Absoft White Paper

Updating your planning processes? 10 key areas to consider

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Introduction

Planning, budgeting and forecasting are three of the most valuable activities in the management of business performance. Executed well, they should help to create viable strategies and plans of action, allocate and align resources to critical activities, provide insight into the drivers that impact business performance and warn when performance is off track. Furthermore, each planning-forecasting cycle is an opportunity to increase understanding into what makes the business tick, what the key drivers of performance really are and, as a result, enable more accurate business modelling and increasingly better decision making.

Frustratingly, existing processes and systems frequently fail to provide the support that the business needs. Planning cycles can be lengthy, error prone and effort intensive, produce plans that have questionable value for running the business and are often seen as a necessary evil. Instead, those contributing to planning activities should believe that the processes are there to drive the business towards its goals in a controlled, predictable and pain free fashion. These disciplines enable the business to make the very best use of its resources – to avoid wasted time, money and effort, unnecessary borrowing or hiring, projects that don't help the business move forward, and costly, embarrassing surprises in business performance.

In our experience of transforming planning processes and defining and implementing planning, budgeting and forecasting applications, there are 10 key areas to consider when improving these core disciplines.

This 'Top 10' is intended to be a checklist, rather than a roadmap. A review of your specific situation – the people, processes and systems that form your planning infrastructure – will help to map out where you are currently, the priority areas for improvement and, consequently, the best way forward for you.

The good news is ...

In many cases it's possible to improve your planning processes by making small changes and making better use of the technology you already have, before having to consider an investment in new technology.

Shell is said to have a 13 month budget cycle[1].

A more typical timescale for a large organisation might be 6 months, with best performers being half of this. Even at the lower end of the scale, this still represents significant effort. A study by the Hackett Group reports that for every $1bn sales, large companies are spending 25,000 man-days on planning and budgeting.

Yet, while these processes are intended to manage and drive performance across the business, and to predict business performance going forward, they often fail to hit the mark. At an operational level, there is a disconnect between plans and day to day activities. At the more strategic level, plans are often not focussed and aligned with the goals of the business, and they fail to predict or avoid surprises in the performance of the organisation. In an environment in which profits warnings, on average, are reported as reducing a company's share price by 25%, this can be costly at a business and individual level.

[1] Mike Bourne, Professor of Business Performance, Cranfield University

Top 10 checklist

Appreciate the business need for planning

All plans need to have a clearly understood purpose. Simply producing a plan, for example, because it's a certain time of the year is not a good enough reason. A strategic plan should be closely aligned with overall objectives and an operating plan typically sets direction for a fixed period of time ahead. Furthermore, plans will be prepared for different levels in the organisation; a strategic plan may be prepared for a business unit or a corporate whole, whereas a more detailed operating plan may identify how a revenue target will be met by individual customers and products.

Integrating strategic and operational plans will force alignment between the day to day activities and the overall aims and objectives of the business. Monitoring, reporting and analysis of performance becomes much more efficient and focused, and the impact of variations to plan can be assessed across all levels, from operational to strategic. Furthermore, the supporting planning models can be used as the basis for forecasting future performance, providing an early warning system into divergence from business aims and objectives, and driving timely remedial action.

Once you understand the business aims and objectives of the planning processes you can identify the roles and specific people who need to participate in it, the level of detail required to achieve its objectives and the processes needed to support it.

Tease full value from planning cycles

Planning is often perceived as being a long, costly, painful process which delivers questionable value. When looking to improve these processes, it's worth taking a step back and remembering the aims and objectives of the exercise, whilst also being aware of some of the counter-productive practices that need to be addressed.

The aims of the planning process include to:

- Bring the strategy to life, communicate aims and objectives, and to empower people to run the business and drive it forward – to 'make things happen'
- Prioritise activities and allocate finite resources to those that matter most
- Understand cash flows, working capital and CAPEX requirements
- Identify resource shortages, and decide what action to take
- Act as a constraint against unrealistic objectives and targets, by highlighting that they 'don't add up'
- Model anticipated performance ('monetise the plan') for scenarios (strategies, events and plans)
- Evaluate how accurately management understand the business model and how well they drive the plan

Despite the powerful, positive impact planning can have on business performance (and individual job satisfaction!), many organisations fail to have a business community that is engaged in the planning process. Typical client frustrations include:

- Poor 'buy-in' from the front office, caused by a lack of understanding of how the numbers are generated
- The process is too manual and time consuming
- The start point is inaccurate because it is calculated 2-3 months before the budget period begins

- Lack of flexibility to update and change business models and assumptions
- Logic issues in the system that do not align with actual business practice
- System restrictions (e.g. some management reporting cost lines are not able to be planned for)
- Reliant on complex hierarchy maintenance

In addition, planning processes may give rise to some unhelpful practices. Sales might be tempted to plan low to ensure over performance and the rewards that come from that. Other budget owners may ensure they spend their budget regardless of real benefit to the business, to ensure their next year budget is not pared back.

By considering these, and other, challenges and flaws upfront, they can be taken into account when improving planning processes.

Standardise your data

One weakness of many planning and forecasting processes is the amount of time and energy spent checking, reconciling and fixing data errors and inconsistencies. Business units spend time reconciling and aligning budget, forecast and actual data, manipulating data in spreadsheets and manually re-keying numbers into a format acceptable to corporate. In turn, the corporate centre will spend time consolidating, reconciling, fixing gaps and anomalies in the submissions, often feeding back 'fixed' numbers without commentary as to what changes have been made.

Data quality is the root cause of this bottleneck, but the impact goes beyond the effort and elapsed time involved and affects confidence and ownership of the plan numbers. A common, complete and accurate set of data will help to address these issues, also enabling streamlining the process through automation of consolidation activities, since 'off-system' manipulations of data are minimised.

Master data and transaction data require different approaches to ensure their consistency, accuracy and completeness. Most business units now record transaction data in a single, integrated suite of operational systems covering logistics, sales, manufacturing and their associated financial data so there is a single version of the truth from which to draw data for plans and forecasts. However, these are still too often prepared in spreadsheets which allow uncontrolled changes and can give rise to errors and inconsistencies. Whilst these may be spotted and corrected, the additional time introduced into the planning and forecasting process can be avoided. A structured and controlled application, whether administered by the business or by IT, helps minimise time spent identifying and correcting data errors.

By its nature, master data changes over time, as new customers and products are introduced and others retired. All too often, master data is 'fixed' at a particular point in time and then allowed to slowly degrade as time moves on. This makes an efficient planning and forecasting process difficult to achieve – master data cleansing becomes an annual fire-fighting exercise and consumes valuable time which would be better spent on the accuracy of the plan. Ensuring a complete, accurate and consistent set of master data, on the other hand, is not a one-off exercise but an on-going process, which should have its own robust governance.

Standardise and simplify your processes

Planning activities are manually intensive exercises that are non-standardised across the business, partly as a consequence of being impeded by poor data quality, and compounded by technology that fails to fully support the process.

This drives inefficiencies and inconsistencies across the organisation, leads to local experts and 'single points of failure' and the timeliness of the process as a whole becomes subject to the weakest link.

The first step towards reaping the benefits of a standardised planning process is to map out and document the current practices using appropriate 'Discovery' techniques. The assistance of a planning process expert can help capture the 'as-is' activities whilst also injecting the 'art of the possible' and best practices from a wide field of experience. Mapping out the process in detail enables you to evaluate the time and effort expended on each step versus the value of each step to the process as a whole. This highlights those key steps to target for improvement.

Once mapped, bottlenecks can be identified and resolved, internal best practices can be employed across other areas of the business and external best practices introduced that will work for your organisation. Having defined the most appropriate planning process template for you, this can be rolled out across the business – taking the opportunity to employ effective change management techniques to provide training, motivation and buy-in.

Train and motivate your people

As you enhance your planning processes (whether this involves the introduction of new technologies, the reapplication of existing ones or just simple changes to manual operations) you must ensure that all the people involved understand what they're required to do and how they're to do it. You may have the most efficient and integrated technology underpinning your processes, but if your people don't understand how to use the system to its fullest, you won't be achieving maximum return on the investments you've made. One of the main reasons that new technologies and processes fail to have the positive impact expected from them is insufficient attention to (or complete failure of) change management.

People are key to any planning process yet most of us are resistant to change, particularly if we view change as unnecessary or unjustified. Effective change management involves making a clear case for the change and driving it through all levels of the organisation. It requires strong and committed leadership from the top to ensure that changes are not only introduced but sustained over time. A typical response to ineffective change is that people will revert to the old way of doing things – it's what they're used to and most comfortable with.

No change programme goes completely according to plan. The unexpected will happen – so plan for it and be ready to deal with it. Areas where you expect resistance may go smoothly, whilst small and relatively insignificant change may prove the most problematic. At these times, the commitment and perseverance of senior management is crucial to overcome resistance and ensure that new practices and processes are successfully introduced.

Limit the detail; focus on what matters

The key to efficient and effective planning is to include only those line metrics and levers that are significant for measuring and driving business performance. As tempting (and comforting) as it might be to include very low levels of detail – particularly when armed with best of breed planning and budgeting software which can handle the data volumes and help manage the process – trying to plan at too granular a level of detail can be as ineffective and damaging as doing so at too high a level.

The aim is to build driver-based planning models that accurately simulate the performance of the business given a number of material operational drivers.

Whilst detailed reporting and analysis of actual data is useful to diagnose what has happened within the business, planning doesn't require this same level of granularity in order to drive performance and direction. For instance, we might want to plan to grow sales of particular products. We're not concerned about the unit of measure that this is sold in, just that this product receives focus because it is important for us to grow this part of the business. Now, asking sales managers to plan at pack size level increases their workload several fold and asks them to cross the line from 'planning' and into the realm of guesswork. Indeed, it may also drive the wrong behaviour further down the line as sales people try to achieve the plan by promoting certain pack sizes with discounts – never the original intention!

Treat targets as critical; employ KPIs

Having gone to the time and trouble of creating viable, integrated strategic and operational plans that will take the business forward, it is crucial that individuals are driven to deliver against their targets. This is where KPIs play a vital role.

KPIs are the 'significant few' financial and non-financial metrics which allow the monitoring and management of the vital signs of the business. They should be aligned with its strategic aims and objectives, clearly communicated across the organisation and used to cascade performance targets throughout the business. This helps to ensure that no matter where you are within the business, at whatever level within whichever function, what you are being asked to do on a day to day basis supports the goals of the business.

Effective KPIs have a definition, a unit of measure, a target (where the owner will aim to drive performance), thresholds (to highlight when significant action/escalation is necessary) and benchmarks (what's 'good' for this KPI across my company, industry or business as a whole). Dashboards and Scorecards are used to present KPIs to individuals, but these must be part of a broader information environment which allows users to investigate – through reporting and analysis - the reasons why performance is the way it is, and which supports them in their decision making and subsequent actions.

KPIs can be tremendously powerful in influencing behaviours and helping people focus their time and efforts – but they need to be used sensibly. For example, incentivising call centre staff to deal with queries in less than a minute may increase productivity, but result in customers who haven't had their query dealt with to their satisfaction.

An old 'rule of thumb' is that through the first iteration of using KPIs, 80% of them will be refined or replaced as their impact on behaviour and performance become better understood and as the real drivers of business performance are exposed. These insights might feed back into the business models and assumptions, as the way the business ticks becomes increasingly better understood. Don't be afraid to throw out legacy performance measures in favour of those that work for the business!

Aim for 'high participation, high frequency'

Once you have the capability to run painless planning processes – through streamlined, efficient activities that focus on the items that matter – aim for 'high participation, high frequency' to improve the quality, accuracy and business value of the processes.

High participation

The people that are closest to the action have the best understanding of performance and what might impact it. Adopting a bottom–up approach to contributing to the plan numbers increases their accuracy and helps to build ownership of the plans by those asked to deliver them.

Whilst this collaborative and inclusive approach fosters accuracy and accountability, it requires well-managed governance of the process. Having executives set the strategic direction and targets, managers validate and drive the agreed plans and contributors own and execute the plan drives up the business value of the exercise, but must be supported by technology that enables this level of participation.

High frequency

A best practice for planning is to make it event driven, rather than calendar driven. Businesses that can respond quickly as events impact their markets are in a better position to take advantage of opportunities, and take evasive action against threats, than those that review strategy and re-plan on an annual basis.

With the greater accuracy that comes from more frequent planning processes, variances to plan become easier to interpret and course corrections can be implemented sooner whilst being less disruptive and costly.

As with 'high participation', the support of technology is essential to enabling event driven planning processes.

Make best use of technology to drive people and process

Whilst standardising data, simplifying and standardising processes, and focussing on what is relevant are significant steps forward, a key enabler to implementing highly participative and agile planning and forecasting processes is to fully leverage dedicated enabling technologies. Whether that's SAP's Business Planning & Consolidation, Oracle's HFM or IBM's Cognos solutions, many of the pains, challenges and best practices mentioned in this paper can be addressed, supported or enabled with appropriate software.

Typical benefits of these solutions might include:

- Business (rather than IT) owned, with the ability to create and refine business models and assumptions in response to insight into performance
- Top-down and bottom-up capabilities, to foster inclusiveness
- Dedicated planning functionality, such as phasing, seasonality and spreading methods
- Process flow management for visibility, control and driving of processes and to better enable 'high frequency' planning
- Versioning and audit trails to help with governance and transparency
- Driver-based planning enablement
- Scenario and 'what-if' analysis, to check for the best courses of action and to pre-plan to enable rapid response to unexpected but predictable events

As a best practice, select software that not only provides a comprehensive solution for planning, budgeting, forecasting and consolidation and associated reporting and analysis, but that also integrates into the wider management cycle and contributes to your Performance Management capabilities. For instance, integrating dashboards to communicate and monitor performance to plan, and reporting & analysis to allow investigation of exceptions, will provide an environment which more fully supports the management of the business.

The elephant in the room

We're all familiar with spreadsheets. They're quick to build and use and are invaluable as personal productivity tools.

Are they the appropriate tool to use for plans and forecasts? Their shortcomings are well documented; their flexibility can lead to data inconsistencies and calculation errors, aggregation and version control are traumatic, and their proliferation leads to many versions of the truth. Nevertheless, their role in planning and forecasting processes will not die quietly.

Structured solutions that try to minimise the disadvantages of spreadsheet-based plans and forecasts, whilst retaining the familiarity of a spreadsheet 'look and feel', have been around for many years. There are many options and picking the right one to support you\r business requires some thought. How do you run your planning processes? Are they centrally based or do they rely on remote users entering and submitting data to a central team? Do you want a solution that relies on IT to build, maintain and support it or would you prefer a solution under the control of business users? Do your people need access to the solution while they are on the move or can you rely on them being connected to your IT infrastructure at all times, either directly or through the internet?

Thoroughly understanding how you want your people to use and access your planning and forecasting solutions will help you assess which solution is the best one for your organisation.

Close the loop; invest in forecasting

Predicting future business performance based on how the business has performed compared to plan, and assumptions of forward results, closes the 'management cycle' loop. The business model and performance assumptions were built, the strategy was established and plans drawn up to achieve the aims and objectives. KPIs were used to drive behaviours and monitor performance to plan, remedial action was taken as necessary. Along the way, we've learned more about how the performance drivers actually work in the prevailing business environment, and we've refined our business model accordingly. Forecasting now gives the opportunity to predict where our business is going and proactively manage that trajectory.

This might be more tactical – we're going to be short of cash, so need to borrow – or more strategic – the trend for music on physical media is spiralling downwards – but forewarned is forearmed.

The value of having agile planning processes in place is that you can then more readily refine the strategy and re-plan in response to the insight gleaned from forecasting.

Better still, by freeing up time from number-crunching activities and using this more productively to create value from the planning processes, the use of scenario and 'what-if' analysis can prepare the business for alternative courses of action should any unexpected, but predictable, events actually occur. For instance:

'What is the impact, and what will we do, if...'

- 'The volcano does erupt and the air route is closed for 30 days?'
- 'The cost of borrowing rises by 0.25%?'
- 'The fuel price escalator is shelved for 6 months after all...?'

Summary

Whilst planning, budgeting and forecasting are key in proactively managing business performance, the processes, people and tools often fall well short of fully supporting these disciplines. The processes take too long, the people don't 'own' the plan and the tools introduce errors.

There are likely many options open to you to improve your planning processes. The most appropriate mix of these will depend on your specific situation, challenges and objectives. Our 'Top 10' areas to consider are:

- **Appreciate the business need for planning**

  Understanding the process, what's required of them, and the benefits the business will achieve through a high quality process will help motivate people to contribute fully.

- **Tease full value from planning cycles**

  Be aware of the benefits you're aiming to achieve, and the flaws you're aiming to address, and drive process improvement activities accordingly.

- **Standardise your data**

  Date inconsistencies are the root cause of eroding time, enthusiasm and confidence in the process. Address these and employ appropriate governance to maintain quality.

- **Standardise and simplify your processes**

  Identify the best practices that work in your business, and standardise on those.

- **Train and motivate your people**

  Effective change management will help to ensure adoption and efficient execution of the improved processes.

- **Limit the detail; focus on what matters**

  Making planning processes 'lean' helps people see the wood for the trees.

- **Treat targets as critical; employ KPIs**

  Having made the effort to create plans, do all you can to drive their execution. KPIs are powerful motivators.

- **Aim for 'high participation, high frequency'**

  Ask the people who know what's going on in the business. And plan when necessary, rather than when the business calendar requires it.

- **Make best use of technology to drive people and process**

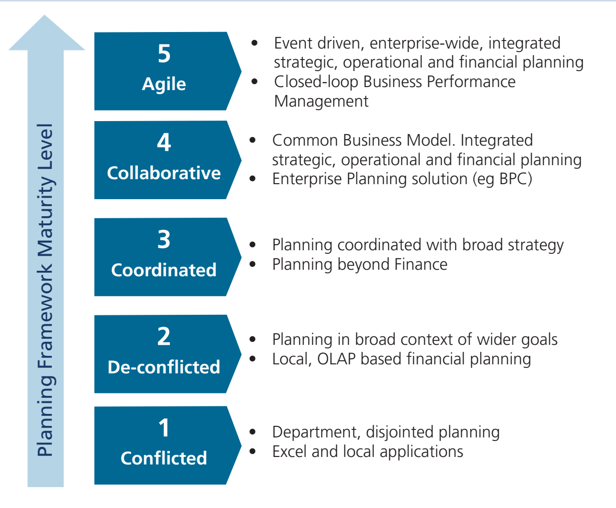
  Technology is a powerful ally and an enabler of a number of best practices. Make full use of it.

- **Close the loop; invest in forecasting**

  Forecasting, scenario and 'what-if' analysis moves the business from being reactive, through pro-active to pre-emptive.

Our planning maturity model (a subset of our performance management maturity model), acts as a guide to highlight the improvement path, bringing benefits such as:

- Plans are updated as events occur, with contributors guided through the process to ensure accuracy and speed
- Goals and targets can be set at any level of the organisation, and operational constraints can be factored in to ensure viability
- Accuracy and 'buy-in' are improved through 'high participation'
- Financial and operational plans are in sync, rather than in conflict
- Cash flow predictions are increasingly reliable, allowing better management of working capital



By following this path, the business model can be refined as the drivers of performance become better understood. This leads to forecasts becoming increasingly accurate, and more valuable for predicting outcomes to prescribed courses of action.

About Absoft

Absoft is a specialist provider of business intelligence and enterprise performance management solutions. We are experts in making our clients' data work for them, underpinning a corporate strategy with information delivered in the required format, to the people who need it, when they need it, wherever they are at the time.

From our offices in Aberdeen, London and Stavanger, we provide a comprehensive range of SAP services and advice, including consultancy, implementations, process improvement projects, system hosting and management, training, and support both onsite and through Absoft's UK based SAP helpdesk.

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