Planning with Attitude

Thursday 11th
&
Tuesday 16th

November 2004

James & Monroe
John Kent & Damian Timms
Session 1: Old Planning

Introduction

- 80% of planning systems today are completed using spreadsheets
- Annual Plans (budgets) are generally prepared using:
  - Spreadsheets
  - ERP (manually input budget values – or take data from spreadsheets)
  - Purpose specific annual planning packaged software
  - Customised solutions (anything from dBase to Visual Basic)
- Technology (the software component) is probably the least important thing that has to change

"Old" Method / System "drawbacks"

- They are invariably commenced and completed well before the end of the current accounting period.
- "Top Down" often geared to a pre-determined result which has been established at the strategic planning stage – often much earlier in the current financial year.
- "Bottom-up" budgeting by definition means that we start at the very lowest level of information, which when summarised, aggregated and consolidated may bear no relation to the agreed strategic plan – and is invariably a "forced fit"

“Old” Method / System “drawbacks”

- Annual Plans invariably include a Balance Sheet and Cash Flow by accounting period for the Plan year. If the actual closing balances are vastly different from the estimated closing position (used as the opening balances for the plan year) then there is an inherent “timing difference” – that can require constant explanation as part of any variance analysis.

“Old” Method / System “drawbacks”

- In “theory” the Annual Plan comprises three distinct phases - the strategic plan, the operational plan and the financial plan (depending on the business there can also be a funding plan, project plan etc). In *theory* the financial plan is supposed to “drop-out” of the strategic / operational plan – in practice it is often treated as a completely separate exercise with totally different participants.

“Old” Method / System “drawbacks”

- The software used for annual plans is generally quite separate from the ERP / GL system which will record the actuals – major dis-connect.
- Ownership – inherit someone else’s plan because of key staff turnover and “locked in” for a year (worse if a “personalised” spreadsheet)
- Experience often the basis – especially with a “blank” or undocumented plan. There is little to guide the new plan provider

"Old" Method / System "drawbacks"

- Quarterly reporting, estimates and Sarbanes-Oxley Act (SOX) not really catered for – forecasting & compliance often handled quite separately
- Multi-dimensional financial roll-ups not catered for in ERP / GL based systems. Different views essential for different purposes
- Year ends are, in reality, artificial milestones – for tax, shareholder reporting etc. The underlying business does not generally undergo a fundamental change just because a year end date has been reached.

Spreadsheets

- Just for the record we LOVE spreadsheets. Nothing comes close to spreadsheets as a personal powerful financial modelling product. We like it so much that it is totally integrated into the Hyperion product suite. BUT spreadsheets are a compromise when it comes to the modern day planning process. The “failings” of spreadsheet technology as a total planning solution are well documented (especially as regards SOX 404):
- rules integrity
- protection & security
- one version of the truth – “versionitis”
- collaboration
- structural changes & revisions

So where from here?

- So like everything else planning systems have not stood still
- What was once a “great system” is probably beginning to show it’s age
- “If it works – leave it alone” …. is not an acceptable choice
- Absolutely NOT about just changing the “How” (i.e. the technology)
- Absolutely IS about changing the “What” (i.e. process & technology)
- Changes to the business are continuous – planning is no longer an “application” island
- New systems designed to reflect new management practices (at least the better ones)

Conclusion

PLANNING SYSTEMS SHOULD BE A **BY-PRODUCT**

OF A CONTINUOUS (LIVING) FORECASTING SYSTEM

– CONSTANLY CHANGING AND EVOLVING

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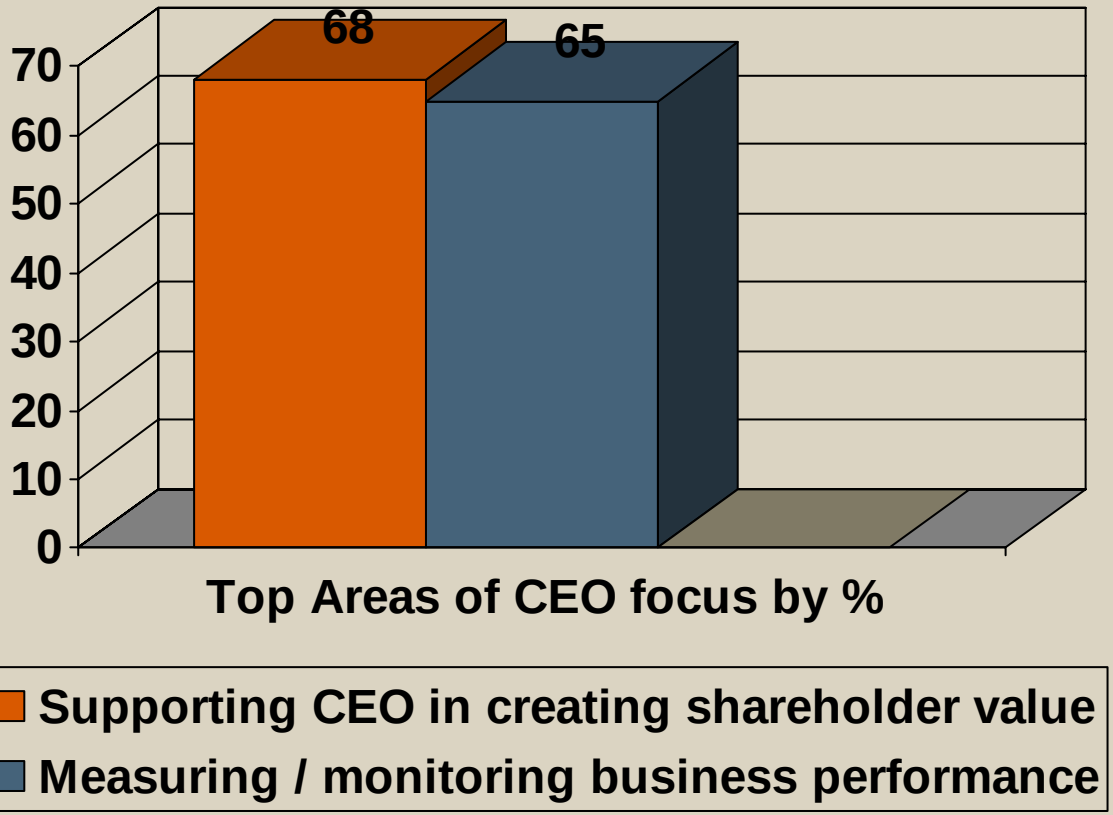
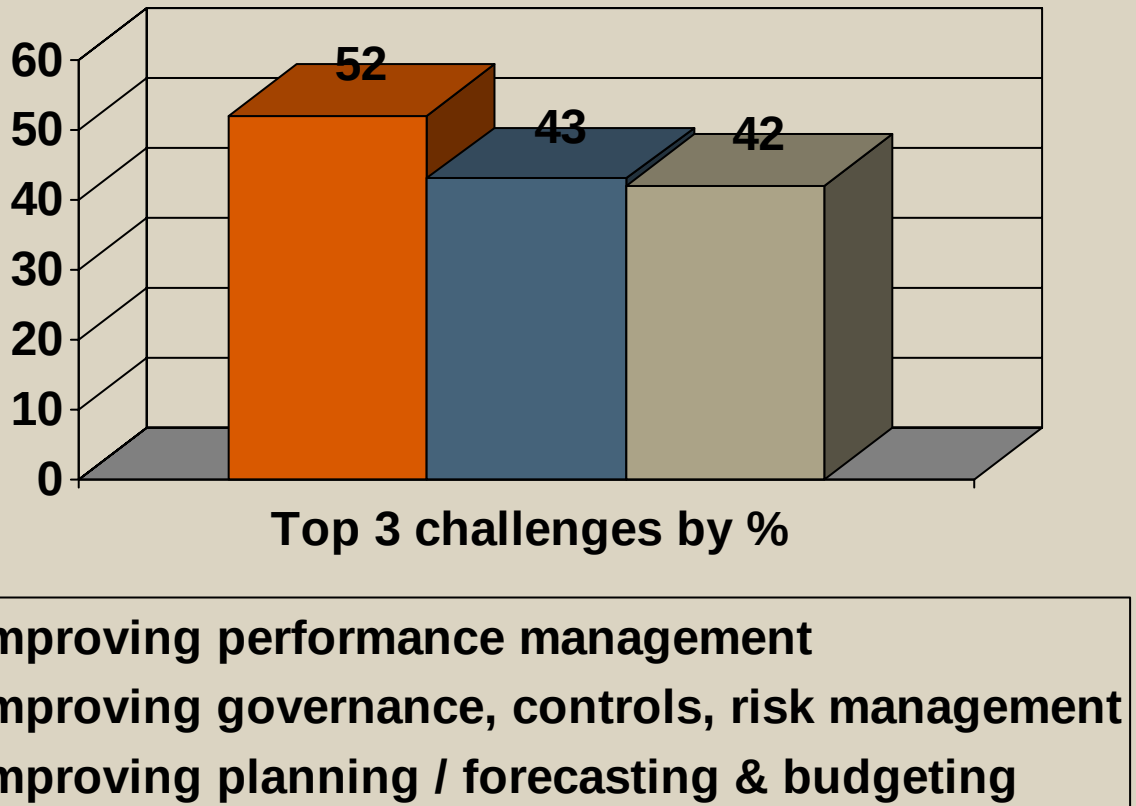
Session 2: New Planning

Top Areas of CFO focus, by percent



Source: IBM Global CFO Survey – May 2004

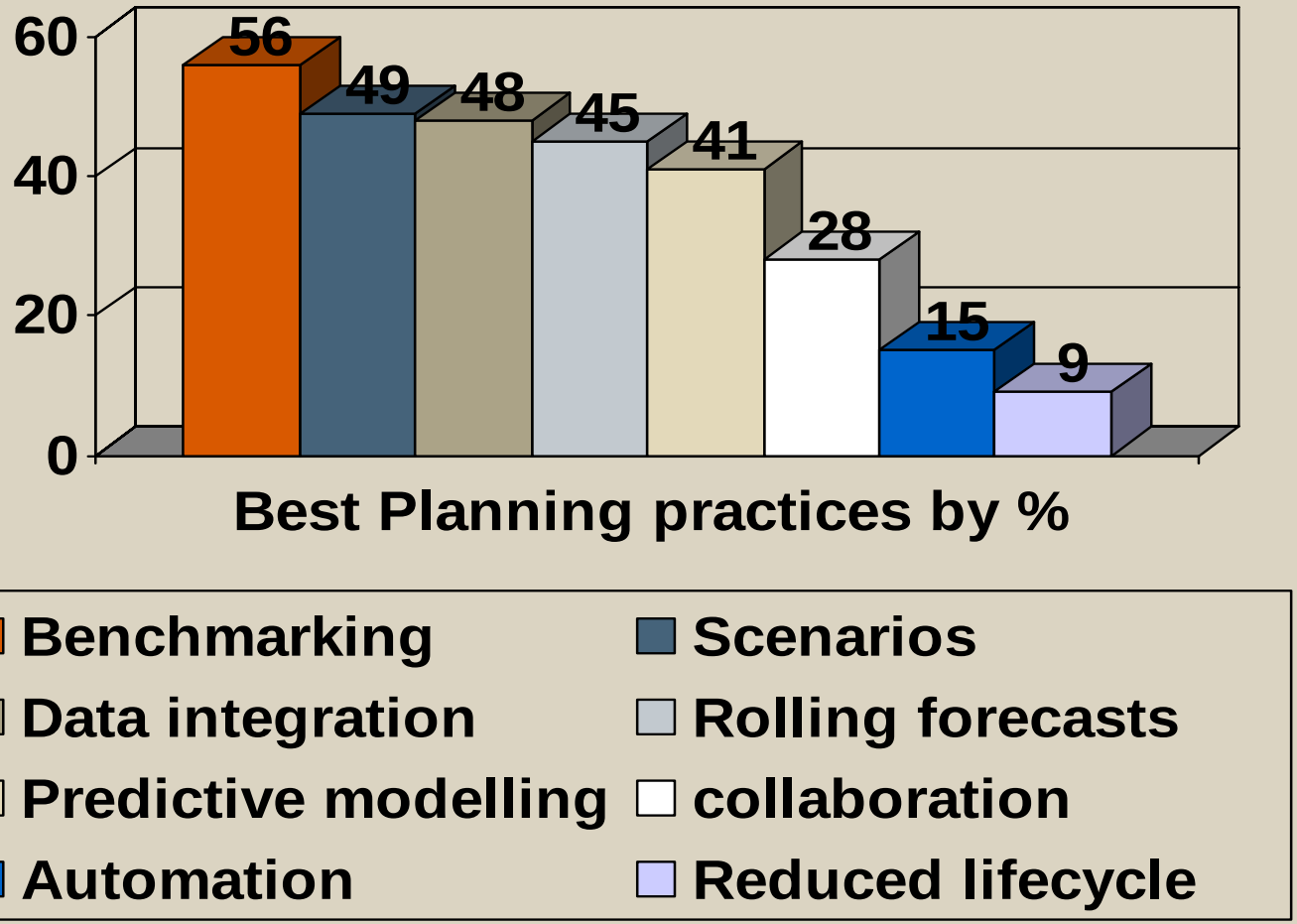
Top 3 challenges for CFO, by percent



Source: IBM Global CFO Survey – May 2004

Best practices used in planning process, by percent

Source: IBM Global CFO Survey – May 2004



"New Planning" – key differentiators

- Integrated part of Business Performance Management (BPM) … definitely NOT just a re-branding of old software solutions
- No longer merely "Part 3" – disconnected from strategic and operational planning. Integrated from day 1
- Continuous process of refinement (daily/weekly/monthly event) …. Only 5 or 6 key annual plan objectives "locked-in"
- Totally integrated with other "management" applications and no longer an island (integration is not restricted to mean that applications handles data extracts)
- Distinctions between strategic / operational / financial planning "blurred" forever.
- Bottom-up / Top/Down and anything in between now possible
- Domain of "Management Accountants" … pro-active with decision makers
- New Attitude = New Planning (BPM)

So what's different – available today?

- Continuous management decision making tool
- Participatory
- Integrated
- Web enabled / Server centric
- Speed and security
- Business rules driven
- Strategic and Operational inputs = Financial outcomes
- Functionality "massively" improved
- Speed of change & adaptation
- Customisable

FUTURE Planning with Attitude

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James & Monroe
Hyperion
Session 3: Future Planning

Planning (the way we used to know it) is Dead!

- Continuos Forecasting becomes a natural output of doing business. Information, from a myriad of internal and external sources, in a an array of types, is “fed” into the business model – whenever available
- Plans, quarterly forecasts and specialist scenario requirements are all met by a “snapshot” in time from the same kernel system.
- Business rules become “flexible” and “knowledge based”. Literal mathematical spreadsheet formula rules are replaced by ‘whole of business” learning rules. *Predictive Analytics* and *Guided Decision Making* are introduced
- Visualisation replaces the “cell” interface.
- Accountants taken seriously – well almost

Methodology - Key Changes – continuous automated forecasting

- The key change in forecasting (planning) systems of today is that they are an on-going integrated part of daily operations – constantly being updated to incorporate the best of commercial intelligence – with **constant** human intervention.

- The forecasting (planning) system of tomorrow will be "pro-active" in that it will take the historical numbers and business rules of the business and use these to automatically convert current commercial information into forecast operational and financial plans – with **minimal** human intervention.

Technology - Key Change - Visualisation

- The business rules will be based on “learning systems” technology rather than hard coded mathematical functions. Some of this technology already exists today - “inference engines”, “fuzzy logic” and “adaptive learning”.

- Many cognitive studies have demonstrated forcefully the well-known fact that human cognition is primarily visual, not numerical. *Despite this fact*, the most common basis for presenting and analysing quantitative research in financial engineering is still numerical, e.g., spreadsheets and tables.

Future Processes – Changes in Methodology

Next generation forecast systems are being designed to support deeper interaction and closer integration to enable management to:

- Find information (hard, soft. structured, unstructured, internal & external)
- Picture the relationship (figurative and literal)
- Realise the situation (commercial comprehension)
- Foresee the outcome (logical rules of decision alternates)
- Model the possibilities ("war games" rather than scenarios)
- Decide on a course of action (guided decision making)

Predictive Analytics

- Predictive Analytics takes you to the “deliver the prediction” stage and then lets you decide what to do. (here are your options - you decide)
- Predictions are based on a set of processes that produce reliable conclusions about your current environment and future events
- Predictions link historical and current data to possible outcomes
- The data used in predictions (most often customer data such as customer demographics, attitudes and behaviours) comes from both internal and external systems or 3rd party providers.
- Predictive Analytics uses this massively detailed data to create statistical, mathematical or other algorithmic techniques to generate models of customer segmentation, classifications, purchasing patterns, forecasting, profiling and propensity scoring

Guided Decision Making

- Guided Decision Making as with predictive analytics takes the user to the “deliver the prediction” stage and then goes one more step to suggest the actions and reactions that should occur based on its rules engine and analysis of the situation.
- The difference from predictive analytics is the ability of the guided decision making applications to proactively manage risk, suggest key decisions and actions, test the potential actions for their likely intended and unintended consequences, and to choose the best course of action
- The interpretation that a human must do for predictive analytics is replaced by a sophisticated set of business rules, algorithms and/or processes applied by the application itself.

Predictive Analytics & Guided Decision Making

- Predictive analytics and guided decision making have as their core functionality the ability to give your company a real crystal ball. The upshot is the better you understand your current situation and what it is likely to be in the future, the better your decisions and actions will be and the more successful your company will be.

- Both of these capabilities currently apply to operational or tactical decisions but may soon reach the level of maturity to begin generating strategic decision-making capabilities for your enterprise.

Another new vendor language

Hyperion

Future "buzz" words for planning:

- "predictive analytics" & "guided decision making"
- "adaptive automated forecasting"
- "elaborative predictors"
- "full automated unattended mode" (lights out, nobody home?)
- "non-linear forecasting, for both periodic as well as chaotic time series"
- "technique of delay coordinate embedding"
- "intrinsic dimensionality"
- "…handles new, seasonal and lumpy items (?)"

Conclusion

- Visualisation
- Totally participatory at all levels
- Completely driven by strategy and operational capabilities
- Financial “outcomes” are “black boxed”
- Driven by changes to process and activities – not the numbers
- Learning Systems – replace “hard” rules and “hard” relationships
- Suggested (implemented?) courses of action – with outcomes
- Incorporate “best practices” from other industries – look outside
- **Even more Attitude**