



Listening To Industry Changes & Budgeting

by [Steve Brown](#) Topics: [strategic planning](#)

Summary: Budgeting can be challenging and is often done in silos. Looking at ways to help with cost savings, flexibility and accuracy.

Many of our readers claim we must have placed eavesdropping bugs or some sort of cameras in their offices based on what you read here. While that isn't true and what you read here is the result of research and hundreds upon hundreds of conversations with community bankers and regulators, it does get us thinking. So, for sport this morning, you can be our eyes and ears. You may not know it, but it is physically impossible for humans to lick their elbow. So, keep watch out the window of your office, around the lunch room and when you see groups of people talking today to see if anyone is trying. That will tell you they read the BID today and they don't believe it, so are trying. Have fun!

Speaking of fun, this time of the year at community banks is budget season as well. Some bankers we know take the prior year and add 10%, while others use sophisticated modeling, a big thumb approach or throw darts. All can be effective, but one method few banks use is known as zero-based budgeting (ZBB).

McKinsey took a pretty good whack at this and explained that despite its name, ZBB does not mean budgeting from zero. It is a structured approach however and it does take a very close look at costs and sets a sustainable culture of cost management. McKinsey indicates that when done correctly, ZBB can reduce selling, general and administrative (SG&A) costs by 10% to 25% - often within 6 months.

Another budgeting approach to think about relates to using a rolling forecast. Here, your bank gets continuous planning through a constant number of periods. If your forecast period is a fiscal year, for instance, you'll always be forecasting 12 months ahead. As one month ends, you'll add another. Twelve forecast periods are a typical number, but some have 18, 24, 36, or more.

Rolling forecasts primarily differ from the traditional budgeting process in that annual budgets create a spending plan for an entire fiscal year. The process ties up resources and eats a great deal of time, creating a countdown to the next budget.

Also, since budgets often happen in silos, departments may be considering different variables as they forecast the next year, unwittingly creating multiple targets for your bank to manage. A process that happens just once a year can also encourage staff and management to only truly consider market forces and internal adjustments during the budgeting period.

Rolling forecasts are living documents. You skip the countdown, because you make decisions throughout the year, looking ahead and tweaking your plan as your predictions shift. Because you always have 12 months (or the number you choose) in your period, you still have long-term data when you need it. At the same time, you can change your plans for the short-term future when circumstances demand it. Rolling forecasts can also give your bank the following:

More accuracy - Even if you aren't looking to replace the traditional budgeting process, rolling forecasting can be more accurate than traditional budgeting. By the time you're done making a

standard budget, it's already out of date. Rolling forecasts let you make adjustments as time passes, rather than giving you just one, annual chance to guess.

Increased flexibility - Rolling forecasts are more flexible, so you're better able to respond to changing conditions. You don't have to make decisions based on past results. Instead, you feed customer satisfaction, market share, human capital, category growth, and other metrics into your system. As those factors fluctuate, you respond accordingly. Rolling forecasts can also add new expenditures or increase old ones in response to new technology or increased and shifting regulatory demands.

Your bank may find ZBB and rolling forecasts a great combination to try in an ever changing industry. The cost savings, additional flexibility and improved accuracy may also make this an option worth exploring for 2018. Now please stop looking for that eavesdropping device!

BANK NEWS

Nominee Powell

Fed Chair nominee Powell said he believes the financial system is "quite strong" and encouraged easing some of the regulatory burden on community banks. He also confirmed that the Fed will continue unwinding its \$4.5T balance sheet in a process that will take 3-4Ys.

Equifax Lawsuit

ICBA filed a lawsuit against Equifax over its data breach. The ICBA said it hopes this lawsuit will cause Equifax "to improve its security to avoid additional harm to the consumers and local communities that community banks serve." ICBA is also looking for reimbursements to community banks for costs due to this security breach.

Cyber Defense

Accenture reports cybercrime on average cost companies \$11.7mm in 2017 - up 23% from 2016. Companies are responding by boosting cyber budgets for 2018, adding security layers, and spending more on special insurance policies in this area.

20TH ANNIVERSARY TRIVIA

To celebrate our 20 years of service, we wanted to provide you with some interesting trivia. Look for these facts the first Monday of the month. This month's trivia:

Lower Funding Cost: 20Ys ago the FDIC reports institutions with assets <\$1B had an average funding cost of 3.83% vs. 0.45% as of Q3 2016 - a decrease of about 88%

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