Future of Finance: The insights imperative

Building capabilities in data and analytics to drive advantage

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Most chief financial officers (CFOs) know they need to take a leadership role in insights and analysis, as companies turn to finance for answers to critical questions. Which customers, products, and channels are most profitable? How can we accurately predict forecasts for demand, sales, and profitability? Which new markets should we target?

It’s no wonder that, according to a recent KPMG study, 90 percent of finance organizations see data and analytics (D&A) as a high or moderate investment priority—with a high priority also placed on moving toward predictive and prescriptive analytics.

However, despite the high appetite for D&A, most finance organizations are struggling to get the value they want, and many CEOs are concerned about the integrity of the data that drives enterprise decisions.

One of the most common stumbling blocks for finance organizations is the business case. Many cannot see a clear return on investment (ROI) beyond cost reduction as their top driver, so they simply have not equipped themselves with the right capabilities to drive their strategy in insights and analysis.

But building maturity is not as simple as embracing new technology and reducing headcount. Instead, to realize the greatest benefit from insights and analysis—which is the accurate, real-time intelligence that drives profitable growth—finance must look beyond cost savings alone and accept that the entire ROI may not be visible at the beginning of the journey. The organizations that succeed will build trust in D&A and bravely move forward.

A new mandate: the need for speed in building analytics

Amid the unprecedented speed of change and the growing pressure for accurate insights, this leap of trust is becoming the new imperative for finance. It means ensuring data quality, integrating processes, adopting
emerging technology, developing new skills and talent, and creating an analytics-based culture that supports business partnering.

To remain relevant, finance organizations must transcend their role as recordkeepers and become enterprise-focused business partners that deliver financial, operational, and strategic insights. And as the speed of disruption increases, finance also must move quickly. But all too often, organizations start by assessing requirements for a new process technology; then they spend months or years trying to harmonize systems and perfect their data before building the solution.

A better, faster approach is to start with the endgame—the business questions the company is struggling to answer—and then work backwards to determine what data is necessary, where to get it, what technology is required to answer the questions, and what kinds of people skills are needed to analyze the results and take the right action. With this kind of reverse engineering, or “right-to-left” planning, companies can build analytics relatively quickly for a specific area of strategic focus.

For example, a large global insurance company started by asking these questions: Where are the leading opportunities to improve profitable growth? How can we increase the volume and value of new business and renewals? How much value comes from digital businesses, and how can we grow these channels? The finance organization quickly aligned the enterprise on which key performance indicators (KPIs) to measure; the value drivers for each; and what content, data, and tools would be required to support key decisions and go from insights to action. Using this framework, the company implemented new, driver-based models for planning and forecasting, which delivered fast, tangible results while creating a forward-looking analytics culture.
While organizations are rightfully concerned about the reliability of their analytics, they don’t need all of their data perfect before getting started. Leading finance organizations are taking a two-prong approach to their insights and analysis strategy, building long-term reliability while getting into action right away:

- **Longer term.** Finance is developing governance programs for enterprise data, especially the structured financial and planning data that employees use every day. These programs include the establishment of a D&A center of excellence (COE) to effectively provide, govern, and evolve the data and insights required for decisions. See page 8 for more information.

- **Shorter term.** Meanwhile, finance can empower its teams—especially financial planning and analysis—to use analytics tools and dashboards in innovative ways, experiment with unstructured and third-party data, and create new insights. Downloaded from various sources, this data is not governed, but teams can still generate insights from it and consider how the tool can be applied to other areas. Over time, these data sources can be absorbed into the more rigorously governed data set.

“...” said Morris Treadway, Finance and Enterprise Descriptive (What happened?)

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Performance Management Principal at KPMG LLP. “With this internal and external data, companies can rapidly prototype dashboards to answer key questions while using machine learning to find patterns in disparate data and uncover predictive insights. Right now, for many companies, data collection is largely a manual process, but the digital technologies exist today to automate this data and deliver greater actionable insights with speed.”

Know what to measure and analyze to drive company performance

As expectations for insights and analysis shift from descriptive and diagnostic to predictive and prescriptive, finance must become not only technology-enabled but also performance-centric. That requires accurate insights through dynamic forecasting and planning.

Part of this effort is identifying the right KPIs to measure, based on the internal and external drivers of growth, profitability, and sustainability. Another part is integrating the company’s planning processes. Indeed, CEOs expect that one of CFOs’ top priorities should be aligning planning to corporate strategy.4

Accordingly, the CFO of the future will need to be commercially astute, going beyond mere value preservation to also understand product strategy, marketing strategy, customers, channels, talent, and other parts of the business—while identifying the key performance drivers in each. With tools for enterprise performance management (EPM), CFOs will integrate data from these areas to link business strategy and performance.

How are a company’s strategic initiatives reflected in financial plans,

Emerging performance indicators

By identifying the right KPIs for corporate strategy, the CFO of the future will set the drumbeat for how the company operates. Finance organizations are starting to look at performance measures in new ways:

**Customer lifetime value.** This measure, long used in telecommunications, is becoming common in other industries as well. Instead of focusing just on short-term revenue, companies are focusing increasingly on long-term customer retention.

**Customer experience profitability.** Finance will help companies strike the right balance between the experience that customers expect and what makes financial sense to deliver.

**Growth from digital channels.** This emerging metric, becoming especially prominent in insurance and banking, reflects the ROI in digital products and services.

**A twist on traditional capital metrics.** Going beyond return on assets, invested capital, or capital employed, leading finance organizations are taking a venture capitalist’s (VC’s) view. They’re contemplating what the future could look like—in terms of new services, markets, and business models—and evaluating alternative investment scenarios with less traditional measures of value.

For example, some power and utilities companies are looking at how to increase the total market share per customer to provide regulated and non-regulated services versus the traditional focus on regulated revenue and reliability indices. While both are important, looking at prospective investments through a VC’s view encourages more innovative marketing, pricing, and investment strategies.

workforce plans, and capital plans? What metrics will hold organizations accountable? EPM can help CFOs drive strategy throughout the business, create an operational rhythm, and motivate the workforce in the right direction. Plus, companies with mature EPM capabilities have been shown to significantly outperform others. In a recent KPMG survey, 40 percent of “mature EPM” companies reported more than 10 percent revenue growth, while only 17 percent of “less mature EPM” companies could say the same.5

CFOs will also need iterative, scenario-based planning models—incorporating both internal and external data—to improve forecasting accuracy, anticipate change, and act to improve performance.

For example, drilling companies can predict their revenue on current assets by monitoring production, assessing the price of oil today, and estimating the price in the future. But how can companies predict the return on the holes they are yet to drill so they can plan their investment? In this kind of planning, analytics must consider multiple internal and external factors, including probabilities, prices, available cash flow, and competitors’ discoveries relative to targeted drilling locations. These kinds of factors are volatile, potentially changing every day, so finance needs agile analytics that deliver scenarios both optimistic and pessimistic, enabling the company to continually update its planning.

“Finance cannot keep up with market changes through traditional annual planning processes. To create competitive advantage, organizations are moving toward dynamic, predictive planning with agile analytics.”

Sanjay Sehgal
U.S. Consumer and Retail Management Consulting leader and Finance Transformation principal at KPMG LLP

“Finance cannot keep up with market changes through traditional annual planning processes,” said Sanjay Sehgal, U.S. Consumer and Retail Management Consulting leader and Finance Transformation principal at KPMG LLP. “To create competitive advantage, organizations are moving toward dynamic, predictive planning with agile analytics.”

Embrace emerging technologies to automate and act with new insights

In the future, the data for these predictive and prescriptive analytics—along with the descriptive and diagnostic measurements used for financial statements and operational reporting—will become fully automated, improving speed to insight. New technologies will extract data in real time from multiple systems and publish it straight to user-friendly dashboards that are available to the business for collaboration, analysis, and better decision-making.

Across industries, leading finance organizations have already started down the path. For example, by collecting and analyzing wear-and-tear data in real time, some industrial manufacturers can determine component failure rates and develop schedules for servicing and maintenance. This kind of solution for predictive and corrective maintenance is helping them reduce costs, structure better service agreements, enhance capital planning, and improve asset life and efficiency.

As another example, some retailers are using computer vision and product sensors to generate real-time insights on consumer behavior, such as shopping paths and how consumers respond to in-store promotions. With these insights, companies can improve the accuracy of sales and demand forecasting, develop strategic pricing and discounting models, properly allocate funding to certain products and markets, and better track the effectiveness of promotional spend. Meanwhile, other retailers are using facial recognition to strengthen opt-in loyalty programs, so when consumers visit a store, sales associates can see their product preferences and make recommendations.

Some companies have begun using machine learning to correlate multiple data streams, uncover new insights, and develop more accurate forecasts. For instance, the finance teams at one retailer thought they understood the drivers of same-store sales, but when they combined several sources of data and applied a correlation algorithm, they discovered that the chief factor affecting same-store sales is the proximity of new competitor stores. Based on this new insight, the company is now adding a new kind of competitor data to its forecasting models.

In particular, high-tech companies have been at the forefront of using emerging technologies to tap new insights. For example, by applying machine learning to historical data, Microsoft improved the accuracy of
its sales forecasts and prediction of financial outcomes. Based on the new insights, the company redirected its sales force and adjusted its approach to production, inventory, and distribution. Even more, Microsoft applied machine learning, predictive analytics, and natural language processing to evaluate financial performance prior to period closings, which improved the speed to insights.

Accordingly, most CFOs today are at least participating in the data strategy, and some are taking a more influential role by designing KPI dashboards and other enterprise technology. In the future, however, finance has an opportunity to lead the enterprise data strategy while partnering with other business functions to implement robust analytics.

In addition to owning and organizing all financial data, finance can take responsibility for the quality and governance of other data as it impacts enterprise performance—including which data is used, how to ensure its reliability, and how to structure it to answer key business questions. Again, from Harvard Business Review Analytic Services, “Finance teams have expanded their data and information stewardship beyond financial data to include the bodies of operating data that eventually flow into financial metrics.”

Who should own the data strategy?

Since finance is becoming the enterprise provider of data-driven insights, it stands to reason that CFOs should play a critical role in the enterprise data strategy. Indeed, according to Harvard Business Review Analytic Services, “The finance function is the focal point of enterprise activity, connecting business strategy to operations to financial results.”

Who should own the data strategy?

Use the following questions to gauge your finance organization’s progress in insights and analysis:

- To what extent are your descriptive and diagnostic analytics automated?

- What use cases would add the most value for applying predictive and prescriptive analytics?

- How is corporate strategy connected to financial planning and operational planning?

- Who owns data and analytics in the organization today? What is the role of data scientists?

- What is the role of finance in data management and governance, beyond traditional controllership?

- Do you see your role in finance to challenge the business to make better decisions?

- Do you have the skills and capabilities to make use of analytical information?

Where are you on the journey?

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But have no fear: The CFO does not need to own all of the company’s data, which will continue to lie with information technology, other functions, and individual business units. Rather, finance should govern—and improve the integrity, speed, and relevance of—data that has a direct influence on enterprise performance and KPIs, including market, customer, and operational drivers.

One way to spearhead this strategy is an internal COE for enterprise analytics, and finance is uniquely positioned to create it. Already, such COEs are emerging across industries. They include the sourcing and integration of internal and external data, the governance of it, performance reporting, and analytics technology. Importantly, the COE will also provide a much-needed career path for data scientists. Today, these professionals are typically hired by various business groups to address a particular challenge and then they remain in a silo, which minimizes their value to the business. A finance-led COE, on the other hand, can create an organization for data scientists, and finance can deploy them as needed in the course of business partnering.

As finance takes a leadership role in insights and analysis, the CFO will need to continue working closely with the chief information officer (CIO), who will be an invaluable partner for technology selection, security, and data integration. In fact, in some companies today, the CIO reports to the CFO, which shows the strategic importance of the partnership—and of the CFO’s leadership in the enterprise data strategy.

Getting into action

In response to the insights imperative, a lot of finance organizations are still struggling with the basics. They’re rationalizing legacy systems from decades of acquisitions, simplifying their operating model, and focusing on low-cost service delivery. But insights and analysis are all about doing new things, not doing the same things for less. So even though reducing cost remains important, the finance organizations that create new value in the future will also focus on innovation to drive strategic advantage.

Will you be one of them? To become truly performance-centric, the finance leaders of the future will be the cornerstone of strategy, finance, and analytics. Instead of just reporting performance, they will understand where the enterprise is going, what questions to ask, and how to answer them with insights and analysis.
KPMG’s Finance Transformation practice supports the growing agenda and increased responsibilities of the CFO. We work with our clients with passion and purpose, integrating innovative approaches and deep knowledge to deliver real results.

Our approach, methodologies, and tools are time-tested across various industries and have consistently demonstrated enhanced strategic value to the finance function. KPMG’s global network of Finance Transformation professionals helps clients align their finance organizations with the strategies and needs of their businesses to realize and sustain value over the long term.

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