

Enabling More Accurate Forecasting through Agile EPM

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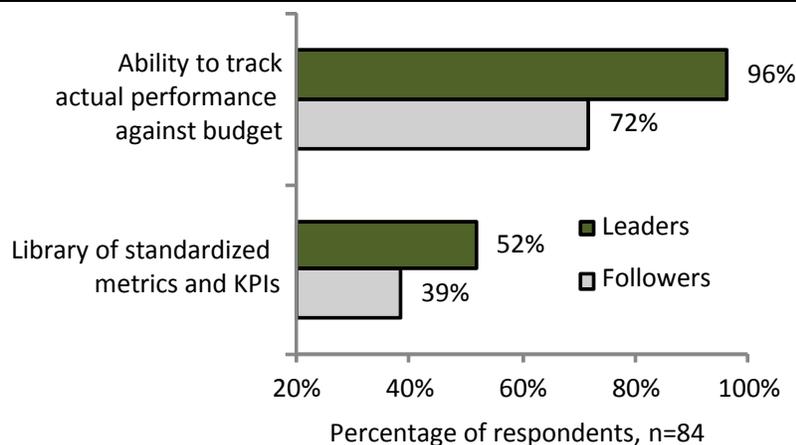
Enabling More Accurate Forecasting through Agile EPM

Aberdeen's *Culture, Collaboration and Coordination: Driving High Performance with EPM* illustrated the ways in which top performing organizations drive a performance management culture. They emphasize the importance of scrutinizing prior performance, through software such as Enterprise Performance Management (EPM), so that they can make more informed decisions going forward. Driving down the time it takes to analyze available data and makes decisions is especially important in today's business environment (see sidebar). This Analyst Insight finds that organizations with the most agile approach to planning (Leaders — defined in the sidebar on page 2) are 44% more accurate than other organizations (Followers) in the accuracy of their financial forecasts. It also reviews some of the capabilities that help Leaders attain that level of performance.

Towards More Agile Business Analysis

In order to determine the organizations that are most successful at agile business planning, Aberdeen rated survey takers on three Key Performance Indicators (KPIs, see Page 2 sidebar). Combined, these KPIs differentiate organizations that can make quicker planning decisions and communicate them throughout the organization rapidly to enable corrective action. But technology in itself is never enough to produce top-class performance. Other capabilities are necessary to drive performance improvements. For example, as Figure 1 shows, almost all Leaders are more likely to continually scrutinize performance.

Figure 1: Leaders Scrutinize Performance Diligently



Source: Aberdeen Group, December 2012

Analyst Insight

Aberdeen's Insights provide the analyst's perspective on the research as drawn from an aggregated view of research surveys, interviews, and data analysis.

The Need for Agility

Forty-three percent (43%) of respondents in Aberdeen's *Financial Planning, Budgeting, and Forecasting: Removing the Hurdles* selected "market volatility creates the need to dynamically account for change" as their top business pressure. In this context, EPM solutions can inform forecasts, analyze the success of business processes and initiatives, and determine business strategies.

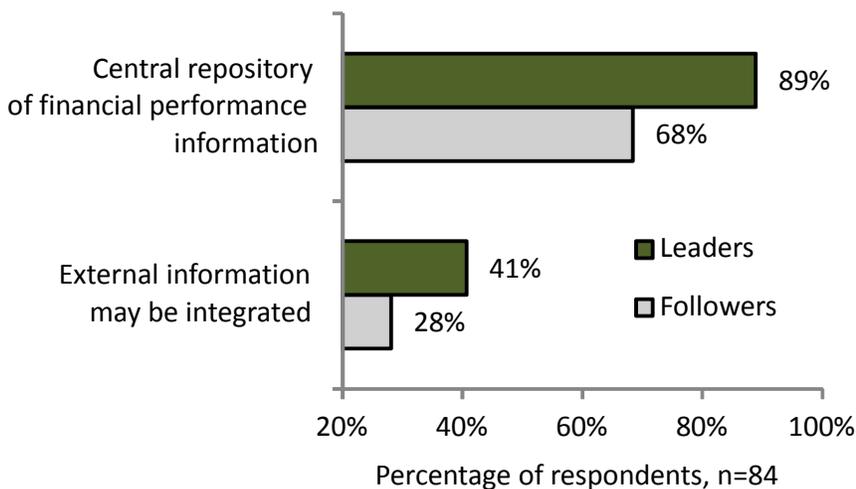
This allows them to continually assess variances from where they think they should be and alter plans or processes in order to correct course. Almost all Leaders have the ability to track their actual performance against budgets compared to 72% of Followers. In this way, a project manager can identify certain employees or teams that continually exceed their cost budgets, for example. Timely intervention can correct the situation, stabilize profit margins, and bring actual costs back into line with budget.

Of course, in order to manage performance effectively, decision-makers need to understand which performance metrics are the most relevant, and where they can find performance data. As such, Leaders are a third more likely than Followers to have a library of standardized metrics and KPIs that they can draw on. This is essential for organizations to continually and diligently monitor the right performance metrics. Not only that, but standardized metrics are at the root of meaningful comparison across divisions or different business units. For example, if one division uses the “first-in, first-out” (FIFO) method to value its inventory, while another adopts the “last-in, first-out” (LIFO) method, then cost of goods sold will be recorded differently. Ultimately, this will ripple through to different gross margin calculations.

Leaders have Superior Access to Information

When it comes to financial planning, 89% of Leaders also have a central repository of financial performance data (Figure 2).

Figure 2: Complete and Easy Access to Information



Source: Aberdeen Group, December 2012

Not only does this central database facilitate consistent performance reporting, but it also allows reforecasting and planning to be as quick and painless as possible when necessary. It should also be noted that Leaders are 46% more likely than Followers to integrate external information into their

Leaders Defined

Aberdeen measured the performance of organizations using corporate performance management (CPM) or EPM software. Based on data collected from 84 organizations in December 2012, the top performing 35% of companies (Leaders) were segmented from Followers (bottom performing 65%) using the criteria below. The relative performance of Leaders and Followers is also shown:

- ✓ **Frequency of financial plan updates:**
Leaders — 44 days,
Followers — 75 days
- ✓ **The amount of time it takes to propagate changes to the plan:**
Leaders — 74 hours,
Followers — 448 hours
- ✓ **Year-year change in planning cycle time:**
Leaders — 5% shorter,
Followers — 5% longer

Fast Facts

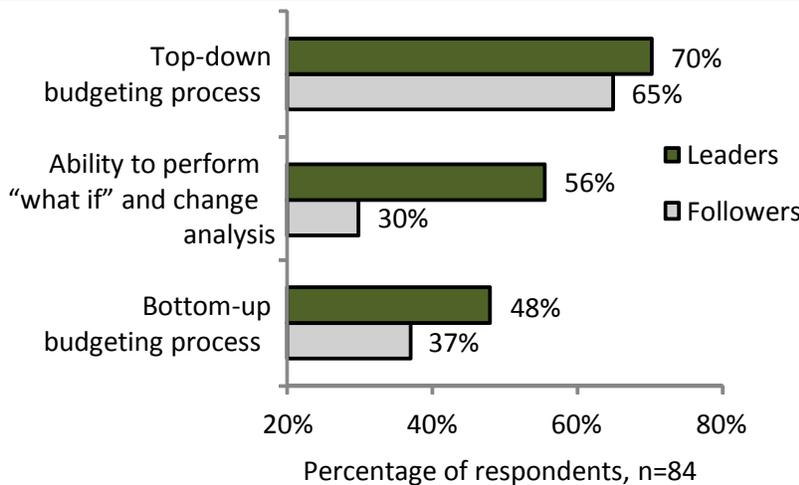
- ✓ Leaders grew organic sales by 22% over the last 2 years.
- ✓ Followers grew organic sales by 18% over the last 2 years.

EPM solution. External data can allow these organizations to collaborate more closely with other entities in its supply chain, or benchmark itself against peers, for example. Case in point: An organization will have to alter its sales forecasts if it knows that its suppliers are not able to provide enough materials to meet demand. Or, if the cost of parts is going to increase, budgets will need to be adjusted. With performance data in a central repository, all stakeholders can have access to relevant and accurate data to make decisions. Integrating external data, such as availability and cost data from suppliers, directly into a central repository can accelerate the availability of this information. Overall, increased access leads to increased utilization, along with the organization getting a greater return on its EPM investment.

A More Flexible Approach to Planning and Budgeting

Agility in performance management demands more than just careful scrutiny of performance data; it also demands flexibility (Figure 3).

Figure 3: Leaders are more Flexible in Their Approach



Source: Aberdeen Group, December 2012

Leading organizations are 87% more likely than Followers to have the ability to perform "what if" scenarios and change analysis. This means that they can mix and match different situations and can analyze differing likely outcomes. For example, how will sales and profits increase if the organization hires 10 additional marketing employees for emerging markets? Would sales revenue grow faster if the company invested in six additional sales reps for existing markets instead? This type of analysis aids the creation of more informed and comprehensive plans. However, it also has an impact on planning agility since it allows for contingency plans to be developed and put in place. Decision-makers are therefore more likely to be prepared for adverse events or opportunities and can react to them in a timelier manner. This may contribute to the fact that Leaders have seen a 3% decrease in time to decision over the past year compared to a 3% increase for Followers.

How Leaders Benefit

Leaders update their financial plans more frequently than Followers. Market volatility can quickly lead to plans that are not based on current business conditions; frequent updates can create plans that are more closely based on current reality. Additionally, Leaders communicate any plan changes to business managers over 5 times faster than Followers. Naturally, this enables any adjustments, changes in priority, or simple course corrections for affected business units to occur much faster too. Finally, Leading organizations were also able to shorten their planning cycle time in the last year, while the cycle time for Followers lengthened.

Fast Facts

Leaders provide more comprehensive access to EPM data than Followers:

- ✓ At Leaders, 79% of executives and 69% of line managers have access to EPM
- ✓ At Followers, 64% of executives and 61% of line managers have access to EPM

Just as important, as Figure 3 shows, Leaders are more likely to take a combination of top-down and bottom-up approaches to budgeting. This allows the top of the organization to develop corporate strategy while allowing the front lines to report on what occurs operationally, day to day. This brings more relevant stakeholders into the mix and ensures that strategy is not developed by senior executives in a bubble, isolated from the reality on the front-lines. Participation in planning and budgeting can nurture a sense of ownership and belief in the resulting plans and can enable the organizations to react quickly as a cohesive unit.

These capabilities call for a mixture of careful scrutiny and organizational flexibility. Truly, in order for an organization to become agile in its performance management initiatives, it must aid employees with the necessary tools to make performance management as easy and ingrained in the organizational culture as possible.

Key Takeaways

Agile business planning and process management is essential in today's volatile environment. In order to keep strategies and plans aligned with reality, organizations must analyze performance and integrate data into flexible decision-making. EPM, along with the capabilities listed above, can assist in these goals. Aberdeen's research finds that:

- **Leaders are 31% more accurate than Followers with their financial forecasts.** In the last year, the actual revenue of Leaders was accurate to within 9% of forecast. In contrast, the actual revenue of Followers deviated from forecast by 13%.
- **Leaders are better than Followers at tracking actual performance.** Leaders are 33% more likely than Followers to track actual financial performance against budget. Timely insight into performance problems can act as the trigger for plans and budget to be reviewed and revised. Making timely, mid-course corrections through frequent re-planning ensures the accuracy of forecast performance to actual performance over the long-term.
- **Leaders have more comprehensive forecast and planning capabilities:** Leaders are 30% more likely than Followers to have a bottom-up budgeting process. Overall, Leaders are more likely than Followers to combine both top-down and bottom-up approaches. Not only does this provide a more well-rounded approach that can lead to more accurate planning and forecasting, but it can also help planning revisions occur faster. In addition, the greater ability of Leaders to perform what-if analysis and scenario planning can help them evaluate options and have alternative plans in place when necessary.

Agile performance management is enabled through a change in organizational culture that can lead to a more flexible business that can stay ahead of the pack.

For more information on this or other research topics, please visit
www.aberdeen.com

Related Research

[Financial Planning, Budgeting, and Forecasting: Removing the Hurdles](#); March 2013

[Culture, Collaboration and Coordination: Driving High Performance with EPM](#); January 2013

[Operational Intelligence: Exorcising the Devil in the Detail](#); October 2012

[The Grinning CFO: How to Get a Return on BI Projects in Less Than 4 Months](#); October 2012

[Enterprise Performance Management for SMBs: Aligning People, Process, and Tools to Ensure Success](#); August 2012

[Agile or Fragile? Your Analytics, Your Choice](#); July 2012

[Performance Management for Finance Executives: Driving Performance with Insight](#); June 2011

[High Performance Organizations Empower Employees with Real-Time Mobile Analytics](#); April 2012

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