peak analytics

Drive Business Performance with an Extended Planning and Analysis (xP&A) Solution

Unify financial and operational planning on a single planning platform.

Contents

Introduction

In today's rapidly changing business environment, speed is crucial for cutting-edge FP&A teams. Management doesn't have time for drawn-out reporting, budgeting, and forecasting processes. Instead, they want fast month-end closes, holistic enterprise analysis, and alternative scenario recommendations for rapid decision making—demanding alignment between strategic, financial, and operational plans.

Meeting the new demands from management puts pressure on the FP&A team and their support systems to evolve from traditional roles to more agile and strategic players.

Businesses should consider adopting what Gartner calls Extended Planning and Analysis (xP&A) to meet the new demands.[1]

> "…only 26% of FP&A effort is spent on higher-value activities (such as insight generation and decision-making support). However, the best-in-class (leading organizations) have automated low-value activities and transformed their FP&A processes to reverse this ratio. They can devote over 80% of FP&A effort on high value-adding tasks."[3]

What is Extended Planning and Analysis (xP&A)?

xP&A unifies financial and operational planning on a single planning platform. It takes FP&A principles and methods and extends them throughout the organization in collaboration with the operating units and eliminates the disconnect between finance and operations.

It incorporates financial and non-financial operating data and metrics to form a single source of truth as the basis for complete integrated budgeting, forecasting, and reporting solutions across the enterprise.

Example:

A process manufacturing company can deploy predictive analytics leveraging historical sales volumes and other variables influencing demand to forecast demand plan volumes. The company uses these demand plan volumes as inputs across revenue, cost of goods sold, purchasing, and inventory plan calculations, all on the same cloud planning platform. This approach helps unify the planning process across functions, increases speed, agility, and confidence in the plan numbers and the analysis provided to management. Ultimately this approach will improve decision-making.

Why Make the Move to xP&A

The promise of an xP&A solution is accelerated planning cycles with enhanced planning process automation. The accelerated planning cycles frees the FP&A team to partner with the business units to further drive collaboration among departments to create consensus-driven plans and performance analysis.

The faster and more automated planning cycles allow the FP&A team to test assumptions and analyze the impact of alternative scenarios, influence management decision-making, and drive business performance.

The benefits of switching to xP&A extend beyond the FP&A support systems. xP&A streamlines planning and cultivates openness, collaboration, and alignment throughout the company. The entire organization benefits from the standardization, automation, and integration of the company planning processes.

- **A Single Source of Truth** eliminates data silos to create a unified financial and operational data source of relevant data for enhanced reporting, planning, and analysis.

- **A Strategic Focus** aligns all departments around the same mission and drives strategy by cascading goals across the company.

- **Improved Optionality** for management decision-making. Having a single source of truth on a unified planning platform augmented by predictive analytics speeds up the discovery of alternative scenarios for decision-making.

- **Increased Collaboration** fosters cooperation and accountability for results across functions.

- **Enable Business Partnering** by providing the FP&A team with the tools, insights, skills, and business acumen needed to serve as strategic consultants to the business units.

Who is in a position to lead this challenge?

Finance. It is uniquely positioned to become the corporate facilitator for xP&A initiatives due to its holistic cross-company understanding of the business, analytical aptitude, and access to executive leadership. The question is, will finance seize the opportunity to take on this challenge and become the corporate leader that management wants it to be?

How to Make the Move to xP&A

The transition to xP&A recasts the FP&A mandate to take on a corporate-wide leadership role that unifies finance and operational planning, provides insights, and drives business performance. The right people, processes, and systems need to be in place for the xP&A transformation to succeed.

The Right People to Lead the Transformation

The key to a successful xP&A transformation is a team of people with the right skills, attitude, and willingness to change.

- The team should be cross-functional and composed of members from finance and departments outside of finance to achieve buy-in and accountability across the organization.

- The team needs professionals with technology acumen, especially senior leaders, who understand where xP&A can lead the company.

- Leadership and team members must commit to change, be empowered to take risks, and align to a common mission and purpose.

Streamline Processes for Automation

Before automating anything, you need to examine the manual processes to be automated. Don't simply replicate inefficient, convoluted, or meaningless processes into the new system. Take a step back and evaluate which processes can be simplified and streamlined before automating them. The work spent upfront cleaning up and standardizing processes will pay off many times later in the financial transformation and when the system is live.

Unified Planning Platform

The backbone of an xP&A strategy is a highly scalable planning platform, which automates manual processes and frees up the FP&A team to engage in more value-added activities, such as business partnering.

The modern planning platforms are flexible and customizable to fit most organizations' planning needs. Reporting, planning, and analysis processes are all greatly improved by modern planning platforms. They integrate and manage all relevant data and metrics from across the enterprise in a single repository for strategic, financial, and operational decision-making.

The concept of an integrated rolling forecast planning model is at the core of most xP&A solutions.

Components of a Rolling Forecast Planning Model:

Rolling Forecast Model

A rolling forecast is a dynamic planning technique that enables organizations to manage through volatility by providing expanded forward-looking visibility and rapid adjustments to improve business performance.
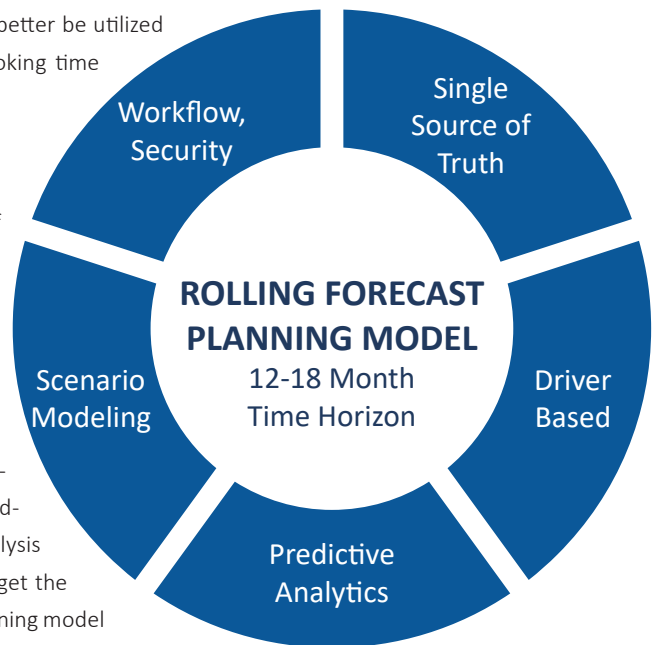
For example, an 18-month rolling forecast model updated monthly will always have a forward-looking timeframe of 18 months. Assumptions are updated to reflect the current and expected conditions regardless of the budget. The impact of new initiatives or other changes in the business can much better be utilized for decision making when the forecast has the relevant forward-looking time horizon.

What about my budget?

Fiscal year budgets are quickly obsolete due to circumstances out of the organization's control. It soon makes less sense to track and compare actuals against an outdated budget. Second, the year-end time frame is too short and gets shorter every month as the year progresses. How do you implement meaningful adjustments to the business when you only measure on a very short-term basis?

The organization can still create an annual budget by copying and storing a forecast version covering the relevant fiscal periods to the budget bucket. This method will allow for traditional budget variance analysis against actuals and forecasts if needed. In one planning model, you get the best of both worlds. Based on our experience, construct the xP&A planning model as a driver-based rolling forecast model to capitalize on the Rolling Forecast model's dynamic benefits.

Let's look further at the components supporting the Rolling Forecast model.

Workflow, Security — Single Source of Truth — Driver Based — Predictive Analytics — Scenario Modeling

ROLLING FORECAST PLANNING MODEL
12-18 Month Time Horizon

Single Source of Truth

Organizations must unify all relevant financial and operational data from across the business to create a single source of truth for all reporting, analysis, and planning activities. The single source of truth is critical and the foundation for the modern corporate planning

application. It is sourced strategically, ensures data reliability, and avoids the issues associated with data silos.

Leveraging large amounts of relevant data on today's planning platforms is very feasible. Data capacity on a well-architected planning solution is no longer a roadblock for achieving a single source of truth. The key is to strategically source relevant data for the planning, analysis, and reporting needs.

Modern planning platforms live in the cloud and can usually connect to any data source. The data source can be local or reside in another repository in the cloud.
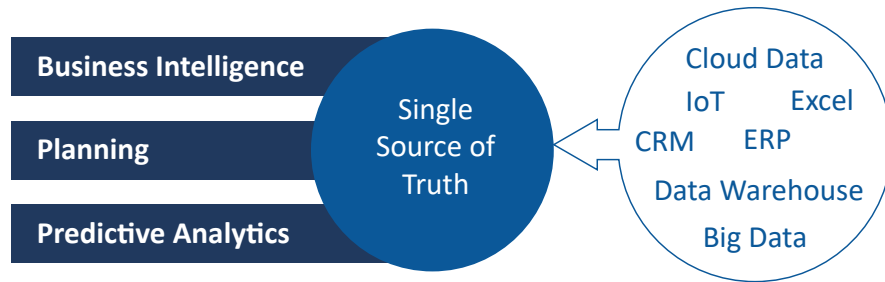
Driver Based

Driver-based planning utilizes the core business and value drivers to calculate forecast values. For example, the "average sales price" could be a driver for calculating the sales plan.

Using a driver-based planning model enables one of the critical benefits of the xP&A framework—the ability to execute accelerated planning cycles through automation.

It is also a best practice for bridging operations with finance because the activity in the operating planning units drives the P&L.

> "44% of organizations are fully driver-based today according to the FP&A Maturity Model- research paper 2021 by FP&A Trends."[4]

- Driver-based planning focuses on the relationships between operational and financial results.

- When possible, it is vital to use operational drivers to build the plan because they are leading indicators.

- The drivers can be data inputs or derived through traditional calculations or predictive analytics.

- The model needs to have the ability for users to change planning methods and override driver values when required.

Predictive Analytics

Predictive analytics is a fast-emerging discipline in corporate planning. It uses machine learning, statistics, and historical data to predict future outcomes.

Example:

A process manufacturing company can deploy predictive analytics leveraging historical sales volumes and other variables influencing demand to forecast demand plan volumes.

Mathematicians and statistical experts have used predictive analytics for a long time. However, with the advent of analytical planning

platforms, you no longer need to be a data scientist to apply predictive analytics to solve business problems.

Leading analytical planning platforms integrate predictive analytics with business intelligence and performance management, making it possible for FP&A teams to gain powerful business insights and act quickly. These platforms simplify the analytical process by allowing business users to take more control rather than relying 100% on specialists to develop the analytical data models needed.

According to Anaconda, data scientists spend 39% of their time cleaning and preparing data.[2] Therefore, having all relevant data on the same platform is a huge time saver and an enabler for the FP&A team. In other words, the data is already available in the model, and the FP&A team can configure predictive analytics schemes for scenarios using time series, trending, and correlation methods through a plug-and-play interface.

If your company has already invested in predictive modeling, import the results to the planning platform and leverage that data for planning purposes.

xP&A is a journey, so don't worry if predictive analytics sounds foreign at this point. It can be adopted later if necessary. Don't let this deter you from launching your xP&A journey.

> Only 10% of organizations have adopted predictive analytics for FP&A purposes. Another 18% plans to do so soon according to the FP&A Maturity Model- research paper 2021 by FP&A Trends.

Scenario Modeling – Expand Optionality

Data-driven scenario planning is now front and center for leading businesses. Preparing for uncertainty and planning for shifts in business conditions and markets through scenario modeling is paramount. Organizations must evaluate the effect of alternative scenarios not only on financial metrics but also on operational KPIs.

Traditionally, scenario modeling has rarely been executed to the extent today's changing business conditions demand due to capacity, technological or time constraints for the FP&A team.

What is different now?

- xP&A implemented on a scalable and flexible planning platform removes these constraints.

- The xP&A approach to scenario modeling allows decision-makers to evaluate strategic, financial, and operational alternative options to decide the best path forward.

- Scenario modeling combined with predictive analytics enables the FP&A team to create multiple scenarios based on a rich set of variables to simulate potential future outcomes and expand the options available to management.

  Example:

  The process manufacturing company that forecasts demand plan volumes using predictive analytics can generate multiple possible outcomes for comparison and analysis by adding scenario modeling.

Workflow and Security

The workflow guides the users through their assigned planning responsibilities, facilitates approval processes, and provides application control and end-to-end visibility of the status to the plan administrators. It makes the whole process efficient for all planning participants.

The platform architecture has a built-in multi-layer security model to meet the security requirements of any organization. The security model is flexible and integrates natively with an organization's corporate security system and includes:

1. A user access system.

2. An application security layer that is configurable for each user, user role, and user group.

3. A decentralized security model that will adapt to complex organizational structures.

How Effective Collaboration Impacts Organizational Execution

Improved collaboration is one of the critical benefits an xP&A planning approach offers.

1. It enables business partnering by providing the FP&A team with foundational capabilities needed to become successful business partners to the operating business units.

2. It eliminates functional silos to make planning a team activity.

3. It speeds up teamwork across functions using in-context collaboration capabilities that are native to the platform.

Business Partnering Enablement

The goal of business partnering is to impact decision-making through insight and influence to help drive business performance. These are high-value interactions with the operating decision-makers and influencers.

Many FP&A teams are practicing some form of business partnering. However, most do not have the time or insights available to engage with operations on high-value tasks to the extent that effective business partnering requires. To evolve, FP&A teams must change their focus from the nuts and bolts of planning and reporting to provide high-value analysis and business insight.

> FP&A teams in leading organizations spend 80% of their time on high-value-added tasks.[5]

It is paramount for business partnering to succeed that the FP&A team gain the experience and confidence necessary to influence operational decision-makers. Therefore, to realize the value and benefits of business partnering, an organization must invest in the FP&A team's skillset and support systems to prepare them to become business partners.

There is a fundamental link between the xP&A platform concept and business partnering that best-in-class businesses exploit to the fullest. The xP&A planning platform frees up the FP&A team's time to engage with the business units as trusted advisors by automating low-value activities and providing essential insights.

Example:

Having access to leading operational indicators allows the FP&A team to engage with the operating units earlier. Imagine having all the critical operational statistics loaded to the platform continuously, providing an early warning system for the FP&A team to get ahead of events, generate insights, and proactively engage with the business much earlier.

Functional Silo Elimination Empowers Team Planning

Thanks to the functional dependencies and process flow built into the planning model, the all-in-one integrated (xP&A) platform forces co-operation among departments. For example, one function's output is input for another process. Nobody operates in a vacuum anymore.

Platform Collaboration

Technology has proven to be an essential contributor to advances in collaboration through Zoom™ meetings, email, and messaging. However, leading planning platforms take this even further by providing in-context collaboration tools to help facilitate cross-functional collaboration on the platform. These capabilities enable users to connect, share, and work together on the same reports and analysis.

Examples:

Users can share links to specific reports via a built-in platform chat with one user's custom filters applied. The recipients will access the information with the exact same configuration as shared by clicking on the link.

Users can take advantage of platform discussion threads to discuss specific reports and analyses. Other users can reply to the thread

Self-service presentation environments enable business users to create custom presentations around specific subjects and share them with other users.

Roadmap to an xP&A Approach

The move to an xP&A approach is a journey. But there are some simple steps you can take to make it successful.

1. Have a game plan, and don't try to do everything at once. Following the plan will ensure small wins along the way. This process builds credibility and momentum and offers the opportunity to adjust the course, if necessary, then scale up.

2. Understand your unique demands and requirements. Every organization is unique with demands and requirements that need to be addressed in the move to xP&A.

3. Select the right solution provider.

    » Select a solution provider who will collaborate with you to create an xP&A road map based on your company's current situation and vision for the future.

    » Make sure the solution provider is willing to train your FP&A team to take ownership of the system and enable them to participate in the development process down the road.

    » Ensure the solution provider is intimately familiar with the platform— and even more importantly— knows how all the pieces in a highly integrated xP&A planning application work together on the chosen platform.

How Peak Analytics Can Help

At Peak Analytics, we look at each project as a partnership with our clients. We're committed to exceeding expectations in everything we do, from first contact to development, final delivery, and beyond. We are honest, consistent, and intentional in our actions. Accountability is an essential component of our ethos and guides our work.

The combination of years in Corporate Performance Management, FP&A, and deep expertise in modern planning platform application development put us in a unique position to help clients move to an Extended Planning and Analysis solution.

We bring FP&A expertise combined with technical know-how, modeling techniques, the ability to ask the right questions and make all the puzzle pieces in a modern planning application work together. Our clients bring their company goals and process-specific knowledge. Together we will design and build truly custom applications based on your vision, goals, and needs using cutting-edge cloud technologies and best practices to help drive digital transformation and decision making for your company.

Our partnership solution approach can help streamline the process and set you up for long-term success.

Contact us today to get started.

ABOUT THE AUTHOR
Stein Menkerud is the President of Peak Analytics, LLC. Peak Analytics provides versatile business intelligence and corporate performance management tools to help companies improve business performance and profitability by leveraging their corporate data for more effective management decision-making.

References

1   Gartner, Innovation Insight for Extended Planning and Analysis (xP&A), Published: 28 October 2020

2   Anaconda, 2021 State of data science report

3   FP&A Trends, FP&A Maturity Model - research paper 2021

4   FP&A Trends, FP&A Maturity Model - research paper 2021

5   FP&A Trends, FP&A Maturity Model - research paper 2021

peak analytics