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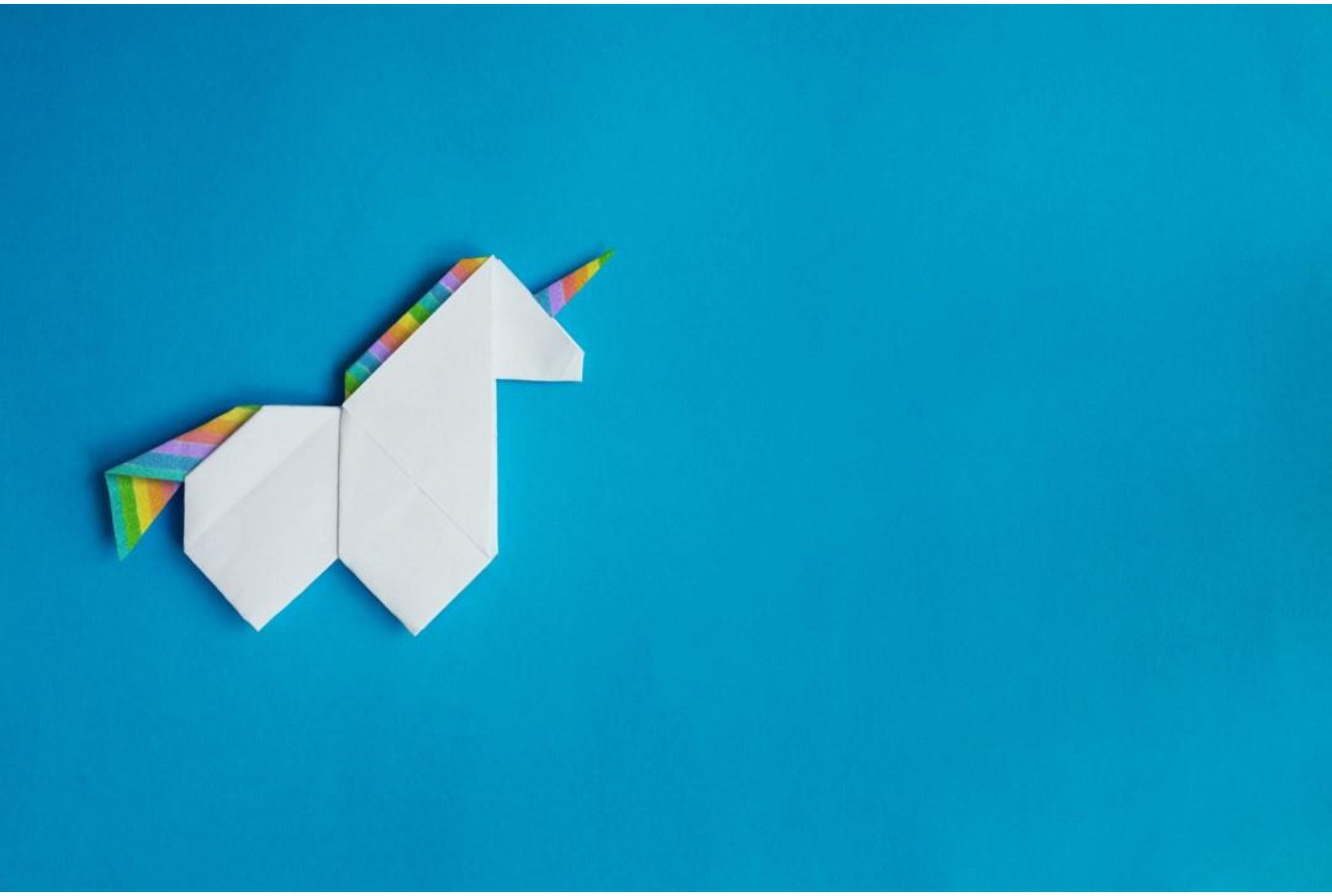
EIGHT MOST COMMON MYTHS SURROUNDING FP&A



Anna Oblakova

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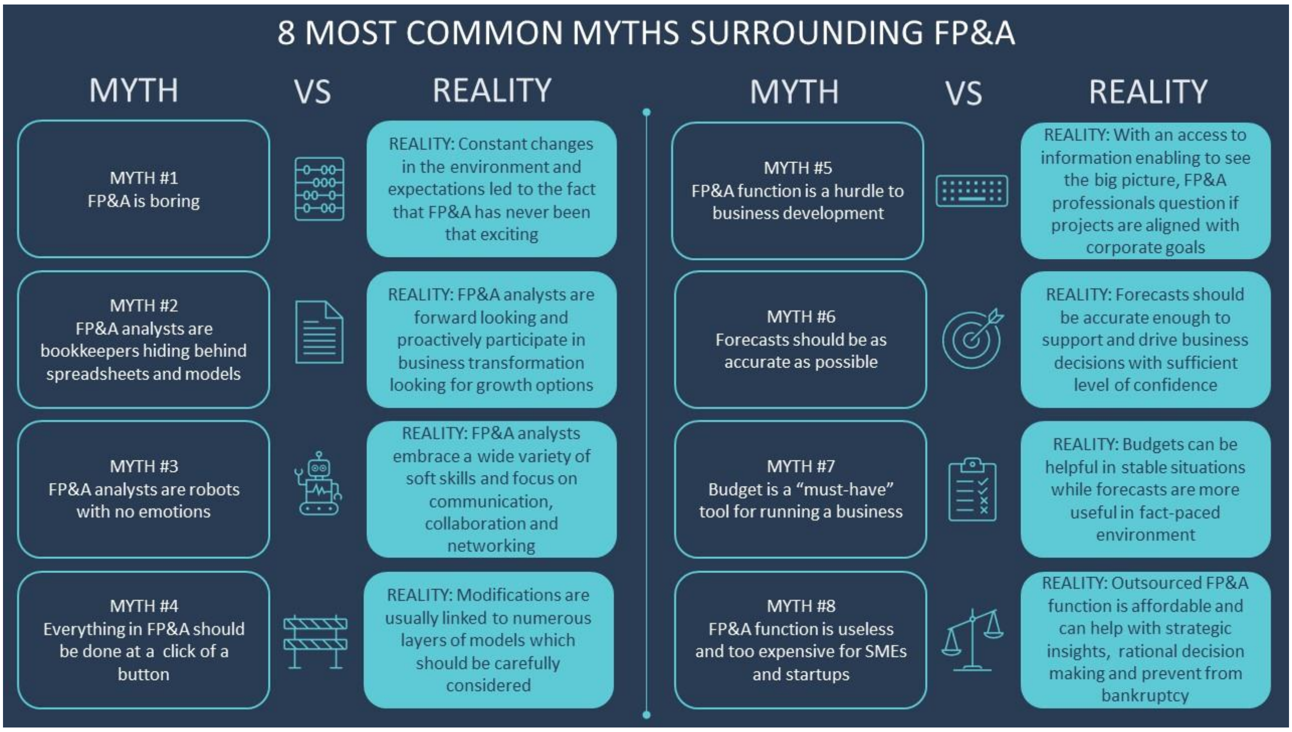
Many FP&A professionals have faced the misunderstanding of the role of the FP&A function and its core activities in the company. Unfortunately, the existence and support of some of the misperceptions create a negative image of FP&A practitioners in the eyes of their colleagues and make the profession less attractive from the standpoint of graduates and young specialists.

This article explores the most common myths surrounding the financial planning and analysis function, its key activities and outputs which many FP&A stakeholders believe in. For FP&A professionals it is critical to be aware of these misconceptions to address them as soon as possible. The current transformation of the finance function and FP&A processes may become the perfect time to move away from outdated beliefs and practices.



MYTH #1. FP&A is boring. Repetitive operations such as data acquiring, verification, reconciliation and further regular reporting tasks based on these manipulations with historical data contributed to the bad reputation of FP&A as an uninteresting place to work.

REALITY. Well, there should be no illusions and the FP&A function yet encompasses large amount of routine work. The recent survey about the scope of the FP&A function revealed that 75% percent of time is spent gathering data or administering the process. But the point is that we are now witnessing a huge shift towards strategic activities in the profession. Constant changes in the environment, requirements and expectations lead to the evolution of the roles and responsibilities of FP&A practitioners.

HOW TO DEAL WITH. Technological progress and adoption of new generation of tools provide FP&A professionals with opportunities to move away from old-style way of work and spend more time on doing their core activities - planning and analysis – thus turning data into strategic insights and contributing to business decision making.

Ideally, all tasks which can be automated should not be considered as the scope of the FP&A function. Large and small vendors offer affordable cloud-based FP&A software which can perform some functions much more accurately than employees, bring savings in terms of time and costs and ensure that FP&A will work in the way that brings value to the company – that is provide analysis and drive informed decision making. Many companies and CFOs have already realized the benefits of FP&A transformation and are taking further steps to embrace technology and improve efficiency.

MYTH #2. FP&A analysts are bookkeepers hiding behind spreadsheets and models. Widespread use of balance sheet, income and cash flow statements played a trick with FP&A analysts. Whether in a startup or in a well-known corporation, it is hard for FP&A practitioners to avoid building financial models of these 3 basic financial statements. The demand for this kind of activities and the ability to perform it in Excel spreadsheets led to a strong association of FP&A analysts with advanced bookkeepers.

REALITY. Despite some common features of bookkeepers and FP&A analysts such as patience, ability to work with numbers and obviously understanding of financial statements, the range of similarities in these two professions is quite limited. While bookkeeping can be described as a reactive function focused on historical operations and transactions that have already been performed by the company in a past reporting period, FP&A analysts are forward looking professionals proactively participating in business transformation, searching for growth options, evaluating risks and opportunities.

HOW TO DEAL WITH. If an accountant degree is a real asset for a bookkeeper, it will bring no advantages to a financial analyst: records and historical reporting distract the FP&A function from value-added activities and, thus, should be eliminated from the scope of tasks. On the contrary, the role of a FP&A professional inherently encompasses a broader skillset that should be developed to make the difference and help to dispel misperception of the FP&A function:

- Being familiar with financials, FP&A specialists can define drivers of profitability and efficiency.
- Attention to details and ability to see the big picture help them to create the link between the strategy and operational activities.

- Deep understanding of business allows FP&A analysts to contribute to the choice of growth options.
- Flexibility and agility to meet the needs and requirements of a wide range of internal and external customers.
- Tech-savviness to take advantage of new software and tools.
- Storytelling to be able to explain what is covered behind the numbers.

MYTH #3. FP&A analysts are robots with no emotions. It is common for all representatives of finance function to be accused of lacking emotions and FP&A analysts are no exception. Constantly working with numbers and being under intense pressure require the feeling of confidence and demonstration of control.

REALITY. FP&A professionals are defenders of the company performing 360o analysis of risks and opportunities and ensuring reliable decision-making processes. This is true that one of the essential qualities should be their ability to keep calmness even in most unstable times. However, this should not be confused with emotionless. On the contrary, FP&A analysts embrace a wide variety of soft skills which are absolutely necessary for an effective and efficient communication. They focus on collaboration and networking forming positive outlook within the company and building trust and confidence with their natural self-control skills.

HOW TO DEAL WITH. With growing maturity of the FP&A function, planning processes tend to change towards the highest level of collaboration while analytics is likely to become prescriptive (focus on recommendations: what the company can do?) rather than descriptive (focus on understanding the past events: what happened?). This evolution of FP&A puts emphasis on human interactions which become prerequisites for success. Widely recognized best practices of FP&A service include but are not limited to:

- building relationships and networking on different levels of the organization to break down the barriers between business and finance functions,
- seeking common ground with business departments to improve commercial ideas in terms of their financial outcomes,
- clear communication of complex questions and conclusions in a simple and understandable manner.

MYTH #4. FP&A is a hurdle to business development. During the budget season or when requesting project approval from FP&A, business teams often oppose themselves to finance professionals representing the support service and who do not generate revenue, and, therefore, do not bring real value to the company. Yet, who possess enough power to block the projects preventing business from potential growth.

REALITY. With an access to information enabling to see the big picture, FP&A practitioners not only assess potential profitability and challenge business hypothesis but question if projects are aligned with corporate goals and how they contribute to their achievement.

HOW TO DEAL WITH. FP&A analysts have a reputation of pessimists who do not believe in bright and innovative business ideas. This is partially true, especially for those who have seen hundreds of projects that could not reach planned goals and whose growing knowledge base undoubtedly contributes to professional skepticism and a certain kind of mindset. The truth is that all budgets and projects should be aligned with corporate goals and strategy and have clear evaluation metrics which ensure that business and finance will speak the same language. The FP&A function in turn should find the ways to say "yes", help to improve the ideas and their potential financial outcomes.

MYTH #5. Everything in FP&A should be done at a click of a button. Being technology advocates and promoters of process efficiency, FP&A analysts often suffer from the expectation gap as internal customers believe that all calculations and approvals within FP&A's responsibility should be performed in a blink of an eye.

REALITY. FP&A professionals do not have a magic wand that can change everything in a second. Even the tiniest modifications usually affect several layers of models, numerous figures linked with interdependencies and hypotheses which should be carefully considered before publishing the results of calculations. This situation becomes much more complicated and time consuming in case of running several systems.

HOW TO DEAL WITH. The main objective of FP&A is to transform complicated scenarios and associated data into valuable information and actionable insights. In many situations there is no need in detailed planning and analytics especially in fast-changing environment with high level of uncertainty in which hypotheses are continuously modified and tested. In this case financial models and scenarios can be simplified based on the trade-off between details/level of accuracy and speed.

MYTH #6. Forecasts should be as accurate as possible. Many analysts involved in making forecasts, as well as their users, truly believe that, ideally, there should be no variance between forecast and actual figures, and they should constantly work on minimizing existing variances.

REALITY. When conducting forecasting activities, companies anticipate and analyze trends that can influence their financial performance in the nearest future. Understanding the impact of these trends is extremely important to be nimble in the face of changes and to be able to take steps to improve the situation. Therefore, forecasts should be accurate enough to support and drive business decisions with sufficient level of confidence.

HOW TO DEAL WITH. The problem with forecasts is that to achieve very high level of forecast accuracy requires much time and effort. This means that, while choosing forecasting method and building models, many factors should be taken into consideration to make a trade-off between accuracy and the cost of the forecast: the context and period of forecast, time available for conducting analysis and making a forecast, access to essential data within this timeframe, etc. In other words, at some point the cost of efforts associated with increasing accuracy is too high and does not bring real value.

MYTH #7. Budget is a “must-have” tool for running a business. Budget is a well-known tool used by large corporations and small companies all over the world to translate long- and mid-term strategic goals into operational financial plans, allocate resources and motivate employees to reach targets. Budgets are so widespread that it seems impossible to run a business without them.

REALITY. Budgets can be helpful in stable situations while forecasts are more useful in fact-paced environment. Budget is a result of negotiations between executives and operational managers, - basically, it is a set of financial goals and fixed targets which should be reached by the end of the reporting period, often reinforced by incentives. This model does not promote agility and innovation, on the contrary, it focuses on hierarchy and bureaucracy rather than on the customer, makes people think more of the numbers rather than of adaptation to emerging risks and opportunities, even may lead to unethical behavior if people try to find ways to meet targets at all costs. Moreover, in today’s turbulent world, budgets become obsolete in a matter of several months which makes them unusable neither for planning, nor for motivation purposes. This is the reason for major evolution in FP&A –shifting from annual budgeting processes to up-to-date forecasting which is not attached to the duration of the fiscal year.

HOW TO DEAL WITH. The use of rolling forecasts supports the idea of continuous planning and allows the company to make decisions based on the emerging real-time knowledge, the results of testing the hypotheses and the most current information. These forecasts are mostly driven by the events: external (such as changes in macroeconomic environment or competitors’ moves) and internal (such as launches of new products and services), and they enable companies rapidly respond to changes and stimulate creativity and innovation.

MYTH #8. FP&A is useless and too expensive for SMEs and startups. Many entrepreneurs consider finance function in general and FP&A in particular to be luxury for small and newly founded companies. Some of these business leaders may think they are not big enough for that and they can fulfil these tasks themselves, others may partially agree with the above-mentioned myths.

REALITY. The bankruptcy rate among startups and SMEs is extremely high which can in many cases be explained by the lack of financial expertise. FP&A professionals can not only help with financial modeling and scenario planning, rational decision making and prevent from bankruptcy, but also provide strategic insights and ensure sustainable growth of the company. And this does not necessarily mean that you need a huge in-house team: outsourced FP&A practitioners as well as CFOs is an affordable and scalable service.

HOW TO DEAL WITH. Dealing with finance and analytics can be time-consuming and distracts entrepreneurs from the development of their business. With growing popularity of freelance, remote work and new business models (such as SaaS), the market becomes more competitive, and it is now possible to find independent consultants and part-time professionals who can be paid hourly or daily and can be in touch whenever you need them.

We are almost finished. So far, you know that FP&A professionals are advanced bookkeepers who have the most boring work ever to create hundreds of spreadsheets with the only goal – to prevent business from growth and development. Just kidding! Wait, I forgot to mention one more myth that finance professionals possess rather specific sense of humor, which is not true, or is it?

To be serious and conclude, there is no need to pretend that some myths may be partially true or at least have some historical background allowing them to exist. Yet, we cannot deny an impressive step forward in the understanding of the role of FP&A, an emerging willingness to change among FP&A practitioners, adoption of new practices and development of both hard and soft skills. Further movement in this direction will definitely help to dispel the myths and increase awareness of the value created by the FP&A function.

References:

1. Preparing for the next level of financial planning and analysis, APQC, AFP, 2019

FPANDA CLUB is a blog about the finance function and its transformation, the latest trends in finance and secrets of FP&A practices.

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AUTHOR

Anna Oblakova