

Budgeting/Forecasting/ Strategic Planning

December 2nd and 3rd 2019

Goal of Session

- To get a general understanding of budgeting/forecasting/strategic planning.

What is a budget, forecast, strategic plan?

- **Definition:** A **budget** is a formal statement of estimated income and expenses based on future plans and objectives. In other words, a **budget** is a document that management makes to estimate the revenues and expenses for an upcoming period based on their goals for the business.
- For our company, forecast is a term we use for interim “budget” updates during the year. It is generally a mini-budget process that allows an update to the plan and opportunity to test new processes/items as needed before the full budget process.
- Planning is future oriented, whereas Strategy is action oriented. Planning takes assumptions, but Strategy is based on practical experiences. Planning can be for short term or long term depending upon the circumstances. Unlike Strategy, which is for the long term.

What is the purpose of a budget?

- The purpose of budgeting is basically to provide a model of how the business might perform, financially speaking, if certain strategies, events, plans are carried out. In constructing a Business Plan, the manager attempts to forecast Income and Expenditure, and thereby profitability.

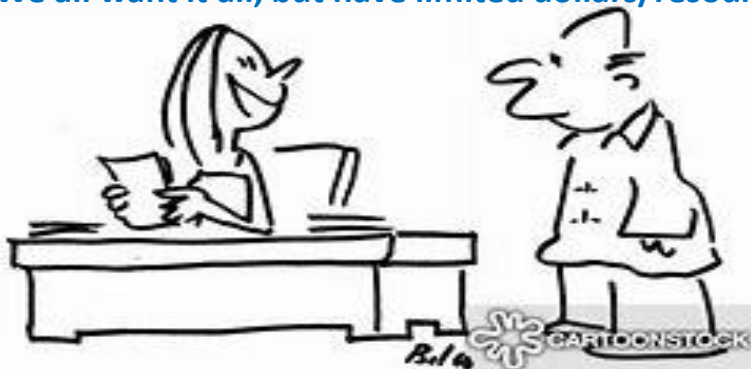
What is the purpose of a strategic plan?

- The budget generally is the initial foundation upon which the strategic plan is built. Budget generally covers remainder of current year and another full year or two; while the strategic plan is more the 5 year and/or aspirational plan that has a longer horizon.

Basic Budget steps – applies to individuals and corporations

- Step 1 – Set realistic goals
- Step 2 – Identify income and expenses
- Step 3 – Separate needs and wants
- Step 4 – Design your budget - Balance your budget to accommodate everything you need to pay for.
- Step 5 – Put your plan into action
- Step 6 – Review and modify plan throughout the year

We all want it all, but have limited dollars/resources/time. What gives the most bang for the buck.



"I've figured out how to balance our household budget — All we need is a time machine."



"If we only use \$5 for marketing, advertising and operations, we have enough to get a pizza for lunch."

Budget/Strategic Considerations

- Uncertainly around the stock market, interest rate environment, tariffs, economic/political environment, presidential elections, etc. all can impact a company's financial welfare, as it can impact an individual's financial results. One has to operate under a set of assumptions, but must be thinking about “what if scenarios” and possible reactions to such scenarios.
- Customers are demanding more, faster services. Companies have to spend in improving infrastructure to keep up with customer demands.
- All of this results in the need for end-to-end planning, collaboration, and execution within the company in order to drive profitable growth. All areas of the company have to be singing the same tune.

Emerging business challenges & impact on planning



- ▶ VUCA (volatility, uncertainty, complexity, and ambiguity) environment
- ▶ Increasing pressure on margins
- ▶ Increased globalisation and complexity of supply chains
- ▶ Increasing portfolio size and speed of innovation
- ▶ Increased volume of customer and market data

Business context



- ▶ Strategic goals aligned with operational and financial plans
- ▶ Profitable innovation and excellent customer service at reduced cost
- ▶ Resilience and adaptability
- ▶ Fully integrated and collaborative enterprise planning across functions
- ▶ Leverage data to drive strategic and tactical decisions

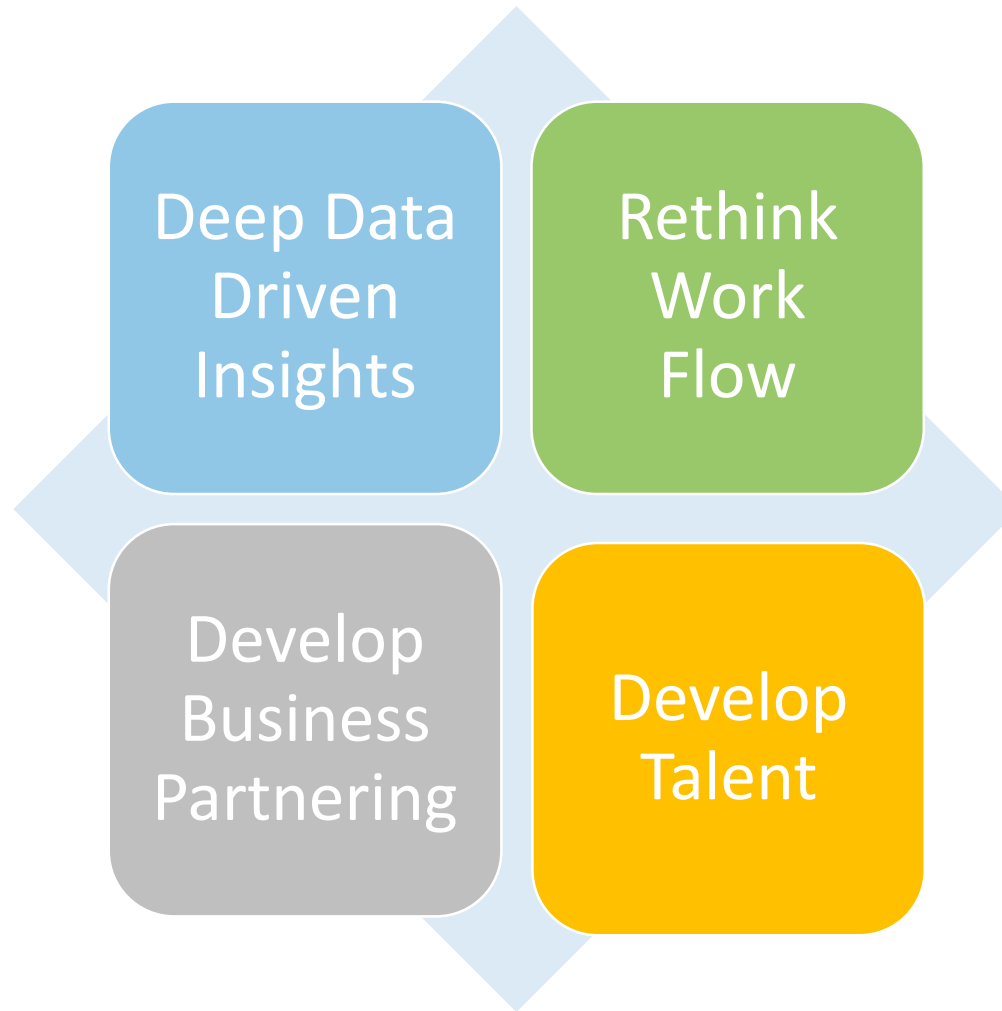
Challenges



- ▶ Strategic consistency in planning and execution despite rapid change
- ▶ Alignment and integration across functions and time horizons
- ▶ Robust plans: Top-down and bottom-up intelligence

Key planning requirements

Needed components to achieve effective budgeting and strategic planning



Evolution of Planning Analytics

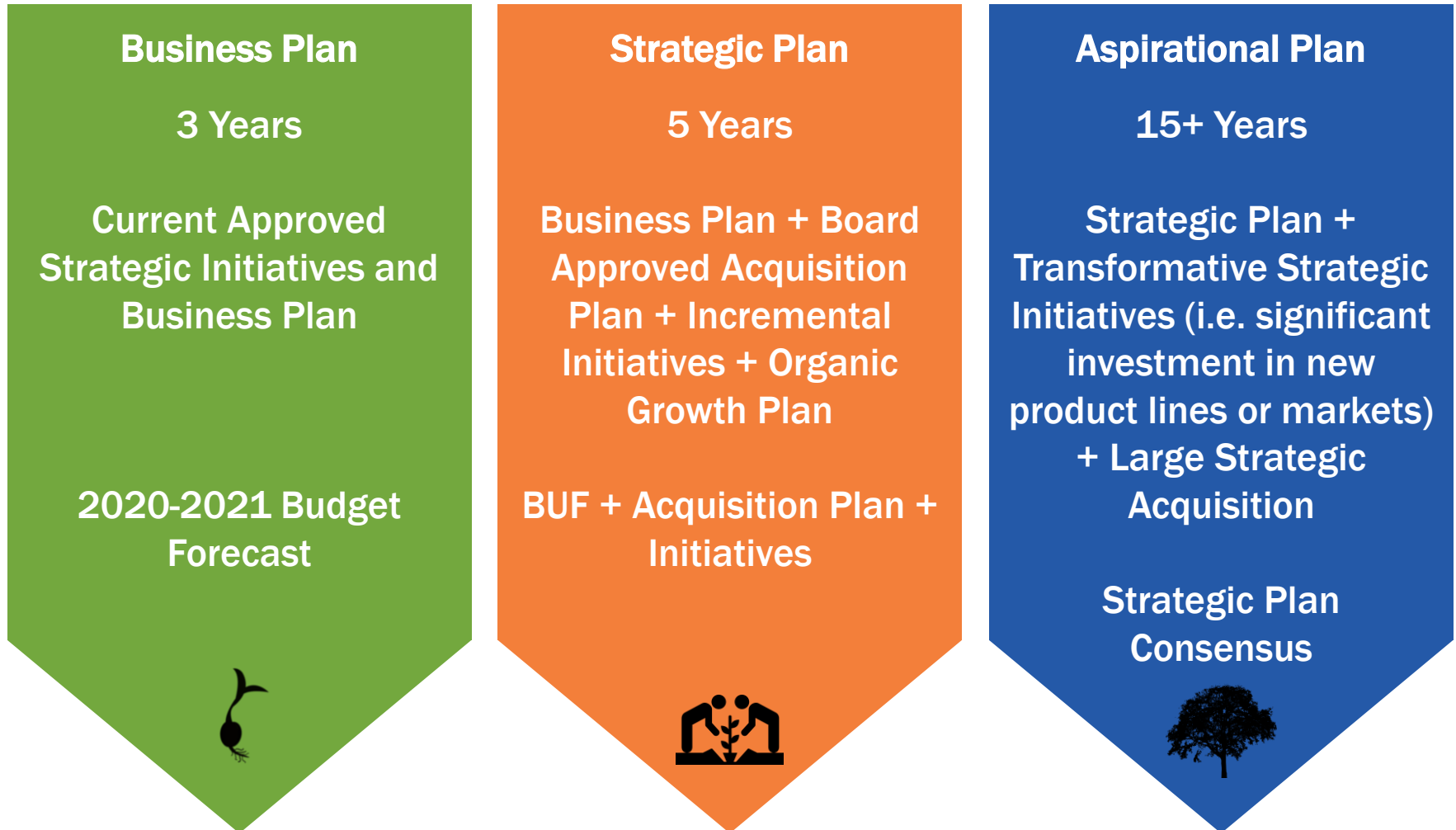
	Hindsight	Insight	Foresight
Focus/Goals	Historical Focus - What was the score? (i.e. performance reporting)	Basic Analytics to understand historical and current state - Why did we score? (i.e. root cause)	Strategic focused; able to react to economic/market changes - What could the score be? (i.e. predictions, risks, opportunities)/What plays should we run? (i.e. improve decisions)
Approach	Churning data and reporting results	Look back at data & Explaining the why	Attuned to the economic/market drivers. Able to respond with alternative scenarios/solutions.
Inputs	Grinding through spreadsheets; manual calculations and offline analyses	Process redesign: basic planning system with interest rate considerations; Drill down capability	New Operating Models; algorithmic forecasting; dynamic scenario planning with interactive dashboards

Analytical Maturity



Strategic Planning Phases

Proper planning and Capital Utilization Help a Company's Long-term Strategic goals



Planning Activities



Questions/Concluding Comments