

# INTRODUCTION TO PLANNING, BUDGETING AND FORECASTING MODELS - SEMINAR

**DAY1 - PB&F101**

ROME - LA SAPIENZA  
2017, MAY 4<sup>TH</sup>



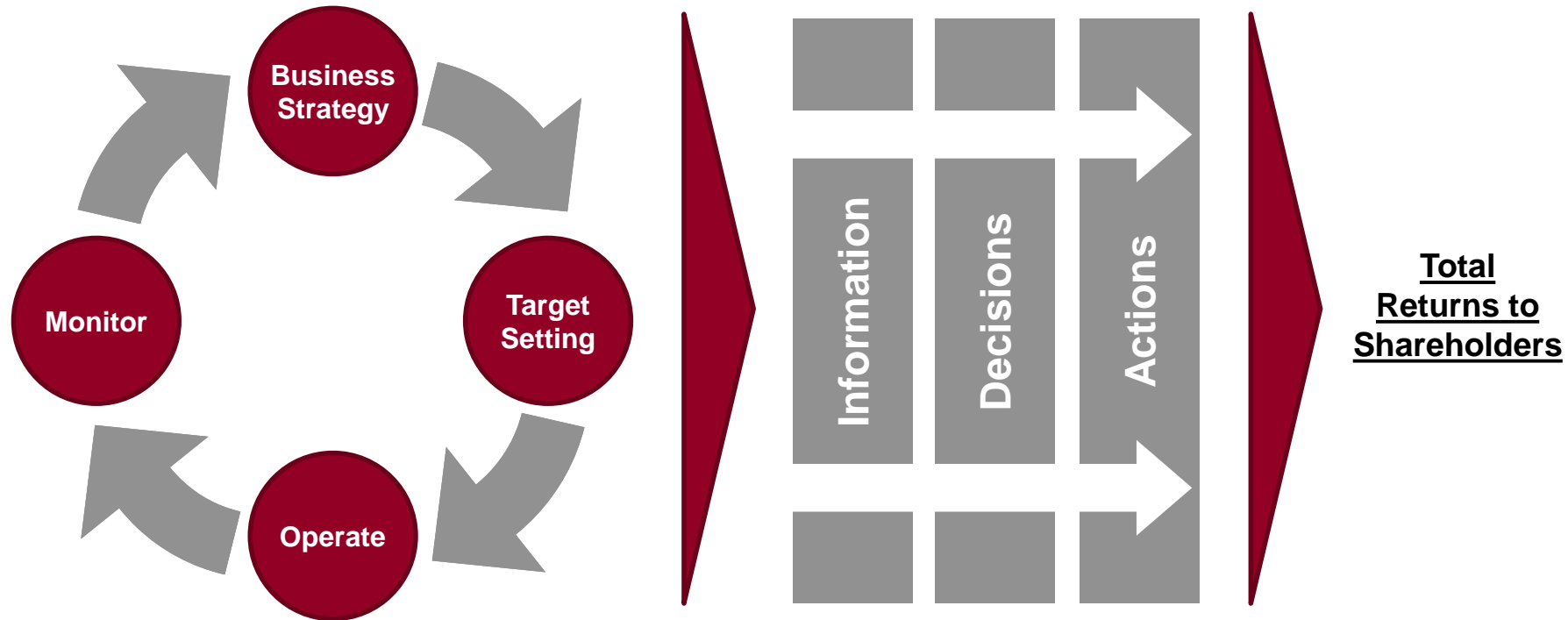
# AGENDA



- **ENTERPRISE PERFORMANCE MANAGEMENT – AN OVERVIEW**
- **PLANNING, BUDGETING AND FORECASTING MODEL**

# ENTERPRISE PERFORMANCE MANAGEMENT - OVERVIEW

Enterprise Performance Management (EPM) is a strategy and key capabilities required to make decisions and take actions to drive shareholder value.



An effective EPM capability enables to focus and align the organization to the key drivers of its strategy, to plan and forecast based on these drivers, to measure results, and course correctly accordingly.

# ENTERPRISE PERFORMANCE MANAGEMENT CAN HELP A COMPANY CREATE VALUE ALONG A NUMBER OF DIMENSIONS



## EFFECTIVENESS

- Focuses and aligns management around the key drivers of value
- Provides fact-based guidance for value-based decision making
- Enables a consistent process and framework for the evaluation of decision trade-offs (current/future) around investments
- Supports driver-based planning and forecasting to enable predictive and dynamic resource allocation
- Balances focus on strategy/operations around key value drivers
- Aligns incentives and rewards closer to shareholder value creation

## EFFICIENCY

- Streamlines planning and reporting processes using consistent key drivers of value
- Streamlines decision making
- Improves focus of resource time and effort, eliminates redundant work and minimizes manual intervention and errors
- Integrates processes and controls to improve integrity of data and quality of outputs
- Provides a strong value-based foundation for Infrastructure improvements
- Dynamic learning capability leverages resource time more efficiently

# KEY FINDINGS RELATED TO ENTERPRISE PERFORMANCE MANAGEMENT

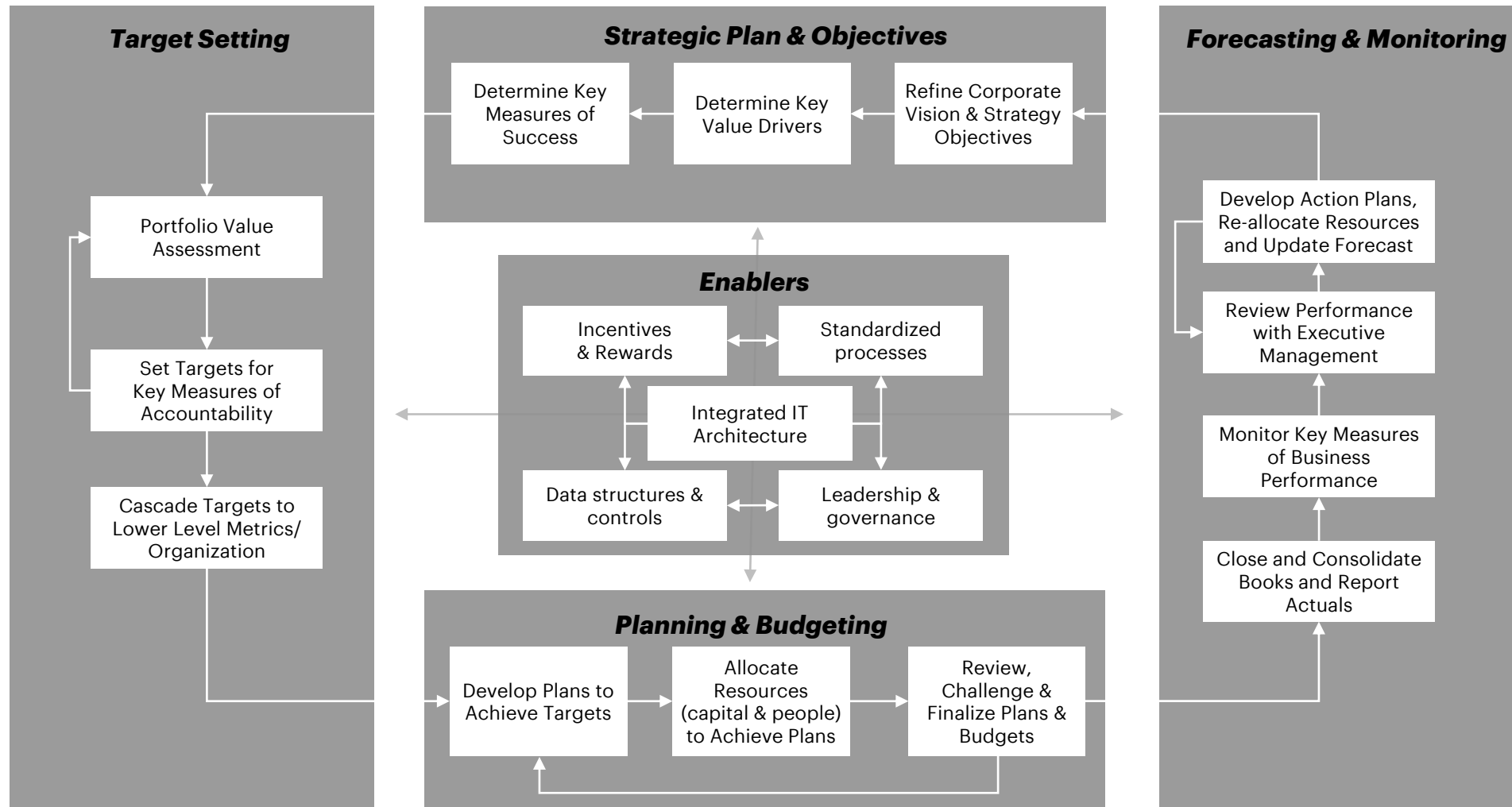
In today's highly volatile global economy the traditional approach to planning has been rendered obsolete - it is not effective, nor fast enough.

Situation	Evidence
Companies have made and are continuing to make significant investments in planning capabilities	77% of companies change their planning process every year; 85% are planning to enhance their core planning capabilities in the next 1-2 years
In practice, the value created has been limited	Only 11% of companies today are fully satisfied with their planning capabilities, compared to 17% two years ago and 20% a decade ago
Business plans and budgets quickly become obsolete due to volatility in the markets, commodity prices and exchange rates	Almost two thirds of companies quote budgets as a major constraint in their ability to respond to changes in the business environment
Managing in uncertain times requires higher flexibility on how and when actions need to be taken (investment and Opex decisions)	In a recent Conference Board report, "speed, flexibility and adaptability to change" ranked as #3 among top CEO challenges
Deviations of corporate performance from market guidance confirm that forecasts have been created under very different business conditions	More than two thirds of companies admit that their planning accuracy has diminished due to business volatility, while more than 80% recognize that its importance has increased for the same reason

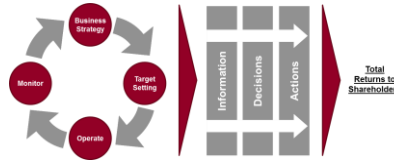
# THE EPM FRAMEWORK



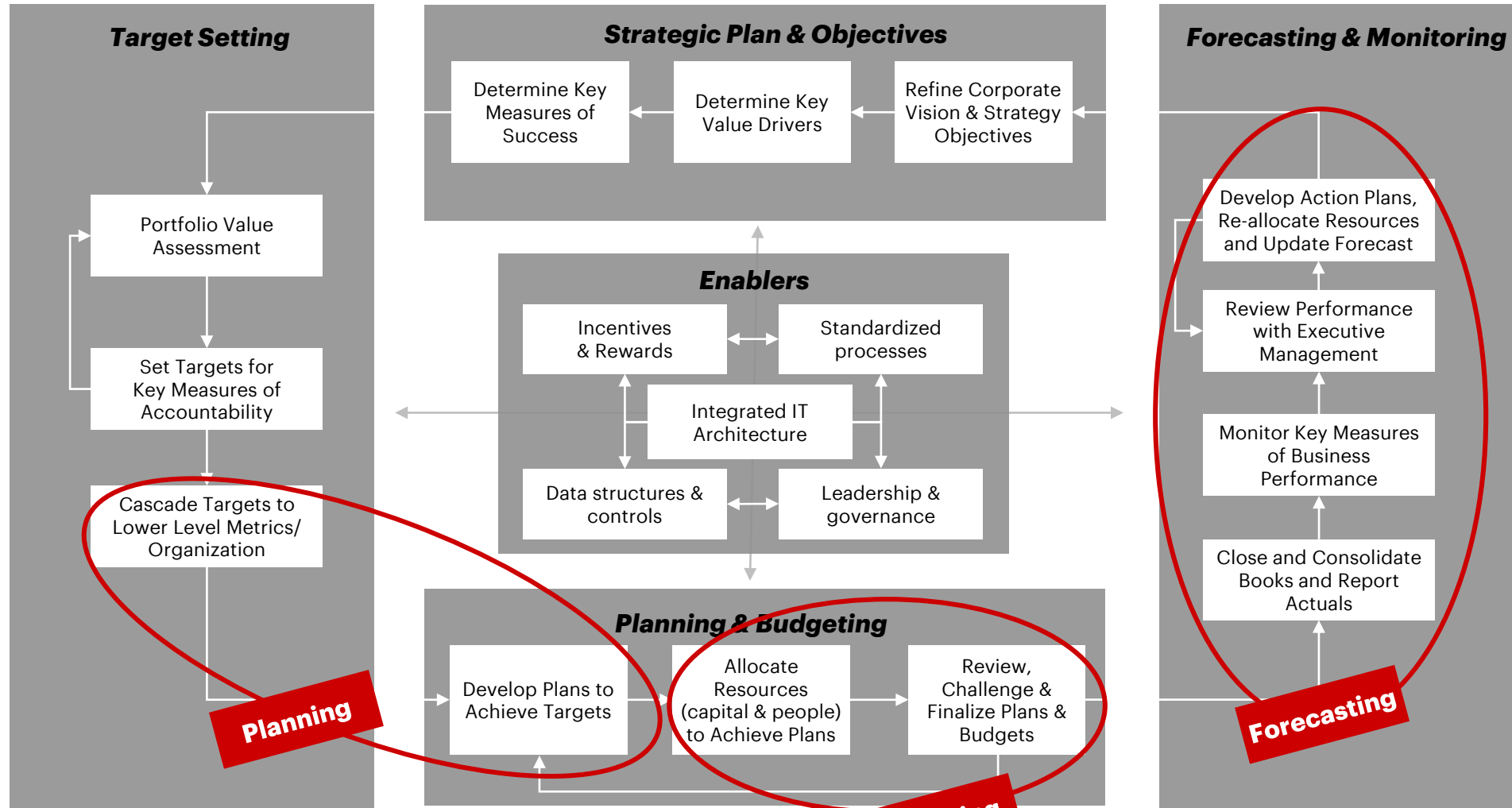
## PERFORMANCE MANAGEMENT FRAMEWORK



# THE EPM FRAMEWORK



## PERFORMANCE MANAGEMENT FRAMEWORK



# AGENDA

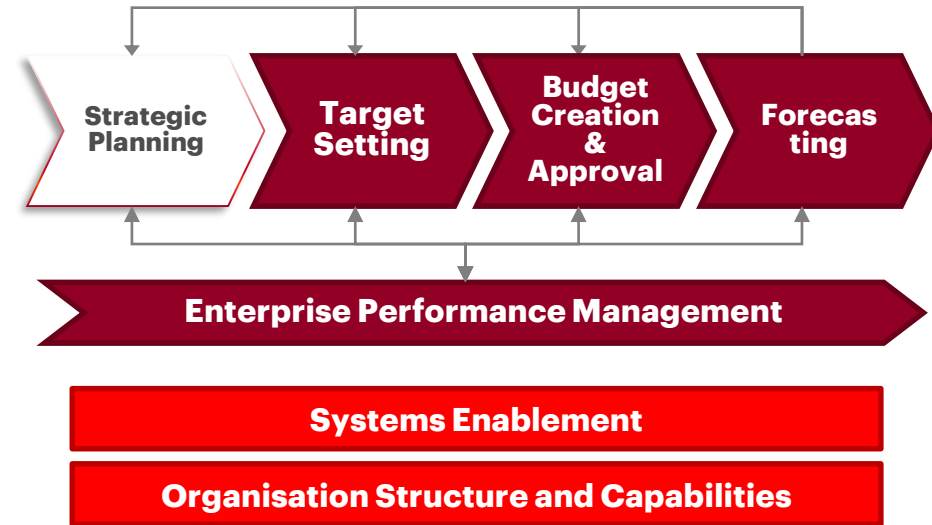


- ENTERPRISE PERFORMANCE MANAGEMENT – AN OVERVIEW
- **PLANNING, BUDGETING AND FORECASTING MODEL**



# PLANNING, BUDGETING AND FORECASTING KEY PROCESSES

- **Strategic Planning** is the development of a long-term plan aimed at establishing the organisation's strategic positioning and driving value creation over and above competitors
- **Target Setting & Operational Planning** is the process of translating the organisation's strategic plan into quantifiable and measurable key performance indicators for each business unit, and establishing specific action plans to achieve the stated goals.
- **Budget Creation & Approval** is the process where targets are translated and expressed into quantitative terms, describing the expected financial performance of the organisation over the next year.
- **Forecasting** is the act of predicting outcomes and is done periodically throughout the year to reflect changes that have occurred both in the internal and external environment since the budget was developed. It's main objective is to provide more accurate and timely information for better and less risky management planning and decision making.



- **Systems Enablement** – The information systems used to capture, retrieve and analyse both inputs and outputs of the planning, budgeting and forecasting process.

**Within Industrial Groups key processes run both at Local and Central Level**

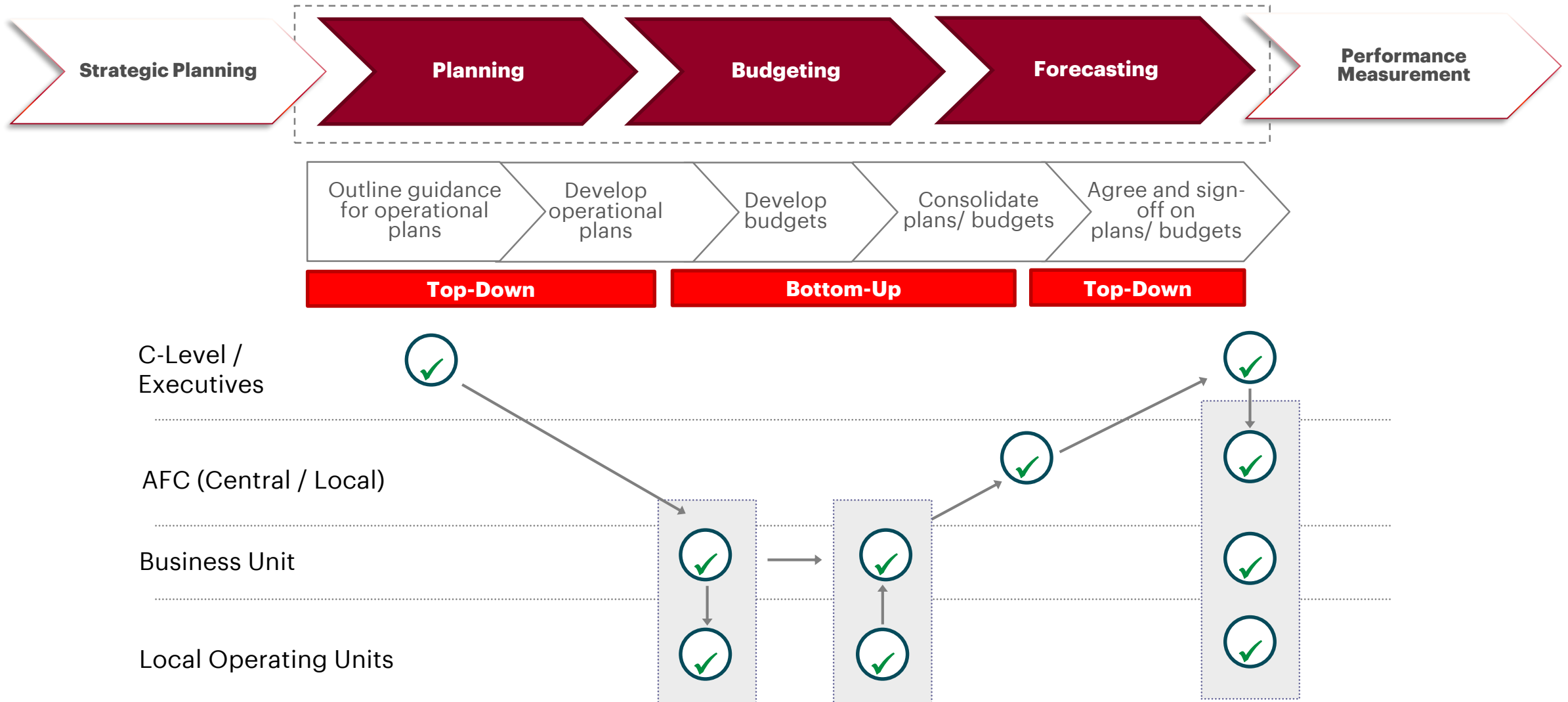
- **Organisation structure and capabilities** is the structure in which the finance organisation operates and interacts with the broader business, and the level of financial acumen present throughout the business.

# PB&F PROCESSES KEY ROLES

The Accountability Structure outlines the main responsibilities for in-life management of resources.

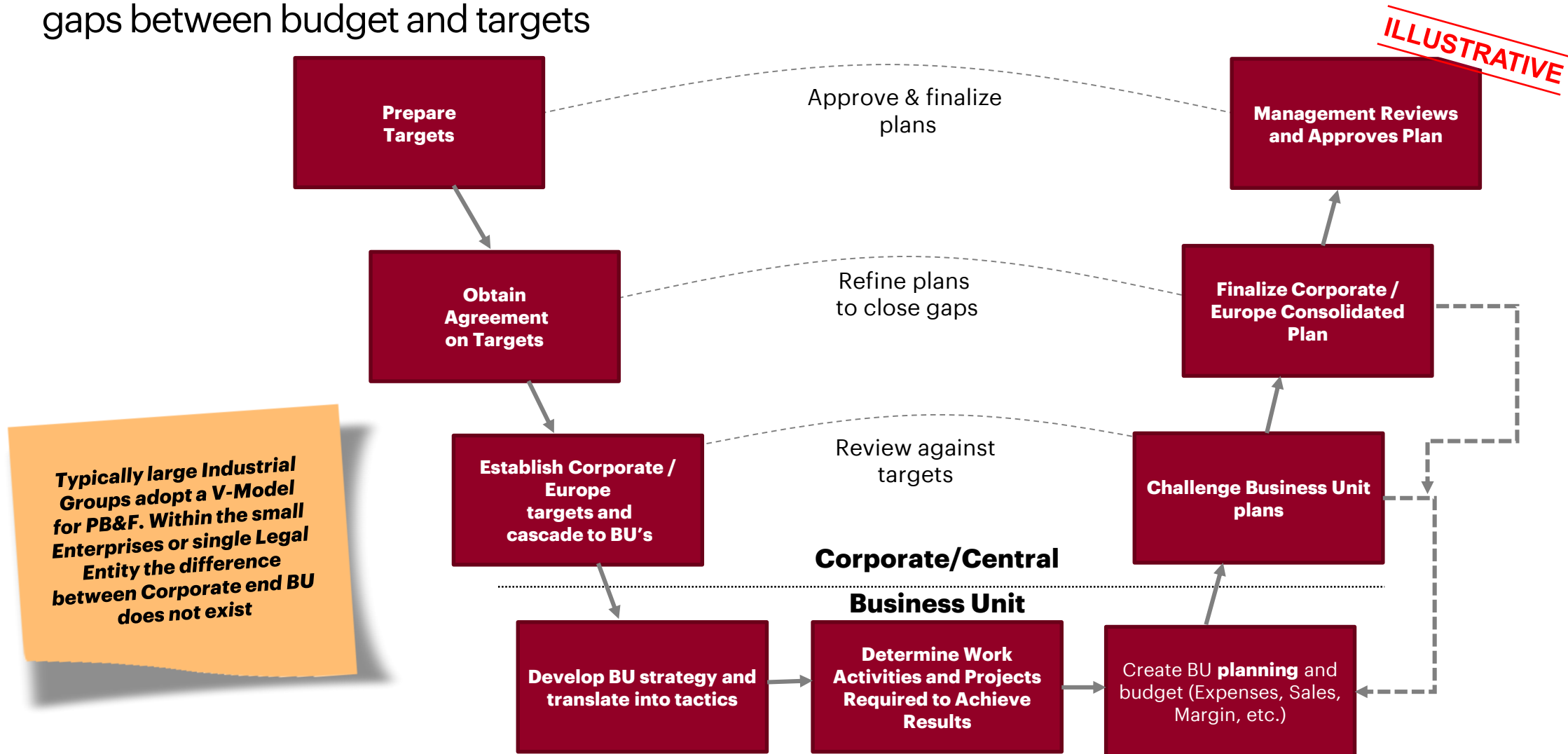


# PB&F PROCESSES TYPICAL RESPONSIBILITIES



# PLANNING BUDGETING AND FORECASTING “V-MODEL”

Leading companies employ a top-down and bottom-up approach to identify and close gaps between budget and targets



Typically large Industrial Groups adopt a V-Model for PB&F. Within the small Enterprises or single Legal Entity the difference between Corporate end BU does not exist

# PB&F – RACI MATRIX EXAMPLE



## RACI EXAMPLE for In-Life Management

ILLUSTRATIVE

Process	C - Level / Executives	Central AFC	Local AFC	Business Unit	Local Operating Unit
1. LRP (annual)	A	R/C	C	I	I
2. Target Setting (annually)	A	R	C	I	I
3. Planning & Budgeting (annually)	A/C	C/R	R	C	C
4. Forecasting (quarterly)	I	A/R	C	R	C
5. Monitoring (monthly)	I	A/R	C	R	C

**R: Responsible – “Does the work”**

**A: Accountable – “Approves”**

**C: Consulted – “Provides inputs”**

**I: Informed – “Receives communication”**

Has direct responsibility for the process and leads or does the work to shape that result

Has final responsibility for the process result and has the authority to decide on courses of action

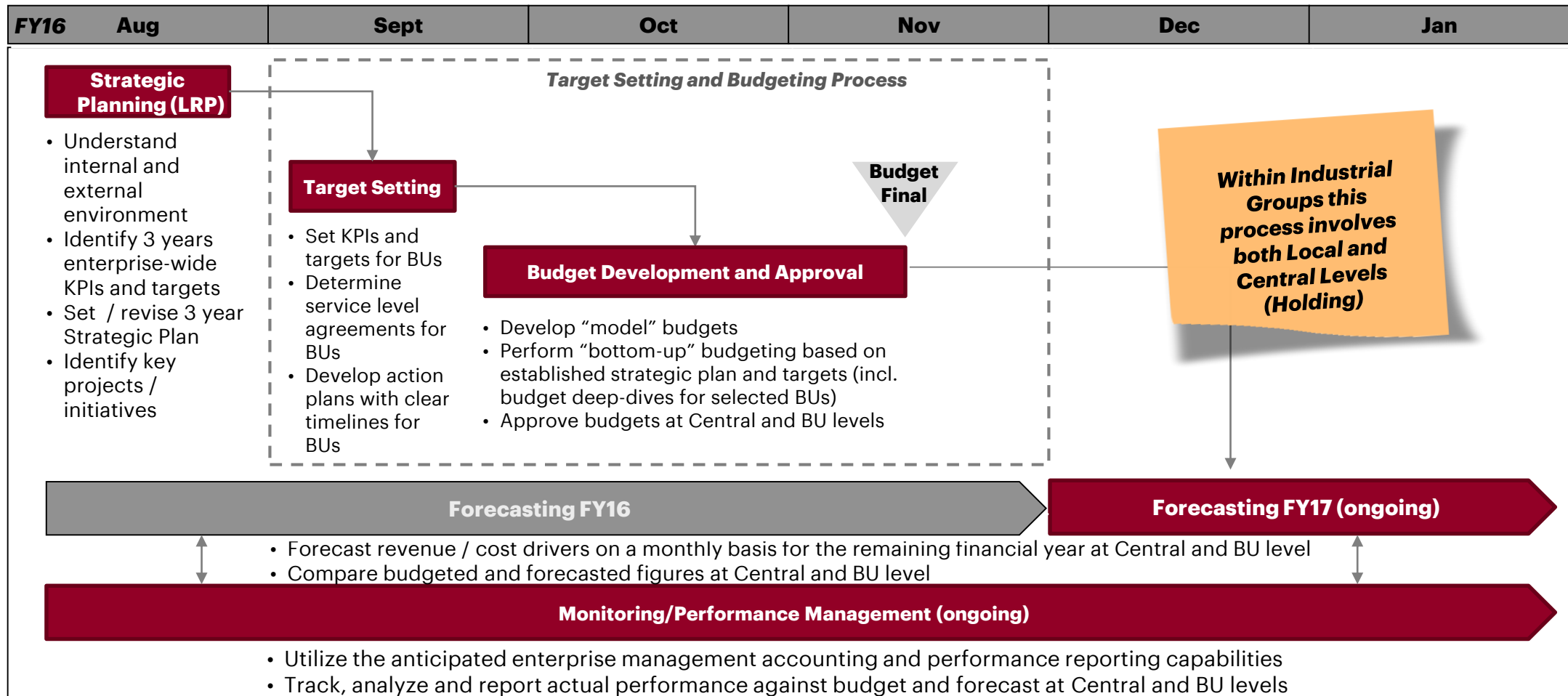
Consults and helps shape the outcome of the process

Is informed about the process and outcomes

# PLANNING, BUDGETING & FORECASTING – PROCESS TIMING

Leading organizations complete Target Setting and Budgeting in 3 months, spending most of the time on analysis (not production)

**ILLUSTRATIVE**



# PB&F RELATED TYPICAL QUOTES

**ILLUSTRATIVE**

"Bud2014 was a rough **best guess calculation.**"

"**Mix several needs in one tool.** This tool is just for control and not for decision."

"A **process that is completely different** from that (zero base approach) is also important to **bring in new ideas.**"

"In our actual internal tool **we have much more detail than in the CoA.** Not enough detail in the tool proposed."

[Recurring and cascading **PB&F meetings**] "**work very well and structured.**"

"We need to get on a level of 80% and go. **Now we are 50% and go.**"

"The past 4 months we have developed a **closer alignment across channels.**"

"**More ROI KPI's needed.** ... Problem are the different systems, definitions and available time. **Time is the biggest bottleneck.**"

"Priority to improve must be on **central functions for guiding and support.**"

"**Systems are too complicated, the systems care not sufficient, the people not well enough trained** on the old systems - .... . We quickly need more IT support or new systems!!!"

"**Follow up!!** ... Every BU has a plan. How are we/you going to follow this up. **What makes a campaign a success?**"

"**Clear and detailed communication** about European strategy and tactics is needed."

"**Forecasting does not seem to have any accuracy.**"

"Locally we believe we have adequate **data quality in order to measure our KPIs.**"

"**Excellent model** to get Merchandise, Marketing, Operations, Finance etc. **on the same train** to one common goal.."

"**Achieve a central format and tool** which integrate in local needs and activities in a synergic way."

"We are **seeing some investment over recent months** to improve process and tooling, but I believe this should be continuous."

"Creation of a tool that **allows to use data from the past for comparison**".

"At the moment there is **nothing in place to do accurate forecasts,** esp. nothing in place to calculate customer development."

# SWOT ANALYSIS - OVERVIEW

## Strengths

Characteristics of the business or project that give it an **advantage** over others.

Are specific to the context of analysis and can be changed through policy or intervention proposed. They concern the variables of the production system and on which you **can act directly to achieve strategic goals**.

## Weaknesses

Characteristics that place the business or project at a **disadvantage** relative to others.

## SWOT analysis

## Opportunities

Elements that the project **could exploit to its advantage**.

Derived from the external environment so the direct intervention to govern of the phenomenon is impossible but their identification may allow the establishment of measures to prevent/minimize the expected adverse effects and exploit/promote positive ones.

## Threats/Challenges

Elements in the environment that **could cause trouble** for the business or project



# SWOT ANALYSIS – REAL CASE EXAMPLE ON PB&F PROJECT

ILLUSTRATIVE

## Strengths

1. On question level:
  - a) learnings from the past and **historical data have the highest current state rating**
  - b) It appears that **Marketing PB&F KPIs are closely linked to the channel KPIs**
2. There is a commonly recognized importance and **need for improvement in the overall Marketing PB&F process**

## Weaknesses

1. The vast majority of Marketing PB&F activities are **performed manually in local Excel files**
2. Lack of standardization in process and systems
- 3. Limited control and visibility** from Europe central level
- 4. Limited support from central team** to BUs and **lack of clarity around roles and ownership**

## SWOT analysis

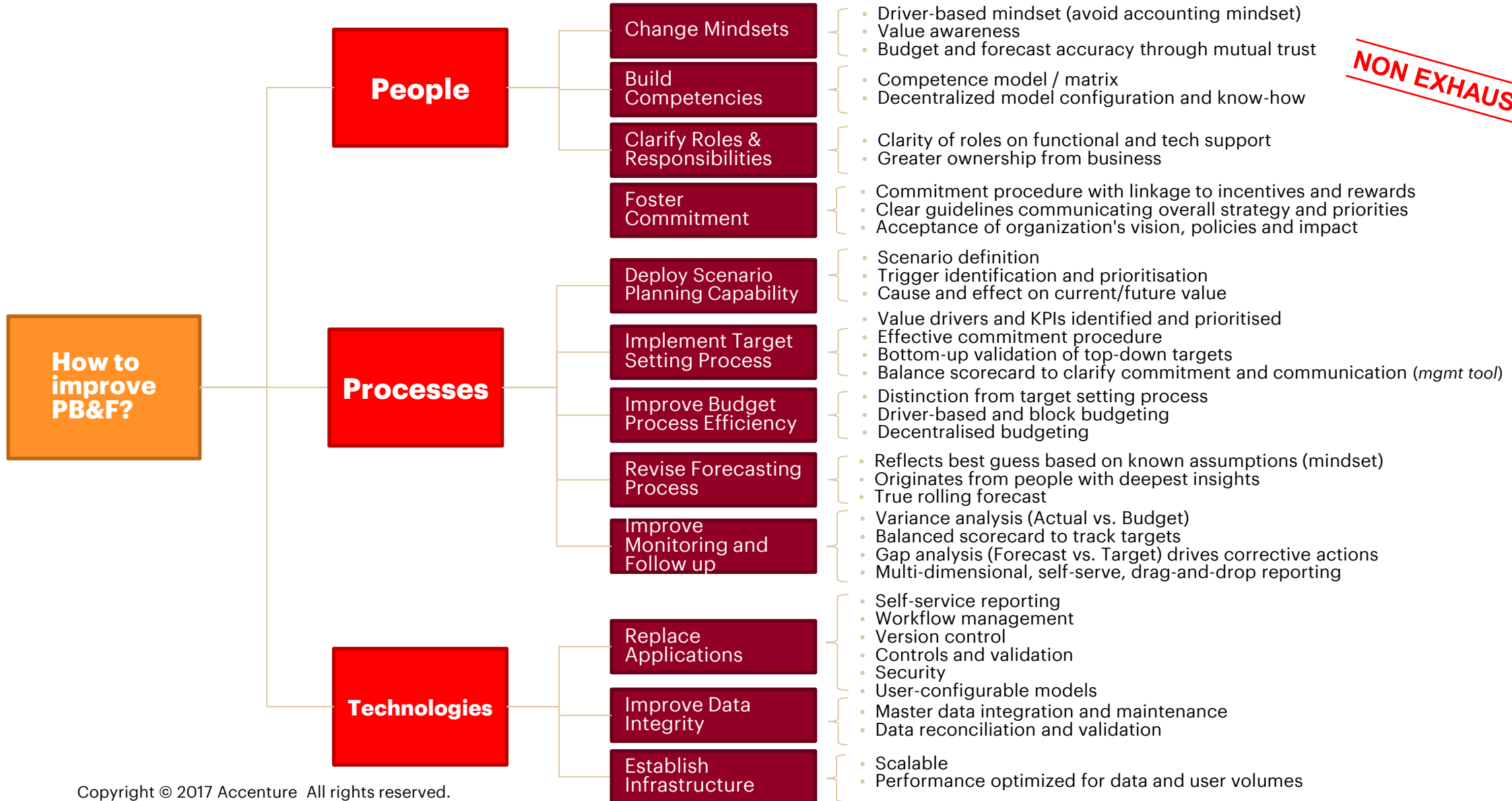
## Opportunities

1. Clear **need for improvement** towards standardized processes and systems is **recognized by both Europe Central and local/BU level**
- 2. Align Accountability Structure and Business Rhythms** between Local BUs and Europe Central

## Threats/Challenges

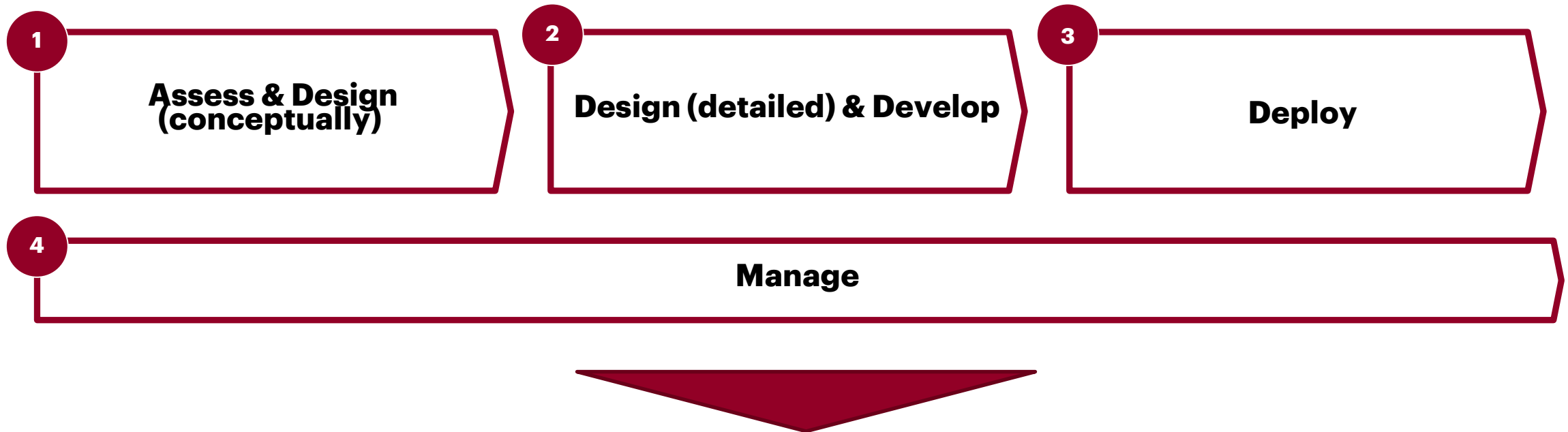
1. Although the need for improvement in all categories is one of the key findings, the BUs indicate a much smaller gap between current and desired state than Europe Central, which might cause **resistance to change** at local/BU level
2. The **level of investment and analysis in completion and usage of Marketing PB&F** – as largest gap between current and desired state – is **not sufficiently closed**

# PB&F – KEY INITIATIVES TO IMPROVE PB&F



**NON EXHAUSTIVE**

# PB&F – PROJECT APPROACH TO IMPROVE EFFICIENCY AND EFFICACY



**A typical project approach is made by four main Activities, each of which has a one or more Deliverable.**

- An effective **Enterprise Performance Management** capability enables to focus and align the organization to the key drivers of its strategy, to plan and forecast based on these drivers, to measure results, and course correctly accordingly
- **Planning, Budgeting and Forecast** concerns processes followed by the companies in order to be aligned to the Business Long Term Strategy and to constantly monitor the organization positioning.