Seize the Financial Planning & Analysis Initiative and Transform your Business Post-Covid

SPITFIRE
ANALYTICS LIMITED

The 'New Normal' is a game-changing opportunity for Financial Planning and Analysis

As enterprises emerge from the Covid pandemic, there is a realisation that there are aspects of business that will never be the same as before.

For Financial Planning and Analysis (FP&A), this 'new normal' represents an unprecedented opportunity to harness the power of technology to transform and put FP&A at the heart of the business where it should be.

This e-book explains how the pandemic has handed FP&A both the opportunity and the imperative to change. It lays out an FP&A approach that meets the challenge of financial planning post-Covid and positions businesses to leverage the power of effective FP&A in a dynamic, uncertain world.

It is founded on Spitfire Analytics experience in helping our clients develop robust FP&A solutions tailored to their specific needs to give them the visibility, insights and control to manage their business in a volatile world.

FP&A was already operating in a fluid and challenging environment pre-Covid. The disruption created by the pandemic has given businesses and FP&A yet greater impetus and opportunity to become even more agile.

Shorter planning cycles can boost accuracy and provide valuable operational insight. In times of uncertainty, rather than relying on what becomes a static projection, forecasting and evaluating variance more frequently will prove more valuable than executing a detailed, long-term plan. This holds true even if you are only addressing key line items.

The variously attributed quote that 'no plan survives first contact with the enemy' is more relevant than ever. FP&A can no longer draw on a foundation of multiple years of past data from repeating, dependable business cycles.

Instead, FP&A will increasingly be about dynamically sandboxing and evaluating different scenarios, making intelligent use of automated capabilities to support risk-based forecasting and decision-making.

With immediate access to the bigger picture, freed from spending all your time just wrestling with the numbers, you will be in a position to support your leadership colleagues with valuable insights.

Your organisation will be better prepared for and enabled to respond to emerging threats when you have access to information that can actually power decision making.

If less time is wasted on loading planning data and more on the outputs, company focus shifts towards analysis and reporting.

A perfect storm makes a perfect opportunity for FP&A

Dealing with the direct economic effects of the pandemic is a major business challenge in itself, yet it's only one element in a perfect storm of factors that are driving a fundamental reshaping of how businesses forecast and plan.
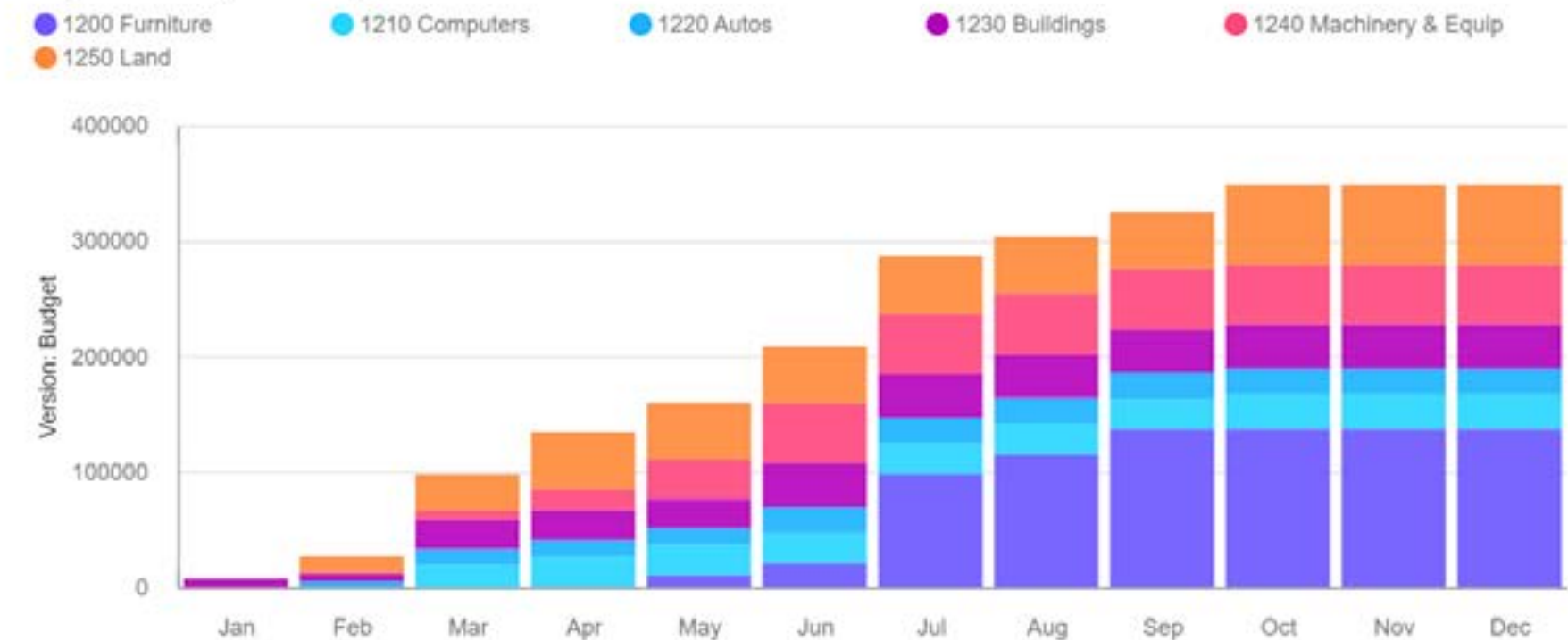
Even before Covid, explosive growth in data and tech and growing expectations of greater insight and tighter planning cycles were placing increasing demands on financial planning. Now the pandemic has disrupted the relatively stable and reliable year on year data that was used as the starting point for forecasting, so FP&A must take on a new approach.

This is the opportunity. Taking away the static, stable foundation of year-on-year data gives FP&A no alternative but to move to a more dynamic, flexible approach. In doing so it can transform the value it adds in an increasingly volatile business environment.

FP&A is becoming ever more critical, detailed, dynamic and challenging

FP&A underpins just about every business, and certainly every business with a shop window, physical or virtual.

Successful budgeting, forecasting, sales, procurement, P&L, and now even functions like stock movement and daily operations, all depend on it.

As computing capability has grown, the automated processes and data that drive FP&A have become increasingly granular.

Ongoing hardware and software improvements mean that over the last 10 years or so companies have seen an ever-increasing amount of data to choose from when creating a plan.

This enables constructs like detailed bills of materials, long part of manufacturing planning, to be extended into areas like fast moving consumer goods, so that, potentially, your morning latte has all its components planned based on daily data, from cup to chocolate sprinkles.

The amount and detail of information available creates its own challenges around coping with the volume of data and the number of data points that need to be entered.

In theory, the more detailed and granular the data inputs, the better the forecast. In practice, the human brain can be overwhelmed by this avalanche of data and start missing things, and too much time spent capturing data and planning can constrain the ability to act on what the data is saying. Monthly or rolling forecasting cycles can mean there is little time to act on one cycle before the next one starts.

IT offers huge potential to address this and transform the ability to deliver actionable insights from large volumes of data. The focus has to be on applying automation intelligently to grow understanding and drive informed decision making. Throwing technology at the problem without understanding and focus on actionable insights risks just failing faster.

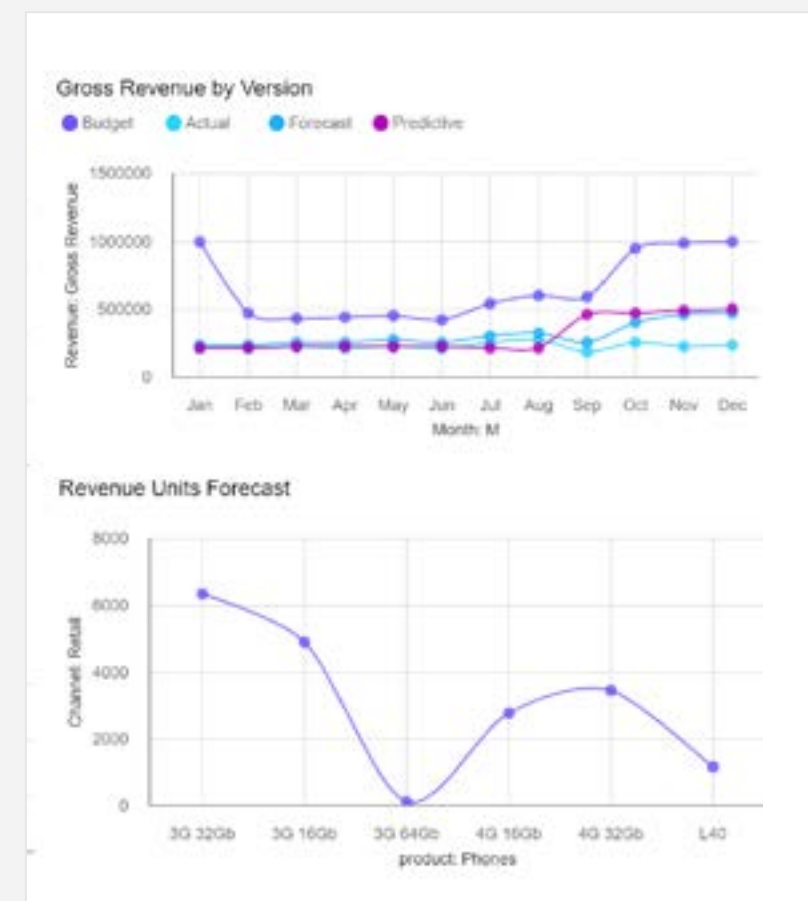# 2020 was an unprecedented year; what about 2021, 2022 and beyond?

"Unprecedented" has become an overused word since early 2020. For traditional FP&A, unprecedented times don't yield useful planning data. You can't use them as a pattern because they're not the same as the times that came before or, critically, the times that come after.

Ever since economies started to recover from the most immediate effects of the Second World War, FP&A has been able to rely on a reasonable level of continuity in historical data. Supply and demand data for last year or last month, has always been a reliable data point.

Major macroeconomic shocks like world wars or global pandemics disrupt this continuity, and do so for years after their immediate impact has passed, after the peace treaty is signed or the vaccination programme is complete.

2020 data has little value for FP&A beyond post-pandemic planning or contingency planning for a future pandemic. Data for 2021 is likely to be the same, and for years after, data value will depend on the speed and shape of the economic recovery.

FP&A should be able to adapt to these shocks, and now it can. Historically, FP&A's ability to deal with multiple scenarios was constrained by technology limitations. Now, technology and capabilities exist that enable FP&A to meet the demand for dynamic forecasting and evaluate multiple possible scenarios to drive risk-based planning. Covid provided some of the impetus to make this happen, but not all of it.

Covid is not the only shock

There is an understandable focus from governments downwards on understanding and planning for the long-term economic impact of the Covid pandemic. Unlike shocks like the 2008 banking crisis, we don't have a useful comparable event to use as a basis for forecasting, and as this FT article demonstrates, we're already seeing this feed into forecast adjustments to major indicators like GDP.

This would be enough on its own, but a skim through the media demonstrates the need to plan for other unprecedented shocks too.

Tackling the global climate emergency will have a growing influence on all aspects of our lives in the coming years, not least how businesses plan and operate.

Any enterprise doing business in or across Great Britain, Northern Ireland and countries within the European Single Market is already experiencing the planning impacts of Britain's exit from the EU.

When the Ever Given cargo ship got stuck in the Suez Canal, it demonstrated how localised individual events can significantly impact our complex and highly-tuned global supply chains.

These and potentially other, as yet unknown, shocks compound the planning uncertainties created by Covid and give impetus to a new, more dynamic approach to FP&A.

The solution – a new FP&A approach to meet the opportunities of an uncertain world

Faced with this opportunity – an explosion in planning data and capability, demand for ever more detailed and granular planning, and the uncertainty created by Covid and other shocks – businesses should take stock of their planning approach and come up with solutions to meet the unprecedented demands on planning processes.

It's clear that planning for 2022 and beyond based on data from past years is flawed because Covid has invalidated that data, whether you use 2021, 2020, 2019 or any other year.

Equally, trusting entirely in the power of IT, in the shape of off-the-shelf automated planning solutions is risky because of the number of variables and uncertainties.

A new planning approach needs to take proper account of the complexities and uncertainties any business will face in its financial planning and forecasting, for the foreseeable future.
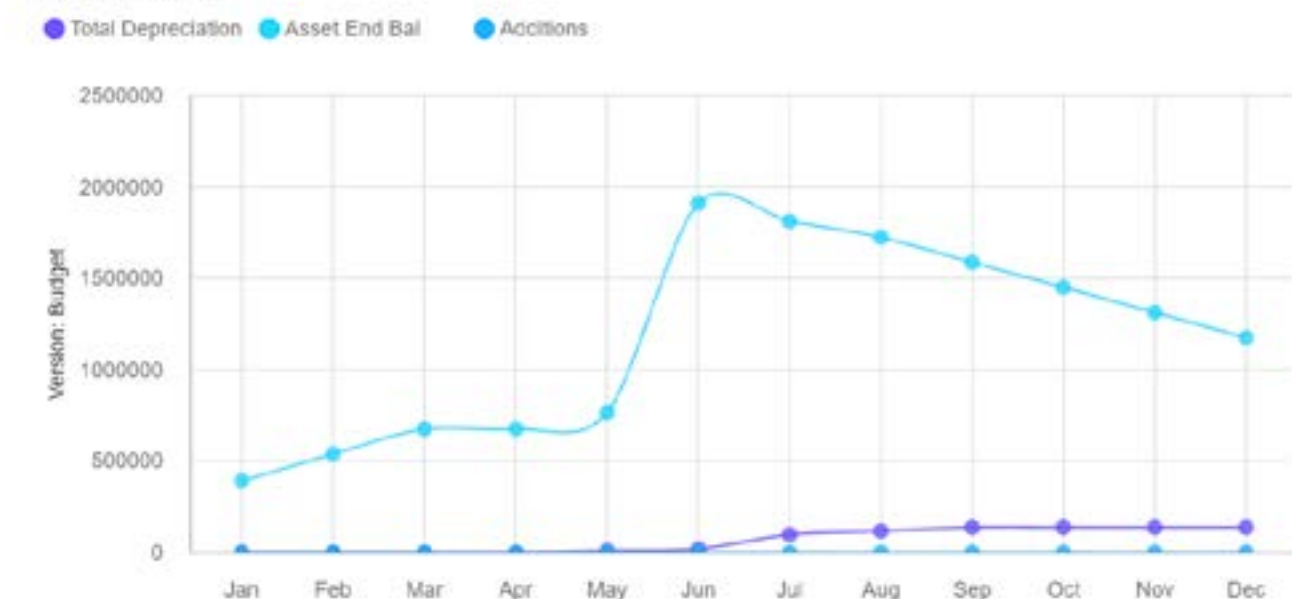
Spitfire Analytics work with our clients, using the power of the IBM toolset, to create an FP&A approach, capabilities and processes that meet the specific needs of their business and provide a robust yet flexible solution for these uncertain times.

In the next section we explore key components of this approach, and you can find more on our website.

Replacing traditional planning with new approaches, scenario planning and dynamic forecasting

Traditional planning generally starts from a fixed set of known data and a single defined collection of assumptions. This approach **functions well in periods of high stability, but those days are over.**

In a dynamic, uncertain post-Covid business environment, there's little or no comparable long-term experience or data on which to base assumptions, making traditional planning unreliable and challenging.

This is where the growth in accessible data and compute power enable approaches like scenario planning and dynamic forecasting, which, implemented intelligently, enable businesses to plan effectively through volatile times.

Scenario planning takes a set of known uncertainties, assesses their potential business impact and provides robust insights on outcomes which analysts can then use to drive the FP&A process.

Instead of using technology to generate data overload, it can be targeted and focused to support scenario planning, enabling it to be delivered at scale and speed.

Dynamic forecasting is an alternative approach to scenario planning. It uses current and recent data to drive planning for the near future, within a broader long-term plan.

Both scenario planning and dynamic forecasting enable robust planning at speed in an uncertain and volatile business environment, providing actionable insights and the breathing space to put plans into action.

A single business may use either or both approaches, depending on drivers, business dynamics and the specific planning scenario.

Post-pandemic economic uncertainty, combined with the growing expectation for dynamic business planning driven by data-led insights, would seem to point to a move away from traditional planning approaches to scenario planning and dynamic forecasting.

Focus on long-term plans and goals with the additional benefit of being able to accommodate unforeseen events.

Work in short-term cycles based on a foundation of longer-term plans.

Use recent and current information to inform decisions about the near-future.

Short-term cycles allow for active analysis of the planning efforts and results from the previous period, with learnings being factored back in to the longer-term plan.

Working from a single version of the truth

Working to a monthly or rolling planning cycle, and facing an avalanche of planning data to be input, processed and analysed on each cycle, can squeeze the time available to evaluate plans, identify insights, and turn those insights into action.

One potential result of this squeeze is that the business runs out of time to action a single, unified plan and different business functions each end up working to their own plan, or simply firefighting current issues with no longer term plan in place. [We don't have a single version of the truth.](#)

A faster, accurate planning cycle backed up by the right business processes and IT toolset enables more time for all functional stakeholders to engage, understand and enact a common plan, so that the business operates from a single version of the truth.

Working from a single version of the truth enables the business to be more responsive and eliminates the wastes involved in different areas working to their own plans.

Breaking down departmental silos

Establishing a single, clear, accurate and actionable version of the truth facilitates removing silos between business functions, creating an environment where effective FP&A is truly driving the business.

The challenges that traditional planning faces in a dynamic and uncertain environment – tighter planning cycles, monthly or rolling forecasts, large volumes of data entry – can lead to the planning process getting fragmented across the organisation. The demands on FP&A can mean it starts to lose touch with what's going on in different functional areas of the business, thus creating or reinforcing departmental silos.

Moving to a tighter, more flexible process that takes greater account of uncertainties and risks, with automation where it adds value, can close the gap and start to break down silos.
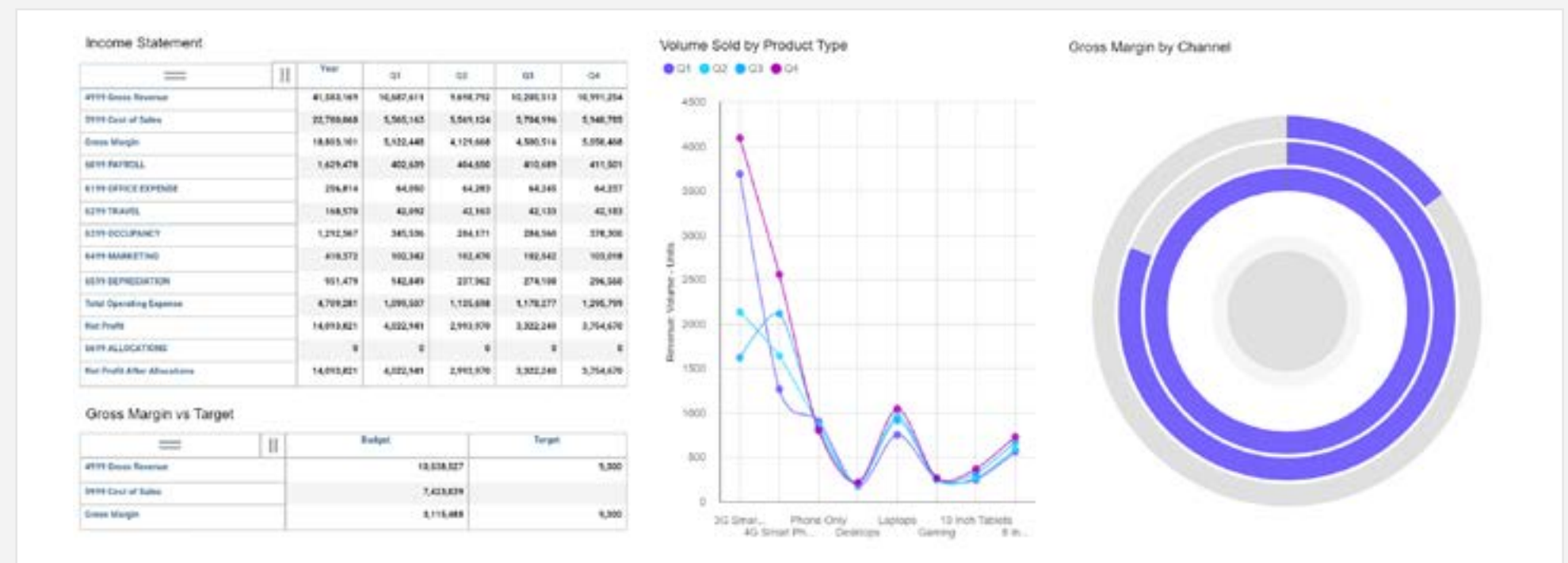
The planning cycle creates actionable insights which the business can enact as a whole, rather than expending time and effort keeping different departmental plans aligned. The business moves [from coping to collaboration](#).

Growing capability from a small base

Because effective FP&A is fundamentally important to any business, there can be a perception that adopting a new approach to FP&A means taking on similarly fundamental, large scale and risky business change.

One benefit of approaches like scenario planning and dynamic forecasting is that they are specifically designed to meet the needs of a rapidly-changing, uncertain environment, and can therefore be implemented much more flexibly.

New approaches lend themselves to starting with a limited scope and growing capability incrementally. A proof-of-concept based approach can deliver rapid benefits and build understanding and confidence, so a wider rollout can build on the foundation the proof of concept has established.

Automating where it adds tangible value

With the constant advances in technology, it might be tempting to visualise a fully automated FP&A process where a business can forecast and plan simply by pointing the technology at the data.

That kind of capability may be pretty close, but automation without understanding carries major business risks. Effective FP&A still relies on robust process, validation and understanding of data, insights and plans.

New approaches to FP&A need to deploy automation where it delivers tangible benefit, by automating any process that shouldn't need human intervention.

Automated Planning

Automated planning means that history can be used to auto generate forecasts, with the flexibility of choosing what history can be included and, more importantly, excluded (2020) (see fig 1).

Automating the process of gathering historical data and identifying which data is relevant to different potential scenarios releases valuable time back to the business, driving better decision making (see fig 2).

Automated Planning allows the machine to look at a defined past data set and apply statistical modelling to predict the future. Coupled to IBM Watson, Planning Analytics also allows the user to base the plan on evolving trends and predictive insights.
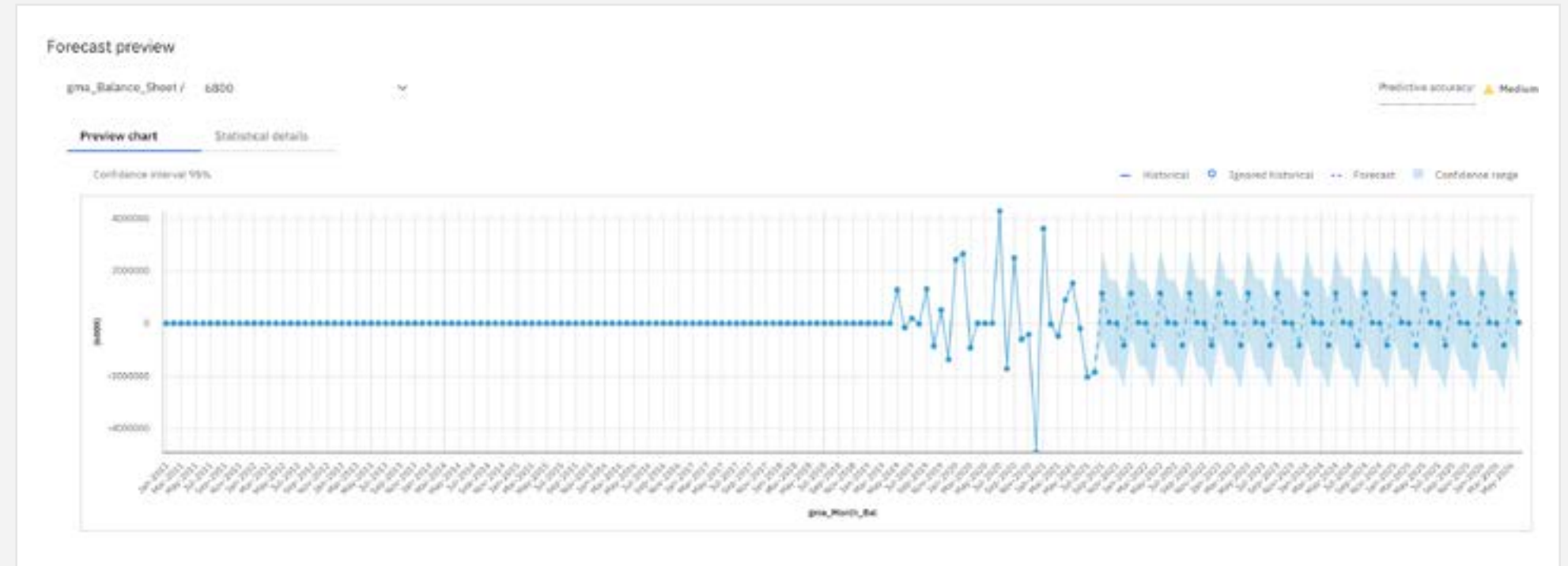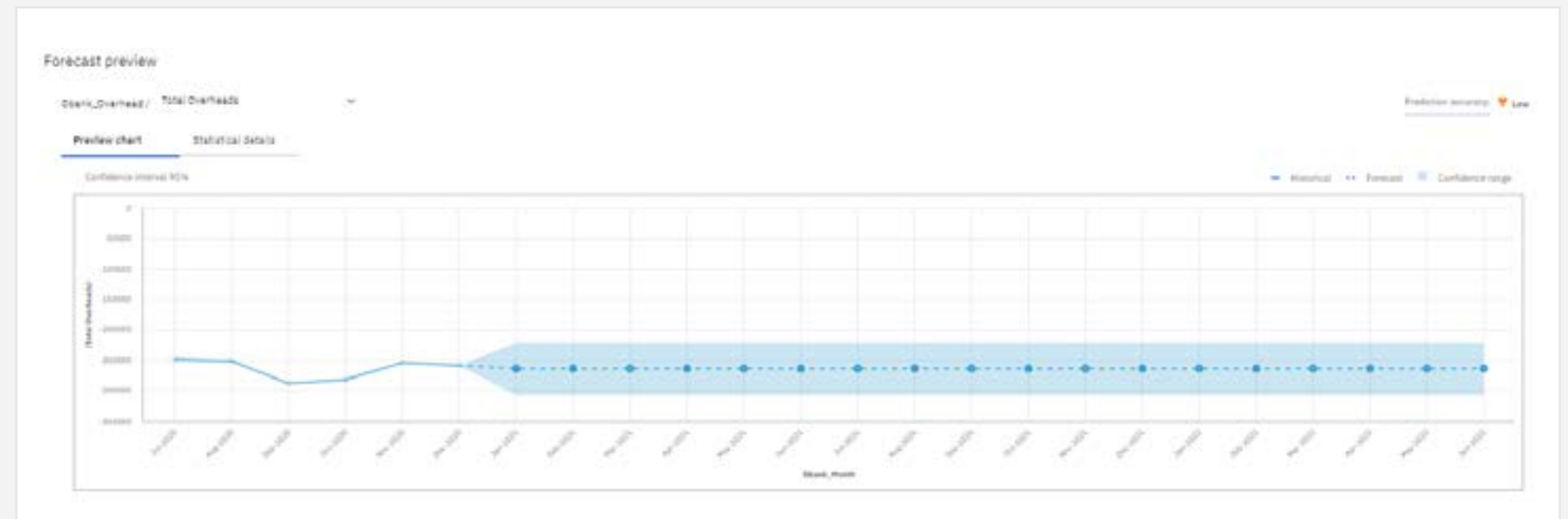

Fig 1

Fig 2

Establishing the right toolset for your needs

In this eBook we've set out to establish how the challenges of these uncertain and dynamic times require a new approach to FP&A. A new approach requires a new toolset.

Traditional, spreadsheet-based toolsets are constrained, lacking the range and flexibility to deal with functions like scenario planning.

Take the example of Robertson Construction. Robertson had seven accountants supporting eight business units. They spent most of their time preparing management information in the form of weekly cash forecasts, monthly management accounts and full year profit forecasts. In addition, approximately 50 projects were running at any one time, each of which required a detailed cost value report (CVR) every month.

All of this management information was produced in standalone spreadsheets. With no automation of data transfer they were prone to data corruption. The additional factor of storage of the majority of the spreadsheets being on local PCs with no cloud-based backups created inherent risks to this approach.

Scenario planning needs to evaluate different datasets outside the narrow range of KPI data; doing this on a spreadsheet-based system can be labour intensive, slowing down the planning cycle.

A tool like IBM® Planning Analytics can group granular levels of data together in any required dimension, enabling insights to be established quickly instead of FP&A holding up decision-making with the time needed to find answers.

We've talked previously about Robertson Group's data 'islands', a collection of individual spreadsheets holding all of the organisation's data. With the implementation of IBM® Planning Analytics, these islands were joined together to create data 'continents' to which all elements of the business have access.

By consolidating all of the information held into a fully integrated model, despite all the complex variables inherent in the business, there is now the opportunity to access a single version of the truth.

Moving FP&A from reporting the business to driving it

By adopting an approach which models the real dynamics of a modern business much more closely than traditional planning and forecasting, creating actionable insights, planning dynamically, working from a single version of the truth, breaking down silos and deploying the right tool set to deliver tangible value, FP&A can move from being a function that reports on the business to having the capability to drive it.

As margins get tighter and businesses are increasingly expected to be able to turn on a sixpence, it's a capability that's likely to become ever more critical.

How Robertson Group transformed its FP&A with Spitfire Analytics and IBM® Planning Analytics

At Spitfire Analytics we are committed to working with our clients to deliver success for them in their financial planning and analysis.

One such success has been with UK-based construction, infrastructure and support services company Robertson Group, who engaged with us to eliminate manual entry and improve reliability of their financial planning and reporting process, which was spreadsheet based at the time the engagement started.

Starting with a proof of concept, we helped Robertson move to an IBM® Planning Analytics based solution

- Unifying multiple data sources into a single location

- Automating complex reporting

- Simplifying forecasting and increasing validity to support faster modelling and more accurate planning scenarios

- Saving GBP 40,000 in data entry time and the equivalent of two financial controllers

You can read more about how Spitfire Analytics with IBM® Planning Analytics helped Robertson Group transform its financial planning here.

What next?

Spitfire Analytics are ideally placed to help our clients deliver optimal finance planning in a post-Covid world. Our team of consultants all have backgrounds in finance; we combine this with 35 years' collective experience in IBM® TM1/IBM® Planning Analytics and more than one hundred implementations across multiple sectors and industries.

Spitfire Analytics offer a range of services, from full implementations to platform migration to the cloud, and ad hoc help.

We have seen that taking on a new approach to FP&A and the increasing appetite for xP&A doesn't mean staking the whole business on a new set of processes and tools. It's better to start small, realise some benefits quickly, and grow from there.

A proof of concept is a great place to begin the transformation, and Spitfire Analytics are here and ready to engage on finding out how a new approach to FP&A can help your business.

To talk about a proof of concept, or simply to continue the conversation, contact us.

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