MODERN FINANCE IN THE DIGITAL AGE

PLAN AND PREDICT
BEST PRACTICES

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Introduction

Gartner calls them the "Nexus of Forces." **IDC** says they constitute the "3rd Platform" for innovation and growth. No matter how you define it, cloud, social, mobile, and big data are changing the competitive dynamics of the global economy and creating significant value for companies that know how to create business models leveraging these technologies.

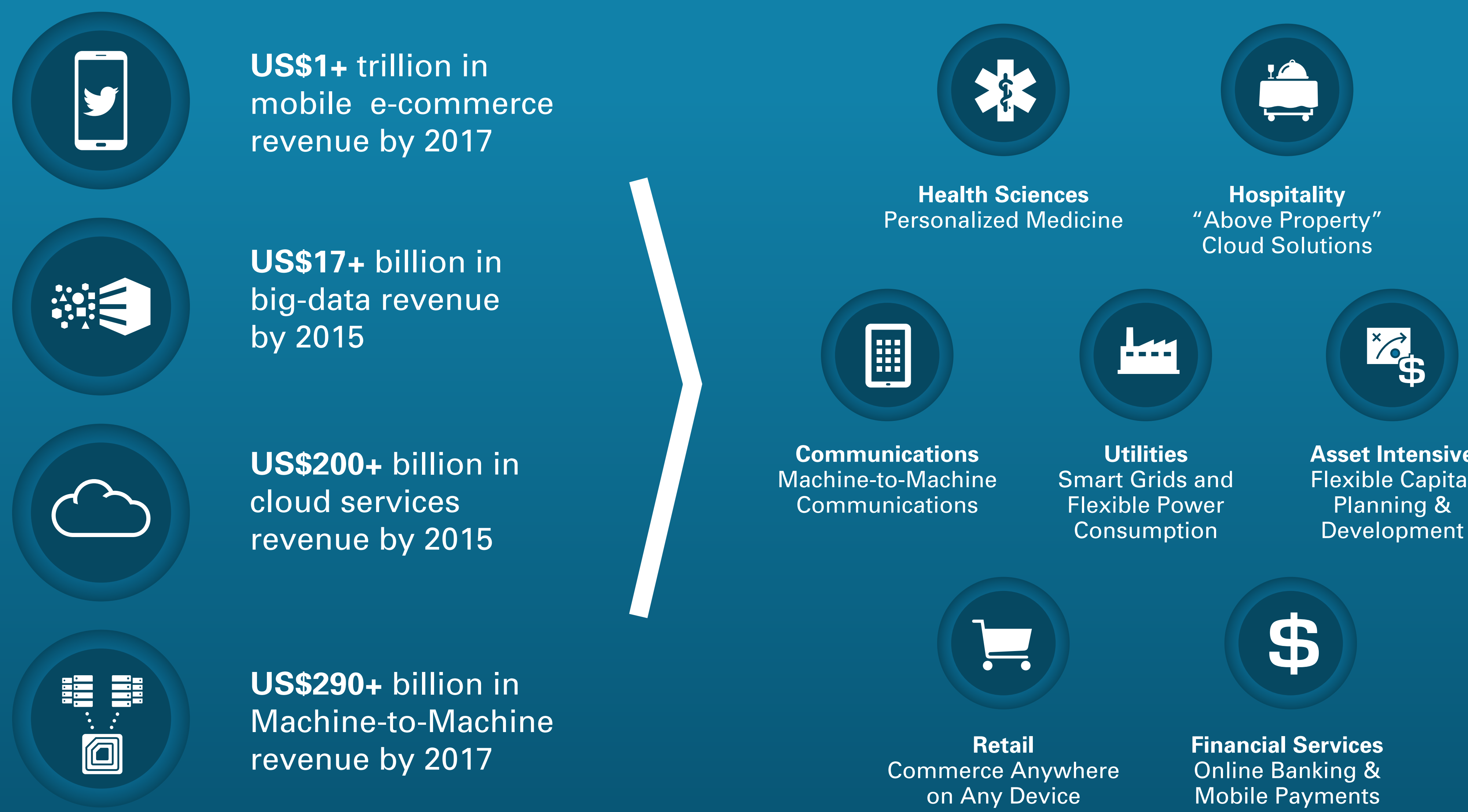
According to new research by **Deloitte** and **OpenMatters**, the shift to digitally enabled business models is also influencing shareholder valuation strategies.[1] Investors are paying more for companies with business models that embrace and emphasize "intangible assets"—customer, human, and intellectual property—and leverage the wisdom of crowds to co-create products and services. The historic method of value creation matters less in today's digital age: tangible assets, including plants, property, equipment, and financial assets, now constitute just 20 percent of total corporate value on the S&P 500, compared to 80 percent in 1975.[2] CFOs who continue to allocate their company's capital to tangible assets using previous generations of technology are putting their company's management and shareholders at serious risk, generating lower levels of performance and enterprise value than digitally and big-data-savvy CFOs who are spending their organizations' resources on building and mining intangible assets powered by today's technologies.

"By 2018, one third of the top 20 market-share leaders will be significantly disrupted by new competitors that use the 3rd platform to create new services and business models."

—IDC Predictions 2014

[1] Libert, Barry; Ribaudo, William J.; and Fenley, Megan Beck. "CFOS; Embrace Digital or Put Your Company's Future at Risk," CFO Journal, Wall Street Journal Online, July 28, 2014.
[2] Ibid.

Impact of Digital Technologies
Transforming How Industries Create Value



"We believe that the shift to digitally enabled business models is very much a CFO issue and opportunity. First, CFOs are the stewards of corporate value; they have the finance background and understanding of market valuation of business models that is needed to comprehend the long-term implications of different business models. Second, they can act as catalysts of business model change due to their understanding of finance and growing oversight of IT strategy and investments. And most importantly, digital transformation provides CFOs with a significant opportunity to be leaders and strategists by rebalancing their investment portfolio into intangible assets that can help create more sustainable, valuable business models."

—David Pleasance, senior partner, Deloitte Consulting LLP

Not surprisingly, change on this scale has produced new tensions as the C-suite attempts to prioritize competing initiatives to support a more customer-centric approach to business, and meet the growing demands of social-media marketing and an apparently inexhaustible clamor for data. It is becoming increasingly apparent that if organizations are to successfully navigate the challenges of the Digital Age, then the roles of the CEO, CFO, CMO, and CIO must coalesce around a new model of collaboration with the acquisition, maintenance, and consumption of data at its core.

Forward-looking CFOs understand these changing dynamics, and are moving quickly to create modern, technology-enabled finance organizations better equipped to support more agile, digitally enabled business models and stronger C-suite collaboration. They recognize the need for new rules to measure, manage, invest, and report on changing sources of corporate wealth, and the demand for new finance best practices to benchmark the performance of their organizations in key processes that can drive value creation and organizational excellence. CFOs who master digital transformation are not only helping fulfill their mandate as the stewards of corporate value, but also placing themselves in a better position to potentially assume the CEO role when the time is right.

This research identifies the new best practices of modern finance organizations in five key processes critical to any finance function:

- **Report and Comply**
- **Measure and Respond**
- **Plan and Predict**
- **Procure to Pay**
- **Project Financial Management**

The research also examines how modern CFOs are adopting new best practices in **Change Management** and new ways to measure **Return on Investment** (ROI) in digital technologies to modernize the finance function.

"The CFO is the glue that brings everything and everyone together. In that role, you are the collaborator and the alignment person with the other C-suite executives to make sure that there are no gaps in strategy, in decision-making, in execution. No one else can really touch all the parts of the enterprise the way that the CFO can."

—Keith Kravcik, EVP and CFO, Ovation Brands

Plan and Predict Best Practices

The Plan and Predict Process includes:

- Strategic alignment
- Scenario planning
- Mergers and Acquisitions (M&A)
- Forecasting
- Planning and budgeting
- Tax provisioning

What's changed in the Digital Age?

Long-range planning is the formal quantification of the more conceptual strategic plan. It makes specific assumptions and expresses in numbers how a company expects its strategy will play out over time. Companies use long-range planning to determine the best strategy for succeeding in their markets and to ensure they have assets needed to support their strategic objectives.

Traditionally, planning was done by finance with complex spreadsheets using data from on-premises ERP systems. However, in today's competitive global economy, finance must collaborate with Marketing and Operations in the planning process, using unstructured data from social-media sources as well as the structured data on site. Because of the extensive collaboration required, reliance on complex spreadsheets is giving way to digital technologies like new planning and budgeting cloud services, and the process is being streamlined with mobile collaboration.

"An advantage of the cloud is that it can be used to leverage the planning, budgeting and forecasting processes," explains Gary Simon, group publisher, **Financial Systems News Publishing Limited (UK)**. "The cloud is scalable, so it can provide more capacity and encourage more participation. It provides a more malleable environment."

"Historically, finance has been the recorder of history. Now, finance is leveraging the power of information to predict events, accelerate decision-making, and create more agile organizations."

—David Pleasance, senior partner, Deloitte Consulting LLP

The following best practices can help you modernize your Plan and Predict process:

1. Replace complex spreadsheets with modern planning applications
2. Drive planning across the enterprise, and exploit the "wisdom of crowds"
3. Adopt driver-based rolling forecasts

#1 BEST PRACTICE

Replace complex spreadsheets with modern planning applications

Finance needs modern, packaged planning applications that get away from disconnected spreadsheets and support users in the ways they work. Look for modern functionality, such as mobile and social collaboration that makes it easy for business users to interact and provide input. If the planning application is fully integrated with office tools such as Microsoft Office or Google Office, it will allow users to work with the tools they need to get their jobs done more effectively and focus on the most strategic activities.

Empowering employees with modern planning applications to be more strategic is what drove former **Hyatt** CFO Gebhard Rainer to upgrade to the latest version of the company's planning and budgeting applications as part of Hyatt's "Project Unify" finance transformation initiative. "I would say the overriding objectives for us have been (and still are) first: gain more efficiencies around how we plan and predict; and second: apply that process and the tools that are available to free up time for people to become as strategic as possible in their thinking.

"Before, it was literally spreadsheet hell, where very complex spreadsheets and models were created, but outside of the creator himself, nobody understood what was going on," Rainer recalls. "And if you had one mistake somewhere, it was almost impossible to trace or to track and to find out, and it always was impossible to really effectively consolidate. So it is as much about changing the mindset of people on how we look at planning and predictability modeling as it is about gaining efficiencies and becoming more effective in the way we look at business."

Today, Hyatt uses a dashboard approach to consolidate metrics that track how finance, marketing, HR, supply chain, and other lines of business are executing against the five strategic priorities defined by Hyatt's leadership team as guiding principles for success. "We use the planning dashboard across all of Hyatt to understand how we are fostering customer preference in five key areas," shares Rainer. "One is talent and reputation, the second one is brand and innovation, third is hotel profitability, fourth is corporate resource efficiency, and fifth is on growth and capital strategy. The dashboard helps us stay on track in creating preference in each of those areas."

#2 BEST PRACTICE

Drive planning across the enterprise and exploit the "wisdom of crowds"

One way organizations are achieving agility is to get more business users involved in their planning processes and building financial plans based on operational intelligence from various lines of business. It is widely recognized that line-of-business managers ›

› and operational staff need to be actively involved in planning and forecasting, as they have the knowledge and a detailed understanding of what is actually happening in the markets where they operate. Such operational information is vital if organizations are to develop financial plans and forecasts on which they can predictably deliver. This practice is often described as tapping into "the wisdom of crowds". The resulting scenario is a large volume of users across many lines of business developing financial plans based on detailed operational plans, using large amounts of information, and thus demanding higher performance and scalability from the planning systems.

Driving planning across the enterprise can also be enabled by modern, cloud-based applications with the latest embedded mobile and social technologies. Obtaining the input and intelligence of line-of-business managers becomes much more feasible with a cloud-based model that can be easily and flexibly rolled out across the organization.

dunnhumby's Clare Swindell explains why engaging others in the planning and budgeting process was an important factor in the company's decision to go with a cloud-based ERP and Planning and Budgeting service.

"So today we've got accountability at senior market leader level, but they're not able to push that accountability down easily into the organization," Swindell notes. "With the services and applications that we've bought, we expect to be able to put budgetary responsibility into the hands of the entire organization."

Brazilian ATM provider **Tecban** is another fast-growing company that is turning to a cloud-based planning and budgeting service to strengthen its ability to manage growth in the most efficient way. The São Paulo-based ATM provider handles electronic finance transaction capture, integration, and administration services for more than 40 banks that include Brazilian financial giants Banco do Brasil, Caixa Economica Federal, Itau-Unibanco, and Bradesco, along with the local subsidiaries of international powerhouses such as Citibank, Santander, and HSBC.

Tecban's value proposition to the banking consortium has always been one of delivering cost and productivity efficiencies by operating a network of ATMs located off premises. Recently, Tecban was asked to take on the off-premises servicing for most of the national ATMs currently operated by the seven major banks in Brazil. This will catapult Tecban from its current position as the world's sixth-largest ATM service provider with 17,000 ATM locations in Brazil, to the third-largest worldwide, with 30,000 national locations by 2020.

"We've experienced double-digit growth over the past seven years," notes Tecban CFO Marcelo Gomes. "We were limited to what we could do with Excel. We want ›

› to speed up the planning and budgeting process, and adopt a rolling-forecast model to run scenarios more quickly and ensure that we continue to provide a cost-effective service to our consortium members that operate across Brazil." Gomes and his team opted to go with a Tier I cloud-based planning and budgeting service to speed up the delivery of the analytical tools they needed to support Tecban's new growth opportunity with the consortium.

The decision initially met with some resistance. "When I first told our IT team that we wanted to implement a cloud-based planning and budgeting solution, they were concerned, given the sensitive nature of our work with financial institutions and physical security issues in Brazil," recalls Gomes. "After we showed them the security, flexibility, reliability, and rapid implementation we were going to get with the new cloud solution, they were quickly convinced."

#3 BEST PRACTICE

Adopt driver-based rolling forecasts

To be truly agile, organizations need to be able to "plan at the speed of business," which means they always need to be ready to re-forecast and develop the new forecasts very quickly. Many organizations are reducing reliance on the annual budget and are leveraging best-practice methodologies such as driver-based rolling forecasts to keep pace with their business. Key operational metrics relevant for the operational plans are used as drivers to quickly calculate and allocate financial values, thereby reducing the need for time-consuming, detailed, input-based plans.

Tecban CFO Marcelo Gomes is looking to implement a driver-based rolling forecast using predictive analytics, to support the rollout of new ATMs required to service all the domestic and international banks that have signed on for Tecban's service. For Gomes, the flexibility to model different scenarios based on market demand is a key attribute of the new system. "Our core knowledge has been in servicing ATMs in major metropolises such as Rio and São Paulo," he notes. "With this expansion in our responsibilities, we now have to service a network of banks spread out all over the country. We have regions where the volume projections are very low but [the banks] still need to provide a service. The profitability, the breakeven, is completely different from our current metrics." Using a modern, more robust planning and budgeting platform "will enable Tecban to analyze the KPIs we have based on ATM transaction volumes, so we can deploy the right number of ATMs in our network to satisfy our customers and consortium members," Gomes believes.

Minneapolis-based **Ovation Brands** also plans to implement a rolling-forecast model using its cloud-based planning and budgeting solution, to better predict the impact of marketing promotions, incentives, bonuses and other levers that can support the restaurant chain's reinvention goals.

“Continuous planning allows us to look forward and have a rolling projection,” notes CFO Kravcik. “How does the cash liquidity position look? How can we link our strategies and KPIs so they actually tie into bonuses and incentives? Reinventing the stores is our goal, and we’ve told the board we’ll be more predictive to ensure we deliver on that commitment.”

Hyatt is also implementing a driver-based rolling forecast across its international and US-based offices, using the latest version of its on-premises planning solution to take that process to the next level of sophistication. Hyatt’s global finance teams are going into a 36-month rolling-forecast model as part of the company’s Project Unify initiative that will integrate global and US forecasting exercises into a single forecast. “Our rolling forecast is very much based on the trending and history in our planning tool that allows the hotels and offices to focus on the immediate 12 months, followed by what I call a sanitary review of the following year just to make sure no major events or major variations have been missed,” explains Rainer.

“We communicate these goals to the [Hyatt] board of directors as well,” he adds. “We made a commitment to the board, we outlined our goals for 2016, and then it is broken down into the 2014 sub-goal and the 2015 sub-goal as well, but it’s rolled up into a 2016 goal. We are currently in the process of extending that into 2017. So every year, we roll out an additional year where we clearly identify the value creation that we have as the overriding goal that we commit to the board, and then we can distribute the individual goals and action plans underneath in order to get there.”

Conclusion: Mastering Digital Transformation

To succeed in the Digital Age, CFOs and the organizations they lead must recognize the value of a holistic approach to digital transformation that can drive both operational savings and the flexibility needed to change business models or shift in and out of markets quickly.

Forward-looking CFOs understand these changing dynamics, and are moving quickly to create modern, technology-enabled finance organizations better equipped to support more agile, digitally enabled business models and stronger C-suite collaboration.

Today's modern CFOs also recognize the need for new rules to measure, manage, invest, and report on changing sources of corporate wealth, and thus are embracing new finance best practices to benchmark the performance of their organizations in key processes that can drive value creation and organizational excellence. CFOs who master digital transformation not just in finance but across the enterprise are not only helping fulfill their mandate as the stewards of corporate value, but also placing themselves in a better position to ultimately assume a greater leadership role in their organizations.

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Contacts

Financial Executives Research Foundation (FERF) Contact and Coauthor

Bill Sinnett
Senior Director, Research
Financial Executives Research Foundation
Tel: +1.973.765.1004
E-mail: bsinnett@financialexecutives.org
Web: www.financialexecutives.org

Oracle Contact and Coauthor

Anne Ozzimo
Senior Director, Applications Business Group
Oracle Corporation
Tel: +1.805.714.7501
E-mail: anne.ozzimo@oracle.com
Web: www.oracle.com

FEI Media Contact

Liliana DeVita
Vice President
Marketing & Communications
Financial Executives International
Tel: +1.973.765.1021
E-mail: ldevita@financialexecutives.org
Web: www.financialexecutives.org

Oracle Media Contact

Danielle Cormier-Smith
Corporate Communications
Oracle Corporation
Tel: +1.610.766.3463
E-mail: danielle.cormier@oracle.com
Web: oracle.com

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