

# Better results through better planning

# Table of contents

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Introduction .....	3
Symptoms of unhealthy planning .....	4
The business model.....	5
Planning with spreadsheets.....	6
Infor performance management solutions .....	7
Assembly-line budgets.....	9
Empowering users .....	9
Integrating facts with figures .....	10
Seeing a better future .....	11
About Infor .....	12

# Introduction

To assist in delivering improved overall business performance, CFOs have reasserted their role as owners of both financial and management information and processes. A corporation with the right processes in place is able to turn its attention to added value finance: evaluating strategies, assessing how to drive top line growth, improve the bottom line, and using assets more effectively. Most management processes are linked to each other in one way or another. Budgeting and planning, for instance, are intrinsically intertwined with other financial processes like consolidation, reporting, risk management and analysis. These processes, in turn, provide critical insight for managing risk, steering corporate performance and shareholder value, as well as making strategic decisions.

In the context of planning, many business processes rely on the finance department to play the role of expert. Budget controllers are required to oversee the entire planning process, collecting individual submissions, creating first-pass assumptions, mediating variances between top-down allocations and bottom-up aggregations. If the finance department is using an ineffective or inflexible planning solution, then finance becomes a bottleneck. The result: a time consuming, inaccurate or poor result which generates a deliverable budget while failing to achieve the strategic goals. In most companies planning usually combines three key disciplines:

## Planning

- Often linked to strategy formulation
- Longer time horizon, often three to five years with scenario analysis
- Enterprise-level focus looking at the whole business

## Budgeting

- Goal is to provide something to “control” the business
- Short time horizon, typically one year with quarterly analysis
- Often focused on revenue and costs, cost/profit centers

## Forecasting

- Create likely outcomes based on a combination of budgets, plans and actual information

There are many business pressures driving organizations to improve their planning processes, such as:

- Regulatory compliance including Sarbanes-Oxley Act and revised International Accounting Standards, which have increased requirements for transparency and timeliness
- Growing need across the organization for more detailed information
- Reconciliation problems between management and statutory accounting procedures
- Inflexibility of the planning process to incorporate organizational changes in an easy, timely and accurate manner
- Desire to gain a Return on Investment (ROI) in Enterprise Resource Planning (ERP), and General Ledger systems
- Pressure to better manage and control the business accentuated by economic downturn and increased global competition

## Symptoms of unhealthy planning

In many organizations, the achievement of delivering the annual plan is so onerous, that little business benefit is derived from it. The symptoms of an unhealthy planning process are:

- Poor visibility into current results
- Lack of understanding of future performance trends
- Poor speed and accuracy of the monthly financial reporting, budgeting and forecasting processes
- Limited or no reporting of non-financial measures
- Lack of integrated software
- Islands of Information
- Amount of time required to create the annual plan
- Lack of alignment between company strategy and their planning process
- Limited or no ability to produce business models and test impact of proposed changes
- Limited or no ability for business users to view and analyze performance reports at will

Other signs that the planning process is not effective and efficient include too much time being spent on:

- Correcting errors
- Requesting late work
- Producing reports
- Re-keying data
- Posting journals

## The business model

Using a business model as the basis of the planning process enables the development of a set of structures such as charts of accounts, time divided by years/quarters/months, versions to store actuals/budgets/forecasts, and other important segments such as department and organizational structure, products, currencies, which can be used to create the plans and then report on them. With the addition of business rules, much of the unique planning processes of an organization can be captured thus eliminating a lot of manual effort and ensuring accuracy such as links between financial statements, allocation routines, and aggregation logic. Wrap around this a set of controls to enable management of the planning process, workflow, security, data entry and reporting, and you have a planning application.

The key to a planning application is to enable the creation of financial and operational plans with less effort, more accuracy and a greater degree of flexibility to reflect any changes to the business. Flexibility enables the planning process to incorporate multiple scenarios, which are essential as we move from a short-term towards a long-term perspective. Uncertainty about future changes dictates that we must evaluate multiple alternatives. As a result, we are more likely to consider potential impacts, be prepared for them and even exploit unknown benefits.

Technology should expedite this process by reducing the role of the middleman and empowering business users to expand and maintain their applications on their own. Since business users can't possibly have the computer experience that their IT colleagues do, the process of revising models must be as user-friendly as possible. Adapting structures, for instance, should be as easy as clicking a mouse, entailing little to no programming. By giving users control over their own systems, they gain the incentive to use them — to streamline their planning, budgeting and forecasting processes as well as to support their day-to-day decision-making.

Collaboration is also important in the planning process. A best practice method to planning is to enable many people from across the organization to collaborate, which allows the company to benefit from a variety of perspectives and a wealth of experience. Planning applications or systems should enable collaboration through web-based access to plans and data in a central repository. This information can then later be used for budgeting, forecasting, reporting, and analysis.

## Planning with spreadsheets

Many companies rely on spreadsheets as a key component in their financial reporting and operational processes. However, it is clear that the flexibility of spreadsheets has drawbacks. Spreadsheets offer no reliable audit trail to ensure data integrity. Consequently, spreadsheets are difficult (and therefore expensive) to audit. Studies have also shown that they're rife with flawed formulas and, as a result, bad data. In "Tech at Work: Spreadsheet Slip-ups Cause Financial Errors" from the September 25, 2006 issue of PCWorld, Richard Morochove wrote that, "Professor Ray Panko of the University of Hawaii has performed extensive research on spreadsheet errors .... According to Panko, most firms use spreadsheets in their financial reporting, and most spreadsheets contain errors. His summary of field audits involving real-world spreadsheets shows errors in 94 percent of the 88 spreadsheets audited in seven studies since 1995." Organizations should look to replace spreadsheet systems with applications that use a spreadsheet interface without the associated risks in order to drive compliance, transparency and accuracy.

## Infor performance management solutions

Infor PM Business Process Applications include solutions designed specifically for planning, budgeting, forecasting and reporting and can help to improve the overall planning process. These integrated solutions allow organizations to quickly collect data over the Internet, eliminating errors traditionally caused by re-keying data and working with spreadsheets. Data is consolidated and stored in a central, secure database, ensuring that everyone has a single version of the truth and that information can be shared across the planning, budgeting and forecasting processes. Organizations can also leverage guided workflow capabilities, built-in financial functions, automated processes, pre-built reports, information portals, and a familiar Excel interface. These solutions' structure can also be modified to easily accommodate mergers, acquisitions, and reorganizations – you make the change once and the software replicates it throughout the system.

Infor also provides Business Process Applications for strategic management and financial consolidation to help organizations align resources to strategic plans and close the books quickly, confidently, and globally. Strategic management and financial consolidation are integrated with the planning, budgeting and forecasting solutions.

Infor's solutions encompass all of the business process cycles that can potentially have a material impact on financial reporting. These solutions provide capabilities that help organizations ensure compliance by:

- Increasing enterprise risk visibility
- Increasing data integrity
- Increasing process integrity
- Reducing close and publish times
- Increasing security
- Automating manual processes
- Enhancing ability to trace and audit transactions
- Delivering key performance information

Infor PM Planning allows companies to create and compare multiple “what-if” scenarios, test assumptions, assess the impact of events, and model the business to meet targets and high-level objectives. Companies can better understand how their high-level corporate goals are affected by changes in the business. This solution provides financial and operational planning capabilities so companies can model the business using key drivers and view the business from many perspectives including organization, product, market, distribution channel and time. Built-in financial functions, cross-dimensional calculations, allocations, and conditional rules help companies perform advanced modeling quickly, allowing more time to focus on decision making and results.

Infor PM Budgeting allows companies to design any number of zero-based, historical-based, and rolling budgets and plans. Submit the approved budget passes to the solution's database to create one version of the truth. Because Infor PM's Excel interface sits on top of a single database, you retain the familiar look and feel of a spreadsheet, but eliminate the spreadsheet drawbacks—version control, and the need to re-key numbers, verify calculations, and fix spreadsheet links. This solution allows you to shorten and improve the accuracy of tasks such as calculations, allocations, phasing, and currency translations. Using guided workflow capabilities and alerts helps ensure that the enterprise remains on schedule and within guidelines. When a business change occurs, you can adjust the budget and save it to the database, relying on the system to automatically update numbers and reports affected by the change.

Infor PM Forecasting allows companies to create statistically accurate forecasts that help you manage performance expectations, make tactical adjustments, and achieve performance goals. With this solution, you can collect forecast information as frequently as needed over the web, through Excel, or from other business systems. Combining the software's workflow and approval processes, statistical benchmark engine, analytic capabilities, and management's judgment and experience, you gain a more accurate picture of future performance. Forecasting with Infor PM requires no statistical expertise on your part because the software's embedded forecasting engine selects the optimum statistical technique to analyze the data you specify. You can generate rolling forecasts, check the accuracy of submitted plans, and receive automatic alerts that allow you to easily spot issues as they arise and quickly take action.

## Assembly-line budgets

Companies require faster feedback and responses in the planning process to respond to constant changes in the market. By automating and standardizing this process wherever possible, organizations can increase their speed and accuracy in rolling up budgets. Time-consuming, error-prone data entry, for instance, can be minimized by using intuitive user interfaces that reflect the needs and requirements of a particular stage of the process. This creates a 'relay' effect, helping users complete their part of the budget quickly and accurately before passing it on to the next higher level.

## Empowering users

One of the biggest obstacles to efficient planning, budgeting, and forecasting is keeping systems up to date with the constant changes that are typical in business. Unfortunately, most systems on the market require professional IT support for implementing even minor modifications. This results in long waiting periods, a backlog of corrections, and virtually no possibility for ad hoc analysis. A low maintenance system with intuitive user interfaces is key to alleviating this issue. Changes in the business should only have to be made once in the applications with the updates automatically replicating in the software.

## Integrating facts with figures

In planning, budgeting, and forecasting, numbers can quickly portray a misleading or even an inaccurate picture. As a budget rolls up, such small errors snowball into major miscalculations, which ultimately have to be explained to senior managers or, even worse, investors.

Budgeting systems can prevent such a situation by providing built-in capabilities to help ensure the accuracy of the budget. It is essential to have support for:

- Indicating whether a number should be treated as financial or non-financial
- Translating multiple currencies
- Viewing multiple currency rate versions (actuals, budgets, forecasts)
- Allocating portions of the budget to business units or departments
- Phasing budgets over a specified time period
- Creating detailed salary and asset budgets

The budgeting system should also help document the budgeting process, monitor company-wide budget submissions and approvals from anywhere at anytime, and enforce the budget rules and deadlines.

## Seeing a better future

Companies generally start a forecasting process believing that the exercise will help them align expectations, optimize operations, and reduce risks. No matter how well intended, the forecasting process often results in inaccuracies and under promising and over delivering, also known as “sandbagging.” Inaccuracies result when companies simply increase or decrease last year’s result by a percentage, ignore the detail and just look at the summary level information, manipulate the budgets, or do not account for exceptions in last year’s figures.

When forecasting, there are some basic rules:

- Aggregated forecasts are more accurate than individual forecasts
- Long-range forecasts are less accurate than short-range forecasts
- Statistical forecasts are never 100% accurate

Forecasting systems can lead to more accurate forecasts by providing capabilities that:

- Check the reality of budgets, forecasts and actual results
- Provide unbiased, objective accuracy
- Provide alerting and insight into potential future deviations from plans & strategies
- Statistically seed detailed budgets and forecasts
- Generate and facilitate a rolling planning process

In addition, a forecasting system should streamline the forecasting process, reducing the amount of time it takes to collect forecast information across the company at the level of detail you require. To achieve objectivity, the forecasting system should do the statistical work for you, selecting the optimum forecasting method based on the data presented. Agility is also important in a forecasting system so that you can identify problems and opportunities in to modify business behavior and achieve goals.

## About Infor

Infor delivers business-specific software to enterprising organizations. With experience built in, Infor's solutions enable businesses of all sizes to be more enterprising and adapt to the rapid changes of a global marketplace. With more than 70,000 customers, Infor is changing what businesses expect from an enterprise software provider. For additional information, visit [www.infor.com](http://www.infor.com).

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