White Paper
March 2009

Best Practices in Enterprise Planning: Seven Proven Steps to Superior Business Execution

Information Management

Cognos software

Contents

Abstract

This paper provides an overview of traditional barriers to effective performance management, and examines the keys to enterprise planning. Enterprise planning based on speed, flexibility, and collaboration provides a better, more accurate picture of performance. This paper will outline the problem with conventional methods of performance management, and suggest best practices that contribute to an effective enterprise planning solution.

Overview

Plan to perform

Traditionally, companies have managed performance by intently scrutinizing and analyzing past results. But that's simply not enough. You can't alter performance after it happens. You need the ability to plan before you perform. This is the value of enterprise planning. Enterprise planning is based on the principle that performance must be both planned and continuously managed. Without a plan, a company's performance is vulnerable to unfolding events, buffeted by unforeseen factors, and lacking the sort of predictability that investors demand. With well-implemented best-practice enterprise planning, your information, analyses, and decisions are coordinated in rapid, continuous cycles, creating a smarter, more efficient organization. Ultimately, it enables companies to adapt to changing conditions with greater flexibility and speed.

> *"Companies need a new planning approach that is centered upon tactics rather than numbers and budgets. Plans should focus on what needs to be accomplished and how it will be achieved, while embracing risk and uncertainty."*
>
> *– Article by David Axson, Sonax Group*
> *"Dynamic Planning for Today's Uncertain World",*
> *February 2005*

Business problems

Conventional performance management operates on the assessment of past performance, using tools that are limited in scope and capability, in order to improve performance going forward. Yet performance is dynamic and ever-changing, subject to many variables and, therefore, in need of an effective enterprise planning solution that accounts for such variables and creates a more accurate, more effective picture of performance.

Business drivers

The need for proper and effective enterprise planning has multiple business drivers. The following are a few examples.

- **Limited Deployment of Enterprise Planning Tools:** Although some companies recognize the importance of enterprise planning, they often limit themselves by confining enterprise planning to finance departments, failing to see its role across the organization and, by extension, failing to fully actualize planning potential.
- **Employment of Multiple and Competing Enterprise Planning Strategies:** Organizations often try to orchestrate enterprise planning on a department-by-department basis, yet this kind of planning strategy fails to promote cohesion, communication and coordination at all levels of an organization, creating confusion, skewing data and impeding effective performance management.
- **Confinement of Business Strategy Formulation to a Select Few:** Traditionally, companies have seen performance management as a top-down process, regulated by trickle-down budgets dictated by a central planning group. This approach fails to capitalize on the expertise and input of many, typically resulting in forecasts that are static and often inaccurate.
- **Common Planning Oversights:** Many organizations are unable to implement effective planning solutions because they overlook finer points of planning, including the importance of driver-based planning, the need to distinguish between plans and targets, and the role of flexibility in accounting for variables over time, all of which contribute to a better, more effective, and more coordinated performance management strategy.

The Solution

The enterprise planning solution to performance management problems is the result of several best practices.

Best practice #1

Take a wide view of enterprise planning

For many business executives and management professionals, the evolving category of enterprise planning has largely been synonymous with budgeting and financial planning — that is, a more refined approach to number-crunching. That's an understandable starting point. After all, numerous first-generation applications have proven themselves quite able to streamline financial planning and budgeting, garnering companies millions of dollars in reclaimed productivity and millions more in actionable strategic insights. But with such applications, planning has been viewed as a numeric exercise with limited appeal beyond finance departments. However, while the value — the ROI — of planning processes is significant, measurable, and often quite rapid, a narrow view of enterprise planning as mere number-crunching restricts a company's ability to derive far greater value from its functional areas. Properly and fully deployed, enterprise planning is about much more than simple financial planning or budgeting.

Enterprise planning implies cross-functional financial and operational processes that break through departmental silos and touch all areas. Unfortunately, this can be difficult to achieve. Disparate departments using a hodge-podge of assumptions, business logic, and tools can never feasibly collaborate or share information in a meaningful way. For example, a retailer may have discrete IT systems for merchandising, store operations, and finance — all driven by different assumptions and data. In a consumer packaged goods manufacturer, the production department might use historical data for a demand forecast, but marketing managers are planning a promotional blitz that will skew demand, while sales managers know of key accounts that are closing stores in certain territories. Ideally, the company should have access to all of this information in a single, holistic view. That's much easier to achieve with a common, collaborative platform. Planning must expand its scope and mission across the enterprise — from finance, marketing, and sales, to human resources, manufacturing, and beyond. All functions of the enterprise require planning and performance management — not just finance.

Best practice #2

High participation is essential

Few employees relish the idea of budgeting, planning, and forecasting. It's an important strategic process, but for most participants, it's something that seems largely unrelated to their primary job functions and responsibilities. Many businesses today seek flatter hierarchies to achieve a leaner, more efficient organization. Instead of the old-style command-and-control model – where a few people dictate goals, objectives, targets, and activities across the organization – enterprise planning engages a broader constituency and gathers input from a wide variety of contributors.

Traditionally, the planning process has been characterized by a tedious budgeting cycle where numbers are dictated from a central planning group, and forecasts are padded by managers in an iterative fashion. Once the plan is complete, it's virtually fixed until the next annual cycle begins. Whether the plan is relevant to subsequent business conditions or operations is often unclear.

By contrast, best-practice enterprise planning derives its strengths – precision and speed – from the fact that it draws frequently on the insights and expertise of a wide range of contributors. These aren't necessarily planning professionals – they're the front-line employees, managers, and directors who are closest to the actual operating activities of the business. By asking them to participate in planning and forecasting, their buy-in and collaboration are enhanced. At the same time, it's far easier to hold them accountable for their performance when they have a substantial role in setting targets and objectives. Instead of frenzied activity by a few people to create a monolithic annual plan for many, best planning practices center around smaller, but more frequent contributions from a broad sample of constituents. A few minutes each month from hundreds or thousands of contributors creates a far more granular rolling business plan that offers greater accuracy and speed.

Best practice #3

Driver-based planning

Ideally, enterprise planning should be a closed-loop process that shrinks any gaps between plans and performance. Business leaders want – and need – to recognize when course corrections are required, and to understand underlying causes. Enterprise planning systems and processes offer an elevated level of analysis, insight, and structure. But planning information is only useful if it's presented in formats and timeframes that are actionable. Do you see key performance indicators in time to take corrective action? Do you spot trends in time to capitalize on opportunities? How long does that take? What is your time-to-performance? One of the principal tenets of enterprise planning is that it must move outward from professionals in the finance department to the broader cross-enterprise operational infrastructure – to marketing, sales, manufacturing, HR departments, and so on. But for the planning process to succeed, it's important to speak their language. That's where drivers enter the picture.

A driver is a simple measure or input to the business plan. When combined and calculated according to appropriate rules, drivers become predictors. An advertising manager can't accurately estimate what the overhead costs will be for benefits, phone, computer equipment, and travel expenses in her department. She doesn't work or think in those terms. But she can report that she's running four major print campaigns, that she's hiring a new copywriter, and that she expects to test a television commercial in certain markets. Those are the terms she uses – the major drivers for her group's contribution to performance – and that's what the business plan needs to reflect her input. Driver-based business plans are easier for contributors across the organization because they predict actions and support decisions, not merely enumerate financial data. Drivers are directly and easily converted into accurate financial numbers by planning software. What's more, it's easier to change global assumptions through drivers and then watch the changes ripple across affected areas. When assessing performance and results, it's easy to see what happened to the assumptions. Perhaps the department didn't hire enough people or the sales team discounted too aggressively. Companies can identify and quickly correct operations and processes. By understanding the root causes – the drivers – organizations can update their models and prevent recurring problems later. Few models, of course, operate in a perpetually static mode – changes and modifications are the norm. This is the essence of enterprise planning.

Best practice #4

Focus on execution

One of the strengths of robust enterprise planning solutions is the dramatic improvement they can bring to an organization's performance. Some Global 2000 companies have seen their planning and performance cycles shrink from 18 months to as little as two or three. That means significant cost savings easily reaching into the millions of dollars. What's more, faster cycles create new opportunities to identify and assess strategic alternatives for the organization—the better to manage performance. By spending less time on mechanical and clerical issues, companies can spend more time evaluating scenarios, performing what-if analyses, weighing options, and driving superior strategy execution.

Trends in best practice

Here are some of the factors companies consider when taking a best-practice approach to planning and performance management.

	From	To
Focus	Budget development	Value maximization
Timing	Annual plan	Rolling forecast
Process	Sequential	Simultaneous / continuous
Control	Top-down, information silos	Shared control, shared information
Collaboration	Fragmented	Open dialog, common assumptions
Accountability	Disputed	Clear,defined

But the best approach is to take enterprise planning even further—to focus on value-creating execution by identifying, understanding, and leveraging key business drivers. For example, virtually every business carefully watches its profitability. When profit pressures arise, the natural reaction is to cut costs. However, there may be unexplored options for easing profitability pressures that involve value creation, not merely slashing expenses.

By examining and analyzing key business drivers, the reaction to profit pressure becomes more than an exercise in minimalization. The key is to examine business execution—shifting the focus from business departments to business processes. Look at the activities that contribute to profitability—customer acquisition and retention, product innovation—and not at the traditional sales/marketing/manufacturing silos. It's also important to examine other inputs to profitability—such as demand creation, resources, deployment, quality metrics—but the ultimate goal is to identify and expand value-adding activities and reduce or eliminate non-value-adding activities. The bottom line is that it's not always about the bottom line. "Making budgeting better," as many software providers do, is a great place to start, but a bad place to end. Instead, go further with enterprise planning to understand and align around new opportunities, react to threats swiftly and effectively, and enable the entire organization to collaborate, synchronize strategy execution, and lead the business forward.

Best practice #5

Real-time alignment supports rolling forecasts and smarter performance

Even after rigorously following best practices for planning and goal-setting, things can go wrong. External disruptions and unplanned events—such as strikes, supplier recalls, or natural disasters—can shred even the best-crafted plans. Long-range plans—ones that have a three-to-five year horizon—might remain largely intact. But the short-term picture is reshaped dramatically. Sales orders start to tail off. Hotel rooms aren't filling. What actions should you take? The key: understanding and reacting to the situation. The problem for many companies is the delay between shifts in the business environment and their detection, measurement, and analysis. Command hierarchies inhibit information from reaching decision-makers. It's impossible to solve a problem that you don't know exists.

It might seem obvious, but it's essential to ensure that the business plan is forward-focused. While it's relatively simple to create a plan by reviewing historical data points and drawing a straight line into the future, such an approach is really just "business-as-usual" planning. Not everything proceeds that way, and what's more, straight-line planning is often an abdication of management responsibility.

Key enablers of performance management are vigilance toward leading indicators and their incorporation into revised forecasts. This reflects the nuances of historical performance as well as macroeconomic conditions, future goals, and projected capabilities and capacities. You need the ability to realign in real time by feeding current and expected future results to adapt the next forecast.

Best practice #6

Separate plans from targets

One of the mistakes that many companies make during the planning process is blurring the distinction between plans and targets. It's an easy line to cross, but it's essential to ensure that plans are grounded in realistic assessments and expectations, and not in the numbers that management and investors want to see.

The best way to keep plans and targets distinct and separate is to use best-in-class targets. These are not absolute numbers, but rather goals expressed as variables relative to market statistics, such as the performance of the market leader. The fact is, once a fixed number is declared a target, forecasts are often reverse-engineered to meet that number. By contrast, relative best-in-class targets are based on competitor performance and industry averages. For example, a company might want to set a target for accounts receivable as achieving a days-sales-outstanding figure within the upper quartile for its industry sector. With such benchmark-based targets, company performance moves in step with industry events and conditions.

In this paradigm, a thumbnail assessment of performance can be obtained by comparing results with industry metrics—anything from market share, average selling price, gross margin, and quality metrics, to customer satisfaction, product profitability, cash flow, or regional sales growth. Relative targets give context and perspective—and fairness—to measurements and reports. If larger market forces or massive market disruptions move a target out of reach, it might not be appropriate to hold employees accountable. However, if the company outperforms its peer group—even when missing a fixed goal—it suggests that its performance is nevertheless acceptable. Perhaps most important, relative targets remove much of the emotion in obtaining consensus around goals.

Best practice #7

Ensure timeframe-appropriate planning

Properly structured, successful performance management aligns all of the appropriate plan elements, performance contributors, and business cycles. What's more, the method used to derive a forecast is appropriate to—and varies with—the planning timeframe. When compiling a sales forecast, for example, the revenue projections for the next three months might be event-driven, based on specific sales opportunities in the pipeline and their progress in the sales cycle. For three to 12 months out, the figures could be based on the number of trained sales personnel and their productivity rates. Beyond 12 months, the forecast might be derived from market growth rate assumptions.

Consider that a shipbuilder—with massive capital and infrastructure investments required to take facilities online and offline—might find that a 20-year planning horizon is appropriate. Or a pharmaceutical company might have a multi-year planning horizon that reflects the lengthy process of drug discovery, development, and clinical trial. By contrast, a brewery might use a planning cycle that aligns with hops growing seasons. In each case, the forecast is based on the most accurate and appropriate leading indicators available. So it is critical that your planning system has the flexibility to support different modeling techniques for the same variable, depending on the timeframe under consideration. With optimal information, analysis, and insight, company management and performance becomes more a function of executive skill and less a function of information systems constraints.

Conclusion

Using enterprise planning solutions based on several best practices, companies can formulate strategies for effective performance management. Organizations need a solution that broadens the applicability of enterprise planning from Finance across the organization, promoting cohesion and coordination to actualize goals. The solution must promote high participation using a driver-based planning approach with a focus on execution, and facilitate real-time alignment that provides flexibility in an often volatile and ever-changing marketplace. The solution must separate plans from targets, increasing employee investment while creating a more accurate view of performance based on industry averages. Finally, the solution must be timeframe-appropriate, providing unique and tailored sets of indicators for particular performance expectations. The enterprise planning solution rests on the execution of these best practices in order to promote effective performance management.

About IBM Cognos BI and Performance Management

IBM Cognos® business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

For further information or to reach a representative: www.ibm.com/cognos

Request a call

To request a call or to ask a question, go to www.ibm.com/cognos/contactus. An IBM Cognos representative will respond to your enquiry within two business days.

© Copyright IBM Corporation 2009

IBM Canada
3755 Riverside Drive
Ottawa, ON, Canada K1G 4K9

Produced in Canada
March 2009
All Rights Reserved.

IBM, the IBM logo and ibm.com are trademarks or registered trademarks of International Business Machines Corporation in the United States, other countries, or both. If these and other IBM trademarked terms are marked on their first occurrence in this information with a trademark symbol (® or ™), these symbols indicate U.S. registered or common law trademarks owned by IBM at the time this information was published. Such trademarks may also be registered or common law trademarks in other countries. A current list of IBM trademarks is available on the Web at "Copyright and trademark infor-mation" at www.ibm.com/legal/copytrade.shtml.

References in this publication to IBM products or services do not imply that IBM intends to make them available in all countries in which IBM operates.

Any reference in this information to non-IBM Web sites are provided for convenience only and do not in any manner serve as an endorsement of those Web sites. The materials at those Web sites are not part of the materials for this IBM product and use of those Web sites is at your own risk.

IMW14176CAEN