



## DEMAND DRIVEN BUDGETING



zero-based methodology closely linking  
budgets to business drivers

### THE PROBLEM

Most entrepreneurial organizations have begun the process of transforming themselves into small, agile, autonomous operating units. As counterintuitive as it might seem, the budgeting process serves as a critical planning tool in this new environment.

However, the traditional budgeting process based largely on historical trend analysis falls woefully short as a managerial tool in this dynamic environment. This new environment necessitates a predictive tool that can accurately determine future resource needs based on both internal and external factors.

Furthermore, anyone who has had experience with even one budget cycle would vouch for how painful a process it is. In some cases, the difficulty stems from a non-standardized process resulting in somewhat arbitrary analysis. In other cases, the difficulty is rooted in the fact that most “budget owners” do not really understand what truly drives their business. This is a dangerous predicament to be in when decision-making in most organizations is being pushed out to small, self-directed units.

### THE SOLUTION

Confida’s proprietary demand driven budgeting is a zero-based, bottoms-up solution that aggregates budgets based on key business drivers. Demand driven budgeting helps manage the predicament outlined above by structuring the entire budget process to be intimately aligned with the daily running of the business. No longer do organizations need to go through arduous budgeting cycles; the budgeting process will be imbedded in daily business activities and dynamically managed by individuals who run the businesses.



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With this zero-based process in place, changes to the budget will only occur as a result of

	Jan	Feb	...	...	Year
6401100 Salaries - exempt	#	#	...	...	#
6401101 Salaries - non exempt	#	#	...	...	#
6401102 Salaries - temporary	#	#	...	...	#
6401103 Overtime	#	#	...	...	#
...	#	#	...	...	#
...	#	#	...	...	#
...	#	#	...	...	#
6901100 Recruiting expenses	#	#	...	...	#
6902100 Misc. expenses	#	#	...	...	#

changes in demand from the “marketplace.” Some of these changes, such as an increase in the demand for a product, will uniformly affect multiple budget centers. Demand driven budgeting is a standardized, self-contained system resulting in smaller overall variances between “plan” and “actual” than traditional budgeting processes.

What Are the Key Business Drivers ?

### THE VALUE

Demand driven budgeting will dramatically increase each manager’s intimate understanding of the economics of the business, allowing each manager to fully grasp the dollar impact of various decisions on his or her budget; this will result in better decision making at all levels of the organization.

Since the budget will serve as a key decision-making tool, managers will dynamically update their budgets throughout the year eliminating the painful annual budgeting ritual.

The entire process, from initial analysis of cost and revenue drivers to the creation of dynamic reports at any “budget hierarchy” will be standardized. Their administrative burdens thus reduced, accounting professionals will have time to provide value-added consultative services to help managers run their businesses better.

Finally, since demand driven budgeting is based on fundamental market-based business drivers, it is guaranteed to reduce budget variances to acceptable levels benefiting planning and forecasting.

### THE PROCESS

Transitioning a department or an organization to demand driven budgeting involves a customized three-step process:

1. Activity-based cost and revenue analysis to determine fundamental business drivers
2. Recasting of current budget numbers based on these predictive drivers (note: this does not in any way modify the currently used budget; it just adds scientific rigor to how each line item is calculated)
3. Installing demand driven budget templates and training individual managers on how to use this tool for better decision-making.

The demand driven budgeting system uses Microsoft Excel templates and macros and coexists with any in-use budgeting system.

### HIGHLIGHTS

*Confida’s proprietary demand driven budgeting is a zero-based, bottoms-up solution that aggregates budgets based on key business drivers.*



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## CONCLUSIONS / IMPLICATIONS

The budgeting process is one of the more painstaking times of the year for most business managers and P&L owners. The reputation is well-earned. It is difficult to accurately predict budgetary needs, the process is invariably “gamed” and variances are problematic to explain. Confida’s Demand Driven Budgeting solution makes the entire process much simpler than it is today. By tying the budgeting process tightly to redictive business drivers, Confida’s solution provides budget owners with a reliable solution that is time conserving as well. The analytical rigor used to develop the budgets guarantees far fewer variances and provides a platform for better, faster budgetary decisions.



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