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Learning Objectives

After attending this event you will be able to:

- Identify the key strengths of using a driver-based planning (DBP) process
- Understand the process to follow to identify Key Performance Indicators (KPI) and business drivers to use in your DBP
- Recognize implementation best practices when deploying a DBP process

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Proformative Event Notes

- The slides are available under "Handouts."
- We will send you links via email to the presentation and the recording within 24 hrs.
- For CPE/CE/CPD: Answer all polling questions and remain for the duration. Credits awarded in 24 hours.
 - Questions on credits? Email cpe@proformative.com.
- We want to hear from you! Ask questions for the Q&A session at the end of the event.
- Please take the short survey at the end of the webinar.

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Best Practices for Driver Based Budgeting and Planning

Kenneth Fick, CPA, MBA, President, CEO, Pierce The Fog LLC

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What is Driver-Based Budgeting and Planning?

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What is Driver-Based Budgeting & Planning?

- Form of resource allocation
- Uses casual models constructed from key operational activity drivers that are then linked to the operating plan in order to plan for future financial results.
- Models are created by analyzing the cause and effect relationship between:
 - Drivers
 - Business activities
 - Resource requirements and
 - Financial outcomes


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What is Driver-Based Budgeting & Planning?

- This helps you get farther down a path of answering the questions of:
 - What happened?
 - Why did it happen?
 - What can we do about it?



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Traditional Variance Analysis

(in millions)	Forecast	Budget	Prior Year	Actual	Actual vs Forecast %	Actual vs Budget %	Actual vs Prior Year %
Sales	837.1	792	773.3	860.7	23.6	3%	68.7

Casual Model

```

    graph LR
      A["# of Units Sold  
Driver"] --> B["Price Per Unit  
Driver"]
      B --> C["Product Mix  
Driver"]
      C --> D["Sales  
Financial Outcome"]
    
```

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Casual Model Example

Division	Actual Price/Unit	Budgeted Price/Unit	Variance Per Unit	Actual Units	Sales Variance Caused by Price
Widget A	\$18.76	\$18.14	0.62	5,898,672	\$3,873,176
Widget B	\$2.52	\$2.55	(0.03)	12,409,952	(\$420,927)
Widget C	\$0.84	\$1.00	(0.16)	9,056,378	(\$1,478,906)
				27,365,001	1,773,342

Division	Budgeted Price Per Unit	Actual Units	Budgeted Units	Volume Variance	Variance Caused by Mix	Sales Variance Caused by Volume
Widget A	\$18.14	5,898,672	3,258,108	2,640,564	\$13,708	\$47,876,125
Widget B	\$2.55	12,409,952	6,025,982	6,383,970	(\$694,797)	\$16,975,245
Widget C	\$1.00	9,056,378	6,300,000	2,756,378	\$479,708	\$2,276,669
		27,365,001	15,584,089	11,780,911	(\$201,381)	\$67,128,039

Division	Total Actual # of Units	Budget Price/Unit	Total Average Budgeted Price Per Unit	Budgeted Price Variance	Actual Mix	Budgeted Mix	Mix Variance	Sales Variance Caused by Mix
Widget A	27,365,001	\$18.14	\$5.18	\$12.95	21.56%	20.91%	0.65%	\$13,708
Widget B	27,365,001	\$2.55	\$5.18	(\$2.63)	45.35%	38.67%	6.68%	(\$694,797)
Widget C	27,365,001	\$1.00	\$5.18	(\$4.18)	33.09%	40.43%	-7.33%	\$479,708
					100.00%	100.00%		(\$201,381)

Actual vs Budget Variance \$68,700,000

Ties to the example above

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Polling Question

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Strengths and Weaknesses of Driver-Based Budgeting and Planning

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Key Benefits

- Increased Financial Agility
 - Quick modifications to equations will flow to G/L
 - More frequent sensitivity and scenario analysis
 - Use of probabilistic-based output



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Key Benefits




- Tighter Operational Alignment
 - Each area works to develop their own driver-based equation
 - Better aligning headcount and resources to match demand

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Key Benefits

- Quicker Root Cause Analysis
 - Less contacting responsible parties
 - Causes to financial variances are more apparent
 - Quicker responses and easier reporting




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Key Benefits

- Less Sandbagging and Gaming
 - Drivers are more objective
 - People more accountable for their submissions and the submissions themselves more accurate



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Key Benefits



- Increased Productivity
 - Focus on business operations and not budget creation

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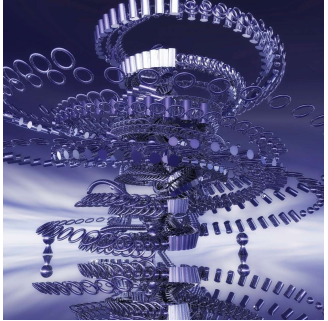
Key Barriers

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Key Barriers

- Model Complexity
 - Expertise and resources to set up and develop the initial models
 - Models need to be maintained overtime



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Key Barriers

- Spreadsheet Capacity
 - Driver-based budgeting and planning requires large amounts of data (60-70 complex equations per consolidating spreadsheet)
 - Fed data from external source systems
 - Corporate Performance Management System cost money

	A	B	C
1			
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Polling Question

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Best Practices When Deploying a Driver-Based Budgeting and Planning Process

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1. Best Practice

Commit to it!



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2. Best Practice

Keep It Simple!



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3. Best Practice

- Limit The Number of **Key** Drivers
 - No optimal number
 - Constant tradeoff between efficiency and accuracy
 - Apply Pareto Principle (80/20 rule)
- Key Driver must be:
 - Measurable and accurately obtainable
 - Linked from strategy to operations
 - Tied to performance measures that reflect the organizations strategic objectives
 - Ideally, can be benchmarked against competitors



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4. Best Practice

Use of a Corporate Performance Management System

- 3 major shortfalls with spreadsheets
 - Errors within the spreadsheets
 - Versioning control and
 - Security
- CPM allows for easy integration of external databases
- Built in dashboards, notes and forecasting tools

Source: <http://www.gartner.com/it-glossary/cpm-suites/>

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5. Best Practices

Shorten the Planning Cycle!

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6. Best Practice

- Rethink the Incentive System
 - What drives profit may be more clear
 - Changing incentives to motivate employee actions to optimize those drivers may improve company performance and lead enhanced enterprise value.

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7. Best Practice

Effectively Balance Financial Control, Ambition and Risk/Opportunity Management

- A budget is used as a control mechanism
- A corporate plan sets targets and can be less precise as a budget
- Forecasting is for risk and opportunity management

Think about the objective of each part of the budgeting, planning and forecasting process and how drivers can best be used to balance the objectives of each

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Thank You

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Q & A

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A Few Final Items

- Thanks to our speaker
- Join us at www.proformative.com to continue the conversation with your peers in our community
- If you want an introduction to today's speaker or sponsor, tell us on the survey!

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Polling Question

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