Challenge #4

Statement

How might we leverage technology to reduce manual effort and increase effectiveness when performing financial forecasting and analysis for small and medium enterprises?

Challenge #4

Background and Context

Much of finance activity has focused traditionally on reporting the historic: perhaps inappropriately backward looking in this economic environment. Finance teams need to deliver new insights in more relevant ways such as supporting business strategy development and forward prediction in order to address business needs. Additionally, a company's stakeholders typically place greater value on forward looking financial information as well as financial information that contains insight (as opposed to generic accounting records).

Producing forward looking financial information and informative analysis is challenging, time-consuming and often a costly process for most business – and particularly so for small and medium enterprises (SMEs). Further, there is a great need for such information as SMEs look beyond traditional means for financing.

Challenge #4

Background and Context

Examples - Forecasting

- Rolling forecasting or continuous/iterative forecasts - Provide a permanent and updated view of the future conditions for a business as opposed to static forecasting as the rolling methodology is pushing the business to permanently look 12 months ahead.
- Scenario planning and modelling – Identify different scenarios based on what we know now and what could come and perform “What-If Analysis” to model the financial impact.
- Cashflow forecasting to ensure that the company has adequate cash on-hand to finance its working capital and to pay its stakeholders (i.e. vendors, employees, shareholders).

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Background and Context

Examples - Financial Analysis

- Gauging the company’s overall financial health, primarily by using key financial ratios such as the debt to equity ratio, current ratio, and interest coverage ratio
- Comparing historical results against budgets and forecasts, and performing variance analysis to explain differences in performance and make improvements going forward
- Determining which of the company’s products or product lines generate the largest portion of its net profit
- Identifying which products have the highest and lowest profit margin

Challenge #4

Common Challenges and Considerations

- Different systems utilised within different subsidiaries or departments of a company – Many SMEs struggle with inconsistent information from different areas of the business which requires time intensive data reconciliation and consolidation effort. As a result, there is a lack of timely financial information for forecasting and analysis.
- Insufficient technology to support effective forecast and analysis – SMEs typically have heavily manual, Excel-driven processes that can be un-scalable when the company grows.
- Lack of resources – Many SMEs may be owner managed with limited headcounts in financial accounting and reporting.
- Costs – Large multinationals typically have access to sophisticated software and data that is tailored made for their specific transactions and reporting/ forecasting needs. Such packages may be prohibitively expensive for SMEs.

ACCOUNTING INNOVATION CHALLENGE