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Aligning Long-Term Plans with Short-Term Forecasts

Maintaining Productivity without Losing Sight of Goals

September 2013

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Analyst Insight

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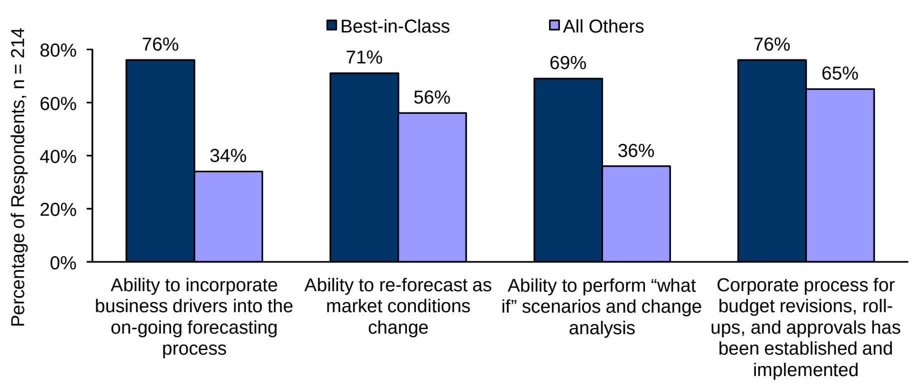
Planning, budgeting, and forecasting are extremely important exercises because they allow organizations to define where they want to be in the coming years and how they plan to get there. However, determining long-term company goals and short-term planning are not necessarily similar disciplines and can be difficult to align. Alignment here is critical, as short-term plans are the baby steps that lead toward long-term success. In a business environment where conditions constantly change, this can prove quite difficult. Truly, 12% of respondents to Aberdeen's 2013 Financial Planning, Budgeting, and Forecasting survey indicated that operational forecasts are not aligned with overall business objectives. This signifies that those in charge of corporate strategy are unhappy with the forecasts prepared by operations because they are inconsistent with overall goals. Concurrently, 48% indicated that they have difficulty aligning operational execution with financial planning, budgeting, and forecasting. This means that those closer to the front lines do not understand how they are supposed to meet organizational goals in current business conditions. In order for the entire organization to be constantly working towards a common goal, Best-in-Class organizations are better able to align short-term operational plans, budgets, and forecasts with long-term organizational goals and initiatives. This report will thus illustrate how top-performing organizations utilize a group of organizational capabilities and technologies in order to unite long- and short-term plans.

Aligning Short-Term Planning with Long-Term Goals

From a functional standpoint, there are some capabilities that should be in place to facilitate effective overarching and operational planning (Figure 1).

Figure 1: Best-in-Class Enable Forecasting Capabilities



Source: Aberdeen Group, January 2013

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.

Aberdeen Methodology

The Aberdeen maturity class is comprised of three groups of survey respondents. Classified by their self-reported performance across several key metrics, each respondent falls into one of three categories:

- √ **Best-in-Class:** Top 20% of respondents based on performance
- √ **Industry Average:** Middle 50% of respondents based on performance
- √ **Laggard:** Bottom 30% of respondents based on performance

Sometimes we refer to a fourth category, **All Others,** which is Industry Average and Laggard combined.

Maybe most importantly, organizations need to understand what their goals should be as well as the factors that can impact those goals over time and in the short-term. 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. This is important at both the top and the bottom of the organization. Those at the top, who are in charge of long-term planning, must understand what drives their business on a daily basis. They must be aware of realities such as current customer perception, which some functions may be more privy to. Conversely, the line of business must understand what goals the organization is ultimately driving towards in order to align their forecasts. This awareness should not, however, preclude them from altering short-term forecasts. After all, a wildly inaccurate forecast is only going to make life more difficult for top-level decision-makers. As such, 71% of the Best-in-Class have the ability to re-forecast as market conditions change. But what is it that enables superior planning at both levels?

Both long- and short-term planning can benefit from capabilities enhanced with technology or through organizational initiatives. For example, Best-in-Class organizations are 92% more likely than All Others to have the ability to perform "what-if" scenarios. From a long-term standpoint, planners can see what the potential impact to the business will be if production is shifted to a new plant. On a shorter-term basis, planners can also see what the impact on operating margins will be if they buy a certain material in bulk. The key is to ensure both are in alignment. This can be established through process. For example, 76% of the Best-in-Class have a standardized process for budget revisions, approvals, and roll-ups. Through the standardization of these processes, Best-in-Class organizations can ensure the most essential tool in aligning short- and long-term planning: collaboration.

Collaboration is essential for apprising all stakeholders of the important things they should consider when planning. If corporate management has determined that the organization will exit a certain segment of their business, it would not make much sense for local sales teams to be forecasting large increases in sales. In order to avoid these situations, Best-in-Class organizations are 82% more likely than All Others to establish enterprise-wide collaboration from the top-down and bottom-up (Figure 2). Further, 83% of the Best-in-Class involve mid- to senior-level managers in higher-level discussions.

How Do You Rate?

In the report, *Financial Planning, Budgeting, and Forecasting: Removing the Hurdles*, respondents were ranked on the following criteria:

√ **Percentage of financial reports delivered in the time needed for decision-making:** Best-in-Class – 94%, Industry Average – 76%, Laggard – 58%

√ **Percentage that actual costs are within budgeted costs (above or below):** Best-in-Class – 3%, Industry Average – 9%, Laggard – 20%

√ **Percentage that actual revenue is within forecasted revenue (above or below):** Best-in-Class – 2%, Industry Average – 10%, Laggard – 22%

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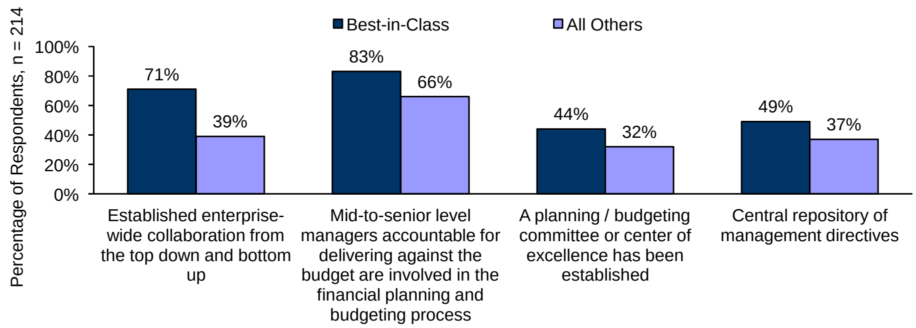
Figure 2: Communication is Key



Source: Aberdeen Group, January 2013

There are many ways to ensure this collaboration. For example, 44% of the Best-in-Class have planning and budgeting committees or centers of excellence. These centers bring people together to keep everyone on the same page. Additionally, 49% of the Best-in-Class have a central repository of management directives. Those on a lower level can then ensure their operational forecasts are aligned.

Essential Technology

One way to spur collaboration (by making data used in forecasting available) and effectiveness (by providing tools that make the job easier) in planning, budgeting, and forecasting is through a wide variety of software tools. In fact, Best-in-Class organizations are more likely than All Others to utilize a variety of tools that help those at the top and the bottom of the organization to gather and analyze data that will help to create more informed plans, budgets, and forecasts. For example, 68% of the Best-in-Class have specific planning, budgeting, and forecasting applications. These tools help employees to create forecasts automatically within the parameters that are defined by management. So not only do these tools make planning itself easier to complete, but they can also help to notify employees across the organization of both long- and short-term plans.

Table 1: 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

Although difficult, aligning short- and long-term plans, budgets, and forecasts is absolutely essential for an organization's success. Long-term plans enable leaders to choose a direction and make changes and investments that can help to reach those goals. Short-term forecasts enable decision-makers to understand how the business is performing short-term and can help them to make adjustments to keep the organization on track towards its larger goals. There are really two main keys that can make aligning long and short-term plans possible:

- **Technology.** By implementing a variety of tools and capabilities, organizations can enable their employees to complete forecasting processes more efficiently and with a greater ability to utilize predictive data. For example, Best-in-Class organizations are 92% more likely than All Others to have the ability to perform what-if scenarios.
- **Communication.** Those on the line of business have great visibility into how the organization performs on a day-to-day basis. Those at the top understand long-term organizational goals. As such, Best-in-Class organizations are 82% more likely than All Others to establish enterprise-wide collaboration from the top-down and bottom-up. Additionally, 49% of the Best-in-Class have a central repository of management directives.

These keys will allow the organization to be working towards operational forecasts without losing sight of the bigger picture.

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