How can business planning activate your purpose?

Businesses continue to transform at pace to stay competitive. The reasons behind business change are well understood – increasing global consumer expectations, challenges concerning resource scarcity and increased regulatory oversight.

To navigate change, businesses are rethinking their purpose to drive innovation and growth. A strong purpose focuses the business strategy on delivering value and meaning for customers, employees and other stakeholders. Ultimately, this delivers value for all stakeholders. However, organizations’ planning capabilities are not keeping pace with the speed at which businesses are transforming. Businesses cannot capitalize on opportunities created by their transformations if they are not able to quickly realign plans, budgets and forecasts continuously reallocating resources.

Put simply, in order to deliver their corporate purpose, organizations need to rethink their planning processes to help make it happen. They need to use purpose as a mechanism to activate positive change.

What can go wrong?

If financial forecasts or plans are not reliable, the consequences for a business can be profound, leading to poor decision-making by executives and destroying credibility with investors. Across the globe, the number of profit warnings is rising. Thirty-eight alerts were released by FTSE 100 companies in 2014, the highest number since EY started recording data on warnings in 1999. For example, shares in one major US automobile manufacturer dropped by more than 5% after it issued profit warnings in Europe. This trend looks set to continue.
1. Why are current planning approaches failing organizations?

Many organizations approach planning as a treadmill process — repeated every year — rather than as an integral part of decision-making and driving the dynamic allocation of resources. The focus of the planning process is often on a protracted annual target-setting negotiation, rather than on business strategy and continual performance improvement (i.e., outcomes. Often, it doesn’t conclude until late in the year, only for the same process to start again a few months later.

This approach does not make any provision for the pace at which markets move. For example, a dramatic drop in oil price impacted a major oil and gas company, whose annual planning process and target setting took more than nine months. The organization had to make a number of urgent interventions (taking up significant time for finance and business teams involved) and the agreed plans and forecasts were abandoned and not revisited.

Cost management: penny-wise, pound-foolish

To control costs, many finance functions require their cost center managers to budget all activities in detail, typically adopting a “one size fits all” approach. This leads to the creation of wish lists that later become a license to spend. The result is a failure to understand the linkages between different types of expenditure, and the purpose and benefits to the organization. This creates conflicts and negotiations with the business in agreeing cost budgets. Procurement functions look at sourcing strategies but are sometimes disconnected on quality and strategy from the business that is looking for flexibility.

A senior executive at a global consumer goods company proudly talked about the effectiveness of their lean manufacturing operational excellence program. Only later did they admit that the biggest cost items of marketing and promotions had remained untouched. Cost management is, ultimately, hindered by the silos between finance, procurement and the business.

Starting with the wrong assumptions

The rate at which planning assumptions are becoming invalid is accelerating at the same pace as the changing business environment, and has caught many businesses by surprise.

For example, the initial response by a leading consumer products company to planning problems was to create more detailed forecasts, more frequently. Needless to say, this made things worse, rather than pausing to gain a deeper understanding of underlying trends, the organization became lost in a torrent of irrelevant data points.

Technology alone is not the answer

Many organizations find the number of options for technology overwhelming. They struggle to find the right tool and then fail to successfully embed that tool. All too often, they transform the planning capability around the new tool, rather than transforming the planning capability itself, enabled by the new tool. Nothing changes but the technology.

One business services organization purchased new planning technology, only to replicate existing processes from existing spreadsheets. By doing so, it missed the critical need to transform the planning process to keep pace with the business, and failed to drive the accountability on decision-making it had sought to achieve.

Reporting and planning capabilities should be a key enabler to the vision for performance management
Failure to capitalize on the wealth of data created by the ongoing digital revolution

The digital revolution has resulted in an explosion of data, but many organizations are yet to understand the opportunities this creates to enhance planning and forecasting. One of the sectors that first felt the impact of “digital” on its business models has been the life sciences market. Data is the new currency in today’s health care ecosystem, but many life sciences companies have been slow to exploit this.

2. How is effective planning embedded in an organization and the benefits realized?

Organizations need their planning processes to continually reflect how the business is reacting to changes in the market.

This has implications that go beyond planning and forecasting – to the heart of how the business is run and the decisions made that drive performance.

Align business planning to your organization’s purpose

To achieve exceptional performance, many companies are setting purpose at the heart of their strategy. Research has shown that using purpose as a mechanism to activate enables organizations to develop premium brand positions, create customer loyalty and advocacy, outperform the market and attract the best people and keep them motivated.

Embedding a common understanding of purpose across the organization – which must be driven by senior leaders – is critical. Embedding a planning capability aligned to the organization’s purpose should be a key part of any business transformation initiative. Effective planning processes enable the relentless focus on performance improvement and risk management to achieve the goals of that purpose.

Stop using the planning process as a license to spend – spend with purpose

Organizations must look holistically at costs and benefits, with a view to challenging the levels of spending across all areas and categories, and avoid simply scrutinizing major ticket items, matching historical levels of spend or taking costs out through organization restructuring.

To achieve this, organizations should approach budgeting from a “zero basis.” This does not mean “start from scratch” budgeting of all future activities, which is a daunting, administratively complex process that consumes more energy than the potential benefits can justify. In practice, sustainable cost reduction does not require companies to budget in detail for every future activity. Refer to “The five steps behind cost reduction” on page 4 to find out more. In addition, advances in analytical tools provide depth of insight into the organization’s costs, transforming tasks that were deemed overwhelming in the past into simple and manageable activities.

Leadership, accountability and cultural change are also critical. A senior executive at a consumer products company noted that the mindset had shifted from “justifying spend because it is in a budget” to “even though I can spend, it does not mean that I will.”

The five steps behind cost reduction

Companies do not need to budget in detail for every future activity in order to realize sustainable cost reduction. This can be achieved by implementing five simple repeatable steps:

1. **Understanding your spend.**
   Organizations should have insight into the structural level of spend for each category (direct, indirect, operating, sales and administrative costs). Information such as who has incurred the cost, what was it for, where was it incurred, with whom, how much and how often should be understood. Further analysis should show whether there are any discrepancies across business units, functions, geographies, products, brands and customers etc.

2. **Implementing the right policies and procurement sourcing strategy to drive the right behaviors.** Use the evidence obtained by analyzing trends and patterns (i.e., from the insights obtained in the previous step) to define sourcing strategy and set effective policies that encourage and endorse the right behaviors aligned to the organization’s purpose.

3. **Target setting.** Set aggressive targets for the key performance measures. Many organizations confuse target setting with detailed activity budgeting. To incentivize the right behaviors, reduce consumption and build a mindset of innovation and continuous performance improvement. Aggressive targets can be set independent of budgeting.

4. **Accountability.** Set clear accountability to drive the discipline of review and challenge that is needed to make cost management work.

5. **Continuous review and monitoring.** Continually monitor, review and challenge performance against targets and refine policy setting as required. Many organizations worry that aggressive cost reduction may impact the topline performance, the “brand” and future success, but with continuous monitoring and review, these concerns can be alleviated.

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### Use data and technology to inform decision-making

Low cost, commoditized analytical technologies have the power to revolutionize planning. They can help businesses automate planning processes and produce increasingly sophisticated forecasts. They can make planning faster, more accurate and more flexible than ever before by enabling organizations to automate the analysis of large volumes of data at the appropriate level of detail. By using statistical approaches (understanding trends and patterns) to get forecasts, it is possible to improve accuracy, be more efficient and reallocate resources faster.

Similarly, low-cost collaboration tools (designed for a range of consumer devices from smartphones to tablets and laptops) significantly improve communication across teams, driving decision-making, action and accountability.

It is important to remember that transforming the planning process is about far more than simply the introduction of a new tool. It is about bringing people and insight from data together to drive agility in decision-making.

### Disrupt the traditional way of doing things and effect a mindset change

The effort required to achieve behavioral change should not be underestimated. This impacts accountabilities, the way targets and incentives are set and, ultimately, consequence management. It resembles a game of identifying and rewarding the right behaviors. A clear understanding of the degree of change, and the potential disruption this can cause the workforce, is vital to ensure engagement and commitment to success.

### The fruits of purpose-led planning

Many organizations are using purpose as an engine to drive superior performance. By redefining the purpose of their planning and forecasting processes, enabled by analytical and collaboration technologies, organizations will be able to sustain the right streamlined planning processes to optimize resource allocation and thereby drive performance. This, ultimately, activates delivery of corporate purpose for both growth and innovation.

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Authors:

Phani Solomou
Advisory — Performance Improvement
EY, Europe, Middle East, Africa and India (EMEIA)
psolomou@uk.ey.com

Rehana Ali
Advisory — Performance Improvement
EY, UK
rali@uk.ey.com

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If you wish to contribute to Performance or comment on the articles published, please contact us via one of the following emails:

- performance@de.ey.com
- anna.di.mattia@de.ey.com
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