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Are You Driving In The Rear View Mirror?

Description

You May Be if You Are Relying on Traditional Financial Reporting!

The other day, I was conducting due diligence on an interesting company, and as I opened up their monthly reporting package I was transported back fifteen years… Or at least it felt like I was. Fifteen years ago, I was the CFO of a public company and one of the biggest recurring quarterly slogs was preparing the quarterly financials for our 10-Q… This company I was reviewing the other day – in 2017 – was diligently preparing a monthly reporting package for its board, complete with a painful Management Discussion and Analysis (MD&A). Seeing this reminded me of just how far we have come with Business Intelligence (BI) platforms and the staggering difference between doing things the old way and today's best practices.

When I was working as a public company CFO, financial reporting was very well structured and formulaic. First, we would close the books for the quarter. This, by the way, is still as important today as it has always been. But then we would basically translate the financial statements into sentences in the MD&A. What followed were painful, boring, mechanical sentences like "Company revenue was $10M for the quarter ending March 31, 2017, compared with $8M for the quarter ending March 31, 2016 representing year over year growth of 25%. Company revenue was $30M for the year ending March 31, 2017 compared to $25M for the year ending March 31, 2016 representing 20% year over year growth… etc…" Yuck! Bored yet? This would often go on for at least 2-3 pages of solid type. I've seen some MD&A sections go on for more than 10 pages – what a waste of human resources and effort for all involved – the writers, editors and readers!

I recognized the contrast between this legacy way of reporting and today's best practices when I compared this reporting package with the one that I was helping another client prepare using a modern BI tool. Which would you rather review as an investor or board member?

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If you are a public company, you have less choice. Public reporting requirements are strictly overseen by the SEC and typically dominated by the accountants and lawyers, who rightly are primarily concerned with accuracy, consistency, and compliance over conveying metrics that are more useful to make changes to operations in real time. But as a private company CEO or CFO you have more flexibility. You also have less resources to waste on low-value, high time-sink work for you and your team.

But efficiency and cost are the least important differences between the two approaches outlined above, and as obvious as it seems, readability is the 2nd least important difference. The most important difference is that the old way of financial reporting is backward looking by design and will always be, whereas today's business intelligence tools and reporting best practices allow management and stakeholders to understand what is happening in the business in real time and with enough precision and detail that they can anticipate what is likely to happen going forward. ***It is the difference between driving a car with no visual cues other than what you can see in the rear-view mirror and driving with a modern cockpit*** or dashboard that tells you exactly what is happening in all areas of your vehicle and more importantly, what direction your car is headed.

Wait a minute, you might say, a BI dashboard is still only displaying what has already happened, right? So how can it tell you where you are headed? A good BI dashboard can indeed begin to provide you with forward visibility. It does so because of two primary improvements from historical financial reporting. First, it is far more granular, and second it is real time. The ability to measure more finite metrics is the first step. These metrics are often leading indicators that eventually lead to the financial results. Take churn, for example. If customer churn is growing, and you are seeing it trending up in real time, it is likely that your future revenue growth might decrease, or that your sales & marketing costs as a % of sales might increase. Churn is an operating metric that is not typically a part of traditional financial reporting packages, but this granular metric, measured in real time, is a good leading indicator of future financial results! What would you rather see – churn growth as a warning light on your daily dashboard signaling potential future growth declines during the current quarter, or declines in revenue growth 45 days after quarter end, after you publish financials and have no ability to affect the outcome?

Business intelligence in real time is the first step towards Predictive Analytics – a discipline that utilizes machine learning (ML) and artificial intelligence (AI) to help predict future results. I'll cover ML and AI and the way they will impact the C-Suite in more detail in future posts but today a few things are clear. Business Intelligence is the the first step towards getting on the path towards predictive analytics and represents an immediate upgrade from historical reporting with several immediate benefits.

Looking for some rationale to justify your investment in Business Intelligence? Here are a few:

1. **Ability to See the Future** – Finite, specific operating metrics trending in real time are often early indicators of future results to come.
2. **Internal Operations Alignment** – BI tools allow for each department to have their own Key Perfomrance indicators (KPIs) and all of them can be tracked in real time and rolled up to flow into company-wide metrics. More importantly, each department should know how their KPI impacts the financials of the company.
3. **Accountability** – With real time reporting and visibility, all of your team members will know exactly how they are doing vs. their departmental and overall company goals. No more waiting for Finance to get the #s finished so each department can report on their monthly progress.
4. **Stakeholder Alignment** – If tracking the most important metrics allows you to know exactly

where your business is going, why not share them with your Board and/or investors? This is far better than creating separate metrics to review with the Board, and finding out "how you did" days before your Board meeting!

5. **Readability** – Today's BI tools are full of the best charts, graphs and visual representations that allow you to quickly recognize trends and key results with just a glance, vs. reading the dreaded MD&A.
6. **Automation** – Most BI tools are set up to automatically pull data from your reporting sources and operating platforms, or consolidating databases. This means that once you set them up properly, the right reports and graphs are auto-generated each day, week or month, eliminating mountains of manual report preparation for your team.

So, stop running your business by relying on the rear-view mirror! Like the mirror says – "Objects may be closer than they appear" and you can't afford to learn that the hard way!

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