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Control

World-Class Financial Planning and Control

*Economic Return on Financial Planning
and Budgeting Systems*

INTRODUCTION

For most companies, planning and budgeting is a necessary but painful annual process. Unfortunately, it is often a prolonged exercise that takes so long that the starting assumptions are virtually meaningless by the time the process is complete. Add to that the rapidly increasing need for reporting and controls, both from investors and to meet regulatory requirements for publicly traded companies, and the situation becomes one where there is an imperative for change.

Using Microsoft® Business Solutions for Analytics–Forecaster in their financial budgeting and control processes not only enables companies to meet these urgent needs but does so in such a way as to deliver significant financial returns. This white paper summarizes the financial returns achievable through implementing Forecaster, introduces a process to estimate those returns, and provides proof of value with two case studies.

This white paper will help finance professionals do the following:

- Learn leading trends and best practices in budgeting and financial control
- Understand the real business benefits that arise by improving their planning and budgeting process
- Learn a process to determine the business and financial benefits achievable by implementing Forecaster in their organization

FINANCIAL PLANNING SYSTEMS ARE AT THE HEART OF WORLD-CLASS PLANNING AND CONTROL

There are many factors driving the need to improve planning and control processes, including the accelerating pace of business and the costly and slow nature of current planning and budgeting processes. In publicly traded companies, no issue is more urgent than the need to comply with the Sarbanes-Oxley Act.

Sarbanes-Oxley

Corporate financial governance has been recently thrust into the headlines, amid corporate scandals and misconduct. The Sarbanes-Oxley Act, the watershed act, signed into law on July 20, 2002, has been heralded as the most significant reform of the federal securities laws since their New Deal-era roots. Corporations are now focusing on ensuring that their financial systems enable them to meet the stringent new rules for internal controls, accelerated SEC filings, and certification of reporting by the CEO and CFO. World-class organizations will look beyond Sarbanes-Oxley and think about their investments in resources in this area in terms of how those investments will help them compete and, ultimately, what return they can expect on their investment.

Public companies are the primary target of the current regulatory effort, but this doesn't mean that private companies should ignore the importance of better budgeting and planning practices. In fact, 58 percent of private companies are instituting changes to ensure greater control of their accounting processes, according to a recent survey sponsored by Robert Half Management Resources.¹

Naturally, one of the areas finance organizations are considering is the role of financial planning. In addition to improving planning, including mapping the planning to internal controls, companies are looking to improve their control and competitiveness to become world-class financial organizations.

Accelerating Pace of Business

The complexity, velocity and competitiveness of business conditions today require nimble responses to market changes and more thorough and accurate budgets and forecasts. The need for speed, accuracy and business alignment are not met by traditional planning and budgeting cycles.

Costly and Slow Planning and Budgeting Processes

Unfortunately, budgeting can be a painful annual process in which the budget staggers through multiple iterations and reviews before finally receiving approval. Conventional thinking contended that this process was a necessary pain to help ensure greater participation and alignment between the budget and business plans. The alternative was to risk having budgets out of line with business objectives, resulting in stifled growth and wasted resources. Typically, this misalignment occurred when companies simply built

¹ "Accounting for Change," Robert Half Management Resources (March 6, 2003)

budgets based on the previous year's budget, using an incremental approach, instead of linking strategic objectives with operational measures and financial metrics. Planning and budgeting can drive strategy and performance through the entire organization to ensure that everyone is working toward the same goal.

The solution for turning the planning and budgeting process into a strategic weapon while reducing the associated pains can be found in new advancements in Web-based planning and budgeting software. Forward-thinking companies give their front-line managers the tools they need to create and own their budgets. The result: improvements in budgeting accuracy and management accountability.

Forecaster Functionality Translates to Economic Benefits

As with any technology investment, a critical look at investment payback is required for management to gauge the extent and rapidity of their involvement in this new application. Return on investment (ROI) is a traditional evaluation method deployed by organizations to weigh the merits of undertaking

new investments or projects. To measure the bottom-line impact of implementing a financial planning and budgeting solution, FRx Software Corporation together with FutureSight Consulting recently completed a comprehensive analysis of the economic benefits derived by using the Forecaster planning and budgeting system. FutureSight Consulting also has assisted FRx Software in developing a new, detailed, customized ROI scenario model to help an individual company assess the potential economic impacts of a financial planning and budgeting application. This white paper presents the results of that research.

Forecaster streamlines and simplifies the financial management process all the way from planning and budgeting through day-to-day business performance management. In doing so, there are three primary areas where economic benefits are realized: labor, communication, and decision-making. As with any technology solution supporting a business process, the level of benefit realized depends on the current situation as well as the degree of adoption within the organization after implementation.

Fig. 1. Forecaster Economic Value Framework



Each of the functionality benefits enabled by Forecaster affects one or more of the three financial outcome dimensions (labor savings, reduced communication expenses, and improved financial decision-making). Some of the high-impact functionality benefits and a cross reference of how they affect the financial outcome dimensions are shown in **Table 1**.

Table 1. Functionality to Value Mapping Key Functionality Benefits	Financial Value Dimensions		
	Labor Savings	Reduced Communication Expenses	Improved Financial Decision-Making
Quickly establish company-wide templates, hierarchical structures, calculations and rules	√	√	√
View, report and change relevant budget and forecasting data in real time via the Web	√	√	√
Improve collaboration and communications with email notifications, bulletin boards, ability to add attachments and other collaborative features	√	√	
Manage and track budget workflow	√	√	
Manage security, approval structure, and profit and loss responsibility with audit trails	√	√	
Plan and model revenue and costs in budgets using various methods, including complex calculations	√	√	
Improve analysis and make more-informed business decisions with better forecasts, analysis of budget variances and by conducting “what-if” scenarios	√		√
Easily map and integrate data from accounting systems	√		√
Easily manage hierarchy of budgets with automatic consolidations, drag-and-drop capabilities, and enforced structural integrity	√		
Manage line-item breakdown of budgets		√	√

Labor Savings Benefits

Reduced labor is typically the largest single benefit derived from implementing Forecaster. Labor savings tend to fall into one of three categories: managing the planning and budgeting process, participating in the planning and budgeting process, or managing the IT/support required for the planning and budgeting process.

- **Managing the planning and budgeting process.** The finance and budget management team sees the largest reduction in time spent during the budgeting process. Some of the savings occur during preparation for the process. Management of the process also is greatly simplified, thus reducing the amount of time spent doing process management. Another area where significant time is saved by the finance and budget management team is in analyzing and reporting on the budgets being submitted. **Table 2** shows a list of activities involved in the management of the planning and budgeting process.
- **Participating in the planning and budgeting process.** Line and business management also receive a significant benefit from using Forecaster. The preparation of their department budget(s) is greatly simplified, thus reducing the time

required. Analysis of the budget(s) is an area where more time can be spent due to the reduction in necessary budget preparation time and Forecaster's enhanced analysis capabilities. As a result, the overall budget analysis step is greatly enhanced. Finally, the historical "return and defend" step (or cycle in many cases) is all but eliminated. In many cases, the budget is updated in real time during the initial budget hearing. **Table 3** shows a list of activities involved in the participation in the planning and budgeting process.

- **Support and IT required for the planning and budgeting process.** The final area of labor savings is in support and IT required. In the past, multiple spreadsheets with password protection had to be stored, transmitted and managed. This process was cumbersome and tedious, and it tied up valuable IT resources. Not only does Forecaster eliminate the burdensome nature of the planning and budgeting process, but it allows companies to quickly implement a comprehensive planning and budgeting solution. Because it is easy to implement and use, end-users can start building a baseline budget in as little as two weeks. Also, the consulting and systems integration costs are designed to meet the needs of midmarket organizations that have limited IT resources.

Table 2. Budget Management Categories

Preparation	Time spent preparing the budget starting points and initiating the planning and budgeting process
Distribution	Time spent distributing and managing different budget versions
Training	Time spent training the participants in the planning and budgeting process
Ongoing Interactions/ User Support	Time spent managing and supporting the planning and budgeting process
Consolidation & Roll-Up	Time spent consolidating and coordinating the submitted budgets
Analysis, Reporting & Perspectives	Time spent analyzing and validating the budgets vs. plan, and preparing management reports and various perspectives for further review and scrutiny

Table 3. Budget Participation Categories	
Planning	Time spent preparing for the planning and budgeting process
Entering Data	Time spent creating the department budgets
Analysis	Time spent analyzing the budget vs. plan and actual
Return & Defend	Time spent re-creating the budget and resubmitting after the initial pass

Communications Expense Benefits

An area of cost typically not considered in the budgeting and financial management process is communication. This takes the form of printouts, copies, long-distance phone calls and, in some cases, travel. Forecaster enables a significant reduction in all these expenses associated with the planning and budgeting process.

Decision-Making Benefits

Another area of benefit that can be quite significant, in some cases, is improved decision-making. This takes the form of better expense control or increased revenue opportunity. Both can be achieved through better access to relevant and current information.

Intangible Benefits

Aside from benefits that can be quantified, Forecaster contributes to several intangible benefits. These can be just as important, but often are more difficult to quantify or vary widely between organizations.

1. *Faster decision-making.* Forecaster can dramatically shorten the annual budget, interim budget and forecast review cycles. The result is that managers can execute much faster on decisions facing the business. This could in turn result in faster execution of revenue-generating decisions or cost-cutting decisions, both of which impact overall profitability.
2. *More-informed budgeting with greater accuracy.* Forecaster makes budgeting tasks much easier, which may positively impact employee morale during the budgeting

and forecasting process. This means more time can be dedicated to performing analysis against the projected budget and forecasts to improve budget integrity. FRx Software automates many of the steps involved in populating budgets and conducting roll-ups, greatly reducing the amount of costly errors that can occur from manual processes.

3. *Improved accountability.* Forecaster makes it easier to include more line managers in the planning and budgeting process. This increases accountability and confidence in the planning process, which results in a higher level of commitment in the “numbers” when those responsible for delivering against the “numbers” are involved in the process.
4. *Improved financial visibility.* Companies that demonstrate accuracy when setting expectations and delivering on them are rewarded through increased predictability and control of business performance. For privately held companies, that translates into better visibility and decision-making and thus increased profitability. For publicly traded companies, investors reward accuracy and markets reward those companies that demonstrate a firm grasp of their business operations while delivering performance against investor expectations.
5. *Increased business agility.* Forecaster makes it much easier to adjust forecasts and budgets given changes in the business climate, allowing managers to respond more effectively.

PREDICTING FINANCIAL BENEFITS WITH THE FORECASTER ROI SCENARIO MODELING PROCESS

A scenario modeling process and tool have been developed by FutureSight Consulting, an independent consulting firm, in an effort to assist organizations in understanding the economic returns they can achieve by implementing Forecaster to help manage and support the planning and budgeting process. The process produces a customized cost savings and revenue improvement analysis. In addition, the tool calculates the four key financial metrics that most CFOs would consider when making an investment decision: return on investment, net present value (NPV), internal rate of return and payback period.

Figure 2 shows the scenario modeling process. The process can begin with either a self-service pre-assessment or a more in-depth analysis.

Pre-Assessment

The pre-assessment phase provides an order-of-magnitude estimate of the benefits that can be achieved by implementing Forecaster from a set of environmental parameters about a business. FutureSight Consulting created this tool after profiling several organizations that were using Forecaster. The tool provides a simplified analysis of the areas of value that customers have realized from deploying Forecaster. Results from this simplified tool are not guaranteed to equal actual ROI, and should be used for directional purposes only. Those who would like a more thorough analysis after performing the pre-assessment may contact FRx Software Sales to arrange for a more comprehensive and customized ROI consultation.

Assessment

There are three steps performed during the full ROI consultation. First, more information is gathered regarding an organization's current budgeting and forecasting climate.

The parameters used in the calculations start with general business metrics such as revenue, gross margins and growth. The parameters then become much more specific to the particular budgeting and financial environment. Information is gathered regarding such factors as the number of people involved in the planning and budgeting process, the amount of time spent budgeting, and the number of times per year a company undergoes budgeting and forecasting. The assessment also considers implementation and maintenance costs in order to use the total cost of ownership (TCO) in the calculations. Examples of some of the input parameters for a hypothetical company are shown in *Figure 3*.

GETTING STARTED

If, like most companies, your planning and budgeting is a painful annual process, and you are trying to address the increased need for reporting and controls, then you should consider using Forecaster. To understand the impact of using Forecaster in your unique environment, we recommend that you perform an ROI analysis.

For an order-of-magnitude estimate of the benefits that can be achieved by implementing Forecaster from a set of environmental parameters about your business, go to the Web tool at www.frxsoftware.com/roitool/wp.

If you desire a more thorough financial and product analysis with an FRx Software specialist, please contact FRx Software Sales at sales@frxsoft.com to arrange for a more comprehensive and customized ROI consultation.

By implementing Forecaster, you can take the pain out of your budgeting and financial control processes. Sign up for an informative Web-based product demonstration today at www.frxsoftware.com, and learn how Forecaster and Microsoft® Business Solutions for Analytics-FRx® can simplify your financial processes and directly affect your bottom line.

Fig. 2. ROI Assessment Process

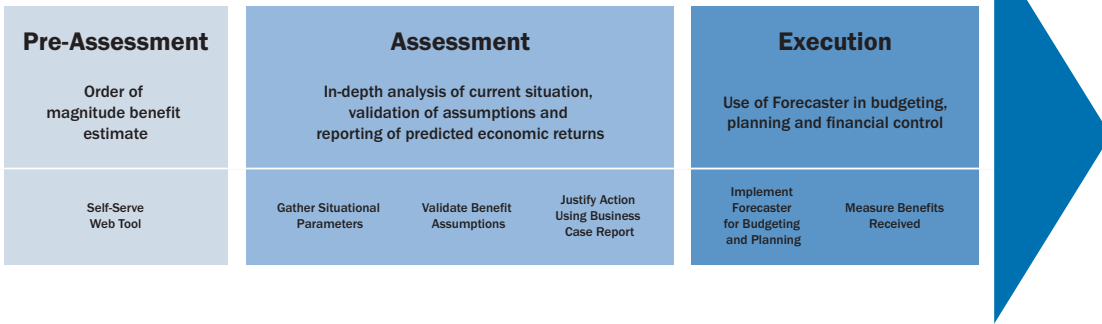
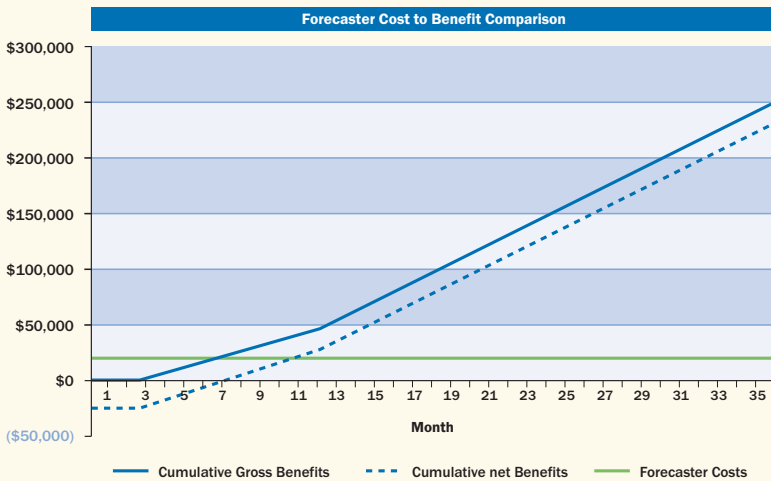


Fig. 3. Example ROI Report–Based on a Hypothetical Company

ROI Summary Measures	Value
Return on Investment (ROI)	361%
Net Present Value (NPV)	\$96,703
Internal Rate of Return (IRR)	154%
Payback Period (months)	7.5



Analysis of Benefits of Implementing Forecaster	Year 1	Year 2	Year 3
Cost Reductions			
Reduced Budgeting & Forecasting Management Labor Costs	\$32,356	\$58,154	\$63,879
Reduced Line Management Labor Costs	\$2,175	\$4,301	\$4,956
Reduced General Management Labor Costs	\$1,796	\$4,962	\$7,667
Reduced IT Support Labor Costs	\$796	\$1,592	\$2,229
Reduced Communications Costs	\$2,093	\$6,287	\$6,361
Reduced Operating Cost From Improvement in Decision Making	\$5,417	\$13,650	\$14,333
Custom Cost Reductions	\$0	\$0	\$0
Subtotal: Cost Reductions	\$44,633	\$88,946	\$99,424
Revenue Increases			
Increased Revenue From Better Decision Making	\$2,917	\$7,350	\$7,718
Custom Revenue Increases	\$0	\$0	\$0
Subtotal: Revenue Increases	\$2,917	\$7,350	\$7,718
Total Benefits to XYZ Corporation	\$47,549	\$96,296	\$107,141

REAL-WORLD CASE STUDIES

Following are two case studies that outline the application of Forecaster in different industries, each highlighting the benefits being derived from its use.

Mercy Health Partners of Western Ohio

Situation

In the face of soaring costs, changing regulations and constant reorganizations, the administrators at Mercy Health Partners of Western Ohio wanted a way to better control and analyze their finances. They wanted to contain costs while they expanded their network of care facilities. To meet their goal, the finance team knew they had to improve on their budgeting and planning processes. They decided a well-managed budgeting and planning process would lead to better decisions and better accountability. In the past, Mercy Health Partners operated a spreadsheet-driven budget process that required linking and maintaining spreadsheets across eight key facilities with approximately 200 sub-departments. To add to the complexity, Mercy Health Partners had to roll up their budgets and forecasts into the Catholic Health Partners (CHP) network, which services the health needs of people in Indiana, Kentucky, Ohio, Pennsylvania and Tennessee. CHP is one of the largest non-profit healthcare networks in the nation, with 31 hospitals and \$2.9 billion in net operating revenues for 2002.

Business Solution

To change the focus from managing spreadsheets to using the numbers to make better decisions, Mercy Health Partners implemented Forecaster. Forecaster also helped Mercy Health Partners make each individual manager accountable for budget and forecast performance. It has allowed departments to take full ownership for their ongoing performance, with self-serve abilities to drill into the numbers and track progress on an ongoing basis, without the need to call for product support! Mercy believed that by giving teams a better tool and more accountability, the hospital would reduce expense creep.

Results

Efficiency Gains

From the budget manager's perspective, Mercy estimates it eliminated over 30 man-days - a little more than one month of work, which equals approximately \$15,000 in salary costs.

Better Decisions

While Mercy saves in labor costs, Forecaster also enables it to put more information in the hands of decision-makers – allowing them to focus on the real issue of cost containment and long-term planning. They used the information to identify a potential cost reduction of \$1M in operational expenses. By using Forecaster, the supply contract manager was better able to see his inventory, compare supply prices and understand the network's purchasing power. The information gave him a stronger position to negotiate from and an ability to better control his inventory.

Case Study: Airline Reporting Corporation

Situation

With the cutbacks in travel, airline companies need to control costs and the allocation of resources. Airline Reporting Corporation, an airline-owned company offering travel products and services, ticket distribution, and settlement through a variety of channels in the United States, Puerto Rico and the U.S. Virgin Islands, is no exception. It needs to respond to change and keep a vigilant eye on its bottom line. The company understands the greatest opportunity to control costs is within the operational budget, accounting for 20 percent to 30 percent of spending. The finance team believes that operational costs are where the profitability battle is won or lost. In the past, ARC managed its budgets by linking 50 spreadsheets jointly compiled with 30 budgeting and planning participants. The company had to add password protection to the worksheets and store them on a shared network drive. For remote users without access to the corporate network, the finance team relied on e-mail communications. To finalize a budget, the team would circulate three to five budget iterations through the approval process. The process resulted in problems with version control, spreadsheet errors and slow data processing.

Business Solution

ARC wanted to improve the process – gain more control, offer executives higher quality real-time data, make line managers more accountable, and make the process more efficient. The company wanted the software solution to come with a reasonable price tag and integrate into existing ERP and FRx Software's financial reporting solutions. They evaluated several products and selected Forecaster to meet these needs.

Results

Payback on Investment

For ARC, using Forecaster resulted in labor savings. More important, it has aided in better decision-making and added more control and accountability into the process.

Efficiency Gains

By automating the budget process, ARC saved five to six weeks in labor costs – the equivalent of about \$15,000 per each major budget review.

Better Decisions

ARC has benefited from better decision-making by leveraging intelligence gleaned from drilling down into greater budget details, having improved access to “real-time information,” and fostering greater organizational participation in the process. For ARC, managers are now able to use the actual results vs. historical results vs. forecasts to aid in their pricing management.

Control, Accountability and Morale

Forecaster has been instrumental in realizing the management objective of greater control and accountability. Forecaster has enabled a better-quality budgeting and planning process.

ABOUT FRx SOFTWARE

FRx Software Corporation, a Microsoft company and a part of Microsoft Business Solutions, is the leading provider of advanced financial analytic applications to midmarket and corporate businesses seeking to bring more control to their financial analysis and reporting processes. Its flagship product, Microsoft Business Solutions for Analytics-FRx, is used by more than 115,000 sites worldwide to help bring control to the financial reporting process. FRx is considered a financial reporting standard for midmarket companies and corporate businesses, with interfaces to more than 50 industry-leading financial accounting systems. Microsoft Business Solutions for Analytics-Forecaster is a browser-based budgeting and planning application that makes it easy for organizations to immediately realize the benefits of budgeting.

ABOUT FUTURESIGHT

FutureSight Consulting specializes in marketing and professional services consulting for high-tech clients. FutureSight applies industry and operational experience to sales, marketing and solution-delivery initiatives. Clients value FutureSight's proven abilities to quickly turn strategies into action helping to achieve breakthrough revenue growth.

www.futuresightconsulting.com

DISCLAIMER

The return on investment calculations performed by this Forecaster ROI Analysis Tool are based on various assumptions and produce estimates only. The actual ROI realized by Forecaster customers may vary from the estimates provided. Please note, these estimates are contingent on certain customer actions, including, but not limited to, timely reductions of the following: staffing, communications costs, and other budgeting-related and

decision-making costs. FRx Software offers this tool to assist customers with planning their budgeting and forecasting solution; however, FRx Software Corporation is not responsible for the accuracy of any estimates. This is a preliminary document and may be changed substantially prior to final commercial release of the software described herein.

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