“Integrated Business Planning the cornerstone of smart decisions”
INTEGRATED BUSINESS PLANNING
THE CORNERSTONE OF SMART DECISIONS

by Gary Simon

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INTRODUCTION

Despite the vast sums of money that have been invested in core financial processes, business planning and forecasting remains a significant challenge for many organisations.

Most willingly admit it takes too much management time but there are also strong doubts about accuracy. For example, 30% of companies say they can only predict costs to within 20% budget and the same businesses struggle to predict actual revenue within 22% of forecast.

At the heart of the problem lies a profound dislocation between financial plans and the operations of the business, so that business plans overall do not reflect what is happening on the ground and the organisation cannot respond quickly to changing market conditions. And in increasingly volatile markets which are exacerbated by fickle consumer behaviour, new technology-infused business models and an ever growing list of channels to market, the inability to respond at the ‘drop of a hat’ can be costly.

Companies are failing 30 times faster than they were 30 years ago and the ‘topple rate’ is at an all-time high. 15 years from now 75 percent of companies presently on the S&P500 will no longer be there.

Against this backcloth, business agility has become a major concern. Companies that cannot ‘connect all of the dots’ between their financial and operational plans, for example, sales demand planning, supply chain plans, product management, Human Capital planning - so called Integrated Business Planning (IBP) - are at a severe disadvantage.

By contrast, the rewards for organisations that get it right are high. The cost of finance as a percentage of revenue is 40% lower in top performing (top quartile) organisations, budgets are delivered 15 days faster than the average company and they spend 20% more time on analysis versus data gathering.

So, how can businesses transition to IBP and smarter decision-making?
WHAT EXACTLY IS INTEGRATED BUSINESS PLANNING (IBP)?

There is no precise definition of IBP but it might best be described as “the connection and synchronisation of various planning activities across the organisation in a way that clearly demonstrates bottom-up support for top-down financial plans.”

Historically, many organisations have built up their plans along functional lines – simply because that is the way that people are usually organised. But business processes do not respect functional boundaries. Take for example, the ‘Quote-to-Cash’ cycle. It embraces inventory management, the sales department, logistics and finance functions. The true costs of sourcing a product, delivering it to a customer and getting paid are driven by the process – not by functions. This means that plans in one area need to be consistent with plans in another if resources are to be allocated efficiently and setting a performance objective in one place does not have unforeseen consequences in another.

For example, a sales demand plan can only be executed efficiently if matched to supply and finance. An overambitious sales plan, which exceeds the ability of an organisation to supply or manufacture finished goods, may lead to excessive costs, as the organisation seeks to replenish stock from alternative suppliers or unplanned production runs. This, in turn, may deny other projects the working capital they need. Similarly, a revenue plan in a professional services organisation, such as a law firm, has to be consistent with an HR plan, in order to ensure that there are sufficient fee-earners available to produce the projected billable hours.

Integrated business planning recognises the pivotal importance of these interrelationships and more importantly the collaboration and the dialogue between all critical functions in the setting of an enterprise-wide plan.

This heightened level of collaboration promotes agility and smarter decision-making by explicitly making the link between operational business drivers and business performance. Synchronising financial and operational plans using the latest data for forecasts sales, marketing, financial and supply chain planning, improves confidence in revenue forecasts and closes the gap between planned outcomes and operational reality. And by extension, greater accuracy and speed allows organisations to respond faster to market changes and drive superior returns.

But none of the above comes easily. It is crucial to implement the appropriate enabling technology and re-set the business culture as well.

ENABLING TECHNOLOGY

The concept of IBP is not completely novel but has been beyond the reach of many organisations because of processing constraints and the limitations of earlier generations of software and systems which could not support an enterprise-wide environment. But with increasing computer power, for example, parallel processing, in-memory calculations, highly scalable databases and ever-more sophisticated calculation engines it is now feasible to build and maintain a centralised planning model for even the most demanding and granular business plans.

The availability of more advanced enabling technology has a number of advantages, namely;

• the ability to support high-levels of user-participation across all of the functional areas of the business
• the ability to create a number of different planning models and to seamlessly consolidate them in an holistic business model with consistent data and meta-data (i.e. structural information such as the organisational hierarchy, account structure, time periods), ensuring that all participants are using common data definitions and working from the same dataset.
• ensuring that all participants across the organisation have visibility of the plans and that these functional plans and forecasts are synchronised
• providing a platform for collaboration which supports workflow technology. This means that at every stage, relevant personnel can be alerted, key tasks can be tracked, actions prioritised and potential delays identified.

Cloud deployment takes these advantages to a new level. The cloud more easily enables businesses to share a single global instance of a planning model using a standardized method of data capture (eliminating the need for intermediate spreadsheets). It also allow users and capacity to be added on-demand.

No wonder that CPM vendors at the leading edge of developments such as BOARD, increasingly offer a choice of deployment methods so that the identical applications can be hosted on-premises, in a private cloud (hosted as a managed solution) or made available via a public cloud application shared by lots of different businesses.
CHANGING THE CULTURE OF PLANNING

Collaboration in business planning is far more than the sum of the parts. The true value of collaboration comes from harvesting the different perspectives, ideas, experience and know-how of functional experts from across the business. It’s a process of challenge and negotiation that adds considerably to the quality of the plans, since it represents the combined wisdom of all of the participants. But it often requires a considerable shift in attitude.

Technology can provide the connectivity on a physical level but it cannot force collaboration. According to a recent McKinsey study “In many companies, ownership of processes and information is fragmented and zealously guarded, roles are designed around parochial requirements, and the resulting internal complexity hinders sorely cross-business collaboration.”

So if IBP is to be successful it will almost certainly need to be accompanied by a shift in culture that encourages and rewards collaboration with the full and visible backing of senior management.

Summary

Increasing market volatility and consumer choice is exposing the frailty of historic methods of business planning. Organisations need to overcome functional boundaries and bring all strands of the planning effort together in order to fully understand the drivers of business performance and make smarter decision in response to market changes.

This requires modern enabling technology such as BOARD CPM that takes advantage of superior computing power, a unified planning environment, pronounced scalability and collaborative technologies to connect key stakeholders to each other and to the process. But organisations will also need to be mindful that IBP needs a cultural shift, so that people are incentivised to work across the entire planning process, end-to-end.

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