A BPM Partners White Paper

10 Key Requirements for Next-Level Financial Consolidation

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Executive Summary

Consolidation is a foundational element of any corporate performance management solution today. Improved management reporting, for example, which is cited as a primary driver in two-thirds of all CPM/BPM projects, relies heavily on consolidation functionality.

Larger and medium-sized enterprises that seek to improve their financial consolidation are usually aiming to trade up from legacy systems, separate and weakly integrated applications, and/or Excel processes.

It's common that a specific pain point drives Finance to consider upgrading financial consolidation, and then a larger vision of how to leverage the upgrade takes shape. We encourage companies to define the vision clearly and extend it as far as practical, because this tends to bring the most extensive benefits.

This whitepaper recommends a set of ten key criteria for selecting a consolidation solution and gives real-life examples of several major companies that "took consolidation to the next level".

Our conclusion is that large companies can achieve sweeping benefits with a full-scale, comprehensive makeover of financial consolidation, enacted incrementally.

Why Address Financial Consolidation Today

Enterprises that seek to improve their financial consolidation are usually either handling this process using outdated legacy systems, separate applications that are loosely integrated, and/or many Excel spreadsheets. In nearly all cases, they are not taking advantage of newer technology.

> ### Terminology
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> To assist readers, below are high-level definitions of key terms.
>
> **CPM = BPM = EPM**
> To denote performance management, BPM Partners may use BPM (business performance management), CPM (corporate performance management), and EPM (enterprise performance management) interchangeably.

Challenge: What Finance Experiences

The view from the Office of the CFO is often shaped by a small team that focuses on specific pain points and pressures. Among them are:

- Frustration and time lost switching between different applications that are not integrated. A June 2020 quick poll by Board Software found that 43% of responding companies needed more than seven days for a statutory close at the group level. Time is nearly always an issue for Finance groups.

- The struggle to move data between these disparate tools and combine them to create a comprehensive data set and reports.
- The need for faster month-end closings.
- Inability to run consolidation on strategic plans to take them to the "final step" in planning.
- Time and error issues from conducting consolidation by working with dozens, hundreds, or even thousands of Excel worksheets.
- Lack of alignment when Operations and Finance cannot work from the same set of finance-approved numbers each day.

What the Company is Actually Missing

Finance may emphasize one or two pain points, and initially hold the view that one or two capability enhancements is all that's needed. This is typical, and financial consolidation upgrades usually begin with a small project. A more wholistic view, however, may well endorse a full-scale, company-wide advance to the next level in financial consolidation that links strategic planning and operational management.

The "bigger picture" external perspective often highlights larger issues, including:

- Operations are disconnected from numbers and forecasts that Finance sanctions.
- The company's lack of a single version of the truth, and inability to communicate around one data set and numbers that are approved by Finance
- Cultural resistance to major changes, causing inability to modernize and keep up.

Define Your Vision for Financial Consolidation

This white paper presents ten key requirements for financial consolidation. Why are they important? Our experience as advisors in this field has shown that companies achieve better results when they look beyond one or two pain points and narrowly scoped issues. The process of upgrading financial consolidation may finish far from where it began. Whether you adopt one new element at a time or choose a full-cutover replacement of existing software or spreadsheets, we recommend you build out as complete a vision as possible and include demanding objectives. This will help guide you:

- Select a software solution that can handle your overall needs today and into the near future, including those of Operations
- Communicate appropriately with all the stakeholders
- Sequence and prioritize the related tasks
- Achieve the maximum benefits from upgrading financial consolidation

Most companies that have achieved the largest positive impact from upgrading their financial consolidation had defined an encompassing vision and multiple goals for the initiative. Examples of how some Finance teams articulated the intent and purpose they brough to their consolidation projects:

- Automate our planning and performance reporting
- Benchmark every operation and project
- Include supply chain, manufacturing, logistics, and sales in our detail planning, right through to projected financial reports
- Run finance leaner
- Perform better against plan, across multiple countries, all the way to projected financial reporting, with data updates in near-real time
- Bring Operations closer to Finance and unify upon the same set of numbers for a single version of the truth
- Establish a single version of the truth for confidence in planning and reporting

Piecemeal upgrades in large companies, without a guiding philosophy, can become an ongoing treadmill of tools sprawl. Any sizable enterprise has numerous moving parts and adaptations are needed over time. Unite them with one vision for Finance and consolidation, and you will avoid many long-term problems or inconveniences.

Full-scale Solution for Scale and Complexity

A comprehensive vision will guide most Finance groups to specify criteria that require a full-scale system that joins financial consolidation and corporate performance management (CPM or BPM). Such a solution will already be proven to work well in international and global environments and have an established history of keeping up with changes in reporting and regulatory compliance in different jurisdictions.

In simple terms, if you are demanding in your software criteria, this leads to choosing a solution that makes it possible to fulfill the vision.

10 Criteria to Take Financial Consolidation to the Next Level

Strategic Aspects

The consolidation solution that can deliver on your objectives will meet both strategic and functional requirements. We have grouped 10 criteria into two categories which admittedly are not precise. Please note that consolidation software goes well beyond these criteria; we focus here on those that we see as particularly beneficial. Let’s start with the category that is more strategic.

1. Planning Integrated with Financial Consolidation

62% of companies answering the 2020 BPM Partners Pulse Survey said they needed robust consolidation capabilities during their budgeting and planning process. The integration of consolidation with planning allows you to account for intercompany transactions, currency conversion, adjustments, alternate roll-ups, and compare outcomes of different plan scenarios, all the way through to financial and statutory reporting. It adds accuracy and confidence to strategic plan choices.

2. Extend to Operations, Go Beyond Finance

Many successful companies see the need to “really connect Operations to the numbers.” As one Fortune 100 CFO put it, with consolidation integrated, “All operations become benchmarkable.” For example, the gross margin of producing a million units in any of the company’s plants can be seen, but in addition, the impact on results after consolidation can be compared.

3. Single Data Set → A Single Version of the Truth

Data of record without unreliable parallel data, a single database, linked databases that avoid unsynced common data, or a solo data repository – whatever the architecture, the concept is the same: to have a single version of the truth. This brings the ability to manage the big picture with a validated common data set and a shared language for communication from planning to performance management to informing the company and world of results. In the reporting phase, this means many data subsets can be produced, all consistent, and managerial and statutory (GAAP or IFRS) reports will be in sync.

Moreover, one should not underestimate the importance of avoiding embarrassment when one’s numbers are contradicted by another department or report.

4. Unification of Consolidation with Other BPM Applications

Over half of the companies we surveyed state that consolidation is essential when selecting a performance management solution. Several advantages drive preference for consolidation integrated with multiple applications in one platform: consistency, ease of use, less training, and the need to avoid very time-consuming and error-prone manual processing and integration.

Analytics that are integrated, for example, as opposed to third-party analytics, have specific advantages, such as:

- The base data is verified – consistent with the numbers that Finance has approved.
- The ease of use can be particularly important for the less frequent users from the Operations groups.

5. Performance: Capability to Support Large Numbers of Users

When extending FP&A and consolidation processes down to the operational level**,** several aspects of system performance need to be verified through a Proof of Concept, once satisfactory demonstration of the system and its marketing claims has taken place:

- The ability to handle thousands of simultaneous users; the Proof of Concept should demonstrate system performance while simulating the largest projected workload.
- Granularity in detail, with the technological capability to deliver responsive performance when accessing large data sets.
- Performance and scalability, supported by an elastic cloud-based engine to allow real-time adjustment to evolving demands on the system.

Tactical and Functional Criteria

6. Ease of Use

Enterprises of all sizes rank <u>Ease of Use</u> above all other criteria for importance in a consolidation solution. It's easy to see why ease of use is the most critical selection criteria. In a medium-sized, single-country business, consolidation is already complex. In a multi-entity international enterprise, ease of use has serious importance – and that is only amplified when more occasional users from Operations groups enter the picture.

7. Agility - Quickly Adaptable to Needs of Individual Companies

The financial consolidation system should be quickly adaptable to the needs of individual companies, which often have structures or requirements that are not off-the-shelf. The larger the business, the less likely preconfigured solutions are to give the reporting and process fit needed, so the ability to customize the system easily is more important.

While it's good to see that the vendor's team can listen to your requirements and later return to deliver a prototype that appears to be a good fit, it is better to watch live as the vendor's team performs the customization to your requirements, to see what the process is and how simple – or difficult – the software makes it. Don't forget that once the vendor team departs, you will most likely be handling the ongoing maintenance yourself.

Mature and complete solutions usually include templates and libraries to make customization more of a plug-and-go experience. Highly configurable solutions are the most likely to provide an ongoing fit with the diverse and changing requirements of large enterprises.

8. Disclosure Management

Important for the Last Mile of finance, but not offered by all consolidation vendors, disclosure management is a complex set of activities unto itself, requiring extensive collaboration, which is crucial for statutory financial reporting.

9. Reconciliations / Eliminations

Automated reconciliation and eliminations reporting are key to all financial consolidation systems. In addition, intercompany eliminations are cited by 73% of respondents to the 2020 Pulse Survey as a consolidation capability they require for their budgeting and planning as well. A multiple-entity company is likely to need reconciliation functionality that goes beyond the basics and may include some of the following:

- Intercompany eliminations of credits and debits and expenses and revenues.
- Intercompany reconciliation at the transaction document or currency level.
- Elimination of investments in subsidiaries and net equity, with calculation of consolidation reserve.
- Elimination of dividends and subsidiaries gain/loss.

Also, in the planning and budgeting processes, eliminations are important to some companies for maximum accuracy in strategic planning.

10. IFRS – If You Do Business on Other Continents

Some 120 countries around the world use IFRS (International Financial Reporting Standard) to some degree[1]. Some multinational corporations use IFRS for their non-U.S. subsidiaries where indicated by local law, and some U.S. subsidiaries of foreign-owned companies use IFRS.

It's of value that your provider of consolidation software be committed to IFRS if you do business in Europe, Asia, Australia, Africa or South America, since IFRS is an evolving set of requirements and software packages need to support the latest rules.

[1] https://www.ifrs.org/use-around-the-world/news/

Examples: Financial Consolidation at the Next Level

Toyota Motors Europe

Toyota Motors Europe

Toyota aimed to combine strategic planning with financial consolidation in a single environment and create and leverage a single version of the truth across different organizations, processes, systems, and legal entities. Toyota selected a full-featured financial consolidation solution with integrated planning, budgeting, and analytics.

Now Toyota runs profitability and finance numbers through its consolidation suite and can rely on its financial numbers for consistency across some 40 countries. This information is accessed through operational views and in the company's strategic planning, where plan scenarios can now be extended through projected financial consolidation.

Laerdal Medical

Laerdal Medical

A leading healthcare provider pursued its vision to automate finance, freeing users for analysis and decision-making. It specifically needed a solution to ensure statutory and managerial reporting are consistent and deliver better financial statements. Among the benefits that Laerdal Medical realized from its upgrade to financial consolidation as part of a unified BPM suite:

- "[Now] We are absolutely sure that the consolidated financial statement reporting, statutory reporting, and managerial reporting are aligned."
- Reliable management reporting across 33 entities, 19 currencies, and 285 cost centers.
- Simultaneous data entry from 33 countries, with auditability.
- All groups have consistent and accurate KPIs for presenting results to management.

Coca-Cola

Coca-Cola (European Partners)
Coca-Cola illustrates the vision of financial consolidation and automated planning on a broad scale that spans multiple functional areas and entities. The company also needed specific enhancements to allow frequent, precise comparisons to plan – particularly for its operations management.

Previously, overnight batching from ERP systems fed once-a-day updates to evaluate actuals against plan. Now, using Board which integrates to planning, full updates complete with consolidation occur every 15 minutes.

Now, operations can be managed with strong connection to the numbers. In addition, any operation is now benchmarkable – if in France the Coca-Cola plants deliver 1 million bottles, an accurate comparison of margin with identical inclusions (production hours, etc.) can be compared to the same margin in Germany. Such comparisons, complete with their impact on final financial results, can be made across any activity and geography.

Benefits of a Vision-Driven Financial Consolidation Upgrade

The motives behind upgrading financial consolidation can vary widely, but the diverse goals often lead to similar core requirements in a software solution. Many enterprises would be frustrated and held back by solutions that lack more than one or two of the ten requirements described in this white paper. Defining a vision for extensive deployment of integrated financial consolidation increases the gains in Finance and other departments. These benefits include:

- Faster, more accurate planning with consistency – using the latest actuals from Finance - across different locations and countries.
- Direct connection of operations management to the finance and plan numbers.
- More users throughout a large company managing and operating based on the same underlying data set.
- Little or no time lag in updating projections with complete consolidation and reports across complex organizational structures.

- Confidence in reports and numbers used for all purposes. “Better reports and analysis” is cited as a benefit achieved by 70% of companies answering the 2020 Pulse Survey, outranking every other benefit.
- Faster, more accurate consolidation and compliance with different reporting mandates and standards. 77% of companies that implemented a performance management system for consolidation tell us (via the 2020 Pulse Survey) that they achieved faster month-end closing. Responding to the same question, 37% reduced closing time “significantly”.

The guidance on taking financial consolidation to the next level can be summed up simply: develop an extensive, multi-faceted vision that reaches across departments and embodies high expectations. Be demanding in software selection, avoid solutions that have deficiencies in any of your key criteria, and work steadily toward delivering on the entire vision you created for upgrading financial consolidation.

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 BPMpartners.com. Follow BPM Partners on Twitter @BPMTeam.

About Board Software

Board is the #1 decision-making platform. Founded in 1994 and headquartered in Chiasso, Switzerland, and Boston, MA, Board International has enabled more than 3,000 companies worldwide to effectively deploy Business Intelligence, Corporate Performance Management and Predictive Analytics applications on a single platform. The Board platform allows companies to achieve a single, accurate and complete view of business information and full control of performance across the entire organization. Thanks to Board, global enterprises such as H&M, Coca-Cola, Walgreens, Ricoh, KPMG, Nestle, Puma and Toyota have deployed end-to-end decision-making applications in a fraction of the time and cost associated with traditional solutions. For more:www.board.com