

eBook

What is the Profitability Analytics Framework?

Overview of the profitability
analytics framework



INTRODUCTION

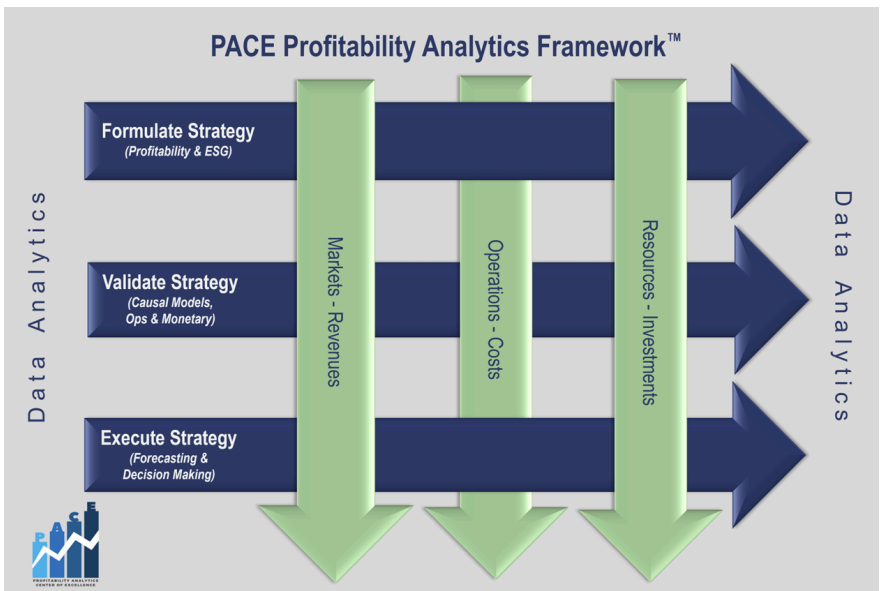
PACE's Profitability Analytics (PA) Framework is a process designed to produce high-quality, internal decision-support information that supports decision making throughout the organization – from the C-suite to the shop floor and direct to customer contact points. It is built on a holistic view of revenue management, managerial costing, and investment management within an organization.

The PA Framework goes well beyond traditional financial accounting, reporting, and analysis. It incorporates modern revenue management techniques, advanced managerial costing focused on internal decision support, and new views of investments as both tangible and intangible.

The PA Framework is built to support and enhance the strategic planning framework of the organization and ensure management accountants and finance professionals are actively engaged in the creation of strategic plans by providing data, information, analytics, and insights well beyond traditional financial reporting.

The PACE PA Framework is designed to support internal decision making within the organization's larger strategic risk management envelope.

Management accountants have an essential role supporting internal customers throughout their organization in order to optimally achieve strategic objectives.



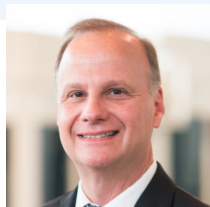
THREE STAGES

The Profitability Analytics Framework is composed of three primary stages:

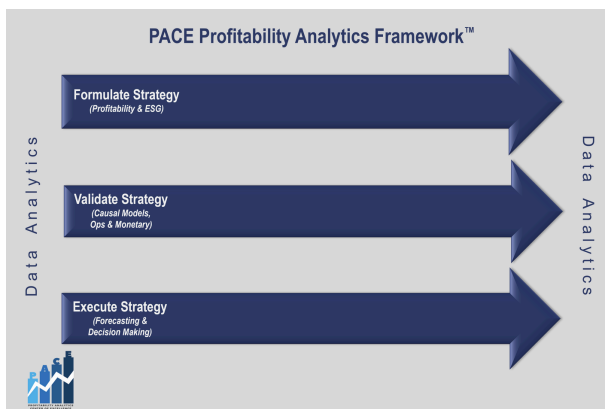
- **Formulate Strategy** - where an organization establishes its plan for identifying and addressing its market(s) and for mobilizing its investments and resources to meet the demands created by that plan.
- **Validate Strategy** - where causal models are developed that directly enable the evaluation of strategy. These models employ the principle of causality to quantify, in operational and monetary terms, the revenue and cost impacts of an organization's strategy, and then track the execution and performance of that strategy.

"The Profitability Analytics Framework is a strategic management framework that starts with the formulation of an organization's strategy based on its vision and mission."

- Raef Lawson, Executive Director, PACE



- **Execute Strategy** - involves decision making that employs the outputs of the causal models to provide the organization's decision makers with the accurate and relevant information they need to make economically sound decisions as they execute and adapt tactics to meet strategic goals.





THEMES

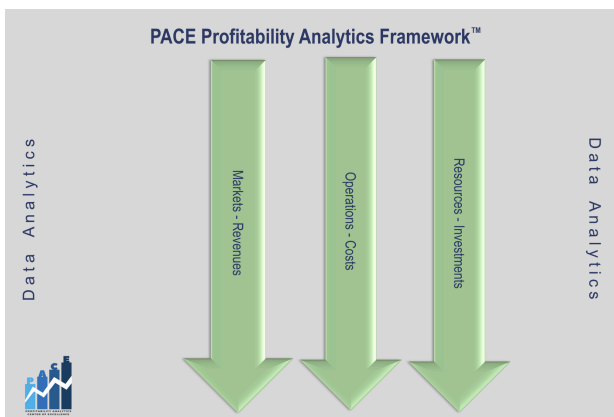
These three major stages, as developed in the Framework, address a number of core themes:

- The importance of understanding and actively participating in all business operations.
- The importance of internal and external data and using data objectively.
- The importance of using analytics that reflect the reality of operations.
- The importance of effectively monetizing processes and resources.
- The importance of planning and forecasting.
- The importance of evaluating decisions, measures, targets, and strategy.
- The importance of feedback loops to gauge progress against stated strategic objectives so that the appropriate, adaptive actions and corrective actions can be taken.

THREE ELEMENTS

Each of the three stages of the Profitability Analytics Framework holistically integrates three elements that determine an organization's profitability:

- **Markets and Revenues** - Revenue management is a key management issue, often the core strategic focus, for most organizations. A market and revenue model enables an organization to effectively assess its market and optimally segment customers, which is key to aligning resources and activities in order to deliver the right product at the right price at the right time to the right customer.



- **Operations and Costs** - Operational planning determines how to meet expected marketing demands on the organization's resources and processes as determined by capacity, capability, and operational fundamentals.

The critical success element of an effective managerial cost system is that it represents core causal connections across the organization's strategic structure.

Executives, managers, supervisors, teams, and employees need a clear and confident view of cost drivers to make decisions that contribute to optimally achieving the organization's strategic objectives and enhancing long-term value.

- **Resources and Investment** - The organization's investment management model, as defined in the PA Framework, describes all resources required to maintain and grow an organization as a value creating entity in the future.

Today's dynamic, creative, and technology driven business environment requires an expanded focus beyond traditional capital investment analysis and justification, embracing intangible investments that are increasingly the core drivers of value creation, including brand capital, human resources, and intellectual property.

"Investment strategy still needs to consider traditional capital investment needs, but must also consider investments in brand, human capital, innovation, and data/analytics, and any other capabilities needed by your organization."

- Larry White, Director, PACE



ANALYTICS

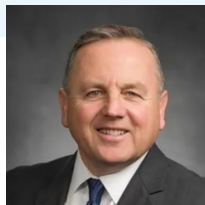
Analytics is the foundation for the Profitability Analytics Framework. It provides a competitive edge for commercial companies and deep insights for public sector government agencies to better serve their stakeholders and constituents. Once a “nice to have,” applying analytics is now mission-critical.

As described above, the Profitability Analytics Framework has three primary stages: Formulate, Validate, and Execute the Strategy. Analytics has a role in each stage.

- For strategy formulation, analytics provides visibility and insights for the strategy to help answer the question “Where do we want to go?”

"The strategic value of cost accounting, traditionally the focus of management accounting, is only meaningful in the context of capturing analytics to support the management of revenue and the deployment of investments to strengthen profitability."

Monte Swain, Director, PACE



- For strategy validation, analytics leverages the tools in a data scientist's tool box (e.g., data collection, cleaning, analyzing, interpreting) to evaluate the three elements of the organization's profitability: Revenues, Costs, and Investments.
- For strategy execution, analytics helps answer the next question, "How will we get there?" Analytics helps evaluate, select, and prioritize the actions to implement the strategy. Analytics then captures feedback on implementation to guide and tighten the execution on strategy.

"Increasingly, the primary source of attaining a competitive advantage will be an organization's competence in mastering all flavors of analytics (e.g., regression, correlation, segmentation). If your management team is analytics-impaired, then your organization is at risk."

- Gary Cokins, Director, PACE



BENEFITS

Use of the PA Framework helps explore issues such as the management accountant's role in:

- Defining and evaluating customers, markets, and competition to develop market strategies
- Defining and adjusting internal resources, capacities, capabilities, and competencies to meet strategic goals
- Creating and using causal, nonfinancial, operational models to support all of the organization's value-creating activities.

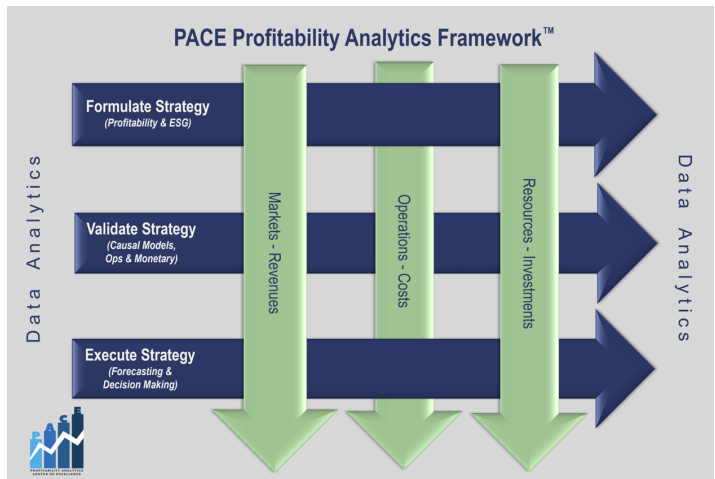
"To remain relevant, accountants must do more than simply measure and preserve value; they must become indispensable, value-adding members of an organization's management team."

- Doug Hicks, Director, PACE



- 
- Causal financial modeling that applies principles of causality in revenues and costs in order to clearly reflect economic reality for internal decision support.
 - New approaches to forecasting and planning for internal decision support based directly on the organization's strategy, processes, and resources.
 - A more holistic approach for improving financial metrics and plans to manage, evaluate, and improve production and service delivery, customer value and profitability, and tangible and intangible investments.
 - A pathway for FP&A functions to expand their partnerships and develop more systematic approaches to modeling and collecting data for internal decision support.
 - The measurement of outcomes, in both operational and financial terms, is to isolate and understand causes and effects, which enables effective adaptive and corrective actions.

Now that you know more about the PACE Profitability Analytics Framework, we invite you to explore the Profitability Analytics Center of Excellence Library for podcasts, webcasts, case studies, and articles.



Contact us: info@profitability-analytics.org

Website: profitability-analytics.org

©2023, 2024 Profitability Analytics Center of Excellence. All Rights Reserved. Permission to quote, reproduce, and disseminate granted provided appropriate attribution is given.

profitability-analytics.org