

Hello, my name is Scott Wallace. For just over 28 years I have been working in financial planning and analysis. Sixteen years in industry, 12 years as a management consultant and I am currently leading Deloitte's US Cognos practice, where I continue to help companies improve their planning, budgeting and forecasting processes so that they will in fact drive value for their organizations. I am here today to talk with you about how you can get your planning, budgeting and forecasting process to drive real value for your company. You might be asking why now? I believe now more than ever is the time to address one of the most time and resource intense of financial processes and make it a driver of value. As I have already mentioned most PBF processes are both time and resource intensive. However, to really drive value with planning budget and forecasting companies need to address some fundamental issues. These issues can lead to very ineffective planning and a failure to achieve to organization strategic objectives. For instance your feel on this slide where we have listed a number of what I will consider to be ineffective performance management type actions or behaviors.

Targets that are set, but are not aligned with strategy or value creation. Resources that are bound in projects that are not a type priority. Where there is a real lack of visibility to strategy or a lack of real governance and review of those project and that the get in to the plans and that they are taking down resources that aren't necessarily aligned with strategy. Strategic objectives, initiatives and individual targets that are not aligned and operational people that do not understand what their targets are. We talk a lot about targets, but these are very key communication devices to make sure that your organization is aligned along the right path that they are going to plan and execute against the kind of strategies and priorities and objectives that you are looking for in your organization, and it's surprising thing as we work with clients, how many times people really don't understand what their targets are and in fact me not agree with their targets. And we work with clients for lot in getting that alignment. Data exist across multiple systems with no standard of set business definitions or an inability for the existing technologies to manage and analyze the information that you need to run your business. Data is a key reason for ineffective performance management or planning processes and it's something that you need to focus on and make sure that you have got single version of the truth and as much as that's an over used *[Inaudible]* it is very appropriate in their, in regards to planning where we got many, many dispirit systems and information and people grab what they want and the answers come out differently.

So a single version of the truth, tact when we data issues can really drive the improvement in your planning process and make it much more value added. In addition to management's desire for more value adding planning, budgeting and forecasting process, there is increasing pressure from external sources as well. First you have the regulators. There is an increased need for financial transparency. So how do I get better information outwards to my investors, my analysts, the SEC and others that need to understand more about my business. There is continued pressure from the financial community including share holders, the board of directors, and other investors and analysts that sure executives have to deal with everyday. There is an increased need for accuracy and defensibility of their forecast. And effective allocations of limited investment capital especially in today's time when that's had a premium and do they

understand where they are investing their money or what's the best bet for the investment of their money.

From a market and customer stand point there is again in today's environment and increasing need to better understand customer and product profitability and the question is does your planning system or does your planning process support the add information of that level of details so that you know understand and connect secured against changes to your product or customer profitability and finally business operations. Are your operations, are the plans and the execution of those plans align with the corporate strategy and how do I bring that information to my operators, how do I align them with targets and better information to make sure that we are delivering against those strategies and getting the most value that the company can get. But understanding where your company is in regards to planning for value is a key to moving forward. So before moving off on the journey and trying to increase the value of your planning system or your planning process, you really have to understand where you are starting from. In this slide we have broken it down in to very small understandable three stages, basic practice, all the way through bench mark practice. And if you look at different elements of the slide we start with process characteristics, where strategy initiatives are not quantified, strategic planning is outside of the core planning process or short term versus long term all the way to the right side of that where long term forecast are integrated with annual plans, budgets and interim forecast and strategic plans are integrated all the way through the process, you see a very large spectrum of where you can land and understanding where you are today will help you decide how fast and how far you want to move your process.

Business integration is planning just the nuisance that we have to do that we have to get through or is the key to governing my business and my business decisions in setting those performance goals. And then finally the value that finance brings through planning, are we just a steward of the process? Do we just put out the calendar and the work sheets and everything else is just left at the whim of the operators or is finance is strategic player that's very involved with the over all process and very involved with making sure the right decisions and right investments are made. So what is planning for value? How is that different than what my company does today? Well, planning for value helps companies to ask questions, manage investments and measure targeted performance. Planning for value should be a process that raises questions, and answers questions. The PBF process should clearly track investments in organizational impacts. Where am I investing my money and what's my trade off against that another investment. Do I have that information of that project or initiative level clearly visible within my planning system and *[Inaudible]* my planning process, so that I can make those decisions. Does your executive team or is your executive team able to distinguish between those investments that are business sustaining versus business growth investments and how do I prioritize it. Does my process for planning and my systems were planning help me do a better job of that? Business sustaining is something that gets lost many times within organizations as a none value adding or a none ROI generating kind of investment and yet if you let it go too far or go unchecked, you could find yourself in the spot where you aren't able to control your business while the underlying technology can support the

growth, where your underlying customer service systems or infrastructure isn't there with the kind of growth you are trying to maintain, so it's always a balance, but does your planning system clearly call out those kinds of initiatives.

And finally what performance indicators do you want to use to measure your business? Most companies focused on outcome measures, things like revenue, earnings per share, but what about process measures, like cycle time and the number of *[Inaudible]*. Do I know if I am getting more effective and more efficient in my delivery all the way from procurement of raw materials to cash in the door from a sale of a product? Do I have predictive measures? Can my company confidently predict future performance? And is it able to do so? Do I look at things like unemployment, consumer spending, fuel costs, commodities and do I incorporate those in to my planning processes? So what does value driven PBF process look like? Where it looks lot of like what I have shown here on this slide, it really starts with vision, it goes in to objectives, initiatives and financials of the strategic plan. It moves in to resource plans for people plant, equipment in making those key decisions and then finally it moves in to the first year of a very tactical operating budget. And once that budget is in place, then I am constantly checking it. I am taking actions, I am making changes, and I am looking at the results and a continual cycles through out my process and it's important that these are linked in many cases, these are done in isolation or not at all.

If you think of business strategy or vision, many times this is the board of directors, of on their annual or the directors trip away from the business and working with the consultant and their executive team and coming up with the vision for the company, but how often is that translated in to very specific key strategic initiatives. Strategic planning can be and often is very isolated and at the executive leadership level only. Again many times done in an off site, many times done in isolation of the business operations and that's where the disconnect start to happen, that there is not a linked process, operating plans. In many cases this is done as part of budgets and the link is just lost. That the emphasis on understanding resource plans at the people plant and equipment level are not done in any, with any set of rigor and yet companies that are held up as key implementers of leading practices, companies like General Electric follow a process like this and a very distinct and the linked processes for vision and business strategies, strategic planning, operating planning and finally budgets. So it's done, it's out there and it's necessary in order to drive real value with in your planning process.

Then you get in to how do I manage it? The performance management expectations of this, I talked about once you have the budgets in place and you are taking actions, you are producing changes and you are driving results, all right, how do you continue to do that? Well, you need to make sure you have got your key performance indicators in place that you are not looking at every dollar and cent, but you are looking at those key things that drive your business. You are looking at rolling forecasts and using those with predictive drivers or head lights, in order to better see where I am going not just where I have been. Your business does not hit the wall at the end of December and neither should your planning. In order to drive real value, your company's PBF process must be balanced between value creation, value management and value stewardship. We are going to talk

briefly each of these concepts and why they have to be balanced and the hopefully give you enough insight to look at how is my company doing it? Where are we focused, are we balanced across these three things? All three components are needed and really drives value, but they drive more value and well balanced and integrated with one another. When you look at value stewardship, which is really the core fundamentals of budgeting planning and forecasting. It's the planning policies, procedures, it's the approval hierarchies and work flow. It's the project portfolio management and capital spending processes, it's the nuts and bolts of planning, budgeting and forecasting your business and those are the core fundamentals that have to be in place for any process to be effective.

When we move to value management, we are really talking about the leading practice business management that I need to effectively drive value with the decisions that I am making, things like scenario planning. Do we have the capability and the understanding and how to run multiple scenarios in today's environment, more important than ever to run a low, a likely and a high just to understand the different values, and variances that I am going to have to play with as an executive team and the leverage that I am going to have during the course of the year, should things change either on the downward side or the upward side, so that I am prepared and have the resources in place to execute against it. Web based reporting, analysis tools and am I able to get stuff to my folks quickly, timely and effectively so that you can make decisions as circumstances change, driver based models. I am not talking just untraditional, rate times volume, kind of drivers. I am really looking for what are the predictive drivers. What are the things that help me predict future performance? Whether that's commodity pricing, whether that's consumer take away point of sale information, what's going to predict my volume, my revenue, my cost going forward. Rowing forecast, I mentioned just briefly a bit ago, you really don't hit the wall in December, your business doesn't stop and in many cases, many companies only plan to the end of the current calendar of fiscal year. And yet your business continues to operate and so there is a big step of and a regeneration of a new plan at some point in time during the year, rather than a continuous flow of information that allows to see you where you are going and how you are going to get there? And key performance indicators, not everything has to be looked at, not everything has to be touched in a plan or a budget or a forecast, but what are the key things, the key drivers of my business that I must have insight to, I must take actions against and I must understand in order to move my business forward. So it's important to look at those key things, measure them and monitor them and forecast them.

Finally the area of value creation. This is really leadership and investment and prioritization. It's understanding that investment business cases, it's project prioritization and capital allocation and it's strategic planning process, all rolled in to this. But how do I manage those resources, do I plan at the project or initiative level and do I see all of the inputs coming in to that initiative and does my organization understand where they play in to all those and I am able to measure and monitor that during the year to take corrective actions against it. Moving to value based planning, how are companies changing, their PBF process to be more of a value driver. I think the first thing that they

are doing that I have got it, shown on the slide is they are moving to some proven solutions.

Things like key performance indicators, which I have talked about and not just once that measure current or backward looking performance, but outcomes need to be measured, but so process this for efficiency and effectiveness, things like cycle time and hand offs and those kinds of things that know that internally as I procure raw materials till I take the cash in the *[Inaudible]*, I understand that I am being the most effective and efficient that I can. And finally predictive kind of measurements. Future performance indicators, the fuel prices, the commodities, unemployment rates, things that impact my business, not now, but in the two quarters ahead or the three quarters ahead, so that I am making adjustments to my business today. Rolling forecast, I mentioned that again briefly in a prior slide, you business stop at the end of the year and neither should your planning ...

Driver based planning. Do you predict using predictive drivers, key drivers that are indicators of business health and business growth and the business going forward rather than just quantifying things that have happened in the prior month.

And finally capital allocations. It goes without saying, but it needs to be clear and visible with you planning process. Those investments that need to be made for business sustaining their activities and those investments that need to be made for business growth and it's going to be important that both are visible with in your planning processes and are acted up on by your management. However, if you are starting to implement these *[Inaudible]* and they are all good solutions are proven, people are starting to actively engage on them, but you first need to understand where you need to focus. And this is a key part of understanding how to move your appointing process to be more value driven. On this slide we show a couple of examples, one example is a retail company and the other is a package goods manufacturing company, and we have listened just a relative, on a relative scale the size of various areas of their P&L. Everything for processed goods sold, to sales to customer care, back office, IT and R&D. And what's important about this is that companies need to focus differently depending on what they do and their P&L is a key to unlocking some of this information.

For instance in a retail company, the focus really is on revenue and cost to serve drivers. It's not so much on cost to goods sold or a trade promotion, but rather it's on pricing, it's on product positioning, it's on rebates, and it's on customer related costs. Whether it's customer service, or sales anything that's customer facing is going to be key in a retail business. So when I am training my business, I am looking for those key drivers, I am looking to have visibility around those, I am looking for strategic initiatives that are linked to my budgets, that are addressing these things. And not so much on things that aren't important or not as significant to how my business performs. A manufacturer on the other hand, you can see in this chart, this has been an example of one of our clients, cost to goods sold is predominant factor in their P&L and it's the predominant factor now in their planning process. Trade promotion is close behind and they monitor closely because it drives their volume and product mix, which are the love-line of their company. By understanding where to focus, your company can better align the people process, and

technologies to drive the value that you are looking for. In the retail example, your *[Inaudible]* are tied to customers, you are focused on efficiency to serving those customers and you are going to look to find those drivers that are impacting the cost to serve those customers. In a manufacturing environment, the majority of costs are costs of goods sold, you are looking for those things that impact mix and product margin and how do I better focus on my volumes coming through my factories and what's going to be demanded by my customers.

So understanding what you do, understanding where to focus and identifying key drivers are key in to driving value in to your planning process. But as always you got to remember that there is more to planning and more to performance management than just planning and this is just to give you an idea of the things that you also need to be thinking about, not only do I need to plan my business, I need to measure and evaluate it and do I have the processes and assistance in place to do that in the effective manner and finally then I have got to intervene and I have got realign where I am going based on those results and so am I able to do effective analysis, am I able to get the information in front of my management team that they need in a timely, in an effective manner and am I able to forecast quickly and as conditions change, not just on a monthly, quarterly or semi-annual basis, but if my business conditions change especially in like today's environment, I need a very quick review of where I stand based on these changing conditions or radical changes in my environment. Do I have the ability to do that or is it a six, eight, 12 weeks process, in which time I have lost additional market share, I have lost additional profits, I have lost additional revenue and so you need to be able to be nimble, you need to be able to turn it around quickly.

So as you are looking at your planning process, as you are trying to drive more value in to it by implementing some leading practice solutions, by looking at better alignment, by understanding where to focus on those key drivers. Don't forget that in addition to planning, you need to be able to measure it and you need to be able to react to it in a meaningful and timely way. With that I would like to thank you for attending today's session and hopefully I have been able to take out of it a couple of things that you can go back and think about implementing in your company's situation that will help you drive better value out of your planning, budgeting and forecasting process.