



Extended Planning and Analysis (xP&A): FP&A's Role in Business Transformation

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1 What is xP&A?

xP&A is more than an attempt to 'fix' the planning process. It is a complete transformation of the FP&A function.

Just when you think you have heard them all, another acronym aimed at finance is born, xP&A. Coined by Gartner, a global research and advisory firm, the letters stand for Extended Planning and Analysis which they predict will transform ‘... *financial and operational planning by providing a single platform with the integration and support needed for finance and business teams to collaborate.*’

“By 2024, 70% of new financial planning and analysis projects will become extended planning and analysis (xP&A) projects.”

Gartner Research
02/2020

Although the term may be new, the concept is not. It is something that has been developing over recent years under other names such as integrated FP&A, digital FP&A, and next generation FP&A. The main emphasis of xP&A and other terms is that planning and analysis goes beyond finance and its traditional accounting practices, to all functions of the entire organization. It is a modern planning approach that:

- Is agile and collaborative.
- Integrates the three **key planning processes** of strategic planning, business planning and forecasting (FP&A), and operational planning and forecasting.
- Performs planning and forecasting **on-demand** and in real time.
- Makes use of advanced analytical capabilities (artificial intelligence (AI) /machine learning (ML) / predictive/ prescriptive).
- Allows FP&A to play a key role within the organization to enable fact-based decision-making.

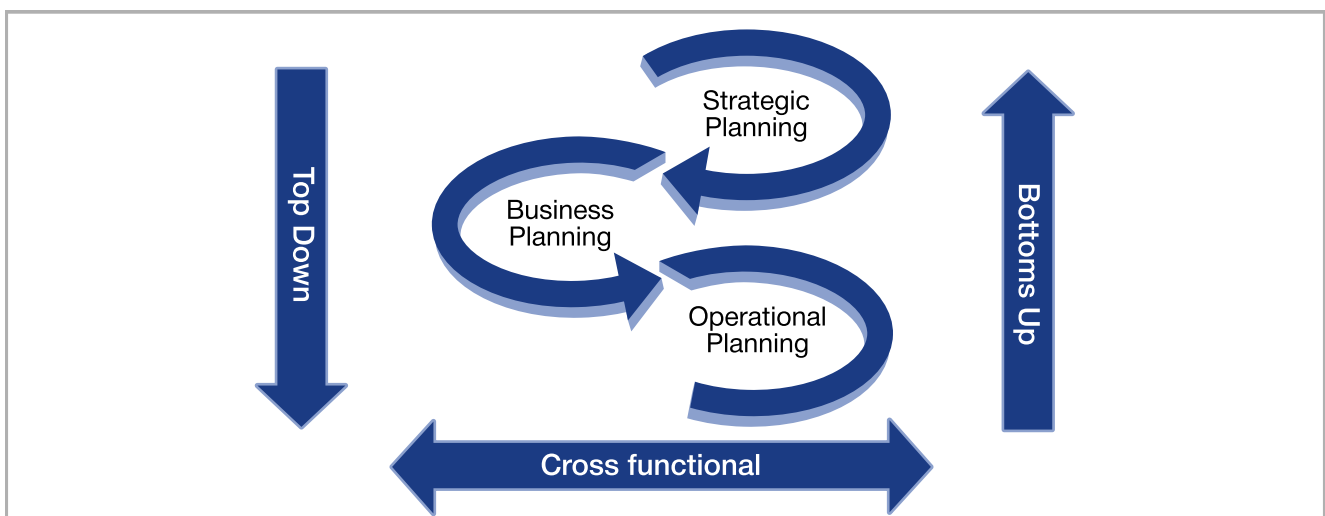


Fig 1: xP&A - A new era of continuous enterprise financial and operational planning

xP&A is more than an attempt to 'fix' the planning process. It is a complete transformation of the FP&A function to continually challenge the status quo, to educate, shape and influence management decisions on how the organization achieves its goals.

Yet, are FP&A departments ready for such a change?

2 xP&A: How did we get here?

We live in the world where FP&A is becoming a valued business partner to all parts of the enterprise.

Traditionally FP&A have overseen the development of strategic and financial plans, mainly from a Top-down strategy to execution perspective driven by finance. These plans were often **disconnected with only one view of the future.**

The main control mechanism of these plans is the annual budget, a restricted financial view of how the business is to operate. This method is quite crude, departments are either 'on' or 'off' budget. To make matters worse, budgets are typically set up to 15 months in advance based on assumptions that prevailed at that time, with a fair amount of game-playing thrown in. In an uncertain world, where events such as COVID-19 render budgets obsolete, often within a few weeks of them occurring, this approach is not viable.

Similarly, operational staff have to make day-to-day decisions at a detailed level, where the link to strategy and organizational goals are lost. In the necessity of making fast decisions, they implement their own short-term planning solutions that are completely separate from finance, thereby reinforcing the broken link. This fragmented approach creates confusion and frustration in equal measure as managers find themselves fighting the corporate planning process as opposed to everyone working together for the good of the company.

Over the years there have been many attempts at bringing these different plans together as can be seen in figure 2.

The journey to xP&A

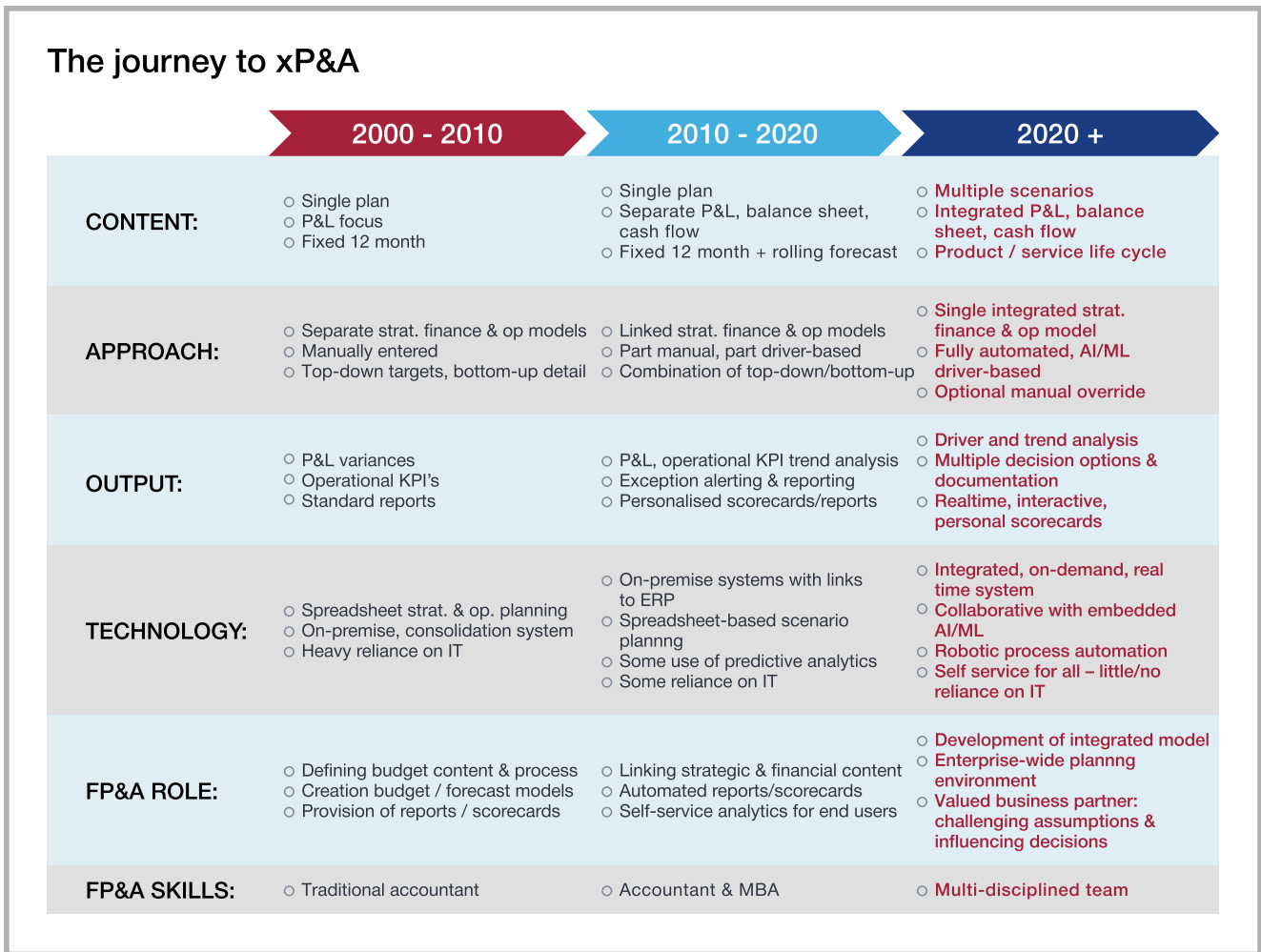


Fig 2: The journey to xP&A

2000 – 2010:

Around the turn of the century, emphasis was placed on corporate performance management (CPM, another term coined by Gartner in 1999) that sought to link strategy and execution. The name soon morphed into enterprise performance management (EPM) by other advisory groups as they sought to highlight the involvement of the whole organization. Although strategy was placed at the forefront of planning, it did not quite bring the organization together as intended. Operational people still used their own systems to support day-to-day decision-making.

Planning was also mainly about finance so focus soon turned to the speed of closing the books. The thought was that if the month and year-end were closed quicker, any issues would be spotted and sorted sooner. However, this speed did nothing for harmonizing plans throughout the organization.

2010 – 2020:

As the concept of CPM became more widespread, other methodologies started to develop that sought to eliminate the drawbacks of the annual budget. Methods, such as ‘Beyond Budgeting’ and the use of rolling forecasts gained traction and organizations started the move towards continuous budgeting. This led to driver-based planning as a way of automating budget preparation, and a recognition that product life cycles do not fit neatly into a 12-month planning period.

However, these initiatives gave rise to difficulties such as **identifying the actual drivers** of the business. At this time, most drivers were set through intuition or a cursory correlation of data points.

There was also a real **need for users to collaborate** in a quick and meaningful way so that they could work together and not set individual plans that would disadvantage other departments. These issues became even more problematic in the face of unplanned events such as COVID-19, which required **much faster planning and analysis**. Resolving these difficulties required advanced analytical capabilities that, even 5 years ago, were beyond the reach of the average FP&A department.

2020 – present:

Today's world is dominated by uncertainty. Organizations face multiple futures for which they need to be prepared because things can change quickly. FP&A need to oversee a collaborative, **agile planning process that can react quickly** to significant events as they happen. This has to combine the worlds of strategic ambition with finance and daily operational decisions whether they be in sales, HR, marketing, or supply chain. This ensures resources are wisely used to their best purpose. It's a world where planning, budgeting and forecasting are performed on-demand practically in real-time. It exploits the traditional analytic capabilities such as business intelligence and visualization with the latest analytic capabilities such as AI/ML, and FP&A become a valued business partner to all parts of the enterprise.

That's the goal of xP&A.

3 Key requirements of xP&A

xP&A cannot be achieved using spreadsheets and consolidation tools.

Achieving xP&A requires a complete rethink of how an organization plans and make decisions. This means that traditional practices, such as annual budgeting where there is only one future, need to be abandoned. In its place should be a new, integrated approach where there is only one plan for the whole organization that **caters for multiple futures**.

“We are drowning in information, while starving for wisdom. The world henceforth will be run by synthesizers, people able to put together the right information at the right time, think critically about it, and make important choices wisely.”

E.O. Wilson

an American biologist, naturalist, and writer

To do this, requires significant change in the following four areas.

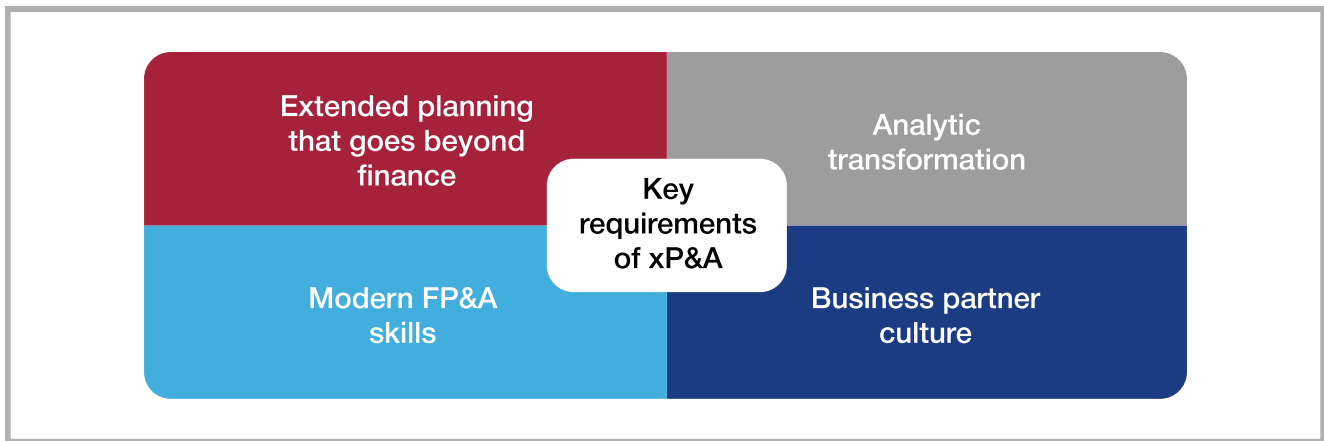


Fig 3: Key aspects of xP&A

Integrated planning that goes beyond finance

Quite often, information to be planned is set by corporate or head office based on what senior executives need to run the business. This is typically biased towards finance and inadequate for operational departments to support their local decision-making needs. As a consequence, operations develop their own systems that are not only disconnected from corporate, but also the other operational departments whose support they need.

xP&A resolves this by extending planning so that the one connected plan meets all operational needs at the level each department requires.

Tanja Schlesinger, VP Business Intelligence OneSource at Deutsche Bahn Regio AG, found that reliable predictions were only possible when the key value drivers were properly understood at an operational level. In their xP&A journey, Tanja's team worked closely with each operation to develop measuring systems that would reveal the drivers for each part of the business, which were then used for local and corporate planning. The resulting model was then fully transferred to operations, but FP&A could still use the same tools, share the same results, and look at the same data.

These models have been further developed to include real-time modelling that utilizes machine learning techniques. The planning system they have today is now the basis of performance dialogs at all levels of management. It's a system that is highly dynamic and fast where plans can be revised "at the press of a button".

Analytic transformation

xP&A cannot be achieved using spreadsheets and consolidation tools. Emre Gungoren, Group Finance Manager for Surface at Microsoft, found that it was essential to "create one highly secure version of the truth pulled from multiple sources, and then turn that information into actionable insights across the enterprise with role-based security across all." They did this by creating a single, analytics and planning portal that:

- Is accessible to the whole organization.
- Allows for the set-up of driver-based models that are connected and meet the needs of all different functions. Models that can adapt quickly to changing events.
- Supports collaboration between executives, finance and operational managers so that plans are fully aligned, and the financial implications are fully understood.

- Allows the automation of procedures to speed up processes and eliminate low-value, manual tasks.
- Has self-service analytics that can be used easily by any operational manager.
- Has embedded AI, ML, or statistical modelling capabilities to highlight hidden drivers and make insightful predictions.
- Provides real-time access to data and allows managers to run multiple scenarios to make fact-based decisions.

Emre believes that this approach has enabled “**greater business agility and transparency across our organization and empowers intelligent decision making**”.

Extended FP&A skills

Ash Sharma, Finance Director of Special Projects at Walgreens Boots Alliance, makes the point that xP&A success hinges on people. FP&A need to bring value to the table and insight. He believes that the basic skills required to implement xP&A are:

- A deep knowledge of accounting and performance management.
- A strong grasp of business strategy, functions, markets and risk.
- A mastery over systems, analytic tools and data management.
- Versatile communication skills that enable effective storytelling.
- An insatiable desire to solve business puzzles.
- **An ability to influence** without necessarily having authority.

Some of these skills are provided through traditional finance training, such as knowledge of accounting and performance. However, there is typically a big gap in communication skills, business partnering, and in the use of modern technologies, that traditional training does not provide.

In our surveys the No. 1 skills gap identified by organizations is in the area of technology and data savviness, followed closely by analytics and modelling. In some ways this is not surprising as there have been significant technological advances made in recent years aimed at FP&A, particularly in predictive and prescriptive analytics that use AI or ML. These capabilities have often required technical expertise, that finance staff do not possess, and investments in time and money. Fortunately, some of these obstacles can be overcome with the latest generation of FP&A platforms.

Business partner culture

The FP&A team is a key factor in achieving xP&A. Kerryn Haynes, Divisional Finance Director at Oxford University Press, believes that FP&A have three unique powers that she feels are essential to enable change that can lead to balanced decision-making.

- Accounting technical skills: FP&A staff have the expertise to understand the implications of any action on the organization’s financial assets.
- Access to a breadth of information. FP&A have insight into all decisions taken throughout the organization. They see the good, the bad and the ugly of performance.
- Exposure to the whole organization and the different organizational bias that exists.

However, organizational culture – in other words the unwritten rules of how things get done – can be a major obstacle that needs to be overcome. Kerryn says that for them it required a mind shift within FP&A itself. To start they:

- Had to move from reporting numbers to leading and enabling the whole organization to make the best decisions.
- Had to remain objective which required them to support and challenge all functions. They cut through the organizational bias so they could act as one to deliver the mission.
- Encouraged integrated processes that combined sales and operational planning (S&OP) with strategy. The organization could no longer support separate silos of information.

xP&A need the support of both senior and operational management to run, improve and transform the business. To be the only method of planning that works and is acceptable to the organization.

4 7 steps in moving to xP&A

Moving to xP&A does not happen overnight. In fact it is a continuous journey of improvement.

xP&A is not just an FP&A initiative. It requires a complete change on how an organization plans and manages resources, with FP&A overseeing the different planning activities, lending support and challenging conclusions.

Although moving to xP&A makes absolute sense in these uncertain times, many organizations are just not ready. In a recent survey we found that only 21% of organizations had made the move, 42% had updated their FP&A structure and tools so they could move, while 36% thought their organization may adopt xP&A in the next few years.

Moving to xP&A does not happen overnight. In fact it is a continuous journey of improvement. When talking with early adopters, the following action points were recommended on how to start that journey.

“By 2024, Gartner expects FP&A to evolve to ... consistent and continuous planning that extends beyond the finance domain into other areas of enterprise planning and analysis.”

Gartner Research
02/2020



Fig 4: 7 Steps in moving to xP&A

XP&A vision document

The number one recommendation is to create an xP&A vision document. A document for senior and operational management that explains what xP&A is, why it is important and the benefits to be gained. FP&A are in an ideal position to create this document. It needs to draw from different disciplines because no discipline has the complete solution. So it requires a combination of them all and it should cover the areas mentioned in the rest of this section.

Map out the planning content and process

Take a look at how the organization currently plans.

- What is the content of those plans? Strategic, financial or operational. Are all the items necessary? Quite often the chart of accounts (C.O.A.) forms the basis of a financial plan. However, this is of limited value as plans are about actions that often cannot be measured as part of the C.O.A.
- How are those plans created? Do they recognize product and service life cycles? If not, then the plans will not be able to make the best use of resources.
- Who needs to use these plans and for what purpose?
- What parts of these plans can be automated and therefore performed faster?

The aim is to set up a model or a suite of integrated models that will meet the needs of all involved, strategic, financial and operational.

Move to intelligent driver-based models

Driver-based models are an essential part of xP&A where results can be explained in terms of factors that influence performance and enable more realistic forecasts. In the past, drivers were selected based on intuition. With xP&A, they take advantage of predictive and prescriptive technological capabilities and of AI and ML's ability to uncover hidden drivers and trends fast.

Embrace scenario planning

xP&A recognizes that there are multiple possible futures and that organizations need to be aware and prepare for the most likely scenarios. Scenarios need to be easy to set up and quick to evaluate. Similarly, contingency plans need to be ready so they can be put into action quickly if events unfold.

Evaluate and implement suitable technology

As can be seen from the points in this section, technology is a key enabler of xP&A. Spreadsheets and consolidation tools are just not good enough. There are many tools and capabilities now being offered by FP&A platforms that can be used to eliminate low-value tasks, speed up processes and lead to more insightful decision-making. The right technologies will: allow for the creation of an integrated strategic, financial and operational plan; have embedded automation and AI or ML capabilities; allow extensive scenario analysis; and help the organization plan and be ready for multiple futures.

Upskill FP&A

The FP&A team needs to be staffed with cross-functional subject-experts. There needs to be specified roles that include the following. The *architect* to develop analytic models. The *analyst* to analyze data and produce reports. The *data scientist* to utilize advanced analytical tools and generate hidden drivers or predictions. The *storyteller* to place results in the context of decisions that need to be made. Finally, the *influencer* who is able to work with and influence senior executives in the processes that need to be adopted for enterprise-wide planning and decision-making.

Look for opportunities to start the change

All early adopters agree that it is important to have “quick wins” when embarking on the move to xP&A. Actions to make a quick impact could include:

- Simplifying the current reporting process through as much automation as possible.
- Talking with end-users to find out where the bottlenecks and issues exist within the planning process.
- Looking at self-service technologies so users can do their own analysis and therefore free up the FP&A team’s time.
- Investigating how AI or ML may improve forecast accuracy and reduce end-user time and effort.
- Starting an educational program among FP&A staff to explain what AI and ML are and how they may help the business.

5 Summary

Today's uncertain business environment makes it clear that xP&A will be essential if organizations are to respond quickly to fast-moving events. Traditional planning no longer works, and it does not make sense to continue with a disjointed and broken process. FP&A's role in this change is crucial.

xP&A is about transforming an organization's culture to a more analytical space by delivering fact-based and future-oriented insights. It strategically extends traditional business intelligence from being descriptive to predictive, and ideally prescriptive.

The future is already here. It is time to act. It is time to embrace xP&A.

“The secret of success is not to predict the future but to create an organization which can prosper in an unpredictable future.”

Michael Hammer
US economist



Larysa Melnychuk

Larysa is a passionate Financial Planning & Analysis (FP&A) professional and influencer who has held senior FP&A roles at leading organizations before setting up the International FP&A Board in 2013. In the last three years, she successfully expanded the Board into 27 chapters in 16 countries across 4 continents.

Larysa is also the founder and CEO at [FP&A Trends Group](#), the leading online resource for FP&A professionals. She chairs the [Global AI/ML FP&A Committee](#) and runs a number of high-profile initiatives in the area of modern financial analytics.

Larysa holds a Master of Science degree in physics of materials and is a qualified chartered management accountant (CIMA), chartered global management accountant (CGMA) and is a holder of an FP&A certification. She is also a member of the exam content writing team for the Association of Finance Professionals (AFP) FP&A certification.



Michael Coveney

Michael Coveney has over 40 years of experience in designing and implementing software solutions that combine 'best management practices' with technology to improve the efficiency and effectiveness of planning, budgeting, forecasting and reporting processes.

He has conducted senior management workshops with leading organizations around the world and led courses for the American Management Association and Antwerp Management School on the topic of Corporate Performance Management.

His energetic style and extensive experience led him to become a regular speaker at many international events and the author of many articles and books. His latest, 'Budgeting, Planning and Forecasting in Uncertain Times' is published by John Wiley & Sons. In recent years he has focused on the role of IT within FP&A departments.

If you have any questions or comments, please feel free to contact us via email info@fpa-trends.com.

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