White Paper

Rediscovering Financial Consolidation:

A new look at a familiar process... in an ever-changing world

INTRODUCTION:

While the corporate consolidation function is tradition-bound, managers have discovered the process now requires entirely new ways and means in order to remain competitive. This paper examines the strategic nature of financial consolidation, and describes the challenges faced by finance professionals when they "close the books" in today's fast paced business environment. It also identifies the role the consolidation process plays in a worldwide corporate environment.

Particular focus has been given to the changing role of the finance organization as a provider of high value information to business decision makers. To achieve higher added value in this new role, finance managers are increasingly partnering with their information systems counterparts to implement solutions that decrease market response time, while making the corporation more adept at managing and implementing change.

Within this context, the paper describes the benefits derived from implementing Hyperion Enterprise consolidation software. We hope you find this publication both interesting and informative.

SECTION OUTLINE:

- Rediscovering Financial Consolidation
- Change -- The Arch Enemy of Consolidation
- More Information Needed, Less Staff to Comply
- Discovery...The Changing Role of Finance
- Consolidation Requirements for Today’s Finance Organization
- Discover... Added Value in Managing Change
- Consolidating Worldwide
- Discover...The Benefits of Change

Hyperion Software

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Rediscovering Financial Consolidation...

> *"There is nothing permanent except change."*
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> —Heraclitus,
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> 4th & 5th Century Greek Philosopher

Financial consolidation. "Closing the books." It's an age-old process conducted monthly by corporate finance departments. The "rolled up" results are used by managements, worldwide, to evaluate past performance and set action plans for the future. The monthly consolidation is an integral part of the "bricks-and-mortar" of the business. Increasingly, companies seek to use the consolidation process for management reporting and analysis, enterprise-wide.

Though consolidation is a routine business process, its implementation is often viewed with apprehension. For most firms, the financial roll-ups are far from automatic; manual interventions are always involved. Data must be sourced, numbers verified, eliminations and adjustments made, and reconciliations accomplished -- much of this done via the spreadsheets of financial analysts. Typically, only through late nights and weekend work, do companies close their books on time.

For global companies the job is even more complex, since they must reconcile management and fiscal systems with varying statutory reporting requirements. Currency conversions, partial and cross-ownerships, and local legal issues all become a part of their financial milieu. Small wonder that many companies take weeks to complete their monthly financial reports.

In the face of this drudgery, ad hoc analytical flexibility, plus speed and accuracy of the monthly reports, are more important than ever before. Senior management uses the information to set the direction of the company. Functional managers perform their own analysis and depend on their reports to guide ongoing decisions. Investors ultimately use the data to guide their investment programs. Though companies can usually survive with delays and unanswered questions, all concerned look for a better way.

Fortunately, powerful and flexible enabling software can improve the monthly consolidation process, providing timely, accurate and even insightful reporting to all concerned. Such tools make more valuable analysis available and tighter integration with other corporate systems possible. Indeed, the act of closing the books is then "rediscovered" as a strategic weapon for a company – in every department, in every location, all around the world.

Change -- The Arch Enemy of Consolidation

Heraclitus, the 4th and 5th century BC Greek philosopher, was on target when he suggested that nothing was constant but change. If only he could see his philosophy in action today. Reengineering, downsizing, restructuring, merging, acquiring, and partnering are a permanent part of the corporate landscape. The ability to change -- to meet evolving market demands, competitive threats, and other business realities -- is a measure of the might of a corporation. Change is frequent, change is pervasive and change is perpetual throughout today's global businesses.

> *"Our business was changing so quickly, we knew we had to act fast—or risk losing our competitive advantage in the marketplace."*
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> — Nokia

Companies must now change in "mid-stream" as new information comes to light. Shortened product cycles, reengineered business processes, integrated supply chains, more customized product offerings -- they are all ongoing in today's companies. Such efforts have proven to reduce costs, enhance agility, and improve customer service. These efforts will surely continue into the new millennium.

Unfortunately, change is the antagonist of traditional consolidation which typically relies on a fixed roll-up architecture and inflexible processes, rules, reports and analyses. As sales managers change regions, manufacturing VPs consolidate plants and presidents change ownership, conventional consolidation systems fall apart, lacking the flexibility to quickly accommodate change. So, most financial groups spend endless hours pulling data from corporate systems, often building complex spreadsheets to overcome the shortcomings of the consolidation system. Even then, one product-line or organizational change can invalidate the spreadsheets and the consolidated results. "Just keep reporting per the old organization until the end of the year," is a familiar CEO admonishment to CFOs whose consolidation architecture can't be quickly changed without substantial systems-analysis and reprogramming.

More Information Needed, Less Staff to Comply

To add further complexity, market pressures demand that most companies operate with more information as they seek to become sharper, more nimble competitors. For those companies operating around the world, globalization puts an added burden on the financial organization. Vast differences in countries' statutory reporting combined with partnerships, cross-ownership and currency factors make periodic consolidation, reporting and analysis much more complex for international companies.

Beyond last month's reports, astute managers now look to the financial consolidation as the repository of vital, "look ahead" information to help them guide strategic activities. They find that the consolidation process is an excellent vehicle for uncovering new trends and running "what-if" scenarios that help managers test the consequences of potential decisions. This increased demand for forecasting and analysis has greatly expanded the business dimensions to be tracked by the finance department.

In the face of these complexities, CFOs have also had to reduce their finance budgets and organizations to meet business pressures. According to the "1996 Annual Survey of Financial and Accounting Systems" study conducted by Deloitte & Touche Consulting Group and Hyperion Software, over 58% of the respondents have downsized staffs in the last two years. So, today's change-driven financial executives seek to do more with less… realize greater results… faster than ever before. For some, it's a "rock-and-a-hard-place" scenario; for others, it's a chance to discover new ways to become more valuable in an ever changing corporate landscape.

Discovery...

The Changing Role of Finance

If change is the problem... discovery is the opportunity. Increasingly, proficient executives leverage their financial reporting process as a key enabler for better strategic decisions; making them quicker, with more confidence, to help the company achieve its goals. This places added burden on the CFO.

Finance must now lead by constantly "discovering" new value opportunities. Consequently, the finance organization's role has been transformed from that of a "bean counter" – telling the world what has happened – to that of a provider of value-added strategic services. More than, "How did we do for the month?", finance must provide "look ahead" information, showing management how to reach and exceed objectives.

In today's high-tech, networked environment, a company's combined computers have the data needed to increase efficiency, competitiveness and market share. Every business transaction, every calculated statistic and ratio, contributes to such information. Historical data can be used to evaluate trends and build forecasts. Consolidated properly, this information can help today's leaner companies perform even more efficiently and execute more effectively. Unfortunately, accessibility often stands in the way.

The Deloitte & Touche/Hyperion study highlighted the value of easier access to information for finance and other corporate users. Seventy percent of respondents said that better reporting and more focus on analysis continue to be at the top of the list of planned initiatives. New systems solutions called for better ad hoc reporting and integration with on-line analysis tools and other systems applications.

Fortunately, new distributed client-server systems set the stage for more widespread access to data, enabling better business understanding and quicker responsiveness to change. These systems are making it possible for the finance organization to devote more time to value-added analysis. The Deloitte & Touche/Hyperion survey respondents indicated that 82% of all new financial and accounting system implementations in the next two years will be client/server. This is up from 64% just one year ago.

These systems have changed the way in which the finance and IS organizations interact. Cross-functional teams work together more effectively when implementing this new class of business finance systems. This "distributed partnership" concept has placed a higher emphasis on both financial and technical issues such as increased security, scalability of solutions, integration with other applications, and conformity to corporate IS standards and processes. At the same time, user-involvement is now key in the development and maintenance of such systems, to achieve their conceptual model and accommodate future change.

The complex, often contradictory, pressures of today's business environment have caused many CFOs to look for more efficient, more effective methods of financial consolidation. Fortunately, new software exists to address these business challenges and meet the financial consolidation needs of the 21st century global corporation.

Consolidation Requirements for Today's Finance Organization

Today's finance organization increasingly looks to discover means of adding higher levels of value -- even in the face of reduced resources. Let's examine some of the fundamental needs posed by the consolidation process in light of today's environment:

- **Data Collection**

Before consolidation can begin, data must be collected from a multitude of sources. Many organizations have to deal with multiple general ledgers from a variety of accounting system vendors and always with differing charts of accounts. In addition to pure financial transactions, supplemental and statistical figures from other operational systems must be incorporated. Also, data "tidbits," not stored electronically, must be manually integrated. The data collection process involves analyzing, obtaining, validating and mapping the data into a single, homogeneous environment.

- **Roll-up**

This is a primary function of a financial consolidation. Accounts at the lowest organizational level must be aggregated into subsequently higher levels of the company. Management, fiscal and legal reporting requirements are often made up of alternate hierarchies extending across the business. Multiple data paths must be rolled up into the corporate structure for each reporting classification. These alternative roll-ups can include geography, business unit, cost center and management structure. Sufficient business views must be rolled up to give management a thorough understanding of the company's financial performance.

- **Currency Translations**

Exchange rates are factored into the consolidation at all levels of the roll-up, and ultimately must depict overall financial performance in the parent company's home currency. To account for differences in the value of international currencies, the consolidation process must keep track of fluctuating exchange rates. Beyond fluctuating rates, different translation methods must be applied. For example, end of period rates, beginning of period rates, historical rates, special rates and so on are all applied at various points in the consolidation... sometimes on a line-item by line-item basis. In many cases different currency rates are used across reports -- e.g. between balance sheet and income statement. Rates can even vary between individual line items in a report as is the case with inventory vs. sales vs. long term assets. From a management reporting perspective, performing such analyses as "constant currency," or "actuals at plan rates" reporting can be quite valuable - though often too complex to be worth the effort.

- **Allocations**

There are often costs that can only be assigned by formulaic allocation. IS costs, HQ overhead costs, restructuring costs, etc. are often distributed across the organization based on such weighting mechanisms as headcount, square footage or revenue.

- **Elimination of Intercompany Transactions**

When sibling subsidiaries of a parent company buy and sell goods and services from one another, the resulting transactions must be eliminated from the books during the preparation of consolidated financial statements. This eliminates double counting of revenues, profits, etc.

- **Accounting for Level of Ownership**

The percentage of ownership in partnership entities determines how revenues, expenses, depreciation, etc. can be accounted for and reported to shareholders. As ownership becomes more diversely distributed among several companies and countries, and holdings change over time, these calculations geometrically increase in complexity.

- **Key Ratios and Other Related Non-Financial Items**

Part of the closing process includes the production of management reports for distribution to the management team and board of directors. Current and quick ratios, book to sales, inventory turns, return on assets and equity, and a host of other analytics must all be calculated.

- **Reporting, Access and Analysis**

The ultimate objective of consolidation is to get published results and insightful analysis. Beyond the standard performance measures, financial managers increasingly look to discover valuable insight from the data contained in the database. Many analysts and managers need to drill down through the data to observe and understand the dynamics -- the trends and relationships -- of their business. They set up new analyses -- more comprehensive views of financial performance -- that had not even been considered previously. And, for the greatest benefit, all this must be simple enough for non-technical users to master.

The interrelationships between these business components of the corporate consolidation create great difficulty in dealing with change. Yet, all the fundamental components of the financial consolidation must be managed efficiently to deliver timely and accurate financial reports, and enable insightful analysis.

Hyperion Enterprise:

Discover... Added Value in Managing Change

Many financial professionals have tried to make their general ledger system into a comprehensive consolidation, reporting, and analysis tool in addition to fulfilling the traditional accounting role. However, this dual-purpose strategy has rarely been successful. General ledgers are designed for transaction processing, ensuring the day-to-day operations of the business are accurately recorded and tracked. To effectively meet operational requirements, general ledgers are optimized to handle the entry and accumulation of transactions. This is a very different task from consolidating transactions according to very specific rules and providing easy, flexible, ad hoc access for users asking questions from different perspectives. Often, corporations find that they can no longer afford the added burden of supporting a wide range of users. In trying to meet both the daily financial operations and the reporting and analysis requirements, they produce an inferior solution that doesn't meet the needs of anyone. That's where Hyperion software can help.

Since 1981, Hyperion Software has provided responsive software solutions that address the complex and changing environment of corporate finance. Enterprise™, Hyperion's market-leading financial consolidation software, has helped thousands of customers discover new, more efficient and cost saving methods of closing the books. Hyperion Enterprise is designed to cost-effectively meet the consolidation and reporting needs of the world-wide enterprise -- no matter how much or how often things change.

Hyperion Enterprise provides a single, global view of financial information across multiple locations and diverse general ledgers. Users define the parameters, and Enterprise inherently understands the business rules and processes needed to meet management, legal, and fiscal financial consolidation reports. Enterprise manages the complex interdependencies of account structures and currency translations, as well as the compound intercompany relationships of divisional and corporate-level entities. Business change is easily accommodated because as the business structure is redefined, the financial relationships are updated automatically.

Enterprise also supports the growing partnership between finance and IS for strategic business information. Enterprise is designed to work within the broader information infrastructure of today's global company. Enterprise can use industry-leading SQL (pronounced "sequel") databases and Intranet-based delivery options that comply with the standards being established by IS departments. Such standards allow financial data to be made available to authorized users and other systems in a more economic and useful manner, saving time and money.

Consolidating Worldwide

Here are several of the advanced features that enable Hyperion Enterprise customers to implement world class, best-of-breed financial reporting and multi-source consolidation:

Comprehensive Data Collection -- To conduct accurate enterprise-wide data collection, Enterprise allows for a variety of methods. The system's LedgerLink™ module supports single point of capture to assure data validity and eliminate the re-keying of information. Enterprise also supports mapping of data to enable automatic summarization. Validation rule capability is incorporated in the "Schedules" module, eliminating the mistakes that often occur during manual data collection. Custom data collection for the month-end close can also be facilitated throughout the corporation using familiar spreadsheet tools that input information directly into Enterprise.

"Hyperion Software's forward thinking approach to meeting the needs of international business justifies Siemens' commitment to implementing Hyperion Software solutions worldwide."

— Siemens AG

Complete Global Consolidation -- Enterprise is designed for today's global corporate environment. Management, financial, and legal views are all provided in one solution to improve financial information consistency and reliability. Enterprise eliminates custom programming by allowing customizable rules within consolidation methods -- even for sophisticated handling of the most complex inter-company transactions. The system provides precise ownership and control calculations at any level in the organization, based on share holdings of joint ventures and cross-ownership entities. Enterprise adapts to an evolving business environment by inherently supporting real-world organizational structures that can vary across time and version of information.

Financial End-User Orientation -- Enterprise has been developed to represent the way a financial end user thinks about their business responsibilities. Enterprise is easily and efficiently setup by financial people due to built-in currency translation, inter-company processing, cross ownership, and journal entry processes. Information can be directly input to and extracted from Enterprise using Microsoft Excel and Lotus 1-2-3, so analysts can continue to use the tools they know, thus minimizing training. A graphical "rules builder" has a spreadsheet look and feel, enabling finance end-users to own and update their own applications. Furthermore, Enterprise supports storage of consolidation details for easier understanding of consolidation logic and improved audibility.

Optimized Performance – Enterprise is specifically designed for the consolidation process. Its architecture and data schema have been optimized over time for the fastest possible data loading, consolidation, reporting, and analysis. And to make consolidations even faster, Enterprise contains a unique "Impacted Consolidation" capability where only the portion of the database that has been impacted by recent changes is reconsolidated. In the closing and analysis cycles, where ongoing and last minute changes are the norm, this powerful capability can make the difference between missing a deadline, or having the answer when it is needed. It is just one more example of the Enterprise focus on minimizing consolidation cycle time.

Tailored "What-If" Scenario Analysis -- Often, managers want to run "what if" simulations and review scenario results. Modeling acquisitions, divestitures, reorganizations, etc. is easier and more comprehensive than ever before. For example, the M&A department can ask:

- "How will restructuring impact bottom line?"
- "What are the implications of divestiture on EPS?"
- "How will change of ownership affect gross margins?"

These are the kinds of questions that managers worldwide can ask of their Enterprise systems.

Advanced "Financially-Intelligent" Reporting -- Enterprise is able to provide advanced reporting and analysis. An intuitive, graphical financial statement report writer is designed by and for finance professionals to make reporting quick and painless. Enterprise even provides direct integration for export to Microsoft® Excel™ and Lotus 1-2-3™. To facilitate access to information in many locations, Hyperion offers Spider-Man™, a Web-based delivery option enabling users to perform reporting, analysis and drill down over a corporate intranet or the Internet.

"For an organization such as Prudential it is crucial that financial data from all our operations can be collated quickly and effectively. Using Hyperion Enterprise gives us this ability."

— Prudential Corporation

Enterprise's production reporting environment utilizes dynamic report templates to make high-volume reporting simple, efficient, and nearly maintenance-free. Any information can be reported in any currency at any time without pre-calculating all possible combinations. Complex report formats, like side-by-side balance sheets, are easy with the unique "compound report" capability. Advanced capabilities include book processing, expression-based suppression and formatting, accounting-intelligent functions, reverse account sign display by attribute, and application structure-dependent macros.

Standards-Based Computing -- A growing number of IT departments are moving to hardware and software systems that comply with open computing standards such as SQL-based data access and relational databases. In response to this need, Enterprise applications can run on top of relational databases from either Oracle or Sybase (support for Microsoft SQLServer™ is planned). Hyperion has created all of the database structures (i.e. schema) for Enterprise to use these standard databases as the repository for corporate consolidation data. Enterprise SQL™ provides expanded data access by third party tools, streamlined integration between corporate applications, reduced training requirements and centralized database administration.

Distributed Usage – Hyperion Enterprise has been designed for the widespread, global organization. Its flexible architecture adapts to the customer's environment and can be configured based on organizational needs and technical infrastructure. Users can be distributed all over the world. These distributed business entities -- using their own Hyperion Enterprise system, or a subset of the corporate system -- can run financial applications locally and transmit data sets to the corporate consolidation group. The corporate consolidation group can then easily integrate these multiple sets of information as the financial consolidation is prepared. And in today's distributed world, an organization can easily run Enterprise applications on a relational database in one location and on the Hyperion purpose-built database in another location.

Complete Security -- Enterprise enables systems administrators to easily create security classes and set security access levels for users. The administrator assigns Enterprise users to "user-groups" who have similar information needs. This allows the administrator to globally specify and apply access privileges for users groups to security classes comprised of individual system elements. In effect, administrators can "lock" reports, data and functionality for each part of an application on a group-by-group basis.

Discover...The Benefits of Change

"With Hyperion applications we have been able to remove the boundaries often encountered when operating in the global marketplace. And as we continue to expand and refine our organization, Hyperion solutions deliver the flexibility and detailed analysis we require."

— Nokia

The result? Change is no longer the enemy. Change promotes progress when enabled by software applications like Hyperion Enterprise. Enterprise solutions deliver easier, faster, more accurate monthly financial consolidations – across the company, around the world. Enterprise users report they have reduced monthly consolidation time *from weeks to days,* while meeting all management, financial and legal reporting requirements. In addition, they have discovered the immense strategic value in the business analysis and "look-ahead" facilities offered by the Enterprise system.

Hyperion users discover they have the time and resources available to add greater value to the company… accommodating, even anticipating, recommending and promoting, beneficial change throughout the enterprise.

