



Budgeting & Forecasting - it's not as easy as it used to be

FINANCIAL ANALYSIS, BUDGETING, FORECASTING, CASHFLOW

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The concept of budget and forecast was simple

Using prior year information and overlaying assumptions, historical changes, investments etc to deliver a new set up numbers for the upcoming year or years. **Shareholders wanted to see an improvement and so as long as the percentage changes were going the right way then you were normally ok.**

Historical trends in all key metrics was the starting position to build the [budget and forecasts](#) and then work out what metrics you can improve, how you can improve and the timing to overlay into the budget/forecast.

Companies can take 3-6 months to prepare a budget, it's a ridiculous amount of time, and time that should be spent executing the plan and driving a positive outcome rather than validating an excel model.

A budget should be driven from key metrics i.e. customer numbers, average revenue per customers, new customers, customer churn rate etc. Understanding what a customer generates and then costs, can ensure that the model is underlying based on key metrics. This means **when you are measuring performance against the budget, you can understand why you are travelling higher or lower.**

AND THEN THERE WAS COVID...



Covid landed in 2020 and developing budgets, forecasts and understanding the impact was hard if not impossible. Many businesses tried to do a forecast of where the year was going to land for FY20. The budget was useless and metrics and information that didn't matter, now mattered.

Companies were focused on building a forecast. [CFO](#) and finance professionals developing a forecast for an uncertain period, where history has little relevance and the future is new and therefore every uncertain. **The best way to manage this would be to do scenarios** that allow you a high and low scenarios and you know what the impact if each of these different book-ends happen.

Most of the [forecast](#) were wrong, as there were guesses but got the company through this uncertain period. **We are now in a getting back to normal period**, post COVID (even though COVID still around) and this period is tricky...people were buying products online and now going back into stores, so the revenue from online will drop, back to pre-COVID probably not but what will be the level, how will this

impact inventory levels, cashflow requirements and how the business operates.

Budgeting and forecasting has never been so difficult. Having clear business drivers and some scenarios to stress test, cash, debt and other key operating metrics and having a plan B if something occurs that was not originally expected.

It might be years, or never that we get back to the guaranteed budget that used history as the basis, but the more data and information we gather to prepare the [financial modelling](#) – budget and forecast the better.

If you are a finance person, you will smile at this article...it's been your life for the last 3 years and it's still impacts the way things are done.

Doing a [zero-based budget](#), can help reset the way the business looks at the business, less reliance on prior year and resetting the cost base of the business by asking why do we need that expenditure, what is the return on investment?

There are some easy wins, and it might be what you need to balance your budget for FY24 and beyond.

[Whiteark](#) has a range of [articles](#) and resources for budgets/forecasts that we will share with you.

If we can help you, reach out for a no obligation chat to [Jo Hands](#) on 0459826221, or jo.hands@whiteark.com.au