

Literature Review of "Profitability Analytics"

I. Article Overview

The article by Larry R. White addressed the future of financial planning and analysis (FP&A). First, an assessment of the current FP&A methods opened the door to possibilities of both growth and recession of the accounting profession. White's sentiment about the state of FP&A is that it is something for organizations to consider on an individual level, meaning that bandwagon practices will not suit all organizations. Rather, the author believes the future of this field is in the expansion of strategic thought about the uses of data analytics and modeling for increasing organizational profitability. The article noted that most financial planners today find common practices to be ineffective and in need of improvements. White goes on to explain a new framework for a proposed future of FP&A and the role accountants should play in the revised approach.

The new approach, profitability analytics, includes concepts of traditional accounting working with nonfinancial data and models to provide a more comprehensive system of planning and problem-solving. Organizations should first utilize existing knowledge and technology to develop models of both internal and external environments. These models would allow analysts to assess risks, opportunities, and potential reactive measures. Only after creating general models should the monetary and financial aspects be added. This separation of financial and nonfinancial areas should reduce the negative effects of confusing or misleading financial values. Three key qualities of transparency, defensibility, and timeliness are at the heart of the profitability analytics approach to ensure information has its maximum value. Ultimately, this new approach to FP&A provides financial planners and management with more cohesive and useful information for sustainable decision-making.

II. Areas of Agreement

II.1. Area 1

I agree with the author that comprehensive approaches to planning and analysis are most useful for companies. Simply focusing on any one area in too much detail leaves much out about the interconnected workings of a business. Even though Warren Buffett put much emphasis on the financial statements of potential investments, he used many factors to assess the competitive advantage of companies (Buffett & Clark, 2008). These factors include financial trends, viability of the company's industry, and product uniqueness. Similarly, financial planners should look into more than numbers when making assessments and predictions for the benefit of their organizations.

II.2. Area 2

White makes another valid assessment that the influences of Big Data and other technologies have the potential to simultaneously expand the power of FP&A, while limiting the role of traditional accountants. I agree that this opens new opportunities for expansion of accountants' roles, given they formulate appropriate strategies to redefine their roles. This is a daunting task that has also been necessitated in other career fields such as education and medicine, where technologies have caused stark changes methodology. White noted that the changes in strategic thinking should change first, not simply as a result of new technologies. This would improve the quality of thinking by making it proactive instead of reactive.

II.3. Area 3

I agree that both profit making and non-profit organizations could benefit from White's proposed new approach to FP&A. The purpose of the new framework is not centered around profits in traditional accounting terms. Rather, this approach seeks optimization on a comprehensive scale. A focus on creating an effective system for problem-solving rather than a point solution orientation allows organizations of all types to address issues as they arise to make the most informed decisions. Non-profits are similar to profit generating businesses in

terms of the effects of external and internal environments. While the focus of non-profits is different, this "profitability analytics" approach employs an array of concepts that ultimately enhance the operations of businesses at all levels.

III. Area of Disagreement

I disagree with the sentiment in this article that financial analyses cannot be common among different organizations. While I did agree that a too-focused approach is not ideal, I can see how common practices among industries could help jumpstart the movement this author seeks. The best ideas need to be shared, and some bandwagon techniques could be useful especially in determining the expanded role of accountants. For instance, if one organization has success in using a certain model of FP&A application, then other organizations could adopt and adapt the framework to best meet their goals. The sharing of information would help ensure that current financial analysis practices become more integrated into the future of FP&A.

IV. Essay Question Prompt

Based on the article, a student should be able to address the following prompt in essay format: Compare and contrast the old and new FP&A practices, and explain how new practices can sustain long-term value.

References

- Buffett, M., & Clark, D. (2008). *Warren Buffett and the interpretation of financial statements: The search for the company with a durable competitive advantage*. New York, NY: Scribner.
- White, L. R. (2019, July 1). Profitability Analytics. *Strategic Finance*. Retrieved from <https://sfmagazine.com/post-entry/july-2019-profitability-analytics/>.