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Achieving superior financial flexibility through project-based budgeting and planning

In good economic times and bad, all organizations need to efficiently allocate resources to both company operations (Opex) and special projects (Stratex and Capex). It is vital that budget and, more importantly, planning processes are transparent and flexible so as economic conditions change, organizations can use information to determine how to re-allocate resources for the future and reduce costs. This flexibility is achieved by having driver-based budgets for Opex and project-based plans for both new projects and strategic projects required to implement the strategic plan. Organizations can then more effectively plan for different economic scenarios by managing a portfolio of potential projects or initiatives and executing them based on current economic conditions. To do this, organizations need access to quality information for making decisions about whether funding is available and requests are in line with the organization's priorities and strategic plan.

Many organizations find it difficult to optimize management of projects with existing budget practices. Major challenges include a lack of centralization and the ability to optimize resource allocations to projects. Managers typically use individually customized spreadsheets to formulate and submit project requests. The proliferation of spreadsheets makes it harder to manage data quality because the spreadsheets are not integrated and exist outside of any accounting or budgeting applications. When data is stuck in spreadsheet "silos," reporting on it or sharing it among managers and executives in the approval process is not easy. Discrepancies accumulate as the number of accounts increases; it becomes hard to track which numbers are correct and where the bad data entered the system.

As more entities within a company create project requests, the approval workflow through decentralized spreadsheets can become complicated, full of redundant steps and overly time-consuming for both the departments and the Finance function. Organizations lack visibility into the entire approval process; they don't know the status of requests and cannot easily see which steps remain to move requests toward approval. The lack of visibility can make it difficult to comply with regulations and policies for establishing data stewardship and accountability in strategic plans and in planning and budgeting processes.

Whether due to familiarity or application requirements, many users prefer spreadsheets as their primary interfaces. Spreadsheets can serve adequately at the interface level, but organizations need to evaluate how to improve the underlying management of information, reporting, analysis and workflow. One increasingly popular option is to implement a cloud based budgeting and planning module that can manage new projects – or "initiatives" as they are often called – that are the building blocks for constructing plan requests. A key consideration in evaluating a cloud option should be the quality of performance management reporting and analysis for organizations to track initiatives in the context of financial metrics as well as strategic plan goals and objectives.

This brief describes how Host Analytics Budget's Projects Module handles proposals for new budget request initiatives, including projections of additional revenues and expenses. To illustrate the challenges, this brief will look at the planning and budget process at Franciscan University of Steubenville. It will then show how centralization can support continuous improvement and best practices through implementation of Host Analytics' Corporate Performance Management (CPM) and Initiative Module software services.

Achieving flexibility and agility using Host Analytics Budget's Initiative Modules

The purpose of an Initiative (or Projects) Module is first to evaluate the requests or activities against other activities competing for funding; and second, to manage the workflow to help organizations decide whether to approve the request or activity. For example, a university's media center might wish to purchase three new printers so it can improve service and reduce wait time for staff and students. If the requests are not part of the current budget, the media center would need to submit a new initiative to the Budget Office for approval.

The practice that many organizations employ for this process is to use spreadsheets. However, as discussed above, this leads to inefficiencies. With spreadsheets, organizations end up spending more time collecting and compiling the data than analyzing whether to approve the requests.

With an initiative module such as that provided by Host Analytics, organizations can establish a centralized way of managing how Capex and Stratex requests for equipment, projects or other capital items are made and moved through the approval process. These additional requests comprise an "initiative" and are usually created during the strategic planning or financial planning processes. A new initiative can be created at the appropriate "division/company/department" hierarchy levels, thereby establishing entity accountability and stewardship of the initiative. Because the initiative module is separate from the actual baseline budget, this document remains unaffected. However, because the initiative information is centralized, all of the budget numbers can be input or calculated against the full account string. In addition, organizations can easily create multiple initiatives for the same entity level.

Case example: Franciscan University's budget and planning process

The experience at Franciscan University of Steubenville shows how the initiative module fits into an organization's budget and planning process. Franciscan University's process has three distinct phases:

Preliminary budget The university's Budget Office creates the preliminary budget, which can reflect major changes such as planned salary increases, new tuition rates, or other economic conditions. The starting point for the preliminary budget is the previous year's budget, which is adjusted from the top down based on model assumptions. Once the assumptions and models are finalized, the preliminary budget is taken to the board for approval; once approved, this document is sent to the budget departments to provide line-item details.

Final budget During this phase, departments are allowed to move expenses around but they cannot increase the preliminary budget's revenue or expense targets. Previously, Franciscan University implemented spreadsheets during this phase. The Budget Office would email them to the departments; the departments would fill them out and email them back. Gathering the spreadsheets and compiling all the data was a lengthy process. As with spreadsheets, undocumented assumptions behind the numbers in the spreadsheets made the figures hard to understand and compare. The university now uses Host Analytics Budget's Initiative Module. Through a template that looks like a familiar spreadsheet interface, departments submit the revenue or expense increase requests as initiatives. The system protects the data and guides how data is input, which makes it far less likely errors will be introduced. The information is stored in a centralized database and automatically compiled from across the organization and moved through a centralized approval process. At this point, the initiatives are prioritized and kept separate from the approved preliminary budget.

Revised budget The final budget and initiatives are then taken to the board. Once approved or unapproved, the initiatives are rolled in/out of the plan; the result is a revised budget. During the revised budget phase, departments can create forecasts to update the budget. After this point, any further revenue, capital expenditure or other expense increases requested by departments would be considered outside the revised budget. The Initiative Module can include all or some of these details in the budget schedules.

As with many educational organizations, one of Franciscan University's biggest challenges had been managing additional budget requests. With the previous spreadsheet-based process, the budget office would be faced with an influx of numerous discretionary budget requests that would take much time and effort to compile and analyze. It was a tedious process of checking each one against either the preliminary or revised budget to decide whether to approve the requests. Without limiting the kinds of requests departments can make, the implementation of the Host Analytics Initiative Module has formalized how the requests are submitted. This has increased clarity and speed in the university's budget approval process.

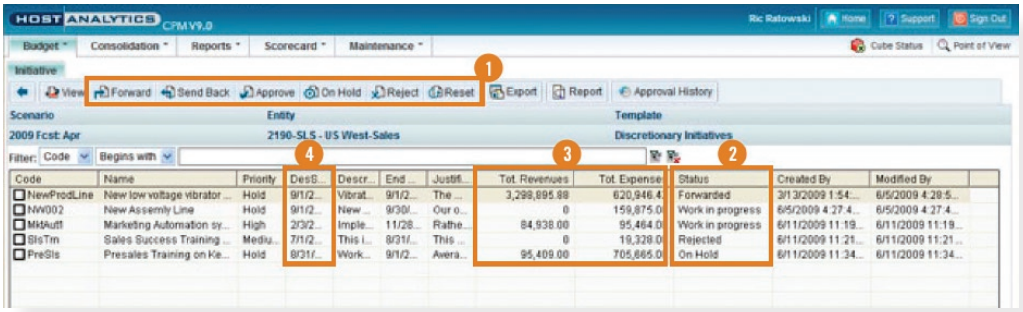
Using information effectively for initiative planning As mentioned, spreadsheets make it difficult for both the Finance and Budget Office and departmental participants in the process to enter data consistently and manage it so that less time is spent on simply bringing the data together. Centralization through use of the CPM suite can significantly reduce the time it takes to add budget request initiatives and have the data ready for comparative analysis. This section offers examples of specific functionality available in the Host CPM Suite for initiative planning.

1. When a budget user selects a "budget entity" and the "initiative template" from the "budget control panel," they are taken to a listing where they can enter new initiatives and manage existing initiatives (depending on their security rights) as well as managing the approval/disapproval/placing "on hold" of existing initiatives.

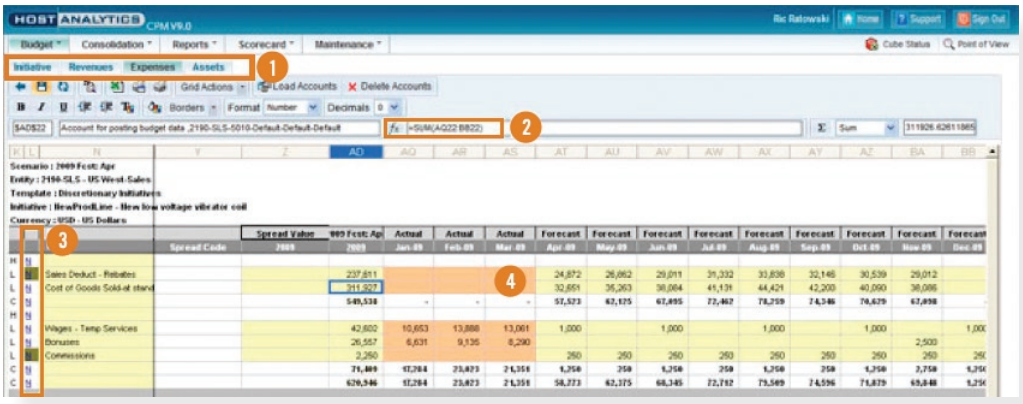
2. The list shows the status of each initiative.

3. In addition it shows the budgeted revenue and expenses,

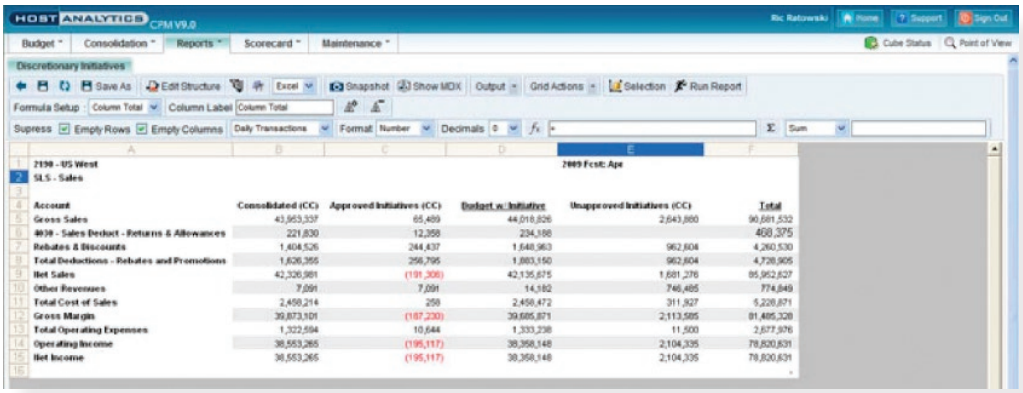
4. as well as the planned start and end dates of the project.



The screen below shows how data would be entered using an Excel-like interface, with different input templates for entering revenue, and the associated expenses and capital items. Although this looks like Excel, the information is saved to a centralized database and leverates the same formula syntax as Excel. Reference shows how different types of information can be linked; if the user clicks on the "N," they can add a note to the line item for this initiative to document the assumptions associated with the expenditure.



Organizations also benefit from reporting improvements over initiatives. The report below is a sample ad hoc report that highlights the budget, approved initiatives, budget total with approved initiatives, unapproved initiatives and total if all the initiatives were approved. With both the ad hoc report writer and the financial report writer users can run deeper analysis by project and line item.



In addition to the ad hoc report writer, the Host CPM Suite provides a robust financial report writer that provides flexible financial reporting that leverages the report flexibility of Excel with the "systemization" of a centralized relational report writer.

Key features to succeed

According to several research firms, a significant percentage of organizations still rely on spreadsheets to create and manage budget plans. Given the drawbacks, why do they continue to do so? Surveys indicate that organizations believe specialized calculations are easily accomplished; that is because spreadsheets are ubiquitous, working with their interfaces requires minimal training; and that it is easy to create flexible input areas to solicit input from different sources.

Because spreadsheet are ubiquitous within organizations, a budgeting and planning system must have the following attributes to support collaboration between departments and functions:

- Have look-and-feel that can appear exactly like a traditional spreadsheet
- Run in a browser so that the interface is accessible from anywhere and data entered via the browser is updated in the central repository
- Build parameter-driven, database-driven spreadsheet templates that are centrally controlled and easily updated by all constituents
- Store revenue and expense data in a database and retrieve timely information from the database when users request it
- Include a workflow engine with a control point for managing information about when forecasts are completed for all departments

Planning processes require continuous refinement

The budget and planning processes require ongoing learning, tuning and refinement. Many elements of a "Best Practice" planning process already exist in companies; they just aren't fully integrated and coordinated with sufficient collaboration, documentation, accountability and management support. Implementing an initiative/project planning module can help in this integration and coordination of the plans but it involves changing behavior. It takes time. Yet, doing so becomes critically important as organizations grow and diversify – and discover that their existing budget planning processes and tools are no longer adequate in this new economy.

Organizations that fail to obtain value from their budget process typically are not spending adequate time working the process to configure it to their environment. CPM software that incorporates a module for centrally managing budget request initiatives or projects can support the development of best practices to sustain improvements and spread the benefits across all departments and functions. Once organizations automate and centralize aspects of the overall budget process, they begin to see how valuable true financial budget planning can be as an operational tool.

For more information, please visit www.hostanalytics.com or call 866 391 HOST (4678)

About the Author

Ric Ratkowski, Vice President of Product Strategy. Ric manages our overall product strategy and brings over 25 years experience in Finance and Accounting. He has held strategic roles in the design of financial analytic and performance management applications within the top software companies in the industry including Braun Technology and Arbor Software. Additionally, Ric held financial executive level positions at multi-national corporations with first-hand involvement in the financial planning and budgeting process. He has been a key member of the executive team at Host Analytics since 2002 and pioneered the SaaS infrastructure at Host Analytics. Ric has a Masters in Finance and a Bachelors degree in accounting from St. Louis University and is a CPA. He lives with his family in St. Louis, Missouri.

About Host Analytics, Inc.

Host Analytics helps executives see the full implications of decisions – both risk and reward. Our leading on-demand corporate performance management solution helps financial executives improve their budgeting, forecasting, financial consolidations, dashboarding, scorecarding, reporting and analysis. Most importantly, it helps drive fact-based decisions based on sound financial justification. Host Analytics delivers its product suite using Software-as-a-Service (SaaS) on-demand delivery to increase security while reducing cost and deployment time. Founded in 2000, Host Analytics serves the enterprise, large and midsize companies across industries. Host Analytics was included in JMP Securities' prestigious "*Hot 100: The Best Privately Held Software Companies*" and was the recipient of the Best of SaaS Showplace Award from market research firm THINKstrategies.

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