

BPM (business performance management) systems are gaining traction in Fortune 1000 companies. BPM integrates actuals, plan and business intelligence information from multiple users and data sources, helping C level executives better understand operations and anticipate problems and opportunities. Such systems, however, do very little for business units at lower levels whose requirements for planning, reporting and analysis are typically at different levels and have modeling requirements that the BPM system cannot accommodate.

Planning at the business unit level is most commonly done in Excel with cost center inputs gathered using workbook templates that are difficult to format and consolidate. While business units can't escape from "Excel Hell" using a corporate BPM system, they can streamline planning and analysis processes with Alight Planning, a multi-user software package with built in driver-based planning architectures and automated analytics.

Planning at the Business Unit Level

By Rand Heer
and Lisa Torbin-Shaw



The CFO of Alliance Industries signed the \$1.2 million purchase contract with flair. The rest of the sourcing team watched on—most with anticipation, some with reservations, and a couple, including Jed Walker, with a shrug. Alliance is a \$7 billion manufacturer of electronic equipment and components for hard goods industries. Jed is Controller of the Flow Control Products Division.

The sourcing team, charged with selecting and then implementing a new generation BPM (business performance management) system, was made up of members of the CFO and CIO staffs and three representatives, including Jed, from the operating divisions. The goal for the new BPM system was to link together the organization's data sources for the purpose of better tying exe-

cution to strategy, reacting more quickly to changing conditions, and providing earlier notice of problems and opportunities. An integral subset of the BPM system was to provide a corporate-wide platform for budgets, forecasting and management reporting.

The BPM sourcing team spent five months sorting through proposals from Cognos, Business Objects, Hyperion Solutions and other vendors. The “short list” vendors made many on-site visits and developed prototypes.

For Jed and others on the team, the presentations tended to blend together—each vendor’s feature set being more or less the same; each one with a few special whiz-bang differentiators; all very pricey. The CFO’s final decision was based mostly on price and contract warranties, though the sales rep’s style certainly had an effect.

Jed was happy to be part of the sourcing team, but he became increasingly uncomfortable voicing his opinions about the various offerings. While each system supported the C-level objectives of rolling up and reporting on actual and plan data plus other business intelligence features, Jed saw little that would help him at the business unit level.

The Dirty Little Secret

Certainly business performance management has gained traction in recent years. While the ROI of some implementations may be suspect, the value proposition for C-level management is enticing—better, more detailed information flowing faster from operating units; fewer financial analysts between operations and corporate sifting and

interpreting; and possibly best of all, easy on-demand access to information with graphical presentation formats that senior managers on-the-run can quickly grasp.

The dirty little secret acknowledged privately by some BPM industry analysts is that such systems don’t actually do much for line managers and finance staff at lower levels who provide budget and forecast data for such systems. In fact, plan data is often developed in Excel and then offloaded to the corporate BPM system, rather than entered or modeled in the BPM planning tool by the responsible line managers or finance staff. According to BPM Partners, a prominent research group: “Ease of use is a major issue. There are large vendors of budgeting software, for example, whose own employees use Excel on the sly because they find the mandated budgeting application too difficult.”*

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This is nothing new for business unit finance managers such as Jed Walker. Since the early days of Lotus 123 and then the takeover of budgets and forecasting by Excel in the mid-90’s, financial planning at the business unit level has been done in spreadsheets with results off-loaded to the corporate rollup system.

One myth is that BPM satisfies planning and reporting requirements across the

* “On-Demand Software for BPM: Now Ready for Enterprise Adoption” White paper from BPM Partners, May, 2006. Page 2.

board for large companies. Not so in many situations. Yes, BPM improves visibility into operations for the C-level and reduces overheads—both important objectives. However, for large and highly divisionalized companies, BPM systems cannot accommodate the diversity of the business units in one central application—e.g. each business unit plans using customized dimensions for regions, products, customers and natural class accounts. In addition, business unit finance staffs require hands-on building of formulas for driver-based revenues, variable costs, allocations and the like that could not be easily done with a centralized BPM tool.

Planning at the Business Unit Level

As Controller, Jed Walker oversees planning, reporting and control activities for the Flow Control business unit. The mandated planning cycle includes a strategic plan which looks out five years, the annual budget with a one year time horizon, and quarterly forecasts which look out twelve months on a rolling basis but tend to focus on the balance of year outlook for the current fiscal year.

The annual budget and rolling forecasts are Jed's two forums for implementing a collaborative planning discipline amongst line managers. Both processes use Excel templates which cost center managers fill in for headcount and spending estimates. The cost center templates, each one a workbook, are then consolidated into a divisional P&L. Jed and other division controllers at Alliance will testify: the Excel template process has big problems.

- ▶ The templates need to be customized by account for each cost center so that managers do not enter data into non applicable accounts—e.g. the assembly

department shouldn't budget advertising.

- ▶ The templates do not allow adding multiple line items within a natural class account. As a result, a manager's detail for how he wants to spend in key accounts—e.g. travel for trade shows, travel for customer visits, travel for staff—is lost to scratch notes or a non-integrated spreadsheet.
- ▶ The templates do not provide an integrated activity driver interface—e.g. managers cannot easily build variable headcount projections driven by assumptions about activity levels such number of widgets, customers, transactions, or other measures.
- ▶ Users can easily break the templates causing #Refs and other errors by adding rows or columns at incorrect insertion points, filling right across total columns or creating formulas with errors in them. Such errors choke the consolidation causing planning managers lots of frustration and the occasional all-nighter.

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- ▶ Finally, the system is not secure. A budget template sent to a wrong email address can put sensitive salary or bonus information into the wrong hands. That happened to Jed once.

The Flow Control finance staff also needs to model critical elements of the financial plan in Excel. These models incorporate sophisticated formulas that sales and marketing

managers who provide inputs can easily break if allowed too much access:

- ▶ The revenue plan is built up from detail by product which sales managers provide. There are driver relationships between products, and the projections need to be broken down by region and channel. The resulting model and underlying formulas are complex and difficult to maintain. The reason is that Excel does not natively support multiple dimensions—e.g. products, channels, regions, customers, etc.
- ▶ Cost of sales is built up for materials, labor and overhead in structures parallel to the revenue model. The COGS model in Excel is difficult to construct and maintain because: a) linked relationships inherited from the revenue model are complex; and b) additional functionality needs to be modeled—e.g. allocations, variable overheads, and differential labor and efficiency rates.

Jed's early hope that the new corporate planning system would help him escape from "Excel Hell" quickly faded. While the new system could help gather information from line managers more efficiently and with greater security, several issues became obvious early on:

First, the new corporate system would collect information at account levels higher than Flow Control needed to plan—i.e. cost center data would still need to be collected through Excel at lower natural class accounts, then summarized to a higher level for inputting to corporate.

Next, modeling in the proposed systems would be centralized and/or require technical skills in scripting languages with unfamiliar syntaxes. Jed did not see how someone at corporate could build the com-

plex driver-based revenue and COGS models that were needed, much less understand the division's allocation systems and variable overheads. Nor did he see how his planning staff would have the bandwidth to learn a programming language.

Finally, the projected implementation cycle for the new system was six months. Jed couldn't wait that long or devote staff resources for such a protracted time frame without a clearer ROI. When budget season hit, the job needed to get done without excuses.

Jed's conclusion was that he needed to continue using Excel for budgets and forecasting despite the problems. For each plan cycle, he would offload skimmed data with dimension structures to the new system.

Business Unit Planning with Alight

Alight Planning is a multi-user planning and analysis software package that meets the needs of business units of Fortune 1000 companies for strategic planning, revenue projections, flexible budgets and rolling forecasts.

The software helps business unit finance staff and line managers escape Excel Hell while being compatible with corporate rollup systems, whether loading high level plan data to consolidation engines such as Hyperion Financial Management, or loading more complex data to corporate planning systems such as Cognos Planning and Hyperion Planning or to OLAP (online analytical processing) engines.

Alight Planning includes features and functionality expected of robust financial planning, reporting and analysis application:

Integrated financials Business unit finance staffs may create any complex format for financial statements which include a P&L,

balance sheet, cash flow and contribution analysis.

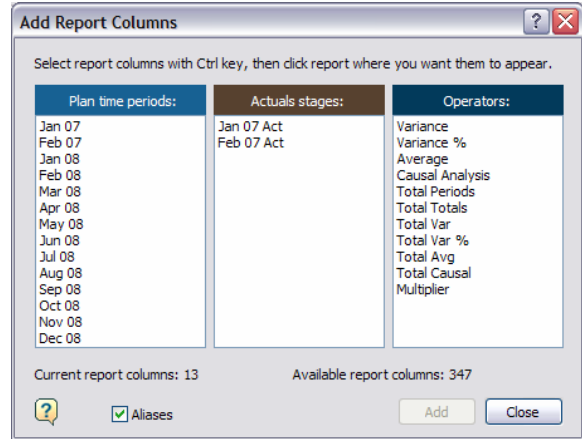
	Jan 07 Amount	Feb 07 Amount	Mar 07 Amount
Gross Sales			
USA	\$ 644,335	\$ 646,545	\$ 824,855
International	\$ 289,340	\$ 290,430	\$ 179,054
Total Gross Sales	\$933,675	\$936,975	\$1,003,909
Deductions	\$188,800	\$189,600	\$ 212,620
Net Sales	\$744,875	\$747,375	\$ 791,289
Cost of Sales	\$105,900	\$116,528	\$ 142,527
Gross Margin	\$638,975	\$630,847	\$ 648,762
Operating Expenses			
Administration	\$ 93,564	\$ 94,035	\$ 106,349
Marketing	\$ 123,489	\$ 123,739	\$ 148,530
Sales	\$ 93,970	\$ 94,085	\$ 105,537
Development	\$ 93,242	\$ 93,242	\$ 117,821
Depreciation & Interest	\$ 5,082	\$ 5,238	\$ 6,000
Total Operating Expenses	\$409,347	\$410,339	\$ 484,237
Operating Profit	\$229,628	\$220,508	\$ 164,525

Using filters, financial statements and underlying detail can be instantly shown for any subset business entity, product line, region or other dimension of the business.

Multi-dim Dimensions are used extensively throughout Aight Planning for filtering reports, modeling, and user security. The plan administrator may create as many as ten dimensions with hierarchies for tagging line items. Dimension metadata may be imported and maintained from external databases. Line items may be imported with dimension tags.

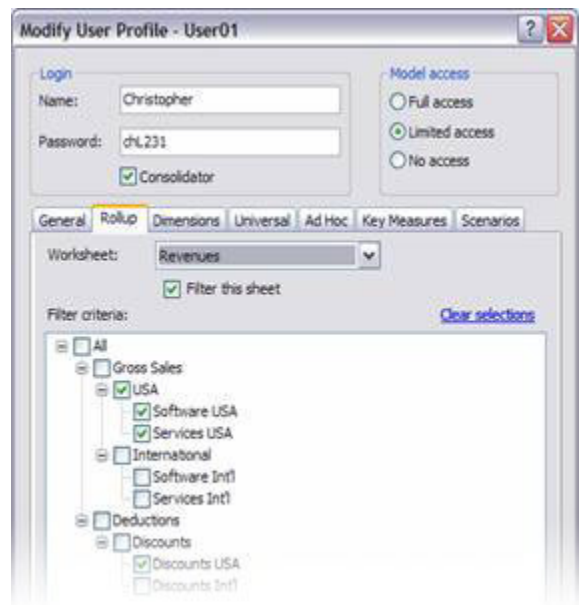
Integration of actuals Actuals data may be imported from any financial or operational database at any level of detail with automatic reconciliation of underlying line item detail to GL totals. Actuals appear as the same line items as plan on reports, but can be linked and calculated with different structures from plan.

Reporting Users may access a broad variety of financial and operating reports in structured and ad hoc formats. Creating reports is an easy point and click process not requiring IT involvement or report scripts.



You build reports in Aight Planning using “intelligent operator” columns. These operators automatically compute totals, variances, averages, volume/rate causals and other analysis functions without formulas.

Multi-user structures Aight Planning is a multiple user system with extensive user security and process controls. Privileges are set by role, dimensions, reports and scenarios. Users may work in workgroups—reviewing and tracking changes independent from the plan administrator.



Setting up user privileges is a point and click operation. Process controls include identifying changed line items with color codes and time stamping changed items along with the user’s name.

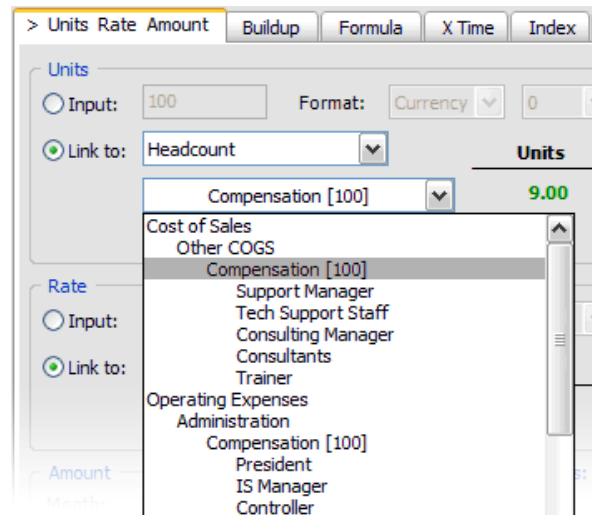
Export For rollup to the corporate consolidation or planning system, Alight exports plan and actual at any level of detail to Excel or flat files with a broad choice of formatting options.

Driver-Based Planning & Modeling

For Jed’s modeling issues—complex revenues, COGS and allocations—Alight Planning delivers driver-based planning with intuitive and powerful tools that go beyond Excel for building multi-dimensional models. Jed and his team can do it themselves without IT support.

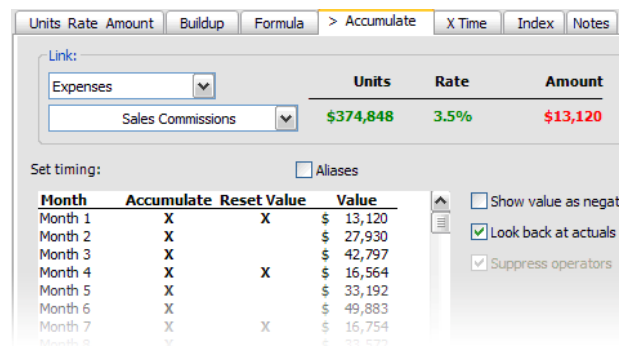
URA architecture Like Pillar, an early enterprise budgeting package, Alight incorporates a units * rate = amount structure that lets users model underlying activity units and rates—e.g. 100 units * \$1,000 price = \$100,000 amount. This architecture makes driver-based planning easy to implement for complex revenue models and variable overheads.

Object based linking Unlike Excel where linking is done in formulas with cell references (e.g. =Admin!L25 * Assumptions!\$H\$21), modeling in Alight is based on linking to the units, rate or amount of named objects. For example: Salaries * Payroll Tax Rate = Payroll Taxes. Object based linking speeds up modeling and makes complex linked relationships easier to audit and maintain.



In Alight, you can link any line item to the units, rate or amount of any other line item, rollup subtotal or a search based combination of records.

Modeling interfaces Alight incorporates six intuitive modeling interfaces, including conditional operators, for building any complex model you would create in Excel.



The Accumulate tab interface lets you create cross time period accumulations for subscription models and balance sheet accruals.

Alight Planning’s sensitivity analysis interface lets users automatically create a ranked list of inputs that impact a specified target, such as operating profit or net sales, providing an instant picture of the most sensitive assumptions in a financial plan.

Sensitivity	Goal seek	Tops down	Impact Items	Type	Path	Jan 07 value	+20%	Impact \$ ^
1. Choose target:	Operating Profit		Software Licenses	Units	Rev ~ Software USA	115	138.00	\$ 60,588
Current value:	\$12,158		Software License Price	Amount	Mkt ~ Software Prices	\$ 3,500	\$ 4,200.00	\$ 49,044
2. Select time period:	Jan 07		Consulting Hrs w/ Utilization	Rate	Conn ~ Productivity	75%	90.00%	\$ 21,728
3. Set modifier %:	20		Software Engineer	Units	HC ~ Development~Compensation	7.00	8.40	\$ (16,828)
4. Set value cutoff:	1000		Training Sales	Rate	Mkt ~ Conversion Rates USA	75%	90.00%	\$ 14,039
5. Run sensitivity analysis			Training Price	Amount	Mkt ~ Services Prices	\$ 1,500	\$ 1,800.00	\$ 13,025
			Variable Marketing	Rate	Exp ~ Marketing~Marketing Expenses	10%	12.00%	\$ (11,182)
			Software Engineer	Rate	HC ~ Development~Compensation	\$ 7,000	\$ 8,400.00	\$ (10,628)
			Software Discounts	Rate	Rev ~ Discounts USA	15%	18.00%	\$ (10,202)
			Sales Reps	Rate	Conn ~ Productivity	\$ 75,000	\$90,000.00	\$ 8,776
			Consultants	Rate	HC ~ Other COGS~Compensation	\$ 7,000	\$ 8,400.00	\$ (7,592)
			Consulting Charge Rate	Amount	Mkt ~ Services Prices	\$ 150	\$ 180.00	\$ 6,094
			Sales Reps	Rate	HC ~ Sales~Compensation	\$ 4,000	\$ 4,800.00	\$ (6,073)

Alight Planning’s scenario analysis interface lets plan managers create up to 100 alternate financial plans all within the same plan file. Scenarios can be automatically updated for the timing of key events such as launching new products, opening new channels or expanding facilities.

	Aug 06 Amount	Sep 06 Amount	Oct 06 Amount	Nov 06 Amount	Dec 06 Amount	Jan 07 Amount	Feb 07 Amount	Mar 07 Amount
Net Sales	\$430,000	\$559,100	\$559,100	\$559,100	\$559,100	\$559,100	\$833,472	\$834,294
Cost of Sales								
Software COGS	\$ 3,175	\$ 3,651	\$ 3,651	\$ 3,651	\$ 3,651	\$ 3,651	\$ 4,921	\$ 4,921
Other COGS	\$ 105,457	\$ 105,999	\$ 105,999	\$ 111,529	\$ 111,529	\$ 111,529	\$ 138,223	\$ 138,223
Total Cost of Sales	\$108,632	\$109,650	\$109,650	\$115,180	\$115,180	\$115,180	\$143,144	\$143,144
Gross Margin	\$321,368	\$449,450	\$449,450	\$443,920	\$443,920	\$443,920	\$690,328	\$691,150

Scenarios	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07
Fixed										
Current	X									
Year End		X	X	X	X	X				
Add Int'l							X	X	X	X
*Base										

Advanced Analytics

Just as Alight Planning’s driver-based architectures let business unit planners develop and maintain more accurate financial plans, the software also incorporates numerous automated analytic tools for understanding activity driver impacts and financial results. Such tools, not available in spreadsheets or any other planning application, let planners quickly identify the most important driver assumptions in a financial plan and perform other sophisticated analyses that can deliver actionable insights into the business:

Automated sensitivity analysis Unlike spreadsheets or other planning applications where sensitivity analysis is a “hunt and peck” operation, Alight automates the process. In a special analysis pane (see screen

shot above) the planner chooses a target such as net sales or operating profit and then clicks a run button. Alight automatically produces a list of line items with input assumptions that affect the target and ranks them in order, top to bottom, based on the magnitude of each one’s financial impact on the target.

Scenario analysis In a special scenarios pane, Alight Planning lets plan administrators create as many as 100 alternate scenarios, all sharing the same underlying modeling structures but each with its own input assumptions for activity drivers, volumes, prices and costs. New scenarios can be copied from pre-existing ones or constructed using “stages”, Alight’s proprietary architecture for modeling, and then applying

stages of a business—e.g. seasonal patterns—to time periods.

Goal seek analysis Alight Planning automates goal seek operations. The planner chooses a target for a time period then specifies a desired goal and input variable. For example: profits in May are forecast to be \$50,000; the planner enters a goal of \$75,000, then selects Unit Sales as the input assumption to be tested. A dialog then appears showing the required number of Unit Sales necessary to meet the \$75,000 profit goal.

Causal analysis Alight's built-in unit/rate/amount architecture allows producing volume/rate causal analyses that can be applied to any activity driver or financial line item. For example, the causal operator column can be added to a revenue report to calculate the actual versus plan financial impact of unit volume and price variances for each product.

Key measures analysis In a special key measures pane, Alight lets plan administrators create custom dashboards for activity driver models that allow users to analyze in one view multiple related line items or totals that are otherwise spread throughout a plan on different worksheets. User security applies to key measures groups thus allowing creating specific key measure groups of items for specific users.

Summary

Business performance management systems from Cognos, Business Objects, Oracle-Hyperion and other such companies are large, complex products that help C-level executives gain visibility into operations. However, such systems, requiring technical training and IT support, often do not meet

the needs of business units where levels of plan detail and modeling requirements diverge.

By contrast, Alight Planning is suited to the planning requirements and implementation realities of business units. Installation and maintenance do not require IT support. Implementation time frames are measured in weeks, not months. Plan results are easily skimmed for export to the corporate consolidation or BPM system. And best of all, the price tag for an Alight Planning multi-user system is within the spending authority of most business units.

Rand Heer is President of Alight LLC and the creative force behind Alight Planning. He was a contributing author to "Business Intelligence: Making Better Decisions Faster" published by Microsoft Press. He was also the founder of Pillar Corporation and designer of Hyperion Pillar, the first enterprise software for budgets and forecasting.

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