



All About Budgeting: Common Challenges & Solutions

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Budgeting is one of the most important financial tasks performed by small and middle-market business owners and their controller or CFO. The budget sets the financial blueprint for a business, letting managers and other decision makers know how much money will be available to them to meet their departments' projected operating expenses. It also gives owners and executives a good idea of how much capital will be available to spend on growth and expansion efforts and how profitable the business will be in the near-term future.

Given the importance of budgeting, it's not too surprising the number of questions owners and financial leaders have about budgets and the budgeting process itself. Unfortunately, we see a number of common budgeting mistakes made by many companies we work with. It's critical that companies get budgeting right — because if the budget is inaccurate or the budgeting process is flawed, this can trickle down and affect every other aspect of the business' finances and operations.

Common Budgeting Challenges

Among the most common budgeting challenges faced by small and middle-market companies are the following:

1. **Determining *how often* the budgeting process should take place.** The challenge is finding the right balance between budgeting too often and not budgeting often enough. Budgeting requires a significant amount of time and effort on the part of your managers and finance staff so you want to make sure that your budgeting process is adding value to the organization. Creating an annual budget and updating it quarterly is usually sufficient for most companies.
2. **Not *wasting resources* when budgeting.** A lot of time and productivity can be wasted if you over-budget. For example, monthly budgeting can be extremely time-consuming and line managers can get tied up in an ongoing budgeting cycle when they should be focused on running the business. So you need to make sure that the process of budgeting and measuring the accuracy of your budgets is done on a reasonable basis.
3. **Deciding what is the *focus* of the budgeting process.** Is it performance to an annual budget or annual plan or variance to a budget update? Having too many budgets can devalue the budgeting process itself and make it difficult for management to know what to focus on.
4. **Determining how the budget *will be used*.** Will it be used as a management/operational tool or just as a cash control instrument? For example, concentrating on variances from the most current budget can mask an underlying drift away from your company's strategic targets. (This is usually expressed by either an annual plan or multi-year plan).
5. **Getting *budgeting buy-in* from operations.** If budgeting becomes just a finance exercise, you will lose the support of your operational managers. They need to see value in the budgeting process since they are the ones who are actually going to spend the money and control costs.

A Smooth and Efficient Budgeting Process

One of the best ways to make sure that your budgeting process is running as smoothly and efficiently as possible — and your budgets are as accurate as they can be — is to hire an outsourced CFO services provider to help you with the process. An outsourced CFO will have a thorough understanding of budgeting protocol and be able to determine what budgeting frequency will be best for your company.

This professional will also be able to demonstrate to operational managers how the budget can be a helpful management tool in running their departments. In addition, an outsourced CFO will make sure that timing and measurement are in place, since these are key to insuring that the budgeting process is adding value to your organization. He or she will understand how to best utilize your existing financial systems to insure that these results are achieved.

Your company could realize a number of benefits by hiring an outsourced CFO services provider to assist in your budgeting process, including the following:

- Operational managers will view the budgeting process not in an adversarial light, but rather as an aid to help them improve effectiveness and profitability.
- Your CEO and your board will have a better understanding of the financial direction of the company and not be confused by ongoing budget revisions.
- The budgeting process as a whole will be more efficient and effective. Over-budgeting is wasteful and if it is done on a continuous basis, it becomes a non-value added exercise.
- All stakeholders will have a clear understanding of the strategic direction of the company, the financial challenges that lie ahead, and the resources that will be required on an ongoing basis to meet them. As a result, you can make plans to insure that adequate resources are in place when needed.

Concluding Thoughts

Budgeting is one of the most important financial tasks performed by small and middle-market business owners and their controller or CFO. Given its importance, it's not too surprising the number of questions owners have about budgets and the budgeting process. An outsourced CFO services provider can help ensure that your budgeting process is running as smoothly and efficiently as possible and your budgets are as accurate as they can be.

About CFO Edge

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives throughout Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we are passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 800.276.1750 Ext 101.

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