The FP&A paradox: It’s more than just finance

Business planning and the road to the future

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The future of business planning

Sales are flat, margins are tighter than ever, consumer demands continue to grow, and a host of new competitors you have never heard of are eating into your market share and making profit targets harder to hit than ever before.

Today’s dynamic marketplace demands that companies transform their traditional business models and increase their agility to meet evolving customer needs and market disruptions. In addition, emerging technologies, such as digital and cognitive capabilities, are impacting how companies transact their business on a daily basis.

As business models shift, companies must now look internally to support and adapt to the changing environment. Chief financial officers (CFOs) in particular are looking at new ways to drive growth and maintain costs through their organization’s business strategy and performance planning and management processes.

When they begin to examine the financial plan, however, all too often they discover that it reflects the numbers executives want to achieve without considering the reality of the changing business landscape. Leaders and staff become resigned to a plan they think they have to achieve but see no way of doing so, which can lead to a number of challenges:

— Business leaders make short-term decisions so the numbers work temporarily while creating bigger problems in the long term. For example, they may release financial reserves to meet short-term targets rather than develop go-to-market strategies to close the gaps. Or they may offer steep discounts and reduce prices to generate short-term revenue increases but strain their supply chain and commercial organizations.

— A business unit leader takes an action to achieve the budget, which creates problems in another part of the business. For example, one business unit might impose travel restrictions to reduce key operating expenses, which inhibits sales teams from maintaining their customer relationships. Another might reduce research and development (R&D) spend, which constrains new product development and opportunities to generate revenue. Or another might reduce headcount in key functional areas without strategic organization design, impairing business processes and controls and the ability to partner effectively to meet consumer and vendor demands.

— Business unit leaders go to war with data, creating their own analysis and reports to support a more realistic plan for their area but create confusion and multiple versions of the truth along the way.

To avoid these issues, leading companies are taking a broader and more integrated approach to business planning, looking at all other business units and functions holistically. They are making sure that traditional budgeting, planning, and forecasting processes are clearly linked to strategic and operational imperatives.

Finance is uniquely positioned to lead this evolution, thanks to its integral role in challenging and enabling better decision making and providing business insights through the lens of operational and financial performance.

72% of CEOs are actively disrupting their sectors.

1 out of 3 CEOs believes that their sector will see a major disruption in the coming three years as a result of technological innovation.

57% of CEOs are concerned that their organizations do not have the sensory capabilities and innovative processes to respond to rapid disruption.

Source: KPMG LLP, U.S. CEO Outlook 2017

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Driving the change

Of course, making the change to an integrated business planning focus can be easier said than done. Common obstacles include:

— Incentivizing business units for their own performance and not for the performance of the whole organization, making collaboration difficult.
— A web of legacy systems that make it difficult to get to one version of the truth because too many data sources exist.
— The lack of resources or capabilities to make truly data-driven decisions.
— Employee resistance to collaboration, integrated processes, and new technology.

Culturally, change starts at the top. Leaders must champion business planning and emphasize a forward-looking mindset while keeping an eye on how business drivers affect current-year targets. They also should empower their employees to think differently and shift from a transactional focus to an analytical, advisory role.

Given the breadth of change, strong support is required from both finance as well as cross-functional leadership. However, finance is in a position to lead this effort, executing within finance and enabling the business with broader planning capabilities.

1 out of 3 CEOs plans to execute their strategy through a large-scale transformation.

Source: KPMG LLP, U.S. CEO Outlook 2017
Adapting to change in today’s dynamic business environment requires a transition from traditional financial planning and analysis (FP&A) to business planning and analysis.

**FP&A: Today**
- **Financial**
  - Finance focused
  - Lacked integration
  - Disconnected from business
- **Planning**
  - Detailed labor intensive planning process
  - Focused around the budget
  - Elongated cycle times
- **Analysis**
  - Historical focus
  - Standard analysis reports
  - Inefficient delivery methods

**How?**
- Integrate business processes, technology, and people
- Plan with drivers
- Implement rolling forecasts
- Leverage new operating models and technology (e.g., artificial intelligence, cognitive, cloud)
- Refocus data and analytics towards customer and product dimensions

**Business Planning: The future**
- **Business**
  - Business focused
  - Integrated partners, process, and technology
  - Collateral business partnering
- **Planning**
  - High-level, driver-based planning, less granular
  - Forward focused forecasts
  - Efficient cycle times
- **Analysis**
  - Drive business value
  - Expand and automate
  - Drive leading insights across the enterprise
Consider how the two compare

Financial planning is focused on budgeting and forecasting within a fiscal year, with an emphasis on meeting the quarter or year-to-go target. Functional teams aim to cut costs rather than anticipate upcoming business issues. Analysis is primarily focused on historical reporting and standard reports combined with inefficient delivery models. Reports, tools, and information are often outdated and not aligned to key business drivers, leading to a reactive mindset.

In contrast, a business planning approach incorporates activities from functions that are crucial to moving the business forward—such as sales, marketing, and operational planning—all aligned with the strategic vision of the company. Rather than targeting a pure financial valuation, the company integrates key functional areas that have a pulse on the business.

The end result? Planning becomes a more dynamic process that focuses on the future in a more effective and efficient manner. Below are the leading practices that enable a shift toward business planning.
Drop the “F” in FP&A

Transitioning from FP&A to business planning and analysis

While it’s not the proverbial crystal ball, business planning can provide leaders with the lens through which they can more clearly see the future market conditions that will affect their organization. For example, identifying external data points—such as the number of new market entrants, consumption data, and weather patterns—and understanding the impact across each aspect of the business will help provide a broader view of the current and future landscape. By extending beyond finance to include other stakeholders, business planning offers executives a more holistic view of their results and progress towards executing on strategy and achieving the company’s overall goals.

Moreover, many companies have expanded their R&D and innovation capabilities and leverage external data sources to drive decision making. Incorporating these data sources as business drivers for a company’s financial plans integrates business strategy directly into financial impacts. Companies with effective business planning capabilities align business decisions more collaboratively and efficiently, both from a top-down and a bottom-up perspective. Because business planning is more than effective cost management, it should extend beyond finance to include sales and operations planning, functional area spending, and workforce planning. By doing this, companies have improved operations and enhanced customer experiences and are better equipped to adapt to market trends.

79% of CEOs say their shareholders and board place equal weight on long-term and short-term performance objectives.

69% of CEOs say a culture of “short-termism” has had a negative impact on achieving long-term strategic objectives.

Source: KPMG LLP, U.S. CEO Outlook 2017

Self diagnostic: Where are you today?

— Are your budgeting, planning, and forecasting processes siloed or integrated and holistic?
— Is your FP&A organization capable of managing change in business models? Is the technology in place to support a dynamic change?
— Do you have the optimal organization structure to support the business efficiently?
— Are you using all your data to enhance decision making?
— Do you have the right analytical capabilities and tools to drive business value?
— Are your metrics providing insight into your future vision?
The hard work:

Executing the transformation

While finance should take the lead in transforming traditional FP&A to business planning, it needs to work collaboratively to achieve buy-in from across the organization. Sales, marketing, and supply chain leaders all play a role in developing a comprehensive business plan that aligns short- and long-term customer demand, production, and financial targets.

Case study

Transforming the global FP&A operating model: Global consumer products company

Client challenge

— Decentralized, fragmented financial planning processes not aligned with business goals
— High cost to deliver financial plans with long cycle times

How KPMG helped

— Implemented global standard planning processes, executed locally
— Established integration with sales and supply chain processes to meet local market demands
— Deployed a driver-based planning platform that enabled rolling forecasts
— Right-sized the local and corporate organizations, including the center of excellence and local hub delivery models
— Implemented self-service, real-time analytics and reporting capabilities

Client benefits

— Integrated planning processes that aligned commercial and financial goals
— Optimized delivery of financial planning services while lowering total cost

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Develop an integrated vision and planning process

Companies will first need to integrate the planning, budgeting, and forecasting processes across the organization to gain alignment within each function. This involves aligning with sales, operations, and finance on key business drivers, planning cycles, internal and external data dependencies, and management reviews. To help ensure this integration goes smoothly, the organization must incorporate and enforce cross-functional ownership of the planning process and output. This ownership will help ensure that strategic plans and financial, sales, and operational forecasts are all fully linked over the long term. Companies should gain a comprehensive view of the current market dynamics, opportunities, and challenges at a channel, brand, or product level and understand which operational and financial levers are available to the organization.

Integrated business planning also establishes clear accountability within each function. Well-defined roles and responsibilities, streamlined business process integration, reporting and analytics, and technology enablement can empower business leaders to make accurate, cross-functional business decisions.

Transform forecasting

Eliminating the annual budget may sound radical, but the goal is to shift toward a more strategic and analytical focus. Instead of the typical budget, organizations can employ a rolling forecast, aligned to the business cycle to allow for a continuous focus on the business and create a streamlined process that drives accuracy. These forecasts should be realistic and aligned with key business and financial targets. In this forecasting process, organizations should continually and systematically refine the drivers and models used, based on actually observed performance and relationships. Using this method gives companies the flexibility to adapt—and react—to the changing environment. It also allows companies to take a longer-term view of their growth strategy so they can conduct joint planning with their customers and ultimately gain more accurate sales targets.
Use driver-based forecasting models
In creating forecasts, organizations must concentrate on the business drivers that produce material change to key performance measures (revenue, expenses, and profit) when adjusted. In doing so, the focus shifts toward analyzing and understanding operational processes and market indicators instead of the desired financial outcomes of a typical “bottom-up” process.

The process should leverage these drivers to project outer periods and allocate spend to lower levels of detail (e.g., category, brand, SKU). This leads to less time spent on preparing financial forecasts and more time spent on business analysis.

Reduce complexity and level of detail
Organizations need to reduce the amount of details subject to planning and forecasting. This requires a mindset change in how planning is performed. For example, companies historically spend significant time planning at the lowest level of detail but often miss the significant trends behind the product or category performance.

Instead, the planning process should rely on business drivers and historical trends for allocating costs to lower levels of product and customer data hierarchies. Reporting should be equipped with drill-down capabilities to provide access to more granular views of data when needed.
Case study
Transforming reporting and analytics: Global consumer products company

Client challenge
— High volume of manually produced reports with limited standardization across business units
— Fragmented systems landscape; high reliance on Excel and ad hoc reporting

How KPMG helped
— Simplified and standardized reports across all business units
— Developed an automated, standard management reporting catalog, including key metrics and key performance indicators
— Deployed a front-end data visualization tool to enhance visualization of standard reporting capabilities and ease of use for customers
— Implemented a centralized reporting center of expertise

Client benefits
— Reduced reporting volumes by 50 percent
— Optimized delivery of reporting services and enhanced reporting capabilities for business users
— Enabled real-time data analysis to minimize idle time in decision making

Enabling technology
60% of CEOs see technological disruption as more of an opportunity than a threat.
— KPMG LLP, U.S. CEO Outlook 2017

This is no surprise. Today’s emerging technologies enable organizations to operate in ways never before possible. They are the linchpin to transform the planning process in three ways:

1. Leveraging the latest technologies allows your organization to keep pace with the changing business environment, whether it is integrating planning systems across the business, migrating to a cloud-based environment, or accessing real-time data (internal and external) to drive decision making.

2. Using cognitive, machine-learning automation enhances analytics and other digital labor capabilities.

3. Implementing the comprehensive ERP from the existing ERP may not be the answer for all. Today’s technology enables companies to “upgrade” from their base systems by adding cloud-based technologies that improve reporting capabilities, increase automation, and enhance integration.

The important thing is to understand your integrated planning requirements and enable that process with the right technology, taking into account your existing enterprise architecture and long-term strategy.

Double down on reporting and analytics
Gone are the days of historical trend reporting. Reporting today should highlight the key drivers of financial and operational performance. It should clearly link results to consumption patterns of specific brands, products, or channels, and market trends across core geographies and demographics. By leveraging internal and external data and enabling technology, analytics can move away from descriptive observations and provide dynamic, predictive and prescriptive insights, ultimately enabling business leaders to better understand their customers and make more informed decisions.
Optimize the organization for service delivery

An effective service delivery model is a key component of an optimized finance organization. Under this model, a center of expertise standardizes processes, technology, and reporting and maintains oversight of the wide-ranging planning cycle. Centralized governance provides a mix of regional and local support. Local planning teams continue to partner across the business, supported by capabilities, people, and technology from regional and/or global locations.

This setup also helps optimize the skill sets and capabilities of the finance team. Team members spend less time on the tactics of preparing forecasts and more time partnering across business functions.

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A closer look at the benefits

With an advanced business planning capability in place, organizations can more easily adapt to a rapidly changing environment. They can maximize their abilities across people, process, and technology to drive:

- More informed scenarios and faster decision making
- Greater insights through analytics
- Rapid identification of trends and financial impacts of change
- A single source of truth
- Key leadership buy-in.

Managing change
The magnitude of change associated with this type of transformation can appear overwhelming. Leadership buy-in is a must to break down traditional silos and increase collaboration. Leaders must present a compelling case for change and clearly articulate a future vision from the beginning. Aligning messages across leadership and demonstrating support collectively and individually helps ensure accountability for change throughout the organization.

In addition, the organization must have the right capabilities and culture in place to support the new process and technology. Clear roles and responsibilities and corresponding skill sets should be defined, along with the culture and behaviors of cross-functional teams. These factors, coupled with the right approach to executing the change, will help ensure the success of a transformed business planning environment.

Executing the FP&A transformation

- View planning broadly across the organization.
- Better align strategies and functions through integrated planning capabilities.
- Instill a forward-looking mindset.
- Focus on cost optimization, productivity, automation, and standardization.
- Invest in technology and data and analytics capabilities to solve business issues.
So what?

Taking the “F” out of FP&A gives leaders in all functions a more holistic view of their company’s operations along with the flexibility to experiment with different scenarios. By closely integrating business planning with strategy and operations, executives can open up new business opportunities, better defend against competitors, and help secure their company’s success in the marketplace.
About KPMG

KPMG’s Management Consulting professionals are here to help solve the business challenges that stand in the way of your growth and progress. It starts with a deep, connected knowledge of business, innovation, technology, and the people who make it all happen. We also blend skills from different disciplines such as Risk and Tax to create a capability that is specifically tuned to your business situation. KPMG identifies with your objectives and priorities. And that’s why we take so much pride and satisfaction in helping you deliver the results that matter, the value that counts, and the improvements that last.

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