

Planning and Budgeting

Improving Effectiveness through
Best Practices and Technology

White Paper
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Planning**



V E N T A N A
R E S E A R C H

Aligning Business and IT To Improve Performance

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The CFO Project





San Mateo, California

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Ventana Research performed this research for a fee to determine the needs and practices of organizations in their planning and budgeting process. This document is based on our research and analysis of a quantitative survey administered via the Web to qualified respondents. Qualification was based upon involvement with planning and budgeting and predicated on meeting demographic requirements (only those that work in companies with 100 or more employees) and excluded people employed by software vendors or whose employment in the appropriate organization could not reasonably be verified.

This research was designed to investigate the practices and needs of individuals and organizations with respect to the core planning and budgeting functions. This research is not intended for use outside of this context and does not imply that organizations are guaranteed success by using only these results to improve organizational productivity effectiveness. Moreover, gaining the most benefit from planning and budgeting requires an assessment of your organization's unique needs.

We certify that Ventana Research wrote and edited this report independently, that the analysis contained herein is a faithful representation of our evaluation based on our experience with and knowledge of the process and how software plays a role in it, and that the analysis and conclusions are entirely our own.

Ventana Research

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Executive Summary

Over the past decade companies increasingly have embraced the concept of performance management to help them respond effectively to a more challenging competitive environment. Performance management seeks to optimize business processes while ensuring they are aligned with the organization's strategy.

Planning and budgeting are critical components of any company's performance management initiative because they are a means of translating strategy into a coherent set of initiatives and provide a basis for objective assessment and alignment. Planning and budgeting should be a collaborative process – a structured dialogue on the future direction of the company. Planning should be the basis for objective assessments of performance and for assessing the efforts of all corporate units and individual employees.

That, at least, is the idea. How well are companies doing in achieving this ideal? Our recent benchmark research examined the people, process, information and technology components – components that in sum reveal how effective planning and budgeting are.

Ventana Research tracks five key attributes that when optimized define effective planning and budgeting:

- Insight into a company's performance and the factors that drive results
- Accuracy sufficient to support smoothly functioning operations
- Alignment of corporate, departmental and individual objectives
- Agility to effect coordinated responses to change
- Collaboration across the organization to ensure clear communications (a necessary component to enable the first four).

We found that while some companies are realizing the benefits of a mature planning and budgeting process, many others are not; some lag far behind. We find that companies are doing better on the people and information aspects, but many fall short when it comes to the process itself and the technology they use to support it.

Key Points

The research findings show where companies do well, and where they need to improve, in their planning and budgeting activities. The following are particularly revealing:

- Most participants, regardless of their functional role or department, believe that planning and budgeting are important to the success of a company.
- There is a wide variation in maturity across all aspects of the planning and budgeting. Some companies are doing well, a few are excelling, but our analysis finds that one in five are at the lowest level.
- There appear to be several disconnects between people's assessments of how well they are managing their planning and budgeting process and the improvements they would like to see. For example, a majority of participants in the research said there is close alignment between the company's strategy and the budget. Yet when asked what they would change, these same people said they want to improve strategic alignment.

- While many focus on the time spent budgeting and planning, the research found no strong connection between the hours devoted to the process and the accuracy, relevance and strategic alignment of the finished product. What companies do with this time is what matters, and this should be the focus of their efforts. Moreover, as in past studies, participants in midsize companies were more likely to say they spend too little time planning, while people in the largest corporations were more likely to say they spend too much time on it.
- The right software is important. While a majority of participants continue to use spreadsheets for this purpose, those using dedicated applications more often said they do a good job in a range of planning tasks. Users of dedicated applications also were far more likely to report that they produce more accurate plans and budgets that remain more relevant over the course of the term of the plan or budget.

Is your company getting all it should from its planning, budgeting, forecasting and review processes? Based on the findings from this research, the answer is probably not – or at least not as much as it could. Making planning and budgeting a more effective tool for improving your company's performance should be a priority. Evolving your process probably will be a multiyear project because it should address the people, process, information and technology aspects that are the keys to more productive use of the significant time your company spends charting its future, assessing its results and making adjustments where necessary. The findings of this research can suggest areas where your organization can improve, and using our benchmark analysis will highlight specific areas for improvement.

About This Study

Methodology

Data collected for this study comes from a survey Ventana Research conducted over the Web from October 2007 through January 2008. We solicited survey participation via e-mail blasts and Web site invitations. Both Ventana Research and this program's media sponsors (identified above) originated the e-mail blasts.

We presented this explanation of the topic to participants prior to their entry into the survey:

Just about all corporations engage in a formal planning and budgeting process. Over the past decade, a great deal of attention has been paid to what's wrong (and what's right) with the ways companies execute the process as well as to how to increase the value of planning and budgeting. Ventana Research is conducting a short survey to explore how organizations plan and budget and the issues organizations and individuals face in designing and executing the process. We are interested in finding out about how your organization plans and budgets and your thoughts on the related business issues. Ventana Research relies on professionals like you to help us understand your attitudes and experience.

The following promotion incited participants to complete the survey:

The first 50 qualified participants will receive a Starbucks Card loaded with US\$5; for participants in countries that do not accept incentives, we will provide an equivalent donation to a charity supporting orphaned children across the world. All qualified participants will receive a report on the research findings and a quarterly membership to the Ventana Research Performance Management Community valued at US \$125, and will be entered into a drawing to win a US\$100 American Express Gift Cheque. Thank you for your participation!

Demographics

We designed the survey used for this research to be answered by executives and managers with a broad range of roles and titles working in organizations of more than 100 employees. While we do not prevent anyone from taking the survey, validated results include only responses from the targeted organizations – in this case, companies with 100 or more employees. Qualification entails screening out responses from companies that are too small to meet this criterion, questionnaires that were not materially complete or those where the submission appeared to be spurious. Of 934 participants who clicked through to the study, we deemed 305 to be qualified to have their answers analyzed in this research. In this report, the term "participants" refers to that group, and the charts in this section characterize various aspects of their demographics and qualifications.

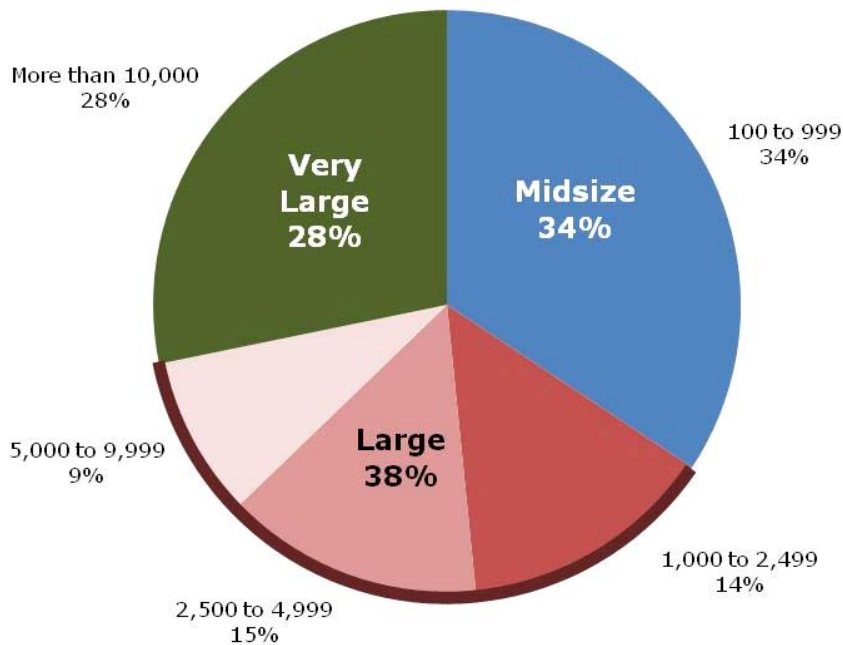
Company Size

In keeping with past practice, we require participants to indicate the number of people who work in their entire company. Our research repeatedly shows that size of

organization, measured by employees, is a useful means of segmenting companies because it correlates with the complexity of processes, communications and organizational structure as well as the complexity of the IT infrastructure.

In this instance, participants represented a broad range of organization sizes: 28 percent work in what we term very large companies (having 10,000 or more employees), 38 percent work in large companies (1,000 to 9,999 employees) and 34 percent work in midsize companies (100 to 999 employees). Since some users of this data define the boundaries of large and midsize differently, we also break out “large” into three subcategories (1,000 to 2,499; 2,500 to 4,999 and 5,000 to 9,999). This distribution provides a suitably large sample from each. In discussing the results, we will point out meaningful differences between the entire group and the three primary size segments.

Figure 1
Participants by Company Size

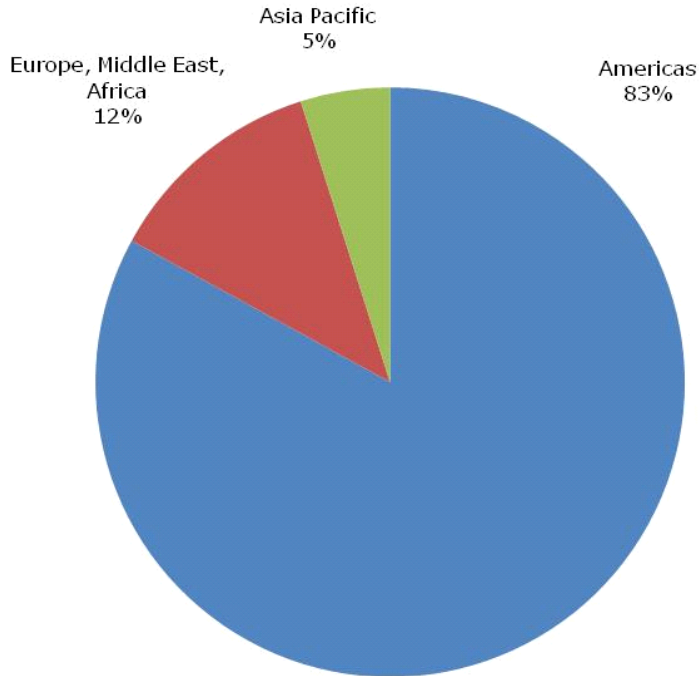


Source: Ventana Research

Geographic Distribution

A large majority (83%) of the responses were from companies in North America. Those headquartered in Europe, the Middle East and Africa accounted for 12 percent and Asia Pacific for 5 percent. This result was in keeping with our expectations at the start of this investigation, since our research participants typically are located mainly in North America.

Figure 2
Participants by Region

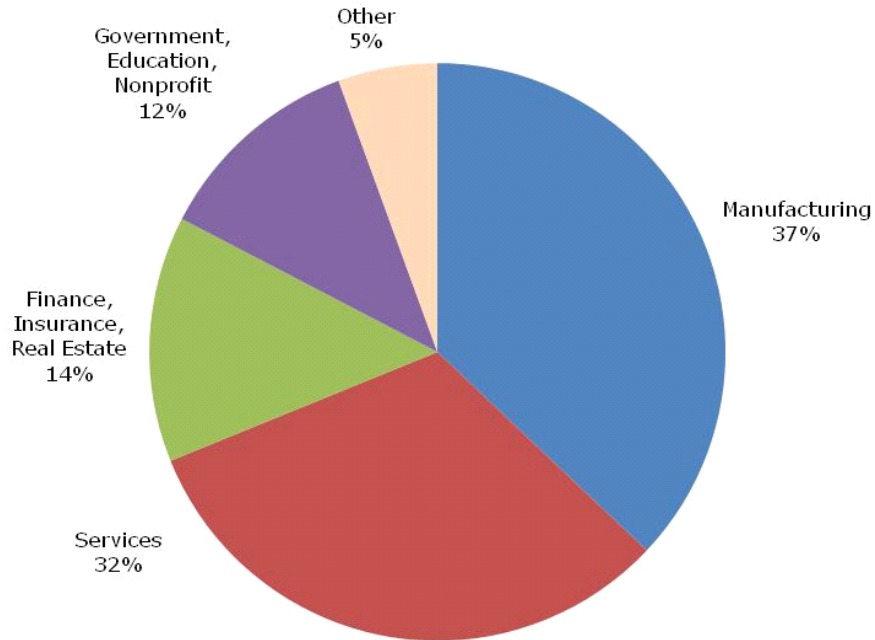


Source: Ventana Research

Industry Affiliation

Analysis of the research survey participation also showed a broad representation of industries, which we have summarized into four general categories, as shown below. Manufacturing companies accounted for the largest single group (37%), followed by services (32%) and finance, insurance and real estate (14%). Government, education and nonprofits as well as “Other” accounted for the balance.

Figure 3
Participants by Type of Industry

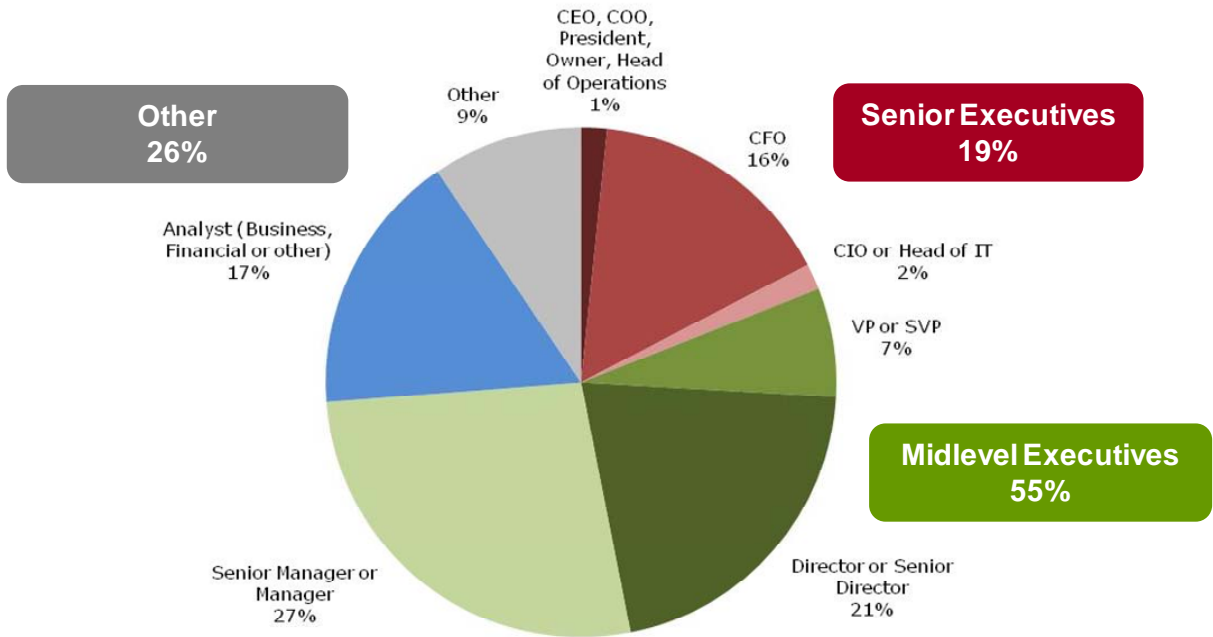


Source: Ventana Research

Job Title

We asked participants to choose from among nine titles and “Other” the one that best describes theirs. Slightly more than half identified themselves as midlevel executives, including vice president or senior vice president (7%), director or senior director (21%) and senior manager of manager (27%). Almost one-fifth are senior executives, most of whom are CFOs (16%) and the balance either CEO or CIO. Most of the remaining one-quarter said they are analysts (19%) and the rest are “Other.” Again, this broad distribution of functions enables us to reach meaningful conclusions according to job.

Figure 4
Participants by Job Title

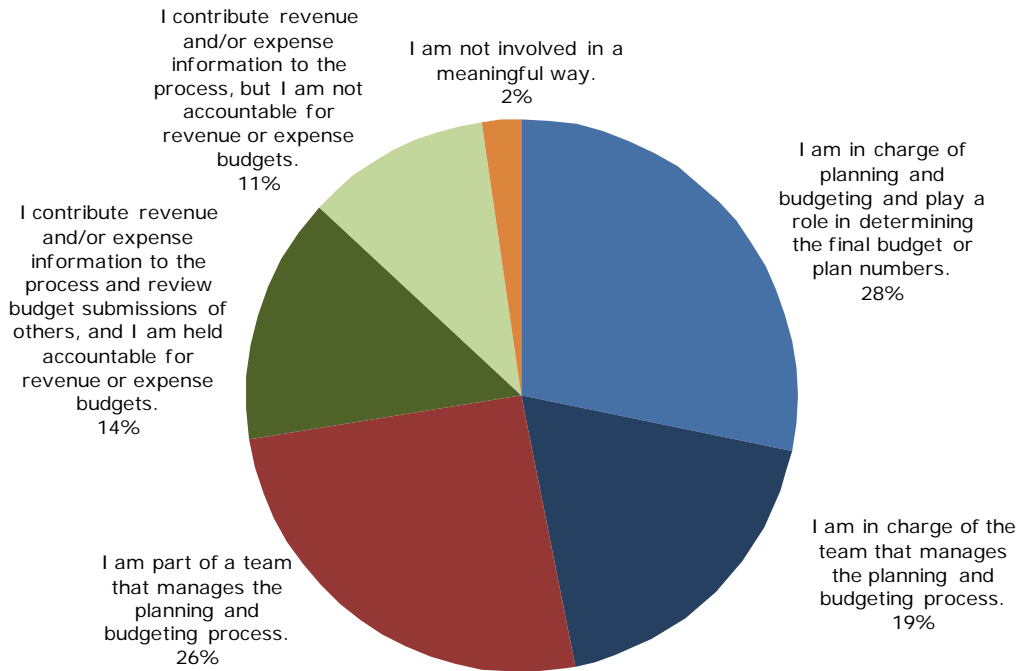


Source: Ventana Research

Role in Planning and Budgeting Process

Another aspect of the participants' jobs we wanted to track is their role in the planning and budgeting process. We expected high participation by individuals with such involvement and wanted to determine differences between their responses and those of people less involved. Our expectations were correct: A large majority (73%) of the participants manage the process with some degree of authority. They either are in charge of it (28% of all responses), run a team that manages it (19%) or are part of team that manages it (26%). Another one-fourth contribute information to the process, and the remaining 2% are not involved in a meaningful way.

Figure 5
Participant's Role in Planning and Budgeting



Source: Ventana Research

Key Insights

As a result of the increased focus on performance management, for more than a decade a growing number of business strategists and senior executives have been concluding that companies must improve their planning and budgeting process. Planning is a fundamental component of performance management. Used properly, it charts a course that can improve alignment of operational priorities with a company's strategy and enhance coordination across the company. It sets a baseline that enables executives to understand how well the company is performing and to what extent external factors are helping or harming results.

Most companies can improve – some considerably.

As revealed by our Maturity Analysis, companies' planning and budgeting maturity varies widely. Of note, though, only a small minority (15%) have attained the highest level of maturity.

When we drilled down into some of the key details, we found that participants offered a mixed assessment of how well their company plans and budgets. Half said theirs are accurate; half said not. About half said they spend the right amount of time, the rest too little or too much. When asked about alignment of the budget with strategy and budgeting and planning alignment across business units, a majority said they are well-connected. Yet these same participants also cited making this alignment better as their first or second priority for improving their planning and budgeting efforts.

Few companies are able to keep their budget relevant throughout its cycle. When faced with having to adapt to a major change in their business environment, only a handful are capable of replanning in any sort of detail. Most either do a "quick-and-dirty" reworking of their plan or budget or just work around it, without making any changes.

Participants' responses make clear that understanding the "why" behind budgeting and planning numbers is not always easy. Only 22 percent of companies have the ability to drill down into their actuals during a review meeting to better understand the numbers behind the numbers. For the rest, it takes hours or days, which limits the utility of the review and raises the risk that seat-of-the-pants guesses, rather than facts, will drive business decisions.

The planning, budgeting, forecasting and review cycle is too slow.

Most companies have an annual budget and a monthly review cycle, but we assert that this traditional budget cycle is incapable of providing the kind of agility, insight and alignment that companies need today. Few have adopted a rolling-quarters approach or other method that ensures that their plans and budgets are both up-to-date and well-coordinated across departments and divisions.

We believe there are two key reasons why companies continue on an annual budgeting cycle rather than planning more frequently. One is inertia: "We've always done it this way." A second is that the process as practiced is time-consuming. The ability to replan and rebudget rapidly is determined by the process's design, organizational skills and the software a company uses. The last item can be the most

significant factor. Using desktop spreadsheets to manage the process makes it take far longer and constrains it to be much more rigid than need be.

Companies also do not use best practices when it comes to reviews. Four in 10 do a complete line-by-line review of actuals to budget. Only one-third do the preferred method of looking at a standard set of the key measures along with significant exceptions in other areas. This alternative ensures that everyone is focused on the results that count yet still highlights areas that may need immediate attention.

Only half of the companies formally integrate sales and operational plans into their budgeting process. Those that do find their budgets are more accurate. Even in these companies, however, few have an ongoing link between the financial and operational plans.

Dedicated software helps companies improve.

A positive finding of the research is that a majority of companies have achieved a high degree of accuracy in the information they use in the budgeting and planning process. Most participants said they find that the numbers in their reports are accurate. We believe credit for this goes to the significant investment organizations have made over the past decade or so in improving their IT systems, especially for information management and reporting.

However, a majority of companies – and most midsize companies – are limiting the effectiveness of their process because they continue to use spreadsheets to manage all or most aspects of budgeting and planning.

We repeatedly find that software is the root cause of many of the defects in planning and budgeting. A majority (59%) of the companies participating in this research use them either exclusively or as the main software for managing their process. Only 26 percent use dedicated planning and budgeting applications. Large and very large companies are far more likely to have dedicated software (31% of this total) than midsize ones (15%). Spreadsheets are poorly suited to collaborative and repetitive enterprise processes, especially where there is a need to forecast and analyze in multiple dimensions (such as divisions, currencies, time or business unit hierarchies).

Working around spreadsheets' technological shortcomings takes time – lots of it. Consequently, companies must limit many aspects of the planning and budgeting process. A common example is limiting iterations, thereby limiting the potential to understand the broader implications of different what-if scenarios or of rapid replanning and rebudgeting in the face of change.

The difference in the quality of the planning and budgeting process is to a significant extent a function of the software companies use. For example, 70 percent of participants whose companies use dedicated planning and budgeting software said their budgets are accurate or very accurate, compared to just 48 percent of those who rely on spreadsheets. Dedicated-application users are much more likely to say their budget remains relevant over the course of the period than those who use spreadsheets (56% versus 41%).

When it comes to the software companies use, we believe that here again habit and inertia play an important role. Dedicated applications can eliminate many of the process and information defects caused by using desktop spreadsheets for planning

and budgeting. Over the past several years the range of dedicated application options has broadened. Midsize companies in particular now have several choices when it comes to software designed to meet their demanding requirements for features, usability and affordability. Larger companies can choose from a range of approaches that require only limited investment in implementation, maintenance and training.

Change is routine.

While we see a great deal of inertia in planning and budgeting, companies appear open to some degree of change. Two-thirds of the participating companies have considered major modifications to their planning and budgeting process during the past two years, and one-fourth of the participants said they have made significant ones. Three of the top four reasons for considering or implementing change relate to performance management, each chosen by about half of the participants, were enhancing alignment with corporate strategy, achieving better insight into performance and increasing alignment across business units. The other was improving the accuracy of the process (which will help the other three).

What To Do Next

Over the past five years, Ventana Research has conducted extensive research into how companies plan and budget. We conclude from the current research and our past efforts that most companies can and should make significant improvements to their process. In doing so they can enhance its accuracy, increase organizational and strategic alignment and improve organizational agility. The following recommendations are intended to guide companies as they strive to do this.

Broaden your focus.

We find that most people begin to examine change with limited, specific objectives. In the case of planning and budgeting, they may set out, for example, to shorten the annual budgeting period or make the actual-vs.-budget reports easier to produce. However, the first step in rethinking this process should occur at a higher level. Take a step back and ask what objectives planning and budgeting ought to fulfill, how well it is delivering on those objectives and what needs to be done to close the gap between them

Plan and budget more often, with more people involved.

Planning and budgeting are closely related core functions of the finance organization – so closely related that they are often referred to as a single process. Matching the resources available to these functions to the company's objectives and strategy makes it possible to control costs more effectively, which in turn ought to increase operating efficiency. You should structure planning and budgeting for high participation, so that all people with budget authority are meaningful contributors. When this is the case, more buy-in and accountability result: It stops being "finance's budget" and becomes everyone's budget. And it should be a high-frequency process, done more often than once a year, so that the company can respond faster as conditions change. When this is the case, management and executives are more likely to be able to understand the implication of changes, weigh their options more intelligently and respond appropriately.

Realize that planning and budgeting are not the same.

While they are related, there are important differences between the two. Planning is about creating a program for action; it's part of an overall design to achieve specific objectives. Budgeting is about creating a statement of the financial position of an organization for a specific period of time based on estimates of revenues and expenditures. Planning is about things such as activities, people, resources needed and time spent. Budgeting is about money. We believe that companies spend too much time budgeting and not enough time planning.

If performance management and aligning strategy with action is the goal of your organization, you need to be planning. The typical budgeting process winds up burying a lot of important information in spreadsheets, including assumptions about the future and information that could promote better alignment of actions across the company. In planning, these assumptions have to be explicit; because they are, companies can achieve greater alignment and allocate resources better. Because plans focus on things as well as money, they make it easier to understand root causes, to focus on exceptions and to do so faster and more accurately on a

consistent basis. Then you can do internal benchmarking to highlight the best-performing people and operations in the company and use their examples to figure out how to improve everyone's performance.

Replace spreadsheets with dedicated applications.

Over years of observation we have concluded that an important reason why companies don't plan is their reliance on spreadsheets to execute the process. The limits of this tool forces them simply to budget, which limits the insight that can come with planning. That is, because spreadsheet budgeting is so time-consuming it curtails what-if analysis. This makes it more difficult to spot threats and opportunities and also limits a company's agility in responding to divergence from the plan. Using a dedicated application for planning is better than spreadsheets because it's possible to shorten the planning cycle; you can replan and rebudget more often, and more easily perform exception-based reviews.

Even if your company just wants to budget, we recommend you nonetheless use a dedicated application. The benefit here is that the process becomes much more efficient. Time that would be spent wrangling spreadsheets can be used on more important tasks. Moreover, companies that use dedicated applications are better able to compress the budgeting cycle, sometimes significantly (for example, cutting a four-month process in half). For a company operating on a calendar year, an annual budget completed in November tends to stay relevant longer than one prepared largely in September or October.

Answer these key questions.

Our research shows that companies invest a great deal of valuable time in planning and budgeting. They should ensure that they are generating a return on that investment. Planning and budgeting are important to the success of any company. Ventana Research advises companies to periodically assess their process, the technology they use to support it, the information flows associated with it and the people aspects (training and communications, chiefly). Here are five groups of questions that the CFO, controller and head of financial planning and analysis should ask:

1. Is the planning and budgeting process as strategic as it could be?

The CEO has a strategy, but how effectively does the budget reflect it? Are the objectives realistic given the allocation of resources, or is this budget just an extrapolation of last year's budget (which probably was driven by political clout, not strategic necessity)? When changes occur in the economy or competitive landscape, can the company change its budget to support its strategic goals? Or should the company change the strategy to fit the available resources?

2. Are the budgets as accurate as they should be?

Does the budget process itself create systematic errors? (This is of particular concern if your company uses desktop spreadsheets to support the process.) How much time is spent dealing with hidden arithmetical or logical errors? Does anyone know? How many of these errors remain undiscovered?

3. Does your planning really help increase your company's agility?

Does the company respond as rapidly as it should to changes in the environment or to the competitive landscape? When things are not going as planned, how well-

coordinated is the company's response? Does the organization do contingency planning or what-if analysis? When necessary, can the plan take the entire company into account, not just one department or product line?

4. Could your process provide deeper insight to more people?

What assumptions are people making in forecasting revenues and expenses? Can you drill down easily to find out what they are? Are the assumptions consistent? Does the revenue forecast make sense given the sales budget? Are there too many or too few support personnel? In reviews, can people quickly spot why a variance occurred (not just a number but whether it was unit- or volume-related)? Will everyone agree on the answer?

5. Is the process itself of high quality?

Could your company shorten the interval needed to prepare a detailed budget and cut the hours spent on purely mechanical tasks? Is the budgeting process performed consistently across departments and businesses? Is it performed consistently from one year to the next?

How Ventana Research Can Help

Ventana Research helps organizations develop, execute and sustain a Performance Management program that aligns people, processes, information and technologies essential for success. As an objective, trusted advisor, we are your insurance that your Performance Management initiatives will drive immediate and long-term improvements to your business.

We offer a variety of customizable Performance Services to meet your specific needs, including workshops, assessments and advisory services. Our [workshops](#), led by analysts with more than 20 years of experience, provide a great starting point to learn about hot Performance Management topics – from Compliance to Business Intelligence to building a Performance Management strategy and driving adoption of best practices. We also offer tailored [assessment services](#) to help you connect the business and technology phases of your project by leveraging our research foundation and Performance Management methodology. We also deliver access to our analysts for trusted and objective [advisory services](#) on an as-needed basis to help you keep up with market trends, technologies and best practices.

Everything at Ventana Research begins with our focused [research](#) on Performance Management. We work with thousands of organizations worldwide – conducting research and analyzing market trends, best practices and technologies with the purpose of helping our clients improve the efficiency and effectiveness of their organizations.

Through our [Performance Management Community](#), we also provide opportunities for professionals to share challenges, best practices and methodologies. Sign up for Basic membership to www.ventanaresearch.com and gain access to our monthly Performance Management newsletter and learn about upcoming educational and networking events – such as webinars, conferences and network roundtables – in your area. We also offer the following membership levels to view entire research notes for expert advice and recommendations:

Premium membership: For business and IT professionals* interested in full access to our research notes - including assessments of market impact and recommendations on technologies and trends.

Premium Plus membership: Get full access to research notes plus a two-hour inquiry with our analysts on your specific strategy, technology and implementation questions, as well as one research report and other exclusive content such as white papers and presentations.

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**Premium Community membership is for end-user professionals. [Additional services](#) are available for solution providers, software vendors, consultants and systems integrators.*

The full research report, including the detailed maturity model analysis and question-by-question examination, is available for purchase from Ventana Research by calling (650) 931-0880 or contacting sales@ventanaresearch.com. For a list of available research, visit www.ventanaresearch.com/research.