

Communicating Financials: Reporting That Motivates and Drives Effective Decision Making

Allan North

May 2009

Knowledge ▪ Experience ▪ Insight

Session outline

1. State of play
2. Identifying and understanding management needs
3. Understanding your reporting process
4. Reporting style and communication
5. Technology
6. Strategies for improvement
7. Concluding comments

Thought for the day

“Out of great complexities, come great simplicities”

Reporting - rule of thumb

Approximately 20% – 50% of your reporting is:

- unnecessary
- ineffective
- does not add value
- does not improve decision making

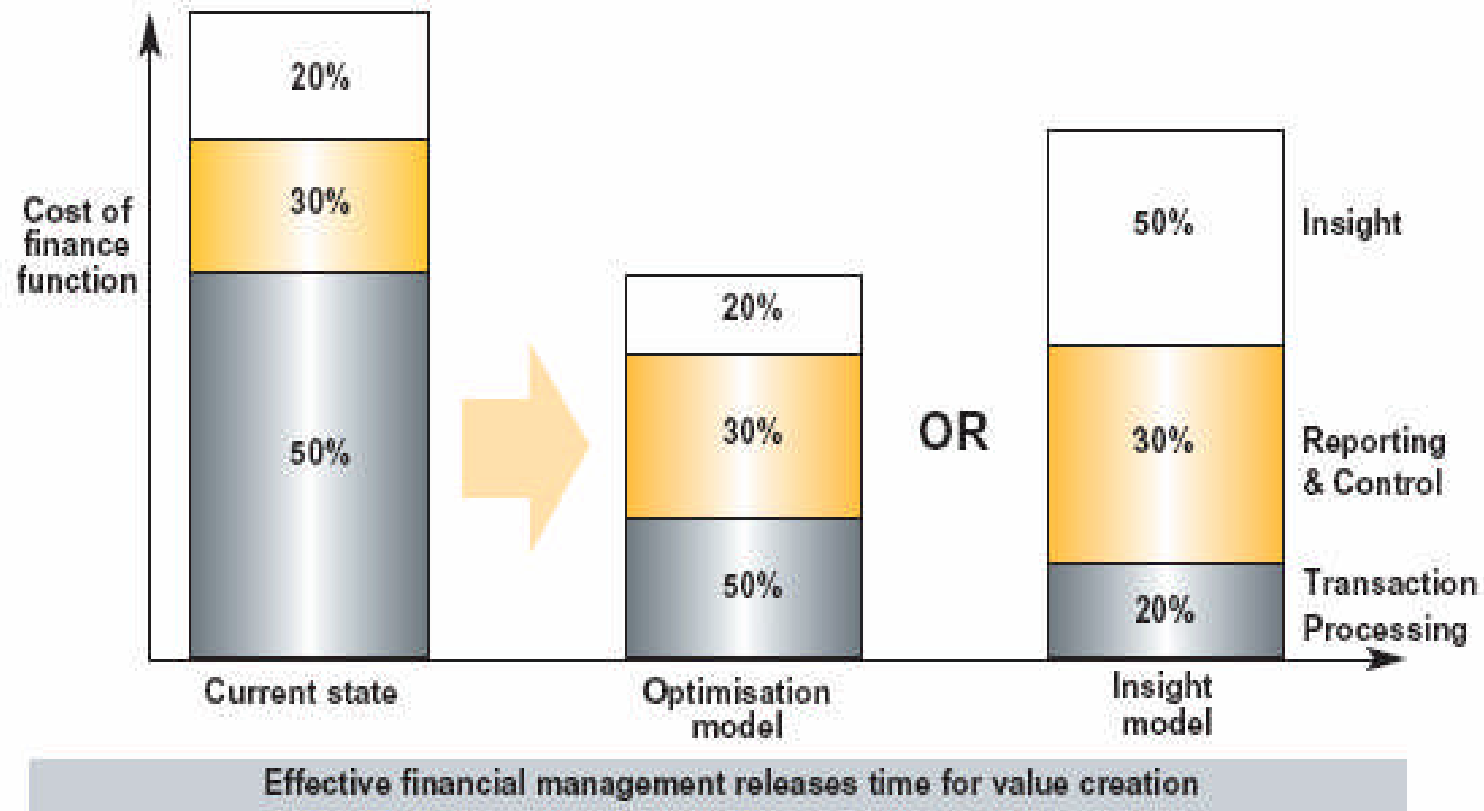
It can and should be eliminated

State of Play

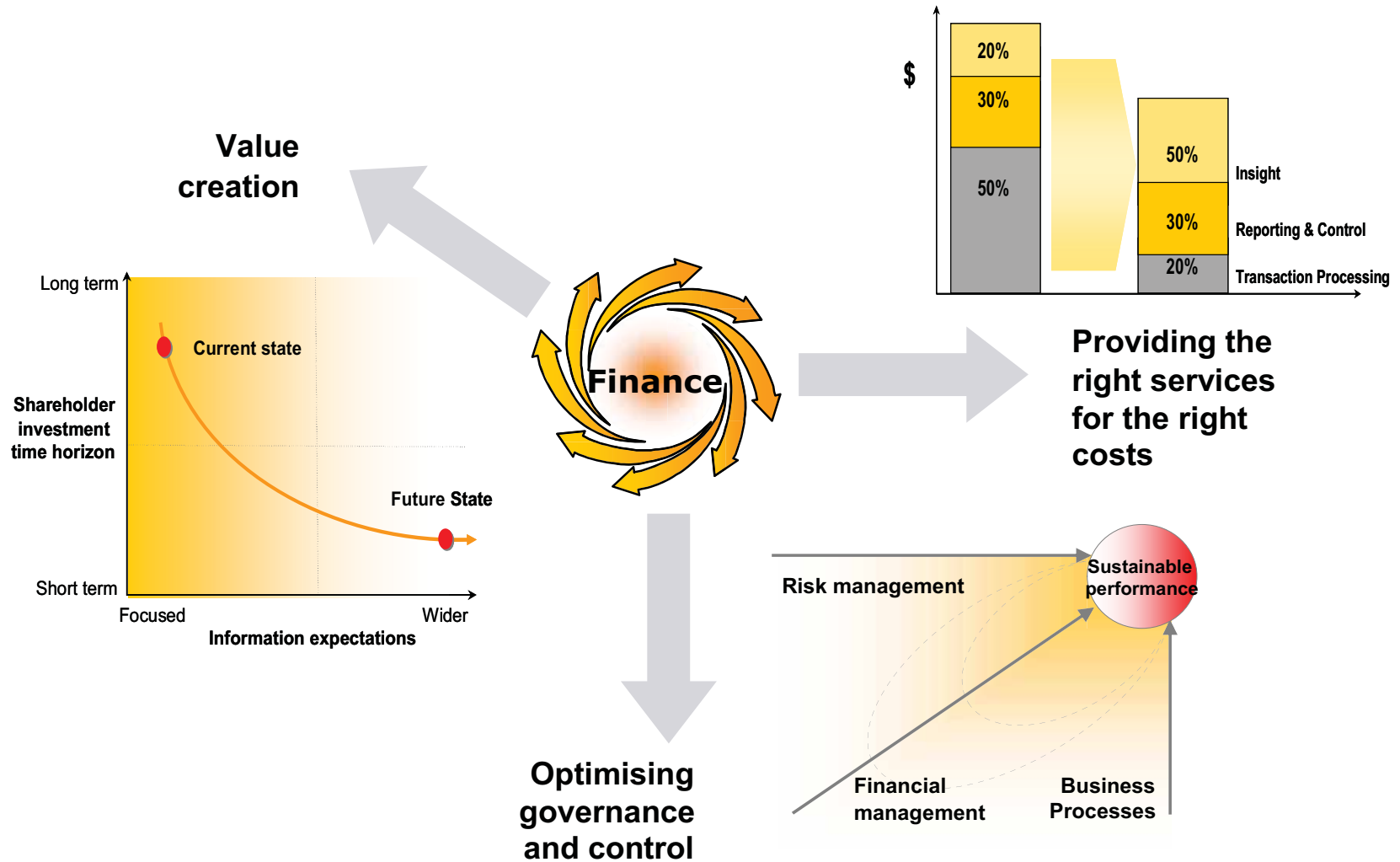
Influences

- Greater demand for information
- Speed / accuracy / relevance
- Challenge from change
- Professions / business models
- Increased compliance
- Greater accountability
- Better educated workforce
- Globalisation
- Technology
- Complexity of business
- Competitiveness
- Diversity of demand
- Knowledge base
- Information availability

Direction of best practice



Finance's primary objectives



Identifying and Understanding Management Needs

Reason for reporting

- To inform that something is going to happen / has happened (information)
- Required by law or other agreement (compliance)
- Organisational choice (operational, strategic, special)

Management reporting demands

- Issues
- Ad Hoc
- Regular / business reporting
- Inform
- Investment
- Compliance

Each demand requires a different understanding and approach

FOCUS on NEEDS not WANTS

Too much time and effort is spent on meeting unnecessary wants and not the critical needs of the business

- Less is more – quality over quantity

Identify your audience

- Who are they?
- What are their **needs not their wants**?
- What do they understand
- What is the best medium to communicate with your audience

Identify your objective

You need to understand:

- What is your idea?
- What do you want your audience to do?
- What is the end objective?

Level of understanding

What assumptions do you make?

- Purpose of the report
- Financial knowledge vs. business understanding
- Use of terminology
- Financial vs. non-financial measures
- Their communication mechanism

Developing new reports

Key questions to resolve:

- Is its objective clearly understood?
- Who are its intended users?
- What is their level of understanding?
- Will it lead to action/decision making?
- Can an existing report be renovated or replaced?

Understanding Your Reporting Process

Reporting focus

- Are we doing the right things
 - (strategy)
- Are we doing things right
 - (process)

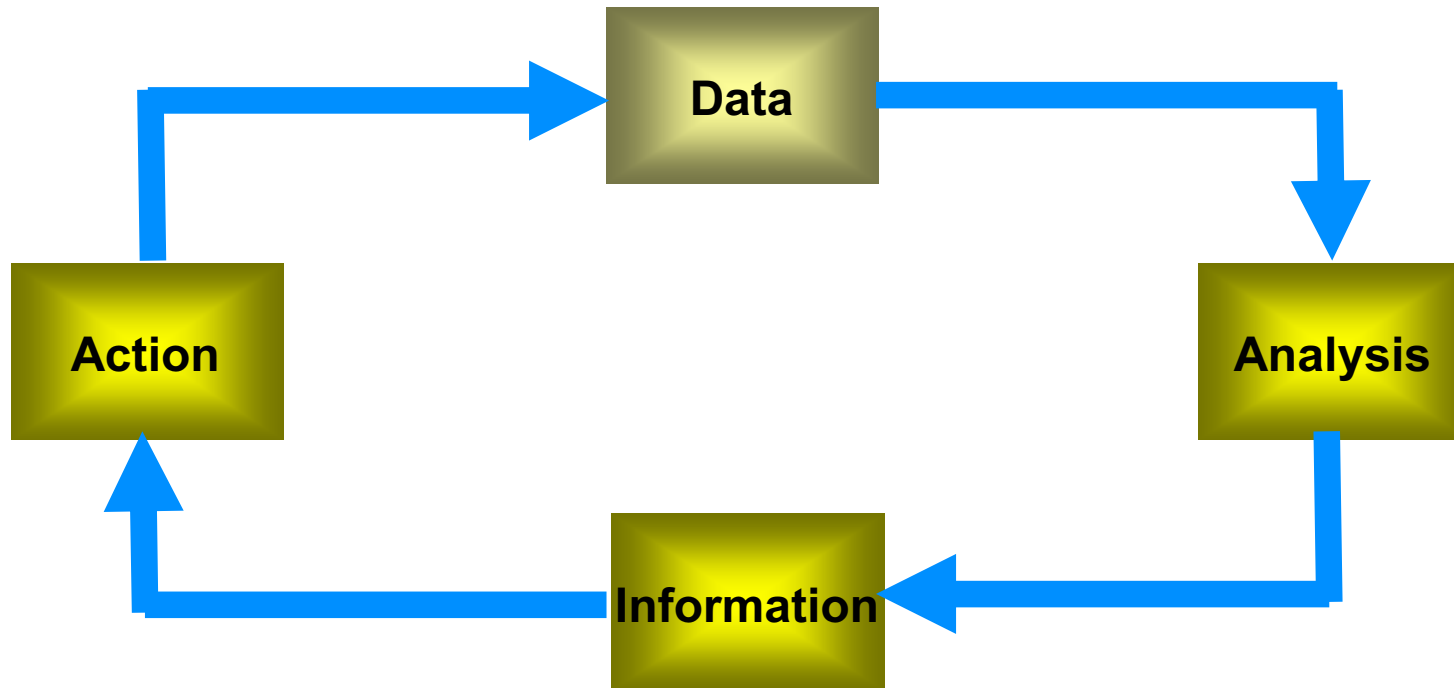
Data vs. Information

- What do we mean by data?
- How do you use it?
- What do we mean by information?
- How do you use it?

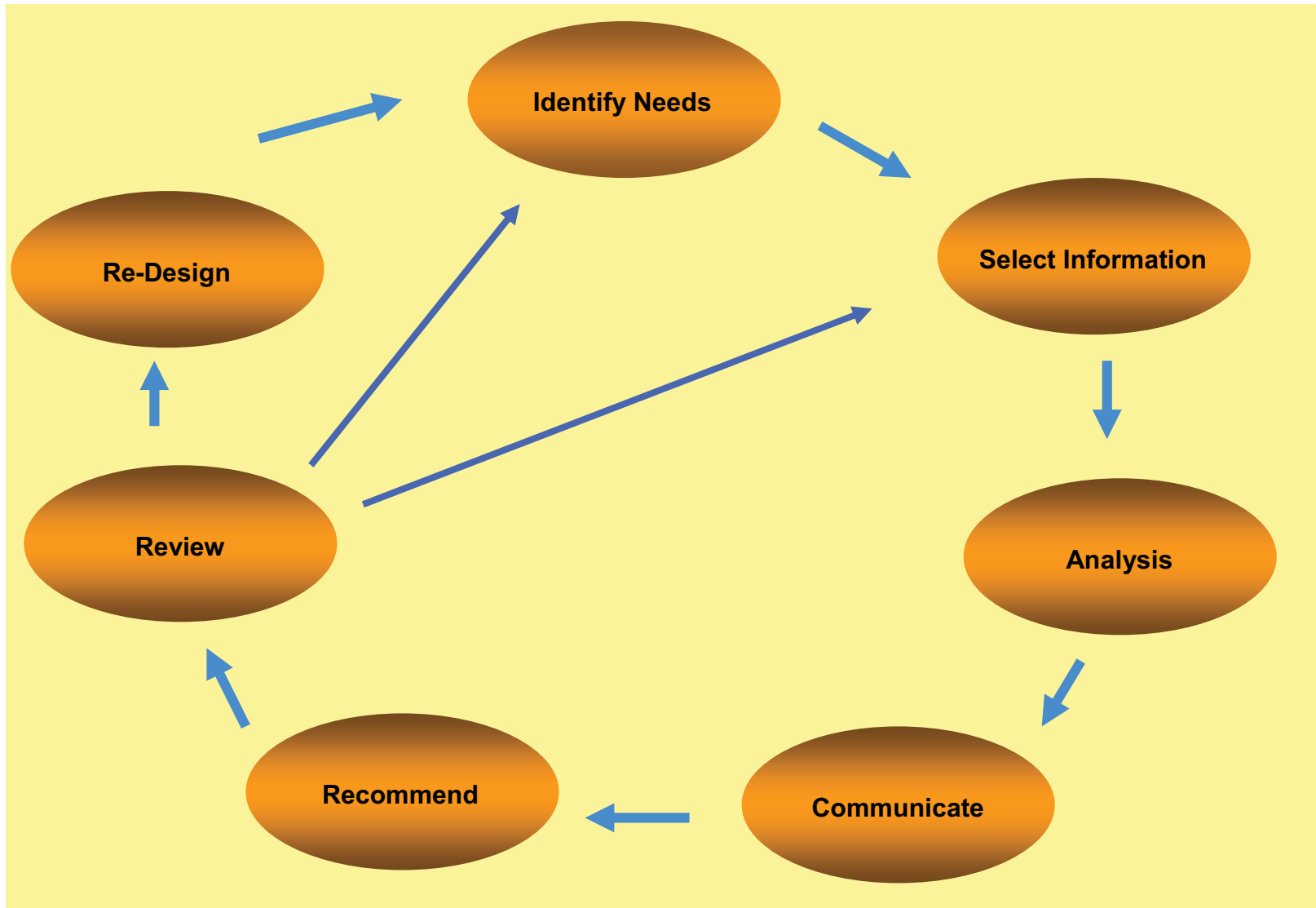
Beware!

‘Data Swamp’ - Technology drowns you in data / measures

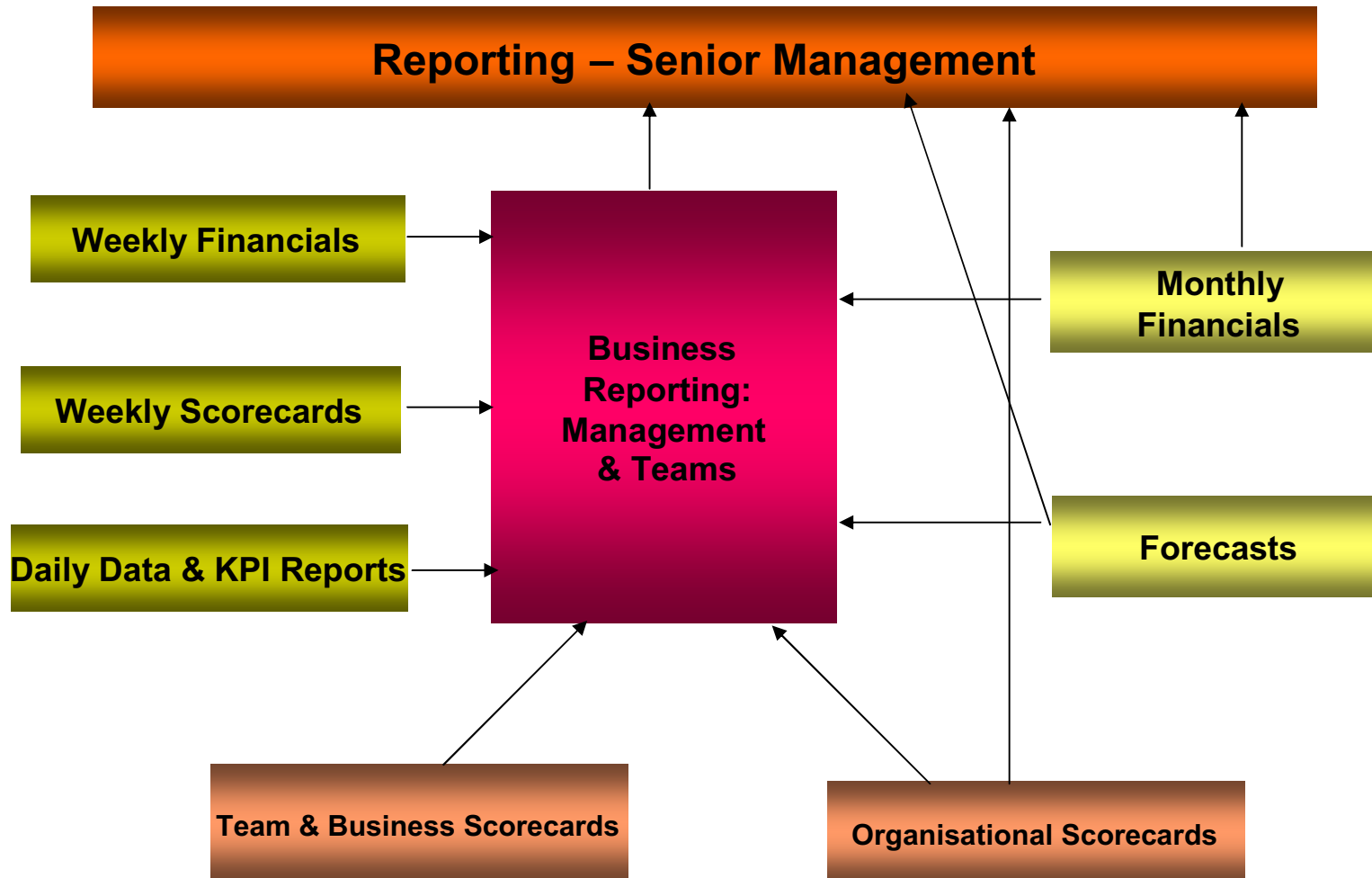
The reporting relationship



The reporting cycle



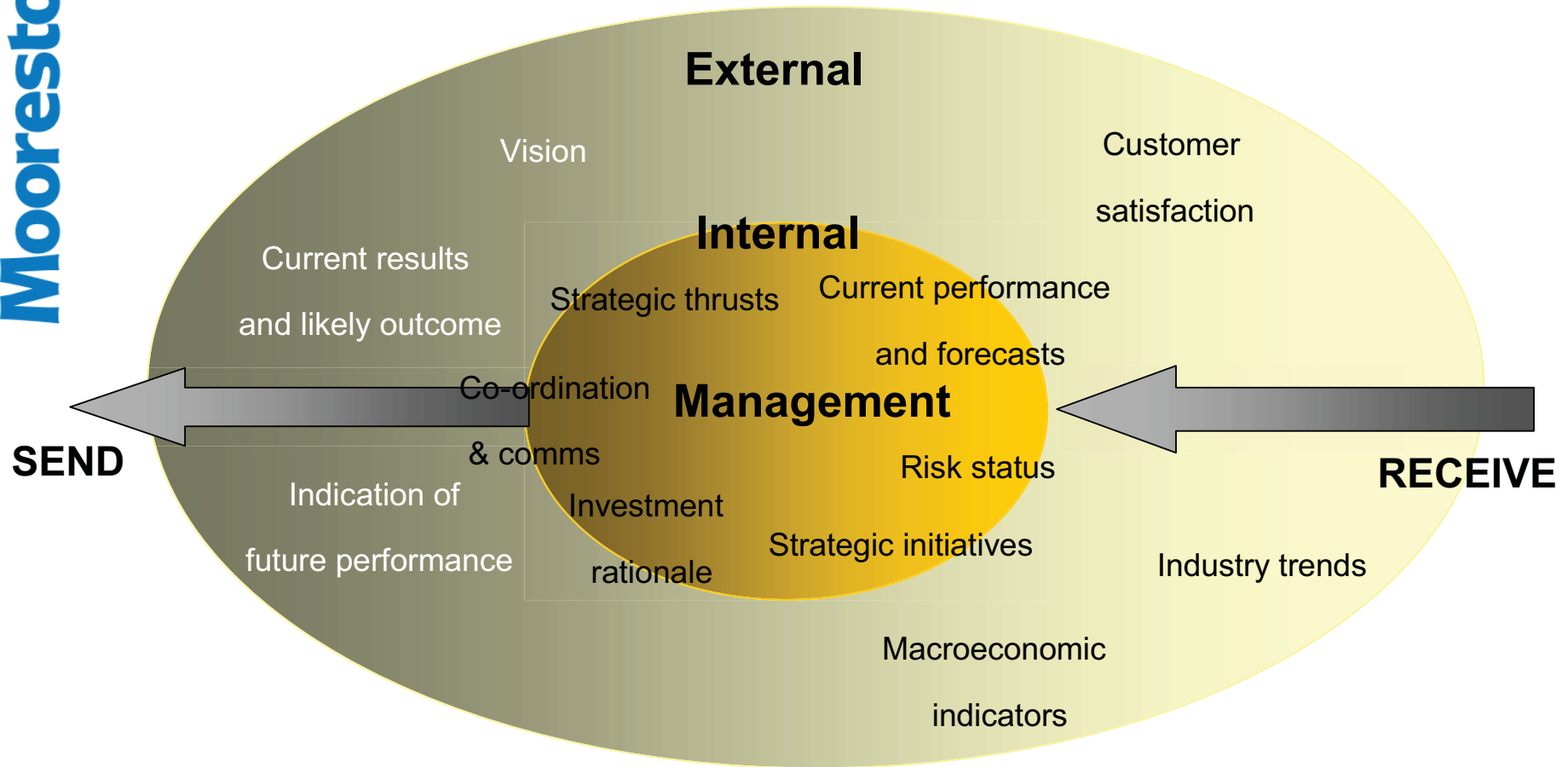
Reporting framework



Ad hoc / Issues

Reporting Style and Communication

Management receive a variety of information



Reporting must support each of these areas, and that data is available at the right times to support timely management decisions

Key considerations

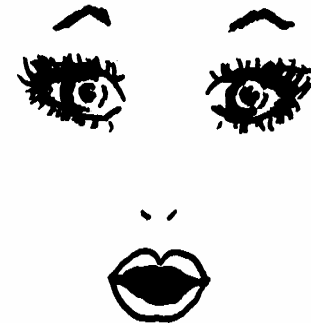
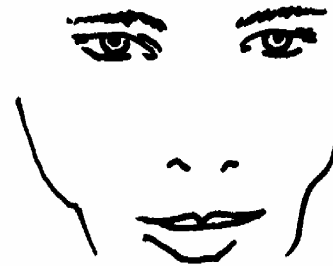
- ✓ Style
- ✓ Format
- ✓ Language
- ✓ Clarity
- ✓ Quantity
 - ✓ level of detail
- ✓ Quality
 - ✓ analysis vs. information vs. data
- ✓ Timing

Implications

- Speed vs. Accuracy
- Measure Focus : lead vs. lag
- Qualitative vs. Quantitative
- Empowerment vs. Control
- Ratios – Linkages & Understanding
- Graphics / Illustrations vs. Numeric's
- Language / terminology

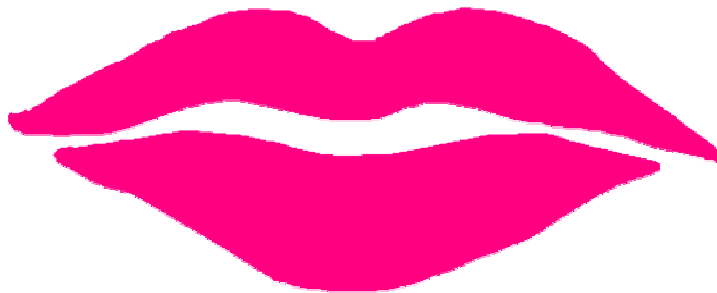


A Picture Tells a 1,000 Numbers



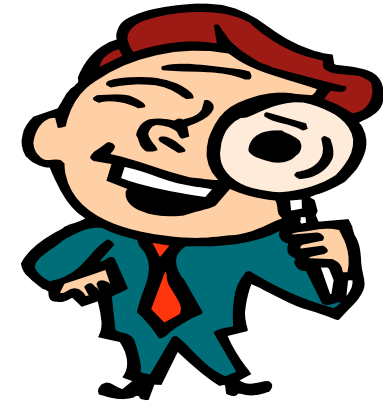
Terminology

- Too much used
- Knowledge and understanding assumed – far too much!
- Intimidates
- Complicates and confuses



Financial relevance

- Accounting is about the collection, presentation and interpretation of data
- A Key financial measure is the Balance Sheet – A Static Measure
- Profit is an opinion, rather than an established fact
 - Accrual vs. Cash
- Is it the language in the business?



Written reports

- ✓ Purpose
- ✓ Audience
- ✓ Impact wanted
- ✓ Frequency
- ✓ No. of messages
- ✓ Level of understanding
- ✓ Level of creativity

Useful financial information

- ✓ Material
- ✓ Relevant
- ✓ Reliable & Credible
- ✓ Comparable
- ✓ Understandable



Source: CIMA Performance reporting to Boards – A Guide To Good Practice

Technology

Reporting tools

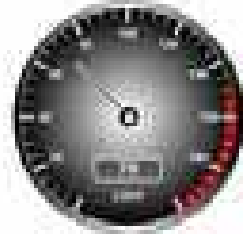
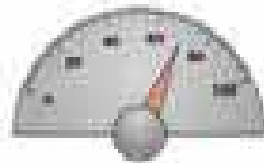
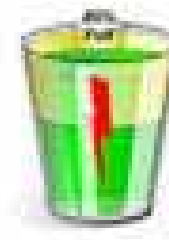
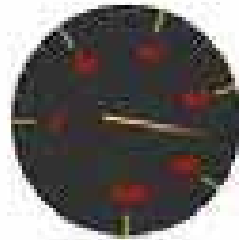
Selection is endless, covering the range of:

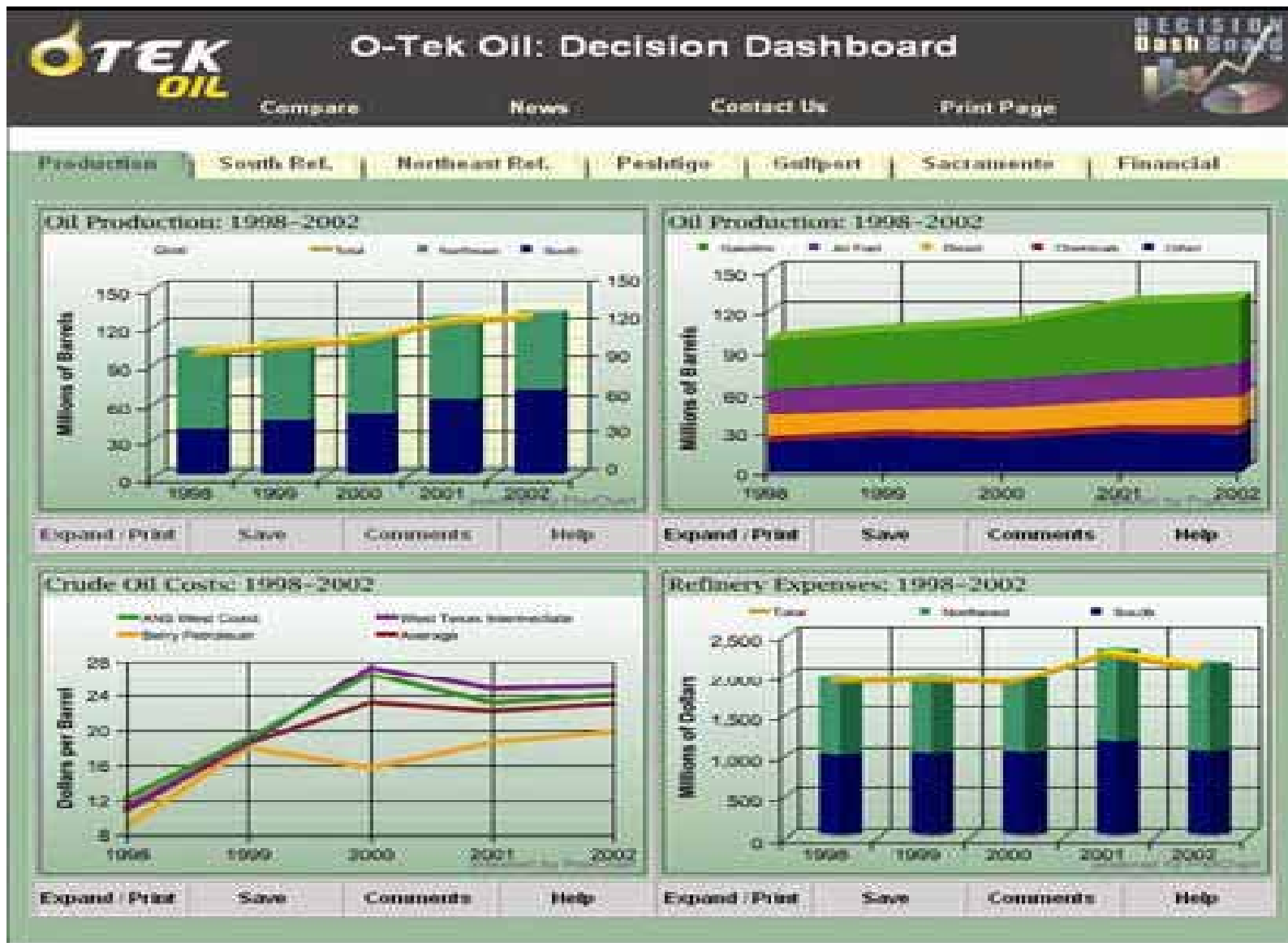
- ERP and other financial reporting systems (e.g. SAP and Oracle)
- Specialised data and reporting tools (e.g. Cognos)
- Specialised analytical software (e.g. Strategic Focus)
- Specialised BPR/other software being adapted for management reporting (e.g. Metasoft)
- Specialised Performance Reporting (e.g. 20/20)
- Specialised Analytical Databases (e.g. TM1)
- Spreadsheets and Databases (e.g. Excel & Access)

Caution

- Technology is only a tool not the solution – your reporting should not be a slave to it
- If you do not address the fundamentals correctly, technology will not solve it
- Careful on the use of spreadsheets – if you are a heavier user for your reporting you should look at more analytical software to deliver it
- Reporting should be simple, easy to read and lead to decision making

Beware dashboard issues



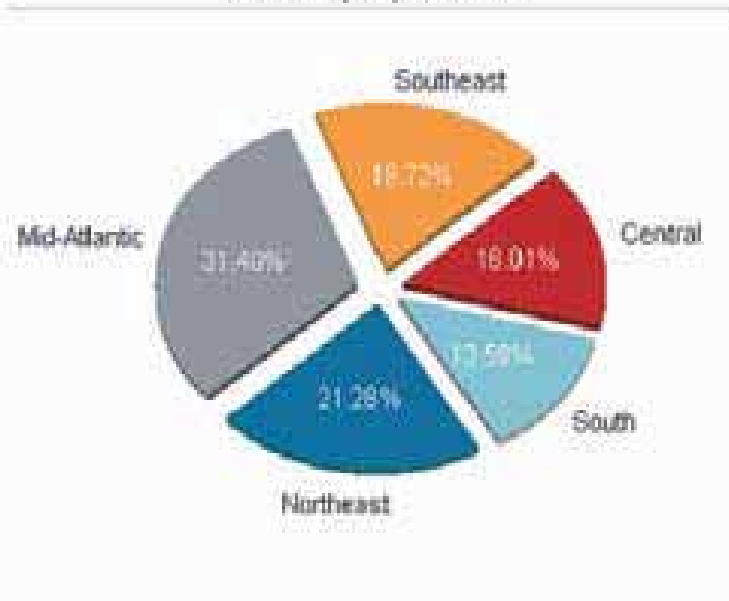


Operational Performance Scorecard

Status	Trend	Metrics	Target	This Month	Last Month	%Δ From LM	This Month LY	%Δ From TM LY
🔴	▲	Revenue	\$ 1,387,434	\$1,296,667	\$957,665	25%	\$1,445,116	-10%
🟢	▲	Profit	\$245,777	\$312,376	\$231,740	35%	\$352,001	-11%
🔴	▶	Margin	25.06%	24.09%	24.19%	-0.4%	24.36%	-1.1%
🔴	▲	Units Sold	34,371	32,122	22,800	41%	34,047	-5%
🟢	▲	Order Count	17,779	21,420	13,020	65%	17,000	26%
🟢	▼	Avg Revenue Per Order	50	\$61	\$74	-18%	\$85	-29%
🔴	▲	Customer Count	10,700	10,000	8,091	24%	9,380	7%
🟢	▶	Avg Revenue Per Customer	108	\$130	\$116	10%	\$154	-16%

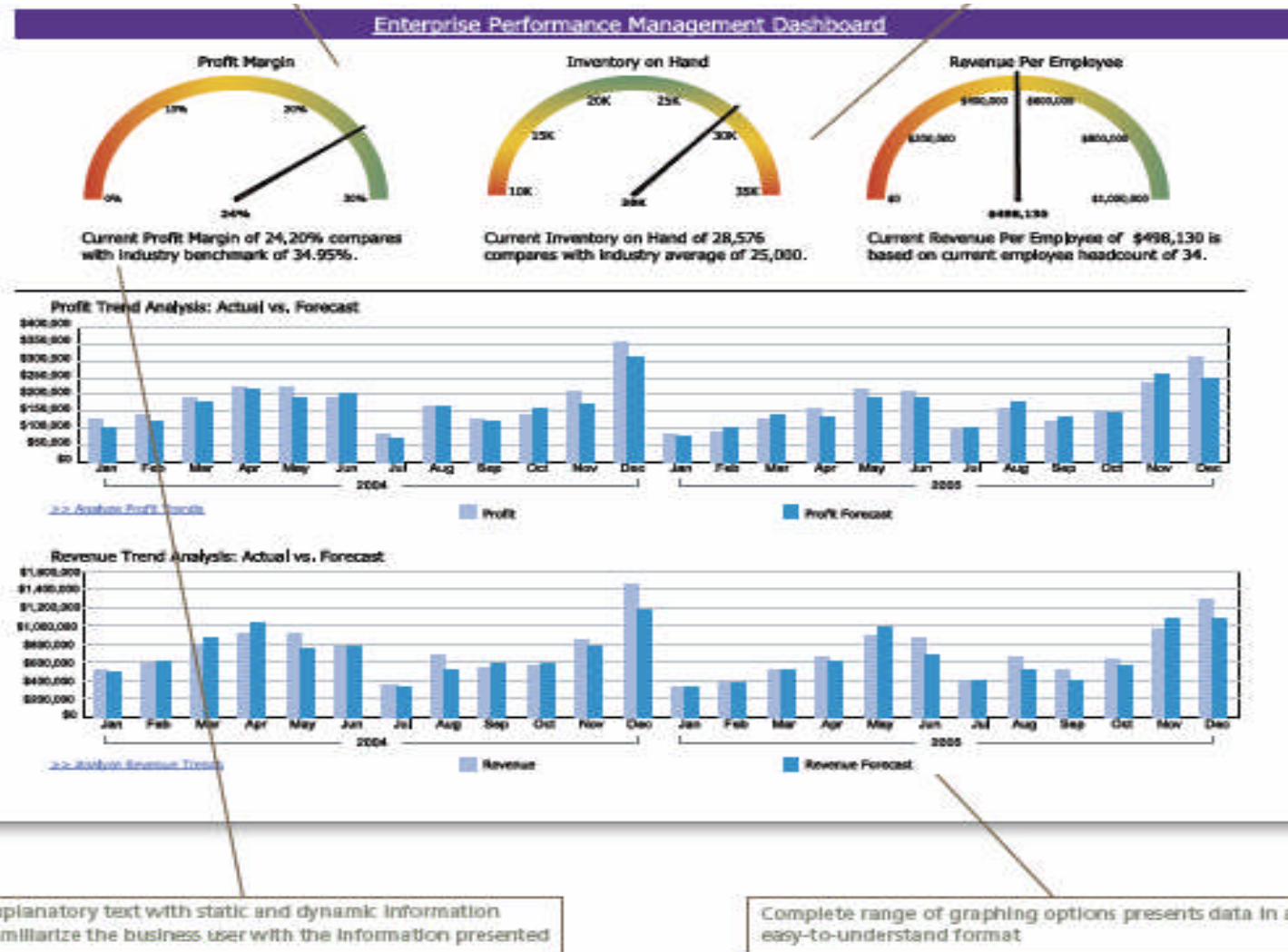
This Month: Dec 04 Trend & From Prior Month: ▲ More than 10% ▶ Between -5% and 10% ▼ Less than -5% Abbreviations: LM = Last Month, LY = Last Year

Revenue By Region in 2004



Monthly Revenue And Profit Trends in 2004





Sales and Inventory for Best Selling Products

As of 6/30/2004

Product Facts & Status			
Months Data Sales	\$11,700	Months to Date Inventory Cost	73
Year to Date Sales	\$50,000	Year to Date Inventory Cost	320
Current Inventory	34	Year to Date Inventory Turnover	5.83
YTD	\$50,000	YTD Sales vs. YTD Inventory Cost	\$6.88%



Inventory Management
Reduce DSO on our best selling products

Monthly Performance Against Forecast

Month	Jan 2004	Feb 2004	Mar 2004	Apr 2004	May 2004	Jun 2004
Actual Sales	\$18,000	\$20,000	\$28,000	\$28,000	\$18,000	\$17,000
Forecast Sales	\$17,500	\$19,500	\$20,000	\$28,000	\$18,000	\$17,000
Actual Month Sales	\$18,000	\$20,000	\$28,000	\$28,000	\$18,000	\$17,000
% Difference from F.Y. Sales	0.28%	2.05%	40.00%	0.00%	0.00%	0.00%
% Difference from Forecast Sales	0.28%	2.05%	40.00%	0.00%	0.00%	0.00%



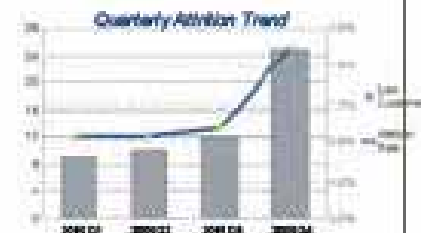
Quarterly Customer Analysis for Q4 2005 Acquisition, Attrition and Retention

Performance Summary for Q4 2005: 96 Net Customers Gained (121 New Customers - 25 Lost Customers)

	Acquisition				Attrition				Retention		
	New Customers	Active Customers	Acquisition Rate	% New to All New	Lost Customers	Active Customers	Attrition Rate	% Lost to All Lost	Retained Customers	Active Customers	Retention Rate
Oct 2005	39	1,299	3.00%	32.23%	7	1,299	0.54%	28.00%	1,260	1,299	97.00%
Nov 2005	42	1,333	3.16%	34.71%	8	1,333	0.60%	32.00%	1,291	1,333	96.85%
Dec 2005	40	1,363	2.93%	33.06%	10	1,363	0.73%	40.00%	1,323	1,363	97.07%



Note: % New to All New calculated as # New Customers of Q in month total divided by # New Customers in the analysis period.



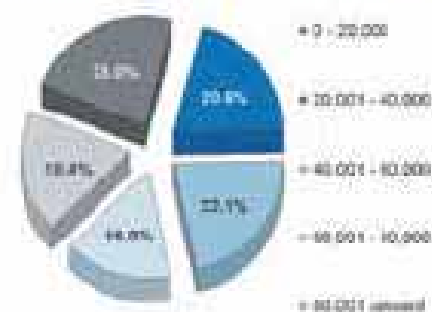
Note: % Lost to All Lost calculated as # Lost Customers of Q in month total divided by # Lost Customers in the analysis period.



Customer Analysis by Age Range and Income Range

Age Range	Income Range	Revenue \$	Avg Order Size \$	Revenue per Customer \$	Profit \$
below 30	20,001 - 40,000	54,498	466	1,038	3,539
	40,001 - 60,000	23,178	247	552	1,406
	60,001 - 80,000	51,845	518	1,206	3,092
	80,001 upward	23,784	248	541	1,479
31-40	0 - 20,000	46,636	376	790	2,961
	40,001 - 60,000	49,186	342	789	2,762
51-60	20,001 - 40,000	64,369	519	1,091	4,337
	40,001 - 60,000	41,034	354	789	2,150
	60,001 upward	36,867	348	801	2,297
61 and above	0 - 20,000	32,292	256	567	2,027
	20,001 - 40,000	44,816	386	846	2,891
	40,001 - 60,000	58,773	392	840	3,691
	60,001 - 80,000	26,699	338	785	1,859

Customer Distribution by Income Range



Report created by: John Smith

Strategies for Improvement

Strategies - 1

1. Identify your audience

- Discuss and understand their needs (vs. wants)
- Get their input & feedback

2. Match your reporting format to the level of understanding

- Limit the use of terminology
- Do not assume level of knowledge / understanding
- Use the language that is right for the audience & culture

Strategies - 2

3. Mix and Match reporting styles (graphical/numeric/analysis etc.)
 - Be consistent – format / timing
 - Be error free
 - Be concise
 - Do not compromise integrity of the data
4. Combine both financial and non-financials, strategic and operational
5. Limit size of reports
6. Do not delay for detail
 - Limit frequency
 - Less is more

Strategies - 3

7. Eliminate duplicate reports
 - Consolidate where possible
 - Regularly review the need for reports to remain in use
8. Implement a process for new report development
9. Develop a report DNA database
10. Focus on action taking place, on a timely basis, in the right direction
11. Focus on exceptions not the norm
12. If using estimates, articulate clearly

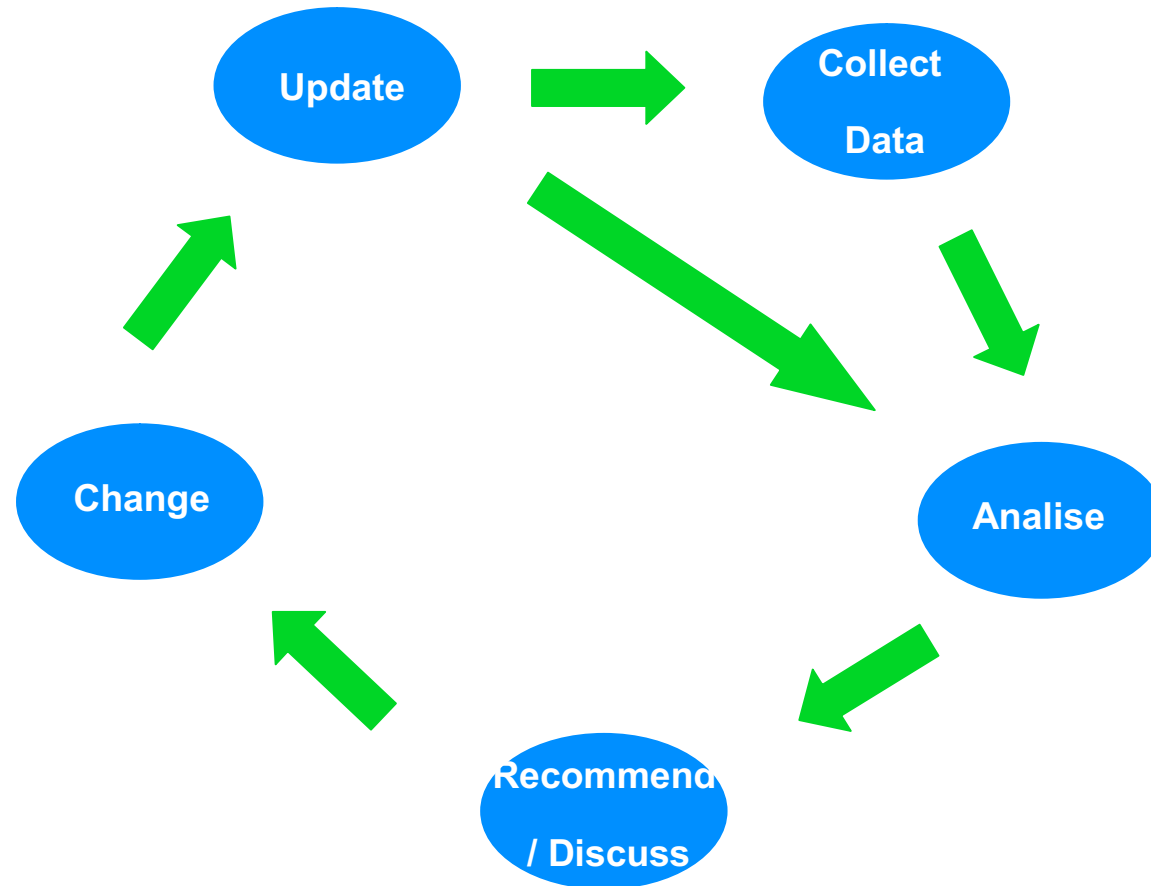
Strategies - 4

13. Information not data
14. Give analysis & recommendations – not description
15. Focus on forward trends/projections than past
16. Educate your audience on how to use your reports
17. Regularly

Implement a reporting review

- Ensure consistency of information
- Improve decision making capability
- Improve discipline of your reporting process
- Increased understanding and knowledge
- To reduce build-up of unnecessary reports
- To reflect changes occurring in:
 - ✓ Market place
 - ✓ Organisation
 - ✓ Regulations

Reporting review cycle



Concluding Comments

Concluding comments

- Focus on what you users need to know vis-a-vis want to know
 - Continually reassess if your reporting is satisfying your audience needs
- Monitor and control your reporting process
- Keep reporting simple but effective
- Focus on quality not quantity
- Be innovative and adaptable, always looking to improve

THANK YOU

Allan North

0407 486 158

anorth@moorestone.com.au