Driving Profitability in Turbulent Times with Agile Planning and Forecasting

A report prepared by CFO Research Services in collaboration with SAP and Deloitte

CFO research services

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ABOUT THIS REPORT

We gathered a total of 231 responses from senior finance executives from a broad cross-section of company segments, as follows:

ANNUAL REVENUE

$100 million–$500 million	40%
$500 million–$1 billion	18%
$1 billion–$5 billion	19%
$5 billion–$10 billion	5%
$10 billion+	18%

TITLE

Chief financial officer	33%
Director of finance	16%
Controller	15%
VP of finance	11%
EVP or SVP of finance	3%
Treasurer	4%
CEO, president, or managing director	4%
Other	14%

INDUSTRY

Consumer products/Retail/Wholesale	20%
Discrete manufacturing	20%
Financial services	15%
Business/Professional/Information services	9%
Energy/Utilities/Telecommunications	8%
Health care/Life sciences	8%
Process industries	6%
Entertainment/Travel/Leisure	4%
Other	11%

REGION

Europe	36%
Asia	32%
United States	31%

Note: Percentages may not total 100%, due to rounding.

Executive summary

In the best of times, forecasting often is an exercise in uncertainty. A forecast is only as good as the assumptions on which it is built; as business cycles flow forward, those assumptions are continually tested against internal and external realities and either validated or adjusted. And, more often than not, events play out close to expected changes and within a relatively narrow range of variability, and the business plans, budgets, and resource allocations relying on the forecasts are adapted accordingly.

At the time this survey was conducted, however, the global economy was plunging into recession at a pace unseen in many decades. The orderly progression of business cycles was disrupted, and both the range of variability of input assumptions and the speed at which they changed often pushed forecasts up to the breaking point. Input prices, labor costs, market demand, energy prices, partner viability, sourcing strategies, capital costs, capital expenditures—these are among the fundamental "givens" upon which companies have built their forecasts and plans, but which began changing at rates that had forecasters scrambling to keep up.

In March 2009, CFO Research Services (a unit of CFO Publishing Corp.) conducted an electronic survey among senior finance executives worldwide, including companies in the United States, Europe, and Asia. Our goal was to better understand the impact that economic uncertainty is having on the finance function and its role in developing accurate forecasts and actionable plans. We looked at the changing priorities for finance, new demands being placed on the finance team's time and abilities, and challenges to forecasting and planning activities being created by the unprecedented uncertainties in economic outlooks. Our research revealed four major results:

In an economic environment that offers limited visibility into revenue growth, finance functions are focusing on activities that help their companies manage the bottom line. Finance executives expect little or no revenue growth in the near term, and nearly 8 out of 10 respondents say that their companies will focus more on increasing bottom-line profits than on top-line revenue in the next 12 months. In response to the increasingly harsh external environment, finance is turning its attention inward, spending more of its time on cost reduction, performance management, and profitability analysis.

Finance executives reveal a troubling gap between the importance of forecasting for managing through the economic downturn and their confidence in the quality and accuracy of those forecasts. The volatile economic environment heightens the importance of forecasting for providing the information and analysis managers need to manage profitability and performance, but only about half of the finance executives taking this survey characterize their companies' forecasts as "high quality." At a time when the need for forecasting accuracy, insight, and agility is greater than ever, half of the finance executives in this survey believe their companies are falling short. To improve the quality of their forecasts, many of these finance executives cite the need for more integration in their information systems and better analytical and modeling tools.

> Respondents say finance should spend more time analyzing profitability and performance, as well as more time focusing business units on financial impacts and metrics.

Finance executives in the survey say they should focus on analyzing and using the data, rather than simply producing it. The majority of finance executives in the survey say that spending more time on providing analysis of forecast results and making recommendations to the business—as opposed to simply producing more forecasts—would help their companies meet performance targets. Most of the respondents say finance should spend more time analyzing profitability and performance, as well as more time focusing business units on financial impacts and metrics.

Finance executives in the survey also recognize that improving the quality of forecasts is not just a finance issue—it touches all aspects of the business. Respondents cite a number of technology-based actions that companies can take to improve their ability to produce high-quality forecasts: eliminate multiple information interfaces, integrate disparate systems, and employ driver-based scenario modeling. But finance executives in the survey also recognize that improving the quality of forecasts is not an issue just for finance or for IT—it touches all aspects of the business. Many of the respondents indicate that working with business unit managers to help them understand the financial impact of operating decisions and to improve the accuracy of inputs is one of the most important improvements they could make.

Managing the bottom line

In an economic environment in which revenue growth is challenging and difficult to predict, our survey confirms that companies are devoting more time and resources to maintaining profitability. Finance executives in our survey expect little or no revenue growth in the near term, and nearly 80% of all respondents (79%) say that their companies will focus more on increasing bottom-line profits than on top-line revenues in the next 12 months.

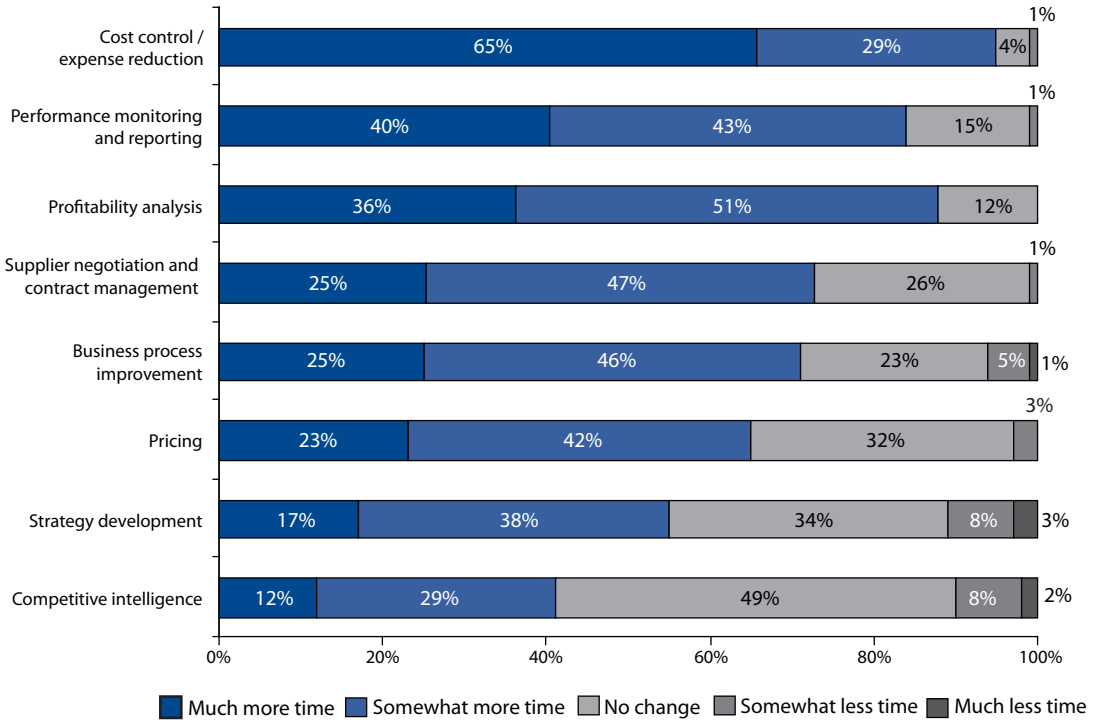
In response to the increasingly harsh external environment, finance is turning its attention inward, focusing on the elements of profitability the company can control more directly: reducing costs and managing performance. Survey results show that finance executives expect to spend their time on the activities that will have the most impact on the bottom line.

> Finance executives expect to spend their time on the activities that will have the most impact on the bottom line.

Nearly all respondents (94%) report that their finance teams are spending more time on cost control and expense reduction now than they did two years ago, and a majority (65%) say that they are spending "much more" time on these efforts. (See Figure 1.) Negotiating supplier agreements (72%) is also taking up more of finance's time than it did two years ago, as part of the effort to hold the line on costs and negotiate more favorable terms. Clearly, finance teams are working hard to bring costs in line with the anticipated slowdown in revenue.

FIGURE 1. CONTROLLING COSTS AND MANAGING PERFORMANCE ARE TOP-OF-MIND FOR FINANCE EXECUTIVES WORKING THROUGH A VOLATILE ECONOMIC ENVIRONMENT.

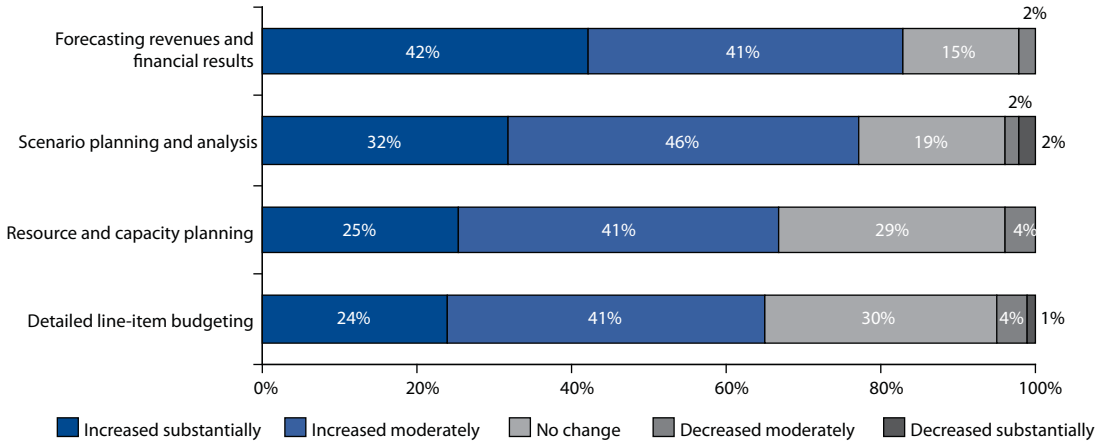
In your opinion, is the finance team at your company spending more or less time on the following activities in the current business environment, compared with two years ago?



Percentage of respondents
Note: Percentages may not total 100%, due to rounding.

FIGURE 2. FINANCE TEAMS ARE SPENDING MORE TIME PREPARING FOR CHANGE.

Has the current economic uncertainty increased or decreased the amount of time finance spends on planning, forecasting, and budgeting activities?



Percentage of respondents
Note: Percentages may not total 100%, due to rounding.

Tightening up performance also has taken on higher priority, especially as demand slows and workforces are reduced. Cutting production indiscriminately as demand dries up poses the risk of leaving companies unable to recover as the economy turns around sometime in the future. Many finance executives see fine-tuning performance as an important part of their mandate to help sustain a viable working operation in these difficult times. In the survey, 83% of finance executives say their teams are spending more time on performance monitoring, while 71% are increasing the time finance spends working to improve business processes. Keeping the company running—and running well—ensures that businesses will be positioned to ramp up quickly once economic recovery starts to gain traction.[1]

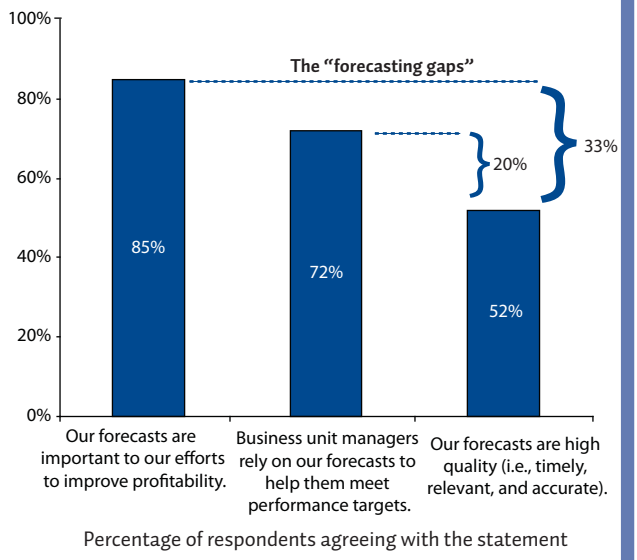
Much of this activity translates into keeping a closer eye on the bottom line, and indeed, almost 9 out of 10 respondents (87%) say their finance teams are spending more time on profitability analysis. (See Figure 1.) The ability to develop a reliable, forward-looking view of performance is important for managing profitability in the present while preserving future opportunities. In an open-text response, a regional commercial manager for a large professional services company based in Asia notes that "focus is much needed on forward-looking [forecasts]—i.e., forecasting against the target. Current systems are addressing only the history, not focusing on preventing the losses or [anticipating them]." With the economy so uncertain, the difficulty of developing this forward-looking view of performance is magnified, and finance finds itself devoting more time and resources to this critical task.

The finance executives in this survey indicate that coping with the greater uncertainty in the economic outlook is placing the largest demands on their time. Large majorities of respondents report that the current economic uncertainty has increased the amount of time finance spends on forecasting (83%) and on scenario planning and analysis (78%)—that is, on modeling potential outcomes based on fluctuations in different sets of drivers. (See Figure 2.) Economic uncertainty is having less of an impact on the types of activities used to translate forecasts into actions—resource and capacity planning, and detailed line-item budgeting.

[1] In a separate CFO Research survey conducted at the same time as this survey, most respondents indicated that they expect global economic recovery to gain strength in the first or second quarter of 2010, with a minority expecting recovery in the fourth quarter of 2009. (*Controlling Cost in a Crisis: Sustaining Core Spending Through the Downturn*, CFO Research Services, May 2009.)

FIGURE 3. FORECASTS ARE IMPORTANT FOR MANAGING PROFITABILITY AND PERFORMANCE, BUT FORECAST QUALITY FALLS SHORT.

To what extent do you agree or disagree with the following statements concerning forecasts at your company ?



The forecasting gap

The importance of forecasting in supporting companies' management of profitability and performance is heightened in this environment. Eighty-five percent of respondents in this survey agree with the statement that their forecasts are important to their efforts to improve profitability, and 72% say that business unit managers rely on their companies' forecasts to help them meet performance targets. (See Figure 3.)

However, the survey also reveals a troubling gap between the importance of forecasting for managing through the economic downturn and finance executives' confidence in the quality and accuracy of the forecasts their companies are able to produce. As seen in Figure 3, only half of the respondents (52%) rate their companies' forecasts as "high quality" (i.e., timely, relevant, and accurate). At a time when the need for forecasting accuracy and agility is greater than ever, half of the finance executives in this survey believe their companies are falling short.

> Only half of the respondents rate their companies' forecasts as "high quality"—timely, relevant, and accurate.

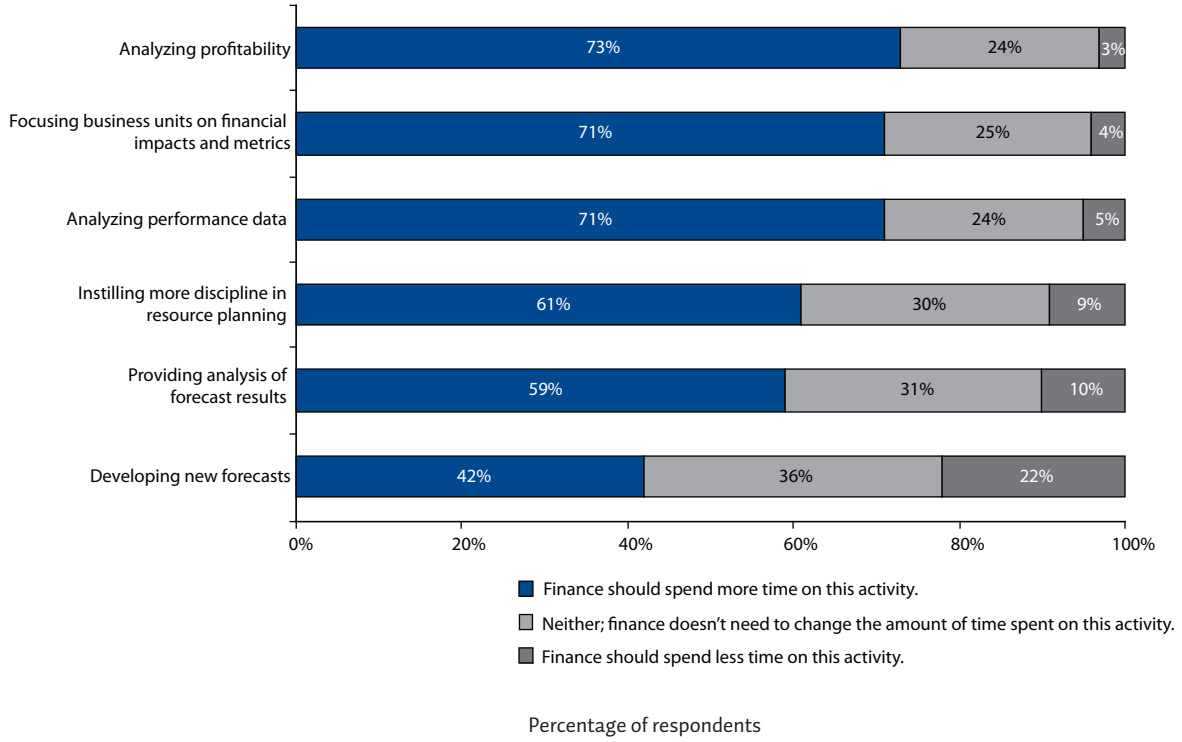
Many of the respondents who fail to rate their companies' forecasts as high quality cite the lack of integration in systems and data as a major obstacle to improving those forecasts. The chief risk officer in a European financial services firm reflects these concerns when he writes, "Consolidation of different sources of data and results would greatly improve our forecasting practices." Several respondents note that upgrading and integrating the different systems they currently employ would help them migrate away from an over-reliance on spreadsheets and be better able to introduce driver-based analysis and scenario modeling. A vice president of finance at an energy company in Asia sums up these needs when he writes that his company would gain the greatest improvement from an "integrated and consistent forecast methodology linking current run rates, new opportunities, and risks into a rolling system—all integrated as part of an ERP system."

Getting the right numbers

Finance executives who responded to the survey point to the need to analyze and understand key drivers of performance instead of simply producing reams of data. It is more important to have the right numbers than to have all the numbers, say these finance executives. Understanding the business and the factors that have the greatest impact on profitability is crucial for managing effectively through the economic downturn. A director of finance from the leisure industry stresses that "people need to think critically about what are the true 'levers' that impact profitability [and how they impact profitability]." A CFO in the energy industry writes that his company's greatest challenge to developing and carrying out actionable, effective plans is relying on a "too detailed forecast instead of just focusing on drivers." He implies that focusing just on the numbers, without focusing on what the numbers mean, is actually counterproductive. Finance executives in the survey understand that companies need to be able to work smarter, not just harder.

FIGURE 4. FINANCE EXECUTIVES SAY THEY SHOULD BE FOCUSING ON ANALYZING AND USING THE INFORMATION, RATHER THAN SIMPLY PRODUCING DATA.

In your opinion, would increasing or decreasing the amount of time your company's finance team spends on the following activities be useful in helping your company meet its performance targets?



> A VP of finance at an energy company writes that his company would gain the greatest improvement from an "integrated and consistent forecast methodology linking current run rates, new opportunities, and risks into a rolling system—all integrated as part of an ERP system."

When asked how they believe they should be spending their time to help their companies meet performance targets, finance executives in the survey call into question the value of spending more time simply producing reports, as opposed to producing targeted, useful analyses. More than 70% of respondents say spending more time on analyzing profitability and performance would help their companies meet performance targets. (See Figure 4.) The need to understand the numbers better is not restricted solely to finance; more than 70% of respondents also say that finance should be spending more time focusing business units on financial impacts and metrics.

In contrast, while a large majority of respondents (83%) say that their finance teams are spending more time forecasting revenues and financial results (Figure 2, page 5), only 42% believe that increasing the amount of time spent developing new forecasts actually will help their companies improve performance (Figure 4). In fact, 22% of respondents think they should spend less time developing new forecasts.

Clearly, the finance executives in the survey believe that simply spending more time producing more forecasts delivers little value, if it is at the expense of providing insights into what the numbers mean for performance. Almost 60% of finance executives in the survey say that spending more time on providing analysis of forecast results—as opposed to simply producing more forecasts—would help their companies meet performance targets. When asked what would be most important for helping companies meet profitability targets, a CFO

from the transportation industry simply writes, "I think we could spend more time analyzing data rather than collating the data."

Finance executives in the survey also recognize the importance of remaining agile in a volatile and constantly changing economic environment. However, three-quarters (74%) of respondents estimate that their companies reforecast quarterly or even less frequently, and many respondents believe that this may be inadequate for dealing with the current market volatility. The director of finance from a company in the consumer products industry writes that it is important to "compress the cycle time to reduce variability between the start of revenue forecasting to the finalization of the plan, due to changes in external factors such as volume or commodities [prices]." A number of other respondents advocate shortening the timelines for reforecasting as well. The CFO of a financial services firm in Asia sets the bar high for his company: "The forecasting should be real-time and thoroughly dynamic in nature and should be accurate and frequently churned out to gauge the demands and reactions of the consumer."

The value of integration and automation

In open-text responses, a large number of finance executives in the survey identify the need for better information systems and better processes in order to provide this kind of dynamic and agile forecasting capability. Respondents from companies that have more automated forecasting and planning processes are also more likely to say that their forecasts are of high quality. We segmented respondents into those who say their forecasting and planning processes are highly automated (14%); those who characterize their processes as partially automated, requiring some degree of manual manipulation (50%); and those who report that their processes are primarily manual (36%).

> A director of finance in the consumer products industry stresses the importance of "compress[ing] the [forecasting] cycle time to reduce variability."

Three-quarters (75%) of the relatively small number of respondents who characterize their companies as highly automated also say that their forecasts are high quality, compared with 57% of respondents from partially automated companies. Respondents from companies whose forecasting and planning processes are primarily manual express the least satisfaction by far with their forecasts: only 36% of these executives say that their companies have high-quality forecasts.

In open-text answers, respondents list a number of technology-based actions that companies can take to improve the quality of their forecasts, such as eliminating multiple information interfaces, integrating disparate systems, and providing driver-based scenario modeling. They cite the need for integrated forecasting and scenario-planning processes and applications that "obviate the need for spreadsheet manipulation," as one director of finance from the manufacturing industry writes. Several respondents comment on the usefulness of having an integrated data-warehouse capability that would allow them to work with a single set of data conforming to standard formats and definitions. (One CFO in the health care industry in Europe, who characterizes his company as highly automated, still laments the fact that he must deal with "10+" separate reporting databases.)

> "[We need to] think critically about what are the true 'levers' that impact profitability," notes a director of finance from the leisure industry.

Other respondents look to ERP or business intelligence software to provide more structured and automated models for planning and forecasting. Several respondents note that they are in the process of implementing these systems, which they expect will improve their planning and forecasting abilities. In particular, a number of respondents say they are looking for a driver-based scenario-modeling capability, which would help both finance and business unit management to "think critically about what are the true 'levers' that impact profitability," as a director of finance from the leisure industry notes.

By making these kinds of technology changes, companies can reduce the time finance teams spend on collecting, consolidating, and conforming data inputs and increase the time they spend on analyzing the data. A finance manager from a U.S. consumer products company notes that he is not looking for data

just for data's sake; rather, he needs "consistent data resources and presentation to facilitate analysis versus data creation." Automation initiatives are cited by a large number of finance executives in our survey as the most important improvement their companies could make in their planning and forecasting practices to help meet profitability targets.

Working closely with business management

Finance executives in the survey also recognize that improving the quality of forecasts is not just a finance issue—it touches all aspects of the business. Survey results show the importance that finance places on providing targeted, relevant data and analysis to business managers; slightly more than 70% of respondents say that they should spend more time focusing business units on financial impacts and metrics. This finding is supported further by responses to an open-text question asking about the most important improvements a company could make in its planning and forecasting practices to help meet profitability targets. Many of the respondents indicate that working with business unit managers to help them understand the financial impact of operating decisions and to improve the accuracy of inputs is one of the most important improvements they could make.

> A business director for a manufacturing company in Asia writes, "The forecast is only useful information when utilized in an integrative approach by the operations for decision-making processes."

Working with business unit managers so that they understand the financial implications of operating decisions can have benefits on both the front and the back ends of forecasting and planning processes. Improving coordination between business units, and between business units and finance, can improve the accuracy of data inputs and reduce the time expended in collecting, consolidating, and "scrubbing" the data. Encouraging involvement in—and even ownership of—the forecasting process among business unit managers also leads to more accurate inputs, reducing the need to continually correct forecasts made on the basis of faulty assumptions. Finally, when business unit managers are more invested in the forecasting process, they develop a deeper understanding of the financial impacts of their operating decisions and can use the results more effectively in making course corrections to the business.

A business director for a manufacturing company in Asia makes this point succinctly: "The forecast is only useful information when utilized in an integrative approach by the operations for decision-making processes. Otherwise, it is just a set of data to satisfy corporate reporting [requirements]." Another respondent states the need for business unit managers to become more involved in forecasting even more starkly: "Increase training of key management to generate vital market insights. Otherwise, [we are] groping in the dark."

Conclusion

This survey provides a snapshot of some of the new challenges today's unprecedented economic uncertainty has created for finance functions around the globe. With little or no revenue growth expected in the near term, finance executives from all regions in our survey say they are focusing more on preserving the bottom line. Cost, performance, and profitability are top-of-mind—not just to survive the current downturn, but also to ensure that companies will retain the ability to ramp up quickly and reinvigorate their businesses as the economy inevitably improves.

In their efforts to preserve profitability, finance executives tell us their teams are spending more time than ever on preparing forecasts, developing scenarios, and analyzing the results. They place more importance on their ability to provide insightful analysis to executive and business unit management than on simply producing more data.

Nearly all respondents agree on the importance of forecasting to their efforts to improve profitability; however, fewer of them—only about half—agree that their companies' forecasts are timely, relevant, and accurate.

Many of the finance executives in this survey say that their forecasting and planning practices can be improved through the use of technology by reducing or eliminating manual collection and analysis, building integrated data warehouses, and adopting simulation or other scenario-modeling software. The right technology can increase the efficiency of forecasting

and planning processes, allowing finance to spend less time simply "running the numbers" and more time providing value-added analysis.

Simply having the data is not enough, they say—just as important is increasing the time spent working with business units to provide insight into the true drivers of performance and strengthen business unit management's understanding of the financial implications of their actions. Without this effort, and without building a common understanding of the direction of the business with other managers, finance executives feel they are left "groping in the dark."

Finance executives largely agree on the importance of forecasting to their efforts to improve profitability—but simply having the data is not enough.

Responses to this CFO Research Services survey clearly indicate the current economic climate is driving the finance function to spend more time on planning and forecasting, cost control, and almost every other aspect of performance management. This research also reveals a troubling gap between the increased need for high-quality forecasts to manage through dynamic economic conditions and the lack of confidence in the accuracy of these forecasts. A large number of respondents see better information systems and processes as key to improving planning and forecasting practices. Many of the respondents from the research who say their companies rely on highly automated processes also characterize their forecasts as high quality. This suggests they have overcome the shortcomings inherent in working with inadequate tools and disparate data sources. Relying on applications that are more efficient and effective than the still widely used practice of manipulating spreadsheets, these organizations have a head start on their peers and may be able to weather current economic uncertainties better than most. Furthermore, once economic conditions improve, they may be more agile in taking advantage of the upturn.

SAP BusinessObjects solutions can help organizations consistently manage performance, enabling them to become more agile and competitive by providing alignment, visibility, and greater confidence. The SAP BusinessObjects portfolio includes leading solutions for enterprise performance management, governance risk and compliance, and business intelligence. These solutions can help overcome the challenges that have been highlighted in this research by enabling organizations to focus on value-added analysis rather than spending time on collecting data to produce plans and forecasts. Finance professionals can model different scenarios and test assumptions on capacity, products, customers, channels, and business opportunities. SAP BusinessObjects solutions can help organizations quickly gain insight into the real drivers of profitability and successfully manage through today's dynamic environment.

For more information on SAP BusinessObjects solutions, please visit our website at:

http://www.sap.com/solutions/sapbusinessobjects/large/enterprise-performance-management/index.epx

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It's tough being finance these days. You're facing complicated decisions on many fronts, and knowing exactly how to proceed at any given time is harder than it looks. Should you grow the top line to deliver more business value, or hunker down to protect profits? Build up cash to weather a tough economy, or capitalize on instability to gain market share?

In fact, we view finance as a voice of reason. And that voice needs to be even louder during an uncertain economic climate. When business is booming and everyone is getting swept up in irrational exuberance, it is finance's responsibility to keep them grounded. That means maintaining cost discipline, preserving profitability, and ensuring that every investment has a strong business case. On the other hand, in cautious times when other people are heading for the bunkers, finance needs to keep things moving ahead, making sure that critical activities and investments continue to receive the funding and support they require.

And this survey highlights finance's greatest challenge: in an era of constant uncertainty, a CEO needs to have confidence that the organization's forecasting process delivers quality information upon which the right business decisions can be made. We view quality as a combination of timeliness, relevance, accuracy, transparency, and predictability—all factors with which finance can assist decision makers.

So this is where finance needs to take a leadership role: develop a forecasting process that focuses on analytical support, not information production and manipulation alone; collaborate actively with the business and don't make forecasting a finance-only process; forecast business drivers, not simply business results; stay nimble, especially during uncertain times; ensure the right technology is in place to support the process; and continually push the business as the ultimate voice of reason.

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