A BPM Partners White Paper

How to Leverage Consolidation Functionality in Budgeting and Planning

Many companies use workarounds, but would benefit from robust consolidation capabilities.

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Executive Summary

Financial consolidation functionality can play a key role in making corporate budgets more accurate, faster, and easier to create. If consolidation capabilities such as intercompany eliminations and alternate rollups are not available in their budgeting and planning solution, companies usually resort to work-around methods or make do with rudimentary capabilities that can be tedious and promote errors. In such instances, it can be difficult to create an accurate corporate budget that supports the organization's structure and its reporting requirements in different jurisdictions.

Budgeting and planning applications with robust consolidation included, or easily added, are in the minority. Most software vendors of BPM/CPM (business performance management/corporate performance management) applications focused their initial product development on budgeting and planning. Their first product or suite may include budgeting, reporting, scorecards and dashboards. Financial consolidation typically comes as a later addition to the product suite. This development sequence is a reaction to marketplace demands, where budgeting is more widely used and required by more users. Therefore, budgeting is also the most common entry point to BPM for most users and their Finance departments. While standard consolidation accounting projects are less common than budgeting and planning initiatives, performance management activities of all these types can benefit from the features typically found in a vendor's consolidation offering.

This white paper looks at the importance and value of consolidation functionality in enterprise budgeting and planning.

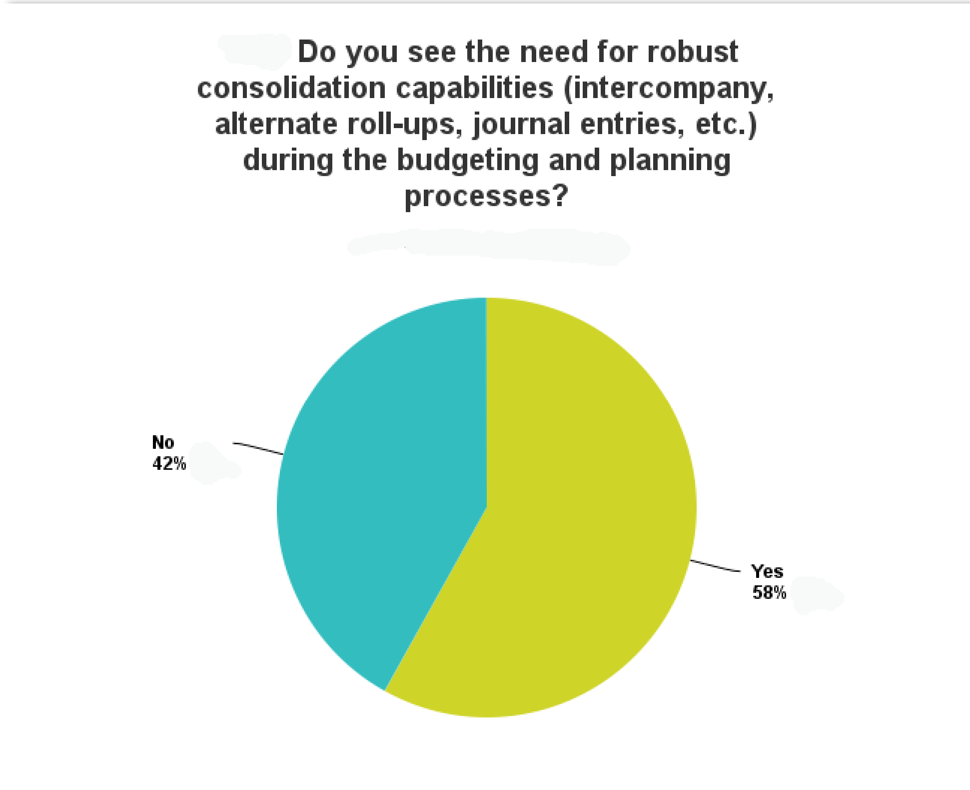
Finance Viewpoint: Six Ways Consolidation Functionality Benefits Budgeting

FP&A groups usually don't think of their job as involving consolidation tasks, but there are at least six commonly encountered areas where consolidation is almost essential to budgeting. If the company is not already using a purpose-built consolidation application, these functions are probably handled in a more informal, less robust way using other tools. However, for more formal budgeting and more detailed capabilities, a consolidation module to support budgeting is extremely productive when working on:

1. Intercompany eliminations
2. Alternate rollups and hierarchies
3. Complex allocations
4. Currency conversion scenarios
5. Journal entries
6. Auditability

The need for consolidation capabilities in the budgeting process can apply to large as well as small and mid-sized companies. It depends more on organizational structure and accounting practices than on size.

As one example, when products or services are sold from one division to another division in the organization, the revenue and costs generated at the division level must be eliminated at the corporate level. This common transaction is frequently handled in end-of-period consolidations, but it is also a necessity for some companies in the budgeting process, to avoid distorted (inflated) corporate-level revenue and cost budget numbers.



Finance groups are becoming more aware of the value of consolidation functionality during budgeting and planning as this data from the 2017 BPM Pulse survey illustrates.

How Consolidation Functionality Enhances the Budgeting Process

The use cases for consolidation-in-budgeting include:

1. a. **Intercompany eliminations in budgets and forecasts**. Handling these manually can take time and introduce errors in the budget, so some degree of automation – which a consolidation application provides - is the most practical solution. Entities need to budget matching numbers on both sides of the transaction. If not, then the consolidated budget will be inaccurate. A robust intercompany engine that is part of a vendor's consolidation offering could be very helpful here. If the intercompany data is in different local currencies then this product feature becomes essential.

   b. **Intercompany elimination at the product level.** Finance frequently wants to handle eliminations at the product level to help automate transfer pricing entry/analysis. In the budget process, this capability supports accurate planning of product revenues. This would be difficult to accomplish otherwise, with most budgeting systems. When done manually, the level of detail requires careful attention.

2. **Alternative Rollups.** A consolidation application will ease the work involved in creating, storing, and comparing alternate scenarios for a budget that is more conducive to enabling comparisons and insights. Obvious examples of alternate rollups are by geography and by product division.

   Another critical use case is for mergers, acquisitions, and restructuring. A common example is a planned reorganization for the new budget year. This requires the system to maintain the current organization structure for the current year's actual versus budget reporting, but also support a new rollup approach for the next budget year. For some systems, this can be tricky without the capabilities of a high-end consolidation engine to handle the task. The current year's budget needs to remain unchanged, including the consolidated entities, while users have started working on next year's budget using the new hierarchy.

   Anticipated divestitures and acquisitions also call for consolidation functionality. The system needs the ability to support budget rollups both with and without the entities in question. Once the change actually takes place, a revised budget needs to be created via a re-consolidation to reflect the current state of the business.

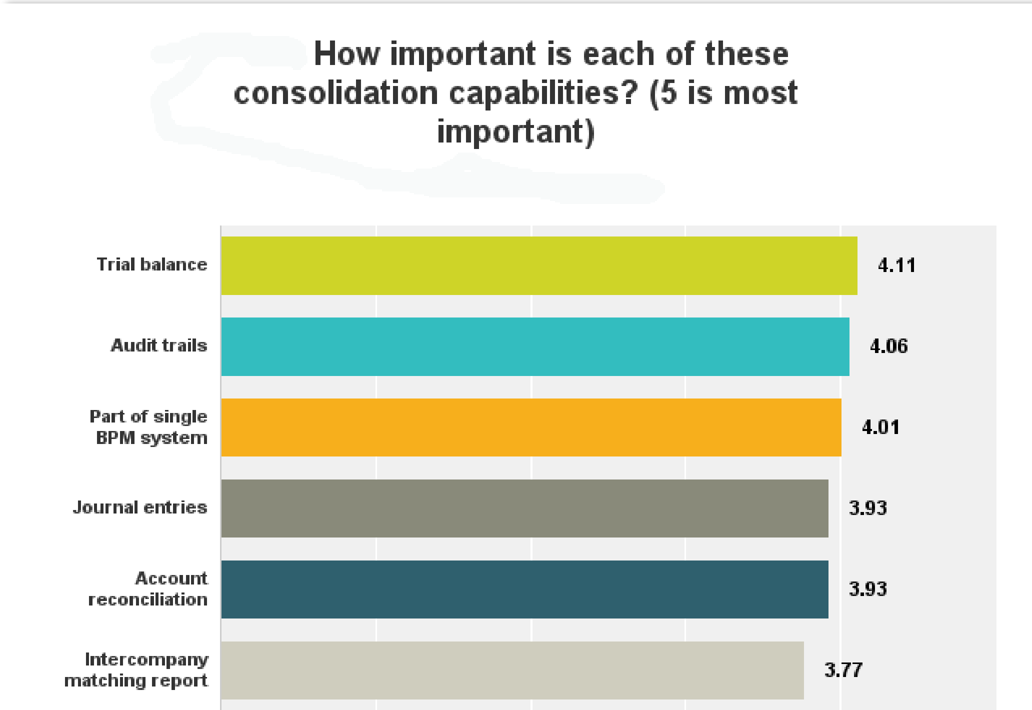
3. **Allocations.** Allocations come into play, in budgeting, when an expense such as marketing is shared across divisions. The criteria for allocation might include, for example, the planned contribution to revenue for each division. The system would need to accurately consolidate the divisional budgets, and then execute the allocation logic based on the consolidated data to be able to update the individual marketing expense line item at each division. This complex consolidation case, which requires the use of 'parent level logic' (calculations that occur at the consolidated level), would be difficult to accomplish without integrated robust consolidation capabilities.

However, Finance departments may not be performing consolidation in their performance management system. The 2017 BPM Partners Pulse Survey showed that while 30% of respondents used an on-premises BPM consolidation application, and 20% use a cloud-based BPM dedicated application, roughly 50% are performing consolidation using spreadsheets, or with some form of in-house solution, or on an accounting or ERP system. This is an issue since BPM Pulse Survey respondents ranked allocations as among the most important features for a budgeting system.

4. **Currency Conversions** factor into budgets whenever a company has international operations or sales. Local currency data needs to be converted into a standard reporting currency and the system needs to be able to leverage this data to derive currency gains and losses. Many budgeting applications have a rudimentary currency conversion facility. Typically, they can handle only basic consolidation issues that arise during reporting. They may be unable to handle common requests, such as being able to report actuals at budget rates for a more accurate performance analysis. A true consolidation application can handle all the potential intricacies of currency conversion and reporting.

5. **Top-side Adjustments as Journal Entries.** Finance might want to make top-side adjustments to the plan without altering the underlying plan that the budget owners have constructed. This might be done in a typical budgeting application by creating a special adjustment entity and manually entering the adjustment value. Once again consolidation becomes important if the company would like to be able to report on the data both pre- and post-adjustment. Note that post-adjustment requires consolidating the original entity and the adjustment entity into a post-adjusted total entity. Even more challenging is doing this via a journal entry. Journal entries provide a convenient way to accomplish these changes. They also allow creating a detailed audit trail that can include an explanation of the reason for the change as well as the identity of the person making the change, along with the date and time. Some organizations require that all adjustments, even during the budgeting process, take the form of journal entries. However, most pure budgeting applications do not include journal entry capabilities.

6. **Auditability** - All performance management budgeting systems offer some basic capabilities in this area including a generic audit log. However, some IT and Finance departments require a deeper level of auditability. They want to see a historical record of every change to the data whether it was manually entered or loaded from another system as well as the details on every change to the metadata, accounts, entities, calculations, etc. Since consolidation systems are generally required to have this level of auditability, a performance management budgeting system that includes consolidation capabilities will be able to make this functionality available to the FP&A group.



Source: BPM Partners' 2017 BPM Pulse Survey

The consolidation features identified as most important in the 2017 BPM Pulse survey can benefit companies that are focused primarily on budgeting and planning.

Key Benefits of Consolidation and Budgeting Integrated In One System

In addition to the six key ways consolidation functionality enhances the budgeting process, there is a significant higher-level benefit. Respondents to the 2017 BPM Partners Pulse Survey rated "Having consolidation as part of a single database with budgeting and forecasting" as an important consolidation feature.

Having consolidation and budgeting in the same system streamlines performance reporting. Having the actual and budget data in the same system in the same format (account, currency, scale, etc.) makes actual vs. budget reporting a breeze. Once the consolidation is run, comparison reports can be immediately generated without waiting for an additional extract/ load/mapping process from the source transactional system. This shortens the reporting cycle and reduces errors. This is especially beneficial if there are consolidation adjustments/eliminations that must be made. By making them in the ‘budgeting system’ the data is immediately available for reporting and no new data loads are required.

While an organization may be solely focused on purchasing a budgeting and planning system today, the requirements could change significantly within just a year. Once the initial users become comfortable with the new system and sees how intuitive it is, its use may expand. Even though true accounting consolidations may be done elsewhere, Finance managers may look to the performance management system to quickly and easily run a trial balance and/or aid with account reconciliation.

Budgeting functionality alone will typically not be enough to handle this task, but consolidation functionality is designed for this sort of thing. Lastly, companies that don't have the need for a full-blown consolidation system today may need one in the relatively near future. For example, they acquire a company that is using a different general ledger that would be costly to change. This imposes the need to think about how they will consolidate and report on data from two different ledger systems. If they had purchased a performance management system that included a consolidation application along with budgeting, all they would need to do is activate that functionality and the issue would essentially be solved.

Conclusion

Without these six consolidation functions, a CPM suite or budgeting and planning solution may not deliver a sufficiently robust budget:

- Intercompany eliminations
- Alternate rollups and hierarchies
- Complex allocations
- Currency conversion scenarios
- Journal entries
- Auditability

Organizations that require these capabilities should select a vendor that has depth of experience in financial consolidations, and a CPM platform that combines planning and budgeting with mature, detailed consolidation functionality. The result will usually be a faster, more accurate budgeting and planning process. In addition, the performance management roadmap for the company may require actuals consolidation. It makes economic sense to purchase a budgeting solution that has the potential to easily expand into consolidation as the needs of your company grow.

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