Best Practices for Budgeting, Forecasting and Reporting
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BUDGETING AS A COMPETITIVE ADVANTAGE

The corporate budgeting, forecasting, and reporting process presents a formidable challenge to most companies, regardless of size or industry. Budgeting is often seen as burdensome and time consuming. Yet budgeting is also a crucial element of financial management, which in turn is a huge contributor to a company’s overall success or failure. As a result, companies that are able to address budgeting obstacles and improve their process will not only be rewarded with more accurate budgets, more timely re-forecasts, and improved decision-making, but will also foster a disciplined financial management culture that will deliver a true competitive advantage. Companies can overcome planning challenges and achieve these goals by applying budgeting and forecasting best practices and leveraging new technologies.

BROKEN PROCESSES & TECHNOLOGY

For most organizations, the annual planning process is broken. First off, the process takes months to complete. In addition, because line managers see little benefit to the effort, they are dragged through the process against their will. When finance does much of the work themselves, managers refuse to buy in and the plan loses credibility. What’s more, once the agonizing process is finally complete, the budget is already outdated. Rather than being a useful decision-making tool, the budget is a disconnected document that has little impact on the company’s business.

Compounding these broken processes are the underlying budgeting technologies, which in many companies are simply spreadsheets and email. While these technologies are ubiquitous and well-understood, they simply do not work well for planning. Nearly everyone has felt the pain of planning’s “spreadsheet hell” — the broken formulas, bug-ridden macros, manual consolidations, out-of-synch versions, and related problems which contribute to a lengthy, frustrating, and error-prone process.

"Across the board, finance executives...believe they spend too much time on forecasting, budgeting, and planning. Of these executives, 73 percent rely primarily on spreadsheets and manual processes. When asked about the most acute problems with their current planning process, more than 60 percent said it “takes too long.” Nearly 43 percent said “not enough time to analyze data,” and more than a third cited “lack of ownership by business units.” — CFO Research Services"
THE SOLUTION: BEST PRACTICES AND NEW TECHNOLOGIES

Leading companies have learned to overcome these challenges and have gained a competitive advantage by adopting best practices for budgeting, forecasting and reporting. Furthermore, they know that the right technology can save time, reduce errors, and promote company-wide collaboration in the planning process.

By combining best practices with technology, companies can:

> Consistently deliver a more timely, accurate, and flexible plan.
> Strengthen the link between strategic objectives and operational and financial plans.
> Improve communication and collaboration among managers.
> Enhance strategic decision-making, enabling leaders to more quickly identify, analyze, and forecast the impact of changes as they occur within and around their business.

The result is a company with significantly improved financial management and stronger, more competitive business management.

This white paper outlines the budgeting, forecasting, and reporting best practices and related technologies that have been adopted by leading companies.

BEST PRACTICE #1: MAKE PLANNING PART OF THE CORPORATE CULTURE

First and foremost, it is critical that a company’s culture embraces and rewards planning. Excellent business management requires excellent financial management, which in turn requires a company-wide commitment to excellence in budgeting, forecasting and reporting.

Most companies acknowledge the importance of corporate planning, and claim to be actively participating in ongoing planning. But in reality senior management may be engaged in strategic planning, with finance running the budgeting show, and department managers viewing the annual planning process as an unwelcome chore. This is not the picture of a company that truly embraces planning.

Instead, companies that desire excellence in planning set achievable strategic objectives, demand that these goals be met, and reward those who do so. They require department managers to produce their own plans and tie incentive compensation to their ability to manage their business and achieve their goals. In such an environment, finance can provide tools and support to the managers, functioning as an important ally instead of an obstacle.

Only 37 percent of respondents said that the technology they use to support planning, budgeting, and forecasting processes makes those processes either faster or more effective. This means that 63 percent are giving a thumbs-down to their BPM systems. One likely reason for this result is the prevalence of spreadsheet usage in corporate budgeting processes.

— APQC survey


**BEST PRACTICE #2: ALIGN THE STRATEGIC AND OPERATING PLANS**

Within the “excellent financial management equals excellent business management” culture, the next step is to ensure the ongoing alignment of the strategic and operating plans.

Because of their responsibility to engage department managers in the planning process, finance has the unique opportunity to help clearly communicate the corporate strategic plan to the individuals who run the business. Finance can help translate strategic goals into specific departmental plans and related expense drivers, such as headcount and equipment.

By translating their strategic goals into operational plans, and by tracking and measuring performance against plan, leading companies are able to make meaningful progress in achieving their objectives.

**BEST PRACTICE #3: START AT THE TOP — AND THE BOTTOM**

An important ingredient in successful budgeting and forecasting lies in a company’s ability to plan from the bottom-up and to meet top-down strategic objectives. Some companies establish top-down targets and then turn the annual budget process over to finance, with a mandate to meet the numbers. Other companies require detailed bottom-up planning, and then “plug” the total company numbers at the top so that the plan meets strategic targets. Neither of these approaches reflects a commitment to planning excellence.

Instead, leading companies provide initial guidance from senior management — a top-down perspective on strategic goals, objectives, and expectations. Next, department managers build a plan from the bottom-up, showing how they intend to meet those goals. This process will often require frequent iterations for the top-down and bottom-up approaches to meet.

The result is a plan that:

> Is supported by department managers, because they helped create it and will be rewarded for meeting it.
> Is supported by senior management, because the operational goals are aligned with the strategic goals.
> Is supported by finance, because they added value to a productive, collaborative effort, rather than demanding participation in an exercise with little added value.
BEST PRACTICE #4: DRIVE COLLABORATION BETWEEN FUNCTIONS

Not only should strategic and operating plans be aligned, but plans between functional areas should also dovetail. Best practices include direct involvement from line-of-business managers and a collaborative approach to budgeting and forecasting.

In addition to understanding strategic goals, department managers also need to know what other functions are planning. For example, in a company that is planning a new product rollout, manufacturing needs to ramp up production, marketing needs to produce new collateral, and sales needs to add new headcount. But the marketing plan should also include programs timed to support the new sales reps. The facilities department needs to plan for new headcount, equipment, and product storage. And so forth.

This collaborative planning can be accomplished through an iterative process that provides managers with the opportunity to forecast and share different scenarios with each other. Finance can play a key role in facilitating the coordination of plans across the company.

BEST PRACTICE #5: ADAPT TO CHANGING BUSINESS CONDITIONS

The preceding best practices establish a foundation for making better business decisions. The next important steps are evaluating actual progress against budget and re-forecasting in response to changing business conditions.

All businesses, particularly those in flux, are better served by a planning process that can quickly adapt to change in the company or in the market. The key elements of such a process are:

Frequent Re-forecasting: Especially in fast-moving, quickly growing businesses with multiple market pressures, forecasting may be needed on a monthly or even biweekly basis. Ongoing re-forecasting will help managers to continually answer critical questions such as “What did we expect?”, “How are we doing against our plan?”, and even more importantly, “How should we adapt our plans as a result?”

Rolling Forecasts: A company engaged in ongoing rolling forecasts is always looking forward to the immediate or near-term future. The forecast timeframe should extend out two to eight quarters, depending on the volatility of the business.

Planning should be an ongoing process with frequent opportunities for managers to view the latest internal and external data on how the company is doing. They should be able to make alterations to their plans based on new information, which can come
from many sources, including other managers, monthly actual data, and revisions to top-down targets. Finance should be able to quickly consolidate plan data from all areas of the company, and to disseminate new information in real time. This process will facilitate more informed decision-making in areas such as pricing changes, product line changes, capital allocations, organizational changes, and the like.

**BEST PRACTICE #6: MODEL BUSINESS DRIVERS**

An important feature of a first-rate budget or forecast is that it is based on a model with formulas that are tied to fundamental business drivers. Simply importing and manipulating past actuals does not reflect the underlying cause and effect relationships in a business. Building modeling into plans provides a way to ensure appropriate consistency across functions. It also provides a way to promote planning coordination between functions. For example, future sales forecasts can be tied to the marketing expenditure needed to generate the necessary number of leads.

Finance can provide managers with a useful model that includes information about past actuals and current headcount, as well as formulas that are driven by assumptions. This does not violate the best practice of requiring department managers to be responsible for creating their own budgets. Instead, it saves them time by providing a solid framework to flesh out — a starting point that contains important information about their organizations’ relationships to other functions. It also harmonizes with the best practice of collaboration across functions.

“Significant, unforecastable changes to the environment…can happen anytime. Any company can respond to events haphazardly, but those that have the right planning processes in place can respond faster and in a more coordinated fashion.”

— Business Performance Management Magazine
BEST PRACTICE #7: MANAGE CONTENT THAT IS MATERIAL TO THE COMPANY

A focus on material content in budgeting will free managers from unnecessary detail, enabling them to produce better plans. While supporting detail can provide audit trail and insight into managers’ thinking, more detail does not necessarily make for a better plan.

According to a Hackett Group study of planning best practices, the fewer the number of line items, the better the planning practices. Hackett found that world-class companies average 15 to 40 line items in their budgets, compared to highly inefficient companies that averaged 2,000 line items.

Managing material content means that a company pays attention to whatever has a real and significant impact on expenses, revenues, capital or cash flow. This company will:

> Avoid false precision. A complex model might not have any more precision than a simpler model. More detail and intricate calculations can lure managers into the trap of thinking their plan is therefore more accurate.

> Monitor volatile — not stable — accounts. Efforts are best spent on fluid expenses such as headcount and compensation.

> Aggregate accounts. The budget does not need to reflect the same level of detail as that in the general ledger. Even if the GL has 15 different travel accounts, managers can often plan in one.

BEST PRACTICE #8: BE TIMELY AND ACCURATE

The final best practice is to ensure that the planning process is timely and accurate.

Many companies have an inefficient and inflexible planning process, at the center of which is the annual budget. These companies’ time-consuming distribution and consolidation processes practically guarantee that the plan data is irrelevant before it is even shared. And plans based on stale data and assumptions are of no value.

According to the Hackett Group, the average annual planning and budgeting process is three to five months long. A plan that takes this long to prepare is out of date by the time it is completed. The Hackett Group reports that world-class organizations, on the other hand, spend less than two months preparing the annual plan.

World-class organizations have been able to shorten their planning cycles by implementing the best practices described here. They have also leveraged technology so that they can manage budget consolidation and aggregations in real time.
Technology can especially help improve timeliness and accuracy in the area of consolidations. Real-time consolidation removes the necessity to manually process results, leading to a smoother, more consistent, and more accurate planning process. Variance reports delivered within two to four days from the period close allow managers to immediately evaluate their performance against plan, and then effectively adjust their businesses as a result.

At an operational level, this type of planning will be less costly and will produce more accurate results than the processes followed by most companies today. At a strategic level, a company’s ability to make timely and sound financial plans will allow it to provide more credible guidance to stakeholders, and to make better, more informed and faster business decisions.

**Spreadsheets: Impeding Best Practices**

In addition to adopting budgeting, forecasting and reporting best practices, leading companies have also made changes to the technologies used to support the process. Spreadsheets are still the predominant corporate planning tool. In a CFO Magazine research study, 73 percent of finance executives said they use spreadsheets and manual processes for forecasting, budgeting, and planning. Not surprisingly, more than 60 percent of these executives said that the process takes too long. Most would agree it is also riddled with errors.

While spreadsheets are good personal productivity tools, they are not collaborative planning applications. Spreadsheets are fundamentally unsuited for a complex, dynamic, shared financial planning process for several reasons, including:

- Data distribution and consolidation is time-consuming, rendering frequent re-forecasting unfeasible.
- Spreadsheets are incapable of supporting the kind of iterative planning needed in a changing business environment.
- There is little or no security or audit trail.
- Plan accuracy is always in question, since:
  - Most data is editable, despite password protection
  - Links are easily broken
  - Formulas can be changed, both intentionally and inadvertently
  - Version control is nearly impossible
  - Consolidation is manual.

...heavy spreadsheet usage substantially increases the budgeting and planning cycle time. Those who use spreadsheets extensively take a median of 30 more days to complete their annual budget than do the people who rely less on Excel.

— APQC survey

The spreadsheet’s defects are behind the difficulties organizations have with the [budgeting and planning] process. We therefore advise organizations to eliminate spreadsheets if they want to budget and plan more effectively.

— Business Performance Management Magazine
These inherent weaknesses undermine the accuracy of the entire planning process. This erodes line managers’ confidence in the process, and reduces their level of engagement. Finance is viewed as pushing a bad product, and the plan loses credibility. Spreadsheets are clearly not the best way to manage a top-notch budgeting and forecasting process.

**ALTERNATIVE TECHNOLOGY CAN PROMOTE BEST PRACTICES**

Leading companies have recognized that spreadsheet-based planning impedes their implementation of these budgeting and forecasting best practices. They have moved to a purpose-built application with lean infrastructure requirements. This type of planning software enables them to accurately plan and re-plan quickly, using the same or fewer resources than they formerly devoted to the process.

Streamlining the planning process demands technological tools capable of supporting a faster, more flexible, and adaptive approach to planning. By using an on-demand, dedicated budgeting and planning application that is delivered over the web, organizations are able to implement the best practices outlined in this paper.

With such software, the planning process can be:

- **Integrated:** Strategic, operating and financial plans reside in one system. Managers do not need to keep their own planning systems on the side.

- **Collaborative:** Web-based, distributed planning enables anytime, anywhere participation. The ability to use a secure web connection allows everyone to access the budget information at anytime from anywhere there is Internet connectivity.

- **Adaptive:** Simplified version control and the ability to frequently reforecast allow companies to respond to business changes with “what if” scenarios as often as necessary.

- **Timely:** Information is always current because departmental users contribute directly to a central planning database. Deadlines are more easily met because consolidations and rollups are done automatically.

- **Efficient:** Finance managers and department managers spend less time managing data, and more time managing the business.

- **Relevant:** Customized views for managers increase adoption and ownership. Formula capabilities enable modeling business drivers.

- **Accurate:** Plans contain fewer errors, since broken links, stale data, improper rollups, and missing components have been eliminated.
THE ADAPTIVE PLANNING SOLUTION

Adaptive Planning is the leading provider of on-demand, web-based budgeting, forecasting, reporting and analytical applications. The company helps corporations conquer budgeting inefficiencies and gain greater visibility into their own financial and business performance by:

> Providing affordable, full-featured modeling software that automates the ongoing cycle of budgeting, forecasting and reporting, so that managers can quickly and easily formulate coordinated plans.

> Enabling companies to use timely and accurate information to analyze and respond in real time to changes in their business environments.

> Reducing the requirement for corporate IT, with a hosted, web-based software solution that is instantly available and requires no new IT infrastructure or resources.

For more information on Adaptive Planning, call 650-528-7520 or visit www.adaptiveplanning.com.