Best practice in the budget and planning process

June 2017

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Top 10 reasons why budget and planning stakeholders hate the process

1. It takes too long!
2. Doesn’t help me run my business
3. It’s out of date before it’s even finished
4. Too much game playing
5. Too many iterations
6. Cast in stone although business conditions are always changing
7. It involves too many people
8. Includes allocations that I can’t control
9. By the time it’s done, I don’t even recognize my numbers
10. Doesn’t match the objectives to which I’m held accountable
**Common Challenges in Planning**

**Strategically disconnected**
- Most companies report either “no link” or a “weak link” between the strategy and budget processes...
- Whereas more than half reported that creating closer links between strategy and operations was one of their top two priorities.

**Slow**
- Completing an annual budget can take too many months (best practice is 28 days*)

**Expensive**
- Finance departments alone spend considerable corporate revenue on budget creation each year
- Yet less than 50% of the budget and forecasting process is spent on analysis, strategy development and target setting.

**Unreliable**
- Management and investors are routinely surprised by the variances between communicated expectations and results ...
- No wonder if you have a high prevalence and dependency on spreadsheets for example.

*APQC 2016 survey: Cycle time in days to complete the budget
What happens when the planning process is broken?

Functional plans out of sync with business strategy

Too much inventory – but never where or when it’s needed

Cash flow and/or working capital crisis

Poor customer service

Inability to respond to changes in the market and new sales opportunities

Lost sales resulting in missed revenue goals

Lack of financial insight to make effective decisions

Inaccurate financial projections leading to

- PROFIT WARNINGS
- INACCURATE INFORMATION TO INVESTORS
- INABILITY TO RAISE FUNDING
Every business is different and we do not propose or support a one size fits all solution to planning and budgeting

...there are common processes and principles that apply
**Our view on the framework for Integrated Business Planning in Practice**

“Put simply it’s about improving performance by integrating the business plans, budgets, and forecasts, across functions and business units.”

<table>
<thead>
<tr>
<th>Commercial Function</th>
<th>Finance Function</th>
<th>Operations Function</th>
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</table>
| **Strategic planning and target setting process** | • Three to five years time horizon with clear alignment to the business strategy  
• Includes non financial and relative metrics  
• Targets set with clear guidelines on how business units work to the targets | |
| **Budget process** | • Strategic, operational and financial plans are integrated  
• Driver based plan blended with bottom up  
• Integrated system used is focused on modelling and analysis | |
| **Forecast process** | • Forecasting is event driven and therefore by exception  
• Is summarised and rolling beyond the fiscal year for key account lines  
• Is integrated with monthly performance reporting | |
How do we work with our clients to improve their planning process?

- Start with aligning on the purpose, use and value of the budget process
- Reduce and remove complexity
- Standardisation of process and systems

So why do we Plan, Budget and Forecast?

- To control costs?
- To forecast revenue?
- To set targets for the bonuses?
- To adjust direction?
- To influence behavior?
- To drive action?
- To beat the competition?
- To create value more effectively?
Key characteristics of best practice processes

- Control the **number of budget iterations** developed
- **Reduce the number of budget line items**
- Flexibility modelling of **scenarios** based on differing business assumptions
- **Standardize budgeting methods** with the rest of the company and what senior management is expecting to see
- **The link to strategy needs to be clear and clearly linked**
- Base budgets on **business drivers**
- Align **incentives and rewards** to strategic objectives
- Link the annual planning process to **rolling forecasts** and **management reporting**
- Active **engagement of the business** in the budget process
  - Done by them and not to them, Controlled process and communication
- **People are key**
  - The right team – finance and business
  - Analytical capabilities
  - Big picture and the detail
And what about systems...?
Does this look familiar??

Expensive IT solution
## Why does effective planning need more than Excel??

<table>
<thead>
<tr>
<th>ONE version of the truth across ALL functions</th>
<th>Enabling trust and confidence in the data that informs business decision making</th>
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<tbody>
<tr>
<td>BIG data</td>
<td>Enabling accumulation and analysis of huge amounts of data from different sources (e.g. ERP(s), ePoS, customers, consumers, market analysts, suppliers ...)</td>
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<tr>
<td>SCENARIO planning</td>
<td>Enabling a fast and reliable data-based assessment of different options taking into account a variety of inputs</td>
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<td>FINANCIALAL evaluation</td>
<td>Enabling the collaboration between Finance, Commercial and Operations</td>
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<td>Enabling visibility of the “so what?”</td>
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<td>Powerful and automated REPORTING</td>
<td>Enabling transparency and accountability for performance</td>
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<td>Enabling management of performance (&quot;if it’s not tracked, it does not exist&quot;)</td>
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<tr>
<td>Governance and CONTROL</td>
<td>Enabling trust and confidence in the process and the data</td>
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<td>Enabling collaborative decision making with traceability of actions and results</td>
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<td>Real time access, anytime, ANYWHERE</td>
<td>Enabling mobility and visibility; engaging the decision makers, removing the need for taking decisions “offline” because data is not available there and then</td>
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Key characteristics of best practice systems

- **One system** and one method of input and analysis
- **One language**: common assumptions, input, terminology – making it as easy as possible
- **Single charts of accounts** and consistent costing methodology
- Ensure it is readable and **usable in the ERP** – to understand, measure and reforecast
- Single system **not requiring constant tailoring** – ‘interfaces’ are waste by their very nature
Thank you

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