

# BUDGETING / FORECASTING?

## Thoughts on changing dynamics

### Budgeting

"A budget is a plan for your future income and expenditures that you can use as a guideline for spending and saving." *Wikipedia*  
730,000 books are written about budgeting.

### Forecasting

forecast - 'fôr,kast / verb

forecasting / gerund or present participle

- 1 predict or estimate (a future event or trend).
- 2 synonyms:  
predict, prophesy,  
prognosticate, foretell,  
foresee

### Facts

According to a survey from 500 senior executives, published in HBR 08/26/16 (The Forecasting Sweetspot), only a meager 1 % of all companies hit their forecasts, overall all companies combined were off by 13%.

## Is there a problem?

It is this time of the year, right after the summer break, when millions of managers, directors and executives around the world have one common goal - creating next years budget!



Looking at the facts, one could ask whether this process is a waste of time? At least according to statistics and research it seems so.

We at Aperia International, did not have one single client who exactly hit his numbers during the past 2 years.

I do not want to discard the budgeting process per se, instead present a different perspective. Most companies we have worked with have budget documents with too much detail and thick like a book. Production capacity is planned down to product level, Sales budget down to SKU or Customer/Product level and Admin budgets for every headcount, capturing the last pencils.

There might be a comforting factor in doing it that way - collecting all this information in a herculean effort every year, creates a joint feeling of having done something good. Plus, such a detail level must be more accurate, isn't it?

The positive vibes probably subside, when the friendly finance team finds deviations in the first month's numbers of the new year. Be them positive or negative - they require explaining!

Is this time well spend?

Could there be a problem?



## Why is it so difficult to hit numbers?

During the budgeting process, as well as the monthly, quarterly or yearly forecasting (as part of the budget) data are created at a level, which can't be influenced. Think about:

- What is the customers planning level?
- What is it for the suppliers?

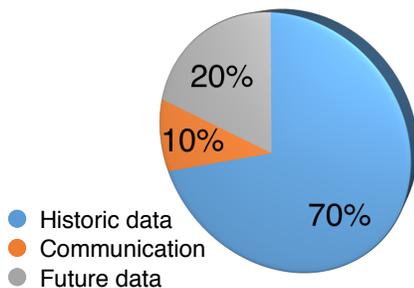
In the Big Data age companies work with rather more than less data.

More time needs to go towards:

- building in flexibility to adjust not just the plan, but the business course, according to market needs
- joint strategic discussions on focus areas

Aperia International has the tool and processes to help clients to budget at the "right" level of detail.

## Budget cycle: time spend



Source: 2015 study Aperia International

## What are Winners doing differently?

All companies go through some sort of budgeting process, so what can be done differently?

Where and how the time in the process is distributed sets the foundation for greatness and differentiation.

The participants in our 2015 study used only 20% of the time in their budget process (between 8 and 12 weeks) for detailed discussions on how to achieve more (chart bottom left).

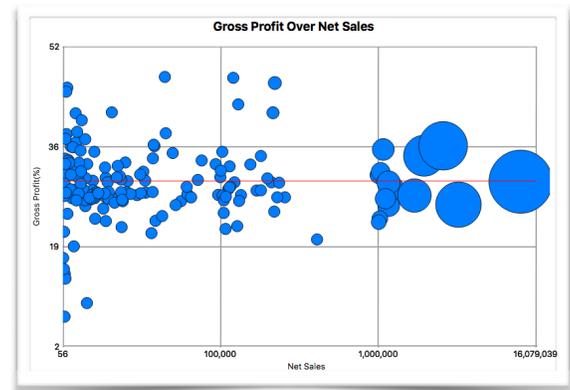
The question is - how to increase these 20%?



By differentiating your planning!

The chart below represents starting point data from a client's 2016 budget process, using our PriceForce® software. 127 of their 171 customers are in the "small" group and account for 5.4% of their business.

At product level this would have created 4,500 rows in a spreadsheet. Instead, the client applied for this "small" group an average growth rate of 4%. The top line impact even with a 30% error margin is negligible.



This step alone saved a lot of time, which was allocated to the "middle" group (12% of sales) of 30 customers. The original budget of 4.5% growth was revised to 22% (!), backed up with detailed supporting plans, yielding a 1.6% higher overall business growth.

Don't get me wrong, we're not saying everyone has a problem. In a rising economy, most companies are doing well. How much better would they have been with a better process?

Contact us if you like to explore your opportunities.

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