

Why you need a planning tool and how to sell the concept to the senior management team

By David Parmenter



Introduction

Spreadsheets have no place in forecasting, budgeting and many other core financial routines. Spreadsheets were not designed for many of the tasks they are currently used to accomplish. In fact, I often remark in jest at workshops that many people, if they worked at NASA, would try to use Microsoft Excel for the US space program, and many would believe that it would be appropriate to do so.

A spreadsheet is a great tool for creating static graphs for a report or designing and testing a reporting template. It is not and never should have been a building block for your company's planning systems. The high level of errors in spreadsheets is the main reason why. A major accounting firm pointed out that there is a 90 percent chance of a logic error for every 150 rows in an Excel workbook.¹

Better alternatives are available. In this paper, you will learn how to get management to understand why an investment in a planning tool is essential. The paper will cover why you need a planning tool and:

- Making the planning tool sale to your senior management team
- Getting the green light from influential sages at your business
- Evaluating potential planning tools
- Selecting a planning tool

Why the need for a planning tool

A decade ago, the electronic spreadsheet was still state-of-the-art for the budgeting process and the only practical option for most midsize companies. However, what might have started as a simple budget model often grew into a spreadsheet that soon got out of control.

Moreover, considering the time and effort required to turn that mass of spreadsheets into a coherent budget, they should not have been considered "inexpensive."

With the introduction of dedicated planning tool software for all sizes of organizations, spreadsheets are not the optimal approach any longer.

Rule of 100

I believe you can build a forecasting model in a spreadsheet application and can keep it within 100 rows without much risk. Pass this threshold and you expose yourself, your finance team and the organization.

Forecasting requires a robust tool, not a spreadsheet that was built by an innovative accountant and that, now, no one can understand. I always ask in workshops, "Who has a massive spreadsheet written by someone else that you have to pray before you use it?" You can see the pain in the instant response. Most people know that the person who built the spreadsheet certainly was not trained in operational systems design. The workbook will be a collage of evolving logic that only the originator has a chance to understand. Often, the main hurdle is the finance team's reluctance to divorce itself from the spreadsheet program. It has been a long and comfortable marriage, albeit one that has limited the finance team's performance.

Career limiting

Acquiring a planning tool is the major step forward, and one that needs to be pursued, not only for your organization's future, but also for the future careers of the finance team. Soon, a career prerequisite is likely to be planning tool experience, and, conversely, being a spreadsheet guru is likely to be career limiting.

To those readers who believe a spreadsheet is still appropriate, I say to them, why not build your general ledger in a spreadsheet program and while you are at it, all your operations systems? Try explaining to the CEO that only one person knows how these systems work and he or she left four years ago. You might as well clear your desk now.

Common problems with spreadsheets

Senior management is often blissfully unaware of the risks they take every time they rely on information from large spreadsheets.

New CFO finds an error

A financial controller came to me with a great tale. He had just completed the annual budget that his team had been working on for many weeks long into the night and on weekends. Proudly, one Friday afternoon, he walked into the office of the recently appointed CFO and announced the first cut of the annual plan. The CFO spent five minutes looking at the plan and after quickly calculating some numbers said, "This annual plan is wrong; the numbers do not make sense."

The financial controller was taken aback, because he had made a special effort to conduct quality assurance on the numbers, and he had done comparisons to last year's plan, along with a few other things. He had wanted to make the best impression.

The CFO called him over to look at his brief calculation, "Pat, we know the planned sales have been signed off already, gross profit margin historically has been around x percent, overheads are roughly \$XX, and thus, I am expecting a number around \$XX- \$YY." The financial controller could only agree.

That weekend, the team poured over the spreadsheet, which was enormous and included the consolidation of many worksheets from many sources. Late on Sunday, they experienced a "eureka" moment. An error was found and rushed to the financial controller. As they processed the correction, they looked with disbelief because the new number was within the outline the CFO had suggested. "We have a pretty smart CFO; let's see how long this error has been around. Please look at the last two year's annual plan models," Pat requested.

As Pat recalled to me, with a wry smile, the error had been in the plans for the previous two years and had gone completely undetected.

Some of the common problems with spreadsheets are:

- *Broken links or formulas.* An individual might add or eliminate a row or column so that, when a group of spreadsheets is rolled up, the master spreadsheet is taking the wrong number from the one that was modified.
- *Consolidation errors.* Often, a spreadsheet will lock up or show a screen full of “REF”, “REF” “REF” errors, because it was not designed to be a tool for handling a rollup of dozens of different worksheets.
- *Input of the wrong numbers.* Entering the wrong number can happen in any process, but spreadsheet-based systems often require rekeying of information, which can produce data inconsistencies. A spreadsheet might use a look-up table that is out of date or an entry might have been inadvertently or mistakenly overwritten.
- *Incorrect formulas.* A subtotal might omit one or more rows, columns or both. An individual might overwrite a formula because they believe theirs is more accurate. Or, someone might use an outdated spreadsheet. Or, allocation models might not allocate 100 percent of the costs. Allocation methods might be inconsistent.
- *No proper version control.* Using an outdated version of a spreadsheet is very common.
- *Lack of robustness.* Confidence in the number a spreadsheet forecast churns out is not assured. Many times you cannot check all the formulas because they can be found in any cell of the spreadsheet.
- *Inability to accommodate changes to assumptions quickly.* What would you do if your CEO asked, “If we stopped production of computer printers, what would be the financial impact? I need the answer at the close of play today.” Your spreadsheets are not able to provide that quick answer.
- *Design is by accounting staff who are not programmers.* Most accounting staff have not been trained in system documentation and quality assurance, which you expect from a designer of a core company system.
- *Lack of corporate office control.* Many people in a business can use spreadsheets to create their own forecasts at a ridiculous level of detail. This can lead, as a friend once said to me, “To the march of a million spreadsheets.”

Making the planning tool sale to your senior management team

A finance team must make two sales. The first is selling the planning tool and the second is selling a move away from the annual planning process. In addition, the team must learn to sell differently.

Selling by emotional drivers

Rarely is anything sold by logic. Sales are made with emotional drivers. Many finance team initiatives fail because the team attempts to change the culture through selling by logic and issuing commands. It does not work. The planning tool project needs a public relations machine behind it. No presentation, email, memo or paper should go out unless it has been vetted with the help of a PR expert. All your presentations should be tailored to suit the emotional drivers of your different audiences and these should be tested in front of the PR expert.

I believe you could contract this service for less than four days of fees for the whole project and not regret it.

To understand selling by emotional drivers, consider how a secondhand car salesperson sells cars.

Selling by emotional drivers: How a car sale is made

Three customers on the same day arrive to look at the “car of the week” that has been featured in the local newspaper. The salesperson does not sell the car by logic (price, features, car reviews); instead, he or she tailors the approach to the buyer’s emotional drivers.

The first person is a young information technology guru from the Y generation with the latest designer gear, baggy trousers proudly showing the designer label on his boxer shorts. The salesperson first ascertains that this young professional has enough resources and with some probing finds out that he is a highly paid IT specialist. The salesperson is looking for signs of the potential buyer’s feelings and beliefs, such as clothing, the car that the prospect arrived in and more.

The sales pitch could be targeted on the performance and handling of the car and the prowess of the young professional’s driving skills. The opening line could be, “Have you had any experience driving powerful cars around a track?” “Great, you will need to have the skills of a racing driver to handle the 280 BHP, the twin turbo and the phenomenal cornering.” Sold.

The second person could be me, with my gray hair visible. The salesperson would say, “This car is the safest car on this car lot. It has a five-star rating for safety, eight air bags, enough power to get you out of trouble, unbelievable braking when you have to avoid the idiots on the road and a cornering capability that will keep you on your side of the road, no matter how you come into the corner.” Sold.

The third person, with Italian designer clothing and leather briefcase, such as a highly paid IT consultant, is asked to sit in the car. The focus is on the luxury. “This car has won many awards for its design. See the quality of the leather finish? It is Italian leather similar to your immaculate briefcase. You will notice that everything is in the right place. If you don’t mind me saying, Pat, you look a million dollars in your outfit and I can assure you that every time you drive this car you will feel like a million dollars.” Sold.

How would accountants sell the car? I often joke to accountants that they would be so busy, buried in a monster spreadsheet, that on sighting a customer, they would slump their shoulders in a resigned way while thinking, “This is the last thing I need.”

Walking up to the customer, they would remember that they needed to smile and appear welcoming. However, the frowns on their foreheads would give the game away. They would point out to the customer, “As you know, this car has been reduced by another \$5,000 and it is full of features as you would expect in this top of the line car. I have listed all the features on the window and have printed Jeremy Clarkson’s review: his only five star rating this year.” Handing over the keys, they would say, “Make yourself comfortable, start the car and if you are still interested, come over to my office and I will take you out for a test drive.”

I can assure you that selling by logic seldom works and is the prime reason why many initiatives put forward by the finance team fail.

The emotional drivers for a planning tool sale

Some of the emotional drivers to use in selling senior management on a planning tool acquisition include:

- “Spreadsheet solutions for forecasting involve many long evenings and weekends away from family and friends.”
- “Spreadsheet forecasts are expensive to run.” Provide an estimate of the huge costs (because costs motivate boards).
- “Spreadsheet forecasts are likely to be materially wrong and could possibly lead to legal action by investors because experts have already stated publicly that large spreadsheets, with more than 150 rows, are not appropriate for forecasting.”
- “Smart organizations have planning tools.”
- “In today’s world, working without a planning tool is like trying to operate without a general ledger application.”
- “A planning tool can improve decision making because it can be linked to main performance drivers. For example, the CEO can receive an answer in hours about the ramifications of pulling out a product line.”
- “A planning tool can improve the quality of reporting and often incorporates performance measures such as balanced scorecards.”

More information about making the planning tool sale can be found in Appendix 1.

Getting the green light from influential sages at your business

One important step in selling change is to get the people who matter, the sages, behind you before you sell to your senior management team. These sages are the individuals who, although often buried deep in the organization, almost everyone turns to for advice, to find out about the past and to get a dose of wisdom.

This focus group workshop should be a technique that your organization should use with any major change. The aim of the day is to get a collective understanding of the issues of the past, present the new solution and listen to the “wisdom of the crowd” as Gary Hamel suggests.² Then, in the final session of the workshop ask the attendees, “In your opinion is this project to move forecasting and planning to a planning tool a green, amber or red light?”

Naturally, you start off by asking the opinion of a couple of sages, who are already convinced to vote green before they attended the one-day workshop. To achieve this presale, you must act as you have been doing your campaigning for some time and by providing them with articles and papers and discussing the benefits over coffee.

This focus group workshop is particularly important for the following 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 organization, 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.

Evaluating potential planning tools

One sure way to bury yourself in detail is to put out a request for information. Every planning tool provider under the sun will send you brochures and then inundate you with follow-up phone calls. You have just become the newest hot sales prospect.

I have a better solution for you, and it involves the following actions:

- Contact your general ledger supplier and ask “Who is a very sophisticated user of this general ledger and who uses a planning tool?” Arrange to visit at least three who are using different planning tool applications and see how they have linked the two systems.
- Search the Internet for a planning tool that has a local support provider. The last thing you need is a team being flown in each week that stays at five-star hotels.
- Select between three to four providers who you are sure can deliver the solution and visit the different sites where they are using the preferred planning tool applications. You will gain further insight into the operations of the tools.

Many large accounting applications have a suite of tools. One of these tools will be a planning tool. Before you short list them, check out all the standalone planning tools that work with your general ledger, because:

- The planning tools packaged with general ledgers seldom are the best in their field.
- All planning applications can accept data from any general ledger.
- A planning tool independent from the general ledger provider might be a cheaper and better option.

Evaluating your forecasting system requirements

To prepare the system requirements, which the planning tool providers will need to understand, the planning tool in-house team should:

- Understand the foundation stones of implementing a planning tool, which I explain in a subsequent paper.³
- Access literature on the topic.⁴
- Visit some planning tool sites to better understand the better practices and the pitfalls to avoid.

You should not use the spreadsheet as a starting point because that can limit thinking and can also lead to the planning tool's failing to deliver to its potential.

Getting approval from your senior management team to scope the project and its costs

At this stage, a presentation is prepared for the senior management team. The focus of the presentation is:

- The current annual planning process “pain points”
- The status of the current spreadsheet application
- The focus group findings
- The recommended shortlist of the planning tool providers
- The likely costs

The goal is a recommendation to commence a request for proposal process.

Selecting a planning tool

Several steps are involved in selecting your planning tool.

Organizing a test of the best three planning tool applications

After you have reduced the number of planning tool providers to the best three applications, request from the providers that they demonstrate how their application can operate with your organization's key drivers. Agree to pay 2-3 days of consultancy fees to each provider and evaluate results. Paying the fees enables you to retain copies of the work. In reality, the providers will be putting in much more than 2-3 days of effort.

Getting the selection panel to see all three presentations

Nothing is more frustrating to a planning tool provider, who has worked hard on the proposal, than not to be given the courtesy of a fair hearing. Frequently, in proposal situations, one party is on the inside track, usually someone who might have already completed an assignment for the client. However, you should listen to the other proposals for the following reasons:

- You can gain insight into how the model can work.
- A particular planning tool might not have a good local support provider, and this should be counted against them.
- If the presentation is very complex, you might be dealing with a bunch of “rocket scientists,” as I call them, who see complexity in everything. This view is the last thing you need with a planning tool application.
- The ability of the planning tool provider to understand the foundation stones of the desired planning system is a key criterion.

Making the final selection

Everyone has their own ways of making the final selection and hence I leave this in your capable hands. To assist you, I have set out in Appendix 2 a checklist you can use when evaluating the short-listed planning tool providers.

Drafting the contract

Often too little time or mental horsepower is invested in the contracting process. To avoid pitfalls, you should:

- Ensure that the key consultants you have identified on the vendor’s team are contracted for a certain number of days because they are often over-committed.
- Write into the contract that the interim payments are tied to deliveries to keep everyone focused.
- Make sure it is clear in the contract that the building of the model will be done largely by in-house staff, who will be trained and mentored by the planning tool provider. The skilled in-house staff will always understand the issues of the organization better than any external consultant.

Conclusion

Spreadsheets with more than 100 rows have no future in a finance team that is on a journey from good to great. Not only are “monster” spreadsheets damaging to the organization because of error-prone forecasting, but they also come with a huge hidden cost to all concerned.

Never has there been a better time to migrate into the 21st century. Planning tool offerings are now numerous with many features that will make you wonder, “Why did we take so long to migrate?” In all my years of speaking engagements, I have never had one attendee put their hand up and say, “We are going back to our spreadsheets.”

If you follow the guidelines set forth in this paper, you are likely to select and gain approval for a planning tool that will have a profound impact on your organization. That legacy is likely to be remembered long after you have moved on.

Suggested next steps

- Read my other IBM paper, “How to implement a planning tool and get it right the first time,” and the books quoted in this paper.
- Prepare your presentation for selling the concept to your senior management team and board and then start selling.
- Organize the focus group workshop. If you email me, I can send you workshop templates to help get you started.
- Identify the advanced users of your general ledger and ask them which planning tool they are using.
- When you have shortlisted the planning tools visit organizations who have implemented them to see how they are being used.

About the Author

David Parmenter is an international presenter who is known for his thought-provoking and lively keynote addresses and workshops, which have led to substantial change in many organizations. Mr. Parmenter has worked for Ernst & Young; BP Oil, Ltd; Arthur Andersen; and Price Waterhouse. He is a fellow of the Institute of Chartered Accountants in England and Wales. He is the author of four books published by John Wiley & Sons, Inc., and has written more than 50 articles for accounting and management journals. Mr. Parmenter has won two “article of merit” awards from the International Federation of Accountants. He can be reached at parmenter@waymark.co.nz; website: www.DavidParmenter.com, Phone: +64 4 499 0007.

Appendix 1: Additional pointers for making the planning tool sale

I have already stated the importance of using a buyer’s emotional drivers to make a sale. Selling senior management on a planning tool also requires a good sales pitch, a certain amount of stealth in some cases and good stories.

The sales pitch

To create a successful sales pitch to your senior management team and the board, you should:

1. Make sure you have a good proposal with a sound focus on the emotional drivers that matter to your audience.
2. Focus on selling to the thought leaders on the senior management team and board before you present the proposal. This might take months of meeting informally, sending copies of appropriate articles, telling better practice stories and more to awaken interest. It is worth noting that the thought leader of the senior management team and board might not be the CEO or chairperson.
3. Read two books, *Presentation Zen* by Garr Reynolds and *Slide:ology* by Nancy Duarte, and adopt their practices.
4. Use Guy Kawasaki’s “10/20/30 rule” for a sales pitch presentation. Have ten slides, make sure it lasts no more than 20 minutes and ensure all content is no smaller than 30 pitch.⁵
5. Practice your delivery. The shorter the presentation, the more you need to practice. An important pitch to the board should be practiced more than 10 times.
6. Make sure you prime the thought leader to speak first, after you deliver your presentation. Your proposal now has the best possible chance for a positive vote.

Progress by stealth

Successful planning requires more than implementing the perfect planning tool. You must also replace the annual plan with a quarterly forecasting and planning regime, where the four updates are completed in less elapsed time than the existing annual planning process. However, to implement this change, “progress by stealth” might be the best way forward unless your CEO is leading the “beyond budgeting” charge.

What I mean by this is that you first justify purchasing the planning tool for a more accurate annual plan, better forecasting and for its month-end reporting capability. Then, when the forecasting system is running well, you start implementing some of the beyond budgeting techniques such as quarterly rolling funding. At a later stage, senior management might well want to remove the annual process completely.

Market success stories during the planning tool implementation

All successful project managers always have a few success stories up their sleeves so that they can mention them whenever they meet any members of the senior management team. The success stories during the project could include:

- Number of areas that have been simplified in the new forecasting process
- Number of KPI training sessions already completed (indicating the potential rate of change)
- Progress of the pilots (Peter Drucker recommended having three pilots when testing a system)
- Status of the planning tool appraisal
- New report formats implemented

Appendix 2: The selection planning application checklist

There is a column for each of the short listed suppliers.⁶

Ratings of applications against key requirements	_____	_____	_____	_____
Supplier has an agent who is local	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Understand beyond budgeting concepts and QRF techniques (you are not after a better budget process)	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Have built rolling 18 month forecasts	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Are skilled trainers	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Have they worked with your general ledger	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
The planning tool is easy to use	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
License costs are reasonable	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
The supplier's key consultants are available for this project	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Demonstration shows that they understand your requirements	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Good feedback from reference site #1	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>
Good feedback from reference site #2	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>



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- 1 Rickard Warnelid, “Reducing the Risk in Excel Risk Modeling,” CompAct, January 2011. www.soa.org/library/newsletters/compact/2011/january/com-2011-iss38.aspx, accessed 12 July 2013.
- 2 Hamel, Gary, with Bill Breen, “The Future of Management” Harvard Business Press, 2007
- 3 David Parmenter IBM paper “How to implement a planning tool and get it right first time”
- 4 I recommend the following literature as a starting point. Jeremy Hope and Robin Fraser, Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap, Harvard Business School Press, 2003; Jeremy Hope, “Planning and forecasting: Use continuous planning and rolling forecasts to support adaptive management,” IBM, 2009; David Parmenter, “How to implement a planning tool and get it right first time,” 2013.
- 5 www.youtube.com/watch?v=-M13SObfog
- 6 Download the template from my website: www.davidparmenter.com/ibmpapers



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