THE PROFITABILITY ARCHITECT'S PLAYBOOK

A Guide To Driving Higher Performance

ACTIONKPI
PROFITABILITY ARCHITECTS

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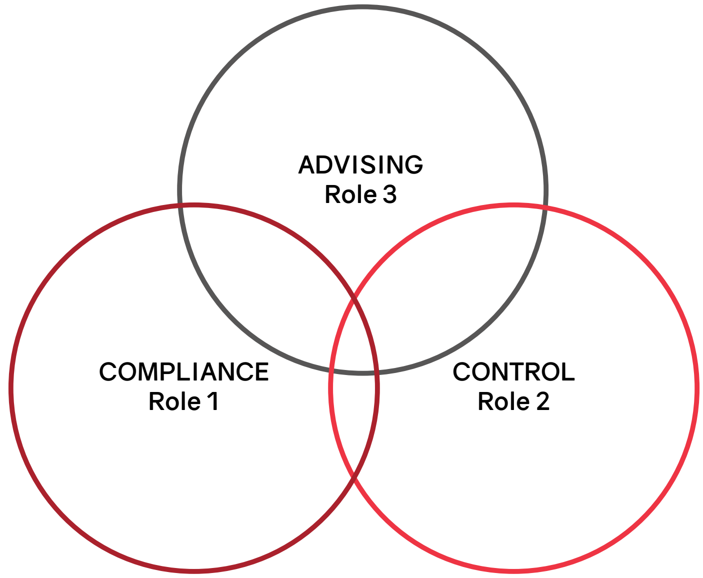
EXECUTIVE SUMMARY:

CFO Priority - Driving the Performance Agenda

CFOs and finance teams have always been the backbone of enterprise. They act as financial stewards by providing advisory, keeping score on finances, and managing cash to maintain adequate financial returns and ensure the business is a going concern.



Historically, individuals who held such roles have put their focus into maintaining financials, becoming concerned mostly with "getting the books right" and ensuring statutory requirements were met. This meant that compliance and control were the main drivers and stayed top of mind.
In recent years, financial scorekeeping has become more difficult and complex. Evolving regulations, change and growth in income streams, increased disclosure on financial statements and reporting standards, all of which has meant it's become harder and more time consuming to get the books right. And, the consequences are bigger than ever.

With all these demands, it is hard to allocate time to advisory, when the key focus for finance in a board meeting has been to be accurate and timely.

As a result, there has always been a certain "perception" regarding finance. These days however, that perception (and culture) has certainly evolved.

Times have changed!

With the evolution of technology and greater demands around performance, CFO's and finance teams are stepping out from the back office, changing cultural perceptions, and demonstrating their value as strategic advisors and partners to the business. Considering their position as financial stewards of enterprise, it is only natural that they are at the heart of driving performance initiatives and providing analytical viewpoints of business and financial performance across the company. In fact, they are the only ones that can do this within the organization.

Achieving this shift requires leadership and dedicated focus. It means building a high-performance culture and providing a holistic viewpoint on strategy, people and culture, process, and technology. At the heart is people and culture, acting as the fuel to drive performance and transformation by igniting real change. Without their support and energy to overhaul ingrained organizational habits, redefine legacy processes and transition off outdated technology, no real momentum will ever occur. A lot of hype with limited result. Market leaders emerge by getting everyone on board. Fall short and you lag behind. Succeed and you will go from good to great.

To manage this transformation, organizations and their finance teams can leverage several strategic frameworks that follow best practice, one of which is "Integrated Performance Management (IPM)". Deloitte defines this framework as follows:

"IPM is a framework that directs organisations to focus on and assess their current processes and capabilities. It guides the building of a sustainable way of doing the right things in the right way, driving focus and alignment across the organisation. It relies on a strong information and technology foundation and cross functional integration to accurately measure outcomes and reward success. In essence IPM is an interrelated set of activities, connecting the metrics, processes and systems used to monitor and manage business performance."

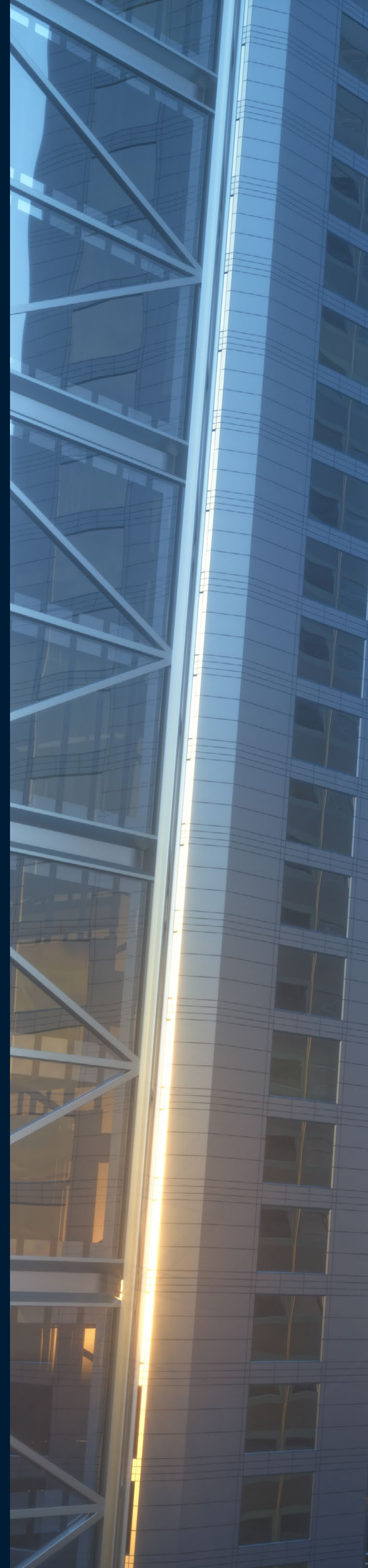
In alignment with Deloitte's definition, The Chartered Institute of Management Accountants (CIMA), the largest global management accounting body, recently released a playbook called "Reimagining Performance Management". They shared that:

"Driving Performance is all about having "strategy-focused" conversations that complement data. Business needs to reach the hearts and minds of their workforce to achieve engagement with conversations around strategy. Everyone needs to get on and make decisions, not just leaders. People take responsibility, accountability with conversations about strategy."

When it comes to creating a high-performance organization, what are the roles of the CFO and the finance team?

What are the factors that need to be overcome in order to achieve this agenda?

The overall purpose of this playbook is to provide insight and reference to specific strategic frameworks. In addition, this document will illustrate the challenges in driving the performance agenda from the finance team through to people, process, and technology, while also providing a viewpoint on a practical path forward.



PEOPLE & CULTURE
The Fuel That Drives Performance

Culture Eats Strategy for Breakfast

Performance, driven by business / financial transformation, requires change and accountability. This often evokes emotional triggers; exciting some, but taking others out of their comfort zone, eliciting negative reactions to change. This requires:

- The people driving the strategy to be passionate about the change
- Employees passionate about learning and continuous improvement
- Employees aligned to company or core values
- Employees being part of the journey, working towards a common vision

CULTURE
eats
STRATEGY
for
BREAKFAST

Culture is the biggest obstacle that derails Performance Initiatives; remaining in the status quo does not optimize the opportunity for innovation and change. This not only risks lagging behind the competition, but ultimately, business survival. A lot of companies and more specifically leadership (as teams or individuals) unconsciously or subtly reject the notion of change.

Habits are hard to break, especially when they have been established for years. "But this is how it's always been done here". Sound familiar?

This playbook is not focused on how to change company culture – it is focused on the impact that culture can have on driving performance initiatives and identifying the cultural enablers and detractors in order to devise strategies to ensure success. As a starting point, it's important to understand:

01 **How can people or culture derail performance initiatives?**

02 **What are the tips to overcome them in order to achieve success and build a high-performance organization?**

Cultural Warning Signs -
Derailing the Performance Agenda

Before embarking on any performance initiatives, it is important to determine the impact of culture and whether it will retract or enable change. The list below identifies some key warning signs:

01 Lack of investment in new technology – lots of legacy systems and processes

02 Lack of succession planning

03 Financial mindset of the organization – more focus on consistent cost cutting rather value-creation through investment

04 Efficiency and automation are not seen as a value-add

05 Data-driven decisions are limited and are not seen as value-adds to strategic initiatives

06 Decisions are based on gut instinct and relationships

07 Perception of the finance department throughout the organization is “back office”

08 Financial performance reviews only focus on backward-looking info and results against the annual budget rather than continuous monthly forecasts

09 Finance lacks strategic influence within senior management / board meetings

10 Lack of clearly measurable investment in people, training, and skills development

11 Passive resistance – lots of talk, with little corresponding action

BANG HEAD HERE

Winning Over (Some) of the Skeptics in Your Organizations

There are many cultural warning signs that could hinder a smooth performance initiative rollout if left unchecked. Fortunately, there are ways to tackle them before they get out of control. Below is a list (not extensive by any means) of practical techniques to slowly and effectively change the organization's perspective.

01 The Pathway to a Better Work Life: Quick Wins Often Build Momentum

"Take small pieces of the puzzle and show individuals on how we have improved it, showing how much time we have saved them as an individual, basically showing them the pathway of how their life is going to get better at the end of this journey" - CFO, Water Services Company

02 Leaders Need to Lead by Example

Leading an organization through a business or digital transformation requires leaders to create and establish new habits and adopt new methods or technology, which sets the tone from the top. To drive any initiative without changing anything at the leadership level, in some form, sends the wrong message down through the organization.

03 Get Out of the Contextual World, Make it Real & Visual

People do not like numbers alone, so staying in the contextual world causes confusion. Pave the path and tell a story to paint your vision.

04 Find Your Champions & Spread the Word

People that are passionate about the vision and initiative are advocates that drive informal change. Deepen the problem and be the solution.

05 New People, New Voices

New people bring a new level of energy, especially when they are aligned and passionate about the vision. These individuals can offer new perspectives and ideas, and are ultimately new voices to help influence or reshape culture, one person at a time.

06 Bold Leadership

In some cases, leadership needs to take a stance. Defining the path forward and holding people accountable to delivering. They need to round up the allies, and the champions of change and move forward swiftly, un-faltered in the direction forward. Not everyone will be along for the journey, so it is important to identify them and establish clear plans to bring them onboard from the onset.

07 Leadership Mindset

Leaders must champion business planning and emphasize a forward-looking mindset while keeping an eye on how business drivers affect current-year targets. They should also empower their employees to think differently and shift from a transactional focus to an analytical, advisory role.

Winning over sceptics in your organization and changing culture takes time. Being aware of cultural warning signs and how they can be overcome is a vital exercise before embarking on a performance initiative journey.

People Drive Performance

In most organizations, finance is the driver behind the performance agenda, so ensuring that the right people are in the right finance function is critical. Any framework, process, or initiative is pointless unless your key people have the right skills and passion to take things to the next level. Rolling out an "Integrated Performance Management Plan", "Finance Business Partner Model", or "Integrated Business Planning Methodology" (which is covered in the next section) requires a different mindset and skillset, which often goes beyond the knowledge of a traditional finance professional.

According to Accenture's Report, Financial Planning & Analysis – Powering the CFO Agenda, the current FP&A workforce needs to be reskilled and trained in the following emerging areas:

- Emphasizing efforts on business partnering areas (highly skilled, knowledgeable, and business-line-specific resources
- Increasing their focus on advanced predictive analytical skills
- Teaming with business to better understand and improve reports and analytics

New Skills for Existing FP&A Role

Existing Role	Existing Skills	New Skills and Requirements
Financial Analyst	Analyzing business results, reporting on variances	• Anticipating alternative scenarios, tracking their emergence by working with data scientists to identify triggers and source data • Focus on specialized finance skills in the areas of business (e.g. pricing) • Predictive analysis and scenario tracking • Impacting business performance while it is happening rather than after the fact reporting and variance analysis

Source: (Accenture, 2019)

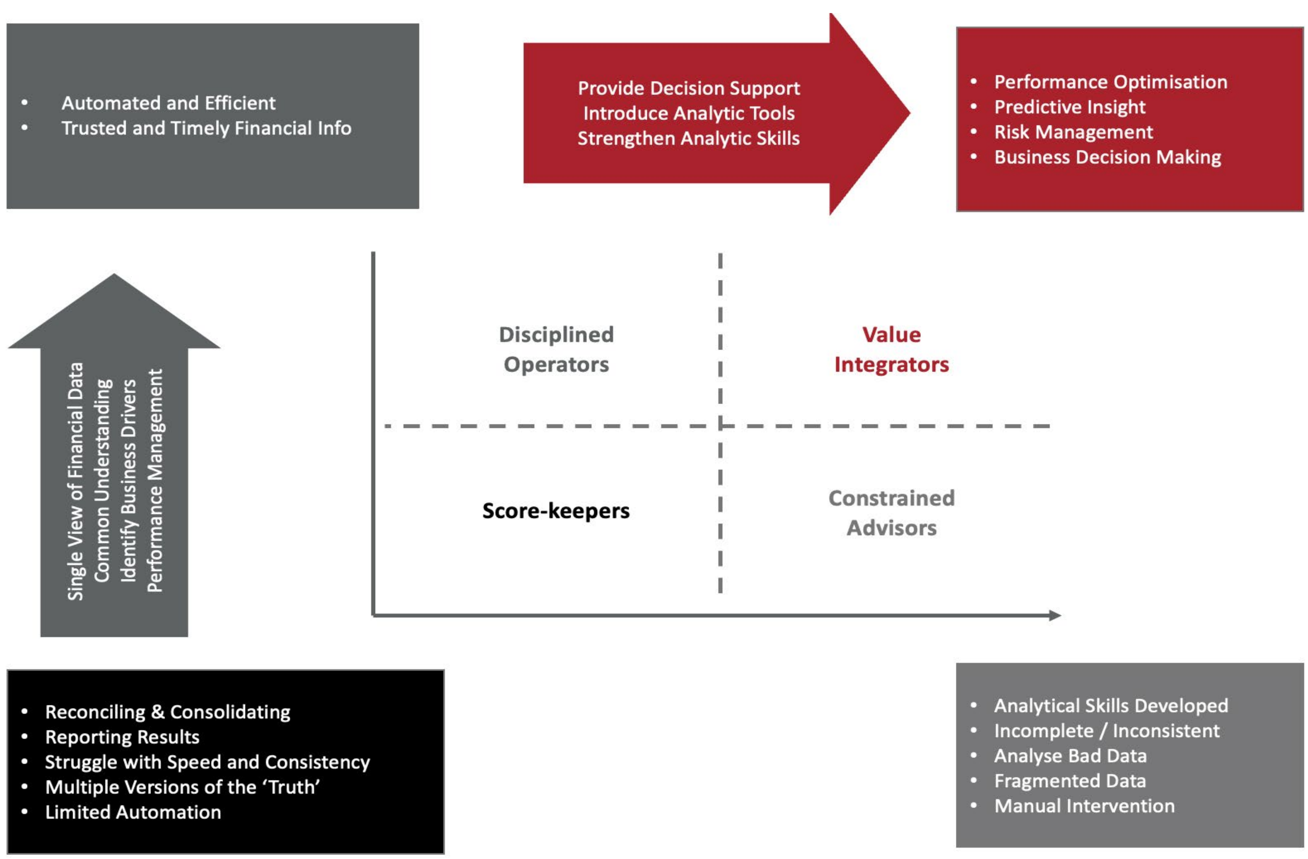
What is Evolving the Financial Skillset & Associated Mindset Behind Performance?

Having an opening mindset that is driven on continuous improvement and learning is a prerequisite in today's world, but following through and translating this emotional energy into actions and embedding new habits is key. Moreover, having a relentless focus on "finding a better way" and taking the initiative, rather than waiting, is where true performance is eventually achieved.

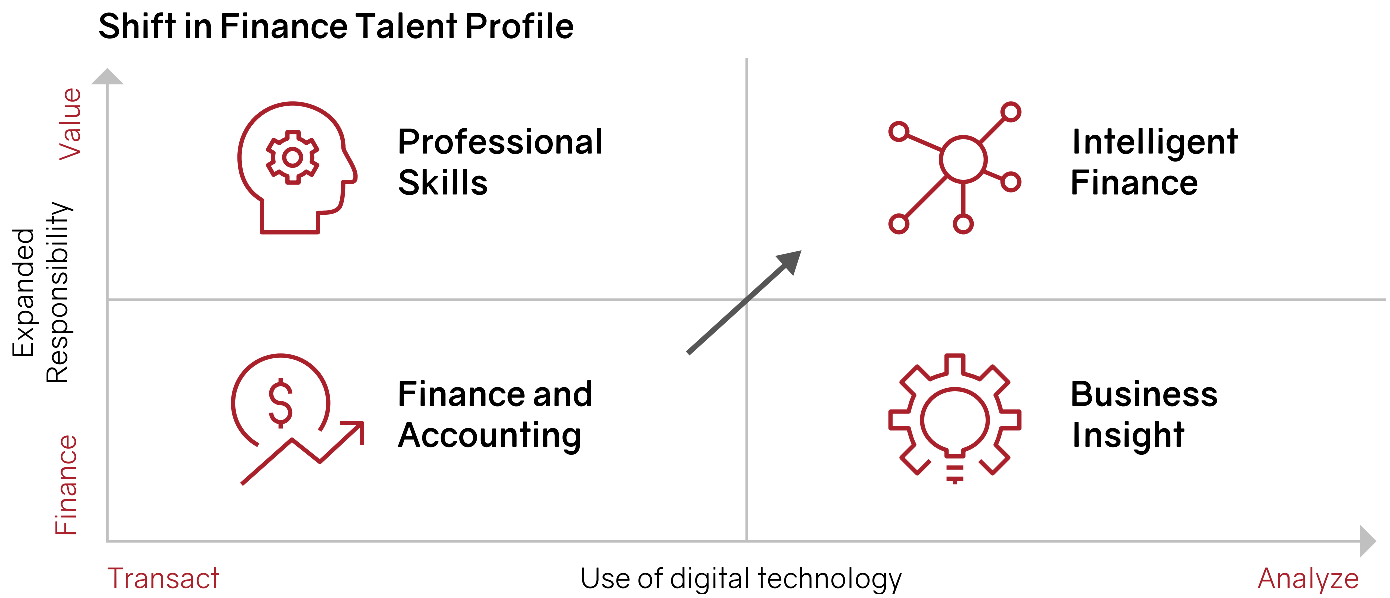
For finance, its about becoming strategic advisors to the business and value integrators.

To support this mindset, skillsets too needs to evolve:

- Expand from a pure financial focus to a more holistic view of business performance. Understand the business drivers that influence performance and profitability, and connect the dots between operations and finance
- Communicate insights, formulate opinions that add value, and influence decisions with data and visual storytelling
- Deepen knowledge of business process and subsequent dataflow that create linkages to KPIs across the organization and back up to Financial Statements
- Sharpen the blade in technology - look beyond Excel to unlock additional value and insight for the business
- Understand the business strategy and provide highly relevant insight into business performance
- Act as a key stakeholder in the decision-making process through the provision of risk-adjusted financial info and analysis



Financial professionals and the FP&A workforce are evolving in order to provide more value to the business through expanded responsibility and leveraging digital skills. This shift is allowing these professionals to transition from being perceived as a "back office function" to being acknowledged as strategic partners (moving towards the "Intelligent Finance" quadrant).



Source: (Accenture, 2019)

Upskilling, Attracting, & Retaining Talent

Attracting and retaining talent means introducing a common vision; one that helps them see what the organization's future of finance looks like and how they play a crucial role in defining it. If there is no vision or plan, highly skilled professionals will not feel encouraged or equipped to drive transformation, and by default, they will be influenced to follow the status quo.

Investing in technology and tools is critical to retaining and supporting talent. Cutting edge technology helps attract talent by offering opportunities to expand skillsets or building on existing ones. Evolving these skills, enables finance professionals to realise their full potential and align successfully with performance initiatives. This requires a deeper understanding of technology; both its infrastructure and capabilities, and most importantly, how it can be woven into the fabric of the business to better understand and drive performance.

This investment, although intangible, is more likely to result in the retention of the right people, which in turn can increase in the level of success for the rollout of any performance initiative. On the flip side, to save money, and defer investment in talent, technology and tools is one way to detract or push highly skilled professionals away, putting performance initiatives at risk.

Too much manual process and not enough automation (which directly ties into new technology) serves to demotivate talent, detracting their focus on valuable insights, and driving performance. Furthermore, this risks an over-worked, burnt-out workforce, and a staff churn through demotivation and frustration.

The opportunity cost of great people cannot be quantified in terms of dollars. Great people are an intangible factor that creates overwhelming value with the right support and investment.

New Technology / Tools can attract talent and enable new skills.

Lack of Investment = Burnout and loss of talent or attracting sub-par talent.

CFO Influence

The CFO needs to become the foundational pillar of the organization, providing strength for finance in a relentless pursuit of their unfaltering vision to drive performance initiatives. That said, bias oftentimes accompanies experience, so this transition can be difficult for CFOs.

When it comes to performance initiatives, CFOs need to lead by example. While this may be obvious, their unconscious habits may have other plans. The status quo is dictated by the message they deliver through their behaviours and weekly habits.

Monthly board or monthly review meetings that are presented through PowerPoint and Excel are common practice, however, this may send the wrong signals down the line if the strategic goal is to drive automation and digital transformation. How can we expect middle management, staff, and finance professionals to adopt and rely on dashboards and automate their processes when they are forced to serve up information to leadership through Excel and PowerPoint presentations?

One subtlety to evoke change from the top could include delivering presentations through interactive dashboards, or leveraging integrated business planning systems to run scenarios on the fly in order tell a dynamic and engaging narrative.

"If the CFO is truly the pillar of change, they need to be bold in paving the way forward. The talent they attract should support and reinforce this. If this pillar falters, the organization risks slipping back into their old ways."

How can you expect your finance team to change if leadership isn't leading the way in some form?

PEOPLE & CULTURE
Summary

The first step in driving a performance initiative, business, and digital transformation is understanding company culture and assimilating the right team to drive it forward successfully. For Finance, establishing a team that has the forward-looking mindset, analytical skills, and commercial aptitude to influence and facilitate financial and business decision-making is crucial. Without this, you could be setting yourself up for failure or fall short of expectations.

With the right team in place, the next step is rolling out an integrated performance management plan, which requires a process or strategic framework to follow to ensure alignment and transparency from your vision to strategic execution.

PROCESS
Strategic Frameworks that Drive Performance Execution for Finance

This section is focused on the strategic frameworks or models that finance can use to help drive performance within their organization. While various definitions and opinions are referenced from leading global consultancies to provide an overview, this section goes beyond their viewpoint, explaining why these frameworks fail in reality, and the tips or considerations when rolling them out.

Finance Business Partner Model Overview

Though commonly known, The Finance Business Partner Model (FBP) is becoming the new standard for finance. This framework strives to move finance from the back-office function to a strategic partner position, where they can use their expertise to facilitate and enable decision-making. This model allows finance to work directly with the business to drive profitability and performance.

Successful FBP programs influence the decisions a business makes beyond the numbers. Traditional financial development programs and institutions have focused on honing technical proficiency and not on commercial leadership or behaviour.

PwC outlines specific characteristics of a Finance Business Partner: (PWC, 2017)

NAVIGATION

The Finance Business Partner is required to act as a co-pilot of the business; sitting beside them and pointing out the dangers or possible shortcuts. Providing valuable information at the right time, enabling the business to make the right decisions.

RESILIENCE

The Finance Business Partner should remain resilient and be able to absorb internal and external developments. Adaptability and flexibility are of grave importance.

MEDIATION

The Finance Business Partner should be well-equipped to build the connections between different stakeholders; be it external, as well as internal. For instance, by facilitating stakeholders in their information demand with insights and platforms that go above and beyond traditional reporting.

CONNECTIVITY

The Finance Business Partner should be able to make connections within the organisations. This could revolve around smart process building with the right level of automation, delivering the right data to the right stakeholder, or the internalisation of external insights.

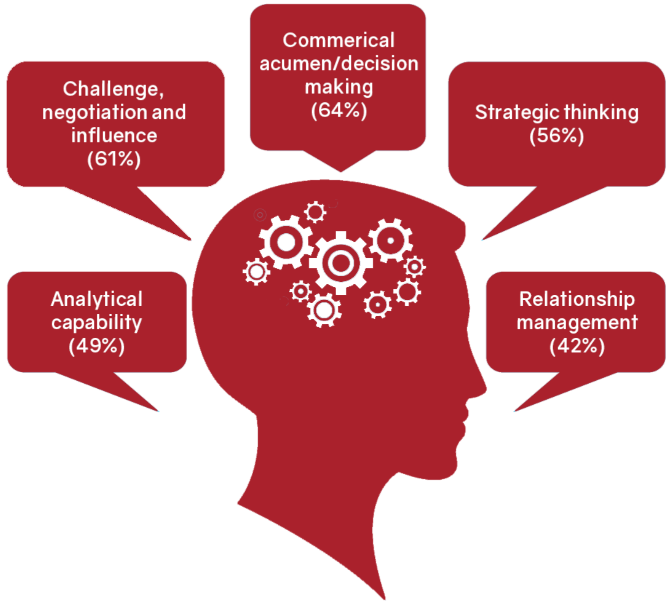
Connectivity - connecting the organisation, data, people, processes to achieve success

In an alternative view from PwC, Deloitte outlines a Finance Business Partner as follows:

- Align to strategic initiatives to finance business partner activities, collaborate with the business to gain trust and buy in
- Optimize data and analytics – understanding value drivers and KPIs, which is as important as having internal / external data readily available, easy to analyse and cleansed
- Technical knowledge of finance is not enough, soft skills are key such as influence and communication including translating financial plans into operational environment

Deloitte further describes the role of Finance Business Partners as more akin to business leaders and strategic advisors, placing more emphasis on business acumen, soft skills, and analytical capability.

While people are at the heart of the Finance Business Partner Model, it's the supportive culture and enablement of these capabilities that is essential to driving this initiative forward.

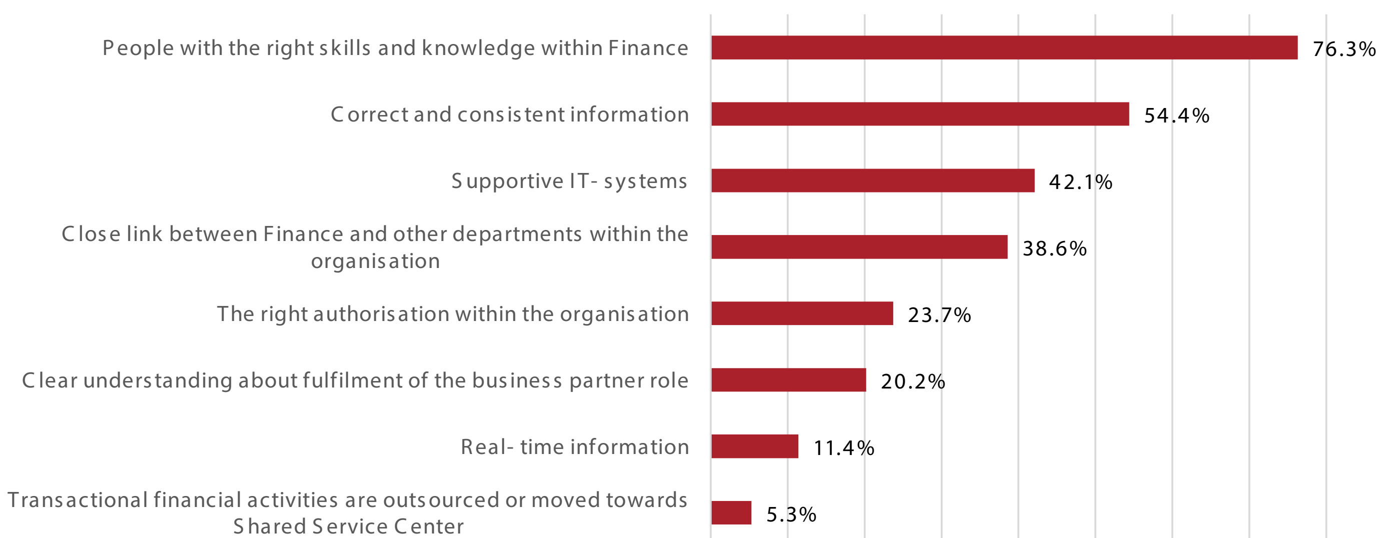


Source: (Deloitte, 2012)

According to PwC, the second most important aspect to delivering a successful FBP Model is systems and access to information. These elements allow FBP's to truly support the business and enable data-driven decision making.

Like any performance initiative, an FBP Model requires change - changes in mindset of the individual Finance Business Partner, in capabilities, and in organizational acceptance. Change is the only thing that will enable finance to drive more value and performance within the organization.

KEY SUCCESS CRITERIA FOR SUCCESSFUL FBP PROGRAMS



Source: (PWC, 2017)

Why the FBP Model Fails to Deliver

While the role of a Finance Business Partner is well defined, challenges and constraints still arise. Two common themes identified in a PwC and Deloitte Finance Business Partnering paper are:

01 Unsupportive IT systems or lack of systems and process

02 Lack of capabilities or skills required to be a Finance Business Partner

PwC had the following to say about "unsupported IT systems":

"Our experience is that a variety of IT related problems is caused by the implementation of the IT-systems. Organisations are unable to correctly translate the strategy of the organisation to a complementary IT solution that produces the desired insights. This results in a lot of undesirable manual input in order to make relevant information with the correct quality standards available."

Source: (PWC, 2017)

As for capabilities, in some instances, finance professionals find themselves "accidentally" in the role where a new set of skills are required. They are thrown in at the deep end and need to get out in front of the business to quickly build rapport and trust. This requires knowledge of the workings of other departments and pushes them out of their comfort zone, forcing them to look at processes more holistically and ask the tough questions. This capability and skill takes time to develop, and is not suitable for every finance professional.

According to Deloitte, ***"Finance Business Partners are a costly and valuable resource, yet they often spend a significant amount of time on data manipulation, reconciliation and reports that are of no direct value to the business. Typically this is caused by poor systems and processes, but is also due to a lack of understanding about what activities will drive value in the business"***. (Deloitte, 2012)

57%

of respondents believe that their Finance systems are a barrier to Business Partnering

52%

of organisations believe that they do not have the right capabilities in Finance to successfully deliver Business Partnering

(PWC, 2017)

Do these two main issues go hand in hand?

Does the Financial Business Partner have the capability, or the potential, but are being held back by systems and processes? Do the analytical tools limit the Finance Business Partner's development of their analytical skills? Or can they see beyond the current state?

In reality, it is tough to de-couple technology from the Financial Business Partnering process, as they are very interrelated.

Either way, if not dealt with, the impact of these two issues will mean further detriment to the organization and the FBP initiative. Below are few examples.

PRODUCING INSIGHTS BECOMES A BURDEN AND DRAIN ON RESOURCES OVER TIME

Without supportive processes and systems producing insights can be a highly manual process, which puts a burden on both finance and operations. Over time this can detract from the value, resulting in resentment and eventually regressing back to old ways or halting the production of this information and insight altogether.

LACK OF TRUST IN THE INFORMATION PRODUCED

If operational and financial data are not integrated as a single source of truth, then they are likely mashed together in spreadsheets, resulting in potential errors and leading to mistrust in the information. This puts a lot of unnecessary stress on the people producing it.

LOSS OF TALENT - FINANCE TEAMS GET BURNT OUT AND LEAVE

The FBP model is established, but there is no evolution or investment in technology and tools that allow them to do their job in a productive manner. Long days start to add up quickly and they walk out the door.

CONTINUE TO INVEST IN THE WRONG TOOLS

Too much focus and investment on backward-looking reporting and analytics cycles, rather than supporting high quality decision making, real-time analysis, and business planning.

Practical Tips for the People Behind Finance Business Partnering

While PWC outlines important characteristics of a Finance Business Partner according to their survey, the list below is more practical and expansive providing tips based on collective experience.

COMMUNICATION AND RELATIONSHIP SKILLS (SOFT SKILLS)

- Break down barriers and change the preconceptions of finance. Develop rapport and build relationships and trust with the business.
- Help stakeholders get out of their comfort zones on a consistent basis. This push creates a culture shift and rids the stagnant mindset of "this is how it's always been done". This is where the real learning happens!

ANALYTICAL SKILLS

- Advise operations / business units and serve up analysis, trends gone unforeseen, cost savings, or performance insights.
- Finance needs to know the business process and the data points created along the way so they can extract valuable KPIs.
- Evolve skills beyond Excel and use visualization and enterprise planning tools for depth and storytelling.

LEARN THE BUSINESS (KNOWLEDGE OF THE ORGANIZATION)

- Get out of the office and see what goes on in operations. Bring the analysis to the real world.
- Take off your finance hat and wear your business hat. Be a part of the business department (problem solving unit).
- Educate the business on the financial consequences of their decisions. Model it for them and help them understand.

INSIGHTS

- Develop confidence to provide your opinion and potential recommendations. At the bare minimum, present analysis that informs the business to take action and drive performance.
- Move from backward-looking analysis to forward-looking forecasts and projections
- Bring forward insights - don't wait for them to ask. Take the initiative.

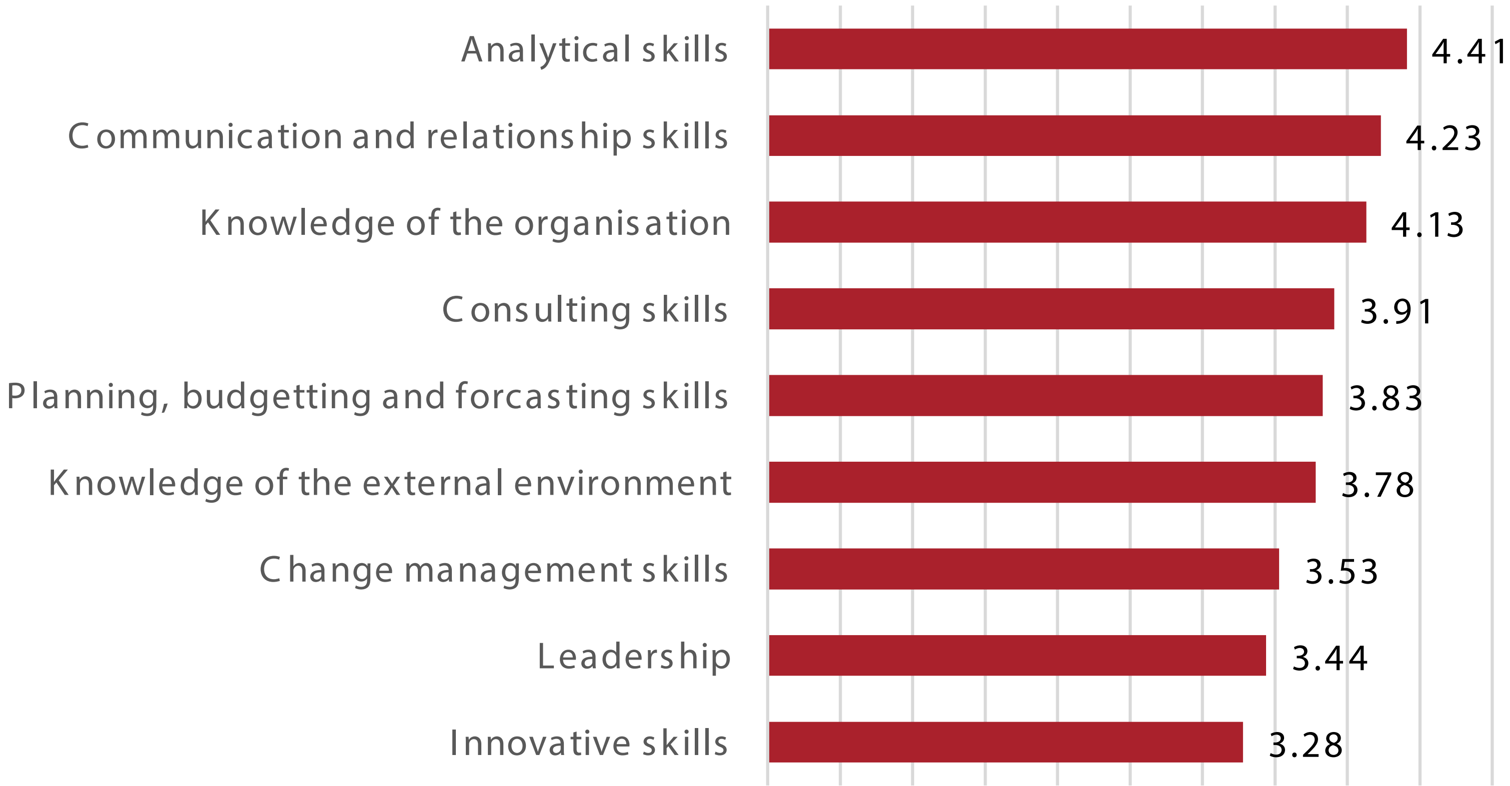
ACCOUNTABILITY

- Pass the ownership of financials, forecasts, or business plans to the business units. Get them to speak to their financial statements. Make them own the numbers while you challenge and support them.
- Facilitate the conversation around performance to stimulate "Strategic Conversations"
- Build a regular cadence and develop new habits during performance reviews. Incremental improvements build habits.

EDUCATE THE BUSINESS ON FINANCE

- Develop presentations to educate the business on financial terms. Don't copy text books - speak to them in the language of business, risk, and impact. Explain to them why this is important for them to know.
- Help them understand the linkage between operational KPIs, financial outcomes, and their decisions.
- Develop an Operational PL, one that is relevant to their aspect of the Corporate P&L. Include relevant KPIs and operational activities to provide transparency to the GL. Create alignment with finance.

Which characteristics are important for a Finance Business Partner (scale of 1 to 5)



Source: (PWC, 2017)

INTEGRATED BUSINESS PLANNING:
Key Ingredient for Effective Finance Business Partnering

Alignment & Execution of Performance Management Initiatives

While the Finance Business Partner Model establishes relationships through partnering and supporting the business with insight, Integrated Business Planning creates a more cohesive framework that focuses and unifies performance management. Unifying these models is a very strategic approach to driving business performance.

In essence, the FBP Model helps prepare the organization for greater collaboration holistically across the business.

"Integrated Business Planning builds on the success of a Finance Business Partnering Model."

Lance Tylor, CEO at ActionKPI

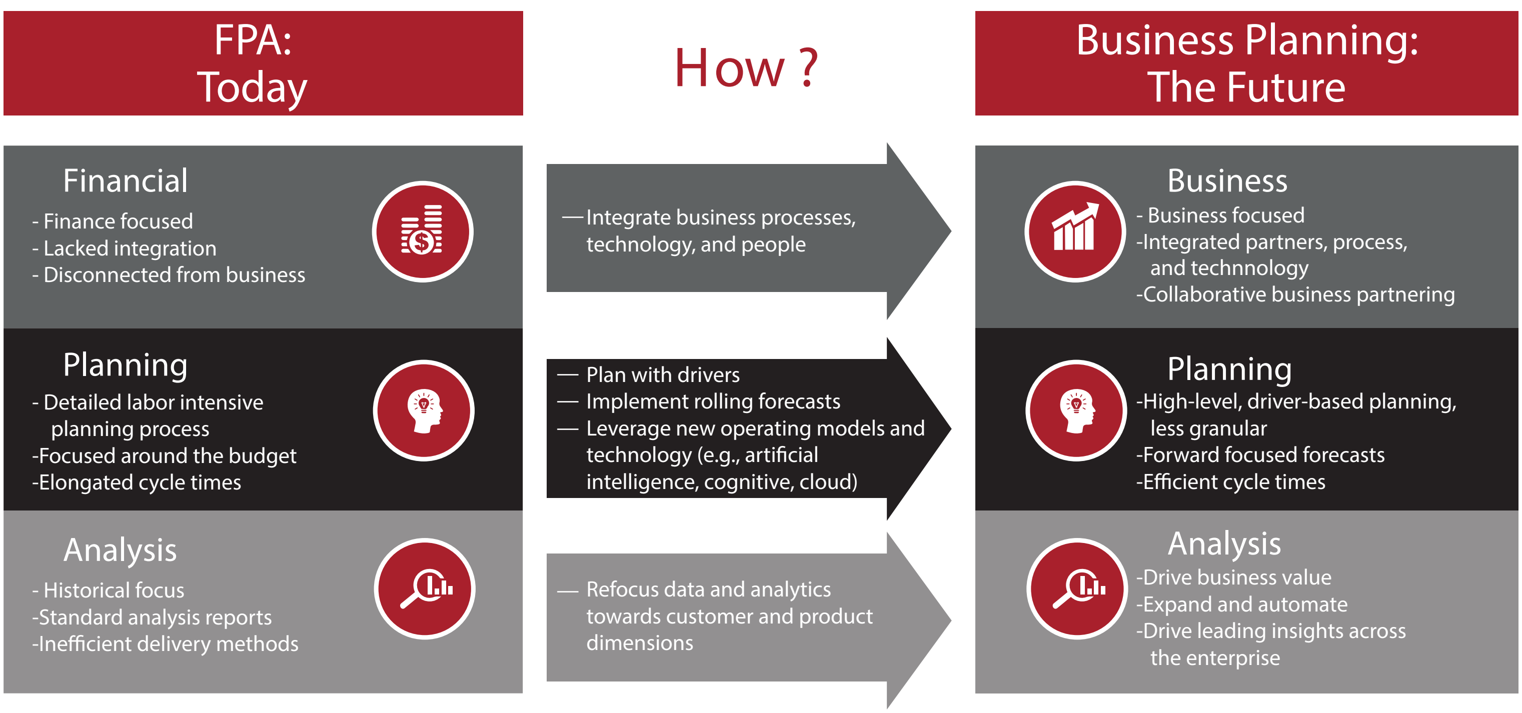
What is Integrated Business Planning?

Integrated Business Planning (IBP) is a model that enables greater planning accuracy and operational performance by aligning strategic planning, finance, supply chain, sales, marketing, and product development or service delivery functions. It is this alignment that drives real corporate performance such as earnings per share, operating margin, and working capital.

KMPG's point of view on Integrated Business Planning

"Leading companies are taking a broader and more integrated approach to business planning, looking at all other business units and functions holistically. They are making sure that traditional budgeting, planning, and forecasting processes are clearly linked to strategic and operational imperatives. Finance is uniquely positioned to lead this evolution, thanks to its integral role in challenging and enabling better decision making and providing business insights through the lens of operational and financial performance"

Adapting to change in today's dynamic business environment requires a transition from traditional planning and analysis (FP&A) to business planning and analysis.



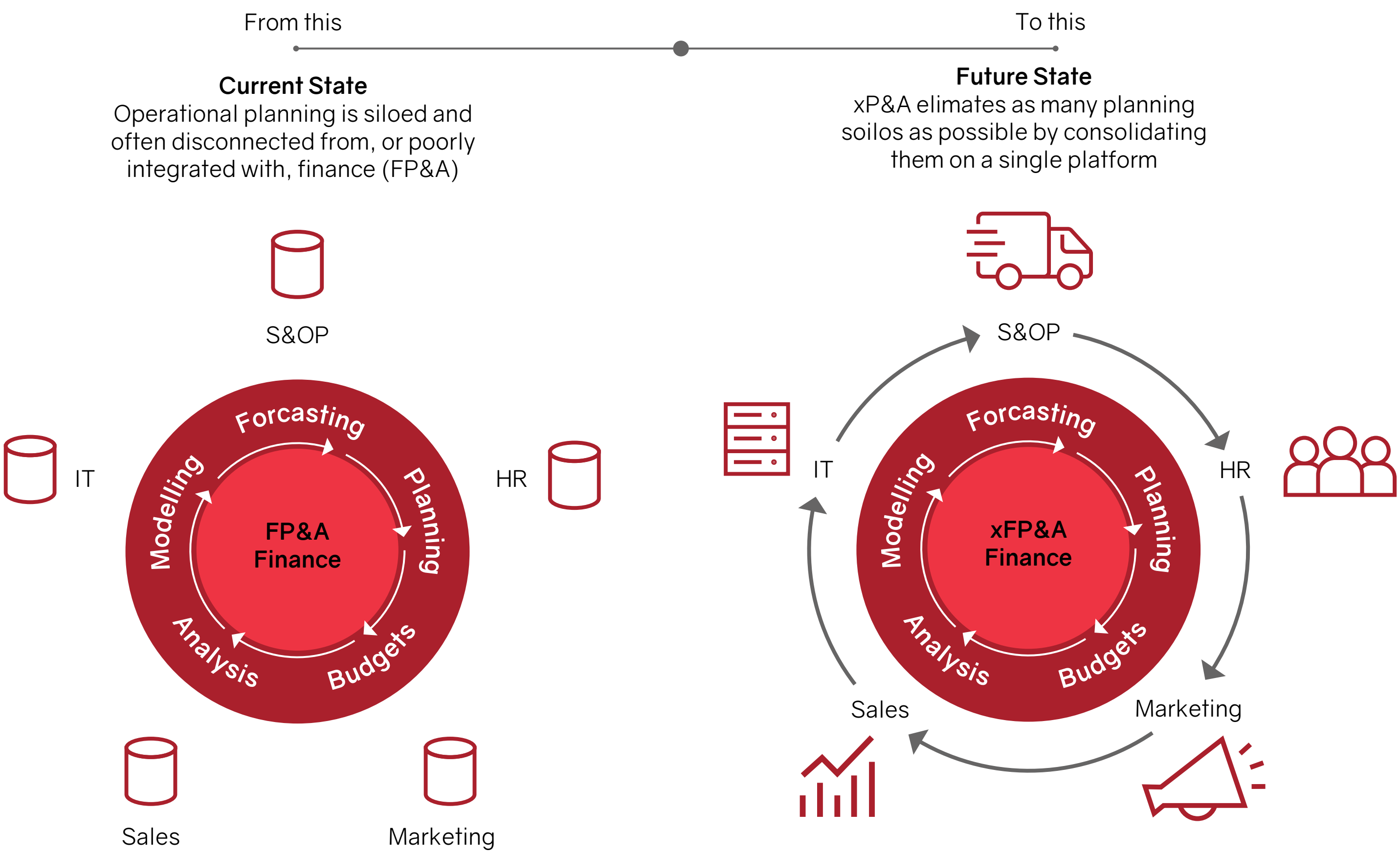
Source: (KPMG, 2017)

Market Relevance

We all know the market pressures that are forcing companies to drive these performance management initiatives. While institutes and big consulting firms make that concept clear, Gartner (a large research body) actually created a new technology category in 2020 for "Integrated Business Planning", which they defined as "Extended Planning and Analytics (xP&A)".

Here are a couple of interesting stats from Gartner:

- Through 2024, 30% of financial planning and analysis (FP&A) implementations will be extended to support operational finance processes and 50% will require a substantial extended planning and analysis (xP&A) roadmap from the vendor
- Through 2024, 50% of financial application leaders will incorporate a composable financial management system (FMS) approach into their solution selection process
- Through 2024, 80% of xP&A attempts to improve supply chain planning will fail due to the unsuitability of available solutions



Source: (Gartner, 2020)

Today's FP&A solutions remain focused on the office of finance — that is, they are sold to the finance organization, with the primary goal of increasing financial planning accuracy. Before getting boxed into a budgeting / forecasting tool that lacks depth and integration with operational activities (i.e. beyond the GL), there should be consideration of xP&A tools that are capable of Integrated Business Planning.

Specific Impact to Finance: Difference Between Financial Planning & Integrated Business Planning

Key distinction between financial planning, the traditional finance approach, and Integrated Business Planning can really be outlined as follows:

Consider how the two compare

Financial planning is focused on budgeting and forecasting within a fiscal year, with an emphasis on meeting the quarter or year-to-go target. Functional teams aim to cut costs rather than anticipate upcoming business issues. Analysis is primarily focused on historical reporting and standard reports combined with inefficient delivery models. Reports, tools, and information are often outdated and not aligned to key business drivers, leading to a reactive mindset.

In contrast, a **business planning** approach incorporates activities from functions that are crucial to moving the business forward—such as sales, marketing, and operational planning—all aligned with the strategic vision of the company. Rather than targeting a pure financial valuation, the company integrates key functional areas that have a pulse on the business.

Source: (KPMG, 2017)

ACCENTURE'S POINT OF VIEW

Accenture's viewpoint is centered on the FP&A operating model, the contrast between traditional to leading in the chart is in alignment with "Integrated Business Planning".

Capability Evolution of FP&A Operating Models

	Traditional	Competitive	Leading
Nature of Budgets and Forecasts	Annual budgets based on unsupported assumptions and decentralized formula.	Annual budget replaced with driver-based rolling forecast; financial outcomes linked to key drivers of current and future value.	The concept of the budget is replaced by an advanced ecosystem of data-driven dynamic forecasting and strategic planning capabilities.
Process	Iterative, bottom-up process with legal entity focus and central consolidation.	Business unit focused, aligned with central guidelines and schedules, and focused on drivers.	Company-wide, integrated and collaborative process focused on drivers and predictive forecasts leveraging broad sets of data.
Technology and Data	Offline non-integrated tools with limited automation; manually sourced and manipulated data.	Integrated driver-based models with cloud-based planning systems; automated, integrated and consolidated data sourcing.	Analytical dynamic models make use of transactional data combined with economic measures sifted from external sources to provide real-time forecasting capabilities.
Talent	Accountants focused on slicing and dicing of results manually.	Business partners with focus on business scenarios and exceptions.	Business advisors working with data scientists to provide real-time decision support and analytical insights.
Output	Detail-driven plans, forecasts and reports for every profit and loss (P&L) item; only results forecasted.	Selective budgets for most material and volatile P&L items; forecasts for business drivers and result measures.	Integrated business planning, business unit strategy and investment allocation with forecasts for key business drivers.

Source: (Accenture, 2019)

Benefits of Integrated Business Planning

Integrated Business Planning is an initiative that goes beyond the realm of finance and benefits the whole organization, creating cohesion, alignment, and focus. It's a long-term play that comes with many risks and benefits. Below is a list of benefits that can help build a business case for an Integrated Business Planning Initiative.

According to the Accenture Report:

With up to a 30% reduction in operational costs and a 10% reduction in working capital, IBP programs can produce tangible, financial results while providing essential support to your security posture. IBP does not just create value as an end result but secures it at every level of the value chain (Accenture, 2019) **.**

- IBP supports the translation of sales and operations numbers into metrics that can be linked to your P&L and cash flow impact. The provision of end-to-end visibility on profitability across markets, products and systems, allows leadership access to all the necessary information for making optimal trade-offs and decisions.
- Perhaps the greatest benefit of an integrated system is the consistency of functional metrics and drivers which enable different departments to work towards the same goals

To build on this further and provide a bit more depth, below is a list of tangible and intangible benefits:

GREATER ACCOUNTABILITY AND OWNERSHIP

- Clear transparency and linkages to operational plans tied to financial outcomes on a single integrated planning platform
- Standardized planning process and established divisional benchmarks (where possible)
- Business planning can operate on a weekly basis, but ensure alignment to monthly financial reviews and strategic time horizons

INCREASED AUTOMATION

- Automate repetitive manual excel-based business planning process

FORECAST ACCURACY

- Bottom-up plans. Delegate forecast activities and ownership, providing more depth, granularity, and transparency into your forecasted P&L
- Build in operational and sales risk into your revenue and margin forecasts
- Clear line of sight into operational drivers and associated risks in your forecast

TRANSFORM FORECASTING

- Rolling forecasts aligned to business cycles and a streamlined process that drives accuracy
- Forecasting process - organizations continually and systematically refine the drivers and models used, based on actual observed performance and relationships

COLLABORATIVE DECISION-MAKING RATHER THAN FUNCTIONAL SILOS

- Managing stakeholder and board expectations through clear insight into risk-adjusted scenario's based on bottom-up forecasts
- Mindset of the organization - operations own the numbers while finance provides assistance from an analytical standpoint

FOCUSED SENIOR MANAGEMENT ATTENTION

- Signalling risk and removing the noise

"IBP has allowed us to dive in and signal risk when structural things are changing in the forecast, resulting in proactive action plans that steer our bottom line. We no long debate who has the right information, because we operate on a single source of truth, instilling trust in our process and underlying data."

Vice President, Water Services Company

Why Does Integrated Business Planning Fail to Deliver

While there is a lot of available information that provides guidelines on how to successfully implement Integrated Business Planning, there is still high a degree of failure. According to the Gartner report,

"Although many attempts have been made over the years to successfully integrate FP&A with operational planning solutions in order to deliver rich financial line of sight, we estimate that less than 5% have proven successful." (Gartner, 2020)

MPG's insight into some of the obstacles for rolling out an Integrated Business Planning program are (KPMG Report):

- Incentivizing business units for their own performance and not for the performance of the whole organization, making collaboration difficult.
- A web of legacy systems that make it difficult to get to one version of the truth because too many data sources exist.
- The lack of resources or capabilities to make truly data driven decisions.
- Employee resistance to collaboration, integrated processes, and new technology

Source: (KPMG, 2017)

While the challenges are similar to the Finance Business Partner Model outlined above, the issues for Integrated Business Planning are compounded, as they expand beyond the finance department to the whole organization.

While having the right people and process within an FP&A practice and some form of Finance Business Partner Model in place can go a long way to overcoming these obstacles, the biggest constraint is the web of legacy systems and the right integrated business planning technology. This has a direct correlation and downstream impact to the other issues listed above.

For example, the lack of resources or capabilities to make data driven decisions may not be down to the individual or team. Instead, the integrated business planning technology and the skillset developed based on that technology may be the real constraint or issue.

Beyond the obvious cultural challenges and warning signs discussed previously, integrated business planning technology is a major contributor to the 95% failure rate. Using the wrong planning tools or selecting the right tool with the wrong implementation partner means that the business processes, data integration, and individual skills built around those tools will limit organization's capability.

The indirect impact will result in greater resistance for change or performance initiatives and further disbelief within the organization that integrated business planning is actually achievable, reinforcing the status quo.

While the reasons behind shortfalls for IBP are very similar to FBP Model, there are considerations that should be made prior to embarking on "Integrated Business Planning."

Considerations when embarking on an Integrated Business Planning Strategy

01 **Develop a Vision for Integrated Business Planning Process**

- Collaborate to drive strategic actions, understand the financial impact, and take the right action

02 **Know Your Business Process**

- Get step-by-step details ironed out. Know your process inside out, reframe it, and figure out the gaps.
- Define utopia

03 **Stakeholders**

- Determine your Internal Champions
- Leaders must champion business planning and emphasize a forward-looking mindset while keeping an eye on how business drivers affect current-year targets

04 **Selecting the Right Planning Tool and Partner**

- Ensure that the vendor is within the xP&A Gartner Category or has longevity (i.e. Investment in R&D)
- Implementation partner has the skills and deep understanding of FP&A processes, business strategy, and how it translates into an integrated business planning solution

05 **Use Driver-based Forecasting Models**

- Organizations must concentrate on the business drivers that produce material change for key performance measures (revenue, expenses, and profit)
- The focus shifts toward analyzing and understanding operational processes and market indicators instead of the desired financial outcomes of a typical “bottom-up” financial planning process
- It’s important to have a cadence built around understanding the operational drivers that affect financial outcomes

PROCESS:
Summary

There is a common theme emerging from the shortfalls of these Performance Management Initiatives, Models, and Frameworks. At the end of the day, they can only succeed with the support of people and their capabilities, while being backed up by the systems and technology they use to leverage business information to drive decision making.

As previously mentioned, it is tough to decouple systems, technology, Integrated Business Planning, or Finance Business Partnering frameworks from required skills of a Finance professional, as they are undoubtedly interconnected.

A deeper understanding of the problems, and more importantly, the knowledge on how to unpack them is required to move beyond challenges to ensure successful rollout of these performance initiatives.

With people at the heart of these initiatives, skills to drive organizational behaviour and performance are even more critical today than ever before.

This ideology reinforces the need for a whole new skillset, forcing FP&A professionals and Finance Business Partners to rise to the challenge. This new breed of financial professional is termed the “Profitability Architect”, which is explored in more detail below.

PROFIT INSIGHT ARCHITECTURE:
Guiding Light for Integrating Technology, Systems & Data

While the sections above outlined the frameworks around how to drive performance within your organization, the challenges (people, process, and technology), and some practical tips for rolling them out, this section is focused on two consistent challenges that have been identified:

01 Unsupportive IT systems or lack of systems and process

02 Lack of capabilities or skills required to be a Finance Business Partner

The following sections focus on how to solve these challenges by providing a deeper understanding of the underlying problems and defining a clear line of sight or pathway to performance, along with the required roles and skills to make it happen.

1ST SECTION
Focuses on what really underpins how an organization should measure and align strategy to performance from executive level to the front line

2ND SECTION
Reframes how to look at process, technology and data architecture through a "performance and profitability" lens and how Integrated Business planning tools can drive focus and overcome cultural and technical roadblocks

3RD SECTION
Introduces a new breed of financial professional, critical to the overall "Integrated Business Planning Strategy" the Profitability Architect.

FOCUSING ON WHAT MATTERS: Journey to Unlocking Your Hidden Profit Potential

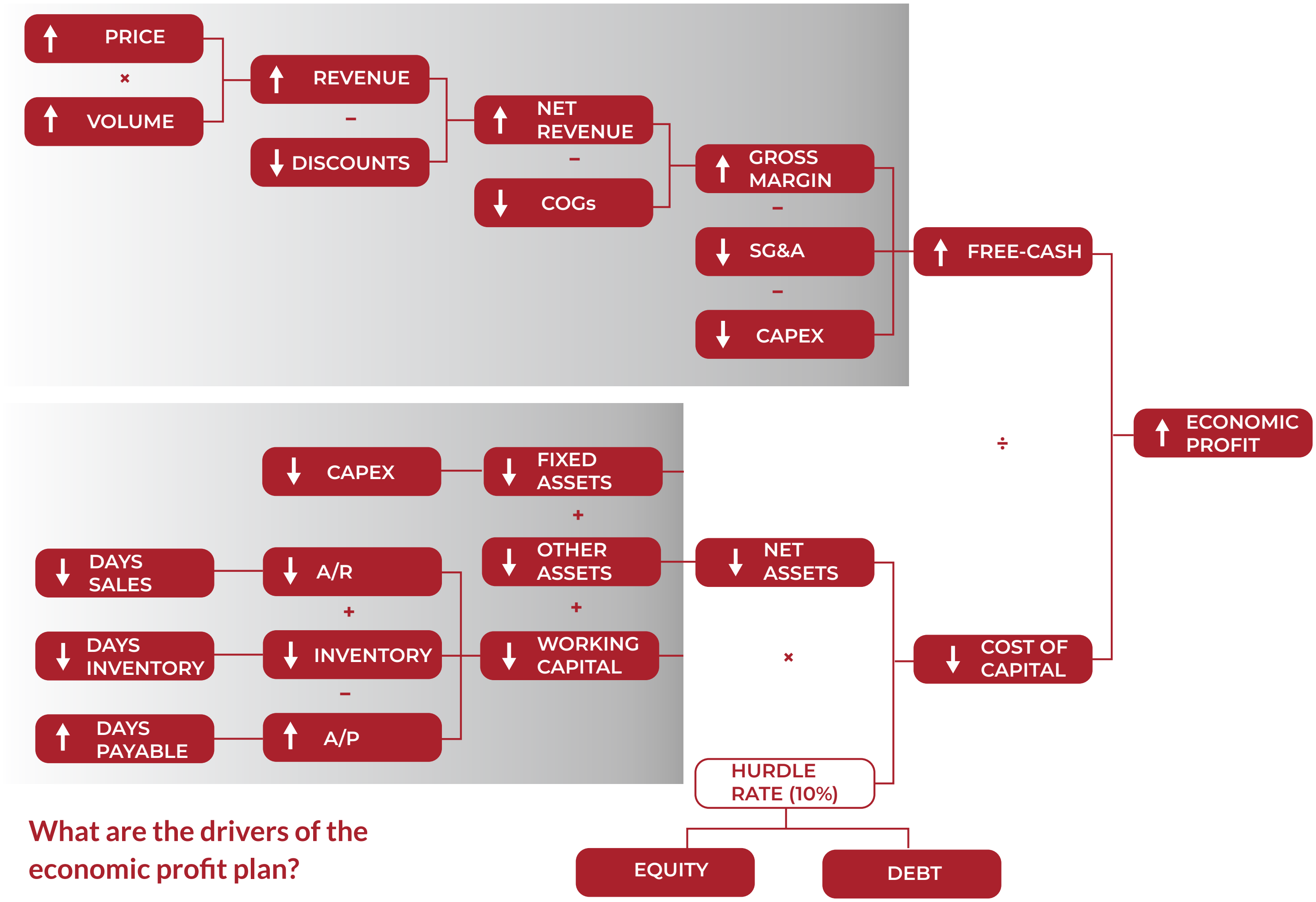
Long Range Plan and the Economic Profit Model

The majority of businesses create a Long Range Plan (LRP) built up and around their strategy, factoring in external (market) and internal (resources) constraints and financial growth expectations over a 3-5 year time horizon (depending on their industry). The LRP provides the guidance, direction, and high-level financial targets such as Revenue, EBITDA, Cashflow, Earnings per Share, and Market Capitalization / Enterprise Value on which to assess the organizational performance.

Translating the LRP into an executable plan or annual budget/forecast tends to focus on a bottom-up build of the Income Statement, making EBITDA the core focus for the organization, incentivising leadership on this particular metric. However, this doesn't capture the other aspects of the LRP. Whilst EBITDA could be going in the right direction, investment in new assets or securing funding could be harming the organization over the longer term.

This is where the Economic Profit Model (EPM) can provide more of a direct link to the enterprise value, going beyond EBITDA and factoring in the utilization and investment of Assets and associated cost of capital. An example of an economic profit model and downstream KPI's is shown in the diagram below.

ECONOMIC PROFIT PLAN



What are the drivers of the economic profit plan?

In essence, the Economic Profit Model or LRP is a top-down model used for setting targets and incentives for the organization. While the planning horizon is different across industries, using a five-year outlook, one year plan, and quarterly target is used as a guide for the organization.

This is the starting point for measuring performance across the whole the organization.

While this is nothing new for most organizations, the problem is that most Economic Profit Models solely focus on financial metrics, excluding business and operational drivers that produce the results.

In essence, this is where the disconnect from strategy to execution begins, as it lacks clear line of sight from finance to business operations.

Aligning the Economic Profit Model to the Integrated Business Planning Framework

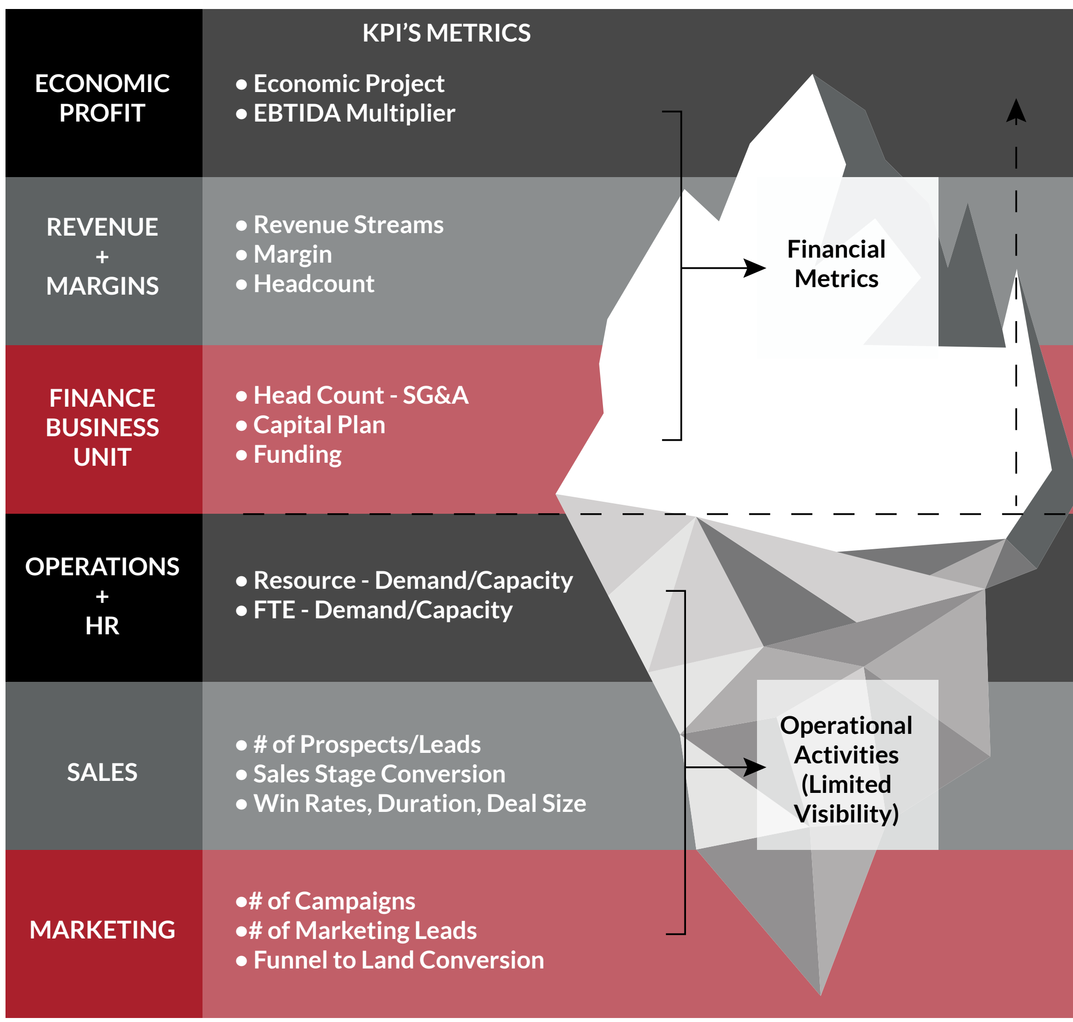
Expanding the Economic Profit Model beyond financial metrics and incorporating operational drivers across various business functions (marketing, sales, IT, HR) helps build a bridge between finance and operations by establishing a common language through operational KPIs.

In doing so, top-down targets can be clearly defined in terms of operational metrics, creating more cohesion and alignment around planning or forecasting activities across the organization. The underlying assumptions of how targets are established is transparent for each business function. This forces finance to work closely with the business, to translate financial growth expectations (usually based on earnings per share or valuation metrics) into operational KPIs, which further validates assumptions or highlights gaps within the financial plan.

The debate around target setting can now be focused on operational activities and metrics instead of around how revenue and margins are arbitrarily set by finance (the traditional 10% uplift on last year).

This creates greater accountability, alignment, and clear line of sight into what truly drives performance, profitability, and shareholder wealth. **This is what provides the foundation or backdrop for "Integrated Business Planning".**

Centralizing and modelling out or calculating targets based on the Economic Profit Model is the easy part. Creating a clear view to ongoing plans, forecasts, and analysis of actuals against plans and targets is wherein the challenge lies. This is one of the major challenges surrounding the implementation of any performance management initiative, IBP, or FBP framework. "The Actual vs Target/Budget" data alignment.



Performance Based Reporting: Create Focus, Avoid the Noise

Just as clearly defined targets are based on the Economic Profit Model, further alignment and cascading of KPIs to drive performance needs to be defined. Clear line of sight down to the operational level needs to be provided to assess what reports the business and operations require in order to monitor performance against business drivers and economic profit targets.

The problem with a lot of reporting, including the concept of "self-service", is that the information produced in the organization may have little or no influence towards driving performance. (Obviously, this excludes statutory or mandatory reporting, such as regulatory and safety reporting).

Establishing a framework around reporting based on performance metrics and linkages back to economic profit targets can help organizations create greater alignment and focus on the information that matters, which drive results. Defining key "performance-based reports" will not only bridge the gap to strategic objectives, but it will influence organizational behaviour and provide strategic focus at the operational level, effectively linking strategy to execution.

In addition, it will assess what information is missing and prioritize data strategies and actions to fill these gaps.

Take a look at existing reports used throughout your organization and ask yourself, "What is the purpose or value of the report being produced?" Asking this question should help you assess how much time is being wasted across the WHOLE organization on information that actually has no relevance to performance or strategy (See sample criteria) .

Looking at performance-based reporting will help guide priorities when it comes to integrating systems, technology, and data strategies, and create a company-wide "performance-based" reporting library.

Thought to consider:

Will self-service reporting create more noise or will it create more focus?

Performance-Based Reporting Criteria (Sample)

01 Expected Use /Purpose

02 Noise Factor Rating

03 Engagement Factor

04 Reporting Risk Factor

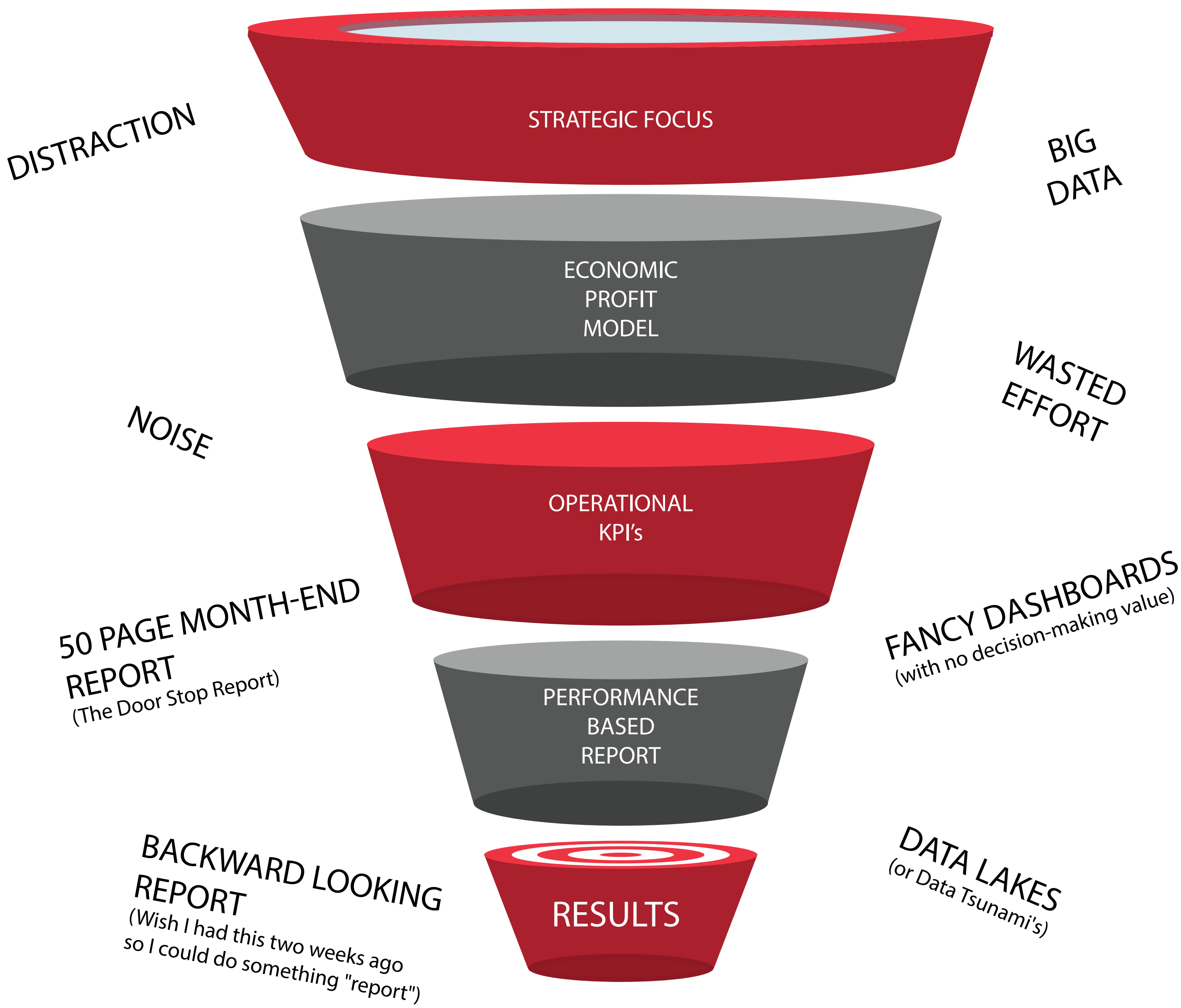
Similar to creating line of sight through the Economic Profit Model and including operational drivers, performance-based reporting takes it one step further into defining the reports, helping the whole organization focus on what matters. Some benefits of this exercise include:

01 | Creates greater focus on performance, removes the noise, and reduces wasted effort

02 | Helps drive the "Finance Business Partner" agenda focused on performance discussions with the business

03 | Alignment to the Integrated Business Planning Framework, creating a matrix that links strategy to KPIs and reports to system / data architecture

04 | Report library assessing the value and efficacy of reports and KPIs as they relate to the corporate strategy



Measuring Performance: Variance Analysis Against the Levers of Profitability

With targets set and performance-based reports defined, analysing targets against actual results and understanding variances on operational activities is the next step. To provide a bit more context, below is an example of a services (project) based organization and how operational metrics and financial results can be combined and used for variance analysis to assess organizational performance.

Tracking KPIs along the journey paints a picture of performance and allows the business to monitor activities, isolate which aspect of the business process requires management attention, investment, and focus. This creates a greater level of transparency, accountability, and collaboration - effectively, Integrated Business Planning. **What gets measured, gets improved.**

While the operational activities shown in the table below provide some insight, it is still at an aggregated level. The details beneath these KPIs which in this example include specific leads, sales reps, customers, deals, deal stages, resources are what really matters. **Without this link or level of granularity at your fingertips, through a report or dashboard where you can drill down into the detail it is difficult to really understand performance,** and more specifically, what is working and what is not across the end-to-end business process or customer journey. **It is this level of visibility that allows management to probe and ask questions. Again, what gets measured gets improved.**

As an example, if the number of Business Development (BD) Leads or Marketing Qualified leads is “100” year to date, or there was an increase of 20 leads week on week, that doesn’t really tell us anything. Drilling into the detail means understanding which leads are new, the number of days in the lead process, how many activities for that one lead, which rep is working on it, and whether they have progressed through the sales conversion process. This analysis will invoke questioning to drive insight and eventually improve business performance.

	Year to Date			Week on Week			ROLLING 18 MONTH FORECAST									
	Actual	Target	Variance	Current Week	Prior Week	Variance	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Marketing																
# of Campaigns																
# of Marketing Leads Qualified																
Sales																
# of BD Leads																
# of Leads in early stage sales cycle																
# of Leads in closing sales cycle																
# of Leads Closed / New Prjects																
Projects																
Project Backlog / Secure Revenue																
FTE/Resource Demand																
FTE/Resource Capacity																
Headcount																
Billable																
Non-Billable																
P&L Performance																
Revenue																
Cost																
Margin																
Overhead																
Net Income																

“The levers of profitability are the operational activities across the end to end business process from Marketing Leads to Customer Profitability”.

While CRM / Digital Marketing tools capture this detail, the linkage and impact downstream is on future resource demand and potential future revenue and profitability. CRM tools do not capture this information, because it goes beyond its purpose (managing the sales cycle from lead to close).

Pulling all this information together into a single source of truth requires greater integration of systems, applications, and refinement of processes. **This is what holds back Finance Business Partner Programs and Integrated Business Planning Strategies from realizing their full potential – “Unsupported IT Systems”.**

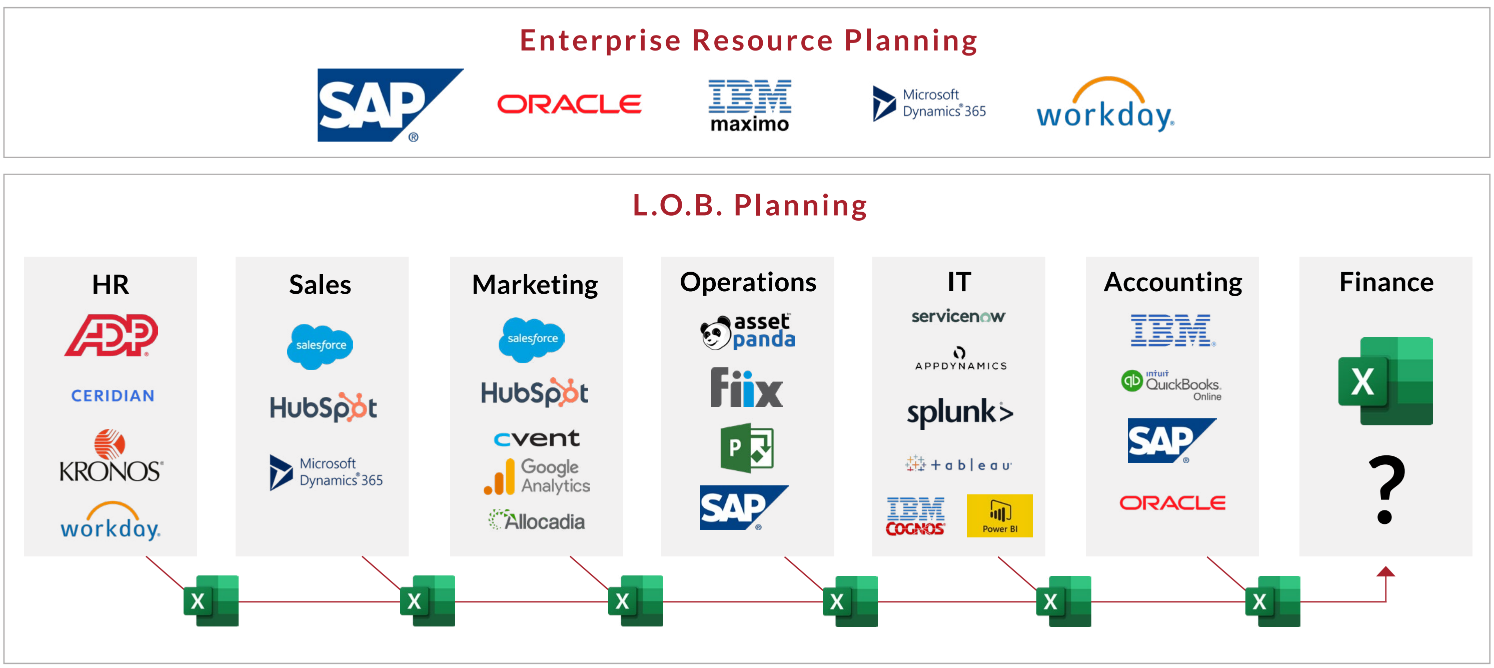
Why is this such a problem?

Measuring Performance: Why it's Hard to Get to Operational Activities / Drivers

Operational activity data is held in different lines of business applications. Extracting it out of each and every application from marketing, sales, operations, or an all-encompassing ERP and merging it with GL or financial information is not an easy undertaking.

The issue is that each application is designed and built around streamlining one business functional process (i.e. payroll to pay employees, sales to track opportunities to close, marketing for lead gen and campaigns) - they were not designed to link back to the GL or financial system. Even if they are integrated into an ERP, it is only the financial output or relevant data to create the financial output that is integrated. Effectively, every other operational activity data point is ignored, so visibility and linkage back to activities is locked away (or not even captured).

STATUS QUO



This is where the promise of ERP's fall short because the rigid structure is not flexible enough to introduce operational activities together with financial data, not to mention the lack of integration between the GL and subledgers themselves.

Client Spotlight: The challenge with the 3 hubs

This is where Microsoft Excel takes over. People across the organization extract data from various sources and mash it together in order to build a narrative around business performance and explain how they are tracking against target.

Excel is the tool of choice because it is the tool that people trust and know will work. However, this becomes a risk and is burdensome to do on a weekly, monthly, and quarterly basis. This Excel exercise only accelerates when rolling out a Finance Business Partner Model or Integrated Business Planning strategy, because there is a greater demand and business need to evaluate performance beyond financials.

To top it all off, data is pulled together from various sources and then organized into a PowerPoint presentation or Excel report, where explanations and variances are recorded. This information is valuable for guiding decision-making, but once the report is created in Excel or PowerPoint, the data and context (variance commentary) is then locked away in "multiple versions" in a SharePoint folder.

Wouldn't it be nice to have that information centralized and at your fingertips?

From an operational level up to the board, wouldn't it be even better if there were variances against operational activities, not just financial numbers, including drill down detail to understand performance, rather than solely relying on aggregated info and the business narrative provided by divisional leaders? Wouldn't this visibility create a much richer dialogue during operational performance reviews or monthly meetings?

It is possible.

Solving the Technology Problem: Profit Insight Architecture

In previous sections, we clearly outlined the importance of incorporating Operational KPIs into the Long Range Plan /Economic Profit Model and how it aligns to Integrated Business Planning and cascades down through the organization (performance based reporting). The challenge is how to pull all this information together easily so it does not burden the organization.

This section is focused on how to achieve this and is broken up into two parts:

01 The technology, tools, and architecture that supports FBP and IBP initiatives, creating a framework called the "Profit Insight Architecture".

02 The challenges around adopting this framework and how to overcome the cultural roadblock we call the "Excel way of life"

Integrating systems, applications, and refining processes to extract value from data is something all organizations are working towards. One of the main goals for the IT function is to consolidate data into a single source of truth that is governed and trusted so the organization can report and plan against it to drive decisions with confidence. However, consolidating data doesn't necessarily equate to value or improved performance, and in most cases, it creates wasted effort and more noise.

Translating this single source of truth into valuable information that creates competitive advantage and drives profitable decision-making requires insight into business strategy, outcomes, and KPIs. Consolidating data and determining its value by looking at it with a performance lens or thinking about how it links back to the Economic Profit Model will maintain focus and provide clear line of sight to evaluate organizational performance. If the data doesn't contribute to the analysis of performance or cannot be directly tied back to a KPI, GL, or financial metric that matters, then why include it?

Considering the importance of this single source of truth, it's worth defining it and outlining what it entails.

Unlocking your hidden profit potential starts with understanding and tracking the operational activities that drive financial results.

Redefining the "Single Source of Truth"

The single source of truth is defined in many companies as a centralized repository, master database or enterprise data warehouse that incorporates data from various internal/external sources, systems, and applications across the business.

It tends to primarily capture historical transactions or "actuals" data rather than what is projected to happen in the future (forecasts and business scenario's) or "planning" data. **This is the current gap.**

In our opinion, the "Single Source of Truth" should also include:

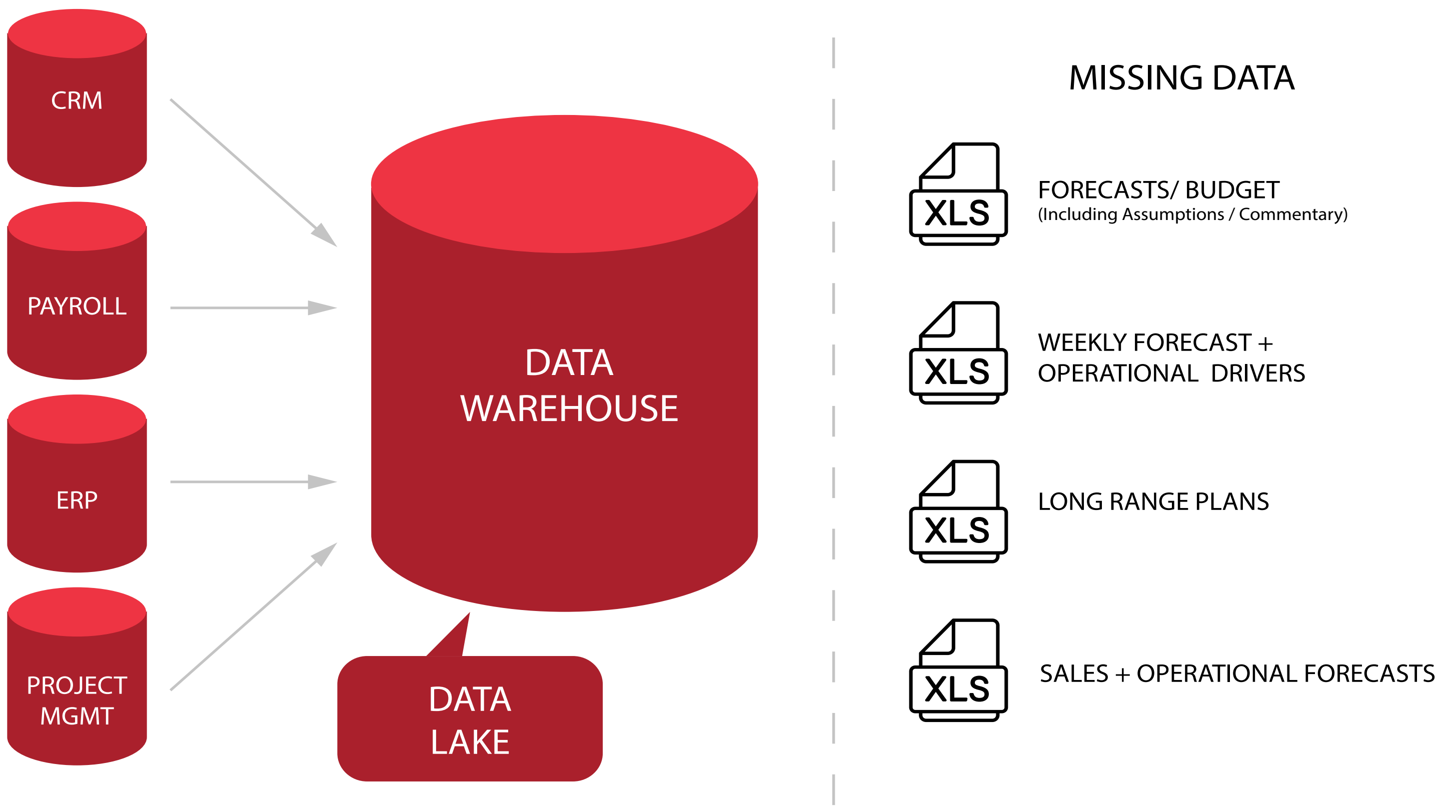
- Forecast versions, outputs, and targets from the Economic Profit Model
- Weekly snapshots or versions of the flash reports or weekly operational forecasts
- Underlying assumptions, business drivers, and variance commentary

Essentially, it is the scenario's or multiple versions of plans that the business formulates to drive actions, profitability, and performance, but this information is missing from today's definition, or at the very least, it is not clearly outlined.

Redefining the "Single Source of Truth"

THE MISSING DATA data that is essentially locked away in applications and spreadsheets contains valuable operational drivers and assumptions. In its current state, once plans, forecasts, or outputs from the long range plan are finalized, it is only the financial output that gets incorporated and used for analysis in reports.

EXISTING SINGLE SOURCE OF TRUTH



And guess what,

The data that doesn't get incorporated into this single source truth is the information that is needed to explain performance (i.e. underlying calculations and assumptions), providing transparency beyond the financials (i.e. the hours in a timesheet, the power usage and rates that determine electricity costs, the list of sales pipeline opportunities that consistently change).

Ensuring this "planning" data and operational activity data is incorporated into the single source of truth expands the visibility of performance and enables financial business partners to tap into, or unlock, their company's hidden profit potential

While everything discussed in this section is about data, it's worth taking it a step further and asking whether it's possible to also incorporate the "variance commentary" or performance write-ups into this single source of truth. In such a fast-paced world, knowing why there is a variance and having that context at your fingertips will provide a level of transparency that supports Integrated Business Planning and ultimately leads to greater accountability and high performance in the business.

What gets reviewed, gets improved.

Due to the complexity and agility required to mash together financial and operational activity data, financially model business scenario's, Excel spreadsheets and excel-based reports continue to perforate across the business. This is the problem, in our opinion, that is called out as "unsupported IT systems".

So much value is locked away in the depths of Excel files, version upon version, through a labyrinth of folders in SharePoint.

How do we solve this problem?

Integrated Business Planning Requires an Integrated Planning Tool

Integrated Business Planning tools (xP&A) help organizations collaborate, plan, and develop business scenarios, operational plans, and financial outcomes on a single platform. These tools incorporate both “planning” and “actual” data, economic profit targets, key business structures, and centralized business rules and logic (i.e. replicated Excel formulas), which enable consistency, reliability, and trust across the organization. In essence, they help refine the definition of the “Single Source of Truth” by becoming a centralized “Information Warehouse”.

The complicated logic from siloed Excel models gets incorporated into a centrally governed planning model that is collaborative, multi-dimensional, transparent, and ultimately supports the performance management initiatives and frameworks outlined above.

While IBP Technology has existed for some time and has evolved, it is still limited in use and has not reached its full potential. As stated above, only 5% of organizations are successful in integrating FP&A with operational planning solutions (Gartner Report).

So, if IBP technology can alleviate the “unsupported IT systems” problem, then is the real issue the capabilities / skills of finance professionals to leverage this technology or architect it in a way to replicate economic profit or planning models built in Excel? Or is it deeper than this, more of a systemic problem built into the cultural fabric of the organization, finance teams, or individuals?

Excel Has Become a Way of Life

Excel has become a way of life for financial professionals. It is a habit that is learned early on and is reinforced by educational and financial institutes alike. Businesses rely upon it heavily, handing down one Excel model or Excel-embedded process to the next, from one generation of financial modeller to another. You would be hard-pressed to open a monthly subscription of institutional financial magazine (CPA / CIMA / AICPA) and not see tips and tricks for Excel. Even these subtleties reinforce its place within business.

Excel is one of the best productivity tools ever and is the go-to to tool for finance professionals, prior to the calculator, but is it holding financial professionals and their organizations back in this digital age?

We know that capabilities and skills are part of the reason why these Performance Management Initiatives fall short of expectations. Are we trying to roll out a Finance Business Partner Model or an Integrated Business Planning Strategy with Excel?

While unsupported IT systems and integration are issues, which are addressed above, does the real problem lie with the people behind the spreadsheets? Do financial professionals really want to change or re-tool, moving beyond their comfort zone, Excel?

There are a lot of financial professionals that would welcome change – professionals who have a continuous improvement mindset that can influence passive resistance to change and unshackle finance teams and their organizations from manual Excel processes. However, is that mindset directed in the right manner with the right tool or is it just more VBA within Excel? Is it a better use of formulas in models or is it the adoption and elevation of Integrated Business Planning and modelling technology? Or is it just purely not knowing what's out there, a life beyond Excel?

For people who want to change and evolve their skills and capabilities to overcome obstacles outlined throughout the article, there is a better way.

Financial Modelling in a Multi-Dimensional World

This skill within IBP Technology is multi-dimensional financial modelling.

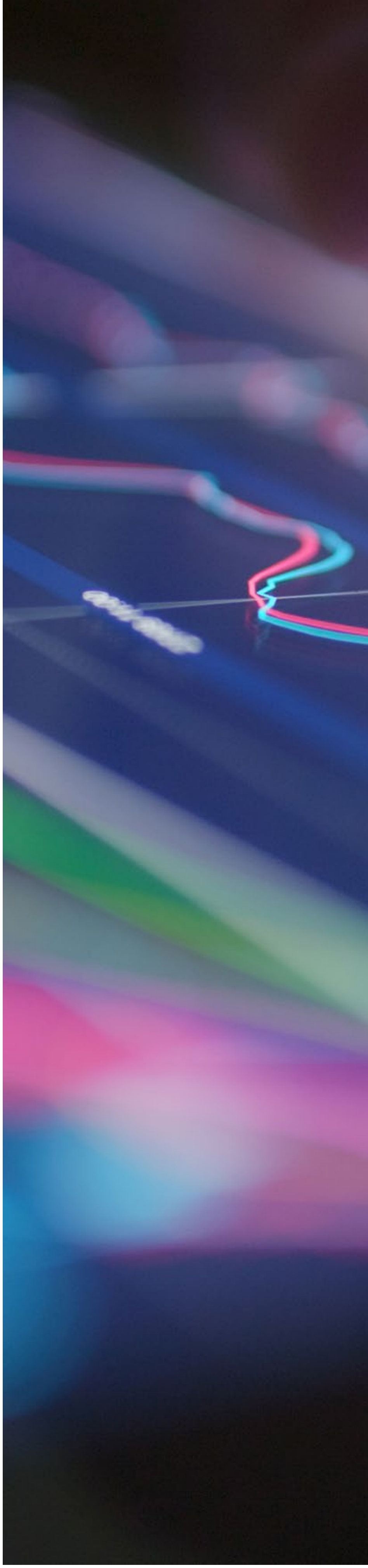
For those seeking it, a whole new world exists beyond Excel. But, just like in the movie the Matrix, you have to be willing to take the red pill and learn a new way. Unlocking true potential lies beyond excel spreadsheet models. Broadening your horizons in this realm can take you from a two-dimensional world (rows and columns in excel) to a multi-dimensional world.

The benefits of using an xP&A or Integrated Business Planning Tools goes hand-in-hand with the benefits outlined for both Finance Business Partner Models and Integrated Business Planning.

Applying a financial modelling skillset forged in Excel into a multi-dimensional planning tool requires a little re-tooling. Although it's a step back in the beginning, it is individually and organizationally a transformation; once its true potential is unlocked, and that "Aha Moment" occurs.

It is the hard-core Excel financial modellers that produce Economic Profit Models using every last bit of Excel functionality that would benefit from new methods and Integrated Business Planning tools. Think all the limitations within an Excel model. Now, consider what it would look like if those limitations were alleviated and the only constraint in modelling was your ability to model and re-think architectural concepts. As with everything we have discussed, this requires a willingness to embrace change and break away from old habits.

Are you, or the financial professionals in your team, willing to be open-minded in order to break this habit and move beyond the Excel way of life?



The People Behind the Initiatives: Emergence of the Profitability Architect

As expressed throughout this playbook, people are at the heart of performance initiatives. It is often the capabilities and skills of people that are seen as one of the major obstacles in delivering successful FBP or IBP initiatives.

Financial professionals, FP&A specialists, and Finance Business Partners need to evolve in order to drive performance for themselves and their organizations. They need to become strategic advisors to the business.

These individuals need to have a forward-looking commercial mindset, develop a deeper understanding of their business and what truly drives value, and be able to serve up information in order to collaborate, influence, and drive profitable decision-making across business units.

Without the right planning tools, systems, and processes, these initiatives will fail or fall short of their true potential and become another static in a PWC or Deloitte survey.

Finance business partners need to lean in and get more involved by developing a deeper knowledge of the overall data architecture, systems, and business process flow. If this is left to the IT organization, gaps will remain.

To reference an earlier point from PwC:

"Our experience is that a variety of IT related problems is caused by the implementation of the IT-systems. Organisations are unable to correctly translate the strategy of the organisation to a complementary IT solution that produces the desired insights. This results in a lot of undesirable manual input in order to make relevant information with the correct quality standards available."

It is Finance who has the oversight required to create a holistic, company-wide integrated business planning solution that is built upon the newly defined "Single Source of Truth".

More specifically, it is the individuals that understand (or built) the Economic Profit Model who see the strategic horizon in terms of KPIs, levers of profitability, and linkages between operational drivers and financial targets across the organization. It is these individuals, along with the support of the CFO and finance teams, that can drive an Integrated Business Planning agenda and Performance management initiative to success; staying focused on what matters, cutting through the noise, and staying strategic.

While the characteristics and skills of the Finance Business Partner are defined throughout this playbook, there is a separate skillset that needs to emerge; one that is more technical and can weave process, systems, and data together through a performance lens. A skill that enables the Finance Business Partner to isolate what matters in order to dial in the true levers of performance and profitability.

THE PROFITABILITY ARCHITECT

What is a Profitability Architect?

A Profitability Architect is someone who understands the true drivers of organizational performance and profitability and can translate business strategy into KPIs, design performance-based reports and dashboards, built upon planning, forecasting, and profitability models.

Profitability Architects provide the focus and direction on how systems, data, and reporting tie into financial results, through constructing process and dataflow diagrams and architecture. They know how to best incorporate operational drivers and activities to shift organizational behaviours, provide greater transparency, and increase accountability across the whole business. Profitability Architects effectively help build and shape the foundations (process, systems, and data) into what we call the "Profit Insight Architecture".

These individuals have excellent communication skills and can bring business units and finance together. This unity is formed through information and KPIs that provide a common language and understanding of performance, making it easy to collaborate and drive collective decision-making.

This is a role that must sit in the office of finance. Stakeholders within business units only know what they know. It requires the support of finance to drive the change through a lens of performance. Only they can unravel the complexities of financial structures and accounting principles to align with strategic goals of the C-Suite. They straddle across business units. They understand the organization's performance and activities and how they translate into financial results and the wider Economic Profit Model or long-range plan.

Profitability Architects are at the center of a Finance Business Partner and Integrated Business Planning Strategies.

How Does a Profitability Architect Differ from a Finance Business Partner?

In addition to the characteristics and capabilities outlined in the “Finance Business Partner” section, Profitability Architects have a deeper technical skillset and different aspects of accountability within the organization:

ACCOUNTABILITY

- They are accountable to the C-Suite or CFO.
- Their sole focus is on developing and architecting models that straddle the organization, bringing “Integrated Business Planning” to life and establishing a standard company-wide planning process. They eliminate or substantially reduce the use of Excel models for planning or forecasting that create silos.
- They support Finance Business Partners by translating their requirements and collective business “asks” into centrally governed Integrated Business Planning Models. They enable them to build trust in their information and reports that drive performance for the business.
- They are not locked into month-end reporting cycles and operate as a task force for performance.

ARCHITECTURAL SKILLS

- Their technical skills go deeper that just extracting and reporting on information. They are the architects and modellers behind Integrated Business Planning solutions.
- They are masters of extracting business requirements. They gather, incorporate, and give considerations to market intelligence (external data), all of which translate into solutions that fit within the overall “Profit Insight Architecture”.

TECHINICAL SKILLS

- They have a vast understanding of business process, how valuable data points are created off those processes, and how those data points link to KPIs through the systems and architecture.
- They were expert Excel modellers who learned multi-dimensional financial modelling:
    - They can de-construct complex Excel models (decode the black box) and translate them into multi-dimensional planning models
    - They know how to build multi-dimensional planning models and how dimensional hierarchies are constructed. They balance their “Excel modelling” framework within multi-dimensional tools.
- They operate at a strategic level and have the ability to drill down to tactical and operational aspects, including hands on expertise of key performance management solutions and cross functional lines of business expertise.

SOFT SKILLS

- They are able to influence business leaders and functions through communicating the value of Integrated Business Planning.

CONCLUSION

The role of finance must evolve from a back-office function to a strategic advisor of the business in order to stay competitive in today's world. Finance needs to take the lead in driving performance initiatives by warming up the organization, starting with Finance Business Partnering and moving swiftly into initiating an Integrated Business Planning strategy.

Finance teams need to prepare their organizations for this kind of transformation by defining a vision and clearly outlining what Integrated Business Planning is and the value it will bring. They need to assess and develop strategies to overcome cultural roadblocks and resistance, and keep an eye on cultural warning signs. This requires a CFO that is bold and courageous in leading the charge. They need to rally the troops and build an army of capable, highly skilled Finance Business Partners who focus on the value they will deliver and not the cost they will save.

Finance professionals need to set a higher standard and lead by example to embed skills into themselves and the team. Profit seeking and performance focus must be a way of life, just like Excel has been the go-to tool for generations. A forward-looking mindset needs to be instilled as the basis for facilitating actions, decisions, and change.

This is where the role of the Profitability Architect can support and help encourage that behaviour change. They bridge the gap between finance, IT, and the business, and support the Finance Business Partnering function to break down business silos by providing a common, trusted platform for evaluating performance in order to unlock hidden profit potential, align business and finance on necessary actions, seek decision-making clarity, and drive accountability.

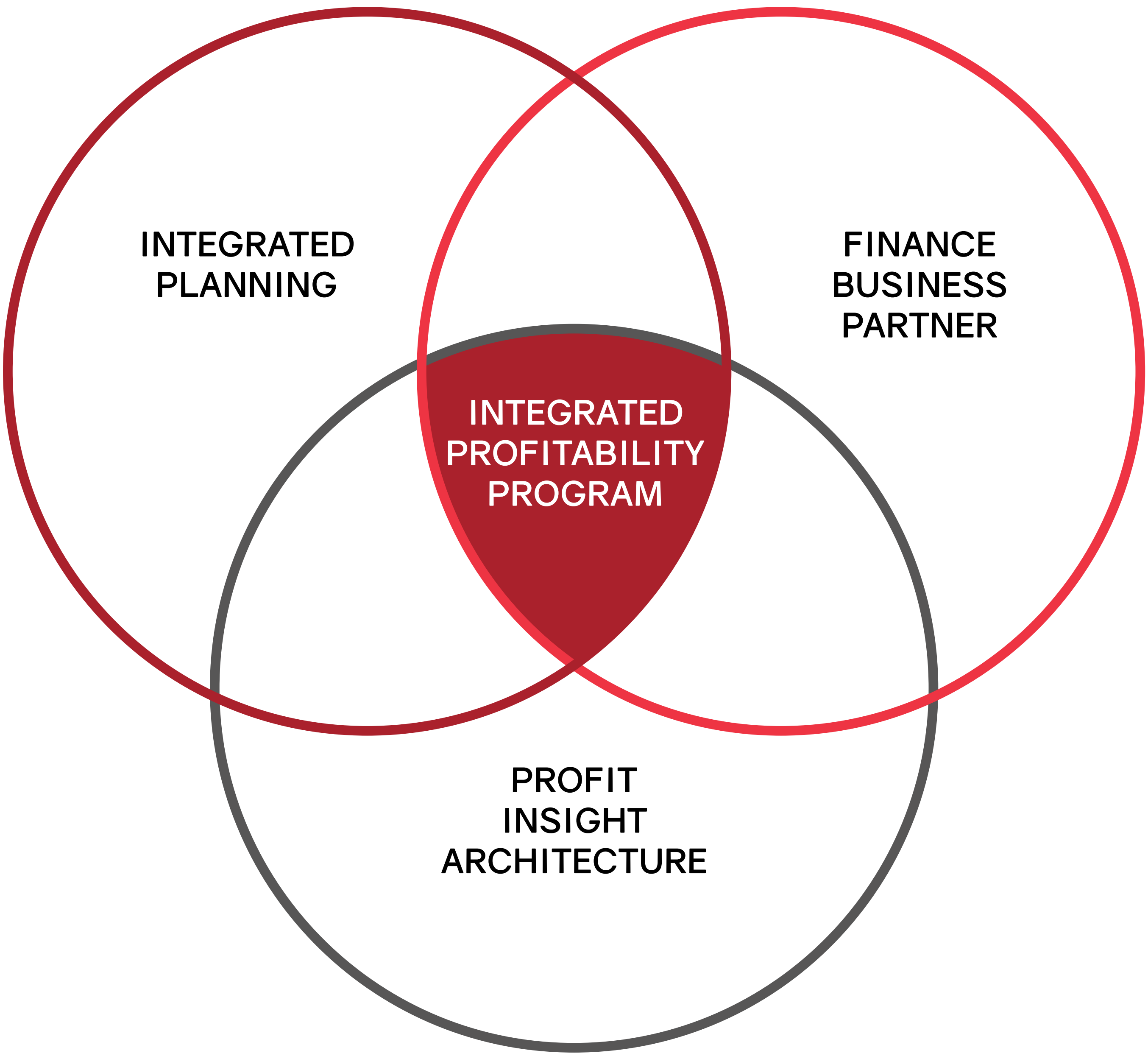
The role of Profitability Architect requires more than just an "IT roadmap" and refined business process. It needs an architecture built around (and focused on) strategy and performance. It needs the Profit Insight Architecture.

Without the right people (Profitability Architects) and the right systems, process, and data (Profit Insight Architecture), companies will not unlock their hidden profit potential. They will continue to tackle issues in piecemeal, attempt to solve problems by looking to the ERP as the sole answer, or bolt on a basic budget or forecast solution that lacks xP&A and IBP capabilities. Or worse yet, remain in Excel.

Focusing energy on creating a single source of truth will reframe what is actually important. Redefining components to factor in business logic, rules, forecasting and planning, activity data, and contextual information (variance commentary), will align IT with the "Profit Insight Architecture".

This is a journey. It takes time to transform individuals who can in turn help transform their organizations into high performing enterprises and become market leaders in the process.

But… it starts with the CFO and finance team.



NEXT STEPS

Below is a list of actions you can take to start your journey

☐ ASSESS THE CULTURE & PEOPLE READINESS

- Develop Talent Strategy
  - Determine future skill set – start with the Finance Business Partner
  - Assess current skills, determine gaps, and develop career paths and skill development plans
- Culture Readiness Checklist
  - Assess cultural warning signs
  - Develop change management strategies and tactics to mitigate cultural risk

☐ CURRENT STATE OF FINANCE

- Run through an assessment of Constrained Advisor Framework
- Performance-Based Reporting
- Gap analysis - Systems, Data integration and Architecture

☐ DEPLOY THE FINANCE BUSINESS PARTNER MODEL

- Educate the business (roadshow) on the value of Finance Business Partner Model
- Establish a performance based reporting framework

☐ BUILD VISION FOR INTEGRATED BUSINESS PLANNING

- Align resources and define who your "Profitability Architect" will be
- IBP workshops - go by function, starting with executives to create strategic alignment
- Nail down your current business planning process – know the gaps and challenges
- Determine alignment to the Economic Profit Model – KPIs, performance metrics
- Define your future state and supporting Profit Insight Architecture and Process/Data flow

☐ BUILD BUSINESS CASE FOR INTEGRATED BUSINESS PLANNING

- Build out multi-phase approach
- Prioritize Economic Profit Models, P&L forecasting, operational P&L, and Sales and Operational Planning
- Prioritize based on profitability impact
  - Start with major P&L line items and develop models to incorporate operational activities drivers
  - Define the value and incorporate it into your plan.

☐ SELECT YOUR INTEGRATED BUSINESS PLANNING TOOL OR AN XP&A PLATFORM (SEE APPENDIX FOR DETAILS)

☐ SELECT AN IMPLEMENTATION PARTNER TO ENSURE YOU GET OFF TO THE RIGHT START

☐ GET TO WORK AND ENJOY THE JOURNEY!

ABOUT THE AUTHOR

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