

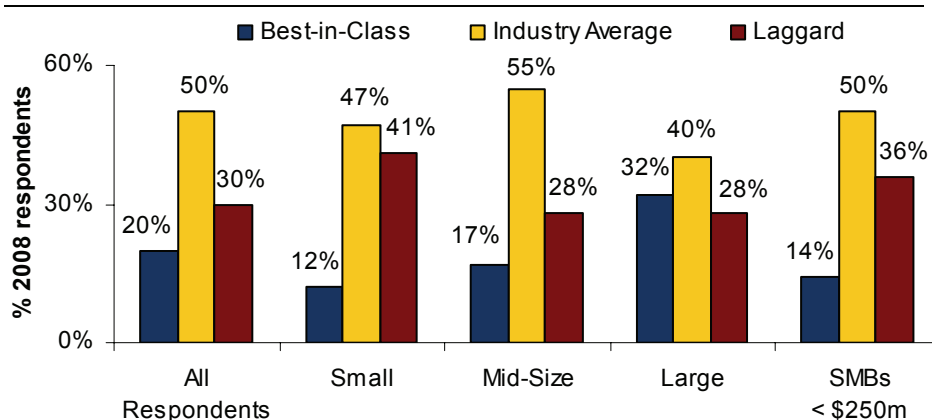
## SMBs Improve Financial Planning, Budgeting and Forecasting with Technology

Smaller companies have historically lacked tools to help formulate and execute against solid financial plans and budgets. Yet in today's uncertain economic times, operating with a "seat of the pants" mentality is like setting a boat adrift in tumultuous seas. Tools and technologies are the rudder by which to steer the course successfully through a turbulent economy. Small to Medium Businesses (SMBs) have taken heed of prior warnings, are better armed, and are achieving results superior to the upper ranges of mid-size companies. What have they done and what have they accomplished?

### Performance Improvements in SMB

In the April 2008 report, *Financial Planning and Budgeting*, Aberdeen determined Best-in-Class performance in planning and budgeting based on both the efficiency and accuracy of the process, as well as the ability to effectively adapt to changing conditions through re-forecasting. In a May 2008 Sector Insight titled *Financial Planning and Budgeting: Lessons Learned from the Big Guys*, Aberdeen reported large companies (those with annual revenues in excess of \$1 billion) to be 60% more likely to achieve Best-in-Class performance results while small companies (those with annual revenues less than \$50 million) are 40% less likely to be top performers (Figure 1).

Figure 1: Best-in-Class by Company Size - 2008



Source: Aberdeen Group, April 2008

While annual benchmarks are typically spaced approximately 12 months apart, the current financial crisis prompted Aberdeen to revisit this critical function sooner. As a result, we gathered data from over 150 business

### Sector Insight

Aberdeen's Sector Insights provide strategic perspective and analysis of primary research results by industry, market segment, or geography.

### Sector Definition

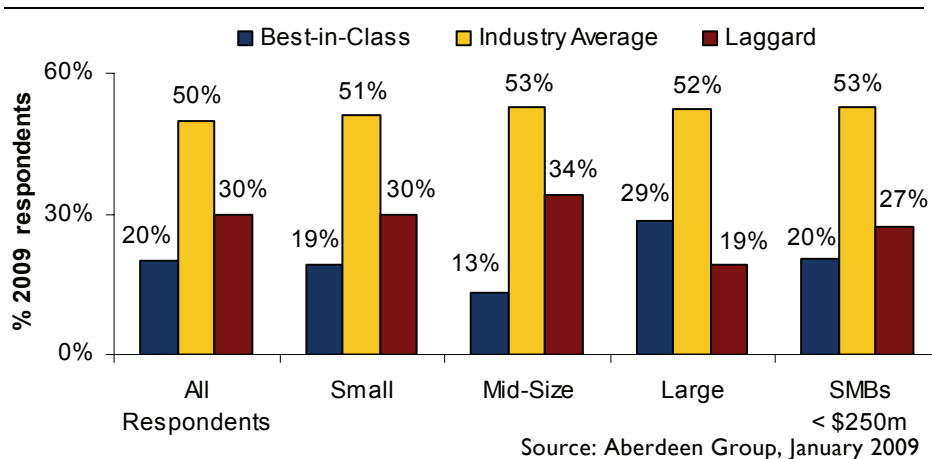
This Sector Insight highlights the performance and capabilities of companies with annual revenues under \$250 million, referred to as Small to Medium Businesses (SMBs). This definition is used in parallel with Aberdeen's standard company size definitions based on annual revenues:

- √ Small: under \$50 million
- √ Midsize: \$50 million to \$1 billion
- √ Large: over \$1 billion

executives to determine if business drivers and strategic actions had dramatically changed, and to benchmark progress as we enter a new year in what are proving to be very uncertain economic times. The January 2009 report *Financial Planning, Budgeting and Forecasting: Managing in Uncertain Times* details dramatic shifts in both business drivers and strategic actions emphasizing agility in response to volatile market conditions, but we also see evidence that with increased use of tools and technology, smaller companies are more nimble and therefore better able to adapt to managing against this new set of objectives.

Figure 2 shows that while the broader "mid-market" (defined as companies between \$50 million and \$1 billion in annual revenues) continues to struggle in performance, small and SMB companies have made significant progress. Companies under \$250 million are 43% more likely to be Best-in-Class than they were three quarters ago, and 25% less likely to be Laggards. SMBs (companies under \$250 million in annual revenues) are now on par with Aberdeen's definition of Best-in-Class with 20% falling into this category of performance.

**Figure 2: Best-in-Class by Company Size - 2009**



**Best-in-Class Criteria**

The January 2009 report, *Financial Planning, Budgeting and Forecasting*, used the following Key Performance Indicators (KPIs) to determine performance:

- ✓ Reduction in budget cycle time
- ✓ Ability to finalize the budget before the beginning of a new fiscal period
- ✓ Budget accuracy
- ✓ Improvement in profitability

The Best-in-Class are the top 20%, the Industry Average are the middle 50%, and Laggards are the bottom 30% of aggregate performance scorers.

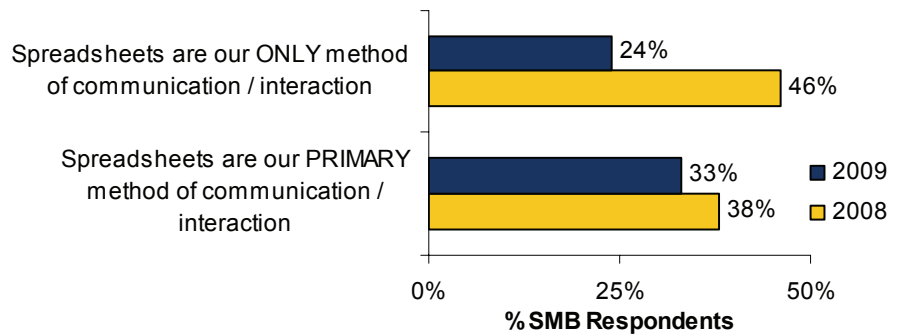
**What are SMBs Doing Differently Now?**

In *Financial Planning and Budgeting: Lessons Learned from the Big Guys*, we stated, "Too many small companies still rely exclusively on spreadsheets and manual processes to complete the budget cycle, preventing plans from being finalized before the beginning of the new period and resulting in inaccurate budgets." A significant portion of this market segment took heed in the past nine months. This year we see the percentage of SMBs relying solely on spreadsheets cut by almost half (Figure 3).

For many, spreadsheets still play a role, but more often as a support mechanism rather than the primary tool. One of the most popular features of both financial planning and budget applications, as well as all enterprise applications, is the ability to export data directly to a spreadsheet, so it is not surprising that this is the most popular role that spreadsheets play.

Almost half of SMBs (49%) described the integration with spreadsheets as a "critical feature" of applications.

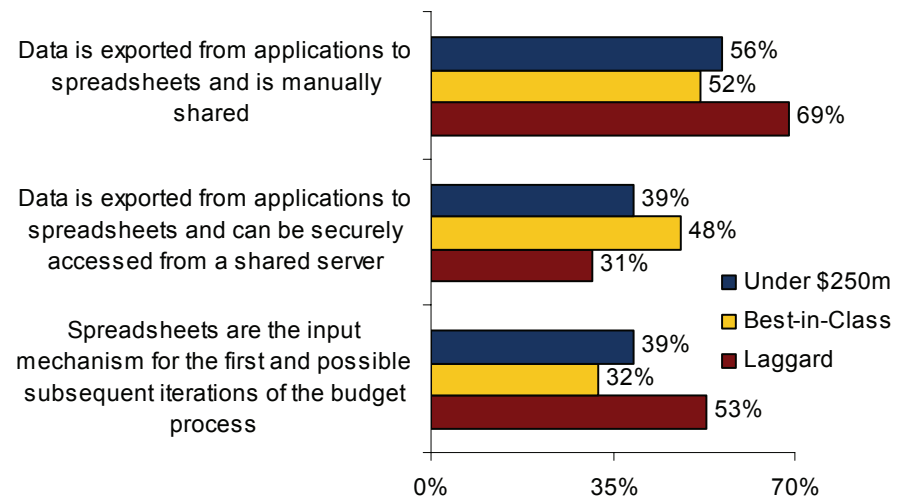
**Figure 3: SMBs are Less Dependent on Spreadsheets**



Source: Aberdeen Group, April 2008 and January 2009

However, it is the level of control and access to this data that is critical to understand. Figure 4 shows how Best-in-Class companies are far less likely to export data into manually shared spreadsheets at the initiation of a planning / budgeting / forecasting process and are also less likely to use spreadsheets as the input mechanism for the first and possibly subsequent iterations of the overall process. SMBs exhibit behavior which is far closer to Best-in-Class than to Laggard performance.

**Figure 4: The Role of Spreadsheets**



Source: Aberdeen Group, January 2009

“In the past we were completely dependent on spreadsheets. Today they still play a role, but we are far less dependent on them. We have been using PROPHIX for seven years now. At first we just used it to record budgets, but today we use the reporting extensively. Our end users are using PROPHIX and they don't even know it. We send out sheets to sales yards showing them their sales history and ask for a forecast. We use that to import back into the application and roll it up. In the past we spent way too much time consolidating spreadsheets.”

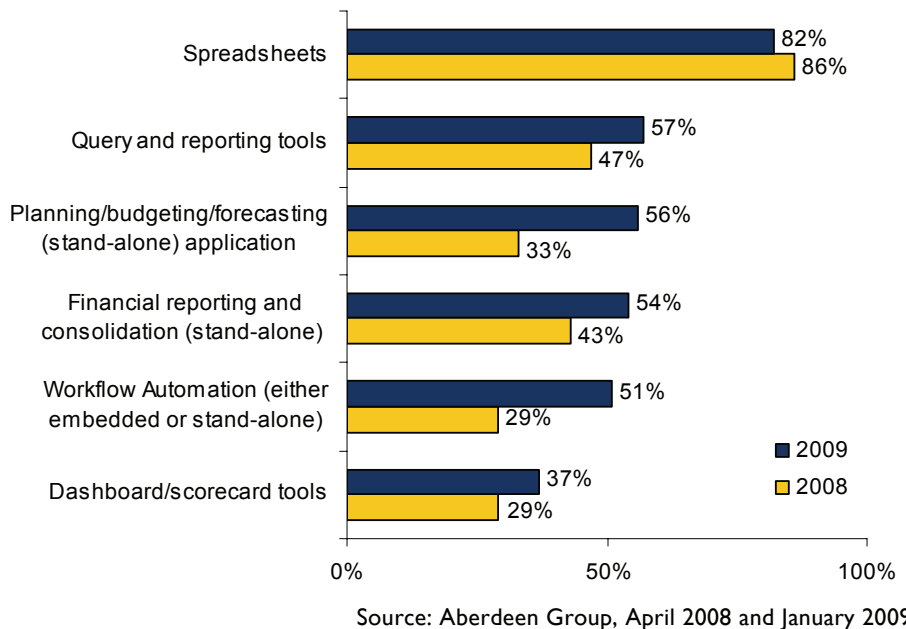
~ Joe Spyhalski, Manager of Cost and Budgets, East Jordan Iron Works

**Visibility is Key**

Visibility throughout the planning and budgeting process and continued transparency to performance throughout the fiscal period are key elements to improved accuracy as well as profitability. Improved performance in SMBs demonstrates that the increased investment in supporting technology

has paid dividends. Many of the technology tools and enterprise applications shown in Figure 5 all have common objectives of providing increased visibility while streamlining, automating, and accelerating the process.

**Figure 5: Technology Adoption Grows in SMB**



“We simply use Excel spreadsheets because they are familiar to everyone, and there is very little training required. One of the downsides to this approach is that we continually have to audit the data and determine if there have been mistakes or corrupted formulas.”

~ Operations Director,  
Mid-Tier Health Services  
Organization

One of the capabilities that differentiated the Best-in-Class from the rest of the pack was the ability to automatically guide participants through the planning, budgeting, and forecasting processes. This level of sophistication requires technology beyond simple spreadsheets. While SMBs still trail Best-in-Class in this capability (28% of SMB versus 44% of Best-in-Class), an additional 37% plan to implement this level of automation, indicating that SMBs are still investing for improved performance.

### Case in Point

Take for example the case of Hydro One Brampton Networks in Ontario, Canada. As Ontario's electricity system changed from a monopoly to an open market, residents and businesses were able to shop around for the best deal for the energy portion of their electricity bill. Other charges, such as for the delivery of electricity to homes or businesses remain a monopoly function, and therefore must be regulated. The regulator for Hydro One Brampton is the Ontario Energy Board. Once a municipality, Hydro One Brampton is now a subsidiary of Hydro One Inc. and is a part of the Hydro One Inc. family of companies. It supplies electricity to more than 127,000 homes and businesses in Brampton.

"The transition to private ownership and the need to maintain a competitive advantage required a new level of accountability at the manager and supervisory level," said Suzanne Pressault, Accounting Supervisor. "Back when our planning and budgeting process was largely driven by

spreadsheets, budgets were set at the VP level and handed down through the organization. Accounting owned the budgeting process. By replacing spreadsheets with a financial planning and budgeting system [the company now uses PROPHIX for this purpose] we are able to engage at the manager and supervisory level. The expense budget is now initiated by the managers and supervisors and consolidated by accounting. We are also able to provide secure reporting. Visibility into how their spending tracks against budget is provided back to the budget owners. Managers are only allowed to access the data they are responsible for, but this provides accountability and a sense of ownership. After all, they are managing against numbers they gave us, rather than the other way around."

Hyrdo One Brampton combines a bottom up approach (for expenses) with a top down approach for sales. Being in a regulated industry, it is required to manage sales and profits overall per the regulations set forth by the Ontario Energy Board. "Today we have transparency in both directions. Any spreadsheets in use are at the individual level. All data for decision-making now resides in and is managed by PROPHIX."

## Required Actions

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More SMBs have followed the example set by large companies in employing technology to assist in setting and managing against plan. Two thirds (66%) now have a formal planning and budgeting process, and technology adoption in this segment has increased dramatically in the last nine months. In order to continue to improve performance in these uncertain economic times, SMBs should pursue the following recommended actions:

- Those SMBs that have yet to formalize the planning and budgeting process (33%) would be well advised to do so. Don't use the excuse of market volatility to put this off. Rapidly changing business conditions make the need to formalize processes, plans, and budgets all the more important.
- However formalizing the process does not mean companies must now be slaves to a rigid and frozen budget. The need for improved flexibility to dynamically account for change requires formalization of the forecasting process... and the re-forecasting process as well. Less than half of SMBs (44%) have formalized this part of the overall process.
- Continue to invest in and implement financial planning, budgeting, and forecasting applications. These serve to add speed and flexibility by allowing more frequent and formalized re-forecasting. While the adoption of stand-alone applications have increased by 70% year over year (to 56%) and another 22% utilize budgeting and forecasting capabilities of their Enterprise Resource Planning (ERP) solution, this still falls short of Best-in-Class adoption at 100%.

SMBs are far better positioned than a short nine months ago. Now is not the time to ease up. As we weather the storm of a turbulent economy,

companies of all sizes can benefit from automating and streamlining processes and adding visibility to performance against plan.

For more information on this or other research topics, please visit [www.aberdeen.com](http://www.aberdeen.com).

### Related Research

[Financial Planning, Budgeting and Forecasting: Managing in Uncertain Times](#); January 2009  
[Financial Planning and Budgeting: Lessons Learned from the Big Guys](#); May 2008

[Financial Planning & Budgeting](#); April 2008  
[Operational BI: Getting Real-Time About Performance](#); December 2007

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