



Adapting FP&A to the New Normal

FP&A Trends White Paper 2020

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1 The New Normal: Unknown Unknowns

The New Normal means that planning is no longer an extrapolation of the past.

Welcome to the *New Normal* of the business world. A world full of *unknown unknowns* where the traditional approaches to financial planning and analysis (FP&A), that focus on set time single plans, no longer work. Business is no longer as usual. In fact, the concept of having a single plan whose goal is adjusted through quarterly forecasts is also dead.

Unforeseen events and particularly those with global impact such as a pandemic, quickly bring about the demise of a single plan. Events like these can cause immeasurable damage and organizations struggle to cope with the uncertain future that they did not see coming. To cope, organizations need multiple plans that anticipate the future, any of which could happen (Fig 1).

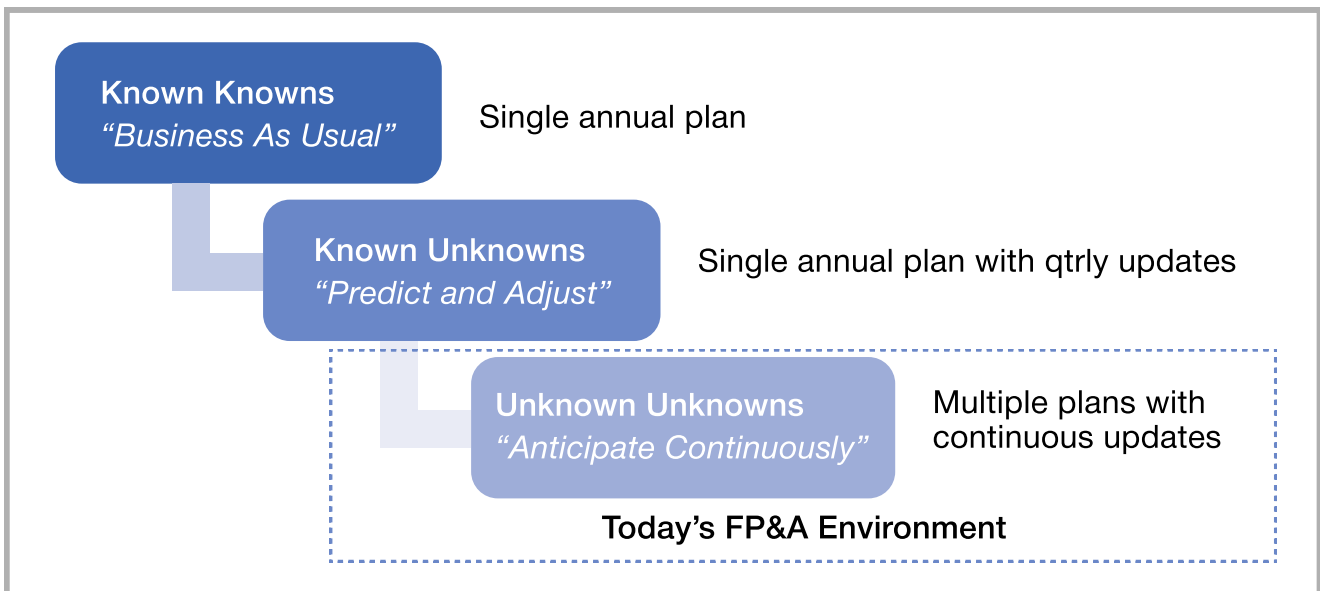


Fig 1: Different approaches to planning

The *New Normal* means that planning is no longer an extrapolation of the past. Similarly, business drivers that worked last year may no longer be relevant for the future. The reality is that organizations face multiple possible futures. Each one can be triggered by a crisis or an unforeseen event that will require the company to adjust or even change course.

So how should FP&A adapt to this *New Normal*?

The **FP&A Trends Group** has held a number of digital meetings around the globe examining dozens of case studies from leading organizations on what they have been doing to cope. This paper comes from that research. Based on those conversations, it has been determined that there are certain things that FP&A must do. They have been categorized under the four headings of planning, processes, people and technology. Depending on your organization, each element will be prioritized differently. However, each is an essential component in the adaption of FP&A to cope with today's business environment.

2 Process

In the New Normal, it is crucial that the whole organization plans together.

2.1 On-demand, integrated FP&A process

Traditional FP&A processes are typically run at separate times, using different models and involving different people. For example, budgets are created by finance staff to secure resources over the coming year, strategic plans are used by senior management to set direction for the long-term future, while operational staff use forecasts to get them through the next couple of weeks or months. As well as using different systems and models, they often employ different terminology so it is impossible to match items that are in effect the same. Yet all these plans are part of the same process for strategy implementation. Unfortunately, the result is usually a complete disconnect between corporate objectives and reality.

In the *New Normal*, it is crucial that the whole organization **plans together so that everyone knows exactly what is happening** and can quickly adapt to fast changing events.

Gensler, a global design and architecture firm, understood this need and set out to integrate the different finance functions. This included treasury, to enhance cash flow modeling, and tax, to enhance cost allocation and transfer pricing processes. The revised process also had to include workforce planning, revenue planning and all operational expenditure. This allowed them to evaluate scenarios that would perform better than their base plan and provide answers to best and worst case scenarios.

Fernando Schreiner, FP&A Director at Gensler is proud of what they have accomplished. In just 6 months, they adopted a new approach that “not only improved modeling and simulations but... allowed us to develop and manage continuous plans. For example, when the pandemic hit, we were able to generate several financial scenarios for the board to help with decision-making that would have not been possible to do in a timely manner in the past with our Excel-based model.” Other benefits mentioned by Fernando include improved transparency in the overall planning process, and new found trust from the management team due mainly to “one process, clear accountability and commitment to the right priorities.”

2.2 Life cycle focus

Most organizations have fixed term planning processes where much of the time is spent fighting over next year’s resources. Participants feel compelled, within that narrow time frame, to show what they would do with the resources and defend the results that would accrue. Usually this presents itself in the form of a hockey stick projection that in reality never happens.

Michael Huthwaite, FP&A Thought Leader, believes that in an unpredictable environment this is the wrong approach. Instead organizations need to **shift away from fighting over resource allocation and start to manage the business based on product and service life cycles** (Fig 2).

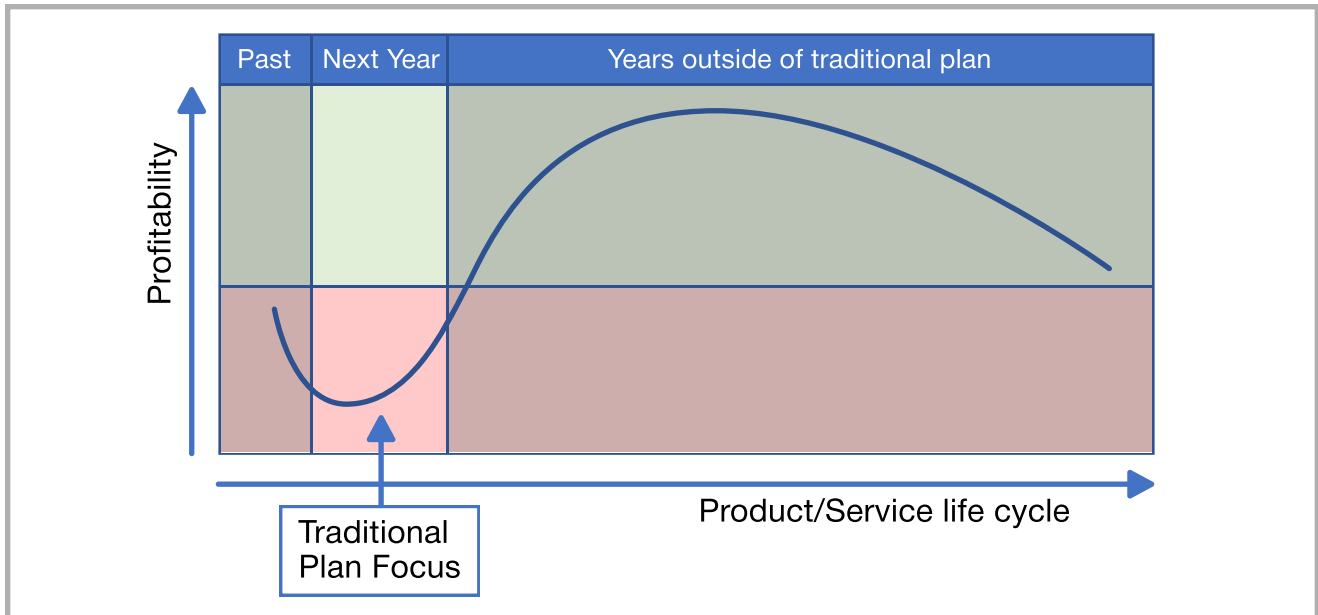


Fig 2: Life cycle of a product/service

Life cycle planning takes a holistic view. It considers how products, services or projects start, how they each get implemented, how results develop, and finally how each ends or is replaced. In other words, it considers the complete life span, which could be several years rather than an arbitrary fixed period. Michael adds that traditional **fixed period profitability analysis does not bring the true picture to decision makers**, whereas knowing where each product or service is on its life cycle can help answer key questions on company direction. Questions such as whether the organization is investing in the right market, is it maximizing cash flow, and is a shift in strategy required?

Many organizations have several strategic products or services, each on a different life cycle. Planning is therefore focused on looking at each independently and subsequently assessing whether collectively they are a good mix for the future profitability of the organization.

As part of this approach, organizations can run real-life experiments by investing money into a range of new projects and witnessing which ones actually take off. By keeping them separate, funds can be allocated according to individual need and any necessary expenditure cuts can be suitably targeted.

3 Planning

Driver-based modelling, collaborative planning and scenario planning help organizations make faster and bolder decisions.

3.1 Three-way, driver-based modelling

The issue for many organizations is that while most departments manage and plan at the P&L level, cash tends to be managed corporately.

Cash is the lifeblood of any organization and so in uncertain times it is vital to be proactive in preserving this vital resource. For this reason, organizations are turning to three-way modelling and planning systems that include the profit and loss (P&L) statement, cash flow statement and balance sheet.

To do this accurately, models need to take into account all cash channels, both when it comes in and goes out of the business. This means knowing what choices exist, for example payment cycles, vendor agreements and tax or dividend payments. By assessing how the timing of each payment impacts the cash forecast.

When the three-way model is based on key drivers and is implemented through a collaborative system, organizations are well prepared for planning uncertainty. It means decisions can be made based on their **importance to the overall financial structure** of the company, rather than their urgency.

3.2 Collaborative planning

Collaboration involves a three-way flow of communication that is top-down, bottom-up, and across the organization. The result is a shared common purpose and an understanding of both the current and envisaged business environment, with agreed targets and goals. To do this effectively requires a collaborative planning platform for everyone where key business drivers, models and data are agreed and managed together.

Clara Hoon, Nielsen Media International Finance Business Partner, found that a **collaborative approach helped build trust** between FP&A team members, senior managers and the rest of the organization. To do this they used a range of tools to facilitate discussion and knowledge sharing. The result was that they were able to make **faster and bolder decisions** and provide clear accountability on responsibilities and timeline, so that everyone could be working towards the same goal.

Collaboration is a continuous activity that starts out with a strategic intent and critical success factors. It allows for those *on the ground* to provide feedback which could change the course of action. It also provides understanding of how decisions made by one part of the organization can impact another. Overall people understand that it is only by working together that corporate strategy can be successfully implemented.

3.3 Scenario planning

Scenario planning is a decision-making machine. It enables management to deal with uncertainties in the business environment by considering a number of alternative futures and their possible effects on the organization. When used with a driver-based model, realistic scenarios can be produced quickly so that management can plan their response.

A keen advocate of scenario planning is Jose Nazario, FP&A and CCAR Director of Global Consumer Banking at Citi, New York. They introduced a driver-based planning model to their organization more than 5-years ago.

Following the financial crisis of 2008, all banks in the US are mandated to perform stress testing or CCAR twice a year. Jose commented “This, is just another fancy word for scenario planning.”

This requirement has made US banks more resilient and more prepared for the crisis. According to the regulation, US banks are to run nine scenarios and submit results to the Federal Reserve. Six scenarios are for internal use and three scenarios are submitted to the authorities. For Citi, this process is quick, taking less than an hour, and efficient since it allows them to run the nine scenarios in parallel worldwide (over fifty countries) for all lines of business.

Scenario planning has allowed Citi not only to comply with government regulations but also to identify future recessions and be prepared. It has made them more resilient, which has been especially important during the COVID-19 crisis. Jose concludes that scenario planning at Citi is **not an exercise that they do twice a year but is now ingrained in their decision-making process.**

4 Technology: Digital FP&A

Digital FP&A includes predictive and prescriptive analytics, and the use of machine learning (ML) to create a data-driven culture where real-time analysis provides valuable insights to business partners.

4.1 Cloud-based analytic platform

Technology is an essential enabler for the *New Normal*. In the past organizations managed by using a mixture of simple planning or consolidation systems and spreadsheets. However, these cannot support fast, collaborative decisions in today's data rich, volatile world. To do this requires an **integrated analytics platform that can be accessed by the whole organization**. It needs to be agile, quick, capable of coping with huge volumes of diverse data, and able to provide insights using the latest scientific methods. The right analytic platform provides:

- **All the tools FP&A need in one place.** Whether it is for planning, reporting or analysis, FP&A should be able to access results without the need to transfer data.
- The ability to build sophisticated **driver-based models** that can be driven by both **internal and external** factors.
- The ability for users to connect to the necessary systems from **any location or device** with appropriate security in place that ensures each user only has access to what they need.
- **Seamless integration** with the underlying ERP platform(s) to compare and actuals immediately and without delay to provide **instant decision support**.
- **Built-in collaboration** and discussion, as well features that support both top-down and bottom-up planning.
- A range of **statistical capabilities** that can easily be used for forecasting as well as **AI or ML algorithms** that can detect hidden relationships and be used to predict a range of future scenarios.
- **Automatic model updates** when results come in, that can be used to prompt user attention to areas adverse to forecast.

Fortunately, there are a number of cloud-based solutions that meet all of these requirements, are simple to use, and come at a low cost of ownership. Never before has there been a better time or reason to move to digital FP&A.

4.2 Self service

FP&A need to be able to control the development and distribution of planning and analysis systems. This means that **software tools should be intuitive to use** and aimed at FP&A teams, so they can build and amend systems themselves, rather than wait for IT specialists to do so for them.

Those systems should also cater for the needs of their end-users and their own analytic purposes. In effect they need to be able to replace the use of Excel and be as easy to use but without the drawbacks.

At one of our webinars, a presenter from a well-known consumer goods company mentioned that self-service analytics also play a key role in FP&A storytelling. Once you have the data, the next natural step is to extract value from it. That data might have potential, but it will not be realized until insights are uncovered which can then be translated into action. With self-service platforms, finance professionals can **reduce effort on creating reports and concentrate mainly on the story** in order to help people understand what is behind the numbers.

4.3 Advanced analytics

Traditional analytics typically provide summaries, sorted lists, charts, and color-coded variance reports that only answer questions relating to “what happened?” and a slight indication on why things happened. Advanced analytics take a giant step-forward to answer the more interesting questions of what will happen and what we can do about it. This is more commonly referred to as **predictive and prescriptive** analytics.

Stéphanie Didier, Finance Director at Janssen EMEA is a recent convert to advanced analytics. They were spending a lot of time and resources on sales forecasting and getting results that were really poor. After a presentation from a smaller pharmaceutical company who were using AI and ML technology and demonstrating great results, Janssen decided to investigate further. They started by setting up a pilot project for some of their brands and found that the **machine forecast was far more accurate than human forecasts**. Based on this they have now embarked on a project to extend this process to all of their products.

4.4 Real-time planning and forecasting

In the *New Normal* customer demands and schedules can change weekly so planning systems need to be more agile. In other words, plans need to be continually updated and revised as the underlying data and future predictions change. With the latest generation of FP&A systems data is **now available on a real-time basis**.

Advanced analytic capabilities provide direct access to both internal and external data sources, which can be analyzed in real-time. The results of which can then be used to provide predictive forecasts based on ML algorithms. Automation facilities alert users to potential issues so that necessary actions can be taken.

5 People

To attract talent, business leaders are advised to create a better environment for FP&A, most importantly by providing automation and improved systems.

5.1 FP&A skills

Meeting the demands placed on FP&A in the *New Normal* requires a range of skills not previously associated with FP&A. These skills are in addition to the traditional core financial ones and can be categorized into the following 5 critical roles:

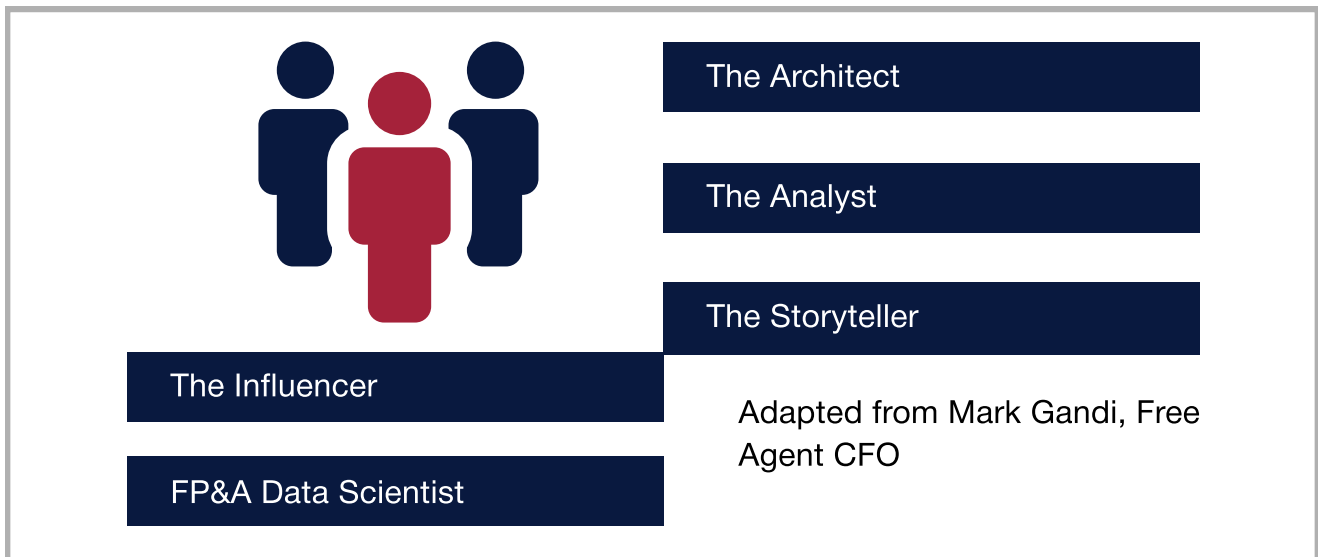


Fig 3: 5 Key Roles of FP&A in the *New Normal*

FP&A Architect: These are people skilled in using modern planning and reporting tools. They are able to specify user requirements and turn them into driver-based models that connect to the appropriate internal and external data sources.

FP&A Analyst: These individuals are good at analyzing data from a financial viewpoint in order to produce reports, analyses and dashboards that highlight trends and variances.

FP&A Data Scientist: These people are skilled in statistical techniques, know how to use the emerging AI and ML technologies and understand how to apply them to FP&A.

Storyteller: These individuals are able to combine results from models built by architects and analysts and contextualize them for decision makers.

Influencer: The influencer is able to work with senior executives in order to communicate and gain feedback on the importance of FP&A activities. In turn this can shape the path for system and practice development.

Recruitment specialists like Michael Page and Robert Half report that there is a huge demand for FP&A resources particularly in the areas mentioned above, yet **many professionals lack the desired skillsets**. To attract talent, business leaders are advised to create a better environment for FP&A, most importantly by providing **automation and improved systems**. They should also provide an in-house training and development framework so that they can retain talent.

5.2 Business partnering

A business partner is one who influences decision-making. They are able to join the dots, summarize how the organization is performing and therefore exert a positive influence over future actions. However, the **2020 FP&A Trends Survey** found that because so much time (43%) is spent on low-value activities such as data collection and validation, FP&A teams have little time to be strategic advisors.

This is a major hindrance when dealing with uncertainty since speed is of the essence. Especially while identifying and dealing with situations that happen differently from planned. Part of the solution is to use technology that can eliminate or automate activities. However, more importantly there needs to be a vision that **FP&A can be far more strategic** in what they do.

Flavio Caruso, CFO Cluster at pharmaceutical company Sandoz, believes that **recent developments in analytics is a “game changer”**. Therefore, to ensure that they have the right talent on board, they have built a digital FP&A hub. This facility is resourced with people experienced in the area of data science. Their focus is to leverage technology and build the tools required to stay ahead in the *New Normal*. So far this has had a huge impact on the planning process since they have leveraged predictive analytics and improved forecast accuracy. Flavio concludes “Providing our people with the latest digital tools will enable our organization to move toward an ‘intelligent finance’ approach.”

6 Summary

This short paper provides a summary of the key trends that will begin to equip FP&A for the *New Normal*. However, it is only when each element works together that organizations will experience a true transformation.

To implement an effective, on-demand and integrated FP&A process, organizations need to focus on **product/service life-cycles, model P&L, Cash Flow and Balance Sheet collaboratively** and evaluate the different scenarios that are presented. This approach requires the latest, integrated technologies that **support ML** and operate in **real-time**. In turn this requires that FP&A demonstrate **new skills** and act as true business partners.

It is not something that can be achieved overnight. Neither is it a single project but rather it is an **on-going evolution that will constantly challenge the practices of FP&A** while forcing improvements to meet the needs of our *New Normal*.

Figure four shows a maturity model that outlines the typical stages that organizations go through in FP&A. The *leading* state is the goal.

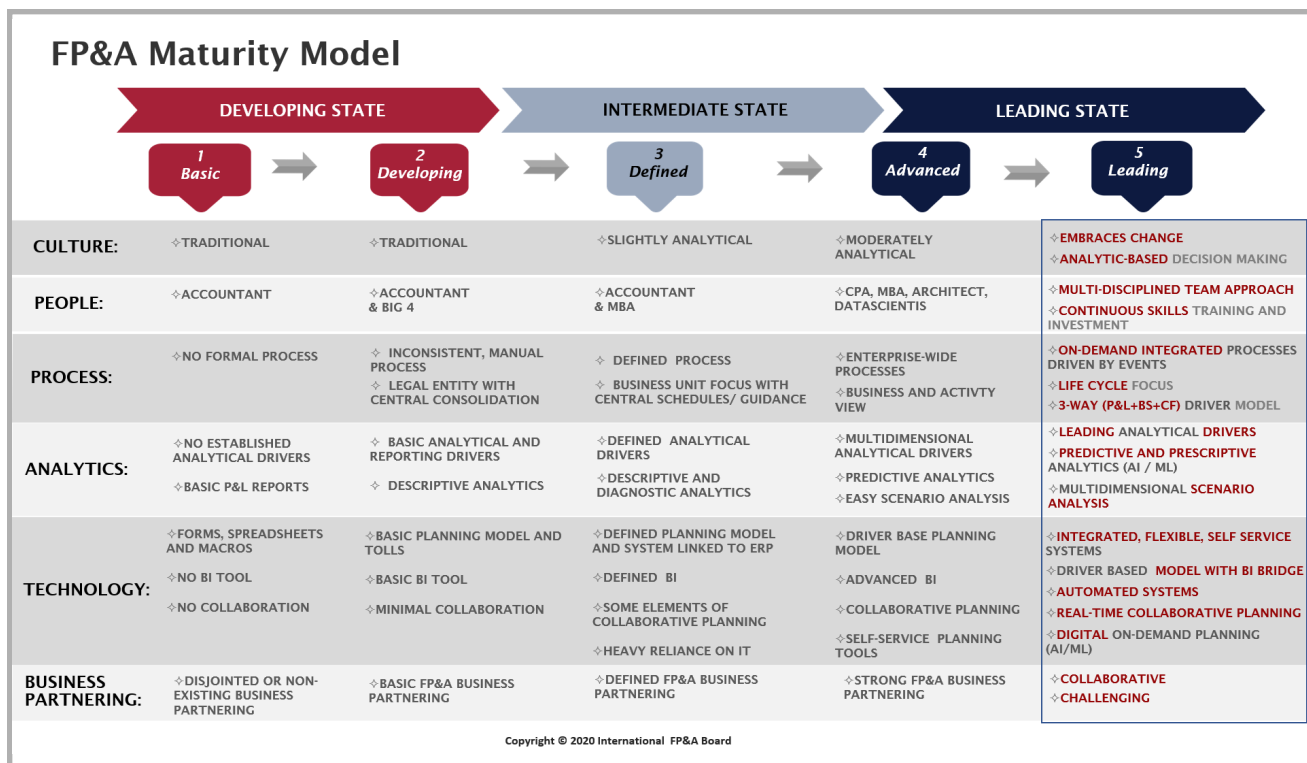


Fig 4: FP&A Maturity Model

Organizations who embark on their journey to maturity are advised to take small steps to bring staff along with them. They should produce a vision for what they are trying to achieve and explain its importance to the future of the company. Below are some practical suggestions on moving forward.

- Look at the talent within the FP&A department. What skills are missing for the *New Normal*? Can people be retrained, or is recruitment needed to fill the gaps?
- What is the state of the data and planning systems within the organization? Have any divisions or departments embarked on the use of a modern analytical platform? If so, what lessons have been learned?
- If they have not yet done so, set up a trial to explore:
 - o Collaborative planning
 - o The use of advanced analytics for forecasting
 - o The development of scenarios through a driver-based model
- Look at the processes involved for planning and reporting. Are they continuous or based on a date on the calendar? If fixed on the calendar, why is that?
- Finally, create a road-map that aims to take the company forward while meeting the challenges of the *New Normal*. Circulate it to all and get agreement on the company’s vision and how it will continue to plan and make decisions. Then, most importantly, execute this plan.



Larysa Melnychuk

Larysa is a passionate Financial Planning & Analysis (FP&A) professional and influencer who has held senior FP&A roles at leading organizations before setting up the International FP&A Board in 2013. In the last three years, she successfully expanded the Board into 27 chapters in 16 countries across 4 continents.

Larysa is also the founder and CEO at [FP&A Trends Group](#), the leading online resource for FP&A professionals. She chairs the [Global AI/ML FP&A Committee](#) and runs a number of high-profile initiatives in the area of modern financial analytics.

Larysa holds a Master of Science degree in physics of materials and is a qualified chartered management accountant (CIMA), chartered global management accountant (CGMA) and is a holder of an FP&A certification. She is also a member of the exam content writing team for the Association of Finance Professionals (AFP) FP&A certification.



Michael Coveney

Michael Coveney has over 40 years of experience in designing and implementing software solutions that combine 'best management practices' with technology to improve the efficiency and effectiveness of planning, budgeting, forecasting and reporting processes.

He has conducted senior management workshops with leading organizations around the world and led courses for the American Management Association and Antwerp Management School on the topic of Corporate Performance Management.

His energetic style and extensive experience led him to become a regular speaker at many international events and the author of many articles and books. His latest, 'Budgeting, Planning and Forecasting in Uncertain Times' is published by John Wiley & Sons. In recent years he has focused on the role of IT within FP&A departments.

If you have any questions or comments, please feel free to contact us via email info@fpa-trends.com.

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