



**STRATEGIC
MANAGEMENT
SERIES**

Driving Strategic Management with the Profitability Analytics Framework

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March 29, 2021



The Association of
Accountants and
Financial Professionals
in Business

Webinar Features and CPE Credit



Q&A

Asking Questions



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Help



CPE Credit

Certification

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- Minutes to Watch: 50
- Number of Completed Polls required: 3

Criteria for Full Credit

- Minutes to Watch: 75
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Moderator



William Duchan, CMA, CFM
Director, Credential & New Initiatives
IMA

Featured Presenter



Larry White, CMA, CSCA, CFM, CPA,
CGFM

Executive Director



Larry White's Biography

- Larry is Executive Director, Resource Consumption Accounting Institute. He retired from the US Coast Guard as a Captain and was a Senior Business Advisor with Deloitte. Professional activities include former member, International Federation of Accountants Professional Accountants in Business Committee; former Global Board Chairman, Institute of Management Accountants (IMA); and former member International Public Sector Accounting Standards Board.
- Larry graduated from the US Coast Guard Academy and Columbia University School of Business. He has co-authored several IMA Statements of Management Accounting and articles for Strategic Finance. He is a columnist for Automation World and has co-authored several publications for the Manufacturing Enterprise Solutions Association.

Featured Presenter



Doug Hicks, CPA
President

D. T. Hicks & Co.
Cost Measurement & Management Consultants

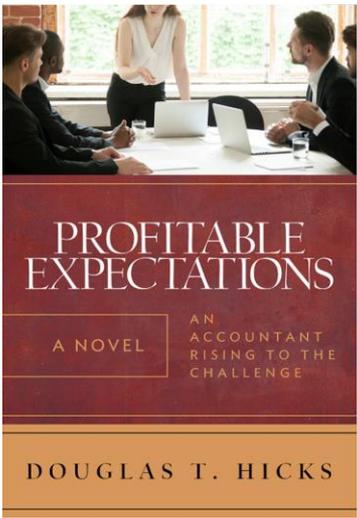
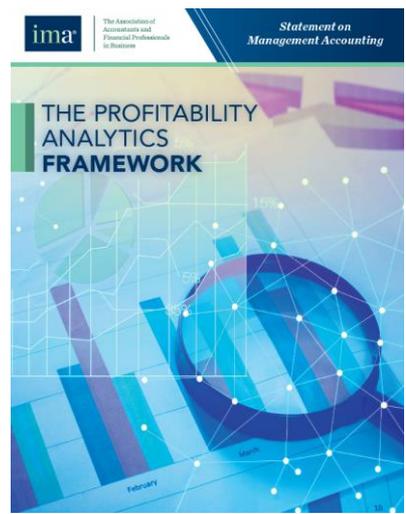
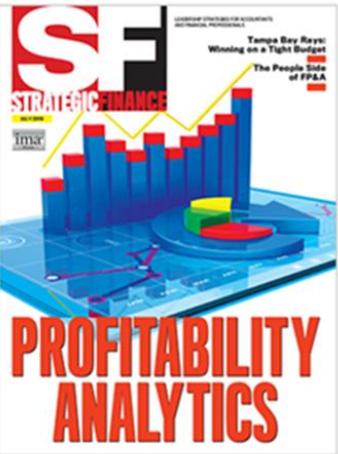
Doug Hicks' Biography

- Doug Hicks has championed the development of practical, down-to-earth managerial costing solutions for small and mid-sized organizations for over thirty-five years. During time he has helped over 250 organizations of all types and sizes transform their history-oriented accounting data into the accurate and relevant causality-based decision support information needed for quality decision making. He has shared his experience through hundreds of seminars and conferences, articles that have been published in dozens of trade and professional periodicals and three books that have sold over 15,000 copies worldwide. His fourth book, a business novel titled “Profitable Expectations,” was released in late 2020.
- Doug is a 1970 graduate of the University of Michigan – Dearborn and a long-time, active member of the Institute of Management Accountants.

Learning Objectives

Upon completing this webinar, you will be able to:

1. Explain the nature and purpose of the Profitability Analytics Framework.
2. Identify opportunities for management accountants to become more effective strategic business partners using the Profitability Analytics Framework.
3. Give examples of the practical application of the Profitability Analytics Framework.
4. Recognize challenges and develop solutions to improved business partnering.



The Future of Management Accounting

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New technologies will result in the elimination of many management accounting positions.

They will also have the potential to create new ones.

The key will be a shift, from financial reporting and stewardship, to becoming a business partner and strategic enabler.

Successful management accountants will enable the organization to perform better.



Management Accounting Competencies:
Fit for Purpose in a Digital Age?

Source: "Management Accounting Competencies: Fit for Purpose in a Digital Age?" IMA, 2019

How Do Decision Makers Currently View Management Accountants?

EPM Channel 2013 “*Finance 360° Insight™*” Survey

- How often is Finance called upon to provide support when executives are facing important business decisions? Always = 34.5% / 30.8%
- With the right type of training, experience, and tools what is the level of support you think Finance can deliver to your organization? Game Changing = 45.5% / 24.3%
- What is the actual level of decision support that Finance provides to your organization today? Game Changing = 7.3% / 0.0%

% Finance Responses / % Non-Finance Responses

“Game Changing” = provides ideas and processes that effect a significant shift in the way of doing or thinking about something



How Do Decision Makers Currently View Management Accountants?

- Decision makers see management accountants as “aides-de-camp” – not active participants in the development and execution of the organization's strategy, but skilled staff members who effectively answer their questions, perform required – often ritualized – tasks and provide required information
- Management accountants help justify senior management decisions that are made based on emotion and intuition...after the decision has been made.
- Decision-maker expectations are low and management accountants live up to them.

How Do Decision Makers View Management Accountants?

The Pygmalion Effect:

- Higher expectations lead to greater performance; lower expectations lead to poorer performance.
- Management accountants cannot allow management's low expectations to lead to their potential extinction.
- They must take active steps to make management aware of their potential as “business partners and strategic enablers.”

To Be Perceived as Business Partners and Strategic Enablers management accountants must...

- Be able to articulate a compelling reason for top management to view the management accountant as being able to provide strategic analysis support, allocating resources across the portfolio, and more.
 - **provide insight** based on a deep understanding of the needs of the business and where it is headed.
 - **actively look** for ways to help and not always wait to be asked.
 - know how to **frame and communicate** financial information to decision makers
 - be **cognizant of the politics** involved and sensitive as to how they must be addressed

To Be Perceived as Business Partners and Strategic Enablers management accountants must...

- Possess an understanding of the latest technology and cultivating good relationships with IT to influence the buying process and utilization of its capabilities.
- Demonstrate the **ability to think strategically** while lobbying to drive strategy and have more influence as part of their job description.
- **Build cross-functional relationships** and developing the soft skills needed to influence others.
- Invest in talent/commitment to foster current talent to reduce the skills gap.

IMA and Deloitte, Stepping Outside the Box: Elevating the Role of the Controller, 2018

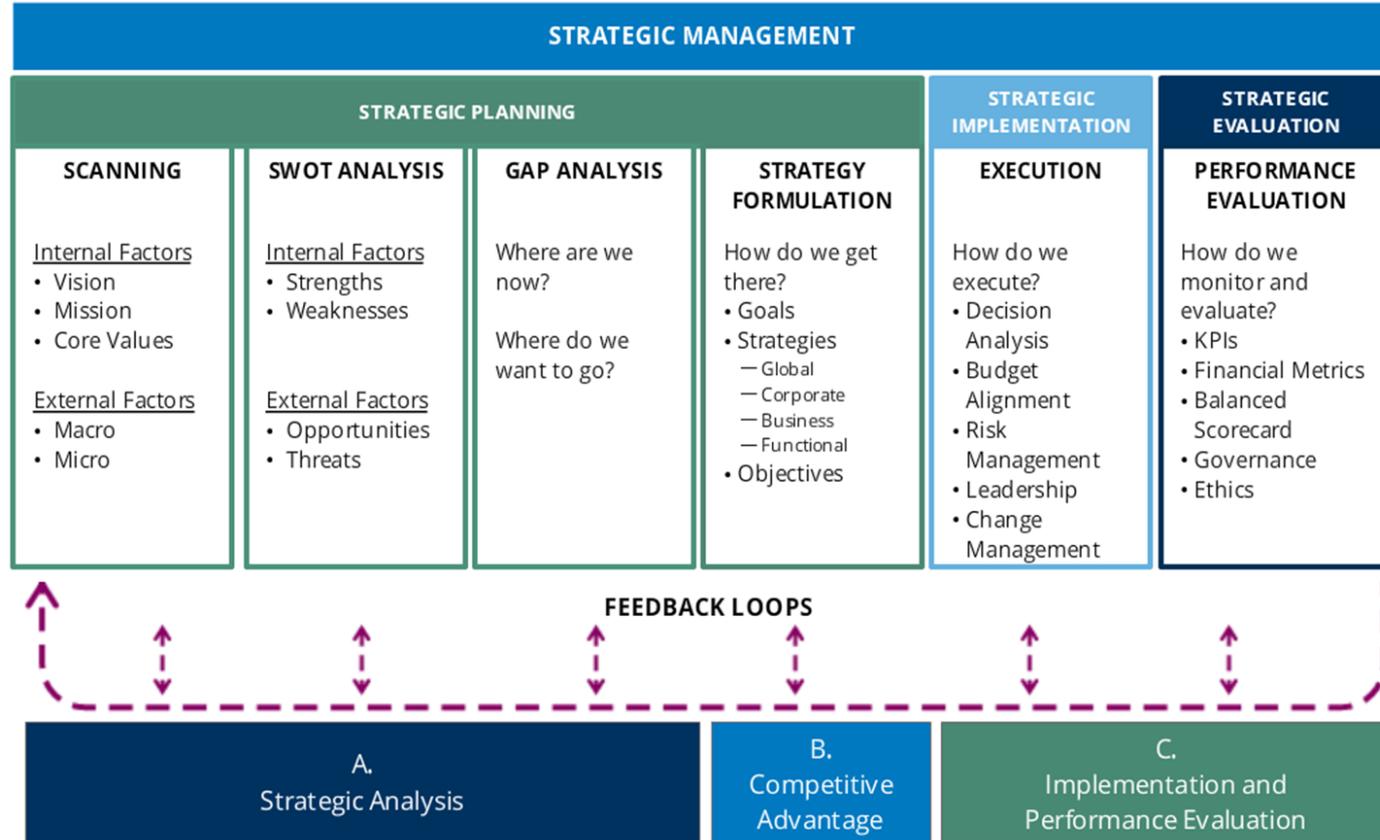
Polling Question 1

How involved is Finance in strategy formulation at your organization?

- a) Very involved
- b) Somewhat involved
- c) Not involved at all
- d) Don't know

Polling Question 1 Results (Placeholder)

Importance of Strategic Planning and Management



Certified in Strategy and Competitive Analysis

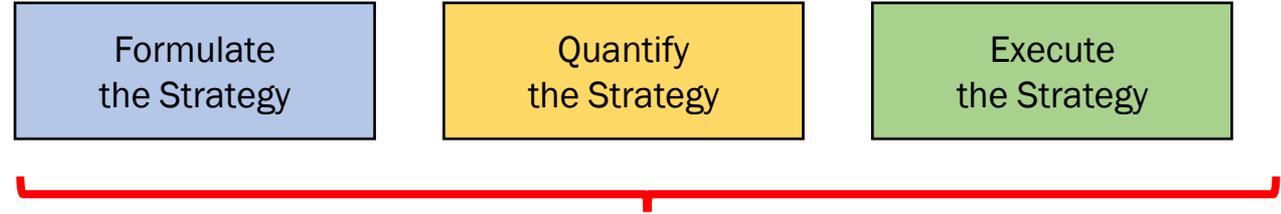
CSCA[®] CMA

ima[®]

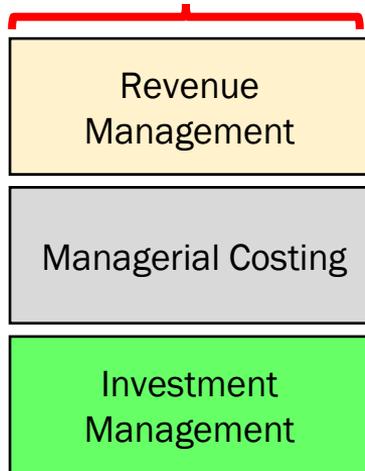
Profitability Analytics Framework

- Developed to provide a high-level framework management accountants can use to provide decision makers with both comprehensive and accurate *internal decision support* information.
- It is organized to focus on the key factors that influence financial success and the major tasks of executive management.
- It is not designed to be a “method.” It is a “framework” in which various “methods” can be used to incorporate portions of its structure.

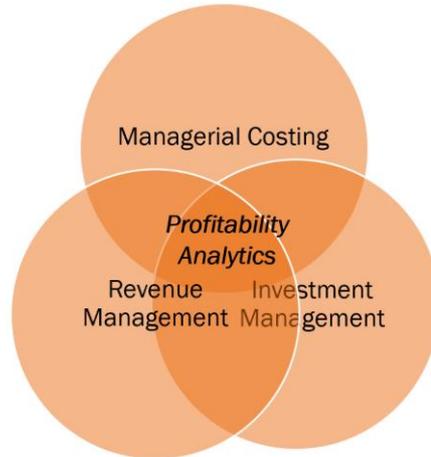
Profitability Analytics Framework



The Three Factors of ROI



The Three Stages of Strategy Planning



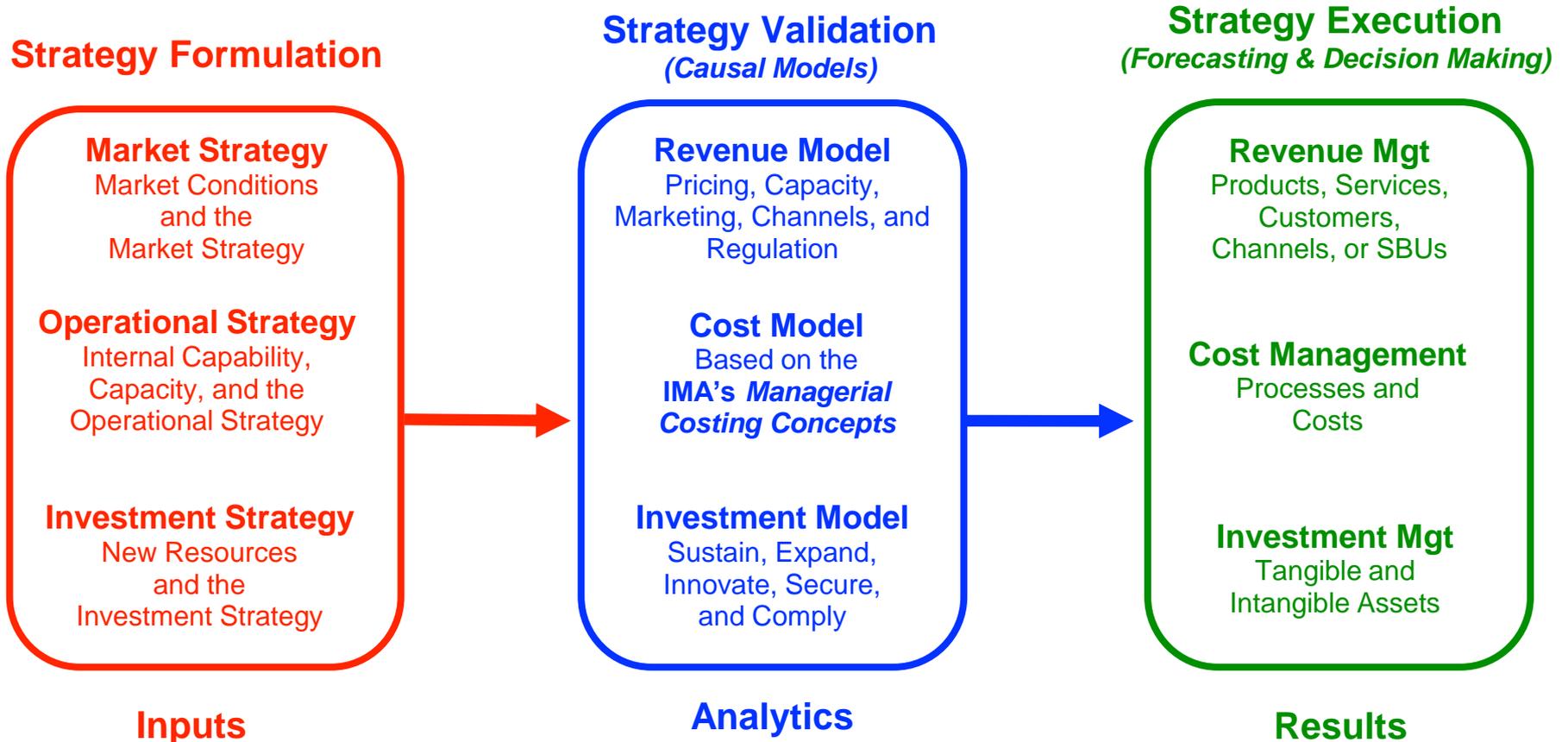
Polling Question 2

What percentage of the time is Finance called upon to provide support while executives are facing important business decisions and not just to justify them afterwards?

- a) 100% of the time
- b) 75% of the time
- c) 50% of the time
- d) 25% of the time
- e) Never
- f) Don't know

Polling Question 2 Results (Placeholder)

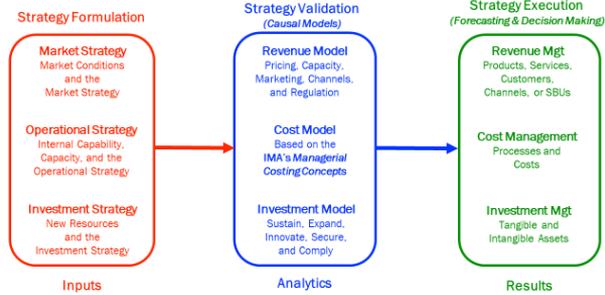
Profitability Analytics Framework



Examples of Strategic Planning Successes



Profitability Analytics Framework



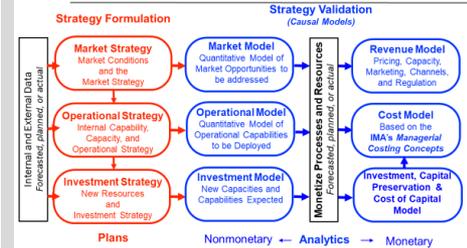
Profitability Analytics Framework



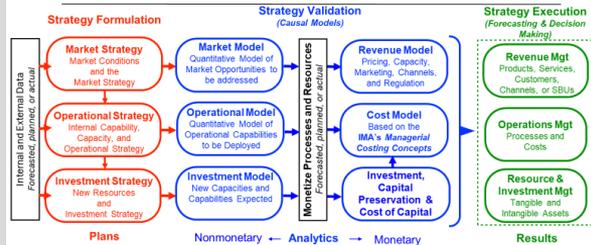
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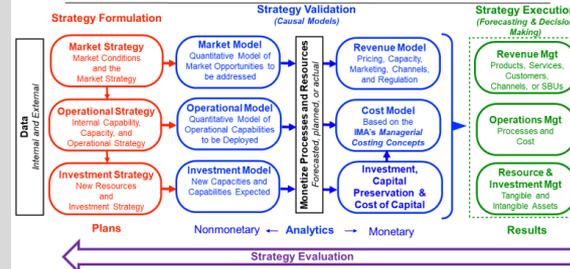
Profitability Analytics Framework



Profitability Analytics Framework

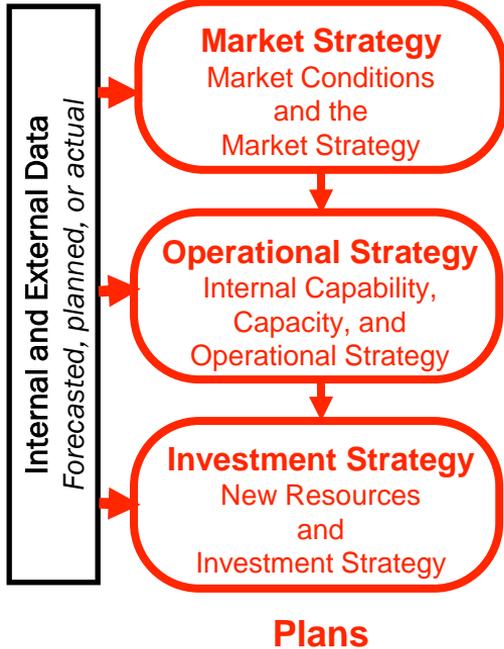


Profitability Analytics Framework

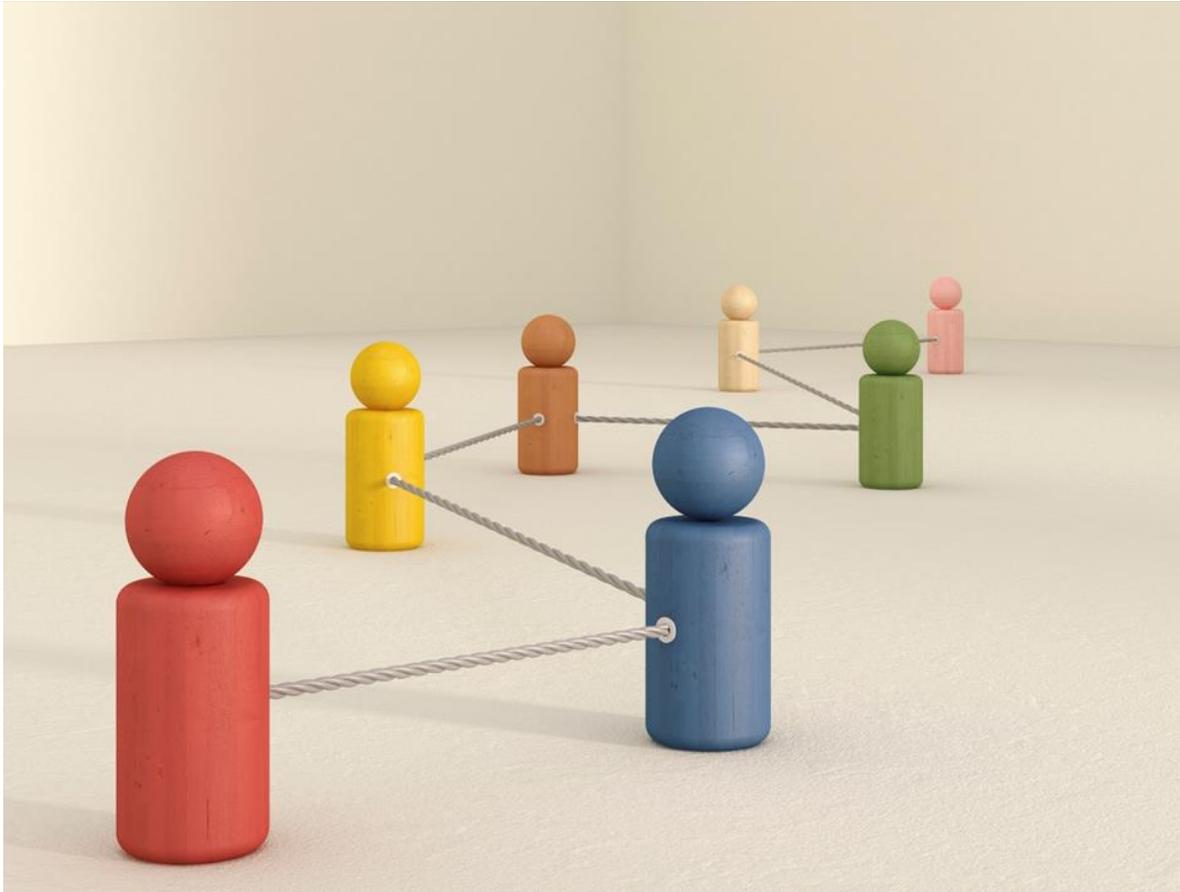


Profitability Analytics Framework

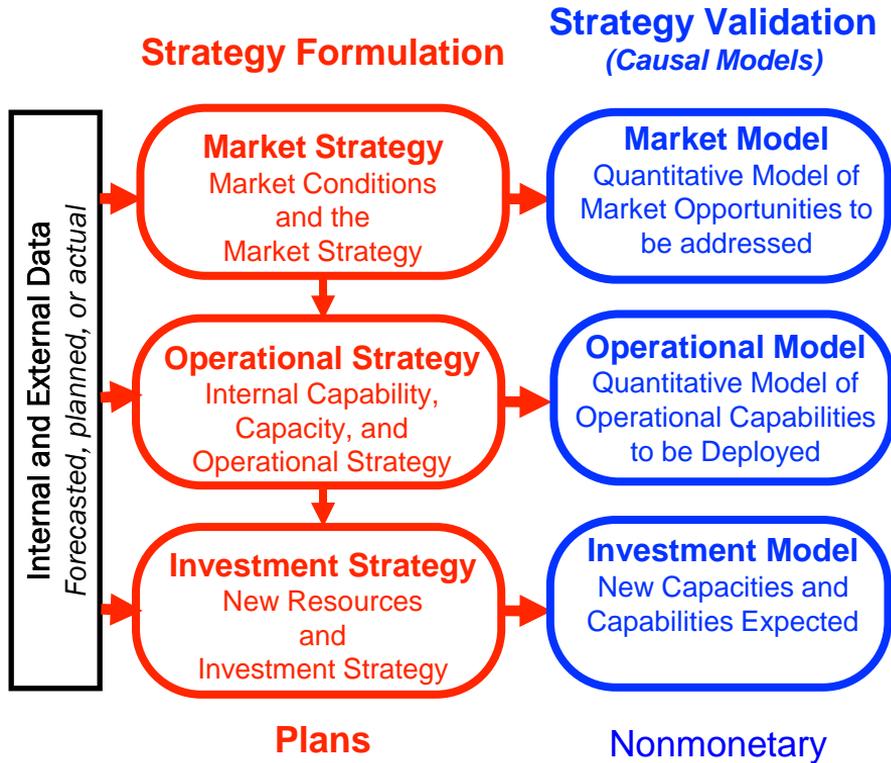
Strategy Formulation



Examples of Strategic Engagement

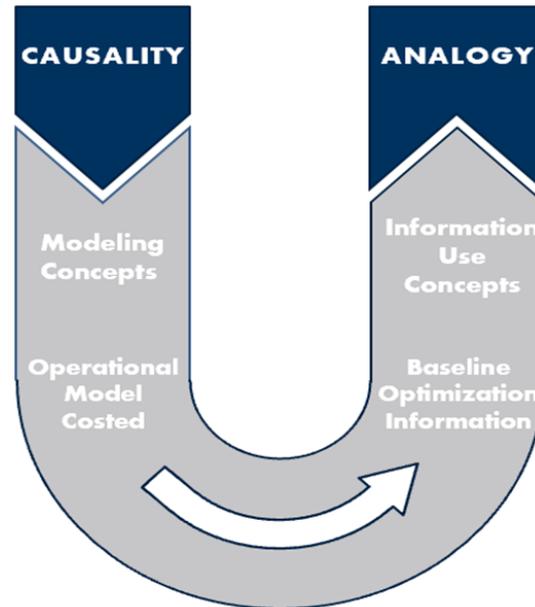


Profitability Analytics Framework



Causality and Models

- Market, operational and investment models must be based on actual cause-and-effect relationships.
- All major factors along the cause-and-effect chain must be included and the relationships among those factors incorporated in the models.



IMA Conceptual Framework
For Managerial Costing

Growing Importance of Operational Models



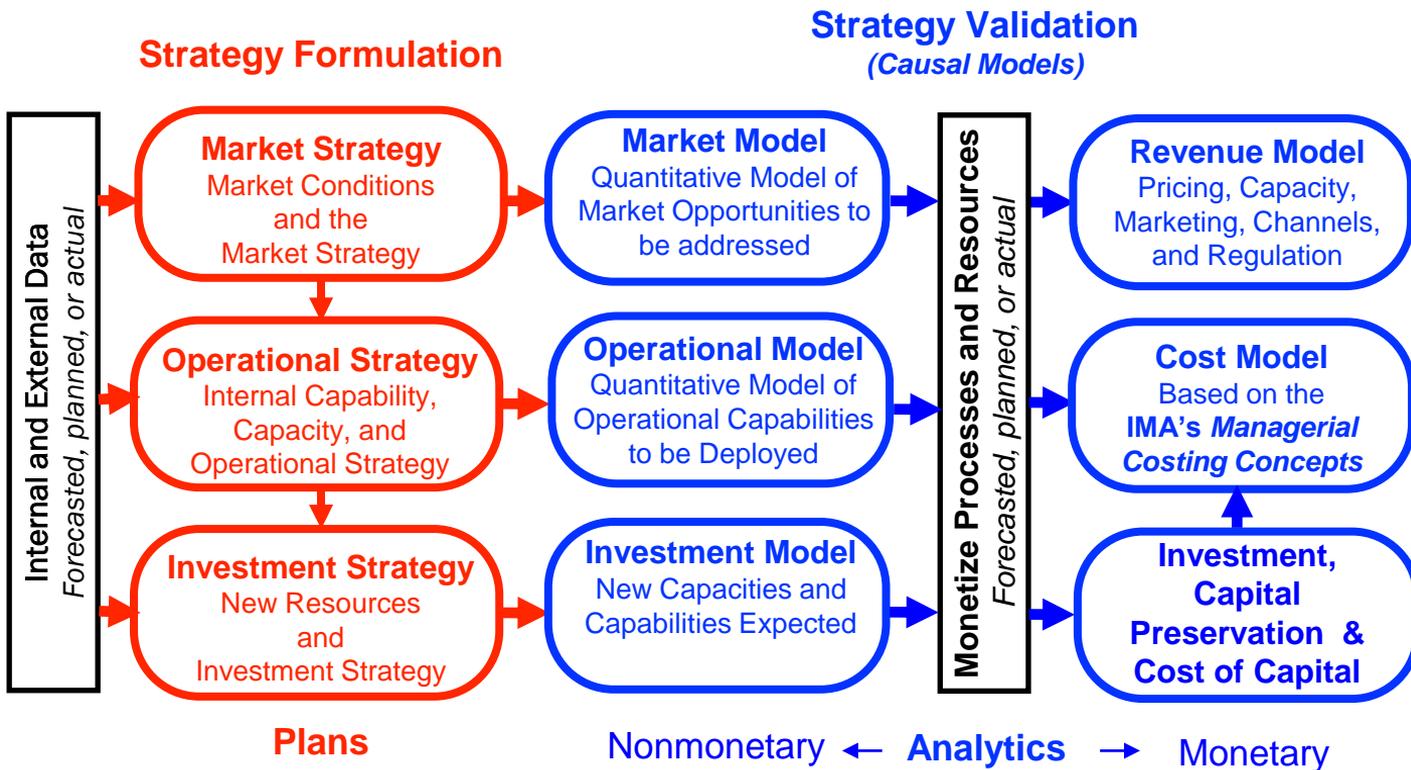
Polling Question 3

What role do nonfinancial, operational systems play for finance and accounting in your organization?

- a) None.
- b) None, we only use those connected to financial reporting and the audit of financial statements.
- c) They are usually managed by other areas of the business and are looked on with skepticism.
- d) Finance and accounting partners with other organizations to understand and use their operational models to better understand the business.
- e) Finance and accounting uses operational systems as the basis for creating financial internal decision support information.

Polling Question 3 Results (Placeholder)

Profitability Analytics Framework



Causality and Model Monetization: What is Truth?



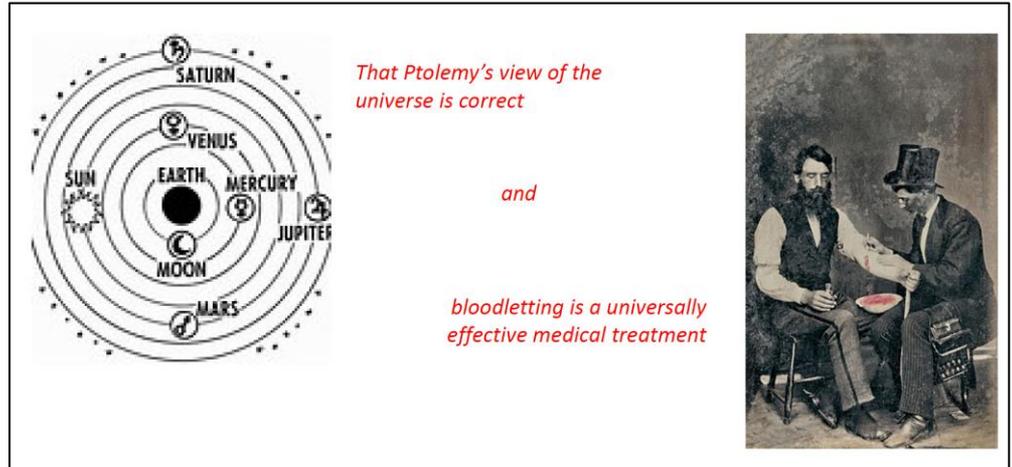
BUT IT'S SO SIMPLE AND EASY TO UNDERSTAND!

“No facts that are in themselves complex can be represented in fewer elements than they naturally possess. While it is not denied that many exceedingly complex methods are in use that yield no good results, it must still be recognized that there is *a minimum of possible simplicity that cannot be further reduced without destroying the value of the whole fabric.* The snare of the ‘simple system’ is responsible for more inefficiency ... than is generally recognized...”

Alexander Hamilton Church, “Organization by Production Factors,” *Engineering*, April 1910, p. 80.

Theories of Truth

- **Correspondence theory** Reality/Science
Truth corresponds to facts
- **Coherence theory**
Proper fit of elements within a whole system
- **Constructivist theory**
Constructed by social processes
- **Consensus theory** Human/Social
Whatever is agreed upon
- **Pragmatic theory**
Putting concepts into practice



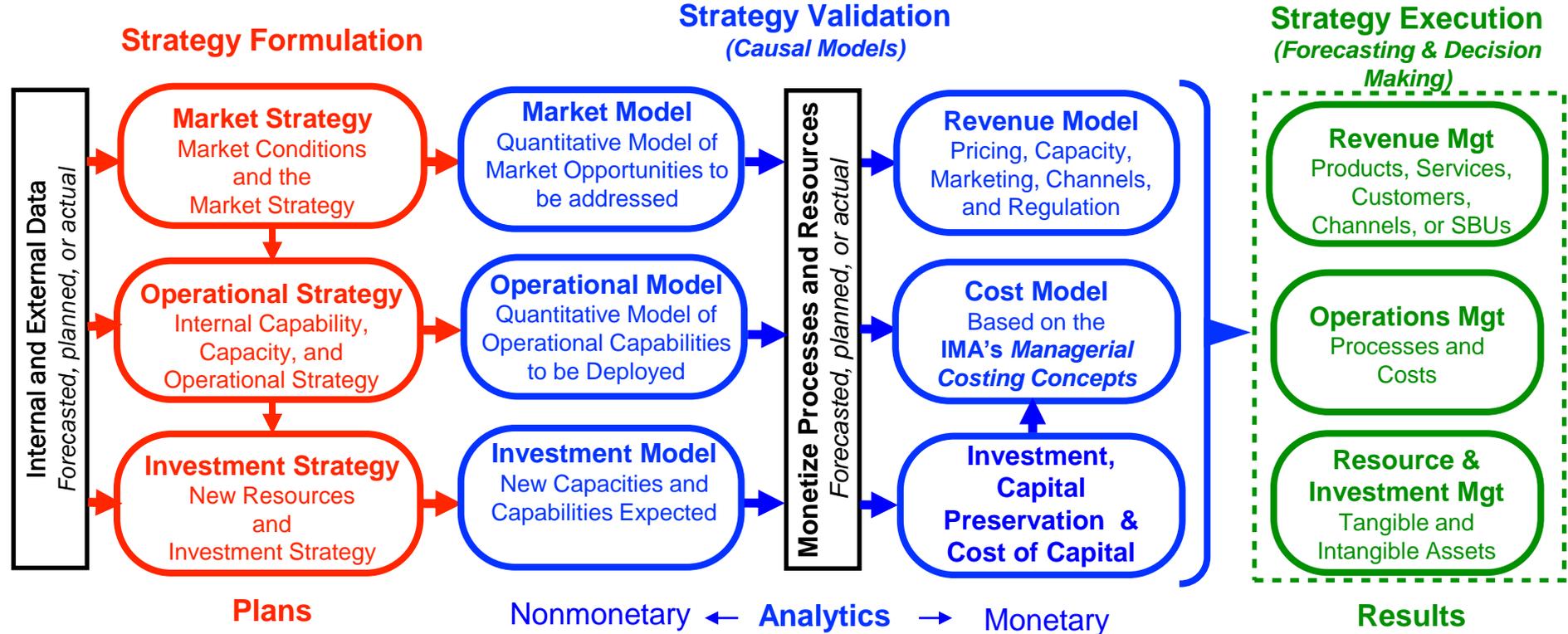
Polling Question 4

What role does causality play in your organization's financial modeling?

- a) None.
- b) None, we only use financial reporting standards
- c) We inject causal modeling in our special studies and analyses.
- d) We build in causality where it does not conflict with financial standards
- e) We try to ensure our allocations reflect causal factors.
- f) Other or confused by causality.

Polling Question 4 Results (Placeholder)

Profitability Analytics Framework



How a Profitability Analytics Perspective can Facilitate Broader Strategic Engagement



Profitability Analytics Framework

Strategy Formulation

Strategy Validation (Causal Models)

Strategy Execution (Forecasting & Decision Making)

Data
Internal and External

Market Strategy
Market Conditions and the Market Strategy

Operational Strategy
Internal Capability, Capacity, and Operational Strategy

Investment Strategy
New Resources and Investment Strategy

Market Model
Quantitative Model of Market Opportunities to be addressed

Operational Model
Quantitative Model of Operational Capabilities to be Deployed

Investment Model
New Capacities and Capabilities Expected

Monetize Processes and Resources
Forecasted, planned, or actual

Revenue Model
Pricing, Capacity, Marketing, Channels, and Regulation

Cost Model
Based on the IMA's Managerial Costing Concepts

Investment, Capital Preservation & Cost of Capital

Revenue Mgt
Products, Services, Customers, Channels, or SBUs

Operations Mgt
Processes and Costs

Resource & Investment Mgt
Tangible and Intangible Assets

Plans

Nonmonetary ← Analytics → Monetary

Results



Profitability Analytics Framework

- Internal Decision Support Perspective
 - Scientific and Logical Principles – Causality or Cause & Effect
 - Not Man-made Rules (except tax impact)
- Reflect Real Economic Impact
 - The Reality of Resources, Customers, Processes, Markets

OLD FP&A	NEW FP&A
Financially focused	Operationally and market-focused
Based on general ledger data	Creates causal data to reflect resources, processes, and markets
Used traditional cost and revenue accounting methodologies	Employs managerial costing and revenue management concepts
Point solution orientation: analysis focused on supporting specific decisions	Oriented toward creating a system that generates information for decision support throughout the organization, enabling innovation
Focused on financial statements	Focused on economic reality

*Institute of Management Accountants
SMA: Profitability Analytics Framework
11/16/2020*

Polling Question 5

What does “business partner” mean to you?

- a) Nothing, fancy language.
- b) Translating the operations of the business into financial statements.
- c) Reviewing and checking budgets, plans, and requests to ensure they are financially sound.
- d) Engaging with all elements of the organization to understand their needs and help them achieve their goals and objectives.

Polling Question 5 Results (Placeholder)

Making Profitability Analytics work? What will it take?

- Recognizing the need for decision support model other than GAAP
- Engagement of Finance and Accounting throughout the organization
- Having the knowledge to develop models that reflect operations, inspire confidence, and everyone understands and uses
- Understand operations and business in the eyes of the organization
- Participation, not judging and evaluating

Questions & Answers

Use the Q & A Panel to send your questions to our panelists.



Doug Hicks, CPA
President
D. T. Hicks & Co.



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Thank You to Our Featured Presenters!



Doug Hicks, CPA
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Resource Consumption Accounting Institute

Final Reminders

- ▶ **Complete the Evaluation poll** – 2 options
 - On your screen
 - Evaluation Survey icon at the bottom of your console
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 - Click the “CPE” icon at the bottom of your console
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Thank You!





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For nearly 50 years, the CMA certification has been the global benchmark for accounting and finance professionals. It demonstrates mastery in 12 critical practice areas in business, including technology, analytics, financial planning and analysis, performance, and control. Professionals who earn the CMA can gain greater credibility, career advancement opportunities, and higher earning potential.

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