

# Best Practices in Budgeting and Forecasting

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# Agenda

- Introductions
- The Challenge
- Current Perspectives on Planning, Budgeting and Forecasting
- Seven Key Best Practices



# Challenge: Optimising Finance's ability to support the Organisation

- **Value versus Investment**
  - Average lifetime cost of ERP was \$15m (\$500k to \$300m). Average cost per user could be as high as \$20,000 per year.
- **Looking back or looking forward?**
  - The Past (Actual) is analysed in enormous detail as we look in the "rear view mirror"

Source: Meta Group



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# Challenge: Optimising Finance's ability to support the Organisation

- **Looking forward ... where the most value can be created**

- “nearly two-thirds of financial professionals say they are **uncertain** about just how much cash will be flowing into corporate coffers in the months ahead”

Source: Aberdeen Group

- 71 percent of finance executives... ..say they'll have to **repeatedly replan and reforecast** over the coming months”

Source: BPM Forum

- **What do the leading companies do?**

- 100% of the Best-in-Class have invested in applications to assist in the planning process, which inherently brings process automation into play.

Source: Aberdeen Group



# Tough and volatile times ... ... who will benefit from recovery?

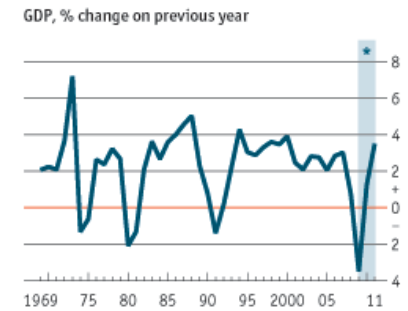
**US Dollar to British Pound Currency Exchange Rate**  
Past Trend Present Value & Future Projection



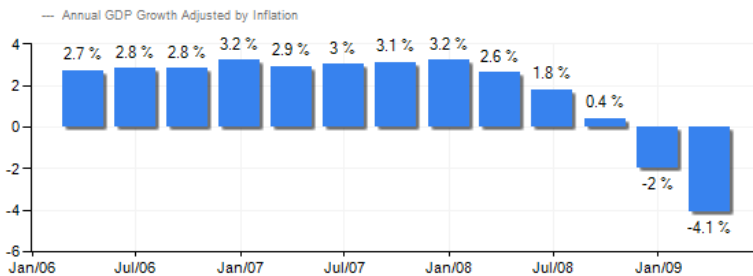
**UK Interbank 3 Month LIBOR / Base Rate Spread**



**So much for ending boom and bust**



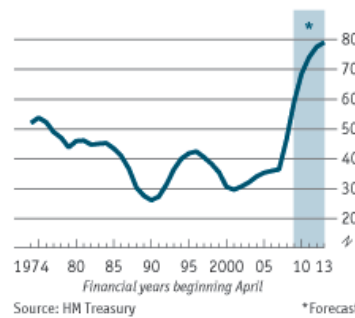
**United Kingdom GDP Growth Rate**



source: O.N.S.

**A sorry tale**

Public-sector net debt, % of GDP



Source: HM Treasury

\*Forecast

**Budget balance, % of GDP**

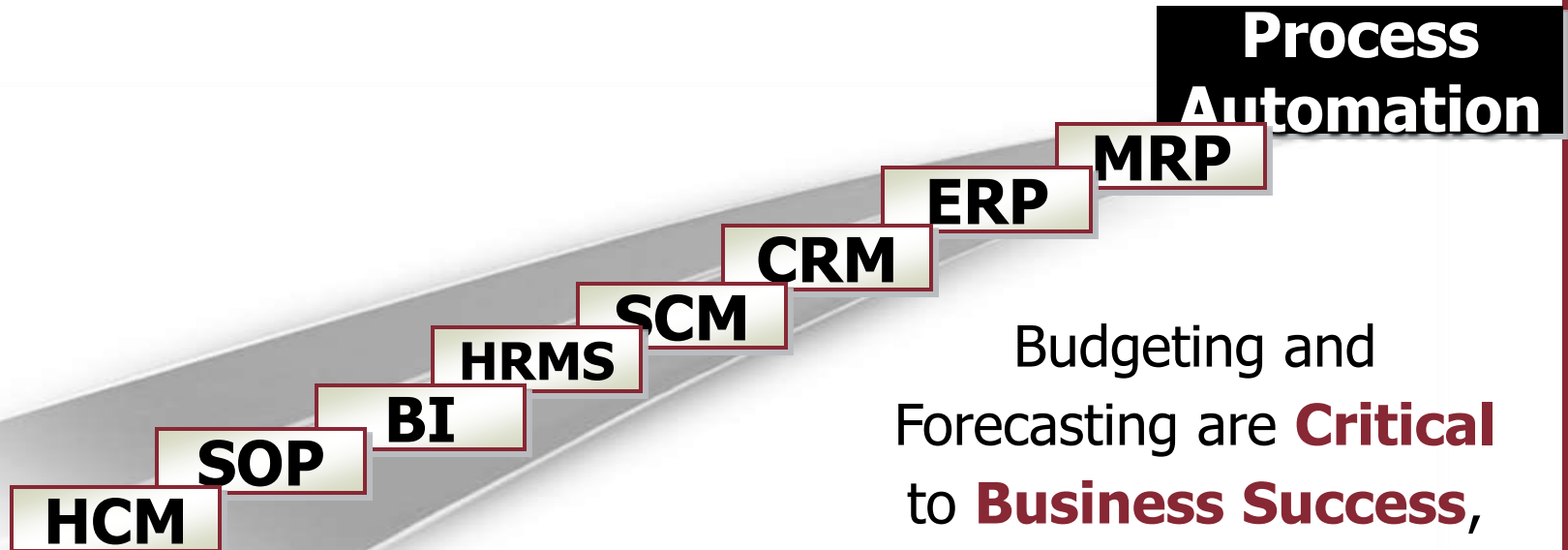


Sources: HM Treasury

\*Forecast



# Current Perspectives: Manual Process



**Budgeting and Forecasting**

Budgeting and Forecasting are **Critical** to **Business Success**, but have significantly lagged in replacement of **Manual** Processes

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# Current Perspectives: Risk

- Average of 12 Surveys since 2000: KPMG, Price Waterhouse, etc. **Over 88% of Spreadsheets audited had errors** (impact from \$1,000 to \$1bn+).

KPMG: Section 404 Sarbanes-Oxley Act pertaining to spreadsheets

- “In developing and using spreadsheets, companies need to **balance their ease and flexibility against the importance of reliable information** for management's use.”

CFO Research/CFO.com



# Current Perspectives: Risk

- **University of Hawaii Findings**
  - Expert users tasked with building spreadsheets to solve specific business problems:
    - In testing **63% of “expert level” users had errors**
    - In the post-test review **84% could not find their own errors**
  - Tested 1,352 Spreadsheets: Process and Control Issues
    - 74% of spreadsheets tested had errors
    - In spreadsheets **with more than 200 line items the probability of error approached 100%**
    - Less than 30% of spreadsheets have formal documentation
    - Less than 10% of spreadsheets are formally/periodically reviewed and tested for accuracy



# Current Perspectives: Risk

- “They are often designed and developed by employees who are **rarely qualified to do so** and are **seldom checked** to make sure they do what was actually intended, not realising that **creating a spreadsheet is akin to programming and the untested spreadsheet is as dangerous and untrustworthy as an untested program**”.  
Source: Institute of Internal Auditors
- “End users are **putting their companies at risk** by setting up spreadsheets without realising that **this demands the discipline of traditional programming**... ...78% of models had **no formal quality assurance** to ensure to ensure they were built to specified requirements and were fit for purpose.”  
Source: KMPG



# Current Perspectives: Value

- **Ineffective**

- 75% of mid-sized/large companies say their financial planning processes are **not adaptive**
- Over 50% say budgeting is **too burdensome and time consuming**
- 44% budget/re-forecast **1-2 times per year**
- Only **11% hit revenue targets** and just **16% hit expense targets** (2007)
- 73% planned to make changes in process or technology in 2008

Source: BPM Forum survey of 340 financial professionals, Jan. 2008



# Planning Perspectives: Economist

The  
Economist

Most **2009 budgets have been consigned to the shredder**, as the economic crisis has blown away their assumptions.

According to a recent study, **producing accurate forecasts** tops the list of things that **keep CFOs awake at night**.

What can companies do? Companies should **use scenario planning** alongside their financial models. And some companies have formalised... **“rolling forecasts”**.

Managers also need **up-to-date information** about what is happening to their businesses, so that they can change course rapidly if necessary.

If **everybody in a company** can rapidly grasp what they have to do and how it is changing, they are more likely to get the job done.

“Managing in the Fog,” *The Economist*, Feb 26, 2009

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# Planning Perspectives: Gartner

Gartner

As financial market fears drive demands to minimize costs and maximize profits, organizations are increasingly deploying corporate performance management (**CPM**) **applications to help them make strategic decisions, streamline costs and optimize performance.**

The challenge is that CEOs are trying to make hard cost optimization decisions using a very blunt instrument, the consolidated P&L statement... and they risk cutting the wrong things. CPM solutions can help organizations **identify actual cost and revenue drivers** based on the consumption of resources.

The recession has **accelerated the adoption of,** and **increased the desire for,** CPM, and obstacles of the past have diminished.

“Update: Cost Optimization Requires Corporate Performance Management,” Gartner, Feb. 2009

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# Seven Key Best Practices

- **Embed Planning in the Corporate Culture**
- **Align Strategy and Execution**
- **Collaboration and Participation**
- **Automate and Increase Frequency**
- **Material and Relevant**
- **Model Business Drivers**
- **Best in class use applications**



# Best Practice 1: Embed Planning in Corporate Culture

- What
  - The culture should embrace and reward planning
- Why
  - Excellent business management requires excellent financial management
- How
  - Set achievable but challenging strategic targets and demand that they are met
  - Empower with structured systems, but allow managers flexibility to develop and manage their own plans



# Best Practice 2: Align Strategy and Execution

- What
  - Strategic plans should be formally linked to operational plans and budgets
- Why
  - By translating strategic objectives into operational plans, and by tracking and measuring performance against targets, companies are able to significantly improve the execution of their strategy leading to increased achievement of objectives



# Best Practice 2: Align Strategy and Execution

- How
  - Finance has a responsibility to engage the business in financial planning and has a unique opportunity to help communicate the corporate strategy through the operational planning process
  - Deliver guidance and eliminate 'guess the right answer' approach
  - Formally align budget guidance to strategic objectives



# Best Practice 3: Collaboration and Participation

- What
  - High participation through an accessible 'easy to use' interface
  - Connecting and aligning all of the individuals in the organisation who have a perspective on operational planning and organisational performance
- Why
  - Increases business ownership and responsibility through enhanced understanding of the impacts of decisions
  - Increases communication across the organisation



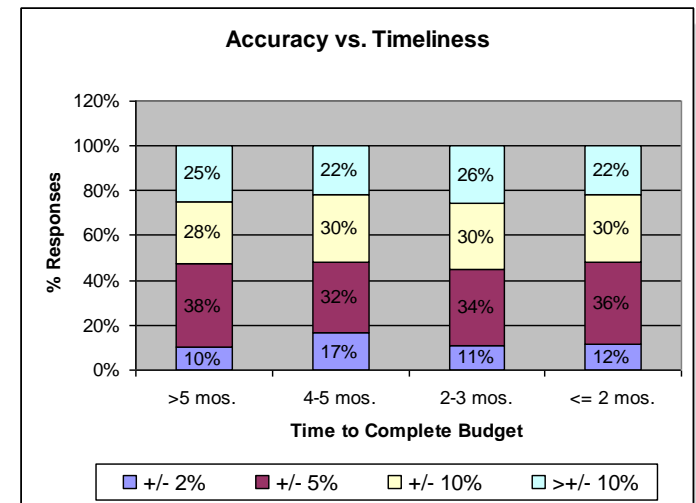
# Best Practice 3: Collaboration and Participation

- How
  - Standardisation of interfaces and information sources including delivering transparency in reporting and analysis
  - Devolve budget and forecast processes to managers who are responsible for resource consumption and revenue generation
  - Provide process support to participants with defined workflows



# Best Practice 4: Automate and increase frequency

- What
  - Increase efficiency and remove manual interventions in processes to reduce process times
  - Use rolling or frequent forecasts as appropriate to the cycle time of the business
- Why
  - Reduced process times can deliver greater
  - Reduced time cuts the cost of managing the process
  - Increasing frequency facilitates better decision making and reduces risk by allowing decisions to be made sooner and with a lower impact



BPM Partners



# Best Practice 4: Automate and increase frequency

- How
  - Remove non-value adding processes with technology support such as automated integrations from ledgers and other sources
  - Standardise processes for collection and manipulation of data
  - Standardise interfaces and reporting for reduced corporate learning times and increased familiarity
  - Use calculated validations to reduce error rates on submission
  - Collection and aggregation processes account for up to 28% of the time in spreadsheet based applications

*"The ultimate competitive advantage lies in an organization's ability to learn and rapidly transform that learning into action."*

Craig Schiff, BPM Partners

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# Best Practice 5: Material and Relevant

- What
  - Materiality as % of eg Revenue/Capital
  - Highly volatile and/or discretionary
  - Excludes uncontrollable items
- Why
  - Focus management time on what matters with the right level of detail
  - The process is for the company benefit not just Finance
  - Close the gap between business and Finance

			Total Office & Administrative Expenses	1,358	1,358	1,358
8400	8410	8550	Commercials	-	-	-
8410	8420	8510	CPA Fees	-	-	-
8415	8420	8552	CPA Fees Audit Fees FY June30	-	-	-
8420	8420	8552	Development Fees	-	-	-
8425	8420	8552	ERP/Systems/Consulting	2,000	2,000	2,000
8430	8420	8552	Legal Fees	-	-	-
8435	8410	81950	Outside Services	2,000	2,000	2,000
8440	8420	8552	Patent Trademarks (existing)	-	-	-
8445	8420	87655	Patent Trademarks-New	-	-	-
8450	8420	8552	Professional fee Misc Misc	-	-	-
8455	8420	84913	Research Costs	-	-	-
8460	8420	82340	Travel	-	-	-
			<b>Total Professional &amp; Outside Services</b>	<b>4,000</b>	<b>4,000</b>	<b>4,000</b>
8600	8465	86503	F&E-Bus.Meals/Work/Lunches/Dinners	-	-	-
8610	8465	86510	F&E-Conference/Boards	-	-	-
8615	8465	86508	F&E-Entertainment-Abroad 20%	-	-	-
8620	8465	86505	F&E-Entertainment-Abroad 50%	-	-	-
8625	8465	86502	F&E-Lodging-Employees-Inside Country	-	-	-
8630	8465	86601	F&E-Lodging-Employees-Outside Country	100	100	100
8633	8465	86602	F&E-Lodging-Phone Expense	8	8	8
8635	8465	86650	F&E-Lodging-Shareholders'Jed Party	-	-	-
8640	8465	86651	F&E-Lodging-Shareholders for Party Abroad	-	-	-
8645	8465	86652	F&E-Lodging-Shareholders'Jed Party National	-	-	-
8650	8465	86810	F&E-Meals-Employees-Additional Expense	-	-	-
8655	8465	86811	F&E-Meals-Employees by Receipt	-	-	-
8660	8480	86800	F&E-Meals-NonDeductible	33	33	33
8665	8480	86800	F&E-Miscellaneous-NonDeductible	-	-	-
8670	8480	86804	F&E-Tips	-	-	-
8675	8485	86800	F&E-Transportation-Employees	133	133	133
			<b>Travel &amp; Entertainment</b>	<b>278</b>	<b>278</b>	<b>278</b>
8700		85711	Vol-Outside Country	-	-	-
8705		85710	Vol-Gas-Outside Country	8	8	8
8710		85300	Vol-Insurance	-	-	-
8715		85300	Vol-Expenses	-	-	-
8720		85800	Vol-Misc. Expenses	-	-	-
8725		85720	Vol-Repairs & Maintenance	-	-	-
8730		85100	Vol-Travel/Leases	-	-	-
			<b>Total Vehicle Expenses</b>	<b>8</b>	<b>8</b>	<b>8</b>
			<b>TOTAL G &amp; A EXPENSES</b>	<b>22,817</b>	<b>22,817</b>	<b>22,817</b>
			<b>TOTAL SALES, G &amp; A</b>	<b>22,917</b>	<b>22,917</b>	<b>22,917</b>

Customer: 150+ accounts are budgeted: many of which are blank or are <0.1% of total expenses



# Best Practice 5: Material and Relevant

- How
  - Don't confuse detail with accuracy
  - Use guidelines/targets
  - Driver based is often more effective and more efficient
  - Support the participant and talk their language

## Major Change

- 'We need to plan for 20,000 SKUs', 'we've always done it that way...'
- Loss of detail perceived as loss of accuracy/control
- 'Our managers can't even use spreadsheets...!', 'we can't trust our managers...'
- Only 29% of companies have formal program to teach financial concepts

Source: BPM Partners



# Best Practice 6: Driver Based

- What
  - Use of KPIs, Assumptions and Drivers resulting through business experience and expertise to standardize and streamline management
- Why
  - Make relevant to participant
  - Speed and consistency
  - Accuracy and alignment to activity
- How
  - Let the Top Down view 'drive out' sufficient detail
  - Use of Guidelines/Targets to support input
  - Can be History, Strategic, Operational, Best Estimate



# Best Practice 7: Best in class use applications

## Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
<b>Best-in-Class: Top 20%</b> of aggregate performance scorers	<ul style="list-style-type: none"> <li>• 24% reduction in budget process cycle time between the last 2 budget cycles</li> <li>• 108% overall budget accuracy (ratio of actuals to budget)</li> <li>• 68% <b>always</b> finalise budgets before the beginning of the fiscal year</li> <li>• 17% improvement in profitability over the last 24 months</li> </ul>
<b>Industry Average: Middle 50%</b> of aggregate performance scorers	<ul style="list-style-type: none"> <li>• 6% reduction in budget process cycle time between the last 2 budget cycles</li> <li>• 94% overall budget accuracy (ratio of actuals to budget)</li> <li>• 43% <b>always</b> finalise budgets before the beginning of the fiscal year</li> <li>• 8% improvement in profitability over the last 24 months</li> </ul>
<b>Laggard: Bottom 30%</b> of aggregate performance scorers	<ul style="list-style-type: none"> <li>• 1% reduction in budget process cycle time between the last 2 budget cycles</li> <li>• 77% overall budget accuracy (ratio of actuals to budget)</li> <li>• 34% <b>always</b> finalise budgets before the beginning of the fiscal year</li> <li>• 9% <b>drop</b> in profitability over the last 24 months</li> </ul>

Source: Aberdeen Group

Many of the Best Practices can only be achieved with an appropriate supporting technology.

The ROI or payback of planning systems can often be measured in months – and when aligned with changes to processes deliver the improvements through which the best in class businesses gain competitive advantage.



# Best Practice 7: Best in class use applications

If someone had told me **how much impact** a planning and reporting application would have on our company, I wouldn't have believed them.

I also wouldn't have believed a package as **affordable** as Adaptive Planning could offer such **sophistication** and be so **easy to use**. The only **regret** is that **we didn't do it fast enough**. We waited 18 months... but there is never a bad time to do this.

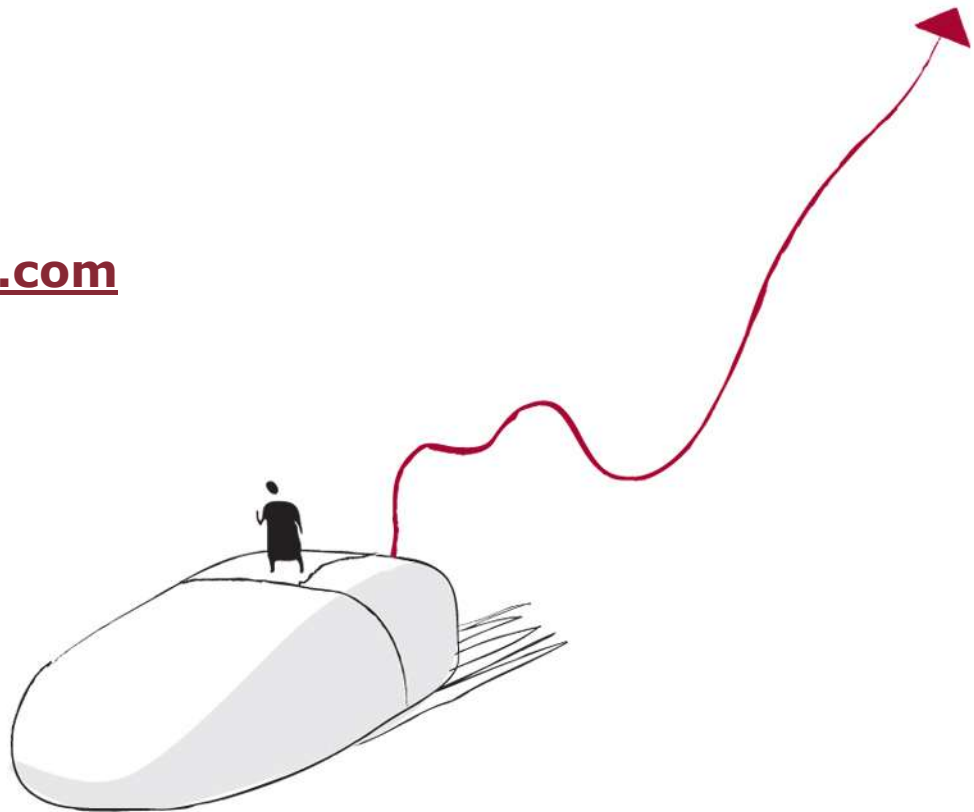
*Doug Brunton, Director, Financial Systems, Vicor Corp.  
BPM Magazine, September 2008*



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