“Driving Sustainable Growth”
Value-adding tools and techniques that contribute to long term success
A FSN & Oracle White Paper
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Introduction

A fourteenth century proverb “from little acorns do mighty oaks grow” beautifully encapsulates the aspirations of business managers and investors all around the globe. But growth is not inevitable. Statistically the odds are stacked against sustainable (profitable) growth.

A study of the top 1,000 listed companies in the United States over four decades' between 1960 to 2004 by Professor Gregory Hackett, (formerly a benchmarking guru and Professor at Kent State University, Ohio), makes uncomfortable reading. Around eighty percent of companies are either stagnating or declining. Worst still, the rate of decline is accelerating with younger companies failing three times faster than they were more than 30 years ago.

Despite the advantages of steadily reducing cost of goods sold over four decades, average profitability declined forty percent over the same period. To put the problem into context, half of the companies surveyed make less than 9 days' profit – hardly the foundation of sustainable growth. In fact companies are 3.5 times more unprofitable than they were in 1960.

Perversely, the economic outlook is even harsher now, than for most of the last twenty years of the study, brought on by the financial crisis in 2007 and generally rising energy and commodity prices. Most of the Eurozone (with the exception of Germany) is predicted to show less than 1 percent growth in GDP until 2014. In the U.S. growth may be pegged to around 2 percent. But it is the turn of the BRIC economies (Brazil, Russia, India and China) to be the engine of growth and wealth creation for the global economy. So why is sustainable growth so elusive?

There is no doubt that trading conditions have changed markedly over the four decades of Hackett’s survey. Some would argue that the long expected shift of economic power from West to East is well underway.

Markets are more fiercely competitive, product life cycles are shorter, and the business climate is more volatile than ever before, exacerbated by global capital markets, unrelenting regulation, geo-political events on an unprecedented scale, newer sales channels such as the internet and the impact of social media. Multinational businesses based in western economies will need to grow accustomed to new market dynamics in which, growth is slender and there are fewer but riskier opportunities for expansion.

These structural changes have also been accompanied by significant cultural change. Huge market valuations are often lavished on fashionable internet-based businesses that have yet to make a dime, while steady, but unexciting, industrial concerns are overlooked. Furthermore, the quarterly reporting cycle has apparently encouraged the pursuit of short term gains at the expense of the quality of earnings in the long run.

At the end of the day the pursuit of profitable growth in the long term is crucial for a company’s well being not just for its market capitalization. Profits give companies permission to challenge the status quo, invest in people, develop new initiatives and take measured risks.

So how do companies tilt the balance in their favor? Part of the solution lies in the resolve of businesses to change their practices; to eliminate business and IT complexity; to embed more agile processes; to strengthen customer and brand loyalty; and finally, to make smarter decisions around investment and growth opportunities that safeguard their position for years to come.
Eliminating business and IT complexity

Clarity of mission

The elimination of business complexity is a constant challenge for most organizations but clarity of purpose enshrined in long term strategy is a pre-requisite for clearing out ‘non-value adding’ activities and initiatives. After all, a strategy is by definition the starting point for corporate behavior. It sets the tone for the organization and its prospects for success. It expresses an organization’s ambitions, sets out its chosen direction and describes the principal initiatives and projects necessary to achieve its mission. Yet despite its significance, strategy development and communication remains one of the most elusive and unsatisfactory areas of management endeavor. Indeed, research has shown that 85% of executive teams spend less than 1 hour per month discussing strategy and only 5% of the workforce understands strategy.

Executives spend days or weeks devising well-crafted strategies and then throw them “over the wall” to the rest of the company, hoping and praying that their vision will bear fruit.

If strategy is to be delivered successfully by an organization it must be clearly articulated and communicated throughout the business. In other words, the strategy must be widely understood at all management levels so that operational plans and day to day activities are aligned with corporate goals and objectives. It is this clarity of mission that reduces confusion and business complexity.

Similarly, business strategy should drive investment in information technology, ensuring laser-like focus on systems initiatives that contribute to the delivery of the strategy. Yet few organizations can claim that their IT and information strategy is completely congruent with business goals. For example, in 2011, Gartner estimated that 66% of IT spending at the average company went to the day-to-day operations of the business; 20% to the organic growth of the business; and 14% to support major business transformation, new products, services or business models. It seems that the average company is struggling to align investments in business systems with strategic objectives.

However, two developments have yielded notable success in reducing complexity setting the scene for long term growth. They are shared services and the Cloud.

Shared Service Centers (SSC)

Popularized throughout the nineties and continuing with considerable momentum right through to the new millennium, the idea of simplifying, streamlining and unifying processes through implementing shared services is well established.

Shared services allow varied processes and practices from across the organization to be standardized and excess staffing levels to be removed. But they also provide the opportunity to re-engineer processes, eliminating tasks that do not add value. As a result, organizations moving to a shared services model can save considerable sums of money while at the same time removing complexity and improving service levels.

Perhaps the most beneficial aspect of SSC’s is that by centralizing support services and managing them like a well oiled machine, the wider organization is liberated from the drudgery of routine transaction processing and can focus its efforts on matters that are core to growing and developing the business for the long run. In turn, when business growth materializes, the organization is well placed to take advantage of its expansion without a commensurate increase in overhead, finance and business administration.

According to research by KPMG organizations are now seeking to extend the benefits of successful shared services by taking on more sophisticated activities - with 85 percent looking to reduce complexity still further by turning their attention to higher-value processes such as management information and analysis - and opening the SSC to other back-office functions such as procurement.

Moving to the Cloud

The widespread availability of relatively inexpensive yet powerful servers and virtualization technology, desktop PCs, the explosive growth in mobile devices, such as iPads, iPhones and Android mobiles together with vast improvements in communications infrastructure and speed have created the ideal conditions for the massive growth in Cloud offerings.

The Public Cloud brings all of these technology developments together in a way that business software vendors can offer applications that are affordable and can be shared by hundreds, if not thousands of end users without compromising performance.
Many organizations consider this ability to offload business applications to a Cloud vendor to be liberating as well as providing fertile territory to simplify and streamline business processes.

Here are 7 important reasons often cited for moving to the Cloud:

- To save money compared to the on-premise alternative, for example, to avoid a costly upgrade to a legacy system that can no longer meet market trends
- To help roll out consistent and standardized processes across the organization
- To more rapidly roll-out improved business processes in the business
- To cost effectively give more employees access to business critical applications
- To leverage collaborative and social media tools to improve the responsiveness and performance of existing processes
- To improve business flexibility and scalability
- To take advantage of the wide selection of compatible applications in the Cloud 'ecosystem'

According to research by OAUG ResearchLine, 35 percent of companies say they have been able to cut costs as a result of their cloud computing initiatives. Just as prominent, however, are efforts to increase flexibility and scalability to adapt to changes in business requirements (35 percent). Cloud is enhancing organizations' abilities to transform and adapt to changes in today's fast-evolving business environment. The finance function is responsible for initiating the move to the Cloud in 27 percent of the companies surveyed, closely tracking the IT function (32 percent).

The more experienced a company is with Cloud, the more it realizes benefits such as cost savings through consolidation and standardization. 44 percent of companies using the Public Cloud have saved costs through consolidation and standardization. Respondents with more than five years of experience with Cloud also have seen improved application and system performance, and have greater control over the security and privacy of their data as a result of Cloud.

Organizations need to be supremely agile in the face of unprecedented market turmoil but very often their management processes are insufficient to turn volatility to advantage and in some cases they miss, or do not react to, colossal external changes that affect the very survival of the business (think about the impact of digital cameras on Kodak; downloadable music on EMI; e-commerce on retailers).

Central to the responsiveness of an organization is the quality of its management information and the KPIs it uses to highlight when the organization is out of strategic alignment. Unfortunately with the accelerating pace of change the task isn't getting any easier. For example, how do you identify what is important from a sprawling mass of information, also known as "Big Data", and how do you keep a strategy agile and flexible in the face of increasingly volatile markets?

Capturing and communicating the right measures

In large and complex heterogeneous organizations the sheer scale of the task makes it extremely difficult to view the overall strategy and check its integrity, let alone cascade it through the organization.

Often, an organization has too many performance indicators and simply achieving functional and organizational alignment of KPIs (Key Performance Indicators) can seem like a Herculean task. Old KPIs can often go unchallenged while at the same time new KPIs reflecting, say, social and environmental initiatives need to be developed.

Recent research also shows that many organizations give too much prominence to internally generated KPIs – `controlling the controllable` – rather than looking outwards at threats and opportunities on the horizon which can ultimately be far more influential on the sustainability of performance over the long haul.

There is also a tendency to rely too heavily on trusted financial indicators of performance rather than less familiar non-financial indicators. These are often tightly correlated with future financial
performance. While these key areas of performance such as employee engagement, customer loyalty and innovation may be challenging to express in purely financial terms and can be difficult to measure, few doubt that they are critical to assessing the health of a company in the long term. But how should these KPIs be monitored in practice?

By using dashboards and scorecards in the same performance environment an organization can encourage both strategic alignment (scorecards) and better operational analysis (dashboards). Ultimately, both of these can be used to inform and trim strategy as and when needed, providing more confidence in long term sustainability. Today’s technology provides the ability to deliver updated KPIs to executives and managers via browser-based applications in the office, or via mobile devices such as smart phones and tablets for real-time updates.

**Improving forecasting accuracy**

When faced with a fragile global economy and increased volatility it is important to increase the frequency of forecasting; constantly testing the temperature of the water, formulating scenarios, assessing risk and assigning probabilities. Increased confidence in forecasting accuracy is one of the immutable bedrocks of sustainable growth.

The artificial horizon of the annual budget and attendant forecast revisions acts as a brake on forecasting accuracy. Rolling forecasts, which as the name suggests are based on a rolling 12 month (usually four quarters) timeframe are regarded as delivering superior accuracy for businesses facing constant change.

Broadening the effort also pays dividends, as capturing the perspectives of managers in different functional areas (integrated business planning) provides more ‘texture’ to the forecast. This horizontal alignment across the different functional areas of the business ensures that plans in one area are consistent with another and performance measures are rationalized so that satisfying a performance objective in one place does not have unforeseen consequences in another. Going the ‘extra mile’ by providing a comprehensive cross-functional view of the forecast enhances the quality and the robustness of the projections and helps set the conditions for sustainable growth.

Customers can be fickle and in many industries the internet and globalization have increased competition and lowered barriers to entry. Selling to existing customers is nearly always more cost effective than securing new customers and therefore customer retention is vital to long term growth. But do organizations know enough about their customers, for example, their level of satisfaction and propensity to buy in the future?

The rising influence of social media and its ability to encourage or dissuade customers from buying, by fair means or foul, presents an enormous opportunity. Customers who may be reluctant to express their true concerns in a customer satisfaction survey can be surprisingly adept at broadcasting their views through Facebook, Twitter and blogs. But capturing “sentiment” is extremely challenging since the underlying data is simultaneously unstructured and voluminous.

Yet there is no denying the importance of measuring “sentiment” for assessing brand loyalty, customer retention and even sales forecasts. Take for example the launch of a new model of car in an emerging market. The volume of social media comments alone provides a broad indication of the level of interest – good or bad. The comments themselves can yield vital intelligence about how well the car is likely to be received and hence the robustness of sales forecasts. But harvesting relevant content from an indeterminate universe of commentary (web sites, blogs, Face book, Twitter) and converting language, (especially a foreign language with embedded cultural differences) into quantified sentiment is a formidable task. Nevertheless, social media analytics offers massive potential for understanding customer behavior and securing long term relationships and, by extrapolation, sustainable growth. But it is not the only tool in the kit bag.

CRM analytics too can give deeper insights into customer behavior, ‘likes’ and ‘dislikes’. The ability to record formal and informal customer interactions adds to the richness of the information available and the ability to share the information as appropriate with other personnel connected to the “Quote to Cash” cycle helps to encourage a more responsive organization.
Despite a sometimes bleak global trading environment there are both resurgent economies and pockets of market activity that offer the potential for superior returns. Sifting out these opportunities and acting decisively ahead of less agile competitors can sometimes create competitive advantage that is sustainable in the long term, displacing markets on the wane and acting as a springboard for yet more growth.

The difficulty is that new markets and acquisitions are often accompanied by greater risk. So how does an organization evaluate opportunities and model forecast outcomes without taking on unacceptable levels of risk?

Strategic business modeling forms a central part of the investment appraisal process but a careful balance needs to be struck between the urge for detail and the need to make timely decisions. Flexibility is key to being able to model different scenarios and alter assumptions as different opportunities arise.

But finding above average prospects in a bland economy can be extremely challenging. Competitor benchmarking, CRM and social media analytics all have a role to play but advances in Business Intelligence (BI) Technology can be even more illuminating. The creative use of Business Intelligence tools and applications can sometimes reveal exceptional performance or opportunities unintentionally masked by the weight of ‘normal’ performance, i.e. that which is within the expected range.

Once investment opportunities are identified, strategic planning and modeling becomes a critical support tool. Modeling for acquisitions is a relatively idiosyncratic process – often directed at a particular initiative, for example a proposed merger or a capital intensive project, such as the creation of a new production facility or a move into new products and territories. It is not like the regular annual budgeting process or even the quarterly re-forecast which follows a well trodden, repeatable path or process. Therefore planning at the strategic level requires a unique blend of flexibility and durability which ensures that assumptions can be changed on demand and new scenarios added without compromising the integrity of the business model.

This desire for both robustness and flexibility needs to be balanced carefully to produce the ideal planning framework, and this requires a creative design approach, stripping out all barriers to flexibility within business models, allowing them to be rebuilt frequently as the business reacts to market conditions. Difficult decisions may need to be taken around the scope of the model but more specifically the granularity necessary to support informed decisions. For example, the planning horizon (time dimension) for an oil exploration company may be 25 years but only a couple of years for an on-line retailer. Similarly, the high cost of salaries in a multinational law firm may need to be planned down to the individual employee but the cost of payroll in a car factory employing 1,000 semi-skilled workers may be encapsulated in a single row of a model. It is about striking a balance between detail, accuracy and speed of computation.

Multi-dimensionality, a vital part of any planning process allows strategic planners to model several variables simultaneously, rather than the one-at-a-time approach forced on the planner by the flat two-dimensional world of traditional spreadsheets. This in combination with the difficulty of maintaining complex formulae and macros coupled with very limited data storage and reporting capabilities effectively rules out the use of spreadsheets in complex scenario planning.

Modeling techniques such as Monte Carlo simulation can bring more sophistication to the forecasting and planning process by leveraging mathematical techniques to set more realistic expectations about the range of possible outcomes.

Monte Carlo simulation works by modeling a number of business assumptions in parallel which each have an assigned range of input values and probabilities. Monte Carlo simulation then uses random number generators in combination with various mathematical probability density functions to generate thousands of scenarios based on these assumptions and the probability of achieving them. This is much more illuminating that the “Best” case, “Worst” case and “Median” case that can be achieved in a spreadsheet. Furthermore, models of this type can more easily identify the most influential (sensitive) factors to take into account in a forecast.

So how does an organization manage risk in the context of new growth opportunities? The challenge of tackling risk on an enterprise-wide scale is formidable yet it is possible to stack the odds in favor of the organization by adopting best practice methodologies, tools and techniques and by leveraging an appropriate blend of organizational structure, process and technology. Underlying the whole
response is the need for a methodology which concentrates the organization’s efforts according to the “likelihood” of an incident and its “significance”. This can be documented and quantified according to the preferred methodology.

Once the nature of the risk is understood and quantified, it can then drive the type of response. Risk mitigation measures can be developed and Key Risk Indicators (KRIs) developed for monitoring and reporting on risk containment. In extreme cases, the appropriate response may be to withdraw from a particular line of business or geography altogether, for example, because of the high probability of violating, say, the Financial Corrupt Practices Act (FCPA).

Crucially, KRIs should be incorporated into forecasts and reported alongside the financial results to which they relate. For example, a KRI such as the “number of transactions over $100,000”, designed to give early warning of an FCPA infringement, could be reported in a risk-based scorecard or console alongside forecast and actual revenue for a new operation.

Summary

Sustainable growth is surprisingly difficult to achieve. The evidence shows that very few companies, probably less than 20 percent are able to drive growth consistently from one decade to another. But new technologies and techniques are helping to clear out the clutter and streamline processes so that businesses can devote more of their energy to value-adding activities that contribute to long term success.

Such remedies are well within the grasp of most companies and can range from the relatively low-tech deployment of, say, scorecards and dashboards in support of strategy delivery through to the establishment of shared services centers which can help to standardize processes across the enterprise. More recently, Cloud computing has proved to be a valuable addition in the pursuit of simplified processes that can absorb growth without placing strain on the organization.

Capturing and communicating the right measures (KPIs) is fundamental to driving growth. Successful organizations concentrate on a limited number of financial and non-financial measures that give a more rounded picture of performance and future prospects. They also reforecast more frequently, (using rolling forecast techniques) taking care to involve managers from across the enterprise and employ advanced mathematical methods to improve the quality of the projections.

Customer satisfaction and retention is the hallmark of a good organization and creates a solid foundation on which to build growth. Technical innovations such as CRM, advanced BI analytics and now social analytics can provide deep insights into customer behavior and sentiment respectively.

But sustainable growth is about attracting new customers and capturing new markets either organically or by acquisition as well. Powerful planning and forecasting tools can model different business scenarios to help evaluate opportunities alongside regular investment appraisal techniques. And with risk front of mind it is possible to introduce key risk indicators as part of the evaluation.

So it is a whole basket of measures that contribute to sustainable growth. It is about de-cluttering the infrastructure and having clarity of purpose; increasing business agility and strengthening customer loyalty. But it is also about seeking out new markets, judging what’s on the horizon and taking a risk based approach to evaluating opportunities that can provide above average growth prospects down the line.

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Note2 This calculated by dividing Net income by the number of selling days.


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