A BPM Partners White Paper

How Better Financial Consolidation and Reporting Enable Companies to Confidently Manage Through Uncertainty

Agility and Speed to Survive the Pandemic and Thrive in the New Not Normal

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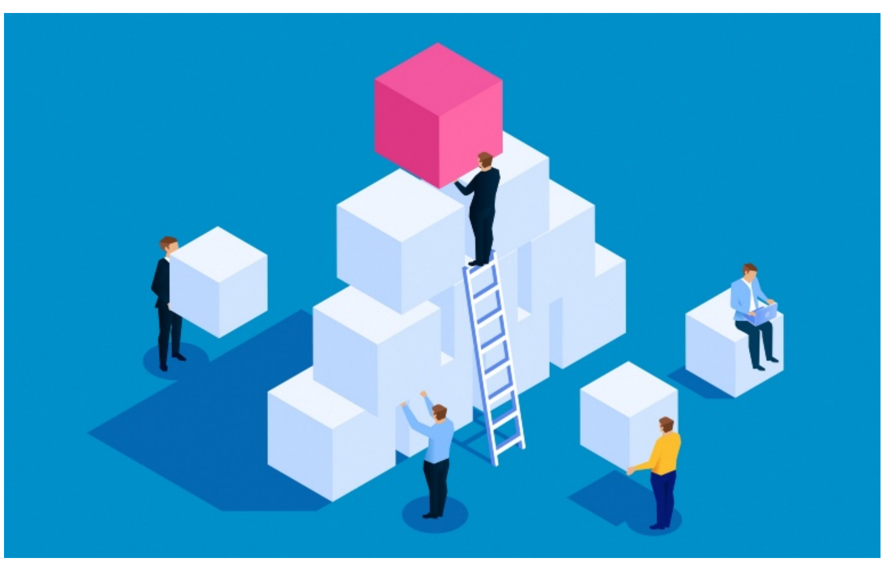

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Executive Summary

Was there a company anywhere that can say it anticipated or was prepared for what happened in early 2020?

The novel coronavirus pandemic made organizations painfully aware that their Finance infrastructure was unable to support rapid changes to plans, forecasts, budgets, and operations. When CFOs needed agility more than ever, it was not there.

Midsized companies – even before the pandemic – struggled to cope with consolidating and reporting. Many have tried to get by with a combination of their general ledger or ERP systems and Excel handling their finances, including consolidation, planning, and reporting. However, reports that consist of data that is cut and pasted from multiple sources are highly prone to errors. In addition, the time spent manually retrieving reportable data leaves little time for analysis and decision-making.

Eight months into the pandemic, resumption of normal conditions is still not just around the corner. Companies are shifting their sights from surviving the coronavirus pandemic to charting new courses through it, according to the Wall Street Journal. As companies "settle into" the new Not Normal, there has been a change in perspective about disaster scenarios. Leaving an increased need for businesses to account for Taleb's "black swan theory" referring to the importance of unexpected events of large magnitude and consequence and their dominant role in history.

All this puts readiness for shock conditions in a new light for business organizations. Particularly for midsize companies, it is an excellent time to add or improve the ability to plan, forecast, reforecast, replace plans, re-budget, and report with ever increasing speed and agility.

Enterprises that seek to improve their financial consolidation are usually aiming to trade up from legacy systems, separate and weakly integrated applications, and/or home-grown Excel based processes.

This whitepaper focuses on how streamlined financial consolidation can be a major asset in helping mid-sized companies navigate through times of major change and disruption. Having a single platform process financial data, regardless of source, helps ensure that companies can achieve that all important 'one version of the truth'. This reliable and consistent data set can then be used to feed instant production of high quality reports and ultimately better informed decision-making.

Financial Consolidation and the New Not Normal

Nearly every business, starting in the first quarter of 2020, was forced to change and adapt to completely new scenarios that would never have been considered, were it not for the pandemic. Before 2020, no CFO of a car rental, airline, or cruise line seriously contemplated the idea of revenue dropping 90 percent or 100 percent. Peloton and other home bike makers had no scenario for almost every gym in the US closing in one month and their own demand soaring. But in the span of one or two weeks, those scenarios went from inconceivable to obvious. The pandemic did not merely impact customer demand. It changed everything about how many businesses operate.

What does that mean for consolidation, planning, and reporting software? Consolidation was already a foundational core of any corporate performance management solution but now it becomes even more mission-critical and important.

Improved management reporting, for example, is cited by respondents to the 2020 Pulse Survey by BPM Partners, as a primary driver in two-thirds of all CPM/BPM projects. Having access to more timely and detailed information to enable better decision-making in a rapidly changing environment is key to these companies. We should mention that this year's Pulse Survey differs from all previous surveys because executives received it, and responded, several weeks into the pandemic. Every finance professional who answered the Survey knew the world had changed, but it was too soon for many – perhaps most – to know with any certainty if their business would even survive the next close, let alone be able to carry out strategic plans.

Terminology:

To assist readers, below are high-level definitions of key terms.

CPM = BPM = EPM
To denote corporate performance management, BPM Partners uses BPM, CPM and EPM interchangeably.

New scenarios were run through the planning process with no assurance that they would be plausible. The most basic drivers of planning that had served to guide business success for years might be completely irrelevant by lunchtime. Everyone was suddenly and involuntarily taking part in a chaotic experiment with no rules or historical precedent.

For CFOs and Finance departments, and all company planners, it made that "single version of the truth" more important than ever. As conditions rapidly evolved in 2020, planners needed access to real-time actual data as the base for their multiple planning scenarios. Planning needs to focus on the most realistic scenarios, based on the latest trends in the actual data coming in on a regular basis. An ideal planning process also has to allow for the possibility that today's data could be an unreliable indicator of what may happen tomorrow. Could a vaccine be delivered "into arms" very quickly and create an immediate worldwide explosion of demand for goods, travel, social activities and mass entertainment events? What if the virus mutates and creates even worse conditions? Should business planners and leaders focus on those extremes or just plan to weather the expected grinding two-year struggle and hope to emerge in a viable state?

Concluding that finance departments have never faced such a difficult planning challenge, what do they need from their consolidation systems? Empirical evidence suggests that companies that had already implemented a modern financial consolidation and reporting solution were able to more easily adapt to the rapidly changing economic conditions. Let's examine the specific capabilities needed.

Speed Matters, More Than It Did Before

The ability to implement and use financial consolidation and planning to generate improved performance management *quickly* matters more now. Near real-time access to actual data, speed in planning, switching course, calculating all the ripples in operations and staffing and production – can have a great bearing on the survival of a business.

Fast consolidation and closing is more important in this new reality, because Finance groups need to close in fewer days so they can focus on navigating the shocks and demands of the pandemic.

That entails rapidly updating actuals data, forecasting fast, and seeing how today's changes like – facemask and occupancy mandates, or new outbreaks in a market area, or inability to supply a crucial ingredient because factories are locked down - will impact the organization. It becomes very clear that software systems that help you speed up consolidation and closing, and integrate with planning, allow you to make better revenue decisions.

Updating Your Financial Consolidation Process for the Crisis

Finance departments had an opportunity in the spring of 2020 to see how their consolidation and planning systems served them under crisis conditions. It's impossible for anyone to know with certainty if we'll have a stable, predictable, orderly and smooth recovery. As the coronavirus's spread continues in the U.S. and abroad, businesses have concluded they will coexist with it for some time, reported the Wall Street Journal in September 2020. So organizations are going to need to continuously re-evaluate their financial, operational, and strategic plans for the foreseeable future. "There's this realization that the new normal will last for a while," said Gregory Daco, chief U.S. economist for Oxford Economics. [1]

[1] Wall Street Journal, https://www.wsj.com/articles/ceos-start-to-place-big-bets-as-pandemic-grinds-on-11600599601

If your systems fell short, or if they got in the way during those crucial first weeks, maybe it's time to learn about emerging options.

Fast and Cost-Effective Implementation

Speed of implementation is a characteristic that is always important, and now more so. One popular consolidation solution admits publicly that its implementations take six to 18 months. That would be a daunting delay – a dealbreaker when addressing "Pandemic Priorities". Given the current state of business, aim for a solution that can be running in three months or less without sacrificing any of your must-haves. With reduced revenues and costs-cutting measures in place for many companies, it is also critical that the solution is affordable while still offering robust functionality.

How Fast Can You Cut Costs?

Many companies immediately went into cost cutting and staff reductions. "Most U.S. companies spent the first months of the pandemic hunkering down, slashing costs, hoarding cash and pulling their financial forecasts," reported the Wall Street Journal. Others were able to stave off large-scale layoffs due to government assistance. If a Finance group had been hiding their inefficiencies by throwing more bodies at each close, staff reductions laid bare their shortcomings. The remaining staff had to put in more hours to try to maintain a semblance of normalcy in cycle times and pick up the slack. With the increased focus on cash management cash-flow modeling became critical. As companies attempted to do more with less, there was no time to deal with complex and resource-intensive systems. For many Finance teams ease of use has become the most important system feature.

How Fast Can You Close?

In 2018, CFO.com reported that a survey of 2,300 organizations found the bottom performers needed 10 or more calendar days to perform the monthly close process[2]. The survey was conducted by the American Productivity and Quality Center (apqc.org). The top performers, or the top 25%, finished a monthly close in 4.8 days or less — about half the time of the bottom 25%. At the median were organizations that needed 6.4 calendar days to close out a month's books. Time is nearly always an issue for Finance groups, and the pandemic makes CFOs even more acutely aware of the need for faster month-end closings. Some organizations, due to inefficiencies of which they are well aware, don't even close the books on a monthly basis. They now need to move from quarterly to monthly, while other organizations may need to move from monthly to weekly or even

[2] https://www.cfo.com/financial-reporting-2/2018/03/metric-month-cycle-time-monthly-close/

daily. The pandemic forces executives to produce reports on a more frequent basis and they must leverage technology to meet this need.

Among the obstacles that Finance departments encounter that add time to complete closing are:

- The struggle to move data between disparate sources and combine them to create a comprehensive data set and reports.
- 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.

What's Needed to Cope with the New Abnormal

Cash Flow Management

Cash management is always critical in a crisis, and this pandemic again brought that notion to the forefront. The 2020 Pulse Survey showed that Cash Flow Forecasting was among the four most important software selection criteria for Finance Departments. Companies need more frequent and more detailed forecasting capabilities including daily and transactional, along with enhanced modeling and predictive capabilities.

"Despite the worst quarter since the 1930s," UBS head of US and global equity strategy Keith Parker told the Wall Street Journal, "Companies acted quickly to cut costs early in the crisis. Free cash flow for the S&P 500 actually increased 20% year-over-year in the second quarter, the worst of the slowdown."[3]

Beyond Statutory: Management Reporting

Finance departments have already defined requirements for BPM/CPM applications to deliver more value by providing not only statutory consolidation, but also consolidation to support management reporting. It is key today that management reports are accurate and reflect the elusive 'one version of the truth'. While everything is changing around you it is important that the data is consistent and reliable. You can't get there without going through a refined and comprehensive consolidation process.

Now, in 2020, there is a need to analyze more intensively and deeply - by product, by customer, even down to individual transactions. In order to determine which areas to invest your limited resources in, you need to understand true cost and profitability. Multi-step allocations are usually part of this process and they are facilitated by modern

[3] Wall Street Journal, September 20, 2020 – Theo Francis and Jennifer Maloney.

consolidation systems. The linking of operational measures such as these with overall financial plans is critical to get a holistic view of the business and fully understand the impact of planned actions. Performance scorecards of Key Performance Indicators (financial and non-financial) are also necessary to ensure focus on achievement of the organization's primary objectives. All of this needs to be combined with powerful analytics to enable identification of the reasons behind the numbers and allow corrective action to be taken as needed.

Ease of Use

Before the pandemic, ease of use was consistently important to BPM/CPM users. The 2020 Pulse Survey asked the following: What is the single most important factor that led you to select this BPM/CPM vendor over other vendors you looked at (other than meeting your requirements)? The winner was Ease of Use. This has been the case for multiple years, particularly at companies with 500 to 5,000 employees.

Ease of use takes on even greater importance during the disruption caused by coronavirus. Finance departments may be running with very lean staff; that makes no-coding, zero programming more attractive than ever. From a business continuity perspective having an easy to use system that relies on standard pre-built functionality reduces the risk of disruption when someone key leaves the company. In a medium-sized, single-country company, consolidation is already complex. In a multi-entity international enterprise, ease of use has a big impact – and that is only amplified when more users from across the company enter the picture.

Flexibility

Flexibility is of great importance in a consolidation / planning system. When demand for one's product or service could fluctuate by wide margins in any given week, and bounce back a few weeks or months later, the ability to rapidly adjust how you use your system is key. Product Flexibility consistently ranks high in importance with Finance Teams in the Pulse Surveys.

The selection process should include evaluation of whether a system can quickly adapt to company specific needs, which often have structures or requirements that cannot be met by off-the-shelf packages or SaaS applications.

We recommend that users make vendors carry out a customized demo based on their requirements, to see how simple – or difficult – the software makes it for business users and also administrators.

Templates and libraries serve to streamline and create more of a plug-and-play experience; they can be valuable additions to the implementation process. Even better is out-of-the-box productized functionality which saves time and money. For example, a complete product should come with pre-built intercompany and currency translation capabilities that you just have to link to your accounts and currencies. Unfortunately, many solutions in the marketplace claim they offer this functionality but instead expect users to define the entire process themselves, often creating lots of technical heavy lifting.

Fast Performance, Response, and Access to Data

There have been significant changes in thinking within Finance Departments since the pandemic began. For example, a 15-day close might have been challenging but tolerated in the past. Now, that appears dangerously slow. The frequency of the 'close' itself (or at least data imports) is being re-evaluated at many companies as they need to generate reports and access actuals data on a weekly or even daily basis.

A company needs to know about operational, margin, and cash flow problems before they happen. "Now I need it faster," explain CFOs. "I have to know if we need to furlough some employees and which activities to shut down now."

More Frequent Reporting and Reforecasting

With the pandemic's arrival, reforecasting is needed more frequently. This year, four criteria leaped to the top of importance in BPM criteria, according to users (2020 Pulse Survey): Continuous or at least more frequent reforecasting and scenario modeling are two of them near the top. The adoption rate of rolling forecasts is also increasing.

Integration with Planning and Operations

To perform better against plans, locally and across multiple countries, from plans through to financial and management reporting, with data updates in near-real time – fragmented data sets are a hindrance. Especially when plans can become irrelevant as entire states lock down or open up – it's wise to bring Operations closer to Finance and unify strategy and decision-making.

The integration of Finance and Operations provides two additional benefits during this period of uncertainty. When tough decisions are being made this integration can you let you model the ripple effect of planned changes across the organization giving you a more holistic view of the impact. Also, operational data can serve as a leading indicator of bigger changes coming that may impact the bottom line.

The integration of planning and consolidation within the same solution is a pandemic advantage, saving significant time and effort. 62% of companies responding to the 2020 BPM Partners Pulse Survey said they needed robust consolidation capabilities during their budgeting and planning process. The integration of consolidation with planning is not just about accuracy and confidence; it saves critical time.

Ability to Handle Mergers and Acquisitions

CFOs will look increasingly to include supply chain, manufacturing, logistics, and sales in their detail planning, right through to projected financial reports – particularly in merger and acquisition scenarios. It's no secret that economic disruptions this year and next will open up unexpected opportunities and emergency strategic moves. Is your consolidation or planning solution flexible or robust enough to scale rapidly to add a new acquisition?

In these uncertain times companies are trying to be as pro-active as possible and attempting to build a solid foundation for the future.

Web Access via the Cloud Enables Speed, Scalability and Health

Web access anytime, anywhere was once a matter of convenience and mobility. Now, it's a health requirement. 2020 is the year that workforces went remote, and that massive migration will take time to unwind – in part because tens of thousands of companies are declining to renew leases and giving up their office space. While 75% of the respondents to the 2020 BPM Pulse cited a preference for cloud-based performance management solutions, we believe that number would be much higher today since it has been key to keeping everyone on the same page in terms of the company's performance and plans.

Scalability Continues to Grow in Importance

The 2020 Pulse Survey asked the following: What is the single most important factor that led you to select this CPM/BPM vendor over other vendors you looked at (other than meeting your requirements)? "Scalability and complexity handling" were the second most cited reasons, trailing only Flexibility. As more detailed operational data is added to the system and more users across the company sign on this becomes a key criterion.

Mid-Sized Enterprises Need the Same Features as the Largest Companies

In the age of globalization many of the same consolidation capabilities are deemed important for enterprises, regardless of size. For example, currency exchange is a requisite for every international business.

Automated reconciliation and eliminations reporting are key to all consolidation systems. Intercompany eliminations are cited by 73% of respondents to the 2020 Pulse Survey as a consolidation capability they require for their budgeting and planning solution.

Important: while midmarket companies need the same capabilities as larger enterprises, they often need to get by with fewer resources. The challenge is to find a consolidation and planning system that handles the required complexity while recognizing and addressing the need to do more with less.

Unified Financial Consolidation and Planning Applications

Another finding of the Pulse Survey: Having financial consolidation on a database shared with planning and budgeting ranked as high as Ease of Use (#1) for companies with 2,500 to 5,000 employees. A common database or integrated and consistent data are needed for automated planning activities, and helps Finance teams run leaner. The ideal solution to accomplish this goal is one that is unified on a single platform with a single database. Integrated solutions, multiple products working together, are more error-prone and more difficult to use, often with multiple databases and different user interfaces.

Results

Companies have responded to the pandemic with big picture actions. Coca-Cola was hit by sharp drop in beverage sales in April, as restaurants, theatres, stadiums and other venues closed. By August, though, Coca-Cola had regrouped and announced a restructuring that – as reported by the Wall Street Journal - includes layoffs, reduction in the number of operating units, a revamped marketing strategy and an acceleration of its effort to pare the number of SKUs.

There is evidence that acting quickly despite the unknowns in the early days was a benefit to some companies. General Electric pulled its financial projections in April amid the pandemic uncertainty and pressure on its aviation business, which is cutting one-quarter of its workforce. Despite this, CEO Larry Culp told investors at a Morgan Stanley conference in September that GE will generate positive free cash flow in the second half of the year, saying "Our markets are, by and large, stabilizing, but not in any way rapidly recovering."

Conclusion

Speed helps when it comes to financial consolidation. Medium-to-larger sized enterprises need faster, more accurate management reporting and assurance that they are in compliance with different reporting standards. This is particularly valuable in times of unexpected and extreme changes in business conditions like today.

Probably the most universal goal is to close faster, and modern financial consolidation solutions make that achievable. 77% of companies that implemented a performance management system for consolidation tell us (via the 2020 Pulse Survey) that they delivered faster month-end closing. More specifically, 37% of those reduced closing time "significantly".

Integration of planning with consolidation, fast performance, ease of use, product flexibility, and cash flow management are among the new must-haves for CPM/BPM solutions for midmarket organizations. Of course, they also need to provide these capabilities while remaining cost-effective.

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.

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