

Maturation PROCESS

Corporate finance's role in a mature **integrated business planning** process



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Over the past 25 years, leading companies have implemented sales and operations planning, where expected demand for products is balanced and synchronized with the ability to deliver the products. This process has matured into what is known today as integrated business planning (IBP). Considered a best practice, IBP offers corporate treasury and finance groups a tremendous opportunity.

IBP is a process for aligning company plans and actions every month. It requires that management review the forecasted demand over a planning horizon of typically 24 months and validate that the demand plan reflects the company's strategic goals and objectives. The associated supply plan also must ensure that the resources are available to satisfy demand and meet objectives regarding quality, cost, inventory, etc. Throughout this monthly process, treasury and finance is actively engaged in evaluating the feasibility and outcomes of the integrated plans as well as assuring the efficacy of the approved financial plan.

Integrated business planning typically involves a five-step monthly process:

1. **Product review**, where product plans for introduction and/or phase-out over the planning horizon are validated.
2. **Demand review**, where the total forecasted demand opportunities are developed, both in volume and revenue, and the forecast is turned into formal requests for product.
3. **Supply review**, where Operations determines how to commit the resources required to deliver what is being requested and the cost of that commitment.
4. **Integrated reconciliation**, where opportunities and issues arising, both volume and financial, during the process are resolved at the lowest practical level and/or deferred to senior management for deliberation and decision.
5. **Management business review**, where the senior management team reviews the plans and any identified opportunities/issues/gaps to the business plan, strategic plan, or financial goals and approves a balanced operating plan.

IBP goals

As a company perfects its IBP process capability over a period of one to five years, it will reach a level of maturity where the process:

- Is a rolling business management process, including gap analysis versus strategy, and focuses on competitive priorities.
- Ensures an integrated and aligned view of the business that effectively drives and deploys the value proposition.
- Drives responsive optimization of the business in pursuit of the

business strategy and financial goals.

- Is built on a solid foundation of business analysis that provides complete understanding of the operating plan, including improvement priorities, growth opportunities, associated risks, and financial implications.
- Is a continuous reconciliation process that includes managing gaps and developing alternative scenarios—“what ifs”—to address the gaps.
- Makes the annual planning process a significant nonevent.

In the mature IBP process, the role of treasury and finance in scenario planning changes significantly. Rather than being relegated to a position of independent and isolated scenario development, treasury and finance becomes a collaborative partner alongside the operating organization(s) in scenario planning.

In a robust scenario planning process, the responsibility for developing the alternative assumptions underlying the scenarios falls on the operating organization(s) with the best view of the risk or opportunity. For example, if the risk/opportunity involves the introduction of a new

product or its timing, it behooves product development and marketing to determine the impact on the approved launch date and subsequent roll-out of the product. Why? Because the timing impacts the revenue and gross margin streams in the business plan.

Likewise, if there is risk to the current product and portfolio mix or an opportunity to sell more of a product to a customer, a region, or a market, the demand organization is accountable and responsible to project the impact on the approved demand plan. Why? Because product mix changes impact the gross margin stream, and possibly overhead absorption, directly impacting profitability.

If the scenario involves risk to a resource needed to satisfy the demand plan or an opportunity to reduce costs or improve efficiency, the supply organization likewise should identify the implications at an aggregate level of volume or resource requirement (machines, manufacturing processes, people, materials, equipment, etc.). Why? Because costs, efficiencies, and resource requirements all have a direct impact on cost of sales and, therefore, profitability.

This information is provided to

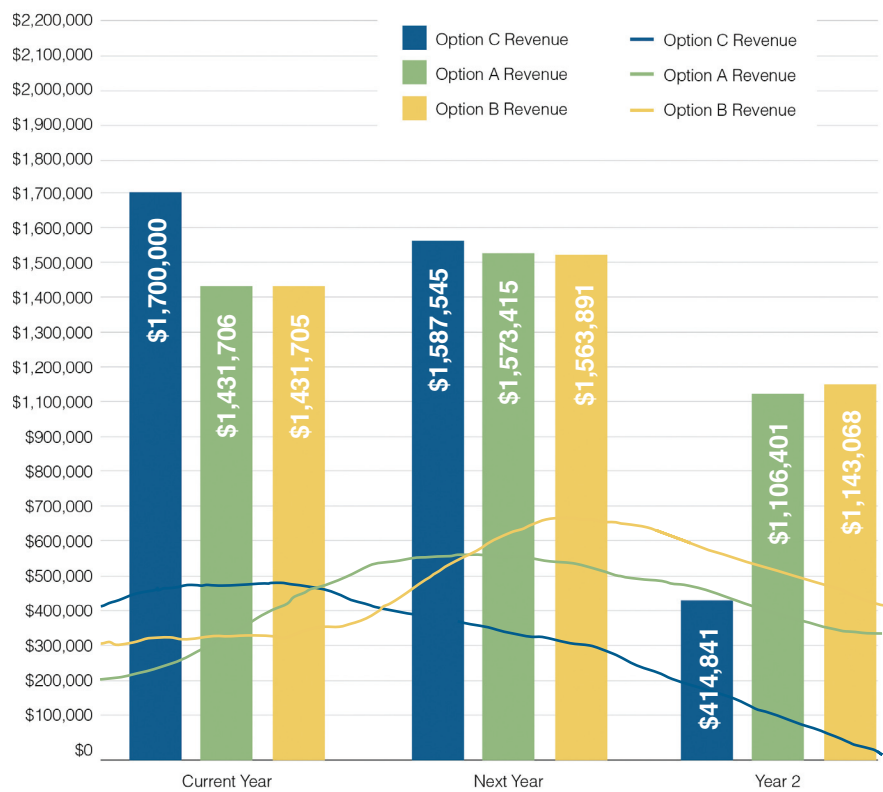
Issue Resolution Template
Issue:
Background:
Alternatives: 1. 2. 3.
Recommended Alternative:
Rational for Recommended Alternative: Benefit: Cost: Timing: Other:

treasury and finance. The information contained in the scenario should include the time horizon when the risk or opportunity will impact the company. The information should not only address the direct impact to the plan but also the indirect impact the proposed risk or opportunity will have on other products and resources. Although the information developed will likely be at an aggregate level, treasury and finance ensures enough detail to fully understand the implications of the proposed scenario(s) as well as to conduct a thorough financial appraisal.

The treasury and finance representative in the IBP process has the responsibility to develop the financial impact of the proposed scenario(s) based on the assumptions developed by the operating organizations. These financial implications include the monthly revenue, costs, and margin expectations, as well as any fixed or working capital requirements, over the entire planning horizon of the scenario. This analysis encompasses the products and resources directly affected by the scenario option and the financial effect on all other products and resources if the scenario is adopted. Treasury and finance compares the financial results to the current approved plan and any other proposed scenarios. Based on this analysis, treasury and finance then makes recommendations to senior management on the financial viability of the scenario(s) and implications vis-à-vis the financial goals of the company.

Therefore, in a mature IBP process that includes scenario planning, the operating organizations, rather than treasury and finance, are expected to forecast the alternative volumes, prices, costs, or resource requirements

Figure: Best estimates



or their timing. However, treasury and finance is responsible for identifying how much information is needed to develop a realistic model of the financial implications of the scenario and to assess the information for quality and consistency.

A new perspective

One essential shift in the mind-set of companies that successfully implement IBP is in dealing with uncertainty. This is especially the case as scenario planning becomes a regular part of the IBP process. The treasury and finance organization is in an ideal position to help address the inherent uncertainty of the scenario's *best estimates* regarding the impact of the risk or opportunity over a specified time in the future.

In a mature IBP environment, treasury and finance plays an increasingly

vital role in developing and executing the integrated operating plan. Through its active participation in all steps of the IBP process, treasury and finance provides the ongoing financial appraisal of the integrated product, demand, and supply plans. It also ensures the efficacy of the associated financial plans. As scenario planning becomes a staple of the mature IBP process, treasury and finance acts collaboratively with the operating organization(s) to enable management to make the best decisions given uncertain outcomes. Even more, Finance is ideally positioned to bring a “new and valuable” perspective in support of those decisions, cementing its vital role in the mature Integrated Business Planning process.

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