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Choosing a Healthcare Planning, Budgeting and Forecasting System

Information Management

Cognos software

Contents

Abstract

The guide outlines a systematic approach to planning software evaluation and selection that aligns best practices and leading-edge technology with planning activities in your organization. Review your planning process, identify challenges, define stakeholder requirements and match your emerging criteria with software features and functions.

Overview

The enterprise planning process—planning, budgeting, forecasting and reporting—presents a formidable challenge to most companies, regardless of size or industry. For healthcare organizations, the planning process is further challenged by fluctuating reimbursement rates, patient volumes and access to capital. Enterprise planning is a crucial component of financial management that contributes greatly to an organization's overall success or failure. But despite its importance, planning is often seen as burdensome and time-consuming. And therein lies an opportunity for the forward-thinking organization.

Leading healthcare organizations address planning obstacles and improve processes. They leverage new technologies and employ planning, budgeting and forecasting best practices, and are quickly rewarded with more accurate plans, more timely re-forecasts and more effective decision-making. Overall, they save time, reduce error, promote enterprise-wide collaboration and foster a disciplined financial management culture that delivers true competitive advantage.

Specifically, such organizations are able to:

- Consistently deliver more timely, reliable and flexible plans
- Strengthen the link between strategic objectives and operational and financial plans
- Improve communication and collaboration among managers
- Enhance strategic decision-making, enabling leaders to more quickly identify, analyze and forecast the impact of changes as they occur.

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

Business Problems

Planning process problems

Corporate decision-makers typically voice similar concerns with regard to planning, budgeting and forecasting.

- Processes are tedious and time-consuming.
- Changes are difficult to implement.
- Data integrity is questionable.
- Explanation of variances is difficult.

For lines of service and department managers outside finance or those focused on quality initiatives, planning can appear to constitute little more than a periodic invasion of their time with minimal benefit. Managers can feel besieged by demands for information and improved projections, while still being expected to deliver results.

Spreadsheet-based planning

In recent years, many healthcare organizations 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. This approach is cheap in software terms, but costly in the long term because spreadsheets are not suited to effectively managing large amounts of data. Among other things:

- Business rules (formulas) are mixed with data and prone to corruption
- Files must be sent backwards and forwards
- Presenting or analyzing data from different perspectives is difficult
- Data aggregation is difficult and time-consuming
- Complex calculations are not supported
- Multidimensional reporting and analysis are impossible.

Business drivers

It is vital that planning software support accepted best practices in order to enhance timeliness, information reliability and participation by key people across the organization. A best-practice approach requires that planners:

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 and connect the organizational strategic plans to those who run the business day-to-day. Finance can help translate strategic goals into financial targets and – in turn – into specific departmental plans and related revenue and expense drivers, such as labor, supplies, procedures and visits. By translating strategic goals into operational plans and by tracking and measuring performance against plan, leading healthcare organizations are better able to meet or exceed objectives.

Start at the top – and at the bottom

> *"Finance executives believe they spend too much time on forecasting, budgeting and planning. When asked about the most acute problems with their current planning process, more than 60 percent said it 'takes too long.' Nearly 43 percent said 'not enough time to analyze data,' and more than a third cited 'lack of ownership by business units.'"*
>
> *CFO Research Services*

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

Instead, leading organizations provide initial guidance from senior management's top-down perspective on strategic goals, quality objectives and expectations. Then, department managers build a plan from the bottom-up, indicating how they intend to meet established goals. The process requires frequent iterations for the top-down and bottom-up approaches to meet and reconcile.

The result is a plan that:

- Is supported by department managers, because they helped create it and will be rewarded for meeting it
- Is supported by senior management, because operational goals are aligned with strategic goals
- Is supported by finance, because they added value to a productive, collaborative effort, rather than demanding participation in a mere exercise.

Drive collaboration between functions

Not only should strategic and operating plans be aligned, but plans between functional areas, lines of service and departments should also be coordinated. Best practices include direct involvement by line-of-business managers along with a collaborative approach to budgeting and forecasting.

> *"The average company spends 0.26% of revenue to manage the planning, budgeting, forecasting and reporting process."*
>
> *The Hackett Group, 2005 Enterprise Performance Management Book of Numbers Research*

In addition to understanding strategic goals, department managers must also know what other functions are being planned. For example, in a healthcare organization that is planning a new service line, the laboratory needs to anticipate increased volumes, radiology may need additional equipment, marketing needs to promote the new service in its advertising, and the service line manager needs to add new headcount. But the plan should also include training programs timed to help staff and registration areas ramp up productivity. The facilities department needs to plan for new space, patient flow, equipment and so on. Such collaborative planning can be accomplished through an iterative process that lets managers forecast and share alternative scenarios. Finance also plays a key role in facilitating the coordination of plans across the organization, which helps ensure that operational tactics are aligned with financial targets throughout the enterprise.

Adapt to changing business conditions

All healthcare organizations—particularly in turbulent times—need to anticipate fluctuating patient volumes and new consumer preferences, fierce competition, rapidly changing payer mix and shifting economic forces. They need to adjust plans, metrics and resource allocations in response to market and internal variability. Dynamic re-forecasting is required:

Frequent re-forecasting. Especially in a volatile economy, healthcare organizations with multiple market pressures may need forecasting monthly or even bi-weekly. Continuous re-forecasting helps managers answer critical questions such as:

- "What did we project?"
- "How are we doing against our plan?"
- "How should we adapt our plans going forward?"

Rolling forecasts. An organization running rolling forecasts is always looking forward to the immediate or near-term future. For such enterprises, healthcare operations do not end on December 31st and restart on January 1st. The forecast timeframe should extend out two to eight quarters, depending on operational volatility. Planning should be an ongoing process with frequent opportunities for managers to view the organization's latest internal and external performance data. They should be able to alter plans based on new information coming from sources such as other service line managers or departments, monthly actuals and top-down target revisions. Finance should be able to quickly consolidate plan data from all areas of the organization and to disseminate new information in real time. This process will facilitate more informed decision-making in such areas as pricing changes, service mix changes, capital allocations, cash reserve requirements or organizational changes.

Model business drivers

A first-rate budget or forecast is based on a model with formulas that are tied to fundamental operational volume drivers. Simply importing and manipulating past actuals does not reflect underlying operational causes and financial effects on a healthcare enterprise. Building driver-based models into plans ensures appropriate consistency across functions and promotes planning coordination between functions, service lines and departments.

For example, revenue and expense forecasts can be tied to the payer mix, reimbursement rates and patient volumes by procedures, admissions or visits needed to generate a given strategic objective. Finance can provide managers with a useful model that includes information about past actuals and current headcount, as well as formulas driven by assumptions. This does not violate the best practice that requires department managers to be responsible for creating their own budgets. Instead, it saves them time by providing a solid, fact-based starting point that contains important information about their organizations' relationships to other functions. Managers can then make adjustments to this baseline on the basis of the latest business conditions. This approach also ensures collaboration across functions.

> *"Ninety percent of the spreadsheets analyzed contained significant error. Spreadsheet error caused: one company to undercharge a client by millions of dollars; another company to falsely inflate its estimated net present value by 54 percent; and yet another company to compute pre-tax profits 32 percent lower than the actual figure."*
>
> *Rajalingham, K, et al, "Classification of Spreadsheet Errors." British Computer Society Computer Audit Specialist Group Journal, Autumn 2000.*

Manage content that is material

A focus on material content in budgeting frees managers from unnecessary detail, enabling them to produce better plans. While supporting detail can provide audit trail and insight into managers' thinking, more detail does not necessarily make a better plan. Managing material content requires attention to whatever has real and significant impact on expenses, revenues, capital or cash flow. Content management helps an organization:

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

Improve timeliness and reliability

Many healthcare organizations 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 is out of date and irrelevant before it is even published—and plans based on stale data and assumptions are of no value. World-class organizations shorten their planning cycles by implementing the best practices described here. They also use technology so that they can manage budget consolidation and aggregations in real time. Technology can especially help improve timeliness and reliability in the area of plan consolidations. Real-time plan consolidation eliminates the necessity to process results manually and enables a smoother, more consistent, more accurate planning process. Variance reports delivered within two-to-four days from the period close allow managers to immediately evaluate their performance against plan and then effectively adjust their businesses.

At an operational level, this type of planning will be less costly and will produce more accurate results than the processes followed by most organizations today. At a strategic level, an enterprise's ability to create timely and reliable financial plans will allow it to provide more credible guidance to stakeholders and to make faster, better-informed business decisions.

Employ 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. Software vendors are developing best-practice templates for a wide range of functional areas and industries. With best-practice templates, healthcare organizations can establish dynamic connections that keep strategic objectives, operational plans, people and initiatives in sync as business conditions change. Executives can quickly see the impact changes in operational plans have on corporate financials. Functional- and business-unit managers can quickly adjust resource allocations to support enterprise objectives. And corporate guidelines and policies are more consistently communicated and applied throughout the organization.

The Solution

Technology supports best practices

Leading organizations have recognized that spreadsheet-based planning impedes implementation of budgeting and forecasting best practices. They have moved to a purpose-built application with lean infrastructure requirements, which enables them to accurately plan and re-plan quickly, using the same or fewer resources than previously. Streamlining the planning process demands tools that are capable of supporting a faster, more flexible and adaptive approach to planning. By using an on-demand, dedicated planning, budgeting and forecasting application that is delivered over the Web, organizations can readily implement best practices.

"Replacing spreadsheet-based systems with dedicated planning and budgeting tools offers many benefits. The most obvious and direct improvement is the significant reduction in time spent on rolling up, checking and correcting the numbers. Yet the real payoff is not the time savings itself. It is using the time saved to do better analysis to optimize the plan and to use the insights gained to make better decisions faster to improve performance."

Ventana Research

Leading enterprises formulate top-level requirements for evaluating and selecting world-class planning, budgeting and forecasting software. Solutions must be:

- **Integrated.** Strategic, operational and financial planning reside in one system. Managers do not need to maintain "shadow" planning systems.
- **Collaborative.** Web-based, distributed planning enables participation anytime, anywhere. The ability to use a secure Web connection allows everyone to access budget information wherever there is Internet connectivity.
- **Adaptive.** Simplified version control and the ability to frequently reforecast allow organizations to respond to business changes with "what if" scenarios as often as necessary.
- **Timely.** Information is always current, because departmental users contribute directly to a central planning database. Since consolidations and rollups are done automatically, deadlines are more easily met.
- **Efficient.** Finance managers and department managers spend less time managing data and more time managing the business.
- **Relevant.** Customized views for managers increase adoption and ownership. Formula capabilities enable modeling of all relevant business drivers.
- **Accurate.** Plans contain fewer errors, since broken links, stale data, improper rollups and missing components have been eliminated.
- **Owned by finance.** To meet such requirements, the office of finance must be responsible for planning process development, deployment, reporting and analysis. This calls into focus product flexibility and ease-of-use, both in modeling and day-to-day activities.

Planning software selection process

> *"Finance organizations that adopt dedicated planning tools are better able to support strategic Performance Management initiatives. Ventana Research believes that planning and budgeting will be transformed over the next five years by nearly universal use of software tools dedicated to this purpose."*
>
> *Ventana Research*

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

The key is not just evaluating product features, but also how features are implemented and by whom. It is important to test a planning solution that will be relied upon by a large number of stakeholders and play a critical role in organizational performance. Therefore it is highly recommended that a workshop approach 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, labor or expense) as context for the evaluation of product features and intangibles such as ease of development, roles, references and customer support.

The following matrix supports the evaluation process by relating best practices and features, as well as helping to prioritize features and assessing how well they relate to vendor offerings.

Planning software selection matrix

Feature Category	Importance/ Weight (1 "least important" to 5 "most important)	Vendor 1 (Weight * Score)	Vendor 2 (Weight * Score)	Vendor 3 (Weight * Score)
Align Strategy & Operational Plans				
Module Application Development				
Application Linking (Planning- specific application modules can be developed one-at-a-time, then linked to model the entire company. Aligns operational planning with financial planning to improve decision-making.)				
Model Business Drivers				
Driver-based calculations				
Dimension separate from models				
Multi-cube development environment				
Driver-based calculations				
Finance-based functions				
Time intelligence functions				
Ease of development by finance				
Manage Content				
Real-time workflow				
E-mail alerts				
Input validation				
Role based security				
Real-time calculations				
Web client				
Excel client				
Offline capabilities				
Annotations support				
Supports Timely & Reliable Planning				
Real-time plan consolidation				
Automated data loads between transactional systems				
Certified connector to ERP				
Standard reporting				
Multi dimensions analysis				
Dashboard and scorecarding				
Best Practices Templates (pre-built models)				

Feature Category	Importance/ Weight (1 "least important" to 5 "most important)	Vendor 1 (Weight * Score)	Vendor 2 (Weight * Score)	Vendor 3 (Weight * Score)
Allocation planning				
Capital expenditure planning				
Expense planning				
Initiative planning				
Risk analysis				
Integrated income statement, balance sheet, and cash flow				
Sales forecasting				
Strategic planning				
Workforce planning				

Feature Category	Importance/ Weight (1 "least important" to 5 "most important)	Vendor 1 (Weight * Score)	Vendor 2 (Weight * Score)	Vendor 3 (Weight * Score)
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				
MDX support				
HTTPS support				
Total Score				

Conclusion

The successful implementation of a planning solution in healthcare requires an intersection of technology, business process and best practices. This selection guide outlines key principles to help you align business process and technology requirements in the process of selecting planning, budgeting and forecasting software. By matching your planning process to best practices, facilitated by proper implementation of a planning solution, your organization can significantly improve its financial and operational performance. We hope this guide helps you along in the journey.

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.

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