

Finance: The new 'champion' for applied analytics

Finance at the forefront of change, predicting, and not resisting, digital transformation



SUMMARY

Catalyst

For decades, chief financial officers (CFOs) have been the voice of reason and pragmatism in enterprises, offering practical advice to executive teams on a wide variety of topics. Given their proximity to funding and revenue, the office of finance's advice is widely sought on objective matters such as cost containment, financial management, and revenue recognition.

But finance has also been a victim of its own success; businesses today expect finance to play an extended role across departments, including IT, human resources, compliance, operations, sales, marketing, and most importantly, corporate strategy. Finance is increasingly being asked to not just make sure that the numbers add-up, but also create value for business – with 'big picture' as well as 'exact picture' analysis. To successfully deliver on this role, the finance function needs to be a change agent. It needs to play a bigger and visible role in real-time decision making and continuous planning. This needs a transformation in financial processes and technology, enabling continuous planning, in-depth predictive analytics, near real time decision making, a way to envision a unified analytic future across departments and an end to data silos. While this may sound like a tall order, we find that many finance departments are already on the way to this goal with modern analytics and enterprise performance management (EPM) platforms, evangelizing the benefits of analytics to all who will listen.

RECOMMENDATIONS FOR ENTERPRISES

What does this mean for me?

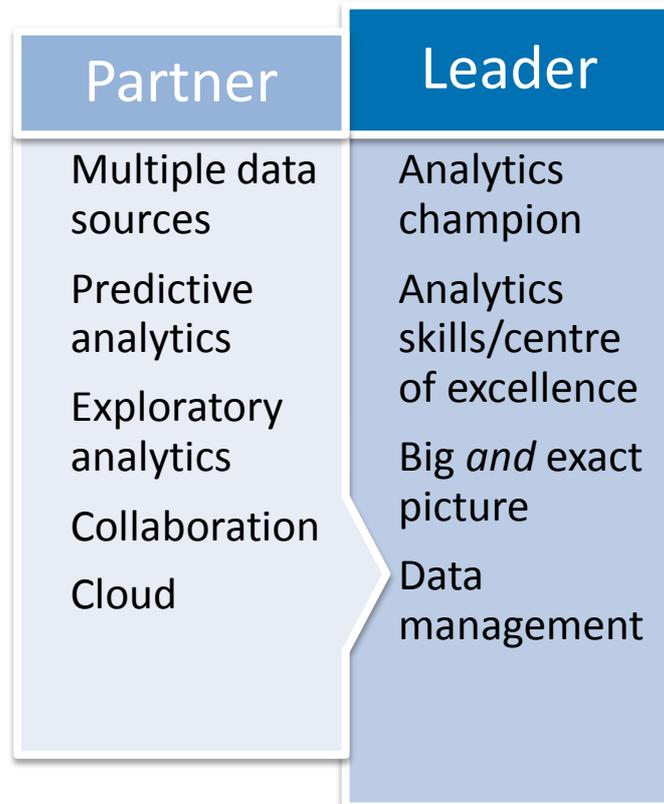
1. If the business expects finance to evolve from being an accountant to a business leader, it will need to arm CFOs with modern technology
2. The modern EPM suite needs to be a bridge to lines-of-business providing accessibility, shortening the learning curve, while allowing greater flexibility in analysis
3. Cloud, exploratory analytics, and predictive analytics are likely vehicles that will help organizations achieve these ends
4. Scalable infrastructure and a capability to integrate and analyze data without the strict need of schema adherence will be key to realizing this new paradigm
5. Technology aside, enterprises will be responsible for handling the cultural aspects of this "data progressive" way of looking at analytics and finance
6. With the right analytic tools, finance will likely emerge as a natural ally to 'democratizing' analytics
7. Topics like data governance and data quality will need a mix of traditional approaches as well as novel, point approaches to ensure that there is a balance between complete data lockdown and self-service

Reactive accountant to business leader

Finance as a business leader

Finance has been considered a back office function for too long, and this is not the vision most enterprises have when they think about modernizing finance. We believe that the modern finance organization will play two key roles in the future that of a business partner and a business leader – which requires a higher level of proactive thinking and business skills than the partner stage.

Figure 1: Evolving roles in the finance function



Source: Ovum

Increased pressure from investors and a changing business environment continue to have a significant impact on these roles and the ability of the CFO to execute on them. We believe that investment in the right analytics skills and technology can help finance play a greater role

Four key changes to hit finance thinking in 2016 and beyond

To deliver successfully on the future business leader role described above in figure 1, Ovum believes that finance organizations need to prioritize the following in 2016.

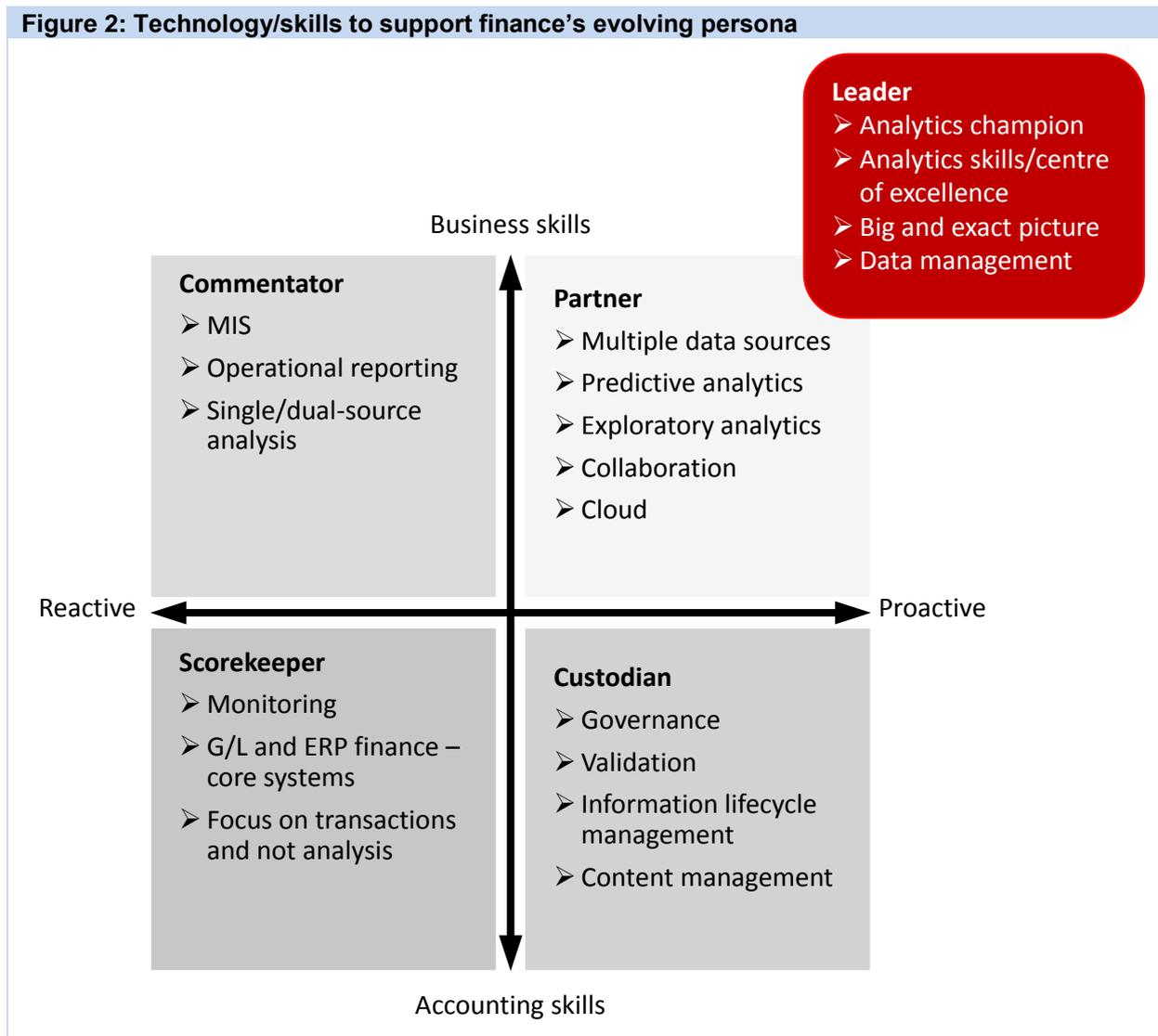
- **Focus on predicting business outcomes and driving profits:** As the global economy rebounds from the downturn, finance departments will be required to play an active role in driving business growth. Proactive finance departments will therefore be looking to model budget requirements more accurately, estimate overruns, and provide comprehensive what-if scenarios to influence business behavior.

- **Empower line of businesses, be approachable, distribute the workload:** In order to reduce the workload of the finance department and empower line of business users, companies will increasingly seek to ensure that budgeting and planning happens at department level, by allowing non-finance users to easily create budgets and plans, allocate necessary funds to projects, and collaborate with finance to manage budget overruns and shortfalls.
- **Do more with less:** With multiple roles to fulfill, the finance department is perpetually stretched for time and resources. Finance will therefore look to invest in EPM solutions that provide higher automation of mundane tasks, while upgrading their data and analytic infrastructure (in collaboration with IT) to perform financial activities faster than before. In particular, they will look to further streamline scorekeeping and custodian processes to free up resources to focus on value adding roles such as profit maximization and top-line growth.
- **Increase analytical rigor, but decrease complexity:** Many organizations rely on corporate-level or divisional views of profitability and fail to regularly allocate revenues and costs down to the individual product, service or customer levels. Granular views are essential to gaining a better understanding of which lines of business are adding or detracting value from the business. Having a highly granular, repeatable, and accurate system for allocating revenues and costs can reveal hidden insights about which parts of the business that are truly profitable and not. Going forward, companies will need to increase granularity in analysis, while increasing the abstraction level in communicating the results. Finance professionals are still bogged down by too many details and will need to further automate tasks, ensuring that human intervention is required only where it is truly needed.

How will technology transform finance? Think cloud, exploratory analytics, and predictive

On the technology front, it is our view that analytics will become a key differentiator for EPM, and user preferences will likely dictate that enterprises adopt a hybrid model that allows older EPM systems to coexist with newer solutions. In 2016, we also believe that the cloud will make its biggest impact on EPM, as has been predicted for some years. There are favorable headwinds for cloud already, with several mega-vendors facilitating the mass exodus of core financial applications to the cloud. However, it will not be the traditional advantages of the cloud but more of its softer benefits, such as faster time to market, ability to fail fast, and technology abstraction, that will make or break the case for cloud based planning. These trends are starting to gain traction, especially in areas where finance intersects with functions such as sales and marketing, and in verticals such as retail, where businesses are largely web native and B2C.

Figure 2: Technology/skills to support finance's evolving persona



Source: Ovum

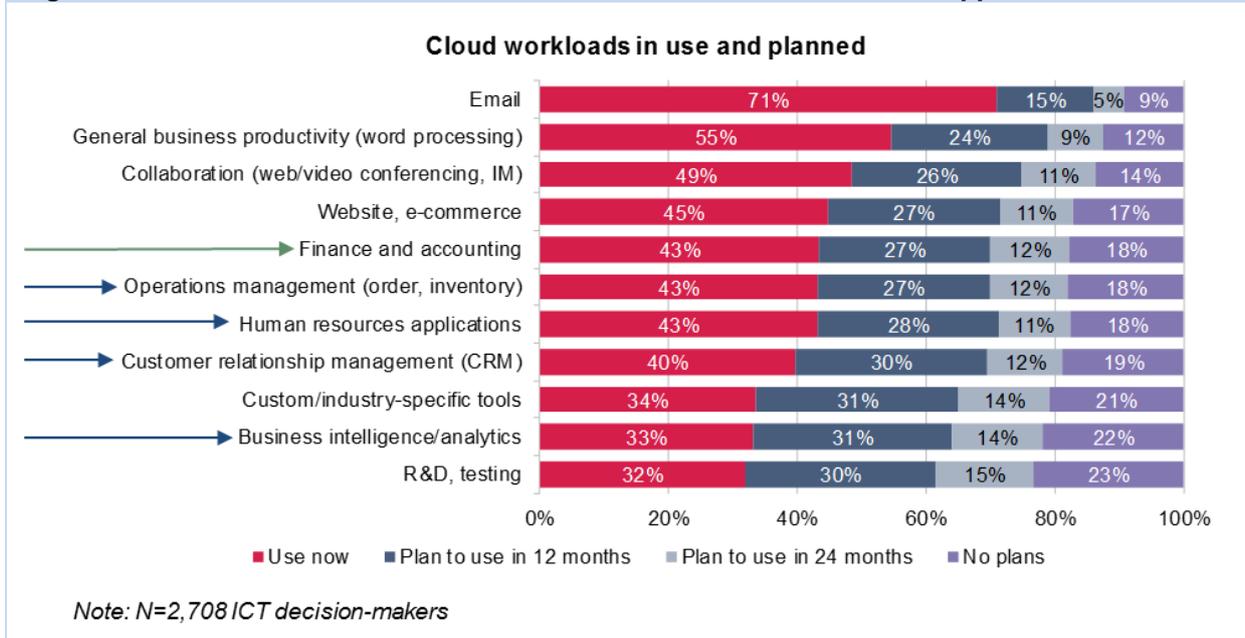
Cloud will be a key 'engagement model' for EPM

Planning in the cloud offers new ways to consume, collaborate on, and turn content into actionable insights. Cloud helps reduce the time and expense of developing new ideas that help increase customer engagement. In the age of austerity, cloud planning makes it possible to invest scarce organizational resources to engage customers and have employees working towards a common enterprise goal, rather than in keeping the lights on and producing non-differentiating analysis.

Cloud will help finance move closer to data and other lines of business

Across the board, enterprise perceptions about the cloud are changing fast. Cloud computing no longer elicits adverse reactions from most CXOs, and CFOs are no exception. Figure 3 illustrates cloud adoption across a global enterprise base.

Figure 3: Cloud has made substantial inroads into finance and business applications



Source: Ovum 2014 Enterprise Insights

It is evident that finance and accounting find the cloud invaluable. In addition, there is also very high adoption of cloud services analytics and lines-of-business applications (as shown by the blue arrows). With the increasing adoption of cloud CRM, HR, and payroll systems, cloud planning becomes a natural progression for most enterprises. As more data is located off-premises and inside cloud PaaS applications and databases, we believe that the case for cloud planning becomes stronger.

Cloud will help planning get more robust by providing access to external data

Business changes and uncertainties in the economic environment are leading factors for planning variability from actual performance. In the future, the importance of external data to planning and analysis will only increase and solutions that base their forecasts on internal data only will fail to account for the market's impact on the business.

While external data can be used in on-premises planning systems as well, in practice, the cloud is better suited to analyzing streams of data whose business value cannot be ascertained before analysis. With a cloud solution, the result is an elastic infrastructure that can be provisioned, managed, and scaled up and down at will, without creating any additional overheads for the customer.

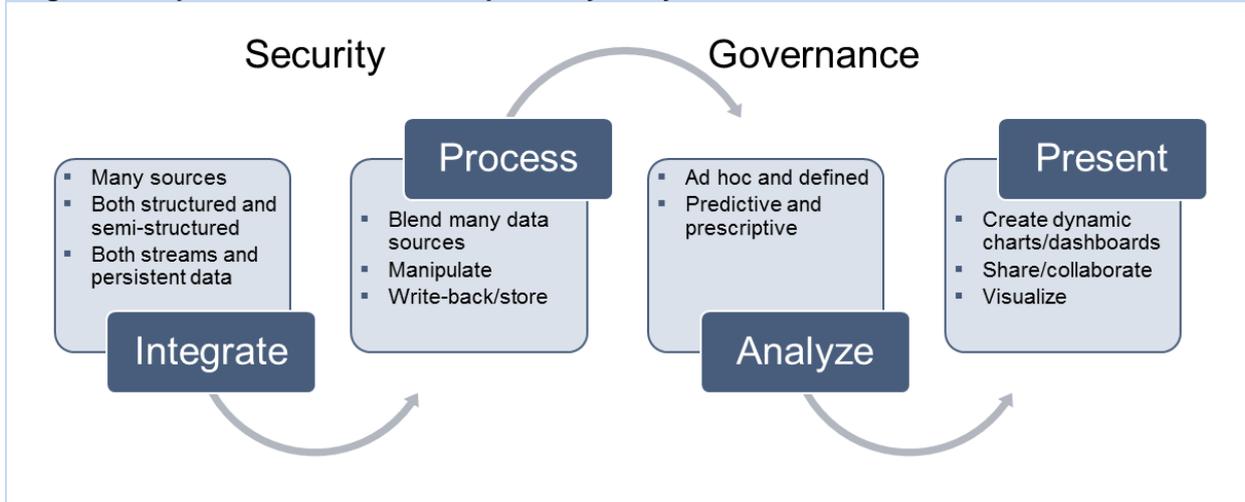
Exploratory, self-service analytics will drive discovery driven financial analysis

What do we mean by "exploratory, self-service analytics"?

We define "exploratory analytics" to be a method or philosophy of analysis which places maximum emphasis on ad hoc querying, testing and re-testing of hypotheses for problem or query definition and data set selection, and dynamic visual representation, irrespective of underlying data structure or platform (e.g. "small" versus big data).

Figure 4 shows a broad classification of the features we believe are key to exploratory analytics solutions.

Figure 4: Capabilities desirable in exploratory analytics solutions



Source: Ovum

Why do we need exploratory, visual, and self-service technologies in EPM?

Traditional FP&A systems often tend to take a rigid, process-oriented approach, leaving very little scope for ad-hoc exploration of data. As a result, FP&A largely becomes a planning and reporting exercise with very little analysis of underlying factors.

There are three key reasons why planning is progressively failing to achieve meaningful objectives; an increasing variety of data sources (revenue, costs, forecasting, exchange rates, risk, and operations), the resulting increase in the volume/size of data, and the high skill requirements for managers to achieve a holistic understand of this data. As a result, managers are not able to perform even routine analysis of root cause factors. As a result, there's a widening gap between BI and EPM that no traditional tool is currently addressing. This leads to a greater reliance on disjointed MS Excel like tools which perpetuate data silos and end up exposing the organization to greater operational risk. A recent article in CFO.com covers a survey by APQC, a member-based nonprofit business benchmarking entity, showing that only 40% of 130 finance executives polled from very large organizations rated their FP&A capabilities as effective. Responses to several other survey questions underscored that executives consider their company to have low FP&A maturity. Enter exploratory, self-service analytics. A combination of exploratory analytics with traditional EPM provides a sandbox where enterprises are able iterating their queries, and identify which data sets to interrogate for the answers they are looking for. It's different from traditional analytics, where the data sets, schema, and queries are already pre-determined. At the exploratory phase, the user is expected to look for answers that explain why KPIs have changed, or whether they are looking at the right KPIs at all. Exploratory analytics does not replace an existing regimen of planning, analytic, query, or reporting tools – it complements it. Simply put, in planning, exploratory analytics:

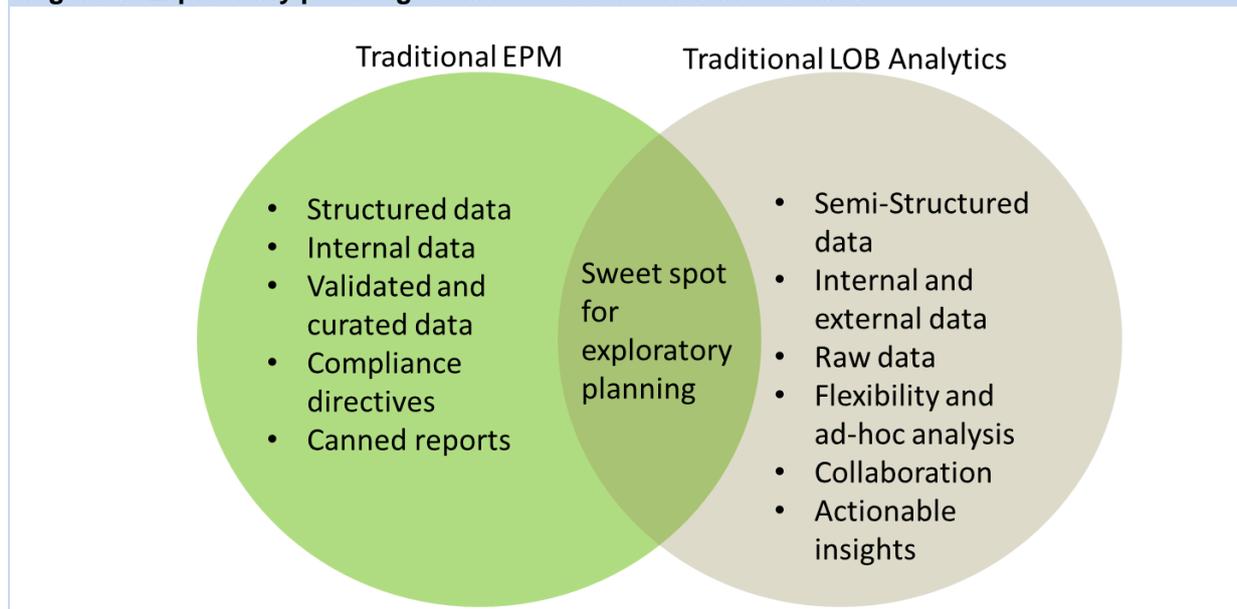
- **Shows the big picture:** it shows the forest. Traditional analytics and planning tools give you the precise picture, where you get down to the trees.
- **Lives in the ad-hoc:** may be used for quickly getting a fix on some unique scenario, where the user might run a query once and move on; or it can be used for recalibrating where you

should do your core data warehousing analytics – which means that it is a preparatory stage for feeding new data to the data warehouse.

- **Provides the context for making decisions.** Data warehousing analytics and planning are where final decisions (for which the organization may be legally accountable) are made, but the underlying parameters for making decisions can be derived from exploratory analytics tools

Overall, we believe that exploratory analytics can start at any point in the planning cycle. It can start either from the finance department or from a line of business. Since exploration is more about developing a new approach to planning which goes beyond rigid KPIs, there is no pre-defined technology path/roadmap. Figure 5 shows a probable sweet spot for exploratory planning.

Figure 5: Exploratory planning to tie finance and lines of business



Source: Ovum

Ambient predictive analytics will spur smarter, in-time decisions

Ovum has always believed that predictive analysis will not grow as an end-user tool market, but as an analytic function embedded within a specific business process/context. In the context of planning, predictive capabilities are key as they help organizations use historical data to derive insights that are actionable in the future. While most organizations appreciate the value of predictive analytics, a key impediment to broad adoption has always been the skill levels required. On an average, predictive analytics – involving modeling, what-if analysis, and scenario planning – is used by less than 1% of the organization. To be effective, predictive capabilities need to be embedded into line of business and finance applications and automated to a large extent, so that uninitiated users can use them without having to switch their operating environment or having to learn new skills (either math or coding).

Conclusion

Finance leaders of tomorrow will be evaluated on how effectively they **lead** business initiatives while being agile, inclusive, and insightful. Expectations from finance are only expanding, but finance itself has fallen behind the curve when adopting new technologies. When business users think of exploratory and insightful analysis today, they very rarely think of finance (beyond structured financial reporting). This is an incorrect perception: in reality finance professionals are often the most skilled when it comes to analytics, but limited by inflexible software and rigid processes.

There is another good reason why finance is a slow adopter of disruptive technology. It cannot take the risk of running mission-critical systems on new/unproven technology unless it is foolproof and there is a compelling business case for doing so. However, the rising tide of expectations is pushing many finance professionals to develop an entrepreneurial mindset and lead organizational initiatives with analytics as their primary tool. Finance is ideally suited for this job as it understands data governance and privacy, relies on process and models, and possesses analytical skills in-house. As the driving force behind organizational analytics, finance can end departmental silos, report across the enterprise, help departments understand and manage costs, and drive integrated planning. A key ingredient to finance's success will be its adoption of cloud as a way to abstract technicality. Using cloud and analytics, finance leaders can leapfrog a few generations of technology and offer mature analytical feature/functionality and skills to the entire organization.

APPENDIX

Methodology

The research is based on Ovum data plus ongoing consultations with Ovum clients, discussions with industry vendors, and extensive scanning of technical references.

Further reading

2016 Trends to Watch: Analytics, IT0014-003065, October 2015

Cloud EPM: A Metaphor for the Modern Office of Finance, October 2015

Technology Best Practices to Shorten Planning, Budgeting, and Forecasting Windows, March 2015

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