

ANALYTICS-POWERED ENTERPRISE PERFORMANCE MANAGEMENT: ALIGNING FINANCIAL AND OPERATIONAL OBJECTIVES

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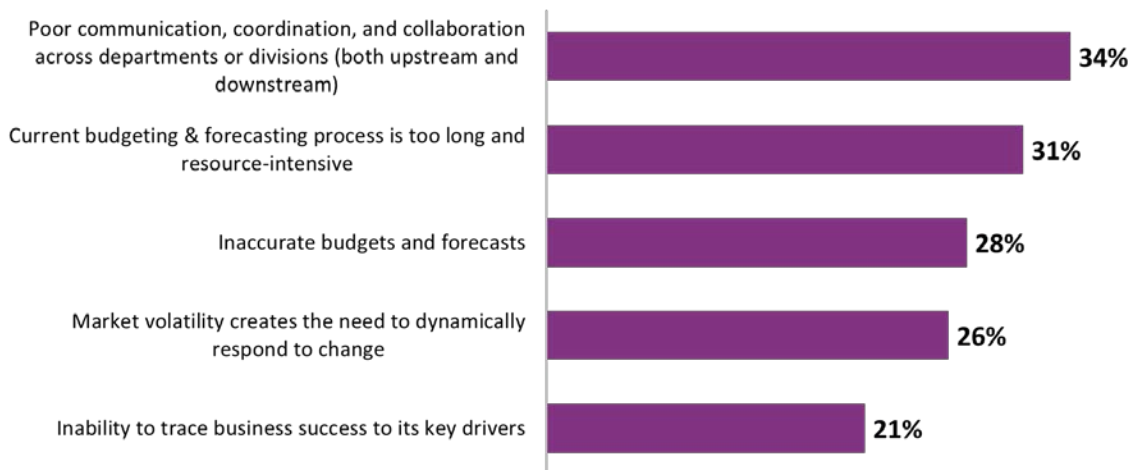
Aberdeen research finds that top-performing organizations, or Leaders, are 30% more likely to have implemented enterprise performance management (EPM / CPM) than Followers (see sidebar). With real-time access to data, these companies take the guesswork out of planning, decreasing the time involved in forecasting and increasing forecast accuracy. These organizations also champion data accessibility and collaboration between stakeholders, promoting organizational accountability. In the end, they decrease time-to-decision while increasing revenues and operating margins.

For the purposes of this report, Aberdeen defines EPM as the platform that organizations use to monitor key financial and operational performance data. Through this information, organizations are able to better understand prior performance in order to inform decision making as well as financial plans, budgets, and forecasts.

Threats to Planning and Budgeting Accuracy are Avoidable

In Aberdeen's annual *Enterprise Performance Management and Financial Planning, Budgeting, and Forecasting* survey, respondents were asked to share the top challenges that they faced in their financial planning & analysis endeavors.

Figure 1: Pressures Impeding Financial Planning and Analysis



% of Respondents n = 165, Source: Aberdeen, May 2018

For Figure 1, Aberdeen survey data reflects responses to a question in which respondents could answer with 2 choices.

The Aberdeen maturity class framework is comprised of two or three groups of survey respondents. The data is used to determine overall company performance. Classified by their self-reported performance across several key metrics, each respondent falls into one of two categories:

- ▶ **Leaders:** Top 35% of respondents based on performance
- ▶ **Followers:** Bottom 65% of respondents based on performance

While 34% of All Respondents selected poor communication, coordination, and collaboration as their top pressure, a deeper dive into survey data reveals that Followers were 86% more likely than Leaders to feel this pressure. The fact of the matter is, without effective communication, coordination, and collaboration between different stakeholders, there is no way to improve organizational performance. Furthermore, given the time-saving automation in this space, long and resource-intensive budgeting and forecasting processes are an unnecessary drag on operations and a waste of resources.

Secondly, inaccurate budgets and forecasts are an entirely avoidable problem. Despite their proven usefulness, the traditional reliance on spreadsheets in financial planning unfortunately contributes to this issue. For example, the manual nature of data input can too often introduce inaccuracies into the process. Formulas can be broken when spreadsheets are passed from one employee to another. And due to version control issues, employees never know when they are working with old, inaccurate, or simply redundant data.

Fortunately, the functional shortcomings of spreadsheets can be circumvented by EPM solutions that retain full spreadsheet functionality and formatting, while offering sophisticated planning, analysis, and reporting capabilities. This allows users to leverage existing spreadsheet skills to explore and analyze data faster.

To drive accuracy in planning, budgeting, and forecasting, EPM solutions allow companies to overcome these data issues and provide the tools for both monitoring and optimizing organizational performance.

Cultivating Organizational Capabilities: How Leaders Differ

To ensure and maintain superior performance, Leaders promote coordination and collaboration to effectively and holistically forecast and manage company performance. As reflected by their most championed strategic actions in Figure 2 (*below*), they focus on democratizing data to increase forecast accuracy. Because Leaders understand that decisions must be data-driven, and that searching for necessary data can be a time sink, they focus on making information more accessible.

They do so, for example, by integrating data from their ERP, CRM, payroll, and other systems, thus breaking down data silos. In addition to integrating various data sources, another key strength of a powerful EPM solution is having built-in reporting and data visualization capabilities. Data integration is a dual-pronged approach. First, Leaders enable visibility by drawing data

In this report, respondents were ranked on the following criteria:

The percentage that actual costs were within budgeted costs:

-
- Leaders: $\pm 3\%$
 - Followers: $\pm 8\%$
-

The percentage that actual revenue was forecasted revenue:

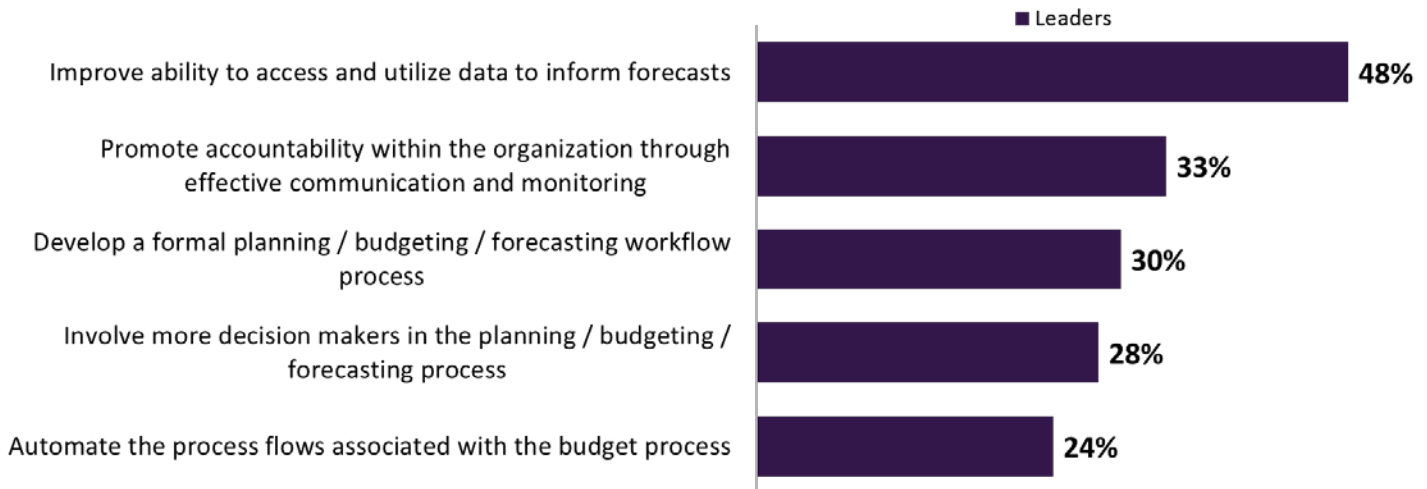
-
- Leaders: $\pm 3\%$
 - Followers: $\pm 10\%$
-

The change in productivity over the past two years:

-
- Leaders: *8% increase*
 - Followers: *1% decrease*
-

from typically siloed sources. Then, they ensure that business stakeholders are given access to this data so that budgets and forecasts can be built collaboratively using the most up-to-date figures, while simultaneously giving stakeholders the ability to course-correct in the process.

Figure 2: Strategic Actions Taken by Leaders



% of Respondents n = 165, Source: Aberdeen, May 2018

For Figure 2, Aberdeen survey data reflects responses to a question in which respondents could answer with 2 choices.

Promoting data accessibility and effective communication is only the beginning for Leaders. Leaders aim to improve communication between key stakeholders in order to drive accountability across the organization. Effective communication can mean many things in this context, from a clear articulation of goals and responsibilities, to timely reporting on activities and the achievement of critical milestones. It also means that, when problems arise, they are quickly acknowledged and collaboratively addressed.

In addition, Leaders also formalize planning, budgeting, and forecasting workflows. By doing so, these organizations encourage a sense of structure and transparency. Formalized and automated workflows allow for recorded audit trails that reduce the cycles of clarification involved in the budgeting process. Since Leaders understand that top performance is *everyone's* job, they also emphasize transparency with regard to progress towards goals, along with recognition of important achievements.

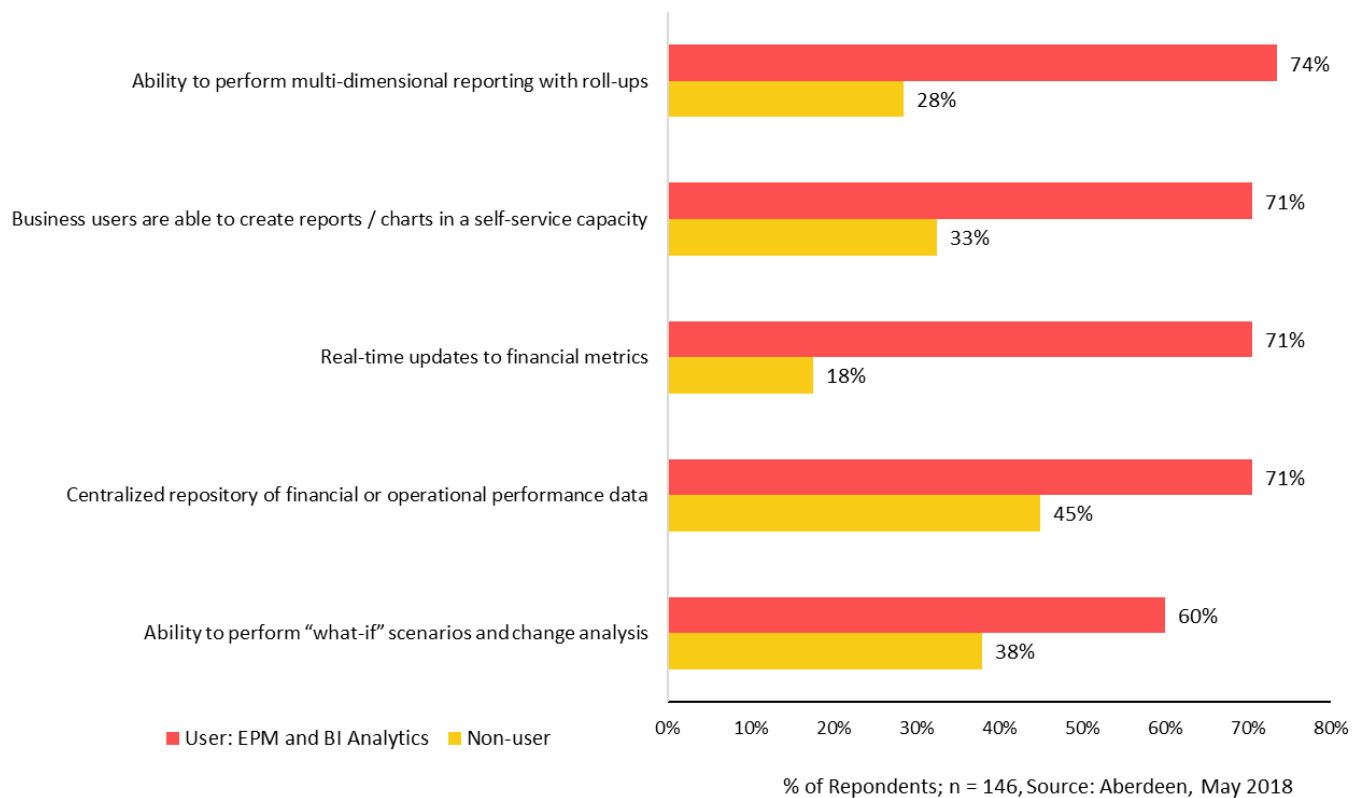
Finally, when making decisions, they don't rely solely on information they have in-house. Instead, Leaders evaluate their options based on both internal and external data, creating a comprehensive picture of what is to be done.

Leaders perform well because they understand that from a process standpoint, effective enterprise performance management depends on a continuous feedback loop in which objectives are defined, performance is measured, and the organization is developed.

The Advanced Capabilities of EPM Users

Aberdeen research shows that, to support the organizational behaviors these top performers cultivate, Leaders are 30% more likely than Followers to invest in EPM solutions to enable meaningful planning, budgeting, and forecasting. Indeed, Aberdeen found a number of stark differences between organizations using EPM solutions and those that do not (Figure 3).

Figure 3: Capabilities of Analytics-Powered EPM



As you can see in Figure 3, EPM Users are:

- ▶ 58% more likely to have a centralized repository of financial or operational performance data
- ▶ 2.2 times more likely to provide business users with the ability to create reports / charts in a self-service capacity
- ▶ 3.9 times more likely to have real-time updates to financial metrics

- ▶ 2.6 times more likely to have the ability to perform multi-dimensional reporting with roll-ups
- ▶ 58% more likely to have the ability to perform “what-if” scenarios and change analysis

The numbers in Figure 3 are important for a few reasons. Leaders democratize data and create access guidelines that facilitate a cohesive approach to the organizational objectives that need to be met. The insight derived from the data reduces guesswork, while the analytics capabilities of the EPM platform work to increase the accuracy of forecasts. This is precisely why Leaders see a closer alignment between their plans and their actuals.

Having a centralized repository of performance data enables cooperation and coordination between different stakeholders and business drivers. The ability to create reports in a self-service capacity means the elimination of organizational bottlenecks. And improving workflows by reducing the amount of time that typically goes into building plans and budgets, while increasing the accuracy of these plans, enables EPM Users to make decisions more quickly and accurately. This increases trust in the plans, thereby making them strategic tools for driving business performance. The agility afforded by EPM thus allows companies to accommodate changes and adapt instantly.

As mentioned, EPM Users are 3.9 times more likely to have access to real-time updates to financial data. This, along with their multi-dimensional analysis capabilities, allows them to monitor performance and adjust forecasts as market or business conditions change. As a result, these companies are better positioned to pursue appropriate modifications to their tactical and strategic approaches. In order to adequately vet such modifications, EPM Users are more likely to perform “what-if” scenarios, and compare potential outcomes of their strategic choices.

Finally, the data tied to business drivers frequently resides in disparate systems (ERP, CRM, etc.), or countless spreadsheets. With a centralized repository of data, EPM Users can accurately model these drivers and provide all stakeholders with a comprehensive, reliable view of company performance.

Key Findings

Aberdeen’s survey findings show that the use of EPM has a tangible impact on operational and financial performance. On the operational front, Leaders spend 15% less time on the end-of-month close. They also see 11% greater accuracy in the financial reports they produce.

Finally, these companies see 100% greater improvement, year-over-year (YOY), when it comes to the amount of time it takes to complete a financial forecast.

When looking at YOY changes in company performance, the survey findings reveal significant gaps between Leaders and Followers. In fact, Leaders enjoy:

- ▶ 40% greater improvement YOY in time-to-decision
- ▶ 100% greater improvement YOY in operating margins
- ▶ 167% greater improvement YOY in revenue

Recommendations

Success in financial planning, budgeting, and forecasting really comes down to providing employees with the tools they need in order to be fully informed, agile, and efficient. Accurate forecasts, budgets, and plans, lead to smarter decisions and investments.

Below are the common characteristics of Leaders in enterprise performance management:

- ▶ **Leaders have foresight.** Leaders are 58% more likely to have the ability to perform “what-if” scenarios to model changes in the business environment and potential outcomes of business strategies. This means they can more rapidly adapt to adverse changes and capitalize on emerging opportunities.
- ▶ **Top performers value data integration and accessibility.** Leaders provide real-time data to decision makers, taking the guesswork out of forecasting. They are also far more likely to emphasize data integration, creating comprehensive, actionable visibility into overall company performance.
- ▶ **Leaders are efficient.** Business moves fast, so the time it takes to complete budgeting and forecasting activities must decrease. Shortening process times not only mean that Leaders are more efficient, it also means that they have more accurate forecasts.

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