Financial Planning, Budgeting, and Forecasting

Removing the Hurdles

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Analyst Insight

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Financial Planning, Budgeting, and Forecasting: Removing the Hurdles

Financial planning is the process by which a business documents and communicates its strategic objectives in financial terms. A financial planning exercise typically contains detailed plans and budgets, as well as analysis capabilities to show how the objectives are to be realized. *Budgeting* is a process that includes the creation of detailed financial budgets showing expected future performance at a top-line and detailed level across the entire organization. *Forecasting* is a process that allows businesses to adjust future expectations based on recent actual performance, resulting in the production of an updated forecast document.

Ultimately, all three are important for defining an organization's goals and providing a roadmap for how to achieve them. Still, these processes can become extremely detailed and time consuming. In fact, 25% of respondents to Aberdeen's Financial Planning, Budgeting, and Forecasting survey indicate that their current budgeting and forecasting processes are too long and resource intensive as a top pressure. Some employees may see the processes as barriers that keep them from doing their everyday jobs.

While enabling accuracy in these processes is essential for business success, successful organizations make them as painless as possible. This report, based on a survey of over 200 respondents, illustrates best practices for facilitating the financial planning, budgeting, and forecasting processes by defining processes, increasing communication and collaboration, enabling visibility, and implementing a series of technologies.

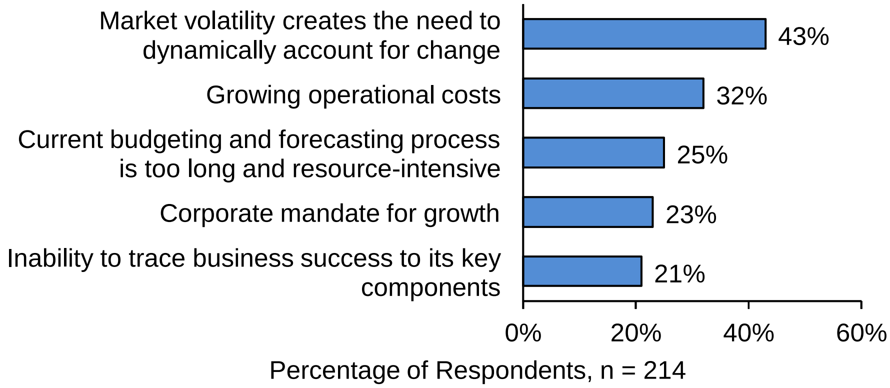
Analyst Insight

Aberdeen's Insights provide the analyst's perspective on the research as drawn from an aggregated view of research surveys, interviews, and data analysis.

Business Environment

Accuracy in planning, budgeting, and forecasting is absolutely essential for business success. Accurate forecasts enable confidence for business leaders when making investments and well informed plans provide roadmaps for future success. Unfortunately, actually creating accuracy in these processes is extremely difficult. Especially because the first rule of forecasting is that forecasts are never right. The goals should therefore be to come as close as possible to accuracy and to complete these processes as quickly as possible so employees can do their jobs. Aberdeen's 2013 Financial Planning, Budgeting, and Forecasting survey illustrated the top pressures hindering these processes (Figure 1).

Figure 1: Pressures in Planning, Budgeting, and Forecasting



Source: Aberdeen Group, January 2013

Most importantly, organizations are pressured with volatile markets that make it extremely difficult to forecast effectively. This is compounded by the fact that 25% of organizations reported that their current budgeting process is too long and resource intensive. This requires time and effort, and by the time the planning process is complete, the output is already based on old data.

Furthermore, 21% cite an inability to trace business success to its key components. These organizations do not know which factors have the most impact on performance and cannot necessarily understand how certain actions and economic factors will impact the accuracy of forecasts. Therefore, these organizations must shorten the time it takes to create plans and provide faster and more predictive intelligence.

"Our financial planning tool gives us more accurate current data and the ability to compare previous forecasts with actual results."

~Michael Wash, Executive, Silver Spring Foods

At the same time, these organizations face with internal pressures such as rising costs. Therefore, they must find ways to improve their budgets and roll them out to business units and departments in ways that will maximize their available dollars. Conversely, 23% also face corporate mandates for growth. Business leaders expect high forecasts for revenue, while not allowing for high budgets for costs. This dilemma must be solved by accuracy and reality in projections and plans.

Defining the Best-in-Class

Aberdeen used three key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations (Table 1). The choice of metrics was based on indicators that measure accuracy and agility in financial planning, budgeting, and forecasting. Best-in-Class organizations are more accurate when devising budgets for costs and forecasting revenue, which enables more informed decisions and investments. This accuracy may be partially because stakeholders in Best-in-Class organizations receive financial reports in the time they need to make decisions more often than All Others. This enables the ability to re-forecast and make changes to plans as new events happen. Organizations that fall into the Industry Average and

Laggard maturity classes should study the actions, capabilities, and technology enablers of the Best-in-Class in order to improve themselves.

Table 1: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	▪ 94% of financial reports are delivered in the time needed for decision-making ▪ Actual costs are within 3% of budget ▪ Actual revenue is within 2% of forecast
Industry Average: Middle 50% of aggregate performance scorers	▪ 76% of financial reports are delivered in the time needed for decision-making ▪ Actual costs are within 9% of budget ▪ Actual revenue is within 10% of forecast
Laggard: Bottom 30% of aggregate performance scorers	▪ 58% of financial reports are delivered in the time needed for decision-making ▪ Actual costs are within 20% of budget ▪ Actual revenue is within 22% of forecast

Source: Aberdeen Group, January 2013

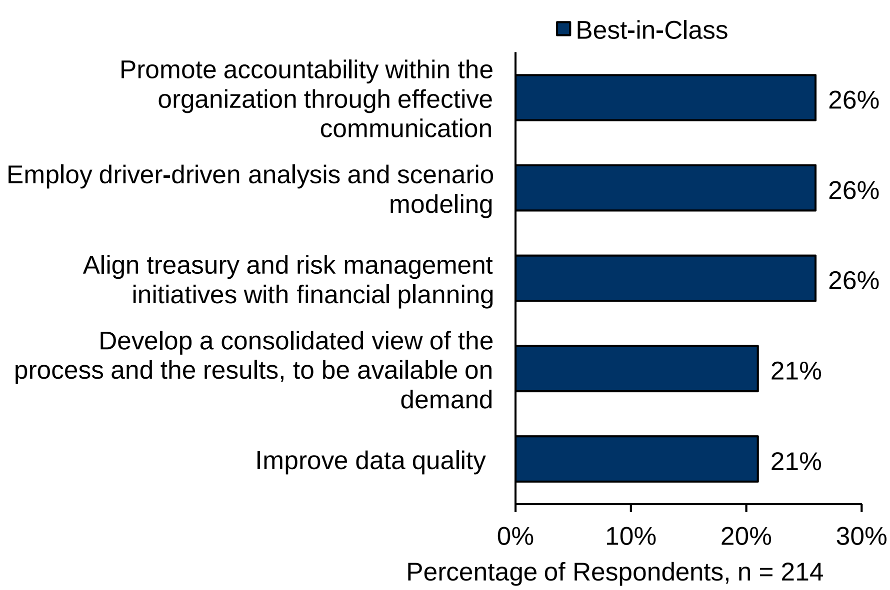
Strategies and Challenges

There are several top strategies that Best-in-Class organizations put into place in order to manage their planning, budgeting, and forecasting pressures (Figure 2).

"Using a financial planning tool enables us to create more accurate plans with less staff work."

~João Bordignon, Director, Nutrimental SA

Figure 2: Strategic Actions of the Best-in-Class



Source: Aberdeen Group, January 2013

These actions heavily focus on improving access to data and integrating the insight gained into plans, budgets, and forecasts. Accurate forecasts require accurate data. But it is about more than just accuracy, it is also about relevancy. Twenty-six percent (26%) of the Best-in-Class want to align treasury and risk management initiatives with financial planning. This ensures that they are aware of cash positions and the risk factors that impact performance. They need to understand the business drivers that impact forecasts key performance indicators (KPIs) that need studying. This allows them to conduct scenario modeling for potential outcomes. Additionally, Best-in-Class organizations promote communication throughout the organization within the planning, budgeting, and forecasting processes. This ensures that all stakeholders with insight have input in the processes. Finally, 21% of the Best-in-Class develop consolidated views of these processes and results so employees can understand the goals of the organization and act accordingly.

As noted, these actions heavily rely on utilizing data. Unfortunately, 28% of organizations state that their decision-makers have difficulty accessing relevant data as the second top challenge in enacting the above strategies (see sidebar). The other top challenge is difficulty aligning operational execution with planning, budgeting, and forecasting. It appears that organizations are having difficulty using data and cannot actually align forecasts with reality while attempting to execute on them. How are Best-in-Class organizations addressing these challenges?

Fast Facts

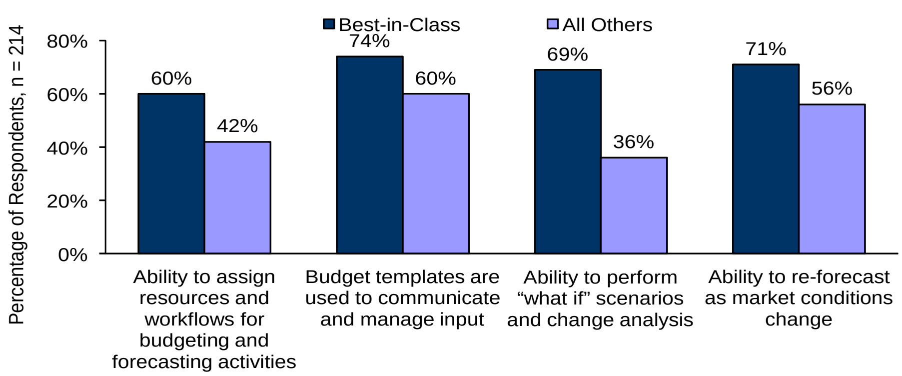
Organizations were asked to cite the top two challenges hindering their ability to execute on strategies:

- √ 48%: We have difficulty aligning operational execution with financial planning, budgeting, and forecasting
- √ 28%: Our decision-makers have difficulty accessing relevant financial data
- √ 26%: Our current IT infrastructure lacks advanced capabilities to support risk-management initiatives
- √ 23%: Ineffective communication between executive management and staff on financial and operational initiatives

The Answers for Budgeting Headaches

In order to increase agility and accuracy in financial planning, companies must make it as easy as possible to create plans, budgets, and forecasts. Hurdles need to be removed. Best-in-Class organizations are more likely than All Others to have implemented a variety of capabilities that help their employees in these processes (Figure 3).

Figure 3: Making it Easy



Source: Aberdeen Group, January 2013

Fast Facts

- √ Best-in-Class organizations are 50% more likely than All Others to have the ability to integrate hierarchy controls into planning, budgeting, and forecasting

"Our financial planning helps us validate assumptions, unearth hidden opportunities, better track against plans, and align the business to long-term plans."

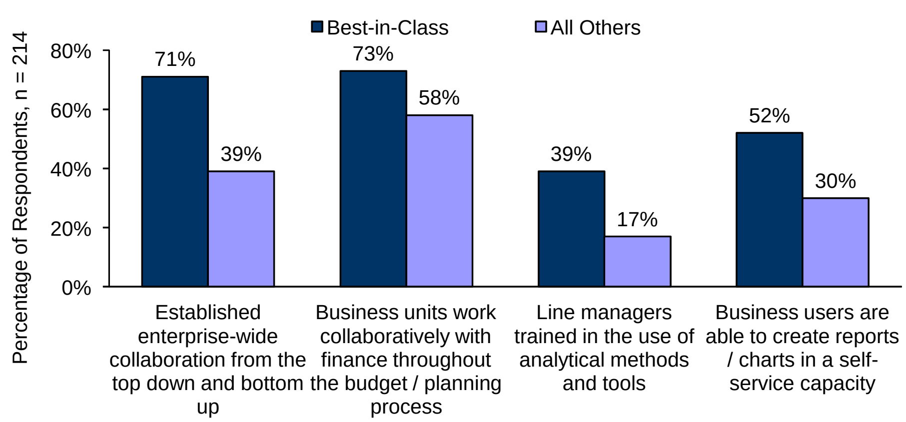
~Manager, Large Financial Services Company

First off, as with any process, employees need to understand who is doing what and what they are going to do. For example, Best-in-Class organizations are 43% more likely than All Others to have the ability to assign resources and workflows for budgeting and forecasting activities. This establishes which employee has responsibility for which action. Further, 74% of the Best-in-Class have budget templates which they use to communicate and manage input. This provides step by step guides for which data needs to be integrated, by whom, when devising budgets. With these capabilities combined, there should be no excuses for anything going overlooked.

But what are some of those processes that these employees partaking in that improve agility and accuracy? Best-in-Class organizations are almost twice as likely to perform "what if" scenarios and change analysis. On the one hand, they can mix and max different scenarios to see their likely outcome. For example, what is the impact on revenue if four more marketing people are hired? This allows these organizations to inject some predictive data into their forecasts while aligning their actions with organizational initiatives. On the other hand, these organizations can develop contingency plans so that they react in an agile manner when events happen. This can have a significant impact on the organization's ability to quickly reforecast, which are more and more common. Organizations that have the ability to perform them can create more realistic plans to steer toward success. But, again, it's all about driving down the time it takes to forecast that makes reforecasting possible.

Excellence in any process necessitates a change in organizational culture. There are many ways in which cultural changes impact planning, budgeting, and forecasting (Figure 4).

Figure 4: Organizational Initiatives to Support Planning



Source: Aberdeen Group, January 2013

Collaboration is the first organizational change that impacts planning, budgeting, and forecasting. Those at the top of the organization understand the long term goals of the organization. Those on the line of business have first-hand knowledge of the day to day happenings in the organization, including how their work impacts neighboring functions and business units. Both can lend valuable input in the planning, budgeting, and forecasting

Fast Facts

√ Best-in-Class organizations are 63% more likely than All Others to have established enterprise-wide collaboration across department and divisions

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processes. As a result, Best-in-Class organizations are 82% more likely than All Others to have established enterprise-wide collaboration from the top down and bottom up. Gone are the days of simply decreeing an annual 20% increase in revenue. Instead, 73% of the Best-in-Class enable business units to work collaboratively with finance throughout these processes.

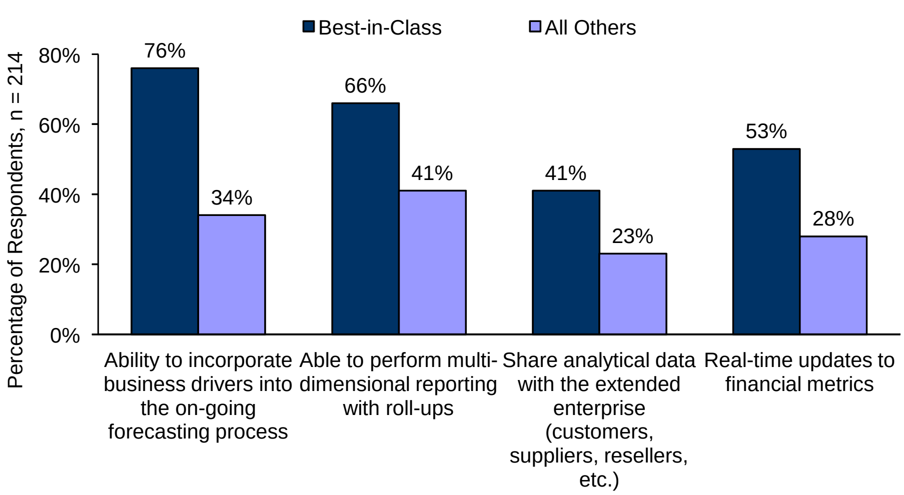
Much of Aberdeen's research stresses the importance of instilling an analytical culture throughout the organization. This is important because it encourages employees to use data when making decisions. Of course, this will never happen if employees do not know what they are doing. Therefore, Best-in-Class organizations are over twice as likely as All Others to train line managers in the use of analytical methods and tools. The knowledge enables informed decisions. In keeping with the theme of making it as easy as possible for employees to find data and adjust forecasts, Best-in-Class organizations are 73% more likely than All Others to have the ability to create reports and charts in a self-service capacity. This drives down the time it takes to make decisions because these employees no longer have to rely on IT in order to find the data they need.

"Financial planning and budgeting software has been critical in informing our direction, pace, and focus. It has facilitated internal processes by automating many steps."

~Executive, Mid-sized Software Company

What are the capabilities that top performing organizations have when it comes to providing relevant data to stakeholders so they can create informed forecasts (Figure 5)? Well, it is first important to understand just what the components of business success are and what factors outside of the organization impede or support increased business. Furthermore, it is important to measure and predict the impact of changes. Best-in-Class organizations are over twice as likely as All Others to have the ability to incorporate business drivers into the ongoing forecasting process.

Figure 5: Visibility to Support Agility



Source: Aberdeen Group, January 2013

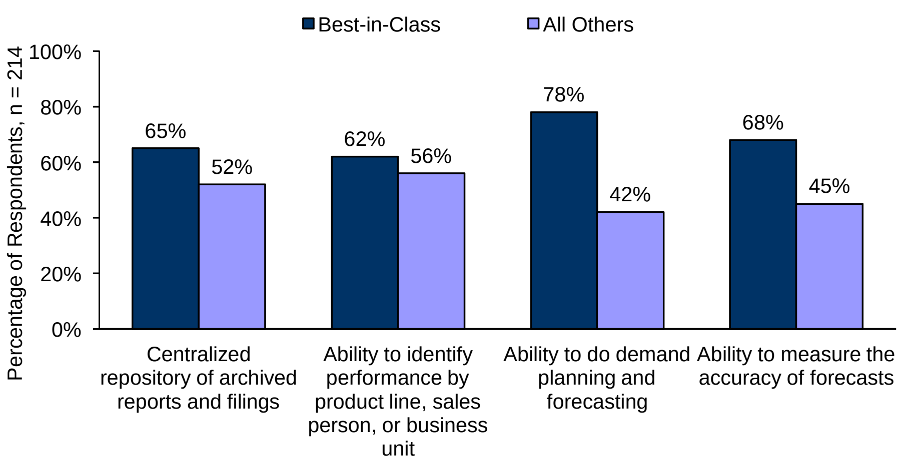
"Our software tools help us better monitor inventory while maximizing cash flow and ROI. All this minimizes our risk in a volatile market."

~Manager, Large Wholesale / Distribution Company

Top performers are better able to study these business drivers in a variety of ways. Internally, those at the top in Best-in-Class organizations are able to perform multi-dimensional reporting with roll ups. This allows them to drill-down to individual departments and compose better budgets, which help the line of business communicate up. Externally, Best-in-Class organizations are 78% more likely than All Others to have the ability to share analytical data with the extended enterprise. This is good, because there are numerous factors outside the organization that can impact performance. For example, what happens if an organization projects sales of a certain product and then finds out that a material supplier cannot meet demand? Forecasts will need to be adjusted. None of this visibility matters, however, if data is out of date, as decisions made because of old data can negatively affect an organization. Fifty-three percent (53%) of the Best-in-Class have real-time updates to financial metrics in comparison to 28% of All Others. Combined, this visibility impacts the accuracy and agility of plans, budgets, and forecasts.

As mentioned, the ability to reforecast is absolutely essential to accuracy. In order to trigger changes, measurement of business drivers must take place. For example, 65% of the Best-in-Class have a centralized repository of financial filings (Figure 6). Decision-makers can then take past performance into account when devising forecasts. Another 62% of the Best-in-Class are able to identify performance by a variety a different criteria. This capability enables organizations to adjust plans at a much more detailed level. Maybe a certain business unit underperformed last month because it lost some key sales people; forecasts must adjust as a result.

Figure 6: Measuring to Manage



Source: Aberdeen Group, January 2013

Obviously, demand has a significant impact on revenue. Best-in-Class organizations are 86% more likely than All Others to have the ability to do demand planning and forecasting. This informs cost budgets and allows the organization to make smart investments. But all of this is for nothing if the organization cannot learn from its mistakes. Sixty-eight percent (68%) of the Best-in-Class have the ability to measure the accuracy of forecasts. As a result they can fine tune forecasts going forward and they have a greater ability to reforecast.

Technology

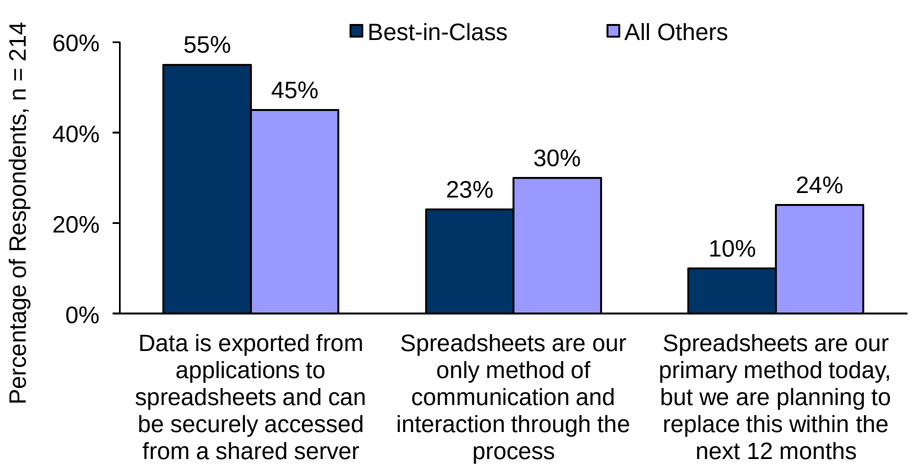
Occasionally the hurdles that organizations face in planning, budgeting, and forecasting come from sources other than a need for faster access to data and volatile markets. There are times when an organization's business systems themselves can make forecasting difficult. For example, most readers of this report are very familiar with spreadsheets. Almost all organizations use spreadsheets in some way, mostly because they are familiar at all levels of the organization. In fact, many budgeting solutions feature interfaces that look like spreadsheets.

"Financial planning, budgeting, and forecasting software has provided a stable structure outside of spreadsheets to manage data and gives us the ability to run 'what if?' scenarios quickly and easily instead of having multiple files and spreadsheets that need to be maintained."

~Staff, Small Utilities Company

While familiar, there are many inherent difficulties related to spreadsheets: they are not shared easily, are prone to mistakes, users may break formulas, And there can be version issues. To control for this, the ways in which spreadsheets are used must be more automated. The bottom 80% of organizations are more likely to use spreadsheets as the primary method of input in the planning, budgeting, and forecasting processes (Figure 7). On the other hand, 55% of the Best-in-Class only export spreadsheets from other applications and make them available on a shared server. Clearly, automation and control must be added to the process.

Figure 7: The Role of Spreadsheets



Source: Aberdeen Group, January 2013

That automation comes in the form of a variety of enablers that Best-in-Class organizations are more likely to utilize than All Others to facilitate the planning, budgeting, and forecasting processes (Table 2). These include tools such as Enterprise Resource Planning (ERP) and Enterprise Performance Management (EPM) to give decision-makers better visibility into operations and performance. Additionally, there are financial reporting and consolidation applications that ensure accuracy and completeness of data. Other tools include Business Intelligence (BI), such as query and reporting tools, which helps organizations provide accuracy when taking a predictive outlook on data. Finally, Best-in-Class organizations are 45% more likely than All Others to use planning, budgeting, and forecasting applications to greatly simplify these processes. While implementing these technologies alone is not going to solve all problems, fully integrating them into the organization's processes and culture can give employees a greater opportunity to produce accuracy and agility.

Table 2: Key Enablers of the Best-in-Class

	Best-in-Class	All Others
Query and reporting tools	79%	56%
Financial reporting and consolidation application	70%	53%
Planning / budgeting / forecasting application	68%	47%
Dashboard / scorecard tools	66%	38%
Enterprise Resource Planning	62%	49%
Enterprise BI platform	50%	28%
Enterprise Performance Management	49%	30%
Business Process Management	38%	20%

Source: Aberdeen Group, January 2013

Key Takeaways

Whether it is a volatile market, lengthy planning processes, inability to access data, or the inherent difficulties associated with spreadsheets, there are a plethora of hurdles that organizations must overcome in order to provide accuracy and agility in financial planning, budgeting, and forecasting. These vital processes must be improved to give managers confidence when making investments and other decisions. In order to jump from one maturity class to the next, organizations should heed the following recommendations.

Laggards

- **Plan to plan**. If employees do not understand how to plan, budget, and forecast, they will not succeed. They need to understand which employees are responsible for which actions as well as how to perform those actions. Only 29% of Laggard organizations are currently able to assign resources and workflows for planning and budgeting activities in comparison to 50% of the Industry Average. Further, 74% of the Best-in-Class use budget templates. This ensures that the process goes as smoothly as possible.
- **Identify business drivers.** There are countless business drivers that impact business performance. Organizations need to do the best they can to understand which drivers are most impactful and closely monitor their performance. Those that are not doing this are simply flying blind. Best-in-Class organizations are 138% more likely than Laggards to have this capability.

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Industry Average

- **Collaborate.** Employees across the organization are privy to information that can inform plans, budgets, and forecasts. Still, many organizations simply push budgets down from the top. While 46% of the Industry Average have established collaboration from the top down and the bottom up, 71% of the Best-in-Class have this capability. Involving everyone ensures that the whole organization is clear on organizational objectives while informing those at the top of line-of-business events.
- **Utilize scenario analysis.** Studying the impact of certain events and investments helps organizations get a better idea of how the business may perform in the coming months. Additionally, it helps these organizations devise contingency plans. These types of capabilities greatly aid in reforecasting and allow organizations to take a more tactical approach when putting together plans, budgets, and forecasts. Still, less than half of the Industry Average possesses this capability.

Best-in-Class

- **Create an analytical culture.** Analytics can have a significant impact on an organization's ability to produce accurate forecasts. But in order to get the most out of investments in analytical tools, organizations must make sure that analytics becomes pervasive throughout the organization. Still, only 39% of the Best-in-Class have trained line managers in the usage of analytical methods and tools. One such way to impart that culture is to provide charts and reports in a self-service capacity, which is something that 52% of the Best-in-Class have done.
- **Share with the outside enterprise.** While Best-in-Class companies are currently 78% more likely than All Others to have the ability to share analytical data with the extended enterprise, only 41% of the Best-in-Class actually have this capability. Sharing this data will give organizations better insight into supplier, customer, and reseller data and is essential for accurately projecting supply and demand.

Following these steps will help organizations make planning, budgeting, and forecasting as painless as possible for employees. They can then overcome these hurdles, move on to executing on business strategy, and win the race against competitors.

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