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Turning Data into Dollars: Taking Capital Planning to the Next Level Using Advanced Analytics

Whether investing in new equipment, launching a product, or implementing a new technology, most CFOs rely on outdated capital planning processes and data to guide major business decisions. It's no wonder, then, that more than 60% of finance executives in a Deloitte study said they are not confident in their organization's ability to optimally allocate capital.[1]

As market conditions continue to rapidly evolve and cost pressure from economic uncertainty reigns, outdated capital planning processes make it difficult for organizations to budget resources accurately, stay ahead of the competition, and anticipate the future. The most pressing challenges include:

- Transparency into the benefits/return on invested capital (ROIC) of strategic capital investments from leadership/shareholders
- Focusing on long-term strategy and ensuring operational alignment
- Linking the capital allocation and investment process to organizational strategy
- Increased pressure to deliver ROIC/value capture of capital investments
- Effective prioritization and scenario modeling to guide decisions
- Inconsistent use of planning tools and manual processes to support capital plans

With heavier scrutiny on spend, shrinking capital investments, and more persistent talk of workforce downsizing, executives remain cautious of what happens next, pondering if a shrinking GDP contributes to a traditional recession, soft landing, or something else. And while most businesses are at least beginning to pay more attention to how to better allocate capital under these growing pressures, turning the tide doesn't happen overnight.

Most businesses still rely on siloed teams using manual methods to capture historical data on spreadsheets, spending too much time looking back for clues rather than using advanced analytics to find evidence. Without better alignment, the risk of under or overspending increases, shared goals no longer map to overall strategy, and the clarity and purpose of capital spend is eroded. But with the right blueprint for using powerful new tools to unlock deeper data insights, a smarter, faster, and more effective capital planning process is achievable.

In process we trust

So how then can businesses reevaluate and reframe their own conversations around capital planning? They must start by defining the core components of the capital planning process. This includes acknowledging that capital planning itself must be holistic, all-encompassing, and truly end-to-end. With readily available, accurate data, finance leaders can make smarter, more informed decisions that accurately and consistently support business goals.

Components of a modern capital planning process

Step 1. Target setting and capital allocations

When re-imagining the business's approach to capital planning—and how advanced analytics can inform that approach—start by setting targets and establishing a single source of truth. This includes securing buy-in from stakeholders establishing clear directives, defining the approach to capital allocation on strategic priorities, and implementing a robust process to continuously evaluate how various factors may influence the capital allocation strategy.

For target setting, consider relying on historical trends in available capital, strategic priorities, and other economic factors as viable inputs. And once preferred targets are set, capital allocations can then include more informed ideas on where and how the business wants to spend. Begin with a time span of three to five years out; as your process matures, long-term plans may reach out five years or more.

Can revisions happen along the way? Absolutely. It's a leading practice to annually revisit and reanalyze plans to check for progress and roadblocks and adjust accordingly. Of course, doing so also requires establishing a strong baseline of metrics—such as year-over-year run rates and variance reporting (Actuals to Forecast)— to improve agility during disruptive times. By setting, reviewing, and assessing capital targets frequently, leadership is able to proactively adjust to keep up with a dynamic business landscape. To become this agile, access to the requisite information and insights into capital performance needs to be readily and easily accessible.

Step 2. Business case and portfolio creation

Once targets are set and capital is allocated, establish key performance indicators (KPIs) and drivers to track outcomes. Make sure these KPIs capture data that's directly tied to the overall business strategy, and that the team leaders responsible for tracking these KPIs measure both qualitative and quantitative outcomes of various business impacts as mapped against the capital plan.

Tracking KPIs over time will help you build your business case, so use standard, repeatable processes that make it easy to monitor KPIs and deliver the insights the business needs.
And what do "good" KPIs look like? Start with all those grounded in hard data as the KPIs worth pursuing (number of clicks, amount of foot traffic, etc.). These are the kind of metrics that help prioritize focus areas, and put the capital planning process to work by using advanced analytics to forecast the probability of scenarios coming to fruition.

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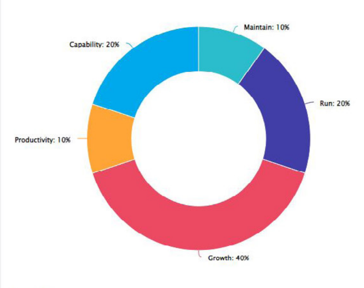
Allocate Segment Funds Across Investment Category

Total Available Capital	Total Capital Allocated to Segments	Total Unallocated Capital
$ 1,933,365,391	$ 1,502,178,247	$ 431,187,144

Investment Category Capital Allocation (Millions)

		PY Actuals - Capital Requirements	CY Approved Operating Plan	CY Working Forecast	CY Allocation %	Proposed Operating Plan Allocation %	Proposed Operating Plan Allocation Amount
Segment 1	Maintain	$ 156,825,192	$ 160,873,505	$ 46,225,055	13.39%	10%	$ 45,040,087
	Run	$ 172,722,687	$ 164,207,861	$ 114,552,187	33.17%	20%	$ 90,080,173
	Growth	$ 8,398,882	$ 3,853,959	$ 30,901,779	8.949%	40%	$ 180,160,346
	Productivity	$ 20,915,528	$ 9,584,042	$ 136,340,042	39.48%	10%	$ 45,040,087
	Capability	$ 7,333,676	$ 6,781,499	$ 82,696,111	23.95%	20%	$ 90,080,173
	Total	$ 366,195,965	$ 345,300,865	$ 410,715,173	118.9%	100%	$ 450,400,865
Segment 2	Maintain	$ 256,618,506	$ 200,283,056	$ 211,812,254	58.62%	70%	$ 417,413,021
	Run	$ 123,922,711	$ 85,506,035	$ 143,795,577	39.8%	50%	$ 298,152,158
	Growth	-	-	-	-	-	-
	Productivity	-	-	-	-	-	-
	Capability	$ 87,958,316	$ 75,515,226	$ 15,913,649	4.405%	10%	$ 59,630,432
	Total	$ 468,499,533	$ 361,304,316	$ 371,521,479	102.8%	130%	$ 775,195,611
Segment 3	Maintain					30%	$ 136,641,920
	Run	-	-	-	-	30%	$ 136,641,920
	Growth	-	-	-	-	15%	$ 68,320,960
	Productivity	-	-	-	-	-	-
	Capability	$ 377,989,280	$ 325,473,065	$ 383,706,890	117.9%	25%	$ 113,868,266
	Total	$ 377,989,280	$ 325,473,065	$ 383,706,890	117.9%	100%	$ 455,473,065

Proposed Operating Plan % - Investment Breakdown



Finance leadership can set specific business unit and investment type targets by allocating available cash.

Step 3. Prioritization and scenario modeling

Prioritization and scenario modeling help leaders focus on what's most important, anticipate changes, and respond quickly.

Scenario modeling helps businesses run detailed what-if analysis for certain occurrences. A modern scenario modeling tool uses advanced analytics to help businesses anticipate base-case, best-case, and worst-case scenarios, so leaders make decisions with a higher likelihood of achieving preferred outcomes. This allows for greater flexibility in understanding the probability of success of funding a project, making important comparisons in real time, and setting the stage for more success in the future.

This capability is critical when making large capital investments. For example, a biotech organization can save years and millions of dollars by using an advanced scenario modeling tool to assess the likelihood of new drug approval prior to investing in the many stages of a drug's development. They can then choose to prioritize research time and funding for the drug(s) most likely to receive approval and help patients.

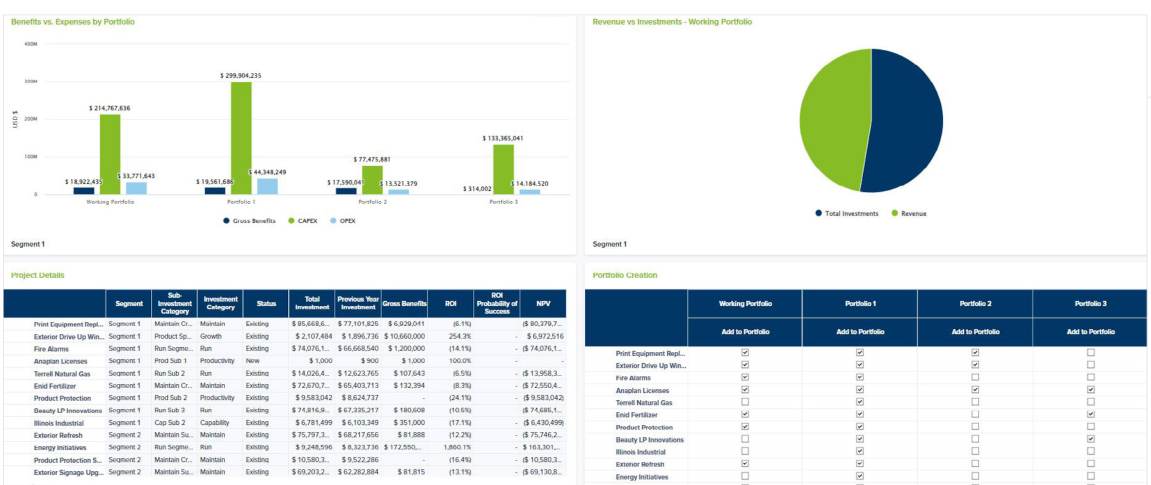
Applying advanced analytics in this way may be the key component of modern capital planning as it offers true differentiation for those who implement it correctly. It's also worth noting that while prioritization and scenario modeling appear mid-stream in this process review, they are actions that a business can do at any point, and should be used early in the planning phase.

Step 4. Operating plan

As the organization forms a more complete picture of long-term capital spend, it can begin to take a more tactical approach to execution in the short-term. This includes evaluating what the business can handle within a given budget cycle or approve in an upcoming year, and either setting an appropriate operating plan or updating an existing one.

While the timelines for these evaluations might differ based on a business's fiscal year planning calendar, consider such plans prior to generating any profit and loss (P&L) statements.

Visibility into both capital expense (CAPEX) and capital spend-driven operating expenses (OPEX) are key to understanding the totality of financial impact and managing the investment portfolio effectively. This happens when a business creates a capital plan with an operating spend component and that OPEX component flows into the P&L, thus influencing the business' operational expenses. Tracking OPEX and CAPEX in concert further enables a better understanding of how deployed capital ultimately impacts business investment and expense, as well as return on investment, in totality.



A capital approver can leverage scenario planning capabilities to understand the financial trade-offs when making strategic decisions.

Step 5. Monitoring and tracking

Once targets have been set, allocations made, scenario models run, and a plan put into practice, it's time to monitor and track performance of capital plans. Essentially, this is concept of dynamic capital reinvestment and reallocation, or what some might recognize as agile capital management.

Use advanced analytics to monitor performance throughout the process, from start to finish. This proactive approach allows the business to continually check, re-check, and re-calibrate based on all available data to make real-time adjustments and accurately forecast.

Business leaders should also regularly monitor the outcomes of previously identified KPIs from the business case and portfolio creation phase based on the dynamic nature of their business areas, market, or type of investment. These variables can inform how frequently and the level of detail at which investments should be tracked and evaluated. Doing so empowers the business to focus on core projects that align to goals and have the highest chance to succeed based on the evaluations made by modern software tools.

Capital planners can quickly see how the deployment of capital measures up to what was planned for and ultimately approved.

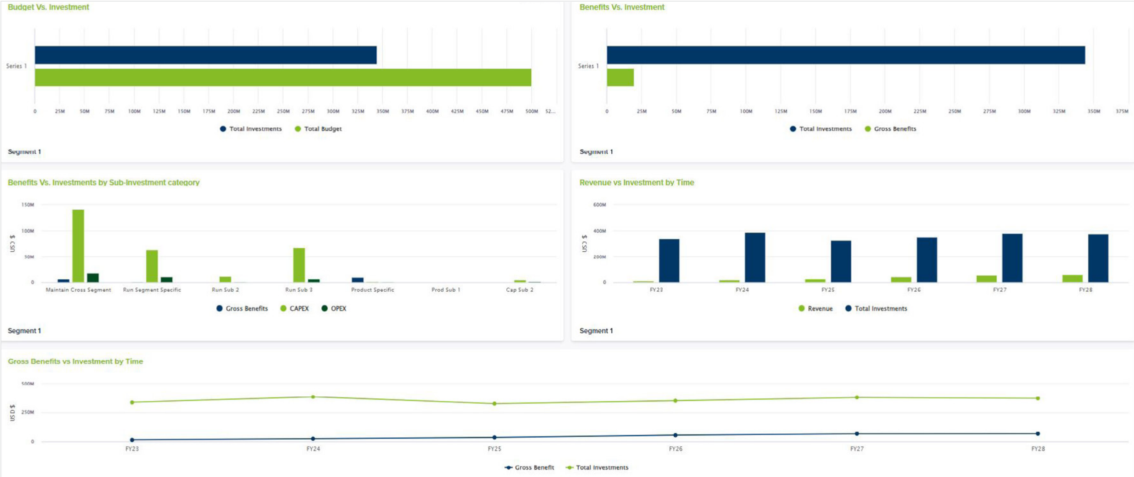
Overlooking Environmental, Social, and Governance (ESG) planning may cost you

According to a study conducted by Bloomberg Intelligence, ESG assets are on track to hit $53 trillion in assets under management (AUM) by 2025, which could potentially represent more than a third of projected global AUM.[2]

Compared to only 10 years ago, these fixtures represent an approximate increase of $1.5 trillion of capital that was either reallocated or is considered a net new investment to ESG funds.[3]

These projected capital inflows represent a mindset shift where more retail and institutional investors recognize the long-term value proposition of integrating ESG metrics into capital planning and investment decision-making. As this mindset shift is realized globally, investment managers and other financial institutions are accounting for the nonfinancial metrics, such as ESG ratings and impact investing KPIs, to improve financial performance and mitigate ESG risk.

With such potential, organizations should consider incorporating ESG priorities early on during planning—ideally during overall target setting. This can include accounting for ESG assets, opportunities, and analytics, and taking advantage of how modern technology can help put ESG prioritization at the forefront of the capital planning process, rather than an afterthought.



Putting the plan into action

So far, we've focused on building the plan—the culmination of the steps outlined above that create a prudent capital planning—but we must also explore plan execution, or the journey to improving, centralizing, and automating capital plans, analytics, and prioritization cycles. Both phases require a solution that helps optimize strategic decision-making for long-term success.

An enterprise-level solution with robust capital planning features can help your business strengthen alignment and accountability, drive speed and agility in go-to-market decisions, and deliver transparency across the enterprise. When paired with the best practices and proprietary configurations of world-class professional consultancy, your business stands to reap a long list of rewards, including the ability to:

- Improve enterprise capital capabilities by connecting data and reducing manual efforts
- Realize faster return on invested capital (ROIC) and time to money (TTM)
- Expand capacity and alignment of capital needs to qualified demand signals
- Enhance visibility into capital commitments and realization of benefits
- Experience better traceability and control over capital portfolio

With Deloitte's Capital Planning and Analytics solutions, powered by Anaplan, organizations can improve real-time understanding of their overall portfolio, streamline a variety of planning activities, and align capital spend with overall strategic directions using:

- Standardized business case creation linking to organizational strategy and operational initiatives
- Efficient project approval workflows across various functions and levels of organization
- Project prioritization, scenario modeling and capital portfolio creation
- Single-source solution that creates, tracks, and analyzes the capital portfolio in real-time
- Portfolio progress monitoring, including key milestones, financials, and performance drivers
- Monte Carlo analysis for insights into project performance possibilities and probabilities, and scenario outcomes

A Capital Planning and Analytics Case Study

What does a comprehensive transformation using Deloitte's Capital Planning and Analytics solutions, powered by Anaplan, look like in practice? For one of the world's largest food manufacturers, its end-to-end journey started by identifying key issues and challenges that the company wanted to address in its existing capital planning processes—namely, what could be done differently to:

1. Streamline strategic capital allocation decision-making based on standardized metrics, reporting, and prioritization methodology
2. Develop an integrated platform to enable agile and interactive capital planning across various stakeholders within the organization
3. Enhance reporting capabilities by improving visibility through real-time dashboards

The approach

Following a "design, develop, and deploy," methodology, the company scheduled multiple design and brainstorming sessions with over 20 key stakeholders from across the organization, including corporate accounting, finance, and operations, all to better understand the end-to-end capital planning process and align on a new path forward.

Using an agile framework, the team prioritized 80 user stories to develop a minimum viable product (MVPs) for its capital planning capabilities to support everything from project creation and forecasting to approvals and performance management, while also refining its capital process operating model across four core user personas.

The company then integrated its ERP system with its capital planning model to extract actuals and facilitate the forecasting process—new capabilities that the company had lacked in previous capital planning lifecycles.

They also developed new connected workflows with various levels of approval and collaboration, reaching all the way up to the CFO and CEO. These workflows allowed for better performance management and new, accurate tracking across 17 different reports.

Outcomes

By utilizing Deloitte's Capital Planning and Analytics solutions, powered by Anaplan, the food manufacturer incorporated a standardized capital planning process and technology across various stakeholders within the business.

People

The first two improvements specifically included the employees directly, resulting in a new ability to standardize capital planning roles via personas and clearly defined responsibilities, and equally so, defining project ownership through centralized hierarchical access

Process

The next six improvements included the reduction of manual and offline capital planning activities from legacy systems and spreadsheet-based submissions, the standardization of key business case financial metric calculations for return on investment (ROI), internal rate of return (IRR), and net present value (NPV).

Additionally, other process improvements included establishing workflow visibility into project planning, workflow approval, the enablement of live, dynamic planning capabilities and real-time reporting dashboards, and access to a continuously open "working" forecast, complete with planning versions automatically updated with monthly actuals to provide the latest forecast estimates.

Lastly, the team saw process improvements with the ability to implement customizable pivoting capabilities to create and export unique reports.

Technology

The last set of improvements seen as a result of the newly implemented solution highlight the technology upgrades and impacts. These include the company being able to consolidate legacy and offline reporting into a single, unified platform for true, end-to-end capital planning processes. In this case, that platform established Anaplan as the single source of truth, including the automated archival of planning data points in the Google Cloud Platform (GCP) for long-term reporting.

Additionally, the company's technology upgrades allowed the team to establish defined user personas and selective access security controls. This resulted in more auditability around inputs and data changes, as well as timing in workflow.

What Does Success Look Like for Your Business?

By embracing advanced software platforms to drive tomorrow's most complex capital planning processes, we open up new ways of solving age-old problems and addressing long-held beliefs about what analytics can and can't tell us about the future. If we know that numbers don't lie, we also now know that improving capital planning with advanced analytics is a worthy pursuit.

Vishnu Narins
Managing Director
Deloitte Consulting LLP
vnarins@deloitte.com
+1 212.313.5005

Eric Merrill
Managing Director
Deloitte Consulting LLP
ermerrill@deloitte.com
+1 404.631.2141

Philippe Podhorecki
Principal
Deloitte Consulting LLP
ppodhorecki@deloitte.com
+1 312.486.3349

Resources Used

https://www2.deloitte.com/us/en/pages/finance/articles/capital-allocation-recognize-bias.html

https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Advisory/us-rfa-navigating-evolving-esg-reg-landscape.pdf

1. More than 60% of finance executives surveyed "are not confident" in their organization's ability to make optimal capital allocation decisions: Deloitte webcast, "Capital expenditure planning: A structured, portfolio approach," May 23, 2013, 1,280 respondents; Deloitte webcast, "Energy management: How an effective strategy can improve your budget and drive value," July 27, 2011

2. Bloomberg, "ESG may surpass $41 trillion assets in 2022, but not without challenges, finds Bloomberg Intelligence," press release, January 24, 2022.

3. Sustainable Investing, "A decade of sustainable funds investing: 10 years/10 charts," accessed March 2, 2023.