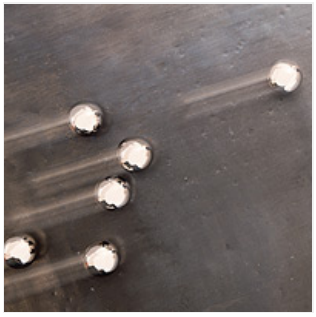
Making the Case for Rolling Budgets

By **Randy Myers**, January 11, 2011



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Raffy Ohannesian abhors annual budgets.

"They are obsolete before they're even started," says Ohannesian, chief financial officer at Fox Rent-A-Car Inc., a $100 million discount rental car company based in Los Angeles.

Ohannesian is not alone in disliking the number-crunching exercise that former General Electric Co. CEO Jack Welch has called "the most ineffective practice in management" at most companies.

Thankfully, there is a viable alternative, one that turbocharges the budget process, making the resulting document more alive and relevant.

It's called continuous or rolling budgeting. Finance professionals who've embraced it say the practice can transform budgeting from a time-waster to a driver of better forecasting and corporate performance.

Ren Carlton is one convert. Carlton, president of Dynamic Advisory Solutions, a Troy, Michigan, provider of outsourced CFO services, once believed in the annual budget process. But clients felt it took too much time and didn't apply to what they did, Carlton says. "And after taking a closer look, I realized they were right. It really was a waste of time."

Now Carlton puts clients on 12-month rolling budgets. As a month passes, it drops out of the budget and a new one is added. Because budgets always reflect the latest information available to the management team — from new customers to changes in sales trends, costs and economic conditions — they become working documents that managers can use to make business decisions rather than fodder for the filing cabinet.

Richard Winter, founder of Comprehensive Consulting Services, a Hackensack, New Jersey, business services consultant, likens the difference between the two to the difference between an employee who guns hard to hit a year-end number and one who continually looks at the road ahead, making adjustments when needed to save the company money or increase revenue. Which one would you rather have working for you? "Obviously it's the latter," Winter says. "That manager is not focused on a year-end number, but on the long-term health of the company."

Making the Change

How can you sell managers who balk at creating one budget a year on a process that requires doing it every month, or at the very least, every quarter?

One way is by linking it to their compensation, complete with line-item responsibility. "When you assign accountability to individuals or teams, you give the process teeth," Carlton says. "People start to take it seriously."

Some companies judge managers against annual budgets, although CFOs such as Ohannesian find that problematic. It's pointless to hold somebody accountable for decisions based on a budget put in place two or three quarters in the past, he says. "Having forecasts done on a monthly basis resets the playing field and the expectations for people in a way that accounts for and allows for current dynamics," he says.

To make rolling budgets work, managers need the right tools, including an IT department that can work as a partner, Winter says. "You also need an HR department that buys in, because the performance management component needs to be part of the process," he says.

At Dynamic Advisory Solutions, Carlton developed a custom Excel spreadsheet template to create rolling budgets for clients. He prefers it to off-the-shelf budgeting software, which he says doesn't provide the flexibility needed to track line-item accountability.

But Winter, the business consultant, eschews spreadsheets as too unwieldy for all but the smallest companies. "When you have a bunch of users in different departments using different spreadsheets and one person changes one thing, you have to go through 50 other spreadsheets to find it," he says.

Instead, he prefers specialized budgeting and forecasting software that can draw information from a company's existing data systems, allowing all users to create reports from the same set of data. His favored vendors for such software include A3 Solutions Inc., Satori Group Inc., and Revelwood Inc.

For small organizations constrained by time or manpower, Winter recommends producing rolling budgets that look just six months ahead. Larger, more mature mid-sized companies can look 12 months out, and very large, publicly traded companies 18 months.

Reaping the Benefits

When Ohannesian joined Fox Rent-A-Car in May 2010, he implemented an 18-month rolling budget process. He also continued his predecessor's practice of revising cash-flow forecasts on a daily basis. That timeliness is important, Ohannesian says, because demand for rental cars shifts quickly, and the static budgets once used to determine the fleet size at each of the company's rental locations made it difficult to respond. "We would ramp up prices as our utilization rate went over 90 percent in a particular location, but still lose money on sales we had to refer to other rental car companies," he says. "Now we try to anticipate those peaks in demand and make sure we have sufficient fleet in place to manage a good proportion of them. It's far more effective."

Flexible budgeting is also important when Fox opens a new location. "To generate new, organic business in a cost-effective manner, revenue from a new location has to be added to the bottom line quickly," Ohannesian says. "There isn't a long break-even horizon. So we have to judiciously look at what personnel expenses we're going to incur and how much internal expense we'll absorb to support that growth, and be prepared to make changes quickly when actual results don't conform to our projections."

Ohannesian characterizes Fox Rent-A-Car's rolling budgeting process as a work in progress, with future plans calling for information to be pulled from the company's disparate information systems — operations, claims, fleet, accounting — into one data warehouse the entire management team can use. He also plans to add a web-based tool company leaders can use to develop and track performance benchmarks in a timely fashion.

Because of significant concentration in the rental car industry, the company simply can't afford to operate any other way.

"Dollar Thrifty has put itself up for sale and Hertz and Avis are fighting over it," Ohannesian says. "At the end of the day, there will be three very large players in the car rental space. We're fourth, and up-and-coming. We have to be more versatile, agile, intelligent and creative in decision-making. We can't afford a culture where it takes three months of the year to create a budget."

Come to think of it, that's probably true for most mid-sized companies.