

New Tools *for* New Times

Can your financial systems keep up with your changing business?

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As the world economy emerges from a sustained economic downturn, the outlook for growth at the firm level is mixed. Many companies in industries such as health care, technology, and financial services are clearly on a path to renewed growth and profitability. Others are regaining their footing—most notably, the U.S. automakers, whose limited recovery is surely a victory for an industry segment that seemed to be at death's door two years ago. And, of course, some sectors—such as residential and commercial construction—are still struggling amid low demand and high real-estate inventories. While the brisk growth in GDP that will be required to bring back full employment is unlikely in the near term, it seems clear that the worst of the downturn is over.

Companies throughout the economy are likely to have opportunities for top-line growth in the next several quarters. But to take advantage of these opportunities, firms and their finance teams will have to master an economic and competitive environment that has been altered by two years of recession, disruption, and retrenchment. The downturn has given buyers greater power over their suppliers. But these market dynamics have also forced companies to compete more fiercely for customers' business. Markets for inputs—that is, for commodities, energy, labor, intermediate goods, and business services—have been disrupted, and as a result they are often more variable and uncertain. Recent excesses in many areas of commerce have brought about a new era of regulation, as financial regulators, taxing authorities, environmental overseers, and other state entities are bringing new levels of scrutiny to business activities. While every firm's situation is unique, companies across industries share an overarching need for agility in this new environment, which places greater demands on finance departments first to master vast amounts of business performance information and then to make or support decisions to take advantage of new opportunities and avoid risks.

Despite the fragile recovery, not all this news is dire. In a May 2010 survey by CFO Research Services, covered in the forthcoming *The Risk Management Imperative*, finance executives indicated a shift in their priorities from cutting costs to increasing sales. While 61% of senior finance executives reported that for the past two years their company's main focus has been on controlling costs, 62% say for the next two years their focus will be on identifying new growth opportunities, such as developing new goods and services or expanding into new markets. The uncertainty of the "new normal" business environment demands that companies have robust capabilities to adjust their resource allocations, in less time and in response to a greater range of scenarios. The increased information needs of internal and external stakeholders—including

investors, regulators, lenders, and customers—calls on companies to have systems in place that increase transparency and speed, so that forecasting and actual performance information is ready upon demand.

Our research among finance executives indicates that they are responding to this growing information need. More than half the respondents to a 2009 CFO Research survey, *IT Spending Decisions in Challenging Times*, said that improving their performance monitoring and their planning, budgeting, and forecasting capabilities would be "very important" for their companies over the next two years. (See Figure 1.)

Figure 1. Finance executives call for improving performance monitoring and business planning capabilities.

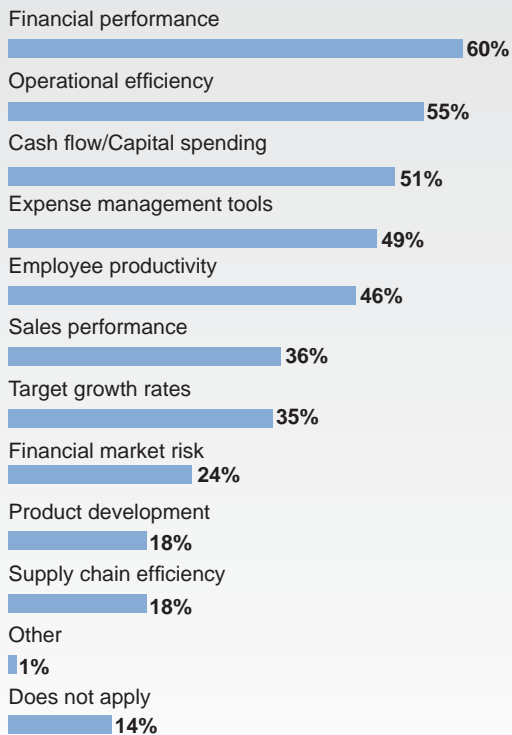
In your opinion, how important will it be for your company to improve its ability to produce the following types of business information over the next two years?



Because the business climate is so volatile, companies cannot wait until a project or a financial reporting period is complete to make sure it is on target and gauge its performance. Only by making timely, relevant, and accurate comparisons between what was expected and what is actually happening can they make the necessary course corrections. Many companies find it difficult to meet these demands because they lack high-quality information. Forecast and budget quality can be improved by adopting dynamic, automated processes and involving stakeholders across business units. Forecast and budget quality can be addressed by many different systems, from those tailored to smaller companies to enterprise-wide systems for use by the largest global corporations. And such systems are often tools that allow its collaborators

Figure 2. Companies adopt new metrics for financial and operating performance.

In response to the current economic conditions, has your company already created, or considered creating, new metrics or measurements for performance improvement in the following areas?



Percentage of respondents

throughout the company to work more effectively. While companies are still hesitant to make major capital outlays, most understand the need to sustain and improve critical IT systems that are used to navigate growth. Indeed, in a 2009 survey *Controlling Cost in a Crisis*, 69% of U.S. finance executives said that it was very important to sustain their spending on information technology.

While well-deployed technology can assemble information and support analysis, a forecast is only as good as its underlying data and the thinking behind it. In order to provide better, more useful information, finance must do even more to work effectively with line of business and

Sponsor's perspective

Corporate Performance Management has become an integral part of running a business in Global 2000 firms. Larger, more complex businesses are by nature more difficult to manage and plan. As a result, many of these firms have already moved to a dedicated performance management solution. The recent economic uncertainty has highlighted the need for such a solution in all firms—small to large.

It is important to track corporate and financial performance for several reasons, as outlined in this paper, and several benefits may be realized by doing so, such as:

- Using current or past performance as the basis for future plans and targets
- Developing multiple business scenarios
- Providing proactive visibility on corporate performance to stakeholders
- The ability to react more quickly to market conditions based on performance

functional management. These are the people who are able to identify critical information and trends, and they're the ones who will use forecasts and budgets to manage day-to-day business activities. One indicator of companies' renewed commitment to improving the quality of their information for use in planning, budgeting, and forecasting emerges from *Controlling Cost in a Crisis*, CFO Research's 2009 study in which we found widespread adoption of new metrics for business performance. Fully 60% of U.S. finance executives responding to this survey have already created or are creating new metrics to improve their measurement of financial performance, and a majority have or will create new measurements of operating efficiency and cash flow. (See Figure 2.)

Companies adopt new metrics and better systems in an effort to make better, more informed decisions. And while satisfying reporting requirements is essential, using forward-looking information to improve business performance is perhaps a higher goal. For example, prices at a U.S. brass fabricator have always been sensitive to the cost of copper, one of its primary inputs. The company has found that if it moves to adjust its prices shortly after a rise in copper prices becomes public, customers are more willing to accept increases. "The cost of copper is rising dramatically. Let's say the latest increase gets a headline in the *Wall Street Journal*. If we announce a price increase shortly after that headline appears, customers are more accepting," says the company's CFO. "By the time we get the increase into the marketplace, the cost is very real to us," he explains, "but if we don't move when the headline that supports the increase is current—if we were to hold on for, say, another three months, until we have absolutely no choice but to raise prices—there is no headline, and [customers'] acceptance is far less agreeable."

High-quality information is, of course, at the heart of any business performance management regimen, and finance executives consistently say that they aspire to improve their performance monitoring and business planning capabilities over the next several years. Technology is one important component of such improvement campaigns. Relevant and accurate metrics for financial and operating activities are another, and many companies have adopted new metrics to measure their performance in their new operating environment. By doing so, they seek to provide the insights companies will need to prevail in this reluctant recovery.

In addition to the aforementioned benefits, using a dedicated solution to forecast, plan, budget, report, and analyze corporate and financial performance provides the additional benefits of saving time during planning, reporting, and forecasting, involving stakeholders, and increasing buy-in from line managers and executives. These solutions allow the finance department to add further value by delivering self-service analytical capabilities.

About PROPHIX

PROPHIX Software is a leading developer of solutions designed to automate financial processes including budgeting, planning, reporting, analysis, and performance management. Thousands of small to large organizations around the world use PROPHIX to empower their organization and gain greater insight into business performance. PROPHIX and its partners deliver the best value by combining high-end functionality, low total cost of ownership, and the fastest implementations in its class.

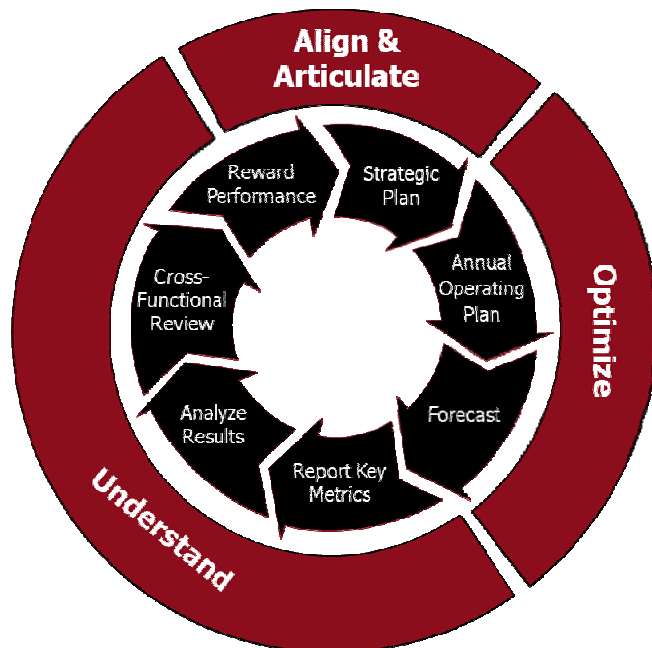




Abacist Group is a Management Consulting firm focused on Corporate Performance Management. We are a value-added re-seller and implementation partner for Prophix Software.

Our clients realize that a strong foundation in Corporate Performance Management (CPM), Planning & Analysis provides them with a competitive advantage. However, most companies lack the fully-realized triple-play of possessing the right tools, processes and people. Abacist Group helps clients rapidly gain CPM acuity through building and implementing CPM tools, optimizing Corporate Planning & Analysis business processes, and ensuring that the client's human talent possesses the right skills & knowledge to execute their CPM vision. If a client lacks the capacity to realize their vision fully using internal talent, Abacist Group has deep CPM operating experience to help augment the client's efforts with Interim and Fractional Staff as well.

We believe your Corporate Performance model should follow a closed-loop process.



Abacist Group has helped clients implement CPM software like Prophix, re-engineer Financial Planning & Analysis processes, employ CPM best practices, and build many Planning & Analysis tools.

We count many premier companies among our clients including the following:

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- Dr Pepper Snapple Group
- Hostess Brands
- Frito-Lay
- Gentiva Health Services

To learn more about why these clients and many more have leveraged Abacist Group's services, please contact us:

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