



Better Planning and Budgeting

Rethink the Purpose, Scope and Objectives of Your Process

by Robert D. Kugel CFA | 6/13/2008 | Article ID: V08-22 | Article Type: VentanaView | © 2008 Ventana Research

Summary

Budgeting, planning, forecasting and reviewing consume a large portion of a finance department's time. Ventana Research recently completed extensive benchmark research devoted to [planning and budgeting](#). Our research found that almost three-quarters (72%) of companies are considering making changes to their process or have made some during the last 18 months. However, those changes often are merely tactical and do little to increase fundamental effectiveness. Companies need to do more. Planning and budgeting are pillars of performance management. We assert that improving them will increase a company's operational effectiveness by providing better collective understanding of operational and functional objectives, closer alignment of those objectives with strategic objectives and the ability to optimize efforts across an entire organization.

View

Ventana Research has conducted extensive research over the past six years into how companies plan and budget. We conclude from the latest research and our past efforts that most companies can and should make significant improvements to their process. In doing so they can enhance its accuracy, increase organizational and strategic alignment and improve organizational agility. We recommend that companies do the following:

Broaden the scope of process improvements.

We find that most companies consider changes to achieve limited, tactical objectives. But they should set their sights higher. For example, companies need to shift their focus from financial budgeting and do more integrated planning – a process that brings together the usually disparate and disconnected planning functions across the organization into a more coordinated, ongoing planning and budgeting process. Only half of our research participants said they fully integrate sales and operations planning (S&OP) into their financial budgeting. However, most of these companies budget only once a year while their S&OP cycle typically is monthly or quarterly. This means that full integration takes place just before the start of the fiscal year, and thereafter disintegrates as the year wears on.

Realize that planning and budgeting are not the same.

While they are related, there are important differences between the two. Planning is about creating a program for action; it's part of an overall design to achieve specific objectives. Budgeting covers the financial position of an organization for a specific period of time based on estimates of revenues and expenditures. Planning is about activities, people, resources needed and time spent. Budgeting is about money – the consequences of activities, the resources and so on needed to support the activities. Budgeting almost always fails distinguish between the money and the things, making it harder for executives and managers to spot disconnected efforts (when, for instance, manufacturing is not aware that marketing is planning a big promotion of a certain product), wasted or duplicative spending, and other problems. We believe that companies spend too much time budgeting and not enough time planning.

Plan and budget more often, and involve more people.

Companies should structure planning and budgeting for high participation, so that all people with budget authority are meaningful contributors. Past research has shown that doing this increases planning accuracy because it provides a more comprehensive view of the company and its external environment. It also promotes more buy-in and accountability, with the result that the process produces a corporate plan, not "the finance department's budget." And it should be a high-frequency process, done with a rolling five- or six-quarters approach. Our research shows that when conditions change significantly, only 17 percent of companies do a complete revision of their budget; the rest either work around their original budget or redo a shorter version. Companies that have adopted a rolling quarters approach (only 10 percent in our study) are more likely to understand the full implications of changes, weigh their options more intelligently and respond more appropriately. They can do this because they have transformed a ponderous, once-a-year process into a more efficient and nimble quarterly event.

Replace spreadsheets with dedicated applications.

We conclude, after years of observation and research, that using desktop spreadsheets to manage planning and budgeting prevents companies from implementing fundamental changes to their process. These spreadsheets were designed for personal productivity and perform poorly in collaborative and repetitive tasks. It becomes so time-consuming to pull together submissions from multiple contributors that it limits the frequency, participation and detail with which companies can work. What-if analysis is a critical part of planning. Yet because managing the data and analysis in desktop spreadsheets is so difficult, companies are forced to limit the scope and permutations of their exploration. Our research shows that nearly two-thirds (59 percent) of companies continue to use desktop spreadsheets to manage all or most of their planning and budgeting efforts. While replacing these tools with a dedicated application will not automatically improve the process, it will eliminate a critical barrier to change. (To ease the transition, some dedicated planning and budgeting applications use Microsoft Excel as their user interface. These front ends do not have the disadvantages of desktop spreadsheets and take advantage of user familiarity with this application.)

Assessment

Only 12 percent of companies in our recent planning and budgeting benchmark research qualified as innovative – the highest level of maturity in our assessment process. A majority continue to lag, most notably in the process and technology dimensions. We assert that a majority of companies fail to use planning as effectively as they could to improve their performance. Rather than a finance-centric, once-a-year budgeting process that lasts months, companies need to transform it into a planning process to support a broader performance management agenda. This means changing the balance from budgeting to planning, increasing the frequency (and therefore decreasing the cycle time) and broadening participation. Since we believe this is too difficult to accomplish with spreadsheets, we advise companies to find a dedicated application that can support a more ambitious planning process. There are many to choose from that meet the financial and operational requirements of almost all midsize and larger companies.

Related Research Notes:

[Make Planning More Strategic](#)

Benchmark Research Shows Companies Can Improve Planning and Budgeting

[Planning and Budgeting Remains Immature](#)

Few companies have tied it to performance management

[Plan While You Can](#)

Seize the opportunity to adopt driver-based planning

[The Importance of Planning in Midsize Companies](#)

Appropriate planning and budgeting is key to performance management

[S&OP – A New Approach to the Single Enterprise View](#)

S&OP integrates fragmented plans to improve operational performance

[Keep Sales and Operations Planning Simple](#)

Research shows that best-performing companies create aggregate plans and review them monthly

About Ventana Research

Ventana Research is the leading Performance Management research and advisory services firm. By providing expert insight and detailed guidance, Ventana Research helps clients operate their companies more efficiently and effectively. These business improvements are delivered through a top-down approach that connects people, process, information and technology. What makes Ventana Research different from other analyst firms is a focus on Performance Management for finance, operations and IT. This focus, plus research as a foundation and reach into a community of over two million corporate executives through extensive media partnerships, allows Ventana Research to deliver a high-value, low-risk method for achieving optimal business performance. Learn how Ventana Research workshops, assessments and advisory services can impact your bottom line, visit www.ventanaresearch.com.

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