

# A WEB BASED BUSINESS PLANNER

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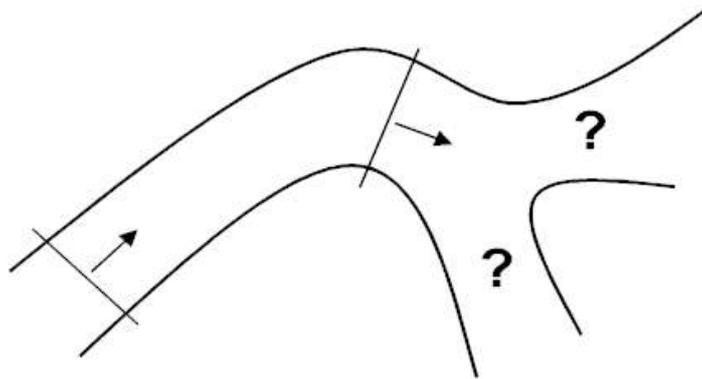
This paper deals with the problems of budgeting and planning in business and makes an introduction to a practical Web-based tool. The paper highlights the drawbacks of static budgeting, i.e. one that is based on specific calendar periods, and shows what rolling budgeting and forecasting represents in itself. The merits of business simulation are described, the risk-free simulation of the business's future using the what-if method. A Web-based tool Budget21.com ([www.budget21.com](http://www.budget21.com)) is introduced — a practical application of rolling budgeting and business simulation, its technology and options covered. The application described is designed for use in small and medium-sized businesses.

## 1 The problem of calendar-based budgeting

Budgeting, in its traditional meaning, brings to mind time-consuming paperwork through multiple levels of business. Decision-making and responsibility happen daily, but not planning. Traditional budgeting is more of a bureaucratic ritual than a decision-supporting business process.

The usual budgeting format is carried out from one fixed period to another and is tied in to specific time schedules. A plan is compiled for a year, a quarter or a half-year, so that the chosen period is represented by one budget document. This method ignores the fact that information tends to improve over time. When the budget for the 4th quarter is compiled in September, October looks much clearer than December. When December then arrives, a quite new perspective may open up and nullify the previous effort at planning.

In the end phase of yet another budget period the business will have to deal with two documents simultaneously: 1) the current budget that often requires amending or even proves useless: 2) the plan for the coming period where the situation may later repeat itself. Concurrently, calendar-based budgeting is incapable of supplying business managers with a single clear business perspective concerning the company's financial future.



Let us imagine driving a car (see the figure above): in a moving vehicle we have a sole perspective forward, i.e. the view through the windscreen. The perspective forward, through the screen, is clearer for objects that are closer, and less distinct for those that are farther away. And yet what we have is the one and only “picture” which continuously changes itself depending on direction and speed. Everything the driver can view through the windscreen is the plannable future. In a few moments, part of that travel will be history, which can be viewed through the rear-view mirror. (accounting in business). Depending on what he contemplates in front of him, the driver takes decisions then and there: brakes, accelerates, turns, etc. Why couldn't business planning happen the same way? Today's business plan may prove useless tomorrow because conditions could change, information improves, new ideas appear etc. The business that sticks to a static budget may end up in an “accident”, miss good opportunities, because its resource allocation fails to match the changed situation.

## 2 Rolling budgeting and forecasting

Rolling budgeting and forecasting is a method whereby the business at each and every moment is the possessor of one singularly integrated business plan, i.e. a perspective based on actual information. The idea is that, as time passes, one does not need to compile a new document (a file) for the next period but the starting point of the current budget gets moved on; automatically, the time horizon of the whole plan gets moved on. This option is included in the business planner Budget21.com to be introduced here.

The rolling budget comprises shorter periods (months, quarters) as well as a longer perspective of several years. The shorter periods are planned in more detail, the longer ones are presented by way of forecasts to be exacted over time. All in all, managers receive an integrated perspective into the business's future, for example—for the immediately following months and quarters, and as a five-year prognosis. Total information is fed into one planning model and input data gets amended (refreshed) depending on the actual incoming information.

The method of rolling budgeting and forecasting saves decision-makers from the need to wait for new planning until the end of the current calendar period. Because changes in business are not predetermined on periodical bases, the business's planning should not be tied to specific calendar periods either. For rolling budgeting, the entrepreneur will keep a suitable time perspective, such as the next six months, for example, from time to time changing the starting point of the plan. The business plan can be changed in the course of work exactly when a need appears (usually, when new information is received).

This method helps to allocate resources and set more realistic goals. Because business conditions change on a nonpredictable basis, the useful life-term of a "usual" budget may often remain shorter than the planning period. Here, exactly, the rolling budgeting comes to help—maintaining, and from time to time updating, only the one business plan that easily serves to set up current sales plan, budget for operating expense and investment plans. Rolling budgeting is like a window into the future, which with high assurance reflects the anticipated situations on the business landscape.

Merits of rolling budgeting and forecasting:

- Resources are allocated and objectives set dynamically, depending on the forecast changes in business conditions.
- The business, at each and every moment, has a single business plan updated from time-to-time and at all times accessible to everybody involved. Static documents and independent files become redundant.
- New documents (files) will not be compiled for every following time period. Instead, the starting point and time horizon of the current plan will be moved.
- Simultaneously, within the same model, shorter (months, quarters) as well as longer time periods get planned.
- Data and programs are stored separately. The whole budgeting information sits in a central database easily connectable to financial accounting systems etc.
- Planning costs and the probability of faulty management decisions will be reduced—the business's value will grow.

## 3 Business simulation

Rolling budgeting and forecasting is closely tied to business simulation. The latter permits the testing of different decisions for their economic consequences without risk. A business planner like Budget21.com generates automatic outcomes to the economic results expected by the business. Decision quality improves and risk diminishes because the situations arising can be played through beforehand. Through business simulation, the opportunities and objectives of the business become clearer, it is possible to anticipate emergencies and avoid mistakes. By testing different developments, one can see what the business's cash-flow, profitability and financial position will look like in the future. This type of "what-if" scenario playing is especially valuable for risky operations: new projects, business expansion, strategic business plan changes, taking loans etc.

A company's business simulation, employing the tool Budget21.com, provides answers to questions like:

- What will the company's profitability and cash-flow look like during the plan period;
- What will the optimum product portfolio and price policy be;
- What will the optimum payment terms and inventory turnover be;
- How much will the company be able to spend on operations;
- How and when should it finance asset procurement;
- How much should it borrow and when will it be able to repay;

- How big should the owners' investment in the company be and when can dividends be paid;
- How big will the value of the company be.

The business simulator is especially valuable for predicting cash flows. Traditional cash flow reports from past periods are quite useless to a businessman. It is much more important to be able to forecast periods when the money can dry up temporarily and additional financing will be required. Through business simulation one can determine loan sums and timing. Even investment costs can be more precisely determined with help from the "what-if" method.

Business simulation will grant the manager a more integrated feeling of his business's economic operations. It is recommended that the manager use the software himself. Only this way can the decision-maker develop the required gut feeling that will allow him to sense promptly significant changes in the business's condition and grab new opportunities.

Business simulation, as such, does not require accounting exactness; prognoses will be given by the more important income and cost items, and average numbers will be used. The work done by the business simulator consists of calculating the anticipated economic outcomes, business situations and profitability data. These serve to tell the manager, whether the chosen course and objectives are right. The user will feed in the parameters and prognoses via Web-based input forms and receive projections for the company's future in return (cash-flows, profit and loss reports, balance reports, profitability numbers). Changed input will automatically result in changed financial projections. Thus, through testing and correcting the data step-by-step, a suitable outcome will be reached eventually which can be pronounced the valid business plan of the moment. It will include the sales plan, budget for operating expenses, investments plan and business financing plan.

The time scale of the plan can stretch from a couple of months to a couple of years. This kind of business planning can be compared to a flight simulator, which the "business pilots" use to simulate take-off, turbulence and free fall. The business planner introduced here, Budget21.com, calculates not only the financial projections but also the value of the business. The decision-makers thus will be able to assess how the different economic scenarios will influence business value development.

#### **4 Practical application: Budget21.com**

Budget21.com (available at <http://www.budget21.com/>) is a Web-based software application intended for the rolling budgeting and simulation of business activities. This service enables a small business manager to prepare rolling budgets and forecasts, also a complete business plan consisting of a strategy and financial projections. The tool is suitable for nearly all business types and is more oriented for small and medium size companies.

Planning process is maintained by months, quarters and years; a complete business plan is generated for a period of up to five years.

Budget21.com is also a universal financial model, which enables a decision maker to play through the risks and opportunities that can have an effect on the economic activities of the company. Sales budgets and budgets for operating expenses can be prepared for planning periods.

The service can be used directly on the Internet, using an ordinary Web browser. No software will be installed in the computer of the user. Budget21.com can be accessed from any computer connected to the Internet. Subscribed users can access the application with their personal user name and password. The trial of the service is possible for familiarisation.

A user can save (the Save function) the business plans and budgets prepared with Budget21.com in order to use them again later (the Open function). The Support function is available for users to provide tips and on-line help.

The Budget21.com application consists of seven modules:

##### **4.1 Setup**

In this module, the user gives a name to the current business case, specifies the beginning and the end (month, year) of the plan and enters certain general parameters: Cost of Equity, Income Tax, Cost of Debt.

##### **4.2 Strategy**

In the Strategy module, the user enters the text parts of the complete business plan (if needed), such as: Executive Summary, Products and Services, Customers, Marketing Strategy etc – up to seven chapters. The user is free to choose any headings and contents for the chapters. The texts entered will be automatically included in the complete business plan.

### **4.3 Revenues**

In the Revenues module, the user enters the sales items of the company, i.e. the products, services or product groups, their sales forecasts and gross margins, also the indicators influencing cash flows: Collection Period, Payables Period, Inventory Turnover. Budget21.com enables the user to compile very different revenue patterns that are as close as possible to the actual ones. Temporary revenues, such as single transactions or seasonal sales (Christmas sales, summer sales etc.) can also be planned.

### **4.4 Expenses**

In this module, the operating expenses of the company are planned, such as salaries and wages, rent, communication expenses, marketing expenses, etc. The user is free to design any specification of expenses; the start-up period of the expense, its change in time, duration of the expense and average payables period are set in advance. In addition, variable expenses related to sales or gross profit can be planned, such as sales commissions, franchise fees, sales bonuses, etc. Also temporary expenses, such as foundation expenses of the company, advertising campaigns, construction and renovation expenses etc. can be planned.

### **4.5 Assets**

In this module, budget for capital expenditures is prepared: land, machinery and equipment, IT, vehicles etc). The time of acquisition (month, year) of the asset, acquisition value, useful life have to be specified first, also the form of financing: payment in cash or in the form of capital lease.

### **4.6 Finance**

In the finance module, financing of the company is planned: loans, also cash transactions that increase or decrease owners' equity. With respect to loans, the time of receiving funds and the conditions of repayment can be set in advance: Deferment Period and Repayment Period. Equity is for instance increased by the payments of owners for shares and decreased by dividend payments.

### **4.7 Reports**

This module is the main output of the application. Here the user can choose between different reports: Income Statements, Balance Sheets, Cash Flows, Sales Plans, Operating Expenses. For the assessment of the profitability of the company, ROA, ROE, EVA and other measures are calculated for each period. Reports and graphs can be generated by months or years. It is also possible to select starting from which periods plans are displayed. The complete business plan can be displayed on the screen with the function "Open Business Plan". It can be printed out or exported to a word processor.

## **5 Conclusion**

For businesses, making the right decisions about revenues and expenses, pricing policy, investments and additional financing in an unstable economic environment is a problem. Ordinary budgeting and forecasting that is based on specific time periods (year, quarter) and where a separate document is compiled for each of the periods, has become inefficient due to the fact that information tends to improve over time and the plans compiled become useless long before the planning period ends. This is where rolling budgeting steps in; by using the special software tools, the manager will be able to view and review one and the same business plan where the starting point will be periodically moved (shifted forward). Whenever new information is received, changes will be introduced in the plan, so that a truthful perspective of the shortest time period (e.g. the next six months) is maintained on a non-stop basis. Longer time periods (years) will be covered by only simple prognosis.

Business simulation offers the manager the possibility for risk-free scenario playing, based on the economic forecasts fed in. The "what-if" method allows the compilation of optimum sales plans and expense budgets as well as investment and additional financing plans.

This paper introduces the Web-based business planner Budget21.com developed by NetEkspert Ltd. The Web-based tool permits managers to play with and plan their business's economic future, set up budgets, forecasts and financial projections on a running basis. Budget21.com efficiently helps the compilation of even a complete business plan consisting of text parts and financial projections. Budget21.com is available to business managers as an application providing service where registered clients will be able to use the service over the Internet during a specified time period.