Re-engineering the planning system

Annual planning, as businesses use it today, is one of the greatest mistakes organisations have made since 1494, the year mathematician Luca Pacioli wrote about double-entry bookkeeping. In the second of our series of workshop guides, **David Parmenter** explains how to re-engineer the planning regime.

The first writers to put annual planning to the sword were Jeremy Hope and Robin Fraser in their classic book *Beyond Budgeting* and my thoughts have been greatly influenced by their work. The reasons why the annual planning process should be replaced are because it:
• takes too long and costs too much;
• leads to dysfunctional behaviour, building silos and barriers to success;
• undermines monthly reporting (monthly budgets are poor targets);
• is not designed for a dynamic company in a rapidly changing environment; and
• is an 'anti-lean' process.

I recommend that you access two articles in *Finance & Management* ('Ready or Not?' November 2014, 'How to get it approximately right, not precisely wrong', December 2014) where I have written about the importance of rolling planning and the foundation stones it should be built on. See an overview below.

The foundation stones

There are a number of forecasting and planning foundation stones that need to be laid down and never undermined. In addition just like when building a house you need to ensure that the construction of the forecasting and planning model is based on solid foundations. These foundation stones are:

1. Separation of targets from forecasts (telling management what they need to know rather than what they want to hear).
2. A bottom-up process performed quarterly rather than monthly.
3. Forecast past year-end (eg, six quarters ahead).
4. The monthly targets are set a quarter ahead from the rolling forecasting process.
5. The annual entitlement to spend is replaced with a quarter-by-quarter funding mechanism.
6. The annual plan becomes a by-product of the rolling forecast process
7. Forecasting at a detailed level does not lead to a better prediction of the future.
8. Forecasting and planning should be based around the main events/key drivers.
9. A fast light touch.
10. A forecasting and planning application should be used – not Excel.

In this guide, I cover how you can re-engineer a planning system in a series of workshops. The importance of the Toyota principle 'make decisions slowly by consensus, thoroughly considering all options and then implement the decisions rapidly' cannot be emphasized enough.

Focus group workshops are the key to obtaining, as Harvard professor John Kotter would say, a change coalition.

A focus group workshop needs to be run, see the Agenda in Figure 1. The workshop is important for a number of reasons:
• Such a project can have many pitfalls, and many have failed to deliver. The focus group and workshop can help assess whether this project has a chance and ascertain the hurdles and barriers.
• A wide ownership is required throughout the organisation, and a focus group can have a huge impact on achieving this ownership.
• The foundation stones of forecasting and planning must be understood and put in place early on in the project.
• A 'green light' from the focus team will sell the senior management team on the need to invest in this process.
• The focus group can give valuable input into how the implementation should best be done to maximize its impact.

In one case study in a fertiliser manufacturer, the planning team responsible for re-engineering the planning process held three-two week workshops. Yes, that is six weeks of workshops. This incredible up front investment ensured they had a clear understanding of the organisation's needs from the planning regime and the associated new planning modelling tool. They ensured there was a clear and agreed understanding of how the model should work, that every process in the model was using well thought out logic, and that, wherever possible, a 'helicopter' big picture view was retained. In the case study the eventual implementation was a business rather than finance team owned process due to the wide involvement in the workshop phases.

Figure 1 – The workshop agenda for a focus group looking at forecasting and planning

Location:

Date and time:

Suggested attendees: Budget committee, selection of business unit heads, all accountants involved in forecasting, and a selection of budget holders and their assistants. CEO and senior management team (SMT) to attend the first and last session.

Time	Description
8.30am	Welcome by CFO, a summary of progress to date at _____, an outline of the issues and establishment of the outcomes for the workshop.
8.40am	**Setting the scene:** Why annual planning is flawed and the rise of the 'Beyond Budgeting' movement, why quarterly rolling planning (QRP) can and should work at _____, benefits of QRP to the board, senior management team, finance team and budget holders. **Outline the modern forecasting practices used:** How the annual plan drops out of the quarterly rolling forecasting regime, the foundation stones of a forecasting process (see box, page 1), the major rules you need to apply to forecasting and planning, and how each subsequent forecast works. **Impact on resource allocation, reporting and modelling:** Budget holders no longer to receive an annual entitlement. The monthly budget now derived from a quarterly update performed just before the quarter starts. Forecasting & Planning now carried out in a planning application and not Excel. **The SMT would attend this session and can leave before the first workshop starts.**
9.40am	**Workshop 1:** Mechanics of a rolling forecasting workshop where separate teams look at the key components: • What issues are there with the proposed new forecasting foundations stones? • At what level will forecasts be prepared in order to have a 'fast light touch' forecast process? • The likely category headings to consolidate account codes into groups which represent no less than 10% of the total operating expenses. • The potential pitfalls with the suggested approach at _____.
10.15am	Morning break
10.30am	**Workshop 2:** Workshop on 'Post-it' re-engineering of the annual planning process. During the workshop we analyse the bottlenecks of the forecasting process. We also use 'Post-its' to schedule the steps. See instructions on page 3.
12.30pm	Lunch at venue
1.30pm	**Outline of the implementation steps needed to install a planning tool**
2.15pm	**Workshop 3:** To develop the implementation programme steps: • Select one or two of the pitfalls with the proposed approach (ascertained in workshop 1) and discuss how you could surmount them. • What would be your first three immediate steps to get the ball rolling?
2.45pm	Afternoon break
3pm	**Present the proposed reporting formats presentation**
3.20pm	**Each workgroup is to prepare a brief presentation on the way forward tackling the issue assigned to them. The issues include:** • The proposed planning regime foundation stones (discussed in workshop 1). • The proposed planning processes, as defined in workshop 2. • The suggested category headings for expenditure and revenue (from workshop 1). • Proposed report formats. • Next steps.
4.30pm	Presentation by each workgroup back to the group. **Suggested audience: to include the CEO and senior management team.**
5pm	Final words from the CFO and CEO.

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Workshop 2: Some tips on running a 'Post-it' re-engineering session
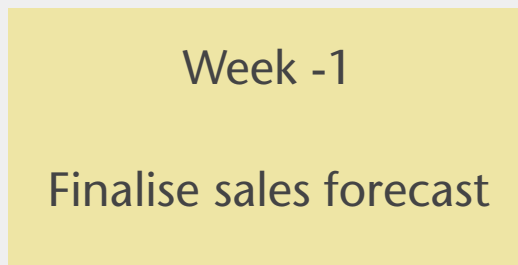
Stage 1 – Invitation

Having set the date, get the CEO on board and ask them to send out the invites. The finance team needs to send out instructions, a week or so prior to the workshop, outlining how each team is to prepare their post-it stickers, see Figure 2.

Figure 2: 'Post-it' Re-engineering instructions

You have been requested to attend a workshop on re-engineering forecasting processes. In order to do this we need you to prepare a list of all the processes you undertake, as a team, during each reforecast.

This process is quite simple, all it requires is:
• Each team to list all their processes on to the 'Post-it' stickers allocated to them prior to the workshop and document each process with a whiteboard marker pen as set out in the example below. It is important that these stickers can be read from a four to five metre distance.

> # Week -1
>
> # Finalise sales forecast

• One procedure/process per 'Post-it' (please note, every Excel spreadsheet is a process)
• State when it is done, the time scale is -2, -1 (week beginning xx), +1 (week beginning xx), +2, etc.

Set up a schedule to ensure all the main teams have a unique colour of 'Post-it' sticker, see Figure 3.

Figure 3: Allocation of 'Post-it' stickers to each team

Team	Post-it colour
Budget holders	Yellow
Payroll	Green
Budgeting and forecasting team in finance	Red
Sales forecast	Purple
Budget committee	Blue
G/L and reporting team in finance	Light yellow
CAPEX	Pink

Stage 2 – Standing up around the whiteboard

Assemble everyone to go through the agenda items starting with a introduction to best practice. When you get to the stage in the agenda for the 'Post-it' re-engineering you ask a representative of each team to place the 'Post-its' in time order under column headings week - 2, week - 1, week+1, week+2, and so forth on to a white board. When all the 'Post-its' are on the board it will look like Figure 4.

Then remove all desks, near the whiteboard, and ask all the staff present to come to the whiteboard. Ask the staff to stand in a semi circle, hopefully with the "height challenged" staff at the front. The standing-up is critical as it brings everybody in sight of the stickers, more importantly, as the meeting progresses ensures swifter, and swifter agreement as nobody will enjoy standing for over two hours.

Figure 4: 'Post-it' re-engineering example

Stage 3 – Missing processes

Then you ask, "What is still missing from the list?" There will always be a forgotten process. I probe until at least two additional processes are put on the board and I ask each person in turn to acknowledge that they are in agreement that the whiteboard represents all the processes.

Stage 4 – Removal of duplication

I then ask, 'What processes have two stickers when there should only be one?' (We want to remove any duplication). These stickers are removed from the whiteboard.

Stage 5 – Abandonment

We then ask, 'What processes do we not need to do anymore and therefore should abandon?' There is often a pause here as staff look bewildered. 'Why would we do something that was not required they all are thinking?'. At this stage I talk about Peter Drucker, the great management thinker's abandonment philosophy.

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removed, see Figure 5. The group vets each suggestion before the process is removed. Many steps will be unnecessary as they were only carried out because it was done last time. Each procedure that is removed is like finding gold because it means less work, fewer steps. After the first movie ticket handout, you will notice a greater focus from the attendees!

I recommend you spend up to two hours to ensure all the superfluous processes are removed.

Figure 5: Abandoning processes by removing the stickers

Stage 6 – Rescheduling activities

Reorganise the key processes and bottlenecks based on better practice (eg, the foundation stones and features of a forecasting and planning process) and now reschedule tasks that can be done earlier. You will find it hard to justify an annual planning process longer than two weeks.

Figure 6: Moving bottlenecks to the earliest time possible

With each rescheduling of a process it is important to seek consensus. Invariably some members of the team will believe the world will end if the cut-off is moved earlier. I simply question the logic and allow a dissenting group to have their objections noted. I then move the sticker to where the majority have agreed, see Figure 6.

After 45 minutes of the group standing, these disagreements will recede due to peer pressure.

Stage 7 – Spreading the load

Look at Week-1 steps as you may have too many. Move the non time critical ones between Week-2 and Week+1 to better spread the workload.
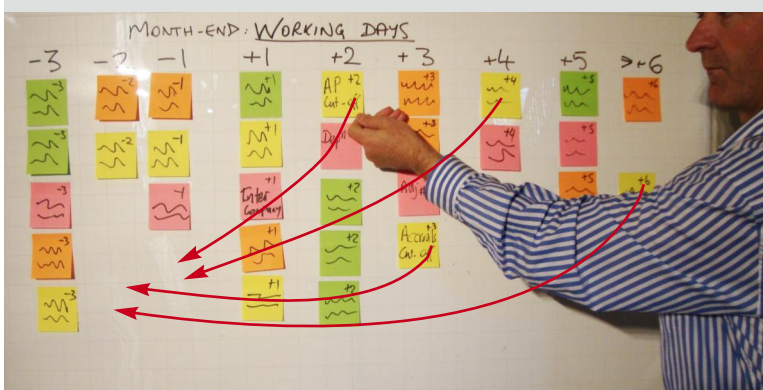
Document the 'Post-it' stickers on a spreadsheet. This is the only record you need. Any person, who for health reasons, cannot stand can be assigned this documentation process.

You will find it hard to justify a rolling forecast taking longer than any day +5!

Next steps

- Get a copy of my *Finance & Management* articles and circulate around the organisation as they might create some interest.
- Commence planning your re-engineering workshop
- Send me an email, parmenter@waymark.co.nz and I will send you the template of the workshop and a draft invite requesting oracles to attend.

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