Corporate Services

Planning in Disruptive Times

Six recommendations to transform the corporate financial planning process into a future proof foundation for smart decision-making

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Strategic Vision. Smart Implementation.

Changed prerequisites in a faster and more volatile environment impose new challenges for corporate planning. Current efforts to simplify and digitize processes have created new opportunities to make better-informed decisions. In reality, however, many departments struggle with silo-thinking, complex corporate structures and inflexible routines. Based on debates with planning practicioners, six recommendations were derived on how to streamline an existing corporate planning approach and how to come up with a future-proof foundation for smart decision-making.

» We enjoy the process far more than the proceeds.[1]

But has the process been over-engineered?

There are a few heavily debated finance topics, which really involve all departments and often consume a vast amount of working hours not only in finance, but also in every other department and across all hierarchy levels. The recurring planning cycle is one of these topics.

Some call it art and most voices agree, that the measures and thoughts developed during the process are more valuable than the actual result. However, with a growing complexity of business models as well as an increasingly volatile environment this process has become more complex than ever for many organizations. Most finance employees and other involved corporate functions are increasingly confronted with resulting inefficiencies.

[1] Quote from Warren Buffet on planning

The perceived inefficiancies usually are driven by several factors inherent to the current planning approach. Dealing with those obstacles posts a major challange for any company striving for a future proof planning foundation.

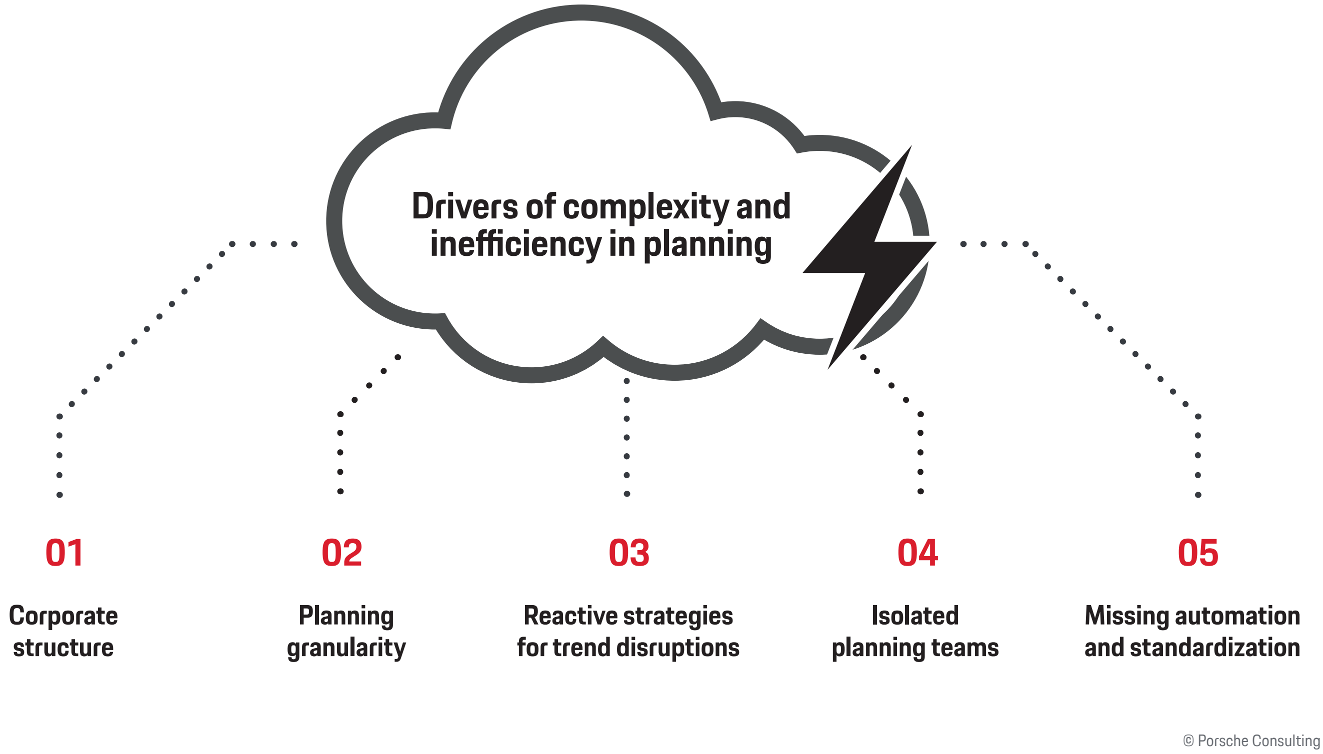

Fig.1 Exemplary drivers of complexity and inefficiency in planning

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The number of segment plans which need to be considered in any planning cycle, often grows with the size of a corporation and the complexity of its corporate structure. Poorly documented and intransparent segment plan delivery structures lead to missing information and inefficient reconciliation rounds.

//02

High levels of granularity for strategic planning horizons increase workload and reduce the flexibility to adapt to changed conditions.

//03

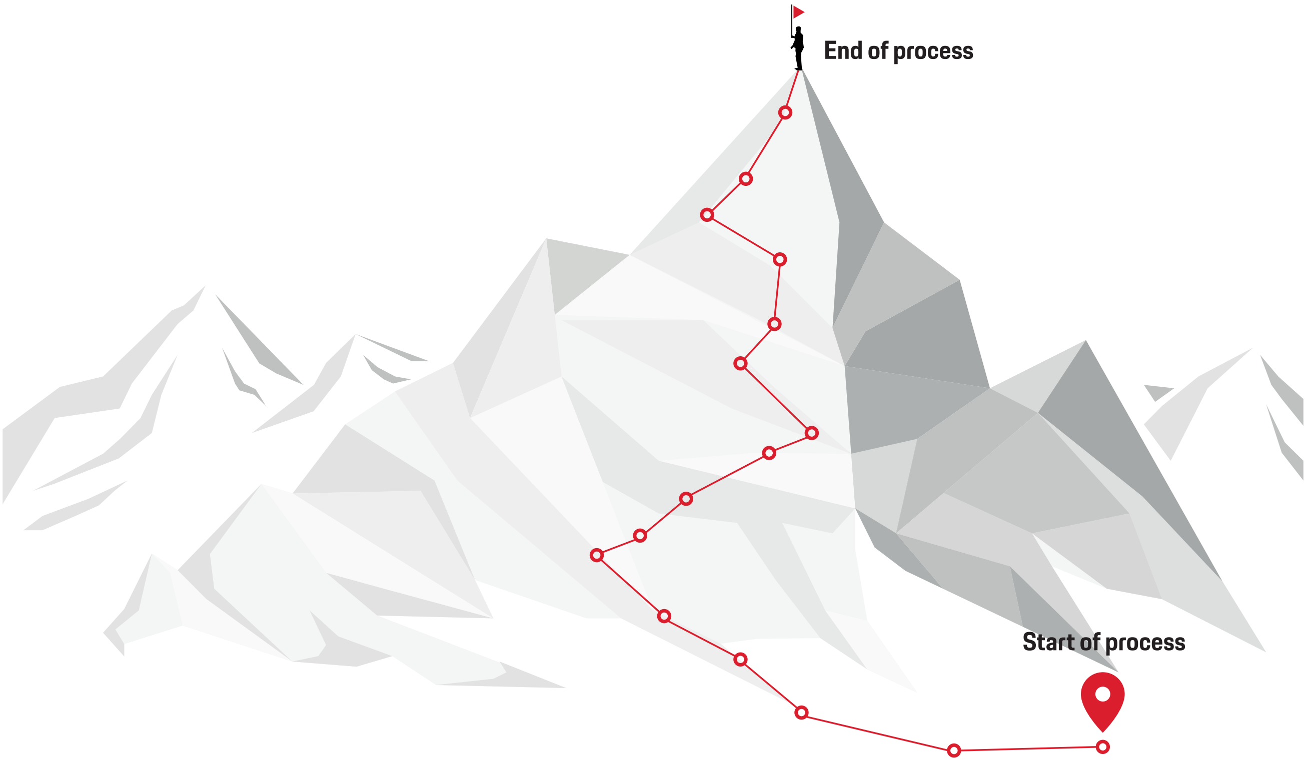
A static frame for the planning approach encourages reactive behavior for dealing with disruptions (i.e. threats of new technology or competitors) instead of predictive anticipation and analysis of potential impacts.

//04

Planning teams (e.g. primarily staffed through finance division and with finance employees) often lack cross functional and technical insights for the consideration of relevant strategic scenarios.

//05

The synchronization of planning horizons (strategic and operative) as well as the lack of automation and standardization for recurring processes lead to high manual efforts.



Of course, some developments are comprehensible since it is natural to assume that high levels of detail ensure thorough decision-making. However, this can slow an organization down quite a lot. Consequently, it needs to be questioned whether our approach for corporate planning is suited to handle the right challenges – especially in times of change and disruption.

Several surveys and studies affirm that companies spend a significant amount of time and resources for their planning activities often starting more or less repetitive tasks in their strategic, operative and budget planning routines over and over again. While many enterprises are now in a situation where their planning teams are just about to cope with the historically grown complexity of their planning cycles, they additionally have to face times of volatility and rapid change e.g. in business models.

Challenges for planning and how to face them

In recent years, customer interest in optimizing the planning approach to be better prepared for upcoming trends and disruptions has increased. Summarizing discussions with top management and planning practitioners across different departments, three major challenges seem to be relevant for the evolvement of a sound planning approach.

First, company leaders are busy to cope with the ever-increasing volatility and uncertainty of the economic environment. Discussions about Brexit, CO2 emissions and other regulatory changes as well as the trade conflict between the US and China are just a few examples that represent game changers for financial planning efforts. Within just a few weeks, maybe even days, the thoroughly built financial foundation for steering the business through the next years can become obsolete and needs to adapt to new circumstances very quickly. Urgent questions concerning the financial impact of declining sales, increasing tariffs and duties or potential penalties require instantaneous answers. Long lead times to collect and consolidate data, create granular financial reports and comment deviations reduce the chance to proactively simulate different scenarios and analyze the optimal alignment of profitability drivers.

Second, more and more companies face disruptive changes of their business models. More than ever before, financial planning needs to support a smooth transition of strategic measures taken to face these challenges into financial decision-making. While previously financial planning and capital allocation often focused on optimizing the forward projection of an established business model, the future requires a paradigm shift. New growth stories demand a systematic approach for routing resources from existing to new business models. To realize this paradigm shift, a lean and flexible approach for corporate planning is necessary.

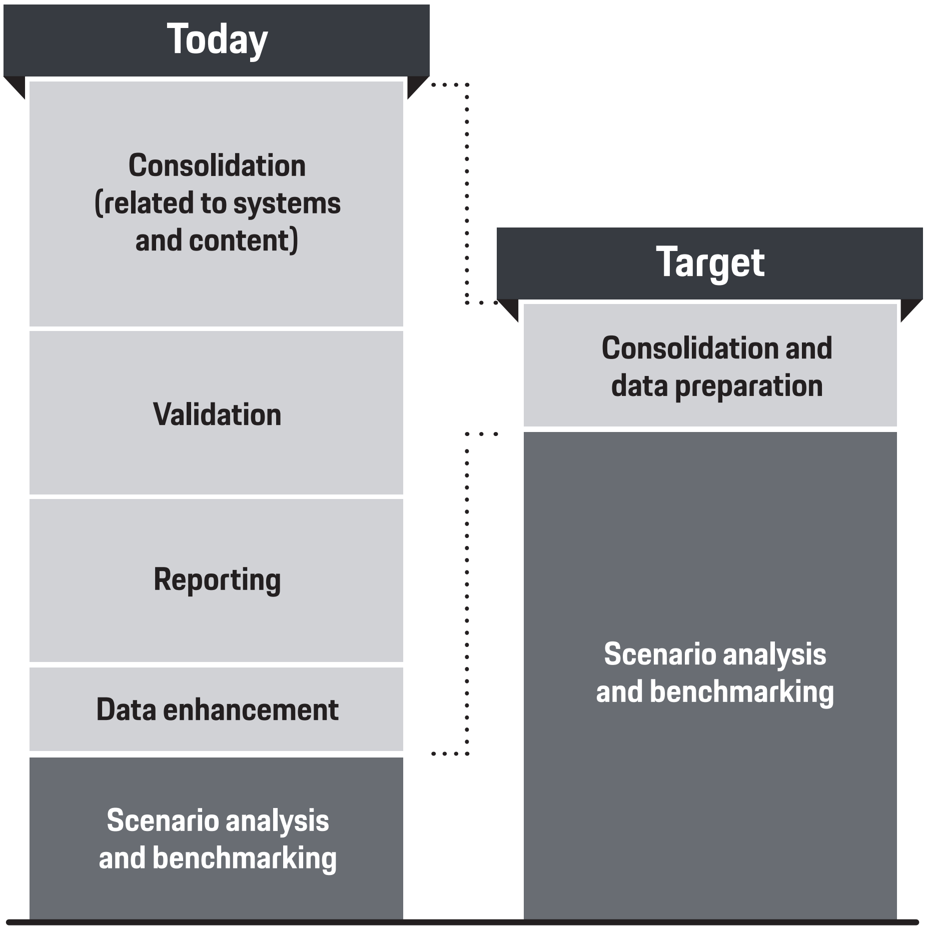


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Fig.2 Planning needs a capacity shift from consolidation to analytical tasks

Third, the increased availability of external data and processing capabilities allows investigating client and competitor behavior in a very sophisticated manner. Looking forward it will become a major competitive advantage to extract the most valuable insights from available data and to process these insights into strategic decision-making at an early stage. Consequently, the planning process needs to provide a strong link for integrating the results from data analytics. Reactive and flexible adjustments to new insights need to be possible in the short-, mid- and long-term planning cycle.

Eventually, planning processes will have to change to master these requirements. While previously planning was primarily used to verify financial investments and to ensure an efficient use of available facilities and capacities, it now needs to transform into a steering tool for making the right management decisions. Planning teams need to reassess their job profiles anticipating a clear shift from consolidation and data preparation tasks to being a much stronger counterpart for CEOs and CFOs. In a target state, future planning teams primarily need to ensure a high responsiveness to changing circumstances and a strong focus on extracting the most valuable insights from available data to generate value.

A key prerequisite for achieving this vision is to accelerate the shift of capacities in controlling and planning departments from consolidation and reconciliation tasks to analytical jobs like scenario analysis and benchmarking. It shows that successful companies initially focus on a significant reduction of repetitive tasks as well as time wasted while simultaneously building up the processes and competences for more value adding tasks.

Carving the path forward—six recommendations for the transformation of the future planning foundation

Many companies already have a similarly clear vision of their desired planning process encompassing terms like real-time planning or scenario based planning. However, they often struggle with their efforts to implement the necessary changes. The following six recommendations outline our experience on how to overcome the major challenges and clear the way to a smooth transformation of the planning procedure:

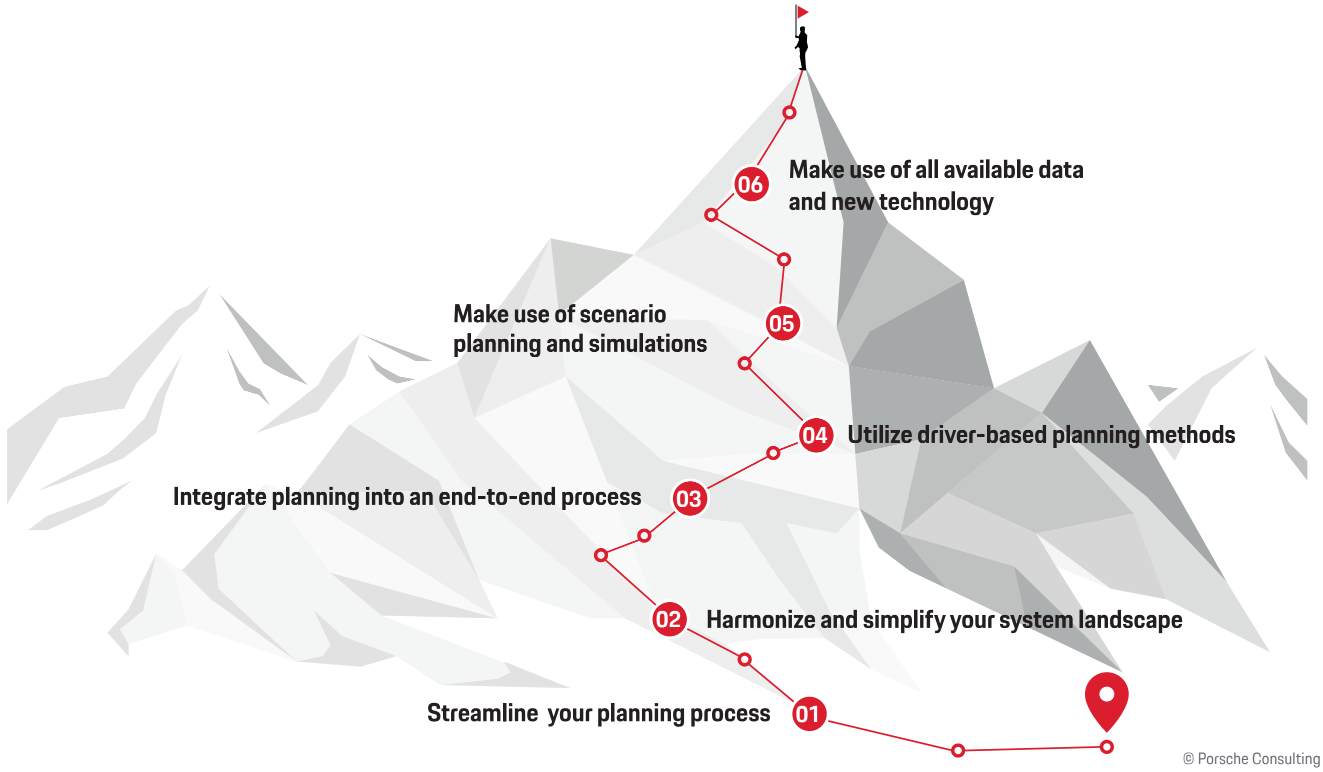

Fig.3 Six recommendations for your planning transformation

01 Streamline your planning process

A proper analysis of existing planning routines is a good starting point. The first analysis of the current planning process usually provides a rather good indication of how mature and efficient it works. Depending on the results of this analysis, as well as the greater strategy and vision pursued with the planning process, the course of action for the process-redesign has to be set. The general process layout, delivery structures and used templates should be as standardized as possible to eliminate unnecessary activities. Often manual effort and reconciliation meetings are only necessary due to unstandardized procedures and vaguely defined responsibilities. By defining and communicating clear responsibilities for segment plan deliveries, clients are able to increase planning transparency and speed. Furthermore, the newly defined responsibilities are the foundation to tackle identified weaknesses in the planning process and e.g. to automate or reduce system gaps.

02 Harmonize & simplify your system landscape

Planning needs to happen in an integrated system. Historically grown system landscapes additionally complicate the consolidation of segment plans as well as the synchronization of planning horizons.

The setup of an integrated system, which enables real-time planning entries and thus simultaneous planning for all segments, is typically accompanied by a time and resource consuming implementation. An initial step is usually the definition of standardized entry templates at critical planning handover points. These can be implemented subsequently in the new system. Especially in large companies with scattered system landscapes, it is important to find as many active supporters for the preferred planning solution as possible. A successive implementation can be a good way to promote the benefits of a single platform strategy. There are various success stories such as Sky Ltd. a leading Media and Entertainment company that implemented an integrated planning platform to replace various historically grown Excel models. Successfully now the finance department focuses on model results to support, business decisions in real-time, instead of spending 90% of the time on consolidation and preparation[2].

03 Integrate planning into an end to end process

Integrated end-to-end processes from the strategy definition to the operative and most granular level of detail in financial budget planning are essential for ensuring an appropriate responsiveness of financial planning in a more volatile environment. The process from strategy definition to operative control needs to be harmonized and well integrated. This means that strategic measures and assumptions as well as benchmarks and scenario considerations need to find their way into financial planning. Ideally, strategy and finance develop them in a collaborative act having a cross-functional planning team in place. Additionally, the interaction between physical and financial planning must be guaranteed. Nowadays financial planning in the manufacturing industry is built on the results of portfolio-, sales-, plant- and personnel planning. However, to facilitate smart decision-making, the planning process needs to reflect various cross-functional interdependencies. Furthermore, each planning horizon from short- to long-term planning has its own purpose ranging from a strategic definition of fields of action to the financial confirmation and control of decision-making. Accordingly, the requirements for each planning horizon vary quite a lot. They are often handled by different teams in different IT-systems. Accordingly, the process should always assure that result of the previous step is the foundation for the next one, i.e. the operational planning should build on the top lines determined in the strategic planning phase and just add more detail.

04 Utilize driver based planning methods

The biggest advantage of driver based planning is speed. By modelling the key drivers of a business, it is possible to get real time planning results. Loosing granularity for strategic long-term considerations does not necessarily mean less planning quality. Results from a driver-based approach can even demonstrate an increased predictability. Ideally the results of a simplified, standardized and automated driver-based approach, are available in seconds instead of weeks. The corresponding efficiency gains (i.e. capacities that were required for several iterations to discuss planning assumptions, assess the effect of measures and finally consolidate segment plans) can e.g. be reinvested into the development of strategic scenarios.

Although driver-based planning is about efficiency in the first step, immediate results are a fundamental requirement for scenario work. Looking at enterprises that successfully implemented strategic top-down driver based approaches reveals several advantages. One interesting use case (p.8) provices a good a good example of how Siemens successfully implemented the top-down value driver-based simulation tool "Valsight" to enable scenario planning. Valsight is one of our cooperation partners for value driver based scenario planning software due to its intuitive technology and fast implementation.

05 Make use of scenario planning and simulations

Once a driver based planning tool is established, the simulation and creation of various alternative scenarios can happen within minutes. However, even without a driver based planning tool, conducting scenario planning several times during the planning cycle should be considered. Anticipating the potential results of environmental or competitive volatility can provide essential insights for making the right strategic decisions and taking precautions at the right time. Especially industries that undergo times of high volatility or face disruptive changes of their business model should be highly interested in simulations of different strategic scenarios.

[2] https://www.anaplan.com/customers/sky/

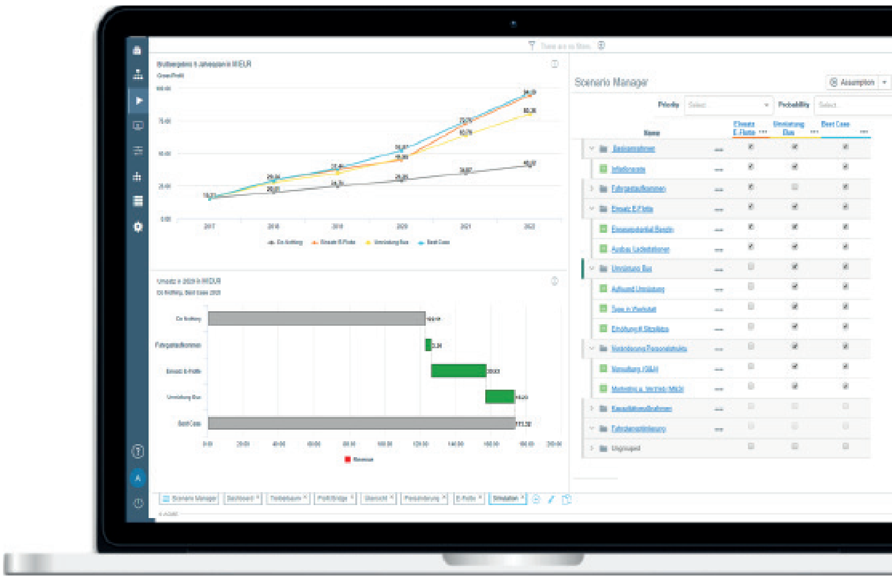

Fig.4 Valsight planning dashboard

A good demonstration of the relevance of scenario thinking can be observed at Shell. Shell develops driver based strategic scenarios simulating different sustainability requirements towards the energy mix to evaluate suitable strategic options[3]. The integration of new insights from such scenarios into planning lays the foundation for rapid and successful actions.

06 Make use of all available data and new technology

Finally yet importantly, be prepared to make use of new technologies and all available data in the planning process. Capacities that have been freed up from non-value adding activities should to be reinvested to unleash the true power of planning. By investing resources in technologies like Robotic Process Automation and Artificial Intelligence, the planning process can not only be speed up, but new insights can be generated quickly. By making predictive data analytics an integral part of your planning cycle, previously hidden correlations can be revealed to stay ahead of your competitors.

McDonalds's Germany for example uses predictive analytics for their product-mix planning. Therefore, they developed a model that links external data including seasonal trends, sportive events or holidays with internal steering elements like seasonal offerings and advertising. With the developed model, the resulting average deviation for predicted product sales was reduced to 6%. A conventional extrapolation of previous year figures would have resulted in an average deviation of 35%[5].

Use Case Example[4] – Value driver based scenario planning at Siemens

The Siemens Digital Factory division is one of the company's largest and offers a comprehensive product portfolio comprising system solutions and services for industrial automation and digitalization. The division's planning approach covered five years, with a strong focus on the upcoming budget year. All business units within the division used nonstandardized tables with individual planning logics. Consequently, the context of planning assumptions and the resulting figures were quite intransparent on an aggregated level. Integrated adjustments of planning assumptions were very complex; thinking in scenarios was barely possible due to fixed structures and the risk of inconsistencies.

The implementation of the driver-based simulation tool Valsight allows a centralized definition of planning assumptions and thus serves as an integrated and transparent platform for decision-making. The driver-based logic uses turnover to calculate a modeled change in volume, which additionally drives variable costs. Measures such as hiring sales representatives generate sales and costs based on defined ramp-up curves for sales targets and country-specific costs.

New plans are created by importing a reference point and extrapolating the actual figures based on the underlying driver model. Since all business units now use unified planning logic and assumptions, they are now able to simulate and analyze the effects of alternative scenarios and existing or additional measures by adjusting the relevant drivers. With the implementation of Valsight, the Siemens Digital Factory division was able to simplify the planning process, increase the transparency of cause-effect chains on planning, and thereby facilitate optimal resource allocation.

[3] https://www.shell.de/
[4] https://www.valsight.com/
[5] Controller Magazin, 2/2019, p. 10

Conclusion

By considerig the tranformation of an existing planning approach it should be noted that the outlined six recommendations are meant as as guide for the tranformation journey. It is not necessary - and not commendable to implement all of them at once. The new planning approach needs to be tailored to suit your individual strategy. However, the chronological order of the recommendations implies that they complement each other very well when implemented in the suggested sequence.

The creation of a streamlined and integrated end-to-end process is necessary to enable the benefits that driver-based planning, scenario simulations or the use of predictive analytics can achieve. Since adjustments of an existing planning process are often implemented during the short period between planning cycles, a project typically starts with an initial assessment and scoping phase. After an asessment of the current plannig process maturity and the identification of major action fields the project moves on to the design and implementation phase. Based on the insights generated we offer several best practice blueprints on how to streamline a planning approach.

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