A BPM Partners White Paper

How to Avoid Three Costly Reporting Mistakes

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Executive Summary

Most companies today know that their management reporting is not as good as it should be. Many however are slow to take action to correct it. We believe strongly that a good management reporting system is not a 'nice to have', but essential to a well-run business, much like an ERP or general ledger. For those that don't fix this problem there are real costs involved. If a manager cannot readily access the information they need to make a decision they will most likely involve others in the search for this data. Precious resources will be redirected from high-value analytical tasks to data gathering, retrieval, cleaning, and formatting. In some cases if the right data can't be found and presented in a timely manner a key business decision may end up being made without sufficient supporting information. In a worst case scenario, where there are multiple data sources, the wrong data may be presented and a decision is made based on misinformation. On a daily basis, lacking the ability to get the right information to the right people at the right time can put a company at a significant competitive disadvantage. Their peers may be faster at analyzing the potential revenue opportunities of a new market trend for example and end up being the first to capitalize on it. Improving management reporting therefore is not a luxury, it is a necessity. The good news is that addressing this challenge is not the costly, labor-intensive task it once was. There are powerful, cost-effective packaged solutions available today to meet the performance reporting needs of companies of all sizes.

High Cost #1: Excessive Resource Requirements

Every company needs some level of reporting capability to run their business. While many general ledger products include basic reporting, it is usually not sufficient and cannot easily include data from other sources. This requires companies to find another way to produce the reports that are needed by management. In many organizations today this is still accomplished with Excel spreadsheets. In others it may be a custom solution programmed by IT. In still others, it is a set of business intelligence report & query tools going against a data warehouse. All of these solutions have one thing in common: it takes many highly trained resources to make it all work.

Let's start with creating the report itself. In most cases a business user who needs information will have to go to IT to have the report written for him, assuming that a report doesn't already exist that presents the data the way it needs to be seen. Even if the report is to be created in Excel, it is still a small group of power users that have all the necessary knowledge to create the report. In either case additional resources are dragged into the process of an end user simply trying to see a report with the required information. Don't forget the additional time that is added to the process as well.

More important, and often more complex, than the act of writing the report itself is finding the source and format of the appropriate data. This is a multi-resource task: the business user who might know which system(or systems) holds the necessary information, an IT resource who knows the technical interface to access that data, a business expert on the source system who understands how the data is organized (accounts, entities, scale, currency, etc.), someone who has the knowledge to bridge the organization of the source system with the needs of the business user to create an appropriate map to bring the data over, and finally someone to review the resulting report and data for accuracy/reasonableness and perhaps reconcile it with reports from the source system itself. Even if some of these roles can be combined into fewer individuals, the tasks are still many. All of these steps to get the right data are an opportunity for errors to enter the process as well.

There is also a hidden resource cost. Doing all of this work to simply get the information they need to do their jobs is not what most people signed up for. Having a business end user, or someone in finance, doing the heavy lifting required to produce these reports on a regular basis can

Companies with performance management reporting systems:

"Rather than spending weeks of our time trying to develop budgeting and forecasting reports in Excel, we can run reports in a matter of minutes."
— Samuel Reed, Finance Manager, Michael Baker

"The biggest benefit has been the ability to produce management reports. It's much easier now because it is the only place that houses data across all platforms. And managers can create their own reports."
— Christopher Reale, CFO, Konica Minolta

"The reporting is very easy to use. It's so flexible that when management requests certain data in a specific format, they're amazed at how quickly I can produce the report."
— Carrie Nord, Manager FP&A, LMI Aerospace

"Providing the management leadership team with monthly budget versus actual reporting is less resource intensive. It's much easier now to disperse information to the organization."
— Jennifer Meyers, VP of Finance, Westerra Credit Union

lead to a lowering of morale. This of course can lead to reduced productivity or in some cases, costly turnover. This is not just a theoretical discussion. In most companies that we have worked with to improve their reporting processes the people who are tasked with generating these reports today are very unhappy. They would be much happier analyzing and reviewing information, not collecting and formatting it manually .

High Cost #2: Decision-making Without Adequate Information

If you are charged by management with making a decision by a certain deadline, odds are you are going to make that decision on time. In an ideal world you would have all the information with related detail to support your decision. This would both enable you to make the best decision possible, as well as to provide backup in case someone questions your decision down the road. This ideal world scenario described here would require a true performance management reporting system. Suppose you don't have the right tools and the right information? Unfortunately in most cases the decision will still be made.

A company we were working with had a sales problem. Revenues were down and they made a gut decision to reduce the size of their highly-paid sales force assuming it was due to an overall decrease in demand for their products. After implementing a new management reporting system they went back and analyzed the same data in detail. Now they were able to easily produce reports looking at revenues by product and by region. With this new capability they were able to see information that was not readily accessible in the past. These reports provided two critical pieces of information: sales revenues were being dragged down by a single product, and one region, the West coast, was bucking the trend. If they had those reports when the initial decision was made they may have taken a decidedly different course of action. Further investigation, spurred on by the new reporting system, revealed that a new competitor had recently arisen for that product in question. The West coast sales management team had developed an effective strategy to deal with this new competitor, and were beating them. If the company had this information earlier perhaps they could have leveraged the knowledge developed on the West coast to enable the other regions to more effectively compete and increase total revenues instead of just reducing expenses.

Another very common situation involves making what appears to be a well-informed decision and then finding out later it was not. Those companies that have assembled a rudimentary reporting system with business intelligence tools, or spreadsheets, and lots of manual intervention holding it all together often create bigger problems for themselves than those that simply can't report on their data. In these organizations people do manage to get the reports they need with the right information presented the way they want to see it. Aside from the excessive resource use described above, what could be wrong with this approach? Unfortunately, a lot. There is one particular situation that stands out in my mind. We were involved in helping a company move from spreadsheet based reporting to performance management system-based reporting. As they rolled out the new system there was one key test to tell if it was working correctly. They had this massive report loaded with complex calculations and all their key measures. If the new system could tie out to the exact numbers produced by the same report in their spreadsheet 'system' everyone would be comfortable moving forward. Well, the day of the big test came and the numbers did not tie out. Calculators were taken out, reams of paper were sorted through, all to try and find the source of the discrepancy. When the analysis was done the project sponsor came to fill us in on what happened. He did not look well at all. We wondered if there was some major design flaw in the implementation of the new system. It turns out the new system got it right, and the old report, the one they had relied on for many key go/no go decisions, was calculating some of the numbers incorrectly (calculations needed to be performed on individual elements prior to consolidating, not on the consolidated number itself) as well as pulling data from the wrong version of the budget. We've seen similar scenarios far too many times.

High Cost #3: Missed Opportunities

Without a solid performance management reporting capability it is more difficult to spot opportunities as well as rapidly adapt to market forces. This is not just about having ready access to reliable reports, but how those reports can help you intuitively focus on what matters. For these type of reports, the more visual cues the better. The challenge is to spot trends in the data that may not be obvious without a graphical view. Correlation charts, root-cause analysis, role-based customized presentations for relevancy, and a holistic view of the business are key elements of this type of reporting. Again, it is key that all of this is part of a unified performance management reporting system or all the bells and whistles become meaningless.

Most reporting is historical in nature and compares actual performance to a set of targets. This is useful, and required by most companies, but it is not what is really going to help that company grow and make the best decisions. Highly visual and analytics based reporting can help you identify opportunities that may be buried in the numbers. For example, one company that sold its products to a diverse range of customers discovered that customers in a particular industry were a lot more profitable. This is not something they would have assumed or gone looking for, but it became obvious when they ran a color coded customer profitability report and then filtered it by SIC code. As they drilled into the data it turned out those customers had a shorter sales cycle and required less product customization. They could now act on this data and focus more resources on the more profitable accounts.

During the recent tough economic environment many companies were looking for ways to cut costs. An obvious first choice for many was to focus on reducing headcount in a non-revenue producing group. In one company we were working with this meant reducing their customer support group. General admin and finance had already been cut to the bone and this was the next obvious choice. However, they had just put in a new performance management reporting system and had loaded it up with several years of historical data. They decided to run the numbers through this new system to see what the company results would like if they proceeded with the cuts. The results were not what they expected. While expenses decreased, so did total revenues. How could this be? On another report customer satisfaction levels were in the red zone for this new scenario. Utilizing the analytics of the reporting system, a model the customer had set up related to selling and supporting its products, and historical trends the system was able to highlight some likely outcomes. First off, the reduced staff was insufficient to fully support the current number of customers and maintain high satisfaction levels. Secondly, the system identified correlation trends in the data that indicated reduced satisfaction levels resulted in a reduction in both future purchases and referrals from those customers. Based on this information the system forecast a reduction in revenues. With this more comprehensive view of the impact of its proposed changes the company stepped back and came up with an alternative. They reduced IT staff instead, which actually made sense as they rolled out their new reporting system which would lead to less demand for IT support to produce reports.

Conclusion

Companies have spent a great deal of time and resources to amass large volumes of data. It is almost inconceivable that they wouldn't attempt to leverage that data for better decision making. Yet, many companies still put improving management reporting on their 'back-burner' wish list. The reasons are many, chief among them: other priorities. One of the most common other priorities is upgrading or replacing their ERP. It seems counter-intuitive that you would improve one of your core transactional data sources, but not spend some time on improving how you utilize the data coming out of that system. It would make sense to have a reporting improvement project going on in either in parallel, or slated to start immediately after the ERP project. Or, since ERP projects can be lengthy how about fixing reporting today so you can start enjoying the benefits now, and when the ERP project is done simply point the reporting system to the new data source. One of the reasons companies are reluctant to do this is because they assume that improving reporting will be a time-consuming and expensive task. This may have been the case with early business intelligence reporting tools that required significant IT involvement and custom programming. With the performance management solutions available in the marketplace today, this is no longer true. Just ask one of the thousands of companies that have already taken their reporting to the next level and are reaping the benefits. Once you hear first-hand how enhanced reporting has enabled them to reduce costs, find new opportunities, make better decisions, and re-assign employees to higher value tasks, you'll wonder what you have been waiting for.

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