INTRODUCTION TO PLANNING, BUDGETING AND FORECASTING MODELS - SEMINAR

DIA 1 - PB & F101

ROME - LA SAPIENZA
2017, MAY 4TH
AGENDA

ENTREPRISE PERFORMANCE MANAGEMENT – AN OVERVIEW

PLANNING, BUDGETING AND FORECASTING MODEL
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
In today’s highly volatile global economy the traditional approach to planning has been rendered obsolete - it is not effective, nor fast enough.

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

**Target Setting**
- Portfolio Value Assessment
- Set Targets for Key Measures of Accountability
- Cascade Targets to Lower Level Metrics/Organization

**Strategic Plan & Objectives**
- Determine Key Measures of Success
- Determine Key Value Drivers
- Refine Corporate Vision & Strategy Objectives

**Enablers**
- Incentives & Rewards
- Standardized processes
- Integrated IT Architecture
- Data structures & controls
- Leadership & governance

**Planning & Budgeting**
- Develop Plans to Achieve Targets
- Allocate Resources (capital & people) to Achieve Plans
- Review, Challenge & Finalize Plans & Budgets

**Forecasting & Monitoring**
- Develop Action Plans, Re-allocate Resources and Update Forecast
- Review Performance with Executive Management
- Monitor Key Measures of Business Performance
- Close and Consolidate Books and Report Actuals

Source: Accenture
PERFORMANCE MANAGEMENT FRAMEWORK

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ENTERPRISE PERFORMANCE MANAGEMENT – AN OVERVIEW

PLANNING, BUDGETING AND FORECASTING MODEL
• **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.

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

- Provide strategic/long term guidance
- Define long range plan (LRP)
- Set central and local targets
- Approve plans and budgets
- Prepare plans and budget
- Review and approve forecasts and monitoring
- Create annual budget and quarterly forecast
- Perform variance analysis (consolidated)
- Approve action plan
- Support preparation of plans and budget
- Prepare forecast and monitoring
- Perform variance analysis (local level)
- Prepare and agree action plans
PB&F PROCESSES TYPICAL RESPONSIBILITIES

Outline guidance for operational plans
Develop operational plans
Develop budgets
Consolidate plans/budgets
Agree and sign-off on plans/budgets

Top-Down
Bottom-Up
Top-Down

C-Level / Executives
AFC (Central / Local)
Business Unit
Local Operating Units
Leading companies employ a top-down and bottom-up approach to identify and close gaps between budget and targets.

**PLANNING BUDGETING AND FORECASTING “V-MODEL”**

1. **Prepare Targets**
2. **Obtain Agreement on Targets**
3. **Establish Corporate / Europe targets and cascade to BU’s**
4. **Develop BU strategy and translate into tactics**
5. **Determine Work Activities and Projects Required to Achieve Results**
6. **Challenge Business Unit plans**
7. **Management Reviews and Approves Plan**
8. **Finalize Corporate / Europe Consolidated Plan**
9. **Approve & finalize plans**
10. **Refine plans to close gaps**
11. **Review against targets**

**Typically large Industrial Groups adopt a V-Model for PB&F. Within the small Enterprises or single Legal Entity the difference between Corporate and BU does not exist.**
# PB&F – RACI MATRIX EXAMPLE

## RACI EXAMPLE for In-Life Management

<table>
<thead>
<tr>
<th>Process</th>
<th>C - Level / Executives</th>
<th>Central AFC</th>
<th>Local AFC</th>
<th>Business Unit</th>
<th>Local Operating Unit</th>
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<tbody>
<tr>
<td>1. LRP (annual)</td>
<td>A</td>
<td>R/C</td>
<td>C</td>
<td>I</td>
<td>I</td>
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<tr>
<td>2. Target Setting (annually)</td>
<td>A</td>
<td>R</td>
<td>C</td>
<td>I</td>
<td>I</td>
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<tr>
<td>3. Planning &amp; Budgeting (annually)</td>
<td>A/C</td>
<td>C/R</td>
<td>R</td>
<td>C</td>
<td>C</td>
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<tr>
<td>4. Forecasting (quarterly)</td>
<td>I</td>
<td>A/R</td>
<td>C</td>
<td>R</td>
<td>C</td>
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<tr>
<td>5. Monitoring (monthly)</td>
<td>I</td>
<td>A/R</td>
<td>C</td>
<td>R</td>
<td>C</td>
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**R: Responsible – “Does the work”**
- Has direct responsibility for the process and leads or does the work to shape that result

**A: Accountable – “Approves”**
- Has final responsibility for the process result and has the authority to decide on courses of action

**C: Consulted – “Provides inputs”**
- Consults and helps shape the outcome of the process

**I: Informed – “Receives communication”**
- Is informed about the process and outcomes
Leading organizations complete Target Setting and Budgeting in 3 months, spending most of the time on analysis (not production)

<table>
<thead>
<tr>
<th>FY16</th>
<th>Aug</th>
<th>Sept</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
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<tr>
<td><strong>Strategic Planning (LRP)</strong></td>
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<tr>
<td>• Understand internal and external environment</td>
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<tr>
<td>• Identify 3 years enterprise-wide KPIs and targets</td>
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<td>• Set / revise 3 year Strategic Plan</td>
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<td>• Identify key projects / initiatives</td>
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<tr>
<td><strong>Target Setting</strong></td>
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<tr>
<td>• Set KPIs and targets for BUs</td>
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<tr>
<td>• Determine service level agreements for BUs</td>
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<td>• Develop action plans with clear timelines for BUs</td>
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<td><strong>Budget Development and Approval</strong></td>
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<tr>
<td>• Develop “model” budgets</td>
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<tr>
<td>• Perform “bottom-up” budgeting based on established strategic plan and targets (incl. budget deep-dives for selected BUs)</td>
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<tr>
<td>• Approve budgets at Central and BU levels</td>
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<tr>
<td><strong>Forecasting FY16</strong></td>
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<td>• Forecast revenue / cost drivers on a monthly basis for the remaining financial year at Central and BU level</td>
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<tr>
<td>• Compare budgeted and forecasted figures at Central and BU level</td>
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<td><strong>Forecasting FY17 (ongoing)</strong></td>
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<td>• Utilize the anticipated enterprise management accounting and performance reporting capabilities</td>
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<tr>
<td>• Track, analyze and report actual performance against budget and forecast at Central and BU levels</td>
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PB&F RELATED TYPICAL QUOTES

“Bud2014 was a rough best guess calculation.”

“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.”

“Clear and detailed communication about European strategy and tactics is needed.”

“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.”

“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.”

“Locally we believe we have adequate data quality in order to measure our KPIs.”

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

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

“Forecasting does not seem to have any accuracy.”

“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.”

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

“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!!”
<table>
<thead>
<tr>
<th><strong>Strengths</strong></th>
<th><strong>Weaknesses</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Characteristics of the business or project that give it an advantage over others.</td>
<td>Characteristics that place the business or project at a disadvantage relative to others.</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th><strong>Opportunities</strong></th>
<th><strong>Threats/Challenges</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Elements that the project could exploit to its advantage.</td>
<td>Elements in the environment that could cause trouble for the business or project</td>
</tr>
</tbody>
</table>

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.
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

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

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

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
How to improve PB&F?

**People**
- Change Mindsets
  - Driver-based mindset (avoid accounting mindset)
  - Value awareness
  - Budget and forecast accuracy through mutual trust
- Build Competencies
  - Competence model / matrix
  - Decentralized model configuration and know-how
- Clarify Roles & Responsibilities
  - Clarity of roles on functional and tech support
  - Greater ownership from business
- Foster Commitment
  - Commitment procedure with linkage to incentives and rewards
  - Clear guidelines communicating overall strategy and priorities
  - Acceptance of organization’s vision, policies and impact

**Processes**
- Deploy Scenario Planning Capability
  - Scenario definition
  - Trigger identification and prioritisation
  - Cause and effect on current/future value
  - Value drivers and KPIs identified and prioritised
  - Effective commitment procedure
  - Bottom-up validation of top-down targets
  - Balance scorecard to clarify commitment and communication (mgmt tool)
  - Distinction from target setting process
  - Driver-based and block budgeting
  - Decentralised budgeting
  - Reflects best guess based on known assumptions (mindset)
  - Originates from people with deepest insights
  - True rolling forecast
  - Variance analysis (Actual vs. Budget)
  - Balanced scorecard to track targets
  - Gap analysis (Forecast vs. Target) drives corrective actions
  - Multi-dimensional, self-serve, drag-and-drop reporting
  - Self-service reporting
  - Workflow management
  - Version control
  - Controls and validation
  - Security
  - User-configurable models
  - Master data integration and maintenance
  - Data reconciliation and validation
  - Scalable
  - Performance optimized for data and user volumes

**Technologies**
- Improve Monitoring and Follow up
- Replace Applications
- Improve Data Integrity
- Establish Infrastructure

**PB&F – KEY INITIATIVES TO IMPROVE PB&F**
A typical project approach is made by four main Activities, each of which has one or more Deliverables.
• 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 correct 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.