Turn Your Budget into a Plan

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During the Middle Ages the town controller or accountant would show the citizenry how much was in the town's "bouge," a leather bag or wallet. With this knowledge, they would decide how best to spend it to cover the town's expenses. Eventually, the term became the "budget" and was adopted by various enterprises to control expenses. Since not all expenses are immediate, the idea of forecasting revenues and expenses slowly entered the picture. However, expense control remained the primary objective. Hence the saying familiar to all of us: "That's not in the budget."

Fast forward more recently, Fortune magazine published a criticism of the narrow focus on budget as expense control. They told a story where a corporate executive came to a meeting to pitch a project whereby the company could increase revenue by $10 million with an expenditure of just $1 million. However, he was told that they would have to wait because the $1 million was not in the budget.

Expense budgets often control companies to the point of choking. It is as though expense control is the whole objective. It's easier to not spend than to invest. In the 1960s, Chevrolet introduced the Corvair and it was very popular until serious accidents became a big problem. Eventually, it was determined that the steering was unstable. It turned out that the budget did not allow the addition of a $1 steering stabilizer bar. Certainly, this is an extreme example, but not an uncommon practice.

Budgeting hasn't changed much in its meticulous attention to expense forecasting and control. It remains a process of negotiation between expenses and revenue generation. These two forces are determined by trending or by management edict.

> **IN A FINANCIAL INSTITUTION, GROWTH IS ACHIEVED FROM ENVIRONMENTAL FACTORS, NEW ACTIVITY OR BRANCHING, ALONG WITH THE REQUIRED EXPENSES TO SUPPORT IT.**

As environmental factors are not under the institution's control, branching is one way to change that dynamic. New activity requires attention to method, or how generating new activity is controlled. The keys to control are the actions taken to effect change that drive results. This is where a Playbook is most valuable. Let's investigate the features and benefits of a Playbook.

A PLAYBOOK

Many plans are determined from a bottom-up perspective, that is, what growth and expenses we have and what revenue plus profit we have to generate to cover them. That's the big goal. We accomplish this through the Balance Sheet and P&L that we can manipulate to reach this goal. For example, we'd like to improve revenue in several areas. We determine that we'll do this through an increase to a particular product line – for this example, a loan category. We'd set a balance goal for the loan category specified by an amount or percentage increase.

THE PLAYBOOK BREAKS DOWN GOALS INTO MILESTONES

In any journey there is a series of intermediate way points or milestones. Action steps articulate how each milestone is to be reached. The Playbook is where milestones and action steps are specified. In our example, to reach our loan growth milestone we may need a new marketing campaign or to add a new loan officer. Just saying we will grow our loans means little. It is important to say how these loans will grow.

ACTION PLANS HAVE TIMETABLES AND EXPECTED RESULTS

Now that we have our action steps identified, a timetable is needed. When will it start and how long will it take? Maybe a new marketing plan needs to be developed, and the materials produced and distributed before we can see results. We can't control the outcome until the marketing plan is finished. Completion of the marketing plan is a critical milestone.

The purpose of the marketing plan is to generate inquiries about the new product. There are several dependencies we need to establish to set a goal for the marketing plan. For example, in order to grow loans by X dollars, we need to book X number of loans. In order to generate X number of loans, we need to receive X number of qualified leads. In order to receive X number of qualified leads, we need to generate X number of inquiries.

> **SO, THE GOAL OF THE MARKETING PLAN IS TO ACQUIRE A CERTAIN NUMBER OF INQUIRIES. THIS WILL BECOME IMPORTANT AS WE DETERMINE THE SUCCESS OF THE MARKETING PLAN.**

ASSIGN RESPONSIBILITY

Somebody has to be in charge of the project. The responsibility might be a single person or a group working as a team. Responsibility and accountability are critical to the success. Without accountability, projects can fall into neglect. We all know that by having to account for our actions we are more likely to do them. The responsible entity organizes, maintains focus, and tracks progress to stay on goal. Without responsibility and accountability, projects often lack guidance, fail to meet deadlines, or just don't get done.

MONITOR PROGRESS AND COMMUNICATE BETTER

Most variance analyses focus on the differences in the *dollar* results between the forecast and the actual, and not the success or failure of the action plans that generate those results. For example, the marketing plan is not generating the expected inquiries, which tells us we might not meet our larger goal of new loans. Because it enables better communication and focuses on the core issues, the Playbook promotes corrective actions at all levels.

A friend of mine tells how at Ford Motor Company, failure to share a problem with the planning group means **you** have the problem. But if you bring your problem to the planning group, the planning group assumes the problem. Here, accountability does not isolate the employee, but empowers them because everyone contributes to the solution.

A PLAYBOOK IS CONTROL

The difference between a regular bomb and a smart bomb is *control*. This works the same in planning. We develop a Playbook to control the results by continually adjusting our actions to hit the target. Just hoping your forecast is accurate is not control. Too often we build numeric budgets based on trends or wishful thinking and feel like we've accomplished something. The Budget is just a mathematical expression that proves the numbers add up. But few of us articulate and quantify the actions we plan to take to make it happen. The action plan is the critical ingredient that brings meaning to the numbers.

Dwight Eisenhower said, "It's not the Plan that's important, but the planning." Group communication refines the plan and allows the planner to consider all alternatives and possible actions. As the expression "no plan stands up to reality" points out, these alternatives become critical as conditions change. Environments are volatile – management's purpose is to maintain control. A Playbook is the tool that supports this purpose.

A PLAYBOOK IS SIMPLE TO BUILD AND USE

Create your Playbook with a four-step cycle:

1. DOCUMENT ACTIONS
(actions, timetables, responsibility, and targets)

2. EXECUTE THE PLAN

3. TRACK RESULTS

4. MODIFY AS NEEDED

Build your Playbook as you build your budget. The budget expresses your financial expectations, and the Playbook says how you expect to accomplish this goal. Unlike your financial goal, which is fixed throughout the year, your Playbook will change as circumstances change, modify actions, and add new objectives to your plan as needed. Turn your regular budget into a smart plan.