RETHINKING THE FP&A OPERATING MODEL

A LEADING PRACTICES WHITE PAPER

INTRODUCTION

Aggressive competition, intrusive regulation, capital markets volatility and business complexity — these forces can conspire to overwhelm any organization today. To stand out from competitors, companies must respond nimbly to both market pressures that impact their organizations and business opportunities that emerge. Today, chief financial officers (CFO), therefore, must be focused on providing near real-time business insights to key decision makers so they can make smart and timely decisions as internal and external challenges unfold.

Within the CFO's organization, the responsibility for tracking, assessing and reporting corporate performance normally falls to the Financial Planning and Analysis (FP&A) group. In order for FP&A to perform well, it must partner with various corners of the organization to gather and share necessary insights of financial performance throughout the company. FP&A organizations also need a solid operating and accounting foundation based on appropriate standards, technology and processes all with a view to optimizing the overall finance operating model. Further, the information necessary to generate these insights must be easy to access in a timely and accurate fashion to truly engender better and more timely decision making. Leading companies are paying special attention because opportunities identified by FP&A can generate millions in savings at Fortune 2000 firms. In the last few years, FP&A organizations grew out of a need to process huge volumes of data and were pressured to conduct what-if and other ad hoc analyses, many of which did not add value.[1] In the current economic climate, companies can ill afford these types of analytic services.[2] By contrast, an optimal FP&A service delivery model can help business units make better decisions, anticipate competitors' actions and reduce risks — activities that have become essential to corporate health in an era of complexity.

THE DEFINITION OF FP&A

FP&A generally includes several discrete processes. While these systems can be managed separately, their ownership requires a common skill set. This includes an understanding of accounting, finance theory, data sources and definitions, modeling, creative problem solving and the economics of the business. The processes typically owned by FP&A include:

- Budgeting
- Forecasting
- Strategic Planning
- Management Reporting
- Financial Analysis
- Capital Planning
- Business Modeling
  (e.g., new ventures and investments)

FP&A service operating model optimization is a key part of our finance transformation methodology at FTI Consulting. Our integrated approach determines current FP&A efficiency and effectiveness, identifies and prioritizes specific improvement areas and creates an operating blueprint and migration plan to deliver these capabilities to our clients. Optimizing the FP&A operating model lowers information risk and provides a healthy return through cost savings and efficiencies.

Part of a finance transformation process is creating an efficient and effective FP&A operating model. This requires striking a balance between global, regional and local business analysis needs and capturing the benefits of scale via shared services and centers of expertise (or excellence). Retaining core local FP&A while leveraging centers of scale and skill can lead to the right balance of cost, control, flexibility and responsiveness.

KEY POINTS

This article highlights ways in which an FP&A leader will be able to:

- Obtain guidance on how best to build a robust FP&A service operating model.
- Gain understanding of key infrastructure considerations to support the model.
- Acquire details of what each functional layer would do in the future-state operating model.
- Ascertain the types of resources that will be needed to staff the FP&A organization.
- Communicate the prospective FP&A operating model and rationale to the CFO team.

[1] "Financial Budgeting and Forecasting: Will the Economy Emerge? Will You?" The Aberdeen Group, February 2010.
[2] FTI Consulting experience from Finance Transformation engagements. FTI Consulting, Inc., (2010-2012).

THE CHALLENGE FOR FP&A TODAY

The CFO of today is dealing with … well, everything. The pressure to recognize and manage operating and financial risks of a magnitude not previously experienced never has been more apparent:

- CFOs are confronting global change, yet they are not always fully equipped to analyze and deal with these new business risks. Our engagements reveal unacceptable forecasting error rates (+/- 10 percent) and transaction processing error rates of more than 5 percent.[3]
- The finance function increasingly is tasked with contributing to organizational strategy, as well as meeting unprecedented demand for operational insights.
- Data are not translated into information quickly enough to be useful to business units.
- Information is not sufficiently detailed to be meaningful. A unified view to data and information is essential to gain visibility to financial and operational performance.
- Closing and reporting takes twice as long for an average company vs. a world-class enterprise.
- A standards discipline is lacking (e.g., standard chart of accounts, common processes, globally mandated standards, common data definitions).
- The information-gathering process necessary to generate timely, relevant insights can be extremely challenging. In our experience, two out of every three hours of a financial analyst's day are spent searching for data and represent a large productivity gap for an FP&A group. In leading companies today, data and process commonality support a shift of significant analytical tasks to standardized service delivery models (such as a shared service center or center of excellence).
- Budgeting and forecasting typically are inefficient, iterative processes that frequently yield inaccurate results.[4]
- Internationalization leads to diverse business structures, assorted systems and processes normally handled by an equally complex FP&A function that hinders timely reporting and delays management decisions.

A HOLISTIC APPROACH TO OPTIMIZING THE FP&A SERVICE OPERATING MODEL

Given these challenges, FP&A is overdue for transformation. Key questions need to be answered in order to proceed with change. Should FP&A be performed in-country? Should it be centralized or moved closer to business units? Should the more transactional aspects of FP&A be moved to shared services or centers of competency? The answers are important because the design of the organization influences the effectiveness of the FP&A function. Further, due to the vantage point that most FP&A functions have as the pivotal connection between finance and the rest of the organization, the task for the FP&A leader tends to be numerous non-standard, rushed requests. The consequences of not organizing correctly can range from hiring too many analysts to accommodate all the requests to the other extreme — not having enough experienced analysts to respond even to the critical requests.

To stay agile and meet a substantial number of organizational needs, the answer lies in designing a holistic approach to the FP&A organization based on well-understood customer needs. The first aspects to consider are the types of services required by finance's internal customers. These service types can be grouped into three domains: transactional, specialty and decision-support analytics.

Transactional Services: These services can include coordination of the annual budget and forecasting process, guidance for enterprise-wide metrics and targets, expense and revenue allocation, and statutory reporting. Transactional services typically require processing of routine transactions in higher volumes and consume a greater number of resources than specialty or decision-support services. Transaction processing customers usually have requirements that can be satisfied with operational excellence in the form of low-cost, high-quality and timely transaction processing.

Specialty Services: These bespoke services include maintaining risk management policies and procedures, internal audit (including Sarbanes-Oxley), real estate management and actuarial services. In contrast with transactional services, specialty services are not executed in large volumes; the value of the service usually is delivered by applying expertise to protect asset

[3] IBID.
[4] "Freed from the Budget — CFOs are liberating themselves from a flawed process," Russ Banham, CFO magazine, September 2012, pages 40-46.

value or to minimize risk. Consumers of these services require specialized knowledge that is delivered through advice and regulatory compliance. Employees here are senior-level domain experts (e.g., chief actuary).

Decision-Support Analytics: Finance decision-support analytics are the most customized services that FP&A provides — among them long-range and annual strategic planning, corporate budget guidance, analysis of results, and ad hoc analyses for finance and business units. The primary customers — corporate, business unit and operations management — value insightful and relevant information that can be used to further business goals. Decision-support analytics involve a high level of business, process and customer knowledge. The employees here are change agents and typically are senior-level, broad thinkers. They also have excellent analytical capabilities with deep industry knowledge.

Events like merger and acquisition support or initial public offerings are coordinated via multiple CFO functional areas, technical accounting, tax and treasury. These events require the oversight of the FP&A group both in the reporting process and in the realization of event synergies. The most important underpinning to support these events effectively is the ability to provide a common (single-view) visualization of information that often is located in several databases (heterogeneous data environment).

DESIGNING AN EFFECTIVE SERVICES DELIVERY INFRASTRUCTURE

Once the customer needs are understood, a robust infrastructure is necessary to support the requirements, timing and quality of information. In our experience, each type of information need (transactional, specialty or decision-support analytics) requires individual infrastructure strategies. The common elements are standardized planning, budgeting and forecasting processes, common data definitions (metadata strategy), and common policies and procedures. The infrastructure elements are broken down to strategic value focus, process, organization, technology and people.

Strategic Value Focus encompasses the value proposition for each of the FP&A services. This essentially means that an overall strategy is defined for the three service domains (transaction, specialty and decision-support services) with funding allocated to each, depending on where the company is to emphasize its focus, say:

Seventy percent emphasis on value-creation activities — growth strategies, decision support — effectiveness and 30 percent on value-preservation activities — transactions, standardization — efficiencies.

Process defines workflow standardization and simplification and provides an end-to-end perspective that includes quality updates, policies and procedures, compliance and performance measurement. Process management and ownership are clearly defined here.

Organization encompasses governance, reporting lines, spans of control, shared services, centers of competence centralized vs. decentralized structures and outsourcing.

Technology includes data and information management, infrastructure, development and support. Information technology (IT) strategy as it relates to finance is defined here. For example, who controls the metadata definitions for finance?

People are where essential skills are defined. Recruiting, coaching, training and development, clear definition of roles and responsibilities, performance appraisals, job rotation and career paths that include opportunities for leadership and management responsibilities are outcomes. See Figure 1 below for a summary of typical FP&A processes and operating model.

Figure 1: Typical FP&A Processes and Operating Model

FP&A Leader

	Transactional Services	Specialty Services	Decision Support and Analytics
Strategic FP&A Operating Model (Example)	**Planning, Budgeting and Forecasting** Operations Planning Support; Budget Management; Forecasting Management; Capital Planning **Performance Monitoring/Transactions** Expense/ Revenue Allocations; Performance Management; Profit/Cost Center Analysis; Global Operations Support **Financial Systems** Consolidation; Data Warehouse **Reporting** Management Reports; Statutory Reports	Acquisition and Divestitures Risk Management Actuarial and Reserves Real Estate Management Internal Audit	Strategic Planning Business Intelligence Financial Analysis Internal Consulting Project Management Accounting/ Tax Policy
Strategic Value Focus	**Value Preservation** • Low Cost • Timeliness • Accuracy • Operationally focused	**Value Protection** • Value-enhanced advice • Governance and compliance	**Value Creation** • Customized services • Business insights
Process	• Standardized performance metrics and reporting • Standardized budget and forecasting • Highly automated • Continuous improvement	• Structured and policy-driven activities • More flexible strategic planning and analysis activities	• Standardized planning, budgeting and forecasting procedures • Custom reporting and ad hoc analysis
Organization	• Organized by activity • Often centralized within shared services to provide control and cost/quality efficiencies • Process outsourcing conducted to further achieve labor arbitrage, as well as process streamlining	• Organized by service type • Reporting conducted at senior levels • Alignment to product/service areas	• Organized by customer, but governed by central team • Direct line finance, dotted-line business
Technology	• Automates high transaction volumes, e.g., consolidation • Automates controls • Incorporates self-help features	• Supports external/specialty data needs • Allows product analytics • Integrates with legacy systems	• Automates reporting • Supports unstructured data • Supports ad hoc reporting • Performs scenario planning
People	• Highly operationally focused • Systems expertise • Process expertise • Performance management expertise	• Senior-level resources • Domain-specific expertise • Available and event driven • Risk managers	• Experienced, broad thinkers • Change agents • Industry expertise • Process expertise • System/analytics expertise

IMPLEMENTING THE NEW SERVICE OPERATING MODEL

Once the infrastructure is defined, the process of implementation begins. The processes of executing an optimal FP&A delivery model are difficult, but the rewards potentially are far greater than the cost of implementation. The CFO/FP&A leader must work closely with each business, geography and region to define the most appropriate organizational design for FP&A support. What works in the United States may not apply in an international environment. Privacy rules, work hierarchies and culture will impact the design worldwide. However, there are commonalities in processes and business practices, and these must be focused on first to achieve buy-in to the new model.

The process for change particularly is difficult in mature and entrenched business environments. Without a doubt, there is a training component that will need to be factored into the process. For example, weaning employees off MS Excel™ involves training and time. The company's ability to absorb change must be assessed, and projects should be designed carefully so that the modifications endure. Re-engineering requires a strong team led by a respected project leader with broad organizational knowledge. The hiring practices for FP&A must be evaluated to support subsequent teams that are dynamic, analytical, experienced and insightful and that have strong relationship-building skills.

New organizational design components need to be considered in an ideal FP&A service operating model, as the CFO/FP&A leader makes the intentions and strategies apparent to business and finance leaders throughout the organization. Some of the design considerations include:

1. Business Decision Support for local planning, budgeting and forecasting in global operations. Consider who controls important performance evaluation, scenario analysis, variance analysis, review and commentary, as well as ad hoc analysis. Local FP&A would retain management reporting and new product development and approval.
2. Shared Services for FP&A that share or transfer some cost accounting activities, usually conducted for operations, to operations. An example includes first-level analyses of expenditures by cost center.
3. Centers of Excellence that are co-located or involve virtual teams with experts in commonly desired disciplines, offering ad hoc analysis for the market, competitors, win/loss by major product group and ability to assist in the important demand-planning activities for better forecasting. These centers can provide services on a global basis and are an excellent platform for knowledge sharing and collaboration.
4. Communities of Practice that develop and coalesce around experts and topics that are pressing for the company. This insightful analysis can replace stacks of standard reports, which often are underutilized and wasteful.
5. Advanced FP&A Technologies, now experiencing a renaissance, that can impact organizations in highly productive ways. Integrated enterprise tools contain all features of planning, budgeting, forecasting and management reporting, functionality leading to dramatic improvements in productivity and a single source of information. Business intelligence, which includes elements of process, workflow, analytics, decision support and data visualization, requires fewer people with greater skills who can process data into information in several dimensions, providing rich analytical feedback that enables organizations to identify and respond to opportunities and threats. Reporting improves with less use of spreadsheets and more online scenario analysis.
6. Organizational Design enabled by a well-designed operating model that reflects sound governance and doesn't hinder growth or flexibility. Questions that will be more easily addressed include: How much decision-making control does finance have? How much control do business units/product groups have? How do we create a flexible platform for growth, with little stress on the operating model?
7. Performance Management of the operating model that is part of the structural design and represents the model's essential governance framework. The following questions may improve the current measurement process:
   - Are scorecards focused on the right metrics?
   - Do they contain both quantitative and qualitative measures?
   - Do they focus on inputs rather than outputs?

   A performance management program succeeds when it combines historical and forward-looking operational, financial and risk information that delivers predictable indicators of growth and dampens earnings surprises. It also identifies lines of business that are creating and destroying value and provides the critical key performance indicators and measures for managing and monitoring the entire operating framework.

An optimally designed, resourced and reorganized FP&A group may look like Figure 2, although each company will have a measure of uniqueness based on its business model (as depicted in Figure 1) and culture. The size and scope of the model below are based on a global Fortune 2000 firm with at least 100 employees directly in Corporate FP&A and in "shadow" embedded FP&A in business units.[5]

BENEFITS OF OPTIMIZING FP&A

Re-engineering select finance processes can dramatically reduce costs and improve productivity.[6] Typical results that are realized in the short- to mid-term save 10 percent to 20 percent finance costs of administering FP&A processes.[7] Outsourcing appropriate subprocesses can yield dramatic productivity and working capital improvements and can reduce these costs by more than 25 percent. The majority of companies that adopt shared services see savings of 20 percent or more of administering FP&A processes.[8] [9] By investing in FP&A service operating model optimization, organizations build reusable core capabilities, confidently guide IT investment decisions, develop a platform for organic growth and acquisitions, and lay the groundwork for successful implementations of business processes and IT systems.

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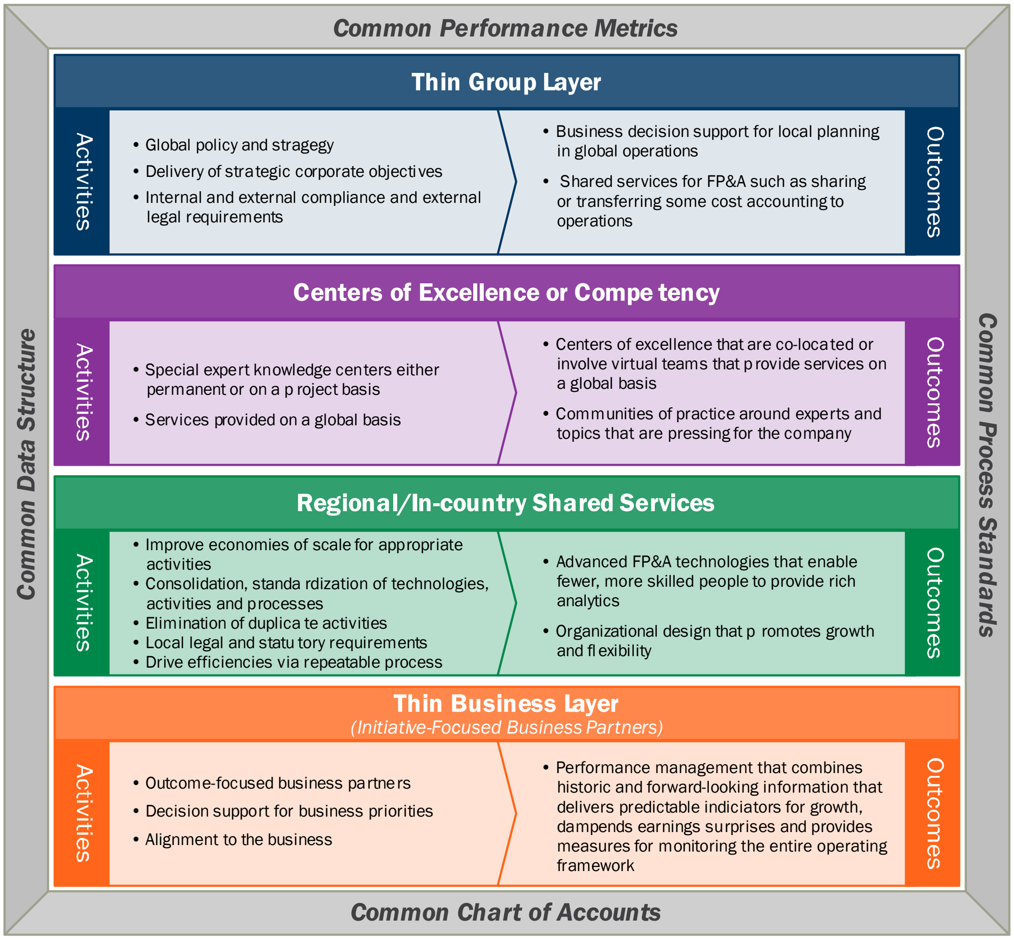
[5] Size of client companies quoted in this paper are Fortune 2000 and track between $500million to $5 billion in revenues, FTI Consulting — Office of the CFO/Corporate Finance, September 2012.
[6] "Financial Budgeting and Forecasting: Will the Economy Emerge? Will You?" The Aberdeen Group, February 2010, pages 15-19.
[7] "Budgeting and Planning," The Aberdeen Group, April 2008, page 8.
[8] "The Rise of Financial Planning & Analysis Outsourcing. Sherpas in Blue Shirts," K. Lulla, Everest Group, December 2010.
[9] "A Growing Segment in Accounting Outsourcing. Financial Planning & Reporting," W. Miranda, Philippines Free Enterprise, May 2012.

Figure 2: Illustrative FP&A Operating ModelFP&A Processes and Operating Model



CLIENT EXAMPLE 1

Situation

A large telecommunications company exercised strategic control centrally (at headquarters) and delegated operational control to business units. Business units submitted planning information on a spreadsheet to FP&A at the end of each planning cycle. FP&A then consolidated the spreadsheets from all business units to view the financial status of the company as a whole. Each business unit used unique formats and approaches to develop budgets and forecasts, limiting the comparability of the data. Challenges presented for the company included:

- Lack of corporate visibility into business unit financials
- Limited analytical capabilities
- Ineffective push-down of plans to business units
- Lack of controls around errors
- Inefficient use of resources

Solution and Outcome

Since this business was in a single-industry sector, an opportunity for standardization existed. FTI Consulting worked with the organization to improve controls and efficiency in FP&A. All business unit finance organizations now report directly to the CFO. With driver-based budgeting, planning and forecasting, the company is able to develop budgets and forecasts that predict actual expenses with 99 percent accuracy. In addition, the budgeting, planning and forecasting tool has replaced the use of spreadsheets, greatly reducing the risk of errors, enabling more sophisticated analyses (including scenario analysis) and giving FP&A the enterprise-wide visibility it needs for effective leadership. The result: much shorter and easier budgeting and forecasting cycles, consistency across business units' planning logic, better insight into the major drivers of cost and an improved ability for finance to add strategic business value.

CLIENT EXAMPLE 2

Situation

A market-leading consumer products company was attempting to take more strategic control in response to slackening growth and profitability. The company had implemented an unfocused enterprise effort to reduce costs and improve efficiency in its support functions. It wanted a consistent operating model globally, independent of the country or operating unit.

When the finance function came under scrutiny, executives realized that despite the value finance was delivering, it was doing so inefficiently. Specific problems included:

- Non-standardized processes. Processes differed by country, region and operating unit, making it difficult to maintain consistency in the information reported.
- Redundant efforts. Duplication of processes, tools and techniques in different countries, regions and operating units led to inefficient use of both information and personnel.
- Lack of prioritization. As the finance organization delivered value, it also performed non-value-added tasks requested by the operating units that were increasing the cost of the finance organization.

Solution and Outcome

With our guidance, the company instituted a global finance operating model that maintained finance's responsiveness and strategic partnering capabilities while reducing the sources of wasted time and effort. The company examined all its financial processes and determined where and how each process should be performed. Under the new model:

- Basic transactional and core accounting processes, such as general ledger and accounts payable, now have a shared delivery model.
- Financial planning and analyses that are crucial to business partnering remain local to the country, region or operating unit, preserving the ease of access and communication within the business needed for finance to work effectively as a business partner.
- Standard planning and analysis processes, as well as tax, treasury and other financial processes, are centers of excellence that provide services on a global basis and a platform for knowledge sharing and collaboration.

FINANCE TRANSFORMATION SERVICES OVERVIEW

FTI Consulting is a global business advisory firm that provides multidisciplinary solutions to complex challenges and opportunities. We provide a comprehensive finance transformation framework for redefining the activities performed in finance. Our professionals have worked with major organizations in multiple industries to help them optimize their finance operating model and achieve significant, demonstrable results. With financial management advisory resources located across the globe, FTI Consulting has a strong record of serving as a trusted advisor to CFOs. Our thought leadership professionals provide insights into the issues facing finance professionals. We offer deep finance function expertise coupled with effective technology implementation and integration capability.

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About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organizations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. FTI Consulting professionals, who are located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring.

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