How is your planning process helping you identify and unlock value?
Key considerations
How effective and efficient is your organisation’s planning, budgeting and forecasting process?

- How confident are you in the projections you communicate to the market?
- How does your budgeting and forecasting process add value to the business activity against the cost of delivery?
- How does your planning process link to your performance management process to drive accountability?
- How effectively do you align performance drivers to the key strategic goals?
- How do you enable decision making against relevant, up-to-date forecasts?
- How could further integration between financial and operational plans be achieved in your organisation?

KPMG POINT OF VIEW
We believe that the traditional bottom up approach to planning, where historical performance underpins the plan, is likely to destroy value in organisations. We believe a more focused process can be deployed whereby the annual budget is used as a tool to optimise resource allocation and align people to achieve the strategic targets, while the forecast process mainly drives actions to close any performance gaps. Untapped value can then be unlocked through:

- A reduced planning cycle: less time creating the numbers will allow for more time analysing them and driving action that generates tangible results
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• **Effective incentives to drive the correct behaviours**: clearly articulated accountabilities and line of sight that link the forecast to the individual’s performance contracts to focus resources to work in the same direction and drive the right behaviours across the business. This leads to less sandbagging and gaming.

• **Improved forecast accuracy and reliability**: allows focus and intervention on material, controllable items. Reduces the risk of share price impacting errors.

The planning process is an integrated process that starts with the strategic plan linked to budgets and enables identification of actions to meet these targets as part of the iterative forecasting process.
Introduction

Organisations are waking up to the fact that cascading their long-term plans and forecasts to both employees and stakeholders is a critical priority. Investors are demanding more frequent and accurate projections and disjointed, broken processes are leading to share prices being impacted by inaccuracies.

Although organisations invest significant time and effort in planning, budgeting and forecasting, only one in five currently produce a forecast that is reliable\(^1\). The changing and increasingly complex business environment, is creating new demands for the deployment of a planning process that is agile and can enable the business to react to changing conditions. This is an organisation-wide change which fundamentally impacts the culture of the organisation.

Our experience indicates the average budget cycle time is in excess of four months and forecast cycles are in excess of two weeks. This means information being out of date as soon as it is available, the process is both inefficient and ineffective. Companies that have moved towards more focussed budgeting process and deployment of rolling forecasts, have not only seen the benefit of more relevant information but have reduced the cycle time to produce the information by over 60 percent\(^1\). This delivers significant cost benefits and assists the focus on value add decision support activities.

Sources
\(^{(1)}\) “Fast Forward – Decisions at lightning speed” by KPMG in the UK, 2013.

Companies which are good at forecasting saw overall share prices rise a third more than other companies...

Source: EIU/KPMG survey – Forecasting with confidence

Forecasting errors have cost organisations 6 percent of share price, on average, over three years...

Source: EIU/KPMG survey – Forecasting with confidence

KPMG POINT OF VIEW

Organisations should be focusing on reducing the budget and forecast cycle times to change the perception of the process. These processes are often seen as an administrative burden due to the volume of effort required to provide detailed budgets and forecasts. Our research shows 60-80 percent of firms fail to execute their strategies, and fewer than five percent of employees are aware of, or understand their firms’ strategies. If used effectively the planning, budgeting and forecasting process can be an effective organisation-wide tool to help translate strategy into actions.
Leading practice approach
An integrated process focused on driving actions to deliver targets and unlock value

High-level integrated process

The role of the budget is to determine where resources should be deployed, and ensure people are aligned to deliver strategy through an integrated plan. The role of the forecast is to review performance and agree actions to get back on track to ensure targets are delivered.

At the core of leading practice planning, budgeting and forecasting is an integrated performance management framework focused on required business decisions. The key objective of this framework is to seamlessly link top-down, strategic targets to financial and operational bottom-up forecasts.

This focuses the budget cycle on demonstrating how business units will close the gap between these targets and the consolidated forecasts. The proposed initiatives that will close the gap will then be reviewed, prioritised and agreed with business units before inclusion in the annual budget.

This allows the subsequent forecasts to be more focused reviews with accelerated cycle times, and also a tool to drive performance by monitoring progress against initiatives and agreeing actions to bridge the gap to the budget.

“This (rolling forecast) is not a finance driven game at all. Country managers help with the process. You can’t underestimate the importance of that side of it”

Steve Roder, CFO of Life Operations – Asia Pacific, AIG

Source: Source: EIU/KPMG survey – Forecasting with confidence
Another key feature of the approach is a model built around key business value drivers. The value drivers that are clearly identified as material, volatile and controllable are owned by business managers to drive the focus across the entire organisation on actions that will deliver the agreed plan.

This should reduce complexity in the budgeting and forecasting process by eliminating non-value-add detail and enabling the business to focus on factors that managers can influence to drive the decisions to optimise business performance.

We believe the leading practice approach to planning, budgeting and forecasting will deliver:

- Reduced timescales, cost and effort.
- Improved responsiveness and agility.
- Improved accuracy.

“People need to think through what actually drives value. A lot of the time this has nothing to do with standard budgeting items”

Paul Rogan, Group CFO, Challenger Financial Services

Source: EIU/KPMG survey – Forecasting with confidence
Case study

Background:
A natural resources company wanted to improve the visibility of operational performance and better deploy Group Value Drivers.

The key issues this organisation faced were:

- Almost half of the finance function was tied up in the annual budgeting process.
- The end-to-end budget process took nine months to complete.
- The company had limited ability to quickly model scenarios and sensitivities under different economic scenarios.
- The accuracy of forecasts for the more controllable elements of performance was a concern, especially projects and production, where the management had little confidence in the projections.
- Performance reviews were regarded as ‘information sharing’ rather than content discussions.

Approach solution
The company redesigned the planning and performance management framework, taking a top-down approach. Starting at Group level, the company identified the key organisation value drivers and performance measures which then formed the core focus of the performance framework.

The accountabilities and roles across Functions and Operational areas were clarified according to the value driver focus and aligned to the organisation’s operating model. The planning, budgeting and forecasting processes were improved for sequencing of relevant, timely and accurate hand-offs of information. The planning, budgeting and forecasting processes were designed to maintain the line of sight between strategy and operational execution of the strategy. The organisation developed a bespoke planning tool which enabled greater scenario planning and sensitivity analysis, to enhance management understanding of options under different economic assumptions.

At a Divisional and Asset/Production level financial and operational forecasting were integrated and automated through core systems which enabled management to have greater visibility and discussion on the forecast thereby taking greater ownership, whilst not being too onerous to prepare. Finally, the organisation’s performance review meetings were re-designed to ensure a greater focus on business issues facilitated by a common information model that allowed discussions to focus on actions to address challenges or exploit opportunities.

The framework and approach for operational performance was cascaded throughout the organisation, at each point ensuring learnings were understood and then embedded as part of the solution.

Benefits
There were significant cost savings which were rooted in wider benefits across the organisation, these included:

- An increase in forecast accuracy.
- Accelerated cycle times for budgeting.
- Improved integration across business units based on alignment of accountabilities to value drivers and sequencing of forecasting.
- Improved decision making leading to optimised use of resources especially including capital deployment.
- Increased business responsiveness and agility to performance challenges and opportunities.
### Integrated performance management framework

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**Business unit budgeting**

- **QPR 1 May**
- **QPR 2 Jul**
- **QPR 3 Sep**
- **QPR 4 Nov**

**Update value drivers as appropriate**
What are the enablers?

Building on the prerequisite of an aligned vision and agreed value drivers, we believe there are three key enablers to a successful planning, budgeting and forecasting implementation: data, technology and change management.

**Data** is a key enabler that fulfils the fundamental need for a common business language, set of definitions and agreed standards. How the data is organised within an organisation is most effectively performed through the use of corporate data models which range from corporate to individual systems but they should adhere to a common set of standards. Further requirements are:

- Robust controls exist around master data.
- Clear ownership is demonstrated throughout the organisation around data requirements.
- Controls and governance are in place to ensure the quality, consistency and completeness of information.
- Data is consistent where applicable across multiple business units.

**Technology** should support business requirements, while simplifying and automating the preparation of information. This cannot be delivered by a standalone piece of software but by a global platform, often composed of multiple software applications, extracting and cleansing data from numerous legacy systems. The selection of these software applications requires a controlled process which must ensure effective stakeholder support and buy in.

**Change management** can unlock the value of planning, budgeting and forecasting and overcome resistance to new ways of working. It is critical to take finance professionals and the business on a journey. It is important to remember that good process design and supporting governance will not work and deliver the anticipated benefits unless employees are ready, willing and able to support it:

- Firstly, people need to understand the benefits of the change, how it impacts their way of working and the role they personally play in making the change happen.
- Secondly, performance metrics need to be aligned to supporting corporate targets. This will both reinforce positive and supportive actions while also addressing dysfunctional behaviours when people lack willingness to change.
- Finally, leaders and management need to visibly sponsor, be role models and reinforce the importance of the change so people understand the change’s significance.

The execution of business strategy is often hampered by a lack of reliable information. Seven out of ten executives do not get the right information to make business decisions.

The Business Intelligence platform should provide a unified and trusted view of the business—empowering all employees with insight and aligning the organisation’s strategy to execution. It is key that only when the organisation has agreed exactly what it needs to know, should it consider investing in technology.

A change of mindset is needed to properly sustain and embed new ways of working through communication, education, people management and leadership sponsorship activity.

The change management process often has a reputation of being a burden with little value add. Demonstrating the opportunity to use it as a tool to drive value will often be met with a sceptical response. The change management process often has a reputation of being a burden with little value add. Demonstrating the opportunity to use it as a tool to drive value will often be met with a sceptical response.

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KPMG’s approach

Refocusing the planning process around value drivers and creating a clear alignment to the strategic targets of the organisation requires a good understanding of what the current pain points are and their root causes. While creating an integrated process linking to the performance management reporting will be the ultimate goal. Organisations can tackle this large transformational project in smaller chunks depending on where their priorities and resource constraints lie.

As a leader in advisory and consulting services, KPMG has led numerous engagements in various industries aimed at improving the planning process and has gained considerable insight as to what leading practices the best in class have adopted.

At the heart of our methodology for implementing planning, budgeting and forecasting approaches, is the diagnostic work that we undertake at the onset of the engagement.

The diagnostic looks at the key attributes of the planning process and identifies the gap between industry leaders and the organisation being reviewed. A client and industry-specific view is produced, showing where the organisation is compared to leading practice and improvement opportunities are identified. The client can then focus on prioritisation and consider the appropriate speed of implementation of opportunities.

1. Analysis of current environment
   Understand our client’s key strategic objectives and vision. Understand what creates and destroys value in the client’s chosen market and how progress towards the achievement of the strategy is measured.

2. Assessment against the KPMG 12 point leading practice framework
   Carry out assessment through a structured questionnaire against the 12 point leading practice framework. Stakeholders at various levels are invited to contribute. Output is consolidated and gaps against leading practice identified.

3. One-to-one interviews
   Identify root causes and understand gaps through one to one interviews with stakeholders at various levels (both Finance and Operations). Interviews help determine the magnitude of change and what/who needs to drive it.

4. Opportunity areas
   Internal best practices are captured and considered. External industry benchmarks are applied to identify gaps against leading practice. These are documented along with enablers (e.g. change in process, technology, skills) and inhibitors (e.g. resource constraints, other current initiatives).

5. Review, Challenge and Prioritise
   KPMG experts facilitate a series of workshops to review and challenge the opportunity areas for feasibility. Initiatives are identified to close the gap in each area. Prioritisation is then considered based on time, cost and ease of implementation of each initiative against value to be generated. Quick wins are identified.

6. The case for change and high level roll out plan
   Based on the prioritised initiatives, high level roll out plan is drafted, along with a case for change highlighting the cost of the change programme against the expected benefits it will generate.
Summary

We believe that top performing companies effectively integrate planning, budgeting and forecasting as a key component of the performance management framework. Best in class organisations drive value through shorter cycle time, better quality insight (which is accurate and relevant) and lower cost of delivery of the planning process.

While approaches vary between industries and different sized organisation, key levers in optimising the planning process are:

- Clearly defining value drivers and KPIs to measure progress against targets. These targets should be linked to the organisational strategy.
- A communication approach that defines the purpose of the budget and forecast process, focused on cascading and enabling strategy with incentives that drive the right behaviours across the business.
- Allowing critical business enablers such as data, technology and change management to be given suitable consideration.

To enable the delivery of strategy it is critical that the planning, budgeting and forecasting process provides that linkage and integration of financial and operational data across the organisation. This is an enterprise-wide change programme and will require sponsorship from across the organisation. This can unlock value through the translation of ideas and strategy into actions and results.

Planning, budgeting and forecasting is a critical integrated enterprise-wide activity.

Companies which are good at forecasting saw overall share prices rise a third more than other companies…

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