

Budgeting and Forecasting 2010 Survey Results

*A Performance Architects White Paper
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TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	2
SATISFACTION LEVEL WITH CURRENT PROCESS.....	3
WHY FORECAST AND BUDGET?.....	3
BUDGET AND FORECAST IMPROVEMENT AND PRIORITY AREAS.....	4
HOW ORGANIZATIONS BUDGET AND FORECAST TODAY.....	5
BUDGETING AND FORECASTING SOFTWARE TRENDS.....	8
FINDINGS AND RECOMMENDATIONS.....	9
METHODOLOGY.....	10
HOW PERFORMANCE ARCHITECTS CAN HELP.....	12

Executive Summary

In the book *The Black Swan: The Impact of the Highly Improbable*, author Nassim Taleb reminds us that human nature places too much weight on the odds that past events will repeat, and does not give credence to the fact that most of the “really important events are rare and unpredictable.”¹

With the unprecedented and unusual market conditions in the worldwide financial markets, Taleb’s thinking appears to be correct. Finance teams in all industries found themselves having to throw out their traditional forecasting and budgeting methodologies over the past three years. As author Alix Stuart noted in *CFO Magazine* in the summer of 2009, “Forecasting, never an activity companies felt particularly confident about, has now become nearly impossible. Processes that once resulted in mildly imperfect visions of the future now produce wildly imperfect ones.”² As a result, budgeting and forecasting processes at most organizations have come under a great deal of scrutiny.

Performance Architects conducted the *Budgeting and Forecasting 2010 Survey* during the summer and fall of 2010 to learn how financial budgeting and forecasting is evolving, and to allow you to benchmark your budgeting and forecasting activities against those of your peer organizations.

Finance and Information Technology (IT) professionals at organizations representing more than ten industries and ranging in revenues from ~\$35M to ~\$10B USD described their best practices, issues, and what keeps them up at night in this arena.

We believe you will find the results instructive. You may be surprised at how common the issues are across organizations, no matter what industry type or size.

¹ Nassim Taleb, *The Black Swan: The Impact of the Highly Improbable*. <http://www.fooledbyrandomness.com/>.

² Alix Stuart, “Imperfect Futures,” *CFO Magazine*, http://www.cfo.com/article.cfm/13983298/1/c_14020916.

Satisfaction Level with Current Process

Over 70% of respondents indicate that they are “somewhat satisfied” or are “dissatisfied” with their organization’s current budgeting and forecasting processes, showing that there is significant room for improvement in this arena.

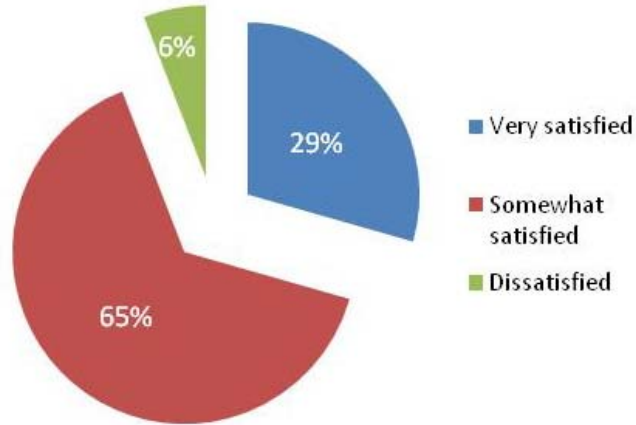


Figure 1: Level of satisfaction with the budgeting and forecasting process.

Why Forecast and Budget?

Respondents’ rationale for budgeting and forecasting demonstrates a major shift in the perceived role of the Finance function in helping to define an organization’s strategy. Over 90% of respondents state that their organizations budget for more traditional “command and control” reasons (in other words, allowing the organization to better manage and control operations). Over 75% of respondents, however, describe that the budget and forecast process is seen as helping to define and explain the organization’s strategy and direction (multiple responses permitted).

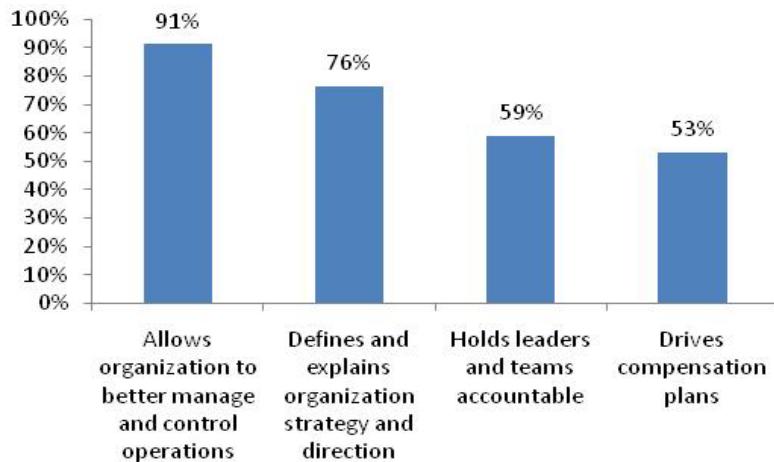


Figure 2: Why organizations forecast and budget.

Budget and Forecast Improvement Priority Areas

The theme of improving the linkage between financial budgets and forecasts and overall organizational strategy continues in respondents' prioritization of areas for improvement in their current budgeting and forecasting processes.

OVER 60% OF RESPONDENTS NOTE THAT THEIR ORGANIZATION'S MAIN IMPROVEMENT AREA IS TO ENHANCE THE LINKAGE BETWEEN FINANCIAL FORECASTING AND BUDGETING AND OVERALL ORGANIZATIONAL STRATEGY.

Improvement Areas

Over 60% of respondents noted that their organization's main improvement area is to enhance the linkage between financial forecasting and budgeting and overall organizational strategy.

The responses to this question also reflect the evolution of the budgeting and forecasting software market. With budgeting and forecasting software solutions now generally available for almost ten years, the majority of companies have a solution in place and are looking to enhance their current environment. Over 50% of respondents mention that they are looking to improve their existing software solutions.

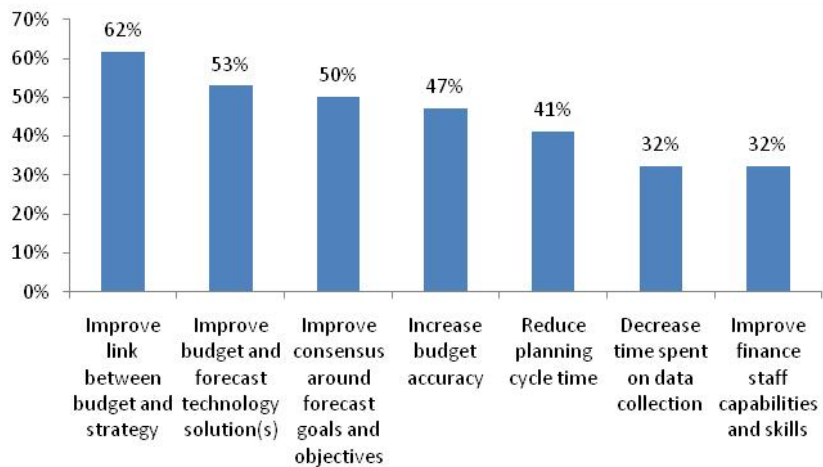


Figure 3: Areas for improvement in the budgeting and forecasting area.

Priority Focus Areas

When asked to prioritize areas for improvement, respondents are very consistent with their answers. Most demonstrate that they have moved beyond the need for basic automation of their budgeting and forecasting activities. Over 63% of respondents' number one priority is to provide better linkage between operational, financial and strategic planning.

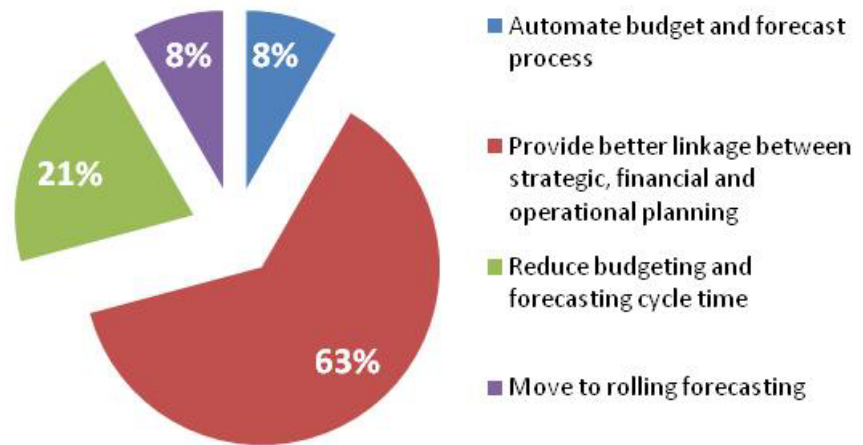


Figure 4: Priority focus areas in the budgeting and forecasting area.

How Organizations Budget and Forecast Today

Even with respondents' focus on improvement, organizations appear to continue to forecast and budget in a very traditional manner.

Forecast and Budget Focus Areas

Organizations continue to forecast and budget in traditional expense and revenue areas.

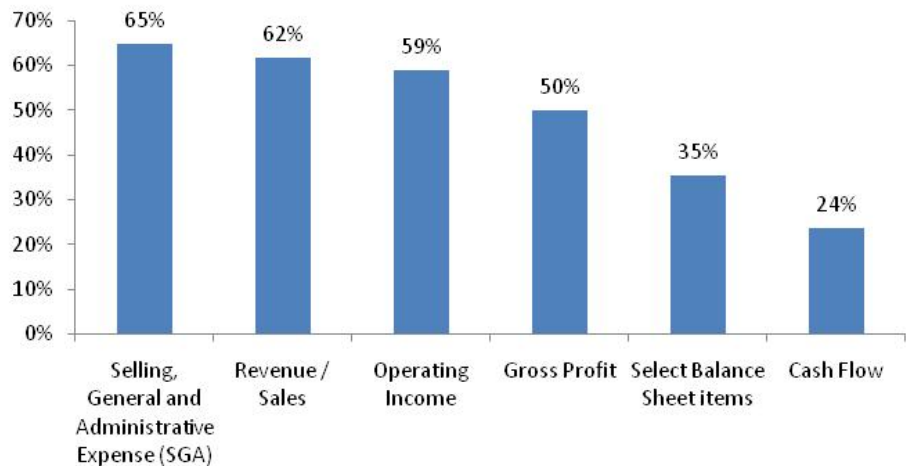


Figure 5: Financial forecast and budget focus areas.

EVEN WITH THE FOCUS ON BETTER LINKAGE BETWEEN OPERATIONAL, FINANCIAL AND STRATEGIC PLANNING, <40% OF ORGANIZATIONS ARE FORECASTING OUT >18 MONTHS.

Forecast Duration and Completion

Even with the focus on better linkage between financial and strategic planning, <40% of organizations are forecasting out >18 months.

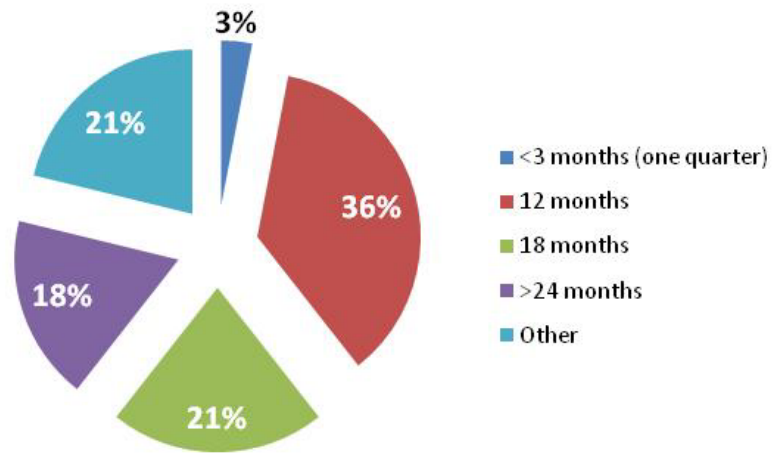


Figure 6: Forecast duration.

Over 55% of organizations take >1 month to complete their forecast.

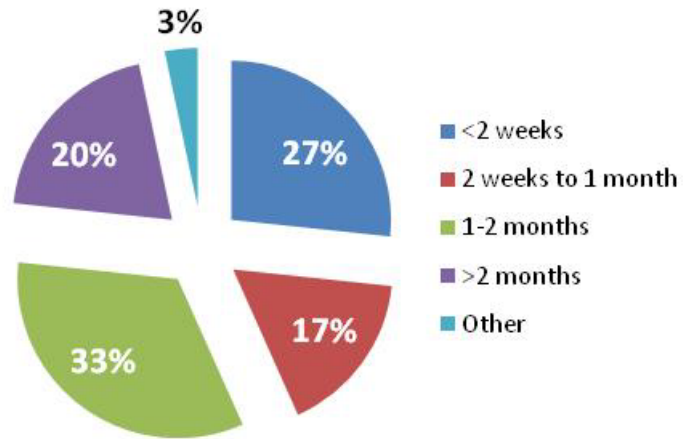


Figure 7: Forecast preparation time.

Budget Duration and Completion

Organizations are in a similar situation with their budgets. Over 70% still budget out <12 months.

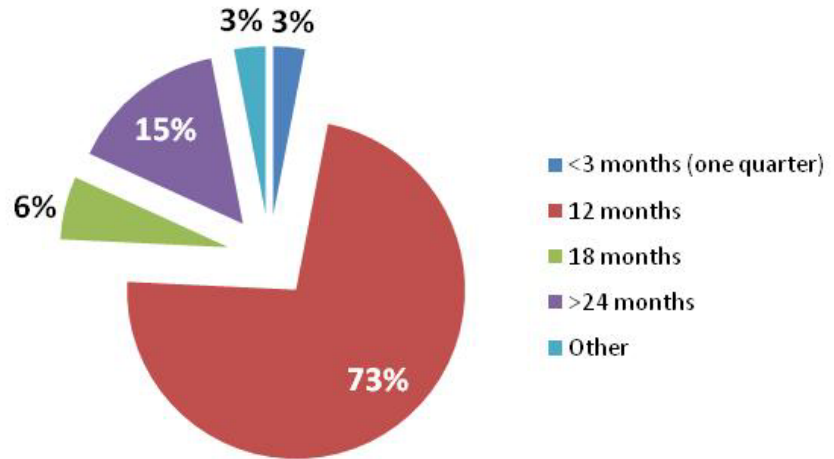


Figure 8: Budget duration.

In addition, over 75% of respondents indicate that it takes >2 months to create the organization's budget.

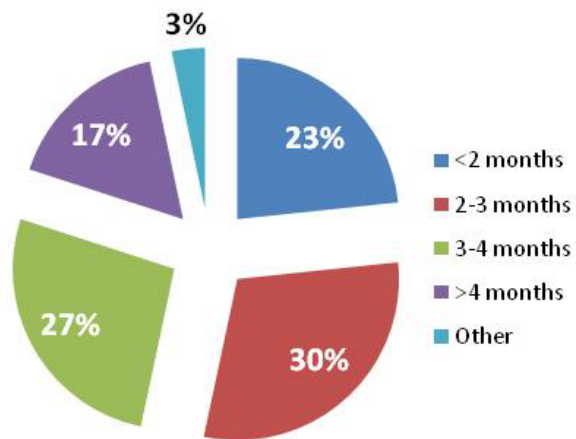


Figure 9: Budget preparation time.

Reforecast Frequency

Respondents are seeing some improvements in how frequently their organizations reforecast, with 60% of organizations reforecasting on a quarterly or monthly basis.

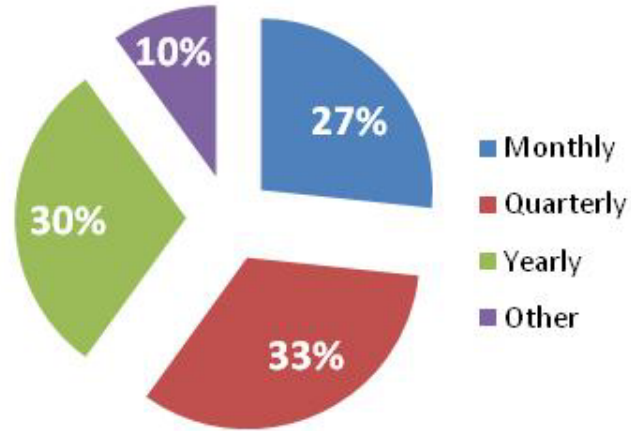


Figure 10: Reforecast frequency.

Budgeting and Forecasting Software Trends

Many of the advances in the budgeting and forecasting arena are a result of improved automation using enterprise software for the budgeting and forecasting process.

Current Budgeting and Forecasting Software Solutions

Even with a maturing budgeting and forecasting software market, a significant number of respondents still use Excel in combination with some other software solution to manage their budget and forecast process (multiple responses permitted).

A SIGNIFICANT NUMBER OF RESPONDENTS STILL USE EXCEL IN COMBINATION WITH SOME OTHER SOFTWARE SOLUTION TO MANAGE THEIR BUDGET AND FORECAST PROCESS.

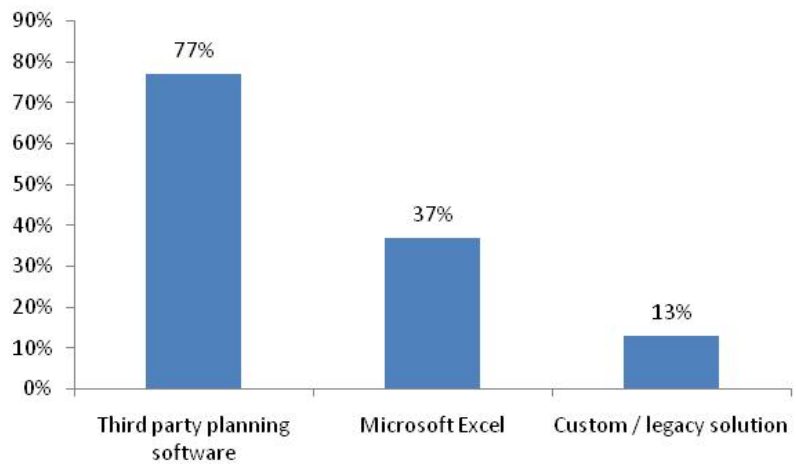


Figure 11: Current budgeting and forecasting software solutions.

Software Solution Satisfaction

Although the majority of respondents are satisfied with their current software solution, almost 50% of respondents would like to enhance their current software solution (multiple responses permitted).

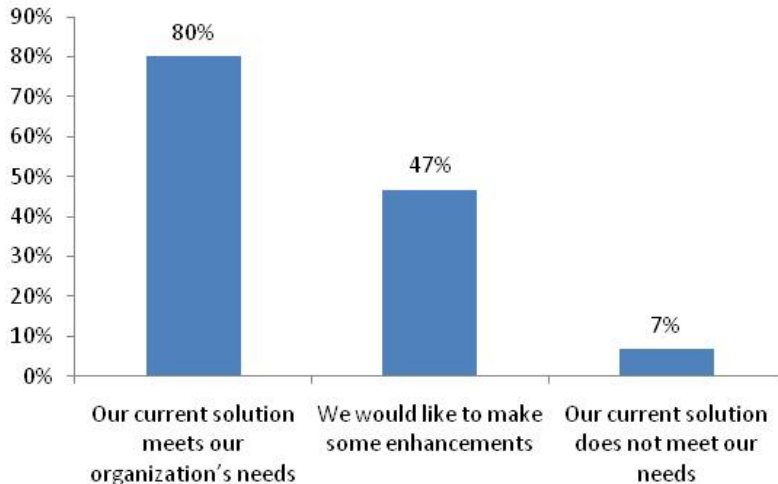


Figure 12: Budget and forecast software needs.

Findings and Recommendations

Organizations need to rapidly change forecasting and budgeting processes to both help improve performance and to address the current tumultuous market conditions. According to survey results, most organizations are not satisfied with their current approach. To achieve improved forecasting and budgeting results, organizations should:

- Employ the budgeting and forecasting process as a way to link the strategic plan to day-to-day operations and tactics.
- Reduce forecast and budget cycle time.
- Enhance existing software solutions to continue to automate the budgeting and forecasting process.

By starting or improving these practices, organizations will become much more adept at adapting to changing market conditions.

Methodology

The Performance Architects *Budgeting and Forecasting 2010 Survey* was conducted online over the course of eight weeks during the summer and fall of 2010. More than 35 Finance and IT professionals completed the survey, primarily in the U.S.

Respondents by Industry Segment

The concentration of respondents by industry is varied and is reflective of the concentration of U.S. industry overall.

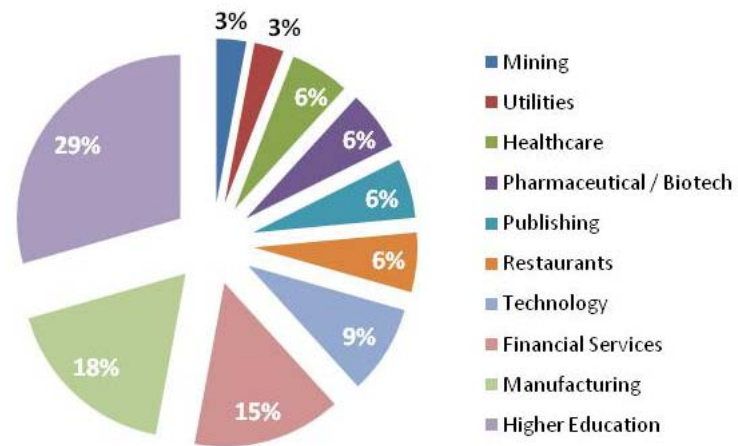


Figure 13: Respondents by Industry Segment.

Respondents by Title

Respondents included Finance and IT professionals involved in some way with their organization's budgeting and forecasting process. A large number of the IT respondents are involved in a hybrid Finance – IT role.

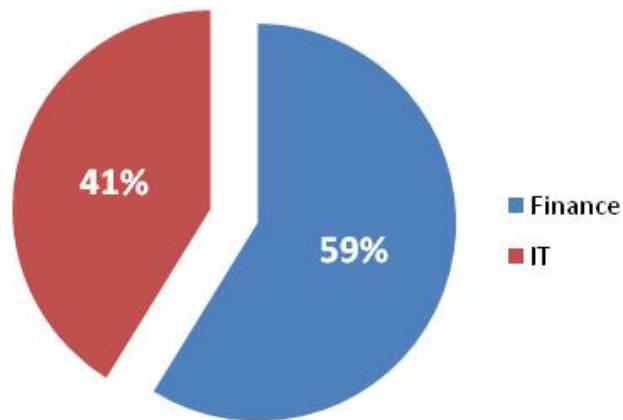


Figure 14: Respondents by Title.

Respondents by Revenue

Organizations' revenues range in revenues from ~\$35M to ~\$10B USD, and appear to be fairly evenly distributed across these categories.

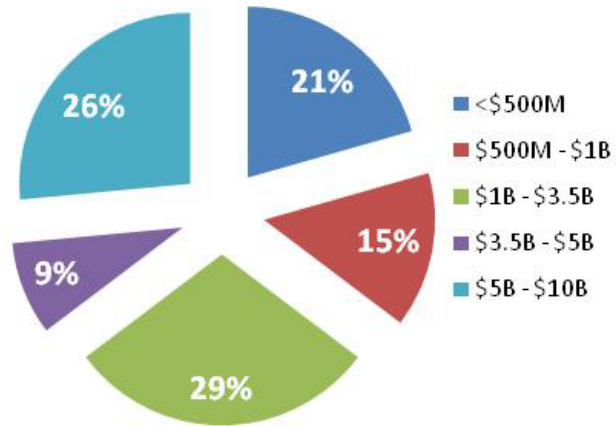


Figure 15: Respondents by Revenue (\$B, USD).

How Performance Architects Can Help

Performance Architects is a business and technology consulting company that partners with our clients to initiate and sustain significant improvements in enterprise performance. In addition to focused consulting around enterprise planning initiatives, we provide a full range of technical and functional solutions to help organizations with their enterprise performance management (EPM) efforts.

Technical Services

Performance Architects provides a full range of technical services related to enterprise planning initiatives.

- **Application Services.** We can implement packaged applications or develop custom solutions to address any aspect of performance management and business intelligence processes, including dashboards; scorecards; management, financial and operational reporting and analysis; financial and operational planning, budgeting and forecasting; and financial close and consolidation.
- **Database & Data Integration Services.** We build solutions to aggregate, store, integrate and translate data to source into performance management and business intelligence applications, such as data warehouses, data marts, and extract, transform & load (ETL) tools.
- **Infrastructure Services.** Our infrastructure services allow you to build a strong foundation for your performance management environment. These services include installation, migrations, and upgrades; performance testing and tuning; and full outsourcing and hosting.
- **Training.** Rather than only providing formal training at the end of an engagement or in a classroom “fee-per-student” setting, Performance Architects believes in the value of “learning and teaching as we go.” We schedule time for knowledge transfer into every single project we work on with clients. We can also provide more formal training on specific technical or business subjects on an “as needed” basis to clients and partners.

Functional Services

Performance Architects also provides management consulting to functional areas to help enhance enterprise performance management.

- **Finance & Accounting Services.** The Finance & Accounting groups often own the systems and processes that are at the heart of translating a vision into operating plans. Services include implementing or augmenting budgeting and planning, financial close / consolidation, and operational and management modeling processes and applications.
- **IT Services.** The IT function generally manages the platform on which an organization's entire performance management program rests. Services include building or enhancing an organization's performance management environment, and also IT organization-specific dashboards or scorecards.
- **Strategy Services.** The Strategy function sets the vision for the rest of the organization. Services include performance management system selection and implementation and strategic finance process and system implementation.
- **Operations Services.** Operations groups such as Manufacturing, Product Development and Supply Chain provide the goods and services that the rest of the organization depends upon. Services include supply chain, product development and manufacturing analytics and dashboards.
- **Sales & Marketing Services.** The Sales & Marketing functions generate lots of customer and partner data that often sits in various functional systems that aren't integrated. Services include channel, customer, marketing efficiency and effectiveness, and pricing analytics, and Sales-specific and Marketing-specific dashboards and scorecards.

Industry-Specific Services

Technical and functional know-how are important, but there's no substitute for understanding an industry through hard-earned experience. We understand our clients need to be in front of competitive issues, regulatory changes, and advances in industry-specific technology and processes to thrive. Our consultants come to the table with years of hands-on involvement across a range of industries, including:

- Automotive
- Biotechnology, Pharmaceuticals & Medical Products
- Consumer Products
- Energy, Environment & Utilities
- Financial Institutions
- Healthcare
- Media & Entertainment
- Mining & Metals
- Nonprofit, Public Sector & Higher Education
- Pulp & Paper / Forest Products
- Retail
- Technology & Software
- Telecommunications
- Travel, Transportation & Tourism



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