



## A Sensible Approach to the Budgeting Process

By Harry Cohen, CPA

Whether you are a small technology company, a diversified corporation, a business in turnaround or one of the many in-between, the budgeting process will be enhanced if focus is directed toward strategy, operations and finance. In addition, personnel who have a stake in the firm's financial strength, growth and overall value should be involved in the budgeting process.

Consider these following concise issues:

### Strategy

- Using a disciplined approach, target and analyze market opportunities – then project these opportunities into revenue streams that have predictable profit margins.
- Focus on core competencies. For example, if you build commercial buildings and revenue is slowing, don't talk yourself into believing that you have the ability to profitably build schools.
- Identify key challenges: consider such things as borrowing requirements and trade credit needs because of rapid growth; senior management being spread too thin; the willingness to say no to low margin business; a competitor in an acquisition mode . . . the list can be endless.
- Evaluate competition with the knowledge that there are always firms who can give you a run for your money and who do some things better than you.
- Identify merger opportunities and related implementation issues – don't underestimate related costs.
- Identify senior management weaknesses and develop training and/or replacement plans to correct them.

### Operations

- Prepare financial analysis and improvement plans.
- Establish compensation plans based on clearly defined goals and benchmarks.
- Implement and enhance financial reporting that will improve decision making.
- Analyze and improve cost structures.
- Coordinate sales and production planning.
- Develop a process that identifies and then eliminates marginally or unprofitable customers and SKUs.



Finance

- Identify and source alternative financing; e.g., extending trade debt terms.
- Improve cash management: e.g., renegotiate equipment leases.
- Match operating results and income tax estimate payments by paying estimate installments using the lower “annualized income adjustment” method.
- Reduce investment in accounts receivable by changing billing and collecting policies and practices.
- Develop processes that will reduce investment in inventory.

To summarize: the firm’s budget represents management’s best estimate of future performance. A renewed and fresh focus on strategy, operations and finance should greatly assist the firm in meeting or exceeding its projections and in achieving above-average long-term financial performance.

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