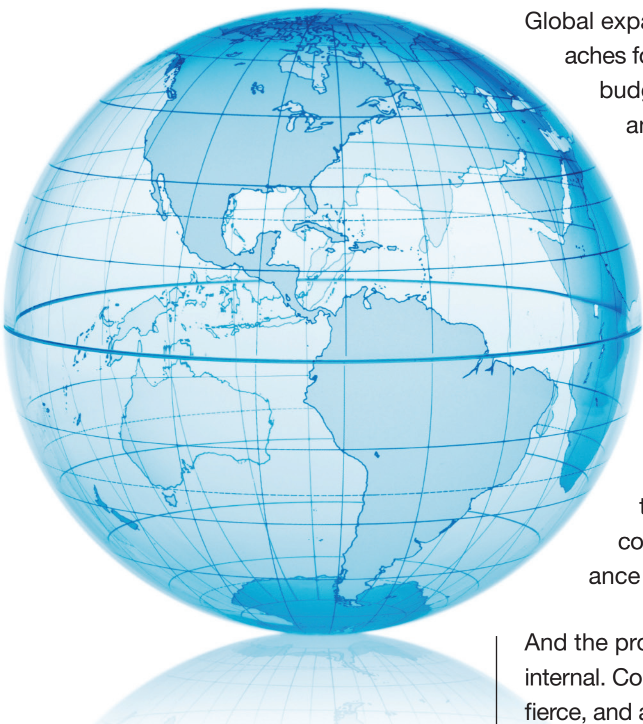
Optimizing Financial Planning and Consolidation for Global Expansion



The news these days is full of stories on corporate expansion through merger and acquisition – and in today's markets, companies continue to look for opportunities to expand globally. While a global strategy has become essential for businesses to succeed, it also brings about several challenges, particularly from the financial side.

Global expansion can lead to headaches for core financial functions like budgeting, planning, forecasting and reporting. Often times, with workforce planning in one system, P&L and balance sheet planning in another system, and sales planning in yet another, the fragmented structure of 'newly global' or 'recently expanded' companies leads to additional operations and maintenance costs, not to mention compliance issues.

And the problems are not merely internal. Competition continues to be fierce, and as a company extends their geographical reach, they must be able to deal effectively with external pressures, particularly, again, on the financial side. Long gone are the days when organizations could manage their business based on a traditional annual budget. Companies need flexible budgets, but don't always have the tools or knowledge to manage them.

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Further, global companies must meet multiple, global statutory requirements, including IFRS, GAAP and other country-specific regulations. To accomplish this, companies must consolidate their financials at various levels, including legal entity, group, country and region, by performing inter-company eliminations and consolidations of ownership to prepare statutory reports.

Despite these challenges, companies hesitate to invest in tools and training that could significantly improve their performance. This can lead to the following scenarios:

- Financial closes are consistently late due to an inability to digest and disseminate the volumes of available data.
- Data changes frequently during the close process (i.e. sales and production forecast adjustments that make previous financial forecasts obsolete before they are ever issued).
- Manual closing and transactional tasks, such as reconciliations with Excel spreadsheets, manual journal entries and eliminations, and financial reporting in Excel or PowerPoint tend to be the rule rather than the exception.
- Planning cycles and close processes that can be chaotic due to a lack of control (process, data, etc.).

So what is the company looking to expand their operations globally, or even companies who have recently been a part of a merger or acquisition, to do? According to Clarkston Consulting's Anand Nataraj, the best way to address these challenges is to implement a centralized, integrated, flexible

INTEGRATED PLANNING & CONSOLIDATION

Business Planning	Forecasting	Consolidation	Financial Reporting
• Budgeting • Sales/Revenue Planning • Capital Expenditure Planning • Workforce Planning • Expense Planning • Cash Flow Planning	• Rolling Forecasts • Continuous Planning • Collaboration	• Intercompany Matching/ Reconciliation • Intercompany Eliminations • Management roll-ups • Legal Consolidation	• Ad hoc • Automated Variance Analysis • Driver Analysis (industry, growth, capacity, etc.)

Source: SAP and Clarkston Consulting

and scaleable solution that can handle financial planning and financial consolidation under one roof.

SAP – the ERP solution that already helps so many businesses 'run better', offers a solution in this area formally called Business Planning and Consolidation – typically referred to as BPC – a solution that is part of the Enterprise Performance Management Suite (EPM). In this Viewpoint, we talk with Nataraj – a Principal at Clarkston Consulting and a subject matter expert in Business Intelligence and Enterprise Performance Management solutions.

Why should companies consider a solution like BPC?

Quite simply, implementing a BPC solution will allow a company to adapt to constantly changing market conditions. A good BPC implementation provides the needed tools, with functionality like 'what-if' planning scenarios, and the ability to consolidate data from multiple levels of the enterprise. At the same time, the company will be able to address statutory compliance and legal consolidation requirements, while facilitating IFRS compliance.

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How important is senior management engagement in a project like this?

We can't imagine ever saying senior management engagement isn't important, at least in a project that touches the entire enterprise, but it is especially critical in an initiative with financial implications. A BPC project is invariably global, and typically involves people and systems from different countries and markets. This environment makes timely inputs and participation from these stakeholders imperative. Engaging senior management also helps in better communicating to these stakeholders and engaging them effectively.

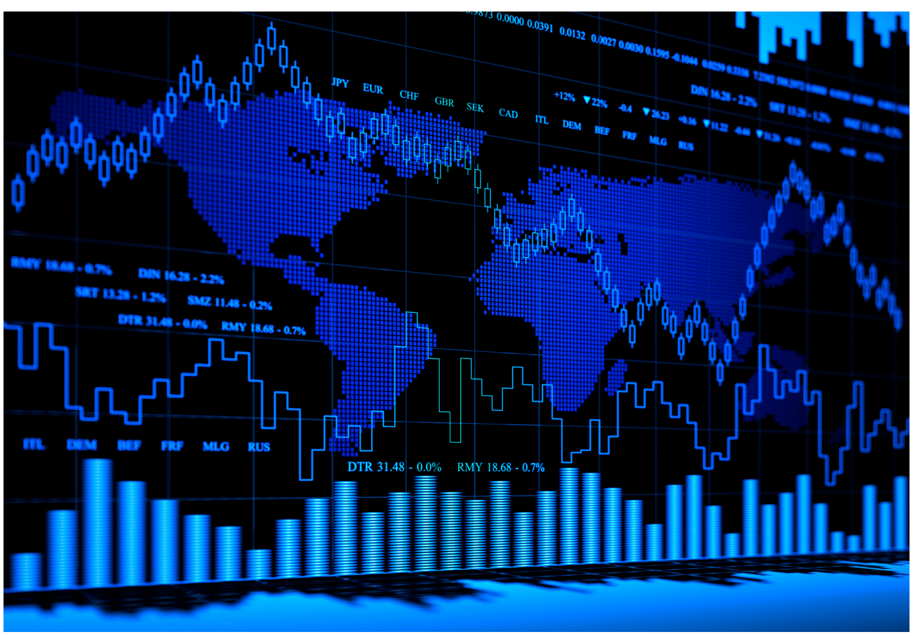
Also, one of the key deliverables is the reporting system, requiring multiple tough decisions (e.g., global charts of accounts, standard reporting formats, etc.) throughout the project. Senior management can make those decisions quicker if they are engaged.

Can a BPC project be approached in the same way you'd approach an ERP project?

Although your BPC project may take place along-side your ERP implementation, there are some key differences in approach that should be considered.

Unlike an ERP project, where requirements are collected through formal workshops and interview sessions, followed by configuration, BPC projects are successful when a more-iterative approach is taken. BPC projects tend to have more visual prototyping sessions than training sessions. Users can better articulate their requirements with something they can ‘see and work.’ This should be factored into planning for the requirements phase, both in terms of system availability and the time required to build the prototypes.

Another key difference concerns data conversion. With ERP projects, legacy data conversion is limited to open items (sales orders, purchase orders, closing inventory, etc.), while BPC projects require longer history from legacy systems. For instance, users might require anywhere between three to seven years of history for comparative reporting and audit requirements. This takes significant coordination, planning and effort, something that has to be factored into the BPC implementation plan.



Considering the fact that a BPC implementation has global implications, what are some of the key areas to watch for?

In a global implementation, financial and operating data will come from different geographies, time zones and markets. These will also invariably come from different systems. Engaging the owners of these markets and systems early is extremely important to have a successful implementation.

Mapping is another area of emphasis. With both historical data and ongoing data from subsidiaries, mapping will prove to be challenging and require a significant time investment.

In launching BPC, you should plan resources similarly to how you would for an ERP ‘Go Live’ or cutover. In the case of BPC, make sure this resource plan extends for the first three months - until the close of the first quarter - and plan it like a monthly cutover activity. This not only ensures the solution works technically, but it also goes a long way to convince the users of its accuracy and reliability.

What are some real-world lessons Clarkston can provide?

Recently Clarkston implemented SAP BPC at a medical devices manufacturer. At the most basic level, the project eliminated multiple systems and created a single platform for Planning and Consolidation, minimizing chances for error, fostering a collaborative environment, and simplifying ongoing support and enhancements. The iterative/prototyping project approach mentioned earlier provided a consistent user experience and reduced the training needs.

But what’s really exciting are the benefits this company expects to realize. By creating a common automated process for Consolidation, the company will reduce the time to close by improving the consistency, quality and availability of information, plus reduce the time for processing intercompany eliminations. Finance users will get to spend more time on decision making and less on transaction processing.

Having a single tool for all planning requirements gives the company the capability to better respond to changing and unpredictable business environments. This removes the dependence on an annual budget by providing the capabilities for continuous planning, rolling forecasts, and reduced budgeting cycle time.

Implementing BPC has provided the capability to meet statutory requirements, such as IFRS and SOX. And perhaps most importantly in this day of increasing mergers, acquisitions, and divestitures, they’ve built a robust platform that can support any future changes to the organization. This carefully executed BPC project has effectively armed their Finance department with the tools to help senior management compete, to spend more time making decisions and less time executing tactical transactions, all while improving their ability for regulatory compliance. How's that for a value proposition?

Lessons Corner: Challenges and Best Practices in BPC Reporting

- *Ensure that you have reports that help reconciliation of data between source systems and BPC. Also, have the legacy element (GL account, profit center, etc.) details in these reports for 'side by side' comparison. This goes a long way in helping and satisfying the business user.*
- *Avoid overuse of 'in sheet formulae' to calculate report values.*
- *Develop reports based on predetermined development, formatting and look and feel standards.*

About the Author

Anand Nataraj is a principal consultant with Clarkston Consulting. With over 18 years of experience, he has worked across multiple technology areas including SAP Portal, SAP BW, BOBJ Data Services and e-Procurement. Mr. Nataraj has led and executed a number of Business Intelligence and Portal engagements in a wide variety of industries.

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