Analytics in the Finance Organization

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Background

In an era of new economic challenges, how companies manage the quality of strategic and operational decisions made every day determines whether corporate objectives are achieved. Succeeding in this environment requires razor sharp focus on the business drivers of costs and revenues. To meet this challenge, organizations are defining a strategic roadmap to tap into the wealth of information generated each day, and they are integrating analytics into key systems and business processes. Analytic insights can be used from the executive offices to front line employees to drive revenue, reduce cost and manage risk.

Financial analytics solutions require neutrality from transactional systems and support for data integrity.

CFOs are empowered to impact the information strategy of the organization. There's value in good accounting results and rising share prices, but they don't necessarily indicate whether a company is fundamentally healthy in the sense of being able to sustain its current performance and to build profitable businesses in the future. Financial analytics connected to a broader business analytics strategy will help companies maximize returns from knowledge workers that have better access to data. Successful companies turn information streams generated from financial and operational systems into insight that is available to key decision makers.

Most organizations recognize the importance of data analysis, but very few realize the power of integrating analytics into day-to-day decision making or of using information to gain a competitive edge. It is no longer sufficient to rely on analyzing historical information to stay ahead of the competition.

The many dimensions of financial analytics: It's not just accounting information

Using financial analytics software, companies can make sense of information streams, spotting meaningful trends and determining the financial effect on scenarios such as a changing customer landscape or the likely profitability of the new segments. Companies that aggressively adopt financial analytics are more successful at predicting outcomes and related risks.

Financial analytics include a number of dimensions:

Profitability modeling and optimization

Profitability analysis results in keen business insights into problems and opportunities. It enables companies to target plans for corrective action or develop new business models that can immediately improve business results in functions spanning sales, marketing or risk.

It's increasingly important to elevate profitability analysis throughout an organization and use it in the context of daily business decisions. For example, a large hospitality vendor put in place a business analytics strategy to improve reporting, optimize costs and make more strategic pricing decisions. The result? Better resource allocation based on facility utilization and more dynamic pricing based on current conditions.

In a recent CFO research study, 87% of respondents reported using high level profitability information on a regular basis; however, that percentage declined when the respondents were asked about the availability and use of more detailed profitability information. The reason for the decline is that most companies report much room for improvement in profitability analysis.

Figure 1 depicts the various areas of improvement reported by the respondents of the CFO study.

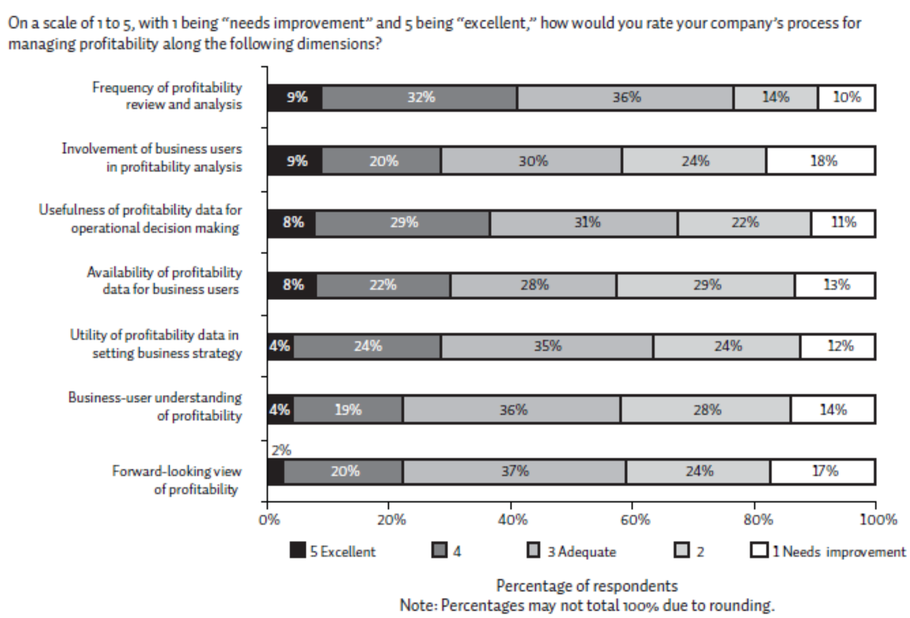

Figure 1. The majority of finance organizations cite room for improvement in profitability reporting

Source: CFO Research Study "Unlocking Profitability Potential in Turbulent Times and Beyond" prepared by CFO Research Services and IBM

Planning, budgeting and forecasting

Planning and budgeting continues to be a challenge for even the most harmonious of financial and operational teams with a lack of information transparency fueled by management groups protecting their own personal fiefdoms. Finance becomes arbitrator, applying economic rationale to settle disputes. Many times the finance department lacks the insight into operational demands and decisions might be based solely on month-end financial reports, providing a limited perspective of performance.

Using a connected process and information stream of measuring and monitoring, planning, reporting and analysis, a planning and budgeting platform connected with a robust ability to analyze the details supports insight into how we are doing, what we should be doing, and why. Incorporating financial analytics provides the ability to 'tune' plans and rolling forecasts more dynamically, incorporating the latest costs and revenue data to provide a clear, up-to-date view of performance to both operations and finance.

Scenario modeling/what–if

Major transformations, such as behavioral shifts or demographic evolution, can impact organizational performance, but only if they are identified. Then organizations can take action, whether it be managing competition or embracing new opportunities.

Financial analytics and related applications provide the ability for organizations to take information and model the scenarios that can support major shifts in decisions or direction. This information is used not only by finance, but across the enterprise in sales and operations.

The value of financial analytics in operations

Financial analysis that is applied in key areas of the enterprise can improve efficiency and effectiveness in areas such as customer relationship management (CRM), supply chain management (SCM), human resources and fraud management.

Financial information brings operational data into business focus, and puts everyone on the same page in terms of value, providing the potential to support superior customer sales, service, and general operations with current "real-time" or "right-time data. For example, a major retailer made available for analysis real time sales, inventory and logistics information that ultimately resulted in a 30% reduction in supply chain and logistics costs.

Predictive models can be transformative to the business and improve formerly reactive decisions.

Predictive capabilities

Predictive models use enormous amounts of data to figure out prospective business initiatives such as the success and profitability of new product lines or customer segments. These analytics can be transformative to the business and support formerly reactive or gut-driven decisions to move into new market niches.

The ability to make assessments of how current events will impact a company's future business is enhanced by the ability to incorporate predictive analytics to support scenario modeling. For example, projecting profitability based on strategies such as customer acquisition rates, pricing decisions or marketing plans provides dynamic analysis that will provide valuable input into future strategic plans. Building facts, expected outcomes and market trends into a predictive model turns this information into real insight.

Financial analytics in close and consolidation

Many financial departments are still consumed by the transactional work that they should have automated a long time ago, but with financial analytics, their jobs increase in value created as they provide decision support for operations.

Currently the scope of financial analytics during the close process is driven by variance analysis on spreadsheets, with limited drill down to the details. Financial analytics dramatically changes this process in the tight time constraints of the financial close, enabling quicker access to information and the ability to collaborate with the field to get answers.

Analytics create value from transactional systems

A successful financial analytics strategy requires organizations to connect the dots between information coming from many disparate systems. A business analytics framework requires the coordination of information, relationships and processes into common framework that generates insight.

Initially this is a difficult concept for companies, especially those that have made large scale investments into ERP, SCM and CRM systems—and in all likelihood business intelligence (BI) solutions. There are many goals for drawing this information together from application silos, such as forecasting the future or more timely reporting.

Few companies use all of their data, principally because it is scattered and hard to integrate. A business analytics strategy enables companies to bring together data to create usable facts. In turn, this enables the development of powerful predictive models. There is an awareness that improvement is tied to technology, and organizations are evaluating investments. Figure 2 shows the various strategies for technology investments that are being considered:

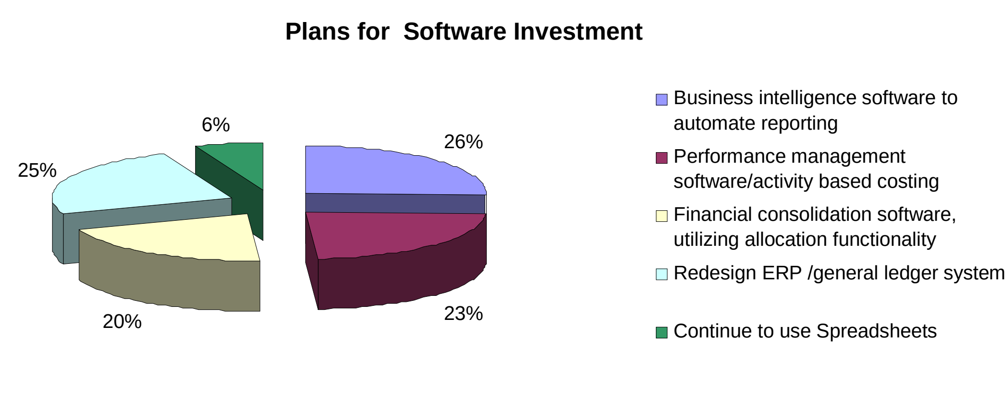

Figure 2 plans for software investment

Source: Kathleen Wilhide, IDC Profitability Study

When you are evaluating investments that can enable financial analytics, a key factor must be neutrality from transactional systems along with solutions that provide and support data integrity.

Conclusion

Introducing extended financial analytic capabilities supports broader performance management initiatives that will change the way people work and, when done well, will empower employees.

Business analytics can support better resource allocation, optimized cost and strategic initiatives such as dynamic pricing.

Ultimately, this enables decision optimization, providing visibility of the trade-offs of facts, trends and predictions to maximize profitability given the appetite for risk and constraints.

The benefits might then come not from constraining costs, which might rise, but decisions to drive top-line growth. Organizations will become more comfortable with these decisions when they have the information and related precision and agility to support them.

Organizations use less than 20 percent of their data to drive decisions. Getting control of information through data analysis and analytics can help organizations use 3x as much information to derive fact and insight. Enterprises that attack this challenge most effectively will have the tools for success.