Planning and Budgeting
Driving value through the optimization of planning and budgeting processes

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Senior Manager, Deloitte

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Agenda

Planning & budgeting overview

Common challenges & drivers for optimization

Best practices and lessons learned from leading global organizations

Planning and budgeting technology

Case Study: Planning & budgeting optimization

Key takeaways

Q&A
Planning and budgeting processes integrate into an overall performance management framework that improves the quality and execution of decisions.

**Overview of planning and budgeting**

**INTERVENE and Realign**
Active intervention to realign the business

**MEASURE and Evaluate**
Run the business and monitor performance

**PLAN and Target**
Align the business to deliver the strategy

**Source:** Deloitte’s Integrated Performance Management, IPM™

Organizations allocate resources to programs and services through planning and budgeting processes; as a result, these are key business activities.
Finance professionals are beginning to realize that they can increase the value that they bring to their organizations by improving their planning and budgeting processes

- Organizations have been slow to improve the planning and budgeting process:
  
  - One major reason for this is that the benefits derived from improving these processes are less quantifiable than the benefits of improving other processes such as AP, AR or GL
  
  - Also, because planning and budgeting processes are so dispersed across the organization, it is often difficult to identify one person willing to step up and take ownership of their revamping

- Finance professionals are beginning to understand that in order to drive improvements in business performance, they need to take a more active role in projecting and evaluating future performance
Common Planning & budgeting challenges

1. “Planning is decoupled from our Strategy & Service strategy”

2. “Quality of plans is poor, we cannot effectively use them for managing the business”

3. “The figures are already outdated after we have completed our planning process”

4. “We spend too much time on planning – we do not have time for analysis”

5. “We have to revise our plans several times after discussions with our management”

6. “The planning process puts a great strain on the whole organization”
Organizations experience various shortfalls in their planning process which can be explained by common weaknesses

1. “Planning is decoupled from our strategy”
   - No strategic alignment and often contradicting strategic objectives
   - Strategy formulation and operative planning are separated processes
   - Insufficient communication between strategy and finance departments

2. “Quality of plans is poor, we cannot effectively use them for managing the business”
   - Planning does not sufficiently consider the world outside, plans are often extrapolated
   - Planning process is a calendar driven, purely annual financial exercise
   - Extensive sandbagging deflects plan from reality
   - Too much line item detail – not enough focus on key line items or KPIs

Strength of linkage between strategic planning & budgeting

- 25% No Link
- 40% Significant Link
- 35% Weak Link

Percentage of respondents

Source: Aberdeen Planning, Budgeting & Forecasting Survey 2008-2012 (cross-industry, 300 enterprises) / Deloitte Research
Organizations experience various shortfalls in their planning process which can be explained by common weaknesses.

3. “The figures are already outdated after we have completed our planning process”

- Planning cycle time is too long considering the industry dynamics
- Budgeting time horizons are often misaligned with business rhythm
- Limited ability to perform scenario analysis or business simulations

Average completion cycle time to publish final budget

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<th>Top..</th>
<th>Median</th>
<th>Bottom..</th>
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<tbody>
<tr>
<td>Cycle Time</td>
<td>42</td>
<td>80</td>
<td>120</td>
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</tbody>
</table>

Source: Aberdeen Planning, Budgeting & Forecasting Survey 2008-2012 (cross-industry, 300 enterprises) / Deloitte Research

4. “We spend too much time on planning – we do not have time for analysis”

- Insufficient guidance is provided early in the process
- Planning content is too detailed
- Inadequate capabilities supporting the process (limited tools “excel hell”)

Percent of time spent on analysis

<table>
<thead>
<tr>
<th></th>
<th>Percent of time spent on planning/forecasting analysis</th>
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<tbody>
<tr>
<td>Leading organizations</td>
<td>44%</td>
</tr>
<tr>
<td>Median performance</td>
<td>20%</td>
</tr>
</tbody>
</table>
Organizations experience various shortfalls in their planning process which can be explained by common weaknesses

5 “We have to revise our plans several times after discussions with our management”

- Too many budget revisions, updates and approval points
- Poorly coordinated review and approval processes
- Too cautious planning and sandbagging result in more frequent plan revisions

“We have to revise our plans several times after discussions with our management”

6 “The planning process puts a great strain on the whole organization”

- “Align the organization through planning” is often misinterpreted as “involve the whole organization in planning”
- Budgeting is resource intensive, time consuming and costly to prepare with little value once completed

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Number of budget versions produced before final approval

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<thead>
<tr>
<th></th>
<th>Top performers</th>
<th>Median</th>
<th>Bottom performers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of budget versions</td>
<td>3</td>
<td>4</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Aberdeen Planning, Budgeting & Forecasting Survey 2008-2012 (cross-industry, 300 enterprises) / Deloitte Research
Organizations focus on improving the efficiency and the accuracy of budgets while improving the agility to adapt as market / economic conditions change.

What are the pressures impacting the planning / budgeting process?

- To improve accuracy of the budget: 42%
- To improve agility to adapt as conditions change: 37%
- Provide cost control: 34%
- To reduce the time to prepare and finalize budgets: 34%
- Need to better align planning and budgeting with corporate goals: 29%
- Need for decision-makers to "buy in": 26%
- Need for increased visibility throughout the process: 18%

Note: The above represents a multiple select question hence the percentages may not add to 100 percent.

Source: Aberdeen Planning, Budgeting & Forecasting Survey 2008-2012 (cross-industry, 300 enterprises) / Deloitte Research
Organizations are most likely to combine a top-down and bottom-up approach to develop plans and budgets.

What is the planning and budgeting approach used by your organization?

- 18% A bottom-up approach
- 9% A top-down approach
- 73% A combination bottom-up/top-down approach

- A combined approach is preferable; the weakness of a single bottom-up lies in the potential for the budget not supporting the organization’s stated goals and financial targets.
- The weakness of a single top-down can be reflected in the lack of organizational buy-in in the budget process.

Financial Planning & Analysis

Start Planning Cycle

CFO and Executive Management

Top Down Executive Guidance and Direction

Create Service Plan (e.g., Vision, Mission, Strategic direction, priorities)

Define Financial and Operational Targets (e.g., Cost-to serve, ROI, ROA, etc.)

Analyze Consolidated Results (e.g., pro-forma financials, KPI’s, risk modeling)

Finalize Changes and Approve Budget (e.g., “tweek” budget; obtain commitment)

End Planning Cycle

Business Units

Push Targets Down to Actionable Level (e.g., Communicate targets, assess implications)

Validate Plans and Consolidate Results (e.g., verify Budget assumptions, check results for reasonableness)

Create Detailed Budget (e.g., driver based modeling, approval based workflow, scenario planning)

Source: Aberdeen Planning, Budgeting & Forecasting Survey 2008-2012 (cross-industry, 300 enterprises) / Deloitte Research
Target setting is the key to align strategy, build consensus on performance expectations, attain performance commitment and resolve conflicting priorities.

### Target setting process

#### Strategy process

- Target setting

#### Target setting process

1. **Preparation**
   - At the start, target aspirations are derived after planning assumptions have been fixed.

2. **Discussion / approval**
   - Targets are approved following a gap discussion and the definition of the target path.

3. **Communication**
   - Following the approval, targets are communicated to internal and external stakeholders.

4. **Cascading**
   - Finally, the communicated targets are fully cascaded within the organization.

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Sources: Deloitte, Best practices and lessons learned
Organizations combine different methodologies such as driver-based budgeting, zero-based budgeting and results-based budgeting to address planning challenges.

**What is the budgeting methodology most commonly used in your organization?**

- **Historical:**
  - Leading organizations: 43%
  - Median performance: 11%
- **Zero-based:**
  - Leading organizations: 58%
  - Median performance: 6%
- **Results-based:**
  - Leading organizations: 29%
  - Median performance: 20%
- **Driver-based:**
  - Leading organizations: 18%
  - Median performance: 16%

- **Most commonly used by public sector organizations:**
  - Leading organizations: 58%
  - Median performance: 20%

**Level of detail - Number of final budget line items**

- **Leading organizations:** 33
- **Median performance:** 431

**Best practices and lessons learned**

- In certain circumstances, multiple methodologies might come into play regardless of the industry.
- Many organizations will use historical data when preparing for the planning process regardless of the methodology they commonly use.
- Planning should be done where there is clear control and materiality for budget decisions.
- Line item detail should be substantially less than the financial accounts used to capture “actuals.”

Source: Aberdeen Planning, Budgeting & Forecasting Survey 2008-2012 (cross-industry, 300 enterprises) / Deloitte Research
Zero-based budgeting assumes that there has been no history and no presumptions on future performance.

**General overview**

- Conceptually clears the table of all current expenses and demands and builds the budget based on activities that have the highest priority.
- Useful when the economic or political climate places tremendous pressure on cost management.

**Key benefits**

- Provides an accurate review of the cost base bringing clarity and transparency.
- Detects inflated budgets and eliminates wasteful operations (evaluates budget requests from a zero base and supports a prioritization process).

- **Target for what you can afford**
  - List of everything you are supposed to be doing.
  - Portfolio is at Zero.
  - All expenses & projects conceptually on hold.

- **Target for what you can afford**
  - Investment A
  - Investment B
  - Investment C
  - Investment D

- **Target for what you can afford**
  - Mandatory

- An investment prioritization framework will support decision making to assess funding opportunities.
An investment prioritization framework will support decision making to assess funding opportunities

- **Do Now**: Prioritize resources towards these initiatives in the short term; these initiatives will drive high value at an acceptable level of risk.

- **Trade-Offs**: If there are resource constraints, these initiatives may be delayed in the short term, to allow completion of high priority projects.

- **Potential to Defer or Cancel**: These projects should be reassessed to determine whether they should be cancelled, delayed or if there is anything that can be done to lower their risk or increase their value.

**Best practices and lessons learned**
Driver-based budgeting involves the selection of drivers and costing data to predict future business performance

**General overview**

- Budgets are developed with model-based calculations using operational business drivers and standard costing data, where applicable.
- Each organization performs a driver analysis to determine the level of detail in which these drivers need to be managed.
- Effective KPI's enable communication of strategic goals into operations and then measure the effectiveness of operations at meeting those goals.

**Key benefits**

- Ability to see the cause and effect relationship between the defined drivers.
- If done correctly, performance can be predicted based on a limited number of key drivers reducing the level of detail.
A driver-based planning approach utilizes operational drivers and rates to predict performance and reduce detail

Operating cost drivers – Illustrative example

Standard logic for each cost element

Driver based approach is the preferred methodology but some cost component’s baselines can be determined using a Zero based approach

- There are certain areas where a zero based approach will be beneficial in order to establish a baseline
- There is value in applying zero based budgeting in certain areas such as Finance & HR to compliment the driver approach, in order to evaluate spending where there are no obvious drivers
Results-based budgeting analyses the relationship between program funding levels and expected results

General overview

• Results based budgeting is a way to allocate resources to achieve specific objectives based on program goals and measured results (the entire planning and budgeting framework is result oriented)

Key benefits

• Links funding to performance and expected results including rewards and penalties
• Emphasizes results and outcomes improving awareness of business performance

How are the results of performance measures generally used by spending ministries / departments?

- To set resource levels: 12%
- To extend programmes: 17%
- To cut back programmes: 12%
- To redistribute resources: 20%
- To manage programmes / agencies: 22%
- To provide information for policy development / advice: 17%
- Not used in decision making: 2%
Scenario modeling is used to evaluate strategies, challenge assumptions and analyze / rationalize the budget

General overview

- Involves the ability to adjust the budget or forecast based on different assumptions and drivers
- The key is to understand and bound the range of opportunities and threats the organization is facing, rather than planning for a specific event

Key benefits

- Allows the full breadth of uncertainty about the future to be captured in the business planning process
- Scenarios allow management to see the bottom line impact of different assumptions and drivers to make better decisions

How many scenarios or "what if"/ad-hoc type of forecasts are you required to provide during the course of a year?

Percentage of respondents

- 12+ scenarios per year: 17%
- 7-11 scenarios per year: 7%
- 4-6 scenarios per year: 29%
- 1-3 scenarios per year: 29%
- We do not provide ad-hoc scenarios: 18%

Source: Aberdeen Planning, Budgeting & Forecasting Survey 2008-2012 (cross-industry, 300 enterprises) / Deloitte Research
Rolling forecasting allows for more up-to-date information and enables faster decision-making around changing conditions

General overview

• An on-going rolling forecast process (12-18+ months) is conducted monthly or quarterly at the business unit level and consolidated at the corporate level. Rolling forecasts are developed using:
  - Key value drivers and performance measures
  - Top-down targets for key value drivers
  - Bottom-up input (quantitative and qualitative)
  - External data and information

Key benefits

• Provides better insight into the organization’s future financials and can serve as a tool for guiding business decisions around rate changes
• Enables faster and more informed decision-making
• Informs planning process

Rolling forecast vs. annual budget

Percentage of respondents that have implemented rolling forecast as a continuous planning tool

- 12 month rolling forecast: 7%
- 18 month rolling forecast: 13%
- Annual budget: 80%

Source: Aberdeen Planning, Budgeting & Forecasting Survey 2008-2012 (cross-industry, 300 enterprises) / Deloitte Research
Spreadsheets are the predominant tools used for budgeting, forecasting and reporting purposes

Technology enablers - Which of the following tools do you use in your process?

- Spreadsheets: 88%
- Workflow automation (either embedded or stand-alone): 72%
- Budgeting / Forecasting stand-alone application: 67%
- Budgeting and forecasting features of ERP: 48%
- Event Management: 30%

- Excel spreadsheets tend to be the input mechanism for the first and subsequent iterations of the budget process
- Event management tools and workflow automation technologies have been adopted by leading organizations to improve response to market changes and control of the budgeting process
- Leading organizations possess higher capabilities to perform in-depth analysis and reporting
- Multidimensional reporting provides the agility to view the organization from many perspectives; this allows for enhanced analysis and understanding of the effects of the decisions made at a summary level

Source: Aberdeen Planning, Budgeting & Forecasting Survey 2008-2012 (cross-industry, 300 enterprises) / Deloitte Research
Leading organizations are moving to advanced budgeting tools as part of an integrated performance management solution

Benefits of investing in performance management technology

<table>
<thead>
<tr>
<th>Manual Processes</th>
<th>Technology-Enabled Processes</th>
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</table>
| **Forms and templates** | • Manually generated forms/templates  
• Manual population of data  
• Inconsistent templates and data at different levels of the organization  
• Difference in results presented to different parties  
• Consolidation of multiple spreadsheets—time consuming and error-prone  
• Inconsistent level & quality of analysis  
• No transparency of assumptions  
• Basic spreadsheet reporting  
• Time consuming to produce  
• Impossible to track status—approach is to hope everyone submits on time  
• Limited security restriction for users—results in possible data vulnerabilities  
| **Data Gathering** | • Automated and scheduled pre-population of templates  
• Centralized database. All users work with the same data and templates  
• Integrated and driver-based planning and forecasting models  
• One version of the truth.  
| **Consolidation** | • Real-time automated consolidation  
| **Analysis** | • Facilitated scenario/sensitivity analysis  
• Planning data available to users as plan is developed  
| **Reporting** | • Advanced reporting and analytics within a multi-dimensional tool  
| **Workflow** | • Ability to monitor progress of plan/forecast development  
| **Security** | • Security features with customized access and functionality based on profile  

Planning and budgeting technology
### Community and Health Services, York Region, Ontario

**Reduce risk and improve budget cycle efficiencies**

#### Business issues
Between aggregating disparate data, parsing massive amounts of information and reconciling all accounts, the Department’s budgeting process was exceptionally cumbersome and extremely time-consuming.

#### Key pain points
- Department needed to pull together 19 separate massive Excel files (10 – 20 MB each)
- This size challenged the group’s technology systems and made it difficult to access applications and resulted in system crashes
- Formula errors and data entry mistakes prevented the Department from balancing its accounts

#### Scope and approach
The project team assessed the Department’s processes and recommended a solution designed to help the Department improve its long-term processes, enhance its budget reporting model and meet its evolving needs.

#### Key activities / deliverables
- Designed a new multiyear master budget model
- Designed new budgeting processes and implemented a new system
- Created multiple budget and forecast reports
- Automated expense allocations and assumptions

Automating the multiyear master budget model allowed the Department to improve data integrity and vastly accelerate the budgeting process.

#### Value created
- Improved data integrity and accelerated budgeting process
- Automated accurate and meaningful reports
- Information can be “sliced and diced” as required
- By freeing up staff time from manual reconciliations, the Department can now engage in more meaningful data analysis

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Source: Deloitte Case Studies

Community and Health Services, York Region

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The following actions and recommendations will help accelerate planning and budgeting process improvements

• **Combine a top-down, bottom-up approach** for planning and budgeting; **promote strong management support and accountability** at all levels

• Clearly **link strategy to planning and budgeting by defining a set of targets** that tackle the most significant performance drivers

• **Consider alternative methodologies** such as driver-based budgeting, zero-based budgeting and results-based budgeting for next budgeting cycle

• **Reduce the level of detail** where there is clear control and materiality for budget decisions

• **Implement an investment prioritization framework** to assess funding opportunities

• **Reforecast as market conditions change**; avoid relying on old data; **consider scenario modeling** to challenge assumptions and improve decision making

• **Consider advanced budgeting tools** as part of an integrated performance management solution to simplify the process, reduce errors, save time, enhance analysis and create accurate/meaningful reports
Questions & answers
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