QueBIT®

Trusted Experts in Analytics

WHITE PAPER

Planning and Forecasting

# Aligning Finance Models to Streamline Business Processes

### Introduction

For over 15 years, QueBIT has provided software and consulting services with a focus on Performance Management and Business Analytics.

Many of the companies we work with are burdened by the errors and complexity of managing separate finance models for each of their business processes, even though the models are based on the same sets of data. We help them align their models to create flexible, forward-looking tools that serve the business effectively throughout the year.

We created this white paper to help your organization do the same. In it, you'll discover:

- The common reasons why companies build disparate models.
- The challenges and obstacles to integrating them.
- Why it's critical to streamline your models.
- How to achieve integrated, streamlined models in your organization.
- The results you can expect to see from the integration.

Though it can seem daunting, building an integrated model viewpointup being less work for your organization because it removes the duplication of effort and the communication issues that come from working in different models, and creates a flexible, real-time tool your organization can rely on throughout the year.

## Finance Model Definitions: Planning, Forecasting, and Strategy

The key to streamlining financial models begins with the business process side of things—getting all the right people to work together, agree on an approach, and settle on a process for utilizing the integrated model. This is also the hardest part.

Each department and individual has separate goals and  different ways that they interact with the financial data. Add to that differing definitions and understanding of the roles each plays in the big picture, and it becomes clear that the first step in creating a unified model lies in developing a common language for talking about the business, analyzing performance, and gauging financial success.

A common language starts with common terminology, so let's begin by defining some key planning and forecasting terms.

### Planning

Planning refers to the company-wide process of creating a forecast for the upcoming year. This often-dreaded process is key to any venture's success and forms a cornerstone of any well-run business. Good planning results in a common understanding of:

- Business goals for the coming year. For instance, adding three new regions or acquiring a downstream distributor.
- Budgets that allow you to accomplish these goals. For instance, funds to hire 20 new salespeople.
- Budget constraints that ensure managers understand the limits of their resources.
- Metrics on which to base compensation and performance review.

### Forecasting

Forecasting refers to the business process associated with ongoing updates (often monthly) to the forward-looking numbers. Forecast updates enable the following:

- Gauging how to meet the plan for the year.
- Making adjustments based on changing conditions over time.

## Strategic Planning

Strategic planning refers to long-term goals for the organization set at a high level, usually among the executive team, and the roadmap for accomplishing ongoing growth within the company.

## Common Obstacles to Unifying Financial Models

Because each of the three primary business processes landscape of responsibilities and roles, most organizations create at least three separate finance models to serve these processes.

The argument in favor of maintaining these separate models usually includes the point that each of the three tasks—planning, forecasting, and strategic planning—are performed at a different level of detail, requiring different types of models. Plans are the most highly detailed, forecasts generally function at a mid-level, and strategic plans are created at a higher level still.

Getting all three departments to work together, agree on an approach, and create a mutually beneficial model takes time and effort that most companies feel they can't afford to invest. On the surface, creating multiple models seems the simplest way to address the problem. Unfortunately, in practice, multiple models create significant issues.

- Frequent rekeying of data, which is both inefficient and creates significant exposure to the risk of human error.
- Significant time spent tying out models to each other for consistency.
- Siloed views of the company, creating cross-organizational communication barriers.
- No single source of truth for the financial state of the organization.

Ideally, an organization should work from a detailed planning model that seamlessly updates the forecast while also feeding the long-range plan, but of course it is easier said than done. The primary obstacles to achieving a unified model can be broken into two categories: cumbersome modeling practices, and people problems.

## Cumbersome Modeling Practices

Most organizations delegate modeling responsibilities to separate people, often in entirely different groups and departments. Usually, these various people create their models separately from each other in order to serve the needs of their users, with little to no coordination with the other parties creating models in other departments. Likewise, maintenance falls to these same individuals.

This approach prevents collaboration, creates bifurcated views of the organization's future, and makes integration impossible. In order to create a unified view of the company with simplified, coordinated financial models, it's necessary to have everyone operating together. Which brings us to the second obstacle: people problems.

## People Problems

The single most challenging issue companies face in gaining a unified view of their organization has to do with the humans who operate the models. Even intelligent, skilled, well-meaning individuals won't always see eye-to-eye on important matters, and when they are accustomed to thinking first of their own department and its needs, it can be difficult to get them to want to work together with other departments.

Unfortunately, there's no shortcut to overcoming this barrier, and no organization can afford to ignore it either. Addressing the issue head-on will yield benefits far beyond the efficiencies of a unified view. The key is good leadership by someone who believes in the process, is committed to driving it, and knows how to bring people together. Aligning the people clears the path to streamlining processes.

## The Solution: It's All the Same Data!

When done properly, an integrated financial model culminates in a full view of the company. Projected financial statements (Income Statement, Balance Sheet, and Cash Flow) and actuals will be integrated directly. This allows managing to the plan, as well as insight into historical trending necessary to generate accurate projections.

Achieving this begins with getting all of the relevant parties into discussion with each other. Here's what it will look like.

### Start with the Planning Model

The planning model will be the most detailed model, and the one that most companies spend the most time on. Start here and involve all parties to avoid fragmented views of the company. When the model is complete, you'll have a full view of the organization that can serve as a stepping-stone for the forecasting models.

Your planning model will likely contain:

- Detailed sales forecasts by product and region.
- Headcount and salary forecasts by person and department.
- Capital expenditure forecasts by project and asset type.
- Operating expense forecast by line item.

### Develop the Forecasting Model

By whatever name it is called in your organization, effective forecasting must be an ongoing, continuous business process. By building the forecasting on top of the planning model, you avoid the problem of fragmented data that is too cumbersome to work with. The resulting single model will serve both planning and forecasting, which is critical to running the business on a day-to-day basis.

- To accomplish this without having everyone immersed 24/7 in the process, follow these steps:
- Integrate the planning model with your ERP system so that you have actuals at your disposal for trending and variance analysis.
- Make a "forecast" scenario available at all times for your Finance team and field personnel to update. Because it's tied to the current view, updating exceptions and changes to the existing model doesn't require ticking or tying back to the plan, and is therefore a quick activity that can be maintained continuously.
- Build in the capability for ad hoc analysis of the data in the system, to allow managers to perform analysis on their own data without going back to source systems, so they can gain the insight they need to run the business.

### Build the Strategic Planning Model

The ultimate goal of unifying the financial models is to give everyone more time for analysis, and less time keying data and arguing over how to define "sales growth" and whether the organization is meeting its performance metrics. With the planning and forecasting models aligned and sourcing from the same data, it's time to do the same for the models used most often by the strategic planning team. Here's how:

1. Feed summary data from the planning and forecasting models into a rate-driven "mini-model" for long-term planning purposes.
2. Drive the longer-term strategic plan off of a handful of KPIs such as inventory turn and growth rates.
3. Build in the capability for analysis of the data against top-level KPIs.

### Maintain the Momentum

Often, organizations spend at least three months (25% of the year!) developing their financial models and plan. Frequently, the process represents a significant disruption for field personnel such as department managers and sales people.

Once the plan is built, it's likely to be set aside and barely looked at for the rest of the year. By the time the next year's planning period rolls around, it's necessary to begin again from scratch. With a well-integrated financial model, the outcome will be much different.

With unified financial modeling, the organization creates an environment in which business users work with the model frequently, not only to create plans and forecasts, but also to analyze their performance over time. A model that is utilized year-round for forecasting as well as ad-hoc analysis and reporting provides a healthy ecosystem for the entire, year-round planning process.

### What to Expect from Your Unified Financial Models

Though it requires a significant up-front commitment and investment of time, a unified planning, forecasting, and strategic planning model gives the company a significant edge in the marketplace.  Executives, managers, and front-line users align activities and are measured along the same metrics, while operations run smoothly based on a clear view of the financials. Among the many benefits enjoyed by companies that integrate their financial models are:

- Less time spent on building and maintaining financial models and reporting. Because a baseline plan is always
- in the system, most companies ultimately save about 50%of the time they would spend on traditional, fragmented modeling.
- Planning is more thorough and tied closely to a real picture of the organization. It allows for medium-term goals to connect the long- and short-term plans.
- Compensation benchmarks and other performance incentives can be tied directly to accurate data and KPIs.
- As forecasting updates the plan, taking into account YTD actuals, it's possible to make course corrections along the way based on the data as well as environmental and internal factors.
- With everyone speaking the same language, operations run more smoothly and disagreements are more quickly resolved against actual data.

Remember—it's all the same data. Financial history, projected expenses, forecasted revenue—it can all be built, housed, and managed in the same place. It takes time and commitment to make it happen, but the result is well worth the effort.

## ABOUT THE AUTHOR

As a Consulting Manager at QueBIT, Robin Stevens oversees a team of consultants on the West Coast. She is actively involved in designing sophisticated client solutions and managing project planning to ensure projects are completed on time and within budget. Her strong finance background ensures that client solutions are relevant to their needs. Robin has had experience working with clients from many industries including Financial Services, High Tech, HealthCare, Industrial, Consumer Products, and Municipalities.

Robin holds a B.S. degree in Business Administration from University of California, Berkeley.