Integrated Business Planning
A New Approach to Achieve Greater Accuracy, Agility and Awareness across Midsize Businesses
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Ben Plummer: Hello, everyone and welcome to the Cognos Midsize Business Analytics Summit. Today, we will be presenting at the keynote. My name is Ben Plummer. I am the Director of the Business Analytics Mid-market division here at IBM and our topic today is "Integrated Business Planning."

And while you may have heard a lot about planning in your organizations and budgeting and various reporting types of discipline, this is a new approach. A way for organizations, especially midsize organization, to achieve the agility, the awareness and the accuracy they really need to compete in today's market. And as we look at what we've done over the last couple of years here at IBM to try to enable that, we've done a lot of work in achieving a new product that we believe helps companies like yourselves deliver integrated business planning and that's with a new technology we brought to market called IBM Cognos Express.

And IBM Cognos Express' fundamentals is based in the concept of doing more than simply budgeting or reporting or just looking through your data. It's really about achieving an integrated way to do planning and operational work within your organization. And we believe that this concept is foundational in terms of delivering integrated business planning.

Now there is a lot of parts to this and a lot of areas that are very important. But one thing is for certain. At the core of any integrated business planning operation is the ability to work with all types of plans, reports and budgeted operations in a centralized manner and to do that we have built that capability directly into our technology, which really allows you as an organization to achieve the ability to organize and evaluate information very quickly within your company; gain insight into the values of that information in terms of what your plan might ultimately look like both strategically and tactically; and then take action on that plan whether it be to modify your strategic goals or to operate in a more timely fashion around changing the way your business executes on those goals to be sure you are driving the market values that you need to continually compete with companies of your size; and probably most importantly, larger companies with more resources and more value capabilities outside of what you normally would be able to bring to market.

So these technologies and this concept of Integrated Business Planning are really at the core and the foundation of what we feel we've done here at IBM with the Cognos Express product and I could go on and continue to talk to you about what we've done. But I think it's more important for you to hear this from some of the experts in the industry and that's one of the reasons we brought in Rob Kugel, the Senior Vice President at Ventana Research in the area of Performance Management and Business Practices to take you

through the values and the concepts behind Integrated Business Planning and let you get a better understanding of what this might mean to your business.

Rob is an expert in this area. He has been working with Ventana as well as many other research firms in his career to really kind of bring the concepts of applying technology and strong business practices around performance management, planning and budgeting together to help companies in the midsize area, as well as large enterprises, achieve a competitive edge.

So with that, what I would like to do is turn it over to Rob and let him walk you through some of the concepts and values that your company will gain by implementing an Integrated Business Planning solution. Rob?

Rob Kugel: Thanks, Ben. Today I'm going to discuss something that we -- that Ventana Research have been calling Integrated Business Planning. I guess the first thing to focus on is how is Integrated Business Planning different from what almost all companies are doing today.

Well, first of all the emphasis is on planning. That is to say, planning the operations and then calculating the financial consequences of that plan. Today the most common integrated plan at a company is the budget, which is in most companies has only a limited connection to operational plans.

Second, to make it truly integrated, the plans of one part of the company must be linked to the others in an ongoing fashion and not just pulled together occasionally. Third, integrated business planning uses rapid planning cycles, a full-blown, once-a-year version may take only a couple of weeks not months, and the updates, monthly or quarterly, have to take place in a week or less. Fourth, integrated business planning focuses only on the most important things that people need to plan and review, the key business drivers and the key performance indicators, not every line in the chart of accounts.

Fifth, it makes rapid detailed contingency planning possible. Questions like what happens if a supplier raises prices by 15% or we hire another 10 sales people or what if a new plant comes online a month later than planned. These are easy to answer down to all of the related dependent costs and revenues.

Sixth, IBP is not just a sterile, inwardly focused effort. It explicitly incorporates the actions of suppliers, customers and competitors in the process as well as the overall business environment. Integrated Business Planning is important for all businesses, but it's especially important for midsize ones, I think.

Integrated Business Planning is the process of connecting the planning function across an organization to improve its internal alignment and enhance its financial performance. It uses a comprehensive model of the organization, linking strategic planning, operational planning and financial planning. And as a result, IBP changes the company's focus from

simply creating a budget to planning. It increases the forward-looking visibility for executives and managers. Managers in one part of the business understand what other managers in the organization are planning to do and why. And as a result of this, it improves the level of coordination across business units and increases the accuracy of the planning function. Contingency planning enables managers to be ready to take advantage of new opportunities or respond faster and more decisively when conditions change.

Now we have done a lot of research into how companies plan and budget over this past decade. There's been a ton of research and here is a couple of things that we found about midsize companies and planning. First, for most companies, their budget is their integrated company-wide plan, which is a shame because operating managers can't and don't use the annual budget to run their operations. No surprise there.

Second, although people in finance departments might think that the budget is the company plan, there is a lot of other silo-specific planning that goes on and it's only loosely tied to the budgeting and reforecast processes. Our research shows that on average, executives and managers participate in four separate planning activities, but few of these are really integrated with one another.

Third, because of this, there's an ongoing lack of coordination and execution in most midsize companies and they are unable to respond as well as they should to change. And lastly, there is a limited understanding of what's driving result and that's going to hurt performance.

So why should your company feel the urgency to change the way it plans? Why now? Because most companies have found out the hard way that their process is broken. Extreme volatility -- business volatility -- over the past few years has left carefully crafted budgets dead on arrival at the start of the fiscal year. After months of fiddling with numbers, conditions changed enough so that the budget was obsolete from the start.

Another is that the recession exposes the risk and exposed the risk of not planning ahead intelligently. Has your company learned that lesson? How well can it manage in this coming recovery? Can it balance opportunities and risks, managing costs and margins more intelligently than the competition? Do your executives know how to prepare, for example, how to run the business in an environment where, if say, there is 6% to 8% annual inflation and 8% to 10% short-term interest rates they have to deal with?

Now this type of scenario sounds farfetched, but then again, a great recession would have seemed farfetched just a few years ago. And that's the reason for running the numbers to understand how best to operate under these circumstances; how to manage inventories;, set payment discounts; manage the pricing process; structure the balance sheet fund for that kind of different environment. Doing an approximation of this is certainly possible with or without Integrated Business Planning, but doing the exercise with all executives and managers in a single process ensures that everybody understands all of the implications, so it's easier for your organization to respond quickly, more accurately and in a more coordinated fashion if and when conditions change.

More importantly, why should midsize companies in particular change the way they plan? We consistently found that midsize companies -- we define that as those with between 100 and 1,000 employees --are least satisfied with their planning processes. Large companies complain they spend too much time budgeting and planning. The midsize companies, they're just as likely to say they spend too little time as too much.

Midsize companies are stuck in the middle. They are too big for the more informal planning processes that work for small businesses, but they are not large enough to be able to have the resources that big companies have, the people, time and money you need to pay for them. However, information technology can help level the playing field and make planning and budgeting less of a burden and deliver more business benefits to midsize companies.

What does Integrated Business Planning entail? Well, I think it's about planning, not just budgeting and I will get to the difference there in a minute. It's about having persistent links between the formal, quantified plans that different parts of the business keep in order to improve coordination. It's about rapid planning cycles that the process doesn't consume a lot of time that you don't have and the plans are always fresh.

It's about plans that will reduce the focus on what's more important on the key drivers and key performance indicators, not all of them [Usha]. Contingency planning is an important part of integrated business planning, considering what might happen and how best to respond to it if it does. High level upside and downside gives the company's finance department a way of bracketing potential financial outcomes, but they are not especially useful for operating managers to figure out how best to respond to say a big price swing in some raw material or a disruptive move by a competitor.

Integrated Business Planning changes the focus from just budgeting -- which is important to the finance department -- to planning, which is important to everyone in the company. It lays out operational plans, you can sell this many widgets, or we'll need this many pounds of materials this the amount of machine time, that many people, who will have the process, this number of invoices and so on.

And then it translates all of this into the financial implications -- revenue, direct material, labor cost, overhead expenses and so on. And in so doing, it automatically creates your budget and increases visibility and therefore, promotes greater awareness of what's expected because more information is shared. It increases collaboration across business units and functional silos. Manufacturing finally will know what promotions marketing has planned, so its plan is more accurate because detailed contingency planning can be done faster and easier; more realistic pro forma outcomes could be created. So it allows management to better anticipate how to address future events. So it will enable midsize companies to respond faster and with better coordination to changing business conditions.

So let's turn to a key point. That is budgeting is not the same thing as planning and so let's start with a very basic question. Why do we budget? Now aside from the demands from

your Board of Directors and maybe bank or other lender, it's because when large industrial corporations emerged in the late 19th Century, they copied the control mechanisms used by the only other organizations of comparable size and scope, that is to say, government.

Now why do governments budget the way they do? Go back in time. If you are a government in an agrarian society, you collect your taxes and rents once in a year at harvest times. And that's most of what you have to operate with until the next harvest. So you have to carefully set aside enough money to pay the knights and others that are defending the kingdom, duchy or fife. . You have to have money available to repair walls or dig wells, keep the court supplied with its essentials and so on. In other words, we do an annual budget because the main source of revenue in a feudal agrarian society was the once-a-year harvest and because things changed slowly enough, it wasn't important to make more than token changes over the course of a year.

Well, now ask yourself. Why on earth does it make sense to try to run a 20% re-corporation using a tool best suited to the needs of a 12th Century feudal agrarian society? Well, it doesn't. Why does it makes sense when revenue events occur day-to-day, not annually, where change is constant and sometimes sweeping and where there is a lot that you can and should do to adapt quickly and prepare for the future.

Now, let me make it clear that I am not against budgeting. Companies need to budget and they need to plan. The problem today is that they smush these two things together with too much emphasis on the budgeting part.

Budgeting and planning are two different things and the words mean two different things. A plan is a detailed program of action and it comes from an old French word for foundation, like a foundation on which you build a building. Plans are the foundation for action. Planning is the process of trying to figure out what you need to do to be successful. It is, or at least it should be, an open-ended exploration of what it takes to reach a set of goals. Contrast, the budget is a financial statement covering a specific period. Budgeting is designed to be a control that prevents organizations from failing because they've run out of money or spend it wastefully.

And the process of budgeting is, by design, different from planning. Budgeting is and should be a static and frequent process. It's inherently inwardly focused and built on negotiating spending and revenue targets. The object of budgeting is to minimize spending.

Planning, on the other hand, is and ought to be a dynamic, interactive and frequent process that focuses as much on the world outside the company as the internal plans. It ought to be aimed at finding and assessing opportunities and threats and used by executives and managers to do "what if" analysis, plan contingent courses of action. The object is not to minimize spending, it's to optimize spending and to optimize revenue objectives.

Planning is a more open-ended, operationally focused, business-driven process. It's designed to connect strategy to objectives and uses the metrics to gauge performance and drive results. Rapid planning cycles and contingency planning foster agility. Integrating business plans improves communication and coordination across the company, across silos, functions and divisions. In the end, planning better will drive better performance.

Now you may not have given it too much thought, but companies already do an awful lot of planning. Of course, there is the annual budget, but the sales department has formal and a lot of informal sales forecasts. Manufacturing companies have demand plans. Treasury has cash flow plans, their capital spending plans, so on and so on. There are periodic reforecasts of revenues and expenses and then there are the plans that are going on inside the heads of managers and executives and unfortunately these, and just about everything else, is rarely linked in any sort of persistent, formal way. Usually the links are, at best indirect, often out of sync and sometimes out of date. Companies routinely deal with dropped balls and missed opportunities that should have been prevented without realizing that they could have been prevented through better planning.

As I mentioned, our research shows that on average an individual participates in four sets of planning activities over the course of the year. These activities differ across functions and roles. So if you look at the top five planning activities by an aggregated function and role. People in finance do capital spending planning but not really operations planning, while people in operations naturally have operation plans, but they are not to a large degree involved in capital spending plan.

Now, what we found significant is not just that there are differences, but there is a high degree of commonality across all functions in a company. In other words, there is some plans that just -- if you look across an entire company, everybody or at least most of the functions are involved and moreover the results show that there is just one plan that everybody participates and that's the financial plan or budget, which as a result is de facto today, your integrated business plan. Unfortunately, it's not a very good one.

And unfortunately, even though there is a lot of planning going on, it's not all that integrated. Only about one-third of the companies directly link detailed departmental plan information to their budgets so that they can be immediately updated. The other two-thirds of companies either have an indirect linkage or nothing at all. And it's hard to understand the right course of action when you can't accurately measure the impact of your business plan on other parts of the business. Only one in five say they can see the effect that changes in their plan will have on other parts of the business.

When organizations change their plan, just how well coordinated are those changes? Well, only 10% say that these changes are well coordinated and a bit more than half say it's somewhat coordinated. Well, somewhat coordinated may sound okay, but a somewhat coordinated juggler is going to drop a lot of balls, which is not an especially impressive sight. Worse, another third say that their responses are uncoordinated. Numbers are not always fresh and business agility is a key success factor, but it's an increasing challenge as companies get bigger.

Only a bit less than half are able to do their budget review within a week of the end of their period. Worse, a third only get their numbers beginning in the third week. Well, at that point, about a month or more will have gone by before any action will take place and plug a gap or seek an opportunity. Midsize companies actually take longer to do their budget reviews than larger ones probably because they don't have the information tools that larger companies have.

Another reason for poor follow through is that questions are left unanswered during the review meeting. If you want to know why widget margins fell short in the Eastern region last month, can you get the right answer immediately in the review meeting? Only a quarter of the companies we benchmarked actually could. Another half say they can do this within a day or two. But by then, you've lost a chance to immediately assign action items. Delaying the answer by a day or two doesn't reinforce the need for speed and action. Still another one-fourth are in really pretty bad shape. It takes them at least a week or more to provide the answer. So think about it. If it takes three weeks to get the number and another week to resolve issues that might need to be resolved before taking action, a whole month or more has gone by and this is not agility.

So what's the solution? I think you need a process that brings together all of the forward-looking projections, sales forecasts, marketing plans, demand plans, maintenance plans, sales and operations plans, R&D plans, capital spending plans, so on and so on and so on. This is going to enable all parts of the business to understand the plans of all of the other parts to quickly create and revise the business plan or forecast, that's the word I want to use. One that explicitly details the things in a unit times rate (inaudible) fashion that a company can do to plan its operations. One that at the end of the process is going to automatically generate pro forma income statement, balance sheet and cash flow statements that the finance department can use as a budget or financial forecast.

Now you're probably thinking, whoa, this is just going to be too much work trying to get everybody and everything together in a neat package all at once and boy, do I agree? To get to an integrated business plan, the best and easiest way is to start by changing nothing, except bringing all of your businesses, your company's individual plans onto the same system. In other words, don't try for a big bang. It's probably not going to work unless you have an enormously talented CEO who's behind this 1000%. But you don't have to do it in a big bang. You really just have to start by integrating the information.

If you are using desktop spreadsheets today to do demand planning or capital planning or sales planning, you can just as easily do these in a enterprise planning application that has a spreadsheet interface. People are going to continue to think they are working with the same familiar spreadsheet, but rolling up and consolidating the spreadsheets from the various parts of the business, even within that silo, and managing iterations of their specific plans, creating actual versus planned reports, it can all be done faster and more accurately.

Once everyone's plans are on the system, then you can start bringing them together in an Integrated Business Planning capability. You can and should start small. Gain the benefits of automation and build on the value that this creates. I think there are few absolutes in business technology, but here is one. You can't possibly manage an effective Integrated Business Planning process in a company with 100 or more employees using desktop spreadsheets. The inherent defect of these spreadsheets just makes it too time consuming to be able to have a real integrated business process, period. A lot of what's wrong with your planning process today is everything to do with desktop spreadsheets if that's the way in which you are running things. Now you can either have an overly simplified set of plans or you can have a slow cumbersome process with desktop spreadsheets. You can't really have integrated business plans.

Our research shows that -- and it consistently shows -- that dedicated applications score higher than spreadsheets when it comes to planning for finance departments as well as operations and sales, computational planning, sales and operations planning, and so forth. We have done a lot of research. We've covered a lot of ground and spreadsheets just don't work. Integrated Business Planning requires the right technology tools to enable companies to easily integrate data and enable immediate updates of the plan when the underlying forecasts change; to be able to quickly look at and compare different impact of different sets of assumptions, applied consistently across all business units.

Integrated Business Planning requires a dedicated planning application. This type of software has at least five characteristics that are better than using desktop spreadsheets alone. One is central data storage. The second is internet accessibility to facilitate high participation of use. Third is process automation to simplify administration of rapid planning cycles with high participation. The fourth is the option at least of an integrated reporting function. And fifth is the ability to drill down into underlying data immediately during reviews to make this part of the process action oriented.

Many dedicated applications use Microsoft Excel as the interface, so people don't have to give up the familiarity and comfort of working with Excel, but the software eliminates all of the hassles associated with using desktop spreadsheets. And there are many more affordable options aimed at companies of all sizes including subscription-based, on-demand, cloud versions of planning applications. You can't do this using spreadsheets. You can't do Integrated Business Planning, improve your planning function using spreadsheets. They are enormously useful as an individual productivity and you can't run a finance department or any company without them, but they're the wrong tool for this particular job. A hammer is a useful tool, but you wouldn't use it to do everything. Would you?

Spreadsheets are a barrier preventing you from having a truly integrated business plan because they are not designed for collaborative, repetitive, enterprise-wide processes. Because of that, people wind up spending and wasting a great deal of time trying to work around their limitations. Using dedicated planning software has numerous advantages. It's more accurate. It gives everyone deeper insight about what just happened, why, and it enables managers to get a better idea of what to do next. It supports the shorter planning

cycles needed to have Integrated Business Planning. It supports higher participation levels and increases accountability. But dedicated software isn't a cure all. It is, as they like to say, a necessary but insufficient component. Just buying software is really just the first step. You need to take the next step to change the process to make it more effective.

So let me sum up here by saying I think it's time to change. But it's important to realize that incremental enhancements to your existing planning and budgeting processes are only going to have a modest impact on its value as a business tool. Companies are constantly tinkering with their budgeting process, but these changes are really incremental, not fundamental. Integrated planning is just what it says it is, a collaborative planning effort. Planning well requires an information-rich environment. As we pointed out, this could be a challenge for many midsize companies, a challenge that they need to address. And integrated business planning requires technology, better technology. You can't do this with spreadsheets. Don't even try. But just buying software won't solve the problem because you need to address all of the factors, the people, the process and the information dimensions as well to improve planning.

I think what we've just gone through in the last couple of years should have convinced you that now is the time to change your planning process, all of your planning processes, in your company. The economic turmoil should have opened the eyes of your executive team and yourself and the finance department to the deep flaws of most companies' budgeting process. Now is the time to change from budgeting to integrated business planning. Integrated business planning give midsize companies increased agility, greater planning accuracy, improved coordination and collaboration across business silos, and in the end, improve your company's performance.

Thanks for listening. Back to you Ben.

Ben Plummer: Thanks, Rob. We appreciate the insight that you've just provided in terms of delivering integrated planning and delivering the capabilities that we believe midsize companies need to understand and gain access to. But there is a lot to deliver this that has to happen, as you said, with the technology and one of those areas is ensuring that the technology itself from day one is integrated. So you as an organization don't have to make that happen.

And to do that we at Cognos Express have taken the time to bring all the disciplines that are necessary to deliver integrated business planning together in the IBM Cognos Express technology set and that means going from simply reporting the technology, together with the analysis that's necessary to get down and understand the depth that's required behind the data to start formulating both your budgets, which as you said, drive a very large part of the planning process in most organizations and is necessary to run a business on a day-to-day basis.

But also the flexibility to do that integrated planning, allowing planning to take place in many parts of the organization in an environment that you are comfortable in. As you said, a spreadsheet in a lot of cases. And then have that information rolled into a

centralized data store that allows the independent operations whether that be sales, marketing, or finance to get their perspective, but then allow the technology to actually integrate that behind the scenes in a very strong fashion through a centralized data environment that's multidimensional and allows you to look at it from a variety of perspectives.

So having an integrated planning technology and integrated planning process with the underlying integrated technology to support it, we believe is an absolute key and foundational piece to deliver on the promise that you just outlined.

Another area though that we believe is just as important and just as critical, frankly, to most organizations of getting that technology stood up and getting started with the right part of it. And for that reason we have also taken the time and really focused a lot of our attention when we were delivering the IBM Cognos Express product in being sure that it is something that can be stood up in midsize organizations without tremendous amounts of IT support because as you said earlier these organizations have limited resources and that includes IT.

So one of the foundational components of IBM Cognos Express is a very quick standup time with very little IT support and we literally can allow you to download the product from the website, get it stood up and deployed and start small. If your needs are today just around reporting on an existing budget or existing plan, IBM Cognos Express can allow that to take place and you can grow to integrate analysis and ultimately achieve a full integrated business planning solution as your company matures. As you said, a Big Bang Theory doesn't always work culturally with an organization and in a lot of cases, it just won't work technologically. So, IBM Cognos Express allows you to grow both with the capabilities built into the product one step at a time as your organization evolves and matures and ultimately delivers a full integrated business planning solution.

So, with that I'd like to once again thank Rob, very strong insights into what's happened in the environment and the economy today and how that's impacted the way small organizations need to execute and also giving you a bit of an insight into the IBM Cognos Express environment and allow you to understand what the technology is about. Certainly there is additional sessions today in the Virtual Summit that you could attend to get a stronger understanding of the technology available to you through IBM Cognos Express and a better understanding of the overall IBM Integrated Business process.

With that, I would like to thank everyone. Like to encourage you to please attend the various breakout sessions throughout the Virtual Summit to gain a clear understanding of what IBM can do for you as a midsize organization. So, once again, thank you and I look forward to hearing from you during the question and answer sessions throughout the day. Thanks.