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DRIVING PERFORMANCE AND VALUE WITH FP&A:
A Structured Approach to Business Performance Management

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ABSTRACT

Doing business has never been more complex than in today's business environments. Uncertain worldwide growth, technological disruption, political unrest, and an increasingly complex regulatory environment challenges even the best decision-makers. Business success means navigating these challenges while executing strategy that drives enterprise value. Decision-makers require precise, timely information about their business to accomplish this.

Implementing a robust program of business performance management ("BPM") is a powerful way for finance teams to contribute to decision-making effectiveness and the success of their organization. A well-designed BPM program should include processes for budgeting, forecasting, analysis, and reporting, and should incorporate financial and non-financial measures. Done right, these activities empower decision-makers with the tools they need to successfully manage the business.

In this paper, we present a phased, principles-based approach to implementing BPM for your business. Following these principles throughout each phase of the BPM implementation cycle will ensure your finance team can perform meaningful analysis and provide impactful, actionable insight to their business partners.

It's time to transform the way your finance team approaches BPM.

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INTRODUCTION

Your business is growing. Revenues are recurring. You're doing things at scale and margins are expanding. You've grown into new market demographics, geographies, and lines of business. Constantly changing economic conditions, introduction of market disruptors, and new regulations are making it difficult to sustain growth in an increasingly complex marketplace.

The financial stakes are high. Capital injected from creditors and shareholders has fueled your growth and their focus on business performance is putting pressure on your decision-makers. You now need to demonstrate greater executional accountability and fiduciary rigor. While the information needs of decision-makers are becoming more acute, you still find yourself struggling to get timely, actionable information about your business from across your organization.

As businesses grow, executives and decision-makers need insightful, actionable business intelligence. The precision, reliability, and timeliness of financial information is vital. Growth, profitability, and returns on invested capital are closely-scrutinized. This requires decision-makers to understand what is happening throughout the business, all the time. Performance management is critical. Effective decision-making is paramount.

Your legacy analysis and reporting activities are no longer sufficient to support your business partners – they are just too weak. Your decision-makers need better, faster data about the business to continue executing. You need a robust program of business performance management.

Each business is unique. There is no "one-size-fits-all" approach to building effective BPM activities within your corporate finance team. We believe in a practical, principles-based approach that allows for planning, analysis, and reporting activities most suitable for your business performance management needs.

This paper lays out a framework and principles to follow when enhancing your corporate finance capabilities.

EXECUTIVE SUMMARY

- Corporate financial planning and analysis (FP&A) capabilities must be introduced or enhanced as part of a “phased approach,” with each phase building on the successes of the previous ones.

- The most effective phased approach can be split into three broad areas: implement the basics, enable performance management, create business intelligence.

- You need robust governance over data inputs, including rules for transaction processing and data aggregation. This is a critical first step to enabling performance management and business intelligence.

- Best-practice budgeting and forecasting activities engage the entire organization, ground decision makers in financial and operational realities, and tightly align with business strategy.

- Corporate finance teams must empower decision-makers with precise, timely, and discrete information, employing tools like executive dashboards and extensive KPI reporting.

- Business intelligence must include a mix of financial and non-financial metrics and analysis. FP&A must develop partnerships across the business to provide a complete picture to decision-makers.

- True business intelligence leverages vast and disparate data about a business to answer the most critical “why?” and “what now?” questions from decision makers.

- Technological solutions are important tools for advancing BPM to the next level but they are not a silver-bullet solution. Technology should complement an already effective program.

IMPLEMENT EFFECTIVE BUSINESS PERFORMANCE MANAGEMENT WITH A STRUCTURED APPROACH

Business performance management is only as strong as the core finance process that supports it. Effective BPM activities provide decision-makers with relevant, timely, precise, and actionable insights about their business and contribute directly to execution of strategy and creation of enterprise value. With improved data quality and enhanced process, finance teams can gradually build more advanced analytical capabilities. While achieving highly advanced capabilities like application-driven predictive and prescriptive analytics is an appropriate goal, it is unlikely these can be effectively implemented without first addressing upstream process elements.

We recommend a three-phase approach designed to evaluate the various stages of business performance management:

Phase 1:
Implement the Basics

Phase 2:
Enable Performance Management

Phase 3:
Create Business Intelligence

With this approach, strong process created in earlier phases bolsters effective implementation of more advanced capabilities in later phases.

DEANE INSIGHTS:

In our experience, a sequential (rather than parallel) approach is most effective for transforming finance process to support robust BPM. Once you have the core processes and competencies nailed down you can move on to performance management. Once you've made those improvements, it gets much easier to build strong business intelligence (e.g., analytics). A carefully planned, measured approach will help you avoid rework and waste.

PHASE 1: *Implement the Basics of Financial Planning & Analysis*

It's easy to overlook the most basic elements of your finance processes, but they are the foundation on which more advanced capabilities are built. You need to ensure quality throughout:

- Data gathering: Identifying and obtaining relevant data from appropriate (likely disparate) sources.
- Data organization: Cleaning and structuring data for analysis.
- Data analysis: Processing and evaluation of financial and non-financial data for trends and insights.
- Data sharing: Conversion data and analysis into information that informs and drives business decisions.

Weakness in these fundamental processes will ultimately detract from the quality and decision-value of information derived in downstream components of the BPM process.

DEANE INSIGHTS:

Remember that the outputs from these processes are only as good as the inputs — Garbage In = Garbage Out. It's worth spending extra time and resources to ensure high-quality inputs. One of your primary goals in enhancing finance process is to spend less time sanity-checking data and more time performing meaningful analysis.

Remember that having lots of data is not, in and of itself, an end. It is a means to an end. Decision-makers are interested in information with high decision-value – things like forecasts, KPIs, analytics, and various other financial and non-financial metrics. In this context, you will likely need to improve several areas of your existing FP&A processes.

DEFINE AND IDENTIFY HOW FINANCIAL DATA IS USED TO MAKE BUSINESS DECISIONS

Ultimately, output from FP&A teams should be used to inform business decisions by providing actionable insights. When you're refining and optimizing your financial processes, start by understanding what those decisions are, who makes them, and the type of information they need — these are the decision-parameters around which your subsequent data governance activities will be based.

One of the more common problems we see with suboptimal finance process is the misalignment of the information supplied by FP&A teams and the decision-making needs of management. We often see budgets and forecasts prepared in a finance silo. These tend to become disconnected from the core strategy of the business. Also, it is not uncommon for decision-makers to request analysis on key areas of the business, but finance is unable to provide. While resource and capability constraints are contributing factors, often this is the result of failure to capture the relevant business data and develop the requisite business knowledge.

Aligning FP&A activities and decision-making needs is a critical first step in effecting meaningful BPM. You need to create a data and analysis baseline by establishing the most critical and useful finance team outputs for use in decision-making. This will help you refine the fundamental processes of data gathering and organization, analysis, and reporting.

At a minimum, finance teams should be able to answer the following questions about their business:

- What are our core markets, and how do we define them?
- How do we manage our product lines and services – at the discrete product level or in broader product families?
- Do we operate in discrete line-of-business silos (e.g., product, geographical, customer type, etc.) or are we a matrixed organization, leveraging core functions across products, geographies, and customers?
- Who are our customers, and can they be organized in multiple discrete groups?
- What are our core business capabilities and how are they organized and managed?
- What functions are critical to conducting business and are they discretely identifiable?
- What are the mission critical financial inputs and outputs for conducting business?
- Are there opportunities to work cross-functionally to create internal synergies?

DEANE INSIGHTS:

Answering these questions prior to adjusting your data governance processes is critical. Working upstream from these answers, you will best determine the nature of data required, the degree of disaggregation and structure required to meet your analytical needs, and ultimately how your transaction data must be structured.

DESIGN AN ENHANCED WAY TO GATHER AND AGGREGATE FINANCIAL DATA

With an understand of how stakeholders use financial and non-financial information to make decisions, and any gaps in the data your FP&A team is already collecting, you need to dig into how you're collecting and aggregating financial data, including:

- Nature, volume, and disparity of data sources and types.
- Degree of technological integration between data sources (e.g., does your ERP talk to your reporting system?).
- Structure and content of historical data (e.g., is everything in spreadsheets?).
- Capabilities of existing financial systems, ERP, etc. (e.g., what type of data architecture does your general ledger software leverage?).

Each of these considerations will drive your early-phase implementation work and will impact your core finance processes. Areas where you can expect adjustment include:

- General ledger structuring and reporting system integration.
- Rules for financial transaction processing and recording.
- Nature, timing, and extent of management reporting.

The rules and activities established for transaction recording and data aggregation, in the context of the decision-parameters identified, will comprise your data governance activities for financial analysis and reporting.

DEANE INSIGHTS:

Getting data governance right from the outset is critical. The data you gather and aggregate are the raw materials for all your future analysis and decision-making. The accuracy, precision, and overall quality of more advanced FP&A activities are constrained by the quality of the input data. While this part of the process will be tedious, the right amount of diligence and effort will bolster BPM capabilities developed in later phases.

CREATE EFFECTIVE BASELINE FINANCIAL REPORTS

As a final foundational step, you will need to develop a baseline for your financial analysis and reporting capabilities. Your financial reporting baseline will vary depending on business strategy and needs. For example, if management wants to look at financial data by product lines, you can create reporting that drills into the financial and non-financial data at the product level. If management is interested in the cost of core functions, you can create functional P&Ls to understand how your resources are consumed.

Whatever the content, your financial analysis and reporting baseline will allow you to:

- Confirm the effectiveness of your new data gathering and aggregation activities.
- Ensure you can provide basic information that feeds into effective decision-making.
- Allow you to close any gaps and properly align data governance, financial analysis, and decision-making activities.

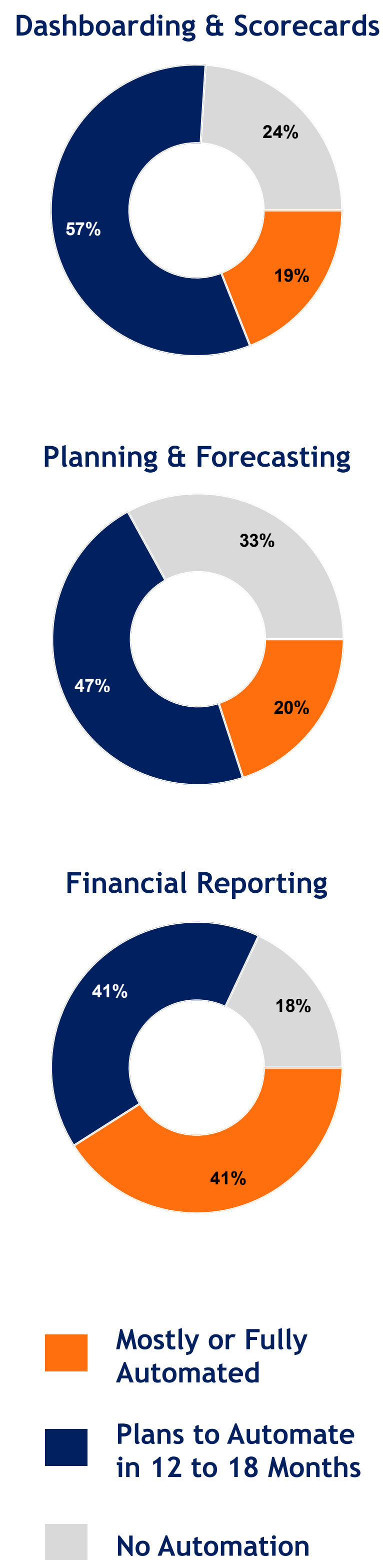
Weakness in your baseline financial analysis and reporting capabilities, including data governance, will marginalize any subsequent work done on the performance management and business intelligence fronts. As a rule, ineffective upstream process will compound into downstream issues.

THE CASE FOR AUTOMATION

Data quality is the biggest challenge FP&A teams face[i]. Harvard Business Review estimates as much as 80% of FP&A time is spent on data discovery and preparation versus performing meaningful analysis. The only way to address this is by adding capacity – more resources or more efficient process.

One way to achieve efficiency and add capacity is to automate elements of your FP&A process. According to a study prepared by the McKinsey Global Institute in 2018, 56% of all FP&A activities are mostly or fully automatable[ii]. We agree with this, especially with respect to data gathering, cleansing, and aggregation. We also see opportunities to automate elements of ongoing reporting as well as certain types of financial analysis. We are seeing some traction in the case for automation in the marketplace.

TRENDS IN AUTOMATION OF FP&A ACTIVITIES[iii]



PHASE 2: *Enable Core Business Performance Management*

Once you have the basics in place, you can focus on more robust business performance management capabilities. These are activities traditionally associated with a typical FP&A function and include:

- Strategic financial planning.
- Performance reporting and analysis.
- Forecasting and revision.

DEANE INSIGHTS:

Each area must be designed to create accountability for execution and performance. The focus on results intensifies as a business grows and matures. With increases in the performance demands of creditors and shareholders, companies must be able to justify business strategy and measure effectiveness of execution. Your FP&A activities must support this requirement.

Activities like budgeting, forecasting, and performance reporting allow decision-makers to:

- Ensure activities are aligned with business strategy and goals.
- Communicate effectively to internal and external stakeholders.
- Measure the effectiveness of activity and execution.
- Hold managers accountable.
- Make changes to optimize enterprise value creation.

Let's explore how performance management activities enable these priorities.

IMPLEMENT STRATEGIC FINANCIAL PLANNING

Good strategic financial planning is essential to financial performance management. This process aligns strategic plans with financial outcomes. Because capital is scarce, companies must set meaningful business and financial goals and allocate resources to the initiatives most likely to enhance enterprise value.

Annual budgeting is the most basic and, arguably, the most important strategic financial planning tool. The linchpin of any BPM program, the budgeting process impacts an organization by:

- Causing management to calibrate business strategy and plan for growth.
- Setting financial thresholds that guide management's execution of business strategy.
- Establishing financial benchmarks and expectations for measuring business performance.

When running the budgeting process, keep in mind the following principles:

- Be realistic – carefully balance probability of achievement with optimism when goal setting.
- Build bottoms-up and top-down – this will reveal gaps between high-level performance goals and operational

realities, allowing for reconciliation of the two.

- Engage the entire organization – budgeting cannot be done in a finance silo or with the input of only the top decision-makers.
- Adhere tightly to business strategy – select initiatives that are aligned with the forward direction of the company and that contribute favorably to financial results.
- Expect the unexpected – circumstances change rapidly. Create flexibility and contingency where possible.

Ultimately, you want your budget to serve as the road-map for achieving your performance goals in a given year. Following these principles will ensure this by capturing strategically important items, acknowledging operational and environmental complexities, and incorporating the goals of the top-decision makers.

DEANE INSIGHTS:

Remember, budgeting is essentially goal setting - budgets should be SMART (specific, measurable, achievable, relevant, and timely), with an emphasis on measurable and achievable. When you create financial performance benchmarks like this, companies, teams, and individuals are better equipped to create a culture of accountability, to identify opportunities for growth, and to drive strong financial performance.

MID- AND LONG-TERM FINANCIAL PLANNING

Mid- and long-term strategic financial planning should follow the same guidelines. The longer the time frame, the more likely you will need to build more flexibility and contingency into the budget. Longer-term financial plans will experience more volatility and risk.

Decision makers should take account of volatility in longer-range projections by making conservative estimates for revenue growth, profit margins, and costs. Most critical is that the longer-term strategic view is captured in your financial planning and that any projections represent a reasonable prediction of financial results. In other words, focus more on strategy and less on precision when thinking long-term.

ENHANCE PERFORMANCE REPORTING AND ANALYSIS

If budgeting is the beginning of the business performance management cycle, reporting and analysis are right in the middle. A budget is simply a snapshot of plans and expectations based on the facts and circumstances at a given point in time.

As your business carries out its strategy, the facts and circumstances underpinning your budget will change. You must have robust processes that identify when things have changed and determine the extent to which they will impact performance. This will tell management whether to stick to plan or change course. This is at the heart of good performance reporting and analysis.

At a minimum, your performance reporting should include the following:

- Variances, risks, and opportunities.
- Key performance indicators (KPIs).
- Executive-level dashboards.

Remember the decision-making parameters and outputs that you defined in phase one? These will form the basis of your periodic performance reporting.

Variances, Risks, and Opportunities

The most basic form of performance reporting, this is where decision-makers get their first look at how they are performing versus expectations set in the budgeting process.

As previously discussed, a strong budget should serve as the road-map for execution of strategy. Evaluation of budget variances and any risks or opportunities in the forward-looking periods will provide management with insight as to how they should respond. Decisions to reallocate resources, deploy additional capital, or change components of business strategy will be queued by this type of performance reporting.

Key Performance Indicators

KPIs are an effective means of performance management as they provide a quick snapshot of performance in a series of easy-to-digest metrics. They should reflect performance in mission-critical areas of the business – sales effectiveness, execution of core competencies, and strategic initiatives. They should include financial, operational, and blended metrics. Decision makers should be able to glance at a set of KPIs and quickly understand how the business is performing against its intended goals.

Executive Dashboards

An executive dashboard brings together the most critical elements of your performance reporting and presents decision-makers with one trusted place to review critical business information. Trending in corporate finance groups are visually optimized dashboards enabled by financial reporting technologies. Typically, these give the reader a high-level view of business-critical information with the ability to drill down into more detail, as desired.

EMPHASIZE FORECASTING AND REVISION

Forecasting is a culmination of your other performance management activities. This process synthesizes insights gained from recent reporting with input from decision-makers and resets the financial and operational guidelines for the forward-looking periods. A strong forecast will reflect two key considerations:

- The financial implications in future periods of recent performance (e.g., timing differences, known incremental costs, known incremental revenues).
- The financial implications in future periods attributable to changes in strategy, priority, or other facts and circumstances (e.g., introduction of mid-year initiatives or changes in market conditions).

With primary objectives of driving performance and maximizing enterprise value, forecasting provides decision-makers with an effective tool for measuring progress versus their goals and a formula for getting back on-track when performance lags.

DEANE INSIGHTS:

The most important facet of the forecasting and revision process is regularity. The complexity and fluidity of today's business climate means things change quickly. Businesses must be agile and equipped with the tools to react. Forecasting combines past performance, changes in business conditions, and adjustments to strategy to project financial outcomes. As your forecasts become more regular (or even real-time), decision-makers can use them to guide their reactions to changes in the business climate.

PHASE 3: *Create Actionable Business Intelligence*

The business performance management activities described above are great for reporting on financial outcomes where results deviate from budgets and benchmarks. However, alone, they are insufficient for answering the critical "why?" or "what next?" questions posed by decision-makers. This is the role of true business intelligence.

DEANE INSIGHTS:

Financial performance management reports can answer some "why" questions. For example, you might be able to look at historic trends to identify seasonal variances, or use variance analysis to find deviations from assumptions, but these insights may not illuminate the underlying cause.

WHAT IS BUSINESS INTELLIGENCE?

Advancements in technology and the proliferation of digitization in business have yielded a business environment inundated with data. Most of this is unstructured and of low decision-value. However, when technologies are used to apply analytical methodologies to the data, the results can be powerful – decision- makers can be armed with actionable business intelligence.

Business intelligence ("BI") is a series of processes that aggregate and analyze business-specific data to provide insights that inform business decisions. Increasingly, BI refers to technology-enabled data aggregation, analysis, and reporting capabilities. Tools like Qlik, Microsoft Power BI, and Tableau are evolving to support the growing demand for BI. Data visualization and analytics are quickly becoming the norm for finance teams and decision-makers.

While technology is an important part of BI, without clearly defined decision-parameters, high-quality data, and strong BPM process on the front end, it will be difficult to realize its full potential. This is why we emphasize the activities described in phase one and phase two of our approach to implementing BPM. Well-designed, well- executed manual processes are more effective than haphazardly implemented technological solutions.

THE RISE OF ANALYTICS

Businesses and CFOs are buying into the importance of analytics in their organization. According to a study prepared by CFO Inc. and Sage, as many as 72% of CFOs acknowledge a need for improved analytics from within the nance function to better facilitate decision-supportiv. Another report from the Hackett Group projects that 54% of organizations will leverage nance as the analytics hub of the entire organization by 2020v. Clearly, there is work to be done in this space.

Analytics is a topic that has been written about extensively and the term is used loosely to describe various analytical capabilities. We think this is confusing. To simplify the topic, we have prepared the chart below.

GET TO KNOW THE THREE PRIMARY TYPES OF ANALYTICS

	Descriptive	Predictive	Prescriptive
Tells Us	▪ Where we are ▪ Where we've been	▪ Where we could go	▪ Where *we should* go
Data Required	▪ ERP data ▪ Process data ▪ Financial data	▪ Descriptive + ▪ Rules & algorithms ▪ Actionable external data	▪ Predictive + ▪ Real-time feedback from business activities
Technology & Skills Needed	▪ Process automation ▪ BI applications ▪ Core financial analysis	▪ Descriptive + ▪ Data gathering and management tools ▪ Data science and advanced analytical techniques	▪ Predictive + ▪ Real-time feedback engine ▪ Next level data science
Prevalence	▪ Most commonly referred to as "analytics" in business applications today	▪ Increasing occurrence with enabling technologies	▪ Aspirational for most ▪ Data science-equipped companies leading the way

We have highlighted descriptive analytics as this is where we see the term “analytics” most commonly applied. Descriptive analytics represent baseline capabilities. Typically, they are driven by automated data gathering processes with the analysis and reporting handled by a BI application. Descriptive analytics typically leverage data created within the business – internal process data, financial transactions, customer details, etc. They describe the current state of business-critical information by applying less complex analytical techniques to company data. Descriptive analytics are an important first step in enabling more advanced BI and decision- support capabilities but will not be the end state for many companies.

There is a lot of buzz around predictive and prescriptive analytics and rightfully so. Advances in technology have made it possible to apply advanced data science to huge amounts of data in a short period of time. With machine learning and AI, algorithms can iterate on a real-time basis as new data is produced, deriving analytical approaches with the highest predictive value. Coupled with decision-parameters established by management, the resulting prescriptive analytics can significantly increase the frequency with which decision-makers choose the optimal strategy.

DEANE INSIGHTS:

Your business needs some form of descriptive analytics as a minimum competency to remain competitive. We think this is attainable by all businesses. Descriptive analytics can typically be managed with existing resources and a small investment in a BI package. Predictive and prescriptive analytics are highly advanced capabilities. They will require costly new technologies and data science skill sets. You will also need organizational buy-in on the decision-making front. We see these as the future state of decision-support, but we are confident you have plenty of time to get there.

CONCLUSION

Implementing a robust BI framework and creating actionable insights is a difficult but attainable goal for corporate FP&A teams. Developing these capabilities is critical to your business strategy and ongoing success. With the right expertise, experience, and resources, together with a commitment from your stakeholders, any business can reach this advanced state of corporate finance and give themselves a competitive advantage.

Deane Financial has the experience and know-how to help you transform your financial planning and analysis activities and harness the power of business performance management. Get in touch with us today to see how we can help you.

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