



BUSINESS PERFORMANCE SERVICES

Business Performance Management

Leading Practices

2 November 2009

ADVISORY

Agenda

- **Finance Function of the Future**
- **Planning, Budgeting and Forecasting Leading Practices**

Finance of the future ... prediction

- **The fundamental role of finance would be:**
 - To provide insights
 - To ensure effective control and risk management
 - To drive the organization's efficiency

Provide management across the organization with the appropriate guidance, knowledge, and information to help them make informed financial-based business decisions.

Insight

Drive finance's internal efficiencies and deliver optimal cost/ service balance for the organization. Support in the identification and management of efficiency drivers across the rest of the entity.

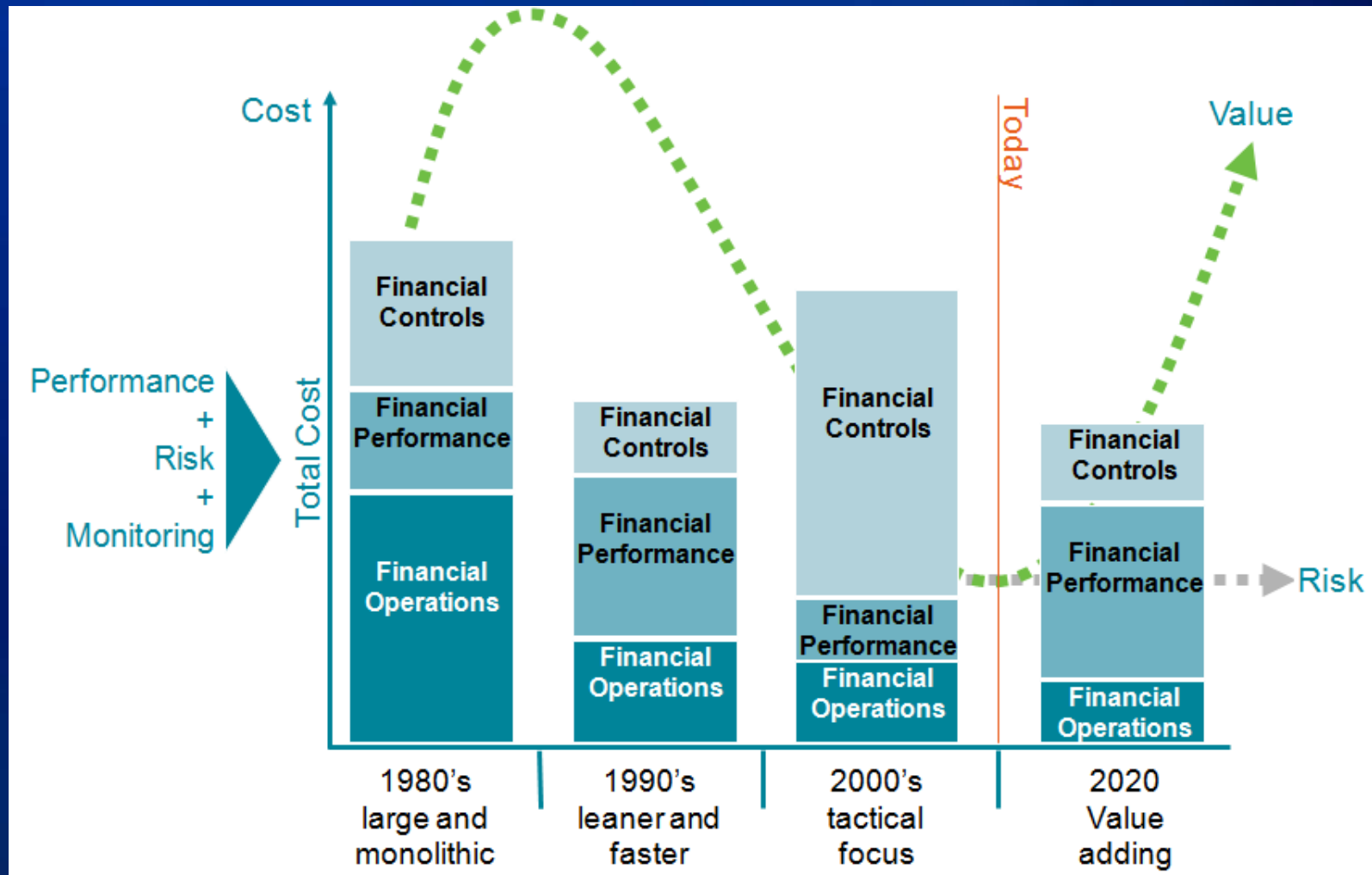
Efficiency

Manage and maintain the control and financial risk environment, processes and policies.

Trust

Balance of Responsibility in Finance in 2020

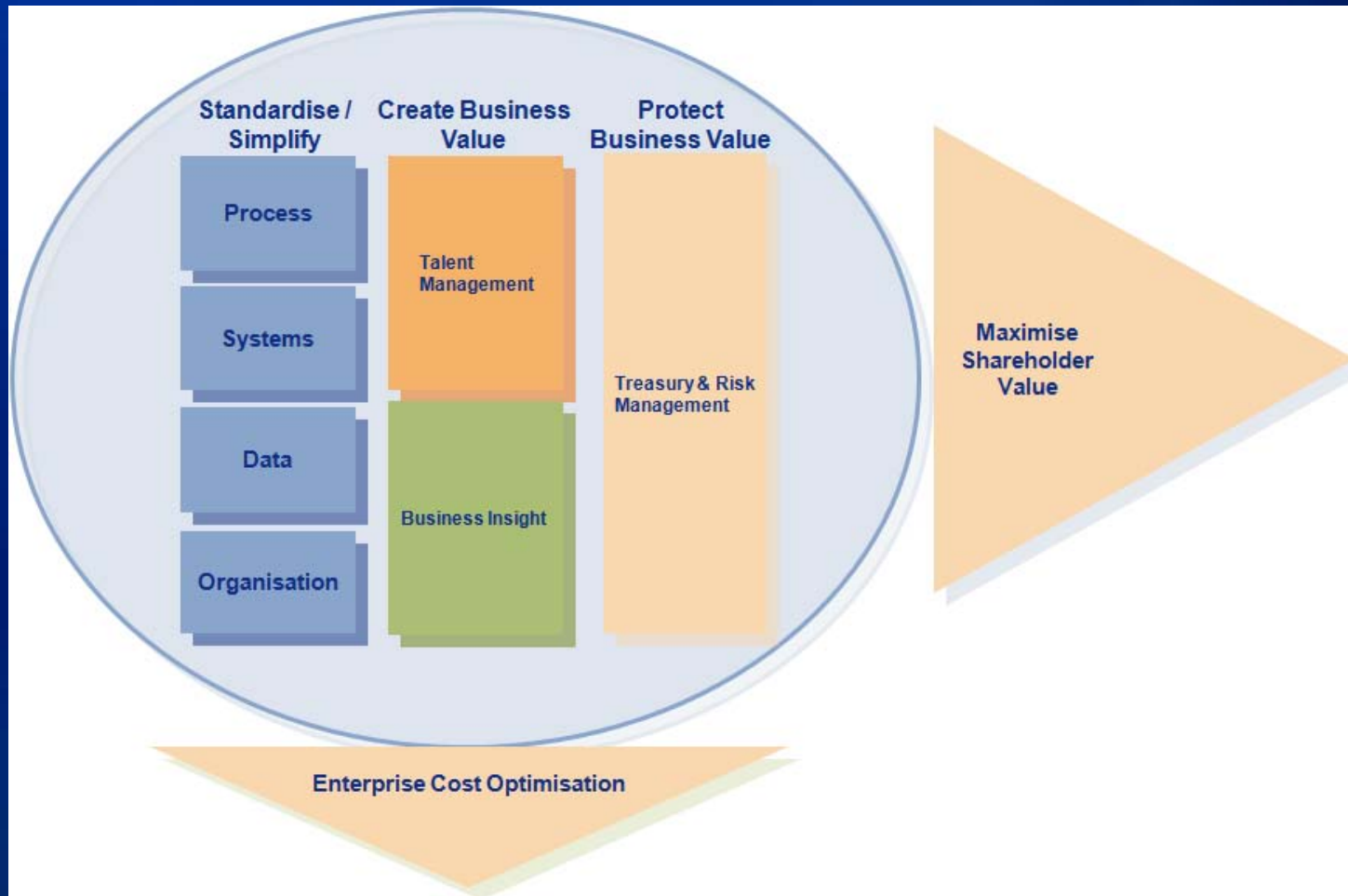
Finance of the future ... focus



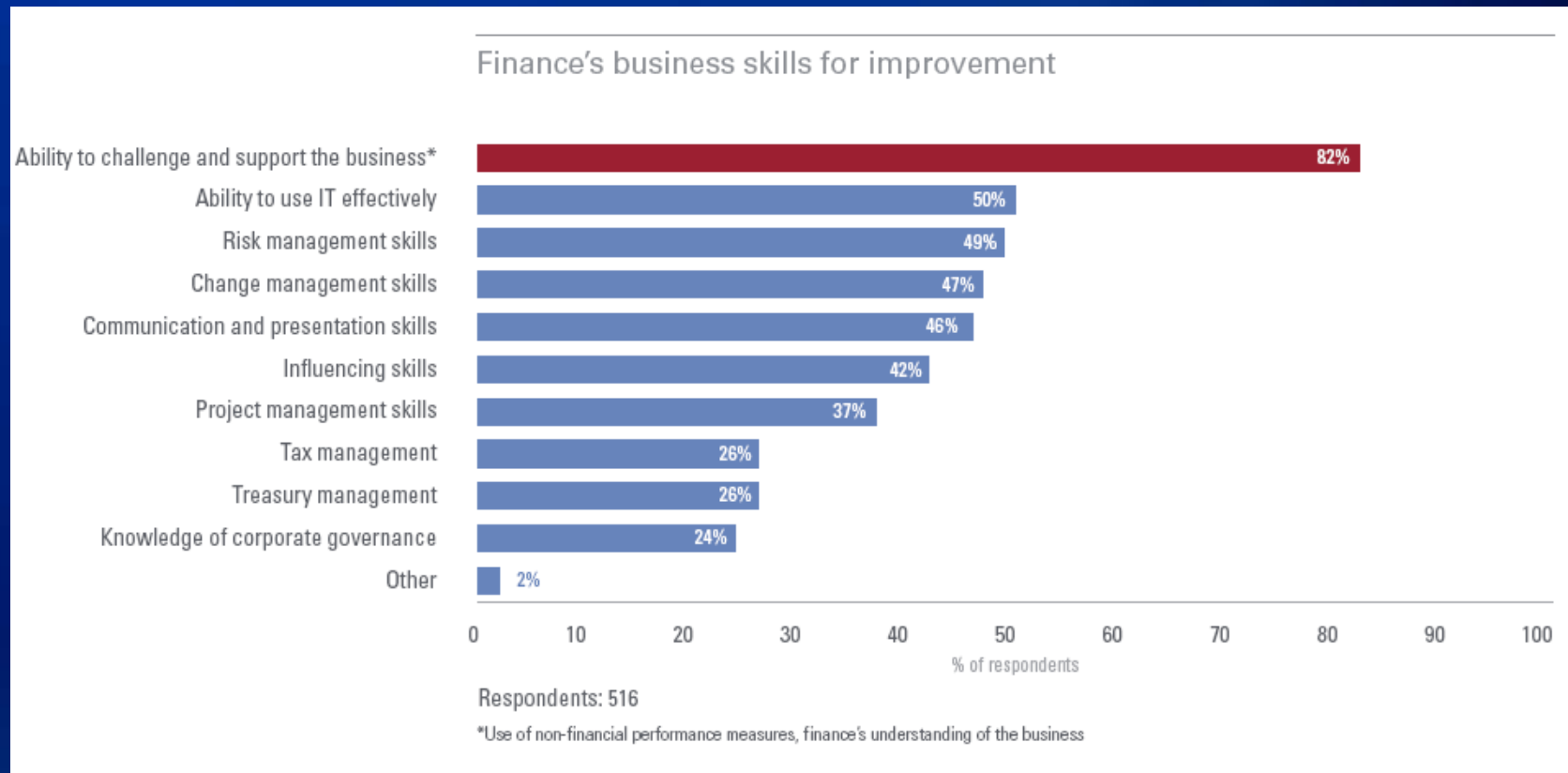
Finance of the future ... where are we now ?

- **Possibly lower cost, but no greater business value.**
- **Inefficiency still prevalent within systems, processes and data**
- **Huge amounts of downloading and rework by highly paid finance professionals**
- **Budgeting and planning is killing value and entrepreneurial spirit**
- **Over-qualified people doing low value activities**
- **Exemplar models are few and far between**

Finance Function of the Future ...



Finance of the future ... skills needed



Source: 2009 Being the Best: Thriving not just surviving, KPMG/CFO Research Survey

By 2020 ... how will a CFO look ?

- Finance and business operational models converged
- Finance professionals integral to customer and product profitability, pricing, marketing effectiveness, R&D, enterprise cost optimisation
- Finance is no longer consulted after the event but inputs into decisions as they are shaped
- Finance analyses data from within and outside the organisation, to draw insightful conclusions and to help executives make value-enhancing decisions.
- Developing people is a clear way to create competitive advantage



We need to bridge the crisis of confidence ...



“Up to 50 percent of managers place no confidence in the numbers presented to them.”

**Business intelligence research
Cambridge University 2009**

By 2020 – the data “bottlenecks” are eliminated

- **Cross-organisation agreement on key drivers of value**
- **Finance is engaged with executives and managers in understanding the truly important business metrics**
- **Data is clearly structured around the key drivers of value**
- **Single global data sets, entered once and not manipulated off line**
- **Use available data technology to mine nuggets of knowledge and to identify trends**
- **Finance takes stewardship of non-financial metrics**



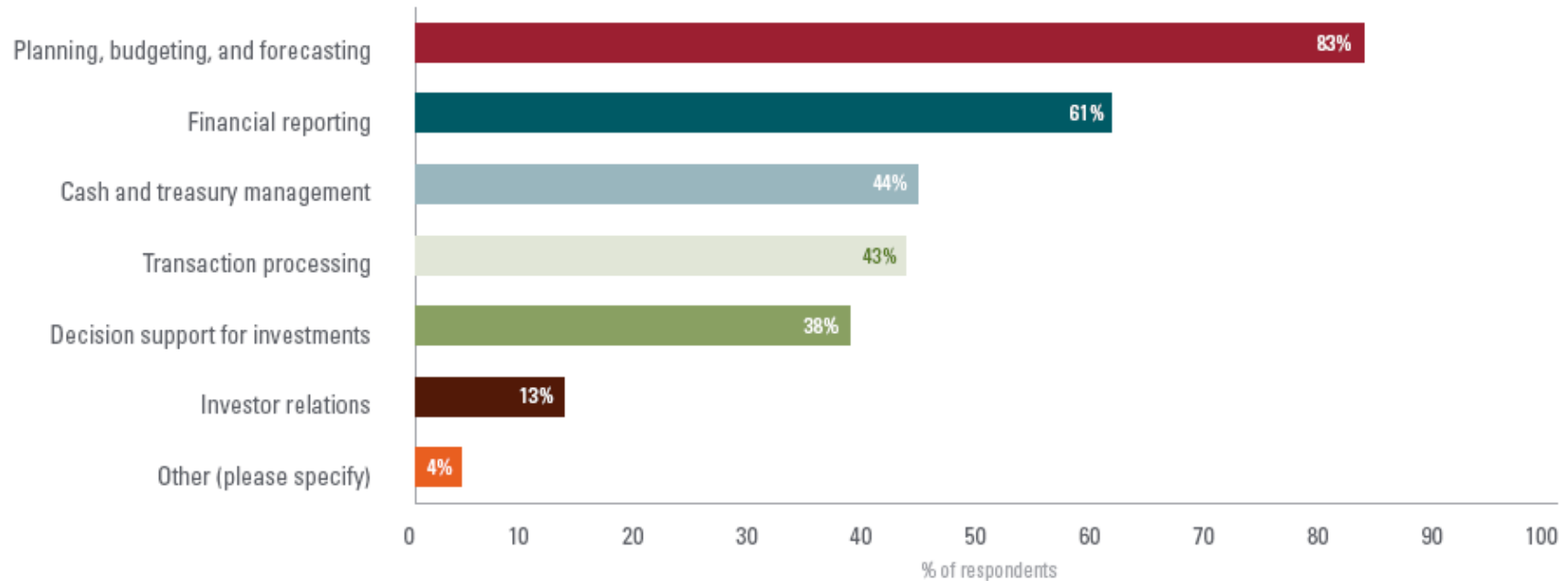
Finance of the future ... a true partner

Finance's role can be augmented with judicious application of a good BI Framework leading to :

- Less time on cost control and more time on decision support**
- More time on planning, budgeting and forecasting, and management reporting**
- Use of non-financial performance metrics, and increased understanding in the business**

Finance of the future ... managing through volatility

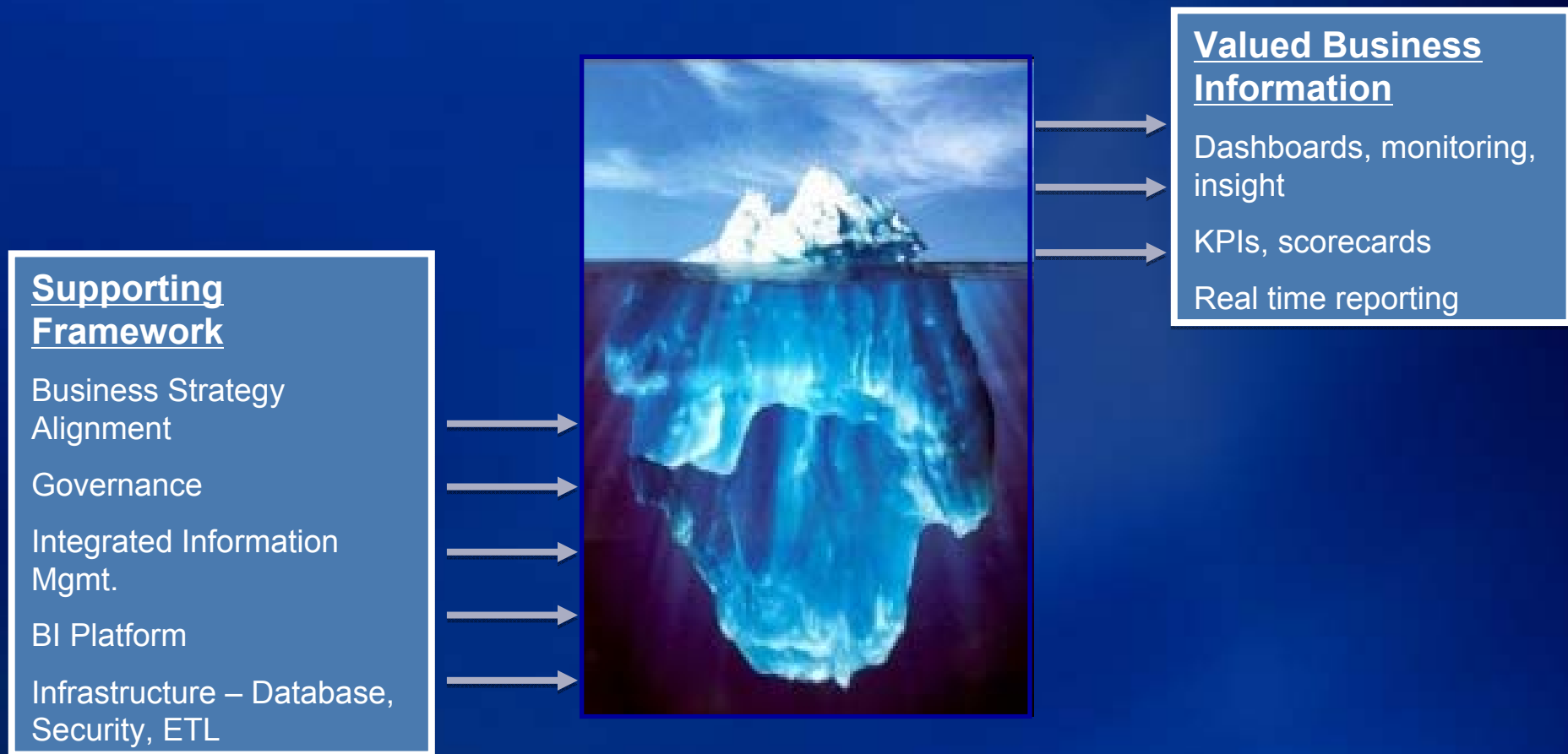
4. Which of the following finance activities and processes is your organization most likely to improve over the next two years?
(Please choose all that apply.)



Respondents: 516

Source: 2009 Being the Best: Thriving not just surviving, KPMG/CFO Research Survey

Performance Management ... More than reporting



Unreliable forecasting costs money and is the top concern of CFOs

FORECASTING WITH CONFIDENCE

Oct 2007

“Forecasting errors have cost organizations **6%** of share price, on average, over three years....”

Research shows that unreliable forecasting costs money, helps reduce investor and shareholder trust and it limits business performance

A reliable forecasting process is at the heart of managing future performance.....

The process urgently needs fixing - two thirds of CFOs rank as top priority for improvement

FORECASTING WITH CONFIDENCE

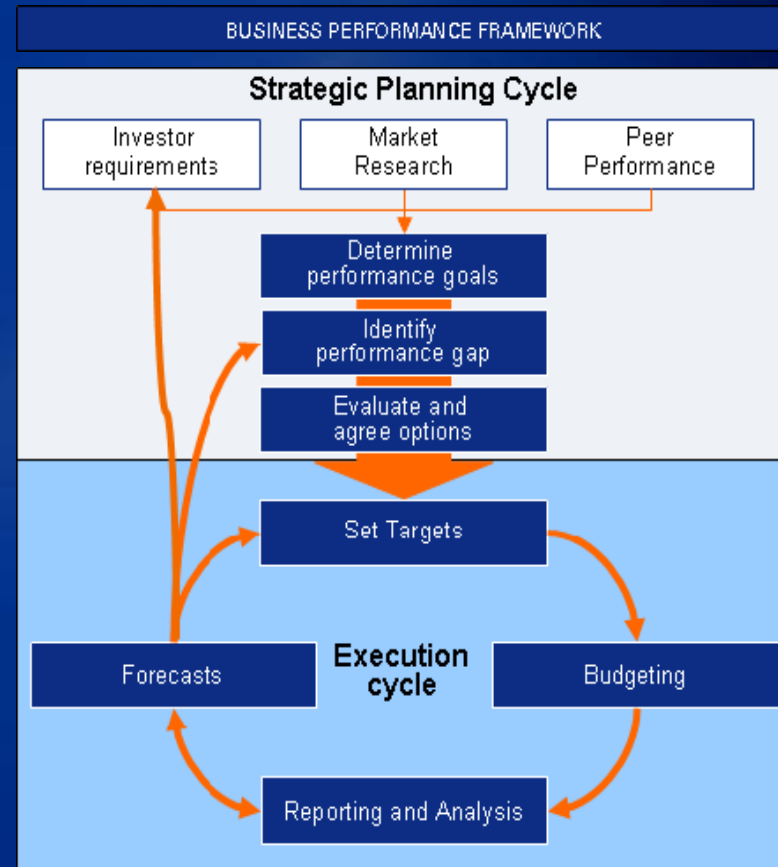
Oct 2007

“On average forecasts are out by **13%** over the last 3 years.... ”

FORECASTING WITH CONFIDENCE

Oct 2007

“Companies who are good at forecasting saw overall share prices rise a third more than other companies....”



Source: EIU/KPMG survey “Forecasting with confidence”

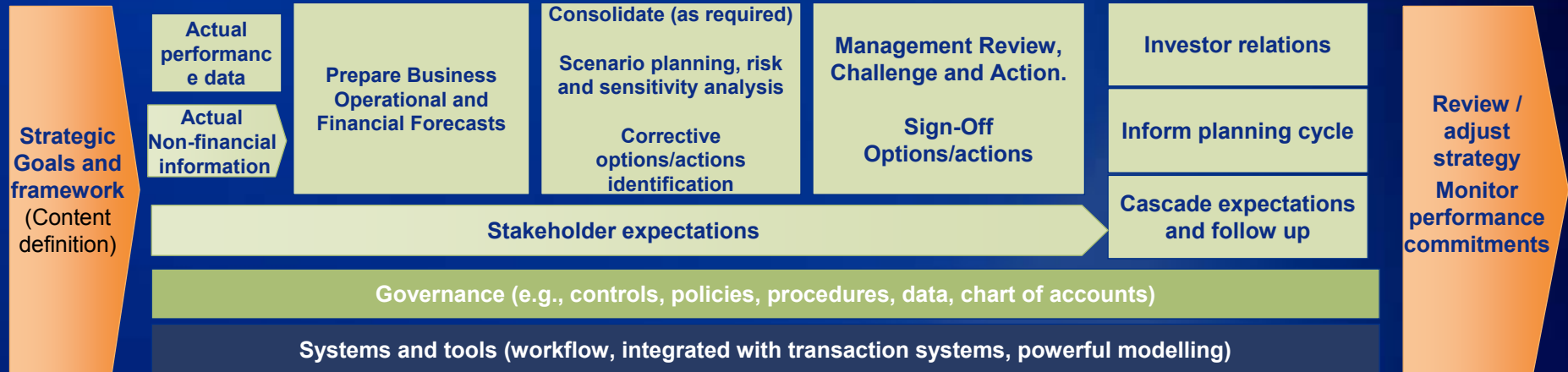
The issues we are observing with the forecasting process ...

	Issues	Survey Findings*	Insights*
The processes need fixing	<ul style="list-style-type: none"> • Often a detailed re-budgeting exercise • Not an integral component of the business performance management process 	<p>“Only 45percent of companies integrate forecasting into their ongoing performance management process”</p>	<p>“The budget is out of date pretty quickly, the forecast is the process we really use for senior management”</p> <p><small>Group Financial Controller, Shire Pharmaceutical</small></p>
Information used is often unreliable or incomplete	<ul style="list-style-type: none"> • Focus on internal data • Output tends to be one dimensional with little attempt to embrace uncertainty 	<p>“42 percent of respondents suggested greater use of scenario planning and sensitivity analysis would help increase confidence in their forecasts”</p>	<p>“People need to think through what actually drives value. A lot of the time this has nothing to do with standard budgeting items”</p> <p><small>Paul Hogan Group CFO, Challenger Financial Services</small></p>
Significant people and organization issues at play	<ul style="list-style-type: none"> • Little involvement of operational managers • Cultural factors inhibit realistic and transparent forecasting 	<p>“65 percent of companies do not involve operational managers in the forecasting process”</p>	<p>“This is not a finance driven game at all. Country managers help with the process. You can’t underestimate the importance of that side of it”</p> <p><small>Steve Novak CFO of Life Operations – Asia Pacific, AIG</small></p>
Technology too often a hindrance than a help	<ul style="list-style-type: none"> • Over reliance on spreadsheets • Power of modern tools not utilised - range of options may be leading to confusion 	<p>“Only 28 percent of the most accurate forecasting organizations use spreadsheets as their only tool.”</p>	<p>“Spreadsheets are too easy to tinker with. The sophistication that goes into planning models is very considerable”</p> <p><small>CFO Umbil Rodamco</small></p>

Source: EIU/KPMG survey “Forecasting with confidence”



Forecasting with confidence ...



- Rolling forecast, beyond fixed time frame ✓
- Standardised forecast data set, focused on key business drivers and rigorously governed ✓
- Exploit critical external data ✓
- Event / decision driven update – by exception ✓
- System deployed to company wide contributors ✓
- Integrated with actuals / ERP and local models ✓

- Efficient and timely data consolidation, within hours of actuals ✓
- Scenario planning to develop contingencies and better understanding ✓
- Risks and opportunities tracked and actioned ✓
- Formal regular review and challenge, actions noted and followed up ✓
- Clear roles and responsibilities ✓

- Transparent cascade of actions and promises ✓
- Forecast accuracy monitored and learnings embedded ✓
- Managers held accountable for agreed forecasts ✓
- Incentives decoupled from budget performance ✓
- Forecasts inform strategic planning cycle ✓

Companies who have the best Forecasting record tend to ...

TAKE FORECASTING MORE SERIOUSLY

- Hold managers accountable
- Incentivise accuracy
- Use forecasts in performance management and earnings guidance

LOOK TO ENHANCE QUALITY BEYOND THE BASICS

- Are more interested in scenario planning

LEVERAGE INFORMATION MORE EFFECTIVELY

- More often use external market reports and competitive data
- More often have forecasts done by operational managers close to the data

WORK HARDER AT IT

- Update forecasts regularly – event driven
- Review the output formally
- Make more use of advanced software

INCREASED SHAREHOLDER VALUE

- Credible dialogue with investors
- Greater agility
- Greater insight into performance

- Finance perceived as business partner
- Organization locked in
- Performance management culture

How Planning will look in the future ...

Today...

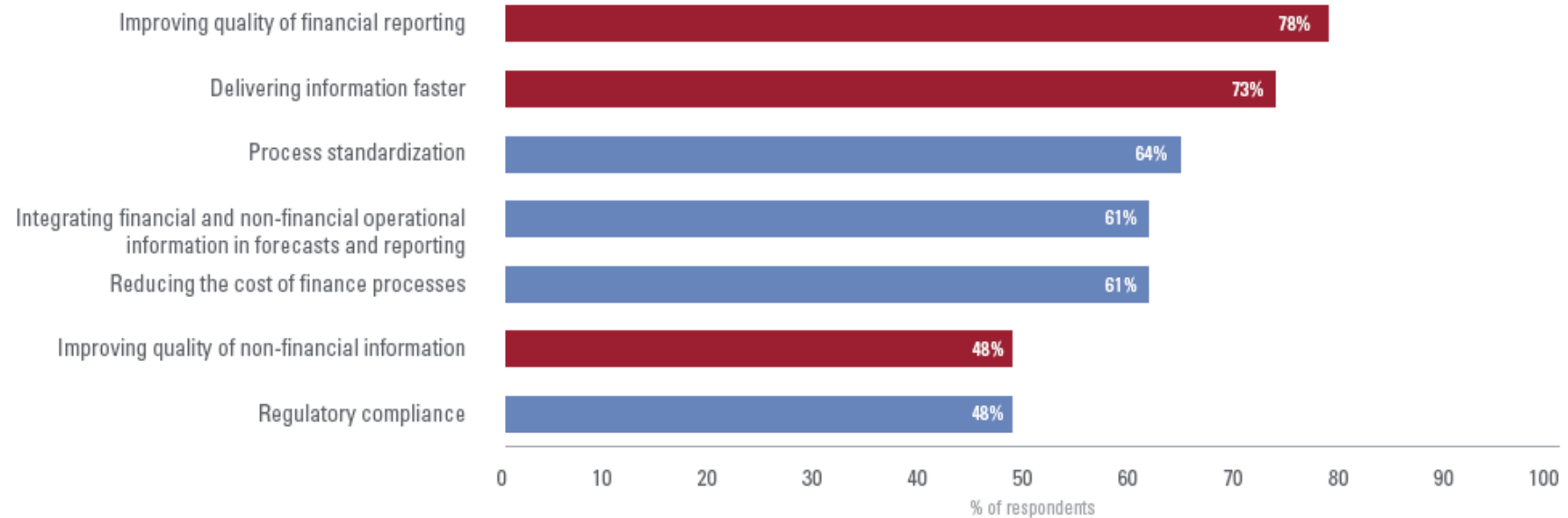
- Planning as budgeting
- Decision-making based on perception
- Fragmented view of the business
- Planning as a chore
- Planning as an annual event
- Cost-based view of the business
- Measurement as controlling
- Executing at the tactical level

Future Vision

- Planning as innovation
- Decision-making based on information
- Holistic, systemic perspective
- Planning as a key management enabler
- Planning as continuous and integrated
- Strategic view of the business
- Measurement as empowering
- Executing at the strategic level

Finance of the future ... real BI is still rare

Major drivers for investing in finance technology

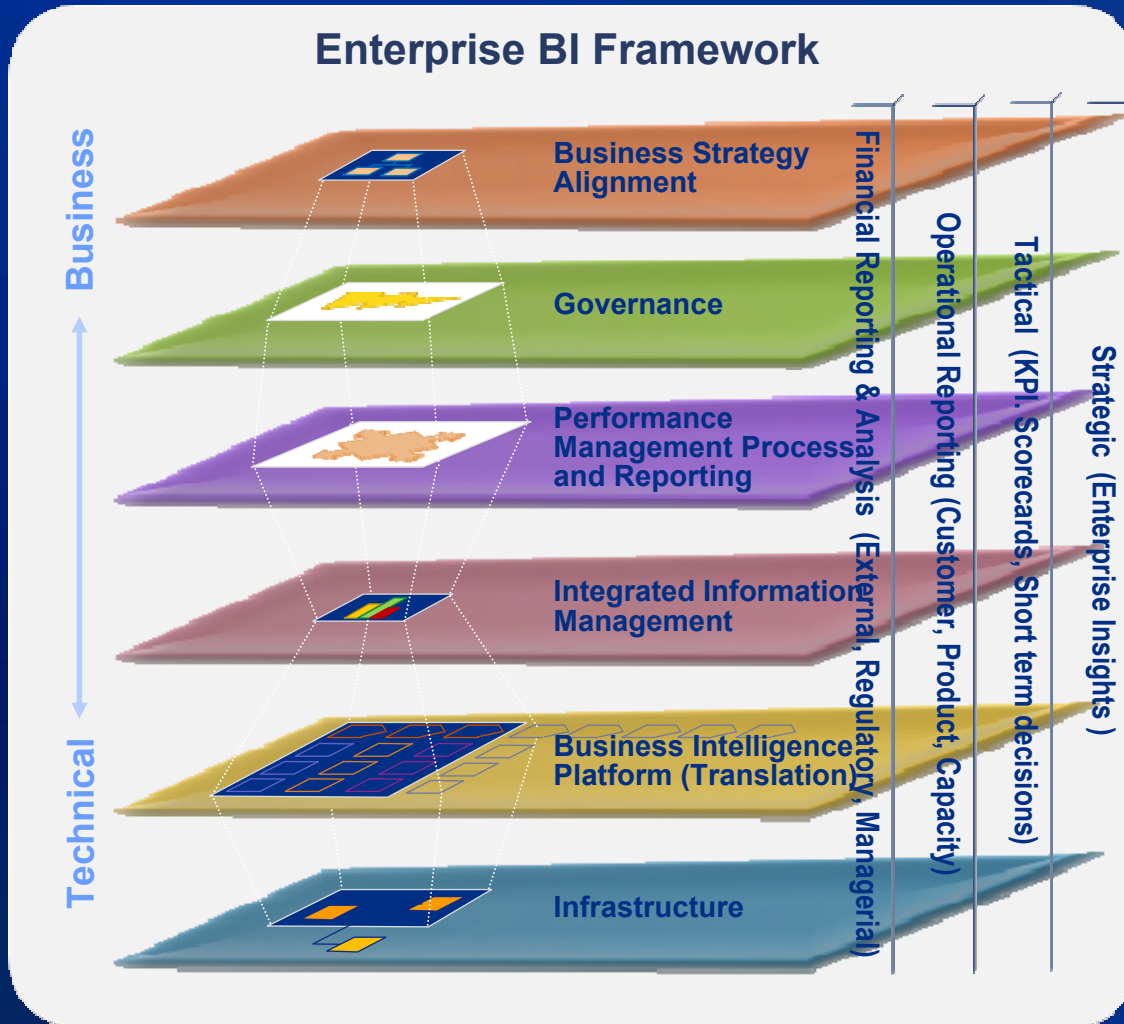


Respondents: 507 – 509

Respondents answering 4 or 5 on a five point scale

Source: 2009 Being the Best: Thriving not just surviving, KPMG/CFO Research Survey

Real BI ... needs an integrated approach



Key Framework Components

- Corporate Strategy and Alignment to Goals
- Organizational Readiness and Staffing
- Enterprise Business Intelligence Vision
- Executive Commitment and Sponsorship

- Organizational Structures and Accountabilities
- Policies and Procedures (Master Data Mgmt)
- Risk, Control, Compliance
- Change Management / QA

- Performance Monitoring
- Reporting Definition and Development (content)
- Performance Scorecards / Dashboards Defined
- Decision Support and Workflow Mapped

- Master Data Management Prioritization Processes
- Data Enrichment
- Information Architecture
- Information Integrity & Compliance

- Analytics Applications & Tool Portfolio / Selection
- OLAP Front End / Back End
- Visual Development Tool
- Information Access and Delivery Methods

- Technology Tool Portfolio and Selection
- Data Warehousing / Mining Management / Source Systems
- Data Movement and Replication
- Security and Data Access Technologies

Highlights from our global thought leadership



Being the best: Thriving not just surviving

- Global Survey - over 500 respondents
- **Influence is key**
- Economic uncertainty highlights need for better information
- Real business intelligence is rare
- People are essential to bringing business information to life

Location, location, location

- **SSCs are enhancing process scope towards value adding finance processes**
- Rare to see a single global SSC serving a global business
- Within Europe move east - Prague, Budapest, and Krakow
- South Africa popular, but infrastructure an issue
- Technology and standardization may make location irrelevant

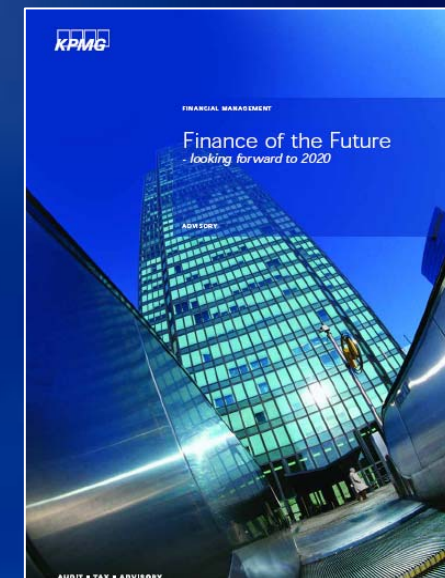


Forecasting with confidence

- Global Survey - over 500 respondents
- **Accurate forecasting matters, adding six percent to share prices compared with poor forecasters**
- The process needs fixing
- Technology is often a hindrance rather than a help
- Data used is inaccurate or incomplete
- Forecasting should not be the preserve of finance

Finance of the future - 2020

- **KPMG's viewpoint – standardization and people are the key levers to create a leading finance function of the future**
- IT replaces human endeavour
 - Automate beyond SSC
 - Centers of excellence
- A standard approach
 - Finance owns key nonfinancial metrics
- A people business
 - Finance input into all decisions





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