



## The modernization of financial planning and analysis

The shift from back office support to front-end strategy

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The financial planning and analysis (FP&A) function has been a key component of the office of the chief financial officer (CFO) for decades. For those of us who have been in the corporate finance world for some time, explaining FP&A seems to get more challenging every year. Why? Over the last few years, the FP&A function has seen a surge in its pace of change and prominence, as it continues to evolve in the face of a rapidly changing business environment.

In short, the FP&A team works with an overall picture. They consider past and present trends to help the company achieve a future reality. Essentially, they pick up where accounting left off. The FP&A

team forecasts the future, answers strategic questions, prepares board reporting packages, analyzes profitability, performs due diligence, enables executive decisions, and of course, prepares the budget. While these core responsibilities of FP&A remain the same, the methods, demands and expectations around them have changed drastically.

Developments in the source and quantity of data available to finance professionals, along with powerful new applications used to analyze it, have created a new role for FP&A. The evolution from a reactive role to a predictive and proactive one, has made the FP&A team a guiding hand for strategic business decisions—and upper management has begun to expect real-time insights, creating pressure for teams.

The FP&A team is the engine that keeps a business running. It is the function that connects business, strategy and data. It is the team that maps out a company's entire future, and has all of the information to drive up company value. Given this importance, it is imperative for companies to understand the challenges the FP&A function faces, trends in today's environment and solutions to such obstacles.

## **Common FP&A challenges of the past**

As with any function within a company, the FP&A team certainly has carried its own stereotype throughout the years. The finance team has been notoriously viewed as having an inward-looking approach, sometimes operating in a vacuum (budget cutters is a phrase that comes to mind). However, in recent years, the FP&A function has completely overcome this stigma by taking a much more collaborative approach.

FP&A team members are building and sustaining internal relationships, and becoming key business partners in the organization. In many companies, FP&A team members are even assigned a specific function to support, giving them the ability to learn the day-to-day operations of their respective groups. The FP&A team gains trust by consistently providing more meaningful data-based, strategic insights into the operations of their support function. As a result, they are no longer looked at as a numerical gatekeeper, but a key partner that will help drive value.

Communication is essential in the success of any organization, and holds true perhaps most to the FP&A team. It is a challenge for many, but crucial to achieving goals. In order to become exceptional business partners, FP&A must gather inputs from multiple sources across the business and consolidate this information to build the most accurate forecast possible.

The planning process for many companies has evolved from centralized to decentralized, putting the forecasting power in the hands of the business. In order to receive the most useful, granular, predictive information from departments across the business, FP&A team members must communicate effectively.

The FP&A function should be viewed as a group of storytellers, whose language is numbers and data. The better the team is at telling a meaningful story to their respective audience (including the decision-makers), the better information they will receive. Through fluid communication and collaborative partnering, functions outside of the finance team should view their relationship with FP&A as not only mutually beneficial, but valuable to the success of their own team.

While business partnering and communication are two common challenges of FP&A, the obstacle of time is perhaps the most substantial battle FP&A analysts fight on a daily basis. Lack of time not only presents new obstacles, but also directly impacts the challenges mentioned earlier. In fact, according to a recent *CFO Indicator Report*<sup>1</sup>, 79 percent of CFOs reported lack of time as their most challenging collaboration issue.

<sup>1</sup> "Measuring Up: The Weight of Non-Financial KPIs in Determining Corporate Performance," Adaptive Insights, accessed Jan. 10, 2018, <https://www.adaptiveinsights.com/sites/default/files/assets/adaptive-insights-cfo-indicator-q3-2016.pdf>.

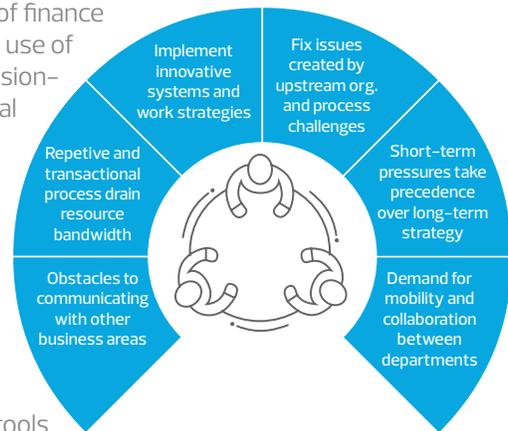
Today's volatile economy, and world of rapid technological advancement only add to this pressure of time. Businesses need to be agile to respond quickly to these constant external changes, resulting in an urgent need for dynamic planning and forecasting. According to a report from CFO.com, "agility remains a challenge and top priority for CFOs...less than 23 percent of respondents feel confident about their company's ability to maneuver past unforeseen obstacles."<sup>2</sup>

A recent example of external factors affecting FP&A organizations is **ASC 606's** issuance of new revenue recognition rules. These new rules will add substantial complexity to the budgeting and planning processes, because of the divergence in timing of accounting. FP&A teams must prepare now to cope with the new environment.

It is no surprise that today, there is more data than ever. In fact, data is doubling in size every two years.<sup>3</sup> With big data comes big analytics. FP&A teams are tasked with gathering, managing and analyzing this massive amount of data, while completing standard day-to-day activities, like reporting, business partnering and spearheading the company's business model.

According to the 2017 CFO IT Survey, over 70 percent of finance executives said they plan to substantially increase the use of data analytics over the next two years to support decision-making.<sup>4</sup> Having mass amounts of data at their disposal can be a blessing and a curse for the FP&A team, as they are under massive pressure to deliver analyses when and where these decision-makers need them.

The accessibility and quantity of available data are creating a shift to a data-driven business model, giving FP&A teams a high degree of visibility. Predictive analytics (PA) is considered by many to be one of the hottest big data technologies to emerge in recent years. PA is essentially software solutions and tools that allow companies to discover, evaluate, optimize and implement predictive models by analyzing big data to improve performance.



Companies look to the FP&A team to own these models and help the business better understand the most likely outcomes of a certain scenario. It is clear, the function is taking on a leadership role in supporting strategic planning at a corporate level. The office of the CFO has transitioned from a compliance, accounting-focused role to a customer-focused, strategic role. FP&A analysts are no longer pulling an annual budget number and reporting on variances. They are the face of the company's entire business model, proactively planning and forecasting every day.

The idea of a rolling forecast and zero-based budgeting has become increasingly popular among finance teams, as data is readily available in real-time thanks to big data technologies. Rolling forecasts are the crystal ball replacing annual budgets with a continual planning process that allows executives to peer into the future. Scenario modeling and advanced predictive modeling (as mentioned earlier) have become increasingly more sophisticated over the last few years as well.

2 "CFOs' Top Goal for 2017: Better Analysis and Reporting," CFO.com, accessed Jan. 10, 2018, <http://ww2.cfo.com/analytics/2016/11/cfos-top-goal-2017-better-analysis-reporting/>.

3 "The Digital Universe of Opportunities: Rich Data and the Increasing Value of the Internet of Things," EMC Digital Universe with Research & Analysis by IDC, accessed Jan. 10, 2018, [https://www.emc.com/leadership/digital-universe/2014iview/executive-summary.htm?lipi=urn%3Aurn%3Apage%3Ad\\_flagship3\\_pulse\\_read%3BgyXLKvA%2FS3eLLoYkllOohg%3D%3D](https://www.emc.com/leadership/digital-universe/2014iview/executive-summary.htm?lipi=urn%3Aurn%3Apage%3Ad_flagship3_pulse_read%3BgyXLKvA%2FS3eLLoYkllOohg%3D%3D).

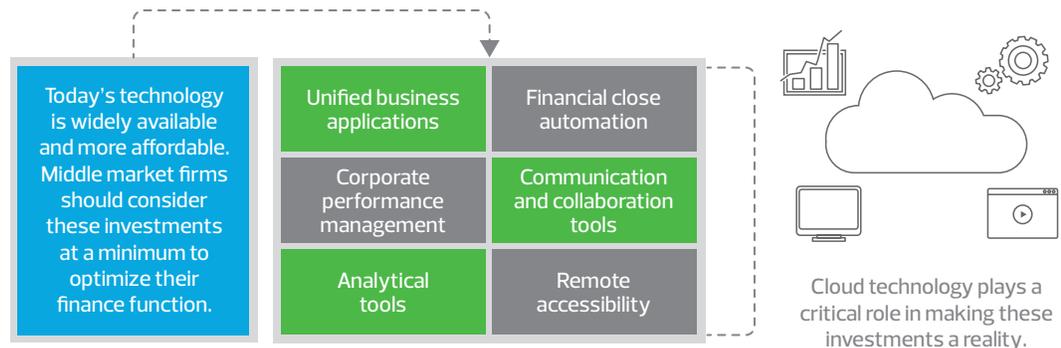
4 "Five Keys for FP&A When Applying Predictive Analysis," Association for Finance Professionals, accessed Jan. 10, 2018, <https://www.afponline.org/trends-topics/topics/articles/Details/five-keys-for-fp-a-when-applying-predictive-analytics/>.

## How are companies keeping up with the evolution of FP&A?

It is no question that middle market companies must respond to these market changes and challenges to remain competitive. How are they doing so? Companies are largely investing in big data technology that yields time and resource savings. For the first time ever, substantial investments are being made in cloud-based applications to improve the FP&A function, specifically. Enterprise resource planning (ERP) systems, like NetSuite and Microsoft Dynamics, provide workflow automation and scalability that reduce the accounting close time; allowing companies to become more agile while driving productivity. Adoption of these applications positions organizations to better respond to external changes, like the issuance of ASC 606 mentioned earlier.

Corporate performance management (CPM) tools like Adaptive Insights and Host Analytics are replacing complex Excel models that are subject to human error. A recent report published by Adaptive Insights states an astounding 90 percent of spreadsheets contain some element of human error.<sup>5</sup> While CFOs once reported length of budget cycles, inefficient reporting and general problems caused by an overreliance on Excel as being the primary challenges facing FP&A,<sup>6</sup> today's CPM tools are alleviating those pain points. Additionally, investments in these technologies are reducing mass amounts of time spent on consolidating reports and data integrity.

The ability of these applications to incorporate statistical data, or nonfinancial metrics, is also transforming the planning process. Churn rate and customer lifetime value (CLTV) are some examples of key performance indicators now acting as budget drivers.



In summary, these systems allow FP&A teams to focus their efforts more on analysis, and serve as a tool for executing the strategic plan. We're seeing a continued investment in these cloud-based applications as they are proving to be extremely powerful and affordable to middle market businesses.

## What is the future for FP&A?

It is clear with today's technology and amount of data at our disposal, FP&A teams have the ability to analyze more information at a deeper level than ever before. The advanced analytics and modeling capabilities presented in the form of CPM and ERP applications can provide impactful, forward-looking analyses, to enable better decision-making.

Modern FP&A professionals have moved beyond the basics of reporting and number crunching. They provide insight into the future by unlocking value and connecting the dots. FP&A has truly evolved from a back office support group, to front-office, strategic business partners. It is an exciting and powerful function, yet as the old saying goes, "With great power, comes great responsibility."

<sup>5</sup> "Finance Transformation," Adaptive Insights, accessed Jan. 10, 2018, [http://www.nswcfo.com.au/files/speakers/D1\\_AdaptiveInsights.pdf](http://www.nswcfo.com.au/files/speakers/D1_AdaptiveInsights.pdf).

<sup>6</sup> "CFOs' Top Goal for 2017: Better Analysis and Reporting."

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