GIDE International Limited | 2019 White Paper

ACTIONABLE AND EFFECTIVE BUSINESS DATA

Where do you compromise, on accuracy or completeness?

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Fewer than half of finance professionals effectively manage business value tasks such as profitability management and long-term planning

01 THE QUESTION IS WHY?

Why do more than 50% of finance professionals fail to deliver what is deemed the bread and butter of a successful finance leader?

Is it because there are too many excessive accounting, tax and statutory issues taking up valuable time, too much and ‘hard-to-read’, ever-growing unreadable data blurring our focus, or business processes that have become disjointed and impulsively driven over time?

Or maybe a combination of these?

02 FINANCE PROFESSIONAL AND DATA

The role of data is to empower business leaders to make decisions based on facts or educated guesses

The role of finance professional is to enable it.

Ensure that all relevant business data is collected, processed, made available and eruditely interpreted for the sustainable well-being of the business.

Often, easier said than done!

Internet Revolution and Data Relevance

Old business textbooks would suggest that *'one mitigates company risks throughout a clear understanding of all business relevant data'.*

But what if in addition to a company data you are exposed to an infinite stream of market and technology information pouring from every corner of the internet? How do you make out what is business relevant when any intelligent person can see endless possibilities and outcomes?

Increasing variety of interpretations adds up to confusion about data relevance and the perplexity of market sentiment contribute greatly to uncertainty in the decision-making process.

So paradoxically, the more data you are exposed to, the riskier future alternatives might appear to be.

Technology and Data Collection, Processing, and Sharing

Information technology should help collect, process and share data. And it does, **to some extent**. Some enable collection and storage, some provide insights, others produce beautiful charts. And of course, spreadsheets, the familiar resort that business people retreat to in a hope to complement other technology perceived shortcomings.

Any attempt to implement an all-inclusive **business intelligence system** that turns data into actionable information faces several issues:

- Technology giants refuse bridging their technologies, making it cost inefficient to have full-fledged cross platform solutions.
- The system needs to be autonomously maturing hand in hand with the fast-evolving business data, i.e. expansively growing in a new data types and volume and yet unknown user requirements that are often negated by status quo ways of using data.
- The system must see into the future. An understanding of where you are and ignoring where you are going to, is a recipe for disaster.

This is why the market sentiment suggests that the technology for turning data into business actionable information lags behind the technology for data collection and data sharing.

This results in corporate databases full of obsolete, irrelevant, and incomplete data, business decisions decoyed with biased ad hoc spreadsheet analysis, and businesses essentially run by accounting software's add-ons and managers' impressions.

Group Decisions and Interpretations

All important business decisions are made in a group of people today. And whilst it seems correct, it may introduce new issues.

Experts suggest that effective group decision-making comprises three sequential stages:

1. Problem definition
2. Discussion of decision alternatives and
3. Deciding which alternative is selected

There are, however, other less visible layers to group decision-making that often inhibit appropriate problem embracement:

4. Lack of relevant data or a dataset defining your business goals
5. Data compatibility issues

And in spite having relevant dataset, the problem definition will still be impacted by the group members':

6. Interpretations
7. Biases
8. Personal ambitions

No wonder many meetings lead to uncertainty, no-decision, people's frustrations, or perhaps even worse, to an origination of unclear or wrong messages sent across the entire organisation.

As a finance professional you may therefore watch painfully how data relevance, old technology, and group decision persisting insufficiencies cause a failure to make full sense of the data in order to create sustainable business prosperity.

03 SO WHAT SHALL WE DO?

Finance professionals are rational minds

And although being often overwhelmed by data volume, disparate finance tasks, looming deadlines, and often illogical mind-sets in the companies their rationale needs to be depicted in a rational system for managing company's data.

It should not only enable a collection and analysis of actual data, from all sources, but equally support expert methods for forecasting and planning of the future.

The aim is to unify data relevant to business decisions and lead all stakeholders towards **informed business value decisions that will pay off.**

Informed Decisions

Business data needs to be **effective** in relation to a specific goal that underlines imminent decision.

This requires data being **actionable** and available **in time**. Actionable data is **relevant, complete**, as well as **accurate**.

Relevant data has a **meaning**, is **interpretable**, and **understandable** by all decision makers.

Data not meeting these criteria are deemed useless for the issue at hand.

The common denominator for all the data qualities above is a **specific business goal** and its quantification. This may be attributed to a one-time business event that has specific parameters and a deadline (e.g. capital rising) or an outcome of a regular company processes (e.g. business plan).

Business Performance Goals

In general, the common business performance goals often relate directly to the levers in your business:

- **Profitability** – Sales minus costs (cost of sales and running costs of organisation)
- **Bankability** – Profitability expanded with balance sheet and cash flows elements (WC, Debt, capex)
- **Value** – Bankability enhanced with a clear picture on sustainable prosperity in the future.

Profitability

If you are looking at the profitability of your business, you are commonly measuring sales, the cost of sales and running costs of the entire organisation.

Many organizations rely on corporate-level or divisional views of profitability only. Others allocate revenues and costs down to the individual product, service or customer levels, either directly or applying a variety of allocation keys.

Detailed views are deemed essential to gaining a better understanding of which lines of business are adding or detracting profits from the business.

Bankability

Not every profitable business is also a bankable business, although most are, albeit to a bare minimum.

Bankers typically extend their focus beyond income statement profitability. Their debt to profits/cash feasibility metrics would consider amongst other things **EBITDA, EBDA** or **EBDA minus capex**.

A significant factor for bankability of any business is its **working capital**.

Businesses with a longer-term working capital cycles typically require more additional capital during a high growth sales periods, which may negatively impact cash flows available for a debt service.

While sizable working capital may constitute greater risk, on the other hand it presents an **opportunity** to free up capital from the business, should the working capital management inefficiencies exist.

In the case of any mid to long-term financing facilities, the bankers like to assess the **normalized** level of the EBITDA metrics and cash flows results, the normalized being the results cleaned off of one-time, occasional, or non-operating accounting events, or also often of the accounting adjustments.

Value

Valuation is typically done when we buy or sell a stake in a company or in case of capital rising. Valuation is also applied to capital intensive fixed assets projects, R&D, long term trade contracts, business units, or product and market segments.

And whilst an old adage suggests that only value that truly matters is what a willing buyer is willing to pay and a willing seller is willing to sell for, extending bankability metrics with a few extra valuation elements may give you incredibly **powerful tools** to positively influence not only business performance of the business in a long run but also your colleagues’ decision stand points.

Discounted Cash Flow

The simplest metric to add is the **Present Value** of the Cash Flows before Financing, the calculation of which rationalizes future capital allocation. Bringing future cash flow to its present value is essentially decreasing it (discounting it) by the **cost of capital** (discounting factor) employed to generate the cash flow. The greater discounting factor you apply the lower valuation of cash flows you get.

The fundamental question is what is the 'accurate' discounting factor to be applied?

External investors apply their **expected return on the committed equity** adjusted proportionally by the **cost of applied leverage** (debt), or otherwise known as **WACC** (Weighted Average Cost of Capital). Operating businesses should evaluate their discounting factor against their existing **return on capital employed**.

Capital employed is sum of the fixed assets and working capital or equity plus bank debt. Return on capital employed being the ratio of **EBIT** or **NOPAT** (net operating profit after tax, which is essentially EBI) over Capital employed.

Different discounting factors have different, often significant, impact on transaction valuation as well as post transaction capital performance.

ROCE and WACC are therefore two excellent and useful value metrics that smart companies should consider include into their KPIs.

Economic Value Added

And they should not stop there. Because the difference between ROCE and WACC gives you another smart business performance metric- **EVA** (Economic Value Added), authored by Joel M. Stern and G. Bennett Stewart III.

If the difference is positive (i.e. ROCE>WACC), the company performs better than a typical investor would expect. Hence you might expect a better bankability and a greater valuation compared to the company's book value of the capital employed, and vice versa when it gets to that point.

EVA opens up a more complex view at the company's performance and opportunities. The standard profitability measures tell you what levels of profit you generate. EVA tells you whether the profits are sufficient with the amount of the capital employed that generates the profits.

In less satisfactory situations you may not only consider profitability improvement measures, but also the measures that would decrease the capital employed, either through improvements in WC, disposal/replacement of underperforming fixed assets or entire business units or product lines.

Equally, if you were to evaluate a capital intensive project, EVA of the project would tell you whether you are adding value or destroying value to the company.

	Selection of Business Performance Goals	Noticeable Considerations
Profitability	Revenues Fixed and Variable Costs / Direct and Indirect Costs Provisioning & Reserves, Write offs, Inventory & WIP Valuation Gross Profit / Contribution Margin, Operating Profit, Pre-tax Profit, Net Profit	Product / Business Unit / Corporate Segment Operating vs. Non-operating Items Recurring vs. one-time events Cost Allocation Keys
Bankability	EBITDA, EBIT, EBDA, EBDA minus Capex Working Capital Operating Cash Flow Cash Flow before Financing	Normalized Levels Forward Looking
Value	Return on Capital Employed (ROCE) Weighted Average Cost of Capital (WACC) Economic Value Added (EVA)	Present Value Discounting Factor vs. ROCE

Actionable Data

You might have heard business leaders claiming they need **10-20** selected KPIs to get a sense of the state of their business. And this is not necessarily arrogance.

What it may imply is that the selected KPIs are relevant to the business leader's main task, to lead the business. For him and for the task he also considers the KPIs to be the least complete set of information he needs, in time, to keep all his decisions within the boundaries of his strategic intentions.

In reality, the amount of information any business leader works with is far greater than that, amended frequently with each specific issue at hand and a business performance task to complete. However, successful business leaders always keep their selected KPIs as safeguards of all company's decisions.

Relevance

Relevant data has a meaning vis a vis a specific goal. It is understandable and interpretable by all people that it is presented to. It can be measured, recorded or calculated and expertly forecast. It is a bearer of information and a message that can be used to act upon.

Business relevant data goes well beyond the generic profitability, bankability or value metrics. On its lower level it is always business model specific, reflecting business particular drivers, with a built-in industry unique knowledge and a jargon.

If information is presented whilst failing in any of the above characteristics, people will naturally filter it out as irrelevant and disregard it from their inner personal decision-making progression. This inevitably leads to misunderstandings, longer meetings, passivity, heated and sometime relationship destroying discussions, and impulsive decisions of business managers. And that is when business leaders and managers start losing their credibility and organisations begin falling down.

In order to succeed at the business meetings, ensuring that all participants are fully knowledgeable of the purpose and the terminology that is used and that they understand presented information dynamics is a game changer. What do the numbers mean? Why they are important to the purpose? Where do they come from? How the key factors positively or negatively influence defined goal achievements?

Also, always present information in a time series if possible. This can help shifting people's focus from where the company business was and create a positive atmosphere towards where the business can be in the future. And future is the most relevant decision focus.

Completeness

Fragmented data means there is no clear ownership of information, no understanding of the gaps and a lack of clear workflows. And otherwise relevant information, it becomes progressively incomprehensible with each missing bit, thus utterly irrelevant at the end.

Another aspect of completeness is **abundance**.

Companies typically collect lots of data, not always co-ordinately. In each department each manager tends to have its own views as to what is important.

Acquired from everywhere, and stored outside of the company main database system, there is a tendency to impress and manipulate with ad-hoc spreadsheet analysis and dropping-in wisdom from internet, proving others wrong and pushing through individual biased preferences.

The problem becomes colossal had the top management failed to have defined **the skeleton of relevant and complete set of information** for the company. That leads to a truly raving flood of information. And too much information presented, albeit individually seemingly relevant, leads to confusion, and confusion precedes no decision or a wrong decision.

This means the right business decisions require just about the right set of purpose clear information, not more not less.

Accuracy

Accuracy is key to any data-driven process and is a condition that needs to be fulfilled before we can even talk about actionable data.

But what does accuracy mean anyway?

I make no mistakes, do you☺?

Does problem with accuracy imply a mistake?

Whose mistake?

If you take a closer look, you will see that data accuracy in profitability management, planning and data-driven business decisions is a very interesting topic and not necessarily an easy problem to solve. It may address any or all of the following;

01 **Wrong Data Inputs** – e.g. messy data from the database entering calculations

02 **Calculation Errors** – e.g. mistakes in formulas or unplanned for interventions made by users, jeopardizing integrity of calculations

03 **Inadequate Application of Calculation Methods** – e.g. single growth rate formula applied in planning where history clearly suggests that seasonality factors play role

04 **Fragmented Calculations** – e.g. change in work-in-progress in income statement detached from movements in inventory in balance sheet or sales plans not reflecting production capacities or capabilities

05 **Illusory Assumptions** – e.g. sales increase plans tailing somebody's wishfull thinking ambitions as opposed to reflecting market trends, company's market share and current sales team performance

06 **Automatic Business Planning** – e.g. a mechanical plan population just to have a plan, neglecting business goals (whether defined or not)

07 **Good Enough Attitude** – e.g. all-round increase in costs by the same factor (CPI) whilst history clearly suggests different dynamics of individual categories

08 **Who Knows Attitude** – e.g. someone inputs a random number claiming that nobody knows the right number anyway

The common denominator of all these accuracy issues is an erroneous result vis a vis defined business goals, which sends a misleading message and plants seeds of bad decisions.

In spite of conventional wisdom that says *'do not kill the messenger'*, finance people are often those blamed for faulty analysis and way off plans, whilst all others, contributing greatly to the faulty results, take a stance of 'a general after war'.

The truth is that systems available to finance people are typically not quick, accurate, and articulate enough, to allow finance teams to effectively advise business managers at the strategic level. And rooted business decision culture favouring ad hoc analysis and quick fixes makes them to struggle with cheap cumbersome excel spreadsheets, made available at the last minute.

Actionable Data Characteristics

Relevant	Having a meaning vis a vis specific business goal
	Understandable and Interpretable by all decision makers
	Measurable, Recordable, Calculable, Expertly Forecastable
	Business Model Specific
	Industry Specific
Complete	Suited Volume of Relevant Data (not more not less)
Accurate	Correct, Credible, Explainable Data

04 FINAL CLOSURE

Leaders always look forward

Business performance assessment in successful companies goes beyond profitability management and analysis of the past and present. It entails a clear picture on bankability and value of the business, over a longer period of time. Leaders always look forward. Sustainability is the word in business value performance to remember.

Business decisions deficient of long term business value relevant goals nurture a naive business decisions. Some might work, most will not.

In order to have an adequate set of business value relevant goals, companies must collect and expertly process business relevant data, in time. The relevant data has a meaning vis a vis the business value relevant goals and are understood by all decision makers.

An abundance of data is as ineffective as is an insufficient data set. Data which cannot be interpreted are filtered out as irrelevant and disregarded from people's inner personal decision-making progression. Data which cannot be expertly forecast are uninterpretable vis a vis the business goals. This leads to confusion at the meetings. Confusion precedes bad decisions. Inaccurate data is a corporate disaster.

How can it be bad for management to make business decisions based on a quality data that connect with company's future goals?

05 ABOUT GIDE SOFTWARE

GIDE makes quality data the driver of strategic decision-making within your organization

Our platform unifies relevant business data, ensuring the address of a specific problem. Information can be accessed instantly from almost anywhere, without wasting resources on data extraction and tying data from different sources together, enhancing employees ability to make more accurate, faster decisions.

We work with companies to embrace forward looking technology and build best practices around value concepts. The office of finance uses planning models to test and dispel assumptions, defend decisions, and strengthen the decision-making process. Modelling the financial impacts of operational decisions helps to identify operational measures that relate to financial ones.

Business information and processes can be adapted on the fly, and delivered in real-time to decision makers, irrespective of the changes they face.

GIDE cuts time and effort on process tasks by integrating business and financial information across functions, locations, divisions. The cost of increasing effective data is minor compared to the resulting substantial returns.

GIDE is a good choice.

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forward-looking software

The most powerful and business friendly
financial modelling tools on the market,
at a price that makes sense

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