

Finance Transformation



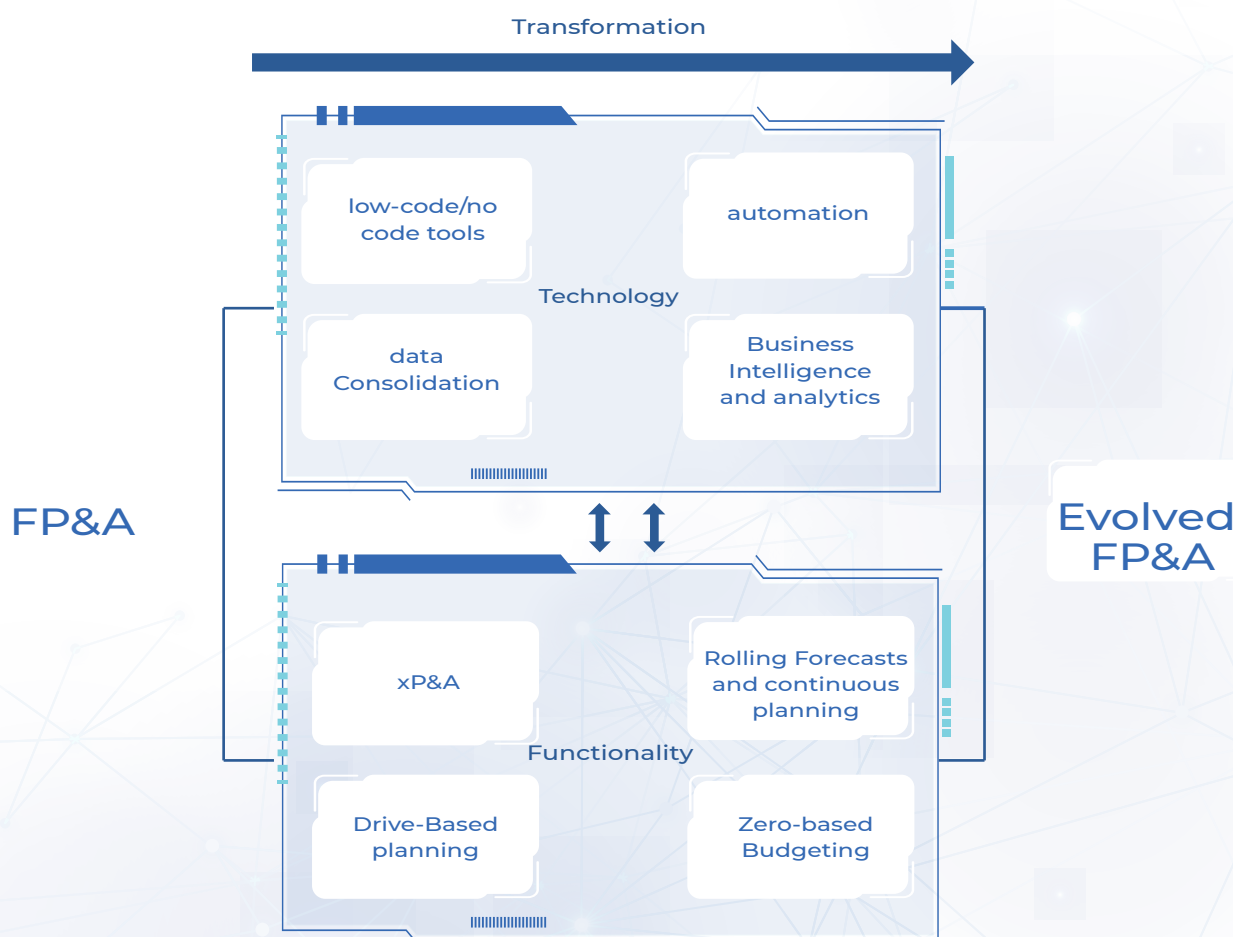
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How FP&A is evolving within Finance Transformation

Finance function of a business, which is traditionally deemed as "the cost center of a business" is undergoing a major shift. A shift not just superficially, but a complete transformation and redefinition of its core work-philosophies. The focus is now more on understanding the value-creating levers of a business and then in partnering to create more value. A transformation from being the cost center to profit drivers, from being a reactionary department to being a proactive team leader is seen as the new trend. According to experts, this shift is fast gathering momentum and will soon turn into a huge wave that redefines the roles and functions of finance in every organization.

Finance transformation is used to describe strategic initiatives aimed at transforming the way businesses are run with Finance Function at the centre. The general goal of this transformation is to align Finance Function with the overall company strategy in order to become lean and efficient and help the overall organization step up the game.



Quick and drastic changes in the global economic climate (due to covid) have given finance an opportunity to not only become more efficient, but a more effective part of healthy business performance. Finance teams are pushed to wear a variety of hats in order to both be value-adding and creative in dealing with the most pressing business challenges thrown by external factors.

Large organizations have quickly realized that they must drive a serious digital transformation effort to remain competitive in today's turbulent markets. However, failures in execution are common when an organization lacks the business-access to accurate and timely data from other parts of the organization.

01

In many companies which have a traditional operating model, Finance teams are limited to a specific set of tasks like budgeting, forecasting, managing reports etc. This hardly gives them time to step away from their unit-specific tasks and help shape the financial strategy of their business. Black Swan events like the Pandemic exposed the shortcomings of this type of functioning. For example, lack of collaboration across departments resulted in many failed predictions and forecasts by FP&A teams. The ability to respond quickly to external forces is also hindered in a traditional operating model.

02

Finance spends a significant proportion (close to about 40% according to a survey conducted by FP&A trends) of their time in low value adding activities.

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Finance Function is also the third slowest operating corporate function, according to Gartner. To support growth and be more efficient, the Finance function must speed up its service delivery.

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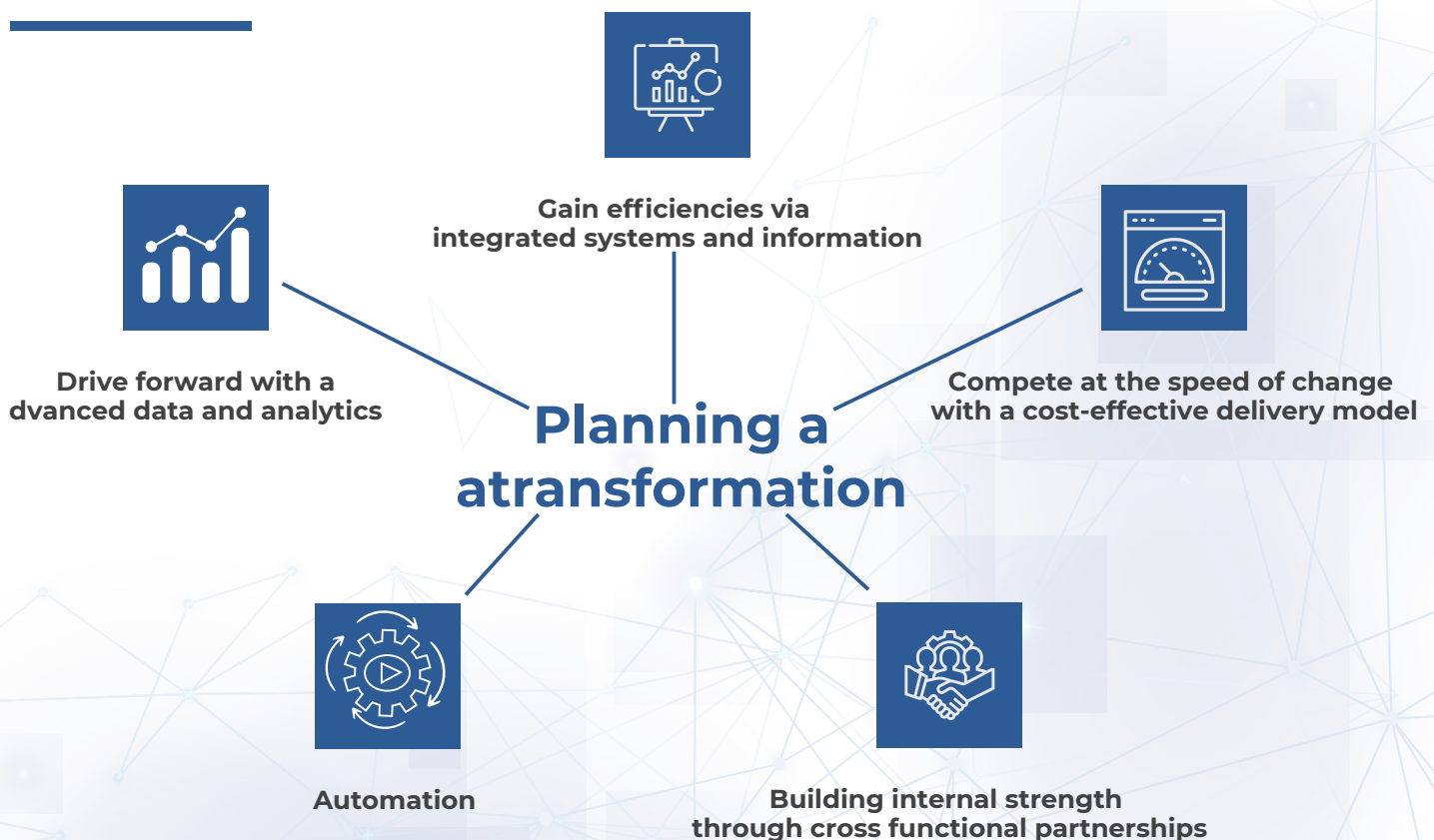
Lack of updated versions of data and with no timely access to it. According to Ventana research, 77% of planning processes depend to some.

Planning and maximizing the impact of transformation

Organizations first have to understand that traditional finance functions and roles have evolved exponentially in recent years, as decision-making has become more complex and the influence of finance teams has a greater, more measurable business impact.

While the need for transformation has been broadly conveyed, stakeholders may be uncertain of the core tenets of a transformation initiative. It can also be complex to grasp the practical applications: how a transformed approach to finance can provide strategic decision-making support to company leaders, external stakeholders, and various functions such as information technology, operations, marketing, and beyond.

To cut through complexity and plan toward desired outcomes that increase the overall performance of the organization— 5 elements are crucial :



Technology Transformation trends

The goal behind using technology to transform is not to replace employees but to free them up to do more value-added work. Lack of digital transformation can be expensive and leads to strategic ambiguity..



Low code-no code tools

Low code/no code tools are showing tremendous potential in Finance functions. For instance, FP&A teams greatly benefit from no code innovation tools that automate their workflow processes and sets up a proper quality assurance and control points. This provides and opens up immense possibilities for team members with no computer programming knowledge.

No code approaches are proving especially effective within account management, data administration, and payment and subscription services. It is therefore no surprise that their implementation is becoming more widespread within the financial sector. According to recent research from Gartner, 70% of new applications developed by organizations will use low-code or no-code technologies by 2025, up from less than 25% in 2020. Skill shortages in the technology industry have been well documented and, in terms of application and platform development, the problem has become urgent. According to Mendix's State of Low-Code 2021 report, based on a survey of 2,025 IT professionals across six countries, 77% of enterprises have already adopted low code to meet this shortage, and 75% of IT leaders say it's a trend they can't afford to miss. The research underscores that the trend towards low-code adoption is helping enterprises accelerate the pace of development by democratizing how software is being built to include business users. Low-code and no-code platforms have enormous potential across financial markets—from simple business process management (BPM) to more complex processes. They are an empowering new development for business professionals to create applications for clients, enabling them to innovate and solve problems in a way that was previously foreign and inaccessible.

Platforms such as Alteryx and Knime are powerful low-code no-code tools that help drive significant efficiencies through development of solutions for various finance processes, directly impacting the bottom line.

Automation

Technology is taking the front seat in driving a transformation. As companies become more customer-centric to stay competitive, it is important for Finance teams to be part of the value creation process and provide business advisory solutions. By means of automating manual and redundant accounting tasks, efforts saved can be utilized by Finance professionals in value-added activities. We are moving to an interesting period, where Finance professionals will have excess time in their hands that can be utilized in building relationships, thinking strategically and to move beyond support and compliance roles. For example, in FP&A, where activities like building standard management reports are generally repetitive in nature and follow a set of systemic rules, automation softwares/tools and evolving technologies like AI and ML can be deployed to drive efficiencies into the process. Automation enables Finance to evolve from being trusted advisors to business partners and guide the top-management in decision making.

Data consolidation

Cloud adoption and data consolidation is seen as a major trend where a centralized platform is set up and data of different functions are brought together for Finance teams to work efficiently.

Cloud adoption is the first step towards establishing what is called a Single Source Of Truth(SSOT). SSOT is a way, by means of a central platform, to have just one version of up-to-date information, that is accessible to all team members so that different departments can collaborate effectively. This saves time by removing redundancies and also cases of rework. In a way the quality of data that the finance team has access to, is drastically improved. Cloud adoption is also a major step towards implementing Data consolidation.

Data consolidation is the process of taking all your data from disparate sources throughout your organization, cleaning it up, transforming and combining it in a single location, such as a cloud data warehouse. This prevents the formation of the dreaded data silos.

Here, planning processes are also unified through a single enterprise-wide platform that is accessible across operational and financial functions. Having access to real-time data also leads to better decisions as decision-makers can now see the big picture of their operations and business processes. In short, data consolidation allows Finance teams to capitalize on all of the organization's data by breaking silos and bringing it all together to understand the financial health of the business.

BI and Analytics

But with ever increasing emphasis on digitization, Finance leaders are turning towards data and analytics innovation in order to make more informed data-driven decisions. Hence, it becomes crucial to adopt the right analytical aid to fasten the process. Analytics is extensively used to add extra horsepowers to an organization's transformation drive. But, this is an area where a combination of business problem solving, data modeling, automation come into picture. More often than not, organizations do not have the right talent pool with a predefined playbook on how to go about. Failure in this regard can cost a business about 1% of its revenue(as surveyed by Gartner).Business Intelligence (BI) relates to the practices and technologies used by organizations to collect, process and present the extracted value from the existing information. Simply put, it's all about converting data into an understanding of what it holds for better business decision-making with the help of visualizations, reporting, predictive analytics and other features. It is extensively deployed for operations and performance management, improving financial services and to understand client needs better. Business Intelligence software forms the background for financial analytics.

With BI and Predictive analytics, Finance teams are also more agile and continuous in forecasts and have become big-time scenario planners. They predict different scenarios from real-time data and generate insights to guide decision making. Some of the notable tools that businesses can deploy include:

Real-time analytics and insights: Finance teams can quickly identify performance management opportunities and risk areas resulting in greater collaboration, coordinated response and better alignment of goals across teams and functions.

Analytical and Process Workflow Automation : Deploy robust and automated driver-based financial models and process workflows resulting in real-time insights.- For instance, Analytical Process Automation Is a technology that allows anyone in your organization to easily share data, automate tedious and complex processes, and turn data into results. With APA anyone can unlock predictive and prescriptive insights that drive quick wins and fast ROI.

xP&A - Taking the best of FP&A and extending it across the organization

xP&A stands for Extended planning and analysis. It denotes the breaking down of silos between finance and other departments. Businesses usually face the challenge of data silos which is caused by the use of outdated technology that leads to delays in processes such as report generation.

For any business, not being able to get up-to-date information on time can be costly, it could lead to loss of revenue and opportunities. This also prevents finance teams from getting accurate insights into the operational and finance performance of the organization..

An XP&A takes the best FP&A capabilities and extends them across the organization. It gives the organizations the power to work like a well-oiled machine. Linking individual departmental plans to identify the potential impacts within different departments is at the core of XP&A. It allows businesses to react quickly, if one plans of say marketing launch changes, other departments adapt accordingly. It doesn't just link operational plans to each other, but also links them to financial goals and strategic objectives. FP&A helps this framework and plays the role of an orchestrator, overseeing the entire framework.

XP&A recognises that change is constant with pivoting, course correcting and transforming now part of everyday business. XP&A's holistic thinking helps organizations to be more connected. This is achieved by data standardization, its timely availability and deploying automated systems. This approach is known as connected planning.

Implementing xP&A:

Evolving from FP&A to xP&A requires support from the executive team and departmental leadership. Finance must make sure that everyone understands not only their roles in these new processes, but also the benefits xP&A can provide them. It must create a plan for how it will lead the extension of FP&A across the business. By working together with other departments it can understand what data and metrics are important to both the operational performance and financial results of the organization and develop a strategy for the ongoing performance management by integrating input from key stakeholders.

Then, Finance must determine what digital tools and capabilities will enable the organization's goals. It will also be important to factor in increased data management requirements. Finally, the teams must adopt a test-and-learn approach for greater success and expansion across different functions and business units.

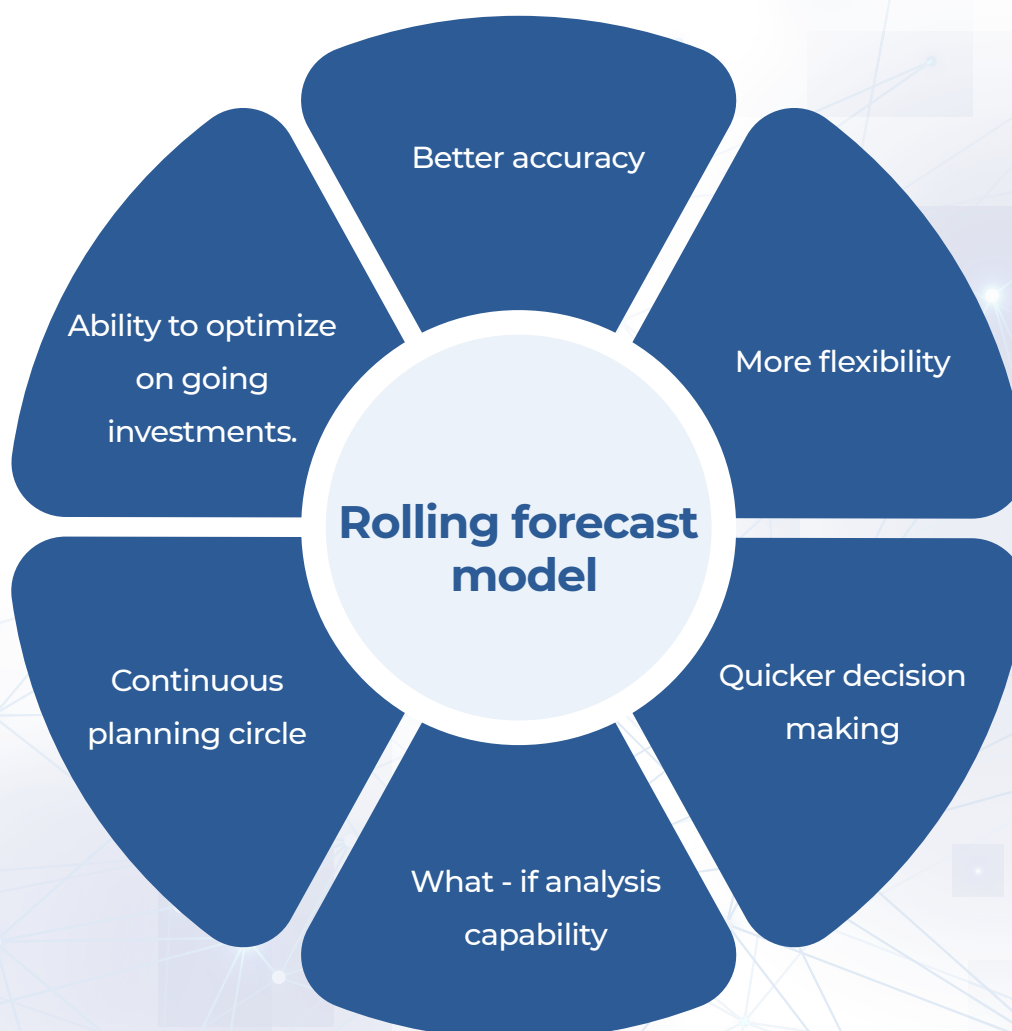


Reducing uncertainty with Rolling forecasts and Continuous planning

Rolling Forecasts are a type of forecasting that uses an organization's existing data to help predict aspects of business performance at predetermined intervals. In the uncertainty of the Global pandemic, the use of Rolling Forecasts increased as businesses of all types looked to reduce uncertainty and increase agility.

It is used periodically throughout the fiscal year and it either serves as a supplement to the fiscal year forecast, budget and other plans, or it can completely replace the annual forecast. Here, an interval is defined at which you create and review the forecasts and organizations should determine what best suits their needs.

Continuous planning is a vision for finance and business leadership that drives faster, more agile, and more iterative planning and decision cycles. It elevates the financial IQ of the organization so that everyone is engaged in the planning and decision-making process in a more meaningful way. That means plans are more accurate, insights and course-corrections are more frequent, and actions are more immediate. This puts the organization in a position to be more competitive, more innovative, and more prosperous – and finance is the strategic advisor at the heart of it all.



Driver-based planning

Driver-based planning is a process for forecasting business performance based on the key levers that are most impactful to the organization. The goal here is to focus business plans on the factors that are most critical to driving success, then create Financial Models that enable teams to run scenarios based on these drivers to understand the impact on projected business results. This type of model offers a plain-language method of communicating with your stakeholders.

The plan will have goals, and the factors necessary to achieve them.

Typical key business drivers are: Market size and growth, market share, number of customers, number of orders or shipments, sales volumes etc.

Driver-based planning also saves a lot of time and effort in financial budgeting and forecasting by eliminating the line by line approach and focusing on key business drivers. This transforms Finance from being a backwards-looking scorekeeper to a forward-looking strategic advisor.



Resetting Finance with Zero-based Budgeting (ZBB)

A way for finance to reset is for it to take a few steps back, assess the situation, and move forward. This usually is done in uncertain times when situations are overwhelming. Usually, the budgeting method is such that a business makes use of prior period information and adjusts for escalations in the current plan year.

This method is commonly practiced as it is less tedious, less time consuming and generally is easy for cross-functional collaboration within the organization. Zero-based budgeting, however, means looking at every component of financial planning and budgeting with fresh eyes. One ideally starts with zero and justify every dollar value of expense planned to be incurred by each of the departments. Companies usually resort to ZBB only in times when profits are decreasing and spiraling down a rabbit hole.

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Assume zero-budget for next year

02



Review objectives of departments.

03



Identify optimum staff, materials etc

04



Set entirely new budget

Finance teams should move away from legacy data management practices and focus on tech-enabled agility. This would allow companies to adapt to changing market and economic conditions, increase the speed of decision-making, identify inefficiencies and opportunities and plan for the future.

Technology can strengthen the workplace culture by providing employees with digital resources that will help them cooperate and work productively, from cloud-based communication and collaboration platforms to centralized data hubs where everyone has access to the same information. But it's vital for employees to be capable of deploying these tools effectively.

Today's Finance Function which is pivoting from value stewardship to value creation, requires businesses to transform by taking the right initiatives as discussed above. Uncertain times like these and disruptions due to the pandemic have exposed the shortcomings of traditional business structures and operating frameworks, and showed us the importance of adaptability and agility in Finance.

Many successful firms have already transformed their businesses with the aid of technology and the right implementation partner to stay ahead of the curve. Hence, it is crucial for businesses to transform and create or retain edge over competition by getting the right guidance in implementing Finance transformation.

For more information on business partnering
please connect with us!
Write to us at info@valuexpa.com