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Executive Summary

There’s good news for FP&A professionals struggling with multilayered spreadsheets or rigid legacy systems. Finance is more important than ever, and this means FP&A can make a stronger business case for new system implementations. “I think it’s a great time for finance organizations,” said David Axson, Managing Director – Finance & Enterprise Performance at Accenture. “Finance becomes very important when there’s volatility and a downturn. Over the last 3-5 years, the CFO has become the right hand of the CEO, and the finance team is more focused on critical success factors. It’s the perfect time to make the case for investing in technology that will help deliver value to the business.”

The reasons organizations should invest in technology vary depending on their priorities. New technologies are making FP&A products more adaptable with features like analytics, mobile access and data visualization. Experienced cloud providers are lowering the total cost of ownership while offering rich functionalities. Above all, there’s the urgent need for fixing a process that is a top priority for CFOs everywhere: forecasting and planning. According to a May 2013 survey of 358 finance executives by accounting firm KPMG, CFOs’ number-one priority in the next two years is improving business planning and forecasting. Sixty percent also said that management reporting and analytics tools are among their biggest near-term priorities.

Companies are facing a systems market rife with competition, which is in turn pushing pricing down, often below list price, and increasing the number of options available to an unprecedented level. While systems cannot by themselves resolve broken processes, the tools are now available for both large and mid-size players to infuse agility into the planning and forecasting processes. FP&A systems are becoming a commodity in many ways, with basic functionalities available in any system on the market. What sets these systems apart is their ability to:

- Easily engage multiple users, and
- Either currently have or have the capability to develop features such as:
  - Mobile access
  - Data visualization
  - Predictive analytics
  - Integration of external leading indicators into forecasting processes

“It’s a good time to be looking for a solution,” said Craig Schiff, president and CEO of BPM Partners, a vendor-neutral advisory services firm specializing in business performance management (BPM) and related business intelligence solutions. “The list pricing is fairly high, but there’s significant discounting off of list. The vendors have not lowered list prices, but the street price can be very different when they’re competing against other vendors.”
Drivers of change
The evolution of new vendors and the new functionalities offered by existing players is not happening in isolation. “Without a doubt, the number-one driver of system change is what’s driving change is the performance management processes themselves,” said Tony Levy, business unit executive with IBM Business Analytics Software. “Changes in process and skills are forcing a change in the systems.”

The two major themes, according to Levy, are volatility and speed. The business environment is more volatile, which is driven by globalization, financial markets and emergent technologies. “These factors are creating a lot of volatility, uncertainty and risk in every aspect of every business, regardless of size or geography,” Levy said.

The speed of business has greatly accelerated also. Companies are now forced to make 10 consequential decisions every week, up from 10 consequential decisions a quarter. “The speed, and with it the number of critical decisions we have to make in the same period of time has gone up. We have less time to make these decisions,” said Levy. What this means is that the processes in place for resource allocation, which is at the core of FP&A, must change to keep up with the changing environment. Assumptions must be revised more frequently. External data needs to be incorporated and combined with internal data to validate those assumptions. Batch processes, like annual budgets that are locked down 18 months in advance of fiscal year end are no longer sufficient, and FP&A skill sets must be upgraded to keep up with the need to support faster, more reliable decision support.

“There’s a greater premium on more frequent, reliable forecasting and analysis,” Levy noted. And as companies forecast more frequently, conduct deeper analysis and revise plans, they find that their old tools are no longer robust enough to support the speed of change and the need to improve performance management.

“Instead of massive detailed offline spreadsheets to do budget, more multinationals have a view to develop their forecasts very quickly,” said Accenture’s Axson. “They apply different scenarios to these numbers and evaluate different outcomes.” As a result, he sees a lot of multidimensional relational data tools that “allow companies to rapidly gain control over data to process and analyze it in faster cycle times. The nice thing today is that there are tool sets that can do anything you want to do. There’s not a significant functional gap. The choices are there. The key question is which ones are the most cost and business effective.”

When the environment changes, companies need to quickly update their view of the future, and determine how to adjust resource allocation in response. “We’re beginning to see a shift that de-emphasizes building a real detailed budget. The more detail you have, the more variance you create,” said Axson.

He noted a move toward reducing the level of detail in budgets and increasing the investment in an organization’s capacity to create more robust and frequent forecasts. “In the old world, you created processes and stuck to them. Today, it’s a more flexible and agile approach. As risks emerge, there’s a need to revisit budgets and processes and change what people are authorized to do, or free up resources to adjust to opportunity.”

“When we speak to midsize and enterprise customers, they are often in a quandary running on spreadsheets,” said Paul Turner, senior director product marketing at cloud solution company, Adaptive Planning. “They have hundreds of spreadsheets on which they maintain all their planning, forecasting and budgeting, either centrally or by emailing them out to their budget managers.”

“Then the FP&A manager spends a boatload of time rolling [changes made by budget managers] into the corporate plan,” Turner said. “That takes a really long time. No one wants to do it. By the time you’ve done it, the business has moved on. Takes months to go through it, then it’s time to plan again, because what you have no longer represents the business environment.”

As a result, said BPM’s Schiff, “FP&A groups are outgrowing Excel spreadsheets. Excel remains a great tool to supplement a backbone system. Organizations are recognizing that. But what’s changed today is the number of choices they have. There are more solutions to choose from than I’ve seen in the 30 years I’ve been in this business,” said Schiff.

In addition to the three largest players, IBM, Oracle and SAP, “there are many specialized budgeting vendors that have more cost effective solutions that may be a
better fit with FP&A requirements. Not everyone needs every feature under the sun,” said Schiff.

That is not to say there’s been a wholesale shift out of Excel, acknowledged Jason Logman, principal of EPM transformation practice at The Hackett Group. “The reality is that there are still $20 billion companies running their performance management processes on Excel and PowerPoint. It’s surprising how common that still is,” he said.

The continued use of Excel for performance management processes is not confined to companies without system tools. Even at organizations that have implemented systems, such as SAP BPC, TM1 or Hyperion, there is often still a proliferation of spreadsheets used for analysis.

“One main reason this occurs in large organizations with multiple divisions and product lines is that they do not take full advantage of the driver-based functionality of these tools. Rather, they settle for applications that simply aggregate data from multiple sources instead of performing the actual planning and analysis. The key to ensuring that an application will both work and be broadly accepted by the organization is to dig deeper than just the roll up of information into how the plans and forecasts are developed at a detailed level,” Logman explained.

“During implementation, shoot for standardized processes where possible by developing the highest common denominators across hierarchies and drivers. At the same time, allow—whether by geography or business unit—customization that supports true business requirements based on a business model or market conditions.”

**User engagement**

As the role of FP&A shifts from simple reporting to delivery of stronger business insights, FP&A requires more input from more front-line users. The quality of the forecast and the budget depends on getting more granular and timely information. Thus this concept of end user-driven tools permeates the industry. “In terms of technology, more than ever before, there’s a need for tools that are business-user friendly,” said IBM’s Levy.

“Companies find some tools require a tremendous amount of IT support and complex scripts to make Meta data changes.” Those tools are losing steam.

According to Levy, today’s FP&A systems need to easily extract data from multiple financial and operational sources, create the right planning models, and conduct analyses without IT support. They then need to be able to create reports off of that data that meet all user requirements at the point of impact—be it an online structured report accessible by thousands or mobile reports accessible by hundreds of mobile users.

“A few years back, the financial planning and budgeting system was largely used by finance people on behalf of lines of businesses,” said Hari Sankar, vice president of product management for EPM applications at Oracle. “Now we’re starting to see companies push the planning and forecasting processes deeper into the business. There’s greater participation by people who are closer to actions and decisions in sales, marketing, operations and supply-chain functions. Companies are realizing that broader participation improves forecast accuracy.”

Turner from Adaptive Planning calls this trend user engagement. “When you send an email to the budget owner within the sales team and ask them to complete the budget for next fiscal year, you may never hear back,” Turner said. “Days turn into weeks. What we’re seeing with hard-to-use systems is that no one wants to engage in the process. FP&A has to ‘herd cats’ to get the budget managers to participate.”

That means systems that are easy to use and intuitive to business managers have an edge in collecting the necessary information. Indeed, some tools are making the business-user experience more akin to consumer experience, where budget managers proactively engage through Web interfaces or even mobile access, to use the system and buy into the effort.

According to Sankar, companies are implementing this trend toward greater user engagement in one of two ways: 1) by broadening the reach of existing planning systems; and 2) by deploying new LOB systems beyond finance, seeking to link the systems in order to more easily communicate data and assumptions. Making data collection more “fun” for business users is only half the battle. According to IBM’s Levy, making the modeling capability user-friendly is also very important. “Driver-based modeling is more important than ever, particularly for companies using rolling forecasts that need to be
updated frequently from as many users as required. The tools have to support those best practices,” he said.

“A lot of the tools don’t allow you to easily model operational drivers. Many were designed for cost center annual budgets. If the tool is only good in cost center budgeting, you’re wasting your time. What we need is not cost center budgeting, but driver-based forecasting and planning with tools designed to appeal to business users.”

“Conceptually, more choices are a good thing,” said BPM’s Schiff. “In the past, lower cost equaled low capability. The systems available today are designed for end user self-sufficiency and less reliance on IT support. That’s a big change that evolved over time.”

Cloud-based solutions

While the market leaders are beginning to offer tools that allow for greater user engagement and mobile access, a few cloud-based solutions have been designed from day-one to offer that sort of experience—along with the added benefits of less IT support, lower cost of ownership and wholesale upgrades to keep pace with the latest functionalities.

“While there are no ideal systems,” said Larysa Melnychuk, former head of FP&A at ACE, the European insurance giant and current industry consultant.

“Adaptive Planning, Host Analytics, and Anaplan are doing 80 percent of what bigger systems do at half the price and with greater flexibility and lower maintenance costs. I think this is the future,” she said. “It will be interesting to see how the market is transformed.”

“There are several solutions that are entirely cloud-based,” BPM’s Schiff said. “The benefits include reduced IT demand and they’re up and running very quickly and offer access from anywhere.” These solutions give smaller organizations viable alternatives. “When they first came out they had very basic functionality; today they are as rich and robust as the fully installed on-premise systems,” he said.

“We truly believe that cloud solutions are good,” said Schiff. “In our annual customer satisfaction survey, we specifically asked customers how happy they are with their systems. The cloud solutions, specifically Host Analytics and Adaptive Planning consistently rank 4-5 on a five-point scale.” Meanwhile, “the on-premise vendors are beginning to move toward cloud-based solutions.

They’re offering their systems on a hosted basis, at the very least,” he said.

BPM data from 2011 clearly shows a growing acceptance of cloud solutions: “On a year-to-year comparison basis, there was a significant increase in companies considering a SaaS solution (from 33 percent to 40 percent). This is the highest consideration rate recorded by the BPM Pulse survey since we started asking about this solution delivery alternative in 2006.”

“It was maybe in 2009 when finance began broadly saying that the cloud makes sense for us too,” Adaptive Planning’s Turner said. “What we’re seeing increasingly is not just midsize organizations, but large enterprises.

Asking the Right Questions

When practitioners try to tell whether an application is cloud or not, they can ask the following basic questions, adapted from a list provided by treasury cloud application, Kyriba. While the source obviously has a message, the distinctions are technically astute:

1. Is there an installed version?
   If the product is also offered on an installed basis it’s not pure Cloud.

2. Is it offered as a private or hybrid Cloud?
   True Cloud is multitenant only.

3. Is the software accessed through Citrix, Terminal Server or a “web-layer”?
   If so, then it’s not pure Cloud.

4. Is the software integrated (not interfaced) directly with other web applications using web technologies, such as web services or APIs?
   If yes, then it’s Cloud.

Source: CTC Guide: Treasury Technology: The Emerging Landscape
looking to run their applications in the cloud. They’re cutting back on the traditional, tremendously overly-complicated form of FP&A systems, and looking to make their systems easier to run and more agile.”

Alex Ortiz, head of product marketing at Host Analytics added that large and midsize companies are beginning to pay more attention to issues like upgrades, which are resolved by cloud platforms. “They may have had a big system for a decade and now they need to upgrade,” Ortiz explained, “which is very expensive and requires specialists and consultants.” In addition, he noted, “there’s a security risk in older systems that have not been patched and are 4-5 years out of date. These are specific pain points customers face at the end-of-life of some of the bigger systems they implemented years ago.”

It may be telling that the Gartner Magic Quadrant for Corporate Performance Management (CPM) Suites published in 2013 highlighted the high-growth of cloud-based solutions compared to the overall CPM market growth rate. From the Gartner report: “Host Analytics reported a 118 percent total revenue growth for its last fiscal year; this is more than seven times the CPM market growth rate of 16.4 percent during 2011.”

“A lot of finance professionals are unhappy with the mega vendors and are looking for alternatives,” said Ortiz. “The Gartner report corroborates the view that cloud is becoming more mainstream.”

IBM’s Levy agreed. While cloud may be more popular with smaller companies now, even IBM’s Levy sees this trend expanding over time. “In the future, even large companies will opt for cloud to reduce the total cost of ownership. That’s a greater and greater trend.”

David Williams, head of product marketing for SAP’s Solutions for Enterprise Performance Management (EPM), which is offering cloud and mobile solutions, added, “Companies that are looking for faster implementations, where the internal process of securing hardware and installing and configuring can be delayed, may look to deploying in the cloud; for example, deploying SAP Business Planning and Consolidation on the HANA Enterprise Cloud.”

Recent surveys by Gartner, Inc. and BPM show that acceptance and satisfaction with cloud solutions is rising. While the Gartner survey included a broader sampling of systems than just FP&A, many FP&A systems made the cut in terms of customer satisfaction. (See graph below.)

Source: Gartner, Inc.
The same 2013 Gartner, Inc. study of Enterprise Performance Management (EPM) Systems also showed that the biggest vendors rank last in terms of value for the money.

The challenge: integration

“I think most of what’s out there, whether Adaptive Planning, or Host Analytics or Hyperion, they all handle the FP&A needs very well,” said James Singer, director of profitability analytics at Forsythe, the technology integrator. “This has been the stuff that people struggled with when they were doing forecasting in Excel. Something as simple as consolidation was a major task. Versioning is a big deal in forecasting, when you want to do a rolling forecast, trying to do that in Excel is very difficult.”

Important business practices, such as building back-end modeling or assumption was a big deal in Excel was a big deal. “Those aren't the challenges anymore,” said Singer. “Any of the new systems out there can handle these things. They've made these things simple. That was a great step in FP&A and made things a lot easier.”

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Source: Gartner, Inc.
“Five years ago, there were only so many systems: Hyperion, Outlook Soft (now SAP), Khalix, and IBM TM1,” said The Hackett Group’s Logman. “Software selection was not a big decision as there were very clear market leaders.” In the last several years, he’s seen a change. “The core functionality has been commoditized to support the types of analysis and modeling capabilities required by major organizations,” he said.

“Differentiation is coming in the form of pre-built modules for items such as project planning, balance sheet planning and others operational areas.” Currently, decision points rely primarily on user experience, environment scalability, and its ability to integrate with reporting tools and other existing systems. Companies are looking for tools that can be seamlessly integrated with supporting software applications like sales and operations planning tools, Logman said.

“The nature of all of these tools is one of data integration and aggregation—they can all bolt on to any ERP or operating system. That shouldn't necessarily be the reason to choose one or the other,” said Logman. Still, he concedes that integration remains a primary selling point for the big vendors. “The sales pitch is that if the software is coming from the same vendor, then there must be immediate integration out of the box. There is some truth to that if everything was ideal with an ERP, meaning no customization had taken place, and no underlying databases had been altered. That’s an important point. It is critical that the IT organization truly understand how the integration works.” According to one practitioner, integration has been his organization’s biggest challenge. Budgeting and forecasting system should be connected to your transactional system just like any other transactional system” this FP&A professional said.

“One of the big problems is if you're Oracle ERP and using Host Analytics or Adaptive Planning, is getting the data over on a timely basis from the ERP. If you're using Salesforce.com you want to also integrate that data.” Even with cloud applications, “integration still requires an extra process and IT help. It doesn't happen all that easily. It should be easier, but you would be surprised, even companies that use Hyperion within Oracle find that Oracle doesn’t always integrate all that well. They can integrate order management to accounts payables, but once you start to talk about Hyperion planning and CRM it’s not easy—and it’s very expensive,” said this FP&A practitioner.

To find the right solution, his company has worked for seven months to put together a prototype of what their system should look like. “We have eight regions, and we wanted a regional dashboard that would show each region its goals and progress to date, and we wanted it to integrate the opportunities coming out of Salesforce.com,” he explained. Integrating the CRM application is critical to resource planning so the company can allocate the right resources to the right opportunities in terms of sales and pre-sales support. The prototype uses Oracle to pull out the margin and expense data. But even within Oracle, they found that certain modules don’t speak very well to one another, causing them to use NetSuite instead. So, their FP&A system would have to integrate NetSuite, Oracle and Salesforce.com into one planning system and drive the regional dashboard. (The company currently uses Adaptive Planning for forecasting.)

“If you want to elicit requirements effectively you’ve got to build a prototype so the vendors can see what you're talking about,” he said. The two leading cloud solutions are being considered as possible integration alternatives. “That's something that's being looked at and decided right now. It's the biggest challenge I see from the standpoint of getting consistent and timely information.”

**In it for the long haul**

While the basic functionalities are available from every vendor, and competition is depressing street prices, it’s most important that companies find a system that will serve them well into the future. To this end, experts pointed out the following four emerging trends in FP&A systems: mobile access, predictive analytics, data visualization, and the use of external data. It’s important that practitioners ask about these capabilities when talking with vendors in order to gauge the longevity of their purchase.
Mobile access

“Mobility is a hot topic in finance right now,” said SAP’s Williams. According to Williams, mobile planning and analysis capabilities rank as one of the top criteria performance management customers of SAP are looking to adopt. “Mobile access allows other decision makers and business operations users in the company to monitor and analyze the numbers and to plan and simulate on the fly.”

This desire for mobile access may start with retail operations or transportation organizations but will migrate to any other enterprise that seeks to collect and distribute plan information on a remote basis. Widespread access and engagement “leads to better accuracy,” Williams said.

“The reality is that there are 15 billion connected devices in the world right now,” said James Fisher, vice president of marketing and analytics at SAP. Citing innovations like smart phones that communicate with home heating systems and personal vehicles, Fisher continued, “As consumers get used to using analytics in their personal lives, they will expect the same in their professional lives.”

“It goes a bit without saying that mobile devices are becoming a very common mode of distribution,” said The Hackett Group’s Logman. “Delivering content to the executives on a mobile basis is now a basic requirement. One of the more frequently mobile distributed data points is daily sales information, but monthly profitability analysis could also be included,” he said. “Executives are seeking to move beyond core financial data to gain visibility into the operational drivers behind the financial performance.”

“For FP&A professionals, this has made their jobs harder and easier at the same time,” said Logman. “It’s easier to automate calculations because the output comes more quickly compared to the old Excel days. That’s the easy part,” he said. “The hard part is that executives are expecting to get information faster, often in real time. They tend to ask for more information, and they ask more questions, which require a greater understanding of the business from the FP&A teams.”

Mobile report distribution is already here, according to IBM’s Levy. “Very soon users will be able to enter data through mobile devices; for example, submission of the latest forecast through a smartphone or tablet,” Levy predicted.

“You will no longer have 100 contributors; you will have thousands of forecast contributors, which is powerful.”

According to Logman, mobility is not only helping companies distribute the information more quickly, it’s also beginning to allow users to drill more deeply into the data. In the past, it was a two click information presentation. Now it’s possible to drill deeper. In some cases, you can get all the way down to the ERP level to see the transactional level data. “The idea is not just to be able to see the data but also input it and interact with it more fluidly,” he said.

“You can touch more people leveraging mobile tools,” added Fisher of SAP. “Having more people involved in a controlled way is a huge opportunity for the company. More people mean more insight,” he said.

Despite its advantages, BPM’s Schiff cautions consumers against making a purchasing decision based on whether a system allows for mobile access. “Mobile access is sexy and nice to have, but in terms of practical benefits, it’s still early. Vendor functionality is varied. Some have live access to reporting, but customers are not demanding it yet,” he said.

Predictive analytics

“People are waking up to the fact that they can use predictive analytics to do their jobs a little bit better. That’s why analytics is such an exciting space,” said Fisher of SAP. “In the past, predictive capability was the domain of a small group of people within the organization. That’s no longer the case. Systems can leverage new languages to make broader use of analytics for business people, so they can spot hidden trends. I see more and more predictive capabilities built into an overall FP&A solution. We’re actively doing it, e.g., profitability and cost management capabilities. The idea is not to get analytics more democratized but to get it into the hands of more users.”

“The use of driver-based forecasting has become a significant trend as companies seek to statistically inform decisions,” added Logman. “Running statistical information and pulling it into the forecast is becoming more common.” What used to be the prerogative of high level strategic planning is now filtering into operational planning, according to Logman. “Companies are embracing
it more. If the application is built effectively, I should be able to log in and model key assumptions such as GDP change, health care and benefit rates to understand the impact from an industry perspective, and on a broader economic level,” he said. According to IBM’s Levy, finance has historically been a laggard in adopting anything new beyond simple linear regressions. “Finance is comfortable with simple statistical approaches. They view advance approaches as black boxes,” he said. “We need to start adopting these more advanced techniques in order to cope with volatility, uncertainty and risk.”

Following are two real life examples of how predictive analytics can improve decision making according to Levy of IBM.

- **Driver-based results.** First, he said, “Everyone uses time series data today. Manufacturers monitor trouble tickets, inventory turns, customer turnover, and sales. Using predictive analytics tools, they could analyze these time series data to automatically determine the causal relationship between them.” Referring to an algorithm IBM offers based on Granger Causality, developed by Clive Granger, a Nobel Prize winning economist, Levy continued, “There are tools available to discover causal relationships between metrics automatically from the data, not just correlations.” He points to what he calls the “correlation-implies causality fallacy.” That’s the case when two things have a strong correlation that implies causality but are in fact driven by a hidden variable, or the correlation is simply coincidental. Companies can take 12 months of time series data and run it through the formula to discover the relationship between, for example, inventory turns and customer turnover or market share and sales. These insights help validate and refine driver models and can be used to establish more reliable baseline forecasts on the most volatile and material financial metrics.

- **Long-term strategic planning.** Using predictive tools, companies can model key drivers and account for the volatility in these drivers in order to project a range of outcomes in their long term plans using Monte Carlo simulations to derive a range of alternative outcomes. You need to determine a min-max range for the inputs, and then deploy a mathematical approach to create the range of outputs. “A point projection is not meaningful in a five-year plan; instead, we need to think in terms of a range of outcomes,” Levy emphasized.

While there’s much talk about predictive analytics, the bar still remains high in terms of statistical knowledge and understanding of algorithms. “It can be intimidating to the average business user,” said Oracle’s Sankar. The way Oracle has gone about overcoming this challenge is to include some commonly used predictive models in the planning system so the models are seamless to the user. “What we’ve done is to have the system make intelligent choices based on data,” he explained. “You get a much better response when you make it easily accessible to business users. It’s no good if only one percent of users can take advantage of it.”

Schiff noted that predictive analytics were already built into Outlook Soft before SAP purchased it. “These are things we were talking about in 2000. In the early days, it wasn’t well defined,” he said. “It’s beginning to make more sense now; vendors are offering more real and consistent capabilities to validate the probability of a forecast. That’s kind of the niche it’s found. Do the forecast and then do an algorithm in the background to validate the probability of this forecast coming to pass. That is very useful.”

**Data visualization**

Communicating information visually is a balance between form and function. “For some it’s as simple as a graph,” said Schiff of BPM. “Others are creating heat maps and other interesting ways of looking at data.” While there is a lot of talk about data visualization, Schiff says that his firm has not yet seen a tremendous demand from users.

“By visualizing data, companies can include more people in the overall planning process,” said SAP’s Fisher. “I see more and more people outside the traditional FP&A definition using analytics. They’re not contributing plan data, but they use tools like SAP Lumira (an SAP data visualization tool) to improve and feed into the forecasting process.” Said one practitioner at a resource management company, “The idea is to make it simple. People
won’t look at an extensive spreadsheet or report. Everything is so time compressed these days. If you don’t put it on an 8.5x11, you won’t get anyone to look at it.”

“Some vendors are good at data visualization,” said Singer. “For others, it looks terrible. Those that have done a better job make it easy to do data visualization and add graphic capability. If the system doesn’t have it built in, you’ll spend a lot of money getting it done.”

Using external data
As more companies adopt driver-based forecasting and planning, they come to rely on external data to support their assumptions. “We need to look at the right indicators. Traditionally, we look at lagging/ internal indicators. We need to monitor leading /external indicators as well,” urges IBM’s Levy.

“Companies create a more accurate early warning system when they bring external drivers into their planning,” said Ortiz of Host Analytics. “Everybody realizes that once-a-year planning is not frequent enough. With the increased economics volatility, companies require agility and speed to adjust. We make rolling forecasting easy but also bring driver-based planning into the application. Then, we add a layer of robust reporting and analytics capabilities to provide the insight needed to make better informed decisions,” he said.

Host Analytics has a product called Decision Hub that “brings in external drivers like economic indicators, financial benchmarks of peer companies, currency rates and standard KPIs,” Ortiz said. “It automatically delivers the data right into the application, saving a ton of time and money needed to identify, integrate and validate data sources. That’s some of the leading-edge stuff you can do with a cloud platform.”

But Host Analytics is not alone. Prevedere, Inc. is another vendor that specializes in pulling outside data into inside forecasting systems. “What we do is help companies improve bottom line results by identifying external drivers through proprietary correlation and analysis with internal results,” said Rich Wagner, president and CEO of Prevedere. Their cloud-based system easily interfaces with any internal system, as well as Hyperion and COGNOS. It does this by extracting a monthly data feed of the internal metrics and merging them with macro and micro economic big data metrics, such as auto sales and industrial production, unemployment and housing stats.

“Too many companies are focused internally and neglect to look outside their four walls for the key drivers that affect their business,” Wagner said. “We assist organizations in incorporating Economic Intelligence into their forecast and planning process. As global economic change happens more rapidly, these big data factors are becoming more important. In recent years, many companies found that the volatile nature of the global economy was affecting their results with more frequency and to a greater impact. We needed a warning system incorporated into the forecasting process.”

“Large companies cannot typically make changes on a monthly basis to drive profits, but internal cost and external demand can be better managed and predicted by using external data analytics,” Wagner said. The SaaS system, which takes weeks to implement, is cloud based and builds an interface to whatever internal performance system that company is using for financial consolidation.

“We need to look at the right indicators. Traditionally, we look at lagging/internal indicators. We need to monitor leading /external indicators as well,” urges IBM’s Levy. “A weakness in finance is the lack of understanding of the importance of lead time. Imagine the value an extra month of reliable lead time would give you to respond,” said IBM’s Levy. “[Integrating external data] is about gaining time to take action. We need our metrics and our forecasting process to help us do that.”

“Companies that need longer lead times to respond, like large organizations, need clarity into a more distant time-horizon because it takes them longer to adjust course. Any insight that gives them a more reliable view further out in time needs to be collected and incorporated into the performance management process.

As more companies adopt driver based forecasting and planning they rely more on external data to support their assumptions, be it oil prices or market indicators, according to Sankar of Oracle. In addition, particularly among companies in competitive industries like consumer goods, there’s a move to incorporate external benchmarking information from formal and informal sources about the quality of their forecasts. “We’re starting to see more interest,” he said.
Conclusion: The process steps
When companies consider implementing an FP&A system, “they have to address multiple components: people, processes, systems and governance to get the best solution for FP&A,” said The Hackett Group’s Logman. “You have to look at this holistically: are you producing the right outputs at the right level of detail? Do you have the right people in place with the right skills, and do you have process governance to keep things in check? You can then consider how to best use technology to automate, simplify and enable the institution of these processes to enable change,” he said.

“The most powerful characteristic of these tools is that you can make them do essentially anything you want—this is also their biggest risk,” Logman said. “Too often, implementations of performance management solutions fail because companies simply automate what they do today in their hundreds of Excel models, resulting in overly complex, slow performing, costly models that are not embraced by the user community.”

BPM’s Schiff suggested companies take the following process steps:

1. **Step back and put together a multi-year roadmap.**
   “The solution should not be just about resolving the immediate issue,” said Schiff. “We see people trying to put out fires. Budgeting may be the focus today, but what about strategic planning, and operational analytics. All those fall under the same EPM umbrella. You want to buy a solution today that can grow into that; therefore, the key is to step back and put together a multiyear roadmap.”

2. **Create a list of system requirements.**
   The next step according to Schiff is to put together a detailed list of requirements. “Some companies think they’ll know it when they see it,” he said, but “vendors are all going to look the same.”

3. **Create a scripted demo.**
   Next, companies should take their detailed list of requirements and turn that into a scripted demo. That way, when vendors come in to present, “their demo is built to your user requirements,” said Schiff. He also recommends that practitioners ask each vendor how the system is maintained, how allocation rules are changed, and how new entities are added. Vendors like to bring their canned demos. “Often companies review the demos and then they stall, because they all look the same and they can’t tell the differences among them.” By creating a scripted demo, practitioners can score the demo vis-à-vis their key requirements. This process not only helps companies select the best solution for their needs, but also “documents the process and gets more buy-in along the way,” Schiff said. “It helps to explain to everyone why a particular solution was selected. People try to short-cut that step, but it’s important.”

4. **Make sure you look at the right vendors.**
   Because there are many vendors out there, it’s often worthwhile to utilize an outside resource to help pre-select a few that fit a company’s needs. “Don’t waste your time with a bad fit,” Schiff said. “Decide up front if you want a cloud or a full-fledged, installed system. Trying to compare an Oracle Hyperion to Adaptive Planning is like comparing apples to oranges.” It’s best to predetermine what type of solution the company will require and only invite those vendors to bid and go through the detailed evaluation process.
Case Studies
The case studies in this report represent a cross section of systems: from cloud based (Adaptive) to on-premise, e.g., COGNOS TM1 and Hyperion. But what unites them is the fact that in each case, the system implementation helped support a process change designed to improve the FP&A function and better support decision making. The case studies also highlight some of the challenges companies face when implementing new systems, sharing tips and lessons learned in how best to approach the implementation process.

Case Study 1: Pioneer – COGNOS TM1
In 2010, Pioneer overhauled its management and FP&A process. With a new CEO, COO and CFO at the helm, the credit union implemented COGNOS TM1 to improve forecasting and financial reporting, resulting in a business turnaround that won awards for technology and performance.

Pioneer West Virginia Federal Credit Union is a 74-year-old member-owned, cooperative financial institution, with approximately $150 million in assets. The credit union serves over 13,000 members, primarily in the ten counties surrounding the state’s capital city of Charleston.

Prior to 2010, Pioneer had been on a downward slide, but in mid-2010, the Board made significant changes to the executive management team. “We had a new CEO, CFO, and COO in place by year-end,” said Executive Vice President and CFO Dan McGowan.

According to McGowan, the new team has engineered a remarkable turnaround, generating profits where there had been losses, and earning multiple accolades as one of the nation’s finest credit unions. The In fact, in 2012, the National Association of Federal Credit Unions (NAFCU) named Pioneer Credit Union of the Year.

Showing steady improvement, the credit union has averaged a miniscule 28 basis point reportable delinquency rate for over a year, down from more than 200 basis points in 2010. Delinquencies in the 1-2 month time frame have also been dramatically improved, decreasing from over 200 basis points to a recent average in the range of 80 basis points.

“We believe our use of the IBM COGNOS TM1 system greatly contributed to the business intelligence and decision-making abilities of the credit union, resulting in service levels which earned us national recognition,” said McGowan.

Beyond budgeting
The driving force of the FP&A process is a monthly rolling forecast. “We believe rolling forecasts are considerably more valuable than budgets, so that’s the route we take,” said McGowan. According to McGowan, the concept of a budget is more appropriate for entities that have a finite pool of income, like a governmental agency. “For most private-sector organizations, that doesn’t make a lot of sense. We don’t have an assigned pool of income,” he said.

Income is highly variable based on business decisions and the economy. “We constantly look at both revenue streams and the expenses needed to support them in a dynamic environment,” he said. “As a practical matter, our end-of-year forecast for the following year becomes a budget comparative of sorts, but mostly just serves to gauge how well we can forecast 12 months out.”

Otherwise, Pioneer updates its actuals each month and runs through a model that forecasts 36 months ahead. “Primarily, we focus on how we think we’ll end the calendar year and what the next 12 months will look like.” According to McGowan, modeled results for the second and third years “aren’t taken as gospel.” The value of these forecasts lies in their ability to provide the credit union with “an indication as to the direction and magnitude of change.” If the organization views the direction as positive, “we pat each other on the back,” said McGowan. If
not, “we know we have to make decisions today to create better long-term outcomes.”

How the system works

The COGNOS TM1 database acts primarily as the storage vehicle for historical data. The information is extracted from an underlying legacy GL system. Using the capabilities in COGNOS, Pioneer has set up some key data relationships that it can model on an ongoing basis, for example, between the cost of borrowing and its income streams from lending or the number of loans versus the number of deposits. The system runs regression analysis on the historical data to come up with these ratios.

It then interfaces with COGNOS using Excel spreadsheets to run different models to help gauge what lies ahead based on different scenarios. “We go into Excel to play with some of those numbers based on what we think we know about the future,” said McGowan. “We then make our business plan going forward.”

The static data sits in the TM1 database, which makes it further possible to start doing reporting on both a historic and forward-looking basis each month. “That's how COGNOS is structured: it leaves the user interface to Excel, allowing for free-flow analysis and modeling capabilities,” McGowan said. “The combination of these two tools provides tremendous flexibility in terms of being able to perform ad hoc analysis and one-off calculations, while at the same time having the ability to capture the data and generate reports as a coherent whole process.”

Pioneer selected COGNOS because McGowan had a long-time experience in implementing and working with the system, dating back to his days at Regions Bank. It was there that he became a “power user” by learning how to program the system.

Implementation time was relatively brief for Pioneer—30 days from the date of purchase to the date the system was up and running—thanks to McGowan’s prior experience coupled with the fact that IT support was unnecessary. “Installation was a snap,” he said. “Then the more complex work began in terms of determining what kinds of data and data sources were being used throughout the organization, and how to best incorporate that into the TM1 OLAP database.”

Prior to implementing COGNOS, Pioneer had one employee working full time entering items from the financial statement, line by line, into Excel. “The overhead exerted for that type of system was appalling,” he said. Now, “COGNOS gets fed from our core system and does all the groupings in two seconds.”

“The system is easy to use, so I’ve always done everything myself, never feeling a need for any assistance from an outside vendor,” McGowan said. While he has a development background, McGowan said his set up is similar to that of many other COGNOS users. “Anyone with reasonably intelligent intermediate Excel skills could grasp it fairly quickly.”

The benefits

“The first goal was to provide better and timelier month-end financial reporting. That was accomplished within the first 30 days after installation,” McGowan recalled. “Then, we moved into having better analytics functions overall in terms of our ability to understand and make decisions regarding our loan and deposit portfolios.”

“Along the way, we devised the TPS report (Today’s Pioneer Status), an award-winning daily dashboard of key metrics, which assists management in knowing where we begin the day every day so that we can determine what we need to do to get where we want to go,” said McGowan. TPS includes over 300 data points, embellished with trend graphs covering multiple aspects of loan and share product lines, portfolio credit quality, delinquencies, capital levels, earnings power, and leverage opportunities.

“TPS is calculated in Excel every morning, and while it may not be aesthetically pleasing, everybody who uses it knows where to look for the information they need. That's been a big help in guiding senior managers through our thought and decision making processes,” he said.
Case Study 2: CHS Inc. - Hyperion

CHS Inc. (Global #259) is a $40 billion cooperative that includes 14 business units in areas ranging from energy to agriculture. Based outside Minneapolis, MN, CHS used to run its planning processes in each of its business units. Three years ago it embarked on a project to streamline at the enterprise level, which included implementation of Hyperion Strategic Finance (HSF) in order to bring consistency to its enterprise-level processes.

FP&A at CHS is only three years old. “Historically, financial planning was done at the business unit level,” said Manuel San Miguel, vice president of enterprise planning and strategy at CHS. In 2010, San Miguel was brought into establish FP&A at the enterprise level, in line with the overall intent of the organization to act more as one unit rather than a collection of parts.

During his first six months at CHS, San Miguel’s work focused on creating a new discipline, melding process with culture, designing new processes, tasks and tools and selling it to both the Board and senior leadership of the organization. “One of our biggest early challenges was presenting to management the forecasts for 14 different businesses in 15 minutes,” said San Miguel.

Because CHS allocates all costs to the business units, FP&A had to make the business case that the enterprise level process and system would add value. “We had to show some early wins of what forecasting can do to the organization,” said San Miguel. People soon realized its value and the function grew in size. Today, San Miguel has up to six staff members and FP&A is a part of the day-to-day vernacular at CHS.

Processes first

While the system was always “back of mind,” said San Miguel, processes came first. Prior to implementing HSF, the business units used Excel for all consolidation purposes. “We needed somewhere to house everything,” he said. “We were housing the strategic plan in Excel, which was a nightmare. We often thought about implementing a system but knew we needed to sort out the process part first.”

Initially, the main requirements for the system were safety and creation of a database that could house all the information. That pretty much meant any system qualified, so when the organization began to look for a solution, it focused more on what drives its business: its pristine balance sheet.

The biggest reason CHS went with Hyperion was because it allowed it to do a five-year cash-flow forecast. “Hyperion has the integrated treasury and FP&A functionality built in,” San Miguel explained. That was critical to this commodity company that lives and breathes by its balance sheet.

Ellen Scipta, director of enterprise planning added, “The tool allows CHS to look at funding routines, prioritization of funding, and the overall investment portfolio.” In addition, CHS can track compliance with bank debt covenants and trigger alarms if an action would cause it to violate one of them.

“A commodity company is all about its balance sheet and its ability to absorb shock,” San Miguel explained. As a result, “this is a treasury-driven company designed to absorb market shocks and survive.” The focus on the balance sheet was a crucial part of the system investment decision: “It provides capital planning on such a dynamic basis,” he said. “It rolls with the rest of the platform as you change the figures. No other system was able to deliver that integrated functionality.”

Another key factor in their decision was Hyperion’s ability to run “what-if” scenarios. HSF allows the target’s entire balance sheet and income statement to be plugged in and run what-if analyses on how the acquisition would affect its own financial position down to bank covenants.

Key benefits

Fiscal year 2013 (ending August 31) marked the company’s first full cycle on HSF. Implementation took about six months, but it was not always continuous because the
FP&A group was trying to accomplish a lot of different things at the same time, according to Scipta. “We had to learn the organization as we designed the tool,” she said. In a way, “it was like changing the tires on a moving car. We experienced a couple of stops and restarts as needs became clearer and the organization needed to redesign some aspects of the program mid project.”

Now that the system is live, San Miguel has already noticed great improvement over the company’s old way of doing things. While several business units early-adopted and are logging in to Hyperion directly, most of the others send spreadsheets that FP&A then plugs into the system. Still, the expected predication was realized, according to San Miguel. With the new system “we have more time to analyze the numbers because we spend less time putting them together. Our response time has shortened quite a bit.”

Since gathering the data doesn’t take as long, FP&A is now able to better prepare for external and internal meetings on much shorter notice. “In the past we were running exhausted just from putting the numbers together,” San Miguel recalled.

Scipta added that the budget process now takes three fewer weeks of consolidation time. “It also helped us hold people accountable for variance against forecast. The system shows any sizeable shift. It’s better for internal and external discussions.”

Previously, once the budget was complete, it had to be handed over to another group to run the numbers necessary to decide how to pay their equivalent of dividends to owners. “Someone else had to compute that,” San Miguel said, “and heaven forbid we change the number, as it always happens. Now the system computes the numbers as part of the process.”

San Miguel and Scipta say HSF is very user-friendly and designed to represent the look and feel of a spreadsheet, which means any finance person who plays with the tool gets it intuitively. Any reluctance to adopt it is simply a reluctance to change, according to the CHS executives. Expecting that some of the business units would continue to use Excel, CHS didn’t initially spring for hundreds of licenses, which are expensive. As the benefits are realized and it grows in acceptance, the company will purchase more licenses. Thus far, the energy side of the business has been the most ardent user, specifically making use of the analytical capabilities in HSF. For example, the unit does what-if analysis on different commodity prices to come up with its quarterly forecast.

At the enterprise level, “We’ve done a lot of scenario analysis around stretch goals. For example, how will the business look if we invest in one business area versus the other, and looking at the shift from being currently energy-driven to being Ag-driven,” Scipta said.

And, in the strategic planning process FP&A presents an organic plan (if nothing strategic gets done) and analyzes three different scenarios as it scores projects as tier 1, tier 2 and tier 3 initiatives. “We look at what would happen if we execute all tier 1 projects, then move on to tier 2 and 3,” San Miguel said. “We can’t do them all, so it helps us prioritize and stop at different tiers. Using Hyperion, CHS can see what impact different scenarios would have on earnings, cash flow and financing needs, as well as on its dividend program.

Teachable moments

“This year was really about getting off the runway,” said San Miguel. “We ended up using HSF even more than I expected, but once you get it going, you can get more creative and use deeper functionalities.”

“If we learned only one lesson from the install, it was that we got too excited too soon,” said San Miguel. Initially each business unit submitted lists of what it wanted and the design got a little out of hand. “Everyone wanted it to do everything. That’s when FP&A had to put a stop to it and focus on critical processes first.”

Finally, San Miguel said that one of the key factors of the success of the implementation was that several CHS executives had prior experience with the consultants who came in to install the program. “The software was good, but our selection of consulting partner was key,” San Miguel said.
Case Study 3: Midsize MNC - Tagetik
This midsize company chose a new technology solution to allow FP&A to create a single version of the truth and to establish distance between its role and that of marketing. But the implementation process taught this MNC’s FP&A several important lessons about how to approach the systems process.

This company’s FP&A is integrally involved in the business, which has been growing rapidly. “Overall, we produce not only the forecast, but all of the financial statements through the life cycle of the planning, budgeting, reporting and variance analysis,” said the director of finance and head of FP&A. “In a lot of ways, we’re the watchdog distilling out the impact of the forecast and understanding the effects on the business.”

Making the switch from Excel
In 2011, the company decided to switch out of Excel into an FP&A/finance system, which would be “firmly in the visionary quadrant of available software,” the FP&A chief said. This veteran practitioner sees the good and bad of Excel. “What works about Excel is that we can quickly train anyone who walks in the door because Excel is a universal skill. Plus, you can have a high degree of customization that allows people to make very minute changes in the forecast,” he said. When using Excel, he found the approach to be very transparent. “You can see the exact formula, and trace its precedents and dependents.”

The spreadsheets were tightly controlled to ensure data integrity. Only three people in the company were allowed to make changes. However, “the downside when something is constantly changeable is the potential for errors.” The other drawback was that “the level of effort to maintain the system was tremendous,” he said. It took one employee working full time just to maintain the model.

And while Excel can seem very flexible when making small changes, it’s rigid when it comes to making true structural changes in the business. According to this professional, “If you want to add a new channel or change the structure of the organization, that’s painful—and not just a little bit painful.” He added, “We have a new CFO who’s used to seeing year-to-date versus rest-of-the-year basis analysis. To make that change in Excel would have taken 40 hours. I lived in fear that someone would tell me that we have a new revenue stream, and that I needed to work that into all my reporting.”

Moving forward
In 2011, the company made the decision to go with Tagetik. “We’d known that we needed a new system for a while,” said this FP&A practitioner.

The company looked at several options. FP&A felt Hyperion would be too large, too complicated and too expensive, and the company had a failed COGNOS implementation in 2009, so it was looking for a system that allowed for greater flexibility. Enter Tagetik.

The company likes the database structure of their Tagetik system. “They showed us the flexibility through proof of concept,” he said. The system is flexible enough for the company to maintain its idiosyncratic processes, but still provides all the benefits of migration and offsite maintenance.

“They demonstrated that they could build something that would match our requirements,” he said. In addition, the company is a Microsoft partner, “and we’re a Microsoft shop, so we knew it would offer good linkages to our ERP.”

The choice of system reflected a deeper consideration within the organization, too. “It really gets down to division of labor,” said this professional, “i.e., who owns the forecast?” In his mind, the key question was who should own the revenue forecast: “Is it marketing or FP&A?”

In the past, FP&A owned and managed all the revenue forecasting models. However, as the company has grown, and with multiple sources of revenue coming in from multiple marketing channel teams, FP&A no longer needed to own the source of the projections. “In my new thinking, marketing needs to own the campaign and flow the revenue over to FP&A so we can consolidate from different streams,
create the forecast model, and provide an aggregate view of where the company is heading,” said this professional. “We needed an FP&A tool that could manage the integration and multiple ownership roles.” As part of the Tagetik implementation, he says, “I’m going to get there.”

**Implementation lessons**

Implementation began in March of 2012, yet the first phase will just be completed this year, in part because “it was not a smooth implementation,” he said. “We’re on our third project manager and we’re a year overdue. I think we will get to a stable point by end of August 2013.”

During the implementation process, this practitioner said he learned the following lessons:

- Contractually limit the total cost of the overages allowable.
- Have your business requirements meeting BEFORE the vendor gives you a price for the entire package.
- Have a working Excel model that the consultants can see and understand; it’s just as important as the words and/or description.
- Separate out technical leads from business/SME leads. They want different things and have different areas of expertise.
- Understand whether your company wants to ping live data or not, and whether that is live sales data, which impacts the operations of the company, or live accounting data, which is usually from the prior month.
- Insist on test points during the implementation to ensure that they are building what you want.
- Make the company with its name on the product liable for the success of the project, rather than a third-party implementer.
- Hold a percentage of payment in reserve.

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**Case Study 4: MARTA – A Hybrid Solution**

Using a patchwork of systems, the Metropolitan Atlanta Rapid Transit Authority (MARTA) plans its capital and operating budgets to optimize its choice of capital projects in accordance with the state legislative mandate that it spend no more than half of its sales tax collections on operating expenses. MARTA currently does a 50/50 split of its funding from sales tax revenues between capital projects and operational costs. By combining a decision-making tool with a high-level scheduling product and using sound project development principles, MARTA will be able to select the high-need projects with the greatest return on investment and link expenses by line items to track progress against budgets and grants.

MARTA was established in 1972 by a legislative act. It currently serves Fulton and DeKalb counties and the City of Atlanta and is funded by revenues from a one-percent sales tax, in addition to federal and state grants.

By law, MARTA is allowed spend up to 50 percent of its sales tax collections on operating costs, leaving 50 percent for capital projects. The law also sets up strict funding parameters for its FP&A group, according to Bill Bailey, manager of financial planning and analysis.

MARTA may use less than 50 percent of its sales tax collections to support operations, but 45-50 percent is necessary to sustain MARTA’s current service levels. These funding levels put increasing pressure on the development of a capital program based on solid analysis in order to appropriately direct limited capital resources where they are needed most. “We look at this effort like a three-legged stool: you need three legs to have a solid footing,” says Kevin Hurley, MARTA senior director of treasury and...
capital programs. “We have made good progress on two legs through the project development and project prioritization phases. The third phase is project delivery; that’s where there is considerable work to do.”

The biggest challenge MARTA faced was how to optimize its capital budget and select the most optimal capital improvements and new investment projects that would yield the greatest ROI. “That’s a whole different ballpark,” said Bill Bailey.

In order to optimize its selection of projects and manage its capital budget, MARTA embarked on a process reengineering project, with the help of Intueor consultants Robert Cooney and Chris Begley. Initially, the company was using SharePoint and an Access database to collect the next fiscal year’s capital project proposals from its teams and to plan scope and expenditures for the year, which was automatically integrated into Access. The company relied on Excel for all of its budget and forecasting processes.

Fixing the process

The project’s main focus was an overhaul of the capital budgeting process. “Our work was specific to the capital budget and trying to optimize the use of their capital funds,” Cooney explained. Under the old systems, MARTA was taking years to complete projects, the forecasting of capital expenditure was not reliable, and the organization was under-spending its capital budget significantly, which meant money had to be spent to achieve its 50 percent goal—and the decisions were not always optimal. For example, the forecasting process often did not take into account the length of time it would take to procure materials (it can be months in the public sector) or the number of internal and external engineering resources required to complete the project on time. The result was delays and suboptimal spending.

“The idea was to shift both forecasting and budget planning into the new system,” reiterated MARTA’s Bailey. “After that, the information goes into the budget spreadsheet and feed into Oracle ERP through an interface. Currently, we load the capital budget into the Oracle system by hand.”

Under the new system, MARTA would be able to interface with Oracle to link specific budget items to individual tasks more readily, making it easier to track them. “You want to identify the funding associated with each task,” Bailey explained, “because often the grants MARTA receives are linked to specific capital project milestones. With the new system, we could match the grant and the capital project by line item and see exactly where we are in terms of federal funding for our capital projects.”

Providing decision support

The first challenge MARTA faced was how to decide which projects to take on, and how to plan for them in an accurate fashion. So Cooney and his team embarked on a process review and reengineering effort first, in order to change the forecasting and capital budgeting process from the ground up.

“The idea was to get folks to come up with correct project schedules and plans and use those to develop a better budget program,” Cooney explained. We also sought to put formality around how to present a project for consideration for the program.”

In the past, there was a missing link between the capital project planning and the operating budget, which often intersect. For example, MARTA could receive a federal grant for the purpose of purchasing and installing cameras on its buses, yet the ongoing maintenance of the equipment would need to be paid with funds from the operating budget. Without linking the two cost components, the organization may end up with cameras that are installed on buses but not functioning. “It’s better not to invest in the cameras if there’s no funding in the operating budget to maintain the equipment,” Cooney explained.

Under the new process, the two budgets are linked. The impact of the capital budget on the operating budget is now part of the FP&A process. MARTA’s new three-step process to select and approve new capital projects for its budgets is as follows:

1. Step one: The creation of a project origination and checklist document. It’s a simple form that asks business managers key questions about the scope of the project and its requirements, as well as why their project should be considered.

2. Step two: Once the checklist document is approved, it moves to the next level, “basically authorizing the project control team to spend more money and time and do more analysis about whether the project should be adopted,” said Cooney.

3. Step three: A detailed project scheduling and re-
source planning process, which is handled by managers who are part of the project control team. This step is designed to “flesh out the project, provide a high level schedule, cost estimate and business case,” said Cooney.

To assist in managing the program, MARTA selected the Primavera (P6) Enterprise Project Portfolio Management (EPPM) system, which is owned by Oracle. Primavera provides scheduling, resource and cost loading functionality, and earned value management reporting. It allows the company to house all Capital Improvement Plan (CIP) projects in one location, to plan out what and when resources would be required to execute a capital project, it identifies and maintains interfaces with other MARTA projects, and it accurately forecasts the timelines for completion so unforeseen delays are identified in a timely manner in order to initiate corrective action and/or their impacts on the CIP.

Once the project is scoped out, the resulting data feeds into another tool: Expert Choice. Expert Choice is an analytical tool that allows the company to feed in multiple potential projects and then make an optimal choice based on available funding and the project’s impact on the operating budget.

Cooney worked with a committee of MARTA representatives from all corners of the agency, with the goal of developing a scoring model that evaluates each project and allows optimal selection. Using the project origination document, the questions in the document are mapped into Expert Choice to help drive the model selection, although the project committee members can always override the model recommendations.

“Committee members have discretion to make adjustments to the score,” Cooney explained. “At the end of the day each project gets a score. Then we apply the resource analyzer capability, and look at how much money we have; the goal is to optimize the return with a mix of projects.” Using the tool’s what-if analysis capabilities, MARTA can select the best mix of projects based on its top line number and the schedules/expenses of each.

Here’s how the entire system works: Primavera (P6) does the high-level scheduling and project planning, feeding the results into Expert Choice, which allows MARTA to optimize its mix of projects. Once projects are selected and approved by the committee and annual funding amounts are finalized, they are revisited in P6 where any necessary adjustments are made in order to ensure the approved funding aligns with project execution. This becomes the baseline from which progress and performance is measured. On a monthly cycle, the schedules are updated and actual costs are imported. Reports are generated for variance analysis of forecasted versus actual costs. Milestones are tracked with recovery plans that were developed to catch missed or slipping milestones, and the data is then fed into Oracle to monitor actual versus budget.

Expert Choice then generates the budget spreadsheet. The objective is to have “more information and more accurate information,” Bailey noted. “This new software will allow us to set up different parameters and do analytics based on these criteria, linked to MARTA’s strategic objectives.”

At the beginning of each fiscal year, MARTA has to determine what CIP projects they are going to fund. Since there may be things left over from last year’s cycle, i.e., carry over projects, “we use a sorting table, Expert Choice, to determine what we’re going to add this year.”

“The carry-over projects should get priority, but the sorting table determines the mix,” said Begley. “P6 provides the environment to house all the projects and programs so the complete picture is visible. Every project has its own circumstances that influence its rate of execution. By developing and maintaining cost/resource loaded schedules, progress can be monitored and controlled. The integration of cost/resources with the schedule will provide timely information of deviations from plans to take mitigating actions and minimize impacts to the CIP.”
Case Study 5: Speck Products – Adaptive Planning

Speck, a maker of protective cases for mobile devices including iPhone, iPad, MacBook and Android, is a midsize, privately-held company based in Silicon Valley. The dynamic nature of its business and a fractured ERP environment convinced FP&A to go with a cloud solution.

“Technology is important because of the sheer volume of data generated by product lines, regions, and multiple general ledger accounts,” said Finance Director Josh Gibbons, who’s been involved in multiple implementations of FP&A systems, including Hyperion and Business Objects. He wanted a solution that would allow Speck to report on any level—entity, customer, business unit, and region—as “many different constituents ask for the data.”

“The objective is always the same: how do we develop a robust database that can answer all the questions we can ask,” he said. “We want to get out in front of the question and think ahead and have the flexibility to use the forecast insight from the database. That’s the biggest value add: how do you structure the database to offer insights that help finance provide actionable decision support?”

Upon arriving at Speck Products, Gibbons discovered that the company was in the early stages of implementing its cloud ERP (NetSuite). There were still limited data elements available for financial reporting, so finance, accounting and IT worked together to enhance the base item structure. Fortunately, NetSuite offered some integration functionality with the cloud-based Adaptive Planning tool, so Speck pursued this option for its financial planning and consolidation needs.

Other than setting up basic financial statements and reporting, I created a robust revenue and margin view,” said Gibbons, “Now I can load multi-dimensional revenues and margin data.” Within the tool, Gibbons said he can also maintain actual, budget and forecast models. “Being able to do that was huge,” he said. “It helped us report efficiently to all of our internal customers as well as investors, banks and the board of directors.”

Speck’s other major requirement involved the need to version its forecasts so it can constantly change assumptions to match the company’s product links to new consumer electronics device launches. “If I can do versioning, I can constantly change my assumptions to support multiple end-user scenarios,” he said. This feature is common in heavier FP&A tools like Oracle Hyperion Planning and SAP Business Planning & Consolidations. However, some of the earlier cloud-based planning platforms were weak in this area.

Building the model assumptions

Bottom-up forecasting models involve numerous assumptions across both income statement and balance sheet planning accounts. “That’s the complexity,” Gibbons said. “For example, we have certain contractual marketing and commissions burdens for our retailers.”

“We built a model in Adaptive to allow us to forecast that exposure and the impacts on our financial statements.” The case maker spends millions on tooling each year. As a result, finance built an Adaptive “modeled sheet” around a whole set of assumptions related to CapEx and depreciation by product line and device.

“We’ve had Adaptive Planning in place for 18 months. We got the basic implementation done in three months,” he said. It took another six months to fine-tune and expand the functionality. He has a team member who is very savvy with the tool and aggressively goes after all improvements, but Gibbons concedes, “It is fairly time-consuming to create the modeled sheets and data structures. It’s not an automatic report generator.”

“As with almost any planning tool, if you want to expand the functionality, you have to spend time learning its capabilities. For example, when enhancing Adaptive Planning, we have to consider whether we should use a modeled sheet, custom formula or assumption set. It’s critical to have someone on staff who understands which building block to use when expanding functionality,” he said.

“Our successful end-user environment was created with one expert user administrator and another supporting analyst. This structure has allowed our medium-sized company to build out a relatively complex, cloud-based planning and reporting structure without paying costly external consulting fees.”
Case Study 6: ADS - Prevedere
A privately held company that manufactures products for stormwater management and sanitary sewer applications—the largest of its type in the world—ADS has recently adopted a new system to help support decision-making for senior executives. The new system merges internal data with external indicators to strip out forecast bias.

Ohio-based ADS began a project to improve its sales and operations planning process about a year ago, with a cross-functional team of 6-7 people from operations, sales, and marketing. The idea was to improve the way the company does its planning, budgeting and forecasting by injecting real world indicators into its process. “The sales and operation process starts with good forecasting and being able to predict what the business is going to do,” said Mike Higgins, manager of sales analysis and strategy with ADS.

The forecasting model
As an Oracle ERP company, the first leg of that model is composed of the actuals, which are pulled out of the ERP to measure sales and operational activity on a historic basis and to look for seasonality and other trends that show over time. That information resides in Oracle and is pulled into an Excel spreadsheet. “We look at how sales and order activity is performing currently, match that with a five-year historic trend of the seasonality of the business on a month-to-month basis, and produce a rolling 12-month forecast,” said Higgins.

The second leg is more subjective. “We seek input from our sales managers, based on what they know in addition to data from field intelligence about different types of business activity,” Higgins explained. “We ask them: what’s the banter, what are the trends in their markets?” Subjective in nature, that information is collected monthly and “supplements the objective data coming out of Oracle.” Both the objective and subjective data are then imported into an Excel spreadsheet.

To supplement internal data, ADS relies on a system from Prevedere, Inc. a Dublin, Ohio based predictive analytics software company. The Prevedere cloud-delivered system allows ADS to mesh its internal data with external data collected automatically based on key drivers for its business. In the case of ADS, many of those indicators are construction-related, such as housing starts, transportation, construction spending, and so on. “We were looking to tie in economic indicators,” said Higgins. “That’s the piece we were missing.”

“Could we have gone out and done that independently?” Higgins said. The answer is yes, but the process would be labor-intensive and creating the automatic links into its model would be hard. “Basically if you look at the U.S. Census site for construction indicators, those are the ones that drive our business,” Higgins explained. Instead, Prevedere does all the “heavy lifting,” according to Higgins. It automatically uploads all the key drivers into its systems.

The system went live in January of 2013. It took 6-8 weeks to implement. “It’s a web-based system that’s very easy for business people to use,” he said. “You don’t have to be a ‘techie’ to use it.” The recommendation came through one of their internal contacts, and the company was happy to support a local business. Since ADS began using the external data to supplement its own forecast, “we’ve had great success with its accuracy,” Higgins reports.

Supporting better conversations
“The important thing is that we have been working to strip bias out of the forecasting process,” Higgins explained. “It allows us to take out the unbridled optimism,” he said. “You might not like what it says, but it’s accurate. At least we found it to be accurate.”

The new information helps drive better conversations with senior executives about planning. “It allows us to have conversations about the business instead of arguing about the numbers,” said Higgins. With the new intelligence gathered and meshed with their internal data, the focus is now on “what we can do to adjust to the changing
business conditions,” Higgins explained. “If the forecast is for sales to be at levels we’re not happy with, we can talk about what we can do in the short- and long-term to improve it.”

If, on the other hand, the forecast exceeds internal expectations, it sparks a conversation about staffing and resources in order to prepare for higher levels of business activity. “We have better business conversations,” he said.

There’s been a lot of talk about the big data revolution, according to Higgins. “If it’s not being put to a solid business purpose, it’s a waste. You have to act on it,” he said. He’s recently had a conversation with another professional at another firm who has been using advanced statistical modeling to crunch big data. But when he asked what the company is doing with the information, he found that it wasn’t yet putting it to business use.

“What’s the point?” he said. “The question is: what are you doing with it?”
About the Author

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