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3 Critical Phases of Finance Transformation

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How FP&A transforms with advancements in people, process, and planning technology.

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EXECUTIVE OVERVIEW/PURPOSE

The role of FP&A is evolving with advancements in people, process, and planning technology. The evolution is characterized by three phases – 1.0 Reactive, 2.0 Proactive, 3.0 Optimized. As companies progress through this lifecycle, finance teams have new opportunities to provide enhanced value to the business. Today, most companies exist in phase 1.0 or 2.0. They should prioritize the move to Phase 3.0 because the competitive benefits are critical. Finance teams in Phase 3.0 are change agents of innovation, growth, and value creation in the business because they optimize business collaboration and agility across all business users in the organization.

A NEW OPPORTUNITY

Today's competitive business environment demands more from the FP&A function. Innovation, agility, and growth are competitive necessities, and now more than ever businesses are turning to finance to identify and drive the initiatives that support these strategic goals. This is certainly a significant opportunity for finance to play a more expansive and value-added role within the organization, but it requires an investment in the structure of the finance team itself, specifically in people, process, and technology. In the next section, we will explore how the deployment of this structure, and by extension the value that FP&A can provide to the business, is an evolution, and why organizations find themselves at different stages of development.

THE 3 PHASES OF THE FP&A EVOLUTION

Advancements in professional skills, business processes, and planning technology create the potential for FP&A teams to improve and ultimately optimize the role they play in the business. These three elements work together like a machine. The more finely tuned the machine, the more strategic value the FP&A team can provide and at greater speed. However, the deployment and optimization of these elements happen over time, and not all organizations make the journey at the same time or with the same speed. Why? Because the evolution demands significant commitments of time, money, and effort. Not surprisingly then, we see three distinct phases of evolution emerge from these three elements. For the purposes of this paper, we are going to focus on planning technology, as we believe it drives the enablement of people and process, and amplifies finance's ability to drive growth, innovation, and strategic partnering in the organization. We will briefly note that a high-performing team is open-minded, creative, and flexible in their willingness to change.

We identify the three phases as:

FP&A 1.0: Reactive

FP&A 2.0: Proactive

FP&A 3.0: Optimized

The FP&A Value Curve

THE 3 PHASES OF THE FP&A EVOLUTION

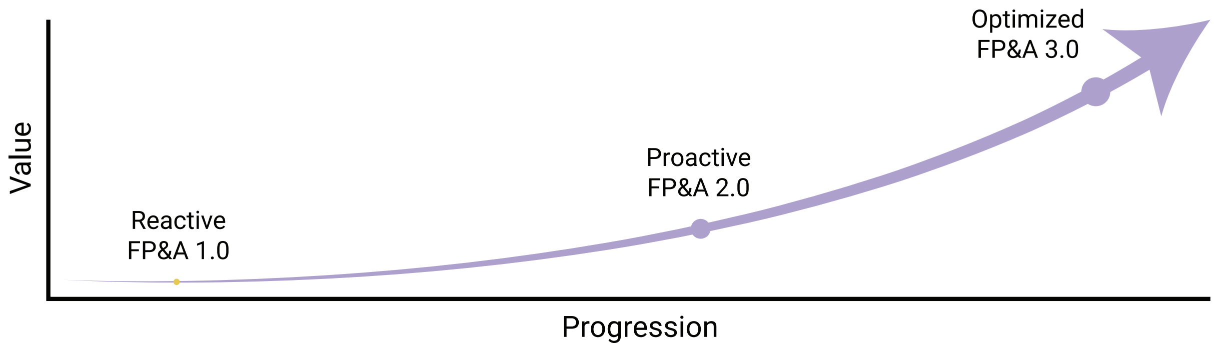


Figure 1: The 3 phases of the FP&A evolution and the potential value added to the business at each phase.

Each phase has a specific profile of characteristics and associated benefits. We will explore that next.

FP&A 1.0: Reactive

CHARACTERISTICS

Companies in Phase 1.0 do not have a planning platform. They use Excel spreadsheets for all of their budgeting, forecasting, modeling, and reporting activities. As a result data collection and validation is completely manual. The team shares the spreadsheets via email. The file sizes are so large that they often crash the program. When the file finally does open, it is riddled with formula errors, requiring the team to double-check all of the formulas and links before they can trust the data. There is minimal security, audit trail, or version control on the spreadsheets so nobody knows who has the most current version or what changes have been made. This process is manual, time-consuming, and error-prone. The team is always scrambling to meet deadlines. If a last minute change has to be made, it could take hours or days to repeat the cycle.

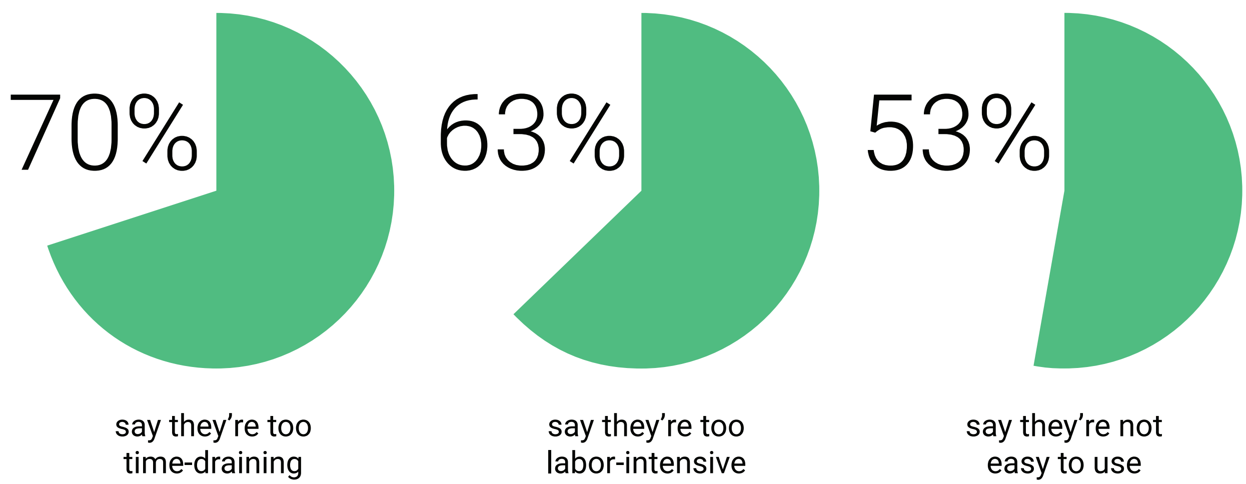
> **"We worked 70 to 80 hours a week on a regular basis to get even the most basic budget done. We had 250 spreadsheets, and then 15 additional workbooks on top of them to create reports. It was brutal."**
>
> *– Brian Farrell, Vice President of Accounting*
> *Acciona Energy*

The production of the annual budget typically takes 6 months. What's worse is that when the budget is finally complete, the numbers are irrelevant and out of date. Finance teams in Phase 1.0 typically have limited forecasting capabilities because the manual and tedious nature of the cycle is far too inefficient and time-consuming to perform monthly or even quarterly. They are lucky if they do two forecasts per year. Reports are static and Excel-based, and the quality of the data is never fully trusted because of the error-prone nature of Excel. The FP&A team lives in constant fear that the CFO will spot one bad number and subsequently question the validity of all of their work.

EFFECT ON THE BUSINESS

As a result of these issues, the team is constantly in a reactive state. The value provided to the organization in Phase 1.0 is limited. The team never has enough time to analyze performance and provide quality insight back to the business. While the team delivers the basics – an annual budget, a required set of monthly reports, and a periodic snapshot of performance – the data isn't current when it gets into the hands of decision-makers and therefore does not give them many actionable insights to run the business better. Because the team spends all their time producing the basics, there is no time left for more value-added activities like monthly forecasting, what-if modeling, and strategic partnering with line-of-business owners.

HOW EXECUTIVES VIEW THEIR CURRENT SYSTEM AND BUDGETING PROCESSES



Source: 2017 CFO.com Survey

MISSED OPPORTUNITIES

Finance doesn't have a seat at the table. The team doesn't have the tools to be an effective business partner. All operational systems are disconnected so finance and line-of-business owners can't engage in a conversation about how the money is being spent or how the business could be improved.

FP&A 2.0: Proactive

CHARACTERISTICS

Companies in Phase 2.0 have a finance-owned planning platform implemented, which means finance has control over the application and does not require other groups such as IT to manage the platform for them. They are realizing quick wins and core benefits from the system. This represents a substantial leap forward in their ability to add value to the business. Key characteristics include:

- Automated data integration, collection, and validation with the general ledger system
- Cloud-based planning templates that are governed by formula integrity, audit trails and version control
- Real-time, self-service reporting
- Streamlined collaboration with guided workflow
- Shortened budget cycles (6 weeks instead of 6 months)
- Monthly forecasting
- Some degree of operational modeling

EFFECT ON THE BUSINESS

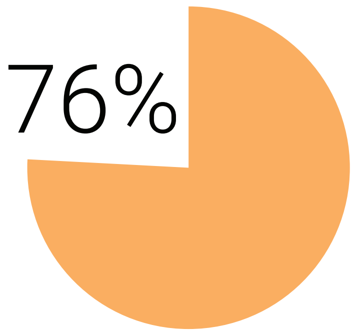
The finance team is in a proactive state. Finance is agile and can respond faster and in more impactful ways. Many of the time-consuming, manual processes are now automated by the planning platform. Data automation and self-service reporting mean that the finance team has faster access to accurate data. Budgets, forecasts, and reports are more meaningful and timely. The team is forward-looking in everything they do. They

now have more time available to engage in enhanced data analysis and decision-making conversations. They can also participate in more collaborative discussions with business owners on how to improve business performance. They are becoming a trusted, strategic business partner.

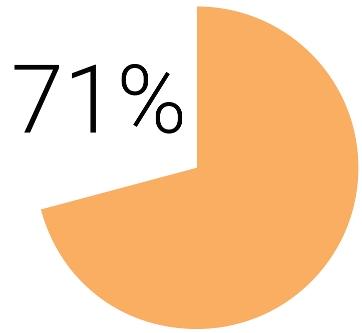
"We have 57 users today. Because the solution is cloud-based, they don't have to be on the network, they can do it from home. They can do it from the beach. They can get their stuff done on their own time within the deadlines that we set. It makes the process a lot more efficient."

–Ryan Scafidi, Senior Director of Financial Planning & Analysis | Boston Red Sox

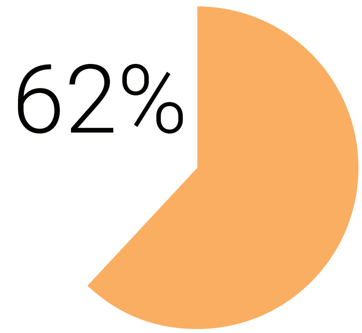
MORE WINNING PLANNING BENEFITS:



say they're doing better analysis with enhanced reporting tools.



say they have easier access to information



say they've reduced errors

Source: 2017 CFO.com Survey

MISSED OPPORTUNITIES

While the team is deriving some critically important benefits from the planning platform, they have not fully maximized all that it has to offer. While you can forecast on a monthly basis, you have not fully embraced a rolling forecast concept where forecasts are updated constantly by the business. While you have deployed some operational modeling capability outside of finance, you have not fully connected and automated the models across departments and within finance. Finally, budget owners haven't been empowered to participate in the budget process because they are dependent on finance to collect their inputs. Phase 3.0 is focused on addressing these gaps. Let's look at that next.

FP&A 3.0: Optimized

CHARACTERISTICS

Companies in Phase 3.0 have a finance-owned planning platform implemented and are using it for optimizing these key activities:

- **Continuous planning** – rolling forecasts where data is updated constantly by the business
- **Dynamic planning** – connecting operational models across functional teams and with the corporate financial plan so that updates in one plan (i.e. the number of leads in the sales funnel) automatically flow through all of the other functional plans and ultimately into the corporate financial forecast
- **Collaborative planning** – empowering budget owners to be engaged, accountable, and accurate in the budget process by giving them a simple, task-oriented planning tool built in the language of their business

EFFECT ON THE BUSINESS

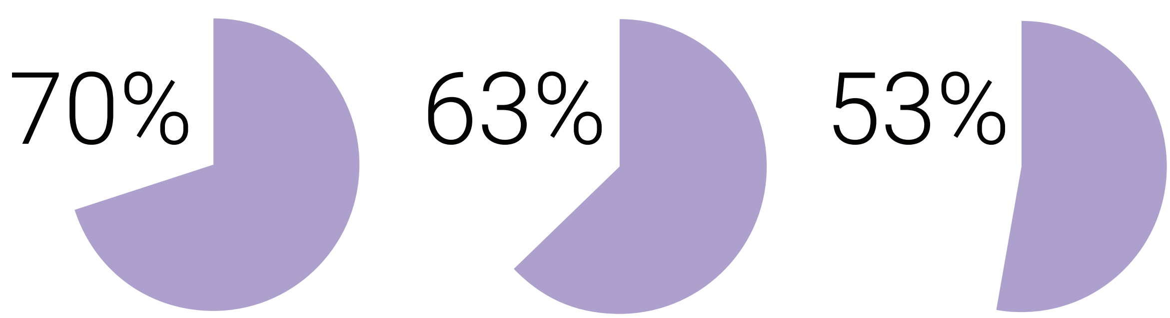
The team is in an optimized state. In addition to enhancing its business agility, insights, and accuracy, with FP&A 3.0 the big leap in value comes from the ability to drive:

- **Innovation**
- **Revenue Growth**
- **Value Creation**

In this optimized state, Budget owners benefit because they have the ability to run their business better (e.g., fully utilize all allocated resources), have access to more accurate and timely data in a context that means something to them, and save time and get tasks done faster. Finance owners benefit because there is more participation and accountability in the planning process, reduced support and training required by finance personnel, more accurate forecasts, and fewer surprises.

Finance engages in high-impact, strategic conversations with business owners about how to drive the business forward. For example, they can distinguish profitable customers from non-profitable ones and partner with sales and marketing to target prospects with similar profiles to drive new growth. They can analyze high-margin product lines and markets and recommend added investment in those areas. They can help product management identify an under-served market need by analyzing customer behavior that leads to new product development and innovation. Or they can partner with sales and marketing to evaluate the strength of pipeline, identify gaps early in the cycle, and cover the shortfall with campaigns, events, direct sales, etc.

CFOS RECOGNIZE INTEGRATED, CLOUD-BASED PLANNING AS A WINNER



say it would make their job easier

say it would deliver a strong ROI

say it would represent a key milestone in an advanced finance transformation at their company

Source: 2017 CFO.com Survey

Conclusion: Make Phase 3.0 a Priority

There is a three-phase evolution of the role of FP&A, with each phase providing increased value to the organization. Evolving to Phase 3.0 should be a priority for all finance teams because the competitive benefits are critical. Finance teams in Phase 3.0 are change agents of innovation, growth, and value creation in the business because they optimize business collaboration and agility across all business users in the organization. We want to see all finance teams maximize their potential and help create and share great new products with the world. To learn more visit www.planful.com.

"Instead of being reactionary we're able to have good insight into what's coming and then determine how we're going to allocate our resources. We're not making decisions in hindsight anymore. You can't put a price on being able to make smart decisions as early as possible."

– Lee Johnston, VP of Finance and Corporate Strategy | LT Apparel