

HOW *Agile* IS YOUR PLANNING?

Find out by measuring the ROI of your planning software.

By Rand Heer

Budgeting and forecasting require structure, lots of it—templates for revenue, expense, headcount, and capital planning; consolidation and rollups of the detail to financial statements; user security and process controls; importing data from multiple sources; and more.

In Excel you build these structures from scratch using cell-based formulas and macros. The models take weeks to develop, and they're difficult to maintain, especially when importing actuals and rolling over time periods. They break when line managers insert rows or columns into the spreadsheet templates. And you hope that the financial planning and analysis (FP&A) person who built the model doesn't quit or get promoted.

Savvy finance teams have found that spreadsheets no longer do the job for budgeting and forecasting. The big question is: What's the return on investment (ROI) if you move from spreadsheets to a planning application? Or if you've already made the move, are you getting the ROI you should?

Type 1 Benefits: Process Improvements

A well-designed planning application should address what some people consider the most egregious spreadsheet inefficiencies. For example, it should eliminate consolidation and rollup errors, provide user security and process controls, and automate the importing of actuals and reporting against plan. Organizations typically see a 20% to 40% efficiency gain for everyone involved when this happens. We call such process improvements Type 1 Benefits.

Let's talk through a typical Type 1 savings scenario. A mid-market company or a division of a *Fortune* 500 might consume 100 hours of analyst, line manager, and C-level executive time for each budget version or forecast cycle. If the planning application reduces the level of effort by 40% (40 hours each cycle), that's a savings of 480 hours across 12 monthly planning/reporting cycles. At \$100 per hour, the annual savings are \$48,000, not a bad payback over time, depending on how much it costs you to get a new system up and running. But with finance overheads already cut to the bone, do the savings actually fall to the bottom line?

Figure 1, the Planning Maturity Curve, depicts the savings. The Y-axis is the cumulative level of effort devoted to planning and reporting activities. The X-axis measures business value (which I'll define in the next section). As shown in the diagram, adopting a planning application (vs. staying in Excel) can substantially reduce staff hours devoted to planning and reporting and achieve some marginal improvement in business value.

Type 2 Benefits: Insight, Actionable Knowledge, Decision Making

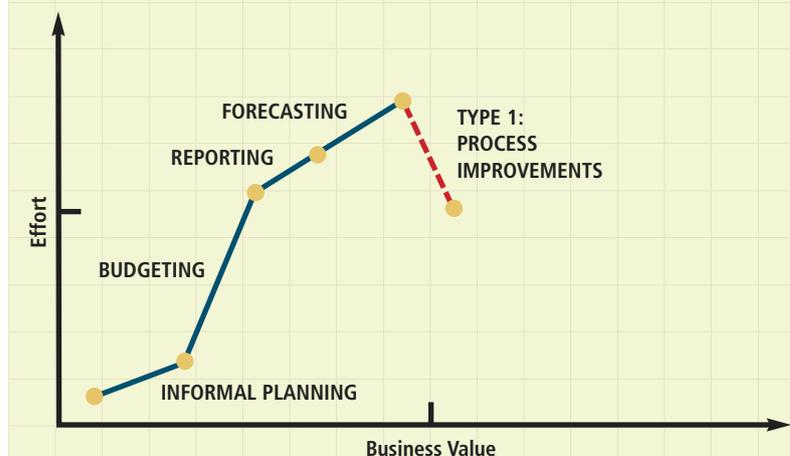
A first-level measure of value from planning (or any other business activity) should be how it contributes to profitability and cash flow. In stakeholder terms, value also can be measured by how an improved process contributes to customer and employee satisfaction or shareholder value. Such high-level measures are important, but they miss the mark for finance organizations. Deep down, finance wants what we call Type 2 Benefits, which are described by the terms *insight*, *actionable knowledge*, and *decision making*.

Here are the definitions:

Insight. If you take time to build financial plans, then the deliverable should be more than just budgetary control or confirmation of targets. A rolling forecast in particular should provide the finance team and managers real insights about reallocation of resources and the financial impact of tactical moves such as price changes or new commission structures.

Actionable Knowledge. To truly be useful, forward-looking financials need to be tied to operational drivers—especially at the business-unit level where the day-to-day decisions are made. Actionable knowledge comes from basing plans on clearly defined operational assumptions that can be manipulated in the planning model and that

Figure 1: Planning Maturity Curve



managers can act on. Examples are basing call center staffing on call volumes or basing sales representative staffing on sales volumes and quotas.

Decision Making. You want the big decisions backed up by numbers, and the numbers should flow cleanly into financial plans so that you can understand the profit-and-loss (P&L) and balance sheet impacts of alternate choices. Numbers-based, quality decision making is the most important Type 2 benefit you should get from a planning system.

Figure 2 is the Planning Maturity Curve redrawn to show the real goal of any new planning software. It must incorporate specific capabilities that will enhance business value by delivering insight, actionable knowledge, and numbers-based decision making. Type 1 benefits are important, but you get the big ROI with Type 2 benefits.

Getting to Type 2 Benefits Through Agile Planning™

In our experience at Alight Planning, more than 80% of finance teams who are moving beyond Excel are now prioritizing Type 2 benefits over Type 1 in evaluating planning systems, especially with respect to driving the rolling forecast process. The new terminology is Agile Planning, a best-practice methodology incorporated in features of some planning software packages.

Unlike software tailored for budgeting, where user adoption may lead to small, incremental benefits, adopting an agile planning perspective toward your planning system can lead to major ROI with bottom-line impact. Stated another way, the predictor for success in enhancing business value isn't the number of users deployed on a software tool. Rather, it's a savvy finance team and relevant line managers leveraging well-designed software to make planning more agile and responsive across the board.

What does an agile planning process look like? Here are the foundations:

Who Drives? Finance does. The Information Technology department must take a back seat because agility isn't IT's forte. Agile planning needs quick turnaround and quick response, which isn't the environment of IT-intensive planning applications such as Hyperion Planning, Cognos Planning, and SAP/BPC. By quick, I mean response times from the planning application measured in seconds, not minutes or hours or overnight.

Who Participates? Getting to agile planning means cutting the number of players, especially in the forecast

process. In organizations with hundreds of cost centers, not all managers can or should participate, only "relevant managers" whose spending or revenue authority is material to the planning or forecasting issues at hand. With agile planning, accountability is about who owns the key operational drivers of business activities incorporated in a planning model, not budget reporting or accounting structures. (Less is more!)

Frequency? Unlike at large companies where budgeting, reporting, and forecasting are scheduled activities, agile planning in its purest form is driven by events (e.g., planning a response to a competitor's price move) or by strategy issues (e.g., deciding if you should expand distribution to Asia). Though usually event- or strategy-driven, agile planning methods can easily be adapted to a company's scheduled forecast cycle but not to traditional budgeting.

Step-by-Step Prescription for Getting to Agile Planning

How do you get there? Here's a four-step prescription.

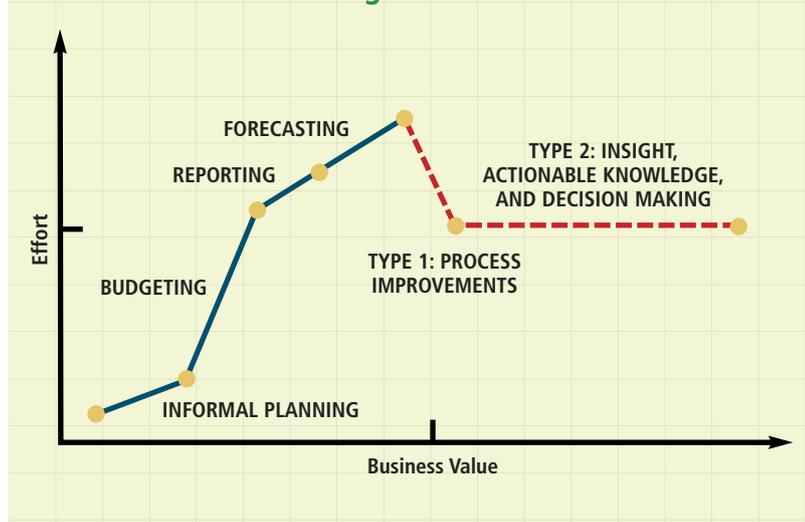
Step 1: Reduce the Level of Detail

In most companies, the level of detail that drives planning comes from an outdated chart of accounts that focuses on subaccounts and buckets for tax accounting, such as meal expense. The frequent consequence is too much detail for both planning and management reporting. As well, low levels of detail frequently cause FP&A to spend extraordinary amounts of time maintaining the model at the expense of analysis.

More important, low levels of account detail preclude line managers from planning the way they think. Let's walk through a common example—travel and entertainment (T&E). A typical budget template organizes inputs for T&E by subaccounts such as *Accommodations*, *Meals*, *Transportation*, etc. But the line manager thinks in terms of *number of trips*, *conferences*, *customer entertainment*, and so forth.

Good planning systems let managers add line items on the fly to plan the way they think and document their assumptions. Nonetheless, doing so within the subaccount structure I just described doesn't work. Instead, in this example, planning and reporting should be at the *Total T&E* account level with line-item

Figure 2: Planning Maturity Curve—Real Goal of New Planning Software



detail the managers create. If not set up this way, then any backup detail, if it exists, is lost to disconnected spreadsheets that will never see the light of day.

Level of detail isn't just about natural accounts. For example, sales forecasting in an agile planning environment may not make sense at the lowest level of the product hierarchy if there's a proliferation of stock-keeping units (SKUs). Planning large numbers at the SKU level is the domain of sales and operations planning (S&Op). The same observation applies to forecasting revenues by customer, which is important for customer profitability analysis but isn't practical in many domains. If there's a large number of products and customers, then plan using the 80/20 rule, or plan at higher summarized levels such as product line or customer type. The same logic may be applied to other dimensions of the business—for example, planning headcount by job title rather than individual persons.

The important observation here is that the planning application should incorporate multiple dimensions, not just natural accounts and organization structure, each with its own analysis of the appropriate level of detail.

What you want from a planning software package:

1. The ability for users to add line items below natural accounts.
2. Structures for capturing and analyzing data across many dimensions, such as accounts, organization, regions, jobs, products, customers, etc., each with its own analysis of the appropriate level of detail.
3. Import of actuals data at variable levels of detail to accommodate multidimensional planning and analysis described in item 2.

Step 2: Adopt Driver-Based Planning

A major problem with all types of planning and reporting is the disconnect between the operational drivers of a business and financial plans, especially when planning is done in spreadsheets. For example, managers have difficulty forecasting headcount and expenses because templates don't contain models that allow them to relate their spending to marketing forecasts or other operating activities. Also, without ties to operational drivers, finance staff who roll up the numbers have little basis for evaluating the reasonableness of submissions or for answering questions from the executive staff.

What's missing is driver-based planning, a best-practice methodology where financial plans incorporate assumptions about business activities that are modeled to

drive financial data such as revenue projections, headcount, spending, and capital requirements. With driver-based planning, managers are empowered to do better budgeting and, in particular, improve the accuracy and decision-making usefulness of rolling forecasts. Our perspective is that driver-based planning is essential to improving business value, achieving a more agile planning environment, and achieving a high ROI from planning software.

Driver-based planning is about modeling. It's based on the idea (or structure) that many line items in a plan have an inherent unit/rate/amount architecture that's the basis for linking together activity driver and financial relationships. Here are the fundamentals:

First, identify the important drivers in your business. Drivers typically are operating activities that you can measure: *number of things*, such as units of product, customers, installations, deliveries, transactions, subscribers, throughput, and the like. The key word is *units*. If an activity can be thought of as *units* of something, then it may be part of an activity driver model.

Next, operating measures—i.e., the *units*—may have driver relationships between each other that are connected through a *rate*. For example, 70% of customers who buy software also buy consulting services. The formula is: *units of software* × 70% = # of customers. The rate is 70%. Typically, such a unit/rate/amount architecture is applied to a series of line items that are linked to form an end-to-end driver model for a functional area of a business, such as a call center staffing model driven by a sequence of assumptions about call volumes, length of call rates, and operator utilization. Building such driver models makes it easy to test alternative assumptions anywhere in the driver chain and set up complex scenarios.

What you want from a planning software package:

1. An architecture that allows modeling using a unit/rate/amount structure similar to the previous example.
2. A point-and-click modeling environment with object-based linking (vs. cell-based formulas) that lets you link to the “names of things” across all time periods in one operation.
3. Easy access for users to test input assumptions for the drivers and associated rates. To accomplish this, finance needs to work with line managers to construct the driver models and then create user interfaces within the planning system that let them manipulate the models.

Step 3: Integrate (Don't Just Import) Actuals

Though it's difficult to measure, "integrating actuals" as defined here moves us right on the Planning Maturity Curve, thus enhancing business value. Without substantive integration of actuals and the lessons learned from both operational and financial histories, we're just guessing in our financial plans about what may work and what may not. Forecasts must be grounded in reality. Finance staffs spend endless hours with databases, spreadsheets, and other tools integrating actual and plan data for budget and forecast templates, financial reporting, graphs, and PowerPoint slides. This isn't fun for most finance people. The fundamental driving issue is apples-to-apples comparisons of actual and plan data at relevant levels of detail.

Nirvana in management reporting is the ability to compare anything to anything with near-real-time response times and volume/rate causal analysis. Unfortunately, working with actuals is plagued with problems. Here are three of the big ones:

Data Is Spread Across Multiple Sources. Driver-based planning assumptions require validation of actuals, especially the underlying "rates" that aren't naturally calculated. Typically, the data is spread across multiple structures: dollar amounts from the general ledger, unit sales from the customer relationship management (CRM) system, production from an S&Op system, and headcount from human resources (HR).

Actuals and Plan Are at Different Levels. Actuals financial data is available from the general ledger at the natural account level across the organization. As discussed previously, budgets and forecasts are developed appropriately with line items below the natural accounts—e.g., T&E for Asia customers, T&E for user conferences, etc.—based on each manager's planning perspective.

Actual and Plan Structures Are Out of Sync. Products, cost centers, and accounts are frequently added to or modified in the chart of accounts. Also, rolling forecasts frequently result in new line items being added to the model. Maintaining actual and plan structures to keep data in sync is a continuous job.

What you want from a planning software package:

1. Import capabilities for accessing data from any source, for any data type, and at any lowest or summarized level of detail.
2. An automated or semi-automated process for doing the import with extensive error checking, alerts, and

log files so you can identify and fix problems.

3. Interfaces that let you do modeling on actuals data, such as automatic back-calculation of rates, so you can get apples-to-apples comparisons to plan of underlying driver units and rates as well as dollar amounts.
4. Interfaces that allow you to link plan data to actual—e.g., actual open orders driving planned shipments.

In short, you want a planning and reporting package that cleans up the "actuals mess." Without that, you have no validation of the drivers and underlying rates that you need to guide the forecast. Getting this right is a critical step in moving toward a more agile planning environment.

Step 4: Do Scenario Analysis Now

Agile planning is about scenarios, lots of them. If you can't predict the future (which none of us is doing very well in these ambiguous times), the next best thing is to set up scenarios that let you explore how you might behave or decide if things are much better, far worse, or just different. Scenario analysis also is about understanding what's behind the numbers: the most critical assumptions, volume and rate impacts, and especially the most sensitive drivers of material changes to the P&L and cash flow.

Scenario analysis is the most important planning activity for improving business value and moving right on the Planning Maturity Curve. But doing so is substantially dependent on implementing Step 2, driver-based planning. Otherwise, the numbers are static. There's no variable structure for manipulating the scenario model.

Scenario analysis delivers the biggest Type 2 benefit and potential ROI if it's integrated into the planning and decision-making process. To get a handle on the benefits, ask yourself these questions prefaced by: "How much would it be worth to me if..."

- ◆ I could create and manipulate the assumptions of half a dozen scenarios in a few minutes and then compare them side-by-side at all levels of detail?
- ◆ I could test my driver model under various scenarios to get a clear picture of which drivers have the greatest impact on the P&L and cash flow?
- ◆ I could make changes to input assumptions selectively across multiple scenarios in one operation?
- ◆ I could answer complex questions from executives at board or operations committee meetings in real time using the planning tool as the presentation tool?
- ◆ I could do complex allocations that get me to product

and customer profitability on a fast track?

- ◆ I could produce a balance sheet and cash flow statement, not just a P&L, associated with each scenario?

Add up the dollar-amount answers to these questions. For example, if it's worth \$30,000 a year to get scenarios with comparisons at all levels of detail and another \$30,000 to get customer profitability analyses, then your total is \$60,000. For most finance staff, from the CFO on down, getting software functionality that delivers Type 2 benefits as described in the questions has potential value measured in hundreds of thousands of dollars. These kinds of numbers overwhelm Type 1 savings from staff time savings.

To summarize, real-time scenario analysis, based on a well-structured driver model and validated by actuals, will deliver major Type 2 benefits in the form of much deeper insights into the numbers, true actionable knowledge that managers can do something with, and higher-quality decision making. Delivering this is one of finance's most important jobs.

What you want from a planning software package:

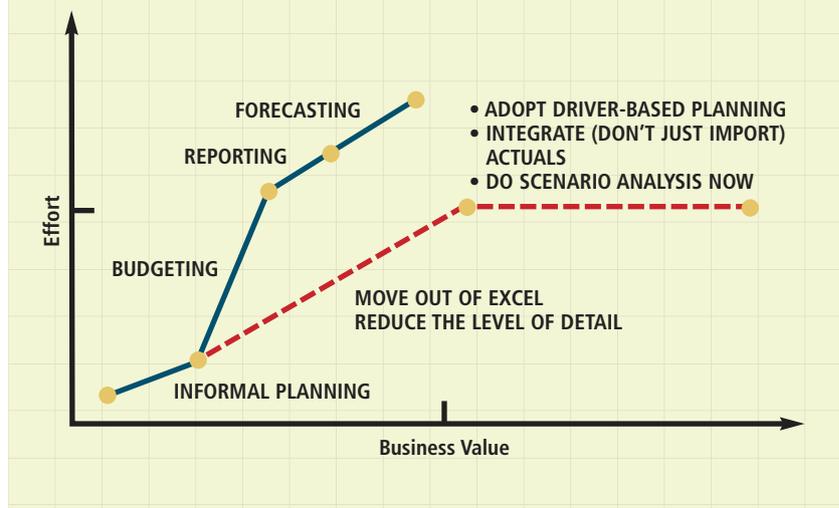
1. The ability to create many scenarios in near real time, manipulate the assumptions of each one, and compare them side-by-side at any level of detail.
2. Real-time or near-real-time update of the underlying driver model and financial statements when you change input assumptions.
3. Dashboards that let you manipulate scenario input assumptions in real time—i.e., the dashboard isn't read-only.

A Framework for ROI

Whether moving from Excel to a planning and reporting application or evaluating already installed software, finance needs a framework for evaluating the ROI of its planning systems. Most planning packages deliver Type 1 benefits—namely, process improvement savings—which provide reasonable ROI. Some software packages go further, delivering specialized functionality for Type 2 benefits that enhance business value and provide a foundation for a more agile planning environment.

The software functionality you need includes a flexible

Figure 3: Planning Maturity Curve—Moving Planning Processes to the Right to Enhance Business Value



infrastructure that allows planning at variable levels of detail across dimensions, robust import and manipulation of actuals data, easy-to-use tools for building and maintaining driver-based models, and real-time scenario analysis.

A savvy finance team paired with the right software will deliver major ROI in the form of Type 2 benefits. Figure 3 shows the updated Planning Maturity Curve reflecting how organizations can move their planning processes to the right in enhanced business value with little or no incremental effort. You can do this by choosing the right planning software package that supports the structures highlighted in this article. **SF**

Rand Heer is CEO of Alight Planning, a financial software company. After a career in finance as CFO of public and private companies, he founded Pillar Corporation, which developed Hyperion Pillar, the first software for enterprise scale planning. He was also founder of three training/consulting firms specializing in Essbase and Microsoft business intelligence technologies. You can reach Rand at RHeer@AlightPlanning.com.

Note: This article is based on Rand's research paper, "The Planning Maturity Curve: Where Are You? Where Do You Want to Be?" published by Alight Planning. IMA® members may contact Alight Planning to test drive the company's ROI Calculator, which is an interface designed to test and calculate the Type 1 and Type 2 benefits of your planning system. For more information, go to www.AlightPlanning.com.