FINANCE EXECUTIVE INSIGHT

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MOVING TO A FULLY INTEGRATED PLANNING ENVIRONMENT MAY YIELD $35 MILLION IN ANNUAL SAVINGS TO TYPICAL GLOBAL 1000 COMPANIES

Management Issue

For Current Members of Hackett Executive Advisory Programs

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EXECUTIVE SUMMARY

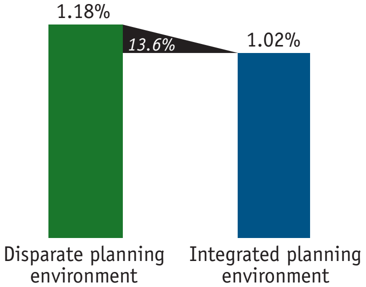
It's no secret that the planning and analysis process today is widely disliked, costly and ineffective. Not only are two out of every three companies unable to accurately forecast earnings for the next quarter (missing the mark by anywhere from 6% to over 30%), those organizations without an integrated environment spend 27% more on planning and analysis than those at which the process is done in an integrated environment. At organizations that have moved to a fully integrated planning environment, the overall cost of finance as a percent of revenue is 13.6% less. For a typical Global 1000 firm with $22 billion in revenue, this opportunity may represent $35 million in annual savings.

SITUATION BACKGROUND

If you were to conduct a poll of executives in your organization on their views of planning and analysis as it stands today, the responses would probably not be something we could print in this type of publication. At The Hackett Group, our research has long illustrated the frustration organizations have with their planning processes, with 63% of users at typical organizations finding the process neither convenient nor easy. Additionally, our research has consistently shown that a typical organization spends 64% more than world-class organizations on this process.

Given the level of frustration and investment, it is disappointing to learn that the process fails to deliver results at most organizations. As we recently reported in ***Aligning Forecasting Practices with Market Dynamics***[1], two out of every three companies are unable to accurately forecast earnings for the next quarter, missing the mark by anywhere from 6% to over 30%. Clearly in a market environment where missed earnings projections can lead to sharp stock declines, CFO firings or worse, planning presents a significant opportunity area for improvement at most organizations.

FIG. 1 Finance cost as a percent of revenue, 2007



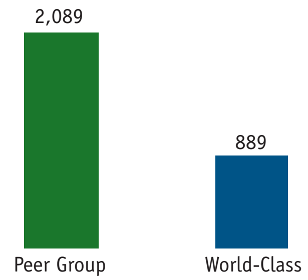
Source: The Hackett Group, 2007

THE VALUE OF WORLD-CLASS PLANNING AND ANALYSIS

While we have long reported the approaches needed to improve planning, we have recently completed research that shows the value of addressing the planning riddle far beyond the process itself. At organizations that have moved to a fully

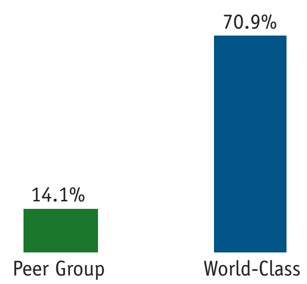
[1] The Hackett Group 2008 Book of Numbers™ Research Series, Vol. 12, No. 1

FIG. 2 Number of business performance reports per US$ billion of revenue, 2007



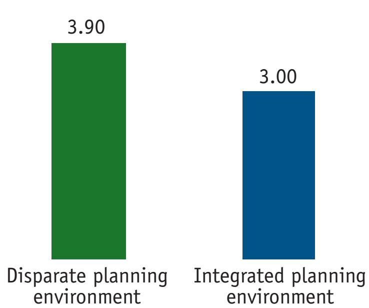
Source: The Hackett Group, 2007

FIG. 3 Percent of cost center managers (or their staff) who enter their budgets into an online budgeting application that automatically feeds a consolidated budgeting model, 2007



Source: The Hackett Group, 2007

FIG. 4 Number of budget iterations, 2007



Source: The Hackett Group, 2007

integrated planning environment, the overall cost of finance as a percent of revenue is 13.6% less **(Fig. 1)**. For a typical Global 1000 firm with $22 billion in revenue, this opportunity may mean $35 million in annual savings.

At first, it is hard to reconcile how deploying an integrated planning solution could deliver such substantial value to the overall finance organization. In examining the drivers of this benefit, as one would expect, we find that organizations without an integrated environment spend 27% more on planning and analysis than those with an integrated environment. More interesting perhaps is the fact that both general accounting and general management costs are both substantially lower in the integrated planning environment.

One of the key differences at world-class organizations that helps us better understand this widespread impact is the rationalization that has occurred in the views and data that management utilizes to run the business. Peer-group organizations require 134% more performance management reports to operate their organization than the world-class group **(Fig. 2)**. If we multiply out the activities, systems, coordination and people required to support this type of environment, we can start to see how having an integrated, rationalized reporting environment could account for such substantial value to the function.

Additionally, at the operational level there are several practices that separate world-class companies from their more typical peers in the industry. The former streamline their operations by allowing workers in the field to directly enter their data instead of having to create additional work processes to get budgets entered into a consolidated budgeting model **(Fig. 3)**. World-class companies empower users by allowing better access to information for the creation of ad hoc reports. This manifests itself in both speed and accuracy, as finance organizations with integrated planning environments are able to complete their process in three budgetary cycles instead of the nearly four that organizations with disparate planning environments require **(Fig. 4)**.

Leverage Planning to Transform Finance

As illustrated above, achieving an integrated planning environment delivers substantial value, but unlocking that value as part of an implementation is not assured unless the planning initiative is leveraged to transform finance. Stated differently, throwing technology at the as-is process will deliver little value, but leveraging technology while transforming the environment delivers the goods.

Related Hackett Research

"A Prescription for Forecast Accuracy," March 2008

"Let's Not Say It Out Loud, But Are You Ready for the 'R' Word?" January 2008

"The Secret of Fast-Planning Companies," May 2006

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About The Hackett Group

The Hackett Group, a global strategic advisory firm, is a leader in best practice advisory, benchmarking, and transformation consulting services, including shared services, offshoring and outsourcing advice. Utilizing best practices and implementation insights from more than 4,000 benchmarking engagements, executives use Hackett's empirically based approach to quickly define and prioritize initiatives to enable world-class performance. Through its REL brand, Hackett offers working capital solutions focused on delivering significant cash flow improvements. Through its Hackett Technology Solutions group, Hackett offers business application consulting services that helps maximize returns on IT investments. Hackett has worked with 2,700 major corporations and government agencies, including 97% of the Dow Jones Industrials, 73% of the Fortune 100, 73% of the DAX 30 and 45% of the FTSE 100.

Founded in 1991, The Hackett Group was acquired by Answerthink, which was renamed The Hackett Group in 2008. The Hackett Group has global offices in the United States, Europe and India and is publicly traded on the NASDAQ as HCKT.

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About the Advisors

Bryan Hall

Practice Leader, Finance Executive Advisory Program, The Hackett Group

Bryan Hall has over 20 years of finance and accounting, systems and consulting experience in numerous industries. Previously, he served as managing director of the business transformation practice at Answerthink. Throughout his career, Mr. Hall's experience has focused on the transformation of the finance function through more effective planning, efficient process management and working capital management. Previously, Mr. Hall was a controller with United Parcel Service and the chief financial officer for a B2E (business-to-employee) software company.

Michel Janssen

Chief Research Officer, The Hackett Group

Mr. Janssen is responsible for analysis, thought leadership and research activities for The Hackett Group's advisory programs. In addition, he leads the firm's efforts in advising clients on world-class sourcing and outsourcing. During a career spanning over two decades in outsourcing leadership positions, he has been a major contributor to the industry's development and designed strategies for creating effective relationships between service organizations and their clients in a wide range of industries and business processes. Prior to joining The Hackett Group, he was president of Supplier Solutions for Everest Group, a consultancy specializing in strategic, management and transactional advice to buyers and suppliers of outsourcing services, and co-founder of the Everest Research Institute. In addition, he provided strategic oversight for Everest Group's Outsourcing Center, the world's largest outsourcing community and vehicle for identifying early industry trends. Previously, he was a senior director in Gartner Group's strategic sourcing practice and held numerous management positions with EDS.

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