

# foresite·S·P·A<sup>®</sup>

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## A CFO Guide

Integrated FP&A, CI and  
Performance Management



## Background and Context



*Brian Hawkes FCMA, CGMA*

**Brian Hawkes FCMA, CGMA, MIIM is a seasoned CFO accustomed to working in the tough world of high growth and business transformation where stake-holders are focussed on growing revenues and shareholder value.**

His constant frustration has been the absence of effective FP&A tools (Financial Planning and Analysis) that incorporate clear visibility of business trajectory, evidence-based performance data and provable forecasts to drive strategic decision making and instil stakeholder confidence.

A strong believer in agile work methodologies and lean processes that deliver high added value, Hawkes drew on his experiences of prototyping new database marketing applications in the 1990s at the global conglomerate Freudenberg, which were being developed in conjunction with IBM and British Aerospace.

This enabled him to develop successful international prototypes for forecasting and performance management systems for the Fortune 500 Company Sensient Technologies Inc. and for DuPont Danisco AS (then Danisco). With a well proven concept Hawkes established a team of business specialists in 2004 that worked with international development partners Smithfield Corporation Inc. and Revifa GmbH to create Foresite SPA – a cloud-hosted application to combine performance management and opportunity management with rolling forecasting, scenario planning, targeting and commercial intelligence providing management with a 360° multi-dimension view of their sales activities, commercial operations and business environment.

## Executive Summary

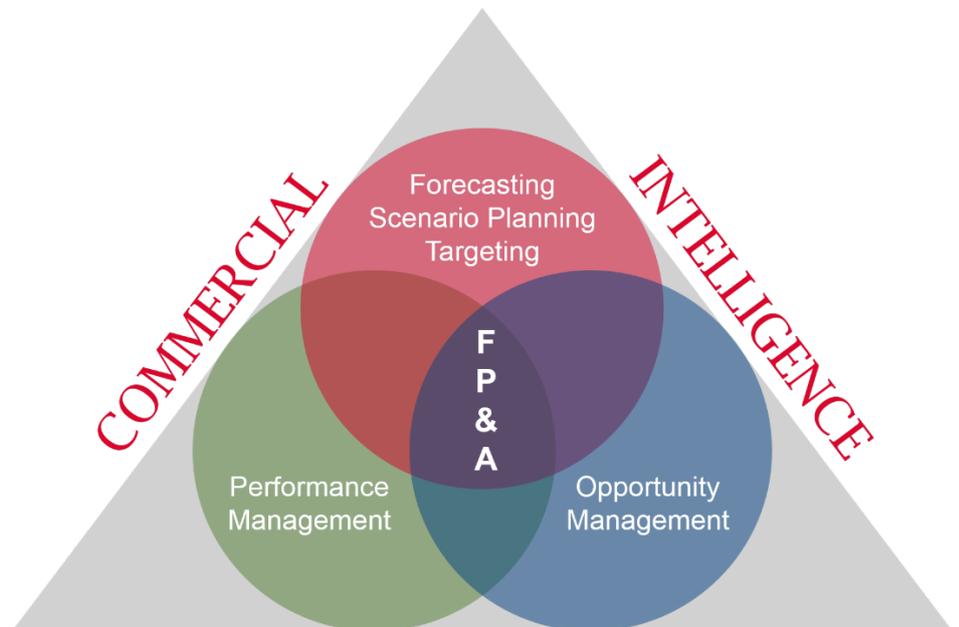
In a recent global survey of 544 senior executives (including 168 CFOs) carried out by the Economist Intelligence Unit for KPMG International, it was reported that the respondents' mean absolute deviation from forecast was an alarming 13%. 47% of respondents reported that the quality of their input data was merely adequate or worse.

The need to automate the forecasting process was cited as the number one priority by 42% of respondents. Forecasting tools available during the last decade were generally based around statistical modelling of internally gathered structured data. The future direction however, introduces far more focus on business performance, environment and self-awareness.

Forecasting is used to drive performance, identify opportunities and risks, and communicate with stakeholders. The combination of accurate forecasts and realistic targets produces a forward-looking mindset and is how we know where the business is going.

Based on extensive first-hand experience and widespread research into current business requirements, Foresite developed a methodology for integrating performance management and opportunity management with rolling forecasting, scenario planning, targeting and commercial intelligence. This created a dynamic financial planning and analysis process that connects operational and sales management with financial and strategic decision making in a collaborative and coherent way.

*“Drive performance, identify opportunities and risks, and communicate with stakeholders.”*



*“Make better decisions with good quality, forward-looking information.”*

## Art or Science – does forecasting accuracy exist and does it really matter?

The best performing businesses believe there is a science to forecasting and show that it delivers tangible business benefits that influence shareholder value. Forecasting accuracy is critically important for the following...

Internal:	External:
✓ Improve decision making	✓ Drive long term business value
✓ Identify business improvement opportunities	✓ Reinforce stakeholder confidence
✓ Manage risk	✓ Provide guidance to stakeholders
✓ Determine growth strategies	✓ Improve communications with stakeholders and investors
✓ Aid resourcing and investment decisions	
✓ Drive process improvements	
✓ Transform performance management capabilities	

### Best Practices

High performing companies usually take forecasting very seriously. Executives make better decisions about future business direction when armed with good quality, forward-looking information. There are a number of critical factors required for achieving accuracy in forecasts:

- **Data Quality** – ensure rigorous governance processes and controls over data to enhance reliability and deal with uncertainty by using scenario planning/targeting and sensitivity analysis.
- **Data Input** – use input from the operational managers who are involved in performance management and who know what is really going on in the business. FP&A is not the exclusive preserve of finance.
- **Data Integrity** – being brutally honest rather than cautiously conservative is essential for operational and strategic decision making.
- **External Data** – incorporating external and competitor data e.g. market data and commercial intelligence ensures that opportunities and threats are not missed.
- **Frequency of Updates** – more frequently updated forecasts are better aligned with adaptive management techniques that keep business trajectories on target. Rolling forecasts improve reliability and performance.
- **Performance Management** – identifying the internal and external drivers/limiters and their impact on business performance and trajectory underpins the scenario planning and targeting processes.

## What is Commercial Intelligence (CI)?

As with most technical terminology, companies adopt phrases to suit their own purpose. Foresite coined the term 'Commercial Intelligence' to describe the analytics it generates from externally gathered data collected at impact events occurring throughout the business cycle. Impact events include (for example) lead attrition and sales churn which often account for the majority of a company's commercial throughput yet their causes and impact are normally poorly understood.

### What does CI add to the FP&A process?

What makes CI special compared to market research data is that it directly relates 100% to the business, its markets, sales channels, commercial activities and competitors. It therefore provides evidence-based and provable intelligence about **external** performance drivers/limiters to support the performance management processes.

Essentially CI answers the important 'Who?', 'Why?' and 'How?' questions associated with business critical issues such as customer retention, new business acquisition and business lifecycles.

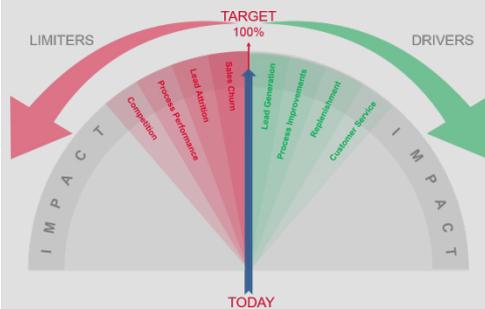
*"CI answers the important 'Who?', 'Why?' and 'How?' questions."*

## Performance Analytics

Foresite distinguishes internally generated data relating to **internal** performance drivers/limiters as performance analytics. The integration of opportunity and performance management with the forecasting and planning process creates a unique opportunity to not only capture performance data at many functional levels, but combines it with externally generated CI adding significant influence to both operational and strategic decision making.

Importantly it provides the quantitative data used by the scenario planning and targeting processes in terms of business trajectory and performance impact.

- **Sales Performance** – analyses overall sales pipeline performance and budget development
- **Channel Performance** – measures the contribution and performance of customer acquisition activities by sales channel
- **Process Performance** - measures the impact and performance of individual commercial activities and their correlation with attrition and competitor activity.
- **Competitor Analytics** – analyse the trajectory impact of lead attrition and sales churn by competitor and reason.



*“Make targets and scenario plans inclusive and intuitive.”*

*“Plans and forecasts need to be validated and ‘sense-checked’.”*

## Scenario Planning and Targeting

Scenario planning is one way to assess and deal with uncertainty in the forecasting process. It is also a vital tool for developing insight into the business, assessing opportunities and risks and refining business strategy.

Foresite’s integrated forecasts, trajectories, performance analytics and commercial intelligence make the setting of challenging yet realistic targets and scenario plans inclusive and intuitive. It allows operational managers to make an informed contribution to the planning process and to communicate them clearly with peers and stakeholders in a comprehensive business road map.

## Sensitivity Analysis

Even the most carefully constructed forecasts and plans need to be validated and ‘sense-checked’. The difficulty is often in setting the benchmarks against which to test a plan’s feasibility. Foresite employs three methodologies to achieve this:

- 1. Data governance** – Foresite’s inbuilt roll-up forecasting rules eliminate subjectivity, delinquency and speculation and ensures data reliability.
- 2. Sensitivity analysis** – Sales performance analytics compare trajectories calculated at planned versus actual sales conversion performance.
- 3. G-Index** – is Foresite’s top level validation that instantly compares year on year sales potential as an index which is an expression of business growth capability in hand. It is used to validate all forecasts, trajectories and plans.

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If you would like to learn more about Foresite’s philosophies and methodologies, visit their website at [www.foresitespa.com](http://www.foresitespa.com)

***Brian Hawkes FCMA, CGMA, MIIM is a member of the 3i CFO Panel and Business Growth Fund (BGF) Talent Network and founder of Foresite SPA. Brian is also a regular presenter at the Thought Leader Global international forums.***