

Monday Morning
February 4, 2008

ONE EIGHTY

Upcoming 2008 Events

- CAM-I/CII Performance Management Conference New Delhi February 18-19
- CAM-I First Quarter Meeting Charlotte NC March 9-12
- APQC 13th Annual Knowledge Management Conference Chicago April 28-May 2

People in the News

- Larry R. White, Commanding Officer United States Coast Guard, appointed to the International Federation of Public Sector Accounting Standards Board
- CAM-I members Alan Stratton, Stratton Associates, Rick Brenner, Grant Thornton, Nathan Crook, Business Objects, Norm Frause and Steve Schreck, Boeing, Paul Juras, Wake Forest University, Carl Moravitz, and David Loerzel, IBM, and Andrew Streiff, Bank of America for developing a wiki space for planning and budgeting

Planning and Budgeting

A little over a month into the New Year and the frustration of last years budget cycle is over and forgotten. In this uncertain economy, one thing is certain. The budget is obsolete.

In most large organizations, the planning and budget process is embedded, guaranteed to deliver the same result year after year.

Planning is the organizational process of creating and maintaining a plan and requires developing a set of assumptions and actions required to create a desired future state.

Budget (from French *bougette*) generally refers to a list of all planned expenses and revenues.

The budget is the translation of the planning assumptions into a financial representation of budgeted revenues, expenses, capital investments, and working capital requirements.

Profit and ROI goals reflect the planning assumptions for the budget year.

Of the two, planning is more beneficial and higher value add for the business. Yet for many organizations most time and effort is for budgeting.

Best practice companies like American Express and Time Warner are more focused on rolling forecasts, plans, and budgets.

What's important to these companies is the best estimate of outlook for the next twelve months reflecting real time changes in planning assumptions, both outside (competition, economy, raw material prices) and inside the company (yield rates, product warranty, process cost). It's a continual process rather than a once a year event.

Plans and budgets provide resources on demand to respond to opportunity. The old way: Employee says we can save \$200,000 a year if we buy this \$100,000 machine. Company says no, it's not in the budget. What's not in the budget, the saving or the expenditure?

For these best practice companies, it's not about

comparison to budget that's important. It's about comparison of performance with competitors that's important.

Optimized Planning and Budgeting. What's more exciting is optimized planning and budgeting. Image relaxing the assumption of a fixed forecast and solve for the optimum level of sales and marketing investment that provides the highest profit and ROI.

Optimization requires an understanding of cost function curves (how resource consumption changes with volume) and response curves (how the product/service forecast responds to sales and marketing activities).

Optimized planning and budgeting is coming. The tools, techniques, methods, and software for optimization have already been deployed for the supply chain network design. Demand side is next.

If you want to improve your 2009 planning and budgeting process, start now...

John A. Miller

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