# reaching for financial success

COMPANIES MUST SYNCHRONIZE BUDGETING AND PLANNING WITH FAST-CHANGING BUSINESS OPERATIONS TO STAY FINANCIALLY VIABLE.

BY JIM GAHAGAN

What happens when a company experiences a dramatic, rapid change in its business environment? As market conditions change dramatically within a single planning period, budgeting and planning forecasts—and the financial plans they produce—can quickly become misaligned with actual business conditions, even as these forecasts are finalized.

Most businesses haven't built models to anticipate these radical changes. They also haven't fully synchronized their financial planning with their budgeting process. Compounded by Wall Street's high-powered focus on accurate forecasts, companies simply can't afford to set financial goals only to have no means of measuring progress toward those goals until the end of the quarter!

To stay financially viable, corporations must bridge the gap between the quickening pace of business operations and the much slower rate of the traditional financial planning and budgeting process. To accomplish this, they should tightly integrate their business planning and budgeting applications into a single solution while extending collaboration capabilities beyond the walls of the finance department. Going one step further, companies should consider integrating this single solution with other ERP systems, including customer relationship management (CRM), supplier relationship management (SRM), and human capital management (HCM). For example, direct links to a company's HCM systems can bring real-time employee and compensation information into the planning solution. This information can then be coupled with detailed customer profitability information from their CRM applications for accurate revenue forecasting.

### THE NEED FOR INTEGRATION

A financial plan built on static data is inflexible and unrealistic. The fact is our external business environment is constantly evolving every day. Competitive companies must possess the adaptability and agility to identify and align plans to a dynamic market. Budgeting needs to be tied directly to planning so that as financial plans morph, budgets morph accordingly.

Right now, planning is often a top-down spreadsheet exercise, while budgeting is a bottom-up spreadsheet exercise—and often they don't meet in the middle. By connecting the two processes with an enterprise software solution, organizations save time by deploying resources more effectively and preventing multiple iterations of business plans and budgets. They are also able to manage performance more effectively by dynamically assessing company performance against plans and budgets. By generating updated rolling forecasts based on current market information and actual results, companies can take corrective action or make adjustments to plans in real time.

An example of real-time distributed information is when Key Performance Indicators (KPIs) and management dashboards are developed and distributed through a portal to management. These KPIs should be developed from the same source of enterprise data that the planning and budgeting processes are part of to ensure the consistency of the financial information.

Consider, for example, a bank that creates a financial plan and operations budget based on increased commercial lending in the second half of the year, but the "recovery" never happens. Instead, mortgage and home equity loan activity shoots through the roof. Without the flexibility and agility gained from access to real-time operational data, the budget for increasing the commercial loan portfolio is in the corporate bank while the activity is in the mortgage bank. The overall bank now has a mismatch of resources to loan activity. When the goals for the quarter aren't met three months later, the finance department analyzes the cause and alerts management, who then makes the necessary changes. Meanwhile, the bank misses its numbers for the quarter, and by the time it hires, trains, and adjusts resource allocations, the market is changing again.

With integrated planning and budgeting, the bank instead gains increased intelligence and agility in realigning budgetary assets to new business imperatives in real time. This alignment of planning and budgeting seems like common sense, but, surprisingly, many businesses don't align these closely related applications in this way. Many companies still treat them as completely distinct applications, relying on force-fit, general-purpose systems such as spreadsheets and relational databases. Because there is no integration between these general-purpose solutions, users must copy and paste numbers from one application to another. Not only do these processes introduce errors, but they also waste valuable time that could be spent analyzing the numbers and actually adding strategic value.

### EXTENDING COLLABORATION BEYOND THE FINANCE DEPARTMENT

Another common problem with today's planning and budgeting applications has to do with the lack of inherent collaborative functionality. A successful budget and business plan requires active participation and interaction by individuals outside the finance department. In many companies, the finance department drives the planning process. Budget drivers should originate in the business areas and reflect the current economic assumptions about that line of business. All too often, employees in various divisions don't participate in the planning process yet, quite paradoxically, are still held accountable for meeting the targets. This can result in hedging games with the budget numbers, which, in turn, creates inaccuracies. Many companies today see the advantages of decentralizing the planning process to empower their business units and line managers, enabling them to not only "buy into" the financial targets that have been set but to have a hand in setting them.

By decentralizing control over information input processes for financial plans and by permitting greater collaboration among business units, business-line managers can have a stronger voice in setting and agreeing to realistic goals for which they will be held accountable. Once these goals are set and agreed upon, business-line managers can use them for making the budget allocation process more closely align to current financial plans.

### GOING ONE STEP FURTHER: INTEGRATION WITH ERP SYSTEMS

An understanding of individual business drivers and the relationships between them are critical to a company's ability to plan and budget intelligently and strategically. For example, how might a change in interest rates or a spike or drop in customer demand affect earnings and

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the company's balance sheet? Other business drivers may include revenues, customer purchase rates, customer churn or attrition, call-volume metrics, the availability (or lack thereof) of contingent and/or in-house human capital—anything that drives a company's financial performance and affects its ability to meet its financial goals. Typically, these drivers are communicated throughout the organization via paper or e-mail messages. Even for an integrated planning and budgeting solution, the crucial information rarely makes it into the application in a timely fashion, which greatly diminishes its value.

For this reason, planning and budgeting applications should be linked not only to each other, but to other key enterprise data sources—including CRM, SRM, and HCM—so that the application can be modified in real time to align to these data stores, creating a strong interplay between them. Consider, for example, a spike in call center volume. By integrating this CRM data with a budgeting and planning application, a company can sense demand for a given offering and plan accordingly, making the corresponding budget allocations—for instance, budgeting for more call center staffers.

To provide another example, consider a company that is looking to expand its business through an acquisition. By integrating planning and budgeting with shared data from other enterprise applications—HR, for example—the company can realistically assess which skill sets it already has and which ones it will need to hire and/or outsource to contractors, making intelligent budget allocations accordingly.

## PREDICTIVE MODELING AND REAL-TIME PERFORMANCE MEASUREMENTS

A planning and budgeting application that is integrated with other ERP systems enables a corporation to not only describe the relationship between different business factors—such as the relationship between customer satisfaction and profitability—but also to use these drivers to model different business scenarios and create the actual financial plan. With the ability to conduct scenario modeling—say, "What happens if interest rates increase by 50 basis points?"—a company can simulate head-count changes, expense-control strategies, and capital investment plans prior to implementation. This type of experimentation can cushion financial services firms against unanticipated side effects from significant organizational changes, once again increasing adaptability, agility, and flexibility.

Key performance measures are the basis on which businesses evaluate their success at reaching predetermined goals. With an effective planning and budgeting solution, companies can set up "benchmarks," or key performance measures, to provide important gauges toward overall strategic objectives. In addition, benchmarks within the planning and budgeting application can highlight operational areas beyond finance that need improvement in order to meet predefined goals. For instance, customer acquisition may be low, which could signal a need for improvement in the call center. Or customer satisfaction ratings may not be rising in line with a predetermined goal of improvement, which could signal a need to enact contingent workforces to meet pressing demand. In line with predictive modeling, planning and budgeting applications can also model business scenarios based on improvements to these key performance measures.

In sum, the results of this integration—between planning and budgeting applications and between these applications and other ERP applications—can radically enhance a company's ability to respond intelligently and quickly to dynamic market conditions. Shortened cycle times create more relevant, timely financial plans and the opportunity to allocate resources accordingly. In addition, by having all historical information in one place, companies can assess the impact of past business scenarios to update plans and provide accurate forecasts based on current business drivers. As a result, they are able to update plans as needed and create continuous forecasts that are always in step with the changing business environment. This enables faster, more effective decisions to give businesses a competitive advantage. ■

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