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ENTERPRISE PLANNING IN TIMES OF UNCERTAINTY

Overview

Augment Planning to build resilience in the new digital normal
Set aside theory and wishful thinking. This paper is not about rehashing what we already understand finance [as a function] needs to do in the digital economy. It is about articulating a workable roadmap to realize finance transformation – as part of the overall enterprise-wide transformation. It is also to build resilience as digital economy is fast-changing.

In its **2020 strategic roadmap**, **Gartner** says financial planning and analysis (FP&A) plays a key role in modernizing and transforming the office of finance. New levels of integration, extension, intelligence and automation will require application leaders in finance to expand their vision and revisit strategic roadmaps.

What's the hiccup? COVID-19!

Why is that? Because COVID-19 has forced governments to introduce mandatory lockdowns with some lasting a few weeks to others having no definite end in sight.

How does this impact the finance function?
One: finance professionals have always worked in a physical space with proximity to data that are bound on paper binders stored in lockers.

Two: much of the information is stored in files of spreadsheets sitting on desktop computers and system databases stored on servers.

Three: finance professionals are clustered introverts – they have developed peer relationships that are second only to family with a strong sense of co-dependence on each other's memory when analysing data and preparing reports for management.

Four: the drive to cost efficiency has resulted in declining investment in FP&A capabilities with the function's focus turned towards arduous reporting and planning requirements instead of higher-order translation (from strategy to action) and analytical skills, noted a 2020 McKinsey report.

FP&A priorities in the COVID-19 era
FutureCFO polled CFOs and FP&A professions on how COVID-19 has impacted operational activities. CFOs and FP&A team leaders confided that there are greater expectations from them to provide business advisory as opposed to just report generating. In line with this, there is a clear shift within teams to adopt analytical tools favouring solutions that offer better integration with existing business applications, including the use of spreadsheets.

"Competing in today's business environment requires accurate data to support increasingly complex growth strategies. The demand for accurate financial information isn't just at the end of each month, but weekly and for some companies daily.

"This is not a problem that can just be solved with additional human resources to process more data and generate reports. Greater transaction volumes, more complex operating models, and demands for greater business insights needed to enable strategic decision-making will require the improved application of data processing automation and improved data models," said Ralph Canter, managing director, Financial Transformation, KPMG.

The finance function has entered a new role. Finance professionals are now expected to be strategic advisers to the business. This is not to say that the closing of books, audit and reporting are not going away. These are table stakes.

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Besides adopting new technologies, FP&A teams must embrace change management and collaborate with stakeholders based on a common fundamental framework for more insightful business forecasts.

Whatever financial forecasts organisations had at the start of the new year; every assumption had to be scrapped as the COVID-19 pandemic brought unprecedented disruption that has indefinitely grounded the global economy to a virtual standstill.

The FP&A (Financial Planning & Analysis) team, under the guidance of the corporate CFO, must recalibrate their budget and revenue as well as their profit and loss projections for the rest of 2020 amid the heightened uncertainty caused by the existing health crisis.

David Upton, JEDOX

"Forecasting is about trying to predict the future, which always had the element of uncertainty at the best of times. What the future will be like is anyone's guess at the moment. Even industries seeing a lot of demand such as medical technology providers and life sciences are seeing gaps in their supply chains as critical components from source markets like China and India shut down. In terms of when this crisis will bottom out, the reality is: who on earth knows? Nobody has been in this situation before, so it is anyone's guess," said David Upton, Director Strategic Partnerships and Alliances, Jedox.

Accelerated digital transformation

As working from home becomes the status quo as the COVID-19 outbreak runs its course, FP&A teams are seeing the accelerated adoption of enabling technologies, to which they have previously shown obvious reticence in the past.

"They now have to work collaboratively remotely. People have been talking about digital transformation for several years; but now, it has become urgent. There is a more rapid push towards digital remote collaboration and a need to have governance around that," Upton said.

He observed the evolving role of FP&A teams who are increasingly expected to act as strategic advisers who add value by bringing financial and commercial rigour to a lot of decisions.

"A lot of businesspeople might make decisions very quickly without understanding the financial implications for that. So, there is a need for finance to guide the business to make better decisions – maybe salespeople would be giving away margins that they could have kept on the table, or somebody negotiated a contract without realising the cost impact of that from a cash flow perspective. So, there is a need to be timely in how to connect into the business without slowing business down," Upton said. "We now use technologies that specifically push and share their insights without actively having to be in every single meeting and force bureaucracy on the business."

One of the major challenges that FP&A teams faced today is the ability to upscale and embrace new technologies and techniques like AI. They must know how to take advantage of these tools to attain significant impact in terms of process automation, better planning and better scenarios – all of these without disrupting the business or having to hire a new team in the finance department.

Automation is an essential part of the digital transformation process as it provides the team with a smarter and faster way to accomplish routine tasks freeing them up to engage in high-value activities.

Upton, however, pointed out that automation is not an end in itself, though an essential first step into an FP&A team's digital transformation journey.

To be effective strategic advisers to the CEO and his management team, they need to move from traditional forecasting to predictive forecasting.

"When moving up the value chain of FP&A, they have different sets of issues. A lot of their problems have to do with modelling. So, it's not just we want to move data from here to here, it is about the fact that they've built complex plans with drivers and assumptions, and they need to reconcile these things," Upton said.

"It is not just about automating the interface, but it's about creating a smarter way to do the modelling underneath. You are not just trying to simply automate an existing process but using that opportunity to rethink how you are doing that process and finding the appropriate tools to do the job."

FP&A teams have long used forecasting as a tool to help their organisation to effectively plan long-term strategies and costs, minimising the risk of making the wrong decisions that end up being costly for their company.

To move up the digital value chain, Upton advised FP&A teams to embrace predictive forecasting to elevate their game to the next level. Predictive forecasting is an automated forecasting technique that allows continuous adjustment of forecasts to help the company identify new opportunities and risks early and grow profitably.

"Predictive forecasting helps businesses generate unbiased, comprehensive, analytical insights to support improved decision making," he said.

Advanced predictive forecasting techniques use forms of artificial intelligence (AI) such as machine learning to predict more detailed, specific results, often with probability. This is usually done by viewing a large amount of historical and real-time data to identify patterns.

"It is an extension of classic forecasting. It considers a multitude of inputs, values, trends, cycles and fluctuations of the data in different business areas, in order to make predictions. It is a powerful, comprehensive data-driven approach that can be used to provide better support to the overall corporate planning and corporate performance management process."

Think big, start small

An oft-repeated mistake that companies make in their automation projects is taking an IT-driven approach which usually means changing everything at once.

"They spend millions of dollars to put in a solution to solve one problem like unclean data, for example, but they create new problems because people find it hard to use and can't pick it up. So, they go back to their spreadsheets and work around the limitations."

He pointed out that companies do not need to force their employees away from their spreadsheets to achieve the automation required for their digital transformation.

"If you want people to come on board with the solution, then focus on minimising disruptions. How can you enhance the processes without changing everything that they have been doing for the last 5 to 15 years? It is about making whatever you do easy to use and that way reducing the learning curve and the time to value."

He added: "The hardest thing in digital transformation is change management. It is often a very little thought out implication. People talk about all the big changes to move to digital, but at the end of the day, people don't like change. We like doing what we do."

Upton said, that based on experience, successful automation projects by FP&A teams are the ones that "think big, start small and deliver quickly".

"Instead of doing everything at once, break it up into achievable milestones, and ensure each of those phases deliver value. Because once you've done that, you've freed-up time and you've learned the capabilities so you can start doing things yourself and then you can go to the next level.

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"If you do everything in the shortest possible timeframe, you risk being super dependent on IT and external consultants. And the project gets huge and finance people who are supposed to be the process owners are left on the side because they simply don't have the time to get involved with this."

Integrated business planning

In an environment when different business units, besides the FP&A team, need to work together – whether on-premise or remotely – to come out with insightful business and forecasting plans, Upton said companies need to have a central hub of data so that everyone is working on the same set of information.

"It is about having an enabling technology so having a real-time planning model helps you see the impacts of the changes. Because if I am making a change and I don't see the impact of the change until two weeks later, then it is very hard to collaborate like that. So, that is number one, enabling the technology," he said.

But more importantly, it is about embracing the fundamental concept of integrated business planning, which is planning on underlying value drivers for the business.

"Rather than have people say my marketing costs is 5 million this year or my sales are going to be 500,000. It's about going back to the operational drivers that create value for the business. If I plan just simplistically on units, for example, and I have selling costs, suddenly those units can be then used to determine what different products need to be sold, which is information that can then be used by the operations team to understand what raw materials or what suppliers or what resources they need to fulfil that," Upton explained.

"When you plan based on underlying value drivers, that's about the stuff the business does. And coming up with an appropriate model of plans on value drivers is not just a technology problem, it evolves from conversations between different parts of the business so that planners have a common framework on understanding how value is created. Because if you don't have that, then you are left with people arguing over their views of the world based on their little silo," he added. ***FCFO***

PHILIPS CHINA CASE STUDY

Doing more with less

Business landscape

China is the second largest market for healthcare products for Philips. Globally, Philips is mandating its various operations to do more with less. For the finance team in China, compliance to the global mandate is complicated by local operations. The China business is made up of two business units: B2B and B2C.

The finance conundrum

Grace Liang, Head of Finance at Philips China, listed several requirements that the China operations needed: "a complete and unified platform, a standard budget process, more information for every product line and for the financial budget of each sales channel, powerful computing, and customized local reports."

"A minimized learning curve plus powerful features such as merging, scenario assumptions and simulation as well as time control that Jedox added had made user acceptance higher than expected", the finance head said.

The solution

Following an extensive search for the right solution, Philips China chose to partner with Jedox to create a highly customized system to meet its need. The two organisations worked together to ensure smooth delivery of the new system, including onboarding among the finance team, as well as business users, with the new technology.

Benefits

Today Philips China has end-to-end visibility of the entire business. "Philips has moved from decentralized processes to an integrated end-to-end process—from corporate allocations to sales to BOM (bill of materials) and supply chain," noted Liang.

As a business, the company is more responsive to market changes because sales and marketing, which is responsible for pricing, is able to communicate and collaborate with the supply chain team which is in charge of inventory.

According to Liang, automation has allowed people to focus on more important matters. In addition, departments no longer spend additional time requesting and waiting for data.

Having end-to-end process visibility and the capability to simulate scenarios means that Philips China is able to respond more swiftly to market changes, and with that achieve future growth targets. ***FCFO***

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FutureCFO is about empowering the CFO and Finance Team to take on the leadership in digitizing not only the department but empowering the entire organization towards the goal of harnessing the power of technology and digital to innovate existing processes and create new business models.

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