CHALLENGES AND OPPORTUNITIES IN FINANCIAL PLANNING AND ANALYSIS (FP&A)

Key Themes Emerging from the Houston FP&A Roundtable

APQC participated in a discussion as part eCapital Advisors' "FP&A Roundtable Series." Participants discussed challenges and opportunities in FP&A for 2019. APQC would like to thank the author and thought leader, Brian Kalish, as well as eCapital Advisors, for the opportunity to participate in this session.

eCapital Advisors, a professional services firm that is passionate about partnering with business teams to help them have a better relationship with data, hosts a monthly "FP&A Roundtable Series" at locations around the world. In January 2019, APQC joined eCapital's roundtable event in Houston. Participants included nearly 20 executives from a variety of industries including oil and gas, energy, chemicals, construction, nonprofit, professional services, and safety equipment.

Facilitator Brian Kalish said that there are four components necessary to achieve success in FP&A: people, process, culture, and technology. This article outlines major themes from the roundtable participants' discussion of these four components.

PEOPLE

Participants discussed the role of FP&A in the business and what knowledge, skills, and abilities FP&A requires. Kalish said that the ideal FP&A person is curious, understands the businesses, and wants to challenge the status quo. "Basically, you want a storytelling quant," he said. Participants agreed that FP&A professionals should act as internal consultants, which requires a combination of business acumen and storytelling ability. Participants offered the following tips to help FP&A professionals act as strategic partners to the business:

- integrate market data to mitigate management bias,
- provide management with a range of outcomes,
- work with operations and sales to create action plans for different potential outcomes, and
- tell the story behind the numbers.

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PROCESS

According to Kalish, process is the most difficult of the four components. “A lot of companies are going through technology transformations, but a lot of them fail because of bad processes and documentation,” said Kalish. “Understanding the process is often more important than understanding the technology.”

Several participants said that they struggle to streamline processes and integrate data across different geographies and functions. In particular, participants want to improve their processes for budgeting and revenue projections. They spend a lot of time rolling up outputs from different models and systems. These un-optimized processes hinder FP&A’s ability to be strategic. “It feels like we’re supporting business decisions after the fact, rather than acting as an internal consultant,” said one participant.

Especially in an environment of rapid technological change, it’s vital for FP&A to be part of the conversation around process and process ownership. One participant pointed to a recent story from The Atlantic that illustrates the importance of process ownership. Computer scientists, in partnership with Google, designed a machine learning model to predict which homes’ water pipes needed to be replaced in Flint, Michigan. The model was working well—but it was not effectively “owned” by the city or the engineering firm hired to replace the pipes. As a result, the model was gradually disregarded as the city, and engineering firm bent to public pressure to replace pipes on specific city blocks. Millions of dollars were wasted, and thousands of people still have lead pipes that would have been identified and replaced had the model been used.

The moral of the story is that organizations must not only improve processes, they must also ensure they are owned. For FP&A, this means working with stakeholders across the business to build strong ownership and accountability systems for the inputs that feed into FP&A’s projections.

CULTURE

In some organizations, culture issues prevent the business from realizing the benefits of FP&A. Management often concentrate on “one big number” (e.g., top-line revenue projection) from FP&A. This creates tension when management is unhappy with the big number. “It can be very political at the top tier. Management doesn’t want to see low revenue projections,” said one participant.

Participants also noted that some executives don’t understand the distinction between FP&A and accounting (especially in organizations where the offices are combined, or one individual performs both roles). It’s vital for the business to understand the different goals and outputs of these two functions. As one participant put it, “FP&A wants to be good, but accounting wants to be right.”

FP&A professionals must explain to the business that their outputs are *inputs* for action, not set-in-stone facts to be celebrated or ignored. FP&A outputs help the business decide how to operate under different scenarios—some of which will be undesirable. FP&A needs to build trust and understanding with leadership so that leaders do not panic when they see these numbers. One participant recommended that if management becomes unhappy or frustrated with the numbers, ask them if they want to have the "hard conversation" now, or later. That is, ask management if they want to assess risks now and create plans to manage them, or if they want to ignore risks now and struggle later.

TECHNOLOGY

Participants agreed that technology should come after people, process, and culture. Technology is just a tool, and it's important not to get too caught up in the hype. "For example, there's a lot of buzz around bots. But bots are just computer code, and that's been around for a long time," said Kalish. Participants use many BI and analytics tools including SAP, Spotlight, Prophix, and Cognos. However, many admitted that they still rely on Excel for at least some reporting and analysis.

Still, participants expressed enthusiasm about the ways that technology—particularly automation and analytics—can free up time for more strategic work, improve accuracy, and allow for better storytelling. Some participants were excited about blockchain. According to one participant, blockchain offers the potential to improve market data sharing and integration. Ultimately, this will help FP&A move beyond linear models, integrate more touchpoints, and improve forecasting. This participant said that companies like CoreLogic are starting to provide solutions that will make blockchain market data sharing more accessible to the average organization. However, for most participants, integrating blockchain is at best a distant goal.

Participants also pointed to some technology-related concerns. Many were concerned about the impact of technology transformations on reporting. FP&A will need to work with IT to improve data management and manage leadership's expectations when reporting changes with new systems and integrations. Some participants, particularly those from the oil and gas industry, were concerned about "bot" traders. Especially in unpredictable markets, it's important for FP&A professionals to maintain a focus on fundamentals and not over-rely on technology.

KEY TAKEAWAYS

Technology has the potential to help FP&A serve an even greater role to the business. Automation can free up professionals' time, while AI and blockchain can improve forecast quality. However, it's important for FP&A professionals to be patient. The pace of technology

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change is fast, but the pace of the cultural change needed to integrate technology is often slow. That's why most of us have newer and better tech tools at home compared to what we use at work.

FP&A professionals must focus on the core skills—business acumen, decision-making, and storytelling—that make them a strategic asset to the business today. By building a strong relationship with leadership across the organization and helping the business understand their role, FP&A professionals can prepare for an even more strategic and technology-enabled future.

ABOUT APQC

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