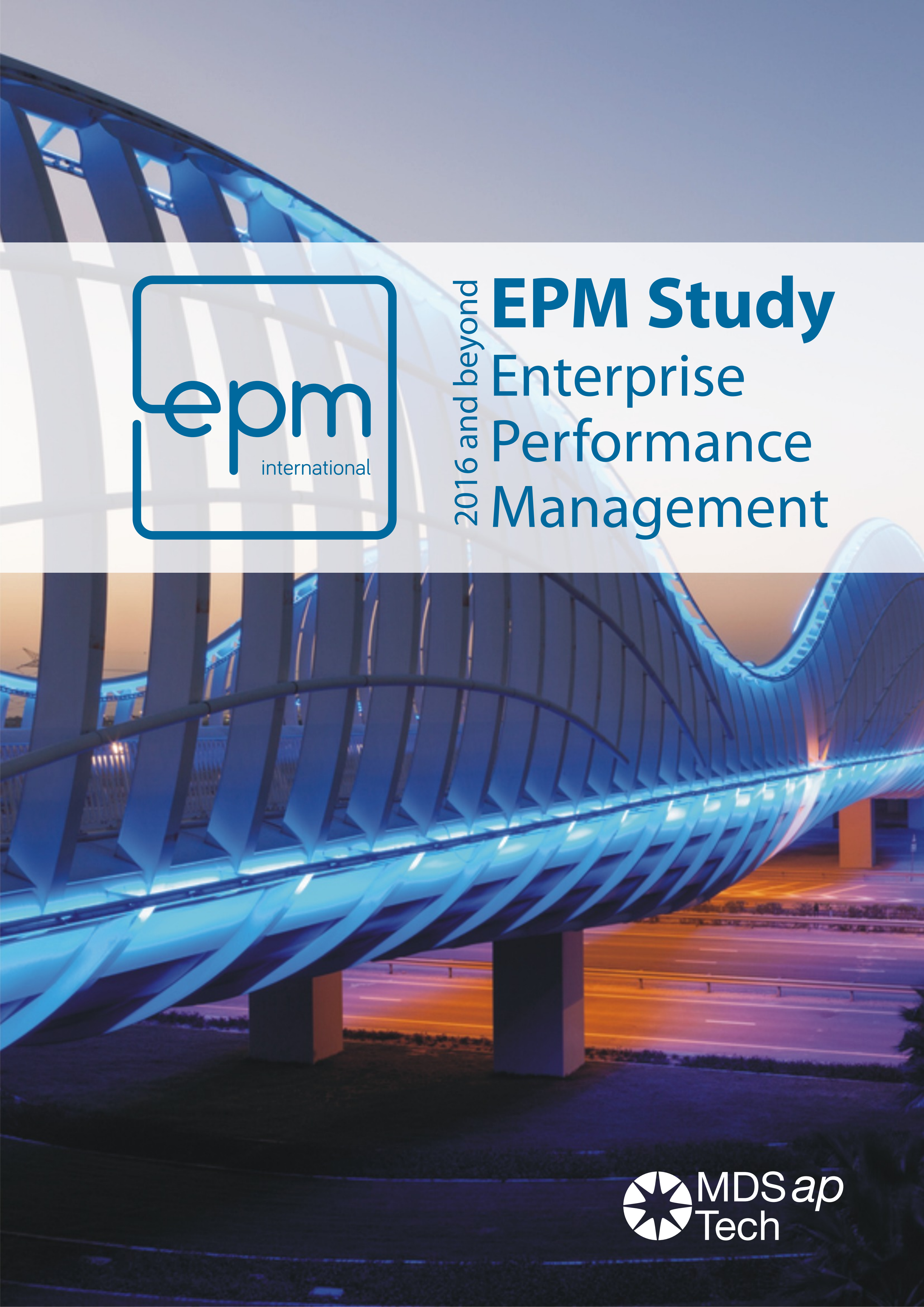
EPM Study

Enterprise Performance Management

2016 and beyond



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Foreword

Dear Reader

Welcome to the 4th EPM International Enterprise Performance Management (EPM) study. The members of EPM International have worked with corporate centre clients across Europe, America and Asia for over 20 years. It is this close association with the role and function of the corporate centre that has made us aware of the need for a detailed and insightful benchmark of the Group Finance area and encouraged us to carry out this study. Group CFO's, Finance Directors, Group Financial Controllers, Group Planning Managers and the staff in Group Finance demonstrate a real need for benchmarks and comparative information that focuses on the Finance function and performance management processes at the Group Centre.

These individuals own the reporting processes that are critical to providing the performance management environment that drive these large corporations. Yet there is little information regularly gathered that enables them to understand their development and evolution relative to other large equivalent groups. Now, with this report there is a wealth of information that can help to shape performance improvement programs in the Group Finance function and help them understand their relative performance. For those who participated in the study it will be apparent that it took some time to complete. This is because we wanted to gather a sufficiently large sample to be able to draw general conclusions and provide a truly useful benchmark. Only then would the study help the participants better understand current trends and best practices.

We would like to thank all of you who took the time to participate. In this report you will find all the key findings and salient points that have arisen from the study. We hope you find these results of considerable use in your organisations as you plan the next steps in your programs of continuous improvement.

Almost 80 large corporations so far have participated in the study we have conducted now for the 4th time and they represent comprehensive geographic coverage across Europe, America and Middle East. This rich data collection covers a wide variety of countries and commercial sectors and also includes some of the largest and best known corporations.

Even as the paper is being finalized, organisations keep joining the study in order to obtain benchmarks and insights into their performance. If you have not yet participated but would like to, you are more than welcome to join the study.

Please read, reflect, enjoy and learn from the study findings and when you have done this, feel free to discuss the implications for your own organization in greater detail with your local EPM International member organisation. They will be keen to demonstrate their deep knowledge and expertise in Enterprise Performance Management.

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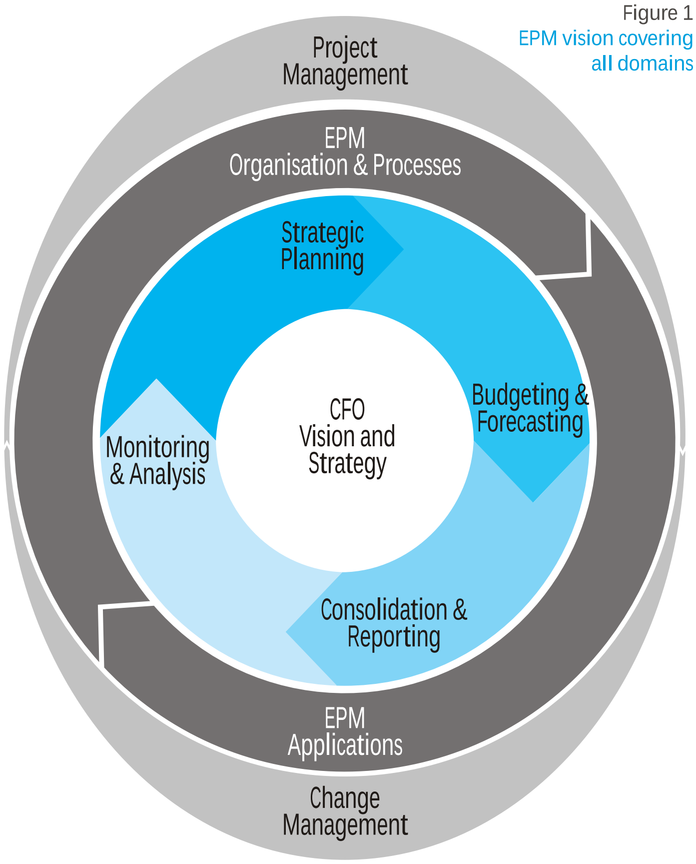
1 Structure and Method

EPM International conducted the study by means of personal interviews and online questionnaires. All methods of data collection used identical questions, based on a newly developed questionnaire (available on our website), in order to get a balanced perspective on all the elements of the EPM processes, from strategic planning to analytics and risk management. The information for the study was provided by Senior Finance function executives at the corporate centre who were responsible for the financial reporting, consolidation, planning & budgeting and reporting functions. In this way, the study is the professional view of the corporate centre.

Almost 80 valid study responses are included in this report and provide the foundation for all analysis and commentary. All members of EPM International worked in close cooperation with the respondents to complete the data collection, validation and quality checks. All data was collected in a central web based environment and analysed using a statistical analysis tool. All analysis is based on the percentiles deemed relevant. The final analysis of the results was done by partners and managing consultants from EPM International, who have collectively authored this report. At no point in this report do we refer to specific participating organisations, whose individual results remain strictly confidential to their own organisation and EPM International.

Figure 1
EPM vision covering all domains



The EPM study covers all the functional EPM domains and includes the following sections:

- General Information
- Strategic Planning
- Planning, Budgeting and Forecasting
- Consolidation and Management Reporting
- EPM systems and maturity
- Analytics and BI
- Risk and Regulatory Reporting
- Coping with Changes
- Hot Topics for Group Finance Function

Each section covers aspects around people and organisation, reporting content, processes and systems. With focus on both the quantitative and qualitative elements of our study.

2 Profile of Participants

In order to understand the key messages of the study, it is important to understand the study context in terms of the number, size and industry categorization of the participating companies. Almost 80 large companies participated in our EPM study coming from 12 different countries and at the moment new companies are still adding their details to our WEB based analytical environment.

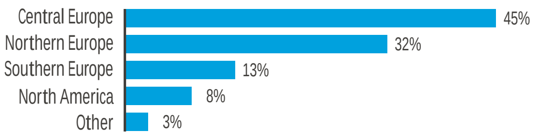


Figure 2
Participants Geographic Distribution

The participating companies are spread over a variety of different industries and are all large corporations with many entities reporting to the corporate centre. Most corporations in the study have between 1 and 100 reporting entities but due to some very big corporations the average is 115 reporting entities. The sample includes some of the leading and most successful listed organizations, covering a wide geographic area in Europe, including Germany, Switzerland, the UK, Portugal, Scandinavia and the Netherlands as well as participants from the USA and Canada, among others. The common features of these companies is that they are multi entity with a consolidation requirement and multi-national with a requirement to manage EPM in a multi-currency environment. The largest company have over 400,000 employees and the smallest 500 employees. While the largest company has sales revenues of €15 billion and the smallest €85 million. The industry spread is also quite wide with companies from the financial services sector through, manufacturing and consumer goods to healthcare. The common factor for all though is the challenge of managing performance across multiple countries with multiple subsidiaries. These are the common challenges that allow us to draw out conclusions and observations of great relevance to the participants in the study.

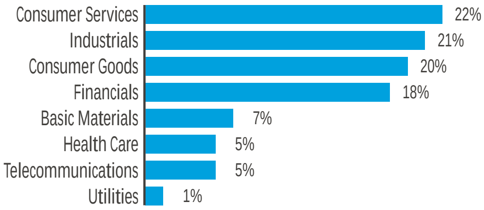


Figure 3
Participants by Industry

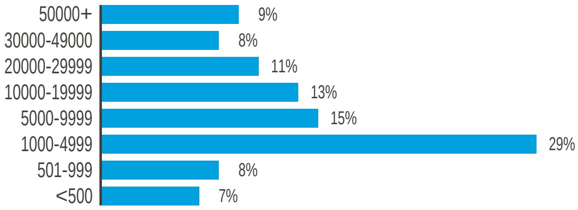


Figure 4
Participants by Number of Employees

3 Overall Ranking and Best Practices

What makes a company a Top Performer? One of the objectives of the study is to identify elements of best practice in the key Enterprise Performance Management processes. To this end the EPM International team have used their experience to make judgements about what constitutes best practice in order to identify the best performers in the study.

There are many factors which influence our view of best performers. For some speed of reporting legal and management results is a key metric but, in our view performance is not only a question of speed. That is why EPM International has developed its own measure of performance which allows us to identify the best performers in our study.

Our measure, or score, is based on key metrics from the study such as: frequency of reporting, the level of detail of the dataset and alignment between the different reporting cycles, the level of integration between legal and management information, time spent by corporate staff on the key tasks, EPM maturity and use of technology, the level and effectiveness of internal control and more generally speaking the quality of corporate governance. The scores given for these aspects of performance are integrated with the time taken to report for each of the reporting cycles, including actual results and plans, to derive the final score and overall ranking for each participating organisation in our study. Our assumptions and opinions or best practice will always be subject to some debate. We understand this and are very happy to discuss our views. We know that different organisations across different industries have different business priorities at different times and that this influences exactly what they see as high priority and best practice. We welcome such debate as a way of deepening understanding of what constitutes best practice for performance management. In the end, however, we feel our scoring mechanism is very valuable to the participants as they are able to benchmark their organisation and performance according to these EPM International best practice criteria.

EPM International's Criteria for Best Practices

EPMi member firms and earlier studies have identified key elements that drive, speed and quality in Finance processes, organisation and systems.

Speed

One of the dimensions we use to determine best practice is speed of reporting. We agree fully that speed without quality and good data content is dangerous and can't be supported in any way as best practice in isolation. However, we at EPM International also believe that fast reporting of good quality and content-rich information is symptomatic of an efficient and effective Group Finance function. We must remember that a very fast and effective close cycle is dependent on the effectiveness of local entity ledger systems and transaction reporting processes as well as fast and effective data collection and consolidation processes. So, we do use speed as one key dimension in measuring the overall performance of our study participants.

The ranking regarding speed is based on a weighted score from the following reporting processes:

- The plan/budget processes
- The forecasting processes
- The actual (monthly) management reporting processes
- The statutory/legal reporting processes

Quality

The other dimension we use to determine best practice is quality of reporting, based on our experience from projects delivered by EPMi practitioners over many years.

The ranking regarding quality is therefore based on a weighted score from the following criteria:

- How frequently data is reported
- Alignment of dataset between planning, budget, forecast and actual
- Granularity of data
- Validation processes
- Rolling forecast beyond year end
- Quality and accuracy of forecasting
- Target setting
- How time is spent: Low and high value activities
- Management and measurement of the reporting processes
- Standardized processes (process ownership) and systems
- Use of EPM technology

The overall Ranking EPM Study 2016

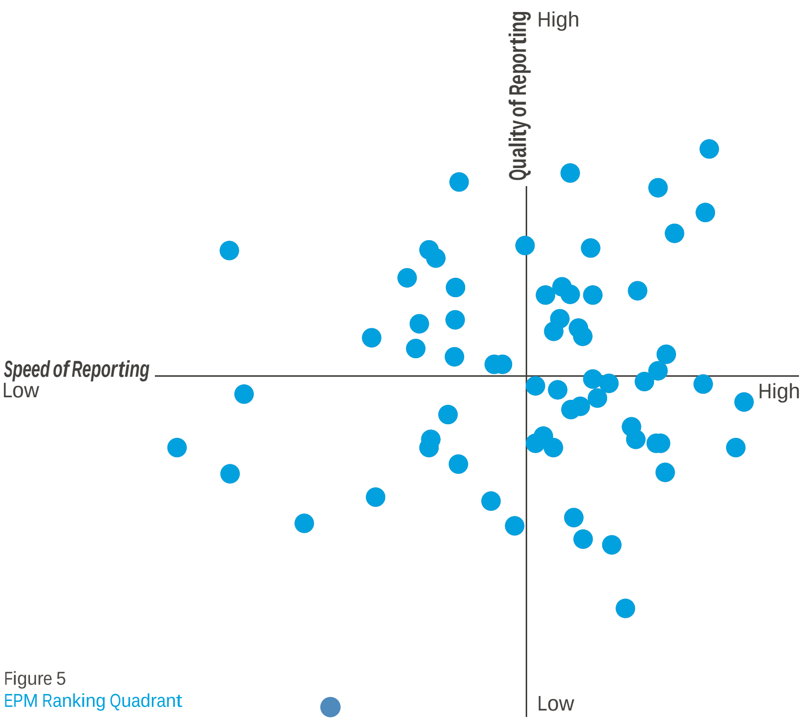
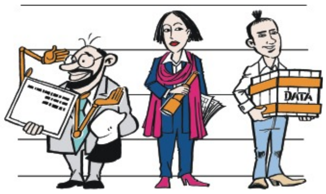


Figure 5
EPM Ranking Quadrant

Based on the quality and speed measures we can visualise the overall score in the “EPM International Performance Quadrant”:

Groups face the challenge of improving their organisations processes and systems and moving towards the Top-Right of the quadrant.

To provide an indication of what the main drivers impacting this ranking are, we have analysed the top performers and the low performers.



10 Insights to become a "Top Performer"

The main reason for doing studies and benchmarks is to learn from the 'best performers' and investigate what they do differently. What is it that makes them fast or efficient and what lessons can we learn from comparing them to the 'poor' performers in the study? This helps every participant gauge what they are good at and what they could do better. It also provides insight to your internal debate on process improvement.

Our detailed analysis has revealed many of the common problems as well as a wide gap in performance between the very best performers and the poor performers. So what are the key characteristics that are significantly different or surprisingly similar? What are the main conclusions from this EPM study and what are the keys to success? To answer these questions we compared the good and poor performers in our overall ranking score. So what are the key messages from this analysis?

Group size doesn't matter

The size of the group (number of reporting entities, complexity of the group structure, total revenues) is often used as an excuse to explain why it takes longer to produce the month-end results or year-end financial report. This excuse is not valid. Large and complex groups in our study often report more quickly than the smaller and simpler organisations. This is in line with the results of our previous 2011 study. The right processes, systems and policies can deliver speed no matter what scale of the organisation.

Shared service centres are not a differentiator for EPM performance

The concept of shared services in finance has often been presented as a way to improve the financial close and reporting processes. Based on our analysis we can't see a clear correlation and our conclusion is that shared services centres can help to reduce total finance costs and the efficiency of the close and planning processes but is not a differentiator between the top and bottom performers in our study as shared services and single instance ERP is not a pre-requisite for being a top performer.

Focus on Forecasting

The top performers are relatively better when it comes to forecasting than their peers. Having improved the actual close processes it seems clear that they can spend more time on improving their forecasting processes and systems. 30% of the top performers have a monthly forecasting process, compared to only 20% of the poorer companies. Some of the best have even gone as far as adopting rolling forecast techniques and "blown up the budget" so that there is no lengthy annual budgeting cycle.

Process ownership is now common practice

It is good to see that the financial close and other group reporting processes are being managed as important finance processes and both the top and bottom performers have introduced process owners. Companies understand that they need to manage and monitor the close and reporting processes to improve quality and speed. In our previous studies the best performers had a single process owner at the corporate centre overseeing the whole process. In our study this year the best performers have now rolled out that principle with clear process owners across the whole data supply chain, it seems the more people held accountable for effective close and performance management, the better the performance of the organisation.

One actual dataset and Balance Sheet every month

Once again, it is clear that the fastest companies have managed to harmonise and standardise the actual dataset as much as possible, creating an integrated approach to management and financial reporting for both actual and plan processes. 90% of the Top performers collect a full balance sheet on a monthly basis and have aligned the monthly reporting process with the (external) legal reporting process at year end. Harmonisation and standardisation of the dataset and associated processes works!

Move to Weekly Flash Reporting

The results from our analysis show an interesting trend. The fastest companies manage to free up time and added weekly flash reporting to the group finance function. 25% of the top performers have adopted weekly flash reporting and in this way manage to get more insights in the actual performance of their business and more time to take action. In past studies, a flash reporting process has often created a drag on the speed of overall reporting processes but it appears this is now an aid to faster processing. In discussion with study participants it appears that the traditional problem of reconciling flash numbers with subsequent hard close numbers is dissipating as core ERP systems improve.

Fast Intercompany matching and reconciliation

The Top performers have reduced the time needed to match and reconcile intercompany balances at period end and use the concept of taking intercompany processing off the critical path during the close process. This is being fixed by better use of EPM solutions for pre-close balance reconciliation and also using more sophisticated ERP solutions to facilitate accurate inter-company posting. On average for the best it takes 3 days to get all intercompany data reported and eliminated.

A standard chart of accounts works

Top performers have standardised the Chart of accounts more than the worst performers. 70% have adopted a Global Standard Chart of Accounts. Together with the use of a standard monthly dataset, integrated financial reporting teams (controlling and financial reporting), the use of standard EPM processes and systems and further centralisation, a standard chart of accounts works to help companies to become a Top performer.

Measure to improve

Almost all Top performing companies measure the performance of the different reporting processes and give regular feed back to the reporting units and group finance management. When companies start measuring their EPM processes and share measures with stakeholders, we see significant improvement and the adoption of ‘continuous improvement’ and every financial close, forecast cycle or other reporting cycle becomes an opportunity to improve quality and efficiency. These measures often go hand-in-hand with the process ownership adoption we have already mentioned.

Adopting new EPM technology improves performance

Compared to our study in 2007 and 2011, the use of EPM software/technology has increased significantly. Looking at the top performers, it is clear that the use of EPM specialised tools is helping them to support improved close and planning processes and for the most part these solutions are driving better EPM performance. In the top performing companies 80% have implemented EPM software in their organisation. The bottom performers are using EPM also but have not exploited it so well, for example for the automation of the data collection process. 50% still enter data manually in local reporting packs and Excel sheets. Also the EPM maturity profile shows a big difference between the top and bottom companies. From the poor performers 50% have limited awareness or is in an early stage of adopting EPM while the Top performers are more mature with several feeling they have a clear corporate wide strategy for the adoption of EPM.

4 Key conclusions by section

Strategic Planning

- A large amount of calendar time is spent on the strategic planning process ➥ on average 4 months
  1 month to produce management reports and to obtain final approval
- Excel is still the dominant tool for strategic planning
  Approximately 60% use Excel as their main tool
  Those who use specialist tools are not faster
- Common practice is to link strategic plans to lower detailed financial plans in the budgeting process (91% of participating companies share this approach)
- Only 60% of the number of companies have a structured follow up process for strategic planning ➥ still a large number (40%) do not have a formalized follow up of the strategic planning process
- More than 30% have made significant changes during the last three years
  The majority of changes relate to process improvements, a minority to system changes

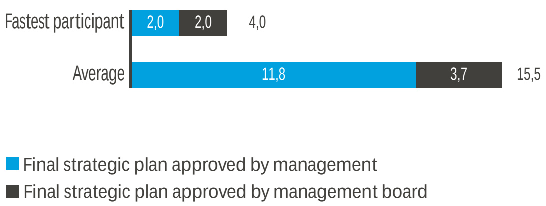


Figure 6
Duration of the strategic planning precess in weeks

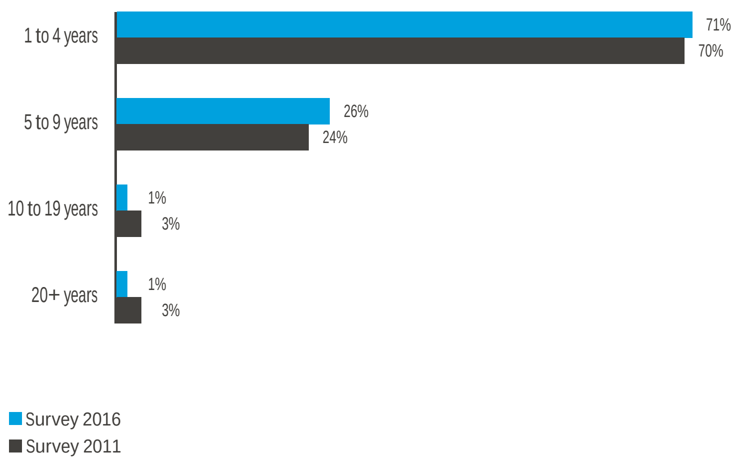


Figure 7
Time-horizon for the strategic plan

Planning and Budgeting

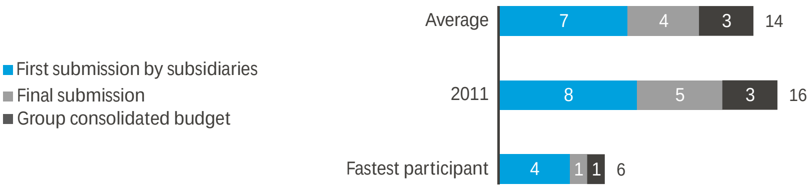


Figure 8
Duration of the budgeting process in weeks

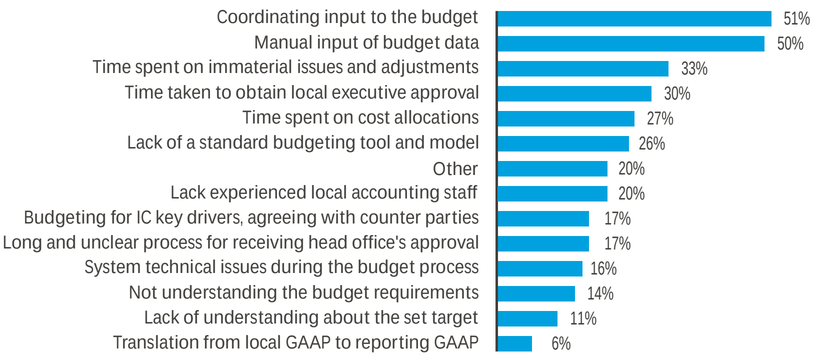


Figure 9
Problems for the subsidiaries in the budget/forecast process

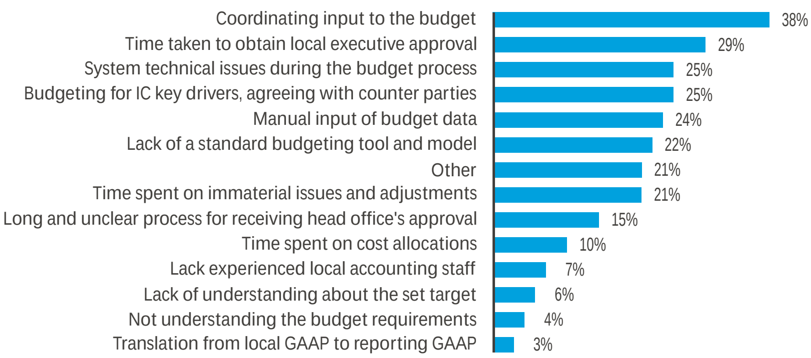


Figure 10
Problems for the corporate head office in the budget/forecast process

- A large amount of time is spent on budgeting
  - ➥ Average time spent is 14 weeks and 50% spend > 13 weeks
- 35% are looking to reduce time table
  - ➥ Spend more time with analysis of actuals
  - ➥ Support ongoing analytics and decision making
- Approximately 35% plan significant changes
  - ➥ Improve tool support
  - ➥ Rolling forecasting
  - ➥ Increase KPI focus and reduce level of details
  - ➥ Better budgeting instead of "beyond budgeting"
- Characteristics of the fastest participants
  - ➥ 20% can finalize their budget process within 8 weeks
  - ➥ The fastest companies are more lean throughout the whole process first submission / complete final submission / get approval from the board
  - ➥ Higher share of the fastest companies compared to the average have changed / improved their budget process in the last three years
- Problem areas on group and local level
  - ➥ For subsidiaries: coordinating input to the budget (51%) and manual input of budget data into group data templates (50%)
  - ➥ For corporate head office staff: coordinating input to the budget (38%) and time taken to obtain local executive approval (29%)

Forecasting

- Trend for increasing level of details in the forecasting process continuous
- Companies who have recently changed their forecast process have even increased the level of detail

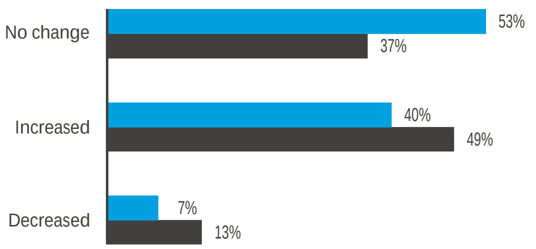


Figure 11
Forecasting level of detail

- 35% of the participants forecast beyond the fiscal year, they use a rolling forecast methodology
- 28% of all companies have made changes in the last three years and 28% also plan to make changes in their forecast process, where the most common reasons for change are:
  ➡ Implement rolling forecasting
  ➡ Improve tool support
- Problem areas in context of achieving the forecast deadlines:
  ➡ Lack of coordination and communication
  ➡ Manual forecasting process
- There is no correlation between the total forecast process duration and the use of Excel or other EPM systems
- The use of EPM systems enables forecasting on a more granular level or higher frequency
- Forecasting of inter-company transactions slows down the speed of the forecasting process, but for many is essential

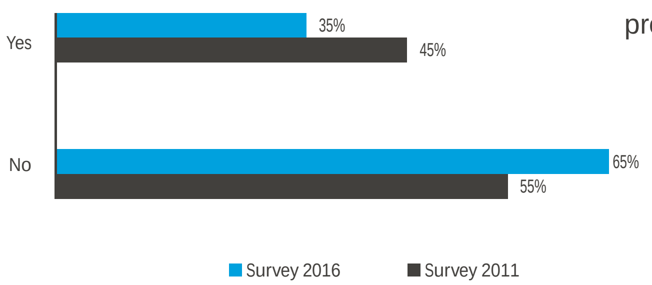


Figure 12
Forecasting beyond
the current financial year end

Consolidation

- Companies with an integrated process and aligned data model are much faster
- Companies with a strong focus on the close process and multiple process owners across the supply chain at Group, SSC and Business Unit level are 25% faster
- Groups closely monitoring the process quality are faster despite their scale
- 30% are under pressure to become faster
- Companies with flash reporting are 37% faster in routine management reporting, a shift from 2011
- Key problem areas in basics still comparable to 2011 ➡ manual input intercompany, late delivery, errors in business unit submissions

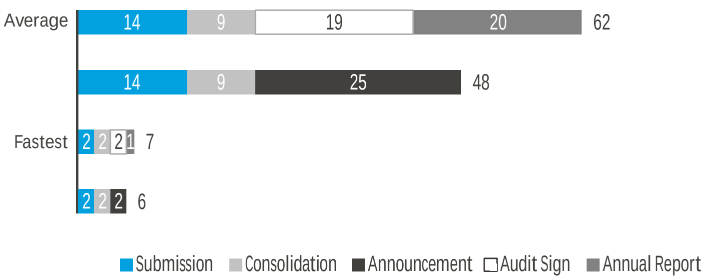


Figure 13
Days until annual results are announced

- Groups that use one standardized Chart of Accounts (CoA) instead of mapping their local CoA to the group CoA are 15% faster

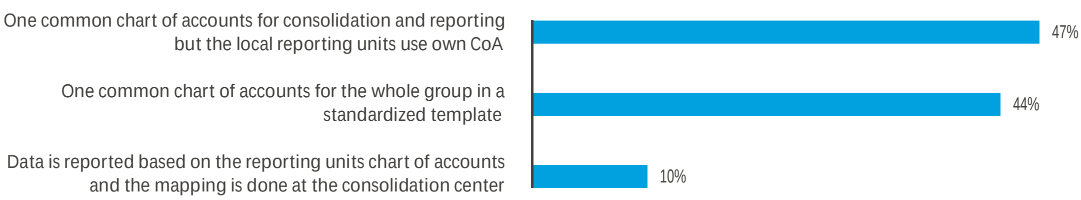


Figure 14
Implementation of the group chart of accounts

- Low value tasks still consuming too much time
- Intercompany process improving in comparison to 2011(86% little or a fair amount of time spent)
- Report production and delivery is still too manual (79% deliver pdf files to the top management and only 21% offer online analytical reporting)

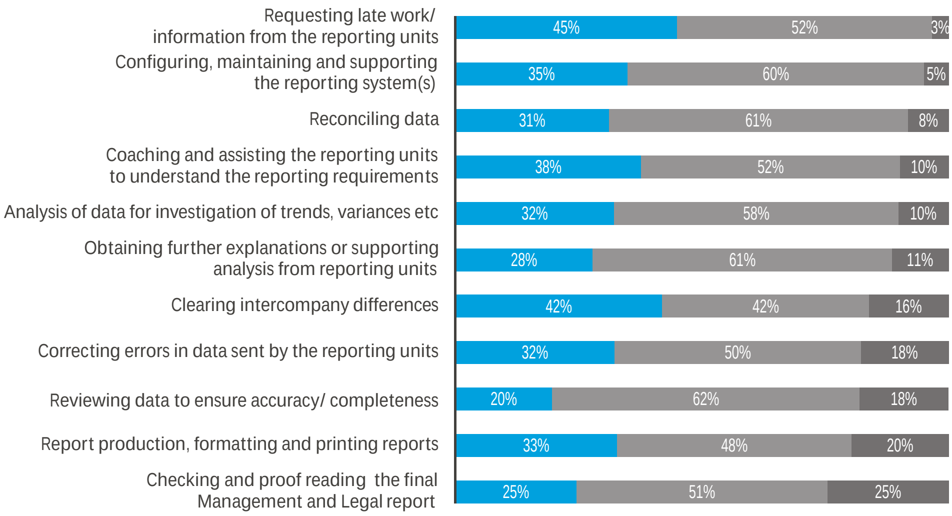


Figure 15
Consolidation
"how time is spent"

Analytics

- Nearly half of the participants (47%) acknowledge having identical data in different databases or data marts, 79% state that this has an impact on daily operational work
- More than 16% rely on more than one BI-vendor
- More companies outsource IT Infrastructure support than business support
- The "Bread-and-butter" functionality required is generally well covered by the BI systems in use
- Functions promoted by BI vendors especially Mobile-Reporting are not yet important to Group Finance Managers

Figure 16
Standards for Analytics (BI)
"Total company perspective"

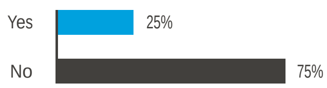


Figure 17
Standards for Analytics (BI)
"Group Finance perspective"

Systems

- There are still significant gaps between importance and coverage for key systems functionality
- Biggest gaps include interfaces to source systems, ad hoc analysis, flexible report writer, support for planning and forecasting

Figure 18
Systems in use for Budgeting

Use of system support for Planning & Budgeting

- EPM solutions are the most common tools supporting Budgeting
- 18% of companies using EPM solutions also use Excel to support some aspects of the process
- But, 36% of companies using GL to support budgeting also use Excel
- Excel use for budgets still common but proportion lower than in 2011

■ using both
■ other

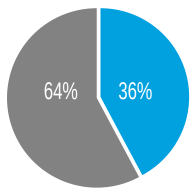


Figure 19
Using ERP tool and Excel

Use of system support for Consolidation

- State of the art consolidation tools offer specific functionality such as matrix consolidation and flexibility for scenario simulation for structures and currencies
- Other category mostly represented by Excel and other regional solutions

■ using both
■ other

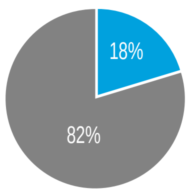


Figure 20
Using EPM tool and Excel

5 Coping with Changes

- EPM system performance is still a major obstacle to wider adoption
- Usability impacting end user adoption
- Legacy solutions continue to perform well for point EPM solutions
- More work is needed on the business case for EPM before projects start

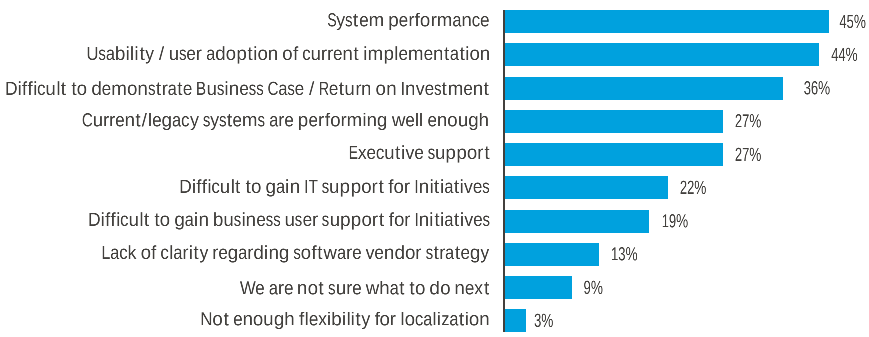


Figure 21
Top Adoption Challenges

- An integrated data model, standardization of processes in accounting and systems and better communication with the reporting units are the foremost important factors when it comes to improve the ability to cope with change
- Many see standardization as they key to coping with change but the challenges of implementing that are significant

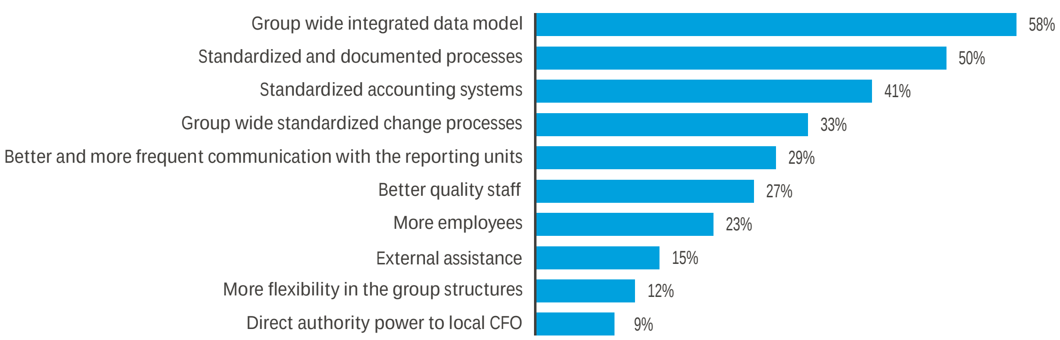


Figure 22
Key factors for coping with changes

6 Hot Topics for Group Finance

As an overview, the hot topic list selected by the EPM study 2016 participants includes strategic topics but also quite operational areas.

It is surprising that areas like optimising the close process, improving planning and budgeting and improving governance still need so much focus.

Driving down total cost of Finance: on top of the list for the first time since 2002, appears to be caused mainly by the ever increasing reporting requirements and the amounts of investment required for organisational development and systems.

Improving the financial planning and budgeting process: ongoing high level of dissatisfaction, key issues are duration, loops, systems and sometimes even increasing level of granularity

Operational excellence in Finance: still not achieved yet, it is key in all basic Finance processes such as accounts payable, accounts receivable, working capital etc., if you have not managed to resolve the basics you carry an ongoing burden.

Optimising the closing process: this topic remains on a high level. Obviously the increasing reporting requirements keep generating pressure for closing process improvement. In addition new organisational cross country and multinational setups for the Finance function are another challenge.

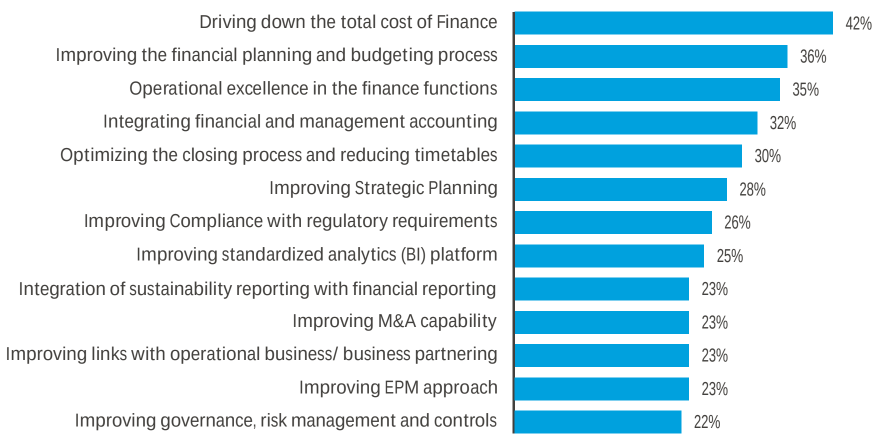
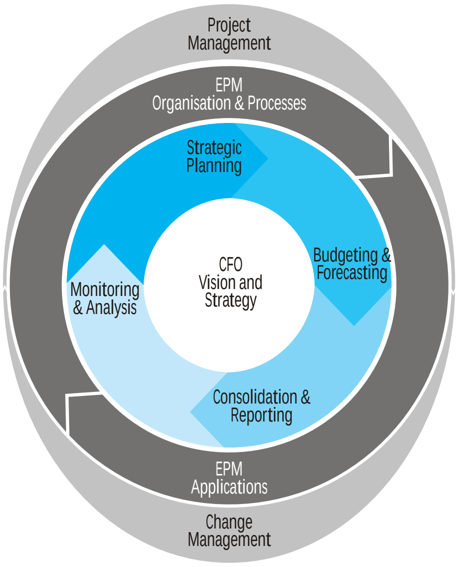


Figure 23
Hot Topics for Group Finance

7 About EPM International

Delivering Excellence in Enterprise Performance Management

EPM International is a leading provider of full life cycle services for Enterprise Performance Management (EPM). Our services range from defining leading edge performance management processes and an associated performance management roadmap through to project management, solution implementation and EPM application management services. The depth and focus of our EPM application skills are unparalleled and enable us to command a leading presence within the EPM sector. These EPM process and application skills are supplemented with financial management, information technology, sector expertise and finance process skills. It is this holistic skill set together with our passion for excellence, dedication and focus to our client's situation which truly creates sustainable value.



EPM vision covering all domains

EPM Process Transformation

Well implemented EPM adds significant value to a business. However, it is not an instant fix. To succeed EPM requires continual alignment, integration and improvement of processes and systems across an organisation. Technology is a great enabler but to succeed it requires alignment between people, process and systems. Then it can deliver sustainable value to an organisation. EPM International's approach is pragmatic, balanced between process change and technology enablement. Our skills can be applied to help you define a long term EPM strategy and business case for change and a clear road map of technology and process improvement. EPM International's capabilities within process transformation span multiple areas of performance management such as diagnostics in 'Fast Close', 'Better Budgeting' and ´Financial Services Regulatory Reporting´.

EPM System Implementation

EPM International provides a full life cycle service from design, to implementation, to rolling out across the organisation, educating staff and providing application management. This is done with deep and unparalleled expertise in all key EPM solutions from the major vendors. EPM International's proven EPM implementation methodology consists of flexible, interdependent work components that enable us to reduce risk, fast track the implementation process and control costs. It is built on a track record of partnership for success where we can blend our resource with your organisation's team to ensure effective transfer of knowledge and best practice throughout the implementation.

EPM Study Enterprise Performance Management 2016 and beyond

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Abbreviations

ALM - Asset Liability Management

Basel - Recommendations on banking laws and regulations issued by the Basel committee on banking Supervision

BD - Business Day

BI - Business Intelligence

BPM - Business Performance Management

BS - Balance Sheet

BU - Business Unit

CFO - Chief Financial Officer

CoA - Chart of Accounts

CPM - Corporate Performance Management

CRO - Chief Risk Officer

EPM - Enterprise Performance Management

ERP - Enterprise Resource Planning

FD - Finance Director

GAAP - Generally Accepted Accounting Principles

GL - General Ledger

GRC - Governance, Risk end Compliance

HR - Human Resources

IC - Inter-Company Reconciliation Process

INCO - Inter-Company

IT - Information Technology

KPI - Key Performance Indicator

OLAP - Online analytical processing, an approach to quickly answer multidimensional queries

P&L - Profit and Loss

RU - Reporting Unit

SCoA - Standard Chart of Accounts

Solvency - Regulatory requirements for insurance firms that operate in the European Union

WAN - Wireless Area Network

WEB - Web Easy Builder

2016 and beyond

EPM Study

Enterprise
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