

Planning, budgeting and forecasting: Software selection guide



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Abstract

This guide addresses the challenges of planning, budgeting and forecasting in a spreadsheet environment and highlights the advantages of using software solutions designed specifically for dynamic planning. 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 for their specific business processes and needs.

Overview

The planning process—planning, budgeting, forecasting, analysis and reporting—presents a formidable challenge to many companies, regardless of size or industry. Planning is a crucial component of financial performance management and it can contribute greatly to a company's overall success or failure, especially in times of volatility and disruptive competitors. In the 2015 IBM Global C-suite Study, 81 percent of CFOs regarded optimizing their planning, budgeting and forecasting as an important goal. Yet only 62 percent felt that their finance organizations were achieving that goal—a gap of 19 percent.¹

Despite its importance, planning—and especially the annual budget process—is often seen as burdensome and time-consuming. Forward-thinking organizations, however, realize that when planning is dynamic and based on input from across the enterprise, it offers enormous opportunities to drive process efficiency and business insight.

Leading companies are taking advantage of new technologies and employing well-established planning and forecasting best practices. When they do, they are rewarded with more accurate plans, more timely forecasts and re-forecasts and more effective decision-making. Overall, these tools and practices can save time, reduce errors, promote collaboration and foster a more disciplined financial management culture that delivers true competitive advantage.

Specifically, such companies are able to:

- Consistently deliver timely, reliable plans and forecasts, along with contingency plans.
- Analyze situations where performance deviates from plans and promptly take corrective action.
- Strengthen the links between strategic objectives and operational and financial plans.
- Improve communication and collaboration among all plan contributors.
- Enhance strategic decision-making, enabling leaders to quickly identify, analyze and forecast the impact of changes as they occur.

The goal of this guide is to help organizations improve their planning, budgeting forecasting and analysis processes. The guide outlines a systematic approach to software evaluation and selection that aligns best practices and leading-edge technology with key planning activities. Readers will be asked to review their own planning process, identify challenges, define stakeholder requirements and match emerging criteria with software features and functions.



Figure 1: Finance leaders invest in analytics capabilities at a higher rate than their peers. — IBM Center for Applied Insights, October 2015²

Planning challenges and process problems

Corporate decision-makers often voice similar complaints about traditional planning, budgeting and forecasting.

- Low-value activities take up the greatest portion of staff time.
- Plans are quickly out of date.
- Forecasts and reports are not frequent enough.
- Insight into causes is insufficient – and leads to shadow systems.
- Planning participation is too limited.
- Existing applications and spreadsheets are inflexible and do not support a dynamic environment.

The power of data discovery

“Big Data powers the process of discovery, enabling new questions to be asked and new solutions to be generated. But discovery requires more than data. It also requires new analytical capabilities that draw on new database and hardware architectures and new analytical techniques to draw out hidden patterns among the drivers of revenue, expense and cash flow and new ways to communicate information visually to engage the human brain in ways not possible with traditional rows and columns of numbers.”

— Steve Morledge, Satori Partners, and Steve Player, The Player Group³

For managers outside of Finance, planning can appear to be little more than a periodic intrusion on their time, and one that produces minimal benefit. Managers can feel besieged by demands for detailed information and fall back on the strategy of overestimating budget needs, with the expectation that budget allotments will fall short of their requests. Managers can also feel constant pressure to do more with less, 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 volatility. A well-integrated, dynamic planning and forecasting “nervous system” should be aligned with operations and support high participation throughout the organization. Such a system enables management to engage in aggressive, creative activity, to develop intelligent contingency plans, and to adjust resource reallocations to meet changing business conditions.

Origins of planning challenges

Over the last two decades, companies have devoted considerable resources to implementing enterprise resource planning (ERP) systems. Yet most planning is still performed using spreadsheets, email and countless staff hours—an inefficient approach that is costly in the long run because spreadsheets are not designed to support organization-wide planning and forecasting processes. Sometimes the planning systems themselves can actually impede business responsiveness. The inhibitors are numerous:

- Business rules (formulas) are mixed with data and prone to corruption.
- Files are exchanged frequently, leading to version control issues.
- 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 analysis and reporting are often impossible.

Supporting best practices

Planning software that helps support accepted best practices can enhance timeliness, information reliability and participation by key people throughout the organization. A best-practice approach requires that planners employ several key strategies and tactics.

Align strategic and operating plans

The ongoing alignment of strategic and operating plans is vital. To engage department managers in the planning process, finance professionals must clearly communicate corporate strategic plans and the reasoning behind those plans to those who run the business from day to day.

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 their objectives.

“Although specific to each industry, most businesses will have a few non-financial metrics that are key leading indicators, which will ultimately manifest in their P&Ls.”

— The Future of Planning, Budgeting and Forecasting, Survey 2016, FSN Publishing Ltd⁴

Start at the top—and at the bottom

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

Leading companies provide initial guidance from senior management's top-down perspective on strategic goals, objectives and expectations. Employees and line-of-business managers then build a plan from the bottom up, indicating how they intend to meet the established goals. This process requires frequent iterations for the top-down and bottom-up activities to meet and reconcile.

The result is a plan that is supported by:

- Line of business managers, because they helped create it and will be rewarded for meeting its targets.
- Senior management, because operational goals are aligned with strategic goals.
- Finance, because they have helped add value to a productive, collaborative effort, rather than demanding participation in a budget process that some see as a mere exercise.

Model business drivers

A useful plan or forecast is based on a model with formulas tied to fundamental business drivers. Simply importing and manipulating past actuals does not reflect the underlying operational causes and financial effects in a business. Building driver-based models into plans ensures consistency across functions and promotes planning coordination among functions. For example, by understanding the sales trends and profitability related to particular household products that may enjoy steady sales during an otherwise slow period, a retailer can balance product mix, marketing, inventory and sales expenses to optimize profits. Finance can provide operations managers with a model that includes information about past actuals and current inventory levels and marketing promotions as well as formulas driven by planning assumptions.

Support from Finance does not infringe on department managers' responsibility 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 with other functions. Managers can then make adjustments to this baseline to reflect the latest business conditions. This approach also encourages collaboration across functions.

Drive collaboration between functions

Not only should strategic and operating plans be aligned, but plans that affect multiple functional areas should be coordinated. Best practices include directly involving line-of-business managers in a collaborative approach to planning and forecasting.

In addition to understanding broad strategic goals, department managers must also know what other departments are planning. For example, if a company is planning a major new product rollout, manufacturing needs to ramp up production, marketing needs to increase advertising and the sales organization may need to add new headcount. But the marketing plan should also include training programs to familiarize sales representatives with the new product. The facilities department may need to plan for new headcount, which will involve the participation of HR, as well as new equipment, warehouse space for product inventory and so on. Such collaborative planning can be accomplished through an iterative process that lets managers forecast and share alternative scenarios and contingency plans. Finance also plays a key role in coordinating plans across the company and ensuring that operational tactics are aligned with financial targets throughout the organization.

Continuous forecasting

In today's challenging global economy, with multiple market pressures, forecasts may need to be updated monthly or even bi-weekly. Continuous forecasting helps managers answer critical questions such as "How are we doing against our plan?" and, even more important, "How should we adapt our plans going forward?" For example, if revenue forecasts are below targets, a bank or financial services company may need to introduce new products or services to attract new customers or keep current customers from leaving. With a model-based approach to forecasting, marketing can perform what-if analysis to test new product or service initiatives, examining impact by region and customer segment. In turn, these scenarios can be evaluated by the sales team to adjust their sales strategy, such as spending more time with the most profitable customers.

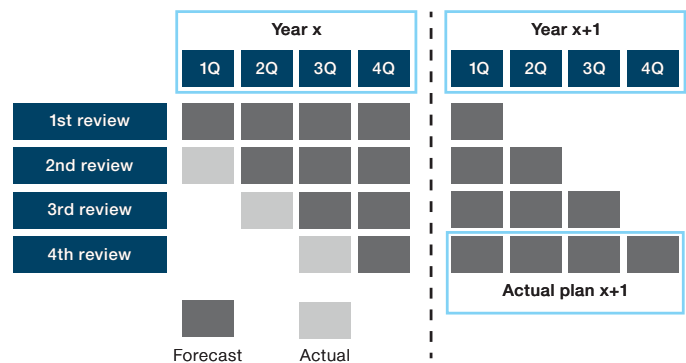
“73% of organizations have reported a move to a culture of continuous planning over the last three years.”

— The Future of Planning, Budgeting and Forecasting, Survey 2016, FSN Publishing Ltd.⁵

Updates to plans feed directly to Finance, which then turns the marketing and sales projections into net revenue projections. When you can model your numbers in real time using both internal and external data all this can be performed in a matter of hours or days rather than in weeks or months, when remedial action may be too late.

Rolling forecasts

One of the most useful innovations in business finance is the rolling forecast. 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 31 and restart on January 1. The rolling forecast time frame should extend out two to eight quarters, depending on business volatility. The forecast should also reflect the input of all departments or 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, North American Program Director of The Beyond Budgeting Roundtable.⁶ “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.”



“Moving from the behavior of annual financial activities into a more dynamic environment, companies are increasingly adopting the rolling forecast, such as a five-quarter forecast. In many cases, rolling forecasts are updated quarterly or monthly, facilitating reduced cycle time with more rapid reaction, realignment and readiness throughout the organization.”

— Steve Player and Steve Morlidge, Business Forecasting: Six Design Principles for Healthier Forecasts, The Beyond Budgeting Roundtable⁷

Planning should be an ongoing process with frequent opportunities for managers to view the company's latest internal and external performance data. Contributors should be able to test new plans or alter existing plans based on new information coming from various sources, including other managers, monthly actuals, top-down target revisions, and leading market indicators such as customer inquiries, sales pipeline information and external market data. Finance should be able to quickly consolidate plan data from all areas of the company and distribute new information immediately. Such a process will facilitate more informed decision-making in such areas as pricing, product family, channel mix, capital allocations and organizational changes.

Manage content you can act on—reduce what you can't

A focus on planning content that can actually be acted on frees managers from unnecessary detail, enabling them to produce better plans. While supporting detail can provide an audit trail and insight into managers' thinking, more detail does not necessarily make a better plan. Managing material content requires attention to information that 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 be any more precise 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.* A 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 adequately using just one.

“But more detail doesn't always translate into increased accuracy. Of the respondents who were forecasting in more detail and those who weren't, a similar percentage (38% and 39%) were able to forecast within 5% of earnings.”

— The Future of Planning, Budgeting and Forecasting, Survey 2016, FSN Publishing Ltd.⁸

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 will be out of date and irrelevant before it is even published—and plans based on stale data and assumptions are of little value. World-class organizations can shorten their planning cycles by implementing the best practices described here. They can also use technology to successfully manage budget consolidation and aggregations on demand. Technology is particularly effective in improving the timeliness and reliability of plan consolidations. In particular, plan consolidation on demand eliminates the need 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 business activities.

At an operational level, this type of planning is 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 for activities such as expense planning, capital planning, profitability analysis and sales margin planning are available from software vendors for a wide range of functional areas and industries. With best-practice templates, companies can build models faster and 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 proposed 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.

Technology supports best practices

Leading companies have recognized that spreadsheet-based planning can impede implementation of planning and forecasting best practices. They have moved to solutions that address the full cycle of planning processes – analytics, modeling, contributing and reporting – on a common planning platform with lean infrastructure requirements. This enables them to plan and re-plan quickly, using the same or fewer resources. Streamlining the planning process demands technological tools capable of supporting a fast, flexible and adaptive approach. By using a dedicated planning, budgeting and forecasting solution, organizations can more readily implement best practices.

Deployment options: On-premises, in the cloud, or both (hybrid)

Various deployment options need to be considered when selecting a solution. Ideally, the solution should be able to migrate between cloud, on-premises and hybrid models as needed, giving the organization the same planning capabilities regardless of where the solution resides. The cost of cloud solutions is typically lower than that of on-premises solutions, in part because maintenance, hosting and support are handled by the software vendor. With cloud, organizations can usually add users at will and functionality upgrades are automatic, although there may be an option to postpone version upgrades if requested. Certain organizations prefer on-premises solutions for various technical or business reasons. Some stakeholders may still have security concerns with cloud solutions, although cloud security has improved to the point where there is usually little difference between the security of cloud, on-premises, and hybrid solutions. In any case, every organization has different deployment needs and many organizations like the flexibility to be on-premises in some locations and in the cloud in others. Therefore, configuration flexibility is essential to match the changing needs of a growing organization.

Key qualities of a modern solution

When evaluating and selecting planning, budgeting and forecasting software, leading organizations look for solutions that meet these top-level requirements:

- *Adaptive.* The ability to rapidly change models based on input and prototypes from business units and to frequently re-forecast enables companies to respond to business changes as often as necessary.
- *Timely.* Information is always current because line-of-business users contribute directly to a central planning database. Consolidations and rollups are done automatically, so deadlines are met more easily.
- *Integrated.* Planning, analysis, workflow and reporting reside on one common platform. Managers do not need to maintain “shadow” planning systems.
- *Collaborative.* Web-based, distributed planning enables participation anytime, anywhere with a secure connection.
- *Led by Finance.* Because the Finance team is responsible for the overall planning process, finance professionals have the best understanding of what is required in terms of software flexibility and ease of use, both in modeling and in day-to-day activities.
- *Efficient.* Finance managers and department managers should be able to spend less time managing data and more time managing the business.
- *Relevant.* Customized views for users help increase adoption and process 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.

Evaluation of a vendor’s product features and support is a complex task. It requires careful consideration of the software’s 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 evaluating how these features will be implemented and by whom. It is important to test any planning solution that will be used by a large number of stakeholders and will play a critical role in organizational performance.

Workshop evaluation

A workshop approach can be used to evaluate not only solution features, but also the way a plan is constructed, distributed and reported on. A specific business process should be defined (such as capital, headcount or expense) as a context for the evaluation of product features and intangible factors such as ease of development, roles, references and customer support.

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

Planning software selection matrix

Feature Category	Score	Importance/ Weight (1=least important, to 5=most important)	Vendor X (Weight * Score)	Vendor Y (Weight * Score)	Vendor Z (Weight * Score)
Dynamic Planning Blended with Analytics					
On-demand (in-memory) what-if analysis					
Individualized analysis and plan prototypes shared with other planners					
Profitability analytics – linked to plan model – to optimize business performance					
On-demand reporting					
Personalized workspace with customized views					
Predictive analytics capabilities					
Integrated analysis through charting					
Align Strategy & Operational Plans					
Module application development					
Operational planning aligned with financial planning to improve decision-making via application linking.					
Supports comprehensive planning life cycle, from individual to group to enterprise and back					
Model Business Drivers/Planning Applications					
Guided modeling w/graphical interface					
Driver-based calculations					
Dimension separate from models					
Multi-cube development environment					
Ease of development by finance/business analysts					
Manage Content					
Real-time workflow					
Defined user views					
Role-based security					
Web client					
Personal desktop client					
Microsoft Excel client					
Annotations support					
Supports Timely and Reliable Planning					
On-demand plan consolidation					
Automated data loads between transactional systems					
Certified connector to enterprise resource planning (ERP)					
Standard reporting					
Multi-dimensional analysis					
Dashboarding and scorecarding					
Distributed and connected planning modes					
Planning types for corporate input, hierarchical, and continuous					

Feature Category	Score	Importance/ Weight (1=least important, to 5=most important)	Vendor X (Weight * Score)	Vendor Y (Weight * Score)	Vendor Z (Weight * Score)
Best Practices Templates (pre-built models)					
Capital expenditure planning					
Expense planning					
Integrated income statement, balance sheet, and cash flow					
Profitability analysis					
Workforce planning					
Sales margin planning					
Company Profile					
Quality of references					
Revenue					
Number of employees					
Number of customers					
Number of industry references					
Independent industry analyst ratings					
Implementation and support					
Implementation methodology					
Training options					
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					
Metadata support					
MDX support					
HTTPS support					
Deployment Options					
Cloud					
On-premises					
Hybrid					
Total Score					

Conclusion

The successful implementation of a planning solution requires the orchestration of technology, business processes and best practices. This selection guide outlines key principles to help a company align its business process and technology requirements during the process of selecting planning, budgeting and forecasting software. By matching a company's planning process to established best practices, facilitated by the proper implementation of a planning solution, an organization can significantly improve its financial and operational performance. The ultimate results are improved visibility to performance gaps and alternative courses of action, more reliable forecasts, and shared commitment to achievable goals.

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With IBM software, companies can spot trends, patterns and anomalies, compare "what if" scenarios, predict potential threats and opportunities, identify and manage key business risks and plan, budget and forecast resources. With these deep analytic capabilities our customers around the world can better understand, anticipate and shape business outcomes.

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