

Enterprise Performance Management: Joining Planning and Reporting for Superior Results

*An Oracle White Paper
Updated April 2008*

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EXECUTIVE OVERVIEW

Faced with increased pressure to provide unified, organizationwide financial planning and reporting with tighter controls and better audit trails, organizations are turning to integrated enterprise performance management (EPM) systems as a way to streamline reporting cycles, reduce compliance costs, and improve business predictability. But when is the right time to upgrade to such a solution and reduce reliance on nonintegrated point solutions? What are the factors to consider in adopting one? And who in an organization should lead the charge toward standardization? To help you answer these questions, this white paper provides an overview of the role of EPM software in business today and the factors driving its adoption.

INTRODUCTION

According to a 2006 study by the Hackett Group, typical organizations maintain six planning systems on average. This is in contrast to companies that employ EPM best practices: On average, these companies only maintain three such systems. It doesn't take a rocket scientist to figure out that integrating compliance information from six systems rather than three increases complexity and doubles your chances for errors. What's more, organizations that employ EPM best practices produce roughly half as many reports as other comparable organizations. That means they spend less time mining their data and more time focusing on what's material to their businesses. And finally, such companies are more likely to use nonfinancial performance indicators in their reporting and planning, thereby improving their forecasting capabilities and providing an early warning system for reporting of material events.

But how exactly does an organization go about adopting such best practices? Increasingly, companies are finding that integrated EPM system software is the key, allowing them to reduce shareholder and market surprises; increase visibility; document their actions; and provide supporting information for decisions, while reducing compliance costs.

“Organizations that employ EPM best practices produce 48 percent fewer reports and are 32 percent more likely to use nonfinancial performance indicators in their reports and plans—both key factors in improving the forecasting and planning process.”

**—John McMahan
Leader, Finance Advisory Practice
The Hackett Group**

FINANCIAL REPORTING AND PLANNING REQUIREMENTS

Traditionally, organizations have evaluated software solutions for financial reporting and planning separately, and developed or acquired point solutions—often from different vendors. In the case of financial consolidation and reporting, this has meant looking for the following capabilities (so as to streamline reporting cycles and reduce global compliance costs):

- Support for multiple global reporting standards
- Support for automated intercompany eliminations
- Support for minority ownership calculations
- Support for change management/corporate governance
- Support for International Accounting Standards/International Financial Reporting Standards impairment testing
- Segment reporting
- Currency translation
- Audit trail creation
- Reporting (management, legal, statutory, and tax)

With today's sophisticated and integrated EPM systems, organizations now have a chance to fulfill all their financial reporting and planning requirements from within a single system.

In the case of planning software, organizations have traditionally sought out the following capabilities (to support both top-down and bottom-up processes):

- Support for all operational planning applications (budget, workforce, capital expense, revenue, marketing, among others)
- Modeling and simulation flexibility (including cost allocation, time series intelligence, spreading, and adjustments)
- Collaborative, event-based planning that can support ongoing reforecasting
- Driver-based planning and forecasting
- Matrix workflow (for testing and validating plans across business units)
- Financial reporting support
- Seamless integration with Microsoft Excel

With today's sophisticated and integrated EPM systems, organizations now have a chance to fulfill all of the above requirements from within a single system. Read on to discover who in your organization might drive such change and the issues you should consider when adopting integrated EPM system software.

IT as the Voice of Change

Regardless of who's driving the push to adopt EPM software—whether it's a CEO trying to align business units, a CFO who wants to improve the budgeting and planning cycle, or a CIO who's looking for an integrated solution that can reduce

maintenance costs and provide a high return on investment—there are numerous factors to be considered in adopting such solutions.

Evaluating each business unit's needs to identify and prioritize organizational goals, the information technology (IT) department serves as the common link between departmental requirements and the push for organizationwide standardization. Giving voice to the concerns and needs of a variety of departments and users, IT can take the lead in demonstrating how integrated financial consolidation and planning solutions can provide the greatest benefits when used in conjunction with one another, as part of a larger EPM process and solution.

There are a number of benefits to an integrated EPM system—including lower cost of ownership, lower cost of deployment and integration, improved user productivity, and more-flexible deployment and licensing. IT organizations, in particular, will welcome the fact that combined financial consolidation and planning solutions provide the following benefits:

- **Common metadata.** By employing common metadata, such solutions
 - Integrate and synchronize metadata from a variety of sources
 - Provide a common set of performance metrics used by different functions and processes
 - Provide a common language for performance measures
- **Common data integration process.** By providing a common process for integrating data, such solutions
 - Provide synchronization with transaction systems and operational datasources
 - Provide synchronization across EPM processes
- **Common user and administrative interfaces.** By integrating a variety of functions into a single system with a unified architecture, such solutions offer IT organizations
 - Easier application administration and management
 - Improved security and user provisioning
 - Consistent calculations (including aggregation and intercompany eliminations)
 - Integrated common reporting and analysis tools
 - A consistent user interface that reduces end-user training costs

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WHEN IS THE RIGHT TIME TO ADOPT INTEGRATED ENTERPRISE PERFORMANCE MANAGEMENT PROCESSES AND SYSTEM SOFTWARE?

The migration to EPM processes and software represents a significant commitment of time and resources for most companies. As such, it's not likely to happen overnight. A typical progression toward EPM software might look something like the following:

STAGE 1—In this stage, organizations handle financial reporting through their general ledger systems and focus on replacing spreadsheets with packaged budgeting and planning applications.

STAGE 2—In this stage, many companies with multinational reporting requirements adopt packaged financial consolidation solutions while continuing to use spreadsheets, or point applications for budgeting and planning.

STAGE 3—In this stage, companies see the need and benefit of an integrated system that can support multiple processes—financial consolidation as well as budgeting, planning, and other EPM processes.

Even though the benefits of migrating to an integrated EPM system can be enormous, making such a move requires a substantial commitment of time and resources—a commitment that many organizations simply can't or aren't ready to make immediately. If that's the case, a "start anywhere" method might be the fastest path to success: By fulfilling immediate compliance or planning requirements with individual modules of an EPM system (which share a common platform) from a single vendor, such organizations find themselves well positioned to expand that solution when the time is right.

But the decisions don't end there. Now, organizations need to ask themselves, When is the right time to build on the initial investment? When is a consolidation solution not keeping pace with the organization's requirements? And when has a company reached the point where it needs a planning application in addition to a consolidation application—or vice versa?

By considering the following questions, you should be able to evaluate whether your organization needs to append its current consolidation solution with a specialized planning application.

Do You Need to Budget and Report at a More Granular Level?

If you need to drive more accountability into your organization's budgeting process, that means you need to be able to provide more detail in your financial planning versus the reporting process. In technical terms, this means supporting more dimensions in plans than in actuals and providing more-supporting detail and assumptions to support budgets, plans, and forecasts. Whereas a financial consolidation system can have custom dimensions designed to capture some line of business detail, a purpose-built planning application typically has more flexibility in dimensions (for example, adding dimensions such as employee, project, scenario, and version) and provides support for line item details, on-the-fly calculations, and documenting planning assumptions.

In addition, if your organization has many different business units or regions, you probably consolidate financials primarily by using key accounts from each unit or region. The business units and regions, however, cannot use this same high-level accounting structure for planning their operations. If such is the case with your organization, you should look into acquiring a planning solution that works with your consolidation tool.

Another scenario is an organization that needs to keep its legal reporting system and hierarchy separate and "pure" versus its management reporting. Although most financial consolidation applications can support multiple reporting structures (legal, management, statutory) some companies must keep their management reporting and planning in a separate system, because of the complexity of the legal reporting process and data. Minority interests, cross-ownership situations, and tax structures

sometimes have little to do with management or operational structures, and oftentimes these legal structures are so different and specific that it is more convenient to have a separate planning application purpose built for the management reporting and planning process.

Do You Have Recurring Planning and Forecasting Requirements?

Many companies are moving beyond the annual budgeting process and are adopting a rolling forecast process in addition to, or in place of, the annual ritual. In these cases, frequent updates (for example, monthly, weekly) of recurring requirements—such as user-defined business rules (for example, by scenario and version); continuous reforecasting (simulation flexibility); and budget decision justification—will be common requests from planners. Financial consolidation and reporting solutions are typically focused on capturing quarterly and monthly financial results with a high degree of control and integrity, and aren't designed to support continuous reforecasting and simulations. Thus, a system that better supports this process but works with the financial consolidation system makes sense—especially given that a similar planning tool would promote high adoption and lower training costs.

Does Your Planning Process Involve Large Numbers of Line Managers and a Distributed Organization?

In most organizations, a small number of finance staff from corporate, business units, and regional operations are involved in the collection and consolidation of financial results. Conversely, the budgeting, planning, and forecasting process typically involves many line managers beyond the finance organization who do not have the same level of skills as finance staff and need a simpler application to work with. In fact, finance staff might want to keep line managers out of the system that is used to create the audited financial results, and provide a separate application that is better suited to many iterations of data and can be customized and simplified to meet the needs of more-casual users. If this is the case, then a packaged budgeting and planning application that integrates with the financial consolidation and reporting process might be required.

Does Your Organization Need to Improve Confidence in Forward-Looking Statements?

While regulatory requirements such as the Sarbanes-Oxley Act have focused mainly on the processes supporting the generation of historic financial statements, stakeholders and regulators are more-closely scrutinizing forward-looking financial projections and guidance provided by publicly held organizations. How confident is your organization in the quality of your financial projections—the processes and assumptions behind them? If your organization is providing forward-looking guidance and is relying on spreadsheets to collect this information, it might be time to consider a more-robust solution, which provides more control over the process

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of collecting and consolidating plans and forecast information, in addition to actual financial results.

Do You Need to Support Initiatives such as Economic Value Added?

Although it can be straightforward to add simple Economic Value Added calculations to a financial consolidation application, applying these calculations down to the product or customer level is a more-complex process. These frameworks have specific calculation and allocation needs that are best filled by separate, specialized planning and analysis solutions.

CUSTOMER EXAMPLES

Zebra Technologies, Symantec, and Norway Post are three organizations that have adopted Hyperion Planning and Hyperion Financial Management to improve confidence and deliver a single version of the truth.

Zebra Technologies, a market leader in the bar code technology industry, upgraded from Oracle's Hyperion Enterprise to Hyperion Financial Management – System 9 to improve the cycle time spent on its financial reporting and budgeting processes. However, after a period of time, the company realized it needed to collect, analyze, and report its budgets and plans at a higher level of detail (that is, the product and customer dimensions) and adopted Hyperion Planning – System 9 to address these requirements.

Symantec is a global leader in infrastructure software, enabling businesses and consumers to have confidence in a connected world. The company helps customers protect their infrastructure, information, and interactions by delivering software and services that address risks to security, availability, compliance, and performance. Headquartered in Cupertino, California, Symantec has operations in more than 40 countries. The organization had cultural and system issues due to the large number of employees and line managers, a result of accountability being low in this distributed organization. Symantec implemented Hyperion Planning to drive internal planning and forecasting processes, while for outbound communications and support of the Sarbanes-Oxley initiative, it uses Hyperion Financial Management. This implementation strategy enables the company to distribute responsibilities in an integrated, Web-based environment.

Norway Post is a market leader in mail distribution, direct mail, and value-added services; a leading logistics operator; and a strong Nordic IT service market player, with 21,700 employees from 75 nations—a multicultural workforce with more than 2,000 employees in subsidiaries outside of Norway. The organization's domain was marked by diverse pressures and changes such as substitution of letter mail, transformation to internet banking, competition from new media, and globalization. There was a strong need to standardize due to

- High costs
- Multiple versions of the truth
- Nonintegrated transactional processing and analytics
- Difficult-to-support, expanding user base

- Need to handle an increasing number of suppliers
- Costly external claims (Sarbanes-Oxley, International Financial Reporting Standards, Basel II, among others)

By implementing Oracle's Hyperion Planning and Hyperion Financial Management applications, Norway Post achieved between 2001 and 2006:

- 141% revenue growth
- Considerable cost reduction
- Increased Profitability by 40%
- Increased customer satisfaction and delivery quality
- Increased employee satisfaction
- Reduced monthly close-up from 14 days to 7 days

CONCLUSION

Although standardizing on an integrated platform for EPM and business intelligence represents a significant project for any organization, the return on investment can be enormous when the desired result is achieved.

Although standardizing on an integrated platform for EPM and business intelligence represents a significant project for any organization, the return on investment can be enormous when the desired result is achieved—that is, a compliant consolidation process that also ensures the integrity of plans and forecasts. In selecting the EPM software that will allow your organization to achieve these ends, you must

- Evaluate existing EPM investments and deployed systems
- Recognize the difference between corporate and divisional requirements and develop a consolidated and reconciled view
- Plan the adoption strategy for EPM processes and applications

By following these three simple steps—carefully and with an eye toward streamlining reporting cycles, reducing compliance costs, and improving business confidence and predictability—you should be able to begin formulating your organization's EPM strategy immediately.



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