



## Reinventing FP&A for the pandemic and beyond

Business partner. Advisor. Truth-teller. Course-corrector. These are a few phrases that describe the role financial planning and analysis (FP&A) has traditionally played within an organization. These roles aren't necessarily going to change, but how FP&A carries them out certainly might as the next normal takes shape in a post-COVID-19 economy.

The demands of the pandemic, which include needing to constantly run scenarios and plan for contingencies while creating new models and rethinking data sources and strategies—all while working remotely—are challenging traditional views of FP&A. CFOs and FP&A leaders are now rethinking FP&A work, tools, skill sets, and locations to adapt to future needs. In fact, in a recent Deloitte Dbriefs webcast, forecasting and planning were cited as a primary concern

among companies, second only to continued uncertainty in demand and revenues.<sup>1</sup>

So, what is the role of FP&A as companies work to recover and thrive? How might the function's work and expectations change, and what could be the implications for FP&A professionals? And how might those impacts and expectations differ by industry and sector?

In this issue of *CFO Insights*, we'll explore these and other questions—and address the very real possibility that the fallout from the pandemic may create even greater expectations of FP&A and both alter and expand its responsibilities. In fact, whatever lessons can be gleaned from the pandemic's toll could better prepare FP&A functions and their leaders for an unpredictable future.

### Impact of COVID-19 pandemic on FP&A

Historically, the FP&A function has been tasked with helping the business identify trends, gain insights, and lay the groundwork for future business decisions. To do that, FP&A professionals have built plans, budgets, and forecasts that traditionally relied on historical assumptions and data. They based much of their analyses on data that generally came from internal systems.

The COVID-19 pandemic, however, has revealed the vulnerabilities of traditional FP&A processes and inputs, and brought new challenges. As a result, many prior assumptions and forecasting models—and the data on which they were based—have been rendered moot. Today, many plans and budgets built on those assumptions and data are largely unusable, at least for the near term. Consequently, a significant

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number of companies, realizing the difficulty in forecasting the many factors that influence performance, have **withdrawn earnings guidance** until they can better understand the pandemic's ramifications.

Additionally, organizations are not only examining the pandemic's impact on their own business, but also on their entire ecosystem, from customers to first, second, and third-tier suppliers. Understanding such broader impacts has required FP&A to draw closer relationships with sales and operations planning as a necessary input to financial planning. At many companies, these relationships can be fragmented and considered discrete, however. The fluidity of customer, supplier, and stakeholder dependencies has highlighted this deficiency, making the need for a more dynamic connection increasingly urgent.

### What's changing in the world of FP&A?

Based on discussions with FP&A leaders, CFOs, and Deloitte's Finance Transformation and Human Capital professionals, we are seeing the following overall trends:

- A sharper focus on modeling the pandemic's impacts on critical suppliers;
- A thirst for raw data and insights from the field instead of aggregated data;
- A higher demand for the integration of external data with company data to generate actionable insights.

Furthermore, business leaders want FP&A teams to execute a more agile and efficient planning process to help them adapt to ever-changing business conditions. Below are just a few of the pandemic-related developments that have impacted FP&A teams:

### Go broader and deeper

Amid the COVID-19 pandemic, aggregate corporate-level data can be insufficiently nuanced. Consequently, data resolution or granularity has become more important, challenging many FP&A teams to simultaneously go broader and deeper.

For example, the supply chain disruptions that occurred as the pandemic spread have forced many companies to critically re-examine their ecosystem of suppliers and the risk of third parties, and find alternative—and,

in some cases, local—suppliers. Deloitte's *CFO Signals™* for Q2 2020 found that nearly 40% of surveyed CFOs expect their supply chains to be more diversified post-crisis. In addition, business leaders are seeking more data from, and insights into, their own on-the-ground operations, as well as suppliers' operations, market trends, customers' finances, and consumers' behavior.

As the pandemic's impacts have differed by geographies and markets, FP&A teams have also been tasked with providing more insights and data at increasingly local levels—for example, by country, state, or even city locations. This way, business leaders can get a firmer understanding of what could happen next in their local context and fine-tune their strategies accordingly.



Going broader and deeper has also highlighted the need to forecast and plan at multiple levels. FP&A organizations are increasingly adapting to these needs by first working across locations to frame critical local indicators, and then generating insights that serve local and corporate decision-making and guide allocation of resources. These activities can be challenging as they may require central and local staffs to develop new levels of relationships at a time when remote work may still be required. Adding to these challenges is the lack of flexible tools that support more detailed planning and enable scenario modeling, which FP&A teams are increasingly being asked to provide.

### New models, scenarios, and data

In these times of increased volatility, many FP&A teams are rethinking the models they need to create timely financial forecasts and plans. Given the tremendous uncertainties, there is an increased focus on first building scenarios and then thinking through their implications on the business. Some FP&A organizations are identifying new drivers of performance and creating new models for forecasting financial outcomes more closely tied to underlying economic and organizational drivers or variables. Others are creating driver-based plans, which may have an inherent advantage over their simpler, trend-based counterparts.

There is also an increased interest in new types of data that reside outside an organization's systems. Business leaders want to know not only what issues others in their industry or sector are experiencing as a result of the pandemic; they also want to know how their broader ecosystem of partners and related industries and sectors are coping and positioning themselves for the longer term.

Moreover, business leaders hope to understand how the pandemic has affected (or could affect) their customer segments to understand trends and model their potential impacts under different scenarios. In some cases, increased interest in not only what customers or consumers are buying, but also in their consumption habits (e.g., how and when they buy), has placed more emphasis on customer relationship

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management. In turn, that has led to greater demand for high-quality, traceable data from the sales force (or sales floor) through to an organization's technology and financial processes and systems.

The need for new models and new data is not lost on CFOs. When finance leaders were asked in a recent Deloitte Dbriefs, "What are the biggest challenges to plan for the future/next year?," almost a quarter cited the lack of advanced capabilities to respond to the external environment (see Figure 1).

Still, identifying and accessing the external data that might be most useful for understanding what drives business and deciding where to invest can be difficult. Even if FP&A is able to assemble relevant data for ad hoc analyses on desktops, this is too often done by brute force using spreadsheets, which can take an inordinate amount of time. So, the next hurdles are standardizing, systematizing, and operationalizing the data-gathering and analysis process. Toward this end, some organizations are turning to cloud-based forecasting and planning software, and sometimes enhancing it with advanced statistical analysis and machine learning. Integrated visualization capabilities can also

help decision-makers see and manage by exception more rapidly, iterate scenarios faster, and understand likely impacts more quickly to support decision-making.

### From annual to an agile and continuous business planning process

For another example of what is changing in FP&A's world, look no further than the annual business planning process. Some companies are postponing this process until there is more clarity on the pandemic's path and what that means for return to work. Others are challenging various aspects of annual planning and asking the following questions:

- Is annual the right time frame, or should it be done quarterly or more frequently?
- Should companies consider migrating from annual planning to a rolling forecast?
- Should the process be broken down into discrete work components to allow for agility—not only for planning, but also for allocating precious capital?
- Can aspects of the process be digitized and accelerated to free up resources for higher uses, including decision support?
- Which tasks and related deliverables could be discarded altogether?

As discussed in a prior issue of *CFO Insights* (see "Moving target—What it takes for annual planning to hit the mark," May 2020), several factors have led leaders to challenge the traditional business planning process. Such factors include the need for constant scenario development and modeling; a lack of confidence in future projections; the urgent need for decisions about courses of action; an unclear decision-making framework, particularly around capital allocation; and time- and resource-consuming manual iteration. Yet, without the right data and tools, FP&A groups are challenged to create and revise plans as new information becomes available, let alone do so on an almost continuous basis.

### Shifting work, workforce, workplace, and the FP&A operating model

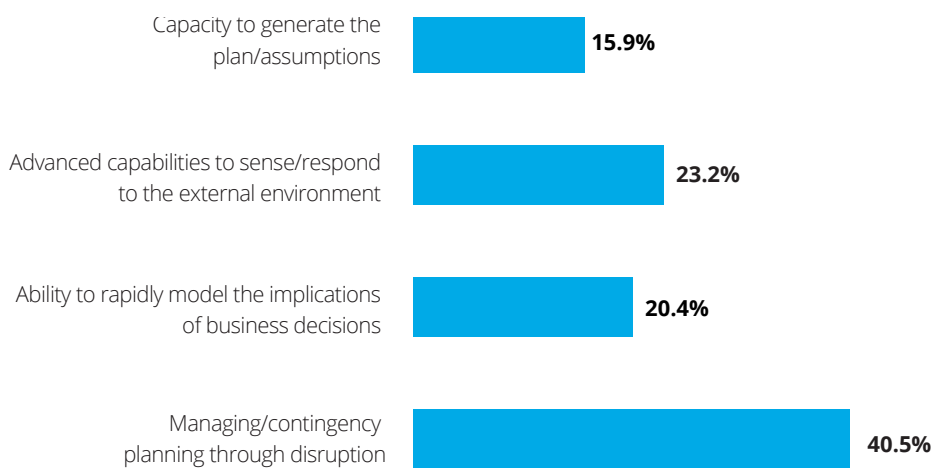
The pandemic has had varied impacts on the work, workforce, and workplace of FP&A. For some companies, the demands on FP&A staff have expanded considerably, especially at those companies that have experienced significant shifts in market demand, liquidity challenges, and/or higher costs due to supply chain constraints. At such organizations, cash-flow forecasts and models have had to be updated continuously or created anew to reflect different assumptions.

Given the importance of (and urgent need for) forecasts, some FP&A professionals have been given a seat at the table at leadership meetings to help others understand COVID-19-related developments and their implications for the business, its suppliers, and its customers. And some organizations have brought in other finance professionals or third parties to help meet the increased demand for information and analysis.

As nearly everyone in finance has had to work remotely for a period of time, long-standing views that FP&A staff must reside in-house and be co-located are being questioned. Some organizations are also realizing that FP&A centers of excellence can be operated more virtually. Going forward, with virtual work and the ability to access high-performing talent from almost anywhere, there may be more consideration of geographic distribution of FP&A staff. After the pandemic, CFOs might

**Figure 1. What are the biggest challenges to plan for the future/next year?**

Results based on 4,841 respondents



Source: Deloitte Dbriefs, "COVID-19 crisis response: What's keeping CFOs up at night?" July 15, 2020 webcast

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also adopt more flexible work-from-home arrangements (see “[Remote work: How finance works, not where, matter most now](#),” *CFO Insights*, May 2020).

It’s also possible that there will be increased outsourcing of various FP&A activities and data. Deloitte’s *CFO Signals* for Q2 2020 found that 16% of CFOs are expecting to use more outsourced finance services (although not necessarily for FP&A). Across FP&A and other areas of finance, the survey found that CFOs overwhelmingly expect more automation and cloud computing; nearly one-half of respondents expect to have fewer finance staff in a year. Still, until the new demands driven by COVID-19 are behind us, there may be a need for more FP&A resources to address various special projects, pushing finance chiefs to seek ways to support current needs without committing to long-term staffing. Meanwhile, CFOs should begin exploring what new skills might be needed for the next normal, as well as how to cultivate those skills, say, through internal development or outsourcing.

### Stacking critical technologies and initiatives

Considering the changes businesses are experiencing and the downstream impact on FP&A, now is an opportune time to run a “start, stop, continue” exercise that would allow FP&A to reset itself. In fact, FP&A is ideally positioned to help the businesses understand which assumptions and actions taken in immediate response to the pandemic were effective and which were not, as well as rerun projections and scenario models to make necessary adjustments. That would enable CFOs and the businesses to better manage upcoming initiatives and develop a corresponding scorecard to track results.

At the same time, the new demands on FP&A are leading some organizations to consider how technology can help them scale efficiently. In turn, this is driving assessments of new investments and new ways of working across FP&A. In fact, we find FP&A leaders beginning to define a road map and execute their go-forward strategy in a six-layer stack of technologies capabilities (see Figure 2).

The typical FP&A process moves from data to insights and then to decisions and actions. Thus, the stack’s foundation begins with a **data layer**, where technologies enable the efficient collection or ingestion of data from within and outside the organization, and the efficient storage of structured and unstructured data. This layer may include a data lake to store data and a variety of tools to automate the pulling of key data from outside resources. For example, if you create aluminum parts for airlines, the number of daily flights in different markets and their duration may help predict demand. Pulling data from various flight trackers can help in modeling when a part may need to be replaced and in estimating future demand. A number of finance organizations are using robotic process automation to accelerate the collection and storage of such key data.

The **analysis layer** focuses on the tools and algorithms that are used to process data into insights. Increasingly, these tools are on major cloud platforms that provide various machine-learning algorithms, processing power, and storage capacities. Key to

obtaining optimal value from these tools is the ability of FP&A to turn the data and insights into compelling stories the business can use with stakeholders.

The third layer in the stack is **model management**. Here, software tools are used to track the different models in play, evaluate the variables that may be drivers of the forecast model, backtest the model against prior data, track assumptions, and run modifications of the models and control versions.

The **interface layer** provides controlled and ideally easy-to-use interfaces for users of the data, analysis, and model layers. It may allow end users to run specific models, build powerful visualizations, and create forecasts by themselves. The **decision layer** can track decisions made using different models and assumptions—so that if the assumptions change, decisions can be reexamined. Similarly, the **evaluation layer** looks at the accuracy and outcomes of decisions and forecasts to identify opportunities for learning and improvement.

**Figure 2. FP&A technologies capabilities stack**

*How FP&A go-forward strategies can be developed in each of the six levels in the stack.*

Layer	Actions
<b>Evaluation layer</b>	Leverage technology to evaluate forecasts, decisions, and outcomes to improve FP&A technologies and processes.
<b>Decision layer</b>	Track decisions and assumptions behind models used to support the decisions. Trigger re-evaluation of decisions if assumptions change.
<b>Interface layer</b>	Provide user access and visualization capabilities to forecasting models; have ability to run multiple scenarios/ models and visualize insights
<b>Model management layer</b>	Provide model tracking, modification, and version control; track assumptions; backtest models.
<b>Analysis layer</b>	Provide computing infrastructure, algorithms, and tools to run models.
<b>Data layer</b>	Provide capabilities to ingest structured and unstructured data, store it, and make it available for analyses.

Source: Deloitte Development LLC, 2020

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Despite a focus on cost reduction in many organizations, the demands on FP&A have expanded considerably. Thinking through a road map for impactful investments in processes and tools—using the six layers as a guide—can provide the foundation for requesting resources to adapt and modernize FP&A. A starting point is to review existing technologies and their capabilities across each layer. Next, ask what minimal investments and actions in each layer could deliver the most significant returns in enabling FP&A to scale efficiently and become agile.

By building a road map of technologies and capabilities in each layer, and considering how they can be integrated, CFOs can identify how to make focused and accretive investments in technology—as well as alter their approach to talent development and recruiting. Moreover, with selective

investments in more sophisticated tools and data aligned with a road map, FP&A teams can begin to run more dynamic scenario testing cycles, and also create a more integrated forecast and planning capability to inform business decisions.

### Empowering FP&A and sponsoring change

The pandemic has made clear that existing systems, processes, and ways of working cannot necessarily deliver consistently, given the greater demands for data, insights, scenarios, forecasts, and plans. Old ways of working and organizing may not meet the needs for stronger linkages to local business operations and markets—or the need to simultaneously go broad and deep.

To help FP&A navigate the challenges ahead, CFOs can play a critical role by empowering their FP&A leaders to drive change and

adapt their organizations to post-pandemic contingencies. A starting point is to identify a road map for improving technology support across each of the six capability layers, and explore how the work, workforce, and workplace may have to change for more agile and accelerated FP&A delivery. This analysis could be used to frame a few key change initiatives that provide the greatest leverage and value across the six layers.

In addition, CFOs should serve as champions for new data and technology capabilities, along with new workforce skills and ways of doing work (e.g., hybrid human and robotics). They also should play a critical role in sponsoring connections between their key FP&A staff and the businesses. Together, these efforts can help evolve FP&A to become more agile and scale to changing business needs in the face of COVID-19 and other challenges. ◀



## End note

1. Deloitte Dbriefs, “COVID-19 crisis response: What’s keeping CFOs up at night?” July 15, 2020 webcast.

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