xP&A – CFOs' Boon or Bane

23-Mar-2021, a day that none of the business leaders across the globe can forget easily! On a windy early morning at the Suez Canal, one of the largest ships was crossing the canal and was stuck due to heavy winds. The Suez Canal is one of the busiest canals that is used for major trading between Eastern and Western parts of the world. For the next 5 days, approximately 369 ships were stuck; they could not cross the Suez Canal and this ended up preventing $9.6 billion worth of trade.

Imagine the state of those business CFOs and the estimate of losses incurred in coping during the subsequent months. In the post-covid pandemic period, being a CFO of a company is no longer merely about ensuring the reports to the Board of Directors or ensuring completion of planning, budgeting, or adhering to multiple compliances. Owing to the level of uncertainty that the pandemic has created, it is necessary for every CFO to work collaboratively with peer leaders.

The FP&A

The CFO runs the business with his FP&A (Financial Planning & Analysis) team, which efficiently collates data for better collaboration, planning and reporting and works with business units in defining the forecasts and getting the expected numbers. A situation like the Suez Canal incident may result in enormous deviations which could take months to recover from and regain normalcy. However, each business unit makes its decisions based on its respective methodologies and perspectives. So, what is lacking in the existing FP&A-centric process?

i) It misses the visibility of operational planning from a business planning perspective.

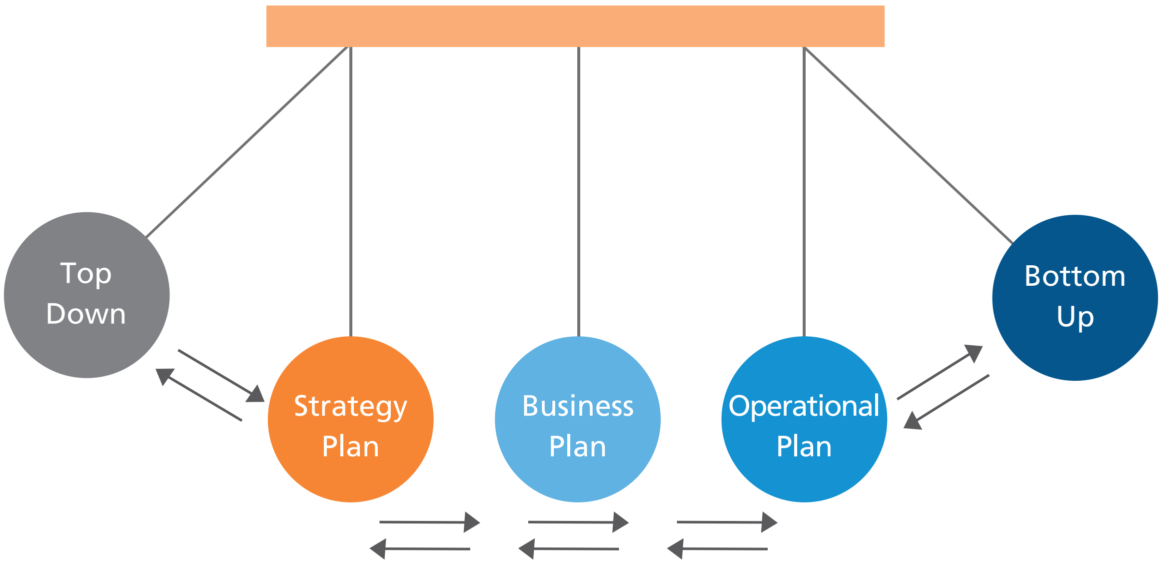
ii) It lags on the real-time condition of business activities.

iii) It is primarily omni-directional instead of being collaborative with BU teams.

iv) The opportunity for adding metrics or drivers specific to business units is minimal.

v) Lack of ownership for the business units.

Though the FP&A team is very effective in successfully addressing the planning, budgeting, and reporting needs with the help of BU teams, it requires lots of refinement and directions to get a final commitment from the numbers.



FP&A driven planning

While changes in business are continuous, CFO and FP&A organizations were traditionally able to tackle them as they were predictable to a great extent. For e.g., a seasonal increase in demand would deem that the production unit adds additional shifts or when there was a working capital crunch, the business would follow-up on pending payments or talk to banks to increase the line of credit.

However, with the above-mentioned challenges and increasing market uncertainties, business leaders require a new way of thinking. The CFO offices accomplish this by collaborating with other leaders and moving beyond their FP&A organizations with a newer approach.

Not FP&A 2.0 but xP&A:

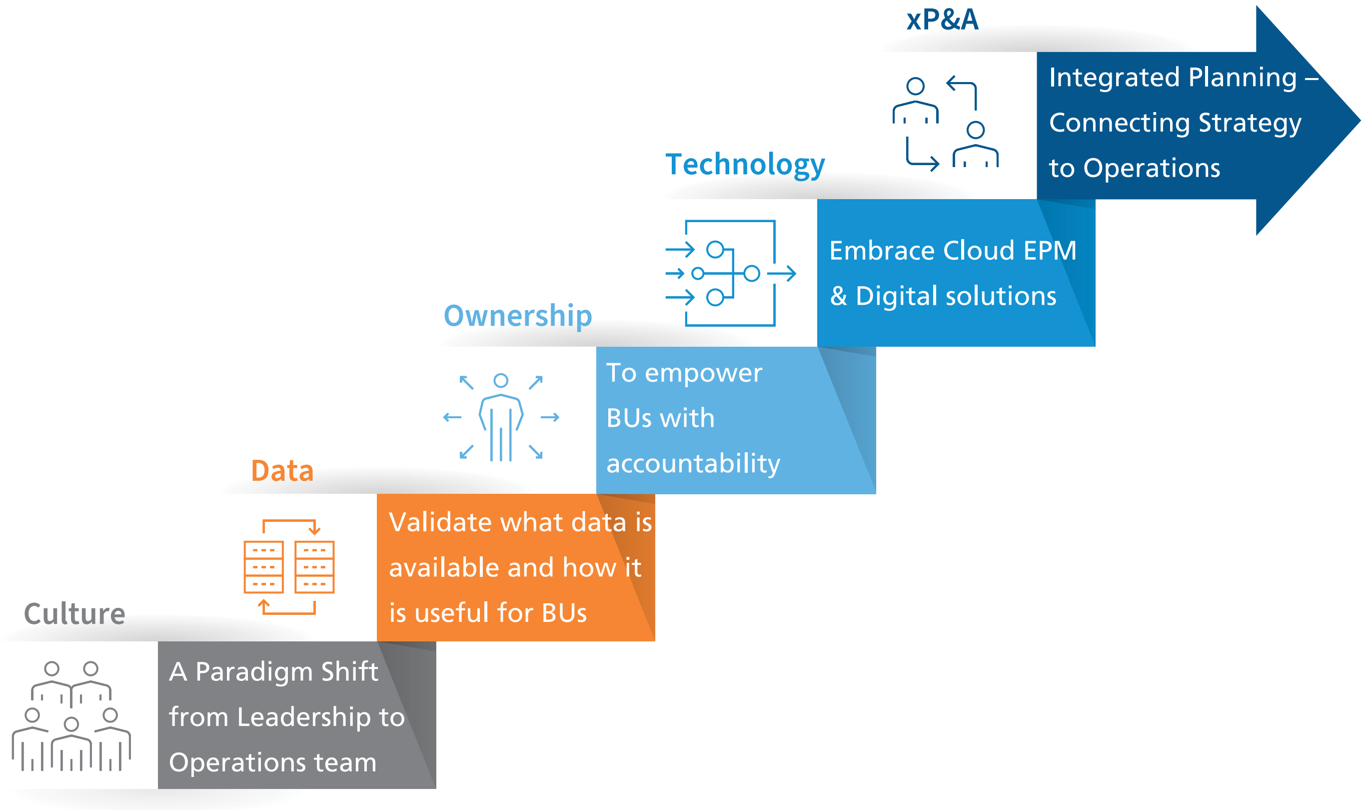
In 2020, Gartner coined the terminology "xP&A". While the literal meaning is "extended planning & analysis," it must be understood in terms of "x" that has a depth. "x" translates to breaking down of the conventionally retained silos between enterprise financial and operational planning, to achieve enhanced business value. The other terms being used are "integrated planning" and "connected planning".

It is important for the organizations to empower individual business units (R&D, Production, Supply Chain, Sales & Marketing, Human Resources) to participate in the strategy process and contribute to the business planning through their own operational planning. This helps the business planning to achieve more accurate forecasts. As the individual business units level data would be operational, it is quicker for them to leverage Artificial Intelligence/Machine Learning (AI/ML) based models to define the predictions. Through this process, the xP&A would leverage the specific drivers of the business units, which are driven by historical and real-time data, into the business planning.

With each business unit owning the responsibility for respective numbers, the key job of the CFO office is to standardize and integrate the data from all the business units and bring it to the organizational level visibility of business performance. For e.g., if a sales team wants to increase the growth, the unified xp&A systems would be able to let the business know whether the marketing has a sufficient budget, and by what percentage the human resources (HR) department needs to increase the FTE (Full Time Employees) and contractor staff to achieve that.

xP&A - a boon or bane?

Traditionally, finance organizations and finance groups derive the overall business performance, so a paradigm shift of collaborating with business units would be a big change for any organization. However, there is uniqueness in each business unit. As the saying goes, “Rome was not built in a day.” Similarly, leveraging xP&A requires a multi-step approach which may lead to a positive or a negative outcome. To evaluate if the xp&A approach is a boon or bane, the following 4 pointers must be validated. With each step leading towards a better positive outcome, every company should start enabling the xP&A processes.



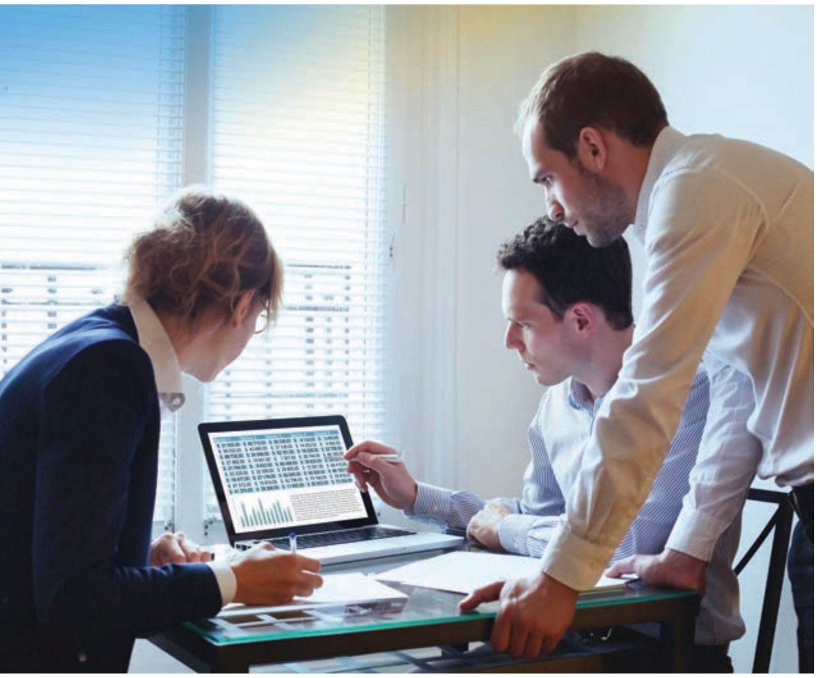
Culture is an important part of any organization unless the paradigm shift happens at the level of leadership and transitions to operational levels. As each business unit is passionate about its respective outcome, it is important to foster a different mindset in each BU leader on how to participate in the strategy and define operational plans. Many organizations spend lots of effort in negotiation between the department level commission definitions or assumptions for the forecast. Also, the FP&A group should acknowledge the operational plan level complications in embracing the changes to their consolidated planning for strategizing operations alignment. Most importantly, the nuances of each business unit must be clearly detailed. The FP&A Team should invest effort in understanding each of the operational processes.

Data determines the success of xP&A. While each department has an abundance of data, it is important to understand what sort of data is being used to make the decisions at each department level. Without an understanding of this, enabling any sort of data consumption would not yield expected results. The FP&A knows what sort of information is required for making the forecast successful, but the drivers of that information should be validated with the respective business units. As each department's specific transactional data exists at a granular level, it is advisable to evaluate AI/ML based models on such data to achieve the final forecast accuracy. Since FP&A requires the data at an aggregated level for planning and budgeting, it is necessary to keep the quality drivers for enhancing the forecasting process.

Ownership helps in empowering each business unit's role in the planning process. A clear mapping of ownership specific to business units, entities, and drivers will not only give independence to the respective teams but will also ensure accountability from them. A role-based user definition would help the FP&A team to achieve this.

Technology is the last step in enabling xP&A for any organization. Each organization should understand whether they have already embarked on a digital or cloud EPM technological transformation embracing AI/ML based offerings. The CFO office and FP&A group should ensure that they move away from Excel-based processes towards the latest breed of EPM technologies that fit their business model. The technological options are ample, so it is upon the CFO office to choose the most befitting one for a successful xP&A enablement.

As Gartner predicts, "By 2024, 70% of FP&A projects will be xP&A based projects." It is for CFO offices and FP&A groups to decide if xP&A can be a boon or bane to them. With the xP&A process yielding results through 4 subsequent validations, the FP&A group can spend quality time on understanding how to improve the business outcomes with available data, then spending valuable time in finalizing the AoPs and budgets.



LTIMindtree's Business Finance Performance Management (BFPM) helps CFO offices across domains to achieve value out of their planning, budgeting, consolidation and reporting processes. The BFPM practice believes that understanding the customer's business process is key to success for any CFO office or Business Finance specific projects. The practice is pivoted with functional consultants (CPAs, CAs, and accounting graduates) with the right mix of technology experts.

For any queries on the offerings or functional and technical solutions, please reach out to info@ltimindtree.com

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Prasanna is a specialist in FP&A and group finance solutions and transformation. His experience spans 18 years with rich knowledge in implementing, managing, planning, budgeting, consolidation, and reporting solutions. He has worked extensively with EPM product suites such as Oracle Hyperion, IBM TM1/PA, Anaplan, Jedox, and he is passionate about building integrated solutions for Finance teams. After leading the Enterprise Performance Management (EPM) practice for Cognizant and running his own venture Finaltics, Prasanna incubated the Business Finance Performance Management (BFPM) practice and is leading it with us.