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TRENDS

CFOs and CIOs Seek Modern Finance and Planning

Compressed Digital Transformation Drives Modernization Efforts Among Leading Enterprises

R "Ray" Wang

Principal Analyst and Founder

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EXECUTIVE SUMMARY

In the fall of 2020, Constellation Research conducted qualitative and quantitative interviews with more than 300 CIOs and CFOs about their 2021 priorities for financial management and planning. Through these conversations, Constellation sought to understand the underlying drivers for priorities in the new year as well as the pandemic and post-pandemic changes that would influence 2021 decisions for finance, planning and accounting (FP&A) and technology professionals.

Business Themes			
New C-Suite	Data to Decisions	Future of Work	Technology Optimization

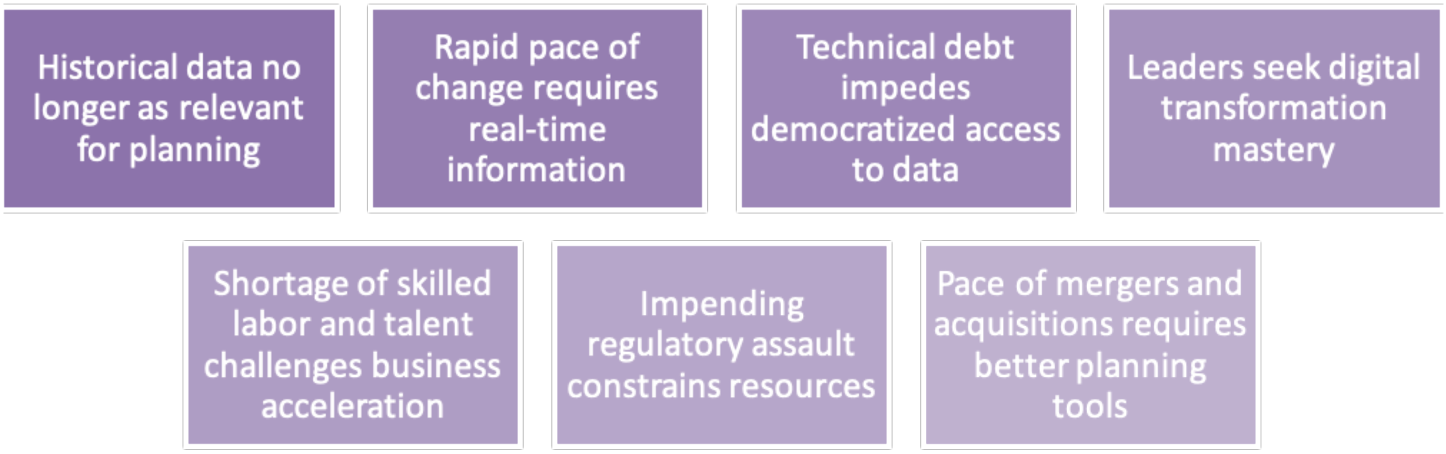
CHALLENGES IN 2021 HEAVILY INFLUENCED BY EVENTS OF 2020

Traditionally, CFO and CIOs have had to balance the twin pressures of cost optimization and investment in innovation. The past year has added the need to consider the impact of new business models, digitization, remote work and nontraditional planning modalities. In the fall of 2020, Constellation interviewed more than 300 CIOs, CFOs, finance professionals and technologists on their priorities. The individuals who were surveyed and interviewed identified the following seven common challenges they face for 2021 (see Figure 1):

1. **Historical data is no longer as relevant for planning.** The pandemic threw off all existing hard-coded forecast models. Orders for commodities, alcohol, food delivery services and paper products increased, while travel, services and brick-and-mortar retail dropped. New models must take into account changes in temporary and permanent assumptions. Lack of agility in planning and forecasting software created massive challenges for easily updating models.

2. **Rapid pace of change requires real-time information.** Organizations used to end their weekly or monthly reporting periods with an update on metrics. These rearview metrics were massively reactive. During the pandemic, company leaders wanted to know their status at the present

Figure 1. 2021 CIO and CFO Survey Shows Seven Challenges for 2021



Source: Constellation Research

moment. Those who had punted on updating their analytics capabilities paid the price by flying blind.

3. **Technical debt impedes democratized access to data.** Data silos and disconnected systems aggravate the demand for real-time experiences. Customers with disparate transactional systems were challenged to bring these systems together. Having finance data, HR data, order data, supply chain information and customer data in bespoke systems hampers an organization's ability to design, deliver and orchestrate seamless experiences. More importantly, getting a 360-degree view of enterprise operations remains difficult.

4. **Leaders seek digital transformation mastery.** The lack of digital channels, monetization models, automation, contactless payments, self-service and support for remote work was apparent in most companies. CFOs and CIOs realized this was more than a technology gap. Organizations need to beef up their digital skills in data, design, integration and process optimization. Leaders also need more experts in change management and data in order to implement finance and planning capabilities and improve automated data collection.

5. **Shortage of skilled labor and talent challenges business acceleration.** Many industrialized countries face a declining population dynamic. Japan faces a population decline of 16% from 127 million in 2014 to 107 million by 2040, for example, and Europe is projected to have 0.3% to 0.5% negative growth by 2040.[1] Furthermore, aging populations, declining birth rates and minimal immigration create systemic declines that hamper productivity gains, reduce the labor force and erode any economies of scale. Meanwhile, rising labor costs and regulations drive up labor inflation for both services and manufacturing. Leaders seek ways to reduce labor costs for recruiting, reskilling, retraining and—especially—replacement.

6. **Impending regulatory assault constrains resources.** With more than 70% of employee time focused on manual and repetitive tasks, many seek relief from the mundane. Manual entry and labor for transactional systems leads to higher risk of errors. Today's volume of transactions and the downstream implications of improperly entered data, bad data and late data create exponential issues in human-led errors that must be addressed. These impediments slow down the ability to create agile planning models.

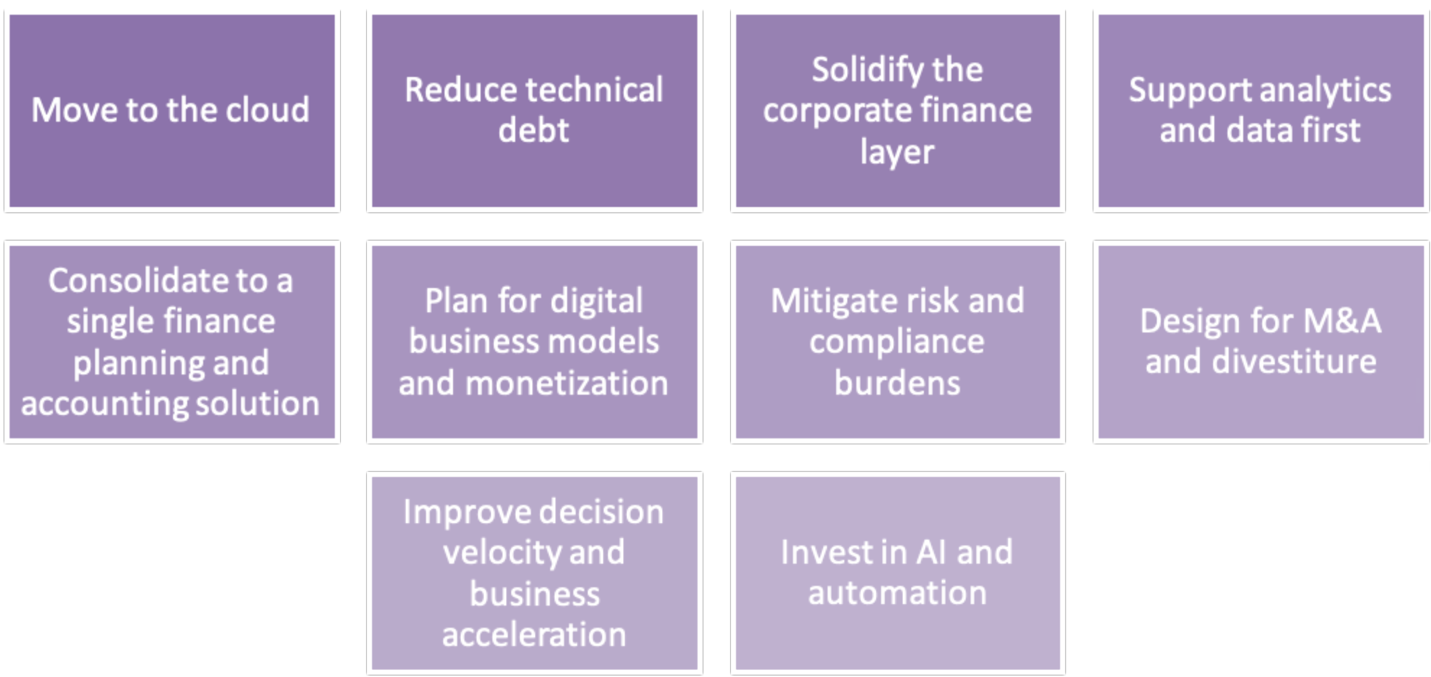
7. **Pace of mergers and acquisitions requires better planning tools.** Low interest rates, plenty of capital and an appetite for mergers and acquisitions require agile planning and forecasting models. Due diligence and post-merger integration are now required skill sets for growing companies. CFOs and CIOs would like playbooks and models they can execute with speed and precision.

LEADERS SEEK DIGITAL READINESS, AGILITY AND BUSINESS ACCELERATION WITH THE CLOUD IN 2021

To overcome the major challenges, finance and tech leaders have reprioritized their initiatives from the past three years based on the past six months. Many of these priorities reflect a higher weighting for digital readiness, agility and business acceleration. The following 10 priorities dominate the landscape for 2021 (see Figure 2):

1. **Start with a move to the cloud.** Leaders seek to take advantage of the ease of access in the cloud for all finance operations. Instead of waiting for painful software upgrades on an infrequent basis, finance and technology leaders want to consume frequent updates of innovation without the

Figure 2. 10 Priorities for FP&A Transformation



Source: Constellation Research

hassle. In many cases, the cloud enables a consolidated view of key data and better controls for critical and audited finance processes.

2. **Reduce technical debt over time.** Achieving the greatest value for existing on-premises investments in logistics, distribution, manufacturing, supply chain and other systems may require a phased approach. The move to the cloud will take place in phases and require a hybrid approach. As one large multinational, multiproduct-line Global 50 CFO shared, "There was no way we'd rip and replace our 53 different back-office systems at once. We took a hybrid approach by division and geography over five years and managed to reduce our systems to 13. Without a hybrid approach, the lost productivity would have led to misses in our quarterly results." Constellation expects organizations to run two-tier enterprise resource planning (ERP) models for some time, depending on the complexity of the technical environment and the diversity of the portfolio companies.

3. **Solidify the corporate finance layer.** Many large global diversified conglomerates, large divisional portfolio entities and holding companies have diverse operational ERP systems optimized for their industry. These companies will slowly make a move to consolidate only if necessary. In the meantime, the need for agile planning and forecasting has grown only more urgent. As a global diversified industries CFO noted, "Our internal users expect real-time financial and management reporting, analytics, financial consolidation and collaboration capabilities but can't get there without a consolidated corporate finance layer." Organizations should start with an enterprise finance solution that can serve as a corporate finance layer on top of these industry-specific ERP and two-tier systems. The corporate finance layer can serve to process miscellaneous receivables, indirect procurement, treasury and cash management and enterprisewide asset management.

4. **Support an analytics- and data-first environment.** Almost every survey respondent noted that analytics was no longer an afterthought. In fact, most organizations support the need for democratized precision decisions. A large global Fortune 50 CFO noted, "The pandemic showed us the importance of real-time data. The team needed to know how much cash was on hand, what our inventory levels were, where our FTE spend would shift, and how fluctuations in labor and raw material costs would impact profitability. We used to look at these in weekly time frames; we now do this daily, and we plan to invest for the hourly capability. This data is used by everyone on the team, not just management." Integrating back-office systems with the middle office and front office enables a 360-degree view of the entire business.

5. **Consolidate to a single finance, accounting and planning solution.** Consider moving best-of-breed finance and accounting solutions to a single solution. “The move to a single FP&A solution sitting on top of the legacy systems helped us with the pandemic,” said one CIO. “We had full visibility into how our business is doing, and the cloud allowed us to all have the same data at the same time.” In addition to improving enterprise planning and global financial and management reporting, an organization that does such consolidation creates a modern environment for financial management while retaining the operational ERP systems for industry-specific processes such as logistics, merchandising, supply chain, manufacturing and revenue management.

6. **Plan for digital monetization and digital business models.** Scale new digital monetization models for your enterprise. The move to digital requires a reexamination of how offerings can be delivered as memberships, subscriptions, advertising, search, digital goods and digital services. The shift to digital business models will require massive data collection and the ability to plan with new digital attributes that update existing planning models. Understanding how new metrics such as average revenue per user (ARPU), customer acquisition costs (CAC), retention rates, churn costs and others will transform the health of the business.

7. **Mitigate escalating risk and compliance burdens.** Finance and technology leaders seek to mitigate compliance risk and reduce errors by automating manual tasks. Consequently, every enterprise must automate at an unprecedented scale. The finance leader of a Fortune 500 financial services organization put it this way: “One compliance fine or privacy breach caused by human error could lead to hundreds of millions to billions of dollars in losses. We can’t afford to make that mistake ever!” With the growing avalanche of legislation expected from governments around the world, cloud-based solutions will lead the way in managing the onslaught. Cloud vendors can code once and deliver to everyone at scale.

8. **Design for M&A, divestiture or new venture ramp-up:** An organization might spin up a new business to take advantage of emerging opportunities, make acquisitions to solidify its position in a consolidating industry or choose to divest a non-core business to maximize shareholder value. Pick a solution that delivers a financial platform that meets synergy targets with an accelerated time to implement compared with legacy systems.

9. **Improve decision velocity and business acceleration.** Machines can make decisions 100 times per second. Humans can make one decision per second and will probably have to wait as long as three weeks to obtain management approval. This decision asymmetry affects the ability for leaders to act with speed. Organizations seek to build a data-to-decisions pipeline that enables more-automated collection of data in order to rapidly accelerate the ability to take the next best action. "The more we can automate data collection, the more we can get to democratizing decisions," said the CEO of a large Fortune 500 diversified company. "We have done a poor job of getting information to the front line. We need them to be empowered to make faster decisions with higher-quality data." Designing and managing good planning models will accelerate decision velocity.

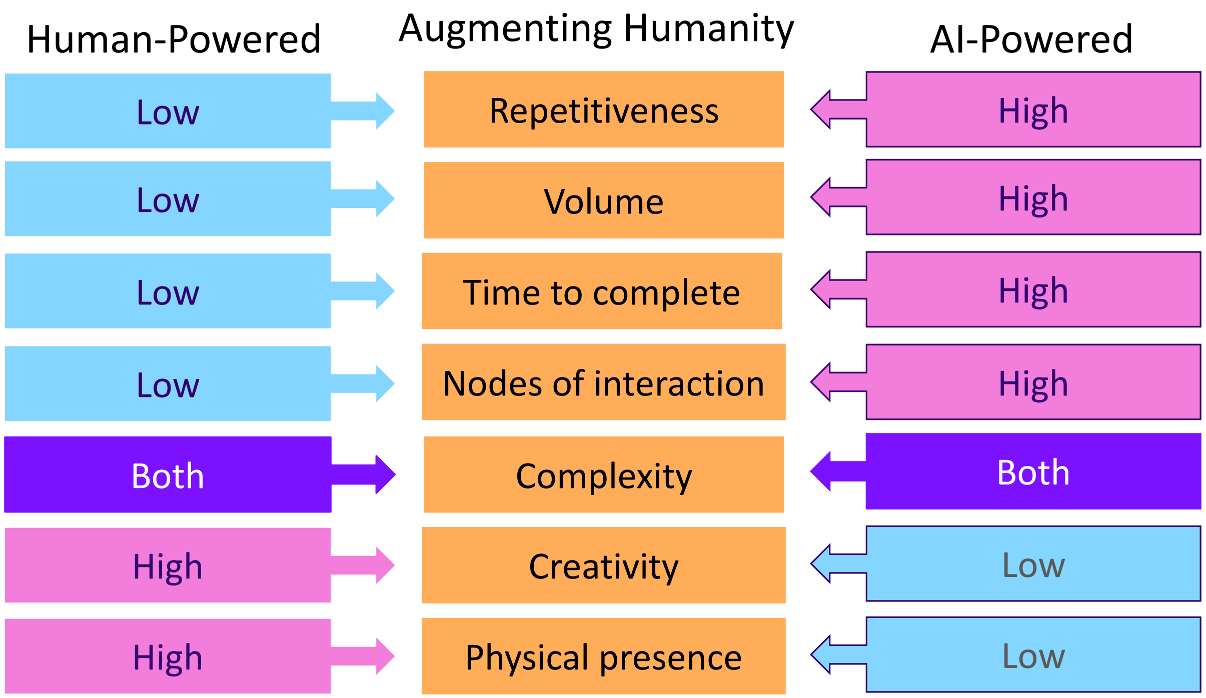
10. **Invest in an AI and automation foundation.** The battle for decision velocity rests on the ability to craft a strong AI foundation. Where possible, automate data capture. Find the greatest sources of high-quality data to ingest. The convergence of workflow, process mining, robotic process automation, integration services, microservices and low-code/no-code platforms drives the future of software. This next battle in enterprise software will be the creation of business graphs. Like social graphs that use social networks to provide signal intelligence and digital feedback loops that accumulate massive amounts of data to be mined by AI, business graphs will accomplish the same for enterprises. In the case of the enterprise, the relationships among users, documents, business processes and contextual data will power the signal intelligence and digital feedback loops. Because the majority of data is collected by digital feedback loops via automated and ambient collection, these systems can improve their precision decision capabilities. Automation and AI are the tools that bring scale to creating decision velocity.

LEARN WHEN TO AUTOMATE, AUGMENT AND INTERVENE

Seven factors play a significant role in identifying which AI-driven smart services deliver the greatest opportunities (see Figure 3). Constellation sees the following:

1. **Repetitiveness.** The greater the frequency with which a process is repeated, the more likely the process should be AI-powered. One-offs and custom processes with minimal repetition are lower-priority candidates for AI.

Figure 3. Candidates for AI-Driven Automation



Source: Constellation Research

2. **Volume.** When the volume of transactions and interactions exceeds human capacity, the smart service should be AI-powered. Volumes within human capacity will remain human-powered.

3. **Time to complete.** High time-to-market requirements favor AI-powered approaches. Lower time-to-completion requirements will remain human-powered.

4. **Nodes of interaction.** Simple interaction nodes will lean toward the human-powered option. AI serves best in complex and high-volume nodes of interaction.

5. **Complexity.** Good candidates for AI-powered uses include complexity beyond human comprehension and simple tasks that can be optimized by AI.

6. **Creativity.** Today, the cognitive processes required for creativity reside mostly with humans, whereas higher creative powers are less likely to be AI-powered. However, with advancements in cognitive learning, one can expect AI-powered creativity to improve over the next decade.

7. **Physical presence.** Processes that require a heavy physical presence will most likely require human-powered capabilities. However, processes that put lives in jeopardy serve as great candidates for automated, AI-powered options. In general, low physical presence requirements play well to AI-powered approaches.

THE BOTTOM LINE: COMPRESSED DIGITAL TRANSFORMATION DOMINATES THE 2021 AGENDA

In 2021, all across the world, compressed digital transformation is accelerating cloud adoption, digital commerce, cybersecurity, automation and AI. Finance and technology leaders are rushing to enable improved agility for finance, planning and accounting functions. Almost every CFO and CIO today has a board mandate to digitally transform the back office and middle office to support new digital monetization and business models. This broad shift for all industries will require a sustained investment in reducing technical debt and preparing for the digital future ahead. A move to the cloud, investment in a corporate finance layer and greater automation will serve as key building blocks in the modernization of FP&A. Those enterprises that succeed will be those that are ready for the digital shift.

ENDNOTES

[1] *Sources: Japan Ministry, European Union.*

R “Ray” Wang

Founder and Principal Analyst

R “Ray” Wang is Founder, Chairman and Principal Analyst of Constellation Research, Inc., and the author of the popular enterprise software blog, “A Software Insider’s Point of View.” He previously was a Founding Partner and Research Analyst for enterprise strategy at *Altimeter Group*.

A background in emerging business and technology trends, enterprise apps strategy, technology selection and contract negotiations enables Wang to provide clients and readers with the bridge between business leadership and technology adoption. Wang has been recognized by the prestigious Institute of Industry Analyst Relations (IIAR) as the Analyst of the Year, and in 2009, he was recognized as one of the most important analysts for Enterprise, SMB and Software. In 2010, Wang was recognized on the ARInsights Power 100 List of Industry Analysts and named one of the top Influential Leaders in the CRM Magazine 100 Market Awards.

Wang graduated from the Johns Hopkins University with a B.A. in natural sciences and public health. His graduate training includes a master’s degree from the Johns Hopkins University in health policy and management and health finance and management.

@rwang0 constellationr.com/users/r-ray-wang linkedin.com/in/rwang0

ABOUT CONSTELLATION RESEARCH

Constellation Research is an award-winning, Silicon Valley-based research and advisory firm that helps organizations navigate the challenges of digital disruption through business models transformation and the judicious application of disruptive technologies. Unlike the legacy analyst firms, Constellation Research is disrupting how research is accessed, what topics are covered and how clients can partner with a research firm to achieve success. Over 350 clients have joined from an ecosystem of buyers, partners, solution providers, C-suite, boards of directors and vendor clients. Our mission is to identify, validate and share insights with our clients.

Organizational Highlights

- Named Institute of Industry Analyst Relations (IIAR) New Analyst Firm of the Year in 2011 and #1 Independent Analyst Firm for 2014 and 2015.
- Experienced research team with an average of 25 years of practitioner, management and industry experience.
- Organizers of the Constellation Connected Enterprise—an innovation summit and best practices knowledge-sharing retreat for business leaders.
- Founders of Constellation Executive Network, a membership organization for digital leaders seeking to learn from market leaders and fast followers.

www.ConstellationR.com

@ConstellationR

info@ConstellationR.com

sales@ConstellationR.com

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