



## **The CFO Guide to Budgeting Software:**

**10 key elements mid-sized companies should look for**

**A mid-sized business needs the same financial performance control and measurement capabilities as a large corporation, but in a solution that's affordable, easy to implement and scalable. This guide simplifies the search by helping CFOs understand the 10 must-have characteristics of today's best financial performance management solutions.**

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All companies need big company capabilities when it comes to financial planning. They need a strong grasp of their financial position, now, to make both day-to-day and long term decisions. A Fortune 500 enterprise faces Sarbanes-Oxley, the SEC, nervous shareholders, global competitors, volatile markets, fast-moving product cycles and an endless array of things on which to allocate their assets. A smaller company also faces increased regulation, intense competition, and the need to meet day-to-day working capital requirements. Regardless of size, a company may also want to position itself for merger or acquisition activity. It may need to borrow money or attract outside investors. If so, then it needs a financial plan, supported by a strong balance sheet and income statement, that is demonstrably grounded in the realities of the business world.

### You know you have a problem if...

There are clear signals that indicate your current financial planning methods are obsolete.

**You spend too much time (and money) on mechanics.** You know you have a problem if the time spent making the tool work exceeds the time spent using the tool to make business decisions. This is time spent on software programming, on writing mathematical formulations, on defining relationships between various expense or revenue items, on laying out report presentations.

**You don't know what you can or can't do.** Your budget should tell you right away whether you can afford to buy something or not, and what the payoff will likely be if you do. It should answer questions like: If I spend money here, will that leave me with enough money to do what I want to do over there? If you find that you can't trust the answer you get by looking at the budget, then you know the budget doesn't work.

But if smaller companies need the same high quality financial reporting that bigger companies need, they also face additional financial challenges bigger companies don't face. For one thing, smaller companies are more likely to compete against bigger companies — in other words, against competitors with deeper pockets and greater freedom to make mistakes. Smaller companies have a smaller margin of error but also have to make decisions faster — which makes mistakes more likely. Superior mobility is the classic advantage against larger size. But it is also a necessity, since a larger company can often come into a market late and simply out-price, out-

market, out-distribute, and ultimately outlast a smaller competitor.

Operating at higher speed, with less room for error, smaller companies should have better financial controls but usually have had to make do with less. It's the bigger companies who have the big IT departments and the large financial planning staffs. Smaller companies typically rely on spreadsheets and paper. What small companies need is a tool that gives them big company financial visibility without the big company overhead the expensive staffing, the complex software infrastructure or the complicated bureaucracy.

## The Limitations of Current Methods

Small and mid-size companies have generally four alternatives when selecting financial planning tools:

- Accounting applications
- Spreadsheets
- BPM (Business Performance Management)
- Budget point solutions

## Accounting Applications

General ledger, accounts receivable, asset management, etc. — are generally *not* intended for financial planning. They either provide isolated views of the business, e.g., accounts receivables — or generalized views, e.g., the general ledger. What they don't provide is a what-if capability that correlates *different* views and different sets of assumptions, especially looking forward — e.g., what *would* be the effect on the balance sheet if we opened or closed a certain store in a certain city. A good financial planning tool should therefore provide *input* to the accounting application. That allows the implications of a business decision to be visible on an accounting basis. However, modeling the operational decision itself is not something that most accounting packages do.

## Spreadsheets

These are probably the most familiar tool smaller companies use for financial planning. Spreadsheets are powerful tools for conducting what-if financial planning. They also integrate well with other tools. The problem with spreadsheets is that the end-user needs to program them, for example with the formulations that defer revenue across multiple periods. Those formulations need to be: a) known and b) correctly defined for the appropriate cells. This requires technical expertise with spreadsheets and technical expertise in complex financial areas (like deferred revenue). Different people don't always have these skills. Formulations can be wrong, and even if they are correct the data itself can be too easily mistyped. Other errors can occur because links between worksheets break or because new rows and columns added later don't cover the ranges the formulations expect. And once errors are introduced, they tend to proliferate and compound as spreadsheets pass from user to user around the company.

## BPM

BPM overcomes the limitations of spreadsheets by providing automated support for what-if formulations. It also overcomes the isolation of accounting software by

providing closed-loop integration between accounting, planning, and financial transactions. The problem with BPM is that it is very expensive, often more than \$100,000, requires significant IT support and may take up to years to implement.

A particular flavor of BPM is the ERP (enterprise resource planning) “add-on” in which a financial planning module

is attached to the existing ERP infrastructure. Of course, this implies that ERP infrastructure already exists in a company, which may very well not be the case in a smaller company. Even if that ERP infrastructure does exist, the add-on itself can be very expensive to buy and require extensive and costly IT integration. It may also share many of the deficiencies of budget point solutions.

### Budget Point Solutions

These are PC-based applications focused solely on budgeting, not real financial planning. Essentially they are “spreadsheets on steroids” — i.e., once formulations are written into a worksheet, the worksheets can be shared centrally and worked on by different users without the formulations being easily corrupted. Expert users hardwire the formulations into the worksheets so even though users work at different desktops they get a common workspace to budget in. Accounting sees what operations sees, and C-level managers see what both operations and accounting see — so there’s greater collaboration and far less proliferation and compounding of errors. Budget point solutions also cost far less, both to buy and to implement, than BPM.

Budget point solutions are a step in the right direction, but have serious drawbacks:

**Formulations not included.** Modeling a business or a budget can take a long time because experts need to manually program relationships.

**Accounting not supported.** Everyday accounting conventions like credits, debits, P&Ls, and balance sheets usually aren’t built in. For example, suppose you want to know how the decision to buy a capital asset from a

particular supplier will impact the balance sheet and cash flow. You will have to export the data to a balance sheet and cash flow spreadsheet. Both financial views are hard to do, cause delay, and introduce significant risk of errors.

**Batch reports only.** Because consolidations and other reports aren’t immediately available, urgent decisions may have to wait while the tool runs a batch report.

**Limited chart of accounts.** Rather than use the company’s existing chart of accounts for budgeting, users might have to construct a modified version the tool can accommodate. The number of account levels or the number of characters in account names, for example, might exceed the tool’s capacity. Or you may have to consolidate accounts just to run the tool. This makes the tool harder to use and financial information less revealing.

Although sometimes very different in approach, each of these four types of solutions makes the same mistake: they provide a “product” (e.g., a financial statement, a spreadsheet, a financial accounting integration, a budget) that only partly aligns with what small and mid-size companies actually need to manage their businesses in today’s environment: financial planning that is easy to use, easy to implement, low cost, and comprehensive.

## Budget Maestro: A Model for the Middle

How should financial managers find a planning tool? They should look beyond the budget, and they should also look at the specific planning requirements of their businesses. We would suggest the following:

### Key financial planning solution attributes for small and mid-size companies:

- Conforms to the business, rather than makes the business conform to a tool
- Synchronizes financial and operational views
- Speaks native “accounting” — i.e., P&Ls, balance sheets, debits, credits, etc.
- Synchronizes P&L, balance sheet and cash flow
- Allows for easy what-if analysis
- Easily identifies operational metrics that impact financial outcomes
- Allows users to easily state the parent-child relationships between metrics and outcomes
- Can be easily implemented by the finance staff
- Requires minimal IT support either at implementation or afterwards

Unlike spreadsheets and budget point solutions, a true big-company approach would be to create a consolidated financial model of the business. And unlike BPM, achieving that model should not require turning the business inside out. It is a centered approach that avoids the pitfalls of either extreme.

But is such a model attainable? And if so, how can a small or medium-sized company achieve it? The solution requires tools that embrace the best of existing approaches described above, and overcome their shortcomings.

Such tools do exist. Budget Maestro from Centage is an excellent example of a consolidated financial management tool that produces big company impact in smaller companies. It’s more reliable than spreadsheets, more versatile than typical budget point solutions or accounting packages, and much more affordable than BPM systems. Here are some of the qualities of this genre of solution that are ideally suited to small or medium-sized businesses:

### More signs you may have a problem...

**You can’t identify the low hanging fruit.** Before you first make a decision, you should know which decision to make first. A budget should answer questions like: Which employees, products or customers contribute most to profits? How is that different from last quarter? If I remove a line of business from the budget how does that affect overall profitability? If I add salespeople in a particular territory, will profit margins likely go up or down?

**Your business is forced to accommodate your planning solution.** Suppose a business utilizes part time, contract or seasonal employees. How should a company plan its payroll? Most tools make it hard to plan at this level of detail or flexibility. They might make you use fewer full-time employees to approximate the part-timers.

**You can’t synchronize business views.** Everyone who works here sees a different view of the business, is a frequent top management complaint. Operations people complain about the “bean counters” and finance complains about operations’ lack of vision about where the company is heading. The problem: no one sees the whole picture. A powerful budgeting solution — one that involves managers across the organization — will help to close these perception gaps.

## 10 Key Elements Mid-sized Companies should look for:

**1 Implementation and use are easy.** The business and financial logic is built into Budget Maestro screens (which are clear data entry screens, not spreadsheets). Line managers enter data they know from everyday operations not formulas, macros or technical accounting-specific data. The system then — relying on rules and parameters set by the financial staff — takes this data and all other data from every part of the business and does the rest, creating budgets, forecasts, financial statements and a vast array of standard and custom reports. Furthermore, it is readily compatible with all major general ledger packages.

**2 The data gap closes.** Because Budget Maestro ties every user's data into the same centralized relational database (it's SQL, but users don't know this and don't care), everyone sees the same financial data, or whatever portion of the data they need to see. That extends from the most meticulous operational details to the highest consolidated financial rollups. The financial staff and C-level executives have comprehensive information from every corner of the operation, always updated in real time without manual collection and consolidation.

**3 Reporting takes center stage.** A solution like Budget Maestro immediately turns data into intelligence through a comprehensive and easy to use report generation capability. With no costly and time consuming programming, users can produce desired reports at any level of detail with just a few mouse clicks.

**4 Collaboration flourishes.** There's more collaboration side-to-side between operations and finance. There's also more collaboration top-to-bottom; importing actual results allows continuous comparisons to plan — bridging the gap between the strategic and operational plans. Everyone sees the same numbers so there's less of a cultural divide between various stakeholders — without the need to reinvent the culture itself.

**5 The low-hanging fruit appear.** Since the numbers are real, not merely averages, and since they relate to each other across the organization as well as top-down, it's easy for managers to see where the greatest opportunities exist. Questions like these suddenly have clear answers: Who are the most profitable customers? Who are the most efficient managers?

**6 Reactive turns to proactive.** Companies don't have to wait until after budget season to get a look at whether they can afford to do something. They can move more quickly when opportunity (or disaster) strikes whether that means investing in a new plant, getting a loan, or closing an M&A deal. Nor are forecasts cast in stone. If conditions change, as they always do, budgets can be quickly updated to reflect the new reality and guide a new action plan.

**7 P&L, balance sheet and cash flow are available anytime.** The P&L is a short-term look at what happened last month or last quarter. The balance sheet is an indicator of the underlying strength of the business. Cash flow tracks ability to cover expenses. All three reports are critical, and are easily available through Budget Maestro without programming, batch processing or waiting.

**8 IT remains free for other priorities.** A limited software infrastructure means the finance team can implement Budget Maestro with virtually no IT support. On their own, non-technical users can import data from other sources, create financial models and make changes as needed, create financial statements and run management reports.

**9 Existing account structure remain valid.** With Budget Maestro there's no need to modify the chart of accounts; the software can work with that exact account structure directly. There is no need to truncate account names, condense accounts into fewer levels or perform other tricks to make the business fit the tool. Users simply sign on, import their chart of account numbers and start planning their businesses.

**10 The tool scales to the work.** Smaller and mid-size companies grow and shrink much faster than big companies. The key is having a solution that keeps pace with the company in both size and cost. Spreadsheets are hard to scale to numerous users given the risk of mistakes that can happen as more people work with a model. BPM is by definition a large IT infrastructure, so it not meant to be scaled down to a relatively few desktops. In contrast, Budget Maestro is completely scalable, easily handling rapid growth or contraction.

In summary, a solution should enable professionals to spend a greater proportion of their effort and time on the area of greatest concern — making informed business decisions based on reliable data.

### Finding the Right Solution

Financial management is a critical function in any business committed to success. Most existing tools fail in important aspects of implementation, use or reporting. Systems such as Budget Maestro directly address these shortcomings, offering users the flexibility and power they expect.

However, no single tool is perfect for every company. Furthermore, no business wishes to change financial systems year after year. So fully understanding a system's capabilities is critical in making the right choice. It's well worth the time to do the homework.

Therefore, as in any other important investment, the ability to test out options before buying will dramatically improve the quality of the decision. A no-obligation trial of the system is an ideal way to evaluate Budget Maestro or other solutions.

### About Centage

Centage Corporation provides sophisticated yet easy-to use Business Performance Management solutions that enable mid-sized organizations to improve its budgeting, forecasting, reporting and analytical capabilities.

Since 1995, thousands of licenses of the company's premier financial solution, Budget Maestro®, have been sold worldwide, enabling managers at all levels to dramatically simplify their budgeting process and improve the accuracy and efficiency of their overall business planning process.

Budget Maestro by Centage delivers superior ROI through a combination of best price, easiest implementation and use, and a fiscally sound methodology that enables confident decision-making. Centage Corporation is headquartered in Houston, TX.

**For more information,** visit [www.centage.com](http://www.centage.com) or call **800.366.5111**



### Budget Maestro Features:

- Project Budgeting
- Revenue and Expense Forecasting
- Payroll and Benefits Planning
- Headcount Planning and Tracking
- Capital Asset Planning and Management
- Line of Credit Projection
- Based-upon Calculations
- Top-down Allocations
- What-If Scenarios
- Workflow Management
- Spread Methods, A/R, A/P Scheduling
- Integrated P&L, Balance Sheet and Cash Flow Reports
- Crystal Reports® — Presentation-style reporting
- Report Maestro™ — Drill-down reporting
- Multi-Tier Consolidation/Rollup
- Cash and/or Accrual Reporting
- Security (User level, Role-based)
- Additional User License Packs

