MAKING THE CASE FOR CLOUD-BASED MODELING APPLICATIONS

BRINGING FINANCE AND OPERATIONS TOGETHER FOR A COMPREHENSIVE VIEW OF THE BUSINESS

CFO◆

hostanalytics

In today's business environment, finance executives are tasked with managing complex business plans, which means keeping close tabs on how business units are performing and forecasting the financial results with real-time input from business operations.

"There is a growing need to break out of the finance department and look beyond the budget to drive value in the business. Business leaders understand that they can make better business decisions by incorporating data from across the organization into their financial planning process," said Brian Martell, Director of Product Marketing, Host Analytics, a leading innovator of cloud-based EPM.

Instant access to the most current and accurate data, sourced from the functional business leaders who know the numbers best, enables the finance team to partner with the business in a more meaningful way, conduct more thorough and insightful analysis, and help drive better strategic decisions.

The challenge lies in navigating the technical and cultural changes necessary to adopt a connected planning framework. Many users are set in their ways and consider offline spreadsheets, with their limitations and risks, a necessary evil. Others are simply unaware of available cloud-based software applications that are uniquely designed to solve these problems. A good first step is a willingness to go beyond the comfort zone of Microsoft Excel and evaluate the benefits of cloud-based modeling solutions.

This eBook outlines:

➢ **The value of a connected planning framework in the organization**

➢ **The importance of purpose-built, cloud-based modeling software applications**

➢ **What real users are saying about their success with cloud-based, connected modeling applications**

THE VALUE OF CONNECTING BUSINESS AND FINANCE

In business, there is often a tendency for different groups within an organization to focus on and only worry about their particular unit's performance. While that may maximize the potential of the business unit, it creates and perpetuates a myopic view of enterprise-wide performance and responsiveness. The power to impact the bottom line is only fully realized when finance and the business functions align and connect. Cloud-based modeling helps organizations make that connection.

Finance teams are highly skilled at developing and managing financial plans and reports. They understand the language of finance and accounting, and how financial data from across the organization comes together to paint the big financial picture of the organization.

Operational business leaders are experts in planning and managing the specific aspects of their particular business functions. Business users throughout organizations make extensive use of models to plan their business and evaluate scenarios, most often using Excel. Business users in all industries and functions create models for applications including sales capacity, inventory depletion, demand generation, logistics, marketing, and supply chain, among many others. Models may be used in the finance function but are more typically non-financial. Modeling is used to explore potential strategies and tactics and to support decision making. Once decisions have been made and a scenario selected, the operation will move forward with execution, and financial budgets, plans, and forecasts will be developed or updated.

However, operations and finance have historically had difficulty connecting their plans and models in real-time. With isolated, legacy-based approaches to modeling, manual intervention is needed to coordinate disparate modeling exercises across the business, and financial plans need to be created manually by copying and pasting some elements of the models as drivers and data inputs. These isolated, disconnected manual processes may support businesses with very slow cycle times, but they are no match for the constantly changing business conditions that are a reality in most industries. Today's competitive business environment demands a seamless connection between financial plans and operational models.

Current cloud-based modeling software applications solve this problem by providing instant connectivity between financial plans and operational models within a single cloud-based application based on a single source of truth, so that finance and operational managers can collaborate on optimizing business outcomes.

This process, commonly referred to as connected planning, consists of connecting people, systems, plans, models, and data from the around the organization around a single source of truth, in real-time. For example, when the VP of Sales increases the bookings forecast halfway through the quarter, the VP of Marketing is immediately aware of the change and can update his lead-generation model accordingly. Importantly, finance is also automatically informed of the change to projected revenue, and sales and marketing expense, in the financial forecast. The result is an enterprise that can quickly respond to changing business conditions and better predict and control the future financial performance of business activities.

"AS MORE USERS HAVE ACCESS TO THE DATA, THEY CAN BOTH ANSWER QUESTIONS BY THEMSELVES AND/OR START THE DISCOVERY PROCESS TO PASS OFF DEEPER ANALYSIS TO A FINANCE AND ANALYTICS TEAM."
**—Kenneth Fick, Senior Manager, MorganFranklin Consulting**

Empowering users to perform their own analysis broadens the company's perspective on business operations, identifies new market trends, and helps uncover more opportunities

By implementing a connected planning process, functional business users are empowered to build and use their own models, understand how their models and projections impact the bigger picture, and proactively manage their business with more insight, control, and accuracy. Finance benefits from this relationship because it results in more accurate, timely, and informed budgets and forecasts. It also elevates the business relationship between finance and the business. Conversations are more frequent, insightful, and meaningful regarding what is happening in the field and how best to respond.

"As more users have access to the data, they can both answer questions by themselves and/or start the discovery process to pass off deeper analysis to a finance and analytics team," said Kenneth Fick, Senior Manager, MorganFranklin Consulting.
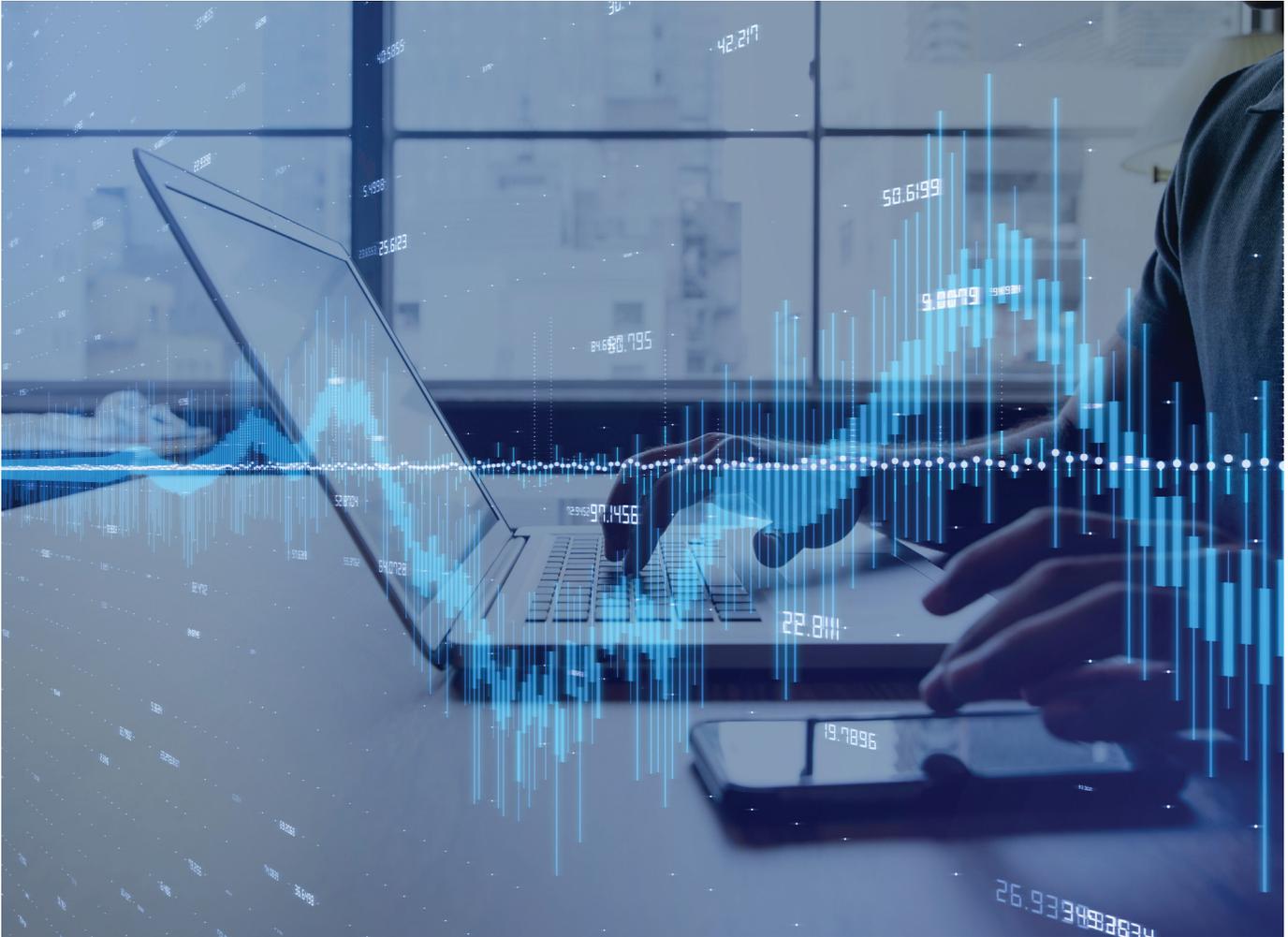
MAKING THE CASE FOR PURPOSE-BUILT, CLOUD-BASED MODELING APPLICATIONS

The digital revolution has produced a variety of business applications that have made the work of finance and accounting professionals faster, easier, and more analytical. These applications help organizations to succeed in today's competitive business environment. However, not all systems are created equal, and there are a lot of different software applications available in the market that are designed for different financial processes. Therefore, choosing the right one for a connected planning transformation initiative can be challenging for teams that are unfamiliar with options and best practices.

A helpful first step for deploying a connected planning framework is understanding the general types of software available in the market today. Next, we will explore why offline Excel spreadsheets don't get the job done in today's complex business environment, why traditional financial planning applications aren't properly suited for the requirements of connected modeling, and finally why purpose-built, cloud-based modeling applications are the preferred approach.

The dangers of Excel for enterprise-wide planning and modeling

While spreadsheets have been phenomenally successful personal productivity tools due to their intuitive formula language and flexible user experience, they were not designed to be powerful modeling solutions at enterprise scale. "Once spreadsheets grow to a certain size and complexity, they become impossible to manage and unreliable," said Martell of Host Analytics. Neither are they designed to be connected and collaborative enterprise-wide tools. The limitations of spreadsheets include:

• **Data integrity issues.** Broken links and formulas, inaccurate and outdated data, and risk of data entry errors are among the concerns.

• **Scalability issues.** With their large, multi-tab workbooks with inter-linked tabs and formulas, spreadsheet-based models are rigid, brittle, and a nightmare to modify. They grow out of control, quickly become unmanageable, and soon no one can even remember how or why certain tabs and formulas relate to others.

• **Collaboration, version control, and security challenges.** When multiple versions of spreadsheets sit on individual computers, it's almost impossible to keep track of the most current version, or ensure that only approved users are accessing and modifying the data and model.

Why legacy financial planning applications don't quite solve the connected modeling problem

Financial planning applications are designed to perform a strict set of accounting requirements. These systems are great at categorizing data within formal business segments like legal entity, department, and GL account, presenting a revenue or expense input template, calculating depreciation, generating P&L or balance sheet reports, and natively understanding financial concepts such as debits, credits, balance, flow, and currencies so that financial data behaves the way finance and accounting professionals expect.

Modeling, on the other hand, is about creating a quantitative representation of some aspect of a business operation. In other words, it is a mathematical approximation of the reality of some part of a business. It is a strategic activity that encompasses a broader set of users, data, dimensions, security, timing, and workflow needs. These elements often vary widely from the formalized structure in which finance and accounting operates. A business user doesn't need or care to know what a debit or credit is when modeling their business function because in all likelihood that's not how they think about their business. Instead, they think about the things and actions that drive business decisions and activities. In addition, financial planning applications don't easily accommodate

free-form modeling. The basic accounting functions built into the design of a financial planning application end up forcing business users into a very rigid box that inhibits them from building models the way they want or in a way that is meaningful.

The case for purpose-built cloud-modeling applications

Today's competitive business environment requires a powerful modeling application that connects operations and finance.

Businesses are complicated, as are the models that support them. That is why applications used to support modeling in business need powerful capabilities to get those mathematical models and calculations as relevant and accurate as possible, so that the decisions you take based on the models deliver the outcome your business is expecting.

Best-of-breed modeling applications are built on dedicated, multi-dimensional modeling engines that include powerful modeling features—including custom hierarchies, dynamic dimensions, and breakback—that provide users with the flexibility to model top-down, or bottom-up, with unlimited scenarios and time horizons. Since modeling is an inherently multi-dimensional ad hoc exercise, it requires interactive analytical exploration of data, rapid evaluation of alternatives, and inspection of projected outcomes from different perspectives. Buyers of these applications should look for software that includes a dedicated multi-dimensional engine that has the analytical power to explore and evaluate large multi-dimensional datasets quickly and easily.

Use a powerful, multi-dimensional cloud-modeling engine that can process large data sets and large-scale data calculations at high speeds

Since the formulas that permeate your models are written using the Excel formula language, it is best to choose software applications where formulas are created using the Excel formula language and user experience. This allows finance and business users to operate their applications autonomously, with the formula language they already know, and without involving programming specialists from IT, vendors, or consulting companies.

Historically, business operations have built models in isolation, without synchronization between business functions or between operations and finance. While the goals of finance and operations are discrete, and the ideal application experiences differ, there is a direct connection between a scenario that has been modeled in operations and outputs from that model that need to be included in financial plans, budgets, and forecasts. Leading cloud-based modeling applications offer instant connectivity between operational models and a direct connection to financial plans, budgets, and forecasts.

Cloud-based modeling applications provide a level of power, scale, structure, and connectivity that offline spreadsheets and basic financial planning applications cannot deliver. They eliminate the limitations and risks associated with spreadsheets, such as data integrity and security, version control, and collaboration issues, and they provide power and flexibility that extend far beyond what traditional financial planning applications were designed to handle. They are uniquely and intelligently built to handle complex, enterprise-wide connected planning and modeling.

Currie adds that managers have come to rely on Host Analytics to understand the consequences of actions before they take them. "For example, if we know that there's a planned price increase or price concession provided to a large customer, we can account for that in our forecast," he says. "We can also test for the impact of cost-cutting initiatives, gauge the impact on revenue by adding a certain type of customer, and a lot more. And we can save every scenario to compare outcomes."

Increased the speed and accuracy of the traditional financial planning process by connecting operational and financial models to financial plans and forecasts

"We are now iterative in our methods, both tracking and improving assumptions along the way. In turn, that means we can be a lot more accurate in the forecasts we build on top of tested and measured assumptions," said Mahesh Patel, CFO, Druva.

Gained strategic insight into company performance by comparing historical and projected drivers and adjusting assumptions on-the-fly to optimize current-period results and inform future plans

"Modeling was really what ultimately led me to choose Host Analytics over other possibilities." – Lee Johnston VP, Finance and Corporate Strategy, LT Apparel "Apparel is a fickle business." With the Modeling module, Johnston can try different "what-if" scenarios and see how they impact his 27-month forecast. "It's very powerful to be able to make decisions based on reasonably reliable information," he says.

USERS EVERYWHERE REALIZE BENEFITS WITH CLOUD-BASED

We spoke with a number customers from Host Analytics to learn how connected modeling applications have impacted and benefited their organizations.

Achieved a comprehensive view of the business with connected operational and financial models

"Flexibility is a key advantage of Host Analytics. You can adjust assumptions and the forecast updates automatically. You can change scenarios without corrupting data. Adding more advanced reporting will allow us to track the business in ways we hadn't thought of before," said Brian Currie, Finance Manager, Dyno Nobel.

CONCLUSION

Modern finance organizations are not only tasked with producing on-time budgets and cranking out flawless financial reports, they are strategic partners in driving the business forward. While the Excel tools that the finance team know and love have been serving them well for decades, they are not designed to be the powerful, flexible, and collaborative tools for advanced business modeling needs of the future. There are now cloud-based planning applications available in the market that are powerful, connected, easy to use, and offered at a affordable prices. Business leaders everywhere should explore the many benefits these applications offer.

CONNECTING PLANS AND MODELS ACROSS THE BUSINESS IN ONE CENTRAL, CLOUD-BASED APPLICATION RESULTS IN:

➢ More accurate and timely plans and forecasts

➢ More collaboration across the organization

➢ Improved ability to make better decisions, faster, in the face of changing business conditions

With the ability to connect finance and operations, cloud-based modeling applications provide increased agility to drive strategic initiatives throughout the organization. The ability to modify key business drivers in real-time and analyze their impact on a variety of potential outcomes enhances the ability to optimize performance, and better inform future plans and strategies. Agile and robust modeling capabilities are essential to the future of the enterprise and the finance-business partnership.

ABOUT **HOST ANALYTICS**

Host Analytics is the leading specialist provider of cloud-based connected financial planning and close solutions. Built with financial expertise and a dedication to customer success, Host Analytics meets the needs of finance and accounting teams and helps them to evolve as business conditions change. More than 800 customers including Bose, Boston Red Sox, La-Z-Boy, Mayo Clinic, NPR, OpenTable, Peet's Coffee & Tea, Pinterest, Swissport, and Vitamin Shoppe rely on Host Analytics for planning, budgeting, modeling, consolidations and reporting. Host Analytics is a private company backed by Vector Capital, a leading global private equity firm specializing in transformational investments in established technology businesses.

hostanalytics