

Financial Planning and Budgeting

April 2008



Executive Summary

Imagine it is the end of the fiscal year. Management is scrutinizing the past year's performance as well as planning for next year. If you are involved in the planning and budget process you may very well be in "spreadsheet hell" trying to collect data from a variety of sources, make sense of it all, and come up with a budget that will be both achievable and acceptable to senior levels of management. This report will serve as a roadmap to efficient planning and budgeting for improved accuracy and corporate performance.

Best-in-Class Performance

Aberdeen used four key performance criteria to distinguish Best-in-Class companies. These companies achieved significantly better results in the following metrics:

- 19% reduction in the budget process cycle time between the last two budget cycles
- 101% overall budget accuracy (ratio of actual to budget)
- 68% always finalize budgets before the beginning of the fiscal year
- 43% re-forecast on a monthly basis

Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics:

- 91% of the Best-in-Class have a formal budget / planning process
- 73% of the Best-in-Class take a combination of a top-down and bottom-up approach to planning and budgeting
- Best-in-Class companies are more than twice as likely to support these processes through the use of budgeting and forecasting applications rather than relying primarily on spreadsheets

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Establish a planning / budgeting committee or "Center of Excellence"
- Implement workflow automation to guide participants through the steps of the budgeting and planning process
- Don't put the budget on a shelf - utilize Business Intelligence (BI) and performance management tools to track performance against budget

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

"The reason for delayed decision-making in the past has been the complexity of processes and systems. The emphasis has been on transactions, but we are shifting our priorities. While previously we thought the answer was to unify everything into a single data warehouse, today nobody believes that is the right approach. Instead we are taking a deconstructionist approach: use what we have and inject flexibility."

~ Director of Continuous Improvement, Fortune 500 Life Sciences Company

Send to a Friend 

Table of Contents

Executive Summary.....	2
Best-in-Class Performance.....	2
Competitive Maturity Assessment.....	2
Required Actions.....	2
Chapter One: Benchmarking the Best-in-Class	4
Business Context	4
The Maturity Class Framework.....	5
The Best-in-Class PACE Model	6
Best-in-Class Strategies.....	7
Chapter Two: Benchmarking Requirements for Success	9
Competitive Assessment.....	11
Capabilities and Enablers.....	12
Chapter Three: Required Actions	19
Laggard Steps to Success.....	19
Industry Average Steps to Success	19
Best-in-Class Steps to Success.....	20
Appendix A: Research Methodology.....	22
Appendix B: Related Aberdeen Research.....	24

Figures

Figure 1: Pressures Impacting the Planning / Budgeting Process	4
Figure 2: Strategic Actions of the Best-in-Class.....	7
Figure 3: Improvements in Business Metrics Over the Last 24 Months.....	8
Figure 4: Growth and Profitability.....	8
Figure 5: Best-in-Class Companies Combine Approaches.....	12
Figure 6: Management Support and Corporate Culture.....	13
Figure 7: Budgeting and Forecasting Technology Enablers.....	15
Figure 8: Budgeting and Forecasting Automation Enablers.....	15
Figure 9: Best-in-Class Business Intelligence and Analysis Enablers.....	16
Figure 10: Re-forecast Frequency - A Performance Differentiator.....	17
Figure 11: The Role of Spreadsheets in Planning and Budgeting.....	18
Figure 12: Ad-hoc Trial Close - A Best-in-Class Capability	21

Tables

Table 1: Budget Process Drives Business Metrics.....	5
Table 2: Top Performers Earn Best-in-Class Status.....	5
Table 3: The Best-in-Class PACE Framework	6
Table 4: The Competitive Framework.....	11
Table 5: The PACE Framework Key	23
Table 6: The Competitive Framework Key	23
Table 7: The Relationship Between PACE and Competitive Framework.....	23

Chapter One: Benchmarking the Best-in-Class

Business Context

Financial planning and budgeting lays the foundation for any effective business plan. Without a clear set of goals and objectives and a financial plan which supports those goals, managing business day-to-day is akin to driving your car while looking in the rear view mirror. Today's business climate is characterized by change and compounded by global influences spawning distributed environments and squeezed margins. Aberdeen's survey of over 300 companies found that Best-in-Class companies focus on the future by tuning the planning process to improve efficiency and the accuracy of resulting budgets and forecasts, and the agility to respond to changing conditions.

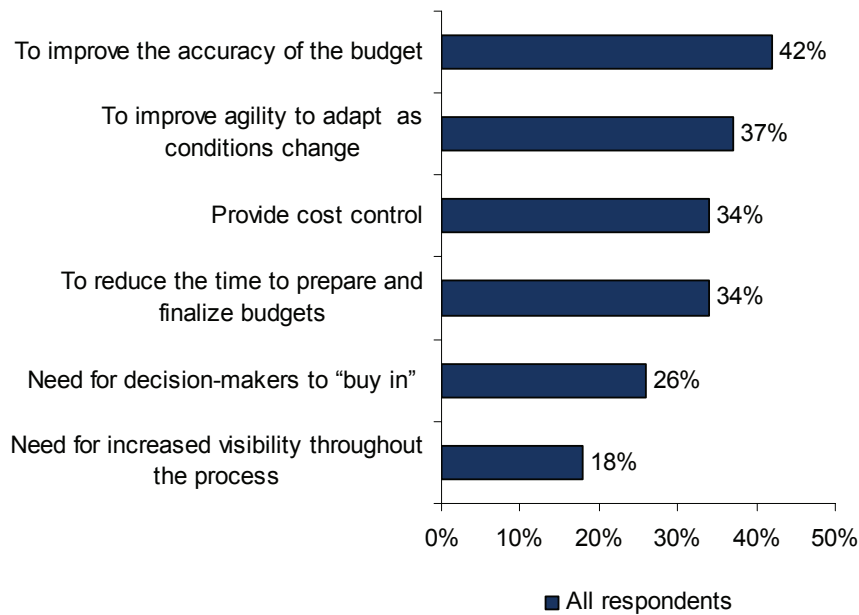
Speed, Agility, and Accuracy

A well-prepared budget forms the foundation for decision-making throughout the fiscal year. Given that 43% of all companies never adjust budgets during the fiscal year and adjustments are extremely rare in another 20%, the accuracy of the budget is of paramount importance. Yet we live in an era where the only constant is change, and therefore the pressure to improve agility in order to adapt as conditions change is the second most compelling business driver of the planning and budgeting process (37%).

Fast Facts

- ✓ 68% of the Best-in-Class **always** finalize budgets before the beginning of the fiscal year
- ✓ 36% of Laggards **never** finalize budgets before the beginning of the fiscal year
- ✓ Best-in-Class achieve an average overall budget accuracy of 101%, and revenue budget accuracy of 100%

Figure 1: Pressures Impacting the Planning / Budgeting Process



Source: Aberdeen Group, April 2008

While the budget process can be long and arduous, and often conducted under the pressures of producing a strong finish to the current end of year, companies must not lose sight of the fact that one of the primary reasons to prepare a budget in the first place is to control costs. If this is not to be a wasted effort, the budget itself must drive business metrics and activities for the coming year. Aberdeen found that revenue quotas, headcount, cost budgets, and overhead rates were driven by the budget process in 82% to 84% of all companies (Table 1).

Table 1: Budget Process Drives Business Metrics

Business Metrics	All Respondents
Revenue quotas	82%
Planned headcount company-wide	83%
Planned headcount by group / department	84%
Marketing spend	78%
Overhead rates (to allocate fixed costs)	82%
Cost budget per department	82%
Fixed compensation plans	79%
Variable (incentive) compensation plans	74%
Research and development investment	70%

Source: Aberdeen Group, April 2008

The Maturity Class Framework

Aberdeen used four key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations (Table 2). Aberdeen first evaluated the budget process itself, including year over year improvements in the cycle time, which influences the organization's ability to finalize budgets prior to the beginning of the new fiscal period. We then looked at the accuracy of the overall budget as well as the frequency of re-forecasting, a clear indication of the ability to respond to change.

Table 2: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 19% reduction in the budget process cycle time between the last two budget cycles ▪ 101% overall budget accuracy (ratio of actual to budget) ▪ 68% always finalize budgets before the beginning of the fiscal year ▪ 2% never finalize budgets before the beginning of the fiscal year ▪ 43% typically re-forecast on a monthly basis

Definitions

For the purposes of clarity and consistency, Aberdeen defines the following terms as such:

- √ **Financial planning.** The process by which a business documents and communicates its strategic objectives in financial terms. A financial planning exercise typically contains detailed plans and budgets, as well as analysis capabilities to show how the objectives are to be realized.
- √ **Budgeting.** An annual (typically) process that often starts with the prior year's actual performance data, and includes the creation of detailed financial budgets showing expected future performance at a top-line and detailed level across the entire organization.
- √ **Forecasting.** A process by which businesses adjust future expectations based on recent actual performance resulting in the production of an updated forecast document. This can (but does not typically) include adjustments to the budget. Forecasting, re-forecasting, or "rolling-forecasting" can occur multiple times during a budget period, and can span time from one fiscal period to the next.

Definition of Maturity Class	Mean Class Performance
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 6% reduction in the budget process cycle time between the last two budget cycles ▪ 98% overall budget accuracy (ratio of actual to budget) ▪ 30% always finalize budgets before the beginning of the fiscal year ▪ 11% never finalize budgets before the beginning of the fiscal year ▪ 21% typically re-forecast on a monthly basis
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 7% increase in the budget process cycle time between the last two budget cycles ▪ 87% overall budget accuracy (ratio of actual to budget) ▪ 16% always finalize budgets before the beginning of the fiscal year ▪ 36% never finalize budgets before the beginning of the fiscal year ▪ 12% typically re-forecast on a monthly basis

"During the planning process we distinguish between 'influence management' and 'ownership management.' I only control 10% to 20% of the organization but I need to influence the remainder. Metrics are an incredibly powerful means of influence."

~ CIO, Manufacturer of Medical Devices

Source: Aberdeen Group, April 2008

The Best-in-Class PACE Model

To improve the accuracy of budget, companies must blend a combination of strategic actions, organizational capabilities, and enabling technologies that can be summarized as follows:

- Develop and automate budget and forecasting workflow processes that are agile enough to adapt (re-forecast) as the market changes
- Create "what if" scenarios and perform change analysis
- Track actual performance against budget / forecasting, complete with multi-dimensional reporting and appropriate drill-down to detail
- Collaborate throughout the enterprise, involving all necessary decision-makers for better visibility and accountability

Table 3: The Best-in-Class PACE Framework

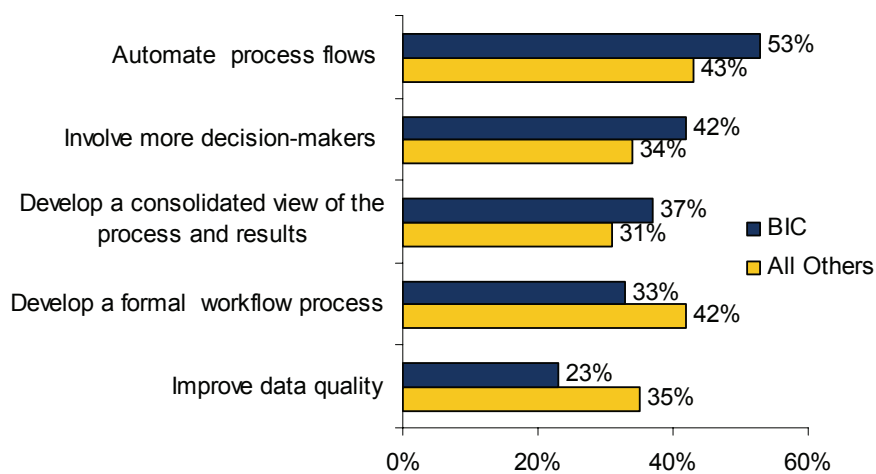
Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> ▪ Improve the accuracy of the budget 	<ul style="list-style-type: none"> ▪ Develop a formal budget / planning workflow process ▪ Automate planning / budgeting process flows 	<ul style="list-style-type: none"> ▪ Ability to re-forecast as market conditions change ▪ Ability to track actual performance against budget / forecast ▪ Capability to perform "what if" scenarios and change analysis ▪ Collaboration is enterprise-wide, from the top-down and bottom-up 	<ul style="list-style-type: none"> ▪ Workflow automation ▪ Event management (triggers / alerts) ▪ Performance management applications ▪ Budgeting / forecasting applications ▪ Financial reporting and consolidation ▪ Query and reporting tools ▪ Enterprise Business Intelligence (BI) platforms ▪ Dashboard / scorecard tools ▪ Secure integration of spreadsheets with applications

Source: Aberdeen Group, April 2008

Best-in-Class Strategies

Although the top pressure associated with planning and budgeting is budget accuracy, the strategies of both Best-in-Class and other companies are more focused on improving the efficiency of the process itself (Figure 2). The first step is to develop a formal workflow process. This is a higher priority for those not Best-in-Class simply because top performers are already 25% more likely to have those formal processes in place, which also puts them in a better position to automate the flow.

Figure 2: Strategic Actions of the Best-in-Class



Source: Aberdeen Group, April 2008

The involvement of the right decision-makers at the right level in the organization, is an important factor in ensuring both budget accuracy and ownership. With involvement comes "buy-in" and ownership of the budget, which fosters appropriate and effective management against budget. Providing full visibility throughout the process is a critical factor to support this ownership, as well as providing good quality data which budget owners can trust and believe.

A budget which is 100% accurate can be reflective of either an accurate prediction of both revenue and costs, or good controls set in place to manage against the budget, or both. The fact that we have only a three percentage point spread between Best-in-Class (101%) and Industry Average (98%) performance is a testament to this.

The cost side of the equation is far easier to control. Indeed, we found Industry Average performers managing to 100% of their cost budgets, but falling short of revenue budgets by 2%, while Best-in-Class companies marginally under spent on cost while hitting their revenue forecast on target.

In the next chapter, we will see what the top performers are doing to achieve these gains.

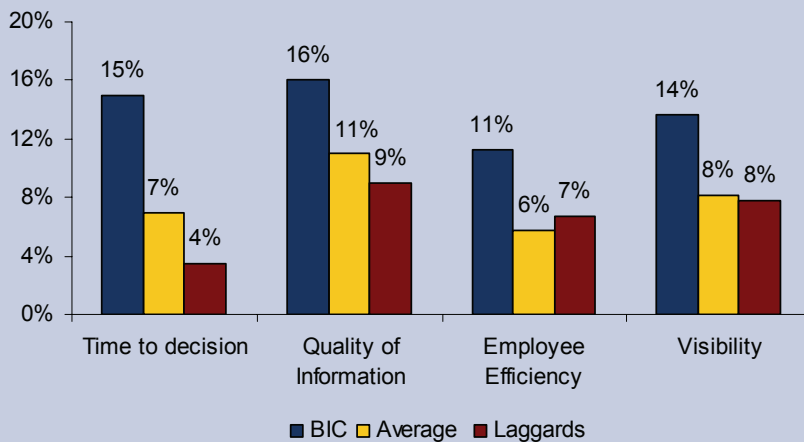
"Our business is de-centralized and our budget process is very silo'd. As a result, when our chairman asks a simple question, 'How many employees are in the company?' he can't get one answer."

~ Manager of Enterprise Application Strategy, Fortune 100 Oil and Gas Company

Aberdeen Insights — Strategy

Improving the planning and budgeting process can have a significant impact on overall business performance. Those deemed to be Best-in-Class in planning and budgeting also produced significantly better improvements in other business metrics over the last 24 months (Figure 3).

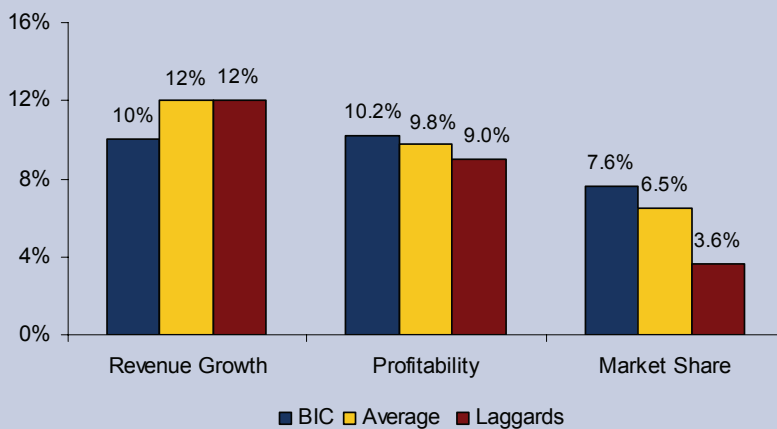
Figure 3: Improvements in Business Metrics Over the Last 24 Months



Source: Aberdeen Group, April 2008

However, the average revenue growth of Best-in-Class companies was 10%, while that of all others was 12%, indicating higher growth rates which present more significant challenges in the budgeting process. Yet better planning and budgeting performance can also produce better results in profits and market share. While those not Best-in-Class grew more, Best-in-Class out-performed the rest in terms of growing profitability and market share.

Figure 4: Growth and Profitability



Source: Aberdeen Group, April 2008

Chapter Two: Benchmarking Requirements for Success

The combination of process and organizational controls, coupled with the use of enabling technologies plays a critical role in improving the efficiency of the financial planning and budgeting process and ultimately produces a more accurate budget.

Case Study — Cable Tech Inc.: How Rapid Growth Can Affect the Budgeting Process

Established in 1998, Cable Tech is a US-based technology firm specializing in network and data processing design, build, install, and maintenance services specific to telecommunications and data networking. The firm expanded to a national presence in 2004, and has experienced rapid growth over the past five years. Exponential growth has caused revenue and hours worked to increase at 125% + levels year over year on average.

“In many of our business processes, including the budget and planning cycles, Cable Tech is experiencing the dislocations of the move from a largely entrepreneurial environment to a more metrics driven, professionally managed operational environment”, states Bruce Stone, Cable Tech’s National Director of Sales and Quality Systems. “Five years ago, we had no formalized planning process. Our growth has caused a renewed focus on TCO, profit preservation strategies, and the need for a more formalized planning process which includes expanded budgeting activities. It has also caused major dislocations in the budget process due to frequent changes during the course of the plan year to accommodate the new business needs it engenders.”

Cable Tech’s adoption of a formal planning and budgeting process was necessitated by the growth of the business, and has brought about organizational structure, a standard timeline and framework for business planning, and specific operational benefits to the organization as it continues to grow rapidly. Cable Tech begins the budget process as part of the annual third and fourth quarter planning cycle. During the months of September and October the business plan and marketing plan are developed for the coming year. The company’s five-year strategic plan is also reviewed at this time to ensure that all the metrics and action plans are coordinated with the new business and marketing plan for the coming year.

Authors of the business and marketing plan (two separate groups) develop independent operating budget elements based on the predicted activities and productivity tool levels specified for their implementation.

continued

Fast Facts

- √ 73% of the Best-in-Class take a combination of a top-down and bottom-up approach to planning and budgeting
- √ Best-in-Class companies are 130% more likely to form a planning / budgeting committee or "Center of Excellence"
- √ Best-in-Class companies are 102% more likely to utilize budgeting and forecasting applications and 102% more likely to employ workflow automation to guide employees through the budget process
- √ 100% of the Best-in-Class track performance against budget

"While our process sounds reasonably coherent and straightforward, the growth rates experienced by Cable Tech cause the working documents developed to hold up for only the first few months of the year."

~ Bruce Stone, National Director of Sales and Quality Systems, Cable Tech Inc.

Case Study — Cable Tech Inc.: How Rapid Growth Can Affect the Budgeting Process

This bottom-up approach allows end users to have input to what they believe their needs will be going forward to meet revenue and expense goals. A parallel budget is developed for the HR, bidding, IT and accounting segments for input on the same operational bottom-up approach. In addition, each group submits a Capital Budget wish list. At the end of this initial planning phase, the Executive Committee (CEO, President, and National Director) reviews and modifies the documents resulting in the final approved bottom-up operating budgets and establishes the top-down based capital projects budget.

“While our process sounds reasonably coherent and straightforward, the growth rates experienced by Cable Tech cause the working documents developed to hold up for only the first few months of the year”, continues Stone. “The issue we generally run into involves a major new business being closed that requires new offices, staff, and business systems development. In our environment, our average new business sale increases our revenue stream 25% to 50% in a very short time window. Thus, our revenues and the associated expenses have over-run our projections by 100% or more in many of the last 10 quarters.”

This overrun factor puts Cable Tech in the position of outperforming the revenue and expense plans. While this has resulted in improved profitability, a demonstrably “good thing” overall, it also causes the company’s plans to rapidly become obsolete, requiring the company to “spend and build” and make substantial financial changes on the fly. For this reason, the ability to re-forecast has become a critical requirement of the business.

“Our environment negatively impacts our ability to measure results of the original plans due to the ROI cycle disruptions. It invalidates the original TCO metrics established due to the “tsunami” effect of the new business”, says Stone. “The impact of the frequent changes tempts the staff to either over-state budget requirements in an attempt to pre-empt the cycle during the 3rd quarter planning evolution or conversely to provide unverified data in the belief that the exercise has no future value—resulting in a decline in the quality of the bottom-up information provided.”

In Cable Tech’s environment, new opportunities force the company to “build a new business model” several times per year, effectively negating the budget planning documents. In this situation, the planning and budgeting process is considered more as a baseline plan implemented with the full realization that it will be completely re-vamped several times during the year through multiple re-forecast cycles.

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (efficiency and agility); (2) **organization** (collaboration and accountability); (3) **knowledge management** (visibility top-down and bottom-up); (4) **technology** (the selection of appropriate tools and effective deployment of those tools); and (5) **performance management** (the ability to measure results to improve business performance). These characteristics (identified in Table 4) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Table 4: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Able to re-forecast as market conditions change		
	77%	48%	31%
	Able to perform “what if” scenarios and change analysis		
	49%	35%	25%
Organization	Well-defined budget / planning process		
	91%	83%	57%
	Established enterprise-wide collaboration across departments / divisions		
	73%	51%	34%
Knowledge	Managers are accountable for budget accuracy at all levels throughout the organization		
	79%	51%	44%
	Able to perform multi-dimensional reporting with roll-ups		
	59%	39%	40%
Technology	Able to drill down to successive levels of detail from summaries		
	67%	44%	37%
	Automated version control		
	50%	20%	19%
	Workflow automation (either embedded or stand-alone)		
	72%	37%	28%
	Budgeting / forecasting (stand alone) application		
	67%	35%	27%
Performance	Budgeting and forecasting features of an ERP or other financial application		
	48%	25%	23%
	Event management (triggers and alerts)		
	30%	15%	13%
Performance	Able to track actual performance against budget		
	100%	85%	69%

"We are at the point of needing a task force to go out and manage the budgeting process. We have a two-month process and I don't want to lengthen it further, yet the quality of the budget may require it."

~ Senior Controller, Large US Software Developer

Source: Aberdeen Group, April 2008

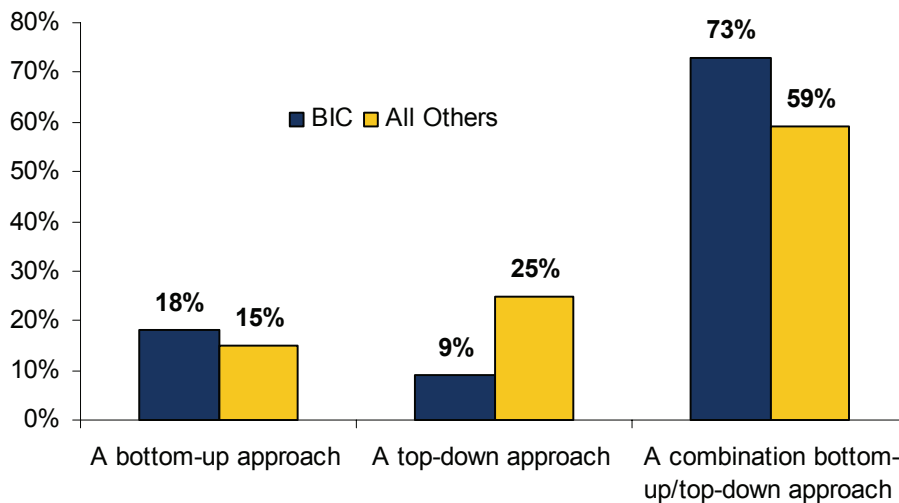
Capabilities and Enablers

Based on the findings of the Competitive Framework and interviews with end users, Aberdeen's analysis reveals that achieving Best-in-Class performance involves mastery of several capabilities combined with technology enablement and automation across several aspects of the budgeting process. The following sections break down the capabilities that survey respondents identified as being critical to success, and reveal the technology tools and practices that yield improved performance over time.

Process - Top-down, Bottom-up, or Both?

A common question when the topic of budgeting arises is, "Do you take a top-down or bottom-up approach?" Respondents to this study agree that a combined approach is preferable, but it is important to note that taking only one and not the other may not be wise (Figure 5).

Figure 5: Best-in-Class Companies Combine Approaches



Source: Aberdeen Group, April 2008

A **bottom-up approach** is characterized by its involvement of all areas in the organization in determining a budget. A bottom-up budget is typically created based on the collection and analysis of actual performance data, and a calculation of the next fiscal period budget from each department of the company. This process is then rolled-upward to the group or division level and finally to the corporate or enterprise level. The strengths of this approach lie in the involvement of the entire organization, creating a level of buy-in and involvement that a top-down approach can't deliver. The weakness of this approach lies in the potential for the budget not supporting the company's stated goals and financial targets, and may be subject to serious alterations and changes by management that are not properly reviewed and supported by the organization.

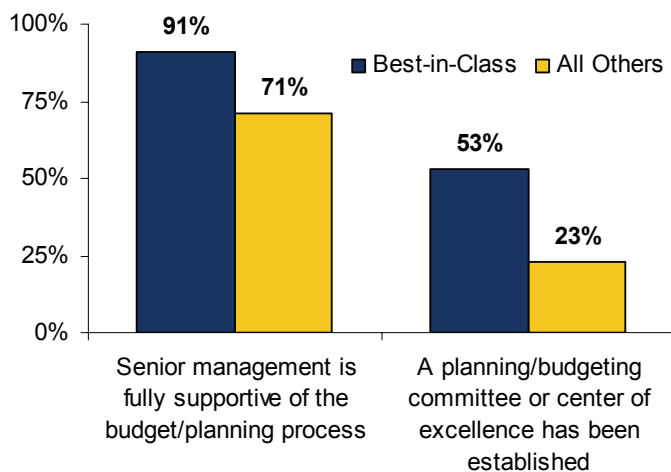
A **top-down approach** is typically an exercise that does not involve all areas of the organization. In a top-down budgeting scenario, members of senior management are usually the only people involved in the creation of a budget that is based on a stated set of goals (for example, "A 15% revenue increase across all divisions.") Once the budget is created, it is communicated to the organization. This can often result in a series of iterations based on reactions from the division / group and department levels in the company. The strengths of this approach lie in the rapid ability of management to state corporate goals up-front, and lay the ground rules for limiting deviation from achieving these goals. Its weaknesses lie in the lack of organizational buy-in to the budgeting process, and potential for lower levels of belief that stated goals and financial targets can be attained. As Figure 5 illustrates, Best-in-Class companies are almost three-times more likely to avoid this approach.

In turn, Best-in-Class companies are 24% more likely to combine the two approaches, cascading corporate goals down through the organization, thereby insuring stated goals are reflected without losing sight of past performance. This approach adds a level of complexity to the process, but provides a vehicle to support consistent goal-setting without losing accountability throughout the organization.

Organization

Financial planning and budgeting is a corporate initiative that involves an investment in a combination of staffing resources and technologies. Organizationally, Best-in-Class companies have shown improved performance through a higher degree of management support of the budgeting / planning process. This support is manifested by a significantly higher likelihood of investment in formalizing the corporate financial planning and budgeting process through the creation of a planning / budgeting committee or center of excellence (Figure 6).

Figure 6: Management Support and Corporate Culture



Source: Aberdeen Group, April 2008

Whether a company takes a bottom-up or combined approach to the budgeting / planning process, it is critical that management be fully supportive throughout the duration. The budget process can be fraught with complexities, disappointments (when "pet projects" are cut, for example), and emotion. Setting proper employee expectations about the process steps and duration of the process is critical to success. Management must often be diligent about removing obstacles and maintaining the integrity of the process by not allowing any shortcuts to be taken (such as the inclusion of estimated product unit sales as opposed to calculating this based on a product category by category analysis). By creating a formal committee or center of excellence, management can push some of this responsibility down to a representative group within the organization and reap the rewards of organizational buy-in and trust.

Knowledge Management

To achieve improved budget accuracy (the top business pressure shown in Figure 1), Best-in-Class companies are taking steps to insure that the data that feeds the budgeting process is correct and trusted by the organization.

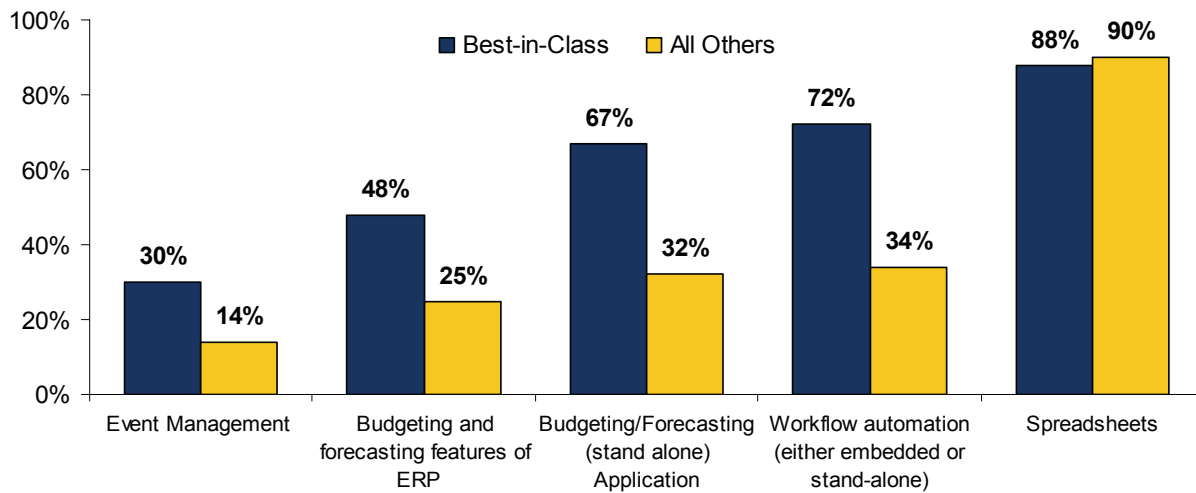
As shown in the Competitive Framework (Table 4), Best-in-Class companies are 77% more likely to perform multidimensional reporting with roll-ups. Moreover, Best-in-Class companies are also 64% more likely to be capable of drilling to successive levels of detail from summary data. This often involves the use of analytical or BI technology that enables business analysts to see the underlying detail behind summary budget numbers, thus gaining a higher degree of understanding and trust in the data. Best-in-Class companies are 71% more likely to utilize BI tools that deliver this type of functionality. Some BI capabilities, such as "drill-down" from summary to detail, can also be built in to budgeting and planning applications.

The ability to gain more transparency to the detail-level data enables Best-in-Class companies to find and correct mistakes more frequently and earlier in the process. This leads not only to improved accuracy, but also can result in reduced budget cycle timeframes through the elimination or reduction of manual reviews and reconciliation of multiple budget versions.

Technology

Spreadsheets remain the predominant technology in use today for budgeting and forecasting purposes (see the Aberdeen Insight at the end of this chapter) and are used at uniformly high levels by all companies, regardless of competitive status. Best-in-Class companies are making significantly higher investments, however, when it comes to the utilization of budgeting and forecasting applications (whether they are embedded within an ERP system or stand-alone) and the automation of the workflow and event management of the budgeting process (Figure 7).

Figure 7: Budgeting and Forecasting Technology Enablers

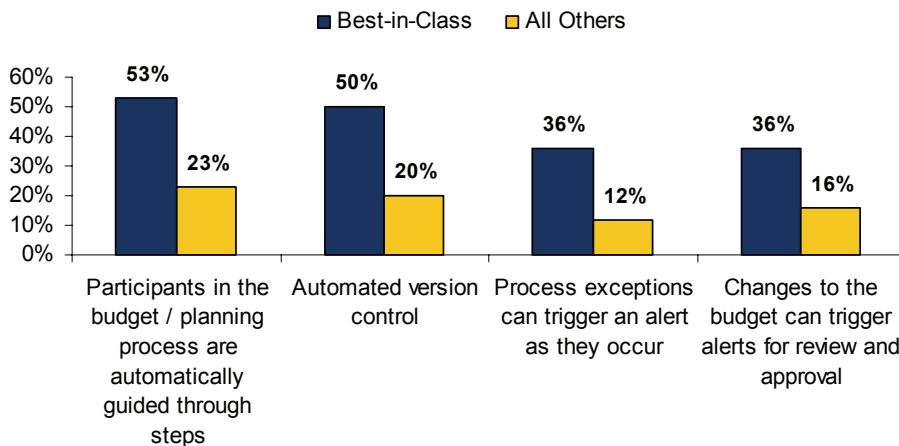


Source: Aberdeen Group, April 2008

Budget and forecast accuracy, as well as the cycle time of the process itself, are subject to the ability to maintain control of multiple versions, and respond to requests for revisions and enhancements in a timely manner. Event management tools, and workflow automation technologies enable these capabilities, and both are more than twice as likely to be used by Best-in-Class companies.

Therefore, it is not surprising to see that Best-in-Class companies are more likely to achieve significantly higher degrees of automation capability throughout the process (Figure 8).

Figure 8: Budgeting and Forecasting Automation Enablers



Source: Aberdeen Group, April 2008

"We do not let end-user groups buy a system without going through a stringent justification that includes a stated financial benefit to the company. Business units must show the potential ROI of a new project, whether it relates to our planning and budgeting process or any other IS initiative. All data flows through IS and therefore all roads lead to IS. Strong will power on the part of senior management is required to disallow 'shadow IT' from developing."

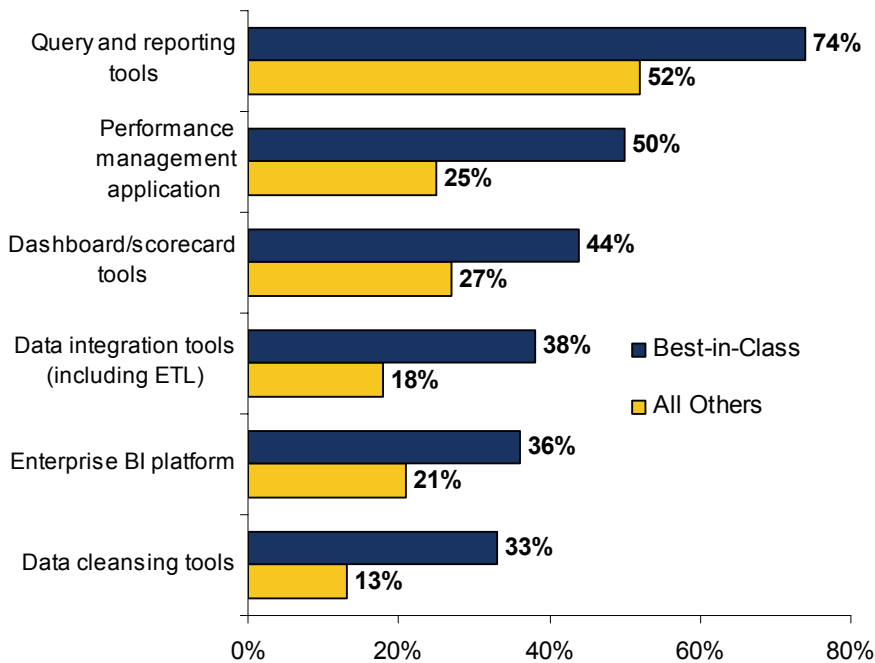
~ Jeff Ward, Manager, General Financial Systems, Lee Memorial Healthcare System

Through the use of event management and workflow automation, participants can be guided through the process, and alerted about milestones relating to their specific roles. For example, a group or division executive may be faced with managing several departmental budgets. Each department manager may submit their first "bottom-up" budget information

at different times, some requiring action, and some that can be approved and sent forward for corporate level review. As this process continues, divisional managers may encounter situations where iterations are being worked on by the departments they manage, while senior management is simultaneously requesting other revisions (in a "combined bottom-up / top-down process"). The two-way flow of revisions and iterations, both up and down the organization, can quickly become too cumbersome for manual management. This is where the ability to automate the process with appropriate version control and alert mechanisms becomes important. Likewise, senior management also needs to know when revisions have occurred and are waiting in the queue for roll-up, review, and approval at the next or top level.

In addition to the automation of workflow, and alerting of budget process steps, Best-in-Class companies are also excelling in their use of analysis, or BI enablers for the integration of budgeting and forecast data into a larger financial planning and analysis function (Figure 9).

Figure 9: Best-in-Class Business Intelligence and Analysis Enablers



Source: Aberdeen Group, April 2008

The revenue and cost data associated with budgeting and forecasting activities are usually derived from one data source - the General Ledger (GL). The integration and data cleansing issues surrounding financial planning and analysis, however, can become difficult to manage. Depending on the type of organization, planning can often involve several data sources that exist outside of the budgeting and forecasting system (or spreadsheets). This can involve other applications embedded into an ERP system, or stand-alone applications such as inventory systems, Human Resource Information

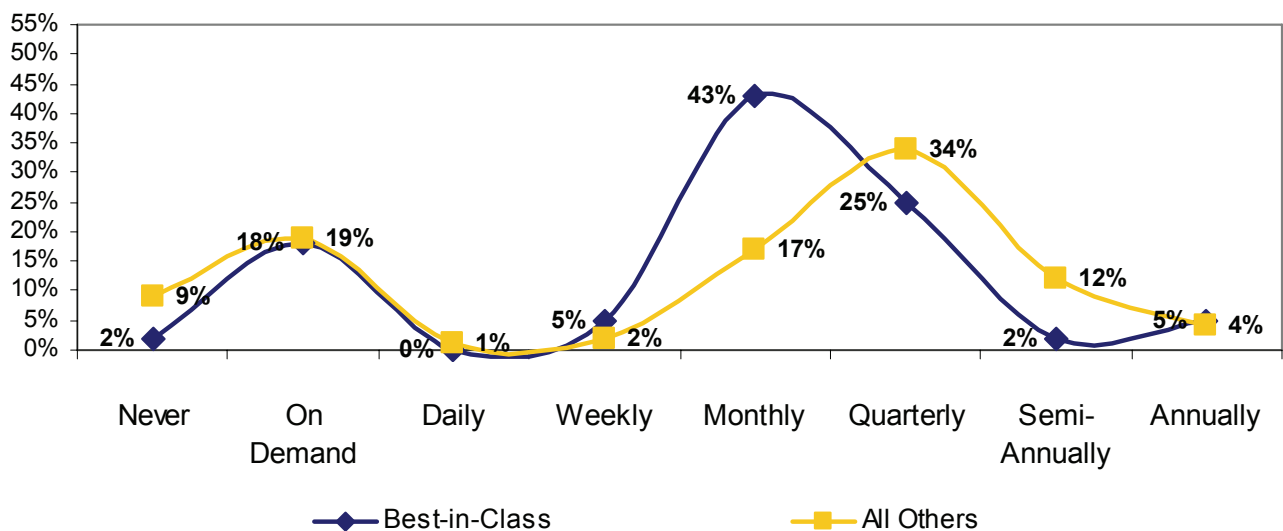
Systems (HRIS), Customer Relationship Management (CRM) applications, financial accounting systems, Product Lifecycle Management (PLM) systems, and other potential sources of data. Through a higher likelihood of adoption and use of the data integration and cleansing tools shown in Figure 9, Best-in-Class companies are well-positioned to gain greater visibility into more areas of the company throughout the planning process.

Finally, after the planning, budgeting, and forecasting processes have been identified, managed, and completed, the organization must start thinking about how to continually measure and manage the business. After all, the planning and budgeting exercise is not of great value unless it can be used as a benchmark over time to effectively track performance, and assist management in determining what course of action to take. This is where the use of BI tools (such as query / reporting and dashboards / scorecards) and Corporate Performance Management (CPM) or Enterprise Performance Management (EPM) technologies can be applied. Best-in-Class companies are twice as likely to utilize these tools as all other respondents.

Performance Management

In addition to the use of "performance management" technologies and tools described earlier, companies must also focus on the management of performance itself in order to achieve improved budgeting accuracy, agility to respond to changing business conditions, reduction of costs, and reduced budget cycle times. Best-in-Class companies are focusing efforts in this area, as evidenced by their ability to re-forecast more frequently than all other respondents (Figure 10).

Figure 10: Re-forecast Frequency - A Performance Differentiator



Source: Aberdeen Group, April 2008

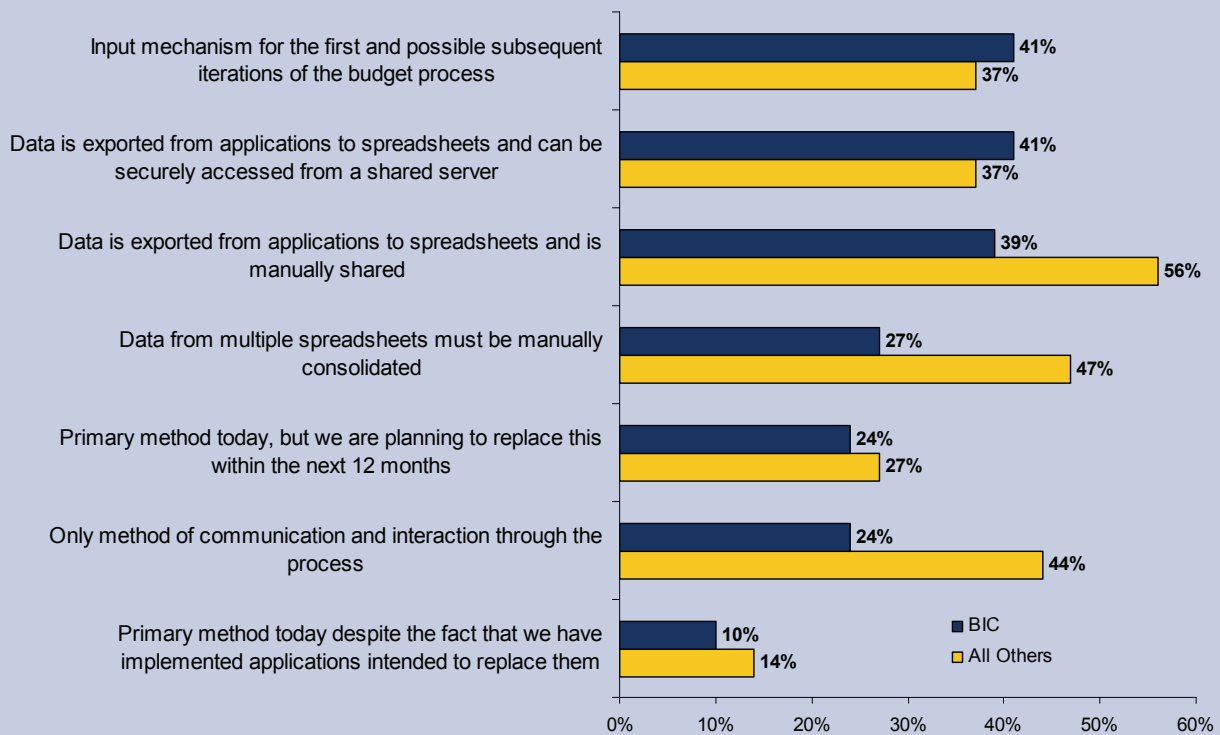
While all respondents agree that daily or weekly re-forecasting is not needed (and can actually stifle day-to-day business activity) there is greater disparity when it comes to the ability to re-forecast at a monthly interval. As

the pace of business has increased, it is becoming more critical to be able to sense change and respond to it before the business is affected. The faster an organization can respond to changing market, industry or economic conditions, the more agile it can become and the easier it is to alter business decisions such as spending plans, production schedules, and other factors that can greatly change the financial performance of the business. Best-in-Class companies are 2.5-times as likely as their peers to be able to re-set financial expectations at a monthly interval, and are far less likely to wait until the end of a quarter or later.

Aberdeen Insights — Beware The Role of Spreadsheets

Spreadsheets play an important role in the budgeting and forecasting process. While Best-in-Class companies are 45% less likely to use them as the sole means of communication through the process, 27% of all respondents indicate that spreadsheets are their primary method of creating budgets and forecast documents today, but are planning to replace this within 12 months (Figure 10).

Figure 11: The Role of Spreadsheets in Planning and Budgeting



Source: Aberdeen Group April 2008

Best-in-Class companies have determined that spreadsheets are not as well-suited for some uses in the budgeting and forecasting process as they are in others. While it is accepted by many respondents that spreadsheets are suitable as input data sources, Best-in-Class companies are far less likely to use them for budget consolidation purposes, or as a method of communication and data transfer throughout the process. End-users interviewed for this study agree that the likelihood of data corruption and human error is greater when budget and forecast information is shared within spreadsheets. Aberdeen research has revealed that these activities are far more likely to occur at Industry Average and Laggard companies where accuracy, agility, cost control, and timeliness are suffering. Spreadsheets, therefore, have their place in the budgeting process, but can also be the cause for serious problems.

Chapter Three: Required Actions

Whether a company is trying to move its performance in financial planning and budgeting from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements:

Laggard Steps to Success

- **Establish a formal budget / planning process.** Almost half (43%) of Laggards either have no established process at all or have an informal or ad hoc process. Compare this to the 100% of Best-in-Class companies that have a process, which is formalized in 91% of these top performers.
- **Combine a top-down and bottom-up approach to the planning and budgeting process.** The Best-in-Class are 24% more likely to combine these two. The top-down approach ensures stated goals are reflected in budgets throughout the organization. The bottom-up approach involves more budget owners directly.
- **Track performance against budget.** It is not a coincidence that 100% of the Best-in-Class are able to track actual results against the stated budget, providing focus on the management of performance itself in order to improve budget accuracy, agility, and acceptable levels of cost control.

Industry Average Steps to Success

- **Implement workflow automation to guide participants through the steps of the budget and planning process.** While a combination of the top-down and bottom-up approaches provide a vehicle to support consistent goal-setting without losing accountability, it also adds a level of complexity that is difficult to manage without any automation tools. Best-in-Class companies are 95% more likely to use workflow automation than Industry Average.
- **Establish a planning / budgeting committee or center of excellence.** The Best-in-Class are 96% more likely to go this route than Industry Average companies, and 212% more likely than Laggards. Aberdeen observes that the Best-in-Class are also 28% more supportive of the planning process. By creating a formal committee, management can push more responsibility down to a representative group within the organization and reap the rewards from organizational buy-in and ownership of the budget.
- **Take advantage of BI and performance management capabilities** available either as a platform and analytical tools or embedded within the enterprise applications from which data is extracted. Industry Average companies lag the Best-in-Class by 80%

Fast Facts

- √ 91% of Best-in-Class have a formal budgeting / planning process
- √ 100% of Best-in-Class track performance against budget
- √ Best-in-Class are 24% more likely to combine a top-down and bottom-up approach to the planning process
- √ Version control is 150% more likely to be automated in Best-in-Class companies

"BI is the next area of focus for our organization. We are able to pull data from our data warehouse into Excel, but we need something more visually compelling. We want to tie the budgeting process to the ability to track KPIs and link / cascade them down through the organization. This will increase visibility and improve budget awareness and accuracy in the long run."

~ CIO, Mid-Tier Food and Beverage Distribution Company

in the use of BI platforms and 78% in the use of performance management applications. Once a budget has been established, the organization must start thinking about continually measuring and managing the business. These tools can provide greater visibility into more areas of the company both during and after the planning process.

Best-in-Class Steps to Success

- **Automate version control during the budget and planning process.** While the Best-in-Class are 150% more likely to implement automated version control, only half actually do, leaving significant room for additional deployment to gain better control. Again, the combination of top-down and bottom-up approaches adds a level of complexity and also expands the percentage of budget owners intimately involved in the process. As soon as multiple people touch the budget in a collaborative manner, the risk of disjointed results and duplication of efforts increases exponentially.
- **Extend applications with advanced technology features including event management.** Best-in-Class companies are making significantly higher investments in budgeting and forecasting applications, whether they are embedded within an Enterprise Resource Planning (ERP) or stand-alone application. However spreadsheets still play a significant role and event management is utilized by less than a third of the Best-in-Class (30%). While workflow can step employees through the budget process, event management facilitates collaboration and management by exception, notifying middle to senior levels of management of completion or the failure to complete steps.

Aberdeen Insights — Summary

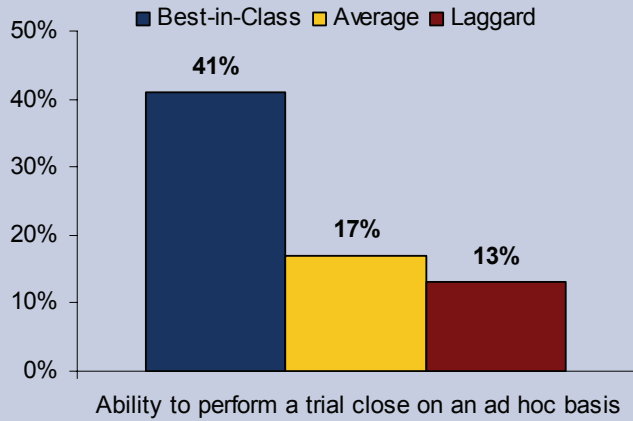
Forecasting has become the mode by which companies report their expected performance based on recent actual performance combined with knowledge about the future, such as revenue backlog movement and sales pipeline integrity. The accuracy of forecasts is becoming more important as top management, board members, and investors demand more predictability.

Best-in-Class companies are far more likely to have ad-hoc "trial close" capabilities (the ability to produce an income statement, cash flow report, and balance sheet in a "if our fiscal period were to close today" scenario). This allows a more immediate and accurate picture of actual business performance, and therefore an improved ability to use that information to produce more frequent and accurate forecast reports (Figure 12).

continued

Aberdeen Insights — Summary

Figure 12: Ad-hoc Trial Close - A Best-in-Class Capability



Source: Aberdeen Group, April 2008

Send to a Friend 

Appendix A: Research Methodology

Between February and March 2008, Aberdeen examined the use, the experiences, and the intentions of more than 300 enterprises involved in financial planning and budgeting, which lays the foundation for an effective business plan.

Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on strategies, capabilities, and technologies that result in Best-in-Class financial planning and budgeting performance.

Responding enterprises included the following:

- *Job function:* The research sample included respondents with the following job functions: Finance (48%); IT and engineering (18%); sales and marketing (9%); BPM (7%); Logistics/supply-chain (4%); others (14%)
- *Job title:* The research sample included respondents with the following job titles: C-level (27%); vice president (10%); director (21%); manager (30%); consultants (6%), staff and other (6%).
- *Industry:* The research sample included respondents from the following types of businesses: Manufacturing (50%); finance / banking / accounting (10%); distribution / retail / wholesale (15%); software (12%); other services (38%). Note that respondents could select multiple industries.
- *Geography:* The majority of respondents (66%) were from the Americas, predominantly North America (62%). Remaining respondents were from the Asia-Pacific region (13%) and EMEA (21%).
- *Company size:* Twenty-three percent (23%) of respondents were from large enterprises (annual revenues above US \$1 billion); 44% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 33% of respondents were from small businesses (annual revenues of \$50 million or less).
- *Headcount:* Twenty-seven percent (27%) of respondents were from small enterprises (headcount between 1 and 99 employees); 32% were from midsize enterprises (headcount between 100 and 999 employees); and 41% of respondents were from large businesses (headcount greater than 1,000 employees).

Solution providers recognized as sponsors were solicited after the fact and had no substantive influence on the direction of this report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

Study Focus

Responding executives completed an online survey that included questions designed to determine the following:

- √ The extent to which the planning and budgeting process is formalized and automated
- √ Current and planned use of technology
- √ The ability to perform "what if" scenarios
- √ The ability to track actual performance against budget / forecasting, complete with multi-dimensional reporting and appropriate drill-down to detail
- √ The level of collaboration and coordination during the planning and budgeting process

The study aimed to identify emerging best practices for managing the budget cycle, forecasting, and financial planning and to provide a framework where the reader can assess the financial planning and budgeting of their own enterprises.

Table 5: The PACE Framework Key

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p>Pressures — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p>Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p>Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p>Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, April 2008

Table 6: The Competitive Framework Key

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p>Best-in-Class (20%) — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p>Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.</p> <p>Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p>Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p>Organization — How is your company currently organized to manage and optimize this particular process?</p> <p>Knowledge — What visibility do you have into key data and intelligence required to manage this process?</p> <p>Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p>Performance — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, April 2008

Table 7: The Relationship Between PACE and Competitive Framework

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, April 2008

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [*Smart Decisions: The Role of Key Performance Indicators*](#) September, 2007
- [*Operational BI: Getting Real-Time About Performance*](#) December 2007
- [*The Expansion and Contraction of Business Intelligence*](#) January 2008
- [*Managing the TCO of Business Intelligence*](#) February 2008
- [*Data Management for Business Intelligence*](#) March 2008
- [*Intelligent CPM: Aligning Day-to-Day Decisions with Corporate Goals*](#) June 2007
- [*The Order-to-Cash Cycle: Integrating Business Processes to Improve Operational Performance*](#) March 2008

Information on these and any other Aberdeen publications can be found at www.Aberdeen.com.

Author: Cindy Jutras, Vice President and Group Director,
cindy.jutras@aberdeen.com; David Hatch, Research Director,
david.hatch@aberdeen.com

Since 1988, Aberdeen's research has been helping corporations worldwide become Best-in-Class. Having benchmarked the performance of more than 644,000 companies, Aberdeen is uniquely positioned to provide organizations with the facts that matter — the facts that enable companies to get ahead and drive results. That's why our research is relied on by more than 2.2 million readers in over 40 countries, 90% of the Fortune 1,000, and 93% of the Technology 500.

As a Harte-Hanks Company, Aberdeen plays a key role of putting content in context for the global direct and targeted marketing company. Aberdeen's analytical and independent view of the "customer optimization" process of Harte-Hanks (Information – Opportunity – Insight – Engagement – Interaction) extends the client value and accentuates the strategic role Harte-Hanks brings to the market. For additional information, visit Aberdeen <http://www.aberdeen.com> or call (617) 723-7890, or to learn more about Harte-Hanks, call (800) 456-9748 or go to <http://www.harte-hanks.com>

This document is the result of primary research performed by Aberdeen Group. Aberdeen Group's methodologies provide for objective fact-based research and represent the best analysis available at the time of publication. Unless otherwise noted, the entire contents of this publication are copyrighted by Aberdeen Group, Inc. and may not be reproduced, distributed, archived, or transmitted in any form or by any means without prior written consent by Aberdeen Group, Inc. 010908a