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AI Technological Advancements in xFP&A

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AI-powered xFP&A enhances reporting, automates data collection, and provides predictive insights, empowering smarter, faster decisions for long-term success.

Executive Summary

Adopting extended financial planning and analysis (xFP&A) software is a popular solution for monitoring business performance metrics, running reports, and taking actionable steps to meet goals more efficiently. xFP&A often dovetails with analyzing key performance indicators (KPIs), providing businesses with indispensable insights into a company's health. Paired with strategic planning and an effective business model, meeting KPIs boosts a business's success.

Yet, when artificial intelligence (AI) and machine learning (ML) are incorporated into xFP&A, the reporting power increases exponentially. For example, there are three important ways AI in xFP&A can help your business: Provide guidance and training with tools, offer anomaly detection and risk management, and enhance predictive analytics. When searching for the xFP&A solution that is right for your business, it is important to consider the advanced AI software and tools it employs, such as automated data collection and sophisticated reporting capabilities. Furthermore, ensuring the software has its most important resource—historical data— will allow businesses to make more informed decisions in response to economic and environmental changes, as well as internal shifts in goals.

xFP&A software that incorporates AI and ML can provide business leaders with in-depth insights and visibility into their business' performance to guide strategic decision-making for long-term success. The result? Businesses are empowered to react more swiftly to shifting corporate landscapes, giving them an advantage over their competitors and increasing their profits.

Introduction

Investing in extended financial planning and analysis software (xFP&A) is an important step for companies looking to grow. Financial planning and analysis covers basic budgeting, forecasting, and analysis, and has increasingly become a part of a business or finance leader's purview. It is as commonplace as financial statements or the balance sheet.

However, extended FP&A expands beyond the basics to put finance at the center of a company's performance management efforts. With an effective xFP&A effort in place, a business can make nimble decisions to drive company success.

Monitoring and auditing financial performance, market share, and profitability metrics are critical for any business' success, but doing so with the help of AI and ML can propel a company even further. AI is best for completing a complex human task with efficiency, while ML works best for identifying patterns in large sets of data to solve specific problems. When combined, AI and ML play crucial roles in enhancing decision-making, improving forecasting accuracy, and driving efficiency.

Often, the insights AI and ML provide can simplify many of the unnecessary complexities in your company's CFO, financial professionals, business leaders, and stakeholders. But not all AI-powered xFP&A software is made equal. There are several factors you should take into consideration when selecting the right fit for your company.

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3 Ways AI and Machine Learning in xFP&A Can Help Your Business

Monitoring and auditing financial performance, market share, and profitability metrics are critical for any business' success, but doing so with the help of AI and ML can propel it even further. Here are three ways AI and ML can help your business:

1. AI and ML Provide Guidance and Training With Tools

Artificial intelligence is most helpful when it's completing a complex human task with efficiency. In other words, it can automate processes that might require more time and effort for one person to do. This does not mean AI replaces the human altogether; in fact, it's actually to the contrary. Humans rely on AI to provide guidance and training with tools such as virtual assistants and chatbots, through complex tasks and training. For example, AI assistants such as Solver Copilot provide exactly this kind of guidance and support, helping users navigate tools, answer questions, and learn functionalities through chat-based interactions.

2. Anomaly Detection and Risk Management are Baked in

ML comes in to analyze data, and works best for identifying patterns in large sets of data to solve specific problems. In practice, this looks like flagging unusual transactions or trends, such as product backlog items for an office park construction project. Similar to programs such as Microsoft's Power BI, AI can also alert you to unexpected changes, including revenue spikes or dips. Forbes[1] underscores that AI is particularly adept at flagging outliers in data sets. This can be a huge help for busy finance teams. When any anomaly is detected, your AI-powered xFP&A software can provide possible explanations for them, ultimately helping you manage your business' risk.

3. AI and ML Enhance Predictive Analytics

AI boosts predictive analytics and financial modeling by using machine learning algorithms and models that learn from data over time. One example of advanced financial modeling using AI is the generation of visual tools such as a Decomposition Tree and Key Influencers. A Decomposition Tree allows you to visualize data across multiple dimensions, while Key Influencers drills down on what's driving any given metric. These visuals identify key factors influencing financial trends, helping predict future outcomes and guiding better decisions. According to FP&A Trends[2], because ML can continuously compare predicted figures with actual results, the system will understand deviations, refine models accordingly, and adjust strategies.

[1] Madeley, H. (2024, August 13). Council post: 4 ways AI can empower modern FP&A teams. Forbes. https://www.forbes.com/councils/forbestechcouncil/2024/03/27/4-ways-ai-can-empower-modern-fpa-teams/ [2] Applications of AI for Financial Planning and Analysis (FP&A). Applications of AI for Financial Planning and Analysis (FP&A) | FP&A Trends. (n.d.). https://fpa-trends.com/article/applications-ai-financial-planning-and-analysis-fpa

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Overall, AI and machine learning have the power to increase productivity across your business. In data collected by McKinsey & Company[3], the recent adoption of AI has led to making credit decisions 30% faster, while relationship manager (RM) productivity has more than doubled. In turn, revenue per RM has risen by 20%.

To consider its potential for future revenue boosts, the technology should be put into context. If the trend of AI and machine learning adoption holds by the end of the 2020s, J.P. Morgan[4] argues this could show up in U.S. economic data. "Think of it this way: it took 15 years for the personal computer to increase the economy's productivity," writes J.P. Morgan's senior markets economist. "AI could do it in seven."

Advanced AI Software and Tools You Should Look for in an xFP&A Solution

Not all xFP&A solutions with integrated AL and ML are as comprehensive, flexible, or helpful as your business might need. There are several tools you should look for as you evaluate different xFP&A solutions to assess the best fit.

Four features to consider in xFP&A software with AI and ML include:

1. **Reporting and analytics:** Reporting and analytics are at the core of xFP&A software. Look for solutions that offer pre-built connectors and templates to your company's data sources, such as your ERP, CRM HIRS, marketing or analytics tools, Excel, Microsoft Power BI and Tableau.

2. **Planning:** Enhanced reporting capabilities simplify planning for the future. Your xFP&A solution should lay out roadmaps for budgeting, forecasting, and strategic planning for meeting KPIs. AI-driven planning tools can also aid in workflows and approvals.

3. **Consolidation:** Errors in human data entry are a thing of the past with the help of AI and ML, which should automatically correct for eliminations, allocations, currency conversions, adjustments, and other related areas.

4. **Automated data collection:** Advanced xFP&A tools automate data collection from various sources, ensuring historical data integration. Your solution should use this automated data collection process to provide planning, reporting, consolidation, and analysis, ultimately reducing manual effort and error rates.

As the Corporate Finance Institute[5] affirms, AI and ML tools can automate time-consuming tasks, allowing research analysts to dedicate more of their time and expertise toward critical thinking, interpretation, and expert judgment. And with xFP&A, these automations can help the parts of your business that go beyond finance, too, including operations, sales, marketing, and HR.

[3] Amar, J., & Cheta, O. (2024, August 16). From promising to productive: Real results from Gen Ai in Services. McKinsey & Company. https://www.mckinsey.com/capabilities/operations/our-insights/from-promising-to-productive-real-results-from-gen-ai-in-services [4] Amar, J., & Cheta, O. (2024, August 16). From promising to productive: Real results from Gen Ai in Services. McKinsey & Company. https://www.mckinsey.com/capabilities/operations/our-insights/from-promising-to-productive-real-results-from-gen-ai-in-services Harnessing the potential of AI in Financial Services. [5] Corporate Finance Institute. (2024, September 6). https://corporatefinanceinstitute.com/resources/data-science/harnessing-the-potential-of-ai-in-financial-services/

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Ultimately, the right xFP&A AI-driven software for your business should:

Enhance decision-making | **Drive efficiency** | **Improve forecasting accuracy**

The goal is to use xFP&A software to connect real-time and historical financial and operational data in order to provide a more dynamic and fuller view of your operations. What's more: The adoption and integration of advanced xFP&A software influences automated data collection and provides actionable insights. It is important that the xFP&A software you use is scalable as your company grows.

Why Historical Data is so Important for AI in xFP&A

Historical data can be a decisive enabler, allowing businesses to react to shifting corporate landscapes with context to make more informed decisions. This, alone, can provide an advantage over competitors, along with boosting profits.

A pair of McKinsey's experts write[6] that "Data is the new gold dust and needs to be elevated as a corporate asset and governed in ways that extract maximum value." In McKinsey's recent roundtable with data and analytics banking executives, one in four said the quality of unstructured data was one of their biggest data-related challenges when it comes to scaling AI. Not only is historical data important, but ensuring the quality of the data is key to success with AI in xFP&A.

An xFP&A solution that analyzes historical data positions businesses to make more informed decisions in response to economic and environmental changes, as well as internal shifts in goals. By consolidating historical data from multiple sources, leaders can work from a single source of truth.

[6] One year in: Lessons learned in scaling up generative AI for Financial Services. McKinsey & Company. (n.d.). https://www.mckinsey.com/industries/financial-services/our-insights/banking-matters/one-year-in-lessons-learned-in-scaling-up-generative-ai-for-financial-services

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Historical data is important for AI in xFP&A because it:

- Proves context and patterns for analysis.
- Enables the identification of trends and seasonality.
- Reduces the impact of short-term anomalies.
- Improves the accuracy of predictive models.
- Enhances risk assessment capabilities.
- Allows for more robust back-testing.

The Risks of Limited Historical Data

Running reports without sufficient historical data is the largest pitfall to avoid when using xFP&A with AI and ML. In fact, by examining patterns, sequences, and outcomes from previous years, businesses can identify trends that may predict future events or behaviors. By using AI and ML to help, the process doesn't just extrapolate data points into the future—it underscores the underlying forces that drive change over time.

Consider the relationship between short-term data and long-term accuracy. Only using a company's most recent data can be detrimental to forecasting. Limited data can miss seasonal trends and patterns, leading to less reliable predictions. When incorporating tools such as Excel's Analyze Data and Forecast, it's important to remember that these tools are only as powerful as the data provided to them.

Take this small example: If one coffee shop were to analyze sales of hot drip coffee from September through November, it would not make sense to extrapolate those findings to the sales of hot coffee from June through August—a time when iced coffee sales are likely higher. Similarly, using a limited data set from your business would produce equally skewed results.

As Data Science Central[7] emphasizes, validating with an insufficient amount of historical data may produce inaccurate calculations—or even errors. When an organization has insufficient historical data for AI and ML to analyze, this can lead to overfitting recent events, a misidentification of trends, and increased model volatility. The bottom line? Historical data is one of the most important resources for your AI-enabled xFP&A.

Unlock Future Success with
AI-Enhanced xFP&A Software

[7] Bajwa, R. (2024, October 12). How to explore historical data patterns with machine learning. Data Science Central. https://www.datasciencecentral.com/how-to-explore-historical-data-patterns-with-machine-learning/
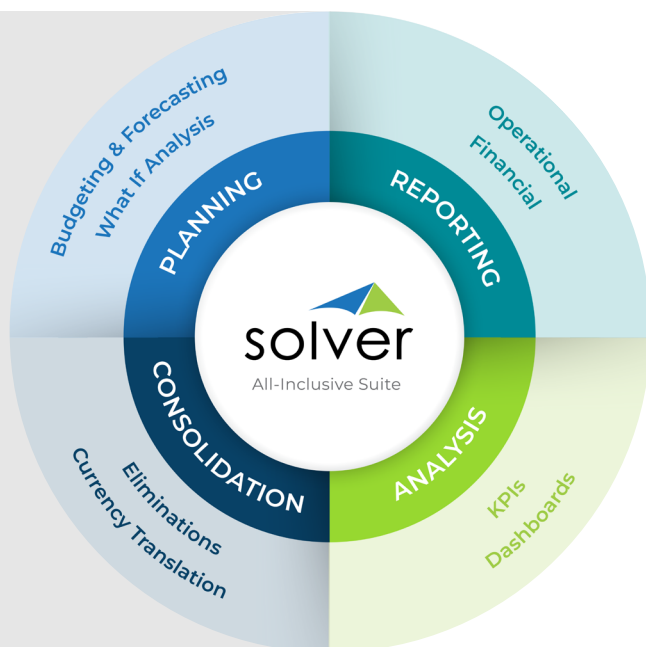
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Conclusion

Financial planning tasks such as budgeting, planning, forecasting, and reporting can be time-consuming and riddled with errors when tackled by humans alone. In addition, if wrangling and analyzing historical and real-time data is not done effectively, the result can hamstring a company's success and future growth.

It's important to consider how AI and ML can be incorporated into your xFP&A processes. Software programs that employ AI and ML streamline workflows by automating processes and enhancing reporting capabilities. These programs set companies up for future success through enhancing decision-making, improving forecasting accuracy, and driving efficiency.

When it comes to investing in advanced xFP&A software and data infrastructure, you need to determine which AI and ML tools to prioritize while shopping around. Consider capabilities around reporting and analytics, future planning, auto-corrected consolidation, and automated data collection.

The right AI-enhanced xFP&A software leverages AI for data-driven insights and decision-making, providing business leaders with in-depth insights and visibility into their business' performance. The result makes for better management of operations, revenue, capital investment, and expenses, as well as operations, marketing, sales, and beyond. With the added boost of AI and ML, you can make more informed business decisions, now and in the future.

About Solver

Solver is a global provider of a cloud-based extended financial planning and analysis solution (xFP&A) that increases access to actionable insights beyond the finance department to accelerate better decisions. Providing mid-market businesses with planning and reporting software tailored to their specific needs, the all-inclusive Solver Suite consolidates information from any data source to provide a single source of truth. Connected with Solver's budgeting and forecasting, Solver's comprehensive planning tool enables organizations to manage budgets, create detailed reports and automate forecasts all in one place. These insights are then presented in easily shareable graphs and dashboards. Solver provides organizations with a trusted data source to efficiently drive intelligent and accurate decisions.

Accelerate Better Decisions With Solver

Our expert team is ready to help you with all your financial planning, budgeting, forecasting, and reporting needs. Contact Solver today to learn more about how our innovative xFP&A solution can help you achieve your goals and support your company's success. Contact our team

New! Download our new whitepaper: "A Guide to Choosing the Best Extended Financial Planning and Analysis (xFP&A) Solution" that explains how xFP&A benefits a business, what companies should consider in an xFP&A solution, and how to kickstart your search for the best xFP&A solution.

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