

Timely Annual Planning Process in Two Weeks or Less

by David Parmenter

Contents

1	Background.....	3
	Leaving a Legacy	3
	Getting the Balance of Work Right	3
	The Costs of a Draw out Annual Plan.....	4
	A Quick Annual Plan Is a Good Annual Plan	5
2	The Foundation Stones of an Annual Planning Process	6
	Separation of Targets from the Annual Plan	6
	Bolt Down Your Strategy Beforehand.....	7
	Avoid Monthly Phasing the Annual Budget.....	7
	The Annual Plan Does Not Give an Annual Entitlement to Spend.....	7
	Budget Committee Commits to a “lock-up”	8
	Budgeting at category level rather than account code level	8
	CEO Makes a Fast Timeframe Non Negotiable.....	10
	Built in a Planning Application – Not in Spreadsheets.....	12
3	Efficient Annual Planning Processes	15
	Hold a Focus Group Workshop to get the go ahead	15
	Some tips on running a ‘post-it’ re-engineering session	17
	Forecasting Demand by Major Customers by Major Products	18
	Pre-Work: On the Annual Planning Model.....	22
	Expand Your Team As Budget Holders Will Need One-To-One Support.....	24
	Hold a Briefing Workshop for all Budget Holders	24
4	Selling the Change to the SMT, Finance Team and Board	29
	The elevator speech	29
	The sales presentation	29
	Selling a Quick Annual Planning Process through the “Emotional Drivers”.....	30
5	Establishing the monthly budgets.....	33
	The quarterly process (based on a June year-end)	33
6	Budget Holders Reports	39
	The Redesigned Month-End Report.....	39
	Suggested Budget holder’s Annual Report.....	40
7	Writer’s biography.....	46
	Appendix 1 Useful Letters	47
	Appendix 2 Streamlining an Annual Planning Process Checklist.....	50
	Appendix 3 Examples of a Planning Tool.....	53
	Appendix 4 Suggested Sales Pitch to the Board	57
	Appendix 5 Delivering bulletproof PowerPoint presentations.....	62

1 Background

The annual planning process is part of the trifecta of lost opportunities for a corporate accountant. The other two being the year-end accounts and the monthly accounts processes. All three exercises keep the corporate accountant locked into processing and reporting leaving little time for added value activities. It is interesting to note that we seldom get thanked for preparing the annual accounts, for controlling the annual budget process or for preparing the month-end accounts.

A two week annual planning process 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. 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 (QRP) which is briefly covered in this paper and in detail in a whitepaper that can be acquired from my website. However, it will take upwards of nine months to implement QRP and your annual planning cycle may be just around the corner. All the methods suggested in this implementation will help develop the better practices that will be carried over into quarterly rolling planning and forecasting.

Leaving a Legacy

All corporate accountants need to leave a legacy before they move on, in other words have made a permanent improvement to the organization. Yet many corporate accountants are not producing enough added value to their organization, in other words they are failing to make a difference. I know this, from observation and my own personal experience. How many accountants, on leaving the organisation, receive an outpouring of loss from the senior management team and budget holders?

Most of us have done a good job as a processing machine, but little time has been invested in being a business partner to budget holders and senior management. The better practices discussed in this paper are based around the wisdom and better practices of over 4,000 accountants who I have met through my workshops in Ireland, UK, Scotland, Singapore, Malaysia, Australia and New Zealand.

Getting the Balance of Work Right

As exhibit 1.1 shows the change in focus should mean we are working smarter not harder. This change in workload will, over time, lead to the formation of a smaller but more experienced accounting team.

Exhibit 1.1 Getting the balance of work right

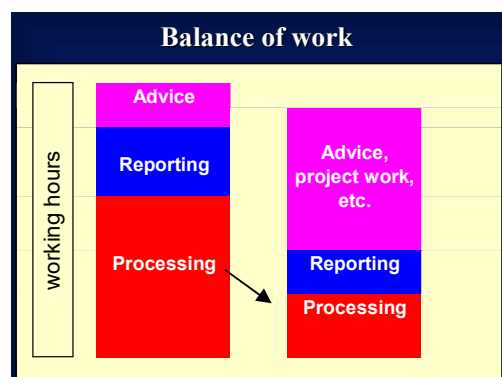
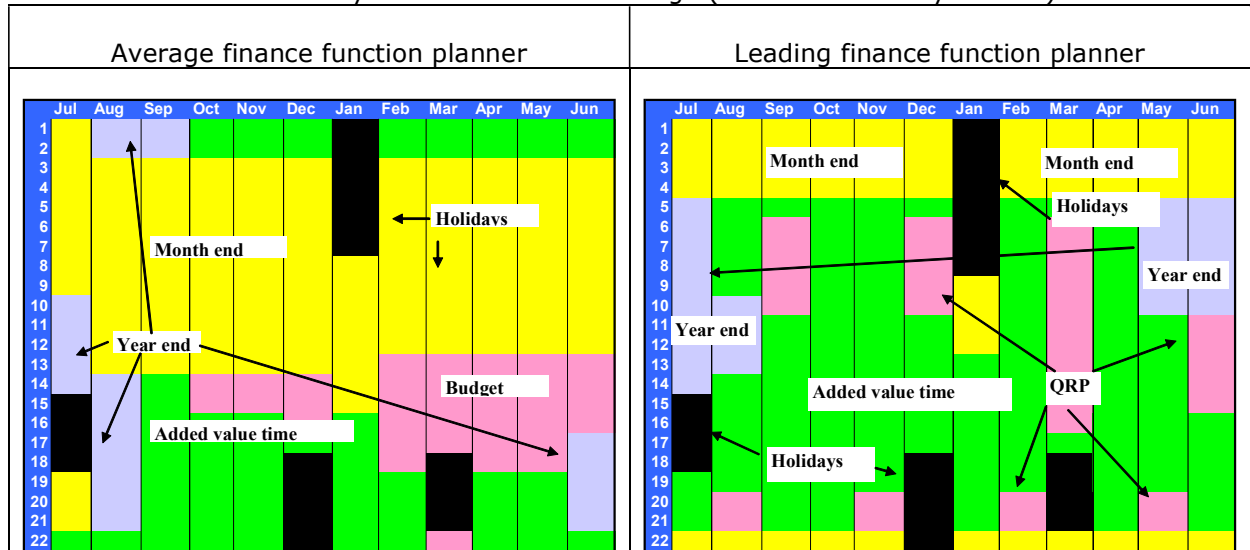


Exhibit 1.2 shows the impact of this shift away from processing into more service delivery work. The major change for the annual planning process is the breaking of it up into four quick cycles a year.

Exhibit 1.2 How the year's workload will change (based on a June year-end)



The Costs of a Draw out Annual Plan

The costs of a typical Annual Plan include:

- months where the management accountants are simply buried in the multi versions of the Annual Planning Model
- inefficient allocation of resources as sane budget holders become dysfunctional requesting funds they do not need
- all levels of management tied up in endless arguments discussing a period no one can predict
- little or no client management, by the finance team ,during this time and thus bad habits are picked up by budget holders

"It's no secret that annual budgeting processes are time consuming, add little value, and prevent managers from responding quickly to changes in today's business environment"

Quote from Jeremy Hope of Beyond Budgeting fameⁱ

In order to create a change in the way the SMT, Board and management address the annual planning process you need to establish what is the full cost of the annual planning process including all Board, management and staff time and all those external costs (audit fees, printing costs, PR and legal fees etc). Exhibit 1.3 shows how to calculate the costs of an annual planning process. The times are estimates and show what a 300 to 500 FTE public company may be investing in their annual plan preparation.

I base the costing on 42 productive weeks a year having removed holidays, training and sick leave. SMT's available time is only 32 weeks for the year as you have to take off the time they spend travelling and in meetings going nowhere quickly.

Exhibit 1.3 cost of the annual planning process

	General managers	Accounting & planning	Budget holders
Staff involved	4 to 6	3 to 5	50 to 70
	No.of weeks worked		
Budget process (incl rework)	4 to 6	10 to 25	100 to 140
Re-budget process (if done)	1 to 2	5 to 10	50 to 70
Reporting against budget	2 to 4	5 to 10	150 to 210
Re-forecasting Y/E result (>6 times a year)	1 to 2	3 to 5	100 to 140
No.of weeks worked	8 to 14	23 to 50	400 to 560
Personnel costs only	\$50-90k	\$45-95k	\$0.8m-1.1m
Total cost	\$0.9m to 1.3m		

A Quick Annual Plan Is a Good Annual Plan

A fast annual planning involves all business units within the group playing 'the same score'. On an international poll top performers are managing completion inside a month as shown in exhibit 1.4.

Exhibit 1.4 Speed of annual planning (Source: webcast poll)

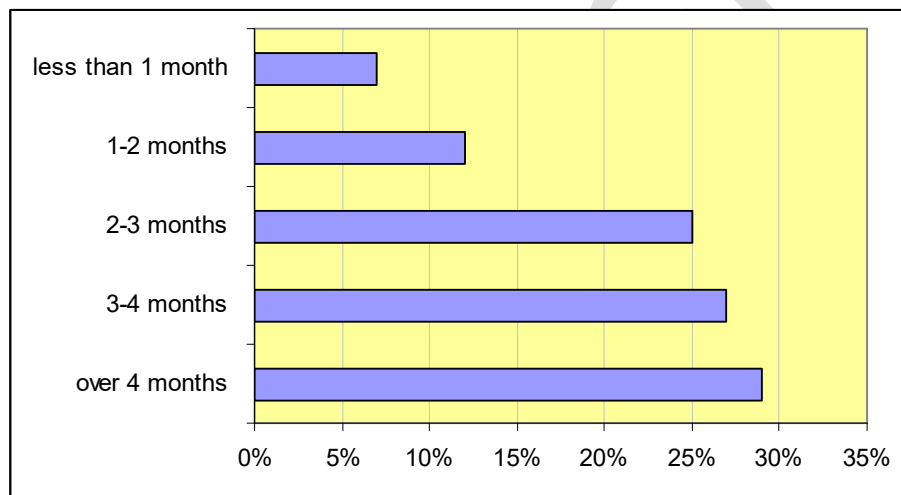


Exhibit 1.5 shows a rating scale for the timeframe to have the annual plan completed (time from date Budget holders given the input spreadsheets).

Exhibit 1.5 year-end reporting timeframes (from the year-end to signed annual report)

Exceptional	Outstanding	Above average	Average
Less than two weeks	2-3 weeks	3-5 weeks	6-8 weeks

2 The Foundation Stones of an Annual Planning Process

There are a number of foundation stones that need to be laid before we can commence a project on reducing the annual plan to two weeks.

- Separation of targets from the annual plan
- Bolt down your strategy beforehand
- Avoid monthly phasing the annual budget
- The annual plan does not give an annual entitlement to spend
- Budget committee commit to a "lock-up"
- Planning at a detailed level does not lead to a better prediction of the future
- CEO makes a fast timeframe non negotiable
- Built in a planning application – not in spreadsheets

Separation of Targets from the Annual Plan

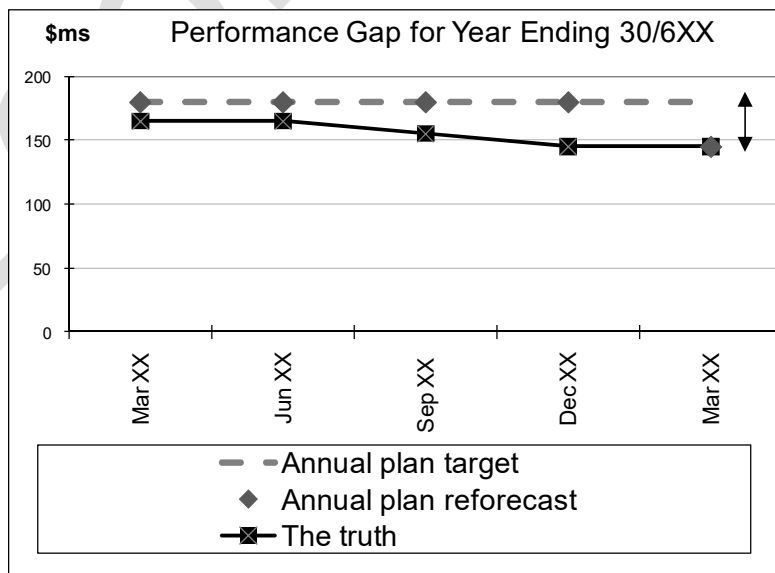
It is so important to tell management the truth rather than what they want to hear. Boards and the senior management team have often been confused between setting stretch targets and a planning process. Planning should always be related to reality. The Board may want a 20% growth in net profit, yet management may see that only 10% is achievable with existing capacity constraints.

The key is to remove any deliberate manipulation related to performance bonuses. In Chapter x on Designing Performance Bonus Schemes I point out that any performance bonuses should be paid on performance compared to the market rather than to an annual plan. We want management to be extracted from the annual charade of making a target easy so their bonus is secured.

By reporting a gap we are saying to the Board that based on expected customer demand, the existing products/ services and the relevant prices there is a shortfall. Please help us find the missing profit." The Board then might need to acquire some profit by purchasing a new subsidiary or bring forward the development of a new product, increase prices etc.

Exhibit 2.1 shows where management have forced the plan prepared in March to meet the target set by the Board. Each subsequent reforecast continues the charade until in the final quarter reforecast, performed in March the following year, the truth is revealed.

Exhibit 2.1: Reporting what the Board want to hear



Bolt Down Your Strategy Beforehand

Leading organizations always have a strategic workshop out of town. This session should be looked anticipated with a positive attitude. 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.

Avoid Monthly Phasing the Annual Budget

As accountants, we like things to balance. It is neat and tidy. Thus it appeared logical to break the annual plan down into 12 monthly breaks before the year started. Since we planned monthly it seemed logical that July's column was July's number. In reality, July's numbers represented November's actuals and November budget was closed to February's actuals. In other words whilst the twelve columns added up to a year that maybe proved to be a reasonable guess, the monthly splits are radically wrong. If you can get your monthly splits right, you are in the wrong job, as you should be making money out of your knack of seeing into the future.

In the annual plan we should only present quarterly indicative splits concealing the month columns. The monthly targets should be set a quarter ahead using a quarterly rolling forecasting process. This change has a major impact on reporting. We no longer will be reporting against a monthly budget that was set, in some cases, over 12 months before the period being reviewed.

If you get the monthly budgets approved in the annual planning process you will have created a reporting yardstick that undermines your value to the organization. Every month you will make management, all around the organization, write variance analysis that I could do just as well from my office. "It is a timing difference," "We were not expecting this to happen," "The market conditions have changed radically since the plan" and so forth.

The Annual Plan Does Not Give an Annual Entitlement to Spend

The annual plan should not create an entitlement, it should merely be an indication, the funding being based on a quarterly rolling basis, a quarter ahead each time.

Asking budget holders what they want and then, after many arguments, giving them an 'annual entitlement' to funding is the worse form of management we have ever presided over.

Organisations are recognising the folly of giving a budget holder the right to spend an annual sum, while at the same time saying if you get it wrong there will be no more money. By forcing budget holders to second-guess their needs in this inflexible regime you enforce a defensive behaviour, a stock piling mentality. In other words you guarantee dysfunctional behaviour from day one!

The nine year old's birthday cake

The annual planning process has a lot in common with the handling of a nine year old's birthday cake. A clever parent says to Johnny, here is the first slice, if you finish that slice, and are not going "green around the gills" and want more, I will give you a second slice. Instead, what we do in the annual planning process is divide the cake up and portion all of it to the budget holders. Like 9 year olds, budget holders lick the edges of their cake so even if they do not need all of it nobody else can have it. Why not, like the clever parent, give the manager what they need for the first three months, and then say "what do you need for the next three months" and so on. Each time we can apportion the amount that is appropriate for the conditions at that time.

The key is to fund budget holders on a rolling quarter-by-quarter basis. In this process the management asks, "Yes we know you need \$1m and we can fund it, but how much do you need in the next three months?" At first the budget holder will reply, "I need \$250,000 this quarter", to which is replied, "Pat, how is this? Your last five quarterly expenditures have ranged between \$180,000 and \$225,000". "Pat, you are two team members short and your recruiting is not yet underway, be realistic you will only need \$225,000 tops"

It will come as no surprise that when a budget holder is funded only three months ahead the funding estimates are much more precise and there is little or nowhere to hide those slush funds.

Budget Committee Commits to a "lock-up"

The better practice is to have a smaller committee I would suggest CEO, two GMs and CFO. This committee sits in a lock-up for up to a week. It is important to book, two years forward, in the diaries of the budgeting committee the key dates when they need to be in committee to interview budget holders.

You need to persuade this budget committee that a three day lock-up, whereby the committee sits for up to three days, is more efficient than the current scenario that stretches over months.

The role of the committee is to interview **all** budget holders about their annual plans for their team next year, including justifying their annual plan forecast, and the non financials e.g. staff succession, rotation.

During the three day lock-up each budget holder has a set time to:

- Discuss their financial and nonfinancial goals for the next year
- Justify their annual plan forecast
- Raise extra funding issues
- Raise key issues (e.g., the revenue forecast is contingent on the release to market and commissioning of products X and Y)

Budgeting at category level rather than account code level



you from the obvious

It is far better to budget at category level rather than account code level. A forecast is rarely right. Looking at detail does not help you see the future better. In fact, I would argue it screens you from the obvious. Planning at a detailed level does not lead to a better prediction of the future. A forecast is a view of the future, it will never, can never be right. As Harry Mills says it is better to be nearly right than precisely wrong". Looking at detail does not help you see the future better, in fact I would argue it screens

3 Efficient Annual Planning Processes

I will discuss the steps in the order in which they occur. See Appendix 2 for a checklist on “performing an efficient annual planning process”. This will help with the quality assurance process.

It is worth remembering the following:

- in the past we have given budget holder’s three weeks to produce their annual plan – yet they have done it all in the last day or so. They have proved to us it can be done quickly.
- if we apply the foundations stones described earlier you will have taken the politics out of annual planning – why would a budget holder spend a long time fighting for an annual plan allocation if you have told them it is not an “entitlement to spend”
- the only thing certain about an annual plan is that it is certainly wrong; it is either too soft or too hard for the operating conditions
- planning a full final year in detail, in the dynamic world we live in, has always been, at best, naïve, at worst, stupid

Hold a Focus Group Workshop to get the go ahead

A focus group needs to be formed. The workshop is important for a number of reasons:

- moving from 4 months to 2 weeks will have many doubters, we need to ensure all likely objections are covered in the Annual Planning workshop
- a “green light” from the focus team will help sell this concept to the SMT
- the focus group will give valuable input in how the implementation should best be done to maximize its impact

The proposed agenda for the focus group is set out in Exhibit 3.1. The suggested attendees would include: Budget committee, selection of business unit heads, all management accountants, and a selection of budget holders. You will need an event secretary to document agreements, two laptops, a data show projector and two white boards.

Exhibit 3.1 Focus group workshop agenda

Location: _____	
Date and Time: _____	
Pre work: Attendees to document forecasting procedures on post-it stickers. One procedure per post-it. Each team to have a different colour Post-it.	
8.30 A.M.	Welcome by CFO, a summary of progress to date at _____, an outline of the issues and establishing the outcome for the workshop.
8.40	Setting The Scene- topics covered include: <ul style="list-style-type: none"> • The default future,, the cost and the major flaws • The alternative – the proposed foundation stones, how a two process can work • The proposed new rules

9.40	Workshop 1: Analyzing the New Rules. Separate teams look at the proposed new rules, and comment on changes required.
10.15	Morning break.
10.30	Workshop 2: Workshop on "Post-it" Reengineering of the Annual Planning Process. During the workshop we analyze the bottlenecks of the forecasting process. In this workshop we use "post-its" to schedule the steps (e.g., yellow-budget holder activities, red-forecasting team activities, blue-Budget Committee activities).
12.00 P.M.	Feedback from work groups on both workshops and action plan agreed (document deadline date and who is responsible). Individuals will be encouraged to take responsibility for implementing the steps.
12.30	Lunch at venue.
1.30	Delivery the proposed "selling" presentation.
2.00	Workshop 3: Feedback on the presentation. Separate work groups look at different parts of the presentation.
3.00	The team presents reports to an invited audience on what changes they would like to implement and when. They can also raise any issues they still have. Suggested audience all those who attended the setting the scene morning session.
4.00	Wrap up of workshop.

Re-engineering can be a complex and expensive task or a relatively easy one, the choice is yours. Many organizations start off by bringing in consultants to process map the existing procedures. This is a futile exercise as why spend a lot of money documenting a process you are about to radically alter? When it is done only the consultants will understand the resulting data-flow diagrams!

Set out in Exhibits 3.2 and 3.3 are the instructions to run a post-it re-engineering workshop.

Exhibit 3.2: Post-it re-engineering instructions to be sent out to attendees a week prior to the workshop

You have been asked to attend a workshop on re-engineering the forecasting and annual planning processes. In order to do this we need you to prepare a list of all the processes you undertake as a team.

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 4 to 5 metres.

<h2>Weeks 4 to 5</h2>
<h1>Finalise Sales Forecast</h1>
<ul style="list-style-type: none">▪ One procedure/process per Post-it (please note, every Excel is a process)▪ State when it is done—time scale is week 1 commence planning, week 13 or so finalise plan.

Some tips on running a 'post-it' re-engineering session

Set up a schedule to ensure all the main teams have a unique colour of post-it e.g.

Budget holders	Yellow
Payroll	Green
Budgeting & Forecasting team in Finance	Red
Sales Forecast	Purple
Budget Committee	Blue
G/L & Reporting team in Finance	Light yellow
CAPEX	Pink
Production team	etc
Board	etc

In the workshop each team will place the "Post-its" in time order under column headings week 1, week 2, and so forth using a white board.

When all the post-its are on the board, see Exhibit 3.3, ask three questions: What is still missing from the list? What processes has been duplicated? Finally, what processes do we not need to do anymore?

4 Selling the Change to the SMT, Finance Team and Board

Finance teams around the world have wanted to embrace lean practices but are weary as many initiatives both inside the finance team and in other teams fail far too often.

Steve Saffron and Dave Logan in their book "*The Three Laws of Performance*"ⁱⁱⁱ have written a compelling book that explains why so many of these initiatives have failed. The first law is "**How people perform correlates to how situations occur to them.**" The writers point out that the organisation's "default future" which, we as individuals just know in our bones, will happen – will be made to happen. Thus in an organisation, with a systemic problem, the organisation's staff will be driven to make initiatives fail, so that the default future prevails. The key to change is to recreate, in the organisation's staff minds, a new vision of the future, let's call it an "invented future".

In 1996, John Kotter published "*Leading Change*"^{iv}, he had an eight-stage process for creating major change and I want to discuss each Kotter stage while at the same time, embedding Saffron and Logan's thinking.

Stage 1: Establish a Sense of Urgency –Here we need to appeal both to the intellectual and the emotional sides of the executive team. The process of getting the executive team on board requires first, a well prepared elevator pitch, a masterful sales presentation to obtain of permission to run a focus group to assess, validate and scope the proposed initiative (Kotter's stage two).

The elevator speech



The 20 second elevator speech is designed to capture the attention of the targeted decision maker. The term came about in management books describing how you need to be able to get a point across in an elevator ride, as sometimes this is the only chance you may have to get through to a decision maker.

It must be ready so that when you ambush the CEO you are well practised and ready. The aim is, as they walk away, that they ask you to come to their office in the next few days to discuss this further. An elevator interaction might go like this.

In answer to the question "How are you?" you might say.

"I am troubled". "Why is that?" being the natural response from the CEO. To which you reply, "I have just been looking at _____ and I have estimated that over the next 10 years we will be spending £__M and £__M on this if we do nothing. I have been researching a new approach, tried and tested elsewhere, which would save much of this cost. I just need 15 minutes of your time to explain this."

I recommend you practise your elevator speech at least 20 times so that it is focused and no longer than 20 seconds.

The sales presentation

Assuming we may now have got a certain level of interest we now have to prepare a presentation based around the emotional drivers of the audience that is aiming to get the SMT to agree to the next stage. As Kotter, said we need to create a sense of urgency and connect both intellectually and emotionally. This task requires training, practice and quality preparation.

This presentation is important to get right. You will not get a second chance. Thus one needs to embrace the rules set out in Appendix 5, including using Guy Kawasaki's 10/20/30 rule. Limit to 10 slides, last no more than 20 minutes and contain no font smaller than 30-point.

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Exhibit 6.3 Budget holders Annual plan summary report (version 2)

LOOK INSIDE

