Anaplan

CFO WHITE PAPER

8 signs your organization has outgrown its financial planning, budgeting, and forecasting processes

Introduction

As a CFO, you know that both your CEO and your colleagues expect you to do more than monitor current performance and report on the past. In today's fast-moving business climate, they expect you to take a leading role in developing strategy and get actively involved in execution to ensure stakeholders receive sustainable returns. Put simply, that sets the three priorities in the diagram below.

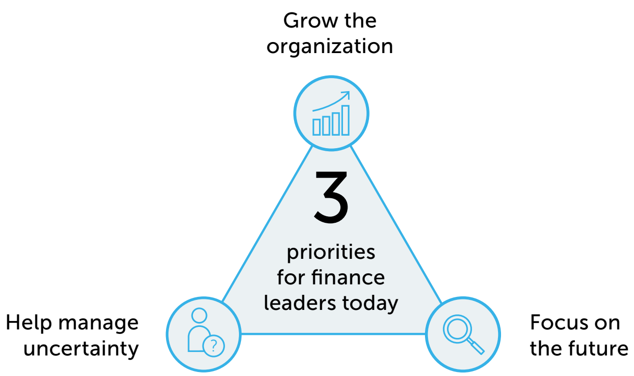

Figure 1: Three priorities for finance leaders today

Although the role of the CFO is becoming ever more important,[i ii] recent research[iii iv] suggests there is still a way to go to close the gap between what finance teams currently do and what CEOs and their peers expect of them, which can be summarized in three words: better decision support.

Providing better decision support will require investments in new systems, particularly for those that support the core processes involved in financial planning and analysis (FP&A). But while the majority of CFOs recognize the importance of leveraging cloud-based systems and other emerging technologies to deliver better support, only half of finance teams surveyed said their CFO is doing a good job of exploring and implementing the best new technology.[v]

Whether your core FP&A processes are currently supported by spreadsheets or a legacy system, this paper is designed to help you assess if your organization has outgrown your current planning system and needs to make this important investment. It will probably be the biggest decision you make this year—and it won't take long.

72%

CEOs say the CFO role will increase in importance over the next three years

63%

CEOs believe that technology will have the greatest effect on the future role of the CFO

59%

CEOs say their organization needs to increase investment in their decision-support capabilities in the next 3 years

"The View from the Top," KPMG, 2014.

01 Your team is spending too much time manipulating data in spreadsheets and legacy planning systems

Do you and your team end up frustrated every time a colleague asks for a different cut of the data? If yes, then that frustration likely stems from wasting too much time doing work-arounds in spreadsheets or inflexible legacy planning solutions.

The issues of using spreadsheets for anything other than personal productivity are well-documented elsewhere.[vi] Spreadsheets weigh down core financial processes, such as planning, budgeting, and financial consolidation. According to analyst group Ventana Research, "[Spreadsheets] are fast [and] easy to set up, but when they're used in collaborative, repetitive enterprise processes, they become time wasters."[vii]

Additionally, if you use legacy planning systems or newer versions of legacy systems that have been repackaged as cloud-based solutions, your team is most likely finding that these are also laborious to work with. Legacy systems often have inflexible and aging architecture that require time and expert skills to do simple tasks, such as adding a new dimension or generating a new report. As a result, you may find yourself as one of the 89 percent of companies reported by the Aberdeen Group[x] that still uses spreadsheets in their planning, budgeting, and forecasting processes to overcome the limitations of their chosen software.

FP&A process efficiency assessment: ☐ Yes, that's us ☐ No, that's not us ☐ Don't know

02 Your system lacks enterprise level security

If your plans are becoming increasingly granular due to incorporating compensation and benefits packages, organizing employees, or anticipated customer sales details, the importance of security and access control in financial systems also increases. If your customer and employee records are not secure, your company could be non-compliant with certain laws such as The Health Insurance Portability and Accountability Act,[viii] resulting in hefty fines.

Although passwords can be applied to spreadsheets and cells may be protected, spreadsheets were never intended to be shared among multiple users where access rights and authorization are imperative. Enterprise-level planning solutions attempt to address this issue with access controls that allow users to safely participate in planning processes; however, keep in mind that although corporate firewalls provide a modicum of protection, they are still vulnerable to hacking.

FP&A process efficiency assessment: ☐ Yes, that's us ☐ No, that's not us ☐ Don't know

It is widely recognized that cloud vendors today adhere to security and encryption standards beyond the level of which a vast majority of traditional organizations can afford. You may feel you have less control with a cloud solution, but there is strong evidence[ix] that your data is more secure when it is being stored in the cloud by a vendor that adheres to security and encryption standards— which they are required to share with you.

03 You cannot plan and forecast quickly and accurately

Reducing the time taken to plan and forecast while improving accuracy are top priorities for many organizations. Your team may sometimes be hampered by the slow processing of a current planning solution or struggle with the increase in line item detail needed to improve accuracy. Consulting firm Deloitte explored these issues in their research paper, “Integrated Business Management—Plan. Budget. Forecast.”[x]

The paper’s authors point out that regardless of the technology in use, 80 percent of organizations surveyed already take eight or more weeks to complete a budget, and adding detail could easily result in the process becoming longer.

FP&A process efficiency assessment: ☐ Yes, that’s us ☐ No, that’s not us ☐ Don’t know

Recommendations for reducing cycle times and increasing accuracy

- ✓ Routinely report metrics for measuring budget and forecast accuracy
- ✓ Determine owners for each part of the plan
- ✓ Use workflow to expedite the submission and approval process
- ✓ Adopt an integrated modeling-based approach to planning and budgeting

The authors point out that although there may be incremental gains by implementing new technology to automate planning and budgeting, the transformational benefits come from adopting an integrated modeling-based approach to planning and budgeting. They suggest two levels of integration—first, unify operational planning and budgeting into a single process; and second, integrate non-financial data such as demand and headcount alongside the more traditional financial data held in planning models.

Two levels of integration:

Level 1

Unify operational planning and budgeting into a single process

Level 2

Integrate non-financial data with traditional financial data held in planning models

Deloitte stresses that it is imperative to select a tool with the capability to model different scenarios in order to assess the impact that demand, input costs, exchange rates, and other variables have on financial performance. A solution should connect throughout the planning funnel, from pipeline commit to revenue plan impact, and incorporate operating expense impacts that waterfall into the ultimate financial budget and forecast throughout the year.

Being able to crunch large volumes of external and internal data in a modeling environment that eliminates manual spreadsheet links and errors will improve accuracy. Being able to do it fast, with all planners participating at the appropriate time, gives organizations the agility they seek. This winning combination of accuracy combined with agility is something that many companies, including Aviva,[xi] Hewlett Packard,[xii] and McAfee,[xiii] have experienced with their Anaplan implementations. As the Deloitte authors point out, the reason for adopting new planning technology is no longer just about improving productivity and reducing costs in finance; today, it is about far more important issues, such as being able to sense and respond to change in a timely and appropriate manner.

04 You lack real-time visibility

Legacy financial systems were typically built upon batch processing, and if you are using one for planning or financial consolidation, your team likely is experiencing considerable delays recalculating models and viewing results. Not only does this compromise productivity and lengthen cycle times, it also limits the abilities of "what-if" analyses, where users need the instantaneous response times they enjoy when working with smaller spreadsheet models.

> " Red Robin was reporting out its financial performance two weeks after the close of each month. With this delay in real-time results, it left restaurant managers little time or ability to proactively advise their restaurants accurately and efficiently."[xiv]
>
> Jaime Benson, Finance Manager, Red Robin Restaurants

You aren't alone—many business systems struggle to cope with large amounts of data. For instance, planning systems designed with a sole focus on financial budgeting struggle to cope with the larger models that result when organizations increase the level of granularity to improve accuracy, or when they try to build driver-based models that transform sales and operational planning and financial budgeting into a unified, light-touch process. This is because the architecture and calculation engines that underpin many business systems were not designed for planning at multiple levels that include the individual customer, stock keeping unit, and employee, or modeling complex business rules that span multiple dimensions to drive dependencies in a sales plan or the latest corporate forecast. Anyone on your team who has tried likely spent countless hours on calculations—clearly not the most efficient use of time.

FP&A process efficiency assessment: ☐ Yes, that's us ☐ No, that's not us ☐ Don't know

Having a planning solution built around an in-memory calculation engine is essential for gaining the real-time insight that businesses need, but other factors are also important. Data structures commonly found in business solutions, such as multi-dimensional cubes and relational tables that have served so well for analysis and reporting, are ill-suited to the dynamic modeling of the large amounts of data that are increasingly common in plans. More innovative solutions are needed to address today's business needs.

05 You lack a single unified source for data

Although the original data may have come from a common source in your ERP system or business warehouse, it may have been extracted at different times using differing criteria, and your team will have undoubtedly made subsequent changes, resulting in inconsistencies.

44% of respondents from large companies report struggling with duelling financial spreadsheets[xv]

Poor data governance is clearly problematic whenever spreadsheets are used for planning. But the problem remains even when spreadsheets have been replaced because, typically, different solutions are used for sales and operation planning, demand and supply chain planning, and any of the other 11 different types of planning listed by Ventana Research in its paper, "Next-Generation Business Planning."[xvi]

FP&A process efficiency assessment: ☐ Yes, that's us ☐ No, that's not us ☐ Don't know

The only way to resolve this issue is to implement a single platform that supports all the different types of business, creating a single source of shared data and enabling authorized users to connect their planning models across departments and lines of business. Having all planning data securely contained in a single repository is important in unifying disparate plans to deliver integrated business planning so that the organization can benefit from the light-touch reforecasting needed to be responsive and agile in today's rapidly changing markets.

06 You have nightmares that an error will get you or your CEO fired

Back in 1998, research by Professor Ray Panko[xvii] of the University of Hawaii established that virtually all large spreadsheets contain some errors. Over the years, his findings have been repeatedly confirmed, with more recent research by business consultants KPMG[xviii] finding that 90 percent of spreadsheets they surveyed contained errors. Some will be inconsequential, but for this reason, companies do issue earnings warnings for forecasts that were built using spreadsheets.[xix]

FP&A process efficiency assessment:

- [ ] Yes, I have nightmares about potential errors
- [ ] No, I don't have nightmares about potential errors

For example, a little-mentioned aspect of the notorious "London Whale" debacle[xx] at JPMorgan in 2012 was how errors made while copying and pasting data from one spreadsheet to another were partly to blame for a single $6 billion trading loss.

> " For my part, I wish that business leaders and CFOs in particular would simply mandate the outlawing of the spreadsheet for anything other than pure ad-hoc work"[xxi]
>
> Den Howlett, Qualified Accountant and Principal of Technology Advisory Firm, Diginomica

Anyone who thinks that having an enterprise planning and budgeting solution means spreadsheets gone away should reflect on the numbers shared by the Aberdeen Group, which found that 89 percent of organizations still use spreadsheets in their FP&A processes to overcome the limitations of their chosen software. Although there may be less chance of error in the calculations involved in consolidating individual budget submissions, the risk still remains in all the standalone worksheets used by contributors to model revenues, departmental resource requirements, and financial line item expenses.

The only way to mitigate this risk is to centralize all model building on an enterprise planning platform where rules are written in natural syntax and stored in a master repository where they can be easily audited.

07 Your team has to wait on specialist expertise to modify planning models

No matter how attractive and intuitive the interface of your legacy financial planning solution may be, if the underlying data architecture is complex and inflexible, your teams will always be waiting on IT specialists to alter models and keep them aligned with changing organizational structures and business initiatives.

Another disadvantage of a business solution that needs expert user configuration or outside consultants is that it can only be used for tightly defined business processes such as financial budgeting or cash flow forecasting. Because of this teams typically resort to spreadsheets to do ad-hoc "what-if" analyses, which lead to questionable data integrity and impair the integration and alignment of plans in other business areas.

FP&A process efficiency assessment: ☐ Yes, that's us ☐ No, that's not us ☐ Don't know

> " Our first key criterion was usability. I needed to know that when we wanted to modify the model by adding a new metric or change hierarchy to match our new 'cells' structure, we would be able to do this quickly."[xxii]
>
> Darren Craddock, Director of Planning and Forecasting, Aviva

Today, people increasingly expect the business solutions they used at work to be as intuitive and easy to use as their smartphone apps. They want to be self-sufficient and agile—which means having a very flexible planning solution that makes it easy for business people to continuously reconfigure to meet their changing enterprise needs. If they can create new versions, add new dimensions, and change business rules to create new scenarios on-the-fly, then they will be more likely to let go of their spreadsheets.

08 Your system will not scale with the needs of the business

Many planning solutions struggle to cope with large amounts of data. For instance, if your planning system was designed to focus solely on financial budgeting, it is likely struggling to cope with the larger models created as organizations increase the level of granularity to improve accuracy, or when they try to build driver-based models. This is because the architecture and calculation engines that underpin most planning systems were not designed for planning at the level of individual customer, stock keeping unit, and employee, let alone modeling complex business rules that span multiple dimensions to drive dependent variables in a sales plan or the latest corporate forecast. It can take many hours to calculate results in most systems, and considerable patience is required when waiting for responses to queries.

FP&A process efficiency assessment: ☐ Yes, that's us ☐ No, that's not us ☐ Don't know

> “ Models reach down to managers and employees across different versions and dimensions. We are also seeing an increase in the level of detail for banking products and services.”
>
> Tatiana Vlasova, Head of Financial Management, FG Life

Clearly, having a planning and modeling tool built around an in-memory calculation engine is essential for dealing with large amounts of data, but other factors are important as well. Data structures commonly found in business solutions, such as multi-dimensional cubes and relational tables that have served so well for analysis and reporting, are ill-suited to the dynamic modeling of the large amounts of data that are increasingly common in plans today. What is required is a hybrid solution in regards to data architecture that includes the ability to track cell level dependencies of individual data points (just like in spreadsheets), so that when changes are made to a model, the in-memory engine rapidly recalculates dependent values following the shortest calculation sequence to give instantaneous response times to queries.

Conclusion

If you answered "yes" to three or more of these signs, then your company has most likely outgrown its current planning processes—and your FP&A is going to get increasingly difficult in the future. Your responses suggest that your current planning does not meet your changing needs, particularly if core elements of your business planning are being driven outside the system. This is a red flag suggesting the time has come to re-evaluate your business needs.

Start today by reading our recent report by Harvard Business Review on three steps towards finance-led integrated business planning.

> " I wanted to joke that we put the 'A' back in FP&A. We needed a system to do the basic blocking and tackling so we had the time to help the business understand the "so what?" behind the data and advise the business on how best to take action."
>
> Mike Lemberg, VP of Finance, ServiceSource

About Us

Anaplan is driving a new age of connected planning. Large and fast-growing organizations use Anaplan's cloud platform in every business function to make better-informed plans and decisions and drive faster, more effective planning processes. Anaplan also provides support, training, and planning transformation advisory services. Anaplan is a privately held company based in San Francisco with 16 offices and over 150 expert partners worldwide To learn more, visit anaplan.com.

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