Shifting Gears: Moving from Reactive to Proactive Enterprise Planning

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Executive Summary

If you can't put a halt to revenue and profit surprises, all the hard, earnest planning, process development and resource and technology investments that go into your major corporate initiatives might be wasted. Those outcomes can be especially painful when the economy is mercurial and the effective use of time and resources is essential.

Leading and "up and coming" enterprises are changing the nature of how they plan. An enterprise-wide planning and analysis solution is recognized as one of the rock-solid components that can reset this process to one that is *anticipatory*, rather than reactive, and stand tall in these hard-blowing economic winds. In this paper, we examine the most troublesome conditions that restrict planning success along with those planning approaches that enable businesses to make better decisions faster.

Overview

The current business environment—characterized by uncertainty, scarce credit and loss of customers and suppliers—is still struggling, creating challenges and demands for accurate business planning and forecasting. For private companies, effective planning is a competitive necessity. For public companies, poor planning has a direct bearing on shareholder value.

The execution imperative

CFOs and finance organizations, today's acknowledged catalysts for improved performance and risk mitigation, face enormous headwinds: they must balance a number of tasks for their enterprises, all the while keeping an eye on the tell tails of the changing business environment. They are:

- Charting winning plans—predictable *and* creative—to manage through turbulent times
- Improving cost discipline, operational effectiveness and profitability
- Driving cash flow
- Managing risk

A key lever is developing and maintaining best-practice planning and analysis that deeply involves an entire enterprise.

How leading organizations are meeting today's challenges

Savvy organizations are forging ahead with integrated planning strategies for managing performance and are recording impressive revenues and profits. These companies exercise improved decision-making in all their business functions because they have a constellation of capabilities to guide them:

- Rapid response to change
- A holistic view of their key business functions created by understanding and modeling the interdependencies of business drivers that span multiple functions
- Timely visibility of performance gaps
- Insight into new objectives, performance targets and contingency plans that can make an impact
- Facile communication with all stakeholders and their continuous involvement in refining performance

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World-class companies and enterprise performance management

World-class companies view EPM [enterprise performance management] as an integrated, end-to-end process supported by a common architecture. In contrast, most companies spend too little time on strategic planning and target setting, and too much time on creating multiple iterations of a budget that is outdated by the end of first quarter. Forecasting should be concerned with what the future will look like, while planning should be concerned with what it should look like. Finally, rolling forecasts should reflect the rhythm of the business.

In essence, the goal is to flip FP&A's emphasis from a rear-view mirror, where it focuses on detailed variance reporting and analysis, into predictive analysis of key operational drivers and trends, providing real value for decision making.

From the Finance Executive Insight Series: "Outperformance is Possible Only with Leading-edge EPM Capabilities, New Hackett Finance Book of Numbers Reveals," The Hackett Group, December 15, 2009, p. 5

What doesn't work in cross-functional planning

Survival of the fittest is hardest felt during desperate times. There are those companies who attempt to manage dynamic global businesses with severely inadequate planning and analysis processes and systems. They cannot anticipate business direction—much less understand current status—are averse to change and cannot execute their game plan because they face these key roadblocks or outmoded practices.

Reliance on spreadsheets

Many companies carry out planning and performance management with a sea of spreadsheets from their annual-budget consolidations, which creates inaccuracies and miscommunication. Spreadsheets are inherently unable to offer the control, security and structured approach that enterprises require. Worse still, the manual overhead required by this process lengthens the lumbering cycle.

Not only are spreadsheets prone to data errors, but they also cannot handle the complex processes of business modeling, the aligning of operational tactics and financial targets and the complex business analytics required today, such as product or customer profitability. They also lack supportive features such as workflow, metadata management and version control for inter-departmental collaboration. Their resource-hungry development and maintenance cycles stall wide adoption.

Incomplete view of business drivers

Companies don't often have the complete picture of the impact of business drivers, the key metrics that steer their expenses and profits. These drivers, which are often interdependent and yet changeable given market realities, are buried in hundreds of spreadsheets and disparate databases spread throughout business functions. As a result, companies cannot command a single version of the truth and are hard pressed to produce reliable forecasts and plans, thus hindering growth and profitability.

Data in disarray

Undoubtedly the "elephant in the room" for many companies, critical data, from internal financial and operational sources and from external systems such as vendors and benchmarks (external marketing reports), usually resides in numerous systems, in an array of dissimilar formats. In an unrestrained frontier fashion, employees pull data from the various systems and then analyze and report on it differently, which leads to conflicting views of the company's performance. Without a strategy to migrate, define and manage the data that affects performance, teams that are planning and forecasting cannot accurately model cross-business-function activity, much less access the critical data. Moreover, resources are engaged in redundant, expensive work.

Strategic misalignment

Companies must avoid the "disconnected enterprise" where divisional or departmental objectives, goals and targets do not align with those of Finance. Such fragmented processes create silos that do not take into account departmental interdependencies. Additionally, plans for revenue, expenses and capital expenses are insular. Roll-ups to the profit and loss, cash flow and balance sheet projections can therefore be slow and error-prone. This fragmentation leads to tedious reconciliation and reworking that drain productivity and hinder crucial, timely analysis.

Below-par cycle times

If the annual planning process takes several months to complete—with time dedicated to reconciliation and reworking—it has long since been disconnected from the cycle that optimal performance requires. Similarly, by not forecasting frequently or as needed, a company cannot fully and expediently understand demand and operating cash and thus make necessary reallocations of resources.

Usability of the planning system or tools

In a volatile business climate, there is often no time to schedule scarce IT resources or explain evolving requirements. Users with varying software backgrounds, such as marketers or facility managers, want the applications they touch frequently for all aspects of the planning cycle— analysis, planning, budgeting, forecasting and reporting—to be easy to use. They want a measure of control without having to become programmers themselves. Moreover, when they cannot share spreadsheets and files easily with team members, their work will become isolated.

Accountability

Companies that roll out plans from the top down in the organization will not only have a limited view but will also suffer from lack of commitment and buy-in from many or all levels—the nightmare of disconnection between management and contributors.

What works: Effective enterprise planning that includes all business functions

What are the key elements of a highly-effective planning and forecasting process for enterprises seeking higher levels of performance and business optimization? The most dynamic, effective approach helps companies move:

- From limited participation and slow processes to high-participation and high-frequency planning, analysis, forecasting and reporting
- From a finance-only focus to driver-based forecasts and plans that connect finance and operations
- From static-long-horizons planning to a dynamic, rolling horizon
- From limited spreadsheet activity to role-based contributions in familiar environments

Why are Companies Moving to Rolling Forecasts in Lieu of an Annual Budget Cycle? [1]

Issues with a Typical 12-Month Planning Cycle	Why rolling forecasts
Too Historically Focused	Annual budgets have a very short shelf life and are overly focused on the past. Rolling forecasts focus on creating a realistic view of the future, allowing leadership to quickly react to changing environments.
Treated as an Isolated Event	Traditional budget processes consume significant leadership headspace in the 3rd quarter, but are rarely evaluated more than once per year. Rolling forecasts are typically refreshed at least once per quarter, allowing managers to learn from their forecast record, and to refine forecasting techniques and assumptions.
Provides Limited Visibility	Annual budgets create an artificial barrier at year-end; little insight is gained beyond the current year. This limited view can lead to unproductive actions by line management to make numbers or to use up the current year budget. Rolling forecasts continually provide an updated assessment of progress against medium term goals that drive firm value.

Are you prepared for a turnaround?

Although short-term interventions can deliver quick payback in turbulent times, good planning can mean rising to the top and then being even better positioned for the eventual turnaround. "Downturns more than double the likelihood that a firm significantly changes its industry ranking. Firms that make it into the top quartile during a downturn sustain their market premium (market capitalization to sale ratio) for an average of three years," according to The Corporate Executive Board in "*Executive Guidance for 2009*.

In addition, a comprehensive enterprise planning and analysis approach enables the following process changes:

- Alignment of operations and finance
- Whole company involvement
- Data integration and integrity
- Shortened planning and forecasting time
- Rapid modeling
- Comprehensive participation

The alignment of operations and finance for driver-based plans

The ubiquitous task, according to most analysts, is for a company to connect all its interdependent business drivers, as complex as they might be. Each department must:

- Understand how its operations affect the financial performance of its company.
- Project into its forecasts how these drivers might change.
- Plan for contingency operations.

The planning and analysis components of a comprehensive enterprise planning system enable your team to deliver quickly a sophisticated, linked planning model that accurately reflects business in all its necessary complexity and detail. Planners and management then have more time to focus on the actual evaluation of the information instead of wondering how accurate and timely it is. With robust on-demand analytics, they can validate their planning assumptions and provide a fact-based approach to the planning process before setting planning assumptions. This same environment also facilitates a more dynamic approach to forecasting and re-forecasting.

A word about the level of detail: Too little and you'll miss the critical detail on operations drivers. Too much and you will mire your analysts and managers in data lost in detail that will thwart responsiveness. Seek the data and links that speak to high volatility and materiality, or the significance of an amount.

Whole company involvement led by finance

Ideally, operational tactics are supported by well-defined top-down and bottom-up plans. If participation in forecasting and planning includes not only the top-down plans but also pulls from the bottom up and from all parts of the company, teams will be encouraged to perform optimally. The networked, collaborative performance environment built on common assumptions and logic fosters an open dialogue to reconcile top-down expectations with operational realities. Contributors in different locations, business units and functions can participate together in a single, secure planning environment. Imagine a completely unified and automated planning process—one that takes days, not months.

In fact, recent studies indicate that more and more operational functions are taking an active role in company planning processes, supporting finance as the facilitator. The Hackett Group reports that "the world-class group is twice as likely to have implemented a fully integrated planning cycle."[2] Figure 1 illustrates the Hacket statistic.

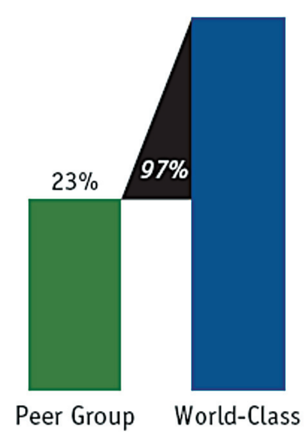

Figure 1: Percent of organizations with fully integrated strategic planning, operational/financial planning and reporting, 2009.

Data integration and integrity

When data is stored and maintained on one platform with one set of metadata, a uniform data model and process and leveled security, the planning teams partnering with finance can easily share that same reliable data and models for analysis, ad hoc scenarios, scorecards and management and financial reporting. For example, a single view of financial information—with aligned rules and dimensions—that includes general ledger, accounts payable and accounts receivable data can be generated in seconds or minutes to support better planning and high-demand forecasting. Likewise, users in operations can perform self-service reporting from the very same data environment to keep functional managers apprised of status of and projections for key drivers such as cost of goods produced, revenue actuals versus plans or various snapshots of profitability, such as product or customer.

The IT and business intelligence team of a multinational ski resort corporation was able to unify their accounting methodology for their entire organization. With a dedicated fulltime developer to manage the reports and build the models, data is now entered with the same parameters for anywhere in the organization and senior management can easily compare financial reports across departments.

Shortened cycle time for proactive planning and forecasting

Commonly, planning and forecasting have been used to control the enterprise, and as such, have been "timed" and infrequent. But today's economy demands planning and forecasting cycles measured in days or weeks, with a focus on possible scenarios and a highly proactive management team that constantly evaluates and resets the course as necessary. Operational data might have to be adjusted or refreshed overnight or even hourly, and this, in turn, can provide—as needed or even simultaneously—new views of financial data such as year-to-date actuals compared with forecasts, results from the previous years or even trends.

One leading brand cookie manufacturer updates its inventory 16 times a day for the customer services team and during the end of a period, they update closing financials three times daily. Customer profitability is now ingrained at all levels of their business because they increased details for groups all the way to points of shipment, doubling the amount of data available to users.

Rapid modeling

Rather than forcing an enterprise into a solution that might not fit its business model, an enterprise planning solution should easily adapt to the organization's environment—even as business grows and changes. With a flexible, open solution, the planning team can create its own business rules and structures and modify the model as their organization evolves—in minutes or hours, not months. In addition, assigned team members can import data definitions from sources such as enterprise resource planning (ERP), supplier networks and general ledger systems to accelerate the process further.

Comprehensive participation

An effective planning solution provides a common framework for understanding key driver data with tools and the interfaces that users are familiar with, such as Microsoft® Excel® or the Web, to facilitate rapid planning and forecasting. Additionally, this critical information should be presented in tailored context for the different type of users. The solution cascades aligned plans, seamlessly sharing millions of information points with hundreds or thousands of people with differing roles, such as analysts, planners, managers and more. With high participation levels, your teams provide the insight to execute the game plan while you keep the cost of providing the information low.

Rate yourself

Is your organization able to employ these best practices for planning, budgeting, forecasting and analytics?

- The alignment of operations and finance for driver-based plans
- Whole company involvement led by finance
- Data integration and integrity
- Shortened cycle times for proactive planning and forecasting
- Rapid modeling
- Comprehensive participation

Conclusion

A best-in-class performance management solution supports the full range of business requirements. It facilitates high-performance customer and profitability analysis, flexible modeling for best practices such as rolling forecasting and contingency planning and enterprise collaboration for a broad range of user experiences that spans manufacturing, sales and service and includes finance, human resources and marketing. With enhanced strategic decision-making and best practices, leaders can quickly identify, analyze and forecast the effect of changes as they occur, counteracting the daunting economy and difficult competitive challenges.

With a unique combination of analysis, modeling, reporting and contribution integrated on a single platform, enterprise planning and analysis solutions powered by IBM Cognos software help companies achieve time-appropriate planning, rapid forecasting, increased accuracy and even greater market share, no matter what the market situation.

Combining a broad range of user experiences with on-demand, what-if analysis translates into a clearer, more comprehensive view of your business, time-frame appropriate plans and high-participation—all of which contribute to increased accuracy in resource allocation and business forecasting.

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Endnotes

[1] From "Managing Performance in Difficult Times," by Scott Wallace, Copyright © 2008 Deloitte Development LLC.

[2] "Ten Actions Finance Organizations Should Take Now in Enterprise Performance Management to Prepare for 2010," The Hackett Group, August 26, 2009.

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