

THOUGHTS OF THE SALMON™

Autumn, it's budgeting time (and the leaves are falling)

"How do we compare to the 9+3 forecast?"

*"We are in line with the 10+2 forecast
submitted last week"*

Pinco (see below)

Autumn is also the time for budgeting. Dozens of planners and controllers are busy coming up with next year's numbers.

It is a vital process for a company, because it is a key to understanding where to go, and what is necessary to get there.

However, please, let's try to avoid some idiotic things that we "sometimes" happen to see in autumn:

1. How much I can/want/must grow is usually expressed as a percentage. As we all know, percentages are very dangerous: for an already big product line, even a small percentage can represent a big challenge, and require massive investments and resources. Same thing for a large and mature market. If I must/want to reach an average growth of x%, let's try to seriously deaverage that on the different entities, based on the real growth potential.
2. Costs: painful topic. How much I can cut depends also on whether costs are fixed or variable: given a "physiological" incidence of costs on size (for example, revenues), I will see a more or less pronounced scale effect. So, let's not give equal goals to all, "linear" cuts, "3% less across the board," and so forth. Maybe a large country is already very efficient, and is lying below that "physiological" curve, while a small subsidiary, even taking into account the scale disadvantage, could still be very inefficient. Of course, imposing 2% less to a big guy is a big number, quickly making my spreadsheet look very good, but it could be not the right thing to do...
3. Let's try to clean the whole process of sympathy/antipathy: Pinco is a good negotiator, always ready to complain, he fights to death to keep low numbers, and everybody, who knows why, likes him. Pinco, in the end, takes home a budget that is not that "challenging" (you know this adjective, right?). Sempronio belongs to a different school of thought, "better die for a final balance than for a budget," and he doesn't oppose fierce resistance. He complains just a little, but in the end he takes home the big challenge. Then, head-on to deliver.
4. Let's agree after the budgeting process. We are going to check on the difference between actual numbers and BOTH budget AND the previous year. And if someone (usually Pinco) tries to cheat, showing, based on convenience, at times the comparison with the budget, at other times with the previous year, well we give him a swift kick. Even if everybody really likes him.

*Giovanni Carlino
(2013)*

The contents of the newsletter "Thoughts of the Salmon" are protected by copyright, all rights reserved. The information, image and/or data contained in the newsletter may not be distributed, reproduced in whole or in part without prior permission

CARLINO
&
ASSOCIATI