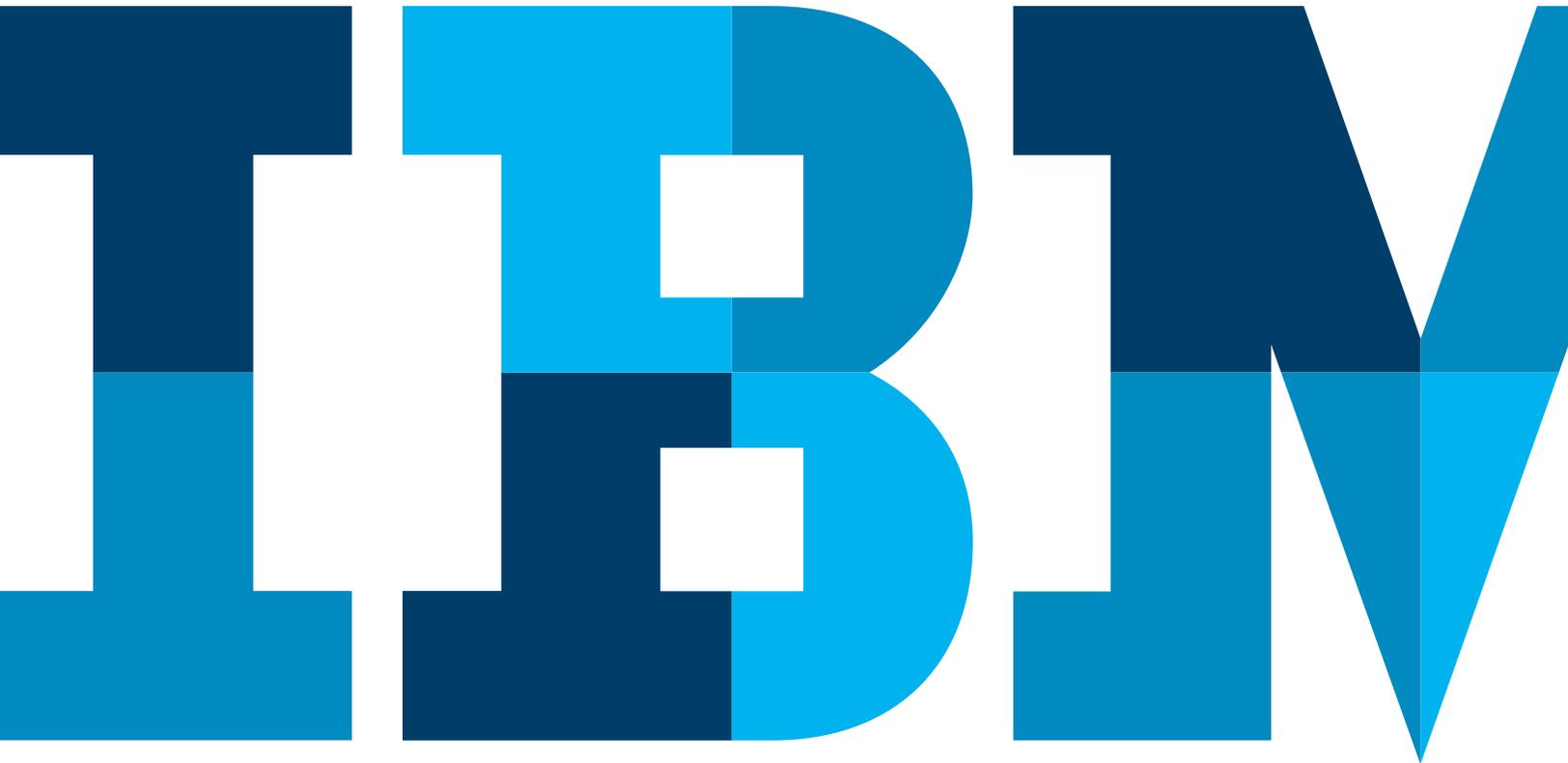


Planning, budgeting and forecasting: Software selection guide



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Abstract

This paper addresses the challenges of planning, budgeting and forecasting in a spreadsheet environment and highlights the advantages of using a software solution designed specifically for dynamic planning. The business challenges and drivers are discussed, including organizational and technological best practices to follow. A Planning Software Selection Matrix is included to assist decision makers in selecting the most appropriate planning software for their specific business processes and needs.

Overview

The planning process—planning, budgeting, forecasting and reporting—presents a formidable challenge to many companies, regardless of size or industry. Planning is a crucial component of performance management that contributes greatly to a company's overall success or failure, especially in these mercurial economic times. Despite its importance, planning—and especially the annual budget process—is often seen as burdensome and time-consuming. This attitude is so widespread that 60 percent of CFOs surveyed in the *2010 IBM Global CFO Study* plan to make major changes to their critical finance practices and processes.¹ Yet forward-thinking organizations see that when planning is dynamic and company-wide, it offers enormous opportunities.

Leading companies address planning obstacles directly and take steps to improve their processes. They take advantage of new technologies and employ well-established planning and forecasting best practices. When they do so, they are quickly rewarded with more accurate plans, more timely re-forecasts and more effective decision-making. Overall, these tools and practices save time, reduce errors, promote collaboration and foster a disciplined financial management culture that delivers true competitive advantage, often accompanied by a leading or stable market position.

Specifically, such companies are able to:

- Consistently deliver timely, reliable plans and forecasts, along with contingency plans.
- Analyze situations where performance begins to deviate from plans and promptly take corrective action.
- Strengthen the link between strategic objectives and operational and financial plans.
- Improve communication and collaboration among all contributors.
- Enhance strategic decision-making, enabling leaders to quickly identify, analyze and forecast the impact of changes as they occur.

The goal of this guide is to help organizations take the first step toward improved budgeting, planning and forecasting. The guide outlines a systematic approach to software evaluation and selection that aligns best practices and leading-edge technology with planning activities. Readers will be asked to review their own planning process, identify challenges, define stakeholder requirements and match emerging criteria with software features and functions.

Planning challenges and process problems

Corporate decision-makers often voice similar complaints about traditional planning, budgeting and forecasting.

- Low-value activities take up the greatest portion of time.
- Plans are quickly out of date.
- Forecasts and reports are too infrequent.
- Insight into causes is insufficient—and leads to shadow systems.
- Planning participation is too limited.
- Existing applications and spreadsheets are inflexible and do not support a dynamic environment.

Comprehensive scenario planning delivers at least three advantages:

- It enables an organization to avoid potential catastrophes altogether.
- It sensitizes management to what might occur and, as a result, can help management identify both problems and opportunities earlier than it might have, had it not conducted scenario planning.
- It spurs organizations to think through “what we would do if” and to create plans that can be rapidly implemented if a scenario actually comes to fruition.

Steve Player and Steve Morlidge, Five Advanced Practices for More Robust Forecasting, The Beyond Budgeting Roundtable, 2010.

For managers outside of Finance, planning can appear to be little more than a periodic invasion of their time which produces minimal benefit. Managers can feel besieged by demands for detailed information and develop their own methods or solutions to analytics and plans. They can also feel constant pressure to do more with less, while still being expected to deliver results.

But these inconveniences are minor when compared with the missed opportunities that can result from inflexible and inadequate planning and forecasting, particularly in times of economic volatility. A well-connected, dynamic planning and forecasting “nervous system” should be aligned with operations and should support high participation throughout the organization. Such a system enables management to engage in aggressive, creative activity, to develop intelligent contingency plans, and to significantly improve resource reallocation to meet changing business conditions.

Origins of planning challenges

Over the last fifteen years or so, companies have devoted considerable resources to implementing enterprise resource planning (ERP) systems. Yet most planning is still performed using spreadsheets, electronic mail and countless staff hours—an inexpensive approach in software terms, but ever so costly in the long run because spreadsheets are not designed to effectively support organization-wide planning and forecasting processes. Some planning systems themselves can impede business responsiveness. Inhibitors are numerous:

- Business rules (formulas) are mixed with data and prone to corruption.
- Files must be exchanged frequently among users, but cross-company teams cannot work together easily.
- Presenting or analyzing data from different perspectives is difficult.
- Data aggregation is complicated and time-consuming.
- The business model is not represented well, if at all.
- Complex calculations, multidimensional analysis and reporting are impossible.

Supporting best practices

It is vital that planning software supports accepted best practices in order to enhance timeliness, information reliability and participation by key people throughout the organization. A best-practice approach requires that planners employ several key strategies and tactics.

Align strategic and operating plans

Within the “excellent financial management equals excellent business management” culture, the ongoing alignment of strategic and operating plans is vital. Because of their responsibility to engage department managers in the planning process, finance professionals must clearly communicate corporate strategic plans to those who run the business from day to day. The importance of this type of alignment is demonstrated by the fact that 70 percent of CFOs are now taking a more prominent role in decision-making, beyond the traditional role of finance.²

Finance can help translate strategic goals into financial targets and—in turn—into specific departmental plans and related revenue and expense drivers, such as headcount and equipment. By translating strategic goals into operational plans, and by tracking and measuring performance against plan, leading companies are better able to meet or exceed their objectives.

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Start at the top—and at the bottom

An important ingredient of successful budgeting and forecasting is the ability to align top-down financial targets with bottom-up plans. Some companies establish top-down targets and then turn the annual budgeting process over to Finance along with a mandate to meet those numbers. Other companies require detailed bottom-up plans, and then plug in the total company numbers at the top so that the plan meets strategic targets. Neither of these approaches reflects a realistic commitment to planning excellence.

Leading companies provide initial guidance from senior management's top-down perspective on strategic goals, objectives and expectations. Then, employees and line-of-business managers build a plan from the bottom up, indicating how they intend to meet the established goals. This process requires frequent iterations for the top-down and bottom-up activities to meet and reconcile.

The result is a plan that is supported by:

- Line of business managers because they helped create it and will be rewarded for meeting it.
- Senior management, because operational goals are aligned with strategic goals.
- Finance, because they added value to a productive, collaborative effort, rather than demanding participation in a budget process that some see as a mere exercise.

Model business drivers

A first-rate plan or forecast is based on a model with formulas that are tied to fundamental business drivers. Simply importing and manipulating past actuals does not reflect underlying operational causes and financial effects in a business. Building driver-based models into plans ensures consistency across

functions and promotes planning coordination among functions. For example, by understanding the sales trends and profitability related to particular household products that may fly off the shelves during an otherwise slow period, a retailer can balance product mix, marketing, inventory and sales expenses to optimize profits. Finance can provide the operations managers with a useful model that includes information about past actuals and current inventory levels and marketing promotions as well as formulas driven by assumptions.

Support from Finance does not infringe on department managers' responsibility for creating their own plans. Instead, it saves them time by providing a solid, factual baseline—a starting point that contains important information about their departments' relationships with other functions. Managers can then make adjustments to this baseline to reflect the latest business conditions. This approach also encourages collaboration across functions.

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Drive collaboration between functions

Not only should strategic and operating plans be aligned, but plans that affect multiple functional areas should be coordinated. Best practices include the direct involvement of line-of-business managers along with a collaborative approach to planning and forecasting.

In addition to understanding broad strategic goals, department managers must also know what other departments are planning. For example, in a company that is planning a major new product rollout, manufacturing needs to ramp up production, marketing needs to increase advertising and the sales organization may need to add new headcount. But the marketing plan should also include training programs to familiarize the sales representatives with the new product. The facilities department may need to plan for new headcount, equipment, warehouse space for product inventory and so on. Such collaborative planning can be accomplished through an iterative process that lets managers forecast and share alternative scenarios and contingency plans, which are essential, given today's economic uncertainties. Finance also plays a key role in facilitating the coordination of plans across the company and helps ensure that operational tactics are aligned with financial targets throughout the organization.

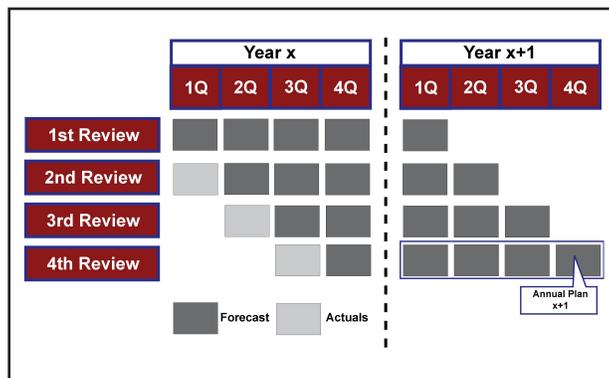
Frequent re-forecasting

In this challenging global economic environment, with multiple market pressures, forecasting may be needed monthly or even bi-weekly. Continuous re-forecasting helps managers answer critical questions such as, "What did we expect?" "How are we doing against our plan?" and, even more important, "How should we adapt our plans going forward?"

For example, if revenue forecasts are below targets, a bank or financial services company may need to recalibrate products or services to attract new customers or keep current customers from leaving. With a model-based approach to forecasting, marketing can perform what-if analysis to test new product or service initiatives, examining impact by customer and customer segment. In turn, these scenarios can be evaluated by bank sales team members to adjust their sales strategy, such as maximizing time spent with the most profitable customers. Updates to plans feed directly to Finance, which then turns the marketing and sales projections into net revenue projections—all in a matter of hours or days rather than in weeks or months, when remedial action may be too late.

Rolling forecasts

A company that runs rolling forecasts is always looking forward to the immediate or near-term future. For such companies, business does not end on December 31 and restart on January 1. The forecast time frame should extend out two to eight quarters, depending on business volatility. Additionally, the forecast should reflect the input of all business units, not just Finance. "The process goal is coordination of the different parts of the organization using the latest available estimates of what may likely occur," according to Steve Player, Program Director of The Beyond Budgeting Roundtable.³ "Action plans to correct negative trends or to exploit positive developments can be included with discussion of their likelihood of success. These plans can be made dynamic, based on the movement of leading indicators."⁴



“Moving from the behavior of annual financial activities into a more dynamic environment, companies are increasingly adopting the rolling forecast, such as a five-quarter forecast. In many cases, rolling forecasts are updated quarterly or monthly, facilitating reduced cycle time with more rapid reaction, realignment and readiness throughout the organization.”

Steve Player and Steve Morlidge, *Business Forecasting: Six Design Principles for Healthier Forecasts*, The Beyond Budgeting Roundtable, 2010.

Planning should be an ongoing process with frequent opportunities for managers to view the company’s latest internal and external performance data. Contributors should be able to test new plans or alter existing plans based on new information coming from various sources, including other managers, monthly actuals, top-down target revisions, and leading market indicators such as customer inquiries, sales

pipeline information and external market data. Finance should be able to quickly consolidate plan data from all areas of the company and distribute new information immediately. Such a process will facilitate more informed decision-making in such areas as pricing, product family, channel mix, capital allocations and organizational changes.

“Action plans to correct negative trends or to exploit positive developments can be included with discussion of their likelihood of success. These plans can be made dynamic based on the movement of leading indicators.”

– Steve Player, Program Director, The Beyond Budgeting Roundtable

Manage content that you can act on—reduce what isn’t

A focus on content that can be acted on in planning frees managers from unnecessary detail, enabling them to produce better plans. While supporting detail can provide an audit trail and insight into managers’ thinking, more detail does not necessarily make a better plan. Managing material content requires attention to information that has real and significant impact on expenses, revenues, capital or cash flow.

Content management helps a company:

- *Avoid false precision.* A complex model might not be any more precise than a simpler model. More detail and intricate calculations can lure managers into the trap of thinking their plan is more accurate.
- *Monitor volatile — not stable — accounts.* Efforts are best spent on fluid expenses such as headcount and compensation.
- *Aggregate accounts.* A forecast does not need to reflect the same level of detail as that in the general ledger. Even if the general ledger has 15 different travel accounts, managers can often plan adequately using just one account.

Timeliness and reliability

Many companies have an inefficient and inflexible planning process at the center of which is the annual budget. Time-consuming distribution and consolidation processes practically guarantee that plan data will be out of date and irrelevant before it is even published—and plans based on stale data and assumptions are of little or no value. World-class organizations shorten their planning cycles by implementing the best practices described here. They also use technology to successfully manage budget consolidation and aggregations on demand. Technology is particularly effective in improving timeliness and reliability in plan consolidations. In particular, plan consolidation on demand eliminates the necessity of processing results manually and enables a smoother, more consistent, more accurate planning process. Variance reports delivered within two to four days after the period close allow managers to immediately evaluate their performance against plan and effectively adjust their business activities.

At an operational level, this type of planning is less costly and produces more accurate results than the processes followed by most companies today. At a strategic level, timely and reliable financial plans provide more credible guidance to stakeholders and enable faster, better-informed business decisions.

Best-practices templates

The use of pre-built, best-practice templates or planning models can help organizations reduce implementation risk and accelerate time to business value. Best-practice templates for activities such as expense management, resource planning, capital planning, profitability analysis and integrated financial reporting are available from software vendors for a wide range of functional areas and industries. With best-practice templates, companies can build models faster and establish dynamic connections that keep strategic objectives, operational plans, people and initiatives in sync as business conditions change. Executives can quickly see the impact of changes in operational plans on corporate financials. Functional and business-unit managers can quickly adjust resource allocations to support corporate objectives. And corporate guidelines and policies are more consistently communicated and applied throughout the business.

Technology supports best practices

Leading companies have recognized that spreadsheet-based planning impedes implementation of planning and forecasting best practices. They have moved to solutions that address the full cycle of planning processes—analytics, modeling, contributing and reporting—on a common planning platform with lean infrastructure requirements, which enables them to plan and re-plan quickly, using the same or fewer resources.

Streamlining the planning process demands technological tools capable of supporting a faster, more flexible and adaptive approach. By using an on-demand, dedicated planning, budgeting and forecasting solution that is delivered over the web, organizations can readily implement best practices.

When evaluating and selecting planning, budgeting and forecasting software, leading organizations look for solutions that meet these top-level requirements:

- *Adaptive.* The ability to rapidly change models based on input and prototypes from business units and to frequently re-forecast enables companies to respond to business changes as often as necessary.
 - *Timely.* Information is always current because departmental users contribute directly to a central planning database. Consolidations and rollups are done automatically, so deadlines are met more easily.
 - *Integrated.* Planning, analysis, workflow, and reporting reside on one common platform. Managers do not need to maintain “shadow” planning systems.
 - *Collaborative.* Web-based, distributed planning enables participation anytime, anywhere with a secure connection.
 - *Led by Finance.* Because the Finance office is responsible for planning process development, deployment, reporting and analysis, finance professionals have the best understanding of what is required in terms of software flexibility and ease-of-use, both in modeling and day-to-day activities.
 - *Efficient.* Finance managers and department managers spend less time managing data and more time managing the business.
- *Relevant.* Customized views for users increase adoption and ownership. Formula capabilities enable modeling of all relevant business drivers.
 - *Accurate.* Plans contain fewer errors because broken links, stale data, improper rollups and missing components are eliminated.

The evaluation of a vendor’s product features and support is a complex task. It requires evaluation of the software functionality, its value to the planning process and its ability to support planning best practices. There are also intangible factors such as vendor support, user community connections and commitment to customer success once the sale is complete.

The key is not just evaluating product features, but also evaluating how these features are implemented and by whom. It is important to test any planning solution that will be used by a large number of stakeholders and will play a critical role in organizational performance.

Workshop evaluation

A workshop approach can be used to evaluate not only solution features, but also the way a plan is constructed, distributed and reported on. A business process should be defined (such as capital, headcount or expense) as a context for the evaluation of product features and intangible factors such as ease of development, roles, references and customer support.

The following matrix aids the evaluation process by relating best practices to product features. It also helps prioritize features and assess how well they relate to vendor offerings.

Planning Software Selection Matrix

| Feature Category | Score | Importance/ Weight (1=least important, to 5=most important) | Vendor X (Weight * Score) | Vendor Y (Weight * Score) | Vendor Z (Weight * Score) |
|--|-------|--|---------------------------------|---------------------------------|---------------------------------|
| Dynamic Planning Blended with Analytics | | | | | |
| On-demand (in-memory) what-if analysis | | | | | |
| Individualized analysis and plan prototypes shared with other planners | | | | | |
| Profitability analytics — linked to plan model — to optimize business performance | | | | | |
| On-demand reporting | | | | | |
| Personalized workspace with customized views | | | | | |
| Integrated analysis through charting | | | | | |
| Align Strategy & Operational Plans | | | | | |
| Module application development | | | | | |
| Operational planning aligned with financial planning to improve decision-making via application linking. | | | | | |
| Supports comprehensive planning life cycle, from individual to group to enterprise and back | | | | | |
| Model Business Drivers/Planning applications | | | | | |
| Guided modeling w/graphical interface | | | | | |
| Driver-based calculations | | | | | |
| Dimension separate from models | | | | | |
| Multi-cube development environment | | | | | |
| Ease of development by finance/business analysts | | | | | |
| Manage Content | | | | | |
| Real-time workflow | | | | | |
| Defined user views | | | | | |
| Role-based security | | | | | |
| Web client | | | | | |
| Personal desktop client | | | | | |
| Microsoft Excel client | | | | | |
| Annotations support | | | | | |
| Supports Timely and Reliable Planning | | | | | |
| On-demand plan consolidation | | | | | |
| Automated data loads between transactional systems | | | | | |
| Certified connector to ERP | | | | | |
| Standard reporting | | | | | |
| Multi-dimensional analysis | | | | | |
| Dashboarding and scorecarding | | | | | |

| Feature Category | Score | Importance/ Weight (1=least important, to 5=most important) | Vendor X (Weight * Score) | Vendor Y (Weight * Score) | Vendor Z (Weight * Score) |
|--|-------|--|---------------------------------|---------------------------------|---------------------------------|
| Distributed and connected planning modes | | | | | |
| Planning types for corporate input, hierarchical, and continuous | | | | | |
| Best Practices Templates (pre-built models) | | | | | |
| Capital expenditure planning | | | | | |
| Expense planning | | | | | |
| Integrated income statement, balance sheet, and cash flow | | | | | |
| Profitability analysis | | | | | |
| Workforce planning | | | | | |
| Company Profile | | | | | |
| Quality of references | | | | | |
| Revenue | | | | | |
| Number of employees | | | | | |
| Number of customers | | | | | |
| Number of industry references | | | | | |
| Independent industry analyst ratings | | | | | |
| Implementation and support | | | | | |
| Implementation methodology | | | | | |
| Training options | | | | | |
| Support hours | | | | | |
| User communities | | | | | |
| Customer forums | | | | | |
| Online knowledge base | | | | | |
| Partner network support | | | | | |
| Vendor consulting | | | | | |
| Quality of documentation | | | | | |
| IT Infrastructure Support | | | | | |
| Database support | | | | | |
| LDAP support | | | | | |
| Single sign-on | | | | | |
| Portal support | | | | | |
| Open API | | | | | |
| Metadata support | | | | | |
| MDX support | | | | | |
| HTTPS support | | | | | |
| Total Score | | | | | |

Conclusion

The successful implementation of a planning solution requires the orchestration of technology, business processes and best practices. This selection guide outlines key principles to help a company align its business process and technology requirements during the process of selecting planning, budgeting and forecasting software. By matching a company's planning process to established best practices, facilitated by the proper implementation of a planning solution, an organization can significantly improve its financial and operational performance. The bottom-line results are visibility to performance gaps and alternative actions, reliable forecasts, and commitments to achievable goals.

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1 IBM Institute for Business Value, *The New Value Integrator: Insights from the Global Chief Financial Officer Study*, March 2010

2 Ibid

3 Steve Player and Steve Morlidge, *Business Forecasting: Six Design Principles for Healthier Forecasts*, The Beyond Budgeting Roundtable, 2010.

4 Ibid



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