

Planning in a Changing World

Survey Results

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Context & introduction

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Planning, Budgeting and Forecasting in the spotlight

The Planning, Budgeting and Forecasting (PBF) cycle has always been key in managing a company. However today it is in the spotlight more than ever before:

- The economic circumstances over the past few years have forced companies to **reassess both their short and long-term strategies**. Often this has meant going back to the drawing board on financial plans and budgets.
- The new economic climate furthermore introduced a larger degree of uncertainty. The forward-looking financial processes of many companies have proven to be underequipped to deal with this. The move towards **risk-integrated, probability-based planning and forecasting** could become a major trend in coming years.

Context & introduction

Planning, Budgeting and Forecasting in the spotlight

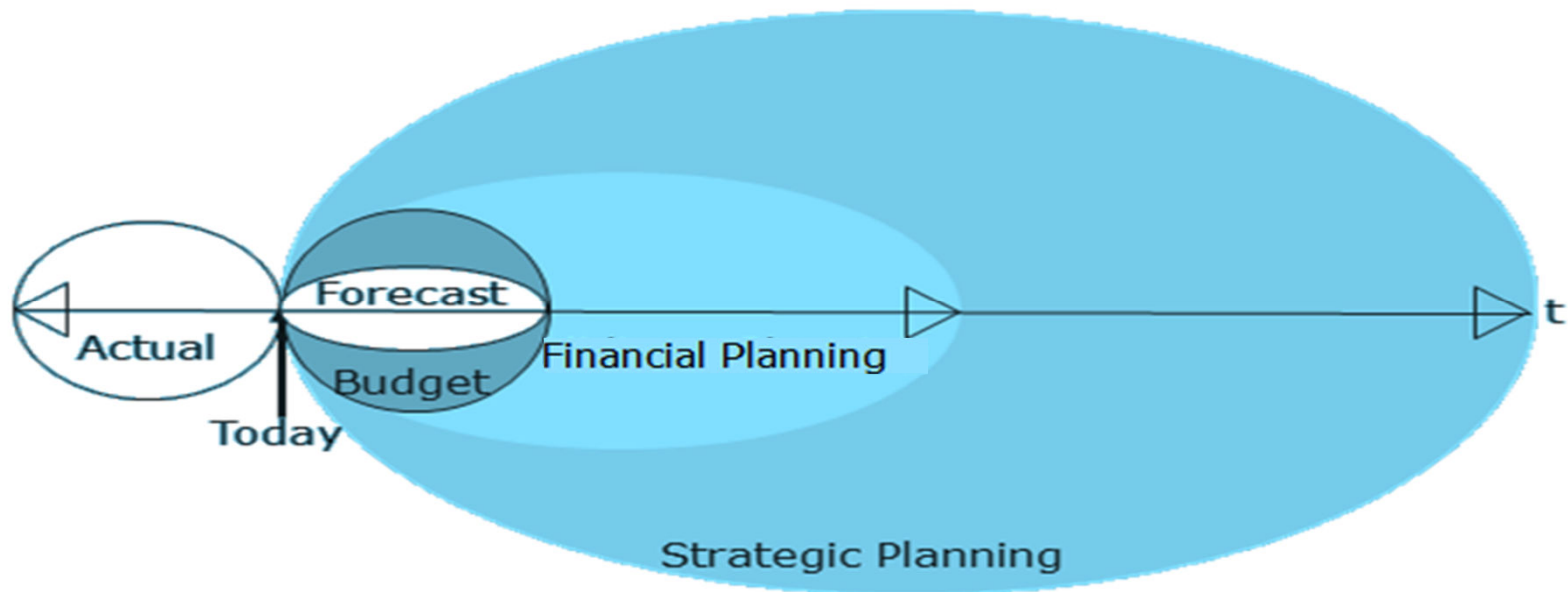
The Planning, Budgeting and Forecasting (PBF) cycle has always been key in managing a company. However today it is in the spotlight more than ever before:

- Most companies by now realize that they cannot see their financial management processes in isolation. The introduction of **integrated performance management** concepts brings additional attention to PBF processes and their interdependencies.
- The past two decades saw a huge advance in the way companies manage their operational and transactional processes through ERP systems. By now, those companies are ready to start capitalizing on the information mountains they are sitting on and turning their attention to **both forward-looking and analytical solutions and processes**.

Context & introduction

Survey definitions of Planning, Budgeting and Forecasting

- Strategic Planning
 - Financial Planning (P)
 - Budgeting (B)
 - Forecasting (F)
 - Actuals & Reporting
- Scope of the survey: PBF



Context & introduction

Situating Planning, Budgeting and Forecasting within IPM

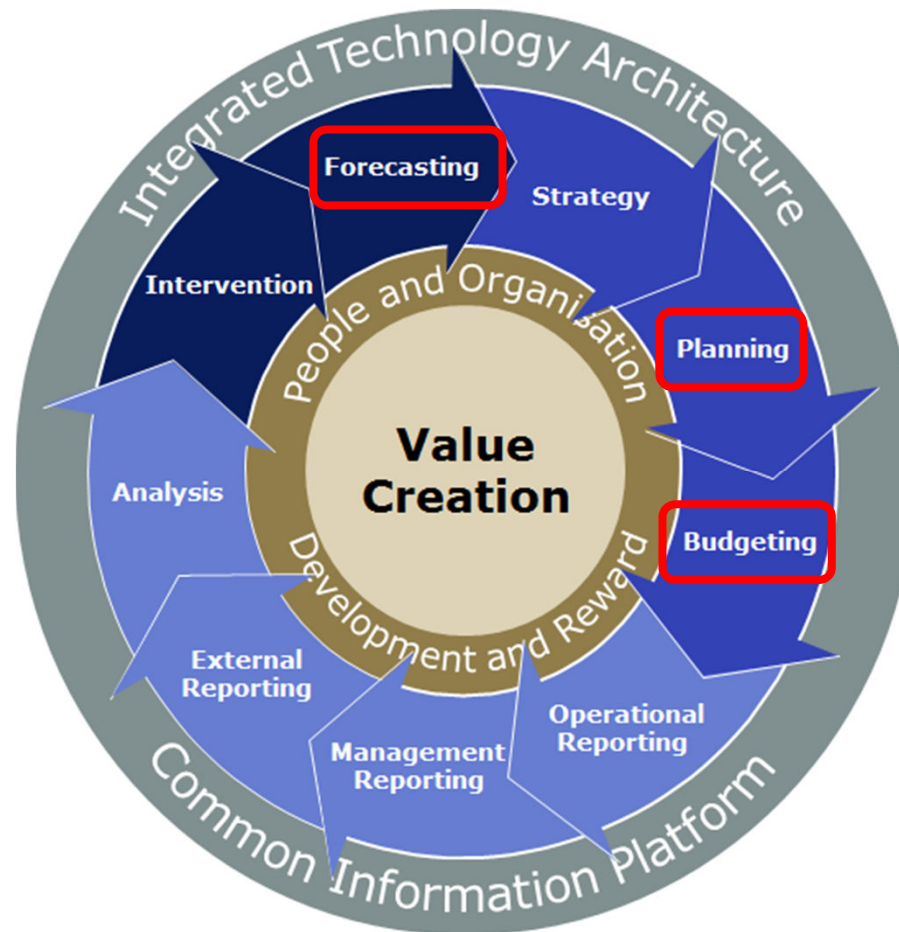
- Financial Planning, Budgeting and Forecasting are forward-looking financial processes which are part of an **Integrated Performance Management** cycle

Intervene and Realign

Active intervention to realign the business

Measure and Evaluate

Run the business and monitor performance



Plan and Target

Align the business to deliver to strategy

Agenda

Survey participants overview

Is PBF on the company agenda?

Summary process assessment

Detailed survey results

Key messages

Survey participants overview

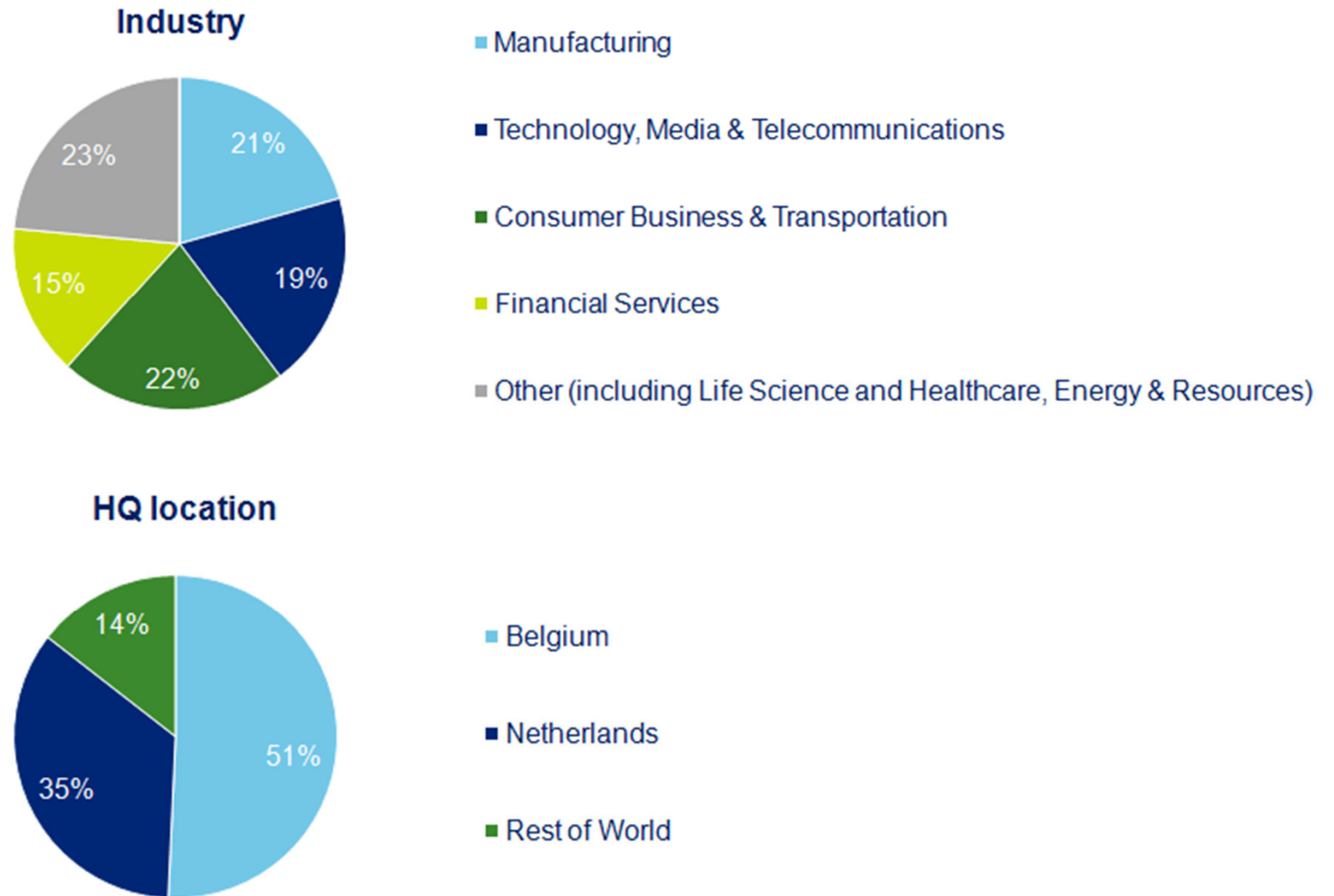
Survey participants overview

70 respondents from Belgium & the Netherlands, including...



Survey participants overview

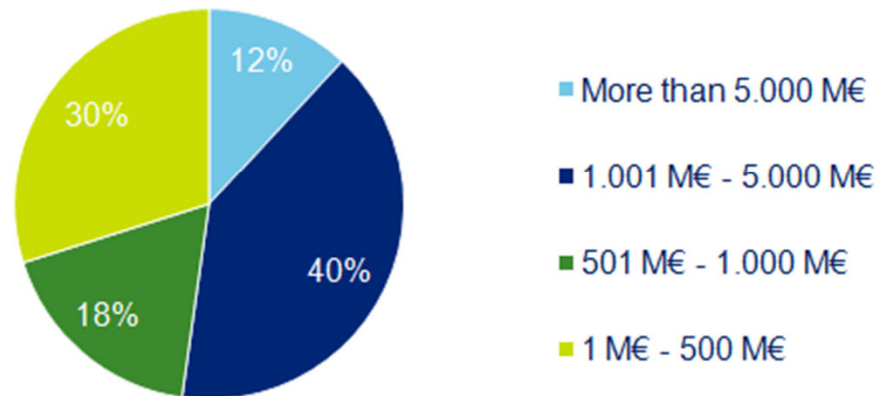
A well balanced sample



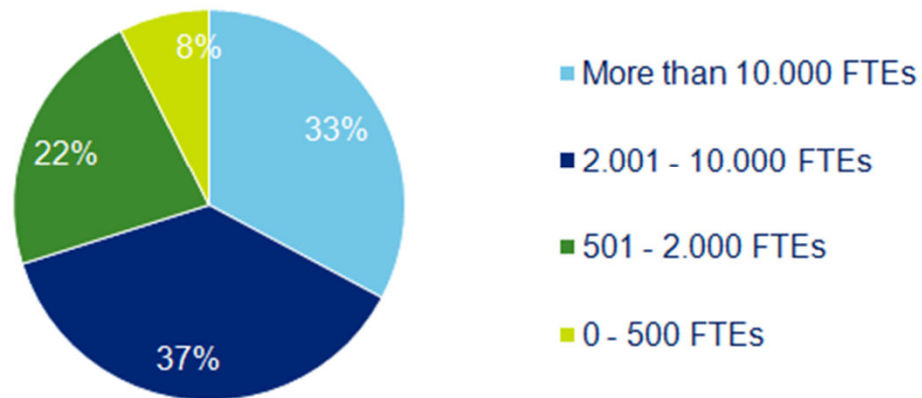
Survey participants overview

A well balanced sample

Revenues



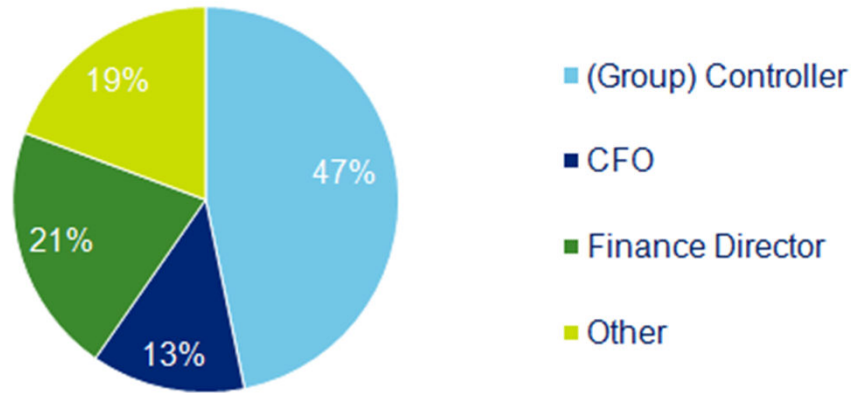
Number of employees



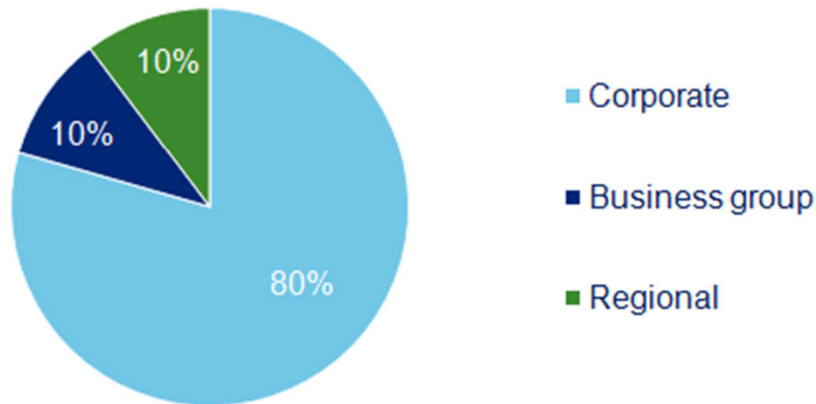
Survey participants overview

Financial professionals with decision power

Interviewee function



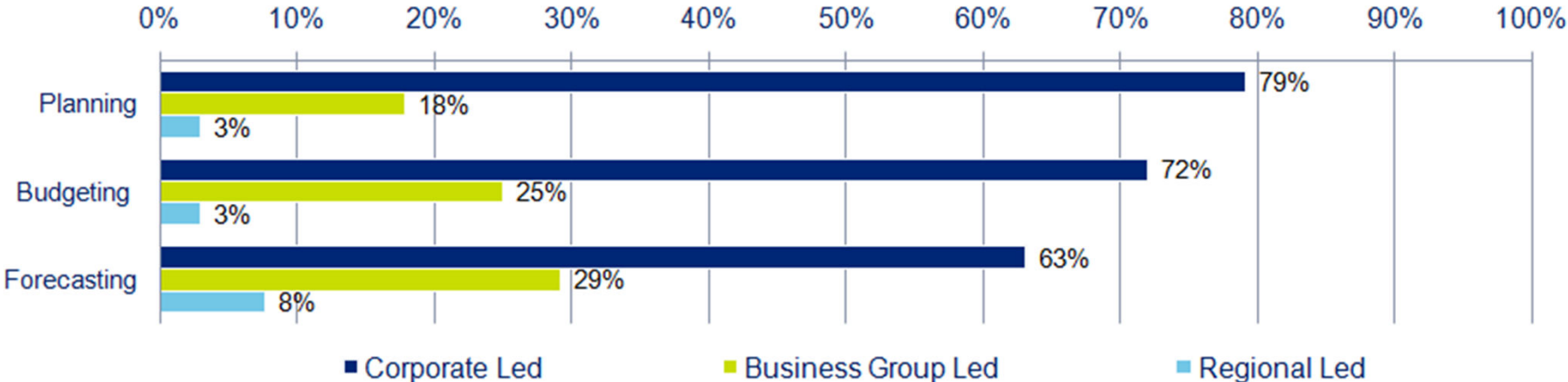
Part of the organization



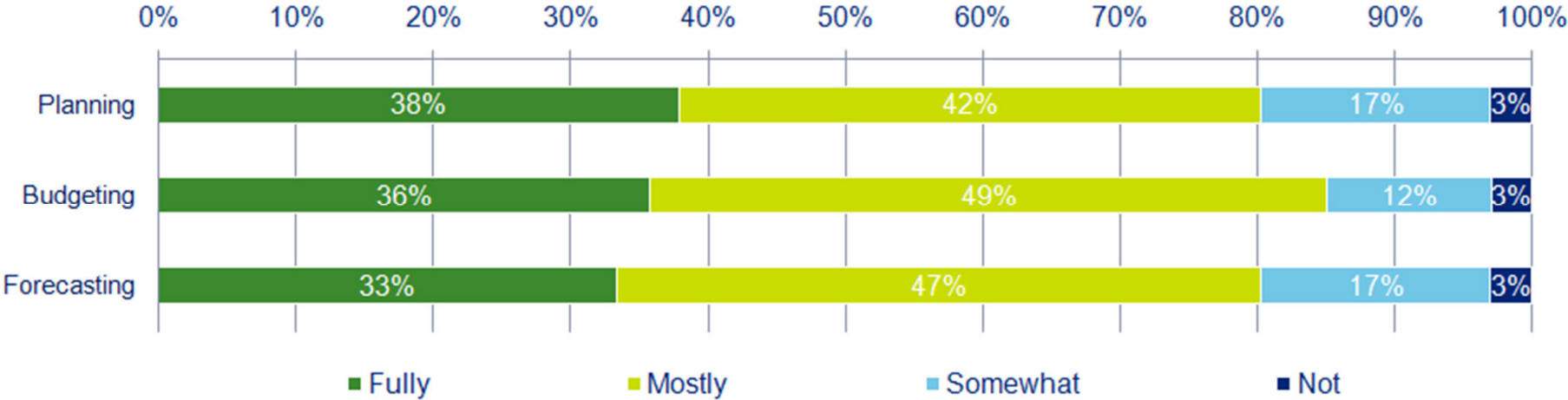
Survey participants overview

Corporate generally in the lead, processes largely consistent

Who leads these processes?



Are the processes consistent throughout the whole organization?

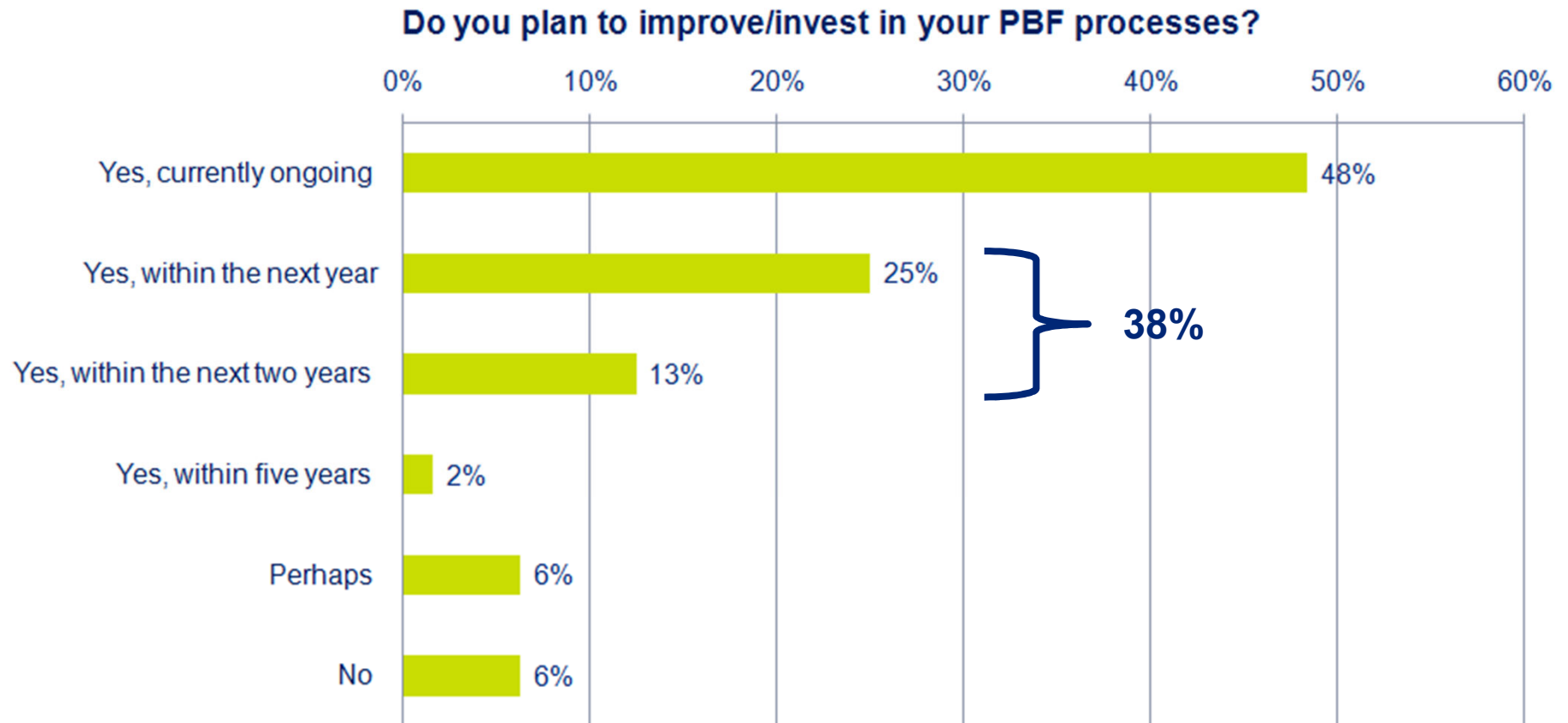


Is Planning, Budgeting and Forecasting on the company agenda?

Is PBF on the company agenda?

Majority of survey participants plan to invest and improve

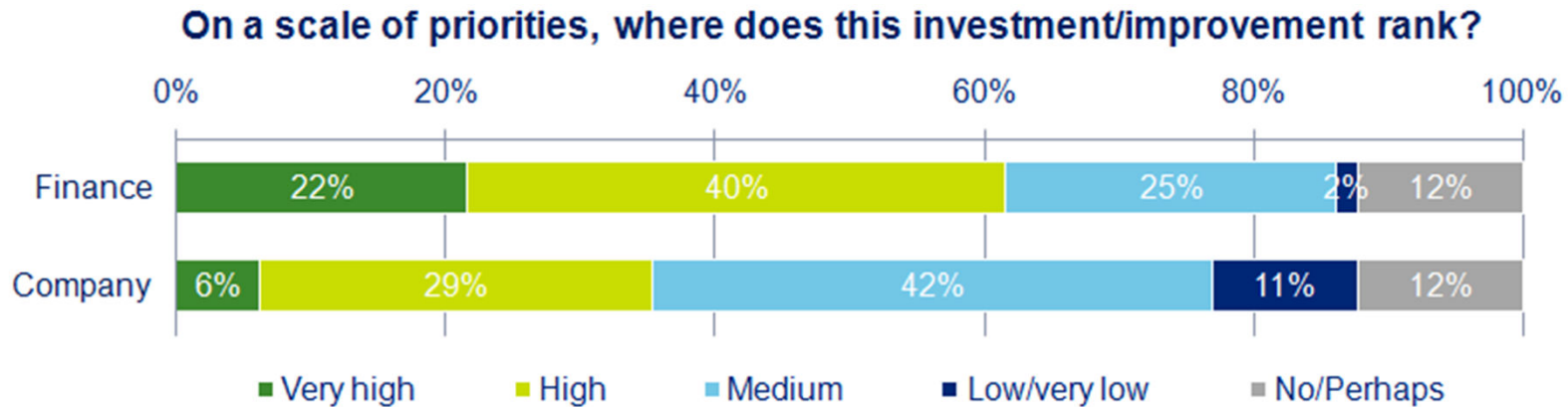
- 48% of participants are currently making improvements to PBF
- Another 38% will do so within the next two years



Is PBF on the company agenda?

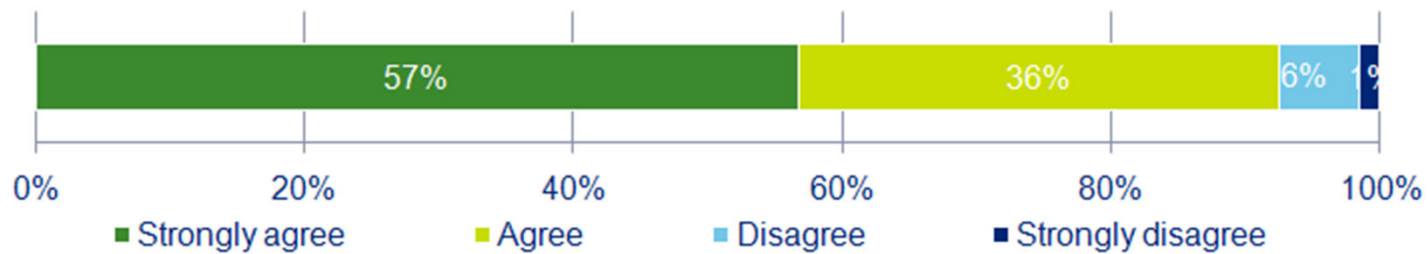
Improving PBF is high on the (finance) agenda

- Both finance and company have improving PBF on their agenda



- Finding executive sponsorship should not cause any problems

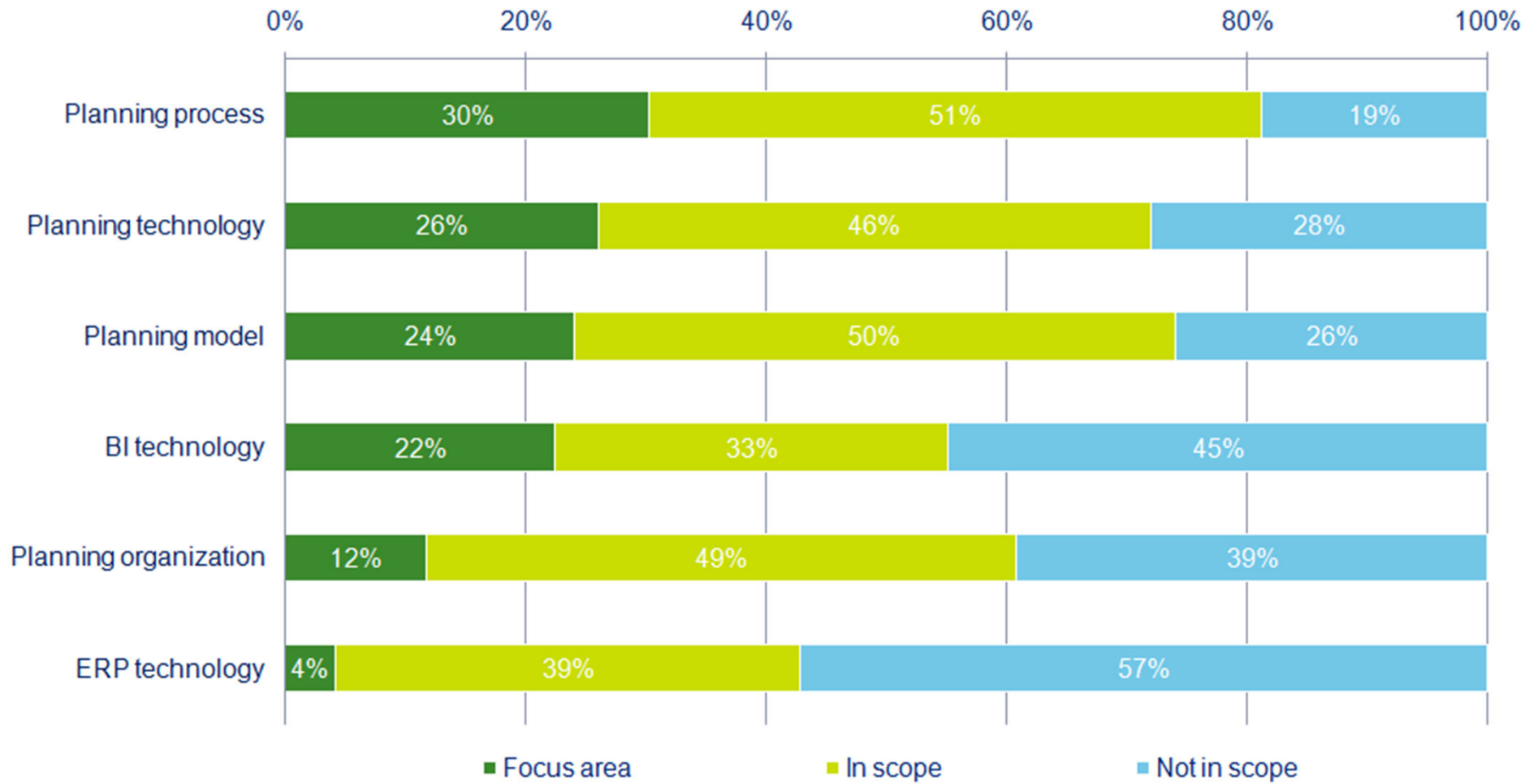
To what extent is PBF directly sponsored and monitored by the top management?



Is PBF on the company agenda?

Focus for improvements is on process, technology and model

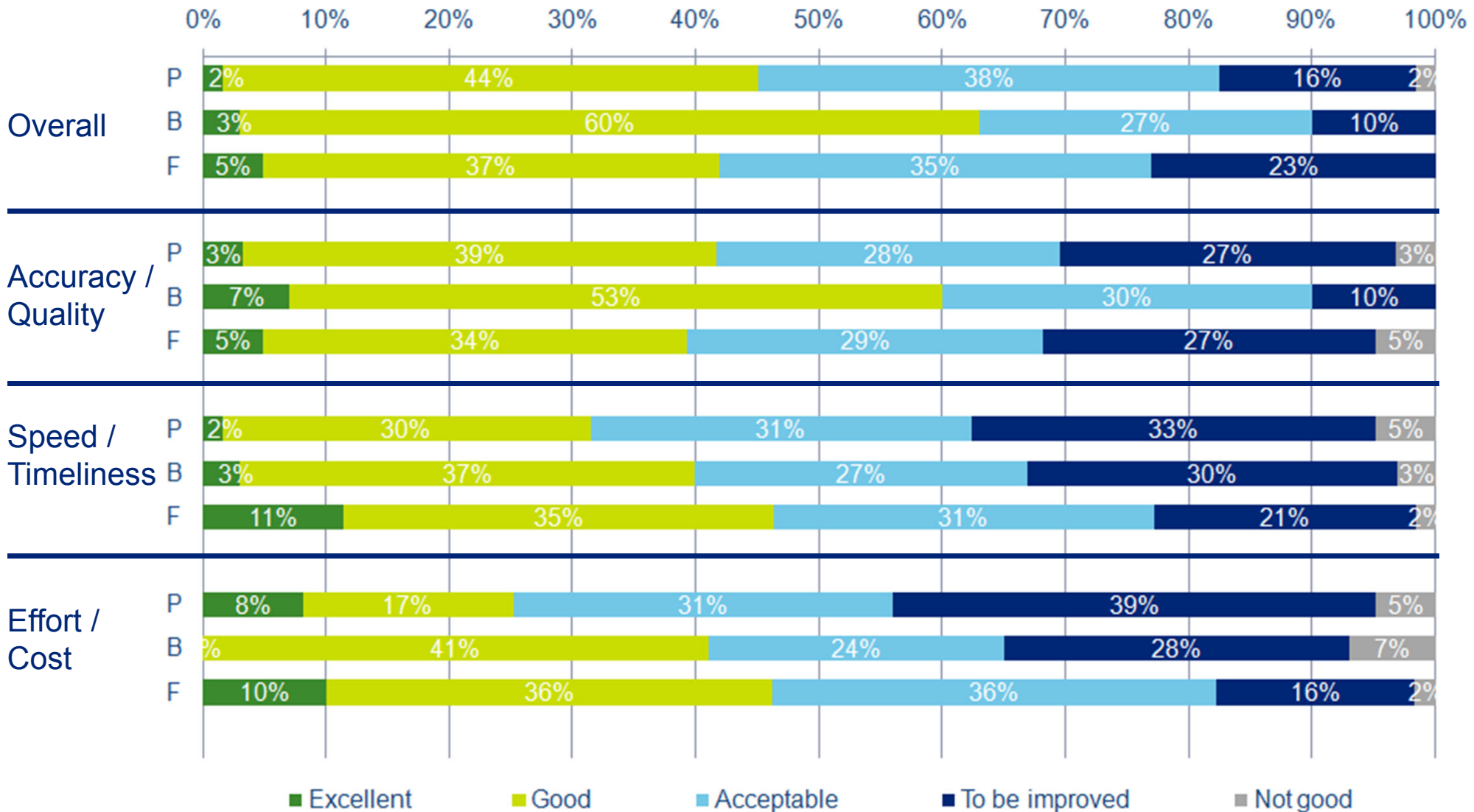
If the company plans to invest in PBF, what will be the focus area?



Summary process assessment

Process assessment

Qualitative aspects of Planning, Budgeting and Forecasting



Financial planning must
translate strategy into numbers

Financial planning must translate strategy into numbers

While everyone agrees on the theory, practice is not perfect

- Agreement on the link between strategy, financial planning and other (financial and non-financial) planning areas
- However few achieve perfection (and this is a view from the top!)

To what extent do you agree with the following statements w.r.t. strategy & financial planning?



Financial planning must translate strategy into numbers

Strategic initiatives included, but not always separately

- Consensus that strategic initiatives must be in the financial plan, but not everyone shows them separately

How does your company plan for strategic initiatives?



Is traditional budgeting losing importance?

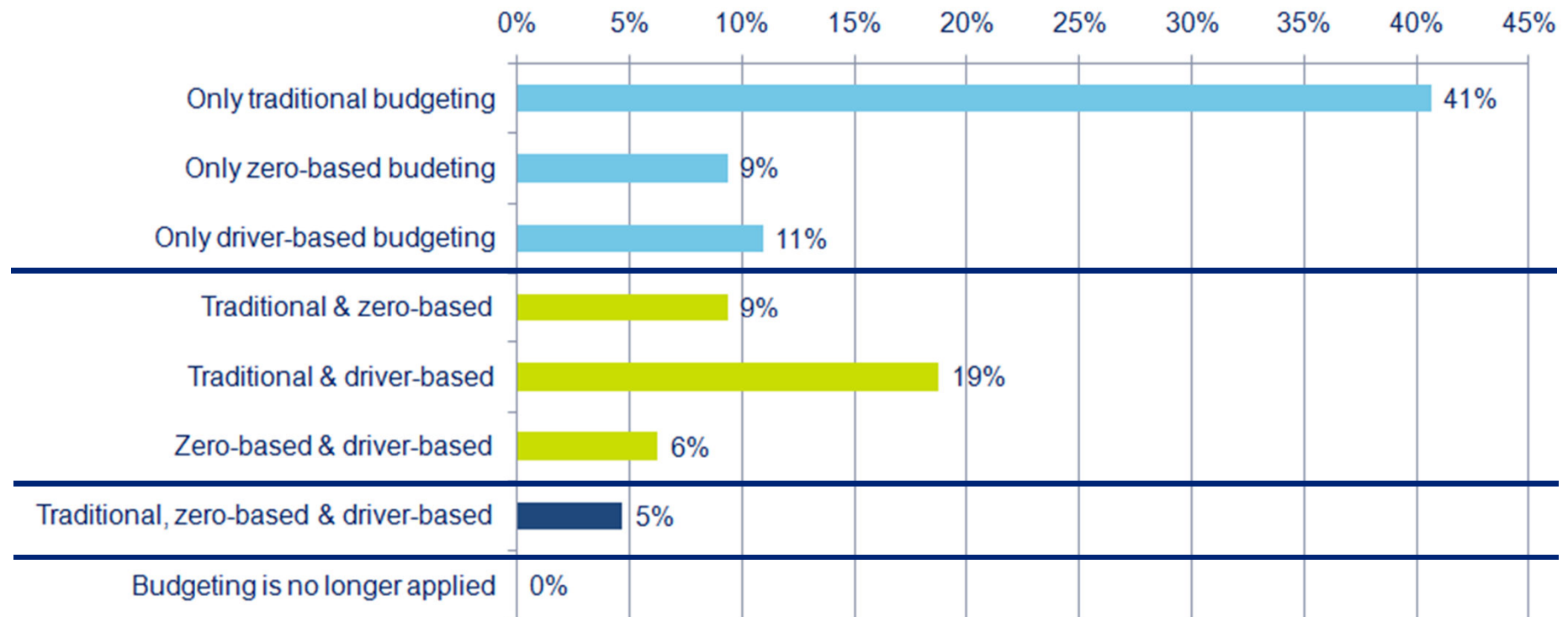


"Everyone agreed the old way of budgeting took too long."

Is traditional budgeting losing importance?

Death of traditional budgeting has been greatly exaggerated

- 41% still rely on traditional budgeting only
- Another 31% mixes traditional with zero- and/or driver-based
- Nobody in our sample had abandoned budgeting



(Multiple answers were possible)

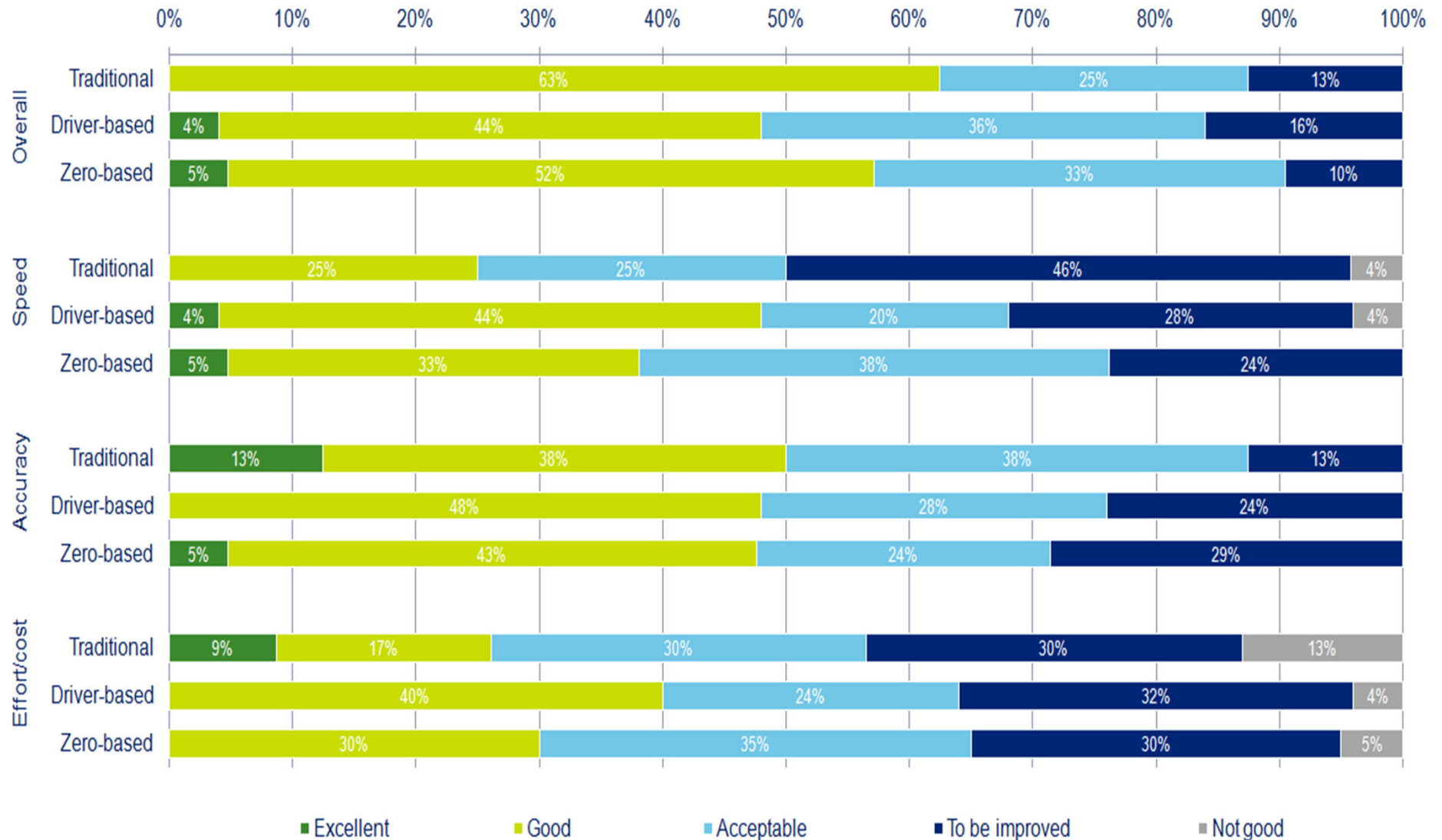
1 Technique

2 Techniques

3 Techniques

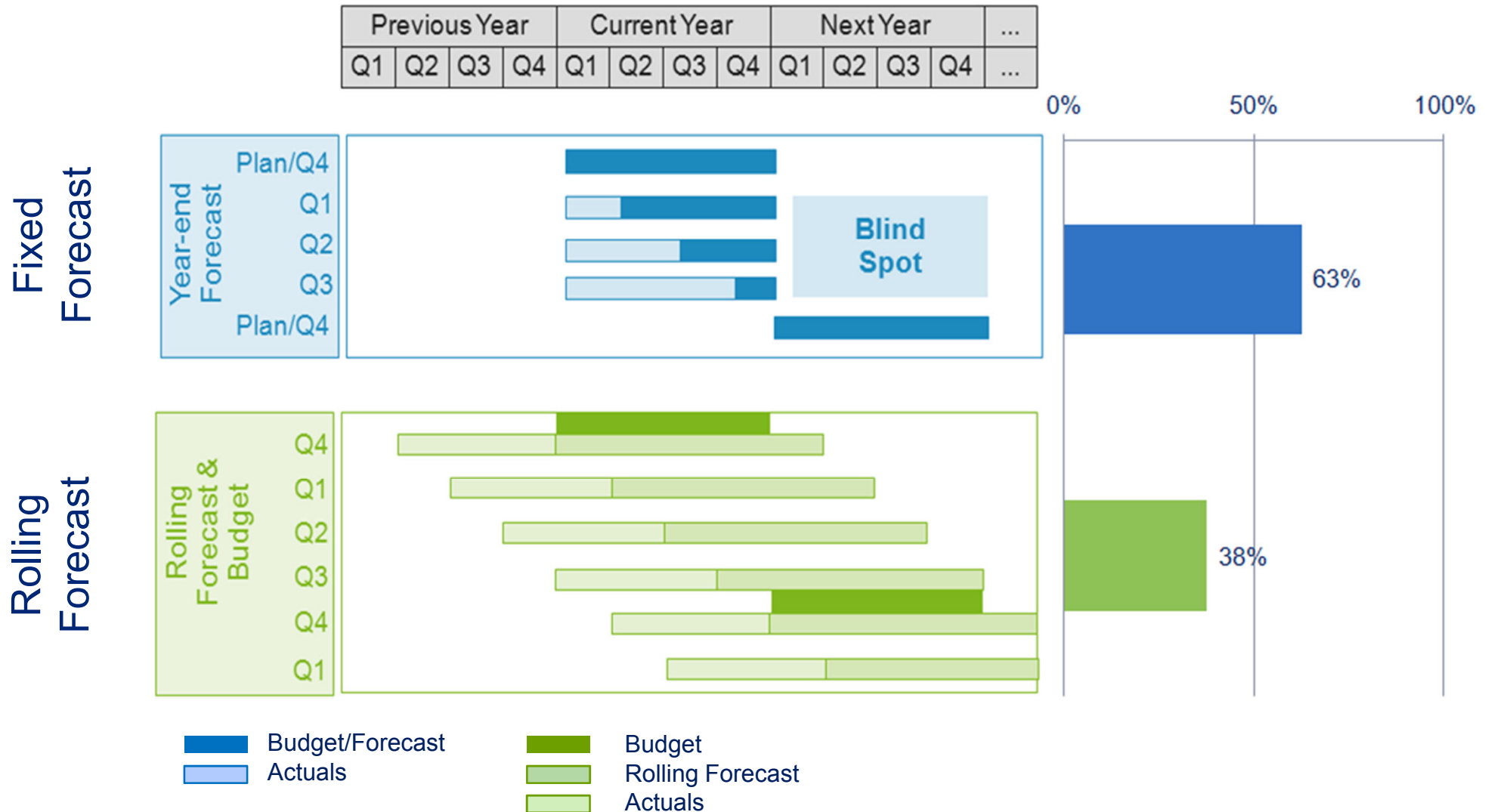
Is traditional budgeting losing importance?

Traditional performs well but driver-based appears more efficient



Is traditional budgeting losing importance?

Majority still keeps eyes firmly fixed on the budget end date



Why do we (still) budget?

Why do we (still) budget?

Objectives are related to control, alignment and direction

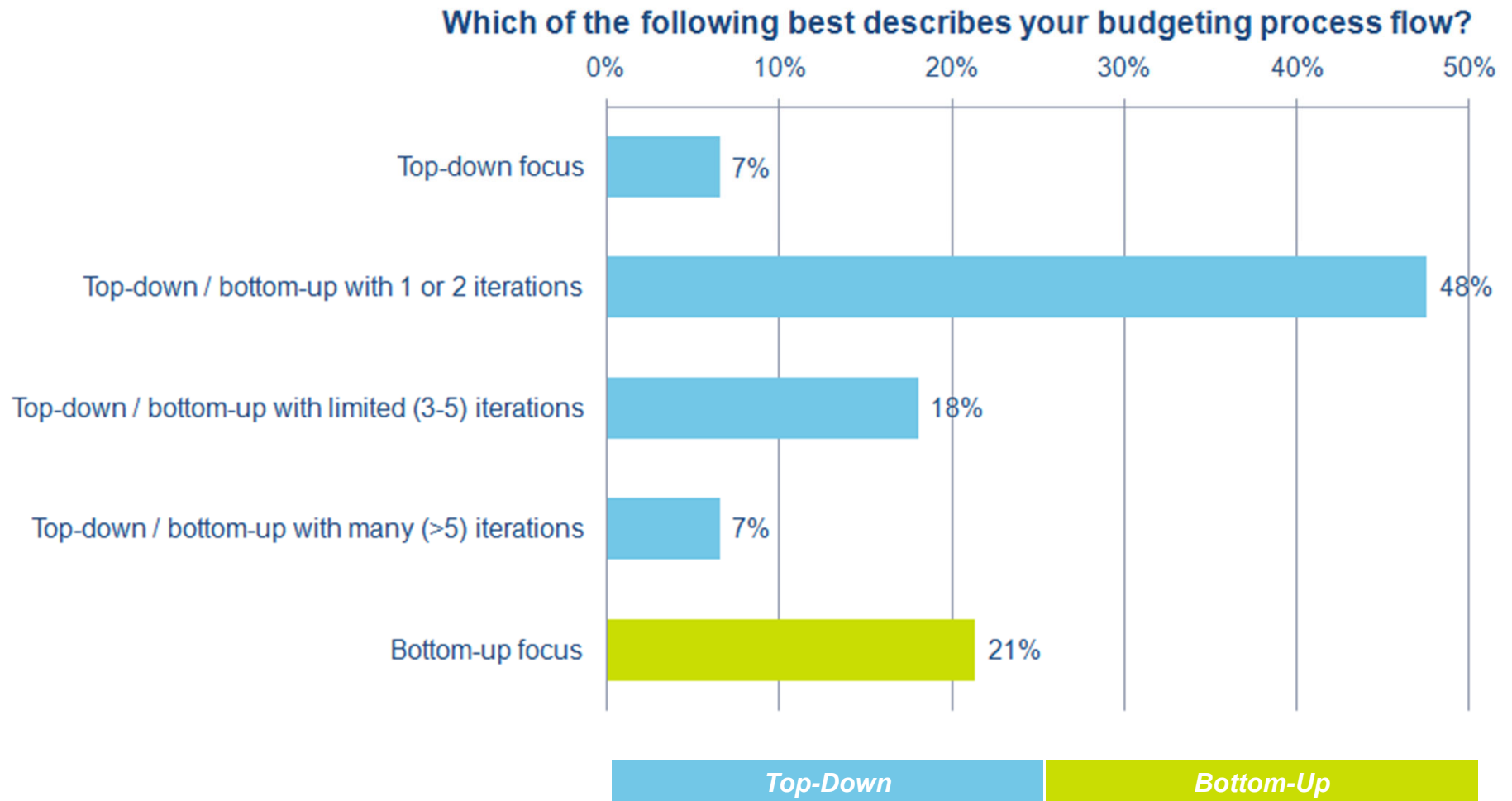


Weighted priority scale: 1st priority = 3pts, 2nd priority = 2pts, 3rd priority = 1pt (max. 192)

Why do we (still) budget?

Process structure and governance must support objectives

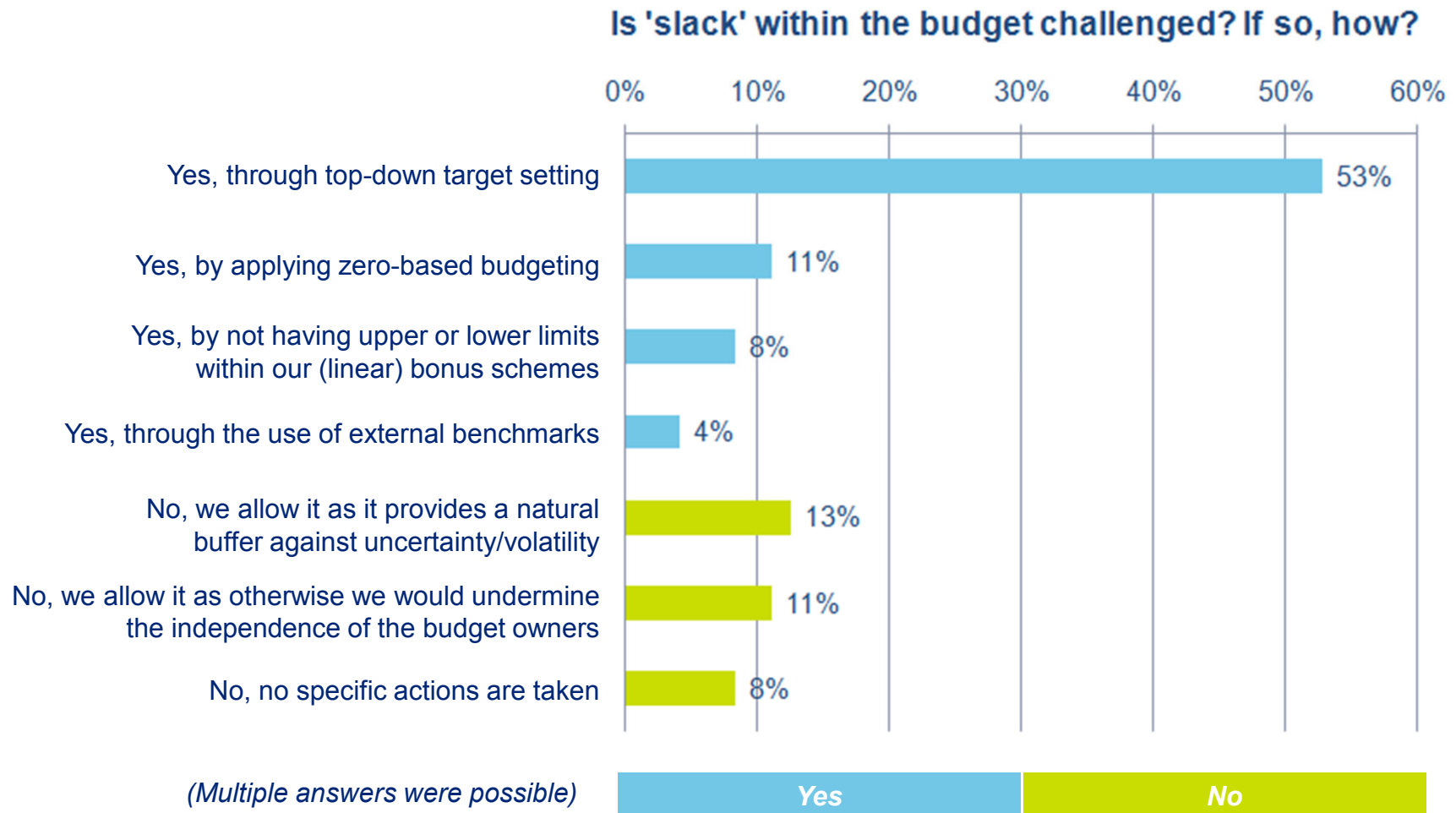
- What does it take to create alignment?



Why do we (still) budget?

Majority sees slack as a challenge that needs to be tackled

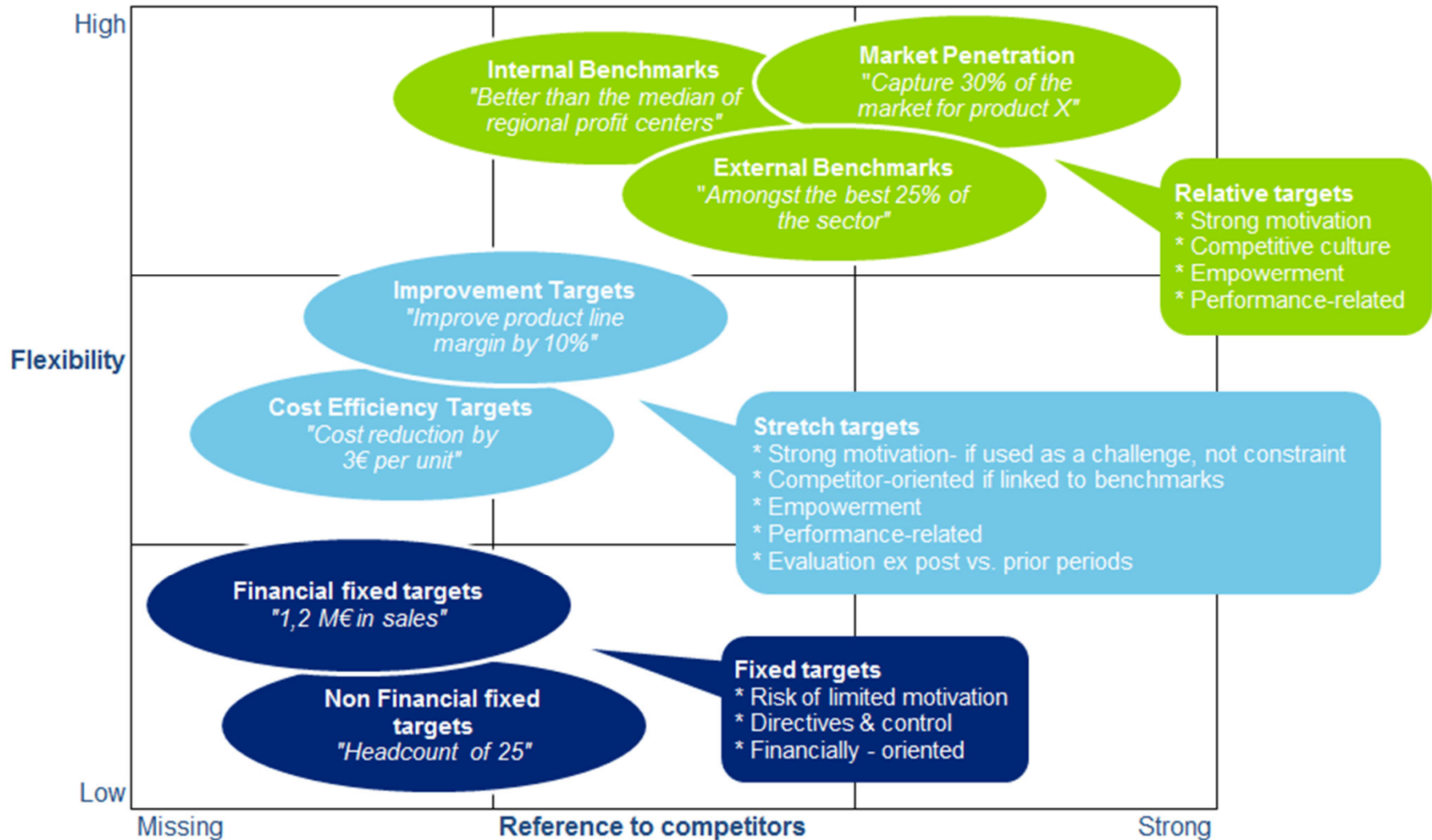
- Top-down target setting is by far the most popular approach



Why do we (still) budget?

Not all targets are equally made

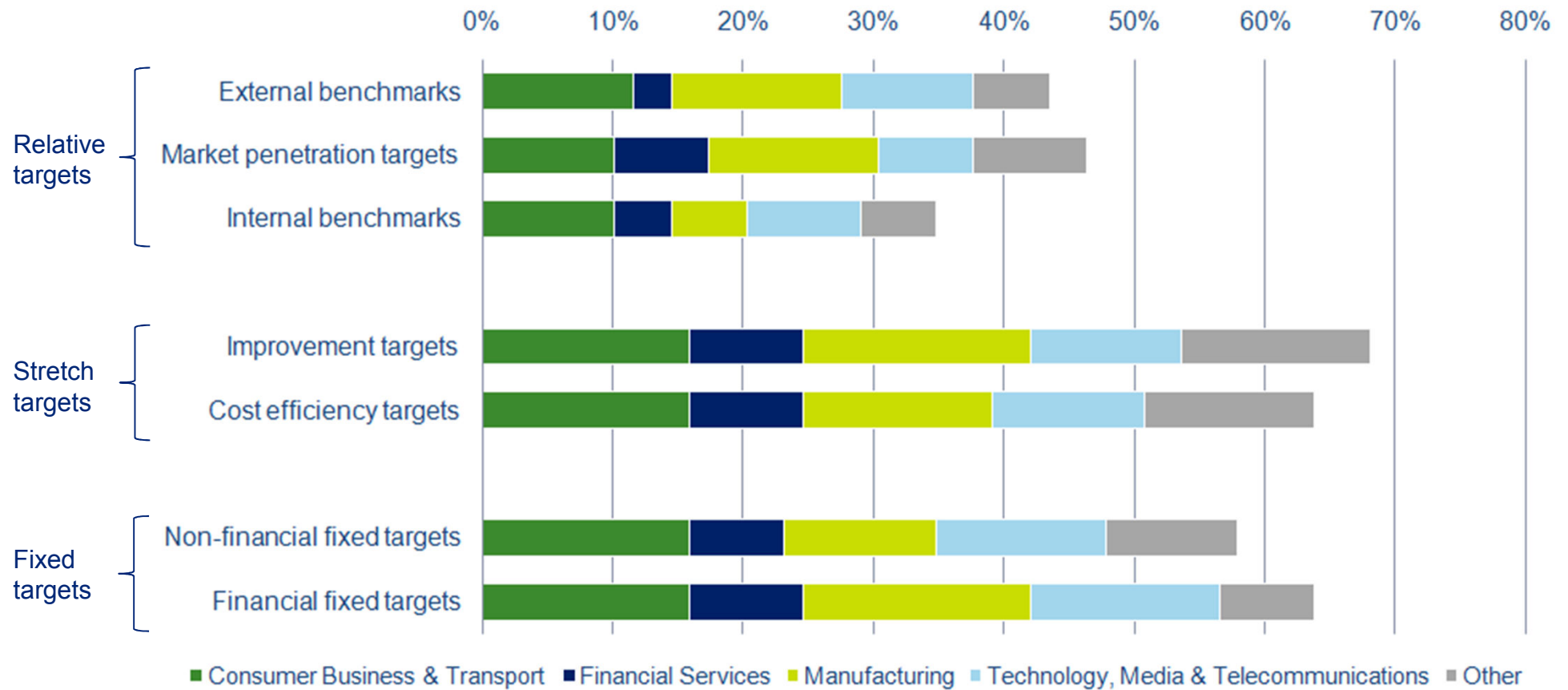
- All targets can create alignment, but effective targets also tackle slack



Why do we (still) budget?

In reality fixed and stretch targets prevail

Which types of targets does your company use?

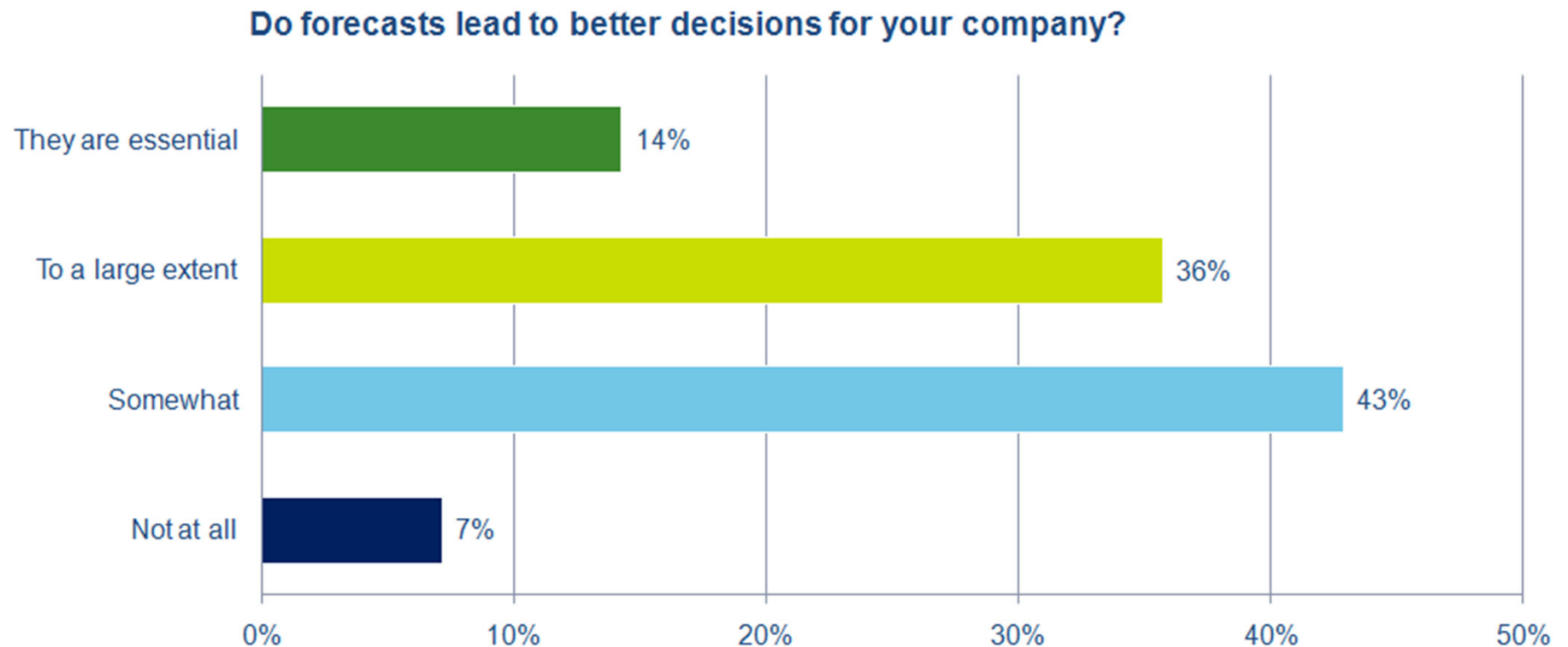


As we cannot predict the future,
does this mean forecasting
always has limited value?

Forecasting has limited value?

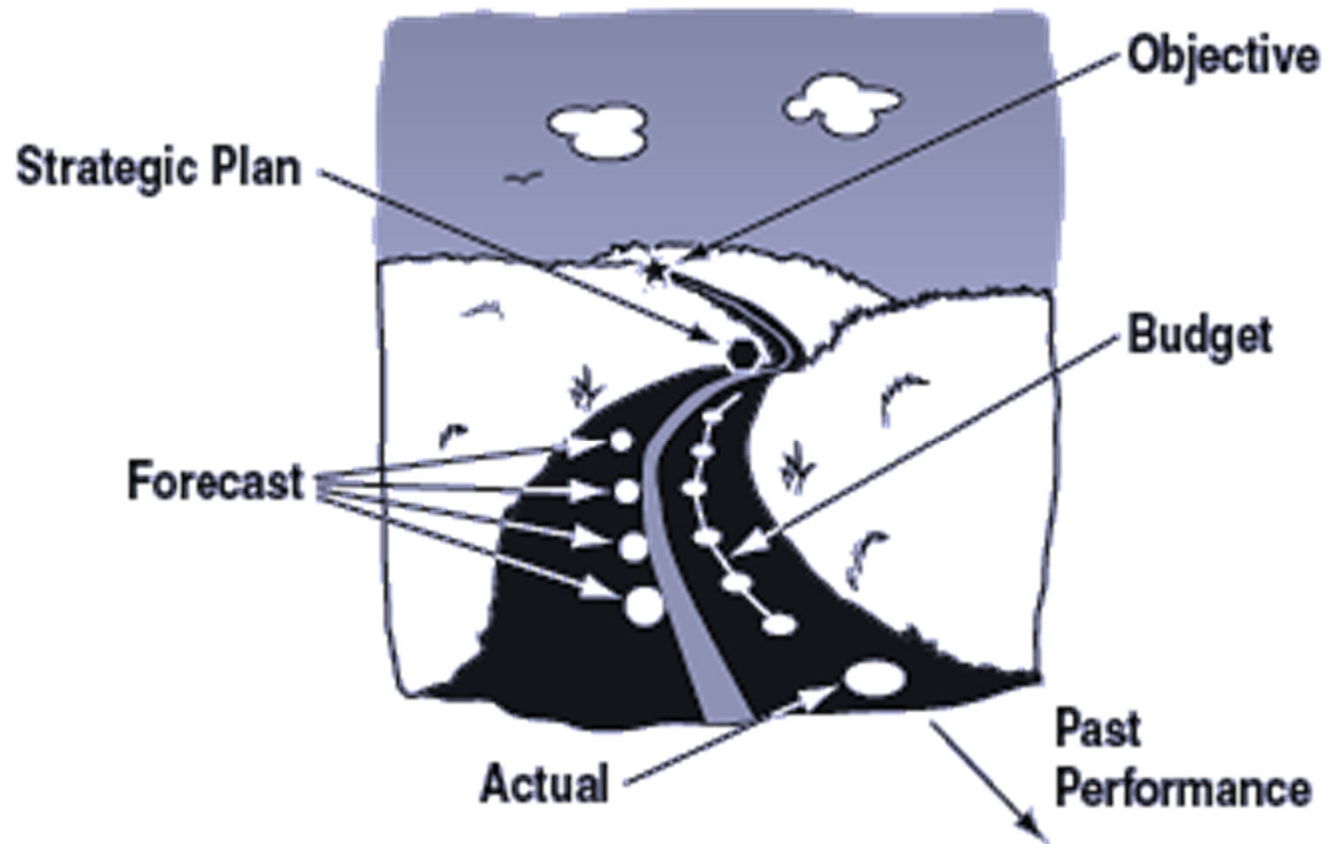
Respondents have mixed feelings

- Near 50/50 split between believers and non-believers (in forecasting)



Forecasting has limited value?

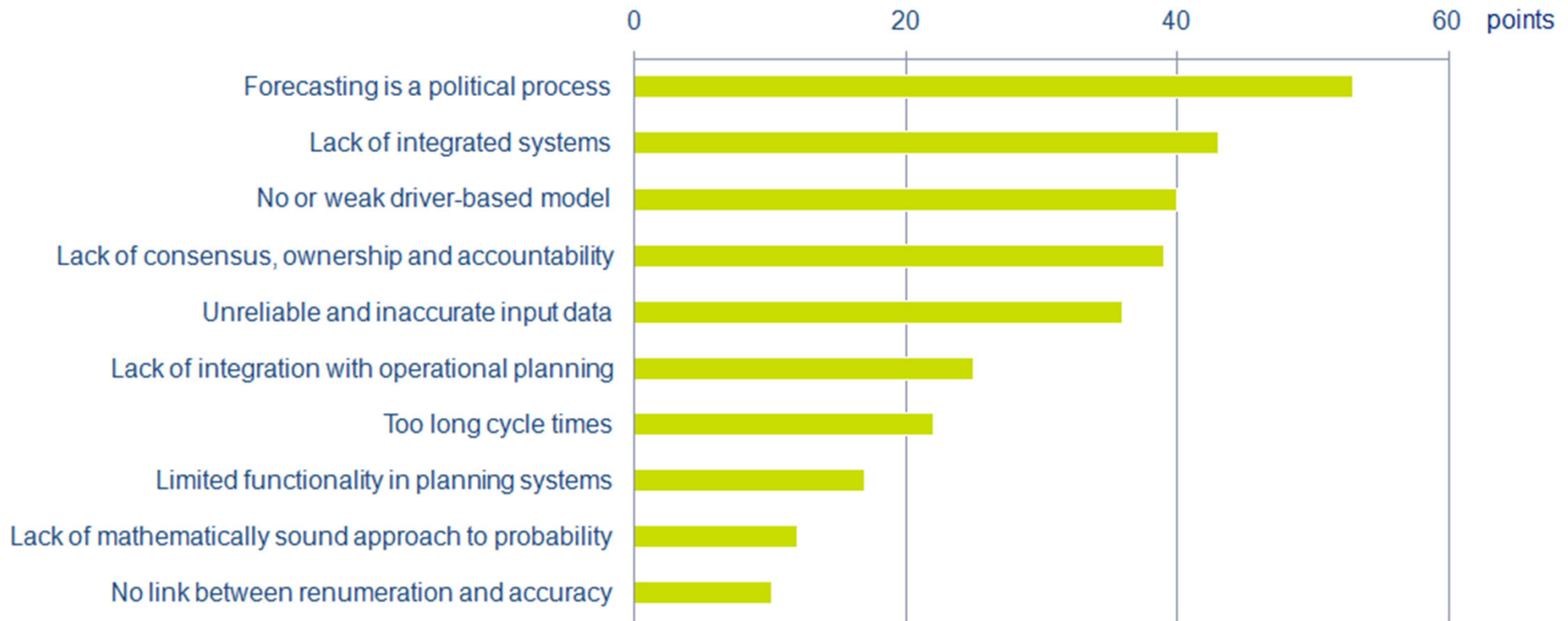
Usefulness strongly related to ability to 'read the road'



Forecasting has limited value?

Many reasons why forecasts are not accurate, politics on #1

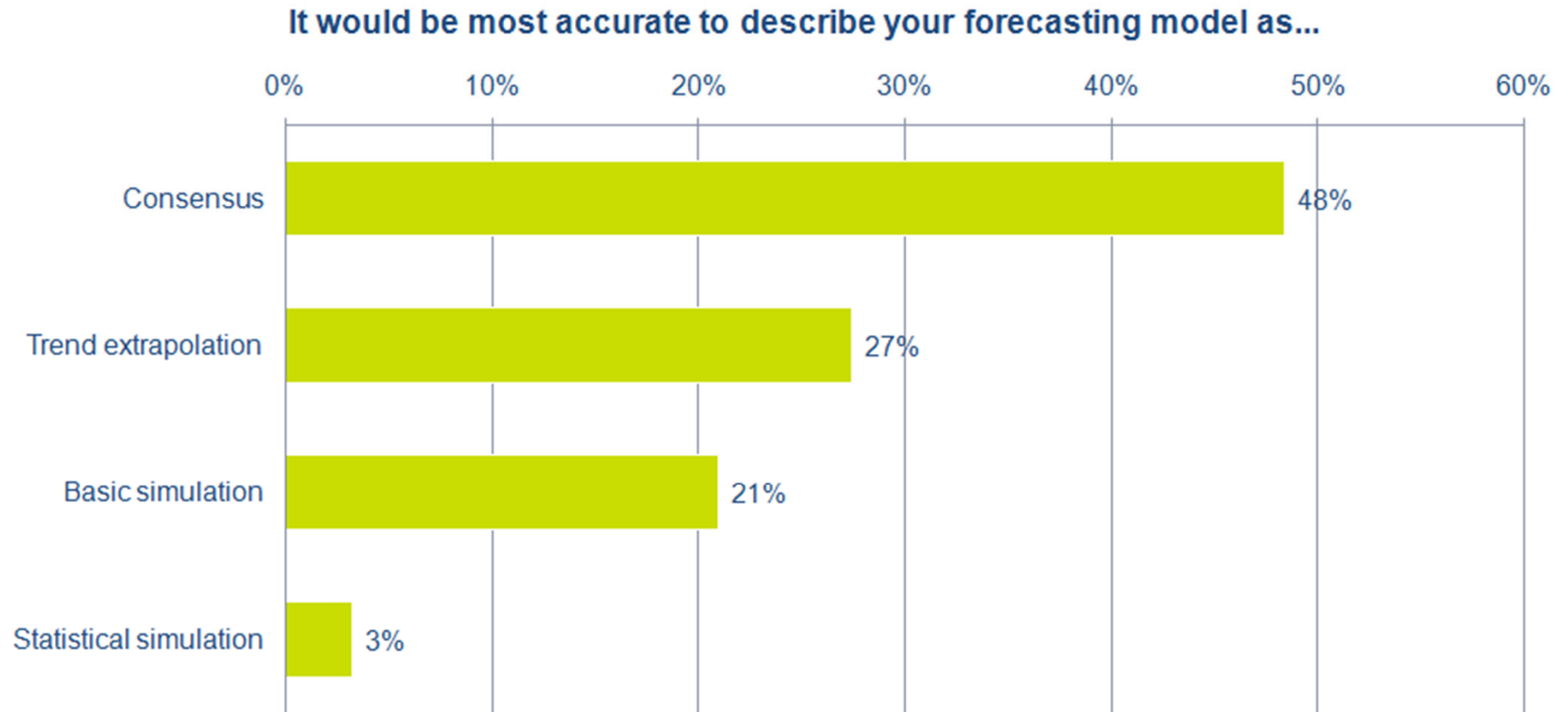
What factors most hinder you company's ability to make accurate forecasts?



Weighted priority scale: 1st priority = 3pts, 2nd priority = 2pts, 3rd priority = 1pt (max. 192)

Forecasting has limited value?

Politics predictable given dominance of consensus model?



Forecasting has limited value?

Top 3 issues differ across models

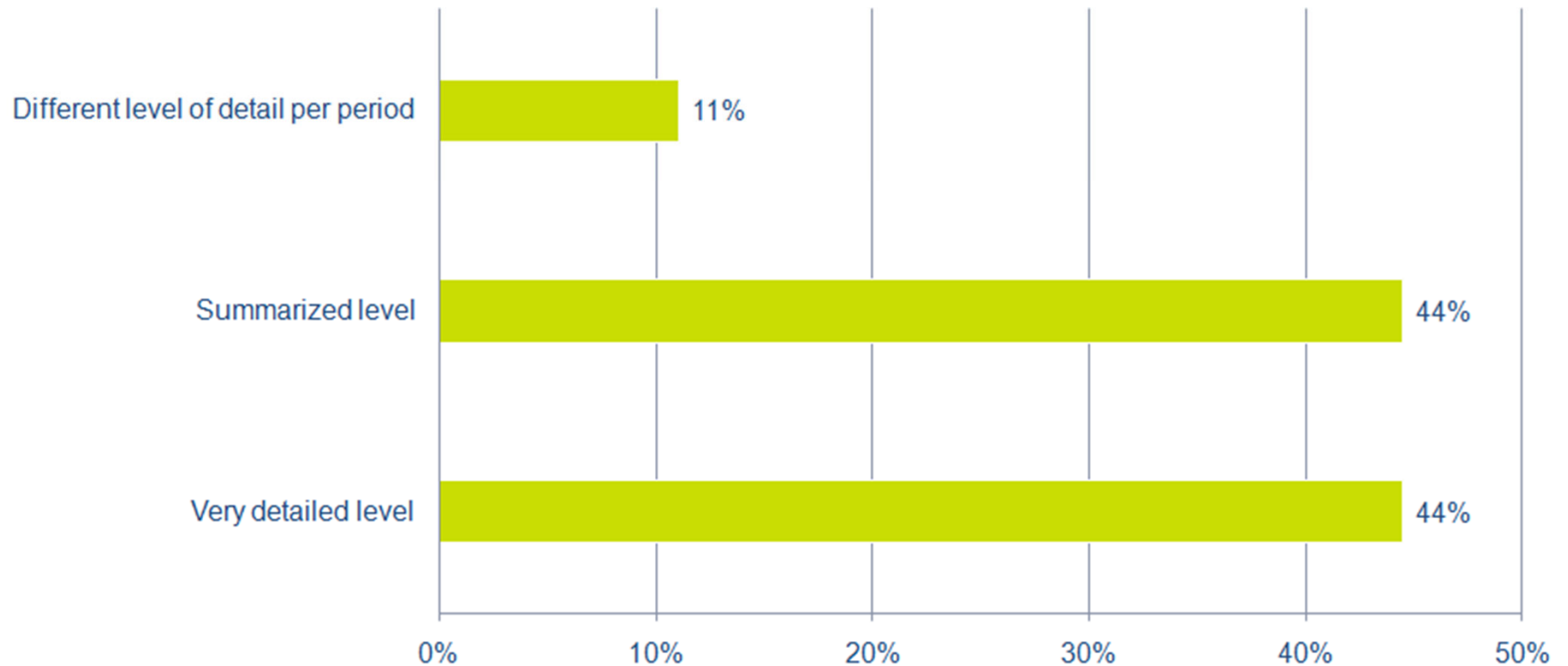
- **Consensus**: affected by politics, indicates lack of forecasting systems, expectation that driver-based model would be useful
- **Trend extrapolation**: does not eliminate the politics, probably increases lack of consensus & ownership, expects driver-based model to help
- **Basic simulation**: discovery that driver-based is no 'magic bullet' if data quality is lacking and systems can't be linked, also risks increased lack of ownership

| Priority | Overall | Consensus | Trend Extrapolation | Basic Simulation |
|----------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| 1 | Forecasting is a political process | Forecasting is a political process | Forecasting is a political process | Unreliable & inaccurate input data |
| 2 | Lack of integrated systems | Lack of integrated systems | No or weak driver-based model | Lack of consensus & ownership |
| 3 | No or weak driver-based model | No or weak driver-based model | Lack of consensus & ownership | Lack of integrated systems |

Forecasting has limited value?

Many respondents make very detailed forecasts

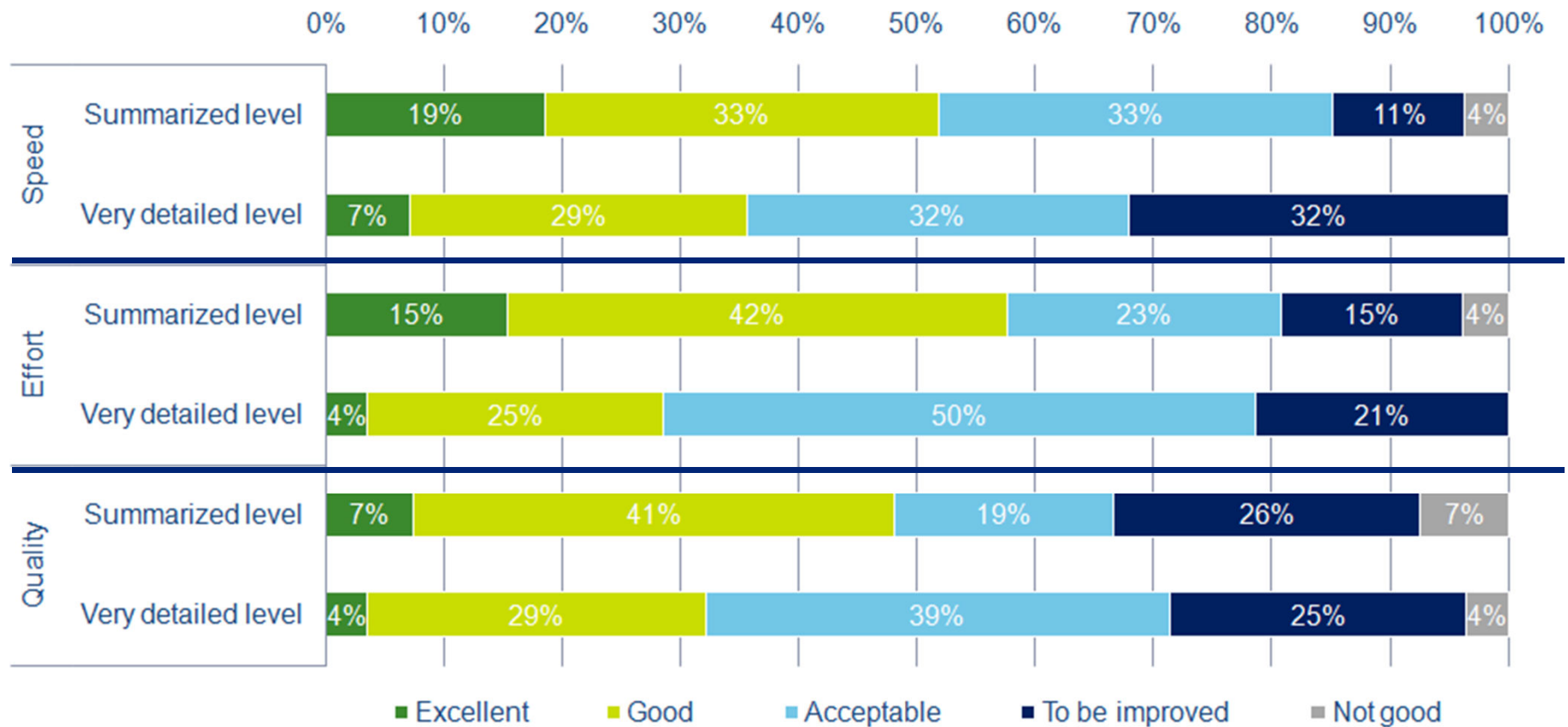
The level of detail within your forecasting models can best be described as:



Forecasting has limited value?

These detailed forecasts tend to suffer from 'false accuracy'

- Companies that limit the level of detail in their forecast find benefits in effort and also speed while getting rid of 'false accuracy'

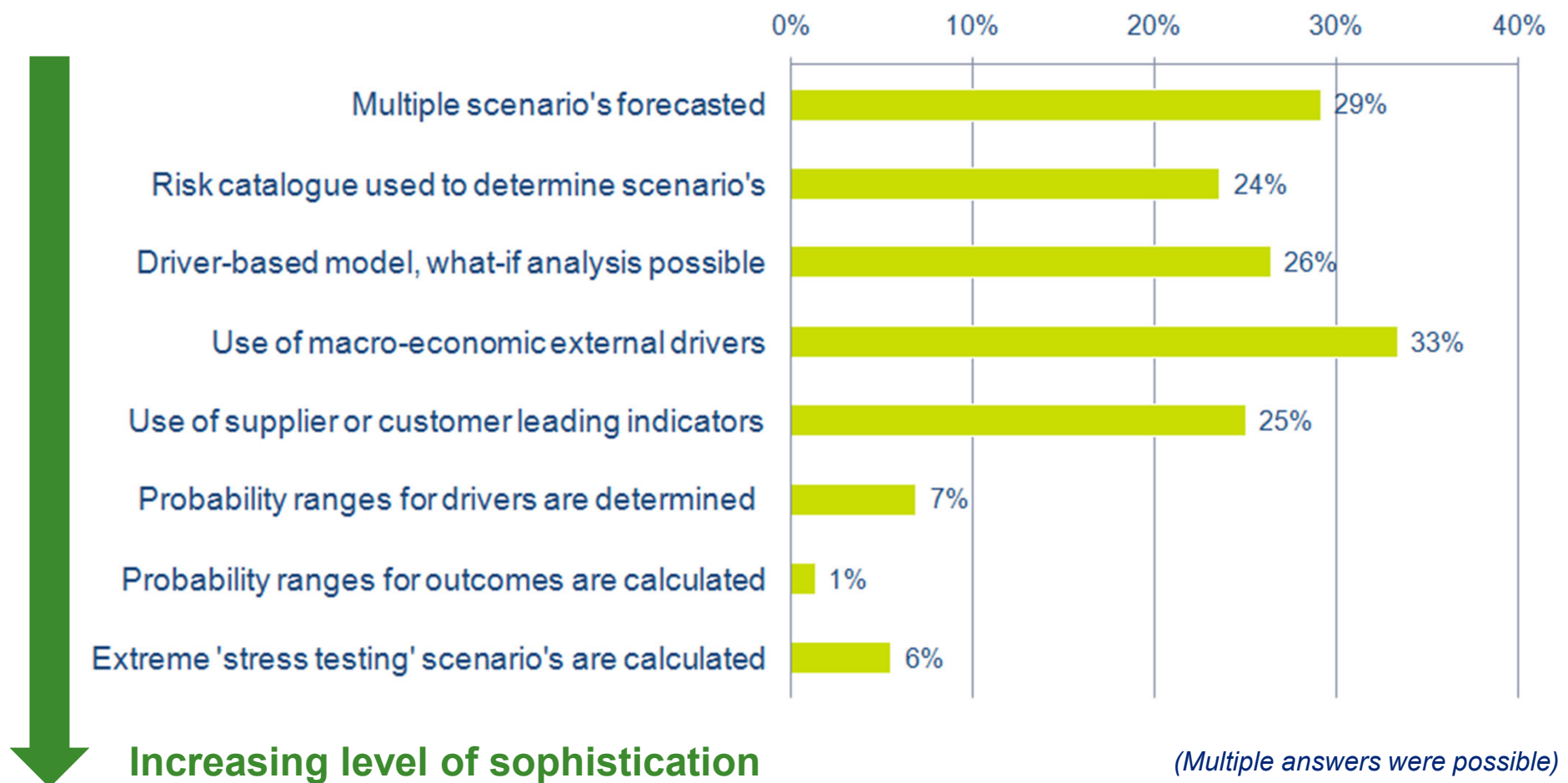


Forecasting has limited value?

Forecasting processes underequipped to cope with uncertainty

- Room for improvement in forecasting models & approach

To what extent does your forecasting model deal with uncertainty and volatility?

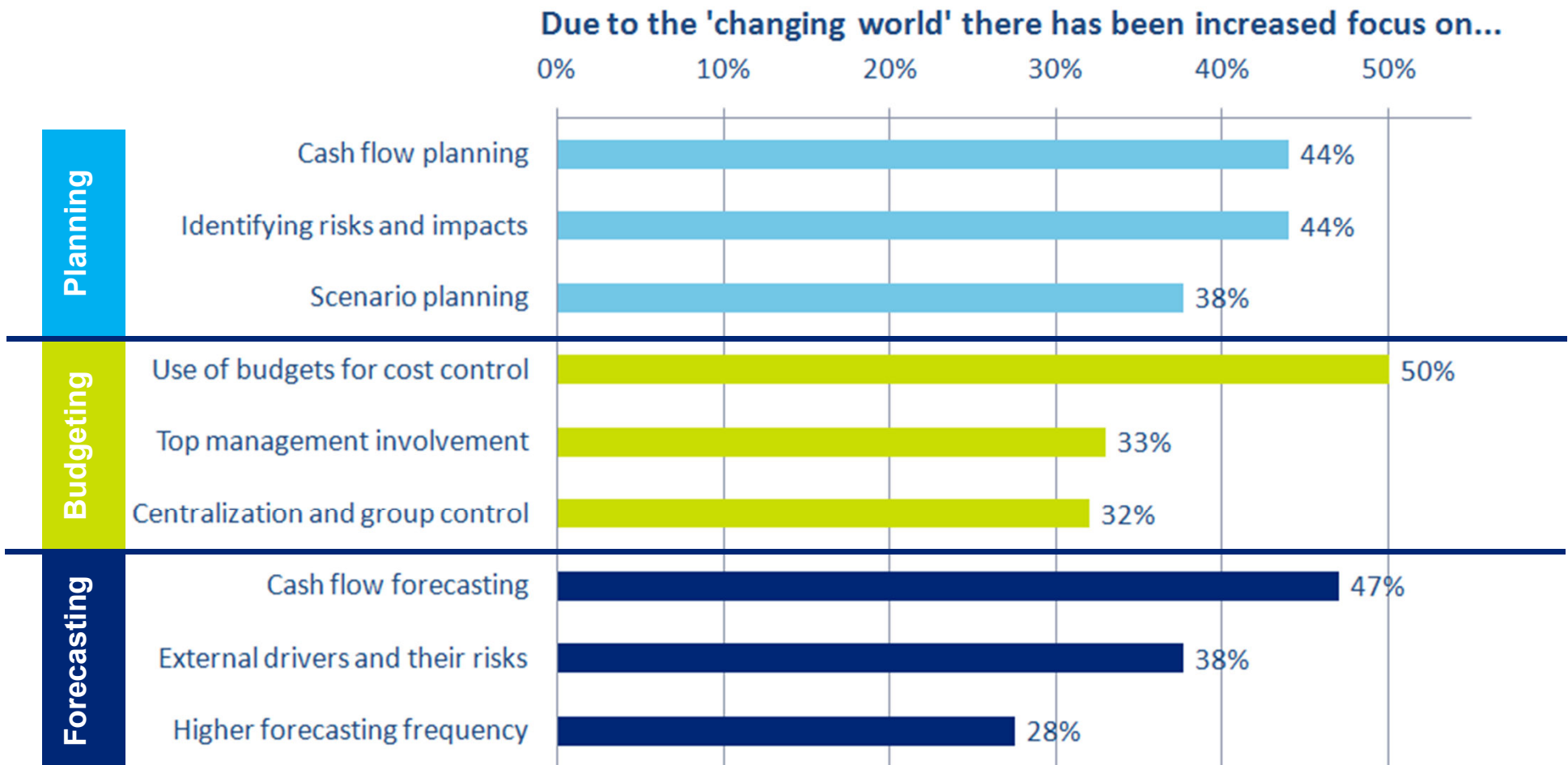


What has been the impact of the crisis on the Planning, Budgeting and Forecasting processes?

What has been the impact of the crisis on PBF?

Top 3 changes made per process

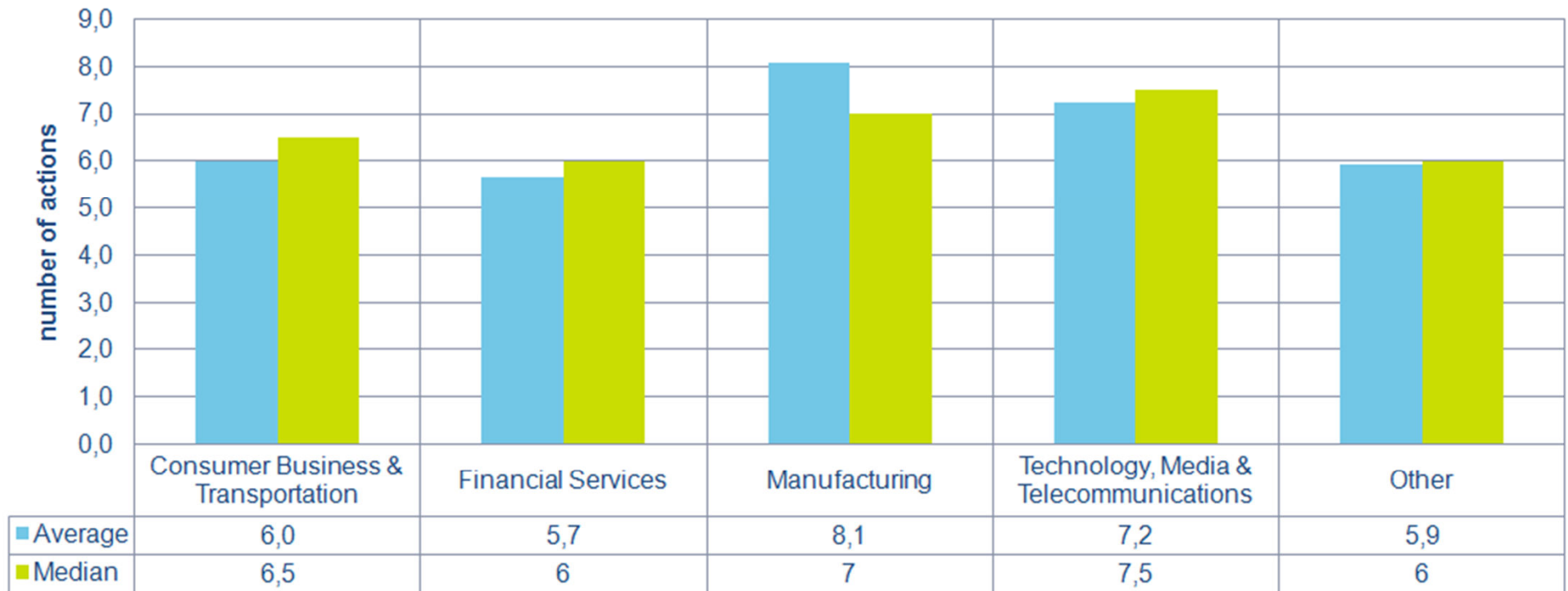
- Focus on cash flow, risks, cost control and top management involvement



What has been the impact of the crisis on PBF?

All industries appear equally affected

of answers selected out of 24 possible responses to 'impact of changing world on PBF'

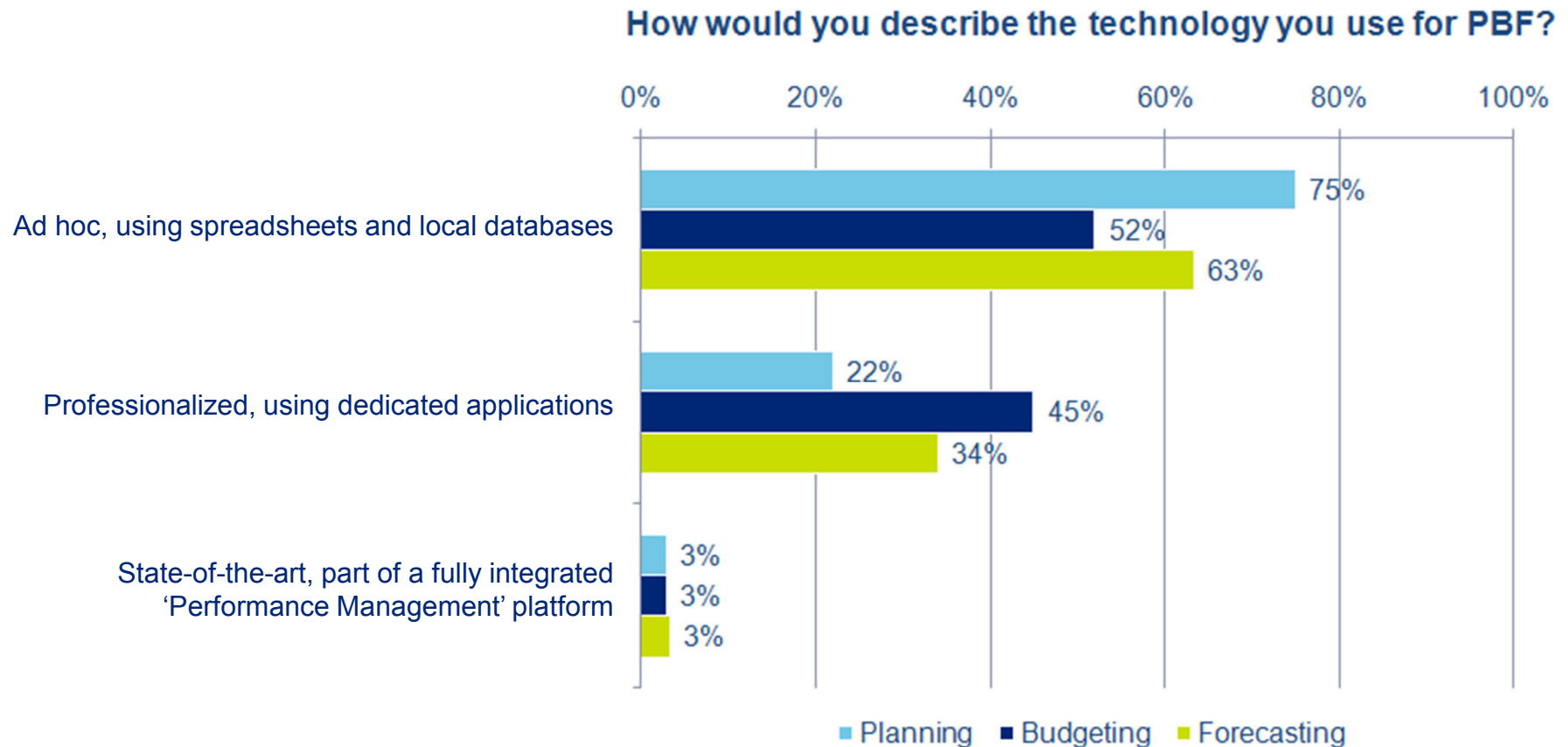


Is technology an accelerator?

Is technology an accelerator?

Excel remains dominant

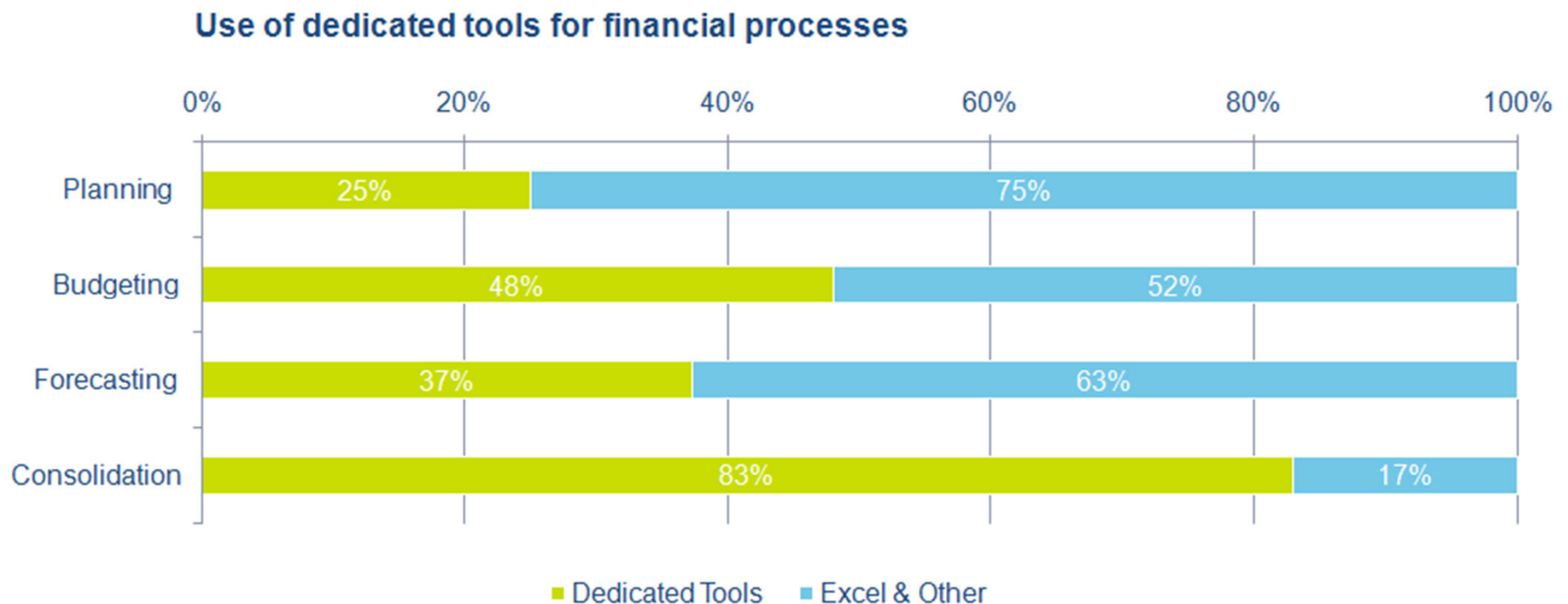
- However: budgeting and forecasting applications are on the rise (cf. investments being made in planning technology)



Is technology an accelerator?

Comparison to consolidation survey

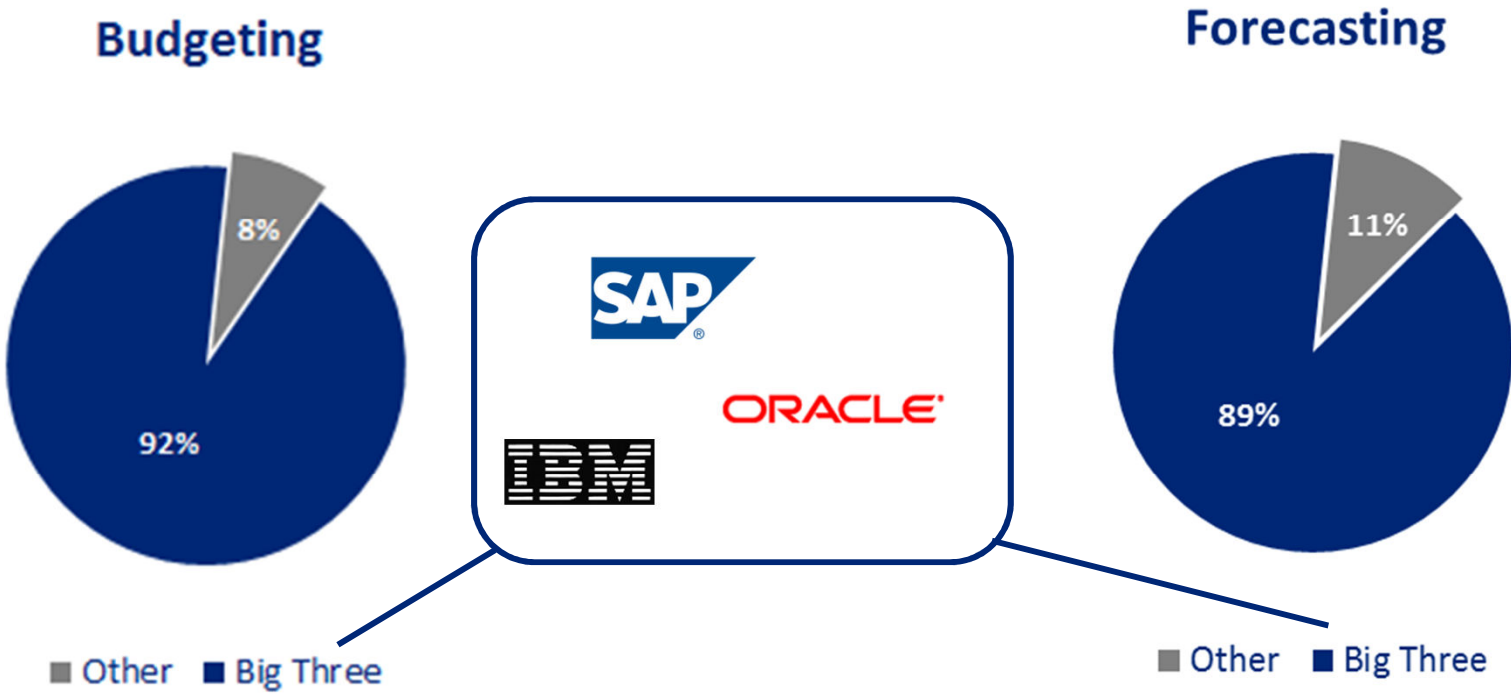
- 2009 consolidation survey showed 83% using a dedicated consolidation tool
- Use of dedicated tools could be indicative of overall process maturity level



Note: consolidation data comes from a different survey with different respondents

Is technology an accelerator?

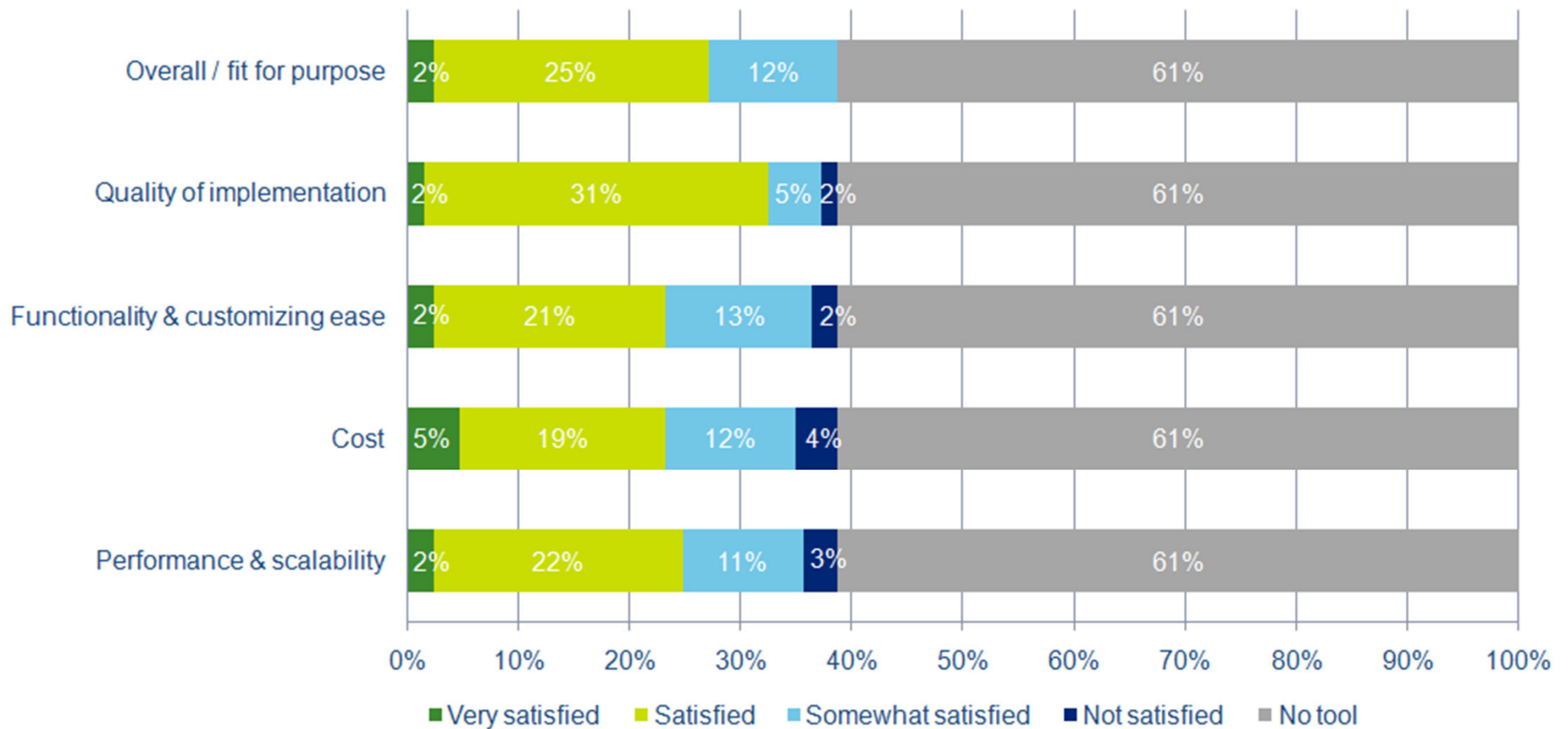
Landscape PBF is divided by three major vendors



Is technology an accelerator?

Overall satisfaction with planning applications is rather high

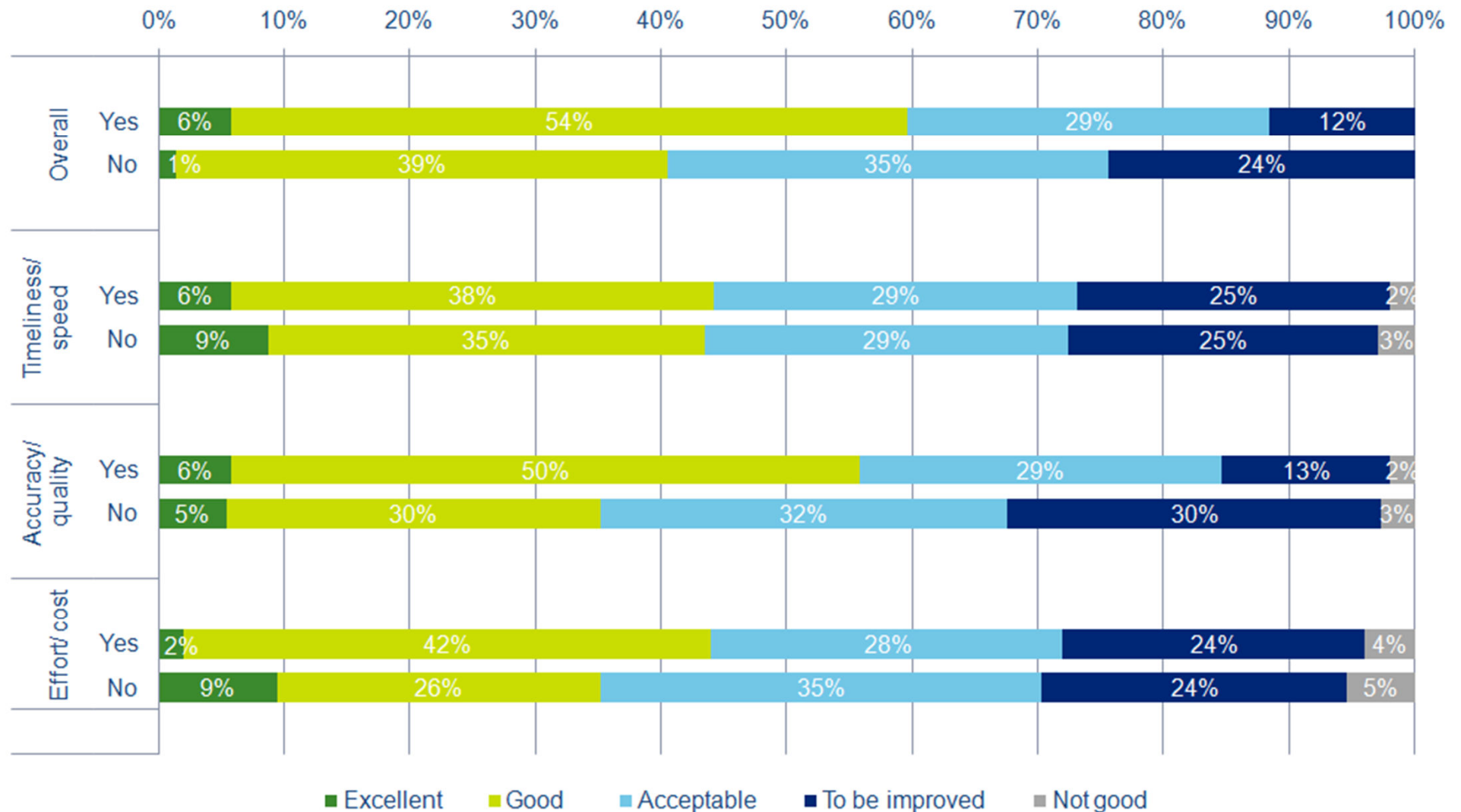
For those using a dedicated tool, how satisfied are you with regards to:
(Combined graph: Budgeting & Forecasting)



Is technology an accelerator?

Use of dedicated tools correlates with higher B/F quality

Do you use a dedicated tool and how would you rate your process?
(Combined graph: Budgeting & Forecasting)



Key messages

Key messages

9 key takeaways

1. PBF is in the spotlight, focus is on process and technology improvements
2. Theory of strategic & financial planning must be translated into practice
3. The death of traditional budgeting has been greatly exaggerated
4. Reflect on your budget process governance and target setting approach
5. Forecasts would do well to look beyond the (fixed) budget end date
6. Reduced level of detail in forecasting can bring major benefits
7. Changing world has resulted in more focus on cash flow, risks and cost control
8. Excel still dominates, but dedicated planning tools are on the rise
9. Companies using dedicated tools are satisfied and appear to find benefits

Thank you

In case of questions:

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