Future of Finance Extends FP&A to Include Operational Planning

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By Analyst(s): Robert Anderson, Melissa Hilbert, Greg Leiter

Initiatives: Finance Applications

xP&A extends FP&A to include enterprisewide budgeting, planning and forecasting. This research helps application leaders understand where their peers are on the enterprise planning journey and the growing relevance of technology such as xP&A when aligning finance and operational plans.

Overview

Key Findings

- The finance function is strongly positioned to help drive and contribute leadership to collaborative enterprise planning efforts. The evolution from financial planning and analysis (FP&A) to extended planning and analysis (xP&A) will help underpin those initiatives.

- By 2024, most companies will adopt a planning strategy integrating or aligning FP&A with at least one operational planning area. Sales and operational planning (S&OP), workforce, sales, and IT planning are being given top consideration.

- Excel and business intelligence (BI) applications remain popular tools used alongside and in support of highly regarded integrated financial planning (IFP) and integrated business planning (IBP) approaches. xP&A remains immature, with few users currently sourcing FP&A and key operational planning applications from a single vendor.

- While COVID-19 had no impact or improved most investment plans for collaborative enterprise planning, organizations face a number of challenges constraining efforts, including significant data inconsistencies between finance and operational plans, and coping with multisystem integration and disparate tools and planning systems.
Strategic Planning Assumption

Through 2024, 30% of financial planning and analysis implementations will be extended to support operational finance processes, and 50% will require a substantial extended planning and analysis roadmap from the vendor.

Survey Objective

The Extended Planning and Analysis Maturity Research Circle Survey was conducted in the second quarter of 2021 to set the stage for the evolution of Gartner's research in xP&A's emerging enterprisewide planning capabilities. As the xP&A market matures, we wanted to establish a baseline understanding of where finance and IT planning participants were on their current enterprise planning journey. Eighty-two participants with involvement in financial or operational planning responded to the survey, with the vast majority split across a number of industries in both North America and Europe. Due to the limited respondent base, the survey data is representative only of those profiled here as opposed to the broader market as a whole.

The primary objective was to test Gartner's hypothesis that, through 2024 a majority of enterprises would integrate or align FP&A with at least one other operational planning area and to identify the top areas of consideration. Secondary objectives included having respondents associated with planning designate those functions positioned to lead enterprise planning efforts and to expose the current application tools and approaches in use. The survey was also designed to measure the impact COVID-19 had on collaborative enterprise planning investment plans, and to identify the primary benefits and challenges perceived or achieved by these efforts.

Data Insights

Survey respondents were either team members of or held some level of responsibility for operational or financial planning in finance or IT roles. Approximately 26% of respondents represented enterprises with $5 billion or more in annual revenue, 40% represented those with $1 billion to less than $5 billion, and 27% represented midsize businesses of $100 million to less than $1 billion. The remaining 7% consisted of small and midsize businesses (SMBs) with less than $100 million in annual revenue or those representing the nonprofit, government and public sector. Respondent profiles by industry and primary work area are cited in Figures 1 and 2.
Figure 1: Survey Respondent by Primary Industry

Respondent Profile: Primary Industry

- Manufacturing: 20%
- Retail: 10%
- Financial Services: 7%
- Healthcare: 7%
- Services: 6%
- Transportation: 6%
- Energy: 5%
- Insurance: 5%
- Media: 5%
- Utilities: 5%
- Wholesale: 5%
- Education Provider: 2%
- Government: 2%
- IT/Telecommunications: 2%
- Natural Resources: 2%
- Other: 10%

n = 82 all respondents

Q: What is your organization's primary industry classification?
Source: Gartner 2021 Extended Planning & Maturity Analysis 702881_C
Office of Finance Is the Primary Driver of Increasing Enterprise Planning Initiatives

Technology innovation and automation are helping the CFO and office of finance to begin shifting efforts from manual back-office activities to delivering timely, accurate financial insights to business stakeholders. As shown in Figure 3, more than half (55%) of survey respondents, composed of finance and IT leaders responsible for planning efforts, stated that they see an outsized role for the finance function in driving collaborative cross-enterprise planning efforts.
Recognizing that those surveyed primarily hail from finance and IT, this finding, put in perspective, doesn’t imply that other critical business functions currently driving or participating in these initiatives are ineffective. It shows a newfound confidence experienced by finance and IT planning leaders and participants in the ability of the CFO and their respective teams to wield advances in technology to intensify their efforts and to become more involved in driving and helping to coordinate enterprise planning efforts.

Figure 3: Finance Function Positioned to Help Drive Collaborative Enterprise Planning Efforts

Given that every operational planning decision has a financial impact, the CFO organization, positioned at crossroads intersecting every major business function in the organization, is well-suited to help drive collaborative enterprisewide planning efforts. Underpinning this enhanced role for finance are emerging technologies that extend modern cloud FP&A solutions to include operational planning along with additional innovations that help keep finance and operational plans continuously aligned.
The only way for finance to manage business performance is by extending its historic role beyond the finance silo and incorporating key nonfinancial data in FP&A and other financial analytics processes. Gartner believes xP&A (see Innovation Insight for Extended Planning and Analysis (xP&A)), building on FP&A, will deliver finance technology capable of complementing and improving popular enterprise planning approaches such as integrated business planning.

xP&A offers a technology "bridge" and an additional option for operational and financial teams to work collaboratively to improve the accuracy and velocity of insights that lead to better business decisions. It has the potential to make financial plans more meaningful to operations and vice versa, while also improving coordination between the CFO and other business leaders. xP&A can help the CFO and FP&A become more valuable trusted business advisors to the rest of the organization. This survey provides initial evidence that application leaders have a mandate and clear opportunity to link financial planning initiatives with forecasting and planning processes across the enterprise.

Enterprises Increasingly Adopt Planning Strategies Linking Finance and Operational Planning

The COVID-19 pandemic dramatically altered operations at many businesses. Supply chains were disrupted, workforces were impacted and forecasts were radically altered. As disruption shifted objectives and business models on a nearly daily basis, the need to keep plans integrated and aligned across operations, sales and finance became critically important. Figure 4 highlights the impact of that experience. Survey respondents overwhelmingly (96%) agreed with Gartner that their organization would adopt a planning strategy integrating or connecting FP&A to one or more operational planning applications by 2024. It is further noteworthy that almost half of those (47%) responding to this survey stated they currently didn't have a formal collaborative enterprise strategy in place, implying they would seek to do so over the next two to three years.
Primary drivers that respondents cited in verbatim comments linked to growing adoption included increasing pressure to track, monitor and align enterprise plans; the need to maintain competitiveness and sustain growth; and improve overall business efficiency. Participants shared the belief that business risk can be mitigated by having all business areas and stakeholders “rowing in the same direction” with respect to planning and execution. They pointed to an increase in business velocity and disruption requiring them to be more agile and aligned across their various business functions.
Supporting this finding, Gartner believes that digital business is placing new demands on FP&A and finance to expand beyond the traditional areas of financial analysis, budgets, plans and forecasts. Digital business initiatives either protect the organization from disruption or enable it to be disruptive. Executing these initiatives involves optimization efforts that include establishing new business models and sales channels. Gartner inquiry with executives confirms their belief that the ability to strategically shift resources is perceived as a top management lever for addressing disruption and spurring growth. Integrating and aligning financial and operational plans, processes, data and users, and harnessing them into continuous, collaborative efforts supporting digital business improves organizational agility and overall competitiveness.

**Top Operational Planning Areas Considered for Alignment With FP&A Are S&OP, Workforce, Sales and IT Planning**

The finance organization has historically relied on FP&A using financial measures as the only metric for business success. This has limited its view of planning and analysis and segregated it from other functional areas of the business also contributing to profitability. The resulting lack of transparency and shared processes across financial and operational plans has prevented both functions from optimally challenging and improving the other’s assumptions — a necessary step to improving ongoing plan accuracy amid business disruption. By expanding planning participation from finance to other operational areas, a collaborative information feedback loop takes hold enabling the organization to continuously adapt in lockstep to quickly altered business priorities and shifts in strategy.

Respondents were asked to cite the top three operational planning areas either currently aligned or being considered for integration and alignment with FP&A over the next three years in their organizations. The top choices were S&OP (76%), workforce planning (61%), sales planning (39%) and IT planning (39%) (see Figure 5). Other areas such as project portfolio management (PPM) and marketing were cited by fewer respondents.
Underpinning these selections, respondents provided verbatim feedback that “at the very least, organizations have to align their supply chain to FP&A.” Gartner finds this to also be a top priority among those we engage in inquiry with on this topic. Those organizations focusing on S&OP seek to primarily align and drive consensus between supply chain and financial plans, considering sales, product, finance and other operational inputs. Outcomes sought include improving the ability to address sudden market shifts and to analyze and model tactical as well as strategic scenarios and their impact upon capacity, inventory, production and distribution.
Some respondents stated they seek alignment with FP&A primarily to improve operational as opposed to strategic workforce planning. Often, this is in organizations where the workforce comprises a significant portion of overall costs requiring ongoing management and alignment with revenue plans in areas such as headcount management, budgeting and forecasting. As technologies such as xP&A mature, we expect a growing number of those organizations linking finance and workforce planning at the operational level to consider addressing strategic planning use cases. These may be collaborating to define the right workforce mix and investment required to support future business scenarios or to more quickly shift resources to where they can deliver the most value.

The sales organization historically has independently controlled the means by which its revenue targets are achieved. However, its inability to inform the financial plan in a meaningful and timely way can have an adverse effect on an organization’s strategic and operational alignment. Verbatim responses also suggest that respondents wish to ensure that changing revenue objectives are continuously updated and mirrored in sales quotas, incentives/rewards and territories. This is particularly true in business environments where the sales planning process must factor in a great deal of market volatility and/or business model complexity. An additional area of interest among those surveyed regards aligning FP&A with IT plans in order to provide broader transparency across stakeholders and to keep IT initiatives in sync with business goals. This is particularly true in organizations where business functions seek to be in control with respect to technology selection and purchases and more closely track the financial impact and return on assets (ROA) of IT associated with their business needs.

Ultimately, integrating and aligning operational and financial planning gives members of the C-suite and business leaders many advantages. These include the ability to more quickly, accurately and collaboratively understand how the organization as a whole is operating; identify unnecessary redundancies; and locate opportunities for growth and improvement.
Microsoft Excel and Business Intelligence Tools Remain Popular for Supporting Enterprise Planning

Nearly half of survey respondents (47%) state that their organizations are using and/or plan to use Microsoft Excel or business intelligence (BI) tools to help them integrate and align financial and operational plans over the next three years. IFP (42%) and IBP (28%) are the top approaches taken (see Figure 6). Those surveyed from organizations with no formal strategy for collaborative enterprise planning showed a higher tendency to use Excel and BI tools for planning (63%) versus those with a formal strategy (35%). Not surprisingly, only 5% of those surveyed stated that their organizations currently use or plan to source multiple planning applications from a single vendor. This highlights the fact that xP&A, which is capable of supporting both financial and operational plans on a single vendor platform, remains a developing approach and consideration for most businesses (see Hype Cycle for CRM Sales Technology, 2021).
Most respondents were planning participants in either finance or IT; therefore, the notable utilization of IFP alongside IBP should not be overlooked. As cloud FP&A and IFP morph into xP&A over the next three years, finance will acquire the capacity not only to integrate operational data into financial plans. It will also have the means for operational and financial plans to reside side by side aligned on the same vendor platform. Additionally, xP&A and the underlying technology supporting it will be enhanced and become more usable and affordable over the next decade. As a result, Gartner believes many organizations will find it easier to break down their siloed business processes and realize the bottom-line benefits that accrue from collaborative enterprise planning.
COVID-19 Sustained or Strengthened Investment Outlook for Integrating and Aligning FP&A and Operational Plans

For most organizations, COVID-19 amplifies the notion that disruption has become the "new normal" where pivoting, course correcting and transforming are recognized as near-daily routines. The span of business predictability has become shorter, driving organizations to become more agile when responding to new market opportunities and threats. This shift presents challenges to finance and FP&A, requiring more sophisticated tools and collaboration to ensure financial and operational plans remain aligned and deliver positive outcomes. Tasks during the pandemic, such as constantly replanning and reforecasting and continuously adjusting models to prepare for contingencies and the adoption of new business models, are challenging when done in isolation. This bolsters the case for continued investment in collaboration and aligning financial and operational plans.

More than half of those surveyed (60%) said that COVID-19 had no impact or strengthened their organizations’ investment plans for integrating and aligning FP&A with operational planning (see Figure 7). Tempering this optimism was that 40% found it weakened them. Adding some perspective, those respondents from organizations without a formal collaborative enterprise strategy in place were more likely (46%) to find investment plans weakened than those with one (35%).
Verbatim responses from those surveyed noted that, “The recent pandemic has exposed traditional models/approaches as being less successful, driving increased investment in collaborative enterprise planning.” Another stated that, “COVID-19 had a significant impact on the finances of the organization, making all functions more financially focused,” declaring that “Without integrated planning, they would just ‘swirl’.” Offsetting these attestations, however, were others that noted that due to the pandemic, they would be keeping all investments to a minimum, with some further stating that these initiatives “might have to be put off until after 2024.”
Despite strong support and validation for investment in financial and operational planning alignment, it is nonetheless sobering that COVID-19 and its associated aftershocks continue to constrain needed investments. Often, those that need to take up these initiatives the most are those unlikely to be in a position to fund them. Digital leaders are more likely than nondigital counterparts to fund technology investments during tough times. Respondents with weakened investment plans seem to be under more strain than in prior years due to COVID-19 and find it hard to justify anything more than “pinpoint” investments. Fortunately, a majority of survey respondents found COVID-19 only heightened the realization that effective integrated planning can only be achieved by harmonizing strategic plans, the FP&A function and operational planning.

Business Cases Must Assess Benefits and Challenges

The degree to which organizations benefit from integrating financial and operational planning processes is a function of business need, process complexity, corporate culture and their technical capability. Integrating and aligning these planning processes and systems will deliver a much greater understanding of what drives business performance. However, it’s a technical, cultural challenge that requires organizations to begin by assessing the considerable benefits as well as challenges posed by these initiatives.

We asked respondents to identify the top benefits and challenges that their organizations perceived or had encountered with integrating and aligning financial and operational plans (see Figure 8 and 9). Those surveyed cited the top benefits as more accurate and faster budgeting and forecasting, increased visibility and accountability, and improved insight into revenue and operations. Benefits cited to a lesser degree were increased predictability and reduced risk, improved cross-team collaboration, and agility when making critical business decisions. Offsetting the benefits were equally significant challenges, including data inconsistencies in finance and operational data, multisystem integration of disparate tools and planning systems, and the need for data management skills.
Figure 8: Top Benefits of Integrating and Aligning Financial and Operational Plans

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Total (%)</th>
<th>Top 3 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>More accurate and faster budgeting and forecasting</td>
<td>21%</td>
<td>48%</td>
</tr>
<tr>
<td>Accountability and visibility</td>
<td>19%</td>
<td>48%</td>
</tr>
<tr>
<td>Improved insight into revenue and operations</td>
<td>16%</td>
<td>47%</td>
</tr>
<tr>
<td>Increased predictability, reduced risk</td>
<td>15%</td>
<td>37%</td>
</tr>
<tr>
<td>Improved cross-team collaboration</td>
<td>6%</td>
<td>36%</td>
</tr>
<tr>
<td>Agility when making critical business decisions</td>
<td>7%</td>
<td>30%</td>
</tr>
<tr>
<td>Identify performance gaps early</td>
<td>9%</td>
<td>26%</td>
</tr>
<tr>
<td>Verified data from one single source of truth</td>
<td>6%</td>
<td>16%</td>
</tr>
<tr>
<td>Flexibility to endure disruption</td>
<td>1%</td>
<td>6%</td>
</tr>
<tr>
<td>Strategic competitive advantage</td>
<td>5%</td>
<td></td>
</tr>
</tbody>
</table>

n = 81 all respondents; excluding “Not Sure”

Q: What are the top 3 benefits that your organization has achieved from integrating/aligning financial and operational plans?

Source: Gartner 2021 Extended Planning & Maturity Analysis

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Figure 9: Top Challenges of Integrating and Aligning Financial and Operational Plans

Benefits respondents cited support Gartner’s premise that integrating and aligning financial and operational plans reduces friction between silos and speeds up planning cycles. Some respondents went as far as to say that “planning solutions enabling the integration of financial and operational plans will be increasingly sought as measurement and analysis becomes increasingly important for all businesses.” Despite these benefits, the difficulty typically associated with achieving them often limits organizations from moving forward with their plans. For example, when separately asked how easy or difficult it was for their organizations to keep financial and operational plans integrated and aligned, 60% stated it was difficult — with 13% of them adding it was “very difficult.”
Effective enterprise planning requires managing significant differences in cycle times, data granularity and domain-level knowledge to be fused across the various planning domains. Finance and operational teams and the technology experts assisting them frequently grapple with issues such as master data normalization and agreeing on which financial and nonfinancial data elements should be blended to improve plans. For finance to garner a more meaningful role in helping the organization attain the benefits described, it must improve data management and governance and other “soft skills” such as communicating better with nonfinancial planning teams. This will help the function effectively achieve the right degree of financial information synthesis (see 5 “Must Have” Finance Skills Required for Post-COVID-19 Business Success). Similarly, emerging technologies such as xP&A, as they mature, should be considered alongside more traditional approaches to help underpin efforts that can make collaborative enterprise planning efforts much less difficult.

Evidence

The Extended Planning and Analysis Maturity (xP&A) Research Circle Survey was conducted in the second quarter of 2021 to set the stage for the evolution of Gartner’s research in xP&A’s emerging enterprise-wide planning capabilities. Eighty-two Gartner clients responded to the survey, and major findings are provided in this report. Findings are also further illuminated by Gartner interactive inquiries with clients seeking to discuss the issues of using FP&A (and, by extension, xP&A) to integrate and align financial and operational plans.

Verbatim responses quoted are from the following question: Do you agree or disagree with the following statement by Gartner?

By 2024, Gartner believes the majority of enterprises will adopt a planning strategy that includes integrating or connecting financial planning and analysis (FP&A) with one or more operational planning areas to ensure that plans remain consistent with the organization’s financial objectives.
## Acronym Key and Glossary Terms

| Integrated Financial Planning (IFP) | IFP represents a finance-centric approach and is an FP&A precursor to xP&A. IFP enables organizations to combine operational and financial data in FP&A plans and forecasts. Planning solutions do not have to reside on the same platform and, as long as the operational data is accessible, it can be imported into and utilized in the FP&A planning environment. IFP and IBP complement each other in seeking the same objective: keeping enterprise plans continuously aligned. |
| Integrated Business Planning (IBP) | IBP represents an operations-centric business process for consolidating operational planning processes and aligning them to enterprise strategy. Like IFP, IBP does not require a dedicated vendor platform (see An Overview for Finance Leaders). Unlike xP&A, IBP is capable of supporting plans that span multiple enterprises. IBP is considered a mature state of sales and operations planning, used to achieve an organization's financial targets while balancing demand and supply. IBP and IFP complement each other in seeking the same objective: keeping enterprise plans continuously aligned. |

## Recommended by the Authors

Some documents may not be available as part of your current Gartner subscription.

- Market Guide for Cloud, Extended Planning and Analysis Solutions
- Innovation Insight for Extended Planning and Analysis (xP&A)
- Planning, Budgeting and Forecasting Technology Assessment Guide for FP&A Leaders
- Shift to a Composable Architecture to Transform Your Financial Management Systems
- 2020 Strategic Roadmap for Cloud Financial Planning and Analysis Solutions
- Magic Quadrant for Cloud Financial Planning and Analysis Solutions
- Market Guide for Sales Performance Management
- 5 “Must Have” Finance Skills Required for Post-COVID-19 Business Success