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# Annual Conference

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ORIGINAL → ESSENTIAL → UNBIASED → **INFORMATION**

## FP&A and Risk Management: Different Roles for a Common Goal

# Presentation objectives

- 1. Recent trends leading to the need for greater coordination between FP&A and RM functions**
- 2. Common challenges of FP&A and RM processes**
- 3. Opportunities for more 2-way communication and integration of key processes between the two groups**
- 4. Model demonstration**
- 5. Closing remarks and Q&A**

# Mark Pellerin, CFA

## Principal, Oliver Wyman



- Over 10 years of management consulting experience, having worked on 80+ companies in 10+ countries
- Specializes in advising top executives and finance professionals on the risks and uncertainty associated with decision making
- Broad industry coverage, including finance and risk experience for asset intensive industries (manufacturing, transportation, energy and infrastructure)

# The finance function is undergoing an industrialization that transforms the CFO organization into a lean, strategic thinking, profit center

## Lower cost “factory” execution model



- Organization wide pressure to reduce cost base
- Experts still required, but not for all finance activities
- Automation results in efficiency and lower costs

## Responsibility for P&L performance



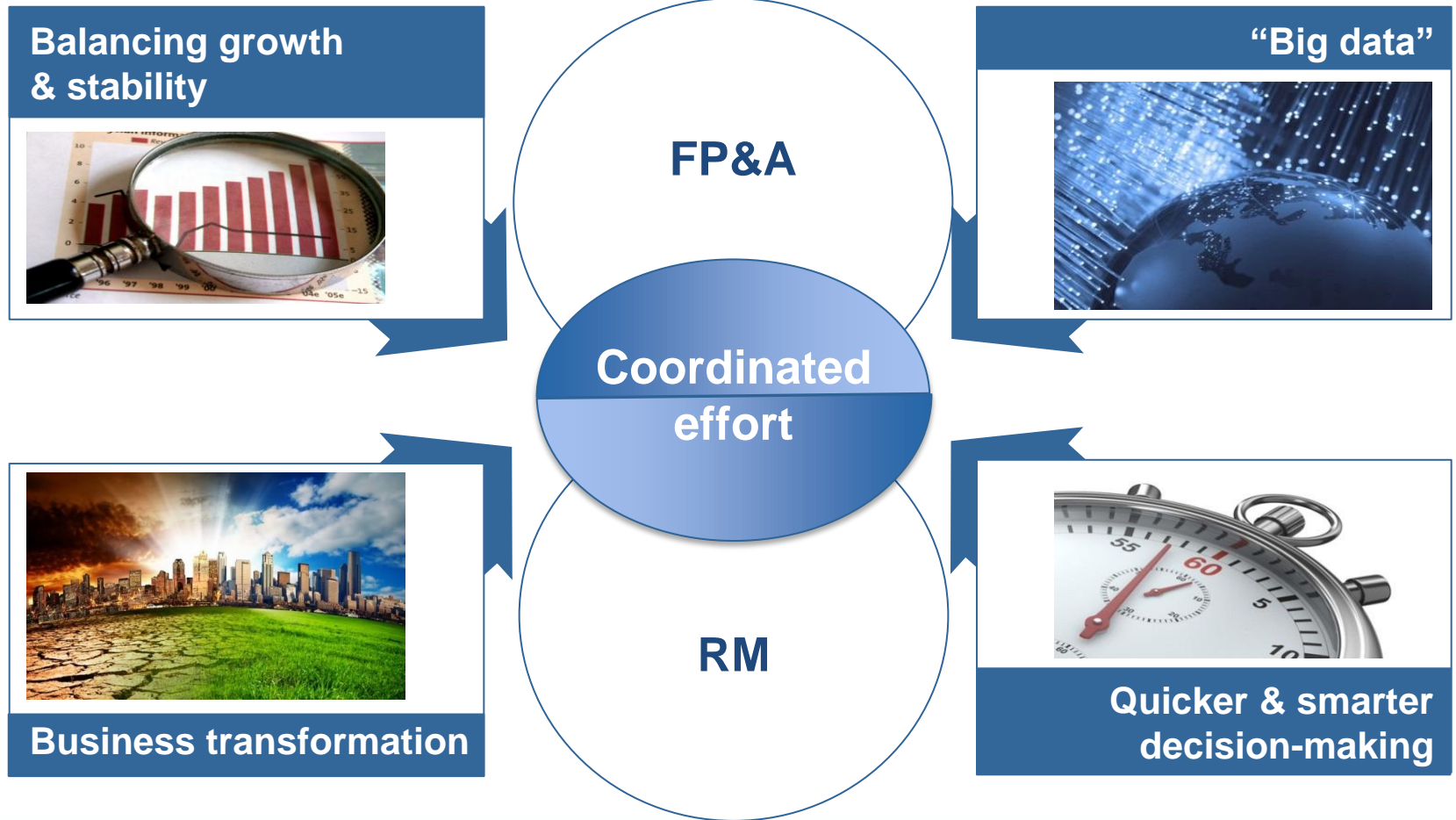
- Often requires proven track record for succession to CEO
- Margin improvement and financial discipline is key

## Influence in shaping business strategy



- Balance sheet decides what company “can vs. can’t do”
- FP&A capabilities are central to faster decision making
- Sensitivity to investors relations, credit ratings, and dividend policy

# There is a need for greater coordination between FP&A and RM functions



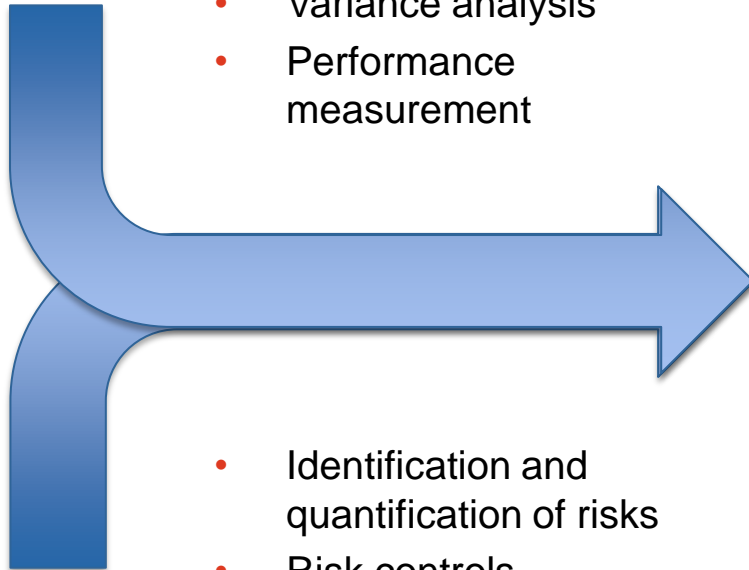
# Common challenges facing FP&A and risk management



# Opportunities exist for more “two way” communication and improved integration of internal processes between FP&A and RM

## FP&A

- Financial forecasts
- Variance analysis
- Performance measurement



## RM

- Identification and quantification of risks
- Risk controls
- Risk mitigation strategies

## Opportunities

- 1** Improve the quality of finance and risk inputs from across business units
- 2** Communicate risk-adjusted financial plans to the Board and key stakeholders
- 3** Develop and apply more advanced and dynamic analytical capabilities
- 4** Contribute and influence C-suite level decision-making

# 1. Improve the quality of finance and risk inputs from across business units

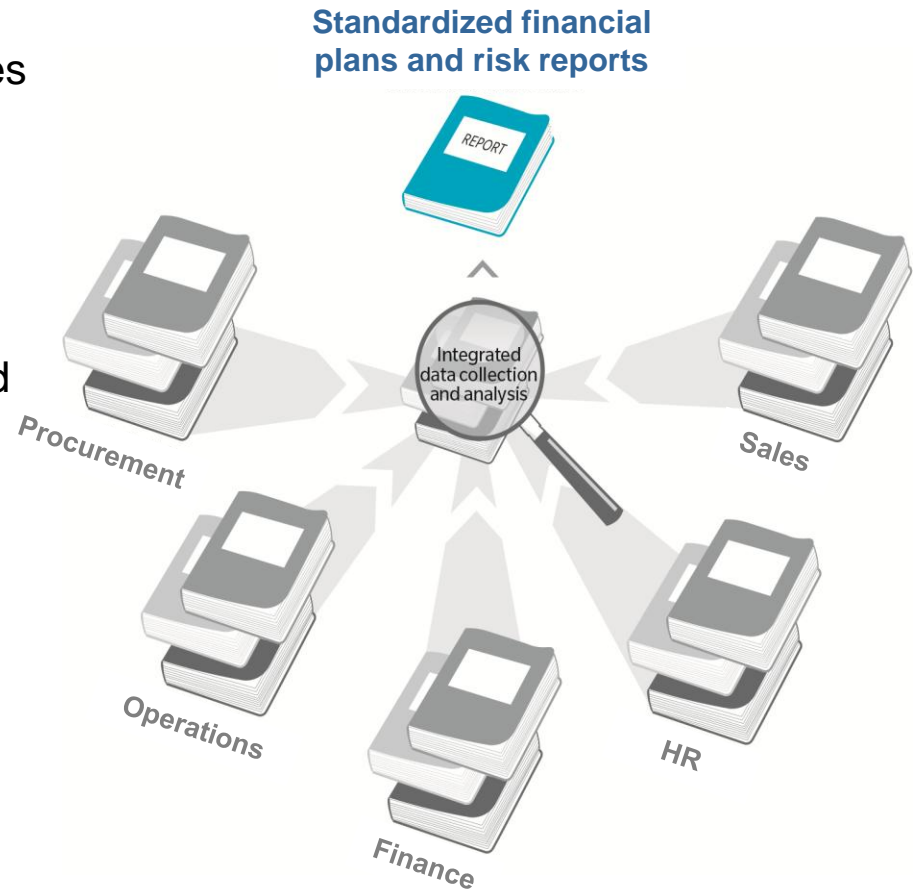
Illustrative

Current situation: FP&A and RM are on separate processes which are sometimes burdensome to the organization and the information being requested are overlapping in many ways

Ideas for implementation: Joint efforts in the collection process of key finance and risk inputs

Potential benefits:

- Greater efficiency achieved in data collection and storage
- Improved quality and consistency of data used for analytical purposes within the two functions





## 2. Communicate risk-adjusted financial plans to the Board and key stakeholders

Illustrative

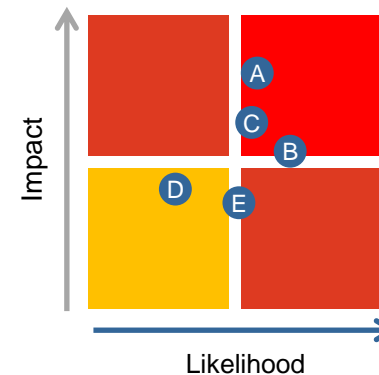
**Current situation:** FP&A conducts forecasts with less attention paid to drivers of potential variation while RM practitioners often assess key risks without linking them to the most relevant financial metrics

**Ideas for implementation:** FP&A and RM collaborate to undertake integrative analyses and jointly present results to the Board and stakeholders

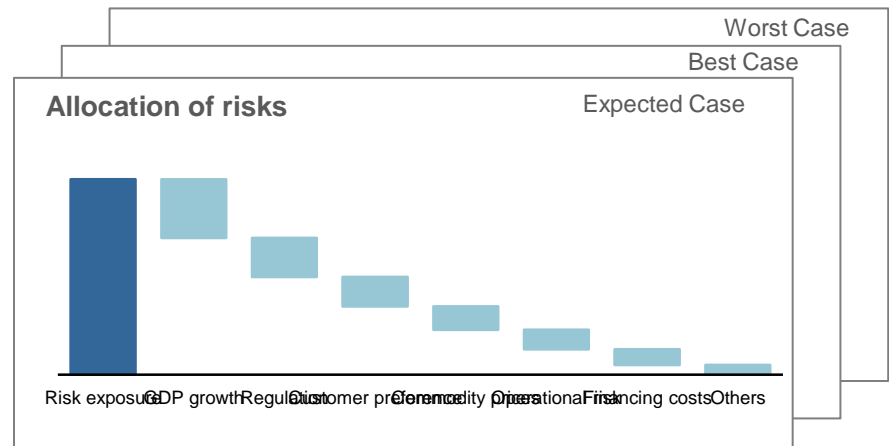
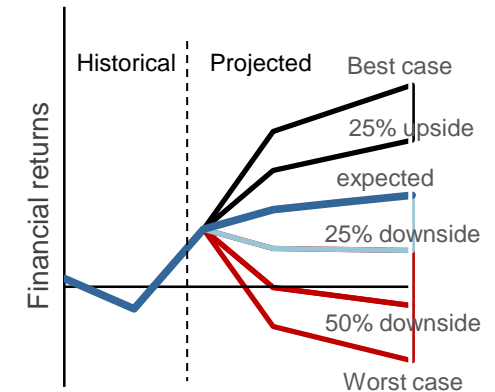
### Potential benefits:

- Allow for more dynamic responses to changes in the business environment
- Tell a more clear story to the Board by incorporating key risk information in financial forecasts

Risk assessment heat map



FP&A scenarios



# 3. Develop and apply more advanced and dynamic analytical capabilities

Illustrative

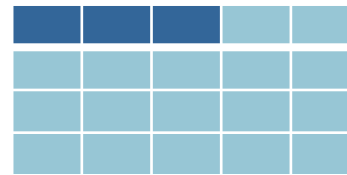
Current situation: Data and analysis processes are tedious while an overabundance of data conceals key messages for the business

Ideas for implementation: Consult with experts to develop more advanced and dynamic analytical tools that can be shared between the two functions

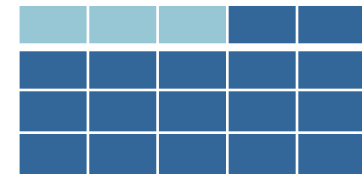
Potential benefits:

- Improved efficiency of data analyses
- Ability to do more with human capital, particularly on the interpretation of analytical results

Human capital



Analytical tools



**Risk exposure modules**

**Sources of known volatility**  
**Risks facing the day-to-day business and chosen strategy execution**  
 (e.g. commodity prices, interest rates, supply chain interruption)

**Exogenous risk and events**  
**Risks largely outside of management's control; lower likelihood, high impact**  
 (e.g. natural disasters, macro- economic changes)



**Strategic options to evaluate**

**Corporate strategy**  
**Range of strategic options that alter the company's direction/market positioning**  
 (e.g. new market entry, capital allocation, M&A)

**Corporate actions & response**  
**Range of risk management options that indicate affordability and mitigate financial losses**  
 (e.g. contract terms; hedging, insurance, contingency plans)

Balance sheet  
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Income statement  
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Statement of cash  
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Key financial ratios  
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# 4. Contribute to and influence C-suite level decision-making

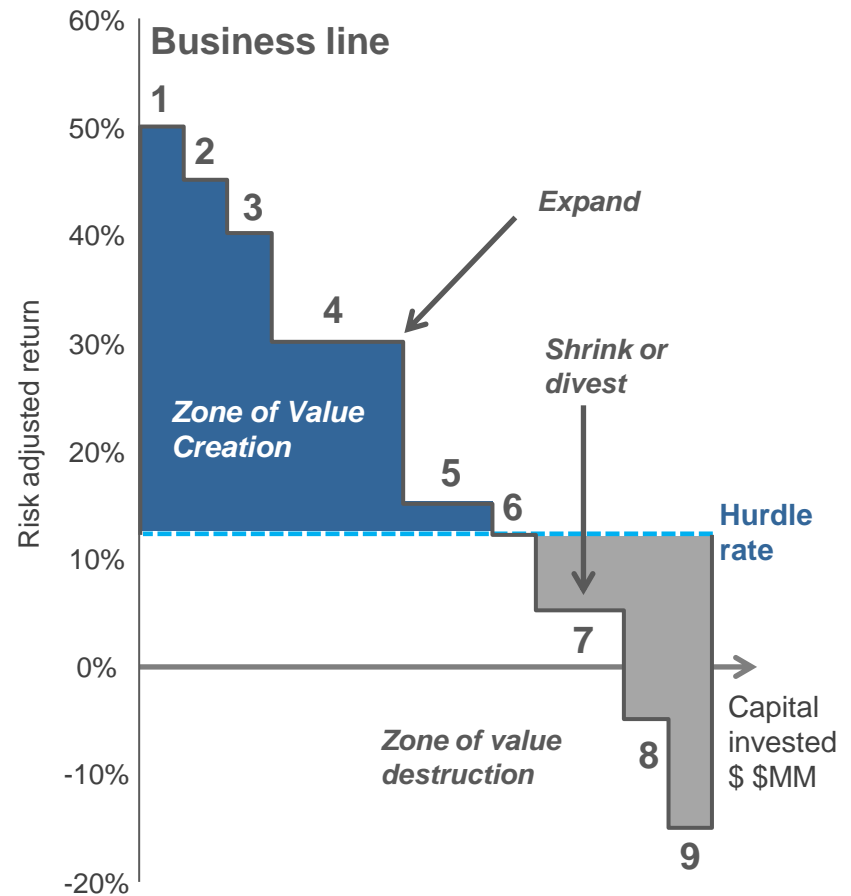
Illustrative

Current situation: Current FP&A and RM functions have little impact on C-suite level decision-making

Ideas for implementation: Ensure that key financial figures and drivers being analyzed and forecasted are relevant to C-suite level decisions and actionable insights can be drawn from the analysis

### Potential benefits:

- FP&A inputs become indispensable in the decision-making process
- Elevate the presence and significance of FP&A and RM groups in the organization



# Simple model demonstration

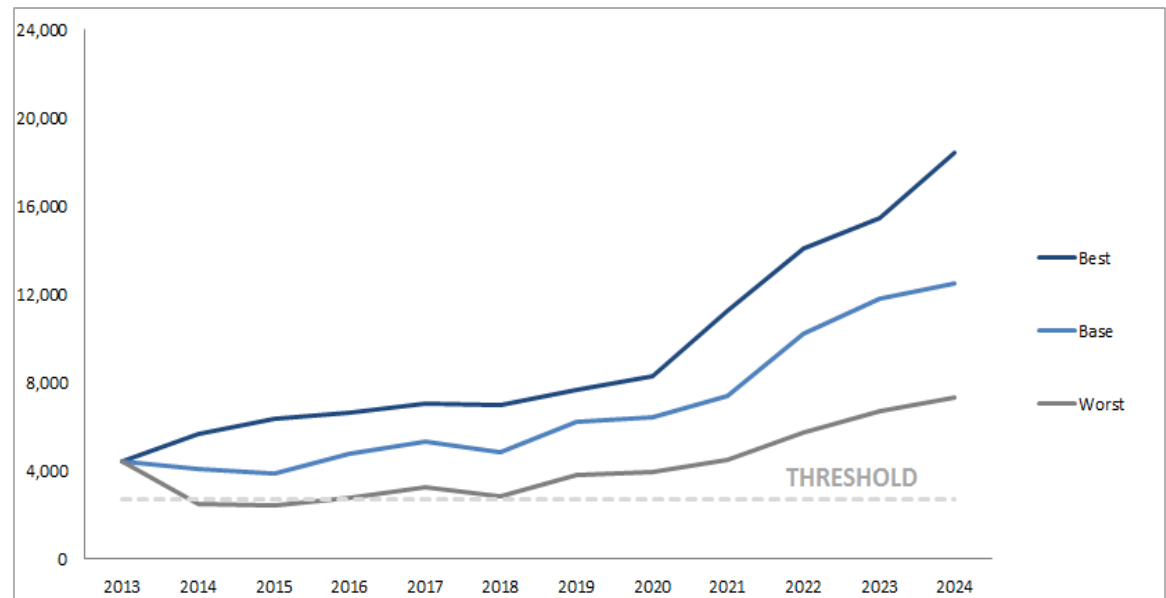
## FP&A

Commodity prices	Relatively constant
GDP	Moderate growth
Non-core business expansion	No

## Risk management

Implement financial hedges	No
Enter into fixed-price contracts	No
Purchase additional insurance	No

**BREACH!**



# Bottom-line results from more coordination



**Improve quality and consistency** of key inputs from across business units



**Quicker responses to external changes** through more dynamic analytical capabilities



**Alignment of risk-return profiles** required to achieve target performance



**Elevated presence of FP&A and RM functions** within the organization

**Questions**

**Perspectives**

**Comments**

