



ONE EIGHTY

A new perspective for your enterprise performance

May 2014

The Closed Loop

Upcoming Events

- Beyond Budgeting Annual Meeting
June 18-19
Chicago, IL
- Calculating and Reporting Customer Profitability Seminar
June 24-25
New York

People in the News

- Editors: Stephan C. Hansen and Robert G. Torok
Closed Loop Authors and Contributors: Alan Stratton, Gerry Brennanm, Riollin Brewster, Lanelle Butts, Marin Croxton, Stephan Hensen, Paul Legler, Arlene Minkiewicz, Jack Niemiec, Pedro San Martin, Derek Sandison, Mike Shirk, Mark Stevens, Norm Frause, Mike Novak, Steve Player, and Paul Trampert

“The Closed Loop Model is an activity-based algorithm that achieves operational balance, then financial balance, and explicitly matches resource demand and resource capacity.

The Closed Loop Model approach explicitly emphasizes and links operational performance with financial results. A unifying underpinning of the Closed-Loop Model is its focus on cause-effect relationships to pinpoint the roles of demand, consumption, and capacity.

To predict financial results more accurately, managers must have confidence in their predictions of operational metrics”.

Dr. Charles T. Horngren,
Forward: *The Closed Loop
Implementing Activity-Based
Planning and Budgeting*
Stanford University

Published in 2004, the 32 authors, contributors, and editors were 10 years ahead of their time.

The authors had it right when they introduced the Closed Loop Model for planning and budgeting, and a new approach to calculating the activity, resource, and financial requirements of an organization. If anything was missing it was the lack of modeling and software capability to solve for the best outcome.

The Closed Loop has three important features.

- It is activity based
- It explicitly matches resource demand and resource capacity
- It achieves operational balance and then confirms financial balance

There are five levers to achieve an operational and financial balance:

1. Quantity and/or mix of product demands
2. Resource and activity consumption rates
3. Resource capacity
4. Unit resource costs
5. Unit prices for products and services

Back then, most of the planning and budgeting was done in Excel or something similar to it. Make a change in resource consumption rates, run the model. Make another change, run the model again. This kind of “scenario analysis” process creates additional solutions but not necessarily the best one. It’s like solving for a specific outcome rather for the best outcome.

With the software available in the marketplace today, billions of scenarios and combinations of prices, product mix, selling prices, resource costs, capacity, and consumptions rates can be solved simultaneously to find the scenario with the highest profit and ROI

Plan ahead by planning ahead...
John A. Miller

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