

The background of the slide is a collage of US dollar bills. At the top, there are two large, messy stacks of bills. Below these, a grey semi-transparent box contains the title text. At the bottom, there is a close-up view of several hundred-dollar bills, some of which are held in place by white clips.

Budgeting: Plans, Reports & Realities

Mark M. Fallon
President & CEO
The Berkshire Company

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Overview

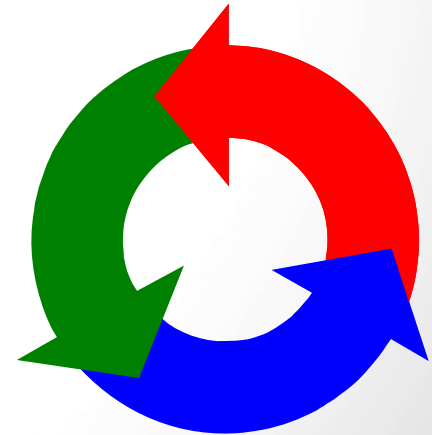
- **Budget Cycle**
- **Categories**
- **Production Report**
- **Tracking Expenses**
- **Cost Per Piece**
- **Evaluating Equipment**
- **Depreciation of Equipment**
- **Evaluating Staffing**
- **Chargebacks**
- **Monthly Reports**
- **Opportunities for Savings**
- **Promoting Your Successes**
- **Glossary**

Budget Basics

- Types of Budgets:
 - Expense or Operating Budgets
 - Capital Budgets
- Types of Years:
 - Calendar Year
 - Fiscal Year

Budget Cycle

- **First Step - What are your actual volumes & costs?**
 - inbound and outbound mail by type
 - print/copy by type
- **Second Step - What are your projected volumes?**
 - changes in size of business
 - changes in type of business
- **Third Step - Budget your expenses**
 - **What will this cost you? (Rates, with any increases, by category)**
 - **What equipment and software do you need? (Capital purchases)**
 - **What labor force do you need? (How many people at what skill level?)**



Categories

- **Include Expenses and Savings**
- **Major Areas:**
 - salaries
 - benefits
 - direct expenses
 - allocated expenses
 - service charges
 - capital purchases
- **Direct Expenses Include:**
 - travel
 - stationery and printing
 - postage
 - telephone equipment & usage
 - software
 - maintenance
 - education
 - association dues
 - books & periodicals
- **Allocated expenses include:**
 - rent
 - utilities
 - depreciation

Depreciation of Equipment

Formula is always company-specific.

Be sure to meet with your Accountant / Comptroller.

Standard formula:

Base = Purchase + Tax + Shipping + Installation

If Y = Number of years, then Yearly depreciation = Base/Y

For Example:

Inserter	\$100,000
Tax	\$5,000
Shipping	\$1,000
Installation	<u>\$4,000</u>
Base	\$110,000

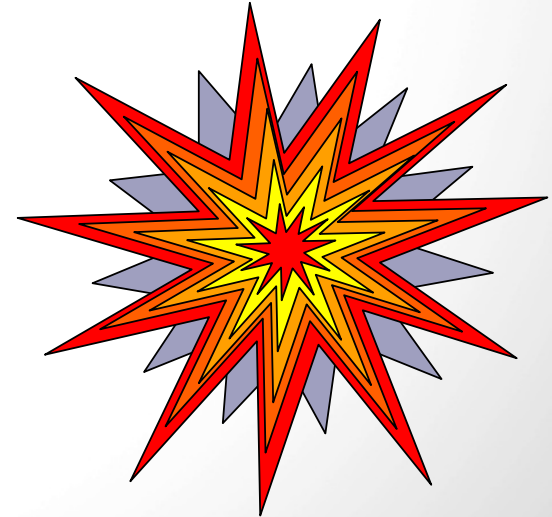
Depreciation Term = 5 years

Yearly Depreciation = \$110,000/5 = \$22,000



Production Reports

- **Determine what information to track.**
- **How will data be gathered and assembled?**
- **How often will report(s) be generated?**
- **Who should receive production reports?**
- **How will reports be used?**



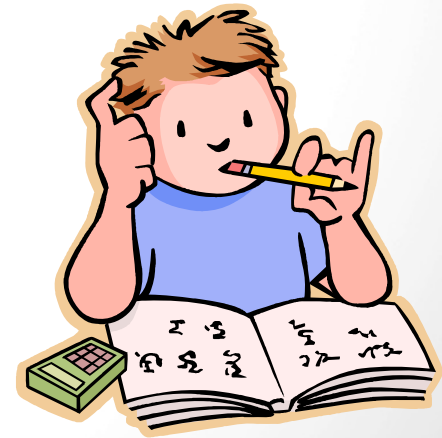
	Production Report						Yrly Total	Yrly Total	
	Monday	Tuesday	Wed	Thursday	Friday	Total	1997	1996	
Postage Paid									
Flats	\$ 4,604	\$ 3,594	\$ 3,007	\$ 2,091	\$ 793	\$ 14,089	\$ 809,609	\$ 695,786	16%
Misc Letters	\$ 1,909	\$ 1,661	\$ 1,544	\$ 882	\$ 4,222	\$ 10,218	\$ 316,710	\$ 343,751	-8%
Business Reply	\$ 207	\$ 180	\$ 174	\$ 132	\$ 172	\$ 865	\$ 33,143	\$ 38,976	-15%
Machine Ops.	\$ 34,951	\$ 37,888	\$ 28,195	\$ 28,138	\$ 28,352	\$ 157,524	\$ 5,605,178	\$ 5,346,732	5%
Corp Mail - Total	\$ 2,440	\$ 2,219	\$ 1,191	\$ 1,138	\$ 1,563	\$ 8,551	\$ 608,974	\$ 532,226	14%
Corporate Total	\$ 42,568	\$ 44,065	\$ 33,658	\$ 32,342	\$ 34,315	\$ 186,949	\$ 6,959,392	\$ 6,644,281	5%
Presort savings	\$ 7,284	\$ 7,757	\$ 7,248	\$ 6,381	\$ 5,223	\$ 33,893	\$ 1,158,145	\$ 980,384	18%
Incoming Mail									
Ltr Mail Pcs Processed	16,902	14,967	6,332	7,759	10,844	56,804	1,667,710	1,675,469	0%
Ltr Mail Pcs Rcvd	23,402	7,467	7,332	7,759	9,844	55,804	1,641,694	1,713,960	-4%
Incoming X-press	517	392	402	424	466	2,201	75,722	65,336	16%
Certified/Reg	343	112	128	126	146	855	27,518	25,759	7%
Flat pcs rcvd	6,825	4,200	3,150	2,775	2,775	19,725	567,305	527,150	8%
Flat pcs processed	4,950	3,975	4,200	3,075	3,000	19,200	564,600	514,775	10%
Outgoing Mail									
Flats	5,250	4,090	3,522	2,123	312	15,297	858,823	791,631	8%
InkJet addressing	2,224	2,117	2,986	3,018	3,602	13,947	859,322	555,090	55%
Inserted Pieces	127,918	139,244	102,218	104,988	101,234	575,602	20,061,733	19,135,555	5%
In house presort	119,844	130,517	120,222	105,899	87,205	563,687	19,276,295	17,422,744	11%
Corporate Shipping									
Outbound express	147	128	92	144	242	753	17,361	13,105	32%
Outbound - other	211	144	127	161	321	964	10,576	2,609	305%
Express inquiries	2	2	3	2	3	12	165	67	146%
Corp. Receiving									
Pieces Delivered	535	1114	815	433	184	3,081	103,375	83,057	24%
Delivery Stops	73	83	71	69	65	361	12,211	11,992	2%
Pickup & Deliveries	31	16	86	43	55	231	10,314	9,446	9%

Track Expenses

- **Accurate records are the key**
- **Computerized systems are the best resource for this function**
 - **Work with accounting / comptroller for compatibility with current systems**
 - **Database vs. spreadsheet**
 - **If you aren't computer literate – get that way, or hire someone who is**

Cost Per Piece

- **Formula for Unit Cost:**



Total Expenses / unit of measure = unit cost

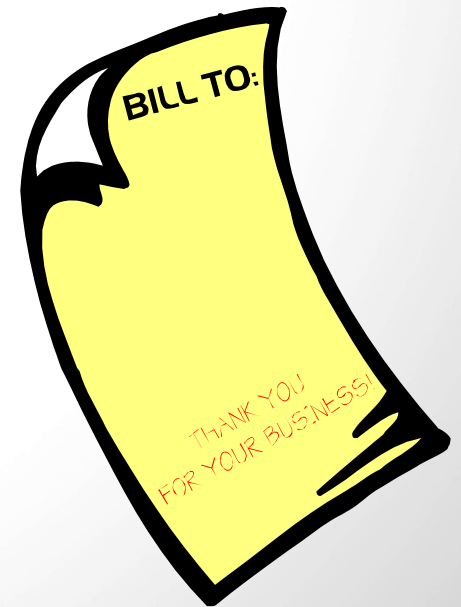
Cost Per Piece (Sample)

		Print	Mail	TOTAL
Salaries				
	Salary Permanent	\$ 150,000	\$ 250,000	\$ 400,000
	Salary Overtime	\$ 2,875	\$ 2,396	\$ 5,271
Total Salaries		\$ 152,875	\$ 252,396	\$ 405,271
Benefits				
	HO Empl Benefits	\$ 7,000	\$ 10,000	\$ 17,000
	HO Empl Benefits Health	\$ 20,000	\$ 30,000	\$ 50,000
Total Benefits		\$ 27,000	\$ 40,000	\$ 67,000
Other Direct Expenses-3				
	Rent	\$ 125,000	\$ 180,000	\$ 305,000
	Depreciation of F&E	\$ -	\$ 2,461	\$ 2,461
	Leases	\$ 125,000	\$ 225,000	\$ 350,000
	Maintenance	\$ 50,000	\$ 85,000	\$ 135,000
Total Other Direct Expenses		\$ 300,000	\$ 492,461	\$ 792,461
Total Expenses		\$ 479,875	\$ 784,857	\$ 1,264,732
Units		55,000,000	38,000,000	
Unit Cost		\$ 0.0087	\$ 0.0207	\$0.0294

Chargebacks

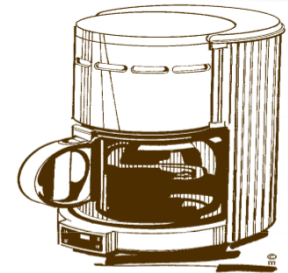
Advantages of an automated accounting and chargeback system:

- **Allows mailer to track pieces, postage, production figures, operator statistics.**
- **Provides data for production standards.**
- **Reports can be summarized automatically by customer or department and sent to Accounting area for billing.**

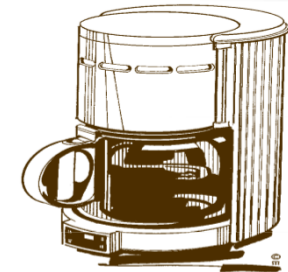


Monthly Reports

- **Actual vs. Budget (Variance)**
- **Percentage differences more important than the dollar amount.**
- **Why weren't you 100% accurate?**
- **What are you doing right / wrong?**
- **Are you on track with projects?**

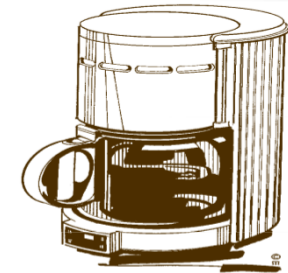


Monthly Reports



Mail Services Budget Report for March 2016						
Account	March Actual	March Budget	March Variance	YTD Actual	YTD Budget	YTD Variance
Salaries	\$ 26,138	\$ 27,000	\$ 862	\$ 81,028	\$ 81,000	\$ (28)
Benefits	\$ 9,410	\$ 9,720	\$ 310	\$ 29,170	\$ 29,160	\$ (10)
Temporary Help	\$ -	\$ 500	\$ 500	\$ 1,400	\$ 1,500	\$ 100
Total Labor	\$ 35,548	\$ 37,220	\$ 1,672	\$ 111,598	\$ 111,660	\$ 62
Travel	\$ 1,235	\$ 400	\$ (835)	\$ 1,235	\$ 1,200	\$ (35)
Education	\$ 850	\$ 250	\$ (600)	\$ 850	\$ 750	\$ (100)
Dues	\$ 50	\$ 50	\$ -	\$ 50	\$ 150	\$ 100
Maintenance	\$ 738	\$ 725	\$ (13)	\$ 2,066	\$ 2,175	\$ 109
Office Supplies	\$ 213	\$ 200	\$ (13)	\$ 586	\$ 600	\$ 14
Postage	\$ 47	\$ 50	\$ 3	\$ 145	\$ 150	\$ 5
Allocated Charges						
Rent	\$ 5,500	\$ 5,500	\$ -	\$ 16,500	\$ 16,500	\$ -
Utilities	\$ 1,375	\$ 1,375	\$ -	\$ 4,125	\$ 4,125	\$ -
FM Cleaners	\$ 550	\$ 550	\$ -	\$ 1,650	\$ 1,650	\$ -
HR Support	\$ 711	\$ 744	\$ 33	\$ 2,232	\$ 2,233	\$ 1
Total Allocated Charges	\$ 8,136	\$ 8,169	\$ 33	\$ 24,507	\$ 24,508	\$ 1
Total Cost Center	\$ 46,816	\$ 47,064	\$ 248	\$ 141,037	\$ 141,193	\$ 156

Monthly Reports



Corporate Postage Budget Report for March 2016								
Department	March Actual	March Budget	March Variance	YTD Actual	YTD Budget	YTD Variance		
Accounting	\$ 36,000	\$ 34,000	\$ (2,000)	\$ 111,600	\$ 102,000	\$ (9,600)	-9%	
Administration	\$ 3,400	\$ 4,000	\$ 600	\$ 10,540	\$ 12,000	\$ 1,460	12%	
Claims	\$ 16,400	\$ 15,600	\$ (800)	\$ 50,840	\$ 46,800	\$ (4,040)	-9%	
Human Resources	\$ 1,874	\$ 2,000	\$ 126	\$ 5,809	\$ 6,000	\$ 191	3%	
Underwriting	\$ 11,000	\$ 10,400	\$ (600)	\$ 34,100	\$ 31,200	\$ (2,900)	-9%	
Total Postage Expenses	\$ 68,674	\$ 66,000	\$ (2,674)	\$ 212,889	\$ 198,000	\$ (14,889)	-8%	

Accruals

- **Accrued expenses are the opposite of prepaid expenses.**
- **Companies will typically incur periodic expenses such as printing, postage and wages.**
- **Expense will be paid at some future date, but they are indicated on the company's balance sheet from the time they can reasonably expect their payment, until the time the expenses are paid.**
- **Example: Your company hired a vendor to mail bills in September, but you won't receive the bill until October. You may decide to accrue the amount of the expected invoice in September's expenses.**

Budget Assistance



- **Meet with your manager to discuss goals.**
- **Meet with Accounting for historical and projected budgets.**
- **Meet with Purchasing to discuss contracts.**
- **Meet with Vendors to review pricing/rate increases.**
- **Meet with Staff to review the budget and plans for savings.**

Opportunities for Savings

- **Use automation whenever possible.**
- **Maximize postal discounts.**
- **Renegotiate contracts with vendors.**
- **Reorganize/reengineer print and mail centers.**
- **Provide staff with regular training on postal regulations.**
- **Employ temporary help.**
- **Promote quality initiatives that improve productivity.**
- **Use part-time staff.**
- **Educate your customers.**
- **Reward your employees.**



Evaluate Equipment & Software

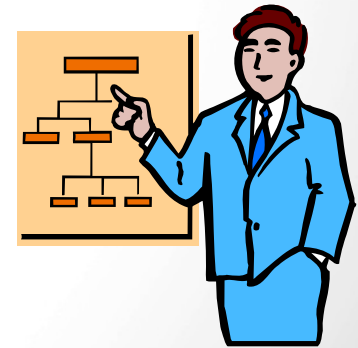
- **Step 1 - Become informed.**
 - **What's out there?**
 - **What's coming soon?**
 - **What are your internal procedures? - Procurement**
- **Step 2 - Review your choices.**
 - **What do you need?**
 - **What do you want?**
- **Step 3 - What can you afford?**
 - **Labor + Space + Equipment = Costs**
 - **What would it cost to purchase the equipment?**
 - **What would it cost to lease the equipment?**
 - **What would it cost to remain with the status quo?**
 - **Could you outsource function - at what cost?**



Evaluate Staffing

The most critical component of a successful operation:

- **Review current staffing for performance levels, skill sets and flexibility**
- **Cross-train whenever possible**
- **Replace poor/marginal performers**
- **Recruit skilled, experienced employees who make customer service a priority**
- **Consider part-time and temporary help for peak periods**
- **Eliminate redundancies**



Promote Your Successes

- Modesty has its place - not in financial reporting.
- **Highlight** savings - don't make people look for them.
- What didn't cost anything, but improved service?
- Quality initiatives will impact your company, and your image within the company.
- External - publish, get recognized by industry.



Budgeting: A Glossary

Budget

The financial plan of a company for a period (usually one year) predicting the financial results of its actions.

Budget Theory

Zero based budgeting – Each year, build the budget anew, justifying staff, equipment, training, etc.

Incremental budgeting – Use previous year as a starting point, and increase the budget by percentages based on expected growth.

Capital budgeting – The prediction of fixed asset investments (buildings, equipment, etc.) with considerable expense that can be depreciated over time.

Budget elements

Projected – The projected budget is what you expect to spend in each area (salary, benefits, office expenses, telephone, training, etc.)

Actual – The amount you actually spent on those items.

Variance – The amount by which an actual financial statement differs from its budget value (the difference between projected and actual). You will need to explain why you spent more (or less) than the projected budget.

Budget Cycles

Annual – This may be a calendar year (Jan 1 – Dec 31), or a fiscal year. The Federal Government's fiscal year is Oct 1 – Sep 30.

Quarterly – A three-month period. Very important to publicly traded companies.

Monthly – Probably the cycle with greatest impact. Allows ongoing review of performance.

Important Budgeting Concepts

Amortization – prorating the cost of an asset, liability or expenditure over a specific period of time.

Depreciation – The gradual decline in value of an asset because of use or age; the expense arising therefrom.

Financial Statement –an accounting document showing the financial status of a business, or the results of business activity.

Profit and Loss Statement – the financial statement that presents all revenue and expense and resulting profit or loss, by categories, of a company for a specific time period. Also called Income Statement or Operating Statement.

Return on Investment (ROI) – for a given capital investment, the ratio of the profit (savings) that will result to the amount of the investment. Also known as Cost Justification; the method of rationalizing a purchase by showing that it saves more money than the expense over a short period of time.

Cost per piece – This is calculated by taking all of the expenses associated with processing mail divided by the number of pieces processed. This includes ALL expenses, including salaries, training, managers, etc.

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Questions?



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V is for variance



Over budget? Under budget? It's imperative to understand why

By Mark M. Fallon

Why are we over budget? A simple five-word question. And your boss expects a simple answer. Responding with, “Because we spent more than we budgeted,” won’t be considered appropriate. To be a successful manager, you need to know the answer to that simple question, and its opposite, “Why are we under budget?” before your boss asks. You have to understand how to track variances and explain what caused the variances.

A variance is “an instance of varying; difference; discrepancy” (Source: Dictionary.com, Random House Unabridged Dictionary). In budgetary terms, it means the difference between the amount of money in your budget and the amount of money you actually spent. Preparation for explaining variances begins as soon as you submit your budget for the next year. No matter how well you analyzed past purchases and anticipated future expenses, your budget will never be 100% accurate. No one can predict the future. If

you don’t believe me, watch the weather forecast tonight.

Most companies have annual budgets that are broken down by month. The monthly budget is either “flat” or “adjustable.” A flat budget means that the annual amount is divided by 12 and distributed evenly across every month. For example, if you have a \$600,000 postage budget, flat budgeting would allocate \$50,000 to each month. An “adjustable budget” uses past experience to

project the spending for each month. If you generally mail more during the first month of the quarter, then you would allocate more money for January, April, July and October. Table 1 illustrates the difference between flat and adjustable budget.

Department and Corporate Budgets

As a support services manager, you probably are responsible for two types of budgets — your department’s budget and the corporate budget for postage. In both cases, you will have to react to issues caused by actions outside your control.

Your department’s budget is divided among direct and allocated expenses. Direct expenses will consist of payroll (including benefits), travel, education, supplies, maintenance, telephones and postage. Allocated expenses include rent, utilities, depreciation and internal service charges (e.g., human resources support).

While you do have certain control over the salaries of your employees, the health benefits and associated costs are managed by another department. Likewise, all allocated expenses are calculated by facilities management, human resources and corporate finance. Generally, you must accept the charges allocated to your department.

The corporate postage budget is handled differently by every company. Some companies allocate all charges to a separate account, while other companies charge back-postage directly to the department creating the mail. In either case, the mail center manager will be contacted to explain any variances.

If departments are able to bypass the mail center when sending out mail, explaining the budget becomes a real challenge. Mail centers cannot direct departments on volumes of mail, nor should they. But you do need to keep controls on measurements. All departments must be required to notify mail services whenever mailings are sent out, regardless of the source.

The 3 Cs — Collect, Calculate and Communicate

Each month, you will receive a report that

compares that month’s expenses to the budget, as well as the year-to-date (YTD) expenses to the budget. You will be asked to explain any significant variance. Often, the reports will look similar to Figures 1 and 2.

To explain the variances in each line, you will need to use the three Cs — collect information, calculate impact, and com-

municate findings. Collecting information means finding out the assumptions used to create the budget, what the actual expenses were spent on and why there was a difference from the assumptions. It’s important to keep your notes from the budgeting process and your monthly reports, as you’ll be referring to them every time you go through this exercise. →

TABLE 1

	January	February	March	April	May	June
Flat	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Adjustable	\$70,000	\$40,000	\$40,000	\$70,000	\$40,000	\$40,000

FIGURE 1

Mail Services Budget Report for March 2007

Account	March Actual	March Budget	March Variance	YTD Actual	YTD Budget	YTD Variance
Salaries	\$ 26,138	\$ 27,000	\$ 862	\$ 81,028	\$ 81,000	\$ (28)
Benefits	\$ 9,410	\$ 9,720	\$ 310	\$ 29,170	\$ 29,180	\$ (10)
Temporary Help	\$ -	\$ 500	\$ 500	\$ 1,400	\$ 1,500	\$ 100
Total Labor	\$ 35,548	\$ 37,220	\$ 1,672	\$ 111,598	\$ 111,680	\$ 82
Travel	\$ 1,235	\$ 400	\$ (835)	\$ 1,235	\$ 1,200	\$ (35)
Education	\$ 850	\$ 250	\$ (600)	\$ 850	\$ 750	\$ (100)
Dues	\$ 50	\$ 50	\$ -	\$ 50	\$ 150	\$ 100
Maintenance	\$ 738	\$ 725	\$ (13)	\$ 2,066	\$ 2,175	\$ 109
Office Supplies	\$ 213	\$ 200	\$ (13)	\$ 586	\$ 600	\$ 14
Postage	\$ 47	\$ 50	\$ 3	\$ 145	\$ 150	\$ 5
Allocated Charges						
Rent	\$ 5,500	\$ 5,500	\$ -	\$ 16,500	\$ 16,500	\$ -
Utilities	\$ 1,375	\$ 1,375	\$ -	\$ 4,125	\$ 4,125	\$ -
FM Cleaners	\$ 550	\$ 550	\$ -	\$ 1,650	\$ 1,650	\$ -
HR Support	\$ 711	\$ 744	\$ 33	\$ 2,232	\$ 2,233	\$ 1
Total Allocated Charges	\$ 8,136	\$ 8,169	\$ 33	\$ 24,507	\$ 24,508	\$ 1
Total Cost Center	\$ 46,816	\$ 47,064	\$ 248	\$ 141,037	\$ 141,193	\$ 156

FIGURE 2

Corporate Postage Budget Report for March 2007

Department	March Actual	March Budget	March Variance	YTD Actual	YTD Budget	YTD Variance
Accounting	\$ 40,946	\$ 34,000	\$ (6,946)	\$ 126,933	\$ 102,000	\$ (24,933)
Administration	\$ 3,400	\$ 4,000	\$ 600	\$ 10,540	\$ 12,000	\$ 1,460
Claims	\$ 16,787	\$ 15,600	\$ (3,187)	\$ 58,240	\$ 46,800	\$ (11,440)
Human Resources	\$ 1,674	\$ 2,000	\$ 126	\$ 5,809	\$ 6,000	\$ 191
Underwriting	\$ 12,524	\$ 10,400	\$ (2,124)	\$ 38,624	\$ 31,200	\$ (7,624)
Total Postage Expenses	\$ 77,531	\$ 66,000	\$ (11,531)	\$ 240,346	\$ 198,000	\$ (42,346)

In Figures 1 and 2, we discovered the following information:

- The budget uses flat allocations for every month.
- Temporary help was needed in January for year-end.
- Raises for the staff won't go into effect until April.
- This month, you attended the National Postal Forum, increasing the education and travel expenses.
- The postage budget was based on the insurance company having 100,000 policies. There are now about 120,000 policies in effect.

With this knowledge, we can calculate the impact these activities had on the budget. With a flat budget, some lines, like "Education," will be under budget in some months, on target in other months and over in others. As long as we don't have a major training expense planned for April, we can predict that we'll be under budget by the end of April.

The number of policies directly impacts the number of bills, claims and certificates mailed. There are about 20% more policies, and postage is about 20% higher in the impacted departments. Having more policies than planned also means that the year-to-date variance will continue to grow each month.

Prepare to communicate the variance explanations to your management and to any impacted departments. Schedule a meeting each month to review your report, and make sure everyone understands it. Establish a reporting template at the beginning of the year, and re-use it every month.

Positive variances are still variances and must be explained. If you didn't explain the lack of expenses in travel and education for January and February, your manager might have reduced those line items. Similarly, you might use temporary employees only in the first month of each quarter.

Do I Have to Explain Everything? — The 10% Rule

The budget examples used in the article have only a few lines and departments. If your

Explaining every variance, no matter how small, would take hours of your time every month. Instead of attempting to explain everything, adopt the 10% rule.

budget is that small, congratulations! It should only take you a few minutes each month to create your variance report. Most companies, however, will have many expense lines. In that case, explaining every variance, no matter how small, would take hours of your time every month. Instead of attempting to explain everything, adopt the 10% rule.

The 10% rule means that a variance is explained if it's more than 10% of that line's budget, and it's at least 10% of the overall budget variance. For example, in the corporate postage budget, the administration department is 15% under budget for the month. However, \$600 is only five of the overall budget variance. On the other hand, Accounting is 20% over budget and represents 60% of the budget variance. That difference needs to be explained.

Nothing Personal, It's Just Business

Too often, managers get defensive when explaining budget variances. When questions are asked about differences between projected expenses and actual expenses, some people take that as a personal affront. Or the person asking the questions intentionally belittles the person responsible for the budget.

Both approaches are wrong. Budgeting is an attempt to predict the future. And as we pointed out, no one can predict the future. At least not with 100% accuracy. And

without 100% accuracy, there will always be variances. Accept that there will be variances and that you will be required to give reasons for them. It doesn't mean you don't know how to do your job or how to forecast your expenses. Explaining variances is part of good budgeting practices, and it is part of your job as a manager.

Take time at the beginning of the budget cycle to draft your variance report template. Establish a methodology for collecting information, calculating the impact of changes to the budget and communicating your findings. Schedule time on your calendar to focus your efforts on completing your reports in a timely manner. And if done right, you won't have to explain variances again. At least, not until next month.

Mark M. Fallon is President and CEO of the Berkshire Company. For more information, visit www.berkshirecompany.com. ■

