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Ten Common Budget Pitfalls

1. You don’t know where you are going before you start.

Not all revenue is created equal. Nor are all expenses. Before kicking off, creating a top-down version of the P&L will help you align to your strategic plan and build consensus around the results you are trying to achieve.

2. You attempt a bottoms-up approach without setting business unit targets.

Without targets, individual business unit budget submissions don't roll up to a P&L that makes sense. This mistake creates the need for multiple round of budgeting and a final, unpleasant set of interactions among senior managers to close the gap.

3. You don’t understand your P&L consolidation.

Budgets that look good at the business unit level don't always consolidate properly. If the CEO is asking "why is everyone meeting their budget targets except for me? And who is Other?” It means the business units have learned to game eliminations in "Other."

4. Your expense allocations have no credibility.

Allocations allow the C-Suite to compare business unit performance on a “fully loaded basis.” But business unit leaders hate expenses that they can’t control being dumped into their P&L. The best you can do is develop a credible methodology and ensure that the functions in “overhead” are measured on productivity and quality.

5. Trend analysis shows a loss of momentum in the first quarter because the team didn’t understand the current year exit rates for expenses or revenues.

6. Your revenue targets look great, but the expenses and investment required to achieve those sales are nowhere to be seen.

7. Your quarterly splits are back-end loaded and you see too many hockey sticks.

Unless your business has extreme seasonality, waiting until the end of the fiscal year to see results is a risky proposition.

8. Your budgeted income statement and balance sheet don’t work together.

So, forget about a working capital estimate that you can use to manage cash.

9. You have no supporting metrics to break down the budget into actionable, operational goals-both leading and lagging indicators.

Poor financial performance will be the first sign of trouble and it will be too late to act.

10. The budget is done, it looks great, but you don’t have a convincing document to tell the story.

Putting together a cohesive document and making the rounds with your colleagues is critical to making sure you make your budgets and get buy in from your colleagues.

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