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A complete view of the enterprise:

Linking operational and financial planning in global organizations

A report prepared by CFO Research Services in collaboration with Business Objects, an SAP company

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Contents

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Executive summary and key findings

CFOs, as the gatekeepers of forecasting and planning, are under pressure as never before.

Traditionally finance leaders have typically provided one view of the enterprise to their executive team and investors – the financial view – through familiar key performance indicators such as revenues, costs, cash or working capital. Financial indicators, while crucial of course, often describe reality as it was, a historic snapshot.

Precise forecasting – explaining what is likely to happen and why – requires many different views from various departments or "lenses" within the business. Tracking non-financial operational indicators, from marketing, sales, HR or R&D, tells you what's coming around the corner. Increasingly it falls to the finance department to make the links between forward-looking data from core operations, and explain to stakeholders how this will impact the P&L, balance sheet and cash flow statement.

But why now? What is driving the finance department to become, in essence, a hub for the integration of financial and non-financial data in forecasting and planning? There are four main factors.

First, technology has made it possible. New and improved applications offer "one version of the truth" for the CFO, a combined vision of performance management that includes linkages between financial performance and their underlying operational drivers. The functionality of these applications makes standalone spreadsheets seem obsolete by comparison.

The second reason is related to the first. As it becomes possible to see a "complete view of the enterprise" and the value of this holistic view becomes evident, many executive teams and directors have come to expect and demand it.

Third, investors and regulators are becoming more informed and sophisticated, with governments around the world adding more requirements for forward-looking analysis, and investors soliciting more detailed information on operational and reputation risks that will ultimately affect the bottom line and the value of their investment. In the European Union, for example, the recently implemented Accounts Modernization Directive requires companies in the region to produce a "director's report" covering both the future risks a company faces and analysis of key non-financial and financial performance indicators. Linking operational with financial planning is therefore essential if companies are to meet new reporting requirements efficiently and effectively.

Finally, in times of economic uncertainty, companies are insisting that CFOs lead the effort to make their operational and financial planning more agile, detailed, reliable and efficient.

> About this report

In February 2008, CFO Research Services, a unit of CFO Publishing and part of The Economist Group, began a research project with Business Objects, an SAP company, asking senior finance executives to give views on their priorities and challenges around integrating operational and financial planning processes.

The report is based on the results of an online survey of more than 400 senior finance executives in the US, UK, Germany and France, and in-depth interviews conducted with CFOs of the following companies:

- Biogen Idec
- Designed Alloy Products Inc.
- Gemalto
- Goodrich Primary Flight Control
- Hager
- Mustang Engineering
- NMHG
- Sykes
- Timken
- United Biscuits

Two confidential interviews were also conducted with a French multinational and a German consumer goods company.

CFO Research Services and Business Objects developed the scope of the research jointly. Business Objects funded the research and publication of our findings, and CFO Research Services would like to acknowledge the Business Objects team for its input and support.

CFO Research Services and Business Objects would also like to thank all the finance executives who took the time to share their valuable views with us.

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This research was commissioned to understand how CFOs are responding to these pressures. How integrated are operational and financial planning systems and processes today? Are CFOs satisfied with their planning processes? What planning tools are proving most effective – and what tools are falling short of expectations? What steps have CFOs taken and what are the benefits of integration for those who've already achieved it?

Overall, integration of financial and non-financial planning remains elusive for most CFOs in the survey, as many rely on spreadsheets, rather than applications that offer a complete view of the business. The research, however, provides evidence that more CFOs should consider making the investment. In the survey, for example, there are clear differences in satisfaction between those who integrate operational and financial planning and those who don't. Moreover, the CFOs who were interviewed in depth are clear about the tangible benefits that integration brings.

Six key findings:

Increased planning accuracy is the number one goal

Planning accuracy is the top priority on CFOs' performance management agenda. This could be a reflection of the times in which global economic uncertainty, credit risk, and rising commodity and raw materials prices all combine to make planning more difficult and more important. CFOs know that in a volatile business environment, investors and executive teams will rely on them even more than usual to provide accurate, evidence-based forecasts on a more frequent basis.

When it comes to planning tools, the number one priority for respondents is "planning, reporting and analysis in one system"

Having planning, reporting and analysis in a single system ranked the highest, although ease of use for non-financial users and driver-based modeling functionality were also important, according to respondents.

Planning remains fragmented, and this is causing dissatisfaction

Just one in five CFOs surveyed said that their planning processes were "highly integrated". A similar number said operational and financial planning is conducted on the same system at their company. Most organizations employ a patchwork of planning tools, from CRM systems to Excel spreadsheets. It's no wonder then, that just one in 10 are "highly satisfied" with their operational planning tools.

Spreadsheets reign, yet satisfaction is low

Spreadsheets are the most widespread tool used for all types of operational and financial planning activity, yet satisfaction with tools is highest among those using packaged applications, not spreadsheets. Also, tellingly, the use of spreadsheets is highest in the US, where satisfaction levels are lowest; spreadsheet use is lowest in Germany, where satisfaction levels are highest.

Forecasting processes are time-consuming and cumbersome

A quarter of CFOs described their company's planning processes as "streamlined", and almost 40% called their processes "time-consuming". Just 2% of CFOs strongly agreed that "performing an enterprise-wide, bottom-up reforecast is a quick and easy process."

CFOs see process change and the level of monetary investment required as the barriers to integrated planning. But tangible benefits await for companies that take advantage

The process changes and costs involved in improving links between operational and financial planning, plus the distraction of other business projects, are the biggest hurdles facing firms striving for greater integration between operational and financial planning.

Yet the survey and in-depth interviews show that companies who overcome the challenges, see tangible and lasting returns.

SECTION 1 — The integration imperative

Overview: • Increased planning accuracy is the number one goal for performance management over the next two years. • CFOs say that the biggest benefits of integration are reducing planning and reforecasting times, and raising the accountability of divisional managers. • Just one in five CFOs says that planning processes at their company are currently "highly integrated". • Integration is highest among German companies, which use spreadsheets the least, and lowest among US firms, which use spreadsheets the most.

Fully integrating operational and financial planning processes has long been a Holy Grail for CFOs. Now, however, attaining this Holy Grail is more important than ever before, as CFOs struggle to stay ahead of rapidly changing market conditions. "There's a lot of uncertainty there," says Kevin Maher, controller at US-based steel company Designed Alloys, of the current global economic environment. "You can struggle for months, and then find that once the project is issued, it's useless because the macroeconomic situation has changed."

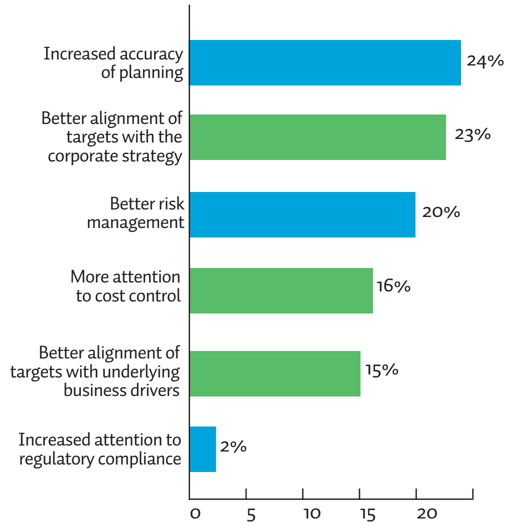
Indeed, 24% of our survey respondents said that "increased accuracy of planning" was the performance management goal with the most significant potential benefit for their organization over the next two years. (See Chart 1.)

A commercial advantage

CFOs in the survey believe there are hard commercial benefits to integrating operational and financial planning systems. An overwhelming majority said that greater integration would lead to improvements in a host of areas including improved accuracy of financial plans;

> Chart 1 – Accurate planning is top priority.

Thinking about your goals for performance management over the next two years, if you could make any of the following improvements, which ones would have the most benefit for your organization?



increased collaboration across the enterprise; greater responsiveness to change; better alignment of planning with strategic objectives; and a reduction in the practice of "gaming". What's more, CFOs believe that the biggest improvements of all would be in reducing planning and reforecasting cycles, and in raising the accountability of divisional managers. (See Chart 2.)

A managing director at a consumer goods company based in Germany, believes that migrating to a combined operational and financial planning application would not only speed up the forecasting process, but also open up a new range of forecasting opportuni-

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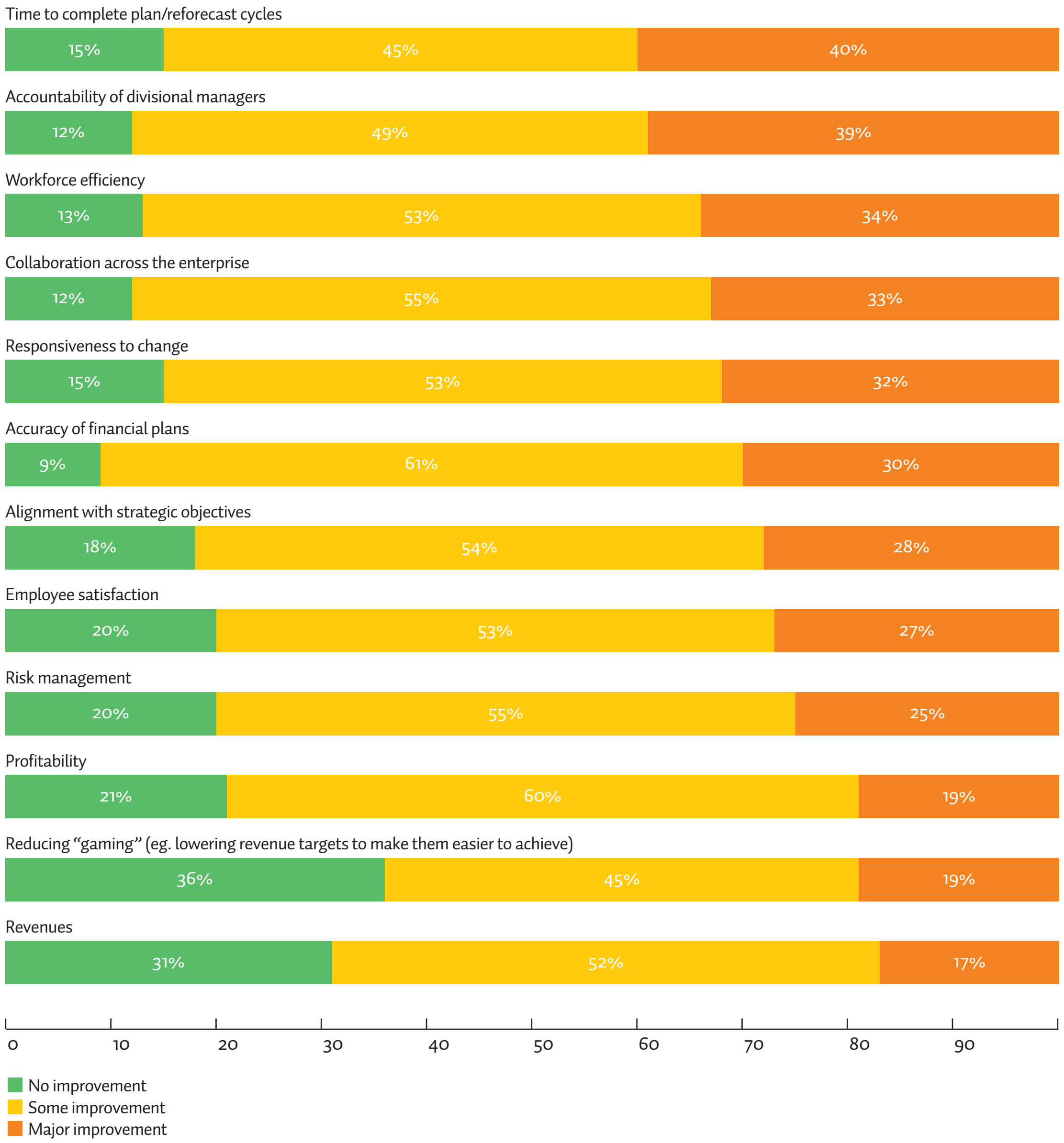
> Chart 2 – Major improvements for the business.
If your organization could achieve more integration between financial and operational planning, what impact would it have on the following?



While CFOs clearly believe that the integration of operational and financial planning would bring a multitude of benefits, most companies have yet to achieve this goal. Across all countries, just one in five CFOs said that their planning processes are "highly integrated."

ties. "It's more a question of having more possibilities to make reports, to make checks, to analyze the figures compared to a spreadsheet," says the managing director. "It's not so much a timing issue. You have simply more possibilities."

CFOs interviewed for this study say that the imperative to link operational and financial planning will only get stronger in the future. "The pressure of getting [the forecasting process] better, faster and more accurate will just grow and grow," says Jeff Van Der Eems, CFO and COO of UK-based food producer United Biscuits.

Unfinished business

While CFOs clearly believe that the integration of operational and financial planning would bring a multitude of benefits, across all countries surveyed, just one in five CFOs said that their planning processes were "highly integrated."

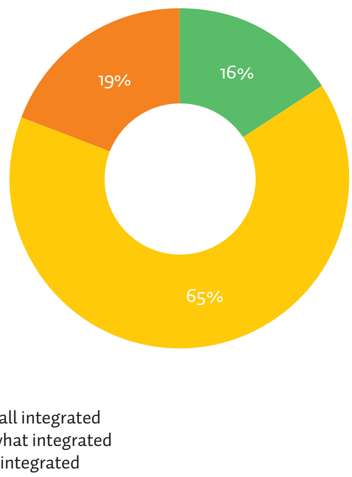
German companies appear to enjoy the most tightly integrated financial and operational planning: 26% of German CFOs said their firms' planning processes were "highly" integrated, with just 7% saying that they were "not at all" integrated.

Meanwhile, US CFOs were most likely to view their firms' integration levels as low. One in four said that their companies' planning processes were not at all integrated, with just 12% saying they were highly integrated. (See Chart 3.)

Moreover, fewer than one in five CFOs surveyed – 18% – said that operational planning in their organization is conducted in the same application as financial planning and budgeting.

> Chart 3 – Still work to do

How would you rate your organization's level of integration of financial planning with operational planning?



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A third of respondents said that the financial details of operational plans are re-keyed into financial and budgeting applications, with a further 35% using spreadsheets for both operational and financial planning.
(See Chart 4.)

Many of the CFOs interviewed for this report explained that linking financial and operational planning at their

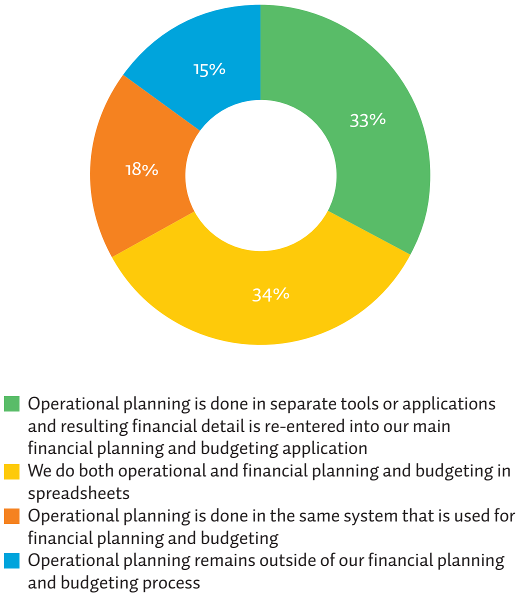
"Finance leaders recognize the significant improvements that integration of financial and operational planning can bring to the organization."

companies was very much a "work in progress", and often a patchwork, with some areas of the business linked up more than others. For example, Ian Marsden, European financial controller at industrial components manufacturer Timken, says that supply chain management is indeed handled by an integrated system. "We enter forecast orders, for example, and that drives a demand by product, which is then fed back to the different manufacturing plants that would supply suppliers with individual products," he says.

But when it comes to overall operational and financial planning, Timken's systems vary by region and business activity. "We're in the process of a global ERP installation, which is partly [focused on] standardizing business processes and transactions, and also improving supply chain management," he adds.

> Chart 4 – Outside the system

Which statement best describes the linkage between operational planning and financial planning systems at your organization?



Fulfilling the vision?

We have seen evidence that improved planning accuracy is high on the CFO agenda, and that finance leaders recognize the significant improvements that integration of financial and operational planning can bring to the organization. Yet, many are falling short of their goals. In the next section, we examine exactly what's wrong with current processes, before turning to how the situation can be improved.

"We want to make sure that we partner with operations, that we provide them with support and also get quality information in numbers so that we are propagating truly what we believe is reality. The days of us versus them, of finance and the business existing at loggerheads, those are in the past."

> Case study – Biogen Idec: Probability planning
Mining past success for a view of the future at a US biotechnology company

How do you plan and forecast when your company's main business is essentially a black box? Very carefully. "Obviously, the complexities on the forecasting are multi-fold on the R&D side," says Steven Rosen, director of finance and control at Biogen Idec in the United States. The biotechnology company develops new drugs, a process that can take years to progress from the laboratory to testing to clinical trials to government approval. "It's a very binary situation for us, unlike a lot of [non-biotech] companies where you can be somewhat or partially successful. Ours is typically pass or fail."

The company must also keep an eye on the political winds in its various markets because healthcare is a heavily-regulated industry, particularly in the United States. "Pricing, that's probably the greatest area of risk and complexity in terms of forecasting," says Rosen. "For example, if the US presidency moves from the Republican to the Democratic Party next year and some of the nationalized health care policies that have been proposed happen, that will have a profound effect on our revenue."

Biogen's approach is to take what Rosen calls a "probabilistic view" in planning and forecasting by mining past experience to estimate the chances of success of all the drugs it has in the pipeline. "We take something from pre-clinical to phase one to phase two to phase three of clinical trials, and so on through the testing process," he explains. The units doing clinical trials plug the probabilities into the rolling reforecasts that they make almost on a weekly basis. "If the clinical trial goes amiss," says Rosen, "that has a profound effect on this year's expense and obviously on our long-range plans as well."

Biogen currently makes full forecasts every quarter, but there are plans to do the exercise monthly. "It has become apparent that, from a senior management perspective, there's a need to have greater and more frequent visibility," says Rosen. "And we've gotten better at [integrating] finance and operations, although I wouldn't say it's a 100% perfected structure."

Using its ERP system, the company has developed an integrated operational and financial planning process that has marketing working with manufacturing on matching supply with forecast demand, with finance joining the conversation.

However, the clinical trial unit uses a separate specialist planning application because it has concluded that the blueprint in the ERP system designed to assist in clinical trial planning is not robust enough at this time. Customer relationship management is also on a separate application. As a result, data on clinical trials and CRM is generated outside of the ERP system, and then manually loaded into the planning application.

"There are risks associated with data integrity," Rosen concedes. "Having one version of the truth, having everything on the same common system, common assumptions and so forth is directionally where we want to go. We have actually made some good progress in certain areas. All of the standard operating expenditures are now planned directly into the system, for example. But it's a battle."

His focus is on moving the planning and forecasting process onto a monthly cycle, and also to further integrate finance into the system. "We want to make sure that we partner with operations, that we provide them with support and also get quality information in numbers so that we are propagating truly what we believe is reality. The days of us versus them, of finance and the business existing at loggerheads, those are in the past."

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SECTION 2 — The current state of affairs - spreadsheets reign

Overview: • Spreadsheets are the most widely used planning tool for all types of operational and financial planning activity. • CFOs using packaged applications for operational planning are more satisfied than those using spreadsheets. • The time-consuming and meetings-intensive nature of linking operational and financial planning are key sources of dissatisfaction.

Spreadsheets are by far the most ubiquitous planning tool for most types of financial planning, as well as operational activity, from strategic planning, to forecasting, to supply chain management, according to our survey. (See charts 5 and 6.)

Yet a number of CFOs we interviewed are keen to cut back on the use of spreadsheets at their company. "It's one of the things that you try to stamp out," says United Biscuits CFO and COO Jeff Van Der Eems. "Inevitably there are a lot of spreadsheets but we try to minimize that. And it really varies, function by function, as to who is more adept at using central planning tools. That's human nature."

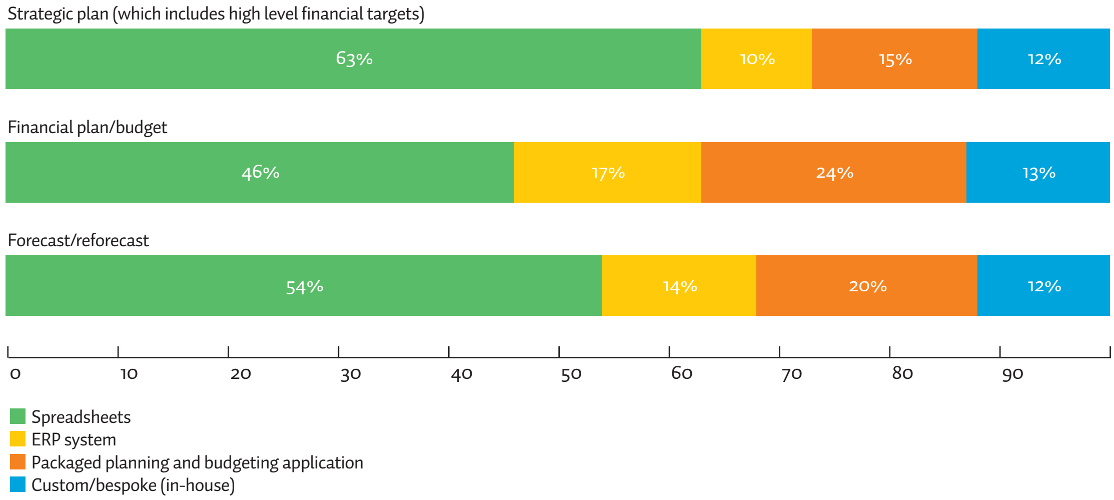
In some areas, companies have apparently been successful at reducing spreadsheets. They were least likely to be used for production, supply chain and customer service planning.

US firms are most likely to use spreadsheets for all types of financial planning and most forms of operational planning. Spreadsheet usage is lowest across all planning activities in Germany. But even here, spreadsheets are more widely used than any other tool, with two exceptions: packaged applications are the most prevalent tool for production planning among German organizations, and packaged applications outstrip spreadsheets for supply chain planning.

Meanwhile, the particularly high use of spreadsheets in

> Chart 5 – Financial planning - spreadsheets versus packaged applications

What is the main tool your organization uses for the following financial planning activities?



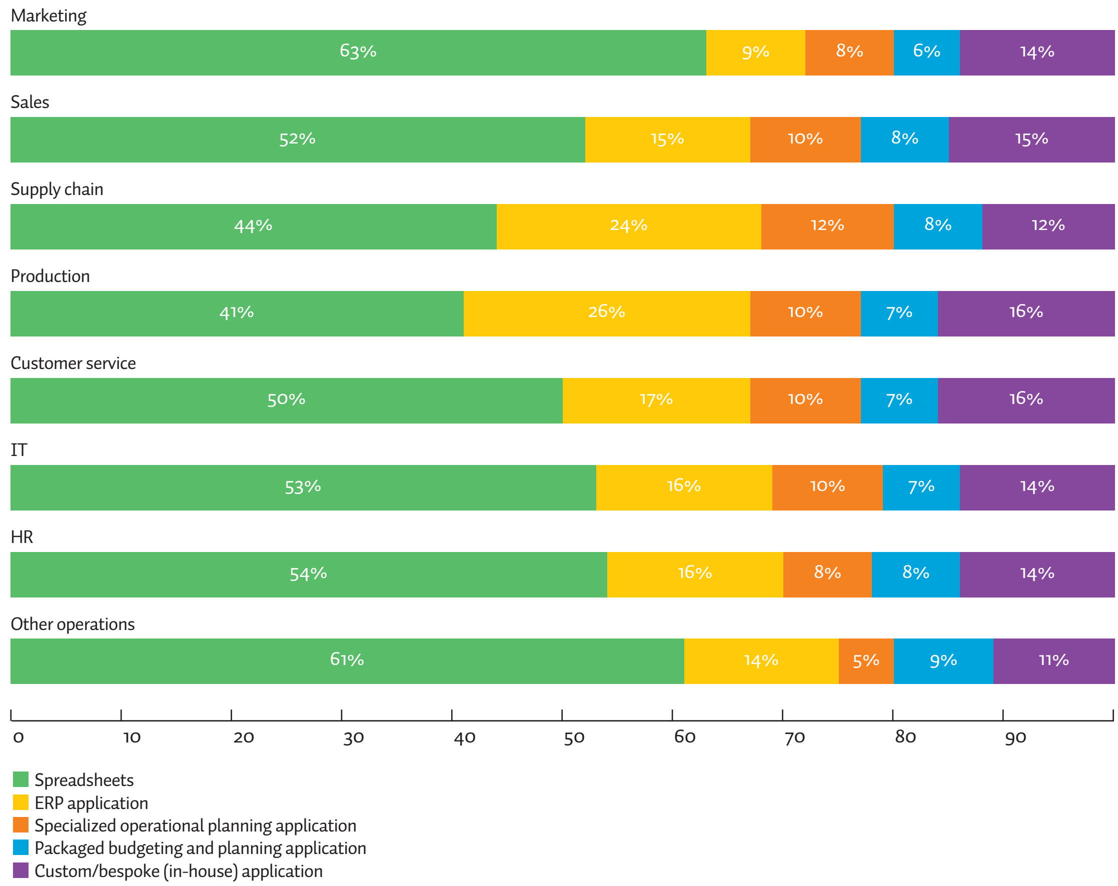
"What integration [of financial and operational planning] has helped us do is to be quicker and more effective with our launches and to screen ideas much more closely, quickly dropping ideas that aren't likely to work, and making sure we accelerate the ideas that make the most sense."

the US could help to explain relatively high levels of dissatisfaction with the speed of the reforecasting process among American CFOs. Conversely, relatively high use of packaged planning systems for IT, customer service and supply chain planning in Germany and France correlates with higher satisfaction levels for operational tools in these countries.

In short: fragmented spreadsheets appear to lead to dissatisfaction, while packaged planning systems of all kinds win CFOs' approval. Indeed, CFOs using packaged systems for financial planning are also more likely to be satisfied with their operational tools.

> Chart 6 – Operational planning - spreadsheets versus packaged applications

What is the main tool that managers in your organization use to create operational plans in the following areas of the business?



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Moreover, as Jeff Van Der Eems of United Biscuits has discovered, improved integration not only enhances the forecasting process, but the innovation and product development process, too. "What integration [of financial and operational planning] has helped us do is to be quicker and more effective with our launches and to screen ideas much more closely, quickly dropping ideas that aren't likely to work, and making sure we accelerate the ideas that make the most sense," he says. "As you're developing from concept to product launch, there are a lot of decisions to make. Making sure you've got the right investment principles and the right financial standards in place makes it go quicker."

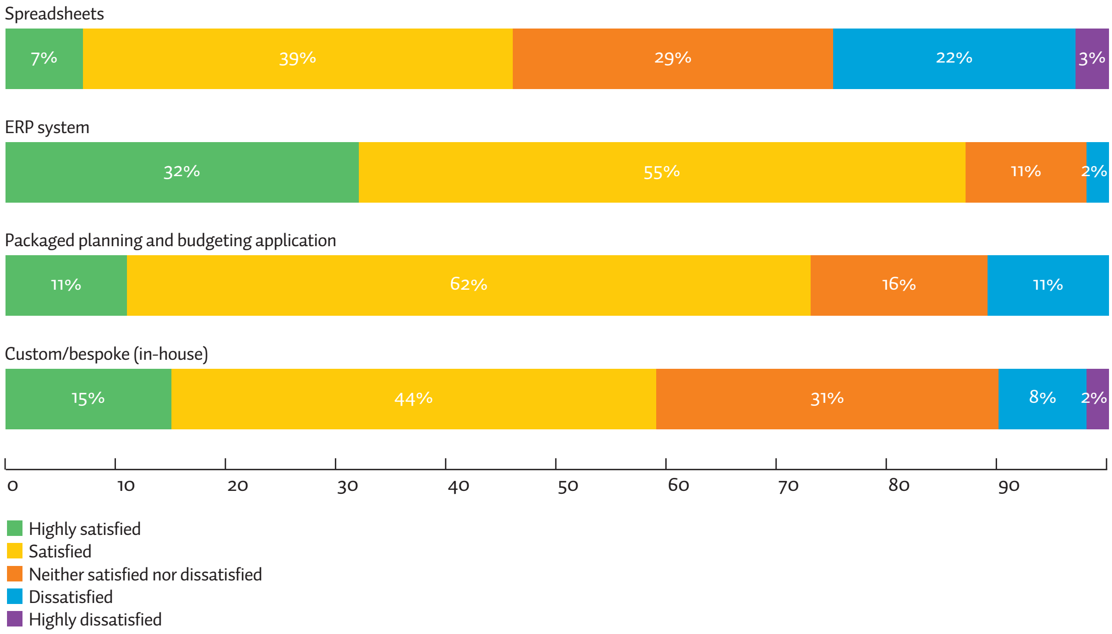
Satisfaction linked to packaged planning systems

It's clear from the survey that companies using packaged planning systems as their main operational planning tool are far more likely to be satisfied. Nearly three in four respondents are satisfied or very satisfied with packaged planning and budgeting applications. In contrast, just 7% of firms that use spreadsheets as their primary strategic planning tool are highly satisfied with their operational planning tools – with only 46% satisfied to some degree. (See Chart 7.)

However, Steven Rosen, director of finance, operations and control at US biotechnology firm Biogen Idec, points out that satisfaction levels of 100% will inevitably remain elusive for companies whatever tools they use: "It would probably not be a fair statement to say [our system] always works perfectly, and frankly if anyone told you it works perfectly at their company, you can let me know the name of the company; I'd love to go work there. But we're aware of the need to get better." (See case study, page 8).

> Chart 7 – The key to satisfaction?

In general, how satisfied are you with the tools your organization uses to create operational plans?



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What's causing the dissatisfaction? A significant proportion of our survey respondents said that the process their company currently uses to link operational planning with overall financial planning and forecasting is time-consuming and requires large numbers of meetings, emails and exchanges of files. Just one in four described the process at their firm as "streamlined." (See Chart 8.)

The picture is not all doom and gloom, however: 53% of respondents said that it was a "collaborative" process, with a quarter claiming that it requires relatively few meetings. Once again, CFOs in the US show the starkest signs of dissatisfaction: 55% believe that the process of linking operational with overall financial planning is time-consuming, compared to just 26% of their French peers.

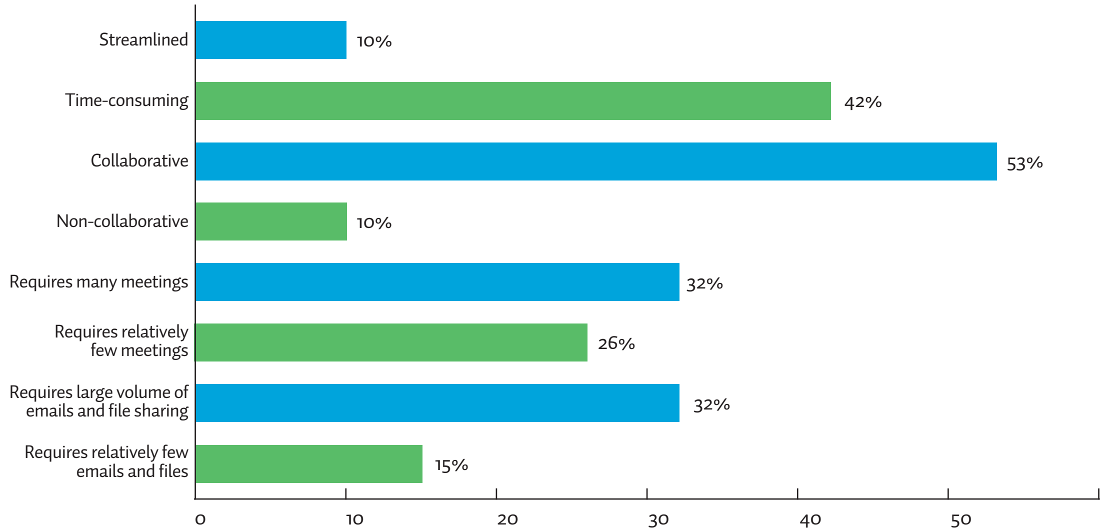
However, some CFOs argue that an integrated operational and financial planning process should by definition be time-consuming, because it needs the hands-on involvement of managers from across the business in order to be effective. "The forecasting process as we see it is necessarily time-consuming," says Ulrich Pelz, CFO of Hager, a voltage distribution and electric equipment manufacturer. "It would not be sufficient to involve only finance and controlling staff; we need to consider the technical expertise and market knowledge of our operational people in order to produce some meaningful outcome beyond figures."

Wolfgang Messner, finance director for Central and Eastern Europe at Sykes, a Nasdaq-listed technology firm, agrees. "It is time-consuming, but it is one of the most important aspects of the business. If you have control over your figures, then you have control over your business, you enjoy trust and a certain degree of entrepreneurial freedom. If you do not have control over your figures, management will narrow down this leeway and increasingly take over for you, until you are out." (See case study, page 16).

Another bone of contention among CFOs is the lack of agility in the reforecasting process at their companies. The majority of respondents disagreed with the statement: "Performing an enterprise-wide, bottom-up reforecast is a quick and easy process." (See Chart 9.)

> Chart 8 – Collaborative, yes, but time-consuming

Which of the following descriptions apply to the process your organization follows to link operational plans with overall financial plans and forecasts? (% of respondents applying the description)



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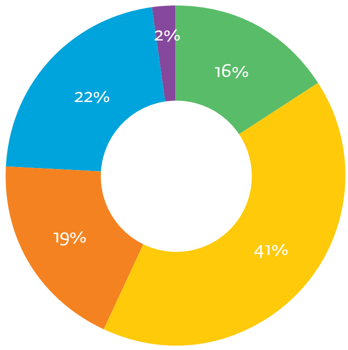
One CFO in France blamed fragmented systems for the time-intensive nature of reforecasting at his firm and is looking forward to the arrival of an ERP application in October. "Every time we try to do something special, we are wasting time," he says. "For example, this morning I had a meeting [about the cost of buildings and land]. I had to check inside all my paper invoices to get the information. I cannot get it [using Excel from the mainframe]. With ERP, it will be much easier to get this information."

The research confirms that spreadsheets have a hold in companies, even when their many deficiencies are taken into account by CFOs. In the next section, we'll examine exactly what CFOs want in a business planning tool, look at the main barriers to integrating financial and operational planning, and examine the main barriers to integration.

> Chart 9 – Not so quick and easy

Is performing an enterprise-wide, bottom-up forecast a quick and easy process?



> Case study – NMHG: The fruits of integration

From marketing forecasts to the factory floor at the fork-lift truck maker

To understand how financial planning that's reasonably integrated with operational planning benefits a company, listen to Steve West, vice president of finance for EMEA at US$2.3-billion-a-year NACCO Materials Handling Group (NMHG), one of the world's leading makers of fork-lift trucks. "The biggest impact is on our ability to increase or change outputs in the factories in response to changes in the sales marketing forecast," he says. "I think that's a key area that everyone strives for; the ability to quickly change production volumes efficiently and effectively as a result of changes in sales and marketing."

If end-user demand were to rise overnight by 20%, for example, dealers would be placing higher orders at short notice. A cascade of planning and forecasting changes must occur at all levels of the company if NMHG is to retain and even increase its market share. "We have detailed planning meetings where these sorts of things are discussed, so the information will be disseminated," says West. Factories would take the input, re-plan and respond. Human resources would look into additional staffing. Finance would allocate additional working capital and possibly more spending on equipment, and come up with a new P&L and balance sheet off the back of the changes.

Technology helps knit the various processes together. "Essentially for the short-term [annual] plan, it's more or less spreadsheet-based," says West. "For operational planning, we have a system for scheduling the factories. Our ledgers are ERP, so it's a slightly different platform there, but there are planning elements in ERP that we use as a tool for day-to-day planning."

Fast-moving companies like retailers or manufacturers of perishable goods might find the timing unacceptable, but NMHG is in a relatively slow-moving space – the technology for fork-lift trucks is more or less mature, and materials and parts are durable and can last for decades. "In the main, our system is fairly responsive to what we need," says West. "There are various interfaces that link [the various platforms] all through. It's fairly easy, actually. For example, for planning purposes, we're getting numbers out of the books within three or four days after the month's end. That's not late for planning."

"But there's always ground for improvement," he concedes. For West, the ideal solution is what he calls "a cradle-to-grave system that links all the financials with the operational side, with short and long term planning. How quickly could that be achieved? We're probably talking about a number of years."

Another consideration is the continuous improvement being done by vendors of its existing systems. The company is also finding new ways of using existing tools that it did not exploit earlier as a result of hiring consultants and sending its own people on training courses. As a result, says West, the current planning and forecasting system has in the past 18 months "become better understood and more slick in terms of getting a finished product out in the end."

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SECTION 3 — A desire to improve

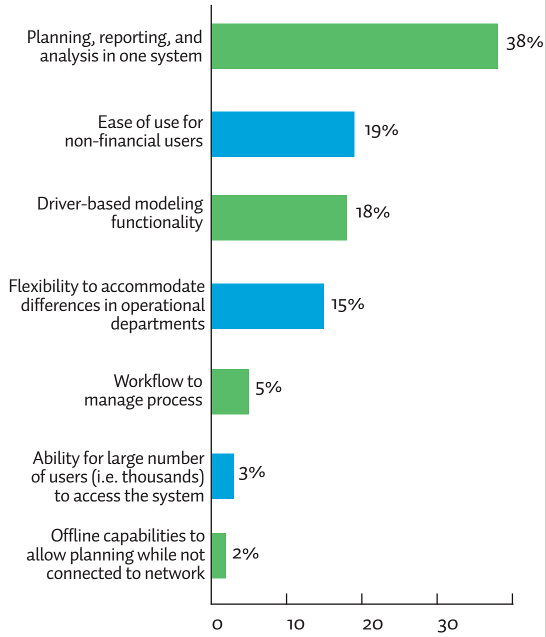
Overview: • CFOs' number one priority for a business planning tool is linking planning, reporting and analysis in one system. • Many CFOs interviewed are taking active steps to improve the integration of operational and financial planning at their company. • The main barriers to integration are process upheaval, perceptions of high costs and the fact that other business projects are taking precedence.

Many of the CFOs interviewed for this report expressed a strong desire to improve the integration of operational and financial planning processes at their organization. Here is Steve Rosen's vision of Biogen Idec's forecasting process in the near future: "I see us having a very tightly integrated operational as well as financial exercise, where the data integration between IMS, CRM or clinical trials is seamless, either directly integrated into one environment, or seamlessly integrated through an enterprise application strategy so that it's all in a common data warehouse and very easy to source, depending on which user is using it."

"'Ease of use for non-financial users' was also widely cited as an important capability for a business planning tool."

Ian Marsden, European financial controller at Timken, has his sights on a similar goal: "I think the expectations are that we'll have better visibility of demand changes in the future, and the ability to match them with production schedules, so that we can be more responsive to changes and demand and also better able to serve two different types of customers."

> Chart 10 – The number one priority for a business planning tool (% ranking the item number one)



The survey certainly revealed a desire among CFOs to take the steps necessary to achieve greater integration: linking planning, reporting and analysis in one system is their top priority. (See Chart 10.)

"Ease of use for non-financial users" was also widely cited as an important capability for a business planning tool: 57% of CFOs put this in their top three planning tool capabilities out of a list of seven choices. This reflects the widespread desire among CFOs to make staff across the company more "financially knowledgeable." User-friendly planning tools can help them to achieve this, while at the same time integrating operational planning data with financial information. The benefits are many, including faster decisions, reduced reliance on the IT department and broader acceptance for new tools throughout the organization.

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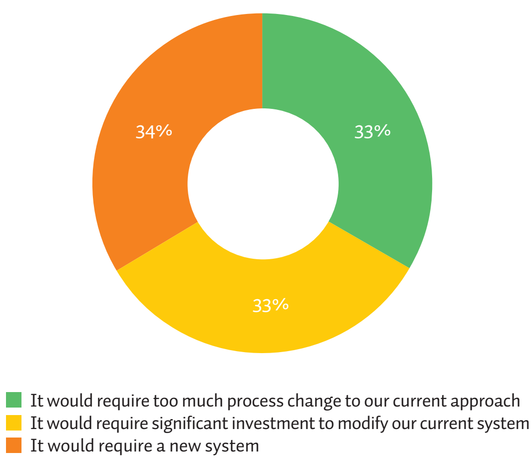
According to Wolfgang Farkas, finance director at Goodrich Primary Flight Control, it is particularly important to give HR departments the tools – and know-how – they need to access and update integrated planning systems. "Finance and HR are working closer together, and finance uses its experience to assist HR a little bit to find its way through the software. As a team, finance has to help HR sometimes with the technical side of it," he says.

Barriers to integration

So what obstacles do CFOs face on the way to their goal of complete operational and financial planning integration? One third of respondents felt that it would require "too much process change" to their current approach to the planning process. Another third said that the need to buy and install a brand new system is the biggest hurdle. The remaining third said the investment needed to modify their firm's existing system is the biggest barrier to fully integrating operational and financial planning. (See Chart 11.)

> Chart 11 – Which of the following best describes the main barrier preventing your organization from achieving more integration between financial and operational planning?



Kevin Maher, controller at Designed Alloys in the US, encapsulates the thought-process of many CFOs: "We either need to make enhancements to the configuration of our existing system, which can be painful and costly, or we need to consider the necessity of a new system."

When it comes to improving processes to allow for better integration of operational and financial planning, 46% of CFOs said that other, more pressing, projects are the main obstacle.

Wolfgang Messner, finance director for Central and Eastern Europe at technology firm Sykes, adds that in some countries, it may not be possible to integrate HR functions into an over-arching ERP application, because such applications cannot always handle local regulatory requirements. "For example, for Germany, you cannot do German payroll accounting in the system we use because there are legislation-specific requirements in Germany that the system cannot cover," he says. "This is true for three or four other countries. So at this point of time, at least, HR is not integrated."

Although CFOs in this study rightly point out that systems can never be perfect, and that integration of financial and operational planning can involve investing time and money, especially when other projects compete for those same resources, the evidence in this report suggests that the benefits of taking the plunge will return significant dividends. These include more accurate forecasting that is automatically tied to the underlying drivers in the business, greater efficiency as emails and meetings take up less of finance's valuable time, and better relationships with colleagues in operations by automatically linking operational planning with the financials.

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> Case study – Sykes: Home improvement
Accountability is key at this technology specialist

Wolfgang Messner, finance director for Central and Eastern Europe of Sykes, a Nasdaq-listed company that provides manpower and technical support knowledge to the contact centers of high-technology companies, is proud that the deviation between monthly forecasts and actual results at the firm is usually less than 5% even at profit center and cost center level. "But there is still room to improve," he says. "I would say that we are at maybe 85% of where we want to be." The two areas for improvement are in forecasting at the individual account management level, and in planning and forecasting software.

Forecasting at Sykes is done from the bottom up, starting with the person responsible for each client's activities. "There's room to improve the knowledge and understanding of the people who forecast, their awareness of their decisions on the overall company performance, and the impact they make on other operations and other sites," says Messner. "There are really great people who have entrepreneurial thinking and realize connections between activities and departments, and operating sites but others are not yet there."

To help them, Sykes holds formal meetings called account reviews, where the account managers in each site—four in Germany, one in Slovakia and another in Hungary—discuss their forecasts, action plans and other activities so everyone else knows what is going on while learning about solutions and procedures for similar issues that he or she may be facing. There's also a Center of Training and Quality that documents the company's best practices, including forecasting and planning, and spreads them across the organization.

The second area of improvement is the technology for the planning process. Sykes is in the early stage of implementing new software to replace the current application, which requires the use of spreadsheets. "It's now more important to get additional information into the [current] tool in order to make the data available in a more standardized form and not via an aggregating exercise," Messner explains. "There are still too many spreadsheets. Excel is good, it's flexible and fast in a certain way, but it's a lot of manual work."

However, certain functions in the European operations are not integrated into the ERP system, which has been installed across Sykes's offices worldwide. There are certain legislation-specific payroll-accounting requirements in Germany that the system cannot cover, for example. In Europe, HR holds this data in a separate system, but finance generates its own numbers as well because HR's processing methods and cut-off periods do not quite match finance's requirements. The two sets of HR numbers sometimes do not match. "Basically HR data is integrated, but we do it twice," says Messner. "There is room for improvement."

Still, he believes that finance and operations are reasonably integrated. "There's one simple principle which is very important in our company, and that is that actual figures are the responsibility of finance, while forecast data is created by operations," says Messner. "Each side questions or challenges the data, corrects it, explains it, defends it. This is done at the most basic level, with the account managers discussing with the local finance manager, then the discussion goes all the way up the hierarchy to the CEO. This is mainly why we have such small deviations in our forecasts, because everybody is aware that if deviations are larger, then they will run into big discussions."

Can the accuracy of the forecasts still be improved? Only up to a point, says Messner, because an important piece is essentially outside the company's control. This is the clients' own forecasts. When a customer launches a marketing campaign or advertisement on TV, for example, inquiries to the contact centers typically surge. If these plans are not communicated to Sykes, the contact centers would have to scramble to deal with the unexpected increase in call volumes. The gap between the monthly forecast and the actual sometimes goes beyond 5%. "If a client's forecast was not good, that's excusable," says Messner. "What we don't like are surprises that are caused internally, such as someone getting his costs wrong." That may indicate that the person does not have complete control over the business, or is perhaps manipulating his or her results.

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Conclusion

Our survey findings and in-depth interviews provide clear evidence that the appetite for improving the integration of operational and financial planning is strong among CFOs in large multinational companies. Finance leaders believe that integrated planning processes would bring a host of tangible business benefits including more accurate plans and reduced budget cycle times.

However, our findings also show that most firms remain some distance away from achieving full integration. Spreadsheets continue to be the most widespread tool for most types of operational and financial activity, even though in our survey the use of spreadsheets is linked to dissatisfaction with planning and forecasting. Moreover, the survey shows satisfaction levels rise when companies use packaged planning systems as their main operational planning tool.

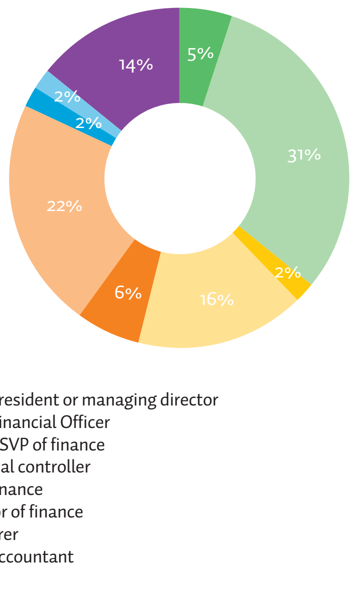
Although most companies' planning processes remain a patchwork quilt rather than a seamless system, the evidence from our in-depth interviews shows that CFOs are taking concrete steps to improve integration. Yet significant barriers stand in the way: not least perceived high costs and the pressing nature of other business priorities.

CFOs realize, though, that the imperative for greater integration will only get stronger in the future. They know that the journey to seamless processes won't be easy. But that isn't going to stop many CFOs from making it.

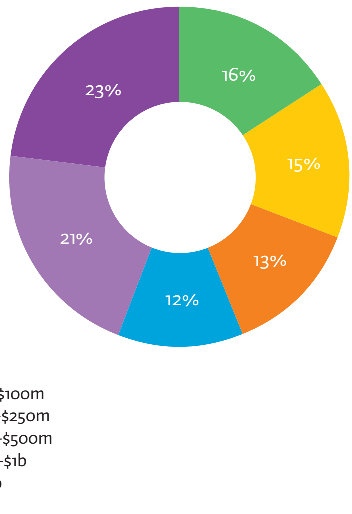
Study methodology

CFO Research Services surveyed more than 400 senior finance executives in the US, UK, Germany and France through an online survey conducted in March 2008. Responses came from a cross-section of all major industries. The following is further demographic information about the respondents.

> Chart 12 – Job title



> Chart 13 – Annual revenue



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Business Objects, an SAP Company, is an independent business unit within the SAP group of companies. Business Objects offers a broad, innovative portfolio of solutions that help organizations optimize their performance, including enterprise performance management, governance risk and compliance and business intelligence.

The preceding CFO Research Services survey identified a number of common performance management goals that the office of the CFO in multinational organizations is trying to achieve. The three most commonly selected goals were improving planning accuracy, better alignment of targets with corporate goals and underlying business drivers, and containing costs. Key barriers to achieving these goals are rampant use of independent spreadsheets, fragmented and time intensive manual planning processes, and existing tools being too difficult for the average business user within the organization. When asked what capabilities are most important in a planning tool, respondents chose ease of use, flexibility and an integrated solution.

SAP Business Planning and Consolidation (BPC) streamlines the planning process with a unified solution that combines planning, consolidation and reporting capabilities in one application. The application supports top-down and bottom-up planning leading to operational plans that are more aligned with strategic goals. It facilitates collaboration across all functional departments for more timely, accurate budgets, and enables continuous planning and rolling forecasts to meet rapidly changing business conditions and reduce budget cycle time. Because budget cycle times are reduced and plans are more accurate, considerable cost savings are achieved by avoiding re-work and forecast errors.

Only Business Objects delivers a complete planning application that is designed from the ground up for the end user, is process-centric and provides automated, forward-looking predictive capabilities.

Unlike BPC, the majority of other planning products on the market today are disjointed (modular-based), difficult to use for the average business user, fail to integrate standard business processes, and lack embedded predictive capabilities. Only Business Objects delivers a complete planning application that is designed from the ground up for the end user, is process-centric and provides automated, forward-looking predictive capabilities.

Familiar and Easy To Use

BPC delivers an unparalleled user experience fostering wider adoption and increased collaboration within the

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organization. Users choose the interface that they are most comfortable working with – Excel, PowerPoint, Word, or the Web. For "spreadheads" that prefer Excel, BPC supports native Excel so the user experience is identical to standalone Excel without the downside of multiple spreadsheets or "spreadmarts" being scattered throughout the organization. This is achieved because BPC utilizes a central data repository - everyone is working off a single version of the truth. Context-sensitive, Intelligent Action Panes are provided throughout the application, guiding users to available options and tasks depending on where they are in the application so users are never lost. This reduces training time and user frustration. From an administration perspective, the application is designed to be owned and maintained by business users. Finance owns the application with little dependence on IT, allowing the ability to rapidly adapt to changing business scenarios.

Process-Centric

Pre-defined workflow templates known as Business Process Flows (BPFs), manage core financial and operational planning processes. BPFs act as a step by step guide for users so they don't have to remember where they left off in the planning process and cannot miss steps along the way. This helps enforce standards by ensuring consistent planning processes across the organization. SAP Business Planning and Consolidation ships with a number of pre-defined BPFs including, strategic planning, sales and revenue planning, workforce planning, expense budgeting, forecasting, and budgeted financial statement reports. They can also be created or modified to align with your existing business processes.

Forward-Looking

BPC includes automated, predictive analytics that proactively warn users of negative variances and provides an early-warning system for key performance indicators (KPIs) at risk of under-performing in future periods. It then recommends actions that can change predicted outcomes for the better. In addition, you can quickly find explanations for variances, and root causes, so you know where to focus management attention.

SAP Business Planning and Consolidation is an open, adaptable application that integrates with any environment – SAP or non- SAP. For more information on how BPC can facilitate more accurate and efficient operational and financial planning within your organization, please visit our website at:

www.sap.com/solutions/performancemanagement/index.epx

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