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The Future of Consolidation

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The Future of Consolidation Systems

Financial consolidation systems are the 'engine room' of the corporate finance department, enabling companies of all sizes to comply with regulatory reporting requirements, company law and global accounting standards as well satisfy management's need for periodic management reporting.

But all is not well with standalone consolidations applications that were developed in the 1990's and which are still commonplace in some of the world's largest multinationals. According to one recent report[1], 47 percent of companies have made substantial investments in the last year in their financial close, filing, and reporting. Yet, despite the considerable sums of money invested in the process, management teams across the globe remain dissatisfied with the quality and timeliness of management information.

For example,

68% of respondents admitted that they have **inadequate** visibility into reporting processes

84% of finance managers say they find it **difficult** to control the quality of financial data

&

15% global businesses have **missed** statutory deadlines

So what is going wrong and can a newly emerging crop of unified cloud-based solutions **break the mould?**

The Importance of Unified Performance Management

Financial reporting and consolidation can no longer be viewed in a vacuum. In today's volatile and uncertain markets, management needs to have its 'finger on the pulse'. The collection of actual performance is the bedrock of enterprise performance management (EPM), which weaves its way through statutory reporting, management reporting, budgeting, planning, forecasting, dash-boarding and scorecards.

The process starts with the development of strategy and long term plans from which performance measures are derived and embedded in operational budgets and scorecards which are monitored, analysed, and reported on against actual results. The results of these analyses are used to inform and refine the business plans which are adjusted before the whole EPM cycle starts again. It is sometimes described as a closed loop process because the business insights gained from constant monitoring and analysis of performance are subsequently used to refine the long term strategy – closing the loop.

The Closed-loop Performance Management Cycle

Implicit in the performance management paradigm is that all of the core management processes (including financial consolidation) and the applications that support them share the same analytical platform and are tightly integrated. More particularly, all of the applications should share the same metadata (for example, accounts and business entities) so that information used by any analytical application can be shared with another and has the same meaning. For example, a "sales revenue" account should have the same meaning whether it is surfaced in a dashboard, a scorecard, a budget or on a report of year-to-date actuals. This gives rise to the much Hackneyed phrase, "One version of the truth." But, the self-evident truth is that it is not possible to establish a dependable performance management system without a unified environment in the first instance.

But stand-alone consolidation systems or loosely coupled EPM suites are not up to the task. This is highlighted by the findings of a 2011 study[2], which found that 87% of businesses managers find data sharing and communication between departments unsatisfactory, with 71% describing the links between strategic goals, operational plans, and budgets as "fragmented".

Modern analytical platforms such as Anaplan offer a new way of working. Built from the ground-up as a single environment, with a single user interface, they are transforming the EPM landscape because they are able to genuinely support a closed-loop performance management environment.

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Why the Future of Consolidation is in the Cloud

The generic advantages of Cloud computing are well documented. The host assumes all of the obligations of overseeing, managing, operating and supporting the computing environment as well as responsibility for securing the confidentiality and availability of the user's data. In marked contrast to traditional 'on-premise' solutions, the user organization does not need to retain any dedicated IT infrastructure (server capacity, networks and the like) or the in-house IT resources that usually accompany it.

The Cloud subscription model also removes a layer of cost uncertainty. The ability to 'pay only for what you need' allows organizations to avoid the high upfront costs of on-premise solutions (which are fixed) and to align computing costs more sympathetically with growth. Recent research confirms that companies that have ventured into the Cloud have been able to cut costs as a result[3] (35 percent of cases).

All of these advantages accrue to financial consolidation in the Cloud but the corporate finance organization stands to gain more than most from a move to the Cloud because of the highly distributed nature of the financial close process.

For example, the ability in an application such as Anaplan to share a single global instance of the consolidation application using a standardized method of data capture eliminates the need for intermediate spreadsheets and significantly reduces reporting delays between local operational systems and the corporate consolidation.

Added to which, the almost infinite scalability, immediacy, and accessibility of the Cloud subscription model means that every reporting entity can participate freely in the process, giving the corporate centre a complete real time picture of the status of reporting including any potential bottlenecks and delays.

Cloud for its own sake is undeniably advantageous but it is the Cloud's potential to elevate the capabilities of a traditional business process like financial consolidation that is so exciting. The discussion is no longer about the wisdom of moving financial reporting to the Cloud, but about how to fully leverage its transformational qualities.

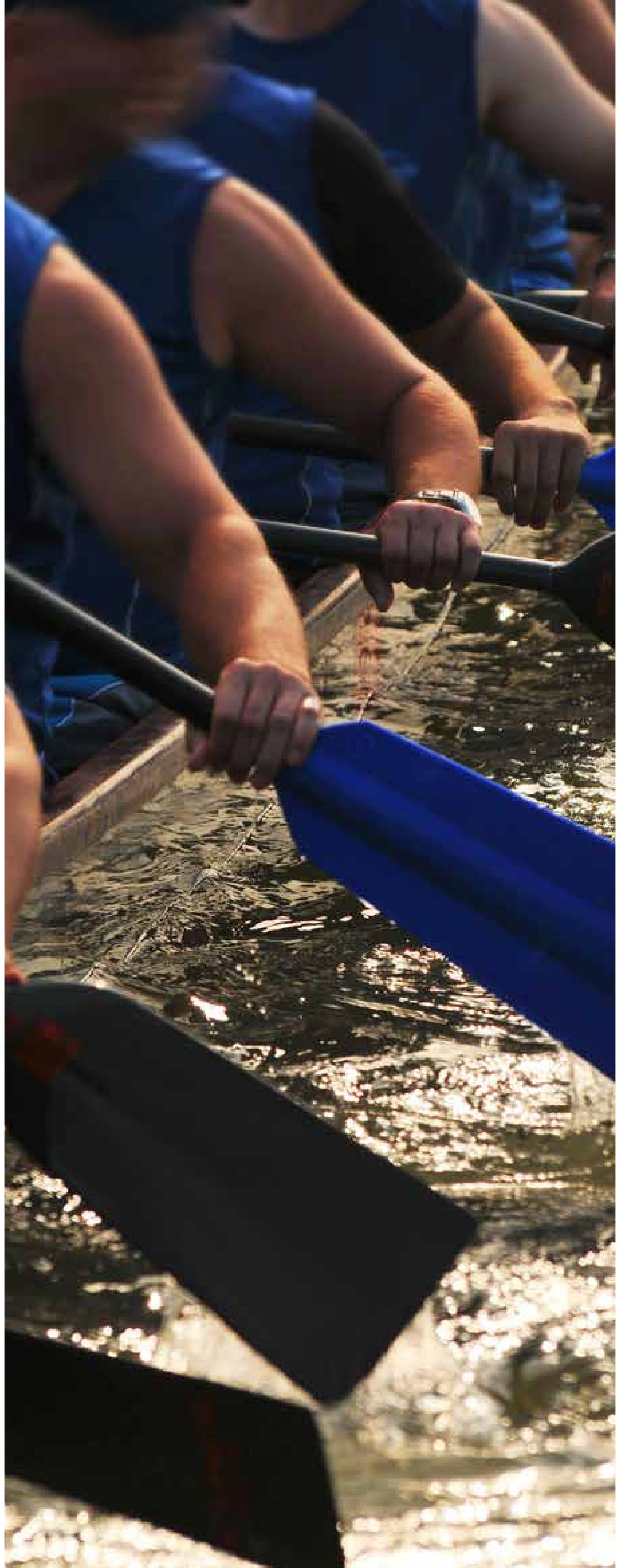
New Technology Will Enable Better Collaboration

CFOs are beginning to recognize that in order to make a step-change in productivity the emphasis in financial reporting will ultimately have to change from managing numbers and commentary to managing people. Collaboration holds the key to success especially around time-sensitive activities such as the agreement of inter-company balances which are often the cause of reconciliation differences, bottlenecks and delays. But consolidation in the Cloud is also a much more forgiving environment in which late changes in information requirements at the centre can be added to the group reporting pack and are immediately visible across the entire finance organization wherever individuals happen to be located. And, from a wider performance management perspective (perhaps budget creation), the same collaborative capabilities of a shared environment in the Cloud can be used to effortlessly link operational and financial management to share and view information as needed.

So it is not surprising that CFOs now rank investment in collaborative technologies number two in their list of technology priorities[4] (just behind analytics).

In a world where near-real-time communication has become the 'norm' social collaborative tools seem the logical next step for the finance function as organisations seek to eliminate functional and geographic barriers to communications. In the future, organizations can expect the increasing prominence of unified communications ('Instant Messenger' style capability) embedded within the consolidation applications so that all stakeholders can work with each other in real-time without leaving the application and without reference to email. As a direct result corporate finance functions that leverage these social tools can expect to be much more agile and responsive.

For organisations that 'grasp the nettle' the returns will be significant. A 2012 study by PwC[5] says that leading finance teams spend 17% less time on data gathering data and 25% more time on analysis than typical functions. Going forward, smart CFOs will invest in unified analytic platforms in the Cloud, reaping all the inherent benefits of the Cloud, while establishing a superior consolidation approach.



About the Author

Gary Simon is Group Publisher of FSN Publishing Limited and Managing Editor of FSN Newswire. He is a graduate of London University, a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the British Computer Society with more than 27 years' experience of implementing management and financial reporting systems. He is the author of four books, many product reviews and whitepapers and as a leading authority on the financial systems market is a popular and independent speaker on market developments. Formerly a partner in Deloitte for more than 16 years, he has led some of the most complex information management assignments for global enterprises in the private and public sector.

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