



A Buyer's Guide for Budgeting, Planning and Forecasting Software

8 key capabilities to look for when evaluating BP&F solutions

A White Paper prepared by arcplan

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Introduction

An efficient budgeting, planning and forecasting (BP&F) process is a cornerstone of successful organizations, with each stage providing a blueprint of how the company will achieve its financial goals. The budgeting process plots company expenditures and provides supporting detail documentation; the planning process outlines the company's short- and long-term financial direction and expectations; and the forecasting process predicts financial outcomes based on current and past performance. As many finance teams will attest, "budgeting season" is a time of enormous pressure as departments cope with constantly changing market conditions which influence financial plans, and must make resources available to deal with the time-consuming, complex planning process.

According to a 2013 [report](#) by the Aberdeen group, *Financial Planning, Budgeting and Forecasting: Removing the Hurdles*, **Best-In-Class companies use a financial planning tool** to alleviate the stresses surrounding the BP&F process and to **create accurate and efficient financial plans**. BP&F software goes a long way towards driving financial efficiency, visibility and accuracy – much more so than disconnected, error-prone spreadsheets. Sophisticated and automated planning software addresses advanced planning and analytical needs that are not met by spreadsheets alone, including workflow, write-back and data visualization. It enables the creation of timely "living" plans that allow an enterprise to be agile, making decisions based on current business conditions and up-to-date data from many systems.

If your organization has outgrown spreadsheet-based planning or is looking to fill gaps in your current planning process, this guide lays out the specific system components you'll want to look for based on the combination of research from analyst firms like The Aberdeen Group and arcplan's twenty years of experience helping companies of all sizes with their data visibility, reporting and planning.

This guide covers the following 8 components:

1. **Workflow**
2. **Spreading & Allocation**
3. **Offline Planning**
4. **Supporting Detail & Commentary**
5. **Rolling Forecasts & "What-If" Scenario Analysis**
6. **Familiar Spreadsheet Interface**
7. **Integrated Reporting & Visualization**
8. **Planning Dashboards**

Essential Budgeting and Planning System Components

The budgeting, planning and forecasting process is no small task for finance departments. Sans BP&F software, plans can take weeks and sometimes months to complete; not to mention the quarterly revisions or ad-hoc requests which may pop up from time to time. Ensuring that the solution you choose incorporates the following critical components can ease these pressures and make the process much less arduous.

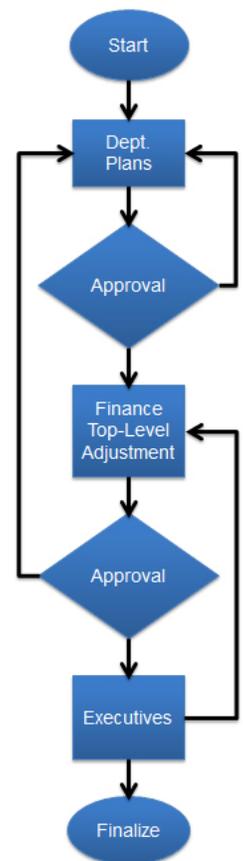
1. Workflow

Enterprise workflow is what separates a financial planning or corporate performance management system from simple data collection and reporting systems. BP&F systems with workflow allow planners to follow a series of steps to bring the plan from initiation to completion. Workflow logically orders tasks and enables managers to keep an eye on where their team is in the planning cycle.

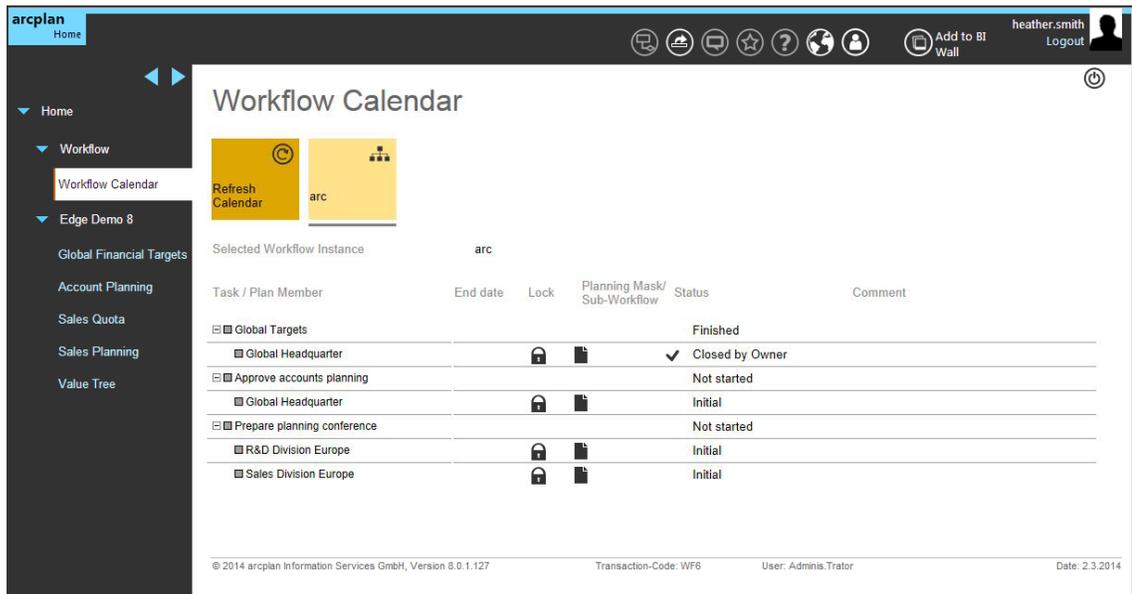
For instance, a system like arcplan Edge, which has integrated workflow, enables plan creation, submission and approvals to occur sequentially, with notifications sent out to the right users and approvals occurring within the system itself. So once users finish their plans and submit them for review, arcplan alerts their supervisors that action is needed. As the plan goes up the chain of command for approvals, alerts are sent and plans are locked to changes, except where they are rejected and sent back for modification.

Workflow can go even deeper in terms of holding planners accountable for their work. Procrastinators can seriously hinder the success of your planning process, but there is something you can do to hold them accountable in a public manner – utilize a transparent workflow calendar. Public calendars can be used as a means to improve process transparency by exposing everyone's status in the current planning cycle. In effect, they introduce a healthy dose of planning peer pressure. Though the system will send prompts when tasks are due, department managers can use the calendar to send additional reminders to planners about their workflow status and prompt them to complete their tasks as soon as possible.

Why is workflow so beneficial to modern planning systems? Workflow makes collaboration easier by defining responsibilities and due dates, and it improves transparency and accountability. Workflow also contributes to goal management, as managers are able to track the progress of tasks that are related to a specific planning objective. Alerts allow planners to know exactly when a plan is approved or rejected –



especially helpful in large, distributed organizations. And hand-in-hand with workflow is permissions – which users can modify plans and when. This is a level of control not present in Excel-based planning.



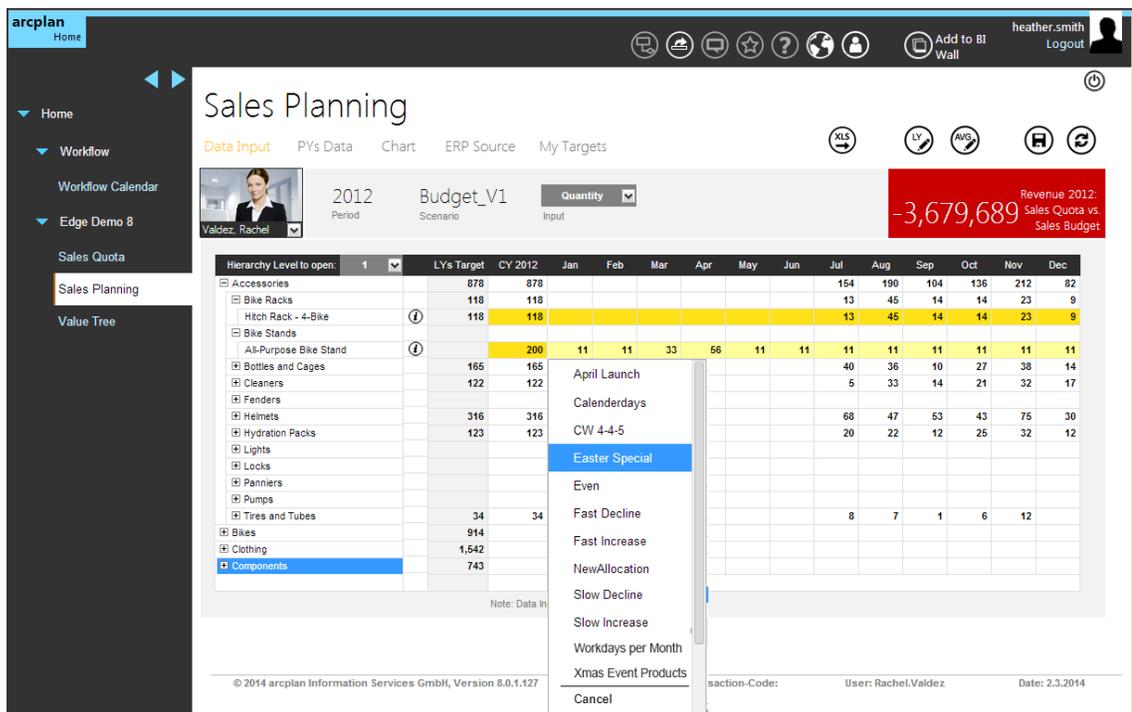
Workflow Calendar in arcplan Edge showing open and submitted tasks.

2. Spreading & Allocation

Spread methods are an efficient way to automate plans for a period without starting from scratch every time. Simply defined, spreading is the system's ability to take a budget value and spread it over a range of periods based on a divisible operator (like percent per month, for example). Your planning system should include built-in spreading functionality, especially the more popular methods – even (the most used method in practice), spread like last year, and spread like last year +/- a dollar value or percent.

Note: The terms "spread" and "allocation" are often used interchangeably, but there is a distinction between the two. Spreading is bottom-up only and occurs horizontally across financial periods, while allocation is vertically rolled-down (or "top-down") spreading. For example, if your company has two divisions (one in the US and one in Europe) and \$10 million in sales, you may decide to allocate 50% of that to invest in the US division and 50% to invest in the European division. This is an allocation rolled down from a higher level to a lower level, not a horizontal spread across. This may help you distinguish between the two terms.

Essentially, spreading is a fast data entry method. It saves time to have your system manage and centrally control your corporate spread methods. Users should also be able to create their own. A nice-to-have feature is color changes where data has been entered. For instance in an arcplan Edge system, blue cells indicate areas where data can be entered and yellow cells indicate that data has been entered during this session.



A variety of spread and allocation methods are available in arcplan Edge.

Shown here is a top-down allocation method – the Easter Special.

An additional spread method gaining traction is "**volumetric spreading**." This is a driver-based spread technique that does not rely on a divisible operator like other spread methods (like percent per month). Essentially it's multiplication-based rather than division-based. With volumetric spreading, the spread is based on corporate growth drivers such as growing transactions or increasing the number of new customers by X amount in the next financial period. The idea is that the costs associated with those drivers should align with the growth rate.

For more accurate forecasting, consider BP&F systems that enable spreading based on predictive modeling techniques like **linear regression** to predict a time period's spread based on data from previous periods. arcplan Edge, for example, can use regression to predict what the spread for September 2014 would be based on historical data from the last 5 years' Septembers.

Monte Carlo simulation is another technique used for predictive spreading. arcplan's Monte Carlo simulation function uses a historical min, max, and other parameters to simulate what the spread for the following period should be. It employs advanced visualization to show you what your actual data looked like last year, and depending on the spread technique you choose, it simulates a prediction for next year.

Sound complicated? These are built-in functionalities of world-class BP&F systems. To add value to your spreading process and ensure the longevity of your planning solution, make sure your vendor is capable of handling these types of spread and allocation methods.

3. Offline Planning

Offline planning is another key component of modern planning systems. Historically many organizations have relied exclusively on offline planning (otherwise known as Excel spreadsheets), but this capability still has merit – particularly for a geographically distributed workforce.

Whether planners are distributed in remote locations or simply travel frequently, there is value in being able to access a planning system offline. In areas with limited bandwidth or sporadic internet connections, once staff members reach an internet access point, they can sync their plans to the centralized repository and their supervisors can proceed with suggesting edits or approving the plans.

Take stock of your planners. Do they travel frequently and need to complete their work on planes in the absence of an internet connection? Though many flights now offer Wi-Fi, it's usually slow, expensive and ultimately not worth the fee, especially if the flight is relatively short. In this case, planners can be most efficient by simply working offline and connecting to the system when it is more convenient. Situations such as these push the requirement for offline planning capabilities to the forefront, so planners have the flexibility to complete their planning projects when it works for them.

In arcplan's case, customers are able to use Excel to conduct offline planning. How does it work? In short, arcplan uses its Excel Add-In, arcplan Excel Analytics, and secured Excel spreadsheets as a tactical local data source to enable users to budget and plan offline. Budgets, metadata, accounts, historical performance and resource data is pre-configured on the web-based version of the planning system, but only the budget's metadata is downloaded to the local offline version. Nevertheless, when working in an offline version of the planning report, users can work in a familiar Excel environment to query, analyze and modify data, while taking advantage of all their arcplan objects like hierarchies, radio buttons, check boxes, menus and graphics right in the Excel interface. Features used in online planning are maintained in offline mode; later users can reconnect to the network and synchronize the offline version of the report with the online "parent" version, thus maintaining consistency across all reports.

The benefits of offline planning capabilities are very practical ones:

- Budgeting timelines are not shattered because of limitations in system access.
- Planners get the flexibility they need and can be productive even without an internet connection. This is a key differentiator between arcplan's solution and other cloud-only systems.
- The offline solution will always be a lighter-weight tactical version of planning. Offline publications call on metadata attributes and not the actual content itself. Planners are still able to quickly make changes to business data and complete key workflow processes offline, then feed this information to the online planning system once connected.

4. Supporting Detail and Commentary

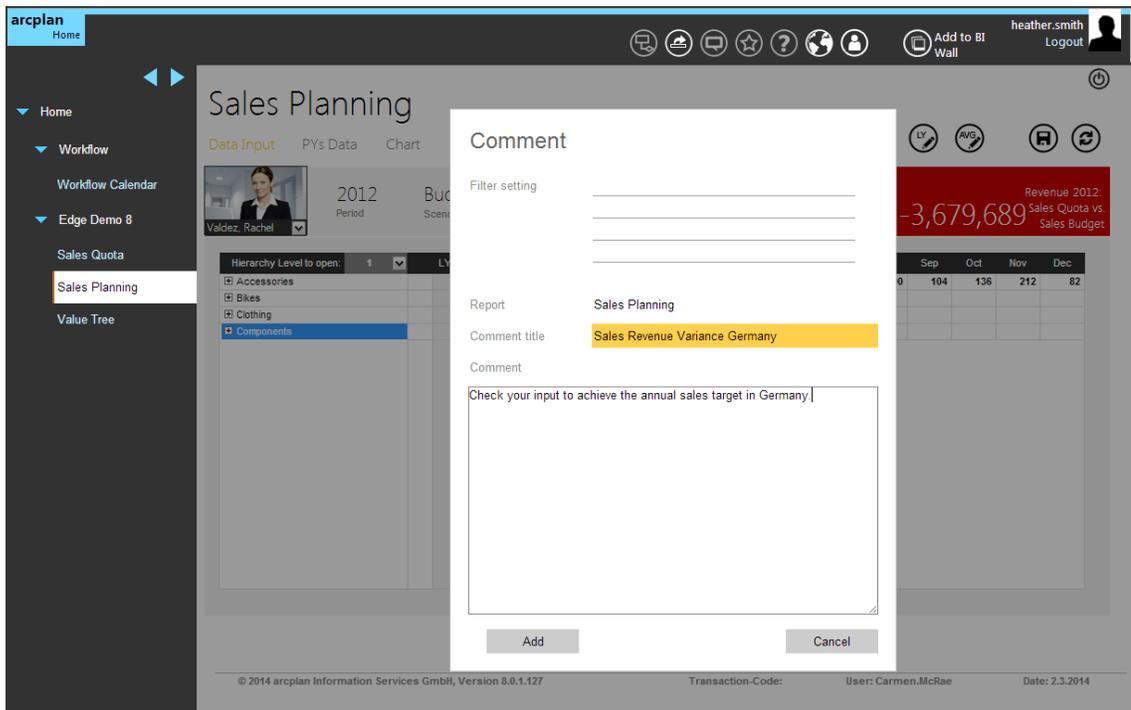
Supporting detail is the content that supports the plan data below the system grain. The system grain may be the department, account or cost center level. Supporting details tell an additive story that supports the higher level numbers in the plan.

A couple of use cases for supporting detail:

- Depending on how large your organization is, sometimes the submitted budget values are fairly large numbers. For instance, the finance director may question why you, the VP of Sales, have asked for \$250,000 in travel and entertainment expenses for the 2014 budget. Supporting detail capability gives you the opportunity to tell that story below the account level and explain what makes up that number.
- Expense figures are often aggregate numbers of several contributing costs. For example, the marketing budget may contain a line for conference expenses. Supporting detail would enable you to build the case for that line item by breaking out the fees for all planned conferences with their associated travel costs, lodging expenses, equipment rentals and conference services. Supporting detail provides context for your data, helping you build and communicate what contributes to corporate expenses.

In addition, the ability for planning users to add commentary is crucial, particularly when that commentary is stored in the database alongside the plan data, not just on the surface level of the planning system. Commentary adds verbose context to plan data and can be used for budget justification – the explanation or description of individual costs. For example, if your budget for in-person training is lower this year because many of the courses can be attended online, that information is considered commentary and should be entered into the planning system.

Changes in the business market, favorable or not, may cause income – and therefore budgets and plans – to fluctuate. Since the numbers alone do not provide a through explanation of occurrences, the commentary feature helps create a meaningful picture and allows planning users to keep track of changes that they likely won't remember a year later. By referencing previously saved commentary, planners are able to make better plans in the future. Additionally, management discussions will not consist of best guesses; with commentary, decision-makers are able to reference factual accounts of changes from year to year.



Commentary added to justify plan rejection by a supervisor in arcplan Edge.

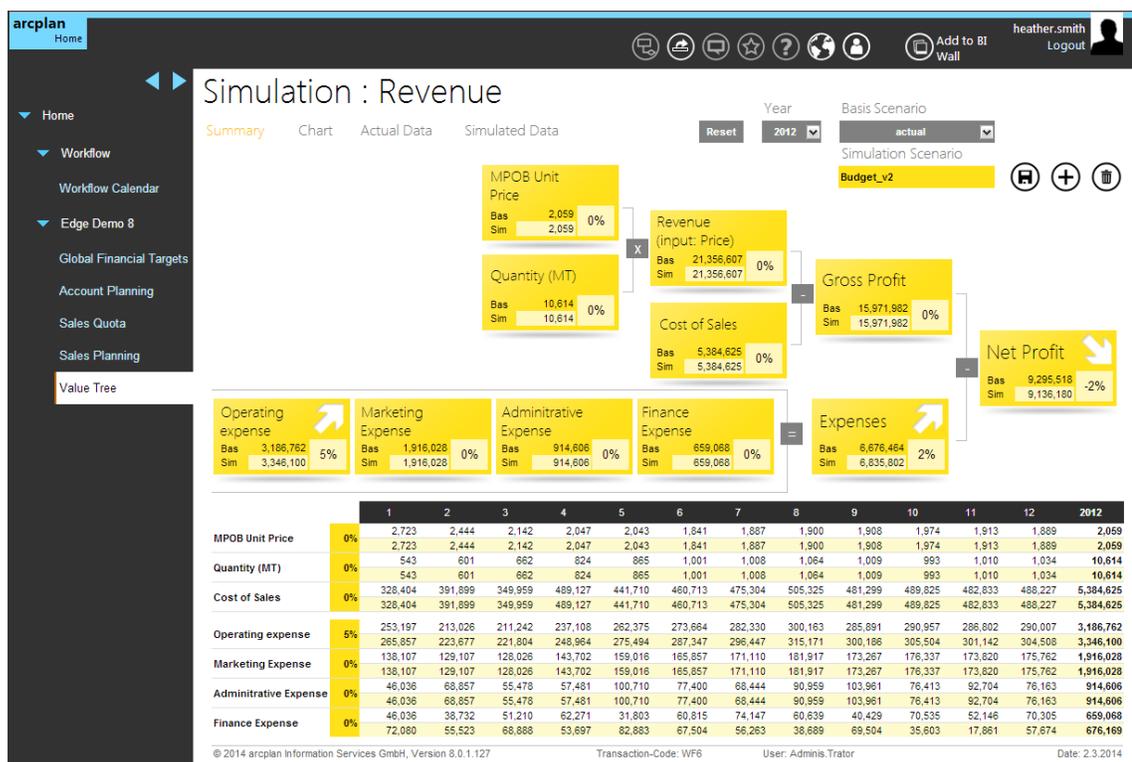
There are a couple of things to be aware of when it comes to commentary. First, planners must consider where to hold the level of detail for the commentary, i.e. if commentary should be located at the schedule level, or at the department or account level. The other thing to be aware of is that once you start holding detailed levels of commentary you don't want to lose those details. arcplan application developers implement a system of "commentary journalism," where individual commentary elements can be rolled up into reports and dashboards to provide information for management discussions. This ensures that valuable information is retained to support decision-making for future budget planning.

5. Rolling Forecasts & "What-If" Scenario Analysis

Forecasting is not a once-and done deal. Markets change, costs grow and shrink, and personnel numbers vary as the year goes on – all contributing to the need to continually re-forecast to have a more accurate perspective on future performance. According to [Aberdeen](#), Best-in-Class organizations have adopted a strategy of rolling forecasts, even re-forecasting on a daily basis as gas prices fluctuate.

Rolling forecasts have a direct impact on the bottom line – companies that re-forecast achieve up to a 3% increase in revenue growth and 2% increase in operating margins over companies that do not re-forecast. [Other advantages](#) include more timely delivery of reports for decision-making, more stakeholders with access to performance data, decreased time-to-decision and increased accuracy. Rolling forecasts allows decision-makers to determine the best course of action for the company.

Hand-in-hand with rolling forecasts is “what-if” scenario analysis. This kind of analysis enables you to test the impacts of input assumptions, such as price changes, hiring and layoffs, and other budget drivers, on cash flow and P&L. Choosing a BP&F solution that incorporates rolling forecasts and scenario analysis equips you to make better business decisions armed with insight into trends and multiple variables and add visible value to your budgeting and planning process.



A revenue simulation scenario in arcplan Edge. Last year's budget was simply copied and Operating Expenses were increased 5%, showing the cascading effect on Expenses and Net Profit.

6. Familiar Spreadsheet Interface

Spreadsheets continue to be a popular planning tool. In fact, Aberdeen's 2013 *Financial Planning, Budgeting, and Forecasting Benchmark survey* found that 89% of organizations use spreadsheets as part of their BP&F processes. Employees are comfortable with spreadsheets because of frequent usage in both their professional and personal lives. Excel use may stay the norm for the foreseeable future and spreadsheets are likely to remain an integral part of the planning process.

A familiar Excel-like interface might be crucial to the success of your planning technology initiative, particularly for power users who prefer working in spreadsheets. Below is a planning report in arcplan Edge with a typical Excel look and the added benefits of improved functionality and security. Planning applications can also be exported into Excel via arcplan Excel Analytics, an Excel add-in that enables users to work in Excel while remaining connected to the live data source.

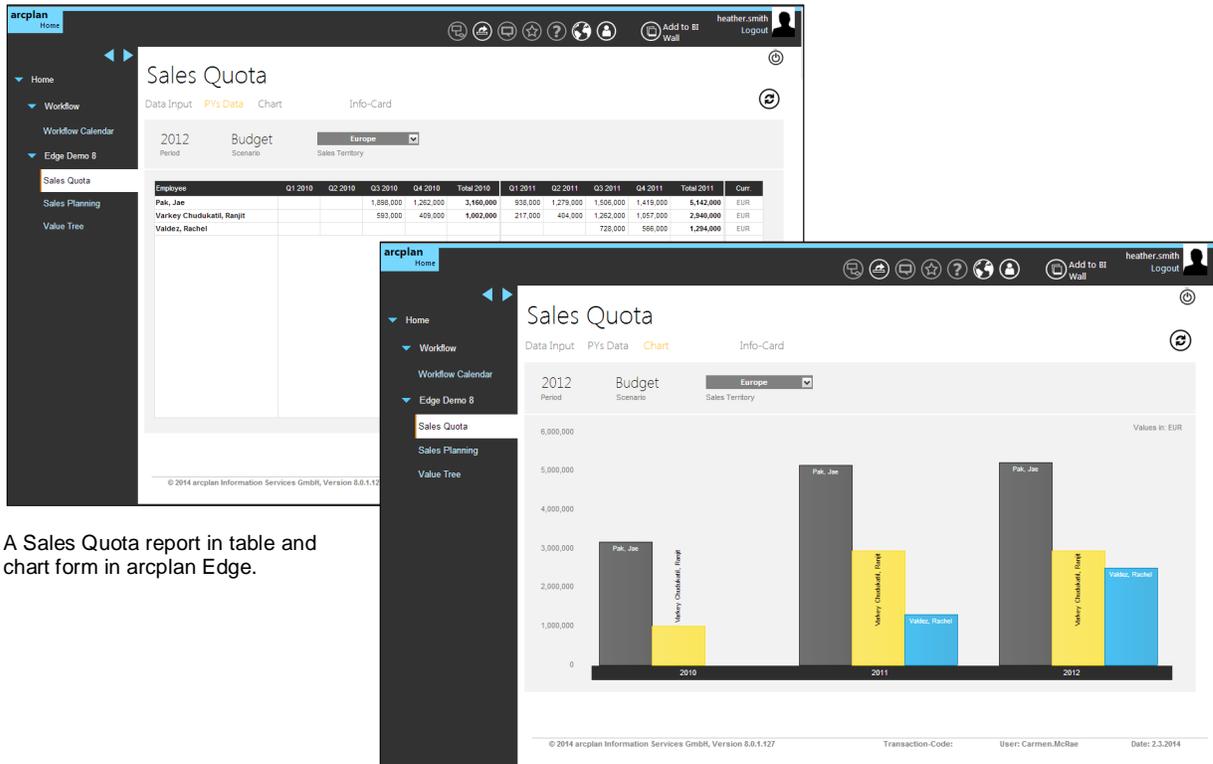
Expenditures	LY actual	CY 2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Commissions	31,843	30,251	49	24	4	11	30	5	713	9,860	6,539	4,645	4,464	3,888
Amortization of Goodwill	794	755	12	11	13	10	9	8	12	160	117	132	143	128
Building Leasehold	4,483	4,258	64	58	70	52	50	41	63	892	691	751	823	701
Equipment	289	274	5	5	5	4	4	3	5	58	42	47	51	46
Furniture and Fixtures	994	945	15	14	17	12	12	10	15	201	146	164	179	160
Other Assets	872	828	13	13	15	11	10	8	13	180	123	143	154	146
Vehicles	2,780	2,641	40	36	44	33	32	26	40	553	428	465	510	434
Employee Benefits	14,627	13,896	339	168	381	216	140	229	272	1,946	2,314	2,144	3,229	2,519
Payroll Taxes	19,628	18,646	414	399	304	246	252	206	485	3,504	3,305	2,859	3,229	3,463
Salaries	203,079	192,925	3,663	3,234	3,700	2,992	2,720	2,225	3,772	37,936	32,217	34,821	34,960	30,683
Conferences	392	373	8	4	9	6	4	6	6	53	64	55	95	63
Marketing Collateral	3,436	3,264	6	1	2	2	4	1	48	658	163	930	673	778
Office Supplies	1,746	1,659	30	17	31	21	18	22	25	284	296	277	389	260
Other Expenses	1,170	1,111	16	16	19	15	14	12	17	226	164	194	215	183
Professional Services	2,150	2,042	42	27	46	34	27	46	35	299	352	327	434	372
Rent	3,810	3,620	55	46	55	46	46	37	55	728	637	637	728	546
Telephone	11,793	11,204	46	27	35	28	29	24	217	2,821	1,845	2,123	2,330	1,878
Utilities	3,774	3,585	58	42	60	45	42	41	54	677	630	611	772	552
Entertainment	926	880	17	9	18	12	9	13	14	138	149	142	219	140
Total Expenditures	315,154	299,396	5,016	4,205	4,960	3,873	3,510	3,054	5,935	62,127	51,123	52,449	55,195	47,948

An Account Planning report in arcplan Edge that maintains the look of Excel.

7. Integrated Reporting & Visualization

Business intelligence elements like reporting and visualization are hugely beneficial in BP&F systems. These tools provide data in an easily consumable format so employees can find and utilize the information they need to make decisions. Integrated reporting and visualizations transform your planning solution into a “one-stop-shop” decision-support system for every department.

A flexible reporting option is a perfect addition to the integrated simulation and “what if” scenario analysis mentioned above as it provides the freedom to review a data situation from different perspectives. The right visualizations enable planners to consume large amounts of information while shortening the time from insight to action.



A Sales Quota report in table and chart form in arcplan Edge.

8. Planning Dashboards

Data visualization has struck a chord with many executive decision-makers as a way to condense large amounts of information, format it in a way that's easy to digest and understand, and most importantly, reveal vital business insights that can help them make better decisions. Thankfully, visualizations are not reserved for executive decision-makers; similar types of visualizations can be beneficial for planning managers too.

Planning dashboards allow planners to see the whole picture at a glance and determine whether their plans are favorable or not. They work hand-in-hand with rolling forecasts, providing guidance for where to direct one's attention. When budgets are out of alignment or plans are going astray as the year progresses, the visualizations on a planning dashboard pinpoint the areas where adjustments will have substantial effects. Visualizations on planning dashboards can tell you exactly where to make adjustments so you'll get the largest possible impact.

The dashboard below, for example, brings important data to the forefront so planning managers get an at-a-glance view of the budget situation. The Variance Report bar graph extracts the top favorable and unfavorable variances in the company's budget and highlights the biggest opportunities to fix problems in the planning schedule. In this case, reallocating funds from Entertainment, Interest and Vehicles, which

have large favorable variances, to Trade Sales and other unfavorable line items would have a positive impact on the plan.



Example planning dashboard in arcplan Edge. These visualizations bring data that's buried in budget summary reports to the forefront.

arcplan operates at the intersection of world-class business intelligence and corporate performance management. With other solutions, you get standard budget reports – summaries of the budgets you just submitted – and your analysts and planners need to sift through page after page of numbers, organized in a way that only makes sense to accountants, to try to find ways to positively impact the budget. It's an almost impossible task. However, arcplan is unique in integrating reporting and dashboards with advanced visualizations into the BP&F process.

Conclusion

Finance teams are under pressure to deliver greater value from the budgeting, planning and forecasting process and as such, they are transitioning from Excel spreadsheets to advanced BP&F. The right tool includes the essential capabilities outlined in this guide and will adapt to your company's specific process – automating, centralizing, and streamlining it while delivering better visibility and accuracy.

With our budgeting, planning and forecasting system, arcplan has helped companies around the world shorten their budgeting cycle from several weeks to just a few days, with plenty of time to re-forecast as necessary and make ad-hoc adjustments to improve the company's financial performance. When it comes to planning technology, you actually can have it all.

About arcplan

arcplan is a leader in innovative Business Intelligence, Dashboard, Corporate Performance and Planning software solutions for desktop and mobile use. Since 1993, arcplan has enabled more than 3,200 customers worldwide to leverage their existing infrastructure for better decision making. Empowering all users to connect and collaborate with relevant information is crucial for improving business performance. *With arcplan – it simply works.*

arcplan's flagship product arcplan Enterprise was rated the #1 3rd party tool for SAP BW, Oracle Essbase, and IBM Cognos TM1 in The BI Survey 13 (2013).

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