

# Linking Strategic Planning and the Rolling Financial Forecast at Millipore

Adapted from a 2006 Palladium conference presentation by Christophe Couturier, VP, Office of Strategy Management, Millipore Corporation

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**A life sciences company has achieved a feat that still eludes 60% of organizations. Using its Office of Strategy Management (OSM), Millipore has forged a link between two seemingly mutually exclusive processes: strategic planning (which hinges on long-term visionary thinking and cross-functional collaboration) and financial forecasting (which focuses on functional areas' short-term goals). Result? At Millipore, the initiatives required to execute the company's strategy get funded—and stay funded, even if budgets are tight.**

Just four out of 10 organizations link their strategic planning and budgeting processes<sup>1</sup>—one of the nine key functions of a company's strategy management office. And Millipore is one of them. Founded in 1954 and headquartered in Billerica, Mass., the life sciences firm boasted \$1.25 billion in revenues in 2006. It employs 6,100 people worldwide.

With facilities around the world, Millipore develops, manufactures, and markets several thousand life sciences products ranging from \$2.00 pipette tips to multimillion-dollar custom-engineered manufacturing systems. Its Bioprocess division provides filters, valves, process monitoring tools, and other products that help pharmaceutical and biotechnology companies optimize their manufacturing productivity, ensure drug quality, and scale up production of difficult-to-manufacture biologics (therapeutic serums). The Bioscience division provides reagents, kits, and other technologies enabling life sciences research and development.

## Keeping Up with a Fast-Growing Market

In early 2005, changes in Millipore's competitive landscape prompted executives to reexamine

the company's strategy under the leadership of new CEO Martin Madaus. Specifically, life sciences companies were consolidating, and customers were looking to fewer suppliers to serve their needs. At the same time, the market was expanding. Although Millipore was generating a profit, it wasn't growing as fast as the market, and its share price was flat. In June 2005, at a Global Leadership Forum meeting, the executive team decided on an ambitious three-part strategic plan: (1) be recognized as a leading life science products and services company; (2) create competitive advantage by making strategy execution a core competency; and (3) double the value of the company—in terms of sales, earnings per share, and market capitalization—by 2010.

In late 2005, the company adopted the Balanced Scorecard to execute its new strategy and assembled a cross-functional team to put the scorecard methodology in place. By March 2006, the team had created strategy maps and scorecards for Millipore's two divisions and five global support functions (HR, finance, supply chain, quality, and IT). These seven maps and scorecards were each managed by division and function leaders and

BSC "champions"—high performers in their divisions or functions who had strong drive, extensive networks, and superior project management abilities. The team tested the maps and scorecards in the divisions before constructing a corporate-level map and scorecard based on the lower-level maps.<sup>2</sup>

The corporate map and scorecard are now managed by Millipore's OSM, which also guides the champions managing the divisional and functional BSCs. The office was created in early 2006 specifically to manage the growing scorecard program. Comprising employees from the finance division, the OSM reports to Millipore's CFO. The group has taken responsibility for five strategy-related "streams." These include managing the corporate-level

### Millipore's OSM at a Glance

*Reports to:* CFO

*Full-time staff:* Two staff members: 1 VP, 1 senior analyst. Plans to add a financial analyst. Supported by a large network of scorecard champions and financial analysts who drive the alignment and RFF processes.

*Responsibilities:* Managing the GPS project and related communications; organizational alignment through the maps; the corporate scorecard; and initiative reporting.

*Strategy Management Officer:* Christophe Couturier, VP of Corporate Planning and Strategy Management

*Credentials/Role:* Joined Millipore in 2004 as VP of Finance, Bioscience Division, and transferred to corporate HQ to current position in late 2005. Previously an associate partner at IBM Business Consulting Services and PwC Consulting; held senior finance positions at Celisio and Novartis (Europe). Has worked and lived in France, Turkey, Norway, Hungary, the U.K., and the U.S., to which he relocated in August 2006. Holds an MBA from the ESSEC business school in Paris.

strategy map and scorecard and training BSC champions to manage the lower-level maps and scorecards; orchestrating strategy communication throughout the organization; and working with the human resource function to ensure that employees define strategy-related individual goals. The OSM also aligns rolling financial forecasts for corporate planning with the scorecard and provides a forum in which the company's leadership team can review and manage its strategic-initiatives portfolio.

The OSM's overarching purpose? To create a new culture focused on execution, performance, and accountability, and to ensure execution of Millipore's growth goals. The OSM thus plays a central role in managing what Millipore calls its Growth Performance System (GPS)—the process by which the company develops rolling forecasts, uses scorecards, and makes decisions about its strategic initiatives.

### A Better Link to Strategic Planning

Millipore's CFO, Kathy Allen, understood that to carry out its new strategy, the company would have to overhaul its approach to budgeting, which was focused on operations and removed from strategic planning. As Christophe Couturier, vice president of Millipore's Office of Strategy Management, explains, "We had a history of ineffective budgeting. Managers would discuss the budget forever without communicating across functional areas about important strategic matters. And many of the details in our budgets were inaccurate because there was a lot of 'cushioning' [budget padding] going on. Simply put, our budgeting process was reinforcing the status quo." Moreover, "through our old budgeting process, we looked at the company just once a year. Yet our market was changing a lot faster than that. We needed to

accelerate the decision-making cycle so that we could make strategic investment choices much more frequently."

To address these issues, the OSM set out to link Millipore's budgeting process to its strategic planning process. Through this link, executives would be able to make investment decisions as often as needed. They could also ensure that initiatives supporting the company's growth strategy would receive adequate funding—even during times of belt-tightening. "There were better ways of accomplishing what the budget was doing," Couturier says. Two closely related practices—rolling financial forecasts and strategic-initiative portfolio management—proved particularly effective for connecting strategic planning and future financial performance.

### Establishing Rolling Financial Forecasts

Millipore established rolling financial forecasts (RFFs) in late 2005 after members of its management team read *Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap*.<sup>3</sup> They decided that RFFs could help them "blow up the budget" and thereby avoid the problems inherent in typical budgeting practices. Millipore executives meet once each quarter to assess trends shaping the company's current business environment, review performance on strategic objectives, and create financial forecasts that look 15 months (five quarters) into the future—and are updated each quarter. "The forecast is our best guess of what the reality will be that far down the road, based on our analysis of trends and changes in the business landscape, such as potential acquisitions," says Couturier.

The RFF informs the BSC by providing a forecast for key measures. The scorecard reveals likely process efficiency or financial

gaps long before they actually happen, giving executives a longer view into the future—and the ability to act, not just react. The management team forecasts operating expenses (OPEX) in the RFF, without specifying expenses related to strategic initiatives (STRATEX). During the review of the consolidated forecast, division and function leaders are asked to "layer in" their initiatives to see what type of gap they address and what performance gains and return those investments could generate. This open process strips out the "fat" and "negotiation" from the traditional budgeting process and better illuminates the potential of the company's strategic investments.

RFFs have reduced Millipore's "decision cycle" from once a year (the budget) to a maximum of three months (the interval between forecasts). They have thus enabled executives to reallocate funding as needed within Millipore's portfolio of strategic initiatives every quarter—delivering "more bang for our [investment] buck," says Couturier. The company also uses RFFs to develop its strategic and operating plans for the next calendar year. If a forecast doesn't deliver the expected target, executives define initiatives to close the gap, as well as the competencies needed to carry out the initiatives. With practice, forecasts have become increasingly accurate, according to Couturier. Finally, Millipore has aligned its scorecard with certain elements of compensation. "Some of the corporate-level metrics, such as revenue growth, are the same as those used for the bonus-plan funding," he explains.

### Managing Strategic Investments

By managing its portfolio of strategic investments separately from its operational expenditures, Millipore ensures that it "has the cash to do what we need to do in the short run in order to achieve

### Millipore's OSM: What's Noteworthy

Top-notch Offices of Strategy Management perform nine key coordinating and integrating functions: Balanced Scorecard management, alignment, HR alignment, strategic planning, awareness/strategic communication, strategy reviews, initiative management, planning/budgeting, and knowledge management (including best-practice sharing).

In addition to its attention to linking strategic planning with budgeting through rolling financial forecasts and strategy-initiative portfolio management, Millipore's OSM handles the following functions in particularly noteworthy ways:

**HR alignment:** The OSM collaborates closely with Millipore's human resource function to ensure that each employee defines personal goals aligned with strategy. Currently 89% of employees' strategic goals have been defined "on time."

**Awareness/strategic communication:** The OSM has trained "ambassadors" to help explain strategy maps and scorecards to the workforce. It also provides input to the internal Web site where employees can view the company's maps and scorecards.

**Strategy reviews:** The OSM facilitates monthly strategy reviews for executives. Participants take a "deep dive" into each strategy map theme—examining progress on the nonfinancial objectives within the themes. They also review the status of strategic initiatives.

our strategy in the long term," says Couturier.

As part of its strategy-expenditures management, Millipore gives the "go" or "no go" to potential initiatives based on two criteria: First, will the initiative (if carried out successfully) support the achievement of long-term strategic performance? Second, is there funding available for the initiative? For example, of 10 large-scale corporate initiatives proposed during a recent strategy review,

nine were approved and are being implemented. The remaining initiative did not make the cut, explains Couturier, because "we didn't have the people and other resources we needed to successfully carry it out."

Couturier also stresses the importance of patience in waiting for strategic initiatives to pay off. "There's a time lag—sometimes several years—between launching an initiative and seeing improved performance on its related strategic objective," he notes. Rather than color-coding initiatives in scorecards according to whether they have been completed, Millipore uses color to indicate progress on milestones within each initiative.

The strategic-initiatives portfolio is tightly linked to the RFF process. For example, if an initiative is draining money from the company, the problem becomes evident in the expense side of the RFF. And if it will not provide the promised benefits, that shows up in the revenue projection side. But the real indicator of an initiative's performance is when it triggers improvement in scorecard metrics. If an initiative is not hitting milestones or executives project that it will not deliver the hoped-for benefits, action is taken: the project is restructured, its resources are reallocated, or it is killed.

### Reaping the Rewards

Thanks to its sharp focus on the strategic planning and budgeting link, Millipore has reaped important rewards in the form of new efficiencies. For example, according to Couturier, "We've reduced complexity: We now have fewer cost centers to keep track of," since the RFF does not look at every budget line item. "And there's less cushioning of our budgets, so the data are more accurate."

In addition, the company's culture is changing to reflect a focus on strategy execution. "Managers now realize that we're all in the

same boat and that they can—and should—raise strategy-related issues," explains Couturier. And whereas managers used to spend most of their time during strategy discussions talking about the color-coding for initiatives and objectives, they now spend more time on the strategic issues behind the color-coding.

Even more impressive, Millipore's approach to strategy management passed the "acid test" with the acquisition of life sciences technology provider Serologicals in 2006—a major event. "GPS survived the resource drain and was able to communicate our company's strategy to the acquisition target. And after the acquisition, the new entity became part of our RFF process," Couturier says.

But perhaps most encouraging of all, Millipore is on track to achieve its goal of doubling its value by 2010. ■

1. According to Balanced Scorecard Collaborative research.

2. Executives admit that, were they to do it over again, they would probably start with the corporate-level BSC.

3. Jeremy Hope and Robin Fraser, *Beyond Budgeting: How Managers Can Break Free from the Annual Performance Trap* (Harvard Business School Publishing, 2003).

### TO LEARN MORE

BSR has published many articles on integrating planning and budgeting. See "Linking Operations to Strategy and Budgeting," (September–October 2006), "Linking Strategy and Planning to Budgets," (May–June 2006), "Why Budgeting Fails: One Management System Is Not Enough" (September–October 2004), and "New Tools for a New Corporate Culture: The Budget-less Revolution" (January–February 2002). For more on the subject, consult the new *BSR Index*, available free via download at [www.harvardbusinessonline.org](http://www.harvardbusinessonline.org). Reprints and back issues are also available there.

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