Financial Planning, Budgeting, and Forecasting
Managing in Uncertain Economic Times

January 2009
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Executive Summary

New economic conditions are driving companies to become increasingly cautious about the near-term future. A focus on improving flexibility to dynamically account for change has shifted focus away from budget accuracy, putting companies at risk of falling short of shareholder expectations. This report will serve as a roadmap to efficient planning, budgeting and forecasting for improved agility, accuracy and corporate performance.

Best-in-Class Performance

Aberdeen used four key performance criteria to distinguish Best-in-Class companies. These companies achieved significantly better results in the following metrics:

- 24% reduction in the budget process cycle time between the last two budget cycles
- 108% overall budget accuracy (ratio of actuals to budget)
- 68% always finalize budgets before the beginning of the fiscal year
- 17% improvement in profitability over the last 24 months

Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics:

- 72% of Best-in-Class have the ability to reforecast as market conditions change
- 92% of Best-in-Class have established enterprise-wide collaboration from the top-down and across departments / divisions during the planning process
- 70% of Best-in-Class have the visibility that allows them to drill down to successive level of detail and 60% have the ability to perform multi-dimensional roll-ups

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Concentrate on improving time-to-decision based on new forecast data
- Invest in planning, budgeting and forecasting applications
- Ensure these applications provide the ability to reforecast as market conditions change

Research Benchmark

Aberdeen’s Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations.

“We’ve never seen the kind of massive market changes as we have this year. Each quarter we do a re-forecast and make adjustments. We look at how we did against the budget which is frozen, but manage against the quarterly re-forecast. This year we are starting to look out a couple years, but I’m not sure if that is the right thing to do. We can’t see what is happening two months from now. The cost of metals has been sky-rocketing for the last two years but is coming down now. Like gas prices today, they are enormously volatile.”

~Joe Spyhalski, Manager of Cost and Budgets, East Jordan Iron Works
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Chapter One: Benchmarking the Best-in-Class

Business Context
Planning, budgeting, and forecasting lay the foundation for any effective business plan. Economic uncertainty makes it difficult to set clear goals and objectives and sustain a financial plan which supports them. Organizations must become more agile with their planning, budgeting and forecasting capabilities - now more critical than ever for success and survival during volatile economic times. The business climate is characterized by change and compounded by global influences spawning distributed environments and squeezed margins.

Aberdeen’s survey of over 150 companies found subtle shifts in pressures impacting the planning, budgeting and forecasting process since early in 2008. While speed, agility and accuracy dominated the horizon last year, we see the need to improve agility to adapt to changing conditions rise from the number two pressure last year to number one this year (Figure 1).

Aberdeen’s April 2008 Financial Planning and Budgeting report found that the top pressure impacting these critical processes was the need to improve the accuracy of the budget (42%). While still an issue for 27% of those not Best-in-Class, this pressure has plummeted to the bottom of the list for top performers.

Figure 1: Pressures Change with Better Performance

- Need to be flexible & dynamic to account for change (Agility)
- Improve cost control for all corporate cost centers
- Need decision-makers throughout enterprise to "buy in" to planning & have ownership
- Need to reduce time for budgeting/forecasting (Efficiency)
- Need to better align budgeting with strategic goals of the company
- To improve the accuracy of the budget

The Best-in-Class are now feeling even more pressure to respond to the turbulent economy with increased agility. In April 2008 Aberdeen viewed
(what was then) the number-two pressure as a result of an era where the only constant was change. Not only have general markets become more volatile, the economy has plunged deeper into a recession, causing the reevaluation of many plans and budgets, shifting focus to a different set of objectives, making the more dynamic forecast a much more critical component of the process.

While also the top issue for the rest of the pack (38%), the need for agility is not quite so dominant, with demand for better alignment and the need for improved cost control close behind at 32%. With better controls and improved profitability, the Best-in-Class are able to apply more focus to this important aspect of the equation.

The Maturity Class Framework

Aberdeen used four key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations (Table 1). We first evaluated the budget process itself, including year over year improvements in the cycle time, which influences the organization’s ability to finalize budgets prior to the beginning of the new fiscal period. We then looked at the accuracy of the overall budget and also tempered this with the ability to grow profits over the last 24 months. Without preservation and / or improvements in profitability, the overall goals of the planning and budgeting process are compromised.

Table 1: Top Performers Earn Best-in-Class Status

<table>
<thead>
<tr>
<th>Definition of Maturity Class</th>
<th>Mean Class Performance</th>
</tr>
</thead>
</table>
| **Best-in-Class:** Top 20% of aggregate performance scorers | • 24% reduction in the budget process cycle time between the last 2 budget cycles  
• 108% overall budget accuracy (ratio of actuals to budget)  
• 68% **always** finalize budgets before the beginning of the fiscal year  
• 17% improvement in profitability over the last 24 months |
| **Industry Average:** Middle 50% of aggregate performance scorers | • 6% reduction in the budget process cycle time between the last 2 budget cycles  
• 94% overall budget accuracy (ratio of actuals to budget)  
• 43% **always** finalize budgets before the beginning of the fiscal year  
• 8% improvement in profitability over the last 24 months |
| **Laggard:** Bottom 30% of aggregate performance scorers | • 1% reduction in the budget process cycle time between the last 2 budget cycles  
• 77% overall budget accuracy (ratio of actuals to budget)  
• 34% **always** finalize budgets before the beginning of the fiscal year  
• 9% **drop** in profitability over the last 24 months |

Source: Aberdeen Group, January 2009
In determining Best-in-Class performance in terms of budget accuracy, Aberdeen viewed 100% accuracy as the ideal. Yet realistically, companies will (and should) execute plans to maximize revenue and profits and therefore must take into account changing business conditions, perhaps sacrificing budget accuracy for the overall health of the business. Therefore, Aberdeen penalized companies more for over-spending and under-performing in terms of revenue than for under-spending and exceeding revenue targets.

**Year over Year Trends in Performance**

In calculating year over year trends, we see the Best-in-Class surging ahead with even better improvement in budget cycle times (24% improvement this year as compared to 19% improvement last year), although we saw no improvement in the percentage (68%) which always finalize budgets before the beginning of the fiscal year. Industry Average companies maintained the same improvement levels (6%) but are 43% more likely this year to complete the process and finalize budgets before entering the new fiscal year. Laggards continue to fall further behind, with a 1% increase in cycle time, although they are not losing ground quite as quickly as last year, which saw a 7% increase. Laggards are at least recognizing their lack of speed by starting the process earlier, as evidenced by a 112% improvement in finalizing budgets before the end of the fiscal year.

Budget accuracy, which is now viewed with less urgency, has dipped significantly (Table 2). Aberdeen views 100% accuracy as the ideal. A budget which is 100% accurate can be reflective of either an accurate prediction of both revenue and costs, or good controls in place to manage against the budget, or both. While some may find satisfaction in "beating" estimates by exceeding revenue plans or undercutting costs, this is not the hallmark of an accurate budget. The fact that this business driver dropped in perceived significance is reflected in poorer performance across the entire competitive framework.

<table>
<thead>
<tr>
<th>Budget Element</th>
<th>Year</th>
<th>Best-in-Class</th>
<th>Industry Average</th>
<th>Laggard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accuracy of budgeted revenue to actual revenue</td>
<td>2008</td>
<td>100%</td>
<td>98%</td>
<td>92%</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>101%</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>Accuracy of budgeted cost to actual cost</td>
<td>2008</td>
<td>99.7%</td>
<td>100.2%</td>
<td>94.5%</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>106%</td>
<td>94%</td>
<td>92%</td>
</tr>
<tr>
<td>Overall budget accuracy (reflective of profits)</td>
<td>2008</td>
<td>101%</td>
<td>98%</td>
<td>87%</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>108%</td>
<td>94%</td>
<td>77%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, January 2009

Even the Best-in-Class are not exempt from this drop in performance. The only saving grace in their decline in accuracy was the fact that they
exceeded profit goals, but did so at a higher cost than budgeted. This is counter-intuitive. Exceeding budgeted costs can be easily explained with rising prices of energy, commodities and other materials. But common sense tells us that if you exceed budgeted costs by 6% and only beat revenue targets by 1%, profits should fall short. And yet our Best-in-Class exceeded profit goals in the aggregate by 8%. This caused us to investigate further. Perhaps several outliers (companies which far exceeded expectations) were skewing the aggregate averages. This proved not to be the case, which tells us that profitability goals are not necessarily properly aligned with cost and revenue budgets and even the Best-in-Class are allowing for too much slack in profits.

In terms of the 80% of respondents which are not Best-in-Class these numbers fall more neatly into place, with under-spending producing predictable shortfalls in revenue and profits.

**The Best-in-Class PACE Model**

Tuning the financial planning, budgeting and forecasting process to achieve corporate goals requires a combination of strategic actions, organizational capabilities, and enabling technologies that can be summarized as follows:

- Develop and automate the process to provide the agility needed to respond with revised forecasts as business conditions change
- Improve data quality or face the possibility of making plans and decisions which are not well-grounded in reality
- Collaborate throughout the enterprise, aligning and integrating sales forecasts and financial plans and budgets

**Table 3: Best-in-Class PACE Framework**

<table>
<thead>
<tr>
<th>Pressures</th>
<th>Actions</th>
<th>Capabilities</th>
<th>Enablers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need for flexibility and agility to dynamically anticipate and account for change</td>
<td>Improve data quality</td>
<td>Ability to re-forecast as market conditions change</td>
<td>Workflow automation</td>
</tr>
<tr>
<td></td>
<td>Develop a planning / budgeting / forecasting workflow process</td>
<td>Ability to incorporate business drivers into the on-going forecasting process</td>
<td>Performance management applications</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Capability to perform “what if” scenarios and change analysis</td>
<td>Budgeting / forecasting applications</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ability to integrate and align sales forecasts with overall business revenue and cost forecasts</td>
<td>Financial reporting and consolidation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Able to perform multi-dimensional reporting with roll-ups</td>
<td>Query and reporting tools</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Event management (triggers / alerts)</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, January 2009
Best-in-Class Strategies

The shift in Best-in-Class strategic actions from 2008 to 2009 is far from subtle. We see a complete flip in terms of priorities year over year. The top strategy from 2008, automating process flows, is now at the bottom of the list while last year’s last place finish, improving data quality, is this year’s main priority. Why the shift? First, 100% of the Best-in-Class have invested in applications to assist in the planning process, which inherently brings process automation into play. Now they must turn their attention to making better use of these applications through the formalization and development of processes built around these applications. The most important element of that process refinement is now insuring the quality of the data presented by these applications. With the proliferation of data today, decision makers have become increasingly dependent on it. Yet as the volume increases, we run the risk of the quality diminishing (Figure 2).

Figure 2: Strategic Actions of the Best-in-Class

<table>
<thead>
<tr>
<th>Action</th>
<th>% of Best-in-Class 2009</th>
<th>% of Best-in-Class 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve data quality</td>
<td>52%</td>
<td>23%</td>
</tr>
<tr>
<td>Develop formal planning / budgeting / forecasting workflow process</td>
<td>40%</td>
<td>33%</td>
</tr>
<tr>
<td>Involve more decision-makers in planning / budgeting / forecasting process</td>
<td>40%</td>
<td>42%</td>
</tr>
<tr>
<td>Develop a consolidated view of process and results, to be available on demand</td>
<td>28%</td>
<td>37%</td>
</tr>
<tr>
<td>Automate process flows associated with budget process</td>
<td>53%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, January 2009

By eliminating manual steps and automating the data gathering process itself, results are significantly enhanced. This also creates the opportunity to involve more decision-makers from various areas of the business, whether defined by job role or level within the organization.

“We simply use Excel spreadsheets because they are familiar to everyone, and there is very little training required. One of the downsides to this approach is that we continually have to audit the data and determine if there have been mistakes or corrupted formulas.”

~Operations Director, Mid-Tier Health Services Organization
The increased need for agility puts a higher priority on the ability to forecast… and re-forecast, either on a periodic basis or on demand as business conditions change. While the ability to re-forecast on a monthly basis or on demand seems to be the goal of the majority of our survey respondents (62%), a third are still only able to do so on a quarterly basis (Figure 3).

Figure 3: Overall Frequency of Forecast

However, not all elements of the budget or plan receive the same level of focus and frequency. Revenue, which provides the lifeblood of any business, is most likely to be re-forecast on a monthly basis (51%), followed by departmental cost budgets. Headcount on a department or group basis is slightly more likely to be re-evaluated monthly (30%) than on an enterprise-wide basis (26%), indicating there might be some shuffling of employees, keeping the overall budget for Full Time Employees (FTEs) constant. Overall headcount is most likely to be re-evaluated on a quarterly or annual basis (53%).

But the real value of re-forecasting is provided by the ability to perform "what-if" analyses. What will be the impact on the business if there is a decline or surge in revenue? How will it impact marketing staff or headcount, or Research and development? Figure 5 shows that the Best-in-Class are significantly more likely to apply "what-if" scenarios during the re-forecast process, but again, not all elements are treated equally. Revenue, being the basic driver that fuels the business is most likely to be analyzed on this basis.
But what effect does this re-forecast have on the overall budget? Here we see a definitive shift in thinking amongst our Best-in-Class from last year. Top performers are half as likely as they were a year ago to leave budgets static throughout the year. While this modification is still extremely rare in about a third of the Best-in-Class, almost half (44%) will adjust the budget with the proper justification, again reinforcing the need and desire for agility.

Best-in-Class further differentiate themselves in choosing a budget methodology. While 45% less likely to simply prepare budgets based on historical data (particularly dangerous in a climate of volatility), Best-in-Class are 157% more likely to use Performance Based Budgeting (PBB) results-oriented planning and budgeting. We also observe a small number (9% of all respondents) moving towards driver based budgeting, with Best-in-Class 33% more likely to employ this methodology.
Chapter Two: Benchmarking Requirements for Success

The selection of a financial planning, budgeting and forecasting solution (which may involve separate components or can be obtained as a packaged solution) and the integration of these capabilities with business intelligence and business process management systems plays a crucial role in the ability to turn these strategies into profit.

The following case study illustrates the experiences of one company’s journey from a manual, labor-intensive process, to one that provides improved management control and agility during uncertain economic times.

Case Study — DataServ OnDemand

DataServ, L.L.C, (DataServOnDemand.com) is a St. Louis, MO based global provider of document management solutions delivered within a Software as a Service (SaaS) deployment model to hundreds of customers via a direct sales and service team and through a partner network. Founded in 1994, the company focuses on management of documents throughout the transaction cycle, reflecting every facet of a document’s lifecycle within an organization. The company specializes in document and process automation for purchase to pay, quote to cash, and hire to retire scenarios.

In 2007, the company transitioned its annual financial planning, budgeting and forecasting process from a local desktop application to a packaged system offered via a SaaS deployment. Jennifer Cole, the company’s Financial Analyst, was brought on-board to help manage the transition and to create a new, more automated process for creating annual revenue forecasts, budgets and an overall financial plan.

“Our budgeting process has always been conducted on an annual basis, and the old tools we were using were manual in nature and required a lot of human effort to input the data. This resulted in errors that were time-consuming to uncover and fix,” states Cole. “In September of 2007, we implemented a SaaS-based planning, budgeting and forecasting system in order to more fully automate the process.”

DataServ, L.L.C converted from a legacy desktop application to a new SaaS system. The raw data from the legacy desktop needed to be allocated to each individual department to allow for proper department / account allocation. There are 13 departments that are now managed independently which then rolls-up to the corporate budget. Through this process and the combination of activity-based and driver-based budgeting, some interesting items were immediately discovered.

continued
"We found that it was not uncommon for us to have an expense budgeted in two separate departments, thus creating additional unnecessary expense. The new visibility we achieved by comparing budgets at a more granular level of detail allowed us to not only discover this issue, but remove the overlaps and shorten the overall budgeting cycle," continues Cole. "The budget is scrutinized closely because each department has a significant impact upon the bottom line, not just a specific line item."

The company’s planning and budgeting cycle time was reduced from five months, in 2007 to 2008, to just two months in 2008 to 2009 (the company runs on a calendar fiscal year). Moreover, the company was able to complete its planning process prior to the start of the fiscal period as opposed to the previous year’s process which continued two months into the new period. Additionally, the company was able to perform a mid-year re-forecast and planning cycle that allowed for greater agility throughout the economic downturn in mid-to-late 2008.

“We performed a mid-year revision in June of 2008 and found that this was an important capability. To be able to revise at mid-year, at a minimum, is critical in order to respond to changing market conditions. The important thing is that we are now better prepared for change because we can continually see actual versus plan data during the year, and understand the real-time implications of decisions during the budgeting or re-forecast process. The drivers for our budget revolve around our product innovation and development. This dictates a lot of the business performance and revenue and cost,” concludes Cole.

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) process (the approaches they take to execute their daily operations); (2) organization (corporate focus and collaboration among stakeholders); (3) knowledge management (contextualizing data and exposing it to key stakeholders); (4) technology (the selection of appropriate tools and effective deployment of those tools); and (5) performance management (the ability of the organization to measure their results to improve their business). These characteristics (identified in Table 4) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.
Table 4: The Competitive Framework

<table>
<thead>
<tr>
<th></th>
<th>Best-in-Class</th>
<th>Industry Average</th>
<th>Laggard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process</td>
<td>Ability to reforecast as market conditions change</td>
<td>72%</td>
<td>53%</td>
</tr>
<tr>
<td></td>
<td>Ability to incorporate business drivers into the on-going forecasting process</td>
<td>40%</td>
<td>33%</td>
</tr>
<tr>
<td>Organization</td>
<td>A combination top-down and bottom-up approach is taken in the planning / budgeting process</td>
<td>52%</td>
<td>44%</td>
</tr>
<tr>
<td></td>
<td>Ability to drill down to successive levels of detail from summaries</td>
<td>70%</td>
<td>56%</td>
</tr>
<tr>
<td>Knowledge Management</td>
<td>Able to perform multi-dimensional reporting with roll-ups</td>
<td>60%</td>
<td>56%</td>
</tr>
<tr>
<td></td>
<td>Participants in the planning / budgeting / forecasting process are automatically guided through steps</td>
<td>44%</td>
<td>34%</td>
</tr>
<tr>
<td>Performance</td>
<td>Improvement in time-to-decision based on new forecast data (the organization's ability to react to new forecast data) over the last 24 months</td>
<td>19%</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>Revenue growth over the last 24 months</td>
<td>14%</td>
<td>7%</td>
</tr>
<tr>
<td></td>
<td>Planning / budgeting / forecasting applications implemented either as a stand-alone application or as a feature of ERP</td>
<td>100%</td>
<td>80%</td>
</tr>
<tr>
<td>Technology</td>
<td>Corporate or enterprise performance management</td>
<td>46%</td>
<td>29%</td>
</tr>
<tr>
<td></td>
<td>Event management (triggers and alerts)</td>
<td>30%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, January 2009

Capabilities and Enablers

Based on the findings of the Competitive Framework and interviews with end users, Aberdeen’s analysis of Best-in-Class respondents demonstrates that a combination of process, organizational, knowledge and performance management capabilities combined with specific technology enablement is likely to lead to top performance. The following sections provide quantitative and qualitative analysis of these findings in order to assist:

“We require a justification for any expenditure; even financial applications must have a business case. We do not simply let end user groups buy a system, but we require justification that includes a financial benefit to the company.”

— Jeff Ward, Manager General Financial Systems; LMHS

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readers with their own planning, budgeting and forecasting processes and initiatives.

The following case study highlights how one company has made the transition from manual to automated capabilities for improved process efficiencies.

### Case Study — Mannatech Incorporated

Mannatech Incorporated, founded in 1994, is a global wellness solutions provider of innovative, high-quality, proprietary dietary supplements, skin care products, and weight management products sold through independent associates and members located in the United States and the international markets of Canada, Australia, the United Kingdom, Japan, New Zealand, the Republic of Korea, Taiwan, Denmark, Germany, South Africa, and Singapore.

Worldwide, Mannatech employs about 540 people, and sells its products through approximately 530,000 independent associates and members through a network distribution channel model. The company’s Budget Director, Brigitte Fanale, started with the company in 2000, when the company was selling in five countries and the entire budgeting and planning process was handled within a spreadsheet environment.

“This required that we handle everything manually, including conversion of local country currencies,” states Fanale. “The consolidation process was tricky because some groups worked from different spreadsheets and there was a lot of manual manipulation. We were spending a lot of time and effort with these manual processes, and as the company grew we realized that we needed to move beyond spreadsheets to something that allowed more automation.”

By 2003, the “pain” associated with manual processes had become acute enough to justify investigation of planning, budgeting and forecasting solutions. The company selected a provider that offered an incremental approach to the adoption of their technology, and started with an implementation that allowed the manual spreadsheet process to be managed within a budgeting application where licensed database users entered data in templates set up in the system. This first step allowed the company to create budget versus actual comparison reports without the errors and manual processes associated with spreadsheets. This led to the adoption of more advanced system capabilities with enhanced functions such as a personnel planning module in 2005. In addition, daily actual G/L data imports provided improved data integrity.

continued
Case Study — Mannatech Incorporated

Fanale continues, “For three years we have used the system to produce budgeting and planning reports or versions. In August of 2008, we moved to a SQL server-edition that supports direct access to our SQL database. This upgrade is what we used to create our 2009 budgets. For the first time ever we now have a direct ODBC link to our SQL database. This allows us to receive actual data instantly updated on the server in real-time which removes a painstaking reconciliation process. There are over 800 input and rollup accounts and over 400 members of organizations that provide us data that can be ‘sliced and diced’ in various ways.”

The company has already realized significant savings in the form of a substantial reduction in the annual budget and quarterly reforecast process cycle time. As Mannatech has moved to more sophisticated and enterprise-scale versions of the software, the performance improvements have continued to increase. The company’s agility has also been positively affected.

Fanale concludes, “We are currently performing various revisions of the budget due to the shifting economy and declining sales in a recession. We want to be able to understand the ‘what-if’ scenarios based on economic trends so we can be better positioned to adjust quickly. Prior to enabling the organization with the new system, this was a more time-consuming and cumbersome process to check-out the assigned databases for updates and check-in to the server for the consolidation process. Often it required extra time by the budget administrator and licensed update users to complete the tasks within the timeframe set by management. The ‘drill across’ function included with our new system allows us to obtain monthly G/L transaction details by account without having to ask accounting staff for assistance. The SQL server system is much more user-friendly to perform budget and re-forecast responsibilities. The process of entering data on the accounts – at real-time which is instantly updated on the server – is possible in a few minutes or hours but to have the CEO and president, CFO, dept heads, country GM’s, and the Board of Directors agree and approve the budget and reforecast totals could take a ‘set timeframe’ of about 1 to 2 weeks, but it can take longer if various revisions need to be made.”

Process

End user organizations have clearly identified that the top business pressure driving their planning, budgeting and forecasting initiatives is the need to become more agile, particularly during the current economic uncertainty. This highlights the top-most Best-in-Class process capability - the ability to re-forecast the business as conditions change. For some companies, this may be a bi-annual or quarterly process. In extreme cases, it may require the ability to re-forecast on an ad hoc basis without a formal closing of books at month-end or quarter-end. Best-in-Class companies are 36% more likely to
have developed this capability, either through internal process improvements, technology, or both (Figure 6).

Figure 6: Best-in-Class Forecasting Process Capabilities

![Bar chart showing the percentage of Best-in-Class, Industry Average, and Laggard companies for two measures: 1) Ability to reforecast as market conditions change; 2) Ability to incorporate business drivers into the ongoing forecast.]

<table>
<thead>
<tr>
<th>Measure</th>
<th>Best-in-Class</th>
<th>Industry Average</th>
<th>Laggard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to reforecast as market conditions change</td>
<td>72%</td>
<td>53%</td>
<td>47%</td>
</tr>
<tr>
<td>Ability to incorporate business drivers into the ongoing forecast</td>
<td>40%</td>
<td>33%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, January 2009

As a margin-based business, we look primarily at financial and production metrics as critical drivers to our budgeting process. Although a lot of the data is gathered manually today, we are looking into an enterprise system that will help to automate the process, and deliver daily performance indicators."

~CIO, Mid-Tier Manufacturing Company

In addition to re-forecast capability, Best-in-Class companies are also more apt to incorporate business drivers into their ongoing forecasting process. This becomes particularly important in scenarios that involve volatile drivers (i.e. the price of fuel, raw materials, or the availability of expert talent). While a third or more of top and average performers are currently able to incorporate business drivers into the forecasting process, only a quarter of Laggard companies have obtained this ability. A combination of both process capabilities highlighted in Figure 6 provides the most compelling on-going forecast process for use during uncertain and unstable economic scenarios.

Organization

The planning, budgeting and forecasting process cannot be successful if it is conducted in a vacuum or without the proper level of collaboration from internal stakeholders. Best-in-Class companies are more likely to prioritize collaboration from all three directions during the planning and budgeting process: top-down, bottom-up and a combined top-down-bottom-up approach (Figure 7).
“By using actual numbers in the budget calculations, things stay in control. From the top down, management receives automated reports when budget segments are finalized. They receive them via an email alert. Managers can easily pick through information and find anomalies, make corrections or require additional bottom-up iterations. The managers can then perform a ‘final budget send’ to allow everyone to see if they are over or under budget thresholds. We also use a ‘flex budget’ – if the budgeted volumes do not meet expectations, the budget will automatically shrink or grow accordingly.”

~ Sr. Controller, Large US Insurance Company

It is not enough to establish a planning and budgeting process that only allows for collaboration in one direction. As an enterprise, Best-in-Class companies are more likely to allow a combined approach (Figure 8) and therefore are also more likely to incorporate a formal collaboration capability whether the budgets and related documents are being reviewed from the top-down, or from the bottom-up.

Knowledge Management

Successful budgeting initiatives are measured in many ways, and respondents have indicated that the cycle time from initial draft to final approved budget and forecast is important. Best-in-Class companies have reduced their cycle times by 24% in the past year-over-year period, compared to only 5% of all others. In fact Laggard companies have seen virtually no decrease at all. Interviews with respondents reveal that one of the top methods for reducing cycle time is to formalize and automate the planning, budgeting and
forecasting steps and offer end users a guided step-by-step process (Figure 9).

**Figure 9: Best-in-Class Knowledge Management Capabilities**

<table>
<thead>
<tr>
<th></th>
<th>Best-in-Class</th>
<th>Industry Average</th>
<th>Laggard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participants in the planning / budgeting / forecasting process are automatically guided through steps</td>
<td>44%</td>
<td>34%</td>
<td>30%</td>
</tr>
<tr>
<td>Process exceptions can trigger an alert as they occur</td>
<td>20%</td>
<td>13%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, January 2009

Highly advanced organizations will also automate the triggers that alert planning / budgeting / forecasting stakeholders to changes and process exceptions that need to be addressed. This involves the ability to set business rules that are based on the step-by-step process as defined in the capability described previously, and the ability to tie specific process events (i.e. missing sign-off or approval on a budget submission) to alert actions that are sent to specific individuals with the authority to accept or reject the current document or iteration.

**Technology**

In addition to the technological capabilities highlighted in the Competitive Framework in Table 4, there are several technology management aspects to achieving a Best-in-Class planning, budgeting and forecasting result. Process exceptions are one type of event that can trigger alerts, and in addition, there are also both internal and external business events that can and should trigger automated alerts to planning, budgeting and forecasting stakeholders (Figure 10).

**Figure 10: Best-in-Class Event Management Capabilities**

<table>
<thead>
<tr>
<th></th>
<th>Best-in-Class</th>
<th>All Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>External events (i.e. industry or financial indices) can trigger an alert to adjust forecasts</td>
<td>28%</td>
<td>20%</td>
</tr>
<tr>
<td>Internal events (i.e. contract fluctuations, missed schedules, lost orders) can trigger an alert to adjust forecasts</td>
<td>46%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, January 2009

“The issue we generally run into involves major new business being closed that requires new offices, staff and business systems development. In our environment, our average new business sale increases our revenue stream 25% to 50% in a very short time window. Thus, our revenues and the associated expenses have over-run our projections by 100% or more in many of the last 10 quarters.”

~ Sr. Director of Business Development; Mid-Tier US-Based Telecommunications Company
External events can include broad industry factors such as a rise in raw materials costs, a political or socio-economic shift in a major geographic market, or they can include specific external forces such as a new competitor entering a market. Internal events are more typically integrated into the planning process by Best-in-Class companies, and include forces such as the items listed in Figure 11, or other occurrences, such as the loss or unplanned leave of key personnel.

Another technological capability that Best-in-Class companies possess at higher levels involves the ability to perform in-depth analysis and reporting on planning, budgeting and forecast data. The level of granularity that can be achieved is directly related to the depth of understanding that can be gained from data, and the quality improvement of planning and budgeting decisions that result. Multi-dimensional reporting with the ability to perform roll-ups (at any level) provides the ability to view an organization from many perspectives and permutations, and instantly roll up the new perspective in order to see a consolidated result.

Once roll-ups and summaries are delivered, Best-in-Class companies are more likely to be able to drill down to successively detailed and granular levels of the data. This allows for enhanced analysis and rapid understanding of the effects of decisions made at the summary level on individual departments or line items within a budget or forecast. This is critical to an organization’s ability to improve cycle times and accuracy while maintaining agility to respond to changing conditions, and understand how these changes affect the lowest levels of the organization (Figure 11).

**Figure 11: Best-in-Class Technology Management Capabilities**

![Figure 11: Best-in-Class Technology Management Capabilities](image)

Source: Aberdeen Group, January 2009

**Performance Management**

Finally, in addition to the performance results described in the Competitive Framework, Best-in-Class companies are achieving far greater performance when it comes to providing access and visibility to process stakeholders (Figure 12).
Best-in-Class companies have improved visibility (and therefore participation) by more than three times the rate of Laggard companies, and 50% greater than Industry Average companies.

Visibility is also associated with a factor that was discussed during interviews with respondents - organizational buy-in. Perhaps more than any quantifiable metric that can be measured, the degree to which an enterprise, as a whole "buys in" to the planning, budgeting and forecasting process, the higher likelihood of a smoother, more accurate and ultimately more agile process overall. This visibility can be gained through technological means including reporting, dashboards, performance management applications, and other analytical and visualization tools that enable a higher degree of visibility and access to relevant information.

“Our spreadsheet-based process was time consuming, and there was a huge potential for error. Manual manipulation of spreadsheet data made it easy for us to input the wrong information, or to remain unaware of a formula that was functioning improperly. The big thing is time. Process cycle time and accuracy are both critical but time was the most impacted by our move to an automated system.”

~ Chuck Greenough CPA,
Director, Accounting Services,
Washington State Board for Community & Technical Colleges

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**Aberdeen Insights — Technology**

The April 2008 *Financial Planning and Budgeting* study examined the role of spreadsheets within the planning, budgeting and forecasting process. Over the past year, we have found that spreadsheets continue to be an integral part of the overall equation.

Best-in-Class companies are less likely to use spreadsheets in almost every aspect of planning, budgeting and forecasting than their Industry Average and Laggard counterparts. Interestingly, 15% of all respondents report that spreadsheets remain their primary method today despite having purchased and implemented another solution or solutions intended to replace them. An additional 16% report that they are planning to replace their current spreadsheet-based approach within the next 12 months.

"Our spreadsheet-based process was time consuming, and there was a huge potential for error. Manual manipulation of spreadsheet data made it easy for us to input the wrong information, or to remain unaware of a formula that was functioning improperly. The big thing is time. Process cycle time and accuracy are both critical but time was the most impacted by our move to an automated system.”

~ Chuck Greenough CPA,
Director, Accounting Services,
Washington State Board for Community & Technical Colleges
One of the most popular features of operational applications is the ability to export data directly to a spreadsheet application, so it is not surprising that this is the most popular role that spreadsheets play. But it is the level of control and access to this data that is critical to understand. Best-in-Class companies are far less likely to export data into manually shared spreadsheets at the initiation of a planning / budgeting / forecasting project, and are also less likely to use spreadsheets as the input mechanism for the first and possibly subsequent iterations of the overall process. Best-in-Class companies are less than half as likely to identify spreadsheets as the only communication mechanism throughout the process (Figure 13).

Figure 13: The Role of Spreadsheets

“Spreadsheets are still a part of the process. For our next two budget cycles, I’ll utilize spreadsheets for our labor budget as a check of our budgeting and planning system. The labor data will be loaded into both the spreadsheet model and the budgeting system. The spreadsheets will be used to verify that the budgeting system is deriving the same results. If this works, the spreadsheets will be phased out for the 2011 budget and labor planning will be done entirely in the budgeting and planning system.”

~ Steve Pierson, Manager, Financial Planning and Analysis, ELCA Board of Pensions
Chapter Three: Required Actions

Whether a company is trying to move its performance in Financial Planning, Budgeting and Forecasting from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements:

Laggard Steps to Success

- **Combine a top-down and bottom-up approach to the planning and budgeting process.** The Best-in-Class are 33% more likely to combine these two. The top-down approach ensures stated goals are reflected in budgets throughout the organization. The bottom-up approach involves more budget owners directly.

- **Invest in planning, budgeting and forecasting applications.** While 100% of the Best-in-Class have implemented these solutions either as a stand-alone application or as a feature of ERP, less than two thirds of Laggards have done so.

- **Improve visibility from top to bottom, throughout the planning, budgeting and forecasting process.** The Best-in-Class are almost 80% more likely to be able to drill down to successive levels of detail from summaries. This is an important capability, which can be provided by the appropriate financial planning, budgeting and forecasting applications Aberdeen recommends implementing.

Industry Average Steps to Success

- **Concentrate on improving time-to-decision based on new forecast data.** While Industry Average companies doubled the improvement of Laggards (8% versus 4%), they still significantly lag behind Best-in-Class, which achieved a 19% improvement over the last 24 months. Automatically guiding participants through the planning process through automation is critical, as well as providing the necessary levels of visibility with drill-down capabilities and multi-dimensional roll-ups.

- **Ensure planning, budgeting and forecasting applications provide the ability to reforecast as market conditions change.** Industry Average companies are 60% more likely than Best-in-Class to leave budgets fixed for the entire fiscal period, never implementing changes, while Best-in-Class are 36% more likely to reforecast as conditions change and 21% more likely to incorporate business drivers into the on-going forecasting process.

- **Implement applications to facilitate corporate or enterprise performance management.** This is an important step in realizing the goal of improved decision-making and Industry
Average companies are only slightly (11%) more likely to have implemented these tools than Laggards.

**Best-in-Class Steps to Success**

- **Extend applications with advanced technology features including workflow and event management.** One hundred percent (100%) of Best-in-Class companies have invested in planning, budgeting and forecasting applications, whether they are embedded within an ERP or stand-alone application. However event management, with its ability to trigger alerts as exceptions occur, is utilized by less than a third of the Best-in-Class (30%). While 44% automatically guide employees through the budget process (leaving more than half without this important feature), event management facilitates collaboration and management by exception, notifying middle to senior levels of management of completion or the failure to complete steps.

- **Adopt performance or driver based budget methodologies.** Year over year comparisons show that the Best-in-Class have shifted their focus to concentrate more on the overall health and profitability of the business rather than managing rigorously against a fixed budget. Whereas the Best-in-Class achieved 101% overall budget accuracy a year ago, that accuracy dropped to 108% this year. While revenue targets were quite accurate at 101%, rising costs, inflation and other factors in an uncertain economy forced them to over-spend at 106% of cost budgets. While Best-in-Class are 45% less likely to simply base budgets on historical data, only 36% employ Performance Based Budgeting (PBB) and even fewer (12%) take a driver-based approach. These methodologies help shift the focus away from the rear-view mirror in order to concentrate on the road ahead.

"We are continually forced to build a new business model several times per year, effectively negating the budget and planning documents. In this situation, the planning and budgeting process is considered more as a baseline plan implemented with the full realization that it will be completely re-vamped several times during the year through multiple re-forecast cycles."

~ Sr. Director of Business Development; Mid-Tier US-Based Telecommunications Company

**Aberdeen Insights — Summary**

In difficult economic times, forecasting, and the ability to incorporate business drivers into the ongoing (re-)forecast becomes a critical success factor. The ability to align sales forecasts with the overall business revenue and cost forecasts, compensating for external (industry trends or financial indices) and internal (contract fluctuations, missed schedules, lost or late orders) are all leading indicators of whether companies will succeed or perhaps even survive in these turbulent times.

The need to be flexible and dynamic to account for change, while the overriding market pressure today, must not override the need for accurate of forecasts. These two factors, combined with careful cost control will become the hallmark of success as top management, board members, and investors demand more accountability and predictability.
Appendix A: Research Methodology

In December 2008, Aberdeen examined the use, the experiences, and the intentions of more than 150 enterprises performing financial planning, budgeting and forecasting in a diverse set of industries and enterprises.

Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on financial planning, budgeting, and forecasting strategies, experiences, and results.

Responding enterprises included the following:

- **Job title / function:** The research sample included respondents with the following job titles: CEO, COO, or President (18%); CIO (3%); CFO (8%); Vice President (10%); Director (16%); Manager (25%).

- **Industry:** The research sample included respondents from the following industries: manufacturing (39%); IT consulting and services (13%); finance / banking / insurance (10%); wholesale / retail / distribution (8%); non-profit organizations (8%); other services (17%).

- **Geography:** The majority of respondents (72%) were from North America. Remaining respondents were from Europe (13%), Asia / Pacific (12%), and other (3%).

- **Company size:** Sixteen percent (16%) of respondents were from large enterprises (annual revenues above US $1 billion); 44% were from midsize enterprises (annual revenues between $50 million and $1 billion); and 40% of respondents were from small businesses (annual revenues of $50 million or less).

- **Headcount:** Thirty-five percent (35%) of respondents were from large enterprises (headcount greater than 1,000 employees); 41% were from midsize enterprises (headcount between 101 and 1000 employees); and 24% of respondents were from small businesses (headcount between 1 and 100 employees).

Solution providers recognized as sponsors were solicited after the fact and had no substantive influence on the direction of this report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.
Table 5: The PACE Framework Key

<table>
<thead>
<tr>
<th>Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</td>
</tr>
<tr>
<td><strong>Pressures</strong> — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</td>
</tr>
<tr>
<td><strong>Actions</strong> — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy)</td>
</tr>
<tr>
<td><strong>Capabilities</strong> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing)</td>
</tr>
<tr>
<td><strong>Enablers</strong> — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, January 2009

Table 6: The Competitive Framework Key

<table>
<thead>
<tr>
<th>Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</td>
</tr>
<tr>
<td><strong>Best-in-Class (20%)</strong> — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</td>
</tr>
<tr>
<td><strong>Industry Average (50%)</strong> — Practices that represent the average or norm, and result in average industry performance.</td>
</tr>
<tr>
<td><strong>Laggards (30%)</strong> — Practices that are significantly behind the average of the industry, and result in below average performance.</td>
</tr>
</tbody>
</table>

In the following categories:
| Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process? |
| Organization — How is your company currently organized to manage and optimize this particular process? |
| Knowledge — What visibility do you have into key data and intelligence required to manage this process? |
| Technology — What level of automation have you used to support this process? How is this automation integrated and aligned? |
| Performance — What do you measure? How frequently? What’s your actual performance? |

Source: Aberdeen Group, January 2009

Table 7: The Relationship Between PACE and the Competitive Framework

<table>
<thead>
<tr>
<th>PACE and the Competitive Framework – How They Interact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformative and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, January 2009
Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report include:

- **The Order-to-Cash Cycle: Integrating Business Processes to Improve Operational Performance**; March 2008
- **Business Intelligence Deployment Strategies**; April 2008
- **Financial Planning and Budgeting**; April 2008
- **Predictive Analytics, The BI Crystal Ball**; May 2008
- **Is Your GRC Strategy Intelligent?**; July 2008
- **Operational KPIs and Performance Management**; August 2008
- **Do More with Less: Merging Enterprise Applications with Desktop Tools**; September 2008
- **Shifting Sands of Globalization Strategies: Building a Firm Foundation with Enterprise Applications**; October 2008

Information on these and any other Aberdeen publications can be found at [www.Aberdeen.com](http://www.Aberdeen.com).

Authors: Cindy Jutras, Group Vice President, cindy.jutras@aberdeen.com; David Hatch, Vice President and Principal Analyst, david.hatch@aberdeen.com

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