

Welcome to the first anniversary of AFP's *Financial Planning & Analysis* newsletter. What a fantastic 12 months it has been! I want to thank all the contributors for sharing their experiences and insights with readers. I believe we have created a truly unique and valuable resource for those interested in FP&A and I look forward to producing an even more robust publication in the months and years ahead, with your assistance.

I am pleased to share with you that the readership of the *FP&A* newsletter continues to grow at a brisk pace. We have grown by approximately 1,000 subscribers over the past two months alone, and we continue to geographically diversify our readership. We now have readers in all 50 states as well as over 70 countries from around the world.

It has been a true joy to meet a good number of you face-to-face, as I have hosted a number of lunch roundtables around the United States and in Canada. Of late, I have hosted roundtables in Toronto, New York, St. Louis and Memphis. Over the coming months, I plan to hold them in Boston, Atlanta, San Francisco, New York and Chicago. Please reach out to me if you are interested in attending any of these roundtables and do let me know if you are located in another city and would like to schedule a meeting in your town.

Hopefully, I will have the opportunity to meet with many of you at our Annual Conference in Boston, November 6-9. In addition to our full educational tracks in FP&A and corporate finance, there will be more than 100 additional sessions for you to attend. President Bill Clinton is our opening keynote speaker and you will also have the opportunity to hear from NBA great Bill Russell. Steve Martin and Martin Short will be there as well to provide a bit of comic relief.

Let me know if you join us in Boston as there is an invite-only FP&A-specific social event Monday evening.

See you in Boston,
Brian

Brian Kalish
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What's the Point of Planning, Budgeting and Forecasting?

Jeff Radtke

The planning, budgeting and forecasting (PBF) process is a finance department function that is time consuming, often misunderstood, and generally disliked. So, why is it needed and what is it supposed to accomplish? The answer varies depending on who you are talking to and to what aspect of PBF you are referring to.

The PBF process is actually three unique sets of activities often grouped together:

Planning

Planning provides the overall venue and process for stating the direction and financial objectives of an organization. Most companies put together an annual plan that is part of the larger strategic plan of the company, usually covering three to five years. This is where the senior executives lay out their vision for what is possible.

The overall planning picture commonly is comprised of two or three main components:

- 1. Strategic Plans:** Set overall long-range goals and objectives. Often, both are qualitative and quantitative in nature.
- 2. Long-Range Plans:** Typically set financial targets over a three to 10-year horizon—the quantified financial plan for the strategic plan above.
- 3. Annual Plans:** This is the first year of the long-range plan and provides the high level targets to guide the budget.

Budgeting

Budgeting supplies the execution path for the plans with a detailed, operational and short-term view. Whereas planning provides “what is possible,” budgets outline “what is expected” from the business, based on the approved annual plan.

The budgeting process is broadly focused on the following major components:

1. Sales/Gross Margin Budgets
2. Capital Expenditure Budgets
3. Headcount Budgets
4. Operating Expense Budgets.

Forecasting

Forecasts typically use actual performance data to project the remainder of the current year's performance (rolling forecasts are the same concept but reset expectations for some predefined future period, usually twelve to eighteen months). Forecasts are focused on what is happening from a revenue and income statement perspective.

There are three general forecasting methodologies:

- 1. Tops-Down Forecasting:** Primarily focused on current demand and operational conditions translated into revenue predictions.
- 2. Bottoms-Up Forecasting:** Rely on business managers to enter current and specific line item details per the revenue budget.
- 3. Hybrid:** A combination of the above two methodologies, e.g., a tops-down focus coupled with a bottoms-up proportional allocation.

As you can see, the processes are related but they are also distinctly different. Recognizing this is part of understanding the overall purpose behind the general process and what types of improvement opportunities exist. In fact, there are significant points of view and multiple stud-

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ies that outline all the various issues with the overall PBF process; however, few have tried to answer the most important question: What is the main purpose of the PBF process?

Proper financial planning demonstrates the effects of the operational plan components on cash flow and overall financial position. Key characteristics of a financial plan include:

1. Ability to easily produce a complete set of fully-integrated, relationship-based financial statements that provide the comprehensive picture of financial objectives
2. Ability to test the sensitivity of various condition assumptions across the full financials
3. Ability to quickly and accurately gauge the working capital impacts of the operating activities.

Three PBF process components defined:

- 1. Strategic Planning:** A component of the planning use case in the original PBF breakdown. The strategic planning process quantifies the vision of the company and helps management determine what is possible. Information is at a very high level, is driver and scenario-focused, incorporates full financial statement impacts and produces the long-range plan. Analysis is most powerful here when external drivers are included at the higher levels (i.e. Long-Range or Strategic Plan levels) and the lower levels (i.e. Budgets or Operational Plans) are integrated to shape the outputs.
- 2. Financial Planning:** Has a role in building the budget and the forecast and in general terms, is the top-down version of the budget. The output from the financial plan is the input to the operational plan. Scenario analysis, stress testing, working capital analysis and re-forecasting of the full financial statements are the key use cases.
- 3. Operational Planning:** The B in PBF and focuses on what is expected while highlighting the accountability in the detailed cost structure. The operational plan is also the basis for the allocation of the top-down financial plans and is at the lowest level of detail.

Why is there generally so little focus on improved financial planning and/or having a financial planning process integrated with the overall PBF process? The answer is that financial planning is difficult and requires unique insight on how the enterprise generates cash flow. Adding to the complexity, most packaged software applications help to gain efficiencies in the PBF components but are not addressing the financial planning attributes. And maintaining the required financial relationships within a spreadsheet-centric environment is incredibly cumbersome with a high risk of error.

The ideal PBF system incorporates financial planning and will:

1. Ensure that the Strategic and/or Long-range Plans focus on integrated scenario analysis. The ability to stress-test plans and run multiple financial and operational what-if cases will provide unique insight to what is possible as well as better forecast what is expected.
2. Effectively balance top-down and bottom-up points of view and forecasting methodologies. Top-down projections apply a more centralized view and can include many influencing factors including market data, economic indicators and general product and customer trends. Bottom-up projections are accumulated from many contributors and are more inward-focused.
3. Produce more than a great income statement. The financial impacts of the operational plans are best analyzed with integrated balance sheet and cash flow statements.

So, what is the primary point of the planning, budgeting and forecasting process?

An optimized PBF process should provide an effective system of checks and balances on possible and expected performance from top to bottom and from immediate to long-term. It should also let management know in advance how much capital they will need and when they will need it. ▲

Jeff Radtke is senior director at Blue Stone International.

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Potential Pitfalls with Today's Forecasting Technology

Tom Russell

With modern budgeting, forecasting and planning technology, re-forecasts can be produced, sliced and diced faster than ever before. Consolidations and collections of inputs that previously took days can now take minutes or even seconds. For an FP&A professional, these toolkits in their infancy provided a fantastic relief in to ever increasing workloads. However, executives and senior management are now aware of these tools and demand re-forecasts weekly, daily, or even multiple times a day.

What kinds of trade-offs exist when forecasts are iterated at such a frenetic pace?

Thoughtfulness and insight

In the past, forecasts were often completed at a high level, such as a “back of the envelope calculation” since the ability to perform detailed calculations quickly did not exist. This forced executives to debate issues and try to achieve solutions that were perhaps 90 percent accurate. These executive discussions are really the heart of the forecasting process, not necessarily the details in the numbers, since all forecasts are based on estimates and judgments in the end. With the ability to consolidate detailed forecasts quickly, there is the risk to get lost in the details and also lose sight of the big picture. The purpose of effective forecasting is to deliver meaningful insight to drive decision making, not to estimate the cost of office supplies with 99 percent accuracy six months from now.

Distraction from other responsibilities

The ability to incorporate small changes into a forecast quickly has greatly increased with modern technology. Items that were in the past deemed immaterial can now be considered as relevant for the latest reforecast. However, the time saved from faster consolidation can easily be lost to multiple iterations and small improvements of the same forecast. Furthermore, work on other important priorities can be interrupted many times when multiple a five-minute forecast update is requested. The interruptions can cause distractions, such that the speed of the forecast tool actually becomes a liability.

Quality, i.e. haste makes waste

Unrealistic expectations of turnaround time can lead to doing things too quickly, leading to errors and mistakes. In earlier times, the effort required to calculate, consolidate and assemble the data allowed the analyst to build in some cushion for careful review. Managers and executives who have spent most if not all of their careers with powerful forecast technology available now expect fast turnaround times. Those who advance to higher levels usually excelled at timeliness and accuracy earlier in their careers, and therefore might not

realize the time required by some of their analysts to review information and correct errors and check for other inaccuracies.

Version Control

Modern forecasting technology allows for multiple iterations of a potential budget or forecast. Yesterday's manual and slow processes limited the number of versions of a particular year's estimate. A typical company might have had just three full-year forecasts: the original budget, a revised budget, and a mid-year forecast. Nowadays most organizations have at a minimum multiple versions of the budget and quarterly forecasts, and many have monthly forecasts for the financial statement and weekly forecast updates for sales. The challenge is to manage each of these forecast versions and to properly understand and explain variances to the prior versions. A typical variance report might show the actual results versus three baseline periods: the most recent forecast, the budget and the prior year. Confusion can set in when management is not sure which version of the forecast is the “most recent.” It might be common during a reforecast process to tweak the numbers 10, 20 or even 30 times before the work is considered final. Preparing a “bridge” to prior drafts of the forecast becomes a time consuming exercise and conversations focus on which version of the forecast is the “right” one, instead of a more value added discussion.

Organizations are not going to go back to older technologies in spite of any challenges one faces with new technologies—the benefits from faster and more robust forecasts are too great to ignore.

**The lesson for FP&A professionals:
The key to a successful forecasting process is to define it up front and effectively manage it.**

The lesson for FP&A professionals: The key to a successful forecasting process is to define it up front and effectively manage it. Set clear expectations on how often the forecast will be updated, how it will be communicated, and the process of managing drafts from inception to completion.

Like other technologies such as e-mail, it is easy to become overwhelmed by the speed and volume of information. At the end of the day, you must manage the tools effectively or they will undermine what you want to achieve. ▲

Tom Russell is Director of Financial Reporting for Health Care REIT, an S&P 500 real estate investment trust.

Case Study

Implementing a Decentralized Budget

Patrick Hogan

Loyola Marymount University's budgeting process strives to align its financial plan with its strategic academic plan. All of the university's stakeholders are included in the process: colleges, schools, administrative divisions—even students. The current planning environment and zero-based budgeting approach is the culmination of years of system implementations and process improvements.

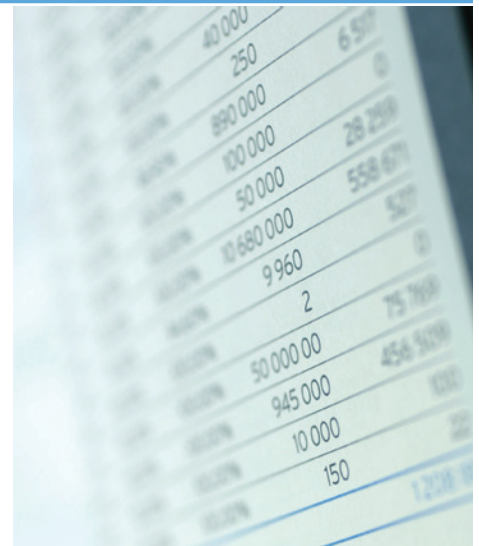
Decentralization

For a long time, the annual planning and budgeting cycle was a centralized process and, as such, tightly controlled by the chief financial officer and chief academic officer. A growing campus population, increased need for financial aid, advances in technology and external forces (the economy, market conditions, and legislation) all contributed to a re-evaluation of the university's planning and budgeting processes.

In recognition that a central budget process could not properly reflect the differences in the university's many schools, colleges and divisions actually operate, a new senior management team transitioned the budgeting process to a distributed accountability environment. The university created budget

manager positions for each of the various schools, colleges and divisions to oversee the planning and budgeting activities of their respective areas. Each organization within the university became responsible for building its own budget, managing the use of its funds, and tying its strategic plans to those of the university as a whole. Although the right personnel were in place, an inefficient and burdensome system was slowing progress.

At the time, the planning and budgeting system consisted of hundreds of Excel files downloaded from an Oracle general ledger and manually distributed to each of the departments for review and changes. The Excel files were then sent back to the budget office, where they had to be individually reconciled and summarized for presentations to the finance committee of the board of trustees. There was a disconnect between the detailed budgets submitted by the departments and the summarized data in the presentations. This months-long process overwhelmed the budget office and there was a cause for concern of human error in the data. A new system was needed to link the detailed budgets to the summary and to bring uniformity to the budget process overall.



As a result, the budget office developed a more sophisticated spreadsheet system that linked all the Excel files, but the system remained vulnerable to the types of errors inherently found with Excel worksheets. Also lacking were the type of reporting tools necessary to facilitate a detail oriented financial analysis. Divisional budgets were not aligning very well with the overall strategic plan. A decision was made to search for a fully integrated financial planning system to automate and streamline the university's planning and budgeting cycle.

Implementing a solution

After seeing a presentation at a National Association of College and University Business Officers conference, and reviewing the

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Case Study: Implementing a Decentralized Budget continued

implementation at Baylor University, the Loyola Marymount controller's office decided to implement the Longview Performance Management solution. The university identified closely with Baylor's challenges and continuing to operate using Excel budgeting was no longer an option.

A phased approach to the implementation was adopted to ensure all stakeholders had a chance to contribute and that the various stages of the project were met with success. The first phase consisted of installing the software, loading two years worth of historical actual and budget data from the Oracle general ledger into the Longview database, designing and building a number of financial planning and budgeting models, setting the security at a user level and configuring and distributing input templates to the various constituents.

The custom modeling developed for the first phase of the implementation included various complex revenue and expense models, capital budgeting, position budgeting, financial aid modeling and several allocation models. The 25 different financial models implemented as part of phase one were architected by the university controller and budget office while Longview wrote the code that runs these calculations.

During the second phase of the implementation, the implementation team converted all of the system's models to "server-side

modeling" where the complex calculations that were being performed on the client side were now utilizing the faster CPU speeds on

management of the budget request process. Budget requests are now differentiated not

By replacing a manual process based on spreadsheets with a fully integrated and automated financial system, the budget office saved time and effort while improving budget accuracy and data integrity.

the application server. This dynamic modeling dramatically improved the time it takes to perform multidimensional calculations with large datasets. A budget workflow component was introduced that tracks budget approvals from the individual department right up to the university president. A new tool to ensure balanced budget reclassifications and new audit tracking capability were also configured. The implementation of a Web dashboard highlighted phase two, allowing users to access all reports, input templates, financial models and workflow steps through a familiar browser interface.

Results

By replacing a manual process based on spreadsheets with a fully integrated and automated financial system, the budget office saved time and effort while improving budget accuracy and data integrity. The Longview application also improved visibility and

only by department, but also by functional level (budget analyst, budget manager, vice president, etc.) and they are further identified as one-time requests or permanent requests.

The modeling and reporting capabilities have also moved the university toward advanced financial ratio analysis and comparative analysis of peer universities. Added recently is the ability to analyze trends of various institutional ratios (such as the composite financial index) over an established period of time to provide for a more stable long-term view of the University's fiscal performance. The data provided ensures leadership that the University resources are sufficient to support the mission and debt resources are being managed strategically to advance the mission. ▲

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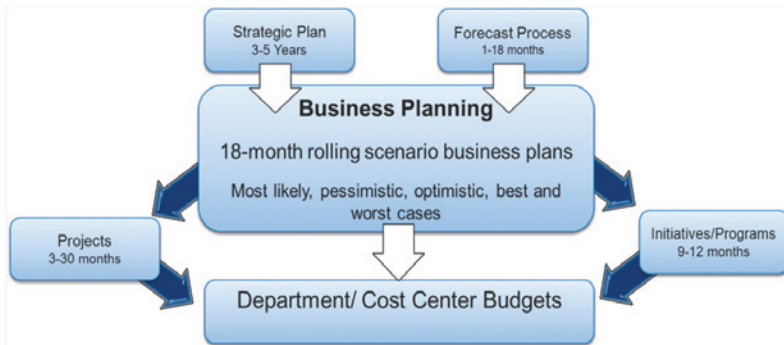
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Central Planning

Leo Sadovy

Our function is financial planning and analysis. Our title is manager/director/vice president of FP&A—with a “P” for planning, not a “B” for budgeting. As highlighted by the diagram below, planning is, or should be, central to the financial management support we provide to the business. The business should be planning driven, not budget driven, nor forecast driven.

There are (at least) five important takeaways from this depiction of a planning-centered approach to FP&A:



1. The role of strategy

Many people think they’ve created a strategic plan when all they’ve really done is extend their current budget by four years. While your strategic plan may need a few numbers to convey overall shape and to provide context, the financial numbers themselves properly reside in the Planning box. Strategic planning is primarily concerned with the assumptions, goals, and values that will guide the planning process, such as preferred capital structure, operating leverage, outsourcing strategy, vertical integration, target markets, etc. **EXAMPLE:** Actual staffing levels for various scenarios in a cyclical business reside in the plan(s), but the company’s position regarding outsourcing and use of temporary staff that drives these numbers comes from the strategic plan.

2. The role of budgeting

As with strategy, many people also think they’ve created a plan when all they’ve developed is a budget. A budget is about the allocation of resources. And their reallocation. And their reallocation, as market conditions change and different planning scenarios are triggered. Budgets serve the purpose of allocating resources in accordance with a specified Plan. Fixed, 12-month budgets that align with the calendar are outdated. Likewise, implementing freezes; headcount, salary, travel and capital freezes, when faced with a downturn, is neither budgeting nor planning. **EXAMPLE:** Supplier disruptions resulting from the Fukushima nuclear disaster will indicate a move away from the most-likely case towards one of the

prebuilt scenarios that addresses this contingency, and resources will be reallocated accordingly, such as shifting product mix production and marketing, even if that’s just three months into the year.

3. The role of forecasting

Too often companies link their budgets to their forecasts in knee-jerk fashion. Bad news from field sales one month and its freezes, across-the-board cuts and reorganizations without regard to strategic considerations. Yes, that might be a bad forecast indeed, but first it needs to be filtered through the planning process, where it will undoubtedly trigger plan B or C, both of which will have incorporated the appropriate strategic response to such a downturn. **EXAMPLE:** A forecasted 10-percent decline in new European revenues, perhaps affected by the euro, should not trigger a 10 percent across-the-board cut, but instead may trigger something larger (20 percent) in production, delivery, sales and marketing, while leaving R&D and long-term customer service capabilities untouched.

4. Triggers, implementation and incentives

Prebuilt scenarios should include well defined triggers that clearly indicate when Plan B should go into effect and how it should be implemented. **EXAMPLE:** Many energy intensive businesses probably have scenarios labeled something like OIL100, triggered by the price of crude oil remaining about the specified amount for five consecutive trading days, and implemented in phases that address pricing first, logistics second and facilities third. As for incentives, nothing kills rapid budget development and resource redeployment more than the need to renegotiate management incentives. Scenarios should not be treated as state secrets, but instead need to be communicated to all parties well before the scenario takes effect. Everyone needs to know what events are being monitored, what actions will be taken, what resources will be reallocated, and the impact on their compensation. If they don’t like it they can leave now, but once the trigger is pulled, it’s a new world and everyone needs to be on board, no questions asked.

5. Projects, programs and initiatives

What’s important to your organization? Are you all about customer service? Quality? Innovation? Or speed to market? And do you have projects programs and initiatives that support these core values? Then why do you allocate resources to them so grudgingly? **EXAMPLE:** You staff your projects not with your best people, but with those who can be spared. Or, you expect people to do project work in cycle time. If it’s not important enough to budget for separately, outside of departmental costs centers, then it’s not really important at all, is it?

Leo Sadovy is Marketing Director for Performance Management Solutions at SAS. His blog, The Value Alley, regularly discusses topics of interest to an FP&A audience.

Integrating Supply Chain and Finance

Miles Ewing and Tony Relvas

What do inventory write-offs, expediting expenses, purchasing and material costs have in common? All are critical and controllable supply chain activities impacting an organization's financial health tied to effective planning and forecasting.

As part of a research effort into understanding the effective characteristics of high performing supply chain and finance functions, Deloitte Consulting LLP interviewed 15 senior vice presidents, vice presidents, and directors of supply chain and finance planning from companies across the technology industry. These companies employ 1,000 to 25,000 people and generate \$1 billion to \$25 billion annually. The objective of the interviews was to gain a better understanding of leading practices in effectively linking finance and supply chain forecasting activities to achieve better financial performance.

Two themes emerged:

1. The importance of a collaborative relationship between supply chain and finance
2. The benefits of shared metrics.

Theme 1: Teamwork

All too often, interviewees were familiar with situations where supply chain and finance operate in functional silos. "The typical situation is one which is highly dysfunctional...you end up in situations where you have different silos and the supply chain and finance groups don't communicate. Those are the areas of biggest opportunity for improvement," said the Director of Supply Chain & Purchasing of a semiconductors company. As basic as it sounds, silo operation was more common than most would like to admit across companies.

Fostering collaboration between functions is based on a fairly basic solution of building active lines of communication or bridges between groups. These bridges can be achieved through assembling cross functional teams and leveraging structured

integrated planning processes (using the same source information or formally linked forecast processes).

"It is very important to have a cross functional team that is responsible for the forecasting process and really understands each other and their process, so that you are having an integrated effort with your planning. It is not only Finance, Marketing, Technology, but the three working together so that all forecasting aspects are considered," said the VP of Technology Services & Network Economics for a wireless communications company.

Building collaboration can result in a clearer understanding of the financial impact of decisions and help teams capture value for the company overall. "The key is to build those bridges to allow those folks who deal in units and shipping, transportation, and manufacturing to communicate effectively to those who deal in dollars ...for Finance to take that information and make better forecasts," said a VP of Sales & Operations for an IT services company.

Theme 2: Align metrics

Interviewees observed that structural challenges exist between supply chain and finance groups when planning, forecasting, reporting metrics are not aligned. For example, "you may have one group that is trying to drive order fulfillment and concurrently have the Finance function trying to skinny down inventory. As a result, you have competition metrics that cause problems," said the senior vice president of an electronics wholesaler.

Each group may have a subset of metrics, but these metrics should align to one common metric. For example, a common metric could be return on invested capital, inventory turns, or cash conversion cycle. If return on invested capital is the common metric, the supply chain group should understand how inventory levels impact this metric. Just as important, the

finance group needs to collaboratively work with their supply chain counterparts to communicate the metric impact and the alignment of the supply chain planning inputs.

Why emphasize metric alignment? "If you can get the company driving to a single number, you can get much more effective business results. So all the functions can work in coordination if they understand the number," said the VP Global Planning & Fulfillment of a diversified computer systems company.

The return on investment: Though seemingly basic, our interviewees were clear that tackling these themes can be difficult. It requires a surprising amount of effort for each group to understand the other's functional capabilities and to gain executive and broader organizational support. Most felt it typically required a longer time horizon than they would have expected to achieve the intended benefits.

However, by focusing on these themes, companies have achieved break through moments improving their supply chain and finance functions. For example, "The biggest 'aha' moment is when you're actually having a conversation not about next week or next month. You're actually discussing the next quarter before you've even gotten into the current quarter," said the VP Sales & Operations for an IT services company. This company's re-design process allowed them to enhance communication, increase collaboration, and improve the quality and accuracy of plans and forecasts, gaining new insights not possible within individual functional silos.

The focus on collaborative planning, active communication, and common metrics can allow groups to actively manage and understand critical activities impacting an organization's financial health. By addressing these themes, said one Director of Planning & Analysis for a communications equipment company, "I realized the value inside the organization for collaboration was vastly more beneficial than the implementation of a convoluted mathematical algorithm." ▲

Miles Ewing, Principal, and Tony Relvas, Manager, are with Deloitte Consulting LLP.

Survey:

82 Percent of Firms Lack Visibility into Their Profitability

Nigel Youell

During the first quarter of 2011 Market Dynamics, an independent market research firm, conducted a performance management study of 1,500 organizations in the U.S., Europe, Africa and the Middle East with annual sales of \$100 million. The study, sponsored by Oracle Corp., found that a surprising 82 percent said they did not have complete visibility into the profitability of their organization. And 91 percent went further to say that this lack of knowledge had implications for their company, including:

- Misallocated resources
- Missed revenue opportunities
- Erroneous decisions
- Impaired financial performance.

Why does this happen? The study found that 59 percent use spreadsheets to monitor profitability. For profitability analysis this is particularly important when you consider the typical requirement will be to allocate cost and revenue across 6+ dimensions based on many different allocation methods. This is not something that can be done easily in spreadsheets—and it gets to be a nightmare once you change allocations, run different scenarios, and then change the basis of your planning and budgeting!

54 percent of managers reported that they spend more time gathering information than analyzing it.

Another problem: Fully 54 percent of managers reported that they spend more time gathering information than analyzing it. When the study examined how much managers spend on



spreadsheets, finance managers spent the longest at 45 percent but, surprisingly, chief executives came next at 40 percent. Organizations and managers are still drowning in spreadsheets!

Less than a third of organizations confirmed they had software for any one of the specific categories of planning defined as part of Enterprise Planning. The results include:

- Gaps in data
- Un-standardized data
- Late and/or inaccurate data.

In fact, 95 percent said they encounter problems with their planning process.

Given all of the above findings, when it came to asking about how long it takes to implement strategic change it is no wonder the average came out to 6.5 months. Fragmentation of management processes introduces time and errors that no organization can afford.

So what are leading organizations doing about this?

In our discussions with clients and authorities, we have found that the best firms are smart, agile and aligned:

Smart

Internal and external data abounds in every organization. The question is how to get the most out of it. Successful companies today are able to leverage existing data derived from both internal and external sources. With better insight, these companies can move faster than the competition and gain a competitive edge.

Agile

Being smart is only valuable if it leads to action. The organizations most likely to succeed are ones that can adapt to changing circumstances: Global competition and adjacent markets may bring new entrants, or new technology developments may enable new business models, and the company needs to change course.

Aligned

In order to innovate and succeed, organizations throughout the value chain need to collaborate closely. Aligned companies evolve from a command-and-control approach to a collaborative model that incorporates contributions from all stakeholders and shares information through integrated systems and processes. ▲

Download the complete report here.

http://www.oracle.com/webapps/dialogue/ns/dlgwelcome.jsp?p_ext=Y&p_dlg_id=10077790&src=7038701&Act=29

Nigel Youell is a product marketing director with Oracle.

Can a Budget Bring Order to Chaos?

Ric Ratkowski

Fall signals the start of the annual budget process. While the value of the budgeting process is well known, this article will help you approach the exercise with fresh eyes and provide ideas for developing a more insightful budget.

Change your (budget) attitude

The word “budget” instills a picture of harvesting crops in the Middle Ages and government collecting taxes on the crops and apportioning the taxes received over 12 months. Budgets focus on cost control and are designed to remain static throughout the year; the business environment is anything but static. It is important to change your thinking and focus on planning the profitability of the company; cost control is only a small part of the equation. In addition, the budget has a stigma in many companies. It is *that* process operation that distracts marketing and sales from their day job and bites back if they don't do a good job in the form of variances the following year.

Plan and re-plan often

The competitive business battlefield is no different than a real battlefield when it comes to planning; the plan goes out the window when the first soldier steps off the helicopter. Similarly for organizations, on the first day into a new plan it becomes obsolete because assumptions the plan is built on have already changed. To handle this reality, organizations must continuously replan. For business, this translates to frequent operational review meetings, not just month end or quarter end budget variance reviews. Operations should be the focus and each group should bring both current conditions and suggested course corrections and project prioritizations to the meeting. This approach to planning switches the focus to optimizing company performance, not to achieving the budget.

Build flexibility into the plan

Plan for contingencies through alternate scenarios. In a business environment, organizations need to create contingency plans so they can understand the impact on potential decisions before they need to make them. This is managed in business through alternative scenarios.

Too often companies focus the budgeting process on running the business rather than planning to transform and grow the business.

Plan initiatives and projects as separate “flexible cost centers” from the baseline plan. The aspects of managing a business include running, transforming and growing the business. Too often companies focus the budgeting process on running the business rather than planning to transform and grow the business. To focus on transformation and growth requires initiatives and projects be separated from the baseline plan. This ability for initiatives and projects to float in and out of plans highlights the financial implications of those individual projects on the company's bottom line. Companies should maintain a modeled portfolio of potential projects, including both resource requirements and

benefits, so they can implement the projects as market conditions change.

Create driver-based plans that allow for plan adjustment from the top-down, bottom-up or middle-out perspective. It is important to be able to change the plan at any level and have those changes ripple down through the organization and aggregate to a consolidated

summary. To create this flexibility, it is important that the plan is built on drivers.

Build a framework for action

In business as on the battlefield, you will always operate in the absence of complete information. As a finance executive, you make critical decisions that affect the company “mission” at hand, regardless of the uncertainty each day brings. Using these steps to build an agile action-based planning framework will help bring order to chaos and drive your company to success. ▲

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