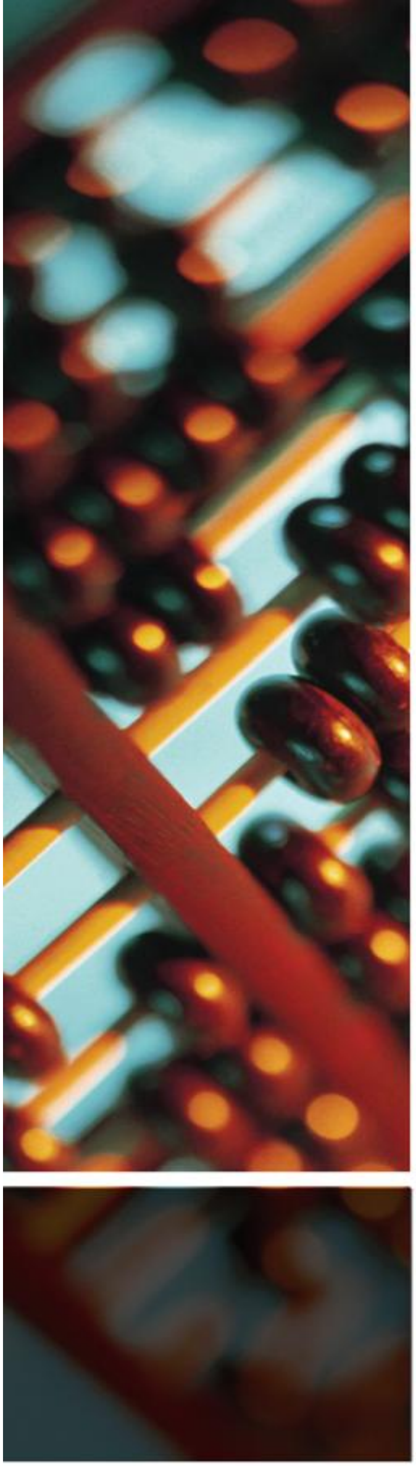

THE MANAGERIAL ACCOUNTING COLLECTION

Kenneth A. Merchant, *Editor*

Customer-Driven Budgeting for Small- to Medium-Sized Businesses

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Customer-Driven Budgeting

Prepare, Engage, Execute: The Small Business Guide for Growth

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[Introductory Excerpt]

The Audience for this Book

This book concerns customer-driven budgeting. That is, companies in which customers rank as top priority will profit from this book's contents. This book is for any small business owner, President, CEO, CFO, board member, or investor who wants to realize success for their business or portfolio investment. From the startup firm to the $25 - $50 million corporations confronting the challenges of financial and business management, this book will provide a wealth of value and information. Is your business in startup mode with its first or second round of funding? You will find the budgeting principles in this book useful for exercising sound financial management. The critical timeframe for startup businesses is the first five years. During this time, businesses are more prone to bankruptcy or simply going out of business. Companies during this period need sound financial and cash flow management. Companies in business for more than five years seeking to increase market penetration, profits, and greater value for the owners and shareholders will find the principles and practices outlined in this book valuable for putting in place sound forecasting practices. This book provides an essential roadmap of best practices for aiding financial institutions, angel investors, and venture capitalists in helping their portfolio companies to succeed.

This book addresses not only management and constituents but also the essentials of processes and their importance in preparing a comprehensive budget.

Figure 1 illustrates the budget template as a managerial tool. The budget provides *management direction* by:

1. Setting objectives
2. Preparing performance criteria
3. Calling for accountability
4. Creating measurements

The budget offers *constituent management* in that it considers and treats each constituent as a business partner that provides a source of business success. The

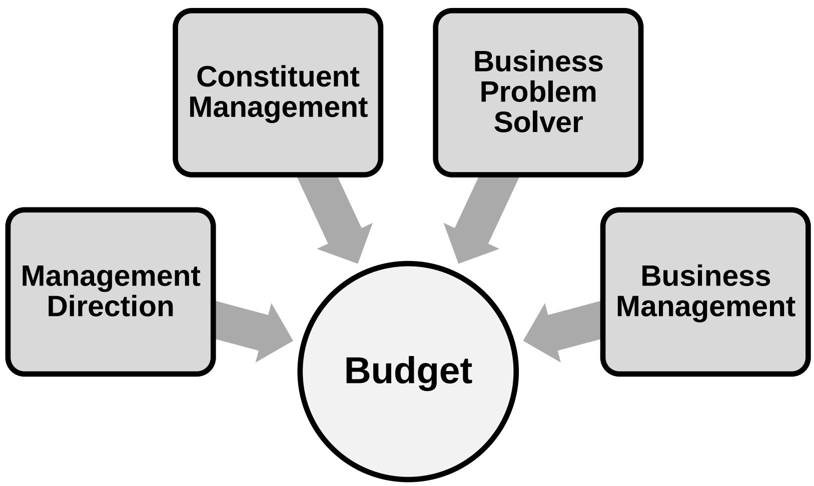

Figure 1 The Managerial and Solutions Basis of Budgeting

budget makes the primary constituent, the customer, the business driver. It integrates and orients all other constituents toward customer cultivation, satisfaction, and retention through the mission statement, objectives, and planning activities. The budget serves as the *business problem-solver* in that it is solutions based and applies those solutions to the challenges and pain points it encounters toward meeting stated objectives in the marketplace.

The budget provides *business management* by becoming the financial management practice, discipline, driver, and focus for the entire organization and its processes. It is the business management roadmap and measurement of success

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One of the most fundamental focuses for business success emphasized in this book is process. In fact, this book raises one process as a primary priority—the process of budgeting. Chapter 6 discusses the process of budgeting and the importance of reviewing processes in a company as a preliminary step of budgeting. The reason for dedication to processes for the budget is threefold:

1. Processes require resources—human, material, and capital.
2. Processes drive the organization and business toward its mission.
3. Processes touch upon core areas of business success:
    a. The control environment
    b. Risk management
    c. Activities and transactions
    d. Reporting
    e. Monitoring and review.

Monitoring and review is really a primary key for continuous improvement and follows the path of the budget cycle during the budget execution phase and financial reviews (Chapters 14 and 15) toward the beginning of the next fiscal period.

------------------------------ [End of Excerpt] ----------------------------------

Chapter Four Objectives, Performance, and Measurements

Scattershot results from not having a clear target shot. Measuring scattershot is highly difficult for taking your best shot.

[Excerpt]

Measuring Business Performance

Objectives are a logical starting point for the budget. All components of the business come under the scrutiny of the budget as the benchmark for financial performance. In his book on the Balanced Scorecard concerning a mechanism for performance and results, Paul Nevin suggests that communication is an essential element for success. He identifies at least six communication goals for development and implementation in keeping score of business endeavors:

1. Awareness at all levels of the organization
2. Education of concepts
3. Engagement and commitment
4. Encouragement of participation
5. Enthusiasm generation
6. Effective and rapid dissemination of results [1]

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[1] Nevin, Paul, *Balanced Scorecard Step-by-Step: Maximizing Performance and Maintaining Results* (New York: John Wiley & Sons, 2002, 65.

Objectives are the means of communicating performance results through your company. They also engage commitment, ownership, and participation of what the business wants to accomplish. Objectives also point to results.

The budget would be incomplete without a performance measurement segment, and objectives are the bases for performance measurement. Any activity in the company needs measuring to determine progress. Performance reviews occur at various time intervals and levels in the business. The primary performance review is financial statements reporting. These occur monthly, quarterly, and at year-end. The budget is an integral part of the financial statements. They measure financial performance against established objectives. The financial statements express some of the objectives you set during the budget cycle, such as sales revenue, the aging of accounts receivables and payables, gross margin, and net earnings. This means that all three financial statements come under review at the stated periods.

------------------------------ [End of Excerpt] ----------------------------------