Achieve Agility in Planning and Execution

Contingency Planning Built with Predictive Analytics Delivers Better Results

RESEARCH PERSPECTIVE

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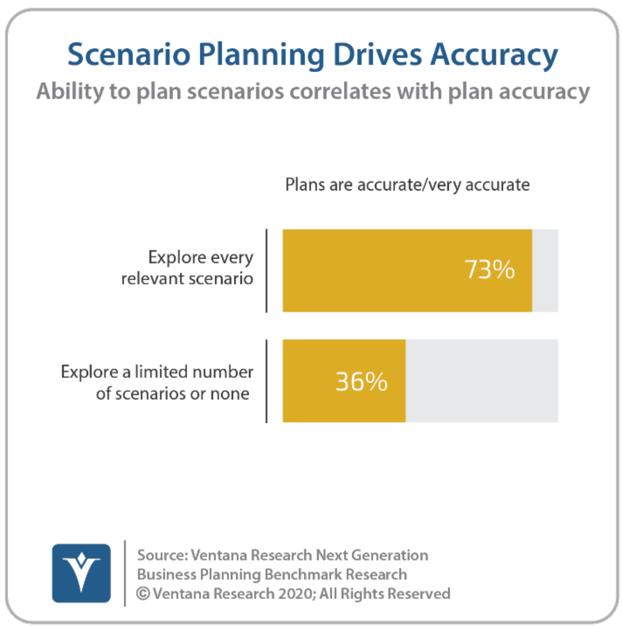
Plan to Adapt

Finance executives have come to value contingency planning and adaptability in the face of uncertainty, whether it is caused by a worldwide crisis or simply the variance of day-to-day business. The level of adaptability in an organization determines its agility when responding to out-of-the-ordinary circumstances, and the finance department's ability to execute rapid planning, forecasting and budgeting cycles is a major factor in an organization remaining successful under almost any circumstance. Technology—software, especially—is the essential element that enables organizations to execute these rapid planning and budgeting cycles.

Anticipate Change with Contingency Planning

Contingency (or scenario) planning is the process of dealing with an uncertain future by anticipating a range of scenarios and determining how best to respond to them. It is a management process that poses "what-if" questions to find the best plan for dealing with a particular situation. These are questions such as, "What if the economy grows by three percent next year?" Or "What if our competitor cuts its price by four percent?" Or "What if there is a disruption to our supply chain?" Deciding how best to operate in individual scenarios requires evaluating and managing resource trade-offs. Executives need the ability to clearly see the outcome of choosing option A, B or C, including the impact of each on sales, on-time deliveries, operating margin, customer satisfaction, and the balance sheet and cash flow, to name a few.



Our Business Planning Benchmark Research found a correlation between plan accuracy and the ability to plan scenarios: 73% of organizations that can explore every relevant scenario have plans that are accurate or very accurate compared to 36% that can evaluate few or none. Scenario planning of this sort is possible only if a company has integrated its operational planning and financial budgeting so executives can determine the best path to achieve its financial objectives. These contingency plans are only feasible if the process can be done rapidly enough to support an agile decision-making process.

Unfortunately, our Business Planning Benchmark Research also finds that only 12% of organizations can fully explore all relevant contingencies in their planning processes. Just 32% can understand the financial and operational implications of their sales plans, and fully 58% have only a limited or no ability to measure trade-offs in potential action plans. Without technology that allows for an insight-driven approach to evaluating and managing contingencies and scenarios, organizations have a limited ability to quickly adapt to changes in the economy or the competitive landscape.

Technology Enables Contingency Planning

Technology must include three key capabilities for adaptable and agile planning to be possible. First, dedicated planning software should enable every business unit and department to work in a single system that allows each to plan and budget in a manner best suited to its needs. Since all parts of the organization are working in the same database, everyone is using the same numbers and all changes and updates are automatically consolidated to provide the business and financial leadership with a unified view. Technology provides the ability to quickly explore the financial and operational impacts of multiple scenarios at a level of detail necessary for data-driven decision-making. Technology can also shrink the time required to answer important "what-if" business and financial questions to seconds or minutes instead of hours or days so collaborative planning sessions can end with a set of well-considered action items instead of, "Let's discuss this later when we have more data."

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Second, the software should enhance the accuracy of the process by incorporating predictive analytics. All organizations use descriptive and diagnostic analytics based on historical data to explain the past, but the ultimate purpose of planning is to make the right decisions about the future. Simply scanning historical data is not always a reliable guide for deciding what to do next because humans can be biased in their interpretation of past results, especially if they must take multiple factors into account. Predictive and prescriptive analytics serve to improve that decision-making process by assessing a wide set of data to find useful correlations that have a causal relationship with outcomes.

Despite the importance of such processes, our Business Planning Benchmark Research found that just 24% of organizations utilize predictive analytics, which promote forecast and plan accuracy, accelerate planning cycles, and provide better insight and visibility into potential outcomes to support consistently better decision-making. Analyzing the data for relationships will identify the factors driving outcomes, and knowing which factors are relevant to that outcome enables decision-makers to develop responses to events with greater intelligence.

Finally, software should facilitate financial planning that instantly integrates an income statement forecast with the related proforma balance sheet and statement of cash flows. In periods of financial stress, whether from global events such as recessions or changes in an organization's specific operating environment, understanding future cash flow and balance sheet outcomes under different assumptions enables finance executives to make better decisions. It is also valuable even under steady-state conditions because it enables more informed decisions about the timing and amount of capital expenditures, acquisitions and corporate finance.

Enhance Agility and Resiliency

The only constant in business is change. Because this is true, senior executives must have a financial planning and analysis strategy, and the FP&A group must have the tools to quickly deliver answers to any "what-if" question—and to provide the answer right away instead of with, "I'll get back to you with that." Rapid planning and budgeting cycles that integrate the operational and financial dimensions are at the heart of running a modern organization. FP&A organizations can give their executives a sustainable competitive advantage by having the tools and technology to make their company more agile, adaptable and resilient.

About Ventana Research

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