

Digitally Enabled Integrated Business Planning

By Erik Dorr and Nilly Essaides

Executive Summary

Digital technologies and the emergence of new business models have accelerated the pace of change in the business environment. More than ever, to survive, organizations must become more agile, i.e., able to rapidly respond to changes in business conditions. As a result, finance needs to both improve its own agility and develop processes that are critical to enterprise agility – specifically, integrated business planning. IBP is a departure from traditional planning approaches and links strategic, financial and operational planning to produce synchronized targets. Finance is often the architect and custodian of IBP. While integrated planning is not a new concept, cultural changes and emerging technologies are enabling more organizations to meld their planning processes.

About this research

This report is the result of a collaboration between The Hackett Group and Tata Consultancy Services (TCS). TCS is a professional services company headquartered in Mumbai, India. It operates in 46 countries with 400,000 employees and generated \$19 billion in revenue in 2018.

In these pages, we examine how finance leaders are transforming their functions in response to the demands of the ever-changing business climate and the need for real-time financial planning.

Improving customer experiences – through technological advancements and greater agility – is critical to success in the accelerated growth environment of the digital age; TCS refers to this emerging, customer-centric operating model as “Business 4.0.”

The Case for Agility

Digital transformation, enabled by disruptive technologies, is introducing new business models at a faster rate, reshaping the business landscape. The challenge for companies is to adapt to the pace of the digital world and transform internal processes to accommodate emerging customer demands and process-performance expectations.

Agility, that is, the ability to adjust internally to shifts in business conditions – is determined by an intricate set of internal processes, resources, information systems, data and other organizational capabilities, as shown on the right of Fig. 1 on the next page. The illustration also depicts the interdependency between finance and enterprise agility. Finance organizations that are not agile impede development of an enterprise-level capability. In the first section of this report, we analyze the characteristics of agile finance organizations. In the second section, we discuss how finance can enhance enterprise integrated business planning (IBP) capability, which is a critical for enterprise agility.

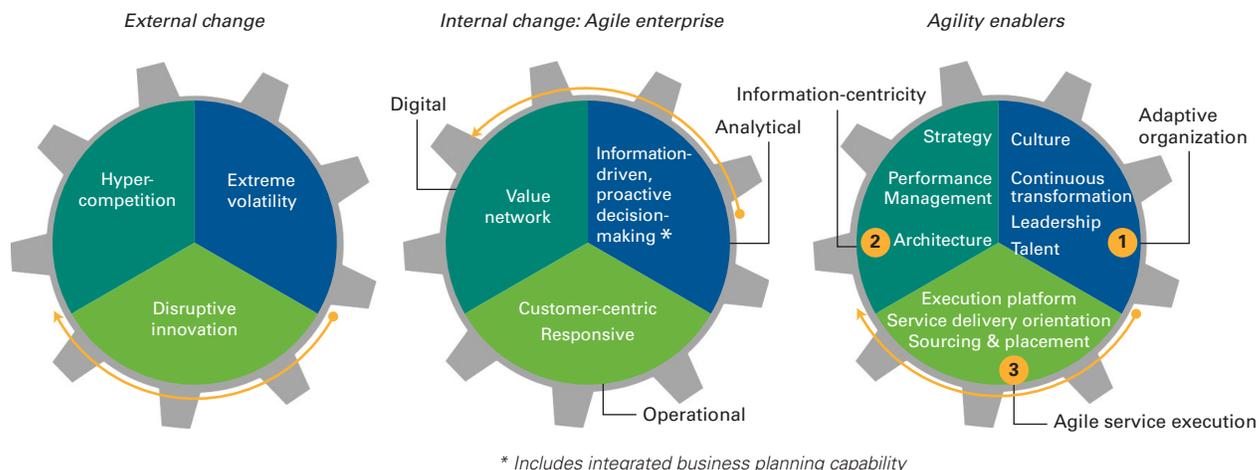
Characteristics of Finance Agility and Its Enabling Capabilities

A 2016 Hackett Group study found that finance agility manifests itself through three operational characteristics, which are in turn enabled by 10 capabilities. The high correlation between the operational characteristics and the enablers confirmed that finance organizations displaying high capability maturity of the enablers also had outstanding operational agility.

The three operational characteristics of finance agility are:

- Ability to make and implement important decisions quickly.
- Ability to respond rapidly to changes in business demands or priorities.
- Ability to maintain or even improve cost structure under volatile business conditions.

FIG. 1 Agility: Synchronizing rates of change



Source: The Hackett Group

Agile Finance and “Business 4.0”

TCS identifies agility among the leading enablers of Business 4.0. When applied in the finance context, it allows real-time financial planning, budgeting and forecasting.

By pairing agile planning with cost-management methodologies such as zero-based budgeting, CFOs can drive value through enhanced visibility and clearly measurable results. Leveraging new finance technologies, such as predictive analytics, agile finance organizations help enterprises to achieve higher throughput while maintaining financial governance and guiding investments to deliver business outcomes.

Development of these operational characteristics is enabled by:

- **Culture:** In most organizations, people’s innate resistance to change is the biggest impediment to agility. Agile organizations have established a culture that embraces change, views it as an opportunity and focuses on business outcomes.
- **Continuous transformation:** Agile organizations have mastered change management and integrated workstreams and projects via a dedicated transformation management office (TMO).
- **Leadership:** Agile organizations delegate decision-making authority, adopt a change-oriented mindset and take calculated risks.
- **Talent:** Agile organizations have flexible talent management and placement practices, which are tailored to needs of specific roles. They encourage continuous learning and development.
- **Execution platform:** Agile organizations are typically technology-intensive, have integrated transactional systems and embrace technology innovation.
- **Process placement and sourcing:** Agile organizations use global business services and centers of excellence to optimize service delivery and build scalable capacity.
- **Service delivery orientation:** Agile organizations design customer-centric processes by using design thinking and rely on global, end-to-end process ownership.
- **Information-driven strategy:** Agile organizations leverage adaptive, dynamic planning models that involve multiple scenarios and dimensions.
- **Performance management:** Agile organizations align their KPIs with business strategy and manage performance based on leading indicators.
- **Information architecture:** Agile organizations have more mature systems, data models and governance. They make broader use of advanced analytics by accessing enterprise-wide data to detect patterns and predict outcomes.

Four levels of integration

As organizations approach mature IBP, they go through four phases:

1. Disconnected

Finance and S&OP are entirely disjointed and operate with non-synchronized calendars. There is no exchange of information between finance and operations, nor are planning assumptions aligned. As a result, companies that run separate processes end up with inconsistent and unreconciled plans. Often, S&OP may not even translate their plan into financial terms. Consequently, demand and supply plans are disconnected from the financial plan.

2. Informal collaboration

Finance and S&OP planners loosely coordinate activities. Calendars are not fully aligned, but finance is aware of the S&OP calendar and S&OP process owners are familiar with the finance calendar. High-level planning guidelines, information and assumptions are exchanged and used as inputs or constraints in the two planning domains. Both groups incorporate knowledge of business initiatives and actions, but do so independently. Top-level, rolled-up outputs may be compared, but reconciliation is limited due to differences in the way the plans are constructed.

3. Reconciled

Finance and S&OP planning cycles are synchronized and formal. Finance schedules regular meetings to reconcile the plans. Escalation processes assign accountabilities for resolution of issues. Reconciliation may take place at various levels of planning detail, ranging from a SKU-location basis up to product-line detail. As a result of the reconciled process, achievement of sales and operational plans results in achievement of the financial plan.

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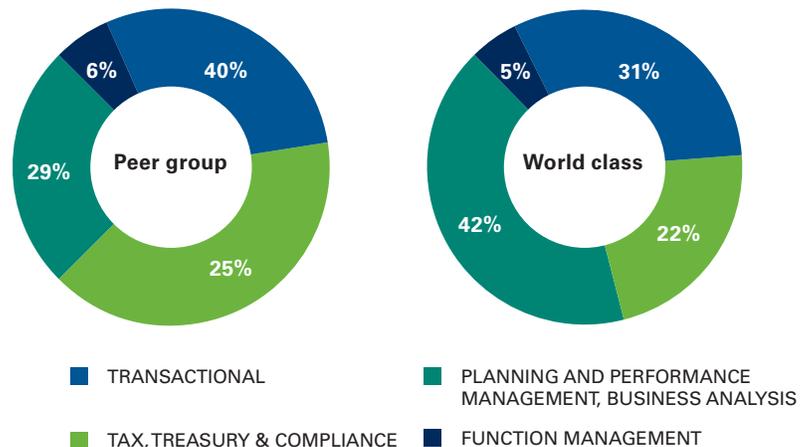
Agile Finance: The Four Imperatives

Agility cannot be purchased and installed like an app; it involves the evolution of capabilities over time and goes hand-in-hand with cultural change. The following four imperatives are at the heart of this continuous transformation.

Imperative #1: Eliminate non-value-added work

Our research indicates that world-class finance organizations are significantly more efficient when it comes to delivering transactional services.¹ They achieve a scalable cost model by standardizing and automating processes and by migrating activities into a GBS organization. As a result, they can eliminate non-value-added work and redeploy resources to handle knowledge-based activities such as planning and performance management (Fig. 2). Even world-class finance organizations have an opportunity to take out an additional 21% of cost in transactional processes through digital transformation.

FIG. 2 Finance process cost allocation



Source: The Hackett Group, 2018

Imperative #2: Upgrade finance talent

In study after study, we have documented that high-caliber talent is essential to successful digital transformation. This is not surprising, because designing, implementing and sustaining the transformation is ultimately the work of people.

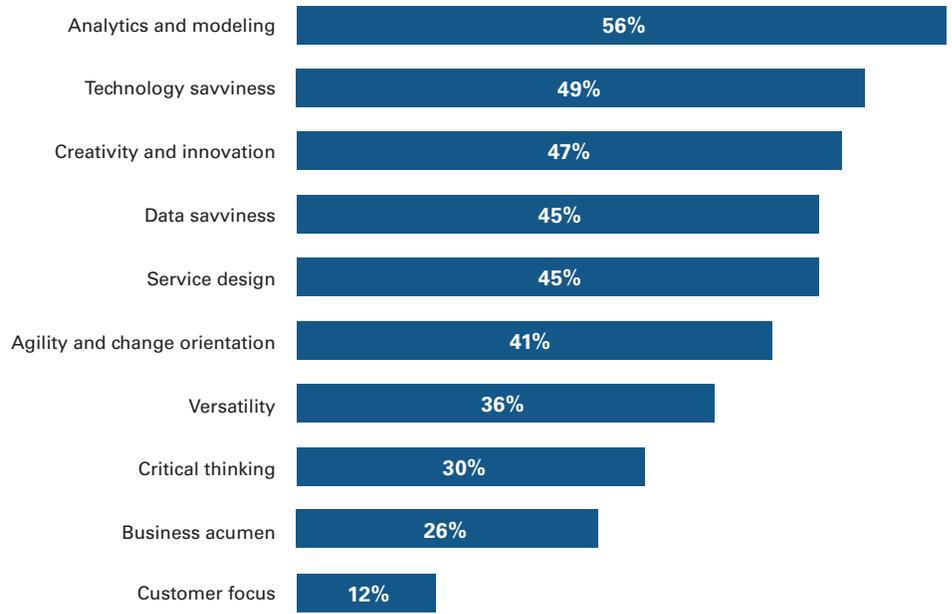
Finance has a long way to go in this regard. Our research uncovered wide gaps between the presence and need for a number of skills that are crucial in an agile finance organization, specifically in analytics and modeling, technology savviness and creative thinking (Fig. 3). Staff must be comfortable using new analytical tools, including AI-based solutions, to support knowledge-workers in decision-making processes. Further, they must be able to adapt to change, and they must possess the creativity required to rethink the design of the finance service delivery model.

¹ According to our taxonomy, revenue cycle, cash disbursements and general accounting comprise the three finance transactional processing groups. Each is in turn made up of a set of transactional processes, such as invoicing and intercompany accounting.

4. Integrated

Finance, S&OP, supply, demand and financial planning are all part of a single, integrated cycle based on a common data model, integrated toolsets, and a common set of goals and objectives. The finance, supply and demand plans are no longer inputs to a reconciliation process, but rather, outputs of an integrated planning process. Planning parameters are still unique to functional planning domains, but the impact of a parameter change in one domain (e.g., plant downtime in an operational plan, exchange rates in a finance plan) is directly reflected in the other domains. The insights developed through this integrated process enable the business to make informed decisions that maximize value, resulting in more productive allocation of resources and alignment of day-to-day commercial and operations activities that maximize customer and product profitability.

FIG. 3 Digital skills gap



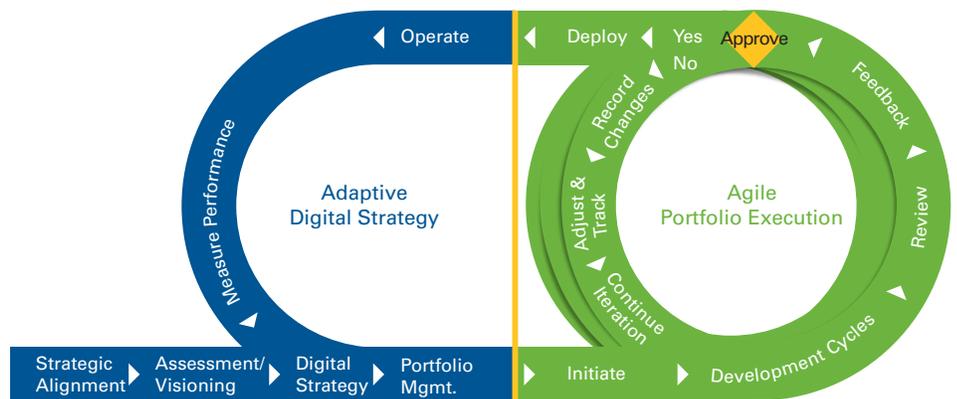
Source: Digital Skills Poll, The Hackett Group, 2018

Imperative # 3: Agile transformation

Traditional transformation methodologies are proving inadequate in a fast-changing digital world. Many finance organizations still execute transformation initiatives using the traditional waterfall approach, which involves development of functional specifications upfront, followed by solution design and development, and finally, large-scale rollouts. Instead, finance must embrace a new philosophy based on rapid process changes and solution development methodologies. The agile methodology, which is iterative and collaborative, has been shown to dramatically shorten transformation cycle times.

In practice, finance normally manages and executes a portfolio of agile transformation initiatives. The composition of this portfolio is the outcome of a portfolio management process, which prioritizes initiatives based on projected value contribution and resource constraints. Portfolio management is integral to the strategic planning process, as depicted at the left in Fig. 4.

FIG. 4 Agile transformation



Source: The Hackett Group, 2018

Because the initiatives in the agile portfolio provide feedback about results (i.e., impact on performance) much faster than under traditional transformation approaches, the digital transformation strategy itself becomes adaptive and dynamic.

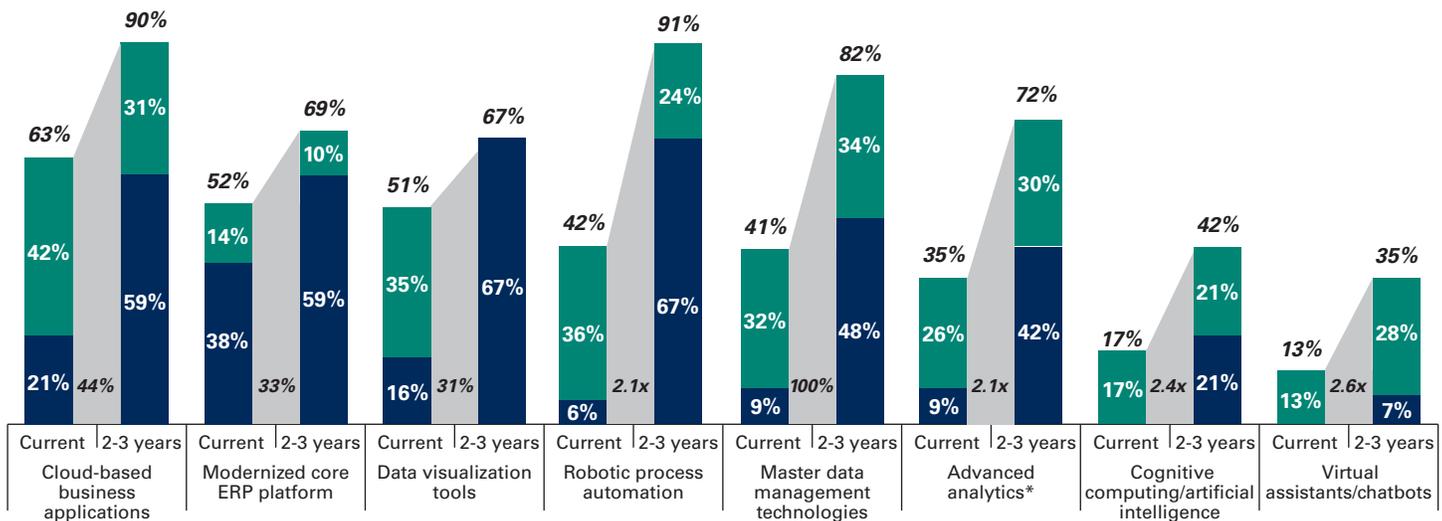
Imperative #4: Modernize technology and embrace innovation

Agile finance requires a complete redesign of traditional service delivery based on the new digital paradigm. To plan and execute this transformation, finance must modernize its legacy technology platforms and embrace innovations such as RPA and cognitive computing.

Our research has found that a high percentage of finance organizations are modernizing their ERP platforms (Fig. 5), which is also reflected in the rapid growth in adoption of cloud-based ERP. Further, finance organizations anticipate a dramatic increase in their adoption of a broad array of technologies.

Agile finance intersects with enterprise agility at the design and execution of IBP. Having an integrated, dynamic and responsive planning process is crucial to enabling companies to respond to changes in the business landscape. In the remainder of this report we address the enterprise IBP capability and finance’s role in it.

FIG. 5 Current and projected technology adoption in finance



*Including predictive modeling and big data analytics

Source: Key Issues Study, The Hackett Group, 2019

■ LIMITED ADOPTION
 ■ BROAD-BASED ADOPTION

Integrated Business Planning (IBP) and Business 4.0

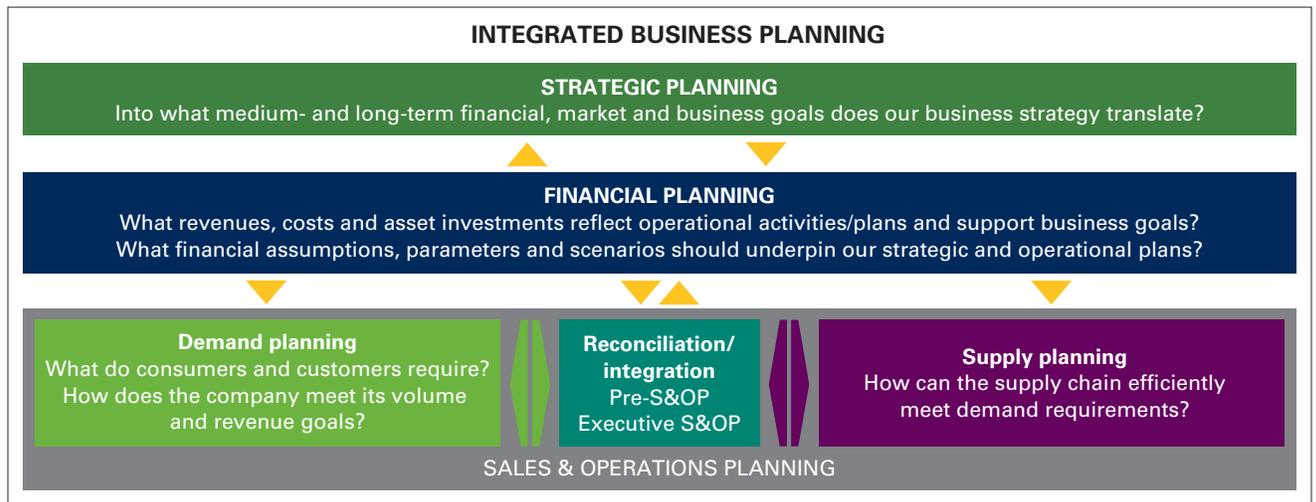
In the Business 4.0 landscape, CFOs create business value through digitally enabled integrated forecasting and budgeting, improving working-capital management and reducing enterprise cost.

Building an Agile Cross-Functional Planning Process

Running disparate planning processes reduces agility by impairing the ability to gauge and direct performance. Organizations that embrace IBP synchronize and align their operational, strategic and financial planning processes, set more informed targets, and make course-corrections when necessary. While mature IBP is still rare, the pressure to nimbly navigate the volatile business environment and the introduction of digital technologies make IBP a more urgent objective even as it becomes more realistic.

IBP is characterized by aligned planning processes and calendars, full integration of cross-functional data, and cross-functional and business collaboration. In many organizations, sales and operations planning (S&OP) has evolved separately from financial planning. IBP’s goal is to merge the two and produce a holistic plan that considers overall growth and profitability objectives (Fig. 6).

FIG. 6 Overview of integrated business planning



Source: The Hackett Group

IBP action items

- **Obtain senior management buy-in:** IBP is an enterprise-wide initiative that requires new forms of collaboration among different parts of the organization. It must be led by senior management, which should fully understand the relevance and value of the process and commit to executing IBP-driven decisions.
- **Just get started:** It's easy to delay the rollout of an initiative with such expansive consequences, or to wait until the organization adopts the "right" enabling technology. However, IBP is just as much about process and mindset as it is about systems. Even if spreadsheets still reign at the beginning of the integration process, there is much that companies can do to break down silos and synchronize planning processes. Holding off means losing time and opportunities for improvement.
- **Leverage and integrate existing meetings when possible:** An excessive number of meetings can overwhelm managers and make them less productive. Instead, take advantage of existing scheduled meetings and incorporate IBP into the

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The S&OP process has typically been driven by business units, whereas financial planning is handled by the finance function's financial planning and analysis (FP&A) organization, which leads annual and strategic planning, forecasting, performance management and business analysis. When a company decides to integrate the two, a question arises: Who should be the ultimate owner of IBP, finance or the business? There are advantages and disadvantages to each approach. One of the issues many companies face is that their S&OP teams are not adept at translating supply and demand plans into monetary terms due to a lack of understanding about the financial drivers of each service or product. On the other hand, finance leaders may lack operational expertise.

Executives also work under different planning horizons. S&OP runs on a monthly cadence, often with a short-term, quarter-end focus. In contrast, according to the results of our 2018 EPM Performance Study, top-performing FP&A organizations forecast quarterly and take a much longer-term, rolling view (i.e., beyond year-end). The two processes also rely on different data and metrics. However, IBP frequently becomes a finance charter, because FP&A is the center for analyzing corporate performance and has robust forecasting capabilities. To become an effective IBP leader, finance must not only expand its view, but also adjust its processes to align them with those of S&OP functions. In addition, it must translate operational metrics into financial ones.

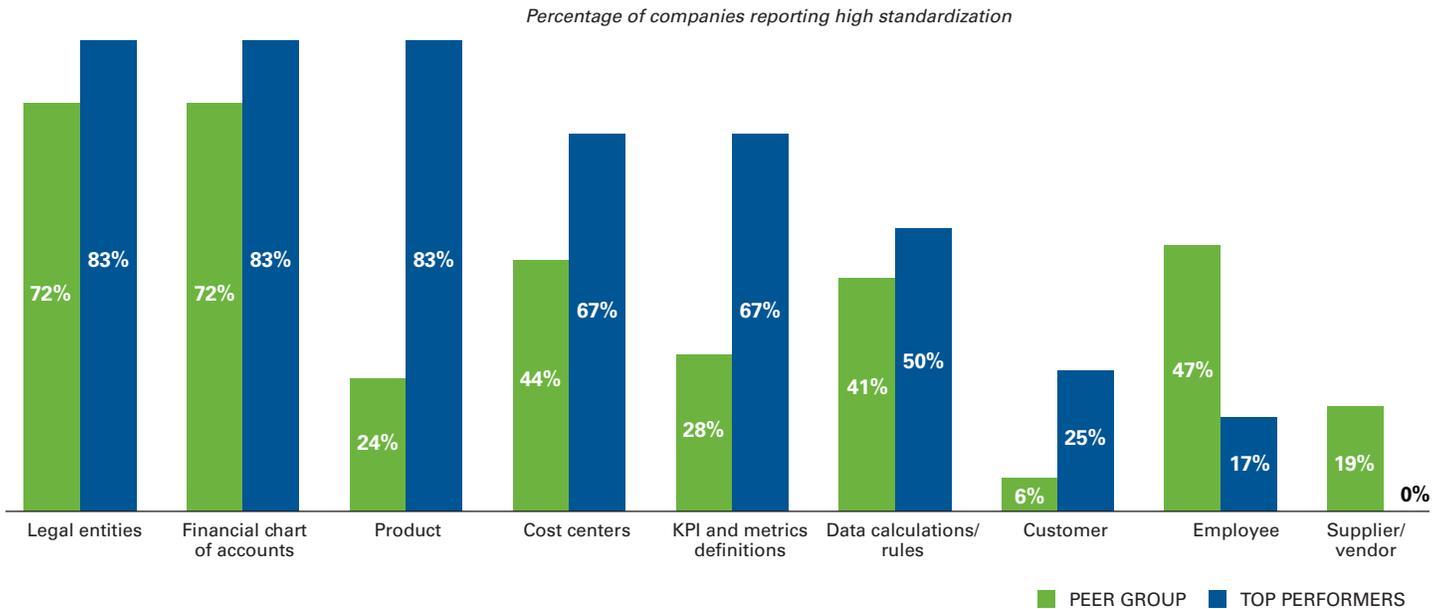
For many years, even companies with robust operational and financial planning capabilities muddled through IBP using a patchwork of spreadsheets and manual labor. Now, new supporting digital tools are emerging, which are not native in traditional ERP systems. Next-generation ERPs and dedicated planning and analytics solutions (often cloud-based) facilitate effective collaboration by breaking data silos to align demand, supply and financial targets.

Constructing a Common Platform for IBP

A fully integrated financial and operational planning process requires a common, integrated data model and application platform, with the same level of detail available for all stakeholders. While legacy ERPs do not possess this functionality, the next generation of ERPs will provide a foundation for system consolidation and standardized processes. Our 2018 ERP in the Cloud Poll revealed that companies believe migration to the cloud to be an important or even critical part of their overall transformation efforts. This is particularly relevant for organizations operating in a fragmented ERP environment. Migrating to the cloud can help them leapfrog years of system consolidation and costly and lengthy on-premises implementations.

Other contributors to the rapid maturation of IBP include the advent of new data management platforms and technologies, as well as the standardization of master data. Until recently, different parts of the company kept different sets of data in isolated source systems. Data definitions and KPI calculations were incongruent, and data management governance models were decentralized. New master data management (MDM) tools are helping companies overcome this problem. Top performers are 2.4 times more likely to have standardized the calculation of KPIs and metrics (Fig. 7). This step is essential for producing a plan that encompasses business and financial drivers.

FIG. 7 Standardization of data dimensionality, hierarchies and key master data



Source: EPM Performance Study, The Hackett Group, 2018

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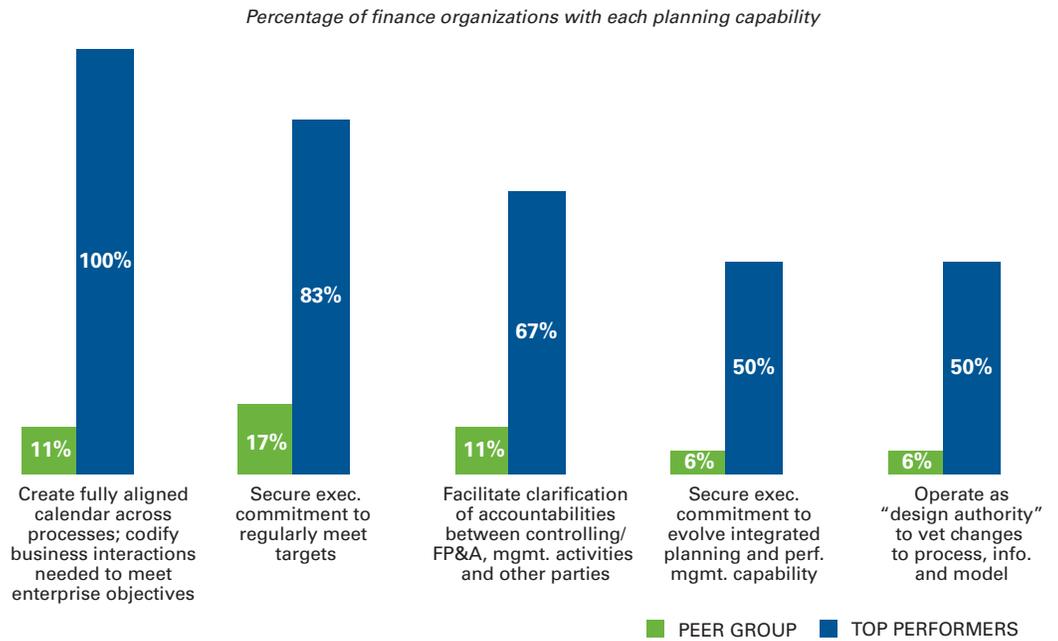
agenda, making it integral to day-to-day operations. If finance is leading the process, the shift will require a change in its process management. It must join S&OP monthly planning meetings if it is to be effective in driving decisions.

- Make synchronization the number-one objective:** The first step in establishing an IBP process is to synchronize existing planning efforts. That means aligning calendars and devising a common taxonomy to bridge the gap between S&OP and financial planning. Once the processes are aligned, IBP leaders can turn their attention to improving process quality and accuracy.

The growing adoption of modern data-management platforms enables companies to more easily create single repositories of real-time data. In the initial phases of data consolidation, many sought to implement a single data warehouse. But a fully consolidated data warehouse proved difficult, expensive and ultimately unattainable for most. IT needed to hard-code a customized interface for each source system, a task that is both expensive and time-consuming. Furthermore, if anything changed in the data structure of a source system, the entire interface had to be rebuilt. Today, digitally enabled organizations are implementing data architectures such as data lakes and data marts, which permit fluid collection of data from multiple internal and external sources.

The impact of such technologies is evident in the performance of FP&A organizations. Top performers are over nine times more likely to create a fully aligned calendar across all functions. They are also six times more likely to coordinate and facilitate the interaction with other parts of the enterprise. The gap is also evident in their role as the design authority for the integrated process (Fig. 8).

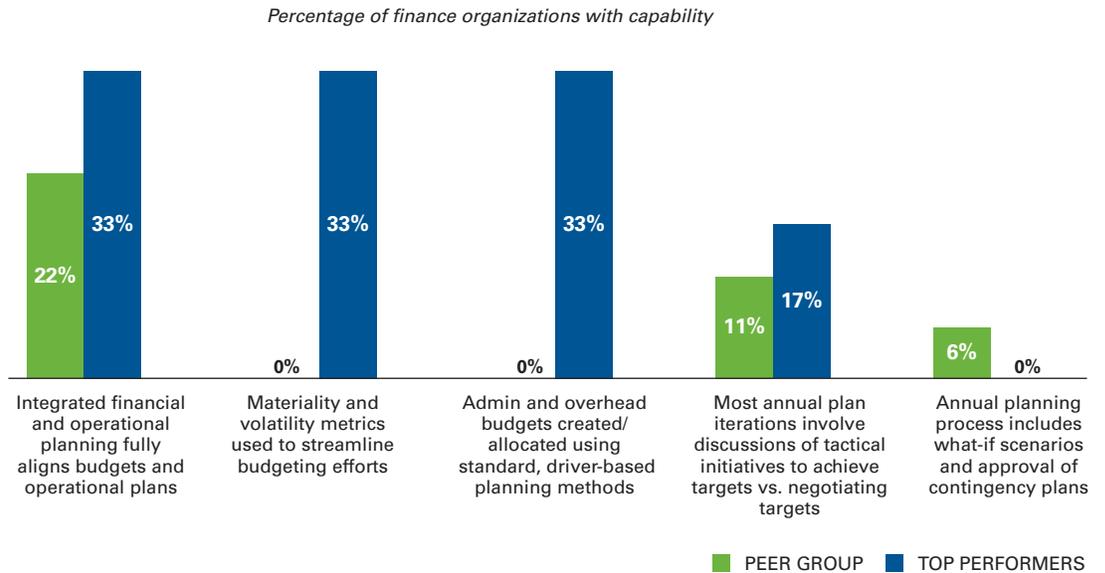
FIG. 8 Effectiveness of the IBP cycle



Source: EPM Performance Study, The Hackett Group, 2018

Top-performing FP&A organizations are improving the quality and efficiency of IBP by using materiality and volatility thresholds to create the plan. They include financial and operational KPIs and support the use of driver-based models, which rely on a reference value (the driver) to calculate and forecast performance (Fig. 9). For FP&A, driver-based modeling not only allows for more frequent forecasting but ensures that business drivers are core to the creation of the plan.

FIG. 9 Annual planning practices



Source: EPM Performance Study, The Hackett Group, 2018

Conclusion

Companies today face a multitude of risks. Business conditions are more volatile. Disruptive technologies are being introduced at a rapid pace, spurring new business models and intensifying competition. To respond quickly to changing conditions, organizations must become more agile. For this to happen, they must improve their planning capabilities so they can accomplish their goals, but be flexible enough to change course if necessary. IBP is instrumental in improving organizational agility by creating an adaptive enterprise-wide planning process that aligns operational, financial and strategic objectives and plans. The finance function plays a critical role in developing the enterprise IBP capability.

About the Advisors

Erik Dorr

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Mr. Dorr has over 20 years of experience in consulting, research and advisory roles in information technology strategy, enterprise application suites and business process reengineering. Before being named to his current position, he was Senior Enterprise Research Director. Prior to joining The Hackett Group, he held a number of senior management positions, including Vice President of IT at a global manufacturing company, where he was also a member of the executive leadership team.

Nilly Essaides

Senior Research Director, Finance Advisory Program



Ms. Essaides has over 25 years of experience researching, writing, and speaking about finance and treasury issues, with a focus on the way finance adds value to the enterprise through excellence in financial management and planning processes. Previously, she worked at the Association for Financial Professionals, where she led the FP&A practice. Ms. Essaides, a prolific blogger with thousands of LinkedIn followers, writes for external publications such as *Digitalist Magazine*. In addition, she co-authored a book about the internal transfer of best practices, *If Only We Knew What We Know* (Simon & Schuster, 1998).

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The Hackett Group has completed more than 15,000 benchmarking studies with major corporations and government agencies, including 97% of the Dow Jones Industrials, 89% of the Fortune 100, 87% of the DAX 30 and 59% of the FTSE 100. These studies drive its Best Practice Intelligence Center™ which includes the firm's benchmarking metrics, best practices repository and best practice configuration guides and process flows, which enable The Hackett Group's clients and partners to achieve world-class performance.



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