Cloud-Based Modeling Helps Operations to Manage Performance and Plan its Future

Collaboration, and models built on approved data and drivers, improve consistency and confidence

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Executive Summary

Increased energy and attention is being given to extending business performance management (BPM) analytic and modeling capabilities beyond Finance. This gives operational departments new opportunities to plan their future and manage performance in sync with corporate plans, by modeling and forecasting their business activity based on the approved numbers.

A tenet of this sharing of the analytic and modeling aspects of BPM (also referred to as CPM and EPM) is that all areas of the company should use the same baseline data, as well as consistent, approved forecast drivers and assumptions. This maintains a single source of business truth and keeps consistency across the enterprise. It should also make it easier to spot inaccurate forecasts and questionable models.

Spreadsheets alone cannot enforce usage of the Finance-blessed data and the corporate-sanctioned plan drivers, because they lack governance capabilities. In contrast, a cloud-based modeling application, maintaining models in a single repository on the server side and drawing on the CPM database usually maintained by Finance, provides these governance capabilities as well as collaborative features.

Enterprises today can benefit from collaborative modeling, using consistent data and planning assumptions, in a wide range of areas. When line of business (LOB) staff can build detailed models, this unburdens the corporate plan from the need to go down to a granular level.

Why Finance Wants Operations to Model…Correctly

Both Finance and Operations departments have ample reason to want Operations modeling / forecasting to be based on Finance-blessed data and corporate targets, and on the official enterprise planning assumptions, such as interest rates, inflation, economic growth, and other internal drivers.

Operations (aka LOB, or line of business) managers need to accurately anticipate business outcomes, and forecast using granular detail, to better inform business and financial plans.

Collaboration and cross-consultation between Operations and Finance on plans, targets, and models will help the lines of business achieve goals, and help ensure that accurate data is fed upward into the corporate plan. This depends on models and forecasts having consistent baselines.

A key uncertainty should be resolved before setting out to evaluate and choose a software system: is operational analysis starting with the right data, and if it is being modeled in a spreadsheet, how does it stay unaltered and remain true to the Finance-approved numbers and the company's preferred forecast drivers and assumptions?

A good starting point is to combine modeling and forecasting with performance management on one cohesive platform.

Governance, Compliance, and Keeping Track of Models

Companies want accurate forecasting, and they want to feel confident about the forecasts they use and make known to stakeholders. These are probably the primary reasons they want to discourage modeling on ungoverned spreadsheets. Executives responding to a KPMG study on modeling accuracy estimated that forecast errors knocked six percent off their companies' share prices.[1] A closer-to-home scenario: imagine discovering in a meeting with the CFO and CEO that some of the forecasts delivered by your sales managers were based on homegrown spreadsheets that ignored the corporate planning assumptions.

Senior management and Finance increasingly see the benefit of taking the corporate plan into operational areas, making sure the right data, forecast assumptions and scenario drivers go with it. This doesn't dictate a top-down regime. "Guidance from above, detail from below" is a more apt description.

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[1] https://www.kpmg.com/dutchcaribbean/en/services/Advisory/Documents/forecasting-with-confidence.pdf

Governance also applies to keeping track of multiple modeling scenarios. What if you get the wrong "What if" scenario? It's self-evident that correct tracking of versions and scenarios, transparent to all appropriate users, is important.

Operational models feed numbers (predictions) back up to the corporate plan, in many companies. For such forecasts, when that circle gets completed, there's a need for individual ownership and autonomy, balanced with security and compliance. In a multi-department environment, which today is nearly every organization, keeping track of who changed what in any given scenario is a necessity.

How Detailed Should Modeling Be?

Modeling at a granular level of detail can relieve the corporate plan of complexity, helping to keep it lean, agile, and easier to work with. Different departments require different detail levels, as well as different dimensionality. For example, Sales may need customer, territory, and sales rep as dimensions, while manufacturing may need such dimensions as factory, production batch, and unit color.

Retail distribution, as another example, can be very detailed, often planning at an SKU level. Marketing might be considerably less granular, and Finance even less so. The corporate Finance plan doesn't need a customer dimension, but the sales volume forecast depends on it heavily.

Some analysts, by personal preference or company policy, use driver-based models, while others typically do not. Some customarily generate multiple scenarios and then compare them. The modeling application chosen should accommodate the various practices used across the enterprise.

Examples of Modeling at Work

For the purpose of perspective on how widely consistent modeling is needed throughout the enterprise, here are some concrete examples:

Compensation Modeling
Human resources often is responsible for aligning the company's headcount and compensation plan with its strategic goals.

Modeling for M&A Analysis
Mergers and acquisitions require some of the most complex models, with

dimensions that include stock prices, option obligations, transaction dates, and other variables.

Capital Planning at the Departmental Level

While drawing on corporate-level assumptions about drivers, individual departments can create more accurate forecasts of capital expenditures, by modeling their specific drivers (e.g. hiring plans, locations) and tailoring scenarios to objectives that are established in corporate targets.

Product Marketing / Brand Volume Forecasting

Brand managers typically take some requirements and drivers from corporate and departmental plans, and add granular detail from sales and distribution across product, channel, and geographic lines.

Sales

Forecast models in Sales typically cover sales targets and in some cases predicted results and revenue by SKU, as well as commissions.

Manufacturing

Materials and unit production forecasts help drive other areas of a company, so consistency in data and forecast drivers is of heightened importance.

Waterfall Revenue Model

With accuracy – at a granular level, with respect to time -- comes added complexity in forecasting, and consistent application of revenue recognition timelines is further motivation to have sufficient governance over modeling.

Allocations

Allocating revenue, and -- more commonly – expense and "metered usage" of internal resources is not only highly complex and multi-dimensional. It is also an area where departments can easily get out of synch. In an enterprise with one hundred subsidiaries, five might be removed from a particular internal chargeback and an internal service provider might not hear about the change. A cloud-based modeling application with immediate application of the latest, official allocations schema to each model can prevent this problem.

Benefits of Cloud-Based Enterprise-Wide Modeling

With governance over modeling, and a single repository of model data on the server side of a cloud-based application, the company can maintain a single source of truth without the hassle of managing on-premises software.

All Models Leverage Data from a Finance-Blessed Repository

The cloud-based application uses data and planning drivers and assumptions from a repository that is centrally maintained. The Departments can plan how to achieve targets in the corporate plan by building more granular, accurate, self-generated models and forecasts that incorporate detail from the front lines.

Collaboration

Collaboration is increasingly a requirement in forecasting and modeling; cloud-based modeling applications are well-suited to incorporate typical collaborative features such as linking comments and supporting materials to a model, maintaining an audit trail of who changed what, and rollback to earlier versions in case one disagrees with the modifications input by other contributors.

Cloud architecture helps operating groups collaborate more easily and effectively, with the ability to share and work with real-time updates to shared models. This approach prevents significant lost time and possible errors that tend to arise when circulating spreadsheets as email attachments, and perpetually trying to ascertain which attached model is current and which is out of date.

Time savings

Faster iterations, data inputs, and approvals can be built into the cloud application as guided workflow.

Wider Participation in Producing Accurate Models and Forecasts

Finance and Operations share the credit for spreading analytic autonomy along with robust governance capabilities. The ideal is to let users model and create reports as easily as they can do it in a desktop spreadsheet, with the consistency of a centralized CPM application, without the drawbacks of ungoverned spreadsheets,

Scale and Technology

The scalability issues that arise with a modeling solution include:

- Allowing the number of dimensions needed for detailed modeling.
- Sufficient processing speed in the presumably cloud-based architecture, where modeling occurs in an Excel-like or Excel front end, with refresh via the cloud.

- Accommodating the projected numbers of both power users and occasional users, with smooth ramp-up free of technical and licensing obstacles.

Technology architecture requisites include:

- Modeling in an Excel or Excel-like environment with storage of data in the cloud, while the user experience remains on the desktop or mobile device.
- Fast processing at the server side.
- Ability to handle high volumes of data.

Deployment and Cost

Cloud-based modeling, delivered via browser or mobile- can support rapid deployment and low cost of ownership.

A cloud-based system typically has other qualities that save time and cut risk. For example, by linking a model directly to the core financial application, or to a departmental system (such as Human Resources), data is not lost in translation.

Conclusion

With modeling at an enterprise level, a CPM/BPM application built on cloud architecture becomes helpful to ensure that models are based on approved data and assumptions or drivers. The result can be greater consistency despite the much larger population of users, as well as more reliable forecasting. With greater accessibility and ease of use comes more involvement by line of business and operational managers, as they see an opportunity to better align and sync with Finance and Corporate reports and expectations. An Excel-centric or Excel-like modeling environment helps ensure that users refrain from going off the reservation and exporting data out for unregulated, inconsistent forecasting.

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