Prophix®

DEFINING THE EVOLUTION OF FP&A: BENCHMARKS, CHALLENGES & OPPORTUNITIES

The Evolution of Technology & Trends Survey Report

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Summary

Historically, FP&A has been viewed as a back-office function. A provider of historical data, it was often regarded as the "scorekeeper," focused on producing routine management reports with limited forward-looking capability. Now, many FP&A leaders are regarded as trusted advisers for both strategic and operational decisions. How empowered are FP&A leaders to support CFOs who have more strategic, customer-facing, disruptive roles?

The *FP&A Empowerment: The Evolution of Technology & Trends* survey was designed to address this very question by engaging FP&A leaders from across the globe to share their experiences and insights in the following areas:

- The maturity of their analytics solutions
- The effectiveness and efficiency of their planning processes
- How their companies are leveraging technology
- Internal perceptions relative to the value of FP&A

The survey results, which include the experiences of over three hundred FP&A leaders from across the globe, offer seven insights that help define the evolution of FP&A.

Ten Key Survey Results

The following survey results serve as the foundation for the seven insights that help define the evolution of FP&A.

1. Over half of companies (55%) report being in a basic or developing state of FP&A analytical maturity. This is an indication that many companies are not analytically advanced enough to realize the full potential of modern FP&A.
2. FP&A professionals spend 47% of their time on low-value activities and only 21% on high-value activities.
3. Only twelve percent (12%) of respondents have access to the right data, at the right time, to inform strategic decisions at their companies.
4. 43% of companies are leveraging analytics to predict future results, and a mere 28% of companies report that they are leveraging FP&A analytics to prescribe what actions should be taken to improve company results.
5. Forty percent (40%) of companies reported having only basic or very basic reporting and analytical tools. The lack of investment in FP&A does not create a viable and successful infrastructure, which is needed for a modern FP&A environment.
6. Only 10% of companies reported that they find it somewhat easy or easy to perform scenario analysis.
7. Fifty-five percent (55%) of respondents conveyed that their companies don't think that FP&A delivers high strategic value. This is not surprising as over half of the organizations are still on the lower rungs of the analytical maturity ladder.
8. Seventy-nine percent (79%) of companies report that an upgrade in FP&A technology would empower their function to deliver better results.
9. Thirty-two percent (32%) of companies report that it takes longer than 3 months to complete the budget process. In a world of "unknown unknowns," such an untimely budget will be outdated even before it is finalized.
10. Only twenty-two percent (22%) of the time FP&A professionals allocate to data analysis is spent on insight generation (17%) or driving actions (5%). Fifty-one percent (51%) of their time is allocated to data collection or validation.

Research Overview

WHEN:

- Data collection occurred between Q2 and Q3 in 2017

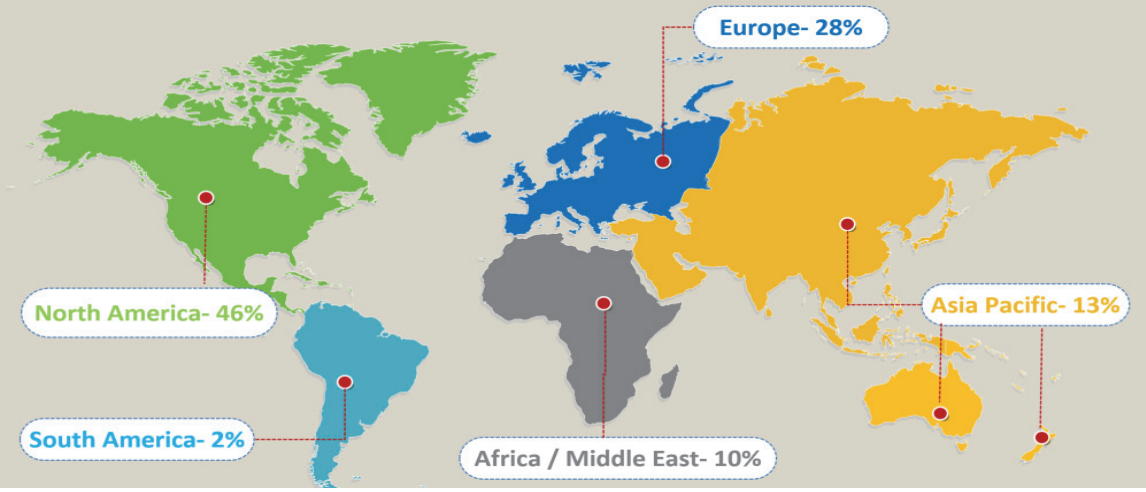
WHO:

- FP&A leaders from companies of all sizes across the globe

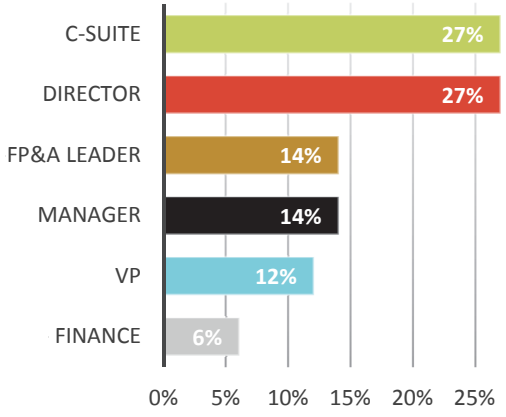
HOW:

- A total of 311 online surveys were completed
  - 41 surveys by companies with annual revenues less than $25M
  - 40 by companies with annual revenues between $25M and $100M
  - 61 by companies with annual revenues between $101M and $499M
  - 36 by companies with annual revenues between $499M and $999M
  - 73 by companies with annual revenues between $1B and $5B
  - 60 by companies with annual revenues over $5B

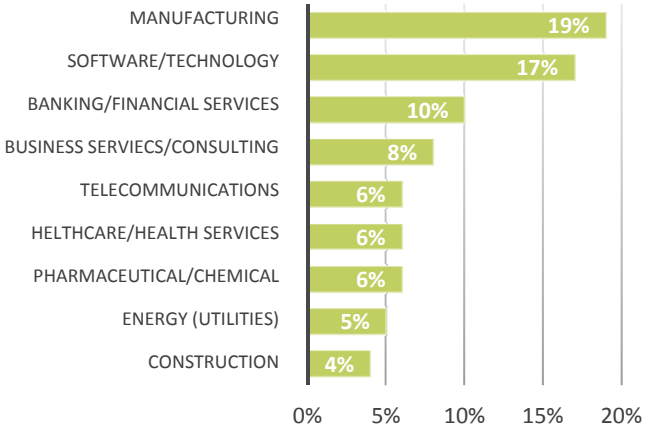
Region



Job Level

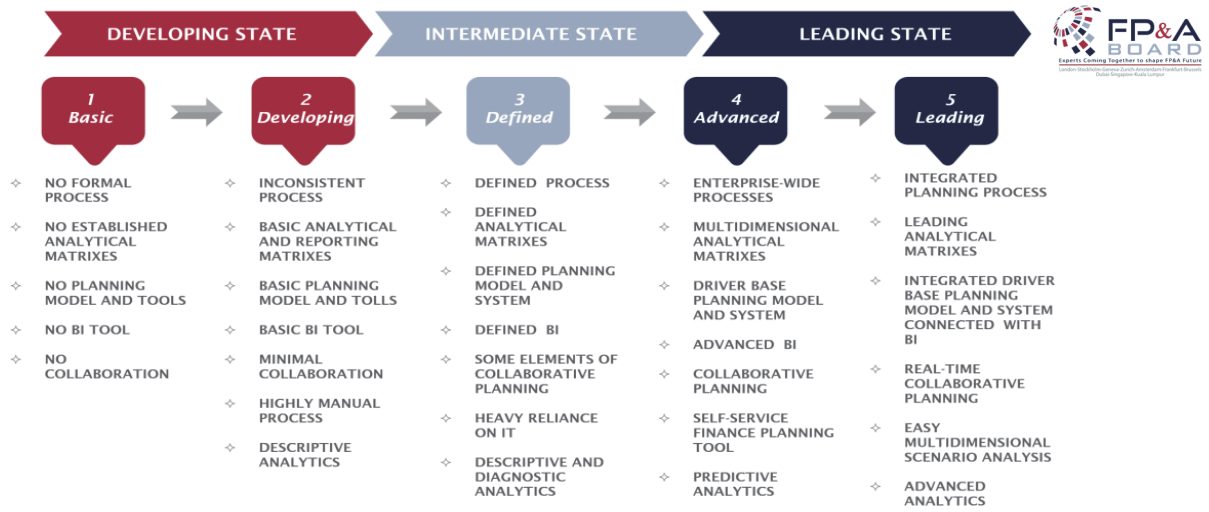


Industry



Insight 1: Companies are Immature Relative to FP&A Analytics

The International FP&A Board has developed a model that can be used to classify companies in terms of their relative FP&A analytical maturity. The three stages of FP&A analytics maturity are developing, intermediate and leading.



Mature analytical organizations reach an advanced or leading state by transforming their processes through investments in people, systems, models and flexible processes. The starting point is often an evolution in business culture, encompassing executive support for an analytical transformation followed by investments in FP&A infrastructure and the right people.

- Over half of companies (55%) report being in a basic or developing state of FP&A maturity. The main reason for this is that too much is being spent by FP&A teams on non-value adding activities that drain resources and leave analytical staff demotivated.

There are noticeable differences in FP&A analytical maturity based on company location, industry and company size, in terms of annual revenue:

- African/Middle Eastern countries have a relatively higher concentration (72%) of companies in a basic or developing state of analytical maturity.
- Technology and Financial Services companies have a relatively higher concentration (23%) of the leading or advanced categories, compared to overall average of 17%.
- Companies with annual revenue of greater than $5B reported a relatively high concentration (28%) of leading or advanced states of FP&A analytical maturity. This result does not align with observations from many International FP&A Board meetings the past several years, where there has been a greater emphasis and focus on analytics in large multi-national companies.

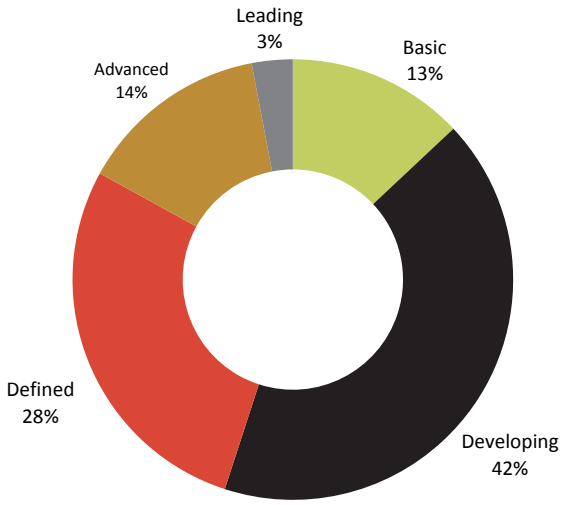
Companies were asked if they leverage analytics in one of four ways: justifying reported results, predicting future results, prescribing what actions should be taken in the future, or merely reporting results (i.e. "what happened").

- The overwhelming focus of analytics for companies is on what happened, with less focus on the more forward-looking results. Seventy-three percent (73%) of companies leverage analytics to report results and 75% leverage analytics to explain past results. Only 43% of companies are leveraging analytics to predict future results, and 28% of companies report they are leveraging FP&A analytics to prescribe what actions should be taken in the future to improve company results. The lack of investments in modern analytical tools and traditional static planning models leave many organizations stuck in the 20th century. The adoption of forward-looking analytics often requires transformational change, including the mindsets of company leaders.
- Only 41% of companies report that most decisions are based on data. The rest of the surveyed organizations are still using traditional "judgmental" decision-making processes. This problem is very much caused by an unwillingness to evolve from the traditional approach of target settings and inherently flawed budget negotiations.

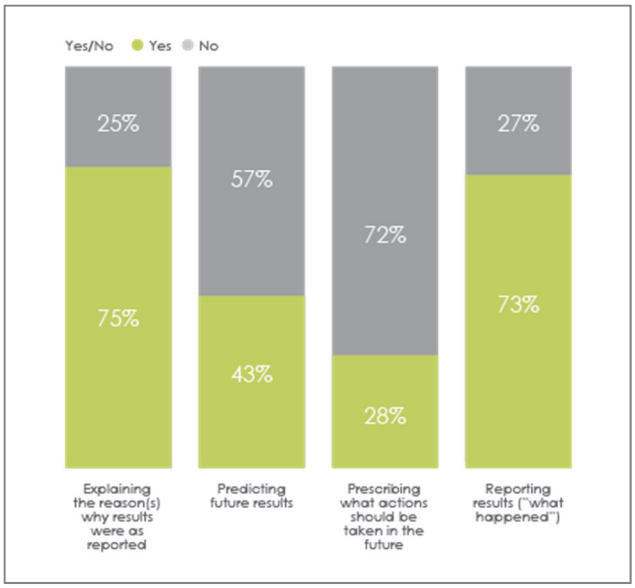
There are notable differences in ways in which companies are leveraging FP&A analytics based on company location, industry and company size, in terms of annual revenue:

- European companies have relatively low adoption rates for predictive analytics (38%) and prescriptive analytics (16%), compared to the overall survey population, which averages 43% and 28% respectively.
- North American companies have relatively high adoption rates for predictive analytics (48%) and prescriptive analytics (34%), compared to the overall survey population averages of 43% and 28% respectively. This result correlates well with the fact that North American companies have higher adoption rates of advanced cloud-based or cutting-edge FP&A analytical solutions.
- The Utilities industry has the lowest adoption rates, among the industries represented, relative to predictive analytics (14%) and prescriptive analytics (14%).

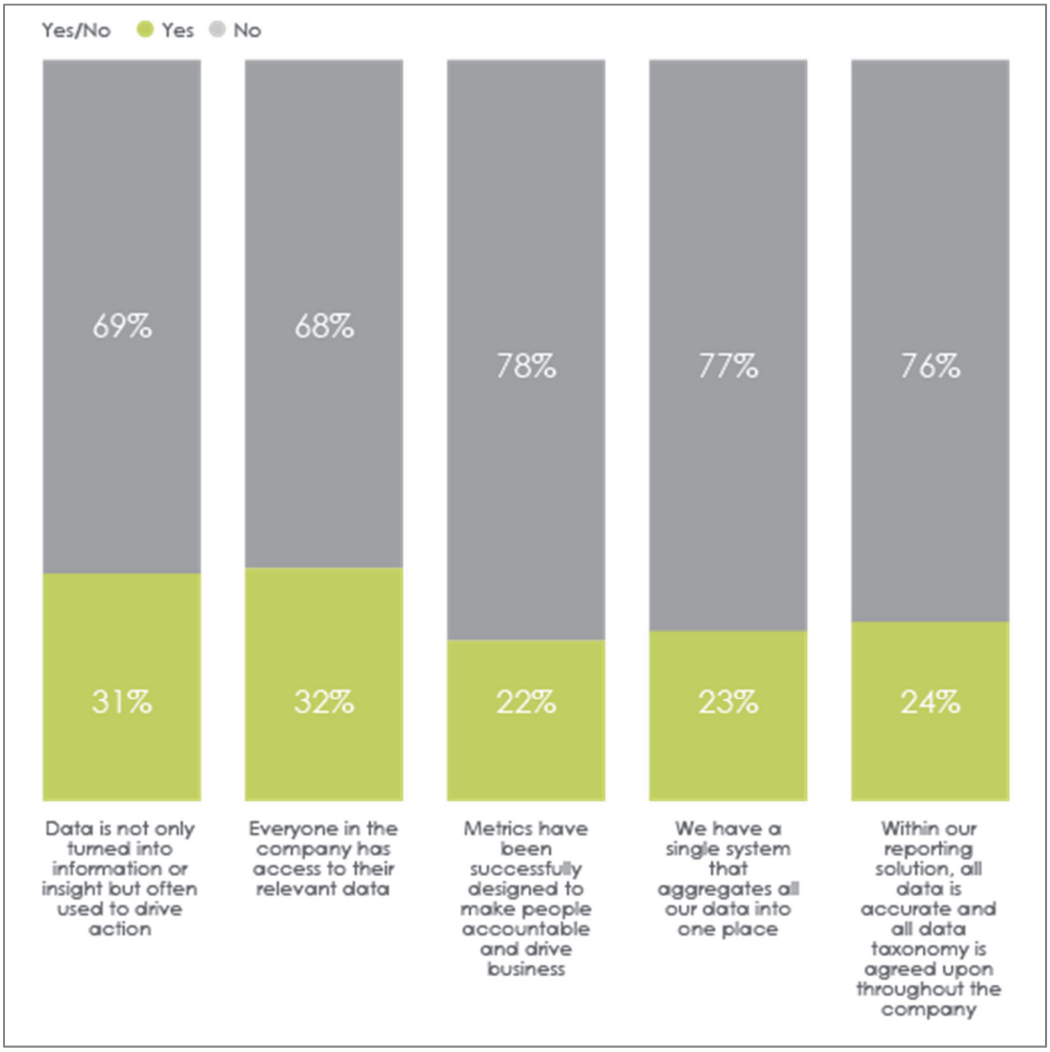
Analytics Maturity



How FP&A Leverages Analytics



Data Maturity



Insight 2: FP&A Teams Aspire to be More Strategic

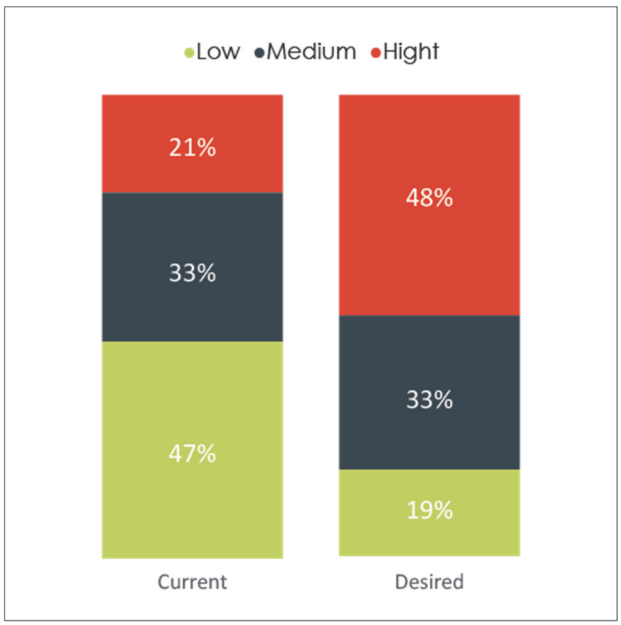
FP&A is undergoing a transformation from a back-office function to a strategic function. As it sits in the middle of the organization, it is well set for bridging operational and strategic planning processes. If the business culture allows, FP&A can become a strategic and influential business partner and enabler of strategic decision-making processes.

How much time is being spent in FP&A on high-value activities such as advanced analytics, business partnering, strategic support, and various customer-facing activities? How much more time would FP&A team members like to allocate to high-value activities?

- FP&A teams aspire to spend more than double the amount of time they are currently spending on high-value activities.
    - FP&A teams on average would like to spend 48% of their time on high-value activities, versus the 21% of time they spend today.
- Respondents with the title of Vice President are the ones most handcuffed in allocating their time to high-value activities, as they're only able to spend 17% of their time on high-value insights.
- Healthcare is the industry with the largest difference between the time respondents want to spend on high-value FP&A activities and the time they are currently spending. They aspire to spend 53% of their time versus the 16% they currently spend.

These results suggest that the FP&A infrastructure at many companies is not ready for the challenges of the 21st century. Companies are wasting valuable analytical talent on low-value adding activities such as data reconciliation, data cleansing, reports reconciliations, etc. The message is clear - organizations must invest in FP&A systems, processes and people to free up time that can be used to focus on more strategic and influential activities.

Time on High, Medium and Low Value Activities



Insight 3: Companies Invest Time on the Wrong FP&A Activities

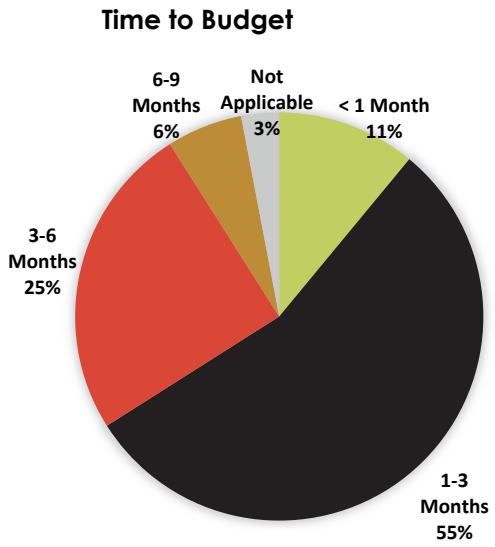
Too much time is spent on data collection and validation, and inefficient budgeting and forecasting processes. Root causes of time spent on non-value activities include low-quality data and lagging technology, in terms of having only basic or very basic reporting and analytical tools.

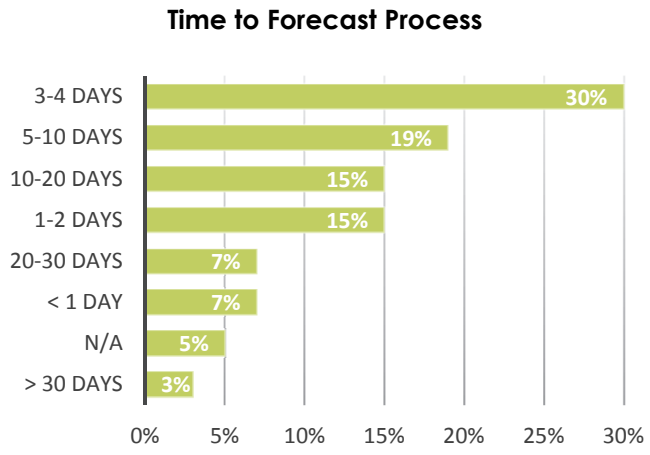
- Sixty-six percent (66%) of companies take three months or less in preparing an annual budget. This percentage is somewhat encouraging and in line with the FP&A analytical maturity profile of the survey respondents.
- Thirty-two percent (32%) of companies report that it takes longer than three months to complete the budget process. In a world of "unknown unknowns," such a heavy budget will be outdated even before it's finalized.

It is important for companies to improve the efficiency of their forecasting processes, in addition to the accuracy and timeliness of their forecasts.

- Fifty-six percent (56%) of companies are leveraging a rolling forecast, which when done correctly, can enhance business agility and decrease the time spent on budgeting and forecasting.
- Forty-four percent (44%) of companies take longer than five business days to complete a forecast and only 22% of companies can produce a forecast in two days or less.
- Only 40% of companies characterized the accuracy of their forecasts as good or great. This is not surprising given the relative data and technological immaturity of the companies represented in the survey.

Modern driver-based planning models that are implemented through flexible systems are essential ingredients for an efficient re-forecasting process and easy scenario planning. Planning process simplification is key to FP&A evolution but it requires a company to evolve from a traditional planning process. Unfortunately, in many companies, the forecasting process continues to be too detailed, static, judgmental and biased.



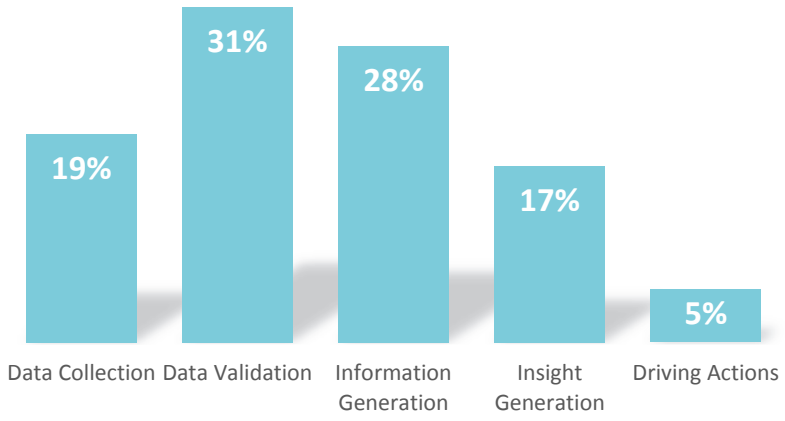


Data analytics are valuable because they generate insights that drive actions. Companies were asked how they divide their time devoted to data analytics among data collection, data validation, information generation, insight generation and driving actions. Companies are not allocating nearly enough time to insight generation and driving actions.

- Companies dedicate over 50% of the time they allocate to data analytics to data collection and validation.
- European companies use 59% of the time they allocate to data analytics to data collection and validation.
- Manufacturing companies dedicate 60% and Financial Services companies dedicate 63% of their time allocated to data analytics to data collection and validation, respectively.

By improving data maturity, companies should be able to significantly reduce the time spent on data collection and data validation. Some of the key elements of improving data maturity that can help reduce time spent on data collection and validation are creating a single source of data truth and tight control over master data management.

Data Analysis Time Allocation

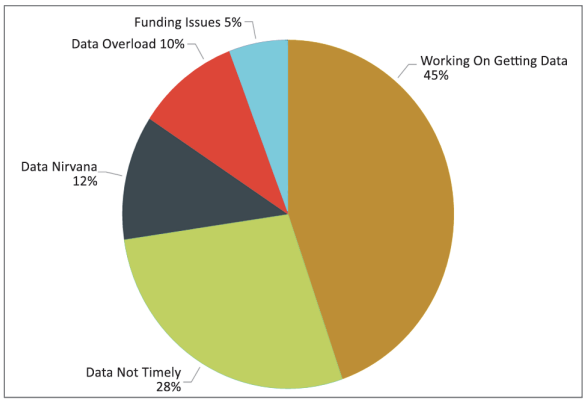


Insight 4: Companies Face a Shortage of the Right Data

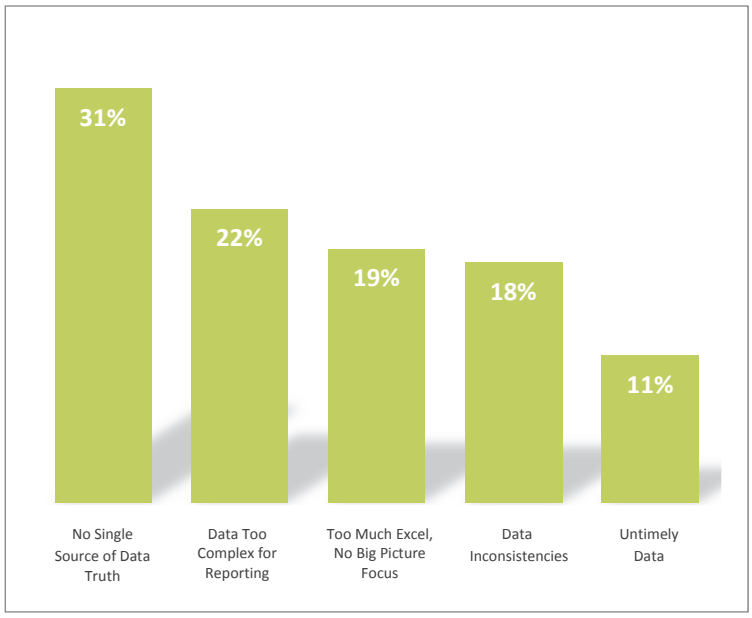
One of the big challenges of 21st-century FP&A is identifying key internal and external business drivers in a growing sea of data. Leading analytical organizations have already started to pay close attention to the modern methods of generating key analytical drivers, some of them have even started to leverage methods of machine learning and artificial intelligence for this purpose. However, the survey reveals that companies face a shortage of the right data even at the basic level. A key function of effective FP&A is to deliver a culture of data-driven decision-making across the enterprise. This means having access to the right data and having the ability to get the right information to the right person at the right time, so informed decisions are made at the optimal time. Even if companies have the right tools and process, they can fail to deliver effective and efficient FP&A without the right data.

- Thirty-one percent (31%) of companies reported that having no single-source of data truth as the most challenging issue they face when it comes to planning & analytics. This is one of the biggest drivers of low FP&A analytical maturity and FP&A staff demotivation.
- Eighty-eight percent (88%) of companies struggle with data quality. Only twelve percent (12%) of respondents have access to the right data in a timely manner. This is a very serious barrier to realizing the true power of modern FP&A. Getting financial and operational data in order continues to be one of the biggest challenges for many large organizations.
- Companies in Pharmaceutical/Chemical and Healthcare industries are the most challenged relative to data access, as no company in either industry reported being state of data nirvana. Each industry also has a relatively high percentage of companies with data overload, 29% for Pharmaceutical/Chemical and 19% for Healthcare.

Data Availability



Most Challenging Planning & Analytics Issue



Insight 5: FP&A Success is Inhibited by Technological Immaturity

Optimizing the strategic value of FP&A means achieving a leading state of FP&A analytics maturity to drive a quick and flexible decision-making process. This requires defined planning models that are driver-based and implemented through a flexible tool that supports collaboration and advanced analytics. Meeting these requirements is nearly impossible without the right technology.

- Forty percent (40%) of companies reported having only basic or very basic reporting and analytical tools.
- Only 10% of companies reported that they find it somewhat easy or very easy to perform scenario analysis. The modern decision-making process should be based on an analytical (not judgmental) scenario planning process. How 90% of the companies make their decisions is surprising given this incredible environment of "Black Swans" and "Perfect Storms."

There are differences in the analytical tools being leveraged by companies based on company location, industry and company size, in terms of annual revenue:

- North American companies leverage more advanced analytical tools than European companies. Twenty-two percent (22%) of North American companies report they are leveraging an advanced cloud-based or cutting-edge solution, as compared to only 8% of European companies.
- European (22%) and Asian (23%) companies rely more heavily on Excel, compared to North American (14%) companies.
- Companies in the Insurance industry have the highest adoption rate of advanced cloud-based solutions at 33%. This is consistent with the amount and dynamics of legislative requirements in this industry.
- There is an inverse trend between analytical maturity and company size. Twenty-nine percent (29%) of companies with less than $25 million in annual revenue are leveraging an advanced cloud-based or cutting-edge solution, as compared to thirteen percent (13%) of companies with annual revenue greater than $5 billion. This result is a bit surprising but smaller companies can be more agile and more able to adjust quickly to changing analytical requirements. The larger the company, the more legacy systems and inherent data quality issues exist, which translates into lower analytical maturity and the cost of making this change is often very high.

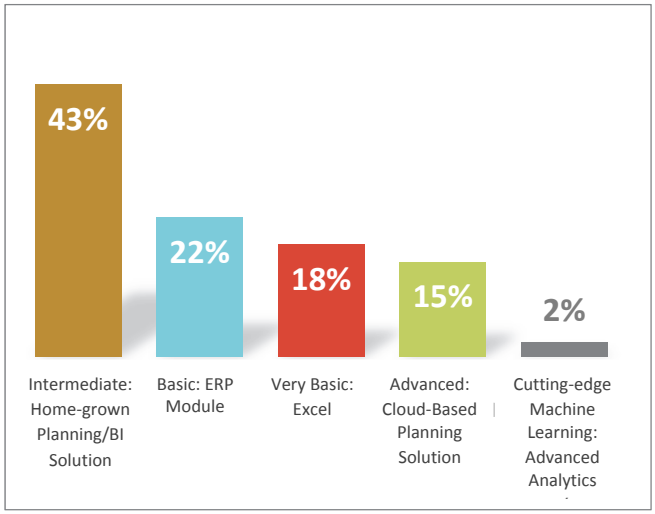
There are also notable differences in relation to the ease of performing scenario analysis by company location, industry and company size:

- Thirty-one percent (31%) of European companies find it very difficult to perform scenario analysis, compared to 17% of North American companies. This is not surprising given the lower percentage of advanced analytical technology adoption in Europe compared to the USA.
- In terms of industry level observations, 33% of Insurance companies find it somewhat easy to perform scenario analysis, compared to the overall average of 9%.
- Thirty-five percent (35%) of Pharmaceutical/Chemical companies find it very difficult to perform scenario analysis, compared to the overall average of 21%.
- 28% of companies with over $5 billion in annual revenue find it very difficult to perform scenario analysis, which is higher than the survey average of 23%. This could be due to the amount of data they are leveraging in FP&A.

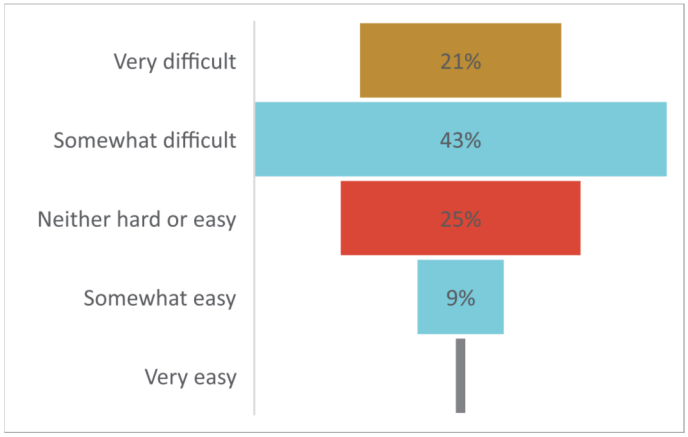
- Only 15% of companies under $25 million in annual revenue find it very difficult to perform scenario analysis. Again, this could very well be due to the amount of data they are leveraging in FP&A. In general, the smaller and less complex the company, the easier it should be to perform scenario analysis.

Companies often face inherent barriers to technological maturity, which can include the company's culture of innovation and enthusiasm for technology adoption. FP&A leaders were asked how they would classify innovation in their finance teams. Only 13% of FP&A leaders reported that a culture of continuous innovation exists in Finance. FP&A leaders were also asked to share their company' position relative to FP&A related technology adoption. Fifty percent (50%) of companies are mindful of technology but seldom upgrade, and another 28% are not looking or unlikely to upgrade. The cost of technology is declining and becoming easier to implement but if the company's mindset is not focused on continually improving technology, a technology upgrade can be a difficult sell.

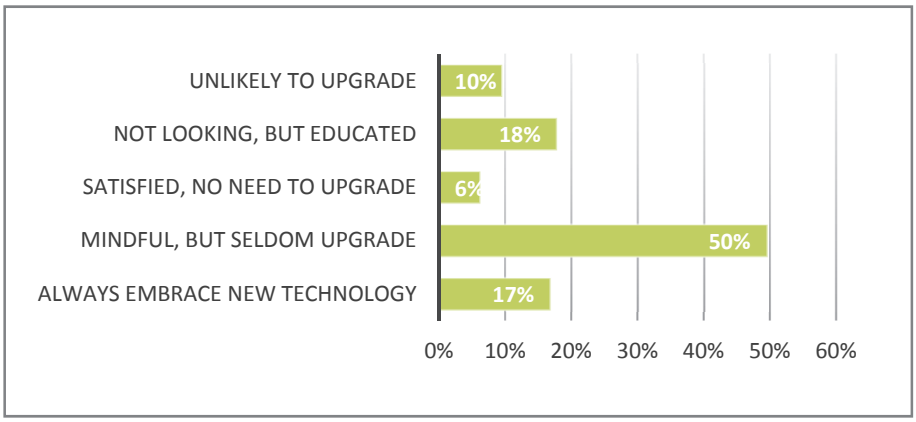
How Modern is FP&A Analytics



Ease of Performing Scenario Analysis



Technology Adoption Culture



Insight 6: Perceptions are Inhibiting Company Investments in FP&A

Effective and efficient FP&A requires the right business culture. It all starts with executive support and that means that leadership across the enterprise need to understand the value delivered by FP&A. This also means there should be a willingness by executives to invest in the right people, processes and technology to inspire a mindset of continuous improvement relative to FP&A. The perception that FP&A does not have or can't have a meaningful strategic impact can limit the value offered by FP&A. Many companies currently face one or both barriers to FP&A excellence.

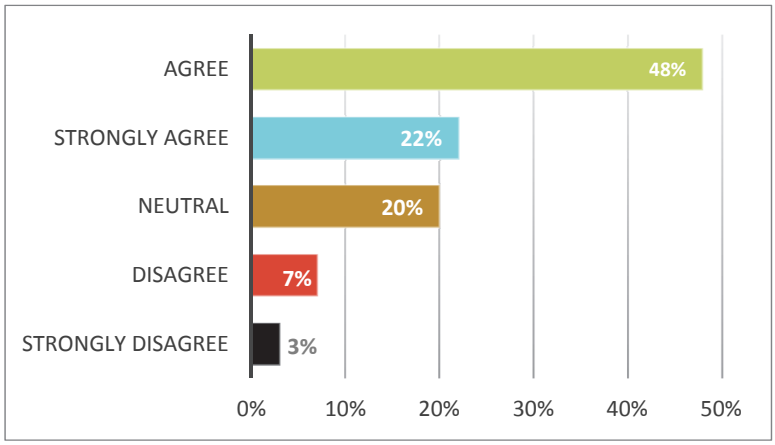
- Twenty-seven percent (27%) of respondents conveyed that their companies do not view FP&A as an area of strategic investment.
- Thirty-eight percent (38%) of companies reported it was difficult to justify the ROI of investing in FP&A against shorter term investments in Sales or Marketing.
- Fifty-five percent (55%) of respondents conveyed that their companies don't think that FP&A delivers high strategic value.

Meaningful differences across company demographics exist relative to the biggest obstacle finance leaders face in gaining investment in the FP&A function at their companies.

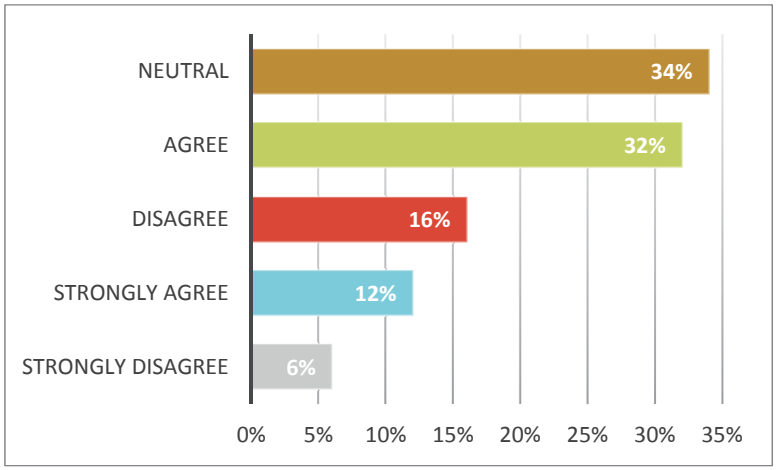
- Forty-four percent (44%) of companies located in Africa/Middle East and 53% of companies with annual revenue between $500 million and $1 billion report that FP&A is not considered an area of strategic investment, compared to the overall average of 27%.
- Forty-six percent (46%) of Asian companies and 50% of companies with annual revenue over $5 billion find it hard to justify the ROI of an investment in FP&A versus shorter term investments in Sales and Marketing, compared to the overall average of 38%.
- In terms of key industry level observations, 56% of Financial Services companies and 28% of Manufacturing companies find it is hard to justify the ROI against shorter term Sales & Marketing investments versus the overall average of 38%.
- Sixty-three percent (63%) of respondents from North American companies agree or strongly agree that FP&A delivers high strategic value, as opposed to only 44% of respondents from European companies.
- Thirty-two percent (32%) of Technology company respondents strongly agree that FP&A delivers high strategic value compared to the overall average of 19%.
- Only 50% of Healthcare company respondents indicated that their CxOs understand the strategic value of FP&A.

Without investments in FP&A infrastructure, organizations will be stuck in 20th-century decision-making processes. Restructuring existing FP&A infrastructure can involve tremendous changes: complex outdated models need to be simplified and re-written, modern planning systems need to be implemented, people educated and processes re-thought.

▼ CxOs Understand the Strategic Value of FP&A



▼ FP&A Impacts the Bottom Line



Insight 7: FP&A Leaders Want Better Data, Better Technology, More Accountability

FP&A leaders realize that much work needs to be done to deliver FP&A excellence at their companies. They see their journeys to magnifying the strategic impact of FP&A consisting of improving data quality, upgrading technology, educating people and establishing more accountability for everyone whose actions influence FP&A. Seventy-nine percent (79%) of companies report an upgrade in FP&A technology would empower them to deliver better results.

FP&A leaders were asked to identify the most important driver impacting analytical maturity at their companies.

- Thirty percent (30%) of respondents reported upgrading technology and 30% reported increased collaboration across departments.
- Thirty-eight percent (38%) of African/Middle Eastern companies identified upgrading technology and 22% reported upgrading skills as the most important driver that could impact the level of analytic maturity at their companies, compared to the overall averages of 31% and 17% respectively.
- Forty percent (40%) of respondents from Technology companies identified increasing collaboration as the most important driver that could impact the level of analytic maturity at their companies, compared to the overall average of 30%.
- Thirty-eight percent (38%) of respondents from Healthcare companies identified process improvement as the most important driver that could impact the level of analytic maturity at their companies, compared to the overall average of 20%.
- There is an inverse correlation between company size and the percentage of companies that identified increased collaboration as the most important driver that could impact the level of analytic maturity at their companies. Thirty-seven percent (37%) of respondents from companies with annual revenue less than $25 million identified increasing collaboration as the most important driver that could impact the level of analytic maturity at their companies, compared to 18% of respondents from companies with annual revenue of greater than $5 billion.

Finance leaders were asked to identify which areas among strategic planning, operational planning, management reporting, integrated planning, and forecasting, planning, and budgeting required investment at their companies:

- The majority of companies identified strategic planning (59%), forecasting, planning and budgeting (59%), and integrated planning (56%) as areas requiring investments.
- Only 37% and 33% of companies identified operational planning and management reporting as areas requiring investment.

Notable differences exist in the areas in which companies feel investment is needed by company location, industry and company size:

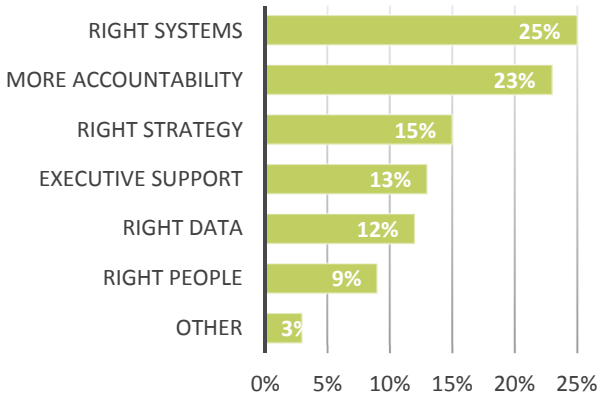
- Sixty-nine percent (69%) of Asia/Pacific companies identified strategic planning as an area requiring investment, compared to the survey average of 59%.
- Sixty-eight percent (68%) of European companies identified forecasting, planning and budgeting as an area of investment, compared to the survey average of 59%.

- Seventy-four percent (74%) of Manufacturing companies identified forecasting, planning, and budgeting as an area requiring additional investment to increase the strategic value delivered by FP&A versus the overall average of 59%.
- Fifty-nine percent (59%) of Financial Services companies identified management reporting as an area requiring additional investment to increase the strategic value delivered by FP&A versus the overall average of 41%.
- There is a positive correlation between company size and the percentage (%) of companies that identify integrated planning as an area requiring additional investment. Fifty-nine percent (59%) of companies with annual revenue less than $25M identified operational planning as an area requiring additional investment versus the overall average of 39%.

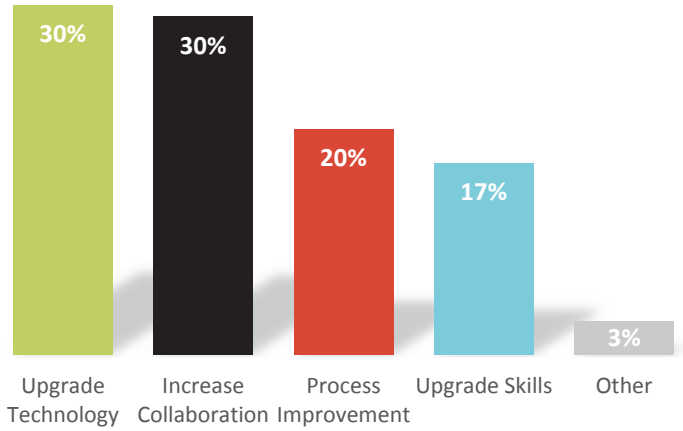
To assess what FP&A leaders feel they need most, they were given a list of potential wishes and asked to choose their top wish:

- Twenty-five percent (25%) of respondents wished for the right systems, while 22% wished for more accountability.
- The most common wish to improve the FP&A function across all the surveyed industries was to have the right systems in place.
- The top wish for thirty-two percent (32%) of Manufacturing companies is to have the right systems in place, compared to the overall average of 25%.
- More executive support was the top wish for 44% of African/Middle Eastern countries, compared to the overall average of 13%.
- The top wish to improve the FP&A function for 24% of Pharmaceutical/Chemical companies and 19% of Healthcare companies was to have the right people, compared to the overall average of 9%.

Top Wish to Improve the FP&A Function



Most Important Driver Impacting Analytic Maturity



Conclusions & Recommendations

The world of FP&A has been evolving rapidly in the 21st century. The FP&A function has undergone many cultural and analytical changes in the last 10 years. The FP&A function has never been so critical to a company's success. However, as the survey results reveal, there are still meaningful challenges that need to be addressed by many companies before they can start to realize the full potential of strategic and influential FP&A.

- The FP&A analytical state is not set for the 21st century, as over half of companies as (55%) report being in a basic or developing maturity stage.
- One of the biggest obstacles to analytical transformation is the quality of FP&A data. Eighty-eight percent (88%) of companies struggle with data quality. FP&A professionals spend too much time on finding the right data.
- Many organizations are still not leveraging modern technology for planning and forecasting with forty-percent (40%) of companies having reported only basic or very basic reporting and analytical tools.
- A quick and flexible decision-making process is based on playing out different scenarios almost in "real time." However, only 10% of companies reported that they find it easy to perform scenario analysis.
- It is not surprising that there is generally an underinvestment in planning and analytical systems given that fifty-five percent (55%) of respondents conveyed that their companies don't think that FP&A delivers strategic value.

How do companies overcome the challenges identified above and transform FP&A into an analytical, strategic and influential function? A few key recommendations:

- Drive opportunities to rationalize and free up time on low-value activates, so more time can be spent on business partnering and other high-value activities.
- FP&A infrastructure need to be transformed. Investments in people, innovative solutions, systems and improvement in planning and analytics all need to be made.
- Business culture needs to be amenable to change. FP&A teams need to be able to do a better job at selling the value they provide to ensure continued investment.
- Data is an extremely valuable company asset, and investments in data quality should be a priority.
- There is a current trend worldwide to reduce the cost of running Finance departments without thinking about investing in FP&A infrastructure. This mindset can be very damaging to the future of organizations that share this mentality.

This survey was developed and conducted in partnership with:
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