

Ten Common Budget Pitfalls

Although many organizations have shifted to continuous forecasting, the once a year budget exercise is still a common practice. Creating an annual budget is a slog. Nothing is more frustrating than spending the time and energy to create a budget, only to have it immediately discounted as out of touch with the operating reality.

To ensure your organization's budget is effective as a management tool, avoid these common budgeting pitfalls:

- **Pitfall 1 - You don't know where you are going before you start.** Not all revenue is created equal. Nor are all expenses. Before you start your budget, a tops-down version by high-level line item will help to build consensus around the results you are trying to achieve.
- **Pitfall 2 - You attempt a bottoms-up approach with no business unit targets.** In 30 years, I never saw a budget submitted by business units roll up to a P&L that made sense, unless they had been provided with targets. This budgeting pitfall creates the need for multiple rounds of budgeting and a final, unpleasant food fight to close the gap.
- **Pitfall 3 - You don't understand your consolidation.** New in a job at the top of the house, I inherited a budget that looked good at the business unit level but didn't consolidate properly. For the first six months of my tenure, the CEO asked, "Why is everyone meeting their budget targets except for me? And who is Other? They lose a lot of money." The business units had learned to game the eliminations in Other. Consolidation can be challenging, make sure you get it right.
- **Pitfall 4 - Your expense allocations have no credibility.** Allocations allow the C-Suite to compare business unit performance on a "fully loaded basis." But business units hate expenses dumped into their P&L that they can't control. Be sure to develop a credible methodology, then make sure the functions in "overhead" are measured on productivity and service.
- **Pitfall 5 – Your team doesn't understand the exit rates for expenses or revenues.** Making this budget process mistake will result in sequential trends showing a loss of momentum in the first quarter – or making an impossible leap into the new year. Either way, you will spend the year explaining variances to budget.
- **Pitfall 6 - Your revenue targets look great, but the investment required to achieve those sales is nowhere to be seen.** Make sure that you agree on the expenses your sales team will need to deliver their revenue targets. You will starve your front end and create a great excuse for missing the mark.

More on Ten Common Budget Pitfalls

- **Pitfall 7 - Your quarterly splits are backend loaded and you see too many hockey sticks.** Unless your business has extreme seasonality, waiting until the end of the fiscal year to see results is a risky proposition.
- **Pitfall 8 - Your budgeted income statement and balance sheet don't work together.** Making this common budget error creates a working capital estimate that you cannot use to manage cash.
- **Pitfall 9 - You have no supporting metrics to break down each business unit's budget into actionable, operational goals.** Without both leading and lagging indicators, poor financial performance will be the first sign of trouble. By then it is too late.
- **Pitfall 10 - The budget is done - it looks great - but you don't have a convincing document that can tell the story.** Having a strong budget story to accompany your budget financials will help with buy-in and will clarify ownership and accountability.

Give us a call at (703) 254-7071 or send us an email at info@stantonblackwell.com. We are interested in learning more about your vision.



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