**Budgeting and Forecasting**

Achieving strategic goals and optimizing performance is essential for the growth of any company. Two key processes involved here are budgeting and forecasting.

However, many organizations still struggle with outdated, inefficient, and inaccurate business planning methods that block any means of adapting or changing to market conditions and demands.

According to a global survey by Deloitte, only[20% of respondents](https://www2.deloitte.com/uk/en/pages/finance/articles/global-planning-budgeting-and-forecasting-survey.html) said they use tools other than spreadsheets for forecasting. And 30% of them state that their current planning and forecasting are based on what has happened so far, rather than what will happen.

In this article, we will look at an overview of budgeting and forecasting, explore their differences, and learn about some of the best software in the market.

**Also, Read:**[**Expense vs Expenditure**](https://happay.com/blog/expense-vs-expenditure/)

**What is budgeting and forecasting?**

Budgeting and forecasting are two critical financial management tools companies use for future planning.

Both are critical for making informed decisions, setting clear-sighted financial goals, and staying on track to meet them.

**Budgeting**

Budgeting is aligning financial resources and activities with your strategic goals and objectives.

It helps you plan, coordinate, communicate, control, and evaluate performance to match your company’s goals and objectives.

The process includes estimating revenues and expenses, [cash flows](https://happay.com/blog/cash-flow-forecasting/), production lines, working capital, and [capital expenditures](https://happay.com/blog/capital-expenditure-capex/) for a specific period.

You can compare the actual results of budgeting with the expected ones to identify any gaps or opportunities for improvement.

**Forecasting**

The forecasting process involves using historical data, trends, market conditions, and analytical tools to estimate your company’s future outcomes.

Forecasting helps you:

* Anticipate the demand for your products or services
* Plan production and inventory levels
* Allocate resources and budget
* Set goals and strategies, and
* Evaluate performance and risks

Forecasting is done for various stretches of time, such as short-term, medium-term, or long-term, depending on your business needs. You can also forecast using qualitative or quantitative methods, depending on data availability and reliability.

**Suggested Read:**[**What is a Cash Management System?**](https://happay.com/blog/cash-management-system/)

**Budgeting Overview**

**Different types of budgeting**

Here are some of the common budgeting types:

* **Operating budget:** Covers expenses like rent, utilities, and salaries
* **Capital budget:** Plans long-term investments in fixed assets such as equipment, property, and buildings
* **Cash flow budget:** Tracks cash inflows and outflows to predict future cash balances
* **Project budget:** Plans and tracks cost for a specific project, like a product launch or marketing campaign
* **Zero-based budget:** Justifies all expenses from scratch to identify unnecessary expenses
* **Flexible budget:** Allows adjustments based on changes in sales or business conditions.
* **Incremental budget**: Assumes most expenses will remain the same as the previous year, with minor adjustments

**Also, Read:**[**20 Business Expense Categories List**](https://happay.com/blog/business-expense-categories/)

**Why is budgeting important?**

Budgeting provides a framework for making informed business decisions about resource allocation and spending prioritization.

By setting practical targets and monitoring actual results, businesses can identify areas to improve efficiency and profitability.

**Benefits of budgeting**

From being prepared for emergencies to filing taxes, budgeting has a lot of benefits.

Business budgets help you:

* **Be prepared** for unexpected situations such as unavoidable circumstances or equipment breakdowns
* **Show investors** that you have a clear vision of your objectives, financial performance, and growth potential
* **Determine how** much revenue you need to generate to cover your expenses and set sales goals easily
* **Track your progress**, adjust spending ‌and meet your financial goals
* **Pay off** outstanding debts that affect your cash flow or credit rating
* **File taxes** seamlessly because budgets help you organize your financial records and simplify the process of deduction claims

**Budgeting best practices**

* Start with a plan that shows your goals and how to measure them
* Use realistic assumptions about your income and expenses
* Prioritize your expenses based on what matters most
* Balance detail and flexibility in your budget
* Prepare for different scenarios that may happen
* Communicate and collaborate with others about your budget
* Monitor and update your budget regularly

**Also, Read:**[**Global Cash Visibility: Basics, Challenges, Best Practices**](https://happay.com/blog/global-cash-visibility/)

**Forecasting Overview**

**Types of forecasting**

There are four main types of forecasting methods that financial analysts use to predict future outcomes for a business:

**1. Straight-line method**

This method assumes a constant growth rate for future revenues or expenses based on historical figures. It is simple and easy to follow, but it may not account for seasonal variations or unexpected changes.

**2. Moving average method:**

The moving average method uses the average of the current and past variable values to smooth out fluctuations and estimate future values. It is useful for repeated forecasts, but may be behind actual trends or ignore sudden shifts.

**3. Simple linear regression method:**

In this method, a statistical technique is used to find the relationship between one independent variable (time) and one dependent variable (sales). It identifies trends and patterns, but may not capture nonlinear relationships or other factors affecting the outcome.

**4. Multiple linear regression method:**

This extends the previous method by using more than one independent variable (time, price, and advertising) to explain one dependent variable (sales).

**Quick Read:**[**What Is Strategic Procurement?**](https://happay.com/blog/strategic-procurement/)

**Why is forecasting important?**

Forecasting helps businesses anticipate future trends and make informed decisions about resource allocation.

By using data analysis and other techniques, businesses can predict demand changes, market conditions, and other factors that can impact their operations. This is then used to develop strategies for growth, manage inventory, plan campaigns, and make other important decisions.

**Benefits of forecasting**

From boosting decisions to estimating your financial needs, the benefits of forecasting are many, such as:

* **Makes you think** about your future and where your business is headed
* **Helps you keep** your customers satisfied by providing them with the product they want and when they want it
* **Helps you estimate** financial needs and sources of raising funds
* **Facilitates better decisions** by providing a logical basis for planning and determining future business operations
* **Enables better utilization** of resources by avoiding wastage and inefficiency
* **Increases chances** of success in business by minimizing uncertainty and risk

**Forecasting best practices**

* Define a clear purpose and scope
* Pick a method that fits your data and situation
* Use different sources of data and information
* Deal with the uncertainty and variability
* Check and update your forecasts regularly

**Also, Read:**[**6 Best Cash Flow Management Software**](https://happay.com/blog/best-cash-flow-management-software/)

**What role does a budget play in financial planning?**

A budget helps to track income and expenses, control spending, save money, achieve financial goals, and evaluate performance.

It plays an important role in [financial planning](https://happay.com/blog/financial-planning/) because it helps:

* **Make informed decisions.** about resource allocation. With a budget, companies can forecast future revenues and expenses, enabling them to allocate resources in a way that maximizes profitability. This‌ can help the business achieve its financial goals and grow its operations
* **Meet various financial goals.** Companies can work towards goals such as debt reduction, emergency funds, or making big purchases. Knowing where the money goes helps identify areas of spending reduction
* **Help with cash flow management.** Businesses can anticipate future cash flow needs with a budget, and this helps them plan and avoid cash shortages. If identified early, companies can take proactive steps to address them through financial securement or payment term restructuring
* **Ensure everybody’s on the same page.** Budgets help ensure every stakeholder across departments or units within an organization is aware of the budget goals and ensure they stick to them. This can then be cross-checked based on the actual results to evaluate their performance

**Budgeting vs. forecasting**

The budgeting process involves setting financial goals and objectives for a specific time frame, usually a year. It involves estimating the expected revenues and [expenses of the business](https://happay.com/blog/business-expenses/) based on various assumptions and scenarios.

Forecasting is predicting the actual financial outcomes of the business based on historical data and current trends. It involves analyzing past performance and external factors that affect the future results of the business.

Here’s a list of their key differences:

|  |  |  |
| --- | --- | --- |
| **Criteria** | **Budgeting** | **Forecasting** |
| **Purpose** | Budgeting is creating a financial plan for a defined time period | Forecasting is predicting future financial outcomes based on historical data and trends |
| **Inputs** | Budgeting starts with setting financial goals and allocating resources to achieve them. It involves various assumptions and scenarios about the future | Forecasting starts by analyzing past performance and current trends. It involves various factors that may affect future outcomes |
| **Flexibility** | Budgeting is more rigid for a specific period. It usually remains unchanged unless there are significant changes in business conditions. | Forecasting is more flexible and dynamic. It can be updated regularly based on changing conditions. It can also cover different time horizons, such as short-term or long-term. |
| **Detail** | Budgeting is more detailed and granular. It breaks down revenues and expenses into specific categories and subcategories. It also shows expected cash flows and debt reduction | Forecasting is more general and aggregated. It provides an overall picture of financial performance. It shows the expected revenue or income for a period. It may also show key indicators or ratios |
| **Variance** | Budgeting involves comparing actual results with budgeted targets to calculate variances. This helps identify gaps, problems, or opportunities for improvement | Forecasting does not involve variance analysis. Instead, it involves comparing forecasts with actual results to assess accuracy. This helps anticipate risks or opportunities for adjustment |

Budgeting and forecasting are both essential for effective financial management. They help businesses plan, monitor progress, identify risks and opportunities, make informed decisions, and communicate their vision to stakeholders. However, they serve different purposes and require different approaches.

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**Common challenges involved in budgeting and forecasting**

Budgeting and forecasting each come with their challenges, such as dealing with inaccurate information and the lack of the right tools.

**Budgeting challenges**

Some challenges involved in [business budgeting](https://happay.com/blog/business-budgeting/) are:

* **Inaccurate information:** The larger a business becomes, the more challenging it is to pull in the right information
* **Access to the right tools:**Manual input, spreadsheets, and legacy systems are error-prone.
* **Budgeting takes time:** Lots of time could be spent on resources for collecting, validating, and consolidating data from various sources and departments.
* **Budget usefulness:** However detailed your budget, you may not use it effectively for decision-making, performance management, or resource allocation.
* **Budgets can cause short-term decisions:** There could be situations where you focus too much on meeting your budget targets rather than pursuing long-term strategic goals.

**Forecasting challenges**

Let’s now look at the common challenges with forecasting:

* **Different methods:** There are a lot of tools and methodologies to forecast, and this leads to inconsistency and difficulty in projections.
* **Sales input:**There’s no standardized way to collect and incorporate sales data into the financial forecasts.
* **Lack of tools:** Historical data helps identify patterns, anomalies, and drivers of performance, but many companies lack the tools to access and analyze them.
* **Data across multiple systems:**There would have to be lots of time spent on locating and centralizing data from various sources or systems.
* **Estimation of changes:**Companies could find it difficult to forecast how new products, customers, markets, or competitors will affect future revenue or costs.

**Recommended Read:**[**What are Incidental Expenses?**](https://happay.com/blog/incidental-expenses/)

**Budgeting and forecasting software**

Budgeting and forecasting software help businesses plan, monitor and analyze their financial performance and goals. It also helps them create and manage budgets, forecasts, cash flows, scenarios, reports, and dashboards.

Some of the top features to look for in budgeting and forecasting software are:

* **Built-in templates and models:**The solution should provide ready-made templates and models for different budgets and forecasts, such as income statements, balance sheets, [cash flow statements](https://happay.com/blog/cash-flow-statement/), sales forecasts, and more.
* **Integration:**The software should be able to integrate data from various sources, such as [accounting software](https://happay.com/blog/best-accounting-software/), ERP, CRM, sheets, and more.
* **Reporting and visualization tools:** The solution must be able to generate comprehensive and interactive [financial reports](https://happay.com/blog/financial-reporting/) and dashboards that display key metrics and indicators.
* **Collaborative features:** The software should let users collaborate with colleagues on budgeting and forecasting projects.

**Best budgeting and forecasting software**

Let’s look at some of the best budgeting and forecasting software in 2023:

**1.**[**Pigment**](https://www.gopigment.com/)

Pigment helps you plan your business and align your organization around the numbers that matter. The solution helps leaders, FP&A, and RevOps teams with planning, budgeting, and forecasting.

With Pigment, you can connect various data sources and update them in real time, gather inputs from various models, report seamlessly, forecast and compare multiple scenarios on the fly, and collaborate easily with your teams.

**2.**[**Jirav**](https://www.jirav.com/)

Jirav is an all-in-one, driver-based FP&A software built to help you streamline budgeting, reporting, and dashboarding in one place. The planning and forecasting software makes it easy for businesses to plan and forecast in alignment with business goals.

Jirav lets you integrate popular apps like Excel, NetSuite, Intacct, QuickBooks, and Xero. It also has a lower implementation cost than most FP&A software options, which helps you use it right away.

**3.**[**Cube**](https://www.cubesoftware.com/)

Cube gives you real-time FP&A. You can embrace your spreadsheet with Cube, the real-time FP&A platform. Cube lets FP&A teams access financial & operational data in real-time for faster and more strategic planning, reporting, and analysis.

You can save time, reduce errors, improve insights with Cube, and tell the story behind the numbers faster than ever. Cube combines the flexibility and familiarity of your spreadsheet with the control & scale of performance software.

**4.**[**Causal**](https://causal.app/)

Causal is a budgeting and forecasting software that lets you build financial models with ease and confidence. Unlike Excel or Sheets, Causal Software uses natural language formulas and dynamic scenarios to help you create accurate and flexible models in minutes.

You can also connect your models to your data sources, such as accounting systems, CRMs, or data warehouses, and generate stunning dashboards.

**5.**[**Spendesk**](https://www.spendesk.com/en/)

Spendesk gives you complete visibility into company spend. It is a comprehensive [spend management platform](https://happay.com/blog/best-spend-management-software/) that combines corporate cards, invoice payments, [expense reimbursements](https://happay.com/blog/expense-reimbursements/), budgets, approval, reporting, compliance, and pre-accounting in one simple, scalable solution.

The solution helps save time and money across the entire spending process with full visibility, built-in automation, and easy approvals.

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**How Happay helps with budgeting and forecasting**

[Happay](https://happay.com/) allows you to manage, track, and get the most out of your financial data.

With their comprehensive [travel and expense (T&E) management solution](https://happay.com/travel-expense-management-software/), you can:

* Check the dashboard to get a quick overview of your spending or delve deeper for more specific insights, including the biggest spenders, policy violators, compliance reports, and transaction trends with **Happay Analytics**
* Set up automated policy checks to ensure compliance with **Smart Audit**, which flags spend limit violations. This can help you spot violations, keep tabs on repeat offenders, and stop people from going over budget. Plus, it boosts compliance adherence
* Set spend limits that make sure your employees stick to budgets with [**EPIC corporate credit cards**](https://happay.com/epic-corporate-cards/). You can enforce budgets for different business units, projects, or categories, and compare them with actual expenses to stay on track
* Keep all your data together by bringing it in from 8+ sources like HRMS, ERP, Corporate Credit Card with **Happay ReconX.** It simplifies data exchange and eliminates duplicate efforts with seamless connection

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**Conclusion**

Budgeting and forecasting are crucial tools for financial planning and decision-making. Forecasting lets you predict future trends and changes in KPIs, while budgeting provides a roadmap for allocating resources to achieve financial goals.

Combining the two processes lets you make smart decisions and handle budgets well. It’s important to keep track of both processes, making adjustments where necessary, to assess how actual results measure up to expectations.

**FAQs**

**1. What is the relationship between forecasting and budgeting?**

Accurate forecasts are critical inputs for developing realistic budgets. Forecasts provide a basis for estimating revenue and expense levels and help identify potential risks and opportunities that affect the budgeting process. Organizations compare actual results against budgets, helping them identify areas where they can adjust their plans.

**2. What are examples of forecasting and budgeting?**

Examples of forecasting include predicting future sales, demand, and revenue. Budgeting examples include creating a financial plan, allocating resources, and setting financial targets.

**3. What comes first, budget or forecast?**

Forecasting usually comes before budgeting. Forecasting is predicting future events or trends based on historical data and other related information, and it serves as a stepping stone for budget development. By predicting future performance, a company can estimate its revenue and expenses and allocate resources accordingly.

**4. What are the steps in the forecasting and budgetary process?**

The steps in the forecasting and budgetary process are:  
  
a) Gathering historical data  
b) Analyzing data  
c) Identifying assumptions  
d) Developing a forecast  
e) Creating a budget  
g) Monitoring performance and making adjustments as needed

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