



The Next Generation of FP&A: Operating Partners

EXECUTIVE SUMMARY

Financial planning and analysis (FP&A) is crucial for businesses seeking better performance, but company leaders often don't look at this function in a way that fully benefits their organizations. Traditional FP&A gets too focused on financial-to-financial activities. However, by refocusing on operational-to-financial activities, FP&A has the potential to be far more than just a back-office support function.

Forward-thinking leaders subscribe to the next-generation approach to FP&A, which starts by reframing the acronym as forecasting, planning, and analytics. This approach positions FP&A as a business performance management system that will help enterprise stakeholders think more strategically, improve operational discipline, and make better decisions.

The next-generation FP&A team regularly collaborates with stakeholders to forecast, plan, and analyze business choices and assumptions. It also provides data-driven analytics, insights, and recommendations that enable leaders to make sound strategic, operational, and financial decisions. Prioritizing FP&A in this way can give a company a significant competitive advantage.

THE TRADITIONAL VIEW OF FP&A AND ITS DRAWBACKS

The problem is that the traditional view of FP&A focuses on financial planning and analysis. What's implied by this perspective is that the FP&A team is only handling the financials versus what's driving the financials strategically and operationally. In this mode, the team works in the background, not talking to other teams. Thus, enterprise leaders lose sight that financial plans should reflect the choices and assumptions made by all stakeholders in their strategic and operational plans.

With the FP&A team disconnected from stakeholders, the result is that FP&A processes are often viewed as low-value "finance exercises." This significantly limits the team's usefulness to the business.

The value of the traditional FP&A team is limited by both a sole focus on financial data and a lack of collaboration between the FP&A team and other departments of the organization. Business stakeholders don't fully utilize the FP&A team's capabilities to help manage their areas of responsibility. As a result, the team lacks the knowledge and context to translate choices and assumptions into actionable plans and forecasts.

“Without a reliable forecast, we couldn't track against the plan fast enough.

It was very difficult to run the company from a board perspective, and once I got in there as acting CEO, it was almost impossible to plan and make strategic decisions.”

RICK CORCORAN JR.

Former Interim CEO, First Source

Traditional FP&A

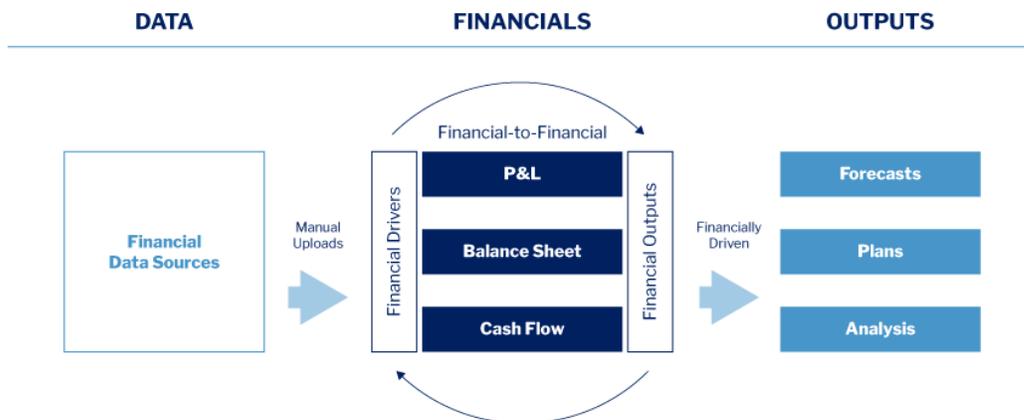


Figure 1 — Powered by enterprise-wide financial data, forecasts, plans, and analysis typically represent historical financial trends and relationships with other financial accounts.

THE NEXT GENERATION OF FP&A

The acronym FP&A should be reframed as forecasting, planning, and analytics. Using this model, a well-developed FP&A capability will serve as a business performance management system designed to help enterprise stakeholders manage and optimize business performance. It will also enable stakeholders to become more strategic, improve operational discipline, and enhance decision-making. The long-term results should translate into faster growth, improved profitability, and greater cash flow.

The key enabler of next-generation FP&A is the operational-to-financial driver translation. This is a function of both regular collaboration between the FP&A and enterprise teams, as well as the transformation of operational data into financial data that can be modeled. Both enablers are essential in developing an enterprise, driver-based, three-statement, integrated financial model that allows for strategic and operational choices and assumptions to be converted into financial projections.

Ultimately, whether it's a forecast, plan, or analysis, the financial model is the translation of operational data into insight vis-à-vis the expected impact on financial performance. This is the basis for decision-making.

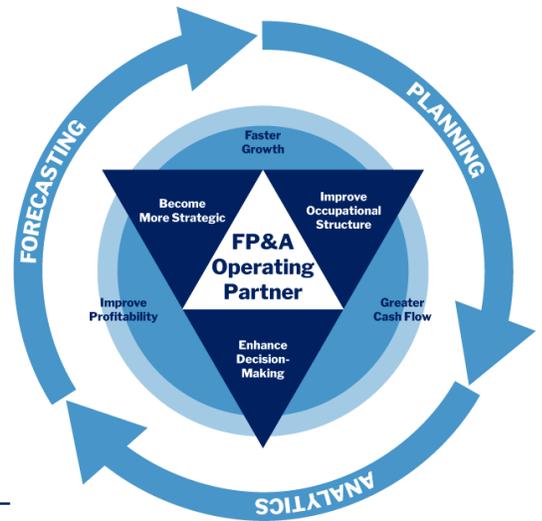


Figure 2 –
The Next Generation of FP&A Ecosystem

Next-Generation FP&A

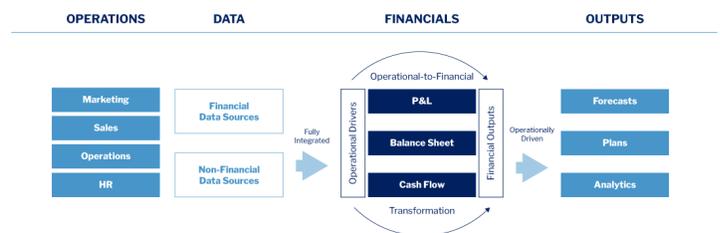


Figure 3 – Powered by enterprise-wide financial and non-financial data, forecasts, plans, and analytics represent upstream operational drivers, choices, and assumptions.

“**Being able to obtain more information and put it in a format from which people can easily make decisions is critically important to us.**”

CAMMIE MULLER

Chief Financial Officer, Aurora Organic Dairy

FP&A's Core Capabilities

The core capabilities of next-generation FP&A can be segmented into three core buckets, each intended to convert operational raw data into actionable insight. The following is a summary of each bucket, with regular collaboration as an essential link between all three.

Forecasting

A regular and collaborative process where the FP&A team works together with business partners to translate changing choices and assumptions into revised projections. A revised operational forecast should represent the most up-to-date prediction of “what we think is going to happen” so that the organization can respond and course-correct immediately if required.

Planning

An annual enterprise-wide collaborative process where strategic and operational priorities are established, roadmaps are developed, and supporting financial budgets are produced. The final financial budget or plan should translate all choices and assumptions into budgets and represent “what we are accountable to deliver.”

Analytics

The process of collaborating with stakeholders to understand the business questions they need answered, procuring the right financial and non-financial data, transforming the data into digestible insight, and articulating that insight in the form of recommendations that support stakeholder decision-making.

FP&A's Collaboration Channels

When looking at next-generation FP&A, collaboration channels should be both upstream and downstream, which are explained as follows:

Upstream

The FP&A team works together with business stakeholders to assist in developing the best strategic, operational, and financial choices and assumptions (e.g., planning and budgeting sessions).

Downstream

The FP&A team works together with business stakeholders to review how actual performance and progress is playing out, hold stakeholders accountable, and advise on what it means and what can be done about unacceptable results (e.g., business review meetings).

In both types of channels, the objective FP&A leader serves similar to a chief of staff and operates as the process facilitator and scorekeeper of deliverables.

FP&A's Deliverables

Next-generation FP&A deliverables are intended to organize insights in a digestible format to inform stakeholder decision-making. These deliverables are broadly defined as "reports."

Generally, a report is any document that organizes insight with the intention of informing decisions (e.g., management reporting, scorecards, dashboards, and analytical readouts). In the end, the process that the FP&A team engages in should be as valuable as the deliverables it produces.

The underlying data infrastructure is also a critical success factor. When all financial and non-financial data is connected and integrated into a single source of truth, and prescriptive data mapping and business logic are applied, raw operational data can be translated into driver-based financial data. This both helps enterprise stakeholders understand the true drivers of business performance, and dramatically improves the efficacy of producing analytical insights.

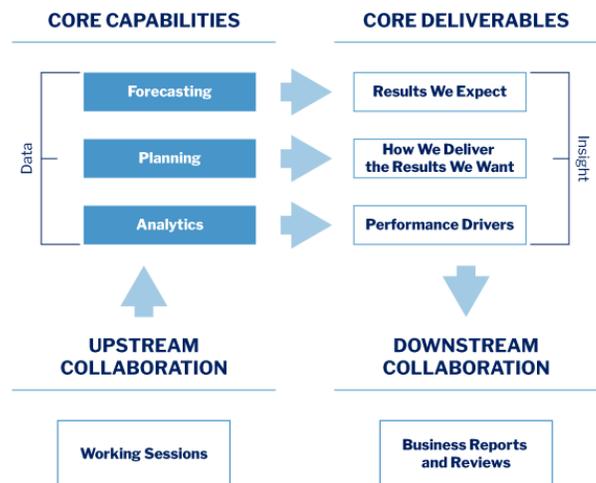


Figure 4 — FP&A's Collaboration Channels and Operation Partnerships

THE IMPACT OF THE NEXT GENERATION OF FP&A

FP&A is unique in that when organized as a front-office operating partner, the team becomes integrated across the entire organization, leading to the development of a deep, interconnected enterprise perspective. Operationally driven forecasts give stakeholders confidence in what's changing in the business and what results can be expected. Robust business planning helps stakeholders think through and make decisions that enable target results to be delivered. Regular analytics provide stakeholders with the insights to understand what's actually driving business performance, and what the impact of alternative choices might be.

Taken together over the long term, the operating partnership between FP&A and business stakeholders enables more strategic thinking, operational discipline, and better decision-making, ultimately leading to optimized business performance.



Cadilus brought real discipline into cost management and the work that we do in terms of reporting and better forecasting.

For us, it meant cost containment and cost-cutting while trying to be as efficient as possible to weather the COVID-19 storm.”

DAVID LIPSON

Chairman of the Board, Metro Corp Media

CADILUS BELIEVES IN THE NEXT GENERATION OF FP&A

At Cadilus, our team of professionals strongly advocates implementing FP&A as a front-office operating partner.

When an organization forecasts, plans, and analyzes effectively, the FP&A team functions as an integrated part of the organization in three important ways:

- ✓ The team talks to its business stakeholders to convert strategic and operational choices and assumptions into actionable financial forecasts.
- ✓ The team works with its business stakeholders to develop robust business plans to deliver results.
- ✓ The team answers the most important business questions to help make more effective decisions.

Ultimately, the organization's leadership is aligned around what drives performance, where the company is headed, and how it's going to get there.

To learn more about the next generation of FP&A, visit cadilus.com.



Cadilus has multiple people who come in at various project stages, and they have all those little pieces of expertise we need.

Had we hired just one person, we wouldn't have gotten the same breadth of skills and expertise."

CAMMIE MULLER

Chief Financial Officer, Aurora Organic Dairy

ABOUT CADILUS

Cadilus is an enterprise FP&A services company and operating partner that offers a full suite of consulting and managed services to help organizations manage and optimize business performance.