Adaptive Planning

Unified Business Performance Management:
How to Streamline Budgeting, Reporting, Analysis, and Forecasting

WHITEPAPER

The Challenge: Disconnected Systems and Processes Stumbling Blocks to Successful BPM

The premise of Business Performance Management (BPM) is simple: companies can optimize performance by setting goals, monitoring progress against those goals, and quickly reacting to change. Companies that embrace BPM are able to consistently achieve ambitious objectives, easily identify unexpected trends, and respond advantageously to outpace their competitors.

What are the keys to achieving such performance? The processes at the heart of BPM are well-known—they are the standard processes managed by most finance organizations. Budgeting establishes the goals, reporting and variance analyses monitor progress and detect change, what-if scenario analyses evaluate potential actions, and re-forecasting begins the cycle again by establishing new goals.

If the premise and processes are so straightforward, why are most companies unable to achieve exceptional performance? Most companies engage in all the appropriate steps—they budget, report on a monthly or quarterly basis, perform variance and what-if analysis, and periodically reforecast. However, many companies have not linked these steps together into an integrated, unified financial management process. Each process—budgeting, reporting, analysis, forecasting—is conducted by a separate group, with independent spreadsheet-based models that pull data from different back-end systems. Consequently, the majority of companies face significant inefficiencies and redundancies in their financial processes, resulting in long cycle times, high error rates, unnecessary expenses, and suboptimal decision making.

Fortunately, the path to improved performance management does not have to be difficult. This whitepaper examines both the challenges of poorly integrated financial processes and the benefits of a unified approach. It also reviews technologies that enable companies to adopt BPM best practices. The conclusion? Migrating from disconnected processes to a unified approach can be surprisingly simple—it can be done in just days or weeks, at an affordable price.

Does It Have To Be This Difficult? A Familiar Story

In order to review the challenges associated with poorly integrated financial processes, the following scenario describes how a typical company develops its annual budget, distributes quarterly variance reports, and reacts to business challenges.

Budgeting: Spreadsheet Hell

The process begins several months before the end of the fiscal year, when finance launches the annual budget. Senior management has provided top-down strategic goals, and finance is responsible for managing the process by which line managers will plan from the bottom-up to meet those objectives.

Finance uses spreadsheets to painstakingly model the company's revenue and expense patterns and relationships. This model is then cut into pieces and emailed to line managers. The line managers frequently view the finance model as restricted and rigid, so they reject these spreadsheets, opting instead to do their planning in separate models that they have created over time. The managers ultimately copy their budget numbers into the finance spreadsheets and make changes to the model in order to capture the true dynamics of the business. As a result, when finance receives the budgets from the different organizations, the model rarely works as expected, resulting in a time-consuming and error-prone consolidation process.

Finance and the departments often need to iterate on this process multiple times in order to ensure that the bottom-up numbers meet the top down objectives, and that organizational plans are aligned. For example, several steps may be required to make sure that the marketing and manufacturing plans are consistent with the sales plan. Small changes to one organization's plan can cause ripple effects that create another round of changes for the whole company.

Once the budget is completed and loaded into the general ledger (GL) system, it is often not very useful. Because the process took three or more months to complete, the numbers are already stale. What's more, while the finance team can produce a budget profit and loss statement, they do not even bother to attempt a balance sheet or cash flow statement. Cash flow planning is performed by yet another organization, the Treasury group, using its own systems.

Reporting & Variance Analysis: Are These Numbers Correct?

Ongoing reporting and analysis are no better. At the end of the first quarter, finance exports variance reports from the GL into Excel, does manual manipulation and formatting, and distributes them to the department managers. These reports are inflexible, providing a single view of the data: expenses, current period actual versus plan, sorted and subtotaled by department and function. Multidimensional reporting is out of the question. Headcount reports, which are critical to explaining variances, are produced by a separate human resources system, and may not be incorporated into the reporting package. Managers can view the reports, but have no ability to drill down to understand the underlying causes of the variances.

As a result, the finance team spends long hours responding to questions from executive and operational management. Revenue variance reports can be particularly problematic, especially in the case of services-based companies, due to significant timing differences between contract bookings and recognized revenue. Sales managers have planned bookings versus revenue, and are simply unable to explain revenue variances; they require significant help from finance.

Compounding the problem, the data in these variance reports is often incomplete or contains errors. Within the company, there are frequently "dueling versions of the truth." For example, reports might reference an incorrect version of the budget, or actual charges might roll up to the wrong function. Understanding the differences and reconciling the dueling versions can be especially challenging.

Once again, the net result of this painful, manual, and time-consuming process is of questionable value. Both the format and unreliable content of these variance reports serve to seriously undermine managers' ability to use them as a foundation for effective business decisions.

Key Performance Indicators: A Good Idea, But…

This company understands that, in addition to variance reporting, key performance indicators (KPIs) provide important feedback on the state of the business. Department managers monitor operational tracking systems for performance indicators related to operational, day-to-day management issues. Meanwhile, company executives focus on a dashboard report intended to capture the overall business performance. Unfortunately, these two reporting processes are disconnected and utilize separate systems, resulting again in dueling versions of the truth.

What-If Analysis: No System Support

Typically, after exhaustive review of the various models and reports, the CFO will want to analyze the impact of potential strategic actions, such as a reorganization of the company. The finance team simply cannot accomplish such analysis using their spreadsheet models, which are far too brittle to accommodate flexible scenario modeling. As a result, there is no easy way for finance to incorporate bottom-up input from line managers. Instead, the CFO meets with the operational VPs and CEO, and the team takes a high-level stab at modeling the results of strategic actions. They make a decision, but lack confidence in the new plan.

Re-Forecasting: The Rear-View Mirror

Finally, the end result of the variance explanations, KPI reviews, and what-if analyses is often a revision to the plan of record. Ideally, re-forecasting would use the same process as the annual plan; however, doing so would be fraught with the same problems: inadequate systems, unnecessary overhead, and insufficient, inaccurate, and stale data. Due to time considerations, finance simply cannot manage multiple iterations of the process, so this time they complete most of the work themselves. They do not involve operational management, and focus most of the effort on backward-looking results, relying on past actuals as an indicator of future performance. The result is that this rushed re-forecasting effort does not provide adequate guideposts for managing through changing market conditions.

The picture painted above is that of a company that sets goals but is unable to achieve its objectives. It struggles with disconnected and inefficient processes and systems, resulting in redundant efforts, insufficient or false data, poor insight into underlying business drivers, and a lack of agility in responding to changing business conditions.

Picture This: The Way It Should Be

The picture of an organization that has embraced unified financial processes stands in sharp contrast. This company has liberated finance and business managers from inefficient, spreadsheet-based budgeting, reporting, and forecasting. Instead, it has embraced a single business performance management system that integrates with the GL and operational systems, and unifies their budgeting, reporting, forecasting, and analysis processes.

Budgeting: Fast, Timely and Accurate

Here, the annual planning process takes much less time and uses fewer resources than at the company described above. Finance uses the BPM application to quickly build a model of the company's revenues and expenses, using formulas that are tied to fundamental business drivers. Top-down goals from the executive staff are built into the model. Finance distributes the model to line managers automatically over the Internet. The managers see only what is important to their business, and are able to build plans with as much detail as necessary to support their assumptions. They do not feel compelled to keep separate planning systems on the side. The system automatically consolidates plans, instantly and as often as necessary. Departmental plans are driver-based, and therefore always remain aligned—for example, the manufacturing and marketing managers consistently work with up-to-date sales assumptions. Managers throughout the company are able to collaborate with one another through an iterative process that provides the opportunity to plan and share different scenarios.

This company completes their annual budget in a short period of time—in days or weeks, versus months. As a result, the numbers are current and accurately reflect expected performance. In addition to revenues and expenses, the plan includes an integrated balance sheet and cash flow statement. The Treasury department uses the same BPM system for cash flow planning. Everyone works from the same set of numbers.

Reporting & Variance Analysis: Online, Flexible and Multi-Dimensional

At the end of the quarterly close, finance exports actuals data from the GL and key operational systems into the BPM application. Within days of the accounting close, managers have access to flexible and multi-dimensional variance reports. Drill-down capability means that they can easily see underlying budget assumptions. They can re-sort and subtotal the expenses, headcount, and revenue (where appropriate) in ways that are meaningful to them, in order to understand and explain variances. Finance can consolidate managers' explanations instantly. And the executive team gets the answers they need within days, instead of weeks, of the quarterly close.

What's more, the flexible reporting of the solution provides additional analytic opportunities beyond traditional variance reporting and analysis. The company can "slice and dice" data in a variety of ways. For example, bookings and revenue can be tracked by customer, by sales rep, and by region. The VP of Sales can use the BPM system to view actual and plan data in any combination of these, and can even include cost data in order to examine customer or pipeline profitability. Similarly, the VP of Engineering can view R&D spending by project, product, or other relevant dimensions.

Key Performance Indicators: Truly Useful

This company's BPM system utilizes key operating metrics not only as drivers of the plan, but also as outputs—actual performance indicators. Key operational and strategic metrics can either be calculated within the BPM application, or imported from other systems where necessary. The result is that all of the plan and actual data, plus variances and key indicators, reside in one place, accessible online as appropriate to managers worldwide. Rather than quarrelling over which numbers are correct, managers and executives instead collaborate on what actions to take based on a shared understanding of current performance.

What-If Analysis and Re-Forecasting: Continually Looking Forward

Because it is a fast-moving, quickly growing business that faces multiple market pressures, this company requires ongoing re-forecasting in order to ensure it is on track to achieve its objectives. When the CFO wants to perform a what-if analysis based on a possible reorganization, the finance manager creates a new version of the forecast and changes the department rollup structure. That same morning, the CFO is able to view reports showing full financial statements under the new structure. Line managers are involved in making changes to the forecast, based on collaboration with one another and with the CFO. The team completes the what-if scenario that day, makes a decision, and incorporates the results into a new forecast. Management is confident in the new plan, and moves forward aggressively to execute.

Using the BPM application, the company is able to conduct continuous planning reviews, what-if scenarios, and rolling forecasts, allowing managers to respond rapidly to unpredictable events and changing markets.

Comparing the Two Companies

Both companies described above understand that the way to optimize their performance is to set goals, monitor progress against those goals, and respond with agility to changes in the business environment. The first organization, which is weighed down by disconnected processes and systems, is unable to identify the underlying causes of unexpected results, or to take corrective action in a timely manner. The second company has eliminated complex, siloed planning and reporting processes and systems, replacing them with a unified BPM system. In that company, managers use timely actuals, key performance indicators, rolling forecasts, and collaborative what-if analysis to understand current performance and take the actions that will ensure that they win in their market.

How to Get There: The Right Technology

How can the first organization transform itself into the second? First, it needs to acknowledge that spreadsheets are inadequate to support collaborative, iterative enterprise-wide budgeting, reporting, analysis, and forecasting. Proven tools and technology can far better facilitate and integrate these financial processes. As described earlier, these technologies are most often known as a business performance management applications or business intelligence (BI) tools.

Many software companies provide BPM or BI solutions. These solutions commonly include a set of applications that enable historical reporting and analysis, forward-looking budgeting, planning, and re-forecasting, and dashboards for monitoring and communicating KPIs. They allow companies to consolidate and unify their financial processes, resulting in substantial improvements over spreadsheet-based processes. Using BPM or BI applications, companies are able to dramatically reduce cycle times for reporting and budgeting, eliminate errors, and improve decision making.

However, until recently, most BPM and BI solutions have been costly and have involved lengthy implementations. Many companies have spent hundreds of thousands of dollars, and months or years to license and implement their solutions. These solutions are also extremely complex, and are therefore commonly owned and administered by the corporate IT department. Ironically, because finance is not able to administer the solution themselves, and because department managers often find the solutions to be too complex, many companies end up reverting to spreadsheet-based approaches.

Given the cost and complexity, most of the companies that have historically been able to benefit from BPM and BI tools have been large enterprises that could afford to make large capital investments in solutions, and that could support the solutions with teams of specialized IT personnel. These factors explain why 70% of mid-market companies and divisions of larger corporations are still using spreadsheets, and have not been able to capitalize on the benefits of BPM and BI.

Fortunately, there are now alternatives to these complex, costly and inflexible enterprise BPM and BI solutions.

Adaptive Planning

Adaptive Planning provides a powerful Business Performance Management solution designed to help mid-market companies and divisions of corporations integrate and streamline their financial processes. Unlike the enterprise BPM and BI applications described above, Adaptive Planning is affordable, easy to use, and can be deployed in days.

The Adaptive Planning solution enables companies to:

> Streamline the budgeting process, often reducing plan cycle time by months.

> Integrate planning and forecasting with reporting and analysis.

> Perform comprehensive reporting with drill-down capabilities, including variance analysis that is either backward looking (e.g., actual vs. budget) or forward looking (e.g., forecast A vs. forecast B).

> Conduct what-if analyses, using timely and accurate information to model the potential effects of strategic actions or changes in the business environment.

> Create ongoing forecasts based on prior actuals and/or key business drivers.

> Ensure that all processes are unified and drive a full set of integrated financial statements—income statement, balance sheet, and cash flow statement.

Adaptive Planning provides a robust modeling environment, balanced with an easy-to-use interface that is intuitive for both finance and department users. And, because the solution is delivered as an on-demand, hosted service, it does not require new hardware or software puchases, or IT support.

Adaptive Planning is privately held and is headquartered in Mountain View, California. For more information on Adaptive Planning, call 650-528-7500 or visit www.adaptiveplanning.com.