

It's a jungle out there:

**FINANCE CAN
BE YOUR GPS**



Making Driver-based Budgeting Work

For Finance departments to best navigate through the twists and turns of today's fast moving marketplace, a haphazard, once-a-year budgeting process just doesn't cut it. For an effective modern finance team to survive and thrive in this environment, it needs to reflect three principles:

- **Agility.** Quickly analyze how internal or external events will impact financial performance and make a timely and appropriate response.
- **Alignment.** Timely and on-going collaboration around a consistent set of data so resources and operational capacity are aligned to the latest forecast.
- **Accuracy.** Planning based on a shared set of assumptions, at an appropriate level of detail that will optimize accuracy.

Driver-based budgeting can be an effective tool to put these principles into action and help you thrive in these uncertain times. But only if you can elevate it from its typical piece-meal, spreadsheet involved exercise. Read on to learn how to make driver-based budgeting and planning work for your organization.

Despite the steady migration away from spreadsheets to packaged solutions, many still view budgeting as it is currently practiced as delivering little value. The most frequently heard criticisms are that budgets take too long, cost too much and are perpetually out of date. So while automation has improved data quality and productivity for Finance, it has done little to reduce the almost universal desire to reforecast more frequently than many recognize as essential in the persistent uncertainty prevalent in most markets.

This lack of progress suggests that the traditional budgeting process of simply collecting and collating financial line item expenses is at the root of the problem, and that transformation can only happen if the detailed planning that contributors do on spreadsheets to forecast their resource requirements and resulting expenses is fully integrated into a seamless process. Everyone, including software vendors, talks about planning and budgeting, but even in those organizations that

have the latest Financial Planning and Analysis (FP&A) tools deployed, the reality is that detailed planning remains disconnected from financial budgeting.

For example, consider how contributors in an Internet insurance company need to model the causal relationships that run through the organization to generate the premium income and line item expenses for their budget submissions, (Figure 1). In order to produce a budget or a reforecast, a responsibility center manager first has to receive a reliable forecast of future demand from upstream departments. Then, by modelling resource consumption rates and unit resource costs, they can forecast their own line item-expenses, at the same time generating demand forecasts for downstream responsibility centers such as fulfilment and mailing. Today, all of this usually happens on a plethora of disparate spreadsheets outside of the enterprise solution.

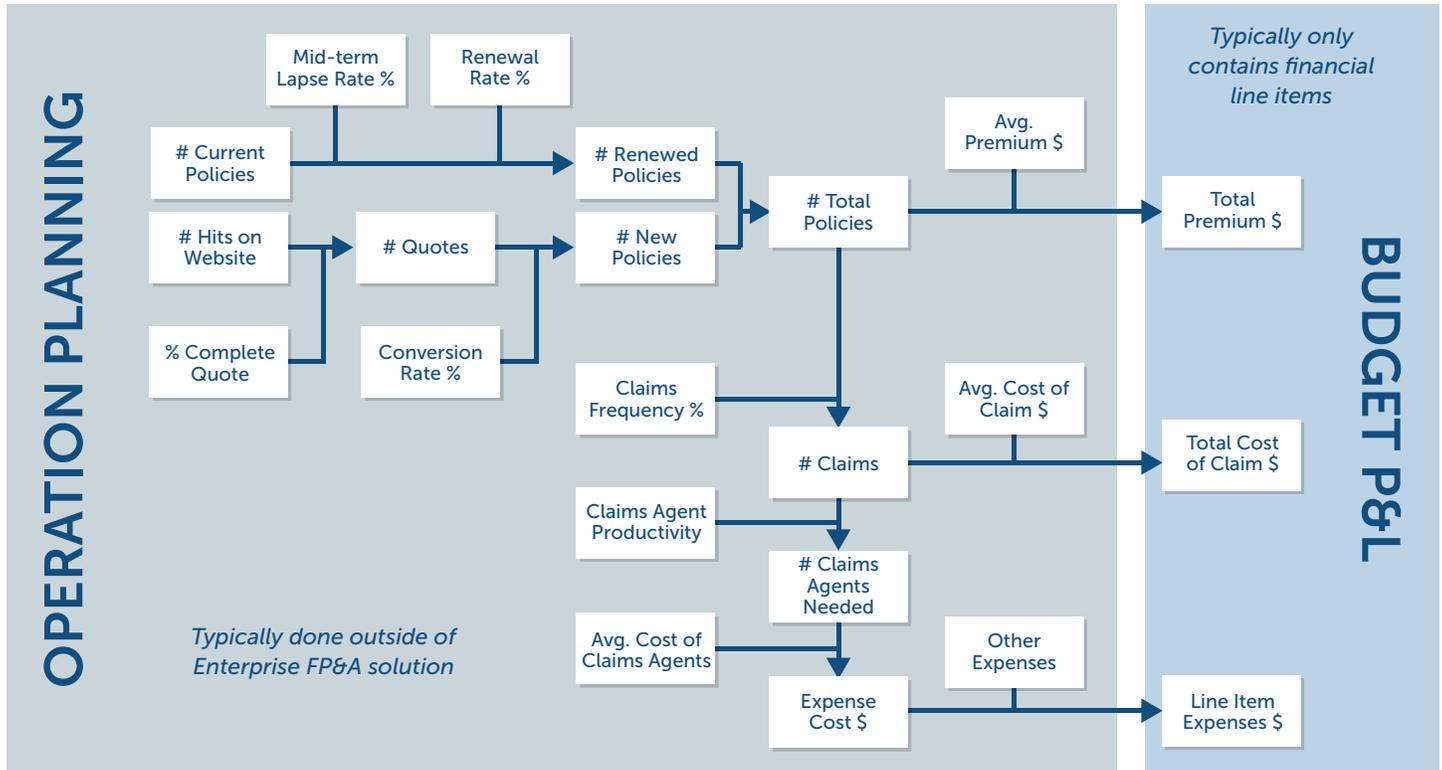


Figure 1

What is Driver-based Planning and Budgeting?

Driver-based planning and budgeting is the linking of demand to the resulting operational activities needed to fulfil that demand and their unit costs to model key variable revenues and line item expenses. At its simplest, it is all about incorporating the calculations that budget contributors already do into the enterprise solution, but it could easily be a first step towards Integrated Business Planning.

Clearly, the approach lends itself to those large elements of variable expense, such as headcount and other input costs where keeping tight control on excess capacity falls directly to the bottom line, rather than other line items that are essential fixed or

discretionary. It is also more applicable in sectors with a large number of highly repetitious activities such as insurance, consumer packaged goods, hospitality, distribution, professional services, and healthcare, each of which has their own characteristic set of drivers. For instance, room rate, occupancy, number of patrons, and the average restaurant and bar spend are key drivers in the hotel business and would most likely need to be modeled for each customer segment to accurately reflect the differences between the spending patterns of midweek business folk and those enjoying a weekend family break. But ultimately, there are variable line item expenses where a driver-based approach can be applied in every budget in any industry.

Benefits of Driver-based Planning and Budgeting

As such, driver-based planning and budgeting is neither complicated nor new as budget contributors are already doing it. But once it is incorporated into an appropriate enterprise solution, the benefits are transformational:

Greater agility with light touch rolling reforecasts.

Any changes in demand, selling prices, input costs, or any of the drivers involved in the calculations, such as process cycle times or productivity ratios, can be rapidly updated with the results flowing right through to the forecast profit and loss account and cash flow forecast. This means the organization can more quickly respond to internal and external changes and planning can become a continuous process rather than a once or twice yearly event. This provides greater agility and

better visibility into their future financial performance so they can be more certain of delivering the returns promised to investors and other stakeholders.

Tighter alignment and better control that improves the bottom line.

Because everyone develops their own responsibility center plan and budget using the same upstream forecast, there is better alignment of headcount, other operational resources and fluctuating demand with savings going directly to the bottom line. For instance, if mid-term cancellations decline in our insurance example, then the number of claims will increase in future periods and more resource will be required. The sooner the head of claims knows this, the quicker they can realign capacity and prevent potential service failures. Similarly if rules are used to

5 Key Driver-based Planning & Budgeting Benefits

1. Greater agility with light touch rolling reforecasts.
2. Tighter alignment and better control that improves the bottom line.
3. Better insight that leads to more incisive actions.
4. Improved accountability and accuracy.
5. Improved productivity.

identify and alert upcoming capacity constraints, such as the maximum utilization of seats in the claims contact center, then timely action can be taken to deal with the situation before it becomes a crisis.

Better insight that leads to more incisive actions.

When traditional budgeting is in use, ascertaining the root cause of any variance usually means making contact with the responsibility center leader to uncover the operational detail behind the overspend. But with driver-based planning and budgeting, the causes behind financial variances are clearly apparent, leading to quicker and more incisive response. For example, should the cost of claims agents go over budget, it could be that the higher headcount was needed to cope with either lower than forecast productivity or increased throughput. But having that operational detail in the model means appropriate action can be taken sooner.

Improved accountability and accuracy.

Traditional budgeting is open to sandbagging and gaming, but as the assumptions that underpin many line items expenses are transparent in a driver-based planning and budgeting model, contributors have to be accountable for their submissions, which, in turn, are likely to be more accurate.

Improved productivity.

Releasing potentially hundreds of business users from building and maintaining the spreadsheets they use for departmental planning frees up large amounts of time for other more value-added analysis.

Making Driver-based Budgeting Work with Anaplan

Despite the evident benefits of taking what is a straightforward and simple step, implementing a driver-based methodology using a solution primarily designed for traditional budgeting is unlikely to be successful or sustainable. This is due to two main factors: namely the level of expertise needed to write rules and maintain models, and the inability of traditional solutions to cope with the high data volumes generated in driver-based models.

Having been designed as a highly flexible and easy to manage platform for planning that uses an in-memory calculation engine and unique data structure designed for processing rules and large amounts of data, Anaplan overcomes these issues.

Self-managed rules and models.

Business rules that reflect how changing demand impacts resource requirements, revenues and expenses, and ultimately financial performance, are the 'glue' that makes driver-based budgeting models work. In the past, having to learn even a 'lightweight' programming language, such as Microsoft VB Script, deterred many finance departments from embracing driver-based planning and budgeting, but with Anaplan writing business rules could hardly be easier.

Finance – and even authorized business users themselves – can create, maintain, and change a model using simple formulas in native syntax and drag-and-drop functionality to express even the most complex multi-dimensional dependencies, without relying on 'power users' from IT or an outside resource. Once written, these rules are not buried deep inside a model that can rapidly become a 'black-box'. Using Anaplan's intuitive Living Blueprint™ technology, all rules are stored and managed in one easy to understand master repository where non-technical

Despite the evident benefits of taking what is a straightforward and simple step, implementing a driver-based methodology using a solution primarily designed for traditional budgeting is unlikely to be successful or sustainable. This is due to two main factors: namely the level of expertise needed to write rules and maintain models, and the inability of traditional solutions to cope with the high data volumes generated in driver-based models.

Having been designed as a highly flexible and easy to manage platform for planning that uses an in-memory calculation engine and unique data structure designed for processing rules and large amounts of data, Anaplan overcomes these issues.

Self-managed rules and models.

Business rules that reflect how changing demand impacts resource requirements, revenues and expenses, and ultimately financial performance, are the 'glue' that makes driver-based budgeting models work. In the past, having to learn even a 'lightweight' programming language, such as Microsoft VB Script, deterred many finance departments from embracing driver-based planning and budgeting, but with Anaplan writing business rules could hardly be easier.

Finance – and even authorized business users themselves – can create, maintain, and change a model using simple formulas in native syntax and drag-and-drop functionality to express even the most complex multi-dimensional dependencies, without relying on 'power users' from IT or an outside resource. Once written, these rules are not buried deep inside a model that can rapidly become a 'black-box'. Using Anaplan's intuitive Living Blueprint™ technology, all rules are stored and managed in one easy to understand master repository where non-technical users can view the logic and relationship between the line items in the model and adjust the business rules that they have the right to access and modify.

Combined with the benefits of cloud-based delivery, which precludes waiting for hardware or software installations or IT availability, such easy model management means implementing Anaplan typically takes one tenth of the time of a traditional planning software deployment, giving quick time to value.

Implementing Anaplan typically takes one tenth of the time of a traditional planning software deployment, giving quick time to value.

Real time response regardless of data volumes.

Unlike traditional budgeting, where there are a limited number of core dimensions and line items are already aggregates, the operational planning that underpins a driver-based model is already very granular – typically down to the level of individual pack size, outlet and employee, and even to individual bill of materials – so input prices for ingredients and components can be easily flexed. Factor in the additional dimensions needed to incorporate the non-financial drivers, and the dynamic rules that span responsibility centres and time periods, and it is immediately apparent that driver-based models are considerably more complex and can soon grow to many billions of data points. The calculation engines that underpin traditional budgeting tools were not designed for such dependencies or volumes, taking many hours to calculate results and needing considerable patience awaiting responses to input changes and queries, as sub-second response time are simply out of the question.

By embracing in-memory computing early, and re-architecting the traditional data model with the patented HyperBlock™ architecture, Anaplan delivers optimal performance for the large volumes of data encountered in driver-based planning and budgeting, regardless of model size or complexity, providing sub-second response times to queries, even when trillions of inter-related data points are encountered. This hybrid approach combines the best aspects of three architectures:

- Highly multi-dimensional cubes that can contain a lot of data in a very compact form.
- Storing data in columns rather than rows which makes it easier to represent large amounts of transactional data, and for authorised users to

add or delete members in hierarchies when they are updating models, to keep them in step with changing organizational structures.

- Tracking cell-level dependencies of individual data points, much as in spreadsheets, so that when changes are made to a model, the in-memory engine only recalculates dependent values following the shortest calculation sequence to give millisecond response times to queries.

Designed to make optimal use of in-memory calculation, the Hyperblock™ is purpose-built for modeling, rather than simply aggregation or analysis, giving organizations the ability to recalculate and query massive models online or via mobile devices with spreadsheet-like response times.

Using driver-based models for scenario planning.

Rather than resorting to spreadsheets whenever there is a need for ad-hoc 'what-if?' analysis, we want you to leverage your driver-based model. That is why we have made it easy for authorized users to create new versions, making use of Anaplan's built-in intelligence to amend hierarchies and change business rules to create new scenarios on the fly, with the system automatically targeting just the cells involved, to ensure all the changes are reflected in any inter-connected models, right through to financial forecasts. With results available in real time, users lose none of the immediacy of spreadsheets and gain from the fact that, once approved by peers through the integrated workflow process, the scenario can be instantly adopted as the current version.

Summary

To thrive in an uncertain world where disruptive changes confront us from all directions, planning and budgeting needs to change. We believe that it should be a continuous process where reforecasts take minimal effort and where new scenarios can be quickly incorporated as the current version, so the enterprise can constantly adapt to changes in its markets and internal operations.

Driver-based budgeting is neither a new concept nor a radical concept in that contributors already do driver-based budgeting intuitively when they use non-financial drivers to model their line-item expenses for their budget submissions and re-forecasts. What is new is Anaplan with its easy scripting, intuitive user interface, in-memory calculation engine and unique architecture – everything that is required to unify these offline spreadsheets into an enterprise model so that any changes ripple through to other downstream departments and right through to the latest financial reforecast.

And you can start to deliver that transformation now. Because Anaplan is delivered as software-as-a-service in the cloud means that once your subscription is in place you can start to enjoy the benefits immediately with no waiting in the queue for hardware or software to be installed. Nor will you have to endure frustrating delays to access the enhanced functionality that comes with every new software release. But being cloud-based is only part of the story when it comes to low cost of ownership and quick time to value. Our growing library of plug-and-play apps and templates will kick-start your implementation, while our intuitive modelling and simple rules scripting will help you tailor the solution to your exact requirements, frequently with little or no external support.

Planning and budgeting needs to change and you can start that journey today.



CONTACT US

 [linkedin.com/company/anaplan](https://www.linkedin.com/company/anaplan)

 twitter.com/anaplan

 [facebook.com/anaplan](https://www.facebook.com/anaplan)

 plus.google.com/+anaplaninc

© 2014 Anaplan. All rights reserved.

anaplan