

The Digital Transformation of Retail Financial Planning is Underway

Financial Planning & Analytics is the “beating heart” of the planning process for merchants.



Introduction

For retail merchants, the discipline of **Financial Planning & Analytics (FP&A)** may seem remote from the core activities of selecting, buying and selling goods to shoppers. In fact, it is the “beating heart” of the planning process for retailers.

“FP&A translates corporate and business strategy into a financial plan and supports the enactment of that plan through resource allocation,” says *The AFP Guide to the FP&A Maturity Model*. “[Its] processes generate input and insight through financial analysis, supported by enabling technology.”¹

The AFP report further emphasizes FP&A as a core function of Integrated Business Planning. This is described as the “ability to translate the strategic plan into a strategy that coordinates the company, can be measured and can be checked.” It encompasses forecasting, budgeting and operations planning.



Superior capabilities in these areas will enable superior decision making and greater competitiveness, yet FP&A — the linchpin of IBP — is not a reality for many retailers still in the early or middle stages of digital transformation.

“Adopting IBP [Integrated Business Planning] is necessary for retailers looking to innovate their business models,” say the authors of a report from IDC, “Retail Digital Transformation – Why Integrated Business Planning is the Linchpin.” They add, “Such an approach, thanks to the use of AI and advanced analytics, enables companies to take timely and appropriate decisions at every level of the retail value chain.”²

Superior capabilities in these areas will enable superior decision making and greater competitiveness, yet FP&A — the linchpin of IBP — is not a reality for many retailers still in the early or middle stages of digital transformation. Research from RetailWire shows that fewer than one in five (19.4 percent) employ a decentralized FP&A process, whereby each department, brand and channel directly flows its data into a platform solution which in turn creates the consolidated financial plan.³

Instead, most retailers rely heavily on legacy spreadsheets to manage core business processes, says the 2021 RetailWire study. The findings show 77 percent of survey respondents employ spreadsheets for merchandise financial planning. Nearly two thirds (63 percent) rely upon them for allocation, replenishment and logistics.

As many retailers head full-bore toward digital transformation, they see how the process essentially mandates that data accuracy, speed to insights and rapid decision-making with accountability are actualized as well. Keeping core merchandising and operational activities aligned with the business and financial strategy becomes more challenging as scale and speed increase.

Complex external pressures — from competition, supply disruptions, cost of goods, transport and labor or unknowns — require planning tools with great flexibility combined with rock-solid strategic compliance. These need not be incompatible objectives, given the right FP&A platform.

Solid foundation in the office of finance

By definition, an integrated business planning discipline connects to every element of the retail enterprise, and each contributes in its way to the financial success of the whole.

Visibility into the financial impact of decisions as they are being made effectively eliminates the need for guesswork and rules of thumb that have been the primary recourse of merchants and operations managers. Very often these legacy practices are entwined into the process of managing with complex spreadsheets where decision-making has become isolated and inflexible.

Budgeting

FP&A enables the retail organization to set up and maintain guard rails for essential spending and investments in marketing, real estate, inventory, staffing and more. When functional decision makers immediately see the financial impact of their options, they are able to self-assess their validity, rather than wait for oversight and review.

Forecasting

Access to several years of historical data within the FP&A platform, combined with automated tools and user-defined visualizations, enables reliable, fact-based forecasts and alternative scenarios. The advantages apply to both long-term and near-term decision-making, down to weekly updates and re-forecasting of demand due to marketplace changes.

Planning

Every department of the retail enterprise defines a data-driven planning cycle. FP&A supports this core activity that enables managers to map the expected impact of decisions as they are being made. The innate flexibility and self-serve nature of the platform allows decision-makers to make later adjustments while remaining within budget and strategic guidelines.

Financial consolidation

A unified FP&A system enables top management to roll up critical data from across the retail enterprise into a unified picture of financial performance that enables executive decision-making and reporting. Because line managers have visibility into the impact of their decisions, deviations from strategy will be rare and easily flagged for remediation.

CASE STUDY



H&M Puts Staffing Forecasts in Every Store

Global fast-fashion retailer H&M transformed its workforce management by embracing a resilient, integrated approach to retail planning across its 4,950 stores and nine brands in 74 markets. Far more than a shift-planning tool, the forecasting platform enables the right tasks to be assigned to workers in the right locations at the right times.

H&M's Workforce Planning and Management system was constructed upon a Board IBP foundation. Interaction is role-based to meet the needs of diverse stakeholder groups, with user interfaces for executive management, the office of finance and, importantly, store managers. It does this at scale – supporting hundreds of concurrent user sessions and nearly half a million procedures run daily.

The platform enables workforce planning 13 weeks out, while retaining the flexibility to respond in the near term with data-driven decisions down to the store level. The company reports faster and more accurate examination of data and the ability to model staffing scenarios, ultimately allowing H&M to provide the superior shopper experiences for which it is known.

Five areas where FP&A excellence transforms a retail business

With the FP&A planning foundation in place, a retail enterprise will be positioned to elevate its business practices in areas that define the brand and ensure optimum customer experience.

Certain areas of focus across the business will be positively impacted by FP&A excellence, including but not limited to:

1. Merchandise financial planning

Retail organizations need to maintain discipline in buying practices, define open-to-buy, manage markdowns and be prepared to respond to supplier price changes. While merchandising may be regarded as the core “creative” aspect of the retail business, it is also the primary driver of revenues. FP&A brings greater certainty about the financial impact of merchandising choices.

2. Category planning

Category planning. Using reliable trend forecasting and comparing scenarios gives retailers advantages in making informed category decisions, including assortment, space allocation, pricing and promotions. Category management is a multi-factor activity, where moving one lever can impact others in unexpected ways. This is an area where data automation built into an FP&A platform can speed decision-making and evaluation of alternatives.

3. Store operations

Accessing financial data helps retailers better manage employee tasks and hours against their business forecasts. Operators can ensure on-shelf availability and high service levels by leveraging highly reliable demand forecasts with local granularity. The forecasting functionality is also vital for planning initial allocations for new stores.

4. Sourcing

Understanding the total cost of goods and applying those data to support fact-based supplier negotiations is another way retailers are gaining an upper hand. Managers can easily compare and contrast alternative sources that incorporate cost of delivery, lead times and past reliability.

5. Supply chain/logistics

Supply chain/logistics. Retailer practitioners can gain greater flexibility when responding to unexpected supply disruptions, both within the corporate distribution infrastructure and external to the organization. FP&A enables a more agile and responsive process for confronting unexpected events that can affect delivery quantities and timing.

Mastery of these competency areas will free retailers to apply the utmost merchandising creativity to their collections and provide customers with service excellence.



Conclusions and a look ahead

Financial planning may not be the “soul” of the merchandising enterprise, but it is vital to the formulation and execution of strategy. That’s why we consider FP&A to be the “heartbeat” of the successful retail business. Of central importance is a strong overall capability to manage cash flows, operational costs and inventory investment.

Its reason for being is to “align operational and financial plans to [retailers’] strategic priorities, federating all retail enterprise departments, including nontraditional ones such as marketing, HR, and procurement,” says IDC.⁴

Implementation can be a significant exercise, but we observe retail winners working now with partners to help guide them through the digital transformation journey and configure their FP&A platforms to their unique requirements.

At present, the need for stronger planning and human decision-making is driving innovation, but there are exciting possibilities to explore for retail enterprises who make FP&A a priority now.

“Prescriptive analytics” is still a buzzword for retailers, similar to “Artificial Intelligence” or “Machine Learning,” but the present conversation is defining the path toward reliable automation of routine decision-making. These areas of innovation have exciting potential for retailers who have taken FP&A to heart. ■

CASE STUDY

Harry & David

Harry & David: Streamlines Reporting and Forecasting

The finance team at gourmet gift retailer Harry & David had grown its financial accounting and reporting largely on Excel. A tremendous amount of time was dedicated to rationalizing multiple spreadsheets from across the company for consolidation and reporting.

The company implemented the Board decision-making platform which enabled it to increase forecast accuracy and deliver a 75 percent reduction in forecasting cycle time.

On the strength of that success, Harry & David has also rolled out applications on the Board platform for sales, marketing, and inventory control, driving an increasingly unified approach while further streamlining the business.



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Produced by: RetailWire
Author: James Tenser, VSN Strategies

For more information:

Al McClain
almclain@retailwire.com
(561) 398-0613

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