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Enterprise Performance Management: Unlocking Business Potential

Executive Overview

Finance executives, and the organizations they support, face a number of challenges to achieving their goals and objectives in today's market. This includes economic uncertainty and volatility, increasing stakeholder expectations, inefficient business processes and IT complexity. What's needed to overcome these barriers is an integrated enterprise performance management platform that supports the needs of Finance as well as IT and helps unlock business potential to deliver profitable results.

Introduction

As we look at the enterprise performance management (EPM) market, it's clear that the fundamentals of EPM haven't changed in the last 5 – 10 years. EPM is still about linking strategies to plans and execution, monitoring financial and operational results against goals, and applying analytics to understand key trends, make better decisions and drive enterprise-wide performance.

What has changed is the world that we operate in. Although economic growth is slow, business cycles are faster so planning and forecasting needs to be more frequent. There's more data available to analyze and leverage for planning and reporting – both internally and externally generated. Stakeholders have higher expectations. That includes external stakeholders who want more quantitative and qualitative disclosures about the organizations they are investing in, as well as internal management stakeholders who are demanding more frequent insights into financial and operating results. Even the workforce has changed, for instance Millennials (those born between 1980 and 2000) were raised on technology and have less patience for systems that are outdated or don't respond quickly.

And finally, technology is changing with the shift to Cloud, Mobile and Social computing. These new technology enablers that are available today create many opportunities. For instance, Cloud-based applications can accelerate time to benefit for new applications and reduce costs. Social Computing and Mobile technologies can improve collaboration, and empower more users with information anytime, anywhere. There is also Big Data and In-Memory technologies – to leverage and analyze the exploding amount of structured and unstructured data to help in decision-making. And today's predictive analytics capabilities to help users develop more accurate forward-looking models and support risk-based decisions.

"There has been increased traction for SaaS-based CPM applications within midmarket organizations and, more recently, for larger, Tier 1 organizations. Gartner expects this trend to continue, and has elevated the importance of CPM cloud capabilities for CPM suite vendors. The majority of CPM vendors have traditionally offered on-premises solutions; however, in response to the growing acceptance of cloud-based CPM, many CPM suite vendors have either provided or announced the future release of cloud-based options. Similarly, the ability to leverage mobile devices is becoming increasingly important to CPM . This includes the delivery of reports and interactive dashboards on mobile devices, the communication of alerts and key metrics, and the ability to streamline workflows and invite greater participation."

Magic Quadrant for Corporate Performance Management Suites, 14 February 2013,
Christopher Iervolino, John E. Van Decker, Neil Chandler, Gartner

In order to survive and thrive in today's market, organizations need to consider, invest in, and leverage these new technologies where it makes sense to drive innovation, reduce costs, and improve enterprise performance.

Today's Business Challenges

Through global surveys of finance and business executives, and through Oracle's work with customers and partners around the world, there are some recurring themes that emerge regarding the objectives that are top of mind in today's market:

- Achieving Profitable Growth – in spite of slow overall economic growth
- Delivering Consistent Performance – stakeholders reward companies who can provide accurate guidance and deliver consistent results
- Standardized Processes – in an era of slow growth, organizations are seeking to drive efficiencies in business processes and reduce costs wherever possible, while at the same time, enabling business innovation.

But there are barriers to achieving these goals. For instance, uncertainty and volatility in the economic environment makes it difficult to plan and forecast accurately. The increasing expectations of stakeholders are stretching the limits of many organizations. And IT complexity is driving up costs and limiting the ability to invest in business innovation.

As these barriers are removed, CFOs and CEOs can focus on unlocking the potential of their business to drive profitable growth. This includes:

- Eliminating or investing more in under-performing products
- Putting more focus on under-served customer segments
- Better utilizing existing staff and capacity

- Putting the excess cash on the balance sheet to work – investing in new markets, products, and services
- Creating more efficient business processes and reducing IT complexity to reduce costs

Strategies for Unlocking Business Potential

So what's needed to unlock business potential? What's needed is an integrated enterprise performance management platform, which unifies performance management processes and helps bridge the gap between goals and results (figure 1). This platform should meet the needs of, and provide key capabilities, to both Finance and Information Technology (IT).

Figure 1. EPM Platform Enables Strategies to Unlock Business Potential

For Finance, the EPM platform needs to support agile planning and reporting processes. It needs to provide centralized controls to ensure the accuracy and integrity of information being delivered both externally and internally. It needs to help manage change – like the introduction of new products, new services, and implementation of reorganizations, or mergers and acquisitions. And it needs to help drive accountability across the organization so that managers understand what's expected of them and have the information they need to make informed decisions.

For IT, the EPM platform needs to provide scalability and high performance as the business grows and expands. It needs to ensure the security of critical business information so that confidential information doesn't end up in the wrong hands or get leaked externally. It needs to integrate with existing IT investments, like ERP systems, and be cost-effective to operate. And it needs to provide flexible deployment options to match the organization's IT strategy – whether that's on-premise, via the cloud, or a hybrid approach.

Here are some of the key software capabilities that an integrated EPM platform needs to provide to achieve the objectives mentioned above. These include:

- Secure mobile information delivery and analytics to empower line managers with timely information.

- Data governance capabilities to integrate data from multiple sources and provide a centralized point of control for metadata that's used across EPM and other applications so that change can be managed efficiently.
- Scalability and performance to support growth in the business and large numbers of users across the organization.
- Flexibility in deployment options to match your IT strategy: on-premise, private cloud, public cloud, or hybrid.

Let's take a look at the key outcomes an integrated EPM Platform should provide to the organization.

Aligned Objectives

A 2007 survey from Palladium Group[1] revealed that only 40% of organizations link their long-term business strategy with the annual financial budgets. This linkage is critical to ensuring alignment across the organization and optimal use of resources.

To unlock business potential organizations need to ensure that individual and departmental goals and objectives are aligned to corporate objectives, and that strategic plans are aligned to financial and operational plans and resources.

Best practices in the area of strategy management and aligning objectives include; leveraging balanced scorecard or other management methodologies, employing cascading scorecards through the management chain, aligning KPIs to strategic goals, using both leading and lagging indicators, and leveraging predictive modeling to incorporate risk into strategic planning. The table below highlights some of the key metrics that can be used to measure success in this area.

[1] Palladium Group, Dr. David P. Norton, "Strategy Execution – A Competency That Creates Competitive Advantage," 2007.

Table 1. Strategy Management Best Practices

BEST PRACTICE	METRICS
Leverage formal scorecard methodologies and strategy maps to achieve strategic alignment	Number or type of methodologies used (i.e. The Balanced Scorecard)
Employ cascading scorecards to improve goal alignment	# of scorecard users
Align KPIs to strategic goals and initiatives	# of KPI's
Identify leading and lagging indicators, balance financial and non-financial metrics	# leading vs. lagging indicators # of financial vs. non-financial metrics
Model the financial impact of strategic decisions	ROI, IRR, Payback Period
Leverage predictive modeling techniques to incorporate risk into strategic planning	# of scenarios created
Integrate strategic and financial planning	% of financial goals aligned to strategic plan

The metrics included here can be used to track internal progress, or to benchmark your organization to others. Adopting these best practices and having an effective strategy management process can be challenging when using spreadsheets or manual processes.

Some of the key software capabilities needed to effectively align strategy with execution includes:

- Strategy Mapping capabilities – to support management methodologies like the Kaplan and Norton Balance Scorecard, Total Quality Management, and others.
- Cascading Scorecards – to allocate and assign accountability for specific goals and objectives through the management chain.
- Strategic Scenario Modeling – to perform complex financial modeling such as long-term financial planning, understanding the impact of strategic decisions such as M&A, doing rapid scenario analysis and comparing results across scenarios.
- Predictive Modeling – can bring more sophistication to forecasting and can provide advanced techniques such as Monte Carlo simulation to strategic financial planning so that risk and probability can be factored into strategic decisions.

Oracle provides all of these capabilities in its EPM platform and has helped many customers achieve organizational alignment and improvements in strategic planning. For example, a global pharmaceutical industry leader replaced many, disparate Excel models with a common, centralized long-term modeling solution. The application supports long-term planning models designed with opportunities and risks, probability and associated impacts. And using Oracle Crystal Ball, a predictive modeling application, they are able simulate all possible scenarios, quantifying the impact on EPS and cash flow for improved decision making.

Accurate Forecasts

A 2011 Oracle survey[2] on planning and forecasting revealed that 93% of finance managers globally are drowning in spreadsheets. This was especially true in the area of Budgeting, Planning and Forecasting with 75% of respondents indicating they used spreadsheets in this area. Relying on spreadsheets has been shown to lengthen planning cycles, introduce errors, and limits the ability to adopt best practices in planning and forecasting.

While planning and budgeting software is typically focused on eliminating spreadsheets and automating budgeting, in today's environment CFOs also need to forecast accurately, allocate resources efficiently, and deliver the results expected by stakeholders. So what are the best practices in this area?

Some of the best practices organizations are adopting when it comes to driving more accurate forecasts include:

- Aligning strategic plans to financial budgeting and planning.
- Shortening the annual budget cycle, by spending less time and including less detail in the budget.
- Rolling forecasts for refreshing budget assumptions on a regular basis – quarterly, monthly.
- Using driver-based plans and forecasts to help save time and effort.

Finally, to increase accuracy many organizations are driving the planning process beyond finance to the broader community of line managers who can provide their knowledge and intelligence into the plans and forecasts.

There are a number of metrics that can be used to track success in this area, and to benchmark your organization against peers and best practices in the market. Here are some examples:

[2] Dynamic Markets sponsored by Oracle Corporation, "Performance Management: An Incomplete Picture", April 2011

Table 2. Planning and Forecasting Best Practices

BEST PRACTICE	METRICS
Align strategic and financial planning	Days/weeks to complete the strategic plan
Shorten the annual budget cycle	# of days/weeks/months to complete the annual budget # of FTEs to complete the annual budget % of time spent on data collection vs. analysis Planning costs as a % of revenue
Reduce reliance on spreadsheets	# of disconnected spreadsheets/worksheets used in planning, budgeting and forecasting # of spreadsheets replaced
Reduce the amount of detail in the annual budget	# of accounts in financial budget # of FP&A staff per budget holder
Leverage driver-based planning & forecasting	# of budget drivers Frequency of driver updates
Shorten forecasting cycles	# of days to complete a forecast
Drive planning across the enterprise, to line of business managers	# of Finance and LOB managers participating in the planning/forecasting process # of metrics visible to managers to actively track performance against budget
Employ a rolling forecast	Frequency of rolling forecast, # of quarters in rolling forecast
Leverage predictive modeling to incorporate risk into planning and forecasting	% forecast accuracy
Align financial and operational planning	# of scenarios used in financial modeling
Link Projects, HR and Capital plans	Financial performance, working capital improvement
Evaluate project plans and compare ROI for funding decisions	Financial performance, working capital improvement

Research firms like the Hackett Group and APQC publish metrics for these processes that can be used to perform benchmarking and see where your organization stands vs. best practices, average and laggard companies and to help look for opportunities to improve.

Again, achieving best practices in this area can be difficult when relying on spreadsheets. Today's planning, budgeting and forecasting software applications provide key capabilities to help support best practices in this area. Here are some of the key software capabilities needed to support best practices and improving the accuracy of planning and forecasting:

- Driver-based Scenarios – to reduce manual input and identify key dependencies in plans and forecasts.
- Rolling Forecast Wizard – to provide the ability to easily set up a rolling forecast scenario that incorporates the most recent actual results, and allows the organization to forecast out to the end of the fiscal year or beyond.

- Leverage Social Media - big data is a new signal for Finance, and many organizations are now looking to leverage social media streams to gauge customer sentiment and other information that can help in planning and forecasting.

On the point about leveraging social media, Oracle has invested in this area via the 2012 Endeca acquisition, a leader in analyzing unstructured data such as social media. We are now applying this technology to the planning process and other areas in EPM to improve decision-making.

Over 3500 organizations use Oracle's solutions for planning, budgeting and forecasting and are achieving great results in this area. In our Customer Value Index survey[3], we found that customers using Oracle Hyperion Planning have a 12.3% annual average increase in forecast accuracy after implementing our solution. (figure 2)

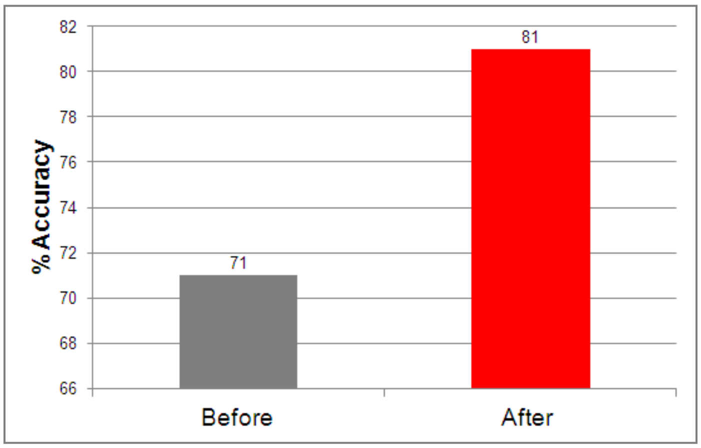

Figure 2. Customers using Oracle Hyperion Planning improved forecast accuracy by 12.3%

Confident Close

In the past ten years there has been a lot of focus in the industry on the virtual close or fast close, but accuracy and integrity of financial results is equally important. So having confidence in both the efficiency and accuracy of the close process is important.

A recent article in the Wall Street Journal[4] highlighted that earnings restatements in large organizations increased 21% in 2012, and 60% between 2009 and 2012. The main drivers of these restatements included; errors in tax accounting, cash flow statement classifications and revenue recognition issues. Restatements are the biggest nightmare for a CFO, as the market doesn't look favorably on companies that have to restate their earnings due to issues in the financial close and reporting process. So what are some of the best practices to ensuring confidence in the financial close?

[3] Oracle Corporation, "Customer Value Index", Planning and Budgeting Preliminary Results, October 2011
[4] Audit Analytics study cited by The Wall Street Journal, March 12, 2013

Here are some of the best practices organizations are adopting to create a confident financial close process, and metrics that can be used to measure success:

- Streamline the financial close – by identifying bottlenecks and continuously looking for process improvement opportunities.
- Ensure financial data quality – by creating more solid processes for collecting, mapping and integrating data from financial and non-financial systems.
- Automate reporting – including management, financial and statutory reporting to get the results delivered quickly.
- Reduce costs and improve flexibility in regulatory reporting – many companies are moving this process in-house to reduce costs and improve their ability to make last minute changes to regulatory filings.
- Integrate and align financial, tax, sustainability and other reporting processes to reduce duplication of effort and costs.
- Centralize chart of account management - managing changes to charts of accounts and other business hierarchies can add a lot of time and effort to the close process, and can cause reconciliation issues if not done correctly. So improving and automating this process can save time and effort and improve accuracy of financial results.

There are a number of metrics that can be used to track success in this area, and to benchmark your organization against peers and best practices in the market. Here are some examples.

Table 3. Financial Close Best Practices

BEST PRACTICE	METRICS
Orchestrate and streamline the financial close process	# of days to close the books at month-end, quarter-end and year-end # of days to file at quarter-end, year-end FTE's dedicated to the financial close % of revenue dedicated to the financial close
Ensure financial data quality	# of errors in data loading process # of data sources for financial close
Automate reporting (management, financial, statutory)	# of days to generate internal reports # of days to generate external reports
Reduce costs and improve flexibility in regulatory reporting and XBRL tagging	Cost of quarterly regulatory filings Cost of annual regulatory filings
Integrate tax reporting and financial reporting	Annual cost of tax reporting
Integrated sustainability reporting with financial reporting	Annual cost of sustainability reporting
Centralize chart of account management	FTEs per month/quarter on change management

As with the planning and forecasting section above, research firms like the Hackett Group and APQC publish metrics for these processes that can be used to perform benchmarking and see where your organization stands vs. best practices, average and laggard companies and to help look for opportunities to improve.

Adopting these best practices can be difficult when using spreadsheets, GLs or legacy applications to manage the financial close and reporting process. Some of the key software capabilities needed to implement a confident financial close process includes:

- Support for multi-GAAP consolidations – such as the ability to consolidate in US GAAP as well as IFRS for statutory reporting.
- Process Monitoring – the ability to monitor, orchestrate and manage the close process in real-time to identify bottlenecks and areas for improvement.
- Automated Reconciliations – there are often hundreds or thousands of reconciliations that need to be completed during the financial close. So automating as much of this process as possible and dealing with exceptions can save time and effort and provide a strong audit trail.
- Integrated Tax Provision – this is a key step in the close process that is often performed via spreadsheets and a parallel process to the financial close. Integrating tax data collection, reporting and provisioning into the financial consolidation and reporting process can save time and efforts, improve accuracy of the tax provision, and even drive a lower effective tax rate, which can impact the bottom line.

Oracle provides all of these capabilities in its financial close and reporting solutions, which are used by over 3500 organizations globally. We've had extensive success in streamlining the close process while improving accuracy and confidence in the results delivered by our customers.

In Oracle's Customer Value Index survey[5], customers using Oracle Hyperion Financial Management, on average, reported that they spent 26% less time creating External Financial Reporting after implementing the solution. Also, customers implementing Hyperion Financial Management made 36% fewer monthly, manual adjustments after implementing the solution. (figure 3)

[5] Oracle Corporation, "Customer Value Index", Financial Close and Reporting Interim Results, November 2012

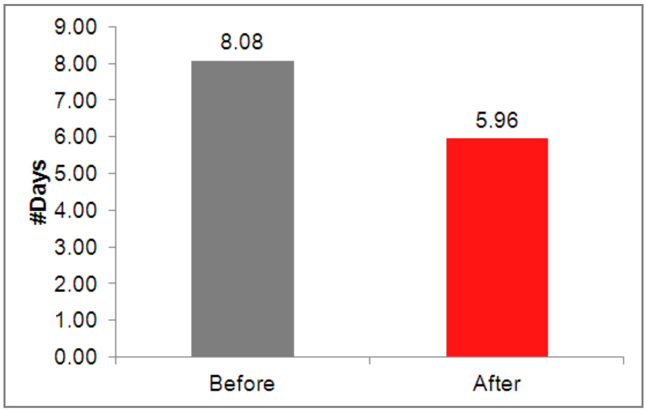

Figure 3. Customers using Oracle Hyperion Financial Management spent 26% less time on financial reporting

Creating an Accountable Enterprise

To unlock business potential, managers need to know what's expected of them, and they should have the information they need to adapt quickly and make the right decisions for the organization. Having insight into financial and operational performance is critical to effective decision-making. Yet a 2011 Oracle survey[6] revealed that 82% of companies lack visibility into profitability across their business. While most have visibility into profits at a corporate or division level, they don't fully understand profitability by products, services, channels, customers, brands or projects. When managers don't have full visibility into the impact of their efforts, then it's difficult to make them accountable for their results.

Here are some of the best practices our customers are adopting to improve management accountability and the metrics used to gauge success in this area:

- Perform full allocations of overhead on a regular basis – monthly or quarterly across various lines of business.
- Leverage activity-based costing (ABC) models to improve the accuracy of allocations – moving beyond standard costing.
- Drive costs down to more detail – products, services customers to better understand profitability at the line of business level.
- Standardize information delivery with a common BI foundation – to reduce costs and improve accuracy of management reporting.

[6] Dynamic Markets sponsored by Oracle Corporation, "Performance Management: An Incomplete Picture", April 2011

- Leverage mobile information delivery – to empower managers with timely insights, anytime, anywhere.

There are a number of metrics that can be used to track success in this area, and to benchmark your organization against peers and best practices in the market. Here are some examples.

Table 4. Accountable Enterprise Best Practices

BEST PRACTICE	METRICS
Perform full allocations of overhead on a regular basis – monthly, quarterly	Frequency of cost allocations % of costs that are fully allocated
Leverage activity-based models to improve accuracy of allocations	# of methods used for cost allocations
Drive costs down to the product, service, customer level to better understand profitability	Level of detail in profitability reporting
Leverage key cost drivers in the planning and forecasting process	# of cost drivers used in allocations
Combine historic cost data with operational drivers to create meaningful allocations	% profit margins of products, services, channels, customers etc.
Provide managers with visibility into the cost drivers and allocation methodologies to improve buy-in	% of managers with full visibility into profits by product, service, customer
Deliver profitability information via interactive dashboards to support drill-down analysis	% of managers using BI dashboards
Leverage mobile information delivery to support managers on the move	% of managers using mobile BI dashboards

Adopting these best practices can be difficult when relying on spreadsheets or legacy reporting and analysis tools. Some of the key software capabilities required to improve management reporting and create an accountable enterprise includes:

- Shared assumptions – common analytic dimensions, business rules, calculations and metrics for success ensures consistency in decision-making.
- Traceable Costs – the ability to perform automated, accurate allocations and to trace costs from source to destination helps improve management understanding and buy-in to the results.
- Real-time Insights – going beyond static reports to interactive dashboards and mobile information delivery to inform and empower managers.
- Audit Trails and Drill/Back – from analytic applications to source systems so that managers can make faster decisions and turn their insights to timely action.

Oracle is the market leader in business analytics and provides a complete suite of performance management and analytic applications that share a common business intelligence foundation to ensure the consistency and accuracy of management reporting. We have thousands of customers using our solutions and achieving great results.

In Oracle's Customer Value Index survey[7], respondents who had deployed Oracle's analytic solutions reported a number of improvements in their reporting and analysis capabilities. This included the ability to report across multiple data sources, support for more complex calculations, more detailed and sophisticated trend projections, and more accurate scenario modeling and what-if analysis. (figure 4)

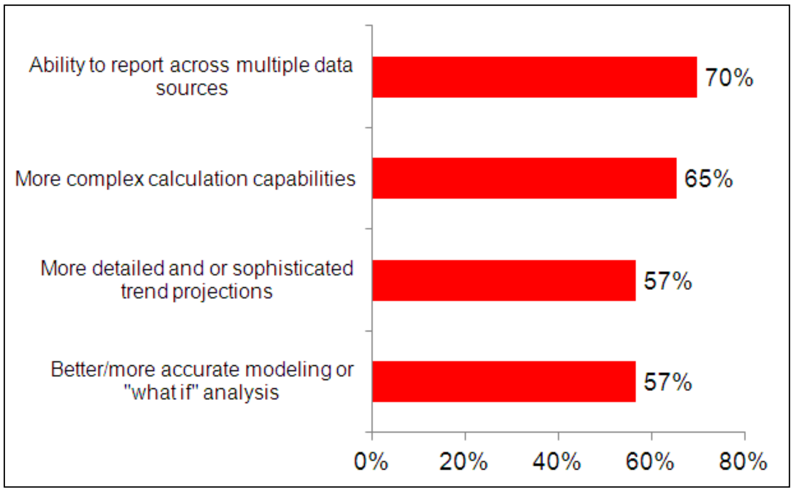

Figure 4. Benefits achieved by customers using Oracle's analytic solutions

Here's a specific customer example:

General Dynamics is using Oracle Hyperion Profitability and Cost Management to allocate IT shared services costs across their various lines of business and government projects. By creating an accurate and repeatable process they were able to achieve the following benefits:

- Completion of multiple allocation cycles in one day
- Allow IT to fully allocate all of their costs across the organization
- Demonstrate to the government that admin costs fell within required thresholds
- Streamline audits by the U.S. Defense department through transparency in allocations

[7] Oracle Corporation, "Customer Value Index", BI and Enabling Technologies Preliminary Results, November 2012

Conclusion

In summary, an integrated EPM platform helps organizations break down the barriers to success, linking business goals to results and unlocking business potential. With a world class EPM platform organizations can deliver the desired outcomes needed to succeed in today's market; Aligned Objectives, Accurate Forecasts, Confident Close and a more Accountable Enterprise. Plus they can address the needs of Finance, IT, as well as line of business managers to ensure more consistent decision-making.

So why should organizations rely on Oracle to help unlock their business potential? Oracle is the global market leader in business analytics, and is also the market share leader in enterprise performance management according the leading analyst firms like Gartner. In addition to offering market-leading enterprise performance management and business intelligence solutions, Oracle is making strategic investments in new technologies to help customers drive innovation, transform their business processes and simplify their IT systems. This includes engineered systems like the Oracle Exalytics In-Memory Machine, mobile information access and cloud-based deployment options.

Oracle has been delivering solutions to customers for over 30 years, with global sales and service and thousands of partners focused on delivering solutions and creating positive results for over 8000 customers.

For more information about Oracle's Enterprise Performance Management solutions go to: www.oracle.com/epm.

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