A BPM Partners White Paper

The Road to FP&A Excellence

A guide to modernizing your financial planning and analysis: knowing when and where to begin, how to establish ROI, and what milestones to aim for.

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Executive Summary

It may be time to launch your Finance department's journey to efficient, high-performing financial planning and analysis (FP&A). Asking yourself a few pointed questions about how finance processes are working at your company can probably reveal the answer quickly.

The actual modernization of FP&A can be handled as an incremental evolution, a phase-by-phase extension of existing capabilities, or a full-fledged transformation of these functions.

Even as a wide-ranging makeover of FP&A that includes streamlining, optimizing, and automating processes and data structures, the project is not necessarily a so-called "finance transformation", unless other areas of Finance are also included.

Research conducted in 2022[1] by software provider Unit4 showed a startling, widespread clinging to outmoded methods. Unit4 found that over two-thirds (69%) of finance functions still depend on spreadsheets or rely on imports/exports from/to Excel for financial planning and analysis processes. That leads to major deficiencies in planning and analysis, especially with the dramatically faster pace of "doing everything" in business required today. COVID forced incredibly rapid change and adaptation, and some companies discovered they could be very nimble while others struggled. Barreling from pandemic recovery into inflation and a possible recession is reason enough to have the right tools in place, automate workflows, and integrate data so that when it's time, Finance can perform under pressure.

What are Finance groups after when they launch an FP&A overhaul? First and foremost, streamlined workflows and processes that work faster and better. Right behind that is increased insight into where numbers came from and what they say about the future.

This whitepaper looks at the overall journey to more effective, modern FP&A, and should help Finance groups prepare for a successful transition.

Terminology

To assist readers, below are high-level definitions of key terms.

FP&A
Financial planning and analysis

xFP&A
Extended planning and analysis which incorporates operations

CPM = BPM = EPM
To denote corporate, business, and enterprise performance management, BPM Partners uses BPM, CPM and EPM interchangeably.

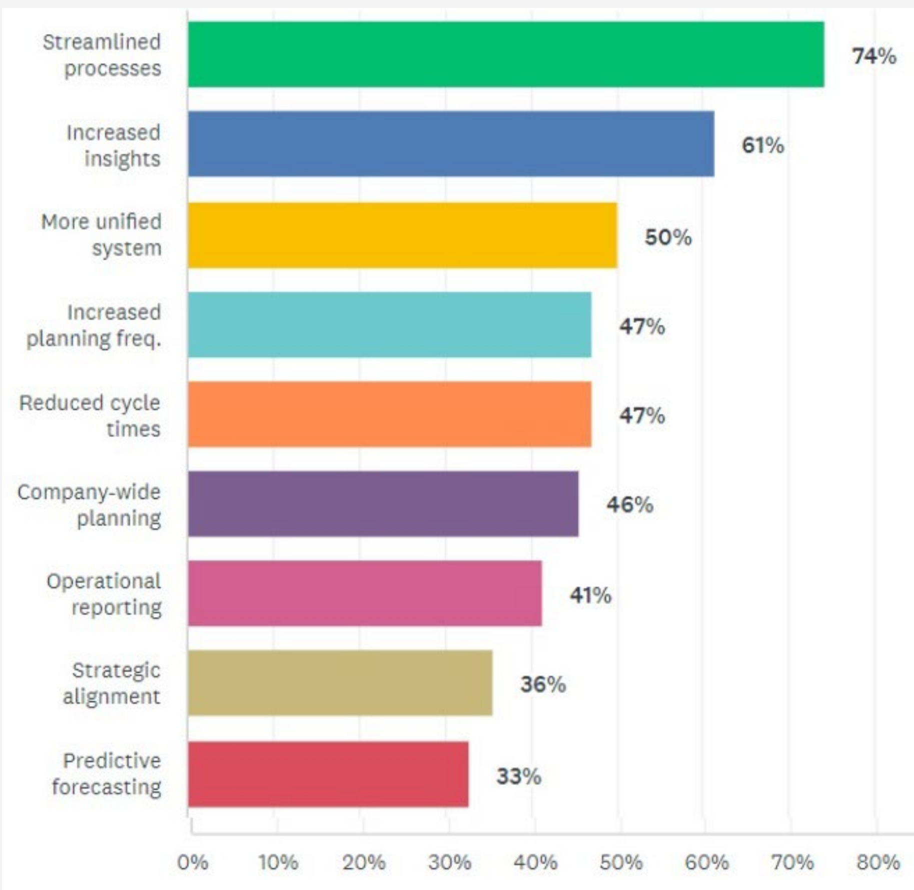
[1] https://www.unit4.com/news/unit4s-2022-business-future-index-crisis-sees-51-embrace-accelerated-change-outperform Business Future Index 2022 research by Unit4

Finance is Under Pressure to Modernize

Problems and Challenges

Why should Finance go through the effort of upgrading FP&A? One reason is that business is simply moving faster, whether you gauge it by supply chain adjustments to world events such as product changes, targeting new markets, or mergers and acquisitions. Keeping the pace imposed by business conditions is not easy. The research report Business Index 2022 from Unit4 found that "87% of organizations are challenged by the processes that underpin financial management, including speed and agility of these processes."

The need for agility spurred technology improvements as well. Over nine in ten[2] organizations reported acceleration across their business in response to the COVID-19 pandemic. This includes digital transformation efforts (52 percent) and adoption of software and tools to improve employee productivity and experience (45 percent). Slow, error-susceptible, spreadsheet-tethered finance cannot possibly keep up. The 2022 BPM Pulse Research Study also found that addressing these challenges ranks high as a Finance priority.



Source: BPM Partners 2022 BPM Pulse

[2] 2022 Business Index by software provider Unit4

The pressure to streamline workflow and increase analytic insights is ever-growing. It is driven by internal expectations, user demand, and rapidly changing business conditions. Think inflation, sharp swings in interest rates, supply chain shortages, war, and even recession combined with labor shortages.

Excel may still be the most widely used FP&A tool in the corporate environment, but it is not a viable solution for the great majority. Today, companies are expected to be nimble and take full advantage of automation, but they can't do that if they depend on Excel or older, rigid CPM systems that predate more flexible SaaS-based solutions.

In 2021, the average enterprise used over 110 SaaS applications.[3] Larger companies average over 175 SaaS apps. The point is that once deployed, some of these systems generate data that should be fed into systems used by Finance for analytics and management reporting. Legacy finance systems were not designed for a rich influx of data from new apps and data silos. Integrating these sources is labor-intensive and time-consuming without the proper software.

Many mid-size companies grow by acquiring operations with disparate ERP and accounting systems. Their data integration and consolidation processes, for planning and performance management purposes, have difficulty synchronizing with the different systems, data structures, and accounting structures. Manual integration is typically accompanied by problems related to missing transactions, duplicate and conflicting data, missing supporting documents, and endless reconciliations.

The ROI of FP&A transformation is easy to quantify in certain areas, when you focus on the savings in staff time required for each process. It takes some creativity to look at the ROI of being able to do rolling forecasts, or the likelihood of better analytics allowing your manufacturing division to work around supply chain issues more rapidly. "Avoid problems and take advantage of hidden opportunities" is a concrete benefit that will probably follow the FP&A upgrade. We'll discuss this further in the ROI section.

Now that you have a sense of the challenges, we'll look at indications that it's time to modernize FP&A, what to expect during this initiative, key points for planning and forecasting, as well as reporting and analysis, improvements to aim for, and the ROI for your business case.

Read more Business Index 2022 findings at:

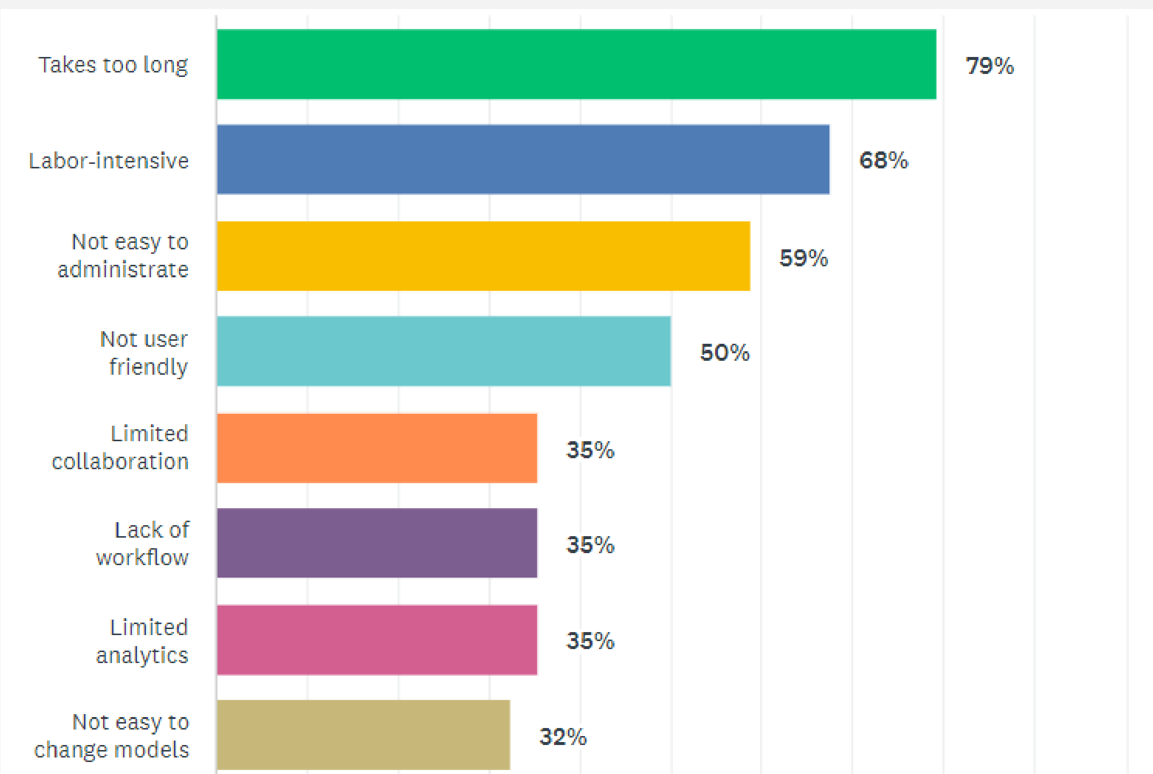
https://hrsea.economictimes.indiatimes.com/news/industry/unit4s-2022-business-future-index-crisis-sees-51-embrace-accelerated-change-to-outperform-business-targets/94791943

[3] https://www.statista.com/statistics/1233538/average-number-saas-apps-yearly/

Is It Time to Upgrade Your FP&A?

How do you determine when it is time to modernize FP&A in your company? What signals you to embark on the FP&A journey? You can find out by formulating responses to tough questions that you ask about your own Finance department.

- Is your finance infrastructure dependent on spreadsheets or an ERP system?
- Is there uncertainty and doubt over the reliability of numbers that Finance uses or distributes?
- Is it difficult to obtain accurate, current data needed for forecasting?
- Have you been able to incorporate operational planning covering specific areas such as workforce, revenue, and sales?
- Are legacy systems getting in your way? For example, do they require too much maintenance by IT, or do they continue to create cumbersome data silos?
- To carry out typical FP&A tasks, does data need to be entered manually into spreadsheets, or cut and pasted from multiple sources?
- How well did your management reporting and forecasting serve you during the pandemic? Were those applications fast, agile, and accurate enough to handle the unexpected? Could users easily create ad-hoc reports as needed?
- When confronted with sudden or extreme change (and extreme clusters that are highly unlikely such as pandemics, inflation, climate change and war), is Finance agile enough to support fast responses for the organization?



Source: BPM Partners 2022 BPM Pulse

The chart on the previous page shows the key challenges cited by the respondents to the BPM Pulse on why they need to modernize FP&A. Your answers to these questions will help make clear where your department stands. They also help establish your business case for finance transformation—for starting the journey to modern FP&A. Realization that much needs to be improved can trigger the decision to get started. It is of course desirable to get ahead of the curve: start making changes now in an orderly manner, as opposed to a frantic rush when current processes become untenable.

There may also be obstacles such as budget constraints, fear of undermining well-established finance practices, or expectation that adopting a new software platform will be as difficult as past deployment of on-premises finance software. The well-documented success of the SaaS-based (Software as a Service) finance applications available today should serve to assuage these concerns.

Pick Your Approach

What is the Finance FP&A Journey Really About?
Ideally, the initiative will deliver near-term wins and gains that enable Finance to reduce errors in processes like forecasting and reporting, integrate data silos, and address urgent pain points. This will also help Finance become more of a working partner with multiple departments throughout the company. Then, the ongoing work with FP&A involves steadily building stronger workflows and analysis, while continuing to modernize Finance at your own pace.

Modernizing FP&A often requires a technology upgrade, which can include:

- Replacing spreadsheets (legacy on-premises software) with SaaS-based enterprise software, possibly supplemented by AI
- Augmenting ERP transactional capabilities with best-of-breed planning and analysis
- Replacing manual methods and error-prone data consolidation/integration, with automated processes that streamline integration of data from source systems
- Replacing spreadsheet-based data analysis with built-in analytics, customizable workflow and in some cases, AI

The FP&A upgrade should yield several key outcomes that most Finance teams have on their list. They include streamlined processes, reduced cycle times and faster closings, unified systems, better management reporting and insights, and eventually company-wide planning that includes workforce planning and revenue performance management.

More broadly, FP&A initiatives enable Finance to move beyond rows and columns of difficult-to-reconcile numbers to one version of the truth, strategic alignment, and the ability to project forward with greater confidence in the accuracy of forecasts.

Scope and Speed: Three Options

How comprehensive will your remake of FP&A be, and how rapid? It's useful to think of three distances and speed settings for the FP&A journey that you can choose from: transform, extend, or evolve. The tempo is up to you; some go about modernizing FP&A incrementally (evolve). Others commit to a sweeping overhaul (transform). Between those options in the middle is broadening of FP&A company-wide by adding one or more key functions (extend). This option is ideal for those who have already modernized financial planning.

1. **Transform.** The most sweeping and comprehensive.
    a. Streamline, optimize and automate processes and structures
    b. Transition from static Finance-focused planning and reporting to dynamic and comprehensive planning, consolidation, reporting and analysis

2. **Extend.** Widespread impact.
    a. Take planning & analysis company-wide
    b. Implement sales performance management, revenue performance management, workforce planning, supply chain planning and analysis

3. **Evolve.** Incremental, step by step. Take the next steps on your FP&A journey.
    a. More frequent forecasts, then rolling forecasts
    b. Scenario modeling
    c. Predictive forecasting

How long will all of this take? Everyone is concerned about implementation time, and it depends on the approach and scope of your project, as well as the solution, the vendor and the method of deployment.

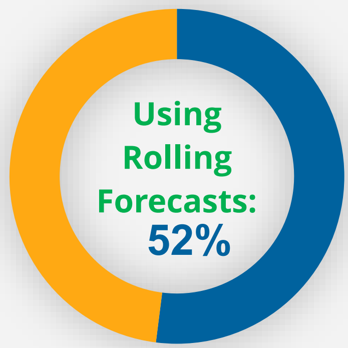
The BPM Pulse survey of hundreds of users shows Phase 1 implementation times that range from under a month to over a year. In our experience most fall in the range of 1 to 3 months for the initial phase. Once the solution is installed and in use, ongoing improvement and extension of capabilities and use cases can be expected.

Budgeting, Planning & Forecasting

The Business Index 2022 by Unit4, a large-scale research study, found that "Despite forecasting being a critical process, 89% of those involved in it are challenged to do it accurately."

Where does your company stand? A broad self-assessment we recommend begins with the state of your budgeting, planning and forecasting. Key questions to ask include:

- Does the budgeting process stretch out for too long?
- What percentage of people who should contribute to budgeting, actually do?
- How many more participants do you want to directly involve, and who are they?
- How often do you forecast (or reforecast)?
- How often should you be forecasting under current conditions, to provide enough guidance to the business throughout the year as actual data comes in?
- Are the forecasts sufficiently accurate? Does that include operational areas?



Source: BPM Partners 2022 BPM Pulse

For many, the first concrete goal in this area will be to forecast more frequently. From annual to quarterly, or quarterly to monthly reforecasts is the usual pattern. Rolling forecasts (as opposed to remainder of year) are an ideal to target as well, forecasting a consistent number of periods.

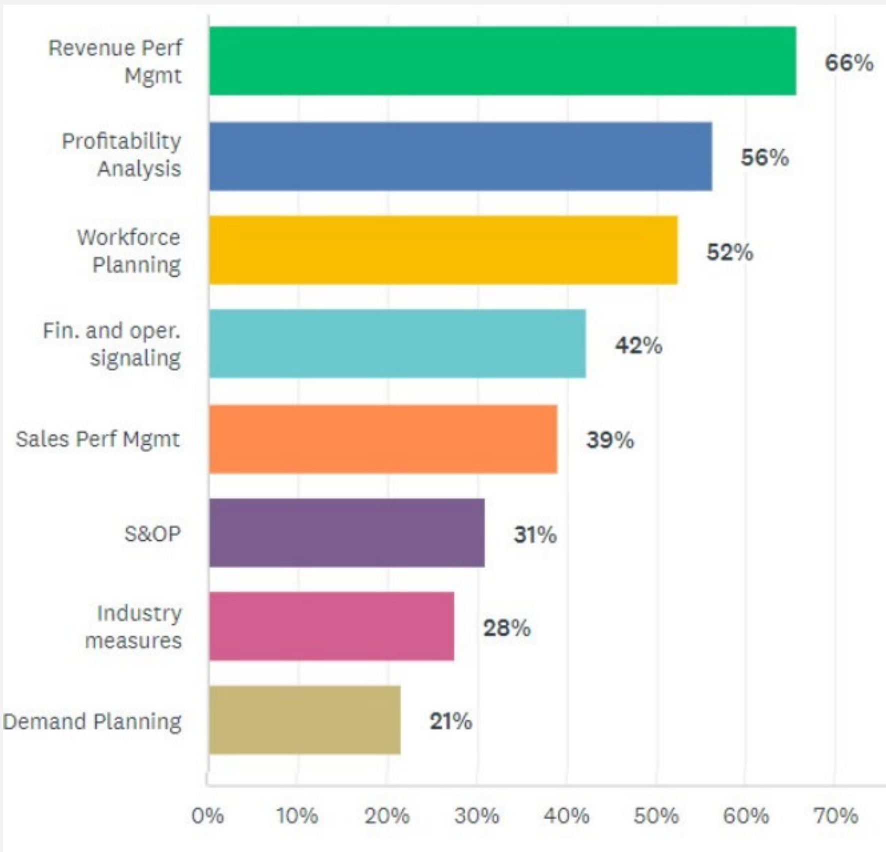
UI and Budgeting UX (User Experience)

Finance often wants to boost the number of direct participants in budgeting. With this in mind, be sure to take a close look at the data entry interface for budget contributors in new software that you evaluate. This UI needs to be straightforward and relatively simple. Budget input is an area where the reaction of "I don't have time for this, I'll just email the numbers and Finance will handle it," is all too common. You don't want managers backsliding to spreadsheets, or worse, email to pass along their plans.

What's the payback for modernizing planning, specifically budgeting and forecasting? The benefits include faster cycle times, more accurate budgets and forecasts, and more ownership and accountability. Rolling and more frequent forecasting should increase the company's agility and accuracy in responding and adjusting.

Operational focus

A large number of FP&A initiatives today are driven in part by the importance of extending planning into operational areas. In fact, in the 2022 Pulse Survey a full 98% had at least one operational focus area. Revenue performance management was the most-cited functionality for extending into new capabilities, mentioned by two-thirds (66%), with profitability analysis at 56%.



Source: BPM Partners 2022 BPM Pulse

Companies adopt revenue performance management (RPM) to optimize revenue-related decision-making and execution for sustained profitable growth. After implementing an RPM approach, a business typically sees better financial performance, gains in operational efficiency from billing through collections, and better informed decision-making across the company. Profitability analysis and optimization has grown in importance in recent years as companies need to focus their limited resources (personnel and raw materials) on the areas of greatest potential return.

Reporting and Analysis

For many in Finance, the overarching issue is: do the reports produced provide a comprehensive, timely, and accurate understanding of the business to support critical financial and operational decision-making? There is good reason that one of the most cited motivators for FP&A transformation is to gain better insights into performance from management reports.

One of the most basic measures of your finance reports is how much time it takes to prepare them. From the answer, you can calculate what your current report is costing in staff time—and the savings achieved from a 15% or 20% time reduction, which can often be achieved with the appropriate process and technology adjustments.

Additional metrics:

- Do your team and other departments across the company trust that Finance reports are based on full and correct information (or do they maintain their own shadow reconciliation spreadsheets)?
- Can users easily produce their own ad hoc and customized reports?
- Are operational areas able to accurately establish profitability by product, service, region, and business unit?

Some more granular indicators:

- Is it difficult to create and distribute reports across the organization?
- Is it cumbersome to drill down to underlying data in reports?
- Does the system support familiar tools such as Power BI and Excel and make them available as reporting interfaces?

The answers may indicate that it's time to work toward faster, less arduous, and more trustworthy management reporting.

The destination for Reporting & Analysis

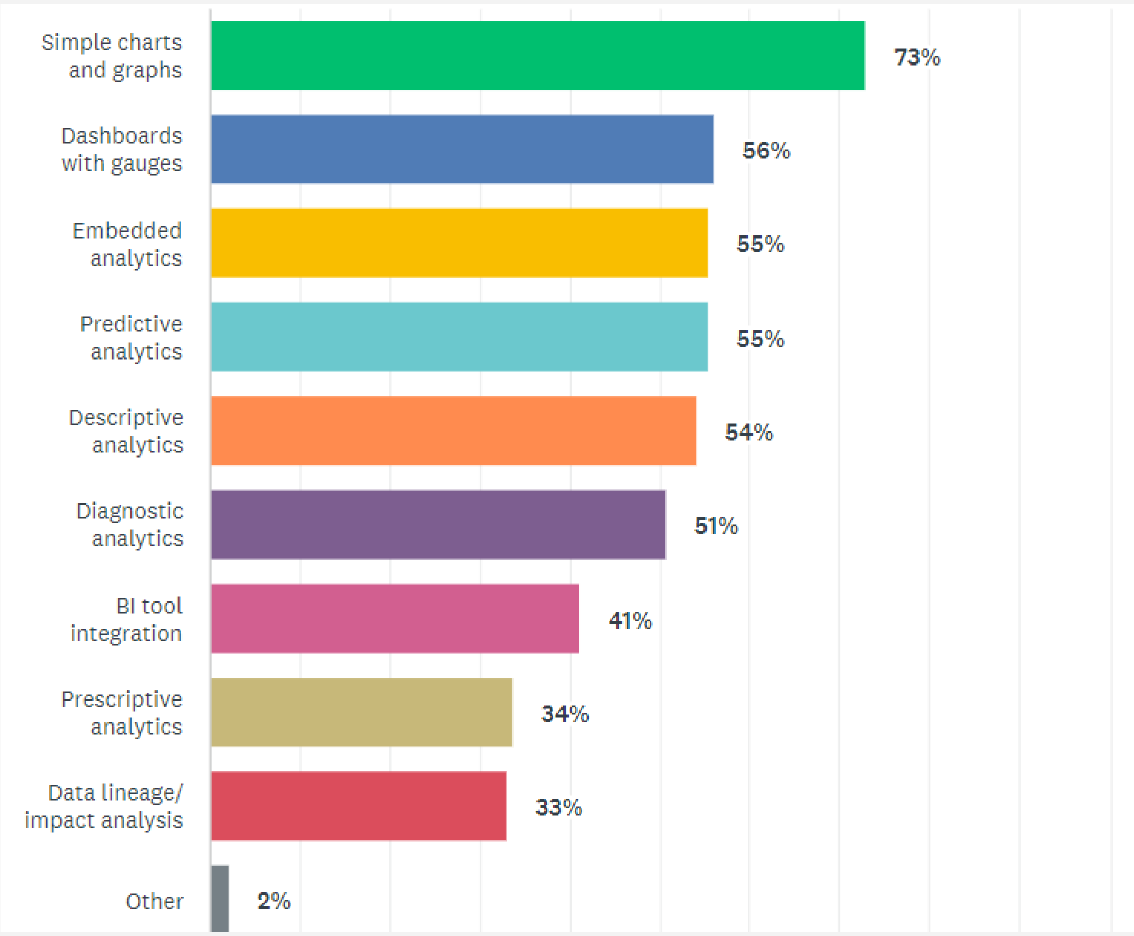
An FP&A upgrade is an opportunity to shift the company from a historical to a forward-looking perspective, where analytics support operational decision-making, not only Finance.

The more popular specific objectives with analytics (from the Pulse Survey) are shown in the chart on the next page.

As you can see, basic charts and graphs—which everyone has already in their spreadsheet—are widely favored. Then you see that dashboards with graphical gauges to monitor activity, and various types of analytics, are rated high in importance.

Other goals for FP&A include adding the capabilities to utilize predictive analytics for forecasting, prescriptive analytics for a recommended way forward, and understanding the reasons (diagnostic analytics) behind the results (descriptive analytics).

In general, most organizations want to end up with reporting and analysis that has an intuitive interface and provides a comprehensive set of charts and dashboards, along with alerting and broadcasting functions. Underlying it all of course there needs to be one trustworthy and unified set of relevant financial and operational data.



Source: BPM Partners 2022 BPM Pulse

ROI and the Business Case

In many companies, it's necessary to present a business case for transformation of FP&A. This is likely to include some ROI calculations. There are several areas where it will be fairly easy for you to calculate the return, because you know the salary costs and time expended for different processes. Here is a simple example of forecasting monthly, where you peg your fully loaded employee cost at $90 per hour, and a unified software platform conservatively saves 2.5 hours every month in employee time per department on average. Of course, this doesn't show all the other advantages of reforecasting more frequently and more quickly.

Forecasting More Quickly							Annual Savings
Hourly Rate		Hours Saved		Annually		Departments	**$10,800**
$90	x	2.5	x	12	x	4	
Includes non-salary costs 30%		Time saved per reforecast (est.)		Times per year		Finance, Sales, Services, IT	

Other processes that lend themselves to a straightforward calculation for ROI include:

- Manual import and export of data for FP&A
- Modifying financial reports and making laborious changes and tweaks
- Customized and ad hoc reports
- Distributing reports to the right individuals
- Planning, reporting, and analyzing results for multiple entities

In addition to these gains, the lion's share of ROI may be hiding in events that are harder to quantify and often left out of the business case. For example, frequent reforecasting will *probably* help management detect a problem or opportunity months earlier and trigger a faster, more accurate response. That is likely to occur, but might not—it should be included by calculating the probability.

Here's an example where a company produces components for new trucks, and has found it can accurately predict sales by tracking interest rates, and package deliveries by UPS and FedEx. Moving from quarterly to monthly reforecast gives the company an extra two months' warning of a sharp drop in sales, when there is a sharp change—something that happens about once in five years. Easing back production quickly can avoid wasted materials purchases and excessive employee overtime.

Avoid Loss by Cutting Production							Annual Savings
Units cut back		Savings per unit		Waste avoided		Probability in any year	**$240,000**
15,000	x	$80	=	$1,200,000	x	20%	**Predicted value**
Spread across next quarter		Materials, salaries, etc.		Total Savings		Probability this scenario occurs	

We believe that ROI models are more accurate when they include the expected value of benefits that may not happen in Year 1, but are likely to occur in the next five years. Your business may have possible scenarios that are too devastating to tolerate, and must be detected as far in advance as possible. Having fast, near real-time financial data available helps management to respond more quickly and effectively.

For purposes of presentation, you need to be aware that some audiences may be skeptical about quantifying the value of potential opportunities and pitfalls avoided. Your business case could mention scenarios that must be avoided "at almost any cost" and then demonstrate the very low cost of taking important steps to achieve that. To make that clear, you would show just the directly quantifiable gains, and how they would reduce the net cost of the planned FP&A transformation.

Separate from the ROI numbers, there are two numbers from the BPM Pulse Survey that should get your attention: only 38% of those relying primarily on spreadsheets for FP&A are satisfied. That jumps to 96% for Finance groups relying on a BPM FP&A solution. These numbers reflect the pain, lost time, and potential for errors common to the spreadsheet only approach. The higher satisfaction numbers for a modern FP&A solution not only reflect the fact that those key challenges are addressed, but often lead to increased employee retention and greater productivity.

Ongoing Improvement

A realistic perspective on FP&A is that once initial goals have been achieved, a Finance group can get started on continuous improvement. In most organizations, Finance needs to adapt on an ongoing basis with changes to processes and technology. Volatility in business conditions is almost a given for many industries today, and will continue for at least the foreseeable future.

Completing the progression

It's an ongoing struggle to achieve strategic alignment across an organization, and focus teams on the right priorities. Upgrading FP&A is part of that serious effort. FP&A systems should enable managers to be alerted when key measures are off target, and then be prepared to react swiftly and appropriately. The priority next steps in the journey for your company will be related to your industry, size, and the geographies where you do business.

Conclusions

We advise companies to think in terms of taking the next steps in the FP&A journey that are appropriate to their specific situation, and move ahead at their own pace. It's not an endless toil, and you are not building the pyramids – rather, the journey entails a level of company commitment, then near-time positive rewards, and continued progress over a longer period of time, building upon the initial series of successes.

Once your Finance group starts down the path, the advances or evolution tend to be easier. Adoption and momentum create more adoption and momentum, making less work for you as a leader of FP&A.

It will be more of a pull, less need to push new software and workflows. Once your colleagues around the organization see the benefits in speed and flexibility, it becomes easier. Demand from within Finance and other departments for new capabilities will pick up.

As mentioned earlier, there are different "scope and speed" approaches to choose from. For convenience, we speak of evolution, then extension, and finally transformation as the most comprehensive approach to upgrading FP&A.

Change will continue to be the true constant, and unpredictable extremes in business conditions should be expected. Establish a good foundation within FP&A to address change, and your Finance group will be prepared to handle the coming years with less stress and apprehension because they will have a blueprint laying out the way forward. If you're looking for tangible evidence that this journey is worth the trip perhaps this will help: the 2022 BPM Pulse found a combined 96% satisfaction level for all those who embarked on the version of the journey that best fit their organization's needs. With those who have gone before achieving such a high success rate It is reasonable to believe that your results will be similar.

About Unit4

Unit4's next-generation enterprise solutions power many of the world's most people-centric mid-market organizations. Our state-of-the-art cloud platform, ERPx, brings together the capabilities of Financials, Procurement, Project Management, HR, and FP&A onto a unified cloud platform that shares real-time information and is designed with a powerful, people-centric approach, so employees can benefit from better insight and become more effective and increasingly engaged. It supports rapid and continuous change while delivering individualized fit for customers at scale, delivering the right tools to unify the processes across their organization, and connect their people. Unit4 serves more than 6,000 customers globally including, Bravida, Havas, Migros Aare, Americares, Save the Children International, Action against Hunger, Metro Vancouver, Forest Research, Southampton City Council, Habitat for Humanity, Selkirk College, FTI Consulting, and Surrey County Council.

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