



# Enabling next gen driver-based planning

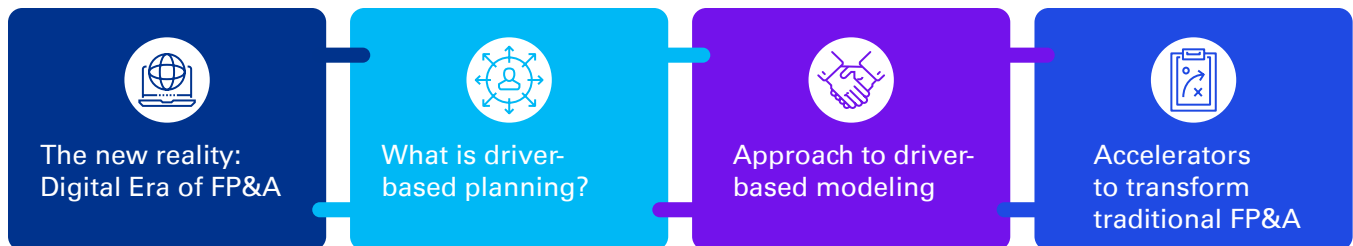
June 28, 2022

## Webcast summary

Organizations are moving away from the traditionally long and arduous process of bottoms-up budgeting to driver-based, automated forecasting models that transform the Finance function from a task-based operation to a capability-enabled partner.

The webcast emphasized how multi-level driver frameworks are designed and implemented and how this approach can elevate financial planning & analysis (FP&A).

The panelists discussed the following topics:



## The new reality: Digital Era of FP&A

Shifting consumer demands. Geopolitical instability. Technological advancements. Today's rapidly changing business environment requires finance to address disruption head-on. Despite having some degree of digital capability, about 73% of finance executives do not feel they currently provide strong support to the business in driving innovation and responding to market disruption. This challenge is largely caused by lack of enterprise performance management (EPM) capability.

Top challenges of EPM include:

- Financial focused, lacking the ability to convey the business story behind the numbers.
- Inconsistent prioritization and alignment across the organization around a consistent set of business drivers.
- Lack of actionable insights with relevant drivers to highlight underlying trends.

Future-ready organizations will have the opportunity to automate forecasts, improve insights to support decision making, and reduce effort on the finance organization by maturing their EPM capabilities.



## What is driver-based planning?

In the ongoing quest to improve the underlying forecasting process, organizations are moving beyond traditional Selling, General, and Administrative (SG&A) human capital driver models and striving for a more agile and flexible approach.

- Driver-based planning paves the way for continuous forecasting which identifies the specific business drivers that really move the needle. It is a framework to forecast business performance based on a multilevel, increasingly specific hierarchy of key levers that deliver measurable impact for the organization.
- The intent of the driver models is to have a connected framework. Fundamentally, the driver-based frameworks connect operational levers and financial metrics at cascading levels, embedding key inputs into an automated planning and forecasting discipline that reduces staff time, increases accuracy, and facilitates actionable insights. When these drivers are configured into EPM solutions and linked to the right data sources, changes in assumptions and targets cascade up to key financial target metrics. This enables organizations to have an informed perspective on budgets, forecasts, and strategies that really drives their business.
- **Success story:** We helped a global technology company transform their OpEx forecasting process. The client wanted to move from a task-driven business planning and forecasting process to a centralized delivery model, where they had a Center of Excellence (COE) driving automated forecasts. Our dedicated team helped build a bottoms-up driver-based forecasting model that combined machine learning and time series models and integrated the framework into their EPM. This helped the client improve forecast accuracy and enhance speed in OpEx spend forecasting process.

### How is this different from activity-based costing (ABC)?

Activity-Based Costing has been used for decades for modeling of organizational costs. However, these models are only partially driver-based and fundamentally static. Hence these models lack the ability to support scenario analysis and are time-consuming against the driver-based models, which offer a much higher degree of sophistication in projections and provide insights into how an organization can optimize the business under multiple scenarios.

### What do leading EPM capabilities look like?

Leading organizations are investing and prioritizing initiatives that enhance predictive analysis, link to integrated business planning processes, and develop their existing finance talent.

- About 85 percent of top-performing organizations use a COE for forecasting and 94 percent have simplified reporting processes with automation. Automation can surface key data for advanced analytics on pricing strategies and market expansion opportunities.
- 72 percent of leading organizations with enhanced EPM capabilities have seen up to 20 percent uptick in revenue over the past three years. Companies with digitized EPM capabilities are more agile, have enhanced ability to predict and incorporate external market factors faster than competitors.
- The end goal of the driver-based planning model is automation. It is getting these models instantiated in technology such that it becomes an automated process contrary to a manual or Excel-based process. Therefore, advancements in EPM require new skillsets, particularly data and analytical skills that can help drive change. There is a sharpened need to address skill gaps in organizations by investing in upskilling the current talent.





## Approach to driver-based modeling and analytics

FP&A functions struggle with incredible amount of time and resources required to create annual operating plans and manage manual processes of business forecasting. The automated driver-based approach liberates the finance team from time-consuming FP&A processes to focus on value-generating insights.

- Organizations can approach drive-based modeling through an agile methodology framework:
  - **Align:** Define the overall driver-based planning strategy. Think of a baseline driver tree framework mapped to your key business levers and identify a few use cases to establish processes.
  - **Design:** Identify and align which drivers best correlate with financial results through use-case testing of existing lines of business as well as potential new opportunities. Collate the underlying data.
  - **Deploy:** Validate the impact of drivers effectuates the desired change within the organization. Understand the historical conversion rates or values within that framework so that when you put your actual information into the model, it can enable you to forecast the results based on historical performance and map the current correlate to the future.
  - **Scale:** Once the use cases demonstrate results, scale the solution progressively adding more use cases and embedding into the EPM, which ultimately gives an opportunity to apply it not just for budgeting or planning purposes but also to forecasting.
- Lastly, an important aspect of this approach is collaboration. This is not just a finance team effort. If you want to push the drivers and the frameworks into operations and analytics to get to the business partnering level, it needs collaboration with the operational business partners, so that it can be developed and tested together.

- For large, global, and complex organizations, it is a journey. It certainly cannot be accomplished overnight. But if they follow the approach, they can go live with these components, start using them and progressively build a fully connected, yet independently effective framework that can drive value for the enterprise. There are two areas you can consider starting with:
  - The planning process and budgeting process: where you want to have a more connected framework.
  - The forecasting process: If you are more mature on the planning side and you're seeking more dynamic and advanced forecasting, you can start with the forecasting objective for your use case.

Once installed, it can equally be applied against both those models to get a high degree of automation and enable your team with deep analytics capabilities.

### Critical success factors for driver frameworks

Automated forecasting and on-demand insights are enabling organizations to transform their traditional FP&A approach and responsibilities into much broader business planning and partnering contributions. Advanced driver frameworks augment FP&A's capabilities to serve as a trusted advisor to the business and increase shareholder value. The success of driver-based planning models depends on the following crucial factors:

- Collaboration is the key. Ongoing, timely collaboration between Finance, Business, IT, and other key stakeholders is required to maintain relevance of the framework.
- Quality data is essential to any digital transformation. Identifying and accessing the right data may require significant effort but is critical to the success of driver-based models.
- Set SMART goals to measure the prototype's effectiveness. Measure whether the prototype framework meets the established objectives or needs updates.



## Accelerators to transform traditional FP&A

Getting started with advanced driver-based planning can be daunting because discovering which drivers best correlate with financial results requires plenty of fieldwork. Also, there are different skill sets required at different levels of modeling. The skills needed to help build a model are different from the ones needed to implement it. And organizations may not have those as they go through the process. Rather than custom building and testing increasingly complex driver structures on their own, leading organizations are jump-starting with established, industry-specific frameworks that can give them a meaningful start on the journey to developing the right model for their business.

### How can we help?

- We have developed more than 15 industry-specific driver frameworks that provide companies with a quick start to implementation. These prebuilt frameworks consistently establish the top few driver levels quickly allowing clients to spend the bulk of their time on the customizations, tweaks, and additions of more detailed drivers that help drive accuracy and excellence specific to their business model.
- We have an Intelligent Forecasting accelerator that uses advanced data, predictive models, artificial intelligence, and machine learning to drive enhanced forecasting solutions.
- KPMG has a Signals Repository platform built with over 10,000 external signals—such as employment rates, weather patterns, and foot traffic—that can be easily ingested to test hypotheses and further sharpen and expand on the business driver framework. The key is to find the ones that really matter for your hypothesis, which can drive business results.
- Even the best technology framework could fail if you have not considered how to get your company and your users to adopt it. Change management is key to this. We help clients with regular reviews and updates of their driver frameworks and support overall change management by helping clients design and launch Centers of Excellence to support business users across the company.

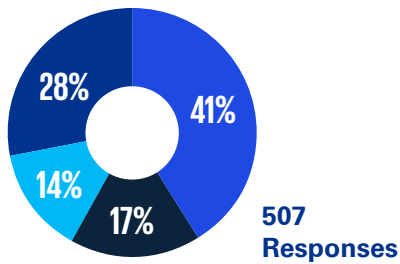


## Closing comments

- By eliminating the traditional bottom-up, manual planning efforts with a fully embedded driver-based planning framework, organizations can significantly improve forecast accuracy while reducing the time needed to react to changes and risks.
- Driver-based planning and analytics is key to elevating the role of FP&A to the business partner model. Advanced driver frameworks assist with addressing the top challenges while providing a structured framework for leadership to set financial targets and cascade the resulting operating decisions down to the responsible teams.
- By design, driver-based models are platform agnostic. They can be integrated into any effective EPM system—embedding Finance more deeply into the business and operational levers that measurably drive success—enabling a fully connected enterprise.

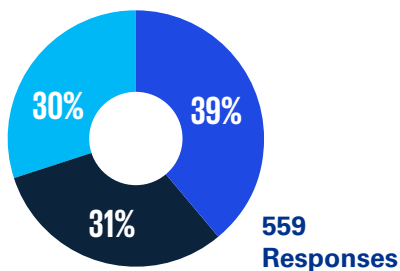


### What is your role in terms of Finance Service Delivery Model?



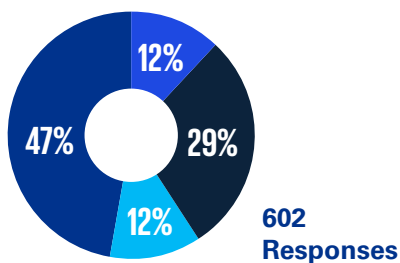
- Finance business partner, is a trusted advisor to the business and provide Insights and analysis to increase shareholder value
- Finance Center of Excellence, develop frameworks, strategies, policies, execute high complex and specialist tasks to ensure compliance with internal and external requirements
- Global Business Services, execute core Finance services and transactions efficiently, effectively and securely
- I sit outside of the Finance organization

### Enterprise Performance Management (EPM) is an organizational discipline and capability to dynamically drive performance improvement of a business and the delivery of its strategy. What do you see as the top EPM challenge for your organization?



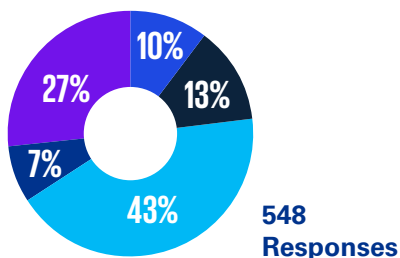
- Financials focused, lacking the business story
- Inconsistent prioritization and alignment on business drivers
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### Does your organization currently perform any of the following processes?



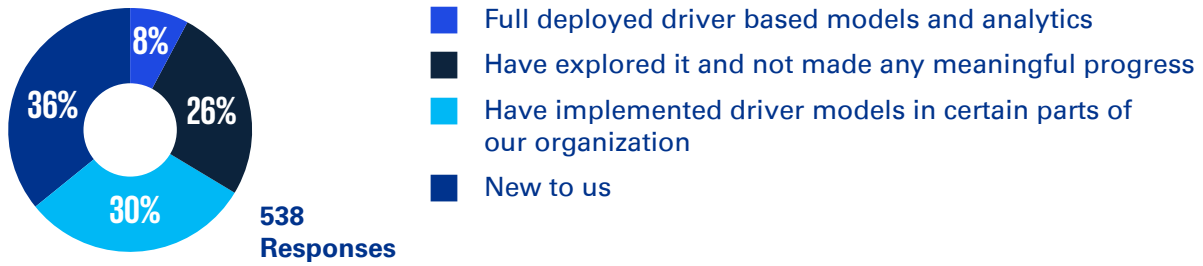
- Integrated Business Planning
- Rolling forecast of varying time horizon
- Sales & Operations Planning
- Strategic Planning & Annual Operating Planning

### Does your organization currently employ or in the process of deploying the following?



- Artificial Intelligence
- Digital Labor/Robotics Process Automation
- Enterprise Performance Management software
- Machine-learning based forecasting
- Predictive Modeling

## What is your organization's driver based modeling and analytics maturity?



**Note:** Percentages may not total 100 percent due to rounding.

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