THE Mobile MBA

112 SKILLS TO TAKE YOU FURTHER, FASTER

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- **Set expectations low.** Find all the reasons why next year will be far tougher than this year: the market will be harder and the workload will be greater than ever. You know your unit better than anyone else, so you have the advantage here.

- **Strike early.** The later you leave it, the less room for negotiation you have. Starting early means starting before the formal planning or budget process has started. As soon as the first set of planning guidelines have been issued, expectations have been set and you have lost negotiating room.

- **Talk to the right people.** The right people are the decision makers and influencers: your boss, the CEO and any planning group.

- **Be relentless.** Keep on hammering away with your analysis and your carefully selected facts. Eventually the planners will go away and search for easier victims.

- **Stay positive.** You need to be seen as the positive manager who will heroically overcome the daunting challenges which your unit faces. If there is any gloom, it is about external factors only. The outside world is the problem, you are the solution.

Of course, if you are setting budgets, then the rules are largely reversed. You have the advantage that you have seen all the game playing before and you have probably played the games before. You should also be reasonably familiar with the budgets, economics and personalities behind each budget. As a budget setter, you need to apply five tests to each budget.

The five budget tests

1. **What are the key assumptions?** Numbers are simply reflections of assumptions, so test the assumptions not the numbers. This is routinely missed by managers who like to argue that the budget is too high or too low. That is an emotional debate that can only be defused by testing the key assumptions
2. **How does this compare with last year?** This is where game playing becomes a real problem. But you should know the history of the unit and all its special circumstances, which you have had to adjust to. Newly appointed managers do not know this history and are most vulnerable to the game playing.

3 **What is happening in the market?** Budgets are by definition internal documents. Part of your job is to connect internal perceptions to external market reality. If sales and share are declining, then even HR and IT should take their share of the pain.

4 **Is productivity rising or falling?** Productivity measures the amount of work done for the amount of resource used. Even support functions such as HR and IT should be able to offer some measure of productivity. Inevitably, this will involve a degree of management judgement, but managers are paid to have and to use judgement.

5 **What is happening to unit costs?** Check the cost per unit: the cost per employee or the cost per tonne of raw material. Fight the inevitable inflationary assumptions which are built in.

MANAGING YOUR BUDGET

This is where prudence and practice part company, even although they share the same destination: you must make budget. Failure to do so is a career limiting move. Prudence and practice are two different routes to the same destination.

Prudence says you manage your budget conservatively. A simple rule is the 48/52 rule: aim to spend 48% of your budget and achieve 52% of your sales (or tasks) in the first half of the year. Once you have worked out what this means for the first half of the year, then apply the 48/52 rule again to the first two quarters of the year.

a simple rule is the 48/52 rule

The prudent approach means you give yourself a chance of beating budget. Just as important, it enables you to deal with any crises and unexpected events which may occur later in the year. You build in a safety margin into your operating performance.

The problem with the prudent approach is that it makes you a prime target for the year end squeeze, which comes around as regularly as Christmas but rarely brings any presents. The squeeze occurs because there are always some units that overspend or underdeliver: everyone has to be squeezed to make up the shortfall. By the time the year end looms, it is too late to make up ground in the marketplace, so the only realistic response to the squeeze is to cut costs. As ever, short-term savings can lead to long-term costs, so you need a way of insuring yourself against this.

The practical approach to managing budgets looks something like 51/53. You still want to get ahead on sales and outputs if possible. If you can achieve

53% of your goal in the first half, that is a good start. But you also need to find a way of protecting your spending. Since you know your budget will be squeezed in the last quarter, it makes sense to have no discretionary spending items left in the last quarter. In practice that means you have to spend ahead of the curve, selectively. That is not prudent, but within reason, it is practical. For instance:

- **Make essential investments early in the year.** these might be test markets, technology spend, market research and the like. Remove them from the coming squeeze.
- **Spend discretionary items which are dear to your heart early.** If you want a conference for all your units and team members, do not schedule it for the last quarter.
- **Commit budget where you can.** If you have advertising planned, make sure the media spend is committed. Advertising is a soft target for bosses who do not understand that cutting advertising kills your brand and your sales.
- **Build a slush fund.** Since you know there will be a squeeze, identify in advance where there is some fat to be cut. Simple acts such as delaying the start of new hires by a few months will allow you to build up reserves which can be released when necessary.

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Finally, remember that once the budget is set you have entered into a contract with your bosses. You have to deliver on your commitment. Budget blues are the driver of much management angst, pressure and grief. Manage your budget tightly from day one and you have a chance of minimising the grief at year end. If you are falling behind on budget, act swiftly. Cut fast to get your running rate of costs down: the longer you leave it, the greater the cumulative gap becomes and the less time you have to recover. The earlier you deal with your budget crisis, the smaller it is.

OVERSEEING BUDGETS

You will find very little written about how to control and oversee budgets which you have delegated down to managers beneath you. This is a vital art: if you cannot control the delegated budget, you will quickly find yourself in severe trouble. Here are six hard won lessons from the front line.

Six hard won lessons from the front line

1 **Be unreasonable.** There are always reasons why costs overshoot and revenue falls short. But if you accept excuses, you accept failure. If you see that budget might be missed, you simply have to focus on one question 'So what will you do differently to make budget?' These are uncomfortable but necessary discussions.

2 **The budget is the budget is the budget.** You will be asked to make budget revisions, which normally means reducing the budget. Don't. A budget is like a contract: your managers have promised to deliver certain results for certain resources: keep them to that promise.

3 **Cash versus accruals.** Cash is easy to spot: you have either spent the money or not. Accruals are the hidden iceberg that sinks many a budget. When reviewing a budget, make sure that you have identified every forward commitment, even if the purchase order has not been signed, and that it is reflected in the budget. You want to know about all the bad news as soon as possible, so that you can do something about it if required.

4 **Game playing.** As budget holders we are all used to playing games: hiding and deferring expenses (accruals) and bringing forward revenue recognition where we can. Perhaps we slip the start of a new promotion from the end of this year to the start of next year. Or we hire someone six months later than originally budgeted, which gives us a miraculous but unrepeatable cost saving in this year's budget. You are the poacher turned gamekeeper: you know the tricks, so stop them.

5 **Steal any cost savings.** If one of your departments makes a cost saving they will do their very best to spend the saving before you can do anything about it. Cost savings belong to you: they are your safety net for making up the inevitable shortfalls elsewhere. You will, of course, recognise and reward anyone who produces cost savings and you may even let them reinvest some of the savings in their area. But the decision is yours to make, not theirs.

6 **Work with your finance department, book keeper or controller.** These people are your impartial financial ears and eyes. A good finance person knows the tricks, knows what to look for and will spot problems before you do.

THE BALANCED SCORECARD

Financial and management accounts only give a partial view of the health of the firm. You need a more balanced view of performance that looks at how the firm is performing in the marketplace (share, sales); how it is doing organisationally (staff turnover, morale, etc.); and how well it is innovating. From this simple insight, Norton and Kaplan developed the idea of the balanced scorecard. As its name implies, it is an attempt to give managers a balanced view of the performance of their firm.

The balanced scorecard, however, is one of those good ideas whose time has come and gone. In the hands of the consultants, it just became too complicated and too expensive. Strip away the hype of balanced scorecards, and you can find a very simple and practical way of monitoring the progress of your business or department. Here is how:

Start with a blank piece of paper. On it, write down all the items of information you want about your business on a weekly and monthly basis. In practice, you will probably find that the information you want falls into five categories:

1. **Financial information.** You probably already have this, so this should be easy to fill in. But financial information is a lagging indicator of performance. It is best not to drive ahead by watching the rear view mirror. So you need some other sorts of information on your one piece of paper.

2. **Operations and business processes.** This answers the question, 'What must we excel at, and are we excelling at it?' It covers the day-to-day performance of the business or department: are we executing on time, on quality and efficiently?

3. **Market facing information.** This tells you how you appear to customers and competitors. How well are you serving your customers? Are you gaining or losing share? Where are you relative to competition? This is a current indicator and a future predictor of performance.

4. **Learning and growth.** This is your forward indicator of performance. Are you building new ideas, test marketing products, investing in change?

5. **People and staff.** How is our team doing? Are we building the right skills? Where are people on their career trajectory? Are we on top of compensation and performance management? How is morale?

I encourage managers to fit all of this onto one page of paper, because that reduces the data to what is most important. You remove the noise from the reporting detail. This is possible. P&G used to have a system where every brand had to produce a full report on the progress of its business on one side of paper. The type was small and filled the whole page, but if P&G can do it, most businesses should be able to.

The 'true' balanced scorecard only has the first four categories outlined above. Bad managers focus only on the ideas and completely ignore the people (who sort of get covered in items 3 and 4 in their framework but are not explicitly headlined). Good managers realise that managing people is important.

Depending on the nature of your department or business, you will look for very different things in your one-page balanced scorecard. When you start, you will find that your existing reporting system gives you plenty of information which you do not need, and does not give you information you want. There will be blank space on your one-page balanced scorecard. You do not need all the information every day, week or month. For some things (such as staff morale) you might get a formal survey done just twice a year. Figure out what works for you, and slowly fill in the blanks.

If you are the CEO, cascade your one pager down through the organisation. This tells the organisation where your focus lies. And challenge your team to produce reports for their areas that are consistent with your one-page report: let them produce the detail which can roll up into your report. This can be done quickly and easily by you and the team without spending three months and £500,000 on consultants.

THE NATURE OF COSTS: CASH VERSUS ACCRUALS

George Orwell wrote: 'seeing what is in front of your nose requires constant struggle'. The difference between cash and accruals accounting should be obvious, but it is regularly missed by some managers and routinely abused by others. So we need to explore the obvious and understand the impact that cash versus accruals accounting can have.

Cash accounting is simple: if I pay for something today I recognise the payment today. But what if I order something today, but I only have to pay for it next month or in the next financial year? In cash accounting, I would only recognise the payment when the cash left my hand next month or next year. But clearly, that does not give an accurate view of my position. I could run up huge debts on my credit card which, under cash accounting rules, I could ignore until the inevitable day of judgement arrived as the bill came through the letter box.

With accruals accounting, I recognise the debt as soon as I make the purchase, regardless of when payment falls due.