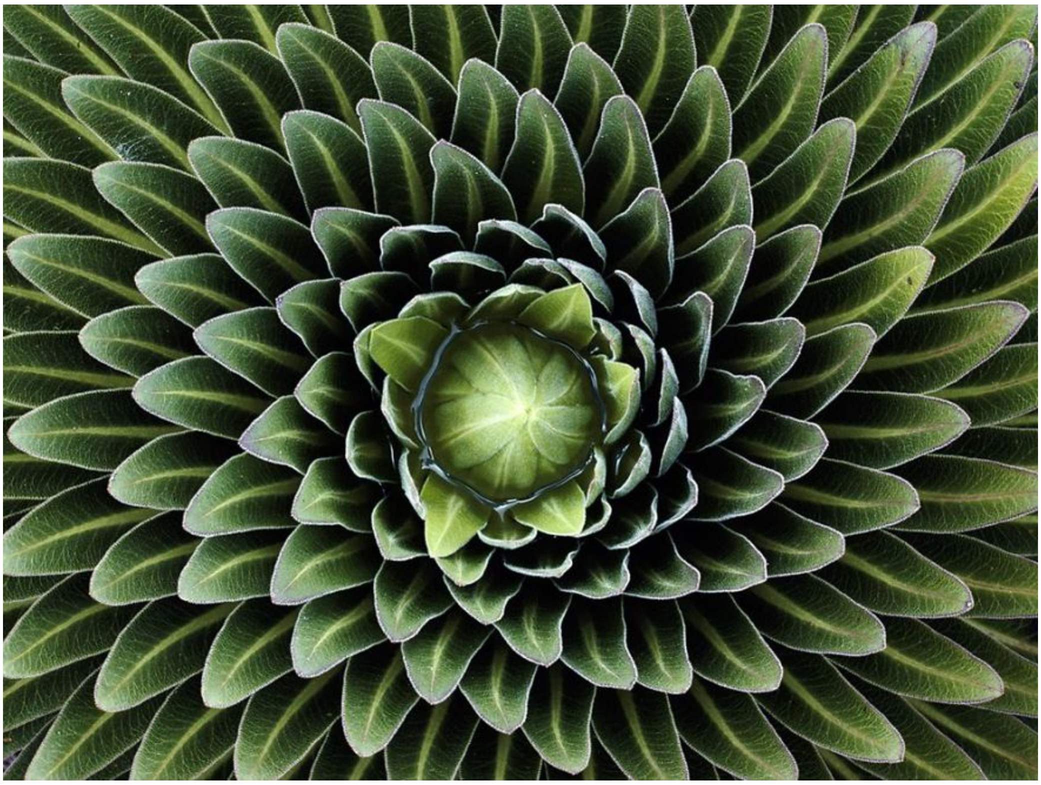
PLANNING, BUDGETING AND FORECASTING IN A DIGITAL WORLD

A Synopsis



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Planning, budgeting, and forecasting (PBF) are complex and critical parts of an organisation's performance management approach.

Typically time-consuming and resource-intensive, PBF processes are essential but often fail to deliver the precision and predictability that organisations are striving for.
However, when done properly and effectively, PBF can be a highly valuable process that lets the company achieve and act on meaningful insights. Leveraging the PBF teams as strategic assets in a finance or corporate services team is critical to help better inform business decisions.

One of the key challenges in PBF processes is that the line of sight from strategy to planning, budgeting & forecasting isn't clear enough.

- *Budgeting is often too detailed, consumes too many resources, and is done in silos, making it less reliable.*
- *Forecasting is typically seen as an additional process not based on meaningful future events but on a short-term perspective on the business landscape. Cycles are too long and quickly become out of date.*

Meanwhile, businesses are operating in constantly changing environments that can render even the most perfect PBF outcomes irrelevant before they've had a chance to impact business performance. As business processes become more digitalised, the hope is that these processes can be improved.

THINKING ABOUT AI

Integrating all information and speeding up the process is a key target. Using emerging technology such as artificial intelligence (AI) to fully automate PBF processes is still likely a long way away. However, it's certainly possible to measurably improve these processes with the technology that's available today.

It's important to start by ensuring that processes are simplified and unified, the data is ready for interrogation and analysis, and the right people with a mix of left- and right-brain biases are assembled.

When it comes to planning, it's essential to have a clear link to the strategy with clarify around strategic objectives and prioritisation. There's no value in planning for activities that don't contribute to the organisation's strategic goals. Therefore, the team should use driver-based approaches to planning.

Aligning financial planning with strategy planning could mean it's necessary to change the timing of financial planning. Doing both types of planning simultaneously or, at least, consecutively, can result in a plan that more accurately reflects the strategic goals. Furthermore, it could highlight areas where strategic goals may be more difficult to achieve due to financial constraints, letting decision-makers tweak their plans accordingly.

WHAT IT MEANS FOR TEAMS?

Teams may also need to improve their project management discipline to further improve the planning process. Aligning current and proposed projects with post-implementation reviews is essential to ensure all the relevant information is being accounted for in decision making.

Budgeting must also be aligned with the planning process. Budget decisions must be made according to the right processes which are simplified and consistent. Furthermore, this should be aligned to performance reporting at all levels, from overarching strategic objectives down to personal goals for individuals.

Forecasts need to be based on meaningful inputs. This means sorting through the factors that genuinely impact business performance and ignoring those that aren't relevant. Furthermore, it's important to avoid the temptation of creating a forecast and then failing to revisit it. Instead, organisations should look to deliver rolling forecasts that are dynamically and constantly updated according to shifting market conditions and other factors that can affect the business.

Forecasting is a key area that can be positively impacted by technology. Predictive analytics and AI-driven decisions are already driving business performance in this area but it's important to ensure that the datasets are correct, comprehensive and relevant, and that the resulting decisions are, in fact, delivering positive outcomes. Businesses should experiment with predictive analytics and AI to establish the business case and use cases before embarking on a full-scale adoption.

DATA AND ANALYTICS

To achieve success across planning, budgeting, and forecasting, it’s important for the business to gain clarity around its data and analytics strategy. A business that has never used any analytics technology in the past will need to start small and build its expertise. Businesses that are already familiar with complex data and analytics solutions may be able to overlay automated solutions that rapidly improve PBF processes.

In the meantime, there are other solutions that can help organisations improve their PBF processes. Organisations that continue to rely on bloated and complex Excel spreadsheets for planning, budgeting and forecasting risk errors and process breakdown. Using specialised PBF tools or modules within specialised financial systems is far preferable and less risky. Furthermore, this approach can help deliver a single source of truth, which further reduces the risk of errors or faulty data impacting PBF.

To optimise an organisation’s PBF processes takes more than just the right technology. It’s also crucial to have teams with mixed skills and capabilities. Digital systems and processes can make it easier for teams to collaborate effectively, regardless of their location or of any silos they may work in.

IN SUMMARY

PBF remains indispensable for organisations and those that get it right can demonstrate better business performance. Overlaying digital processes where possible and avoiding silos can help businesses improve their PBF processes. When digital processes are combined with the right people in strategically allocated teams, businesses can really start to see some significant benefits.