

Planning and Budgeting Benchmark Research

Improving Effectiveness through
Best Practices and Technology



Benchmark Research Executive Summary



V E N T A N A
R E S E A R C H

Aligning Business and IT To Improve Performance

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January 2010

Ventana Research performed this research for a fee to determine the needs and practices of organizations in their planning and budgeting process. This document is based on our research and analysis of a quantitative survey administered via the Web to qualified respondents. Qualification was based upon involvement with planning and budgeting and predicated on meeting demographic requirements (only those that work in companies with 100 or more employees) and excluded people employed by software vendors or whose employment in the appropriate organization could not reasonably be verified.

This research was designed to investigate the practices and needs of individuals and organizations with respect to the core planning and budgeting functions. This research is not intended for use outside of this context and does not imply that organizations are guaranteed success by using only these results to improve organizational productivity effectiveness. Moreover, gaining the most benefit from planning and budgeting requires an assessment of your organization's unique needs.

We certify that Ventana Research wrote and edited this report independently, that the analysis contained herein is a faithful representation of our evaluation based on our experience with and knowledge of the process and how software plays a role in it, and that the analysis and conclusions are entirely our own.

Ventana Research

Executive Summary

Over the past decade companies increasingly have embraced the concept of performance management to help them respond effectively to a more challenging competitive environment. Performance management seeks to optimize business processes while ensuring they are aligned with the organization's strategy.

Planning and budgeting are critical components of any company's performance management initiative because they are a means of translating strategy into a coherent set of initiatives and provide a basis for objective assessment and alignment. Planning and budgeting should be a collaborative process – a structured dialogue on the future direction of the company. Planning should be the basis for objective assessments of performance and for assessing the efforts of all corporate units and individual employees.

That, at least, is the idea. How well are companies doing in achieving this ideal? Our recent benchmark research examined the people, process, information and technology components – components that in sum reveal how effective planning and budgeting are.

Ventana Research tracks five key attributes that when optimized define effective planning and budgeting:

- Insight into a company's performance and the factors that drive results
- Accuracy sufficient to support smoothly functioning operations
- Alignment of corporate, departmental and individual objectives
- Agility to effect coordinated responses to change
- Collaboration across the organization to ensure clear communications (a necessary component to enable the first four).

We found that while some companies are realizing the benefits of a mature planning and budgeting process, many others are not; some lag far behind. We find that companies are doing better on the people and information aspects, but many fall short when it comes to the process itself and the technology they use to support it.

Key Points

The research findings show where companies do well, and where they need to improve, in their planning and budgeting activities. The following are particularly revealing:

- Most participants, regardless of their functional role or department, believe that planning and budgeting are important to the success of a company.
- There is a wide variation in maturity across all aspects of the planning and budgeting. Some companies are doing well, a few are excelling, but our analysis finds that one in five are at the lowest level.
- There appear to be several disconnects between people's assessments of how well they are managing their planning and budgeting process and the improvements they would like to see. For example, a majority of participants in the research said there is close alignment between the company's strategy and the budget. Yet when asked what they would change, these same people said they want to improve strategic alignment.

- While many focus on the time spent budgeting and planning, the research found no strong connection between the hours devoted to the process and the accuracy, relevance and strategic alignment of the finished product. What companies do with this time is what matters, and this should be the focus of their efforts. Moreover, as in past studies, participants in midsize companies were more likely to say they spend too little time planning, while people in the largest corporations were more likely to say they spend too much time on it.
- The right software is important. While a majority of participants continue to use spreadsheets for this purpose, those using dedicated applications more often said they do a good job in a range of planning tasks. Users of dedicated applications also were far more likely to report that they produce more accurate plans and budgets that remain more relevant over the course of the term of the plan or budget.

Is your company getting all it should from its planning, budgeting, forecasting and review processes? Based on the findings from this research, the answer is probably not – or at least not as much as it could. Making planning and budgeting a more effective tool for improving your company’s performance should be a priority. Evolving your process probably will be a multiyear project because it should address the people, process, information and technology aspects that are the keys to more productive use of the significant time your company spends charting its future, assessing its results and making adjustments where necessary. The findings of this research can suggest areas where your organization can improve, and using our benchmark analysis will highlight specific areas for improvement.

What To Do Next

Over the past five years, Ventana Research has conducted extensive research into how companies plan and budget. We conclude from the current 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. The following recommendations are intended to guide companies as they strive to do this.

Broaden your focus.

We find that most people begin to examine change with limited, specific objectives. In the case of planning and budgeting, they may set out, for example, to shorten the annual budgeting period or make the actual-vs.-budget reports easier to produce. However, the first step in rethinking this process should occur at a higher level. Take a step back and ask what objectives planning and budgeting ought to fulfill, how well it is delivering on those objectives and what needs to be done to close the gap between them

Plan and budget more often, with more people involved.

Planning and budgeting are closely related core functions of the finance organization – so closely related that they are often referred to as a single process. Matching the resources available to these functions to the company’s objectives and strategy makes it possible to control costs more effectively, which in turn ought to increase

operating efficiency. You should structure planning and budgeting for high participation, so that all people with budget authority are meaningful contributors. When this is the case, more buy-in and accountability result: It stops being “finance’s budget” and becomes everyone’s budget. And it should be a high-frequency process, done more often than once a year, so that the company can respond faster as conditions change. When this is the case, management and executives are more likely to be able to understand the implication of changes, weigh their options more intelligently and respond appropriately.

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 is about creating a statement of the financial position of an organization for a specific period of time based on estimates of revenues and expenditures. Planning is about things such as activities, people, resources needed and time spent. Budgeting is about money. We believe that companies spend too much time budgeting and not enough time planning.

If performance management and aligning strategy with action is the goal of your organization, you need to be planning. The typical budgeting process winds up burying a lot of important information in spreadsheets, including assumptions about the future and information that could promote better alignment of actions across the company. In planning, these assumptions have to be explicit; because they are, companies can achieve greater alignment and allocate resources better. Because plans focus on things as well as money, they make it easier to understand root causes, to focus on exceptions and to do so faster and more accurately on a consistent basis. Then you can do internal benchmarking to highlight the best-performing people and operations in the company and use their examples to figure out how to improve everyone’s performance.

Replace spreadsheets with dedicated applications.

Over years of observation we have concluded that an important reason why companies don’t plan is their reliance on spreadsheets to execute the process. The limits of this tool forces them simply to budget, which limits the insight that can come with planning. That is, because spreadsheet budgeting is so time-consuming it curtails what-if analysis. This makes it more difficult to spot threats and opportunities and also limits a company’s agility in responding to divergence from the plan. Using a dedicated application for planning is better than spreadsheets because it’s possible to shorten the planning cycle; you can replan and rebudget more often, and more easily perform exception-based reviews.

Even if your company just wants to budget, we recommend you nonetheless use a dedicated application. The benefit here is that the process becomes much more efficient. Time that would be spent wrangling spreadsheets can be used on more important tasks. Moreover, companies that use dedicated applications are better able to compress the budgeting cycle, sometimes significantly (for example, cutting a four-month process in half). For a company operating on a calendar year, an annual budget completed in November tends to stay relevant longer than one prepared largely in September or October.

Answer these key questions.

Our research shows that companies invest a great deal of valuable time in planning and budgeting. They should ensure that they are generating a return on that investment. Planning and budgeting are important to the success of any company. Ventana Research advises companies to periodically assess their process, the technology they use to support it, the information flows associated with it and the people aspects (training and communications, chiefly). Here are five groups of questions that the CFO, controller and head of financial planning and analysis should ask:

1. Is the planning and budgeting process as strategic as it could be?

The CEO has a strategy, but how effectively does the budget reflect it? Are the objectives realistic given the allocation of resources, or is this budget just an extrapolation of last year's budget (which probably was driven by political clout, not strategic necessity)? When changes occur in the economy or competitive landscape, can the company change its budget to support its strategic goals? Or should the company change the strategy to fit the available resources?

2. Are the budgets as accurate as they should be?

Does the budget process itself create systematic errors? (This is of particular concern if your company uses desktop spreadsheets to support the process.) How much time is spent dealing with hidden arithmetical or logical errors? Does anyone know? How many of these errors remain undiscovered?

3. Does your planning really help increase your company's agility?

Does the company respond as rapidly as it should to changes in the environment or to the competitive landscape? When things are not going as planned, how well-coordinated is the company's response? Does the organization do contingency planning or what-if analysis? When necessary, can the plan take the entire company into account, not just one department or product line?

4. Could your process provide deeper insight to more people?

What assumptions are people making in forecasting revenues and expenses? Can you drill down easily to find out what they are? Are the assumptions consistent? Does the revenue forecast make sense given the sales budget? Are there too many or too few support personnel? In reviews, can people quickly spot why a variance occurred (not just a number but whether it was unit- or volume-related)? Will everyone agree on the answer?

5. Is the process itself of high quality?

Could your company shorten the interval needed to prepare a detailed budget and cut the hours spent on purely mechanical tasks? Is the budgeting process performed consistently across departments and businesses? Is it performed consistently from one year to the next?

This Executive Summary is drawn from the full Ventana Research Benchmark Research report. The full report is available for purchase, payable by check or credit card. For more information about the full Benchmark Research report or assessment of your organization using the Maturity Index, please contact us at sales@ventanaresearch.com.

How Ventana Research Can Help

Ventana Research helps organizations develop, execute and sustain business and technology programs that align people, processes, information and technologies essential for success. As an objective and trusted advisor, we are your insurance that your business and IT initiatives deliver both immediate and long-term improvements to your business.

We offer a variety of customizable services to meet your specific needs including workshops, assessments and advisory services. Our [education](#) service, led by analysts with more than 20 years of experience, provides a great starting point to learn about important business and technology topics from compliance to business intelligence to building a strategy and driving adoption of best practices. We also offer tailored [assessment](#) and [benchmarking](#) services to help you connect the business and technology phases of your project by leveraging our research foundation and methodologies. And we can provide [Ventana On-Demand](#) access to our analysts on an as-needed basis to help you keep up with market trends, technologies and best practices.

Everything at Ventana Research begins with our focused [research](#), of which this report is a part. We work with thousands of organizations worldwide, conducting research and analyzing market trends, best practices and technologies to help our clients improve the efficiency and effectiveness of their organizations.

Through the Ventana Research [community](#) we also provide opportunities for professionals to share challenges, best practices and methodologies. Sign up for Individual membership at www.ventanaresearch.com to gain access to our weekly insights and learn about upcoming educational and collaboration events – webinars, conferences and opportunities for social collaboration on the Internet. We offer the following membership levels, as well as an additional PLUS option for bundled education:

Individual membership: For business and IT professionals* interested in full access to our Web site and analyst team for themselves. The membership includes access to our library of hundreds of white papers and research notes, briefings and telephone/e-mail consulting sessions to provide input and feedback.

Team membership: For business and IT professionals* interested in full access to our Web site and analysts for a five-member team. The membership includes access to our library of hundreds of white papers and research notes, briefings, telephone/e-mail consulting sessions to provide input and feedback and the use of Ventana Research materials for business purposes.

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* [Additional services](#) are available for solution providers, software vendors, consultants and systems integrators.

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Ventana Research is the most authoritative and respected benchmark business technology research and advisory services firm. We provide insight and expert guidance on mainstream and disruptive technologies through a unique set of research-based offerings including benchmark research and technology evaluation assessments, education workshops and our research and advisory services, Ventana OnDemand. Our unparalleled understanding of the role of technology in optimizing business processes and performance and our best practices guidance are rooted in our rigorous research-based benchmarking of people, processes, information and technology across business and IT functions in every industry. This benchmark research plus our market coverage and in-depth knowledge of hundreds of technology providers means we can deliver education and expertise to our clients to increase the value they derive from technology investments while reducing time, cost and risk.

Ventana Research provides the most comprehensive analyst and research coverage in the industry; business and IT professionals worldwide are members of our community and benefit from Ventana Research's insights, as do highly regarded media and association partners around the globe. Our views and analyses are distributed daily through blogs and social media channels including [Twitter](#), [Facebook](#), [LinkedIn](#) and [Business Week's Business Exchange](#).

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