Fluence Technologies

Finance's new strategic mindset

Why CFOs need to approach old challenges in a new way and the increasingly important role **financial consolidation** plays in organizational success

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Executive Summary

Almost across the board, modern finance organizations are striving to automate manual work to free up bandwidth for analysis and strategy. Very few are succeeding—and the traditional approach clearly isn't working.

Financial consolidation is a real pain point for many organizations and illustrates the need for finance leaders to adopt a new approach as they endeavor to fulfill their strategic mandate.

Few realize the strategic mandate

Modern finance organization are responsible for more than just accounting, audits, and compliance. They're now expected to serve as key business intelligence units and strategic partners in the company's trajectory.

Despite these widespread (and by now, long-held) expectations, less than a quarter of teams will rise to the occasion within the next three years. Many are held back by their outdated IT infrastructure and lack of process automation, which leaves highly-skilled professionals focused on manual data entry and manipulation rather than strategic value-add work.

The average corporate finance team spends about 80% of their time manually gathering, verifying, and consolidating data. There's a lot of room to improve—especially considering a recent McKinsey study, which suggest that over 60% of finance activities can be fully or mostly automated with just the technology readily available today.

90%

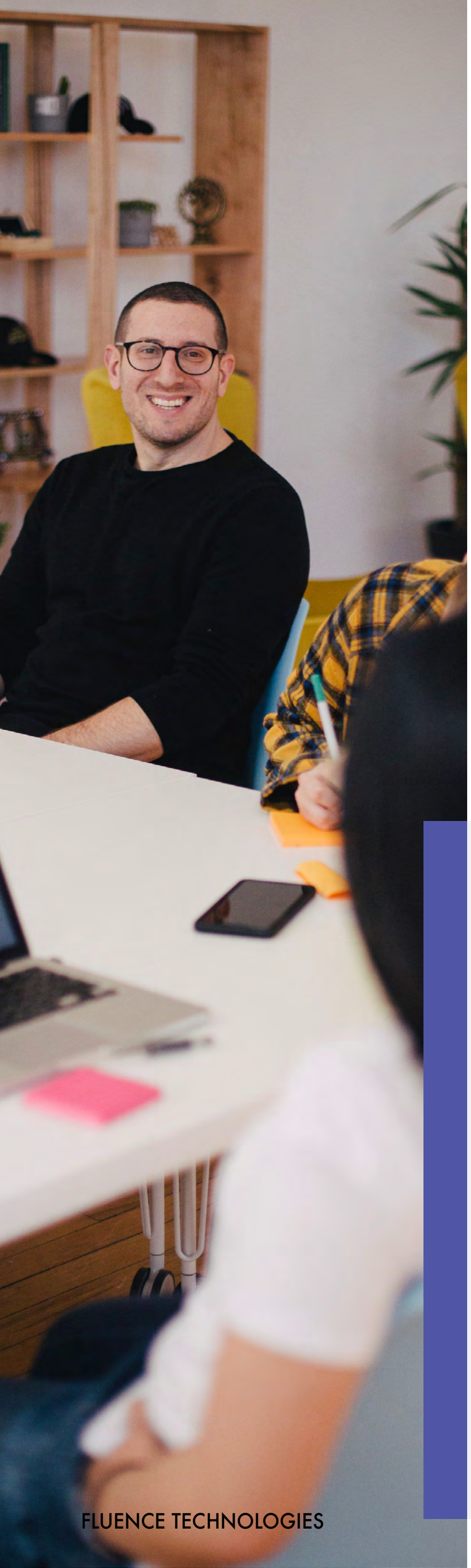
of executives want their finance organization to be a strategic partner to their company.[1]

Less than

25%

of finance organizations will evolve into a strategic partner role by 2023.[1]

[1] Ventana Research



Financial consolidation has always been technical, time consuming and tedious.

The fact is, corporations with multiple entities and currencies have to financially consolidate in order to close their books. While it's always been a labor-intensive process, it didn't present a problem in the old paradigm of the accountant as a tabulator. Today though, there is tremendous pressure to redeploy staff effort to more strategic activities and there simply isn't enough bandwidth to support manual inefficiencies.

While the world's largest enterprises benefit from highly complex, bespoke consolidation solutions, the vast majority of corporations take a more hands on approach that blends manual processes with piecemeal technology solutions. This time-consuming approach not only slows down decision making, but it also creates unreliable data that doesn't line up from system-to-system or period-to-period.

While consolidation inefficiencies or errors may have been manageable in the past, their effect on the organization has been compounded by increasingly complex corporate structures, growing demand for fast and accurate data, and tightening regulations.

This is why financial consolidation process improvement "ranks high on the agenda" for finance leaders looking to get in front of their strategic mandate.

DEFINING CONSOLIDATION

Financial consolidation is formally described as the process of rolling up financial data from multiple subsidiaries or entities into the parent company. In practice, consolidation is the linchpin that aggregates crucial numbers and gives a jumping off point for the corporate performance analysis expected from modern finance teams.

With dozens of calculations around intercompany eliminations, foreign exchange translation, and equity reconciliation, the consolidation process creates a single unified environment that combines data from numerous divisions, entities, geographies, currencies, ERPs, and GLs.

Done right, it gives users a multi-dimensional view into historical performance and provides a single version of the truth for forecasting, modelling and planning.

50-70%

reduction in the time spent on consolidation work when automated.*

76%

of CFOs say they require "one version of the truth" across business units to meet corporate objectives.**

[1] Vena [2] Accenture

Compounding factors are bringing consolidation process improvements to the top of the agenda.

Increasing complexity

Corporations used to maintain fairly streamlined organizational hierarchies with a concentrated geographic presence and an emphasis on organic growth.

That's changed a lot.

In the last 30 years, mergers and acquisitions have grown by almost 400%. Increasing globalization further complicates the picture by making it easier and more attractive for corporations to operate multi-nationally. For the majority of organizations consolidating manually, each additional entity, geography, or currency adds additional time to the process and presents an additional opportunity to make errors.

Demand for better, faster data

Corporations once aimed close their books in 20 days. Now anything more than six is a competitive disadvantage, and those truly leading the pack have started supplementing their formal period-based reporting processes with interactive real-time data.

Considering that consumer demand and market forces can change hour-to-hour, it simply doesn't make sense to base decisions on static month-old data anymore. Leaders are also losing patience with disagreements over numbers, with 76% of CFOs now saying that without "one version of the truth" across business units, their organization will struggle to meet its objectives.

Tightening regulations

Publicly-traded corporations face an additional hurdle in complying with accounting standards (U.S. GAAP and IFRS) as well as governmental and securities regulations. In addition to the myriad of deadlines and rules already on the books, finance professionals also need to stay-attuned to these ever-changing standards and figure out how to apply the theoretical rules to real-world scenarios.

The Sarbanes-Oxley (SOX) Act and other Internal Control over Financial Reporting (ICFR) programs have also become regulatory hot topics in recent years—now necessitating well-controlled and documented financial reporting systems and requiring senior officers to personally vouch for their quality.

Same goal, new path

The general directive has changed very little over the last decade or two—CFOs are still striving to automate low value tasks to free up time for strategic initiatives. Yet the traditionally proposed path to getting there has been largely ineffective.

Recent advances in technology, combined with rapidly changing markets have led forward-thinking CFOs to adopt a new approach in an old quest.

	Old Approach		New Approach
01	Eliminate spreadsheets from the consolidation process	→	Integrate, automate, and control spreadsheets
02	Build IT teams and focus on tech skill development	→	Rely on intuitive systems to redirect effort to strategy
03	Build rigid processes to solve specific problems	→	Respond quickly by using flexible processes with rigid controls

> “It's always interesting to challenge the way things are done and see what's really necessary. Just because something was done before doesn't mean it needs to be done again.
>
> For a lot of the processes that we do, we should challenge the cost-benefit and question whether or not everything we do is necessary or if there's a more efficient or simpler way to work.
>
> Stephen Hodes,
> CFO, Driftwood
> Acquisitions & Development

[1] The Economist

01

OLD APPROACH

Eliminate spreadsheets from the consolidation process

NEW APPROACH

Integrate, automate, and control spreadsheet usage

01

THE LOGIC BEHIND THE TRADITIONAL APPROACH

There is a long list of operational and regulatory reasons why standalone spreadsheets should be avoided for repetitive enterprise processes.

The risk of human error is high, data controls are low—and staff efficiency is even lower. With dozens of interdependent calculations, the consolidation process is particularly vulnerable.

Without a historical record or version control, small lapses in memory or inconsistencies in data can quickly snowball into material inaccuracies. What's more, frequent changes in statutory requirements and compliance regulations, coming from both government and industry bodies, make maintaining the required level of internal control using manual processes and standalone spreadsheets an almost unfathomable task.

It's no wonder that analysts, regulators, and finance professionals alike have been harping on the need to reduce reliance on spreadsheets for over a decade.

88%

of spreadsheets have undetected errors.[1]

[1] Forbes

8 problems with using spreadsheets for financial consolidation

1. Poor audit trail
2. Inconsistency of data
3. Insufficient data protection
4. Significant error and control risks
5. Insufficient follow-up of controls and complex formulas
6. Low level of automation
7. Manual validation and control of package data
8. No ledgers and predefined statements

[1] EY

WHY WE NEED A CHANGE

Even with the downsides, more than 50% of finance teams still rely spreadsheets for their close-to-reporting process.

Spreadsheet familiarity and affinity is part of the puzzle. Wall Street Journal even published a piece titled "Finance Pros Say You'll Have to Pry Excel Out of Their Cold, Dead Hand" in response to leaders calling for its retirement.

But preference alone doesn't tell the whole story. Finance teams rely on spreadsheets because of gaps in their processes and systems that make it either inefficient or impossible to complete consolidation tasks any other way. Even when new systems are introduced, professionals often default back to spreadsheets because of the flexibility they provide in modeling a-hoc scenarios, amending rules, and responding to changing reporting requirements.

01

THE NEW APPROACH

Rather than look to eliminate spreadsheets all together, leading finance executives are equipping them with all the controls, automations, and safeguards that are built into traditional heavy-weight consolidation platforms.

According to leading industry analysts, only about five vendors actually provide a complete cloud-based financial consolidation engine—and every single one includes a proprietary front-end finance grid that allows users to interact with and manipulate the data. But why reinvent the wheel?

Leveraged as a window into consolidation source data, Excel gives finance users the familiarity and flexibility to respond to quickly changing internal and external demands without resorting to poorly controlled workarounds. From an operational perspective, this is just as efficient, accurate, and compliant as a traditional system.

The key difference is that using Excel allows solution providers to cut a large portion of their development budget and bring consolidation solution costs down from their traditionally-lofty six-to-seven figure price tag.

54%

of finance teams still use spreadsheets in their close-to-report process.[1]

[1] Ventana Research

02

OLD APPROACH

Build IT teams and focus on tech skill development

NEW APPROACH

Rely on intuitive systems to redirect effort to strategy

02

THE LOGIC BEHIND THE TRADITIONAL APPROACH

Manual consolidation is time-consuming and high in risk, but adopting new technologies and processes has its own set of challenges.

New solutions require new skillsets and new investments. In response, more than half of corporations now have a finance-specific IT team charged with automating and optimizing financial processes for efficiency, compliance, and security. This strategy has proven its effectiveness. In fact, corporations with Finance IT are 60% more likely to report being very satisfied with their strategic and long-range planning process—which is the end goal, after all.

The demand for new skillset isn't confined to the IT team. Finance users are also being pushed to develop skills directly related to new technologies because—as EY Global Performance Improvement Finance Leader, Tony Klimas, points out—"CFOs must also remember that the success of any technology greatly depends on the skills of the people using it."

WHY WE NEED TO SHIFT TO A NEW APPROACH

Finance departments need new tools to be more effective, and these tools require specialized skills to implement and operate.

Selecting tools that have a high skill barrier can be problematic. Firstly, driving cost efficiency is the number one goal of automation for nearly 70% of finance executives and for many of these cost-conscious leaders, setting up a specialized Finance IT team simply isn't feasible.

Beyond cost issues, IT skill development takes away finance staffers away from the strategic mandate behind new technology adoption. Instead of redeploying their time and effort from data collection and validation to analysis and interpretation, they're now occupied mastering and managing the new technologies.

This is especially painful whenever there is staff turnover. There is a well-documented shortage of qualified accounting professionals, and even the best among them are unlikely to have experience with the specific (often highly bespoke) solution eco-system at hand.

59%

of corporations now have a finance-specific IT team.[1]

68%

of finance leaders say driving cost efficiency is the number one goal of automation.[2]

60%

increase satisfaction with the strategic and long-range planning process with a finance-specific IT team.[3]

[1] Ventana Research [2] EY [3] Ventana Research

02

THE NEW APPROACH

Forward-thinking leaders are already seeking out more user-friendly solutions that can be both implemented and mastered in weeks, instead of the usual months or years.

In addition to being more cost-effective, this approach also frees up staff bandwidth for the proactive and analytical work needed to gain competitive advantage.

First and foremost, a consolidation solution needs to be owned and operated by finance. Not only are IT requests inefficient, but they also create roadblocks to deep strategic work. Users should be alerted to new tasks in real-time. Managers should be able to customize workflows and check status at a glance. Data manipulation tasks should be done in familiar tools.

These days, consumers can build a website, trade securities, and integrate platforms without technical domain expertise. It's not unreasonable to require a consolidation platform that finance users can grasp just as intuitively.

> If I were advising a teenager on what to study now, I would recommend they learn IT and digital skills. But for the generation being born now, the skills needed when they enter the workforce may be different. Many jobs that are done today will be largely automated. However, the interpersonal and strategic skills that technology cannot replace will be more in-demand than ever.
>
> Richard Baker
>
> EY Thames Valley and South Markets Leader, UKI[1]

[1] EY

03

OLD APPROACH

Build rigid processes to solve specific problems

NEW APPROACH

Respond quickly by using flexible processes with rigid controls

03

THE LOGIC BEHIND THE TRADITIONAL APPROACH

Until very recently, finance operations had no choice but to revolve around rigidly-defined cycles and timelines

In large part, because of limitations in technical capabilities and data processing power, corporations deferred to carefully-choreographed arrangements of deadlines, checks and balances, and KPIs to increase efficiency and properly manage risk.

Naturally, many corporations looking to improve efficiency, transparency, or compliance still aim to develop iron-clad processes for consistent input and output. Regulators across the board are also calling for additional process documentation requirements.

More broadly though, it's also much simpler to introduce automated steps into highly-established cadences than to build out the complex logic needed for responsive and on-demand intelligence.

81%

of finance leaders report that they're preparing for an increasingly volatile future.[1]

57%

of executives already rely on live data to direct business decisions.[2]

[1] Accenture [2] Adobe

5 factors with the strongest influence on corporate finance strategy[1]

1. The competitive dynamics of my industry
2. The growth of my industry and total addressable market
3. The global economic situation
4. New technologies' effect on my industry
5. Changing consumer preferences

[1] The Economist

WHY WE NEED A CHANGE

Rigid processes are effective at solving specific (and sometimes very complicated) problems, like getting a man to the moon or reduce time-to-close.

But they can't possibly account for the complex and quickly changing needs of the insight-driven finance organization.

Leaders don't know exactly what problems they're going to need to solve in the coming months and years, but they know to expect the unexpected. Business models used to be quite fixed and new ventures had long lead times and consideration periods. Now, products can be introduced in hours, customer demand can change on a whim, and M&A opportunities can appear and disappear seemingly overnight.

The rate of change is only expected to accelerate, and more than three quarters of CFOs say they're preparing for an increasingly volatile future. Traditional process creation can't answer questions or respond to market need that haven't yet been identified.

03

THE NEW APPROACH

The recent market uncertainty highlights the need for financial organizations to be nimble and responsive.

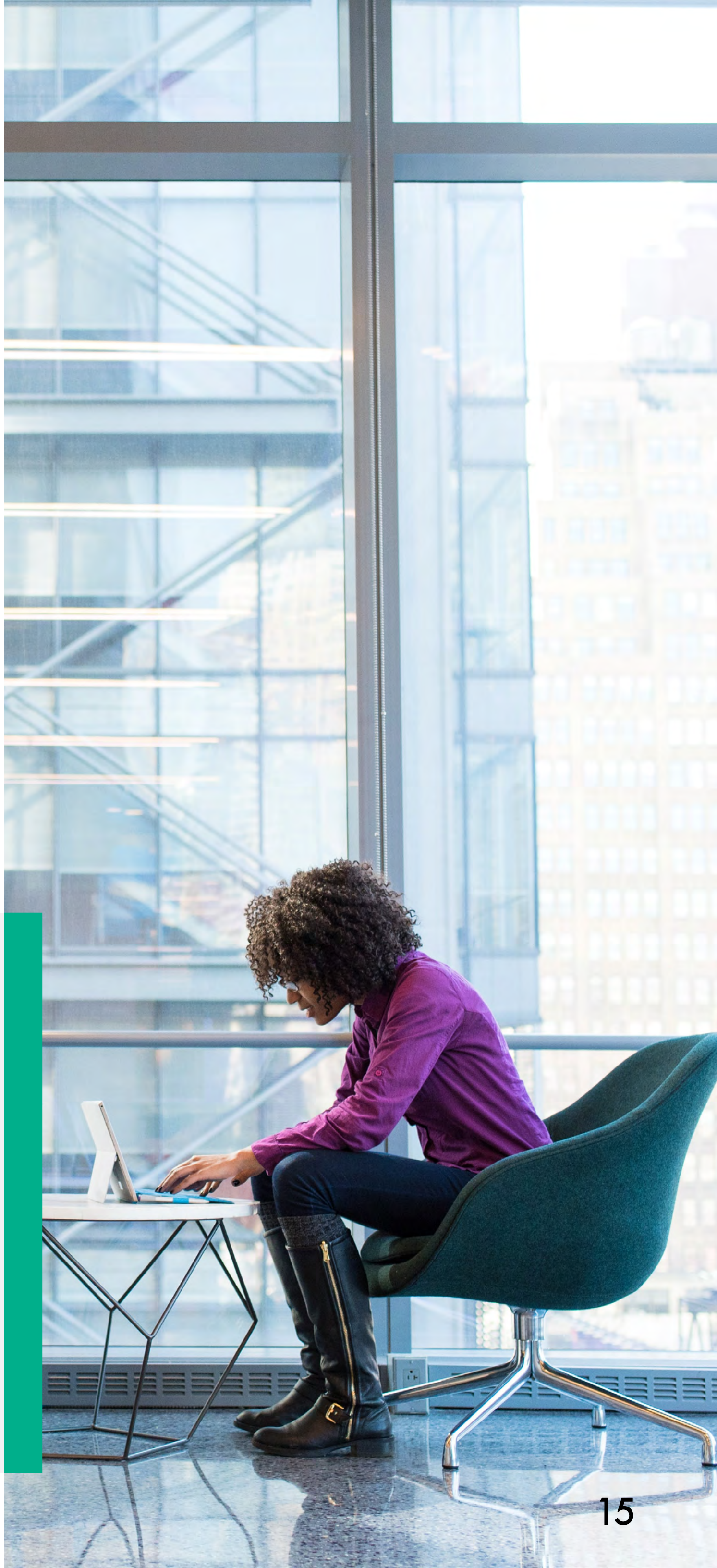
Accuracy and compliance are more crucial than ever, but corporations overly-bound by standard processes have suddenly found themselves reacting to an outdated reality.

On the other hand, market leaders rely on flexible workflows and automations over traditional deadline-driven processes. As a result, they have quickly adapted to the new normal reconfiguring workflows, pivoting to weekly, or even daily, cash flow statements, and re-modeling scenarios to find new operating efficiencies.

Instead of relying on iron-clad processes, finance teams need an agile infrastructure that gives them efficiency, transparency, and control—even in never-before-seen use cases.

> Complicated systems are usually designed to achieve a specific end. However, you would make a big mistake if you tried to manage a complex adaptive system like a complicated system.
>
> There are too many unknowns and interrelated, adaptive actors to govern with rigid, command-and-control rules and processes. You cannot rely upon the same input to produce the same output.
>
> Brian Johnson
> Deputy Director, Consumer Finance Protection Bureau[1]

[1] CFPB



Growing implications

Recent market uncertainty has forced many financial organizations to test their agility and efficiency by transition to from monthly to weekly (or even daily) cash flow reporting and forecasting.

Under more predictable conditions, corporate leaders focus on period-based profit and loss, without much concern for the timing of payables, conversion of receivables, or other standard operations. Now, incoming and outgoing cash flows have been put under a microscope, and executives are looking for daily updates on performance and outlook in order to make decisions. As a monthly exercise, manual cash flow consolidation is cumbersome. As a daily task, it's entirely untenable.

Corporations with flexible processes and intuitive systems have been able to adapt to this **new normal** much more comfortably than those holding on to a more traditional and rigid approach.

Automation

They automate data collection and adjustment so that reporting frequency can scale up without superhuman staff effort or compromised accuracy and control.

Flexibility

They give finance users control over processes and don't require IT involvement to make changes to workflows, templates, or other operations.

Usability

They use Excel as front-end finance grid so that staff have the familiarity and flexibility needed to respond to quickly changing internal and external demands.

Connectivity

They connect the dots between systems so that reporting, analyzing, and forecasting all roll into one seamless process.

The Fluence Financial Consolidation Solution

EASY TO USE / LOW COST / FAST TIME TO VALUE / PROVEN TRACK RECORD

Specifically designed to support the constantly evolving needs of modern finance organizations, Fluence lets you deliver financial statements in record time with out of the box workflow and a dynamic calculation engine.

It eliminates the learning curve by using Excel as a window into your data, reduces reliance on IT with a no-code interface and intuitive design, and provides the control, automation, and logic needed to meet new challenges head on.

As an intuitive out of box solution, Fluence can be implemented completely remotely and be fully operational in a few short weeks.

Learn more now >

Fluence is purpose-built for finance teams that want cutting-edge efficiency and enterprise-caliber data, without the overhead traditionally associated with consolidation systems.

Data
Seamlessly import financial and operational data from multiple systems and entities

Calculations
Automate foreign exchange, intercompany eliminations, equity reconciliations, and other consolidation processes with a dynamic calculation engine

Excel
Leverage Excel to analyze data, build reports, and meet changing objectives without IT involvement

Alignment
Use version controls, overwrite safeguards, and audit tracking to maintain a single version of truth

Workflows
Keep processes moving with dynamic out of box workflows

Portal
Let staff manage their task load from a dedicated web portal

Autonomy
Configure processes and assign tasks from an intuitive no-code manager portal

Compliance
Automate compliance with internal and external standards, including U.S. GAAP and IFRS

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