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Ten Common Budget Pitfalls

Anyone can create a budget but it won't do any good if it's poorly designed. To ensure your organization’s budget is effective, avoid these common budgeting pitfalls:

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

Not all revenue is created equal. Nor are all expenses. Before you start your budget, a tops-down version by high-level line item will help to build consensus around the results you are trying to achieve.

2. You attempt a bottoms-up approach with no business unit targets.

In 30 years, I never saw a budget that had been submitted by business units roll up to a P&L that made sense, unless the units had been provided with targets. This budgeting pitfall creates the need for multiple rounds of budgeting and a final, unpleasant food fight to close the gap.

3. You don’t understand your consolidation.

New in a job at the top of the house, I inherited a budget that looked good at the business unit level but didn’t consolidate properly. For the first six months of my tenure, the CEO asked, “Why is everyone meeting their budget targets except for me? And who is Other? They lose a lot of money.” The business units had learned to game the 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 units hate expenses dumped into their P&L that they can’t control. Be sure to develop a credible methodology, then make sure the functions in “overhead” are focused on productivity.

5. Your team doesn’t understand the exit rates for expenses or revenues.

Making this budget process mistake will have trend analysis showing a loss of momentum in the first quarter – or making an impossible leap into the new year. Either way, you will spend the year explaining variances to budget.

6. Your revenue targets look great but the investment required to achieve those sales is nowhere to be seen.

Targets must be set for all aspects of the P&L based on realistic contributions to revenue.

7. Your quarterly splits are backend 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.

Making this common budget error creates a working capital estimate that you cannot use to manage cash.

9. You have no supporting metrics to break down each business unit’s budget into actionable, operational goals.

Without both leading and lagging indicators, poor financial performance will be the first sign of trouble.

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

Having a strong budget story to accompany your budget financials will help initial buy-in and avoid later distancing from ownership.

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