A Prevedere Report

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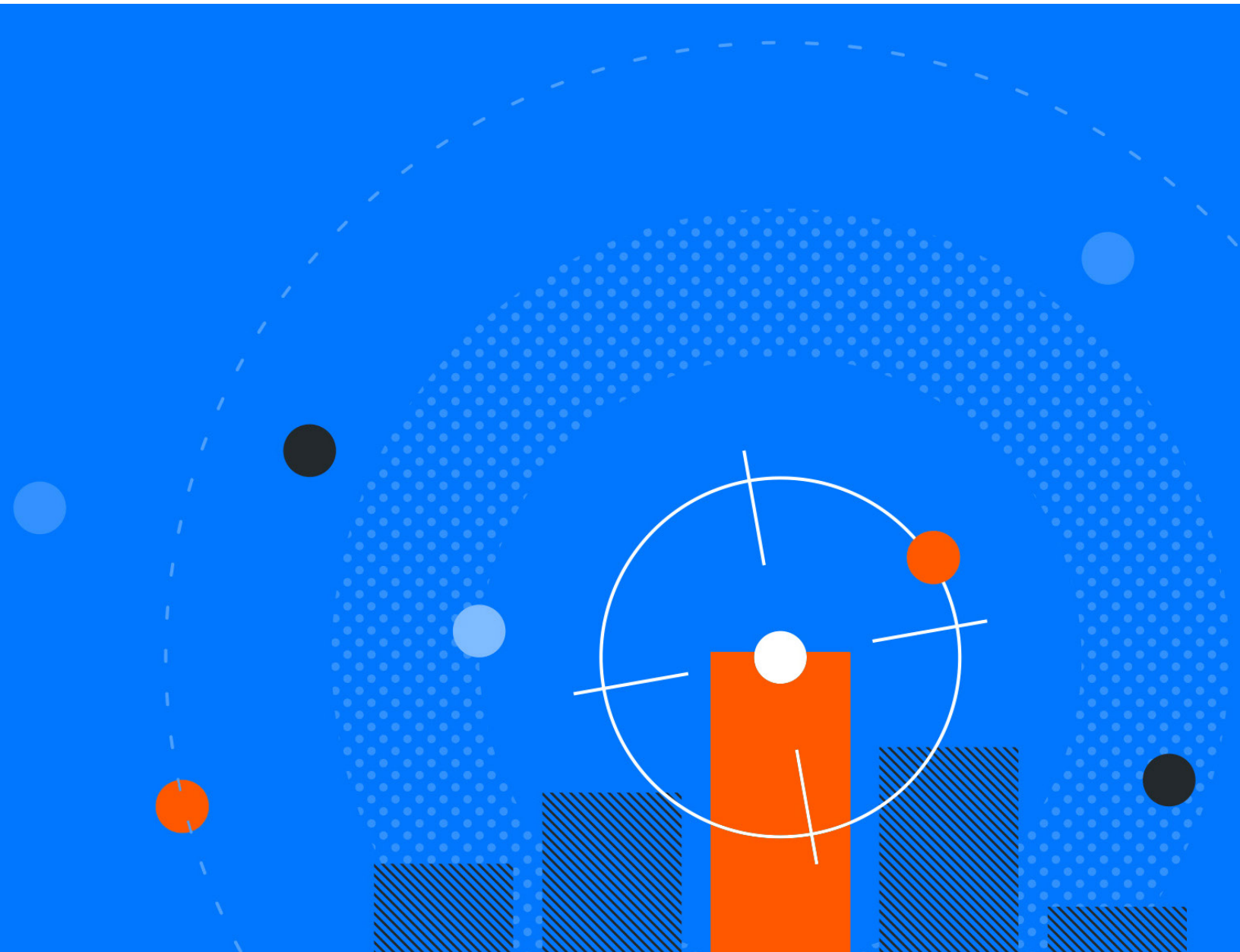
Enhance integrated business planning with external data



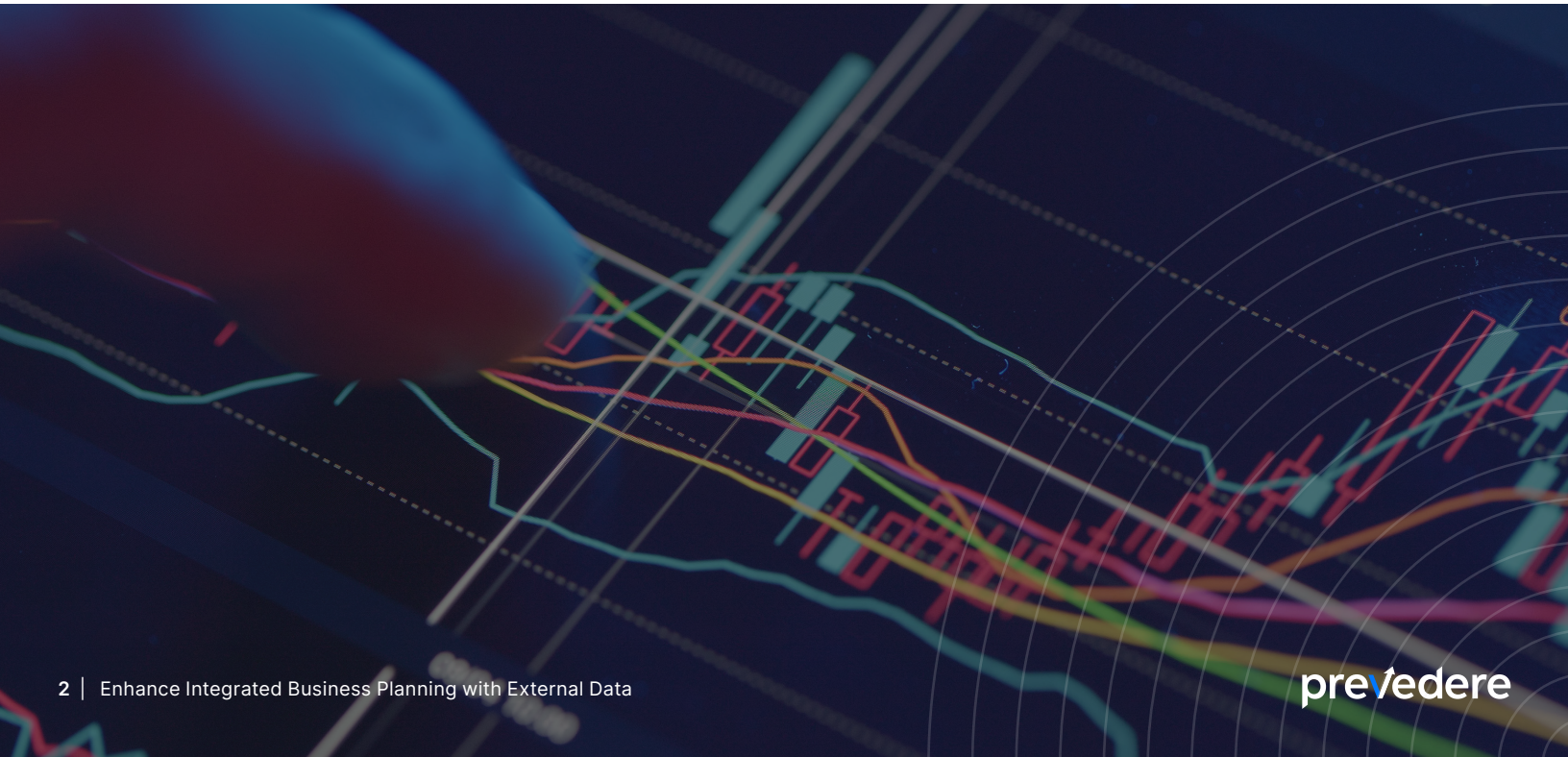
Enhancing integrated business planning during economic uncertainty

There are few activities in the corporate world that have been more challenging in the past few years than forecasting financial performance each quarter on behalf of an organization. With the added bonus that CFOs are responsible for reporting these numbers each quarter, it is also a very public process that only adds stress to the FP&A team for a process that is inherently stressful. Given the projections that market uncertainty will continue for the foreseeable future, there is no light at the end of the tunnel for alleviating this trend.

This has led to the prioritization for companies to improve the planning, budgeting, and forecasting (PBF) process by leveraging tools that provide intelligence, insights, and the ability for automation. As a result, many financial leaders have chosen to implement Integrated Business Planning (IBP) as a core process. IBP borrows the principles within Sales and Operations Planning (S&OP), which is commonly utilized within supply chain management, and applies them to every area of an organization to optimize the process of evaluation, strategy, and execution.

A bottom-up approach

But, there is still a significant challenge that FP&A teams face even when IBP has been appropriately implemented within a company. There is heavy reliance on the individual forecasts and plans that are delivered by each business unit and division. This bottom-up approach carries significant flaws that are typically inherent within large organizations, which add more challenges for the finance team within this process.



To start, the process of compiling, evaluating, and aligning the reports from each division can be a tedious task that can take considerable time and effort for FP&A professionals. While much of this process could be automated, there is still a need to understand the data, insights, and assumptions that contributed to each forecast.

Accounting for biases

When forecasts are developed in silos, biases and incorrect assumptions naturally make their way into reports. For instance, did a business unit only use past internal sales results to determine a forecast? Perhaps, external data from an out-dated industry report influenced the projected numbers. It's possible that hype for the upcoming launch of a new product created too much optimism. Or maybe there was just "a gut feeling."

The need to identify issues within each report makes it nearly impossible to fully automate the process. It also creates the arduous task for the FP&A team of needing to identify any biases. Yet, that necessary evaluation can seem like a cakewalk in comparison to the next step of bringing any findings back to the leaders of each division or business unit.

Enhancing the process

Not only does the bottom-up approach to forecasting add significant work for the finance team, but it can also leave them exposed to the pitfalls of collecting information from silos when they are responsible for reporting the forecasts and plans for the entire organization to the investment community.

Yet, despite the challenges that exist within this approach, FP&A teams can not simply turn the entire process on its head. It simply would not be practical, not to mention that it would most likely result in adding more work for the finance department and create new problems within the process. So, while wholesale change should not be advocated, there is a need to optimize the IBP process to mitigate the current risks and enhance alignment across the organization.

A collaborative approach

Solving this problem starts with implementing a collaborative approach to introducing forecasts within the IBP process. This can only happen if both the division leaders and the finance team have the opportunity to deliver their own versions at the onset of their planning. As a result, an environment in which "bottom-up" and "top-down" forecasts are taken into account during the evaluation and used to find the best outcomes for each area of a company and throughout the entire organization.

This means that the current division leaders would not have to entirely change their current processes of developing forecasts for their businesses. But, there are two changes that would be necessary:

1. **Greater defined parameters:** The financial team needs to create more defined parameters for the division leaders when developing their forecasts and plans. Examples of these parameters could be providing greater guidance for the data that can be used within the process or specific structure for ways that reports can be submitted to the finance team. This would create more

uniformity across the entire organization, which would limit bias, remove tedious work from the FP&A team and allow for increased automation.

2. **An unbiased baseline forecast:** The greatest change to the process would be the need for the finance team to create top-down or middle-out baseline forecasts that are applicable to each division or business unit. It would be necessary to develop these reports without diving into the nuances of each area of the business or becoming redundant with the forecasts already being developed by division leaders. As such, the goal of these reports are to serve as unbiased baselines, that incorporate external economic data and business drivers.

The FP&A unbiased baseline forecast

The next step is to create a streamlined process for the finance team to develop forecasts that give them the greatest confidence for presenting to business unit and division leaders, as well as their investors.

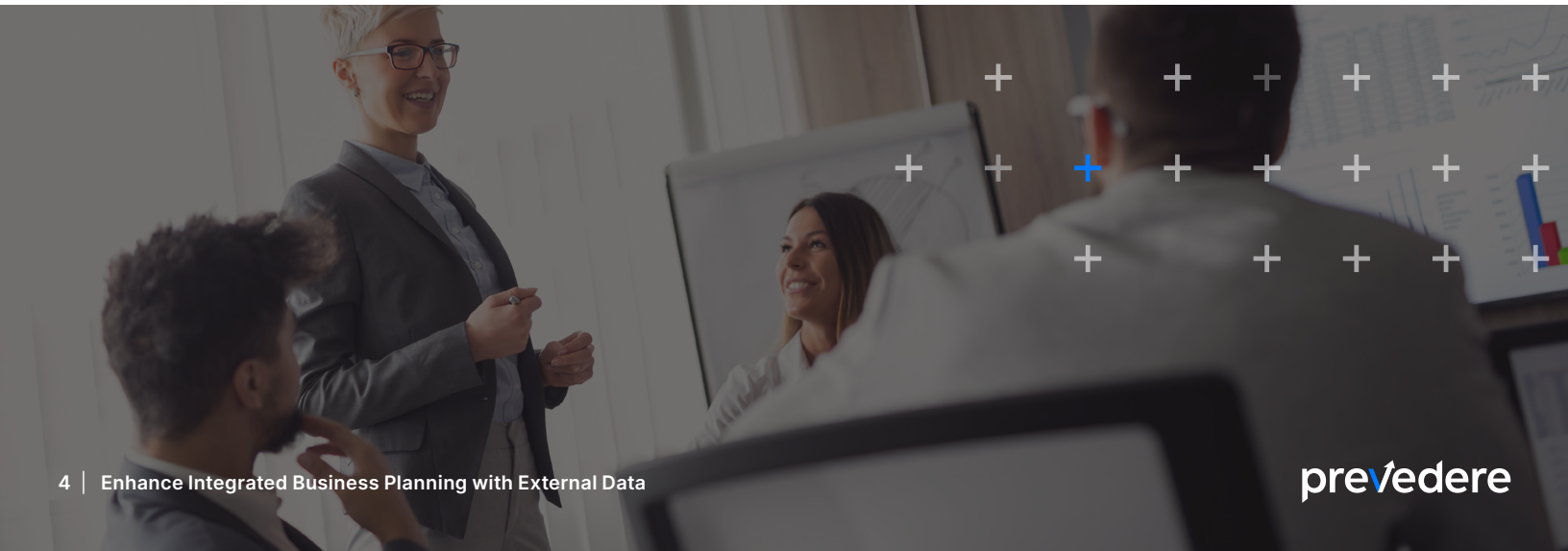
The key for FP&A teams to develop an accurate report that meets these needs is to create a forecast for their company that is based on macroeconomic and other external data and leverages the external indicators that serve as the greatest business drivers for their organization.

This report would create an unbiased baseline for the entire organization and serve as the benchmark for evaluating the forecasts and plans of individual business units and divisions. As a result, the FP&A team can provide data-based guidance when delivering feedback or revisions to business units. Additionally, significant deviations would serve as alerts that a forecast should be more thoroughly evaluated for errors or biases.

Implementing the process

The first step for implementing the process is for the FP&A team to know the leading economic indicators that serve as business drivers for their company. This intelligence serves as the core element for enhancing the forecasts that drive Integrated Business Planning.

From there, finance teams can start to introduce new parameters into the company's process and present the baseline forecasts that will allow for greater accuracy, even in times of economic volatility. Not only will FBP improve throughout the organization, but finance leaders will also have more confidence when presenting their forecasts to the street.



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