Chapter 1

Non-Financial Data

The Forecasting Game Changer

"Beyond the financial ledgers, FP&A teams now have access to ever growing operational data sources (ie. data on customers, demand, and supply chain), as well as data outside the corporate transaction systems (ie. weather data, social sentiment data, econometric data). With predictive insights drawn automatically from data, FP&A professionals can identify evolving trends and guide decision making with foresight, not just hindsight."

Non-Financial Data - the Forecasting Game Changer

Financial indicators are no longer enough. Those organizations at the leading edge are using non-financial metrics to great effect.

Financial indicators have long been the backbone of forecasting models. What has gone before is assumed to be a reasonable indicator of what is to come. And when that was the only source of corporate information on which to plan, it was enough. But times have changed. The volume and variety of non-financial data is being driven by business complexity, growing consumer choice and channels to market, as well as the Internet of Things which is daily expanding the connections between man and machine. These connections are feeding a trove of data filled with future performance indicators that can be invaluable to forecasters, if identified and used effectively.

What are non-financial indicators?

Although specific to each industry, most businesses will have a few non-financial metrics that are key leading indicators, which will ultimately manifest in their P&L. Web analytics will indicate the most popular item being browsed online long before sales data reflects high demand. Customer satisfaction surveys will indicate the effectiveness of the customer experience long before the company sees an uptick, or downturn, in trade. And a significant change in headcount may portend supply or back office issues long before profit suffers.

By putting in place tools and applications to monitor and model the impact of non-financial data, companies gain much-needed agility, accuracy and responsiveness, as the survey reveals.

Governments, regulators and investors are also latching onto the importance of non-financial indicators. A balance of financial and non-financial reporting provides shareholders and other stakeholders with a meaningful, comprehensive view of the position and performance of companies that financial information alone cannot provide.

The new EU Non-Financial Reporting Directive (2014/95/EU) aims to bring the quality of non-financial reporting across the EU up to the high standards exemplified by the best European businesses. The Directive, which applies to large Public Interest Entities (PIEs) with more than 500 employees provides for consistency and conformity across Europe in relation to disclosure requirements- providing investors and other stakeholders with a comprehensive picture of a company's performance.

The impact on time to re-forecast

ABLE TO RESPOND MORE QUICKLY TO MARKET CHANGE

2.5x Those organizations that make better use of non-finanical data are more likley to be able to respond quickly to market change.

Our research shows that senior executives who make better use of non-financial data are more than twice as likely to be able to turn around their forecasts within 24 hours, with almost 25% achieving this target. They are also two and a half times more likely to agree that over the last three years they have been able to respond more quickly to market changes.

Both quick forecasting and responsiveness provide a vital competitive advantage, which can be a game-changer for businesses competing with nimble upstarts and disruptor brands. And it follows that if companies are making better use of forward indicators that specifically impact their business, they are also able to bring more accuracy to their forecasting.

Over half of CFOs and senior executives who make better use of non-financial data are able to forecast with 0-5% accuracy. This compares with 29% of respondents who have not increased their use of non-financial data in the last three years.

Non-financial data improves visibility & confidence

In addition, responsiveness and accuracy are further enhanced by foresight. Finance professionals and forecasters who make better use of non-financial data are more than twice as likely to be able to forecast beyond the 12-month horizon compared with those that are not harnessing this resource effectively.

Harvesting non-financial data and analyzing it through a wide range of predictive, forward-looking managerial tools gives forecasters a competitive edge that translates into a business advantage. Yet while executives are aware that financial indicators alone cannot adequately capture the strengths and weaknesses of their company, improving or taking control of non-financial data is very low on their priority list. Respondents ranked non-financial data capture fifth on a scale of five priorities for the future of planning.

Yet CFOs who take better advantage of non-financial data are twice as likely to report a greater degree of confidence in the planning, budgeting and forecasting process (88% expressed an increase in confidence in PBF over the last three years).

Making effective use of non-financial indicators requires a clear understanding of the best metrics for the business, a proven method of analysis and a clear presentation of the outcomes of these KPIs. Companies that have a strong grasp of these measures and are using them effectively are often those that are already further along the modern finance journey.

In our previous research The Future of the Finance Function Survey 2016, automation and standardization emerged as key facilitators in the evolution of an effective modern finance function (which includes new methods of planning, budgeting and forecasting). Ultimately CFOs can't deliver a modern finance function without the use of technology. Standardisation, automation and front-to-back office interconnection all require effective technology, and if properly implemented will free up valuable time to spend on business partnering and strategic advice.

ABLE TO FORECAST WITH MORE ACCURACY

1.7x

Those organizations that make better use of non-finanical data are more likely to be able to forecast earnings within +/- 0-5%

ABLE TO FORECAST BEYOND 12 MONTHS

2x

Those organizations that make better use of non-finanical data are more likely to be able to forecast beyond the 12 month horizon.

Those organizations which have built in non-finanical indicators tend to be further along the modern finance journey.

The PBF survey showed that respondents who made more use of non-financial data were 50% less likely to report that automation and standardization are obstacles to process improvement. This implies that the companies which focus on non-financial data already subscribe to a technologically innovative approach, and are further along the PBF journey. They are able to generate the sort of non-financial data that can truly enhance their forecasting, improve visibility and help promote agile business practices.

For this benefit, the capture of non-financial data deserves to move further up the finance function's priority list.

IBM Solution

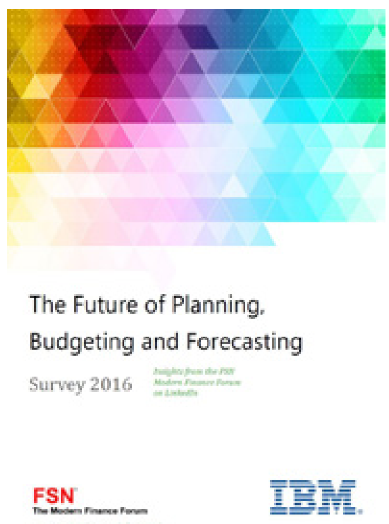
With IBM solutions, users gain predictive insights into factors that influence business drivers automatically from financial and operational data, and incorporate these insights into more reliable plans and analyses. For instance, Marketing uncovers new insights into the way customers search for information and buy, and uses these insights to adjust market promotion plans. Call-center managers uncover new insights into predictors of call volumes, and use these insights to create more reliable staffing plans; and so forth across supply chain, HR and sales.

Better forecasting helps us avoid problems coming from both sides of the demand planning equation.

CASE STUDY 1: Demand Forecasting

We developed a demand-forecasting solution that analyzes historical sales and order data within the context of current market conditions and key influencers such as weather and even sporting events. Better forecasting helps us avoid problems coming from both sides of the demand planning equation. It helps us minimize stockouts that lead to lost sales, and reduce overproduction that leads to waste. In our process, each prediction is fed back through the analytical algorithms after sales figures are posted so that we can continuously fine-tune our forecasting and avoid wild swings in demand. – *CFO, large US brewery*

Click here to dowload the full report.



ABOUT IBM

IBM analytic solutions for enterprise performance management deliver speed, agility and foresight to organizations of all sizes—from large-scale enterprises to small and midsize businesses. They help transform slow, disconnected processes into more dynamic, efficient and connected experiences. Finance, line-of-business and IT professionals alike can use IBM solutions to drive financial process efficiency, deliver stronger business foresight and steer business performance.

With flexible deployment options including cloud, on premises and hybrid, IBM enterprise performance management solutions enable organizations to:

- Replace rigid budgets with continuous planning and more frequent forecasting involving all the right participants.
- Create a dynamic, collaborative and reliable planning process across geographies, business units and functional silos to improve visibility into the impact of business drivers.
- Harness big data analytics to deliver deeper predictive insights and improve decision making.
- Track performance against corporate objectives to identify performance gaps and assess alternatives with "what-if" scenario modeling.
- Report with confidence to internal and external stakeholders.

Contact:

To request a call or to ask a question, go to www.ibm.com/analytics/contactus. An IBM representative will respond to your inquiry within two business days. For more information on IBM solutions, go to www.ibm.com/planning.

ABOUT FSN

FSN is a global publisher of thought leadership, research and "must-have" content for CFOs and senior finance professionals around the world. FSN's highly popular and active Modern Finance Forum on LinkedIn has a membership of more than 48,000 readers in more than 23 countries and across every major industry segment. It is also the publisher of the popular www.fsn.co.uk and www.fsnelite.com websites and regularly holds, networking dinners and events for its members.

Contact:

Gary Simon, CEO: gary.simon@fsn.co.uk

Michelle Fabian: michelle.fabian@fsn.co.uk

HQ Office in United Kingdom
Clarendon House
125, Shenley Road,
Borehamwood,
Herts, WD6 1AG

Switchboard: +44 (0)20 84452688

https://fsnelite.com

The Modern Finance Forum LinkedIn

http://www.fsn.co.uk

FSN®
The Modern Finance Forum