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CFO insights:
Beyond concierge: Transforming the FP&A operating model

The current economic crisis has caused boards and CEOs to ask their CFOs to bring down overall costs and lead by example. One opportunity for CFOs to save is to alter the Financial Planning and Analysis (FP&A) operating model. In many companies, FP&A is increasingly decentralized and finance serves as a "concierge" to the business units. In the current economic climate, finance as a concierge is no longer practical, and its operating model has to change with the times to improve efficiencies by standardizing and selectively centralizing key capabilities.

Choosing an FP&A Diet:
One of the most overlooked and yet one of the largest opportunities in finance is reducing FP&A service levels. In fact, consider FP&A in conjunction with addressing traditional improvements in other financial processes such as the record to report, order to cash and procure to pay processes. Financial processes such as compliance and control or treasury and tax also deserve consideration, but generally offer smaller reduction opportunities.

FP&A opportunities can generate millions or tens of millions in savings at Fortune 1000 firms. In the last few years, FP&A organizations grew considerably and took on a lot of different "what-if" and "just-in-case" analyses, many of which do not add value and are a luxury they can ill afford in the current economic climate. Both the business and finance organization have to be more selective in the growth and risk scenarios they analyze.

FP&A activities are often inefficiently replicated and executed across business units, geographies and markets. For example, data consolidation for FP&A is often distributed thinly across geographies. This adds to the costs, and the level of service can vary considerably across regions.

How can CFOs reduce the costs and create more value from FP&A? We see three key opportunities:

- Shifting the service delivery model by centralizing many FP&A activities that are common across business units, geographies and markets into a Center of Expertise (COE)
- Reducing the demand for FP&A activities
- Reducing process complexity

Centers of Expertise (COEs) are not new, and already provide many companies with cost benefits. COEs focus on aggregating expertise to undertake low-volume-high-expertise tasks more efficiently. This is in contrast to shared service centers that focus primarily on a high volume of routine transactions. Moving select FP&A activities into a COE allows for greater efficiency by having fewer people serve more customers with more consistent quality. COEs are often implemented as a captive center onshore, and in certain cases may be virtual, rather than physically centralized.

To be clear, most FP&A activities cannot be centralized. However, the common, routine FP&A activities often make up a great deal of an analyst's workload and there is considerable value in examining FP&A closely for savings. The first step is to identify FP&A activities that are not truly "analytical decision support." For example, data consolidation and data aggregation often take up over 50% of an analyst's workload, yet do not really provide true analysis for the business. Once these common activities are identified, there is an inherent cost saving by taking 50 people in 5 different locations in the US and consolidating the common activities to 175 people in a single location in the US. Offshoring to lower cost countries when expertise is available can generate further savings. Outsourcing may provide added benefits from the scale and scope of benefits available to the outsourcer, and the conversion of expenses from fixed costs to variable costs. However, only certain FP&A activities can be outsourced or moved offshore and the selection and migration of activities must be done with care.

All too often we see clients with different analysis and reporting requirements across markets and business units because "that's how it's always been done." Challenging the inherent status quo offers finance additional cost savings opportunities. As a result, there is often a significant cost savings opportunity from reducing the demand for services to the initiatives critical to the overall strategy of the firm. Establishing clear service agreements with business unit and regional leaders and reducing inessential "what-if" and "just-in-case" analyses and management reporting restatements can reduce the demand and lower the costs of FP&A.

In addition, an opportunity for cost savings lies in FP&A process simplification and standardization. By standardizing select analyses and outputs across units and regions, the finance organization can process more analytical requests faster.

Executing the Program

Slimming down requires support, a change in mindset and organization.

The first thing CFOs need to do is to sit down with the business unit leaders and build support for service level changes in the delivery of finance to business units. CFOs need to share a vision of a restructured finance organization and articulate the business case for standardizing levels of support. They will need to sell a potentially reduced but acceptable level of service, compared to what their partners previously expected and to which they were accustomed. Support also needs to be garnered for moving key FP&A and other activities to a COE. Fortunately, the extant business environment makes this relatively straightforward at this time.

The next thing to do is work with the finance and business unit leadership team to frame a change process that hears the needs of all stakeholders and prepares to shift the culture of finance. Bringing hidden constraints to change to the surface and understanding local needs is critical to shaping a transformation. One approach is to quickly hold a series of workshops to understand where the business and finance organizations are today and where they want to go. It is constructive to use workshops to achieve a consistent vision of a standardized operating model that's equitable. One tool we use is a simple two-by-two matrix (figure 1) to sort out which activities can be centralized and which should be close to the business; and which are knowledge-based requiring a high level of expertise versus those that are routine transactions. We find finance and business executives can typically agree very quickly on a future finance operating model and distribution of FP&A activities across the matrix.

Figure 1. Framing the FP&A COE Opportunity in Context

How Finance Creates Value Recommend Focus of Activity	Transaction Processing High Volume – Low Valued Added Activities	Knowledge Based Analysis Low Volume – High Valued Added Activities
Site or location specific service	Opportunity to further standardize local delivery of services	Opportunity to improve skills and efficiency of staff deployment
Centralized company wide service	Opportunity to create captive or outsourced shared service organizations for scale economies	Opportunity to create Center of Expertise to match best expertise to tasks, improve efficiency and reduce costs through standardization and demand reduction

The next step is to execute the implementation of a Center of Expertise. While many parts of the operating model and outputs will be standardized, there will be flexibility to change the level of support and customize support to high priority business units and initiatives. The key to realizing value from the COE is a broader change in mindset and culture. Simply transforming the FP&A organization or writing service level agreements between the COE and customers is unlikely to work unless the culture and mindset of both finance and their customers change to accept a new model of service. This change in service model demands joint leadership by the CFO and client organization.

The current recession is forcing all business leaders to take a hard look at their organizations and move quickly to reduce costs. CFOs can lead by example by slimming down their own finance organization by centralizing key capabilities, and reducing demand for FP&A activities. This overall transformation process can be designed fairly quickly and executed within six to nine months. This unique economic moment also creates an opportunity for CFOs to catalyze organizational change and increase visibility into and influence over business unit operations. Their key challenge will be to drive this transformation, manage expectations and maintain the right levels of service from finance to their business clients.

Deloitte's CFO Program harnesses the breadth of our capabilities to deliver forward thinking perspectives and fresh insights to help CFOs manage the complexities of their role, drive more value in their organization, and adapt to the changing strategic shifts in the market.

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