Effective Financial Planning and Analysis Leads to Increased Profitability

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Introduction

Sustained headwinds in 2023 continue to affect every industry. Inflation, labor shortages, supply chain disruption, and increasing backlogs are affecting businesses across the board.

Financial planning and analysis (FP&A) can be a time-consuming, highly manual task for organizations. Even in an age where technology can streamline manual processes, many organizations still use cumbersome and error-prone Excel spreadsheets. If organizations wish to weather this storm, they will need to become more agile to quickly pivot and address operational changes.

Let's break down the steps you can take to plan for shifts in the economy and improve your planning and analysis to become an agile and profitable organization.

Tackling FP&A challenges

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Many organizations, particularly those with multiple locations, different product lines, or different services, struggle with FP&A because they lack the right processes and technology to support them.

The right technology can make budgeting, planning, forecasting, reporting, and analysis easier, more accurate, and more efficient. Without it, organizations face multiple challenges when it comes to manual reporting, revenue, personnel, and other operating expense planning. Additionally, profitability analysis and other cost control measures are difficult and labor-intensive.

Challenges include:

- Prolific use of spreadsheets throughout the planning process—from revenue planning, to personnel planning and other operating expense planning—can impact decision-making and profitability. This is compounded when there are multiple stakeholders relying on data in the spreadsheet. Sharing spreadsheets via email can result in broken or deleted formulas as they are passed from plan owner to plan approver. Because accurate forecasting is at the heart of effective decision-making, decisions made using spreadsheets are at risk for using incorrect data due to changed formulas or broken links.
- Lack of technology to streamline processes. The right technology in place can simplify FP&A processes and act as a single source of truth (SSoT) for stakeholders. A single platform that caters to analysis and planning will make analysis and decision-making easier and more accurate.
- Risks associated with data security and protecting data integrity that can lead to incorrect planning of costs. How can you ensure that the data you are using is up to date so that every stakeholder is using the same data for analysis? Without integrated and centralized data sources, it is difficult to get a complete view of all areas of your organization.

Effective revenue, cost, and profitability management requires a foundation of understanding, awareness of the problem, and the ability to act based on your data. There are some measures that you can take today to increase your organization's profitability.

5 paths to organizational profitability

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There are several ways that you can increase the profitability of your organization that center on more accurate planning.

1. Scenario planning

Scenario planning is a strategic planning model that helps you look at different possibilities and trends to help reduce errors.

By looking at different scenarios, you can avoid under- and over-predictions of revenue and costs. Trends are particularly important in scenario planning. You'll need to look at situations such as:

- The impact of inflation on the economy
- How the supply chain and backlogs affect your organization
- A tight labor market and the cost of vacant positions
- Uncertainty that may be associated with unpredictable events such as a pandemic

Looking at possible scenarios can help you understand the potential challenges, warning signs, and even opportunities, such as establishing a new line of business. You can easily pivot from one outcome to another with scenario planning and 'what-if' analysis so you can make better decisions.

2. Collaboration

Collaboration between stakeholders across your organization is important to ensure that all managers have a single source of truth in terms of workflows, data entry, and forecasting.

To be resilient, every manager needs to be working with the same version of a report or template versus multiple versions to ensure accurate data.

Collaboration among stakeholders also builds trust, encourages group problem-solving, and helps multiple business units across your organization become more efficient, thereby increasing productivity and profitability.

3. Revenue planning

An agile revenue planning process can maximize financial health across an organization. Increasing the accuracy and frequency of in-depth analysis of revenue metrics helps to identify trends, potential roadblocks, and tracks financial performance in real-time. This analysis allows you to adjust assumptions as economic conditions change.

Inflation, supply chain and labor shortages impact the operations of every organization. Analyzing your data from multiple angles helps to determine opportunities for additional efficiencies. You can use this data for informed decision-making and take a proactive approach to your future versus reacting.

4. Position planning

Given that people costs make up the largest portion of operating expenses for most organizations, an accurate workforce plan is fundamental to sound fiscal health.

Most organizations start the plan with current personnel, and ideally this plan is informed by the budgeted revenue. There are several items to consider, including:

- Last year's positions to help inform current needs
- Linking personnel planning to revenue planning
- Using vacancy trends to plan for future staffing gaps
- Automating the personnel planning process with employee drivers for tax and other benefit calculations

The bottom line is that in the face of global staffing shortages, accurate position planning and execution is a priority for every organization.

5. Use of technology

You may not even be aware that technology exists to help streamline your organization and drive efficiency. Technology can help you to make decisions quickly and confidently, and better manage the costs and profitability of your organization.

Understanding the profitability of each business unit and maximizing revenues while minimizing costs and risk are paramount to longevity. As we mentioned earlier, manual processes and spreadsheets limit visibility and agility because they are difficult to manage and update on a regular basis.

The use of technology to increase profitability in organizations can:

- Centralize your workflows that facilitate the planning process by using only one data-entry template for all business units
- Centralize modeling to reduce or eliminate overly complex spreadsheets
- Run different scenarios to assess various potential outcomes
- Combine historical data with budget data to easily plan for the future
- Involve stakeholders in the planning process for higher accuracy
- Facilitate collaboration among budget managers and management to build more profitable plans
- Report and analyze data at a higher cadence so you can see trends, roadblocks, and financial performance in real-time

- Bring data together from all sources to minimize switching between systems
- Routine analytics that help to identify anomalies early on
- Create dashboards customized by stakeholder that visualize the key performance metrics of their specific business unit
- Integrated data sources that provide a complete view of all areas of your organization, including:
    - Revenue planning & analysis
    - Personnel expense planning & analysis
    - Operating expense planning & analysis
    - Scenario planning & analysis
    - Capital projects planning & analysis
    - Financial reporting & analysis

Organizational effectiveness can be measured by how well an entity works together to foster continuous improvement, strong financial health, and support the organization's mission.

Financial planning and analysis, which involves developing and managing revenue, personnel, and other expenses while ensuring financial viability, is key to addressing this challenge head on.

As organizations continue to readjust their planning processes to be more fiscally responsible, the need for a Financial Performance Platform, like Prophix, becomes paramount to organizational profitability.

Why spreadsheets no longer work for FP&A

- Lack of agility with time- and labor-intensive manual review and consolidation
- Higher margin for error as formulas can break or be deleted during sharing
- Difficult month-end, board, and other reporting
- Financial agility does not happen
- Hinders the data analysis needed for sound decision-making

What's ahead for the Office of Finance?

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With the backdrop of the ever-evolving economic environment, recent reports and surveys shed light on the shifting priorities and challenges faced by CFOs, CEOs, and organizations. They underscore the increased focus on managing financial risks in the face of economic volatility and long-term concerns such as capital costs and geopolitical tensions. Highlighted is the importance of reshaping business models, leveraging technology adoption for data-driven decision-making, and nurturing talent to thrive in a changing financial landscape. Explore these key trends and strategies shaping the future of the office of finance.

A report by McKinsey & Company on their recent survey of CFOs discusses how they are now more focused on managing financial risks due to ongoing economic volatility and long-term challenges like higher capital costs and geopolitical tensions.

The report notes that the top-performing CFOs are taking the long view and concentrating on three dynamic priorities: reshaping their business models, leveling up technology adoption to enhance data access and decision-making, and nurturing talent to adapt to the ever-evolving landscape of the finance function.

Benefits of using a technology solution to increase profitability

- Standardize your processes across finance, accounting, and operations
- Streamline your FP&A and financial close activities
- Standardize your data and workflows
- Increase stakeholder productivity
- Self-serve capabilities for stakeholders
- Increase efficiency
- Have a single source of truth (SSoT) to drive your decision-making
- Improve business agility to make decisions faster
- Increase financial health

According to a recent report by CFO Dive, which highlighted a recent survey conducted by the Conference Board and Business Council, CEOs confidence has seen an uptick driven by positive signs in the job market, decreasing inflation, and an upbeat consumer mood. While this survey underscores that top executives have adopted a more optimistic stance, it is noteworthy that 84% are still bracing themselves for a potential recession within the next 12 to 18 months. CFO Dive noted that this caution underscores the imperative for businesses to continue cultivating their financial agility to adapt to changing economic landscapes and make informed strategic decisions.

A Miken Institute article in their Power of Ideas series explores how the recent economic turbulence highlights the crucial need for adaptability. The article emphasizes that to be agile in responding to disruptions, organizations must be adaptable and equipped to operate in the context of today, tomorrow, and the future. Four essential strategies are recommended and what is striking is that the adoption of new technology is pivotal to each of these strategies. With forward-thinking leadership, organizations can enhance efficiency and foster growth while maintaining their core identity. As noted, companies that effectively adapt to these challenges will not only survive but thrive in this dynamic landscape.

Innovative technology platforms will be a critical investment to help optimize revenue, accelerate cost analysis, and reduce the need for spreadsheets and manual tasks. An FP&A process can help improve profitability. Stakeholders across your organization can work together to foster collaboration and make data-informed decisions that impact your financial health. The right technology will help you plan for tomorrow, today, so you can minimize risk and impact the long-term success of your organization.

Ready to get started?

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