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Annual Budgeting For the Modern Finance Team

2023 EBOOK
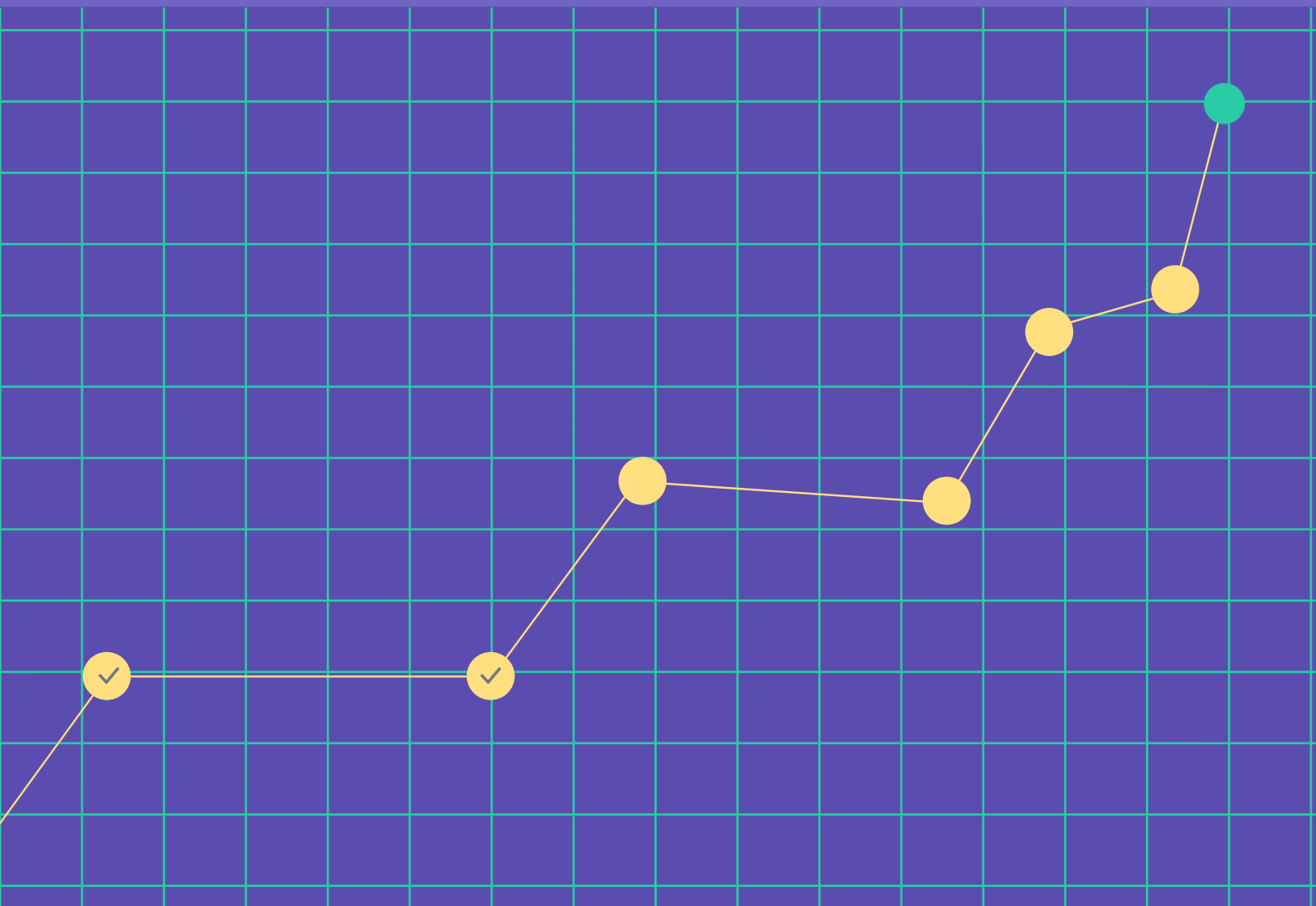
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Introduction

A budget provides a guiding financial roadmap for the fiscal year ahead. With a well-built budget in place, organizations can accurately plan when, where, and how much to invest in their business to support objectives over the coming year. However, in today's evolving marketplace, traditional budgeting practices are simply unable to meet the needs of modern organizations.

Businesses all over the world have never been as interconnected as they are today. As a result, the impact of events that take place in one part of the globe quickly reverberates internationally and can render an organization's annual budget outdated. Some recent examples include the Ukraine War and its effect on energy prices, trade tariffs between Britain and the European Union due to Brexit, global supply chain gridlock, and high inflation.

The budgeting process can take about two to three months to complete. Within that time frame, a market event, natural disaster, or shift in customer demand may occur. So what does that mean for Finance teams? These events may necessitate budget updates even before the fiscal year even begins.

As a result, organizations are becoming more strategic in creating their annual budgets to adapt quickly and operate efficiently.

By adopting advanced technologies and modern budgeting techniques, companies can improve their agility and adapt their strategy as needed. This enables Finance leaders to generate greater organizational resilience, improve business continuity, conduct scenario planning, and obtain optimal financial management for the future.

The Importance of Budgeting for Business Success

Budgeting is fundamental for a number of reasons which include:

1 It Sets Clear Business Targets and Objectives

An in-depth understanding of available funding at the beginning of a budget period is **essential for an organization to establish targets and objectives for the coming year.** For instance, it directly informs sales capacity planning and other areas critical to growth. Furthermore, an annual budget typically accounts for one year out of a business's multi-year goals.

For example, a high-growth technology startup might have objectives of breaking even after five years from its founding and issuing an initial public offering after ten years. For long-term organizational objectives, each annual budget forms a fundamental part of achieving these goals.

2 It's a Prerequisite for Funding

Investors expect high-level financial planning from a company seeking funding, whether it's government enterprise grants, venture capital, or angel investment. If an organization cuts corners or treats its budget as a necessary evil to rush through and be done with, investors will spot this approach and be less inclined to invest.

The bottom line is that a comprehensive, dynamic budget strengthens an organization's chances of funding success.

3 It Establishes Tangible, Realistic Goals

Goal-setting can be a tricky exercise for companies and department leaders. Too low or lofty a goal and, respectively, a workforce can be demotivated or overstretched. A deep understanding of an organization's financials via a robust budgeting process enables it to set realistic, attainable growth goals.

4 It Supports Cross-Functional Collaboration

The functions of a company cannot operate independently of one another. This work environment only divides teams and prevents an organization from operating optimally. When analyzing the Finance department specifically, working closely with other departments not only assists with the financial planning processes but also helps carry out effective budgeting and forecasting.

As the foundational process that sets the financial plan for the entire company, the annual budget inherently enables teamwork and communication across the organization. This strategic collaboration subsequently helps with other processes that require a cross-functional approach, such as rolling cash flow forecasts and headcount planning.

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What Are the Common Roadblocks to Annual Budgeting?

Organizations tend to run into similar bottlenecks when budgeting, and the same issues repeatedly emerge regardless of company size.

Data Collection

Data collection is often a tedious, time-consuming process of financial planning.

During budgeting season, there can end up being dozens or even hundreds of versions of the same spreadsheet file, as they are sent back and forth for review, edits, and approvals between the Finance team and budget owners. The involvement of different employees and the task of spreadsheet reconciliation into one single file means the risk of human error is high.

Lack of Data Accuracy

Another common problem is that companies also suffer from a lack of data accuracy. If the input data contains errors, the produced budget will also have inaccuracies. This makes the budget unreliable, as it informs an organization's financial planning for the year ahead based on error-strewn data.

Data Unification

While data accuracy is essential, it is also crucial to unify it. Siloed data and multiple data formats are still widespread problems. As a result, it can be difficult for organizations to harness their data to its fullest potential and use it as a critical business asset when creating the annual budget.

Stakeholder Collaboration

A lack of stakeholder collaboration can similarly hinder budget impact. To create an optimal budget for the modern marketplace, the financial department must clearly understand the entire organization. To do so, cross-departmental collaboration is critical.

Legacy systems and a lack of defined collaborative workflows are two of the prime causes of this long-standing roadblock to annual budgeting.

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# Six Steps to Improve Your Annual Budgeting Process

Budgeting doesn't have to be a grueling, painstaking process each year. With these six simple steps, your Finance team will be able to revamp its annual budgeting process and improve its overall efficiency.

1. Embrace the Process

It is safe to say that budgeting is often a dreadful exercise for Finance teams of all sizes. It usually takes about two to three months, requires a herculean effort of back-and-forth file-sharing, and entails countless meetings to gather data, reach agreements, and get approvals.

By embracing the process and enabling employees with modern workflows and data-driven tools, organizations can transform how they create their budgets.
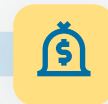
2. Align Department Budgets With Strategic Objectives

Short, medium, and long-term strategic objectives should be front of mind when creating the annual budget. As a consequence, all accounts payable and receivable should be focused on these objectives, and anything in addition to core growth tactics can be dismissed.

This approach can inform all department budgets on both macro and micro scales.

3. Inform All Business Leaders of Top-Down Budget Targets

Senior management and team leaders should be thoroughly briefed on their top-down budget targets. Finance can also use this as an opportunity to discuss broader budgetary targets with the entire company to provide full transparency.

4. Prepare a Bottom-Up Budget and Present it to Senior Management

To provide an alternative viewpoint, the financial department can also create a bottom-up budget proposal, which should be just as meticulously prepared as the more traditional top-down method.

By preparing and comparing top-down and bottom-up budgetary proposals, senior management can see how each department views their preferences for financing growth versus how an imposed top-down budget would work. This can result in valuable insights which would otherwise go amiss.

5. Align With the Leadership Team

Before the budget season begins, clear roles, workflows, and expectations of all stakeholders must be agreed upon. A company's leadership team is essential for the smooth, solutions-focused outcome of the budgeting process. Therefore, it is vital to involve leaders in a central capacity and communicate with them on a regular basis.

6. Present Your Budget in a Clear & Comprehensive Way

When preparing your annual budget, make sure your report is straightforward and easy to digest for everyone. Whether you are presenting to C-suite executives or investors, simplifying your budget and presenting it in an easy-to-comprehend format will ensure that all parties involved understand your company's plan moving forward.

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Quick Tips for Budgeting Effectively

By adopting these three quick tips, Finance teams, with the collaborative help of the rest of the company, can create annual budgets that truly act as dependable, insightful roadmaps for the future.

Be Exhaustive With Scenario Planning

Companies across industries face a turbulent, volatile market. Inflation is at a 40-year high, financial markets are especially unstable, and a majority of economists predict that a recession is around the corner. Moreover, black swan market events are happening with greater frequency. To exercise full responsibility, a budget must be exhaustive with what-if scenarios.

It should be detailed as to how a given market development, such as war, a climate crisis event, or monetary policy pivots are likely to impact the company financially. In turn, this will help an organization design a contingency plan and pivot budget expectations as needed.

Have a Clear Idea of Key Business Drivers

The **80/20 rule** dictates that, with some nominal degree of variation, **80%** of an organization's sales and productivity comes from **20%** of its efforts.

By carrying out an organization-wide analysis, the financial department can develop a clear understanding of the company's key drivers. This insight, typically derived from historical data, can highlight where a budget should focus capital allocation and, just as importantly, where it may wish to reduce investment moving forward.
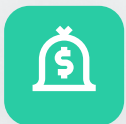
Be More Strategic in Decision-Making to Reduce Potential Biases

Humans are prone to develop preferences, whether to systems, methods of doing business, people, or entire departments. By allowing principles of strategy and harnessing data-driven insights to guide every decision rather than hunches or conclusions that may otherwise seem to be objective, the financial department and senior management can markedly reduce instances of bias. This bias, which is often unconscious, can detrimentally impact the budget and business performance.

Leveling Up Annual Budgeting Processes with an FP&A Software

Now is the perfect time for companies to transform their annual budgeting process. By transitioning to more modern budgeting methods and advanced financial planning technologies, organizations can look forward to a new, streamlined process that minimizes friction and produces a highly impactful budget for the company to follow.

Financial planning and analysis (FP&A) software can significantly reduce the budgeting process timeline. With the right tool, companies can automate many parts of the budgeting process, including data collection, consolidation, and integration, all while supporting collaboration.

With FP&A software, there is no more a need for back-and-forth email communication or management of all the different versions of spreadsheet files that are shared between stakeholders. Moreover, the risks of human data entry error, cell formula problems, and spreadsheet CPU overload disappear when switching to an FP&A-based budget process.

In uncertain economic conditions, with high inflation and a widely predicted recession looming, FP&A software helps usher in a powerful data-driven budgeting approach and makes the process of scenario planning quick and easy. As a result, financial departments are better able to safeguard their organization's cash flow health for the coming year and beyond.

Discover How Abacum Can Help Streamline Your Annual Budgeting Process

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Abacum is the collaborative financial planning and analysis software that enables CFOs to level up their department for the modern business landscape and drive seamless interdepartmental workflow to plan, report, analyze, and share.

It equips CFOs to align their ERP, BI, CRM, HRIS, and spreadsheets in a single place and automate their workflows. These powerful features grant CFOs real-time overview control of the business's macro and micro performance. It also facilitates optimal collaboration with other departments, making data management and cross-functionality efficient and effortless.

Abacum is where the entire company meets, hosted by the financial department. It is where teams plan, define targets, track performance, and drive alignment.

Work better together with Abacum.

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