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Streamlining financial reporting promises time savings, greater efficiency and better decision-making.

THE BOOK ON THE ONE-DAY CLOSE

by John S. McClenahen

The one-day close – pulling together a company's financials in a day or less – is a little like the personal goal of getting down to a healthy 165 pounds from an out-of-shape 235. To achieve it, junk food must go, and rigorous exercise must become routine. But the cumulative effects of streamlining financial processes are very attractive. Transactions require less time. The financial staff can spend more time doing real value-added work. Relative costs decline. Plus decision-making executives are able to put their fingers on some very fresh financials whenever the need arises.

San Jose, Calif.-based Cisco Systems Inc., a producer of computer-network equipment, is the generally acknowledged leader among people in the know about the one-day close. At $22.2 billion Cisco, the financial folks use Oracle Corp. ERP software to produce a consolidated trial balance sheet and a consolidated income statement within about half day of a fiscal quarter's close, compared with two weeks five years ago when Cisco was a $4.1 billion company. What's more, during the past five years, the time devoted to transaction processing has fallen to 35% from 65% and finance group expenses as a percentage of total company revenue have fallen to 1.3% from 2%. All that has occurred even as Cisco added people to its finance department to help keep pace with the company's growth and a "virtual close" was launched to give Cisco executives a look at revenues, expenses, margins, and profits every day of every month.

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Rebecca Morgan, president, Fulcrum ConsultingWorks, Inc.

Names Of The Game

Including "instant close" and "instantaneous close," there may be as many names for the one-day close as there are companies pursuing it. But then no one seems quite sure how many that is, since, presumably for competitive reasons, companies tend to be quiet about their quest. Best guesstimate: a couple of hundred worldwide, including manufacturers.

And just to make this financial phenomenon more interesting, senior executives tend to want different things from the so-called one-day close, which often takes three to five days.

If I look at it from the CFO's point of view, I need to close the finances," notes David Hough, director of supply-chain management at the PSC Group LLC, a Schaumburg, Ill. consulting firm. "If I look at it from the COO's point of view, I need to know where my production is. If I'm looking at it from the CEO [perspective], I want to know how my company is running in the combination of the two areas, because I have to look at both."

Meanwhile, away from the corporate headquarters at the business-unit level, people are likely to be more interested in such performance measures as gross margins or margins after selling, general, and administrative expenses, suggests J. Scott Laughner, an Atlanta-based partner in Accenture's finance and performance management practice. "I think they really want to be able to understand more day-to-day how the business is operating – [and] not necessarily what a top-line consolidated set of books would look like."

Regardless of perspective, however, the one-day close is about producing believable profit-and-loss numbers and other critical performance metrics by streamlining the processes behind them. That means pulling on the sweats and tackling the really tough work of sorting through the process details of accounts payable, accounts receivable, general ledger entries, and, ultimately, the production of financial reports for executives. The objectives include eliminating errors, wasted time and rework.

All this may seem remote from such management concerns as cutting the cost of purchased materials, making production leaner and meaner, or even getting a better return on R&D. But, contend boosters of the one-day close, believable and more timely financials make for better executive decisions.

Reliable and timely financials let "you know that something is beyond your bounds of expectation. You get alerted to the fact that something is going on [and you] can drill down into it and take corrective action – or pro-active action," states Mountain View, Calif.-based Arun Kumar, managing director of KPMG Consulting Inc.'s workforce solutions team.

"For me, the one-day close is a euphemism for believable and timely data," says Rebecca Morgan, president of Fulcrum ConsultingWorks Inc., a Cleveland firm that counts divisions of multi-billion dollar companies among its clients. "The specifics certainly are different from a COO to a CFO," she says. "But they both need timely and accurate data they can rely on to make decisions," she stresses. "One of the most frustrating parts of being an executive is to ask the same question of two different people and get the 'it depends' answer – or get two solid answers that don't match," she says.

“We're giving our managers the tools to run the business when they need [those] tools," emphasizes Dennis Powell, vice president of finance and corporate controller in Cisco's finance group. "When the data comes in, you have to know it is absolutely correct," he states. "And with the virtual close you don't have the time to go through and audit the data at a detailed level and make inquiries back out to the field," he notes.

In its quest for the one-day close, "almost every company" is going to focus initially on streamlining the processes that are tied to inventories, accounts payable and accounts receivable, says Fulcrum's Morgan. For many firms, inventories are a primary asset. And an accurate account of money coming in and going out will have a major impact on the bottom line.

Buzz Adams, president of Peak Value Consulting Inc., Pasadena, Calif., is all for sophisticated automation of such processes. For example, without ERP the purchasing systems and accounts-payable systems are not integrated, and slow-to-arrive or misdirected invoices result in inaccurate final statements. In contrast, he says, with ERP, purchasing, receiving and payables are all integrated. The expense is recorded when the item is received, regardless of when the invoice arrives.

You might have to be a real accounting aficionado to appreciate the time and effort required to do cost-center reclassifications. But you can take the word of Accenture's Laughner that most are "unnecessary." Indeed, companies that are pulling off a one-day close "have unilaterally implemented policies that disallow reclassifications unless they are over a certain dollar threshold," he states. "Switching something from one cost center to another in a manufacturing environment does nothing to the bottom line that they report – and nine times out of 10 [it] doesn't even drive any important decision making," he claims.

To Adams, a big benefit of streamlining processes in pursuit of what he calls the "instant close" is more time for what he terms such "value-creating activities" as product profitability and cash flow analysis. "Often the senior and most talented financial people spend the bulk of their time cranking out monthly financial statements and searching for errors or strange trends [that are] caused in large part by . . . flawed closing processes," complains Adams. But "when the analysts focus on what is truly creating value, they assist management to better understand the company's business engine," Adams says.

At Cisco, the process discipline needed to make their half-day close and virtual close a reality has changed what the finance staff spends its time doing. Five years ago, 65% of the finance department's time was spent in processing transactions and doing reports. Only 35% was spent in helping managers with their businesses, consulting with them and helping them understand the numbers, relates Powell. Now, the percentages are reversed: Just 35% of the finance folks' time is devoted to processing transactions; 65% is spent helping other people with their businesses. "For example, if they see that expenses are exceeding expectations, they are able to make recommendations on how to take corrective action to get them back in line on a real-time basis, as opposed to waiting until it's too late to take corrective action," Powell says. Similarly, if they detect unanticipated changes in the sales product mix, the finance people can work with a business unit to bring margins back to where they should be, he adds.

Software's Roles

Technology doesn't seem to be a barrier to achieving a one-day close, certainly not the way wasteful processes and human resistance to change are. "ERP and like systems have been able to do a one-day close for more than 20 years – once they have the information needed," says PSC Group's Hough. ERP packages from SAP AG, PeopleSoft Inc., and Oracle are the most commonly used, followed by software from J.D. Edwards & Co. and Lawson Software, relates Accenture's Laughner. In January, Oracle introduced a version of its E-Business Suite that, it claims, allows businesses for the first time to do a daily business close.

"Often, reporting tools like Essbase [from Hyperion Solutions Corp.] can be integrated in such a way as to fully automate all the management reporting," adds Peak Value's Adams. And there are about a dozen "pretty nice" data warehouse/management reporting tool capabilities from such providers as Hyperion, Kalido Ltd. and Plumtree Software Inc., calculates Laughner.

"Other technologies, like SAP's MySAP, use Internet-type features to allow companies to make the purchase-order process much easier," Adams says. "An employee clicks on a frequently purchased item and behind the scenes a purchase order is cut."

Finally, there are new software packages, known as enterprise application integration systems that promise to pull old and new IT systems together. An enterprise application integration package from SeeBeyond Technology Corp. is the one that Laughner says he sees most often.