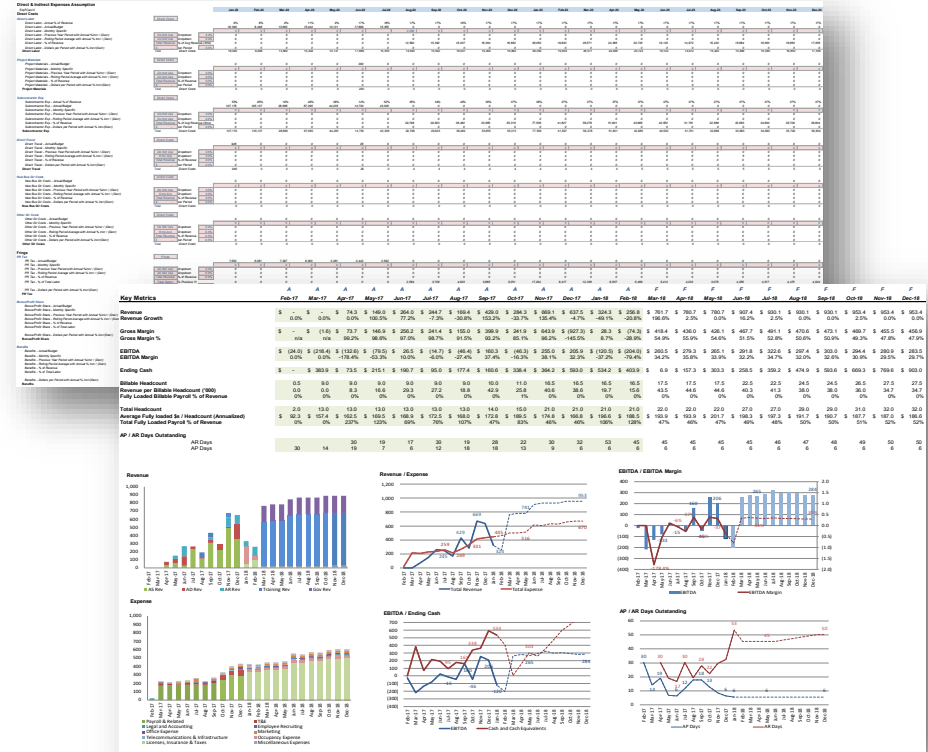
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# Rolling Forecasts – What to consider

## Key Factors

- **Driver based** following the budget
- Matched to the **organization's hierarchy**
- Detail **flexibility** without diminishing analytic quality
- **Integrated** in the Planning Process Tool
- Dashboard Reporting on **Metrics/KPIs** and trends... Both Organization and Industry specific
- Must Adhere to a **disciplined updating** process



# Rolling Forecast Schematic

## Annual Forecast

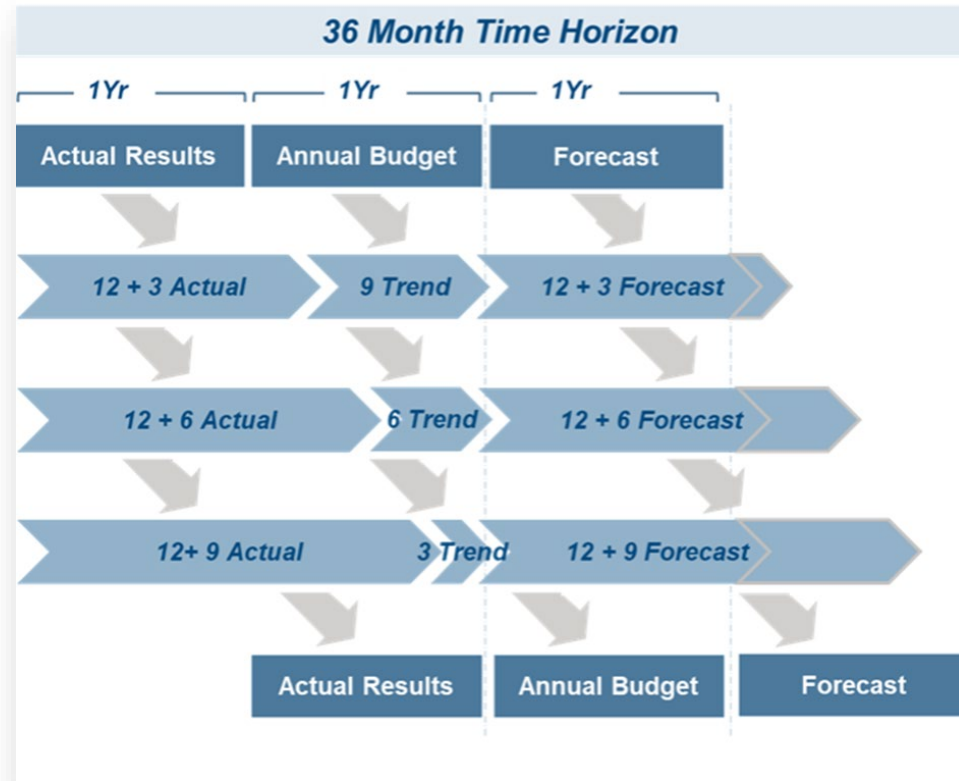
- Includes actual results, the annual budget and up to three years of forecast (Five-year)
- Uses the annual results and budget to formulate the drivers for the forecast

## Periodic Rolling Update

- Monthly/Quarterly updated actual results roll the results forward through an updated “trend” budget
- 3, 6 and 9 month trend analysis rolls budget forward with updated metrics

## Annual Roll Forward

- Subsequent annual budget initiated through “roll forward” process.
- Forecast rolled forward with metrics based on updated annual budget.





# Questions?

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