



Building Intelligence in Budgeting

For every organization, a budget is a road map to be followed. Budget preparation though is a mere academic exercise for some organizations, while others make it a business-planning tool.

The traditional approach to budgeting is to work on inter linked work sheets where sales projections are done and accordingly manufacturing, procurement and logistics costs are worked out. The functional expense budgets are prepared based upon last year expenses. Material costs are estimated based upon inflation and target savings to be achieved in the planning period. A number of allocations and reallocations are done to arrive at the monthly and yearly financial statements.

The traditional approach assumes that:

- The finance department can consolidate uncoordinated plans that have been compiled using inconsistent assumptions and varying business logic by different parts of the organization.
- Detailed operating plans that do not align with strategic goals are acceptable.
- Executives can depend on historical performance as their only reality check.
- The enterprise does not need to involve too many employees in the planning process; managers can reliably second-guess the intentions of personnel, no matter how geographically or hierarchically distant they are and no matter how significantly their input can affect whether the enterprise achieves its goals.
- Planning systems can operate independently from other key information systems

This gives the whole exercise an internal perspective.

The only information that is based upon competitive environment and market dynamics is Sales data provided by Sales and Marketing. The accuracy of their projections is always debatable. However, in this debate another important point is generally



DSS Services at DecisionCraft Analytics

DecisionCraft offers Decision Support System (DSS) **development-consulting services** and **develops other related systems** such as Expert Systems (ES), Executive Information Systems (EIS) and Organizational Decision Support Systems (ODSS) for functional areas including accounting, finance, sales, distribution, strategic management and manufacturing.

Our solutions are based on concepts of Intelligent Systems - strategic tools different from Transaction Systems that are essentially operational tools. While Transaction Systems follow static, arithmetic and repetitive logic, **our solutions follow algebraic, geometric and analytical logic.** Thereby, ensuring ease of use and clarity of interpretation in the presentation of analysis results. The users **gain new insights** into the structure of their problems by generating different views of the decision situation and by exploiting their own visual skills so that they

overlooked. How other functions are contributing in driving efficiencies in the organization?

To derive value out of budgeting, the organizations are now moving away from traditional budgeting approach by building intelligence in the Budgeting process. They follow three major steps in doing so.

1. Benchmark the organizational performance against best-in-class organizations and build a long-term plan to achieve best-in class status.
2. Factor the initiatives designed as per the long-term plan in the budgeting process
3. Build a Collaborative, Integrated and Efficient Budgeting system

Benchmarking with efficient organizations **gives an external perspective** to the whole business planning/ budgeting exercise. If the best-in-class organization has 65% COGS and your organization is at 78% COGS, something dramatic needs to be done, squeezing budgets will not help. The dramatic improvement happens when **the organization learns from the best practices**, deploys cost reduction tools (optimization, data mining or other trade off algorithms) and puts a concerted effort in implementing these practices and tools.

One of the ways which companies are now adopting is to work on organization wide initiatives for cutting costs and for improving efficiencies and then factor these initiatives in the budget. The unrealistic (for some) improvement becomes a target, a must do with a shared responsibility across the organization.

The other important aspect is to make Budgeting - Collaborative, Integrated and Efficient.

Collaborative, by making all functions responsible for preparing the budget rather than finance getting the inputs from everyone else and putting the budget together. Also by making the budget visible to all so that the impact of their action is known to them.

Collaborative budgeting makes it a team affair with better chances of success.

Integrated, by making it system driven with well-defined business rules rather than working on work sheets where only finance people know the intricacies of various calculations and allocations. An integrated approach calls for a software to be put in place, which require the assumptions for budgeting to be documented and visible. It also transforms the thinking in head to rules on the paper. This makes the budgeting **more rules and logic driven rather than individuals driven**. A database of budgets prepared over couple of years also allows a quick comparison and validation of

can **recognize meaningful alternatives and strategies** during the problem-solving process.

More Resources

- [Spreadsheets for Budgeting & Financial Management](#)

- [Collaborative Budgeting and Planning for Pharmaceuticals](#)

About DecisionCraft Analytics

DecisionCraft Analytics provides customized and generic DSS solutions using mathematical models and industry expertise; for cutting costs and enhancing effectiveness of businesses. DecisionCraft solutions are developed using concepts from Decision theory.

DecisionCraft Services

[Business Diagnostics](#)

We analyze business processes and transactional data to identify underlying patterns, unravel hidden relationships and recommend areas for improvement that can improve ROI and reduce costs.

[Predictive Analytics](#)

We use historical data intelligently to develop a view of future market trends and help our clients focus on the right audiences thereby developing their competitive edge.

[Forecasting](#)

We use advanced time-series and regression techniques for forecasting behavior of critical business variables that allows our clients to plan for their resources intelligently.

assumptions and business rules.

Efficient, by making the budgeting process simple. Enterprises cannot execute with the precision required today if they rely on planning processes that are no longer synchronized with corporate reality. Thus budgets may be revised as latest best estimates or Budget updates with latest forecasts of business. This requires an efficient system **to cast and recast the budget estimates, and updates quickly** without taking much of manager's time. A good budgeting tool which capture static data as master data, user friendly processes, automatic calculations based upon defined rules and actual upload through a number of utilities makes the budgeting more user friendly and efficient.

In today's business environment, the organization must deliver regular, accurate forecasts of business performance demonstrating that the organization is stretching to fulfill its potential. For fulfilling this organizations are building intelligence in their Budgeting process by intertwining an outward perspective with a collaborative, integrated and efficient system for budgeting.

Next Issue: [Telemarketing Analytics](#)

Previous Issue: [Analytics for Retail Banking](#)
