The Future of Planning, Budgeting and Forecasting

Survey 2016

Insights from the FSN Modern Finance Forum on LinkedIn

FSN
The Modern Finance Forum

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Dear Colleagues,

I would like to thank all of the members of the FSN Modern Finance Forum that contributed to the "Future of Planning, Budgeting and Forecasting " (PBF) 2016 survey, building on the success of our June 2016 research into the Future of the Finance Function.

The detailed survey was completed by more than 955 senior finance members from across the globe, making it one of the largest and most authoritative studies of its kind. And it confirms once again that wherever finance professionals happen to be situated in the world and no matter what industries they serve, we all share the same ambitions and hurdles.

As modern finance professionals, we are facing some of the most demanding and challenging conditions for decades as we strive to be better business partners. Our ability to deliver dependable business forecasts, optimise the allocation of resources and steer the business to new heights of performance, agility and competitiveness remain central to our professional standing with the rest of the C-suite. Yet more than more than 50% of us struggle to forecast beyond 6 months, more than 60% still can't forecast revenue to within plus or minus 5% and almost half of us take more than a week to reforecast earnings.

But encouragingly the survey shines a light on the way forward, namely;

- making better use of non-financial data and forward looking indicators
- developing greater specialisation and expertise in FP&A along with the enabling tools
- placing greater emphasis on process redesign before deploying in the cloud
- transitioning to a culture of continuous planning
- widening the net of PBF to include more stakeholders from other business functions.

I hope you find the study interesting and illuminating. Over the next few months we will be exploring and discussing what lessons we can draw from the survey and how we can each improve our contribution to our own organisations.
It is an immense privilege to have worked with you all on this survey and I look forward to some quality discussions in the forum.

Gary Simon

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CEO FSN & Leader of the Modern Finance Forum

Executive Summary

Planning, budgeting and forecasting (PBF) is one of the only corners of finance where the future is as important as the present, and it plays a crucial role in underpinning the outlook and direction of the business. As the entire finance function goes through a seismic evolution, the planning, budgeting and forecasting role is also in a state of flux

The changes within PBF are evident. Technology has enabled more stakeholders to participate in the process, advanced software has expanded the complexity and scope of forecasts, and finance professionals are rebalancing their skills as the requirements of their job changes before them.

But the PBF journey is only just beginning. This survey identified several instances where the function has not reached its potential to contribute fully to the future of the business. For example, the benefits of non-financial data have been widely overlooked, dedicated FP&A capability is still in its infancy, cloud deployment has been patchy and larger more complex models are not necessarily delivering commensurately more benefit.

Non-financial data holds impressive latent potential

The survey revealed that the most pronounced shortcoming is in the dearth of non-financial data being used in planning, budgeting and forecasting, despite non-financial data being a crucial component of improved outcomes. By any measure, organizations that draw on this rich seam of corporate intelligence perform better, and generate more accurate, faster forecasts and plans. As a result, these plans are more widely appreciated and accepted within the business giving rise to higher levels of trust and confidence.

Yet despite the obvious benefits of leveraging non-financial data to provide a more well-rounded corporate view of the future, finance professionals put very little emphasis on it, preferring to focus on traditional "lagging" financial measures. Non-financial measures languish at the bottom of the CFO's list of top 5 priorities for enhancing the planning process.

Figure 1: CFOs rank the importance of non-financial data capture as their lowest priority.

FP&A in the ascendency

One of the surprise findings of the survey was the markedly different perspectives of specialist FP&A professionals compared to their more 'generalist' colleagues in the finance function.

FP&A professionals see the need for specialisation so that finance professionals can make the fullest contribution to the strategic direction of their organisations. The survey detects a degree of frustration and, for example, FP&A professionals are seeking their own separate identity within their organization. They also firmly believe that the existing professional bodies are failing to provide the skills and resources needed for the future.

In broad terms FP&A professionals seem to be more tech-savvy and are more inclined to invest in technology than their contemporaries. They are also more likely to stretch the boundaries of business modelling by placing greater store by computer simulation and scenario planning – techniques which they believe can deliver deeper and more telling insights.

Cloud progress is very worthwhile but patchy

It seems that few organizations have reached what this report calls cloud "Utopia", i.e. implementing a single shared business model across the enterprise in the cloud, from a single vendor and with all relevant stakeholders connected. In the main, those that have migrated to the cloud appear to have replicated the limitations of the processes they had on-premise, with partial implementations in the cloud and different business models in different parts of the business.

Yet despite the incompleteness of implementation this report records tangible benefits to using cloud software, not least the speed, collaboration and complex data analysis possible to facilitate effective planning, budgeting and forecasting. But there is much more that can be achieved if cloud implementation is coupled with an in-depth overhaul of PBF processes and business modelling. This could truly transform the PBF process.

On the other hand, organisations that haven't yet started the cloud journey are struggling to improve their visibility. Over half of all organisations are unable to forecast beyond six months.

***73%** percent of organizations have reported a move to a culture of continuous planning over the last 3 years.*

Continuous planning is on the rise

Growing business uncertainty coupled with an inability to look out much beyond a six-month time horizon raises considerable concerns for the accuracy and integrity of business planning. The only way around this is to reforecast more frequently and indeed 73% percent of organizations have reported a move to a culture of continuous planning over the last 3 years.

Organizations that have embraced this mode of working are seen to reforecast more quickly and accurately and are therefore in better position to respond to market change. They also tend to leverage non-financial data more effectively and involve more stakeholders.

Continuous planning is an increasingly important tool in the PBF arsenal, and organisations that haven't yet evolved their budget process from the traditional annual plan, run the risk of falling behind competitors with a more agile view of the future.

Technology is less of a limitation

25% of businesses fail to engage with stakeholders outside of the finance function.

Technology has enabled enormous strides in PBF which means it is now feasible to build much more granular and complex business models that involve a greater number of participants and stakeholders in the planning process. But adding stakeholders or producing bigger models doesn't always equate to better outcomes. Without the right stakeholders, the best use of data and a sophisticated approach to modelling, PBF practitioners achieve little better than their less inclusive counterparts. For example, 38% of businesses get within plus or minus 5% of forecasts whether they reported more stakeholder engagement or not. The key to better accuracy appears to be involving the 'right' stakeholders, yet almost 25% of businesses fail to engage with stakeholders outside of the finance function.

Planning, budgeting and forecasting has a substantial contribution to make to both the finance function and the executive function. With a shift in perspective and a boost to resources, the future will become much clearer.

IBM Solution

In an environment where heightened volatility, uncertainty and risk are part of the normal course of business, FP&A teams need to rethink, redesign and retool planning, analysis and forecasting to help the business drive profitable growth and adapt to risk. IBM solutions for planning, budgeting and forecasting enable FP&A professionals to measure and monitor performance through interactive, self-service dashboards and visualizations, examine root-causes with high-fidelity analysis of dimensionally rich data, evaluate trends and make predictions automatically from internal or external data, perform rapid what-if scenario modelling and create timely, reliable plans and forecasts. With agile planning and exploratory analytics solutions in the cloud or on-premises from IBM, thousands of companies world-wide are steering business performance with greater speed, agility and foresight.

Chapter 1

Non-Financial Data

The Forecasting Game Changer

"Beyond the financial ledgers, FP&A teams now have access to ever growing operational data sources (ie. data on customers, demand, and supply chain), as well as data outside the corporate transaction systems (ie. weather data, social sentiment data, econometric data). With predictive insights drawn automatically from data, FP&A professionals can identify evolving trends and guide decision making with foresight, not just hindsight."

Non-Financial Data - the Forecasting Game Changer

Financial indicators are no longer enough. Those organizations at the leading edge are using non-financial metrics to great effect.

Financial indicators have long been the backbone of forecasting models. What has gone before is assumed to be a reasonable indicator of what is to come. And when that was the only source of corporate information on which to plan, it was enough. But times have changed. The volume and variety of non-financial data is being driven by business complexity, growing consumer choice and channels to market, as well as the Internet of Things which is daily expanding the connections between man and machine. These connections are feeding a trove of data filled with future performance indicators that can be invaluable to forecasters, if identified and used effectively.

What are non-financial indicators?

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&L. Web analytics will indicate the most popular item being browsed online long before sales data reflects high demand. Customer satisfaction surveys will indicate the effectiveness of the customer experience long before the company sees an uptick, or downturn, in trade. And a significant change in headcount may portend supply or back office issues long before profit suffers.

By putting in place tools and applications to monitor and model the impact of non-financial data, companies gain much-needed agility, accuracy and responsiveness, as the survey reveals.

Governments, regulators and investors are also latching onto the importance of non-financial indicators. A balance of financial and non-financial reporting provides shareholders and other stakeholders with a meaningful, comprehensive view of the position and performance of companies that financial information alone cannot provide.

The new EU Non-Financial Reporting Directive (2014/95/EU) aims to bring the quality of non-financial reporting across the EU up to the high standards exemplified by the best European businesses. The Directive, which applies to large Public Interest Entities (PIEs) with more than 500 employees provides for consistency and conformity across Europe in relation to disclosure requirements- providing investors and other stakeholders with a comprehensive picture of a company's performance.

The impact on time to re-forecast

ABLE TO RESPOND MORE QUICKLY TO MARKET CHANGE

2.5x Those organizations that make better use of non-finanical data are more likley to be able to respond quickly to market change.

Our research shows that senior executives who make better use of non-financial data are more than twice as likely to be able to turn around their forecasts within 24 hours, with almost 25% achieving this target. They are also two and a half times more likely to agree that over the last three years they have been able to respond more quickly to market changes.

Both quick forecasting and responsiveness provide a vital competitive advantage, which can be a game-changer for businesses competing with nimble upstarts and disruptor brands. And it follows that if companies are making better use of forward indicators that specifically impact their business, they are also able to bring more accuracy to their forecasting.

Over half of CFOs and senior executives who make better use of non-financial data are able to forecast with 0-5% accuracy. This compares with 29% of respondents who have not increased their use of non-financial data in the last three years.

Non-financial data improves visibility & confidence

In addition, responsiveness and accuracy are further enhanced by foresight. Finance professionals and forecasters who make better use of non-financial data are more than twice as likely to be able to forecast beyond the 12-month horizon compared with those that are not harnessing this resource effectively.

Harvesting non-financial data and analyzing it through a wide range of predictive, forward-looking managerial tools gives forecasters a competitive edge that translates into a business advantage. Yet while executives are aware that financial indicators alone cannot adequately capture the strengths and weaknesses of their company, improving or taking control of non-financial data is very low on their priority list. Respondents ranked non-financial data capture fifth on a scale of five priorities for the future of planning.

Yet CFOs who take better advantage of non-financial data are twice as likely to report a greater degree of confidence in the planning, budgeting and forecasting process (88% expressed an increase in confidence in PBF over the last three years).

Making effective use of non-financial indicators requires a clear understanding of the best metrics for the business, a proven method of analysis and a clear presentation of the outcomes of these KPIs. Companies that have a strong grasp of these measures and are using them effectively are often those that are already further along the modern finance journey.

In our previous research The Future of the Finance Function Survey 2016, automation and standardization emerged as key facilitators in the evolution of an effective modern finance function (which includes new methods of planning, budgeting and forecasting). Ultimately CFOs can't deliver a modern finance function without the use of technology. Standardisation, automation and front-to-back office interconnection all require effective technology, and if properly implemented will free up valuable time to spend on business partnering and strategic advice.

ABLE TO FORECAST WITH MORE ACCURACY

1.7x

Those organizations that make better use of non-finanical data are more likely to be able to forecast earnings within +/- 0-5%

ABLE TO FORECAST BEYOND 12 MONTHS

2x

Those organizations that make better use of non-finanical data are more likely to be able to forecast beyond the 12 month horizon.

Those organizations which have built in non-finanical indicators tend to be further along the modern finance journey.

The PBF survey showed that respondents who made more use of non-financial data were 50% less likely to report that automation and standardization are obstacles to process improvement. This implies that the companies which focus on non-financial data already subscribe to a technologically innovative approach, and are further along the PBF journey. They are able to generate the sort of non-financial data that can truly enhance their forecasting, improve visibility and help promote agile business practices.

For this benefit, the capture of non-financial data deserves to move further up the finance function's priority list.

IBM Solution

With IBM solutions, users gain predictive insights into factors that influence business drivers automatically from financial and operational data, and incorporate these insights into more reliable plans and analyses. For instance, Marketing uncovers new insights into the way customers search for information and buy, and uses these insights to adjust market promotion plans. Call-center managers uncover new insights into predictors of call volumes, and use these insights to create more reliable staffing plans; and so forth across supply chain, HR and sales.

Better forecasting helps us avoid problems coming from both sides of the demand planning equation.

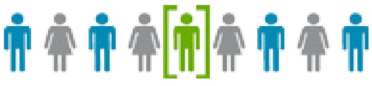
CASE STUDY 1: Demand Forecasting

We developed a demand-forecasting solution that analyzes historical sales and order data within the context of current market conditions and key influencers such as weather and even sporting events. Better forecasting helps us avoid problems coming from both sides of the demand planning equation. It helps us minimize stockouts that lead to lost sales, and reduce overproduction that leads to waste. In our process, each prediction is fed back through the analytical algorithms after sales figures are posted so that we can continuously fine-tune our forecasting and avoid wild swings in demand. – *CFO, large US brewery*

CFOs and Heads of FP&A at Loggerheads

"One unanticipated risk of continuing to support manual, spreadsheet planning, budgeting and forecasting processes is talent flight, as valuable analytic talent departs to join more modern finance organizations. FP&A organizations that automate and transform their recurring performance management processes create a technology-enabled environment that attracts, develops and retains analytic talent and prepares the finance organization for the future."

CFOs and Heads of FP&A at Loggerheads



FP&A is looking for its own identiy

Presently, across the entire 48,000 finance professionals in the FSN Modern Finance Forum on Linkedin “Heads of FP&A” represent around 1% of the membership. But this survey finds that where organizations have a Head of FP&A (financial planning and analysis), their views on the future of the role can be markedly at odds with the rest of the finance function.

In the main, only large organisations can afford to, or find the need to, separate out FP&A duties. In some organizations, especially smaller enterprises, the role is not always differentiated, may go by another name, or be subsumed into a general management accounting role. This is reflected in the relatively modest number (6%) of survey respondents who identified themselves as Head of FP&A.

It is a niche field, and accounts for only a small percentage of senior finance professionals, but as the finance function of the future grows increasingly complex, demand is growing for these specialized practitioners.

In an ideal finance scenario, the head of financial planning and analysis would report directly to the CFO, build forecasts from both financial and key non-financial data, and use their analysis to underpin the strategic direction of the business. Crucially, they should be the repository for a diverse array of performance data that goes well beyond a company’s historical financial figures, and be able to present a view of the future, rather than just review the past.

In truth that’s not always the case. Too often the FP&A function is consigned to basic budgeting duties, which merely stagnates the potential of the finance function as a whole. Meanwhile FP&A straddles both the financial and management accounting disciplines, and they see themselves as a different class of accountant.

FP&A in a class of its own?

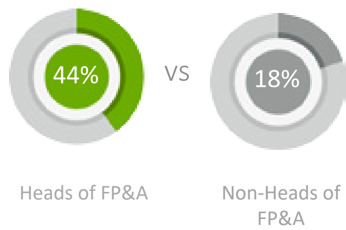
According to the survey, the heads of FP&A firmly believe that their role will become a separate discipline from the accounting function. 44% of FP&A heads strongly agree financial planning and analysis will become a separate discipline, compared with 18% of non-FP&A respondents. Including the survey respondents who both agree and strongly agree the ratio rises to 76% for FP&A professionals, compared with 64% for the remaining finance executives surveyed.

Although there is majority agreement amongst all finance professionals that the FP&A function should be recognized for its role and position in the organization through a separation from the accounting function, the call is louder from within.

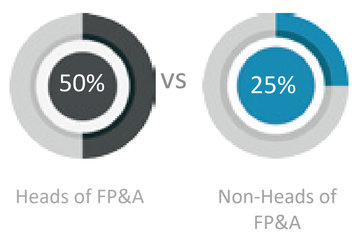
29% of heads of FP&A strongly agree that the financial planning and accounting function will become a separately recognized function with its own professional accounting body, compared with just 11% of non-FP&A heads.

This result may stem from the belief that current accounting bodies are not producing the specialists in the FP&A field that the future finance function requires. Almost half within the discipline agree with this, compared with just a quarter of executives in other roles within the finance function.

FP&A heads looking to break away: 44% of FP&A heads strongly agree financial planning and analysis will become a separate discipline, compared with 18% of non-FP&A respondents.



FP&A heads do not think the accounting bodies are doing enough: 50% of Heads of FP&A do not believe accounting bodies are producing the FP&A specialists for the future

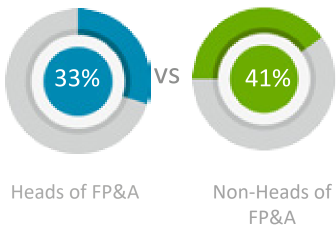


FP&A professionals rely more on tech

Still, despite a clear view on the lack of qualified FP&A professionals, only a third of FP&A heads expected to be investing more in analytical skills rather than technology in the next three years, compared with 41% of the remaining respondents.

This focus on technology likely arises because FP&A practitioners recognize that technology is the essential enabler. In order to extract the most useful, predictive, forward looking data, FP&A needs more

FP&A heads are more focused on technology: 33% of FP&A heads expected to be investing more in analytical skills rather than technology in the next three years, compared with 41% of the remaining respondents.



complex analytics, more complex technology and more innovative applications. Once armed with the right technology, an FP&A Head with the right analytical skillset will be able to distil this into usable strategic information.

Unfortunately, this skillset is not being provided by the standard accounting bodies, and in some cases is not being nurtured by the remainder of the finance function either.

This will only come when the finance function recognises the value of FP&A in providing insight that is progressive and predictive rather than historical and backward-looking. Within the finance function, FP&A is the only discipline that can present a picture of the future from which an organisation can build their strategy.

The survey did show that the heads of FP&A and their non-FP&A counterparts were broadly in agreement on their priorities for the future of planning, budgeting and forecasting, although the former put slightly more emphasis on the need for greater simulation and scenario planning.

The gulf between the finance executives who contribute to and use the plans, budgets and forecasts, and the FP&A professionals who generate them, is wide but not insurmountable. The finance function is evolving and technology is changing the way financial executives make decisions. The role of the FP&A expert is expanding to encompass a wider range of data, more complex analysis and a more demanding C-suite. If senior executives recognize the change within the finance function, it behooves them to bring the planning, budgeting and forecasting function along for the journey.

IBM Solution

Fast, flexible solutions from IBM help FP&A professionals deliver deeper insights and stronger foresight to steer business performance effectively. The agility they gain from these solutions helps them serve the broader goals of the organization by adapting plans, budgets and forecasts to changing business conditions and aligning financial plans with corporate objectives, linked to operational tactics and market events.

...the data we are now able to pull out of IBM TM1 is welcomed by the Chief Operating Officer

CASE STUDY 2: IBM TM1

IBM TM1 is helping us to identify pockets of excessive optimism earlier in the year, allowing us to redeploy unused funds. We are also experimenting with using IBM TM1 to find specific projects that are beginning to fall behind schedule. ...the data we are now able to pull out of IBM TM1 is welcomed by the Chief Operating Officer, which is helping to move things forward. – *Senior Director of Cost and Capital Management, regional telecommunications company*

Cloud Uptake is Rising but Outdated Processes Remain Unchallenged

"A range of deployment options – in the cloud, on-premises, or hybrid - allows technology decisions and process change decisions to be made independently."

Cloud Uptake is Rising but Outdated Processes Remain Unchallenged

Only 11% of respondents have deployed cloud solutions across all their business units

As more and more organisational services move to the cloud, planning, budgeting and forecasting is being swept along the same tide. Yet even as uptake is gradually rising, the real benefits are often lagging.

In a utopia of cloud-based planning, budgeting and forecasting, there should be seamless information flow, inclusive communication with all relevant stakeholders, and open discussions that lead to a perfectly refined forecast. The theory is that deploying a centralised cloud solution for PBF has the power to radically change the processes and outcomes of the discipline.

But the reality is that uptake is still low (only 11% of respondents have deployed cloud solutions across all their business units), and those that have begun the journey are a long way from achieving the full benefits.

Cloud utopia remains elusive

Instead of the utopia of a unified solution, more than a third of cloud users still use multiple software vendors for planning, budgeting and forecasting. And only half agreed to using one model shared by the whole enterprise, the same percentage as those that had yet to move to the cloud. Meanwhile the same percentage of cloud and non-cloud users (36%) responded that each major part of the business has its own standalone model, which invariably creates issues when trying to collate and unify these disparate models.

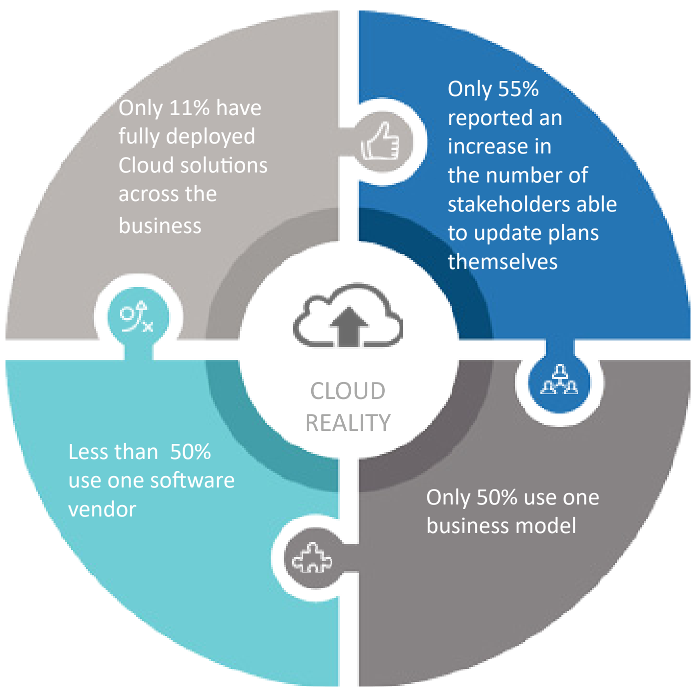
It is inevitable that business functions will argue that by their very difference they need models specific to them. But when a central cloud solution is implemented, retaining this disparate model structure immediately reduces the potential benefits of a centralised system. Re-engineering the models to allow for differences under a unified cloud is the next logical step to making the most out of a cloud investment.

Cloud users were also equally as likely to find cross-business collaboration difficult. This despite the expectation that cloud services should bring and bind business areas together under a software umbrella accessible from anywhere. Instead 34% of respondents said they found it difficult to collaborate across functional areas, the same as those yet to implement the cloud, whilst 28% still struggle to collaborate across business units.

Of the 11% who have fully deployed Cloud solutions across the organization less than 50% of these use one software vendor

Figure 2:

Organizations are failing to fully embrace the move to the Cloud.



Cloud implementations often mirror the on-premise limitations

This echoes the problem of lack of progression within the planning, budgeting and forecasting process. When cloud solutions are implemented, the opportunity to investigate and improve processes is missed. Instead they are merely substituted into the existing framework, replicating the processes already in place.

The benefits of the cloud include:

- Quicker at reforecasting
- More accurate forecasting
- More stakeholders connected
- Ability to connect more easily to new sources of data and produce larger and more detailed plans

That said, even those companies that have yet to take full advantage of the cloud are reaping some of the rewards that the agile cloud offers. Those that have started on the cloud journey are over one and a half times more likely to be able to reforecast earnings for the organisation within 24 hours and a third more likely to get the forecast right to within 5%.

This highlights one of the key selling points of cloud software, the ability to quickly and comprehensively draw data from numerous locations and stakeholders for immediate analysis, thereby producing timely, and accurate reports.

The process of implementation will invariably also encompass a wider range of stakeholders, by the very nature of its connectivity. Cloud adopters are more than twice as likely to strongly agree they have more stakeholders involved in the process compared with three years ago.

Their plans are also more integrated between different business functions, with 78% in agreement compared with 60% for non-cloud users. Cloud adopters are also more than twice as likely to agree that all users have visibility of changes in real time, and the centre has improved visibility too (more than one and a half times the number of cloud-based respondents agreed).

The upshot is that the cloud brings connectivity and collaboration to the planning, budgeting and forecasting process. And this is critical for companies that need all their functions and divisions to be working towards a common financial goal. Too often departments work in silos to generate plans and forecasts that aren't holistic, and would offer little in the way of strategic input.

Unsurprisingly for a new technology, cloud adopters were almost 50% more likely to have reported an improved ability to connect more easily with new sources of data, and 20% more likely to be able to produce larger plans.

Cloud adopters are more process-savvy

Cloud users tend to include the early technology adopters that have recognised the financial advantages of improved business processes. Respondents who had already implemented cloud PBF solutions were a third less likely to see automation as an obstacle to process improvement, and a fifth less likely to view standardisation as an obstacle either.

Cloud can be used as a proof of concept tool and is often used as a method to overcome the hurdle of seeking investment from the Board of Directors

Tellingly those using the cloud were also 17% less likely to see the Board as an obstacle to seeking investment, possibly because their implementation of the cloud could be used as a proof of concept tool.

The benefits of unifying the planning, budgeting and forecasting process under a single cloud solution are significant even without a re-engineering of BPF processes. Combine both the technology and the business process improvements, and the cloud utopia is very achievable and vastly beneficial.

IBM Solution

Advanced performance management processes and practices often depend on enabling technology. The cloud offers many undeniable benefits in cost, scalability and resource commitments. But with IBM, the same PBF solution can be deployed in cloud, on-premises or in hybrid environments. This gives organizations the flexibility to pursue process improvements without being limited by their software choices.

We are counting on cloud to negate these issues so we can focus on managing our capital.

CASE STUDY 3: Benefits of a Cloud Solution

From our perspective, there is a constant barrage of upgrades, patches and new features that we don't have the capacity to read up on. As a result we've stumbled into compatibility problems that slowed down deployment while we researched a fix. We are counting on cloud to negate these issues so we can focus on managing our capital. – *Senior Director of Cost and Capital Management, regional telecommunications company*

CFOs Who Ignore Continuous Planning May be Putting Their Business at Risk

"Rolling forecasts enable managers to see trends, patterns, and 'breaks in the curve' long before their competitors."

CFOs Who Ignore Continuous Planning May be Putting Their Business at Risk

The central plank of the planning, budgeting and forecasting cycle has historically been the annual budget. Preparations can start several months before it is due, data is sourced, forecasts are submitted and after intensive negotiations and discussions a budget is agreed, frequently forming the basis on which bonuses are paid and strategic decisions are made.

73% of survey respondents have reported a move to continuous planning

Unfortunately this process is entirely out-dated. Organizations, sectors and markets move increasingly quickly, and no sooner has the budget been agreed, than it is no longer relevant because the assumptions on which it is based have changed. Making decisions based on stale information can put businesses at risk of competitive pressure and the failure to respond timeously to market changes.

To be fair, many CFOs are all too aware that annual budgets are archaic and ineffective in a competitive market, but not everyone has managed to evolve their planning, budgeting and forecasting programmes into something more effective.

It starts with the recognition that budgets or forecasts developed with the most up-to-date information will invariably provide the most accurate picture of the future. This means shortening the time between budget preparation and approval, and the climax of this approach is being able to budget, plan or forecast almost immediately, whenever assumptions or data changes.

Continuous Planning is the process of reforecasting a given time period on a regular or an adhoc basis in response to a significant economic or political event

Continuous planning is increasingly important in a volatile market. Over half of executives surveyed said their company could forecast no further than six months into the future. To alleviate this short-sightedness, companies are turning to continuous planning. 73% of respondents agreed or strongly agreed that they now have more of a culture of continuous planning.

Continuous planning improves agility and accuracy

The organizations that strongly agreed (16.7%) are one and a half times more likely to be able to reforecast within one week, and are almost four times more likely to be able to respond more quickly to market change.

The move to continuous planning also improves accuracy, with organizations being almost twice as likely to be able to forecast within 5% of earnings compared with companies that remain wedded to static forecasts.

Clear visibility from continuous planning also means organizations are three times more likely to report that the business as a whole has more confidence in the planning process.

Significantly, organizations which implement a continuous planning process are almost twice as likely to engage more stakeholders in the process and two times as likely to make more use of non-financial data.

It makes sense that when a company looks to improve their visibility they do so by including in their models and forecasts more of the data that they need to plan accurately. Non-financial data has already been shown to be crucial to the accuracy and horizon of the forecasting process, and organizations that have moved towards continuous planning are more likely to have recognised this. This implies they are further along the journey to future-proofing their planning, budgeting and forecasting process. Despite non-financial data use being the lowest ranked priority on the survey list, organizations that use continuous data have recognised the limitations of annual budgeting and the advantages of incorporating non-financial data into these rolling forecasts.

ABLE TO REFORECAST MORE QUICKLY

1.5x organizations that have moved to continuous planning are 1.5 times more likely to be able to reforecast within 1 week

ABLE TO RESPOND MORE QUICKLY TO MARKET CHANGE

4x organizations that have moved to continuous planning are 4 times as likley to be able to respond quickly to market change.

ABLE TO FORECAST WITH MORE ACCURACY

1.7x organizations that have moved to continuous planning are almost twice as likely to be able to forecast earnings between +/- 0-5%

With the added granularity of non-financial data, continuous planners are almost twice as likely to agree that they can now produce much larger and more complex models, with better visibility of the process for all users.

The annual budgeting process is slowly becoming obsolete, as organizations recognise the limitations of developing strategies based on out-of-date assumptions. But implementing a truly effective continuous planning process requires buy-in from all business functions, not just the finance core. If an organization is going to overhaul their planning and budgeting process, they must broaden the inputs to include non-financial data. This brings an accuracy and agility to forecasting that will adequately prepare organisations for their fast-paced future.

IBM Solution

With IBM solutions, FP&A teams create more timely, reliable driver-based, rolling forecasts to complement annual planning cycles with more regular business reviews that enable managers to see trends, patterns, and "breaks in the curve" long before their competitors, and thus make better informed decisions regarding products and markets. FP&A teams manage through continuous planning cycles, making rolling forecasts the primary management tool, and reporting on key metrics daily and weekly

The Finance team was able to increase the tempo of reporting and analysis… saving approximately 32 hours per month in forecast preparation time.

CASE STUDY 4: IBM TM1 Speeds Up Time to Re-Forecast

With over 100 Microsoft Excel based cost centers, CAPEX and OPEX plans, managing labor and capital planning was a time consuming annual process that would not allow the company to move away from annual planning models to rolling-forecasts. In addition, the workflow approval process for new capital expenditures was tedious, and the tracking of existing assets was overly complicated. After deploying IBM TM1, the Finance team was able to increase the tempo of reporting and analysis, improving decision support and saving approximately 32 hours per month in forecast preparation time. – *California-based manufacturer of irrigation equipment and sprinkler systems*

Bigger Models and More Stakeholders Don't Make for Better Business Modelling

"Granular analysis of dimensionally rich data reveals new insights into the drivers of product and customer profitability that can be applied to create more reliable forecasts. When automated collaboration is designed into the solution, managed workflow can get information to the right people, with the right knowledge, in a timely fashion."

Bigger Models and More Stakeholders Don't Make for Better Business Modelling

51% of organizations still struggle to forecast out beyond a six month horizon

The goal of an effective business planning process is to build a business plan that underpins an organization's strategy while also evolving as circumstances change. Historically it has been a largely linear process, with input from departments and business units that are discussed, distilled and finally delivered into the plan.

But the nature of business modeling and the process of planning has changed in tandem with the evolution of the finance function. There is now far more data, many more stakeholders and increasingly complex modeling applications from which to develop plans. And while this should theoretically lead to better planning this isn't always the case as the survey reveals.

On the face of it, survey respondents believe they are doing a better job than three years ago, with two-thirds saying the organization has more confidence in the planning process. But if that's the case how do we reconcile the fact that more than half still struggle to forecast out beyond six months, a quarter still can't forecast revenue to within 10%, and almost half take more than a week to reforecast earnings?

CFOs and their finance executives appear to be in denial about how efficacious their planning, budgeting and forecasting really is. The issue may lie in the flawed idea that bigger is necessarily more accurate.

Building complexity

These days the finance function has access to tools that allow it to process more data and develop more complex models, and this certainly comes with some advantages.

60% of respondents said they could handle more complexity and build much more granular plans compared with three years ago. Those planning in more detail are almost twice as likely to be able

Planning in more detail doesn't necessarily mean increased accuracy

to forecast more quickly, with 23% reforecasting within 24 hours compared with 12% for the remaining respondents.

The executives who are building larger models are also two and a half times more likely to react more quickly to market change, with 80% in agreement. In addition, those that are forecasting in more detail also appear to be able to forecast further into the future. They are twice as likely to be able to forecast out 12 months, with over a quarter claiming this is achievable.

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. They were better at forecasting revenue (40% more organizations with detailed planning were able to forecast within 5%), but seemed unable to follow through to more accurate earnings forecasts.

Adding voices

As organizations increasingly recognize the need to incorporate more data and detail into their planning process, so the number of people engaged in the process has risen. But involving more stakeholders in the process doesn't necessarily translate into richer forecasts, although it does improve acceptance of plans and the ability of the organization to react more quickly to market change.

Perhaps counter intuitively, involving more stakeholders doesn't produce better earnings forecasts. 38% of businesses with more stakeholders were able to forecast within 5%, compared with 35% who still have a similar number of people inputting into their plans.

The effect on speed of reforecasting was similarly comparable. 57% of those involving more stakeholders in the process reported being able to reforecast in under a week, compared with 52%.

While the impact on actual forecasting times and accuracy was small, there was a very tangible increase in cross-organizational acceptance of the plans that resulted, which is a laudable objective in itself.

Where an increased number of stakeholders (not just finance) were inputting into the business modeling process, these organizations were two and a half times more likely to report that their process is perceived more positively by other functions now compared with three years ago. And these organizations were almost twice as likely to have responded that they have more confidence in their planning process.

They were also twice as likely to believe that all business functions feel they have adequate input into the process, 20% less likely to feel that planning, budgeting and forecasting created conflict, and 30% more likely to trust the operational data provided to them.

Crucially, with more stakeholders engaged and looking out on the horizon, these organizations were almost twice as likely to have an improved ability to react more quickly to market change.

While there may be some advantages to building bigger plans or involving more stakeholders, it isn’t the panacea of business modeling. The plans (big or small) need to be the right ones and the people involved need to be the most effective stakeholders in the business.

Prioritizing the right voices

While 63% of respondents now have more users engaged in the planning process, almost a quarter of businesses fail to involve stakeholders outside of the finance function. Their input, on non-financial data, is crucial to ensuring a complete picture, and vision, of the organization, rather than one blinkered by the narrow confines of financial results. Luckily this is at least on the agenda as a top three priority for finance executives in the survey.

63% of respondents say they now engage with more stakeholder in the PBF process, but almost 25% of businesses fail to involve stakeholders outside of the finance function

Involving more stakeholders does require the use of specialist planning, budgeting and forecasting tools to be able to coordinate

Not just finance teams, but business analysts, line-of-business managers and users on the front lines can… make more intelligent choices and allocate resources more effectively.

the process. Similarly, being able to build larger and more detailed plans is usually facilitated by more specialized technology. Respondents building more detailed plans are 20% less reliant on spreadsheets, three times more likely to be using cloud software across all their business units and twice as likely to be using on-premise software.

There is a quiet revolution going on in the finance function, and it is spreading to planning, budgeting and forecasting. With many more data or stakeholder inputs into increasingly complex plans, finance professionals can be forgiven for believing they are getting better outcomes. But the survey shows that earnings forecasts are similarly constrained, whatever the detail and size of plans or number of stakeholders.

Instead executives must work smarter rather than larger. Involving the right stakeholders (especially non-financial executives) while ensuring visibility of plans and timely updating of real-time information, is worth more than just another voice in the crowd. Linking stakeholders through cross-departmental cloud software can help keep the data updated, improving the accuracy of the plans and ultimately the accuracy of the forecasts.

IBM Solution

How often do you re-organize, integrate a new acquisition or simply need to adapt your plans, analyses and reports to changing product or organizational hierarchies and dimensions? Manual, spreadsheet systems struggle to cope with these changes. Adjustments take a long time and are error prone. With IBM solutions, FP&A professionals can quickly and easily develop and adapt business structures, rules and relationships in their planning and analysis models to match prevailing business conditions. FP&A can perform complex cost allocations and profitability analysis, and drill down for a granular view of profitability by product, customer or channel. With powerful scenario modelling, FP&A can evaluate strategies, and test assumptions about possible future outcomes.

The changes have affected the entire organization, from senior executives to front-line staff.

CASE STUDY 5: IBM TM1 Allows for More Granular Planning

One of the largest blood banks in the US completely transformed its financial planning and reporting capabilities over the past two years using IBM TM1. The organization can now model, plan, allocate, report and manage costs on a per-unit basis for its complex logistical operation. The changes have affected the entire organization, from senior executives to front-line staff. – *Major regional blood bank based in Northeast US*

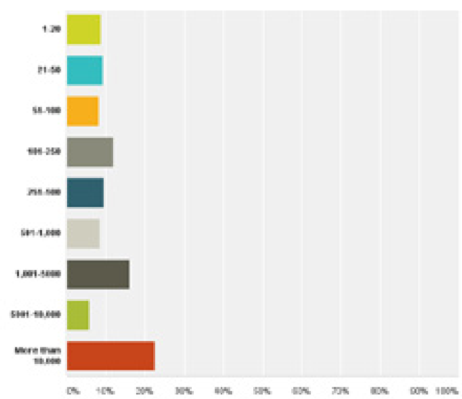
Methodology

METHODOLOGY

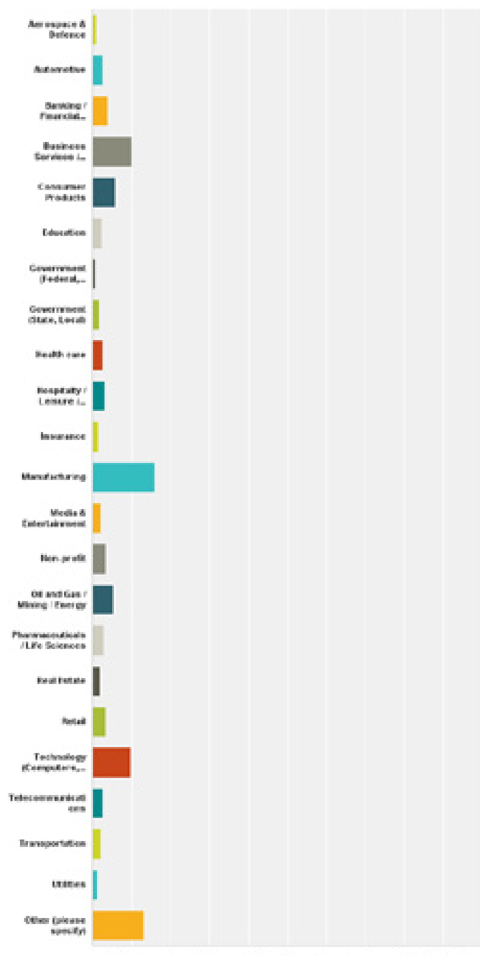
The survey drew responses from 955 international senior finance professionals from our 48,000 strong FSN Modern Finance Forum on LinkedIn.

This survey covered finance professionals across 23 different industries. 81% of which were considered to have senior job titles and above.

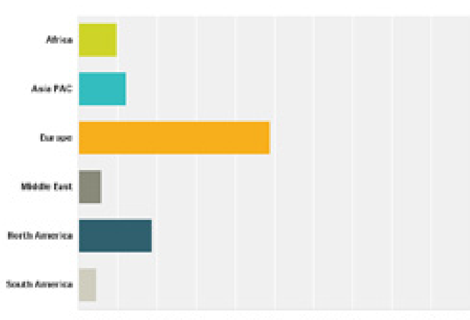
Orgaizational Size- Number of employees



Industry of Respondents



Geography of Respondents



ABOUT IBM

IBM analytic solutions for enterprise performance management deliver speed, agility and foresight to organizations of all sizes—from large-scale enterprises to small and midsize businesses. They help transform slow, disconnected processes into more dynamic, efficient and connected experiences. Finance, line-of-business and IT professionals alike can use IBM solutions to drive financial process efficiency, deliver stronger business foresight and steer business performance.

With flexible deployment options including cloud, on premises and hybrid, IBM enterprise performance management solutions enable organizations to:

- Replace rigid budgets with continuous planning and more frequent forecasting involving all the right participants.
- Create a dynamic, collaborative and reliable planning process across geographies, business units and functional silos to improve visibility into the impact of business drivers.
- Harness big data analytics to deliver deeper predictive insights and improve decision making.
- Track performance against corporate objectives to identify performance gaps and assess alternatives with "what-if" scenario modeling.
- Report with confidence to internal and external stakeholders.

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To request a call or to ask a question, go to www.ibm.com/analytics/contactus. An IBM representative will respond to your inquiry within two business days. For more information on IBM solutions, go to www.ibm.com/planning.

ABOUT FSN

FSN is a global publisher of thought leadership, research and "must-have" content for CFOs and senior finance professionals around the world. FSN's highly popular and active Modern Finance Forum on LinkedIn has a membership of more than 48,000 readers in more than 23 countries and across every major industry segment. It is also the publisher of the popular www.fsn.co.uk and www.fsnelite.com websites and regularly holds, networking dinners and events for its members.

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