ADDING VALUE WITH analytics

FINANCIAL EXECUTIVES NEED TO SEE THE WHOLE PICTURE OF THEIR OPERATIONS BEFORE THEY CAN MAKE GOOD DECISIONS.

BY KELVIN HOLBROOK

THE BUSINESS WORLD has entered a new era of proactive financial management in which CFOs can improve their operating procedures in two critical areas: their ability to access information and their ability to report on information in a manner that enables decision makers to see the big picture. Corporate Performance Management (CPM) is a common terminology for this scenario.

CPM is the primary reason why corporations across North America are rapidly deploying analytics software. When properly configured, analytics or business intelligence software can deliver extended financial management capabilities to the finance team—capabilities that dramatically improve the department's ability to identify, classify, and intelligently analyze data across the enterprise as well as do more accurate planning, budgeting, and forecasting. In addition, financial professionals can use these tools to comply with new government regulations such as the Sarbanes-Oxley Act.

ANALYTICS AND EXTENDED FINANCIAL MANAGEMENT

To use an analogy, adding analytics or business intelligence to your back office functionality is like adding gauges to an airplane—business activity becomes easier to understand and monitor, and executives can make critical decisions based on facts rather than on assumptions and perceptions. Extended financial management is achieved when companies deploy analytics tools that integrate into the entire enterprise—including their back office financial software—and tie together data from disparate enterprise resource planning (ERP), customer relationship management (CRM), human resources, and legacy systems. This allows financial executives and others to see in one place how the company is performing in various areas.

It's important to clarify that I'm talking about a level of visibility and data availability that goes beyond dashboards and scorecards. The main difference is integration. In most cases, dashboards are built on a variety of reporting tools produced by different vendors, which can limit data accessibility and complicate reporting, alerting, etc. Extended financial management improves on this by delivering a consistent, integrated toolset that enables reporting and analysis across applications. With extended financial management, measures are more meaningful and aren't reviewed in isolation. So, like the airplane pilot, you not only can see how fast you're going but in what direction as well.

Extended financial management can also be deployed across global operations. An infrastructure allows data to be gathered from multiple entities, thus ensuring that the analytics tools provide financial managers with the data mining and reporting capabilities they need to deliver a comprehensive view of the global operation in real time. This way, executives can see both operational and financial efficiencies and inefficiencies at the same time, and they don't have to look at several different reports or sets of data to piece the operation together, so they can react to situations quickly and make decisions faster.

SOME EXAMPLES

It isn't unheard of for companies to identify hundreds of thousands of dollars in savings from extended financial management. In general, this savings is attributable to the highly customized reporting and analysis models that can be created with extended financial management strategies.

One good example is Huber+Suhner (H+S), a global leader in developing systems and components for radio frequency, wireless, and fiber optic applications. H+S wasn't able to effectively monitor its key business performance indicators because it couldn't access data from multiple ERP systems at the click of a button. But after deploying an analytics package, it began to view pieces of its operations with more clarity.

Specifically, to bring customer, product, project, and sales data together in an automated process, H+S used an integrated analysis and reporting system, based on Microsoft SQL Server 2000, that combines heterogeneous data sources into a central pool and delivers them to a broad user group for analysis. The main pieces include short-term earnings reports broken down by total costs and cost of sales, on-demand product and project control, field worker activity analysis, customer value, and budget/actual comparisons of the various operational units.

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H+S has identified areas where sales have increased and has honed its competitive advantage as a result of this deployment. The company can see production and sales numbers quickly and easily, so it can better identify emerging savings potential, customer needs, and market developments.

In another scenario, SEB AG, one of Europe's largest banking operations, with annual revenues totaling more than $1 billion, elected to implement an analytics solution in an extended financial management framework to streamline its budgeting, planning, and reporting processes to ensure better compliance with the industry's demand for more effective corporate controls. The Webbased planning and reporting system it implemented allows SEB's finance team to scrutinize budgets and actuals for all available years, months, and data types in line with its reporting guidelines. Users can analyze these numbers from multiple angles—from the bank's total earnings to a single account in a cost center.

Before this, the bank housed its data in various operating systems that couldn't be accessed for analysis. The new solution lets the finance team import all relevant fixed asset accounting, personnel administration, cost center accounting, and earnings data from existing systems. This system not only guarantees a consistent source of actuals and budgets, but it provides direct access to this information for a large user group. As a result, SEB can analyze the costs and earnings of its business. For the first time ever, the bank can verify its entire business operations—down to the last detail—with current, consistent data. This ensures transparency and opens new perspectives for steering SEB AG toward its earnings targets.

These are just two examples of how some organizations are extending their finance team's ability to analyze and report on financial and operational performance. Other types of companies can follow suit. For example:

- **Pharmaceuticals** can use analytics to review cancer patient treatment records in a data warehouse to better understand why some treatments receive negative reactions.
- **Oil and Gas companies** can deploy analytics to maintain control of their discretionary cash flow and determine and monitor cash operating costs and dry hole costs.
- **Insurance companies** can use analytics to better track and predict claims on any number of factors (season, location, annual trends, etc.) which, in turn, can deliver more accurate and cost-effective insurance rates for all insurance types.
- **Hotels** can use analytics to help them evaluate trends in business ratios, revenues, expenses, occupancies, efficiency ratios, market segments, and agents.

HILTON INTERNATIONAL AMERICAS

Hilton International Americas, based in Miami, Fla., is a good example of a company that has selected and is currently deploying an extended financial management solution designed to integrate financial management, reporting, and performance management. Operating 25 hotels in the U.S., Canada, the Caribbean, and Latin America, Hilton International Americas wants to consolidate data from multiple units in multiple currencies into a single, defined planning process. This benefit alone will significantly boost productivity and efficiency by eliminating a large portion of its manual accounting processes, such as manual spreadsheet data entry.

Hilton International is working toward implementing a solution that pulls data directly from its financial management software into the planning solution. By doing this, Hilton will not only realize the obvious benefit of "skipping a step" by not pulling or rekeying the data into a spreadsheet, but it will also benefit from using a spreadsheet-like solution that prevents unwanted and unplanned data manipulation. In theory, with this automation in place, Hilton International can improve its data accuracy to a point where the management team can be confident in the integrity of the data they review.

The users won't "see" anything different. In fact, what they see looks and feels like a spreadsheet (indeed, they use the familiar Excel as a front-end interface), but the data is now stored in a multidimensional database. This makes it easier to manage a large number of interrelated spreadsheets since the values in a spreadsheet refer to named entities in the data repository. Also, this model performs calculations faster than spreadsheet techniques, and the company can easily integrate and analyze financial and operational data.

Once its implementation has been completed, Hilton International expects to have a performance management solution based on highly sophisticated statistical modeling theory. With this system, Hilton International will be able to report more accurately on critical business data, such as who stays in their hotel, when, and what their customers are likely to spend. This data is invaluable toward planning and forecasting for overall business operations.

At the end of the process, Hilton International expects to realize the same rewards as companies like H+S and SEB: improved productivity; expanded data analysis options; and the ability to budget, forecast, and plan proactively.

In fact, these goals represent the basis of the performance management revolution currently under way in finance. With extended financial management, financial professionals will improve productivity, expand analysis and planning functionality, and have greater operational controls. Then they will be able to demonstrate their value as true strategic business partners. ■

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