FINANCIAL REPORTING SPECIAL

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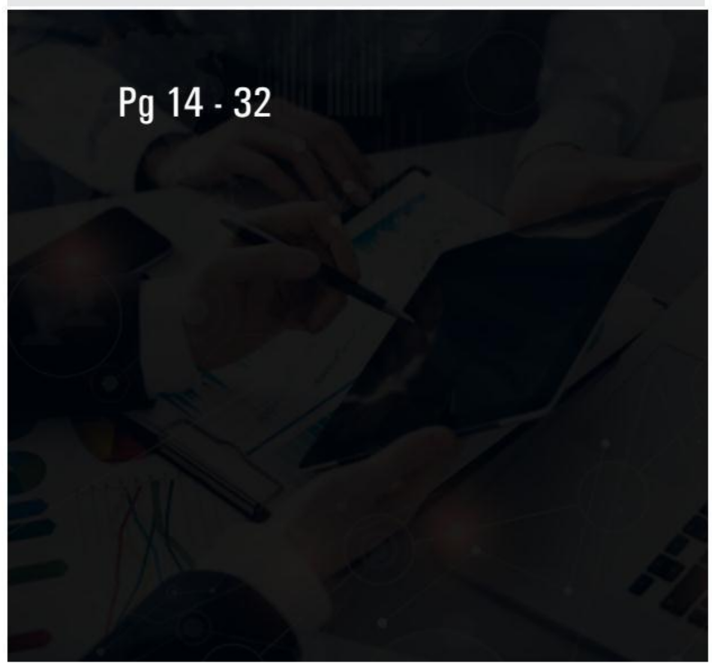

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Insight to Action: Leveraging Technology to Evolve from Understanding to Action

By **Nick Fischer,** CEO, Cadilus Inc.

Nick Fischer

Financial reporting has been a core finance deliverable since the function was invented but has remained self-service and limited in many organizations. Great financial reporting should do two things: First, it should provide clarity and transparency into what's driving actual performance. Second, it should provide actionable insights that enable improved decisions. In other words, financial reporting shouldn't stop at simply providing understanding into what is taking place within an organization today. It should also serve as an actionable tool that business partners can use to improve future outcomes. Often, time constraints prevent most finance teams from achieving the latter. Fortunately, technology provides a solution.

We transformed monthly forecasting from a stale, repetitive process that wasn't adding much value to an actionable decision-enhancement tool with fully engaged stakeholders. Technology-enabled reporting drove this turnaround—here's how we did it.

Changing the Paradigm

To set a baseline, think of a typical forecast review meeting. It includes primarily finance people, and the corporate FP&A director has a basic report that shows current forecast vs. prior forecast with variance explanations. Even though the director has tried to call out the primary drivers, with all the commingled assumption and decision changes, it's difficult to truly understand what's going on. The director presents helpful slides with waterfall graphs bridging changes, but they're bridging metrics you don't care about. Sound familiar?

Although this example is oversimplified, it's not far from what many organizations experience when it comes to forecasting. We aspired to change this paradigm through a three-step process. The first step was to rebuild our forecasting infrastructure with driver-based models so that decisions and assumptions could be modeled through the drivers they'd impact. The second step was to develop driver-attribution reporting, so that stakeholders could fully understand how

CURRENT FORECAST DRIVER ATTRIBUTION - YE Δ TO PRIOR FORECAST	Revenue ($M)	GM ($M)	OM ($M)	OCF ($M)	EV ($M)
Forecast - Prior Month	12, 429	4,736	2,092	415	6, 031
[1] Decision: Direct sales team expansion	32	12	(5)	(9)	18
[2] Decision: Marketing spend rationalization	(16)	(6)	11	7	75
[2] Assumption: Favorable FX	0	32	32	19	34
Forecast - Current Month	12, 445	4, 775	2,130	433	6,157
Δ $	16	38	38	18	126
Δ %	0.1%	0.8%	1.8%	4.2%	2.1%

decisions and assumptions were expected to affect financial performance. The third step was to create forums where business stakeholders could come together to review expectations and have an open dialogue about the choices we were making. For this article, we'll focus on the second step—driver-attribution reporting.

With visibility into the impacts of our assumptions and choices, the finance team emerged as a true business partner

The Value of Driver-Attribution Reporting

Let's define driver-attribution reporting as a way to understand the financial impact of each individual assumption and decision across desired KPIs. The following is a simplified, fictional example:

This reporting is valuable because it enables decision-makers to ask the right questions and have a productive discussion with their finance partners, particularly regarding the individual choices being made. Are our assumptions reasonable? If we flexed our assumptions up or down, how is our expected financial performance affected? Are we making the right choices? These questions, for starters, can facilitate discussions that ultimately lead to better decisions.

Technology as an Enabler

Although the concept of driver-attribution reporting is simple, making it a reality is not without complexities. To make it scalable, we needed to streamline and automate four key components: handling data preparation, loading model configurations and user scenarios, processing the simulations and dynamically updating a predefined reporting dashboard template. Within our own FP&A stack, we leveraged ETL procedures and developed data pipelines to automatically prep and transform the underlying raw data. Next, we built a custom application that allowed our analysts to load their current driver-based model and the configurations and scenarios they wanted to run, all using an intuitive and friendly front-end UI. Once loaded, the application kicked off automated back-end processing, which calculated and ran the model's defined scenarios and financial metrics. Once complete, the calculations were loaded into our back-end cloud-based data mart. We also created an output structure that applications like Power BI and Tableau could process easily. We used our own Power BI to create our driver-based attribution reporting templates, which were dynamically populated when connected with our data mart. From there, we could provide the reporting output within our dashboard environment or as an automated export to a presentation.

Measurable Business Impacts

Driver-attribution reporting is one step in a process that can make organizations' forecasting more effective. The reporting can be implemented in a multi-step process that includes modifying data preparation, model configurations and user scenarios, simulations and reporting dashboard templates.

We have seen how effective such investment is. Once we rolled out our driver-attribution reporting, our forecast review meetings became much more productive. With visibility into the impacts of our assumptions and choices, the finance team emerged as a true business partner. The clarity and transparency we created led to better decision making, which ultimately led to better business performance. CT