What is myth and what is reality when it comes to financial planning and budgeting?

KPMG recently sat down with finance leaders from five Swiss multinational organizations to understand their financial planning processes, challenges and vision for the future. Financial planning and budgeting has been one of the most discussed topics in finance over recent years and based on the insights from the interviews and market trends, we set out to identify what is myth and what is reality.

Myth or reality – which of the five statements are true and what actions should you as a finance leader consider taking?

Efficient planning processes have been adopted ...

and the majority of organizations have already included either driver-based, dynamic scenario planning, rolling forecasts or algorithmic forecasting elements in their planning cycle.

This is a myth

Although the process may seem straightforward, it is an organization-wide exercise, with a myriad of stakeholders involved and multiple sources of information that need to be reconciled. Thus, despite the invaluable insights brought by financial planning, it is often associated with lengthy, labor-intensive and complicated processes, which is why very few organizations have dared to start introducing new forecasting elements to their planning process. Many organizations can relate to the statement above.

> **It's just that the timeline for our planning process is way too long.**

What to do:

Design an intelligent process with a clear objective, that includes all relevant stakeholders (i.e. all local businesses and all functions: HR, Supply Chain, Sales & Marketing, etc.) and technology support, such as a data collection workflow. As one of the finance leaders explains:

> **There are a lot of manual data gathering tasks surrounding the planning process. We don't perceive it as a significant challenge though, as we use a data collection workflow, supported by a central system.**

What not to do:

Finance leaders should not ignore the requirements from the business and their finance teams to reduce workload, complexity and manual activities within the planning processes. Don't rely on dispersed spreadsheets to navigate increasingly complex businesses, or to model impacts of market dynamics and external influences. True financial foresight will require freeing up workload and having the right supporting technologies.

Planning tools are not optimally used …

as dispersed spreadsheets and isolated planning solutions remain the primary tools to enable the planning processes.

This is a reality

Our interviews showed that the issue is very common: a fragmented planning process with multiple spreadsheets and e-mails flying back and forth from various stakeholders. It is often a cause not only of inefficiency but also of errors, with the risk of it leading to sub-optimal decision-making.

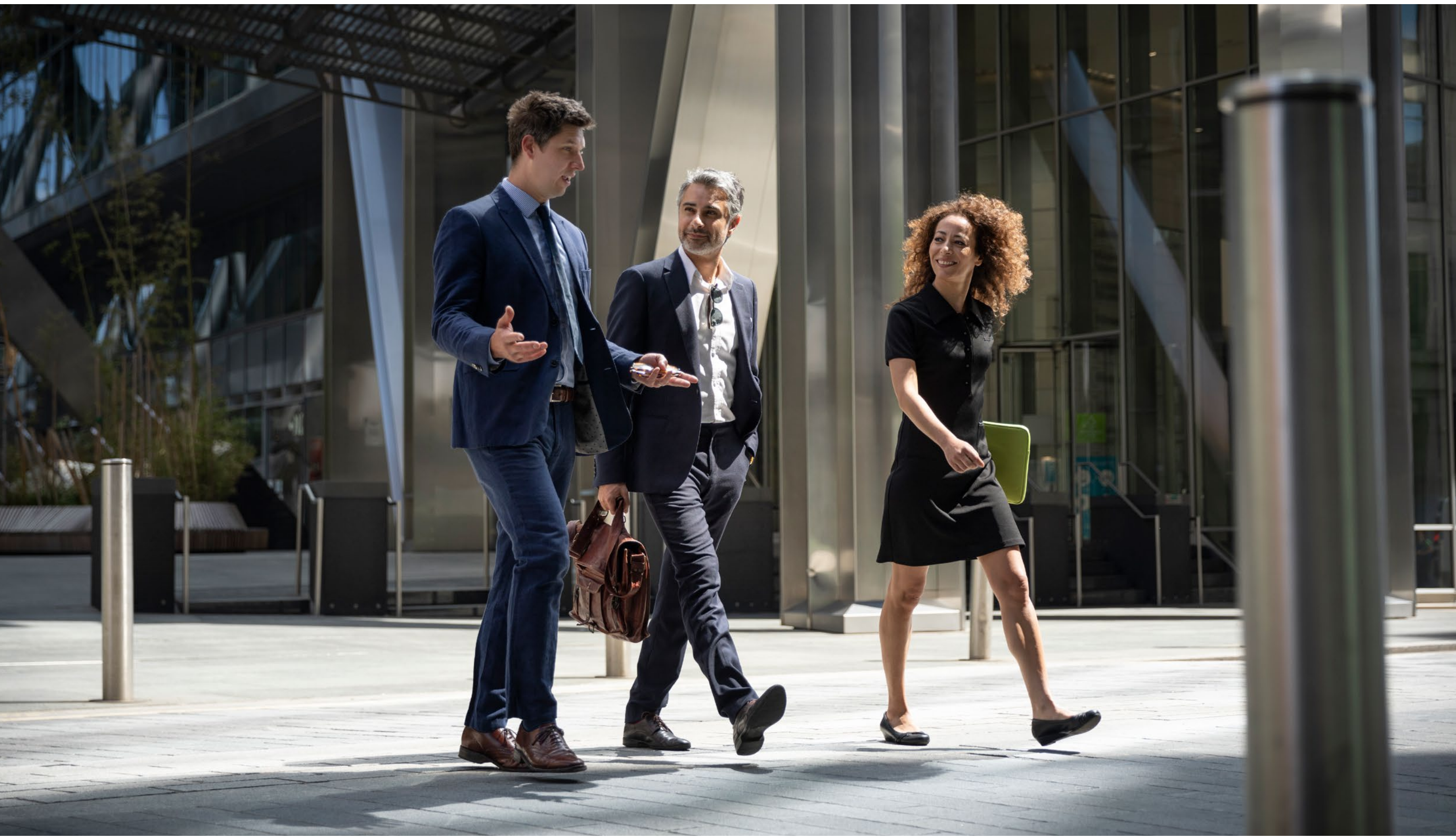
> **My personal opinion is that we have many tools, but we are not really using them properly. … And our planning, it's always done in Excel, which is very manual and I'm certain there is a better way to do it.**

What to do:

A key differentiator among leading organizations is the ability to utilize tools to create better insights with less effort. The main success factor to achieve this is to ensure a financial planning process that connects long-term strategic objectives with annual targets and enables monitoring of those targets on a regular basis. Such an integrated process requires a data model that unifies the structures of both planning/budgeting and actuals reporting. This unified data model enables timely and accurate comparison of actuals vs. plan, and thereby enhances steering of performance. Modern EPM solutions provide such integration, both supporting the integration between strategic, tactical and operational planning and the integration across functions, which is possible due to a single unified data model.

What not to do:

Finance leaders should not just increase pressure on finance teams by shortening planning deadlines, without properly equipping teams with standardized processes and enabling solutions. This will only lead to demotivated teams and inaccurate business plans.



Data quality is a challenge in financial planning ...

and is one of the key reasons why organizations are unable to perform effective and value-adding planning processes.

This is a reality

Three key issues are found to be driving poor data quality within many organizations, which is holding them back to leverage new technologies e.g. predictive forecasting:

1. Data fragmentation and lack of a single source of truth
2. Sub-optimal data preparation
3. Inadequate data governance

During our interviews we found that there is a major benefit in having a single source of truth for storing all enterprise data, thereby breaking functional silos. An example of this would be a central (cloud-based) data warehouse with unified data structures, in which financial data from all sources is stored in high granularity.

> **The data is just not there so it would be a significant challenge to reap the benefits from predictive forecasting.**

What to do:

Finance leaders would benefit from taking ownership of introducing a unified data model, while at the same time introducing appropriate data governance procedures to ensure data quality. This would reduce inconsistency and provide superior business insights for decision-making. Additionally, when collecting and storing data, also focus on non-financial data (e.g. FTEs, volumes) which typically contains important leading indicators that enable more advanced (driver-based/predictive) planning.

What not to do:

Use separate/dispersed data sources to capture and store plan/budget data and actuals data. This will lead to high reconciliation efforts and in general, less accurate plans. Simultaneously, do not limit the data collection scope to purely financial data, as you may miss out on important leading indicators that enable predictive forecasting.

High granularity in financial planning is essential ...

and leading organizations secure strong performance by planning at the most detailed level.

This is a myth

A high level of granularity at first glance is associated with precision, completeness and additional insights. However, the reality is that it results in a significant workload for the business, finance and other functions, while the planned level of detail rarely provides relevant insights for decision making.

What to do:

A key action for finance leaders is to determine the right content and level of detail of financial planning. For example: The number of planning entities can be reduced to 'entity groups', where each 'entity group' has a planning owner. In addition, the hierarchical planning level can be set higher, for example: no longer planning on account level, but rather on cost type/cost nature level. The right level of detail should be deliberately and carefully defined based on the need for timely and accurate data versus the effort required to produce this information on the other hand.

What not to do:

Assume that the same level of granularity used for reporting is necessarily required for planning as well. Instead planning should set targets based on which performance can be steered. Do not overwhelm your organization with unnecessarily detailed data collection exercises.

Planning only impacts finance ...

and does not require communication, involvement and embedding the financial planning processes throughout the organization.

This is a myth

Even organizations that have invested in integrated planning solutions to enable a more efficient process still encounter challenges in their planning processes. For example, lengthy, burdensome planning processes are not overcome by technology alone. It will require improved collaboration and communication, and agreeing on the appropriate level of planning detail.

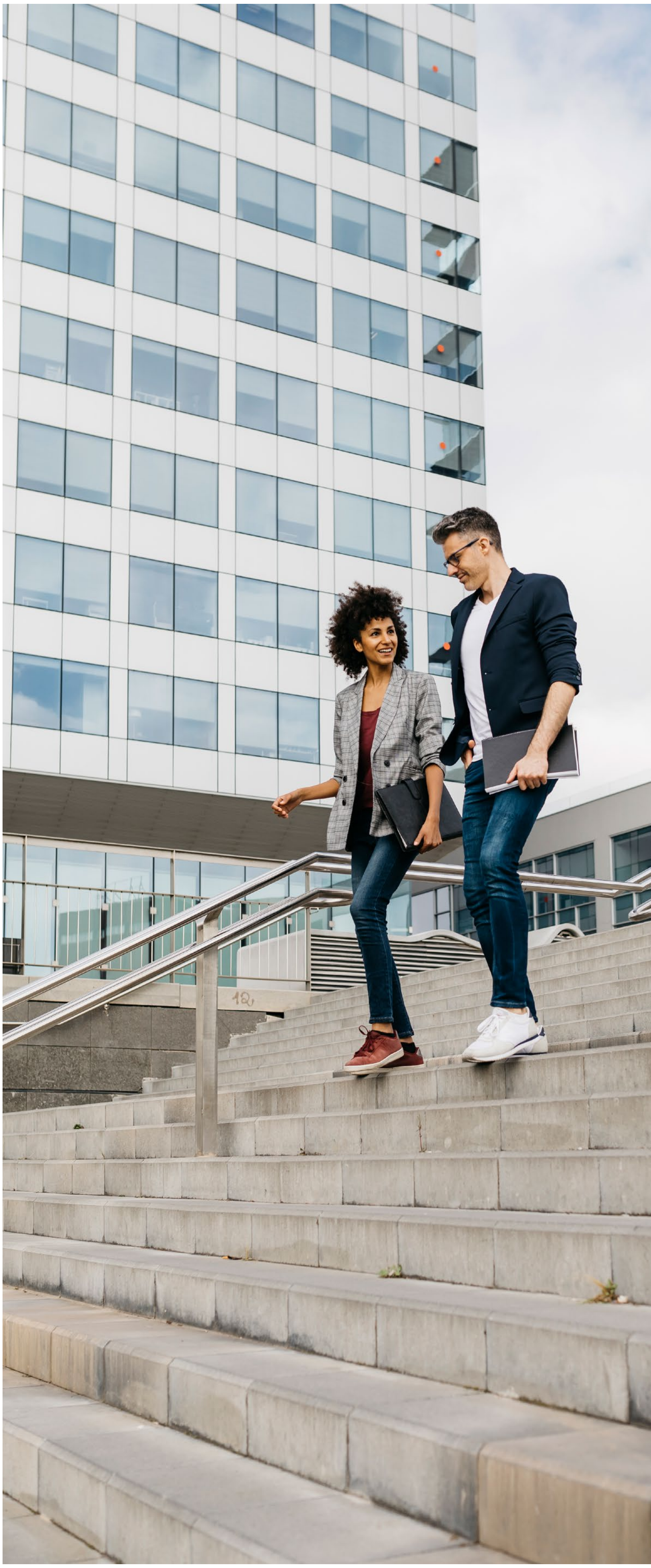
> **We have many good solutions in place, but we notice that the adoption within the organization is not as we had hoped.**

What to do:

It is key for finance to understand the resistance to change and lack of understanding regarding the benefits and value of financial planning. Finance leaders should clearly communicate the reasons for financial planning and the benefits of improving financial planning to all parties involved in the planning process (i.e. all business leaders and functional leaders). There should be opportunity for the business and functions to air their concerns and these concerns should be adequately addressed by finance. Only this way resistance can be minimized, resulting in maximized adoption.

What not to do:

Underestimate the challenges of introducing new tools and technologies to the organization. Without stakeholder engagement, organizational training and clear communication, investments in new technologies will not deliver the expected benefits.



Are you wondering what your next move should be?

We've seen organizations greatly benefit from taking concrete and pragmatic steps as outlined below to identify the current gaps and know how to prioritize activities to improve the financial planning processes.

Don't underestimate the power of having a strategy

- Organize a strategic session with finance, business representatives and functional leaders to define your strategy for financial planning, and based on the direction, evaluate in which of these five areas you see potential for improvement (planning process, technology, data quality, level of detail and business embedment)
- Prioritize the improvement areas (benefit vs. effort) and describe practical initiatives (projects) to close the gaps
- Prepare a holistic roadmap considering all five areas including potential unique topcis relevant for your organization
- Assign ownership to each initiative and plan them on a realistic timeline to create commitment and ultimately support you in realizing the identified opportunities

Don't get confused by the many technology options – choose the one that's right for you

- Collect the key requirements to a new technology across finance, IT and the business
- Gather insights from vendors who could potentially be considered able to cover your requirements
- Define the right evaluation criteria to compare and select the right solution for you. This can also be considered a functional compatibility check
- Assess compatibility between your preferred solution and your source systems and data infrastructure; this is called a technical compatibility check

Don't forget to engage and communicate

- Start early with engaging key stakeholders across the organization
- Have clearly defined success factors and metrics – when is the financial planning process a success?
- Create a robust plan for how you want to embed the changes in the organization through training, communication, sponsorship etc.

Closing remarks

These steps will pave the way for a more effective financial planning, i.e. better management of business performance. KPMG's experts are always available to assist you as you embark on this journey.

This article is based on KPMG's project experiences and was validated through a series of interviews with finance leaders across various industries. We especially express our gratitude to the following contributors for their insightful inputs.

Edward Condren
Finance Director Corporate at Amcor

Patricia Alvarez Ortiz
Director FP&A Europe at BeiGene

Sandrine Orlando
Group FP&A Analyst at Bucherer

Dmitry Lebedev
Finance Director Group FP&A and Controlling at SIG Group

Contacts

KPMG AG
Badenerstrasse 172
PO Box
CH-8036 Zurich

kpmg.ch

Thomas Oschlisniok
Partner, Head of Business Services Transformation

+41 58 249 20 52
thomasoschlisniok@kpmg.com

Roderik Olde Kalter
Director, Finance Strategy & Transformation

+41 58 249 51 88
roldekalter@kpmg.com

Christina Pedersen
Senior Manager, Finance Strategy & Transformation

+41 58 249 20 08
christinapedersen@kpmg.com