

FINANCE

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CONTROLLING YOUR BUDGET IN A RECESSION

NEIL ROBERTSON ON BUDGETING IN THE DIFFICULT ECONOMIC CLIMATE

Balancing the approach

It is difficult to say how long it will take for UK companies to achieve the level of business enjoyed just 18 months ago.

The challenge for every finance director undertaking the next financial year's budgeting process is judging the balancing act between a conservative approach to mitigate risk and a more bullish approach if business proves to be more resilient.

In the 1990-93 downturn, the 'recession' (decline in GDP) heralded the start of tough trading conditions for many industries, not the end. This was a direct reflection of the budgeting process of a significant proportion of businesses that excluded any unnecessary projects and initiatives, simply removing their spend from the market.

When enough businesses take this conservative approach, and lock down spending, the problem will become self-perpetuating, and the economy will take even longer to recover.

However, given the lack of control over spend within most organisations; it is unsurprising that financial directors are looking to lock down budgets as tight as possible. Despite a year of head count freeze, capital expenditure reduction and drastic cuts to discretionary spend, many organisations still face significant overspend at the end of the year when the figures are finally assessed.

With poor financial control it is difficult, if not impossible, to turn off budgeted spend once it has been committed. Furthermore, re-budgeting is typically a time consuming and tedious process to implement.

But the lack of visibility of day-to-day expenditure created by a reliance on manual processes and spreadsheets

compounds the problem. Without real-time commitment accounting FDs have no chance of attaining a realistic picture of expenditure across the business until month end and, in reality, the figures are usually only accurately calculated at year end.

Budgeting methodology

But in this economy can any organisation afford this lack of insight into financial expenditure? How can any FD attain the right balance between minimising risk and supporting business growth without strong budgetary control and visibility?

Indeed, any budgetary decision-making is made near irrelevant by the current purchasing practices used across the majority of companies; practices that have remained unchanged for over 100 years. Budgetary control is disseminated across the organisation, through directors, department heads and line managers – and it is typically a junior member of staff that actually makes the purchasing decision.

Expenditure is then manually recorded on spreadsheets, supported by poor or non-existent authorisation processes, and the actual committed expenditure is hidden from line managers, department heads and the FD alike.

The only way for any FD to attain control over expenditure and create a budgetary environment, that reflects the organisation's short and long term objectives, is to achieve complete, real-time visibility of every purchase.

By capturing every request to purchase electronically, an organisation can achieve the goal of centralised and fully-automated budget management. Every purchase authorisation will

automatically determine whether the spend is within budget; the organisation can either escalate the approval process or reject the request based on automated workflow. Real-time visibility of every purchase provides line managers, department heads and directors with a continuous, up to date view of committed expenditure, enabling immediate decision-making to reflect market and business change.

Furthermore, with centralised control over purchasing, the FD can finally put in place strategies for supplier consolidation, negotiating discounts that should drive down costs by an average 2 per cent to 5 per cent per annum, delivering further bottom line benefits.

Let the good times roll

There is no question that companies that thrive in a period of economic downturn grow faster as the good times return. Taking a conservative approach to budgeting, because controls are poor and re-budgeting is difficult, will limit the potential of every business.

The ability to have the best business intelligence delivered within days of each month end and then flex budgets across the organisation enables the FD to judge the prevailing financial conditions and sail the corporate ship as close to the wind as they wish.

Every downturn delivers winners and controlling budgets at a granular level on demand can make all the difference. **iv**



Neil Robertson is CEO of Compleat Software