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 planning, budgeting and forecasting. 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 solution for their specific business processes and needs.

Overview

The enterprise planning process—planning, budgeting, forecasting and reporting—presents a formidable challenge to most companies, regardless of size or industry. Enterprise planning is a crucial component of financial management that contributes greatly to a company's overall success or failure, especially in these uncertain economic times. Despite its importance, planning is often seen as burdensome and time-consuming. Yet forward-thinking organizations see planning as offering enormous opportunities.

Leading companies address planning obstacles and improve processes. They take advantage of new technologies and employ planning and forecasting best practices. 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 enterprise-wide 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 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 enterprises take the first step toward improved budgeting, planning and forecasting. This guide outlines a systematic approach to software evaluation and selection that aligns best practices and leading-edge technology with planning activities in an organization. Readers will be asked to review their planning process, identify challenges, define stakeholder requirements and match emerging criteria with software features and functions.

Business problems

Planning challenges

Process problems

Corporate decision-makers typically voice similar concerns about planning, budgeting and forecasting.

- Processes are tedious and time-consuming.
- Data integrity is questionable.
- The explanation of variances is difficult.
- Existing tools are inflexible and do not support a dynamic environment.

"World-class companies have better integration between all processes in their planning cycle from strategy through annual budgets," according to The Hackett Group in its Finance Functional Benchmark, 2008. Forty-eight percent of world-class companies operate with fully integrated strategic planning, operational/financial planning and reporting versus overall peers, of which only 23 percent use such approaches."

For managers outside of Finance, 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.

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 downturn. A well-connected, dynamic planning and forecasting "nervous" system should be aligned with operations and support high participation throughout an organization. This enables management to engage in aggressive, creative activity, to develop smart contingency plans, and to significantly improve resource reallocation to meet changing business conditions.

Origins of planning challenges

Within the last decade 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 planning and forecasting processes. Inhibitors are numerous:

- Business rules (formulas) are mixed with data and prone to corruption.
- Files must be swapped 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 reporting and analysis are impossible.

Business drivers

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 include 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 day-to-day. Seventy percent of financial executives anticipate serving in the role of the performance management leader in their company, according to a CFO Research Services Report, “Managing Performance Amid Complexity,” prepared in collaboration with IBM Cognos, 2008, p. 5.

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 objectives.

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Start at the top—and at the bottom

An important ingredient in 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 planning, and then plug the total company numbers in at the top so that the plan meets strategic targets. Neither of these approaches reflects a commitment to planning excellence.

Instead, leading companies provide initial guidance from senior management’s top-down perspective on strategic goals, objectives and expectations. Then, department managers build a plan from the bottom up, indicating how they intend to meet established goals. This 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.
- 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 mere exercise.

“World-class EPM organizations deliver 2.4 times the returns of industry peer companies,” according to The Hackett Group, 2008.

Model business drivers

A first-rate budget 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 appropriate consistency across functions and promotes planning coordination among functions. For example, by understanding the trends and profitability related to particular household products that fly off the shelves during a recession, a retailer can determine 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 labor, inventory and promotions as well as formulas driven by assumptions.

Support from Finance does not violate the best practice that requires department managers to be responsible 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 to other functions. Managers can then make adjustments to this baseline to reflect the latest business conditions. This approach also ensures collaboration across functions.

Drive collaboration between functions

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

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

Adapt to changing economic conditions

Businesses today are seeking ways to manage risk, cut costs, improve their profits and drive cash flow. These major transformations force adjustments to plans, metrics and resource allocation—and require a heavy dose of dynamic re-forecasting with a focus on business drivers rather than budgets.

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 importantly, "How should we adapt our plans going forward?" If revenue forecast signals are below targets, a manufacturer may need to recalibrate resource or capital expenses. With a model-based approach to forecasting, marketing and sales managers can rapidly run multiple what-if scenarios to recalibrate unit-volume numbers, which in turn are evaluated by operations based on production and inventory plans. Updates to plans feed directly to Finance, which then turns the order projections into revenue—all in a matter of hours or days versus weeks or months.

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 31st and restart on January 1st. The forecast timeframe 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 for Beyond Budgeting Round Table of North America. "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."

Planning should be an ongoing process with frequent opportunities for managers to view the company's latest internal and external performance data. Managers should be able to alter plans based on new information coming from various sources, including leading market indicators (such as customer inquiries, sales pipeline information and market data); other managers; monthly actuals; and top-down target revisions. Finance should be able to quickly consolidate plan data from all areas of the company and disseminate new information immediately. This process will facilitate more informed decision-making in such areas as pricing, product family, channel mix, capital allocations and organizational changes. (To read more about how IBM Cognos can assist with rolling forecasts, visit www-01.ibm.com/software/data/cognos/solutions/software-planning-budgeting-forcasting.html.)

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Manage content that is actionable

A focus on actionable content in planning 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 information 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 have any more precision 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.* The 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 using 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 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 to successfully manage budget consolidation and aggregations on demand. Technology is particularly effective for improving timeliness and reliability in the area of plan consolidations. Plan consolidation on demand eliminates 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 after the period close allow managers to immediately evaluate their performance against plan and effectively adjust their businesses.

At an operational level, this type of planning is also 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 such as expense management, resource planning, capital planning and integrated financial reporting are available from software vendors for a wide range of functional areas and industries. With best-practice templates, companies 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 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.

The solution

Technology supports best practices

Leading companies have recognized that spreadsheet-based planning impedes implementation of planning 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. Streamlining the planning process demands technological tools 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.

> *"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

Leading companies 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 plan information wherever there is Internet connectivity.
- *Adaptive.* Simplified version control and the ability to frequently re-forecast give companies the ability 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. Consolidations and rollups are done automatically, so 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 because broken links, stale data, improper rollups and missing components are eliminated.
- *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.

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 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 how features are implemented and by whom. It is important to test a planning solution that will be used by a large number of stakeholders and will 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, headcount or expense) as context for the evaluation of product features and intangible factors such as ease of development, roles, references and customer support.

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

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				
Ease of development by finance				
Manage Content				
Real-time workflow				
E-mail alerts				
Input validation				
Role-based security				
On-demand calculations				
Web client				
Excel client				

Feature Category	Importance/ Weight (1 "least important" to 5 "most important")	Vendor 1 (Weight * Score)	Vendor 2 (Weight * Score)	Vendor 3 (Weight * Score)
Annotations support				
Supports Timely & Reliable Planning				
On-demand 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)				
Capital expenditure planning				
Expense planning				
Integrated income statement, balance sheet, and cash flow				
Workforce planning				
Company Profile				
Quality of references				
Revenue				
Number of employees				
Number of customers				
Number of industry references				
Independent industry analyst ratings				
Implementation & Support				
Implementation methodology				
Training options				

Feature Category	Importance/ Weight (1 “least important” to 5 “most important”)	Vendor 1 (Weight * Score)	Vendor 2 (Weight * Score)	Vendor 3 (Weight * Score)
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 requires an intersection of technology, business process and best practices. This selection guide outlines key principles to help align a company’s business process and technology requirements during the process of selecting planning, budgeting and forecasting software. By matching a company’s planning process to best practices, facilitated by proper implementation of a planning solution, an organization can significantly improve its financial and operational performance. This guide helps companies as they begin the journey of evaluating and selecting appropriate software for their planning, budgeting and forecasting needs.

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