

A Clearer View of the Horizon:

Visualising the financial future

The recent Financial Service Network (FSN) survey on Planning, Budgeting and Forecasting (PBF) highlighted two key characteristics of those organisations that produced the most insightful forecasts. In a previous discussion paper, we examined the first characteristic - the integration of non-financial data. In this paper, we will look at the second - the application of analytical systems to correlate and communicate data.

The State of Play

One of the most shocking statistics from FSN's survey was that just 40% of respondents said their forecasts are 'insightful'. Those companies that produced the most insightful forecasts tended to make better use of technology to analyse and present data. What sort of technology? FSN's report focused on the move away from spreadsheets as the general-purpose tool of numerical analysis, and towards specialist tools that offer more powerful manipulation and presentation.

The report divided good analytics practices into three classes, with different tools featured in each. The 'advanced' category included pivot tables and business intelligence tools. 'Cutting-edge' included advanced visualisation, charting and graphs and 'experimental' included machine learning and artificial intelligence (AI).

81% of respondents described their analytics practices as advanced. Perhaps unsurprisingly, most companies are making some use of pivot tables and/or some form of business intelligence. Just 42% said their practices were cutting edge. The key differentiator between the first two categories is communication; most companies say they are using tools to produce insightful analyses but only the minority are using tools to better present them. Just 14% of respondents described their approach as experimental.





Across the board, adoption of specialist tools for planning, budgeting and forecasting remains low. 70% of businesses say they rely heavily on spreadsheets across all business units. Just 16% use specialist software and just 10% specialist software in the cloud. These numbers have barely increased since the previous survey.

Insight at Speed

What has changed dramatically in the last year is the proportion of companies reforecasting more than twice a year. This is a new and interesting proof point for the idea that the current business

environment is increasingly volatile. Finance leaders are trying to plot a course through fast-changing market conditions, leading to more frequent re-examinations of data and assumptions. 71% now reforecast more than twice a year, up from 56%.

When it came to the reforecasting process, those companies utilising AI and machine learning had a slight speed advantage, with 61% (vs. 55%) able to reforecast within a week. Companies with a 'cutting-edge' approach, featuring more visual tools, had an advantage on accuracy, with 47% able to forecast to within +/- 5% (vs. 34%).

Critical Communication

The survey identifies users of cutting-edge visualisation tools as the most effective forecasters that are able to offer the greatest insight. There are two possible explanations for why more visual tools contribute to greater insight.

The first is about the manipulation and comprehension of the available data. If you can abstract the meaning away from rows of numbers and present it in a visual format, it is easier to understand. Numerous studies show that the human brain is optimised for visual information, comprehending images in as little as 13ms according to one MIT study*. Once information has been abstracted from the raw data, it's easier to make changes to underlying assumptions and interpret their effects.

The second explanation relates to communicating forecasts to peers. It is much easier to tell a story of tomorrow if it is presented in a visual form, and this insight is only valuable when it is shared across the leadership team. If a company is moving to discuss multiple future scenarios, the effect is multiplied.



* <http://news.mit.edu/2014/in-the-blink-of-an-eye-0116>

Conclusion

FSN's report shows that the adoption of specialist tools for planning, budgeting and forecasting remains limited, while also making clear the positive impact that such specialist tools can bring. Bringing data out of spreadsheets and into tools that allow for easier manipulation, and more importantly, powerful presentation brings greater clarity and allows insight to be shared.

The numbers illustrating this are stark. Those companies producing insightful forecasts are almost twice as likely to deploy specialist software in all their business functions (29% vs. 14%) and they are less likely to depend on spreadsheet modelling (67% vs. 76%). They are more than twice as likely to use advanced visualisation, charting and graphs (59% vs. 26%).

The conclusion from the report is clear: "...advanced analytics must become the new baseline technology, it is no longer enough to rely on simple spreadsheets and pivot tables when your competitors are several steps ahead."

About Prophix

Your business is evolving. And the way you plan and report on your business should evolve too. Prophix helps mid-market companies achieve their goals more successfully with innovative, cloud-based Corporate Performance Management (CPM) software. With Prophix, finance leaders improve profitability and minimise risk by automating budgeting, forecasting and reporting and puts the focus back on what matters most – uncovering business opportunities. Prophix supports your future with AI innovation that flexes to meet your strategic realities, today and tomorrow. Over 1,500 global companies rely on Prophix to transform the way they work.

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