In the years leading up to the financial crisis, the global economy was strong. Accordingly, strong growth was the focus of the Business Units (BUs) in A.P. Moller - Maersk (APMM). As a consequence, both costs and complexity increased. This, however, had to change, so during 2008-2010 dramatic cost saving initiatives and turnarounds were implemented.

It was also decided to clarify and increase the responsibility and accountability of the Group’s BUs. There were several reasons behind this change. With the Group’s significant expansion over the last 20 years - revenue grew from USD 18 billion in 1999 to USD 60 billion in 2011 - complexity had also grown, and top management wanted to give more decision authority to the BUs.

Since 2010 focus has been supplemented with a more holistic view on value creation which is now evaluated against internal and external benchmarks. Key elements are now:

- BU positioning
- Customer and competition focus
- Business opportunities and value creation
- Continued cost and efficiency pressure

To succeed with these changes it was necessary to modernize the Group’s management process, which is the focus of this case story.

THE OLD MANAGEMENT PROCESS
The Group is involved in several very capital intensive industries with long lifecycles. In 2011 cash flow for investments was almost USD 10 billion. As a consequence, the Group puts strong emphasis on its investment planning, which in APMM is referred to as Capital Allocation. In this annual process the board evaluates and conceptually approves the coming five years’ total capital expenditure and an allocation of this between the BUs. This process is repeated each year, where the board will either re-approve previous capital allocation decisions or make adjustments based on developments in the marketplace. Final investment approval is still subject to individual business case approval above certain threshold amounts. The Capital Allocation, which is based on a strategic review of each BU, forms the basis for the subsequent financial planning.

Except for this extraordinary focus on investments, the Group’s planning process was relatively traditional until 2010. It included a very detailed annual budget based on bottom-up reporting from each of the Group’s more than 1,000 legal entities. Targets and incentive plans were largely based on the annual budget. Every quarter an estimate was prepared for the remainder of the year. Business review meetings focused on historical numbers and on changes to the forecast for the rest of the year.

Similar to other companies, APMM however experienced some limitations in its planning process. First of all, APMM realized that some of the purposes with the budget didn’t work well together: ambitious targets, realistic forecasts and optimal capital/resource allocation cannot successfully be combined in the same process.

In addition, the process was somewhat complex and resource demanding; in order to cater for the many BUs’ different needs, many details were prepared as part of the budget process, and all legal entities (irrespective of industry and size) had to prepare exactly the same type of data. The budget was prepared on a 12-month basis for the first year and on a full year basis for the following 4 years. Despite – or rather because – of these significant efforts, the annual budget took several months to prepare and as a consequence was in some aspects lacking an updated view of the market situation. Partly due to the complexity and the many budget details, the integration between strategy and budget could be better.

The quarterly forecasts, which were also prepared for each legal entity, were limited to the calendar year; and did thus not provide management with the best, consistent level of visibility into the future.

Another concern was that the time consuming and complex bottom-up processes could lead to untimely reactions to fast changing market conditions compared to having fast processes focusing on market developments and providing a current view on a few key value drivers.
INITIATING THE NEW PLANNING PROCESS

It is easy to argue that the crisis set the financial organization at APMM off in a new direction. However, it was more the underlying parameters that blew the whistle: A tougher competition, a world constantly changing faster and faster, and the need for faster reaction to new market conditions. This combined with sometimes complex procedures and a new management approach cleared the way for change.

“We wanted to increase the responsibility for the business into every BU and hold them accountable for their results. At the same time we also needed a clearer picture of the business’ direction above-and-beyond the calendar year by which we had governed thus far. We needed a rolling model to give us an overview of the entire Group with a certain time span pointing forward,” says Jesper Cramon, SVP and Head of Group Accounting in APMM.

In 2009, Jesper Cramon initiated a project to address the concerns with the Group’s budget and planning process. The headline was: “From static to dynamic planning”. In order to tap into best practices, inspiration was also sought outside the Group; this included reference visits to other industrial companies who had relevant experience, membership of Beyond Budgeting Round Table as well as advisory services from Basico.

During 2009, the idea of abolishing the traditional annual budget developed as did elements of a new planning process. These were fully supported by Trond Westlie, who joined as new Group CFO on 1 January 2010. Trond Westlie came from Telenor where one of his main achievements was the replacement of the traditional budgeting process with a dynamic model for rolling forecast, which had increased precision and reduced uncertainty in Telenor’s financial management.

Based on the following design criteria: visibility, agility, control and simplicity, and with the objective of creating a stronger link between strategy and action, the APMM project team developed a new management model which was approved by the Board towards the end of 2010.

ABOUT THE A.P. MOLLER - MAERSK GROUP

The A.P. Moller - Maersk Group (est. 1904) is a worldwide conglomerate focusing on energy and transportation. The Group operates in some 130 countries with a workforce of some 108,000 employees. In addition to owning one of the world’s largest shipping companies, the Group is involved in a wide range of activities in the energy, logistics, retail, and manufacturing industries.
THE NEW MANAGEMENT PROCESS

A key element of the new management process is the separation of processes for target setting, forecasting and resource allocation. This has enabled the Group to develop optimal processes for each of these very important - but very different - planning elements.

As a consequence of the newly developed processes, the traditional annual corporate budget became obsolete, and this has not been prepared since the above mentioned board decision. However, to say that APMM has completely abandoned budgets is a qualified truth. Board members still require a concrete landmark for the calendar year, since this is the reference period when communicating with the stock market. In addition, some BUs continue to prepare bottom-up forecasts, however with less detail than before, and the level of planning details has likewise reduced significantly on Group level.

As part of the new management process, APMM has achieved a stronger link between the processes of 1) strategy, capital allocation and target setting, 2) reporting and forecasting, and 3) review and control.

Below is a short description of each of these key elements of the new process.

Strategy, Capital Allocation and Target Setting

When it comes to performance, APMM has defined two success criteria: first of all to create value over the business cycle and secondly, to deliver top quartile financial performance in any given period.

The Group’s planning starts with the annual BU Strategy review which describes the long-term direction of each BU and which is now expressed in ambitions (“What does success look like?”) as well as a few strategic Key Performance Indicators (KPIs).

APMM applies some of the Balanced Score Card methodology when describing ambitions and targets for each BU and when describing the success criteria and key activities within focus areas such as customers, operations, people, etc.

“We have spent quite some time establishing the right strategic KPI’s and benchmarks. The KPIs must be clearly defined and measurable throughout the strategy period. It is very important for us to benchmark performance within the BU. In addition, every quarter we benchmark the BUs against the performance of its key competitors. For some BUs it can be difficult to find proper benchmarks as some competitors are not quoted on the stock exchange, thus making it difficult to obtain the relevant information.”

The Capital Allocation, which is based on the BU Strategy reviews, sets the overall frame for the Group’s long-term investment programme. In addition, the Capital Allocation now also provides a more detailed framework for the investment process for the coming 12-18 months.

A separate process has been developed to handle bonus targets for the Group’s people performance management. At the very end of the calendar year a so-called commercial review is made per BU. Based on the latest available information Group Management sets ambitious yet realistic bonus targets for the coming year. The targets are set relative to nominal performance requirements, external benchmarks and the BU’s long-term strategic ambitions.

Reporting and Forecasting

One of the most significant changes in the new management model is the quarterly Rolling Forecast which was implemented with effect from January 2011. This is a cornerstone in achieving the design criteria:

- **Visibility**: the rolling forecast includes a consistent view on the coming five quarters
- **Agility**: quarterly follow-up on realized as well as expected performance gaps and required actions
- **Control**: during BU reviews (see below) the latest rolling forecast is compared with overall strategy and agreed plans / activities
- **Simplicity**: the rolling forecast includes far less details than the budget did and is only prepared on BU-level. Focus is now on trends and key drivers; not on variations against numbers in a static budget.

APMM’s Rolling Forecast, which is prepared on BU-level, has approx. 35 input accounts (P/L, B/S and CF) and 3-7 KPIs and value drivers.

### KEY FIGURES (2011)

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<tr>
<td>Revenue</td>
<td>USD 60.2 billion</td>
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<tr>
<td>EBIT</td>
<td>USD 10.3 billion</td>
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<tr>
<td>Net profit</td>
<td>USD 3.4 billion</td>
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<tr>
<td>Capex, net</td>
<td>USD 9.8 billion</td>
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<tr>
<td>ROIC (%)</td>
<td>8.3%</td>
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### BU’S IN A.P. MOLLER - MAERSK

The Group’s major BUs comprise:

- Maersk Line
- Maersk Oil
- APM Terminals
- Maersk Drilling
- Maersk Supply Service

- Maersk Tankers
- Damco
- Svitzer
- Maersk Container Industry

In addition, the Group has strategic investments in Danske Bank and Dansk Supermarked.
Working with Rolling Forecasts is completely different from budgets. Where budgets typically represent a combination of different wishes and motives, the Rolling Forecast must represent the “best estimate” so that decisions taken are based on the best possible level of information. This requires a change of mindset, not only for the finance organization but for everyone involved.

Compared to the old budget process, preparing the consolidated Rolling Forecast has been significantly simplified for Group Accounting and HQ. However, a significant part of the process ownership has been transferred from Group to BU headquarters. This has given BUs the opportunity to design processes and systems that are tailor-made to the BU forecasting requirements with appropriate level of detail to support decision making and to support the required mindset change.

The monthly and quarterly BU reporting to Group is now tailor-made for two purposes: 1) Group performance management, and 2) external reporting requirements (IFRS and stock exchange). This means that the consolidated report to top management and the Board is now more focused on value drivers and performance trends in the latest Rolling Forecasts and highlights from the quarterly performance reviews with BUs.

Review and Control
Another key element of the new management model is the quarterly business review. In these face-to-face meetings between the Group CFO (and his team) and representatives from BU management, the BU’s current and expected performance is reviewed against the strategic ambitions. The meetings are also used to follow-up on investments; ongoing as well as planned.

More than before, these meetings now focus on the future with the purpose of identifying required corrective actions. Jesper Cramon explains: “Up until this change we had focused too much on what had been and not enough on what is going to happen. We want to focus even more on the future, giving us the possibility to react to market conditions before events occur instead of after. This was our primary purpose. Times change, and although it had served us well in the past, the old way of doing things didn’t suffice anymore in a rapidly changing environment.”

Previously there was a fixed template for the reporting and follow-up in business review meetings. The template was the same for all BUs; i.e. irrespective of industry and size. “The old way was a one-size fits all bottom-up process meaning that a lot of the information wasn’t produced at BU headquarters, but by individual legal entities in the BU. This has now changed, and the new format requires that a lot of information is prepared at BU headquarters. But in my point of view, we only ask what they should already be focusing on. If we ask for something that doesn’t make any sense from a BU perspective, then I expect the BUs to push back in order for the entire Group to become more focused on what really matters and in order to deal with the appropriate level of detail at the appropriate organizational level. A part of the cultural change is communicating more openly between Group management and BUs,” Jesper Cramon says.

BUs can now decide on the level of detail based on their specific requirements. Some of the BUs have grasped this possibility to create their own operational models, including the processes and structures that make sense for them. Other BUs have so far decided to continue with the old reporting formats.

As a consequence, Group management now receives differently looking reports from the BUs instead of unified reports. Jesper Cramon finds this very positive, because it gives Group management a much better knowledge of each BU. This has also reduced workload: Group management no longer receives details they don’t use for controlling, and the BUs are no longer required to spend time working out unnecessary details. Basically, the BUs can use the same material for the review meetings as they use in their internal management teams.

“It has been a big challenge for all. BUs have had to adapt to a new mindset and invent their own definitions of reporting requirements. They now have to act like a head office, and they need to build this experience,” Jesper Cramon says. “For Group Management, on the other hand, the learning process is very much about the increased decentralization and less detailed involvement.”

One concern for many companies that consider abandoning the budget is how to control costs without traditional budgets. To this Jesper Cramon comments: “We control expenses by following the overall cost development closely and by comparing with both internal and - where possible - external benchmarks. To some BUs, cost leadership is more important than to others who in some instances can create more value by adding cost. The quarterly performance reviews give us the right level of detail for each BU, and our constant focus on value creation acts as an appropriate and tailor-made pressure cooker to optimize BU performance.”

As part of the new management model a new investment process and a new authority matrix with increased mandates to the BUs was established to support the decision making process. This supports the wish to decentralized responsibility to BU’s.

THE NEW ROLE OF FINANCE - FROM “BEAN COUNTER” TO BUSINESS PARTNER
Historically, the role of finance in the BUs has been that of a score keeper focusing on historic figures. The future role is to use existing knowledge to optimize the business in cooperation with management colleagues. In the future, the BU CFO’s main task is to contribute to moving the business forward.

“This is a major cultural change and we require a lot from our organization. All CEOs in the BUs have welcomed this change and the more structured sparring partnership which is now required from the BU CFOs” Jesper Cramon says.

A.P. MOLLER - MAERSK AND BASICO
Basico has acted as advisor to Jesper Cramon and Group Accounting during the development and implementation of the Group’s new planning model.
One of the new CFO tools is working out action plans supporting the business. Every organization needs someone to keep track on the business according to strategy: Which actions did we agree on? What was the impact of the actions and was the impact as expected? Were the actions sufficient to improve the trend? How do we prevent things from going wrong? And if they do, how do we get the business back on track? How can we benefit from the opportunities that the market is offering? Again, focus is on looking forward and defining necessary actions. Jesper Cramon emphasizes the importance of asking the right questions at the appropriate level of detail and following up on agreed actions while staying alert to new market trends.

As part of the new way of doing things, several of the BU finance organizations have been divided into two: One part “compliance focus”: preparing and analyzing historic figures, and the other part “performance focus”: providing BU management and other colleagues with forecasts and various analyses and projections about the future. They are both very important tasks, but they call for different skills.

Jesper Cramon sees it as a good sign that the CEOs in the BUs require more from their CFOs. It means that the need for CFOs as business partners is real and that the CEOs require a more proactive finance organization to foresee and prevent adverse business trends before they happen and to ensure maximum utilization of positive market developments as well as constant optimization of existing business processes.

**EXPERIENCE SO FAR**

“We are not there 100% yet, but we are going in the right direction. What’s important is that if you take a wrong turn, you face the consequences immediately, and I believe we have shown a willingness to do so. Till now we have realized several visible benefits such as open performance discussions, clear links from strategy to action, a dynamic capital allocation based on performance, and faster and transparent decision making,” Jesper Cramon says.

The first year of working with rolling forecasts the BUs - or some of them - continued the traditional budgeting. Jesper Cramon says it’s up to the BUs whether they want to keep preparing the budget, but he openly suggests that there are numerous advantages in giving it up for less detailed rolling forecasts. He emphasizes this by saying, that according to how strongly Group management feels about a topic, it might be necessary to further encourage a BU to implement the changes.

He says: “I have not for a minute doubted that this was the right way for us to go. Obviously, we would like things to go faster, but isn’t that always the case? We have given the BUs the responsibility for their businesses, so we have to let them make their own decisions even if it means taking more time for implementation.”

He prefers to see things through before launching new initiatives, thus continuing to improve the skills required for these changes before introducing new initiatives. The next tool in the BU CFO’s toolbox will be action plans specifically related to commercial issues. “We try to help the finance teams expand their toolboxes beyond the traditional finance and accounting tools. It’s essential that they have a solid foundation on which they can build their skills as business partners”, Jesper Cramon says.

As part of the implementation of the new management model, Group management initiated a series of best practice sharing sessions including finance people from all BUs and from HQ. External experts as well as in-house capacities were invited to share their practical experience on a number of relevant matters. Jesper Cramon emphasizes the importance of BUs and Group Management learning from each other and from other companies.

Jesper Cramon concludes: “In a rapidly changing market unforeseen things occur, requiring that we act more or less immediately. The rolling forecasts and quarterly performance reviews improve our ability to react to these changes, either before they occur or shortly after. Compared to the traditional budgeting this has made our business much more agile and the finance organization much more proactive.”

**NEXT STEP**

If you are looking for inspiration in order to improve your company’s planning process, please do not hesitate to contact Anders Olesen: aolesen@basico.dk / +45 25 10 22 00.