Prophix®

Financial Foresight

How modern finance practitioners can see the future

A Prophix whitepaper

Inside this document

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Introduction

Planning, budgeting and forecasting have often been difficult, even rancorous exercises inside corporations. A violent struggle between finance, and the everyone else to establish a set of expectations that few are happy with but everyone can grudgingly accept. Too often processes are slow, complex and bureaucratic. As Forrester noted in its 2015 report on Enterprise Performance Management*: "Many firms find the traditional budgeting process too inflexible and time-consuming to be sustainable. The traditional process of collecting planning input on spreadsheets and then aggregating plans in bigger spreadsheets creates a plan that is difficult to change. This won't work in a business that has to constantly adjust to market conditions, world events, weather and customer demands."

According to a 2015 survey of finance leaders by KPMG and the ACCA, "46 percent of respondents believe the current budget produces a politically-agreed number not aligned to real business outlook." And yet this battle of the spreadsheets is what passes for foresight in many institutions.

There is a better way. Working together, with access to the right tools and information, every group within the enterprise can collaborate to model a more realistic vision of the future, based on real data. With Corporate Performance Management providing shared insight with evidence at the core, organisations can plan more effectively, and more harmoniously.

* *The EPM Market Landscape Responds To The Growth Agenda And Digital Disruption, Paul D. Hamerman, 2015*

Planning, Budgeting, Forecasting

All organisations need some degree of foresight for their operations. To define direction. To plan procurement and infrastructure. To set expectations. The processes of establishing this foresight are the classic Planning, Budgeting and Forecasting, well described by KPMG and ACCA in their forward-looking 2015 report*.

Planning:

"A top-down strategic plan that defines the strategic aims of the enterprise and high level activities required to achieve the goals of the organisation"

Budgeting:

"A budget that enables resource allocation to be aligned to strategic goals and targets set across the entire organisation"

Forecasting:

"A forecast that tracks the expected performance of the business, so that timely decisions can be taken to address shortfalls against target, or maximise an emerging opportunity"

In too many organisations though, these are difficult, chore-like exercises that often cause friction and disrupt communication. True foresight is about an adaptable, dynamic plan for the future that is well informed, widely accepted and collaborative. Achieving this level of foresight requires that organisations and finance leaders overcome a number of barriers.

Data literacy

In this digital age, organisations and their leaders have greater access to management information than at any time in the past. Or at least that's the theory. In too many organisations a lack of sound data literacy is preventing the acquisition of insights that could be hugely valuable.

That fear seems well justified when you consider that according to the same report, a third of senior finance professionals said their organisation's decisions relied too much on 'gut feel' rather than hard data. Companies that rely too much on gut feel in decision-making only accurately forecast 22 percent of the time, compared with 50 percent for companies that have a better balance of instinct and data.

> ***"While 81 percent of senior finance professionals believe CFOs ultimately will be responsible for corporate data in the future, almost two thirds believe an inability to master the variety and volume of new business data is a serious threat to the future finance function."***
>
> ***– FSN's Future of the Finance Function report in 2016***

* *'Planning, Budgeting & Forecasting: An eye on the future', KPMG & ACCA 2015*

Technology

Underpinning data literacy for all organisations is a solid set of technology platforms. The evidence suggests this remains a major area of underinvestment.

41%

For example, 41 percent of organisations are yet to invest in a specific planning application outside of Excel*. Given the importance of the foresight function in the operations of the business, this is concerning.

72%

72 percent of senior finance professionals say they believe that more CFOs will be responsible for technology in the future, but almost a third of them are struggling to make the best use of technology today*.

It's clear there is a need for investment in both technology to support the foresight function, but also in education, giving the finance leaders of today – and tomorrow – the skills they need to use that investment wisely.

* *'Planning, Budgeting & Forecasting: An eye on the future', KPMG & ACCA 2015*
* *'Future of the Finance Function', FSN 2016*

Granularity

With such technology in place, organisations can begin to examine their possible futures in more detail – something that is near-impossible relying on spreadsheets alone. This means breaking down forecasts to look at margins by customer, by product or by geography. Taking these forecasts and stretching them out into multidimensional models where different capacity requirements can be balanced against sales expectations.

Laying out not just one future but many, and doing so in much greater depth, allows all parts of the organisation to plan with much greater confidence.

Adaptability

What these models can't be is set in stone. Yet 62 percent of respondents to the KPMG and ACCA study agreed that "budgets are simply a 'point in time' view and don't reflect what is happening externally in the market."

In Forrester's EPM market overview from 2015, the analyst firm laid out the need for dynamic planning, allowing organisations to 'iterate models continuously', saying "plans are not static or periodic, they are living things that need to evolve continuously."

Maintaining plans as the situation evolves requires widely-held data literacy, not just in finance but across the organisation. The level of input required will mean collaboration. But the value of being able to model impacts of each change to the environment in supporting decision-making cannot be underestimated.

Collaboration

Collaboration is important for more than adaptable planning. As Forrester puts it, "Siloed planning and performance management approaches lead to inconsistent and misaligned results. Integrated planning and performance management across lines of business enables organisational units to model their business with metrics and cross-organisational data that align with strategic goals."

Finance leaders agree on the importance of wider collaboration, with 77 percent of respondents to the KPMG and ACCA survey agreeing that "the planning, budgeting and forecasting process must be a partnership-based approach driven jointly by the business and finance that takes into account enterprise-wide risks."

Despite this acceptance of the need for greater partnering and collaboration, it's not happening today. More than 51 percent of senior finance executives don't spend enough time on business partnering according to FSN. And the technologies of collaboration are still archaic. "Sharing business information with colleagues is largely dependent on email as a transport mechanism, where users need to open spreadsheets, review them, and respond to the information buried within while managing their many day-to-day responsibilities," says Forrester.

Forrester recommends digital collaboration, enabling organisations to refine planning assumptions and act on outcomes more quickly or delegate tasks or assign problem solving to colleagues with knowledge of the issue.

> ***"Siloed planning and performance management approaches lead to inconsistent and misaligned results. Integrated planning and performance management across lines of business enables organisational units to model their business with metrics and cross-organisational data that align with strategic goals."***
>
> ***– Forrester***

Conclusion

Businesses have always needed foresight. It is a foundational component of success for all but the most fortunate. In these days of accelerated change, the traditional processes of planning, budgeting and finance are no longer sufficient to provide foresight with sufficient clarity and adaptability. Organisations, led by finance, need to adopt better processes, acquire new skills, and underpin these investments with the right technologies.

About Prophix

Prophix develops innovative software that automates critical financial processes such as budgeting, planning, consolidation, and reporting—improving a company's profitability and minimising its risks. Thousands of forward-looking organisations in more than 90 countries use software from Prophix to gain increased visibility and insight into their business performance.

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