Moving Financial Planning and Analysis to the Next Level

Turning over contextual tasks to a trusted partner can free finance professionals to work on key strategic imperatives and contribute to business growth.

Executive Summary

Many finance organizations are still fighting the age-old battle to optimize efficiency and effectiveness. In today’s dynamic global economy, however, agility and performance are challenges that finance must now conquer.

Truth be told, many finance organizations have become more efficient than ever. In just the last few years, the average company has reduced total finance costs from an estimated 1.35% of revenue to 0.93%, and leading companies are approaching one half of one percent (see Figure 1).¹

It is now time for finance to demonstrate how it can support business strategy, competitive analysis, overall enterprise performance planning and management, and drive revenue and profit growth. This white paper charts a course to help finance departments accomplish these goals.

Effectiveness Redefined

Effectiveness is as important as ever, but the effectiveness expected of the finance department is much broader than ever before. Much of what finance has traditionally called effectiveness focused on operational tasks, such as days-to-close and journal entry accuracy and timeliness. These narrow definitions of effectiveness only

Finance Organization Costs as a Percent of Revenue

Source: PricewaterhouseCoopers Finance Benchmark Study, 2011
Figure 1
indirectly translate to true business outcome effectiveness.

Today’s enterprise must respond to a host of new challenges and opportunities. The most disruptive challenges facing enterprises today are the increases in volatility and the emergence of a new master IT architecture that we call the SMAC stack, comprising integrated social, mobile, analytics and cloud technologies. The SMAC stack is changing the way that enterprises engage their employees, customers and suppliers, from slow, structured, infrastructure-heavy interactions to rapid, infrastructure-light, unstructured and more personalized interactions.

Increased volatility can be seen, felt and measured in many ways, and it demands an increase in enterprise agility. It can be measured in unemployment data, GDP data, corporate revenues and profits, personal incomes, commodity prices, consumer sentiment and a long list of other measures. One example is the S&P 500 stock price index, which is a broad measure of the stock market’s price level. One glance at a chart of the S&P 500 Index shows an unprecedented level of volatility over the past dozen years (see Figure 2).

A new set of challenges and opportunities exist for financial planning and analysis (FP&A) groups, thanks to the increased volatility of the world’s economies, currencies, stock markets and regulatory environments, combined with elements of the SMAC stack, such as the proliferation of “big data” and associated analytics. Leading FP&A organizations are moving beyond their historic scope of supporting a narrow set of financial measures and are expanding to accommodate broad enterprise performance management needs, such as business performance reporting and analysis, profits forecasting, planning cycles, risk management, operations analysis and expanded analytics on both internal and market data. In addition, they are also digging into an expanded scope of detailed line item expense analysis in an effort to leave “no stone unturned” in their search for immediate expense reduction opportunities.

What’s Next for Finance

Increasing FP&A activities, while shrinking the overall finance function budget, will require a large reduction in non-FP&A finance activities, as well as a more cost-effective way to deliver FP&A. Finance and accounting outsourcing (FAO) is one effective way to accomplish the required transformation while improving agility (see Figure 3, next page).

All finance transaction processing (e.g., AP, AR, GL, FA) can be outsourced, as well as select compliance activities (e.g., routine statutory filings, audit support). Transaction processing and compliance outsourcing yields significant savings (typically 30% to 50%, we have found) as a result of provider scale, consolidation, increased automation, process reengineering and cost arbitrage from relocating work to lower cost locations.

S&P 500 Index: Market Volatility

![S&P 500 Index: Market Volatility](source: Yahoo Finance Graphs)

Figure 2
In addition to cost reduction, FAO provides additional process improvements, such as tighter controls from the separation of duties, up-to-date process documentation, more comprehensive metrics reporting, better audit trails and heightened transparency.

Another significant lever to pull is the outsourcing of portions of FP&A. With 25% of finance’s budget taken up by FP&A, there is considerable scope for cost savings. Of course, some portions of FP&A should always be kept in-house, such as assigning a finance leader to each unit to partner with the business, explain results, lead the budget process, etc.

But many other portions of FP&A – such as variance analysis, routine and ad hoc reporting, market analysis and various analytical tasks – can be outsourced (see Figure 4, next page). Just by centralizing common FP&A activities (data gathering, data cleansing and data aggregation), companies can achieve a 30% reduction of FTEs.

From our discussions with many finance organizations, we have observed that business analysts typically spend over 50% of their time gathering, aggregating and scrubbing data. The use of highly skilled and highly paid business analysts to perform basic data manipulation is a waste of scarce talent. Outsourcing the data management tasks provides additional benefits as well, including scale, technology, cost arbitrage and access to skills. The reduction in expenditure on transaction and compliance work derived from outsourcing, combined with selective outsourcing of FP&A work, will enable an expansion of FP&A activities while shrinking the overall F&A budget.

Leading companies have already started outsourcing FP&A processes, such as balance sheet preparation; competitor analytics (including segmentation and SG&A benchmarking); audit support and reporting; implementing ABC models for activity-based costing, along with analysis and reporting; and decision support. These companies have also reaped the benefits of FP&A outsourcing beyond cost reduction, such as reporting cycle-time reduction or increased forecasting accuracy or productivity.

The advancement of technology also requires FP&A organizations to change. Most ERP and consolidation software environments now provide business stakeholders with the ability to drill down and understand finance and accounting data and reasons for variances. Therefore, some of the traditional value provided by the FP&A team has now been automated (see Figure 5, next page).

F&A Outsourcing Benefits

The cost savings from transactional finance and compliance outsourcing can be split between reducing the overall cost of finance and funding...
the expansion of FP&A into expanded business partnering, enterprise performance management and expanded line-item expense analysis. The increased analysis of line-item expenses, although a tactical initiative, helps make FP&A a self-funding operation.

The expansion of line-item expense analysis helps companies focus on expense lines they normally would not consider. Companies can expect to save between 5% and 10% of the costs of these newly analyzed cost elements, performing the analysis either in-house or through an external provider.

**FP&A: Old and New**

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<tr>
<th>Traditional View</th>
<th>The New World</th>
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<tbody>
<tr>
<td>Provide insights into business.</td>
<td>Finance business partners, provide insights and help drive decisions and compliance.</td>
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<td>Fragmented across various departments/divisions of the company.</td>
<td>Consolidated/centralized function with ability to drive standardization and leverage best practices.</td>
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<td>No significant role in policy decision-making.</td>
<td>Ability to influence policy and change by providing insights on business impact.</td>
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<td>Compliance with policies and established practices not a major focus area.</td>
<td>Provide visibility into non-compliance with policies and established practices.</td>
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<tr>
<td>50% to 60% of the individual analyst’s time spent on data gathering and cleansing.</td>
<td>70% to 80% of time spent on understanding data, trends and variances.</td>
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**Example 1: Fleet**

Many companies provide vehicles to employees, primarily the sales force. While policies and procedures exist to monitor and control costs, fleet management becomes a challenge for a large diversified organization with multiple locations. Fleet cost is a one- or two-line item on a company’s P&L. While this is not a material cost and is not significant for a drill-down review, a detailed analysis of fleet costs of major corporations, in our experience, provides an opportunity to reduce costs by taking a...
structured approach. Such an approach would include the following:

- Compare the fleet cost line items with the headcount report from HR.
- Ensure that only active employees have vehicles assigned to them.
- Check whether the employee is entitled to a company car and is in accordance with the policy.
- Send an e-mail to all supervisors of inactive employees and reconfirm if the employee has left the organization.
- Send an e-mail to all employees with multiple vehicles or those who are not in compliance with the policy and seek an explanation.
- Send a list of all inactive employees or those not in compliance, along with the vehicle numbers, to the fleet manager to ensure vehicles are returned to the leasing company and confirmation is obtained.

Taking these steps will not only ensure that the charges are accurate but will also help to accurately attribute the cost to the correct cost center or company code if the employee has been transferred to another location or group company.

- **Example 2: Travel and Expense**

Most companies have well-established travel and expense (T&E) policies and approval limits, including arrangements to audit expenses on a random sample basis. T&E is a significant cost item for almost every company.

FP&A can provide insights into T&E expense and help drive down cost by doing the following:

- Provide visibility into line-level details (common BI tools, sub-ledger-level analysis, etc.).
- Partner with the operations team.
- Identify potential cost reduction areas (e.g., airfare, hotel, phone).
- Publish a dashboard to provide details of all travel not in compliance with policy.

**The Bottom Line**

While FP&A outsourcing and refocusing provides almost immediate cost reduction results, the true benefit is the ability to increase efforts to support the company’s top-line and bottom-line growth.

FP&A outsourcing helps free highly skilled professionals from doing routine work to spend more time partnering with the business to manage and execute strategy. This expands the scope of FP&A groups from traditional financial planning and analysis to true enterprise performance management.

**Footnotes**

2. Examples include Boeing and BBC (Source: “Finance Strategy: Delivering the Partnering Role,” IBM.)
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