THE CFO PLAYBOOK ON STRATEGY:
BEST PRACTICES FOR DRIVER-BASED
BUDGETING AND PLANNING

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CFO
An argyle.Company

1

SPEAKERS

Kenneth Fick
Senior Manager, Accounting and Transaction Services
MorganFranklin Consulting

Anthony Relvas
Manager
The Hackett Group

Moderator: Joe Fleischer
Editorial Director, Custom Content and Research
CFO Publishing

2

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1. How would you define driver-based budgeting and planning?

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- Employs models constructed from key operational activity drivers
- Links operational drivers to financial outcomes

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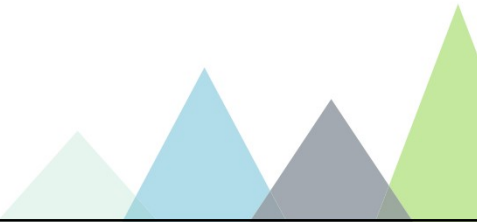2. What are optimal circumstances for an organization to pursue driver-based budgeting and planning?

5

- Companies of all sizes and types can apply driver-based budgeting and planning.
- A driver-based approach is particularly effective in an environment where key drivers are consistent but conditions that influence them frequently change.

6

3. What are best practices for identifying drivers and establishing priorities for them?
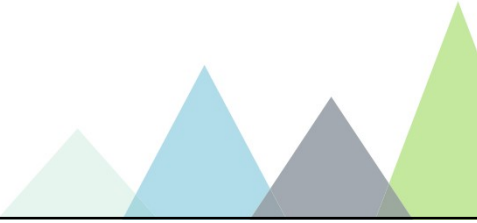
7

- Depends on an organization's overall business model
- For each line item for which you are looking to implement a driver-based model, determine
  - what you aim to measure and
  - what decisions depend on this information

8

4. What methodologies and types of tools support driver-based budgeting and planning?

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- The most effective methodologies apply business rules that colleagues throughout an organization can easily understand.
- But keep in mind that the complexity of driver-based models often exceeds the capacity of, and can require alternatives to, spreadsheets to accommodate them.

10

5. What resources and skills should an organization have in place for driver-based planning and budgeting to be effective?

11

- The skills and resources required for driver-based budgeting and planning depend on a company's size and complexity.
- In general, a financial planning and analysis (FP&A) team should have the ability to
  - collaborate across multiple lines of business up and down the management hierarchy,
  - link operational and financial plans to a strategic plan, and
  - build models for use in reporting variances and forecasting the future.

12

6. What challenges do finance leaders encounter most often when seeking internal buy-in for driver-based budgeting and planning? How can they overcome these challenges?

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- The biggest obstacle to implementing driver-based budgeting and planning is failure to achieve organizational alignment around the process.
- Finance teams are most likely to gain buy-in by interviewing departmental and business leaders to find out
  ➢ what drivers they believe would be most effective to manage their operations, and
  ➢ how the company can gather data to track the drivers.

14

7. What are the most typical mistakes CFOs make when they introduce driver-based approaches to budgeting and planning? How can they prevent these mistakes?

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Among the most prevalent yet preventable mistakes finance teams make with driver-based approaches are

- not seeking organizational buy-in,
- depending too heavily on manual processes and spreadsheets to develop and maintain driver-based models, and
- allocating inadequate resources to gather, analyze, and ensure the accuracy of data that informs driver-based budgets and plans.

16

8. What key points would you advise that attendees keep in mind after this discussion?

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The primary benefits of driver-based budgeting and forecasting to an organization are

- greater transparency into the cause-and-effect relationship between operational drivers and financial results, and
- clearer accountability for setting goals, as well as for establishing incentives to meet them, in the context of drivers.

18

QUESTIONS AND ANSWERS

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Senior Manager, Accounting and Transaction Services
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19

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20

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21