

A BPM Partners White Paper

Financial Consolidation and Reporting: The Cloud Enables Easy Entry & Incremental Adoption

Many Companies Can Benefit from a Cloud-Based CPM Solution with Strong Consolidation and Reporting Capabilities

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Cloud-Based Financial Consolidation Catching On

All companies know they require planning and forecasting software to replace spreadsheets, but many do not think they need a financial consolidation solution. If they require just minimal or no currency conversion, or have only one general ledger, they often tolerate the struggle to get through quarterly and year-end close and reporting manually. As other processes in Finance are improved, though, the difficulties in the financial close stand out more.

This process remains challenging at many companies, in particular those which have an under-powered, overly rigid, or no financial consolidation solution. 43.5% of respondents to the 2015 BPM Pulse Survey said consolidation was essential in picking a new performance management system.

The options for financial consolidation and reporting that most Offices of the CFO see as being available to them include:

- A legacy, on-premises consolidation-specific application with limited capabilities.
- A traditional, heavy-footprint consolidation application with a six- or seven-figure price tag.
- A newer, light-print CPM suite that focuses on planning and budgeting, and has minimal capabilities for consolidation.
- Standalone spreadsheets, which require extensive manual set-up and maintenance and offer no governance or controls.

There is another option available: a cloud-based, unified CPM application suite which “breaks from the pack” by including extensive capabilities and coverage for financial consolidation and reporting tasks. It is true there are not many choices in this category; planning in the cloud has been emphasized by cloud CPM software vendors, and most have not focused on delivering robust cloud-based financial consolidation.

The Pulse Survey shows that adoption of cloud planning is considerably more extensive than cloud consolidation, which is earlier stage, and just taking off. In 2014, only 8.3% used a cloud-based financial consolidation system. A year later, that had risen to 19%.

There are other signals that point to cloud-based financial consolidation gaining ground. The 2014 BPM Pulse Survey found that 18.1% conducted consolidation primarily in spreadsheets, and 7.8% used a system developed in-house. A year later, only 12.7% were consolidating primarily on spreadsheets. We believe there is a fairly widespread migration under way, from spreadsheets to cloud-based financial consolidation solutions.

Note: in this document, we use the term corporate performance management (CPM) to also refer to business performance management (BPM) and enterprise performance management (EPM).

Signs That Financial Consolidation is Needed

It's not only large multinational entities that find financial consolidation essential. Here are several indicators that can show a company needs – or will soon need – robust and reliable financial consolidation and reporting solutions:

- More than one general ledger, transactional system, or ERP system
- The possibility of acquiring another company
- Currency conversions and /or subsidiaries with partial ownership, intercompany transactions
- Alternate organizational hierarchies or rollup structures
- Preparing for an IPO and/or external audit

Many companies prefer to not focus on the need for financial consolidation: there are other priorities, and it's a relatively small group of people who suffer through each period-end close. The downside and inconvenience of getting by without a financial consolidation software solution is not widely understood.

They may not realize that starting with financial consolidation can be fairly easy and cost-contained, leveraging setup work that Finance has already completed in automating other key processes.

We Can't Escape Reality: Financial Consolidation is Complex

Those who manage financial consolidations for a living know how challenging and complex this iterative process – typically requiring many steps – can be.

It involves collecting financial results from multiple systems, divisions, and subsidiaries – often with different charts of accounts, currencies, and business practices. The potential downside from any errors or missed deadlines can be significant and very costly.

A quick view of the steps to consolidate financial results following US GAAP or IFRS guidelines:

1. Perform currency conversions
2. Manage complex intercompany reconciliations
3. Perform hundreds or thousands of account reconciliations
4. Correctly account for minority interests
5. Enter top-side accruals and other adjusting journal entries

6. Review the results for completeness and accuracy, making corrections and reclassifications of revenue and expenses as needed
7. Produce financial statements that the CFO and CEO can sign off on with confidence
8. Ensure adequate audit trails for internal and external auditors
9. Create complete, accurate regulatory filings on deadline

Options for Financial Consolidation Software

There are several ways that companies use to handle financial consolidation and reporting:

A cloud-based CPM system – A unified performance management solution that has other functions already used by Finance, such as budgeting and planning or forecasting, can provide an ‘easy adoption’ path to financial consolidation. The centralized server-side database provides governance in the form of security, internal controls and audit trails. A purpose-built financial consolidation system is designed to perform high-speed processing of consolidation rules and calculations according to US GAAP, IFRS and other guidelines as well as generation of complex reports. Robust financial consolidation functionality is still not common in cloud-based corporate performance management, so careful vetting of the needed features is important.

Standalone spreadsheets – Carrying out all the steps of financial consolidation with stand-alone spreadsheets and email, especially in a multi-entity enterprise, can be almost impossible. Collecting and consolidating multiple spreadsheets creates too many opportunities for errors and omissions; adds considerable time and manual effort. And spreadsheets have proven inadequate for auditing purposes - lacking security, controls, and audit trails.

Legacy, on-premises CPM applications are a better approach than spreadsheets. If your CPM tools are old, however, cannot easily integrate all the necessary data, have limited dimensionality, and are limited by inflexible reporting, the Finance team will still struggle. Considerable time and resources of the finance department will be spent manually entering data, reconciling balances, and constructing reports. These inefficient activities drag out the process and open up vulnerability to human error.

In addition, the installation and implementation of on-premises CPM applications typically takes six months to a year. The maintenance can also be time-consuming. Upgrades can be almost as costly and complex as the initial implementation.

Financial Consolidation Features to Look For

Results from the BPM Partners 2015 Pulse Survey show the relative importance of different financial consolidation and reporting features for Finance managers and executives. The features rated as highest priorities are shown first, with the others following in descending order.

- Audit trails and journal entries / adjustments.
- Having consolidation as part of a single database, along with budgeting and forecasting.
- Support for alternate rollup hierarchies.
- Workflow / data locking.
- Intercompany matching reports and automatic intercompany eliminations, and the ability to manage complex intercompany reconciliations.
- Posting back to the general ledger.
- Collaborative disclosure process.

Scaling and growth create the need for greater sophistication in accounting, reporting, and of course consolidation. The ability to perform currency conversions, and correctly account for minority interests, are also often on the feature checklist.

Conclusion: Financial Consolidation via the Cloud

Although cloud-based financial consolidation has lagged (behind cloud-based planning), survey results indicate that it is now quickly replacing spreadsheet-based and home-grown consolidation approaches. Financial consolidation in the cloud was not highest priority for most software vendors, and has not been viewed as particularly robust. This may have slowed customer adoption. There are also still many companies that have not recognized the significant downside to struggling through closings without effective financial consolidation, when it would add substantial efficiency and reduce period-end closing time.

Cloud-based financial consolidation offers numerous advantages: an 'easy adoption' entry point, and a centralized server-side database that provides governance in the form of security, internal controls and audit trails, as well as high-performance processing, and mobile and web access. Updates to accounting and consolidation rules are applied simultaneously to all users with no friction or delay.

While robust cloud-based financial consolidation software, capable of handling complex global consolidations and reporting requirements is available and in use at many sites, companies seeking this type of software solution should look carefully at live reference customer implementations and ensure the features they require are present in the current software version.

About BPM Partners

BPM Partners is the leading independent authority on business performance management (BPM) and related business intelligence solutions. The company helps organizations address their budgeting, planning, financial reporting, regulatory compliance, profitability optimization, key performance indicator (KPI) development, and operational performance challenges with vendor-neutral experts who can guide companies through their BPM initiatives from start to finish while both reducing risk and minimizing costs. For further details, go to <http://www.bpmpartners.com>. Follow BPM Partners on Twitter [@BPMTeam](#).

About Host Analytics

Host Analytics is the leader in cloud-based enterprise performance management (EPM), offering a suite of financial applications for modeling, planning, consolidation, reporting and analytics. World-class companies like NEC, Burlington Coat Factory and Jazz Pharmaceuticals trust Host Analytics to power their strategic financial processes. Host Analytics is a fast-growing, private company backed by leading venture capitalists and is headquartered in Silicon Valley with customers in over 90 countries.

For more information about Host Analytics, please visit www.hostanalytics.com.