



## **Planning, Budgeting & Forecasting** **(Discussion Paper)**

**A strategic business tool or an unnecessary business expense?**

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# Planning, Budgeting & Forecasting

## A strategic business tool or an unnecessary business expense?

I will start by asking a few questions.

- Is Corporate Performance Management (CPM) software, comprising Planning, Budgeting, Forecasting, Consolidation and Predictive Analytics, underutilised by many organisations or not even used at all?
- Is Excel used as the CPM tool of choice? Is it the best tool for the job or is it just because Excel is the de facto standard in Finance?
- Does the budget creation, summarisation, communication and agreement process take too long?
- Is the budget process difficult to manage? Is it prone to errors?
- Is it difficult to produce accurate business performance forecasts?
- When doing your financial planning can you easily take into account changes in both internal and external factors that affect the business model?
- Does your budget fully reflect the strategic plan?
- How responsive is your budget process to market changes and can you easily and quickly re-model and re-assess their impact on the business?

To quote Johnny Nash, who sang “there are more questions than answers”, welcome to the real world of managing business performance. He went on to say “and the more I find out the less I know”, so the purpose of this document is to shed some light on why CPM is a strategic business tool and to offer some answers to your questions.

Before going any further it is important to address some concerns and I have to say cynicism I have observed around the whole Planning, Budgeting and Forecasting subject. How many of you can relate to these scenarios?

- You would like to manage the performance of the business in an analytical way but your annual budgets are a set of politically agreed numbers from the top of the business with little or no obvious link to operational reality
- By the time the annual budget is set it is already out of date and becomes less and less relevant as time goes on
- You would like to include all budget holders outside the Finance function in the CPM process but it is so difficult to manage the multiple budget versions that it takes too long and is prone to errors
- Target setting, if it is not linked to the strategic plan, can often hinder business performance. For example, as the Head of Sales I am more likely to try to set an easy to achieve target so that I will get a bonus for over achieving, whereas the CFO might wish to set higher sales targets to control bonus costs. How do you know at what point you offer a disincentive to the salesforce?
- Many businesses tend to be poor at forecasting because they find it too cumbersome to use (and therefore obtain value from) the vast amounts of data available both within the business and via external sources
- There is a growing requirement to analyse budgets and forecasts on a regular basis as the market situation fluctuates through factors such as risk, external criteria, government-led changes etc
- You have a Planning, Budgeting and Forecasting methodology in place but it requires manual re-entry of large volumes of data from various systems to then be manipulated in Excel (or similar). Such “home-grown” systems are no longer fit for purpose. They may not integrate with feeder systems, are often difficult to maintain/update and often contain multiple budget variants that are difficult to consolidate. Speedy analysis is so difficult that it can only be attempted against small, and potentially unrepresentative data sets
- You would like to involve stakeholders (outside the finance function) in the budgeting process but to do so would add delays and be impossible to manage effectively

- You recognise the benefits to the business of adopting a CPM solution but such a project would take a lot of time and effort
- Finance can see the benefits of a CPM solution but I.T. has a long list of projects so CPM will have to wait until I.T. resource becomes available

Faced with these barriers to success it is understandable that businesses are reluctant to invest in CPM. Conversely, it is because of these barriers to success that businesses should invest in CPM. Investing in CPM, however, is more than just purchasing some CPM software to solve all of your problems. For CPM to be truly effective it must be bought into by the whole of the enterprise. Whilst this may be a challenge it is worth noting that markets are moving faster and are more complex than ever before which makes accurate and flexible forecasting more relevant and the ability for decision-makers to assess how their decisions will impact performance increasingly critical.

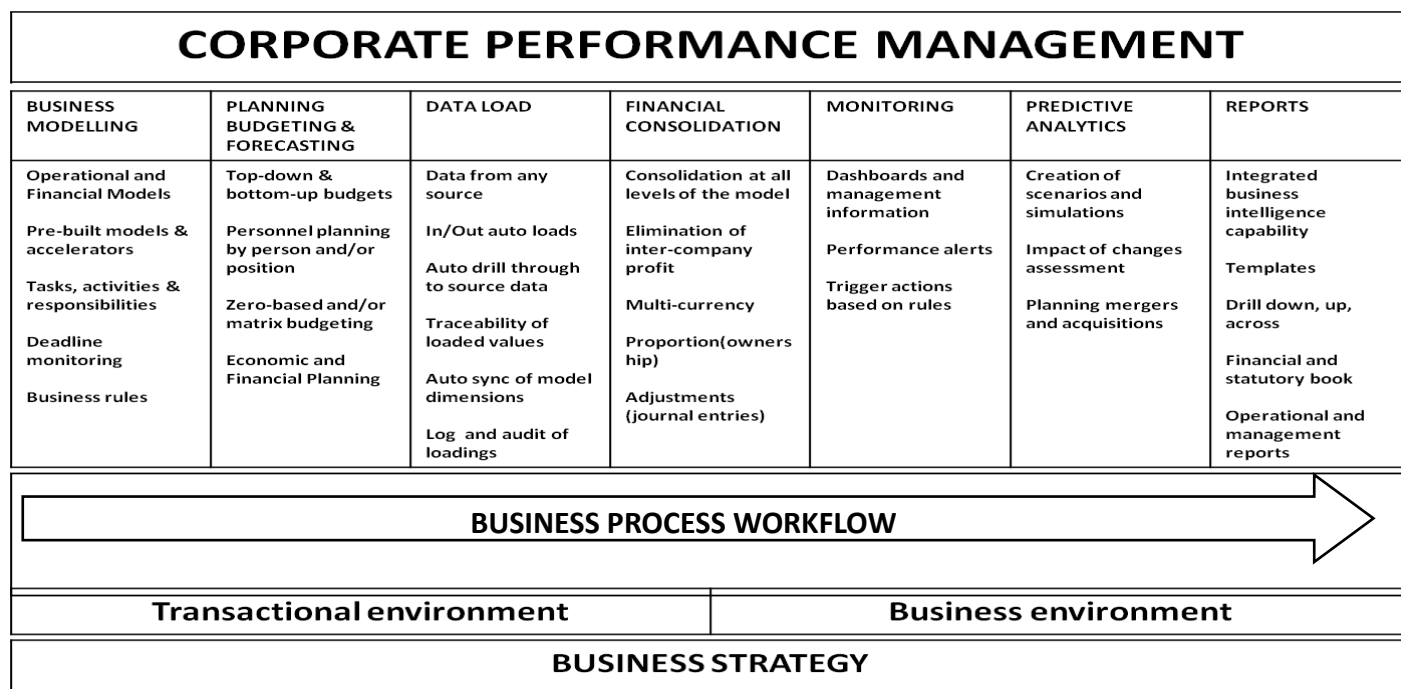
So if CPM is to be a strategic business tool what would you expect to get for your investment? The list below is long and every organisation will prioritise it differently so the strategies and best practices of adopting CPM are given to you in no particular order other than, perhaps, to reflect the random thought processes of the author.

- ❖ You know that your existing Planning, Budgeting & Forecasting (PBF) processes are slow, resource intensive and prone to error so you decide to automate PBF, BUT if you simply automate your existing system it will be quicker but not better
- ❖ Do not set and track budgets by replicating the general ledger and accounting structure alone. Set budgets based on how the business is run, taking into account company strategies and priorities
- ❖ Your CPM system should support regular budget updates and multiple versions, enabling the evaluation of changes to the business and adjusting plans accordingly
- ❖ Budgets should not just be financial statements but should include non-financial measures that reflect business drivers e.g. KPIs, market variables.
- ❖ Budget position should be readily available to all stakeholders and responsible managers, and not just accessible only to the finance team
- ❖ In order to involve stakeholders and responsible managers in the budgeting process the CPM system must support stakeholder collaboration via a workflow methodology that saves time, reduces errors and encourages collaboration
- ❖ Use the budget process as a collaborative decision-making method and not a negotiating tool
- ❖ Connect budgets to strategies and outcomes which align with corporate strategy
- ❖ A new CPM solution should exploit new technology and overcome the potential constraints imposed by the consolidation of multiple single-user input and review spreadsheets
- ❖ A new CPM solution should support automated import of relevant internal and external data and therefore overcome time constraints and errors associated with manual data entry into spreadsheets
- ❖ A new CPM solution should recognise the relevance of spreadsheets to Finance and therefore support Excel integration
- ❖ A new CPM solution should support sophisticated analytics and predictive modelling to allow stakeholders to model and re-model changing business scenarios.
- ❖ A new CPM solution should offer a single unified environment to store and manage data from multiple core systems, such as ERP, Sales, Finance, HR, Payroll and other relevant internal and external data sources
- ❖ A new CPM solution should support parameter driven models and allow non-IT users to set up and support the different budget methods such as top-down, bottom-up, performance-based and zero-based
- ❖ A new CPM solution should allow non-IT users to build budgets and forecasts by using in-built functions, rules and algorithms
- ❖ The implementation and ongoing management of a new CPM solution should not be dependent on I.T. involvement
- ❖ CPM suppliers should offer a subscription-based, Cloud alternative that overcomes up-front capital investment

The premise behind this report is the question “Planning, Budgeting & Forecasting - A strategic business tool or an unnecessary business expense? I think that the preceding narrative supports the notion that a CPM solution is a strategic business tool, but what is more challenging is the cost justification not least because all businesses are different and come to CPM from different starting points . There is consequently no attempt at building a detailed return on investment argument in what follows but I offer nevertheless some suggested business benefits that CPM affords.

- ✓ CPM will shorten the budget cycle by streamlining the process through automation and workflow techniques. Typically 20% of a finance department’s time is taken up with the budget process, sometimes taking 6 months to complete so this offers not only scope for savings but also ensures budgets are not out of date before completion
- ✓ Better business decisions through more thorough and timely analysis
- ✓ Improved services to stakeholders leading to a greater buy-in from departments
- ✓ Cost savings through improved summarisation control, reducing the errors caused by manual processes
- ✓ Reduction of tedious manual processes leading to greater job satisfaction
- ✓ Less time doing – More time planning – More time managing
- ✓ Increased knowledge leads to improved performance
- ✓ Predictive modelling offers businesses a competitive edge in difficult times
- ✓ Helps to deliver the corporate plan
- ✓ Reduces the financial impact of business risk caused by outside factors
- ✓ Proactive rather than reactive business planning

This report has been compiled by Redland Information Systems Limited. Redland supplies and supports the Sysphera Corporate Performance Management solution, within a portfolio of Business Intelligence applications. Our evaluation of the CPM software market led us to choose the Sysphera solution for a variety of reasons, some technical and some business-related. The key components of the Sysphera CPM solution are shown in the diagram below.



If this document has proved to be of relevance, we would be happy to discuss business requirements with you. Please contact us on 01246 887877 or [info@redlandis.co.uk](mailto:info@redlandis.co.uk)