**Tradition Budgeting Issues and How ABIS Addresses Them**

Should the traditional annual budget be retained? Let’s take a look at 10 issues with the current annual budgeting process as summarized from Stephen Bragg’s book *Budgeting, The Comprehensive Guide*, third edition. The information in bold italics shows how the ABIS addresses these issues.All quotations are from Bragg’s book.

1. “Line managers only annually submit their budget. As a result they are not that experienced.”  ***ABIS for next year is straightforward and doesn’t involve line managers. Last year’s ABIS is appropriately updated with next year’s new unit sales volumes and mix forecast and any changes in the model’s structure or to the enterprise response or cost functions. It is then optimized and the results placed in the Chart of Accounts, as described above.***
2. “Gaming**.” *ABIS would be very difficult to game because all parties have previously agreed on the activities’ cost and response functions data it contains and consequently to the analytics of the result: ABIS***.
3. ”The time required for developing and updating. Are all of the expense line items in synch?” ***There is no time delay other than that required for item No. 1.***
4. “Becomes obsolete quickly. Actual-to-budget expense variances increase over time, which means the budget is ignored***.” With ABIS,******actual results are entered at the end of each period, typically a quarter and the model recalculated. This normalizes ABIS for actual results, creating much smaller cost variances. This is referred to as a flexible ABIS which was described earlier.***
5. “Always wrong since it is static.” ***If the business environment changes to any significant degree, all that’s needed is to update the current ABIS model with revisions to costs functions, response functions, forecasts, etc., and the ABIS model is re-optimized. A new ABIS is immediately calculated and the Chart of Accounts updated. This is one of the ABIS model’s most important advantages. It is created by calculating the model and not with an ad hoc budget and incomplete updating process.***
6. “Connection with strategy***?” As described earlier in the Finance’s EPM benefits section, the strategic and annual******ABIS******models are variations of the same model, assuming the management is comfortable with the strategic ABIS’ data, particularly its response functions.***
7. Expense allocations. “The budget may prescribe that certain amounts of indirect expense (i.e., overhead) be allocated to various departments, and the managers of those departments may take issue with the allocation method used.” An ***OIS****doesn’t* ***employ indirect expense allocations because the OIS operational input data doesn’t use allocations.***
8. Command and control system. “The single most fundamental problem underlying the entire concept of a budget is that it is designed to control a company from the center.” **The ABIS*****is a model, and the most likely corporate meddling would be with the initial forecasted quantities. While the corporate headquarters staff can certainly override the model’s results, it seems unlikely they would do so since they have gone to the effort and time commitment of implementing******an ABIS.***
9. The Sales and Marketing budget is driven by forecast. “Construct this budget after most of the other departments have completed their preliminary budgets.” ***For an ABIS******model****,****it’s the opposite, as shown in Figure 1.***
10. **In summary,**the two keys to a budget model are **cost variability and constraint analysis. “**If you [are] aware of both, then you will have an excellent understanding of how a company creates profit and how to structure a budget to show which actions or events will change profit.” ***The ABIS model implements both cost variability and constraint analyses.***