

A Clearer View of the Horizon:

Visualizing the financial future

The recent Financial Service Network (FSN) survey on Planning, Budgeting and Forecasting (PBF) highlighted two key characteristics of those organizations that produced the most insightful forecasts. In a previous discussion paper, we examined the first characteristic - the integration of non-financial data. In this paper, we will look at the second - the application of analytical systems to correlate and communicate data.

The State of Play

One of the most shocking statistics from FSN's survey was that just 40% of respondents said their forecasts are 'insightful'. Those companies that produced the most insightful forecasts tended to make better use of technology to analyze and present data. What sort of technology? FSN's report focused on the move away from spreadsheets as the general-purpose tool of numerical analysis, and towards specialist tools that offer more powerful manipulation and presentation.

The report divided good analytics practices into three classes, with different tools featured in each. The 'advanced' category included pivot tables and business intelligence tools. 'Cutting-edge' included advanced visualization, charting and graphs and 'experimental' included machine learning and artificial intelligence (AI).

81% of respondents described their analytics practices as advanced. Perhaps unsurprisingly, most companies are making some use of pivot tables and/or some form of business intelligence. Just 42% said their practices were cutting edge. The key differentiator between the first two categories is communication; most companies say they are using tools to produce insightful analyses but only the minority are using tools to better present them. Just 14% of respondents described their approach as experimental.





Across the board, adoption of specialist tools for planning, budgeting and forecasting remains low. 70% of businesses say they rely heavily on spreadsheets across all business units. Just 16% use on-premise specialist software and just 10% specialist software in the cloud. These numbers have barely increased since the previous survey.

Insight at Speed

What has changed dramatically in the last year is the proportion of companies reforecasting more than twice a year. This is a new and interesting proof point for the

idea that the current business environment is increasingly volatile. Finance leaders are trying to plot a course through fast-changing market conditions, leading to more frequent re-examinations of data and assumptions. 71% now reforecast more than twice a year, up from 56%.

When it came to the reforecasting process, those companies utilizing AI and machine learning had a slight speed advantage, with 61% (vs. 55%) able to reforecast within a week. Companies with a 'cutting-edge' approach, featuring more visual tools, had an advantage on accuracy, with 47% able to forecast to within +/- 5% (vs. 34%).

Critical Communication

The survey identifies users of cutting-edge visualization tools as the most effective forecasters that are able to offer the greatest insight. There are two possible explanations for why more visual tools contribute to greater insight.

The first is about the manipulation and comprehension of the available data. If you can abstract the meaning away from rows of numbers and present it in a visual format, it is easier to understand. Numerous studies show that the human brain is optimized for visual information, comprehending images in as little as 13ms according to one MIT study*.

Once information has been abstracted from the raw data, it's easier to make changes to underlying assumptions and interpret their effects.

The second explanation relates to communicating forecasts to peers. It is much easier to tell a story of tomorrow if it is presented in a visual form, and this insight is only valuable when it is shared across the leadership team. If a company is moving to discuss multiple future scenarios, the effect is multiplied.



* <http://news.mit.edu/2014/in-the-blink-of-an-eye-0116>

Conclusion

FSN's report shows that the adoption of specialist tools for planning, budgeting and forecasting remains limited, while also making clear the positive impact that such specialist tools can bring. Bringing data out of spreadsheets and into tools that allow for easier manipulation, and more importantly, powerful presentation brings greater clarity and allows insight to be shared.

The numbers illustrating this are stark. Those companies producing insightful forecasts are almost twice as likely to deploy specialist software in all their business functions (29% vs. 14%) and they are less likely to depend on spreadsheet modeling (67% vs. 76%). They are more than twice as likely to use advanced visualization, charting and graphs (59% vs. 26%).

The conclusion from the report is clear: "...advanced analytics must become the new baseline technology, it is no longer enough to rely on simple spreadsheets and pivot tables when your competitors are several steps ahead."

About Prophix

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

Head Office

350 Burnhamthorpe Road W.
Suite 1000
Mississauga, Ontario
Canada • L5B 3J1

+1 (800) 387 - 5915
+1 (905) 279 - 8711
info@prophix.com
www.prophix.com

United Kingdom

Davidson House
The Forbury
Reading
RG1 3EU

+44 (0) 118 900 1900
uk-info@prophix.com
www.prophix.co.uk

South America

São Paulo - SP - Brasil
Rua Guararapes 1855 - 1º
andar - Brooklin Novo
04561 - 004

+55 11 3583-1652

DACH Region

MesseTurm
60308 Frankfurt am Main
Germany

+49 69 509 565 605
dach-info@prophix.com
www.prophix.de

United States

707 SW Washington St.
Suite 1100
Portland, OR 97205

www.prophix.com

Europe

Sankt Knuds Vej 41
1903 Frederiksberg C
Denmark

+ 45 7023 2375
europe-info@prophix.com
www.prophix.com/dk

South America

Rio de Janeiro – RJ - Brasil
Av. Marechal Camara 160 sala
1612 – Centro
20.020-080

+55 21 3094-3904
egallindo@prophixsouthamerica.com
www.prophix.com/br