In uncertain times, businesses need dynamic planning to chart course to high performance

Traditional planning gives way to "dynamic planning"

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Introduction

Amid the current global economic storm, agility has emerged more strongly than ever as an essential factor for survival and success. The global financial crisis and increasingly volatile economic environment have prompted business leaders to re-examine their business plans and execute frequent mid-course corrections.

Organizations are under intense pressure to make smart decisions quickly on allocating scarce resources. With the spotlight on improved planning, some companies may be considering the practice of "rolling forecasting." However, this method calls for a comprehensive approach that, for large global organizations, has proven to be cumbersome and impractical. A time-consuming implementation may prevent senior leadership from making the rapid adjustments necessary to respond to changes in the economic landscape or to competitors' moves.

Instead, Accenture believes many businesses would benefit from event-driven dynamic planning. While external events cannot be controlled, how quickly an organization **becomes aware** of change and **responds** to it are key capabilities for managing performance across an organization. Our most recent research on the importance of strategic decision making in uncertain times builds on the results of Accenture's High Performance Business research initiative, the ongoing research on the drivers of high-performance businesses. A key finding highlights the ability of high-performance businesses to balance insight and action. By providing a framework, tools and processes, Accenture's approach to dynamic planning allows companies to develop high-level models that can prompt rapid course corrections on the journey to high performance.

Rolling forecasting: myth versus reality

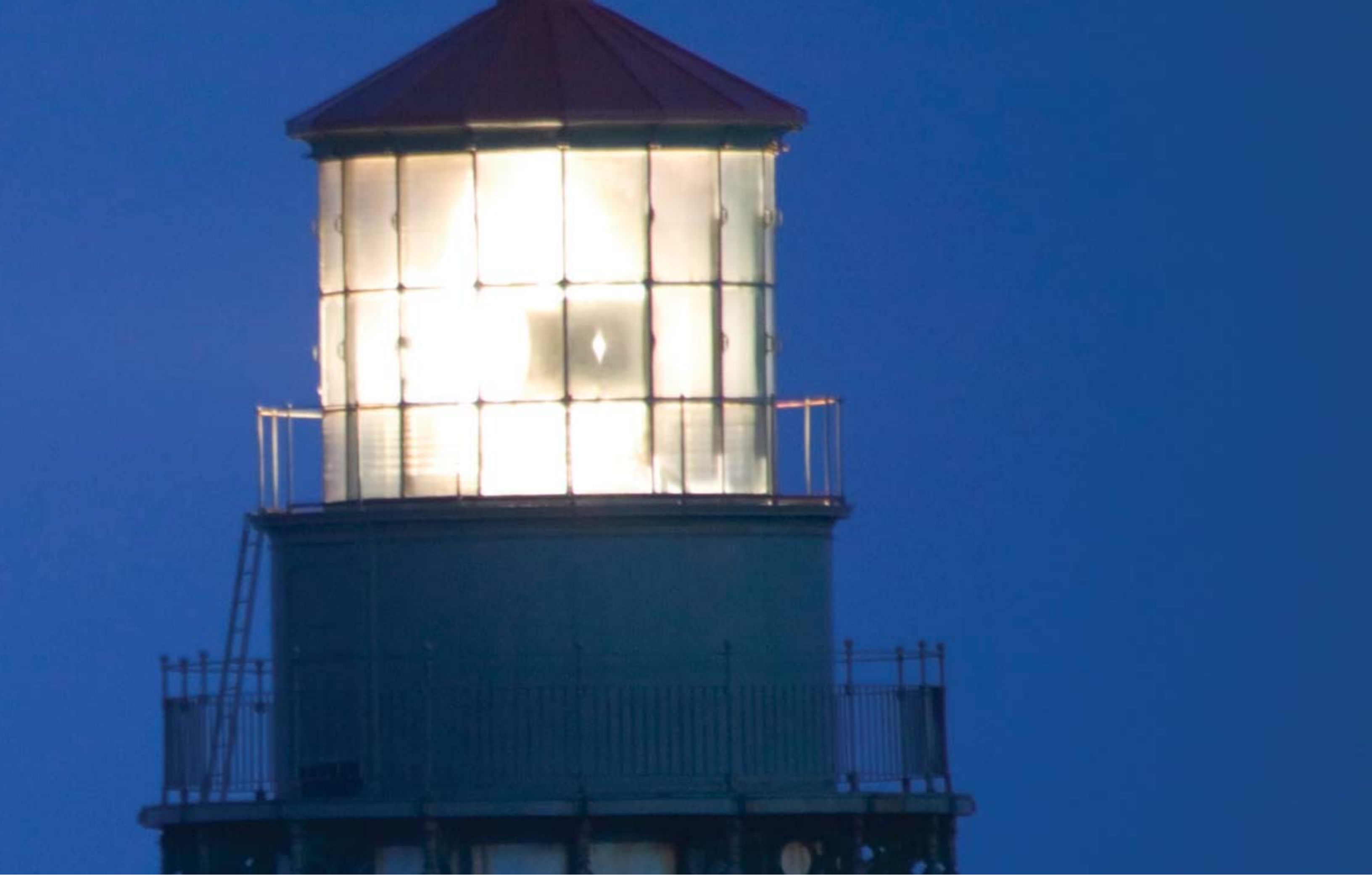
Some companies take up to nine months to finalize an annual budget—a risky proposition in an environment where events and conditions can change on a weekly, or even daily, basis. The traditional budget cycle would typically be a time consuming, detailed activity, largely focused on financials and resulting in a plan that is quickly out of date and superseded by new developments in the market. Organizations competing in today's global and dynamic business environment may find it difficult to survive with sluggish planning processes. Such organizations could end up missing opportunities, allowing faster-moving competitors to take advantage.

During the past several years, rolling forecasting has been a popular planning model that many finance executives continue to view as a best practice. However, Accenture experience shows that moving from the theory to practice is difficult, especially for large global organizations.

While organizations clearly need effective planning processes that allow them to reallocate resources quickly and efficiently, our work with global companies reveals confusion about the specific concept of rolling forecasting. Accenture finds that the practices in use are more akin to rolling updates or periodic re-forecasts against annual budgets. These practices are not aligned to the definition established by the Beyond Budgeting Roundtable, the chief proponent of rolling forecasts.[1]

In *Beyond Budgeting: How Managers Can Break Free From the Annual Performance Trap*, the Roundtable defines the rolling forecast as a "financial forecast (usually including a few high-level figures such as sales, costs, and cash flows) that is updated on a rolling basis. A typical rolling forecast would be prepared each quarter to cover the following five quarters. It is not tied to a particular fiscal year-end review but enables managers to continuously review strategy and cash requirements."[2]

Based on an evaluation of client work with more than 60 companies around the world, Accenture estimates only 28 per cent have adopted a true rolling forecast approach. The concept has gained limited traction worldwide—in fact, Sweden appears to be the only country where rolling forecasting has become reasonably common.[3]



Accenture has found three major barriers to successfully implementing rolling forecasting:

- **The expansive geographical reach** of multinational organizations, which increases the work required to produce, consolidate, review and approve a reforecast on a regular basis. With increasingly dispersed operations, customers and suppliers, these pressures on companies will only increase in the future.
- **The inability to decentralize control** in organizations where control is typically wielded at the corporate center. Our previous research shows that in order to out-perform the competition, companies require the necessary performance management capabilities to make fact-based decisions at speed at the points of the organization closest to the customer.[4] To be effective, rolling forecasting needs to be owned at local levels. However, if corporate executives lack confidence in planning processes, or have limited trust in their people at local levels, decentralization is unlikely to happen.
- **Lack of effective capabilities and supporting technologies** to disseminate and consolidate planning information rapidly.

Dynamic planning explained

Because rolling forecasting has not taken root extensively over the past several years, Accenture proposes a pragmatic alternative: Event-driven dynamic planning.

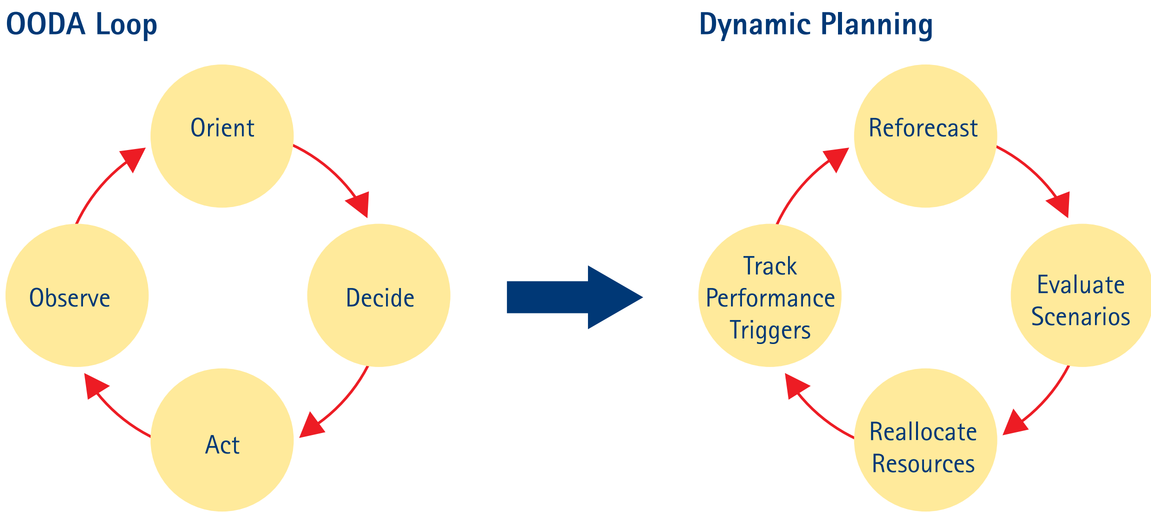
Event-driven dynamic planning goes well beyond the static approach of annual budgeting by systematically monitoring a series of market and performance-related triggers. As the competitive context shifts, organizations are able to sense changes and respond dynamically by reallocating resources to align with the new market realities. As a result, organizations are able to manage their performance using shorter, more targeted planning cycles.

Rather than being viewed as a discrete project, Accenture's event-driven dynamic planning approach provides a comprehensive framework with capabilities for managing and optimizing business performance (see the figure on the following page). Business-led, rather than technology-driven, the dynamic planning framework supports a strong overall performance management capability by helping to align strategy, target setting, planning, operations and management reporting. It follows the Observe, Orient, Decide and Act (OODA) loop decision-making approach, influential in military strategy, which emphasizes the competitive advantage gained from adapting and responding to the realities of an engagement more quickly and effectively than your enemy.

1. Track performance triggers

Dynamic planning requires, first of all, the identification of key value drivers that are both volatile and material. Examples can include market share, market size, product maturity, number of competitors, commodity prices, exchange rates, and research and development pipeline. Key drivers will vary by industry: for example, patent expirations for pharmaceutical firms, or grain commodity price fluctuations for food companies. Tolerance ranges are then identified for each key value driver.

The Accenture dynamic planning framework helps to adapt best practices on strategic decision-making to a business environment



In OODA Loop fashion, one must continually observe, orient, decide and act in order to achieve and maintain freedom of action and maximize the chances for survival and prosperity.

Source: Col John Boyd, http://www.mindsim.com/mindsim/corporate/ooda.html

By systematically monitoring a series of performance related triggers, organizations are able to sense changes and respond dynamically by reallocating resources in alignment with the realities.

Source: Accenture definition of Dynamic Planning

2. Reforecast

As tolerance levels are reached or exceeded, the dynamic forecasting methodology prompts management to take action by reforecasting their plan using a new set of assumptions. The revised forecast is likely to present a series of new management challenges to be analyzed and evaluated.

3. Evaluate scenarios

The scenario-planning process causes the business to ask "what if?" questions, evaluate options, and consider next steps. For example, if a competitor with 40 percent market share were to go out of business, how would you capitalize on the development? Scenario-based planning can model the consequences of both positive and negative changes to support decision making.

4. Reallocate resources

Scenario planning sets the stage for decisions regarding allocations of capital and, more extensively, operational expenditure and resources. The emergence of new competitive threats or external economic factors can set in motion the decision to postpone discretionary and non-strategic initiatives, thereby freeing up cash for operational expenses or capital projects. Planners agree on a course of action and communicate these decisions to the organization, usually in the form of specific targets but in some cases using more qualitative guidance.

The final step leads back to the first as the dynamic planning process continues.

Benefits of dynamic planning

Accenture research shows that high performers come out of downturns in a stronger competitive position than their competitors, in part because of their ability to make smart decisions. In addition, executives at these companies are better able to manage stakeholder expectations with clear, market-based rationale and effective responses.

Dynamic planning supports speed to decision making, creates visibility to what's ahead, and focuses on the most important drivers of business performance. Some specific benefits include:

- Articulation of business goals and key factors that create value.
- Visibility of a range of financial outcomes.
- Ability to respond rapidly and "course correct" as shifts occur in the external environment.
- Information to support reprioritization of projects and cash flow.
- Support for a performance-based culture that assigns accountability.
- Clear alignment with shareholder value creation.
- More accurate management of stakeholder expectations, particularly the investor community.

In addition, dynamic planning is less complex to implement compared to rolling forecasting, not requiring vast cultural and organizational changes. Control is balanced, rather than being pushed to local units, as with rolling forecasting. Corporate centers maintain high-level control yet allow for some decentralization, enabling speed and accuracy in executing adjustments throughout the organization at local and regional levels. Central control retains a point of accountability to investors, and local empowerment optimizes accuracy and insight. The collaboration between central and local levels can lead to improved planning and enterprise performance management.

Accenture recently helped a leading food and beverage company implement scenario-based planning to incorporate market share by region and competitive position against its primary rival. Scenario-based planning allowed the management team to redirect investment to market segments and regions that were delivering greater returns. The planning exercise also effectively helped to neutralize the effects of its chief competitor's recent actions in the marketplace.

Five key factors guide dynamic planning

Today's economic volatility should not be viewed as a temporary phenomenon. Change is perpetual, thus making dynamic planning an imperative for organizations.

A reliable framework is needed to adapt rapidly to changes in today's—and tomorrow's—multi-polar world, where competitive pressures emerge from multiple regions and sources. Adapting financial models is among the first steps being taken as some companies assess the short- and long-term opportunities presented by globalization. Dynamic planning helps organizations make well-focused choices about where to compete.

Here are a handful of guidelines to consider when embarking on a dynamic planning program:

Identify the key value drivers in your organization

These are factors that can drive success or failure. Input is needed from multiple levels and regions of the organization. If your team cannot agree on a list of fewer than 10 or 15 drivers, the focus is likely to remain diffused, and the often-laudable goal of completeness will have trumped the clear and urgent need to set priorities. Agreement on key value drivers helps to demonstrate a clear focus on business strategy execution and alignment of planning with strategy. Then define the "acceptable" tolerance range for these key value drivers in order to determine when corrective actions need to be taken.

Embed the selected value drivers into high-level planning models

Modeling capabilities with the right set of value drivers can lead to faster and more accurate resource allocation, portfolio analysis and target setting. Software is not essential, but multiple applications on the market can enhance the planning process, depending on the complexity of your organization's model. The choice of technology; though, isn't as important as the thinking behind value drivers and model construction.

Refocus your planning models on material and volatile areas

The aim needs to be on reducing total planning effort, thereby helping enable finance to focus on value-add analysis and decision-making. Accenture's Finance & Performance Management practice recently helped an organization plan more effectively by focusing on discretionary spend. Non-discretionary expenditures had been commanding too much management attention, and planning in this area was far too detailed for the limited return generated. As a result of this refocus, the organization was able to allocate resources to areas yielding larger returns.

Monitor the value drivers on a regular basis

Tolerance levels around each key value driver are determined early in the planning process, and when variances exceed the specified range, management knows action is warranted. These key value drivers should be monitored carefully as part of regular management meetings, and may take the form of a performance scorecard. Event-based planning sets off a trigger mechanism that causes management to reforecast.

Rethink the processes required to review and sign off a plan

Consider the value of reducing bureaucracy and increasing planning efficiency. Especially in large, global organizations, the back-and-forth review and final approval of business plans is a lengthy process. Speed is of the essence, and organizations need to remain aware of how they can streamline the process to help ensure plans are relevant by the time they are to be used.

The principles underpinning capital planning and operational expense planning are very similar, sharing the same event-driven foundation. Both planning processes ideally respond to shocks, whether generated internally or externally. Capital planning, however, is likely to be triggered less frequently because the actions that follow from these decisions have more structural business implications.

The dynamic journey to high performance

In a highly volatile global economy, business leaders are challenged to navigate through a highly uncertain environment and react quickly and effectively to change. Traditional approaches to strategic planning, target setting, investment planning, budgeting and forecasting are proving to be inadequate.

While some good examples of rolling forecasting exist, the practice is impractical for most large multi-nationals to implement, particularly given more pressing and immediate priorities in the wake of the global economic downturn. Event-driven dynamic planning is easier to implement, and provides a pragmatic alternative that helps organizations to adapt quickly when faced with volatility and uncertainty.

The approach supports overall performance management capabilities by providing companies with a framework and tools to help enhance flexibility and "course correct" for the benefit of organizational stakeholders. By focusing on key value drivers, business leaders may reach agreement on the most important factors likely to diminish or enhance performance. Finance organizations can use dynamic planning to model "what if" scenarios and consider ways to redirect resources to maximize value creation. Dynamic planning gives business leaders powerful tools to take prompt action and advance with greater agility on the journey to high performance.


EQUATOR
TROPIC of CAPRICORN
659 N.M. 1220 km
LONDON
10.499 N.M. 19.271km
TOKYO
4811 N.M.
BLUFF
756 N.M. 1401km

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References

1 The Beyond Budgeting Round Table is "an international shared learning network of member organizations with a common interest in transforming their management models to enable sustained, superior performance." Visit www.bbrt.org.

2 "Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap"; Jeremy Hope and Robin Fraser; Harvard Business School Press; 2003

3 Since many of the Beyond Budgeting Roundtable concepts originated in Sweden, the higher level of adoption there makes sense.

4 Jane Linder, Brian McCarthy, "When Good Management Shows: Creating Value in an Uncertain Economy," http://www.accenture.com/Global/Research_and_Insights/By_Subject/Finance_and_Performance_Mgmt/Enterprise_Performance_Mgmt/WhenEconomy.htm

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