

AN ARGUMENT FOR CONTINUOUS PLANNING

The Ability to Move Swiftly and Adapt Quickly Could Benefit Your Bottom Line



When musician Jon Bon Jovi gave his commencement address to the class of 2001 at Monmouth University, he gave them some advice. He told the graduates that no matter what they chose to do with their lives, to do it with passion; to be persistent in pursuit of their goals; and to make their plans in pencil.

“Make your plans in pencil,” he told them, “because you really don’t know what tomorrow will bring—and that’s what makes life so exciting.”

Sound advice—not just for college grads, but also for executives responsible for planning, budgeting, and forecasting.

As it relates to budgeting and planning, making your plans in pencil means adapting to changing conditions, making regular revisions to your assumptions and plans, and making planning a continuous process, rather than a once-a-year project (see the table below, “Budgeting versus Continuous Planning,” for further comparison). Making your plans in pencil makes it imperative to have processes and systems in place that allow rapid assimilation of actual results and changing conditions.

Most companies plan and budget using Microsoft Excel. Excel is widely embraced in corporate financial planning and analysis because it is powerful, flexible, ubiquitous, allows end-users to create and revise models without IT involvement, and, purely from a software purchase price perspective, inexpensive.

Excel, however, has serious limitations and risks as a corporate financial tool. These include widespread errors in formula and model creation, a lack of data integrity, wide variation in productivity among users, the difficulty of incorporating changes in reporting structures, and the difficulty of maintaining and updating multiple scenarios.

Despite those shortcomings, a recently published survey of CFOs revealed that Excel continues to be the number one tool employed in the budgeting and planning process.¹ Not surprisingly, those executives acknowledged in that same survey that more than 90 percent feel their budgeting and planning processes need to be improved. The most common dissatisfactions cited were that:

- The process takes too much time and effort;
- Budgets are outdated quickly after they are created; and
- Too much time is spent on the mechanics of budget creation and not enough time on meaningful analysis and scenario planning.

Because the process is difficult and time consuming, it is not surprising that many companies still view planning and budgeting as a once-a-year process. They create and memorialize an annual budget—and then

Budgeting versus Continuous Planning[®]

	BUDGETING	ROLLING FORECASTS
Timing		
Frequency	Once a year	Often—event driven
Cycle time	Months/weeks	Hours/days—near real time
Time horizon	Fiscal year	Rolling (e.g., next five quarters)
Process		
Iteration cycles	One version at a time	Multiple scenarios at one time
Participants	Many—all managers	Fewer—finance; senior mgmt.
Collaboration	Submission/approval	Near real time
Deliverables	Reports in binders	Decisions; action
Data		
Type	Financial	Financial and operational
Inputs	Many direct inputs	Fewer direct; many driver-based
Measurement	Variances	Relative change; trends
Level of detail	Precision driven	Relevant; what’s material

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¹“Performance Management - Current Challenges and Future Directions,” BARC, July 2009

²Business Finance Magazine “Death of the Budget?” 10/20/2009

get on with running their business. The plans and budgets get stale quickly and lose relevance as a performance management tool. Twenty percent of CFOs said that by January 1—the first day of the year—their budgets were already obsolete! By June 30, two-thirds said their budgets were obsolete.²

A growing number of companies are recognizing the importance of having an effective ongoing planning effort. Many have taken their planning and budgeting processes and systems to the next level. They have moved beyond Excel and are able to get more out of their planning, budgeting, and forecasting with less effort. Using advanced planning and budgeting applications, along with changes to the planning and budgeting process, allows these companies to:

- Align strategic plans with operating and financial plans, budgets, actual results, and reforecasts;
- Generate updated profit and cash flow projections in near real-time;
- Understand the impact of changing trends at any level;
- Create and compare multiple scenarios reflecting ranges of values for key financial and operational drivers, rather than single-point forecasts (for example, looking at the profit impact if the price of key raw material is likely to be \$1.60 per pound but could be anywhere in a range from \$1.45 to \$1.75 per pound); and
- Identify and focus on proactive action to ensure ongoing alignment of strategy, plans, and results.

To get the right answers, you have to ask the right questions. An effective plan asks and answers the following:

- Where are we going?
- How are we going to get there?
- How will we know if we are on/off track?
- What resources will be required?
- What assumptions do we have about the key internal and external factors impacting our business?

- What happens if things do not turn out as assumed/planned?

An effective budgeting and forecasting tool and process can provide those answers—in pencil, ready to adapt to changing conditions. Companies can boost the value of their planning efforts and make better decisions by spending less time generating an annual budget and more time in a continuous planning process. ■

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