

white paper

Battle-tested **best practices** in **planning and budgeting**

Part II: Fusion Cell Planning Process™ for
Strategic Budgeting & Planning



Creating an overall direction for your company or workgroup is critical for company success.

However, in business as on the battlefield you will always operate in the absence of complete information, yet you must act. As a finance executive, you make critical decisions that affect the company “mission” at hand, regardless of the uncertainty each day will bring. Your challenge is to build a framework for action that brings order to chaos and drives your company to success. According to a recent IBM survey of over 1,000 chief financial officers around the globe, 75% responded that a large portion of their team’s functions include strategic planning and coordinating and consolidating the planning activities of the entire organization. Why is it that many companies fail to plan or fail to execute the plan? It is because they lack the ethos and process to plan and execute. Without that framework you enter each day lacking the confidence that the actions taken are the right actions at the right time to achieve the objectives. The planning process includes: Strategic Planning, Operational Planning, and Financial Planning. It’s the integration of these plans that provides the mechanism to adjust to the actual scenario.

This is part two of a two part series titled “Battle-Tested Best Practices in Planning and Budgeting”. This whitepaper covers in detail the six steps to support improved the planning process, how to budget to the plan, and measuring performance metrics along the way. In part one, Chris Lozano, a retired Lieutenant Colonel in the Marine Corps sets the ground work by defining the three tenants of planning and six steps to improve the planning and budgeting processes. If you would like to read part one, you can download it [here](#).

Why Do We Need a Plan?

Many companies have dabbled in creating a strategic, operational and financial plan and very few have actually succeeded in implementing and following through. Many have finally asked themselves, why do we need to plan anyway? Our environment is always changing and therefore, plans change on the fly. Many feel that plans are restrictive and that being flexible equals agility. The problem with that approach is it inherently breeds chaos during changing environments and economic turns. Planning gives the framework from which action can be taken in dynamic markets by driving action through process. Planning enables budgeting that supports an achievable plan, versus a plan that fits a budget. When there is a lack of information or when the moving parts can't be controlled, the key is to know your alternatives in advance so that you are prepared to react with a predefined course and a certain level of comfort in the end result. Have you ever heard someone say “we are going with plan A and in the event that X happens, we have plan B”? This statement says it best. In business, as on a battlefield, situations change rapidly and there is never sufficient time to meet, discuss and evaluate alternative actions. The alternatives must be modeled in advance so when the environment changes, you are prepared with predetermined actions to drive the described outcome. In day-to-day operations, this requires an operations plan, the financial plans (budgets) that support a course of action, and alternative plans, budgets, and forecasts in the event the business environment changes. Successful planning and budgeting are all about bringing together the different perspectives from within your organization of how market fluctuations impact the business and what can be done to reap the best possible outcome.

The Role of Corporate Performance Management

Although the main focus of this white paper is to review the detailed steps to creating and managing the planning process, an integral part of managing the process is to have the necessary tools to ease the process and measure certain outcomes. It is the role of corporate performance management software to ease the process by:

- Allowing for the configuration, high level reporting, communication and management of the key measures and objectives of the plan.
- Providing a method for the translation of the plan to both financial and non financial measures, including proforma financial statements and supporting schedules.
- Offering the ability to capture external “soft” information that helps explain the financial results and the approach to mitigate risks in the market.
- Providing a tool to model the financial results of different courses of action.
- Delivering a tool to transition the high level plan to detailed financial budgets and forecasts while managing the revision of the budgets and forecasts as the business environment changes.
- Enabling communications to everyone involved in the execution of the plan, their role, objectives and progress.

Planning Urgency

The following section describes the six steps required for successful planning processes. Methodical Planning does not create inflexibility. Planning is continuous, so you plan to the amount of time you have. This might be an hour or a year. We refer to this process as the “Fusion Cell Planning Process™”. As you read the steps, please think of it in the context of two situations:

- You are planning for a battle, your objectives are to minimize casualties, achieve the objective and you only have limited knowledge of what the enemy will throw at you.
- You are planning to do battle with your competitors in the market place.

These two mental metaphors should help understand the urgency of adequate planning.

6-steps for Successful planning

1

Mission Analysis. Mission Analysis on the battlefield translates to business analysis for a company. As described in part I of the series, proper planning begins with proper analysis. Here, you review and analyze directives, executive guidance, and other information provided by your leadership. In this process you identify high level assumptions for planning, critical information and resource requirements, resource shortfalls and tasks. The outcome of this step is an operational mission statement that identifies in operational terms the areas and objectives that must be accomplished to have successful performance. The operational mission statement should not be confused with the company/division mission statement. The operational mission statement is smaller in scope, is limited by the planning horizon and is finite. It clearly identifies achievable goals. Outputs from the mission analysis should result in the identification of high level key measures that are monitored to show progress toward the plan objectives. The information required to complete the mission analysis are:

- Corporate directives and initial guidance as to what is required from the company's operations
- Market information
- Analysis of critical strengths and weaknesses

This initial action drives the entire planning process moving forward.

This step integrates with corporate performance management software by allowing the results of this step to be set up as Perspectives, Objectives and Key Performance Indicators (KPI) in a corporate scorecard. It is important to set up the KPI's in this step so a "line in the sand" is established as to the key successful measures of this plan. While it is true that the KPI's can be changed later, the identification and configuration of KPI's provides clear communication to everyone how performance will be measured.

2

Course of Action Development. The second step is course of action (COA) development. During this phase, you develop several options for study and decision. Each prospective COA is then examined to ensure that it is suitable, feasible, distinguishable, acceptable, and complete with respect to the current and anticipated situation. Course of action development results in multiple alternative methods for achieving the stated plan objectives. For example, if the objective is to reduce operational costs in sales by 15% in 6 months, you might evaluate 3 different courses of action alternatives including reducing headcount which could have a negative result - decreased sales, or creating a stricter policy for travel and expenses. In all cases, a common set of evaluation criteria must be used which clearly outlines how different alternatives will be evaluated. This eliminates biases, prejudices, and emotional responses to a particular course of action. It provides a common yard stick for measuring each of the alternatives.

This step integrates with corporate performance management software by refining the KPIs set in step 1 and solidifying the common set of evaluation criteria that all plans, divisions, department, etc. must adhere to. This is a very important step because after plans are developed in detail it is easy to discount results of a plan that are "out of tolerance" or try to "negotiate" the acceptance of lesser criteria. But by documenting the evaluation criteria and measuring all plans against it you will have a common baseline for making a decision.

3

COA Wargame. This step is at its essence, modeling. War-gaming helps planners identify strengths and weaknesses, associated risks, and identify shortfalls. Short of actually executing a course of action, this visualization is the best test of a course of action as it attempts to foresee the action, reaction, and counteraction dynamics of the marketplace. The output of a COA War Game includes graphics, narratives and financial expectations for each of the alternative plans. It is during this process that a series of top-down models are compiled and evaluated. In many cases, planners may run 20 – 40 different top-down models based on different assumptions to understand the sensitivities of each assumption to the financial results. The inputs for this process include a listing of the alternate courses of action. This list was created in the previous step. In war gaming, a detailed evaluation, task development, resource planning and timing are required for each proposed alternative. This step involves refining the original estimates, reassessment of the market and putting the detailed plans down on paper. It is in

this process that many planners begin to use financial modeling techniques to understand the sensitivities of the plan as well as quantify the expected financial impacts/results.

In this step, corporate performance management software can provide the “top down” modeling tool where the planners can run many scenarios and understand their financial impact. The results of the “top down” model include identification of high level targets as well as the extrapolation of the high level targets down to the detail “budget contributor” account level. It is important that these high level targets are extrapolated to the detail level because many times it is in the details where plans start to fall apart. Setting a gross margin of 25% may seem to be a reasonable target, but after it is modeled down to a detail level and analyzed the planners realize that they have long term sales contracts for 50% of their sales at an 18% margin. This would require the rest of their customers to have a 32% margin which is not practical.

4

COA Comparison and Decision. In this step, the executive, with help from the planning team evaluates all COAs - first against established criteria, then against each other - and selects the COA most likely to accomplish the mission. Similar to war gaming, this step mixes empirical and analytical methods and may utilize methods such as weighted matrixes. For the first time COAs are compared to each other against set criteria. It is not intended to make the decision for you but give support for the decision made. This process results in the selection of an optimal course of action given the currently known information. It also provides alternative courses of action depending on the changes in the environment. It is in this task that the company's overall long term vision is integrated into the plan to select the optimal plan as of this point in time. This process also results in a better understanding by the plan participants of the causal factors that impact the business and allows each team member to clearly see the company from the other planner's/executive's perspective.

As a by product of corporate performance management software, scorecards, dashboards and financial reports can be created to help in the comparison process and provide necessary “drill down” when certain results are questioned.

5

Plans & Orders Development. Once a decision is made, the selected COA is fully developed into detailed action plans, operational plans or financial plans designed to direct the actions of the organization toward meeting the objectives. Plans run the spectrum from strategic to tactical business operations. It includes not only the financial perspective but also assumptions, alternative courses of action, risks and the “bridge” on how to transition from the current situation to the desired results. From a company perspective, it is the orders development step that requires the individual budget contributors to develop their detailed financial plan (budget or forecast) from the top-down model created during the COA War Game step. This results in a further “test” of the feasibility of the plan by allowing individual contributors to agree or change the plan and “make it real”.

This step is where the detailed “bottom up” budget or forecast is created/updated by the individual budget contributors. Corporate performance management software facilitates this process by providing input template that allows the budget contributor to model their particular area and compare it to the top down plan.

6

Transition. This is perhaps the single most important phase of planning, the transition to operations. Transition is an orderly hand over of a plan or order as it is passed to those tasked with execution of the operation. This step can be executed formally or informally depending on the complexity of the plan but is always designed to ensure complete and timely action by those charged with execution. The transition process includes the communication of the business plan and financial plans/resource restrictions to the individuals executing the plan. It communicates the key measure by which their portion of the plan is going to be measured. It sets up the formal process for revising the plan and it affectively translates the bridge between the top down plan and the bottom up action plans.

This step could be titled “Ongoing Plan Execution” rather than transition. The inputs to this process include:

- The financial and operational plan created in the previous steps.
- The key measures that will determine the successful implementation of the plan.

Both of these items can be set up and monitored in the corporate performance management software. In addition, the transition step includes:

- Executing the plan, monitoring actual to budgeted/forecasted results based on plan imperatives. This provides “liquidity of information” (i.e. the ability to compare results to last year, prior years, alternate courses of action and drill down to supporting detail or up to key imperatives).
- Revising the plan as situations change in the market place.

By setting up the plans in web-based CPM software, the plan is communicated clearly to those accountable for the initiatives and Key Metrics that were defined. The CPM software also provides a platform for monitoring the plan through scorecards, dashboards and reports and revising the plan via templates and modeling. This gives the management that is accountable to the plan confidence in two important areas of management:

Confidence in execution. Without CPM software, it is difficult to understand on a timely basis whether the plan has been executed as it was designed. Therefore, it is impossible to determine whether the strategy is working or not. CPM software provides collaboration, precise financial and operational information, and focus on what’s important. The software provides the commentary and dialog between people in the know and accountable as well as the clearly defined metrics that cascade down from the objectives all the way to the initiatives and individuals responsible for making the objectives happen. The ability to view timely results and to have dialog gives management the confidence that the plan is being properly executed. The screen below is an example how corporate performance management software can help visualize and measure plan execution progress.



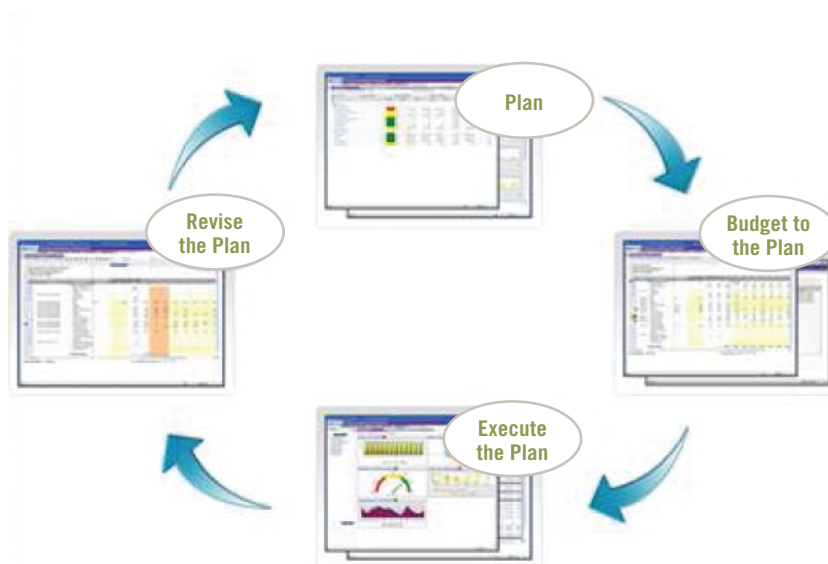
Agility. Now that management knows that the plan is being executed, they can adjust and realign resources quickly as unknown events take place. Most budgets are obsolete within a few months because of unknown events that could not be foretold. CPM software provides the automation that allows management to view how their plans are working and make adjustments easily for a more continuous planning process. CPM software facilitates collaboration, dialog, and informed decisions by integrating with existing transactional and operational systems and providing summarized views that can be drilled into for detail. This provides management with the confidence to make the decisions and adjustments that can be communicated and executed throughout the organization with precision.

Summarizing the Planning Process

Plans take many forms in business. Typical plans are strategic, operational and financial in nature. These begin with the communication of preliminary targets by senior management. On receipt of the targets, departments budget to meet these targets and identify risks to the targets that need to be mitigated. The operational planning starts with the issuance of targets that the plan needs to meet. These targets are translated to the metrics required to measure performance called Key Performance Indicators (KPI). It is critical to have the technology to track these KPIs and compare variance of actuals to the targets. It is also critical to set stretch targets and see progress being met over the established timelines. The financial plan translates the operational plan into a set of financial statements that define the allocation of resources against specific tasks and projects and forecasts the results that are expected to accrue from implementing the operational plan. The operational and financial plans clearly state where the organization expects to be relative to its overall strategy at the end of the plan period. An integrated strategic plan, operating plan, and financial plan define the key management reporting requirements. They also define the set of measures that should be built into the budget and forecast process. Although the end game in the planning process is the strategic, operational and financial plans, a by-product of the process should also be a better understanding of what drives the business, key sensitivities that impact the business and alternative actions depending on how the future unfolds.

About the Host Analytics Corporate Performance Management Suite

The Host Analytics corporate performance management suite includes budgeting, planning, financial consolidations and reporting, and performance management to facilitate the plans created with these methodologies. By integrating Host Analytics CPM Suite with existing transactional systems such as ERP and CRM applications, management can create a continuous planning and reporting process that provides for a more predictive and agile environment that is battle-tested for competing in the market. The diagram below outlines how the system works.



For more information on Host Analytics Corporate Performance Management Suite [click here](#).

For more information, please visit www.hostanalytics.com or call 866 391 HOST (4678)

About the Authors

Ric Ratkowski, Vice President of Product Strategy. Ric manages our overall product strategy and brings over 25 years experience in Finance and Accounting. He has held strategic roles in the design of financial analytic and performance management applications within the top software companies in the industry including Braun Technology and Arbor Software. Additionally, Ric held financial executive level positions at multi-national corporations with first-hand involvement in the financial planning and budgeting process. He has been a key member of the executive team at Host Analytics since 2002 and pioneered the SaaS infrastructure at Host Analytics. Ric has a Masters in Finance and a Bachelors degree in accounting from St. Louis University and is a CPA. He lives with his family in St. Louis, Missouri.

Chris Lozano is an entrepreneur, lawyer and retired Marine Corps officer who has dedicated his life to fusing the lessons he learned on the battlefield to business. Chris Lozano has worked in and around emerging technology companies for fifteen years from formation to sale and understands the unique challenges they face." Chris recently returned from his third combat tour since 9-11. As a combat engineer he has participated in the detailed planning and execution of combat operations at both the tactical to strategic level including mine-clearing operations in Afghanistan, the invasion of Iraq and counter-insurgency operations in the al Anbar province.

About Host Analytics, Inc.

Host Analytics helps executives see the full implications of decisions – both risk and reward. Our leading on-demand corporate performance management solution helps financial executives improve their budgeting, forecasting, financial consolidations, dashboarding, scorecarding, reporting and analysis. Most importantly, it helps drive fact-based decisions based on sound financial justification. Host Analytics delivers its product suite using Software-as-a-Service (SaaS) on-demand delivery to increase security while reducing cost and deployment time. Founded in 2000, Host Analytics serves the enterprise, large and midsize companies across industries. Host Analytics was included in JMP Securities' prestigious "*Hot 100: The Best Privately Held Software Companies*" and was the recipient of the Best of SaaS Showplace Award from market research firm THINKstrategies.

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