Financial Reporting & Analysis Solutions: Keeping Up the Pace

Finance teams are measured on their ability to efficiently transform financial data into customized information to support the business. As a business evolves, financial information needs to keep pace. That can require internal management reporting and financial analysis changes, which take time to assess and develop. Here are a few examples of changes that could affect reporting:

- A change in management could drive new ways of representing the internal management income statement presentation or the development of other key reports.
- Cost reduction initiatives could drive changes in reporting to provide more detailed drill down on costs incurred such as vendor or material level details.
- Changes in the business strategy could create needs for new customer reporting hierarchies.
- Cash spend controls could force the engineering team to revamp capital expenditure categorization to support and track required projects.
- The development of new business segments could lead to segment financial statements and related transaction level details for business owners to manage.

Normally when the business requires changes in financial reporting, the CFO expects a result delivered in the upcoming weeks – not months. Reporting changes should generally be implemented within the ERP system or in the supporting reporting modules already in place, but how do finance teams address challenges and bridge the implementation time gap to keep pace with the current demands of the business?

Challenges & Risks

The finance team can face various challenges in achieving timely turnaround of changes to financial reporting and analysis. These challenges may not only be driven by a lack of a consistent ERP system and related reporting modules or other reporting toolsets, but also can be the result of managerial or organizational change.

The frequency of changes to reporting can be a significant challenge for the finance team. A business may change its structure or management team each year, or even multiple times a year. Management could be struggling to analyze the operations of the business and may have many ad hoc reporting requests each year to address the issues at hand. In these scenarios, reporting and analyzing financial information may be an extremely manual process as automation of reports can be difficult to achieve with constantly changing needs. Resources and time may be spent on managing changes offline from the system rather than implementing long-term solutions.

When these requests involve big data, inefficiencies start to add up if the capacity of non-ERP system toolsets are not able to sufficiently manage the amount of supporting data. Although the finance team may become adept at addressing these requests, there may be risks in reporting if the process is offline from the system, and the business may require additional finance resources to achieve timely reporting.

Small internal IT teams or outsourced IT models can restrict the ability of the business to automate reporting. With limited IT resources, the business may have to narrow down its priority list of reporting projects, thus creating a longer queue for change requests that arise. Outsourcing IT work to third-party partners may help counter this issue, but it may be expensive for the business and this cost may also hinder projects from being accepted.

Shared ERP instances across multiple responsibility centers can limit the ability of one responsibility center from implementing local changes needed. There may need to be a buy-in and testing step performed across all responsibility centers to implement a reporting change or make updates to the chart of accounts or other master data structures. This type of structure could delay or deter needed system reporting changes, if those changes are not pushed from the top governance of the overall business down to each responsibility center.

To address these challenges and provide management with timely reporting, the finance team will have to consider what short-term reporting toolsets and long-term system solutions are best to suit their needs. The finance team should partner with the Information Technology (IT) team to discuss their needs and set expectations.

Setting Expectations With Information Technology

Generally, IT is required to be involved in reporting software / applications / toolsets within the business. In fact, the IT strategic plan should outline how it plans to manage and implement technologies to support the overall business strategic plan and thus should have a map of the preferred systems and reporting modules expected to be utilized by the business. Even still, that plan needs to be flexible to accommodate new business priorities and objectives both in the short-term and long-term.

Any toolset that the finance team requires to address reporting and analysis outside of the system should be discussed and agreed with IT to provide the appropriate technical support as well as align expectations within the strategy on how data is being sourced and transformed into information.

As financial reporting decisions arise, finance teams should partner with IT to align business needs and agree on the best potential solutions to address both short-term and long-term needs.

To facilitate this ongoing partnership, the below should be considered:

- Creation of a project team consisting of one or more finance individuals that have significant in-depth experience with the systems deployed in the business.

- Development and management of a financial reporting and analysis process map showing how financial data is pulled from the system and utilized in the business.

- Consolidation, review, and discussion of financial reporting needs of the business, potential available solutions already within the business, or potential new solutions.

- Periodic project meetings held to discuss needs, priorities, and status of projects.

Financial reporting and analysis should have a system-driven solution with process and data controls in place. If one does not exist, then an implementation project should be considered weighing the benefits against the risks and costs.

Implementing System Solutions

The finance team should be prepared to address changes with automated system solutions, but these solutions may take longer to implement than the deadline requested by the business. Implementations of financial reporting require an iterative process involving a project manager in order to achieve a successful result that is embraced by the business. Depending on the change required, the quantity of resources and time for a project can vary, but all would include consideration of the below:

- Determine objective of the report and identify stakeholders
- Set project timeline of deliverables
- Create plan to achieve objectives
    - Scheduling of required resources
    - Budget considerations
    - Draft report blueprint identifying source financial data, calculations, and output information and format
    - Determine reporting module for this report based on blueprint, stakeholder requirements (e.g., web-based, Excel interface, access levels required), IT strategy, etc.)
    - Data controls and maintenance
    - Coordination of testing for data validation and functionality
- Plan execution

As the project is executed, changes may occur to the original plan due to technical and/or budgetary constraints, scope adjustments due to changing business needs over time, and differing viewpoints from stakeholders. The project manager would need to facilitate timely communication of any changes to the management team and stakeholders of the business.

Long-term solutions done correctly can take resources and time away from the business, and depending on the size of the project, you may need additional resources to develop and/or execute a plan. (In fact, 8020 Consulting can help provide consulting support in this area or can assist in the project management effort.)

The Gap

As a business is developing long-term solutions, time gaps often occur where the finance team needs to deliver financial information before the ultimate solution is in place.

Because reporting requests are not always straightforward, finance first needs to define whether each request is an ad hoc report request or a recurring business need, which would mean the development of new financial reporting and incorporating it into a long-term system solution.

Ad Hoc Requests

In the former scenario, the business may require certain new financial information based on a short-term need, such as reporting on a major initiative taking place in the current or upcoming year. Depending on the timing, system-driven reporting may not be an option (given length of time to implement), and the finance team would need to develop alternative reporting toolsets to deliver the information required. Even though the timing might not work for a system solution, such a project should still be considered, as an ad hoc request like this could potentially even turn into a long-term need. For example, if in the future, the business develops plans to execute on additional similar initiatives or finds that the financial reporting is useful, the request might be applied to other areas of the business as a recurring operational report.

As short-term reporting and analysis requirements can change into long-term financial reporting needs, it is wise for finance teams to always be considering how to automate reporting if such automation does not exist in the business.

Sometimes it takes ad hoc requests for a business to identify reporting gaps or needs to support the business. For example, a business may have an initiative to significantly reduce discretionary spend in the next fiscal year. To support this initiative, the finance team might create a manual Excel report to match vendors to purchase orders with a roll-up to cost category and department. It may be viewed as an ad hoc report specific to the initiative, which is carried out in Excel during the year. However, as time goes on, the finance team may want to roll-out an automated system solution, as it would be useful for business owners to manage their department spend with the capability to drill down to vendor.

Recurring Business Needs

In addition to addressing ad-hoc reporting needs, even long-term reporting solutions require short-term toolsets to provide for interim reporting. As the business develops plans for system reporting, finance teams need to get a view on what the new financial information looks like for both supporting the long-term solution blueprint build as well as providing the CFO and management team with directional financial information now.

For example, let's imagine the CFO of a specific business unit has requested to create a new simplified income statement structure to be implemented for internal management reporting and financial analysis purposes. Now suppose you share a single SAP instance with other business units. There may be a lot of bureaucracy involved in terms of how the report will be formatted, how to define cost categories, and how the various general ledger objects map into the P&L. Even if the report is not to be shared across the other business units, the iterations to resolve these matters within the business unit may take a significant amount of time before the solution is agreed upon, and the report is finalized in the system.

To provide the CFO an income statement in the format he wants to discuss results with business leaders, finance needs to figure out how to do this in advance of the next period financial presentation, and it cannot wait for the system report to be developed over several months.

Bridging the Gap

Do you know what gaps, if any, exist in your financial reporting and analysis processes? Have your teams performed an assessment to determine if there are ways to mitigate risk and cost that exist while improving information turn-around times? It might be a worthwhile exercise to do in order to learn how to bridge the gap most effectively and efficiently.

As we have seen in both our ad hoc reporting request and long-term automated system solution examples, finance requires toolsets and resources to address the "now" in financial reporting. Remember that these toolsets need to be flexible and secure to quickly transform financial data into the required information that can be relied upon by management in the short-term. Below are a few examples of toolsets that may be often utilized or could be considered as short-term solutions by finance teams in bridging the financial reporting and analysis gap.

MS Excel

Finance teams often bridge the implementation gap of time or support ad hoc reports with manual Excel reporting, which can be time intensive and risk laden, yet quick to deliver. Excel is very flexible to manage on an ad hoc basis over short periods of time, which is why finance teams rely on this application so heavily. Although Excel can manage formulas and drive calculations, it is normally a static / point in time file, that constantly requires updates of data (i.e. actual results) from the system which tends to be a manual process.

In addition, over an extended period, Excel's benefit will likely deteriorate. With additional data loaded, various scenarios to consider, and manual formulas to manage, files will become slow to operate, painful to email / share, and could report incorrect information without the proper controls in place (e.g., formula management, cell protection, etc.).

In the example of a new income statement structure, Excel could be utilized to perform a manual mapping of the system trial balance into an income statement structure. This can be done with iterations being turned around quickly for review. If you have several business units and unique reporting exceptions in each, managing this in Excel may become more complicated. If you do use Excel in this kind of instance or other short-term scenarios, you will need the proper resources on the finance team with advanced Excel experience to build reliable models.

SQL Server

Utilizing SQL Server to set up a database and linking that to an Excel Front End interface for users provides a solution that enables the finance team to deliver a better proof of concept and interim reporting solution than Excel on its own. The database can receive data directly from the ERP system on a set schedule, incorporate structured checks and balances, manage big data, and can be accessed from the Excel Ribbon by users. Reporting can be in the form of a static report or a pivot table using a cube data source refreshed from the SQL database. This type of solution can be overseen by the finance team with minimal database admin resources and can deliver flexible and quick turnaround financial reporting with detail drill down capabilities from information sourced directly from the ERP system.

With a database, it would also be possible to build processes requiring inputs from across the business, such as forecasting and planning. For a SQL solution, you will need an employee or consultant with the following credentials / experience to get SQL up and running for your business.

- SQL database developer
- SQL server analysis services
- SQL server integration services
- Advanced Excel skills
- VBA
- C++
- Cube set up
- Business / finance acumen

The business / finance acumen of such a resource is especially important, as s/he would work closely with the finance team to translate their business needs into the design and structure of the database and deliver results on time and to expectation. After implementation, you should look to bring the knowledge in-house via a database administrator to maintain and enhance the tool.

Third-Party Solutions

Third-party solutions such as ANAPLAN and Host Analytics exist to provide businesses with both short-term and long-term reporting solutions. These solutions can be linked to ERP systems or receive manual data loads to perform reporting on actual results and can be set up to drive other processes such planning and modeling. The look and feel of these solutions are unique to how the third party has chosen to develop them, and a business would have to determine how the interfaces and options suit its needs. A business may prefer this option as a turnkey solution and outsource the backend management.

For any of the above toolsets mentioned or others that you may be considering, it is important to determine the best solution for your business.

The expectation of needs should be developed with IT to have the appropriate process and data controls in place to support these toolsets. In developing a financial reporting and analysis process map, the finance team can identify areas that require improvement or new solutions in order to meet the needs of the business.

Finance resources should have the appropriate skillsets and experience to work with the determined toolsets in delivering financial information. If such resources do not exist, you may need to bring in additional resources or train the resources that you have.

In general, consideration should be given to the following:

- Up-front investment and ongoing maintenance
    - Resources
    - Time
    - Spend
    - Control processes
        - Financial data and structure maintenance
        - Backend processes, either developed internally or outsourced, would need to be reliable and secure
- Stakeholder requirements
    - Interface
    - Access levels
    - Customizability
    - Back-end capabilities (drive dynamic calculations)
    - Flexibility – measured by how quickly and easily can a change be implemented

You may want to consult on how to execute and maintain your immediate financial reporting goals while looking ahead to the longer-term best-in-class solution that fits your business.

Want Help With Financial Reporting & Accounting?

8020 Consulting applies the intellectual capital, technical expertise and energy of our team to address a range of financial projects for clients ranging from Fortune 50 companies to middle market and venture backed firms.

We have experience with implementing third-party solutions as well as the capacity and knowledge to help drive locally managed solutions, such as Excel models for reporting and analysis and database expertise. If you need help with deciding on the best-in-class solution right for your business, managing the implementation of that solution, finding additional resources to support new processes, or even an interim finance resource to drive analysis for a short-term project, 8020 Consulting can help.

You can find us *online at 8020consulting.com, or call us anytime at 855.367.8020.*

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