BEST PRACTICES IN ENTERPRISE PLANNING

SEVEN PROVEN STEPS TO SUPERIOR BUSINESS EXECUTION

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THE NEXT LEVEL OF PERFORMANCE™

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PLAN TO PERFORM

Traditionally, companies have managed their performance by intently scrutinizing and analyzing past results. But that's no longer enough. You can't alter performance after it happens. You need the ability to plan before you perform. This is the value of enterprise planning.

Enterprise planning is based on the core principle that performance must be planned and continuously managed. Without a plan, a company's performance is vulnerable to unfolding events, buffeted by unforeseen factors, and lacking a predictability that investors demand. With well implemented best-practices enterprise planning, your information, analyses, and decisions are coordinated in rapid, continuous cycles, creating a smarter, more efficient organization. Ultimately, it provides the way for companies to adapt with greater flexibility and speed.

This white paper describes some of the leading best practices with respect to world-class enterprise planning.

> ***"While planning typically begins, and often ends, in the finance department… a far broader view says that planning needs to be a discipline embedded in every employee and department in an organization as a tool for measuring performance against the strategic objectives.… Look for the footprint to spread. First, it will go from finance to other parts of the organization and then outside to trading partners."***
>
> **— AMR Research,**
> **"The Multibillion-Dollar Enterprise Performance Planning Market,"**
> **16 August 2002**

BEST PRACTICE #1:

TAKE A WIDE VIEW OF ENTERPRISE PLANNING

For many business executives and management professionals, the evolving category of enterprise planning has—to date—largely been synonymous with budgeting and financial planning—that is, a more highly evolved manner and process of number-crunching.

That's an understandable starting point and frame of reference. After all, numerous first-generation applications have rightly earned acclaim for their ability to streamline financial planning and budgeting, garnering companies millions of dollars in reclaimed productivity and millions more in actionable strategic insights. Business planning has been viewed as a numeric exercise and, not surprisingly, has flourished first in financial departments.

However, while the value—the ROI—of these plans and processes is significant, measurable, and often quite rapid, this inherently limited view of enterprise planning restricts the company's ability to derive far greater, cross-enterprise value from every functional area of the organization. Properly and fully deployed, enterprise planning is about much more than mere financial planning or budgeting.

It implies cross-functional planning processes that break through the functional silos and touch all areas. Unfortunately, this can be difficult to achieve in environments where different departments using different assumptions, different business logic, and different tools can never feasibly collaborate or share information in a meaningful way.

For example, a retailer may have different IT systems for merchandising, store operations, and finance—all driven by different assumptions and data. In a consumer packaged goods manufacturer, the production department might use historical data for a demand forecast, but marketing managers are planning a promotional blitz that will skew demand, while sales managers know of key accounts that are closing stores in certain territories. Ideally, the company should have all of this information in one holistic view. That's much easier to achieve with a common, collaborative platform.

Enterprise planning must expand its scope and mission across the enterprise—from finance, marketing, and sales, to human resources, manufacturing and beyond. All functions of the business require planning and performance management—not just finance and budgeting.

BEST PRACTICE #2:

HIGH PARTICIPATION IS ESSENTIAL

Few employees relish the idea of planning and forecasting. It's an important strategic process, but for most participants, it's something they feel is largely unrelated to their primary job functions and responsibilities. As many businesses today seek flatter hierarchies to achieve a leaner, more efficient organization, enterprise planning needs to reflect and support this important development. Instead of the old-style command and control model—where a few people dictate goals, objectives, targets, and activities to the masses—enterprise planning engages a broader constituency and gathers input from a wide variety of contributors.

Traditionally, the planning process has been characterized by an insufferably long budgeting cycle: numbers are dictated from a central planning group and forecasts are padded by managers in an iterative fashion. Once that plan is complete, it's virtually fixed until the next cycle begins the following year. Whether that plan is relevant to subsequent business conditions or operations is often unclear.

By contrast, best-practice enterprise planning derives its very strengths—precision and speed—from the fact that it draws on the frequent insights and expertise of a wide swath of contributors. These people aren't necessarily planning professionals—they're the front-line employees, managers, and directors who are closest to the actual operating activities of the business. By asking them to participate in planning and forecasting, you can obtain their buy-in. Just as important, it's far easier to hold them accountable for their performance when they have a larger role in setting targets and objectives.

Instead of frenzied activity by a few people to create a monolithic annual plan, best practices center around smaller, but more frequent contributions from a broader sample of constituents. A few minutes each month from hundreds or thousands of contributors creates a far more granular, rolling business plan that offers greater accuracy and speed.

BEST PRACTICE #3:

DRIVER-BASED PERFORMANCE MANAGEMENT

Ideally, enterprise planning should close the loop and shrink any potential gap between plans and performance. Business leaders want to recognize when course-corrections are needed, and to understand the underlying causes as well.

Enterprise planning systems and processes can provide an unprecedented level of analysis, insight, and structure to the enterprise. But that information is only useful if it's presented in a format and timeframe that is actionable. Do you see key performance indicators in time to take corrective action? Do you spot trends in time to capitalize on opportunities? How long does that take? What is your time-to-performance?

One of the principal tenets of enterprise planning is that it must move out from professionals in the finance department to the broader management infrastructure across the enterprise—to marketing, sales, manufacturing, HR departments, and other professionals. However, to succeed, it's important to speak their language. That's where drivers enter the picture.

A driver is a simple measure or input to the business plan. When combined and calculated according to the right rules, drivers become predictors. An advertising manager can't accurately estimate what the overhead will be for benefits, phone, computer equipment, and travel expenses in his department. He doesn't work or think in those terms. But he can report that he's running four major print campaigns, that he's hiring a new copywriter, and that he expects to test a television commercial in certain markets. Those are the terms he uses—the major drivers for his group's contribution to performance—and that's what the business plan needs to reflect and request his input.

Driver-based business plans are easier for contributors because they predict actions and decisions, not abstract financial data. Drivers are directly and easily converted into accurate financial numbers by software. What's more, it's easier to change global assumptions through drivers and see the changes ripple across all affected areas. When assessing performance and results, you can see what happened to the assumptions. Perhaps the department didn't hire enough people or the sales team discounted too aggressively. You can identify and quickly correct operations and processes. By knowing the root causes—the drivers—companies can update their models and thereby prevent recurring problems later. Few models, of course, operate in a perpetually static mode—changes and modifications are the norm. This is the essence of enterprise planning.

BEST PRACTICE #4:

FOCUS ON EXECUTION

One of the strengths of robust enterprise planning solutions is the dramatic improvement they can bring to the organization's performance. Some Global 2000 enterprises have seen their planning and performance cycles shrink from 18 months to as little as two or three months. That means significant cost savings that easily reach into the millions of dollars.

What's more, faster cycles create new opportunities to identify and assess strategic alternatives for the organization—the better to manage performance. By spending less time on mechanical and clerical issues, companies can spend more time evaluating scenarios, performing what-if analyses, identifying the best choices for the company, and driving superior execution of strategies.

Trends in best practice

Here are some of the factors companies consider when taking a best-practice approach to planning and performance management.

	FROM	TO
Focus	Budget development	Value maximization
Timing	Annual plan	Rolling forecast
Process	Sequential	Simultaneous / continuous
Control environment	Top-down, information silos	Shared control, shared information
Collaboration	Fragmented	Open dialog, common assumptions
Accountability	Disputed	Clear, defined

But the best approach is to take enterprise planning even further—to focus on value-creating execution by identifying, understanding, and leveraging the key drivers of the business. For example, virtually every business watches its profitability carefully. When profit pressures arise, the natural reaction is to cut costs in order to achieve greater profitability. However, there may be unexplored options for easing profitability pressures that involve value creation, not merely slashing expenses. By examining and analyzing key business drivers, the reaction to profit pressure becomes more than an exercise in minimalization.

The key is to examine business execution—shifting the focus from business departments to business processes. Look at the activities that contribute to profitability—customer acquisition and retention, product innovation—and not on the traditional sales/marketing/manufacturing silos. It's also important to examine other inputs to the profitability model—demand creation, resources, deployment, quality metrics—but the ultimate goal is to identify and amplify the value-adding activities and eliminate or reduce non-value-adding activities.

The bottom line is—it's not always about the bottom line. "Making budgeting better," as many software providers do, is a great place to start, but a bad place to end. Instead, go further with enterprise planning to understand and align around new opportunities, react swiftly to threats with effective execution, and enable the entire organization to collaborate and synchronize execution and lead the business forward.

BEST PRACTICE #5:

REAL-TIME ALIGNMENT SUPPORTS ROLLING FORECASTS AND SMARTER PERFORMANCE

Even after rigorously following best practices for planning and goal-setting, things can go wrong. External disruptions and unplanned events—such as strikes, supplier recalls, or natural disasters—can shred even the best-crafted plans. Long-range plans—ones that have, say, a three-to-five-year horizon—might remain largely intact. But the short-term picture is reshaped dramatically.

Sales orders start to tail off. Hotel rooms aren't filling. What actions should you take? The key—knowing what the situation is. The problem for many enterprises lies in the delay between shifts in the business environment and the detection, measurement, and analysis of those shifts. It's impossible to solve a problem that you don't know exists. Command hierarchies inhibit that information from reaching the attention of decision-makers.

It might seem obvious, but it's essential to ensure the business plan is forward-focused. While it's relatively simple to create a business plan by reviewing historical data points and drawing a straight line into the future, that's merely "business-as-usual" planning. Not everything proceeds on this basis—and "straight-line planning" is often an abdication of management responsibility.

Key enablers of performance management are vigilance with leading indicators, and the incorporation of those latest drivers into revised forecasts. This reflects the nuances of your historical performance as well as macroeconomic conditions, future goals, and projected capabilities and capacities. You need the ability to realign in real-time by feeding current and expected future results to adapt the next forecast.

BEST PRACTICE #6:

SEPARATE TARGETS FROM FORECASTS

One of the mistakes that many enterprises make during the planning process is blurring the distinction between plans and targets. It's an easy line to cross, but it's essential to ensure that plans are grounded in realistic assessments and expectations, and not in the numbers that management and investors "want" to see.

The best way to keep plans and targets distinct and separate is to use best-in-class targets. These are not absolute numbers, but rather goals expressed as variables relative to market statistics, such as the performance of the market leader. The fact is, once a fixed number is declared a target, forecasts are often reverse-engineered to meet that number. By contrast, relative best-in-class targets are based on competitor performance and industry averages. For example, a company might want to set a target for accounts receivable as achieving a days-sales-outstanding figure within the upper quartile for its industry sector. With such benchmark-based targets, company performance moves in step with industry events and conditions.

In this paradigm, a thumbnail assessment of performance can be obtained by comparing results with the industry metrics—anything from market share, average selling price, gross margin, and quality metrics, to customer satisfaction, product profitability, cash flow, or regional sales growth. Relative targets give context and perspective—and fairness—to measurements and reports. If larger market forces or massive market disruptions move a target out of reach, it might not be appropriate to hold employees accountable. However, if the company outperforms its peer group—even when missing a fixed goal—it suggests that its performance is nevertheless acceptable. Perhaps most important, relative targets remove much of the emotion in obtaining consensus around goals.

BEST PRACTICE #7:

ENSURE TIMEFRAME-APPROPRIATE PLANNING

A properly structured, successful performance management cycle aligns all of the appropriate plan elements, performance contributors, and business cycles. What's more, the method used to derive a forecast is appropriate to and varies with the planning timeframe.

For example, when compiling a sales forecast, the revenue projections for the next three months might be event-driven, based on specific sales opportunities in the pipeline and their progress in the sales cycle. For three to 12 months out, the figures could be based on the number of trained sales personnel and their productivity rates. Beyond 12 months, the forecast might be derived from market growth rate assumptions.

Consider that a shipbuilder—with massive capital and infrastructure investments required to take facilities online and offline—might find that a 20-year planning horizon is appropriate. Or a pharmaceutical company might have a multi-year planning horizon that reflects the lengthy process of drug discovery, development, and clinical trial. By contrast, a brewery might use a planning cycle that aligns with hops growing seasons.

In each case above, the forecast is based on the most accurate and appropriate leading indicators available. So it is critical that your planning system has the flexibility to support different modeling techniques for the same variable, depending on the timeframe under consideration.

With optimal information, analysis, and insight, company management and performance becomes more a function of executive skill and less a function of information systems constraints.

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