CFOs Who Ignore Continuous Planning May be Putting Their Business at Risk

"Rolling forecasts enable managers to see trends, patterns, and 'breaks in the curve' long before their competitors."

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***73%** of survey respondents have reported a move to continuous planning*

The central plank of the planning, budgeting and forecasting cycle has historically been the annual budget. Preparations can start several months before it is due, data is sourced, forecasts are submitted and after intensive negotiations and discussions a budget is agreed, frequently forming the basis on which bonuses are paid and strategic decisions are made.

Unfortunately this process is entirely out-dated. Organizations, sectors and markets move increasingly quickly, and no sooner has the budget been agreed, than it is no longer relevant because the assumptions on which it is based have changed. Making decisions based on stale information can put businesses at risk of competitive pressure and the failure to respond timeously to market changes.

To be fair, many CFOs are all too aware that annual budgets are archaic and ineffective in a competitive market, but not everyone has managed to evolve their planning, budgeting and forecasting programmes into something more effective.

Continuous Planning is the process of reforecasting a given time period on a regular or an adhoc basis in response to a significant economic or political event

It starts with the recognition that budgets or forecasts developed with the most up-to-date information will invariably provide the most accurate picture of the future. This means shortening the time between budget preparation and approval, and the climax of this approach is being able to budget, plan or forecast almost immediately, whenever assumptions or data changes.

Continuous planning is increasingly important in a volatile market. Over half of executives surveyed said their company could forecast no further than six months into the future. To alleviate this short-sightedness, companies are turning to continuous planning. 73% of respondents agreed or strongly agreed that they now have more of a culture of continuous planning.

Continuous planning improves agility and accuracy

The organizations that strongly agreed (16.7%) are one and a half times more likely to be able to reforecast within one week, and are almost four times more likely to be able to respond more quickly to market change.

The move to continuous planning also improves accuracy, with organizations being almost twice as likely to be able to forecast within 5% of earnings compared with companies that remain wedded to static forecasts.

Clear visibility from continuous planning also means organizations are three times more likely to report that the business as a whole has more confidence in the planning process.

Significantly, organizations which implement a continuous planning process are almost twice as likely to engage more stakeholders in the process and two times as likely to make more use of non-financial data.

It makes sense that when a company looks to improve their visibility they do so by including in their models and forecasts more of the data that they need to plan accurately. Non-financial data has already been shown to be crucial to the accuracy and horizon of the forecasting process, and organizations that have moved towards continuous planning are more likely to have recognised this. This implies they are further along the journey to future-proofing their planning, budgeting and forecasting process. Despite non-financial data use being the lowest ranked priority on the survey list, organizations that use continuous data have recognised the limitations of annual budgeting and the advantages of incorporating non-financial data into these rolling forecasts.

ABLE TO REFORECAST MORE QUICKLY

1.5x

organizations that have moved to continuous planning are 1.5 times more likely to be able to reforecast within 1 week

ABLE TO RESPOND MORE QUICKLY TO MARKET CHANGE

4x

organizations that have moved to continuous planning are 4 times as likley to be able to respond quickly to market change.

ABLE TO FORECAST WITH MORE ACCURACY

1.7x organizations that have moved to continuous planning are almost twice as likely to be able to forecast earnings between +/- 0-5%

With the added granularity of non-financial data, continuous planners are almost twice as likely to agree that they can now produce much larger and more complex models, with better visibility of the process for all users.

The annual budgeting process is slowly becoming obsolete, as organizations recognise the limitations of developing strategies based on out-of-date assumptions. But implementing a truly effective continuous planning process requires buy-in from all business functions, not just the finance core. If an organization is going to overhaul their planning and budgeting process, they must broaden the inputs to include non-financial data. This brings an accuracy and agility to forecasting that will adequately prepare organisations for their fast-paced future.

IBM Solution

With IBM solutions, FP&A teams create more timely, reliable driver-based, rolling forecasts to complement annual planning cycles with more regular business reviews that enable managers to see trends, patterns, and "breaks in the curve" long before their competitors, and thus make better informed decisions regarding products and markets. FP&A teams manage through continuous planning cycles, making rolling forecasts the primary management tool, and reporting on key metrics daily and weekly

CASE STUDY 4: IBM TM1 Speeds Up Time to Re-Forecast

With over 100 Microsoft Excel based cost centers, CAPEX and OPEX plans, managing labor and capital planning was a time consuming annual process that would not allow the company to move away from annual planning models to rolling-forecasts. In addition, the workflow approval process for new capital expenditures was tedious, and the tracking of existing assets was overly complicated. After deploying IBM TM1, the Finance team was able to increase the tempo of reporting and analysis, improving decision support and saving approximately 32 hours per month in forecast preparation time. – *California-based manufacturer of irrigation equipment and sprinkler systems*

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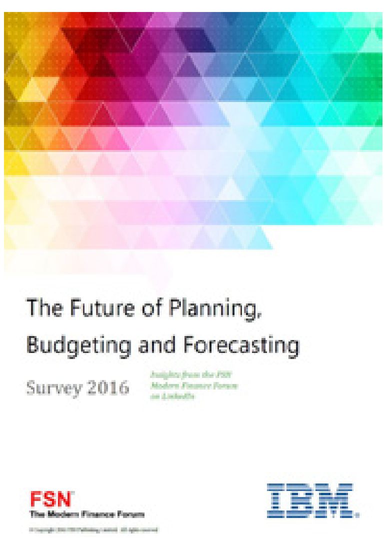

Click here to dowload the full report.

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With flexible deployment options including cloud, on premises and hybrid, IBM enterprise performance management solutions enable organizations to:

- Replace rigid budgets with continuous planning and more frequent forecasting involving all the right participants.
- Create a dynamic, collaborative and reliable planning process across geographies, business units and functional silos to improve visibility into the impact of business drivers.
- Harness big data analytics to deliver deeper predictive insights and improve decision making.
- Track performance against corporate objectives to identify performance gaps and assess alternatives with "what-if" scenario modeling.
- Report with confidence to internal and external stakeholders.

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