Budgeting: Best practice guide

Catherine Hubbard, Reporting Specialist

Pete Dixon, Forecasting Specialist

Conor Donohoe, Financial Planning and Analysis Specialist

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Introduction

A major missed opportunity, repeated annually

For most organizations, annual budgeting is a stressful and frustrating time, full of unproductive meetings, decisions made on incomplete information and superficial analyses, vain efforts to establish a core set of assumptions that everyone can agree upon, and of course, plenty of turf battles. Participants end up determined just to get the budget done, and put the ordeal out of mind until next year.

How does the budgeting process turn into such a spectacle? A major reason is the habitual approach to annual budgeting as a cumbersome, finance-driven exercise, fixated on top-down initiatives to set income and cost targets, rather than a collaborative business exercise to establish corporate priorities and influence behaviors.

At the core of this dysfunction are spreadsheets. Each spreadsheet represents a potential point of failure. As time elapses and data proliferates, errors accumulate, links break, and version control becomes an issue. Unscalable and inflexible, spreadsheets fail to support the level of quality and breadth of information that managers need to navigate business uncertainty, mitigate risks, and take advantage of opportunities in the marketplace.

A better way to manage the annual budgeting process for everyone

The most effective annual budgets are both operational and financial, crafted with the purpose of making the budget process transparent and accessible to everyone involved. Such inclusiveness fosters organizational alignment, and ensures that departmental leaders assume ownership of their segments of the plan, understand how the overall budget affects them, and ultimately gain a clearer vision of both tactical and strategic goals.

In this handbook, we'll walk you through a five-step annual budgeting process. At each step, we'll first review the stress points of the legacy, manual, spreadsheet-driven way of budgeting. Then, we'll contrast the old way with a new set of best practices of budgeting in a Connected Planning environment and offer guidance about how business leaders can make the most of a Connected Planning solution to improve the budgeting process, and, more importantly, its outcomes.

A business exercise, not simply a financial exercise

Budgeting is a time to reset, refresh, reevaluate, and perhaps even transform. It is a time to determine what the business can do, the resources it needs to do it, and the mechanisms to correct itself along the way. It is a time to chart a budgetary course that sets the business up for success. Rather than a system where most contributors have no input into apparently arbitrary objectives, the best way to get buy-in, communication, and participation is a more collaborative environment where everyone works from a common set of high-quality information.

Budgeting step 1: Align business unit/departmental budgets to strategic objectives

The conventional way: Off to a rocky start

Senior leadership frequently kicks off the budgeting process by conducting a week of roundtable discussions aimed at formulating high-level budget objectives for the upcoming fiscal year.

Although lengthy reports may be available, the senior leadership team tends to work primarily from a slide deck of spreadsheet screenshots, prepared for them by a designated working group. The deck contains historical results along with some basic and static growth assumptions, and is often carefully edited so as not to prompt unwanted scrutiny.

Prolonged sessions of budgeting hypothesizing follow, using only rudimentary assumptions, supplemented by ad hoc, manual, offline calculations based on more static screenshots. "What-if" scenarios can be only superficially evaluated because the impact of those scenarios to the business unit or departmental level cannot be accurately mapped.

Many of the discussions that take place during this week are "political," where potential conflicts among various interests take over as the main topic of discussion. That is not always a bad thing, and may even

be necessary, as an executive's duty is to resolve competing interests so that operational-level activities align with top-level corporate strategy. Even so, these discussions are often protracted and disconnected from the current operational reality because the data is out of date and based on simplistic assumptions. A week of roundtable meetings can easily extend into two to three weeks before senior leaders reach the point where they can share a high-level budget with divisional leaders.

Budgeting step 1 summary

- Senior leadership establishes top-down targets.

- Roundtable budget discussions are conducted to evaluate assumptions.

- Consensus on high-level targets is achieved before releasing to business units.

The Connected Planning way of budget and target setting: Course of action

01 **Start by being clear about the purpose.** Senior leadership initiates the annual budgeting process with the explicit purpose of setting high-level, top-down targets for group and business units and aligning those targets to top-level strategic goals. Taking last year's actual performance as a baseline, the main purpose is to establish a forward-looking perspective, and get buy-in and accountability from lower levels of the organization.

02 **Conduct roundtable budget discussions.** These discussions take place during the first week and should not be based solely on information that has been prepared and presented in a summary slide deck. A primary purpose of these roundtable budget discussions is to set out and test discussion points. A slide deck can be used to frame parts of the discussion that lead to this objective, but it is not the primary source by which to guide roundtable discussions.

03 **Aim to compress activities and curtail digressive conversations.** Activities that previously took two or three weeks often take just two or three days when using a Connected Planning solution.

04 **Investigate, don't speculate.** Use discussion points and issues raised to evaluate different assumptions and immediately assess the financial impact. "What-if" scenarios can be run in real time across individual business units or at a group level, and financial implications can be instantly calculated and evaluated further.

05 **Seek a balance of rigor and relevance.** The senior leadership budget decision-making process is much more rigorous and incisive, and greatly accelerated, when not working off static spreadsheets.

06 **Aim to compress activities and curtail digressive conversations.** Activities that previously took two or three weeks often take just two or three days when using a Connected Planning solution.

07 **End the week by achieving a consensus.** Senior management should conclude the week with a unified message with the intent to immediately begin socializing the high-level plan with divisional leaders.

The conventional way: 3 weeks	The Anaplan way: 1 week

Budgeting step 2: Circulate top-down budget targets among business unit leaders

The conventional way: Electronic paper pushing

Before conversations can happen with department and line of business managers, information about the top-level targets needs to be distributed to the appropriate people. Preparation and circulation of these documents is often handled manually, by individuals who are put under tremendous pressure to complete the task as soon as possible so as not to delay the budgeting process.

Much time is consumed separating large workbooks to create individual spreadsheets before reconciling for accuracy and completeness. Numerous spreadsheets create an environment ripe for later accumulations of spreadsheet errors that pose operational risks.

Usually, distribution occurs by email, another manual task. Ensuring that the right data is sent to the right people in a timely manner is cumbersome and risk-prone. One particular risk involves data being sent to an incorrect recipient, which nearly always has a negative impact on internal morale and motivation, and can compromise the integrity of the entire budgeting process for the year.

Budgeting step 2 summary

- Senior leadership establishes top-down targets.
- Targets are automatically apportioned across business units and departments.
- Business unit management is automatically informed that the first draft is available.

The Connected Planning way of circulating top-down targets among business unit leaders: Course of action

01   **Distribute budget targets automatically.** Senior leadership uses the Connected Planning solution to automatically release individual business unit or departmental top-down targets to relevant stakeholders. Out of habit, it might be tempting to print hard copies and circulate them among select people. This should be avoided. Instead, senior leadership should, at the outset, establish the practice of handling notifications and communication electronically, within the Connected Planning solution.

02   **Move quickly.** Initiate distributing the target information as soon as the first budget roundtable discussions have concluded, to maintain the pace of the process and promote briskness as the process transitions to this step.

03   **Avoid manual interventions.** Let the Connected Planning solution do the work of automatically apportioning top-down group target information across business units and departments based on customizable reports and models.

04 **Establish lines of communication.** Business unit managers are informed directly through a notification that the first draft of their target has been made available. Senior leadership should follow up with pertinent commentary within the Connected Planning solution, thereby initiating a digital paper trail, and, more importantly, encouraging communication and setting expectations for turnaround time.

05 **Think business partnering.** More time is given back to Finance to engage with the rest of the organization in a business partnering capacity. This is an excellent time for business unit managers and Finance to connect with one another, and for the latter to treat questions posed to them as an opportunity to begin building a business partnership, rather than a nuisance to clear from their desks as quickly as possible.

Giving everyone some of their time back

This stage of the budgeting process is where the organization can really begin to experience efficiency gains, releasing significant amounts of time for persons managing the process. Time is not wasted reconciling business units to department targets, or separating linked spreadsheets into single flat files for email distribution. And, because the risk of a business unit or departmental target being sent to an incorrect recipient is eliminated, no time is wasted on damage control and multiple follow-ups to rectify the situation.

The conventional way:
6 weeks

The Anaplan way:
2 weeks

Budgeting step 3: Finance prepares business unit-level budgets from the bottom up

The conventional way: A huge drain on time and patience

At this point, the most dreaded phase of the entire budgeting process begins. Finance circulates spreadsheet templates to business units and departments for completion. Individual business unit managers or cost center owners are required to fill in the templates, yet often do so inconsistently due to a lack of understanding of the structure of the spreadsheet, and more broadly of what is expected of them. In truth, many will spend time procrastinating. Such paralysis by analysis results from staring at spreadsheet templates, guessing at what is truly required, and then inevitably trying to locate someone who can provide some guidance or direction. Completed templates likely include commentary and annotations and may reference ad hoc emails, and offline discussions, all of which are difficult, if not impossible, to track.

Business unit and department managers then send completed templates by email. Upon receiving all those completed spreadsheets, Finance must then consolidate numerous iterations of cost center or departmental templates into a master budget template, stitching fragile spreadsheet links together. Such iterations can proliferate into the hundreds very easily, making version control a major challenge. Manual flat file input is not driver-based from a revenue and cost perspective, and cannot drill-down,

a capability that is especially useful to senior management. For example, an increase in headcount midway through the year in a newly opened office has substantial implications across financial statements. Quite often, the P&L impact will be disconnected from the corresponding cash flow forecast, which leads to decisions being made in a vacuum, without complete information. This is one of countless examples where a spreadsheet-based budgeting process gives rise to disconnects, which consequently diminishes access to critical budget data during decision-making.

Budgeting step 3 summary

- Business unit managers complete their segments of the bottom-up budget.
- Business unit managers input figures directly into the solution.
- Solution automatically calculates budgeted revenues and apportions budgeted costs based on custom drivers.

The Connected Planning way of creating a bottom-up budget: Course of action

01 **Set a positive tone, with a human touch.** Business unit and departmental managers will be notified automatically to complete their segment of the bottom-up budget. While automation has thus far facilitated several benefits during the process, this is a hand-off point that should be handled with care. Immediately following up automatic notifications with a form of personalized communication helps smooth friction that managers are likely to feel when prompted by a machine to fill in their departmental income statements. This is another timely opportunity for Finance to establish business partnerships.

02 **Validate anything that is not completely clear.** The Connected Planning solution calculates the budgeted revenues and costs automatically, apportioning the top-down targets across the business. This is the time for department managers to reach back to Finance using the solution (or, in some cases, senior management) to clarify and confirm assumptions, figures, or calculations.

03 **Contribute the numbers.** At this stage of the budgeting process, departmental managers input their numbers directly into the Connected Planning solution, primarily using a driver-based approach to reflect expected products, services, headcount, and resource assumptions. The flexibility to input at a general ledger (GL) code or aggregated level enables easier input and creation of "what-if" scenarios later in the process, especially once a manager contributes a full set of figures. The solution empowers departmental managers to proceed confidently by providing a fool-proof, self-service environment understandable to a non-Finance person. That shifts the role of Finance from being a chaperone for cost center managers to being more of a coach, providing guidance and encouragement that enables departments to get the task done.

04 **Take a deep dive.** As part of the Connected Planning solution, department managers have the capability to use methods such as prior year actuals, compound annual growth rate (CAGR), seasonality, or any custom approach they wish to include. They can try some experiments, answer questions they might be hesitant to ask, look at extreme ranges and improbabilities, or get to grips with the story behind the numbers.

05 **Let the technology do the heavy lifting.** This type of planning environment uses a planning by exception mechanism, as opposed to the fully manual approach using spreadsheets. Version control is automatic, as there is no Save As command. Formulas are centrally managed and access-controlled, and therefore do not need to be checked because they cannot be broken by end users. All are simultaneously working on the same real-time version of the budget. Transparency and embedded automation are key benefits of such an environment, and help maintain budgeting process momentum at this critical point. Instead of spinning their wheels trying to figure out formulas, departmental managers can remain fully on task, and produce a much richer end product.

06 **Control the process.** The solution workflow indicates people who have completed their part of the budget, including in-built submissions, reviews, and approvals. Finance and departmental managers share a clear understanding of timelines, tasks that have been completed, and those that remain to be done.

The conventional way: 12 weeks	The Anaplan way: 4 week

Budgeting step 4: Bottom-up budgets are presented back to senior leadership

The conventional way: A yearly last-minute dash for Finance

At this point, the burden shifts back to Finance, and it is a substantial burden indeed, accompanied by high levels of stress. From the dozens—if not hundreds — of submissions from departments and lines of business, the Finance team must construct a budget pack (or deck) to present to the senior leadership team for approval. At a minimum, the pack consists of a summary balance sheet, income statement, and cash flow statement, and is often supplemented by divisional or departmental income statement submissions and reports that may include variance analyses for a 12-month outlook.

The Finance team spends massive amounts of time consolidating, reconciling, and ensuring formula accuracy across the pack, as well as manually cross-checking and consolidating multiple spreadsheets. It is an onerous, inefficient, and thankless task, but it is also mission-critical. More time is spent producing the numbers than attempting to understand the underlying commercial drivers behind the numbers. As a result, there is little or no time for robust scenario analyses to assess best, worst, and most likely cases.

Budgeting step 4 summary

- Budget pack is produced automatically, ready for presentation to senior leadership.

- Perform robust sensitivity and "what-if" scenario analyses for a fully rounded view.

- Pursue value-adding activities, such as a conducting a marketplace review, creating operational efficiencies, or maximizing revenue generating opportunities

The Connected Planning way of presenting bottom-up budgets back to senior leadership: Course of action

01   **Consolidate the individual budgets.** Automation eliminates time spent aggregating, consolidating, or reconciling budget spreadsheets from across the business. Errors have been resolved early on, and all materials are collated in their correct order, making it much easier for Finance to retrace steps, if needed.

02   **Finalize the numbers.** In a Connected Planning environment, this operation can take place significantly faster than the legacy spreadsheet method, typically delivering a 90% or greater time savings on finalizing the budget. At this point, Finance can run specialized audit reports on the budget pack to assure completeness and accuracy.

03   **Consume the big picture.** In contrast to the myriad of offline spreadsheets, where it becomes nearly impossible to see the trees from the forest, the Connected Planning solution produces the budget pack automatically, complete with charts, graphs, and variance analyses, ready for presentation to senior leadership. Contributors and senior managers alike can study many visualizations at once, and begin working on the narratives that support their respective stakes in the budget.

04 **Add depth and precision to the budget plan.** Ample time is now available to perform robust sensitivity and "what-if" scenario analyses to present a fully rounded view of business opportunities and risks over the next 12 months. This is a point where budgeting can start providing strategic value to the organization, and departments can determine whether they can make more ambitious requests from cost center owners regarding aspects of their budgets.

05 **Devote freed-up time to high-value activities,** such as understanding the commercial drivers underpinning the budget assumptions, performing a competitive market analysis, or exploring opportunities for innovation.

The conventional way:
15 weeks

The Anaplan way:
5 week

Budgeting step 5: Senior leadership approves the annual budget

The conventional way: A best shot at a best guess

Leading up to the final approval meetings, the Financial Planning and Analysis Manager is tasked with performing hurried, last-minute manual spot checks of the departmental income statements rolling up into the total company income statement. As you've probably gathered by now, it's the same story repeated over and over — Finance gets stuck performing manual checks to make sure sums and balances tally. Barely having enough time to ensure that all the details are in order, little or no time is left for value-added activities or discussing the rationale behind the submitted figures.

Because the process has been conducted largely as an arbitrary finance-driven exercise, the final budget bears little resemblance to commercial reality. The detail is often buried in layers of spreadsheets, and can be recovered only after extensive inquiry, which no one has sufficient time to undertake. Additionally, scant time is available to present and discuss a range of alternative scenarios. The final budget approval discussion is often based on only one or perhaps two broad scenarios, leaving companies exposed to business risks that have not been properly accounted for.

Budgeting step 5 summary

- Senior leadership reviews all budget deliverables holistically.
- Senior leadership analyzes a range of scenarios, risks, and outcomes to agree upon a final budget.
- Business units begin executing on their plans promptly.

Companies using Anaplan are known to complete their annual budgets in four weeks or less.

The Connected Planning way of senior leadership approving the annual budget: Course of action

01 **Work from a single screen, not multiple workbooks.** Anaplan is a Connected Planning solution that has the capability to display your budget in any view you wish, including overall company, entity, department, cost center, GL code, region, employee type, product, or service. Additionally, you can apply multiple currencies, alternative scenarios, or any other dimension, all from a single screen. This is a powerful tool for time- and attention-starved managers and executives. There are no restrictions or limitations on the ways you can slice or dice your data.

02 **Lead dynamic discussions, anywhere, on any device.** Anaplan customers often make tablet devices available to senior leadership in the boardroom to enable a dynamic discussion, where they can analyze a range of scenarios, risks, and outcomes, leading to agreement on a final budget based on high-quality shared information, generated in real time.

03 **Strengthen your departmental relationships.** As the budgeting process concludes, Finance has cultivated relationships and gained richer perspectives, empowering them to become authentic business partners rather than heads-down number crunchers.

04 **Start thinking about plan execution.** The accelerated time in approving total company and divisional targets gives time back to business lines that they can use to proactively execute on their plans, producing further iterations as business events occur. This is also a very good time for departmental and business line managers to verify they have their best- and worst-case scenarios covered.

The conventional way:
18 weeks

The Anaplan way:
6 week

Conclusion

In this handbook, we've mapped out what we believe is a better way of building an annual budget, one that gets past the inherent limits of spreadsheets, and the result of which is a high-impact financial plan that reflects the company's priorities, stimulates growth, and encourages employee engagement.

What we have advanced is not the latest management fad, or a contrivance to give anyone an artificial sense of managerial prowess. Rather, we have presented the basics of effective business management, something every manager understands at a fundamental level as the way to accomplish the vital tasks that keep the business on track for sustainable growth. That's what we have offered here: an opportunity to get back to basics and rethink budgeting in a Connected Planning environment, where the technology does not create complexity but rather helps tame and manage it, and where the technology does not smother communication and deep inquiry, but rather nurtures it.

Combining Finance best practices, and the power of Connected Planning technology, the role of numbers is elevated to reflect the true picture of the business in the context of the wider marketplace. Budgeting becomes a way for individual departments to communicate and influence the rest of the organization, while giving senior leadership greater transparency into how business units use the resources allocated to them to create business value. This is just one of many transformations that results from reframing budgeting from a Finance exercise to a business exercise. We hope this handbook will help unlock many other transformations in your organization. By using Anaplan and adopting the new Connected Planning way, we are confident you will never look at your budgeting process with dread again.

About Anaplan

Anaplan is the only scenario planning and analysis platform designed to optimize decision-making in today's complex business environment so that enterprises can outpace their competition and the market. By building connections and collaboration across organizational silos, our platform intelligently surfaces key insights — so businesses can make the right decisions, right now.

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