

BUILDING THE FUTURE OF FP&A ON A STRONG FOUNDATION: INSIGHTS FROM PELOTON

Q&A with FP&A Expert Philip Peck, VP Finance Transformation and Advisory Services, Peloton Consulting Group

This article is part of a series of Q&A interview summaries conducted by APQC and the Association for Financial Professionals (AFP) with invited subject matter experts in January through March 2019 as part of the *Preparing for the Next Level of Financial Planning & Analysis* study. APQC and AFP spoke with Philip Peck, VP of finance transformation and advisory services at Peloton Consulting Group. As an expert with over 30 years of experience in FP&A and a consultant who currently works to help organizations adapt and embrace leading practices, Peck shared his insights about the ongoing evolution of FP&A, the challenges and opportunities presented by new technologies, and how organizations can find the right mix of skills for their FP&A teams. For Peck, there are significant risks for organizations who do not adapt quickly enough to the rapidly changing terrain of FP&A, and just as many opportunities for those who can get ahead of the curve by embracing innovation.

CURRENT FP&A OUTLOOK AND CHALLENGES

APQC/AFP: Given your significant experience in FP&A, have you seen the outcomes of FP&A improve over time? If so, how?

Peck: Yes, I think the outcomes have improved over the last several years. FP&A practitioners traditionally spend a lot of time just gathering, massaging, formatting, transforming, and reconciling data to produce reports. It leaves very little time to provide value-added analysis, insights, business partnering, or to help the business make better decisions. FP&A is finally seeing progress in this regard. As a discipline, FP&A is embracing more leading practices like driver-based modeling and planning, integrated business planning across the value chain, and rolling forecasts. FP&A is providing the framework and expertise to better link strategic goals and objectives, operational activity, and expected financial outcomes. The result is better quality and accuracy in operational and financial plans and forecasts. There have also been improvements around cycle time reduction, more dynamic planning and resource allocation, and significantly enhanced what-if modeling, simulation, and scenario-management capabilities.

Some of the newer advanced tools and capabilities like big data, machine learning, cognitive tools, and artificial intelligence have also played a role in helping FP&A move from providing hindsight to insight to foresight. FP&A practitioners, in other words, have moved from being

consolidators and commenters to become business advisors, and have evolved from there to become strategists with the ability to predict, simulate, and positively influence what's going to happen on behalf of the organization.

Another area that I would highlight is business partnering. Traditionally, FP&A and finance have been reporters of historical results and the consolidators of planning, not forward thinkers with a seat at the table. That's definitely changing as FP&A has stepped to the forefront to become an indispensable business partner. That was always the promise of what an FP&A practitioner should be doing: bringing to bear their unique knowledge of the end-to-end business, financial skill, and business acumen expertise, and augmenting that with soft skills like facilitation, negotiation, and collaboration. FP&A is helping the organization drive better decisions and ultimately help deliver superior business performance.

"FP&A practitioners and the function as a whole are uniquely equipped to help the organization optimize decision-making and deliver superior business performance."

APQC/AFP: When it comes to business partnering, is there anything unique to finance that might be different from other functional areas, such as human capital/HR business partners?

Peck: Yes. I think the best FP&A practitioners are those that are uniquely equipped to be that indispensable business partner. Those are the individuals who have sought out opportunities to learn everything about the business, the type of industry they're in, how the business fundamentally works, how to create and deliver products and services, support customers, generate new business, and fulfill orders. FP&A practitioners develop expertise across the entire value chain and can translate the world of business into anticipated financial outcomes that can help the organization navigate that landscape.

There are others who are deep specialists in their respective functions, but FP&A practitioners and the function as a whole can be the glue to help elevate the entire organization and ensure that people are making optimized decisions. Soft skills that are increasingly playing a role in the world of FP&A and finance like emotional intelligence, change management, and political calculus (the art of negotiation and influencing people to make better decisions) are hard to learn out of a textbook but are indispensable when you're working with others in the organization. There are subtleties to these skills, and you learn the craft of each over time rather than out of a textbook.

APQC/AFP: What do you see as some of the big drivers for this evolution in FP&A?

Peck: There are a number of different drivers. One of these is that organizations have been elevating FP&A as a discipline, bringing more training, education, and certifications to bear; bringing more visibility to the importance of FP&A; and highlighting FP&A as a pool of thought leadership and capability that organizations have to leverage to help them drive superior

performance. There has been a mindset change and people are seizing the opportunity to take the skills of FP&A and elevate and extend them, leveraging tools and technology to get better data and information, and structuring the organization such that FP&A is much more actively engaged with the entirety of the business. All of those drivers come together to elevate FP&A to help drive strategy but also business performance overall.

APQC/AFP: What do you see as some of the top challenges for FP&A teams, and how do they work to overcome them?

Peck: I'll start with the challenges that never seem to go away, like timely access to quality operational and financial information and inefficient, people-dependent, and highly-manual business processes like developing a budget or creating a forecast. Another ongoing challenge is limited visibility into the underlying drivers of business performance. I may be able to see the financial result and be able to do a historical comparison and some descriptive analysis, but that doesn't mean that I have visibility or an understanding of what's really driving that financial performance. Many organizations also lack a true enterprise planning, reporting, and analytic-enabling technology solution. Because of that, FP&A teams have an excessive dependence on a labyrinth of fragmented Excel models. It's not that Excel is inherently bad; it just tends not to be the best enterprise solution to support planning, recording, analysis, or data management.

There are other challenges that are more foundational. You need to eliminate inefficiency. You need to eliminate manual processes and automate where you can. You need to put a robust data-management framework in place to be able to leverage data as a strategic asset. At the same time, the world is changing very rapidly. Even as FP&A deals with some of these foundational challenges, which are of paramount importance, they also need to start embracing the brave new digitally-enabled modern finance world, whether in terms of leveraging big data, looking at cognitive computing, machine learning, robotic process automation, intelligent process automation, elements of predictive analytics, or artificial intelligence. The key question is: How do you strike a balance between building your foundation properly and keeping up with these changes?

On the business-partnering side, there are challenges that can arise as FP&A seeks to be the indispensable business partner as practitioners and as a function. Some organizations are not ready for that. There can be a repelling effect like oil and water in which the business says "That's not your role. We make those decisions and when we need your help, we'll tell you." One of our clients used to call FP&A the "budgets team," and they wouldn't even allow them on the floor where people were doing demand planning, capacity planning, and supply planning. Sometimes people are simply not receptive to the idea of FP&A getting more involved.

With all that in mind, I think one of the most important things to do to overcome these challenges is for FP&A to baseline themselves against a set of leading practices. A good starting point is learning where you are relative to what leading organizations are doing when it comes

to technology, business processes, and all of the domain areas that are under the purview of FP&A like data and information, people and organization, change management, and talent.

The next step is to define a better way and build a conceptual vision from a future-state perspective to start thinking about what needs to change and why. You should look at what initiatives will help you get to that future-state and establish a roadmap or a blueprint to get there. Taking these steps means that there will be a go-forward plan. You really need something you can march against. That plan will allow you to strike a balance between different initiatives in an intentional way, rather than putting point solutions or point fixes or Band-Aids in place. Knowing your baseline and your plan helps you to address, in a more holistic manner, what you need to do on behalf of the organization.

APQC/AFP: Do you ever see turf wars between finance and other departments over who owns analysis, forecasting, or planning?

Peck: Yes, this is another challenge for FP&A. I think those turf wars have always existed and will always exist in some way, shape, or form. The expertise tends to lie closest to where the action is in the organization. For example, the marketing function is likely to be closest to those programs and campaigns, such that they're going to provide a certain level of input and modeling. Where I see the collaboration, the partnering, and a lot of the tension is being able to connect in an integrated way across all the different elements that ultimately come together into a financial plan.

FP&A needs to be sufficiently involved throughout the end-to-end process to understand it, but may not own key inputs into those models, algorithms, or other things that flow into the financial plan. That's something that needs to be navigated in any organization. As a former FP&A practitioner who is now on the consulting side, I would advocate having FP&A be more involved, but you need these other subject-matter experts and their disciplines. The key is finding the right common ground, the right decision rights, and the right engagement model for the different people who participate in the planning processes.

FP&A INNOVATORS AND LEADERS

APQC/AFP: Are there any organizations that you feel are real leaders for FP&A?

Peck: For the past 15 years or longer, both at my current organization and a prior organization, we've worked with various divisions or business segments within General Dynamics, a large aerospace and defense organization. One interesting thing about them is that they are highly decentralized. While there is a corporate function, they cannot dictate to the segments, the divisions, or the businesses how they are going to operate.

When we started working with them many years ago, there was someone within the FP&A organization who recognized that they could derive significant benefits by creating a centralized

group that would provide a wide array of capabilities, competencies, and services including business process best practices, technology implementation recommendations, support, economies of scale, change management, and solution adoption expertise. Although the various businesses across General Dynamics are different, they were all facing many of the same types of challenges I mentioned earlier. Starting with the vision of one person, the Business Intelligence Competency Center (BICC) grew to an organization of over 20 people supporting numerous business segments across the entire organization.

As part of their ongoing efforts, the BICC worked with the individual business units to develop tailored transformation roadmaps that highly leveraged process and technology solution best practices but accommodated the unique business requirements of each organization. The BICC then provided support throughout all phases of the various projects that comprised the multi-phase roadmaps and then provided run and maintain support over time. They were mindful of the nature of their organization—decentralized and autonomous by nature—while still being able to create a center and a core set of competencies that could be shared across the organization.

APQC/AFP: Are there any other innovative practices that are helping organizations to be successful in FP&A?

Peck: I think one is that FP&A teams are now looking for ways to leverage emerging capabilities like real-time information and analytics as part of their core regular planning processes. Secondly, given the volatility, uncertainty, and complexity around the world that we live in, I'm seeing more event-driven planning, forecasting, and analytics. Some organizations are no longer strictly bound to standardized monthly, quarterly, or annual planning and forecasting calendars and are moving to more dynamic and agile frameworks for FP&A.

Integrated Business Planning (IBP) has also really come to the forefront. IBP—the process of linking strategic, operational, and financial objectives and plans—improves organizational alignment, enhances decision-making, and optimizes financial performance.

With the significant increase in the volume, variety, and velocity of data and related data sources, robust enterprise data governance is increasingly important. Leading organizations realize the importance of leveraging data as a strategic asset and have embraced the core foundational principles of data governance and adapted them for the modern digital age.

In conjunction with the adoption of leading and more innovative practices, I still strongly advocate focusing on the core blocking and tackling of streamlining processes, reducing manual and time-consuming efforts, gaining explicit clarity around roles and responsibilities, and focusing on delivering credible, highly-trusted information to the organization. This absolutely frees up capacity to focus on the higher value-added activities including adopting leading and innovative practices.

APQC/AFP: What do you consider to be the top critical success factors for FP&A and why?

Peck: Organizations need to systematize and automate more routine planning, forecasting, and reporting activities. Organizations need to focus on continuing to shift the “where do I spend my time” pendulum to allow for redeploying capacity to value-creating activities (e.g. analysis, developing insights, and business partnering).

This could include things like consolidating plans and forecasts as well as standardized variance reporting and analysis. As you start to move on the continuum, continue to look for opportunities for greater automation, eliminating any intensive manual effort. That way you can leverage people to make better decisions, and to use uniquely human capabilities for better modeling, planning, and forecasting rather than simply generating information. Making this move is of paramount importance and is a critical success factor.

When it comes to improving analytic capabilities, the skills that we needed a few years ago aren't necessarily the ones we need today. FP&A needs to be much more skilled at navigating the data. They do not necessarily need to be data scientists, but they should be comfortable mining and exploring the data using some of the newer tools, frameworks, and methodologies.

The role of technology of course plays a key role for the success of FP&A. Fully embracing cloud-based tools, applications, and technology platforms along with accompanying business process improvements delivers substantially greater FP&A capabilities while significantly improving the efficiency and effectiveness of modeling, planning, forecasting, reporting, and analytics activities.

Finding the right talent is also a critical success factor. The talent profile and talent development model must evolve as FP&A embraces the digitally enabled modern finance age. FP&A practitioners will need to leverage their core finance and business acumen skills while increasingly focusing on softer skills including a customer service orientation, flexibility, and collaboration skills. Concurrently they will need to stay abreast of all the emerging leading practices and enhance/extend key skills including advanced problem solving, data mining and data analysis, and ways to drive more predictive analytics. From an associated profile perspective, elements including an inquisitive nature, the ability to deal with and thrive in ambiguity, an insatiable zest for learning, and a positive can-do attitude are all critical ingredients to a successful FP&A practitioner in today's world.

“Organizations need to revisit, adapt, and embrace the foundational leading practice principles and apply them to our digitally enabled and transformed modern finance world.”

The importance of focusing on value creating business partnering cannot be understated. How do we as FP&A leaders help the organizations make better decisions? FP&A serves as the financial steward and conscience of the organization where they support the strategic and

tactical decisions that optimize the deployment and usage of scarce resources across the organization.

From my perspective, another critical success factor for FP&A centers around the development, socialization, consensus agreement, and the execution of a go-forward transformation roadmap. FP&A is uniquely equipped to help the organization assess the current environment, define the desired future state vision, assess gaps and define key initiatives, and then define the path forward in the form of a strategic roadmap.

Lastly, I think that FP&A needs to continue to stay ahead of the curve and be the ultimate advocates and ambassadors for digital transformation. This entails proactive learning to identify the art of the possible, building a list of digitally-enabled opportunities, identifying pilot possibilities and executing projects, and then implementing more advanced planning, reporting, and analytic techniques to drive better business performance outcomes. This includes scaling successful initiatives across the enterprise. Included in this arena would be the adoption of cloud-based solutions, advanced analytics, machine learning, AI, and related emerging capabilities.

APQC/AFP: Are there industry nuances or organizational size nuances to the top critical success factors that you listed?

Peck: There's no question that industry-specific expertise and knowledge is always going to be important. Working in the banking and financial services industry is fundamentally different than working in the retail industry or working in aerospace & defense. That being said, I think that the biggest challenges and critical success factors are prevalent and reasonably similar across the board. That's not to say that they're entirely ubiquitous, but they are foundational. They are necessary and of paramount importance.

Organizational size definitely creates specific considerations as size alone can sometimes drive complexity and greater challenges from a decision-making perspective. However, the core critical success factors are relevant regardless of the size of the organization.

Top performing FP&A teams and individual contributors are mindful of industry and organization size, culture, and evolutionary state as they like to adopt and adapt leading-edge thinking to drive value and improved business performance in their organizations.

STAFFING AND SKILLS FOR THE FUTURE OF FP&A

APQC/AFP: The ideal FP&A practitioner is knowledgeable in finance and knows the business just as well as their business partner. To be a good business partner, they will also need to have key soft skills in addition to quantitative and analytic skills. Is it really possible to staff a team of people who have all of these skills? How do you manage that?

Peck: When it comes to developing your organization, building the function, and building out the capabilities, defining what you believe your organization needs today, tomorrow, and into the future is very important. You have to decide how you are going to structure your FP&A function, what going to be under your purview, and what the engagement model with the business should look like. That helps you establish the landscape so that as it continues to evolve, you can define the expertise that you will need in the future.

FP&A experts with the perfect balance of skills don't grow on trees, but you can certainly identify people who are more apt to be on a faster track in your organization. You should be looking for attitude, aptitude, skillsets, and things that you can do to build and shape them. Still, there are likely going to be times where you may need to look for someone outside the organization to provide a certain level of expertise or skills to help you do something. For example, you may need to bring someone in for a specific initiative or a project and have that person mentor and train people on your team. Sometimes it makes sense to leverage an external partner to support that rather than building expertise in-house.

It has also become somewhat more common to staff a team with people who may not have every skill needed but that have skills that complement those of their team members. There is a recognition that having someone with the perfect personality to navigate the organization is invaluable. That person may never develop the perfect array of skills, but the way they complement the skills of other team members really helps drive FP&A forward.

APQC/AFP: Have you seen organizations doing anything unique or innovative when it comes to training, development, or recruiting for FP&A?

Peck: There is one organization that has more than tripled the size of their FP&A function over the span of a few years. They use FP&A as a feeder system to get people equipped, trained up, and knowledgeable about the business before sending them out into the business in more operational roles. FP&A might lose team members to the business, but equipping people to help the business make better decisions is the whole point. That's something that I find relatively unique.

Rotational programs have certainly been around for a long time, but those also go a long way towards arming someone with knowledge of the entirety of the business. A good rotation program will be holistic. Rather than moving people through various finance functions like treasury and investor relations, a good rotational program should move people out into the

business to roles like plant controller, marketing & analytics manager, supply chain management, or R&D operations finance.

Certifications like the one offered by AFP are also gaining traction. Organizations are starting to see the legitimacy and importance of people getting trained and having that on more of an enterprise scale for their organizations. From a people growth perspective, all of these initiatives are important.

APQC/AFP: What advice would you give to a client with a significant percentage of people who are mid-career in FP&A and may be afraid about their careers? What do you tell them as far as helping people get to that next level or get where they need to be?

Peck: As human beings it's very natural for all of us to have some degree of anxiety regarding the anticipated impacts of the digital age. I strongly encourage people to embrace the change, explore the "art of the possible," and continue to look for ways to enhance, extend, and amplify our FP&A skills and expertise. This core advice really speaks to the importance of change management communication, helping FP&A practitioners appreciate that more training and skills would be a very good thing for them and their career and equipping them to be optimally successful as the world continues to change. It's certainly not easy. As part of various projects that we typically work on, communication and related change management activities are critical to assess up front. It's important to be very intentional and proactive in helping them navigate that journey so that they don't just shut down, go back into their little box, or try to fall back on the ways that they used to do things.

PREPARING FOR FUTURE CHALLENGES

APQC/AFP: How does FP&A know if it's doing the right thing in terms of making improvements like automation? What resources can they use to check themselves to ensure that improvements aren't just superficial?

Peck: I think there are certainly well-known and institutionalized types of benchmarks, like those from APQC, and other ways of evaluating yourself against industry and functional best practices. Along with that, FP&A should constantly evaluate its processes and ask whether they are still effective and necessary. For example, one thing that we're always telling our clients is that reports tend to proliferate to unsustainable levels. There has to be a mechanism that allows us to reevaluate ourselves as an FP&A group on behalf of the organization to say: We've been doing this for a long time, but is it still relevant for our organization? If it went away, would anyone miss it? Could we be using our time in better ways to be better business partners who can support strategic objectives, drive costs down, and add to the top line?

APQC/AFP: What do you think is going to happen in FP&A over the next two years versus 10 years down the road? How fast are things going to keep changing, and how much risk do those changes carry for those who don't change fast enough?

Peck: I think you'll see the adoption of leading practices like AI, machine learning, and cognitive computing follow an S-curve. How fast that S-curve happens, and the rate of acceleration is to be determined, but I think it's going to happen quickly. There will be organizations who for various reasons move much slower than others, but I think the adoption is going to be relatively quick, broadly speaking. Over a two-to-three-year horizon we'll see significant changes and see some of the exemplars really stand out both from a business performance and an FP&A perspective. It's harder to see 10 years out, but I would think that there's going to be another wave of change that we can't even anticipate.

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There are significant risks for those who do not adapt quickly enough. The risks could include a loss of competitive edge, personal risk when someone isn't gaining skills because their organization is not providing opportunities, and more broadly, risk that FP&A as a discipline will lose all the great momentum that has been made from business partnering and other value-add activities. At the same time, there is just as much opportunity for those who can get ahead of the curve.

APQC/AFP: Are there any other insights, observations, or advice you would offer that is relevant to the advancement of this topic?

Peck: One thing I would highlight is the importance of finding a way to strike a balance between the things that are most foundational to FP&A, especially around streamlining processes and eliminating manual effort as efficiently as possible to free up time for more value-added things.

Another recommendation I would make is that those of us who are not millennials or younger need to be constantly learning new skills, new technology, and learning to adapt. The leaders of the FP&A function should work to ensure that we're optimally engaging with people who are a generation or two generations younger. Even if you didn't grow up as a digital native, you should embrace the world of digital and modern finance and be very intentional about how you navigate that world within the broader FP&A landscape.

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