



The State of Business Planning and Forecasting: Recent Polling Shows it's Time for Change Across the Consumer Industry

What is Advanced Business Planning and Why it Matters Now:

Advanced Business Planning (ABP) is one of the most important business processes for companies in many different industry segments, particularly the consumer goods (CG) industry. Improved business planning involves a collection of best practices that detail how processes, tools, techniques and data should be integrated to align corporate resources to strategy for competitive advantage.

Advanced Business Planning uses key business drivers to forecast and analyze expected performance while there's still time to make decisions that impact the company's financial outcomes. It minimizes the rear-view variance-to-budget drill, with its account-level minutiae that rarely produces valuable results. The improved focus and alignment that comes from the clearer priorities and accountabilities of an Advanced Business Planning program mean increased agility and fewer missed opportunities. The result is faster innovation and growth.

In the fall of 2008, Hitachi Consulting and *Consumer Goods Technology* concluded a survey of consumer companies on the state of their business planning and forecasting.

The survey focused specifically on three vital components of an Advanced Business Planning effort:

- Long-range planning
- Annual planning
- Rolling forecasts

Point #1 – Strategy is Critical

The survey highlighted several key goals that are driving CPG companies to spend more time and resources on improving Advanced Business Planning processes. Among these goals, the most frequently mentioned was the desire to better link financial planning processes to strategy.

Forty-one percent of respondents indicated that the reason they are addressing ABP is the desire for greater alignment between strategic objectives and financial plans. That percentage jumps even higher when respondents were asked specifically the key benefits they expect from improving long range planning processes. Seventy percent of respondents identified the multi-year view of operational and financial outcomes aligned with strategic objectives as the primary benefit. More than half of those surveyed also claimed the ability to model the impact of strategic choices and the improved fact base for making strategic bets were compelling reasons to improve the long range plan.

Point #2 – Planning Processes are Cumbersome and Unwieldy

Although, almost half of those surveyed have a long-range plan aligned with strategic objectives, only thirty percent are able to quickly update their long-range plan as market conditions warrant and even fewer have the ability to do "what-if" analysis or to model the impact of long range investments on their financial status.

One of the biggest obstacles to planning is the amount of time and manual effort required, with 64 percent citing this challenge. Further exasperating the problem, fifty-nine percent cited the coordination of the inputs of hundreds of planning stakeholders as a challenge.

Point #3 – Forecasts and Plans Lack Agility and Relevance

One third of companies find it too difficult to forecast beyond their existing fiscal year, while seventy-four percent cited a need to increase forecast accuracy. Fixed annual budgets have the side effect of causing many companies to struggle with visibility beyond the end of the current fiscal year. This hampers both internal decision making and external communication on the longer performance horizon. It can also lead to significant inaccuracies between forecasted and actual performance due to “out of synch” forecasts.

How Advanced is Your Business Planning?

This survey brings to light several flaws with existing approaches to business planning:

- Both Annual and Long Range Planning efforts struggle to align resources to the areas deemed strategically important
- The Planning process is often very manual and cumbersome, involving huge amounts of effort
- Companies believe they need to better understand and predict the factors that drive future business performance
- And finally, once new information becomes available, companies need to improve their ability to change direction when necessary

When companies build their annual plans, we typically see detailed assumptions about commodity inflation, channel shift, product mix, new product introductions, key account penetration, currency effects, manufacturing efficiencies and promotion effectiveness rates. Less often, we see assumptions that address macro-economic factors, anticipated shifts in consumer preferences, expected competitor actions and common risks such as product recalls. Seldom do we see companies factor the impact of changes in any of these variables into the plans and targets their people are trying to deliver.

What Steps Should I Take Next?

One of the key moves to improving your responsiveness is the creation of a driver-based, rolling forecast that is updated on a regular basis (monthly, quarterly) and extends beyond the current fiscal year. The “drivers” in this case are the critical few assumptions you have about what drives volume, margin and market share in your industry. The rolling forecast gives you an early warning on key market trends, and positions management with the fact-base needed to adjust actionable levers such as pricing, promotion spend, product mix etc. Less than half of your CG peers are benefitting from this advantage.

Another key step in making your company more Market Responsive is to dynamically apply resources to areas that are strategic to reaching your growth targets. Often the first step in making this happen is to clearly define exactly how you intend to meet your goals ... not with high-level platitudes, but with specific plans to improve processes and develop capabilities that will equate to better financial results. Once this strategy is clear, it needs to be measured. Ultimately, it needs to drive investment decisions and compensation plans.

The first step in this effort is to clearly define your strategic goals and how they will deliver improved performance in a measurable way. Several frameworks, like the balanced scorecard, can help get this effort started. We find many companies prefer their own “homemade” framework to custom fit their requirements and to improve internal adoption. Once the drivers and outcomes of key strategies are clarified, investment requirements and outcomes can be more clearly aligned.

Finally, all of this needs to be done in an efficient and effective manner. This requires abandoning spreadsheets and adopting tools that make rapid collection and distribution of key planning

information quick and consistent, while improving the quality of the information people use to make decisions.

To Read the Complete Survey, [click here](#).

For more information on how Hitachi Consulting can help you build a world-class financial planning and budgeting process, [click here](#). This article was authored by Greg Gough and Chris Bohner of Hitachi Consulting. Contact them for more information at info@hitachiconsulting.com.