BUSINESS GUIDE

The CFO's Guide to Planning and Analysis: How to Hit Your Goals and Be Ready for What's Next

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The CFO's Guide to Planning and Analysis: How to Hit Your Goals and Be Ready for What's Next

Perhaps the biggest lesson to come out of the last few years for businesses was the value of constantly assessing operating conditions and adjusting plans in response to changing market realities. While most companies didn't experience the dramatic drop-off in revenue that hotels, entertainment venues and airlines faced, virtually all had to reassess their assumptions on a regular basis to manage through a once-in-a-century disruption.

The result was, for most, procedures developed to help business leaders manage cash flows and satisfy changing customer demand even as their teams couldn't meet face-to-face as they normally would.

In the process, many business leaders gained a new appreciation for using data and analysis to optimize their business practices for the moment.

It's one thing, however, to rise to a period of existential challenge and find ways to collect and analyze the financial and operational data needed to survive. It's a different matter to institutionalize use of data collection and analysis to allow for assessing and reassessing plans at any time.

Here we'll present best practices on continuous planning and analysis for finance and beyond.

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Everything Flows From the Strategic Plan

Planning throughout a business should flow from a strategic plan that sets out goals for the next two to five years. Each major goal should have a plan of action that dictates how the organization will achieve the objective and how it will measure progress along the way. These are strategies agreed on by senior management and directors to realize long-term growth and profit milestones. Before finance or any other department can complete their planning, they need to understand where the company is headed.

That's the standard view of strategic planning that's existed for many years. The difference now is that opportunities and imperatives are cropping up more quickly than they historically have. Consider a new market opportunity that didn't exist nine months ago when the strategic plan was put together. For unforeseen opportunities, how can business leaders obtain the necessary resources to respond quickly? When the strategy changes, the finance team must react by, say, reducing spending in what's now a lower-value area and reallocate budget to the new higher-value opportunity.

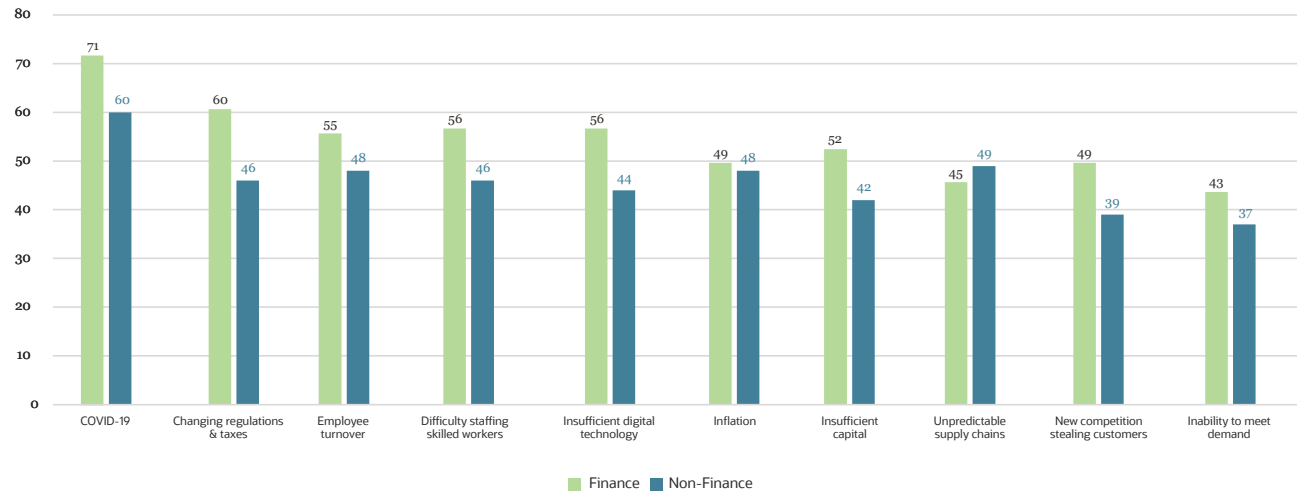
With funds in hand, operational groups can work to implement the new priority. A good example is the 2020 move by many organizations to online selling or increasing production of products that supported remote work.

Each strategy within the plan will come with milestones for success—and a requirement for the right data to assess that success. For instance, if the near-term strategy calls for entering a foreign market, the data set supporting your analysis would be different than if you were planning an acquisition or preparing the company to go public.

Even if the goal is simply hitting growth targets in a given year, it's important to start with assumptions about how you'll achieve projected growth and a vision of the internal and external factors that will most affect success.

Unforeseen externalities can have a huge effect on an organization's ability to meet its objectives. The chart below shows 500 business leaders' concerns over various external factors. The data was collected in late July 2021. Because threats from competitors is a constant concern, it's notable that it ranks near the bottom of this list.

Degree of Concern Over the Next 12 Months (0 = No Concern; 100 = Major Concern)



Data: NetSuite Brainyard Summer/Fall 2021 Survey (500 respondents)

Strategic objectives are most consistently met when the plan itself is constantly evaluated for progress. Milestones should come with KPIs to assess performance and help drive and define success. In our ecommerce example, KPIs might involve an increasing fraction of revenue now coming via the web. Achieving that means the CFO and CEO are now in close partnership, both in helping to form the strategic plan and in measuring progress on a continuous basis.

Automation Buys You Time to Plan

The finance team is central to continuous planning. To be sure, executing well requires action, direction and data from departments beyond finance, but because end goals—and many milestones within the strategic plan—are described in fiscal terms, the finance team is front and center, not only measuring outcomes but finding funds to support new initiatives.

Recent experience proved that finance departments can rise to the occasion of supporting continuous planning; however, the effort involved was substantial and often led to burnout. Teams sized to track AR, AP, cash flow and to close the books each month need to put in a lot more time if they are to execute on continuous planning. Because the idea is to support a planning exercise at any time, the books must always be current. Revenue must be allocated, payments must be categorized and in the general ledger, balances must be correct and so on.

It's a big job to move from a month-end close process to a continuous close process and be on point to support continuous analysis—but that's now the finance team's mandate.

There are two paths to get there: Add staff, or automate time-consuming processes. A third path involves long hours for current team members, but that's not sustainable.

Automation is often sold as a cost-saving measure. And a close analysis will reveal that it is indeed less expensive to automate functions like AR, AP and general ledger than it is to add staff to manually enter data from paper invoices and payments while also allocating time to support forecasting and reforecasting. However, from a planning and analysis point of view, the timeliness and accuracy delivered by automation are the more significant selling points.

And because automation reduces the burden on finance staff, the team can turn its focus to data analysis—uncovering opportunities and helping to remove obstacles to success along the way.

There are other benefits. When speed is critical, for example, humans tend to make mistakes. Particularly for finance, it's important that the planning process start with current, accurate and complete data. Using last week's or last month's figures puts the process at an immediate handicap.

Flawed assumptions, insufficient rigor and incomplete or out-of-date data all contribute to forecasting errors. Throw in overtime, stress and work-from-home challenges, and it quickly becomes clear that automation should do the rote, repetitive tasks that take up so much of a finance team's resources. Humans should do the modeling, prep and analysis that require critical thinking and a trained eye.

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How External Data Widens the Planning Lens

Automating fundamental accounting functions should move finance closer to a continuous close. When software does rote work, people can focus on anomalies or missing data. Add sales and demand forecasts, work in progress, supply chain analysis and inventory management and you have the foundation of solid planning models both in finance and operations.

That's a strong baseline, but it's incomplete unless it also considers external data sources.

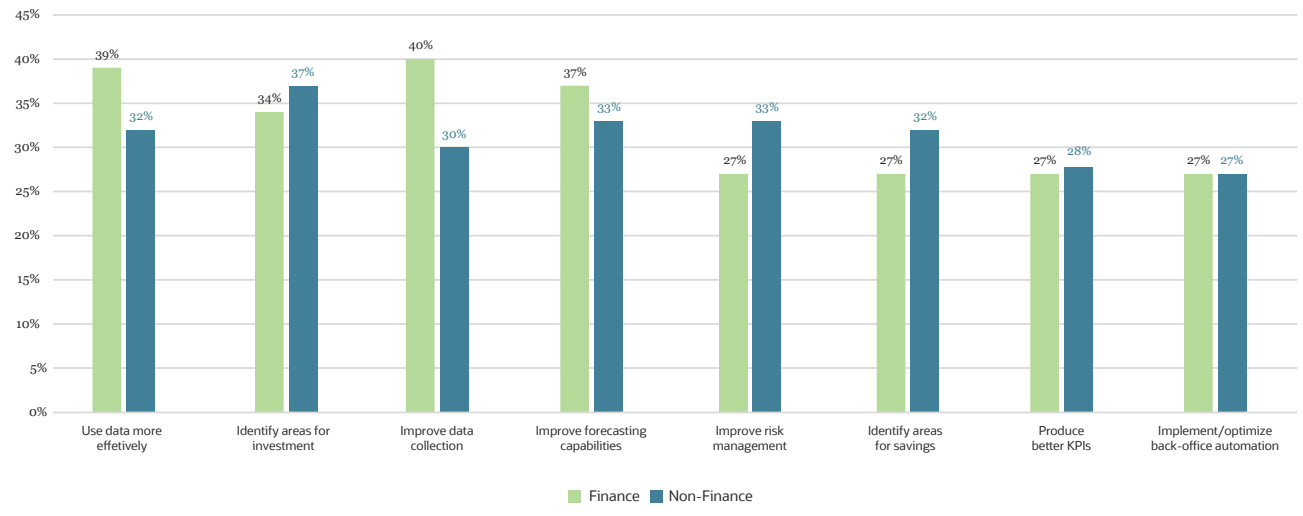
Accurate forecasts require forward-looking insights beyond your own historical cash flow, order, supply chain and fulfillment stats. Whether the outside information involves seasonality, weather, local unemployment, web analytics, consumer or producer prices or supplier fill dates, a ton of factors likely impact your business, and many can be illuminated.

Initial design of your model should involve identifying a wide range of data sources and evaluating how closely changes in each mirror or predict changes in your business.

For example, a coffee shop might understand that when temperatures rise, demand for pricier cold brew goes up and hot drink sales go down. Now, quantify that: Learn what constitutes "hot" for the area and whether a 10-degree uptick beyond a base temperature translates to a 5% or a 25% upswing in cold brew sales. Now incorporate long-term weather forecasts, and you can dramatically improve supply planning, better predict revenue and reduce materials waste.

Gathering sources of causal data is necessary when designing your business model, and there's no reason to stop once the model is working. It can always be improved with new insights. The business gets that: NetSuite's July 2021 survey identified improved data collection, better use of data and improved forecasts as the top priorities for the finance team.

Priorities for the Finance Team (Select 3): Finance vs. Non-Finance



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Customer Feedback Must Inform the Planning Process

Speaking of insights, there's no substitute for interacting with your customers to inform a continuous planning effort. Knowing what's going on with your most profitable accounts will always improve financial and operational models.

Finance leaders should partner with sales peers to make customer conversations happen regularly—say, monthly or quarterly, depending on the variability of your business. How many of those conversations need to happen depends on the size of your company and diversity of your customer base.

Quarterly business reviews are often used in B2B relationships to ensure that customer needs are managed proactively. In highly volatile times, the frequency of reviews may go up, but the goal is the same: Learn what opportunities customers see in their businesses and how you can help. This is also the time to ask about challenges that could result in delayed payments or potential changes in their own product requirements that may affect your business.

The goal is to never be surprised by a major customer, positively or negatively.

For retailers, surveys are often the best way to understand consumer attitudes and desires. Your Net Promoter Score is the baseline KPI and a leading indicator of how customers feel about your products and services. First, make sure you have an up-to-date view of your NPS, then build on that with targeted surveys that dig into future demand. Marketing usually takes the lead here, but finance teams should help shape questions to yield usable data for revenue and supply chain projections.

Use Analytic Tools—Particularly for Scenario Planning

When the goal is regular assessments of plans and models, avoid spreadsheets. While they're a useful tool for many ad hoc tasks, this isn't one of them. Constructing a model and maintaining the flow of data into it works best with systems that can provide inputs without manual effort. Once the province of big-company planning and analytics departments, these analytics tools are now more accessible and can be delivered from the cloud in an affordable "as-a-service" model that works particularly well for teams that may not all be in the same office.

Your ERP system will likely provide modules to support planning and budgeting, including the ability to establish and monitor various scenarios. Integrated planning and budgeting tools accurately track progress on strategic, financial and operational plans that often depend on common data and KPIs. These modules are great for leveraging financial and operational data that's already been gathered.

Combine those insights with assumptions about the future sales and you'll generate forecasts that are updated as continuously as your books are. Add in scenarios that explore best-case, worst-case and expected outcomes and it becomes easy to predict effects on cash flow, revenue, profits and more.

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Synchronize Operational Plans

As you integrate analytics tools, various other parts of the business can both benefit from visibility into strategic and financial plans and inform and make those plans more accurate.

Here's a short list of operational areas that are affected.

1. Demand Planning: Strategic and financial plans require realistic insights into demand. Accurate, agile demand planning is also essential to supply chain efficiency, customer satisfaction and maximizing profitability. But demand is hard to predict and can change fast because it's vulnerable to many factors outside your control.

   Strategic plans also serve as a source of insights into expected changes to demand based on achieving strategic goals. If your strategy calls for a new distribution channel, for example, it will include predictions on how that will affect demand as the plan moves forward. Milestones will typically include numbers of new customers and orders, which can be translated into practical requirements for meeting demand.

   Because these plans are now continuously updated, living documents, recalculating demand and its effect on other resource allocations also happens instantly.

2. Workforce Planning: With demand details in hand, you can design your optimal workforce. The plan answers big questions, like: Do we have the people we need? And do those people have the right skill sets to meet the demand we envision? What about more tactical talent deployment issues, like project assignments or manufacturing schedules? Can the existing workforce meet production deadlines? If new hires are required, how long will it take to find them, and what will be the effect on COGS and unit economics? Workforce planning is intended to answer these types of questions.

3. Project Financial Planning: Within the strategic plan will be projects to meet each milestone. Detailed project management is typically done in a dedicated tool, but the financials of the project should be part of both the overall strategic objective and financial plans, because the balance sheet and cash flow will likely be impacted.

   Those plans should include revenues and costs as well as some assessment of risk. Other questions to be answered: Is the project generating revenue? When will we recognize revenue? In project-based services companies, project financial planning will be part of each engagement.

4. Sales Planning: Demand planning and sales planning are similar, but different. Demand plans are longer term and don't include the specificity that sales plans require. The sales plan will typically run a quarter at a time and incorporate new customer acquisition as well as sales and upsells to existing customers. Sales plans should align with longer-term demand plans but contain more details about how goals will be met. Depending on how your organization handles marketing, the sales plan may include lead-generation goals for marketing along with the cost of developing those leads.

   The sales plan will specify the number of needed sales-qualified leads, which can be translated into sales quotas for team members.

Adopt the Right Technology

To move toward companywide and continuous planning, you need a platform that:

1. Provides prebuilt data synchronization with systems across the business. Freeing finance teams from manually moving data from departmental silos enables true collaboration and the ability to constantly monitor business performance. Financial data in particular must be synchronized in your financial plan. For example, cash positions baked into your cash flow forecast enable you to make better strategic investment decisions, faster.
2. Supports machine-learning-based predictive processes, such as what-if scenario planning. When actual data from operational or financial systems surfaces in your planning platform, decision-makers must automatically be presented with the most likely results. This puts data science at the heart of forecasting, and the user can add context. Predictive planning processes improve accuracy and reduce the time spent on forecasting.
3. Offers the flexibility to meet both operations and finance requirements. It's important to be able to model financial and operational use cases quickly so you are able to react to changing market conditions.
4. Supports a modular approach that grows with business requirements. For example, consider how you could expand continuous planning across the organization if you enter new markets or launch a new product or service.
5. Is intuitive for users across the business, encouraging broad uptake and collaboration. Look for an engaging interface that makes it easy to input budgets and forecast numbers for both finance and business users.

Conclusion

While companywide continuous planning and analysis requires a commitment across the organization, it brings together people, processes and technology to understand changing opportunities and challenges. The payoff is a significant competitive edge. The visibility gained imparts a first-mover advantage while helping spot and mitigate risks and react to changing customer demands.

In recent years, figuring out how to constantly manage changing business conditions was necessary for survival. Now that rigor—with better tools and processes—is the key to growth.

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