

2007 Budgeting and Forecasting Study*

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Overview

Highly effective financial planning is now recognized by leading finance organizations as critical to the successful execution of business strategy.

It is no longer sufficient to just measure past performance. Budgeting and forecasting has become a critical competency for organizations to effectively plan, manage, and execute on strategy. As a result, finance organizations face new challenges: building financial plans with strong links to strategic initiatives and fostering new collaboration between finance management and business operations.

This study is based on research conducted to understand how finance executives are responding to these new challenges. We examined both established financial planning practices and emerging trends to uncover links between leading practices and overall satisfaction with large organizations' financial planning processes. The research was executed via 200 cross-industry web surveys and four in-depth interviews with organizations whose revenues are greater than \$2 billion.

Key indicators:

1. Fifty-six percent of budgeting and forecasting effort is spent on low-value activities, including data collection and consolidation, reviews, approvals, and report preparation.
2. Seventy percent of respondents are dependent on spreadsheets for all or a portion of their financial planning activities.
3. Management and employee dissatisfaction with the current planning process is high due to the level of granularity and lack of alignment with business strategy.
4. Sixty-five percent of respondents believe that the strategic relevance of budgeting and forecasting will increase over time, while only 5 percent expect a decrease.
5. More than half of respondents (52 percent) reported that creating closer links between strategy and operations was one of their top two priorities.

Trends

1. Budgeting and forecasting processes face significant transformation; linkage to strategy is top of mind.

Today's industry dynamics require management to execute new strategies rapidly. To do so, finance organizations must generate and report on prospective financial scenarios in a timely manner. Budgeting and forecasting has become a key competency in the planning and execution of new strategies; efficient, repeatable planning processes are now imperative. Finance must assess planning weaknesses and then drive change and cooperation across the organization to strengthen alignment between strategy setting, financial planning, and operational execution.

In most current financial planning processes, countless hours are spent collecting and managing data. Respondent dissatisfaction indicates that the existing methods are not fostering the desired culture of focus and continuous improvement necessary to drive actions and results. The efforts now put into generating budgets and forecasts must be redirected into strategy-focused processes that help managers formulate and monitor organizations' strategies for growth and cost control. This is achieved by integrating planning efforts and data with overall corporate performance management processes (including financial consolidation, analytical reporting, and the compensation/rewards process) to minimize the total time spent on low-value activities and increase the knowledge return across finance.

One of the most striking findings from the research was how few organizations are "very satisfied" with their financial planning processes: only 17 percent. The remaining 83 percent of respondents were either only somewhat satisfied or not satisfied with the status quo (figure 1).

Figure 1. How satisfied are you with your company's current budgeting process?



In addition, data from the survey and interviews, while varied, show that most organizations do not currently maximize the strategic benefit of budgeting and forecasting. Only 32 percent of respondent executives felt that their budgeting process was highly aligned with actual performance (figure 2) and over 40 percent identified an improved link between budget and strategy as an important enhancement (figure 3). These figures, when combined with the low satisfaction levels, indicate a significant appetite among organizations for financial planning process improvement.

Further bolstering the case for improvement, most respondents (65 percent) believe that the strategic relevance of budgeting and forecasting will increase over time, while only 5 percent expect a decrease. When asked where financial planning process improvement was most acutely needed, respondents put linkage to strategy at the top of their list but suggested that a number of additional improvements were also critical, including reduction of cycle time and improvement of data collection activities.

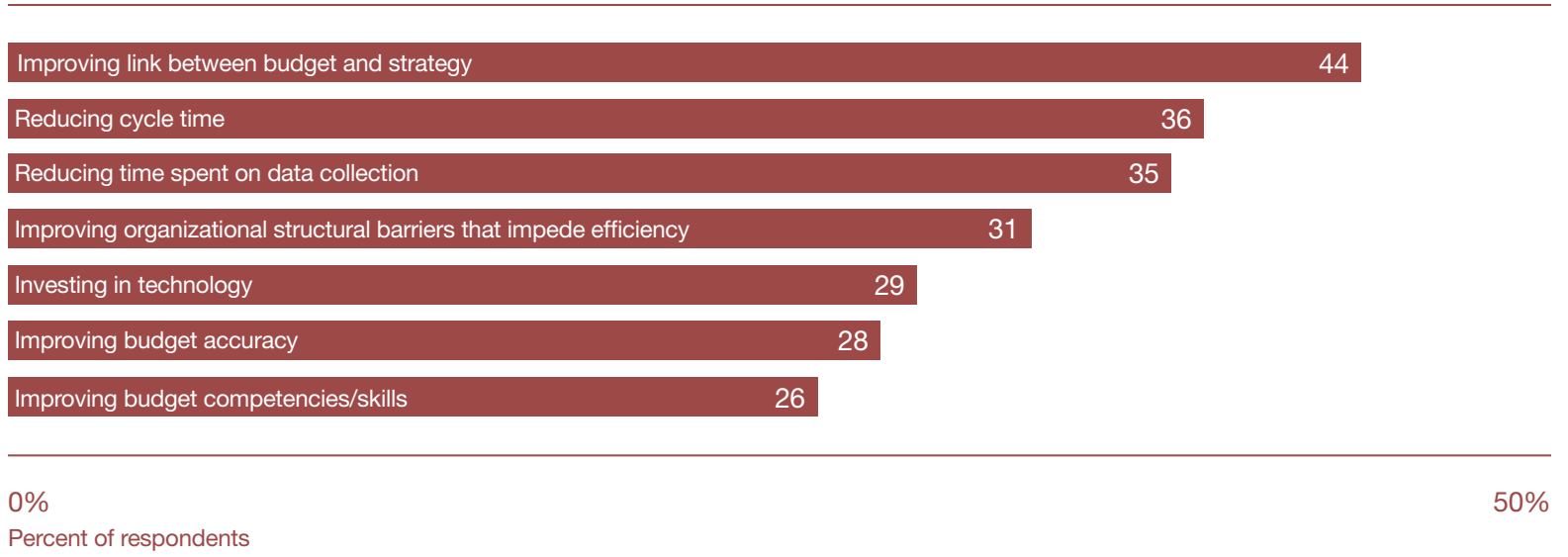
Figure 2. Looking back at the past five years, how would you best describe your budgeting process?



In short, to drive necessary change, organizations need a better way to link budgeting and forecasting to strategic planning and business operations. For some organizations, this simply means being more effective in what they are doing. Others, though, will require a strategic shift in how they look at budgeting and forecasting, including the processes, data models, and tools they currently employ.

Adding to the case for change are desires to expand the analysis provided by the financial planning process—something that’s only practical after strategic alignment and process streamlining are complete. For many businesses, adding external factors such as competitor sales and market share in financial plans is highly beneficial. Leading organizations are looking beyond traditional profit-and-loss metrics and expanding their forecasting processes to include cash flow, working capital, and risk-adjusted returns in budgets and forecasts. Slightly more than 50 percent of respondents forecast cash flow and key balance sheet items (figure 4). Improving cash flow and working capital forecasting capabilities and methods continues to be a focus area in leading companies.

Figure 3. Which area do you see as requiring the most improvement?

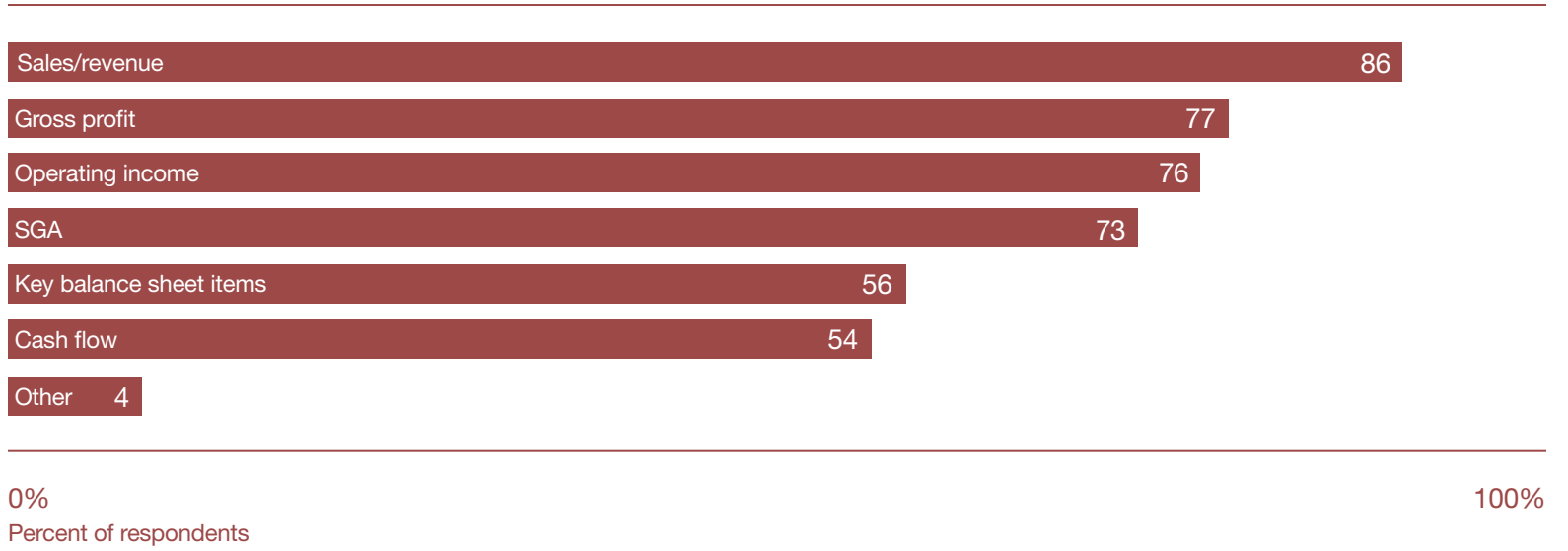


Note: Respondents were asked to check all that apply.

Also, with the heightened sensitivity around corporate accounting and prospective guidance, finance must become more vigilant about financial planning and reporting. Competitive pressures and the increasing speed of business cycles require a new level of effectiveness in setting goals and allocating resources. Operational decisions are being made more quickly, requiring constant monitoring and adjustment of enterprise plans and actions.

This dynamic is causing many organizations to shift the way they measure success, adopting an approach that more closely links forecast and actual numbers and offers a more stringent evaluation and analysis, such as a balanced scorecard or key performance indicator framework. Management increasingly is relying on the ability to define, predict, and reliably assess corporate performance. As a result, this need for transparent reporting, compliance, and predictability is causing companies to reconsider how they value, organize, and support key financial planning activities and decision-support activities. Respondents reported that the primary value of the budgeting process is monitoring and control, setting operational direction, and providing a system of accountability (figure 5). Slightly more than 50 percent indicated a high relationship and linkage of the annual budget process to compensation planning activities.

Figure 4. What key elements do your company or business unit forecast?



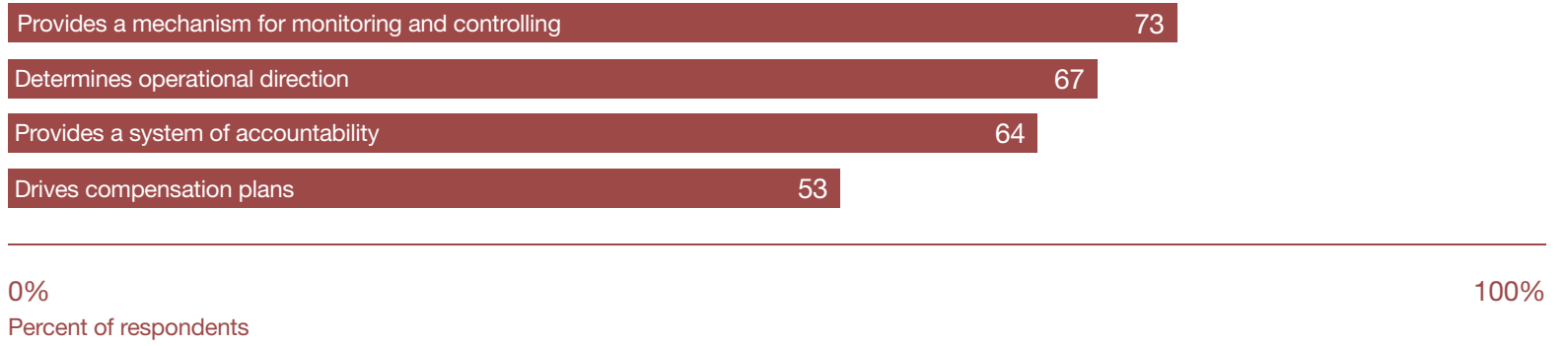
Note: Respondents were asked to check all that apply.

With the direction set, many organizations are still unsure about how to begin serious performance improvement efforts in financial planning.

The first step in effecting change is for top-level executives to analyze and benchmark the overall planning process to understand the overall cycle time, accuracy, and linkage to strategic initiatives. Next, refine the new financial planning direction, clearly articulating how new processes will support the overall business strategy. Emphasize:

- The new focus of budgeting and forecasting on target setting, analysis, and ongoing measurement instead of data collection and reporting.
- The destruction of organizational silos. Use the budgeting and forecasting process to increase collaboration and knowledge sharing between finance management and operations.
- The use of budgeting and forecasting as a tool to align day-to-day actions with strategic plans.
- The role of financial planning in value creation.

Figure 5. What value does your company derive from its budgeting process?



Note: Respondents were asked to check all that apply.

2. Today's process is too granular and not focused on value-added activities.

As noted earlier, 70 percent of executives are only “somewhat” satisfied with their overall budgeting process (figure 1). Operational inefficiencies are considered a major hurdle. As a result, valuable time and business resources are consumed by tactical duties and non-strategic tasks such as data collection and consolidation, review and approval, and report preparation, all of which hinder the ability of the organization to leverage the finance function as a strategic asset. Only 44 percent of the budget and forecasting process is actually spent on analysis, strategy development, and target setting (figure 6).

Another major challenge highlighted by the survey results is the complexity of the budgeting and forecasting process, which dramatically affects the length of the budget cycle. Sixty percent of respondents reported that the process takes more than three months to complete (figure 7). Not surprisingly, 86 percent of executives claimed they were either not satisfied or only somewhat satisfied with how long it took their organization to complete the budget cycle. In most organizations, the annual budget is viewed as a burdensome and time-consuming exercise that is often outdated by the time it is complete.

Leading organizations are using process improvements and automated data capture to eliminate the budgeting cycle completely or reduce its length to less than two months. By optimizing and standardizing—especially in regard to data requirements, planning models, and level of detail—organizations can make the shift from a model based on collecting and consolidating data and preparing reports to a more strategically aligned process of target setting and ongoing analysis.

Figure 6. Of the total time spent completing a budget cycle, how much time is allocated to each of the following activities?

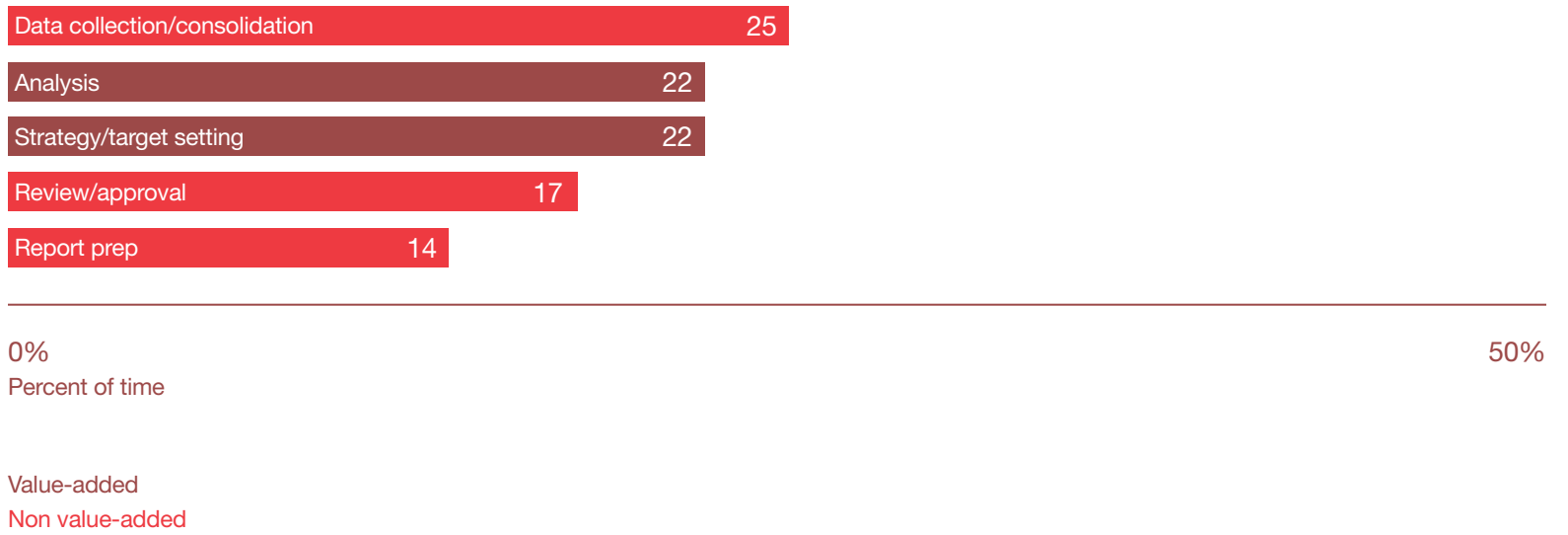


Figure 7. How long does your company take to complete the budget cycle?



3. Underlying technologies and applications lack integration.

Use of spreadsheets as a tool in the budgeting and forecasting process is a symptom of poor tool integration. In total, 70 percent of respondents reported dependency upon spreadsheets (e.g., Excel) for all or part of their budgeting and forecasting solution. Most used spreadsheets to supplement their enterprise resource planning (ERP) software (e.g., SAP, Oracle, PeopleSoft) or best-of-breed (BoB) planning systems (e.g., Hyperion, Cognos, OutlookSoft). ERP and best-of-breed systems are being fully utilized for financial planning (without spreadsheets) by only 16 percent and 8 percent of respondents, respectively (figure 8). These low percentages indicate a high improvement area for companies hoping to better utilize technology to help automate financial planning and reporting models and processes. They also show that many ERP and best-of-breed financial planning implementations over the past few years did not completely reduce reliance on spreadsheets as a key component in the process.

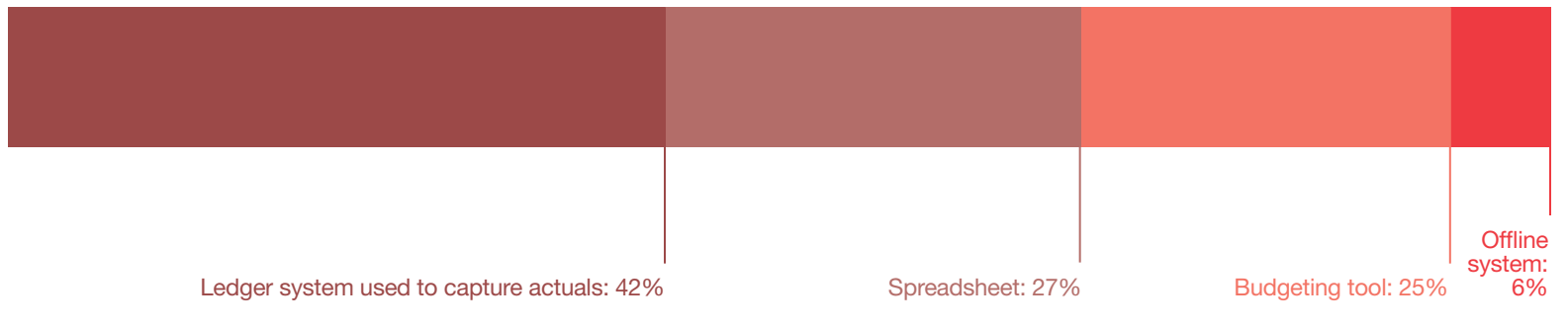
Spreadsheets are also utilized heavily to compare and report on budget to actual performance and for decision-support activities (figure 9). However, the greatest number of companies (42 percent) continue to utilize the general ledger system and tools to report on budget to actual variances.

Not surprisingly, respondents indicated a high degree of dissatisfaction with their current budgeting and forecasting software. Their primary concerns center around ease of use, flexibility, and customization to the business (figure 10). These three system requirements must be thoroughly reviewed and examined in any system evaluation process through detail business process scenarios and script demonstrations.

Figure 8. What applications are used to manage your company's budgeting process?



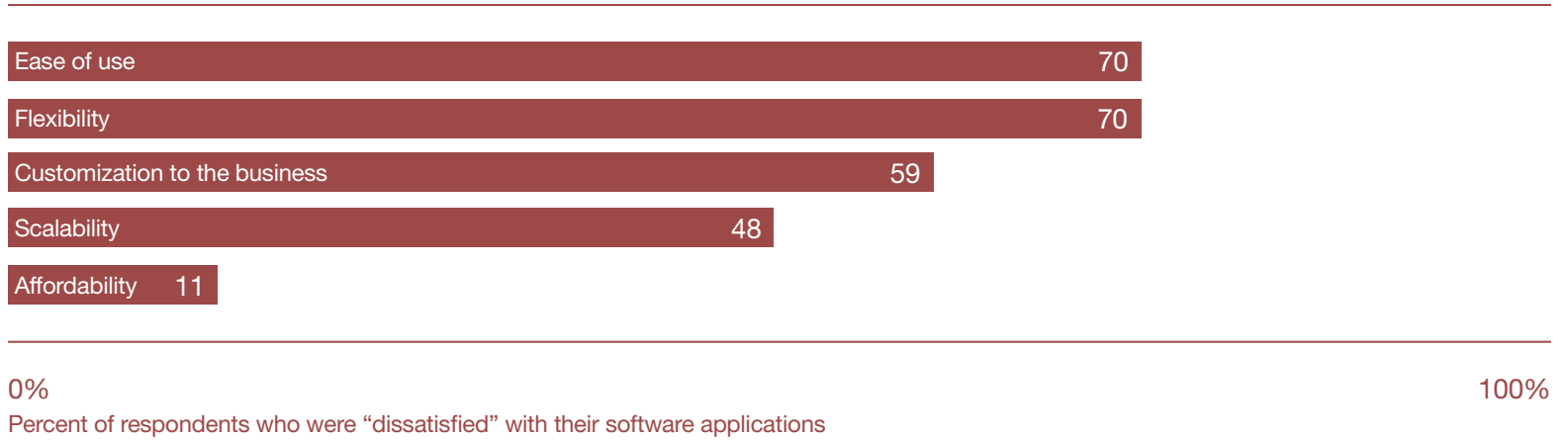
Figure 9. Where does your company complete budget to actual reporting?



This high reliance on spreadsheets, spreadsheet interfaces, and reporting adds to process risk and complexity. Organizations should strive to eliminate data re-entry or conversion to make information sharing seamless and transparent. Standardizing data requirements and data-capture processes will aid in this effort as well.

The link between the tools used and the degree of effort required in low-value activities is clear. To achieve the maximum reduction in administrative burden, finance professionals need to be willing to move to tools specifically designed to support financial planning. Careful diligence and evaluation of the leading systems is required to be sure your financial planning needs align with the system's capabilities, not just from a budgeting standpoint but also regarding overall analytical, reporting, and corporate performance management requirements.

Figure 10. What is lacking in the budgeting software that you use today?



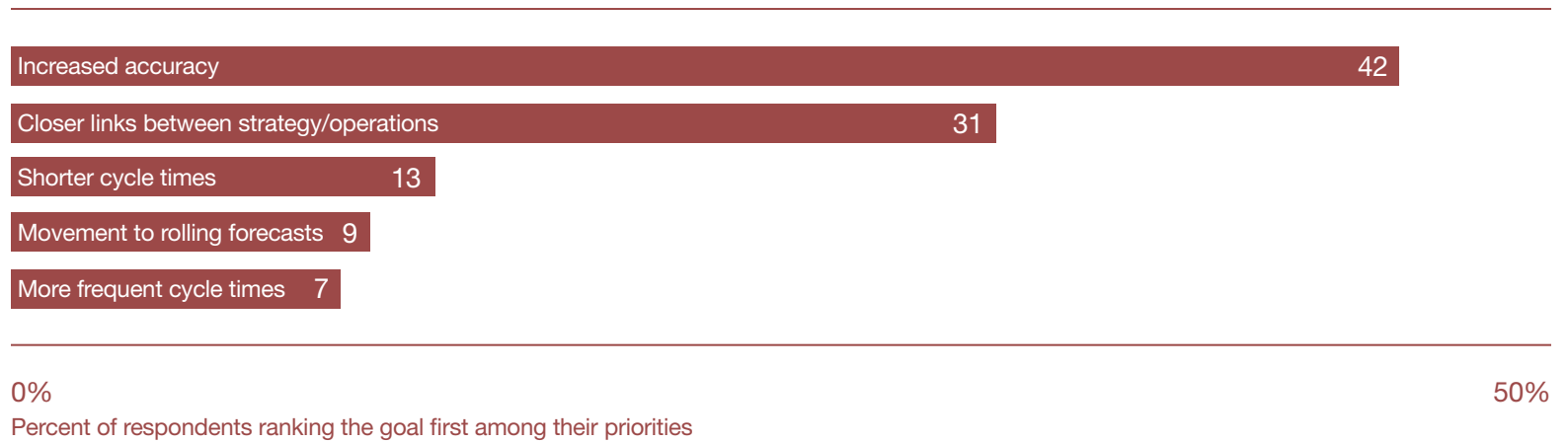
Note: Respondents were asked to check all that apply.

4. Finance and operations must be more closely aligned.

Improving the accuracy of the budgeting and forecasting process was cited by more than 40 percent of executives as a priority investment. This was followed closely by tighter linkage of strategy with operations (figure 11). Leading companies monitor budget and forecast accuracy and report and review results with both finance and business unit leadership on a periodic basis. Forecast accuracy is a key metric that is reported on and used to drive performance and accountabilities.

Creating a robust budgeting and forecasting process depends on aligned processes, technology, systems, and organization structures. Historically, finance and operations have tracked and measured performance using separate systems. It is not surprising, then, that spreadsheets play a major role today in budgeting and forecasting, given the disjoin between the use of disparate systems and the need for enterprise-wide data. More closely aligning finance systems, processes, applications, and organization structures with operations should lead to improvements not only in accuracy but in cycle time, in relevance, and ultimately in the use of budgeting and forecasting as a tool to better drive and monitor performance.

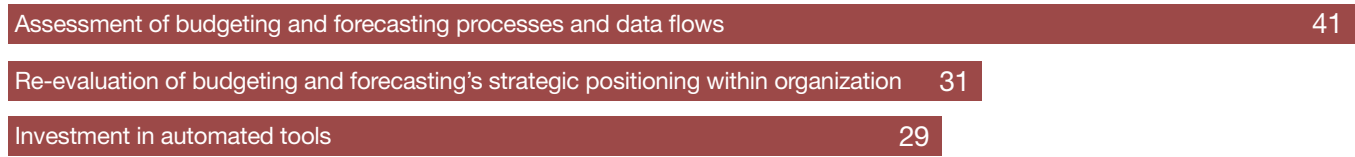
Figure 11. Please rank your company's priorities or investment initiatives around the budgeting and forecasting process.



5. Standardizing processes and systems is a primary focus of improvement efforts.

As noted earlier, aligning activities across functional areas is critical to improving the budgeting and forecasting process. Standardizing data requirements, data-capture processes, technology platforms, and applications helps to align different parts of the organization. While some may think that standardization means more in-depth data collection and consolidation, the reality is that organizations typically need to reduce the level of data granularity to focus effort and attention on what's truly relevant to strategic success. Respondents recognized that timely, relevant, and accurate data is the number-one requirement related to launching a budgeting and planning improvement effort (figure 12).

Figure 12. What do you think are the stepping stones to improve budgeting and forecasting?



0% 50%
Percent of respondents ranking the goal first among their priorities.

In addition, organizations should consider utilizing a driver-based rolling forecast approach to ensure that finance stays constantly in step with changing corporate strategy. This provides the added benefit of being able to extend forecasts out past your year-end. Employing rolling forecasts enables a company to react quickly to market conditions and alter long-range plans accordingly without worrying about artificial end points, like the end of a fiscal period.

The majority of organizations (52 percent) forecast until the end of their fiscal year. Rolling forecasts continue to create great interest in the market: Those that extend beyond the end of the fiscal year are employed to some extent by 42 percent of respondents (figure 13). Many companies continue to be challenged with implementing rolling forecast concepts and eliminating the annual budget due to the high linkage to annual incentive compensation plans. Some companies are implementing rolling forecasts but have not been able to completely eliminate the annual budget process.

Furthermore, most organizations surveyed update their forecasts on a monthly (33 percent) or quarterly (41 percent) basis (figure 14). Leading companies are less concerned about the number of times they update the forecast throughout the year but are more focused on speed, accuracy, and the ability to update the forecast as market conditions change.

Figure 13. How far out does your forecast extend?

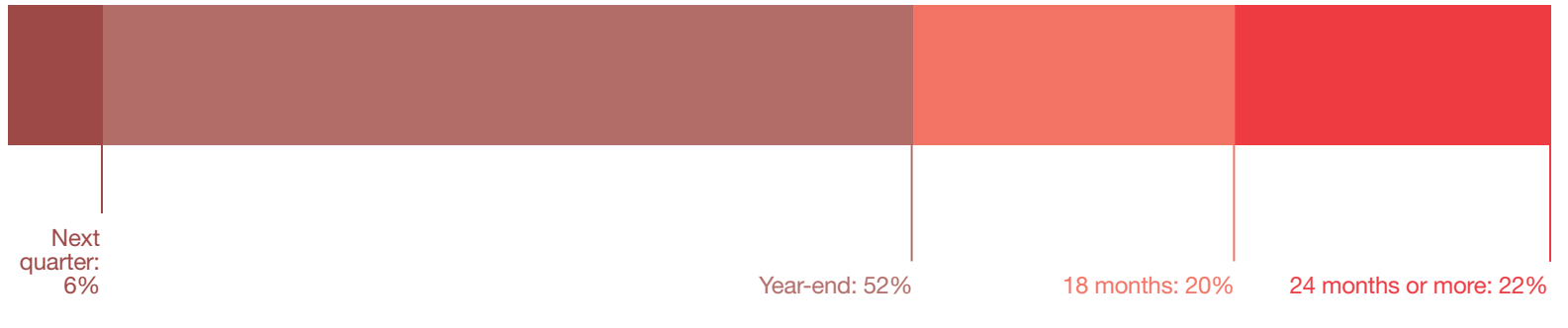
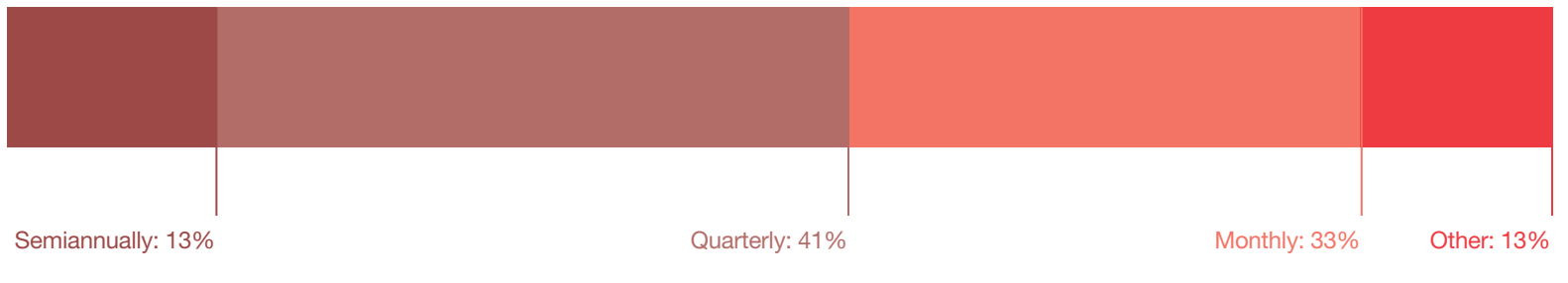


Figure 14. How often does your company update its forecast?



Using both a top-down and bottom-up approach helps to drive closer linkage between finance and corporate strategy. Today, executives report using both methods about equally, along with a variety of other approaches (figure 15). The budget approach utilized is directly linked to the overall management style and culture. Leading companies seem to utilize a blend of top-down/bottom-up along with active communication and dialogue throughout the process.

Executives also report that current forecast models do not take into account the degree of variability impacting actual performance. This was cited by the largest percentage of respondents (40 percent) as the primary reason for forecasting going off track. Companies that have effectively utilized driver-based concepts in the planning process have demonstrated a much better view of key business change attributes and variables.

Second in importance to forecast models was poor integration of key data inputs (figure 16).

Figure 15. How would you best describe your company's budgeting process?

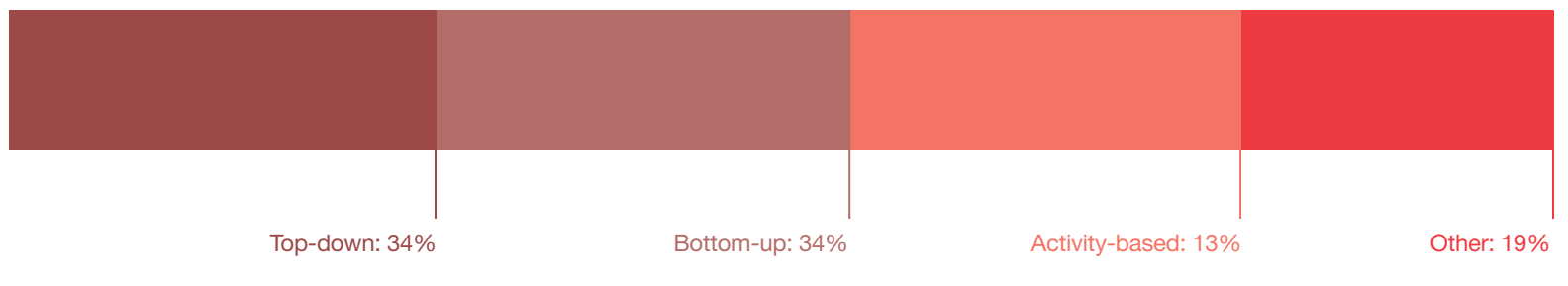
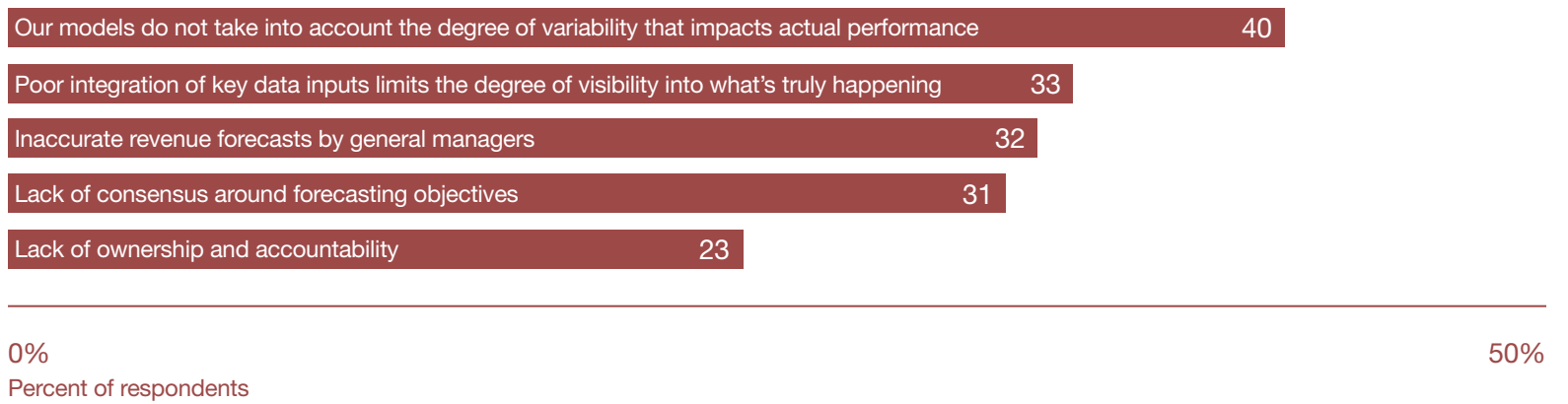


Figure 16. In your opinion, which of the following describes why your organization’s forecasting process may go off track?



Note: Respondents were asked to check all that apply.

Lessons learned—corporate insights

In addition to focused research, we conducted a series of in-depth interviews to determine budgeting and forecasting approaches and lessons learned that could be shared with organizations looking to improve the overall planning process.

How Pfizer is transforming its global budgeting and forecasting processes

Pfizer, Inc. is the world's largest research-based pharmaceuticals company, with annual revenues of approximately \$50 billion.

In 2005 Pfizer launched an initiative called “Adapting to Scale” to reduce complexity, push down decision making, and better leverage standardized processes. Global teams working across Pfizer identified many opportunities for improvement, including optimization of global budgeting and forecasting processes.

The planning environment was highly complex and fragmented due to the high volume of acquisitions in the preceding years. According to George Henninger, senior vice president for financial operations, “The Pfizer planning systems environment included a host of applications including Oracle, Hyperion, Cognos, GEAC, and assorted spreadsheet models. In addition, our various business units—commercial, manufacturing, and research—each approached the planning process with different types of models, data requirements, and forecast calendars.”

In 2006, the company embarked on the Global Budget and Forecasting (GBF) initiative. Working with more than one hundred employees from across all divisions worldwide, the GBF team developed a common operating model and systems architecture to support future deployment.

Management realized that standardizing on one technology platform would be an enabler, but the real benefits to the organization were through standardizing processes and eliminating low-value activities. To ensure that this initiative would not just be another corporate-driven project, “business unit input and buy-in” was made a critical part of the process change. “We had to show the markets/regions and business units how the change would benefit them in how they do their work,” explains Ben Valentini, Pfizer's vice president of finance transformation, who leads this GBF initiative.

Henninger challenged the GBF team to improve the decision-support capabilities of the business unit's finance organizations and to shift resources from data gathering to true analysis. The team worked collaboratively for over six months to develop the global design, which incorporated the following benefits/capabilities:

- Approximately 20 standard driver-based financial planning models (reduced from hundreds of planning models)
- A consistent planning calendar and process model across all business lines
- Rolling forecast capability
- Reduced line item forecast detail from over 1,000 lines to approximately 100 key lines
- Largely automated data population and reporting
- Expanded capabilities to forecast inventory levels
- A single planning system (down from approximately eight)

According to Henninger and Valentini, key learnings to date include the following:

- Get people involved early so it is not perceived as solely an initiative from headquarters. Especially in companies with multiple business lines, do not leave anyone out. Get the right people involved and the right leadership. You need thought leaders—those people who are currently doing it better than their peers.
- Balance inclusion with decision making. Pfizer adopted a “benevolent dictatorship” approach. They strive for collaboration, but in the end decisions need to be made at the center.
- Benchmark what other companies are doing before starting such an initiative. (Pfizer benchmarked numerous organizations as part of this initiative.)
- Recognize the need to include more than just finance professionals in a project of this nature. Involve sales, marketing, and manufacturing functions to develop the optimal process models.

How a global financial services provider collaborated with its businesses to improve planning and reporting

One global diversified financial services provider found that its forecast accuracy, reporting, and planning systems required improvement. The company implemented a new model that allowed for rapid revision of budgets/forecasts, system-generated data validation, and automated variance reporting.

According to a vice president in the provider's finance department, "We really needed to expose our non-finance executives to the financial aspects of the planning process—pushing it down more to the divisional level rather than up above at the corporate level."

The new planning approach enabled reprioritization of resources and realignment of roles and responsibilities so that each individual group or division becomes responsible for its own finances, budget, forecasting, etc., leading to the ability to report results at the division level and summarize at the corporate level. "We now have more accountability at the division level so that we know where our opportunities are and where our strengths are."

The company also has a "renewed focus on financial reporting, budgeting, and forecasting. The importance of coming within a certain tolerance or variance has also been renewed throughout the company and as a result our earnings forecast and reporting are now a lot more accurate." One significant challenge to the new budgeting and reporting system related to data. "The biggest problem internally was getting divisions to enter data on time. We had to have some difficult conversations with some of the managers to ensure they knew the reason why deadlines were important—that we had shareholders and executive boards we had to provide this information to, and it wasn't just that we needed to get this done to make it difficult, but we had other outside interests that are looking for this data as well."

The benefits are numerous. This financial services provider has:

- Saved substantial money by bringing some financial reporting in-house rather than outsourcing
- Mastered the rapid revision of budgets and forecasts
- Increased understanding of budgeting and forecasting's importance both company- and division-wide
- Improved internal/external stakeholder reporting

How a major US bank integrated product line revenue and expense components

At one major US bank, operations needed help in justifying its costs and was under pressure to streamline the budgeting and forecasting process. The bank's finance department worked with operations to identify key performance metrics that correlated revenue volume with related expense. The process reconciled the expected expenses that are needed to support the expected revenue growth and then folded it into the overall corporate budget. The bank called this a "Three-Way Reconciliation Approach," in which:

1. Product line managers determine revenue growth forecasts.
2. The operations group uses the growth forecast to determine the correlated expenses that support the revenue volume, then develops the budget.
3. After integration of the product line revenue and operations expenses into the overall corporate budget, the comprehensive budget is reviewed and analyzed to determine if product line goals and correlated expenses match/support the overall corporate strategy.

With this process, product line variances (e.g., revenue that is too low compared to historical data) are identified and discussed to understand their cause. New, mutually agreeable targets are then determined. Importantly, this enables review of the planned revenue and expenses throughout the year to monitor actual performance.

According to one of the bank's finance department vice presidents, the process enabled the department to "help our operations group out as they were really feeling the stress of justifying their expenses. There was a need for the operations group to get relief from being put into cost-containment mode. This approach enabled them to organically grow their business."

Critical to the success of the initiative was overcoming two major challenges: first, the time and intensity of manually pulling and loading historical data into a planning system; second, getting buy-in from operations managers so they would put thought into their budget and forecast process.

Because of the new budgeting and forecasting initiative, “there have been some new projects that were more revenue-growth focused that probably would not have occurred if they had not been looking at achieving the plans they came up with.” In addition, operations has become more creative in expense management when trying to support revenue growth. “We have implemented some best practices from looking at the efficiencies within different operational sites and applying them to other sites. This budget exercise proved more valuable than simply a focus on key performance metrics.”

The bank’s finance department vice president offers this advice to those initiating a major budgeting and forecasting improvement initiative:

- Take advantage of the available resources and target what you need instead of developing a process that merely follows the current reporting structure. “We should have pushed harder for the process to be a monthly process with the automated data loads when initially developing the process, as resources were available and focused on the project.”
- Do not just use a top-down approach. “When starting with the top-down approach where the CEO tells everyone the plan, the first thing that is going to happen out of the gate is there will be large variances between what the CEO and product managers think will happen. Truly let the business lines come up with what they really think and have conversations from there.”

How a major North American manufacturing company improved cost management by implementing a single budgeting tool

One multibillion dollar North American manufacturing company had fragmented budgeting and planning approaches and systems at its various plants. Recognizing the inefficiencies in the process and the lack of visibility of company-wide costs and inventories, management opted to implement a standard technology platform to provide consistent visibility across the enterprise.

The company implemented a single enterprise-planning application that not only coordinated the budgeting and forecasting process enterprise-wide but also helped it identify major inefficiencies in purchasing and spending. As part of this initiative, the company implemented zero-based budgeting concepts. The new enterprise application and zero-based concepts identified significant cost-reduction opportunities and allowed for more rapid response to new management directives.

Key learnings from this organization include the following:

- Standardize on a common budgeting and planning platform to allow for more effective and efficient planning and data capture.
- Utilize zero-based budgeting concepts to focus on cost management opportunities.
- Maximize involvement of both business and finance stakeholders in the budget transformation process.
- Set an objective to get more information sooner in the process.
- Don't underestimate the potential costs of process and systems training.

The organization's approach to budgeting and forecasting has paid significant dividends throughout the company. The new budgeting and forecasting processes and system have helped drive accountabilities to better monitor and control costs—among other ways, by improving visibility into spare parts spending, which needed focus.

Optimizing the financial planning process

The data from the survey and interviews, while varied, show that most organizations are not satisfied with their overall financial planning processes. This must change. The effort put into generating budgets and forecasts must be redirected to provide strategic value that helps companies make decisions and move quickly in their marketplaces.

PwC believes that best-practice planning methodologies are based in the culture of the organization and typically include a balanced blend of top-down and bottom-up collaboration. Finance is in a unique position to drive change and realign organizational behaviors that are impacted by the financial planning process. Finance must collaborate to translate organizational strategies into financial targets as well as link operational planning with financial targets. This collaborative mindset is enabled by process and technology standardization, data harmonization, and strong communication and leadership skills.

Though the process might be difficult, the finance organization must engage heavily with operations to improve forecasting accuracy. Operations has a solid view into changing market factors, and finance must work with them to include these market factors in strategic planning. Often this requires a sea change in focus—from fixed targets to a rolling review process that regularly takes into account rapidly changing markets.

Standardization of data requirements and data-capture processes is critical to successful use of budgeting and forecasting as a strategic lever. With such standardization, organizations can significantly reduce the time spent on data gathering and consolidation and increase the time spent using that data for strategic financial planning and decision support.

PwC's experience shows the benefits of standardizing on a common ERP or best-of-breed platform for corporate performance management (CPM) activities. Spreadsheets continue to support many budgeting and forecasting activities but their use in the financial planning and reporting arena has proven to be highly ineffective and cumbersome. PwC's view on CPM extends beyond financial planning to corporate consolidation, reporting, and business analytics. Best-practice companies are leveraging standardized CPM technology, processes, and data models across the enterprise to improve financial planning and reporting and decision-support activities.

How to tackle budgeting and forecasting improvements

Creating a new model for budgeting and forecasting is not an easy task. Typically, no single system exists in most enterprises to make it possible for general users and decision makers alike to combine financial analysis and strategic decision making. In addition, it is extremely difficult to totally replace existing systems because companies have too much invested in existing solutions, from a monetary and company process perspective.

Instead, organizations need to invest in a strategic approach to better link financial planning with strategic direction. PwC research and experience have identified the following ten financial planning enablers that should be considered in budgeting and forecasting improvement efforts. They focus on reducing cycle time, increasing accuracy, and developing an acute focus on value-added planning activities.

1. *Strategic alignment*—Management needs to ensure that financial planning targets are closely linked with the organizational strategy and value drivers. Without strong linkage, the budgeting and reporting process becomes a financial exercise and is not used as an effective management tool to drive strategic decisions and accountabilities. This can be achieved in part by identifying the strategic business drivers and incorporating them at the heart of the budget and forecasting processes.
2. *Organizational collaboration*—Optimal financial budgeting and forecasting processes require a strong degree of interaction between finance, operations, and business unit managers. Finance is uniquely positioned to utilize periodic budgeting and forecasting processes to better understand the business and make planning activities part of the corporate culture. However, effective and lasting financial planning changes must be driven by and provide value to the business unit stakeholders.
3. *Simplification and standardization*—Budgeting and forecasting processes, systems, and data models must be capable of supporting the dynamic changes in today's business climate. However, information and data flows must be balanced against 100 percent precision and be flexible enough to accommodate rapid changes in organization structures due to realignments, divestitures, and acquisition activities. Standard models, tools, and processes allow for more agility and organizational information sharing.

4. *Systems alignment*—Leading best-of-breed and ERP vendors continue to improve functionality around budgeting and forecasting. Leading companies continue to look for overall alignment of their corporate performance management (CPM) suite. This integrated CPM view includes holistic functionality for financial planning, consolidation and reporting, and business analytics. As these products mature, they are incorporating stronger support for driver-based budgeting and better enabling the move to higher-value activities.
5. *Spreadsheet reduction*—Spreadsheet-based budgeting and planning processes are manually intensive, error prone, and tend to have longer cycle times. Best-practice companies have systematically eliminated spreadsheet-based modeling and reporting as they migrate toward new technology solutions. Further opportunities exist for many companies that have implemented new tools but continue to be spreadsheet dependant.
6. *Data standards and automation*—Leading companies look for ways to pre-populate internal and external data sources that feed the budget and forecast process. Without automated data population, financial planning resources spend a significant amount of time in data gathering, validation, and reconciliation activities. These lower-value activities detract from the value of the planning process. A common data model, hierarchies, and chart of accounts are key enablers that will allow for more efficient budgeting and forecasting roll-ups and analysis. Prior to significant financial planning re-engineering, management must address the key aspects of data governance and standardization.
7. *Driver-based concepts*—Our experience shows that leading companies are migrating toward driver-based budgeting and forecasting in an effort to align the process around measurement of value drivers. Leading companies identify the critical drivers impacting their performance and focus on those drivers instead of hundreds of detail line items. Driver-based planning also assists in the cause-and-effect analysis required for proactive decision support.

8. *Continuous rolling forecast*—Our survey indicated that 42 percent of companies are utilizing rolling forecast concepts to plan beyond the end of the fiscal year. Many companies continue to pilot the concept of rolling forecasts and how to leverage this continuous planning capability to eliminate the annual budget process. Our experience shows that companies that forecast beyond the end of their fiscal year have a more streamlined annual budget cycle.
9. *Reduced level of detail*—PwC experience suggests that best-practice companies include less than 50 line items in their annual budget submission. Many companies continue to track budgets at very detailed line item levels versus a higher level of aggregation. Generating and managing budget and forecast information to the greater—and often immaterial—level of detail adds complexity and cost to the process.
10. *Rapid forecasting*—Best-practice companies can generate a new financial forecast in less than 24 hours. This ability is the result of a combination of factors, including automated data population, high use of driver concepts, and the fact that forecasts are updated—not rebuilt—each period. Keeping forecasts focused on key performance indicators and line items will allow for quicker turnaround and more value-added analysis and insight from finance.

Conclusion

As companies face a faster-paced market, they are struggling to match their sometimes antiquated budgeting and forecasting process with the need for strategic planning to help the organization improve performance. According to our survey results, many organizations are not satisfied with their budgeting and forecasting approach, especially as a strategic lever. To improve and refocus budgeting and forecasting, organizations need to standardize, streamline, and integrate these activities with the company's short- and long-term goals. If done properly, budgeting and forecasting processes can play a leading role in an organization's strategic direction by becoming a way to rapidly assess and adapt to a changing marketplace. Companies that take full advantage of an ongoing strategic budgeting and forecasting process will:

- Use budgeting and forecasting as a tool to integrate strategic planning and day-to-day operations.
- Reduce the budgeting cycle time (perhaps even by creating an ongoing rolling forecast process) and improve forecasting accuracy by standardizing data collection and consolidation across the organization.
- Deploy rolling forecast concepts, which extend forecasting beyond year-end. This reduces the dependency on manufactured deadlines that are not aligned with a constantly changing marketplace.
- Shift the focus of the budgeting and forecasting process from data collection and reporting to target setting, analysis, and ongoing measurement.
- Break organizational silos by using the budgeting and forecasting function as a way to increase collaboration between finance and operations.
- Increase the organization's understanding of creating value through the budgeting and forecasting process and supporting it with a robust performance-management function.
- Consider developing or using a methodology that provides a flexible approach to changing business processes, technology and systems, organizational structure, and data.

By following these steps, an organization can use improvement of financial planning processes and activities to effect strategic change and better adapt to the constantly changing marketplace.

Methodology

PricewaterhouseCoopers (PwC) engaged IDC to research budgeting and forecasting practices currently employed by large, complex organizations with annual revenues greater than \$2 billion. The focus was to identify financial planning trends, issues, and opportunities for future improvement.

Two hundred web survey responses were received from companies in a cross-section of industries:

Industry	Number of responses
Financial services	75
Manufacturing	45
High-tech	14
Retail	13
Pharmaceutical	12
Transportation	11
Healthcare	10
Energy/chemicals	9
Communications	8
Business services	2
Utility	1

Respondents were “C-level” executives, vice presidents, or directors with deep knowledge of their company’s financial planning processes, systems, and structures.

In addition to the web survey, in-depth interviews with senior executives at four large organizations provided additional views on better practices and approaches for improvement. Three of the four were recruited from web survey responses.

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