Aberdeen Group
A Harte-Hanks Company

Financial Planning, Budgeting, and Forecasting in the New Economy

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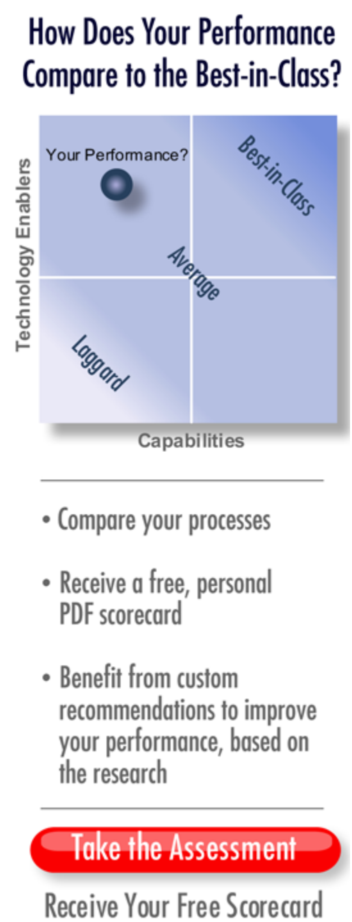
Nick Castellina, David Hatch

Executive Summary

A sound financial plan is the vehicle which clearly states strategic business objectives in financial terms. A well-prepared budget forms the foundation for decision-making throughout the fiscal year. However it is the forecast which allows the business to adjust future expectations based on recent actual performance. With a renewed focus on growth as a strategic goal, and alignment of strategy with corporate performance, companies that hope to achieve Best-in-Class status must be armed with tools that provide visibility and flexibility to strike a balance between aggressive plans for recovery and caution.

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations



Best-in-Class Performance

Aberdeen used five key performance criteria to distinguish Best-in-Class companies. These top performers are notable for achieving the following aggregate average results:

- 104% overall budget accuracy (ratio of actual performance to budget)
- 103% forecast accuracy
- 15% improvement in profitability year over year
- 96% **always or usually** finalize budget prior to the next fiscal year
- are 34% more likely than all respondents to streamline the process with key technology enablers

Competitive Maturity Assessment

Top performers in this study shared several common characteristics. The Best-in-Class:

- are 125% more likely to receive alerts triggered by external events and 121% more likely to receive them for internal events
- are 89% more likely to establish enterprise-wide collaboration across all departments / functions
- are 400% more likely to link compensation to budget performance for all employees

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Use technology to automate and assist in the budgeting process
- Have visibility into all factors and collaborate with all stakeholders
- Consider alternative scenarios and have the ability to change forecasts, plans, and budgets mid-stream

"We track past sales and take into account external factors and any new product launches we might have."

~ Jean Valcho, Service Inventory & S & OP Manager, Medrad

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Chapter One: Benchmarking the Best-in-Class

Business Context

In a survey of over 140 companies Aberdeen finds that market volatility continues to create challenges to financial planning, budgeting and forecasting in spite of signs of economic recovery. These signs of recovery are evident from the quarterly Aberdeen Business Review. In the latest quarterly survey (Q4 2010) we found 72% of respondents thought the economy had started to recover but when asked at what speed this would happen, 74% indicated that the recovery would be either slow or painfully slow. Combining these findings we can surmise that the road to recovery will be long and bumpy and optimism should be tempered with caution in planning, budgeting and forecasting.

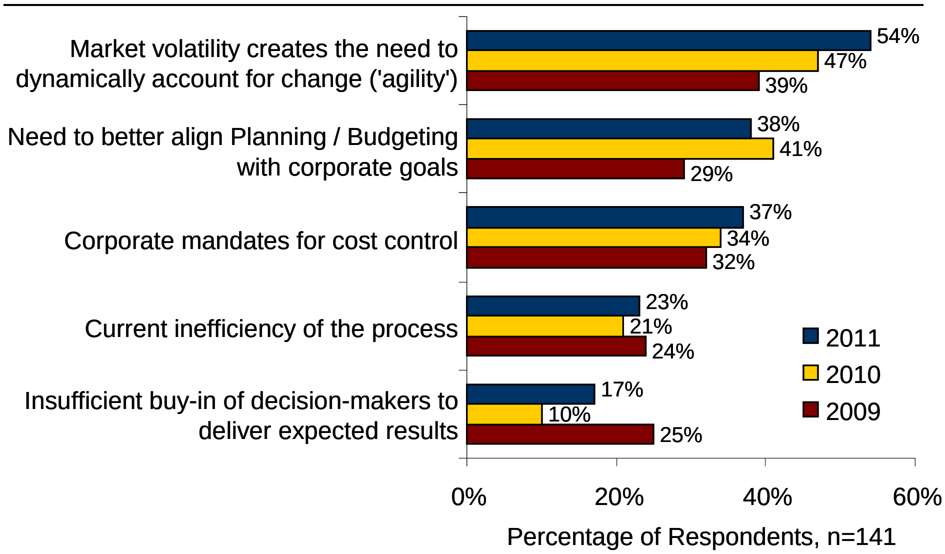
Since the first Aberdeen benchmark of financial planning, budgeting and forecasting in 2008, each of the three subsequent annual surveys has seen a rise in concern over market volatility, with this being the top pressure for the third year in a row with the spread widening between the first and second-most selected pressures (Figure 1).

Fast Facts

√ Best-in-Class achieve 104% overall budget accuracy and 103% forecast accuracy. In comparison, all others achieve 92% overall budget accuracy and 89% forecast accuracy.

√ Best-in-Class are 34% more likely than all others to enable the budgeting process with technology

Figure 1: Leading Pressures



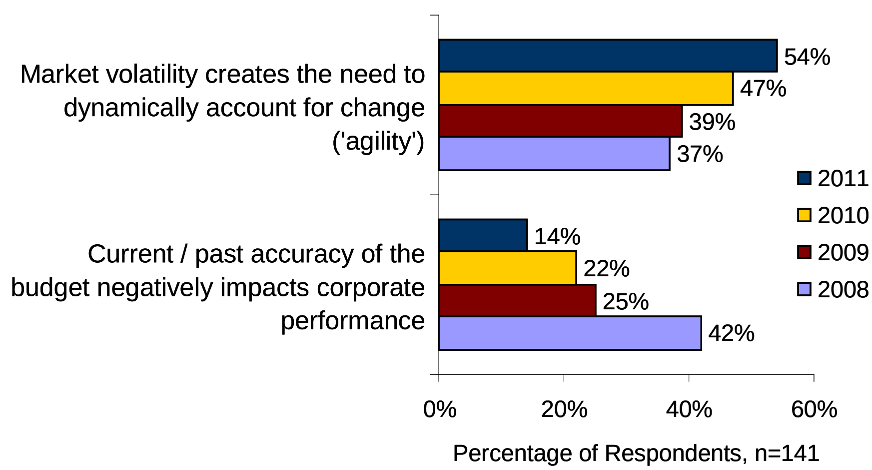
Source: Aberdeen Group, February 2011

A secondary pressure that emerged as dominant in 2010 was the need to better align planning and budgeting with corporate goals. Strengthening the link between planning and strategic objectives can provide a potential competitive edge to business leaders beyond budgeting and reporting. Indeed, in the case of the majority of top performing companies (64%), strategy drives the budget. But for 45% of all others (Industry Average and Laggard companies combined), budget drives strategy or budget and strategy are entirely independent, indicating either a perception of lack of value in planning or an absence of a well-defined strategy.

Cost controls have remained a significant driver of the financial planning and budgeting process throughout the past four years and have only intensified again this year. Efficiency of the process rounds out the top four pressures in spite of the fact that it typically happens only once a year. Yet it also happens at a time when the urgency of closing out a fiscal year is most intense. There is risk in focusing all the attention on the present at the expense of careful planning for the future.

While Aberdeen found that budget accuracy was of paramount importance in 2008, the demand for accuracy plummeted in 2009 and actual performance against accuracy declined along with it. This trend continued in 2010 and in our most recent survey, there was a decided lack of recognition of or emphasis on the negative impact of current or past budget inaccuracy. Just as market volatility steadily rose year after year, concern over the accuracy of the budget declined progressively (Figure 2).

Figure 2: Changing Pressures



Source: Aberdeen Group, February 2011

For three years, accuracy of results correlated directly with this trend. As emphasis on accuracy declined, so did precision, and the revenue budget took the worst hit. However, rising market volatility was likely as much to blame and it is therefore not fair to attribute this decline to a lack of attention. This is evidenced by the increasing willingness to change budgets with proper justification (see sidebar at right). Yet even as the pressure of market volatility continued to rise this year, we finally saw a rebound in accuracy (Figure 3). We have seen the increased need for agility as market conditions change, yet if these changes are not reflected in the budget throughout the year, improved forecast accuracy will not result in improved budget accuracy. Since 2008, Aberdeen has noted an increase in the percentage of companies willing to revise the budget with proper

Definitions

For the purposes of clarity and consistency, Aberdeen defines the following terms as such:

√ **Financial planning** is the process by which a business documents and communicates its strategic objectives in financial terms. A financial planning exercise typically contains detailed plans and budgets, as well as analysis to show how the objectives are to be realized.

√ **Budgeting** is (typically) an annual process that often starts with the prior year's actual performance data, and includes the creation of detailed budgets showing expected future performance at a top-line and detailed level across the entire organization.

√ **Forecasting** is a process by which businesses adjust future expectations based on recent actual performance resulting in production of an updated forecast document. This can (but does not typically) include adjustments to the budget. Forecasting, re-forecasting, or "rolling-forecasting" can occur multiple times during a budget period, and can span time from one fiscal period to the next.

Willing to change the budget with proper justification

√ 38% in 2008

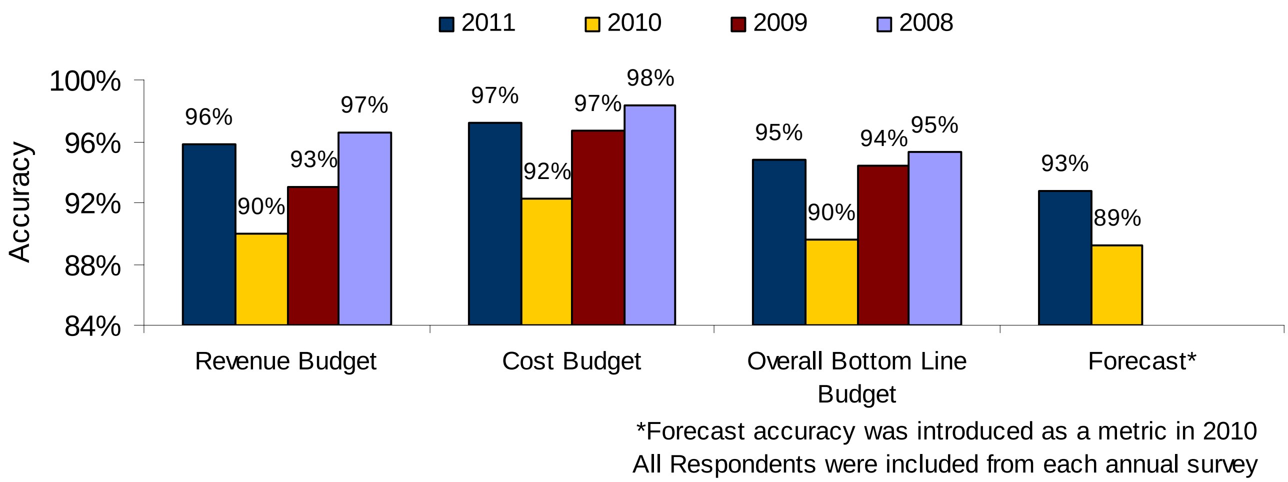
√ 44% in 2009

√ 44% in 2010

√ 55% in 2011

justification from 38% to 55%. Each year an additional 20% to 22% also indicated budgets were occasionally changed, but that occurrence was extremely rare. This leaves the percentage of those who never revised budgets dwindling from 62% to 25%.

Figure 3: Changing Results: 2011 Reverses a Trend



Source: Aberdeen Group, February 2011

The Maturity Class Framework

Aberdeen used five key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations (Table 1). The choice of metrics was based on indicators that measure performance in financial planning, budgeting, and forecasting and an increased emphasis on "process" and automation that will be detailed further on in this chapter.

Overall budget accuracy reflects the ratio of actual revenue and cost (bottom line) to budget, with 100% accuracy as the ideal. A budget which is 100% accurate is reflective of either an accurate prediction of revenue and costs, or good controls in place to manage against budget, or both. Because of the continued emphasis on the ability to respond to changing market conditions Aberdeen also includes forecast accuracy in its Best-in-Class criteria, reflecting the rising importance placed on agility.

Accuracy is tempered with improvement and / or preservation of profitability. While achieving budget and forecast accuracy is viewed as important, it cannot come at the expense of good business.

An organization's ability to finalize the budget prior to the beginning of the new fiscal period is indicative of the performance of the financial planning and budgeting process. The use of automation to assist in the planning process leads to an efficiency that is very hard to achieve only with manual processes and the ubiquitous spreadsheet.

"The biggest thing that we have found is the importance of having an integrated system. It is also important to look at intangible assets when budgeting and planning."

~ Aaron Wade, Manager of Transformational Projects, NAV Canada

Table 1: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	▪ 104% overall budget accuracy (ratio of actual performance to budget) ▪ 103% forecast accuracy ▪ 15% **improvement** in profitability year over year ▪ 46% **always** finalize the budget prior to new fiscal period ▪ 34% more likely than All Respondents to enable the budgeting process with technology
Industry Average: Middle 50% of aggregate performance scorers	▪ 95% overall budget accuracy (ratio of actual performance to budget) ▪ 94% forecast accuracy ▪ 13% **improvement** in profitability year over year ▪ 33% **always** finalize the budget prior to new fiscal period ▪ 4% more likely than All Respondents to enable the budgeting process with technology
Laggard: Bottom 30% of aggregate performance scorers	▪ 82% overall budget accuracy (ratio of actual performance to budget) ▪ 74% forecast accuracy ▪ 3% **improvement** in profitability year over year ▪ 12% **always** finalize the budget prior to new fiscal period ▪ 31% **less** likely than All Respondents to enable the budgeting process with technology

Source: Aberdeen Group, February 2011

The Best-in-Class PACE Model

Effective planning, budgeting and forecasting to define and achieve corporate goals requires a combination of strategic actions, organizational capabilities, and enabling technologies that are summarized in Table 2.

Table 2: The Best-in-Class PACE Framework

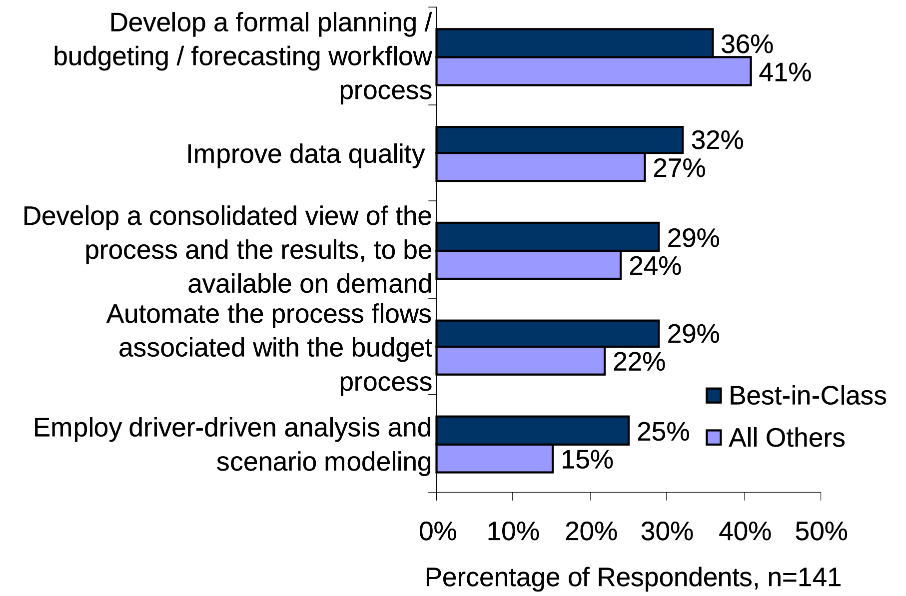
Pressures	Actions	Capabilities	Enablers
▪ Market volatility creates the need to dynamically account for change ("agility")	▪ Develop a budget / forecasting workflow process ▪ Improve data quality	▪ Ability to re-forecast as market conditions change ▪ Ability to track actual performance vs. budget/forecasting ▪ Capability to perform "what if" scenarios and change analysis ▪ Managers accountable for the budget accuracy are involved in the planning and budgeting process	▪ Budgeting/forecasting applications ▪ Financial reporting and consolidation ▪ Enterprise Resource Planning ▪ Enterprise performance management application ▪ Query and reporting tools ▪ Dashboards and scorecard capabilities ▪ Enterprise BI platforms ▪ Workflow automation tools ▪ Event Management

Source: Aberdeen Group, February 2011

Best-in-Class Strategies

The development of formal planning, budgeting, and forecasting processes is the highest priority strategy in response to the pressures discussed previously. While today Best-in-Class companies are differentiated in being 27% more likely than all other companies (the combination of Industry Average and Laggards) to have formal planning and budgeting processes and 36% more likely to have formal processes for forecasting in place (tactical capabilities that are discussed in detail in Chapter Two of this report), developing these processes is no longer a dominant strategic action for Best-in-Class companies (Figure 4).

Figure 4: Leading Strategic Actions



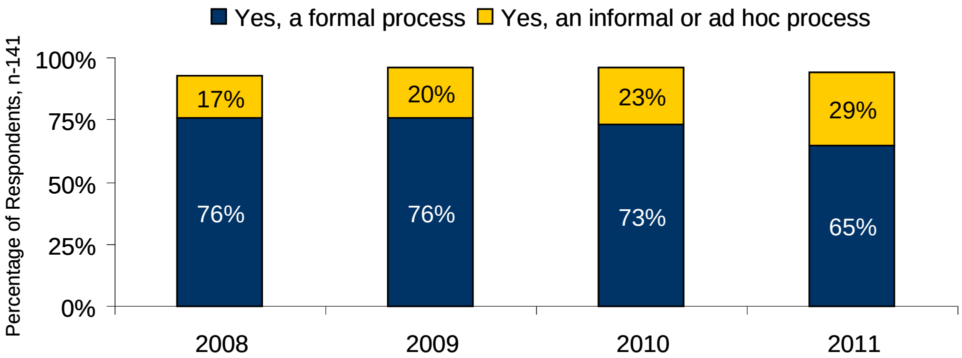
Source: Aberdeen Group, February 2011

Fast Facts

- √ 79% of the Best-in-Class have a formal process defined for planning and budgeting in 2011, whereas in 2008, 91% of the Best-in-Class had such processes defined
- √ 64% of the Best-in-Class have a formal process defined for forecasting (similar data is not available from 2008)

Overall, respondents are actually less likely to have formal processes defined and in place than they were back in 2008, before the financial crisis and the beginning of the economic turbulence (Figure 5). It appears a bit of chaos was introduced into the overall planning and forecasting processes as economic conditions rapidly deteriorated, with knee jerk reactions more likely. Today as we see signs of recovery and growth on the horizon, emphasis on these formal processes is reemerging but has not yet been implemented.

Figure 5: Planning and Budgeting Process Defined



Source: Aberdeen Group, February 2011

Performance Based Budgeting

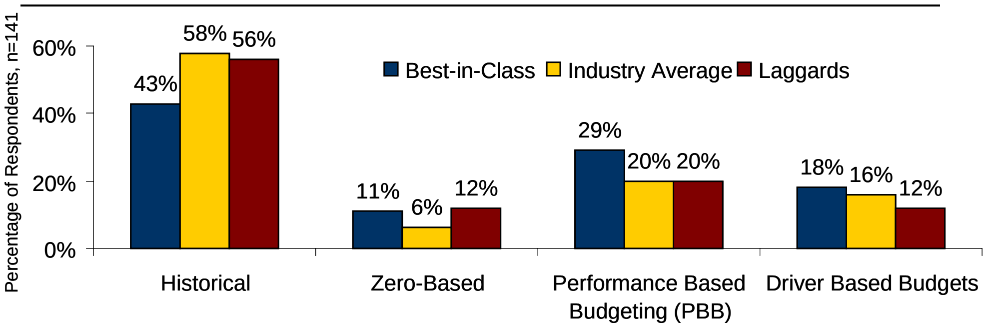
Performance based budgets are driven by expected changes to the business for which performance metrics have been established. These can include new initiatives that will produce accretive results, or can be related to expected growth in resources, for example, the addition of significant new sales resources, product lines, etc.

We also see a renewed emphasis placed on improving data quality. Whether the plan and budget is historically-based or performance-based, the quality of the input to the process can significantly impact the quality of the output. Historically-based budgets are mostly dependent on reporting of prior budgets and performance against those budgets. Performance-based budgets include other performance metrics (such as forecasted growth from new sales channels, or acquisitions, for example) aside from general performance against a budget. Year over year comparisons show that the Best-in-Class have shifted their focus to concentrate more on the overall health and profitability of the business rather than managing rigorously against a fixed budget. This year, the Best-in-Class are 25% less likely to simply base budgets on historical data, while 29% employ Performance Based Budgeting (PBB) and 18% take a driver-based approach (Figure 6). These methodologies help shift the focus away from the rear-view mirror in order to concentrate on the road ahead but all are based on having good quality data as input.

Driver Based Budgeting

Using a driver based budgeting process will involve the selection of one or more basic drivers of the business upon which the budget is based. For example, for a hospital, the budget may be largely driven by the insurance rates that the government mandates. As the rates fluctuate, the budget for staff, supplies, facility costs, etc. must be adjusted accordingly.

Figure 6: Budget Methodology Used



Source: Aberdeen Group, February 2011

Zero Based Budgeting

Zero-based budgeting assumes that there has been no history, and no presumptions on future performance. This approach is used, typically, in conjunction with external auditing / consulting services to establish a baseline commonly associated with industry norms and performance expectations.

Success is also contingent on having visibility and ensuring that all are operating from the same page, hence the emphasis on providing a consolidated view of the process as well as the results. Automation of the process not only boosts efficiency, but also helps insure that standards, methodology and proper review cycles happen as planned. This automation is essential in analyzing driver based scenarios and providing "what if" analysis.

Aberdeen Insights — Strategy

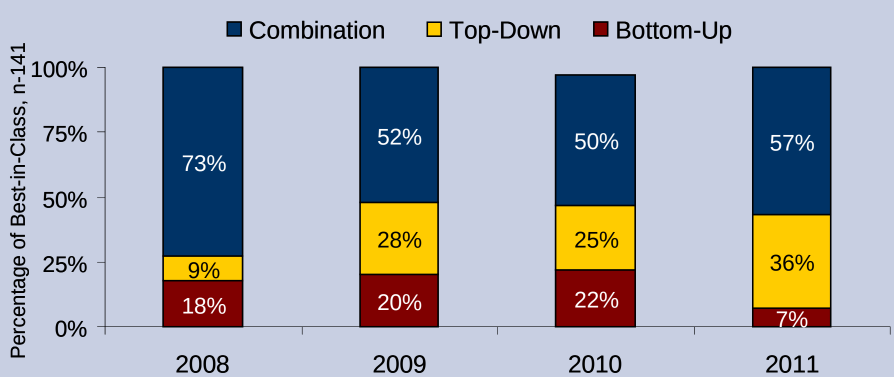
Strategically any company can either take a top-down or bottom-up approach to planning and budgeting, or a combination of the two. Using a top-down approach, the most senior levels of management define the goals and objectives of the organization, which then drive the planning process and the guidelines for budgeting. The advantage of a top-down approach is that it is the best way to ensure that the highest level goals of the enterprise are addressed throughout the plan. Conversely the weakness of this approach lies in the potential for lack of organizational buy-in and risk in plan feasibility due to lack of grass-roots knowledge.

A bottom-up approach involves more of the organization in determining a budget. A budget is typically created based on the collection and analysis of actual performance data, and a calculation of the proposed budget from each department. This process is then rolled-up to the group, division or business unit level and finally to the corporate or enterprise level. The strength of this approach lies in the participation throughout the organization, creating a confidence level in the ability to deliver against the budget and a level of buy-in and involvement that a top-down approach can't deliver. The weakness lies in the potential that the budget may not support the company's stated goals and financial targets. Commonly, a bottom-up approach starts with inflated assumptions from department-level participants who are accustomed to senior management cutting requests due to misalignment with company goals.

A combination of these two approaches takes the best of both and addresses the downside of each. The companies Aberdeen has determined to be Best-in-Class have consistently been more likely to employ this combination of top-down and bottom-up approach. While a more complicated process to manage, when it is adequately supported through defined processes and appropriate levels of automation, is quite effective in linking the performance of all levels (department, group, division, business unit) to a company's strategic vision while assuring a level of confidence and buy-in that makes it truly achievable.

However, while 73% of the Best-in-Class took this approach back in 2008, we saw many revert to more of a top-down approach in 2009 and 2010. This coincided with the financial crisis and the sharp economic downturn which resulted in many companies reining in control and taking more command from the top. In one sense this trend continues in 2011 with the percentage of Best-in-Class using a top-down approach increasing year over year by 44% while those using a bottom-up approach decreased from 22% to 7%. Yet with early signs of economic recovery underway, we are also again seeing a rebound in those which choose the combination of both.

Figure 7: Approach to Planning and Budgeting



Source: Aberdeen Group, February 2011

In the next chapter, we will see what the top performers are doing to achieve these gains.

Chapter Two: Benchmarking Requirements for Success

In the recovery from the economic events of the past few years, businesses are attempting to do everything they can to make sure the unexpected financial stresses of the past are more easily predicted and mitigated. Accurate planning allows organizations to prevent mistakes, react properly, and make informed decisions aligned with corporate objectives. Effective financial planning, budgeting, and forecasting involve a combination of strategic business capabilities and technologies.

Fast Facts

√ The Best-in-Class take 2.2 months to complete the budget cycle, while all others take 2.7 months

√ The Best-in-Class are 76% more likely than all other companies to hold managers accountable for budget accuracy for all levels throughout the organization

Case Study — United States Bank Holding Company

Take for example, the story of one of the largest bank holding companies in the United States. The institution operates in almost 400 US locations, with presence in five mid-western states. The company prides itself on innovation from being among the first banks in the United States to implement a 24-hour transfer department. Since its founding over 150 years ago, the company has provided a diversified group of financial products to their customers.

The company's Chief Information Officer was tasked with implementing and supporting the tools that assisted the company in its financial planning, budgeting, and forecasting processes. He supported the budgeting process, helped to consolidate information, and worked with analysts to understand the relevant data involved. As such, he was keenly aware of the problems that the company was facing in these processes, as well as the corrective actions and capabilities that were being put into place. He saw that the biggest pressures that the company was facing were the volatile state of the economy, an increased emphasis on cutting costs, mandates for revenue and income growth, and collaborative requirements across the enterprise. He also noticed that the banking industry faced a unique problem in financial planning, budgeting, and forecasting in that it stressed the focus on the average daily balance of the company's finances rather than their monthly closings on the books. These pressures made accurate up-to-date information necessary. Employees were using different, conflicting data and needed "one version of the truth." Additionally, data was difficult for decision makers to find and use. Finally, he knew that for any change to take place at his company, he would need full executive support. In response to these challenges, the company enacted a series of strategic actions, implemented a group of capabilities, and deployed technology solutions in order to meet their goals.

continued

Case Study — United States Bank Holding Company

The first thing that the company did was to encourage collaboration. Analysts now have a much closer relationship with business unit managers. The analysts helped these managers identify areas of savings and improvement. Furthermore, the company wanted all employees to feel as if they are a part of the planning process. While much of the administrative staff did not receive incentives based on budget, there were still a "number of incentives available based on actual performance." The company implemented standard processes across the enterprise. Most importantly, the top-level executives supported the new changes and actively took part in the improvement initiatives. He says, "The key with this type of process is that there has to be top-level buy-in, otherwise you're trying to push a boulder uphill." With these executives' collective approval, the company implemented corporate performance management software to assist in their financial planning and budgeting processes.

The main objective for the CIO when selecting this solution was to work with a vendor that understands the unique requirements of the banking industry. They needed a platform that could be used across the enterprise in order to help drive standards. This enabled the company to use the software both vertically and horizontally, across the entire enterprise. Solution adoption was quick by both the executive committee and staff members. He states, "We have had several benefits that are directly attributable to our software suite. First, we have been able to shorten our entire budgeting process by over a month. Second, managers have more access to their numbers, and because of this, it has been much easier to get management participation, since they can see the information that they are interested in. In addition, when we implemented the system we also enforced changes throughout the company to use it as the source for hierarchical information. This one version of the truth has produced big benefits in terms of standardizing numbers that were presented to the executives." These benefits have aided the company in the decision-making process, and have enabled it to use resources more effectively, make strategic investments, and possess a thorough view of their organization's progress. By implementing these improved processes and technology, the company has positioned itself favorably towards future success in the current economy.

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the procedures adopted for constructing and managing the planning, budgeting and forecasting activities); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing data and exposing it to key stakeholders); (4) **technology** (the selection of the appropriate tools and the effective deployment of those tools); and (5) **performance management** (the ability of the organization to measure its results to improve its business). These characteristics (identified in Table 3) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Table 3: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Ability to perform "what if" scenarios and change analysis		
	59%	51%	24%
	Ability to re-forecast as market conditions change		
	82%	57%	32%
Organization	Established enterprise-wide collaboration from the top down and bottom up		
	75%	48%	37%
	Established enterprise-wide collaboration across departments / divisions		
	70%	35%	39%
	Managers are accountable for budget accuracy at all levels throughout the organization		
	86%	51%	45%
Knowledge	Able to drill down to successive levels of detail from summaries		
	70%	60%	35%
	Finalized goals and budgets are clearly communicated to those who are held accountable		
	93%	74%	59%
Technology	Participants in the planning / budgeting / forecasting process are automatically guided through steps		
	39%	30%	18%
	External events (i.e. industry or financial indices) can trigger an alert to adjust forecasts		
	36%	16%	15%
	Internal events (i.e. contract fluctuations, missed schedules, lost orders) can trigger an alert to adjust forecasts		
	75%	38%	26%
Performance	Able to track actual performance against budget		
	96%	88%	63%
	Ability to integrate and align sales forecasts with overall business revenue and cost forecasts		
	62%	57%	43%

Source: Aberdeen Group, February 2011

Capabilities and Enablers

Based on the findings of the Competitive Framework and interviews with end users, Aberdeen analyzed how Best-in-Class companies leverage a range of solutions and strategies across the scope of process, organization, knowledge management, technology, and performance monitoring to enhance financial planning, budgeting, and forecasting activities. By learning how these leaders execute these strategies to produce business capabilities, other organizations can expect to achieve similar success.

"We used to forecast based on subjective ideas, now we are forecasting on objective data. We are using better tools for processes that were done on spreadsheets in the past."

~ Ben Sommerville, Chief Operating Officer, Phoenix Logistics

Process

Since market volatility continues to be a top pressure driving businesses to improve their financial planning, budgeting and forecasting processes, it is not surprising to see an emphasis on having the ability to re-forecast as market conditions change. External factors that influence certain types of businesses such as housing statistics, interest rates, consumer spending indexes and more can greatly alter the feasibility of attaining goals that the company has set for itself. By being able to react to changing conditions, businesses ensure that the forecasts that decision makers rely on do not become unrealistic as the year goes on. This capability helps to avoid surprises, as evidenced by the Best-in-Class being 67% more likely than all others to achieve it.

As noted above, surprises that can potentially affect the attainability of financial plans, budgets, and forecasts are rarely appreciated. It is important for businesses to be prepared for all occurrences. One of the top five strategic actions that businesses are taking in response is to employ driver-driven analysis and scenario modeling. Part of this scenario modeling includes the capability to perform "what if" scenarios and change analysis. By knowing the effects of certain events going in, top performing companies can model the consequences of both positive and negative changes to support decision making in operational expenditures and resources. Plans become more informed because they take into account, and can anticipate the impact of potential events.

Organization

The finance department is not the only function that should be involved in the financial planning, budgeting, and forecasting process. All facets of the business including everything from operations, sales, and marketing to human resources need to be a part of the process because each has a unique and different view and influence over the factors that need to be considered in effective planning. Collaboration leads to improved performance. The Best-in-Class are 89% more likely than all others to establish enterprise-wide collaborative planning, budgeting and forecasting across departments and divisions. Having all stakeholders work together ensures both buy-in among these employees and accuracy. As an extension of this, 75% of the Best-in-Class are establishing collaboration from both the top down and the bottom up. This ensures that those at the top are informed and those at the bottom have influence over the direction of the company and its ability to achieve stated goals.

There is a greater chance of improved performance when managers are held accountable for budget accuracy at all levels throughout the organization. The Best-in-Class are 76% more likely than all others to achieve this. When their bonuses or even their jobs are on the line, managers are much more likely to ensure that their budgets are as accurate as possible. Of course, some will have more influence over the budget than others, as noted in Chapter One in the discussion of top-down or bottom-up approaches to budgeting. However, this provides more ammunition in making the case for a combination of both approaches. Involvement makes participants in the process more active, educated, and enthusiastic. The Best-in-Class are five-times more likely than all others to link compensation to budget goal achievement for all employees. Conversely, 40% of the Laggards are only linking this compensation for senior management in relation to 19% of the Best-in-Class. The increased accuracy of these budgets and forecasts allow everyone with decision-making power to arrive at better informed decisions.

What levels are held accountable for budget accuracy?

- √ 81% Senior Management
- √ 69% Mid to Senior Management
- √ 39% Line level managers / people responsible for delivering against budget
- √ 5% No one, not reviewed until the following year

Knowledge Management

If compensation and/or job security of managers is dependent on budget accuracy, it is important for finalized goals and budgets to be clearly communicated to those who are held accountable. It is difficult to work in an environment where goals are unclear and having a finalized budget allows managers to know what they are working toward and enables them to identify and enact steps to success. Clear communication of goals means managers know what is expected of them and perform accordingly. Ninety-three percent (93%) of the Best-in-Class have identified and implemented this as a top capability as opposed to only 59% of the Laggards.

"It is important to keep a track on everybody in the process, all of the people that are responsible for performance."

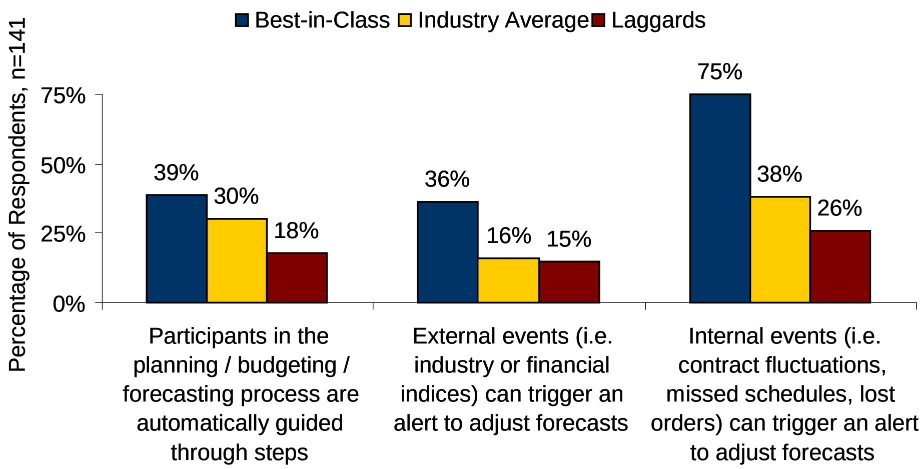
~ Denis Archambault, Vice President of Business Development, Decimal

As these managers are held accountable for accuracy it is important for them to be able to access the most pertinent information as easily as possible. The Best-in-Class are 40% more likely than all others to be able to drill down to successive levels of detail from summaries. Having general overall visibility armed with the ability to dive further into the data facilitates the execution of strategy. The best possible decisions can only be made with the most accurate data. When managers have this data at their fingertips they can react in the timeliest manner.

Technology

Automation and technology play significant factors in facilitating the financial planning, budgeting and forecasting processes. The technology capabilities most applicable in assisting in the process are illustrated in Figure 8. Although only 36% of Best-in-Class companies enable participants in the planning, budgeting, and forecasting processes to be automatically guided through steps, they are still differentiating themselves from the other maturity classes and gaining from the benefits. By automating this process, it ensures that important aspects of the decision are not skipped over accidentally. Employees are guided through the process emulating best practices.

Figure 8: Technology and Automation



Source: Aberdeen Group, February 2011

It is important to consider all factors when forecasting in order to make the most informed decisions. The Best-in-Class are more likely to automatically receive alerts based on internal and/or external events triggering an adjustment of their forecasts. These external events could be industry or financial indices and the internal events consist of factors such as missed schedules or changes in contracts. Alerts allow decision makers to adapt and adjust, ensuring that there are fewer surprises. Of particular note are alerts triggered by internal events. While notification about external events largely involves unstructured data that must be captured via the Internet, social media or subscribed services, internal events can often be detected through the structured data available through enterprise applications and internal data warehouses. The Best-in-Class are 2.2 times as likely as all others to receive these alerts.

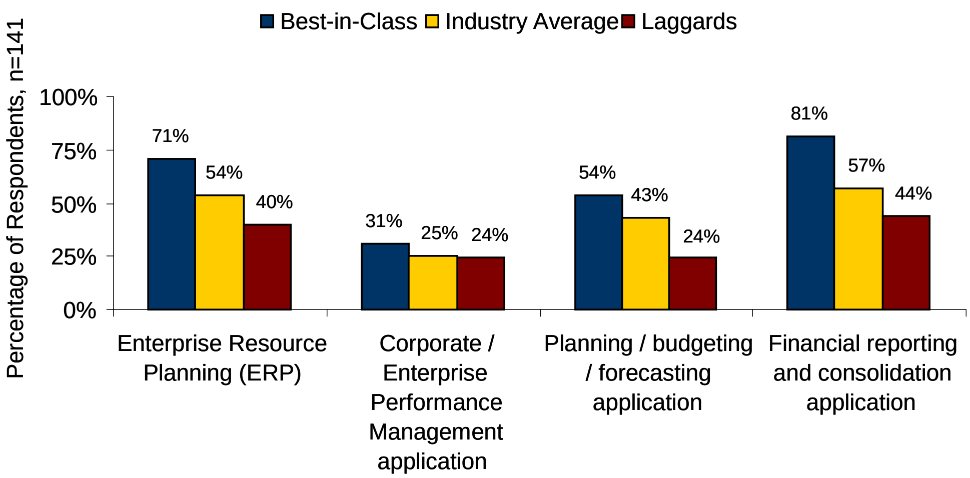
Throughout the financial planning, budgeting and forecasting process, businesses are implementing a group of enterprise applications to assist them (Figure 9). Enterprise Resource Planning (ERP) and financial reporting and consolidation applications lead the list across all maturity classes. These applications provide visibility into the process and ensure accurate data to assist in decision making. Some businesses are employing enterprise performance management applications for the same reason. Finally, there are applications dedicated to planning, budgeting, and forecasting that the Best-in-Class are differentiating themselves with by being 50% more likely to implement than all others.

"Be careful of running your business against your budget. A budget can sometimes limit your spending, and can be counter to your business aspirations."

~ IPM Transformation Lead, Large, multi-national, food and beverage corporation

Telephone: 617 854 5200
Fax: 617 723 7897

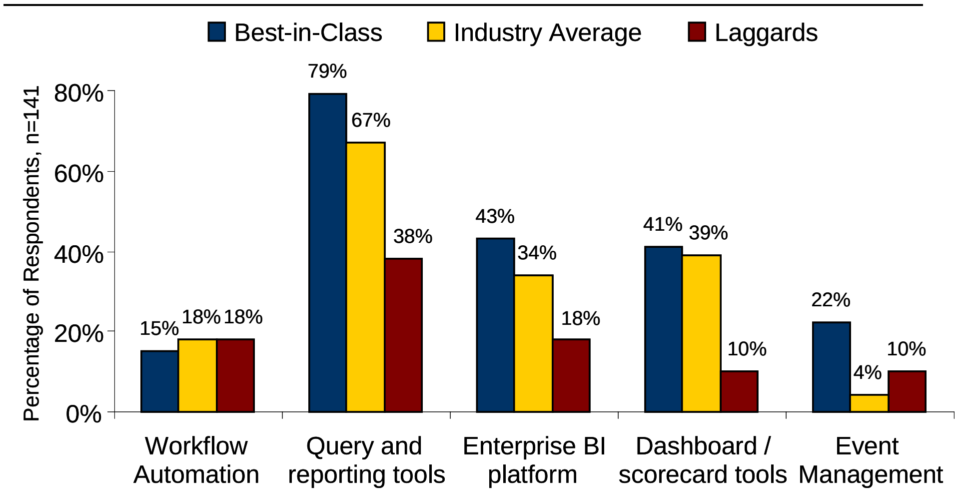
Figure 9: Enterprise Applications Used in the Process



Source: Aberdeen Group, February 2011

Lastly, there are the specific enablers that differentiate the Best-in-Class. Most popular are query and reporting tools. Additionally, many companies have implemented an enterprise Business Intelligence (BI) platform and dashboard and scorecard tools.

Figure 10: Technology Enablers Differentiate Best-in-Class



Source: Aberdeen Group, February 2011

"Budgeting should have both control and strategic objectives. It should be thinking about financial dynamics that are sometimes difficult or impossible to measure. For example if I spend money on advertising does that improve short term terms and also perception and image."

~ Ron Moore, President, MTG

While the adoption of event management (facilitating the triggering and escalation of alerts when certain conditions exist or activities occur or fail to occur) is by no means new technology, its adoption is still nascent. The Best-in-Class have differentiated themselves in this aspect as they are more than twice as likely as all others to implement this technology.

Telephone: 617 854 5200
Fax: 617 723 7897

Performance Management

To make more attainable and strategic business decisions, managers need accurate and relevant information. They need to be able to determine how to accelerate or build on success, as well as how and when to correct course. This is why the ability to track performance against budget is so important to all maturity classes. In this spirit, the Best-in-Class are 47% more likely than all others to integrate and align sales forecasts with overall business revenue and cost forecasts. This further validates the need to have visibility into all factors in the financial planning, budgeting, and forecasting process. This visibility aids in the ability to re-forecast, which increases the validity of forecasts and enables better decision making. The frequency with which companies are updating their forecasts can be viewed in the sidebar. The Best-in-Class are 79% more likely than all others to update their forecasts on a monthly basis. All other companies are more likely to adjust their forecasts on a quarterly basis, while the Best-in-Class are 35% more likely to believe that the frequency with which they update their forecasts is sufficient.

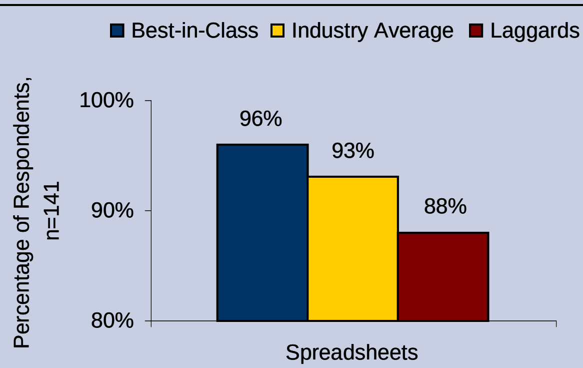
With what frequency does your company update its forecast?

- √ 37% Quarterly
- √ 28% Monthly
- √ 14% On demand
- √ 6% Semi-annually
- √ 4% Weekly
- √ 1% Never
- √ 14% Other

Aberdeen Insights — Technology

Spreadsheets continue to be a popular tool used in financial planning, budgeting, and forecasting processes. Employees are comfortable with spreadsheets because many of them use them in both their professional and personal lives. This familiarity makes it unsurprising that all maturity classes are employing them in some aspect of their financial planning process. This reliance may stay the norm for the foreseeable future and spreadsheets are likely to continue to be an integral part of the planning process.

Figure 11: Spreadsheets: A Pervasive Underpinning



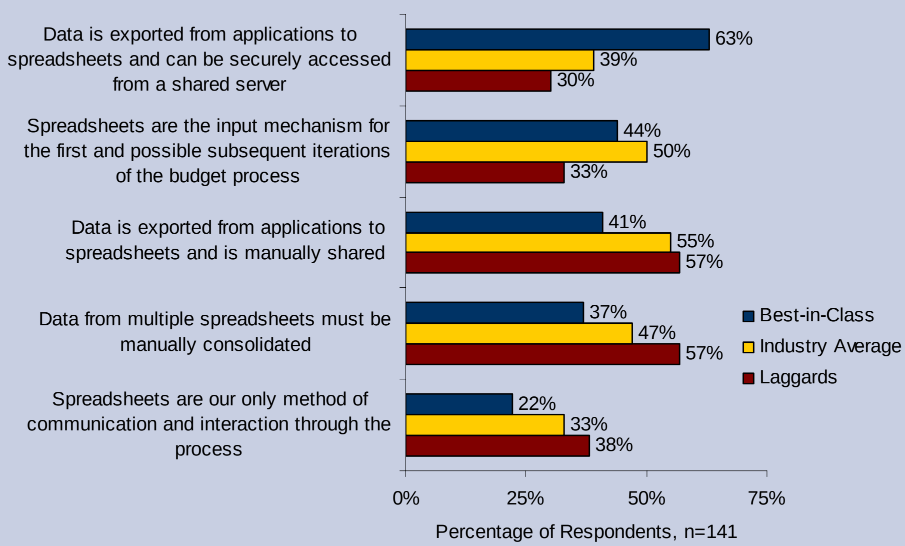
Source: Aberdeen Group, February 2011

continued

Aberdeen Insights — Technology

Yet while the Best-in-Class are even more likely to use spreadsheets, they are less reliant on them as the sole means of communication and interaction, preferring to combine them with the use of applications. Being a repository of exported data is in fact the leading role spreadsheets play in top performing companies. As the methods in which spreadsheets are used become more manual, the Best-in-Class and the Laggards switch rankings. Of the Best-in-Class companies that only use spreadsheets for the process, 50% are businesses with under $50 million in revenue. In Laggard companies, spreadsheets can sometimes be the only method of communication and interaction through the process. They are often also wasting time manually consolidating spreadsheets. This also puts them at risk of having incorrect data. When using spreadsheets for financial planning, budgeting, and forecasting, the Best-in-Class have discovered that data needs to be accurate, secure, and easy to use which avoids the pitfall of extra work and inaccuracy.

Figure 12: The Role of Spreadsheets



Source: Aberdeen Group, February 2011

Chapter Three:
Required Actions

Whether a company is trying to move its performance in financial planning, budgeting, and forecasting from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements:

Laggard Steps to Success

- **Do not rely on spreadsheets as the sole means of communication and interaction.** While spreadsheets are a popular and easy to use tool, they need to be combined with the use of other applications. Too many Laggard companies are using spreadsheets for their only method of communication. They are taking these spreadsheets offline and manually consolidating and sharing them which risks inaccuracy. While 96% of the Best-in-Class are using spreadsheets, they are 110% more likely than Laggards to export them from other applications that are securely accessed from a shared server.
- **Increase the frequency with which forecasts are updated.** More frequent re-forecasts improve validity and aid in more informed decision making. The leading frequency of forecast updates for the Best-in-Class is 43% for monthly. Laggards are most likely to re-forecast on a quarterly basis (33%). Three months is a long time in today's constantly changing business world. By increasing the frequency of updating forecasts, Laggards can better challenge their better performing competitors.
- **Link the achievement of budget goals to achievement for all employees.** When compensation is on the line, employees are much more likely to take an active part in ensuring that budgets and forecasts are accurate and performance improves to that level. Currently, 40% of Laggards only link compensation for senior management. The Best-in-Class are four-times as likely to link compensation to budget goal achievement for all employees.

Industry Average Steps to Success

- **Use technology to receive alerts triggered by internal events.** These events can be detected from internal data stored in other applications. These internal events can have a major effect on the feasibility of budgets and forecasts and need to be considered. Receiving these alerts automatically ensures that decision makers are aware of these events and able to consider them going forward. Better reaction times help lead to better adjustments. The Best-in-Class are 97% more likely than the Industry Average to be receiving alerts about internal events.

Fast Facts

√ The Best-in-Class are 89% more likely have established enterprise-wide collaboration across departments / divisions

√ Top performing companies are 37% more likely to clearly communicate finalized goals and budgets to those that are held accountable

√ The Best-in-Class are 67% more likely to have the ability to re-forecast as market conditions change

- **Perform "what-if" scenarios and change analysis before finalizing plans.** Certain factors can have huge implications on plans meaning they must be considered to make informed budgets and forecasts. Top performing companies are 44% more likely than all others to know the effects of events going into their planning which aids in decision making regarding expenditures. This level of preparation can make a big difference in the success of the business.
- **Establish enterprise-wide collaboration from the top-down and bottom-up as well as across departments.** All stakeholders should be involved in the financial planning, budgeting, and forecasting process. Since all parts of the company are involved in actually delivering against plans, their viewpoint and influence needs to be considered. Collaboration leads to improved performance because lower level employees often have visibility into factors that executives and managers do not. Collaboration ensures buy-in and accuracy. Fifty-seven percent (57%) of the Best-in-Class are using a combination of a top-down and bottom-up approach in their budget processes.

Best-in-Class Steps to Success

- **Use technology enablers to receive alerts triggered by external events.** Various external events depending on the business' industry become a factor in decision making. Being informed by alerts ensures fewer surprises and aids in adaptation. Technology allows decision makers to be informed of these events automatically whether they come from internet sites, social media, or subscribed services.
- **Use technology to be automatically guided through steps of the financial planning, budgeting, and forecasting process.** In response to increased competition and as plans become more complicated, it is easy for decision makers to miss crucial steps in their processes. By having employees be guided through these steps automatically, best practices are ensured to be followed. Currently, only 36 of the Best-in-Class have implemented this capability. Still, this is a stark improvement on the performance of all others as the Best-in-Class are 50% more likely to implement this capability.
- **Align sales forecasts with overall business revenue and cost forecasts.** It is important to consider all factors when thinking strategically. Alignment between sales forecasts ensures that everyone has the same goals in mind and are not working towards totally different expectations. Since the achievement of sales forecasts has an effect on the need to consider costs and impacts future revenue, alignment is essential. Aberdeen feels that in this market the 62% of the Best-in-Class that are implementing this alignment is not sufficient.

Aberdeen Insights — Summary

Although we are starting to see recovery from the recent economic crisis, market volatility is still a major factor influencing businesses to improve their financial planning, budgeting, and forecasting processes. Amidst the current inefficiency of the process and corporate mandates for costs control, businesses are realizing that they need to better align planning and budgeting with corporate goals. They are aided in this by formalizing processes, improving data quality and visibility, and automation. Through a combination of process, organizational, knowledge management, and performance management capabilities, managers have the opportunity to improve their planning processes. Additionally, technology allows businesses to automate these processes, insuring accuracy.

The keys to effective financial planning, budgeting, and forecasting are embodied by a Best-in-Class approach to careful consideration of all factors, adaptive planning, and collaboration. Improved financial planning, budgeting, and forecasting processes will aid businesses in making better and more strategic decisions.

Telephone: 617 854 5200
Fax: 617 723 7897

Appendix A:
Research Methodology

Between January and February 2011, Aberdeen examined the use, the experiences, and the intentions of more than 140 companies performing financial planning, budgeting, and forecasting in a diverse set of industries. The online survey was supplemented with interviews with select survey respondents, gathering additional information on financial planning, budgeting, and forecasting strategies, experiences, and results.

Responding enterprises included the following:

- *Job title:* he research sample included respondents with the following job titles: C-Level (22%), EVP / SVP / VP /GM (24%), Director (12%), Manager (25%), Staff (9%) and other (9%).
- *Department / function:* The research sample included respondents from all departments and functions including finance / administration (23%), IT (18%), corporate management (14%), business development (12%), and operations (11%).
- *Industry:* The research sample included respondents from a wide range of industries lead by financial services (10%), IT consulting and services (15%), software (14%), wholesale / distribution (6%) and consumer packaged goods (5%).
- *Geography:* The majority of respondents (64%) were from North America. Remaining respondents were from the Asia-Pacific region (14%), South America (3%) and Europe, Middle East, and Africa (19%).
- *Company size:* Twenty-five percent (25%) of respondents were from large enterprises (annual revenues above US $1 billion); 30% were from midsize enterprises (annual revenues between $50 million and $1 billion); and 45% of respondents were from small businesses (annual revenues of $50 million or less).
- *Headcount:* Twenty-nine percent (38%) of respondents were from large enterprises (headcount greater than 1,000 employees); 38% were from midsize enterprises (headcount between 100 and 999 employees); and 24% of respondents were from small businesses (headcount between 1 and 99 employees).

Study Focus

Responding executives completed an online survey that included questions designed to determine the following:

√ The degree to which the planning, budgeting, and forecasting process is formalized and automated

√ Current and planned use of technology

√ The ability to perform "what if" scenarios

√ The ability to track actual performance against budget / forecasting, complete with dimensional reporting and appropriate drill-down to detail

√ The level of collaboration and coordination during the planning and budgeting process

√ The factors involved in and the frequency of re-forecasts

The study aimed to identify emerging best practices for managing the budget cycle, forecasting, and financial planning and to provide a framework for corporate executives can assess the financial planning and budgeting

Table 4: The PACE Framework Key

Overview
Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows: **Pressures —** external forces that impact an organization's market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive) **Actions —** the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy) **Capabilities —** the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing) **Enablers —** the key functionality of technology solutions required to support the organization's enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)

Source: Aberdeen Group, February 2011

Table 5: The Competitive Framework Key

Overview	
The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance: **Best-in-Class (20%) —** Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance. **Industry Average (50%) —** Practices that represent the average or norm, and result in average industry performance. **Laggards (30%) —** Practices that are significantly behind the average of the industry, and result in below average performance.	In the following categories: **Process —** What is the scope of process standardization? What is the efficiency and effectiveness of this process? **Organization —** How is your company currently organized to manage and optimize this particular process? **Knowledge —** What visibility do you have into key data and intelligence required to manage this process? **Technology —** What level of automation have you used to support this process? How is this automation integrated and aligned? **Performance —** What do you measure? How frequently? What's your actual performance?

Source: Aberdeen Group, February 2011

Table 6: The Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.

Source: Aberdeen Group, February 2011

Appendix B:
Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- *Effective GRC Management: Positioning Your Company for Growth* December 2010
- *Achieving Corporate Objectives: Benchmarking and Improving Your Business Performance*; September 2010
- *How Best-in-Class Plan, Budget and Forecast in Today's Dynamic World*; July 2010
- *Financial Planning, Budgeting, and Forecasting: Achieving Agility and Adaptability in the SME*; December 2009
- *SMBs Improve Financial Planning, Budgeting and Forecasting with Technology*; February 2009
- *Financial Planning, Budgeting, and Forecasting: Managing in Uncertain Economic Times;* January 2009
- *Operational KPIs and Performance Management*; August 2008
- *Financial Planning and Budgeting: Lessons Learned from the Big Guys*; May 2008

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

Authors: Nick Castellina, Research Associate, Enterprise Applications, (nick.castellina@aberdeen.com); David Hatch, Senior Vice President, Strategy and Solutions, Technology Market Solutions, (david.hatch@aberdeen.com)