VENTANA RESEARCH

Achieving a Shorter Close

Software Automation Is a Practical Solution

Research Perspective

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Virtues of a Fast Close

Completing the accounting close quickly has been a longstanding objective for finance departments. Among those participants in our benchmark research whose departments take more than a business week to close, most (69%) said they want to shorten the process so they can provide financial data sooner to executives and managers. A faster close, of course, would enable them to respond more rapidly to changing business and economic conditions.

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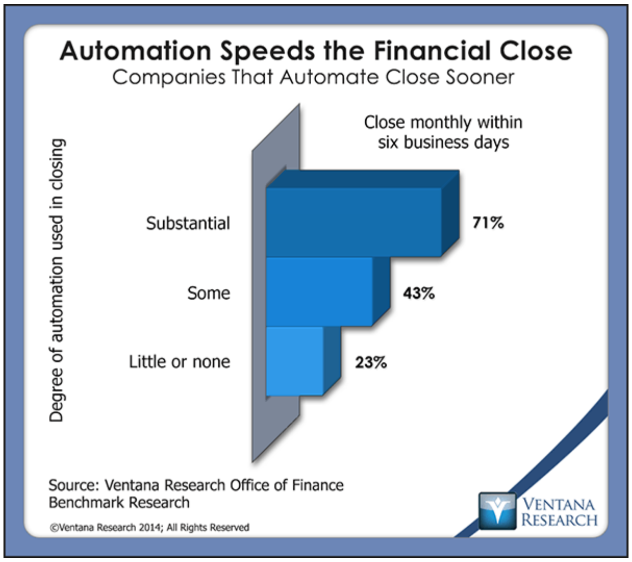
Finance professionals also told us that shortening the close would provide more time to analyze results, cut overtime and related costs and free up personnel for other duties. However, in more than a decade of tracking this metric our research has found no improvement in departments' performance.

Ventana Research coined the term "continuous accounting" to describe a framework for addressing finance department performance issues such as the close. This approach focuses on automating processes in a continuous end-to-end fashion, balancing departmental workloads across an accounting period and using a continuous improvement discipline to identify and correct issues that slow down the close process. Companies that want to accelerate closing should adopt this approach to achieve a faster close.

The Need for Automation

Continuous accounting focuses on automation because using software to automate manual tasks improves efficiency and speeds the completion of processes. This is particularly important for the accounting close. The vast majority (80%) of the companies participating in our research said they believe they should complete their quarterly or semiannual accounting close within a business week, yet only half as many (40%) are able to do so.

The degree of automation a company applies to the process is important: Our Office of Finance research shows that nearly three out of four (71%) companies that automate a substantial amount of their monthly close process said they are able to complete it within six business days, compared to 43 percent that automate some of the process and just 23 percent that automate little or none of it.



The three most important technology enhancements that a company can apply to its close process are to use dedicated financial consolidation software, automate account reconciliation and reduce the number of spreadsheets used in the close process. We examine each of these factors below.

Consolidation Software is Essential

Companies have been using financial consolidation software for decades because it eliminates the need for many time-consuming and error-prone manual summations, allocations and adjustments. Using such dedicated software ensures that the close is performed consistently and gives controllers up-to-the-minute visibility into the status of each part of the process.

Because of its expense and complexity, this software category initially was used mainly by very large corporations. Today, however, most companies can find software as a service (SaaS) that is designed and priced to meet their needs, cutting the cost of buying and operating software and eliminating the need for IT staff to support it.

For even companies that have a single ERP system and a single legal entity corporate structure, a dedicated consolidation application can save time. Those with multiple ERP systems or multiple legal entities almost certainly will find that consolidation software enables them to automate the close more completely than using their general ledger system along with a jumble of spreadsheets.

Dedicated applications may also provide finance organizations with capabilities that improve their efficiency and the quality of the process. One is built-in analytics and reporting that provide the means to automate the often time-consuming process of creating and distributing periodic reports. Also, these packages often offer collaboration capabilities that save time as well as make it easier to trace conversations and related entries or documents than using email with attachments. This can be of value because the close requires a high degree of teamwork. Consolidation systems also provide audit trails, alerts and traceability that facilitate internal and external audits.

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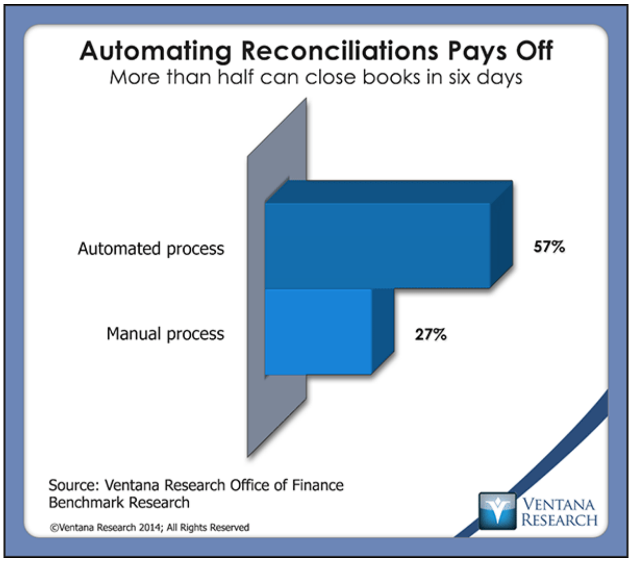
With such an application in place executives and managers can receive information and analyses days sooner than they currently expect it, enhancing the value of Finance to the rest of the organization. Of the companies that complete their close within four business days, half said that the information their finance department provides is timely, compared to 29 percent for those that take longer than four days.

Automating Reconciliations

In many organizations the process of reconciling the books hasn't evolved as the technology has. Increasing the automation of reconciliation saves time by eliminating unnecessary work. Dedicated software can, for example, highlight only the accounts in which there are issues. Often at least half of the accounts do not have to be reconciled.

Focusing only on accounts that require attention makes it feasible to perform reconciliations weekly or on another schedule that will substantially reduce period-end workloads. Spreading workloads across a period can speed the completion of the close, reduce costs and relieve stress in the department.

Our research finds that companies that automate their reconciliations process also close sooner: 57 percent of these companies said they close their books within six business days, compared to just 27 percent of those that perform reconciliations manually.



Limiting Spreadsheets in the Close

The corollary to increasing automation is reducing the number of spreadsheets used in the accounting close. Our research finds that nearly half (47%) of midsize and larger companies use spreadsheets to manage their close process. It also finds a correlation between spreadsheet use and how long it takes companies to complete a periodic close: Those that use spreadsheets extensively take an average of 8.2 days for their quarterly close, compared to 6.9 days for those that limit their use of spreadsheets and 6.2 days for companies that use spreadsheets only for complex calculations or one-time events. More than half (53%) of research participants admitted that using spreadsheets in the close process introduces risk through error, diminishes financial control and can lead to compliance failures.

In short, spreadsheets waste time, make it harder for people to find or clarify the information they need and squander resources better spent on more important work.

Accelerate Closing Now

Continuous accounting uses technology to enable finance organizations to eliminate mechanical repetitive work, shorten process cycles and enable staff to focus on more valuable work. The need to accelerate the close is especially pressing for most companies today. Their finance departments are challenged because they must do more with fewer resources than they've had in the past.

Cloud-based applications level the playing field because they don't require up-front investments in hardware and software or specialized skills to operate applications. Cloud-based software for consolidation and reconciliations and closing thus provides companies with a practical option that can enable them to close sooner with greater reliability and control.

Ventana Research recommends that companies – especially those that take more than a business week to close – investigate software to automate as much as possible of their close process.

About Ventana Research

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