



AI-enabled Planning and Forecasting: The Future of Budgeting

WHITE PAPER

Abstract



For organizations across industries, the annual budget planning process is essential to keeping them on track and monitoring areas that need improvement, delivering sustainable, profitable growth. But in reality, budget planning is often time-consuming, stressful and workforce intensive, more so in the aftermath of COVID.

2020 was a year unlike any other. Organizations faced mandatory lockdowns and seismic economic challenges that rendered their FY2020 budgeting efforts virtually impractical and in need of a complete overhaul. As businesses across industries get on the path to recovery, quickly redefining budgets and future-proofing the budgeting process is a critical and urgent need.

This paper offers insights into how organizations can realize flexible budgeting and forecasting processes by combining an agile approach underpinned by emerging technologies such as artificial intelligence (AI) to build intelligent workflows.

Rethinking budgeting with a digital-first mindset

The upside of the chaos and uncertainty companies faced in 2020 is it offers them the chance to reimagine traditional ways of doing business. To successfully reformulate budgets and streamline the budgeting process for the future, organizations need to consider agile and iterative methods that imbue flexibility, responsiveness, and adaptability into the budgeting process.

Applying agile principles, typically used in software development, to define a minimum viable plan (MVP) in the most valuable business areas first, followed by short iterative sprints, can broaden the budgeting capabilities of an organization. This means compressing 3-6 month forecasting cycles down to 2-3 weeks. Additionally, harnessing digital forecasting engines can increase the speed and agility of the budgeting and planning process. Such an approach not only addresses short-term budgeting needs, but it also revolutionizes the process by overcoming the common budgeting challenges such as:

- Lack of adequate in-depth analysis that often results in a poor understanding of return on investments (ROI)
- Demand-based and misaligned with the overall goals of the organization
- Consistently workforce intensive, requiring massive time commitment and resulting in inaccurate estimations due to human errors
- Inadequate resources to withstand major uncertainties

Some budgeting best practices can help optimize the application of the agile approach to budgeting.

Four best practices for adopting an agile approach

Here are four key practices that can help organizations adopt agile budgeting processes and overcome typical challenges.

Realigning the organizational culture: Better leadership and management, starting at the board level, can help build a flexible, and agile budgeting approach.

To better navigate the uncertainties in the wake of the global health crisis, many can relate to the situation of a large-scale organization implementing a program that is designed to alter the way its teams look ahead and forecast. The company is motivating its budgeting teams to develop six-month forecasts in just one week by planning ahead in shorter cycles using an agile mindset of controlled experimentation and innovation. The forecasts are then consolidated in Week 2 and presented to the executive team in Week 3. Such disruptive practices cannot flourish without the support of top leadership.

Applying Covey's principle 'begin with the end in mind': Understanding the key drivers of success for the organization and maintaining budgeting rigor around these drivers.

Organizations generally begin building KPI dashboards based on the availability of data or current demand. These short-term agendas often fail to achieve a significant change in how companies operate. Focusing on a limited set of key value drivers, on the other hand, can help achieve better budgeting outcomes.

Adopt a short-term mindset: Shooting for a full-year budget with more than 90% accuracy may not be the ideal way to approach budgeting during these unpredictable times. Instead, it helps to focus on flexible iterative planning to increase accuracy. Many companies have withdrawn their guidance for the full year and shortened their outlook. Shorter iterations and adjustments will increasingly become the new norm. Organizations will need to become comfortable with embracing the uncertainty and focusing on predicting short-term events with more frequent forecasts.

Focus on capability and knowledge building: For modern organizations, the ability to predict and rapidly respond without disrupting business as usual is a key competitive differentiator. It is therefore best to focus on building an optimized finance and budgeting process as a core capability, rather than evaluating the success or failure of each iteration.

Streamlining budgeting: Technology to the rescue

Eliminating redundancy and errors is the first step to a successful transformation. To begin, assess your current processes to identify areas that can be automated to improve efficiency and accuracy. Many of the current budgeting and forecasting practices are still largely manual and can be easily automated. Leveraging digital platforms that automate repetitive tasks, and blending them with AI and machine learning engines, can significantly accelerate cycle time.

One of the leading global technology players improved its forecasting efficiency by more than 80% by deploying technology and intelligent algorithms to tackle the more mundane and arduous tasks. But given the complexity involved in leveraging these technologies, few organizations can do this on their own. Striking partnerships with proven service can help companies not only access the right capabilities and avoid the typical pitfalls associated with such implementations but also accelerate time to market and ROI.

It's time to make a clean break

The new post-COVID reality demands new ways of working and adapting agile budgeting and forecasting ensures flexibility and resilience. While letting go of traditional approaches can be disconcerting for business leaders, more so during unpredictable times, making a clean break with legacy practices, using best practices and leveraging technology can set organizations on the path to success.

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