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Benchmarking the Planning Process World Class Companies vs. Average Companies

Benchmarking the Planning Process

World Class Companies vs. Average Companies

This Executive Briefing of an important benchmarking study is sponsored by PeopleSoft, Inc. and is primarily for the benefit of FEI members. The complete research report (38 pages); which provides more detail on the underlying survey results, is available at <http://www.fei.org/rfbookstore>

SUMMARY

The FEI Research Foundation and The Buttonwood Group LLP of Stamford, CT collaborated on a study to determine what it costs companies to develop an Annual Plan. The Annual Plan is a common denominator across most companies (especially those that are publicly traded). Benchmarking these costs can provide a company with a sense of where they stand, and can also be used as a proxy to estimate the cost of planning year round.

Being able to compare costs is a helpful and worthwhile objective. However, companies invest time and money in their planning process because on some level they believe it makes a contribution. The research was therefore extended to assess the value created from the process.

Most companies are looking to make the transition from good to great, and the results contained here help point the way. World Class companies (those that scored in the top 10% of the survey based on the value derived from their planning process) are different from the average company in the survey. A few key differences will be discussed later in this briefing, and a more detailed discussion is provided in the full research report.

The cost of producing an Annual Plan is significant, *but so is its capacity to improve the performance of the business*. While every company in this survey had an annual planning process, for some it was an expensive proposition with little benefit. **For others, planning has proven to be an efficient and effective way to create value.**

The average company in our survey is spending nearly \$1,000 per employee to create the Annual Plan. Put a slightly different way, the Annual Plan cost \$1 million for every 1,000 employees. Prior studies have shown that the plan is typically revisited at the end of each of the first three quarters of the year (for purposes of creating a more up-to-date forecast). If the cost is similar for each of those updates, then the total cost of a company's year long, ongoing planning process can run \$4 million for every 1,000 employees. **For very large companies in our study, with tens of thousands of employees, these costs can exceed \$100 million a year.**

Clearly, then, there is a lot at stake. Efficiency gains are worth pursuing and can pay hefty dividends. But there are two parts to every cost/benefit equation, and **our research demonstrates that tangible and significant value can be derived from an effective planning process.** It's well worth the effort to focus on this side of the equation as well.

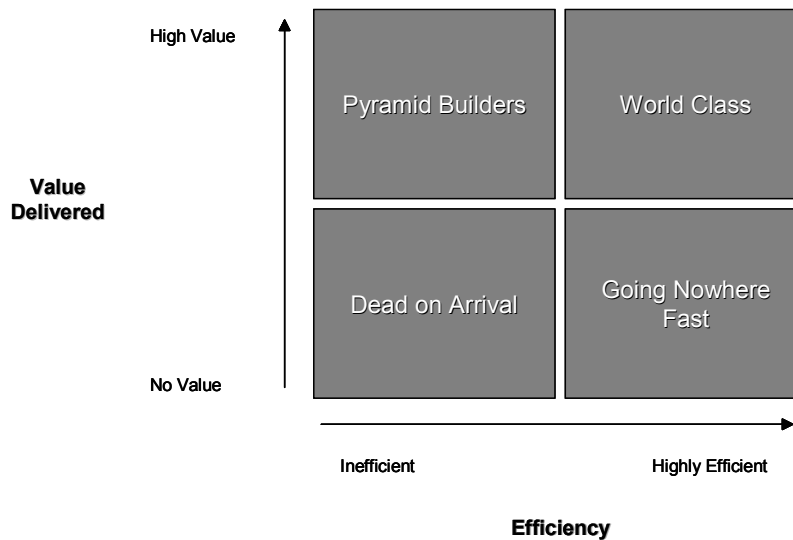
The results show that the top 10% of companies surveyed – World Class companies – are experiencing real and material benefits from their planning processes (and far beyond those of average companies). They're enjoying improved control over costs, increased foresight, improved operational performance, increased transparency and insight into the business, a sense of shared purpose, and an increase in revenue of at least 1%. Those benefits are as worth working toward as is the goal of improving the efficiency of the process.

Household Names

In total, 225 companies participated, ranging from family-run businesses to household names. Among the more recognizable companies—

**Agilent Technologies, Inc.
Advanced Micro Devices, Inc.
The Dun & Bradstreet Corporation
AT&T Corp.
PepsiCo, Inc.
Northrup Grumman Corporation
Phillips Electronics
AOL Time Warner
Sandia
MetLife, Inc.
Reebok International, Inc.
Fleet Bank
Kimberly Clark Corporation**

The Value – Efficiency Matrix Value Delivered from the Planning Process Compared to The Efficiency of the Planning Process



You can see from the diagram above that World Class companies not only have efficient processes, but they derive considerable value from their planning process. What makes these World Class companies different? **Strategy drives their planning process, they have greater ownership of the plan, and they are more efficient.**

Finally, it's worth noting that the results discussed in this research paper represent a cross section of many industries and company sizes, for both public sector and private sector organizations. Specific company (or organization) costs will differ of course, and there is real value in identifying what those costs are. **Readers may request an automated Excel Planning Calculator by contacting Info@ButtonwoodLLP.com to develop an understanding of their own costs.** In addition, there is value in comparing those costs against industry specific benchmarks. While that data could not be included here, it is available. Likewise, the effectiveness metrics (i.e., the effectiveness of the process to align goals) are also available on an industry basis. **Armed with industry-specific benchmarking data and one's own company survey results**, a manager will be able to quantify the value or ROI from improving the organization's planning process. That is the ultimate objective of this research effort.

THE COST OF PLANNING

To help companies estimate their cost to develop their Annual Plan, the survey stepped respondents through a short series of questions. These questions included the number of employees a company has and what percent of them are involved at least one day in the process, to arrive at the total number of people involved in creating the Annual Plan. Then respondents were asked to estimate what percent of all participants are involved just for one day in the process, for two to three days, four to five days, and so on. Multiplying these percentages by the total number of people involved, and the number of days they are each involved, yields the total number of people days a company devotes to developing the Annual Plan. The resulting number of people days was multiplied by \$500 (which is a standard rule of thumb for the cost of a person day including payroll taxes and benefits) to arrive at a total cost. Results were consolidated for all 225 companies that participated in the survey, and the average costs were defined.

With that explanation of the methodology employed, here are the key findings relating to the cost to develop an Annual Plan.

For the average company in this survey with 3,060 employees and \$850 million in sales, the total cost to produce an Annual Plan came to \$3.1 million. As was noted in the summary, that works out to be approximately \$1,000 per employee per fiscal year to develop an Annual Plan.

In average companies, nearly 80% of all employees were not involved in developing the Annual Plan. The 20% of the employees that did participate in the process devoted an average of one day per week over 10 ½ weeks, to complete the Annual Plan.

How exactly do companies spend their time in developing the Annual Plan? **Astonishingly, companies spend more time on developing departmental budgets than on any other single component of the process.** On average, companies devote 26% of all their time during the annual planning process on departmental budgeting. The price tag of this component alone, which is necessary and beneficial, but not considered to be a high value added activity, is \$0.8 million for the average company.

Companies would like to reallocate their time to where it has the greatest overall contribution. They'd like to see the time they spend on departmental budgeting cut to just 16%. In its place, **they'd like to see more time devoted to developing strategic direction** (raising it to 29% of the time spent from just 16% today).

*Comparison of Actual vs. Desired Time Spent
Based on All 225 Companies Surveyed*

	Time Spent on Each Component		
	Actual	Desired	Difference
Departmental Budgets	26%	16%	-10%
Sales & Revenue Projections	24%	21%	-3%
Strategic Direction	16%	29%	+13%
Capital Spending	9%	10%	+1%
Marketing & Promotional Spending	8%	8%	NC
Other Expense Projections (i.e., R&D)	8%	8%	NC
Raw Material Usage & Costs	7%	6%	-1%
All Other/Miscellaneous	2%	2%	NC
Total	100%	100%	100%

Source: ButtonwoodLLP.com

Why aren't companies spending time the way they want to? Although that exact question wasn't the focus of this research, **there are three root causes** that are often cited for the inefficiencies:

- A lack of clear direction and "realism" up front causes considerable rework on the back end.
- A dependency on spreadsheet tools bogs down the process. As common as spreadsheets are, they are cumbersome for non-financial managers to use, are vulnerable to human error, and can be unwieldy when there are multiple iterations of the plan requiring numerous changes and the need to track each version.
- A general lack of ownership (i.e., "That's not my number").

A more detailed discussion of the cost to produce an Annual Plan; as well as a more thorough explanation as to the barriers to spending time effectively, and ways to overcome those barriers, are all addressed in the complete research report.

THE VALUE OF PLANNING

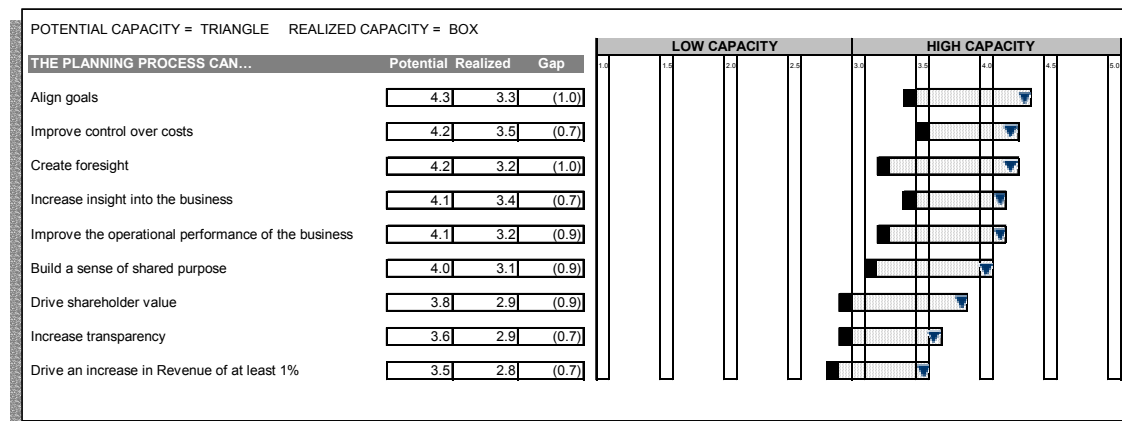
There are also potential benefits to planning that should be considered. Participants were asked to think about the benefits that effective planning can offer. These included planning's capacity to:

- **Align goals**
- **Improve control over costs**
- **Create foresight**
- **Increase insight into the business**
- **Improve the operational performance of the business (productivity)**
- **Build a sense of shared purpose**
- **Drive shareholder value**
- **Increase transparency**
- **Drive an increase in revenue of at least 1%**

The participants were asked to reflect on their own experiences, and estimate to what degree they have actually experienced those benefits in their companies (on a scale of 1 to 5).

There are no surprises here. While the potential value of planning remains high, the realized value is considerably lower.

Potential vs Realized Capacity of Planning Based on All 225 Companies Surveyed



Source: ButtonwoodLLP.com

WORLD CLASS COMPANIES COMPARED TO AVERAGE COMPANIES

Previous studies (FEI Research: Solutions for Better Planning, January 2002) have shown that World Class companies have fully integrated their planning and performance measurement processes. This full integration is often referred to as a "Corporate Performance Management" (CPM) system. Specifically, World Class companies have developed concrete mechanisms to link strategy, operational planning, performance measurement, and management reporting, so that they become reinforcing elements, and thus create more value working in concert than they ever could standing on their own. Without concrete mechanisms for ensuring these linkages, however, each component operates separately and sometimes at cross purposes with another component,

adding to inefficiencies. While this may seem a little abstract or theoretical, there are specific blueprints available for building these concrete mechanisms for CPM. One such blueprint is known as Value Planning, and has been endorsed by industry leaders such as Henry McKinnell, CEO of Pfizer.

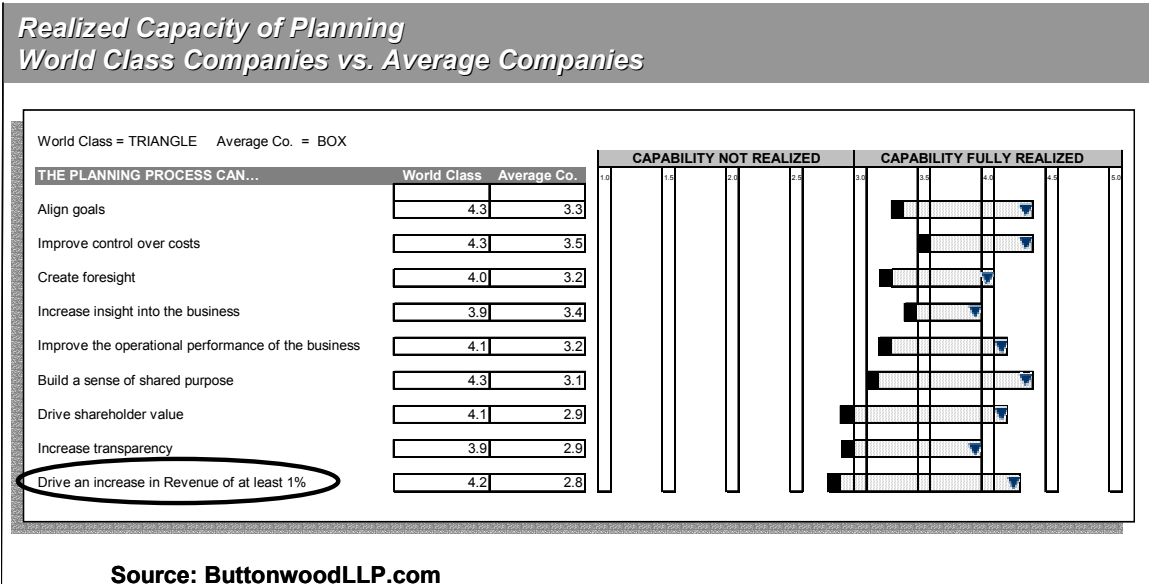
World Class companies have realized the benefits most other companies are seeking from their planning process.

This most recent study indicates that World Class companies have redeployed their resources into high value-added activities. They've created a planning process that emphasizes clarifying their strategic direction upfront, and stresses the importance of ownership. The result? Among other tangible benefits, **World Class companies attribute an increase in revenue of at least 1% -- that's worth \$10 million for every \$1 billion in sales -- from their planning process.**

Beyond revenue gains, World Class companies have experienced significantly better results in the areas of goal alignment, creating foresight, transparency, insight into the business, and shared purpose. In short, World Class companies have realized the benefits most other companies are seeking from their planning processes.

Remarkably, World Class companies don't spend more money than average companies do (in fact they spend less) and yet they realize considerably more value. **In some cases, they're realizing benefits beyond what average companies even believe even the potential capability is.**

While a detailed explanation of how World Class companies have been able to achieve their results isn't possible in a short briefing, those insights are documented in the full research report.



RECOMMENDED ACTION STEPS

The ultimate purpose of research is action. Based on the survey results from this and other studies, as well as intensive client work, the following action items are recommended:

- *Complete the cost and benefits survey for your own organization; by business unit if possible (an electronic version is available by contacting Info@ButtonwoodLLP.com*
- *Compare your results against benchmarked averages, world class companies and industry results (this last comparison is optional but may be revealing).*
- *Define the performance gap, and areas of opportunity.*
- *Develop an ROI of improving the process, both from an efficiency gain and increased value add perspective (using the electronic survey tool, which includes a ROI calculator, or by other means).*
- *If the ROI is encouraging, develop a project charter and project plan to close the performance gap.*
- *Assess the benefit of implementing a world class Corporate Performance Management (CPM) system as a comprehensive solution.*
- *For a more detailed look at the FEI/Buttonwood Group LLP survey results, refer to the full report (Benchmarking the Planning Process, available at the FEI bookstore at www.FEI.org/RFBookstore).*

About the Author

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