PREPARING FOR THE NEXT LEVEL OF FINANCIAL PLANNING AND ANALYSIS

APQC Make Best Practices Your Practices

AFP ASSOCIATION FOR FINANCIAL PROFESSIONALS

SUBJECT MATTER EXPERTISE

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// Emmanuel Caprais, VP of strategic and financial planning, ITT, Inc.

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INTRODUCTION

The role of the CFO, and therefore the finance organization, is growing in scope and complexity. Once defined as the person in charge of financial controls, paying bills, collecting receipts, and reporting to stakeholders, CFOs today are often expected to provide capital allocation, performance monitoring, and data management.

“Simply stated, finance organizations are moving out of their traditional role of scorekeeper into the role of a trusted advisor in business decision making,” notes author and financial management expert Steve Player. “Finance organizations are moving from the back of the boat staring at the wake (recording what has happened) to a position on the bridge beside the captain (looking forward to help see what can happen) to help steer the ship in determining what needs to be done to reach business objectives.”

These new responsibilities require the development of a more defined group within finance, with its own unique skills, tools, concepts, certifications, and processes. This is FP&A, short for financial planning and analysis. As a discipline, FP&A is emerging from the shadow of other finance functions and exists in various states of maturity in organizations around the world. “This is an exciting time to be in FP&A. The profession sits at the intersection of finance, business, and applied technology. Practitioners can define and own their careers,” says Bryan Lapidus, the subject matter expert at the Association for Financial Professionals’ FP&A practice.

The study team undertook this research project to determine the current state of FP&A as an emergent discipline, to understand the characteristics of FP&A at leading organizations, and to identify further opportunities for FP&A’s growth and enhancement. Drawing from interviews with subject matter experts and process owners as well as survey data from hundreds of organizations, this whitepaper highlights key takeaways and best practices for FP&A through discussions of structure and strategy, people, processes, technology, and measures of success. More information about the background and demographics for the research can be found in the Appendix.

STRUCTURE AND STRATEGY

FP&A is a valuable business partner at many leading organizations, evidenced by its emergence as a distinct area of practice, its level of influence and importance, and its reporting structure. At leading organizations, FP&A has significantly enhanced its reputation and impact with business partners through value-added analysis and advising. These critical contributions are enabled in part by shifting routine and transactional work to centralized structures such as shared financial service centers or centers of excellence at many leading organizations.

KEY TAKEAWAYS:

1. FP&A is increasingly emerging as its own discipline.
2. Leading organizations standardize the routine work of FP&A to allow more time for front-line business partnering.

AN EMERGENT DISCIPLINE

FP&A is increasingly coming into its own as a discipline, separate from accounting and treasury, with its own reporting structures, tools, skills requirements, and certification programs. According to Bryan Lapidus, director of the FP&A practice at AFP, this emergence is important because the nature of the work of FP&A is fundamentally different from that of accounting or treasury. "Accounting is a retrospective function tasked with creating an official record and ensuring financial controls are sound. Treasury is focused on ensuring the lowest-cost access to appropriate capital to support decisions once they are made. FP&A, by contrast, is a forward-looking function concerned with decision-making and the prospective allocation of capital in an ambiguous future. FP&A's independence and fulfillment of its mission is hard to achieve if it reports to accounting or treasury, as it would get subsumed into those missions instead of its own," said Lapidus.

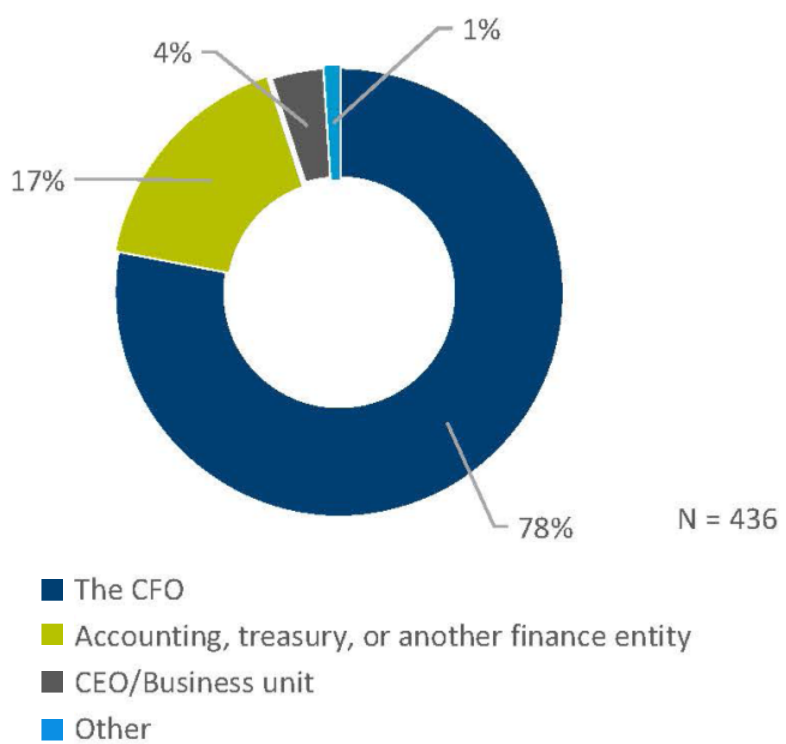
As a distinct discipline, one of FP&A's primary contributions is its strong partnerships with business that help drive financial results. As FP&A expert Philip Peck noted, "FP&A practitioners and the function as a whole can help elevate the entire organization and ensure that people are making optimized decisions." This is certainly true across leading organizations, where FP&A is perceived as a group that delivers impactful analyses that provide crucial support to business operations.

The ability to sit close to key decision makers and deliver value for the business makes FP&A an exciting place to work when it comes to leading organizations. For Mike Powers, senior manager of treasury and risk at ABT Associates, "FP&A really is a great opportunity to be part of the action, and it's important to help your team see that regardless of how the company is doing, you have the opportunity to influence decisions and action. FP&A gives you a powerful forum and a presence on the stage to make a difference in the organization."

From well-established multinational organizations to newer and smaller ones, FP&A is a critical presence, delivering value and insight to key stakeholders and playing an important role in strategic planning processes. For example, FP&A work is held in high regard for its ability to help drive business results at Vera Whole Health, a relatively young and fast-growing organization. Vera Whole Health successfully transitioned from a basic spreadsheet-based reporting approach to a streamlined and centralized budgeting, planning, and reporting solution in 2017, including a cloud-based ERP solution. These new tools have allowed the organization to deliver insightful analysis and reporting to its board of directors. With more data from its connected systems, FP&A at Vera Whole Health now carries out scenario modeling and rolling forecasts that align closely with the organization's broader strategy. While returns on investments in scenario modeling and rolling forecasts are difficult to quantify in traditional finance calculations, this work by FP&A is still critical because it supports business decision making. According to Lapidus, "This also shows a difference from other parts of the CFO organization, such as accounts payable or accounting and closing the books, where the goal is often processing at the lowest cost."

The distinction of FP&A as its own unique body of work is also evidenced by its reporting structure. Figure 1 shows that the overwhelming majority of survey participants report to the CFO (as opposed to accounting, treasury, or another finance area), and some report directly to the business. Reporting directly to the senior finance executive helps ensure that FP&A plays a forward-looking advisory role and brings its financial expertise to bear on business decisions.

Figure 1: Reporting Structure for FP&A Team



CLEARING SPACE FOR VALUE-ADDED WORK

To make effective partnering with the business possible, leading organizations centralize finance transactional work to the extent that they can in order to allow the front-line staff to focus on business partnering. For example, the Building Manufacturer profiled in this study outsourced all routine and transactional finance work to a dedicated global business services provider several years ago. This third-party vendor handles business services from across the company and is treated like an internal entity. With the reduction in core finance headcount, the financial and performance management function was then able to focus all regional operations on partnering with the diverse lines of business.

Some leading organizations have even moved FP&A's routine analysis and reporting activities to centers of excellence or financial shared service centers. According to a recent finance shared services study by APQC and ScottMadden, more than half of survey participants (56 percent) in that study include elements of planning, budgeting, and forecasting in the scope of their finance shared services center, and this trend is expected to increase in the future.

An analysis of the survey data from this study showed that larger (and by assumption also more complex and more widely distributed) organizations are more likely to leverage centers of excellence and/or global shared service centers for some FP&A work. Larger organizations can leverage economies of scale to relocate their accounting and transaction services to lower-cost locales, or eventually to automate them entirely. Smaller companies may find that third-party vendors can provide the flexibility to scale up to handle this work.

Shared service centers benefit FP&A through greater standardization, which in turn reinforces the use of a common language to drive efficient and effective analysis. Shell Oil provides an example of a leading organization that has moved FP&A reporting and basic analysis to shared services. David Gold, VP for planning, appraisal, and reporting upstream at Shell, noted that his organization saw significant improvement in the quality and consistency of FP&A analysis and reporting after the organization moved its routine FP&A work to shared service centers.

“When FP&A activities were carried out all over the place, you could give 10 FP&A professionals the same question and they would answer it visually in 10 different ways,” he said. Moving high-level FP&A analysis and reporting to shared service centers has brought greater uniformity in reporting and decreased the overall cost of FP&A’s services to the organization.

The small FP&A team that remains co-located with the business often directs work—such as research, data analysis, report writing, and design—back to the shared services centers. This frees up the co-located FP&A team’s time to better focus on business partnering and decision support.

Similarly, the Global Tech Company profiled in this study has been transforming its finance function over the last decade and a half. Its finance lead noted that: “Fifteen years ago, FP&A was more of an accounting shop. Every product team or sales team had their own finance team, and those teams reported directly to their departments, resulting in a disjointed finance function. Only the traditional corporate finance roles reported to our CFO.” The organization made a push to unify finance, spearheaded in part by the arrival of a new CFO. “That has significantly changed the way that we all work. We have elevated the role of finance professionals to a place where they really have a seat at the table and make strategic decisions, rather than simply closing the books or doing the traditional finance work.”

While the study team found that the ability to be embedded or co-located with business partners is a critical success factor for strong FP&A, it is important to note that business partnering does not mean that every team gets their own FP&A support. “The Global Tech Company, for example, has found an appropriate balance between the department’s need for attention and the company’s need for efficiency and consistency,” said Lapidus.

KEY TAKEAWAYS:

3. FP&A teams at leading organizations are business partners in support of operations.

4. Top-desired FP&A skills are to harness data in order to model decisions and provide advisory services.

5. FP&A careers often include stints close to or inside business operations.

PEOPLE

As it continues its emergence as a distinct area of practice, FP&A is widening the scope of its activities and moving beyond its traditional budgeting and accounting purview. This transformation has been a watershed moment for FP&A at many organizations, simultaneously raising the group's profile and requiring new skills for FP&A professionals. To cultivate the key technological and soft skills that are increasingly in demand for FP&A talent, organizations are leveraging a range of approaches, from job rotations to book clubs, finance academies, certification programs, and beyond. For the FP&A professionals who actively embrace and cultivate these skills, FP&A can act as a launching pad to the executive ranks at leading organizations.

FROM SCOREKEEPER TO KEY BUSINESS PARTNER

The study team found that at leading organizations, FP&A has transformed from its traditional accounting and budgeting role to become a forward-looking, strategic business partner with a seat at the decision-making table. While traditional practices like planning, budgeting, and forecasting continue to fall within the scope of FP&A at nearly all organizations, Figure 2 shows that work such as business case development and business advisory are also within the scope of FP&A for more than half of organizations surveyed.

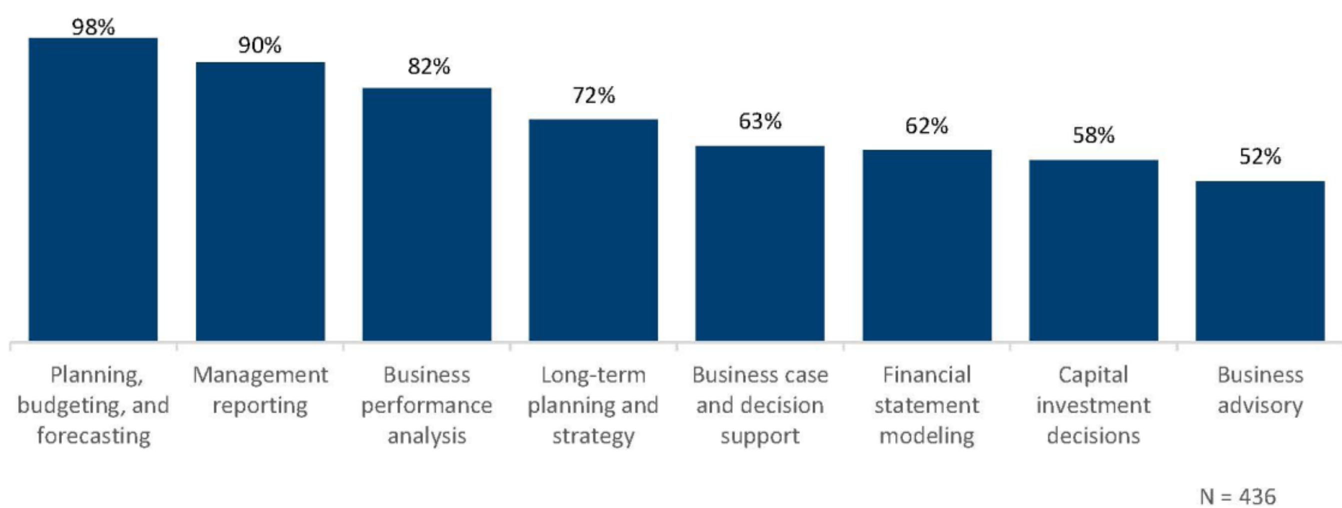


Figure 2: Scope of FP&A

These activities have had a transformative impact on FP&A at leading organizations, shifting the perception of the finance function from a backward-looking scorekeeper to a dynamic business partner that supports forward-looking business decisions. For Peck, these business partnerships represent "the promise of what an FP&A practitioner should be doing: bringing to bear their unique knowledge of the end-to-end business, financial skills, and business acumen skills to help the organization drive better decisions and ultimately drive up optimal business performance." FP&A teams that have embraced a business partnering role have quickly become an indispensable source of insight and analysis for their organizations.

DEFINING AND DRIVING BUSINESS VALUE AT ITT INC.

FP&A at industrial manufacturer ITT Inc. was once oriented mostly around reporting, but reporting "lacked the insight needed to improve decision making," said Emmanuel Caprais, VP of strategic and financial planning. "We evolved over time from a reporting entity to a business partner, helping the organization to improve decision making, capital allocation, and performance. As a result, FP&A has taken a much more vocal role within the organization than before." The organization's vision for FP&A now has five pillars: tracking and driving performance; contributing to efficient resource allocation; supporting efficient decision making; managing and developing the FP&A team; and acting as champion of a high-performing business culture. This shift has propelled FP&A to a position of key leadership and decision making at the organization: "Today, we are much more engaged in monitoring and evaluating business performance and are driving performance as much as any business leader at the table," Caprais said.

FROM “REVENUE PREVENTION” TO REVENUE ENHANCEMENT AT A BUSINESS TELECOMMUNICATIONS COMPANY

Nevine White, executive in residence at Live Future Ready, said that when she headed FP&A at tw telecom, a business telecommunications company, the function underwent a significant shift as the organization eliminated traditional budgets in favor of rolling forecasts and dynamic planning. This shift required FP&A to take a much more active role in partnering with the business and providing easily accessible reporting for leadership. Reflecting on her tenure as VP of FP&A during this transition, White noted that “FP&A used to be called ‘revenue prevention,’ [because the interactions provided by FP&A were considered interference, rather than value-adding] but that changed once we became much more of a business partner helping to do critical analysis, evaluations of customer needs, and real-time decision making on the front line.” As FP&A began to play this role at tw telecom, leaders increasingly sought out the unique analysis and expertise of the team, and FP&A became a powerhouse that attracted top talent within the organization. “Getting the finance team engaged in helping people make real-time decisions made them valuable to the point where people wanted to come work in finance, which is not something you see very often,” White said.

FP&A AS A GATEWAY WITHIN ORGANIZATIONS

An intimate knowledge of the business is a foundational element of strong business partnering for FP&A. For that reason, many of the leading organizations profiled by the study team include rotational assignments and direct embedding within the business as a key part of an FP&A professional’s career trajectory. “Rotational programs go a long way towards arming someone with knowledge of the entirety of the business,” Peck noted. “Rather than moving people through various finance functions like treasury and investor relations, a good rotational program should move people out into the business-facing roles like plan controller, or [into the business itself such as] marketing.” Doing so empowers finance professionals with the operational knowledge, relationships, and networks that truly drive change and innovation within finance.

For example, at social impact organization ABT Associates Inc., FP&A practitioners are embedded widely throughout the business in rotational assignments, where they play an important role as business partners. “We need to be able to move people from one area to another as the business requires, so we’re actively trying to encourage a transfer of skills as well as the portability of a given role,” said Powers. Job rotations have not only been beneficial for the organization more broadly, but also give FP&A practitioners the freedom to explore new roles, learn new skills, and work to have a positive impact on the business. As FP&A practitioners rotate through different assignments, the relationships and rapport that they build through business partnering are not only important, but necessary to advance one’s career. At ABT, strong business partnering experience is a fundamental requirement for moving to the CFO role.

[1] Note – tw telecom was acquired by L3 Communications in 2014. L3 Communications was acquired by Century Link in 2017.

At the Global Tech Company, meanwhile, embedded FP&A practitioners across the organization act as CFOs of their own respective units. Once the organization unified its finance function and began to emphasize strong business partnering, “we came to have a ‘sit with the business’ approach,” said the finance lead. Rather than one central corporate location, FP&A practitioners are embedded across the organization and around the world, helping business partners find ways to manage risk and close gaps between where the organization is headed and where it needs to be.

FP&A SKILLS OF THE FUTURE

The evolution of the finance function toward a strong business partnering role requires skills that go beyond the ability to compile spreadsheet reports and generate budgets. As shown in Figure 3, the top skills required across three categories emphasize the importance of understanding the business—in terms of both data and operations—along with an increasing need to provide modeling and financial decision support. For purposes of this discussion, data management is also considered a business partnering skill because the ability to harmonize financial and operational information provides the basis for meaningful analysis to support business decisions.

Figure 3: Top Skills for FP&A

Top Three Technology/Analytical Skills

- 79% Data management
- 68% Predictive analytics
- 64% Performance management

N=431

Top Three Finance or Accounting Skills
In addition to basic accounting, budgeting, and forecasting skills

- 91% Financial/Business modeling
- 65% Capital investment/Planning analysis
- 61% Activity-based costing/cost management

N=432

Top Three Soft Skils

- 78% Business partnering
- 62% Oral and written communication/Presentation
- 54% Process management

N=435

THE ENDURING IMPORTANCE OF SOFT SKILLS

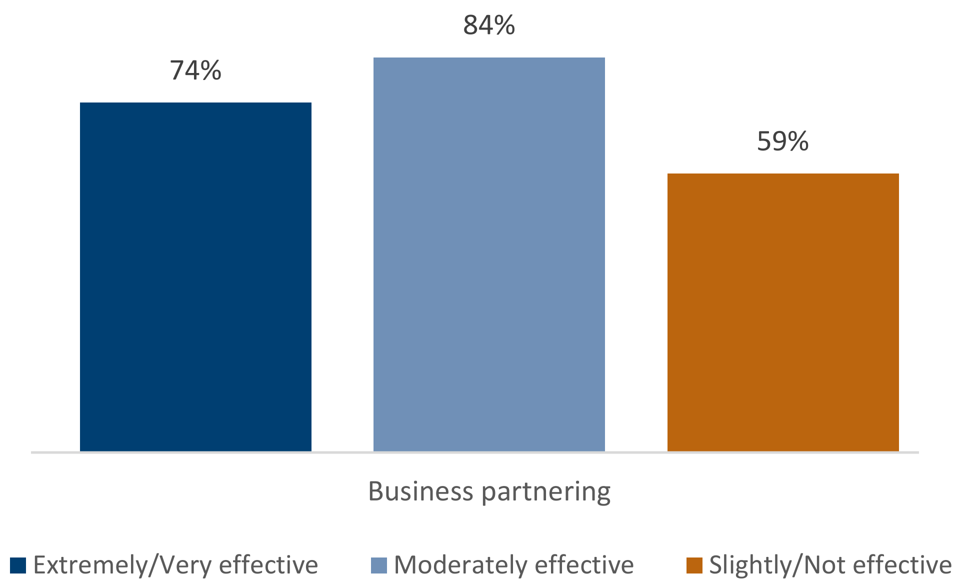
While the survey responses showed technical skills as some of the areas most critical to growth, subject matter experts and process owners from leading organizations cited business partnership skills as a key skill area. According to Lapidus, this may be because "early in your career in FP&A, technical skills are critical to your success as you figure out the work. Later in your career, leadership is key. The question changes from, 'How do I do this?' to 'What has to get done, and how should my team go about it?'"

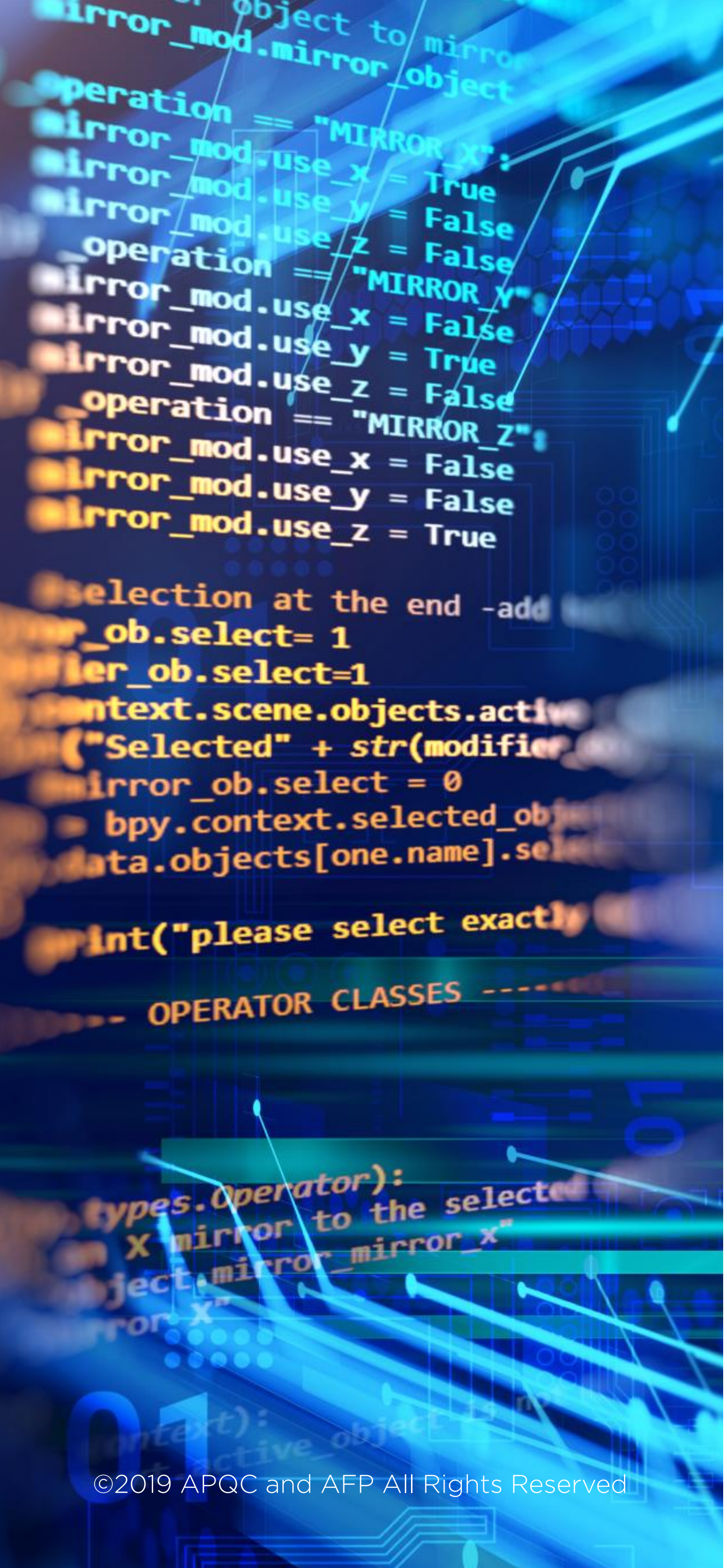
Across the board, FP&A experts and leaders emphasized the importance of business partnering, which requires an intimate knowledge of the business, the ability to translate key data for the business through effective reporting, and a collaborative attitude in working with others. For Geetanjali Tandon, digital and transformational finance lead at Bayer Crop Science, "Strong finance business partnering is a culture that you have to build, and you have to put the right people in the right roles. You have to develop a skillset that allows you to ask questions beyond the report and beyond what the data is telling you."

In addition, across the diverse set of organizations interviewed by the study team, respondents noted the perennial importance of critical soft skills like emotional intelligence, flexibility and adaptability, change management, communication skills, and a willingness to learn from others as foundational traits of the most valuable FP&A practitioners. As business partnering and collaborative work with the business become increasingly common, these soft skills help ensure that FP&A professionals can rotate to any part of the business, report effectively to leaders, and play an important leadership role in helping drive business results.

In fact, an analysis of the survey data found that highly-effective and moderately-effective FP&A teams are significantly more likely to consider business partnering as a needed interpersonal skill in comparison to FP&A teams that are not effective or only slightly effective (Figure 4).

Figure 4: Top Skill Needed by FP&A Professionals, Responses by Effectiveness





KEEPING PACE WITH TECHNOLOGY

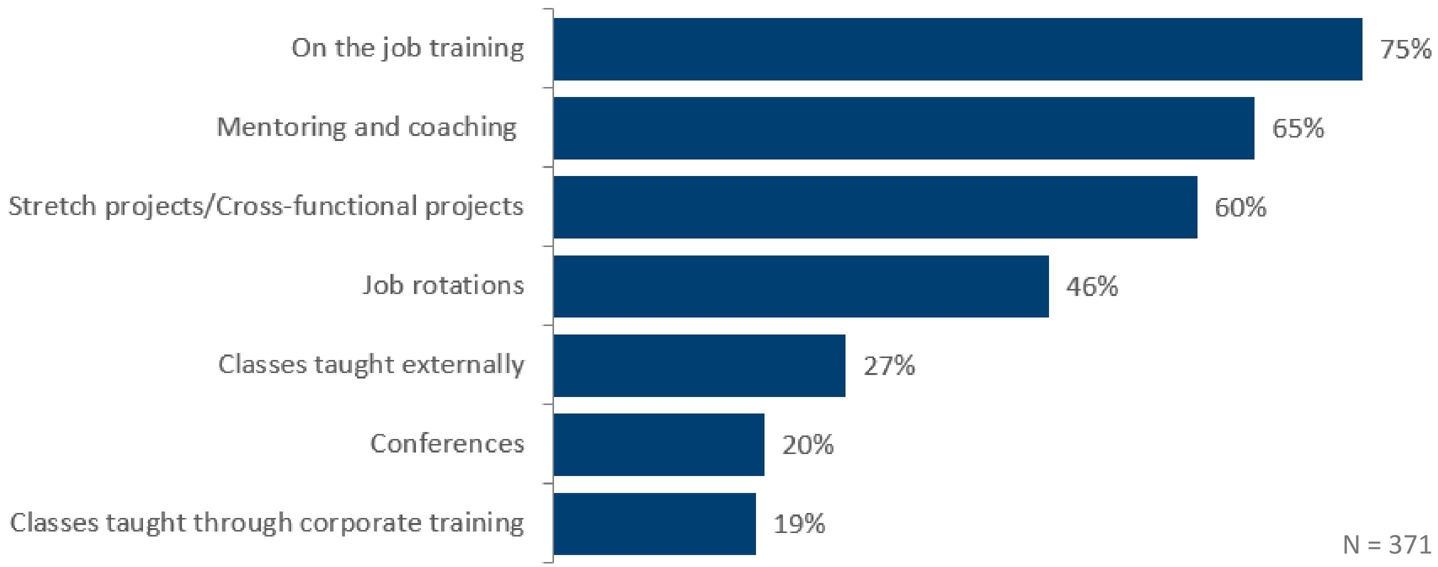
APQC's annual [Financial Management Priorities and Challenges survey] found that finance is poised to make investments in new technological capabilities for 2019, making technological skills more important than ever for FP&A. Data management, identified by nearly 80 percent of organizations as a top technological skill for FP&A, is a highly-sought but scarce commodity in many organizations regardless of their size or age. Summer Redmon noted that as Vera Whole Health continues to grow as an organization, "the biggest challenge may be to find talent that can capably digest the large amount of data being aggregated. We need people that can really focus on the big picture, and identifying those people is pretty difficult." In a similar way, Gold anticipates that FP&A talent with strong IT skills will increasingly be in demand at Shell. "We need people who have finance skills as well as IT skills and we tend to find that these people are in short supply and high demand."

ENHANCING YOUR FP&A CAREER

There are more opportunities today than ever for professionals in FP&A to take charge of their careers and for leaders to equip their FP&A teams with cutting-edge skills. There is a wide diversity of approaches, both formal and informal, to developing and training FP&A talent. For example, while serving as VP of FP&A at tw telecom, White promoted continual learning for her team through a book club, which gave FP&A practitioners exposure to a wide range of conversations outside of finance. Doing so fostered a culture of creativity, innovation, and dialog between FP&A and the rest of the business. The finance function at the Building Materials Manufacturer, meanwhile, started its own finance academy to ensure that all finance staff, whether new or experienced, remain aware of financial best practices and up-to-date on the latest tools in the financial performance management toolbox. Across the board, the study team found that FP&A teams also leverage on-the-job training and rotational assignments to develop their FP&A talent.

Figure 5 shows that while respondents identified multiple approaches as either extremely or very effective for cultivating FP&A skills, approaches such as on-the-job training and mentoring and coaching, which incorporate project-specific and real-life learning opportunities, rank among the most effective approaches.

Figure 5: Effectiveness for Various Training and Development Techniques in Cultivating FP&A Skills
(Percentage answering "Extremely effective" and "Very effective")



The need for continuing education is a constant throughout the career of an FP&A professional; structured education plans such as the certifications offered by AFP can guide finance professionals through the different skills requirements needed. FP&A certification is quickly becoming a differentiator for finance talent at leading organizations. For example, Powers noted that at ABT Associates Inc., "certifications are growing in importance because they provide a way to get a better understanding of FP&A. There is a business partnering element to the role, and I think the certification helps people to understand that."

KEY TAKEAWAYS:

6. Non-value-added work - collecting the data and administering the process - still blocks the time for value-added analysis.

7. Planning is moving from rigid, annual budgets to a frequent, often continuous process.

8. Leading organizations align and integrate processes, data, and systems for FP&A.

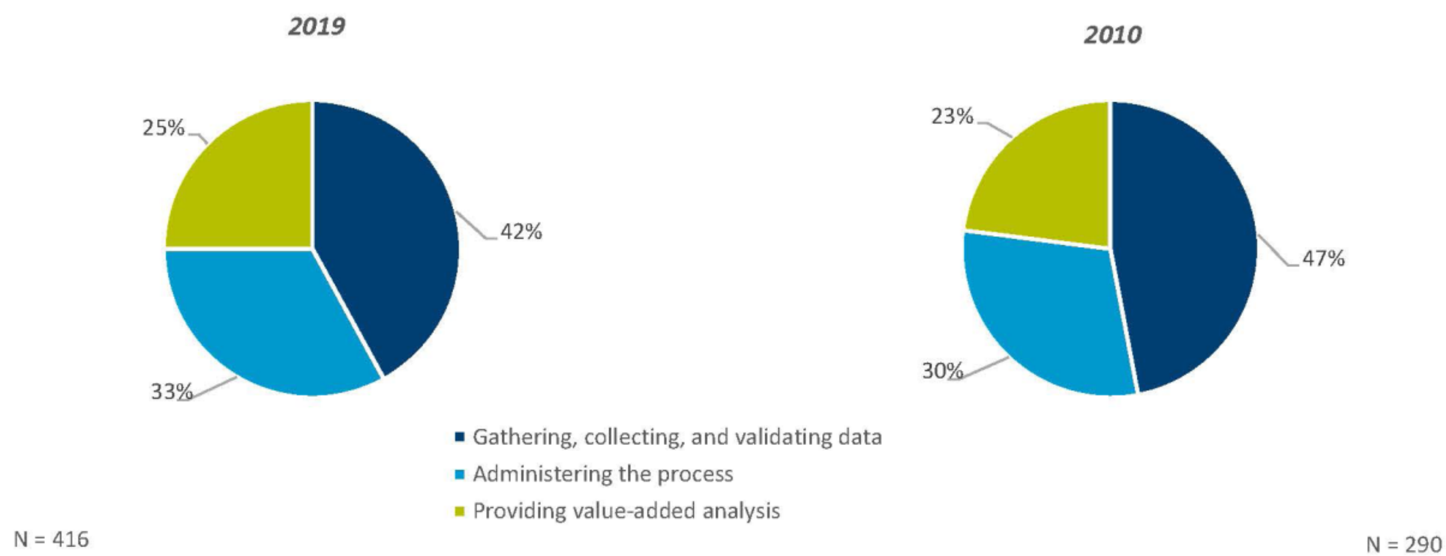
PROCESS

Leading organizations actively embrace cutting-edge tools and approaches to streamline process work and leverage planning approaches like rolling forecasts and predictive analytics. These practices facilitate valuable and holistic conversations with leadership that ultimately help to drive positive business results.

PROCESS EFFICIENCY REMAINS A CHALLENGE

While leading organizations have sequestered the routine and transactional work of finance, the study team found that process efficiency remains a top challenge in FP&A overall. FP&A teams at many organizations are still spending significant amounts of time on pre-value-added work, which hampers the ability of FP&A to provide impactful analysis and reporting that helps drive optimized decision making. Figure 6 shows that on average, survey participants reported spending 75 percent of their time gathering data and administering the process, down only two percent from the results of APQC's Corporate Planning and Performance Management study in 2010. This leaves survey participants only 25 percent of their time to perform value-added analysis.

Figure 6: FP&A Time Allocation



"This graphic [in Figure 6] provides the starkest reminder of the challenge that most FP&A teams face," noted Player. "Almost a decade later we find that the time to focus on value-added analysis has only gone up two percentage points. FP&A teams still have huge opportunities to improve but doing so likely requires dramatically rethinking key processes. Many of the case studies we examined are showing continuous planning approaches that replace cumbersome budgeting processes built on a process blueprint from the 1920s. Simply stated, it is time to move on and take advantage of 21st-century approaches to management and technology."

Many organizations suffer from inadequate systems and tools—the top FP&A challenge for 61 percent of respondents to the survey. Only 9 percent of respondents reported having advanced or leading tools at their organizations, while 59 percent reported tools with intermediate maturity and 32 percent continue to use basic tools. Despite the inefficiency of spreadsheets for reporting and forecasting processes, 95 percent of organizations continue to rely on them as a standard FP&A tool. Emergent tools and capabilities like reporting automation, meanwhile, are leveraged by only 45 percent of respondents.

FP&A leaders and experts at the leading organizations profiled by the study team noted substantial shifts in productivity and efficiency that came when FP&A eliminated non-value-added work through innovative tools like automation, machine learning, and cloud computing. For example, the finance lead at the Global Tech Company profiled in this study reported that the organization's bottom-up and top-down forecasting processes once took 600 to 700 people and three weeks to complete. With machine learning tools, cycle times for forecasting have been reduced from weeks to hours, the variance rate has been cut in half, and labor hours have been markedly reduced.

With such promising results, organizations that fail to make substantive investments in emergent tools for FP&A are missing a significant opportunity. Tandon believes that FP&A should resist the temptation to scale back investments in technology: "A lot of times, finance is the first group that makes cuts when it comes to technology, but I think it can be harmful to cut too much of that investment," she said. "We have to continuously test, learn, and invest in these technologies to understand where we want to go in the future." Without these investments, Tandon said, organizations are often forced to reconcile data from disparate systems, which takes significant amounts of time and inhibits the ability to provide insightful analysis that goes beyond the data itself.

PLANNING: FROM AN ANNUAL EVENT TO A CONTINUAL PROCESS

A critical component of FP&A's transformation in many leading organizations has been the shift from planning as an annual event to planning as a continual and dynamic process. These organizations are embracing driver-based approaches and rolling forecasts. At Vera Whole Health, for example, "the majority of the budgeting and forecasting process is driver-based," said Redmon. The organization's finance team updates the forecast monthly as it aligns the budget with actual performance and uses this forecasting to inform scenario modeling and analysis. These efforts help to inform new investments and potential growth strategies.

The Building Materials Manufacturer profiled in this study has also transitioned to a rolling forecast approach. This approach allows for all updates to focus not on a budget or the past month, but on a target for the full year plus the next year. As a result, targets are set annually, but the forecast is updated monthly. The planning cycle is as follows: Annual targets are typically set in September, with enterprise-level review in October and board approval in November. This is distilled into business targets set by January for that year, and thereafter, the forecast is updated monthly after a disciplined five-day closing cycle for the prior month. Monthly results review meetings are coordinated with key lines of business managers where the focus is less on the results of the past month and more about any changes in the full year target attainment and necessary course corrections.

The embrace of these emergent practices has led to a transformative shift in planning at leading organizations. For example, White noted that the move to eliminate budgets at tw telecom constituted "a significant shift in the structure of our planning, and more fundamentally, led to a transformation in the relationship between FP&A and the business." With more dynamic planning and forecasting, FP&A was able to streamline its annual reporting from a budget that was hundreds of pages to a 20-page summary of the organization's strategic initiatives, risks, and opportunities. "Our Board really liked that document because it was very concise, and accountability became much more about our current numbers and new projections rather than meeting or failing to meet our budget." FP&A's dynamic planning and forecasting, White said, was a significant part of FP&A's transformation into an indispensable business partner.

Most survey participants reported using some form of advanced planning. As Figure 7 illustrates, 63 percent of organizations leverage rolling forecasts, though only 5 percent of organizations have eliminated their budgets entirely. Even so, 41 percent of respondents to the survey reported that they have evolved beyond managing to the annual budget, noting at least some room for flexibility. Though there is plenty of room for improvement in this area, some organizations are learning the advantages of adopting these approaches. Doing so pays valuable dividends: The study found that very/highly effective FP&A teams are significantly more likely to leverage practices like rolling forecasts, scenario-based planning, and predictive analytics in comparison to FP&A teams that are slightly effective or not effective at all (Figure 8).

Figure 7: What practices is your organization leveraging for FP&A?

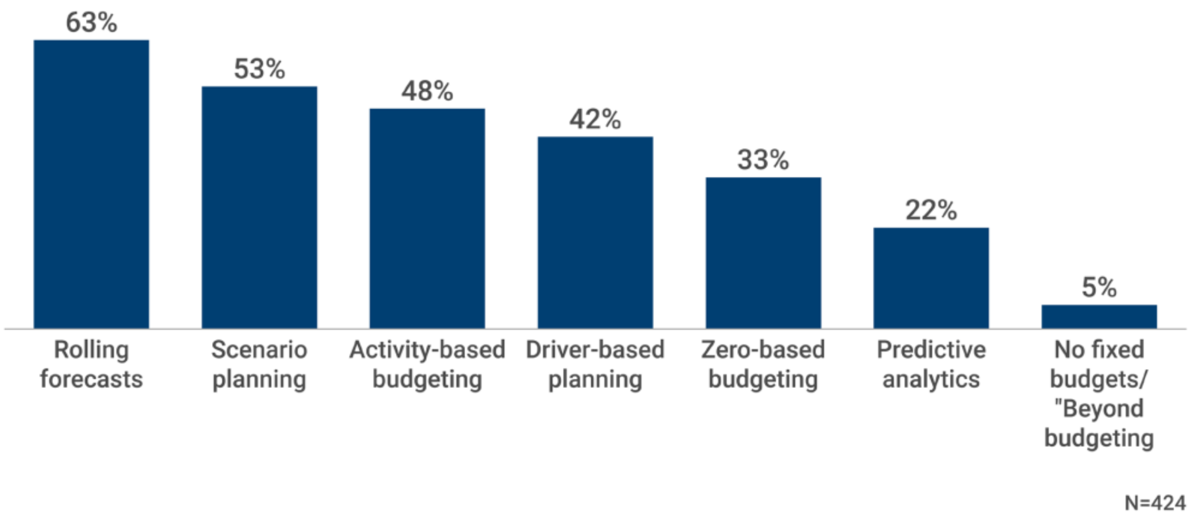
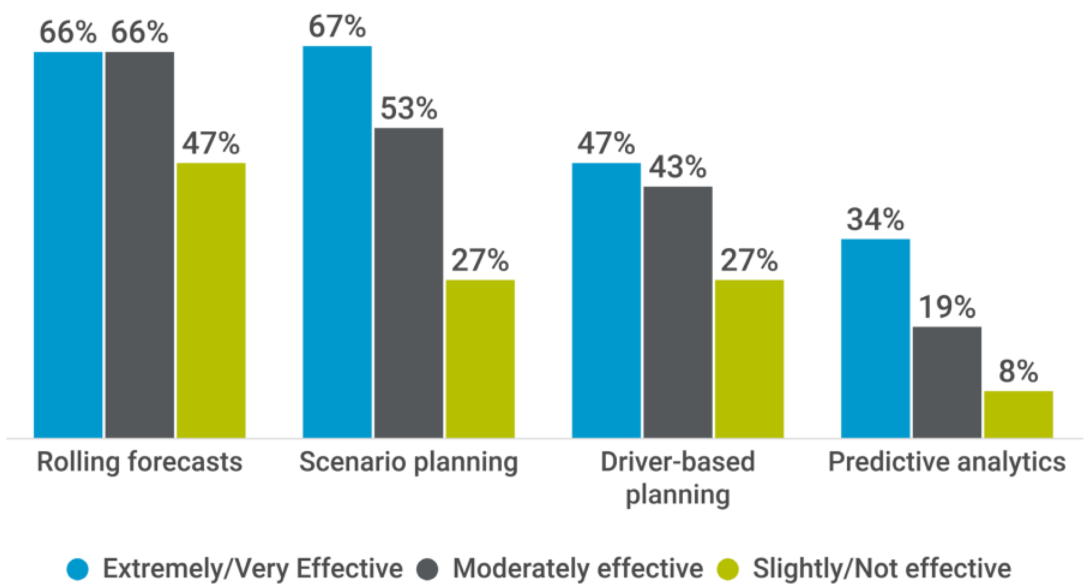


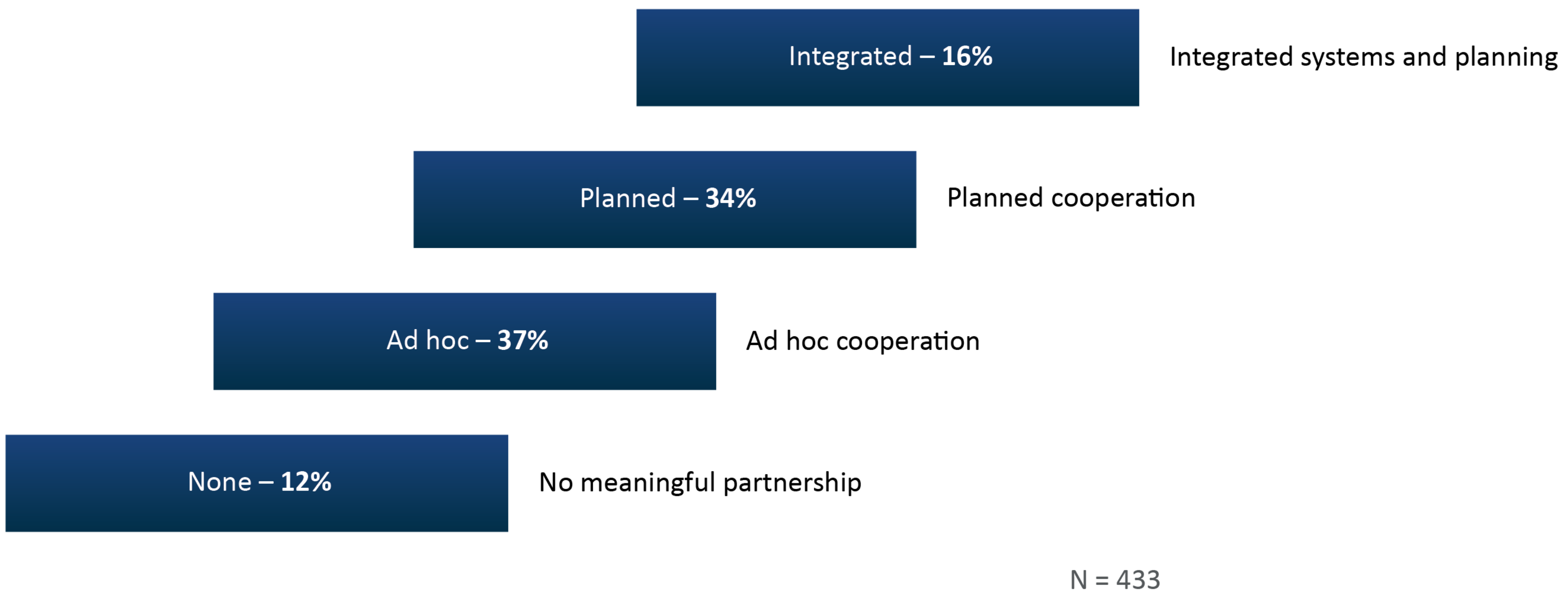
Figure 8: Frequency of Practices Leveraged
(Grouped by FP&A Effectiveness)



INTEGRATING PROCESSES, DATA, AND SYSTEMS FOR FP&A

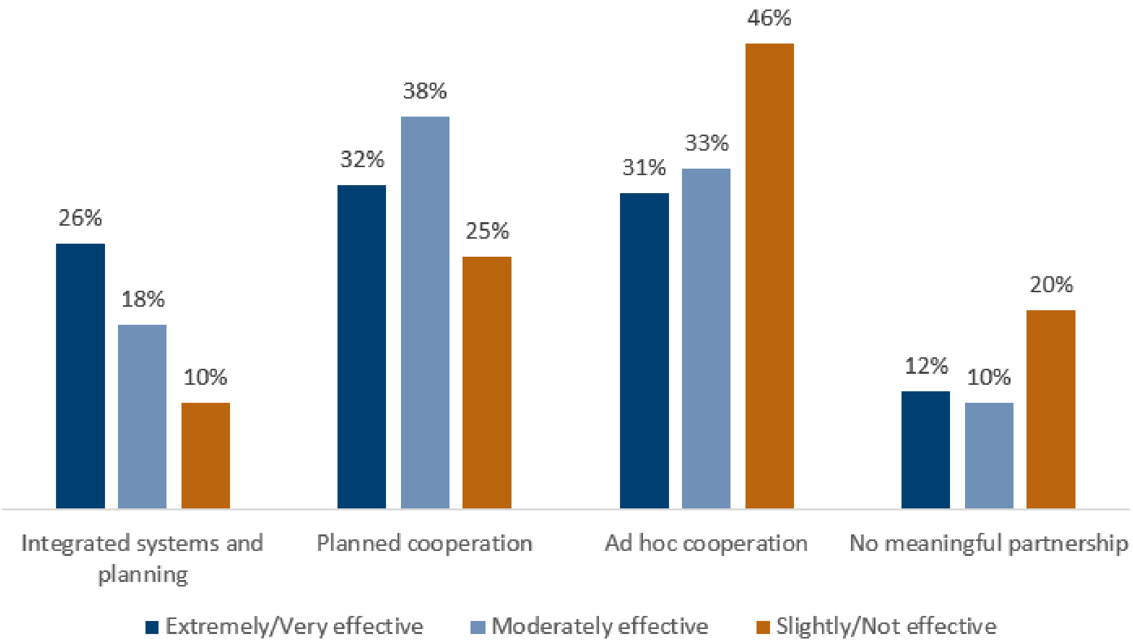
APQC found that siloed, non-integrated systems, structures, and processes pose the biggest challenges for finance in 2019. The good news is that at least some organizations are meeting this challenge with stronger partnerships between FP&A and other functions. For example, Figure 9 shows that half of participants in the FP&A survey reported that the partnership between FP&A and treasury involves integrated systems and/or planned cooperation. Only 12 percent of respondents, by contrast, report no meaningful partnership between the two entities. An analysis of the survey data found that participants rating FP&A as more effective were significantly more likely to have a higher level of integration with treasury in comparison to less effective FP&A teams (Figure 10).

Figure 9: Strength of Partnership Between FP&A and Treasury to Support Cash Flow and Cash Position Planning and Forecasting Needs



A strong partnership between FP&A and treasury is a critical success factor for both groups. According to Lapidus, "Traditionally, treasury takes a short-term view (for example, 0 days to 90 days) and is focused on cash, while FP&A takes a medium- to long-term view (60 days to 10 years) and is focused on accounting income. Having these two areas synch up can help both groups—FP&A should think about the cash impacts of the forecast and initiatives in order to inform treasury, and FP&A will know about large cash outlays before treasury. Treasury, in turn, can warn about risks and opportunities in the capital structure—shortfalls, credit risk, rating agency requirements, covenants—that may be useful to forecast for the overall health of the business. Typically, treasury is more focused on the balance sheet while FP&A is aligned with income/P&Ls. A strong partnership between these two groups can give the CFO the entire picture."

Figure 10: Partnership Between FP&A and Treasury
(Grouped by FP&A Effectiveness)



This data is consistent with the strong partnerships between FP&A and other functions at some of the leading organizations profiled by the study team. Vera Whole Health, for instance, aligns its FP&A work with its project planning approach, which is carried out in conjunction with input from across the organization. While building the budget, process and project owners note which strategic plan their efforts and resources are supporting, which allows finance to review the spending for each strategy and ensure that costs are not trimmed in a way that is counterproductive to the organization's strategic goals.

Speaking to the importance of strong and collaborative relationships between FP&A and other departments, Tandon warned that "it is easy to forget the importance of partnerships with accounting, treasury, and compliance groups to make sure that your business partners understand the impact of their decisions on compliance and accounting rules." For Tandon, these important forms of partnership should also extend to IT to enable stronger data management practices: "FP&A professionals do not need to become data experts because ideally, they should form partnerships with IT or the team that manages the data to have conversations about things like data governance and data management."

Organizations have taken a variety of approaches to integrating their systems and data. While organizations like the Global Tech Company profiled in this study reported significant improvements after moving to one enterprise-wide ERP and a single "source of truth," other organizations have found creative ways to integrate data. At ITT, for example, connecting data from multiple separate ERP systems has been a challenge in the past, but the organization has seen positive results by building intermediate platforms that allow for standard and homogenous information across systems. The organization also consolidated their business analytics group (which reports to the CFO) as a company-wide utility to own, clean, and report the data in a way that can be controlled more easily.

TECHNOLOGY

Technology is a critical enabler of FP&A's ability to form and maintain strong business partnerships. From visualization tools to automation and cloud computing, the key technology for FP&A has become more affordable, more accessible, and more user-friendly than ever. Leading organizations are not afraid to make substantial investments in new tools and technologies for FP&A and, at the same time, know how to work creatively to maximize the capabilities of the tools they currently have.

KEY TAKEAWAYS:

9. FP&A at leading organizations is working to more effectively communicate and support decision making, with a focus on data visualization.

10. The migration to enterprise planning tools is improving FP&A capabilities and freeing up staff time.

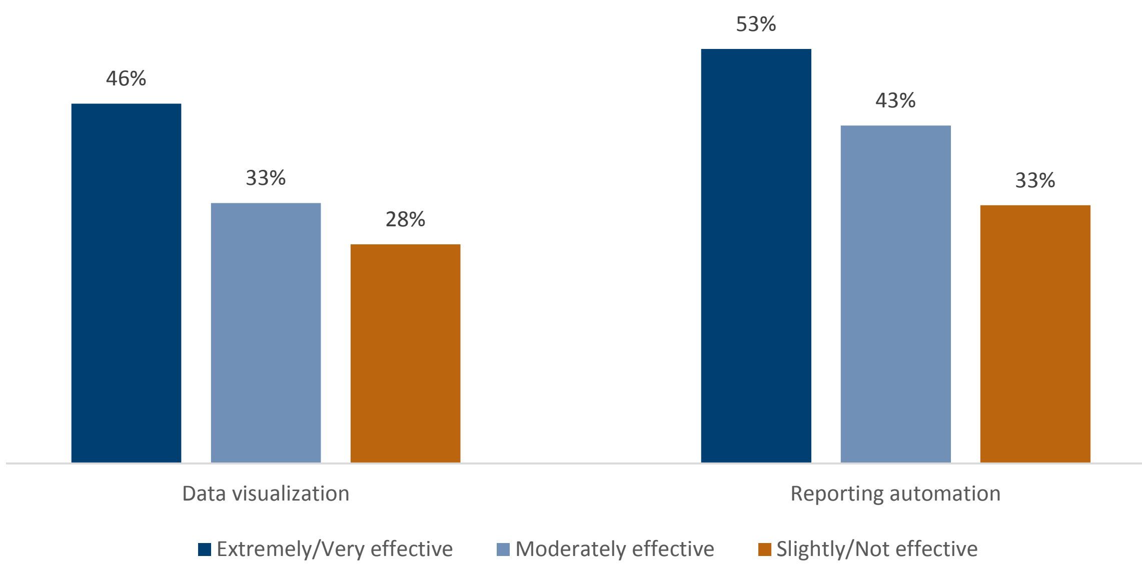
11. Most organizations have not yet achieved the goal of prescriptive and predictive analytics.

ADVANCES IN VISUALIZATION

Advances in visualization technology are revolutionizing the way that FP&A communicates valuable analysis and reporting, allowing FP&A analyses to move from static and tabular reports to dynamic and user-friendly visualizations. "FP&A spends a lot of its time reporting," Tandon reflected, "but are we just generating numbers, or are we actually showing the 'so-what' behind the data?" Leading organizations are definitively oriented around the latter. To get to the key takeaways more effectively, FP&A teams can now choose from a range of visualization solutions, which are increasingly accessible and user-friendly, and also support the aforementioned goal of business partnership.

An analysis of the survey data found that FP&A organizations that ranked themselves as very or extremely effective in FP&A were significantly more likely to use data visualization and reporting automation tools (Figure 11).

Figure 11: Utilization of Tools/Technologies
(Grouped by FP&A Effectiveness)



Organizations do not necessarily need to spend significant amounts of money investing in these tools. At ABT Associates, for example, FP&A leverages the Microsoft suite including Power BI for effective, relatively inexpensive, and user-friendly visualization. As Powers noted, “Anyone can download the tool to their desktop and get going. It’s easy to generate a visualization of things like our office locations, the current forecasts and backlogs for projects, and countless other data points. The ability to work with the tool is an attribute that we look for in new talent and continue to grow with current talent.” Despite the accessibility and relatively low cost of good visualization solutions, only 37 percent of respondents reported actively using such tools. A significant number continue to rely on spreadsheets, missing an opportunity to take reporting to the next level.

ENABLING THE EVOLUTION OF PLANNING IN FP&A

Like data visualization tools, the technology supporting planning practices has become increasingly more powerful in capability and much more integrated, reducing the time spent on low value-added data management tasks and enabling more time for value-added work. Reflecting on the promise of these newer technologies, Peck noted that “some of the newer advanced tools and capabilities like big data, machine learning, cognitive tools, and artificial intelligence have played a role in helping FP&A move from providing hindsight to insight to foresight.” For Peck, technology is a critical enabler of FP&A’s shift from its traditional reporting role to a critical business partner.
The following are all examples of this technological empowerment observed in the marketplace by the study team:

// Predictive analytics are delivering new insights on customer behaviors and identifying unique ways to improve operations.

// Machine learning is drastically reducing cycle times for forecasting and other key processes.

// RPA is increasingly taking over routine and highly transactional finance processes, freeing up finance professionals for value added work.

// Chat bots and virtual agents are pulling data from the cloud and pushing it to FP&A analysts in real time.

// Cloud computing is dramatically reducing the need for IT support, allowing finance to move forward without having to wait on IT resources.

At the Global Tech Company profiled in this study, for example, leveraging cutting-edge tools and technologies has empowered FP&A professionals with a new and exciting range of skills. “Five or six years ago, the average FP&A professional didn’t have the right skills to use a lot of these newer technologies. They were good at using Excel, PowerPoint and Outlook for mostly static reporting,” the modern finance lead said. Newer user-friendly tools now allow finance professionals to manage financial data, build their own visualizations, and even build their own RPA programs, sometimes in a matter of minutes. “In our finance organization,” he said, “technology is no longer a barrier. IT is no longer a barrier. The barriers, if any, generally come from clinging to old ways of doing things or not fully understanding the possibilities that these technologies provide.”

Despite the promise these technologies offer, Figure 12 shows that many organizations remain entrenched in traditional forms of analysis. Only 22 percent of respondents, for example, would characterize their analytics as playing a prescriptive or predictive role, and far more remain with standard practices like diagnostic and descriptive analytics. An analysis of the survey data found that survey respondents that ranked their FP&A as extremely or very effective had significantly higher levels of analyses maturity (Figure 13).

Figure 12: FP&A Analytics Maturity Level

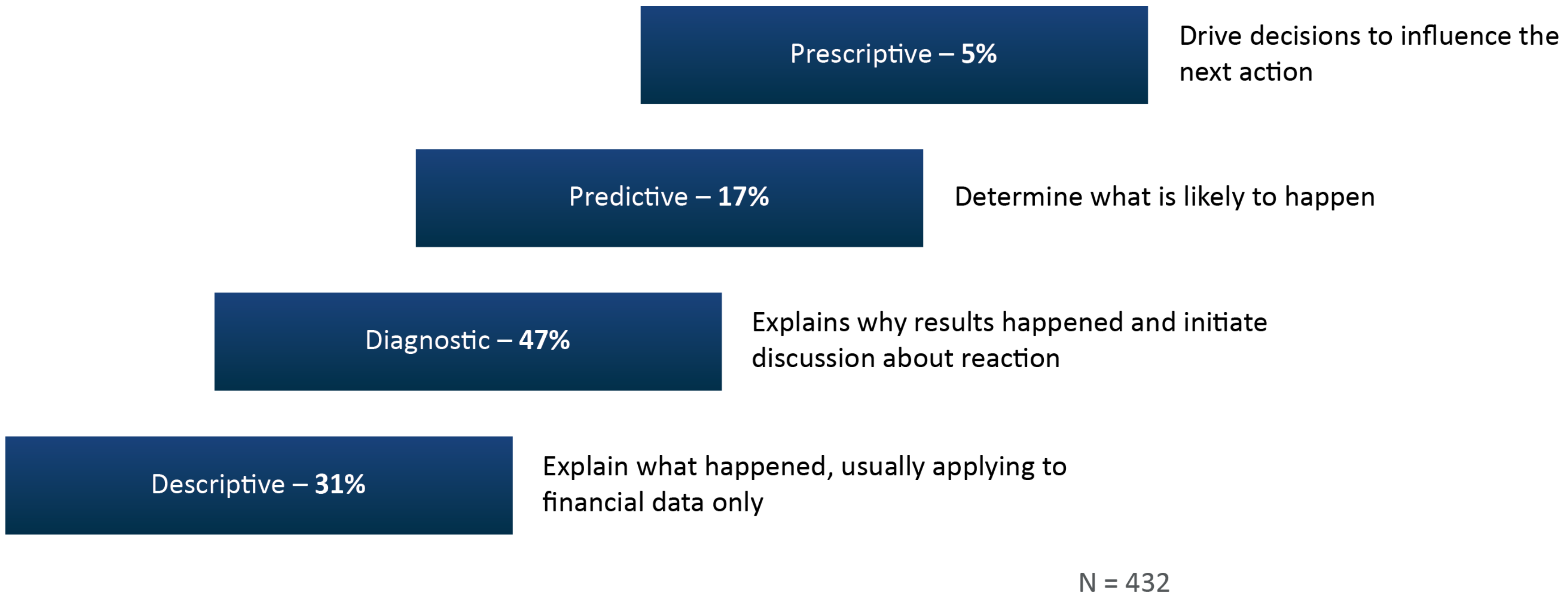
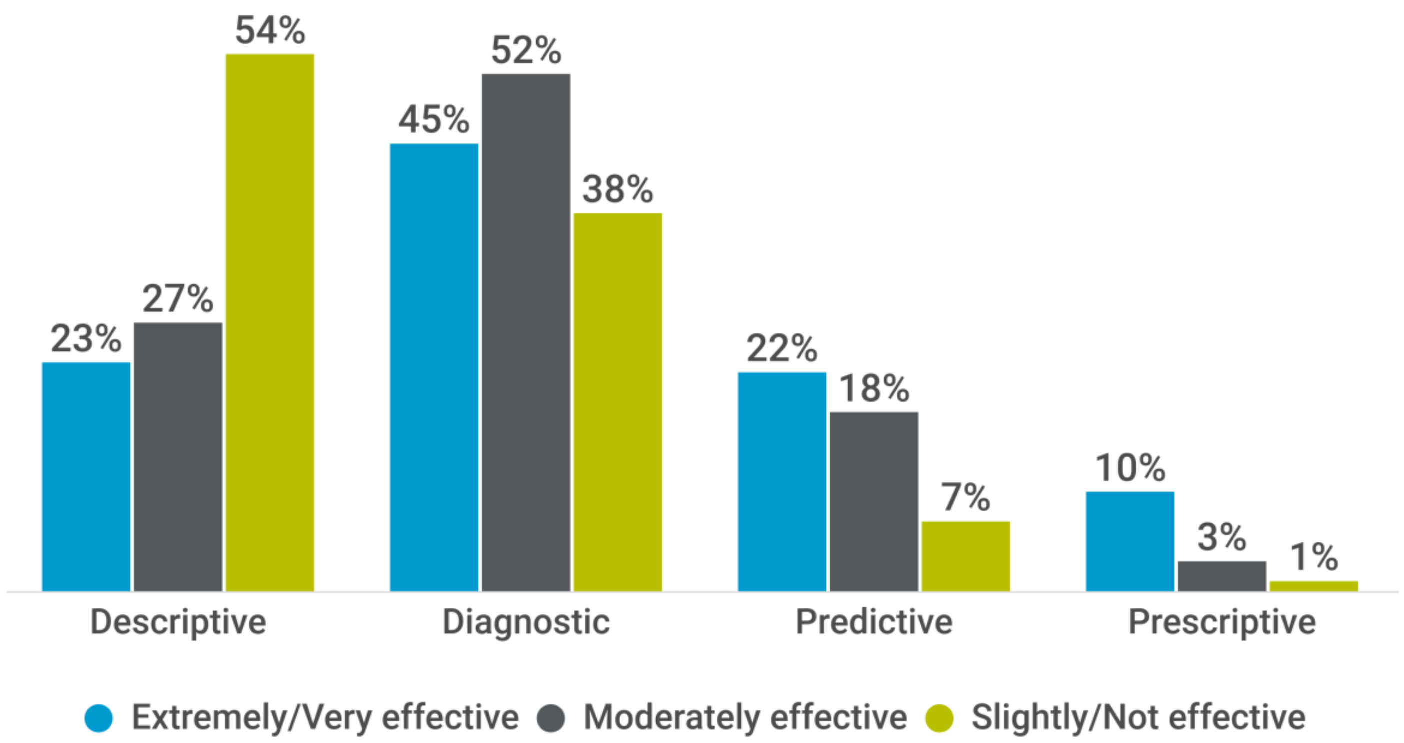


Figure 13: Maturity Level of Analysis Used
(Grouped by FP&A Effectiveness)



This analysis reflects a need to continue building technology skills for FP&A: Nearly 70 percent of respondents noted the need for FP&A professionals with skills in predictive analytics, and nearly 80 percent need those with data management skills. Developing these skills remains a significant opportunity for growth in many organizations.

EMERGENT TECHNOLOGY TAKES PLANNING TO THE NEXT LEVEL

Technology has also helped lower the cost of planning, and powerful planning tools are now available even for small and mid-sized organizations. For example, when Vera Whole Health needed an effective way to analyze and predict the number of visits to its clinics, rising pharmaceutical costs, and patient characteristics, the organization leveraged cloud-based ERP and planning solutions that allow it to automatically gather and integrate data. The solutions that Vera Whole Health found were accessible for the rapidly-growing organization and allowed it to integrate all of its analytical efforts to provide a broader context for budgeting, forecasting, and strategic planning.

APQC's research has found that organizations plan on making substantive investments in new tools and capabilities for 2019, but the experts interviewed by the study team made it clear that innovation does not always require the newest and most expensive technology. Drawing from his experience at ABT Associates, Inc., for example, Powers recommends that organizations work to creatively maximize and exhaust the capabilities of a given tool before investing in new ones. While there does come a point at which an organization has outgrown its need for a particular tool, Powers said, "when you're resource-constrained and can't necessarily buy new technology, leveraging the extra capabilities of a given tool is the best technique and practice to follow to get the most out of a given system." For Caprais, gaining mastery of the basics of analysis is also important: "One thing that's been very effective at ITT is going back to the basics, making sure that FP&A analyses like bridge analysis and reconciliations look good. There's no sense in moving to more complex datasets or data management approaches if you don't have the basic level of analysis under control first."

MEASURING FP&A IMPACT

At leading organizations, FP&A's measures of success align closely to measures that are important to the business. When tw telecom eliminated its budget in favor of rolling forecasts, for example, business and board conversations about FP&A's impact became much more holistic and oriented around business results and strategic options for the future. "It was a view of performance that went beyond the usual conversation of meeting or failing to meet budgetary targets and was much more about what we accomplished in the context of the broader environment," White said. As the FP&A team at tw telecom aligned its measures of success with the organization's strategic aims, the team found itself to be increasingly valuable to leaders and decision makers.

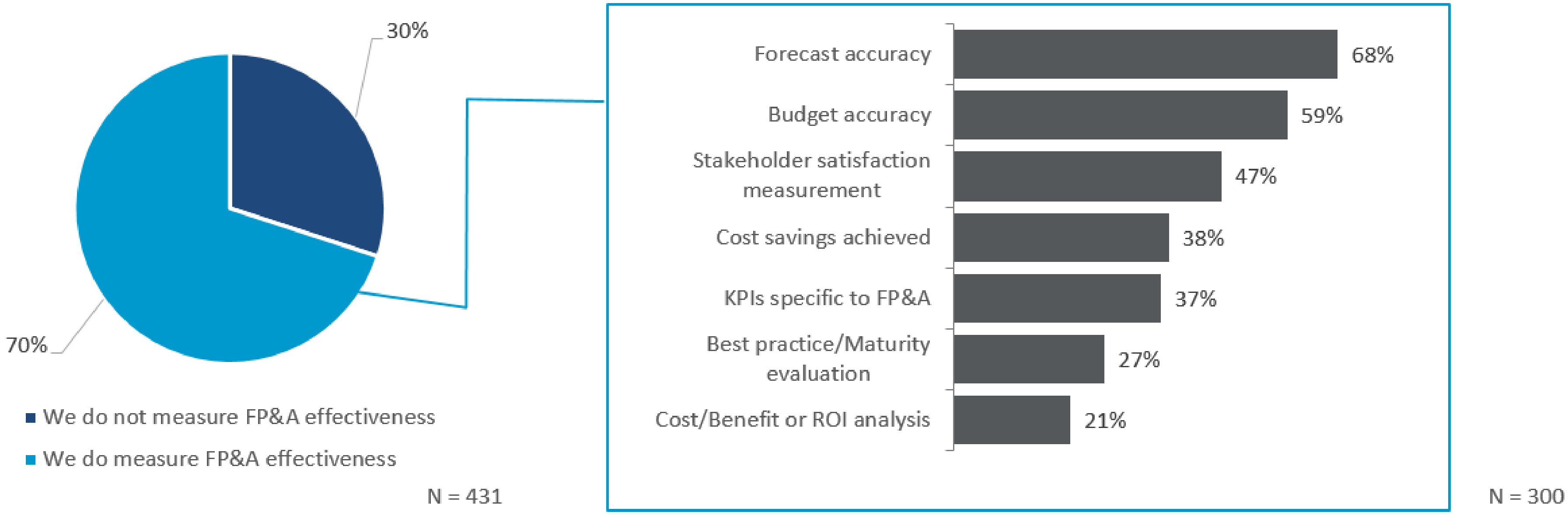
Having a seat at the decision-making table and being sought out by key stakeholders is a key qualitative measure of success for FP&A at leading organizations. To evaluate the ultimate impact of its efforts at the Building Materials Manufacturer profiled in this study, for example, the FP&A team relies on the strength of its relationships with the business. The CFO of the organization has seen a transformation in the past few years in which finance professionals are actively sought for their perspective, and the function has a key seat at the table for strategic planning and decision making. For the CFO, FP&A's effectiveness is evidenced by its continued input in daily decision making and the fact that FP&A business partners are an integral part of their lines of business.

KEY TAKEAWAY:

12. Measuring success for FP&A is important; it can be a mix of qualitative and quantitative indicators.

At leading organizations, measures of success are largely gauged through business performance, stakeholder satisfaction, and the extent to which FP&A retains a key seat at the decision-making table. However, Figure 14 shows that nearly a third of respondents do not measure the effectiveness of FP&A at all. For those that do, more than half focus on forecast and budget accuracy as a measure of success for FP&A. Only 47 percent account for stakeholder satisfaction when measuring effectiveness, and even fewer rely on business results like cost savings achieved (38 percent).

Figure 14: FP&A Measurement



The emphasis on forecast and budget accuracy as a measure of success at many organizations indicates potential opportunities for improvement in FP&A measurement. According to Lapidus, "The question is whether this becomes an obsession that inhibits good business decisions. Is it a distraction to focus on the plan at a point in time that is no longer relevant rather than the decisions that get to your long-term goals? It also creates a risk by creating a process to optimize accuracy (and lack of a negative surprise), which builds conservatism into the forecast in place of realism and often works at the expense of business outcomes."

The results of the survey also show room for improvement when it comes to the effectiveness of FP&A more broadly: Two-thirds of survey participants reported that their FP&A team's contribution is at best moderately effective in contributing to the organization's strategic goals.

BE CAREFUL IN USING FORECAST ACCURACY

By: Steve Player

Finance organizations strive to produce accurate financial reports. In financial reporting, this goal is understandable—If finance is the scorekeeper, it stands to reason that it needs to report the score accurately. Since financial reporting describes history, this is quite logical. However, applying that same objective to FP&A teams creates potentially major problems.

Forecast accuracy is a term often used to describe and measure FP&A teams. But the nature of forecasts is that they are predictions of future results. As such, they are subject to numerous forces that both positively and negatively impact the likelihood of any occurrence as predicted. While some of these forces are within management's control (such as whether a price increase was launched at the scheduled date), a huge number of forces are totally outside of the organization's control (such as general economic conditions, the price of key material inputs, the actions of key competitors, the reactions of customers to any of these events, geopolitical events, tariffs, etc.).

Organizations that insist on forecast accuracy in a highly unpredictable world often get the illusion of accuracy at the cost of lowered performance. For instance, if the range of potential growth next year is 4 percent to 10 percent, a manager who is rewarded for forecast accuracy (either formally through bonuses or informally through praise and promotions) has a huge incentive to submit a growth target of 4 percent or even lower. If performance soars, the business unit just cuts back and glides into 4 percent. While that manager can argue that he or she is being conservative, the reality is a reward system that promotes the illusion of control at the price of leaving growth to your competitors.

It is also important to understand that forecasts serve as early warning systems to let organizations know when their current processes and expected changes are not going to deliver the desired results. Good forecasts often lead to management action to change the expected future direction. Implementing revised actions often invalidate the previous forecasts. FP&A teams must be diligent in tracking results and not give false signals on forecast accuracy.

We recommend replacing forecast accuracy with forecast reliability as an alternative measure. The purpose of using forecast reliability as a measure is simple: to make sure that forecasts are free from bias—whether the bias is optimistic or pessimistic—on a consistent basis. This shifts the focus to understanding the natural variation in your numbers, how you can stabilize processes, and how you can create a robust organization with the agility to respond to normal variations.

The key is to remember that the goal of forecasting is to create a more successful organization and not merely to be accurate.

[2]As described in *Future Ready: How to Master Business Forecasting* by Steve Morlidge and Steve Player

SUMMARY AND IMPLICATIONS

FP&A is in a state of flux, and organizations are in various stages of maturity. When the study team analyzed the top-performing FP&A teams from the survey and interviews, it noticed three strong differentiators.

1. They recommend these structural changes to define and maximize FP&A:

- Reporting directly to the CFO or the business, not other finance functions.
- Reducing the amount of non-value-added work in order to spend more time on analysis. The organizations profiled in this study did this by creating centers of excellence with the skill to standardize reports and KPIs and by automating the creation and delivery of standard reports and analysis.

2. They apply technology and associated skills:

- The combination of data and tools has allowed them to deploy predictive and/or prescriptive analytics.
- They teach strong analytical skills, including those needed for statistical analysis. This requires maximizing the capabilities of existing tools in addition to investing in new tools.
- They use analytical techniques, especially operational performance metrics.
- They apply emergent best-practices like rolling forecasts, scenario planning, and predictive analytics. This shows planning is moving from an annual event to a continuous process.

3. They become partners to the business, which includes:

- Strong partnerships with treasury.
- Strong business partnering and soft skills.
- More analytically mature analysis to go beyond what happened into predictive/prescriptive analytics.

The presence of these practices at leading organizations shows that the emergent tools and capabilities leveraged by the best FP&A teams are not simply a "flavor of the month." These investments pay real dividends in terms of key stakeholder satisfaction, the ability to drive good performance for the business, and the perception of FP&A as the financial cutting edge of an organization. Preparing for the next level of financial planning and analysis means continuing to invest in these approaches for more effective business partnering that truly helps drive the business toward success.

SUGGESTIONS FOR FUTURE RESEARCH

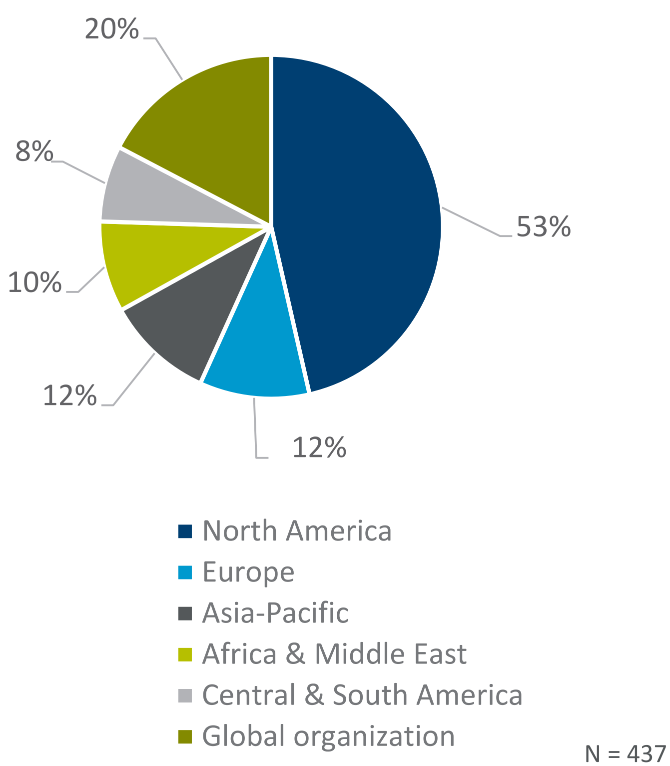
The intent of this research from the study team was to help organizations prepare for the next level of FP&A. The study team recommends future research in this area include more detail on getting to the next level of FP&A, including the following potential topics:

- How to move to continuous planning
- A roadmap for moving organizations up the FP&A value chain
- How to integrate data and processes
- Research into specific tools that allow for prescriptive analytics
- How to further redesign planning processes to reduce the time spent gathering data and administering the process, thereby increasing the time that can be spent on value-added analysis.

APPENDIX: BACKGROUND AND DEMOGRAPHICS

In November 2018 – March 2019, APQC and AFP conducted survey and interview research to understand the current tools, technologies, and techniques used by organizations for FP&A, and the associated skills required of today's FP&A professionals. There were 437 respondents to the survey across industries and geographies (Figure 15). Half of the survey participants reported over $500 million in annual revenue, and 37% reported more than $1 billion in annual revenue (Figure 16). Sixty-two percent of survey participants were at the director/senior manager level or above (Figure 17).

Figure 15: Survey Demographics: Industry and Region



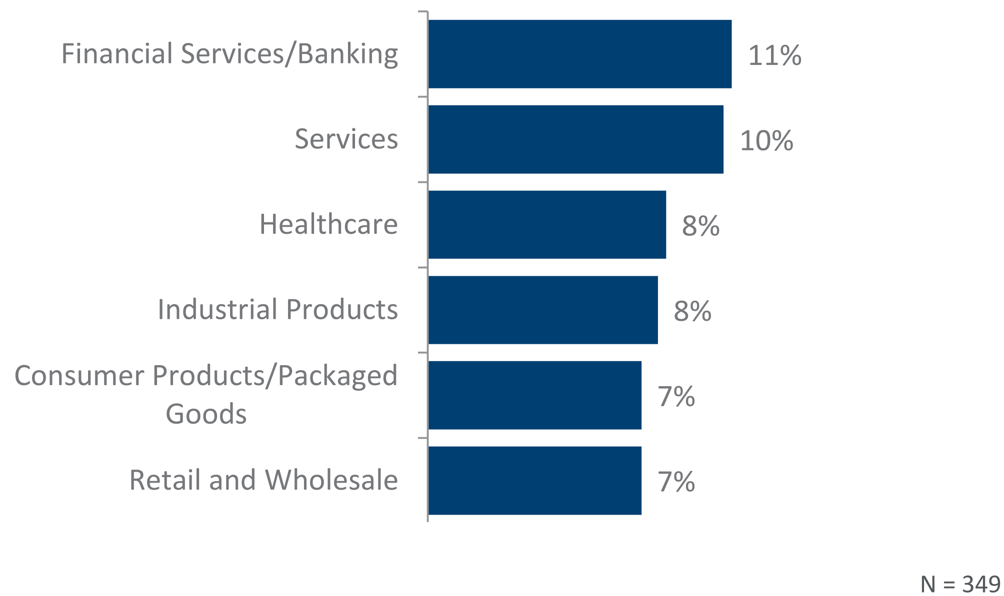
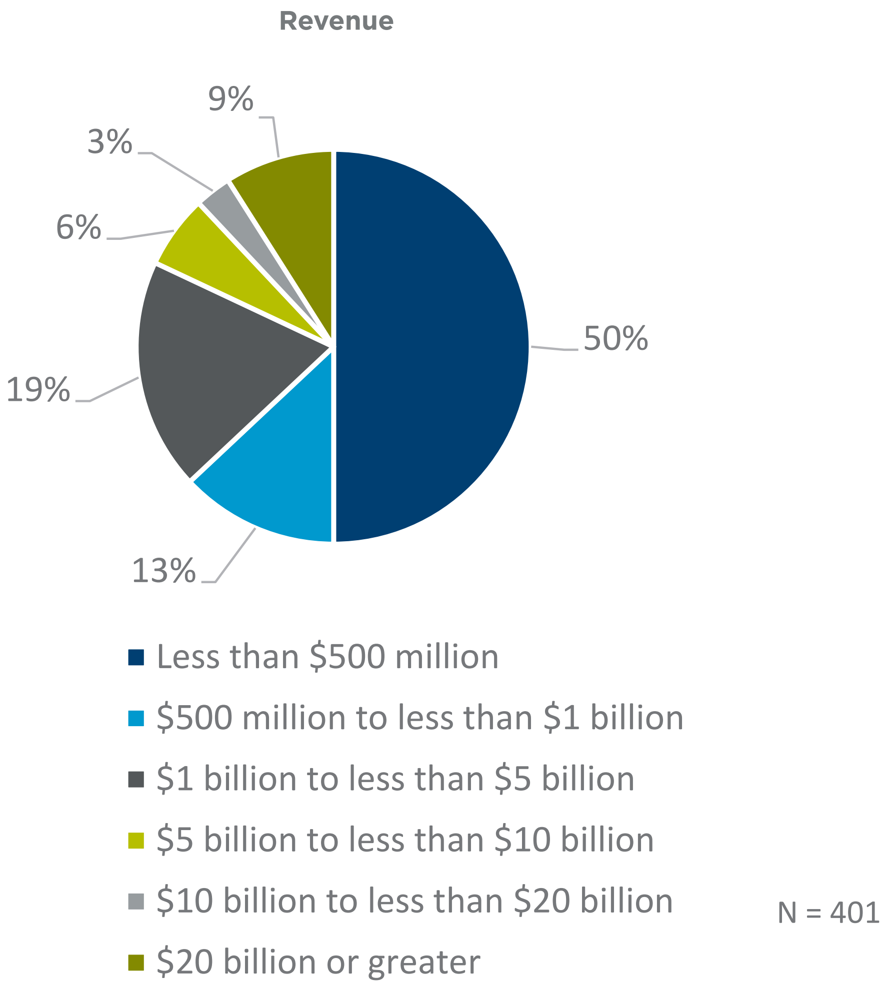


Figure 16: Survey Demographics: Revenue and Headcount



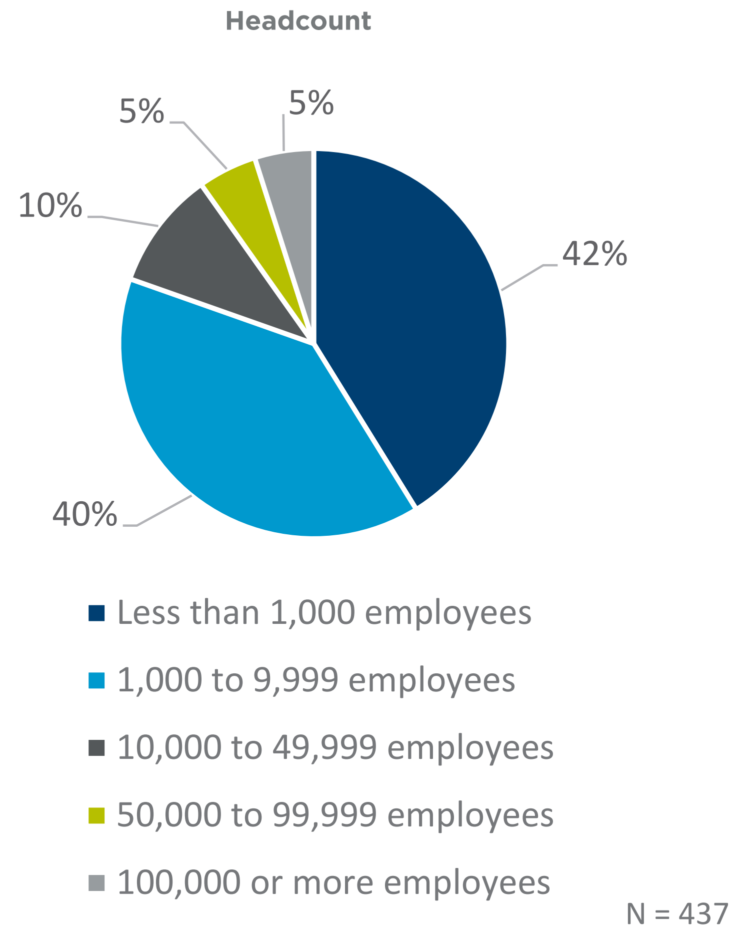
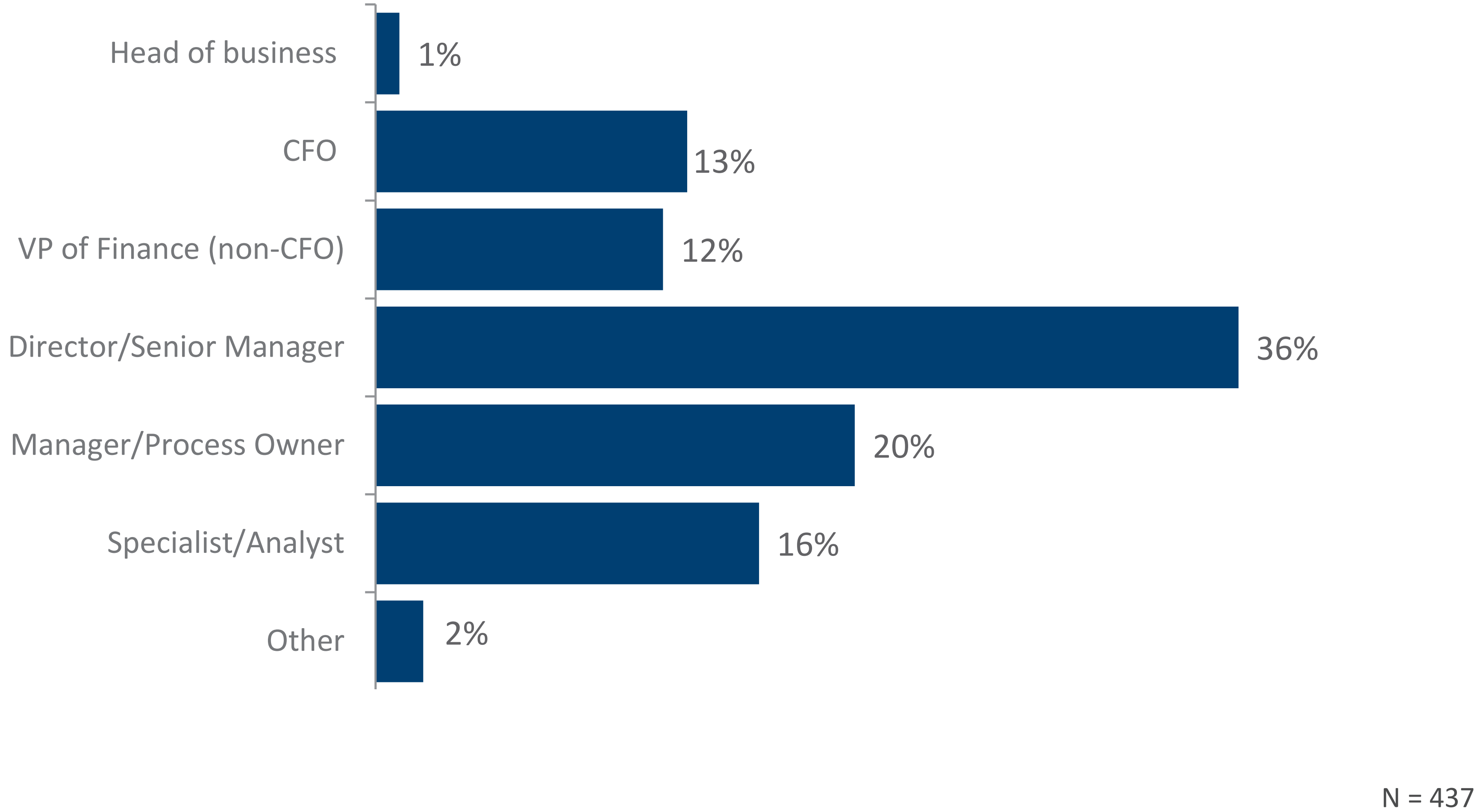


Figure 17: Survey Demographics: Role



In addition, the study team conducted phone-based interviews with the process owners for FP&A at five leading organizations across industries and sizes to better understand their processes and best practices for FP&A, as well as their lessons learned and advice. The study team also conducted phone-based interviews with subject matter experts from five leading organizations (industry as well as professional/business services) to gather their insights and expertise for the project.

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APQC helps organizations work smarter, faster and with greater confidence. It is the world's foremost authority in benchmarking, best practices, process and performance improvement, and knowledge management. APQC's unique structure as a member-based nonprofit makes it a differentiator in the marketplace. APQC partners with more than 500 member organizations worldwide in all industries. With more than 40 years of experience, APQC remains the world's leader in transforming organizations. Visit us at www.apqc.org, and learn how you can make best practices your practices.

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