Timely Annual Planning Process – 10 Working Days Or Less!

By David Parmenter

Extract from "Pareto's 80/20 Rule for the Corporate Accountant" published by John Wiley & Sons Inc

Background

This sounds impossible yet it is achieved. It takes good organization and recognition that the annual planning process is not adding value, instead it is undermining an efficient allocation of resources, encouraging dysfunctional budget holder behaviour, negating the value of monthly variance reporting and consuming huge resources from the Board, senior management team, budget holders, their assistants and of course the finance team. When was the last time you were thanked for the annual planning process? At best you have a situation where budget holders have been antagonized, at worst budget holders who now flatly refuse to co-operate!

The future for your organization is quarterly rolling planning which is covered in section 3 in the book. However, it will take upwards of nine months to implement and your annual planning cycle may be just around the corner. This section will help develop the better practices that will be carried over into quarterly rolling planning and forecasting.

Sell The Change Through Emotional Drivers

It is important to sell to management why a quick annual plan is a good annual plan. This is not particularly difficult because I have yet to find a manager who enjoys the process or finds it rewarding and worthwhile. The difficulty is that while they will concur with the concept, getting them to change old and embedded bad practices requires a culture change.

To start the process off we need to sell the change using emotional drivers rather than selling by logic as already discussed in the introduction.

The following are some of the emotional drivers you would use to sell the need to streamline the annual planning process <u>to the SMT</u>:

- The monthly budgets from the annual plan create meaningless month-end reports (e.g., "it is a timing difference")
- Lost months! Lost weekends with family! producing the annual plan
- Huge cost associated with the annual plan-- estimate on the high side, as costs motive the SMT and the Board
- Time spent by the Board and SMT second guessing the next year--it is more efficient on a quarterly rolling basis
- It is a best practice to implement quarterly rolling forecasting and planning (e.g., 80% of major U.S. companies expect to be doing quarterly rolling forecasts, etc.)

The emotional drivers to create change in an annual planning process <u>within the finance team</u> include:

- In the weeks before the annual planning process commences are you already depressed about the evenings you will be spending at work and the family time you will be missing?
- Are you and your team held prisoner for three months by the annual planning process, which creates yardsticks that are out of date before the ink dries?
- Are you anxious about the reliability of the spreadsheets that are generating your budgets?

- Do your in-house clients get frustrated about your unavailability during the annual planning process?
- Are your dismayed at the lack of value the annual planning process adds?
- Are you frustrated with the same "it's a timing difference" commentary derived from the inappropriateness of the monthly budgets?

Exhibit 1.1 shows the key processes and who is involved in the ten working day annual planning process.

Bolt down your strategy beforehand

Leading organizations always have a strategic workshop out of town. The session is to look forward. Normally Board members will be involved as their strategic vision is a valuable asset. These retreats are run by an experienced external facilitator. The key strategic assumptions are thus set before the annual planning round starts, also the Board can set out what they are expecting to see.

Hold a briefing workshop

Never issue budget instructions for you already know they are never read. Follow the lesson of a leading accounting team who always hold a briefing workshop that should be compulsory to attend. With technology today you can also hold the workshop simultaneously as a webcast so budget holders in remote locations can attend albeit electronically. Attend a webcast on www.bettermangement.com to see what I mean.

Hold a 'budget preparation' workshop covering the way to complete the input form, explaining why BHs do not need to forecast monthly numbers, only quarterly, the three day window, the daily update to the CEO; the fact that late returns will be career limiting; stressing that the bigger items should have much more detail; and why you have automated some of the categories, the help they will receive and so forth.

Make sure at the workshop the CEO makes it clear that everybody has to cooperate to achieve a quick time frame. It would be most useful if the CEO states they will be monitoring compliance in the critical days and making it clear that "late forecasting" will be a career limiting activity.

Budget Committee To Sit In A "Lock-Up"

Most organizations have a budget committee comprising CEO, CFO and two general managers. You need to persuade this budget committee that a three day lock-up is more efficient than the current scenario.

During the lock-up each BH has a set time to:

- discuss their financial and non financial goals for the next year
- justify their annual plan forecast
- raise extra funding issues
- raise key issues e.g. the revenue forecast is contingent upon the release to market and commissioning of products X & Y

See Appendix 8 in the book for a checklist on "performing a quarterly rolling forecast". This will help with the quality assurance process.

Never Budget At Account Code Level – We Need To Apply Pareto's 80/20 Rule

As accountants we never needed to set budgets at account code level. We simply have done it because we did in the previous year. Do you need a budget at account code level if you have good trend analysis captured in the reporting tool? I think not. We therefore apply Pareto's 80/20 and establish a series of category headings which include a number of G/L codes.

Some rules to follow include:

- Limit the number of categories in a budget holder's (BH) budget to no more than twelve. Have a budget line if the category is over 20% of total e.g. show revenue line if revenue category is over 20% of the total revenue. If the category is between 10-20% look at it and make an assessment if separate disclosure is required; if under 10% consolidate with other categories.
- Map the G/L account codes to these categories – a planning tool can easily cope with this issue without the need for a revisit of the chart of accounts, see Exhibit 1.2 for an example of how to map these changes.

Accurate forecasting of personnel costs requires detail

Accurate forecasting of personnel costs requires analysis of all current staff (their end date if known, their salary, the likely salary review and or bonus), all new staff (their starting salary, their likely start date). See exhibit 1.3 as an example of the payroll worksheet BHs need.

Too many errors occur when BHs are simply given last month's payroll total to use as a basis for annual planning. By using this number you have multiplied the long service leave paid to Pat Carruthers last month by 12! At the same time not recognised that two staff positions were not included! Many of us have made this error!

Exhibit 1.1 Ten day annual planning process

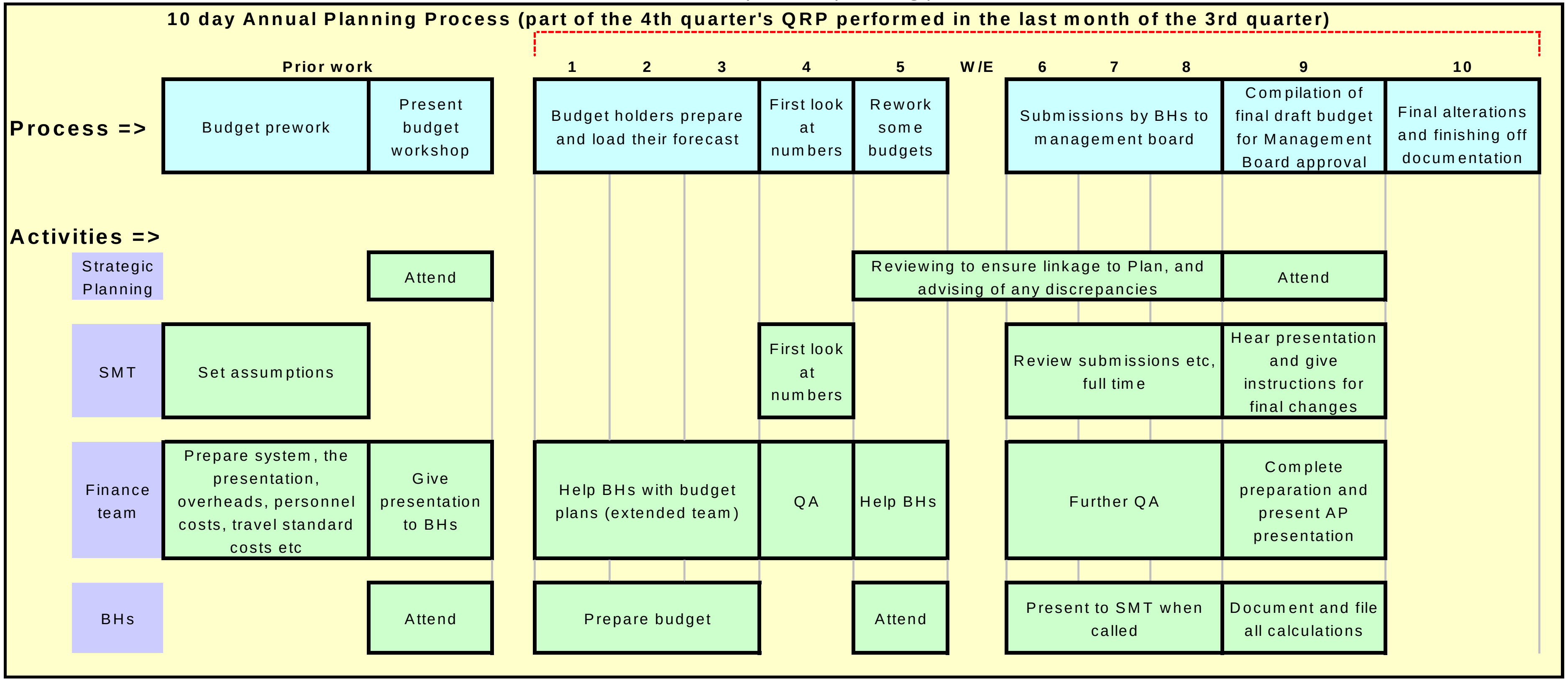


Exhibit 1.2 How Forecasting Model Consolidates Account Codes

Old detailed approach		Forecasting by categories		Notes
Stationery	4,556			
Uniforms	3,325			
Cleaning	1,245			
Miscellaneous	7,654			No detail required
Consumables	2,367			
Tea & coffee	2,134			
kitchen utensils	145			
	21,426	Consumables	21,400	
Salaries and wages	25,567,678	Salaries and wages	27,400,000	BH first calculates S&W to the nearest $100,000
Taxes	2,488,888	Taxes	2,900,000	Taxes are automatically calculated by model
Temporary staff	2,456,532	Other employment costs	4,200,000	This number is the balancing item
Contract workers	2,342,345			
Students	234,567			
	33,090,010	Employment costs	34,500,000	BH then estimates costs to the nearest half million

Exhibit 1.3 Example Of The Payroll Worksheet Budget Holders Need

Employee Name	Position Grade	Department	Std Annual Salary	Override Salery	Start Month	End Month
Jump, John	Junior	Sales team 1	35,000	40,000	Jun	
Hospt, Chris	Sales	Sales team 1	70,000			
Big, Terry	Sales	Sales team 1	68,000			Aug
etc		Sales team 1				

Automate Calculation Categories Where Trend Data Is the Best Predictor

A number of categories can be pre-populated as the BH will only look at past data and may even misinterpreted this data. Face it, you are best equipped to do this.

The obvious categories to populate are:

- Communication costs
- Accommodation costs
- Consumables
- Fleet costs
- Depreciation
- Miscellaneous costs

Accurate revenue forecasting will involve talking with the right people at your main customers

Many organizations liaise with customers to get demand forecasts only to find them as error prone as the forecasts done in-house. The reason is that you have asked the wrong people. You need to get permission to met with the staff who are responsible for ordering your products and services.

> One participant told me that they decided to contact their major customers to help with demand forecasting. Naturally, they were holding discussions with the major customers' HQ staff. On reflection they found it better but still error prone so they went back "how come these forecasts you supplied are so error prone". "If you want accurate numbers you needed to speak to the procurement managers for our projects" was the reply. "Can we speak to them?" "Of course, here are the contact details of the people you need to meet around the country". A series of meetings were then held around the country. They found that these managers could provide very accurate information and were even prepared to provide it in an electronic format. The sales forecast accuracy increase seven fold due to focusing on getting the demand right for the main customers.

The lesson to learn is when you want to forecast revenue more accurately by delving into your main customer's business, ask them **"who should we speak to in order to get a better understanding of your likely demand for our products in the next three months."**

Expand your annual planning team

Many budget holders will need one-to-one support. Yet I have shown in Exhibit 1.1 that we are to do this all in three working days. We thus need to expand the support team. Some suggestions to expand your team are:

- Get all qualified accountants involved, even those not working in the finance team. E.g. this involves the CFO too
- Ask the auditors to loan some auditor seniors from their local offices to cover those remote locations—the audit seniors will be grateful for being involved in an interesting task (those who have been auditor will know what I mean)
- Ask the auditors to loan some audit seniors who will forever thank you for being involved in an interesting task
- Bring in some temp staff with budget experience
- For smaller budget holders the senior accounts payable staff would be ideal

Thus all budget holders, wherever they are located, who need help can be supported during the three day window for data entry.

Avoid phasing the annual budget

Quarterly data for the next year is perfectly adequate. You want to have the ability to phase the monthly budgets closer to the event. This is explained in the quarterly rolling planning section.

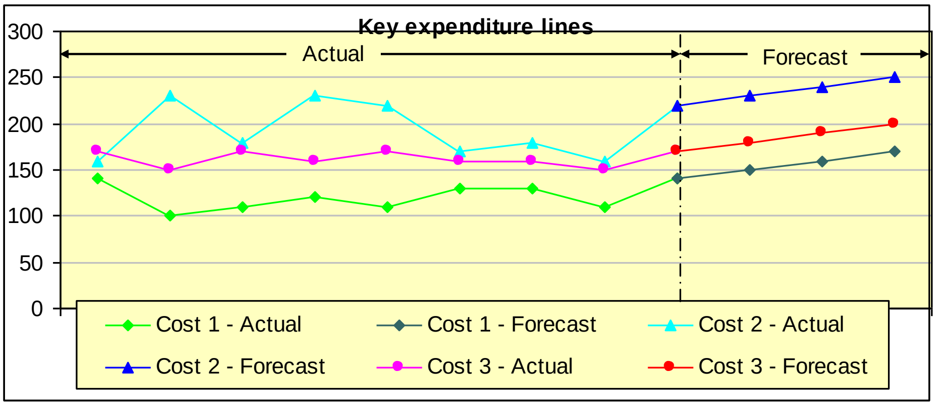
Provide automated calculations for travel

A key area of wasted time is the BH calculating the travel and accommodation costs. Set a simple calculator with standard costs e.g. BH enters that four people are going to Sydney for three nights. The model then calculates the airfares, accommodation, transfers and overnight allowances using standard estimates.

Have trend graphs for every category forecasted

Better quality can be achieved through analysis of the trends. There is no place to hide surplus funding when a BH has to explain why the forecast trend is so different from the past trend. The graph shown in exhibit 1.4, if made available for all the categories BH's are required to forecast, will increase forecast accuracy. BHs will want to ensure their forecasts make sense against the historic trend.

Exhibit 1.4 Forecast Expenditure Graph



If using Excel simplify the model to make it robust

Forecasting requires a good robust tool not a spreadsheet built by some innovative accountant that now no one can understand. However you may not have the time to replace the existing Excel model. A new planning tool will take at least six months for researching, acquiring and implementing for organizations over, say, 500 full-time equivalents. In this case you can:

- Improve the revenue predictions by focusing in on some major customers
- Budget at category rather than account code level
- Forecast the annual plan using quarterly figures, rather than monthly,(hiding two of the monthly columns for each quarter)
- Consolidating via the G/L instead of the spreadsheet (if you can add the category headings easily into the G/L)

Writer's biography

David Parmenter is the CEO of waymark solutions. David specialises in assisting organisations measure, report and improve performance. waymark helps organisations streamline their: month-end reporting and annual planning processes, implement quarterly rolling forecasts, adopt the principles of beyond budgeting, develop decision based reports, and adopt performance measures that will improve performance. He has had speaking engagements in 2007 in Wellington, Auckland, Christchurch, Sydney, Melbourne, Brisbane, Canberra, Adelaide, Perth, Kuala Lumpur, Dublin, Edinburgh and London.

John Wiley & Sons Inc have published two of his books in 2007 "Key performance indicators – developing, implementing and using winning KPIs" (January 07) and "Pareto's 80/20 Rule for the Corporate Accountant" (April 07).

David has an in-depth understanding of better practices of corporate accountants across all sectors. David has also worked for Ernst & Young, BP Oil Ltd, Arthur Andersen, and Price Waterhouse. David is a member of the Institute of Chartered Accountants of New Zealand and is a fellow of the Institute of Chartered Accountants of England and Wales.

He has written over 30 articles for the accounting and management Journals in Australia, Malaysia, Ireland, England and New Zealand. His articles published include: "quarterly rolling planning - removing the barriers to success", "Throw away the annual budget", "Maybe its time to look at your KPIs", "seven time wasters", and "quick month end reporting", "Beware corporate mergers", "Implementing a Balanced Scorecard in 16 weeks not 16 months", "Convert your monthly reporting to a management tool", "Smash through the performance barrier", "Is your board reporting process out of control?"

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