Planning, Budgeting and Forecasting

Lunch and Learn for Government Contractors

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Introduction

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Planning, Budgeting and Forecasting Overview

A Better Understanding of Business Planning
• Importance and Benefits
• Distinctions and Planning Cycle

Leveraging Planning for Your Business
• Importance of Monitoring and Forecasting
  • Triggering Events and Reforecasting
• Processes and Methods
  • Typical Challenges
• Enabling technologies
  • Excel
  • Corporate Performance Management (CPM) Tools
Importance and Benefits of Planning
A Tale of Three GC’s

It was the Best of Times....

Let's get it Started

A Series of Unfortunate Events
Benefits of Planning

- **Alignment**: Aligns high-level long-term strategy of the business with the short-term goals and immediate actions to be taken.

- **Agility**: Enables foresight, measuring progress and adjusting course.

- **Flexibility**: Allows strategic evaluations of multiple scenarios comparing investments, acquisitions, divestitures, restructuring, etc.

- **Sustainability**: Supports compliance, consistency and confidence.

- **Optimization**: Optimizes performance and compares against results.
Top 5 Financial Management Challenges and Priorities

- Planning and Budgeting: 63.9%
- Financial Forecasting: 55.7%
- General Accounting and Financial Reporting: 37.7%
- Invoice Processing and Payment: 25.4%
- Working Capital Management: 24.6%

APQC 2015 Business Excellence Priorities and Challenges (N=122)
Planning, Budgeting and Forecasting (PBF)

- Distinctions
- Planning Cycle
Defining Planning, Budgeting and Forecasting (PBF)

3-10 Year Long Term Vision

1 Year Shorter Term Initiatives

Quarterly or Monthly Monitoring and Adjustments

Source: CohnReznick
## Differentiating PBF

<table>
<thead>
<tr>
<th></th>
<th>Strategic Plan</th>
<th>Operating Plan</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goals</strong></td>
<td>Quantifying long term vision</td>
<td>Setting SMART milestones</td>
<td>Measuring and adjusting</td>
</tr>
<tr>
<td><strong>People</strong></td>
<td>Owner, Sr. Management, and Finance</td>
<td>Finance, Departments, and BU Heads</td>
<td>Departments and BUs</td>
</tr>
<tr>
<td><strong>Timing</strong></td>
<td>Yearly or Every 3-5 Years</td>
<td>Yearly</td>
<td>Monthly or Quarterly</td>
</tr>
<tr>
<td><strong>Planning Directions</strong></td>
<td>Top Down</td>
<td>Top Down and Bottom Up</td>
<td>Bottom Up</td>
</tr>
<tr>
<td><strong>Planning Activities</strong></td>
<td>High level P&amp;L (balance sheet)</td>
<td>P&amp;L Balance Sheet Cash Flow and support</td>
<td>P&amp;L (balance sheet, cash flow)</td>
</tr>
<tr>
<td><strong>Time Sensitivity</strong></td>
<td>Low</td>
<td>Med</td>
<td>High</td>
</tr>
<tr>
<td><strong>Planning duration</strong></td>
<td>2-4 weeks</td>
<td>3-6 weeks</td>
<td>2-3 days</td>
</tr>
</tbody>
</table>

Source: CohnReznick
Forecasting Cycle

Triggering Event: Reforecast by starting a new forecast based upon new assumptions.

Typical Events: Analyze monthly results and make adjustments to forecast.

Forecasting is an analytical, reflective and adjustment process.
Importance of Forecasting

- Monitoring
- Triggering Events & Reforecasting
The Importance of Monitoring

- Compares expected performance against actual
  - Identifies future risk and opportunities through variance analysis
  - Provides management with the ability to make course corrections

- Provides a basis upon which to make significant investments
  - Capital investments (including software)
  - Talent acquisition
  - Company acquisition

- Measures the past and future effect of business decisions
  - Labor mix decisions impact on indirect rates
  - Investment decisions impact on return on investment

- Outlines the timing of cash flows and potential shortfalls
  - Helps to determine when to ramp up and ramp down
  - Identifies when to make or defer investments

- Provides estimates useful for tax planning
Events Triggering a Reforecasting

Significant win, loss or extension of a contract

- Indirect expense allocation rate/ratio changes, impacting existing contracts
- Allowances needed for ramp-up
- Delays in issuing first bill and issuance of first payment

Rightsizing

- Direct Labor and subcontractor mix
- Employee billable resource mix (moving labor between direct and indirect)
- Required infrastructure
- Compliance requirements
- Significant LPTA Contracts

Declining revenues

- Impact on indirect rates at current operating level
- Impact on debt covenants
- Impact on taxes and estimated tax payments requirements
Events Triggering a Reforecasting (continued)

Unexpected cash flow needs
- Contract delays
- Government shutdown or continuing resolution
- Funding issues on Contracts
- Contracts running at a loss for long periods of time

Series of Unfortunate Events
- IRS audit
- DCAA audit
- Death or illness of business owner/senior management
- Turnover at Senior Levels
- Fraud
Budgeting, Planning and Forecasting (BPF):

• Corporate Performance Management (CPM) Defined
• Processes, Methods and Challenges
What is Corporate Performance Management (CPM)

Multiple Users

• Planning
• Reporting
• Dashboards

Platform

Source Systems

Cloud
ERPs
GLs
CRMs
MRPs
HR

Web and/or Excel User Interface

Calculations & Rules

Flat Files

Flat Files
Planning Processes and Methods

- Annual Planning/Budgeting Process
- Annual Planning Basis or Starting Point
- Annual Planning Directions
- Time Spans used in Forecasting
- Typical Challenges
### Annual Planning/Budgeting: Process

<table>
<thead>
<tr>
<th>CFO and Executives</th>
<th>FP&amp;A Team</th>
<th>Business Units</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Start</strong></td>
<td><strong>Set High-Level Expectations</strong></td>
<td><strong>Set Top-Down Goals</strong></td>
</tr>
<tr>
<td><strong>Review and Approve</strong></td>
<td><strong>Consolidate, Validate &amp; Verify</strong></td>
<td><strong>Create Bottom-Up Plan Details</strong></td>
</tr>
</tbody>
</table>

Guided from the top, informed from the bottom, Collaborative, establishing buy-in

Source: CohnReznick
Annual Planning/Budgeting: Planning Basis or Starting Point

Seeded Plans
Method
Start with last year numbers or rolling forecast, then revise

Pro: fast
Con: easy to be less thoughtful

Where most appropriate
Fixed or stable costs (rent, utilities)

Zero-Based and Driver Based
Method
Create plans from scratch or with drivers, then revise

Pro: all values are justified
Con: ‘recreating the wheel’

Where most appropriate
Variable costs

Blended
• Use zero-based/driver based as primary method
• Inform from and compare against prior year and a rolling forecast
## Annual Planning/Budgeting: Planning Directions

### Top-Down

**Methods**
- driver based assignment
- spreading down
- allocating across
- referencing historic values/trends

**Where appropriate**
- Initial guidance on annual plans
- Overhead allocations

### Bottom-Up

**Methods**
- aggregating up
- driver-based assumptions
- referencing historic values/trends

**Where appropriate**
- Detailed accountable and controllable goals

### Bi-directional

- Reconcile top-down guidance with bottom-up estimates
- Collaborative and gains buy-in
- Agreed upon accountability
# Quarterly/Monthly Forecasting: Time Spans for Forecasting

## 12 Month Plan with Forecast to year end (3/9; 6/6; 9/3)

**Method**
Estimate remainder of year every quarter, leveraging actuals to date

**Challenge**
Towards end of year lose visibility into beginning of next year

## 12 Month Plan with Rolling Forecast

**Method**
Estimate following 6 or 9 months ongoing, leveraging actuals to date

**Challenge**
Towards end of year, next year forecast has no plan to compare against

## 12 Month Detail Plan and Following 12 Month Strategic Plan with 12 Month Rolling Forecast

- By the end of the year, the forecast can be used as a baseline or comparison for the following year plan/budget.
- Planning is not restricted to current year construct
Typical Planning, Budgeting and Forecasting Challenges

People
• Poor cooperation up, down and across the organization
• Lack of participation, validation and follow-through
• No clear accountability to the plans and actual results

Process
• Inefficient utilization of time and resources
• Difficulty in versioning and ‘what-if’ analysis
• Ineffective alignment among strategy, plans and forecasts
• Lack of consistency in methods and approach

Technology
• Inflexible to changes in data and processes
• Lack of data integrity, governance and transparency
• Inefficient manual and redundant processes
• Deficient integration across ERP, CRM, HR, FP&A and others to compare and analyze against actuals
• Inadequate multi-user support

Source: CohnReznick
Enabling Technologies:

- Excel
- Enterprise Performance Management (EPM)
Excel

Advantages
• Easy to use, powerful and flexible
• Experienced employees
• Inexpensive
• Quick ad-hoc analysis
• No IT dependence
• Customizable
• Programmable with formulas and macros

Disadvantages
• Poor Multi-user support
  • No audit trail for changes
  • No version control
  • Limited security
  • No approvals and workflow management
• Human error
  • Poor Data integrity with broken links, manual data merging and copy-and-paste
  • Lack of consistency among users in terminology, formulas, methods
  • Corrupt worksheets
• Advanced Functionality
  • Poor data Integration with other systems
  • Difficult to spread changes across users
  • Limited visibility into macro’s impact
Benefits of Corporate Performance Management (CPM)

End-to-end performance management
• Aggregating and comparing plans and actuals from multiple sources
• Integrating planning, with reporting, analysis and visualization
• Top-down and bottom-up planning with justifying differences explained
• “Pivot table” slice-and-dice flexibility with editing capability for plans

Simpler, faster planning and revision process
• Simple integration with Excel and existing processes
• Enabled quick company-wide revisions and ‘what-if’ comparisons
• Workflow and approvals to track changes and manage progress

Define, automate and standardize complexities
• Automate allocations, driver based calculations & rule-based formulas
• Standardize methods, while allowing automated and manual variations
• Eliminate error-prone manual processes and data manipulation
CPM Software Vendor Overall Analysis

Forrester Wave EPM Q4 2016

Gartner Magic Quadrant Strategic CPM May 2016

Target Market

Large Companies

Small/Mid Sized Companies

Source: Gartner (May 2016)
CPM Software Vendor Capability Comparison by ‘Use Case’

Company <$250M Revenue

Figure 1. Vendors' Product Scores for the Small Organization Use Case
Product or Service Scores for Small Organization

- Adaptive Insights: 4.35
- Jedox: 4.13
- Host Analytics: 4.12
- Prophix: 4.10
- Solver: 3.88
- Oracle (SaaS): 3.82
- Preverco: 3.82
- Axiom Software: 3.81
- Tagetik: 3.81
- Board International: 3.73
- Longview Solutions: 3.69
- Anaplan: 3.60
- Corporater: 3.54
- IBM: 3.22
- Oracle (On-Premises): 2.81
- SAS: 2.81
- SAP: 2.75

$250 M Revenue < Company > $1B Revenue

Figure 2. Vendors' Product Scores for the Midsize Organization Use Case
Product or Service Scores for Midsize Organization

- Host Analytics: 4.03
- Adaptive Insights: 4.00
- Axiom Software: 3.96
- Board International: 3.87
- Tagetik: 3.87
- Preverco: 3.84
- Anaplan: 3.83
- Jedox: 3.81
- Prophix: 3.77
- Oracle (SaaS): 3.75
- Corporater: 3.74
- Longview Solutions: 3.72
- Solver: 3.67
- IBM: 3.54
- Oracle (On-Premises): 3.25
- SAP: 3.19
- SAS: 3.18

Source: Gartner (September 2016)

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CPM System Selection Considerations

Functionality
• Planning, Budgeting, Forecasting basic and advanced features
• Consolidation functionality (currency, equity, minority interests, intercompany)
• Reporting, analytics and dashboard capabilities
• Integration with other systems (ERP, CRM, SCM, payroll, DW)
• Scalability (users, data, complexity)
• End-User ease of use
• Administration and manual functional maintenance complexity and frequency

Deployment and Support
• Cloud vs. On-Premise considerations
• Finance vs. IT ownership and control
• Implementation: time, cost, complexity
• Vendor: qualifications, sustainability, roadmap, support, satisfaction
• Community: available skillset to hire, resources to train and maintain skills
• Partners/Integrators: availability of skilled third party resources
• Maintenance: ease and cost of technical maintenance, updates & upgrades
• Upfront and ongoing costs
Question & Answer
Thank you

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End
Supporting Slides
Next Steps for Improving Planning, Budgeting, and Forecasting

Corporate/Finance Vision and Strategy
- Strategy Mapping
- Balanced Scorecard Development

Current State Assessment
- "As Is" People, Processes, and Technologies Analysis

Business/Finance Transformation
- People, Process & Technology Design
- System Business Requirements
- Roadmap & Scope Definition

System Tool Selection
- Cloud Solutions
- On-Premise Options
- Comparison & Recommendation

System Architecture, Design and Plan
- Functional Requirements
- System Architecture
- Project Plan

Technical and Data Implementation
- Agile or Waterfall Development
- Integrate, Build and Test
- Train, Launch and Transition

October 2016
End-to-End CPM Deployment

- Corporate/Finance Vision and Strategy
- Current State Assessment
- Business/Finance Transformation
- System Tool Selection
- System Architecture, Design and Plan
- Technical and Data Implementation
Integrated Business Planning: Govt Contractors

Financial Planning
- Revenue
- Profit Center
- Cost Center/SG&A
- Capital/Fixed Asset
- Treasury and Tax

Sales Planning
- Channels
- Customers
- Contracts
- Contract Vehicles
- Territory/Region
- Quotas
- Prices
- Volumes

Capture Management
- Schedule Qualifications
- Shows & Events
- GovWin
- Market Segmentation

Workforce Planning
- Headcount
- Contractors
- Salary/Benefits
- Incentive Comp.

Supply Chain Management (SCM)
- Demand
- Procurement
- Production
- Inventory/Warehouse
- Fulfillment

Customer Relationship Management (CRM)

Enterprise Resource Planning (ERP)
- Operations
- Product
- Finance
- Project

Integrating all plans from across the company in a single system ensures consistency and alignment. All plans from across the company are consolidated in a single system to ensure consistency and alignment.

Source: CohnReznick
Multidimensional and Hierarchical Planning

CPM provides the power of Excel Pivot Tables enhanced significantly with hierarchies, properties and the ability to edit and apply calculations.

- **Company**
  - Entire Company
  - Business Units
  - Offices

- **Products**
  - All Product
  - Product Lines
  - Products

- **Cost Centers**
  - Marketing
  - Administrative
  - Finance
  - Accounting
  - Legal
  - IT

- **Customers**
  - All Customers
  - Channels
  - Customers

- **Accounts**
  - Income Statement
  - Balance Sheet
  - Metrics & KPIs
Corporate Performance Management (CPM) Uses

Planning, Budgeting and Forecasting (BPF)
- Multi-year Strategic Planning
- Annual Operating Plans and Budgets
- Monthly and Quarterly Forecasting
- What-if analysis
- Reporting
- Cash Flow/Management

Financial Consolidation, Close and Reporting (CCR)
- IFRS/GAAP
- Financial Statements
- Ownership
- Intercompany
- Foreign Currency
- Allocations
- CTA

Managerial Reporting and Consolidations
- Cost Accounting
- Standard Costing
- Activity Based Costing
- Cost Center Planning
- Allocations

Finance Transformation and Performance Management
- Strategy Mapping
- Balanced Scorecards
- Streamline Business Processes
- Efficiency Improvement
- Merger and Acquisition Realignment
- Change Management

Analytics and Dashboards
- Predictive Analytics
- Prescriptive Analytics
- KPIs and Scorecards
- Data Visualization
- Variance Analysis
- Trends and Seasonality
- Segmentation

Business Unit and Departmental Planning
- Profit Center Planning
- Cost Center Planning
- Sales Planning
- Marketing Planning
- Promotions Planning
- Compensation Planning
- Headcount Planning
Balance Scorecard
Leveraging the Strategy Map

Vision: Transforming society through the provision of ultra-high speed mobile information services

Mission: The number one provider of ultra-high speed mobile information networks across the United Kingdom and Europe

Strategic Priority

<table>
<thead>
<tr>
<th>Content Partnerships</th>
<th>Customer Service</th>
<th>Brand Awareness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong supply chain for entertainment and information services, exclusive agreements</td>
<td>Clarity in offering that surpasses anything in the market today, best user interface</td>
<td>Reinvigorated brand based on successes, attract a wider and younger audience</td>
</tr>
</tbody>
</table>

Strategy Map

- Financial
  - Increase Revenue
  - Increase Profitability
  - Decrease Operating Costs
- Customer
  - Improve Clarity of Offering
  - Improve Market Perception
  - Improve Customer Satisfaction
- Internal Processes
  - Improve Offering Selection
  - Improve Information Services
  - Improve Stock Reliability
  - Improve Cost Control
- Organisational Capacity
  - Improve Knowledge and Skills
  - Improve Technology
  - Improve Supply Chain

Measures

- Financial:
  - Net profit
  - Operating costs
  - Revenue in target markets
- Customer:
  - % Market share index
  - % Customer satisfaction index
  - % Focus group user index
- Internal Processes:
  - New products as % of sales
  - Brand awareness score
  - Cost efficiency index
- Organisational Capacity:
  - Employee development plans
  - Technology training index
  - Supply chain efficiency index

Targets

- Financial:
  - ↑ 5% per year
  - ↓ 3% per year
  - ↑ 12% per year
- Customer:
  - ↑ 3% per year
  - 85% this year
  - > 90% each focus session
- Internal Processes:
  - 12% this year
  - ↑ 5% per year
  - > 90% every reporting period
- Organisational Capacity:
  - 95% in place
  - 90% efficient
  - 95%

Initiatives

- Implement new financial accounting system
- Simplify billing operations
- Competitive end user requirements market studies for new UK regions
- “Improve the Offering” two year programme
- Create improved offering selection process
- Processes for ‘Improve the Offering’ programme above
- Training programme for new offerings and user interface
- Product and marketing training programme
- 2 year football and news supply agreements
- Technology improvement programme

Source: Intrafocus